



# Economic Survey 2016-17 Volume-2 : State of the Economy - An Analytical

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## Fiscal Developments

- The fiscal outcome of the Central Government in 2016-17 was marked by strong growth in tax revenue, sustenance of the pace of capital spending and a consolidation of non-salary/pension revenue expenditure. This combination allowed the Government to contain the fiscal deficit to 3.5 per cent of GDP in 2016-17.
- The Union Budget for 2017-18 opted for a gradual fiscal consolidation path: the fiscal deficit is expected to decline to 3.2 percent of GDP in 2017-2018. The fiscal deficit target of 3 per cent of GDP under the FRBM framework is projected to be achieved in 2018-19.
- The Budget for 2017-18 introduced a number of procedural reforms, including: the integration of the Railway Budget with the Union Budget; advancing of the date of the Union Budget to February 1, almost by a month; elimination of the classification of expenditure into 'plan' and 'non-plan'; and, restructuring of the Medium Term Expenditure Framework Statement with projected expenditures (revenue and capital) for each demand for the next two financial years.
- Overshadowing these otherwise significant fiscal policy initiatives is the introduction of the Goods and Services Tax with effect from the 1<sup>st</sup> day of July 2017, encompassing a plethora of the Central and State level indirect taxes, paving the way for a dramatic transformation of the Indian markets and the economy.

## Monetary Management and Financial Intermediation

- The Reserve Bank of India cut the policy rate by 50 basis points during 2016-17. However, it shifted its monetary policy stance from accommodative to neutral in February 2017. As of August 2017 Repo rate stood at 6.00 per cent and reverse repo rate at 5.75 per cent.
- Monetary aggregates decelerated significantly following the withdrawal of legal tender status of specified bank notes on November 9, 2016. As of 31<sup>st</sup> March 2017, currency in circulation contracted by 19.7 per cent whereas reserve money contracted by 12.9 per cent.
- Credit off-take from banks continued to decelerate further. During 2016-17, gross bank credit outstanding grew at around 7 per cent on an average. The average gross bank credit to industry contracted by 0.2 per cent in the FY 2016-17.
- Sluggish growth and increasing indebtedness in some sectors of the economy have impacted the asset quality of banks and this is a cause for concern. The gross non-performing advances (GNPAs) ratio of SCBs rose from 9.2 per cent in September 2016 to 9.5 per cent in March 2017.
- Financial inclusion is proceeding apace under the Pradhan Mantri Jan Dhan Yojana. Zero balance accounts under PMJDY has declined consistently from nearly 58 per cent in March 2015 to around 24 per cent as of December 2016.

## Prices and Inflation

- Significant moderation in CPI headline inflation during the last three years. CPI inflation fell to a series low of 1.5 percent in June 2017.
- Broad based decline in all commodity groups during 2016-17, the most significant being decline in food.
- Food inflation, which was the main driver of inflation in the past, declined significantly during the year because of improvements in supply of pulses and vegetables on the back of a normal monsoon. Core inflation-indicative of underlying trends -- too declined in the last few months.
- Convergence between CPI and WPI inflation in the last few months.
- Most States/UTs witnessed sharp decline in CPI inflation in 2016-17 as compared to the previous year.
- Both rural and urban inflation have declined in 2016-17 and the gap between rural and urban inflation has narrowed down in recent months.

## Climate Change, Sustainable Development and Energy

- India ratified the Paris Agreement on 2<sup>nd</sup> October, 2016. India's actions for the post-2020 period are based on its Nationally Determined Contribution (NDC).
- India's NDC targets to lower the emissions intensity of GDP by 33 - 35 per cent by 2030 from 2005 levels, to increase the share of non-fossil based power generation capacity to 40 per cent of installed electric power capacity (cumulative) by 2030, and to create an additional carbon sink of 2.5-3 Gt CO<sub>2</sub>e through additional forest and tree cover by 2030.
- At the multilateral level, the international community is engaged in writing the "Paris rule book" which includes guidelines and modalities for the implementation of the Paris Agreement for the transparency framework for action and support, features and accounting of NDCs etc. At the national level, the roadmap for implementation of India's NDC is being prepared, by constituting an Implementation Committee and six Sub-Committees. The Committees are working to elaborate their respective NDC goals and identify specific policies and actions aimed at achieving them.
- India has set itself ambitious targets in the area of renewable energy. Moving ahead in this direction, India is implementing the largest renewable energy expansion programme in the world. It envisages a 5-fold increase in the overall renewable energy capacity to 175 GW by 2022. This includes 100 GW of solar, 60 GW of wind, 10 GW of biomass, and 5 GW of small hydro power capacity.
- There is an urgent need to further increase the access of the poor to more efficient energy resources. Many schemes have been implemented by the government to tackle this like Pradhan Mantri Ujjwala Yojana, PAHAL scheme, Deen Dayal Upadhyaya Gram Jyoti Yojana. A large number of focused initiatives have been taken in various sectors of the economy to ensure a pathway of lower emission and climate resilient development.
- India is at a stage of development that requires it to grow at a fast rate and lift the large number of their citizens from below the poverty line. Energy deprivation levels for a sizeable portion of population remain at high levels. The SDG 7 is to *ensure access to affordable, reliable, sustainable and modern energy for all*.
- Social cost analysis of coal and renewables based power done in the chapter indicate higher social costs for renewables. Storage costs and stranding of assets based on coal based power are major costs associated with the renewables based power. Given that the first goal for India is to provide 100 per cent energy access to its population and bridge the development deficit gap, all energy sources need to be tapped.
- A number of initiatives have been taken in the Indian financial sector also. In the renewable energy segment, as per the notification of the RBI in May 2016, bank loans of up to Rs.15 crore for solar-based power generators, biomass-based power generators, wind mills, micro-hydel plants, etc. will be considered part of Priority Sector Lending. The External Commercial Borrowing (ECB) norms have been further liberalized so that green projects can tap this window for raising finance across the borders. The Securities and Exchange Board of India (SEBI) has, in May 2017, put in place the framework for issuance of green bonds.

## External Sector

- India's balance of payments situation which was benign and comfortable during 2013-14 to 2015-16, further improved in 2016-17, as a result of low and falling trade and current account deficits and moderate and rising capital inflows, resulting in further accretion of foreign exchange reserves.
- Reflecting the slowly improving world economic situation, India's exports turned positive at 12.3 per cent in 2016-17 after an interregnum of two years. This along with a marginal decline in imports by 1.0 per cent resulted in narrowing down of trade deficit to US\$ 112.4 billion (5 per cent of GDP) in 2016-17 as compared to US\$ 130.1 billion (6.2 per cent of GDP) in 2015-16.
- The current account deficit (CAD) narrowed down progressively to 0.7 per cent of GDP in 2016-17 from 1.1 per cent of GDP in 2015-16 led by sharp contraction in trade deficit which more than outweighed a decline in net invisibles earnings.
- Net capital inflows were slightly lower at US\$ 36.8 billion (1.6 per cent of GDP) in 2016-17 as compared to US\$ 40.1 billion (1.9 per cent of GDP) in the previous year, mainly due to fall in NRI deposits.
- Gross FDI inflows to India increased significantly to US\$ 60.2 billion in 2016-17 from US\$ 55.6 billion in 2015-16. Net FDI inflows (i.e. net of outward FDI) at US\$ 35.6 billion, however, moderated marginally by 1.1 per cent from US\$ 36.0 billion in 2015-16.
- In 2017-18 (April-June) there was double digit export growth at 10.6 per cent with export growth continuing to be in positive territory continuously for the last eleven months.
- Among the major economies running current account deficit, India is the second largest foreign exchange reserve holder after Brazil with reserves at US\$ 386.4 billion as on 7<sup>th</sup> July, 2017.
- The average monthly exchange rate of the rupee against the US dollar after depreciating continuously from November 2016 to January 2017, has appreciated continuously from February to June 2017, while in the case of the Pound sterling, Euro and Japanese yen there have been monthly variations. The rupee performed better than many other EME-currencies in 2016-17.
- During 2016-17, while on an average (on a y-o-y basis), the Indian rupee depreciated by 2.4 per cent against the US dollar, in terms of the nominal effective exchange rate (NEER) against a basket of 6 and 36 currencies, the rupee depreciated by 0.5 per cent and 0.1 per cent, respectively. However, in terms of the real effective exchange rate (REER) against a basket of 6 and 36 currencies, it appreciated by 2.7 per cent and 2.2 per cent, respectively in 2016-17.

- Most of the external debt indicators of India improved at end-March 2017 compared end-March, 2016. India's aggregate external debt stock at end-March 2017 stood at US\$ 471.9 billion registering a decline of US\$ 13.1 billion (2.7 per cent) over end-March 2016. The ratio of external debt to GDP fell to 20.2 per cent from 23.5 per cent, while foreign exchange reserves provided a cover of 78.4 per cent to external debt compared to 74.3 per cent in the previous year. Debt service ratio fell to 8.3 per cent from 8.8 per cent and ratio of concessional debt to total external debt increased to 9.3 per cent from 9.0 per cent. Short term debt (residual maturity) to total external debt fell to 41.5 per cent from 42.7 per cent. Short term debt (residual maturity) to forex reserves also fell to 52.9 per cent from 57.4 per cent. Cross country comparison of external debt indicates that India continues to be among the less vulnerable countries.

- Some green shoots have started to appear in the trade horizon as well with world trade growth projected at 3.8 per cent and 3.9 per cent in 2017 and 2018 and India's trade growth also picking up.

## Agriculture and Food Management

- The average farm size in India is small, and declining since 1970-71. The predominance of small operational holdings is a major limitation to reap the benefits of economies of scale in agriculture operations.

- The progress in agriculture needs to be evaluated in terms of outcomes such as catching up with global yields of various crops as a means to increase incomes of farmers.

- Credit is an important mediating input for agriculture to improve productivity. The predominance of informal sources of credit for farmers is a concern. There is regional disparity in the distribution of agricultural credit which also needs to be addressed.

- The key challenge that the horticulture sector faces in India are post-harvest losses, availability of quality planting material and lack of market access for horticultural produce of small farmers.

## Industry and Infrastructure

- Industrial performance has shown a moderation from 8.8 percent during 2015-16 to 5.6 percent in 2016-17.

- Industrial growth as per Index of Industrial Production (IIP) new series of 2011-12 shows overall IIP growth at 5 percent in 2016-17 as compared to 3.4 percent last year.

- The Index of Eight Core Industries growth during 2016-17 was 4.8 percent as compared to 3.0 percent in 2015-16.

- The Government in 2016 introduced imposition of Minimum Import Price (MIP) to counter dumping of Steel into Indian markets. Steps taken by the government have borne fruit since imports of Steel by India have declined by 36.2 percent while exports have risen by 102 percent in 2016-17.

- The apparel sector is a highly employment intensive industry especially for women. The Government on 22<sup>nd</sup> June 2016 approved Rs.6,000 crore special package for textile & apparel sector. Post the release of funds in November 2016, there has been a marked rise in clothing exports.

- The measures taken by the Government has resulted in FDI equity inflow of 43.4 Billion USD in Financial Year 2016-17, which is the highest ever FDI Equity inflows.

- India is far ahead than many emerging economies in terms of providing qualitative transportation related infrastructure.

- During 2016-17, Indian Railways registered freight earnings at Rs.104339 crore (P), registered a negative growth of 4.5 per cent over 2015-16 due to carrying larger volume of low fare freight in the year. Passenger earnings at Rs.46280 crore (P) registered an increase of 4.5 per cent during 2016-17.

- Indian domestic airlines have a very lower share in international traffic to and from India. Factors like foreign airlines utilising the 6<sup>th</sup> freedom of the air, expansion of capacity entitlements under bilateral air service agreements with foreign countries, lower utilisation of India's own capacity entitlements, the 0/20 rule and fleet constraints are responsible for the same.

- The Government formulated and launched the UDAY scheme for financial turnaround of power distribution companies on November 20, 2015. The 26 states and 1 UT which have joined the UDAY scheme account for total outstanding debt of Rs. 3.82 lakh Cr. So far, fifteen states have issued UDAY bonds totaling Rs.2.09 lakh Cr. and DISCOMs have issued Bonds worth Rs. 0.23 lakh Cr.

- After the introduction of UDAY, National average (all UDAY states) of AT&C loss has come down to 20.2 per cent in FY 2017 from 21.1 per cent in FY 2016; billing efficiency has been increased by 2 per cent from 81 per cent in 2015-16 to 83 per cent in 2016-17 at all India level and 15 states have issued tariff-revisions for FY 2017-18.

- Under Smart Cities Mission, 57 projects worth Rs.941 crore have already been completed as of April 2017. An estimated additional 462 projects worth Rs.15307 crore are likely to be completed through 2018 provided all the projects that have commenced implementation and those that have been tendered stick to their timelines.

## Services Sector

- The services sector remains the key driver of India's economic growth, contributing almost 62 per cent of its gross value added growth in 2016-17. However, the growth of this sector has moderated to 7.7 per cent in 2016-17 compared to 9.7 per cent achieved in the previous year, though it continues to be higher than the other two sectors and nearly at the top among the 15 major economies.
- The services growth moderation is mainly due to deceleration in growth in two services categories- trade, hotels, transport, communication and services related to broadcasting (7.8 per cent), and financial, real estate & professional services (5.7 per cent). The share of services sector in total gross capital formation (GCF), at current prices has increased consistently over the last four years from 53.3 per cent in 2011-12 to 60.3 per cent in 2015-16.
- There has been a significant growth in FDI equity inflows in 2014-15 and 2015-16 in general (27.3 per cent and 29.3 per cent) and to the services sector in particular (67.3 per cent and 64.3 per cent for top 15 services). However, in 2016-17, the growth rate of total FDI equity inflows moderated and FDI equity inflows to the services sector (top 15 services) declined.
- India's and world's services export trend growth were almost flat in the pre-crisis period, while in the post-crisis period, the deceleration in trend growth of India's services was sharper than world services export growth. In 2016-17, services exports recorded a positive growth of 5.7 per cent with pick up in some major sectors like transportation, business services and financial services; and good growth in travel. However, Software services exports, accounting for around 45.2 per cent of total services, declined though marginally by 0.7 per cent.
- The performance of India's Services Sector has been subdued in 2016-17 in line with the global trend. However, some services continue to be key drivers of India's economic growth. There was reasonably good performance in telecom with increase in telecom connections reflecting the Jio effect, aviation particularly domestic travel, tourism related services particularly in terms of foreign exchange earnings, and even information technology-business process management (IT-BPM) despite fall in growth in computer software.
- As per the Ministry of Tourism data, *Foreign Tourist Arrivals* (FTAs) during 2016 grew by 9.7 per cent and *Foreign Exchange Earnings* (FEEs) through Tourism, in US\$ terms, grew by 8.8 per cent. Various initiatives have been taken by the Government to promote tourism sector of the country that include e-Visa for the citizens of 161 countries, promotion of India as a 365 days destination, launching of Multilingual Tourist Infoline, and Swachh Paryatan Mobile App.
- As per NASSCOM, in 2016-17 India's total revenue (exports plus domestic) of the IT-BPM sector including and excluding hardware is expected to touch US\$154 billion and US \$140 billion, with growths of 7.8 per cent and 8.1 per cent respectively. IT-BPM exports are expected to reach USD 117 billion, with a growth of 7.6 per cent. Meanwhile, the Government of India's rapid adoption of technologies as a platform to delivery of government-to-government and government-to-citizen services is a tremendous push factor for the domestic IT-BPM market.
- Real estate sector including ownership and dwellings accounted for 7.6 per cent share in India's overall GVA in 2015-16. The growth of this sector decelerated in the last three years from 7.5 per cent in 2013-14 to 6.7 per cent in 2014-15 and further to 4.5 per cent in 2015-16. Despite the subdued demand, residential prices did not fall with the NHB RESIDEX, showing increase in prices in 33 cities out of 50 cities in 2016-17 Q4 over 2015-16 Q4.
- Satellite mapping and launching services are two areas in which India is making a mark and has huge potential for the future. The foreign exchange earned by India from satellite mapping in the last five years was more than Rs 100 crores. Foreign exchange earnings of India from export of satellite launch services has increased noticeably in 2015-16 and 2016-17 and consequently India's share in global satellite launch services revenue has also increased.
- India's services sector growth, which was highly resilient even during the global financial crisis, has been showing moderation in recent times. However, pick up is seen in recent months with some segments of the sector showing better performance.

## **Social Infrastructure, Employment and Human Development**

- The deterioration in quality learning in primary education sector and achievement of targeted enrolment level in the middle education is a challenge
- Employment in India poses a great challenge in terms of its structure which is dominated by informal, unorganized and seasonal workers, and is characterized by high levels of under employment, skill shortages, with the labour markets impacted by rigid labour laws, and the emergence of contract labour.
- The health sector in India faces many challenges in the form of declining role of public delivery of health services, high Out of Pocket (OoP) expenses on health and issues of accessibility and affordability of health services for many.
- The Government's Swachh Bharat Mission has had remarkable progress since its inception. With its focus on cleanliness and Open Defecation Free (ODF) India, there has been a significant decline in the number of people who defecate in the open, which is estimated at less than 35 crores.

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