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Info Capsule

FINANCE MINISTER PRESENT ECONOMIC SURVEY 2017-18 IN PARLIAMENT[1]

Real GDP Growth to Clock 6.75 Percent this Fiscal
Economic Survey Predicts 7-7.5 Percent Growth in 2018-19
Employment, Education & Agruiculture To Be The Focus Areas In Medium Term, Says Survey

A series of major reforms undertaken over the past year will allow real GDP growth to reach 6.75 percent this fiscal and will rise to 7.0 to 7.5 percent in 2018-19, thereby re-instating India as the world's fastest growing major economy. This was stated in the Economic Survey 2017-18 tabled in Parliament on January 29, 2018 by the Union Minister for Finance and Corporate Affairs, Shri Arun Jaitley. It said that the reform measures undertaken in 2017-18 can be strengthened further in 2018-19.

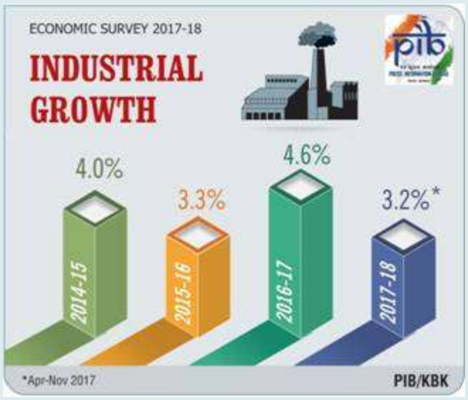
The survey underlines that due to the launch of transformational Goods and Services Tax (GST) reform on July 1, 2017, resolution of the long-festering Twin Balance Sheet (TBS) problem by sending the major stressed companies for resolution under the new Indian Bankruptcy Code, implementing a major recapitalization package to strengthen the public sector banks, further liberalization of FDI and the export uplift from the global recovery, the economy began to accelerate in the second half of the year and can clock 6.75 percent growth this year. The survey points out that as per the quarterly estimates; there was a reversal of the declining trend of GDP growth in the second quarter of 2017-18, led by the industry sector. The Gross Value Added (GVA) at constant basic prices is expected to grow at the rate of 6.1 per cent in 2017-18 as compared to 6.6 per cent in 2016-17. Similarly, Agriculture, industry and services sectors are expected to grow at the rate of 2.1 per cent, 4.4 per cent, and 8.3 per cent respectively in 2017-18. The survey adds that after remaining in negative territory for a couple of years, growth of exports rebounded into positive one during 2016-17 and expected to grow faster in 2017-18. However, due to higher expected increase in

[1] Available at: http://www.pib.gov.in/PressReleseDetail.aspx?PRID=1518086

imports, net exports of goods and services are slated to decline in 2017-18. Similarly, despite the robust economic growth, the savings and investment as a ratio of GDP generally declined. The major reduction in investment rate occurred in 2013-14, although it declined in 2015-16 too. Within this the share of household sector declined, while that of private corporate sector increased.

The survey points out that India can be rated as among the best performing economies in the world as the average growth during last three years is around 4 percentage points higher than global growth and nearly 3 percentage points higher than that of Emerging Market and Developing Economies. It points out that the GDP growth has averaged 7.3 per cent for the period from 2014-15 to 2017-18, which is the highest among the major economies of the world. That this growth has been achieved in a milieu of lower inflation, improved current account balance and notable reduction in the fiscal deficit to GDP ratio makes it all the more creditable.

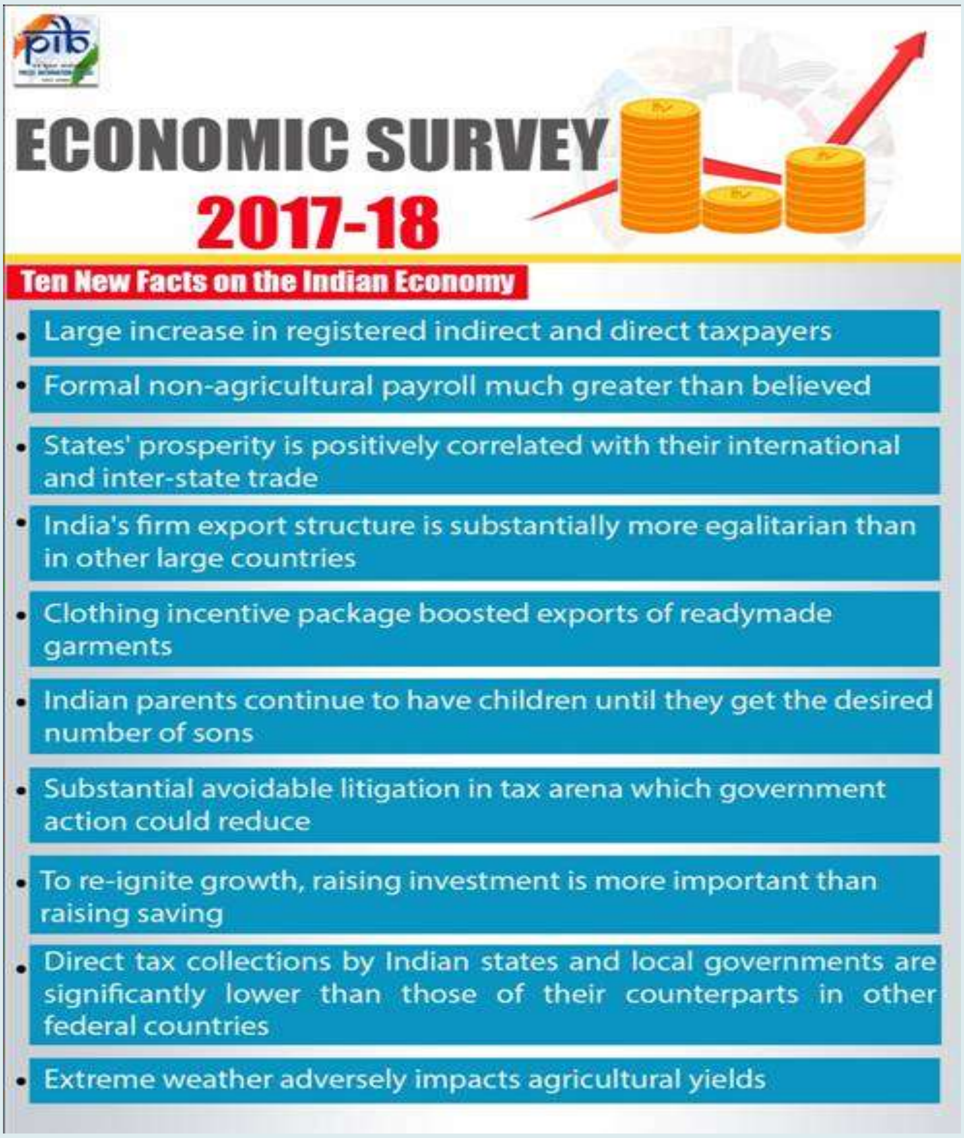
Though concerns have been expressed about growing protectionist tendencies in some countries but it remains to be seen as to how the situation unfolds. Some of the factors could have dampening effect on GDP growth in the coming year viz. the possibility of an increase in crude oil prices in the international market. However, with world growth likely to witness moderate improvement in 2018, expectation of greater stability in GST, likely recovery in investment levels, and ongoing structural reforms, among others, should be supporting higher growth. On balance, country's economic performance should witness an improvement in 2018-19.



The survey highlights that against the emerging macroeconomic concerns, policy vigilance will be necessary in the coming year, especially if high international oil prices persist or elevated stock prices correct sharply, provoking a "sudden stall" in capital flows. The agenda for the next year consequently remains full: stabilizing the GST, completing the TBS actions, privatizing Air India, and staving off threats to macro-economic stability. The TBS actions, noteworthy for cracking the long-standing "exit" problem, need complementary reforms to shrink unviable banks and allow greater private sector participation. The GST Council offers a model "technology" of cooperative federalism to apply to many other policy reforms. Over the medium term, three areas of policy focus stand out: Employment: finding good jobs for the young and burgeoning workforce, especially for women. Education: creating an educated and healthy labor force. Agriculture: raising farm productivity while strengthening agricultural resilience. Above all, India must continue improving the climate for rapid economic growth on the strength of the only two truly sustainable engines—private investment and exports.

ECONOMIC SURVEY DRAWS ATTENTION TO 10 NEW ECONOMIC FACTS ON INDIAN ECONOMY[2]

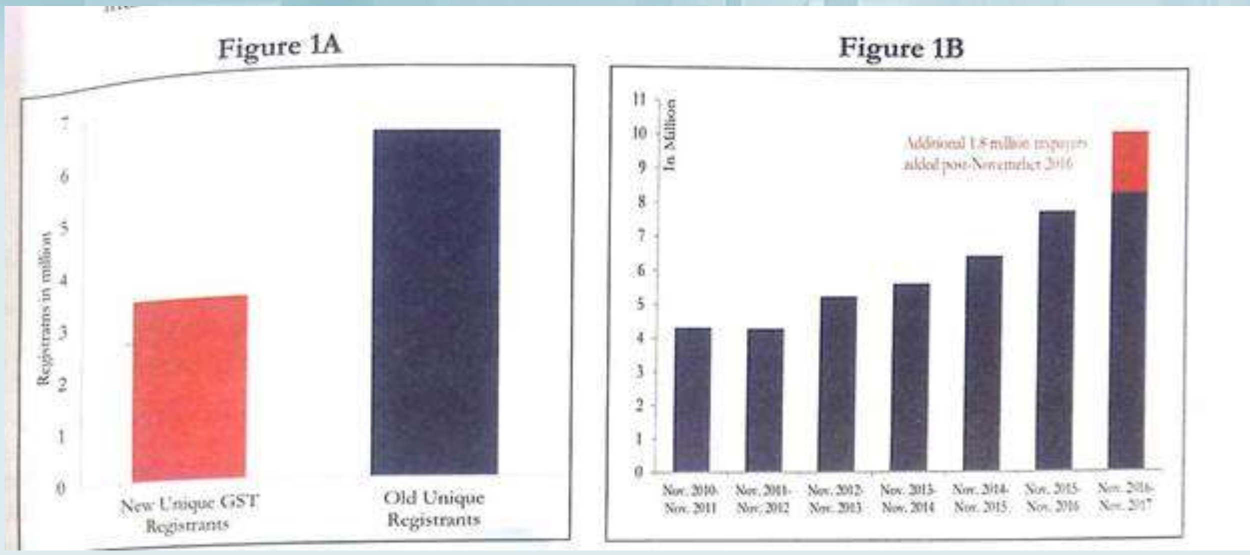
The Economic Survey presented by the Union Finance Minister Shri Arun Jaitley in Parliament has relied upon analysis of the new data to highlight ten new economic facts:



[2] Available at: http://www.pib.gov.in/PressReleseDetail.aspx?PRID=1518086

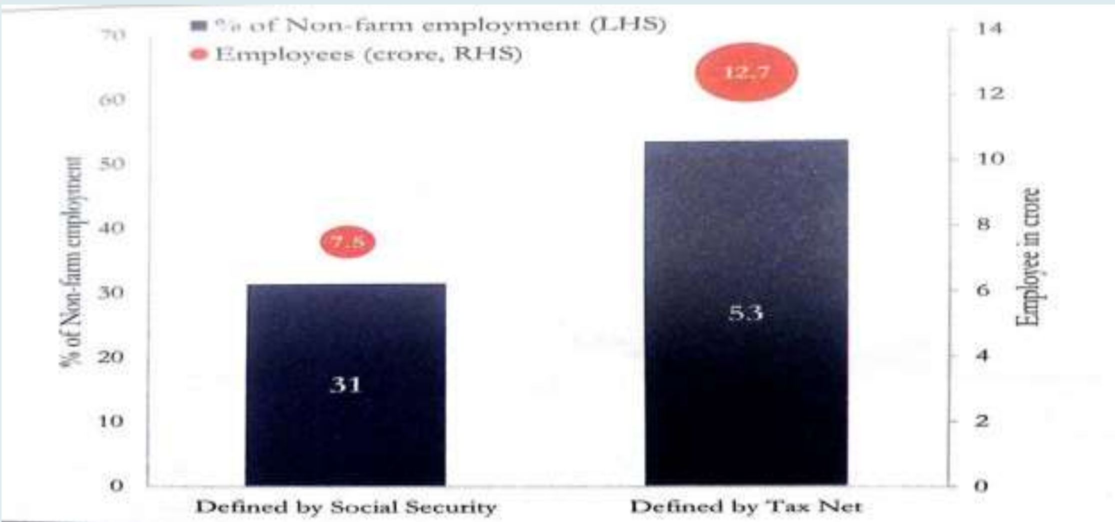
1. Goods and Services Tax (GST) has given a new perceptive of the Indian economy and new data has emerged. There has been a fifty percent increase in the number of indirect taxpayers. There has also been a large increase in voluntary registrations, especially by small enterprises that buy from large enterprises wanting to avail themselves of input tax credits.

   The Survey also stated that fears of major producing states that the shift to the new system would undermine their tax collections have been allayed as the distribution of the GST base among the states got closely linked to the size of their economies.

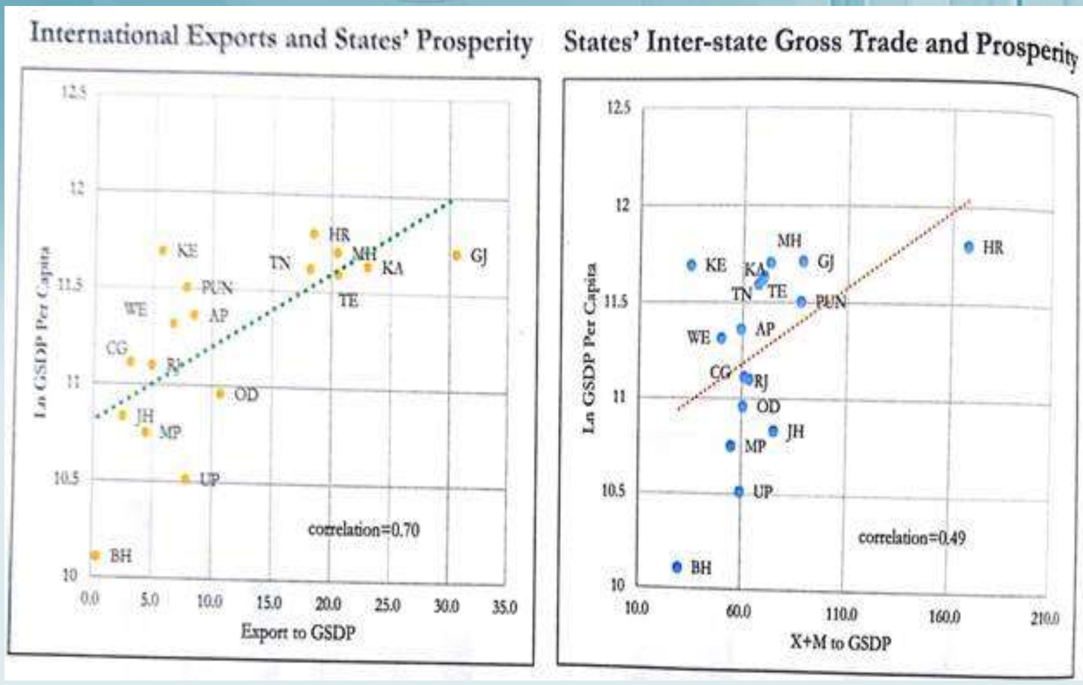


   Similarly, there has been an addition of about 18 lakh in individual income tax filers since November 2016.

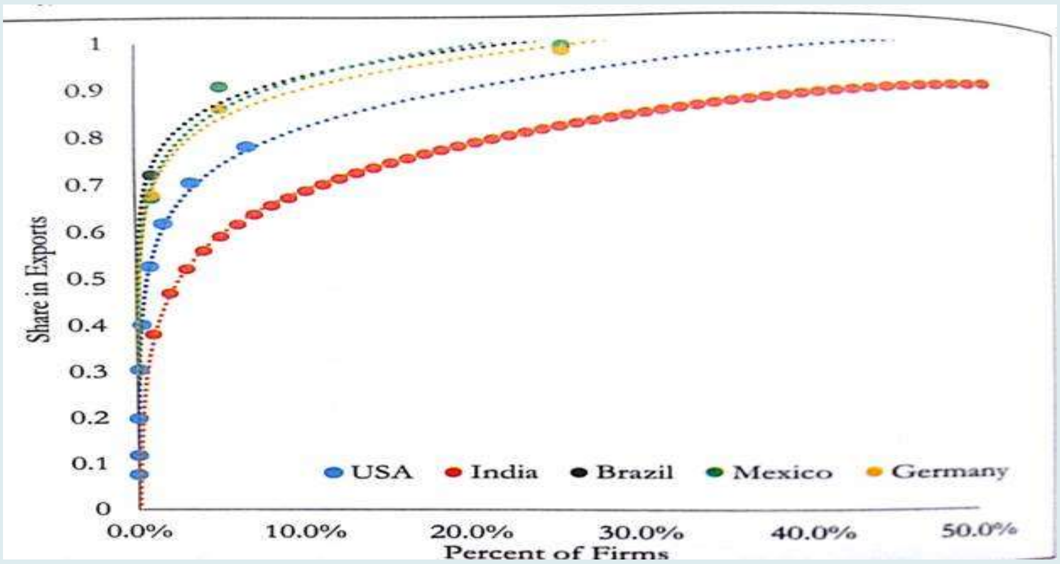
2. India's formal sector, especially formal non-farm payroll, is substantially greater than what it currently is believed to be. It became evident that when "formality" was defined in terms of social security provisions like EPFO/ESIC the formal sector payroll was found to be about 31 percent of the non-agricultural work force. When "formality" was defined in terms of being part of the GST net, such formal sector payroll share was found to be 53 percent.



3. 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. Such correlation is stronger between prosperity and international trade.

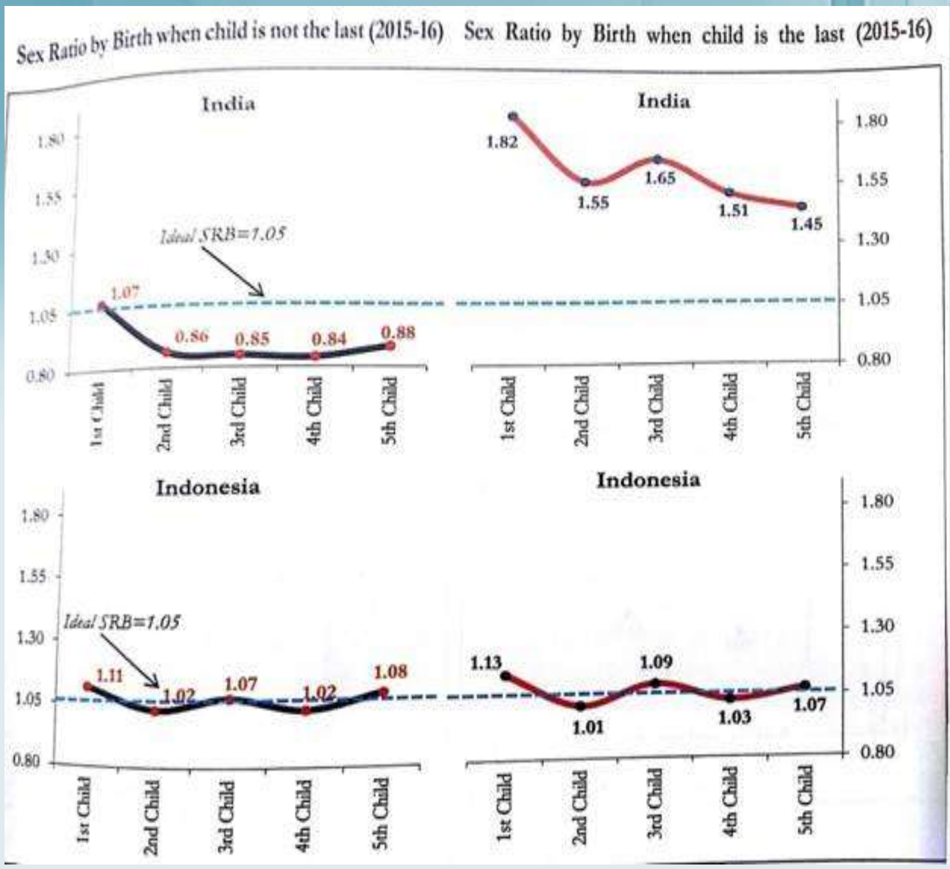


4. India's exports are unusual in that the largest firms account for a much smaller share of exports than in other comparable countries. Top one percent of Indian firms account only for 38% of exports unlike in other countries where they account for substantially greater share – (72, 68, 67 and 55 percent in Brazil, Germany, Mexico and USA respectively). Such tendencies were also found to be true for the top five or ten per cent of the Indian companies.



5. It was pointed out that the Rebate of State Levies (ROSL) has increased exports of ready-made garments (man-made fibers) by about 16 per cent but not of others.

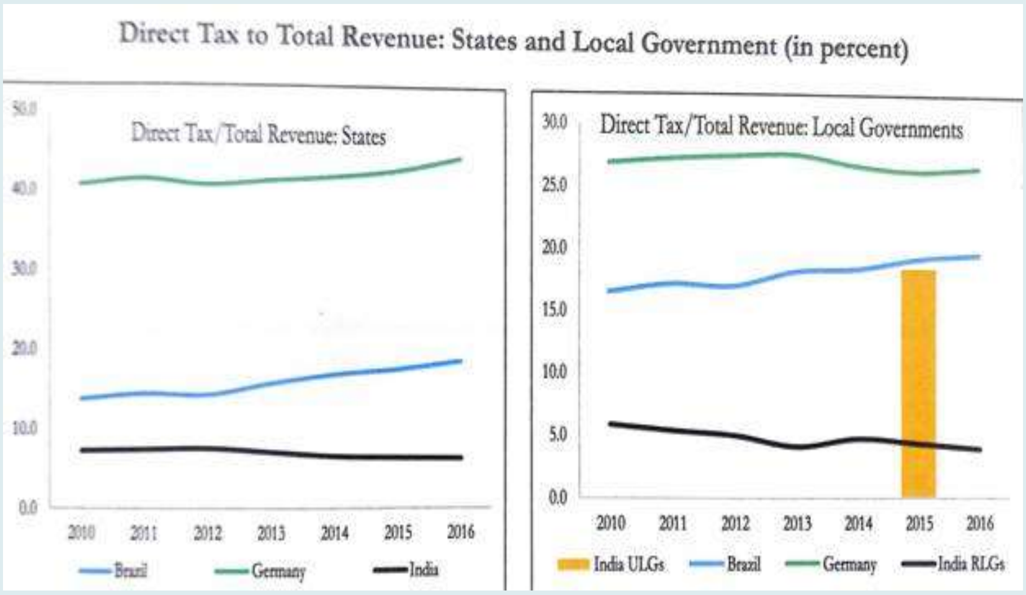
6. The data highlighted another seemingly known fact that Indian society exhibits a strong desire for a male child. It pointed out that most parents continued to have children until they get number of sons. The survey gave details of various scenarios leading to skewed sex ratios and also gave a comparison on sex ratio by birth between India and Indonesia.



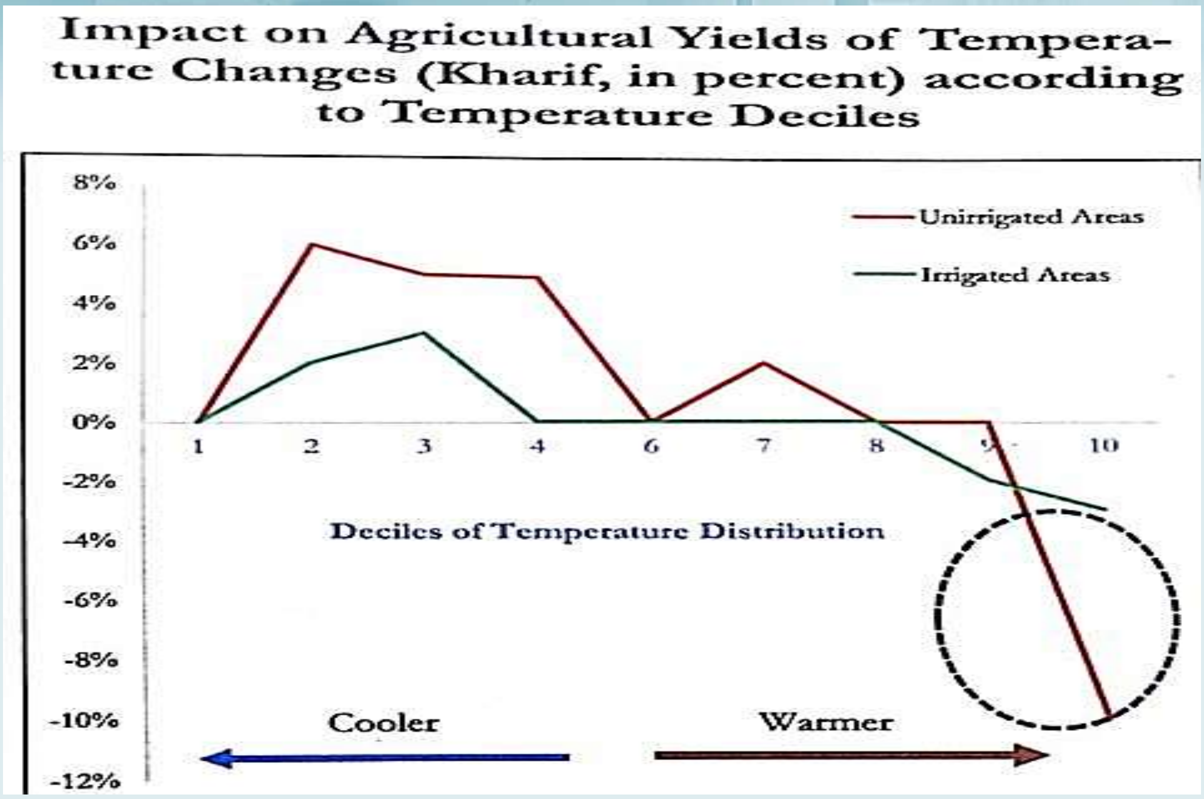
7. The survey pointed out that tax departments in India have gone in for contesting against in several tax disputes but also with a low success rate which is below 30 per cent. About 66 per cent of pending cases accounted for only 1.8 per cent of value at stake. It further stated that 0.2 per cent of cases accounted for 56 per cent of the value at stake.

8. Extrapolating the data the survey indicated that growth in savings did not bring economic growth but the growth in investment did.

9. The survey mentions that collections of direct taxes by Indian states and other local governments, where they have powers to collect them is significantly lower than their counterparts in other federal countries. A comparison has been given between ratios of direct tax to total revenues of local governments in India, Brazil and Germany.



10. The survey captures the footprints of climate change on the Indian Territory and consequent adverse impact on agricultural yields. Extreme temperature increases and deficiency in rainfall have been captured on the Indian map and the graphical changes in agricultural yields are brought out from such data. The impact was found to be twice as large in un-irrigated areas as in irrigated ones.



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