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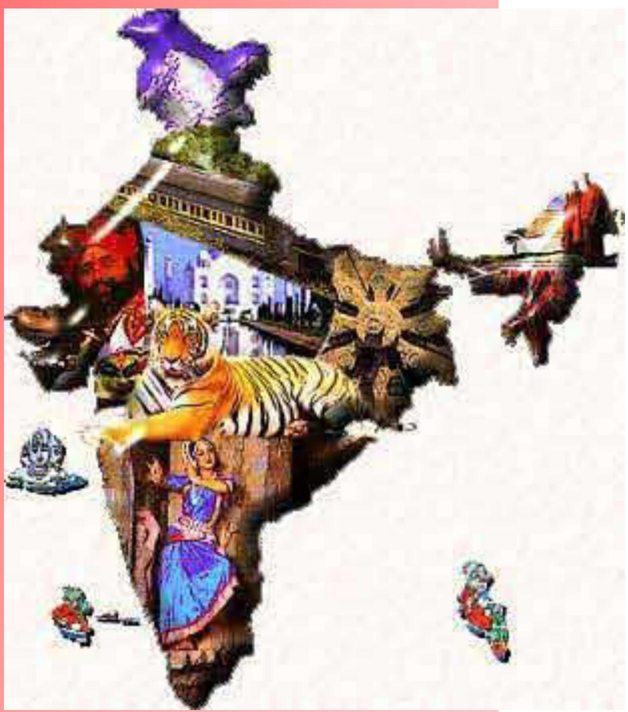

FREE

Economic Survey of India 2018

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Economic Survey of India 2018

Economic Survey of India will be annually published before the announcement of Union budget 2018 by the current finance minister (Arun Jaitley) in the presence of both houses of Parliament i.e., Lok Sabha and Rajya Sabha. Economic Survey will provide the review of, economic status of the country comparing the previous year. Economic Survey 2018 presenting the country's major development programmes has been undertaken by the Government of India. Economic Survey of India will also provide the detailed financial structure of main policy initiatives of the Government of India.

We can expect minimum of one or two question from Economic Survey 2018 for all the upcoming bank Exams. So, IG team provided you all the important possible questions which can be asked from Economic Survey of India.

Highlights of Economic Survey 2018:

According to the Economic Survey of India, India's GDP is expecting to grow **7-7.5%** in**FY-19** .

Policy agenda for next year is to **support agriculture, privatise Air India, finish bank recapitalization.**

Economic Survey 2018 hope for average **prize rising of crude oil** of about **12%** in **FY-19**.

Policy vigilance was required for next fiscal, if high oil prices persist or stock prices correct sharply.

Imports are expected to grow in the current financial year. So, the net exports of goods and services are slated to decline in 2017-18.

Since, **Exports** is the biggest **source for the growth of Country's economy**.

GVA (Gross Value Added) growth rate was expected to reach **6.1% in FY19**, while it marked 6.6% in FY17.

CPI (Consumer Price Index) inflation expects to mark **3.7%** In FY18

Real GDP will reach **75%** in **FY18.**

According to the GST report Indirect Tax payers was increased up to 50%.

Agricultural sector expected to **grow 2.1%, Service sector** growth seen at **8.3%**, and **Industrial sector** growth seen at **4.4%.**

Average growth rate of **GDP from 2014-15 to 2017-18** was ranged to **7.3%.** this is one of the highest among ,major economies of the world

Sanitation coverage in rural India increased the substantially due to launch Swachh Bharat Mission (Gramin) on October 2, 2014, Now it ranges from **39% to 76% (2014 – 2018).**

So far, 296 districts and 3,07,349 villages from all over India have been declared as Open Defecation Free (ODF).

Priority to social infrastructure like education, health to promote inclusive growth of the country.

Foreign exchange reserves have grew by 14.1% from December 2016- 2017. So Forex were estimated to USD 370 billion in FY 16-17

In 2017-18 **Forex** was grew to **USD 409.4 billion** in FY17-18

For the first time in India's history,data on the **international exports of states has been dwelt** in the Economic Survey. Such data indicates a strong correlation between export performance and states standard of living. States that export internationally and trade with other states were found to be richer.

India has very less contribution in Exports, while comparing with other countries. **India has contributed only 38% in exports**, While, Brazil has 72%, Germany has 68%, Mexico has 67%, USA has 55%.

20,339 crore has been approved by Government in FY 17-18 for **farmers**, to provide short-term crop loans, post-harvest storages and all other agricultural activities.

Urban migration leading to feminisation of farm sector

FDI (Foreign Direct Investment) in Service sector grew 15% in 2017-2018. This was achieved mainly due the steps taken by Government of India.

And the favor made by government in National Intellectual Property Rights (IPR) policy, implementation of GST, reforms for ease of doing business for FDI's.

Tax collected by states, local governments are significantly lower than those, collected in other federal countries

Retail inflation averaged to **3.3%** in 2017-18, which is lowest in last 6 fiscals.

Key Points in Economic Survey 2018

1. GDP – 7-7.5%
2. Retail inflation – 3.3%
3. crude oil rising – 12%
4. GVA – 6.1%
5. Sanitation Coverage in rural India – 39% to 76% (2014 – 2018).
6. Agricultural sector- 2.1%
7. Service sector – 8.3%
8. Industrial Sector – 4.4%
9. FDI in service sector – 15%
10. Farm loans and agricultural activities – Rs. 20,339 crore
11. Forex – USD 409.4 billion
12. Open Defecation Free (ODF) villages – 3,07,349 villages
13. Real GDP – 6.75%
14. CPI – 3.7%

Economic Growth

- **Projections** - The survey forecasts real GDP growth to reach 6.75% this fiscal.
- It is projected to rise to **7 - 7.5% in 2018-19**.
- There was a reversal of the declining trend of GDP growth in the second quarter of 2017-18, led by the industry sector.
- This could re-instate India as the world's fastest growing major economy.
- 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.

- Agriculture, industry and services sectors are expected to grow at 2.1, 4.4 and 8.3 percentages respectively in 2017-18.
- **Factors** - The growth projections were based on the various reform measures undertaken in the recent years.
- It includes GST, resolution of the Twin Balance Sheet (TBS) problem through IBC, recapitalization package for PSBs.
- Also, with liberalization of FDI and export uplift from the global recovery, the economy began to accelerate in the second half.
- **Comparative performance** - India's average GDP growth during last 3 years is around 4 percentage points higher than the global growth.

- India's growth averaged to 7.3% in 2014-15 to 2017-18 period.
- Lower inflation, improved current account balance and reduction in the fiscal deficit to GDP ratio are notable factors behind.
- The survey thus points out that India can be rated as among the best performing economies in the world.

- **Way Ahead** - The agenda for the next year to ensure a favourable growth trend has been charted out as:

… stabilizing the GST
… completing the TBS actions
… reducing unviable banks and allowing greater private sector participation
… privatizing Air India
… staving off threats to macro-economic stability

- Over the medium term, three areas of policy focus are spelt out:

… Employment - for the young and burgeoning workforce, especially women
… Education - creating an educated and healthy labour force
… Agriculture - raising farm productivity and strengthening agricultural resilience

Inflation

- **Headline** - The Consumer Price Index (CPI) based headline inflation averaged to **3.3%** during 2017-18.
- Many states have also witnessed a sharp fall in CPI inflation during 2017-18.
- **Trend** -This is notably the lowest in the last six financial years.

- It has been below 4% for twelve straight months, from November, 2016 to October, 2017.
- It indicates a gradual transition from a period of high and variable inflation in the last four years to more stable prices.
- **Food** – The CPI food inflation averaged around 1% during April-December in the current financial year.
- This has been possible due to Good agricultural production coupled with regular price monitoring by the Government.
- However, the recent rise in food inflation is mainly due to factors driving prices of vegetables and fruits.
- **Factors** – The decline in inflation was broad-based across major commodity groups except Housing and Fuel & Light.
- In rural areas food was the main driver of CPI inflation.
- In urban areas, housing sector contributed the most.

Monetary Management

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

Tax Collections

- The data on central finance is made available by The Controller General of Accounts (CGA).
- Accordingly, the growth in direct tax collections of the Centre was at 13.7% during April-November 2017.

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

Banking Sector

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

External Sector

- India's external sector continued to be resilient and strong in 2017-18.
- **International Developments** - The global economy is expected to accelerate from 3.2% in 2016 to 3.6% in 2017 and 3.7% in 2018.
- It reflects an upward revision of the earlier projections by IMF.

- **BoP** – India's balance of payments situation continued to be favourable in the first half of 2017-18 as since 2013-14.
- **CAD** – This is despite some rise in the Current Account Deficit (CAD) in the first quarter (Q1).
- India's CAD stood at US $7.2 billion in Q2 of 2017-18.
- This translates to **1.2%** of the GDP.
- It is a sharp decline from 2.5% of GDP in the preceding quarter.
- **Trade Deficit** – India's trade deficit (on custom basis) had widened.
- It stood at US$ 74.5 billion in the first half of 2017-18.
- This is against a declining trend in CAD observed since 2014-15.
- In 2017-18 (April-December) trade deficit (on custom basis) shot up by nearly 46%.
- It now stands at **US$ 114.9 billion**.
- The POL (petroleum, oil and lubricants) deficit and non- POL deficit has grown by nearly 27% and 65% respectively.

- **Composition of Trade** – 2017-18 (April-November) witnessed a mixed growth trend in terms of major sectors.
- Engineering goods, and petroleum crude and products registered a good export growth.
- Chemicals & related products and textiles & allied products witnessed a moderate growth.
- However, a negative growth was recorded by the gems and jewellery.
- **Prospects** – The prospects for India's External Sector in this and coming year look bright.
- The world trade is projected to grow at 4.2 % and 4% in 2017 and 2018 respectively, as against 2.4% in2016.
- The trade of major partner countries is improving, and India's export growth is also picking up.
- However, rise in oil prices is emphasized as a huge challenge in the coming period, posing a downside risk to trade.
- However, this could also lead to higher inflow of remittances which have already started picking up.
- Supportive policies like the GST, logistics and trade facilitation policies could help balance the risks.

Foreign Direct Investment

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

Trade Policy

- Two important developments on the trade policy front during the year relate to:

… mid-term review of Foreign Trade Policy (FTP)
… multilateral negotiations of WTO in December 2017

- Besides, some developments on the trade logistics front and anti dumping measures are worth mentioning.
- **Foreign Exchange Reserves** - India's foreign exchange reserves reached **US$ 409.4 billion** on end-December 2017.
- It is a growth by nearly 14% on a y-o-y basis from end December 2016.
- Major economies are running a current account deficit.
- Given this, India is **6th largest foreign exchange reserve holder** among all countries of the world.
- The import cover of India's foreign exchange reserves was 11.1 months at end-Sep 2017 (11.3 months at end March 2017).
- Import cover is the number of months of imports that could be supported by a country's international reserves.

Industrial Sector

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

- The IIP registered a 25-month high growth of 8.4% with manufacturing growing at 10.2%.
- **Core Industries** - The 8 Core Infrastructure Supportive Industries had a cumulative growth of **3.9%**(Apr-Nov 2017-18).
- They eight core industries are:

1. Coal
2. Crude Oil
3. Natural Gas
4. Petroleum Refinery Products
5. Fertilizers
6. Steel
7. Cement
8. Electricity

- The production growth of Coal, Natural Gas, Refinery Products, Steel, Cement and Electricity was positive during this period.
- While the production of crude oil and fertilizers fell marginally.
- **Performance indicators** - International ratings agency Moody's upgraded India's sovereign bond rating for first time in more than a decade.
- India ranked 100 out of 190 countries in Ease of Doing Business of the World Bank Report 2018.
- This is an increase of 30 positions over last year's rank.
- The upgrades are attributed to recent reform measures.
- **Reforms** - These include the GST, IBC, and announcement of bank recapitalization.
- Make in India programme, Start-up India and Intellectual Rights Policy to boost industrial growth are also the reasons.
- 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.
- **Suggestions** - The survey calls for promoting inclusive employment-intensive industry.
- This, along with building resilient infrastructure are said to be vital factors for economic development.

Ease of Doing Business – Judiciary

- **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.
- It leaped 53 and 33 spots in the taxation and insolvency indices, respectively; an outcome of taxation reforms and IBC, 2016.
- India also registered uptrends in protecting minority investors and obtaining credit, facilitation of electricity, etc.
- **Concerns** – High number of delays and pendency of economic cases in Supreme Court, Economic Tribunals and Tax department.
- This is reflecting in terms of stalled projects, mounting legal costs, contested tax revenues and reduced investment.
- These concerns hamper dispute resolution and contract enforcement.
- **Government Measures** – The Government has taken a number of actions to improve the contract enforcement regime including:

… Scrapping of over 1,000 redundant legislations
… Amending the Arbitration and Conciliation Act, 2015
… Commercial Courts Commercial Divisions and Commercial Appellate Division of High Courts Act, 2015
… Expanding the Lok Adalat Programme

- The Judiciary has also expanded the National Judicial Data Grid (NJDG).
- This is near to ensuring that every High Court is digitized.

- **Suggestions** – The Survey suggests coordinated action between government and the judiciary.
- It calls for a Cooperative Separation of Powers between judiciary on one hand and executive/legislature on the other.
- This is a horizontal variant of the vertical cooperation between the Centre and States (Cooperative Federalism) in case of GST.
- The Survey also suggests to consider efforts for alleviating pendency in the lower judiciary as a performance-based incentive for States.
- Other suggestions in this regard include:

1. expanding judicial capacity in lower courts and reducing existing burden on HCs and the SC
2. limited appeals by tax department considering its low success rate

3. increasing state expenditure on judiciary, especially for modernization and digitization
4. focussing on internal specialization and efficiencies of SC by creating more subject-matter and stage-specific benches
5. prioritizing stayed cases, and imposing stricter timelines by courts, especially when involving government infrastructure projects
6. improving Courts Case Management and Court Automation Systems

Services Sector

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

Key Highlights of Survey

Growth Forecast: The real GDP growth projections for 2017-18 is expected to be around 6.75%, which is further expected to reach to 7-7.5% in 2018-19 driven by major reforms initiated by the government. There was reversal of declining trend of GDP growth in second quarter of 2017-18. The growth during this period was led by industry sector. Agriculture, industry and services sectors are expected to grow at the rate of 2.1%, 4.4%, and 8.3% respectively in 2017-18.

Fiscal discipline: The fiscal deficit as percentage to GDP to remain stable at 3.2%, indicating that government's priority still lies in fiscal consolidation.

Inflation: Lower CPI inflation average to 3.33% will be seen but higher WPI Inflation average to 2.9% in 2017-18.

Exports: Growth of exports rebounded into positive one during 2016-17 and expected to grow faster in 2017-18 to 12.1% after remaining in negative territory for a couple of years.

Forex reserves: India can be rated as among the best performing economies in the world with its foreign exchange reserves shooting to $409.4 billion.

Goods and Services Tax (GST): It has given new perceptive of Indian economy and new data on indirect taxation has emerged. There has been a 50% increase in number of indirect taxpayers.

India's formal sector: The formal non-farm payroll is substantially greater than currently believed to be. When formality was defined in terms of social security provisions like EPFO/ESIC, then the formal sector payroll was found to be about 31% of the non-agricultural work force. When it was defined in terms of being part of the GST net, then such formal sector payroll share was found to be 53%.

International exports of states: For the first time in India's history, data on the international exports of states was dwelled in Economic Survey. It indicates strong correlation between export performance and states' standard of living. States exporting internationally and trading with other states were found to be richer. Thus, such correlation is stronger between prosperity and international trade.

Firms and Exports: India's exports are unusual as largest firms account for a much smaller share of exports than in other comparable countries. Top 1% of Indian firms account only for 38% of exports unlike in other countries where they account for substantially greater share – (72%, 68%, 67% and 55% in Brazil, Germany, Mexico and US respectively). Such tendencies were also found to be true for top 5-10% of the Indian companies.

Desire for male child: Indian society exhibits a strong desire for male child. It pointed out that most parents continued to have children until they get number of sons. Various scenarios leading to skewed sex ratios have been mentioned in survey and it also gave comparison on sex ratio by birth between India and Indonesia.

Tax disputes: Tax departments in India have gone in for contesting against in several tax disputes but with low success rate which is below 30%. About 66% of pending cases accounted for only 1.8% of value at stake. It further stated that 0.2% of cases accounted for 56% of value at stake.

Impact of climate change on agricultural yields: Extreme temperature increases and deficiency in rainfall have due to climate change and its impact on agricultural yields has been captured in survey. The impact was found to be twice as large in un-irrigated areas as in irrigated ones.

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