Economic Survey Highlights Key Areas for Fuelling Future Growth

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The Economic Survey for FY24 presented today provided a comprehensive assessment of the Indian economy for the current year and the outlook for the ensuing year. The survey has also examined certain pertinent aspects and ideas for the country's economic development. This report presents a summary of the survey encapsulating the important announcements.

Indian Economy on a Stable Footing

- The Economic Survey has given a conservative estimate of GDP growth for FY25 in the range of 6.5%-7%, lower than RBI's projection of 7.2%.
- The survey indicates that despite global supply chain disruptions and adverse weather conditions, domestic inflationary pressures continued to ease. Retail inflation, which averaged 6.7% in FY23, decreased to 5.4% in FY24.
- India's external sector remains comfortable with narrowing current account deficit, led by strong momentum in services export, remittances inflow and decline in merchandise imports. CAD improved from 2% in FY23 to 0.7% in FY24. Robust FPI inflows helped India fund the CAD and build forex reserves. However, due to higher repatriation of profits, net FDI inflows contracted compared to the previous year.

Medium-Term Growth Outlook: Growth Magnets for this Decade

- The survey highlights that over the medium term, the Indian economy can grow at a rate of above 7% on a sustained basis if the focus on structural reforms is sustained.
- The survey calls for boosting private sector investment, supporting the growth of MSMEs, removing the growth impediments in the agricultural sector, bridging the education-employment gap, and building state capacity and capability as main areas of focus for fulfilling the vision of Amrit Kaal.
- The survey recommends easing compliance requirements and addressing financing bottlenecks for MSMEs as they contribute nearly 30% to the country's GDP, account for 45% of manufacturing output, and provide employment to 110 million people.

Food Inflation Remains A Concern, Calls For Revaluation Of Inflation Targeting

- The survey highlights that the timely policy interventions by the Central Government and the RBI's price stability measures helped in controlling retail inflation despite global supply shocks.
- Even though core inflation has fallen to multi-year low, higher food prices remained a concern both in India as well as globally. In India, the agriculture sector has encountered challenges from extreme weather, depleted reservoirs, and crop damage resulting the food inflation rising to 7.5% in FY24 from 6.6% in FY23.
- The survey projects an optimistic picture of an inflationary outlook with a normal monsoon. Expected fall in global commodity prices driven by lower energy, food, and fertilizer prices will further help in easing price pressures.
- The survey suggests a re-evaluation of the current inflation-targeting framework. Given the high weightage of food in the CPI basket, the current framework of inflation-targeting effectively aims at food inflation, especially when food price volatility is high. The survey recommends exploring the possibility of India's inflation-targeting framework focusing on the inflation rate excluding food.

Focus on Stability of the Financial Institutions

- The asset quality of banks remains strong, with the GNPA ratio of SCBs reaching a 12-year low of 2.8% at the end of March 2024, down from its peak of 11.2% in FY18.
- The market capitalisation of the Indian stock market has seen a remarkable surge, with the market capitalisation to GDP ratio being the fifth largest in the world.
- With higher participation of the retail investors, the survey cautions about the financialization of economies citing the 2008 global financial crisis example. It notes that developing countries face debilitating crises when financial market innovations and growth run ahead of economic growth.

External Sector Remains Resilient Despite Headwinds

- India's external sector remained strong amidst ongoing geopolitical headwinds accompanied by sticky inflation. The moderation in merchandise imports and rising services exports have improved India's current account deficit which narrowed 0.7% in FY24.
- India's services exports grew by 4.9% to USD 341.1 billion in FY24, with growth largely driven by IT/software services and 'other' business services. India's growing reputation as the preferred destination for Global Capability Centres of MNCs has supported services exports.
- To further deepen India's participation in global trade, the survey emphasizes that after a gap of nearly 10 years, four new FTAs have been signed over the period 2021 to 2024 with Mauritius, UAE, Australia and the European Free Trade Association.
- The Survey highlights that increased foreign direct investment inflows from China can help increase India's global supply chain participation and push exports.

Higher Focus on Employment and Skill Development

- The Indian economy needs to generate an average of nearly 78.5 lakh jobs annually until 2030 in the non-farm sector to cater to the rising workforce. This can be met via policy support by supplementing the existing schemes of PLI, MITRA Textile and MUDRA etc.
- The survey expects the share of agriculture in the workforce to gradually decline from 45.8% in 2023 to 25% in 2047.
- The survey recognised that while AI could boost productivity, its disruptive powers should not be undermined. It highlighted routine tasks can experience a high degree of automation impacting job prospects.
- According to NITI Aayog's indicative estimates based on national labour force survey data, in FY21, 77 lakh workers were engaged in the gig economy and as per the Economic Survey FY24, the gig workforce is expected to expand to 2.35 crore and form 6.7% of the non-agricultural workforce in India by FY30.

Agriculture Needs Reorientation of Existing Policies

- The survey noted that even though the government is providing substantial support to farmers through subsidies, direct transfer, MSPs and income tax exemptions, there is scope for re-orientation of the existing policies.
- The survey recommends the promotion of greater efficiency in the use of inputs and production methods through micro irrigation- Per Drop More Crop (PDMC) and the actions under the National Mission on Sustainable Agriculture (NMSA), including using alternative and organic fertilisers.

- The survey recommends improving the market infrastructure by incentivising states. Investment in technology, production methods, marketing infrastructure, and reduction in post-harvest losses can be scaled up. E-NAM, promoting FPOs, and allowing cooperatives to participate in agri-marketing can improve the market infrastructure and allow better price discovery.

Focus on Infrastructure Continues

- Union Government's support for State Governments and institutions' capital expenditure grew by 31.6% from FY21 to FY24. Credit growth to infrastructure sectors in FY24 recovered to 6.5%, up from 2.3% in FY23.
- The share of budgetary support for Railways and National Highway Authority of India in the Union Government's total capital expenditure rose from 36.4% in FY21 to 42.9% in FY24.
- For continued progress, private sector financing and resource mobilisation are crucial, requiring policy support and innovative approaches like pooled financing and asset recycling programs.
- The survey highlights the need to enhance reporting mechanisms for infrastructure investments, with a focus on comprehensive databases to track infra demand and utilization effectively.

Climate Change: Looking from India’s Lens

- India’s National Action Plan on Climate Change (NAPCC) outlines the strategy for sustainable development, focusing on adaptation, mitigation, and demand-side management. India’s per capita emissions have consistently remained low between 2.5 and 2.8 Tons CO_2eq/ year, despite substantial economic growth over the last decade.
- Some of India’s successes include:
- Successfully reduced the emission intensity vis-à-vis its GDP by 33% between 2005 and 2019, thus achieving the 2030 NDC target 11 years ahead of schedule
- As of 31 May 2024, 45.4% of electricity generation capacity is from non-fossil sources. India aims to create an additional carbon sink of 2.5 to 3.0 billion tonnes by 2030, with 1.97 billion tonnes already achieved (2005-2019).
- India has successfully decoupled its economic growth from greenhouse gas emissions, reducing the emission intensity of its GDP
- India’s energy needs are expected to grow 2 to 2.5 times by 2047 to meet a growing economy's developmental priorities and aspirations.
- India has taken many measures to improve the business environment and catalyse a greater quantum of resources. The ‘Framework for Sovereign Green Bonds’ released in 2022 has enabled the mobilisation of resources from diversified investors for green projects, deepening the bond market.
- India has led many international initiatives towards climate change mitigation and building resilience, such as The International Solar Alliance (ISA), One World, One Sun, One Grid (OSOWOG), etc.

CareEdge View

The survey projects India’s GDP growth to moderate to 6.5-7% in FY25. This is broadly in line with our projection of 7% growth for the same period. While India is poised to maintain healthy growth momentum, challenges remain, particularly at the lower end of the income spectrum, especially in the rural sector. Therefore, it is crucial to emphasize welfare schemes, agriculture, and job creation. Moreover, private investment remains muted.

The survey also discusses the potential for GDP growth of above 7% per annum in the medium term. We feel that India must harness its demographic dividend at a time when most developed economies are struggling with an ageing population. There is a need to create productive job opportunities while skilling the workforce adequately. Additionally, focusing on inclusive growth is vital; hence, investment in human capital, reform in the agriculture sector, and support for the unorganized sector and the MSME segment are critical.

On the inflation front, the survey highlights that overall inflationary pressure could be expected to ease in FY25, but food prices remain a cause of concern. The survey initiates a debate by re-evaluating the current inflation-targeting framework and advocating using CPI excluding food as the inflation target. Given that India has a significant weight of food in the CPI basket and food inflation is often driven by supply-side issues, it is worth exploring the policy implications of adjusting the current inflation-targeting framework.

India’s external sector remained strong despite ongoing geopolitical headwinds. However, external risks emerging from ongoing geopolitical tensions need to be monitored, given the risk they can pose to supply chains and commodity prices.

Overall, the survey paints a balanced picture of growth supported by moderation in inflation and a comfortable external situation. The survey very aptly highlights the key focus areas like employment generation, labour skilling, agriculture sector reforms, supporting MSMEs and managing the green transition to ensure that India’s economic growth momentum is sustained in the long term.

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