

## Economic Survey 2018-19 Highlights - Part II

Click [here](#) for Part I and [here](#) for Part III

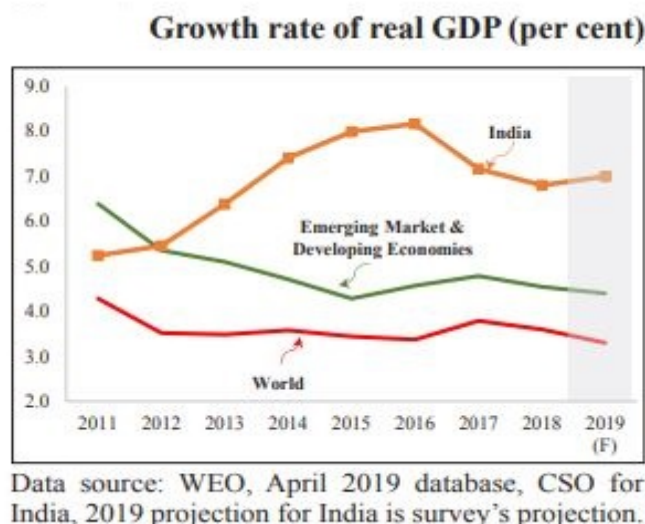
### Why in news?

The Union Minister for Finance and Corporate Affairs, Ms. Nirmala Sitharaman tabled the Economic Survey 2018-19 in the Parliament.

### What are the key highlights?

#### STATE OF THE ECONOMY IN 2018-19: A MACRO VIEW

- **Growth** - Growth of GDP moderated to 6.8% in 2018-19 from 7.2% in 2017-18.
- However, India is still the fastest growing major economy.
- The slowdown in growth momentum is mainly on account of lower growth in
  - i. Agriculture & allied sectors
  - ii. Trade, hotel, transport, storage, communication and services related to broadcasting
  - iii. Public administration and defence sectors

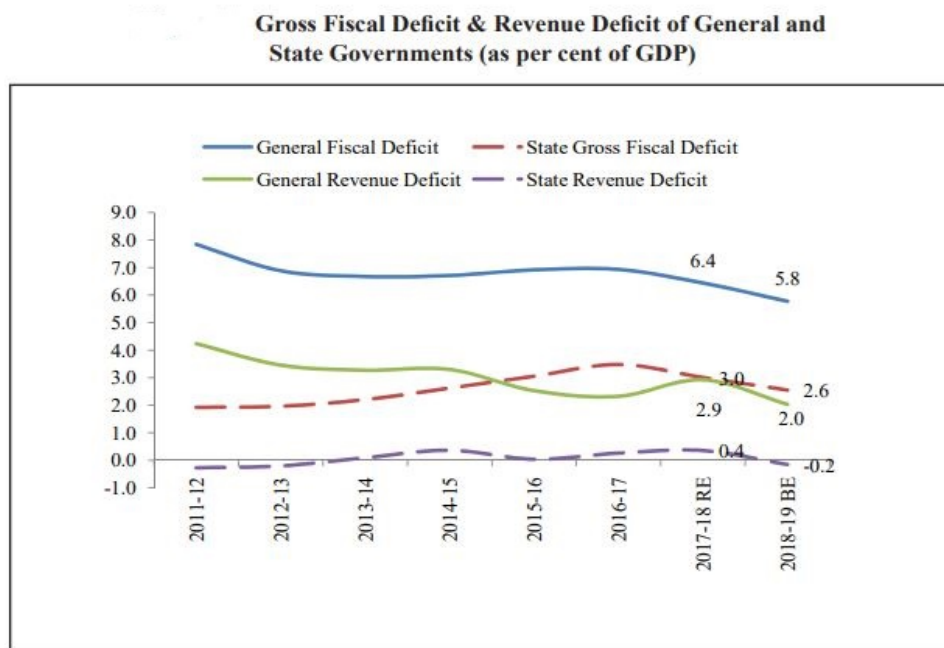


- Growth in investment, which had slowed down for many years, has reached the lowest point. It has started to recover since 2017-18.
- Growth in fixed investment picked up from 8.3% in 2016-17 to 9.3% in 2017-18 and further to 10.0% in 2018-19.

- **Inflation** - India maintained its macroeconomic stability by containing inflation within 4% (3.4% in 2018-19).
- **Deficit** - India has maintained a manageable current account deficit at 2.1% of GDP.
- Fiscal deficit of Central Government stood at 3.4% of GDP in 2018-19; it was 3.5% of GDP in 2017-18.
- **Non-Performing Assets** as percentage of Gross Advances reduced to 10.1% at end December 2018 from 11.5% at end March 2018.
- **Outlook** of Indian economy appears bright with prospects of pickup in growth in 2019-20.
- This comes in the backdrop of a pickup in private investment and robust consumption growth.

## FISCAL DEVELOPMENTS

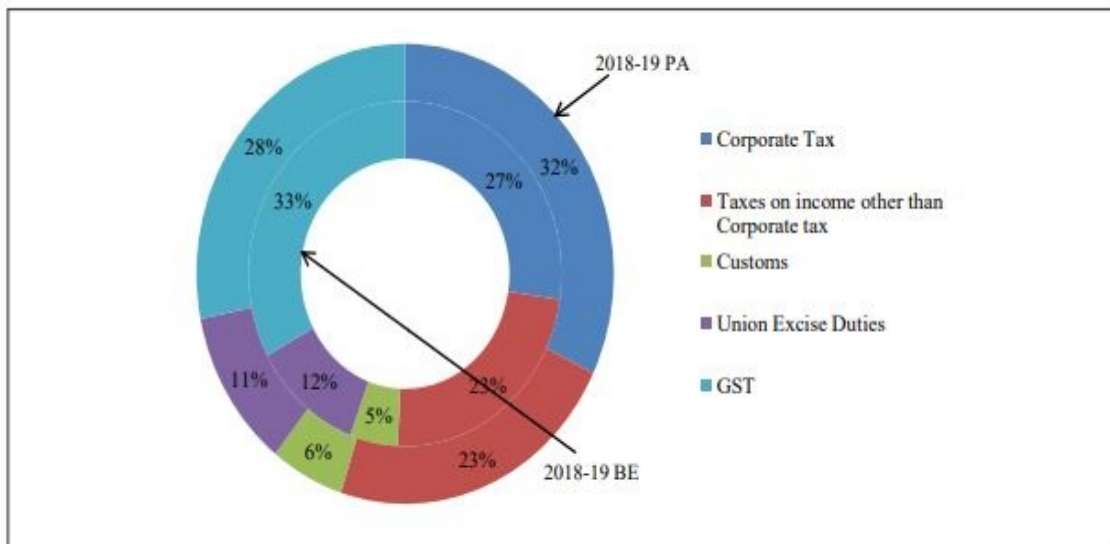
- **Deficit** - The revised fiscal glide path envisages achieving the targets of -
  - i. fiscal deficit of 3% of GDP by FY 2020-21 [3.4% - end FY 2018-19]
  - ii. Central Government debt of 40% of GDP by 2024-25 [44.5% - end FY 2018-19]



Source: RBI. RE : Revised Estimates, BE : Budget Estimates

- **Revenue** - Budget 2018-19 envisaged a growth of 16.7% in gross tax revenue (GTR) over the revised estimates (RE) of 2017-18.
- GTR was estimated at Rs. 22.7 lakh crore for BE 2018-19, which was 12.1% of the GDP.
- Broadly, 51% of GTR was estimated to accrue from direct taxes and the remaining 49% from indirect taxes.

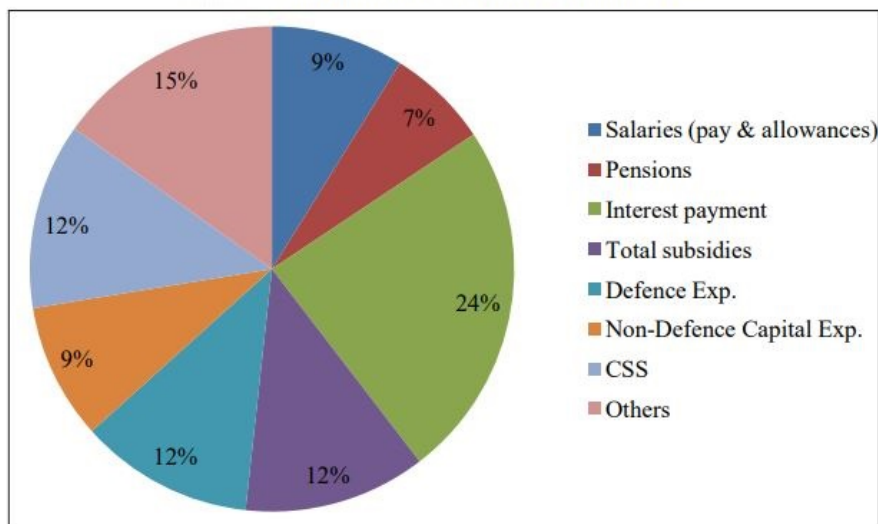
### Composition of Gross Tax Revenue



Source: Union Budget Documents & CGA  
BE: Budget Estimates, PA: Provisional Actuals

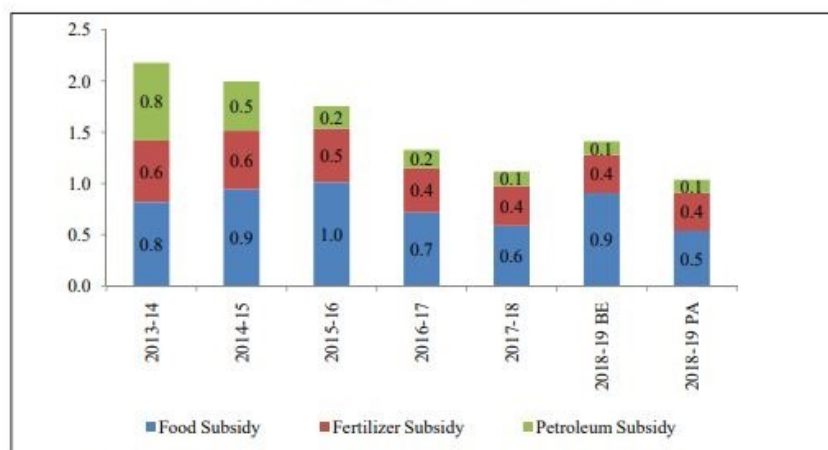
- Direct taxes have grown by 13.4% owing to improved performance of corporate tax.
- However, indirect taxes have fallen short of budget estimates by about 16%.
- There has been improvement in tax to GDP ratio over the last 6 years.
- However, GTR as a proportion of GDP has declined by 0.3 percentage points in 2018-19 PA (Provisional Actuals) over 2017-18.
- Non-tax revenue constitutes about 1.3% of GDP in 2018-19.
- **Expenditure** - As percent of GDP, total Central Government expenditure fell by 0.3 percentage points in 2018-19 PA over 2017-18.
- There was 0.4 percentage points reduction in revenue expenditure and 0.1 percentage point increase in capital expenditure.
- Major subsidies comprising food, fertiliser and petroleum have continued their downward trend and have further declined.

### Composition of Expenditure in 2018-19 RE



Source: Union Budget Documents  
RE: Revised Estimates (as per Interim Budget)

Major subsidies\* as per cent of GDP



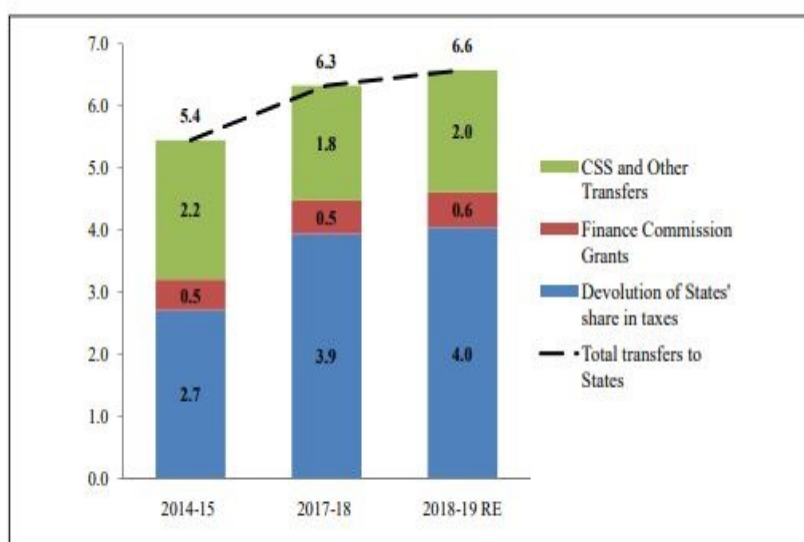
Source: Union Budget Documents & CGA

BE: Budget Estimates, PA: Provisional Actuals

\*Major subsidies here include food, fertilizer and petroleum subsidies.

- **State Finances** - With respect to States finances, their own tax and non-tax revenue show robust growth in 2017-18 Revised Estimates.
- This is envisaged to be maintained in 2018-19 BE.
- Both in absolute terms and as a percentage of GDP, total transfers to States have risen between 2014-15 and 2018-19 RE.
- [Total transfers to States have risen by 1.2 percentage points of GDP over this period.]

Transfers to States (as per cent of GDP)



Source: Department of Expenditure

RE: Revised Estimates (as per Interim Budget)

- The General Government (Centre plus States) has been on the path of fiscal consolidation and fiscal discipline.
- Several challenges on the fiscal front in 2019-20 include -
  - i. revenue implications on account of apprehensions of slowing of growth
  - ii. revenue buoyancy of GST

- iii. provisioning for schemes such as PM-KISAN without compromising the fiscal deficit target

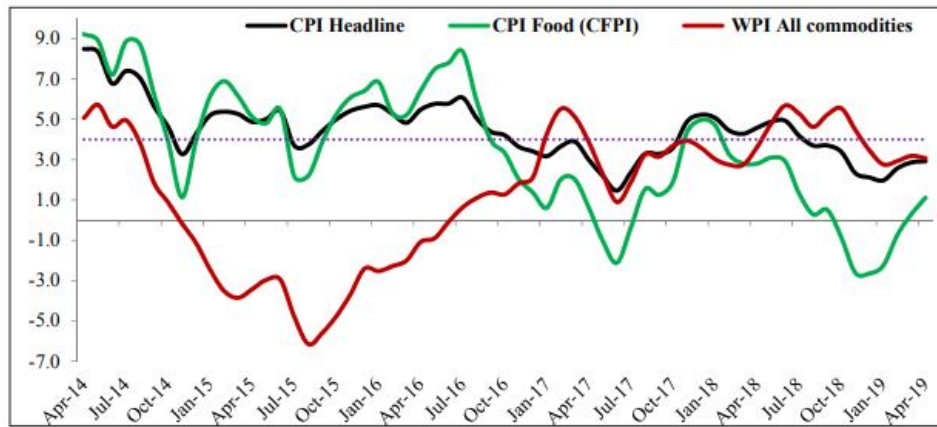
## **MONEY MANAGEMENT AND FINANCIAL INTERMEDIATION**

- **Monetary policy** - Monetary policy witnessed a u-turn over the last year.
- This was because the benchmark policy rate was first hiked by 50 bps and later reduced by 75 bps.
- The factors responsible were weaker-than-anticipated inflation, growth slowdown and softer international monetary conditions.
- **Liquidity** - Liquidity conditions have remained systematically tight since September 2018, thereby affecting the yields on government papers.
- **Banking system** - The performance of the banking system has improved as NPA ratios declined and credit growth accelerated.
- However, financial flows to the economy remained constrained.
- This was due to the decline in the amount of equity finance raised from capital markets and stress in the NBFC sector.
- Capital mobilized through public equity issuance declined by 81% in 2018-19.
- Credit growth rate year-on-year of the NBFCs has declined from 30% in March 2018 to 9% in March 2019.
- **Insolvency and bankruptcy** ecosystem is improving with recovery and resolution of significant amount of distressed assets as well as improved business culture.
- Until March 31, 2019, the CIRP (Corporate Insolvency Resolution Process) yielded a resolution of 94 cases.
- Moreover, as on February 28, 2019, 6079 cases involving Rs. 2.84 lakh crores have been withdrawn before admission under provisions of IBC.
- Further, as per RBI reports, Rs.50,000 crore has been received by banks from previously non-performing accounts.
- Also, an additional Rs.50,000 crore has been "upgraded" from non-standard to standard assets.
- All these indicate a behavioural change for the wider lending ecosystem even before entering the IBC process.

## **PRICES AND INFLATION**

- **Headline inflation** based on CPI-C (CPI-Combined) continued its declining trend for fifth straight financial year.
- It has remained below 4% in the last 2 years.

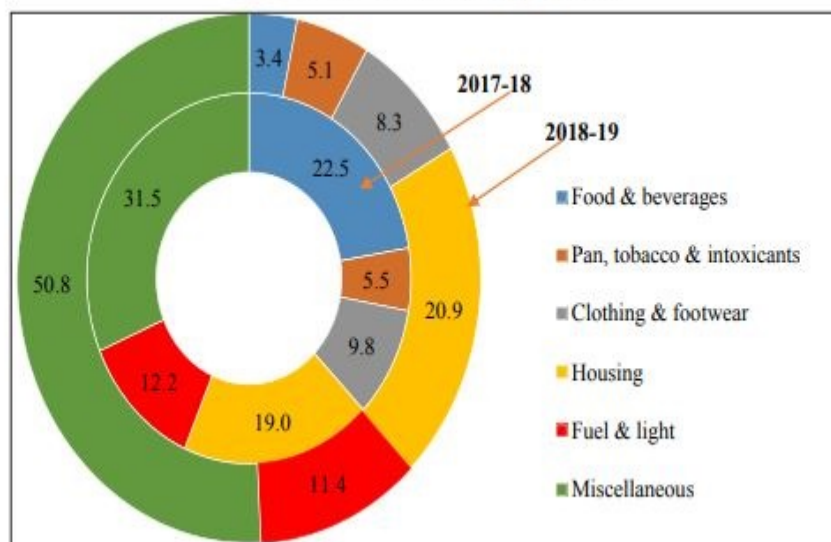
Figure 1: Inflation based on WPI and CPI (in per cent)



Source: Computed from CSO and Office of the Economic Adviser, DPIIT data

- **Food inflation** based on Consumer Food Price Index (CFPI) too declined over the last 5 year.
- It has remained below 2% for the last two consecutive years.
- **CPI-C based core inflation** (CPI excluding the food and fuel group) increased during FY 2018-19 as compared to FY 2017-18.
- However, it has started declining since March 2019.
- **Main contributors** of headline inflation based on CPI-C during FY 2018-19 are miscellaneous, housing, and fuel and light groups.
- Relative importance of services in shaping up headline inflation has increased.

Contribution to CPI - Combined inflation 2017-18 and 2018-19 (Share in per cent)

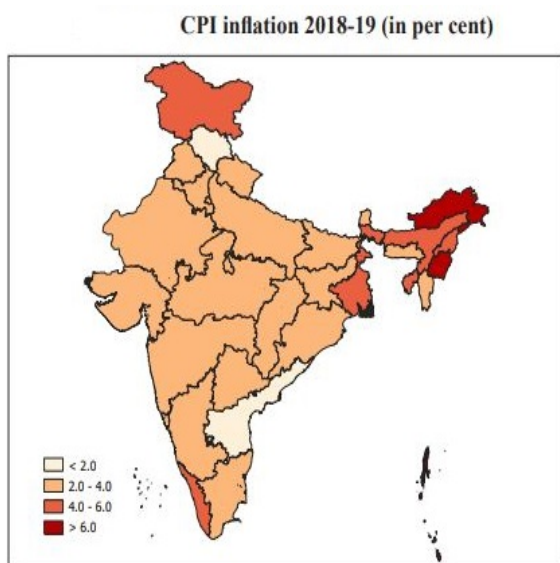


Source: Computed from CSO data

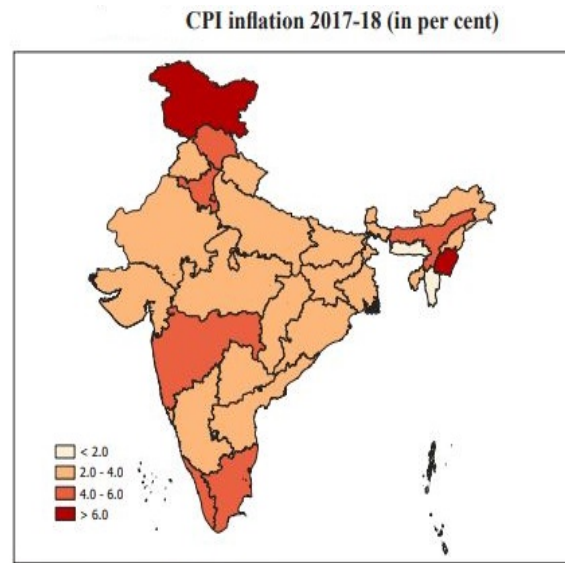
- **CPI rural inflation** declined during FY 2018-19 over FY 2017-18.
- **CPI urban inflation**, however, increased marginally during FY 2018-19.
- Many **States** witnessed fall in CPI inflation during FY 2018-19.
- 16 States/UTs had inflation rate lower than All India average for FY 2018-19.



- Daman & Diu, having the lowest inflation, was followed by Himachal Pradesh and Andhra Pradesh.



Source: Computed from CSO data



Source: Computed from CSO data

## SUSTAINABLE DEVELOPMENT AND CLIMATE CHANGE

- **SDG targets** - India follows a holistic approach towards its 2030 SDG (Sustainable Development Goals) targets by launching various schemes.
- India's SDG Index Score ranges between 42 and 69 for States and between 57 and 68 for UTs.
- Kerala and Himachal Pradesh are the front-runners amongst all the states with a score of 69.
- Chandigarh and Puducherry are the front-runners among the UTs with a score of 68 and 65 respectively.
- **Namami Gange Mission** - The Survey mentions the mission as a key policy priority towards achieving the SDG 6 (clean water and sanitation for all).
- It was launched as a priority programme with a budget outlay of Rs. 20,000 crore for the period 2015-2020.
- A harmonized overarching national policy on Resource Efficiency, building upon the existing policies to address multiple sectors, should be devised.
- This is essential for mainstreaming Resource Efficiency approach in the development pathway for achieving SDGs.
- **Air Pollution** - On air pollution, the Survey takes note of the NCAP (National Clean Air Programme), launched in 2019, as a key initiative of the Government of India.
- The objective was to address the increasing air pollution across the country in a comprehensive manner.
- NCAP augmented the air quality monitoring network across the country.
- It also came as a pan India time bound national level strategy for prevention, control and abatement of air pollution.

- **Climate change** - India has continuously demonstrated its responsibility towards acknowledging the emerging threats from climate change.
- It was implementing climate actions on the basis of the principles of Equity and Common but Differentiated Responsibilities.
- India's positive engagement at CoP 24 [negotiations in Katowice](#), Poland in 2018 resulted in protection of key interests which include -
  - i. recognition of different starting points for developed and developing countries
  - ii. flexibilities for developing countries
  - iii. consideration of principles including equity and Common but Differentiated Responsibilities and Respective Capabilities
- **Climate finance** - The Paris Agreement emphasizes the role of climate finance in strengthening the global response to climate change.
- The international community witnessed various claims by developed countries about climate finance flows.
- However, the actual amount of flows is far from these claims.
- It is to be noted that without sufficient climate finance, the proposed NDCs would not fructify.
- Implementing India's NDCs requires investments of scale and size which is unprecedented.
- So, along with domestic public budgets, international public finance and private sector resources will have to be mobilized from a variety of sources.

**Source: Ministry of Finance website**

**Part III** will include contents on External sector, Agriculture and Food Management, Industry and Infrastructure, Services Sector, Social Infrastructure, Employment and Human Development