ECONOMIC SURVEY 2017

Decoding – India Report Card 2016-17

The Economic Survey is always viewed as being a wholesome document which contains everything that there should be in a report which tells us in detail all that has happened in the year so far as well as the prospects for the coming year. It also provides a very comprehensive outline of the possible policy actions that may be considered by the government in these areas.

The Economic Survey 2016-17 presented in Parliament today states that against the backdrop of robust macro-economic stability, the year was marked by two major domestic policy developments-the passage of the Constitutional Amendment, paving the way for implementing the transformational Goods and Services Tax (GST), and the action to demonetize the two highest denomination notes. The GST will create a common Indian market, improve tax compliance and governance, and boost investment and growth; it is also a bold new experiment in the governance of India's cooperative federalism.

The Survey Report says that demonetisation has had short-term costs but holds the potential for long-term benefits. Follow-up actions to minimize the costs and maximize the benefits include: fast, demand-driven, remonetisation; further tax reforms, including bringing land and real estate into the GST, reducing tax rates and stamp duties; and acting to allay anxieties about over-zealous tax administration. These actions would allow growth to return to trend in 2017-18, possibly making it the fastest-growing major economy in the world, following a temporary dip in 2016-17.

The Economic Survey 2016-17 states that the year was also marked by some tumultuous external developments. In the short-run, world GDP growth is expected to increase because of a fiscal stimulus in the United States but there are considerable risks. These include higher oil prices, and eruption of trade tensions from sharp currency movements, especially involving the Chinese Yuan, and from geo-political factors. Another serious medium-term risk is an upsurge in protectionism that could affect India's exports.

The Survey states that the year also saw a number of legislative accomplishments in the country. In addition to the GST, the Government:

- Overhauled the bankruptcy laws so that the "exit" problem that pervades the Indian economy with deleterious consequences highlighted in last year's Survey can be addressed effectively and expeditiously;
- Codified the institutional arrangements on monetary policy with the Reserve Bank of India (RBI), to consolidate the gains from macroeconomic stability by ensuring that inflation control will be less susceptible to the whims of individuals and the caprice of governments; and
- Solidified the legal basis for *Aadhaar*, to realise the long-term gains from the JAM (Jan Dhan-Aadhaar-Mobile).

Beyond these headline reforms were other less-heralded but nonetheless important actions. The Government enacted a package of measures to assist the clothing sector that by virtue of being export-oriented, labour-intensive could provide a boost to employment, especially female employment. The National Payments Corporation of India (NPCI) successfully finalized the Unified Payments Interface (UPI) platform. By facilitating inter-operability, UPI has the potential to unleash the power of mobile phones in achieving digitalization of payments and financial inclusion, and making the "M" an integral part of "JAM." Further FDI reform measures were implemented, allowing India to become one of the world's largest recipients of foreign direct investment. The government has also adhered to a steady and consistent path of fiscal consolidation.

The major short term macro-economic challenge is to re-establish private investment and exports as the major drivers of growth and reduce reliance on Government and private consumption. Addressing the Twin Balance Sheet problem over-indebted corporates and bad-loan encumbered public sector banks a legacy of the years surrounding the Global Financial Crisis will be vital.

Looking further ahead, societal shifts at the level of ideas and narratives will be needed to overcome three long-standing meta-challenges: inefficient redistribution, ambivalence about the private sector and property rights, and improving but still-challenged state capacity. Doing so would lift an economy that is oozing with potential. In the aftermath of demonetisation, and at a time of gathering gloom about globalization, articulating and embracing those ideational shifts will be critical to ensuring that India's sweet spot is enduring not evanescent.

The report says that India seems to be a demographic sweet spot with its working age population projected to grow by a third over the next three decades providing it a potential the growth boost from the demographic divided which is likely to peak within next five years.
The Survey report also states that the Swachh Bharat which has the objective of ensuring safe and adequate sanitation, water security and hygiene has been a part of serious policy issue which would promote a broader fundamental right to privacy for women in the country.

Universal Basic Income

The Economic Survey 2016-17 has advocated the concept of Universal Basic Income (UBI) as an alternative to the various social welfare schemes in an effort to reduce poverty. The survey compares the benefits and costs of the UBI scheme in the context of the philosophy of the Father of the Nation, Mahatma Gandhi. The Survey states that the Mahatma as astute political observer, would have anxieties about UBI as being just another add-on Government programme, but on balance, he may have given the go-ahead to the UBI.

The Survey says the UBI, based on the principles of universality, unconditionality and agency, is a conceptually appealing idea but with a number of implementation challenges lying ahead especially the

risk that it would become an add-on to, rather than a replacement of, current anti-poverty and social programmes, which would make it fiscally unaffordable.

Based on a survey on misallocation of resources for the six largest Central Sector and Centrally Sponsored Sub-Schemes (except PDS and fertilizer subsidy) across districts, the Economic Survey points out that the districts where the needs are greatest are precisely the ones where State capacity is the weakest. This suggests that a more efficient way to help the poor would be to provide them resources directly, through a UBI.

Exploring the principles and prerequisites for successful implementation of UBI, the Survey points out that the two prerequisites for a successful UBI are: (a) functional JAM system as it ensures that the cash transfer goes directly into the account of a beneficiary and (b) Centre-State negotiations on cost sharing for the programme.

The Survey says that a UBI that reduces poverty to 0.5 percent would cost between 4-5 percent of GDP, assuming that those in the top 25 percent income bracket do not participate. On the other hand, the existing middle class subsidies and food, petroleum and fertilizer subsidies cost about 3 percent of GDP.

The Survey concludes that the UBI is a powerful idea whose time even if not ripe for implementation, is ripe for serious discussion.

Growth Forecasts

The Indian Economy has sustained a macro-economic environment of relatively lower inflation, fiscal discipline and moderate current account deficit coupled with broadly stable rupee-dollar exchange rate. The Economic Survey 2016-17 states that such a sustenance is despite continuing global sluggishness. It says:

- As per the advance estimates released by the Central Statistics Office, the growth rate of GDP at constant market prices for the year 2016-17 is placed at 7.1 per cent, as against 7.6 per cent in 2015-16.This estimate is based mainly on information for the first seven to eight months of the financial year. Government final consumption expenditure is the major driver of GDP growth in the current year.
- Fixed investment (gross fixed capital formation) to GDP ratio (at current prices) is estimated to be 26.6 per cent in 2016-17, vis-à-vis 29.3 per cent in 2015-16.
- For 2017-18, it is expected that the growth would return to normal as the new currency notes in required quantities come back into circulation and as follow-up actions to demonetisation are taken. On balance, there is a likelihood that Indian economy may recover back to 6 ¾ per cent to 7 ½ per cent in 2017-18.

Fiscal

- Indirect taxes grew by 26.9 per cent during April-November 2016.
- The strong growth in revenue expenditure during April-November 2016 was boosted mainly by a 23.2 per cent increase in salaries due to the implementation of the Seventh Pay Commission and a 39.5 per cent increase in the grants for creation of capital assets.

Prices

- The headline inflation as measured by Consumer Price Index (CPI) remained under control for the third successive financial year. The average CPI inflation declined to 4.9 per cent in 2015-16 from 5.9 per cent in 2014-15 and stood at 4.8 per cent during April-December 2015.
- Inflation based on Wholesale Price Index (WPI) declined to (-) 2.5 per cent in 2015-16 from 2.0 per cent in 2014-15 and averaged 2.9 per cent during April-December 2016.
- Inflation is repeatedly being driven by narrow group of food items, of these pulses continued to be the major contributor of food inflation.
- The CPI based core inflation has remained sticky in the current fiscal year averaging around 5 per cent.

Trade

- The trend of negative export growth was reversed somewhat during 2016-17 (April-December), with exports growing at 0.7 per cent to US$ 198.8 billion. During 2016-17 (April-December) imports declined by 7.4 per cent to US$ 275.4 billion.
- Trade deficit declined to US$ 76.5 billion in 2016-17 (April-December) as compared to US$ 100.1 billion in the corresponding period of the previous year.
- The current account deficit (CAD) narrowed in the first half (H1) of 2016-17 to 0.3 per cent of GDP from 1.5 per cent in H1 of 2015-16 and 1.1 per cent in 2015-16 full year.
- Robust inflows of foreign direct investment and net positive inflow of foreign portfolio investment were sufficient to finance CAD leading to an accretion in foreign exchange reserves in H1 of 2016-17.
- In H1 of 2016-17, India's foreign exchange reserves increased by US$ 15.5 billion on BoP basis.
- During 2016-17 so far, the rupee has performed better than most of the other emerging market economies.

External Debt

- At end-September 2016, India's external debt stock stood at US$ 484.3 billion, recording a decline of US$ 0.8 billion over the level at end-March 2016.

- Most of the key external debt indicators showed an improvement in September 2016 vis-à-vis March 2016. The share of short-term debt in total external debt declined to 16.8 per cent at end-September 2016 and foreign exchange reserves provided a cover of 76.8 per cent to the total external debt stock.
- India's key debt indicators compare well with other indebted developing countries and India continues to be among the less vulnerable countries.

Agriculture

- Agriculture sector is estimated to grow at 4.1 per cent in 2016-17 as opposed to 1.2 per cent in 2015-16; the higher growth in agriculture sector is not surprising as the monsoon rains were much better in the current year than the previous two years.
- The total area coverage under Rabi crops as on 13.01.2017 for 2016-17 is 616.2 lakh hectares which is 5.9 per cent higher than that in the corresponding week of last year.
- The area coverage under wheat as on 13.01.2017 for 2016-17 is 7.1 percent higher than that in the corresponding week of last year.
- The area coverage under gram as on 13.01.2017 for 2016-17 is 10.6 percent higher than that in the corresponding week of last year.

Industry

- Growth rate of the industrial sector is estimated to moderate to 5.2 per cent in 2016-17 from 7.4 per cent in 2015-16.During April-November 2016-17, a modest growth of 0.4 per cent has been observed in the Index of Industrial Production (IIP).
- The eight core infrastructure supportive industries, viz. coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity registered a cumulative growth of 4.9 per cent during April-November 2016-17 as compared to 2.5 per cent during April-November 2015-16. The production of refinery products, fertilizers, steel, electricity and cement increased substantially, while the production of crude oil, natural gas fell during April-November 2016-17. Coal production attained lower growth during the same period.
- The performance of corporate sector (Reserve Bank of India, January 2017) highlighted that the growth of sales grew by 1.9 per cent in Q2 of 2016-17 as compared to near stagnant growth of 0.1 per cent in Q1 of 2016-17. Growth in net profit registered a remarkable growth of 16.0 per cent in Q2 of 2016-17 as compared to 11.2 per cent in Q1 of 2016-17.

Services

- Service sector is estimated to grow at 8.9 per cent in 2016-17, almost the same as in 2015-16. It is the significant pick-up in public administration, defence and other services, boosted by the payouts of the Seventh Pay Commission that is estimated to push up the growth in services.

While all the analysis and recommendations above reflect the stance of the government, the implementation would be done in phased manner depending on the economic environment. But for sure, there are indications on the GDP growth for next year, which will be the basis of the entire exercise to be revealed in the Budget 2017.

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