

ECONOMIC SURVEY OF INDIA

CHAPTER 3 & 4

LECTURE-2

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1. C3: FISCAL DEVELOPMENT: REVENUE RELISH

- Availability of fiscal space is crucial in times of global risks and uncertainties. It acts as macroeconomic stabilization tool. For e.g., during COVID-19 crisis, fiscal policies helped in providing help to vulnerable sections, boosting demand and addressing domestic supply side constraint through public investments and sustained structural reforms.

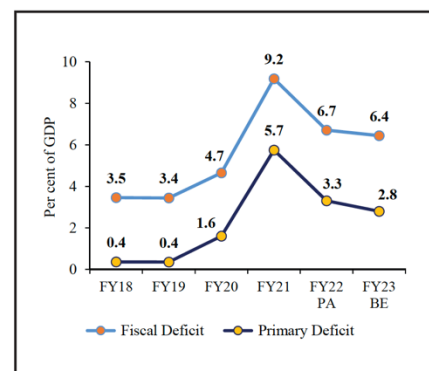
1) DEVELOPMENTS IN UNION GOVERNMENT FINANCE

- Though India had entered pandemic with stretched fiscal position, government's **prudent and calibrated approach** ensured stable finances even amidst present uncertainties.

A) FISCAL DEFICIT PERFORMANCE

- **Fiscal Deficit** after the FY21 has kept on reducing and government is on track to achieve the fiscal deficit targets for FY23 (6.4%).
- This is **huge achievement** as the BE had not **taken into consideration the Russia-Ukraine war** which broke out in Feb 2022 and led to rise in commodity prices (specially fuel, wheat and fertilizers) and subsequently led to reduction in revenue (excise duty reduction) and increased revenue expenditure (increased subsidy on fertilizers).
- **Factors behind achievement of fiscal targets** (despite Russia-Ukraine war):
 - o Recovery in Economic Activities
 - o Buoyancy in revenue
 - o Conservative assumption in macroeconomic variables in the Budget
- **Budget 2023-24: Key Fiscal Policy Targets:**
 - o **Fiscal Deficit (FY24: BE): 5.9**
 - o Targeted Fiscal Deficit to be below 4.5% by 2025-26.

Figure III.1: Trends in Union government deficits over the years- On the way to fiscal consolidation



Source: Union Budget documents, O/o CGA

B) PERFORMANCE OF UNION GOVERNMENT NON-DEBT RECEIPT

- Non debt receipt includes revenue receipt and non-debt capital receipt. The shortfall in non-debt receipt to meet the expenditure is met by borrowings by the government (called fiscal deficit).

SUSTAINED REVENUE BUOYANCY OVER THE LAST TWO YEARS

- After FY21, revenue receipts have registered a robust growth both in FY22 and FY23. For H1:FY23, the Gross Tax Receipt has registered a YoY growth of **15.5%**, and the Net Tax Revenue to the Centre after the assignment to states grew by 7.9% on a YoY basis.
- **Factors behind higher revenue buoyancy:**
 - o **Structural Reforms** like GST and digitization of economic transaction have led to greater formalization in the economy. This has expanded the tax net.
 - o **Other tax administration/policy measures** such as Faceless assessment and Appeal, simplification of return filing, assistance to taxpayers in getting familiar with the systems, generation of e-way bills under GST system, and information sharing between government departments have also nudged higher tax compliance through technology and artificial intelligence.

DIRECT TAXES PROPELLING THE GROWTH OF GROSS TAX REVENUE (GTR)

- Direct taxes constitute more than 50% of tax revenue and is also showing much higher growth rate than their corresponding long term average.

Figure III.3: Composition of tax profile of Union Government (FY23 BE)

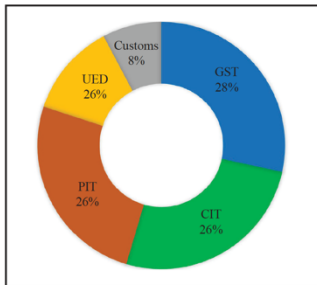
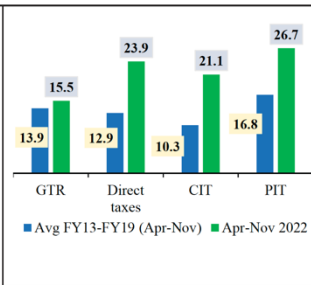


Figure III.4: Growth in Centre's direct taxes are higher than their corresponding longer-term averages during the period April to November



Source: Union Budget FY23, O/o CGA

Note: GTR - Gross Tax Revenue, GST - Goods and Services Tax, CIT - Corporation Income Tax, PIT - Taxes on Income other than Corporation Income Tax, UED - Union Excise Duties

CUSTOM AND EXCISE DUTIES ACT AS FLEXI-FISCAL POLICY TOOLS:

- For e.g., during FY21, when direct taxes and GST collections were low, and low global oil prices created some elbow room, government was able to collect high excise duty on petroleum products. Subsequently, when other taxes recovered and inflationary pressure was created in economy, government reduce excise duty on petroleum products twice (Nov 2021 and May 2022) to control the pass through of the rising global oil prices on the consumers. The BE FY23 had also factored in negative growth in excise duty.
- Similarly, given the rise in prices of essential imported products during FY23, custom duties were brought down on several items to control inflation impact on edible oils, pulses, cotton, steel etc.
 - o **Note:** High imports in FY23 will actually lead to higher collection of custom duties (despite rate cuts).

STABILIZING GST YIELDING RETURNS

GST system has evolved and stabilized as a vital revenue resource. FY23 so far have seen average monthly GST collection of Rs 1.5 lakh crore.

Factors behind improving GST collection:

- Economic recovery
- Nationwide drive against GST evaders and fake bills along with many systemic changes introduced recently
 - o Number of GST payers have increased from 70 Lakh in 2017 to 1.4 crore in 2022.
- Various rate rationalization measures undertaken by GST council to fix the inverted duty structure.

Other advantages of GST system:

- GST has led to better reporting of income, which in turn has positive externalities for income tax collection and economic activity.

Note: As per ESI analysis, Buoyancy of indirect taxes subsumed under GST was 0.9988 between FY13-FY17. Whereas Buoyancy of GST in the post GST period (FY19 to FY23) has been 1.1299. Thus, **GST is indeed showing higher buoyancy than the Pre-GST system**. This augurs well for future resource mobilization in the economy.

NON-TAX REVENUE RECEIPTS

- It (interests, dividends, external grants, others) consists of a small percentage of receipt and contributes to around 2-3 lakh crores. For FY23, Gol is on track to achieve the targets.

NON-DEBT CAPITAL RECEIPTS

- It consists of recovery of loans and advances and disinvestment receipts. It has emerged as an important component of receipt of Union Government.

- During FY15 to FY23 (as of 18th Jan 2022), an amount of Rs 4.07 lakh crore has been realized as **proceeds from disinvestment** through 154 transactions. This includes ₹3.02 lakh crore realised from minority stake sale and ₹69,412 crore realised from strategic disinvestment transactions (in 10 CPSEs - HPCL, REC, DCIL, HSCC, NPCC NEEPCO, THDC, Kamrajair Port, Air India and NINL).
- **Pandemic, geopolitical uncertainties and associated risks** have posed challenges before the plans and prospects of the government's disinvestment transactions. Nevertheless, government has **reaffirmed commitment towards privatization and strategic disinvestment** of Public Sector Enterprise by implementing the **New Public Sector Enterprise Policy and Asset Monetization strategy**.
- **FY23 targets:** Out of the budgeted amount of Rs 65,000 crores for FY23, 48% has been collected as of 18th Jan 2023.

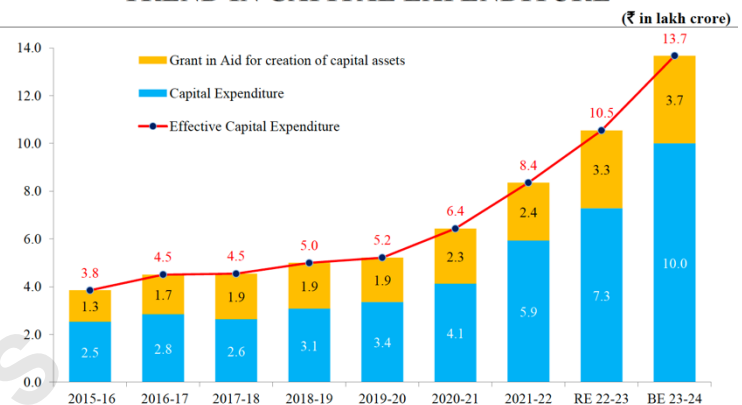
C) PERFORMANCE OF UNION GOVERNMENT EXPENDITURE

PRAGMATIC EXPENDITURE POLICY OF REPRIORTIZATION

- Following the **countercyclical fiscal policy**, the **government expenditure in FY21** rose to **17.7% of GDP** higher than the **previous five-year average of 12.8%**. With **revival of economic growth**, this was brought down to **16.0% in FY22** and **15.3% in FY23 (BE)**.
- After ensuring **basic safety nets for the vulnerable**, the emphasis of the government expenditure shifted to **provide domestic capital expenditure**.

Capital expenditure rose in FY21. Later in FY22, FY23 and FY24 (BE), it has increased substantially.

पूंजीगत व्यय की प्रवृत्ति TREND IN CAPITAL EXPENDITURE



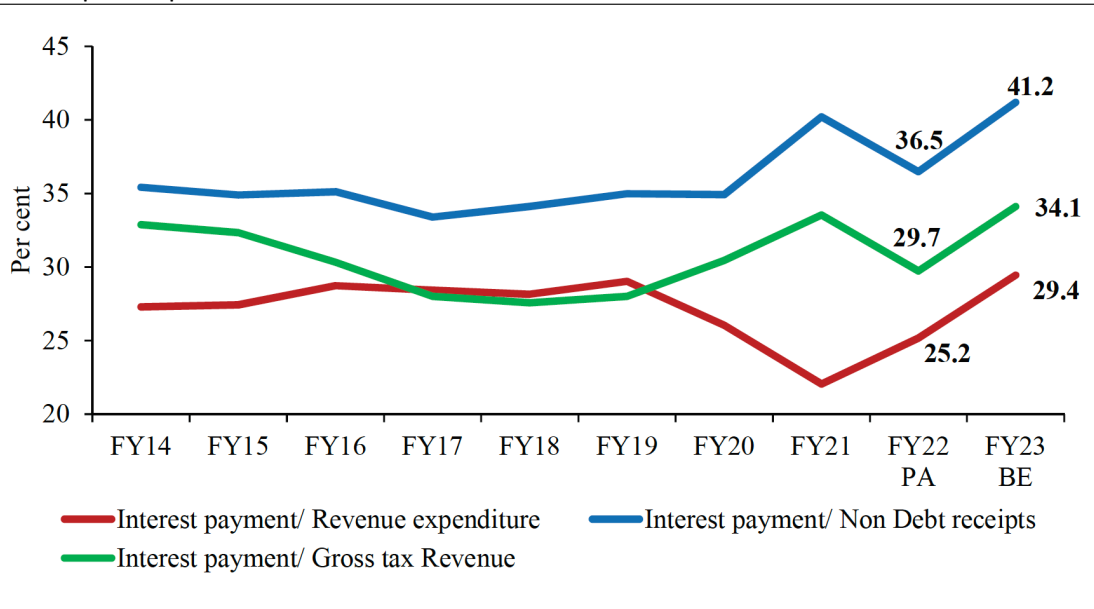
CAPEX LED GROWTH TO BRING BACK ANIMAL SPIRITS AND MANAGE DEBT LEVELS

- The government's **thrust on capital expenditure**, particularly in the **infrastructure intensive sectors** like roads and highways, railways, and housing and urban affairs, has **longer term implications for growth**.
- **Advantages of Higher Capital Expenditure:**
 - o Strengthens aggregate demand
 - o Crowds in private spending
 - o Enhances longer term supply chain productivity
- Centre has also worked towards **enhancing capex from state governments** by providing **long-term interest free loans** and **capex-linked additional borrowings**.

GEOPOLITICAL DEVELOPMENT STRETCHED REVENUE EXPENDITURE REQUIREMENT

- **FY21** needed a lot of **pandemic related support** and hence **revenue expenditure** reached **15.6% of the GDP**. However, with **winding up of pandemic related support**, this was **brought down to 13.5% (FY22:PA)**. This reduction was primarily due to **reduction in subsidy expenditure** which was **brought from 3.6% of GDP in FY21 to 1.9% in FY22**. This was further estimated to **go down to 1.2% of GDP in FY23 (BE)**.
- **But**, the **sudden outbreak of geopolitical conflict** led to **higher fuel, food and fertilizer prices** requiring higher food and fertilizer subsidy.
 - o **Therefore, government** sought an **additional Rs 80,000 crore for the expenditure** towards the food subsidy and **additional allocation under PMGKAY** and Rs **1.09 lakh crore** for fertilizer subsidy **required this year**.

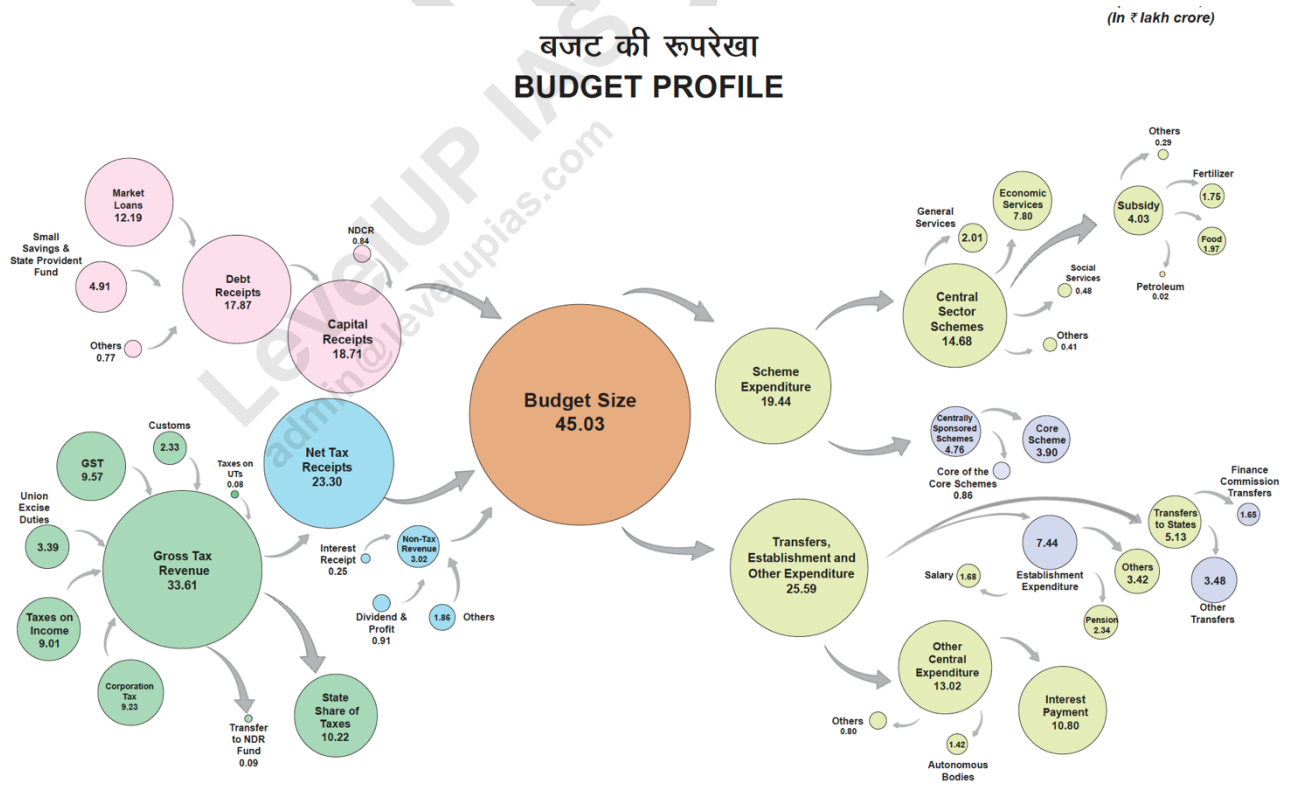
- **Interest Payment** had maintained a stable ratio of non-debt receipts and revenue expenditure during the pre-pandemic years. But Pandemic led to increased borrowings and thus interest payment as a % of receipt went up after pandemic.



Source: Union Budget documents, O/o CGA

- However, in medium term situation is going to improve. This is because of the glide path towards lower fiscal deficit targets, buoyancy in revenue, aggressive asset monetization, efficiency gains, and privatization.

2) BUDGET 2023-24: BUDGET PROFILE



बजट का सार Budget at a Glance

(₹ करोड़) (In ₹ crores)

	2021-2022 वास्तविक Actuals	2022-2023 बजट अनुमान Budget Estimates	2022-2023 संशोधित अनुमान Revised Estimates	2023-2024 बजट अनुमान Budget Estimates
1. Revenue Receipts	2169905	2204422	2348413	2632281
2. Tax Revenue (Net to Centre) ¹	1804793	1934771	2086662	2330631
3. Non Tax Revenue	365112	269651	261751	301650
4. Capital Receipts	1623896	1740487	1838819	1870816
5. Recovery of Loans	24737	14291	23500	23000
6. Other Receipts	14638	65000	60000	61000
7. Borrowings and Other Liabilities ²	1584521	1661196	1755319	1786816
8. Total Receipts (1+4)	3793801	3944909	4187232	4503097
9. Total Expenditure (10+13)	3793801	3944909	4187232	4503097
10. On Revenue Account of which	3200926	3194663	3458959	3502136
11. Interest Payments	805499	940651	940651	1079971
12. Grants in Aid for creation of capital assets	242646	317643	325588	369988
13. On Capital Account	592874	750246	728274	1000961
14. Effective Capital Expenditure (12+13)	835520	1067889	1053862	1370949
15. Revenue Deficit (10-1)	1031021 (4.4)	990241 (3.8)	1110546 (4.1)	869855 (2.9)
16. Effective Revenue Deficit (15-12)	788375 (3.3)	672598 (2.6)	784958 (2.9)	499867 (1.7)
17. Fiscal Deficit [9-(1+5+6)]	1584521 (6.7)	1661196 (6.4)	1755319 (6.4)	1786816 (5.9)
18. Primary Deficit (17-11)	779022 (3.3)	720545 (2.8)	814668 (3.0)	706845 (2.3)

3) MAJOR REFORMS IN UNION BUDGET OVER THE LAST FEW YEARS

Box III.2: Major reforms in the Union budget over the last few years

A transparent, comprehensive and realistic budgetary process enables better fiscal management.⁴ This section discusses some of the major governance reforms introduced in the Union Budget over the last few years that have resulted in greater efficiency in public spending.

1. Improved fiscal transparency and realistic revenue assumptions in the Budget

The Union Government has accorded the highest priority to improving transparency in its financial statements and accounts by bringing below-the-line expenditures above the line. The Extra-Budgetary borrowings of the Union Government were brought down from ₹1.48 lakh crore in FY20 and ₹1.21 lakh crore in FY21 to ₹750 crore in FY22 (RE). No Extra Budgetary Resources were estimated for FY23 in the Budget.

In addition to cleaner fiscal accounting, Budget 2022 based its revenue projections on realistic assumptions, thus providing a buffer to the government in an uncertain global environment. These measures credibly demonstrate the government's commitment to sound fiscal management and provide an adequate buffer to deal with global challenges.

2. Discontinuation of Plan-Non plan classification⁵

The Budget FY18 discontinued having Plan and Non-Plan classifications of Government expenditure. The reform gave a greater emphasis to the Revenue and Capital classification of Government expenditure. Over the years, a broad understanding had been that Plan expenditures were good and Non-Plan expenditures were bad, resulting in skewed allocations in the Budget. The reform enabled effective planning and allocation of resources in the Budget.

3. Merger of railway Budget with the Main Budget⁶

The railway budget was merged with the Union Budget from FY18. The reform gave a holistic picture of the government's financial position. The initiative envisaged facilitating multimodal transport planning between highways, railways and inland waterways, which has been strengthened in the subsequent years through Gatishakti.

The reform has helped to enhance the efficiency of resources for both Railways and the Union Government. While the merger has exempted Railways from paying dividends to the Government Revenues, it allows the Ministry of Finance to have a greater elbow room at the mid-year review for better allocation of resources. It has also enabled the Ministry of Finance to ensure a coherent emphasis on capital expenditure across sectors in recent years.

4. Shifting the date of the Budget to 1 February

The date of the Budget was advanced to 1 February from the Budget FY18. The advancement of Budget presentation by a month has paved the way for early completion of the Budget cycle. It has also enabled the Ministries to ensure better planning and execution of schemes from the beginning of the financial year.

4) OVERVIEW OF THE STATE GOVERNMENT FINANCES

- In the pandemic year (FY21), the **Gross Fiscal Deficit (GFD) of the states** increased to **4.1% of GDP** in the pandemic affected year. This was brought down to **2.8%** in FY22 PA.
- The **GFD-GDP** ratio has been estimated at **3.4% (FY23: BE)** due to geopolitical uncertainties. This may actually be breached.

A) ENHANCED LIMIT OF BORROWING FOR THE STATES AND INCENTIVES FOR REFORMS

- Since the outbreak of the pandemic, the Centre has kept the Net Borrowing Ceiling of the state government above the Fiscal Responsibility Legislation (FRL) threshold.

- It was fixed at **5% of GSDP in FY21, 4% of GSDP in FY22 and 3.5% of GSDP in FY23**. A part of the additional borrowing was **linked to reforms** encouraging the states to undertake them.
 - o For instance, in FY21, a part of the additional borrowing ceiling was conditional on implementing the 'ONORC' System, EODB reforms, ULB/utility reforms, and power sector reforms. This led to implementation of these reforms in many states.
 - o Similarly, in FY22 a part of additional borrowing was earmarked for **incremental capital expenditure** and 16 states accessed the additional borrowing upon meeting the capex target.
- In addition, the Fifteenth Finance Commission had recommended performance based additional borrowing space of 0.5% of GSDP to the states in the power sector.
- **Note:** States had unutilized borrowing limits during the last three years.
- **Budget 2023-24:** States will be allowed a fiscal deficit of 3.5% of GSDP of which 0.5% will be tied to power sector reforms.

B) COOPERATIVE FISCAL FEDERALISM DRIVES A WELL-TARGETED FISCAL POLICY

TRANSFER FROM CENTER TO STATES:

- Transfer of funds to states comprises the Share of States in Union Taxes (41%) devolved to the states, Finance Commission Grants, Centrally Sponsored schemes, and other transfers.
- **Total transfer to states** has risen between FY19 and FY23.

SUPPORTING THE GST COMPENSATION PAYMENTS DURING CRISIS

- **GST Compensation to States Act, 2017**
 - As per section 7 of the GST (Compensation to States) Act 2017, loss of revenue to the state on account of implementation of GST should be payable during the transition period of five years.
 - States' tax revenue of FY16 was considered as the base year and 14% growth every year was assumed to measure the compensation to each state.
 - **Generation of this extra revenue** was done through **GST Compensation Cess**. It is levied on luxury and sin goods.
 - SUV Vehicles (more than 4 meters) are charged 50% of tax, of which GST rate is 28% and the compensation cess is 22%.
 - Aerated drinks, Pan Masala, tobacco products are also covered under this cess.
 - The collected compensation cess flows to the Consolidated Fund of India and then transferred to the Public Account of India, where a GST Compensation Cess Fund has been created.
- **End of GST compensation regime but continuation of Compensation Cess till March 2026:**
 - But GST council has decided to extend the time for levy of GST compensation cess by nearly 4 years till 31st March 2026. This has been done to repay the loans taken in the last two fiscal years to make up for the shortfall in their revenue collection.
 - Note: In order to meet the resource gap of states due to short release of compensation, the Centre has **borrowed and released Rs 1.1 lakh crore in 2020-21 and Rs 1.59 lakh crore in 2021-22** as back-to-back loans to meet a shortfall in cess collection.

CENTRE'S SUPPORT TOWARDS STATES' CAPITAL EXPENDITURE

- **Scheme for Special Assistance to States for Capital Expenditure:** Under this scheme the centre has provided 50-year interest free loans to state governments in last three years (FY21, FY22 and FY23)
 - **Budget 2023-24 (FY24):** Budget presented in Feb 2023 announced to continue 50-year interest free loans to state governments from one more year to spur investment in infrastructure and to incentivize them for complementary policy actions, with a significantly advanced outlay of Rs 1.3

lakh crore. This amount includes an unconditional component and smaller components linked to specific reforms/initiatives.

Table III.8: Details of Scheme for Special Assistance to States for Capital Investment' for FY23

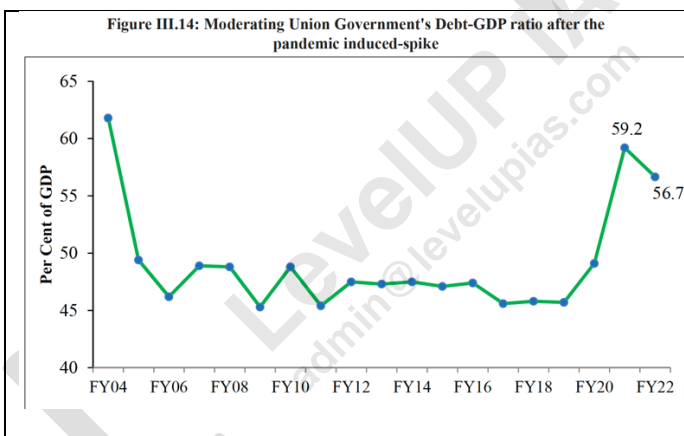
Component	Basis	Allocated	Approved	Released
(₹ crore)				
I	Allocation proportional to the share of tax devolution for FY23	80000	68,592	31,571
II	PM Gati Shakti-related expenditure	5,000	1,458	1,458
III	PMGSY	4,000	1,616	1,616
IV	Incentive for digitisation	2,000		
V	Optical fiber cable		2,215	2,011
VI	Urban reforms	6,000		
VII	Disinvestment and monetisation	5,000		

Source: Department of Expenditure

- Note: During FY23, the allocation was 1.05 lakh crore.
- **Advantages of this mechanism:**
 - Centre's loan is cheaper (then if state had borrowed at its own)
 - Entire money goes in capital expenditure (If state had borrowed, it could have spent some money in revenue expenditure)

5) DEBT PROFILE OF GOVERNMENT

- Most of the governments across the world increased their debt profile due to Pandemic shock in FY21. IMF projected the global government debt at 91% of the GDP in 2022, about **7.5% points above pre-pandemic levels.** In case of Europe, even in FY23, government debt is expected to go up as government is providing relief to households and small businesses from mounting energy bills.
- **India's Government Debt Profile:** Government debt witnessed a sharp spike in FY21. This moderated in FY22.



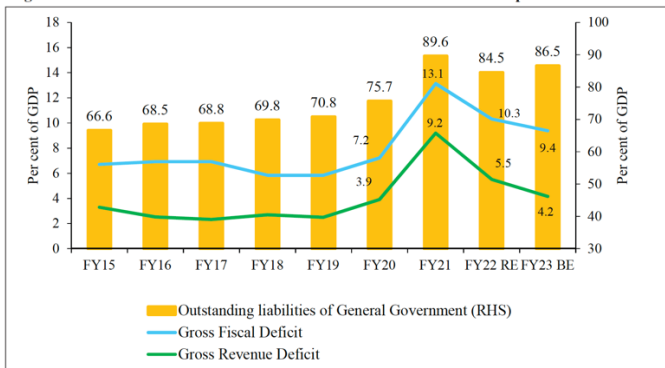
In FY22 the total debt of Indian Government was 134.08 lakh crores which includes **(121.21 lakh crore of public debt of which 114 lakh crore is internal and 6.59 lakh crore is external; 11.8 crores of Public Accounts Liability and 1.39 crores of Extra Budgetary Liability)** Making total liability go to **134.08 lakh crores.**

Note: Share of external liability in public debt is only 4.9%. Thus, India's public debt profile is relative stable and is characterized by low currency and interest rate risks. Further, public debt in India is primarily contracted at fixed interest rate.

6) CONSOLIDATING GENERAL GOVERNMENT FINANCES

- The general government liability as a percentage of GDP increased steeply during FY21. The ratio came off its peak in FY22 (RE).
- The general government is expected to follow the path of fiscal consolidation in the medium term.

Figure III.17: General Government liabilities to GDP ratio come off their peak attained in FY21



Source: RBI

A) A POSITIVE GROWTH-INTEREST DIFFERENTIAL KEEPS THE GOVERNMENT DEBT SUSTAINABLE

Increased capital expenditure -> Higher growth
-> Higher Revenue -> Sustainable fiscal path

The emphasis on capex led growth will enable India to keep the growth-interest differential positive.

A **positive growth-interest differential keeps the debt level sustainable**. In India, this differential has historically been positive

In general, globally, between 2005-2021, there has been a substantial increase in debt to GDP ratio for most countries. But in case of India, the increase is **modest**. It has been possible due to resilient economic growth over the last fifteen years.

Figure III.18: Growth-interest rate differential for India

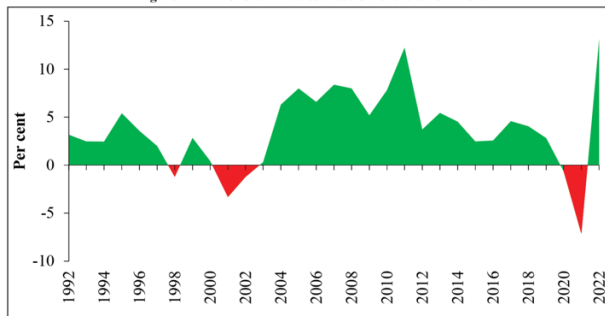
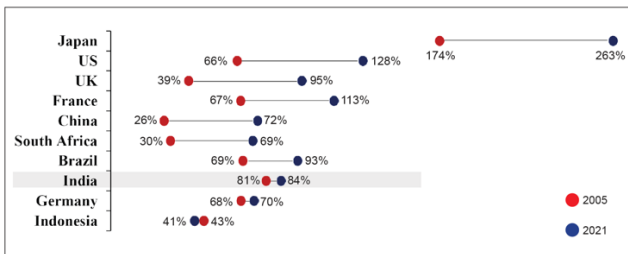


Figure III.19: Comparing General Government debt to GDP ratio in 2005 with 2021 across the countries



Source: World Economic Outlook, October 2022.

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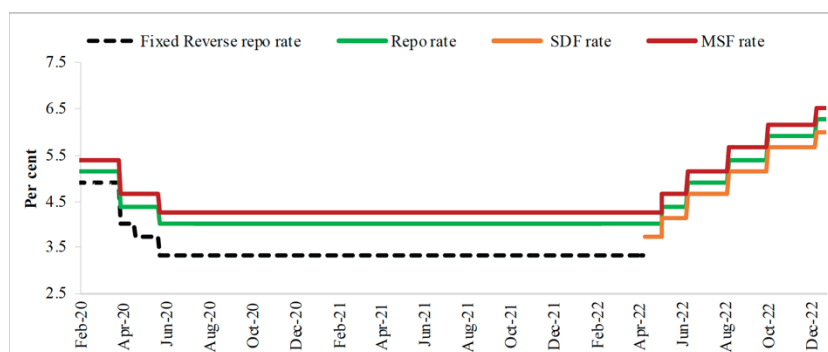
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1) MONETARY DEVELOPMENT

- **Inflationary pressure dominates** the global economic landscape in FY23. The key reasons behind it are:
 - 1) Fiscal Stimulus during FY2021 and FY2022 across the world to recover from Covid-19 induced slowdown
 - 2) Ukraine-Russia conflict increased the commodity prices of Fuel, Wheat, fertilizers etc.
- In India, inflation crossed the RBI's tolerance band in Jan 2022 and remained above it till Dec 2022. In this period, RBI kept on increasing its policy rates to tighten the liquidity in the market.

Figure IV.1: Policy Rates



Source: RBI

A) MONETARY POLICY COMMITTEE (MPC) ALSO INTRODUCED STANDING DEPOSIT FACILITY (SDF):

- In April 2022, MPC decided to institute a new instrument called the SDF as the floor in the Liquidity Adjustment Facility (LAF) corridor.
- It was recommended by the 'Expert Committee to Revise and Strengthen the Monetary Policy Framework' (Urjit Patel Committee) in Jan 2014.
- In 2018, the Section 17 of the RBI Act was amended to empower the RBI to introduce this instrument. It has now been launched in 2022.
- With this fixed rate overnight reverse repo has ceased to be the floor of the LAF corridor.
- **What happens to Reverse Repo:** It should be noted that reverse repo continues to remain in the toolkit of the RBI as a monetary policy instrument and its operation will be at the discretion of the RBI for purposes specified from time to time.
- **SDF, as it stands currently has the following features:**
 - It is floor of the LAF corridor, replacing the hitherto fixed rate reverse repo.
 - It is a monetary policy instrument to absorb liquidity without collateral (collaterals in this case are normally government securities) with an interest rate of 3.75% (25 bps below the repo rate).
 - It is operated on overnight basis, with the flexibility to absorb liquidity for longer tenor with appropriate pricing.
 - Deposits under SDF shall not be reckoned as balances eligible for the maintenance of the CRR under section 42 of the RBI Act, 1934, but shall be an eligible asset for maintenance of the SLR under section 24 of the Banking Regulation Act, 1949.
 - Both the standing facilities - the **MSF** (Marginal Standing Facility) and the **SDF** will be available on all days of the week, throughout the year.

B) MONEY SUPPLY

- **Reserve Money (M0):** Currency in Circulation (CiC) + Bankers' deposit with RBI. Reserve Money has increased 10.3% as on Dec 2022 compared to 13% last year. So far, increase in M0 was mainly driven by Banker's deposit with RBI, with an increase in CRR. CiC has broadly remained stable.
- **Broad Money (M3):** increased by 8.7% YoY as on Dec 2022. From Component side, Aggregate deposit has been the largest component and contributed most to the expansion of M3 during FY23. Among sources, Bank Credit to the commercial sector drove the expansion of broad money and the net bank credit to government supplemented the expansion.
- **Share of Bank Credit to commercial sector** in M3 increased to 64.3% as on 30th Dec 2022 from 61.1% in the corresponding period of the previous year, reflecting the upswing in the credit disbursal by commercial banks.

Item
1. Reserve Money (M0)
1.a. Currency in Circulation (CiC)
1.b. Bankers' Deposits with the RBI
2. Narrow Money (M1)
3. Broad Money (M3)
3.a. Currency with the Public
3.b. Aggregate Deposits
Demand Deposits
Time Deposits

C) MONETARY POLICY TRANSMISSION

- Lending and Deposit rates of banks increased during FY23 in consonance with the policy repo rate changes.
- During FY23 (by Dec 2023), External Benchmark based Lending Rates increased by 225 basis points and Marginal Cost of Fund based lending rates increased by 115 basis points.
- Similarly, on deposit side, the weighted average domestic term deposit rate (WADTDR) on outstanding deposit increased by 58 bps in FY23.

D) DEVELOPMENT IN GOVERNMENT SECURITIES MARKET:

- The yield of 10-year government bond rose in 2022 after remaining steady in 2020 and 2021. It peaked to 7.5% in December.
- The trading volume of G-Secs (including T-Bills and SDLs) reached a two-year high of 27.7 lakh crore during Q2 FY23, registering a YoY growth. Higher trading volume reflect growing interest of market players in G-Secs.

2) BANKING SECTOR

- The continuous efforts of RBI and government over the years have led to improvement in risk absorption capacity and balance sheet both in terms of asset quantity and quality.
- **Key Efforts include:**
 - Strengthening of regulatory and supervisory framework
 - Implementation of 4R's approach of Recognition, Resolution, Recapitalization and Reforms to clean and strengthen the balance sheet of the banking system.
- **Impact:**
 - **Improvement in Asset Quality** of the SCBs: GNPA ratio has decreased from 8.2% in March 2020 to 5.0% in Sep 2022, while the NNPA have dropped to a ten-year low of 1.3% of the total assets. Lower GNPA's, combined with high provisions accumulated in recent years, contributed to a decline in NNPA.
 - **The CRAR of SCBs** has been rising sequentially in the post-asset quality review period. It remains well above the minimum capital requirement, including Capital Conservation Buffer requirements of 11.5 percent.
 - **Increasing Profitability of SCBs** – the Profitability of SCBs, measured in terms of Return on Equity (RoE) and Return on Assets (ROA), improved to levels last observed in FY15.

- **Macro Stress Test** conducted by RBI for credit risks reveal that SCBs are well-capitalized and that all banks would be able to comply with the minimum capital requirements even under adverse stress scenarios.
- **Credit Growth Aided by a Sound Banking System and Deleveraged Corporate**
 - Non-food bank credit has expanded since June 2021. The YoY growth in non-food bank credit accelerated to **15.3% in Dec 2022.** **Retail loans** are driving the credit most primarily due to increase in demand for house loans.

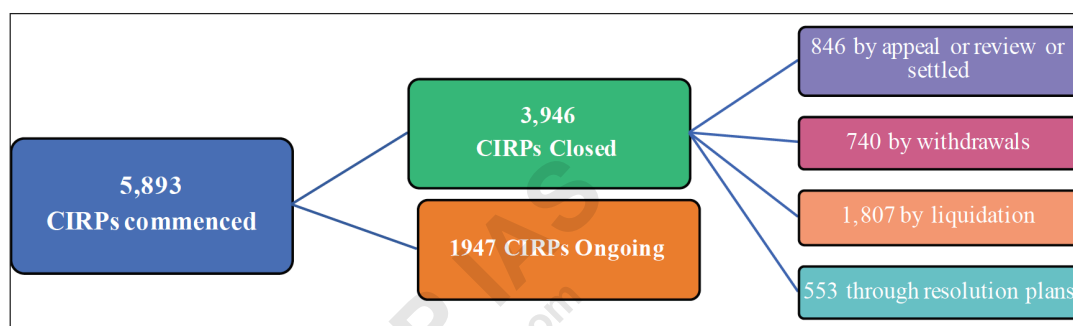
3) NON-BANKING FINANCIAL SECTOR (NBFCs) CONTINUE TO RECOVER

- NBFCs are also showing **consistent rise of credit** as a proportion of GDP as well as in relation to credit extended by SCBs. The **GNPA ratio** of NBFCs have declined from 7.2% in June 2021 to 5.9% in Sep 2022. However, GNPA ratio of services sector remains in double digit.
- **Capital situation** is also good with CRAR over 27% in Sep 2022.

4) PROGRESS MADE UNDER INSOLVENCY AND BANKRUPTCY CODE

- Since the inception of IBC in Dec 2016, **5893 Corporate Insolvency Resolution Process (CIRPs)** had commenced by end-Sep 2022, of which **67% have been closed.**

Figure IV.16: CIRPs status since inception (as on September 2022)



- The code also allows Corporate Debtor (CD) to voluntarily liquidate itself subject to the fulfilment of certain conditions. **1351 corporate persons** initiated voluntary liquidation under the Code as of end-Sep 2022.
- **Behavioural Change: Recoding Business Relationships:** One of the far reaching and spillover effects of the IBC has been Behavioural change effectuated by it among debtors. The fear of losing control over the CD upon initiation of CIRP has nudged thousands of debtors to settle their dues even before the initiation of insolvency proceedings. More than 23,000 applications for initiation of CIRPs of CDs were disposed of before their admission into CIRP.
- **69% of the distressed asset rescued, realisation of around 178% of the liquidation value.**
- **92% of the value realized under the Liquidation Process.**
- **IBC has recovered highest mount for Schedule Commercial Banks** compared to other channels such as Lok Adalat's, SARFAESI Act and DRTs in this period (in FY22)

5) DEVELOPMENT IN CAPITAL MARKET

- Global Situation in FY23: Global macroeconomic uncertainty, unprecedented inflation, monetary policy tightening, volatile markets etc. resulted in hurting investor sentiments, leading to downbeat performance of global capital markets in FY23.

A) PRIMARY MARKET:

- **Equity:** Large number of SMEs coming out with the public offer.
 - Though, overall fund mobilization has been lesser than last year, but, FY23 saw larggest IPO ever in the history of India. In May 2022, the central government diluted its stake in the LIC.
- **Debt: Underactivity in public debt issuance more than compensated by private debt placement**
 - In H1:FY2023: The amount of resource mobilized by the issuance of debt securities in the primary market increased by 5%, compared to the corresponding period last year. However, underactivity in public debt issuances was more than compensated by private debt placements.

B) SECONDARY MARKET

- **Stock Market Performance:** Indian Stock Market witnessed a **resilient performance.**
 - In **April 2022 – Dec 2022:** Global stock market declined due to geopolitical uncertainty. On the other hand, the Indian stock market witnessed resilient performance.
 - **NIFTY 50** registered a return of 3.7% during this period.
 - **NIFTY 50 – US dollar adjusted** return also stood at – 4.7%, adjusting for depression of the Indian Rupee against the US dollar.
 - **Global Stock market did badly** during this period. **US S&P 500** Average Index declined by 15.3% while NASDAQ composite – heavily weighted (49%) towards technology sector companies declined sharply by 26.4%.
 - Even among major emerging market economies, India outperformed its peers.
- **Retail Participation in Capital Market:**
 - Share of individual investors in cash segment marginally reduced. However, the number of Demat accounts rose sharply, 39% higher by the end of Nov 2022 on YoY basis.
- **Commodity Derivative market: Sharp corrections on account of monetary tightening by the Fed:**
- **Mutual Funds witnessed lower net inflows** (April – Nov 2022)
 - Despite that, mutual fund industry's assets under Management (AuM) increased 8.1% at the end of Nov 2022 on YoY basis.

C) FOREIGN PORTFOLIO INVESTMENTS

- **Global Economic Factors** exerted pressure on FPIs to sell in Indian markets:
 - Inflationary pressure
 - Monetary tightening by central banks
 - Recessionary fears in advanced economies
 - Booking gains in Indian market
- **However,** on account of the strong macroeconomic fundamentals of the Indian economy and the improvement in market risk appetite from time to time, assets under custody (custodial holdings of FPIs reflecting the total market value of the holdings) witnessed an increase despite the outflows driven by global factors. The total asset under custody with FPIs increased by 3.4% at the end of Nov 2022 compared to Nov 2021.
- **However,** investments by **Domestic Institutional Investors (DIIs)** acted as a **countervailing force against FPI outflows during recent years,** rendering the Indian equity market relatively less susceptible to large scale corrections.

6) NECESSITY OF A COMMON APPROACH TO REGULATING THE CRYPTO ECOSYSTEM

- The recent collapse of crypto exchange FTX and ensuing sell off in the crypto markets have placed a spotlight on the vulnerabilities in crypto ecosystem.
- **Note:** Crypto assets are self-referential and don't strictly pass the test of being a financial asset because it has no intrinsic cashflows attached to them.
- **US Regulators** have disqualified Bitcoin, Ether and various other crypto assets as securities. US agencies have also highlighted their concerns about crypto-asset risks to the banking ecosystem.
- **The geographical pervasive nature of the crypto ecosystem necessitates a common approach to the regulation of these volatile instruments.** In this context, the global response to crypto is evolving.

7) IFSC-GIFT CITY

- India's **first IFSC started functioning in GIFT** (Gujarat International Financial Tech City) in Gandhinagar in 2015.
- **What is an IFSC?**
 - An IFSC caters to customers outside the jurisdiction of the domestic economy. They are also sometimes called **Offshore financial centres (OFCs)**. Such centers deal with flow of finance, financial products and services across the border (in this sense, they are 'international'). They, thus provide world class financial services to non-residents and residents, to the extent permissible under the current regulations, in a currency other than the domestic currency of the location where the IFSC is located.
 - **Note:** The most important characteristics of IFSCs is that bulk of financial sector transactions on both sides of the balance sheets are with individuals or companies that are not residents of OFCs, where the transactions are initiated elsewhere, and where the majority of institutions involved are controlled by non-residents.
 - London, New York and Singapore can be counted as global financial centres. Many emerging IFSCs around the world, such as Sanghai and Dubai, are aspiring to play a global role in the years to come.

Box IV.2: GIFT IFSC - Emerging as a Preferred Jurisdiction for International Financial Services

Globally, International Financial Centres (IFCs) have assumed prominence in the financial services ecosystem primarily because they have contributed enormously to the growth of international financial transactions. These centres have played a pivotal role in accelerating the pace of financial globalisation. In common parlance, an IFC is a jurisdiction with a high concentration of financial institutions such as Banks, Stock Markets & related entities, Insurance firms, Fund Managers, FinTech firms, etc., which offer specialised financial services to non-residents and residents, in an environment that promotes financial innovation and facilitates cross border transactions.

Given this backdrop, setting up and operationalising India's maiden IFSC in GIFT City has been a path-breaking financial reform underpinning India's increasingly liberal outlook towards capital account convertibility. GIFT-IFSC is housed in India's first fully operational Smart City with world-class commercial, social and physical infrastructure. To bolster the development of IFSC, the Government took a major policy decision to establish the first of its kind, unified and agile financial sector regulator for IFSCs viz International Financial Services Centres Authority (IFSCA) through an Act of Parliament in 2019. From 1st October 2020, IFSCA assumed the power of four domestic sector regulators, namely RBI, SEBI, IRDAI & Pension Fund Regulatory and Development Authority of India (PFRDAI), in so far as the development and regulation of IFSCs in India were concerned.

Over the last two years, GIFT-IFSC has witnessed tremendous growth and traction across the entire spectrum of financial services, including banking, capital markets, insurance, fund management, aircraft leasing, etc. With an internationally aligned regulatory regime, competitive tax structure and beneficial cost of operations, GIFT IFSC is now emerging as a preferred jurisdiction for international financial services. Recognising the growing significance of IFSC, the Global Financial Centres Index, London Report (March 2022) put IFSC in GIFT City at the top, among 15 centres globally, which is likely to become more significant over the next 2 to 3 years.

GIFT IFSC has more than 390 + entities registered across a full spectrum of financial services, including Banks, Capital Markets, Insurance, FinTech, Aircraft Leasing, Bullion Exchange, etc. The financial services market is rapidly growing with the healthy and increasing participation of international and domestic financial institutions.

Recent developments/milestones/innovations/collaborations with other countries

In pursuit of its vision to become an international financial centre of global stature, IFSCA has continuously engaged in deliberations with many globally prominent financial authorities and standard-setting bodies. To date, the Union Cabinet has approved the signing of 2 Multilateral MoUs

(MMoU) and 7 Bilateral MoUs (BMoUs) by IFSCA to deepen cooperation with foreign regulators and aid the mutual exchange of information for the development of financial products and services in GIFT-IFSC. The table below provides the latest status of MoUs approved by the Union Cabinet –

Multilateral Memorandum of Understanding (MMoU)

- International Organization of Securities Commissions (IOSCO)
- International Association of Insurance Supervisors (IAIS)

Bilateral Memorandum of Understanding (BMoU)

- Dubai Financial Services Authority (DFSA)
- Qatar Financial Services Authority (QFCA)
- Abu Dhabi Global Market (ADGM) Financial Services Regulatory Authority (FSRA)
- Autorite Des Marches Financiers of France (AMF)
- Commission De Surveillance Du Secteur Financier (CSSF) Luxembourg
- Finansinspektionen (FI) Sweden.
- Monetary Authority of Singapore (MAS)

Besides the above, IFSCA has also entered into agreements for technical cooperation and capacity building for the development of a world-class regulatory environment for financial products and financial services in IFSC. Some of the projects/agreements showcasing IFSCA's growing engagement with the global community are highlighted below:

FinTech bridge with the Monetary Authority of Singapore

Both India and Singapore have been pioneers in the FinTech sector. To fuel the next phase of FinTech growth, the Government of India is developing GIFT IFSC as the nerve centre of all FinTech activities. Monetary Authority of Singapore (MAS) and the International Financial Services Centres Authority (IFSCA) have signed a FinTech Co-operation Agreement (CA) to facilitate regulatory collaboration and partnership in FinTech to promote a Joint Regulatory Sandbox Collaboration that will leverage existing regulatory sandboxes in their respective jurisdictions to support experimentation of technology innovations. The Agreement will enable FinTech firms from one jurisdiction to gain market access in the other jurisdiction through a regulatory referral system.

NSE IFSC -SGX Connect

NSE IFSC-SGX Connect, inaugurated by the PM on July 29, 2022, is an essential milestone in the cross-border collaboration between India and Singapore in the area of capital markets. The Connect, likely to be fully operational by June 2023, will play a pivotal role in onshoring derivative trading in NIFTY Products from SGX, Singapore, to NSE-IFSC, GIFT City. The Connect is expected to consolidate volumes and deepen liquidity in derivative instruments at GIFT IFSC, bring in more international participants and positively impact other financial ecosystems in GIFT IFSC. It has been designed to harness the advantages of respective exchanges, SGX for ease of access to investors and NSE IFSC for trading and clearing derivative contracts, in a symbiotic manner to confer gains on all.

Visibility and Mindshare Among FinTechs globally

To promote the FinTech ecosystem at GIFT IFSC and create visibility amongst the Global FinTech community, IFSCA, with support from GoI, has instituted a flagship financial technology and global thought leadership event, “InFinity Forum” as an annual feature beginning in 2021. It unites the world’s

leading minds in policy, business, and technology to discuss and develop actionable insight into how the FinTech industry can leverage technology and innovation for inclusive growth. The first edition of the Forum held on the 3rd and 4th of December 2021, was inaugurated by the Prime Minister, with Indonesia, South Africa and the United Kingdom participating as partner countries. The event saw a total of 94,300 registrations, leaving behind a massive international footprint.

Cooperation agreement between India INX and Luxembourg Stock Exchange

India INX, an IFSC-based exchange, signed a cooperation agreement with Luxembourg Stock Exchange on June 01, 2022. The two exchanges will endeavour to enhance the visibility of listed Indian securities towards international investors by facilitating the admission of such securities listed on LuxSE. The Agreement builds on the Memorandum of Understanding signed between the two institutions in November 2020, which focuses on advancing green finance in India. The green corridor opportunity established with this dual listing cooperation agreement between India INX and LuxSE will go a long way in attracting more issuers from India and the region and provides access to green capital from international investors.

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IFSCA Vision for FY24 and beyond

FY23 is a watershed year for IFSC. It marks a decade of India's maiden IFSC. The vision plan beyond 2022 revolves around elevating GIFT-IFSC to a virtuous self-sustaining trajectory towards becoming the nerve centre of new-age global financial services and activities. This aspirational pursuit of integrating our economy with the global financial ecosystem has been rich in learnings which are being systematically capitalised to design cutting-edge statutory and regulatory frameworks to lift the centre into a higher orbit of financial innovation and dynamism.

Within years of its establishment, GIFT-IFSC has become a prominent gateway for the flow of global capital into India. Significant gains have been made in kickstarting experimental and innovative financial services such as bullion trading, aircraft and ship leasing, global-in house centres, Fintech, sustainable financing and cross-border bill discounting and factoring. Sophisticated financial products such as Bullion Depository Receipts, unsponsored Depository Receipts, and financial and operational leases have been introduced, with many more in the pipeline. State-of-the-art infrastructure has been created for wholesome quality of life with essential projects including metro connectivity, integrated residential projects, Central Park, Riverfront and recreational centres on the anvil.

The foundation has been laid for creating a thriving knowledge economy by allowing foreign universities to set up operations in IFSC free of domestic regulations. Simultaneously, external assistance is mobilised to establish India's premier Fintech Institute and Innovation Centre in GIFT City. The Centre, with an estimated cost of ₹800 crore, will underpin India's growing stature and leadership in Fintech and attract the best of talent globally.

Significantly, the Government's vision for GIFT-IFSC transcends much beyond traditional finance and ventures into thought leadership. It is envisioned as the embodiment of Aatmanirbhar Bharat, a hub of ingenuity and innovation. As we advance, the vision entails a quantum leap in imagination and endeavours to transform GIFT City into a bustling financial hub, a vibrant city bearing a distinctively international character and pioneering solutions to complex problem statements involving finance.

8) DEVELOPMENT IN INSURANCE SECTOR

- **Insurance Sector and its significance:**
 - Insurance is an integral part of financial sector. It plays a significant role in economic development. Apart from protection against mortality, property, and casualty risks and providing a safety net, the insurance sector encourages savings and provide long term funds for infrastructure development.
- Potential and Performance of insurance sector are generally assessed based on **2 parameters**,
 - **Insurance penetration** which refers to the ratio of total insurance premiums to GDP in a year and;
 - **Insurance density** which refers to ratio of insurance premium to population that is insurance premium per capita and is measured in U.S. dollar as they reflect the level of development of insurance sector in a country.
- **India poised to emerge as one of the fastest growing insurance markets in the coming decade**
 - **Insurance Penetration in India** has steadily increased from 2.7% around the turn of millennium to 4.2% in 2020.
 - **Life insurance penetration in India what's 3.2% in 2021**, almost twice more than the emerging markets and slightly above the global average
 - However **most life insurance products sold in India are saving linked** with just a small protection component. Therefore households remain exposed to a significant financing gap in the event of premature death of the primary breadwinner.
 - **Insurance Density in India** has increased from US \$11.1 in 2001 to US \$91 in 2021.

- To **facilitate penetration of insurance to the lower income segments** of the population the Insurance Regulatory and Development Authority of India (IRDAI) issued **IRDAI micro insurance regulations 2015** which provide a platform for distributing insurance products that are affordable for rural and urban poor and promote financial inclusion. Further, the **IRDAI obligation of insurance to rural and social sector regulations 2015** stipulate obligation for insurers in rural and social sector and has contributed to developing and promoting micro insurance products in India. In FY21, 10.7 lakh new micro insurance policies were issued to individuals with a new business premium of ₹355.3 crore in life insurance segment and 53,046 new micro insurance policies were issued in general insurance segment excluding stand-alone health insurers
- **Government Insurance Schemes and Programs**

Table IV.16: Government Insurance schemes and progress

Scheme name	Brief description	Achievement
Ayushman Bharat Yojana	The scheme provides health coverage of ₹5 lakh per beneficiary family per annum to poor and vulnerable families identified based on select deprivation and occupational criteria	Since inception, 19.7 crore beneficiaries have been provided Ayushman cards, and over 4.3 crore hospital admissions worth over ₹0.49 lakh crore have been authorised through a network of 28,667 empanelled health-care providers, including 13,115 private hospitals as of 20th January 2023.
Pradhan Mantri Suraksha Bima Yojana	Under the scheme, risk coverage of ₹2 lakh for accidental death and complete disability and ₹1 lakh for partial disability is given to beneficiaries	Since its inception, 31.3 crore beneficiaries have been enrolled under the scheme, and 1.07 lakh claims have been disbursed as of 30th November 2022.
Pradhan Mantri Jeevan Jyoti Bima Yojana	Under the scheme, risk coverage of ₹2 Lakh is credited to the savings bank account of the holder in case of the death of the insured	Since its inception, 14.4 crore beneficiaries have been enrolled under the scheme, and 6.3 lakh claims have been disbursed as of 30th November 2022.
Pradhan Mantri Vaya Vandana Yojana	Under the scheme, old age income security is provided to senior citizens through the provision of an assured pension/return linked to the subscription amount based on a government guarantee to LIC	A total number of 8.6 lakh subscribers with a subscription amount of ₹84,659.4 crore deposited by these subscribers have benefited under the scheme as of 30th September 2022
Pradhan Mantri Fasal Bima Yojana	Under the scheme, risk insurance is provided to farmers against crop damage due to non-preventable natural risks from pre-sowing to post-harvest for the crops/areas notified by the concerned State Government	During 2016 and 2022, 2763.9 lakh applications were received under the scheme, and claims of about ₹ 1.28 lakh crore have been paid to the farmers.

9) PENSION SECTOR

- **India's pension sector demonstrated remarkable performance during the COVID-19.**
 - During COVID-19 various initiatives were announced to provide pensions to families who lost their earning members due to COVID.
 - Govt also took initiatives towards enhancing liberalising insurance compensation.
 - The benefit of the ESIC pension scheme was extended to even those who have lost earning members due to COVID-19 dependent family members of such persons were entitled to pension equivalent to 90% of average daily wages drawn by workers as per the existing norm.
 - The insurance benefits under the employees deposit linked insurance scheme were also enhanced and liberalised.
- **Various Pension Schemes being implemented by Gol:**
 - Indira Gandhi national old age pension scheme, Indira Gandhi national widow pension scheme Indira Gandhi national disability pension scheme under the National Social Assistance Program (NSAP) with the total beneficiary coverage of 4.7 CR.
 - The National Pension System (NPS) was introduced in January 2004. It is primary pension system for a government employee with a pay as you go defined benefit plan. NPS for government employees is a defined contribution plan with contribution from government. The value of pension corpus is market to market and accordingly the rate of return is market determined.
 - NPS was extended to all citizens of the country in the age group of 18 to 70 years including the unorganised sector worker on a voluntary basis in 2009. In order to ensure that an avenue for saving is available to all section of society PFRDA launched in NPS corporate sector model in 2011 to provide NPS to employees of corporate entities including PSUs.
 - Atal Pension Yojna was introduced in June 2015 The objective is to provide universal Social Security. The scheme applies to all individuals aged 18 to 40 years with an emphasis on under privileged unorganised and low income individuals. Since the introduction of NPS and, more recently APY, India's pension sector has expanded.
- **Social economic characteristics of NPS Subscribers:**
 - Under NPS, 24% female and 76% male.
 - The situation is better in APY where there are 44% female.
- **Various steps by PFRDA to ease the accessibility of NPS and APY:**
 - Reducing timelines for processing settlements to T+2 days.
 - Central Recordkeeping Agencies have integrated their systems with DigiLocker to provide Subscriber Centric Services such as electronic-Pension Retirement Account Number (e-PRAN), electronic Account statements, and Aadhar & DigiLocker-based account openings.
 - Government sector subscribers can change their investment choices online by submitting the request directly in the CRA login. The contributions through the UPI handle can be accepted for the benefit of NPS subscribers, permitting them to remit funds into their PRAN via the Virtual account number provided by CRA.

10) OUTLOOK FOR DOMESTIC FINANCIAL SECTOR

- **Resilience in Domestic Financial Sector:**
 - Healthy balance sheet, stronger capital levels of NBFCs, and robust growth in the AuM of domestic mutual funds.
 - Buoyant demand for bank credit and early signs of a revival in the investment cycle are benefitting from improving asset quality, a return to profitability and resilient capital and liquidity buffers.

- **In Insurance sector** India is one of the fastest growing insurance markets and is expected to emerge as one of the top six markets by 2032. Digitization of India's insurance market accompanied by an increase in FDI limit for insurance companies, is likely to facilitate an increased flow of long term capital, global technology processes, and international best practices which will support the growth of insurance sector.
- **India's pension sector** sector has tremendous scope for growth. **Government initiatives towards enhancing pension literacy of subscribers and intermediaries** and a nudge from the regulator and the government to encourage young adults to join the pension scheme would play a significant role in enhancing pension availability to a more extensive section of society.