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RECENT DEVELOPMENTS OF INDIAN ECONOMY 2016-17

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Abstract :

The Economic Survey 2016-17, was tabled in the Parliament on January 31, 2017, by Mr Arun Jaitley, Union Minister for Finance, Government of India. The Survey forecasts a growth rate of 6.75 to 7.5 per cent for FY18, as compared to the expected growth rate of 6.5 per cent in FY17. Over the medium run, the implementation of the Goods and Services Tax (GST), follow-up to demonetisation, and enacting other structural reforms should take the economy towards its potential real GDP growth of 8 per cent to 10 per cent.

Key Highlights :

Fiscal Deficit:

- Central Government is confident of achieving fiscal deficit of 3.5 per cent for 2016-17 of GDP.
- Non-tax revenues have been challenged owing to shortfall in spectrum and disinvestment receipts but also to forecast optimism; the stress in public sector enterprises has also reduced dividend payments.
- The consolidated deficit of the states has increased steadily in recent years, rising from 2.5 per cent of GDP in 2014-15 to 3.6 per cent of GDP in 2015-16, in part because of the Ujwal DISCOM Assurance Yojana (UDAY) scheme.

GDP Growth:

- GDP growth expected to be between 6.75 and 7.50 per cent in 2017-18.
- Real GDP growth expected at 6.5 per cent in 2016-17
- GVA growth at basic prices 7.0 per cent in 2016-17

Inflation and monetary policy:

- Average retail inflation, measured by Consumer Price Index (CPI), in 2016-17 (April – December) seen at 4.9 per cent.
- Average Wholesale Price Index (WPI) inflation, in 2016-17 (April – December) seen at 3.4 per cent from -5.1 per cent in August 2015.
- RBI's target of below 5 per cent CPI inflation this year is expected to be assisted by demonetisation.
- The Reserve Bank of India (RBI) has cut the repo rate by 25 basis points each in April 2016 and October 2016 to 6.25 per cent.

External Sector:

- The current account deficit has declined to reach about 0.3 per cent of GDP in the first half of FY2017.
- During April-December 2016, trade deficit declined by 23.5 per cent over corresponding period of previous year as contraction in imports were quite higher than fall in exports.
- During October-December 2016, both exports and imports grew at the rate of 5 per cent, starting a long-awaited recovery.
- During 2016-17 (April-December) imports declined by 7.4 per cent to US$ 275.4 billion compared to the corresponding period of previous year.
- Net private remittances declined US$ 4.5 billion in the first half of 2016-17 compared to the same period of 2015-16 on account of oil price decline affecting inflows from the Gulf region.

Performance of key sectors:

- **Agriculture and food management:**
- The growth rate for the agriculture and allied sectors is estimated to be 4.1 per cent for 2016-17.
- The production of Kharif food-grains during 2016-17 is estimated at 135.0 million tonnes compared to 124.1 million tonnes in 2015-16.
- The area sown under kharif and rabi crops during 2016-17 was 3.5 per cent and 5.9 per cent higher respectively compared to 2015-16.
- During the South West Monsoon Season (June-September) of 2016 the country as a whole received rainfall which was 97 per cent of its long period average (LPA).
- The stock of food-grains (Rice and Wheat) was 43.5 million tonnes as on December 01, 2016 compared to 50.5 million tonnes as on December 01, 2015 vis-à-vis the buffer stock norm of 30.77 million tonnes as on October 01, 2015.

Industries, corporate and infrastructure sector:

- Growth rate of industrial sector is estimated to moderate to 5.2 per cent in 2016-17 from 7.4 per cent last fiscal.
- During April-November 2016, a modest growth of 0.4 per cent has been observed in the Index of Industrial Production (IIP) due to strong growth in electricity generation offset by moderation in mining and manufacturing.
- The eight core infrastructure supportive industries, viz. coal, crude oil, natural gas, refinery products, fertilers, steel, cement and electricity that have a total weight of nearly 38 per cent in the IIP, registered a cumulative growth of 4.9 per cent during April-November, 2016-17 as compared to 2.5 per cent during April-November, 2015-16.

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- The performance of corporate sector (as reported by RBI in January 2017) highlighted that the growth in sales was 1.9 per cent in Q2 of 2016-17 as compared to near stagnant growth of 0.1 per cent in Q1 of 2016-17. The growth of operating profits decelerated to 5.5 per cent in Q2 of 2016-17 from 9.6 per cent in the previous quarter. Growth in net profits registered a remarkable growth of 16.0 per cent in Q2 of 2016-17, as compared to 11.2 per cent in Q1 of 2016-17.
- Many new initiatives taken by the Government in the form of Make-in-India, Invest India, Start Up India and e-biz Mission Mode Project under the national e-governance plan are facilitating investment and ease of doing business in the country.

Services sector:

- The services sector is projected to grow at 8.8 per cent in 2016-17, similar to 2015-16.
- As per World Trade Organisation (WTO) data, India's commercial services exports increased from US$ 51.9 billion in 2005 to US$ 155.3 billion in 2015, taking its share in global services exports to 3.3 per cent in 2015 from 3.1 per cent in 2014.
- In terms of growth in tourism sector, during January to December 2016, Foreign Tourist Arrivals (FTAs) were 8.9 million with growth of 10.7 per cent and foreign exchange earnings (FEE) were at US$ 23.1 billion with a growth of 9.8 per cent.

Public Finance:

- The growth in non-debt receipts at 25.8 per cent during April-November 2016 surpassed the budgeted growth rate of 16.4 per cent for the full year (over 2015-16 PA).
- The realisation of the gross tax revenue during April-November 2016 as ratio of the budget estimates for 2016-17 was 57.2 per cent compared to 53 per cent in the corresponding period of the previous year.

GST & Demonetisation:

- The GST will create a common Indian market, improve tax compliance and governance, and boost investment and growth; it is also a bold new experiment in the governance of India's cooperative federalism.
- The two largest denomination notes, Rs 500 and Rs 1000—together comprising 86 per cent of all the cash in circulation—were "demonetised" with immediate effect, ceasing to be legal tender except for a few specified purposes, on November 8, 2016.
- Demonetisation has had short-term costs in the form of slow growth but holds the potential for long-term benefits. Long-term benefits include reduced corruption, greater digitalisation of the economy, increased flows of financial savings, and greater formalisation of the economy, all of which could eventually lead to higher GDP growth, better tax compliance and greater tax revenues.

Financial Intermediation:

- The benchmark 10-year yield continued to tread high in spite of the rate cut and in fact increased marginally after the rate cut to settle at 6.63 per cent as of December 30, 2016.
- The Government increased the limit on securities under market stabilisation scheme from Rs 30,000 crore (US$ 4.4 billion) to Rs 6 lakh crore (US$ 88.5 billion).
- The gross non-performing assets (GNPA) to total advances ratio of scheduled commercial banks (SCBs) increased to 9.1 per cent from 7.8 per cent between March and September 2016.
- Indian markets recorded a modest growth of 1.95 to 3 per cent (Sensex was up by 1.95 per cent while Nifty was higher by 3.0 per cent) for the calendar year 2016 as compared to losses registered in 2015.
- For the first time since the meltdown of 2008, Net Foreign Portfolio Investments (FPI) have turned negative (implying that there was an outflow from the Indian markets to the tune of Rs 23,079 crore or US$ 3.4 billion), led by increase in US Fed rate by the Federal Reserve leading to outflows from several emerging market economies.

Proposed Universal Basic Income (UBI) mechanism:

- The Economic Survey considers the idea of UBI as a potent tool to bring about eradication of poverty.
- UBI has several objective benefits such as recalibration of burden on Government finances through unconditional cash transfer, elimination of administrative inefficiencies in the agency model of government operations, quantification and accountability of benefits.
- From a intangible/philosophical point of view, UBI could be viewed as a fundamental right to accord a life of dignity and social justice to the citizens of the country.
- On the other hand, the negative shades of UBI could manifest in terms of reduced incentive to work, income detached from employment, and being viewed as unconditional income without contribution to society.
- The arguments both in favour of and against UBI need to be discussed further and the shortcomings need to be addressed through better design of implementation tools. However, the time has come for a serious consideration of UBI in view of the enormous burden on the fiscal due to systemic inefficiencies in traditional welfare programs.

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