



# Prospect of Indian Economy in 2023

**Prelims:** Inflation, War in Ukraine, Oil Prices, Debt Distress.

**Mains:** Prospect of Indian Economy in 2023.

## Why in News?

The Indian economy is projected to record relatively healthy [Gross Domestic Product \(GDP\) growth](#) of 6.9% in 2022-23 and [inflation](#) has started moderating.

- In 2020, the main event was the nationwide lockdown in the wake of the **first wave of the Covid-19 pandemic** that determined the shape of India's economy.
- In 2021, it was the **vicious second wave of Covid** that shaped our economy and recovery.
- In 2022, it was [Russia's invasion of Ukraine](#) that largely determined the fate of India's economy.
  - As a result, issues such as inflation, rupee's exchange rate and India's forex reserves dominated more than the **routine concerns about GDP growth**.

## What are the Recap Highlights?

- **Inflation:**
  - Headline Retail inflation was already above 6% when 2022 started.
  - The **inflation situation flared up after Russia's invasion** of Ukraine.
  - In April 2022, retail inflation **hit an eight-year high**. By the time RBI decided to **raise Repo Rates** in a hurriedly convened [MPC \(Monetary Policy Committee\)](#) meeting in May 2022.
  - The **US and the actions of the US Federal Reserve** were cited as prime factors for global inflation.
- **Rupee's Exchange Rate and Forex Reserves:**
  - Many of India's macroeconomic indicators started getting adversely affected because of **higher crude oil prices**.
  - Trade deficits started rising as the financial year started and there were concerns **about India's Current Account Deficit (CAD), Forex Reserves and Balance of Payment**.
  - Eventually, the rupee hit the politically sensitive 80-to-a-dollar mark. But the rupee was not the **only currency losing ground against** the dollar. Dollar had risen against the **euro to achieve parity**.
- **All-round Monetary Tightening:**
  - By the middle of the year, central banks across the world started **raising interest rates** in order to reduce liquidity and contain inflation.
- **GDP Growth Slides:**
  - **India had grown by almost 9% in the previous financial year (2021-22)** that ended in March 2022.
  - In September 2022 India had overtaken the **UK to become the world's 5<sup>th</sup> largest economy**.

- India's growth rate is expected to slow down from almost 9% last financial year (2021-22) to under 7% in the current year (2022-23) and further to around **6% (or possibly lower) in the next financial year (2023-24).**
- **Budget, Unemployment and Poverty:**
  - In the run-up to the [Union Budget](#), the key concern was to figure out **whether the government can come up with a plan to boost employment** in the country. That's because India **had historically high levels of labour market stress even before Covid and the pandemic** had just made matters worse.
  - In the Budget 2022-23, Indian bet on significantly ramping up **capital expenditure to start a virtuous cycle of growth.**
    - But experts argued that while this strategy had obvious benefits in normal times, **India's economy was still scarred by Covid** and it was unclear if the Budget will do enough to boost employment.

## How is the Global Economic Outlook for 2023?

- **Growth Forecast:**
  - In its '[State of the Economy](#)' update, the Reserve Bank of India warned of "a **darkening global outlook**", and emerging market economies (EMEs) appear to be "**more vulnerable**".
  - The expectation that **global growth could average around 3% in 2022** seems to be a **commendable achievement.**
- **Inflation:**
  - Global food, energy and other commodity prices may have eased moderately over the past few months, **but inflation continues to stay high.**
    - Global inflation, according to the [IMF \(International Monetary Fund\)](#), is forecast to decline from 8.8% in 2022 to 6.5% in 2023 to 4.1% by 2024 — still high by most yardsticks.
  - The problem going into 2023 is the implications of **stubbornly high inflation for the US Federal Reserve**, especially the fact that the American labour market remains red hot, defying the impact of the Fed's monetary tightening.
- **Impact of US Fed Rate Hikes:**
  - The difference between interest rates in the US and countries such as India **widens every time the Fed raises policy rates**, thus making the latter less attractive for the currency carry trade;
  - Higher returns in **US debt markets could trigger a churn in emerging market equities**, tempering foreign investor enthusiasm.
  - Currency markets would be potentially impacted **by the outflow of funds to the US**; sustained rate hikes by the Fed would also mean a lower impetus to growth in the US, which could be bad news for global growth, especially when China is facing a new Covid outbreak.

## What are the Prospects of the Indian Economy 2023?

- **Positives:**
  - The near-term growth outlook for the Indian economy is **supported by domestic drivers**, some of which are reflected in the buoyant trends in high frequency indicators.
  - There has been significant deleveraging over the last five years, with the **corporate debt-to-GDP at its lowest in nearly a decade and a half**, and bank books have shed much of the legacy bad loans.
    - The lower the debt-to-GDP ratio, the more likely the country will pay back its debt and the lower its risk of default, which could cause financial stability in the domestic and international markets.
  - Waning input cost pressures, surging corporate sales, and a turn-up in investments in fixed assets **seem to be heralding the beginning of an upturn in the [Capex Cycle](#)**, which could potentially contribute to a **reboot of India's growth momentum.**
  - Bank credit has been growing in **double digits for eight months now, reflecting in part an uptick in [investment appetite](#).**
  - The **China-plus-one strategy** being adopted by most multinational companies could be

an opportunity, given that China is **vacating large amounts of space in low-skilled, unskilled labour intensive manufacturing** such as textiles, shoes, leather, and ceramics, and India has a chance to fill part of this vacuum.

- Agriculture has been a **sustained driver for overall GDP growth, with the [rabi](#)** outlook showing good prospects for wheat production with higher support prices, adequate reservoir levels, and climatic factors supporting higher acreage.

▪ **Negative:**

- The Ukraine war drags on, threatening an energy-linked downturn in the European Union, **India's biggest export market.**
- The US continues to grapple with cooling inflation pressure, and a let-up in the Fed's rate hikes is **unlikely until well into the second half of the year.**
- 2023 will see **higher [protectionism](#) worldwide**, greater fervor for de-globalisation, and more economic balkanisation: a worrying prospect for countries such as India that are keen to tap exports as a driver for growth.
  - Given that no country in the world has grown at over 7% for a decade without strong export growth, the **protectionist mood around the world is a major dampener for emerging economies.**
- In India, **manufacturing continues to be wobbly.** Factory output, as measured by the **[Index of Industrial Production \(IIP\)](#)**, slumped to a 26-month low in the festive month of October, 2022. Core sector growth for October was just 0.1%, the lowest for 20 months. **That has led to a rapid downward revision of India's growth projections** by analysts for the next fiscal.
- Capacity utilisation — the ratio of actual output to the potential output that can be produced under normal conditions — has shown a minor uptick but continues to hover around the 75% mark.
  - Unless this goes up on a **sustained basis, private investments are unlikely to pick up perceptibly.**
- There is continuing **distress** among the **[Micro, Small and Medium Enterprises \(MSME\)](#)** firms, reflecting the deep cleavages in industrial recovery where the bigger companies are doing far better than the smaller firms.
- Capital expenditure of the **states has remained weak.** Investments by states typically tend to have a higher multiplier effect.
- India's significant dependence on imported energy, at 4% of the country's GDP, is a **challenge that shows up on the balance of payments side.** A current account deficit of well over 3% is projected for FY23.
- The buoyancy in farm output notwithstanding, rural wages contracted for the ninth consecutive month in September, pointing to **continuing distress in the hinterland.**

## UPSC Civil Services Examination Previous Year Question (PYQ)

### Prelims

**Q. A decrease in tax to GDP ratio of a country indicates which of the following? (2015)**

1. Slowing economic growth rate
2. Less equitable distribution of national income

**Select the correct answer using the code given below:**

- (a) 1 only  
(b) 2 only  
(c) Both 1 and 2  
(d) Neither 1 nor 2

**Ans: (a)**

**Exp:**

- The tax-to-GDP ratio is a ratio of a nation's tax revenue relative to its Gross Domestic Product

(GDP). For example, if India's tax-to-GDP ratio is 20%, it means that the government gets 20% of its GDP as tax contribution.

- The tax-to-GDP ratio is used to compare tax receipts from year to year. As taxes are related to economic activity, the ratio should stay relatively consistent. When the gross domestic product (GDP) grows, tax revenue should increase as well.
- Economic slowdown results in lower rates of growth, where unemployment usually rises, and consumer spending decreases. As a result, tax-to-GDP ratio declines. **Hence, statement 1 is correct.**
- The less equitable distribution of national income is not directly related to decrease in tax to GDP ratio.
- Equal distribution of national income and resource allocation generally depends upon the economic planning of a country. Hence, statement 2 is not correct.
- **Therefore, option (a) is the correct answer.**

### **Mains**

**Q.** Do you agree with the view that steady GDP growth and low inflation have left the Indian economy in good shape? Give reasons in support of your arguments. **(2019)**

**Q.** Do you agree that the Indian economy has recently experienced V-shaped recovery? Give reasons in support of your answer. **(2021)**

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