SHANKAR IAS PARLIAMENT
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Highlights of the Economic Survey 2016-17 Volume-2

Fiscal Developments

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- In 2016-17 Central Government witnessed –\n\n
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  1. A strong growth in **Tax Revenue**,
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  2. Sustenance of the pace of **Capital Spending** &
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  3. Consolidation of **non-salary/pension revenue expenditure**.
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- This allowed the Government to contain the Fiscal Deficit (FD) to 3.5% of GDP in 2016-17.
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- The Union Budget for 2017-18 opted for a gradual fiscal consolidation path – FD target for 2017-18 is 3.2%, for 2018-19 it is 3%
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- Budget 2017-18 introduced a number of procedural reforms –\n
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  1. Integration of the Railway Budget & Union Budget
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  2. Advancing of the date of the Union Budget to February 1,
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  3. Elimination of the classification of expenditure into 'plan' and 'non-plan'
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  4. Restructuring of the Medium Term Expenditure Framework Statement with projected expenditures (revenue and capital) for each demand for the next two financial years.
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  5. Goods and Services Tax was introduced with the effect from the 1st of July 2017.
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Monetary Management and Financial Intermediation

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- RBI cut the policy rate (repo) by 50 basis points during 2016-17.
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- However, it shifted its monetary policy stance from accommodative to neutral in February 2017.
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- Monetary aggregates decelerated significantly following the demonetisation.
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- Currency in circulation contracted by 19.7% whereas reserve money contracted by 12.9%.
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- Credit off-take from banks continued to decelerate further. During 2016-17, gross bank credit outstanding grew at around 7%. The average gross bank credit to industry contracted by 0.2% in the FY 2016-17.
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- Sluggish growth and increasing indebtedness in some sectors of the economy have impacted the asset quality of banks.
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- The **Gross Non-Performing Advances** (GNPAs) ratio of Scheduled Commercial Banks (SCBs) rose from 9.2% in September 2016 to 9.5% in March 2017.
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- Zero balance accounts under PMJDY has declined consistently from nearly 58% in March 2015 to around 24% as of December 2016.
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Prices and Inflation

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- CPI inflation fell to a series low of 1.5% in June 2017.
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- Broad based decline in all commodity groups during 2016-17.
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- 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.
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- Core inflation also declined in the last few months.
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- Convergence between CPI and WPI inflation in the last few months.
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- Both rural and urban inflation have declined in 2016-17 and the gap between rural and urban inflation has narrowed down.
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Climate Change, Sustainable Development and Energy

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- India ratified the Paris Agreement on 2nd October, 2016.
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- India's actions for the post-2020 period are based on its Nationally Determined Contribution (NDC).
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- **India's NDC targets –**\n
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  1. To lower the emissions intensity of GDP by 33 - 35% by 2030 from 2005 levels,
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  2. To increase the share of non-fossil based power generation capacity to 40% of installed electric power capacity(cumulative) by 2030 &
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  3. To create an additional carbon sink of 2.5-3 Gt CO_2e through additional forest and tree cover by 2030.
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- The roadmap for implementation of India's NDC is being prepared, by constituting an Implementation Committee and six Sub-Committees.
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- India is implementing the largest renewable energy expansion programme in the world.
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- It envisages a 5-fold increase in the overall renewable energy capacity to 175 GW by 2022 including –\n
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  1. 100 GW of solar,
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  2. 60 GW of wind,
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3. 10 GW of biomass &
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4. 5 GW of small hydro power capacity.
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- There is an urgent need to further **increase the access of the poor to more efficient energy resources**.
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- Many schemes have been implemented by the government to tackle this like Pradhan Mantri Ujjwala Yojana, PAHAL scheme, Deen Dayal Upadhyaya Gram Jyoti Yojana.
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- As per the RBI notification, 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.
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- The External Commercial Borrowing (ECB) norms have been further liberalized for green projects.
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- The Securities and Exchange Board of India (SEBI) has put in place the framework for issuance of green bonds.
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- **Anomaly -** 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.
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- Energy deprivation levels for a sizeable portion of population remain at high levels.
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- Also, Social cost analysis of coal and renewables based power indicate higher social costs for renewables.
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- Storage costs and stranding of assets based on coal based power are major costs associated with the renewables based power.
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- Given that the first goal for India is to provide 100% energy access to its population and bridge the development deficit gap, **all energy sources need to be tapped**.
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External Sector

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- India’s balance of payments improved in 2016-17, as a result of low and falling trade and current account deficits and moderate and rising capital inflows.
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- India’s exports turned positive at 12.3% and there was marginal decline of imports by 1% in 2016-17. This resulted in narrowing down of trade deficit to 5% of GDP in 2016-17 as compared to 6.2% of GDP in 2015-16.
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- The current account deficit (CAD) narrowed down progressively to 0.7% of GDP in 2016-17 from 1.1% of GDP in 2015-16 led by sharp contraction in trade deficit which more than outweighed a decline in net invisibles earnings.
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- Net capital inflows were slightly lower at 1.6% of GDP in 2016-17 as compared to 1.9% of GDP in the previous year, mainly due to fall in NRI deposits.
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- Gross FDI inflows to India increased significantly to US$ 60.2 billion in 2016-17 from US$ 55.6 billion in 2015-16.
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- Net FDI inflows (i.e. net of outward FDI) at US$ 35.6 billion, however, moderated marginally by 1.1% from US$ 36.0 billion in 2015-16.
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- 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 of July, 2017.
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- The average monthly exchange rate of the rupee has appreciated continuously from February to June 2017. The rupee performed better than many other EME-currencies in 2016-17.
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- India’s aggregate external debt stock registered a of 2.7%.
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- The ratio of external debt to GDP fell to 20.2% from 23.5.
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- Debt service ratio fell to 8.3% from 8.8% and ratio of concessional debt to total external debt increased to 9.3% from 9.0%.
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- Cross country comparison of external debt indicates that India continues to be among the less vulnerable countries.

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Agriculture and Food Management

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- The average farm size in India is small, and declining since 1970-71.
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- The predominance of small operational holdings is a major limitation to reap the benefits of economies of scale.
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- The predominance of informal sources of credit for farmers is a concern.
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- There is regional disparity in the distribution of agricultural credit which also needs to be addressed.
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- 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.
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Industry and Infrastructure

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- Industrial performance has shown moderation from 8.8% during 2015-16 to 5.6% in 2016-17.
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- Industrial growth as per Index of Industrial Production (IIP) shows growth at 5% in 2016-17 as compared to 3.4% last year.
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- The Index of Eight Core Industries growth during 2016-17 was 4.8% as compared to 3.0% in 2015-16.
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- The Government in 2016 introduced imposition of Minimum Import Price (MIP) to counter dumping of Steel into Indian markets. Since then imports of Steel by India have declined by 36.2% while exports have risen by 102% in 2016-17.
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- The apparel sector is a highly employment intensive industry especially for women. The Government approved Rs.6,000 crore special package for textile & apparel sector.

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- 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.
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- India is far ahead than many emerging economies in terms of providing qualitative transportation related infrastructure.
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- Indian domestic airlines have a very lower share in international traffic to and from India.
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- Factors like foreign airlines utilising the 6th 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.
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- 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.
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- After the introduction of UDAY, National average (all UDAY states) of AT&C loss has come down to 20.2% and billing efficiency has been increased by 2%.
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- Under Smart Cities Mission, 57 projects worth Rs.941 crore have already been completed as of April 2017.
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Services Sector

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- The services sector contributes almost 62% of its gross value added growth in 2016-17.
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- However, the growth of this sector has moderated to 7.7% in 2016-17 compared to 9.7% in the previous year.
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- 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%), and financial, real estate & professional services (5.7%).
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- In 2016-17, services exports recorded a positive growth of 5.7% with pick up in some major sectors like transportation, business services and financial services; and good growth in travel.
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- However, Software services exports, accounting for around 45.2% of total services, declined though marginally by 0.7%.
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- 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.
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- Foreign Tourist Arrivals (FTAs) during 2016 grew by 9.7% and Foreign Exchange Earnings (FEEs) through Tourism grew by 8.8%.
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- 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.
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- **Real estate -** Real estate sector including ownership and dwellings accounted for 7.6% share in India's overall GVA in 2015-16. The growth of this sector decelerated in the last three years.
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- 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.
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- **Satellite mapping and launching services -** 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.
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Social Infrastructure, Employment and Human Development

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- **Education -** The deterioration in quality learning in primary education sector and achievement of targeted enrolment level in the middle education is a challenge
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- **Employment -** Employment in India poses a great challenge in terms of its structure which is dominated by informal, unorganized and seasonal workers.
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- It is also characterized by high levels of under employment, skill shortages, with the labour markets impacted by rigid labour laws, and the emergence of contract labour.
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- **Health -** The health sector in India faces 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.
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Glossary

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Accommodative Monetary Policy

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- When RBI attempts to expand the overall money supply by lowering the interest rate (Repo rate) to boost the economy when growth is slowing, it is known as Accommodative Monetary Policy.
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- This is done to encourage more spending from consumers and businesses by making money less expensive. It is also known as Easy Money Policy.
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Neutral Monetary Policy

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When RBI’s policy rates neither stimulates nor restrains the economy, it is known as Neutral Monetary Policy.

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Monetary Aggregates

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They are broad categories (M0, M1, M2, and M3) that measure the total money supply in the economy.

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Credit Off-take

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- It refers to the quantity of credit taken by sectors including agriculture, industry and service sectors from the banks.
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- If there is a slowdown in the economy, there will be less demand from these sectors and credit off-take will be less. Banks will invest the funds in G-securities.
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Net Invisible Earnings

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- It refers to earnings from an Invisible trade.
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- Invisible trade is a business transaction that occur with exchange of non-tangible goods/services such as consulting, intellectual property, patents, shipping services, tourism etc.,
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EME currencies

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- They are currencies of Emerging Market Economies.
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- Emerging markets are developing countries with transitions occurring in economic, political, social and demographic dimensions.
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Nominal Effective Exchange Rate

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- NEER is a measure of the value of a currency against a weighted average of several foreign currencies (a basket of currencies).
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- It is an indicator of a country's international competitiveness in terms of the foreign exchange (Forex) market and shows whether domestic is getting stronger or weaker compared to foreign currencies.
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Real Effective Exchange Rate (REER)

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- When NEER is adjusted to compensate for the inflation rate in the home country compared to the inflation rate of its trading partners, it gives the real effective exchange rate (REER).
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- An increase in REER implies that exports become more expensive compared to its partners and imports become cheaper.
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Economies of Scale

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- An economy of scale is the cost advantage that arises with increased output of a product.
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- It is a proportionate saving in costs gained by an increased level of production. i.e. the greater the quantity of a good produced, the lower the per-unit fixed cost because the costs are spread out over a larger number of goods.
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Minimum Import Price (MIP)

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MIP is the minimum price per tonne that Indian firms have to pay while importing products into India. It is done to safeguard Indian manufacturers.

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Sixth Freedom

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- It is the bilateral air traffic right given to foreign airlines to fly from a foreign country to another foreign country while stopping in one’s own country.
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- For e.g. Emirates operates flights between India and the U.K while stopping at Dubai, its home state.
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NHB RESIDEX

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- RESIDEX is India’s first official Housing Price Index (HPI) by National Housing Bank that captures the price changes of residential housing.
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- It covers 50 cities including smart cities and state capitals with the base year 2012-13.
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- It helps buyers and sellers to check and compare prices before entering a transaction and analyse the price trends across different cities.
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Source: PIB

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