

Economic Survey 2023-24

The Economic Survey for FY 2023-24 lays down the roadmap for the government's objective of Viksit Bharat by 2047. The medium-term growth outlook of above 7% is achievable, but faces headwinds from increased global protectionism and fragmentation, risks of climate change, differences in levels of digitization and limited policy space. The Survey advocates focus on productive employment generation, particularly in the manufacturing sector. Agricultural reforms, removing structural bottlenecks for MSMEs, skill development, deepening domestic corporate bond market and a clear and concise energy transition policy will be key to this. Social sector reforms such as alleviating inequality and providing better health infrastructure will also aid this transformation.

GDP growth: Economic Survey expects the Indian economy to do better with steady growth as it has recovered swiftly from the pandemic with real GDP in FY24, remaining 20% above the pre-pandemic levels. Despite the uncertainty of global economic performance, drivers of domestic growth have been steady, supported by improved balance sheets which will boost strong investment demand from the private sector. Gross fixed capital formation (GFCF) continues to remain one of the important drivers of growth with its share in the nominal GDP growing steadily. The country is currently in the midst of private capex upcycle and this has been supported by government capital expenditure. *The economy is pegged to grow by 6.5-7% in FY25 with risks evenly balanced.* BoB forecast is at 7.3-7.4%. The prospects of agriculture sector will improve on the back of normal monsoon as has been projected by IMD and will thus support the revival of rural demand. Structural reforms with the likes of IBC and GST have provided the desired results. Additionally, merchandise exports are expected to pick up given the growth prospects in advanced economies, service exports are also expected to register improvement. The focus areas in the short to medium term include the following: generating productive employment, addressing skill gap challenge, tapping the full potential of agriculture sector, easing compliance requirements and financing bottlenecks confronting MSMEs, managing green energy transition amongst others.

Inflation: CPI inflation in India was impacted by twin shocks of the pandemic and geopolitical conflict. This was exacerbated by weather-induced volatility in prices of key food items. Efficient monetary policy management along with the government's supply-side interventions helped keep inflationary pressures in India relatively subdued when compared with its other EM peers. The report also notes that since the weight of food items in the rural basket is higher, inflation in rural regions was higher than urban areas. With expected moderation in global prices and prospects of a normal monsoon, the inflation in India is expected to moderate further. To manage inflationary pressures, the report

suggests increasing production of oilseeds and pulses along with improving storage facilities for seasonal vegetables.

Agriculture and Food management: Agriculture and allied sector growth has been buoyant through the years on the back of the measures adopted by government. The performance of this sector remains critical to the overall growth. In the last 5-years, this sector has grown at an average pace of 4.18%. Additionally, the allied sectors are also turning out to be capable growth centres and new sources of improving farm incomes. Important and challenging issues such as credit accessibility, agri-infrastructure needs to be addressed in order to manage and promote crop diversification for pulses, oilseeds, along with horticulture. To manage better price discovery and improve market infrastructure, E-NAM, FPOs and cooperatives should be allowed to participate in agri-marketing. To improve farm income and manage sustainable agriculture practise, there is a need to promote the usage of digital technologies along with improving quality of seeds and promoting natural and organic farming.

Employment and skill development: There has been sustained pace of rise in employment and upscaling of factories. Higher youth and women participation in the labor force has opened an opportunity in tapping the demographic and gender dividend. The employment level in the organised sector has gained momentum and is expected to rise above the pre-pandemic level. Agro processing and care economy are two of the new promising sectors that will help in generating and sustaining quality employment. Currently only 4.4% of the workforce is formally skilled and hence there is a need to address the skilling gap. Rapid expansion of artificial intelligence across economic activity has formed a case of adopting and embracing the new technology even in the job market front with collective welfare remaining a key objective.

SMEs: The report notes the progress made in government schemes targeting MSMEs. There has been an increase in number of unincorporated sector enterprises in India, with signs of increased labour productivity. Furthermore, the number of MSMEs registered on the Udyam portal has increased to 4.69 crore. The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) with an outlay of Rs. 9,000 crore in FY24, has also shown a significant pickup in guarantees. Even so, the MSMEs continue to face significant challenges including access to credit, market access, formalisation, digitalisation and upskilling. The survey recommends measures including facilitation of labour intensive MSMEs, single window clearance, providing grassroots-level facilitation to ensure market access and skill development through joint efforts by government industry and academia.

Financial sector: India's banking sector performance in FY24 was marked by double-digit growth in credit even as asset quality noted a significant improvement. The report also makes note of the progress made in financial inclusion, which is imperative for inclusive and sustainable growth. This has been complemented by a steady growth in other capital markets as well. However, taking note of the increased retail participation in the equity markets particularly in the "speculative" derivatives segment, the report cautions against "over financialization", suggesting that the growth in financial

sector should broadly correspond with the economic growth rate. To achieve the government's goal of Viksit Bharat, India needs to tap into its flourishing fintech space with a data driven and customer centric approach. This will need to be supplemented by lowering lending costs, greater access to credit, lower financial intermediation costs along with further opening of the domestic capital markets.

External sector: The Economic Survey makes note of India's strong external position led by positive momentum in services exports and uptick in merchandise exports in H2FY24. India's share in global goods and services exports has increased, primarily driven by an increase in its share in services exports to 4.3% in FY24 from an average of 3.3% in FY16-FY20. The report outlines the success of government policies in incentivising exports of specific items such as toys, footwear, smartphone and defence equipment. Outlook for FY25 is largely positive. For services, India's improving integration in global value chains (GVCs) as well as a thriving Global Capability Centre (GCCs) landscape has led to a steady improvement in India's services exports. Foreign inflows into India remained buoyant led by FPI inflows, even as FDI inflows witnessed some deceleration. The decline in FDI inflows was consistent with the global trend. The report also makes the case for making use of the China+1 strategy, by focusing on attracting investment by Chinese companies into India. Overall, India's stable external debt position and ample forex reserves bode well for the country's external stability.

Schemes like Atmanirbhar Bharat and PLI are likely to benefit India's merchandise exports. Apart from this, focusing on increasing its manufacturing competitiveness in areas such as agricultural commodities, along with improvement in logistics infrastructure will be key in improving India's export potential. Headwinds remain from volatility in global commodity prices, increased trade and lower demand from key trade partners as well as increased protectionism in global markets.

Climate change and Energy transition: India's annual per capita carbon emission is only one third of the global average, despite being one of the fastest growing economies globally. India has envisioned the goal of achieving the net zero carbon emission by 2070, which is a considerably challenging task. The reason being the access to stable energy at reasonable cost to complete ambitious targets and remaining on low-carbon pathway is a tightrope, especially when it is financed through the domestic resources. The affordability, accessibility and availability of financial resources are expected to drive the green transition. The country needs to diversify energy resources given the evolving ambitious NDC targets along with the objective of ensuring energy security. The diversification will enable them to minimize risk and they can continue to focus on national commitments, while managing low-emission pathways. To achieve these objectives, there is a need of integration of renewables, exploring nuclear energy as well as biofuels. Furthermore, with the objective to support large scale usage of renewables, thermal power plant is also expected to play a significant role.

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