Highlights of Economic Survey 2018 Part I - Ten New Economic Facts on Indian Economy

Economic Survey

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- The Department of Economic Affairs, Finance Ministry of India presents the Economic Survey.
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- The Chief Economic Adviser, Finance Ministry guides in its preparation.
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- It is presented in the parliament every year, just before the Union Budget.
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- The survey is the finance ministry's view on the annual economic development of the country over the previous 12 months.
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- It highlights the prospects of the economy in the short to medium term.
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- It also summarizes the performance on major development programs, and highlights the policy initiatives of the government.
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10 New Economic Facts on Indian Economy

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- The Economic Survey highlights 10 new economic facts on the Indian economy based on the new data. They are as follows:
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- **Goods and Services Tax** - GST has led to a 50% increase in the number of indirect taxpayers.
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- There has been an increase in individual income tax filers as well.
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- There has also been a large increase in voluntary registrations.

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- This is especially in regards with small enterprises that buy from large enterprises.
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- Availing the benefit of input tax credits was a major reason.
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- The fear of undermined tax collections for states due to GST transition is allayed.
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- Accordingly, the distribution of the GST base among the states got closely linked to the size of their economies.
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- **Formal Sector payroll** - India's formal sector, especially formal non-farm payroll, is substantially greater than believed.
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- "Formality" was earlier defined in terms of social security provisions like EPFO/ESIC.
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- It is now being defined in terms of being part of the GST net.
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- This has increased the formal sector payroll share to 53% from the earlier 31% of the non-agricultural work force.
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- **Exports of states** - Economic Survey, for the first time, deals with data on the international exports of states.
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- The data indicates a strong correlation between export performance and states' standard of living.
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- States that export internationally and trade with other states were found to be richer.
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- 5 States of Maharashtra, Gujarat, Karnataka, Tamil Nadu and Telangana account for 70% of India's exports.
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- India's internal trade is about 60% of the GDP.
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- This is comparatively greater than last year's survey as well as other large countries.
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- **India's exports** - The largest firms in India account for a much smaller share of exports than in other comparable countries.
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- Evidently, top 1% of Indian firms accounts only for 38% of exports.
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- This is unlike the 50-70% as in countries like Brazil, Germany, Mexico and USA.
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- The relatively smaller share by larger firms in India makes the firm export structure of India more egalitarian.
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- This is indicative of a better contribution from the smaller firms than in other countries.
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- **Ready-made garments** - The Rebate of State Levies (ROSL) was announced in 2016.
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- Under the RoSL, the Centre gives garment exporters refunds against all the levies they shell out at the state level.
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- The relief was offered under the duty drawback scheme as part of the package for the garments industry in the GST regime.
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- The incentive package boosted exports of ready-made garments by about 16%.
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- **Male child preference** - The survey highlighted that Indian society still exhibited a strong desire for a male child.
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- It pointed out that most parents continued to have children until they get number of sons.
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- The survey brings out that this was resulting in skewed sex ratios.
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- **Tax Litigation** - There is substantial avoidable litigation in the tax arena which government action could reduce.
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- The tax department's petition rate is high, but its success rate in litigation is low and declining (well below 30%).
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- A smaller share of total pending cases accounted for a larger share of the money value at stake (due to the tax dispute). E.g.
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i. 0.2% of pending cases - 56% of the value at stake
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ii. 66% of cases (each less than Rs 10 lakh) - 1.8% of the value at

stake
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- **Growth and Investment** - It was highlighted that growth in savings did not bring economic growth.
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- But the growth in investment did bring a substantial growth to the economy.
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- The survey thus emphasizes that raising investment was more important than raising savings.
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- **Direct tax collection** - Direct tax collections by States are significantly lower than those of their counterparts in other federal countries.
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- Indian states and other local governments empowered for tax collection realise lesser collection than their actual potential.
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- **Climate change** - Extreme temperature increases and deficiency in rainfall have been recorded as footprints of climate change.
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- These have adversely impacted agricultural yields of the country.
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- The impact was found to be twice as large in un-irrigated areas as in irrigated ones.
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Source: PIB

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Note: The following parts would be made subsequently.

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