



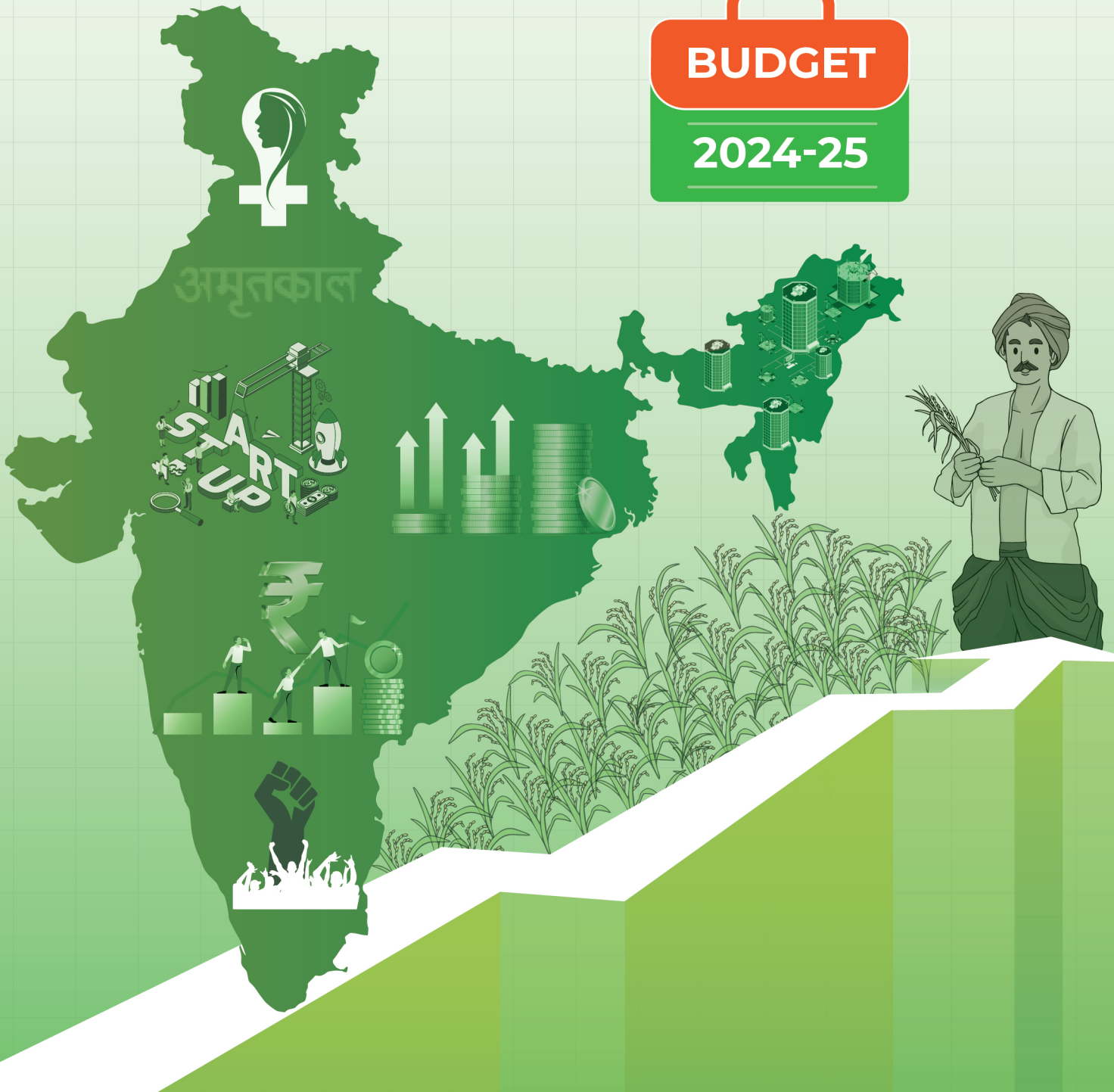
**VAJIRAM & RAVI**

Institute for IAS Examination

# ECONOMIC

SURVEY

2023-24

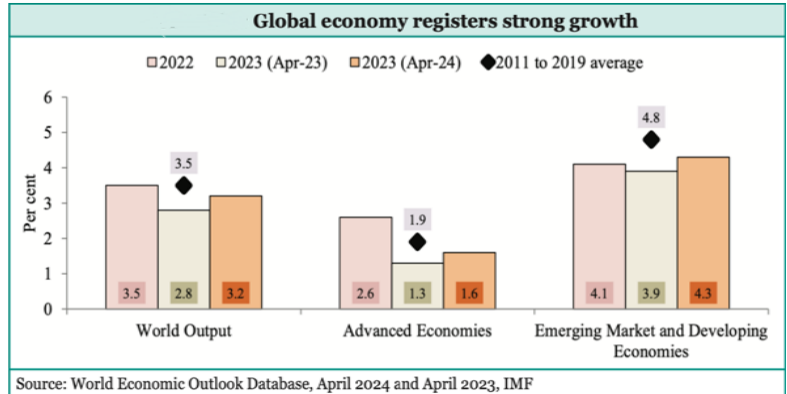


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# 1 STATE OF THE ECONOMY: STEADY AS SHE GOES

- The pandemic, global troubles, supply chain disruptions, and inflationary pressures all have resulted in Indian economy to recover and expand in an orderly fashion in the last three years.
- **The real GDP in FY24 was 20 % higher than its level in FY20**, a feat that only a very few major economies achieved.
- Growth has been inclusive with a *reduction in unemployment and multi-dimensional poverty* and an *increase in labour force participation*.
- Overall, Indian economy looks forward to FY25 optimistically, anticipating broad-based & inclusive growth.



## GLOBAL ECONOMIC SCENARIO

### GLOBAL GROWTH:

- » Global economy achieved stability in 2023 with a growth of **3.2%** compared to 2022.
- » Both Emerging Market Economies (EMEs) and Advanced Economies (AEs) achieved higher growth in 2023 than projected a year ago.

Almost all major economies have surpassed the pre Covid-19 pandemic real gross domestic product (GDP) levels in 2023 with some economies, including India and China attaining GDP levels 20% higher in 2023 compared to 2019 levels.

- » The economic shocks resulting from the Russia-Ukraine conflict led to subdued growth in large countries like Germany and France.

Global trade moderated due to rising geopolitical tensions, cross-border restrictions and slower growth in advanced

### GLOBAL FISCAL SITUATION

- » Global general government fiscal deficit (as a % of GDP) rose by 1.6% points in 2023 as windfall revenues from inflation for *oil-producing and commodity-exporting countries* waned while expenditures remained largely stable. Consequently, global public debt also inched up in 2023.
- » The global volume of exports of goods and services registered a modest growth in 2023 compared to 2022 driven by lower demand in developed economies and weaker trade in East Asia and Latin America.
- » Concerns regarding geopolitical conflicts, high borrowing costs and global economic fracturing reflected in weakening FDI flows as global FDI flows declined in 2023 compared to 2022.

### GLOBAL TRADE & FDI

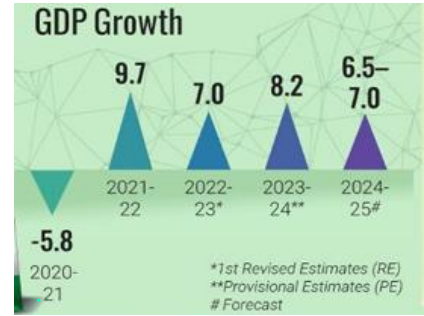
- » FDI flows moderated to geopolitical developments and monetary policy changes across countries.
- » The escalation of the *Red Sea crisis* amid heightened geopolitical tensions in the Middle East led to increased global transportation costs due to rerouting of cargo and supply chain disruptions.
- » As the supply chain pressures eased and energy and food price shocks triggered by the Russia - Ukraine conflict faded out, headline inflation across countries declined considerably in 2023.

### GLOBAL INFLATION

- » Core inflation has fuelled overall inflationary pressures.
- » **Core inflation** remained sticky on account of *services inflation and a strong labour market*, especially in most AEs prompting many central banks to maintain policy rates at a high level or further increase them in 2023, except in China, where the government focussed on giving policy stimulus to revive the economy beset with troubles in the real estate sector.
  - European Central Bank (ECB) became the first major central bank to cut its policy rate, invoking the first rate cut in nearly five years.
- » The US also faced high inflationary pressures and consequently raised the policy rates substantially.
- » Stronger-than-expected labour market data and persistent inflationary pressures have been a major factor behind the Federal Reserve's (the Fed) reluctance to lower rates.

**A RESILIENT DOMESTIC ECONOMY in FY 24**

- India's **real GDP** grew by **8.2%**, posting growth of over 7% for a **third consecutive year**, driven by stable consumption demand and steadily improving investment demand.
- On the supply side**, Gross value added (GVA) at 2011-12 prices grew by **7.2%**, with growth remaining broad-based.
- Net taxes** at constant (2011-12) prices grew by **19.1%**, aided by reasonably strong tax growth, both at the centre and state levels and **rationalisation of subsidy expenditure**.
- Shares of the agriculture, industry and services sector in overall GVA at current prices** were **17.7%, 27.6%** and **54.7%** respectively.
  - Erratic weather patterns during the year and an uneven spatial distribution of the monsoon impacted overall agricultural output.
  - Manufacturing GVA grew by 9.9 % benefitting from reduced input prices while catering to stable domestic demand.
  - Construction activities displayed increased momentum & registered a growth of 9.9% due to infrastructure buildout & buoyant commercial & residential real estate demand.



- Financial and Professional services have been the major growth drivers post pandemic.
- Contact-intensive services emerged much stronger in the post-pandemic period by embedding greater technology and digital content.

**Prelims Fact:** Contact intensive services include *trade, hotels, transport, real estate, communication and broadcasting services.*

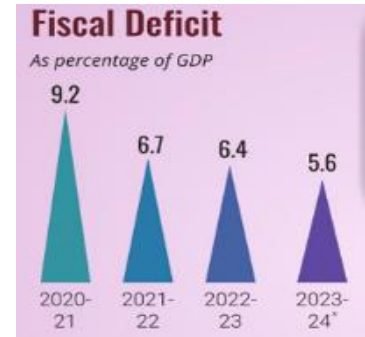
- On the demand side**, private final consumption expenditure (PFCE) grew by 4.0% in real terms.
- Gross Fixed Capital Formation (GFCF) continues to emerge as an important driver of growth.
  - **GFCF increased by 9% in real terms in FY 24**
  - **GFCF from Private Nonfinancial Corporation's** Increases By 19.8%.
- In 2023, residential real estate sales in India were at their highest since 2013.
- Credit disbursal by Scheduled Commercial Banks (SCBs) to industrial MSMEs and services continues to grow in double digits despite a higher base.
- Global trade growth slowed in 2023, leading to a marginal decline in merchandise exports growth.
- FY24 also marked the year GDP reached levels projected by the pre-pandemic trajectory.

**Prelims Fact-** Deployment of a counter-cyclical fiscal policy for tackling pandemic induced contraction focussed on capital expenditure, thereby positioning government-driven capital formation as a driver of growth, implementing multiple process reforms and deployment of public digital infrastructure that boosted the ease of doing business.

**Improving Public Finances**

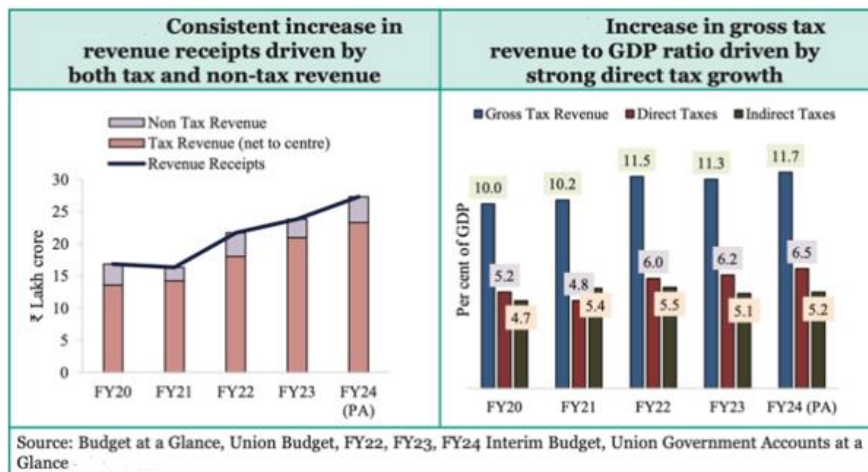
**1. Consolidation of Union Government Finances (FISCAL DEFICIT/CAD)-**

- Against the global trend of widening fiscal deficit and increasing debt burden, **fiscal performance** in 2023, emerged as the cornerstone of India’s macroeconomic stability as the fiscal deficit of has been **brought down** from 6.4 % of GDP in FY23 to **5.6 % of GDP in FY24**.
- **Current Account Deficit (CAD)** stood at **0.7% of the GDP** during **FY24**, an improvement from the deficit of 2% of GDP in FY23.



**2. Buoyancy in revenues continues in FY24**

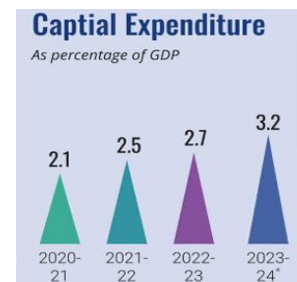
- **Revenue receipts** of the union government consisting of tax revenue (net to centre) and non-tax revenue (NTR) increased YoY by **14.5 %** in FY24, with robust growth in both tax and non-tax revenues on account of resilient economic activity, increased compliance and *higher-than-budgeted non-tax revenue in the form of dividends from the RBI*.
- **55% of tax collected** accrued from **direct taxes and remaining 45% from indirect taxes**.
- **Gross tax revenue (GTR)** growth was estimated to be 13.4 % in FY24 led by growth in direct taxes and in indirect taxes.
- **GST collection:** The increase in indirect taxes in FY24 was mainly driven by a **12.7 % growth in GST collection**. GST E-way bill generated has also registered an uptick post-pandemic.
- Within non-debt capital receipts, the proceeds from the National Monetisation Pipeline (NMP), announced in the Union Budget FY22, are gaining traction as receipts worth ₹3.9 lakh crore have been recorded against a target of ₹4.3 lakh crore



**3. Trends in Central Government Expenditure-** The government has followed a path of fiscal consolidation while continuing to protect the vulnerable sections and investing in the productive capacity of the economy. Free food grains are provided to 81.4 crore people in the country along with increased capital spending.

**4. Capex lifting the productive potential of the economy-**

- Capital expenditure for FY24 stood at **₹9.5 lakh crore**.
- Spending in sectors such as road transport and highways, railways, defence services, and telecommunications delivered higher and longer impetuses to growth by addressing logistical bottlenecks and expanding productive capacities.
- Additionally, the Government continues to disburse **grants-in-aid** for the creation of capital assets to the states, thereby incentivising them to increase their productive spending.



**5. Revenue expenditure growth remains restrained**

- Total expenditure for FY24 is **lower by ₹60.6 thousand crore** as compared to the budgeted estimates as a result of efficient expenditure management, aided by lower borrowing costs.
- In FY24, the supply chains adapted helping the prices of fertilisers to return to pre-conflict levels. This facilitated a lower outlay on fertiliser subsidies.

**6. Overview of State Government Finances**

- Preliminary unaudited estimates of finances for 23 states, published by the Comptroller and Auditor General (CAG) of India, suggest that the **gross fiscal deficit of these 23 states was 8.6% lower than the budgeted figure of ₹9.1 lakh crore**.
- The quality of spending by state governments improved, too, with state governments focusing on capex as well.

- The Union Government’s transfers to the states are highly progressive, with states with lower Gross State Domestic Product (GSDP) per capita receiving higher transfers relative to their GSDP. On the revenue side, however, the richer states, with certain exceptions, are able to mobilise a greater proportion of their GSDP as taxes. This enabled the poorer states to incur greater public spending relative to their GSDP with the system of fiscal devolution.

**7. General Government Debt:** The general **government debt to GDP ratio** increased slightly in FY24 despite a declining primary deficit because monetary tightening led to a spike in interest rates, while the decline in inflationary pressures resulted in a lower-than-budgeted nominal GDP growth.

**Prelims Facts**

- Easing the monetary policy, along with an uptick in WPI inflation and government’s continued commitment to fiscal consolidation can help in **lowering the Debt to GDP ratio**.
- Union Government debt is characterised by **low currency and interest rate risks**. This is owing to the **low share of external debt** in the debt portfolio and almost all external borrowings being from official sources.
- Continued commitment to fiscal consolidation in a manner that reduces general government deficits to below 7 % on a structural basis can result in India’s 10-year benchmark bond yield to drop between 30 and 50 basis point and will cause interest rates to decline in general, leading to overall lower cost of borrowing for households and businesses.

- For the first time in 13 years, S&P Global Ratings upgraded India's **sovereign credit rating outlook from ‘stable’ to ‘positive’** in May 2024 on the back of robust economic growth, sound economic fundamentals and improved composition of government spending.

**8. Moderation in inflation pressure**

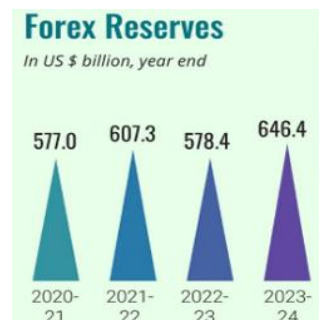
- After averaging 6.7% in FY23, **retail inflation declined to 5.4 % in FY24** due to the combination of measures undertaken by the Government and the RBI such as open market sales, retailing in specified outlets, timely imports, reduced the prices of LPG cylinders, cut in petrol and diesel prices, raised policy rates, supporting growth with adequate liquidity.
- The effects of these measures are reflected in the latest data on **CPI inflation** – headline CPI inflation of 5.1 % in June 2024, and core inflation declined to 3.1 %.
- Consequently, India was the only country amongst its peers to traverse a high-growth and low-inflation path in the period FY22 – FY24 despite the pressures on the food inflation front, driven by adverse weather conditions.

**9. The financial system remains resilient**

- Data from the RBI’s Financial Stability Report of June 2024 show that the asset quality of SCBs has improved, with the Gross Non-Performing Assets (**GNPA**) ratio declining to **2.8 %** in March 2024, **a 12-year low**.
- The system-wide **capital to risk-weighted assets ratio (CRAR)** declined marginally over FY24 due to an RBI-mandated revision of risk weights but remained well above regulatory threshold.
- To regulate the growth in the *unsecured lending category* and preserve financial stability, the RBI tightened norms around this portfolio.
- To tackle the problem of increasing unsecured loans than the overall credit, the RBI directed consumer credit exposure for banks and Non-Banking Financial Companies (NBFCs) to attract a risk weight of 125 % compared to 100 % earlier.

**10. India’s external sector is safely navigating through uncertainties**

- Moderation in merchandise exports continued during FY24 due to weaker global demand and persistent geopolitical tensions and a sharper decline in India’s merchandise import growth, owing to declining commodity prices, resulted in a lower trade deficit in FY24.
- India's service exports have remained robust, reaching a new high in FY24.
- Net private transfers, mostly comprising remittances from abroad, grew to USD 106.6 billion in FY24.
- Supported by optimism surrounding India’s growth story, progressive policy reform, economic stability, fiscal prudence and attractive investment avenues, India



witnessed robust **FPI inflows** in FY24 that helped fund the CAD and aided the RBI in building adequate forex reserves.

- **Net FDI inflows**, however, witnessed a **decline** largely as a part of the global phenomenon of declining FDI flows on account of increased scepticism.
- The contraction in net inflows was primarily due to a surge in repatriation/ disinvestment.
- **Forex reserves** as of the end of March 2024 were sufficient to cover **11 months** of projected imports and more than **100 % of total external debt**.
- The Indian Rupee has also been one of the least volatile currencies among its emerging market peers in FY24. India's external debt vulnerability indicators also continued to be benign.

## 11. Reduction in macro vulnerability

- The fiscal deficit of the Government is expected to drop to 4.5 % of GDP or lower by FY26. This commitment has helped keep the sovereign debt sustainable, thereby keeping sovereign bond yields in check.
- This is reflected in the **downward trajectory** of the macroeconomic vulnerability index

**Prelims Fact-** Macroeconomic Vulnerability Index is constructed by combining **India's fiscal deficit, CAD and inflation**.

## INCLUSIVE GROWTH

### Shift in The Approach to Welfare



India's social welfare approach has undergone a shift from an input-based approach to **outcome-based empowerment**.

Saturation of basic necessities has been recognised as imperative to achieve this through flagship initiatives like PM Ujjwala Yojana, Swachh Bharat Mission, Jan Dhan Yojana, PM-AWAS Yojana.

The approach also involves the targeted implementation of reforms for last-mile service delivery to truly realise the maxim of "**no person left behind**". These include the *Aspirational Districts Programme, Aspirational Blocks Programme, Vibrant Villages Programme and Viksit Bharat Sankalp Yatra*.

**Digitisation** of healthcare, education and governance helps improve the gains for every rupee spent. The Direct Benefit Transfer (DBT) scheme and Jan Dhan Yojana-Aadhaar-Mobile trinity have been boosters of fiscal efficiency and minimisation of leakages.

**Employment front:** According to the annual PLFS, the all-India annual unemployment rate (persons aged 15 years and above) has been declining since the pandemic, accompanied by a rise in the labour force participation rate and worker-to-population ratio. The **female labour force participation rate** has been rising for six years, i.e., from 23.3 % in 2017-18 to **37 % in 2022-23**.

As a result of the systematic focus on addressing individual deprivations, the incidence of poverty has reduced remarkably.

The latest Household Consumption Expenditure Survey (HCES) 2022-23 show that the monthly per capita consumption expenditure (MPCE) in 2022-23 increased in real terms in both rural and urban areas over 2011-12.

**Strengthening the Statistical System**

The government is taking many steps aimed at strengthening administrative and survey statistics, building capacities and improving data quality and timeliness which include-

- a) **Ministry of Statistics and Programme Implementation (MoSPI)-**
  - It has initiated the **annual survey of unincorporated sector enterprises**, a time-use survey and a pilot for an annual survey of service sector enterprises.
  - It is also working towards **increasing the frequency of PLFS data and extending the generation of quarterly estimates for rural areas.**
  - It is also developing a **National Metadata Structure** to encourage greater use of administrative data.
  - **Unified Data Portal** project has been envisaged by MoSPI for creating a centralised database and storage system.
  - Initiated an exercise to change the base year of CPI from 2012 to 2024.
- b) An Advisory Committee on National Accounts Statistics has been set up to decide the base year for GDP.
- c) The ongoing efforts to construct the **producer price index for goods and services** may be expedited to have a greater grasp of episodes of cost-push inflation.
- d) The high-frequency price monitoring data for essential food items collected by different departments may be linked in such a way that the build-up of prices at each stage from the farm gate to the final consumer is quantifiable and monitorable. This will help in stabilising prices of essential food items.
- e) The granular GST data, if made available, has great potential to analyse business health, screening of loan applications, provide support for cash flow-based lending, and understand the economies of different geographies deeply.
- f) CAG is trying to establish common fiscal data standards for making standardised data available through a public web portal. Granular time series, in database formats, of audited accounts of the Union and the States will make fiscal analysis and policy much easier.
- g) Regular indicators of the dynamics of production and employment in MSMEs are essential, considering their potential for growth and job creation.
- h) Information may be published on industry-wise gross disbursement of bank credit (as opposed to outstanding credit data), industry-wise monthly gross financial flows through domestic and external equity and debt routes, and other financing sources.
- i) Regular mechanism to aggregate the financial flows to infrastructure and physical progress-sectorally and geographically differentiated at least on an annual basis.
- j) The large volume of patient data generated by schemes such as Pradhan Mantri Jan Arogya Yojana and Ayushman Bharat Digital Mission can be used for disease surveillance, preventive medication, etc.
- k) The Labour Bureau is also tasked with conducting five surveys relating to workers and employment. Ensuring rigour, timeliness and user-friendliness of data and making it available in database formats.
- l) Process and impact evaluation capacities in the Union and State Governments and universities should be nurtured and driven towards maturity in a time-bound manner.

**Conclusion**

- The Indian economy recovered swiftly from the pandemic, with its real GDP in FY24 being 20 % higher than the pre-COVID, FY20 levels.
- Domestic growth drivers have supported economic growth in FY24 despite uncertain global economic performance.
- Improved balance sheets will help the private sector cater to strong investment demand.
- Structural reforms such as the **GST** and **IBC** have also matured and are delivering envisaged results.
- Considering these factors, the Survey conservatively projects a *real GDP growth* of **6.5–7 %**, with risks evenly balanced, cognizant of the fact that the market expectations are on the higher side.

## 2

## MONETARY MANAGEMENT AND FINANCIAL INTERMEDIATION: STABILITY IS THE WATCHWORD

For a developing economy such as India, the financial sector needs to support the banking sector and fill the gap in capital required for the economy's growth.

- India's banking and financial sectors stellar performance in FY24 are in line with India's emergence as the **world's fifth-largest economy**.

### Overview of the Indian Economy's Financial and Banking Sectors



- ➔ They have shown **strong performance** despite continuous geopolitical challenges.
- ➔ The Central Bank maintained a **steady policy rate** throughout the year, with the **overall inflation rate under control**.
- ➔ **The effects of the monetary tightening** following the Russia-Ukraine conflict are evident in the lending and deposit interest rates increase among banks.
- ➔ **Bank loans saw significant and widespread growth** across various sectors, with personal loans and services leading the way.
- ➔ **Capital markets have also shown impressive results**, with India's stock market capitalisation to GDP ratio ranking fifth globally.
- ➔ **Digital Public Infrastructure (DPI)** and the greater involvement of banks and microfinance institutions (**MFIs**) have contributed to improved **financial inclusion**.
- ➔ The insurance and pension sectors are also doing well, as indicated by their expanding coverage.

**Recent Monetary Developments in India:**

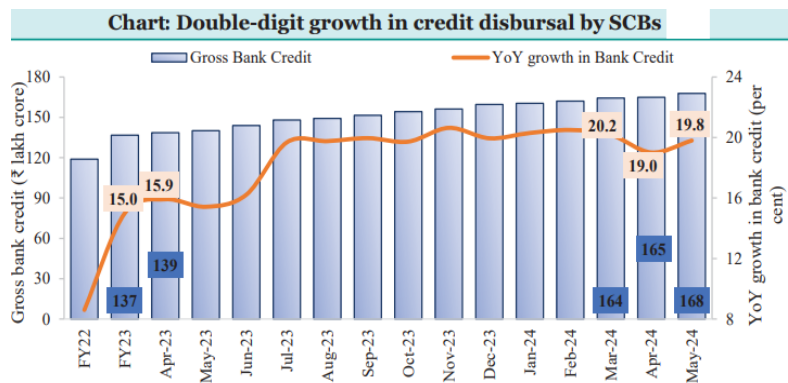
- **Overview:**
  - **Monetary policy** plays a crucial role in determining the economic conditions of a country through its influence on macroeconomic indicators such as economic growth, inflation, and investments.
  - **The primary objective of monetary policy** is to maintain price stability while keeping in mind the objective of growth.
  - **Various instruments of monetary policy**, viz. cash reserve ratio (CRR) and statutory liquidity ratio (SLR) of banks, open market operations (OMOs), and imposition of credit ceilings, etc., are used by the central bank in the direction of this overall objective.
- **Monetary and credit conditions:**
  - **The Monetary Policy Committee (MPC)** maintained the status quo on the policy **repo rate at 6.5%** in FY24. It focused on **withdrawing accommodation** to ensure that inflation gradually aligns with the target while supporting growth.
  - Important factors impacting the evolution of monetary and credit conditions during FY24 were the **withdrawal of ₹2,000 banknotes** (May 2023), the temporary imposition of the incremental CRR (I-CRR) (Aug 2023), etc.
- **Liquidity conditions and trends in policy rates:**
  - Taking cognisance of risks that excess liquidity can pose to price and financial stability, the RBI announced a temporary I-CRR of 10%.
  - The I-CRR, which **impounded about ₹1.1 lakh crore from the banking system**, was reviewed and discontinued in a phased manner.
  - **The impounded amount was thus released to the banking system** ahead of the festival season in line with the announcement on the Developmental and Regulatory Policies.
- **Monetary policy transmission:**
  - Lending and deposit rates of scheduled commercial banks (SCBs) increased further during FY24.
  - It reflects the lagged impact of the policy rate hikes (during May 2022-Feb 2023), the external benchmark-based lending rate system of loan pricing and the moderation of surplus liquidity.

**Significance of Financial Intermediation:**

- Financial development and economic growth are inextricably linked, and financial intermediation is the pathway through which the former translates into the latter.
- **Financial intermediation helps in the efficient allocation of limited resources**, which can lead to increased and inclusive economic growth.
- **The services provided by financial intermediaries**, viz. mobilising, saving, extending credit, storing assets, growing them, managing risk, and facilitating transactions, were essential for technological innovation and economic development.
- Financial intermediation also facilitates and encourages the inflows of foreign capital.

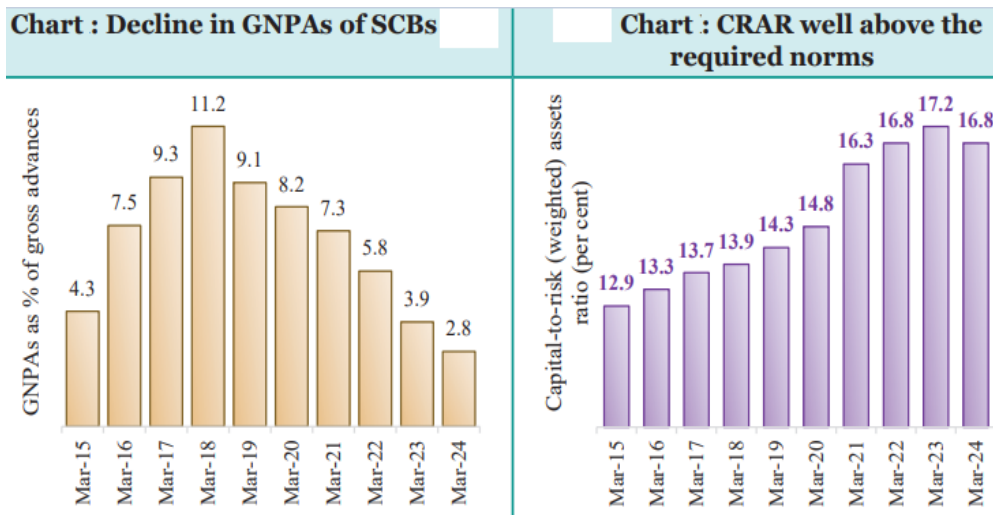
**Performance of the Banking Sector and Credit Availability:**

- **Overview:**
  - The soundness and resilience of India’s banking sector have been underpinned by ongoing **improvements in asset quality, enhanced provisioning for bad loans, sustained capital adequacy, and a rise in profitability**.
  - Lending by non-banking financial companies (NBFCs) accelerated, led by personal



loans and loans to the industry, and their asset quality has improved.

- **Sectoral credit growth:**
  - **Agriculture:** Agricultural credit had increased nearly 1.5 times from ₹13.3 lakh crore in FY21 to ₹20.7 lakh crore in FY24. The Kisan Credit Card (KCC) scheme has played a pivotal role in providing timely and hassle-free credit to farmers.
  - **Industry:**
    - Industrial credit growth is driven by an increase in bank credit to small and large industries.
    - The boost in credit disbursement to MSMEs has been supported by the availability of collateral-free loans with a 100% credit guarantee under the **Emergency Credit Linked Guarantee Scheme (ECLGS)**.
    - Other initiatives for improving credit flow to the MSME sector are introduction of Trade Receivables Discounting System (**TReDS**), change in definition of MSME, registration of MSMEs on **Udyam Portal**, etc.
  - **Services:** Bank credit disbursement to the services sector remained resilient and within the services sector, credit disbursement to the 'commercial real estate' and 'trade' sub-sectors improved.
- **Improvement in asset quality of banks:**
  - The Indian banking system remains sound and resilient, backed by high capital adequacy ratio, improved asset quality and robust earnings growth.
  - There has been a significant enhancement in the asset quality of banks, **led by improved borrower selection, more effective debt recovery and heightened debt awareness** among large borrowers.

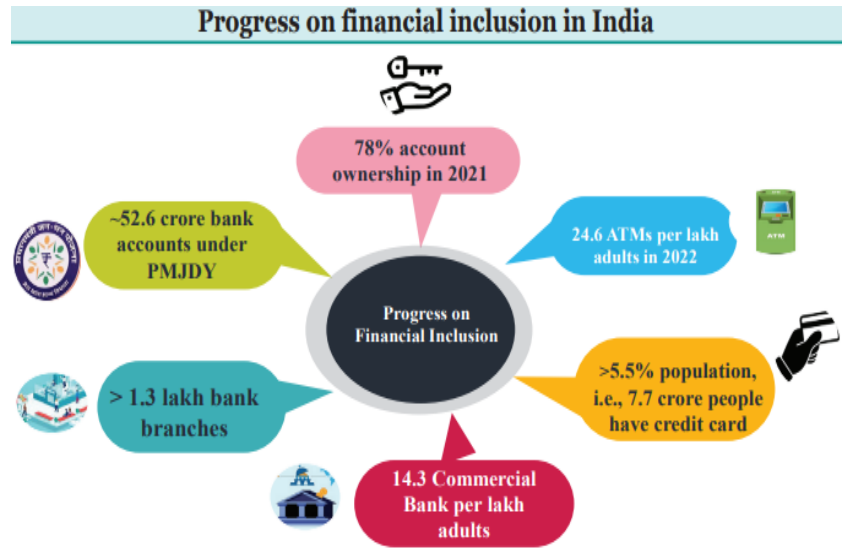


- **Dealing with distressed assets:**
  - Conventional channels of recovery and reconstruction includes **Debt Recovery Tribunals (DRTs)** and the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (**SARFAESI**) Act, 2002.
  - **The Asset Reconstruction Companies (ARCs)** regulated under the SARFAESI Act are emerging as an alternative channel for investors, including FPIs, to access the non-performing assets (NPAs)/distressed assets held by banks.
  - To deepen the distressed asset market further, the Government set up the National Asset Reconstruction Company Ltd. (**NARCL**) and India Debt Resolution Company Ltd. (**IDRCL**) in 2021.
  - **The Insolvency and Bankruptcy Code (IBC) 2016** gave an effective solution for the **twin balance sheet problem**, where banks are under the stress of NPAs while corporates are overleveraged and unable to repay their debt.
  - These measures have nursed the credit sector back to sound health, and the gross NPA (GNPA) ratio shrunk to **2.8%** in March 2024.

**Government's Approach towards Financial Inclusion:**

● **Overview:**

- Financial inclusion is **not just a goal but also a means** to an end as an enabler for sustainable economic growth, reduction of inequality and elimination of poverty.
- The UN has positioned financial inclusion as a prominent enabler of other development goals in the 2030 Sustainable Development Goals (SDGs).



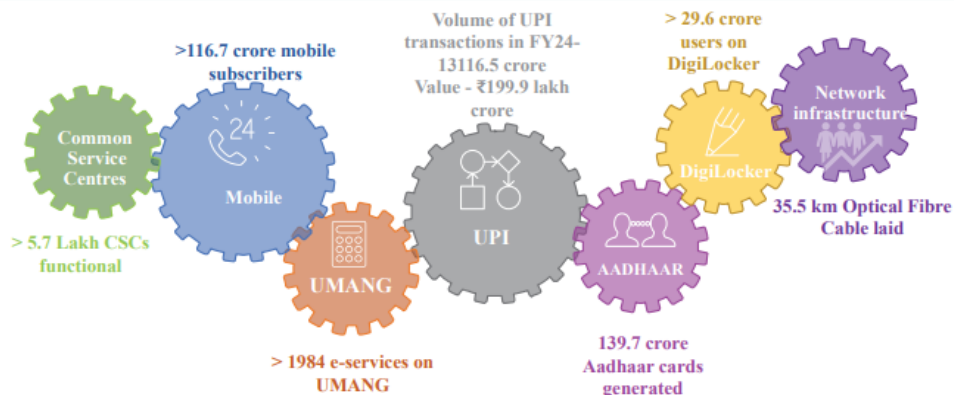
● **Progress made by India:**

- According to the WB's Global Financial Inclusion Database, **India has made remarkable progress in its financial inclusion goals** over the past ten years. Further, the **gender divide** in terms of financial inclusion has also narrowed.
- More recently, there has been a **shift in focus of the financial inclusion strategy in the country**, from 'every household' to 'every adult,' with added emphasis on the direct benefit transfer (DBT), promoting digital payments using RuPay cards, UPI, etc.
- **RBI joined Project Nexus**, a multilateral international initiative to enable instant cross-border retail payments by interlinking domestic Fast Payments Systems (for example, India's UPI).

● **Digital Financial Inclusion:**

- According to IMF, an **increase in digital financial inclusion in payments leads to a 2.2% rise in average economic growth.**
- **A key enabler of this financial inclusion** drive has been the digitalisation of the financial system and the COVID-19 pandemic gave further momentum to the process in India.
- With financial services now available on tap on digital devices, the next big challenge is to ensure **'Digital financial inclusion (DFI).'**
  - **DFI involves** arranging cost-effective digital means to reach currently financially excluded and underserved citizens with a range of formal financial services.
- Greater emphasis has been given to the creation of DPI such as **Aadhaar, e-KYC, Aadhaar-enabled Payment System, UPI, Bharat QR, DigiLocker**, e-sign, Account Aggregator, Open Network for Digital Commerce, etc.

**India's Digital Public Infrastructure: Churning the wheels of the economy**



## Microfinance Institutions (MFIs)

### Facilitating Financial Inclusion in India:



- Microfinance refers to providing financial services, including small-value loans to households, small businesses and entrepreneurs who lack access to formal banking services.
- MFIs have also played a role in extending other financial services like insurance, remittance, financial literacy, etc.
- It is an effective tool that enables the poor and the marginalised to achieve **social equity and empowerment**.
- Globally, the Indian microfinance sector is the **second largest** after China in terms of number of borrowing customers in India.
- Though MFIs serve both rural and urban poor, **they are oriented more towards rural areas in India**.
- Women constitute 98% of the total clients of MFIs** and it also serves other weaker and marginalised sections. **For example**, the SC/ST borrowers constitute a substantial 23% of the clients.

### Trends in Indian Capital Markets:

- Overview:** Despite heightened geopolitical risks, rising interest rates and volatile commodity prices, Indian capital markets have been one of the best performing among emerging markets in FY24, reflecting India's bright economic stature.
- Primary Markets:** Amid healthy domestic economic performance and a favourable investment climate, primary markets remained robust during FY24, facilitating capital formation of ₹10.9 lakh crore, compared to ₹9.3 lakh crore in FY23.
- Public debt issuances:** During FY24, the value of corporate bond issuances increased to ₹8.6 lakh crore from ₹7.6 lakh crore during the previous financial year.
- REITs and InvITs:** During FY24, ₹39,024 crore were raised by Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs), more than five times compared to FY23, supported by the Government's thrust on infrastructure development.
- Secondary Markets:** The exemplary performance of the Indian stock market can be primarily attributed to India's resilience to global geo-political and economic shocks, its solid and stable domestic macroeconomic outlook, and the strength of the domestic investor base.
- Retail Participation in the Capital Market:**

  - The Indian capital markets have seen a surge in retail activity through direct (trading in markets through their accounts) and indirect (through mutual funds [MF]) channels in the last few years.
  - The MF segment presently has about 8.4 crore systematic investment plan (SIP) accounts through which investors regularly invest in schemes.

- **Social Stock Exchanges - Leveraging finance from a social stand-point:**
  - To leverage the transparency and rigour of equity markets for social good, the Government proposed to initiate steps towards creating a SSE (under the regulatory ambit of SEBI) in the **Union Budget of FY20**.
  - **SSE is a separate segment** of the existing stock exchange, which can help social enterprises like nonprofit organisations (NPOs) and NGOs raise funds from the public through the stock exchange mechanism.
  - In this way, SSE is expected to **stimulate the ecosystem of outcome-driven philanthropy** in India in a transparent and regulated environment.
  - As of April 2024, 51 NPOs are registered on the BSE and 50 are registered on the NSE.
  - 9 NPOs have raised funds on SSE, amounting to a total of ₹ 12.4 crore and these are social projects in education, livelihood generation, skill development, etc.

### **Gift IFSC: Emerging as a Dominant Gateway for Global Capital Inflows into India**

- **Overview:**
  - The GIFT International Financial Services Centre (GIFT IFSC) is a **financial centre and special economic zone** in *Gujarat International Finance Tec-City* (GIFT City) established in **2015** (in Gandhinagar).
  - It is regulated by the International Financial Services Centres Authority (IFSCA), an independent regulator exclusive to the zone.
  - It is envisaged to be a **unique international financial jurisdiction located inside onshore India**.
  - **It aims to provide** on-shore talent with an offshore technological and regulatory framework. This is to **enable Indian firms to compete** on an equal footing with offshore financial centres.
- **Some key business activities in GIFT IFSC:**
  - **Banking sector:** It is rapidly evolving with a healthy mix of foreign and domestic banks, primarily catering to the foreign currency borrowing requirements of Indian corporates and public sector enterprises through external commercial borrowing, trade finance, etc.
  - **Funds Industry:** This has a transformative impact in catalysing global capital inflows into India, including the start-up ecosystem.
  - **Foreign universities initiative:** In FY24, Deakin University from Australia became the first foreign university to be granted final registration for their International Branch Campus in GIFT IFSC.

### **Developments in the Insurance Sector:**

- **Moderation in global insurance markets:** This is mainly because of uncertainties such as delayed settlements, which emerge as a more significant problem in periods of high economic and social inflation.
- **India is poised to emerge as one of the fastest-growing insurance markets:**
  - Economic growth, an expanding middle class, innovation, and regulatory support have driven insurance market growth in India.
  - The Government and Insurance Regulatory and Development Authority of India (IRDAI) have taken several steps to support industry growth.
  - Paramount among these are Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (**AB-PMJAY**), **mission “Insurance for all by 2047”**, etc.

### **Performance of India’s Pension Sector:**

- **Overview:**
  - **India's pension system comprises** an earnings-related employee pension scheme, a defined contribution Employee Provident Fund (EPF) and supplementary employer-managed pension schemes.
  - Changes in workforce dynamics, employment, and family patterns have brought formal sources of retirement to the forefront.
  - India's pension sector has expanded since the introduction of the **National Pension Scheme (NPS) and the Atal Pension Yojana (APY)**.
  - While there is improvement in the net pension replacement rate and participation in private pension plans, **the coverage of the Indian workforce under private pension plans is yet to be enhanced**.

- **Outlook:**
  - **In the future**, NPS (private sector) is poised to expand rapidly as an increasing number of corporate employees and relatively better-off households see the merit of joining NPS.
  - **Financial literacy** becomes essential for people to reap the benefits of the formal financial sector.
  - There are many facets to **pension literacy**. For example, women in the family must have a pension account given their higher longevity.
  - Financial inclusion and empowerment will only be complete with each family member's pension account.

**Mechanisms to Ensure Regulatory Coordination and Overall Financial Stability:**

- **Overview:**
  - **Financial stability** means not only an absence of an actual crisis but also the ability of the system to limit and manage imbalances before they assume a magnitude that threatens itself or the economic processes.
  - Governments worldwide employ various policies, regulations, and measures to safeguard the integrity and smooth functioning of the financial sector.
  - In the Indian context, the **Financial Sector Development Council (FSDC)** is a forum that facilitates interaction among various financial sector regulators.
- **Financial Sector Assessment Program (FSAP) for India**
  - FSAP is the quinquennial exercise **jointly conducted by the IMF and the World Bank** in countries having 'systemically important' financial sectors.
  - FSAP involves a comprehensive and in-depth analysis of a country's financial industry to assess financial stability and financial sector development.
  - India underwent its first FSAP exercise in 2011-12 and the second one in 2017. The third FSAP exercise for India is underway for 2023-24.
  - **The monitored priority areas include** Basel-III reforms, Compensation, Resolution, Non-Banking Financial Intermediation (NBFI), etc.
- **Financial System Stress Indicator (FSSI):**
  - The RBI, in its Financial Stability Report (FSR), attempted to compile a comprehensive indicator called the **FSSI to monitor the aggregate stress level in the Indian financial system**.
  - FSSI aims to help identify periods of stress, assess the intensity and duration of stress in the financial system, and gauge the ability of financial markets and intermediaries to withstand shocks and imbalances.
  - In FY24, **the decline in government debt market stress** was the primary contributor to the improvement in the overall FSSI

**Outlook for India's Financial Sector:**

- The next big step in the coming years is likely to be towards **AI/ML, Decentralised Finance, IoT**, etc., which have a vast potential to disrupt the digital payments ecosystem.
- Further, the vision is for India to **evolve as a 'fintech nation'** with the highest number of fintech firms and the highest fintech adoption rate by incumbents fuelled by digital public infrastructure.

**Conclusion:** The outlook for India's financial sector appears bright. Therefore, the vision of Viksit Bharat by 2047 is indeed an opportunity for a prosperous society, robust financial services sector, strong public finances, and economic sovereignty.

3

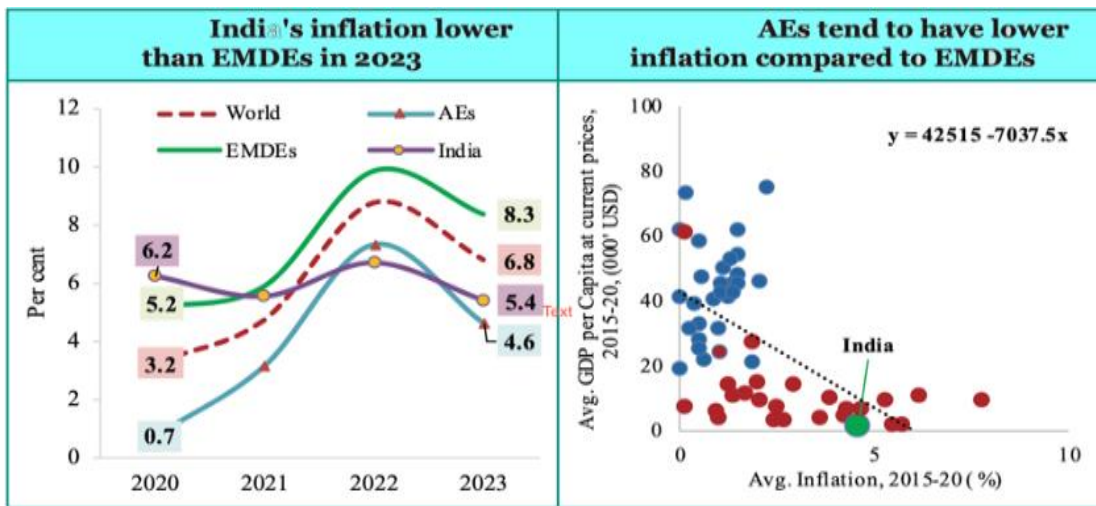
PRICES AND INFLATION UNDER CONTROL

Low and stable inflation is key to sustaining economic growth. RBI’s commitment to price stability and policy actions by the Central Government, India successfully managed to keep retail inflation at **5.4%** in FY24, the lowest level since the Covid-19 pandemic period.

- After the pandemic, the global economy experienced supply chain disruptions due to Russia-Ukraine war in the first half of FY23. In the latter half of the year and FY24, there was a decline in global inflation because of the diminishing impact of price shocks particularly in energy prices, lower core inflation and coordinated monetary tightening by Central Banks in major advanced economies during 2022-23.

**India’s retail inflation is lower than the EMDEs and World average**

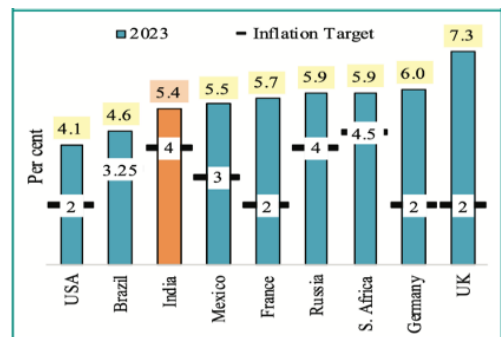
- Despite the synchronous tightening of monetary policy by most central banks to restore price stability, the *global economy* has shown unexpected resilience in 2023.
- This is evident in both advanced economies (AEs), and emerging markets & developing economies (EMDEs), as they are returning to their inflation targets.
- This trend is also observed in India. As per the IMF data, India’s inflation rate was lower than the global average and that of EMDEs in 2022 and 2023.



- **Prelims Facts-** There is a clear negative relationship between cross-country inflation and per capita GDP. Historically, inflation in advanced economies has generally been lower than in EMDEs.
- Factors such as established monetary policies, economic stability, well-developed and efficient markets that balance supply and demand conditions, and stable currencies contribute to the effective management of inflation.

**India’s inflation management was relatively better to keep it within the target**

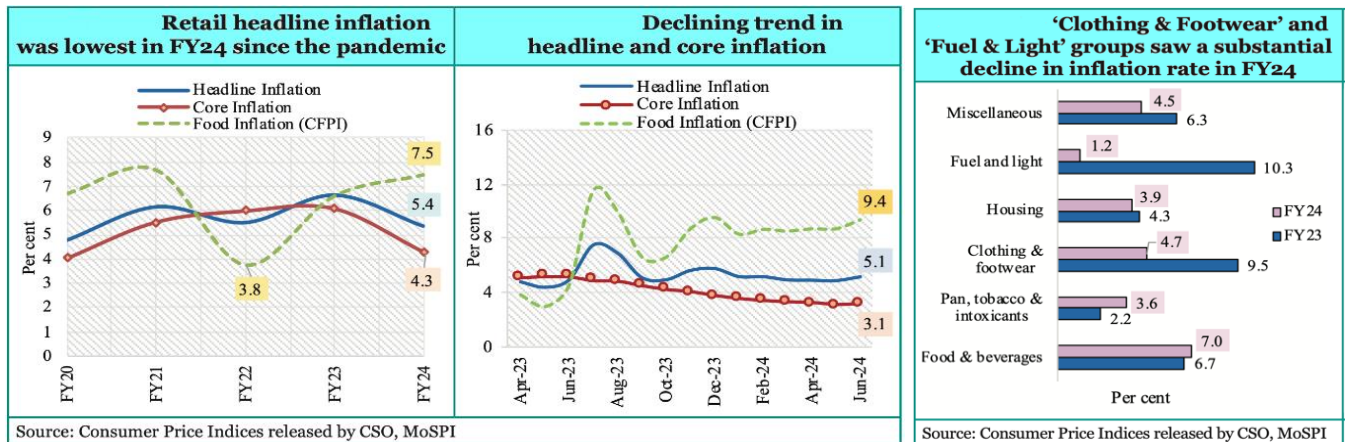
- In 2023, India's inflation rate was within its target range of 2 to 6 %.
- Compared to advanced economies like the USA, Germany, and France, India had one of the lowest deviations from its inflation target in the triennial average inflation from 2021-2023 despite the challenges posed by global demand-supply imbalances due to ongoing geopolitical tensions.
- India is closer to its Inflation Target in Comparison to Other Economies



**DOMESTIC RETAIL INFLATION**

**Retail inflation moderated gradually in FY24**

- In FY23, Consumer Price Index (CPI) based retail inflation in India was primarily influenced by higher food inflation, while core inflation remained moderate.
- Externally, the Russia-Ukraine war led to price pressures, while domestically, excessive heat in the summer and uneven rainfall put pressure on food prices.
- Since May 2022, monetary policy broadly focused on absorbing excess liquidity in the system by increasing the policy repo rate by 250 basis points from 4 % in May 2022 to 6.5 % in February 2023.
- Thereafter, the policy rate was kept unchanged by focusing on the gradual withdrawal of accommodation, aiming to align inflation with the target, while simultaneously fostering growth.
- Consequently, the core inflation observed in FY23 declined to 3.1 % in June 2024.
- As the global **energy price index** experienced a sharp decline in FY24, retail fuel inflation also stayed low.
- The Central Government's announcement of price cuts for LPG, petrol, & diesel led to lower LPG & petroleum product inflation. Consistent price reductions have brought retail inflation in fuel segments in deflationary zone.
- Global commodity prices declined in 2023, reducing price pressure in energy, metals, minerals, and agricultural commodities through the imported inflation channel.
- **Low fuel and core inflation** ensured a downward trajectory for headline inflation, despite volatility in food prices in FY24.



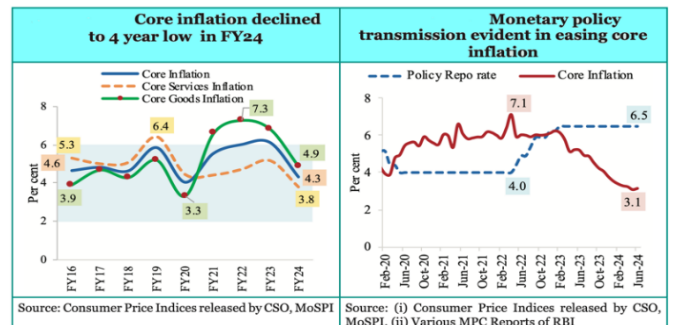
**CORE INFLATION DYNAMICS IN THE POST-PANDEMIC WORLD: Core inflation hits a 4-year low in FY24**

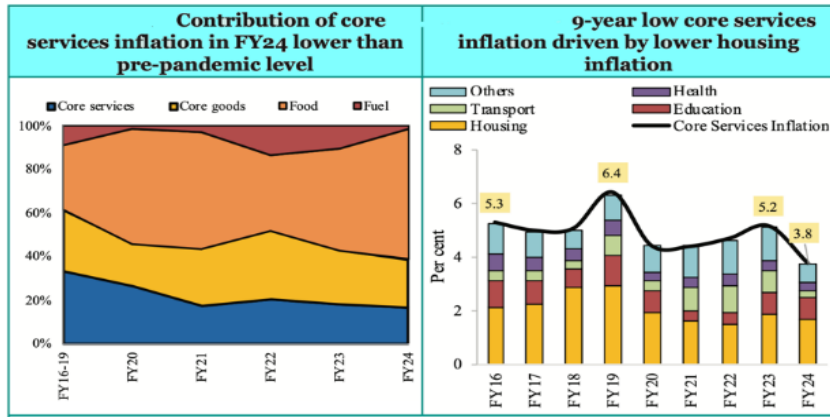
**Prelims Fact-** Core inflation is measured by **excluding food and energy items from CPI headline inflation**. It assesses the underlying price trends by largely eliminating the impact of **price volatilities** arising from transitory supply shocks.

```

    graph LR
      CoreInflation[Core Inflation] --> CoreGoods[Core Goods Inflation]
      CoreInflation --> CoreServices[Core Services Inflation]
      CoreGoods --> ConsumerDurable[Consumer Durable Inflation]
      CoreGoods --> ConsumerNonDurable[Consumer Non Durable Inflation]
    
```

- From the pandemic-driven highs, inflationary pressures in India eased in FY22, aided by softening food inflation. However, core inflation had risen to 6 % at the same time, driven primarily by rising international commodity prices.
- Assessing the emerging patterns of price pressures, the RBI increased the repo rate gradually by 250 basis points since May 2022 to reign inflationary pressures.
- In FY24, CPI inflation moderated, driven by a decline in core inflation -both goods and services.





- Core services inflation eased to a nine-year low at the same time, core goods inflation also declined to a four-year low.

**A steep decline in service prices hastens moderation in core inflation**

India’s core services inflation reached a nine-year low in FY24 aided by moderation in housing rental inflation, with a significant increase in the stock of new houses in 2023.

**Elevated risks for core services inflation in advanced economies**

- As per the March 2024 Quarterly Review of the Bank of International Settlements (BIS), while there was a discernible retreat in the *prices of food, energy and core goods* following the gradual normalisation of the supply chain in 2023, the **core services** inflation remained elevated in 2023.
  - Higher labour intensity in services & Rising housing prices contributed to this.
- Going ahead, the persistence in the inflation of services has larger implications for AEs than for Emerging Market Economies (EMEs) because services carry a larger share in consumer price indices of AEs, posing a greater risk to their headline inflation outlook.

**Consumer durable inflation remains elevated but softens in FY24**

- Consumer durables inflation increased progressively between FY20 and FY23 by more than 5%.
- Record-high gold prices, driven by anticipated Fed rate cuts and escalating geopolitical uncertainty, have exerted upward pressure on overall durables inflation.
- In FY22 and FY23, clothing, which accounts for 48 % of weightage in the consumer durable index, was a major driver due to surge in the prices of key input materials used by apparel manufacturers, particularly cotton.
- With the improvement in the supply of key raw materials, the inflation rate for consumer durables declined in FY24.

**Core consumer non-durable inflation declines steeply**

- Consumer non-durables (CND) in the CPI basket have 3 components:
 

food and beverages	fuel	other consumption items
--------------------	------	-------------------------
- While the core CND inflation plunged in FY20, it started to inch up in FY21, reached an all-time in FY22, and declined sharply in FY23 and FY24 due to changes in the cost of transport components.

**FOOD INFLATION**

**Food price pressures due to adverse weather conditions-** Food inflation based on the Consumer Food Price Index (CFPI) increased from 3.8 % in FY22 to 6.6 % in FY23 and further to 7.5 % in FY24 due to extreme weather events, lower reservoir levels, and damaged crops that adversely affected farm output and food prices.

**Reasons for price pressures in major food items**

- The increase in tomato prices in July 2023 was caused by seasonal changes in crop production, region-specific crop diseases such as white fly infestation, and the early arrival of monsoon rains in the northern part of the country along with logistics disruptions in isolated areas due to heavy rains.

- The spike in onion prices was due to several factors, including rainfall during the last harvesting season affecting the quality of rabi onions, delays in sowing during the kharif season, prolonged dry spells impacting kharif production, and trade-related measures taken by other countries.
- The prices of pulses, particularly of tur, increased due to low production over the past two years, caused by adverse weather conditions. Urad production was affected by slow sowing progress in the rabi season coupled with climatic disturbances in the southern states. The area and output of gram was also lower compared to the previous rabi season.
- Since 2023 the price of milk has been increasing due to a decrease in artificial inseminations during the peak days of the pandemic, as well as higher costs for animal feed.

### Administrative measures to contain food inflation in FY24

The government took prompt actions, including open market sales, retailing in specified outlets, and timely imports, to ensure an adequate supply of essential food items.

- To ensure food security for the poor, the **Pradhan Mantri Garib Kalyan Anna Yojana** was extended for a period of five years starting from January 2024.
- Export of **wheat flour, maida and semolina** was placed under a prohibited category since August 2022.
- In 2023, the Government introduced **Bharat Atta** at a subsidised price of ₹27.50 per kg
- In February 2024, the Government introduced **Bharat Rice** at a subsidised price of ₹29 per kg for selling through NAFED, NCCF and Kendriya Bhandar.
- The Government launched **Bharat Dal** in 2023 to convert chana stock into chana dal for retail disposal at a highly subsidised rate. Later, the Bharat Dal was extended to include Moong Dal and Moong Sabut.
- **Wheat and rice** are offloaded periodically from the central pool under open market sale.
- Govt. placed the export of **broken rice and non-basmati rice** under the prohibited category in September 2022 and July 2023, respectively and the floor price for the export of basmati rice was fixed in October 2023.
- To maintain adequate stock and to keep domestic prices under check, 20 % export duty was imposed on **parboiled rice** until 31 March 2024.
- To augment domestic availability and moderate the prices of pulses, **import of tur and urad** has been kept under '**Free Category**' until 31 March 2025. Basic import duty on masur was reduced to zero until 31 March 2024.
- Besides, India imported considerable quantities of Tur (mainly from Mozambique, Myanmar, Tanzania, Sudan and Malawi), Masur (mainly from Australia, Canada and Russia) and Urad (mainly from Myanmar) in FY24.
- Govt. placed a Minimum Export Price on specific varieties of onion from October 2023 to December 2023 and the export policy of onions was amended from the 'free' to the 'prohibited' category until 31 March 2024.
- The basic duty on crude palm oil, crude soyabean oil, and crude sunflower oil was cut from 2.5 % to nil. Free import of refined palm oils was extended till further orders.
- In October 2023, the Government extended the date of restrictions on the export of **sugar** (raw sugar, white sugar, refined sugar and organic sugar) beyond 31 October 2023 until further orders.

### Global food prices and domestic inflation

- In India, the edible oil market heavily depends on imports, with more than 50 % of the total edible oil requirement being imported, making it sensitive to global prices.

**Prelims Fact-** The Food and Agriculture Organisation (FAO) edible oils price index fluctuation is a key indicator of global food price trends. The recent downward trend in this index is broadly correlated with the decline in domestic edible oil prices in India.

- As a result, efforts are made to balance imports with domestic production to mitigate the risks associated with global price volatility.
- In this context, the **National Mission on Edible Oils - Oil Palm** aims to increase domestic crude palm oil production to reduce the import burden.
- Even though the global sugar price index inflated and has been showing volatility since February 2023, domestic sugar prices have remained much less volatile.

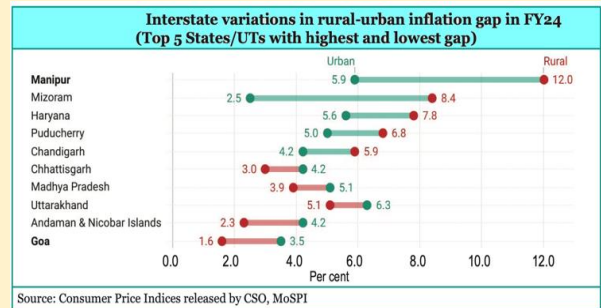
### INTERSTATE VARIATIONS IN RETAIL INFLATION

- Consistent with the decline in the all-India average retail inflation rate in FY24 compared to FY23, inflation in most States and UTs decreased. The inflation rate was less than 6 % in 29 out of the 36 States and UTs.

**Interstate variations in inflation are more pronounced in rural areas**

- The rural consumption basket has a much higher weightage of food items (47.3%) than the urban (29.6%). Hence, in the last two years, States that witnessed elevated food prices also experienced higher rural inflation.

**Prelims Fact-** Inter-state variation calculated through standard deviation is *higher in rural than urban inflation*. States with higher overall inflation also tend to exhibit a wider rural-to-urban inflation gap. For instance, the difference between rural and urban inflation in Haryana was much wider compared with Goa, which had relatively lower inflation.



**OUTLOOK AND WAY FORWARD**

The RBI and the IMF have projected that India's consumer price inflation will progressively align towards the inflation target in FY26. World Bank projects a 3 % decline in the commodity price index in 2024 and a 4 % decrease in 2025, *mainly driven by lower energy, food and fertiliser prices*. Short-term inflation outlook for India is benign. However, from the angle of long-term price stability, the following options may be worth exploring-

- Edible oil: To **reduce import dependence** and to **stabilise domestic prices**, efforts should be made to increase the production of major oilseeds such as sunflower and rapeseed & mustard, and explore the potential of non-conventional oils such as rice bran oil and corn oil. Scope of the **National Mission on Edible Oils** can be extended beyond palm oil to other major oilseeds.
- More efforts are needed to expand the area under pulses, particularly lentils, tur, and urad, in more districts and rice-fallow areas. Cultivation of urad and moong in areas with assured irrigation facilities should be promoted during summers.
- In view of the continuing seasonal surges in the prices of vegetables like tomato and onion, it is important to assess the progress in developing modern storage facilities conducive to such specific crops, and evaluate the viability of such facilities whose services have highly seasonal demand.
- The high-frequency price monitoring *data for essential food items collected by different departments may be linked* in such a way that the build-up of prices at each stage from the farm gate to the final consumer is quantifiable and monitorable.
- Construction of **producer price index** for goods and services may be expedited to have a greater grasp of episodes of **cost-push inflation**.
- Consumer price index with fresh weights and item baskets should be revised expeditiously.

## 4

## EXTERNAL SECTOR: STABILITY AMID PLENTY

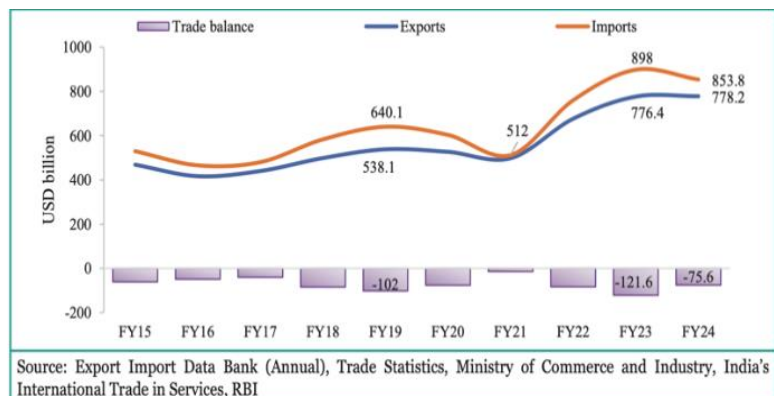
- Foreign investments, which drive international trade and commerce, have slowed down recently due to Russia-Ukraine conflict, developments in the Middle East and the Red Sea crisis, higher interest rates in the developed world, and the pursuit of active industrial policies by developed countries.
- As per the United Nations Conference on Trade and Development (UNCTAD), global FDI decreased marginally by 2 % to USD 1.3 trillion in 2023.
- Global trade, too, has been on a slow path, with the value of world merchandise trade declining by 5 % in 2023.
- External debt as a percentage of GDP of Emerging Market and Developing Economies (EMDEs) increased from 26.2 % in 2012 to 29.8 % in 2023.

**CHANGING GLOBAL TRADE DYNAMICS**

- Global trade patterns are reconfiguring. In 2023, Mexico became the largest goods trade partner of the US, surpassing China and Canada, with a total trade of USD 798 billion.
- Vietnam's trade with China and the US has recently seen an increase.
- The rise in trade through Mexico and Vietnam is a result of Chinese firms **re-routing** their supply through these countries (or by locating themselves in these countries).
- European economies are shifting their energy imports from Russia to Norway and the US reflecting the emergence of new international trade practices like 'decoupling', 'derisking', 'reshoring', 'nearshoring', and 'friend sharing' and the growing narrative of de-globalisation.
- Research by the Bank for International Settlement (BIS) shows that despite its policies, the US remains reliant on Chinese inputs. China's overwhelming dominance in the supply of processed critical minerals and materials for energy transition renders a true decoupling between the two nations neither easy nor likely.
- Global trade volume contracted by 1.2 % in 2023 after recording a 3 % expansion in 2022 following the outbreak of the Russia-Ukraine conflict. It is expected to ease somewhat this year and next, boosting goods trade in 2024 and 2025.
- As per UNCTAD report, global trade trends turned positive in the first quarter of 2024 due to increased exports from China (9 %), India (7 %) and the USA (3 %).
- While export growth is expected to improve in many economies as external demand for goods picks up, **food and energy prices** could again spike due to geopolitical events and climate disturbances.
- The resilience of global trade is being tested by disruptions on two of the world's leading shipping routes, viz the Panama Canal and the Suez Canal.
- The traffic diversion from the Red Sea and around the Cape of Good Hope has added ten days to Asia- Europe journeys while increasing fuel costs and ocean freight rates.

**INDIA'S TRADE: RESILIENCE AMIDST GLOBAL TURMOIL**

- The trade openness indicator, which rose to 45.9 in FY24, has contributed significantly to economic growth as it facilitated an efficient allocation of resources through comparative advantage.
- The share of trade (excluding petroleum products exports and crude oil imports) in GDP rose from 32.3 % in FY05 to 40.8 in FY23.
- India is gaining market share in global exports of goods and services. Similarly, its share in global services exports rose to 4.3 % in FY23 from an average of 3.3 % during FY16-FY20.



**India's Overall trade**

- In FY23, India's overall exports crossed **USD 776 billion**. Overall imports also increased to **USD 898 billion**.
- Despite persistent global challenges, overall exports in FY24 surpassed the FY23 record, growing by 0.23 %, and overall imports in FY24 declined by 4.9 % despite robust domestic demand.

**Merchandise Trade: Enduring the global headwinds**

**Merchandise exports**

- Merchandise exports and imports contracted in FY24 compared to FY23. Merchandise exports contracted mainly on account of a slowdown in India's major exporting partners (especially the EU), along with the lagged impact of monetary tightening carried out by many countries to control rising inflation.
- The overall value of merchandise imports in FY24 declined due to a fall in global commodity prices.
- Owing to a larger decline in imports than exports, the merchandise trade deficit narrowed to USD 238.3 billion in FY24 compared to USD 264.9 billion in the previous year.
- From FY23 to FY24, the share of capital goods in merchandise exports rose substantially with India's improved supplies of machinery, equipment, and other durable goods used in production processes, reflecting potential expansions or upgrades in its industrial capacities.
- Conversely, the share of consumer goods in merchandise exports declined slightly from FY23 to FY24, indicating a marginal dip in the export of finished products intended for direct consumption. The share of intermediate goods also declined.
- India is adding more export destinations, signalling **regional diversification of exports**. Post-FY2000, Asian, African and Middle Eastern nations, such as the UAE, Singapore, Hong Kong, and China, have emerged as export destinations, replacing traditional export partners like the UK, Germany, Belgium, etc.
- In FY24, UAE, Singapore, China, Russia, and Australia emerged as India's major export partners.

**Case Study 1- India's Toy Exports**

- A series of measures undertaken by the Government have shown a remarkable increase in toy exports in 2023 like-
  - formulation of a comprehensive National Action Plan for Toys with 21 specific action points;
  - an increase in basic customs duty on toys;
  - sample testing of each import consignment by the Directorate General of Foreign Trade (DGFT) to curb sub-standard imports;
  - issuance of a Quality Control Order for toys; and
  - support through cluster-based approaches.
- A Compound Annual Growth Rate (CAGR) of 15.9 % in exports between FY13 and FY24 coupled with declining imports transformed India from a deficit to a surplus nation in the trade of toys.

**Case Study 2- Defence Exports**

- India's defence production grew substantially from ₹74,054 crore in FY17 to ₹108,684 crore in FY23, boosting defence exports.
- Between 2015 and 2019, India was the world's second-largest arms importer but now it is in the list of the top 25 arms exporter nations.
- The defence industry, including the private sector and Defence Public Sector Undertakings (DPSUs), has made tremendous efforts to achieve the highest-ever defence exports.
- This achievement can be attributed to several policy initiatives taken by government over the past ten years which include-
  - Simplified and industry-friendly export procedure with end-to-end online export authorisation curtailing delays and facilitating ease of doing business.
  - Atma-nirbhar Bharat initiatives encouraging indigenous design, development and manufacture of defence equipment.

**Sectoral trends**

- A bifurcation of merchandise exports into POL and non-POL products shows that exports across both categories have declined in FY24. The fall in POL is mainly due to a decline in global **petroleum product prices**.
- Under non-POL products, exports of engineering goods, electronic goods and drugs & pharmaceuticals increased in FY24 on a YoY basis. In contrast, *agriculture and allied products, chemicals, plastics and textiles have witnessed a decline in exports*.

- Engineering goods dominated the merchandise exports in FY19, accounting for 25.3 % of the total exports. This trend remained the same in FY24. Agri and allied products also maintained a steady share.
- The textile sector witnessed a relative decline in prominence. Along with a decline in their exports, their share in total exports also dropped significantly to 8 %.
- India's rose from 28th in 2018 to 24th in 2022 in **global electronics exports**. The share of electronics goods in merchandise exports of India rose to 6.7 % in FY24.

## Merchandise imports

- Owing to a rise in domestic demand, merchandise imports rose from USD 106.5 billion in FY23 to USD 116 billion in FY24.
- Imports of capital goods saw an increase indicating a heightened demand for machinery, equipment, and other durable goods used in production processes, suggesting potential investments in industrial infrastructure or technological upgrades.
- The share of intermediate goods in merchandise imports also slightly rose in FY24, reflecting a continued need for semi-finished products, components, or materials used in further manufacturing processes.

## Services as a shining star in exports

- India's services export in US Dollars terms expanded at a robust CAGR of more than 14 % over the last 30 years (between 1993 and 2022), significantly higher than India's merchandise export growth (10.7 %) and world services export growth (6.8 %).
- India is now the seventh-largest services exporting country globally.
- India ranks 2<sup>nd</sup> in the world in telecommunication, computer, and information services exports, 6th in personal, cultural and recreational services exports, 8th in other business services exports, 10th in transport services exports, and 14th in travel services exports.
- According to RBI, healthy and steady growth in services exports has imparted strength to India's BoP position by offsetting a significant part of the country's merchandise trade deficit.

## India's rising Global Value Chains (GVC) participation

- Hyper globalisation was witnessed in the early 2000s with rapid GVC expansion worldwide. This led to exponential gains in trade, reductions in supply chain costs and deep interlinkages in trade across nations.
- A dramatic shift from "**hyper globalisation**" to "**slowbalisation**" occurred following the 2008 global financial crisis (GFC) which further amplified due to China-USA trade war, the COVID-19 pandemic, and the Russia-Ukraine conflict.
- More recently, this trend has begun to see a **reversal**. WTO's GVC Development Report 2023 showcases recovery in GVCs, underscored by a rise in the share of foreign export inputs and enhanced participation rates of economies worldwide.
- The evidence is reflected in increased investment by foreign firms in electronics, apparel and toys, automobiles and components, capital goods and semiconductor manufacturing in India. For example, Apple assembled 14 % of its global iPhones in India in FY24. Foxconn invested in the states of Karnataka and Tamil Nadu to set up new manufacturing plants for components.

### The trend in India's GVC participation and change in the sectoral composition

- The WTO's World Integrated Trade Solutions (WITS) database shows that India's GVC- related trade increased nearly four times from USD 62.9 billion in 2010 to USD 233.1 billion in 2022.
- Essential products driving India's GVC participation include coal and petroleum, business services, chemicals, and transport equipment.
- Over the years, the sectoral composition of India's GVC-related trade has changed markedly. Within the manufacturing sector, the share of low-technology manufacturing has declined, while the share of medium and high-technology manufacturing has been rising toward industries such as coke and petroleum, transport equipment and primary and fabricated metals, which have a significant share in India's GVC-related trade.
- Exports of IT and technology-enabled services lead India's GVC services exports.
- Previously, India's GVCs involved a higher level of forward participation, which resulted in lower value-addition for exports within the country. However, in recent years, India has begun to move downstream and export finished goods to the rest of the world.

- Research shows that greater backward GVC participation results in higher absolute levels of gross exports, domestic value-added, and employment.
- Despite so much progress, India's GVC participation (GVC-related trade as % of gross trade at 40.3 % in 2022) is still lower in comparison to large economies such as the USA, UK, Japan, South Korea and Malaysia.
- To enhance GVC participation, there is a need to develop quality trade infrastructure, integrate MSMEs in the GVC network, simplify procedures for entry and exit of small businesses, and work towards trade facilitation measures.

### Case Study- Indian Districts as Export Hubs

- To make every district an export hub with their unique identities and prospects in the global marketplace, the Districts as Export Hubs (DEH) initiative was launched in August 2019 to foster balanced regional development across all districts of the country.
- Through the DEH initiative, the Government aims to boost *manufacturing and exports from urban areas while focusing on generating interest and economic activity in the rural hinterland*.
- As part of its recent initiative under DEH - Focus @ 75 initiative, the Government has identified 75 districts across India to provide targeted support for boosting exports, promote financial inclusion and facilitate logistical and infrastructural support.
- Key events include Vanijya Saptah, a series of workshops aimed at educating and empowering local exporters.
- All States/UTs have established an institutional mechanism by constituting State Export Promotion Committees (SEPC) and District Export Promotion Committees (DEPC).

### Changing landscape of India's global trade arrangements

- India has engaged with its trading partners/blocs through Free Trade Agreements (FTAs) to expand its export markets while ensuring better terms for essential imports to meet domestic demand.
  - After a gap of nearly 10 years, four new FTAs have been signed over the period 2021 to 2024 with **Mauritius, the UAE, Australia** and the European Free Trade Association or **EFTA**. All these FTAs focus on gaining access to the Western and African markets, as well as potential partners having **trade complementarity**.
- Other FTAs-* India is also presently engaged in FTA negotiations with UK, EU, Peru, Sri Lanka etc.

### Government initiatives on trade facilitation measures and reduction in logistics cost-

- Encouraging banks to provide affordable and adequate export credit to MSME exporters, enabling them to explore new markets and diversify existing products.
- Streamlined trade processes, enhancing transparency and promoting cooperation among stakeholders through initiatives such as *turant, customs, single window interface for facilitation of trade (swift), pre-arrival data processing, e-sanchit, coordinated border management, etc.*
- The central board of indirect taxes and customs (CBIC) has undertaken phased implementation of an **electronic cash ledger**, enabling electronic clearances at land customs stations, use of electronic certificates of origin, and electronic repairs services outsourcing to prolong the life of faulty or damaged electronic goods, among others.
- Department of Posts (DoP) has developed a **Postal Bill of Export Automation System**
- In a transformative partnership, the CBIC and the DoP launched the Hub and Spoke Model, simplifying the export process, promoting small-scale exporters, and leveraging India's extensive global trade postal network.
- PM GatiShakti National Master Plan and the National Logistics Policy (NLP) was launched in October 2021 and September 2022, respectively.
- Digital reforms, such as the **Unified Logistics Interface Platform (ULIP)** and the **Logistics Data Bank** are additional measures taken towards improving logistics.
- Initiatives, such as railway track electrification, reduced release times by the Land Ports Authority of India (LPAI), and the launch of NLP Marine for port-related logistics were also undertaken.

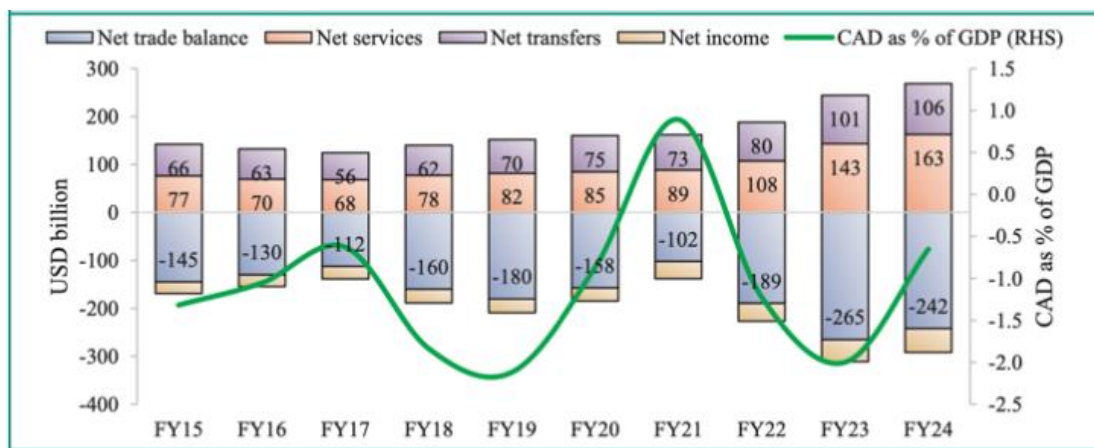
### Achievements-

- In the United Nations Economic and Social Commission for Asia Pacific's (UNESCAP) Global Survey on Digital and Sustainable Trade Facilitation, India scored 93.5 % in 2023 while scoring 100 % in four key areas: Transparency, Formalities, Institutional Arrangement and Cooperation, and Paperless Trade.
- India scored 77.8 % in 2023 for "Women in Trade Facilitation" component, indicating a commitment to gender inclusivity and women's empowerment in the trade sector.

- India's rank on the World Bank's Logistics Performance Index (LPI) improved by six places to 38th in 2023 out of 139 countries.
- Sagarmala scheme has promoted port-led development by harnessing India's 7,500 km long coastline, 14,500 km of potentially navigable waterways and strategic location on key international maritime trade routes.

## FAVOURABLE CURRENT ACCOUNT BALANCE

- The **narrowing of the overall trade deficit** and **increasing remittances** contributed to an improvement in the CAD in FY24.
- **Net services receipts** increased to USD 162.8 billion in FY24, primarily on account of rising exports of software, travel and business services.
- Similarly, the net private transfer receipts, mainly representing remittances by Indians employed overseas, was USD 106.6 billion in FY24.
- Net services exports and remittances contributed to the surplus on the invisible account, which cushioned the merchandise trade deficit.



**Prelims Fact-** Remittances are the second largest source of external financing after service exports, which contributes to narrowing the CAD and has always been a stable constituent of the BoP.

- According to **World Bank**, India has the largest emigrant population and is the top remittance recipient country, with remittances reaching a milestone of USD 120 billion in 2023 driven mainly by declining inflation and strong labour markets in the United States and Europe, the largest destination for India's skilled migrants, and other OECD destinations, as well as positive demand for skilled and less-skilled workers in the GCC countries.
- The remittance flows have also benefited from the agreement with the UAE to promote the use of Dirhams and Rupees for cross-border transactions.
- Remittances to India are forecasted to **grow at 3.7 % to USD 124 billion** in 2024 and at 4 % to reach USD 129 billion in 2025.

**Prelims Fact-** Remittances differ from FDI, which companies disinvest during financial uncertainties. In times of economic downturn, FDI is considered pro-cyclical and destabilising. Remittances are a stable source of finance that will remain in the economy and are directly used by recipients, contributing to the nation's growth.

### Factors Influencing Inward Remittances-

- 1. Oil Prices:** Rise in global oil prices generally positively impacts the remittances received by the country, as India's primary source of remittances is oil-exporting countries. Because an increase in oil prices (positive shocks) can generate a sizable amount of oil revenues, leading to higher investments and growth in oil-producing countries. As a result, the demand for migrant workers increases, translating into higher remittance outflows.
- 2. Exchange rate:** Remitters get better value in rupee terms when it depreciates in terms of foreign currencies, be it for UAE's Dirham, the US Dollar, the British Pound, or any other currency.

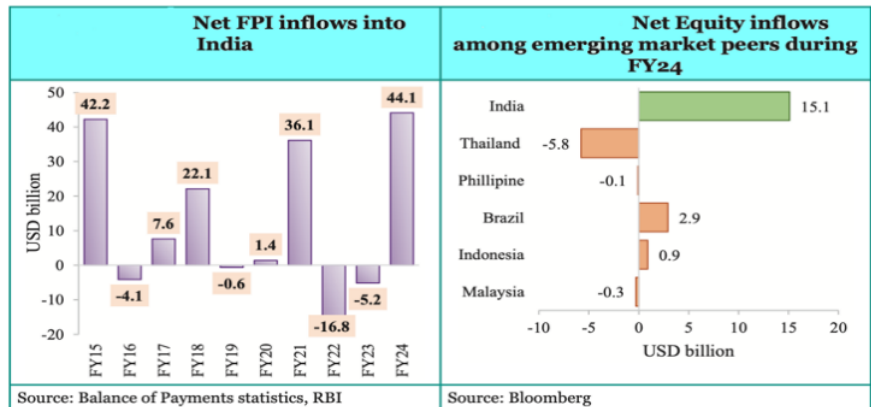
**Outlook:**

- The diversification of India’s migrant pool between a large share of highly skilled migrants employed mostly in high-income OECD markets, and the less-skilled migrants employed in the GCC markets is likely to lend stability to migrants’ remittances in the event of external shocks.
- India’s efforts to link its Unified Payments Interface (UPI) with source countries such as the United Arab Emirates and Singapore are expected to reduce costs and speed up remittances.

**CAPITAL ACCOUNT BALANCE**

- During FY24, net capital flows stood at USD 86.3 billion, primarily driven by FPI flows, net inflows of banking capital (including NRI deposits).
- The net FPI flows saw a significant turnaround in FY24 supported by optimism surrounding India’s growth story, progressive policy reform, economic stability, fiscal prudence and attractive investment avenues.

- Net FPI inflows stood at USD 44.1 billion during FY24 against net outflows in the preceding two years. This is the highest level of FPI inflow after FY15.
- India received the highest equity inflows among emerging market peers during FY24 through financial services, automobile and auto components, healthcare, and capital goods.
- *Weakening growth prospects, economic fracturing trends, trade and geopolitical tensions, industrial policies and supply chain diversification are reshaping FDI patterns,* causing some multinational enterprises (MNEs) to adopt a cautious approach to overseas expansion.



- *International project finance and cross-border mergers and acquisitions (M&As) were especially weak in 2023 due to tighter financing conditions, investor uncertainty, volatility in financial markets and tighter regulatory scrutiny.*
- However, Greenfield investment project announcements provided a bright spot, with the number of projects increasing by 2 %, with the growth concentrated in manufacturing.
- The decline in global FDI flows has also impacted FDI flows to India. Net FDI inflows to India declined from USD 42.0 billion during FY23 to **USD 26.5 billion in FY24**. However, gross FDI inflows moderated only by 0.6 % between FY23-24. Net inflows contracted due to higher interest rates in developed countries and attractive exits out of India due to the buoyant stock market.

**An examination of change in trend and composition of FDI flows**

- 1. FDI in the industry vs services sector-** FDI-to-GDP ratio for industry and services sectors dipped below pre-pandemic levels.
- 2. Physical FDI vs Digital FDI-**
  - a. Owing to a rise in foreign investment in sectors such as software and hardware, consultancy services, and telecommunications, among others, digital FDI witnessed an increase, coupled with a relative decline in physical FDI.
  - b. Nomura’s Global Market Research May 2024, ‘Asia’s New Flying Geese’, highlights that rising protectionism and geopolitical tensions have triggered the stagnation of physical FDI.
- 3. Actual FDI vs intentions-**
  - a. The declining FDI flows to India are at odds with India gaining market share in global trade in goods and services exports.
  - b. In recent quarters, investment intentions in new and futuristic sectors, such as renewables, artificial intelligence, data centres, EVs and batteries, green hydrogen, and semiconductors, have rapidly risen.
  - c. India was a leading destination for AI-related FDI in 2022. According to a research by NASSCOM, India is an attractive destination for AI investment due to its relatively low operating costs and the world’s second-largest pool of highly skilled AI, machine learning, and big data workers.

## China Plus One Strategy

- Due to disruptions caused by COVID-19, growing tensions between the US and China, and rising costs of doing business in China several companies have adopted a 'China plus one strategy' to reduce their reliance on China for high-tech electronic products and components.
- The Government's PLI scheme, including tax breaks and subsidies, plays a significant role in attracting companies. The rise in India's domestic smartphone demand is also a key factor in companies' decisions to invest there. For instance, Apple assembled USD 14 billion worth of iPhones in India during FY24, constituting 14 % of its global iPhone production.
- Over the medium term, India is focusing on integrating its value chain with that of the West, particularly in sectors like renewable energy and advanced technology, including AI, semiconductors, and next-generation telecommunications.
- India faces two choices to benefit from China plus one strategy: it can integrate into China's supply chain or promote FDI from China. Among these choices, focusing on FDI from China seems more promising for boosting India's exports to the US, similar to how East Asian economies did in the past and also because China is India's top import partner, and the trade deficit with China has been growing.

**Comfortable Foreign Exchange Reserves** - A moderation in the CAD amidst large capital inflows increased foreign exchange reserves (FER) in FY24 by USD 68 billion, the highest increase among major foreign exchange reserves-holding countries. FER stood at **USD 653.7 billion** on 21 June 2024, enough to cover more than **10 months of imports** projected for FY25 and more than 98 % of total external debt outstanding at the end of March 2024.

## Exchange Rates

- In FY24, the US Dollar gained against virtually every major peer. The Rupee also came under depreciation pressure. However, INR was one of the least volatile major currencies.
- Further, it exhibited the **lowest volatility** in FY24 compared to the previous years.
- In the future, robust foreign inflows and comfortable trade deficits are expected to keep the rupee within a comfortable range.

### **Prelims Fact-**

- The exchange rate of the INR is market-determined.
- The RBI regulates the foreign exchange market to ensure its orderly functioning and intervenes only to curb undue volatility in the INR.
- The indices of Nominal Effective Exchange Rate (**NEER**) and Real Effective Exchange Rate (**REER**) are used as indicators of external competitiveness.

- In terms of 40-currency (trade-weighted), NEER depreciated by 0.6 % in FY24. However, REER appreciated by 0.8 % in FY24.

### **Trade and Financial Channels of Exchange Rate**

- Historically, a depreciated currency has been a key driver of export growth. The Marshall Lerner conditions, if met, suggest that currency depreciation can stimulate an increase in net exports by reducing export costs and increasing import prices. However, the exchange rate also influences the external sector through a 'financial' channel.
- Theory suggests that the **financial channel** of the exchange rate can potentially counterbalance the gains (or losses) made through the **trade channel**.
- A weak Rupee can affect the Balance of Payments (BoP) by changing the supply and cost of foreign funding. For instance, depreciation can reduce the creditworthiness of local borrowers if they have Rupee-denominated assets and borrow in foreign currencies. This could **raise the cost of foreign lending** and lead to a net capital outflow.
- Globally, appreciation in domestic currencies (against the dollar) has increased cross-border banking capital flows.
- A **competitive Rupee continues to boost the BoP** as the benefits received through the trade channel outweigh the costs incurred in the financial channel.
- India's high trade openness and low share of external debt mean that the trade channel effect of currency fluctuations dominates the financial channel effect.
- This contrasts with other EMEs, such as Brazil and the Philippines, whose financial channel effect dominates the trade effect.

**Prelims Fact-** The Net INTERNATIONAL INVESTMENT POSITION (IIP) position determines whether a country is a net creditor or debtor nation by measuring the difference between its external assets and liabilities.

**STABLE EXTERNAL DEBT POSITION**

- The external debt to GDP ratio declined to **18.7 %** at the end of March 2024.
- The share of short-term debt (with original maturity of up to one year) in total external debt declined to 18.5 % at the end of March 2024.
- Comparing various debt vulnerability indicators of India with peer countries for 2022 indicates that India is in a better position with relatively low levels of total debt as a percentage of Gross National Income (GNI) and short-term external debt as a percentage of total external debt. The comfortable level of FER offers additional comfort

**OUTLOOK AND CHALLENGES**

- In the coming years, India’s trade deficit is expected to decline further as the PLI scheme is expanded and India creates a globally competitive manufacturing base in several product categories.
- The recently signed FTAs are expected to increase the global market share of the country’s exports.
- Various international agencies and RBI expect the CAD to GDP to moderate to below 1 % for FY24, driven by growing merchandise and services exports and resilient remittances.
- However, the risks to the performance of India’s external sector are on the downside due to the persistence of current geopolitical tensions and policy uncertainties like-
  - **Fall in demand from major trading partners:** USA’s overall import volume declined by 1.7 % in 2023 compared to a growth of 8.6 % in 2022. Rising protectionism is another risk that could undermine trade recovery in 2024 and 2025.
  - **Rise in trade cost:** India’s merchandise trade relies heavily on maritime trade so disturbances in major shipping routes can impact its economy. A CRISIL report highlighted that the Red Sea crisis has impacted the Middle East’s fertiliser exports to India and led to increased costs.
  - **Commodity price volatility:** Fluctuations in prices of critical imports like oil, metals, and agricultural products, can impact India's trade balance and inflation levels. Additional trade restrictions could push food prices higher.
  - **Trade policy changes:** By major trading partners or geopolitical developments can affect India's export opportunities and market access. As per the WTO’s Trade Monitoring Report, November 2023, the pace of WTO members' implementation of new export restrictions has increased significantly since 2020.

**Conclusion**

In an era when global economic growth is likely to be buffeted by geopolitical tensions and protectionism, growing India’s exports of goods and services will be a stiffer challenge than before. Product safety and quality consciousness in the private sector and policy stability in the public sector are obvious starting points to turn the challenge into an opportunity.

**SETTING THE CONTEXT**

The medium-term growth outlook for the Indian economy is premised on the following key tenets-

1. **Increasing geoeconomic fragmentation and the consequent resource nationalism have significant growth-limiting impacts on countries.** Ensuring supply security through building buffers and slack has replaced the ability to operate at the frontiers of efficiency. 'Just in case' has replaced 'Just in time'.
2. **A global trust deficit is driving countries to pursue policies focused on enabling them to become self-reliant and protect them from external shocks, especially in sectors of strategic importance.** Therefore, the balance between inward-looking policies versus outward-looking policies needs to become more nuanced going forward;
3. **Integration of climate change strategies into national development policy is not merely an environmental imperative but more,** as it impacts socio-economic stability, public health, banking, and public finances. Climate change also necessitates a trade-off between energy security and economic development on the one hand and energy transition on the other.
4. **For better and worse, technology is emerging as the biggest strategic differentiator** determining the economic prosperity of nations. Its productivity-enhancing potential is beyond doubt, but the social impact of emerging technologies such as Artificial Intelligence (AI) via labour market disruptions and labour displacement is barely understood.
5. **Countries across the board have limited policy space to manoeuvre,** given the multiple crises confronting the global economy. Therefore, recognition and acceptance of trade-offs have become more necessary than before for policymakers.
6. **The Government's focus must turn to bottom-up reform** and the strengthening of the plumbing of governance so that the structural reforms of the last decade yield strong, sustainable, balanced, and inclusive growth.

**KEY AREAS OF POLICY FOCUS IN THE SHORT TO MEDIUM TERM****1. Generating Productive Employment:**

- India's workforce is estimated to be nearly 56.5 Crore, of which more than 45 % are employed in agriculture, 11.4 % in manufacturing, 28.9 % in services, and 13.0 % in construction.
- According to UN population projections, India's working-age population (15-59 years) will continue to grow until 2044 and the Indian economy needs to generate nearly 78.51 lakh jobs annually in the non-farm sector to cater to the rising workforce.
- There is a need to create the conditions for faster growth of productive jobs outside of agriculture, especially in organized manufacturing and services, even while improving productivity in agriculture.

**2. Skill Gap Challenge:** 65% of India's fast-growing population is under 35, and many lack the skills needed by a modern economy. Estimates show that about 51.25% of the youth is deemed employable. The 2022-23 Annual Report of the Ministry of Skill Development & Entrepreneurship (MSDE) highlights the challenges in the skilling and entrepreneurship landscape in the country, such as-

- Public perception that views skilling as the last option meant for those who have not been able to progress/have opted out of the formal academic system.
- Lack of coordination and monitoring mechanism among ministries/departments to ensure convergence.
- Multiplicity in assessment and certification systems that leads to confusion among the employers.
- Paucity of trainers, inability to attract practitioners from industry as faculty.
- Mismatch between demand and supply at the sectoral and spatial levels.
- Limited mobility between skill and higher education programmes and vocational education and very low coverage of apprenticeship programmes.
- Declining labour force participation rate of women
- Pre-dominant non-farm, unorganized sector employment with low productivity but no premium for skilling.
- Non-inclusion of entrepreneurship in formal education system, lack of mentorship and adequate access to finance for start-ups

- Inadequate impetus to innovation driven entrepreneurship.

**3. Tapping The Full Potential Of The Agriculture Sector:**

- The foremost concern confronting the sector pertains to sustaining agriculture growth without letting food price inflation rise beyond acceptable limits while incentivising farmers to raise production.
- There is also a need to improve price discovery mechanisms for agriculture products, increase efficiency, reduce disguised unemployment, address the fragmentation of landholding, and increase crop diversification, among a host of other issues.
- All of these call for upgradation of agricultural technology, application of modern skills in farm practices, enhancing agricultural marketing avenues, price stabilisation, adoption of innovation in farming, lowering wastages in the use of fertiliser, water, and other inputs, and improving agriculture-industry linkages.

**4. Easing The Compliance Requirements & Financing Bottlenecks Confronting MSMEs:**

- Licensing, Inspection, and Compliance requirements that MSMEs have to deal with, hold them back from growing to their potential and being job creators of substance.
- Threshold-based concessions and exemptions create the unintended effect of incentivising enterprises to cap their sizes below the thresholds.
- Many MSMEs struggle to secure the necessary funds to start, operate, or expand their business due to a reasons like lack of collateral or credit history, high interest rates, complex documentation requirements, and long processing times, etc.
  - ✓ Lok Sabha Standing Committee on Finance, in its April 2022 report on ‘Strengthening Credit Flows to the MSME, noted that credit gap in MSME sector is estimated to be ~Rs 20-25 lakh crore.
  - ✓ Schemes, such as the Pradhan Mantri Mudra Yojana and the Credit Guarantee Fund Trust for Micro and Small Enterprises, aimed at providing affordable credit to MSMEs.

**5. Managing India’s Green Transition:** India has committed to reducing its greenhouse gas (GHG) emissions by 33-35 % (from 2005 levels), increasing the share of non-fossil fuel-based electricity to 40 % and enhancing forest cover to absorb 2.5 to 3 billion tonnes of carbon dioxide by 2030. For this purpose, India needs to-

- ensure the consistency of the E-Mobility policy and optimal energy mix between traditional and renewable source;
- develop or acquire storage technology at affordable costs for the share of renewable energy in power generation to rise;
- decide on the role and the share of **nuclear energy** in the energy mix;
- deal with challenges posed by dependence on China for **critical minerals** (crucial for E-Mobility and renewable energy generation);
- examine the implications of phasing down coal for bank balance sheets;
- deal with climate change, undertake energy transition along with the protectionism of the developed countries.
- raise financial resources for climate change adaptation and mitigation actions.
  - ✓ As per RBI, bridging funding gap for climate change necessitates allocating 2.5 % of India's annual GDP to green finance.

**6. The Chinese Conundrum:**

- The Chinese domination over the global supply chains across product categories is a key global concern, especially in the wake of supply disruption accompanying the war in Ukraine.
- China's near-monopoly over the production and processing of critical and rare earth minerals has already been a cause of global concern.

**The Chinese Manufacturing Juggernaut: A Threat to EMEs**

- China’s manufacturing trade surplus has been ballooning since 2019 due to weak domestic demand and expanding industrial capacity. This mismatch between domestic supply and demand in China has widened in the past few years, leading to Chinese companies exploring additional markets overseas.
- This has resulted in prices collapsing globally and driving other national producers out of business, especially in product categories where China dominates. For instance, the poor performance of China’s property sector since 2021 created significant overcapacity leading to a collapse in global steel prices, which now puts significant pressure on producers in India, Vietnam, Brazil, and other countries. Estimates show that China’s steel product exports are surging again by 27% so far in 2024 after 35 % growth last year.
- China’s dominance over a large number of product categories creates a risk of economic coercion, where the government restrains access to crucial inputs for political leverage. This is most evident in the case of the export of rare earth and critical minerals.

- China's dominance also has led to monopolistic practices which has considerably limited the space for new entrants to emerge as new manufacturing powers.
- EMDE's are resorting to import restriction to tackle China challenge but some Chinese goods are so cheap that no amount of tariff can reduce their price competitiveness. Further, some Chinese products can move past import restrictions without being noticed since they are packaged in third countries.
- China has started retaliating against these import restrictions which has further complicated the manufacturing landscape for EMDEs. For instance, in response the India's anti-dumping probe against Chinese entities, China has been *quietly blocking India's access to solar equipment*.
- Developing countries will have to figure out a way of meeting the import competition from China and, at the same time, boosting domestic manufacturing capabilities, sometimes with the collaboration of Chinese investment and technology.
- To boost Indian manufacturing and plug India into the global supply chain, it is inevitable that India plugs itself into China's supply chain. Whether we do so by relying solely on imports or partially through Chinese investments is a choice that India has to make.

**7. Deepening the Corporate Bond Market:**

- An efficient corporate bond market with lower costs and quicker issuing time can offer an efficient and cost-effective source of longer-term funds for corporates.
- However, the size of the corporate bond market in India, scaled by GDP, remains small compared to other major Asian emerging markets such as Malaysia, Korea, and China and lacks depth since it is dominated by a limited investor base of domestic institutions.

**8. Tackling Inequality:**

- The 2022 State of Inequality in India report observed that in India, the top 1 % accounts for 6-7 % of the total incomes earned, while the top 10 % accounts for one-third of total incomes earned.
- The Government places significant focus on creating jobs, integrating the informal sector with the formal sector, and expanding the female labour force to address inequality.
- Tax policies on the treatment of capital and labour incomes will likely play a more important role in the coming years, especially since the deployment of technology like AI may have a more deleterious impact on employment and income.

**9. Improving the Quality of Health of India's Young Population:**

- The Indian Council for Medical Research, in its latest Dietary Guidelines for Indians published in April 2024, estimates that 56.4 % of the total disease burden in India is due to unhealthy diets.
- Estimates show that the adult obesity rate in India has more than tripled, and the annual rise in children's is the steepest in the world for India, behind Vietnam and Namibia, according to the World Obesity Federation.
- If India needs to reap the gains of its demographic dividend, it is critical that its population's health parameters transition towards a balanced and diverse diet.

**India's Expanding Obesity Challenge- Observations from National Family Health Survey (NFHS-5), 2019-21**

- The percentage of men facing obesity in the age bracket 18-69 has increased to 22.9 % in NFHS-5. For women, it has increased to 24%.
- At the All-India level, the incidence of obesity is significantly higher in urban India than in rural India (29.8% vs. 19.3% for men and 33.2% vs. 19.7% for women).
- Preventive measures must be taken to enable citizens to have a healthier lifestyle.

**GROWTH STRATEGY FOR AMRIT KAAL: STRONG, SUSTAINABLE AND INCLUSIVE**

To sustain growth for nearly a generation up to 2047 or more, bottom-up reforms are necessary which include-

**• Strategy for Boosting Private Sector Investment:**

- India's private gross fixed capital formation must accelerate in Machinery & Equipment and Intellectual Property products to create quality jobs.
- The Government should focus on creating an enabling policy and regulatory environment for the upgradation of capacity and know-how of component manufacturers, increasing the availability of trained human resources, addressing resource bottlenecks and regulatory impediments, etc.
- Government initiatives for boosting India's private investment include Atma-nirbhar packages, the introduction of the Production Linked Incentive (PLI), investment opportunities under the National Infrastructure Pipeline (NIP) and National Monetisation Pipeline (NMP), India Industrial Land Bank (IILB), Industrial Park Rating System (IPRS), the soft launch of the National Single Window System (NSWS), etc.

- **Strategy for the Growth And Expansion Of India’s Mittelstand:** MSMEs are the backbone of the Indian economy, contributing approximately 30 % of the country’s GDP, 45 % of manufacturing output, and providing employment to 11 crore of India’s population. Government initiatives for boosting MSME growth include-
  - allocation of 5 lakh crore Emergency Credit Line Guarantee Scheme (ECLGS) for businesses, including MSMEs;
  - equity infusion of 50,000 crore through the MSME Self-Reliant India Fund;
  - New revised criteria for the classification of MSMEs;
  - rollout of Raising and Accelerating MSME Performance (RAMP) programme with an outlay of 6,000 crores over 5 years;
  - Launch of Udyam Assist Platform (UAP) to bring the Informal Micro Enterprises (IMEs) under the formal ambit for availing the benefit under Priority Sector Lending (PSL).
- **Dialogue with States on Required Policy Changes-**
  - Much of the action has to happen at the level of sub-national (state and local) governments.
  - Physical and digital connectivity (industrial and freight corridors), infrastructure upgrade and development, the introduction of bullet trains, and the manufacture of semiconductor chips will contribute to the growth of MSME through the supply-chain network.
  - MSME entrepreneurs also need training in critical areas of enterprise management, such as human resource management, financial management, and technology.
  - These interventions have to be targeted, tailored to the circumstances of each sector, and practical rather than academic.
- **Export Strategy-**
  - It is also a crucial component of elevating the manufacturing share of GDP and growing the country’s *Mittelstand*.
  - For instance, ‘**Make in India Mittelstand (MIIM)**,’ a collaboration between India and Germany, focuses on driving innovation and enhancing economic cooperation by encouraging *small and medium-sized* German companies to invest and manufacture in India. Since 2015, the MIIM programme has resulted in a total declared investment exceeding ₹1.4 Bn in India, as of August 2021.
  - Striking the right balance between the trilemma of trade with China, investment by China, and India’s territorial and non-territorial integrity and security is part of the strategy of growing India’s *Mittelstand*.
- **Strategy for Removing the Growth Impediments in the Agricultural Sector:**
  - Agriculture and allied sectors such as horticulture, livestock, fisheries, and dairy and activities such as food processing hold significant potential for gainful employment.
  - Given the geopolitical and technological threats that both manufacturing and service sectors face, it is both urgent and important for India to re-imagine the contours of its primary sector for the next generation.

### A Farmer Friendly Policy Framework

- The surge in agricultural employment in Covid years due to reverse migration, the decline in the growth rate of value addition in agriculture in FY24, and an extremely hot summer in the Northwestern and central regions of the country in the summer of 2024 with rising water stress and energy consumption make a serious and honest stock-taking of India’s farm sector policies imperative.
- To support farmers, governments are forced to intervene in the market to stabilise prices through policies like open market sales, trade controls, and measures against hoarding and speculation.
- India subsidises farmer’s water, electricity, and fertilisers. Their incomes are not taxed. The government offers them a minimum support price (MSP) for 23 selected commodities. Monthly cash support through the PM-KISAN scheme. Their loans are waived-off. They are supported by Public Distribution System (PDS)
- However, such price stabilisation measures aimed at consumers often conflict with income- support policies for the farmers. Governments have no option but to do a delicate balancing act. Here, the combination of policies becomes important-
  - ✓ **By not banning futures or options markets at the first sign of price spikes**
  - ✓ **By invoking export bans only under exceptional circumstances**
  - ✓ **By re-examining the inflation-targeting framework to exclude food**
  - ✓ **By increasing the Total Net Irrigated Area-**
  - ✓ **By making farming consistent with climate considerations-**
    - Grains such as rice and sugarcane are water-guzzling crops.
    - Cultivation of paddy gives rise to methane emissions.
    - Direct Seeded Rice (DSR) or even organic farming for some crops could help save water & chemical fertilisers.
    - ‘Crop-neutral incentive structures’ can be promoted. Pulses, oilseeds, and millets that save on power, water, and fertilisers need to be rewarded with equivalent subsidies embedded in rice production.
    - Farm sector policies should align more with a ‘demand-driven food system’ that is more nutritious and aligned with Nature’s resource endowments.

• **Strategy to Secure the Financing of Green Transition in India:**

- There is a need to *exploit global green capital from sovereign wealth funds, global pensions, private equity, and infrastructure funds* by addressing barriers to investment in transition projects, fostering a sustainable finance ecosystem, and diversifying funding sources.
- There is also the need for innovative and tailored approaches to effectively channel funds into green finance. For instance, **blended finance**, which strategically integrates public and private capital.
- Furthermore, as India shifts to low-carbon energy to meet its environmental goals, sector-specific financial institutions can also help to mobilize green funds. Their specialized knowledge of the sector (especially the hard-to-abate sector) enables them to create innovative financial products tailored to transition projects' unique requirements.
- There is significant potential for enhancing the role of the International Financial Services Centres Authority (**IFSCA**) which can act as a conduit for attracting international capital.
- India also can engage with multilateral development banks and explore the use of new and existing instruments that they have to offer to raise necessary finance.

**Leveraging Market Finance: India's Catalytic Use of Multilateral Investment Guarantee Agency (MIGA)**

- India is drawing on MIGA of the World Bank Group to directly access financial markets on competitive terms by using the multilateral as a mechanism to leverage market finance in addition to drawing on its traditional role as a lender of multilateral finance.

• **Strategy towards Bridging the Education-Employment Gap:**

- With one of the youngest populations, a median age of 28, India can harness its demographic dividend by nurturing a workforce that is equipped with employable skills and prepared for the needs of the industry.
- India has not only recognised the potential of its young workforce but also the issues associated with skilling such a vast population.
- The **National Policy on Skill Development & Entrepreneurship (NPSDE)** focuses on bridging gaps, improving industry engagement, establishing a quality assurance framework, leveraging technology, and expanding apprenticeship opportunities. Prioritising equity, it targets marginalised groups and emphasises skill development and entrepreneurship for women.
- This, in combination with the **National Education Policy (NEP)**, holds tremendous potential for bridging the education-employment gap in India. The NEP 2020 and NEP 2023 serve as a stimulus for reforming the educational system to increase the employability of the future generation.
- In addition, new skilling initiatives and revamping the existing skilling initiatives should continue to be of high priority to the Government. The industry itself has much to gain from taking the initiative on this matter with academic institutions rather than leaving it only up to the governments, to do the heavy lifting.

• **Strategy Towards Building State Capacity and Capability:**

- Since 2014, India has made significant strides in delivering **crucial infrastructure** and implementing direct benefit schemes aimed at enhancing citizens' well-being.
- The civil service has been at the heart of these transformative efforts with its ability to design policies and ensure that initiatives reach all citizens.
- However, sustaining and accelerating India's progress in the face of evolving challenges requires the state machinery to reimagine, reinvent, reinvigorate, and re-equip itself.
- At senior levels, the country will need the combined wisdom, knowledge and experience of both the generalists and specialists.
- In recent years, the Government has made a significant beginning in **lateral entry** into the senior ranks of Central Ministries through a transparent process. This needs to be substantially expanded.
- Foundational and mid-career training for civil servants in all specialities has to be re-imagined for the recharging and rebooting of skills, aptitude and attitudes.
- Accountability mechanisms and practices will become necessary to ensure policy outcomes at scale and speed. Annual conversations on goals and measurement – at the beginning and the end of the year – at senior levels will usher in professionalism and accountability.

**Mission Karmayogi's Holistic Approach To Building State Capacity In India**

- The government has responded to the wicked challenge of building state capacity by launching Mission Karmayogi, which endeavours to enhance state capacity and address each level of the civil service as well as the linkages and interactions between them by:
  - Building the capacity of the **Workforce** centred on their roles and associated competency requirements at multiple career stages.
  - Improving the quality of the **Work** through *role-based* human resource management and decision-making.
  - Enhancing the **Workplace** through mentorship, better managerial practices, and improved physical infrastructure.
- Through Mission Karmayogi, the government is delineating the competency requirements for all civil servants in terms of their roles and duties and using competencies as a key tool for enhancing their performance and assessing them using workplace performance assessments, data from digital MIS systems, and 360-degree feedback mechanisms etc.

**OUTLOOK IN THE MEDIUM TERM**

- The structural reforms undertaken by the Government of India over the course of the last decade have put the economy firmly on a growth path.
- In its April 2024 World Economic Outlook, the IMF has raised India's growth forecast for 2024-25 to 6.8 % from 6.5 % on the back of strong domestic demand and a rising working-age population, making India the fastest-growing G20 economy.
- Awareness of the unique nature of India's circumstances and its goals is necessary to prepare ourselves to participate in and contribute to its socio-economic progress.
- Our knowledge and attitudes have to continually evolve to keep up with the requirements that the project, 'Viksit Bharat @2047' entails. Open minds are a good place to start.

## 6

## CLIMATE CHANGES AND ENERGY TRANSITION: DEALING WITH TRADE OFFS

Developed nations are grappling with trade-offs in their climate policies, often leading to postponed timelines and diluted regulations.

- India, while contributing minimally to global carbon emissions, faces the dual challenge of fostering economic growth and managing climate change.

### Present Status of India's Climate Action:

- Despite being one of the fastest-growing economies, India's per capita carbon emissions are significantly lower than the global average. The country aims for a '**Viksit Bharat**' (Developed India) by 2047 and achieving **Net Zero carbon emissions by 2070**.
- India has adopted a mission-mode approach through the **National Action Plan on Climate Change (NAPCC)** and its State counterparts (SAPCCs).
- Significant progress has been made in renewable energy, energy efficiency, and emission reduction. Key achievements include:
  - Addition of 15.03 GW of solar power capacity in 2023-24.
  - Achieving 40% cumulative electric power installed capacity from non-fossil sources in 2021.
  - Reduction of emission intensity of GDP by 33% from 2005 levels by 2019.

### Adaptation Strategies:

- India's adaptation strategies are critical, especially given its vulnerability to climate change. Initiatives include:
  - Promotion of micro-irrigation and climate-resilient agriculture.
  - Developmental programs such as **Swachh Bharat Mission and Pradhan Mantri Awas Yojana**.
  - Wetland and mangrove conservation, with **56 new wetlands designated as Ramsar sites since 2014**.
- **Case Study on Micro Irrigation: Role of Community-led Water Governance**
  - **Navanagar**, a small agricultural village in **Gujarat**, faced a severe water crisis with groundwater levels dropping to 500-600 feet and high Total Dissolved Salt (TDS) making water unsuitable for agriculture.
  - This led to unprofitable farming, limited to conventional crops like cotton and castor.
  - In response, the Water Resource Department of Gujarat and the Gujarat Green Revolution Company (GGRC) collaborated with local farmers to rejuvenate the village pond using water from the nearby Guhai Dam.
  - Under the '**Som Sarovar**' initiative, the village pond was deepened with the help of the Gram Panchayat.
  - Farmers built a sump, installed water lifting facilities, and created a piped water conveyance system.
  - They bore the costs and mandated the adoption of drip irrigation under the **Per Drop More Crop (PDMC) scheme**.
  - This resulted in a **30% increase in agricultural productivity**, reduced fertilizer and power consumption, and diversified crop production to more remunerative fruits and vegetables.
  - Community-led water governance transformed Navanagar from water deficient to water sufficient, ensuring equitable water distribution and revitalizing the village's agriculture.

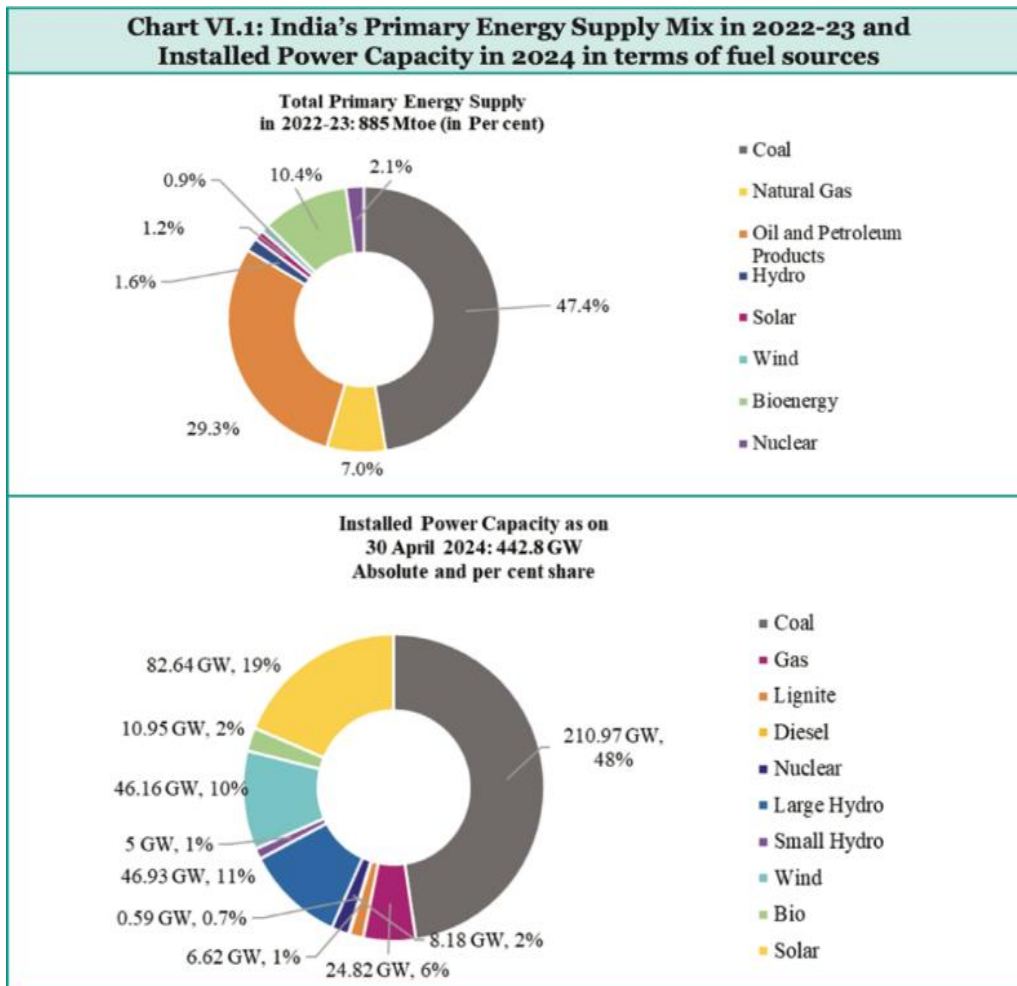
### Energy Transition and Low Carbon Development:

- India's energy needs are expected to grow significantly by 2047. The energy transition strategy focuses on:
  - Diversifying energy sources with a significant share of renewables.
  - Enhancing energy efficiency across sectors.
  - Phasing in clean coal technologies and exploring gasification and Carbon Capture, Utilization, and Storage (CCUS).

### Renewable Energy Initiatives: India has launched several initiatives to boost renewable energy:

- **PM-Surya Ghar Yojana** to add 30 GW of solar capacity.

- **National Offshore Wind Energy Policy** and lease rules.
- **Green Hydrogen Mission** targeting 5 MMT of green hydrogen by 2030.



**Challenges in Energy Transition:** The transition to renewable energy faces several challenges:

- Intermittency and grid stability issues.
- High land and water resource requirements.
- Recycling of renewable waste, especially solar PV panels.
- Geopolitical risks related to the concentration of critical minerals.

**Financial and Technological Requirements:**

- India's energy transition requires substantial financial investments and technological advancements.
- Key initiatives include:
  - Framework for **Sovereign Green Bonds** to mobilize resources for green projects.
  - SEBI's sustainability reporting requirements for listed entities.
  - RBI's framework for green deposits and concessional credit for renewable projects.

**Carbon Market Development:**

- The **Indian Carbon Market (ICM)** aims to price carbon and incentivize low-emission technologies.
- The **Carbon Credit Trading Scheme (CCTS)** will subsume existing energy efficiency schemes and introduce GHG emission intensity targets for industries.

**India's International Initiatives to Address Climate Change Issues:**

- India has been at the forefront of several international initiatives aimed at climate change mitigation and building resilience.
- **International Solar Alliance:**
  - **Establishment:** Joint initiative by India and France in 2015.
  - **Membership:** 119 Member and Signatory countries.
  - **Objective:** To unlock USD 1 trillion of investments in solar energy by 2030.
  - **Grants:** USD 50,000 for solar energy demonstration projects in Least Developed Countries (LDCs) and Small Island Developing States (SIDS).
  - **Projects:** 19 solar energy demonstration projects under implementation as of March 2024.
- **One Sun, One World, One Grid (OSOWOG):**
  - **Establishment:** Joint initiative by India and UK.
  - **Objective:** To optimize the use of renewable energy worldwide, enhancing energy security and reducing carbon emissions by leveraging global solar energy potential.
  - **Phases:**
    - **Phase 1:** Connect Indian grid with Middle East, South Asia, and South-East Asia grids.
    - **Phase 2:** Extend the grid to Africa.
    - **Phase 3:** Achieve global interconnection with a target of 2,600 GW by 2050.
- **Coalition for Disaster Resilient Infrastructure (CDRI):**
  - **Launch:** September 2019 during the United Nations Climate Action Summit.
  - **Partnership:** National Governments, UN agencies, multilateral development banks, private sector, and academic institutions.
  - **Objectives:**
    - Promote resilience of infrastructure systems to climate and disaster risks.
    - Enhance infrastructure resilience for sustainable development.
  - **Key Initiatives:**
    - **Infrastructure Resilience Academic Exchange (IRAX) Programme:** USD 5 million provided by USAID to support partnerships between US and Indian academic institutions.
    - **Disaster Resilient Infrastructure (DRI) Connect:** A digital platform for knowledge exchange and learning.
- **Infrastructure for Resilient Island States (IRIS):**
  - **Launch:** 2021 under CDRI.
  - **Objective:** Deliver resilience & climate adaptation solutions to Small Island Developing States (SIDS).
  - IRIS focuses on supporting the most vulnerable countries to enhance their resilience against climate change impacts, ensuring sustainable development.
- **Leadership Group for Industry Transition (LeadIT):**
  - **Launch:** September 2019 by India and Sweden.
  - **Objective:** Facilitate industry transition towards low-carbon technology in line with the Paris Agreement.

## Key Recommendations:

01

**Enhance International Cooperation:**

Strengthen collaborations in R&D for renewable energy technologies and critical minerals.

02

**Invest in Energy Storage Solutions:**

Develop battery storage technologies to address intermittency issues in renewable energy.

03

**Promote Sustainable Practices:**

Encourage behavioural changes and adoption of energy-efficient appliances and buildings.

04

**Scale-Up Financial Investments:**

Mobilize both domestic and international financial resources to support the energy transition.

05

**Develop Robust Recycling Policies:**

Implement comprehensive policies for recycling renewable waste to mitigate environmental impact.

**Conclusion:** India's approach to climate change and energy transition is comprehensive, focusing on both mitigation and adaptation. Though the country's efforts in renewable energy, energy efficiency, and climate resilience are commendable, the journey towards a low-carbon economy requires **continuous innovation, substantial financial resources, and international cooperation.**

## 7

## Social Sector: Benefits that Empower

India aims to become a developed nation by 2047, leveraging its economic growth for comprehensive development.

- Public policy and implementation play crucial roles in translating economic gains into human development, addressing the diverse needs of a vast and young population.
- The focus is on sustainable and equitable growth, **ensuring better healthcare, education, clean water, sanitation, affordable housing, electricity, and internet access.**

### Social Sector Expenditure:

- Government expenditure on social services has been increasing, with a focus on education, health, and other social welfare programs.
- Between FY18 and FY24, welfare expenditure grew at a compounded annual growth rate (CAGR) of 12.8%, outpacing nominal GDP growth.
- **Education and health expenditures grew at CAGRs of 9.4% and 15.8%, respectively.**

### Health Sector:

- Govt. has implemented various healthcare schemes aimed at improving access to quality healthcare services. These are:
  - **Ayushman Bharat Pradhan Mantri Jan Aarogya Yojana (AB-PMJAY):** Provides health insurance cover of ₹5 lakh/year for underprivileged families.
  - **PM Jan Aushadhi Kendras:** Offers quality medicines at significantly reduced prices.
  - **AMRIT Pharmacies:** Subsidizes medicines for critical illnesses.
  - **Ayushman Bhav Campaign:** Aims to saturate healthcare services in every village and town.
  - **Ayushman Bharat Digital Mission (ABDM):** Creates a national digital health ecosystem.
- These initiatives have led to improved health outcomes, reduced out-of-pocket expenditures, and better credit market outcomes for beneficiaries.

### Education Sector:

- The **National Education Policy (NEP) 2020** aims to transform India's education system to meet 21st-century challenges. Key focus areas of NEP 2020 include:
  - **Early Childhood Care and Education (ECCE):** The 'Poshan Bhi Padhai Bhi' program aims to provide high-quality preschool education through Anganwadi centres. Key features of PBPB:
    - **Teaching-Learning Materials:** Utilizes a variety of teaching aids, including visual aids (posters, flashcards, activity books), audio aids (radio), audio-visual aids (videos, films), and spatial materials (drawing, painting, puzzles).
    - **Mother Tongue Instruction:** Emphasizes the use of the mother tongue as the primary medium of instruction, fostering better understanding and connection with the children.
    - **Community Involvement (Jan Andolan):** Engages communities in strengthening the foundational education of the country's future generations, ensuring widespread support and participation.
  - **National Curriculum Framework for School Education (NCF-SE) 2023:** Launched in August 2023, the NCF-SE 2023 is a significant step in realizing the aims and commitments of the NEP 2020. Its key features -
    - **Competency-Based Education:** Promotes a shift from content-heavy education to a focus on developing skills and competencies.
    - **Early Vocational Education:** Introduces vocational training starting from grade 3, instead of grade 9, to build practical skills early on.
    - **Native Language Learning:** Encourages the learning of Indian languages, supporting linguistic and cultural diversity.

- **ECCE and FLN Roadmap:** Provides a comprehensive plan for ECCE and Foundational Literacy and Numeracy (FLN), which are critical for achieving further educational outcomes.
- **Moving Away from Rote Memorization:** Advocates for pedagogical methods that foster critical thinking, creativity, and problem-solving skills, moving away from the traditional rote memorization approach.
- **Stakeholder Engagement:** The extensive stakeholder engagement in the development of NCF-SE 2023 ensures that the curriculum is inclusive, addressing the needs and inputs of a diverse group of individuals across the country.

## Women-Led Development:

- The focus on women-centric initiatives by the government has significantly increased over the years, as reflected in the expanding gender budget.
- From ₹97,134 crore in FY14, the allocation for women welfare and empowerment schemes has risen to **₹3.10 lakh crore in FY25**, marking a 38.7% increase from FY24 and a 218.8% increase since FY14.
- The **gender budget now constitutes 6.5% of the total Union Budget**, the highest since the Gender Budget Statement was introduced in FY06.
- The social empowerment of women in India has been significantly bolstered through government initiatives focusing on health, education, and economic opportunities.
- Programs like
  - **Beti Bachao, Beti Padhao:** Improved the sex ratio at birth, reduced maternal mortality rates.
  - Institutional delivery rates have risen due to government incentives.
  - **Nutritional programs** (integrates 3 existing schemes, i.e., Anganwadi Services, Poshan Abhiyaan and Scheme for Adolescent Girls) targeting women and children aim to eradicate malnutrition.
  - **Access to basic necessities** like clean water (under Jal Jeevan Mission) and sanitation (Swachh Bharat Mission) has improved women's lives, freeing them to engage in productive work.
  - **Women's safety** is enhanced through **Mission Shakti** - a comprehensive solution to the perceived need for women's safety, rehabilitation, and empowerment.
  - **Educational and skilling programs** have achieved gender parity in school enrolments, with increasing female participation in higher education and vocational training.
  - **Financial inclusion and rural microfinance initiatives** have empowered women economically, while entrepreneurship programs have encouraged female-led businesses.
  - **Efforts to promote women's asset ownership** and political representation are ongoing, highlighting the government's commitment to gender equality and women's empowerment.

## Rural Development: Significant progress has been made in improving the standard of living in rural areas through:

- **Swachh Bharat Mission:** Built 11.7 crore toilets, improving sanitation and hygiene.
- **Pradhan Mantri Awas Yojana (PMAY):** Constructed 3.47 crore pucca houses for the poor.
- **Jal Jeevan Mission:** Provided 11.7 crore households with tap water connections.

## Social Security: Affordable social security schemes for unorganized sector workers include:

Atal Pension Yojana (APY)

○ Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)

○ Pradhan Mantri Suraksha Bima Yojana (PMSBY)

- These schemes have expanded the social safety net, providing financial security to millions.

## Nurturing Rural Entrepreneurship at the Grassroots:

- **Deendayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM):**
  - **Objective:** To empower poor households by providing access to meaningful self-employment and skilled wage employment opportunities.
  - **Achievement:** Since its inception in 2011, DAY-NRLM has reached across 7135 blocks in 742 districts of 28 states and 6 Union Territories.

- **Lakhpati Didi Initiative:**
  - **Objective:** Launched in 2023, this initiative aims to elevate the annual income of three crore Self-Help Group (SHG) households to a minimum of ₹1 lakh within three years.
  - **Focus Areas:** The initiative emphasizes diversified livelihood activities, district-level planning, household support, government department convergence, and capacity building.
- **Saras Aajeevika Portal and eSARAS Mobile App:** Launched in 2023, these platforms showcase authentic handcrafted products by SHGs, creating a dedicated marketplace to transform rural women into new-age entrepreneurs.
- **Start-Up Village Entrepreneurship Programme (SVEP):**
  - Supports rural entrepreneurs in setting up local enterprises by providing business feasibility management knowledge, start-up loans, and scaling opportunities.
  - To date, 2.97 lakh enterprises have been formed in 221 blocks across 29 states/UTs.
- **Aajeevika Grameen Express Yojana (AGEY):**
  - Provides safe, affordable, and community-monitored transport services in rural areas.
  - Currently, 2333 vehicles are operational in 26 states, connecting remote rural villages.
- **Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY):**
  - DDU-GKY is a state-led, outcome-driven skilling program targeting rural youth.
  - It emphasizes sustainable employment, PPP, and independent third-party certification of outcomes.
  - Special sub-schemes like **ROSHNI and Himayat** are also part of DDU-GKY.
  - As of June 2024, 16.5 lakh candidates have been trained, and 10.48 lakh have been placed under the scheme.

## Data Governance:

- The **Data Governance Quality Index (DGQI)** assesses the data preparedness of various ministries, promoting healthy competition and cooperative peer learning.
- The digitization of healthcare, education, and governance has enhanced fiscal efficiency and reduced leakages.

## Challenges & Future Directions:

- Despite significant progress, challenges remain in improving learning outcomes, eliminating malnutrition, addressing regional and gender disparities, and enhancing accountability and transparency.
- Continued efforts in policy implementation, leveraging technology, and fostering community participation are essential for achieving sustainable and inclusive development.

## Conclusion:

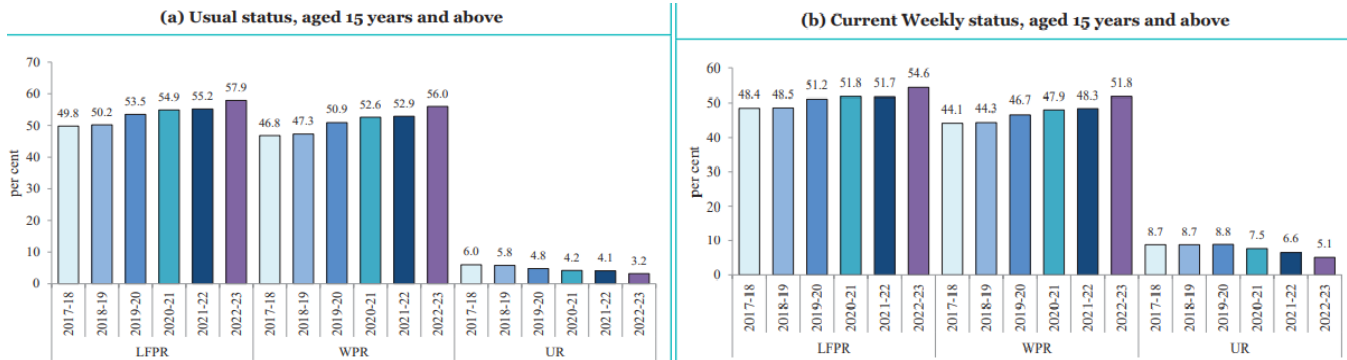
India's social sector has made remarkable strides, supported by robust government programs and community involvement. **Addressing existing challenges** through effective implementation and continuous innovation will be key to sustaining this progress and ensuring equitable growth for all citizens. The focus on health, education, rural development, and social security is critical for achieving **the vision of a developed India by 2047**.

## EMPLOYMENT AND SKILL DEVELOPMENT: TOWARDS QUALITY

As per the Periodic Labour Force Survey (PLFS) data, Indian labour market indicators have improved in the last 6 years, with the unemployment rate declining to 3.2% in 2022-23.

- Though the fillip to skilling has yielded progress, there remains scope for more as only 4.4% of the young workforce is formally skilled

### Current Employment Situation in the Country:



- **Employment is the crucial link between growth and prosperity**, and its quantity and quality determine the extent to which economic output translates into better quality of life for the population.
- According to the annual PLFS, **the all-India annual unemployment rate (UR)** (of persons aged 15 years and above) has been **witnessing a declining trend** since the COVID-19 pandemic.
  - This has been accompanied by a **rise** in the labour force participation rate (**LFPR**) and worker-to-population ratio (**WPR**).
- In 2022-23, India’s workforce is estimated to be **nearly 56.5 crore** and over 45% of the workforce is employed in agriculture, 11.4% in manufacturing, 28.9% in services, and 13.0% in construction.
  - **The predominance of agriculture** in providing employment to nearly half of the population (especially females) is **both a challenge and an opportunity**.
- In terms of employment status of workers, **57.3% of the total workforce is self-employed**.
  - **Gender-wise**, it is the female workforce, which is shifting to self-employment, while the male workforce’s share has been stable.
  - This is evident in the sharp rise in female LFPR in the past six years, driven by rural women joining agriculture and related activities.

**Prelims Box**

- UR: percentage of **unemployed persons** in the **labour force**.
- WPR: percentage of employed persons in the total population.
- LFPR: percentage of working-age population engaged in work or making tangible efforts to seek ‘work’ or being available for ‘work’ if it is available. ‘Work’ includes self-employment (subsistence agriculture and collection of firewood, poultry farming, etc., for self-consumption), regular wage/salaried employment, and casual labour.
- For a person to be categorised as employed as per usual status, he/she must have pursued an economic activity for at least 30 days during the 365 days preceding the date of the survey.
- In the case of CWS, the activity status is determined on the basis of a reference period of the last 7 days preceding the date of the survey

### Some Positive Trends of the Employment Situation in the Country:

- **Rising youth employment:**
  - According to PLFS, youth (**age 15-29 years**) unemployment rate has declined from 17.8% in 2017-18 to 10% in 2022-23.

- As India's demographic dividend is a stepping stone for sustained high growth and global competitiveness in manufacturing and services, the decline in the annual youth UR **indicates better utilisation of this dynamic resource.**
- **Rise in *Female LFPR*:**
  - While urban FLFPR has also been growing, **the rural FLFPR has witnessed a steep rise** of 16.9 percentage points between 2017-18 and 2022-23.
  - This could be due to **continuous high growth in agriculture output** and **freeing up of women's time** due to substantial expansion of access to basic amenities such as piped drinking water, clean cooking fuel, sanitation, etc.
- **Employment in Factories:**
  - As per Annual Survey of Industries (ASI) 2021-22, employment in the organised manufacturing sector recovered to the pre-pandemic level.
  - Though 40% of factory employment was in Tamil Nadu, Gujarat, and Maharashtra, the highest employment growth (between FY18 and FY22) was seen in states with a higher share of young population, including Chhattisgarh, Haryana and UP.
  - **In terms of the sectoral share of factory employment** (total persons engaged), **the food products industry (11.1%) remained the largest employer**, followed by textiles, etc.
- **Enrolment in Employees' Provident Fund Organisation (EPFO):** The organised sector job market conditions measured by payroll data for EPFO indicate a consistent year-on-year (YoY) increase in payroll addition since FY19.

## Government Initiatives to Boost Employment Generation:

- ✔ **National Career Service (NCS) Portal:** Launched in 2015, the portal offers employment and career services.
- ✔ **e-Shram Portal:** It is the first-ever national database of unorganised workers with more than 29 crore workers registered.
- ✔ **Aatmanirbhar Bharat Rojgar Yojana (ABRY):** It was introduced in 2020 to boost employment with social security benefits post-COVID-19 job losses.
- ✔ **Pension schemes:** The Atal Pension Yojana (APY) of 2015 has over 6.5 crore subscribers now. Launched in 2019, PM Shram Yogi Maan-Dhan (PM-SYM) scheme has over 50 lakh workers enrolled.
- ✔ **Affordable insurance programmes:** Life and Disability cover is provided through PM Jeevan Jyoti Bima Yojana (PMJJBY) and PM Suraksha Bima Yojana (PMSBY) of ₹2 lakh at an annual premium of ₹436 and ₹20 only.
- ✔ **The new Labour Codes:** The Government rationalised and amalgamated 29 central laws into **four Labour Codes** (the Code on Wages 2019, the Industrial Relations Code 2020, the Code on Social Security 2020 and the Occupational Safety, Health and Working Conditions Code 2020).

➤ **This was to promote employment creation,** reduce multiplicity of definitions and authorities relating to labour, and to induce transparency, accountability, and use of technology in enforcement of labour laws.



- **PM Street Vendor's AatmaNirbhar Nidhi (PM SVANidhi) Scheme:** It was launched in 2020 to facilitate collateral-free working capital loans to street vendors.
- **The One Nation One Ration Card programme:** It was launched in 2019, allowing portable food security across India and ensuring enhanced migrant workers' welfare.
- **PM's Employment Generation Programme (PMEGP):** It aims to provide employment opportunities to traditional artisans/ rural and urban unemployed youth at their doorstep.
- **Deendayal Antyodaya Yojana - National Urban Livelihoods Mission (DAYNULM):** The Mission aims to reduce poverty and vulnerability of the urban poor households by enabling them to access self-employment and skilled wage employment opportunities.
- **PM Mudra Yojana (PMMY):** Collateral free loans (up to ₹10 lakh) are extended to micro/small business enterprises and to individuals to enable them to set up or expand their business activities.
- **Stand Up India:** Launched in 2016, the scheme aims to promote entrepreneurship among the SC/ST and Women by facilitating bank loans of value between ₹10 lakh and ₹1 crore.
- **Start Up India:** It led to an increase in the number of DPIIT (Department for Promotion of Industry and Internal Trade) recognised startups from over 300 in 2016 to 1,17,254, as on 31 December 2023.
- **Production Linked Incentive (PLI) scheme:** It aims to enhance India's manufacturing capabilities, increase capital expenditure, etc., to promote workers' welfare.

### How the Work Environment is Evolving in India?

- **Fourth industrial revolution:**
  - **It is characterised by** Internet of Things (IoT), big data, nano-technology, machine learning, AI, blockchains, genetic engineering, quantum computing, advanced analytics, automation, and advanced manufacturing technology.
  - In the backdrop of this evolving revolution, **the future of job markets in India** (as well as in the rest of the world) **is undergoing a significant transformation.**
  - Technological advancements are leading to a growing demand for tech-savvy professionals.
  - According to the World Economic Forum (WEF), the fastest-growing jobs in the next five years will be those of AI and machine learning specialists, sustainability specialists, etc.
- **Disruptions due to the adoption of AI:**
  - While AI has considerable potential for boosting productivity, it also has the potential to **disrupt employment in certain sectors** involving routine tasks (such as customer service).
  - India, with its vast demographic dividend and a very young population, is uniquely situated as **AI poses both risk and opportunity.**
  - **It is how we use the technology** (either for automation, surveillance and control or for informed decision making, problem-solving and augmentation) that decides whether AI will facilitate the path of job creation or will be a hindrance to it.
  - **For example, Praman Exchange** uses computer vision to map the quality of horticulture products and thus achieving quality assessment with 95% accuracy and giving the contractors the required time and flexibility to trade from anywhere in the world.
- **Shift towards gig economy:**
  - Gig economy encompasses freelancers, online platform workers, self-employed, on-call workers, and creative tech talent.

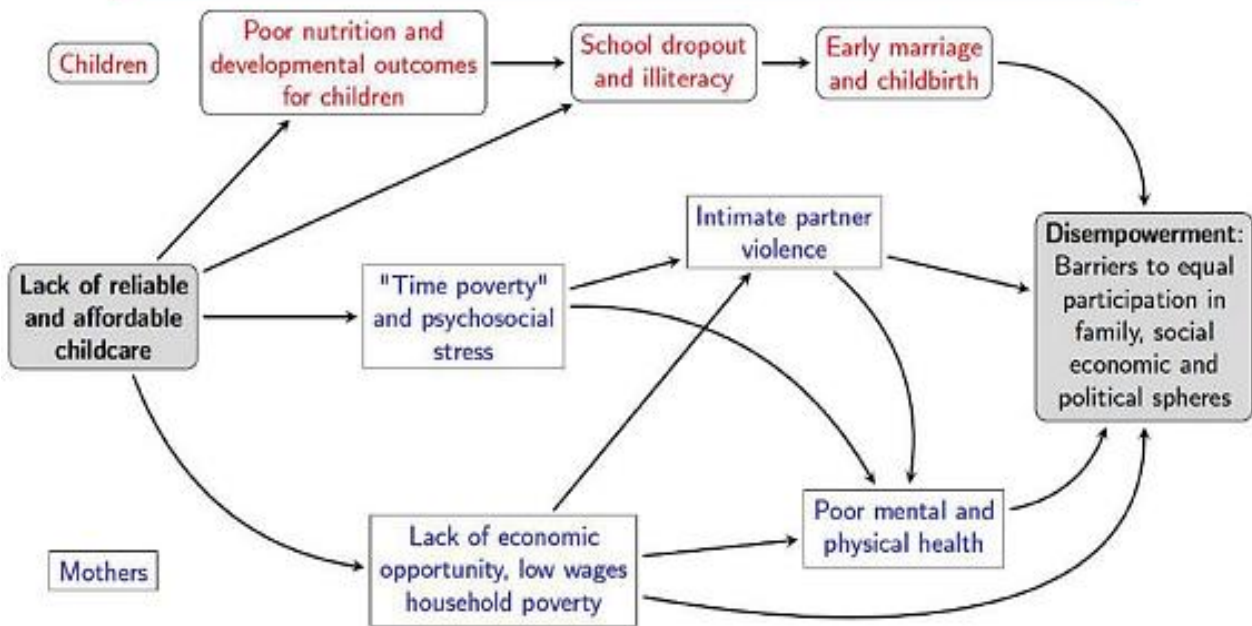
- In India, the rise of the gig economy is driven by the emergence of tech-enabled platforms, the demand for flexible work arrangements, the focus on skills, etc.
- According to NITI Aayog's, 77 lakh (7.7 million) workers were engaged in the gig economy in India in 2020–21.
- They constituted 1.5% of the total workforce in India and is expected to expand to 2.35 crore/ 4.1% of the total workforce by 2029–30.
- While the gig economy may open up employment opportunities for various sections of workers, including persons with disabilities and women, a significant issue has been the creation of effective social security initiatives for such workers.
- The Code on Social Security (2020) marks a significant advancement by expanding the scope of social security benefits to encompass gig and platform workers.
- Flexi job market:
  - There are nearly 5.4 million formal contract staff or flexi workers in India employed through organised contract/temporary staffing companies.
  - Although they work on a contract, these workers are fully protected with social security, and the average length of contract has been rising.
  - The flexi workforce has grown at a CAGR of 13.2% in the decade ending 2023, and remained positive even during the COVID pandemic.
  - However, as a share of the total workforce, the contract staffing workforce is about 1% only, compared to 2.2 per cent in Europe and Asia Pacific.
  - The low percentage of flexi jobs in India indicates that the corporate sector has not replaced full-time workers with flexi workers.
- Climate change and green energy transition:
  - India is one of the most vulnerable countries witnessing productivity losses due to climate change, given its high share of agricultural and construction employment and location within the tropical latitude.
  - Climate change affects worker well-being and workers (especially those in manual jobs) need suitably designed policy support and private insurance products to protect their health and incomes from the vagaries of climate change.
  - Here, an innovative pilot programme by Self Employed Women's Association (SEWA) is noteworthy.
    - Launched in 2023, a heat-linked parametric insurance covering 22,000 unorganised workers entails partial wage payment when temperature breaches 43.6°C with the premium borne partially by the worker and rest through charity.
  - Another aspect of climate change is the efforts to mitigate its impact by adopting green technologies and transitioning to greener energy alternatives.
  - By 2030, clean energy initiatives can potentially create about 3.4 million jobs (short and long-term) by installing 238 GW of solar and 101 GW of new wind capacity to achieve the 500 GW non-fossil electricity generation capacity.

### Some Avenues of Job Creation in India:

- Agro-processing:
  - This sector lies at the intersection of multiple opportunities for rural growth besides being an intermediate sector for the 'farm to factory' transition.
  - The suitability of agro-processing for job creation in India can be explained through demand for rural jobs, crop diversification, low value-addition in agriculture, avenues for captive demand of agro-processed output, etc.
  - Success stories to emulate a bottom-up approach in agro-processing are Sahyadri Farmer Producer Company in Maharashtra, Araku Coffee plantations by tribals in Andhra Pradesh, etc.
- The care economy:
  - According to the International Labour Organisation (ILO), care work consists of activities and relations involved in meeting the physical, psychological, and emotional needs of adults and children, old and young, frail (physically weak) and able-bodied.

- Increasing need for a well-developed care economy lies in India’s demographic transition. By 2050, the proportion of elderly persons would rise to 20.8% (i.e., 34.7 crore persons).
- The economic value of developing a care sector is twofold - **increasing FLFPR and promoting a promising sector for output and job creation.**
- **Multidimensional impact of creches:**
  - A wide range of research has emphasised the impact of affordable and reliable childcare on **freeing women’s time for paid employment**, enhancing mental health and improving children’s learning and nutrition.
  - The Anganwadi-Cum-Crèche initiative under the **Palna Scheme** of the Ministry of Women and Child Development aims to address the gap that exists mainly in urban areas -
    - Where support for childcare from family members is not available, and
    - There is a need for institutional support to facilitate the contribution of women to the economy.

**Impact of lack of access to childcare: A conceptual model**



**Developments and Progress in Skilling:**

- **Significance:** In order to reap the demographic advantage, it is necessary to equip our workforce with employable skills and knowledge that meet the requirements of the globalised labour market and Industry 4.0.
- **Need:** According to the PLFS, 4.4% of the youth in the age cohort of 15-29 years have received formal vocational/technical training, while another 16.6% received training through informal sources.
- **Various Schemes/Institutes/Initiatives for Skilling in India**

Schemes/Institutions under Ministry of Skill Development and Entrepreneurship (MSDE)		
Name	Objective	Overall Progress
PM Kaushal Vikas Yojana (PMKVY)	It aims to provide free short-duration skill training and certification.	Since its inception in 2015, 1,42,67,888 persons have been trained under the scheme.
PM Vishwakarma	It was launched in 2023 for recognition, skill upgradation, collateral free credit and marketing support to traditional artisan/craftsperson working with traditional tools.	‘Basic’ and ‘Advanced’ skill training of Vishakarmas, including usage of modern toolkits by MSDE.

<b>Jan Shikshan Sansthan (JSS)</b>	For skilling of non/neo literates and persons with a rudimentary level of education.	From FY19 to FY24, 26,36,769 persons have been trained, and 24,94,807 persons have been certified.
<b>National Apprenticeship Promotion Scheme (NAPS)</b>	To promote apprenticeship training by reimbursing a partial stipend.	32.38 lakh apprentices engaged between FY17 and FY24.
<b>Skill India Digital Hub platform</b>	Launched in 2023, it is a convergence platform facilitating access to skilling, credit, and employment through AI/ ML technology.	Integration of skilling schemes, online courses, etc., and registration of 60 lakh learners.
<b>National Institute for Entrepreneurship &amp; Small Business Development (NIESBUD)</b>	Entrepreneurship training institutes	NIESBUD provided training in the field of Entrepreneurship for 3.21 lakh beneficiaries between FY19 and FY24.
<b>Indian Institute of Entrepreneurship (IIE), Guwahati</b>		IIE was the nodal entity that provided livelihood support to more than 1.78 lakh beneficiaries under projects like PM Van Dhan Yojana, etc.
<b>Targeted Skilling beyond MSDE Schemes</b>		
<b>Jal Jeevan Mission</b>	It is a scheme initiated by the Ministry of Jal Shakti in 2019 to provide safe and adequate drinking water through individual household tap connections by 2024 to all households in rural India.	Overall guidance and coordination of the multi-skilling course by MSDE.
<b>National Green Hydrogen Mission</b>	It was launched by the Ministry of New and Renewable Energy in 2023 to identify and develop regions capable of supporting large scale production and/or utilization of Hydrogen as Green Hydrogen Hubs.	Development of 50 new short-term qualifications for skilling, upskilling and re-skilling.
<b>PM-JANMAN</b>	It was launched by the Ministry of Tribal Affairs in 2023 to provide essential amenities and sustainable livelihood opportunities to PVTGs households and habitats.	Entrepreneurship and Skill Development, capacity building and handholding of identified PVTG beneficiaries by NIESBUD and IIE.
<b>'AGNIPATH' scheme</b>	It is a recruitment initiative for the Indian Army, Navy, and Air Force launched by the Ministry of Defence in 2022. The youth selected under this scheme will be known as Agniveers.	Skill certification of Agniveers based on their qualification and experiential learning to ensure employment opportunities in industries after service of 4 years.
<b>Partnering with industry for skilling</b>		
<b>Skill Impact Bond</b>	<p>Launched in 2021, the Skill Impact Bond attracts private sector funds and expertise for skill development, job placements, and retention.</p> <p>This initiative by National Skill Development Corporation (NSDC) targets training 50,000 youth (60% are female).</p>	Between November 2021 and March 2024, 29,365 candidates have been enrolled, 23,464 have been certified, 19,209 have been placed and 13,853 reported job retentions.

**Way Forward:**

- **Generating more jobs:** The Indian economy needs to generate an average of nearly 78.5 lakh jobs annually until 2030 in the non-farm sector to cater to the rising workforce.
- **India needs to invest in research and steer the AI bandwagon towards shared prosperity:**
  - AI has made significant growth in the agri-tech, industry & automotive, healthcare, BFSI (Banking, Financial Services and Insurance) and retail sectors in India.

- As India aspires to be a developed nation by 2047, **it needs to take part in the enormous job transformation** that AI has brought about and will probably continue to do so.
- For this, an **Inter-Agency Coordination Authority for AI** is the need of the hour. This would act as a central institution guiding the research, decision-making, policy planning on AI and job creation.
- The Indian Government has launched several initiatives to ensure an AI enabled ecosystem and to connect AI to the youth of the country. Some of these include **'Future Skills Prime', 'YUVAi: Youth for Unnati and Vikas with AI'**, etc.
- A budget of ₹10,300 crore has been provided in 2024 for the **India AI Mission**, a significant move to strengthen the AI ecosystem.
- **Re-calibrating the apprenticeship framework:**
  - Apprenticeship training programs in India have the potential to bridge the skills gap in the workforce and enhance the employability of vocational students.
  - **The National Apprenticeship Promotion Scheme (NAPS)** was introduced in 2016 to meet the demand for a skilled workforce, promote the industrial economy, and provide experiential learning opportunities to the youth.
  - **There exist significant challenges in the Indian apprenticeship ecosystem**, such as lack of coordination between education institutions and industry, inadequate infrastructure, gaps in the regulatory framework, etc.
  - Therefore, the **apprenticeship framework needs to be re-calibrated** to provide flexibility and negotiability in work hours, compensation, etc.
  - India must think to emulate the **Swiss and German models** of apprenticeships where students work as apprentices on weekends on mutually agreeable terms.
- **Building a better care ecosystem:** Strategic reforms are required to build a solid structure of the care economy. The reforms could be along the following lines:
  - Support for parental leave policies;
  - Subsidies for care services;
  - Public and private investments in building care infrastructure;
  - Mechanisms for skill training for care workers;
  - Mechanisms for monitoring service quality and benchmarks;
  - Addressing the gender disparities in care and domestic work and boosting women's labour force participation.
- **Labour Laws need to be reviewed:** With a focus on implementing more flexible labour laws that could unleash substantial economic potential, promote gender inclusivity, and attract industrial investment.

**Conclusion:**

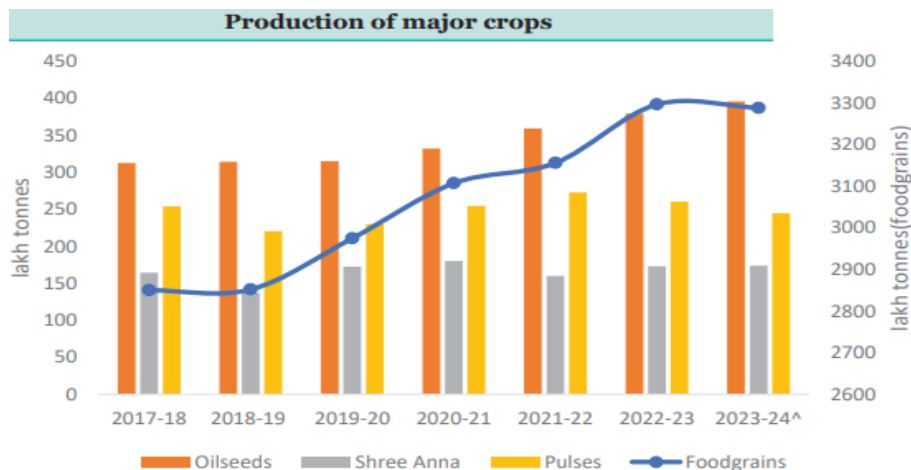
- The employment situation in India has experienced a **positive transformation** over the last decade, with notable achievements in skill development, entrepreneurship, industry diversification, inclusive growth, etc.
- However, **there remain long-existing challenges** of formalising a burgeoning workforce, facilitating job creation in sectors which can absorb workers shifting from agriculture, and ensuring social security benefits for those in regular wage/salaried employment.
- Technological change, geopolitical churn and climate change combine to make this a formidable challenge. To address it - Governments at all levels and the private sector - must work together.

## AGRICULTURE AND FOOD MANAGEMENT: PLENTY OF UPSIDE LEFT IF WE GET IT RIGHT

The growth in the agriculture and allied sectors has contributed positively to the growth of the Indian economy. However, specific challenges such as the low productivity levels, the impact of variability in weather, fragmented land holdings and inadequate marketing infrastructure affect agriculture performance.

### An Overview of the Indian Agriculture Sector:

- The Indian agriculture sector provides **livelihood support to about 42.3% of the population** and has a **share of 18.2% in the country's GDP** at current prices.
  - It has registered an **average annual growth rate of 4.18%** at constant prices over the last five years.
  - However, the growth rate of the agriculture sector for 2023-24 (provisional estimates) stood at **1.4%**, mainly due to delayed and poor monsoons caused by El Nino.
- **The allied sectors of Indian agriculture** (such as animal husbandry, dairying, and fisheries) are steadily emerging as robust growth centres and promising sources for improving farm incomes.
  - **The growth in the livestock sector** significantly boosted the per capita availability of milk, eggs, and meat.
  - **The fisheries/ sunrise sector** supports ~30 million people, particularly marginalised and vulnerable communities. In 2022-23, **India achieved a record fish production of 17.54 million tons**, ranking third globally and accounting for 8% of global production.



### Reforms Needed in the Agriculture Sector in India:

- **Promoting crop diversification:**
  - **Significance:** In recent years, the Government has promoted crop diversification to address sustainability challenges and shift production from water-intensive crops to others such as pulses, oilseeds, and Nutri-cereals/ Shree Anna.
  - **Government initiatives:**
    - **The Crop Diversification Programme (CDP)** under the Rashtriya Krishi Vikas yojana (RKVY) promotes better production technologies of alternate crops.
    - **A higher increase in minimum support price (MSP):** Over the average cost of production for oilseeds and pulses.
    - **National Food Security Mission - Oilseeds & Oil Palm (NFSM-OS&OP):** This has reduced the percentage share of imported edible oil, from 63.2% in 2015-16 to 57.3% in 2022-23.
    - **A remunerative MSP for rapeseed and mustard:** This is also providing the incentive to farmers to diversify production.

- **Promoting investment and access to credit in agriculture and allied sectors:**
  - **Need:** For double farmers' income over the period of 2016-17 to 2022-23, income would need to grow at an annual rate of 10.4% in the farm sector, which in turn would require an annual growth rate in agriculture investment of 12.5%.
  - **Significance:** Unlike input subsidies, higher investment levels are required for the long-term modernisation of this sector.
  - **Challenges:** About **89.4%** of farm households own <2 hectares of land. **The fragmentation of agricultural land** has adversely affected farmers' investments. Also, the **private corporate sector's share of investments** in agriculture has remained below 2%.
  - **Government initiatives:**
    - **Agriculture Infrastructure Fund (AIF):** It was launched with a financing facility of ₹1 lakh crore to give further fillip to farm gate infrastructure.
    - **PM Kisan SAMPADA Yojana (PMKSY):** It introduced credit-linked financial assistance to build efficient supply chain management to reduce the wastage of perishable produce and extend food shelf life.
- **Empowering farmers through affordable and enhanced access to credit:**
  - **Need:** The government's priority has been to provide timely, cost-effective, and adequate credit that reduces the dependence on non-institutional credit and increases investment.
  - **Government initiatives:**
    - **The Kisan Credit Card (KCC)** has streamlined agricultural credit accessibility.
    - **Insurance schemes** such as the PM Fasal Bima Yojana (**PMFBY**) offer a safety net against crop losses due to natural calamities, pests, or diseases, ensuring financial stability for farmers.
  - **Impact:** Such measures have reduced the share of non-institutional credit from 90% in 1950 to 23.40% in 2021-22.
- **A comprehensive and diversified marketing network:**
  - It enables the farmer to bring the produce to the market most efficiently and timely and **reduces post-harvest losses, enhances competition, and allows price discovery.**
  - Delays in farmers accessing formal institutions, including Agricultural Price Marketing Committee (APMC), enhance reliance on intermediaries.
  - To promote efficiency in agriculture marketing, and improve price discovery, the government has been implementing the **e-National Agriculture Market (e-NAM) scheme** since 2016.
- **Futures market for agriculture commodities:**
  - The forward/ futures market serves as a mechanism that brings the prospects of future production and consumption to **influence today's price in a logical manner.**
  - To ensure effective regulation, the SEBI took over from the Forward Market Commission as the commodity market regulator in 2015.
  - In parallel, **e-NAM** provides farmers with an electronic online marketplace for agricultural produce.
- **Agricultural price support:**
  - **Need:** MSP is a factor farmers take into account when making sowing decisions. It assures farmers of remunerative returns and allows the Government to ensure a stable supply of staples at reasonable prices.
  - **Government initiatives:**
    - **Fixing MSP:** In 2018-19, the decision to fix MSP **at one and half times** the all-India weighted average cost of production was a step towards providing assured remunerative prices to farmers.
    - **PM Kisan Samman Nidhi (PMKISAN):** It is a central sector scheme launched in 2019 to supplement the financial needs of land-holding farmers by giving them a direct financial benefit of ₹6000/- per year in three equal instalments.
    - **PM Kisan Maandhan Yojana (PMKMY):** To provide social security to the most vulnerable farmer families, the scheme offers a monthly pension of ₹3,000 to the enrolled farmers on the attainment of 60 years of age

- **Farm mechanisation:** The Sub Mission on Agricultural Mechanization (SMAM) provides assistance to the State Government for training and demonstration of agricultural machinery, setting up of Custom Hiring Centres (CHC) and assists farmers in procuring various farm machinery and equipment.
- **Making agriculture sustainable:**
  - **Significance:** Sustainability in agriculture is highly relevant to securing the long-term productivity of land holdings, ensuring sufficient farm-based incomes and food security.
  - **Need:** With 11 of the 17 SDGs directly linked to agriculture, securing improvements in crop yields and ensuring income stability is vital for the country as it strives to achieve the Agenda 2030 goals.
  - **Government initiatives:**
    - **The National Mission on Sustainable Agriculture (NMSA):** A part of the National Action Plan on Climate Change (NAPCC), it aims to evolve and implement strategies to make Indian agriculture more resilient to the changing climate.
    - **Assured irrigation:** PM Krishi Sinchayee Yojana (**PMKSY**), consisting of two major components, the Accelerated Irrigation Benefit Programme (**AIBP**) and **Har Khet Ko Pani** (**HKKP**), promote the extension of areas under irrigation and water efficiency.
    - **A Micro Irrigation Fund (MIF):** With an initial corpus ₹5000 crore has also been created with NABARD to facilitate the States in mobilising the resources for expanding coverage of micro irrigation.
    - **PM-PRANAM:** The PM Programme for Restoration, Awareness Generation, Nourishment, and Amelioration of Mother Earth initiative incentivises states to reduce chemical fertiliser use.
    - **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**).
    - **Policy led interventions to improve water management:** The Narayanpur Left Bank Canal (**NLBC**) system in Karnataka has optimised water use efficiency in the region through automated control and regulating gates, etc.
- **Empowering farmers through cooperative societies:**
  - **Cooperatives are vital in aggregating produce,** enhancing bargaining power, and ensuring better market access to small and marginal farmers, thereby preventing exploitation by middlemen and traders.
  - There is a realisation that **Primary Agriculture Credit Societies (PACS)** can be useful vehicles for facilitating the convergence of various schemes intended for farmers' welfare.
  - **The Multistate Cooperative Societies (Amendment) Act 2023** seeks to enhance transparency and accountability and improve the election process in the multistate cooperative societies.
- **Agriculture research and education:**
  - Investment in agriculture research has contributed substantially to food security. It is estimated that **for every rupee invested in agricultural research (including education), there is a payoff of ₹13.85.**
  - **The Indian Council on Agricultural Research (ICAR)** has worked in diverse areas of research covering crop and seed production, bio-fortified varieties of grains and oils, promotion of millets, animal health, agricultural mechanisation, etc.

### **Government Initiatives to Boost Allied Sectors in India:**

- **For improving animal health:** Livestock Health and Disease Control Programme.
- **For nurturing entrepreneurship development and per-animal productivity:** National Livestock Mission) and promoting farmer producer organisations (FPOs) and Self-Help Groups.
- **For facilitating investments:** The Animal Husbandry Infrastructure Development Fund (**AHIDF**) facilitates investments from individual entrepreneurs, private companies, FPOs, etc., in key areas like dairy processing, meat processing, animal feed plants, and breed improvement technology.
- **The PM Matsya Sampada Yojana (PMMSY):** It was launched in 2020 with the objective to enhance seed and fish production and other extension services.
- **The Fisheries and Aquaculture Infrastructure Development Fund (FIDF):** It was introduced in 2018-19 to address the sector's infrastructure needs.

- **Other schemes:** Such as the **Rashtriya Gokul Mission (RGM)**, **National Digital Livestock Mission (NDLM)**, and **National Programme for Dairy Development (NPDD)** include interventions to improve quality, enable access to the organised markets and the development of indigenous breeds.

### **Way Forward:**

- **Promoting food processing industry (FPI):**
  - It is an important industry because it has strong linkages with the agriculture sector and can employ surplus workforce released from the agriculture sector.
  - For the promotion of the FPI, the government is implementing the **Production Linked Incentive Scheme for the Food Processing Industry (PLISFPI)**, the **PM Formalization of Micro Food Processing Enterprises (PMFME)**, **Operation Green**, etc.
- **Effective food management:**
  - The main objectives of food management are the procurement of foodgrains from farmers at remunerative prices, the distribution of foodgrains to consumers, and the maintenance of food buffer stocks for **food security and price stability**.
  - The distribution of food grains is undertaken primarily under the **National Food Security Act 2013 (NFSA)** and other welfare schemes, including **PM Garib Kalyan Anna Yojana**.
- **Flexible, farmer-friendly and ecologically sustainable fertiliser subsidy:**
  - **Using Agri Stack** to improve the targeting of fertiliser subsidies.
    - ▣ Agri Stack is the digital foundation set up by the government to make it easier to bring various stakeholders together to improve agriculture in India and enable better outcomes for the farmers by using data and digital services.
- **Digital revolution:**
  - India's agricultural sector is undergoing a significant transformation with the integration of digital technologies.
  - **The Digital Agriculture Mission 2021–2025** aims to modernise agriculture through advanced technologies like AI, remote sensing, drones, etc.
  - Also, the government has taken various initiatives to build **Digital Public Infrastructure (DPI) for agriculture** as an open source, open standard and interoperable public good.
- **Promoting agro-climatic consistent agriculture:** Efforts must be made to encourage production patterns and practices in various geographies that are consistent with their agro-climatic characteristics and natural resources.
- **Greater emphasis on tapping the potential of allied sectors** due to the growing significance of allied sectors in enhancing farmers' income.

10

INDUSTRY: SMALL AND MEDIUM MATTERS

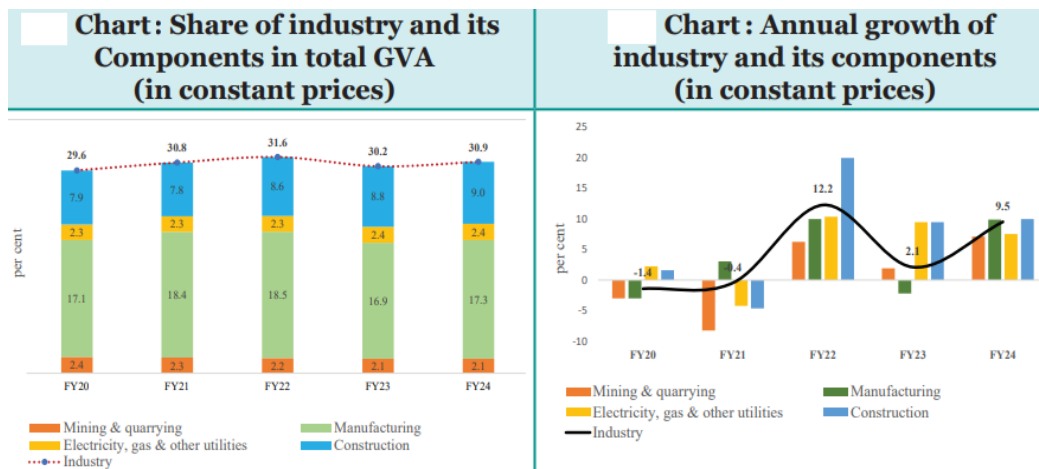
Industrial growth accelerated in FY24, with manufacturing and construction leading the way. However, headwinds persist in terms of uncertain global demand conditions and prices of key inputs for which India is import-dependent.

**Overview of Industrial Sector in India:**

- India’s industrialisation was held in check by the absence of physical infrastructure and logistics as well as **intrusive and cumbersome licensing requirements** on capacity creation and expansion.
  - Further, the manufacture of specific items was **reserved** for the small-scale sector.
- **Much of these restrictions have been now lifted**, and physical infrastructure is being created at a rapid pace and connectivity has improved.
- **The Goods and Services Tax (GST)** has created a single market for several commodities, enabling manufacturing at scale.
- However, India faces **stiff challenges** in growing its manufacturing base.
  - Therefore, public policy must boost **competitiveness** and promote **deregulation**.
  - The private sector must invest in quality through **R&D spending**.
- As manufacturing still has the ability to generate low and semi-skilled jobs and bring development closer to the people, **India needs to prioritise the sector**.

**Current Scenario of Industrial Growth in India:**

- Economic growth of 8.2% in FY24 was supported by an industrial growth of **9.5%**.
- Among the 4 sub-sectors of industry,
  - **Manufacturing and construction** achieved close to double-digit growth,
  - Mining & quarrying and electricity & water supply also recorded strong positive growth in FY24.



**Performance of Key Industrial Intermediates:**

- **The cement industry:**
  - **Overview:** Since de-licensing in 1991, the cement industry has progressed significantly both in capacity and process technology, so much so that **India is the second largest cement producer** in the world after China.
  - **Growth prospects:**
    - **The government's focus on mega infrastructure projects** such as highways, railways, housing schemes and smart cities will boost cement demand significantly.
    - **The push for rural development** and increased investment in industrial and commercial construction support growth prospects.

- **Challenges - anthropogenic emissions:** Greenhouse gas (GHG) emissions are estimated to be reduced from 0.56 t CO<sub>2</sub> per tonne of cement in 2023 to 0.35 t CO<sub>2</sub> per tonne of cement produced by 2050.
- **Iron and steel sector:**
  - **Overview:** Iron and steel sector contributes approx. 47% of all inputs in the building & construction sector and serves as a critical input for the production of machinery and consumer goods. **India became a net exporter of finished steel over the past decade.**
  - **Challenge and opportunity:**
    - India's steel sector **accounts for 12% of India's GHG emissions** with an emission intensity of 2.5 tonnes of CO<sub>2</sub> per tonne of crude steel.
    - As the world moves towards a low-carbon economy, **green steel** is poised to play a pivotal role in reshaping the future of the steel industry.
  - **Steel sector initiatives to achieve the goal of a self-reliant India:**
    - **Nagarnar Steel plant** was established in 2023 in Bastar district, marking a significant milestone in India's steel production capabilities.
    - **The Production Linked Incentive (PLI) Scheme for speciality steel** (approved in 2021) has attracted investment of ₹15,519 Crore till May 24.
- **Coal - Reducing external dependence:**
  - **Overview:**
    - Coal accounts for **over 55%** of India's primary **commercial energy**. Coal fired power generation accounts for **about 70%** of the total power generation.
    - **The ratio of domestic production of coal to consumption** improved gradually over the last decade as the growth in production outstripped the growth in consumption.
    - In FY24, India produced 997.2 million tonnes of coal, imported 261 MT and consumed 1233.86 MT.
  - **Recent Initiatives:**
    - Govt. has set a target **to gasify 100 MT of coal by 2030 to reduce imports.**
    - **Coal India Limited (CIL)** is venturing to set up 3,000 MW of renewable power capacity for power mining operations by 2025-26.
    - **CIL is gradually moving to a high-capacity coal evacuation system**, making it more efficient by installing coal handling plants/silos under its '**First Mile Connectivity**' projects.
  - **Challenges and opportunities:**
    - The industry is focusing on reducing emissions, improving energy efficiency, and adopting cleaner coal technologies.
    - **Coal as a green energy source**, such as coal mine methane (**CMM**), coal bed methane (**CBM**), need to be tapped progressively.

### Performance of Major Consumer-Oriented Industries:

- **Pharmaceuticals - Growing and Global Presence:**
  - **Overview:** India's pharmaceutical market currently valued at USD 50 Billion is the **world's third largest by volume**. "**Pharmacy of the world**" as it is often called accounts for 20% of global generic drug exports by volume.
  - **Government initiatives:**
    - **Revision of the pharma manufacturing rules:** These relates to *Good Manufacturing Practices* - a mandatory requirement that safeguards quality and brings the existing regime in line with global standards.
    - **The PLI schemes for bulk drugs and pharmaceuticals:** These have helped stabilise the import of bulk drugs and improved India's supply chain resilience.
    - **The PLI scheme for medical devices:** This has narrowed the gap between export and import of medical devices as the production of CT-Scan machines, MRI, etc., has started in the country.
    - **Aatmanirbharta pursuit:** As India's pharmaceutical industry has been dependent on active pharmaceutical ingredient (API) imports from China, it aims to reduce import dependence on critical APIs.

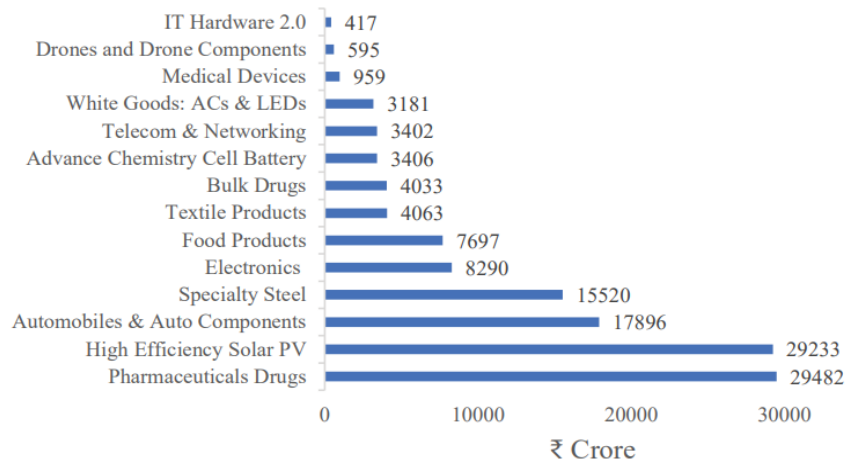
- **PM Bhartiya Janaushadhi Pariyojana:** The aim is to make quality generic medicines available at affordable prices to all.
- **Promotion of Research and Innovation in the Pharma MedTech Sector.**
- **Outlook:**
  - The Pharma industry is expected to reach **US\$ 130 billion by 2030** and export growth can be sustained by increasing the capabilities in **biopharmaceuticals** manufacturing.
  - As we move towards realising the vision of Viksit Bharat, the strength of the industry lies in having a **diverse combination of innovators and generic producers.**
- **Textile industry:**
  - **Overview:** India is the world's **2nd-largest clothing manufacturer** and one of the top five exporting nations. In FY24, the export of textiles and apparel (including handicrafts) was ₹2.97 lakh crore.
  - **Challenges:**
    - **Poor efficiency and economies of scale:** Because majority of India's textile and apparel production capacity is on account of MSMEs, which account for over 80% of the sector.
    - **The fragmented nature of India's apparel sector:** This contributes to higher transportation costs and delays because raw materials are sourced from Maharashtra and Gujarat, while spinning is concentrated in southern states.
    - **Other factors:** India's heavy dependence on imported machinery, inadequate availability of skilled manpower, technological obsolescence, etc., also act as significant constraints.
  - **Supportive initiatives:**
    - **Amended Technology Upgradation Funds Scheme (ATUFS):** It promotes textile sector exports by providing them with incentives and subsidies for producing garments and technical textiles.
    - **7 PM Mega Integrated Textile Region and Apparel (PM MITRA) Parks:** These will be established from FY22 to FY28 in Tamil Nadu, Telangana, Gujarat, Karnataka, MP, UP, and Maharashtra.
    - **National Technical Textiles Mission:** It was launched with an outlay of ₹1,480 Crore for FY21 to FY24, with the focus on increasing the use of technical textiles in various sectors.
- **Electronics industry:**
  - **Overview:** India's electronics manufacturing sector accounts for an estimated 3.7% of the global market share and the industry contributed **4% to India's total GDP in FY22.**
  - **Initiatives to boost electronics industry:**
    - **"Make in India" and "Digital India" initiatives:** Placing a high priority on electronics hardware manufacturing.
    - Other schemes: PLI IT Hardware; Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS); Modified Electronics Manufacturing Clusters (EMC 2.0) etc., **attract significant investments** in the electronics value chain and **boost exports.**
- **Automotive industry:**
  - **Policy Support for Automobiles:** PLI Scheme for automobile and auto components has a budgetary outlay of ₹ 25,938 Crore from FY23 to FY27.
  - **Policy Support for E-mobility:**
    - **Battery Storage:** National Programme on Advanced Chemistry Cell (ACC) Battery Storage was approved in 2021 to enhance manufacturing capabilities of ACCs by setting up battery manufacturing facilities.
    - **Phase II of the FAME Scheme:** This phase (commenced on 1st April 2019 for 5 years) mainly focuses on supporting electrification of public and shared transportation, and creation of charging infrastructure.
    - **Electric Mobility Promotion Scheme 2024 (EMPS 2024):** It aims to faster adoption of e2 wheelers and e3 wheelers, including registered e-rickshaws, e-carts, etc.

**Some other Themes of Industrial Sector in India:**

- **Production Linked Incentive (PLI) Scheme:**

- Keeping in view India’s vision of becoming ‘Aatmanirbhar’, PLI Schemes for 14 key sectors were announced with an outlay of ₹1.97 Lakh crore to enhance India’s manufacturing capabilities and exports.

**Actual sector-wise investment under the PLI scheme**



- **MSMEs:**

- **Overview:** The share of MSMEs in all-India manufacturing output during the year FY22 was 35.4% and the share of export of MSME-specified products in all-India exports was 45.7% in 2023-24.
- **Challenges:** Issues such as the formalisation and inclusion, limited access to finance, markets, technology, and digitalisation, infrastructural bottlenecks, and skilling.
- **The Government initiatives:**
  - **The Samadhaan, Sambandh and Champions Portals:** They ensure ease of registration and grievance redressal and aid in delayed payment issues, procurement monitoring, etc.
  - **The Udyam Registration Portal:** Launched in 2020, it has been instrumental in formalising MSMEs by providing a simple, online, and free registration process based on self-declaration.
  - **The Credit Guarantee Scheme (CGS):** It aims to alleviate the credit constraints faced by MSMEs by offering collateral free loans of up to ₹5 Crore.
  - **One District One Product (ODOP) initiative:** It was launched in 2018 to identify, brand, and promote a single, iconic product from each district to nurture self-reliance across India’s diverse districts.
- **Opportunities:** The digital economy offers significant opportunities. **For example,** 70% of total e-commerce sales in 2020-21 were from MSMEs.

- **Industrial Credit:**

- **Industrial credit growth depends** on the cyclicity of economic activity, the position of own resources of industrial enterprises, the banking system’s own risk appetite, etc.
- In FY23, credit growth was mainly driven by large industries. However, this growth was hampered by a decrease in credit to certain sectors

- **Efforts to Promote Startups and Innovation Culture in India:**

- **Patents and research:**
  - The Patent Rules 2024 simplifies patent acquisition and management.
  - Anusandhan National Research Foundation (ANRF) Act 2023 establishes **ANRF**, which will act as an apex body to provide high level strategic direction for scientific research.
- **Start-ups:**
  - From around 300 startups in 2016, the number of DPIIT-recognised start-ups increased to over 1.25 Lakh by end-March 2024, including over 13,000 start-ups in AI, IoT, robotics, and nanotechnology.

- **The Bharat Startup Knowledge Access Registry** aims to bring together diverse stakeholders in the startup ecosystem.
- **Innovation:** Under the Global Innovation Index (GII), India's rank improved consistently from 81 in 2015 to 40 in 2022 and 2023.

**Way Ahead:** Going forward, invigorating ongoing efforts to impart greater efficiencies, skills, and dynamics to labour-intensive segments like textiles, food processing, and MSMEs would lend greater balance to industrial expansion.

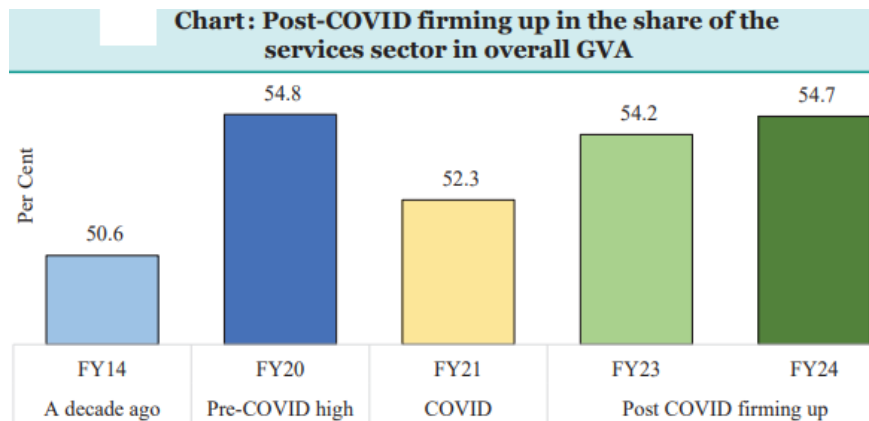
**Conclusion:** Government has taken many initiatives **to improve ease of doing business**, reduce compliance burden and to alleviate logistic and infrastructural bottlenecks. Where governments across the country can help is in **reviewing, amending, relaxing and annulling regulations that are messy, stifling, counter productive.**

The services sector stood as the bulwark of India's economic growth and the post-pandemic dynamics indicate an **ongoing transformation** in domestic service delivery systems and their demands.

- The transformation lies in the fast-paced shift towards digital services like online payments, e-commerce, and entertainment platforms.

### **A Brief about India's Services Sector:**

- It encompasses a wide array of economic activities, which can be broadly **classified into two categories:** contact-intensive and non-contact-intensive services.
- The former includes trade, hospitality, transport, real estate, etc. The latter comprises financial, IT, professional, communication, broadcasting, etc.
- The services sector **accounts for about 55%** of the total size of the economy and is estimated to have grown 7.6% in FY24.
- Various indicators such as the GST collections and the issuance of e-way bills, reflecting wholesale and retail trade, support the services sector's growth story.



### **Overview of the Performance of the Services Sector in India:**

- **Gross Value Added (GVA) in the services sector:** (Given in chart)
- **Trade in the services sector:**
  - Over the past 3 decades, India's export of services has seen remarkable growth, surpassing merchandise goods exports and constituting a significant portion of global exports.
  - Post-pandemic, services exports have maintained a steady momentum and **accounted for 44% of India's total exports in FY24.**
  - **India ranked 5th in services exports**, with other countries being EU, US, UK, and China.
  - **Computer services and business services exports** accounted for about 73% of India's services exports in FY24.
  - During FY24, **services imports stood at USD 178.3 billion** - a 2.1% decrease on a year-on-year (YoY) basis as a result of reduction in global freight rates.
  - The rise in services exports, coupled with a fall in imports, led to an increase in net services receipts, which **helped cushion India's current account deficit** during FY24.

### **How the Services Sector Secures its Financing?**

- The services sector fulfills its financing needs **domestically** through credit from domestic banks and capital markets and **internationally** through Foreign Direct Investment (FDI) and External Commercial Borrowings (ECBs).

- The UNCTAD's World Investment Report 2024 (WIR 2024) has ranked India **15th in terms of FDI inflow** for the year 2023.
  - Also, India is the **2nd largest** host country in terms of number of international project finance deals and **4th largest** in terms of number of Greenfield project announcements.
- FY24 witnessed a **decline in the FDI equity inflows** to the services sector, as in the case of the overall FDI equity inflows to India.
  - Higher interest rates, geopolitical conflicts and rising protectionism have all contributed to lower FDI inflows into the sector.

### **Sector-Wise Performance of Major Services:**

- **Physical connectivity-based services:** This includes roadways; Indian railways; ports, waterways and shipping; and airways
- **Roadways: (Some initiatives)**
  - **Toll digitisation** has drastically reduced waiting times at toll plazas, from 734 seconds in 2014 to 47 seconds in 2024.
  - **'4E' strategy** (Engineering, Enforcement, Emergency Care and Education) devised by the Ministry of Road Transport and Highway to elevate road safety standards on National Highways (NHs).
  - **PM Gati Shakti National Master Plan portal** has been utilised for network planning and congestion projections.
  - **Initiatives like free flow tolling** through **Automatic Number Plate Recognition** and the **Global Navigation Satellite System** will enhance tolling efficiency in the future.
- **Indian Railways (IR):**
  - Passenger traffic originating in IR was 673 crore and IR carried 158.8 crore tonnes of revenue-earning freight in FY24.
  - **IR's train management system** offers a comprehensive view of trains running with real-time train IDs.
  - **IR has digitised its procurement** through the Indian Railways e-Procurement System and Integrated Material Management System.
  - **To build capacity**, IR has developed railway-specific learning content on the **iGOT Karmayogi platform**.
- **Ports, Waterways and Shipping:**
  - There are 13 major ports in India, along with 22 non-major ports and 28 private terminals.
  - Increased decentralisation of decision-making, integration of professional expertise, and adoption of PPP models have improved effectiveness and strengthened the management of ports.
  - There is a push for promoting river cruise tourism on national waterways.
- **Airways:**
  - India is the **third-largest domestic aviation market** and one of the fastest-growing major aviation markets globally.
  - In FY24, the **domestic air passenger traffic** increased by 13% YoY to **30.6 crore**, and **international air passenger traffic** increased by 22% YoY to **7 crores**.
  - Air cargo handled at Indian airports increased by 7% YoY to 33.7 lakh tonnes in FY24.
  - To promote regional equity, the **UDAN** (Ude Desh Ka Aam Nagrik) scheme was launched in 2016. Initiatives like **Digi Yatra** are enhancing efficiency through technology.
  - **The civil aviation sector in India has tremendous potential** owing to growing demand, increased economic activity, tourism, higher disposable incomes, favourable demographics, etc.
  - **The future of aviation services in India** is anchored in the growth of the Maintenance, Repair, and Operations sector and the burgeoning drone industry.
  - **India aims to become a global drone hub by 2030**, supported by liberalised regulations and incentives.
- **Tourism:**
  - Showing positive signs of **revival** post-pandemic, the industry witnessed **over 92 lakh foreign tourist arrivals in 2023**, implying a YoY increase of 43.5%.
  - India has significantly earned **foreign exchange receipts** amounting to **over ₹2.3 lakh crore** through tourism, indicating a 65.7% YoY increase.

- India's share of foreign exchange earnings in world tourism receipts increased from 1.38% in 2021 to **1.58% in 2022**.
- Under the **PRASHAD** (Pilgrimage Rejuvenation and Spiritual Augmentation Drive) scheme, 29 new sites have been identified for **tourism infrastructure development**.
- The focus of **Swadesh Darshan 2.0** is on integrated tourism destination development.
- The tourism sector has embraced the **digital revolution**. For example, the National Integrated Database of Hospitality Industry (**NIDHI**) portal registers accommodation units nationwide.
- The WEF's Travel and Tourism Development Index (TTDI) 2024 report emphasises the need for **improvements in tourist services and infrastructure**, and the development of a **skilled workforce**.

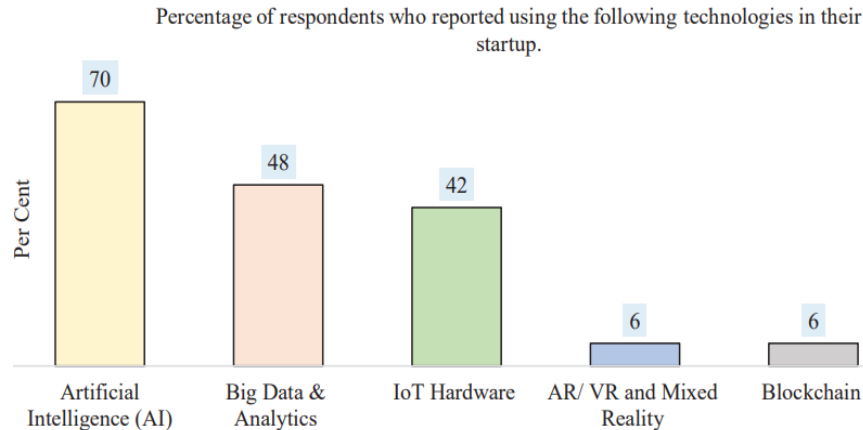
**Table: India ranked 39<sup>th</sup> in Travel and Tourism Development Index, 2024**

Enabling Environment					T&T Policy and Enabling Conditions			Infrastructure and Services			T&T Resources			T&T Sustainability		
Business Environment	Safety and Security	Health and Hygiene	Human Resources and Labour Market	ICT Readiness	Prioritisation of T&T	Openness to T&T	Price Competitiveness	Air Transport Infrastructure	Ground and Port Infrastructure	Tourist Services and Infrastructure	Natural Resources	Cultural Resources	Non-Leisure Resource	Environmental Sustainability	T&T Socioeconomic Impact	T&T Demand Sustainability
3.79	5.06	3.47	2.85	3.84	4.11	4.13	5.66	4.59	4.43	1.6	5.8	5.62	5.05	3.64	4.01	4.55

- **Real Estate:**
  - Factors contributing to the sector's growth include **rapid urbanisation** (as per the UN, half of India's population is projected to dwell in urban regions by 2050, compared to 31% in 2011).
  - Other factors are the **rising income levels, emergence of nuclear families**, improved financial options for developers and homebuyers, etc.
  - **The Pradhan Mantri Awas Yojana-Urban (PMAY-U)**, launched in 2015, has sanctioned over 1.2 crore houses for urban beneficiaries, ensuring durable housing.
  - **Policy reforms** like the GST, Real Estate (Regulation and Development) Act, and the Insolvency and Bankruptcy Code (IBC) have boosted transparency and investor confidence in real estate.
  - Going forward, **sustainability** will influence green construction practices and energy-efficient designs, while **technology** will revolutionise smart homes and data-driven insights.
- **IT Services, Tech start-ups and Global Capability Centres (GCCs):**
  - **The COVID-19 pandemic expedited the advancement** and uptake of technology-driven solutions, fuelling the growth of this sector.
  - **The IT and IT-enabled services** have been instrumental in maintaining the country's external balance through export earnings, which are set to increase further.
  - The flourishing growth of IT services has also supported the expansion of **GCCs and the tech start-up ecosystem in India**.
    - **To incentivise GCCs in India**, promoting specialisations in higher education is essential. Focus areas should include Blockchain, AI, ML, IoT, Cybersecurity, etc.
  - Several initiatives are in place to bridge the talent gap in this sector. **For example**,
    - **Future Skills PRIME:** A joint initiative by MeitY and NASSCOM to create an up-skilling and reskilling ecosystem for IT professionals.
    - **Digital Skilling program:** Aiming to skill, reskill, and upskill one crore students in emerging and future technologies.

- **PM Kaushal Vikas Yojana (PMKVY 4.0):** It focuses on skill development among youth, offering training in cutting edge fields such as Industry 4.0, AI, robotics, mechatronics, IoT and drones.
- The strength of the Indian tech start-up ecosystem lies in its large pool of start-ups, unicorns, and ability to scale.
  - **The Start-up India Initiative,** National Deep Tech Start-up Policy, Drone Shakti Program, etc., have aided the growth of tech start-ups.

**Chart : DeepTech usage is becoming mainstream in India’s tech Start-up ecosystem**



- **Telecommunications:**
  - Telecommunication is the **gateway to the fast-paced growth of digital services** in India.
  - **The overall teledensity** (number of telephones per 100 population) in India increased from 75.2% in 2014 to 85.7% in 2024.
  - **The number of wireless telephone connections** stood at 116.5 crore at the end of March 2024. As a result of the **Digital India campaign**, *internet subscribers* jumped from 25.1 crore in 2014 to **95.4 crore in 2024**, of whom 91.4 crore are accessing the internet via wireless phones.
  - **The cost of data has declined** substantially, vastly improving the average wireless data usage per subscriber.
  - Currently, India is amongst the fastest-growing **5G** (launched in 2022) networks in the world and seeks to develop and deploy **6G** network as highlighted by the **Bharat 6G Vision document**.
  - **The BharatNet Program** is now being rolled out to provide broadband connectivity to all Gram Panchayats in the country.
  - **Sanchar Saathi portal** (launched in 2023) is a citizen-centric initiative to empower mobile subscribers, strengthen their security and increase awareness.
  - **Chakshu facility** (launched in 2024) under the Sanchar Saathi portal reports suspected fraud communications.
- **E-Commerce:**
  - India’s e-commerce market has gained significant momentum during the past few years owing to technological advancements, evolving new-age business models coupled with government initiatives like
    - The Digital India program, UPI,
    - One District - One Product (ODOP) initiative,
    - Open Network for Digital Commerce (ONDC), etc.
  - **ONDC** is a pioneering initiative of the DPIIT, aimed to democratise digital commerce and enable small businesses to capitalise on the benefits of digital commerce by creating a level playing field.
  - **The Indian e-commerce industry is expected to cross USD 350 billion by 2030.** However, the rise of e-commerce is constrained by inadequate skills required for online selling (such as cataloguing), data privacy issues and increasing online fraud.

- **The Digital Personal Data Protection Act 2023** provides a comprehensive data protection framework, further safeguarding consumer information.

### **Challenges and Growth Opportunities that Cut Across Different Segments of Services:**

- **The rapid digitisation** in the services sector **necessitates a skilled workforce** to keep pace with technological advancements. Initiatives like **Skill India and the National Education Policy 2020** will equip the workforce with the necessary skills.
- In recognition of the **importance of logistics and transport services** for economic activity, several initiatives have been undertaken to ease infrastructure bottlenecks, logistics costs, and regulatory compliances.
- **Accessing finance can pose difficulties**, particularly for small and medium enterprises operating in the services sector. Several initiatives, such as **Mudra Yojana, Start-up India and Stand-up India**, have been implemented to ease credit accessibility.
- **The regulatory landscape in the services sector**, which used to be complex, is undergoing positive transformations. **GST simplification** and sector specific policies such as the Real Estate (Regulation and Development) Act are fostering a more conducive business environment.
- **Data privacy and cybersecurity** have become critical concerns with the increasing digitisation of services. The Government is spearheading data protection laws and cybersecurity policies to safeguard consumer data and strengthen cybersecurity measures in the services sector

**Conclusion:** Sustaining positive demand trends and effectively managing rising costs and competitive pressures will be critical for the services sector's continued growth and resilience in the upcoming year.

**Context:**

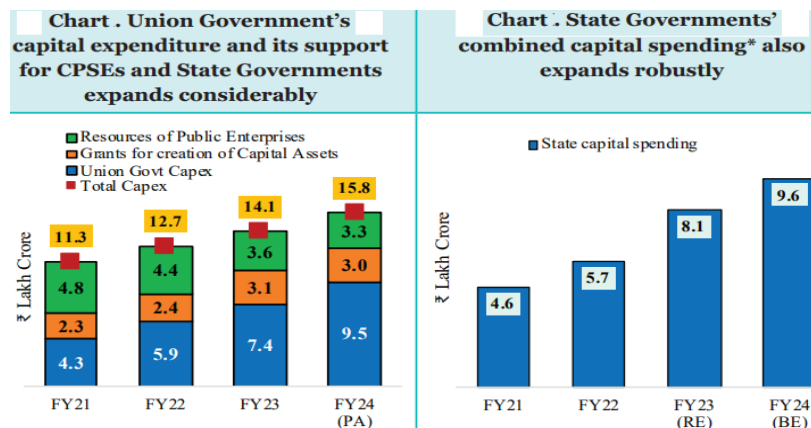
- Creation of resilient, world-class infrastructure - physical, social, financial and digital - is a key plank of India's policy strategy to become **Viksit Bharat @ 2047**.
- However, recent studies by the Asian Development Bank (ADB) and the World Bank (WB) have identified gaps in **infrastructure investment** in different sectors.

**Important Facts about Infrastructure Financing in India:**

- Despite many financial innovations in infrastructure financing in recent years, capital expenditure by the **Union and State Governments still has the central role** in funding large-scale infrastructure projects.
- With the emergence of a number of new funding instruments and strategies, the infrastructure financing space has become **complex**.
- Given the **differential definitions and patterns followed in maintenance of statistics** by different agencies, it is difficult to aggregate the total flow of funds for the creation of infrastructure in any given year.

**Sources of Infrastructure Financing:**

- **The capital expenditure of the Union Government:**
  - It broadly includes two components - the spending by its line departments and the gross budgetary support (GBS) given to the Central Public Sector Enterprises (CPSEs).
  - The share of GBS to **Railways and National Highway Authority of India**, forms the majority (**42.9%** in FY24) in the total capital expenditure of the Union Government.
- **Non-government sources of funding:**
  - The net flow of funds to infrastructure sectors through bank credit between March 2023 to March 2024 was **only around ₹79,000 crore**, much less than the GBS by the Union Government for either railways or roads.
  - It reiterates the fact that the recent infrastructure thrust in India, especially the surge in connectivity projects, has banked **predominantly on public expenditure**.

**The Progress in Physical Connectivity Sectors:**

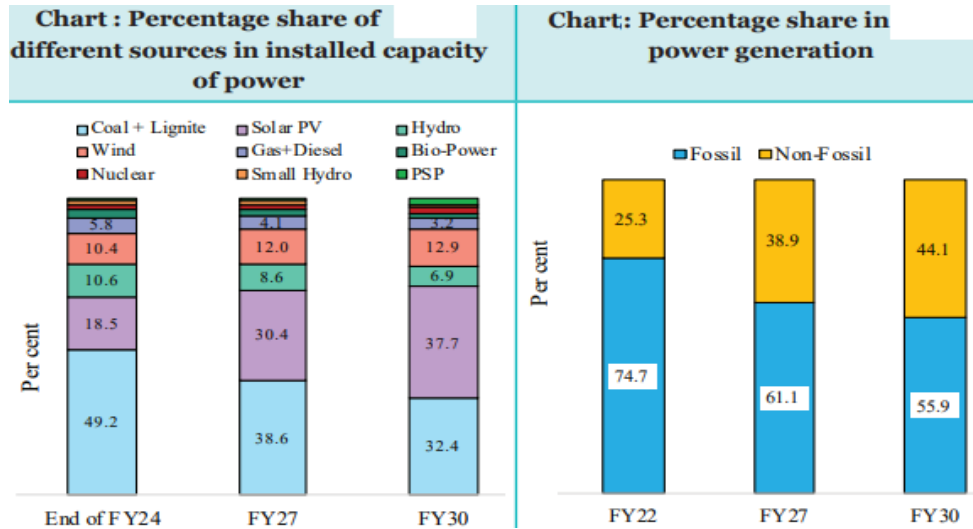
- **Road Transport:**
  - **Overview:**
    - **Strategic planning and step-up in public investment** have resulted in the upgradation of the road network system into a resilient and efficient infrastructure.
    - The capital investment by the Government and private sector rose (from 0.4% in FY15) to about 1.0% of GDP (around **₹3.01 lakh crore**) in FY24.

- The average pace of NH construction increased by ~3 times from 11.7 km per day in FY14 to **~34 km per day by FY24**.
- The remarkable improvement of the NH network has brought about substantial **advancements in logistics efficiency**.
- **For example**, India's ranking in the WB's Logistics Performance Index consistently improved from 54 in 2014, to **38** in 2023.
- **Government initiatives:**
  - **Bharatmala Pariyojana:** It has significantly expanded the NH network in the country.
  - **National industrial corridor programme:** The Government is developing 11 industrial corridor projects (including Delhi-Mumbai, Chennai-Bengaluru) in a phased manner.
- **Outlook:** The development of expressways and corridors, adoption of transformative initiatives to promote user convenience and environmental sustainability have been the highlight of the recent road sector growth journey.
- **Rail Transport:**
  - **Overview:**
    - Indian Railways, with over 68,584 route km and 12.54 lakh employees, is the **4th largest network in the world** under single management.
    - **Capital expenditure** on Railways has increased by 77% over the past 5 years (**₹2.62 lakh crore** in FY24) with significant investments in the construction of **new lines, gauge conversion, and doubling**.
  - **Initiatives for Railway Enhancement:**
    - **Amrit Bharat Station Scheme:** Launched in 2023 for development of stations on a continuous basis.
    - **Mumbai-Ahmedabad High Speed Rail (MAHSR) project:** Under this 508 Km project, executed with cooperation from Govt. of Japan, land acquisition and civil conduct award have been completed.
    - **Dedicated freight corridors (DFCs):** Two DFCs are under implementation namely the eastern DFC (1,337 kilometre) and the western DFC (1,506 kilometre).
    - **Vande Bharat:** 51 pairs of Vande Bharat trains have been introduced until March 2024. Railways is also planning to introduce **Vande metro coaches**.
    - **GatiShakti Multi-Modal Cargo Terminal (GCT):** It is being developed by private players on the railway and non-railway land, based on demand from industry and the potential of cargo traffic.
    - **Introduction of the electrical/electronic interlocking systems:** So far, eight zones have become free from mechanical signalling.
  - **Outlook:**
    - The key focus areas for Railways include fast **capacity augmentation, modernisation**, improving quality of services and energy efficiency.
    - Railways has also planned to **reduce its carbon footprint** primarily through sourcing its energy requirements through renewable energy sources.
- **Water Transport:**
  - **Overview:**
    - Indian ports are rapidly expanding capacity to meet growing trade.
    - **India's rank in the International Shipments category** in the WB's Logistics Performance Index has improved to 22nd in 2023 from 44th in 2014.
    - Policy reforms and the induction of new technology have enhanced port efficiency and productivity. **For example**, the container turnaround time has dropped by 50% between 2014 and 2023-24.
  - **Government initiatives:**
    - Under the **Sagarmala** initiative (launched in 2015), projects of port modernisation, port-led industrialisation, coastal community development and coastal shipping and inland water transport, have been undertaken.

- **The Major Port Authorities Act 2021** was enacted with a focus on decentralised decision-making, professionalism and PPP models has enhanced efficiency and improved governance of major ports.
- Under the **'Harit Sagar'- Green Port guidelines (2023)**, 4 major ports are already generating more renewable energy than their demand.
- Development of an all-weather Greenfield deep draft **major port at Vadhavan** in Maharashtra has been approved by the Cabinet.
- **Island Development:** Under the Maritime India Vision 2030, A&N islands and Lakshadweep Islands are planned to be developed for tourism in a phased manner.
- **Civil Aviation:**
  - **Overview:** India is amongst the fastest-growing aviation markets globally and has a capital expenditure plan of more than ₹26,000 crore for the period FY20 to FY25 to develop, upgrade and modernise airports to meet international standards.
  - **Government initiative:** Under the Ude Desh ka Aam Nagrik (**UDAN**) Regional Connectivity Scheme (**RCS**), 1,390 valid routes have been allotted to various airlines.
  - **Drones, leasing and maintenance, repair and overhaul (MRO):**
    - The Government introduced **liberalised drone rules in 2021**, because drones offer vast benefits across sectors like agriculture, healthcare, disaster relief, surveillance, and defence.
    - The Government is promoting aircraft leasing through the International Financial Services Centre (IFSC) at GIFT City.
    - Under the **National Civil Aviation Policy (NCAP 2016)**, more airports are building MRO facilities to add capacity thereby addressing infrastructure constraints and increasing employment in the sector.
  - **Outlook:** For India to take a leadership position in aviation, focus is required on improving the efficiency and viability of airlines while ensuring environmental sustainability.

**The Progress in Energy Infrastructure Sector:**

- **Power Sector:**
  - **Some Key Initiatives in the Power Sector:**
    - **Revamped distribution sector scheme (RDSS):** It was launched in 2021 to help distribution companies improve operational efficiencies and financial sustainability.
    - **Saubhagya scheme:** A total of 2.86 crore households have been electrified since the launch of the scheme in 2017.
    - **SAMARTH Mission:** The Sustainable Agrarian Mission on Use of AgriResidue in Thermal Power Plant (SAMARTH) was launched in 2021.
    - **One Sun, One World, One Grid Initiative:** A task force is studying the feasibility of interconnection of regional grids viz. Southeast Asia, South Asia, Middle East, Africa and Europe for exchange of renewable power.
    - **UJALA Scheme:** Under the Unnat Jyoti by Affordable LEDs for ALL (UJALA), launched in 2015, LED bulbs, LED tube lights and energy-efficient fans are sold to replace conventional and inefficient variants.
    - **Street Lighting National Programme:** This programme was launched in 2015 to replace conventional streetlights with smart and energy-efficient LED streetlights.
- **Renewable Sector:**
  - **Overview:** India submitted its **updated nationally determined contributions (NDCs)** to the UNFCCC in 2022 and committed to achieve about 50% cumulative electric power installed capacity from non-fossil fuel-based energy resources by 2030.
    - The Ministry of New and Renewable Energy is working towards achieving 500 GW of installed electricity capacity from non-fossil sources by 2030.
    - **A total of 190.57 GW of renewable energy (RE)** capacity has been installed in the country as of 31 March 2024. The share of RE in the total installed generation capacity in the country stands at **43.12%**.



- **Major Initiatives in the Renewable Energy Sector:**
  - **PM Kisan Urja Suraksha evam Utthaan Mahabhiyan (PM-KUSUM):** It was launched for the de-dieselisation of the farm sector and enhancing the income of farmers.
  - **Solar Parks Scheme:** To provide solar power developers with a **plug and play** model, by facilitating necessary infrastructure along with all statutory clearances.
  - **PM Surya Ghar Muft Bijli Yojana:** It aims to install rooftop solar plants in 1 crore households and to be implemented by FY27.
  - **Green Energy Corridor (GEC) projects:** Initiated to facilitate renewable power evacuation and reshaping of the grid for future requirements.
  - **National Green Hydrogen Mission:** Approved in 2023, the mission targets to achieve about 5 million metric tonnes (MMT) of annual Green Hydrogen production capacity by 2030.
- **Outlook:** India has already accelerated its effort to enhance its contribution of non-fossil fuel in its energy mix. However, challenges like the mobilisation of the necessary finance and investment on competitive terms remains.

**The Progress in Social and Economic Infrastructure:**

- **Sports Sector:**
  - Some major initiatives are National Programme for Development of Sports (**Khelo India**) programme; National Sports Development Fund; National Sports University, Imphal; etc.
  - **The Model Concession Agreement (MCA)** seeks to promote private participation in the development of sports infrastructure.
- **Water & Sanitation Sector:**
  - The year 2024 marks 10 years of Swachh Bharat Mission – Grameen (**SBM-G**), Phase I which was launched in October 2014, with a focus on making India open defecation free (ODF).
  - **Steel (Barthan) Bank:** The concept revolves around addressing the challenge of managing plastic waste, particularly disposable utensils, in the Siddipet district (**Telangana**) through a creative and sustainable solution.
  - **Under the Jal Jeevan Mission (JJM)**, the provision for tap water connection has now increased to more than 14.89 crore rural households (76.12% of 19.30 crore rural households) from only 17% rural households
- **Water Resource Management Sector:**
  - **The Namami Gange programme:** Launched in 2014-15, it is a flagship integrated conservation mission focusing on pollution abatement, conservation, and rejuvenation of river Ganga.
  - **Dam Rehabilitation and Improvement Project (DRIP):** DRIP is being implemented with financial assistance from the World Bank to improve the safety and operational performance of selected existing dams.

- **Atal Bhujal Yojana:** It is a World Bank aided Central Sector Scheme, being implemented from 1st April 2020 for five years, to demonstrate community-led sustainable groundwater management.
- **PM Krishi Sinchayee Yojana (PMKSY):** It was launched in 2015-16 to enhance physical access to water on farms and expand cultivable areas under assured irrigation, improve on-farm water use efficiency, etc.
- **Interlinking of Rivers Project:** Under this project, 30 links (16 under the Peninsular Component and 14 under the Himalayan Component) have been identified under the National Perspective Plan (NPP).
- **Urban Sector:**
  - **Government initiatives:**
    - **Housing for All:** The vision being pursued by the implementation of Pradhan Mantri Awas Yojana-Urban (PMAY-U) since 2015 to provide pucca houses with basic amenities to all eligible beneficiaries in urban areas.
    - **Atal mission for rejuvenation and urban transformation (AMRUT):** It was launched in 2015 in 500 cities focused primarily on providing safe and assured drinking water supply universally.
    - **Smart Cities Mission (SCM):** It was launched in 2015 to promote cities that provide core infrastructure, clean and sustainable environment and give a decent quality of life to their citizens through the application of ‘smart solutions’.
  - **Outlook:** It is expected that by 2030, more than 40% of India’s population will live in urban areas. Hence, cities need to be transformed into economic centres of growth by building future-ready urban infrastructure.
- **Tourism Sector:** The PRASHAD scheme caters to the augmentation of tourism infrastructure at pilgrimage and heritage sites. While the Swadesh Darshan 2.0 aims to create a robust framework for the integrated development of tourism destinations.

### The Progress in Strategic Infrastructure:

- **Space Sector:**
  - Over the last few years, the space sector has seen remarkable progress in the buildup of rockets, satellites and spacecraft used for space exploration, and ground infrastructure.
  - **Some key initiatives to promote private participation** in the space sector are IN-SPACE, launch of Vikram-S (Prarambh mission), India’s first private launchpad and mission control centre was established in Chennai, etc.
- **Digital Infrastructure:**
  - In recent years, various aspects of infrastructure development have been integrated with technology to improve the efficiency of infrastructure plans, designs, and assets.
  - Some of the most significant uses of technology have been through **PM GatiShakti, Bhuvan, BharatMaps, Pro-Active Governance and Timely Implementation (PRAGATI), India Investment Grid (IIG)** and many similar dashboards and data stacks.
- **Electronics & Information Technology Sector:**
  - The Government has envisioned the **India AI programme** as a mission-centric approach for leveraging transformative technologies to boost inclusion, innovation, and adoption for social impact.
  - AI Research Analytics and Knowledge Dissemination Platform (**AIRAWAT**) which is an AI Supercomputer, installed at C-DAC, Pune has secured 75th position in the top 500 global supercomputing list.
  - **GI Cloud - ‘MeghRaj’** is an initiative to provide ICT services over the Cloud to all the Departments/Ministries at the Centre and States/ UTs to ensure the proliferation of the Cloud ecosystem in the country.

### Challenges Faced by the Infrastructure Sector in India:

- **Land Related:** For example, issues like delay in land acquisition and land-related clearances require coordinated action at different tiers of the Government.
- **Skill Demands:** For example, the airline industry is a highly competitive segment and requires development of capabilities in segments such as MRO, leasing and skilling.

- **Need to improve private participation:** Lumpy capital investment and long payback period, project structuring issues, lack of an independent regulator, etc., are impeding private participation.
- **Lack of aggregation of financial flows into infrastructure:** For this, the Rangarajan Commission Report on Infrastructure Statistics (2001) had underscored the importance of collecting and maintaining a reliable statistical database for the infrastructure sector.

### **Addressing the Bottlenecks of the Infrastructure Sector in India:**

- **National Infrastructure Pipeline (NIP):** It was launched with a projected infrastructure investment of around ₹111 lakh crore during FY20-25 to provide high quality infrastructure across the country.
- **Project Monitoring Group (PMG):** It is an institutional mechanism for expeditious resolution of issues and regulatory bottlenecks in projects with an investment of ₹500 crores and above.
- **PM GatiShakti National Master Plan (PMGS-NMP):** It is a whole-of-government approach adopted to facilitate integrated planning of multimodal infrastructure through collaboration among the Ministries concerned.
- **National Logistics Policy (NLP):** It was launched in 2022 to drive business competitiveness through an integrated, efficient, sustainable, and cost-effective logistics network by leveraging best-in-class technology, and processes.
- **National Monetisation Pipeline (NMP):** NMP was announced in 2021 on the principle of 'asset creation through monetisation' i.e., **tapping private sector investment** for new infrastructure creation.

### **Conclusion:**

- For India to continue down the path of building quality infrastructure, a higher level of private sector financing and resource mobilisation from new sources will be crucial.
- Facilitating this would not only require policy and institutional support from the Central Government, but State and Local Governments would have to play an equally important role.

## CLIMATE CHANGE AND INDIA: WHY WE MUST LOOK AT THE PROBLEM THROUGH OUR LENS

With India poised to become the third-largest economy by 2030, balancing economic growth with climate action is crucial. For this, the Economic Survey highlights the importance of a sustainable lifestyle rooted in Indian ethos.

### India's Climate Change Achievements:

- **India has successfully reduced the emission intensity vis-à-vis its GDP by 33% between 2005 and 2019**, thus achieving the initial NDC target for 2030, 11 years ahead of scheduled time.
- Also, it has **achieved 40% of electric installed capacity through non-fossil fuel sources**, nine years ahead of the target for 2030.
- Between 2017 and 2023, **India has added around 100 GW of installed electric capacity**, of which around 80% is attributed to non-fossil fuel-based resources.
- India's contribution to climate action is significant through its international efforts –



### Climate Change & the Global Approach:

- Greenhouse gas (GHG) emissions, especially carbon dioxide (CO<sub>2</sub>), are major contributors to climate change.
- The Intergovernmental Panel on Climate Change (IPCC) warns that CO<sub>2</sub> emissions are a serious threat because once released, CO<sub>2</sub> can remain in the atmosphere for 300 to 1000 years.
  - This leads to global warming and environmental damage like the melting of polar ice caps.
- To tackle this, the world has adopted strategies known as '**climate adaptation**' and '**climate mitigation**.'
- These strategies involve switching to renewable energy sources, improving energy efficiency with innovative and eco-friendly designs, adopting sustainable agricultural practices, and protecting and restoring natural ecosystems.

### Criticism of Global Climate Strategy:

- The global climate strategy emphasizes that developed nations, responsible for historical emissions, should bear a greater responsibility for climate action.
- However, it often imposes **uniform mandates/** a one-size-fits-all approach (that even global platforms & agreements rejects) without considering the diverse economic & climatic conditions.
- Also, **its focus is on renewable energy substitution rather than reducing overconsumption.**

### Adopting Western Practices Has Negative Environmental Implications for the Developing World:

- India, with its large population and limited resources, has managed to sustain its people and foster an aspirational society.
- This resilience is attributed to its '**Dharmic**' nature, aiming to be an efficient market economy rather than a market society.
  - **A market society** results in the commodification of areas that were traditionally governed by non-market norms.
  - It fails to achieve emissions mitigation and can create instability by prioritizing financial gains over principled choices.
- As Indian culture, economy, societal norms, and environment are intricately linked, foreign influences can negatively impact the equity, environment, and economics of the Indian.

**Indian Way - Mission LiFE (Lifestyle for Environment):**

- Launched by the Indian Prime Minister at UNFCCC COP26, Mission LiFE emphasizes individual responsibility in climate action.
- It is inspired by ancient Indian philosophy promoting a sustainable lifestyle aligned with nature.

**Key Principles of Mission LiFE:**

- **Individual Action as Core of Climate Responsibility:**
  - It emphasizes the need for individual lifestyle changes, especially in developed countries, to mitigate climate change.
  - **Examples** include using cloth for cleaning, reusable items, energy-efficient products, and water conservation practices.
- **Collective Policy Reflecting Individual Pro-Planet Choices:**
  - It advocates for government policies that nudge sustainable practices, such as optimal use of air-conditioning, reducing plastic use, and promoting water reuse and sustainable agriculture.
  - It emphasizes the **compounding effect** of small, consistent actions on sustainability.
- **Incorporation of Local and Sustainable Geography and Culture:**
  - It promotes eating local, plant-based diets, using natural materials, and practicing traditional sustainable methods.
  - Highlights the **economic & health benefits** of local food and medicinal systems like Ayurveda.
- **Public Policy Over Market-Driven Solutions:**
  - It suggests influencing individual behaviours through policy approaches, such as the **Ujala program for LED lights**.
  - It stresses upon the importance of **public investment in transformational projects like carbon sequestration and green technologies**.
- **Mindful Consumption Based on Need, Not Greed:** It encourages sustainable lifestyles that focus on low wastage and harmonious living and discusses the negative externalities of materialism and the benefits of mindful consumption.



**Challenges and Recommendations:**

- The Economic Survey identifies several challenges in the current climate strategy, **including inadequate climate financing** and the disproportionate impact of climate policies on developing countries.
- It recommends a **more tailored approach** that aligns with local conditions and leverages traditional sustainable practices.

**Way Forward:** To achieve its climate goals, India must:

- Enhance its focus on sustainable consumption and reduce overconsumption.
- Promote individual responsibility through initiatives like Mission LiFE.
- **Advocate for equitable climate policies** that hold developed nations accountable for historical emissions.
- Leverage traditional sustainable practices to develop a localized climate strategy.

By adopting these measures, India can balance economic development with meaningful climate action, ensuring a sustainable future for its citizens.

**Conclusion:**

- The global movement on climate change must be accommodative of sovereign choices and economic needs, but centred on individual behaviour - 'LiFE'.
- India's approach to climate change should be guided by the most important human factor - Thahraav or Settlement/Contentment that comes with Equanimity.

Budget 2024-25

The Union Minister of Finance and Corporate Affairs recently presented the Union Budget 2024-25 in the Parliament. The Budget is divided into two parts: Part A and Part B

Part A

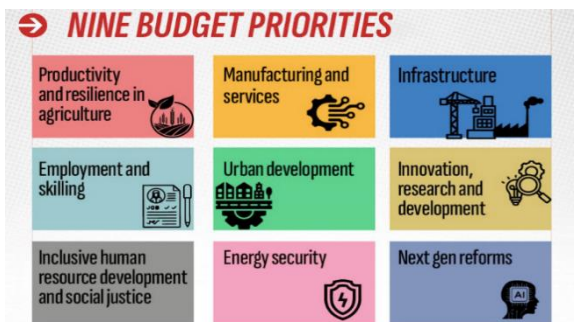
- The first part of the budget provides an overview of the economy of the previous and current years, and also gives Budget estimates for the next financial year.
- Part A provides the **broad framework** of expenditure in detail for different sectors, introduces new schemes, and explains the priorities of the government.
- It provides a brief overview of total funds raised by the government through taxes or borrowing, and discusses how the money is to be spent on Budget deficit/surplus. It also presents a complete breakdown of the expenditure of each ministry.

Part B

- The second part of the Budget highlights the government’s tax proposals for the next financial year.

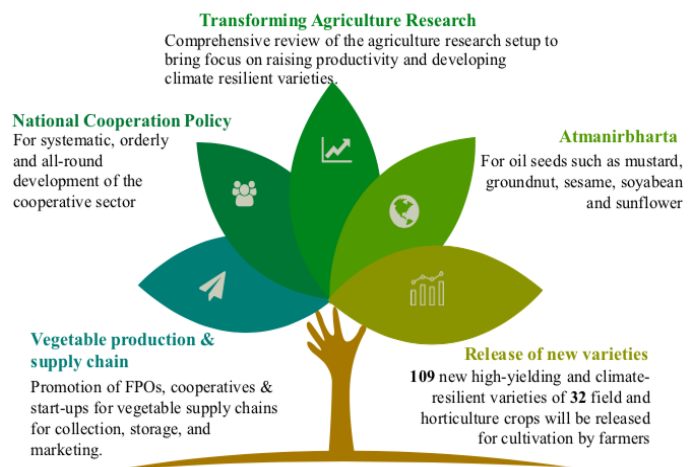
PART A

- **Budget Theme:** The focus of the budget is on **Employment, Skilling, MSMEs, and the Middle class.**
- As mentioned in the interim budget, the focus is on 4 major castes, namely ‘Garib’ (Poor), ‘Mahilayen’ (Women), ‘Yuva’ (Youth) and ‘Annadata’ (Farmer).
- This budget aims for sustained efforts across **nine key priorities** to generate opportunities for all, in pursuit of ‘Viksit Bharat’.



Priority 1: Productivity and resilience in Agriculture

- Allocation of Rs 1.52 lakh crore for agriculture and allied sectors.
- In the next two years, 1 crore farmers across the country will be initiated into natural farming supported by certification and branding.
- 10,000 need-based bio-input resource centres will be established for natural farming.
- For achieving self-sufficiency in pulses and oilseeds, government will strengthen their production, storage and marketing
- Large scale clusters for vegetable production will be developed closer to major consumption centres.
- Financial support for setting up a network of Nucleus Breeding Centres for Shrimp Broodstocks will be provided.
- Financing for shrimp farming, processing and export will be facilitated through NABARD.
- Digital Public Infrastructure (DPI) for agriculture to be implemented for coverage of farmers and their lands in 3 years.
- During this year, digital crop survey for Kharif using the DPI will be taken up in 400 districts. Details of 6 crore farmers and their lands will be brought into the farmer and land registries.
- Issuance of Jan Samarth based Kisan Credit Cards will be enabled in 5 states.



**Priority 2: Employment & Skilling**

- A Prime Minister’s package of 5 schemes and initiatives to facilitate employment, skilling and other opportunities for **4.1 crore youth over a 5-year period** with a central outlay of **Rs. 2 lakh crore** has been announced.
- This year, Rs. 1.48 lakh crore has been allocated for education, employment and skilling.

**Scheme A: First Timers**

- It will provide **one-month wage** to all persons **newly entering the workforce** in all formal sectors. The eligibility limit will be a salary of Rs. 1 lakh per month.
- Direct benefit transfer of **one-month salary will be up to Rs. 15,000 in 3 installments** to first-time employees, as registered in the Employees’ Provident Fund Organisation (EPFO).
- This subsidy would be vital for employees and employers in hiring of first timers, by supporting their learning curve before they become fully productive.
- The employee, in turn, **must undergo compulsory online financial literacy course** before claiming the second instalment.
- Further, the subsidy would have to be refunded by the employer if the employment to the first timer ends within 12 months of recruitment.
- The scheme is expected to benefit 2.1 crore youth over 2 years.

**Scheme B: Job Creation in Manufacturing**

- Aiming at substantial hiring of first time employees in manufacturing, this scheme will incentivize additional employment in the manufacturing sector. It is expected to benefit 30 lakh youth entering employment, and their employers.
- An incentive will be provided at specified scale directly both to the employee and the employer with respect to their EPFO contribution in the first 4 years of employment.
- The subsidy would have to be refunded by the employer if the employment to the first timer ends within 12 months of recruitment.

**Scheme C: Support to Employers**

- It will cover all additional employment within a salary of Rs. 1 lakh per month in all sectors. New employees under this scheme need not be new entrants to EPFO.
- The government will reimburse to employers up to Rs. 3,000 per month for 2 years towards their EPFO contribution for each additional employee.
- It is expected to incentivize additional employment of 50 lakh persons.

**Scheme D: Skilling**

- A new **centrally sponsored scheme** for Skilling has been announced as the **4th scheme** in collaboration with state governments and industry.
- The scheme, with a total outlay of Rs. 60,000 crore, aims at skilling **20 lakh youth over a 5-year period**.
- To achieve this target, **1,000 Industrial Training Institutes (ITIs)** will be upgraded in hub and spoke arrangements with outcome orientation.

**Scheme E: Internship**

- The **5th scheme** aims to provide internship opportunities in **500 top companies** to 1 crore youth in 5 years (*participation of companies is voluntary*).
- It will provide exposure **for 12 months** to real-life business environment, varied professions and employment opportunities.
- An **internship allowance of Rs. 5,000 per month**, along with a one-time assistance of Rs. 6,000 will be provided.
- Companies are expected to bear the training cost and 10% of the internship cost from their **CSR funds**.
- **Youth aged between 21 and 24**, who are not employed and not engaged in full time education, will be eligible to apply.

**Measures for women employment**

To facilitate higher participation of women in the workforce:

- Working women hostels and crèches to be established with industrial collaboration;
- Women-specific skilling programmes to be organized;
- Market access for women Self Help Group (SHG) enterprises to be promoted.

**Other initiatives**

- With regard to skilling loans, the **Model Skill Loan Scheme** will be revised to **facilitate loans up to Rs. 7.5 lakh**. It is expected to help 25,000 students every year.
- Financial support for **loans up to Rs 10 lakh for higher education** in domestic institutions to youth who have not been eligible for any benefit under government schemes and policies.
- E-vouchers for this purpose will be given directly to 1 lakh students every year with annual interest subvention of 3%.

**Priority 3: Inclusive Human Resource Development and Social Justice**

As India moves towards its goal of becoming a developed nation by 2047, Priority 3 focuses on Inclusive Human Resource Development and Social Justice.

- It outlines several key initiatives aimed at **uplifting marginalized communities and promoting balanced regional development**.

**Purvodaya: Development of the Eastern Region**

The eastern states of Bihar, Jharkhand, West Bengal, Odisha, and Andhra Pradesh are rich in resources and cultural heritage. The Purvodaya initiative aims to transform this region into a growth engine for the nation through:

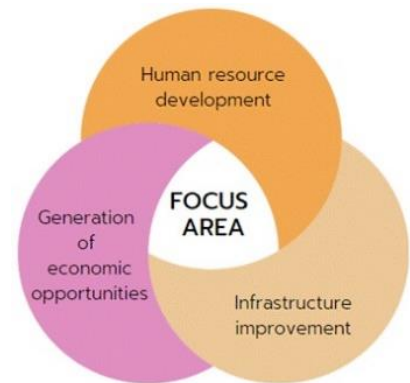
Industrial Development	Road Connectivity Projects
<i>Industrial node at Gaya to be developed along the Amritsar-Kolkata Industrial Corridor. It aims to blend cultural heritage with modern economic growth, showcasing the model of "Vikas bhi Virasat bhi" (Development along with Heritage).</i>	<i>Several road connectivity projects will be undertaken to improve infrastructure and facilitate economic activities in the region</i>

**Power and Infrastructure Projects**

- Power projects, including new **2400 MW power plant at Pirpainti**.
- Additional infrastructure projects include new airports, medical colleges, and sports facilities in Bihar.

**Andhra Pradesh Reorganization Act**

- Special financial support for capital development through multilateral development agencies (₹15,000 crore in the current financial year).
- **Polavaram Irrigation Project:** Ensuring the timely completion of this vital project to support the state's farmers and enhance food security.
- Investments in infrastructure for Kopparthi node on the **Visakhapatnam-Chennai Industrial Corridor** and Orvakal node on the **Hyderabad-Bengaluru Industrial Corridor**.
- **Grants for backward regions** of Rayalaseema, Prakasam, and North Coastal Andhra.



**Pradhan Mantri Janjatiya Unnat Gram Abhiyan**

- To improve the **socio-economic conditions of tribal communities**, the government will launch the Pradhan Mantri Janjatiya Unnat Gram Abhiyan.
- It will adopt saturation coverage for tribal families in tribal-majority villages and aspirational districts covering 63,000 villages and **benefitting 5 crore tribal people**.

## Expansion of Banking Services in the North-East

- More than 100 branches of **India Post Payment Bank** will be set up in the North East region.
- It aims to provide accessible, affordable, and trusted banking services to the underserved and unbanked populations. It also supports the vision of a Digital India, **promoting a less cash economy**.

## Rural Development and Infrastructure

- An allocation of **Rs. 2.66 lakh crore** for rural development, including rural infrastructure projects. It aims to enhance the quality of life in rural areas through improved connectivity, healthcare, education, and economic opportunities.

## Women-Led Development

- Total allocation of over Rs. 3 lakh crore for schemes benefiting women and girls.

### Priority 4: Manufacturing & Services

- The budget provides special attention to MSMEs and manufacturing, particularly labour-intensive manufacturing.
- A package has been formulated that covers financing, regulatory changes and technology support for MSMEs to help them grow and also compete globally.

## Credit Guarantee Scheme for MSMEs in the Manufacturing Sector

- A credit guarantee scheme for facilitating **term loans to MSMEs for purchase of machinery and equipment without collateral or third-party guarantee**.
- A separately constituted **self-financing guarantee fund** will provide, to each applicant, guarantee cover up to ₹100 crore, while the loan amount may be larger.
- The borrower will have to provide an upfront guarantee fee and an annual guarantee fee on the reducing loan balance.

## New Assessment Model for MSME Credit

- Public sector banks will build their in-house capability to assess MSMEs for credit, instead of relying on external assessment.
- It will be a significant improvement over the traditional assessment of credit eligibility based only on asset or turnover criteria. It will also cover MSMEs without a formal accounting system.

## Credit Support to MSMEs during Stress Period

- New mechanism to facilitate continuation of bank credit to MSMEs during their stress period. It will be supported through a guarantee from a government promoted fund.

## Mudra Loans

- The limit of Mudra loans under '**Tarun**' category to be enhanced to **Rs. 20 lakh from Rs. 10 lakh** for those who have successfully repaid previous loans.

## Enhanced scope for TReDS onboarding

- For facilitating MSMEs to unlock their working capital by converting their trade receivables into cash, the budget proposed to **reduce the turnover threshold** of buyers for mandatory onboarding on the TReDS platform **from**

## WOMEN-LED DEVELOPMENT KEY SCHEMES



**Rs. 500 crore to Rs. 250 crore.**

- This measure will bring 22 more Central Public Sector Enterprises (CPSEs) and 7,000 more companies onto the platform. Medium enterprises will also be included in the scope of the suppliers.

#### **MSME Units for Food Irradiation, Quality and Safety Testing**

- Financial support for setting up of **50 multi-product food irradiation units** in the MSME sector will be provided.
- Setting up of **100 food quality and safety testing labs** with National Accreditation Board for Testing and Calibration Laboratories (NABL) accreditation will be facilitated.

#### **E-Commerce Export Hubs**

- E-Commerce Export Hubs to be set up under public-private-partnership (PPP) mode for MSMEs and traditional artisans to sell their products in international markets.
- These hubs, under a seamless regulatory and logistic framework, will facilitate trade and export related services under one roof.

#### **New SIDBI branches**

- SIDBI will open new branches to expand its reach to serve all major MSME clusters within 3 years, and provide direct credit to them. With the opening of 24 such branches this year, the service coverage will expand to 168 out of 242 major clusters.

#### **Critical Mineral Mission**

- Critical Mineral Mission to be set up for domestic production, recycling of critical minerals, and overseas acquisition of critical mineral assets.
- Its mandate will include technology development, skilled workforce, extended producer responsibility framework, and a suitable financing mechanism.

#### **Offshore mining of minerals**

- Auction of 1<sup>st</sup> tranche of offshore blocks for mining, building on the exploration already carried out.

#### **Industrial Parks**

- Investment-ready plug and play industrial parks with complete infrastructure in or near 100 cities, in partnership with the states and private sector.
- 12 industrial parks sanctioned under the National Industrial Corridor Development Programme.

### **Priority 5: Urban Development**

#### **Urban Housing**

- Under the **PM Awas Yojana Urban 2.0**, housing needs of **1 crore urban poor and middle-class families** will be addressed with an investment of **Rs 10 lakh crore**. This will include the central assistance of **Rs 2.2 lakh crore** in the next 5 years.

#### **Rental housing**

- Rental housing with dormitory type accommodation for industrial workers will be facilitated in PPP mode with Viability Gap Funding (VGF) support and commitment from anchor industries.
- Enabling policies for efficient and transparent rental housing markets with enhanced availability will also be put in place.

#### **Cities as Growth Hubs**

- The Union Government will work with States to facilitate development of 'Cities as Growth Hubs'. This will be achieved through economic and transit planning, and orderly development of peri-urban areas utilising town planning schemes.
- For **creative brownfield redevelopment of existing cities** with a transformative impact, the Government will

formulate a framework for enabling policies, market-based mechanisms and regulation.

- **Transit Oriented Development** plans for 14 large cities with a population above 30 lakh along with an implementation and financing strategy will be formulated.

### **Water supply and Sanitation**

- In partnership with the State Governments and Multilateral Development Banks, government will promote water supply, sewage treatment and solid waste management projects and services for 100 large cities through bankable projects.
- These projects will also envisage use of treated water for irrigation and filling up of tanks in nearby areas.

### **Street Markets**

- New scheme to support the development of 100 weekly 'haats' or street food hubs every year for the next 5 years in select cities, to build on the success of PM SVANidhi Scheme in transforming the lives of street vendors.

### **Stamp duty**

- The Union Government will encourage States which continue to charge high stamp duty to moderate the rates for all, and also consider further lowering duties for properties purchased by women.

## *Priority 6: Energy Security*

### **Energy Transition**

- A policy document on appropriate energy transition pathways that balance the needs of employment, growth and environmental sustainability will be developed.

### **Pumped Storage Policy**

- A policy for promoting pumped storage projects will be brought out for electricity storage and facilitating smooth integration of the growing share of renewable energy with its variable nature in the overall energy mix.

### **Research & Development**

- Nuclear energy is expected to form a very significant part of the energy mix.
- Towards that pursuit, the government will partner with private sector for R&D of Bharat Small Modular Reactor and newer technologies for nuclear energy, and to set up Bharat Small Reactors.

### **Advanced Ultra Super Critical (AUSC) Thermal Power Plants**

- Joint venture proposed between NTPC and BHEL to set up a full scale 800 MW commercial plant using AUSC technology. The government will provide the required fiscal support.
- Development of indigenous capacity for the production of high-grade steel and other 15 advanced metallurgy materials for these plants will result in strong spin-off benefits for the economy.

### **Roadmap for 'hard to abate' industries**

- A roadmap for moving the 'hard to abate' industries from 'energy efficiency' targets to 'emission targets' will be formulated.
- Appropriate regulations for transition of these industries from the current 'Perform, Achieve and Trade' mode to 'Indian Carbon Market' mode will be put in place.
- Hard to abate industries are those that have greenhouse gas (GHG) emissions that are difficult to reduce. Sectors include heavy-duty trucking, shipping, aviation, iron and steel, and chemicals and petrochemicals.

### **Support to Traditional Micro and Small Industries**

- An investment-grade energy audit of traditional micro and small industries in 60 clusters, will be facilitated.
- Financial support will be provided for shifting them to cleaner forms of energy and implementation of energy efficiency measures.
- The scheme will be replicated in another 100 clusters in the next phase.

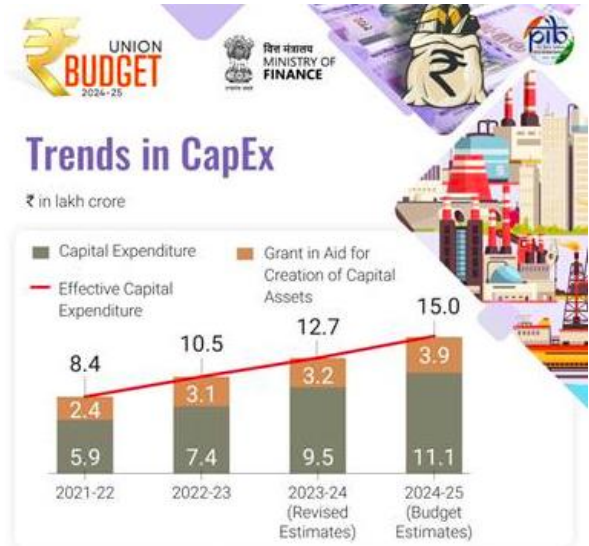
## PM Surya Ghar Muft Bijli Yojana

- In line with the announcement in the interim Budget, PM Surya Ghar Muft Bijli Yojana has been launched to install rooftop solar plants to enable 1 crore households obtain free electricity up to 300 units every month.
- The scheme has generated a remarkable response with more than 1.28 crore registrations and 14 lakh applications, and the government will further encourage it.

## Priority 7: Infrastructure

### Infrastructure Investment

- Acknowledging the strong multiplier effect of building and improving infrastructure on economy, the Budget announced a capital expenditure of Rs. 11,11,111, which is 3.4 percent of GDP.
- A provision of **₹1.5 lakh crore for long-term interest-free loans** has been made this year to assist states in their resource allocation for infrastructure.
- Investment in infrastructure by the private sector will be promoted through viability gap funding and supportive policies and regulations.



### Pradhan Mantri Gram Sadak Yojana (PMGSY)

- **Phase IV of PMGSY will be launched** to provide all-weather connectivity to **25,000 rural habitations** which have become eligible due to their population increase.
- Launched in 2000, PMGSY aims to provide all-weather access to eligible unconnected habitations and is a **100% Centrally Sponsored Scheme**.
- As of July 2024, 8,10,083 km of road has been sanctioned, with 7,65,530 km completed.

### Irrigation and Flood Mitigation

- Financial support of Rs. 11,500 crore to projects such as the Kosi-Mechi intra-state link and other schemes in Bihar, through Accelerated Irrigation Benefit Programme and other sources.
- Assistance to Assam, Himachal Pradesh, Uttarakhand and Sikkim for flood management, landslides and other related projects.

### Tourism

- Comprehensive development of Vishnupad Temple Corridor, Mahabodhi Temple Corridor and Rajgir.
- Assistance for development of temples, monuments, craftsmanship, wildlife sanctuaries, natural landscapes and pristine beaches of Odisha.

## Priority 8: Innovation, Research & Development

- The government will operationalize the **Anusandhan National Research Fund** for basic research and prototype development.
- A mechanism for **encouraging private sector-driven research and innovation** at commercial scale with a **financing pool of Rs. 1 lakh crore** in line with the announcement in the interim budget.

### Space Economy

- Venture capital fund of Rs. 1,000 crore to be set up for expanding the space economy by 5 times in the next 10 years.

### Priority 9: Next Generation Reforms

#### Economic Policy Framework

- The government will formulate an Economic Policy Framework to lay down a comprehensive approach to economic development and set the scope of next generation of reforms for facilitating employment opportunities and sustaining high growth.

#### Land reforms

- Land-related reforms and actions, both in rural and urban areas, will be incentivized for completion within the next 3 years through appropriate fiscal support.
- The reforms will cover land administration, planning and management, urban planning, usage and building bylaws.

#### Rural land related actions

- Assignment of Unique Land Parcel Identification Number (**ULPIN**) or **Bhu-Aadhaar** for all lands;
- Digitization of cadastral maps;
- Survey of map sub-divisions as per current ownership;
- Establishment of land registry; and
- Linking to the farmer's registry.

#### Urban Land Related Actions

- **Land records** in urban areas will be **digitized with GIS mapping**.
- An IT based system for property record administration, updating, and tax administration will be established. It will also help in improving the financial position of urban local bodies.

#### Labour Reforms

- Government will facilitate a wide array of services to labour, including those for employment and skilling.
- A comprehensive **integration of e-shram portal with other portals** to provide one-stop labour services solution.
- It will also include mechanism to connect job aspirants with potential employers and skill providers.
- Shram Suvidha and Samadhan portals will be revamped to enhance ease of compliance for industry and trade.

#### Financial Sector Vision and Strategy

- The government plans to release a strategy document outlining the future vision for the financial sector, addressing its size, capacity, and skills.

#### Taxonomy for Climate Finance

- Development of a taxonomy for climate finance to facilitate capital availability for climate adaptation and mitigation, supporting India's green transition and climate commitments.

#### Variable Capital Company Structure

- Legislative approval will be sought for a Variable Capital Company structure, providing a flexible financing mode for leasing aircraft and ships and supporting private equity pooled funds.

#### FDI and Overseas Investment

- Simplification of rules and regulations for FDI and Overseas Investments to facilitate foreign investments, prioritize key sectors, and promote the use of the Indian Rupee for overseas investments.

#### NPS Vatsalya

- NPS-Vatsalya, a plan for contribution by parents and guardians for minors will be started. On attaining the age of majority, the plan can be converted seamlessly into a normal National Pension Scheme account.

**New Pension Scheme (NPS)**

- A solution that addresses the relevant issues, protects the common citizen and maintains fiscal prudence will be formed.

**Use of Technology and Digitalization**

- The government has effectively utilised technology to enhance productivity and reduce inequality within the economy. It plans to further accelerate the adoption of technology, driving the digitalization of the economy.

**Data and Statistics**

- To enhance data governance and improve the processes of data collection, processing, and management, the government will utilize various sectoral databases, including those developed under the Digital India mission.
- Use of advanced technological tools, aiming to streamline and optimize the handling of data and statistics across different sectors.

**Ease of Doing Business**

- Work is being done on the **Jan Vishwas Bill 2.0**.
- States will be incentivized to implement **Business Reforms Action Plans** and digitalization measures.

**Strengthening the IBC Eco-System**

- An **Integrated Technology Platform** will be set up for improving the outcomes under the Insolvency and Bankruptcy Code (IBC), thereby ensuring the consistency, transparency, timely processing and better oversight for all stakeholders.
- Appropriate changes to the IBC, reforms and strengthening of the tribunal and appellate tribunals will be initiated to speed up the insolvency resolution.
- Proposal for **establishment of additional tribunals** out of which, some will be notified to **decide cases exclusively** under the Companies Act.

**Voluntary Closure of LLPs**

- The services of the **Centre for Processing Accelerated Corporate Exit (C-PACE)** to be extended for voluntary closure of Limited Liability Partnerships (LLPs), thereby **reducing the closure time**.

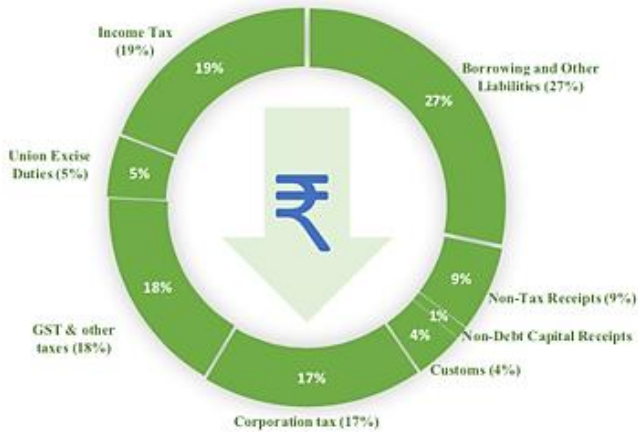
**Strengthening Debt Recovery**

- Steps for reforming and strengthening debt recovery tribunals will be taken and **additional tribunals** will be established to speed up the recovery.

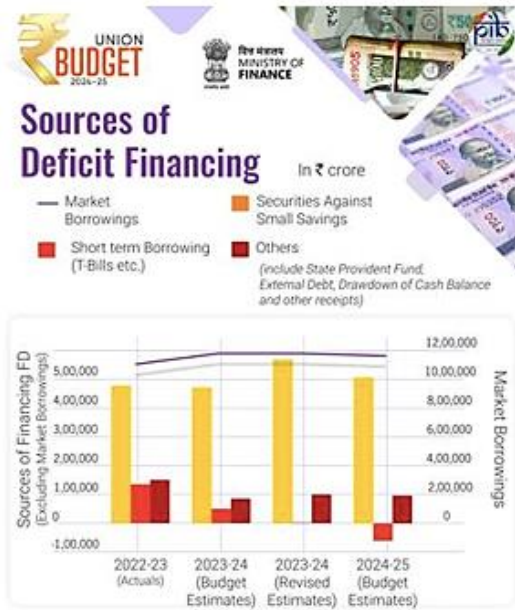
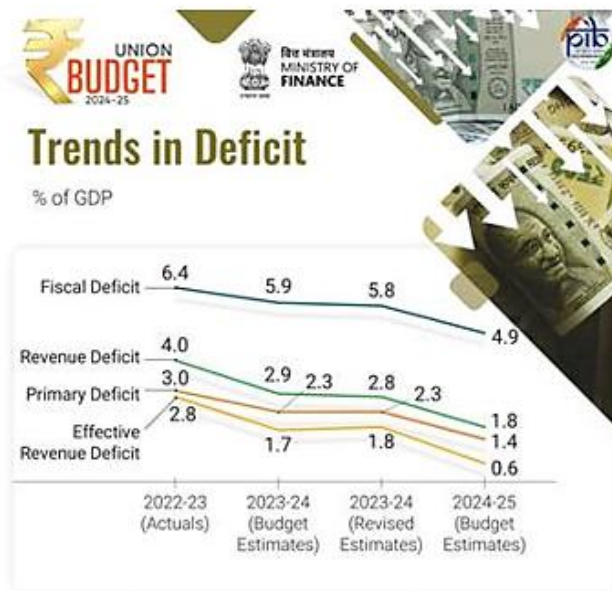
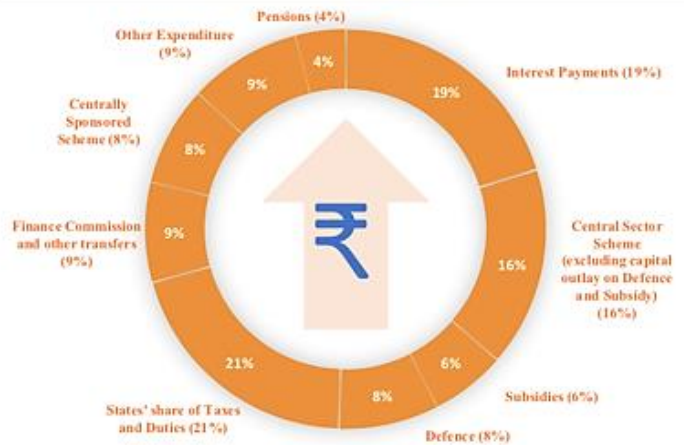
**Budget Estimates 2024-25**

- For the year 2024-25, the **total receipts other than borrowings** and the **total expenditure** are estimated at Rs 32.07 lakh crore and Rs 48.21 lakh crore respectively.
- Gross market borrowings through dated securities are estimated at ₹14.01 lakh crore and net market borrowings at ₹11.63 lakh crore during 2024-25. Both will be less than that in 2023-24.
- The **net tax receipts** are estimated at Rs 25.83 lakh crore.
- **Fiscal Deficit** for 2024-25 has been estimated to be 4.9% of the GDP.
- Moreover, the government would pursue a broad path of fiscal consolidation to attain a Fiscal Deficit lower than 4.5% of GDP by 2025-26.

Rupee Comes From



Rupee Goes To



Part B

- The Budget seeks to comprehensively review the direct and indirect taxes in the next six months, simplifying them, reducing tax incidence and compliance burdens and broadening the tax nets.
- It proposed a review of the Custom Duty rate structure to improve the tax base and support domestic manufacturing.
- A comprehensive review of IncomeTax Act is targeted at reducing disputes and litigations and to make the act concise and easy to read.
- Simplification of tax regimes without exemptions and deductions for corporate and personal income tax has been appreciated by tax payers as over 58% of corporate tax came from simplified tax regime in 2022-23.
- Further, more than two third tax payers have switched over to the new personal income tax regime.

**INDIRECT TAXES**

**Goods and Services Tax (GST):** Buoyed by GST's success, the Budget proposed that the GST tax structure will be simplified and rationalised to expand GST to remaining sectors.

**Sector specific Customs Duty proposals**

**Medicines and Medical Equipment**

- Three cancer drugs namely Trastuzumab Deruxtecan, Osimertinib and Durvalumab fully exempted from custom duty.
- Reduction in Basic Customs Duty (BCD) on x-ray tubes & flat panel detectors for use in medical x-ray machines under the Phased Manufacturing Programme.

**Mobile Phone and related parts**

- BCD on mobile phones, Printed Circuit Board Assembly (PCBA), mobile chargers reduced to 15%

**Telecommunication Equipment**

- To incentivize domestic manufacturing, BCD on PCBA of specific telecom equipments increased from 10 to 15 per cent.

**Critical minerals**

- To give a push to processing and refining of critical minerals, Budget fully exempted custom duties on 25 rare earth minerals like lithium and reduced BCD on two of them.

**Solar Energy**

- Capital goods for use in manufacture of solar cells and panels exempted from customs duty.

**Marine products**

- BCD on certain broodstock, polychaete worms, shrimp and fish feed reduced to 5%.
- Various inputs for manufacture of shrimp and fish feed exempted from customs duty.

**Leather and Textile**

- BCD reduced from 7.5% to 5% in Methylene Diphenyl Diisocyanate (MDI) used for manufacture of spandex yarn.

**Precious Metals**

- Customs duties on gold and silver reduced to 6% and that on platinum to 6.4%.

**Plastics**

- BCD on PVC flex banners increased from 10 to 25 per cent considering the hazard to environment.

**DIRECT TAXES**

- Efforts to simplify taxes, improve tax payer services, provide tax certainty and reduce litigation to be continued.
- Enhance revenues for funding development and welfare schemes of government.

**Simplification for Charities and of Tax Deducted at Source (TDS)**

- Two tax exemption regimes for charities to be *merged* into one.
- 20% TDS rate on repurchase of units by mutual funds or UTI withdrawn.
- TDS rate on e-commerce operators reduced from one to 0.1 per cent.
- Delay for payment of TDS up to due date of filing statement decriminalized.

## Simplification of Reassessment

- To reduce tax-uncertainty and disputes, a thorough simplification of reassessment has proposed.
- Assessment can be reopened beyond three years from the end of the assessment year, only if the escaped income is Rs 50 lakh or more, up to a maximum period of 5 years from the end of the assessment year.
- In search cases, time limit reduced from ten to six years before the year of search.

## Simplification and Rationalisation of Capital Gains

- **Short term gains** on certain financial assets to attract a tax rate of 20 per cent.
- **Long term gains** on all financial and non-financial assets to attract a tax rate of 12.5 per cent.
- For the benefit of the lower and middle-income classes, it has been proposed to increase the limit of exemption of capital gains on certain financial assets from Rs 1 lakh to **Rs 1.25 lakh** per year.
- Listed financial assets held for more than a year will be classified as long term, while unlisted financial assets and all non-financial assets will have to be held for at least two years to be classified as long-term.

## Tax Payer Services

- All remaining services of Customs and Income Tax including rectification and order giving effect to appellate orders to be digitalised and made paperless over the next two years.

## Litigation and Appeals

- For dispute resolution and to dispose-off backlogs, the Budget proposed **Vivad se Vishwas Scheme, 2024** for resolution of certain income tax disputes pending in appeal.
- The monetary limits for filing appeals related to direct taxes, excise and service tax in High Courts, Supreme Courts and tribunals has been increased to Rs 60 lakh, Rs 2 crore and Rs 5 crore, respectively.
- Further to reduce litigation and provide certainty in international taxation, scope of safe harbour rules to be expanded and transfer pricing assessment procedure to be streamlined.

## Employment and Investment

- **Angel tax** for all classes of investors to be **abolished**. This move is aimed to strengthen the Indian start-up ecosystem, boost the entrepreneurial spirit and support innovation.
- **Corporate tax** rate on foreign companies to be **reduced from 40% to 35%** to attract foreign capital for India's development needs.
- Simpler tax regime for foreign shipping companies operating domestic cruises to promote cruise tourism in India.
- Safe harbour rates for foreign mining companies selling raw diamonds in the country. This will promote development of diamond cutting and polishing industry which employs a large number of skilled workers.

## Deepening tax base

- Security Transactions Tax on futures and options of securities increased to 0.02 per cent and 0.1 per cent respectively.
- Income received on buy back of shares in the hands of recipient to be taxed.

## Tax implication of proposals

Revenue of about Rs 37,000 crore – Rs 29,000 crore in direct taxes and Rs 8,000 crore in indirect taxes – will be forgone while revenue of about ₹ 30,000 crore rupees will be additionally mobilized. Thus, the total revenue forgone is about Rs 7,000 crore annually.

**UNION BUDGET 2024-25**  
विद्युत मंत्रालय  
MINISTRY OF FINANCE

**Tax Relief and Revised Tax Slabs in New Tax Regime**

0-3 lakh rupees	Nil
3-7 lakh rupees	5 per cent
7-10 lakh rupees	10 per cent
10-12 lakh rupees	15 per cent
12-15 lakh rupees	20 per cent
Above 15 lakh rupees	30 per cent

- Income tax saving of up to ₹ 17,500/- for salaried employee in new tax regime

**Income Tax Relief for around Four Crore Salaried Individuals and Pensioners**

- Standard deduction for salaried employees to be increased from ₹ 50,000/- to ₹ 75,000/-
- Deduction on family pension for pensioners to be increased from ₹ 15,000/- to ₹ 25,000/-



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