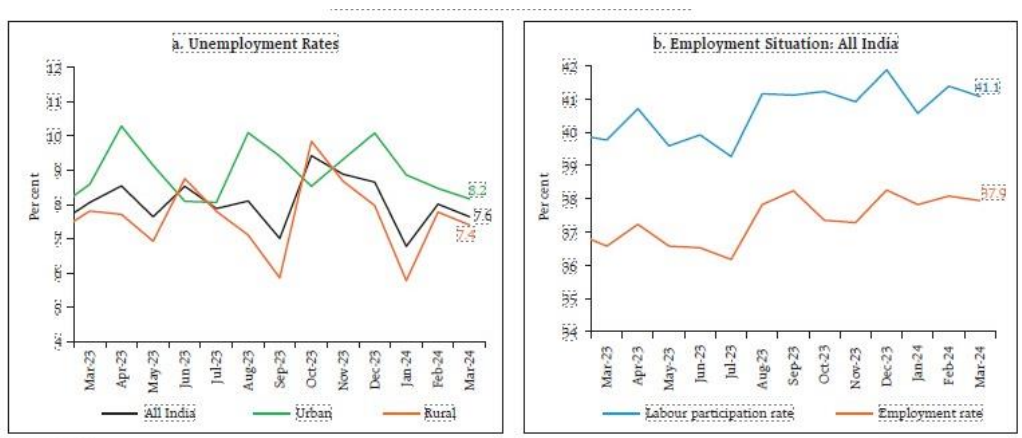
Current State of India's Economy

The state of economy of a country depends on many factors, including, *interalia*, demography, domestic resources, intensity of COVID-19 pandemic, structure of financial sector, level of transformative change leveraged on technology and swing in the inflation rate. Keeping these factors in view and on the basis of an in-depth study of the April and June, 2024 issues of Reserve Bank of India Bulletin, this paper is prepared.

To begin with, let us look into the status of India's position with respect to the above attributing factors. A thread-bare analyses reveal that India's demographic is favourable owing to its largest population of which majority are the youngest— the median age being around twenty-eight years. As regards the domestic resources, India stands in a favourable situation because there exists a high correlation between domestic saving and investment rate, which is good for an economy. Central Government also managed the COVID-19 pandemic situation in a need-based manner, as a result of which there was not much unfavourable impact on the economy. Insolvency and Bankruptcy Code (IBC) created an appropriate institutional environment for addressing stress in bank's balance sheets due to non-performing assets. The steps taken by the Government in adopting the technological upgradation in transformative change had helped expanding the ambit of formal finance, boosting start-ups and direct benefit transfers. Besides, various economic measures taken by the Government had kept the inflation curve within a tolerance level.

Now, let us see how India's performance has been overviewed by agencies other than Reserve Bank of India. International Monetary Fund (IMF) has cumulatively revised its forecast for 2023 upwards by 80 basis points between April 2023 and January 2024. In its latest update, it expects India to contribute sixteen per cent of global growth, the second largest share in the world in terms of market exchange rates. IMF has rated India as the fifth largest economy in the world and positioned it to overtake Germany and Japan within the coming decade. In terms of purchasing power parity (PPP), the Indian economy is already the third largest in the world. According to the OECD's December 2023 update, India will overtake the United States by 2045 in PPP terms to become the world's second largest economy. This underlying strength will not only improve the PPP value of the Indian rupee (INR), but also make intrinsic value of Indian currency at per with the US dollar.

Labour Market Conditions



Source: CMIE

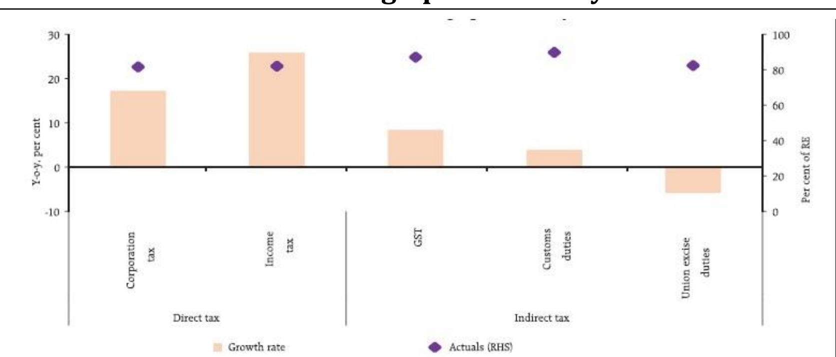
But then, how about the past results. Does the future projection match with the past trend? The data available from the Centre for Monitoring of Indian Economy (CMIE) would address this important issue. The report of CMIE lay bare the past results. From seven per cent a year ago, India's real GDP growth for 2023-24 was 8.2%. The all-India unemployment rate (UR) fell to 7.6 per cent in March, 2024 declining across both urban and rural regions. The labour force participation rate (LFPR) and employment rate (ER) fell marginally. On the other hand, India's merchandise exports at 41.7 billion US dollar in March, 2024 were at their highest in any month in 2023-24. Export, however, declined by 0.7 per cent on a y-o-y basis, due to unfavourable base effect. On a y-o-y basis, out of thirty major export commodities, thirteen commodities accounted for a share of about 36 per cent in the export basket. Petroleum products, marine products, gems and jewellery, oil meals and iron ore dragged exports down, whereas engineering goods, organic and inorganic chemicals, electronics goods, drugs and pharmaceuticals and spices supported export growth. Merchandise imports declined by six per cent (y-o-y) due to both negative momentum and an unfavourable base effect in March 2024. Among thirty major import commodities, eighteen commodities accounting for sixty-seven per cent share in the import basket, registered small decline on a y-o-y basis in March, 2024. Gold, petroleum, crude oil products, precious and semi-precious stones dragged import down, while silver, pulses and electronic goods supported growth. The merchandise trade deficit narrowed to 240.2 billion US dollar in 2023-24 as compared with 264.9 billion US dollar a year ago. Petroleum products were the largest source contributing to the deficit, followed by electronic goods.

Data from one source may not lead us to a robust conclusion. So, we collected data from the Controller General of Accounts (CGA). We find that the gross fiscal deficit (GFD) of the Central government stood at 86.5 per cent of the revised estimates (RE) during the period from April, 2023 to February, 2024. Capital expenditure recorded an increase of 36.5 per cent (y-o-y) while growth of revenue expenditure remained at the same level of 1.3 per cent (y-o-y). Capital outlay (i.e., capital expenditure excluding loans and advances) recorded an increase of 32.8 per cent, showing an impressive improvement in the quality of application of funds from the central government's sources of funds.

Next question comes in our mind is about the status and quality of sources of funds. The answer, we get, from the available data is as follows.

Direct tax collections grew by 21.6 per cent (y-o-y) during the eleven months period of 2023-24 with income tax and corporate tax collections growing at 25.8 per cent and 17.3 per cent respectively. Indirect tax collections grew by 4.8 per cent (y-o-y), with goods and services tax (GST) and customs revenues recording a growth of 8.4 per cent and 3.9 per cent respectively. To be precise, gross tax revenue grew by 13.4 per cent over the corresponding period of the previous year.

Tax Revenue during April-February 2023-24



Sources: CGA; and Union budget documents.

Conclusion

Before we conclude, let us refresh our memory. During the first thousand years (1 to 1000 AD), Indian economy contributed highest share in the sum total of world GDP. During the next 600 years (1001 – 1600 AD), India secured the second position in the world economy. Again, during the next 100 years (1601 – 1700 AD), India secured the first position. As one knows morning shows the day. Considering the innate strength, resilient economic activity, good-performing indicators in the manufacturing, services and agriculture sectors, monetary value of spending in the infrastructure sector, current stable position of inflation rate and corporate optimism, expectation of the Reserve Bank's monetary policy committee (MPC) about growth of GDP by 7.2 per cent in 2024-25 over the past year (2023-24) is achievable.

Economic Activity and GDP Growth Nowcast