PRACTICE MOCK

ECONOMIC SURVEY 2022-23

SUMMARY

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Note:- A detailed content based on the Economic Survey 2022-23 will be uploaded as a part of the RBI Grade B 2023 Non-Video Course.

PREFACE

The Economic Survey is a **pre-Budget document** prepared by the Economic Division of the **Department of Economic Affairs** in the Ministry of Finance and formulated under the supervision of the **Chief Economic Adviser** (**V Anantha Nageswaran** this year). It is presented to **both Houses of Parliament** during the Budget session, i.e., Lok Sabha (Lower House) and Rajya Sabha (Upper House).

The document gives insights into the state of the economic performance of the country in the past year (2022-23), highlights performance on major development programmes, government's policy initiatives, and provides an outlook for the next financial year (2023-24) Budget - which will be presented on **1st February**, 2023.

The first economic survey came into existence in **1950-51** and it used to be a part of the budget documents. Later in **1964**, the survey was **separated from the budget documents** and presented a day prior to the Union Budget.

This year's survey will provide an in-depth analysis of the current state of the economy. Last year's central theme of the economic survey was the '**Agile Approach**', or the “**Barbell Approach**’ which put emphasis on India's economic response to the Covid-19 Pandemic. The last year, the government dumped India's conventional policy approach known as the **Waterfall method** in favour of the **Barbell strategy** as Covid spread its tentacles in the country.

- Under the Barbell Strategy, a combination of safety nets for vulnerable sections and **real-time information-based policy adjustments** were brought into play to tackle the challenges posed by the pandemic.
- The **Waterfall approach** — a policy mainstay during the Five-year plan era — involves a "detailed, initial assessment" and then **making a rigid, upfront plan to tackle a problem**. In contrast, under the Barbell method, policy outcomes are assessed rapidly based on real-time information and adjusted incrementally.
- In essence, the Barbell strategy, in contrast to the Waterfall one, initially takes into account a worse possibility, and then calibrates the response step by step through a feedback loop.

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CHAPTER 1: STATE OF THE ECONOMY 2022-23: Recovery Complete

The Indian economy, however, appears to have moved on after its encounter with the pandemic, staging a full recovery in FY22 ahead of many nations and positioning itself to ascend to the pre-pandemic growth path in FY23. Yet in the current year, India has also faced the challenge of reining in inflation that the European crisis (Russia – Ukraine War) accentuated. 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 (6 %) in November 2022.

The **Capital Expenditure** (Capex) of the central government, which **increased by 63.4 percent** in the first eight months of FY23, was another growth driver of the Indian economy in the current year, 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 it has been able to generate. A much-improved financial health of well-capitalised public sector banks has positioned them better to increase the credit supply. Consequently, the credit growth to the **Micro, Small, and Medium Enterprises** (MSME) sector has been remarkably high, over **30.6 percent**, on average during Jan-Nov 2022, supported by the extended **Emergency Credit Linked Guarantee Scheme** (ECLGS) of the Union government.

Global growth has been projected to decline in 2023 and is expected to remain generally subdued in the following years as well. The slowing demand will likely push down global commodity prices and improve India's **Current Account Deficit** (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. The CAD needs to be closely monitored as the growth momentum of the current year spills over into the next. Growth is expected to be brisk in FY24 as a vigorous credit disbursal, and capital investment cycle is expected to unfold in India with the strengthening of the balance sheets of the corporate and banking sectors. Further support to economic growth will come from the expansion of public digital platforms and path-breaking measures such as PM GatiShakti, the National Logistics Policy, and the Production-Linked Incentive schemes to boost manufacturing output.

The Global Economy Battles Through a Unique Set of Challenges

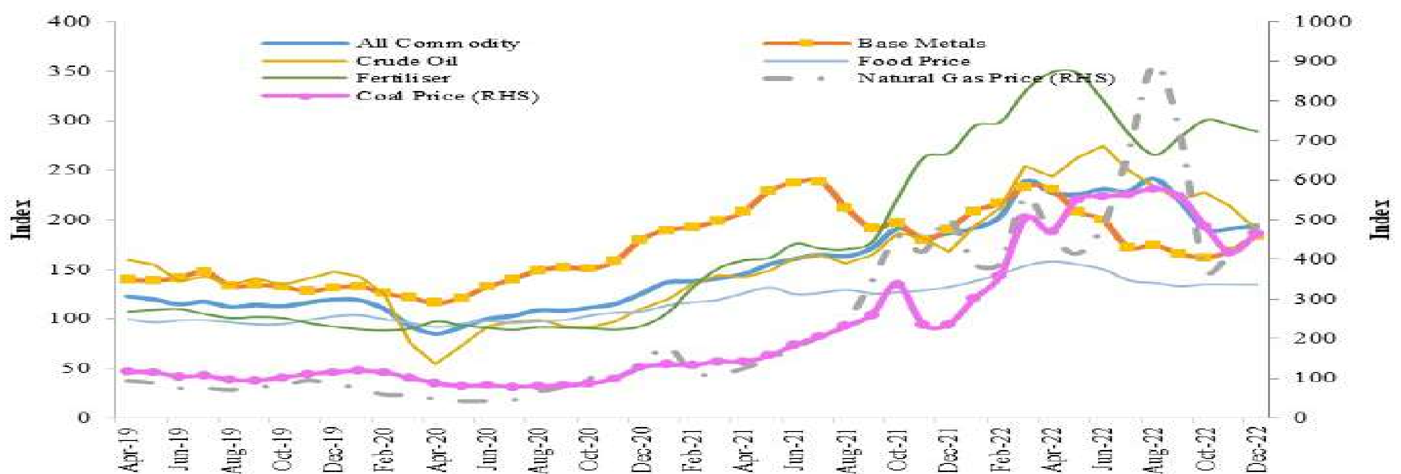

Figure: **Sharp rise in commodity prices due to the Russia-Ukraine conflict; prices yet to reach pre-conflict levels**

The **Covid-19 pandemic** notified by the WHO in January 2020 was the first challenge of the third decade that hit global growth. Two years later, as the global economy was recovering from the pandemic-induced output contraction, the **Russia-Ukraine conflict** broke out in February 2022, triggering a swing in commodity prices and, thus, accelerating existing inflationary pressures. This posed the second challenge. Soon after, the third challenge emerged when nations undertook **monetary tightening to rein in inflation** causing growth to weaken. Monetary tightening also drove capital flows to safe-haven US markets, contributed to rising sovereign bond yields, and depreciation of most currencies against the US dollar. The consequent increase in borrowing costs also stressed high levels of public and private debt, threatening the financial system.

Global economic recovery was well on track until the Russia-Ukraine conflict broke out in February 2022. The conflict has now continued for almost a year, disrupting the restoration of the supply chains disrupted earlier by lockdowns and limited trade traffic.

Inflation in Advanced Economies (AEs), which accounted for most of the **global fiscal expansion and monetary easing**, breached historical highs. Rising commodity prices also led to higher inflation in the Emerging Market Economies (EMEs), which otherwise were in the lower inflation zone by virtue of their governments undertaking a calibrated fiscal stimulus to address output contraction in 2020.

Led by the US Federal Reserve, central banks have been hiking **policy rates** and rolling back liquidity to rein in inflation synchronously. As **the impact of monetary policy actions is felt with a lag**, inflation rates remained stubbornly high during the early phase of the rate hike cycle but have **begun to decline lately**.

Rising inflation and monetary tightening led to a slowdown in global output beginning in the second half of 2022. The global **Purchasing Managers' Index** (PMI) – composite has been in the contractionary zone since August 2022, while the yearly growth rates of global trade, retail sales, and industrial production have significantly declined in the second half of 2022.

Macroeconomic and Growth Challenges in the Indian Economy

The experience with the Omicron variant engendered a cautious optimism that it was possible to stay physically mobile and engage in economic activities despite the pandemic. FY23 thus opened with a firm belief that the pandemic was rapidly on the wane and that India was poised to grow at a fast pace and quickly ascend to the pre-pandemic growth path.

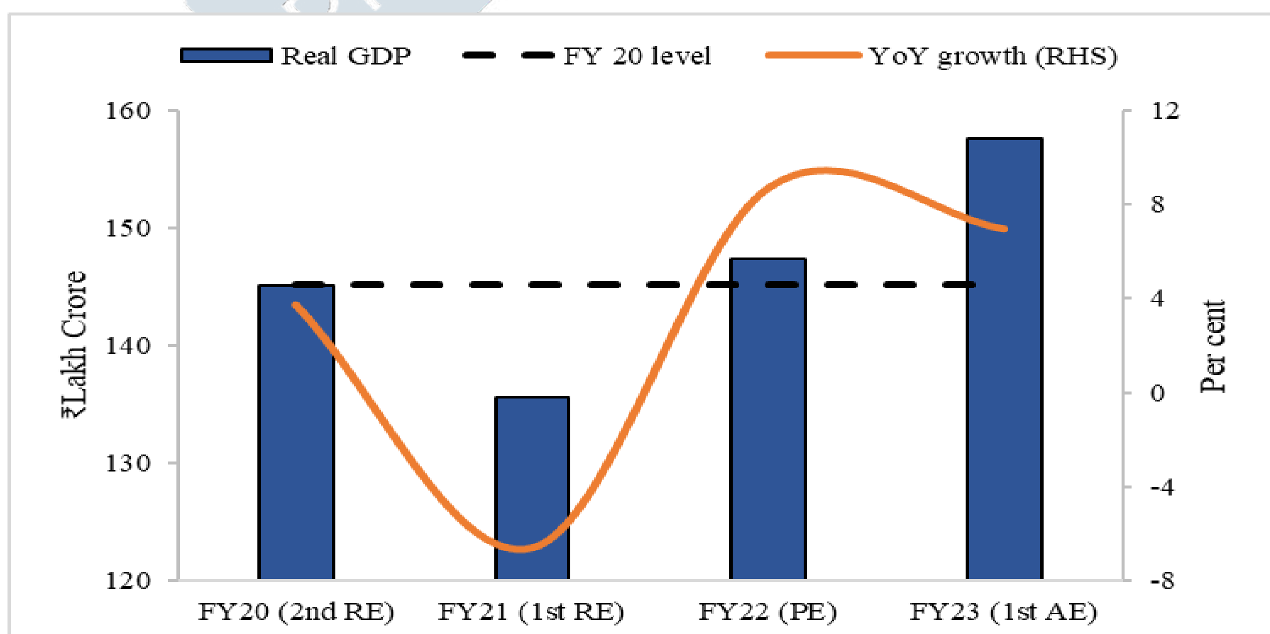

Figure: Economic Growth Remains Resilient

However, the conflict in Europe caused the country's retail inflation to be above the RBI's **tolerance range** (2-6 %) in January 2022. It remained above the target range for ten months before returning to below the upper end of the target range of 6 per cent in November 2022. During those ten months, rising international commodity prices contributed to India's retail inflation as also local weather conditions like excessive heat and unseasonal rains, which kept food prices high. **The government cut excise and customs duties and restricted exports to restrain inflation while the RBI, like other central banks, raised the repo rates and rolled back excess liquidity**.

With monetary tightening, the US dollar has appreciated against several currencies, including the rupee. However, the rupee has been one of the better-performing currencies worldwide, but the modest depreciation it underwent may have added to the domestic inflationary pressures besides widening the CAD. Global commodity prices may have eased but are still higher compared to pre-conflict levels. They have further widened the CAD, already enlarged by India's growth momentum. For FY23, India has sufficient **forex reserves to finance the CAD** and intervene in the forex market to **manage volatility in the Indian rupee**.

As per **United Nations Conference on Trade and Development** (UNCTAD) latest global trade update, global trade growth turned negative during second half of 2022, and geopolitical frictions, persisting inflationary pressures, and subdued demand are expected to suppress global trade further in 2023. This is likely to affect many countries, including India, with the **prospects of sluggish exports** continuing into FY24, compared to the promise shown at the beginning of the current year.

India's Economic Resilience and Growth Drivers

Monetary tightening by the RBI, the **widening of the CAD**, and the plateauing growth of exports have essentially been the outcome of geopolitical strife in Europe. As these developments 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.

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. Despite strong global headwinds and tighter domestic monetary policy, if India is still **expected to grow between 6.5 and 7.0 percent**, 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.

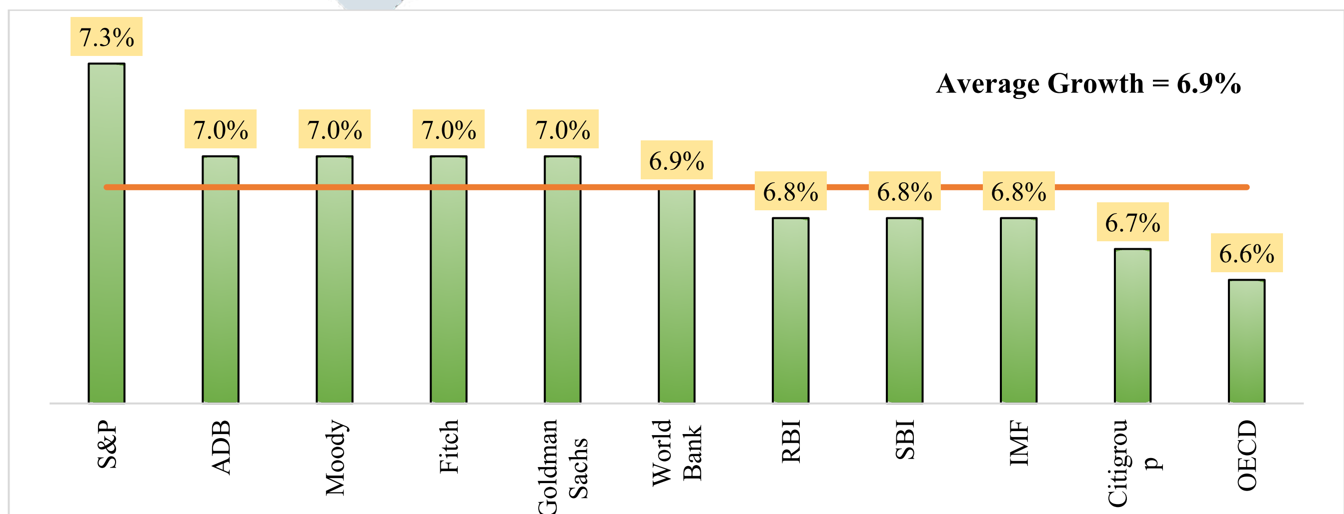

Figure: **India Growth Projections by Various Agencies for FY23**

India's economic resilience can be seen in the domestic stimulus to growth seamlessly 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**. 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. **Private Consumption as a percentage of GDP** stood at **58.4 percent** in Q2 of FY23, the highest among the second quarters of all the years since 2013-14, supported by a rebound in **contact-intensive services** such as trade, hotel and transport, which registered sequential growth of 16 per cent in real terms in Q2 of FY23 compared to the previous quarter.

The rebound in consumption has also been supported by the release of "**pent-up**" demand, a phenomenon not again unique to India but nonetheless exhibiting a local phenomenon influenced by a rise in the share of consumption in disposable income.

- **Pent-up demand** refers to a sudden increase in demand after a period of subdued economic activity. Theoretically, if someone is unable to do something, like shop at a shopping mall, for a period of time, they will want to do it to an excessive degree when they are allowed to do it again.

Going by the **Capital Expenditure** (Capex) multiplier estimated for the country, the economic output of the country is set to increase by at least four times the amount of Capex 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.

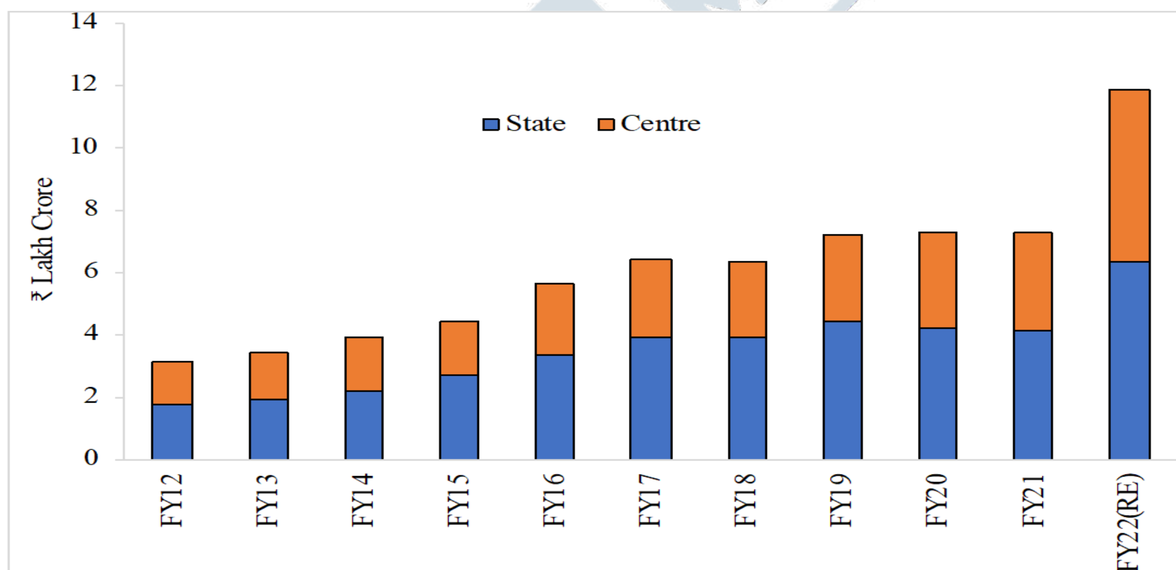

Figure: **Total capital expenditure grew at an average rate of 13.0% during FY12 and FY22**

A capex thrust in the last two budgets of the Government of India was not an isolated initiative meant only 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 the vacation of non-strategic PSEs (disinvestment) and idling public sector assets. Three developments support this.

- First, the **significant increase in the Capex budget** in FY23, as well as its high rate of spending.
- Second, **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 budgeted fiscal deficit. The growth in revenue expenditure has also been limited to pave the way for higher growth in Capex.

- Third, the **pick-up in private sector investment** since the January-March quarter of 2022. Evidence shows an increasing trend in announced projects and capex spending by the private players.

The banking sector in India has responded in equal measure to the demand for credit. 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 **credit growth to the MSME sector** has been remarkably high, over **30.5 percent**, on average, during Jan-Nov 2022, supported by the extended ECLGS of the central government.

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.

The **RBI** has projected **headline inflation at 6.8 per cent 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. Moderately high inflation has further ensured the anchoring of inflationary expectations preventing prices from weakening demand and growth in India. Additionally, with inflation on the declining path, the interest cost of domestic credit will likely decline, inducing a further increase in demand for credit by corporates and retail borrowers.

India's Inclusive Growth

Both official and unofficial sources confirm that **employment levels have risen in the current financial year**. The **Periodic Labour Force Survey** (PLFS) shows that the **urban unemployment rate** for people aged 15 years and above **declined from 9.8 percent** in the quarter ending September 2021 to **7.2 percent 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.

Job creation appears to have moved into a higher orbit with the initial surge in exports, a strong release of the "**pent-up**" demand, and a swift rollout of the capex. Since export growth is plateauing and the "pent-up" release of demand will have a finite life, it is essential that capex continues to grow to facilitate employment in the economy, at least until such time the global economy rebounds and, through the export channel, provides an additional window to India for job creation.

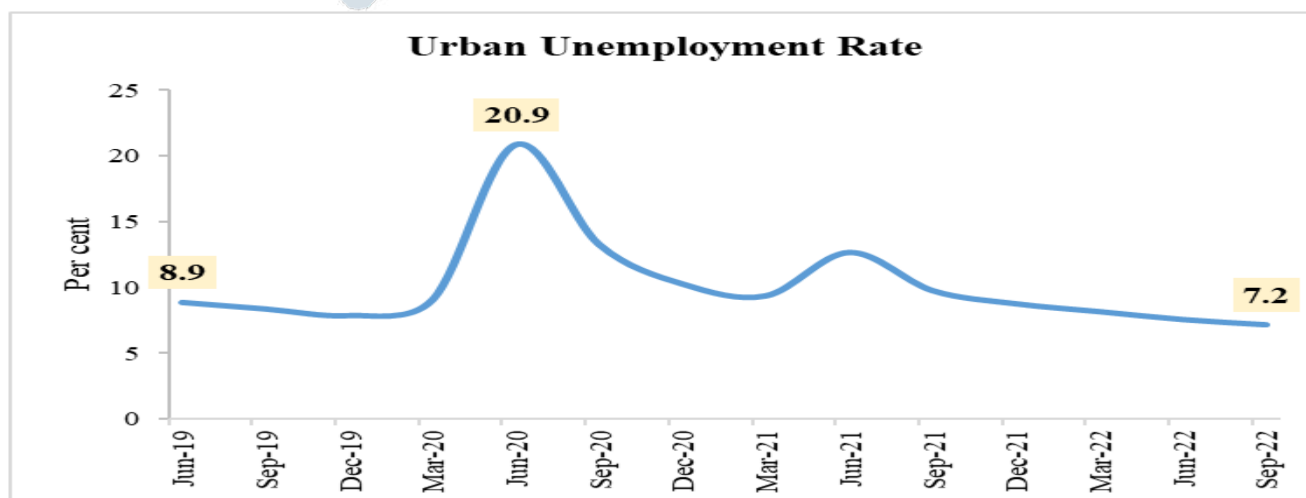

Figure: **Urban Unemployment Rate at four-year low**

In addition, schemes like MGNREGA, PM-KISAN, which benefits households covering half the rural population, and PM Garib Kalyan Anna Yojana have significantly contributed to lessening impoverishment in the country. The **UNDP Report of July 2022** stated that the recent inflationary episode in India would have a low poverty impact due to well-targeted support. In addition, the **National Family Health Survey** (NFHS) in India shows improved **rural welfare indicators** from FY16 to FY20, covering aspects like **gender, fertility rate, household amenities, and women empowerment**.

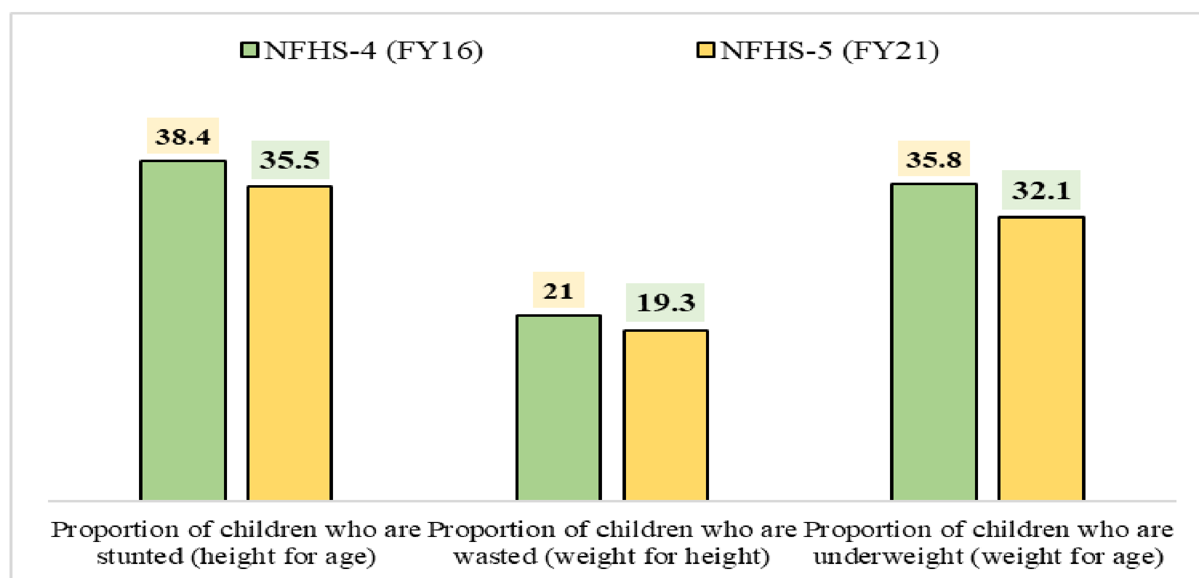

Figure: **Improvement in Rural Welfare Indicators**

Strong consumption rebound, robust revenue collections, sustained capex in both the public and the private sector, growing employment levels in the urban as well as the rural areas, and targeted social security measures further underpin the prospects for economic and social stability and sustained growth. India is the third-largest economy in the world in **Purchasing Power Parity** (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.

Outlook: 2023-24

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. Even as India's outlook remains bright, global economic prospects for the next year have been weighed down by the combination of a unique set of challenges expected to impart a few downside risks. Multi-decadal high inflation numbers have compelled central banks across the globe to tighten financial conditions. Hence, **global growth is forecasted to slow from 3.2 percent in 2022 to 2.7 percent 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 the **World Trade Organisation**, from 3.5 percent in 2022 to **1.0 percent in 2023**.

However, the scenario of subdued global growth presents **two silver linings** – **oil prices will stay low**, and **India's CAD will be better than currently projected**. The overall external situation will remain manageable.

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 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 leading to an improvement in animal spirits and providing further impetus to private sector investment.

Against this backdrop, the survey for 2022-23 projects a **baseline GDP growth of 6.5 per cent** in real terms in FY24. The projection is broadly comparable to the estimates provided by multilateral agencies such as the World Bank, the IMF, and the ADB and by RBI, domestically. The actual outcome for real GDP growth will probably lie in the range of 6.0 per cent to 6.8 per cent, depending on the trajectory of economic and political developments globally.

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CHAPTER 2: India's Medium-term Growth Outlook: With Optimism and Hope

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. Additionally, the economy has started benefiting from the efficiency gains resulting from greater formalisation, higher financial inclusion, and economic opportunities created by digital technology-based economic reforms. Thus, India's growth outlook seems better than in the pre-pandemic years, and the Indian economy is prepared to grow at its potential in the medium term.

Introduction

Indian economy has undergone a transformative process of New-Age reforms in the last eight years. These diverse policies converge towards improving the economy's overall efficiency and lifting its potential growth. To achieve the broader policy goal of unleashing the productive potential of the economy and its people, the reforms aimed at enhancing the ease of living and doing business at the fundamental level. The use of technology, in particular digital technology, undergirds the reforms.

With the impetus of the persistent structural and governance reforms introduced in the country and strong **macroeconomic stability**, it is essential to get a handle on the medium-term growth outlook for India. The chances of India growing at its potential and for the potential growth itself to be lifted are higher than it has been in the last two decades.

Product and Capital Market Reforms

- **Initiation of the reforms- 1991**

The macroeconomic imbalances of the late 1980s and early 1990s pushed the government towards introducing the **structural reforms of 1991**. The high combined deficit of the central and state governments, elevated inflationary pressures, and large and **unsustainable current account deficit** (CAD) led to a balance of payments crisis in the Indian economy.

In response to the situation, following measures were taken;

- trade and investments were liberalised in 1991,
- Import licensing on almost all intermediate inputs and capital goods was done away with,
- the entry restrictions for firms were simplified.
- the new policy encouraged the entry of private sector firms by ending the public sector monopoly in many sectors and initiating the automatic approval policy for FDI up to 51 per cent,
- the exchange rate was made flexible and allowed to depreciate as necessary to maintain competitiveness, and
- the rupee was made fully convertible on the current account and partially on the capital account.

These reforms had a positive effect on the economy. The real growth went up from an average of 5.5 per cent during the 1980s to 6.3 per cent from FY93 to FY2000. Trade liberalisation had a visible effect on external trade as the total goods and services trade to GDP rose from 17.2 per cent in 1990 to 30.6 per cent in 2000.

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- **Continuity in Reforms with a Renewed Impetus**

The product and capital market reforms continued slowly over the decade of the 1990s. They got a renewed impetus from the government closer to the decade's end. Investments were liberalised further to encourage Foreign Direct Investment as a main source of non-debt-creating capital inflows.

This period also marked the launch of the then **largest infrastructure project of independent India**, the '**Golden Quadrilateral**'. The project brought significant economic benefits to the country through enhanced connectivity, improved industrial activity, trade, and economic growth.

Alongside this, structural policies were formulated to address the macroeconomic imbalances.

- The **Fiscal Responsibility and Budget Management** (FRBM) **Act, 2003** was passed to address the historic highs of the combined Gross fiscal deficit of the Government.
- The banking system, which had accumulated bad debts during the period of economic resurgence after the 1991 reforms, was supported through the deregulation of interest rates and the enactment of the **SARFAESI Act 2002**. Interest rates were deregulated to promote competition amongst banks, provide more banking options to depositors, and strengthen monetary policy transmission. The SARFAESI Act allowed banks and financial institutions to recover their dues by proceeding against the secured assets of the borrower/guarantor without the intervention of the court/ tribunals.

Both these reforms improved the credit situation in the economy.

- **One-Off Shocks Overshadowed The Reforms of 1998-2002**

The period of these reforms also witnessed a series of domestic and global shocks, which subdued investor confidence. The sanctions imposed by the US on India after India's nuclear test led to a sharp decline in capital flows to India during the months following **India's nuclear tests in 1998**. The period between 2000 and 2002 also witnessed **two successive droughts**. These domestic shocks were accompanied by heightened global uncertainties resulting from the end of a tech boom and the 9/11 attacks in the USA.

- **India's Participation in The Global Boom of 2003-08**

The growth dividends from the reforms of 1998-2002 were realised once these one-off shocks dissipated. The years of structural reforms had prepared the Indian economy to contribute to global growth and also benefit from it. While the global growth averaged 4.8 percent during 2003-2008, the Indian economy grew at more than **8 percent on average**. This combination of structural economic reforms with their lagged effect on economic growth has parallels to what is unfolding in the Indian economy presently.

Reforms for New India – Sabka Saath Sabka Vikaas

The reforms undertaken before 2014 primarily catered to product and capital market space. They were necessary and continued post-2014 as well. The government, however, imparted a new dimension to these reforms in the last eight years.

The broad principles behind the reforms were creating public goods, adopting trust-based governance, co-partnering with the private sector for development, and improving agricultural productivity. This approach reflects a **paradigm shift in the growth and development strategy** of the government, with the emphasis shifted towards building partnerships amongst various stakeholders in the development process, where each contributes to and reaps the development benefits (**Sabka Saath, Sabka Vikaas**).

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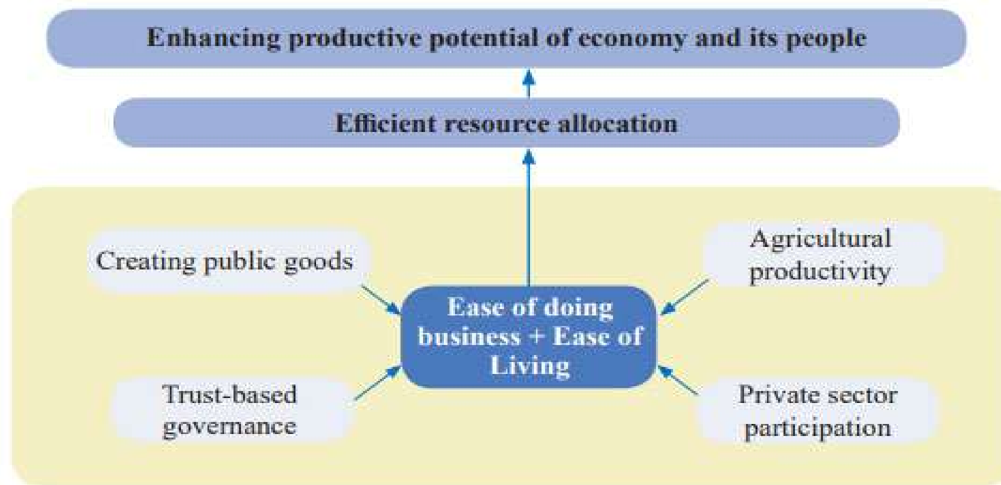

Figure: **Underlying framework for Reforms for a new India**

- **Creating public goods to enhance opportunities, efficiencies and ease of living**

The dedicated programs for road connectivity (**Bharatmala**), port infrastructure (**Sagarmala**), electrification, railways upgradation, and operationalising new airports/ air routes (**UDAN**) have significantly improved the physical infrastructure in the last few years.

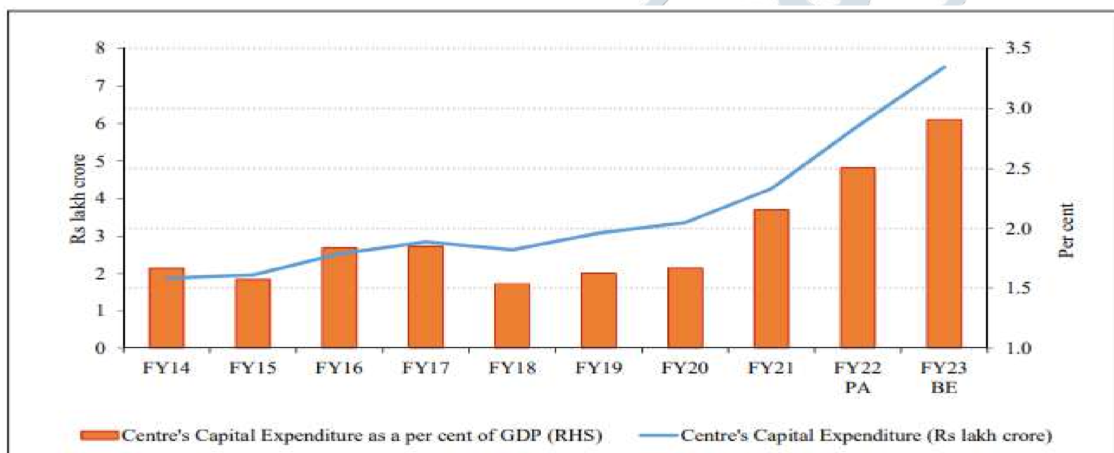

Figure: **Union government's capital expenditure as a per cent of GDP on the rise**

With the **National Infrastructure Pipeline** (NIP) in 2019 and the **National Monetization Pipeline** in 2021, a **strong baseline for infrastructure creation and development** has been put in place, providing a multitude of opportunities for foreign investment and engagement. The NIP was launched with 6,835 infrastructure projects with a projected infrastructure investment of **₹111 lakh crore**. This has expanded to over 9,000 projects across 35 sub-sectors and covers economic and social infrastructure projects jointly funded by the Central Government, State Governments, and the private sector. With its strong forward and backward linkages, physical infrastructure will enhance the economy's productivity in the medium term.

Besides the push to physical infrastructure, the government's emphasis on developing **public digital infrastructure** during the last few years has been a game changer in enhancing the economic potential of individuals and businesses. A recently published article in the **RBI's Monthly Bulletin** estimates that India's **core digital economy has grown at 2.4 times** the overall economic growth between 2014 and 2019. With its strong forward linkages to the non-digital sectors, digitalisation strengthens potential economic growth through various channels. Based on the pillars of a digital identity Aadhar, linking bank accounts with PM-Jan Dhan Yojana, and the penetration of mobile phones (**JAM Trinity**), the country has witnessed significant progress in financial inclusion in recent years.

- The population covered with bank accounts increased from 53 per cent in 2015-16 to **78 per cent** in 2019-21 (as per NFHS).
- Numerous digital public goods such as digital verification (**e-KYC**), digital signature, digital repositories (Digilocker), and digital payments (UPI) have supported financial inclusion by improving access to formal financial services and reducing transaction costs.
- Some of the recently introduced digital initiatives, such as the **Open Network for Digital Commerce** (ONDC) and **Account Aggregator framework**, will open up further avenues for **e-commerce market access and credit availability** for smaller businesses and strengthen the expected economic growth in the medium term.

Another vital contribution of digital infrastructure has been the greater **formalisation of the economy**. A report in The Economist (January 2023) attributes the trends of formalisation of the workforce in India to the transformed digital financial architecture, the digitalised GST system and growth in the usage of UPI.

- **Trust-based Governance**

Building trust between the government and the citizens/businesses unleashes efficiency gains through **improved investor sentiment**, better **ease of doing business**, and more **effective governance**. Consistent reforms have been made in this direction during the last eight years.

- The IBC has imbibed some of the best international practices of an asset resolution mechanism. It provides an honourable exit mechanism for honest business failures and enables the release of credit locked into the stressed assets for better resource allocation. This market-driven, transparent resolution mechanism instils confidence in the financial system and attracts many new investors to invest in Indian businesses. A significant achievement of the IBC has been the change brought in the debtor-creditor relationship. Debtors are resolving stress early to avoid being pushed into insolvency. Until 30 September 2022, 23,417 applications for initiating the **corporate insolvency resolution process** (CIRP) of corporate debtors having underlying defaults of ₹7.3 lakh crore were disposed of before their admission into CIRP.
- The other regulatory reform, **Real Estate (Regulation and Development) Act (RERA)**, is creating a culture of transparent transactions in the real estate sector. The Act has transformed the real estate sector by registering real estate brokers and agents with the regulator, establishing mechanisms for the speedy redressal of disputes and enabling a single window clearance for timely approvals to the developers.
- Another significant reform to enhance doing business has been the decriminalisation of minor economic offences under the **Companies Act of 2013**. By introducing civil liabilities for dealing with simple defaults that do not involve fraud or where the nature of the lapse is purely procedural, the government has demonstrated its intent to promote ease of doing business for domestic and global investors. Furthermore, a trust-based approach towards compliance builds entrepreneurs' faith in corporate institutions and motivates them to adopt fairer and more transparent business practices.
- The taxation ecosystem in the country has undergone substantial reforms in the post-2014 period. Tax policy reforms such as adopting a unified GST, reducing corporate tax rates, exemption of sovereign wealth funds and pension funds from taxes, and removing the Dividend Distribution tax have reduced the tax burden on individuals and businesses; and have removed the distortionary incentives from the economy. GST, for instance, has helped businesses by reducing compliances, ensuring a free flow of goods across states, doing away with the need for businesses to have a separate warehouse for every state, and hence improving the ease of doing business.

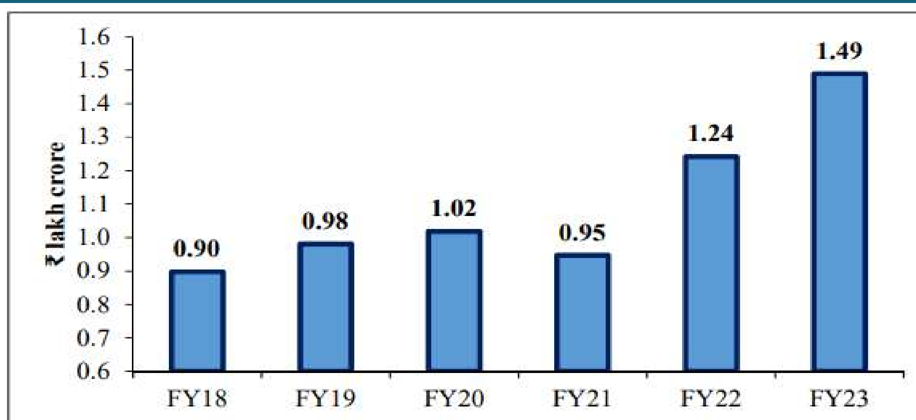

Figure: Rising average monthly gross GST collection

One prominent reason behind the higher revenue buoyancy is the **introduction of technology-backed tax governance reforms** for simplifying tax processes, enhancing compliance, and improving fraud detection systems. The faceless assessment and appeal systems no longer require a physical interface between taxpayers and the Income Tax department. Moreover, multiple consistency checks possible with integrated digital systems reduce tax evasion.

- **Promoting the private sector as a co-partner in the development**

A fundamental principle behind the government's policy in the post- 2014 period has been the engagement with **the private sector as a partner in the development process**. The government's disinvestment policy has been revived in the last eight years with stake sales and the successful listing of PSEs on the stock market. During FY15 to FY23 (as of 18 January 2023), an amount of about **₹4.07 lakh crore** has been realised as proceeds from disinvestment through 154 transactions using various modes/instruments. The privatisation of Air India was particularly significant for re-igniting the privatisation drive. Evidence shows that privatisation has improved labour productivity and the overall efficiency of the PSUs disinvested during 1990-2015. The **New Public Sector Enterprise Policy** for Aatmanirbhar Bharat has thus been introduced to realise higher efficiency gains by minimising the presence of the government in the PSEs to only a few strategic sectors.

Significant initiatives have been introduced under **Aatmanirbhar Bharat** and **Make in India** programmes to enhance India's manufacturing capabilities and exports across the industries. Sector specific **Production Linked incentives** (PLI) have been introduced in the aftermath of the pandemic to incentivise domestic and foreign investments and to develop global Champions in the manufacturing industry. Early estimates of the impact of PLI show encouraging trends in some sectors. The PLI scheme for large-scale electronics manufacturing has attracted an investment of ₹4,784 crore and contributed to a total production of ₹2.04 lakh crore, including exports of ₹80,769 crore (as of September 2022).

The government is developing enabling infrastructure for making India a cost-effective production hub. The **National Logistics Policy** (2022) has been launched to create an overarching logistics ecosystem for lowering the cost of logistics and bringing it to par with other developed countries. This would boost economic growth, provide employment opportunities, and make Indian products more competitive in the global market.

- **Enhancing productivity in agriculture**

The agriculture sector in India has grown at an average **annual growth rate of 4.6 percent** during the last six years. This growth is partly attributable to good monsoon years and partly to the various reforms undertaken by the government to enhance agricultural productivity.

Policies such as **Soil Health Cards**, the **Micro irrigation Fund**, and organic and natural farming have helped the farmers optimise resource use and reduce the cultivation cost. The promotion of **Farmer Producer Organisations** (FPOs) and the **National Agriculture Market** (e-NAM) extension Platform have empowered farmers, enhanced their resources, and enabled them to get good returns. **Agri Infrastructure Fund** (AIF) has supported the creation of various agriculture infrastructures. **Kisan Rail** exclusively caters to the movement of perishable Agri Horti commodities. **Cluster Development Programme** (CDP) has promoted integrated and market-led development for horticulture clusters. Support for creating a Start-up ecosystem in agriculture and allied sectors is also being provided to the farmers. All these measures are directed towards supporting the growth in agricultural productivity and sustaining its contribution to overall economic growth in the medium term.

Returns to the Economic and Structural Reforms after 2014

India's recent economic history provides a similar parallel to this situation. During 1998- 2002, transformative reforms were launched but yielded lagged growth dividends. This phenomenon was attributed to a series of one-off shocks resulting from external factors and the domestic financial sector clean-up, which overshadowed the growth returns from 1998 to 2002. By 2003, when the shocks dissipated, India participated in the global boom and grew at a higher rate. Similarly, in the present context, as the global shocks of the pandemic and the spike in commodity prices in 2022 fade away, the Indian economy is well placed to grow at its potential in the coming decade.

1998-2002	2014-2022
Shocks to the economy	
• Nuclear device testing 1998; sanctions followed	• Period of Banking, Non-Banking and Non-Financial Corporate Sector Balance-sheet stress
• Banking and Corporate Sector deleveraging and repairing balance-sheets • Two successive droughts • Technology bust; US recession and 09/11	• Unprecedented pandemic shock followed by inflation global commodity price shock followed by tightening of financial conditions
Structural reforms in the economy	
• Interest rate deregulation • Privatisation • Asset Recovery for banks • Infrastructure (Golden quadrilateral) • FRBM Act	• Unique Identity • Financial Inclusion • GST leading to formalisation • Insolvency & Bankruptcy Code • Privatisation • Tax rates rationalisation and tax administration reforms • Decriminalisation of offences • Vaccines roll-out • Expenditure Management Reforms • AatmaNirbhar Bharat • Public Digital Infrastructure
Growth returns	
• One-off shocks delayed the growth returns	• Balance sheets strengthened in the financial sector; the corporate sector deleveraged by about 30 percentage points (Non-financial private sector debt to GDP ratio)
• Once shocks faded away, structural reforms paid growth dividends from 2003 onwards	• Emphasis on macro-economic stability while dealing with global shocks

Figure: A parallel between the periods: 1998-2002 and 2014-2022

Growth Magnets in this Decade (2023-2030)

After a long period of balance sheet repair in the financial and corporate sector, the financial cycle is poised to turn upward. As the health and economic shocks of the pandemic and the spike in commodity prices in 2022 wear off, the Indian economy is thus well placed to grow at its potential in the coming decade, similar to the growth experience of the economy after 2003. This is the **primary reason for expecting India's growth outlook to be better** than it was in the pre-pandemic years. Thanks to India's digital revolution and formalisation, banks have far more information about their customer's credit risks than before, thus being able to make credit and pricing decisions better than before. That should make for a healthier and longer credit cycle than before.

The digitalisation reforms and the resulting efficiency gains in terms of greater formalisation, higher financial inclusion, and more economic opportunities will be the **second most important driver** of India's economic growth in the medium term.

UNCTAD, in one of its reports, shows that '**reshoring, diversification, and regionalisation** will drive the **restructuring of global value chains** in the coming years'. With enabling policy frameworks, India presents itself as a credible destination for capital diversifying out of other countries. The recently published **Chief Economists Outlook 2023** (World Economic Forum) highlights India's opportunity to gain from these global trends of supply chain diversification.

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CHAPTER 3: FISCAL DEVELOPMENTS: Revenue Relish

The resilience in the fiscal performance of the Union Government has been facilitated by the recovery in economic activity, buoyancy in revenues from direct taxes and GST, and realistic assumptions in the **Union Budget 2022-23**. The Gross Tax Revenue registered a Year-on-Year growth of **15.5 percent** from April to November 2022, driven by robust growth in the direct taxes and Goods and Services Tax (GST). The growth in direct taxes during the first eight months of the year was much higher than their corresponding longer-term averages. The GST has stabilised as a vital revenue source for central and state governments, with the gross GST collections increasing at **24.8 percent** on YoY basis during April - December 2022.

On the expenditure side, the Union Government's emphasis on capital expenditure (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 per cent of GDP (FY09 to FY20) to 2.5 per cent of GDP in FY22 PA. The Centre has also incentivised the State Governments through interest-free loans and enhanced borrowing ceilings to prioritise their spending on Capex.

Introduction

With the continuing global risks and uncertainties, the availability of fiscal space with governments has become paramount. It is especially true following the recent incidence of the pandemic when the fiscal policy became an effective macroeconomic stabilisation tool globally. The large, frontloaded packages across the countries led to over-stimulation of demand, leading to its much faster recovery. In combination with the still-existing supply disruptions and constraints, the overheating of the economy led to inflationary pressures. The conflict in Europe and the related geopolitical developments aggravated the crisis. The slowing global growth, rising interest rates, persistently high inflation rates and uncertain global environment have thus posed certain pertinent questions for fiscal-policy experts to motivate the overarching fiscal policy strategy.

Against this backdrop, the Government of India adopted a calibrated fiscal response to the pandemic and planned to withdraw the fiscal stimulus gradually as it moves along the glide path outlined in the Budget FY22.

Developments in Union Government Finances

While India entered the pandemic with a stretched fiscal position, the government's prudent and calibrated fiscal response enabled stable public finances even amidst the present uncertainties. The fiscal deficit of the Union Government, which reached **9.2 percent of GDP during the pandemic year FY21**, has moderated to 6.7 per cent of GDP in FY22 and is further budgeted to reach **6.4 percent of GDP in FY23**. This gradual decline in the Union government's fiscal deficit as a per cent of GDP, in line with the fiscal glide path envisioned by the government, is a result of careful fiscal management supported by buoyant revenue collection over the last two years.

The Union Budget for FY23 was presented in a recovering yet uncertain macroeconomic environment, not anticipating the geopolitical developments that unfolded during the year. As the conflict in Europe broke out early in the year, it aggravated supply disruptions and had an adverse impact on the prices of fuel, food, and other essential commodities. The government's fiscal policy response necessitated additional spending on food and fertiliser subsidies, accompanied by specific duty cuts to control the pass-through of the high imported prices to the consumers/ users. Despite additional fiscal resource pressures during the year, the Union Government is well on track to achieve the budget estimate for the fiscal deficit in FY23. The fiscal

deficit of the Union Government at the end of November 2022 stood at **58.9 per cent of the Budgeted Estimate**, lower than the five-year moving average of 104.6 per cent of BE during the same period.

	₹ lakh crore			As a per cent of BE		YoY growth (per cent)		
	BE FY23	Apr-Nov 2021	Apr-Nov 2022	Apr-Nov 2021	Apr-Nov 2022	5 yr Avg Apr-Nov	Apr-Nov 2021	Apr-Nov 2022
Revenue Receipts	22.04	13.58	14.23	75.9	64.6	12.3	67.1	4.8
Gross tax revenue	27.58	15.42	17.81	69.5	64.6	13.9	50.3	15.5
Assignment to States	8.17	4.03	5.51	60.5	67.5	16.6	20.4	36.8
Tax Revenue (net to Centre)	19.35	11.35	12.25	73.5	63.3	12.9	64.9	7.9
Non-Tax Revenue	2.70	2.23	1.98	91.8	73.5	13.3	79.5	-11.1
Non-Debt Capital Receipts	0.79	0.21	0.41	11.0	52.3	30.6	14.1	100.4
Non-Debt receipts	22.84	13.79	14.65	69.8	64.1	12.2	66.0	6.2
Total Expenditure	39.45	20.75	24.43	59.6	61.9	11.4	8.8	17.7
Revenue Expenditure	31.95	18.01	19.96	61.5	62.5	11.4	8.2	10.8
Capital Expenditure	7.50	2.74	4.47	49.4	59.6	12.9	13.5	63.4
Revenue Deficit	9.90	4.43	5.73	38.8	57.8	11.4	-48.1	29.3
Fiscal Deficit	16.61	6.96	9.78	46.2	58.9	11.5	-35.3	40.6
Primary Deficit	7.21	2.34	4.33	33.5	60.1	13.1	-66.2	85.1

Figure: Stable performance of the Union Government fiscal indicators from April to November 2022

The Union government's **non-debt receipts** comprise revenue receipts (tax and non-tax) and non-debt capital receipts. The shortfall in the non-debt receipts to meet the expenditure requirement is met by borrowings of the government (called **fiscal deficit**).

The resilience exhibited by economic growth underpins the sustained **revenue buoyancy** observed over the years. However, that revenues have grown at a pace much higher than the growth in GDP is a testimony to the effectiveness of efforts taken by the government to expand the tax base and enhance tax compliance. Structural reforms like the introduction of GST and the digitalisation of economic transactions have led to the greater formalisation of the economy and hence expanded the tax net.

While **direct taxes** have safeguarded the revenue buoyancy, **indirect taxes** such as customs and excise duties have acted as flexible policy tools during the fiscal response to the pandemic. When the collection of direct and indirect taxes was adversely impacted during the pandemic year FY21, and low global oil prices created some elbow room for raising taxes on petroleum, the government raised the excise duty on petrol and diesel to augment the revenue pool. Subsequently, when other taxes recovered and inflationary pressures built up in the economy, the government reduced the excise duty in November 2021 and May 2022 to control the pass-through of the rising global oil prices on the consumers.

The **non-tax revenue** to the Centre mainly includes **interest receipts on loans to States and Union Territories, dividends and profits from Public Sector Enterprises and the Reserve Bank of India, and external grants and receipts for services the Union Government provides**. Budget FY23 envisaged a lower collection of non-tax revenue receipts during the current year relative to FY22 (around 22.5 percent lower than FY22 PA). Of the budgeted amount, 73.5 percent has been collected up to November 2022.

Apart from the tax and non-tax revenue of the Union Government, **non-debt capital receipts**, which comprise recovery of loans and advances, and disinvestment receipts, have evolved as an important component of the non-debt receipts for the Union Government. During FY15 to FY23 (as of 18 January 2022), an amount of about ₹4.07 lakh crore has been realised as proceeds from disinvestment through 154 transactions using various modes/instruments. This includes ₹3.02 lakh crore realised from minority stake sale and ₹69,412 crore realised from **strategic disinvestment transactions** (in 10 CPSEs - HPCL, REC, DCIL, HSCC, NPCC. NEEPCO, THDC, Kamrajar Port, Air India and NINL).

Last few years have underlined the importance of countercyclical fiscal policy measures to support the economy during a crisis. The pandemic mandated additional expenditure requirements during FY21. The total expenditure of the Union Government in FY21 rose to **17.7 per cent of GDP**, higher than the previous 5-year average of 12.8 per cent of GDP. The government adopted a pragmatic approach of increasing its expenditure in a calibrated way. Upon ensuring the basic safety nets for the vulnerable, the emphasis of the Government expenditure shifted to productive **domestic capital expenditure**. In the subsequent year, FY22, the total Union Government expenditure was brought down to 16 per cent of GDP, and a more significant proportion of this accrued to capital expenditure. The capital expenditure by the Centre has steadily increased from a long-term average of 1.7 per cent of GDP (FY09 to FY20) to 2.5 per cent of GDP in FY22 PA. It is further budgeted to increase to **2.9 per cent of GDP in FY23**.

Figure: **Increasing Union Government capital expenditure to GDP ratio**

In absolute terms, the Government of India had budgeted an unprecedented **₹7.5 lakh crore of Capital Expenditure for FY23**, of which more than 59.6 per cent has been spent from April to November 2022. During this period, capital expenditure registered a YoY growth of over 60 per cent, much higher than the long-term average growth of 13.5 per cent recorded in the corresponding period from FY16 to FY20.

- The Government's thrust on Capital expenditure, particularly in the infrastructure-intensive sectors like roads and highways, railways, and housing and urban affairs, has **longer-term implications** for growth.
- While on the one hand, capital expenditure **strengthens aggregate demand** and **crowds-in private spending** in times of risk aversion; it also enhances the **longer-term supply-side productive capacity**.

The significant components of the Centre's **revenue expenditure** include Interest payments, major subsidies, salaries of Government employees, pensions, defence revenue expenditure, and transfers to States. A substantial portion of the Centre's revenue expenditure is committed and allows limited flexibility in creating additional fiscal headroom if required. However, re-prioritising expenditure and rationalising subsidies are essential tools to stimulate aggregate demand and fulfil redistributive imperatives.

- With the winding up of the pandemic-related support, the revenue expenditure of the Union government was brought down from 15.6 per cent of GDP in the pandemic year FY21 to 13.5 per cent of GDP in FY22. This contraction was led by a reduction of the subsidy expenditure as the economy recovered from the pandemic. The **subsidy expenditure** was brought down from 3.6 per cent of GDP in FY21 to 1.9 per cent of GDP in FY22 PA. It was further budgeted to **reduce to 1.2 per cent of GDP in FY23**.

Major reforms in the Union budget over the last few years: A transparent, comprehensive and realistic budgetary process enables better fiscal management.4 This section discusses some of the major governance reforms introduced in the Union Budget over the last few years that have resulted in greater efficiency in public spending.

- **Improved fiscal transparency and realistic revenue assumptions in the Budget**
- **Discontinuation of Plan-Non plan classification**: The Budget FY18 discontinued having Plan and Non-Plan classifications of Government expenditure. The reform gave a greater emphasis to the Revenue and Capital classification of Government expenditure. Over the years, a broad understanding had been that Plan expenditures were good and Non-Plan expenditures were bad, resulting in skewed allocations in the Budget. The reform enabled effective planning and allocation of resources in the Budget.
- **Merger of railway Budget with the Main Budget**
- **Shifting the date of the Budget to 1 February**

Overview of State Government Finances

State Governments improved their finances in FY22 after being adversely impacted by the pandemic in FY21. The combined **Gross Fiscal Deficit** (GFD) of the States, which increased to 4.1 per cent of GDP in the pandemic-affected year, was brought down to 2.8 per cent in FY22 PA. Given the geopolitical uncertainties, the consolidated GFD-GDP ratio for States has been budgeted 3.4 per cent in FY23.

It is pertinent to note that states had unutilised borrowing limits during the last three years. Given the resource constraints of state governments, the Centre enhanced the **net borrowing ceilings** (NBC) for States to 5 per cent of GSDP in FY21, 4 per cent of GSDP in FY22, and **3.5 per cent of GSDP in FY23**. A part of this additional borrowing was linked to reforms encouraging the States to undertake them. In addition to the net borrowing ceilings fixed for the States, Fifteenth Finance Commission had recommended performance-based additional borrowing space of **0.5 percent** of Gross State Domestic Product (GSDP) to the States in the **power sector**. This special dispensation has been recommended for each year for four years, from FY22 to 2024-25. For the financial year FY22, additional borrowing permission of ₹39,175 crore was allowed to 12 States for **meeting the stipulated reform criteria**.

As per FY23 Budget Estimates of the State Governments, the States' combined own **Tax revenue and own Non-Tax revenue** were anticipated to grow at 17.5 per cent and 25.6 per cent, respectively, over FY22. This growth is a continuation of the buoyancy momentum observed in the FY22. On the expenditure side, **revenue and capital expenditures** in FY22 BE were envisaged to grow at 10.4 per cent and 16 per cent, respectively, over FY22 RE.

Transfer of funds to the States comprises the share of States in Union taxes devolved to the States, Finance Commission Grants, Centrally Sponsored Schemes (CSS), and other transfers. Total transfers to States have risen between FY19 and FY23 BE. The Finance Commission had recommended allocation of an amounting to

₹1.92 lakh crore for FY23 in respect of post-devolution revenue deficit grants, grants to local bodies, health sector grants, and disaster management grants under **Article 275** of the Constitution.

	FY19	FY20	FY21	FY22 RE	FY23 BE
					(in ₹ lakh crore)
Centrally Sponsored Schemes	3.0	3.1	3.8	4.2	4.4
Finance Commission Grants	0.9	1.2	1.8	2.1	1.9
Other Grants/Loans/Transfers	0.9	2.0	1.9	2.3	3.0

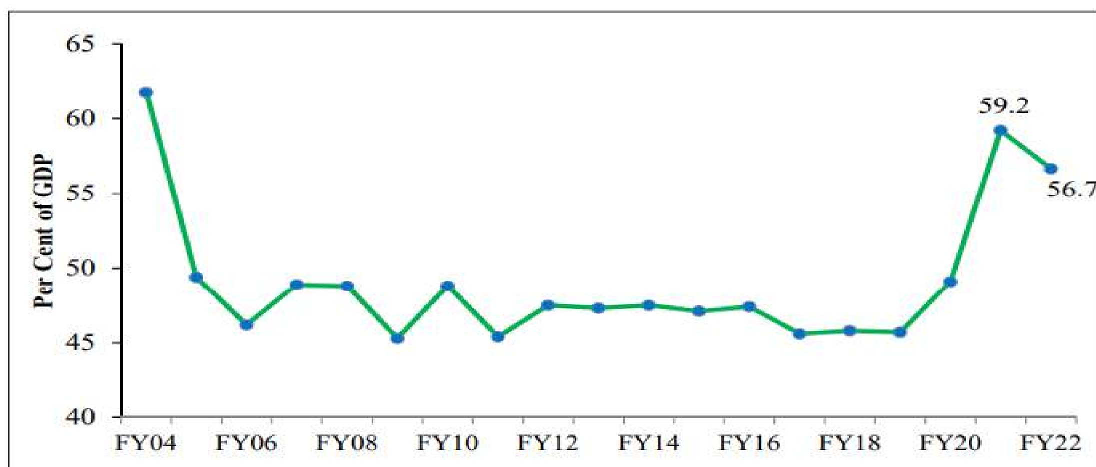
Figure: **Details of transfers from Centre to States (other than devolution to States)**

The Union government has provided **50-year interest-free loans** to state governments under the '**Scheme for Special Assistance to States for Capital Investment**' for the last three years. Amounts of ₹11,830 crore and ₹14,186 crore were provided to states in FY21 and FY22. During the year FY23, the allocation under the Scheme has been raised to **₹1.05 lakh crore** to give further impetus to State Capex plans. This amount includes an unconditional component and smaller components linked to specific reforms/initiatives. Notably, if state governments were allowed this ₹1 lakh crore as an additional borrowing limit, they would bear an interest rate higher than the rate at which the Union government borrows. Further, they may use it for revenue expenditure. This interest-free loan in the present arrangement is dedicated only to capital expenditure.

Debt Profile of the Government

Given the unprecedented fiscal expansion in 2020, rising government liabilities have emerged as a significant concern across the globe. IMF projects the global government debt at **91 per cent of GDP in 2022**, about 7.5 percentage points above the pre-pandemic levels. While countries worldwide had started winding up the fiscal support provided during the pandemic, challenging global financial conditions amidst global uncertainties tightened budget constraints.10 Some European economies are expanding their budgets to provide relief to households and small businesses from mounting energy bills. All these factors, together with rising interest rates and the fear of slower growth, make the sustainability of sovereign debts a concern worldwide.

It is crucial to analyse **India's government debt profile against this global backdrop**. For India, the total liabilities of the Union Government, which were relatively stable as a percentage of GDP over the past decade, witnessed a sharp spike in the pandemic year FY21. This spike in debt resulted from the pandemic-induced higher Government borrowings to finance the additional expenditure needs, given the strained revenues and sharp contraction in the GDP. Total liabilities of the Union Government moderated from 59.2 per cent of GDP in FY21 to **56.7 per cent in FY22**.



Conclusion

The Government of India has adopted a holistic policy towards fiscal stability in the last few years. Using the crisis as an opportunity to bring about reforms, the government undertook a series of policy measures in the previous few years. These policies range from bringing in budget transparency and using prudent assumptions in the Budget to transforming the tax ecosystem by implementing technology, rationalising GST, reducing tax rates, simplifying tax compliances, and ending the uncertainty around retrospective taxation. All these measures have led to a greater formalisation of the economy, enhanced compliances and better reporting of the income by the public and imparted credibility to the government's commitment to fiscal management.

The spike in India's debt and deficit ratios has not only been due to higher spending necessitated by the pandemic-induced cessation of economic activity but also due to the contraction or slower growth in the denominator (nominal GDP).

As India's economic recovery advances, amidst the continuing global uncertainties and risks, the fiscal glide path illuminates the path for fiscal policy. That will ensure more significant fiscal space for policy action in uncertain times.

The Centre should continue incentivising the States for reforms and higher capital spending to ensure a stronger General government. The capex-led growth strategy will ensure sustainable debt levels in the medium term.

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CHAPTER 4: MONETARY MANAGEMENT & FINANCIAL INTERMEDIATION: A Good Year

The change in RBI's policy stance in FY23 led to a moderation of surplus liquidity conditions that prevailed during the pandemic years. Monetary policy transmission is well underway as lending and deposit rates increased following the hike in policy rates. In the government securities (G-sec) market, bond yields were on an upward trajectory until June 2022 on concerns of high inflation and policy rate hikes. These yields moderated in November and December 2022, aided by lower crude oil prices, a slower pace of rate hikes, and general moderation in global sovereign bond yields.

While the global tightening cycle has contributed to a dampened global outlook, the domestic appetite for credit has been on an upswing. 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 balance sheet clean-up exercise has been vital in enhancing the lending ability of financial institutions. The Gross **Non-Performing Assets** (GNPA) **ratio** of SCBs has fallen to a seven-year low of 5.0, while the **Capital-to-Risk Weighted Assets Ratio** (CRAR) remains healthy at 16.0 and **well above the regulatory requirement of 11.5**. The health of NBFCs has continued to improve as well. The recovery rate for the SCBs through **Insolvency and Bankruptcy Code** (IBC) was highest in FY22 compared to other channels.

As global central banks reaffirm their hawkish stances and telegraph 'higher-for-longer' policy rates in their battle against inflation, monetary conditions are expected to remain tight worldwide. Domestically, however, RBI's support to growth will ensure adequate liquidity in financial markets. The growth in credit offtake is expected to sustain, and combined with a pick-up in private Capex, will usher in a virtuous investment cycle. The credit upcycle will also be aided by constant monitoring of the risks in the financial system by the regulators and their efforts to contain them. Strong macroeconomic fundamentals will underpin the return of global capital flows to India once the fog of uncertainty lifts. The financial system will play a key role in realising the objectives of Amrit Kaal.

Monetary Developments

Inflationary pressures dominated the global economic landscape in FY23. The build-up of price pressures occurring in tandem with the economic recovery in FY22 from the pandemic was long viewed as **transient**. It was expected to abate as supply chains normalised. The debate on said transience was put to rest by the conflict that erupted in Europe in February 2022. It **resulted in commodity prices soaring** and added significantly to the prevailing inflationary pressures. This development has triggered the current sharp and synchronous **monetary tightening** cycle.

The **Monetary Policy Committee** (MPC) maintained a status quo on the **policy repo rate** between May 2020 and February 2022 after implementing a **115 basis points** (bps) reduction between March 2020 and May 2020. Retail inflation has crossed the upper limit of **RBI's tolerance band** since January 2022. Sensing a serious risk to price stability, RBI initiated the monetary tightening cycle. In its April 2022 meeting, the committee introduced the **Standing Deposit Facility** (SDF), which allowed for the deposit of excess funds by banks with the RBI without the necessity of collateral in the form of government securities, thereby allowing effective **liquidity management** in a collateral-free manner. Here, it is worth mentioning that while the SDF window is available for overnight deposits, the Reserve Bank retains the flexibility to absorb surplus liquidity of longer tenors under the window, if necessary, with appropriate pricing. The SDF, introduced at a rate of **3.75 per cent**, **replaced the reverse repo rate** as the new floor of the **Liquidity Adjustment Facility** (LAF) corridor. The MPC also indicated a change in stance from '**Accommodative**' to 'Accommodative and focused

on the withdrawal of accommodation, while supporting growth' in this meeting, signalling the start of the monetary tightening cycle.

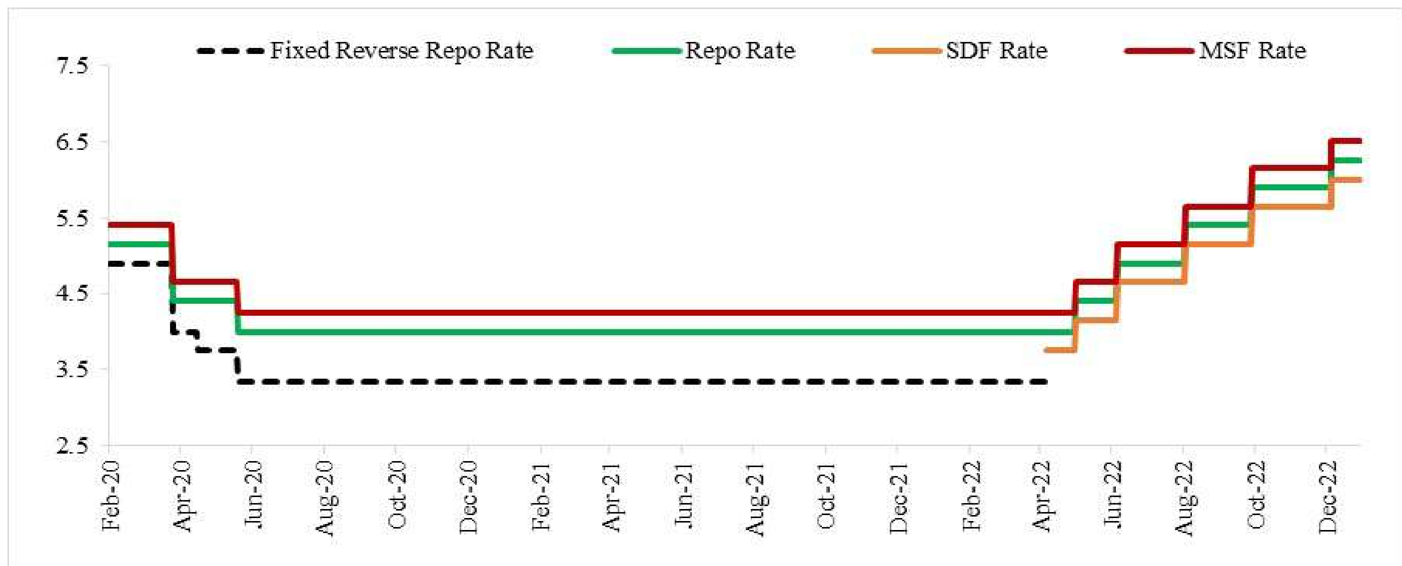


Figure: Policy Rates

In the initial phases of the tightening cycle, the committee noted that commodity price-driven inflationary pressures, increased volatility and initial signs of a slowdown in output characterised the global outlook. In its latest meeting of December 5-7 2022, the MPC hiked the policy repo rate by 35 bps, and reiterated its focus on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

Reserve money (M0) increased by 10.3 per cent year-on-year (YoY) as on 30th December 2022 compared to 13 per cent last year. However, reserve money adjusted for the first-round impact of changes in the Cash Reserve Ratio (CRR) recorded a YoY growth of 7.8 per cent compared to 9.1 per cent a year ago. On the component side, growth in **Currency in Circulation** (CIC) broadly remained stable at levels seen after Covid-19, barring a marginal increase in the immediate aftermath of the outbreak of the Russia-Ukraine conflict, which can be attributed to a rise in precautionary holdings. So far, expansion in M0 during FY23 was mainly driven by bankers' deposits with the RBI, with an increase in the CRR.

YoY Growth in monetary aggregates (in percent)

Item	FY17^	FY18	FY19	FY20	FY21	FY22	FY23*
1. Reserve Money (M_0)	**-12.9**	**27.3**	**14.5**	**9.4**	**18.8**	**13**	**10.3**
1.a. Currency in Circulation (CiC)	-19.7	37	16.8	14.5	16.6	9.8	8.2
1.b. Bankers' Deposits with the RBI	8.4	3.9	6.4	-9.6	28.5	25.4	17.6
2. Narrow Money (M_1)	**-3.9**	**21.8**	**13.6**	**11.2**	**16.2**	**10.7**	**7.6**
3. Broad Money (M_3)	**6.9**	**9.2**	**10.5**	**8.9**	**12.2**	**8.8**	**8.7**
3.a. Currency with the Public	-20.8	39.2	16.6	14.5	17.1	10.3	8.4
3.b. Aggregate Deposits	6.9	5.8	9.6	8	11.3	8.4	9.2
Demand Deposits	18.4	6.2	9.6	6.8	14.8	10.9	6.2
Time Deposits	10.2	5.8	9.6	8.1	10.9	8.1	9.1

^: March 31, 2017 over April 1, 2016, barring M_0, CiC and Bankers' Deposits with the RBI.

*: Data for FY23 is as on December 30, 2022

Source: RBI.

As on 30th December 2022, **broad money stock** (M3) increased by 8.7 per cent YoY. From the component side, aggregate deposits have been the largest component and contributed most to the expansion of M3 during the year so far. Amongst sources, bank credit to the commercial sector drove the expansion of broad money, and net bank credit to the government supplemented this expansion.

The **money multiplier** – the **ratio of M3 and M0** – has broadly remained stable at an average of 5.1 over April – December 2022 period compared to 5.2 in the corresponding period of the previous year. However, M0 adjusted for reverse repo, which is analytically akin to banks' deposits with the RBI, was much higher until April 2022. Hence, the adjusted money multiplier was lower at 4.3 at the beginning of FY23. M0 adjusted for the reverse repo is now much closer to M0; hence, as on 30 December 2022, the money multiplier and adjusted money multiplier stood at 5.21 and 5.03, respectively.

Liquidity Conditions

Surplus liquidity conditions that prevailed post-Covid-19 in response to the Reserve Bank's conventional and unconventional monetary measures moderated during FY23 in consonance with the changed **monetary policy stance** that focused on the withdrawal of accommodation. With the **MSF rate** retained at 25 bps above the policy repo rate, the LAF corridor became symmetric around the policy repo rate - the corridor width was thus restored to 50 bps, the position that prevailed before the pandemic. The RBI's move to hike the **CRR** by 50 bps resulted in a withdrawal of primary liquidity to the tune of ₹87,000 crore from the banking system.

Monetary Policy Transmission

Lending and deposit rates of banks increased during FY23 in consonance with the policy repo rate changes. During FY23 (up to December 2022), external benchmark-based lending rate and 1-year median **marginal cost of funds-based lending rate** (MCLR) increased by 225 bps and 115 bps, respectively. Overall, the **weighted average lending rate** (WALR) on fresh and outstanding rupee loans rose by 135 bps and 71 bps, respectively, in FY23 (up to November 2022). On the deposit side, the weighted average domestic term deposit rate (WADTDR) on outstanding deposits increased by 59 bps in FY23 (up to November 2022).

An analysis of transmission across bank groups during FY23 (up to November 2022) indicates that the increase in the WALRs on fresh loans was **higher in the case of public sector banks**, while that of the WADTDR on outstanding deposits and WALR on outstanding loans was **higher for private banks**.

Developments in the G-sec Market

After remaining steady through 2020 and 2021, the yield on the 10-year government bond rose in 2022. The weighted average yield spike reflects the domestic bond market volatility stemming from uncertainty in crude prices, a **hawkish stance** of major central banks, a hardening of global bond yield and the pressure on the rupee. The monthly average yield on the 10-year government bond stood at 7.3 per cent in December 2022 after having peaked at 7.5 per cent in June 2022. Yields moderated in November and December 2022 following smaller rate hikes by major central banks and declining inflation. **With the softening of yields, volatility also declined in the second half of 2022**.

Banking Sector

Since the middle of the previous decade, RBI and the government have made dedicated efforts in terms of calibrated policy measures like strengthening the regulatory and supervisory framework, implementation of **4R's approach** of **Recognition, Resolution, Recapitalisation and Reforms** to clean and strengthen the

balance sheet of the banking system. These continuous efforts over the years have culminated in the enhancement of risk absorption capacity and a healthier banking system balance sheet both in terms of asset quantity and quality over the years.

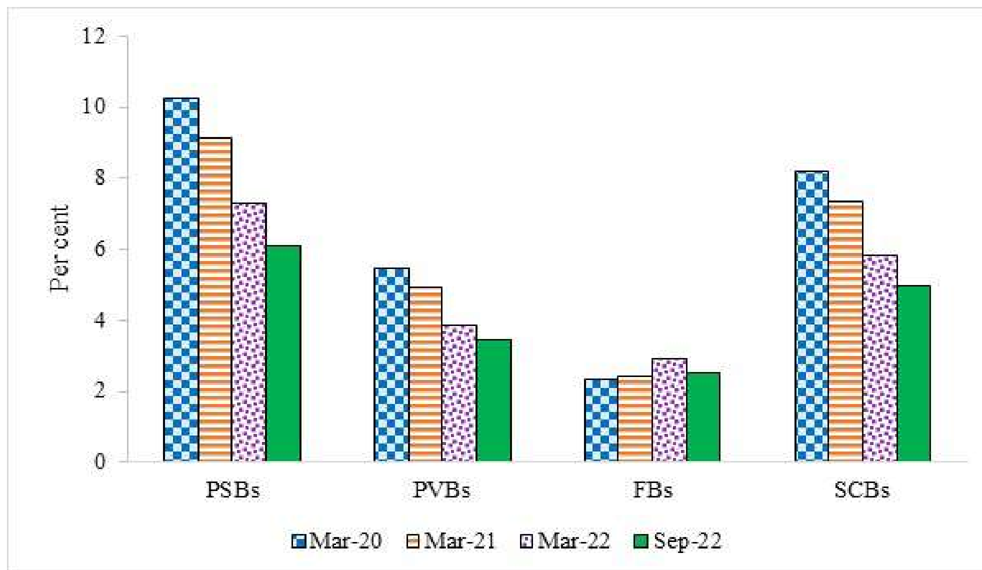


Figure: **Declining SCB's GNPA Ratio**

Consequently, the asset quality of SCBs has been improving steadily over the years across all major sectors. The **GNPA ratio** has decreased from 8.2 per cent in March 2020 to a seven year low of **5.0 percent in September 2022**, while Net Non-Performing Assets (NNPA) have dropped to a ten-year low of 1.3 per cent of total assets.

The **CRAR** of SCBs has been rising sequentially in the post-asset quality review period. With a pickup in lending activity during the second half of FY23, CRAR moderated in September 2022 because of an increase in risk-weighted assets (RWAs). However, it remains well above the **minimum capital requirement**, including **Capital Conservation Buffer** (CCB) requirements of **11.5 percent**.

Credit Growth Aided by a Sound Banking System and Deleveraged Corporate Sector

The recovery in economic activity in FY22, along with the enhanced financial soundness of banks and corporates, has bolstered the expansion of **non-food bank credit** since June 2021. The YoY growth in non-food bank credit accelerated to **15.3 percent** in December 2022. This not only shows an acceleration in the growth of current economic activities but also an anticipation of continued momentum in economic activity in future.

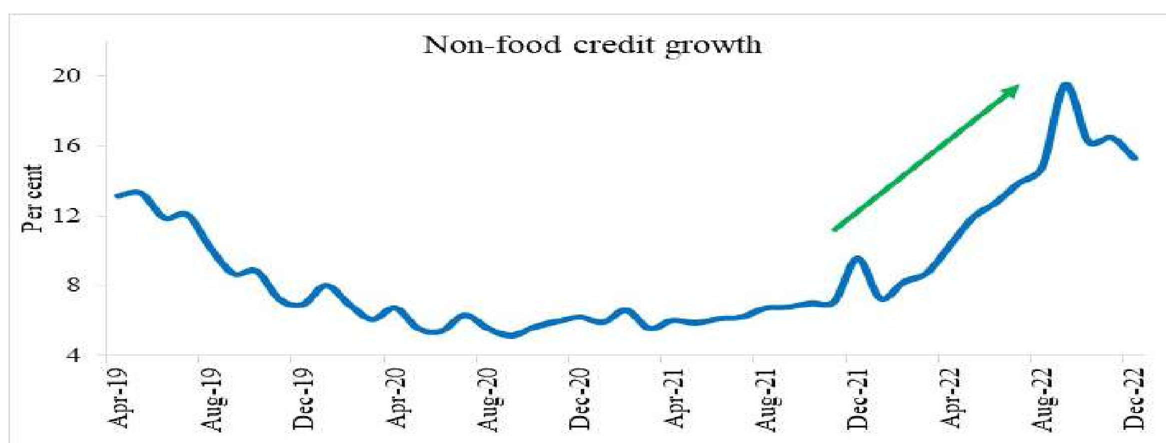


Figure: **Non-Food Bank credit growth in double digit since April 2022**

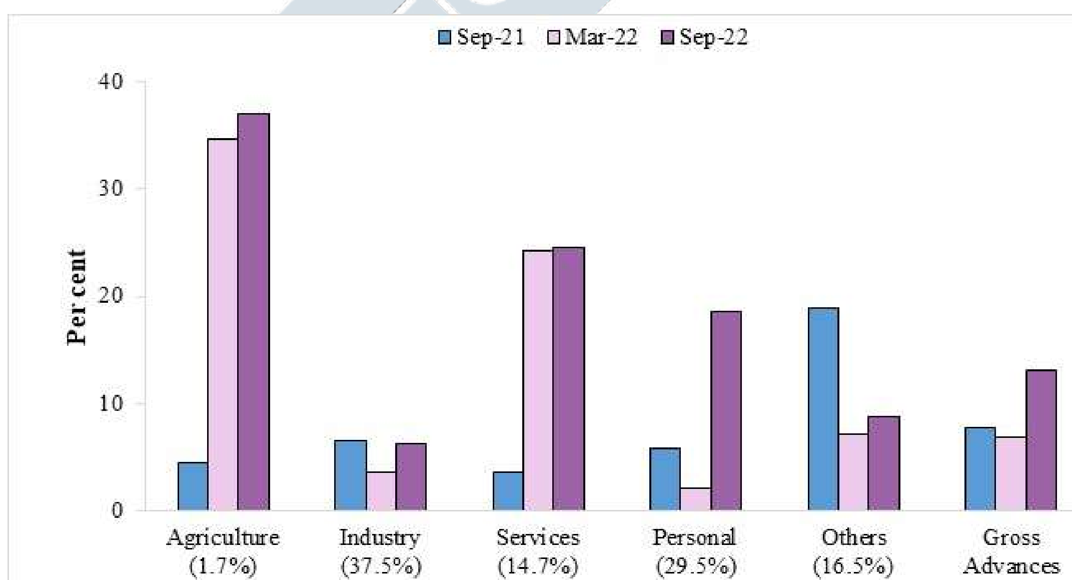
Credit growth has been **broad-based across sectors**, with retail credit driving the growth primarily owing to rising demand for home loans. An increase in demand for housing induces greater investment which, in turn, sets off a virtuous cycle of growth and investment. Credit to agriculture and allied activities gained momentum supported by the Government's concessional institutional credit and higher agricultural credit target. Industrial credit growth has been buoyed by a pick-up in credit to MSMEs, assisted by the benefits accrued from the effective implementation of the **Emergency Credit Line Guarantee Scheme** (ECLGS) and the support provided by the government's production-linked incentive scheme and improvement in capacity utilisation. Credit growth in services was driven by a recovery in credit to NBFCs, commercial real estate and trade sectors.

Non-Banking Financial Companies Continue to Recover

The growing importance of the NBFC sector in the Indian financial system is reflected in the consistent rise of NBFCs' credit as a proportion to GDP as well as in relation to credit extended by SCBs. Supported by various policy initiatives, NBFCs could absorb the shocks of the pandemic. They built up financial soundness during FY22, marked by balance sheet consolidation, improvement in asset quality, augmented capital buffers and profitability.

The continuous improvement in asset quality is seen in the declining GNPA ratio of NBFCs from the peak of 7.2 per cent recorded during the second wave of the pandemic (June 2021) to **5.9 percent** in September 2022, reaching close to the **pre-pandemic level**. With the decline in GNPAs, the capital position of NBFCs also remains robust, with a **CRAR of 27.4 percent** in end-September 2022, slightly lower than 27.6 per cent in March 2022. However, it remains well above the regulatory requirement.

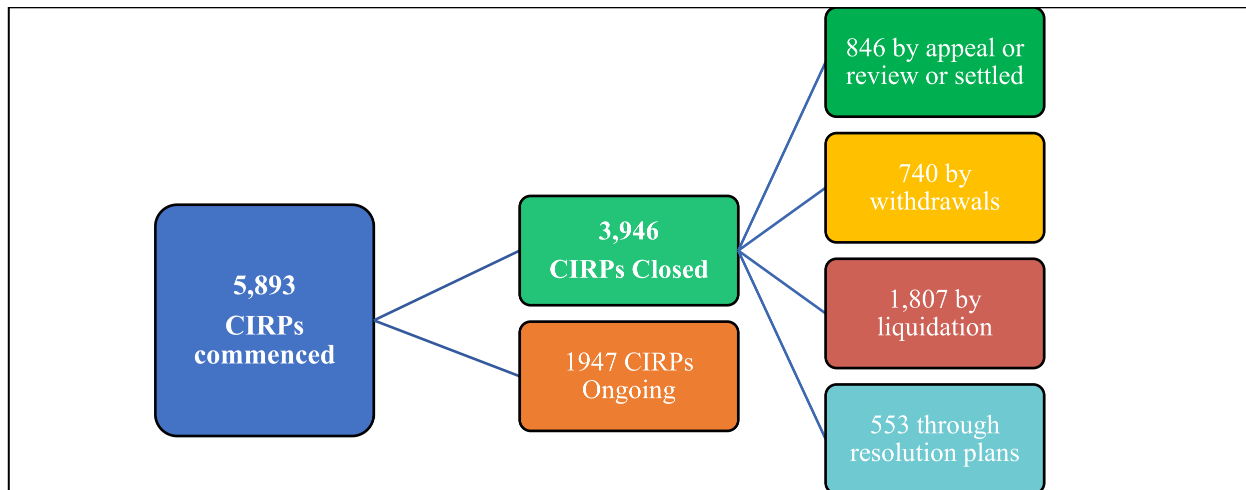
Credit extended by NBFCs is picking up momentum, with the aggregate outstanding amount at ₹31.5 lakh crore as of September 2022. NBFCs continued to deploy the **largest quantum of credit from their balance sheets to the industrial sector**, followed by retail, services, and agriculture.



Progress Made Under the Insolvency and Bankruptcy Code

The **Insolvency and Bankruptcy Code** (IBC) has facilitated the exit of distressed firms, thereby allocating scarce economic resources towards more productive use. Since the inception of the IBC in December 2016, 5,893 **Corporate Insolvency Resolution Processes** (CIRPs) had commenced by end-September 2022, of which 67 per cent have been closed. Of these, around 21 per cent were closed on appeal or review or settled, 19 per cent were withdrawn, 46 per cent ended in orders for liquidation, and 14 per cent culminated in the

approval of resolution plans. The Code also provides for a Corporate Debtor (CD) to voluntarily liquidate itself subject to the fulfilment of certain conditions as prescribed under the Code. 1,351 corporate persons initiated voluntary liquidation under the Code as of end-September 2022.



Sectoral analysis reveals that **52 per cent of the ongoing CIRPs belong to industry**, followed by 37 per cent in the services sector by September 2022. Further, within the industry, 74 per cent of the initiated CIRPs was from the manufacturing sector. Of these, the textile, basic metals and food sectors accounted for 48 per cent of the ongoing CIRPs. While in the services sector, 60 per cent of the ongoing CIRPs belongs to real estate, renting and business activities.

Development in Capital Markets

- **Primary Market**

Global macroeconomic uncertainty, unprecedented inflation, monetary policy tightening, volatile markets, etc., resulted in hurting investor sentiments, leading to a downbeat performance of global capital markets in FY23. Though global macroeconomic and financial market developments exercised some influence on Indian capital markets, India's capital market had a good year, overall.

From April to November 2022, the buoyant performance of the **primary market-Equity** has been observed despite turmoil in global financial markets. Compared to FY22, the number of firms opting to list on the bourses increased by 37 per cent, though the amount raised declined to almost half of what was raised in the last year. Further, this year also witnessed **the largest IPO ever in the history of India**. In May 2022, the Central Government diluted its stake in the **Life Insurance Corporation** (LIC) of India and listed it on the stock exchanges, thereby making LIC's IPO the largest IPO ever in India and the sixth biggest IPO globally of 2022. Listing of LIC accounted for more than a third of resources mobilised in the primary equity market until November 2022.

In April-November 2022, the amount of resources mobilised by the issuance of **debt securities in the primary market increased by 5 per cent**, compared to the corresponding period last year.

- **Secondary Market**

In April-December 2022, global stock markets declined because of geopolitical uncertainty. On the contrary, the Indian stock market saw a resilient performance, with the bluechip index **Nifty 50** registering a return of 3.7 per cent during the same period.

Other Developments

The recent collapse of the **crypto exchange** FTX and the ensuing sell-off in the crypto markets have placed a spotlight on the **vulnerabilities in the crypto ecosystem**. Crypto assets are self-referential instruments and do not strictly pass the test of being a financial asset because it has no intrinsic cashflows attached to them. US regulators have disqualified Bitcoin, Ether and various other crypto assets as securities. A rare joint statement by the Federal Reserve, Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) on 3rd January 2023 **highlighted their concerns about crypto-asset risks to the banking system**. The geographically pervasive nature of the crypto ecosystem necessitates a common approach to the regulation of these volatile instruments.

IFSC-GIFT City

Over the last few years, various initiatives taken by the government have opened up new avenues and opportunities for capital market players. Setting up and operationalising India's maiden **International Financial Services Centre** (IFSC) in GIFT City is the most important one. The aim is to facilitate India to emerge as a significant economic power by accelerating the development of a strong base of International Financial Services in the country. IFSC can play in facilitating India's emergence as a preferred jurisdiction for international financial services and encouraging easier access and greater participation from foreign investors to bring in capital to further promote India's growth.

Over the last two years, GIFT-IFSC has witnessed tremendous growth and traction across the entire spectrum of financial services, including banking, capital markets, insurance, fund management, aircraft leasing, etc. With an internationally aligned regulatory regime, competitive tax structure and beneficial cost of operations, GIFT IFSC is now emerging as a preferred jurisdiction for international financial services. Recognising the growing significance of IFSC, the Global Financial Centres Index, London Report (March 2022) put IFSC in GIFT City at the top, among 15 centres globally, which is likely to become more significant over the next 2 to 3 years.

Developments in the Insurance Market

Insurance, an integral part of the financial sector, plays a significant role in economic development. Apart from protecting against mortality, property, and casualty risks and providing a safety net, the **insurance sector encourages savings and provides long-term funds for infrastructure development**. The development of the insurance sector is necessary to support its continued economic transformation.

India is poised to emerge as one of the fastest-growing insurance markets in the coming decade. During FY22, the gross direct premium of non-Life insurers (within and outside India) registered YoY growth of 10.8 per cent, primarily driven by health and motor segments. The net incurred claims of non-Life insurers stood at ₹1.4 lakh crore in FY22, primarily driven by rising per capita income, product innovations and customisation, development of strong distribution channels, and rising financial literacy. The life insurance premium registered YoY growth of 10.2 per cent in FY22, with new businesses contributing 45.5 per cent of the total premiums received by the life insurers. The life insurance industry paid benefits of ₹5.02 lakh crore in FY22, out of which 8.3 per cent benefits were on death claims.

As per the **Swiss Re Institute World Insurance**: '**Inflation risks front and centre report**', India is one of the fastest-growing insurance markets in the world. In total premium volumes, it was the 10th largest globally in 2021, with an estimated market share of 1.9 per cent and the second largest of all emerging markets. India

is expected to emerge as **one of the top six insurance markets in the world by 2032**, ahead of Germany, Canada, Italy, and South Korea.

Pension Sector

The Government of India announced various measures to provide pensions to families who have lost their earning members due to Covid. It also took initiatives towards enhancing and liberalising insurance compensation. The benefit of the **Employees State Insurance Corporation** (ESIC) pension scheme was extended to even those who have lost earning members due to Covid-19. Dependent family members of such persons were entitled to a pension equivalent to 90 per cent of the average daily wage drawn by the worker as per the existing norms. The insurance benefits under the **Employees Deposit Linked Insurance** (EDLI) scheme were also enhanced and liberalised.

The Government introduced **Atal Pension Yojana** in June **2015** as a part of the overarching objective of providing universal social security. The scheme applies to all individuals aged **18-40 years**, with an emphasis on underprivileged, unorganised, and low-income individuals. Since the introduction of NPS and, more recently, APY, India's pension sector has expanded. The total number of subscribers under the NPS and APY registered a YoY growth of **25.1 per cent in November 2022**, with **Asset under Management** (AuM) witnessing a growth of 22.7 per cent during the same period. The overall contribution recorded an increase of 27.6 per cent in November 2022, with maximum growth registered by the All-Citizen model followed by the Corporate Sector.

PFRDA has undertaken various measures to ease the accessibility of NPS and APY to subscribers, such as reducing timelines for processing settlements to **T+2 days**. Central Recordkeeping Agencies have integrated their systems with DigiLocker to provide Subscriber Centric Services such as **electronic-Pension Retirement Account Number** (e-PRAN), electronic Account statements, and Aadhar & DigiLocker-based account openings. Government sector subscribers can change their investment choices online by submitting the request directly

Outlook

The resilience of the domestic financial system is reflected in the healthy balance sheet of banks, stronger capital levels of NBFCs and robust growth in the AuM of domestic mutual funds. Buoyant demand for bank credit and early signs of a revival in the investment cycle are benefiting from improving asset quality, a return to profitability and resilient capital and liquidity buffers. Further, IBC mechanism continues to support the 'Ease of Doing Business' in India by facilitating easy exit with time bound resolutions for firms. These strengths are helping the financial system absorb external spill overs, tightening global financial conditions and high volatility in financial markets.

India is one of the fastest-growing insurance markets in the world and is expected to emerge as one of the top six insurance markets by 2032. Digitisation of India's insurance market, accompanied by an increase in FDI limit for insurance companies, is likely to facilitate an increased flow of long-term capital, a global technology, processes, and international best practices, which will support the growth of India's insurance sector. Also, as we transition to a high middle-income economy, India's pension sector has tremendous scope for growth. Government initiatives towards enhancing pension literacy of subscribers and intermediaries, and a nudge from the regulator and the government to encourage young adults to join the pension scheme would play a significant role in enhancing pension availability to a more extensive section of society.

CHAPTER 5: PRICES & INFLATION: Successful Tight-Rope Walking

Consumer price inflation in India went through three phases in 2022. A rising phase up to April 2022 when it crested at 7.8 per cent, then a holding pattern at around 7.0 per cent up to August 2022 and then a decline to around 5.7 per cent by December 2022. The rising phase was largely due to the fallout of the Russia-Ukraine war and a shortfall in crop harvests due to excessive heat in some parts of the country. Prompt and adequate measures by the Government of India and the Reserve Bank of India (RBI) have reined in the rise in inflation and brought it within the Central Bank's tolerance limit. In contrast, major Western countries, which pumped stimulus during the pandemic periods, continue to grapple with high levels of inflation.

According to **Housing Price Index** (HPI) published by **National Housing Bank** (NHB), the overall increase in composite HPI assessment and HPI market price in Quarter Ending (QE) September 2022 over QE September 2021 indicates a revival in the housing finance sector.

In general, the year 2022 was marked by a return of high inflation in the advanced world after three to four decades, depending on the country. In India, the government and the central bank took decisive measures to cap the rise in prices. India's retail inflation rate peaked at **7.8 percent in April 2022**.

Introduction

In advanced economies, the rate of inflation is projected by the International Monetary Fund (IMF) to increase from 3.1 per cent in 2021 to 7.2 per cent in 2022, the highest since 1982. The Euro area saw the rate reach 10.0 per cent in September 2022 (WEO, October 20221). The US inflation reached its 40-year high at 9.1 per cent in June 2022 before moderating to 6.5 per cent in December 2022, while the UK saw an annual price rise of 9.2 per cent in December 2022. Germany witnessed inflation of 8.6 per cent in December 2022. Among emerging markets, Brazil saw a moderation in price trends, while Turkey's inflation was above 80 per cent from August to November 2022 before declining slightly to 64.3 per cent in December 2022. The war had compounded the effects of a strong recovery in demand for goods and services after the pandemic. The inflation rate in Emerging Markets and Developing Economies (EMDEs) is anticipated to have increased from 5.9 per cent in 2021 to 9.9 per cent in 2022 (WEO, October 2022).

Domestic Retail Inflation

FY22 witnessed **lower CPI-Combined (CPI-C) based retail inflation** as compared to FY21. Even so, inflation remained on the higher side when compared to the moderation seen during the years prior to the pandemic. During FY22, some sub-groups such as '**oils & fats**', '**fuel & light**' and '**transport & communication**' **reported high inflation**. This was mainly driven by supply disruptions caused by pandemic-induced lockdowns. The subsequent year (FY23) began with the Russia-Ukraine crisis that led to high headline inflation rate in April 2022.

In FY23, retail inflation was mainly driven by higher food inflation, while core inflation stayed at a moderate level. Food inflation ranged between 4.2 per cent to 8.6 per cent between April and December 2022, while the core inflation rate stayed at around 6 per cent except in April 2022.

Retail price inflation mainly stems from the agriculture and allied sector, housing, textiles, and pharmaceutical sectors. Further, the global spill overs, representing the imported inflation channel, driven by price pressures in energy, mining, chemicals, trade, basic and machinery, reaches the retail segment mainly through the wholesale price inflation. During FY23, 'food & beverages', 'clothing & footwear', and 'fuel & light' were the major contributors to headline inflation– the first two contributing more this fiscal than in the previous one.

Rural inflation has remained above its urban counterpart throughout the current fiscal year, reversing the trend seen during the pandemic years. CPI-C based food inflation seems to have cooled down after reaching a high of 8.3 per cent in April 2022 due to a subsequent moderation in global food prices and a reduction in farm input costs. However, the cooling was more pronounced for urban inflation, which softened to 2.8 per cent in December 2022. Rural fuel inflation remained lower than its urban counterpart throughout the current fiscal, due to subdued price pressures on traditional fuel items such as firewood and cow dung cakes as opposed to petrol and diesel.

Domestic Wholesale Price Inflation

WPI-based inflation remained low during the Covid-19 period, and it started to gain momentum in the post-pandemic period as economic activities resumed. The Russia-Ukraine conflict further exacerbated the burden as it worsened global supply chains along with the free movement of essential commodities. As a result, the wholesale inflation rate climbed to about 13.0 per cent in FY22. Prices of items like petroleum products, basic metals, chemicals & chemical products, and edible oils, with maximum exposure to international pricing translated into a rise in the domestic WPI inflation.

Groups/Subgroups	Weight	FY20	FY21	FY22	FY23*
Primary Articles	**22.6**	**6.8**	**1.7**	**10.3**	**12.3**
Food articles	**15.3**	**8.4**	**3.1**	**4.1**	**8.3**
Cereals	2.8	7.5	-2.6	1.6	10.7
Pulses	0.6	15.9	11.6	6.9	0.0
Vegetables	1.9	31.2	3.4	0.4	13.2
Fruits	1.6	3.2	1.4	11.3	10.4
Non-Food Articles	**4.1**	**4.5**	**1.4**	**21.1**	**12.0**
Minerals	0.8	13.2	6.7	19.6	6.2
Crude Petroleum & Natural Gas	**2.4**	**-7.7**	**-17.5**	**56.7**	**57.7**
Fuel & power	**13.2**	**-1.8**	**-8.0**	**32.6**	**33.8**
LPG	0.6	-8.3	-2.7	43.3	16.9
Petrol	1.6	-3.2	-11.8	62.9	41.9
High Speed Diesel	3.1	-3.5	-14.4	59.9	60.8
Manufactured Products	**64.2**	**0.3**	**2.7**	**11.1**	**7.1**
Food products	**9.1**	**4.1**	**5.6**	**11.7**	**6.0**
Edible oils	2.6	1.4	20.3	30.5	1.4
Food Inflation (Food articles + Food products)	***24.4***	***6.9***	***3.9***	***6.8***	***7.5***
Core Inflation (Manufactured Products-Food products)	***55.1***	***-0.4***	***2.2***	***11.0***	***9.2***
Headline Inflation	***100***	***1.7***	***1.3***	***13.0***	***11.5***

Figure: **Average Annual Wholesale Inflation Based on WPI** (per cent) (Base: 2011-12=100)

Part of the **double-digit inflation** in WPI during H1 of FY23 could be attributed to **food inflation**, which stayed at 7.5 per cent against 6.8 per cent in FY22. Cereals and vegetables were the major contributors to food inflation owing to erratic climatic conditions. Inflation in the 'manufactured products' subgroup in FY23 saw a considerable decline compared to the previous year due to the rationalisation of duties on critical inputs and moderation in global commodity prices. In comparison to FY22, core inflation remained lower in FY23.

Overall, the monthly trend of inflation rates based on wholesale prices has been sliding downwards from its peak of 16.6 per cent in May 2022 to 10.6 per cent in September 2022 and further to 5.0 per cent in December 2022. The decline in inflation was observed in all three subgroups of WPI.

Measures to Contain Inflation in Input Prices:

- **Fuel Prices**: The Central Government has made interventions by calibrating the excise duties on petrol and diesel. The first phase of reduction in terms of Rs 5 on petrol and Rs 10 on diesel was made effective from 4 November 2021 and the second phase from 22 May 2022 (Rs 8 per litre on petrol and Rs 6 per litre on diesel).
- **Plastic products**: The import duty on import of raw materials used in the plastic industry has been reduced to lower the cost of domestic manufacturing. The duties on naphtha, propylene oxide and polymers of vinyl chloride have been reduced from 2.5 per cent to 1 per cent, 5 per cent to 2.5 per cent and from 10 per cent to 7.5 per cent, respectively on 21 May 2022.
- **Steel**: On 21 May 2022, import duty on major inputs – ferronickel, cooking coal, PCI coal – has been cut from 2.5 per cent to zero, while the duty on coke and semi-coke has been slashed from 5 per cent to zero. Tax on export of iron ores and concentrates has increased from 30 per cent to 50 per cent, while that on iron pellets has been raised to 45 per cent.
- **Cotton**: The government waived customs duty on cotton imports w.e.f 14 April 2022, until 30 September 2022, to benefit the textile industry and lower prices for consumers. Earlier, cotton imports attracted 5 per cent Basic Customs Duty (BCD) and 5 per cent AIDC. The **Central Board of Indirect Taxes and Customs** (CBIC) notified the exemption from customs duty and AIDC for import of cotton.
- **Diamonds and gemstones**: In Budget 2022-2023, customs duty on cut and polished diamonds and gemstones was reduced to 5 per cent and duty on the simply sawn diamond was reduced to nil.
- **Chemical products**: Customs duty on certain critical chemicals namely methanol, acetic acid and heavy feedstocks for petroleum refining was reduced in the Budget 2022-23.

Fuel Price Inflation: Declining Global Crude Oil Prices

In FY22 and FY23, inflation in WPI '**fuel and power**' was mostly driven by high international crude oil prices. In response to subdued global demand because of Covid-19 induced restrictions, the price of the Indian basket of crude oil during FY21 stayed in the range of US$20-65/bbl. Thereafter, prices started surging on account of unprecedented cuts in crude oil supply by the Organisation of the Petroleum Exporting Countries (OPEC) and other oil producing countries. The upward trend continued in FY22 and FY23, as demand picked up with the easing of Covid-19 restrictions in most regions of the world. Also, owing to supply disruption amid rising tensions in Eastern Europe and the Middle East in June 2022, the Indian basket of crude oil peaked at US$116/bbl. Subsequently, the price declined to US$ 78/bbl in December 2022. Further, a cut in central excise duty on petrol and diesel in November 2021 and May 2022, followed by a reduction in Value Added Tax (VAT) by the State Governments, led to a moderation of the retail selling price of petrol and diesel in India.

Convergence of WPI and CPI Inflation

The headline inflation based on WPI and the CPI-C started diverging in March 2021, as WPI inflation touched double digits due to unfavourable base effects while CPI-C inflation remained stable. The wedge between CPI-C and WPI inflation continued to widen before reaching its peak at 10 per cent in November 2021. Thereafter, the gap began to narrow until April 2022. The path to convergence, however, was short-lived as

another inflationary pressure started building up in February 2022 as a consequence of the Russia-Ukraine conflict. The major brunt of commodity supply chain disruption and increased demand for essentials was reflected in WPI with a short lag of 2 months. As a result, the two indicators of inflation again started diverging in May 2022. It was only after global commodity prices, including crude oil, softened and the effects of strong supporting domestic factors like favourable monsoon, vaccination-led economic resumption, etc., started to be felt that the wedge began to narrow, and it closed in November 2022, after 21 months. It also indicated the near completion of the pass-through of high input costs to the retail segment.

The **convergence between the WPI and CPI** indices was mainly **driven by two factors**.

- Firstly, a **cooling in inflation of commodities such as crude oil, iron, aluminium and cotton** led to a lower WPI. These commodities occupy a larger weight in the WPI as compared to the CPI. Further, these commodities are highly vulnerable to fluctuations in international prices and are used intensively by industries producing wholesale goods. As the prices cooled for these commodities, the two measures of inflation began to converge.
- Secondly, CPI inflation rose due to an **increase in the prices of services**. Services form a part of the core component of the CPI-C but are not included in the WPI basket.

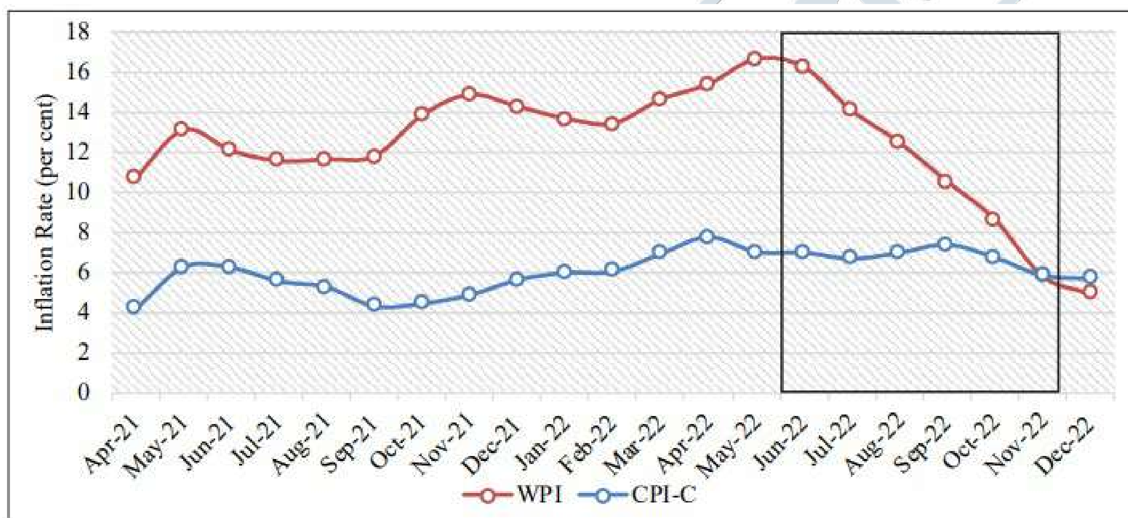


Figure: **Convergence of Headline WPI Inflation with Headline CPI-C Inflation**

Falling Inflationary Expectation

Inflationary expectations are decisive in charting the course of inflation. The RBI's anchoring of inflationary expectations through forward guidance and responsive monetary policy has helped guide the trajectory of inflation in the country. The one-year-ahead inflationary expectations by businesses have shown a decreasing trend in the current fiscal. As businesses are price-setters, their perceptions on inflation are significant in making sense of whether costs would be passed on, resulting in higher prices in the near future. Similarly, inflationary expectations by households- who are the price takers of the economy- determine their consumption choices in the near future. Much like businesses, household inflation expectations too have moderated.

Monetary Policy Measures for Price Stability

Reserve Bank of India's **Monetary Policy Committee** (MPC) increased the **policy repo rate** under the **liquidity adjustment facility** (LAF) by 2.25 per cent (225 basis points) from 4.0 per cent to 6.25 per cent between May and December 2022.

Housing Prices: Recovering Housing Market after the Pandemic

Housing prices provide helpful information on the state of the economy via booms and busts in asset markets, which give rise to economic imbalances. Monitoring housing prices is essential for achieving the objectives of price stability, financial stability, and growth. Movements in these prices affect consumption spending through its effects on household wealth and consumer confidence.

The **National Housing Bank** (NHB) publishes two Housing Price Indices (HPI), namely '**HPI assessment price**' and '**HPI market price quarterly**', with **FY18 as the base year**. HPI assessment price is based on the valuation prices of residential units collected from primary lending institutions. In contrast, the HPI market price is based on the market prices for unsold inventories collected from developers. A composite index is calculated for 50 cities across India using the population of the cities as weights.

- The annual variation in **HPI market price** ranged from an increase of 37.7 per cent in Bhubaneshwar to a contraction of 6.5 per cent in Indore in the Quarter Ending (QE) Sept 22 over QE Sept 21. Out of the 50 cities, 43 saw an increase in the index, whereas 7 cities showed a decline annually. All of the eight major metros of the country, viz., Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata, Mumbai and Pune, recorded increases in the index on an annual basis.
- The annual change in **HPI assessment price** varied widely across the cities ranging from an increase of 20.2 per cent in Gandhinagar to a decline of 2.3 per cent in Bhiwadi in the QE Sept 22 over QE Sept 21. Out of the 50 cities, 46 cities registered an increase in the index, whereas 4 cities experienced a decline, on an annual basis. All of the eight major metros of the country witnessed an annual increase in the index.

Keeping Check on Pharmaceutical Prices

The principles for the regulation of the prices of drugs are based on the **National Pharmaceuticals Pricing Policy, 2012**, administered by the Department of Pharmaceuticals. The key principles of the policy are the essentiality of drugs, control of formulation prices and market-based pricing. Until 31 December 2022, ceiling prices for 890 formulations of 358 drugs/medicines across various therapeutic categories under **National List of Essential Medicines** (NLEM), 2015 have been fixed by **National Pharmaceuticals Pricing Authority**.

Pradhan Mantri Bhartiya Janaushadhi Pariyojana (PMBJP) was launched to make quality generic medicines available at affordable prices to all. Under this scheme, dedicated outlets known as **Janaushadhi Kendras** are opened to provide quality generic medicines at affordable prices to all and especially to the poor and the deprived.

Further, Pradhan Mantri Bhartiya Janaushadhi Kendras (PMBJKs) also provide self-employment with sustainable and regular earnings opportunities. Under the PMBJP, until 31 December 2022, more than 9000 PMBJKs have been opened across the country. At present, the product basket of PMBJP comprises 1759 medicines and 280 surgical devices available for sale.

Conclusion

India's inflation management has been particularly noteworthy and can be contrasted with advanced economies that are still grappling with sticky inflation rates. Due to the anticipated slowdown in advanced economies, inflation risks coming from global commodity prices are likely to be lower in FY24 than in FY23.

CHAPTER 6: SOCIAL INFRASTRUCTURE & EMPLOYMENT: Big Tent

Post the massive, unexpected disruption to human lives caused by the global pandemic, the year 2022 was when humanity once again picked up the threads and took small steps to get back to a semblance of normalcy. However, the challenges posed by the aftermath of this crisis, subsequent waves of the pandemic and the ensuing Russia-Ukraine conflict have impacted the global as well as India's development trajectory. There was a stress on key aspects of social wellbeing of citizens such as health, education and social security etc. and the Government stepped in to continue its support towards social infrastructure development. Standing on the brink of FY23, various indicators of social development appear to have recouped. Focus on long-term goals of human development and "**sabka sath, sabka vikas**" have assumed salience. The social sector expenditure outlay of the Centre and State Governments has increased steadily to stand at ₹21.3 lakh crore in FY23 (BE), with its share in total General Government expenditure standing at 26.6 per cent.

Introduction

With the overall development of the economy, the concept of **quality of life** has enlarged to include many more elements than the traditional metrics of income (which determine the availability of basic requirements such as food and shelter) and education levels. It now encompasses access to clean drinking water, sanitation, employment prospects, health care, social security, connectivity, etc. All these together determine the quality of life. Research studies have concluded that quality of life depends upon the fulfilment of basic needs and being able to live in an affable environment. Cognisant of this fact, the Government places a high priority on the development of the social infrastructure of the country.

Social Sector Expenditure Keeping Pace with Growing Importance of the Sector

The Government's spending on social services has shown a rising trend since FY16 with a focus on many aspects of the social well-being of citizens of the country. The share of expenditure on social services in the total expenditure of the Government has been around 25 per cent from FY18 to FY20. It increased to 26.6 per cent in FY23 (BE). The social services expenditure witnessed an increase of 8.4 per cent in FY21 over FY20 and another 31.4 per cent increase in FY22 over FY21, being the pandemic years, which required enhanced outlay, especially in the health4 and education5 sectors. While the social sector expenditure outlay of the Centre and State governments was Rs 12.8 lakh crore in FY19, it has increased steadily to stand at Rs 21.3 lakh crore in FY23 (BE).

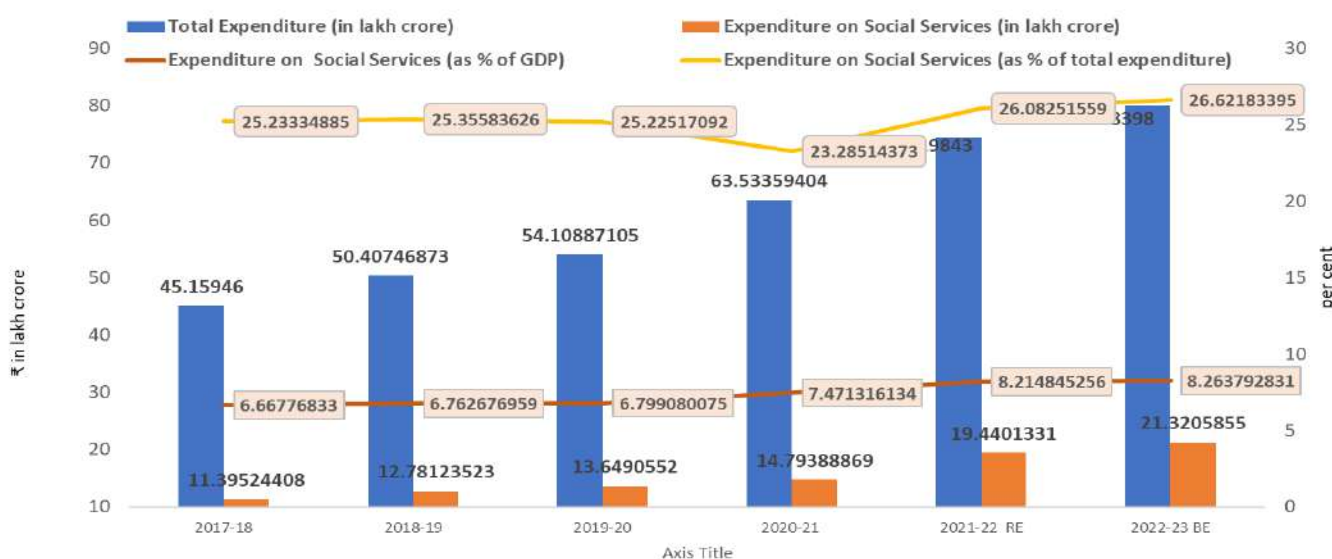


Figure: Trends in Social Services Expenditure by General Government

(₹ crore)

Items	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22 RE	2022-23 BE
Total Expenditure	3760611	4265969	4515946	5040747	5410887	6353359	7453320	8008684
Expenditure on Social Services	915500	1040620	1139524	1278124	1364906	1479389	1944013	2132059
of which:								
Education	391881	434974	483481	526481	579575	575834	681396	757138
Health	175272	213119	243388	265813	272648	317687	516427	548855
Others	348348	392527	412655	485829	512683	585868	746191	826065
As per cent of GDP								
Expenditure on Social Services	6.6	6.8	6.7	6.8	6.8	7.5	8.2	8.3
of which:								
Education	2.8	2.8	2.8	2.8	2.9	2.9	2.9	2.9
Health	1.3	1.4	1.4	1.4	1.4	1.6	2.2	2.1
Others	2.5	2.6	2.4	2.6	2.6	3.0	3.2	3.2
As per cent of total expenditure								
Expenditure on Social Services	24.3	24.4	25.2	25.4	25.2	23.3	26.1	26.6
of which:								
Education	10.4	10.2	10.7	10.4	10.7	9.1	9.1	9.5
Health	4.7	5.0	5.4	5.3	5.0	5.0	6.9	6.9
Others	9.3	9.2	9.1	9.6	9.5	9.2	10.0	10.3
As per cent of social services								
Education	42.8	41.8	42.4	41.2	42.5	38.9	35.1	35.5
Health	19.1	20.5	21.4	20.8	20.0	21.5	26.6	25.7
Others	38.0	37.7	36.2	38.0	37.6	39.6	38.4	38.7

The ratios to GDP at current market prices are based on 2011-12 base till 2021-22.
GDP for 2022-23 is as per Union Budget 2022-23.
Sources: *Budget Documents of Union and State Governments.*

Figure: Trends in social services expenditure by General Government (Combined Centre and States)

Improving Human Development Parameters

'**Human Development**' is the key enabler for upward social mobility. The challenges posed by the aftermath of the peak of the Covid-19 pandemic in 2020 and 2021 and the ensuing Russia-Ukraine conflict in 2022 have impacted the development trajectory of India and the world. In the wake of these developments, there was a global decline in human development. According to **United Nations Development Programme** (UNDP) report, **90 percent of countries** have registered a reduction in their Human Development Index (HDI) value in 2020 or 2021, indicating that human development across the world has stalled for the first time in 32 years. **India ranked 132 out of 191 countries** and territories in the 2021/2022 HDI report. India's HDI value of 0.633 in 2021 places the country in the medium human development category, lower than its value of 0.645 in 2019. However, **India's HDI value continues to exceed South Asia's average human development**. It has been steadily increasing and moving towards the world average since 1990 due to priority placed on investment in social infrastructure, including ensuring universal health and education.

On the parameter of gender inequality, India's **Gender Inequality Index** (GII) value is 0.490 in 2021 and is **ranked 122**. This score is better than that of the South Asian region (value: 0.508) and close to the world average of 0.465. This reflects the Government's initiatives and investments towards more inclusive growth, social protection, and gender-responsive development policies.

Transformation of Aspirational Districts Programme

The Government of India launched the '**Transformation of Aspirational Districts**' (Aspirational Districts Programme (ADP)) initiative in **January 2018** with a vision of a New India by 2022 wherein the focus is to raise living standards of its citizens and ensuring inclusive growth of all in the burgeoning economy.

117 Aspirational Districts (ADs) across 28 States/UTs have been identified by **NITI Aayog** based upon composite indicators ranging from health and nutrition, education, agriculture, and water resources, financial inclusion and skill development, and basic infrastructure which have an impact on HDI. The broad contours of the programme are Convergence (of Central & State Schemes), Collaboration (of Central, State level Nodal Officers & District Collectors), and Competition among districts through monthly delta ranking; all driven by a mass movement.

The ADP has emerged as a template for good governance, especially in remote and difficult areas. At present, two programmes have been conceptualised along the lines of ADP design, one is '**Mission Utkarsh**' and the other is 'Aspirational Blocks Programme' (ABP). On 22 January 2022, 'Mission Utkarsh' was launched, under which 15 Central Ministries, having an interface with the public, have identified their low performing 10-15 districts. Following the ADP template, the Ministries have launched actions to bring these districts at par with an average district in the state in one year and close to the all-India average in another.

Progressing Labour Reform Measures

In 2019 and 2020, **29 Central Labour Laws were amalgamated, rationalised, and simplified into four Labour Codes**, viz., the **Code on Wages, 2019** (August 2019), the **Industrial Relations Code, 2020**, the **Code on Social Security, 2020**, and the **Occupational Safety, Health & Working Conditions Code, 2020** (September 2020). The new laws are in tune with the changing labour market trends and, at the same time, accommodate the minimum wage requirement and welfare needs of the unorganised sector workers, including the self-employed and migrant workers, within the legislation framework. The Labour Codes have been aligned with the present economic scenario and technological advancements along with reduction in multiplicity of definitions and authorities. The Codes also ease **compliance mechanism** aiming to promote ease of doing business/setting up of enterprises and catalyse creation of employment opportunities while ensuring safety, health and social security of every worker. Use of technology, such as, web-based Inspection has been introduced in order to ensure transparency and accountability in enforcement. Decriminalisation of minor offences has also been provided in the Labour Codes.

Rules made under the Codes have been entrusted to Central Government, State Government and at appropriate level. There is a requirement for pre-publication of Rules in their official Gazettes for public consultation. As of 13 December 2022, 31 States also have pre-published the draft rules under the Code on Wages, 28 States under Industrial Relations Code, 28 States under Code on Social Security, and 26 States under Occupational Safety Health and Working Conditions Code.

Aadhaar: The Many Achievements of the Unique Identity

Aadhaar, a **12-digit unique identification number** provides a digital identity to the residents of India and ensures authentication. It connects the Government and the individual, replacing the disentangled web of multiple IDs for multiple purposes, and secures the social contract between the State and the Citizen. It is because of the **initiative taken in 2010** that today, the nation is consistently building and strengthening a digital economy which will ultimately give a global competitive advantage in how money and goods move around the country over its competitors.

Paul Romer, a Nobel laureate and former World Bank Chief Economist, has described what 135 crore citizens of India, which is 94 per cent of the population and 100 per cent of the adult (>18 years), have as "**the most sophisticated ID programme in the world**." Aadhaar provides a conclusive connection between the photograph of the Aadhaar holder, his/her fingerprints, and iris scan details.

As of 30th November, 2022:

- 66,103 Aadhaar counters and 34,834 Child Enrolment Lite Client devices are functional
- 180 Active Registrars
- 507 Active Enrolment Agencies
- UIDAI run 88 Aadhaar Sewa Kendra are functional in 72 cities
- 15,002 Village Level Entrepreneurs operational as Banking Correspondents permitted to undertake Aadhaar updates services
- Around 53,750 postmen/Grameen Dak Sewaks under India Post Payment Bank have been approved to provide mobile number update facility
- 178Aadhaar User Agencies
- 169 e-KYC user agencies

Improving Employment Trends

The broad-based improvement in employment indicators can be observed in data covering both the supply side and demand side of the labour market. Labour markets have recovered beyond pre-Covid levels, in both urban and rural areas, with unemployment rates falling from 5.8 per cent in 2018-19 to 4.2 per cent in 2020-21, and a noticeable rise in **rural FLFPR** from 19.7 per cent in 2018-19 to **27.7 percent in 2020-21**. More recent urban employment data shows progress beyond pre-pandemic levels as the unemployment rate declined from 8.3 per cent in July-September 2019 to **7.2 percent** in July-September 2022.

Employment generation coupled with improving employability is the priority of the Government. Following this path, the organised sector job market conditions measured by payroll data for **Employees' Provident Fund Organisation** (EPFO) and **Employees' State Insurance Corporation** (ESIC) reveal the benefits of the government initiatives towards improvement in the labour market. EPFO data indicates a consistent YoY increase in payroll addition, pointing towards improved formalisation as economic activities picked up. The net addition in EPF subscriptions during FY22 was **58.7 percent** higher than in FY21 and 55.7 per cent higher than that in the pre-pandemic year 2019. In FY23, net average monthly subscribers added under EPFO **increased from 8.8 lakh in April-November 2021 to 13.2 lakh in April-November 2022**.

Average monthly subscriber additions under ESIC for April-October period improved from 11.9 lakhs in 2021 to 14.4 lakh in 2022. Similarly, under **National Pension Scheme** (NPS), the average monthly net subscriptions increased from 61.9 thousand in 2021 to 63.2 thousand in 2022 for the April-October period.

The number of persons demanding work under **MGNREGS** was seen to be trending around pre-pandemic levels from July to November 2022. This could be attributed to the normalisation of the rural economy due to strong agricultural growth and a swift recovery from Covid induced slowdown, culminating in better employment opportunities. In FY23, as on 24 January 2023, **6.49 crore households demanded employment under MGNREGS**, and 6.48 crore households were offered employment out of which 5.7 crore availed employment.

The Government has been taking several measures to enhance the reach of employment opportunities to all eligible and willing to work. One such measure is the **National Career Service** (NCS) project.

Ensuring Quality Education for all

The importance of education for all cannot be overemphasised as it is the foundation of every individual and society's development. As remarked by Dr. A.P.J Abdul Kalam – '*Learning gives creativity, creativity leads to thinking, thinking leads to knowledge, and knowledge makes you great*!'

It is in this context that the **NEP 2020** was laid down as the first education policy of the 21st century, aiming to address the many growing developmental imperatives of the country. Recognising that education is the lifeblood of human capital formation for a young country like India, this policy provided for the revision and revamping of all aspects of the education structure. This includes its regulation and governance, creation of a new system that is aligned with the aspirational goals of 21st century-education, including **SDG-4**, while building upon India's traditions and value systems. The NEP provides for nurturing all-around development and skill acquisition by youth in an inclusive, accessible, and multilingual set-up.

School Education:

- **Balvatika Pilot Project**: With a focus on developing cognitive, affective, and psychomotor abilities and also early literacy and numeracy for students in the age groups of 3+, 4+ and 5+ years, Project Balvatika, i.e.,'Preparatory Class', was launched in October 2022 in 49 Kendriya Vidyalayas.
- **PM Schools for Rising India**: The Government launched a Centrally Sponsored Scheme (CSS) called PM Schools for Rising India (PM SHRI) on **7 September, 2022**. These schools will be equipped with modern infrastructure and showcase the implementation of the NEP and emerge as exemplary schools over a period of time, while offering leadership to other schools in the neighbourhood. Under the scheme, there is a provision for setting up more than 14,500 PM SHRI Schools, over the period FY23 to FY27 by strengthening the existing schools from those managed by Central Government/State/UT Government/local bodies.
- **Toy-based pedagogy**: A handbook for Toy-based pedagogy has been designed to promote the integration of indigenous toys and their pedagogy into the curriculum of school education, early childhood care and education and teacher education. This will help teachers select or create age-appropriate toys to explain various concepts to students.
- **Strengthening Teaching-Learning and Results for States** (STARS): STARS Project is being implemented in six states namely Himachal Pradesh, Madhya Pradesh, Rajasthan, Maharashtra, Odisha and Kerala over a period of 5 years i.e., till FY25, partly funded by a loan from the World Bank. The objective of the Scheme is to improve the quality and governance of school education in the selected states.
- **Samagra Shiksha Scheme**: A CSS of Samagra Shiksha of the Department of School Education and Literacy is an overarching programme for the school education sector extending from pre-school to class XII. The Samagra Shiksha Scheme has been aligned with the recommendations of the NEP 2020 and extended from FY22 to FY26.

Higher Education:

Indian higher education system is the laboratory of change for one of the largest young populations in the world, with more than **27 per cent of India's population in 15-29 years age bracket**. The infrastructure for higher education has been enhanced overtime. Number of medical colleges in the country have been increased from 387 in 2014 to 648 in 2022 and the number of MBBS seats have increased from 51,348 to 96,077. Number of Indian Institutes of Technology (IITs) and Indian Institute of Management (IIMs), respectively stand at 23 and 20 in 2022 against 16 and 13 in 2014. The strength of Indian Institutes of

Information Technology (IIITs) is 25 in 2022 against 9 in 2014. In 2014, there were 723 Universities in the country, which have been increased to 1,113.

- **Research & Development Cell (RDC) in Higher Education Institutions** (HEI): The **University Grants Commission** (UGC) launched an initiative to establish an RDC in HEIs with the mandate for promoting quality research that contributes meaningfully towards the goal of a self-reliant India, aligned with the provisions of NEP 2020. The RDC would help create a research ecosystem for reliable, impactful, and sustained research output. The Guidelines for the same were issued in March 2022 providing for the creation of a conducive environment for enhanced research productivity; encouraging collaboration across industry, Government, community-based organisations, and agencies at the local, national, and international levels and facilitating greater access to research through mobilisation of resources and funding.
- **Guidelines for pursuing two academic programmes simultaneously**: The UGC, in April 2022, issued Guidelines to allow the students to pursue two academic programmes simultaneously keeping in view the objectives envisaged in NEP 2020, viz. providing flexible curricular structures to enable creative combinations of disciplines for study, that would offer multiple entry and exit points, thus, removing currently prevalent rigid boundaries and create new possibilities for life-long learning through critical and interdisciplinary thinking.
- **Interest subsidy on education loan**: Under the Central Scheme on Interest Subsidy (CSIS), launched in 2009, full interest subsidy is provided during the moratorium period (course period plus one year) on education loan taken by students from economically weaker sections (EWS) having parental income less than `4.5 lakh per annum for professional study in India. The scheme provides Education loans without any collateral or third-party guarantee.

Equipping the Workforce with Employable Skills and Knowledge in Mission Mode

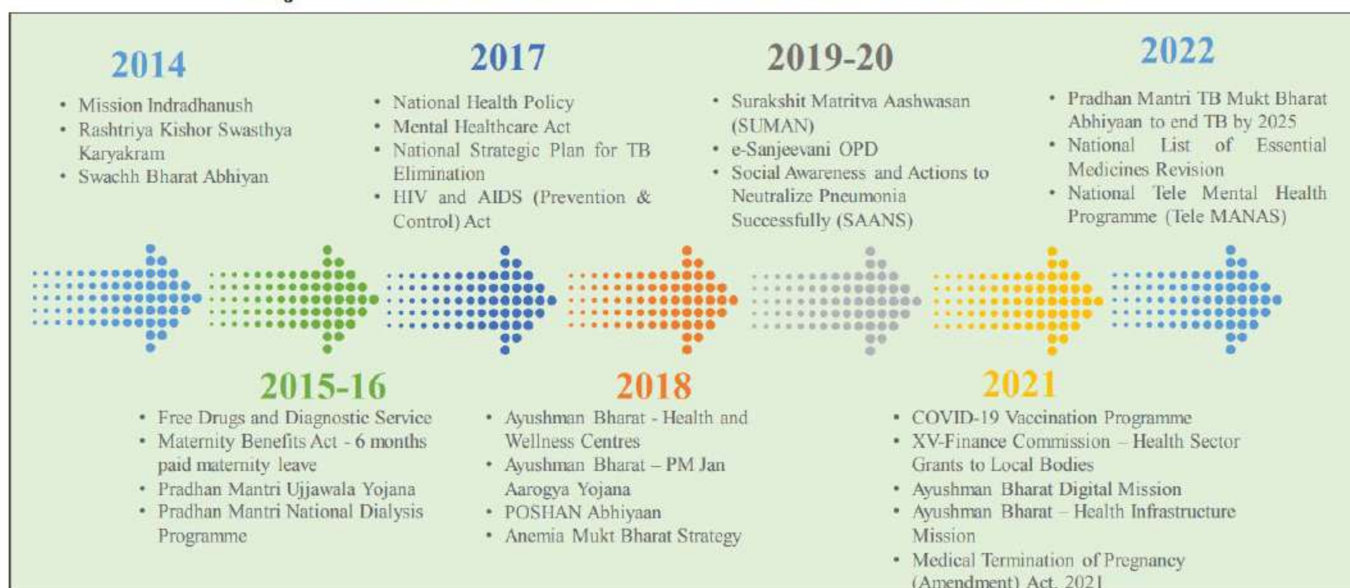
Skill development is aimed at the removal of the disconnect between demand and supply of skilled manpower, building vocational and technical training framework, skill up-gradation, and building of new skills, and innovative thinking not only for existing jobs but also jobs of the future. In order to address the incremental manpower requirement and to empower youth with adequate skills, the **Ministry of Skill Development and Entrepreneurship** (MSDE) was **created in 2014** and **Skill India Mission** was launched in **2015**. With the establishment of a Central Ministry, efforts to improve and streamline the skilling ecosystem were ramped up as the government launched the **National Skill Development Mission** as well as the **National Policy on Skill Development and Entrepreneurship**. Under the NEP 2020 also, there is a special focus on vocational education and skill development. Integration of vocational education with general education and mainstreaming of vocational education have been identified as the key reform in the education System of the country.

As per the reports of the fourth round of the **Quarterly Employment Survey** or QES (for Q4 FY22) in respect of establishments employing at least 10 workers in major nine sectors, 15.6 per cent of estimated establishments imparted formal skill training and 20.5 per cent imparted on-the-job training. The health sector had the highest percentage of estimated establishments imparting formal skill training (24.7 per cent) and on-the-job training (31.6 per cent), followed by financial services (20.4 per cent of establishments imparting formal training and 26.4 per cent imparting on-the-job training).

Quality and Affordable Health for all

Ensuring the provision of quality health facilities to citizens is an important priority for the Government. Towards this objective, multidimensional initiatives have been launched and carried forward for better overall health of the citizens, as encapsulated below. Under the **National Health Mission**, the Government has made concerted efforts to engage with all relevant sectors and stakeholders to move in the direction of achieving universal health coverage and delivering quality healthcare services to all at affordable cost. Today, the Indian healthcare network is among the largest in the world. The results of an effective health approach are visible in the improvement in some of the important health-related indicators.

Major initiatives from 2014 to 2022 for better overall health



Social Protection for the Rainy Day

While growth can lift people out of the low-income trap, it may not be able to ensure that they no longer remain vulnerable to any crisis situations in their lifetime. Thus, it is important to protect citizens from risks posed by rainy days, such as health issues, natural disasters, old age, etc. Especially in the wake of the hardships posed by the pandemic, the government invested more resources in social protection programmes and continued to do so in the FY23 with the understanding that strong social protection systems can support the growth process. Some of the key programmes/schemes in this area are as listed below;

- **Pradhan Mantri Vaya Vandana Yojana** (PMVVY): PMVVY is offered by the Life Insurance Corporation of India and supported by the Government of India, to provide senior citizens of age 60 years or more an assured minimum pension for a term of 10 years, linked to the price at which they purchase the pension policy. A total number of 8,59,708 subscribers are currently benefitting from the scheme through deposits worth Rs 87,081.1 crore collectively under 11,97,159 policies as on 31 December 2022.
- **Pradhan Mantri Jeevan Jyoti Bima Yojana** (PMJJY): The Scheme is available to people in the age group of 18 to 50 years and provides risk coverage of Rs 2 lakh in case of death of the insured, due to any reason, at an annual premium of Rs 436/. As on 11 January 2023, 14.96 crore persons have been enrolled cumulatively and 6,39,032 claims have been paid under PMJJY.
- **Pradhan Mantri Suraksha Bima Yojana** (PMSBY): The Scheme is available to people in the age group 18 to 70 years providing a risk coverage of `2 lakh in case of accidental death or total permanent disability and Rs 1 lakh for partial permanent disability due to accident at a premium of Rs 20 per

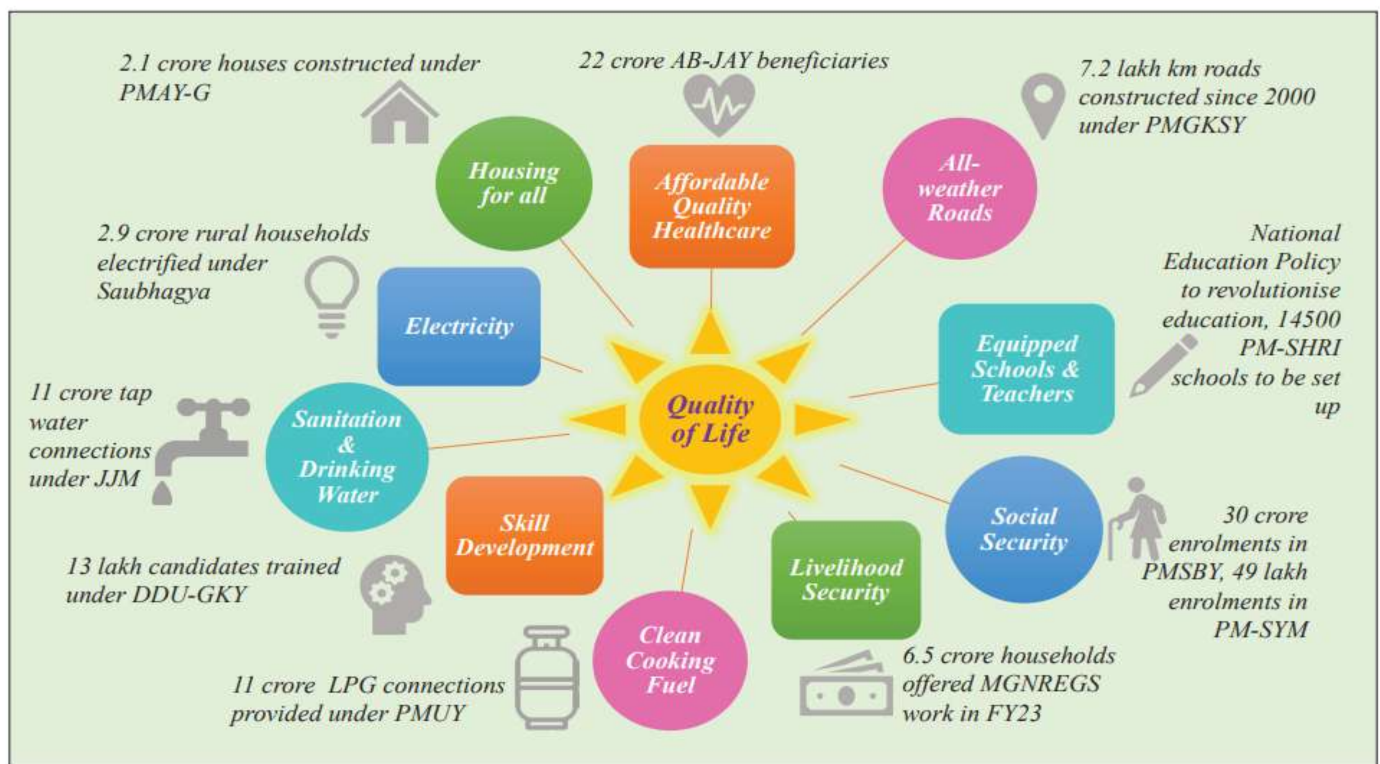
annum. As on 11 January 2023, 32.1 crore persons have been enrolled cumulatively and 1,10,298 claims have been paid under PMSBY.

- **Pradhan Mantri Shram Yogi Maan-Dhan Yojana** (PM-SYMDY): Launched in March 2019, the PM-SYMDY is a voluntary and contributory pension scheme for providing a monthly minimum assured pension of Rs 3,000 upon attaining the age of 60 years. The workers in the age group of 18 to 40 years having a monthly income of Rs 15,000 or less and not a member of EPFO/ ESIC/ NPS (Govt. funded) can join the scheme. As of 2 November 2022, over 49.1 lakh beneficiaries have been enrolled under the Scheme.
- **PM Street Vendor's Atmanirbhar Nidhi Scheme** (PM SVANidhi): This is a Central Sector Scheme launched on 1 June 2020, to empower street vendors by extending working capital loans of up to Rs 10,000 with a one-year tenure and free onboarding of beneficiaries on digital payment platforms. Beneficiaries are also eligible for the second tranche of loan up to Rs 20,000 with 18 months tenure after timely repayment of the first tranche. The scheme is available for beneficiaries belonging to only those states/ UTs which have notified the Rules and Scheme under the Street Vendors (Protection of Livelihood and Regulation of Street Vending) Act, 2014. As on 12 January 2023, 45,74,866 loan applications have been sanctioned in all tranches together; out of which 39,43,094 loans have been disbursed.

Development of India's Aspiring Rural Economy

The percentage of the population living in India's rural areas was as high as around 80 per cent in the 1960s and remained over 70 per cent till 2007. It presently stands at 65 per cent for 2021. Further, 47 per cent of the population is dependent on agriculture for livelihood. Thus, the focus of the government on rural development is imperative. The emphasis has been on improving the quality of life in rural areas to ensure more equitable and inclusive development. The aim of engagement of the government in the rural economy has been "transforming lives and livelihoods through proactive socio-economic inclusion, integration, and empowerment of rural India."

Multifaceted initiatives to improve the ecosystem of quality of life



Direct Benefit Transfer: A Game Changer

The **Economic Survey 2014-15** showed that although price subsidies are widely used as part of a standard toolkit by Governments in India in their anti-poverty programmes, they are often regressive, distort the markets in ways that ultimately hurt the economically weak and the leakages thereof seriously undermine the effectiveness of price as well as product subsidies. These distortions and leakages are such that they have an adverse impact on social welfare. It was recommended that the benefit that price subsidies seek to create for the poor can be directly transferred to the poor through lump-sum income transfers, avoiding the distortions that price subsidies induce. Eliminating or phasing down subsidies is neither feasible nor desirable unless accompanied by other forms of support to cushion the poor and vulnerable and enable them to achieve their economic aspirations. The **JAM Number Trinity** – Jan Dhan Yojana, Aadhaar and Mobile numbers – has allowed the Government to offer this support to identified households in a targeted and less distortive way in the form of DBT.

DBT was **launched in 2013** to re-engineer the then-existing delivery processes using modern Information and Communication Technology (ICT) to transfer benefits directly into the preferably Aadhaar-seeded bank accounts of accurately targeted beneficiaries. In the span of the past decade, DBT has expanded from a mere 24 schemes (as part of a pilot programme) in 43 districts in 2013 to **310 Central schemes** and greater than 2000 State schemes across India by December 2022.

India's successful implementation of DBT has won praise from the International Monetary Fund and World Bank, among other international organizations, for efficiently providing support (subsidies, food grain, and cash benefits directly) to large masses at low income levels (85 per cent of rural households and 69 per cent of urban households).

Enhancing Rural Governance for Inclusive Growth

Good rural governance is imperative to help translate various programmes and schemes of the Government at the grassroots level, ensure equal rights to all, and achieve sustainability of rural development programmes. Some of the recent measures taken towards improving rural governance are narrated below.

- **Rashtriya Gram Swaraj Abhiyan**: The scheme has been revamped and approved in April 2022 for implementation over the period FY23 to FY26. The focus of the scheme of Revamped RGSA is on re-imagining PRIs as vibrant centres of local self-governance with a special focus on the Localisation of SDGs (LSDGs) at the grassroots level adopting thematic approach through concerted and collaborative efforts of Central Ministries and State line departments and other stakeholders with 'Whole of Government and Whole of Society' approach. The Scheme has been formulated with the aim to strengthen the capacities of institutions for rural local governance to become more responsive towards local development needs, prepare participatory plans leveraging technology, and efficiently utilise available resources for realising sustainable solutions to local problems linked to SDGs adopting the nine thematic approaches of LSDGs.
- **SVAMITVA Scheme**: As on 31 December 2022, drone surveys have been completed in **2.15 lakh villages across the country**, and saturated in the States of Haryana, Uttarakhand, Goa, and UT of Lakshadweep, A&N Islands, Delhi, Puducherry, and Dadra & Nagar Haveli, and Daman & Diu. Over one crore property Cards have been prepared for nearly 65,000 villages. Property Cards of all the inhabited villages of Haryana followed by Uttarakhand, and Puducherry has been prepared.

Conclusion and Way Forward

Today, India is moving towards the attainment of the UN SDGs. While doing so, it is cognisant of the fact that for equitable development, a country as vast and diverse as India requires the implementation of broad-based inclusive social policies, supported by adequate and commensurate financial resources. Thus, the character and contour of such an approach to development presents a unique set of challenges which is consistently being addressed in the form of mindful reforms. Ensuring that intended outcomes of social sector development schemes reach the intended, involvement of the grassroot level of governance is imperative and is being actively pursued. Technology has been a great enabler in ensuring the last-mile connectivity of government schemes to the targeted citizens. It has revolutionised the delivery of services while ensuring transparency and accountability. It needs to be harnessed further to help the government attain the lofty SDGs on the social front.

As India marches ahead, the ground lost as regards social sector improvements due to the pandemic, has largely been recouped, powered by prompt policymaking and efficient implementation interwoven with technology. Going forward with the vision of 'Minimum Government; Maximum Governance', further developments will hold the key to attaining more equitable economic growth. Evident ones include stepping up learning outcomes through digital and teaching interventions in schools, enhancing the role of community workers in healthcare, pushing SHGs through better product design and upscaling enterprises. Further, channelising women's economic potential through ecosystem services such as affordable market alternatives for care work, safe transportation and lodging, and long-term counselling support, can help capitalise the gender dividend for the country's future economic and social development.

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CHAPTER 7: CLIMATE CHANGE & ENVIRONMENT: Preparing to Face the Future

Climate change is primarily attributed to disproportionately high cumulative emissions, both historical and high per capita annual emissions of **greenhouse gases** (GHGs) of the developed countries. The global nature of the problem makes India one of the most vulnerable regions despite having contributed only about 4 per cent in the cumulative global emissions (for the period 1850-2019) and maintaining its per capita emission at far less than the world average. While India is less responsible for the high stock of emissions, however, it has consistently engaged in demonstrating global leadership towards adopting various measures and ensuring a low-emission growth pathway with a commitment to the **net-zero emissions goal by 2070**.

In August 2022, the country updated the **Nationally Determined Contributions** (NDCs) in line with the Hon'ble PM's vision expressed in the 26th meeting of the **Conference of Parties** of **UNFCCC**. In terms of transition to renewable energy sources, India has already achieved its target of 40 per cent installed electric capacity from non-fossil fuels ahead of 2030. It has advanced the target to 50 per cent, which shall also translate to a significant reduction in the average emission rate. The **National Hydrogen Mission** and **Green Hydrogen Policy** have been introduced to enable India to be energy independent by 2047. Its pivotal role is also reflected in India's **Long Term Low Emissions Development Strategy** (LT-LEDS).

Introduction

India has been striving to pursue the goal of sustainable development. It spearheads one of the most robust climate actions through its NDCs, which includes an ambitious programme for transitions to clean energy in the world. Despite the adverse impacts of Covid-19 on the economy, the country has enhanced its climate ambition manifold and embarked on a long-term strategy towards a low GHG emission based development.

Progress on India's Climate Action

India's climate vision is integrally linked to its vision of development that foregrounds the goals of poverty eradication and guaranteeing basic well-being to all its citizens. Action on addressing climate action was initiated even before the Paris Agreement came into being. In 2008, India launched the **National Action Plan on Climate Change** (NAPCC), establishing eight National Missions, covering several initiatives and a slew of measures in the area of solar, water, energy efficiency, forests, sustainable habitat, sustainable agriculture, sustaining Himalayan ecosystem, capacity building and research and development (R&D).

National Adaptation Fund for Climate Change (NAFCC), a central sector scheme, was **initiated in 2015-16** to support adaptation activities in the States and Union Territories (UTs) of India that are vulnerable to the adverse effects of climate change. NAFCC is implemented in project mode, and to date, 30 projects have been sanctioned in 27 States and UTs with a total project cost of ₹847.5 crore. NAFCC supports adaptation action, in, inter alia, agriculture, water, forestry, livestock, and restoring ecosystems. At present (November 2022), **28 projects are under implementation**.

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Progress on Eight National Missions of the NAPCC highlighting achievements across various domains

Mission	Achievements
National Solar Mission	•Solar power capacity of 61.62 GW installed by October 2022
National Mission for Enhanced Energy Efficiency	•PAT Cycle–VII notified in October 2021 for energy saving target of 6.63 Million Tonnes of Oil Equivalent (MTOE)
National Mission on Sustainable Habitat	•721 km of metro rail network made operational by August 2022. •62.79 lakh individual household toilets and 6.21 lakh community and public toilets constructed by April 2022
National Mission for a Green India	•₹ 626.96 crore for afforestation targets over an area of 2.1 lakh ha
National Water Mission	•Jal Shakti Abhiyan: Catch The Rain 2022
National Mission on Strategic Knowledge for Climate Change	•Created and strengthened 12 Centres of Excellence for climate change (June 2021)
National Mission for Sustaining Himalayan Ecosystems	•Inter-University Consortium •8 Major R&D Programmes initiated
National Mission for Sustainable Agriculture	•Key targets for FY 2022-2023 covering 0.15 lakh ha under organic farming and 10 lakh ha under micro irrigation

Long-Term Low Emissions Development Strategy (LT-LEDS):

India submitted its Long-Term Low Carbon Development Strategy (LT-LEDS) on November 14, 2022, at COP 27. The salient features of LT-LEDS are:

- Focus on the rational utilisation of national resources with due regard to energy security. The transitions from fossil fuels will be undertaken in a just, smooth, sustainable and all inclusive manner.
- Encompasses the objectives of the National Hydrogen Policy. The rapid expansion of green hydrogen production, increasing electrolyser manufacturing capacity in the country, and a three-fold increase in nuclear capacity by 2032 are some of the other milestones that are envisaged alongside the overall development of the power sector.
- Increased use of biofuels, especially ethanol blending in petrol. The drive to increase electric vehicle penetration, and the increased use of green hydrogen fuel are expected to drive the low carbon development of the transport sector. India aspires to maximise the use of electric vehicles, ethanol blending to reach 20 per cent by the Ethanol Supply Year 2025-26, and a strong modal shift to public transport for passengers and freight.
- Climate-resilient urban development will be driven by smart city initiatives, integrated planning of cities for mainstreaming adaptation and enhancing energy and resource efficiency, effective green building codes and developments in innovative solid and liquid waste management.
- India's industrial sector will continue on a strong growth path, with the vision of 'Aatmanirbhar Bharat' and 'Make in India'.

Finance for Sustainable Development

Finance is a critical input in India's climate actions. The country's climate actions have so far been largely financed from domestic sources, including government budgetary support, a mix of market mechanisms, fiscal instruments, and policy interventions. India has shown global leadership in the fight against climate change and has committed itself to achieving net-zero emissions by 2070. While several estimates of the required investments are indicated in the LTLEDS report prepared by India, it is important to note that all allude to a need for tens of trillions of US dollars.

- **Green Bonds**: In keeping with the ambition to reduce the carbon intensity of the economy significantly, the Union Budget 2022-23 announced the issue of **Sovereign Green Bonds**. The Reserve Bank of India (RBI) has notified the indicative calendar for the issuance of Sovereign Green Bonds (SGrBs) for the fiscal year 2022-23. The issuance would take place through two auctions on January 25, 2023 and February 9, 2023, respectively, for ₹8,000 crore each, totalling ₹16,000 crore.
- **Regulatory Framework for Issuance of Green Debt Securities**: In the backdrop of increasing interest in sustainable finance in India as well as around the globe, and with a view to aligning the extant framework for green debt securities with the updated Green Bond Principles recognised by International Organisation of Securities Commission (IOSCO), SEBI undertook a review of the regulatory framework for green debt securities in **December 2022**.
- **Investing in Resilience for Sustainable Development**: SEBI has issued new sustainability reporting requirements under the **Business Responsibility and Sustainability Report** (BRSR), which are more granular with quantifiable metrics in line with the principles ensconced in the 'National Guidelines on Responsible Business Conduct'. The BRSR was made mandatory for the top 1000 listed entities (by market capitalisation) from 2022–23.

Major Decision at COP – 27

India participated in COP 27, with a focus on mainstreaming the theme of **LiFE - Lifestyle for Environment**. The Indian Pavilion at COP 27 highlighted the theme of LiFE in various ways – models, audio-visual displays, activities, and 49 side events. India invited all countries to join the LiFE movement, which is a pro-people and pro-planet effort seeking to shift the world from mindless and wasteful consumption to mindful and deliberate utilisation of natural resources.

India's Initiatives at the International Stage

- **International Solar Alliance (ISA)**: The International Solar Alliance (ISA) is a treaty-based inter-governmental organisation working to create a global market system to tap the benefits of solar power and promote clean energy applications. ISA's mission is to unlock US$ 1 trillion of investments in solar by 2030 while reducing the cost of the technology and its financing. The ISA has expanded its coverage to all its 110 member countries.
- **Coalition for Disaster Resilient Infrastructure**: The CDRI was launched by the Hon'ble Prime Minister of India during the **United Nations Climate Action Summit** on 23 September 2019 in New York. It is a global partnership of National Governments, UN agencies and programmes, multilateral development banks and financing mechanisms, the private sector, and academic and knowledge institutions. It aims to promote the resilience of infrastructure systems to climate and disaster risks, thereby ensuring sustainable development. As on 29 June 2022, thirty-one Countries, six International Organisations and two private sector organisations have joined as members of CDRI.

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- **Leadership Group for Industry Transition** (LeadIT): The LeadIT gathers countries and companies that are committed to action to achieve the Paris Agreement. It was launched by the governments of Sweden and India at the UN Climate Action Summit in September 2019 and is supported by the World Economic Forum.

Initiatives Related to other Environmental Issues

Conservation of biodiversity is crucial as it provides resources and services necessary for human beings and for the sustenance of all living beings. It enhances ecosystem productivity, where each species, however small, has an important role to play. May 22nd is celebrated as an International Day for Biological Diversity every year globally to create awareness among the citizens and stakeholders on the importance and need for the conservation of biological diversity.

The fifteenth meeting of the Conference of Parties (COP 15) to the **Convention on Biological Diversity** (CBD) took place between 7th and 19th December 2022 in Montreal, Canada. In conformity with the spirit of the CBD, India enacted the Biological Diversity Act in 2002. The Act mandates the implementation of the objectives through a decentralised system with the National Biodiversity Authority at the national level, the State Biodiversity Boards at the State level, and Biodiversity Management Committees at the local body level.

The introduction of Cheetahs in India is being done under **Project Cheetah**, the world's first intercontinental large wild carnivore translocation project. The cheetah was declared extinct from India in 1952. Under the scheme, eight Namibian wild cheetahs were introduced on 17 September 2022 in Kuno National Park, Madhya Pradesh. Out of the eight Cheetahs, there are five female and three male Cheetahs.

On July 1, 2022, a ban was imposed on the manufacture, import, stocking, distribution, sale and use of identified **single-use plastic items**, which have low utility and high littering potential, all across the country. The measures will promote a circular economy, reduce the plastic footprint of plastic packaging, promote the development of new alternatives to plastic packaging and provide the next steps for moving towards sustainable plastic packaging by businesses.

The Government published the **Battery Waste Management Rules, 2022**, on August 24, 2022 to ensure environmentally sound management of waste batteries. Notifying these rules is a transformative step towards promoting the circular economy. New rules will replace Batteries (Management and Handling) Rules, 2001. The rules cover all types of batteries, viz. Electric Vehicle batteries, portable batteries, automotive batteries, and industrial batteries.

The Government notified the **E-Waste (Management) Rules, 2022**, on November 2, 2022. These rules will replace the E-waste (Management) Rules, 2016, and will be effective from April 1, 2023. These rules will launch a new Extended Producer Responsibility (EPR) regime for e-waste recycling.

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CHAPTER 8: AGRICULTURE & FOOD MANAGEMENT: From Food Security to Nutritional Security

The performance of the agriculture and allied sector has been buoyant over the past several years, much of which is on account of the measures taken by the government to augment crop and livestock productivity, ensure certainty of returns to the farmers through price support, promote crop diversification, improve market infrastructure through the impetus provided for the setting up of farmer-producer organisations and promotion of investment in infrastructure facilities through the **Agriculture Infrastructure Fund**. The chapter discusses these aspects while also focussing on other government interventions to enhance credit availability, facilitate mechanisation and boost **horticulture** and **organic farming**.

The legislation-backed nationwide food management programme, the **National Food Security Act** (NFSA), is discussed. To remove the financial burden of the poor, the Government has taken a decision to give free foodgrains to about **81.4 crore beneficiaries** under the NFSA for one year from **January 1, 2023**.

Introduction

The Indian agriculture sector has been growing at an average annual growth rate of 4.6 per cent during the last six years. It grew by 3.0 per cent in 2021-22 compared to 3.3 per cent in 2020- 21. In recent years, India has also rapidly emerged as the net exporter of agricultural products. In 2020-21, **exports of agriculture and allied products** from India grew by 18 per cent over the previous year. During 2021-22, agricultural exports reached an **all-time high of US$ 50.2 billion**.

Record Production of Foodgrains

As per Fourth Advance Estimates for 2021-22, the production of food grains and oil seeds has been increasing Year-on-Year (YoY). **Production of pulses** has also been notably higher than the average of 23.8 million tonnes in the last five years. However, as indicated earlier changing climate has been impacting agriculture adversely. The year 2022 witnessed an early heat wave during the wheat-harvesting season, adversely affecting its production. The year experienced a decline in the sown area for paddy cultivation too in the **Kharif season** due to delayed monsoons and deficient rainfall. As per **First Advance Estimates 2022-23** (kharif only) the paddy area was about 3.8 lakh hectares less than the sown area of 411.2 lakh hectare during 2021-22 (kharif season). Further, in the current **rabi season** the area under rabi paddy has expanded by 6.6 lakh hectares as compared to last year (Crop Weather Watch Group, 12 January 2023). As per the First Advance Estimates for 2022-23 (Kharif only), total food grains production in the country is estimated at 149.9 million tonnes which is higher than the average Kharif food grain production of the previous five years (2016-17 to 2020-21).

MSP to Ensure Returns Over the Cost of Production

The Union Budget for 2018-19 announced that farmers in India would be given an MSP of **at least one and a half times the cost of production**. Accordingly, the Government has been increasing the MSP for all **22 Kharif, Rabi and other commercial crops** with a margin of at least 50 per cent over the all-India weighted average cost of production since the agricultural year 2018-19.

Enhanced Access to Agricultural Credit

Ensuring hassle-free credit availability at a cheaper rate to farmers has been the top priority of the Government of India. Accordingly, the **Kisan Credit Card Scheme** (KCC) was introduced in **1998** for **farmers** to empower them to purchase agricultural products and services on credit at any time. As of 30 December,

2022, banks issued Kisan Credit Cards (KCC) to **3.89 crore eligible farmers with a KCC limit of ₹4,51,672 crore**. With the Government of India extending the KCC facility to **fisheries and animal husbandry farmers in 2018-19**, the number of such cards in the fisheries and animal husbandry sector has also grown. As of 17 October 2022, 1.0 lakh KCCs have been sanctioned for the fisheries sector and 9.5 lakh (as of 4 November 2022) for the animal husbandry sector.

To ensure that the farmers pay a minimal interest rate to the banks, the Government of India has introduced the **Interest Subvention Scheme** (ISS), now renamed **Modified Interest Subvention Scheme** (MISS), to provide short-term credit to farmers at subsidised interest rates. Under this scheme, **short-term agriculture loan up to ₹3 lakh** is available at **7 percent per annum** to farmers engaged in Agriculture and other Allied activities, including Animal Husbandry, Dairying, Poultry, Fisheries etc. An additional 3 per cent subvention (**Prompt Repayment Incentive**) is also given to the farmers for prompt and timely repayment of loans. Therefore, if a farmer repays his loan on time, he gets credit at 4 per cent per annum.

As a result of the initiatives taken and the measures to strengthen existing policies, there has been a consistent increase in the agriculture credit flow over the years, exceeding the target every year for the past several years. In 2021-22 also, it was about 13 per cent more than the target of ₹16.5 lakh crore. The target for the flow of credit to agriculture for 2022-23 has been fixed at **₹18.5 lakh crore**.

Farm Mechanisation- Key to Improving Productivity

Farm mechanisation helps increase productivity through timely and efficient use of other inputs and natural resources while at the same time reducing the cost of cultivation and the drudgery associated with various farm operations.

Under the **Sub Mission on Agricultural Mechanisation** (SMAM), State Governments are being assisted in training and demonstrating agricultural machinery and helping farmers procure various farm machinery and equipment besides setting up **Custom Hiring Centres** (CHC). As of December 2022, 21628 CHCs and 467 Hi-Tech hubs and 18306 farm machinery banks have been established.

Chemical-free India: Organic and Natural Farming

Organic and natural farming provides chemical fertiliser and pesticide-free food grains and other crops, improves soil health and reduces environmental pollution. India has **44.3 lakh organic farmers**, the highest in the world, and about **59.1 lakh ha area was brought under organic farming by 2021-22**. **Sikkim** voluntarily adopted going organic, and became **the first State in the world** to become fully organic.

The Government has been promoting organic farming by implementing **two dedicated schemes**, i.e., **Paramparagat Krishi Vikas Yojana** (PKVY) and **Mission Organic Value Chain Development for North Eastern Region** (MOVCDNER) **since 2015** through cluster/ Farmer Producer Organisations (FPOs) formation. PKVY Scheme is being implemented in a **cluster mode** (with min. 20 ha size). Financial assistance of **₹50,000 per ha for three years** is provided to the farmer, out of which ₹31,000 is given as incentives for organic inputs provided directly through **Direct Benefit Transfer** (DBT). Under PKVY as of 16 November 2022, 32,384 clusters totalling 6.4 lakh ha area and 16.1 lakh farmers have been covered.

Promotion of **natural farming** began in **2019-20**, when **Bhartiya Prakratik Krishi Paddhati** (BPKP), **a sub-scheme** of PKVY, was launched to assist farmers in adopting traditional indigenous practices for encouraging all forms of ecological farming, including **Zero-Budget Natural Farming** (ZBNF). The scheme focuses on capacity building, training, handholding, and on-field demonstration of natural farming through champion farmers. Under the BPKP, **4.09 lakh ha of land have been brought under Natural farming** so far.

Other Important Initiatives in Agriculture

PM KISAN Scheme: It is a **Central Sector Scheme** to supplement the financial needs of land-holding farmers. The financial benefit of **₹6,000 per year** is transferred into the bank accounts of farmer families through DBT. It is one of the largest DBT schemes in the world. About 11.3 crore farmers were covered under the Scheme in its April-July 2022-23 payment cycle.

Agriculture Infrastructure Fund (AIF): AIF is a financing facility operational from the year **2020-21 to 2032-33** for the creation of **post-harvest management infrastructure and community farm assets**, with benefits including **3 per cent interest subvention and credit guarantee support**. Under this, a provision of ₹1 lakh crore for 2020-21 to 2025-26 has been made, and interest subvention and credit guarantee assistance will be given until 2032-33. AIF scheme has the facility of convergence with any other scheme of the State or Central Government and can prove to be a milestone in investment in the agriculture sector.

Pradhan Mantri Fasal Bima Yojana (PMFBY): PMFBY is currently the largest **crop insurance scheme** in the world in terms of farmer enrolments, averaging 5.5 crore applications every year and the third largest in terms of the premium received. The scheme promises minimal financial burden on the farmer, with farmers paying only 1.5 per cent and 2 per cent of the total premium for the Rabi and Kharif seasons, respectively, with Centre and State Governments bearing most of the **premium cost**. During the last six years of its implementation, farmers paid a premium of ₹25,186 crore and received claims amounting to ₹1.2 lakh crore (as of 31 October 2022). The acceptability of the scheme amongst the farmer can be ascertained from the fact that the share of non-loanee, marginalised, and small farmers have increased by 282 per cent since the scheme's **inception in 2016**.

Mission for Integrated Development of Horticulture (MIDH): Several expert groups have identified horticulture as a high-growth area and a source of buoyant income and improved resilience for farmers. The scheme to promote horticulture covering fruits, vegetables, root and tuber crops, spices, flowers, plantation crops etc., was **introduced in 2014-15**. According to third advance estimates (2021-22), a record production of 342.3 million tonnes in an area of 28.0 million hectares was achieved. The government has identified 55 horticulture clusters, of which 12 have been selected for the **Cluster Development Programme** (CDP) pilot phase.

National Agriculture Market (e-NAM) Scheme: The Government of India launched the National Agriculture Market (e-NAM) Scheme in **2016** to create an online transparent, competitive bidding system to ensure farmers get remunerative prices for their produce. As on 31 December 2022, more than 1.7 crore farmers and 2.3 lakh traders have been registered on e-NAM portal.

Allied Sectors: Animal Husbandry, Dairying and Fisheries Catching up in Recent Years

The allied sectors of Indian agriculture - **livestock, forestry & logging, and fishing & aquaculture** are gradually becoming sectors of buoyant growth and a potential source of better farm incomes.

The **livestock sector** grew at a CAGR of 7.9 per cent during 2014-15 to 2020- 21 (at constant prices), and its contribution to total agriculture GVA (at constant prices) has increased from 24.3 per cent in 2014-15 to **30.1 per cent in 2020-21**.

Similarly, the annual average growth rate of the **fisheries sector** has been about 7 per cent since 2016-17 and has a share of about **6.7 per cent in total agriculture GVA**.

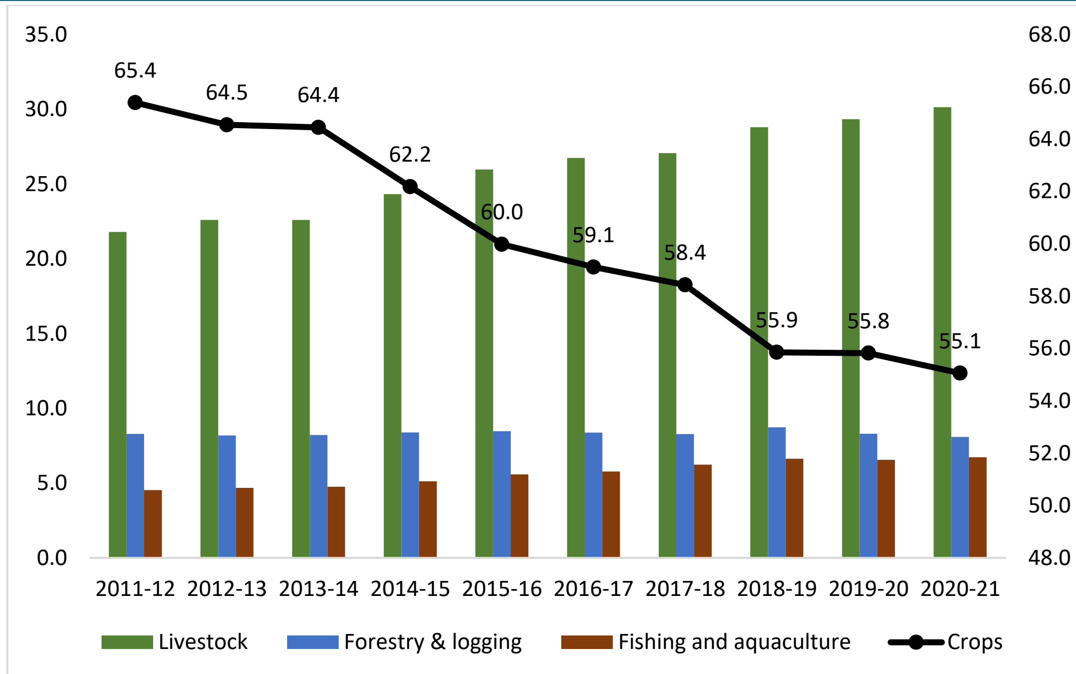


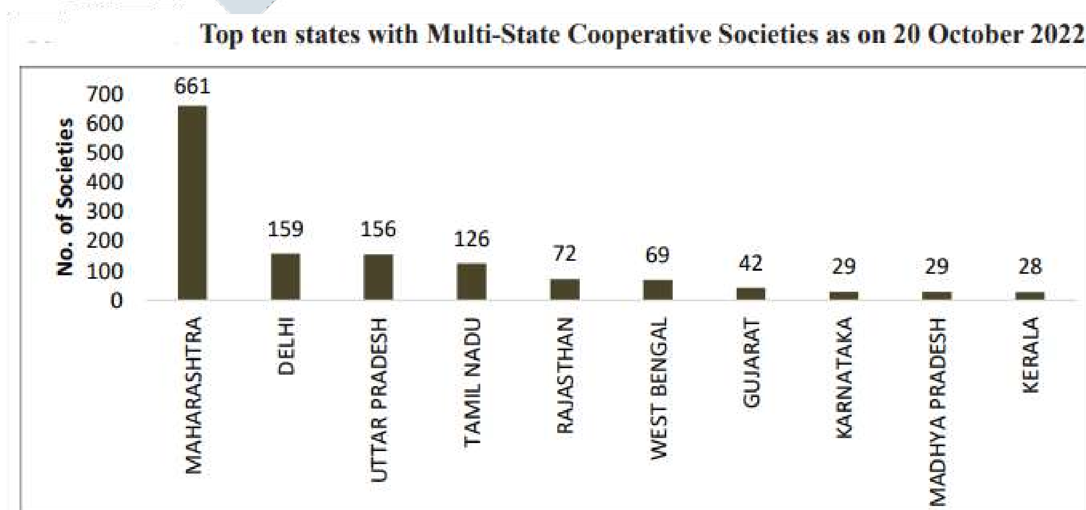
Figure: Though the Crop sector is still the major contributor to agriculture GVA, the livestock sector is catching up (per cent)

Sahakar-Se- Samriddhi: From Cooperation to Prosperity

Cooperatives hold the key to **rural economic transformation**. There are 8.5 lakh registered cooperatives in the country, having more than 29 crore members mainly from the marginalised and lower-income groups in the rural areas, and **98 per cent of villages** are covered by **Primary Agriculture Credit Societies** (PACS).

To realise the vision of "**Sahakar-see-Samriddhi**", a renewed impetus was given to the growth of the cooperative sector. Currently, around **19 per cent of agriculture finance is through cooperative societies**. A full-fledged Ministry of Cooperation was established in **July 2021** to provide greater focus to the cooperative sector. In addition, the Government has taken various initiatives to promote and strengthen PACS, like the computerisation of 63,000 functional PACS and the preparation of by-laws for enabling PACS to expand their activities.

The **Multi-State Cooperative Societies Act, 2002** (MSCS) was enacted after repealing the Multi-State Cooperative Act 1984, to facilitate the democratic functioning and autonomous working of Multi-State Cooperative Societies in line with the established Cooperative Principles.



With the view to strengthening the cooperative movement in the country, deepening its reach to the grassroots, and promoting cooperative-based economic development, a **New National Cooperation Policy** is being formulated involving the relevant stakeholders such as experts of the cooperative sector, representatives from National/ State/ District/ Primary level cooperative societies, Secretaries (Cooperation) and Resident Commissioners from States/UTs, officers from Central Ministries/ Departments. The objective is to have a policy that unlocks the true potential of the Cooperation sector.

In addition, the Government has also decided to introduce the **Multi-State Co-operative Societies (Amendment) Bill, 2022**. The Bill seeks to amend the Multi-State Co-operative Societies Act, 2002, to bring it in line with **Part IXB of the Constitution** and to strengthen the cooperative movement in the country by bringing in provisions relating to electoral reforms, strengthening governance and transparency, reforming the composition, meetings and membership of board; enabling the raising of funds by co-operative sector, strengthening monitoring mechanism, enhancing 'Ease of doing business', etc. The bill was introduced in the Lok Sabha on 7 December 2022 in the winter session of Parliament.

Food Processing Sector-The Sunrise Sector

The food processing sector is of enormous significance for India's development because of the strong connections and interactions it promotes between industry and agriculture. During the last five years ending FY21, the food processing industries sector has been growing at an average annual growth rate of around 8.3 per cent. As per the latest **Annual Survey of Industries (ASI) 2019-20**, 12.2 per cent of persons in the registered manufacturing sector were employed in the food processing sector. The value of agri-food exports, including processed food exports, was about **10.9 per cent of India's total exports** during 2021-22.

Food Security- Social & Legal Commitment to the People of the Nation

Food security is not only a question of the ability to produce food but also of the ability to access food. The Government is currently running the most extensive legislation-based food security programme in the world, covering about 80 crore of India's population under the **National Food Security Act (NFSA), 2013**. The food management programme in India comprises procurement of food grains from farmers at remunerative prices, distribution of food grains to consumers, particularly the vulnerable sections of society, at affordable prices and maintenance of food buffer stock for food security and price stability.

Till December 2022, the NFSA provided, for coverage of up to **75 per cent of the rural and up to 50 per cent of the urban population** highly subsidised food grains at ₹1/2/3 per kg for coarse grains/ wheat/rice, respectively, at the rate of **35 kg per family per month to households covered under Antyodaya Anna Yojana** (AAY) and at the rate of **5 kg per person per month to priority households**. In a recent decision, the government has decided to **provide free foodgrains to about 81.35 crore beneficiaries** under the NFSA for one year from **January 1, 2023**. To remove the financial burden of the poor, the government will spend more than ₹2 lakh crore in this period on food subsidies under NFSA and other welfare schemes. Under this, the Government will provide 5 kg of foodgrains per person to Priority Households (PHH) beneficiaries and 35 kg per household to Antyodaya Anna Yojana (AAY) beneficiaries (poorest of the poor) free of cost for the next year.

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CHAPTER 9: INDUSTRY: Steady Recovery

The industry holds a prominent position in the Indian economy contributing about 30 percent of total gross value added in the country. In FY23, the Indian industry faced some extraordinary challenges as the Russian-Ukraine conflict broke out. That led to a sharp rise in the prices of many commodities. The risk of another round of supply chain disruptions emerged, but they were not as severe as feared.

Nonetheless, both the price and the availability of essential commodities had the potential to dent the industry's optimism on consolidating the recovery of FY22 and further accelerating it. It is fair to say that the Indian industry acquitted itself rather well under trying circumstances. Overall Gross Value Added (GVA) by the Industrial Sector, based on data available for the first half of the FY23, rose 3.7 per cent, which is higher than the average growth of 2.8 per cent achieved in first half of the last decade.

Introduction

Figure: Growth and Share of Industrial Components (in Per cent)

	Growth in Per cent		Real GVA growth in FY23 over FY22	Real GVA growth in FY23 over FY20	Share in total GVA FY23
	H1:FY23	H2:FY23 (Estimated)			
Industry	3.7	4.5	4.1	11.1	30
Mining & quarrying	2.2	2.6	2.4	4.4	2.3
Manufacturing	0.1	3	1.6	11	17.3
Electricity, gas, water supply & other utility services	10	7.9	9	13	2.3
Construction	11.5	7.3	9.1	12.8	8.1
Overall GVA	**9**	**4.7**	**6.7**	**9.8**	**-**

Source: National Statistical Office (NSO), Ministry of Statistics and Programme Implementation (MoSPI)

Note: Data for FY23 presents the First Advance Estimates

Industry holds a prominent position in the Indian economy, accounting for **31 per cent of GDP**, on average, during FY12 and FY21 and employing over 12.1 crore people. The sector's relevance can be identified through various direct and indirect linkages with other sectors, contributing to economic growth and employment.

- First, it ensures that domestic production can accommodate domestic demand and reduces the reliance on imports. Thereby assisting in the improvement of trade and current account balances.
- Second, industrial growth has multiplier effects, which translates into employment growth. Some industries, such as textiles and construction, have high employment elasticities.
- Third, industrial growth spurs growth in services sectors such as banking, insurance, logistics, etc.

In FY23, the Industry sector witnessed modest growth of **4.1 per cent** compared to the strong growth of 10.3 per cent in FY22. This is likely on account of input cost-push pressures, supply chain disruptions and the China lockdown impacting the availability of essential inputs and slowing the global economy. The **fading away of the base effect** must have also weighed on growth in FY23. On a positive note, estimates of H2:FY23 shows improvement in overall industrial growth, especially in the manufacturing sector, both yearly and sequentially. Easing input prices and conducive demand conditions will support growth.

Demand Stimulus to Industrial Growth

FY23 began with the month-old Russian-Ukraine conflict showing no signs of relenting. As the year draws to a close, the conflict appears to have plateaued, although global commodity prices are yet to de-escalate to their pre-pandemic levels. Industry, throughout the year, has thus faced high input costs imported into the country. Fearing demand impact, the industry has been gradually passing on the higher production costs, which has led to sticky but non-rising **core retail inflation**. **Non-core retail inflation**, on the other hand, comprising food and energy components, has been declining as local weather extremities have eased and interventions by the government to restrict price rises have proven effective. The consequent decrease in overall retail inflation has thus sustained the **pent-up consumer demand** in the post-pandemic Indian economy, inducing an industrial recovery despite the global headwinds.

An increase in investment demand has emerged as another powerful stimulus to industrial growth. It has been triggered by **a jump in the Capex of the central government** in the current and the previous year as compared to the pre-pandemic years. The leap also has crowded-in private investment, already upbeat on the pent-up consumption demand, export stimulus, and strengthening of the corporate balance sheets. Capacity utilisation at 74.3 per cent in Q1 of FY23 has already reached the tipping point of 75.3 per cent in Q4 of FY22, at which investments in building new capacities are undertaken.

Supply Response of Industry

The supply response of the industry to the demand stimulus has been robust, as seen in high-frequency indicators. The **PMI-Manufacturing**, for example, has remained in the expansionary zone for 18 months since July 2021. In December 2022, the sub-indices of the PMI-Manufacturing indicated an easing pace of input cost pressures, improving supplier delivery times, robust export orders, and future output. The moderation in input cost inflation has also led to an easing in the momentum of output prices. However, the pace of expansion in new export orders decreased, reflecting a subdued global demand.

The sustained growth of manufacturing output is also seen within the overall **IIP** producing consumer durables in sync with the "**pent-up**" consumption demand. Robust growth in the production of capital goods and infrastructure/construction goods is indicative of the beginnings of an investment cycle in the private sector in the next financial year.

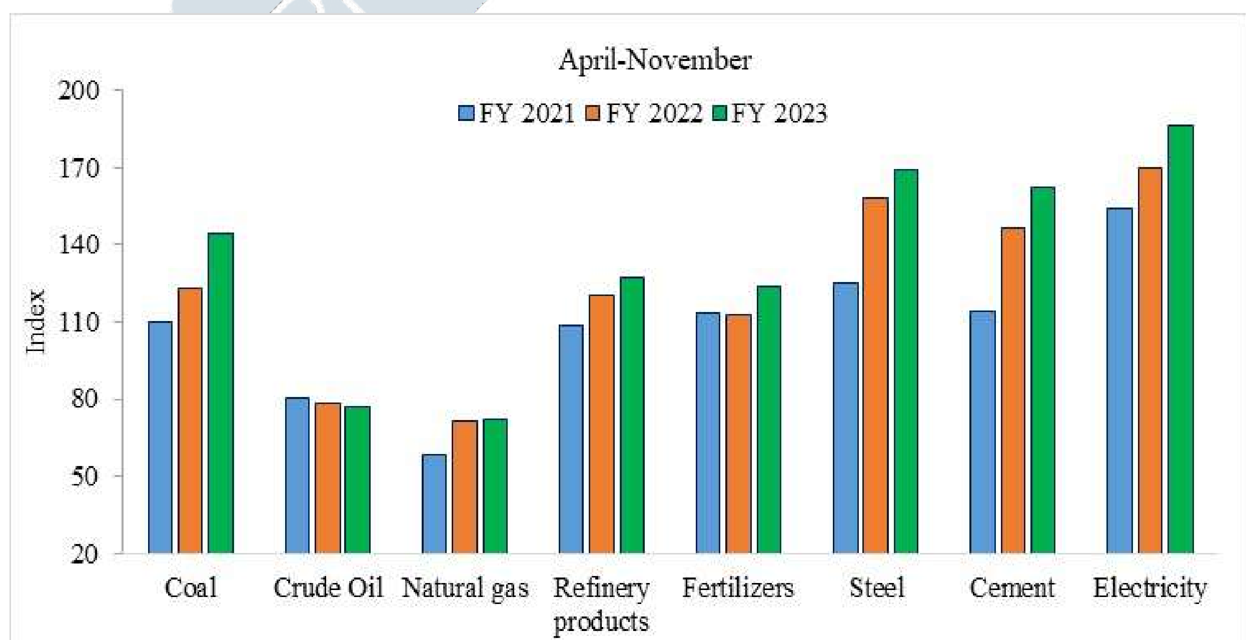


Figure: Steady Growth in Components of Index of Core Industries

Robust Growth in Bank Credit to Industry

Growth in bank credit has kept pace with industrial growth, with a sequential surge evident since January 2022. While **a large share of bank credit** continues to be assigned to large industries, credit to **MSMEs** has also seen a significant increase in part assisted by the introduction of the **ECLGS**, which supports around 1.2 crore businesses of which **95 per cent are MSMEs**. The impact of ECLGS on increasing the growth of credit to MSME was felt most during the pandemic impacted years of 2020 and 2021. It continued in 2022 as the scheme was **extended to March 2023**. Furthermore, growth in credit to MSME was buttressed by rebounding consumption levels, particularly in the services sector. Consequently, the share of MSMEs in gross credit offtake to the industry rose from 17.7 per cent in January 2020 to 23.7 per cent in November 2022. While the growth in total credit has been driven by an increase in credit demanded by MSMEs, large industries have also begun to increase the pace of their credit offtake since the beginning of FY23.

Robust growth in credit demand combined with rising capacity utilisation and investment in manufacturing underscores businesses' optimism regarding future demand.

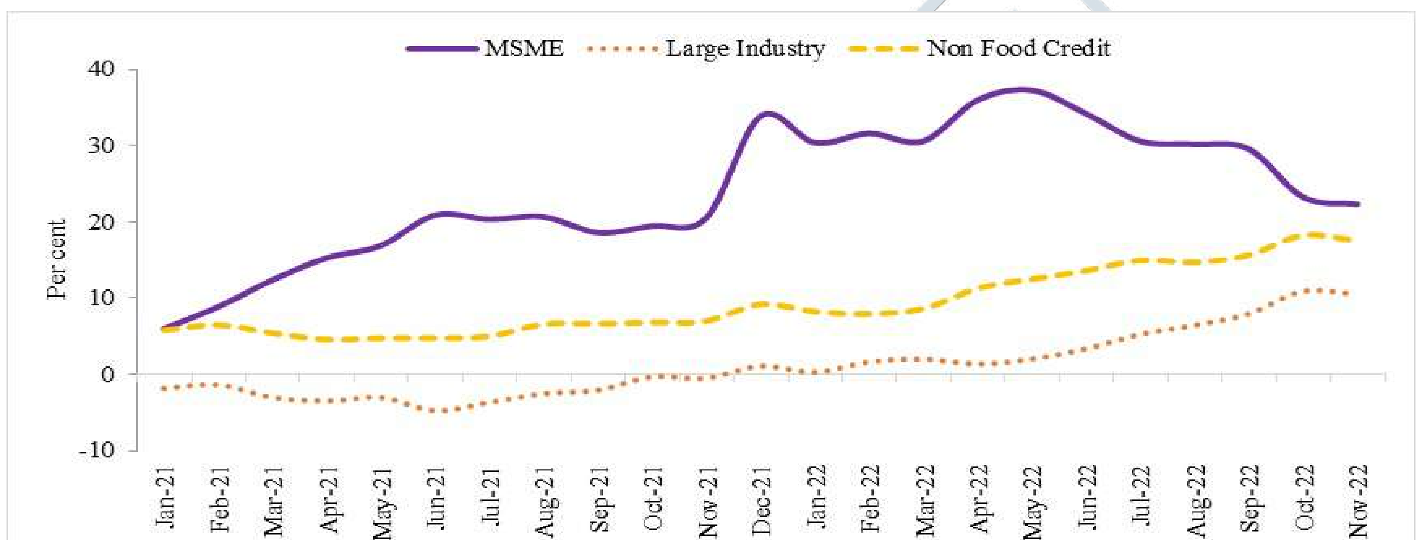


Figure: Double-digit credit growth in Industry driven by MSMEs

Resilient FDI Inflow in Manufacturing Sector

Annual FDI **equity inflows** in the manufacturing sector have been steadily increasing over the last few years. It jumped from US$ 12.1 billion in FY21 to US$ 21.3 billion in FY22 as the pandemic-driven expansionary policies of advanced economies led to a surge in global liquidity. With the rise in global uncertainty in the wake of the Russia-Ukraine conflict, FDI equity inflow in manufacturing in the first half of FY23 fell below its corresponding level in the first half of FY22. The **monetary tightening** at the global level has further restricted the FDI equity inflows. A rebound in FDI inflows is, however, expected as the Indian economy sustains its high growth while monetary tightening the world over eventually eases with the weakening of inflationary pressures.

Notwithstanding an overall drop in FDI in the first half of FY23, inflows have stayed **above the pre-pandemic levels**, driven by structural reforms and measures improving the ease of doing business, making India one of the most attractive FDI destinations in the world. The government has implemented an investor-friendly FDI policy under which FDI up to 100 per cent is permitted through **automatic route** in most sectors. India continues to open up its sectors to global investors by raising FDI limits, removing regulatory barriers, developing infrastructure, and improving the business environment.

Industry Groups and their Challenges

- **Micro, Small and Medium Enterprises (MSMEs) post smart recovery from pandemic**

While the contribution of the MSME sector to overall GVA rose from 29.3 per cent in FY18 to 30.5 per cent in FY20, the economic impact of the pandemic caused the sector's share to fall to 26.8 per cent in FY21. MSME contribution to the manufacturing sector's GVA also marginally fell to 36.0 per cent in FY21.

Through the AatmaNirbhar Bharat Package, the government has taken multiple steps to cushion the economic impact of the pandemic on MSMEs. Some of the measures undertaken include the modification of the **definition of MSMEs**; the **provision of ₹20,000 crore** subordinate debt for stressed MSMEs, ₹50,000 crore equity infusion through **Self Reliant India fund**; the waiving of the global tender requirement for procurement of up to ₹200 crore; launching of the **Udyam portal** for MSME registration, a paperless, zero-cost registration portal that is based on self-declaration and only requires Aadhaar. Registrations on the Udyam portal crossed the one crore mark in August 2022, surpassing the total registration done in the past 14 years under the old regime in just 2.5 years. As of 7th January 2023, the portal has a total registration count of 1.32 crore, of which **1.27 crore have been classified as micro-enterprises**. Enterprises registered on the portal employ 9.6 crore people, of which 2.3 crore are women. There are 1.5 lakh exporting units, which have contributed a cumulative ₹9.7 lakh crore worth of exports.

- The government's initiative of the **Samadhaan Portal**, set up under the Micro, Small and Medium Enterprises Development (MSMED) Act to monitor the outstanding dues to the MSME sector, is helping MSMEs in resolving their cashflow difficulties.
- In order to fast-track this resolution process, the government has instructed Central Public Sector Enterprises (CPSEs) and all companies with a turnover of ₹200 crore or more to get themselves onboarded on the **Trade Receivables Discounting System** (TReDS) platform for facilitating the discounting of trade receivables of MSMEs through multiple financiers.
- **CHAMPIONS**, the single-window grievance redressal portal for MSMEs launched by the Ministry of MSME in June 2020, has received 56,825 grievances as of 16th January 2023, of which 55,878 grievances have been responded to.
- The government has also initiated the '**Raising and Accelerating MSME Performance**' scheme (RAMP) in FY23. The **World Bank-supported scheme** aims at strengthening institutions and governance at the Centre and State, improving Centre-State linkages and partnerships and improving access of MSMEs to market and credit, technology upgradation and addressing issues of delayed payments and greening of MSMEs. The RAMP programme will be implemented over a period of five years. The **total outlay for the scheme is ₹6,062.4 crore**, out of which **₹3750 crore would be a loan from the World Bank**, and the Government of India would fund the remaining ₹2312.4 crore.

- **Electronics industry to be a key driver of manufacturing output and exports**

The electronics industry continues to ascend in importance as its applications become pervasive, particularly in the socio-economic development of a country. Electronics, supported by continuously improving communication services, will significantly enhance productivity, efficient service delivery, and social transformation. The domestic electronics industry, as of FY20, is valued at US$118 billion. India aims to reach US$300 billion worth of electronics manufacturing and US$ 120 billion in exports by FY26, supported by the vision of a **US$ 1 trillion digital economy by 2025**. Improvement in manufacturing and export over the past five years ensures that India is on the right trajectory to achieve this target. Electronic goods were among

the top five commodity groups exhibiting positive export growth in November 2022, with the exports in this segment growing YoY by 55.1 per cent.

- **Government support to help textile Industry weather current challenges**

The Textile industry is one of the country's most significant sources of employment generation, with an estimated **4.5 crore people directly engaged in this sector**, including a large number of women and the rural population. In the current financial year, the textile industry has been facing the challenge of moderating exports compared to FY22.

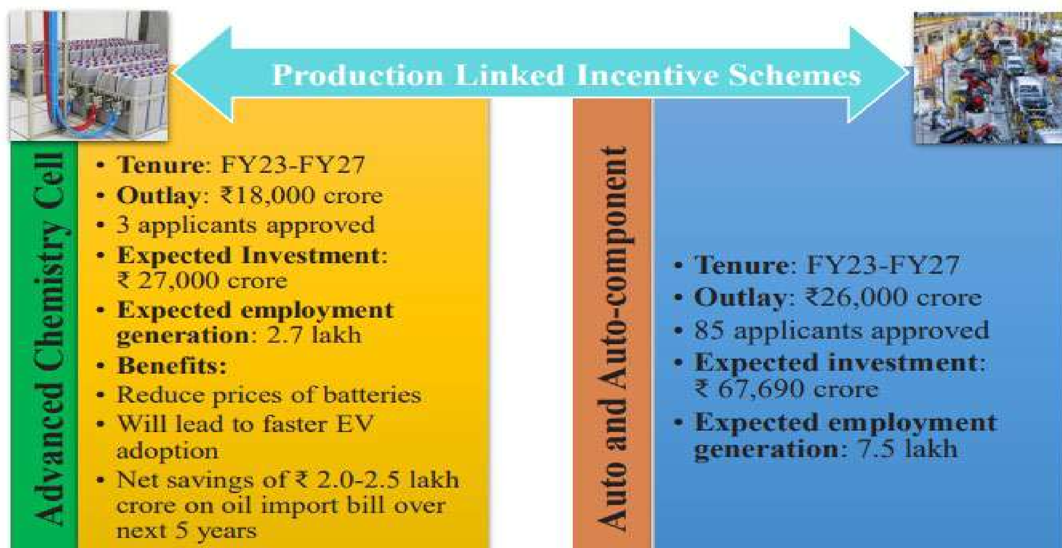
To develop integrated large-scale and modern industrial infrastructure facilities for the entire value chain of the textile industry, the government approved the setting up of seven **PM Mega Integrated Textile Region and Apparel** (PM MITRA) Parks. The parks will not only reduce logistics costs and improve the competitiveness of Indian Textiles but also boost employment generation, attract domestic investment and FDI, and position India firmly in the global textile market. The parks are expected to create a total of one lakh direct and two lakh indirect employment.

Further, to boost the production capacity, the government launched the **Textile PLI Scheme** with an approved outlay of **₹10,683 crore over five years** starting from 1st January 2022 to promote investments and increase the production of Man-Made Fibre (MMF) Apparel, MMF Fabrics and Products of Technical Textiles. This will enable the textile sector to achieve size and scale, enhancing export competitiveness

- **India becomes the world's 3rd largest automobile market**

The automobile sector is a key driver of India's economic growth. In December 2022, India became the **3rd largest automobile market**, surpassing Japan and Germany in terms of sales. In 2021, India was the largest manufacturer of two-wheeler and three-wheeler vehicles and the world's fourth-largest manufacturer of passenger cars. The sector's importance is gauged by the fact that it contributes 7.1 per cent to the overall GDP and 49 per cent to the manufacturing GDP while generating direct and indirect employment of 3.7 crore at the end of 2021.

The automotive industry is expected to play a critical role in the transition towards green energy. The domestic electric vehicles (EV) market is expected to grow at a compound annual growth rate (CAGR) of 49 per cent between 2022 and 2030 and is expected to hit one crore units annual sales by 2030. The EV industry will create 5 crore direct and indirect jobs by 2030. To support and nurture this development, the government has undertaken multiple steps.



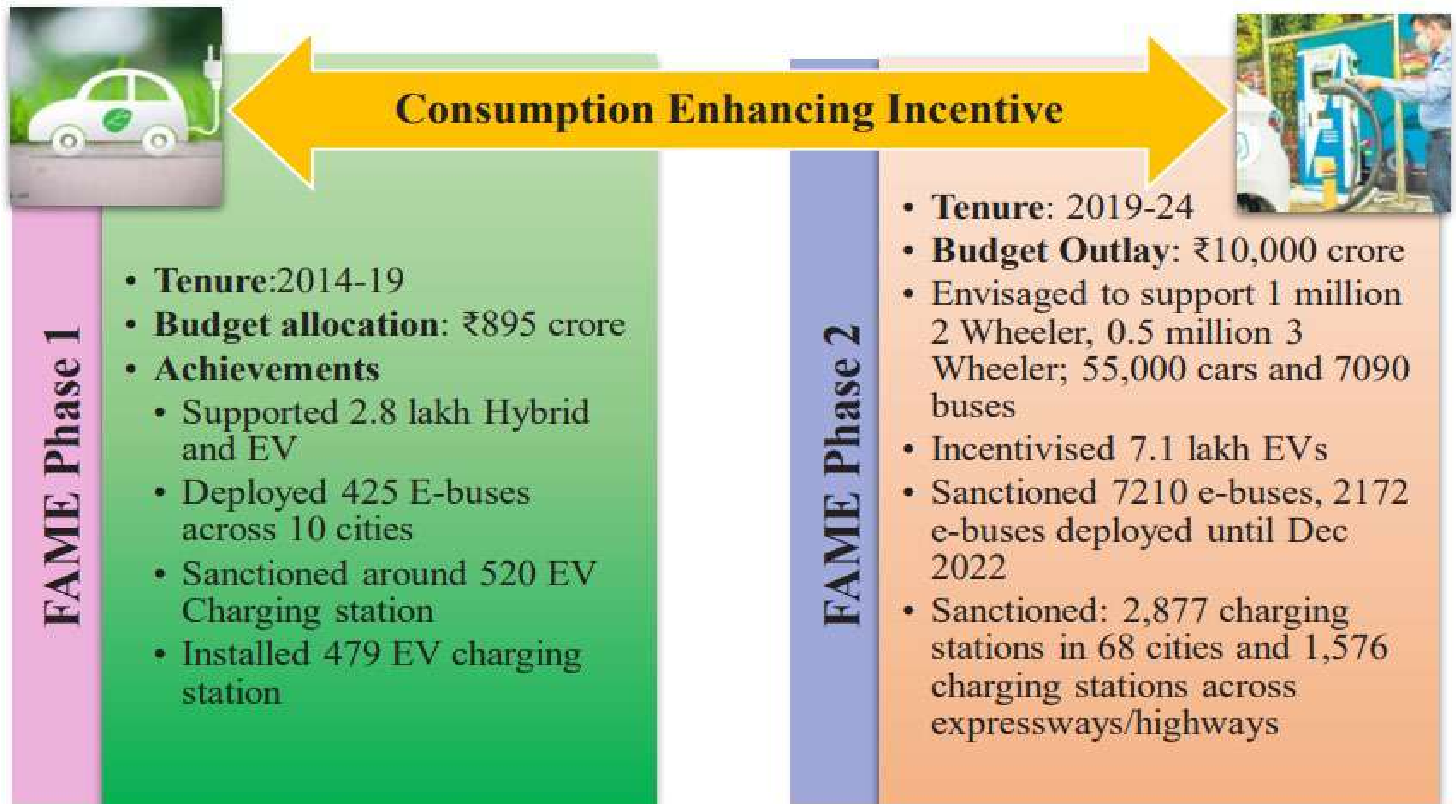


Figure: Consumption Enhancing Incentive Schemes

India's Prospects as a Key Player in the Global Value Chain

The risk of supply chain shocks has never been more palpable than today, following compounding crises from the US-China trade war, the Covid-19 pandemic, and the war in Ukraine. In this fast-evolving context, as global companies adapt their manufacturing and supply chain strategies to build resilience, India has a unique opportunity to become a global manufacturing hub this decade. The **three primary assets** to capitalise on this unique opportunity are the potential for significant domestic demand, the Government's drive to encourage manufacturing, and a distinct demographic edge, including a considerable proportion of the young workforce.

The manufacturing sector in India is gradually shifting to more automated and process-driven manufacturing, which is expected to increase efficiency and boost the production of the industry. The '**Make-in-India**' Initiative was launched in 2014 to make India a hub for manufacturing, design, and innovation. Since then, it has facilitated investment, fostered innovation and built world-class infrastructure.

To further enhance India's integration in the global value chain, '**Make in India 2.0**' is now focusing on **27 sectors**, which include **15 manufacturing sectors and 12 service sectors**. Amongst these, 24 sub-sectors have been chosen while keeping in mind the Indian industries' strengths and competitive edge, the need for import substitution, the potential for export and increased employability. Efforts are on to boost the growth of the sub-sectors in a holistic and coordinated manner.

In pursuit of the objectives of the Make-in-India programme and with a vision to achieve Aatmanirbharta, the government launched the **PLI scheme**. The scheme is expected to attract a capex of approximately ₹3 lakh crore over the next five years. It has the potential to generate employment for over 60 lakh in India and increase the share of the manufacturing sector in total capital formation, which currently stands at around 17-20 per cent between FY12 and FY20. It is further believed that there will be a significant reduction in the trade deficit with domestic production substituting for imports. Sectors under which the PLI scheme has

been announced currently constitute around 40 per cent of the total imports. The scheme, spread across 14 sectors, can enhance India's annual manufacturing capex by 15 to 20 per cent from FY23.

As of 31st December 2022, 717 applications have been approved under **14 PLI Schemes**. More than 100 MSMEs are among the PLI beneficiaries in sectors such as Bulk Drugs, Medical Devices, Telecom, White Goods and Food Processing. As per recent reporting from implementing Ministries/ Departments, around ₹47,500 crore (US$ 6 billion) of actual investment has been made; production/ sales of ₹3.85 lakh crore (US$ 47 billion) of eligible products and employment generation of around 3 lakh has been reported and 106 per cent achievement of actual investment reported versus the corresponding projections of FY22. Key sectors such as Large-Scale Electronics Manufacturing, Pharmaceuticals, Telecom & Networking Products, Food Processing and White Goods have contributed considerably to investment, production, sales and employment.

The DPIIT's **Business Reform Action Plan** (BRAP) 2020 (fifth edition), based on the implementation of reforms by States/UTs, was released on 30th June 2022. It shows that 7,496 reforms were implemented across States and UTs as part of the BRAP 2020 assessment, thereby significantly enhancing the Ease of Doing Business across the country. Reducing the Compliance Burden (RCB) on businesses and citizens is a continuous exercise to leapfrog to the next level of governance excellence and improve Ease of Living. Ministries and States/UTs have reduced more than 39,000 compliances (as on 17th January 2023).

Conclusion and Outlook

Despite global headwinds, industrial production expanded during FY23, backed by sustained demand conditions. The growth in bank credit has kept pace with industrial growth, with a sequential surge evident since January 2022. Credit to MSMEs has seen a significant increase in part, assisted by the introduction of the ECLGS. Amidst heightened global uncertainty, FDI in the manufacturing sector moderated in the first half of FY23. However, inflows stayed well above the pre-pandemic levels, driven by structural reforms and measures improving the ease of doing business, making India one of the most attractive FDI destinations in the world.

The re-emergence of Covid-19 in China can trigger supply chain disruptions, as was the case during the pandemic period. On the other hand, if China returns to normalcy from Covid-19, there can be an increase in commodity demand - thus reversing the recent decline in commodity prices. Of course, the strength and duration of the recovery in commodity prices will be a function of many factors, such as the pace of China's economic recovery and growth outlook in North America and Europe. Notwithstanding such open questions, industrial output in India should continue to grow steadily based on resilient domestic demand.

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CHAPTER 10: SERVICES: Sources of Strength

With the waning of the pandemic and external shocks on account of the Russia-Ukraine conflict, there is evidence of improvement in the performance of various services sub-sectors. The hotel industry is thriving with improvements in occupancy rate, increase in the **Average Room Rate** (ARR) and rise in **Revenue Per Available Room** (RevPAR) which are now much nearer to the pre-pandemic level of FY20. The tourism sector is also showing signs of revival, with foreign tourist arrivals in India in FY23 growing month-on-month with the resumption of scheduled international flights and the easing of Covid-19 regulations. The Real Estate sector has witnessed resilient growth in the current year, with housing sales and the launch of new houses surpassing in Q2 of FY23 the pre-pandemic level of Q2 of FY20. Information Technology-Business Process Management (IT-BPM) and the E-commerce industry have been exceptionally resilient during the Covid-19 pandemic, driven by accelerated technology adoption and digital transformation. The Government's push to boost the digital economy, growing internet penetration, rise in smartphone adoption and increased adoption of digital payments have also given a renewed push to these industries. The introduction and piloting of **Central Bank Digital Currency** (CBDC) will also provide a significant boost to digital financial services. They may lay the framework for another generation of financial innovation.

The services sector witnessed a swift rebound in FY22, growing Year-on-Year (YoY) at 8.4 per cent compared to a contraction of 7.8 per cent in the previous financial year. The improvement was driven by growth in the 'Trade, Hotel, Transport, Storage, Communication and Services related to broadcasting' sub-sector, which bore the maximum burden of the pandemic. The growth momentum has continued in FY23 as well. As per the **First Advance Estimates**, Gross Value Added (GVA) in the services sector is estimated to grow at **9.1 per cent in FY23**, driven by 13.7 per cent growth in contact-intensive services sector.

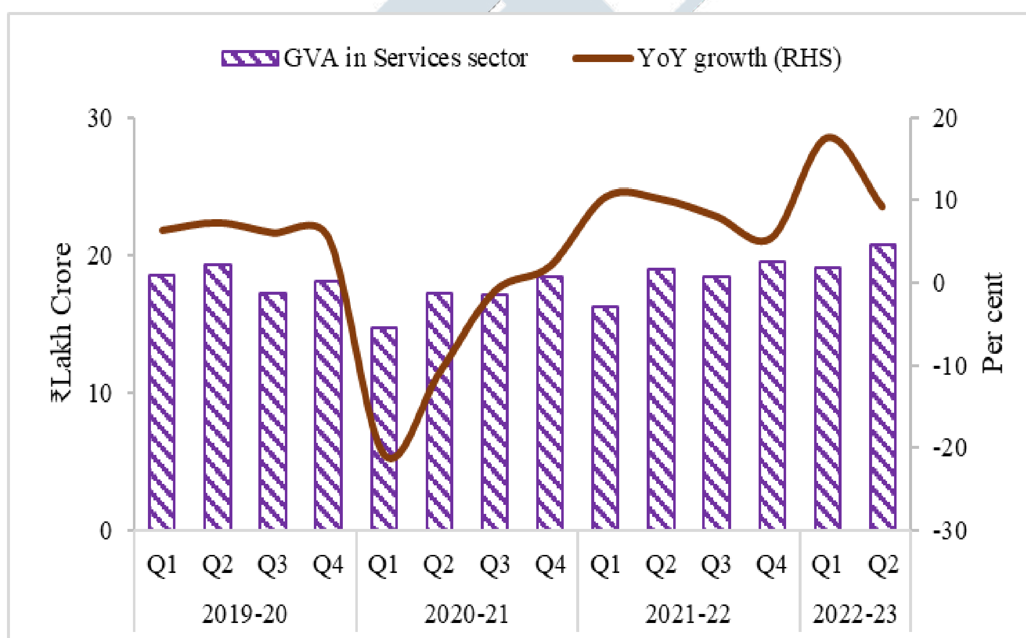

Figure: Broad-based growth in the Services sector

Trends in High-Frequency Indicators

- **Services PMI**

PMI – Services again witnessed a setback with the outbreak of the Russia-Ukraine conflict. The indicator moderated from May to September 2022 as economic uncertainty resulted in weaker sales growth and inflationary pressures restricting the upturn in business activity. Further, price pressures and unfavourable weather also dampened domestic demand. However, following an overall easing of retail inflation leading

to retreating price pressures of inputs and raw materials, PMI services witnessed an uptick and expanded to **58.5** in December 2022.

- **Bank Credit**

Bank credit to the services sector has witnessed significant growth since October 2021 with the improvement in vaccination coverage and recovery in the services sector. The credit to services sector saw a YoY growth of **21.3 per cent in November 2022**, the second highest in 46 months, compared to a 3.3 per cent growth in November 2021. Within the services sector, credit to wholesale and retail trade increased by 10.2 per cent and 21.9 per cent in November 2022, respectively, reflecting the strength of the underlying economic activity. Credit to NBFCs grew by **32.9 per cent** as NBFCs shifted to bank borrowings because of high bond yields.

- **Services Trade**

Financial and ICT Services have been so far most resilient to the slowing global economy, whereas, construction services and container shipping fell into contraction territory.

Insofar as India is concerned, some headwinds may be observed in the coming months because of the slowing growth in some of India's major trading partners. On the contrary, India's services exports may improve as **runaway inflation** in advanced economies drives up wages and makes local sourcing expensive, opening up avenues for outsourcing to low-wage countries, including India. India is a significant player in services trade, being **among the top ten services exporters** countries in 2021, having increased its share in world commercial services exports from 3 per cent in 2015 to 4 per cent in 2021. A further increase in the share is likely, with the services exports registering growth of 27.7 per cent during April-December 2022 as compared to 20.4 per cent in the corresponding period last year.

- **FDI in Services**

The World Investment Report 2022 of **UNCTAD** places India as the seventh largest recipient of FDI in the top 20 host countries in 2021. In FY22 India received the highest-ever FDI inflows of US$ 84.8 billion including US$ 7.1 billion FDI equity inflows in the services sector. To facilitate investment, various measures have been undertaken by the Government, such as the launch of the **National Single-Window system**, a one-stop solution for approvals and clearances needed by investors, entrepreneurs, and businesses. To ensure the liberalisation of investment in various industries, the Government has permitted **100 per cent foreign participation in telecommunication services**, including all services and infrastructure providers, through the Automatic Route. The **FDI ceiling in insurance companies was also raised from 49 to 74 per cent**, under Automatic Route. Further, Government has allowed 20 per cent foreign investment in Life Insurance Corporation (LIC) under the automatic route.

Major Services: Sub-Sector-Wise Performance

The post-pandemic scenario of global **tourism** is gradually converging to the pre-pandemic one. With travel restrictions and health concerns subsiding, tourism has become a vital driver of a strong upswing in contact-intensive activity. As per the **World Tourism Barometer** of the **United Nations World Tourism Organisation** (November 2022), international tourism showed robust performance in January-September 2022, with international tourist arrivals reaching 63 per cent of the pre-pandemic level in the first nine months of 2022, boosted by strong pent-up demand, improved confidence levels and the lifting of restrictions. India's tourism sector is also showing signs of revival. Foreign tourist arrivals in India in FY23 have been growing month-on-month with the resumption of scheduled international flights and the easing of Covid-19 regulations.

According to NASSCOM's report, India's **IT-BPM industry** has been exceptionally resilient during the pandemic, driven by increased technology spending, accelerated technology adoption, and digital transformation. This is evident in the swift and wide-scale remote working adoption of one of the world's largest IT workforces. IT-BPM revenues registered YoY growth of **15.5 per cent during FY22** compared to 2.1 per cent growth in FY21, with all sub-sectors showing double-digit revenue growth. Within the ITBPM sector, IT services constitute the majority share (greater than 51 per cent). Exports (including hardware) witnessed a growth of 17.2 per cent in FY22 compared to 1.9 per cent growth in FY21, owing to the increased reliance of businesses on technology, the roll-out of cost-reducing deals and the use of core operations. However, NASSCOM's quarterly review in August 2022 indicates that technology spending during FY23 is likely to see a relatively muted growth dampened by an expected global slowdown.

On the same lines as the IT-BPM sector, the **E-Commerce sector** also witnessed a renewed push and a sharp increase in penetration in the aftermath of the pandemic. According to the **Global Payments Report** by Worldpay FIS, India's e-commerce market is projected to post impressive gains and grow at **18 per cent annually through 2025**. The expansion of e-commerce to newer segments like grocery, fresh-to-home fruits and vegetables, and general merchandise has contributed to the expansion of the customer base beyond traditional buyers. And as per the latest report '**How India Shops Online 2022**' by Bain & Company, emerging categories – fashion, grocery, general merchandise – would shore up e-commerce growth in India and would capture nearly two-thirds of the Indian e-commerce market by 2027.

Digital financial services enabled by emerging technologies and innovative solutions are accelerating financial inclusion, democratising access, and spurring the personalisation of products. With a strong foundation provided by the Jan Dhan-Aadhaar-Mobile (JAM) trinity, UPI, and other regulatory frameworks, the pandemic has aided acceleration in digital adoption and provided a fillip to digital financial services solutions by banks, NBFCs, insurers as well as fintech. While globally, the technological solutions cushioned the reverberations of the pandemic, India took the lead with the fintech adoption rate of **87 per cent**, substantially higher than the world average of 64 per cent as per the latest **Global FinTech Adoption Index.**

Outlook

India's services sector growth which was highly volatile and fragile during the last 2 fiscal years, has shown resilience in FY23 driven by the release of pent-up demand, ease of mobility restriction, near-universal vaccination coverage and pre-emptive government interventions. Broad-based recovery has been observed in recent months, with pick up in almost all sub-sectors especially contact intensive services sector, which bore the maximum brunt of the pandemic. The downside risk, however, lies in the external exogenous factors and bleak economic outlook in Advanced Economies impacting growth prospects of the services sector through trade and other linkages.

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CHAPTER 11: EXTERNAL SECTOR: Watchful & Hopeful

India's external sector has been buffeted by shocks and uncertainty manifested in terms of elevated, though now easing global commodity prices; tightening international financial conditions; heightening financial market volatility; reversal of capital flows; currency depreciation, and looming global growth and trade slowdown. However, it has been able to face these headwinds from a position of strength on the back of strong macroeconomic fundamentals and buffers.

Introduction

Interest rates and prices of risk assets have been extremely volatile since April 2022, reflecting heightened uncertainty about the economic and policy outlook, exacerbated by low liquidity. The US dollar appreciated sharply against currencies of **Emerging Market Economies** (EMEs) and major advanced economies facing high borrowing costs. Thus, global financial conditions have considerably tightened especially since April 2022, and the balance of risks is significantly skewed to the downside, thereby weakening the global economic outlook.

Against this fast-evolving global backdrop, this chapter chronicles the developments in the external sector of the Indian economy focusing on exports, imports, international investment, foreign exchange reserves, movement of the currency against the US dollar, **external debt**, and the **BoP situation**.

Trade Helping India Reap the Benefits of Globalised World

In the present globalised and integrated world, trade is essential for developing countries to reap the benefit of increased globalisation of products and financial markets. It is well recognised that trade is not an end in itself but a means to balanced, equitable, and sustainable development. Conventional economic theories point towards potential gains that could emerge from openness to international trade and investment.

For India, the **share of trade as a percentage of GDP** has been steadily increasing, being **above 40 per cent since 2005** (except 2020 being the pandemic year). The ratio stands at 46 per cent in 2021 and **50 per cent for H1 of 2022**.

India achieved an all-time high annual **merchandise export** of US$ 422.0 billion in FY22. However, the global economy has started facing formidable headwinds and the ripple effect of the global trade slowdown has started reflecting in India's merchandise export growth, wherein moderation in pace is observed in 2022. Merchandise exports were US$ 332.8 billion over April-December 2022 against US$ 305.0 billion during the period April-December 2021.

The USA remained the **top export destination** in April-November, 2022 followed by UAE and the Netherlands. The Netherlands has displaced China from the 3rd spot as India's exporting partner. India has diversified its export destinations over time.

India maintained its **dominance in the world services trade** in FY22. Despite pandemic-induced global restrictions and weak tourism revenues, India's services exports stood at US$ 254.5 billion in FY22 recording a growth of 23.5 per cent over FY21 and registered a growth of 32.7 per cent in April-September 2022 over the same period of FY22. Software and business services together constitute more than 60 per cent of India's total services exports and exhibited strong growth during Q2FY23.

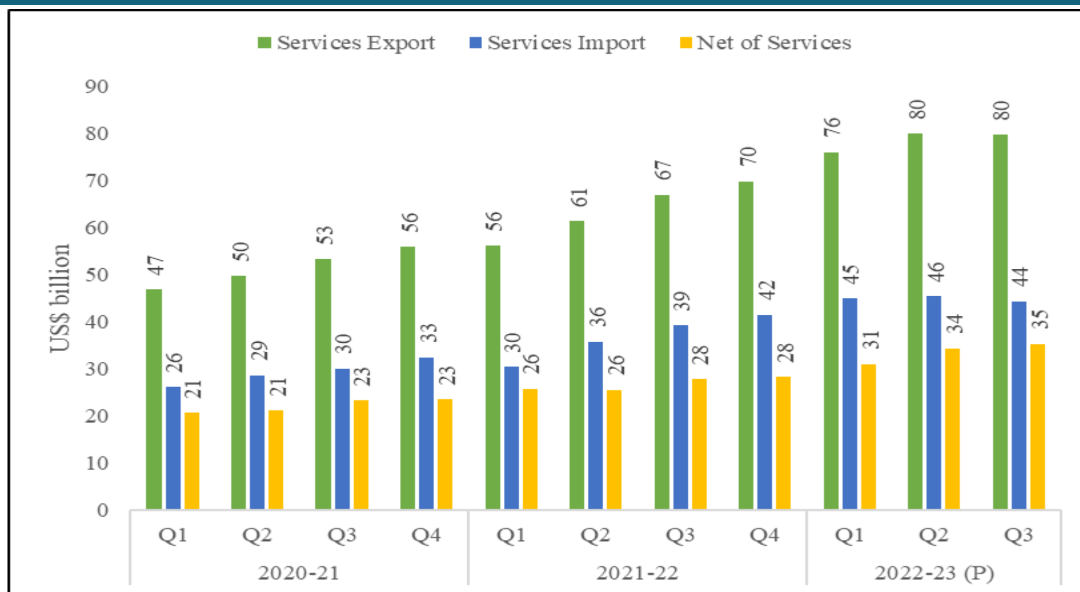

Figure: Accelerating trend in services trade

India's **Foreign Trade Policy** (FTP) has, conventionally, been formulated for five years at a time. The focus of the FTP has been to provide a framework of rules and procedures for exports and imports and a set of incentives for promoting exports. The latest **FTP for 2015- 2020** is in vogue at present. To provide policy stability during the pandemic period, the five year FTP 2015-20 was extended from 2020 to 2022. The policy has been further **extended till March 2023** on account of volatile global economic and geopolitical situations and currency fluctuations. During this period, the Government has been taking significant measures and consistently looking into opportunities to diversify the exports both in terms of products as well as potential markets. The Government is actively working on facilitating trade agreements and launching schemes in consultation with various stakeholders. In the year 2022, India signed **Free Trade Agreements** (FTAs) with **UAE** and with **Australia**. This aims to provide greater market access with a reduction in tariff and non-tariff barriers on goods and services and make the exporters competitive. The **Export Preparedness Index** has also been introduced to evaluate States' potentials and capacities. It will guide all stakeholders towards strengthening the export ecosystem at both the national and sub-national levels.

In **July 2022**, the Reserve Bank of India (RBI) issued a circular permitting an additional arrangement for invoicing, payment, and **settlement of exports/imports in Indian Rupees** (INR) to promote the growth of global trade with emphasis on exports from India and to support the increasing interest in the global trading community in INR as an international currency. The framework involves **invoicing of exports and imports** in INR, market-determined exchange rates between the currencies of the trading partner countries, and settlement through special **Rupee Vostro accounts** opened with **authorised dealer banks** in India.

The commendable performance of India's exports, standing at **US$ 422.0 billion in FY22**, exceeding the target of US$ 400 billion, has been the culmination of efforts from all quarters and across stakeholders. Some of the factors leading to the achievement of this target were putting in place of targets by the Government, including the setting of specific targets – country-wise, product-wise, and Export Promotion Council-wise; monitoring of the targets and course correction where required.

Below are some schemes and policies that contributed to India's export success:

- Interest Equalisation Scheme
- Remission of Duties and Taxes on Exported Products (RoDTEP) scheme
- Export Credit Guarantee

- Krishi Udan Scheme
- Trade Infrastructure for Export Scheme
- Districts as Export Hubs

Balance of Payments in Challenging Times

- **Current Account Balance**

India's external sector has been facing considerable global headwinds reflecting the geopolitical developments as detailed in the Introduction section above. India's **current account balance** (CAB) recorded a deficit of US$ 36.4 billion (4.4 per cent of GDP) in Q2FY23 in contrast to a deficit of US$ 9.7 billion (1.3 per cent of GDP) during the corresponding period of the previous year. The widening of the **current account deficit** (CAD) in the second quarter of FY23 was mainly on account of a higher merchandise trade deficit of US$ 83.5 billion and an increase in net investment income outgo.

For the period **April- September 2022** (H1FY23), India recorded a CAD of **3.3 per cent of GDP** on the back of an increase in the merchandise trade deficit, as compared with 0.2 per cent in H1FY22. However, a comparison with the position of the CAB for selected countries shows that India's CAD is modest and within manageable limits.

- **Invisibles**

Net services receipts increased from US$ 51.4 billion in H1FY22 to US$ 65.5 billion in H1FY23, primarily on account of **robust computer and business services receipts**. Similarly, the **net private transfer receipts**, mainly representing remittances by Indians employed overseas, was US$ 48.0 billion in H1 FY23 against their level of US$ 38.4 billion during the same period a year ago. A sharp rise in crude oil prices and the deprecation of the INR seem to have boosted **remittance flows** into India. Net services exports and remittances contributed to the surplus on the **invisible account**, which cushioned the merchandise trade deficit.

Remittances are the second largest major source of external financing after service export, which contribute to narrowing the CAD and has always been a stable constituent of the BoP. India has the largest emigrant population and is the top remittance recipient country with remittances anticipated to reach a milestone of **US$100 billion in 2022** according to the **World Bank**.

- **Capital Account Balance**

Foreign investment, consisting of **Foreign Direct Investment** (FDI) and **foreign portfolio investment** (FPI), is the **largest component of the capital account**. On a BoP basis, the net capital inflows declined to US$ 29.0 billion in H1FY23 from US$ 65.0 billion19 in H1FY22 primarily driven by the FPI outflow of US$ 14.6 billion in Q1FY23. Net FDI inflows at US$ 20.0 billion in H1FY23 were comparable with US$ 20.3 billion in H1FY22.

During April-September 2022, gross FDI inflows were US$ 39.3 billion as compared to US$ 42.5 billion a year ago. **Computer Software and Hardware attracted the highest share of FDI equity** inflow (23.4 per cent) followed by Services (15.4 per cent).

- **Balance of Payments and Foreign Exchange Reserves**

Overall, the adverse global economic situation placed India's BoP under pressure in 2022. While the impact of a sharp rise in oil prices was discernible in the widening of the CAD, policy tightening by the US Fed and the strengthening of the US dollar led to FPI outflows. As a result, as the net financial inflows fell short of the CAD, there was a depletion of foreign exchange reserves on a BoP basis to the tune of US$ 25.8 billion in

H1FY23 in contrast to an accretion of US$ 63.1 billion in H1FY22. But huge valuation losses (US$ 48.9 billion) contributed to the net depletion of US$ 74.6 billion of reserves in nominal terms during the period.

India's foreign exchange reserves stood at US$ 532.7 billion as of end-September 2022, covering 8.8 months of imports. The reserves augmented to **US$ 562.7 billion as of the end of December 2022** covering **9.3 months of imports**. As of end-November 2022, India was the **sixth largest foreign exchange reserves holder** in the world according to data compiled by the IMF.

Exchange Rates Moving in Tandem with Global Developments

The exchange rate of the Indian Rupee is **market-determined** as the RBI's intervention in the foreign exchange market is mainly **to contain instances of excessive volatility**. On a financial year basis, i.e., from April to December 2022, the INR has depreciated against US$ by 8.3 per cent. Over the same period, the US dollar has appreciated by 4.4 per cent in terms of the US dollar index. This holds even on a calendar year basis, i.e., from January to December 2022, the INR has depreciated by 10.8 per cent whereas the US dollar has appreciated by 6.4 per cent.

International Investment Position: A Reflection of India's Financial Soundness

The **International investment position** (IIP) is a statistical statement that shows at a point in time the value and composition of

(a) **financial assets of residents** of an economy that are claims on non-residents and gold bullion held as reserve assets, and

(b) **liabilities** of residents of an economy to non-residents.

The difference between an economy's external financial assets and liabilities is the economy's **net IIP**, which may be positive or negative. The Net IIP position **determines whether a country is a net creditor or debtor nation** by measuring the difference in its external assets and liabilities. These statistics serve as an indicator of a country's financial condition and soundness. The Net IIP, along with the BoP transactions, reflects the domestic economy's set of international accounts.

The net claims of non-residents on India, valued at US$ 389.6 billion as of end-September 2022, increased by US$ 31.4 billion over the level as of end-March 2022. India's international financial assets covered 68.5 per cent of international financial liabilities as of end-September 2022.

Safe and Sound External Debt Situation

India's external debt, at US$ 610.5 billion as of end-September 2022, grew by 1.3 per cent (US$ 7.6 billion) over US$ 602.9 billion as of end-September 2021. However, external debt as a ratio to GDP fell to **19.2 per cent** as of end-September 2022 from 20.3 per cent a year ago. The **optimal threshold for India's external debt** is around **23-24 per cent of GDP**. Thus, India has the potential growth positive space as far as the external debt level is concerned. While testifying to the prudent management of India's external debt, this contrasts with the external debt distress unfolding in many peer countries, post-covid. The **Ministry of Finance**'s "**India's External Debt: A Status Report 2019-20**", provides details of the evolution of India's external debt.

Outlook for the External Sector Caution Amidst Global Headwinds

Slowing global demand is weighing on India's merchandise exports. The empirical literature documents that global growth exerts a strong statistically and economically significant impact on India's real exports, though

the impact has reduced over the years. As noted earlier, global growth is forecast to slow down in 2022 and 2023 as per IMF estimates. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the Covid-19 pandemic.

Thus, the export outlook may remain flat in the coming year if global growth does not pick up in 2023, as indicated by many forecasts. In such cases, product basket and destination diversification which India is taking through FTAs would be useful to enhance trade opportunities.

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CHAPTER 12: PHYSICAL & DIGITAL INFRASTRUCTURE: Lifting Potential Growth

In the last 75 years in India since Independence, infrastructure development has moved on a consistent growth curve building the assets required by the nation across sectors such as transportation, housing, commercial development, telecom and most recently, sanitation. As a key enabler of socioeconomic enhancement of a region, the government has used '**social overhead capital**' to push development in the remotest areas of the country through dedicated budgetary allocation, cross-subsidising revenue-generating infrastructure and focussed programme delivery. This has helped in expanding physical transportation and connectivity, providing services at point-of-use and deepening digital penetration.

Introduction

India is the world's fifth largest economy and the prospect of steady progress in the coming years is bright. Here, the critical role played by infrastructure in economic growth cannot be overemphasised. Investing in high-quality infrastructure is crucial for accelerating economic growth and sustaining it in the long run.

The correlation between infrastructure and development brings us to the present scenario when during the times of pandemic and geo-political crisis, the government kept its focus on reforms in areas of physical, digital and regulatory infrastructure. In order to increase the private sector participation in creation of new infrastructure and development of existing ones, the government took initiatives like **Public-Private Partnership** (PPP), **National Infrastructure Pipeline** (NIP) and **National Monetisation Pipeline** (NMP). In addition to this, as part of the structural reforms with the objective to enhance efficiencies and cost competitiveness, **Gati Shakti** and **National Logistics Policy** (NLP) were also launched. This buffet of reforms on all aspects related to infrastructure investment and project execution not just ensures economic growth and economic efficiency but also generates confidence among various stakeholders in the economy towards government functioning.

With increasing financialisation of the economy and penetration of digital services, growth in physical infrastructure alone could not be the answer for development. Though India's digital journey predates the pandemic, it would be rational to say that the testing times of the pandemic have accelerated its acceptance, application and coverage in many ways. The adaptability displayed by the citizens towards technology-driven changes was very encouraging. This confluence of digitisation and innovation acted as a game changer for India.

Government's Vision and Approaches to Infrastructure Development in India

Increase in infrastructure investment provides a critical push to the potential growth of the economy. The government, in recent years, provided an increased impetus for infrastructure development and investment through the enhancement of capital expenditure. This push has happened at a time of crisis when the capital expenditure by the private sector has been subdued. The outlay (target) for **capital expenditure in 2022-23** (BE) was increased sharply by 35.4 per cent from ₹ 5.5 lakh crore in the previous year (2021-22) to **₹ 7.5 lakh crore**, of which approximately 67 per cent has been spent from April to December 2022.

The steady increase in public capital expenditure has helped support economic growth while laying the foundation for future growth as capital assets boost economic efficiency and potential growth. It could also **crowd-in** private investment, as the IMF observed in the case of India. This is evident from the fact that capacity utilisation in the private sector has been recovering.

While the NIP and the NMP would provide the much-needed impetus for stepping up infrastructure investment, the NLP will address the gaps in services, digital infrastructure and skills in the logistics

workforce. PM GatiShakti, with a multimodal approach, is designed to fill the gaps in physical infrastructure and to integrate existing and proposed infrastructure development initiatives of different agencies. As physical infrastructure requires continuous support over its long gestation period, the government has also set up **National Bank for Financing Infrastructure and Development** (NaBFID) as development financial institution to set in motion a virtuous investment cycle. An institutional mechanism to fast-track investments has been put in place, in the form of **Project Development Cells** (PDCs) in all concerned Ministries/ Departments of Government of India.

The government's vision for infrastructure does not stop here. As India has already submitted its Long-Term Low Emission Development Strategy at COP27, the next leap would be towards advanced infrastructure, which is more energy efficient, incorporates the idea of a circular economy and transitions towards low carbon development. The amount of investment that may be needed for putting in place climate resilient and climate resistant infrastructure might be too vast to be provided for by either the public sector or the private sector alone. Both financing and the creation of such infrastructure are likely to require Public-Private Partnership.

Public-Private Partnership

Private investment in infrastructure is mainly in the form of PPPs. PPPs are vital instruments for governments in channelling the strength of private sector in critical areas of infrastructure. It helps to address infrastructure gap and improve efficiency in infrastructure service delivery. The very success of PPPs lies in the robustness of institutional structure, financial support, and use and availability of standardised documents, such as **Model Request for Qualification** (RFQ), **Model Request for Proposal** (RFP) and **Model Concession Agreements** (MCAs).

In India, private participation in infrastructure programmes supports several PPP models, including management contracts like **Build-Operate-Transfer** (BOT), **Design-Build-Finance-Operate-Transfer** (DBFOT), **Rehabilitate-Operate-Transfer** (ROT), **Hybrid Annuity Model** (HAM), and **Toll-Operate-Transfer** (TOT) model. Under the BOT model, there are two variants – BOT (Toll) and BOT (Annuity) depending on who bears the traffic risk. In the case of BOT (Toll), the traffic risk is borne by the PPP concessionaire, while in the case of BOT (Annuity), it is borne by the public authority.

The **Public Private Partnership Appraisal Committee** (PPPAC), the **apex body for appraisal of PPP projects** in the Central Sector has streamlined appraisal mechanism to ensure speedy appraisal of projects, eliminate delays, adopt international best practices and have uniformity in appraisal mechanism and guidelines. The PPPAC is chaired by Secretary, Department of Economic Affairs (DEA) with Secretaries of Department of Expenditure, Department of Legal Affairs, the Sponsoring Ministry/Department and CEO, NITI Aayog as members to consider and appraise the proposals for Central Sector PPP Projects. The Public Private Partnership Appraisal Committee has cleared 79 projects with a total project cost of ₹2,27,268.1 crore from FY15 to FY23.

To provide financial assistance to financially unviable but socially/ economically desirable PPP projects, DEA launched the **Viability Gap Funding** (VGF) scheme in 2006. Under this scheme, economic sector projects may get up to 40 per cent of Capex as VGF grant. From 2014-15 to 2022-23, under the VGF Scheme, 56 projects with Total Project Cost (TPC) of ₹57870.1 crore were granted In-Principle Approval and 27 projects with TPC of ₹25263.8 crore were granted final approval with a Total Viability Gap Funding approval of ₹5813.6 crore (Both GoI & State Share). The GoI share of approved VGF is ₹3102.6 crore and the State Share of Total VGF

approved is ₹2710.9 crore. The total VGF amount disbursed by DEA under the scheme from FY15 to FY23 is ₹2982.4 crore.

A scheme for financial support for project development expenses of PPP Projects – the '**India Infrastructure Project Development Fund Scheme**' (IIPDF) – was notified by the government on 3 November 2022. The aim of the scheme is to develop quality PPP projects by providing necessary funding support to the project-sponsoring authorities, both in the Central and State Governments, for creating a shelf of bankable, viable PPP projects by on-boarding transaction advisers. IIPDF Scheme has **a total outlay of ₹150 crore** for a period of 3 years from FY23 to FY25. Under the scheme, a maximum amount of **₹5 crore for a single proposal**, inclusive of any tax implications, can be funded, which can include the cost of consultants/transaction advisers of a PPP project. Any funding requirement over and above ₹5 crore may be borne by the project sponsoring authority itself, and funding under IIPDF shall not be recovered.

Developments in Physical Infrastructure Sectors

There has been an increase in the **construction of National Highways** (NHs)/roads over time, with 10,457 km of roads constructed in FY22 as compared to 6,061 km in FY16. In FY23 (until October 2022), 4,060 km of NHs/roads were constructed, which was around 91 per cent of the achievement in the corresponding period of the previous financial year. **Total budgetary support** for investment in the sector has been increasing rapidly in the last four years and stood at around ₹1.4 lakh crore during FY23 (as of 31 October 2022). In line with the vision of monetisation of public sector assets, **National Highways Authority of India** (NHAI) launched its **InvIT** in FY22 not only to facilitate monetisation of roads but also to attract foreign and domestic institutional investors to invest in the roads sector.

The Indian Railways (IR), with over 68,031 route kms, is the **fourth largest network** in the world under single management. During the current financial year, **passenger traffic** has seen further strong growth with the number of originating passengers already hitting 418.4 crore (up to November 2022). Enhanced mobility across the country and demand for faster and competitive trains will assist the growth in passenger traffic in the coming years. In the case of revenue-earning, **freight traffic** was sustained by IR despite the Covid-19 shock. Between FY20-21 and FY21-22, there was a sharp increase in the freight traffic, reflecting the strong revival in the economic activity in the domestic economy. During FY22-23 (up to November 2022), Indian Railways (IR) carried 976.8 million tonnes of revenue-earning freight traffic.

With the containment of Covid-19 infections and the lifting of travel restrictions worldwide, **air travel** has rebounded. While in FY21, there was a considerable decline in the air-traffic (a decline of 54 per cent) as well as passenger traffic handled (a decline of 66 per cent), FY22 saw a recovery, mainly led by the domestic sector. **The current financial year has further shown a rebound**, with both passenger and cargo movement close to the pre-Covid-19 levels. The total number of passengers carried in December 2022 stood at 150.1 lakh, which was 106.4 per cent of the pre-Covid level (average for 11 months from April 2019 to February 2020). During November 2022, total air cargo tonnage stood at 2.5 lakh MT, which is 89 per cent of the pre-Covid levels.

Developments in Digital Infrastructure

While the role of traditional infrastructure has been well recognised, in recent years, the role of **digital infrastructure** in socio-economic development of the country has assumed an increased importance.

As a result of the persistent efforts made by the government towards promoting technological development, telecommunications services have penetrated the remotest corners of the nation. The country has come a

long way from the days when a telephone connection was seen as a luxury to the present where a majority of people have a mobile connection. This was due to a cumulative effort of telecom players who widened their network bandwidth, government's enabling environment and consumers' outreach for smartphones. Today, the total telephone subscriber base in India stands at 117 crore (as of November 2022).

The journey of **Digital Public Infrastructure** (DPI) has been remarkably memorable, dating to 2009, when Aadhaar was first launched. It is fourteen years now, and the digital journey since then has taken the country quite far. The three growth drivers that acted as catalysts for DPI growth were favourable demographics, vast expansion of the middle-class, and digital behaviour patterns. By leveraging these growth drivers, India has built a competitive digital economy that empowers every individual and business to transact paperless and cashless.

- However, a lack of knowledge about the existing schemes was seen as a primary reason behind the beneficiaries' inability to access the schemes' benefits. '**MyScheme**' is an e-Marketplace for schemes where users can look for suitable schemes based on their eligibility. It helps reduce users' time and effort by doing away with the requirement of searching multiple websites of government departments and studying multiple scheme guidelines to check their eligibility.
- To reduce the search cost for the commoners, the government launched **Unified Mobile Application for New-Age Governance** (UMANG), which enables citizens to access e-Government services offered by the Central and State Government in various sectors such as agriculture, education, health, housing, employees, pensioners, and students' welfare, the Public Distribution System, and others.
- While the initiatives mentioned above focused on bringing the government to the doorsteps of the citizens, a unique initiative that deserves special mention is the **Open Network for Digital Commerce** (ONDC). ONDC aims to go beyond the current platform-centric digital commerce model where the buyer and seller can use the same platform or application for transactions. ONDC is a network-based open protocol that would connect all the buyers and sellers on the network thus bringing better visibility across the Business-to-Consumer (B2C) & Business-to-Business (B2B) landscape.
- The government is also cognizant of the need to improve the productivity of human capital. In order to promote open collaborative software development of e-governance applications, a platform called **OpenForge** has been developed. Through OpenForge, the use of open-source software and sharing and reuse of e-governance-related source code is promoted. As on 16 January 2023, there are 10,328 users on the platform, with 2,205 projects.

Conclusion/Outlook

Today, we are operating in the new normal where the global economy is still recovering from the setback due to pandemic, and geo-political conflicts persist. India could effectively steer through the situation owing to its dedicated support to infrastructure creation through increased capex and strong macroeconomic fundamentals. This underpinned economic growth when the private sector was cautious in investing due to its balance sheet problems and uncertain demand outlook stemming from global shocks.

With the advent of new technologies, we are witnessing new regulatory challenges. Technology and innovation are, per se, neither constructive nor destructive. The use cases present the positive aspects of technology and innovation. The government is committed to keeping pace with the digital landscape developments including those related to legislations and frameworks.

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