

Report Summary

Economic Survey 2022-23

- The Finance Minister, Ms. Nirmala Sitharaman tabled the Economic Survey 2022-23 on January 31, 2023 in Parliament. Key highlights of the Survey include:

State of the economy

- **Gross Domestic Product (GDP):** The Survey has estimated real GDP growth in 2023-24 at 6.5%. It observed that the actual growth rate would lie in the range of 6-6.8%, depending on the trajectory of economic and political developments globally. Growth in the upcoming year will be supported by domestic demand and increase in investment. However, developments around the world, such as increase in interest rates by central banks, prolonged strains in supply chain, and geo-political conflict, pose a risk to economic growth. In 2022-23, GDP is estimated to grow at 7% in real terms.
- **Inflation:** In 2022-23, retail inflation is estimated at 6.8%, higher than 2021-22 (5.5%). Retail inflation increased to 7.8% in the month of April 2022 before falling to 5.7% in December 2022. The Survey noted that retail inflation was driven by international crude oil prices and food inflation (mainly vegetable, cereals, and edible oil prices). In 2022-23, inflationary expectations of businesses and households have moderated. The Survey expects inflation in 2023-24 to be lower than 2022-23 on the back of less economic uncertainties. However, certain global events, such as supply chain disruptions due to re-emergence of COVID-19 in China, may present risks to India's domestic inflation.
- **Current account balance:** India recorded a current account deficit of USD 36.4 billion (4.4% of GDP) in the second quarter of 2022-23 as compared to a deficit of USD 9.7 billion (1.3% of GDP) in the second quarter of 2021-22. Between April-September 2022, India's recorded a current account deficit of 3.3% of GDP due to an increase in merchandise trade deficit. The Survey observed that the current account deficit needs to be closely monitored. Sharp rise in oil prices and foreign portfolio investment outflows due to rise in interest rates abroad put pressure on India's Balance of Payments in 2022. India's export may be impacted by uncertainties around global growth. However, cushioned by a surplus in export of services and remittances, the current account deficit would be within manageable limits.
- **Fiscal deficit:** The central government's fiscal deficit moderated to 6.7% of GDP in 2021-22, after increasing to 9.2% of GDP in 2020-21. Buoyant revenue collection over the last two years have helped in bringing down the fiscal deficit. The Survey estimated that the central government is on track to meet its fiscal deficit target for 2022-23 (6.4% of GDP). In 2022-23,

general government deficit is estimated to be 9.4% of GDP, lower than in 2021-22 (10.3% of GDP).

- **Debt:** Total liabilities of the central government are estimated to decline from 59.2% of GDP in 2020-21 to 56.7% of GDP in 2021-22. Outstanding liabilities of the general government are estimated to be 86.5% in 2022-23. The Survey noted that India's public debt profile is relatively stable. Most of it is held by residents and is denominated in rupees (95.1% of the total). External debt is entirely owed to official sources, which insulates it from changes in international capital markets. About 98% of the debt is contracted at fixed interest rates, insulating from changes in interest rates. Historically, nominal GDP growth rate has been higher than interest rates. Steady economic growth will accelerate debt consolidation.

Agriculture and allied activities

- India's agriculture sector has grown at an average annual rate of 4.6% during the last six years. In 2021-22, it grew by 3%, lower than 2020-21 (3.3%). India has also emerged as a net exporter of agricultural products with exports reaching an all-time high of USD 50.2 billion in 2021-22. This was driven by promotion of farmer-producer organisations, crop diversification, and support provided for mechanisation and creation of the Agriculture Infrastructure Fund. The Survey noted that the agriculture sector faces certain challenges in the form of climate change, fragmented land holdings, sub-optimal farm mechanisation, and low productivity.
- The production of foodgrains and oil seeds has been increasing year-on-year. However, wheat production was adversely impacted in 2022 due to an early heat wave. Allied sectors of Indian agriculture, including livestock, forestry and logging, and fishing, are becoming a potential source of better farm incomes.
- The Survey observed that there has been a consistent increase in institutional agricultural credit. In 2021-22, agricultural credit was 13% higher than the target of Rs 16.5 lakh crore. The target for agricultural credit for 2022-23 is Rs 18.5 lakh crore.

Industry

- Industry accounts for 31% of India's GDP and employs over 12.1 crore people. In 2022-23, the industrial sector is estimated to grow by 6.7%. In the current financial year, the sector faced high input costs for imports due to the Russia-Ukraine conflict. The increase in the capital expenditure of the central government in the post-pandemic period has crowded in investment from the private sector, which has provided a stimulus to industrial growth. The sector has been helped by pent-up demand, export stimulus, and strengthening of corporate balance sheets.

- The importance of electronics manufacturing has been increasing. India aims to achieve USD 300 billion in electronics manufacturing with USD 120 billion in exports by 2025-26. High growth on both fronts indicate that India is on track to achieve these targets. Production-linked incentive schemes will help attain economies of scale in domestic production of electronics goods.
- The volatility in international commodity prices and disruptions in supply of raw materials can adversely impact industrial growth. Normalcy in China from COVID-19 can increase commodity demand and lead to higher prices. However, industrial output should continue to grow based on resilient domestic demand.

Services sector

- The services sector recovered swiftly in 2021-22 after bearing the maximum burden of the pandemic. In 2021-22, the services sector grew by 8.4% as compared to a contraction of 7.8% in 2020-21. In 2022-23, the services sector is estimated to grow by 9.1%. The contact-intensive services sub-sector recovered to its pre-pandemic level driven by pent-up demand, easing mobility restrictions, and near-universal vaccination. The sector is likely to be the growth driver in 2023-24.
- The Survey observed that the pandemic brought a change in individual home buyers' sentiment in favour of owning a house. With easing of curbs, there was an increase in interest in the residential housing sector. Improved affordability due to lower interest rates, reduction in circle rates, and cut in stamp duties on immovable property transactions have played an important role in the rebound of the real estate sector. The recent measure to reduce import duties on steel products, iron ore and steel intermediaries will help check the increase in housing prices.
- The e-commerce sector witnessed a sharp increase in penetration in the aftermath of the pandemic. Lockdowns and mobility restrictions disrupted consumer behaviour and gave an impetus to online shopping. There was also an increase in adoption of digital solutions by MSMEs.

Infrastructure

- Increase in infrastructure investment provides a critical push to the potential growth of the economy. The central government has given increased impetus to infrastructure development and investment in recent years when capital expenditure by the private sector has been subdued. Capital expenditure in 2022-23 is targeted at 7.5 lakh crore, 35.4% higher than 2021-22.
- To sustain the investment drive, the National Infrastructure Pipeline (NIP) has provided a forward-looking roadmap of investible projects of around Rs

111 lakh crore between 2019-20 and 2024-2025. Currently, the NIP has 8,964 projects with a total investment of more than Rs 108 lakh crore under different stages of implementation. The transport sector constitutes more than half of these projects.

Employment

- Labour markets have recovered beyond pre-COVID levels in both urban and rural areas. The unemployment rate decreased from 5.8% in 2018-19 to 4.2% in 2020-21. There was also an increase in the rural female labour force participation rate from 19.7% in 2018-19 to 27.7% in 2020-21. Unemployment rate in urban areas decreased from 8.3% in July-September 2019 to 7.2% in July-September 2022.
- The number of persons demanding work under MGNREGS was seen at levels similar to the pre-pandemic period during July-November 2022. The decline in monthly demand for work under the scheme is driven by normalisation of the rural economy. The number of works done under MGNREGS has steadily increased over the years with 85 lakh completed works in 2021-22 and 70.6 lakh completed works in 2022-23 as on January 9, 2023. Works done on individual's land, such as creating animal sheds, farm ponds, and horticulture plantations, has increased under the scheme which leads to positive impact on agricultural productivity and income per household.

Insurance and pension

- Insurance penetration (insurance premiums to GDP ratio) in India increased from 2.7% in 2000 to 4.2% in 2021. The Survey noted that life insurance penetration in India was 3.2% in 2021. However, most life-insurance products sold in India are savings-linked with only a small protection component. Hence, households remain exposed to a significant financing gap in the event of the premature death of the primary breadwinner. Government schemes and financial inclusion initiatives have driven insurance adoption and penetration across all segments. An increase in FDI limit for insurance companies and digitisation of the insurance market is likely to facilitate growth.
- In June 2015, the central government launched the Atal Pension Yojana (APY) with a focus on underprivileged and low-income individuals employed in the unorganised sector. India's pension sector has expanded since the introduction of the National Pension Scheme (NPS) and APY. The coverage of population under NPS and APY as a share of total population increased from 1.2% in 2016-17 to 3.7% in 2021-22. The Survey noted that there is significant scope for growth in India's pension sector as per capita income is expected to rise in the future.

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