Report Summaries

Economic Survey 2017-18

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Report Summary (303 KB)

- The Finance Minister, Mr Arun Jaitley tabled the Economic Survey 2017-18 on January 29, 2018. Some highlights of the survey are:

1. Highlights of the macro economy

- Gross Domestic Product (GDP): The Central Statistics Office (CSO) has estimated the GDP growth to be 6.5% in 2017-18 as compared to 7% in 2016-17. The average GDP growth rate from 2014-15 till 2017-18 is expected to be 7.3% as compared to the average 7.5% between 2014-15 and 2016-17.
- Gross Value Added (GVA): The GVA (at constant prices) is estimated at 6.1% in 2017-18 as compared to 6.6% in 2016-17. The agriculture and industry sectors are expected to grow at 2.1% and 4.4% respectively, while the service sector is estimated to grow at 8.3%.
- Inflation: The Consumer Price Index (CPI) based inflation was 3.3% in 2017-18 (April-December). The average food inflation was 1.2% for the same period. CPI inflation was below 3% in the first quarter of 2017-18, because of low food inflation, and marginally rose to 3% in the second quarter.
- Current Account Deficit (CAD) and fiscal deficit: India's CAD increased from 0.4% of GDP in 2016-17 to 1.8% of GDP in the first half of 2017-18. This has been attributed to an increase in merchandise imports relative to exports. As of November 2017, the fiscal deficit stood at 112% of the budget estimate. The fiscal deficit is 3.2% (budget estimate) of GDP in 2017-18 as compared to 3.5% of GDP in 2016-17.

2. Goods and Services Tax (GST)

- Increase in taxpayers: Under GST, the number of unique indirect taxpayers increased by over 50% (3.4 million). Voluntary compliance also increased under GST, with 1.7 million voluntary registrants. 13% of the estimated 71 million non-agriculture enterprises were registered under the GST network.
- GST and states: The distribution of GST base among states is linked to their GSDP, with Maharashtra (16%), Tamil Nadu (10%), Karnataka (9%) having the highest share. GST data shows that a state's GSDP per capita has a high correlation with its export share in the GSDP. Five states account for 70% of India's exports - Maharashtra, Gujarat, Karnataka, Tamil Nadu, and Telangana.
- Informal economy: A firm is considered to be in the formal sector if: (i) it provides social security to its employees, or (ii) it is registered under the GST network. 0.6% of firms meet both of the criteria, known as the hard core formal sector. 87% of firms are purely informal, 12% of firms are registered under GST but do not provide social security. Less than 0.1% provide social security but are not registered under GST (usually GST exempted firms).
- India's formal sector non-farm payroll is greater than current perception. Formal non-farm payroll is 31% of the non- agricultural workforce based on a social security defined formality, and 53% based on a tax definition formality.

3. Fiscal Federalism

- In comparison to developed countries, India collects a lower share of direct taxes in total taxes. For example, in India, states generate 6% of their revenue from direct taxes, as

compared to 19% in Brazil. Rural local governments, in India, raise 6% of their total revenue from direct taxes as compared to 40% in Brazil. Urban local governments raise 44% of their revenue from their own sources.
- Several states have not devolved enough taxation powers to local bodies. Further, local governments collect only a small fraction of their potential tax revenue. For example, rural local bodies collect around one third of the potential property tax. Therefore, local governments rely heavily on devolved funds from central and state governments.
- These devolved funds are largely tied in nature, to either specific sectors or schemes. This constrains the ability of local governments to spend on local public good as per their own priorities.

4. Ease of doing business

- India jumped 30 places and was ranked overall 100 in the World Bank's Ease of Doing Business Report 2018. However, on contract enforcement it was ranked at 164. Although the government has taken steps to improve contract enforcement, economic activity is getting affected by high pendency and delays across the legal system. The backlog in High Courts by the end of 2017 was around 3.5 million cases. Delays of economic cases (company cases, arbitration cases and taxation cases) in courts are leading to stalled projects, legal costs, contested tax revenues, and consequently reduced investment. Delays in in power, roads, and railways projects led to an increase in almost 60% of the project costs.
- The government and the judiciary must coordinate to introduce reforms to facilitate ease of doing business. Judicial capacity should be strengthened in the lower courts to reduce the burden on higher courts. The tax department must limit its appeals, given that their success rate is less than 30% at all three levels of judiciary (Appellate Tribunals, High Courts, and Supreme Courts). The government must increase its expenditure on the judiciary, improve the courts case management and court automation system, and create subject specific benches.

5. Investment and saving

- India saw high levels of investment and saving rates in the mid 2000's followed by a pronounced, gradual decline, returning back to normal levels. The ratio of gross fixed capital formation to GDP was 26.5% in 2003, 35.6% in 2007 and 26.4% in 2017. The ratio of domestic saving to GDP, was 29.2% in 2003, 38.3% in 2007, and 29% in 2016. A fall in both private investment, and household, and government saving have contributed to such decline between 2007 and 2017.
- There needs to be a focus on revival of investment. However, the decline in investment will be difficult to reverse because: (i) it stems from the balance sheet stress of companies, and (ii) its large magnitude. Easing the cost of doing business, creating a transparent, stable tax and regulatory environment, and supporting small and medium industries will help revive private investment.

6. Climate change

- The data on rainfall, temperature, and crop production shows a long-term trend of rising temperature, declining average precipitation, and an increase in extreme precipitation events. The average decline in rainfall between 1970's and 2000's is 26 mm in Kharif season and 33 mm in Rabi season. This has significant implications on agriculture, especially in unirrigated areas. Such changes in temperature and precipitation will result in estimated overall farm income losses of 15% to 18%, and further, 20% to 25% for unirrigated areas.
- Given the rising water scarcity, and depleting water resources, there is a need to increase irrigation. Technologies of drip irrigation, sprinklers, and water management must be

employed to meet this challenge.

7. **Agriculture and food management**
   - Growth rates of agriculture and allied sectors have been fluctuating: 1.5% in 2012-13, 5.6% in 2013-14, -0.2% in 2014-15, 0.7% in 2015-16, and 4.9% in 2016-17. The uncertainty in growth in agriculture is because 50% of agriculture is dependent on rainfall.
   - On account of good monsoon rainfall in 2016-17, there was a rise in food grains and other crops production. As per the fourth advance estimates for 2016-17, production of food grains is estimated at 275.7 million tonnes, higher by 10.6 million tonnes as compared to 2013-14.
   - The agriculture sector has been witnessing a gradual structural change. The share of livestock in the GVA in agriculture rose from 22% in 2011-12 to 26% in 2015-16. The share of crops in the GVA fell from 65% in 2011-12 to 60% in 2015-16. The gross capital formation in agriculture declined from 8.3% in 2014-15 to 7.8% in 2015-16.
8. **Industry and Infrastructure**
   - Industrial growth: The overall industrial sector growth was 5.8% in the second quarter of 2017-18 as compared to 1.6% in the first quarter. As per the estimate of national income 2017-18, industrial sector grew at 4.4% and the manufacturing sector grew at 4.6%. The eight core industries (coal, crude oil, natural gas, petroleum refinery products, fertilizers, steel, cement, and electricity) grew by 4.8% in 2016-17 as compared to 3% in 2015-16.
   - Infrastructure: India requires around USD 4.5 trillion worth of investments till 2040 to develop infrastructure. As per the current trend, India can raise around USD 3.9 trillion. The under investment in the infrastructure sector has been due to: (i) collapse of Public Private Partnerships, (ii) stressed balance sheets of private companies, and, (iii) delays in acquisition of land and forest clearances.
9. **Services Sector**
   - The services sector contributed 55.2% to India's GVA in 2017-18. As per the CSO the growth of the services sector is expected to be 8.3% in 2017-18 as compared to 7.7% in 2016-17. In 15 states, services contribute to more than half of the gross state value added (GSVA). With a share of 3.4%, India is the eighth largest exporter of commercial services.
   - The share of real estate sector (including ownership of dwellings) accounted for 7.7% of India's overall GVA in 2015-16. Real estate and construction together are the second largest providers of employment. As per projections, it is estimated to employ 52 million by 2017, and 67 million by 2022.

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