Highlights of Economic Survey 2018 - Part II

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What's in it?

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- Tax Collections
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- Foreign Direct Investment
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- Industrial Sector
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- Ease of Doing Business
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Economic Growth

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- **Projections** - The survey forecasts real GDP growth to reach 6.75% this fiscal.
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- It is projected to rise to **7 - 7.5% in 2018-19**.
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- There was a reversal of the declining trend of GDP growth in the second quarter of 2017-18, led by the industry sector.
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- This could re-instate India as the world’s fastest growing major economy.
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- The Gross Value Added (GVA) at constant basic prices is expected to grow at 6.1 % in 2017-18, as against the 6.6% in 2016-17.
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- Agriculture, industry and services sectors are expected to grow at 2.1, 4.4 and 8.3 percentages respectively in 2017-18.
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- **Factors** - The growth projections were based on the various reform measures undertaken in the recent years.
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- It includes GST, resolution of the Twin Balance Sheet (TBS) problem through IBC, recapitalization package for PSBs.
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- Also, with liberalization of FDI and export uplift from the global recovery, the economy began to accelerate in the second half.
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- **Comparative performance** - India's average GDP growth during last 3 years is around 4 percentage points higher than the global growth.
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- India's growth averaged to 7.3% in 2014-15 to 2017-18 period.
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- Lower inflation, improved current account balance and reduction in the fiscal deficit to GDP ratio are notable factors behind.
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- The survey thus points out that India can be rated as among the best performing economies in the world.
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- **Way Ahead** - The agenda for the next year to ensure a favourable growth trend has been charted out as:

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i. stabilizing the GST
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ii. completing the TBS actions
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iii. reducing unviable banks and allowing greater private sector participation
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iv. privatizing Air India
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v. staving off threats to macro-economic stability
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- Over the medium term, three areas of policy focus are spelt out:
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i. Employment - for the young and burgeoning workforce, especially women
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ii. Education - creating an educated and healthy labour force
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iii. Agriculture - raising farm productivity and strengthening agricultural resilience
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Inflation

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- **Headline** - The Consumer Price Index (CPI) based headline inflation averaged to **3.3%** during 2017-18.
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- Many states have also witnessed a sharp fall in CPI inflation during 2017-18.
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- **Trend** -This is notably the lowest in the last six financial years.
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- It has been below 4% for twelve straight months, from November, 2016 to

October, 2017.
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- It indicates a gradual transition from a period of high and variable inflation in the last four years to more stable prices.
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- **Food** - The CPI food inflation averaged around 1% during April-December in the current financial year.
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- This has been possible due to Good agricultural production coupled with regular price monitoring by the Government.
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- However, the recent rise in food inflation is mainly due to factors driving prices of vegetables and fruits.
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- **Factors** - The decline in inflation was broad-based across major commodity groups except Housing and Fuel & Light.
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- In rural areas food was the main driver of CPI inflation.
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- In urban areas, housing sector contributed the most.
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Monetary Management

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- **Repo Rate** - Monetary policy during 2017-18 was conducted under the revised statutory framework that provided for the MPC.
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- The Monetary Policy Committee (MPC) decided to reduce the policy Repo Rate by 25 basis points to **6%**, in August.
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- Monetary policy has remained steady during 2017-18 with only one policy rate cut made in August.
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- **Liquidity** - Post the demonetisation in November 2016, the re-monetisation process began from November, 2017.
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- This set in a favourable base effect.
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- Resultantly, the Y-o-Y growth of both Currency in Circulation and M0 turned sharply positive.
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- This is higher than their respective growth rates in the previous year.
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- Liquidity conditions largely remain in surplus mode.
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Tax Collections

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- The data on central finance is made available by The Controller General of Accounts (CGA).
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- Accordingly, the growth in direct tax collections of the Centre was at 13.7% during April-November 2017.
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- The indirect taxes growth rate was 18.3% during the same period.
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- The States' share in taxes grew by 25.2%.
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- This is much higher than the growth in net tax revenue (to Centre) at 12.6% and of gross tax revenue at 16.5 %.
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- There is a 50% increase in the number of indirect tax payers.
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- In all, the Gross Tax Collections during the first 8 months of 2017-18 period are reasonably on track.
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- There was a slow pace in non-tax revenue but the robust progress in disinvestment compensated for this.
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Banking Sector

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- **NPA** - Banking sector performance, the PSBs in particular, continued to be subdued in the current financial year.
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- The Gross Non-Performing Advances (GNPA) ratio of Scheduled Commercial

Banks increased from 9.6% to 10.2% (Mar-Sep 2017).
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- The new Insolvency and Bankruptcy Code mechanism is being used actively to resolve the NPA problem of the banking sector.
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- **Credit** - Non Food Credit (NFC) grew at 8.85% in November 2017 as compared to 4.75% in November 2016.
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- Non Food Credit refers to credit or loan provided other than to the FCI (Food Corporation of India).
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- Bank credit lending to Services and Personal Loans (PL) segments continues to be the major contributor to overall NFC growth.
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- The NBFC sector, as a whole, accounted for 17% of bank assets and 0.26% of bank deposits as on Sep 30, 2017.
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- **Primary market** - The year 2017-18 (April-November) witnessed a steady increase in resource mobilisation in the primary market segment.
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- The 10 year G-sec yield has risen sharply in the recent period.
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- The stock markets also hit record highs this financial year.
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External Sector

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- India’s external sector continued to be resilient and strong in 2017-18.
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- **International Developments** - The global economy is expected to accelerate from 3.2% in 2016 to 3.6% in 2017 and 3.7% in 2018.
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- It reflects an upward revision of the earlier projections by IMF.
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- **BoP** - India’s balance of payments situation continued to be favourable in the first half of 2017-18 as since 2013-14.
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- **CAD** - This is despite some rise in the Current Account Deficit (CAD) in the first quarter (Q1).
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- India’s CAD stood at US $7.2 billion in Q2 of 2017-18.

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- This translates to **1.2%** of the GDP.

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- It is a sharp decline from 2.5% of GDP in the preceding quarter.

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- **Trade Deficit** - India’s trade deficit (on custom basis) had widened.

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- It stood at US$ 74.5 billion in the first half of 2017-18.

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- This is against a declining trend in CAD observed since 2014-15.

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- In 2017-18 (April-December) trade deficit (on custom basis) shot up by nearly 46%.

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- It now stands at **US$ 114.9 billion**.

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- The POL (petroleum, oil and lubricants) deficit and non- POL deficit has grown by nearly 27% and 65% respectively.

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- **Composition of Trade** - 2017-18 (April-November) witnessed a mixed growth trend in terms of major sectors.

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- Engineering goods, and petroleum crude and products registered a good export growth.

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- Chemicals & related products and textiles & allied products witnessed a moderate growth.

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- However, a negative growth was recorded by the gems and jewellery.

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- **Prospects** - The prospects for India’s External Sector in this and coming year look bright.

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- The world trade is projected to grow at 4.2 % and 4% in 2017 and 2018 respectively, as against 2.4% in2016.

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- The trade of major partner countries is improving, and India’s export growth is also picking up.
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- However, rise in oil prices is emphasized as a huge challenge in the coming period, posing a downside risk to trade.
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- However, this could also lead to higher inflow of remittances which have already started picking up.
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- Supportive policies like the GST, logistics and trade facilitation policies could help balance the risks.
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Foreign Direct Investment

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- FDI equity inflows registered a 0.8% growth in total during 2017-18 (April-October).
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- But FDI Equity Inflows to the **Services** sector grew by **15%.**
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- This is mainly due to higher FDI in two sectors i.e. Telecommunications and Computer Software and Hardware.
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- 25 sectors also including services activities and covering 100 areas of FDI policy have undergone reforms recently.
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- At present, more than 90% of FDI inflows are through automatic route.
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- The reforms have positively contributed to higher FDI inflow.
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Trade Policy

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- Two important developments on the trade policy front during the year relate to:
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i. mid-term review of Foreign Trade Policy (FTP)
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ii. multilateral negotiations of WTO in December 2017
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- Besides, some developments on the trade logistics front and anti dumping measures are worth mentioning.
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- **Foreign Exchange Reserves** - India’s foreign exchange reserves reached **US$ 409.4 billion** on end-December 2017.
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- It is a growth by nearly 14% on a y-o-y basis from end December 2016.
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- Major economies are running a current account deficit.
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- Given this, India is **6th largest foreign exchange reserve holder** among all countries of the world.
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- The import cover of India’s foreign exchange reserves was 11.1 months at end-Sep 2017 (11.3 months at end March 2017).
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- Import cover is the number of months of imports that could be supported by a country's international reserves.
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Industrial Sector

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- **IIP** - Index of Industrial Production (IIP) (base year 2011-12) indicates industrial output increase of 3.2 % (April-Nov 2017-18).
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- This was a composite effect of robust growth in electricity generation and moderate growth in both mining and manufacturing sectors.

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- The IIP registered a 25-month high growth of 8.4% with manufacturing growing at 10.2%.

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- **Core Industries** - The 8 Core Infrastructure Supportive Industries had a cumulative growth of **3.9%** (Apr-Nov 2017-18).

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- They eight core industries are:

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1. Coal

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2. Crude Oil

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3. Natural Gas

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4. Petroleum Refinery Products

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5. Fertilizers

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6. Steel

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7. Cement

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8. Electricity

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- The production growth of Coal, Natural Gas, Refinery Products, Steel, Cement and Electricity was positive during this period.

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- While the production of crude oil and fertilizers fell marginally.

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- **Performance indicators** - International ratings agency Moody’s upgraded India’s sovereign bond rating for first time in more than a decade.

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- India ranked 100 out of 190 countries in Ease of Doing Business of the World Bank Report 2018.
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- This is an increase of 30 positions over last year's rank.
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- The upgrades are attributed to recent reform measures.
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- **Reforms** - These include the GST, IBC, and announcement of bank recapitalization.
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- Make in India programme, Start-up India and Intellectual Rights Policy to boost industrial growth are also the reasons.
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- Notable sectoral initiatives include anti-dumping duty, Minimum Import Price (MIP) on a number of items for the steel sector and Pradhan Mantri Mudra Yojana for the MSMEs.
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- **Suggestions** - The survey calls for promoting inclusive employment-intensive industry.
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- This, along with building resilient infrastructure are said to be vital factors for economic development.
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Ease of Doing Business - Judiciary

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- **Status -** India jumped 30 places to enter the top 100 for the first time in the World Bank's Ease of Doing Business Report, 2018.
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- It leaped 53 and 33 spots in the taxation and insolvency indices, respectively; an outcome of taxation reforms and IBC, 2016.
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- India also registered uptrends in protecting minority investors and obtaining credit, facilitation of electricity, etc.
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- **Concerns** - High number of delays and pendency of economic cases in Supreme Court, Economic Tribunals and Tax department.
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- This is reflecting in terms of stalled projects, mounting legal costs, contested tax revenues and reduced investment.
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- These concerns hamper dispute resolution and contract enforcement.
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- **Government Measures** - The Government has taken a number of actions to improve the contract enforcement regime including:
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  i. Scrapping of over 1,000 redundant legislations
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  ii. Amending the Arbitration and Conciliation Act, 2015
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  iii. Commercial Courts Commercial Divisions and Commercial Appellate Division of High Courts Act, 2015
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  iv. Expanding the Lok Adalat Programme
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- The Judiciary has also expanded the National Judicial Data Grid (NJDG).
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- This is near to ensuring that every High Court is digitized.
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- **Suggestions** - The Survey suggests coordinated action between government and the judiciary.
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- It calls for a Cooperative Separation of Powers between judiciary on one hand and executive/legislature on the other.
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- This is a horizontal variant of the vertical cooperation between the Centre and States (Cooperative Federalism) in case of GST.
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- The Survey also suggests to consider efforts for alleviating pendency in the lower judiciary as a performance-based incentive for States.
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- Other suggestions in this regard include:
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1. expanding judicial capacity in lower courts and reducing existing burden on

HCs and the SC
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2. limited appeals by tax department considering its low success rate
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3. increasing state expenditure on judiciary, especially for modernization and digitization
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4. focussing on internal specialization and efficiencies of SC by creating more subject-matter and stage-specific benches
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5. prioritizing stayed cases, and imposing stricter timelines by courts, especially when involving government infrastructure projects
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6. improving Courts Case Management and Court Automation Systems
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Services Sector

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- **State-wise** - The Survey gave a unique State-wise comparison of the performance of the Service sector in India.
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- Out of the 32, in 15 states and UTs, the Services Sector is the dominant sector.
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- It has contributed more than half of the Gross State Value Added (GSVA).
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- However, there is wide variation in terms of share and growth of services GSVA in 2016-17.
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- Services GSVA share ranges from over 80% in the case of Delhi and Chandigarh to around 31% in Sikkim.
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- Services GSVA growth ranges from 14.5% as in Bihar to 7% in UP.
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- **National** - The services sector continued to be the key driver of India's economic growth.
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- It has a share of nearly **55%** in India's Gross Value Added (GVA).
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- Evidently, it contributed almost 72.5 % of GVA growth in 2017-18.
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- Some of the notable areas include Tourism, Information Technology-Business Process Management, Real Estate, R&D, and Space.
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- **Exports** - India's services sector registered an export growth of 5.7% in 2016-17.
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- India remained the 8th largest exporter in commercial services in the world in 2016.
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- It comes with a share of 3.4% globally.
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- This is double the share of India's merchandise exports in the world which is 1.7%.
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- Both growths in services exports and services imports were robust.
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- Resultantly, the Net services receipts rose by 14.6% during first half of 2017-18.
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- The Net surplus in the services financed about 49% of India's merchandise deficit in this period.
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- Increase in incentives under Services Exports from India Schemes (SEIS) contributed to services growth considerably.
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- Enhanced global uncertainty, protectionism and stricter migration rules would be key challenges in shaping future services exports.
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Source: PIB

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Note: The next Part will include contents on Agriculture, Climate Change, Air Pollution, SDG, Social indicators, gender issues, etc as dealt in Economic Survey 2018.

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