31 January 2023

Jahnavi, Sonal
Economists

Economic Survey 2022-23

This year Economic Survey has presented a holistic picture of the impact of government policies on growth and quality of living and also outlined the path to achieve sustainable 7-8% growth per annum over the medium term. While on one hand, this year's survey highlighted progress made in social sector (improvement in enrolment ratios, health and social sector spending, decline in mortality ratios, increased access to cooking fuel, affordable housing, water, sanitation and electricity, and all weather roads), on the other hand it noted strength on the external front (forex reserves, remittances, and import cover). Robustness of the financial intermediaries and, fiscal position of the government were pointed as pillars on which India's growth will leap forward in the medium-term. Further push is expected to be provided by enhancing the physical and digital infrastructure of the country, which has already changed our way of living and has helped us cope with the effects of Covid-19 pandemic faster.

Leaving no one behind

GDP growth: Economic Survey expects the Indian economy to do better than the pre pandemic year as the health and economic shocks of pandemic and spike in commodity price wear off. The economy is pegged to grow by 7% in FY23 and by 6.5% (6.0-6.8%) in FY24 as global environment remains rife with uncertainty. These estimates are in line with projections made by IMF (6.1%). The economy has witnessed a fresh credit cycle led by improved and healthier balance sheet of banking, non-banking and corporate sector, along with double digit growth in bank credit in the last few months. The economy is poised to do better in the remaining decade. India is placed to grow faster and has even begun to benefit from the efficiency gains on the back of greater formalisation, higher financial inclusion and economic opportunities formed by digital technology based reforms. In the medium term, potential GDP growth of the country is likely to rise to 7-8% per annum.

Physical and Digital Infrastructure: Economic Survey acknowledges Infrastructure offers multiplier effected in the economy and thus the government had adopted the forward looking approach towards infra. Under National Infrastructure pipeline (NIP) over 89,151 projects worth Rs 141.4 lakh are under various stages of implementations. As quantum of financing under this is huge, National Monetisation plan has been formed with the investment potential of Rs 9 lakh crore. PPPs play a vital role in addressing the infrastructure gap and improve efficiency in infrastructure service delivery. IIPDF scheme has been notified recently to develop PPP projects by providing funding support to the project-sponsoring authorities. The scheme has an outlay of Rs 150 crore for 3 years from FY23-25.

The role of digital infrastructure in socio-economic development has expanded and have gathered increased importance. The focus of digital India programme rests on providing high speed internet as a core utility to citizens for delivering services, creating unique digital identity, providing shareable private space on public cloud (digitally store certificate and documents). Allowing end to end digital loan applications through Open Credit Enablement Network (OCEN). Through account aggregator, consent based data sharing network is live across 110 crore bank accounts. Favourable demographics, digital behaviour pattern and middle class expansion are growth drivers for India's digital infrastructure. India has untapped potential in digital infra space with initiatives such as ONDC, e-TReDS, e-RUPI, CO-WIN, account aggregators are at different stages of implementations.

Agriculture and Food management: Agriculture and allied sector growth has been buoyant through the years on the back of the measures adopted by government to augment crop and livestock productivity, returns to farmers through price support and by promoting crop diversification. Private investment in agriculture sector has increased by 9.3% in FY21 (7% in FY20). Institutional credit in agriculture sector has grown by as much as Rs 18.6 lakh crore in FY22 from Rs 15.8 lakh crore in FY21. Initiatives such as PM-KSIAN, PM-Fasal Bima yojana and forming agriculture infrastructure fund has provided much needed support to the sector. Formation of e-NAM with 1.74 crore farmers and 2.39 lakh traders has aided the sector further.

"Revenue Relish": In the current fiscal year, government is likely to reap benefits of "sustained revenue buoyancy" with FYTD (Apr-Nov'22) growth in revenue collections breaching the long-term average (LTA) trends. For instance, gross tax revenues so far are up by 15.5% versus LTA of 13.9%. Within this, direct tax receipts are up by 23.9% (12.9% LTA), corporation tax by 21.1% (10.3% LTA) and other income tax by 26.7% (16.8% LTA). GST collections are also sustainably high now. This has allowed the government to improve the quality of spending with capex now contributing to 19% (FY23BE) of the total expenditure versus 12% in FY18. Road transport & highways, railways and defence services have been the biggest beneficiaries.

All under a "Big Tent": The survey highlights, that government reforms apart from focusing on high growth, also ensured that growth remains inclusive and improves the quality of life of general public. This includes improving not only physical infrastructure (national highways, electricity supply, railway tracks and carriage, affordable housing, availability of cooking fuel), but also social aspect of life. To achieve this, social sector spending of the government increased more than 2X to Rs 21.3 lakh crore by FY23 (BE) from Rs 9.1 lakh crore in FY16. Further, health budget of both central and state governments rose to 2.2% of GDP (FY22RE) from 1.6% in FY21, and remained above 2% in FY23 (BE) as well (2.1%).

As a result, some of the outlays which have turned into outcomes include: massive success of Covid-19 vaccination program which allowed the country to recover from the losses suffered during the pandemic at the earliest; improvement in gross enrolment ratio; opening up of new PM SHRI schools; dip in maternal and child mortality ratio; decline in unemployment rates; launch of eShram portal for creating a database of unorganised workers; combining JAM trinity with DBT for achieving the goals of financial inclusion; launch of the Ayushman Bharat Scheme and reduction health expenditure from 64% to 48%.

Financial intermediaries: It was noted in the economic survey that following boom and bust cycle experienced by the financial sector in the first 2 decades of this millennium, the financial sector is now back on track. While the recovery was somewhat delayed owing to the Covid-19 pandemic, banks now have much cleaner balance sheet, GNPA ratio of SCBs has fallen to a 7-year low of 5.0% as of Sep'22; CRAR remains healthy at 16.0%; and the recovery rate for the SCBs through IBC was the highest in FY22 compared to other channels. Going forward, supported by strong balance sheets, growth in credit offtake is likely to sustain, and with revival in private capex, India will witness a virtuous investment cycle.

External stability: With uncertainty surrounding path and pace of global recovery, it becomes difficult to gauge the long-term impact of global growth on our exports, CAD and the rupee. However, highlighting the strength of our fundamentals, the survey notes that our forex reserves remain sufficient at US$ 563bn (as of Dec'22) and can cover up to 9.3 months of our imports. Foreign exchange reserves as a % of total debt also stands at whooping 97%. India remains one of the top remittance recipient of the world (according to World Bank report) with US$ 100bn estimated in receipts for 2022, compared with US$ 60bn estimated for Mexico and US$ 51bn estimated for China. Going forward, the survey expects CAD to remain within sustainable limits, assuming easing of crude oil prices, resilience of net services exports and inflow of remittances. However, risks to this outlook may emerge from pick up in oil prices and commodity prices (in case global recovery fastens) increasing our import bill.

Fig 1 – Macro Indicators

Indicators	FY22	FY23
GDP	8.7%	7.0%
Direct Tax collections (Apr-Nov'22)	7.0%	8.7%
Centre's Fiscal deficit to GDP	6.7%	6.4%
Combined gross Fiscal to GDP	10.3%	9.4%
Union gov capex as % of GDP	2.5%	2.9%
Combined debt to GDP	84.5%	
Centre's debt to GDP	56.7%	
Services	8.4%	9.1%
IIP (Apr-Nov'22)	17.6%	5.5%
Average GST Collections	1.24 (lakh crore)	1.49 (lakh crore)*

Source: Economic Survey, Bank of Baroda Research | * For FY23, GST is Apr-Dec'22, for FY22, GST for the entire fiscal

Disclaimer

Visit us at www.bankofbaroda.com

For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
+91 22 6698 5143
chief.economist@bankofbaroda.com