DICCI

Indian Economy – Growth and Initiatives:

Introduction:

India remains the **world's Fifth-largest** economy by nominal GDP and the **Third-largest** by purchasing power parity (PPP). With its rich cultural heritage and a population of over 1.4 billion people, India has emerged as an economic powerhouse, consistently showcasing its prowess on the global stage. India's economic policies focus on enhancing infrastructure, promoting digital initiatives, and attracting foreign investments.

The Indian economy, one of the world's fastest-growing major economies, faces crucial developments following the 2024 elections and the subsequent budget announcements. The elections have set the stage for potential policy shifts, while the budget outlines the government's fiscal strategy for the upcoming year. This report aims to analyse the post-election economic scenario and the implications of the 2024 budget, with a specific focus on the Goods and Services Tax (GST).

Impact on Various Sectors:

The government's policies have varying impacts across different sectors. For instance, infrastructure development projects are expected to benefit the construction and real estate sectors, while digitalization initiatives could boost the IT and telecommunications industries.

Market Reactions and Investor Sentiment:

The market's reaction to the election results and subsequent policy announcements has been mixed. While some sectors saw a positive uptick in investor confidence, others remain cautious due to regulatory uncertainties. Overall, the focus remains on how effectively the government can implement its proposed reforms.

India's GDP projections:

The **Reserve Bank of India (RBI)** and international organizations like the **United Nations** have revised India's economic growth projections upward. The RBI now forecasts a growth rate of **7%** for **FY 2024/25**, highlighting optimism in the country's economic outlook. IMF's projection of India's GDP will be **6.8%**.

After the 2024 elections and budget, India's GDP growth rate for **FY 2024** is estimated at **8.2%.** This growth is despite challenges in the agricultural sector, indicating resilience in other sectors of the economy.

Long-term equity market outperformance:

The long-term outperformance of India's stock market mirrors India's gross domestic product (GDP) growth. India's share of global GDP has increased from 1.1% in 1993 to close to 3.5% in 30 years. The rise of India is clearly not a short-term phenomenon, but something that has been building up steadily over a longer time frame.

Factors influencing India's GDP growth:

- **Domestic demand:** This is driven by investment and consumption, which account for about 70% of India's GDP.
- **Manufacturing and exports:** These are key sources of employment, value addition, and external demand.
- **Infrastructure:** Investments in physical and digital infrastructure can help India grow sustainably.
- **Supply Chain Diversification:** Amid global supply chain disruptions, India has emerged as an attractive alternative destination for manufacturing investments, particularly in sectors like electronics and pharmaceuticals.
- **Human capital and social services:** These are important for improving the productivity and living standards of India's young population.
- **Workforce:** A competent workforce can make Indian businesses more globally competitive.
- **Economic and policy reforms:** These, along with a young population, can help India improve productivity faster than wage growth.

Other factors that can support growth include: Elevated public spending, Robust urban demand, Significant foreign investment inflows, and Easing inflation.

GDP Growth rate on Sector wise:

The shares of agriculture, industry, and services sectors in India's overall GVA at current prices in FY 2024 were 17.7%, 27.6%, and 54.7%, The contribution of different sectors to India's GDP in 2024 are as follows:

- Travel and tourism: Contributed around 9.1% to India's total GDP in 2024, which was an increase of nearly 12.1% from the previous year.
- Manufacturing: Grew by 9.9% in FY 2023-24, compared to -2.2% in 2022-23.
- Mining and quarrying: Grew by 7.1% in 2023-24, compared to 1.9% in 2022-23.
- Construction sector registers a growth of 9.9 per cent.

India’s growth on FDI and EXIM market:

India has recently become a major global hub for FDIs. According to World Investment Report 2023, India was among the top 10 global FDI destinations. Furthermore, India has provided huge corporate tax cuts and simplified labour laws. The number of international project finance deals in India also increased by 64%, making it the recipient of the second largest number of international project finance deals.

- The Government of India increased FDI in the defence sector by liberalizing it to 74% through the automatic route and 100% through the government route.
- The Foreign Investment Facilitation Portal (FIFP) is a new online single-point interface of the government for investors to facilitate Foreign Direct Investment proposals to evaluate and further authorise them under the Government approval route.

Some of the recent developments in foreign investments are listed below:

- In the second quarter of FY24, private equity investments in the Indian real estate sector surged to a three-year peak, reaching a total of US$ 2.5 billion, as outlined in a recent report by Colliers, a prominent real estate consultancy. The industrial and warehousing segment notably dominated the investment landscape, constituting 61% of the total investments, amounting to US$ 1.5 billion.
- Real Estate and Infrastructure Investment Trusts raised billion Rs. 1.3 lakh crore (US$ 15.60 billion) in 4 years until March, aided by SEBI's regulatory reforms enhancing retail participation and investment opportunities.
- In June 2024, foreign investors turned net buyers by infusing Rs. 26,565 crore (US$ 3.18 billion) into the Indian markets. This contrasted with the net outflow of Rs. 25,586 crore (US$ 3.06 billion) recorded in May. The positive inflow was driven by factors such as political stability and a sharp rebound in the domestic equity markets.
- According to a report by Colliers, between 2019 and 2023, foreign inflows comprised of 77% of the total institutional investment in Indian real estate sector with an average annual investment of US$ 4 billion.
- In FY25 (until 18th July 2024), the net investment by FPIs were US$ 5.38 billion.
- During FY25 (Until 18th July 2024), foreigners bought US$ 2.16 billion of Indian equities.
- According to the Department for Promotion of Industry and Internal Trade (DPIIT), India's cumulative FDI inflow stood at US$ 990.97 billion between April 2000-March 2024.
- The total FDI inflow into India from January 2024 to March 2024 stood at US$ 19.04 billion and FDI equity inflow for the same period stood at US$ 12.38 billion.
- India also had major FDI inflows during April 2000-March 2024, coming from Mauritius at US$ 171.84 billion with a total share of 25%, followed by Singapore at 24% (US$ 159.94 billion), the USA at 10% (US$ 65.19 billion), Netherlands at 7% (US$ 48.68 billion), and Japan at 6% (US$ 41.98 billion).
- For calendar year 2023, the overall FPI sell figure through the exchange is US$ 17.24 billion.

- Private Equity-Venture Capital (PE/VC) funds invested US$ 6.90 billion in May 2024, 54% rise in YoY basis, (across 100 deals) in India-based companies.
- India's National Stock Exchange (NSE) had the eighth-largest market capitalization in the world, with a total market value of US$ 5.4 trillion as of July 15, 2024.
- Till July 16, 2024, the NIFTY 50 traded near the 24,651 mark and Sensex surpassed 80,846 on the back of strong inflows from foreign institutional investors (FIIs).
- Around 205 SME companies went public in FY24, raising a total of Rs. 6,300 crores (US$ 754 million) through IPOs.

Focus of Budget 2024:

Budget 2024 once again lays emphasis on the infrastructure and manufacturing segment. Focus on urban development, energy transition, housing, water supply and sanitation augurs well for the sector.

- **GDP Growth Strategy**: The budget aims to maintain fiscal discipline while boosting job creation and income levels.
- **Economic Outlook**: Despite election-year challenges, experts praise the budget's fiscal strategies, anticipating sustained GDP growth.
- **Sectoral Implications**: Key sectors like agriculture, employment, and manufacturing receive prioritized allocations, aiming to sustain economic momentum.

In the Budget 2024, Finance Minister Nirmala Sitharaman has proposed to reduce the corporate tax on foreign companies from **40%** to **35%.** E-Commerce Export Hubs will be set up in public-private-partnership (PPP) mode to enable MSMEs and traditional artisans to sell their products in international markets.

- The rules and regulations for Foreign Direct Investment and Overseas Investments will be simplified to nudge prioritisation, facilitate foreign direct investments, and promote opportunities for using Indian Rupee as a currency for overseas investments.
- The budget's overall focus is on fostering economic growth, innovation, job creation, and entrepreneurship. It also aims to support a more inclusive and vibrant economy by integrating women into the workforce, upskilling the youth, and increasing private consumption.
- Reduction in Basic Customs Duty (BCD) from 7.5% to 5% for methylene isocyanate, aimed at enhancing competitiveness in exports of Indian leather and textiles.
- Expansion of the list of exempted goods used for manufacturing leather and textile garments, footwear, and other leather articles intended for export.
- Extension of the time period for export of goods to promote domestic aviation and boat & ship maintenance, supporting these sectors.

Employment & Skilling:

In the Budget 2024-25 summary, it is said that the government will implement 3 schemes for 'Employment Linked Incentive', as part of the Prime Minister's package. These will be based on enrolment in the EPFO, and focus on recognition of first-time employees, and support to employees and employers.

Infrastructure:

The Finance Minister underlined that significant investment the Central Government has made over the years in building and improving infrastructure has had a strong multiplier effect on the economy. Government will endeavour to maintain strong fiscal support for infrastructure over the next 5 years, in conjunction with imperatives of other priorities and fiscal consolidation. ₹11,11,111 crore for capital expenditure has been allocated this year, which is 3.4 per cent of our GDP.

Innovation, Research & Development:

The Finance Minister said that government will operationalize the Anusandhan National Research Fund for basic research and prototype development and set up a mechanism for spurring private sector-driven research and innovation at commercial scale with a financing pool of ₹1 lakh crore in line with the announcement in the interim budget.

Space Economy:

With our continued emphasis on expanding the space economy by 5 times in the next 10 years, a venture capital fund of ₹1,000 crore will be set up.

Next Generation Reforms:

1)Technology to speed up digitalization of economy.

2) Jan Vishwas Bill 2.0 to improve Ease of Doing Business.

3)States to be incentivized to implement Business Reforms Action Plans and digitalization

4) Sectoral databases for improving data governance and management

5) Committee to review New Pension Scheme to evolve solution which addresses relevant issues while maintaining fiscal prudence.

Foreign Direct Investment and Overseas Investment

The rules and regulations for Foreign Direct Investment and Overseas Investments will be simplified to (1) facilitate foreign direct investments, (2) nudge prioritization, and (3) promote opportunities for using Indian Rupee as a currency for overseas investments.

DICCI

Growth of Sunrise sectors in India:

India's sunrise sectors, buoyed by robust human resources and supportive government policies such as 100% FDI under automatic routes, present compelling investment opportunities. Investors stand to benefit from robust growth potential and government support. These sectors promise economic prosperity and offer avenues for sustainable development, making them attractive investment destinations.

Electronics & Semiconductors:

India's electronics industry is poised for substantial growth, with projections indicating a production value of $300 Bn by FY26. The semiconductor market is estimated to touch $64 Bn by 2026, almost three times its 2019 size of $22.7 Bn. This surge is fuelled by initiatives such as the **Production Linked Incentive (PLI) scheme**, aimed at bolstering large-scale electronics manufacturing under the Make in India campaign.

Electric Vehicles (EV):

India aims for 30% of all vehicles to be electric by 2030, encouraging foreign investment through 100% FDI in the EV sector. The government supports this goal with over 12,000 public EV charging stations and initiatives like FAME II **(Faster Adoption and Manufacturing of Electric Vehicles)** , offering subsidies to boost infrastructure and confidence in electric mobility.

Renewable Energy:

India, the world's 3rd largest energy consumer, is crucial to global climate action. The country aims to achieve 500 GW of non-fossil fuel-based energy by 2030, marking the largest global renewable energy expansion. To support this, the government has launched initiatives like the National Green Hydrogen Mission, with an INR 19,744 Cr investment to boost green hydrogen production, and frameworks for Offshore Wind Energy and Wind-Solar Hybrid projects to enhance grid stability.

These efforts create a favourable environment for investors, driving innovation, job creation, and sustainable economic growth in India's renewable energy sector.

Agro & Food Processing:

India's agriculture sector is a major economic driver, supported by growing demand, exports, and advancements like hybrid seeds and better irrigation. In food processing, India presents attractive investment opportunities, with initiatives like Pradhan Mantri Kisan Sampada Yojana and Production Linked Incentive Scheme aimed at boosting manufacturing and exports. Liberalized FDI norms and rising consumer spending further enhance India's position as a global food processing hub.

Biotechnology and Pharmaceutical Sciences & Healthcare:

India's healthcare industry is rapidly expanding, with the Med-tech sector expected to reach $50 billion by 2025. Key drivers include technological advancements, rising healthcare spending, and supportive policies like Ayushman Bharat. The pharmaceutical sector, known for its global leadership in vaccines and generics, offers strong investment opportunities with 100% FDI allowed. Government initiatives like PLI schemes and medical tourism further enhance growth prospects, making India a prime destination for investors in healthcare and pharmaceuticals.

Other Key Points:

- India's GDP in **Q4** for the **FY 2023-24** grew by **7.8%**, reaching **Rs 47.24 lakh crore**. This growth exceeded earlier estimates, indicating robust economic performance.
- Gross fixed capital formation (GFCF) from private non-financial corporation's increases by 19.8 per cent in FY23, acts as an important driver of growth.
- Quality of spending by state Governments improves as gross fiscal deficit was 8.6 per cent lower than budgeted figure of ₹9.1 lakh crore.
- Gross non-performing assets (GNPA) ratio declines to 2.8 per cent in march 2024, a 12-year low marking improvement in asset quality of banks.
- India's exports of services reaches a new high of USD 341.1 billion in FY-24.
- Forex reserves as of end of march 2024 sufficient to cover 11 months of projected imports.
- India witnessed positive net foreign portfolio investment (FPI) inflows in FY24 of US$ 44.1 billion.
- India's workforce is estimated to be 56.5 crores, of which more than 45% are employed in agriculture, 11.4% in manufacturing, 28.9% in services, and 13.0% in construction.
- 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.
- Merchandise exports in June 2024 stood at US$ 35.20 billion, with total merchandise exports of US$ 109.96 billion during the period of April 2024 to June 2024.

Skilling:

- Budget 2024 emphasizes skilling initiatives to benefit 41 million youth, aligning with national development goals.
- The Union Budget 2024-25 allocates funds for enhancing Industrial Training Institutes (ITIs) and the Skill India Mission, focusing on creating a skilled workforce.
- India's economic growth strategy includes significant investments in employment, skilling, and MSMEs to foster a skilled and inclusive workforce.

Emerging Sectors India Prioritizes for Skilling Efforts -

I. **Renewable Energy and Green Technologies**: The **renewable energy sector** stands at the forefront of India's sustainable development agenda, **driven by the ambitious target of 500 GW capacity by 2030.**
   - It promises to create over **3.5 million jobs,** demanding a workforce skilled in solar, wind, and energy storage technologies.

II. **Artificial Intelligence and Machine Learning**: **India's AI market**, projected to reach **USD 7.8 billion by 2025,** is reshaping industries and creating new paradigms of work.
   - This digital transformation necessitates a workforce adept in data analytics, **algorithm development, and machine learning.**
   - The **IndiaAI Mission** is a commendable start, but the dynamic nature of AI demands continuous upskilling and reskilling.

III. **Internet of Things and Smart Cities**: The convergence of **IoT and smart city initiatives** is driving India towards a more connected, efficient future.
   - With the IoT market set to reach **USD 9.28 billion by 2025** and **plans for 100 smart cities**, the demand for skills in IoT programming, data security, and integrated urban planning is soaring.
   - The **Smart Cities Mission** has catalysed this growth, but there's a pressing need for multidisciplinary skill development programs.

IV. **Space Technology and Satellite Communications:** India's **space economy**, set to touch **USD 13 billion by 2025,** is entering a new era with the opening up of the sector to private players.
   - This expansion creates a demand for skills in **satellite design, space debris management, and reusable space assets.**

V. **Cybersecurity:** With India facing **several million cyber-attacks in each year**, the importance of cybersecurity cannot be overstated.
   - Therefore, India urgently needs professionals skilled in **ethical hacking, network security, and cyber forensics.**

VI. **3D Printing and Additive Manufacturing:** The India **3D printing** market is anticipated to grow at a high **CAGR of 20.3% from 2023 to 2030.**

- ❖ It is set to revolutionize manufacturing processes across industries. This emerging field demands expertise in **Computer-aided design (CAD) modeling, material science, and quality control** for additive manufacturing.

VII. **Quantum Computing:** India's commitment to quantum technologies, evidenced by the **₹8,000 crore allocation** to the **National Mission on Quantum Technologies** and **Applications,** signals a major push into this cutting-edge field.

- ❖ The sector demands highly specialized skills in quantum algorithms, cryptography, and error correction.

A Focus on GST:

Budget 2024 Highlights:

The 2024 budget, presented in the wake of the elections, includes several key announcements related to GST. The budget reflects the government's commitment to fiscal discipline while addressing the need for economic stimulus.

Key Budget Announcements Related to GST:

The budget introduced changes in GST rates for various goods and services, aiming to simplify the tax structure and boost compliance. Key announcements include reduced GST rates for essential items, increased rates for luxury goods, and measures to streamline the tax filing process.

Reforms and Changes in GST Rates:

The government proposed several reforms to the GST system, including a rationalization of tax slabs and the introduction of a single return filing system. These changes are expected to reduce the compliance burden on businesses and enhance revenue collection.

Impact on Businesses and Consumers:

The changes in GST rates have varying impacts on businesses and consumers. While the reduction in GST rates on essential items is likely to benefit consumers, the increased rates on luxury goods may affect consumer spending in those segments. Businesses, particularly SMEs, are expected to benefit from the simplified compliance requirements.

GST Analysis:

An in-depth analysis of the GST changes post-budget reveals significant implications for different sectors and the overall economy.

Overview of GST Changes Post-Budget:

The budget's GST announcements include both rate changes and structural reforms. These measures aim to balance revenue generation with economic growth.

Sector-Wise Impact:

Different sectors experience varying impacts due to the GST changes. The reduction in rates for essential goods benefits sectors like healthcare and agriculture, while higher rates on luxury items affect the automotive and luxury goods industries.

Revenue Implications for the Government:

The GST reforms are designed to enhance revenue collection by broadening the tax base and improving compliance. The rationalization of tax slabs is expected to reduce evasion and increase the government's tax revenues.

Economic Outlook:

The post-election and post-budget economic outlook for India presents both challenges and opportunities. The government's ability to implement its proposed reforms effectively will be crucial in determining the country's growth trajectory.

Short-Term and Long-Term Projections:

In the short term, the economy is expected to experience moderate growth as the new policies take effect. In the long term, sustained reforms and stable governance could lead to higher growth rates.

Challenges and Opportunities:

Challenges include managing inflation, ensuring fiscal discipline, and maintaining investor confidence. However, opportunities arise from potential improvements in infrastructure, digitalization, and increased foreign investment.

Recommendations for Businesses:

Businesses should stay informed about policy changes, adapt to the new GST compliance requirements, and explore opportunities in emerging sectors. Strategic planning and agility will be key to navigating the evolving economic landscape.

Conclusion:

The 2024 budget have set the stage for significant economic developments in India. The GST reforms, in particular, play a crucial role in shaping the business environment and fiscal landscape. As the government implements its policies, the focus will be on balancing growth with fiscal responsibility, ultimately determining the country's economic future.