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2022-23 ECONOMIC SURVEY

Highlights for

RBI Grade B
SEBI Grade A
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& All other Exams

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Chapter 1 – State of the Economy 2022-23: Recovery Complete

- 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.
- Faced with the prospects of global stagflation, nations, feeling compelled to protect their respective economic space, slowed cross-border trade, which posed the fourth challenge to growth.
- All along, the fifth challenge was festering as China experienced a considerable slowdown induced by its policies.
- The sixth medium-term challenge to growth was seen in the scarring from the pandemic brought in by the loss of education and income earning opportunities. A simultaneous occurrence of several challenges to growth is perhaps unprecedented. Like the rest of the world, India, too, faced this extraordinary set of challenges but withstood them better than most economies.

Table I.1: Global economic challenges led to a downward revision in growth forecast across countries

	Growth Projections (per cent)		Change from WEO Update (July 2022) (per cent)	
	2022	2023	2022	2023
World	3.2	2.7	0	–0.2
Advanced Economies	2.4	1.1	–0.1	–0.3
United States	1.6	1	–0.7	0
Euro Area	3.1	0.5	0.5	–0.7
UK	3.6	0.3	0.4	–0.2
Japan	1.7	1.6	0	–0.1
Emerging Market Economies	3.7	3.7	0.1	–0.2
China	3.2	4.4	–0.1	–0.2
India*	**6.8**	**6.1**	**–0.6**	**0**

Source: IMF
Note: *Projection for India is for its fiscal year (Apr-Mar), while for the other economies, it is from Jan-Dec.

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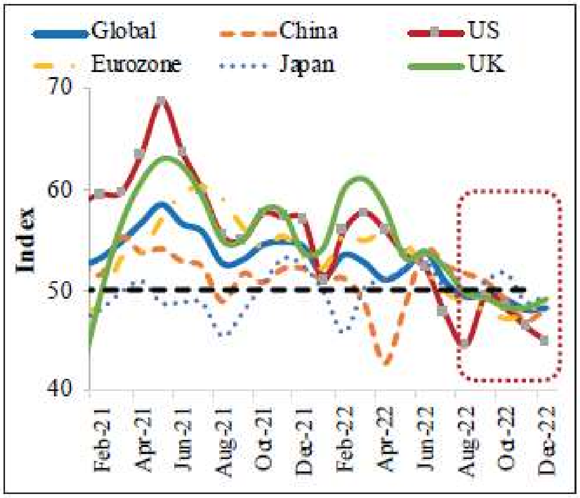
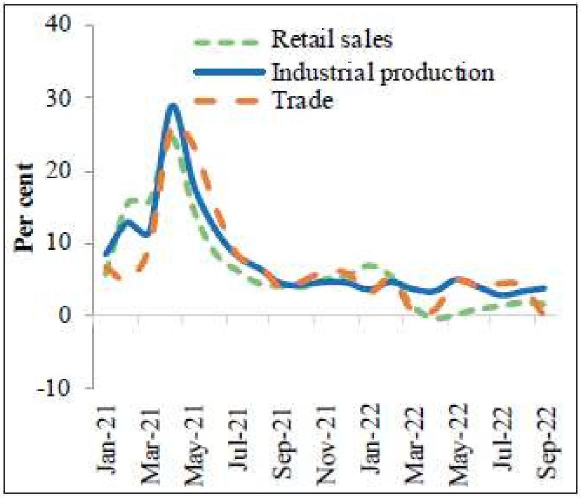
Figure I.6: Global Composite PMI in the contractionary zone since August 2022



Source: IHS Markit

Figure I.7: YoY growth in retail sales, industrial production and trade falling



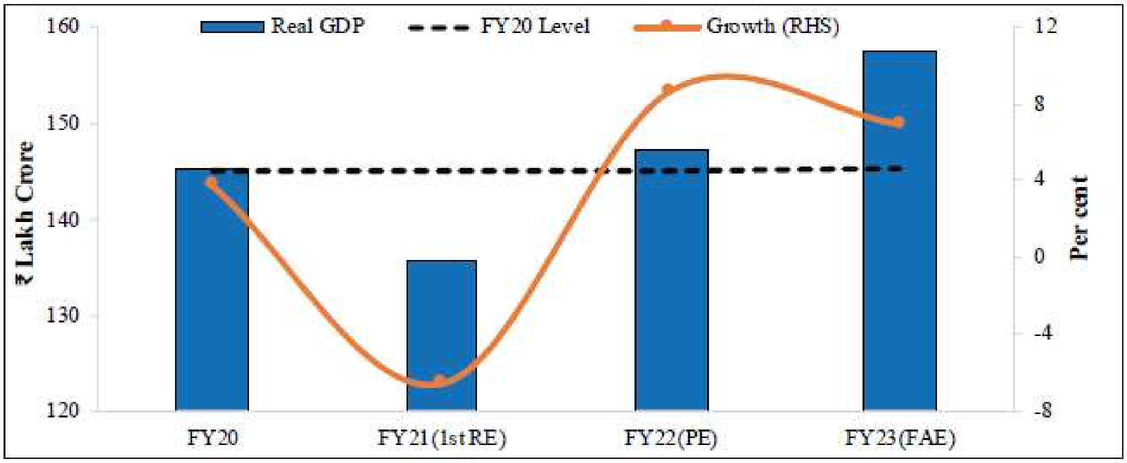
Source: OECD, November 2022

- Further tightening of monetary policy may aggravate fragilities built up in the financial system over the years, such as private and government debt structures, the effects of which could trigger financial contagion. Non-financial sector debt of most economies has increased considerably as a percentage of GDP since Q1 of 2008 when the global financial crisis struck.
- India is, however, one of the few countries whose debt burden has declined over this period, mainly because of the country's banking sector balance sheet clean-up and the corporate sector's deleveraging exercise undertaken during the last decade. Yet, an increase in the general government debt burden in India has attracted much attention, even as systemic risks of a financial breakdown are concentrated in other parts of the world.

Macroeconomic and Growth Challenges in the Indian Economy

- The impact of the pandemic on India was seen in a significant GDP contraction in FY21.
- The following year, FY22, the Indian economy started to recover despite the Omicron wave of January 2022. This third wave did not affect economic activity in India as much as the previous waves of the pandemic did since its outbreak in January 2020.
- Mobility enabled by localised lockdowns, rapid vaccination coverage, mild symptoms and quick recovery from the virus contributed to minimising the loss of economic output in the January-March quarter of 2022.
- 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.

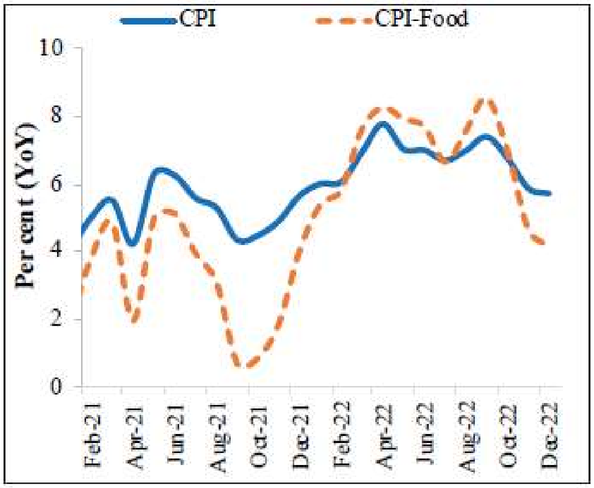
Figure I.9: Economic growth remains resilient



Source: NSO, MoSPI
Note: AE stands for Advanced Estimates, PE stands for Provisional Estimates, RE stands for Revised Estimates

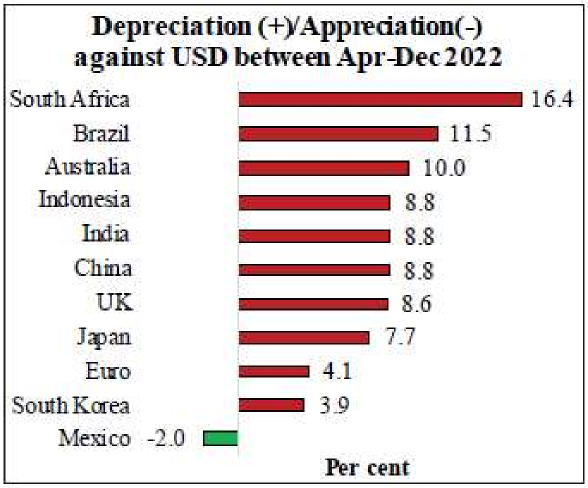
- The country's retail inflation had crept above the RBI's tolerance range in January 2022. It remained above the target range for ten months before returning to below the upper end of the target range of 6 per cent in November 2022.
- The government cut excise and customs duties and restricted exports to restrain inflation while the RBI, like other central banks, raised the repo rates and rolled back excess liquidity.

Figure I.11: CPI Inflation eased back to RBI's target range



Source: MoSPI

Figure I.12: Indian Rupee performed well compared to other EMEs



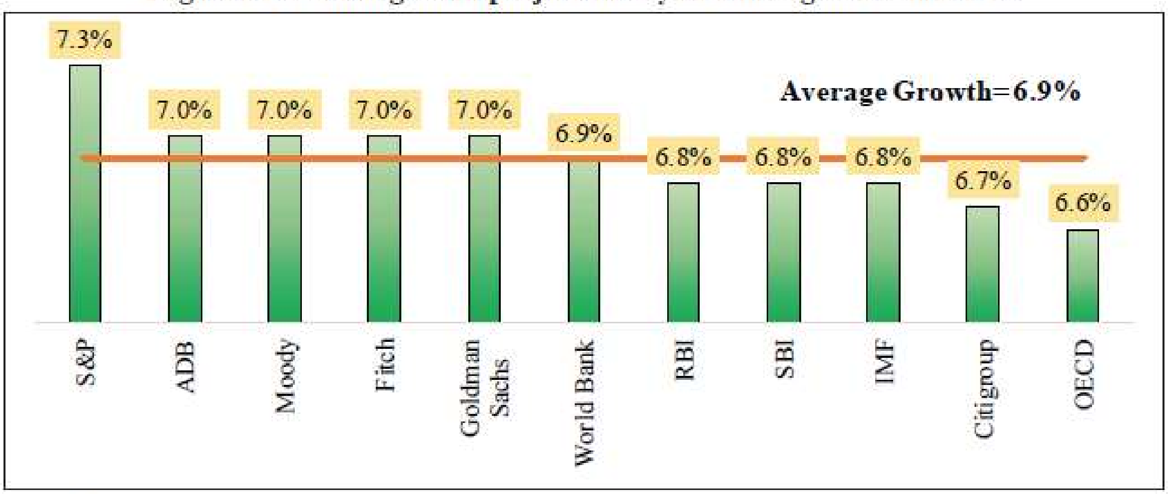
Source: Bloomberg, RBI (Exchange rates for December as on 31st Dec 2022)

- 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.

India's Economic Resilience and Growth Drivers

- Many agencies worldwide have been revising their growth forecast of the Indian economy downwards. These forecasts, including the advance estimates released by the NSO, now broadly lie in the range of 6.5-7.0 per cent. IMF estimates India to be one of the top two fast-growing significant economies in 2022.

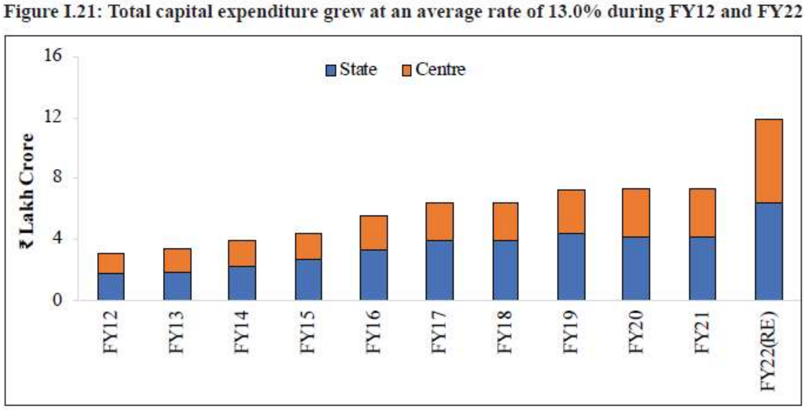
Figure I.17: India growth projections by various agencies for FY23



Source: Various Agencies
Note: ADB stands for Asian Development Bank, IMF is International Monetary Fund

- In FY23, much-enlarged capital budget (Capex) of the central government and its public sector enterprises is rapidly being deployed. 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 I.21: Total capital expenditure grew at an average rate of 13.0% during FY12 and FY22



Source: Union Budget, States Budgets, RBI

- 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 per cent, on average, during Jan-Nov 2022, supported by the extended ECLGS of the central government.
- 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.

India's Inclusive Growth

- Growth is inclusive when it creates jobs. 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 per cent in the quarter ending September 2021 to 7.2 per cent one year later (quarter ending September 2022).
- The scheme implemented by the government under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has been rapidly creating more assets in respect of "Works on individual's land" than in any other category. In addition, schemes like 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.

Outlook: 2023-24

- The survey 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.

Chapter 2 – India's Medium-Term Growth Outlook: With Optimism and Hope

Product and Capital Market Reforms

- 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, trade and investments were liberalised in 1991.
- Import licensing on almost all intermediate inputs and capital goods was done away with, and 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. 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.

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- The product and capital market reforms continued slowly over the decade of the 1990s through the introduction of New Telecom Policy 1999. And the government set up a dedicated Ministry to take this agenda forward. It sold equity stakes in some CPSEs and privatised companies such as Maruti Udyog, Hindustan Zinc, Bharat Aluminum, and Videsh Sanchar Nigam Limited.
- 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.

Reforms for New India-Sabka Saath Sabka Vikaas

- 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.
- 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.
- 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). International evidence shows that countries at the same level of development have taken almost
- The creation of digital identities such as Aadhar, registration of unorganised workers on the e-shram portal, street vendors on SVANidhi, taxpaying firms on GSTN, and MSMEs on the Udayam portal, has played a significant role in the inclusion of these groups under the formal economic net.
- Significant initiatives have been introduced under Aatmanirbhar Bharat and Make in India programmes to enhance India's manufacturing capabilities and exports across the industries. Sectorspecific 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.
- The government and the RBI took several policy initiatives to help the financial sector recoup the balance sheet stress during the 2010s. Some of these such as the amendment to the SARFAESI Act 2002, implementation of the Insolvency and Bankruptcy Code (IBC), launch of 'Asset Quality Review' (AQR), introduction of prompt corrective action (PCA) framework, recapitalisation of Public Sector Banks (PSB), and merger of PSBs among others, helped in cleaning up the balance sheets of banks/corporates.

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. 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.

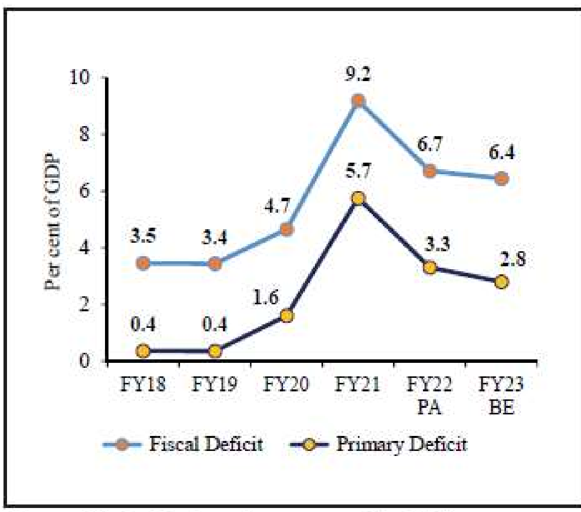
- These productivity-enhancing reforms along with the Government's Skilling initiatives, will also help unleash the benefits of the demographic dividend in the coming years. In sum, various initiatives undertaken in the last eight years have bolstered India's growth potential, and it will be reflected in actual GDP growth as the effects of one-off the shocks recede.
- The evolving geo-political situation also presents an opportunity for India to benefit from the diversification of global supply chains.

Chapter 3 – Fiscal Developments: Revenue Relish

Developments in Union Government finances

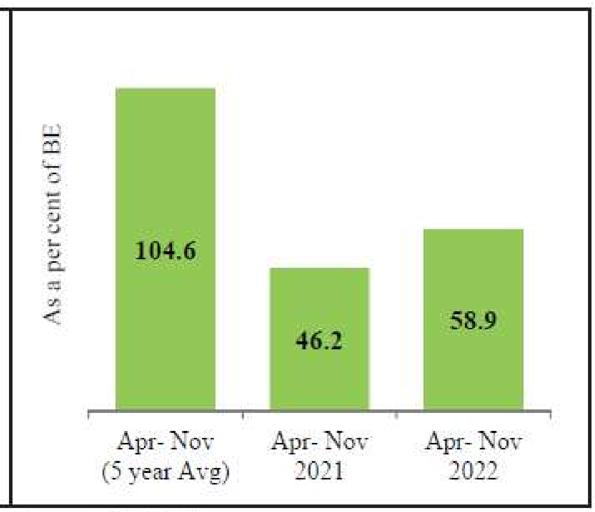
- The fiscal deficit of the Union Government, which reached 9.2 per cent of GDP during the pandemic year FY21, has moderated to 6.7 per cent of GDP in FY22 PA and is further budgeted to reach 6.4 per cent of GDP in FY23. This gradual decline in the Union government's fiscal deficit as a per cent of GDP, 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.

Figure III.1: Trends in Union government deficits over the years- On the way to fiscal consolidation



Source: Union Budget documents, O/o CGA

Figure III.2: Government on track to achieve the Fiscal deficit target for FY23



Source: O/o CGA

- This resilience in the fiscal performance of the Centre has resulted due to a recovery in economic activity, buoyancy in revenues observed during the year, and conservative assumptions of macroeconomic variables in the Budget.
- 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). This section evaluates the performance of the Receipts side of the Union Government's finances.

- Direct taxes, which broadly constitute half of the Gross Tax Revenue, have registered a YoY growth of 26 per cent from April to November 2022, enabled by corporate and personal income tax growth.

Figure III.3: Composition of tax profile of Union Government (FY23 BE)

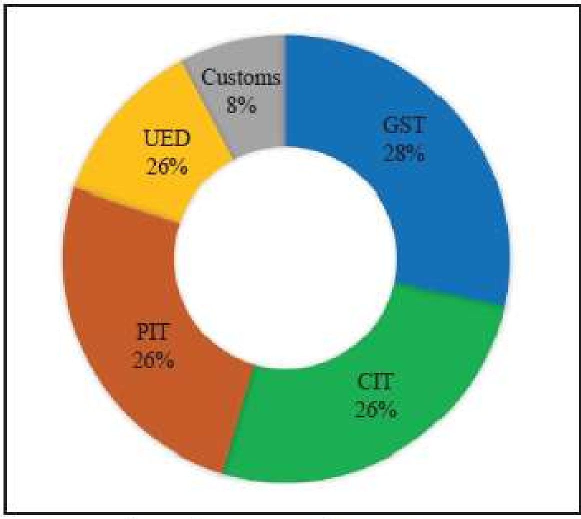
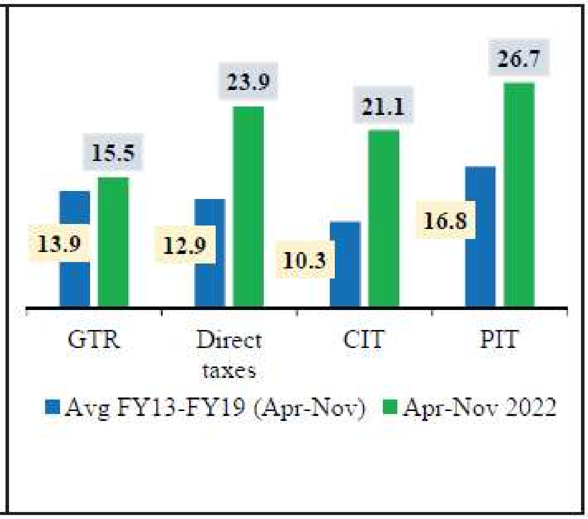


Figure III.4: Growth in Centre's direct taxes are higher than their corresponding longer-term averages during the period April to November



Source: Union Budget FY23, O/o CGA
Note: GTR - Gross Tax Revenue, GST - Goods and Services Tax, CIT - Corporation Income Tax, PIT - Taxes on Income other than Corporation Income Tax.m UED - Union Excise Duties

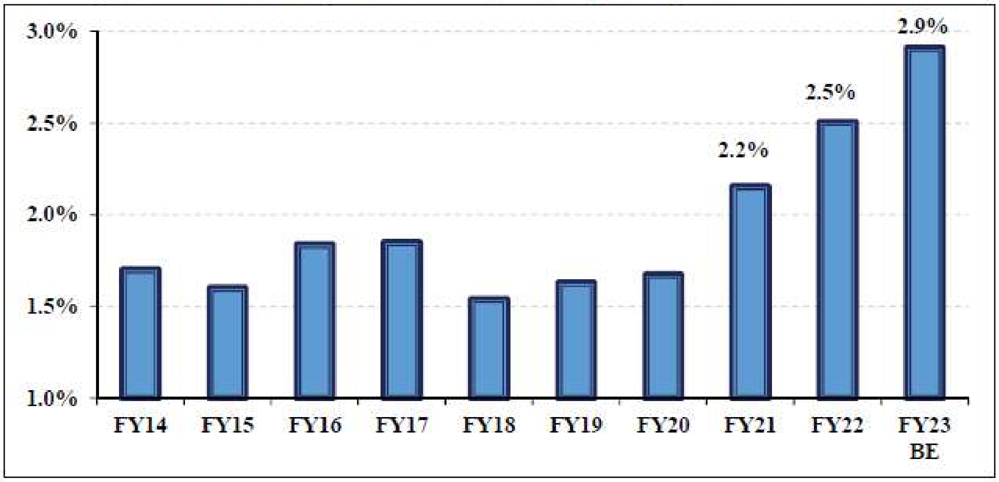
- The non-tax revenue to the Centre mainly includes interest receipts on loans to States and Union Territories, dividends and profits from Public Sector Enterprises and the Reserve Bank of India, and external grants and receipts for services the Union Government provides. Budget FY23 envisaged a lower collection of non-tax revenue receipts during the current year relative to FY22 (around 22.5 per cent lower than FY22 PA).
- 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.

Performance of Union Government Expenditure

- 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'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.
- Due to the sudden outbreak of geopolitical conflict resulting in higher international prices for food, fertiliser and fuel, there was a higher food and fertiliser subsidy requirement for supporting

the people and ensuring macroeconomic stability. As a result, the revenue expenditure from April to November 2022 has grown by over 10 per cent on a YoY basis.

Figure III.7: Increasing Union Government capital expenditure to GDP ratio



Source: Previous Economic Surveys, Union Budget documents, O/o CGA

Major reforms in the Union budget over the last few years

- Improved fiscal transparency and realistic revenue assumptions in the Budget
- Discontinuation of Plan-Non plan classification
- Merger of railway Budget with the Main Budget
- Shifting the date of the Budget to 1 February

Overview of State Government Finances

- Since the pandemic outbreak, the Centre has kept the Net borrowing Ceiling of the State Governments above the Fiscal Responsibility Legislation (FRL) threshold. It was fixed at 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 0.50 per cent of Gross State Domestic Product (GSDP) to the States in the power sector.
- 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.

(₹ crore)

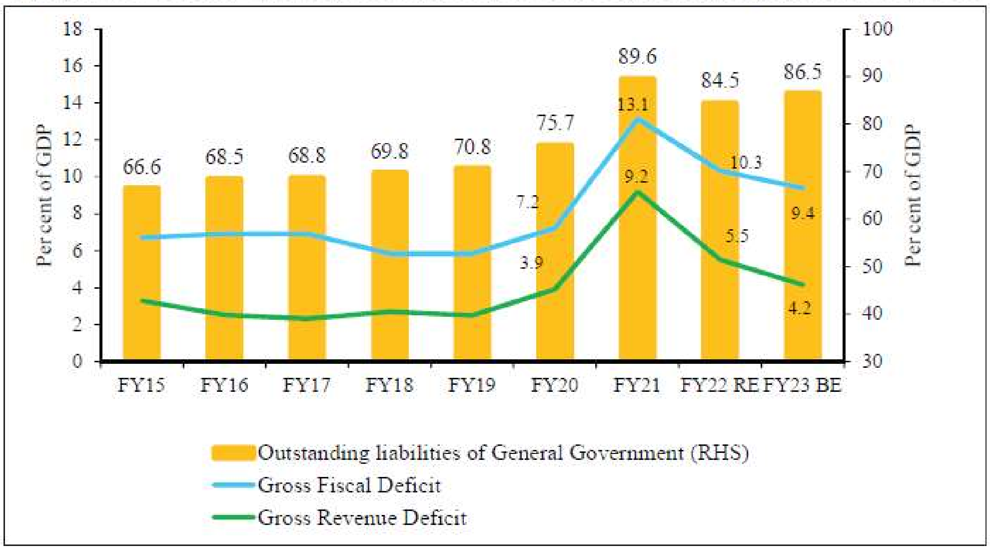
Component	Basis	Allocated	Approved	Released
1	Allocation proportional to the share of tax devolution for FY23	80000	68,592	31,571
II	PM Gati Shakti-related expenditure	5,000	1,458	1,458
III	PMGSY	4,000	1,616	1,616
IV	Incentive for digitisation	2,000		
V	Optical fiber cable		2,215	2,011
VI	Urban reforms	6,000		
VII	Disinvestment and monetisation	5,000		

Source: Department of Expenditure

Debt Profile of the Government

- IMF projects the global government debt at 91 per cent of GDP in 2022, about 7.5 percentage points above the pre-pandemic levels.
- 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. Total liabilities of the Union Government moderated from 59.2 per cent of GDP in FY21 to 56.7 per cent in FY22. India's public debt profile is relatively stable and is characterised by low currency and interest rate risks.
- Of the Union Government's total net liabilities in end-March 2021, 95.1 per cent were denominated in domestic currency, while sovereign external debt constituted 4.9 per cent, implying low currency risk.

Figure III.17: General Government liabilities to GDP ratio come off their peak attained in FY21



Source: RBI

The emphasis on capex in recent years is expected to boost GDP growth directly, and indirectly through multiplier effects on private consumption expenditure and private investment. The emphasis on capex-led growth will enable India to keep the growth-interest rate differential positive.

Chapter 4 – Monetary Management and financial inter mediation: A Good year

Monetary developments

- 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.
- 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.

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.
- The Reserve Bank remained nimble and agile in liquidity management by conducting two-way operations. It injected liquidity to assuage transient liquidity tightness through two variable rate repo (VRR) auctions of ₹50,000 crore each of 3 days and overnight maturity on 26th July and 22nd September 2022, respectively. The gradual withdrawal of surplus liquidity pushed the weighted average call rate (WACR) – the operating target of monetary policy – closer to the policy repo rate, on an average basis.

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 trading volume in G-Secs (including T-Bills and SDLs) reached a two-year high of ₹27.7 lakh crore during Q2 FY23, registering a YoY growth of 6.3 per cent. The higher trading volume reflects the growing interest of market players/ traders in the government security market.
- Private Sector Banks emerged as the dominant trading segment in the secondary market during the quarter under review, with a share of 25.0 per cent in "Buy" deals and 24.8 per cent in "Sell" deals in the total outright trading activity, followed by foreign banks, public sector banks, primary dealers and mutual fund.

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.
- 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 sevenyear low of 5.0 per cent in September 2022, while Net Non-Performing Assets (NNPA) have dropped to a ten-year low of 1.3 per cent of total assets.

- Moreover, with shrinking GNPAs, the Provisioning Coverage Ratio (PCR) has been increasing steadily since March 2021 and reached 71.6 per cent in September 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.
- With moderation in overseas issuances and lower investments by Private Equity (PE)/ Venture Capital (VC), the financing needs of the corporate sector are being met through domestic resources.

Non-Banking Financial Companies (NBFCs) 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.
- 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 per cent in September 2022, reaching close to the pre-pandemic level.
- 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.
- As per the RBI data, in FY 22, the total amount recovered by SCBs under IBC has been the highest compared to other channels such as Lok Adalat's, SARFAESI Act and DRTs in this period.

Development in Capital Markets

Equity: Large number of SMEs coming out with the public offer.

Debt: Underactivity in public debt issuances more than compensated by private debt placements. The number of private debt placements increased by 11 per cent from 851 to 945, while resources mobilised increased by 6 per cent in April-November 2022, compared to the corresponding period in the year before.

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Stock Market Performance: Indian stock market witnessing a resilient performance.

Retail Participation in the Capital Market: The share of individual investors in the cash segment marginally declined during FY23 (April-November 2022) compared to the same period during FY22. However, the number of demat accounts rose sharply, 39 per cent higher by the end of November 2022 on YoY basis.

Commodity Derivatives Market: The Russia-Ukraine conflict triggered disruptions to the supply of commodities, especially energy, base metals and food commodities. As a result, a sudden jump in the prices of crude oil and some base metals like Nickel and Aluminium was witnessed.

Mutual Funds witnessed lower net inflows: During April-November 2022, Mutual Funds witnessed significantly lower net inflows than last year. On the other hand, income/debt-oriented schemes and hybrid schemes recorded outflows compared to inflows in the same period of the previous year. Outflows from liquid funds and hybrid schemes were mainly affected by increasing interest rate cycles, liquidity requirements and advance tax commitments by corporates.

Foreign Portfolio Investments

Strong macroeconomic fundamentals ensure India remains an attractive destination: On account of the strong macroeconomic fundamentals of the Indian economy and the improvement in market risk appetite from time to time, assets under custody (custodial holdings of FPIs reflecting the total market value of the holdings) witnessed an increase despite the outflows driven by global factors. The total assets under custody with FPIs increased by 3.4 per cent at the end of November 2022 compared to November 2021.

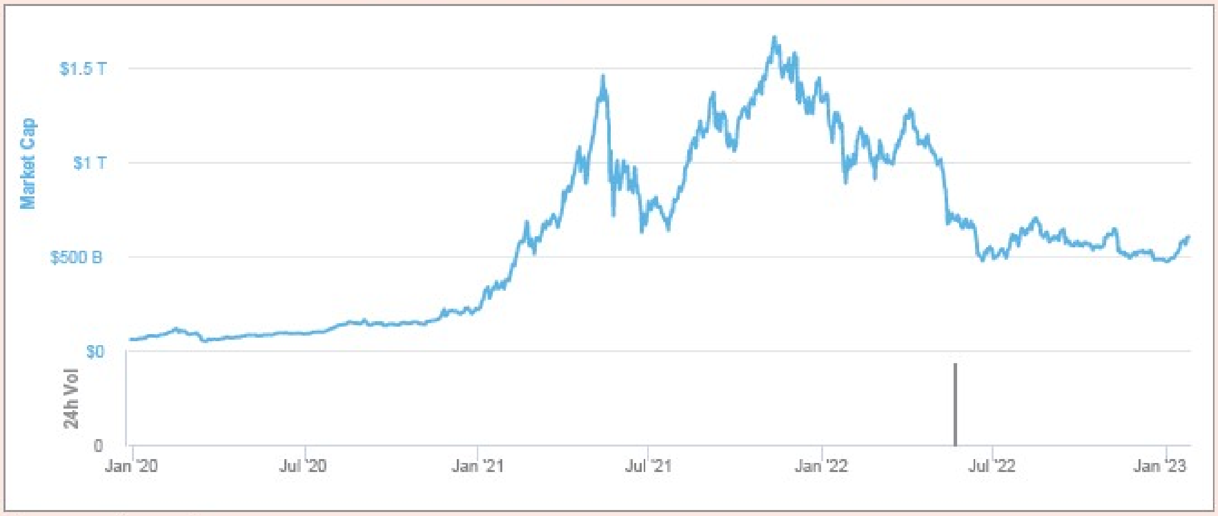
Table IV.13: Assets under Custody for FPIs increased

Period	Equity (₹ lakh crore)	Debt (₹ lakh crore)	Debt- VRR (₹ lakh crore)	Hybrid (₹ lakh crore)	Total (₹ lakh crore)
End November 2022	49.9	2.4	1.4	0.3	54.0
End November 2021	48.0	2.7	1.3	0.3	52.2

Source: SEBI

Necessity of a common approach to regulating the crypto ecosystem: 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. The geographically pervasive nature of the crypto ecosystem necessitates a common approach to the regulation of these volatile instruments.

Crypto Market Capitalisation (US$ Billion)



Source: coinmarketcap.com

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.

IFSCA has also entered into agreements for technical cooperation and capacity building for the development of a world-class regulatory environment for financial products and financial services in IFSC. Some of the projects/agreements showcasing IFSCA's growing engagement with the global community are highlighted below:

- FinTech bridge with the Monetary Authority of Singapore
- NSE IFSC -SGX Connect
- Visibility and Mindshare Among FinTechs globally
- Cooperation agreement between India INX and Luxembourg Stock Exchange
- IFSCA Vision for FY24 and beyond

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.
- In 2021, total global insurance premiums grew by 3.4 per cent in real terms, with the non-life insurance sector registering 2.6 per cent growth, driven by rate hardening in commercial lines in developed markets.
- Insurance penetration in India increased steadily from 2.7 per cent around the turn of the millennium to 4.2 per cent in 2020 and remained the same in 2021. Life insurance penetration in India was 3.2 per cent in 2021, almost twice more than the emerging markets and slightly

above the global average. However, most life insurance products sold in India are savings-linked, with just a small protection component.

Figure IV.25a: Per cent Change in volume of Life-Insurance premiums in 2021

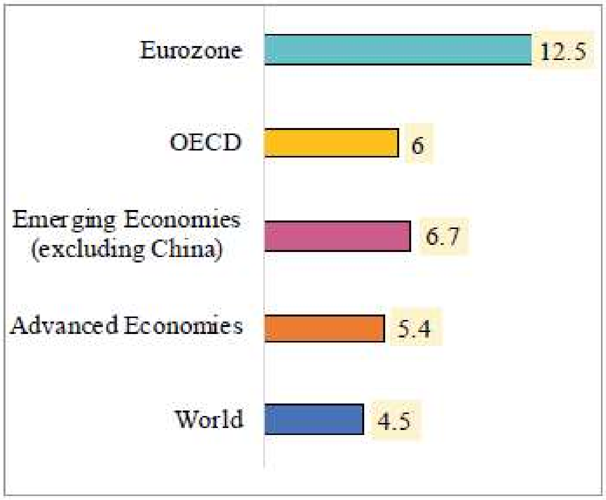
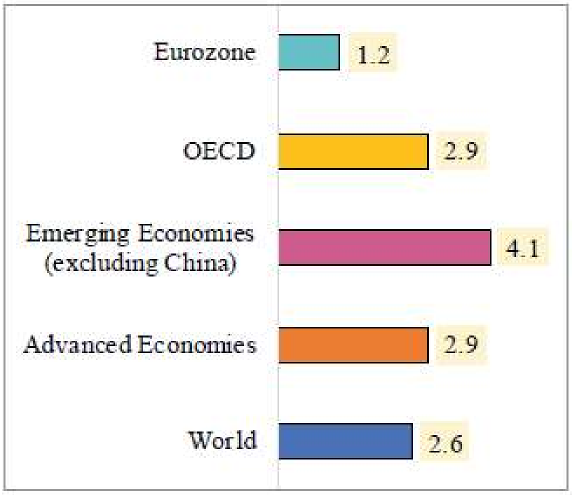


Figure IV.25b: Per cent Change in volume of Non-Life Insurance premiums in 2021



Source: Swiss Re, Sigma various issues

- 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. Public listings improve public disclosure, corporate governance, and valuation. In keeping with this understanding, India's largest life insurer, the Life Insurance Corporation of India, went public in May 2022, raising US$ 2.7 billion in the country's largest IPO to date. To facilitate the penetration of insurance to the lower income segments of the population, the Insurance Regulatory and Development Authority of India (IRDAI) issued IRDAI (Micro Insurance) Regulations, 2015, which provide a platform for distributing insurance products that are affordable for the rural and urban poor and promote financial inclusion.

Table IV.16: Government Insurance schemes and progress

Scheme name	Brief description	Achievement
Ayushman Bharat Yojana	The scheme provides health coverage of ₹5 lakh per beneficiary family per annum to poor and vulnerable families identified based on select deprivation and occupational criteria	Since inception, 19.7 crore beneficiaries have been provided Ayushman cards, and over 4.3 crore hospital admissions worth over ₹0.49 lakh crore have been authorised through a network of 28,667 empanelled health-care providers, including 13,115 private hospitals as of 20th January 2023.

Pradhan Mantri Suraksha Bima Yojana	Under the scheme, risk coverage of ₹2 lakh for accidental death and complete disability and ₹1 lakh for partial disability is given to beneficiaries	Since its inception, 31.3 crore beneficiaries have been enrolled under the scheme, and 1.07 lakh claims have been disbursed as of 30th November 2022.
Pradhan Mantri Jeevan Jyoti Bima Yojana	Under the scheme, risk coverage of ₹2 Lakh is credited to the savings bank account of the holder in case of the death of the insured	Since its inception, 14.4 crore beneficiaries have been enrolled under the scheme, and 6.3 lakh claims have been disbursed as of 30th November 2022.
Pradhan Mantri Vaya Vandana Yojana	Under the scheme, old age income security is provided to senior citizens through the provision of an assured pension/return linked to the subscription amount based on a government guarantee to LIC	A total number of 8.6 lakh subscribers with a subscription amount of ₹84,659.4 crore deposited by these subscribers have benefited under the scheme as of 30th September 2022
Pradhan Mantri Fasal Bima Yojana	Under the scheme, risk insurance is provided to farmers against crop damage due to non-preventable natural risks from pre-sowing to post-harvest for the crops/areas notified by the concerned State Government	During 2016 and 2022, 2763.9 lakh applications were received under the scheme, and claims of about ₹ 1.28 lakh crore have been paid to the farmers.

Source: DFS, PIB, PMFBY Dashboard

Pension Sector

- India's Pension Sector demonstrated remarkable performance during the Covid-19.
- 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.
- The insurance benefits under the Employees Deposit Linked Insurance (EDLI) scheme were also enhanced and liberalised. Ex-gratia of ₹1,000 was given to around three crore poor senior citizens, widows, and disabled sections of the population (aged above 60 years) for three months during April-June 2020. Rule 64 of CCS (Pension) Rules, 1972, was relaxed to ensure immediate provisional sanction of pensionary benefits amid the unprecedented pandemic.

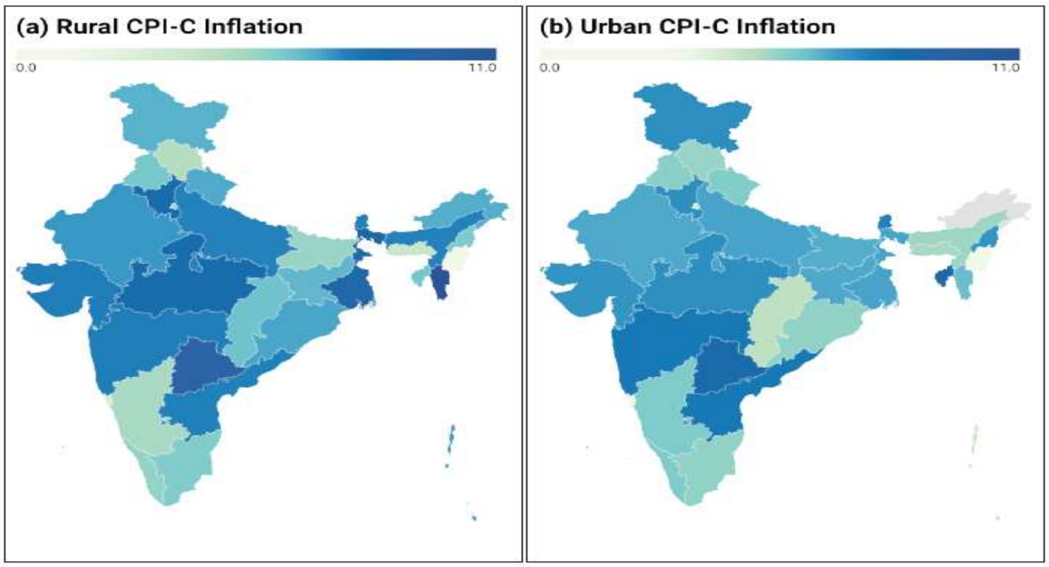
- The Government of India is implementing various pension schemes such as the Indira Gandhi National Old Age Pension Scheme (IGNOAPS), Indira Gandhi National Widow Pension Scheme (IGNWPS), Indira Gandhi National Disability Pension Scheme (IGNDPS) under the National Social Assistance Programme (NSAP) with a total beneficiary coverage of 4.7 crore.
- The Government introduced APY 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.

Chapter 5 – Prices and Inflation: Successful Tight-rope Walking

Domestic Retail Inflation

- 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. 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-Urban Inflation Differential has Declined: While the current fiscal year saw rural and urban inflation closely tracking each other, FY22 had seen a wider differential between the two. The gap between rural and urban inflation reached its widest in March 2022 due to a difference in the experience of food inflation. Urban areas experienced a sharper increase in food prices of vegetables and oils during this time as compared to the hinterlands.

Figure V.13: Higher Rural Inflation in Most of States/UTs in FY23*



Source: MoSPI
Note: (i) *April-December
(ii) Data for Urban Arunachal Pradesh is not available

Domestic Wholesale Price Inflation

- 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.

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 oilproducing 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 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.

Housing Prices: Recovering Housing Sector After the Pandemic

- 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.

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Box V.4: NHBs Support to the Housing Finance Sector (HFC)

The last three years were challenging for the housing sector. NHB has provided a significant impetus to obviate the liquidity issues faced by the Housing Finance Sector in the last 3 years.

- The Liquidity Infusion Facility Scheme was launched in 2019 to support HFCs in creating individual housing loan portfolios that fall under the priority sector, as defined by the RBI.
- During the COVID-19 pandemic, Special Refinance Facility (SRF) was launched for disbursing an amount of ₹10,000 crore provided by RBI under the Special Liquidity Facility and an amount of ₹5,000 crore allocated by RBI under an Additional Special Liquidity Facility.
- During 2020-21, SRF 2021 was launched with a corpus of ₹10,000 crore provided by RBI under SLF-2. NHB has provided refinance disbursement of ₹3.3 lakh crore since inception, of which ₹0.84 lakh crore were disbursed during last 3 financial years.
- Also, as a part of the Azadi Ka Amrit Mahotsav (AKAM), NHB has extended concessions of 25/30 basis points under refinance for the various categories including women, rural areas, SC/ST, aspirational districts, north-eastern region, loans to third gender/differently abled/disabled, UTs of Jammu & Kashmir and Ladakh, and green housing.
- In view of the nation's commitment at COP26 to reach net-zero emission by 2070, NHB has extended 100 bps concession for loans under Green Housing.
- As part of AKAM and to increase the credit offtake in geographically underpenetrated areas which are a national priority, NHB has decided to extend 100 bps concession and refinance for loans in designated aspirational districts, north-eastern States, Jammu & Kashmir and Ladakh, until September 2023.

Keeping check on Phamaceutical Prices

- 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.

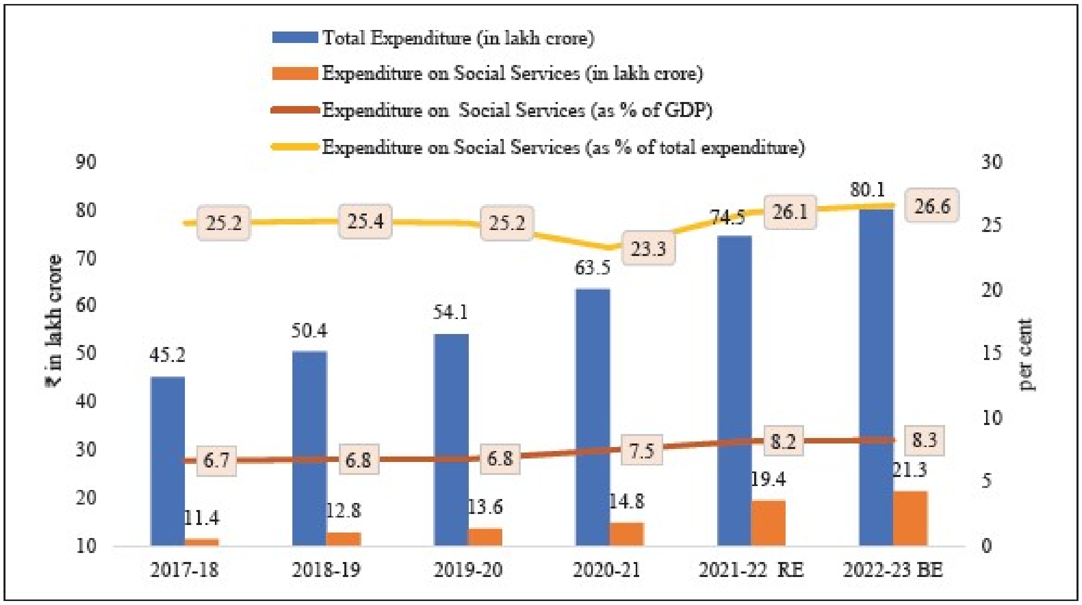
Chapter 6 – Social Infrastructure and Employment: big tent

Social Sector Expenditure Keeping Pace with Growing Importance of the Sector

- The National Health Policy recommended an increase in the Government's health expenditure from the existing 1.2 per cent to 2.5 per cent of GDP by 2025. Also, the Fifteenth Finance Commission, in its report, had recommended that public health expenditure of Union and

States together should be increased in a progressive manner to reach 2.5 per cent of GDP by 2025.

Figure VI.1: Trends in social service sector expenditure by General Government (Combined Centre and States)



Source: Reserve Bank of India, Budget Documents of Union and State Governments.
Note: 1. Budget Estimate (BE) & Revised Estimate (RE).
2. The ratios to Gross Domestic Product (GDP) at current market prices are based on the 2011-12 base.
3. Projected GDP for BE FY22 is ₹222,87,379 crore.

Improving Human Development Parameters

- India ranked 132 out of 191 countries and territories in the 2021/2022 HDI report7. 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.
- On the parameter of gender inequality, India's Gender Inequality Index (GII)9 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.
- The 2022 report of the UNDP on MPI was released in October 2022 and covers 111 developing countries. As regards India, the survey data for 2019-21 has been used. Based on these estimates, 16.4 per cent of the population in India (228.9 million people in 2020) is multidimensionally poor while an additional 18.7per cent is classified as vulnerable to multidimensional poverty (260.9 million people in 2020).

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 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).

Aadhaar: The Many Achievements of the Unique Identity

- Aadhaar is an essential tool for social delivery by the State. 318 Central schemes and over 720 state DBT schemes are notified under section 7 of the Aadhaar Act, 2016, and all these schemes use Aadhaar for targeted delivery of financial services, subsidies, and benefits.
- The key usages of Aadhaar in the daily lives of citizens are:
  - Aadhaar – Usage in DBT
  - Aadhaar Enabled Payment Systems (AEPS)
  - JAM (Jan-Dhan, Aadhaar, and Mobile) trinity
  - One Nation One Ration Card (ONORC) Scheme
  - PM Kisan Samman Nidhi
  - Co-WIN
  - Face Authentication

Ensuring Quality Education for All

- "Quality Education" which is enlisted as Goal 4 under UN SDGs (SDG4), aims to "Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all" by 2030. 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.

Table VI.9: School Gross Enrolment Ratios

(in per cent)

Year	Primary			Upper Primary			Secondary		
	Girls	Boys	Total	Girls	Boys	Total	Girls	Boys	Total
2013-14	107.9	106.5	107.2	88.6	85.0	86.7	73.5	74.2	73.8
2019-20	103.7	101.9	102.7	90.5	88.9	89.7	77.8	78.0	77.9
2020-21	104.5	102.2	103.3	92.7	91.6	92.2	79.5	80.1	79.8
2021-22	104.8	102.1	103.4	94.9	94.5	94.7	79.4	79.7	79.6

Source: Unified District Information System for Education (UDISE+)[35]

Notes: 1. UDISE+ data comes with more than one-year lag, hence data is available up to 2021-22

2. GER greater than 100 per cent might represent the presence of over or under-age children in a particular level of education.

Various programmes and schemes for school education launched during FY23 are presented:

- PM Schools for Rising India
- The National Curriculum Framework (NCF) for Foundational Stage
- Pilot project of Balvatika
- Toy-based pedagogy
- Screening tools (Mobile App) for specific learning disabilities
- National Credit Framework (NCrF)
- Strengthening Teaching-Learning and Results for States (STAR S)
- Vidyanjali (A School Volunteer Initiative)
- Samagra Shiksha Scheme

Skill India Mission

- The Skill Indian Mission focuses on skilling, re-skilling and up-skilling through short term and long-term training programmes. Under the Mission, the government, through more than 20 Central Ministries/Departments, is implementing various skill development schemes across the country.
- These include Deen Dayal Upadhyaya Grameen Kaushalya Yojna (DDUGKY), Rural Self Employment Training Institutes (RSETI), Deen Dayal Antyodaya Yojana- National Urban Livelihood Mission (DAY-NULM). MSDE is implementing Schemes such as Pradhan Mantri Kaushal Vikas Yojana (PMKVY), Jan Shikshan Sansthan (JSS), National Apprenticeship Promotion Scheme (NAPS) and Craftsmen Training Scheme (CTS).

Quality and Affordable Health for All

Major initiatives from 2014 to 2022 for better overall health

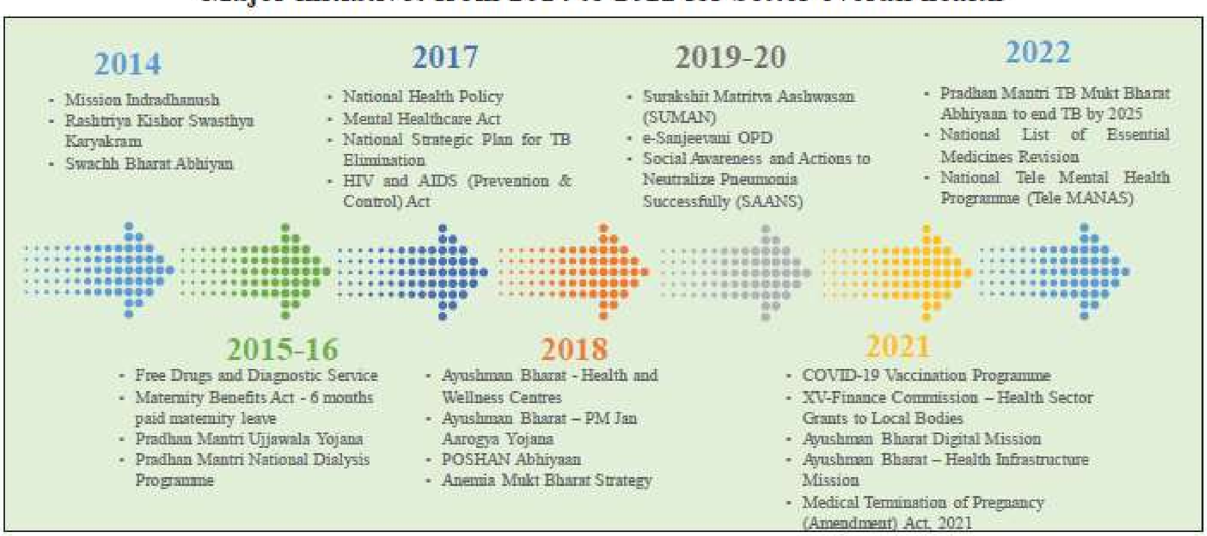


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Table VI.17: Improvement in health-related Indicators

	NFHS-4 (2015-16)	NFHS-5 (2019-21)
Households with any usual member covered under a health insurance/ financing scheme (per cent)	28.7	↑ 41.0
Total fertility rate (children per woman)	2.2	↓ 2.0
Current Use of Family Planning Method- Any Method (per cent)	53.5	↑ 66.7
Mothers who had at least 4 antenatal care visits (per cent)	51.2	↑ 58.1
Institutional births (per cent)	78.9	↑ 88.6
Neonatal mortality rate (per 1000 live births)	29.5	↓ 24.9
Infant mortality rate (per 1000 live births)	40.7	↓ 35.2
Under-five mortality rate (per 1000 live births)	49.7	↓ 41.9
Children age 12-23 months fully vaccinated based on information from either vaccination card or mother's recall (per cent)	62.0	↑ 76.4
Children under age 6 months exclusively breastfed (per cent)	54.9	↑ 63.7
Children under 5 years who are stunted (height-for-age) (per cent)	38.4	↓ 35.5
Children under 5 years who are wasted (weight-for-height) (per cent)	21.0	↓ 19.3
Children under 5 years who are underweight (weight-for-age) (per cent)	35.8	↓ 32.1
Children under 5 years who are overweight (weight-for-height) (per cent)	2.1	↑ 3.4
Women who are overweight or obese (BMI≥25.0 kg/m^2) (per cent)	20.6	↑ 24.0
Men who are overweight or obese (BMI≥25.0 kg/m^2) (per cent)	18.9	↑ 22.9
Women age 15-24 years who use hygienic methods of protection during their menstrual period (per cent)	57.6	↑ 77.3

Source: National Family Health Surveys (NFHS) 2015-16 and 2019-21, MoHFW

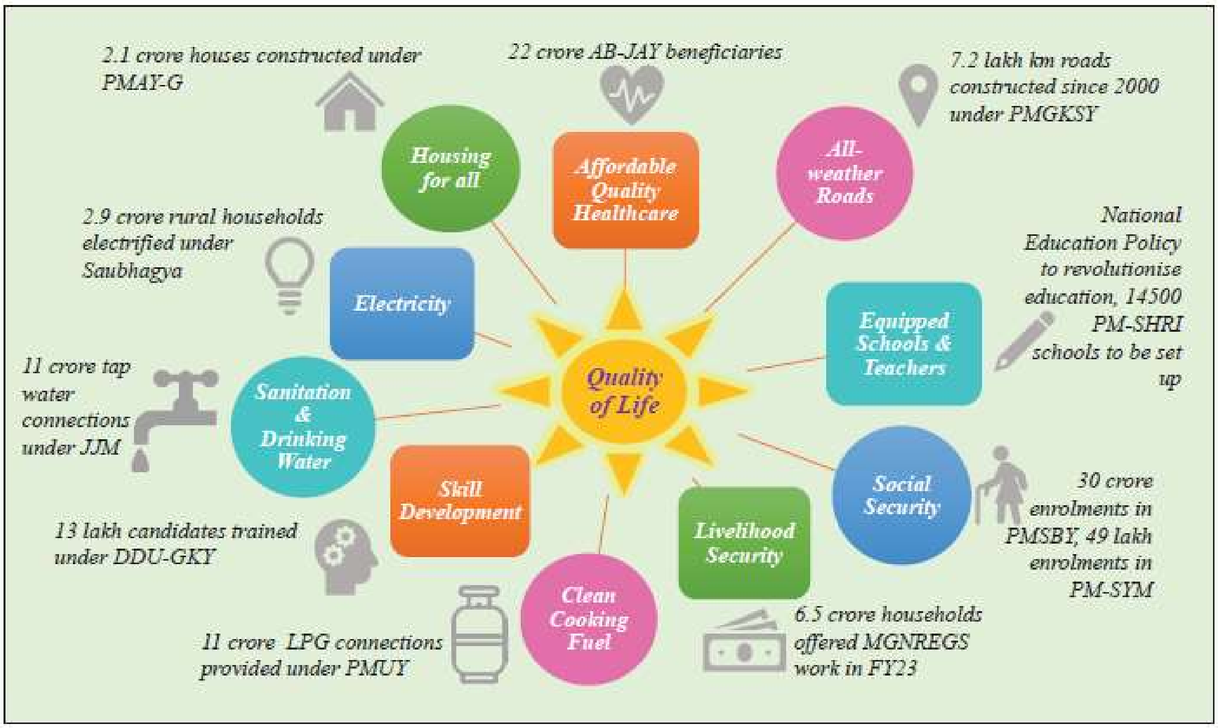
Social Protection for the Rainy Day

- **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.
- **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 `2 lakh in case of death of the insured, due to any reason, at an annual premium of `436/.
- **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 `1 lakh for partial permanent disability due to accident at a premium of `20 per annum.

- **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 `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 `15,000 or less and not a member of EPFO/ ESIC/ NPS (Govt. funded) can join 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 `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 `20,000 with 18 months tenure after timely repayment of the first tranche.

Development of India's Aspiring Rural Economy

Multifaceted initiatives to improve the ecosystem of quality of life



- **Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY -NRLM)**
- NRLM aims to enable economically weak households to access gainful self-employment and skilled wage employment opportunities resulting in sustainable and diversified livelihood options for them. This is one of the world's largest initiatives to improve the livelihoods of the poor.
- **Mahatma Gandhi National Rural Employment Guarantee Scheme**
- The Mahatma Gandhi National Rural Employment Guarantee Act 2005 (MGNREGA) aims at enhancing the livelihood security of households in rural areas of the country by providing at least 100 days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work.

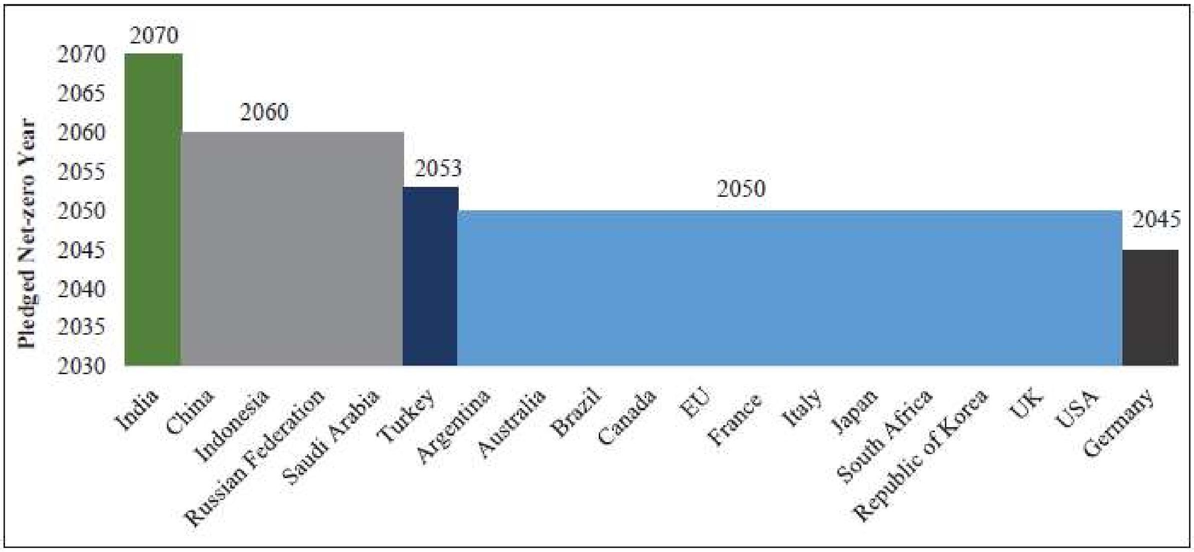
- **Rural Housing**
- Housing is one of the basic necessities, along with food and clothing. “Housing for All by 2022” was rolled out to provide shelter with dignity for each and every one. With this target, the Pradhan Mantri Awaas Yojana –Gramin (PMAY-G) was launched in November 2016 with the aim of providing around 3 crore pucca houses with basic amenities to all eligible houseless households living in kutcha and dilapidated houses in rural areas by 2024.
- **Jal Jeevan Mission**
- Day, 15 August 2019, the Jal Jeevan Mission (JJM) was announced, to be implemented in partnership with States, to provide tap water connection to every rural household and public institutions in villages like schools, Anganwadi centres, ashram shalas (tribal residential schools), health centres, Gram Panchayat building, etc., by 2024.
- **Mission Amrit Sarovar**
- Mission Amrit Sarovar was launched on National Panchayati Raj Day on 24 April 2022 with the objective to conserve water for the future. The Mission is aimed at developing and rejuvenating 75 water bodies in each district of the country during this Amrit Varsh, 75th Years of Independence.
- **Pradhan Mantri Ujjwala Yojana 2.0, Swachh Indhan Behtar Jeevan:**
- The ‘Pradhan Mantri Ujjwala Yojana’ (PMUY) was launched in May 2016 as a flagship scheme to make clean cooking fuel such as LPG available to rural and deprived households which were otherwise using traditional cooking fuels such as firewood, coal, cow-dung cakes, etc.
- **Pradhan Mantri Gram Sadak Yojana (PMGSY)**
- The objective of PMGSY is to provide single all-weather road connectivity to all eligible unconnected habitations of the designated population size (500+ in plain areas, 250+ in North-Eastern and Himalayan States) in rural areas of the country.
- **SAUBHAGYA- Pradhan Mantri Sahaj Bijli Har Ghar Yojana**
- The government launched the Pradhan Mantri Sahaj Bijli Har Ghar Yojana – Saubhagya in October 2017 with the objective to achieve universal household electrification by providing electricity connections to all willing un-electrified households in rural areas and all willing poor households in urban areas in the country by March 2019.
- **Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY)**
- This scheme was launched in November 2014 with the objective to improve the quality and reliability of power supply in rural areas. It envisaged the creation of basic electricity infrastructure in villages/habitations, strengthening & augmentation of existing infrastructure, and metering of existing feeders/distribution transformers/consumers to improve the quality and reliability of power supply in rural areas.
- **Rashtriya Gram Swaraj Abhiyan**
- A CSS of Rashtriya Gram Swaraj Abhiyan (RGSA) was approved by the Union Cabinet in April 2018 for implementation from FY19 to FY22 with the primary aim of strengthening Panchayati Raj Institutions (PRIs) for achieving SDG’s with the main thrust on convergence with Mission Antyodaya and emphasis on strengthening PRI’s in the 117 Aspirational Districts.
- **SVAMITVA Scheme**
- SVAMITVA (Survey of Villages and Mapping with Improvised Technology in Village Areas) is a Central Sector Scheme launched on 24 April 2020, the National Panchayati Raj Day. The

scheme aims to provide the 'Record of Rights' to village household owners possessing houses in inhabited rural areas.

Chapter 7 – Climate Change and Environment: Preparing to Face the Future

Climate change is the long-term change in temperature and weather patterns that can occur due to natural reasons, but since the beginning of the industrial revolution in the 19th century, it has been predominantly due to anthropogenic activities. It is estimated that by 2030, about 700 million people worldwide will be at risk of displacement by drought alone (U.N. SDG Portal).

Figure VII.1: Net Zero Pledges of countries (the Year pledged is on top of the bars)



Source: Emissions Gap Report 2022, UNEP

Progress on India's Climate Action

- 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.
- The new NDC with enhanced targets translates the vision of the Hon'ble PM expressed through the "Panchamrit" at the UNFCCC Conference of Parties (COP 26) in Glasgow in November 2021.
- The Indian State of Forest Report (ISFR) estimates the carbon stock of forests to be about 7,204 million tonnes in 2019, which is an increase of 79.4 million tonnes of carbon stock as compared to the estimates of the previous assessment for 2017. This translates into carbon

emissions sequestrated through forest and tree cover to be 30.1 billion tonnes of CO2 equivalent.

Figure VII.2: Progress on Eight National Missions of the NAPCC highlighting achievements across various domains

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

- While the target was to achieve 40 per cent of the installed electric capacity from nonfossil fuel sources by 2030 in the initial NDC submitted in 2015, the target has already been achieved. India is now striving to achieve the target of 50 per cent cumulative electric power installed capacity from non-fossil fuel-based energy resources by 2030, in line with updated NDCs.

<u>Green Hydrogen-A critical source of alternate energy</u>

With a vision to make India an energy-independent nation, and to de-carbonise critical sectors, the Government approved the National Green Hydrogen Mission on January 4, 2023 with an initial outlay of ₹19,744 crore. The Mission will facilitate demand creation, production, utilisation and export of Green Hydrogen and mobilisation of over ₹8 lakh crore of investment by 2030.

<u>Finance for Sustainable Development</u>

- **Green Bonds:** Green bonds are financial instruments that generate proceeds for investment in environmentally sustainable and climate-suitable projects. 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:** On November 3, 2021, the RBI published its 'Statement of Commitment to Support Greening India's Financial System' - NGFS. Here, the Reserve Bank of India (RBI) laid out, keeping in view its national commitments, priorities, and complexity of our financial system, committed to, among others, exploring how climate scenario exercises can be used to identify vulnerabilities in RBI-supervised entities' balance sheets, business models and gaps in their capabilities for measuring and managing climate-related financial risks.

Major Decisions 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.
- The cover decision of COP 27, titled the Sharm el-Sheikh Implementation Plan, notes the 'importance of the transition to sustainable lifestyles and sustainable patterns of consumption and production for efforts to address climate change'.
- Other decisions were setting up the Just Transition and Mitigation Work Program and the agreement on Joint work on the implementation of climate action on agriculture and food security to be conducted over four years.
- Other substantive elements covered in the Sharm el-Sheikh Implementation Plan are the importance of science in guiding climate action, doubling adaptation finance, dialogue on making finance flows consistent with low-emissions, and climate-resilient development calls on Multilateral Development Banks (MDB) reform for delivering climate finance at scale; diversity of sources of finance (including new and additional finance), etc.
- Lastly, during COP 27, it was also recognised that the target of US$ 100 billion per year is yet to be achieved. The COP 21 decided that, prior to 2025, a New Collective Quantified Goal (NCQG) on climate finance from a floor of US$ 100 billion per year, taking into account the needs and priorities of developing countries, shall be set.

India's Initiatives at the International Stage

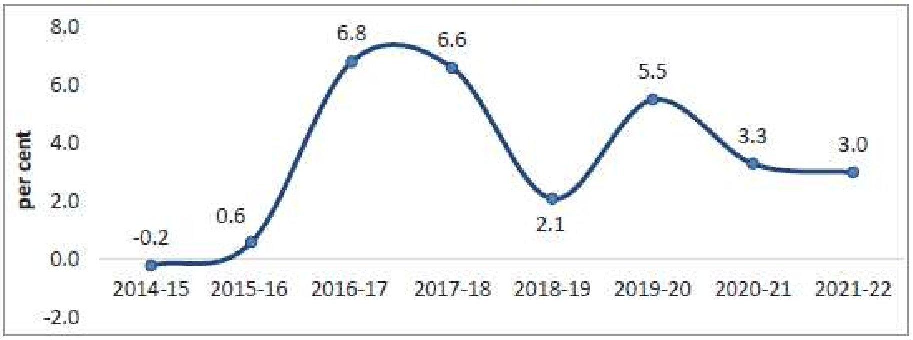
- **International Solar Alliance (ISA):** is a treaty-based inter-governmental organisation working to create a global market system to tap the benefits of solar power and promote clean energy applications. ISA's mission is to unlock US$ 1 trillion of investments in solar by 2030 while reducing the cost of the technology and its financing.
- **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.
- **Leadership Group for Industry Transition (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.

Chapter 8 – Agriculture and Food Management: from food security to nutritional security

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.

Figure VIII.1: Despite Covid-19 shock agriculture and allied sector shows resilient growth

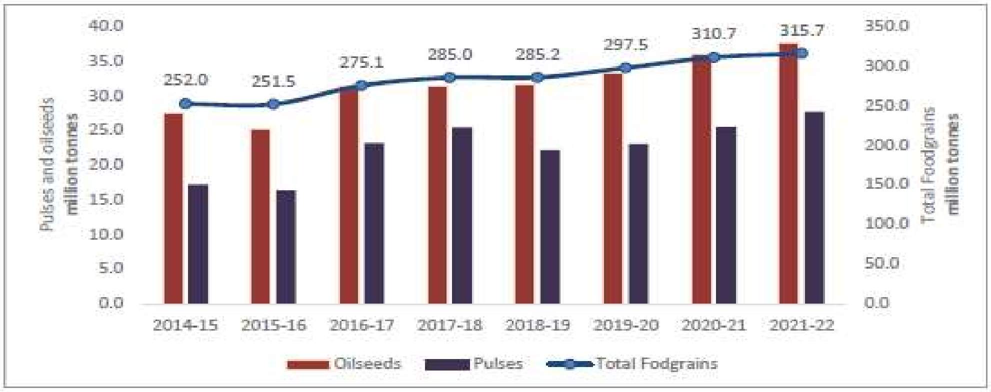


Source: MoSPI's Annual and Quarterly Estimates of GDP at constant prices, 2011-12 series.

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).
- 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). Despite a fall in the sown area of Kharif paddy, the total production of Kharif rice during 2022-23 is estimated at 104.9 million tonnes, which is higher than the previous five years (2016-17 to 2020-21) average Kharif rice production of 100.5 million tonnes.

Figure VIII.4: Sustained increase in Foodgrains Production in India (Million Tonnes)



Source: 1st Advance Estimates (2022-23) of DA&FW released dated 21.09.2022.

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.
- 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 per cent 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.

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).

Chemical-free India: Organic and Natural Farming

- 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 the process of getting the total cultivable land of 58,168 hectares under organic farming commenced at ground level in 2010.
- It became the first State in the world to become fully organic, and other States, including Tripura and Uttarakhand, have set similar targets.
- 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.

Other Important Initiatives in Agriculture

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- **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.
- **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.
- **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.
- **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.
- **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.
- **Climate-Smart Farming Practices:** This is slowly gaining acceptance with farmers using clean energy sources like solar for irrigation. The farmers have been incentivised to transfer electricity generated through solar to the local grid. Crop yield prediction models using artificial intelligence and drones for monitoring soil and crop health have been initiated.

Sahakar-Se-Samriddhi: From Cooperation to Prosperity

- 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).
- 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.
- 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.

Food Processing Sector-The Sunrise Sector

- 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 NITI Aayog Strategy for New India identifies the lack of adequate and efficient cold chain infrastructure as a critical supply-side bottleneck that leads to massive post-harvest losses (mostly of perishables) estimated at ₹92,561 crore annually.
- The Ministry of Food Processing Industries, through the component schemes of Pradhan Mantri Kisan SAMPADA Yojana (PMKSY), provide financial assistance for the overall growth and development of the food processing sector.
- The Production Linked Incentive Scheme for Food Processing Industry (PLISFPI), launched in March 2022, has the specific mandate to incentivise investments to create global food champions. Sectors with high growth potential, like marine products, processed fruits & vegetables, and 'Ready to Eat/ Ready to Cook' products, are covered for support.

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

- 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.
- 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.
- To further ease the process of access to food, the Government launched a citizen-centric and technology-driven scheme in 2019 called the One Nation One Ration Card (ONORC) scheme. The ONORC system enables intra-State and inter-State portability of ration cards. It helps the migrant beneficiaries access their food security entitlements from any fair price shop (FPS) of their choice by using the same ration card after biometric/Aadhaar authentication on electronic Point of Sale (e-PoS) devices at the FPS.

Chapter 9 – INDUSTRY: steady recovery

Demand Stimulus to Industrial Growth

- 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.
- Strong external demand also served the Indian industry well in FY22 when manufactured exports soared, responding to a rebound in global growth. Trade had also recovered and grown as bottlenecks in global supply chains eased.
- Indeed, 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

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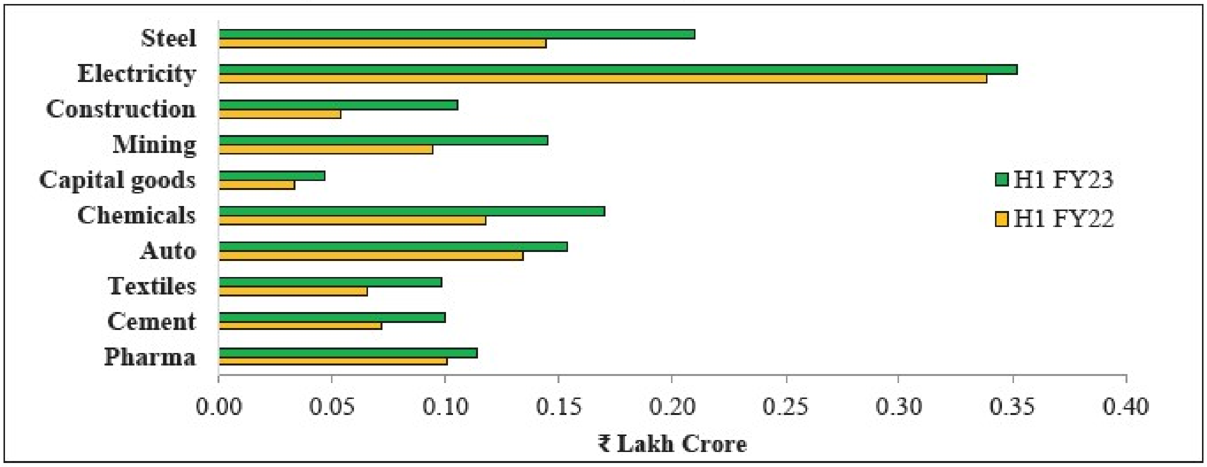
crowded-in private investment, already upbeat on the pent-up consumption demand, export stimulus, and strengthening of the corporate balance sheets.

Figure IX.1: Private Investment gathers momentum



Source: Axis Bank Research, Capitaline

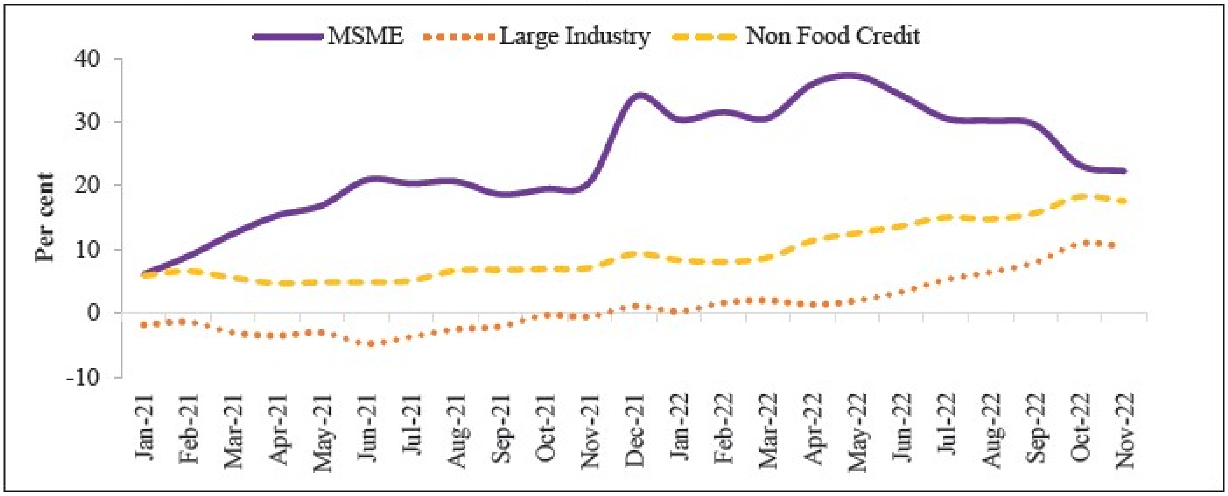
Supply Response of Industry

- The eight core industries of coal, fertilisers, cement, steel, electricity, refinery products, crude oil, and natural gas are critical in meeting the demand for inputs across industries. The growth in these industries has held steady, reflecting a broad momentum in industrial activity.
- Their growth underscores the importance that nations have been attaching to the indigenous presence of core capacities in the aftermath of the pandemic and the Russia-Ukraine conflict breaking down the global supply chain.
- The manufacturing landscape shows uneven growth across various categories. For example, the motor vehicles manufacturing segment's performance continues to improve, induced by robust demand and an easing of chip shortage.
- The manufacturing of 'computer, electronic and optical products', an upcoming industry, has also been rising. Multiple players looking to make India a manufacturing hub of semiconductors have made the investment outlook in this sector positive. Production of coke and refined petroleum has also increased, fetching high returns in a global market where crude oil prices were higher than in FY22.

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.

Figure IX.7: Double-digit credit growth in Industry driven by MSMEs



Source: RBI

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.
- 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.

Micro, Small and Medium Enterprises (MSMEs)

- 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.

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- 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.

Pharmaceuticals industry

Figure IX.21: Three PLI Schemes to boost Manufacturing Capacity in the Pharmaceutical Sector

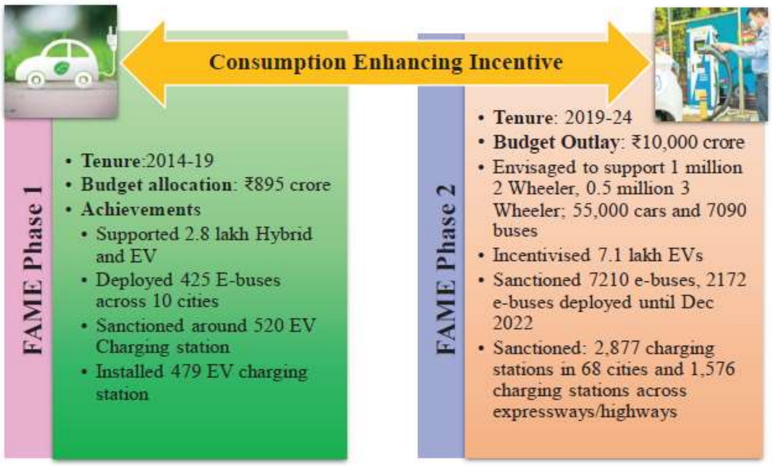
Critical KSMs/DIs/APIs	Medical Devices	Pharmaceuticals
• **Tenure**:FY21 to FY30 • **Outlay**: ₹6,940 crore • **Progress**: Until Dec 2022, 51 applicants approved with committed investment of ₹4,138.4 crore. • **Employment**: Estimated employment generation from 51 projects is 10,598 persons. • **Financial incentive**: NA	• **Tenure**: FY21 to FY28 • **Outlay**: ₹3,420 crore • **Progress**: Until Dec 2022, 21 applicants approved with committed investment of Rs 1,058.97 crore. • **Employment**: Estimated employment generation from 21 projects of around 6,411 persons. • **Financial incentive**: The financial incentive at the rate of 5 per cent on incremental sales of medical devices for 5 years.	• **Tenure**: FY21 to FY29 • **Outlay**: ₹15,000 crore • **Progress**: Until June 2022, 55 applicants approved with actual investment of Rs 18,669 crore. • **Employment**: Estimated employment generation from 55 projects : 20,000 direct and 80,000 indirect jobs. • **Financial Incentive**: on incremental sales under various categories at varying rate over the years ranging from 10 per cent to 3 per cent.

Source: Department of Pharmaceuticals

Automobile market

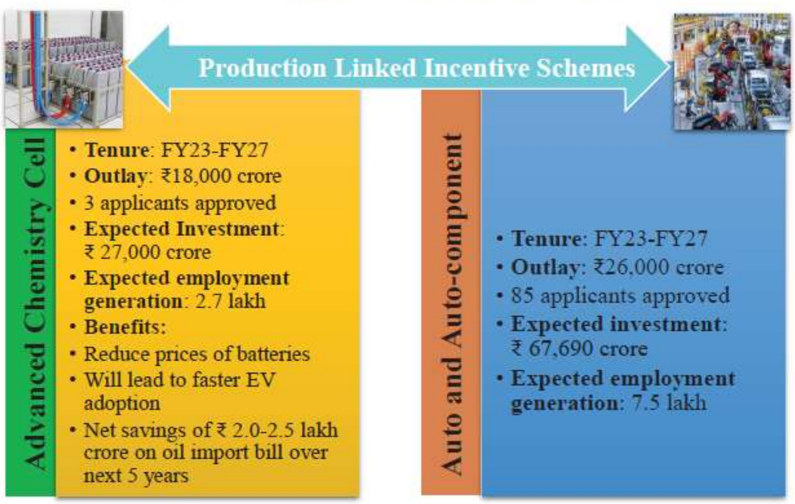
- The automobile sector is a key driver of India’s economic growth. In December 2022, India became the 3rd largest automobile market, surpassing Japan and Germany in terms of sales.
- The domestic electric vehicles (EV) market is expected to grow at a compound annual growth rate (CAGR) of 49 per cent 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.

Figure IX.25: Consumption Enhancing Incentive Schemes



Source: Ministry of Heavy Industries
Note: FAME stands for Faster Adoption and Manufacturing of Electric Vehicles

Figure IX.26: Production Linked Incentive Schemes



Source: Ministry of Heavy Industries

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

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.

- **Make in India 2.0 and the PLI schemes:** 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. PLI Scheme across these key specific sectors is poised to make Indian manufacturers globally competitive, attract investment in the areas of core competency and cutting-edge technology; ensure efficiencies; create economies of scale; and make India an integral part of the global value chain.

- **Innovation:** The government's efforts towards fostering innovation include incubation, handholding, funding, industry-academia partnership and mentorship. The government has also strengthened its IPR regime by modernising the IP office, reducing legal compliances and facilitating IP filing for start-ups, women entrepreneurs, small industries and others.
- As per the GII 2022 report, India entered the top 40 innovating countries for the first time in 2022 since the inception of the GII in 2007 by improving its rank from 81 in 2015 to 40 in 2022. Further, India became the most innovative nation in the lower middle-income group overtaking Vietnam (48th) and leading the Central and Southern Asia region.
- **Structural reforms have enhanced the Ease of Doing Business:** 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.
- **India and Industry 4.0:** The advent of the fourth industrial revolution or industry 4.0 as it's commonly referred to, has begun. The transformation integrates new technologies such as cloud computing, IoT, machine learning, and artificial intelligence (AI) into manufacturing processes, leading to efficiencies across the value chain.

Chapter 10 – Services: Source of Strength

The Covid-19 pandemic hurt most sectors of the economy, with the effect particularly profound for contact-intensive services sectors like tourism, retail trade, hotel, entertainment, and recreation. On the other hand, non-contact services such as information, communication, financial, professional, and business services remained resilient.

However, 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.

India's services sector activity, gauged by PMI Services, which remained in the contractionary zone for several months during 2020 and 2021 on account of the restrictions imposed to tackle the Covid-19 pandemic, recovered swiftly with the waning of the Omicron variant at the beginning of 2022.

Foreign Direct Investment (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.

E-Commerce

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- The E-Commerce sector also witnessed a renewed push and 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. 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.
- Further, there has been a phenomenal geographical expansion with the growth of e-commerce business in rural India driven by increased smartphone penetration, internet adoption, and increased purchasing power of rural customers. In addition, fiscal support during the pandemic helped boost e-commerce penetration in rural areas, likely by increasing consumption, which could mostly be done online in the presence of pandemic restrictions.
- Initiatives taken by the Government for the promotion of e-Commerce, including the Digital India program, Unified Payment Interface (UPI), GeM, etc., have been major contributory factors to the growth of E-commerce in recent years.
- The recent initiative of the launch of Open Network for Digital Commerce (ONDC) is also playing a significant role in democratising digital payments, enabling interoperability, and bringing down transaction costs. ONDC provides better market access to sellers and helps bring the country's remotest corners into the e-Commerce framework by empowering them with digitisation.

<u>**Digital Financial Services**</u>

- 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.
- Over the last few years, the number of neobanking platforms and global investments in the neo-banking segment has also risen consistently. Neobanks operate under mainstream finance's umbrella but empower specific services long associated with traditional institutions such as banks, payment providers, etc. Neobanks operate entirely online, with no physical presence apart from office space in the offline world.
- 75 Digital Banking Units (DBU) across 75 districts announced in Union Budget 2022-23 to take banking solutions to every nook and corner of the country have been launched.
- The introduction of CBDC will also significantly boost digital financial services. Issuance of CBDC in India offers several benefits, which inter alia, include reduction in operational costs involved in physical cash management, fostering financial inclusion, bringing resilience, efficiency, and innovation in the payments system, boosting innovation in cross-border payments space, and providing public with uses that any private virtual currencies can provide, without the associated risks.

Chapter 11 – External Sector: watchful and hopeful

Two global shocks in the new millennium – one an economic shock and the other, a health shock - have had very contrasting repercussions on the global economy. Following the global financial crisis in 2007-08 as the inflationary pressures were muted, interest rates were extremely low for

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long years. The easing financial conditions supported global economic growth, which reached 4.5 per cent in 2010.

Now, the Covid-19 pandemic is another shock to global growth performance, with economic growth down to a negative of 3.8 per cent in 2020. The following two years saw inflation rates rise to multi-decade highs, fuelled by global commodity and food price spikes. The situation has been further amplified by the Russia-Ukraine conflict.

Trade Helping India Reap the Benefits of Globalised World

- 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.
- International trade has been an important pillar of the resilience of India's external sector. Trade as a percentage of GDP for India was in the range of 12-15 per cent in the 1980s; 16-25 per cent in the 1990s and 25-50 per cent in the 2000s.
- 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.
- India maintained its dominance in the world services trade in FY22. Despite pandemicinduced 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.

Foreign Trade Policy

- The latest FTP for 2015- 2020 is in vogue at present. To provide policy stability during the pandemic period, the fiveyear 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.
- 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.

International Trade Settlement in Indian Rupees

- 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.

Initiatives to enhance trade

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- **Focus on Agricultural Products:** Pro-active support of export promotion agencies including Export Inspection Council, Plantation Boards, and Agricultural and Processed Food Products Export Development Authority (APEDA), and export facilitating measures like online issuance of certificates required for exports, aided growth of agricultural exports. Regular promotions were organised for agricultural products through participation in trade fairs and special events in association with the Indian Missions
- **Interest Equalisation Scheme:** This Scheme was formulated to give benefit in the interest rates being charged by the banks to the exporters on their pre- and post-shipment rupee export credits. While extending the scheme, from 1 October 2021 onwards, subvention rates have also been reduced.
- **Remission of Duties and Taxes on Exported Products (RoDTEP) scheme:** The scheme seeks remission of Central, State and Local duties/taxes/levies at different stages at the Central, State, and local level, which are incurred in the process of manufacturing and distribution of exported products, but are currently not being refunded under any other duty remission scheme.
- **Export Credit Guarantee:** The Export Credit Guarantee Corporation (ECGC) supports Indian exporters and banks by providing export credit insurance services. ECGC provides insurance cover on the export consignment to protect exporters from the consequences of the payment risks.
- **Krishi Udan Scheme:** Krishi Udan Scheme was launched in August 2020 on international and national routes to assist farmers in transporting agricultural products so that it improves their value realisation. Krishi Udan 2.0 was launched in October 2021 enhancing the existing provisions, mainly focusing on transporting perishable food products from the hilly areas, North- Eastern states, and tribal areas.
- **Districts as Export Hubs – One District One Product Initiative:** The Districts as Export Hubs-ODOP initiative is aimed at targeting export promotion, manufacturing, and employment generation at the grassroots level, making the States and Districts meaningful stakeholders and active participants in making India an export powerhouse thereby contributing to the AatmNirbhar mission and achieving the vision of Make in India for the world and being Vocal for Local.

Balance of Payments in Challenging Times

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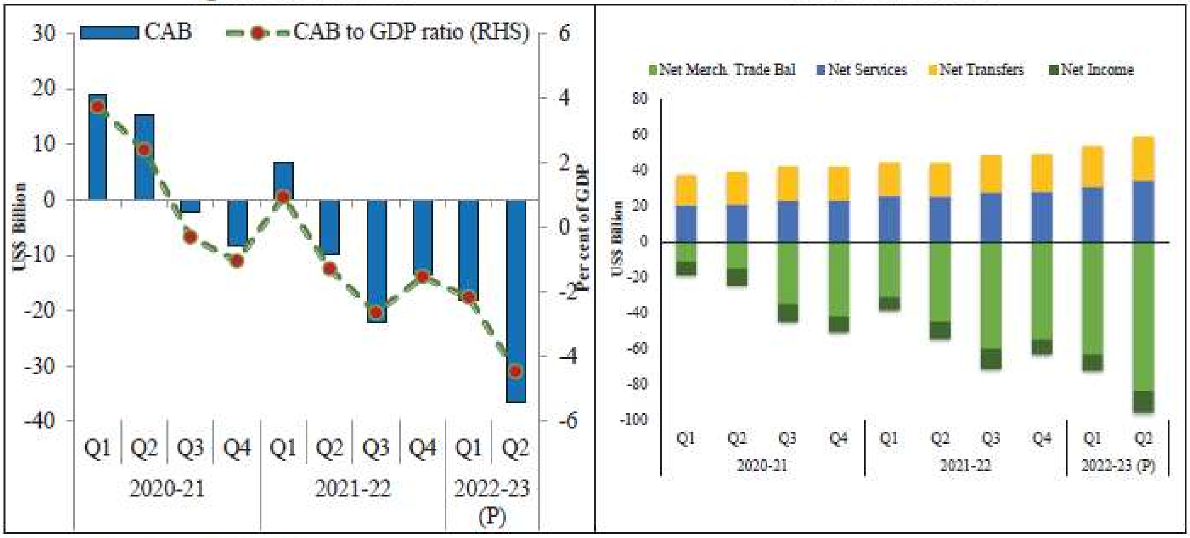
XI.7: Current Account Balance (CAB): Magnitude and Composition

a. Current account balance and as a per cent of GDP

b. Composition of Current account balance



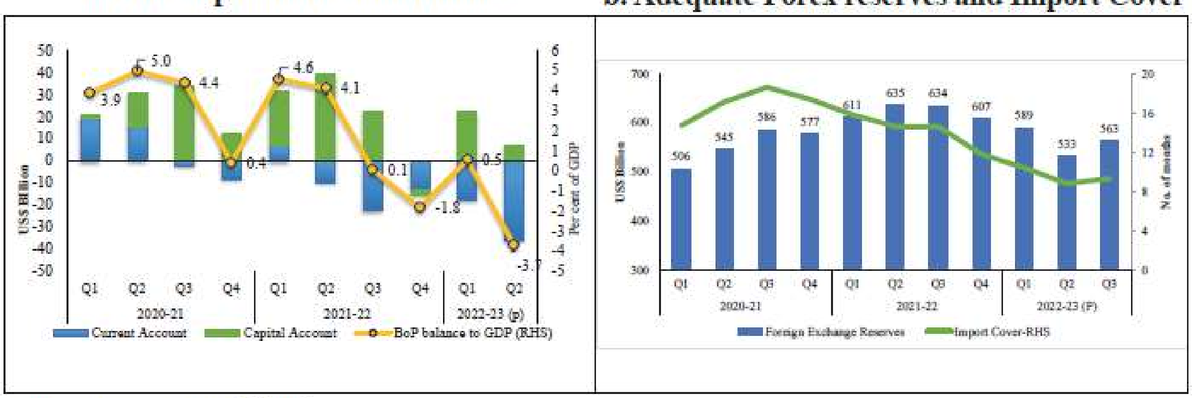
Source: RBI P: provisional

Balance of Payments and Foreign Exchange Reserves

XI.14: Overall BoP Balance and Forex Reserves

a. The surplus in the BoP balance

b. Adequate Forex reserves and Import Cover



Source: RBI P: Provisional

Safe and Sound External Debt Situation

- The Ministry of Finance's "India's External Debt: A Status Report 2019-20", provides details of the evolution of India's external debt.
- 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.

- Comparing various debt vulnerability indicators of India with peer countries for 2021 informs that the country is in a better position in terms of relatively low levels of total debt as a percentage of Gross National Income (GNI) and short-term debt as a percentage of total debt.
- The current stock of external debt is well shielded by the comfortable level of foreign exchange reserves.

Outlook for the External Sector: Cautious Amidst Global Headwinds

- India is facing competition from South Asian countries in a few of its export competitive products. In the textile sector, Bangladesh and Vietnam are seen to be expanding their exports globally, in recent years. Further, Vietnam has been able to expand its exports in machinery and equipment; computers, electronic products, certain agriculture products etc. However, given the benefits of the lower average age of the working population along with the advantage of economies of scale, India has the potential to cater to the global demand for several products in a cost-effective manner.
- 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.
- At times when the base (global growth and global trade) is not growing, export growth will have to come predominantly through market share gains.
- From a cross-country perspective too, India's external sector has fared relatively better and hence positioned relatively stronger to face the evolving adverse global scenario as evidenced by the Indian rupee outperforming most EME currencies, comfortable import cover and moderate CAD. India's external debt vulnerability indicators are benign by international standards. To sum up, while India's external sector faces challenges, it is performing relatively better as compared to many of its peers as it has inbuilt shock absorbers to weather them.

Chapter 12 – Physical and Digital Infrastructure: Lifting Potential Growth

- 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.
- The mechanisms like multi-modal transport system have also been put in place. The multi-modal connectivity will provide integrated and seamless connectivity for movement of people and goods from one mode of transport to another. It will facilitate the last mile connectivity and also reduce travel time for people, further reducing the logistics cost and promoting export competitiveness. These measures collectively can bring out the untapped potential of underutilised modes of infrastructure.
- Today, India is able to offer many best practices, particularly with respect to its digital infrastructure innovations, that can be emulated globally. Successful vaccination drive through

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the one-stop Co-WIN portal, DigiLocker, Open Network for Digital Commerce (ONDC), Open Credit Enablement Network (OCEN), Goods and Services Tax (GST) Sahay are a few success stories among many. The National Payments Corporation of India International (NPCIL) led Unified Payment Interface (UPI) is another such innovation which transformed the payment landscape.

- UPI based transactions grew both in value and volume terms, paving the way for its international adoption. The rollout of 5G services can unleash new economic opportunities and help the country leapfrog the traditional barriers to development, spur innovations by start-ups and business enterprises, and advance the 'Digital India' vision.
- 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.

Public-Private Partnerships (PPPs)

- 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.

National Infrastructure Pipeline (NIP)

The government launched the National Infrastructure Pipeline (NIP) with a forward-looking approach and with a projected infrastructure investment of around ₹111 lakh crore during FY20-25 to provide high quality infrastructure across the country. It also envisages improving project preparation and attracting domestic and foreign investment in infrastructure. The NIP includes infrastructure projects of more than ₹100 crore covering greenfield and brownfield investments.

National Monetisation Pipeline – Creation through monetization

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- The National Monetisation Pipeline (NMP), was thus announced on 23 August 2021. Based on the principle of 'asset creation through monetisation', it taps private sector investment for new infrastructure creation.
- The estimated aggregate monetisation potential under NMP is ₹6.0 lakh crore through core assets of the Central Government, over a four-year period, from FY20-25. It contains 20+ asset classes across 12+ line ministries/ departments. In addition, the top 5 sectors (by estimated value) capture around 83 per cent of the aggregate pipeline value: roads (27 per cent) followed by railways (25 per cent), power (15 per cent), oil & gas pipelines (8 per cent), and telecom (6 per cent).
- Roads and railways together contribute around 52 per cent of the total NMP value.

National Logistics Policy: Reducing the cost of logistics

- Logistics costs in India have been in the range of 14-18 per cent of GDP against the global benchmark of 8 per cent.
- Many efforts have already been made by the Government of India to improve the logistics ecosystem through 'infrastructure initiatives' such as Ude Desh ka Aam Nagrik (UDAN), Bharatmala, Sagarmala, Parvatamala, National Rail Plan, and through 'process reforms' GST, e-Sanchit, Single Window Interface for Trade (SWIFT), Indian Customs Electronic Data Interchange Gateway (ICEGATE), Turant Customs, and others.
- However, a need was felt to integrate all these efforts by different government agencies and lay an overarching interdisciplinary, cross-sectoral, and multi-jurisdictional framework for the logistics sector. To realise this idea, NLP was launched on 17 September 2022, addressing the components of improving efficiency in logistics through streamlining processes, regulatory framework, skill development, and mainstreaming logistics among others.
- The targets for achieving the vision of the NLP are to (i) reduce the cost of logistics in India to be comparable to global benchmarks by 2030; (ii) improve the Logistics Performance Index ranking - endeavour is to be among the top 25 countries by 2030, and (iii) create a datadriven decision support mechanism for an efficient logistics ecosystem.
- Among other steps taken to enhance logistics performance in the country, there has been an initiative to undertake a sub-national view of the state of logistics in the country through the Logistics Ease Across Different States (LEADS) index. The following Box provides some details of this initiative.

Civil Aviation: Revival backed by domestic demand

- UDAN has considerably enhanced regional connectivity through the opening of airports in India's hinterland. Under this scheme, the government has approved a budget of ₹4500 crore for revival of existing unserved/ underserved airports/airstrips of the State governments, Airports Authority of India (AAI), public sector undertakings and civil enclaves.
- The government has also accorded 'in-principle' approval for the setting up of 21 greenfield airports across the country. More than one crore air passengers have availed themselves of the benefit of the UDAN scheme since its inception. The scheme focuses on the connectivity between the Tier-2 and 3 cities in the country and the number of beneficiaries will increase manifold as the connectivity improves between unserved and underserved airports.

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Inland Water Transport

- The Inland Vessels Bill 2021, which replaced the over 100 year-old Inland Vessels Act, 1917 (Act No.1 of 1917), was passed by the Parliament in August 2021.
- This will usher in a new era for inland water transport sector and fulfil the vision to utilise the potential of multi-modal transport ecosystem while making the legislative framework user-friendly and promoting ease of doing business.

Developments in Digital Infrastructure

- The Submarine OFC connectivity from Chennai to Andaman & Nicobar Islands (CANI) project was launched to connect Port Blair and seven other islands of Andaman & Nicobar Islands with Chennai through 2,313 km of underwater OFC. There has been an immense proliferation of bandwidth utilisation, almost 30 times, from 2.7Gbps to 75.7Gbps. The project has led to an FTTH speed of 100 Mbps, and up to 15 times more data volume is available now.
- Landmark achievement in telecommunications in India was the launch of 5G services. 5G could impact consumers directly through higher data transfer speeds and lower latency. 5G use cases developed by Telecom Service Providers and start-ups in education, health, worker safety, smart agriculture etc., are now being deployed across the country.
- 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. In the ONDC framework, consumers can potentially discover any seller, product, or service by using any compatible application or platform.
- 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.
- Another important domain that the government has emphasised is the availability of open resources on Artificial Intelligence (AI). The national AI portal has been developed with a view to strengthening the AI ecosystem in the country by pooling together and highlighting the latest developments happening in Central and State Governments, industry, academia, NGOs, and civil societies.
- In a country such as India, with its unmatched linguistic and cultural diversity, AI has great potential as a tool for overcoming the language barrier. 'Bhashini', the National Language Translation Mission, aiming at nurturing Indian language technologies and solutions as a public good, was launched in July 2022. The Digital India Bhashini portal is a public digital platform

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on which 260 open-source API-based AI models are available for speech-to-text conversion, machine translation, and text-to-speech conversion in 11 Indian languages and English for various purposes.

- The introduction of GST, with its end-to-end digitisation of all processes, digitalization of tax administration, and the faceless e–assessment scheme for Income Tax, have improved governance and formalisation of the economy. The seamless generations of e-way bills and electronic toll collections have further augmented better tax collections for the government.
- The government has also taken initiatives towards empowering individuals with control over their data to access essential services related to finance, health, education, and skills digitally. The Account Aggregator (AA) is a global techno-legal framework that enables individuals to share their financial data quickly and securely, with their consent, with any regulated third-party financial institution of their choice. The AA framework is currently live across over 110 crore of bank accounts.
- India is also geared to strengthen the up-and-coming drone industry. Under Mission 'Drone Shakti', the drone start-ups and Drone-as-a-Service (DrAAS) are being promoted. Almost 90 per cent of the airspace has now been opened up as a green zone for flying drones up to 400 feet. A Production-Linked Incentive (PLI) scheme for drones and drone import policy have been notified.
- As our digital space widens to bring in newer services, the need for appropriate regulations also becomes paramount. Therefore, techno-smart regulations are the future for digital societies. In this regard, the governments worldwide have adopted or are introducing legislation to provide a foundation for robust data governance.

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