The economy grew robustly in fiscal 2023 with strong momentum in manufacturing and services. It will continue to grow rapidly over the forecast horizon. Growth will be driven primarily by robust investment demand and improving consumption demand. Inflation will continue its downward trend in tandem with global trends. To boost exports in the medium term, India needs greater integration into global value chains.

**Economic Performance**

Growth increased to 7.6% in fiscal year 2023 (FY2023, ended 31 March 2024), driven by manufacturing, construction, and services (Figure 2.17.1). Agriculture growth dropped sharply due to the impact of erratic rainfall. This was compensated by an increase in manufacturing growth to 8.5%. Construction also grew rapidly by 10.7% due to strong housing demand. Services, which account for 50% of GDP, grew by 7.5%, led by financial, real estate, and professional services. Net indirect taxes also got a boost in FY2023 due to declining central government subsidy expenditure following high fertilizer subsidies in FY2022.

Strong investment drove GDP growth in FY2023 as consumption was muted (Figure 2.17.2). Gross capital formation increased by 10.2% in FY2023 to contribute 3.4 percentage points to GDP growth as

![Figure 2.17.1 Supply-Side Contributions to Growth](image_url)

**Figure 2.17.1** Supply-Side Contributions to Growth

*Strong expansion in services and industry supported growth in 2023.*

![Figure 2.17.2 Demand-Side Contributions to Growth](image_url)

**Figure 2.17.2** Demand-Side Contributions to Growth

*Investment drove economic growth in FY2023.*

Notes: Years are fiscal years ending on 31 March of the next year. Growth rates are year on year. Net taxes on products are tax receipts minus subsidies.

Sources: Ministry of Statistics and Programme Implementation; CEIC Data Company.

This chapter was written by Chinmaya Goyal of the India Resident Mission (INRM), ADB, New Delhi, and Simran Uppal, INRM consultant.
public and private sector capital expenditure grew strongly. Consumption remained subdued, however, with growth falling to 3.0% because of weak rural demand and tepid growth in public consumption under fiscal consolidation, adding 2.1 points to growth. Exports also grew modestly at 1.5% in real terms, while imports grew by 10.9%, driven by greater domestic demand for inputs and capital goods. As a result, net exports declined, deducting 2.3 percentage points from growth.

**Consumer inflation moderated in FY2023 despite higher food inflation.** It averaged 5.4% during April 2023–January 2024, compared to 6.8% in the corresponding period in FY2022 (Figure 2.17.3). After a spike in July 2023 led by food prices, consumer inflation moderated in the remainder of the year, driven by declining commodity prices and relatively lower food inflation. Core inflation, which was sticky until February 2023, also trended down to record a 4-year low of 3.6% in January 2024 owing to wholesale price deflation from April to October 2023. However, food inflation has remained elevated, mainly from higher prices for pulses, vegetables, sugar, and cereals (Figure 2.17.4). To ease price pressure on cereals and pulses, the government extended duty-free imports until March 2025 for certain pulses and introduced new restrictions on rice exports.

**The policy interest rate has remained unchanged at 6.5% since February 2023.** To combat inflation, the Reserve Bank of India, the central bank, had earlier raised its policy repo rate by 250 basis points from April 2022 to February 2023 (Figure 2.17.5). Even though core inflation has moderated, the policy rate has remained unchanged to let inflation fall further. As a result, banks’ lending rates increased by an average of 194 basis points from April 2022 to January 2024.

**Bank credit growth remained robust in FY2023, driven by demand for services and personal loans.** Bank credit growth was the highest in a decade, supported by structural factors: lower nonperforming loans, corporate deleveraging, and improved capability to service debt. Outstanding bank credit, excluding public loans to buy crops from farmers, was higher by 16% at the end of January 2024 compared to a year earlier (Figure 2.17.6). Growth in credit to industry was relatively muted. Instead, growth came from loans to the service sector and personal loans such as consumer loans and personal loans, with a rebound in commercial bank credit growth in February 2023.
as home and auto loans and unsecured credit card debt. The acceleration of unsecured consumer credit prompted the central bank to impose various prudential measures including higher risk weights on certain types of consumer credit and credit card receivables, and to require regulated entities to establish sector limits on their exposure to consumer credit.

The overall health of the banking sector remains robust. The Indian banking sector continued to show improved asset quality with gross nonperforming assets declining to a 10-year low of 3.2% at the end of September 2023 from 3.9% at the end of March 2023. This decline occurred across productive sectors and industries, with the gross nonperforming asset ratio lowest for personal loans.

The central government fiscal deficit shrank from 6.4% of GDP in FY2022 to an estimated 5.8% in FY2023. Better-than-expected revenue performance pushed the deficit lower than the budget target of 5.9% of GDP in FY2023 (Figure 2.17.7). Personal income tax collections are estimated to have grown by 23.0% in FY2023, which highlighted surging incomes for salaried professional and government efforts to widen the tax base by keeping tax exemption limits stable and using digital tools to prevent tax leakage. On the expenditure side, government capital expenditure rose by 28.0% while current expenditure grew by only 2.5%. As a result, overall expenditure shrank as a share of GDP, even as receipts grew.

Merchandise exports contracted in FY2023 as global trade remained weak, but the current account deficit narrowed. A decline in goods exports by 3.5% in the first 11 months of FY2023 was driven by lower exports of petroleum crude and products, metals, and gems and jewelry, while growth was noted in electronic and pharmaceutical exports. Goods imports also contracted in the period, by 5.3% year on year, with lower prices for energy and food commodities, even as imports of capital goods, iron and steel, pulses, and electronics surged. Falling imports narrowed the merchandise trade deficit by 8.4%. Service export growth moderated to 6.8% compared to the same period of the previous year, while service imports fell by 2%. These developments and continued strong inflow of remittances narrowed the current account deficit from 2.0% of GDP in FY2022 to an estimated 1.2% in FY2023 (Figure 2.17.8).

Foreign exchange reserves increased in the first 11 months of FY2023 as the exchange rate remained relatively stable. Net foreign portfolio investment turned positive, registering net inflow of $32.3 billion in the first 9 months of FY2023, after recording net outflow of $3.5 billion in the same period of FY2022, and foreign direct investment (FDI) net
The current account deficit narrowed in FY2023 due to lower imports. Higher debt inflow supported the Indian rupee.

The current account deficit narrowed in FY2023 due to lower imports. Higher debt inflow supported the Indian rupee. GDP = gross domestic product.

Note: Years are fiscal years ending on 31 March of the next year.
Sources: CEIC Data Company; Asian Development Bank estimates.

GDP growth will dip in fiscal 2024 but remain robust this year and next.

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>7.0</td>
<td>7.6</td>
<td>7.0</td>
<td>7.2</td>
</tr>
<tr>
<td>Inflation</td>
<td>6.7</td>
<td>5.5</td>
<td>4.6</td>
<td>4.5</td>
</tr>
</tbody>
</table>

GDP = gross domestic product.
Note: Years are fiscal years ending on 31 March of the next year.
Sources: Ministry of Statistics and Programme Implementation, Government of India; Reserve Bank of India; Asian Development Bank estimates.

Economic Prospects

Growth will be robust despite moderating in FY2024 and FY2025. It will be driven by public and private sector investment demand and by gradual improvement in consumer demand as the rural economy improves. Exports are likely to be relatively muted in FY2024 as growth in major advanced economies slows down but will improve in FY2025. Monetary policy is expected to remain supportive of growth as inflation abates, while fiscal policy aims for consolidation but retains support for capital investment. On balance, growth is forecast to slow to 7.0% in FY2024 but improve to 7.2% in FY2025 (Table 2.17.1).

<table>
<thead>
<tr>
<th>Table 2.17.1 Selected Economic Indicators, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth will dip in fiscal 2024 but remain robust this year and next.</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>GDP growth</td>
</tr>
<tr>
<td>Inflation</td>
</tr>
</tbody>
</table>

GDP = gross domestic product.
Note: Years are fiscal years ending on 31 March of the next year.
Sources: Ministry of Statistics and Programme Implementation, Government of India; Reserve Bank of India; Asian Development Bank estimates.
Investment prospects are brightened by public capital expenditure and improving private investments. The central government allocation for capital expenditure is higher by 17% in FY2024 over the previous year. Capital expenditure by state governments will also remain strong, helped by central government transfers to state governments for infrastructure investment. On the private sector side, investment in housing will remain strong, driven by stable interest rates and higher income growth for high-income households. A new government initiative to support urban housing for middle-income households is expected to spur housing growth. Private corporate investment is also likely to grow. As per data collected by the Centre for Monitoring of Indian Economy, private sector projects announced and under implementation have grown rapidly since FY2021, indicating a strong project pipeline, though this has not yet translated into a meaningful increase in project completions (Figure 2.17.11).

**Figure 2.17.11 Investment Projects under Implementation and Completed**

Robust private sector project planning will drive investment higher.

- Under implementation
- Completed projects, 4-quarter moving average

Consumption demand will improve with higher incomes. Consumer confidence has improved in urban areas, with the current situation index that gauges consumer confidence improving to 95 in January 2024 from 85 in January 2023 (Figure 2.17.12). Urban consumption is expected to rise in FY2024, helped by falling inflation and gradual improvement in the urban labor market. The urban worker population ratio rose from 44.7% in the third quarter of FY2022 to 46.6% a year later, and the urban unemployment rate fell from 7.2% to 6.5% (Figure 2.17.13). Rural consumption was muted in FY2023 as rural incomes suffered from erratic rainfall affecting agriculture, as indicated by greater demand for work under the Mahatma Gandhi National Rural Employment Guarantee Act (Figure 2.17.14). Assuming normal monsoon rainfall, rural consumption will improve in FY2024.

**Net exports will continue to subtract from growth in FY2024 but improve in FY2025.** In recent years, India’s share in global goods exports has remained stable. In FY2024, goods exports will be depressed as advanced economies slow down, but they will improve somewhat in FY2025 as global growth improves. The export performance of electronics continues to be
Demand for work under the act rose due to lower agricultural income in FY2023.

Notes: Years are fiscal years ending on 31 March of the next year; 2023 is to January 2024. Source: CEIC Data Company.

On the supply side, service growth momentum is strong. The purchasing managers’ index for services reached 60.6 in February 2024, painting an optimistic picture for services (Figure 2.17.15). Higher demand for financial, real estate, and professional services will be key contributors to growth. Manufacturing will benefit from relatively muted input cost pressures, which has boosted industry sentiments (Figure 2.17.16). Government efforts to simplify regulations and improve infrastructure will raise productivity and lead to greater competitiveness, thus helping growth in FY2025. Agriculture will benefit from a recovery in winter crops, as indicated by current agriculture sowing patterns and an expected normal monsoon. Relatively favorable terms of trade for agriculture due to higher food prices are also expected to boost output in FY2025. The contribution to growth from net indirect taxes will be lower in FY2024, after being boosted in FY2023 due to withdrawal of subsidies.

Inflation is expected to ease to 4.6% in FY2024 and 4.5% in FY2025. Food inflation has been persistent but is expected to moderate to 5.7% as agricultural production returns to trend in FY2024. According to a central bank survey, households’ inflation expectations have continued to decline in line with core inflation. The latter is expected to decline from 4.4% in FY2023 to 3.8% in FY2024 on the lagged effect of tighter monetary policy, before rising to 5.0% in FY2025 because of higher demand. The inflation outlook will be helped by moderation in global inflation and a stable global crude oil market.
The government’s focus on fiscal consolidation will continue, creating space for private borrowing. The FY2024 central government budget set an aggressive deficit target of 5.1% of GDP and reiterated the fiscal deficit target of 4.5% for FY2025. Revenue growth in FY2024 will be in line with the previous year, up by 11.0% over FY2023. However, driven by lower subsidy spending, FY2024 budgeted expenditure growth will be, at 6.0%, the lowest in the last 7 years, though capital spending will rise by 17.0% to $134 billion. Aggressive fiscal consolidation will enable the central government to reduce its gross market borrowing by 0.9% of GDP in FY2024. As domestic financial institutions are the primary buyers of government securities, reduced government borrowing will create room for greater private sector credit. Further, India’s inclusion in the JP Morgan’s Government Bond Emerging Markets Fund is expected to give a one-time boost to foreign purchases of rupee-denominated Indian government securities in FY2024, likely amounting to 10.0% of the central government’s gross borrowing. The general government fiscal deficit, which includes the central and state governments, is expected to decline from 9.2% of GDP in FY2022 to 8.9% in FY2023 and 8.1% in FY2024. This assumes that state governments’ fiscal deficits remain at 3.0% of GDP.

Monetary policy will become less restrictive this year as inflation nears the policy target of 4%, facilitating credit expansion. Less restrictive monetary policy and continued fiscal consolidation will pave the way for the rapid rate of increase in bank credit seen last year to continue in FY2024 and FY2025, notwithstanding regulatory tightening on unsecured personal loans. Credit growth will be driven mainly by loans to services, housing, and industry.

The current account deficit will widen moderately, but external financial conditions will be favorable over the forecast period. The current account deficit will widen to 1.7% of GDP in FY2024 and FY2025 on rising imports to meet domestic demand. However, portfolio capital inflow will remain strong, attracted by the performance of India’s equity and debt markets. FDI inflow will likely remain muted in the near term due to tight global financial conditions but will pick up in FY2025 with higher industry and infrastructure investment.

Both upside and downside risks to the outlook arise from external and domestic sources. The economic outlook for India depends on price and financial market stability, which are crucial for consumer and business confidence. The outlook could thus be affected by negative global shocks, such as a supply shock in crude oil markets that spikes energy costs and raises global inflation, which could lead central banks to tighten financial conditions globally and in India. On the domestic side, there is a risk of underperformance in agriculture due to weather shocks that can affect demand and inflation. On the upside is a possibility of faster-than-expected FDI inflow, particularly into manufacturing, where many pipeline projects have been announced by corporations. Besides boosting output, FDI inflow would improve productivity. Better-than-expected global growth could boost exports and thus growth.

Policy Challenge—Boosting Trade by Integrating into Global Value Chains

India’s growth strategy is predicated on substantial export growth. It can be achieved through integration into global value chains. A target of $2 trillion in exports of goods and services has been set by the government to be achieved by 2030. In FY2023, combined exports of goods and services reached an estimated $770 billion. Thus, considerable growth will be needed to reach the government’s targets. Increasing goods exports requires India to integrate into global value chains (GVCs), which must entail India specializing in stages of production where it has a comparative advantage, as opposed to necessarily looking to be present in the entire value chain.

India participation in GVCs has been limited. Historically, India has been little engaged in highly integrated GVCs such as those that manufacture transport equipment, electrical and optical equipment, chemicals and chemical products, basic and fabricated metal, textiles, and textile products. As a result, India’s share of global merchandise exports has remained relatively stable at about 1.8%-2.1% of GDP (Figure 2.17.17). Meanwhile, India has remained only a small player in the sizeable global GVC market. Its share of GVC exports rose by 0.9% from 2010 to 2017, as
**Figure 2.17.17** India’s Share of Global Exports of Selected Goods

India’s share of global exports did not improve significantly in recent years to 2022.

<table>
<thead>
<tr>
<th>Year</th>
<th>Pharmaceuticals</th>
<th>Chemicals excluding petrochemicals</th>
<th>Electrical machinery</th>
<th>Textiles</th>
<th>Base metal and articles of base metal</th>
<th>Overall export share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2.6</td>
<td>2.7</td>
<td>1.1</td>
<td>0.8</td>
<td>4.1</td>
<td>2.1</td>
</tr>
<tr>
<td>2018</td>
<td>2.7</td>
<td>2.7</td>
<td>1.1</td>
<td>0.8</td>
<td>4.1</td>
<td>2.1</td>
</tr>
<tr>
<td>2022</td>
<td>2.7</td>
<td>2.7</td>
<td>1.1</td>
<td>0.8</td>
<td>4.1</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Notes: Base metal and articles of base metal include Harmonized System of Nomenclature chapters 72–83, textiles 50–60, textile articles 61–63, pharmaceuticals 30, chemicals 28–38 excluding chapter 30, and electrical machinery and equipment 85. Overall export share includes all two-digit system entries. Years are calendar years.

Source: World Integrated Trade Solution.

compared to over 10% for other emerging economies, accounting for only $241 billion, or 1.5% of global GVC exports in 2017.

On the other hand, India has been a global leader in service trade. Its share of global service exports increased from 3.5% in FY2017 to 4.6% in FY2022, driven by success in information technology and the services enabled by it. Service exports have emerged as a crucial driver of economic growth, their share accounting for 10% of GDP in FY2023. This success has led to consideration of a development model that is predicated primarily on services.

However, evidence suggests that goods exports have a larger impact on employment and growth than do service exports. First, goods exports and their indirect effects are found to be more employment-intensive than services exports. A study based on the inter-linkages between exports and employment in India using a supply-use table estimates that in 2017, 143 jobs were generated per $1 million of goods exported, as compared to 55 jobs per $1 million of service exports (Veeramani et al. 2023). Second, export manufacturing jobs align better with educational attainment in India’s labor force, as service exports generally require higher education. Third, participation in GVCs encourages FDI, which can generate spillover benefits in terms of productivity improvement and technology upgrades.

**Infrastructure and business regulatory reform has helped trade growth in selected sectors, but additional measures are needed.** Over the past few years, India has increased public spending on infrastructure, as discussed above. There has been a significant focus on improving logistics through the National Master Plan for Multi-modal Connectivity. In addition to infrastructure, the business regulatory environment has been streamlined with a simplified corporate tax regime and the simplification and digitization of administrative clearances. These measures have, along with the production-linked incentives for private companies to invest in selected sectors, led to greater trade in selected sectors. Notwithstanding slow global trade, electronic goods exports increased by 20.8% from April 2023 to January 2024 compared to the same period a year earlier. Imports of electronic goods also increased by 16.7% during this period, indicating that India is deepening its integration into the electronics GVC.

**Further policy action is needed to improve India’s trade competitiveness and integration into GVCs.** A simplified tariff policy is needed along with continued efforts to improve trade and logistics infrastructure. Regionally, a few large-scale economic zones that provide a competitive ecosystem, the required infrastructure, and a streamlined regulatory environment should be developed. Further, infrastructure upgrades can be made to industrial parks and special economic zones already established. Improved spatial planning to provide logistics and infrastructure connectivity, and development around the economic zones, will help develop a thriving competitive ecosystem for businesses.