*For the Year April 1, 2022 to March 31, 2023 **

PART ONE: THE ECONOMY - REVIEW AND PROSPECTS

I ASSESSMENT AND PROSPECTS

I.1 Volatility has ebbed in global financial markets and risks to financial stability from the failure of banks in some advanced economies (AEs) in March 2023 have eased. Resolute policy actions have stemmed the tide of confidence runs for now. Amidst the uneasy calm that prevails, a reassessment of global economic prospects is underway. Available projections suggest a weaker outlook for the global economy in 2023 and 2024 after the resilience it exhibited to multiple and often overlapping shocks in 2022 - the war in Ukraine; the persistent elevation in food and energy inflation; and the tightening of financial conditions in response to aggressive and synchronised monetary policy tightening across the world. The most vulnerable countries reeled under the burden of high debt levels. In the early months of 2023, some of the war-induced pressures on inflation have eased with the decline in commodity prices and gradual normalisation of supply chains. The pace of global disinflation, however, remains less than desirable. The resilience of the global financial system will inevitably be tested again as the exit from ultra-easy liquidity resumes and systemic central banks shrink their bloated balance sheets. Financial regulatory policies are also set to tighten in many countries, with lessons from the episodes of banking system stress in March.

I.2 Meanwhile, deep structural forces are at work that may shape medium- to long-term global prospects fundamentally. Profound geo-economic shifts impacting trade and capital flows and technology transfers have weakened the contribution of globalisation to growth. Private investment remains subdued in an atmosphere of extreme uncertainty. Inflation pressures and effects of fragmentation on world trade may be lowering aggregate consumption demand, a slow-moving drag on growth. In the AEs, aging populations are altering labour supply conditions. Green transition, a common global goal, has opened up new investment opportunities in renewables and electric vehicles, but the high costs of lowering carbon emissions could impinge on developmental aspirations. Digitalisation also offers new growth opportunities, but the costs of tech and cyber disruptions are also rising.

I.3 For emerging market economies (EMEs), the outlook appears even more uncertain as they look back at a year of lingering pandemic woes, surging food and energy prices and even shortages, unsustainable debt overhangs and repeated incidence of global spillovers that brought in their train volatile capital flows and generalised risk aversion. Looking ahead into the medium-term, their prospects of convergence with living standards in AEs have suffered a setback even as the benefits of globalisation through trade and capital flows are receding.

I.4 In this turbulent global economic environment, India has experienced macroeconomic and financial stability with a steady

* : Where available, this chapter has been updated beyond March 2023.

pick-up in the momentum of growth. This reflects a sound macroeconomic policy environment and the innate resilience of the economy which fortified it against recurring global shocks. India has remained among the fastest growing major economies of the world, contributing more than 12 per cent to global growth on average during the last five years. As inflation eases from its high reaches under the combined impact of monetary policy actions and supply management, fiscal consolidation reduces debt and deficit levels from pandemic-induced highs, the current account deficit remains within sustainable levels; macroeconomic stability is getting entrenched. Strong and healthy balance sheets of banks, financial institutions and corporate entities is helping to regain growth momentum eroded by the pandemic and the war. Medium-term prospects have been brightened by the demographic dividend, the digital revolution, policy initiatives to transform India into a global manufacturing hub, a resurgence in services sector competitiveness and favourable geo-economic positioning that is underway.

2. Assessment of the 2022-23 Experience

Global Economy

I.5 The global economy was recovering from the impact of successive waves of the COVID-19 pandemic by early 2022, aided by large policy stimulus and expanding coverage of vaccination, when the war in Ukraine jolted the upturn. The gains achieved through concerted fiscal and monetary policy interventions during the pandemic period (2020 and 2021) were undermined by the impact of the war. A generalised surge in global inflation triggered monetary policy actions by central banks in the form of successive interest rate increases and the pulling back of liquidity, leading to tightening of financial conditions and together with other factors, a toll on growth which slowed from 6.2 per cent in 2021 to 3.4 per cent in 2022, according to the International Monetary Fund (IMF).

I.6 Waves of global spillovers to EMEs resulted in large currency depreciations, capital flight, investor risk aversion and raised debt distress in some of them. The brunt of a surge in borrowing costs imposed on EMEs and risk-off sentiments resulted in portfolio outflows from both bond and equity markets for much of the year. Heightened risks of a global recession clouded the overall macroeconomic and financial outlook. When data releases pointed towards resilient labour markets and consumer spending in both AEs and EMEs, sentiments recovered towards the second half of the year. Sovereign bond yields eased across most AEs and EMEs and equity markets regained lost ground. The weakening of the US dollar towards the close of the year buoyed other currencies across AEs and EMEs.

I.7 By the end of the year, the global economy regained poise, cushioned by a milder winter in Europe, policy support to mitigate the impact of soaring energy prices, resilient labour markets, and signs of inflation peaking. Easing of pandemic restrictions, mending of supply chain and logistics disruptions, and a rebound in demand for contact-intensive services buoyed the global economy. Nonetheless, global inflation surged to 8.7 per cent from 4.7 per cent in 2021, overshooting targets in the majority of countries through the year. Global trade (goods and services) growth slowed from 10.4 per cent in 2021 to 5.1 per cent in 2022, reflecting the post-pandemic slowdown in global demand and the restrictions on cross-border movements of goods and services imposed by the war in Ukraine.

Domestic Economy

I.8 Amidst strong global headwinds, the Indian economy is expected to have recorded a growth of 7.0 per cent in real GDP in 2022-23. A sustained recovery in discretionary spending, particularly in contact intensive services, restoration of consumer confidence, high festival season spending after two consecutive years of COVID-19 induced isolation and the government's thrust on capex provided impetus to the growth momentum. In the second half of the year, however, the pace of year-on-year growth moderated because of unfavourable base effects, weakening private consumption demand caused by high inflation, slowdown in export growth and sustained input cost pressures.

I.9 Agriculture and allied activities were resilient in 2022-23, with gross value added (GVA) registering a growth of 3.3 per cent. While uneven spatial and temporal distribution of the south-west monsoon (SWM) led to a marginal decline in *kharif* foodgrains production, the production of *kharif* oilseeds, sugarcane and cotton was higher during the year. *Rabi* acreage expanded during the year for most crops and the prospects of *rabi* crop production, both foodgrains and oilseeds, remain promising, notwithstanding some damage due to unseasonal rains in some parts of the country in March 2023.

I.10 In the industrial sector, manufacturing activity withstood global spillovers, while electricity generation exhibited robust growth, and mining recorded steady activity. Sustained momentum was seen in construction activity, while infrastructure and capital goods production benefitted from the government-led investment in infrastructure. Production of consumer goods, on the other hand, remained muted and recovery in sectors such as automobiles was lopsided. Uneven recovery in consumption was evident as growth in the price sensitive entry-level car segment turned sluggish as compared to the recovery in passenger cars. The continued lag in two-wheeler sales, 40 per cent of which caters to rural India, is also indicative of subdued rural demand.

I.11 Like many other economies, India also experienced a surge in inflation during 2022-23, primarily reflecting the impact of overlapping global supply shocks and pass-through of higher input costs. The sharp increase in global prices of crude oil, food, fertilisers and metals, along with renewed supply disruptions in the aftermath of the war, exerted broad-based price pressures during the first half of the year. As a result, inflation reached a peak of 7.8 per cent in April 2022. Following gradual normalisation of global supply chains, softening global commodity prices, targeted supply management measures by the government and successive hikes in the policy repo rate by the Reserve Bank, inflation moderated in the second half of the year. Overall, headline inflation increased to 6.7 per cent in 2022-23 from 5.5 per cent in 2021-22. The lagged pass-through of input costs to retail prices of goods and services amidst improving domestic demand conditions imparted considerable stickiness to already elevated core inflation that ruled at around 6.0 per cent through the year.

I.12 When inflation surged as a consequence of the war in Ukraine, the Monetary Policy Committee (MPC) accorded priority to price stability in the conduct of monetary policy. It changed its stance in April 2022 to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth. As inflation spiked to 7.0 per cent in March 2022 and the MPC sensed that the near-term inflation outlook would deteriorate sharply amidst geopolitical tensions, it raised the policy repo rate by 40 bps to 4.40 per cent in an off-cycle meeting held in May 2022. In each of the subsequent meetings during 2022-23, the MPC raised the policy rate to keep inflation expectations anchored, contain second-order effects, and align inflation with the target. Cumulatively, the MPC increased the policy repo rate by 250 bps during 2022-23 from 4.00 per cent to 6.50 per cent on top of an increase of 40 bps in the lower bound of the liquidity adjustment facility (LAF) corridor in April 2022. Accordingly, the overnight weighted average call money rate, the operating target of monetary policy, rose by 320 bps during the year, fully pricing in the cumulative policy actions.

I.13 The Reserve Bank adopted a nuanced and nimble footed approach to liquidity management in sync with the change in the stance of monetary policy*, i.e.,* gradual reduction in the size of surplus liquidity in the system, while still maintaining adequate liquidity to meet the credit needs of the productive sectors of the economy. Overall, the surplus liquidity - as reflected in net amounts absorbed under the LAF - moderated from a daily average of ₹6.6 lakh crore in March 2022 to ₹0.14 lakh crore in March 2023.

I.14 Financial markets experienced bouts of volatility in 2022-23, as geopolitical tensions intensified, interest rate hikes by the US Fed turned aggressive and the global growth outlook deteriorated, dampening investors' sentiments. Equity markets in India, however, gained marginally, despite portfolio outflows and forex market pressures, reflecting India's growth resilience and rising investment in the market by resident entities. Money market interest rates hardened during 2022-23, tracking the increase in the policy repo rate and the ebbing surplus liquidity conditions. Sovereign bond yields hardened in line with the monetary policy actions and changing inflation-growth outlook; however, the extent of increase remained contained as compared to the sharp rise observed in bond yields in AEs. Domestic equity markets moved lower in H1 of 2022-23 as the economic fall-out of geopolitical tensions, hawkish monetary policy stances by global central banks and mounting recession fears weighed on market sentiments. They recovered in early H2 and closed at an all-time high on December 1, 2022, buoyed by robust corporate earnings and inflows from foreign portfolio investors. Weak global cues amid emergence of financial stability risks following the collapse of a few niche banks in the US and concerns about financial health of a major financial services provider in Europe imparted volatility to the markets towards the close of the year. Monetary transmission in the credit market - the pass-through of policy repo rate changes to lending rates - strengthened during 2022-23 on the back of reduction in surplus liquidity in the banking system, sustained high credit growth and the mandated external benchmark regime for loan pricing in select sectors.

I.15 The management of government finances was guided by the need for prudence. Accordingly, the gross fiscal deficit (GFD) of the central government declined from 6.75 per cent of GDP in 2021-22 to 6.45 per cent of GDP in 2022-23 (RE)[1], reflecting the drawdown of pandemic-related stimulus, even as targeted fiscal measures were undertaken to shield domestic consumers from high food and energy prices emanating from the war in Ukraine. Despite

[1] As per the "Budget At a Glance 2023-24", gross fiscal deficit as per cent of GDP declined from 6.7 per cent in 2021-22 to 6.4 per cent in 2022-23 (RE), based on the first advance estimates of GDP for 2022-23. Taking into account second advance estimates of GDP for 2022-23, gross fiscal deficit as per cent of GDP for 2022-23 (RE) works out to 6.45 per cent as against the RE of 6.43 per cent given in the Union Budget 2023-24.

higher subsidy outgo, capex remained the lynchpin of the government's spending strategy. As a result, the revenue expenditure to capital outlay (RECO) ratio improved from 6.0 in 2021-22 to 5.6 in 2022-23 (RE). Similarly, the revenue expenditure to capital expenditure ratio further improved to 4.7 in 2022-23 (RE) from 5.4 in 2021-22. Tax revenues remained robust - gross tax revenues exceeded budget estimates by ₹2.9 lakh crore - underpinned by goods and services tax (GST) and direct tax collections.

I.16 State governments had budgeted a gross fiscal deficit (GFD) at 3.4 per cent of GDP for 2022-23. Provisional accounts indicate that the actual performance of state governments may have been better, primarily due to higher-than-expected tax devolution from the Centre and a healthy growth in states' own tax revenues. During 2022-23, therefore, states' GFD to GDP ratio is estimated to remain within 3.0 per cent. In the fiscal arena, a landmark development was the first issue of Sovereign Green Bonds (SGrBs) by the central government during the year, the proceeds of which will be used in public sector projects that reduce the emission intensity of the economy.

I.17 Despite prolonged geopolitical tensions and slowing global trade, India's merchandise exports touched US$ 450.4 billion during 2022-23, which is 6.7 per cent above the previous year's record level. India witnessed a transition from net importer to exporter in areas such as mobile phones and toys and registered a 10-fold increase in exports of defence goods in a short span, leveraging on policies such as 'Make in India' and '*AatmaNirbhar Bharat*'. India's merchandise imports, after recording high growth in the first half of the year, decelerated during the second half, reflecting, *inter alia,* the fall in international commodity prices and slowing demand for export-related imports. India's merchandise trade deficit increased during the year, but the pace of increase slowed in the second half.

I.18 Unlike merchandise exports, strong growth of 27.9 per cent was witnessed in services exports, led by software services across key verticals such as information technology (IT) services, business process management (BPM), and engineering research and design (ER&D), supported by a rise in global capability centres (GCCs).

I.19 Within capital flows, net inflows under foreign direct investment (FDI), *albeit* strong, were lower during 2022-23 at US$ 28.0 billion than US$ 38.6 billion a year ago. Moreover, there were net portfolio outflows during the year to the tune of US$ 5.9 billion, reflecting risk-off sentiments that impacted flows to EMEs as an asset class. The rising cost of borrowing in 2022-23 rendered external commercial borrowings (ECBs) less appealing for raising funds as compared with the previous year.

I.20 Belying market fears of a possible spike in India's external vulnerabilities, India's current account deficit (CAD) at 2.7 per cent of GDP (during April-December 2022) remained sustainable, although it expanded from 1.1 per cent a year ago. These developments, combined with lower net capital inflows than in the previous year, led to a depletion in the foreign exchange reserves to the tune of US$ 14.7 billion on a balance of payments (BoP) basis during April-December 2022. Including valuation effects, however, India's foreign exchange reserves declined by US$ 28.9 billion during 2022-23.

I.21 During the year, the banking system continued the efforts to augment capital and improve asset quality. The onset of a fresh lending cycle since the second half of 2021-22 gained momentum during 2022-23, resulting in double digit credit growth encompassing all major sectors. The asset quality of scheduled commercial banks (SCBs) continued to improve, with gross non-performing assets (GNPA) ratio and net non-performing assets (NNPA) ratio declining and the quarterly slippage ratio cooling off. The provisioning coverage ratio (PCR) also steadily increased. Net interest margin (NIM) witnessed an improvement, reflecting the higher degree of transmission of monetary policy to lending rates than to deposit rates in the rising interest rate cycle. Consequently, profit after tax (PAT) registered strong growth. Return on equity (RoE) and return on assets (RoA) for SCBs improved further during the year. The low slippage ratio, coupled with raising of capital from the market and net capital accretion through profits, helped banks to bolster their capital adequacy levels and obviated the need for recapitalisation of public sector banks by the government. In the rising interest rate environment, interest rate risks for the investment portfolio of banks remained tolerable, supported by macroprudential policy measures such as the investment fluctuation reserves (IFR), providing buffer against mark-to-market losses.

I.22 To commemorate 75 years of independence (*Azadi Ka Amrit Mahotsav*), 75 Digital Banking Units (DBUs) were set up in 75 districts of the country to catalyse the adoption of digital modes of doing banking transactions in the country. These 75 DBUs were dedicated to the service of the nation by the Hon'ble Prime Minister on October 16, 2022. As on March 31, 2023, there were 84 DBUs functioning across the country.

I.23 Non-banking financial companies (NBFCs) maintained robust credit growth during 2022-23, supported by the broad-based revival in economic activity and targeted policy initiatives. The sector strengthened its financial soundness during the year through robust capital buffers, improved asset quality and consolidation of balance sheet. A scale based regulatory framework was implemented for NBFCs during 2022-23.

I.24 During the year, the regulatory framework for asset reconstruction companies (ARCs) was reviewed to achieve the objectives of strengthening their corporate governance and prudential norms, enhancing transparency of their functioning, and augmenting their role in resolution of stressed assets. Furthermore, as a part of a responsive and forward-looking regulatory approach, several measures were undertaken for strengthening and developing credit risk markets, enhancing the robustness of the capital adequacy and provisioning frameworks applicable to regulated entities, and augmenting the rating processes adopted by the credit rating agencies for bank loan ratings. A new SupTech initiative - *DAKSH* - Reserve Bank's Advanced Supervisory Monitoring System - was launched by the Reserve Bank on October 6, 2022. This is a web-based end-to-end workflow application through which the Reserve Bank monitors actual compliances in a more focused manner with the objective of further improving compliance culture among supervised entities (SEs).

I.25 In the area of co-operative banking, the Reserve Bank implemented the recommendations of the expert committee on urban cooperative banks (UCBs) and adopted a simple four-tiered regulatory framework with differentiated regulatory prescriptions aimed at strengthening the financial soundness of UCBs. The measures for strengthening the sector are also being supplemented by offering more operational flexibility for strong UCBs to enable them to fulfil their desired role in credit intermediation.

I.26 Taking forward digitisation efforts announced in the Union Budget 2022-23, the Reserve Bank introduced its Central Bank Digital Currency (CBDC) in phases during the year, with the launch of pilots for Digital Rupee (e₹) in the wholesale and retail segments on November 1, 2022 and December 1, 2022, respectively. The pilots were preceded by issuance of a 'Concept Note' on CBDC to create awareness about CBDCs in general and the planned features of e₹ in particular.

I.27 India has emerged stronger and more resilient from the pandemic, partly due to the wave of digital transformation. Transactions routed through digital modes recorded a marked expansion in 2022-23 over and above the strong growth witnessed a year ago. In 2022-23, total digital payments recorded growth of 57.8 per cent and 19.2 per cent in volume and value terms, respectively, on top of growth of 63.8 per cent and 23.1 per cent, respectively, in the previous year. India outpaced other nations to emerge as the largest player in real-time transactions at the global level, with a 46 per cent share in 2022[2]. The strong penetration and growth in Unified Payments Interface (UPI) were buoyed by rapid merchant onboarding, growing digital awareness and policy thrust on continuous enhancements in the scope and reach of payment systems.

I.28 Sharp upticks witnessed in the *Aadhaar* Payments Bridge System (APBS) and the National Automated Clearing House (NACH) in 2022-23 attested to the diffusion of digital payments in the rural and semi-urban areas of the country, in part owing to the positive nudge provided through government cash transfers going digital. With the recovery in tourism and hospitality sectors, the card industry regained lost momentum, with monthly spending remaining above ₹1.6 lakh crore throughout the year.

I.29 The Reserve Bank released the Payments Vision 2025 during the year with the theme E-Payments for Everyone, Everywhere, Everytime promising to further elevate India's payment systems to empower every user with safe, secure, reliable, accessible, affordable and efficient payment options. Various enhancements were introduced in payment systems to enrich functionalities and onboard consumers on the digital journey. The UPI Lite was introduced to facilitate small value transactions in offline mode using UPI through an on-device wallet. Linking of *RuPay* credit cards to UPI was permitted to deepen usage by broadening the financial products linked for payment processing. Introduction of single block multiple debits in UPI enhanced the capabilities for merchant payments. The UPI was also extended to non-resident Indians (NRIs) and foreign nationals for undertaking merchant payments in India. The linking of UPI with *PayNow* of Singapore helped facilitate low-cost fund transfers and remittances between the two countries. The scope of *Bharat* Bill Payment System (BBPS) was expanded to include all categories of payments and collections, both recurring and non-recurring in nature. BBPS was also extended to provide a standardised bill payment experience to NRIs by facilitating cross-border bill payments.

I.30 Initiatives undertaken to broaden and deepen financial inclusion in the country by the government as well as the Reserve Bank have been helping in promoting inclusive economic

[2] ACI Worldwide, Real Time Payments, Global Data, 2023.

development. The Reserve Bank's Financial Inclusion Index (FI-Index), a quantifiable metric to evaluate the efficacy of efforts towards financial inclusion, based on 97 indicators (reflecting ease of access, availability and usage of services, and quality of services), improved from 53.9 in March 2021 to 56.4 in March 2022 (latest available), with growth witnessed across all sub-indices.

3. *Prospects for 2023-24*

Global Economy

I.31 Global growth is expected to slow down in 2023 and may remain subdued in the medium run. As per the IMF's World Economic Outlook (WEO) released in April 2023, global growth for 2023 at 2.8 per cent is likely to be followed by the medium-term growth plateauing at 3.0 per cent. Globally, disinflation efforts are expected to take down headline inflation from 7.3 per cent to 4.7 per cent in 2023 among AEs, and from 9.8 per cent to 8.6 per cent among emerging market and developing economies (EMDEs). Progress is, however, likely to be gradual amidst sticky and elevated upside pressures. Central banks continue to face a challenging trade-off between restoring price stability and addressing growth slowdown in an environment of heightened uncertainty. Potential financial risks from high debt levels and the recent banking sector developments in the US and Europe highlight the scope for unanticipated build-up of stress with strong adverse spillovers across the global financial system.

I.32 Financial markets are signalling the likely end of the global monetary policy tightening cycle, with equity prices having clawed back losses and bond yields having softened. Commodity prices are also trading with a softening bias as fears of growth slowdown dominate market sentiments. With policy tightening by global central banks having moderated, the US dollar is likely to depreciate, easing pressures on currencies of other AEs and EMEs even as the outlook for capital flows to EMEs remains uncertain.

I.33 Overall, the prospects for the global economy continue to be shadowed by high inflation, the adverse effects of geo-economic fragmentation operating through restrictions on movements of trade, labour, capital and diffusion of technology, and potential amplification of financial sector vulnerabilities. Medium- to long-term challenges such as climate change, cyber security, crypto currencies, FinTech and tech disruptions can also potentially vitiate the outlook.

I.34 The urgent need for multilateral cooperation against this backdrop makes the G20 an effective forum for addressing the global challenges under India's Presidency, with the theme '*Vasudhaiva Kutumbakam*' – 'One Earth · One Family · One Future'. The Ministry of Finance (MoF), Government of India and the Reserve Bank together are steering the G20 discussions to bring in the perspective of EMDEs in the global south under the ambit of the Finance track. The deliberations under the G20 Finance Ministers and Central Bank Governors (FMCBG), Finance and Central Bank Deputies (FCBD) and various Working Group meetings[3] on the presidency's priorities and deliverables will facilitate a globally coordinated policy response to these challenges.

Domestic Economy

I.35 Domestic economic activity does face challenges from an uninspiring global outlook going forward, but resilient domestic macroeconomic and financial conditions, expected dividends

[3] Meetings are being held since taking over of G20 Presidency on December 1, 2022.

from past reforms and new growth opportunities from global geo-economic shifts place India at an advantageous position. Taking into account softer global commodity and food prices, good *rabi* crop prospects, sustained buoyancy in contact-intensive services, the government's continued thrust on capex, higher capacity utilisation in manufacturing, double digit credit growth, receding drag on purchasing power from high inflation and rising optimism among businesses and consumers, real GDP growth for 2023-24 is projected at 6.5 per cent with risks evenly balanced.

I.36 Risks to inflation have moderated with downward corrections in global commodity and food prices and easing of the pass-through from high input cost pressures of last year. The cumulative increase in policy repo rate by 250 bps last year would steer the disinflationary process, along with supply side measures to address transient demand-supply mismatch due to food and energy shocks. With a stable exchange rate and a normal monsoon – unless an *El Nino* event strikes – the inflation trajectory is expected to move down over 2023-24, with headline inflation edging down to 5.2 per cent from the average level of 6.7 per cent recorded last year. Monetary policy remains focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth.

I.37 The March 2023 round of the Reserve Bank's consumer confidence survey reveals that the current situation is perceived by consumers to have improved on account of optimism in the general economic situation and in household income. Future expectations also remain positive. Households' spending on non-essential items is expected to rise over the year ahead. According to the 101st round of the quarterly industrial outlook survey, manufacturing firms are exuding positive sentiments on production, order books, employment conditions and capacity utilisation for Q2 and Q3:2023-24. In the recent 36th round of the quarterly services and infrastructure outlook survey, private companies in both sectors expect the job landscape to improve in Q1:2023-24 despite lower optimism on profit margins and selling prices. These firms also show higher confidence in the overall business scenario in Q2 and Q3:2023-24 in spite of an expected rise in input costs and selling prices.

I.38 The realignment of global supply chains, transition to green energy and ongoing technological advancements provide a congenial environment for a pick-up in investment activity and raising productivity. Robust balance sheets of corporates and banks, coupled with high capacity utilisation, would aid in strengthening the momentum in private investment. Burgeoning credit growth, especially housing and personal loans, reflects steady domestic household demand. This is also mirrored in several high frequency indicators of rural and urban demand such as rising sales of tractor and fertiliser, improvement in the labour participation rate in rural areas, domestic air passenger traffic, passenger vehicle sales, and robust goods and services tax collections. Robust agriculture production buoyed by expectation of a bountiful *rabi* harvest and resilience in allied sector activity are also brightening the outlook for rural demand. Traction in construction activity is likely to be sustained as reflected in steady expansion in its proximate indicators: steel consumption and cement production. Port cargo traffic and railway freight traffic movements also point to industrial activity picking up amidst gradual easing of input cost pressures.

I.39 The prospects of the *kharif* crop would depend on the progress of the rainfall during the SWM. As per the India Meteorological Department's (IMD) forecast, the SWM season rainfall during June-September 2023 is likely to be normal at 96 per cent (+/- 4 per cent) of the long period average (LPA). The actual performance of the SWM rains, however, would depend on the interplay of possible rainfall deficiency due to an *El Nino* event and the counterbalancing effects of events such as the positive Indian Ocean Dipole. The announcement of minimum support prices (MSPs) well in advance of the start of the sowing season would incentivise farmers for expanding sowing acreage. The government has set the target for total foodgrains production during 2023-24 at 332 million tonne, 0.4 per cent above the third advance estimate of previous year's production. With the United Nations General Assembly (UNGA) declaring 2023 as the international year of millets, India can enhance the export potential of millets, as currently only one per cent of the total millet production is exported.

I.40 The crowding-in effects of sustained increase in government capex over recent years is expected to spur higher private investment in 2023-24. In the Union Budget 2023-24, budgeted capital expenditure has increased by 37.4 per cent, with the railways receiving the highest ever capital outlay of ₹2.4 lakh crore. The allocation of interest free loans to states for capital expenditure has also been enhanced to ₹1.3 lakh crore from ₹1.0 lakh crore in the previous year. The entire loan amount will have to be spent in 2023-24 and a share of these loans will be contingent on states increasing their actual capital expenditure. Besides higher allocation for capex, the Union Budget 2023-24 has announced several measures, which are likely to provide a fillip to the growth momentum such as diversification and promotion of allied sectors; boosting logistics infrastructure for last-mile connectivity; export promotion; cooperative-based development; strengthening agricultural extension services through digital public infrastructure; and spurring private investment through Agri-Startups. Private investment growth is also expected to strengthen with the production-linked incentive (PLI) scheme providing additional fillip. Various other steps to enhance logistics efficiencies and cost competitiveness under the Prime Minister's *Gati Shakti* and the National Logistics Policy (NLP) are expected to bring down logistics costs.

I.41 The outlook for services sector remains positive in 2023-24. Real estate and construction have witnessed a revival post-pandemic and are expected to perform well in this year also as both demand for and supply of housing remain buoyant.

I.42 In the external sector, the current account deficit (CAD) is expected to remain moderate, drawing strength from robust services exports and the salubrious impact of moderation in commodity prices of imports. With global uncertainties persisting, foreign portfolio investment (FPI) flows may remain volatile. The favourable domestic growth outlook, lower inflation, and business-friendly policy reforms could, however, help sustain buoyant FDI inflows. Furthermore, inward remittances are likely to remain robust owing to better growth prospects in the Gulf countries. As a result, external vulnerability risks may ease further during 2023-24. The Foreign Trade Policy (FTP), 2023 announced on March 31, 2023 endeavours to promote an export-friendly environment to nurture comparative advantage; harness the opportunities in bilateral trade agreements to help India participate in global value chains (GVCs) and expand access to markets; and explore more trade in the Indian rupee (INR). With global trade volume growth projected by the World Trade Organisation (WTO) to decelerate from 2.7 per cent in 2022 to 1.7 per cent in 2023, progress on all thrust areas in the FTP would be essential.

I.43 The recent financial sector turmoil in the US and Europe has necessitated the need to reassess risks to financial stability and resilience of financial institutions in the context of monetary policy tightening. While Indian banks and non-banking financial intermediaries remain sound and resilient, they need to stress test for these new shocks. Capital buffer and liquidity position, therefore, must be constantly reviewed and strengthened. Accordingly, policy measures, such as guidelines on introduction of expected loss-based approach for provisioning are likely to be announced during 2023-24. In addition, finalisation of guidelines on securitisation of stressed assets, and a comprehensive review of the prudential framework (including the guidelines on resolution of stress in respect of projects under implementation) are also likely to be undertaken during the year with the objective of further strengthening the resolution ecosystem.

I.44 During 2023-24, the Reserve Bank aims at expanding the ongoing pilots in CBDC-Retail and CBDC-Wholesale by incorporating various use cases and features. The pilot in CBDC-Retail is proposed to be expanded to more locations and to include more participating banks.

I.45 As the Reserve Bank embarks upon the journey of realising the Payments Vision 2025, the steps taken so far towards enhanced outreach, customer centricity, cyber security and digital deepening shall be further consolidated and built upon through the five pillars of integrity, inclusion, innovation, institutionalisation and internationalisation. These measures are expected to propel India's payment systems further. Going forward, along with the continued focus on innovation and customer protection, the key priorities would be inclusion and internationalisation. The scope of UPI shall be enhanced to facilitate payments from pre-sanctioned credit lines at banks. The cheque truncation system (CTS) is planned to be migrated from the existing three regional grids to 'One Nation One Grid'. The Reserve Bank envisages enhancing the outreach of payment systems to cross-border payments and remittances. Linkages with fast payment systems in other jurisdictions, on the lines of the UPI-PayNow linkage with Singapore, are in the pipeline.

I.46 One of the milestones of the National Strategy for Financial Inclusion (NSFI) is to expand the reach of centres for financial literacy (CFLs) at every block in the country by March 2024. Looking ahead, the outreach of the CFLs is now being scaled up across the country in a phased manner, and the entire country is expected to be covered by 2024.

I.47 For ensuring public confidence in the financial system and also to protect the interests of customers of regulated entities (REs), the Reserve Bank is in the process of embedding artificial intelligence (AI)/machine learning (ML) and other cutting edge technological tools in its 24x7 online complaint management system (CMS) to facilitate lodging of complaints with ease, provide complainants with necessary information on grievance redressal and expedite complaint processing by aiding decision making for the ombudsman.

4. *Conclusion*

I.48 To sum up, several shocks tested the resilience of the Indian economy in 2022-23. On the back of sound macroeconomic policies, softer commodity prices, a robust financial sector, a healthy corporate sector, continued fiscal policy thrust on quality of government expenditure, and new growth opportunities stemming from global realignment of supply chains, India's growth momentum is likely to be sustained in 2023-24 in an atmosphere of easing inflationary pressures. Slowing global growth, protracted geopolitical tensions and a possible upsurge in financial market volatility following new stress events in the global financial system, however, could pose downside risks to growth. It is important, therefore, to sustain structural reforms to improve India's medium-term growth potential.