



**THE INDIAN ECONOMY**  
**A REVIEW – JANUARY 2024**

# PART-I: INDIAN ECONOMY - PAST, PRESENT AND FUTURE



## The Indian Growth Story (1950 to 2014)

India's post-independence economic journey includes rapid industrialization in the 1950s, setbacks in the 1960s, a turbulent 1970s, liberalization in the 1980s, reforms post-1991 crisis, and a growth spurt in the 2000s. However, challenges like the 2008 global crisis and fiscal issues in 2009-2014 led to economic volatility and setbacks.

## Lessons from growth experience till 2014

India's economic evolution involved transitioning from a closed to an open economy, marked by post-1980 reforms favouring import liberalization and export incentives. The private sector gained prominence as a growth driver, with technology playing a crucial role.

## Decade of transformative growth

Since 2014, Prime Minister Modi's government implemented structural reforms, fortifying India's macroeconomic foundations. Despite a 2020-21 contraction due to the pandemic, agile responses and reforms fuelled recovery, making India the fastest-growing G20 economy at 7.3% growth in 2023-24. Emphasis on infrastructure development, welfare initiatives, and improved socio-economic indicators signify a comprehensive approach to national progress.

## Drivers of India's growth in the last decade

Some of the key drivers of India's growth in the last decade are recapitalization and merger of Public Sector Banks, enactment of the Insolvency and Bankruptcy Code, 2016, Real Estate (Regulation and Development) Act, 2016, decriminalizing minor economic offences under the Companies Act, 2013, etc.

To enhance the ease of living and ease of doing business, there has been substantial changes in taxation ecosystem in the country. Tax policy reforms such as adopting a unified Goods and Services Tax (GST), reducing corporate and income 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 removed the distortionary incentives from the economy. The transformational GST has enhanced the tax base of Income tax and GST both, it has further reduced compliances and ensured a free flow of goods across states. The GST system has shown improved buoyancy over the pre-GST regime with consistently rising average monthly gross collections from ₹0.9 lakh crore in FY18 to ₹1.5 lakh crore in FY23.

## Some of the key challenges confronting the Indian economy

Influence of India's growth by global developments  
Energy security and transition  
Challenges of Artificial Intelligence  
Few domestic policy priorities

## PART- II: WHAT MADE THE INDIAN ECONOMY RESILIENT

### 1. Various measures have been taken in the Domestic Economy which have made the Indian economy resilient as indicated hereunder:

#### A. Resilience of consumption demand

Post-COVID, Private Final Consumption Expenditure (PFCE) rose. Robust Per Capita Real Gross National Income growth, policy reforms, and eased regulations empowered private sector growth. FDI-friendly policies, financial sector revival, and pragmatic monetary coordination ensured economic resilience. SEBI's market transparency efforts and increased retail stock market participation fuelled the wealth effect. Digital infrastructure gains, government initiatives like PMJDY, and rural inclusiveness contributed to the consumption base, fostering economic growth and expanding the middle class.

#### B. Enabling investment-led economic growth

India's investment landscape has evolved over decades which has moved from unsustainable practices to a healthier environment. Positive economic outcomes include increased private corporate investment and enhanced public sector capital expenditure, reaching ₹18.6 lakh crore in FY 24. Infrastructure focus, streamlined procedures, and legal reforms expedited stalled projects. The post-pandemic period witnessed green shoots of private capex upcycle, evident in industrial indices and corporate spending growth.

#### C. Agricultural Sector Policies Ensuring Food Security

India's agriculture, comprising 18% of GVA in FY24, has displayed resilience, growing at 4.0% in FY 23. Food grain production, reaching 329.7 million tonnes, has risen consistently, making India a global leader in various commodities.

Government initiatives like MSP hikes, PM-KISAN, PMFBY, and digital platforms like e-NAM promotes farmer welfare and market access. Post-harvest infrastructure investments, sustainable practices, and food security measures enhanced the sector's robustness. Ongoing innovation and consistent policies are crucial for meeting diverse food demands and ensuring environmental sustainability.

#### D. Reform push to the Indian industry

India's industrial growth surged to 7.1% annually (FY15-FY19), temporarily contracting due to the FY 21 pandemic impact. "Make in India" initiatives, especially the PLI scheme across 14 sectors, have attracted investments, enhanced production, and generated employment. Startup India, regulatory reforms, and measures supporting MSMEs contribute to a dynamic business environment. Logistics improvements, exemplified by the Unified Logistics Interface Platform, demonstrate a decline in logistics costs. The government's infrastructure focus, steel production boost, and affordable housing emphasis fuel a 12% annual growth in construction (FY22-FY24).

#### E. Digital Infrastructure and Delivery of Citizen-Centric Services

India demonstrated resilience amid the pandemic, leveraging its world-class Digital Public Infrastructure (DPI) known as India Stack. Comprising Identity (Aadhaar), Payments (UPI), and Data (Account Aggregator) layers, it facilitated digital services and financial inclusion. Digital initiatives like Aarogya Setu and CoWin aided pandemic response. E-commerce thrived, with a 26.2% growth in FY 23. The robust DPI supported India's rise in fintech and services exports, notably in business services.

#### F. Evolving financial markets to support the investment needs of a growing economy

Over the last decade, India's financial markets have thrived, driven by robust reforms, liberalization, and regulatory stability. The equity markets, led by BSE Sensex and Nifty 50, exhibited a remarkable 13.5% CAGR from January 2014 to December 2023, outperforming global counterparts. The surge in retail investors, IPO activities improved India's market cap to GDP ratio significantly. The financial markets are poised to support India's capital investment and attract diverse investors

## 2. Safeguarding macroeconomic stability

India prioritizes macroeconomic stability through strong output growth, price stability, and a robust external account. Despite challenges during the Covid-19 pandemic, supply disruptions, and global economic fragility, India kept inflation within 2 to 6 percent. In FY 24, average retail inflation eased to 5.5 percent, with persistent food inflation addressed through supply-side initiatives. The Reserve Bank of India's supportive monetary policy aligns with a targeted inflation average of 5.4 percent in FY 24.

## 3. Human Resources: Dovetailing Growth with Capacitating Welfare

### A. Employment situation in the past decade

The unemployment rate has declined from 6% in 2017-18 to 3.2% in 2022-23, with a rising labour force participation rate with the profusion of affordable access to the internet and smartphones in the last decade, the rise of the gig economy has emerged as a noteworthy job generator. Youth and female employment have risen steadily in the last six years and are the keystones to utilising India's demographic advantage.

### C. Women-led development: Tapping the Gender Dividend for India

The female labour force participation rate (LFPR) has risen to 37 per cent in 2022-23 from 23.3 per cent in 2017 and maternal mortality rate reduced from 130/lakh live births in 2014-16 to 97/lakh live births in 2018-20. These underline the tectonic shift towards women-led development in India.

### B. A New Approach to Welfare

The Union government expenditure on social services has, indicating the creation of societal assets. Social sector spending has increased while the capital expenditure on social services has grown over the period indicating focus on universal access to basic amenities and creating societal assets. Notably, 13.5 crore Indians escaped multidimensional poverty between 2015-16 and 2019-21, driven by progress in rural and backward areas.

### B. Skill Development and Entrepreneurship

Recognizing the critical role of a skilled workforce, the Indian government has prioritized skill development through initiatives like the National Skill Development Mission and the Skill India Mission. The Skill India Digital platform further enhances accessibility. Despite achievements, there's potential to integrate skill development into education and upskill the existing workforce. With a focus on education-skill continuum, there's an opportunity to empower the youth for employability.

## 4. India's External Sector: Safely Navigating Through Uncertainties

### A. Merchandise trade depicted resilience

India's exports reached record highs in FY 22, with merchandise exports up by over 50% and services exports by 120% in the past decade (FY 13 to FY 23). FY 23 achieved the highest-ever merchandise export of USD 451.1 billion, but growth moderated due to geopolitical tensions. Despite weaker global demand in FY24, India's merchandise trade balance improved. In services, India excels as a knowledge-based economy, with software services dominating. Total exports (merchandise plus services) reached USD 781.4 billion in FY 23.

### B. Comfortable balance on current account

India's service exports and remittances contributed to a comfortable current account balance. India received USD 125 billion in worker remittances in 2023.

### C. Capital account

The negative balance on the current account during H1 of FY24 is compensated by the positive balance on the capital account, resulting in the accretion of foreign exchange reserves of USD 27 billion since the end of FY23.



## 5. The Indian Economy: A Review

In FY24, the Indian Rupee's stability, global ease in inflation, and expected rate cuts attracted foreign portfolio investors (FPIs), leading to a USD 28.8 billion exposure increase in FY 24. Despite subdued global FDI trends, India remains an attractive investment destination, receiving a cumulative FDI of USD 596.5 billion in FY 15-FY 23. The Rupee, bolstered by macroeconomic stability and robust external position, has shown resilience. As of December 2023, India's foreign exchange reserves reached USD 623.2 billion, covering over ten months of imports, contributing to a stable external debt position.

## 6. Way Forward for the External Sector

Global challenges persist, including sticky inflation, slow growth, and fiscal pressures. Risks from geopolitical tensions and shipping cost surges could trigger inflation, especially in energy. FY24's GDP export share may decline due to sluggish global demand. Ongoing reforms, infrastructure improvement, and FDI policies aim to sustain investment momentum. FPIs show confidence in India's stability. Remittances are anticipated to grow by up to 8%, reaching USD 135 billion in 2024, building on the stellar performance of 2023.

## 7. Climate Action

India prioritizes resilient growth and inclusive livelihoods, recognizing the importance of energy access for overall well-being. Despite limited support from developed nations, India adopts a comprehensive approach to address climate change, emphasizing adaptation, resilience, and mitigation. Noteworthy schemes drive renewable energy adoption, energy efficiency, and sustainable living. India actively contributes to global climate efforts, emphasizing pragmatic policies for a sustainable energy transition while balancing developmental needs.



## KNAV COMMENTS

In the era where the World is facing challenges of disturbances due to war, geopolitical tensions, stick inflation and fiscal pressures post pandemic, it has shown tremendous level of confidence towards the Indian economy which is evident from the growth record. India is stepping towards developed economy by multifold tax reforms, liberalization, digitalization and sustainable policies and reforms. One can envisage a bright future and set a high vision for India. Despite strong global headwinds and tighter domestic monetary policy, India is still expected to grow between 7% - 8% reflecting India's underlying economic resilience, and its ability to recoup, renew and re-energize the growth drivers of the Indian economy.