ECONOMIC SURVEY : 2016 – 2017

The Union Finance Minister Arun Jaitley presented the Economic Survey for 2016 – 2017 in the Parliament on January 31st,2017. The Indian Economy's growth rate in the current financial year could be around 6.5% to 6.75% after accounting for an adverse impact of about 0.25 to 0.5 percentage points due to demonetisation. This impact is likely to be temporary and the economy should rebound to grow by 6.75% to 7.5% in 2017 – 2018.

Interestingly, the Survey also seemed to strike a cautionary note on any aggressive push for digitalisation – the new buzz word in government – when it said: "Digitalisation is not a panacea, nor is cash all bad. Public policy must balance benefits and costs of both forms of payments….the transition to digitalisation must be gradual: take full account of the digitally deprived; respect rather then dictate choice; and be inclusive rather than controlled."

Suggesting that the demonetisation drive was a potentially powerful stick, the Survey said that it now "needs carrots as complements". These would include lowering income taxes and stamp duties and accelerating the reduction in corporate tax rates. It would also be important to ensure the tax administration does not get overzealous and harass taxpayers.

In the short run, demonetisation could also affect supplies of agricultural products like milk, sugar, potatoes and onions, the survey said. It cautioned that "vigilance is essential to prevent other agricultural products" becoming in 2017 – 2018 what pulses was in 2015 – 2016 in terms of supply deficiencies and consequential higher inflation".

ECONOMIC SURVEY : HIGHLIGHTS

LOOK AND FEEL

1. For the first time the Survey this year comes in two parts. A detailed review of the year gone by will appear in the course of the year.
2. The 335 – page Survey is divided into three sections – The Perspective, The Proximate, and The Persistent.
3. A chapter titled Eight Interesting Facts About India Showcases Economic Trends And Analysis.
4. The Survey embraces Big Data to highlight the interplay between flow of goods and people and its impact on economic activity.

ISSUES AND PRIORITIES

1. The Survey advocates a different approach to tackle the twin balance sheet problems of overleveraged companies and bad loan – encumbered banks.
2. Set up a centralised Public Sector Asset Rehabilitation Agency to take charge of the largest, most difficult cases, and make politically tough decisions to reduce debt.
3. The Survey says structural reform in the banking sector has to consider the issue of government majority ownership in public sector banks.
4. On fiscal management, the Survey highlights the risk in India's strategy of relying on rapid growth, rather than steady primary balance adjustment, to reduce debt.
5. To build on the long – term benefits of demonetisation, the Survey suggests a series of follow – up actions.
6. This includes measures to drive demand, faster remonetisation, tax reforms, including bringing land and real estate into the GST, reducing tax rates and stamp duties.
7. While giving a thumbs – up to the concept of a universal basic income (UBI), the Survey notes a number of implementation challenges could make UBI another add-on to anti – poverty and social programmes, making it financially unaffordable.
8. The Survey suggests a radically different route to regional and social development, including offering UBI as an option for availing social benefits.
9. The Survey calls for more privatisation in the civil aviation, banking and fertiliser sectors, to further.
10. Real estate prices could fall further, as investing undeclared income in real estate becomes more difficult.

STATE OF THE ECONOMY

1. Gross Domestic Product (GDP) growth in 2016 – 2017 to dip to 6.5%, down from 7.6% in the past financial year.
2. Economic growth to rebound to 6.75 – 7.5% in 2017 – 2018.

3. Farm sector to grow at 4.1% this year, up from 1.2% in 2015 – 2016.
4. Growth rate of industrial sector estimated to moderate to 5.2% in 2016 – 2017 from 7.4% in 2016.
5. Demonetisation to affect growth rate by 0.25 – 0.5 per cent, but to have long – term benefits.
6. As per the advance estimates released by the Central Statistics Office, the growth rate of GDP at constant market prices for the year 2016 – 2017 is placed at 7.1 per cent, as against 7.6 per cent in 2015 – 2016. This estimate is based mainly on information for the first seven to eight months of the financial year. Government final consumption expenditure is the major driver of GDP growth in the current year.
7. Fixed investment (gross fixed capital formation) to GDP ratio (at current prices) is estimated to be 26.6 per cent in 2016 – 2017, vis-à-vis 29.3 per cent in 2015 – 2016.

FISCAL

1. Indirect taxes grew by 26.9 per cent during April – November 2016.
2. The strong growth in revenue expenditure during April – November 2016 was boosted mainly by a 23.2 per cent increase in salaries due to the implementation of the Seventh Pay Commission and a 39.5 per cent increase in the grants for creation of capital assets.

PRICES

1. The headline inflation as measured by Consumer Price Index (CPI) remained under control for the third successive financial year. The average CPI inflation declined to 4.9 per cent in 2015 – 2016 from 5.9 per cent in 2014 – 2015 and stood at 4.8 per cent during April – December 2015.
2. Inflation based on Wholesale Price Index (WPI) declined to (-) 2.5 per cent in 2015 – 2016 from 2.0 per cent in 2014 – 2015 and averaged 2.9 per cent during April – December 2016.

TRADE

1. The trend of negative export growth was reversed somewhat during 2016 – 2017 (April – December), with exports growing at 0.7 per cent to US$ 198.8 billion. During 2016 – 2017 (April – December) imports declined by 7.4 per cent to US$ 275.4 billion.
2. Trade deficit declined to US$ 76.5 billion in 2016 – 2017 (April – December) as compared to US$ 100.1 billion in the corresponding period of the previous year.
3. The current account deficit (CAD) narrowed in the first half (H1) of 2016 – 2017 to 0.3 per cent of GDP from 1.5 per cent in H1 of 2015 – 2016 and 1.1 per cent in 2015 – 2016 full year.
4. Robust inflows of foreign direct investment and net positive inflow of foreign portfolio investment were sufficient to finance CAD leading to an accretion in foreign exchange reserves in H1 of 2016 – 2017.
5. In H1 of 2016 – 2017, India's foreign exchange reserves increased by US$ 15.5 billion on BoP basis.
6. During 2016 – 2017 so far, the rupee has performed better than most of the other emerging market economies.

EXTERNAL DEBT

1. At end – September 2016, India's external debt stock stood at US$ 484.3 billion, recording a decline of US$ 0.8 billion over the level at end – March 2016.
2. Most of the key external debt indicators showed an improvement in September 2016 vis-à-vis March 2016. The share of short – term debt in total external debt declined to 16.8 per cent at end – September 2016 and foreign exchange reserves provided a cover of 76.8 per cent to the total external debt stock.

ARICULTURE

1. Agriculture sector is estimated to grow at 4.1 per cent in 2016 – 2017 as opposed to 1.2 per cent in 2015 – 2016; the higher growth in agriculture sector is not surprising as the monsoon rains were much better in the current year than the previous two years.
2. The total area coverage under Rabi crops as on 13.01.2017 for 2016 – 2017 is 616.2 lakh hectares which is 5.9 per cent higher than that in the corresponding week of last year.
3. The area coverage under wheat as on 13.01.2017 for 2016 – 2017 is 7.1 per cent higher than that in the corresponding week of last year. The area coverage under gram as on 13.01.2017 for 2016 – 2017 is 10.6 percent higher than that in the corresponding week of last year.

INDUSTRY

1. Growth rate of the industrial sector is estimated to moderate to 5.2 per cent in 2016 – 2017 from 7.4 per cent in 2015 – 2016. During April – November 2016 – 2017, a modest growth of 0.4 per cent has been observed in the Index of Industrial Production (IIP).
2. The eight core infrastructure supportive industries, viz. Coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity registered a cumulative growth of 4.9 per cent during April – November 2016 – 2017 as compared to 2.5 per cent during April – November 2015 – 2016. The production of refinery products, fertilizers, steel, electricity and cement increased substantially, while the production of crude oil, natural gas fell druing April – November 2016 – 2017. Coal production attained lower growth during the same period.
3. The performance of corporate sector (Reserve Bank of India, January 2017) highlighted that the growth of sales grew by 1.9 per cent in Q2 of 2016 – 2017 as compared to near stagnant growth of 0.1 per cent in Q1 of 2016 – 2017. Growth in net profit registered a remarkable growth of 16.0 per cent in Q2 of 2016 – 2017 as compared to 11.2 per cent in Q1 of 2016 – 2017.

SERVICES

1. Service sector is estimated to grow at 8.9 per cent in 2016 – 2017, almost the same as in 2015 – 2016. It is the significant pick – up in public administration, defence and other services, boosted by the pay outs of the Seventh Pay Commission that is estimated to push up the growth in services.

SOCIAL INFRASTRUCTURE, EMPLOYMENT AND HUMAN DEVELOPMENT

1. The Parliament has passed the "Rights of Persons with Disabilities Act, 2016". The Act aims at securing and enhancing the rights and entitlements of Persons with Disabilities. The Act has proposed to increase the reservation in vacancies in government establishments from 3 per cent to 4 per cent for those persons with benchmark disability and high support needs.