

## Key Highlights of Economic Survey 2018-19

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

**The Key Highlights of Economic Survey 2018-19 are as follows:**

### **Shifting gears: Private Investment as the Key Driver of Growth, Jobs, Exports and Demand**

- Survey states that pathways for trickle-down opened up during the last five years; and benefits of growth and macroeconomic stability reached the bottom of the pyramid.
- Sustained real GDP growth rate of 8% needed for a \$5 trillion economy by 2024-25.
- “**Virtuous Cycle**” of savings, investment and exports catalyzed and supported by a favorable demographic phase required for sustainable growth.
- **Private investment**- key driver for demand, capacity, labor productivity, new technology, creative destruction and job creation.
- Survey departs from traditional Anglo-Saxon thinking by viewing the economy as being either in a virtuous or a vicious cycle, and thus never in equilibrium.
- **Key ingredients** for a self-sustaining virtuous cycle:
  - Presenting *data as a public good*.
  - Emphasizing *legal reforms*.
  - Ensuring *policy consistency*.
  - Encouraging *behavior change* using *principles of behavioral economics*.
  - Nourishing MSMEs to create more jobs and become more productive.
  - Reducing the cost of capital.
  - Rationalizing the risk-return trade-off for investments.

### **Policy for Real People, Not Robots: Leveraging the Behavioral Economics of “Nudge”**

- Decisions by real people deviate from impractical robots theorized in classical economics.
- Behavioral economics provides insights to ‘**nudge**’ people towards desirable behavior.
- Key principles of behavioral economics:

- Emphasizing the beneficial social norm.
- Changing the default option.
- Repeated reinforcements.
- Using insights from behavioral economics to create an aspirational agenda for social change:
  - From 'Beti Baco Beti Padhao' to '**BADLAV**' (*Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi*).
  - From 'Swachh Bharat' to '**Sundar Bharat**'.
  - From 'Give it up' for the LPG subsidy to '**Think about the Subsidy**'.
  - From 'Tax evasion' to '**Tax compliance**'.

### **Nourishing Dwarfs to become Giants: Reorienting policies for MSME Growth**

- Survey focuses on enabling MSMEs to grow for achieving greater profits, job creation and enhanced productivity.
- Dwarfs (firms with less than 100 workers) despite being more than 10 years old, account for more than 50% of all organized firms in manufacturing by number.
- Contribution of dwarfs to employment is only 14% and to productivity is a mere 8%.
- Large firms (more than 100 employees) account for 75% employment and close to 90% of productivity despite accounting for about 15% by number.
- Unshackling MSMEs and enabling them to grow by way of:
  - A sunset clause of less than 10 years, with necessary grand-fathering, for all size-based incentives.
  - Deregulating labor law restrictions to create significantly more jobs, as evident from Rajasthan.
  - Re-calibrating Priority Sector Lending (PSL) guidelines for direct credit flow to young firms in high employment elastic sectors.
- Survey also focuses on service sectors such as tourism, with high spillover effects on other sectors such as hotel & catering, transport, real estate, entertainment etc., for job creation.

### **Data "Of the People, By the People, For the People"**

- Society's optimal consumption of data is higher than ever given technological advances in gathering and storage of data.

- As data of societal interest is generated by the people, data can be created as a public good within the legal framework of data privacy.
- Government must intervene in creating data as a public good, especially of the poor and in social sectors.
- Merging the distinct datasets held by the Government already would generate multiple benefits.

### **Ending Matsyanyaya: How to Ramp up Capacity in the Lower Judiciary**

- Delays in contract enforcement and disposal resolution are arguably now the single biggest hurdle to the ease of doing business and higher GDP growth in India.
- Around 87.5 per cent of pending cases are in the District and Subordinate courts.
- 100 per cent clearance rate can be achieved by filling out merely 2279 vacancies in the lower courts and 93 in High Courts.
- States of Uttar Pradesh, Bihar, Odisha and West Bengal need special attention.
- Productivity improvements of 25 percent in lower courts, 4 percent in High Courts and 18 percent in Supreme Court can clear backlog.

### **How does Policy Uncertainty affect Investment?**

- Significant reduction in Economic Policy Uncertainty in India over the last one decade, even when economic policy uncertainty increased in major countries, especially the U.S.
- Uncertainty dampens investment growth in India for about five quarters.
- Lower economic policy uncertainty can foster a salutary investment climate.
- Survey proposes reduction in economic policy uncertainty by way of:
  - Consistency of actual policy with forward guidance.
  - Quality assurance certification of processes in Government departments.

### **India's Demography at 2040: Planning Public Good Provision for the 21st Century**

- Sharp slowdown in population growth expected in next 2 decades. Most of India to enjoy demographic dividend while some states will transition to ageing societies by 2030s.

- National Total Fertility Rate expected to be below replacement rate by 2021.
- Working age population to grow by roughly 9.7mn per year during 2021-31 and 4.2mn per year during 2031-41.
- Significant decline to be witnessed in elementary school-going children (5-14 age group) over next two decades.
- States need to consolidate/merge schools to make them viable rather than build new ones.
- Policy makers need to prepare for ageing by investing in health care and by increasing the retirement age in a phased manner.

### **From Swachh Bharat to Sundar Bharat via Swasth Bharat: An Analysis of the Swachh Bharat Mission**

- Traceable health benefits brought about by Swachh Bharat Mission (SBM).
- 93.1% of the households have access to toilets.
- 96.5% of those with access to toilets are using them in rural India.
- 100% Individual Households Latrine (IHHL) Coverage in 30 states and UTs.
- Financial savings from a household toilet exceed the financial costs to the household by 1.7 times on average and 2.4 times for poorest households.
- Environmental and water management issues need to be incorporated in SBM for sustainable improvements in the long-term.

### **Enabling Inclusive Growth through Affordable, Reliable and Sustainable Energy**

- 2.5 times increase in per capita energy consumption needed for India to increase its real per capita GDP by \$5000 at 2010 prices, and enter the upper-middle income group.
- 4 times increase in per capita energy consumption needed for India to achieve 0.8 Human Development Index score.
- India now stands at 4th in wind power, 5th in solar power and 5th in renewable power installed capacity.
- Rs 50,000 crore saved and 108.28 million tonnes of CO2 emissions reduced by energy efficiency programmes in India.
- Share of renewable (excluding hydro above 25 MW) in total electricity generation increased from 6% in 2014-15 to 10% in 2018-19.
- Thermal power still plays a dominant role at 60% share.

- Market share of electric cars only 0.06% in India while it is 2% in China and 39% in Norway.
- Access to fast battery charging facilities needed to increase the market share of electric vehicles.

### **Effective Use of Technology for Welfare Schemes - Case of MGNREGS**

- Survey says that efficacy of MGNREGS increased with use of technology in streamlining it.
- Significant reduction in delays in the payment of wages with adoption of NeFMS and DBT in MGNREGS.
- Demand and supply of work under MGNREGS increased, especially in distressed districts.
- Vulnerable sections of the society viz. women, SC and ST workforce increased under MGNREGS during economic distress.

### **Redesigning a Minimum Wage System in India for Inclusive Growth**

- Survey proposes a well-designed minimum wage system as a potent tool for protecting workers and alleviating poverty.
- Present minimum wage system in India has 1,915 minimum wages for various scheduled job categories across states.
- 1 in every 3 wage workers in India not protected by the minimum wage law.
- Survey supports rationalization of minimum wages as proposed under the Code on Wages Bill.
- Minimum wages to all employments/workers proposed by the Survey.
- **'National Floor Minimum Wage'** should be notified by the Central Government, varying across five geographical regions.
- Minimum wages by states should be fixed at levels not lower than the 'floor wage'.
- Minimum wages can be notified based either on the skills or on geographical region or on both grounds.
- Survey proposes a simple and enforceable Minimum Wage System using technology.
- **'National level dashboard'** under the Ministry of Labour & Employment for regular notifications on minimum wages, proposed by the Survey.
- **Toll-free number** to register grievance on non-payment of the statutory minimum wages.

- Effective minimum wage policy as an inclusive mechanism for more resilient and sustainable economic development.

### **State of the Economy in 2018-19: A Macro View**

- India still the fastest growing major economy in 2018-19.
- Growth of GDP moderated to 6.8 per cent in 2018-19 from 7.2 per cent in 2017-18.
- Inflation contained at 3.4 per cent in 2018-19.
- Non-Performing Assets as percentage of Gross Advances reduced to 10.1 per cent at end December 2018 from 11.5 per cent at end March 2018.
- Investment growth recovering since 2017-18:
  - Growth in fixed investment picked up from 8.3 per cent in 2016-17 to 9.3 per cent next year and further to 10.0 per cent in 2018-19.
- Current account deficit manageable at 2.1 percent of GDP.
- Fiscal deficit of Central Government declined from 3.5 percent of GDP in 2017-18 to 3.4 percent in 2018-19.
- Prospects of pickup in growth in 2019-20 on the back of further increase in private investment and acceleration in consumption.

### **Fiscal Developments**

- FY 2018-19 ended with fiscal deficit at 3.4 per cent of GDP and debt to GDP ratio of 44.5 per cent (Provisional).
- As per cent of GDP, total Central Government expenditure fell by 0.3 percentage points in 2018-19 PA over 2017-18:
  - 0.4 percentage point reduction in revenue expenditure and 0.1 percentage point increase in capital expenditure.
- States' own tax and non-tax revenue displays robust growth in 2017-18 RE and envisaged to be maintained in 2018-19 BE.
- General Government (Centre plus states) on the path of fiscal consolidation and fiscal discipline.
- The revised fiscal glide path envisages achieving fiscal deficit of 3 per cent of GDP by FY 2020-21 and Central Government debt to 40 per cent of GDP by 2024-25.

### **Money Management and Financial Intermediation**

- Banking system improved as NPA ratios declined and credit growth accelerated.

- Insolvency and Bankruptcy Code led to recovery and resolution of significant amount of distressed assets and improved business culture.
  - Till March 31, 2019, the CIRP yielded a resolution of 94 cases involving claims worth INR1, 73,359 crore.
  - As on 28 Feb 2019, 6079 cases involving INR2.84 lakh crores have been withdrawn.
  - As per RBI reports, INR50,000 crore received by banks from previously non-performing accounts.
  - Additional INR50,000 crore "upgraded" from non-standard to standard assets.
- Benchmark policy rate first hiked by 50 bps and later reduced by 75 bps last year.
- Liquidity conditions remained systematically tight since September 2018 thus impacting the yields on government papers.
- Financial flows remained constrained because of decline in the equity finance raised from capital markets and stress in the NBFC sector.
  - Capital mobilized through public equity issuance declined by 81 per cent in 2018-19.
  - Credit growth rate y-o-y of the NBFCs declined from 30 per cent in March 2018 to 9 per cent in March 2019.

## **Prices and Inflation**

- Headline inflation based on CPI-C continuing on its declining trend for fifth straight financial year remained below 4.0 per cent in the last two years.
- Food inflation based on Consumer Food Price Index (CFPI) also continuing on its declining trend for fifth financial year has remained below 2.0 per cent for the last two consecutive years.
- CPI-C based core inflation (CPI excluding the food and fuel group) has now started declining since March 2019 after increment during FY 2018-19 as compared to FY 2017-18.
- Miscellaneous, housing and fuel and light groups are the main contributors of headline inflation based on CPI-C during FY 2018-19 and the importance of services in shaping up headline inflation has increased.
- CPI rural inflation declined during FY 2018-19 over FY 2017-18. However, CPI urban inflation increased marginally during FY 2018-19. Many States witnessed fall in CPI inflation during FY 2018-19.

## Sustainable Development and Climate Change

- 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 with a score of 69 amongst states.
  - Chandigarh and Puducherry are the front runners with a score of 68 and 65 respectively among the UTs.
- **Namami Gange Mission** launched as a key policy priority towards achieving the SDG 6, with a budget outlay of INR. 20,000 crore for the period 2015-2020.
- For mainstreaming Resource Efficiency approach in the development pathway for achieving SDGs, a national policy on Resource Efficiency should be devised.
- A comprehensive NCAP launched in 2019 as a pan India time bound strategy for:
  - Prevention, control and abatement of air pollution
  - Augmenting the air quality monitoring network across the country.
- Achievements in CoP 24 in Katowice, Poland in 2018:
  - Recognition of different starting points for developed and developing countries.
  - Flexibilities for developing countries.
  - Consideration of principles including equity and Common but Differentiated Responsibilities and Respective Capabilities.
- Paris Agreement also emphasizes the role of climate finance without which the proposed NDCs would not fructify.
- Though the international community witnessed various claims by developed countries about climate finance flows, the actual amount of flows is far from these claims.
- Scale and size of investments required to implement India's NDC requires mobilizing international public finance and private sector resources along with domestic public budgets.

## External Sector

- As per WTO, World trade growth slowed down to 3 per cent in 2018 from 4.6 per cent in 2017. Reasons:
  - Introduction of new and retaliatory tariff measures.
  - Heightened US-China trade tensions.
  - Weaker global economic growth.



- Volatility in financial markets (WTO).
- In Indian rupee terms growth rate of exports increased owing to depreciation of the rupee while that of imports declined in 2018-19.
- Net capital inflows moderated in April-December of 2018-19 despite robust foreign direct investment (FDI) inflows, outweighed by withdrawals under portfolio investment.
- India's **External Debt** was US\$ 521.1 billion at end-December 2018, 1.6 per cent lower than its level at end-March 2018.
- The key external debt indicators reflect that India's external debt is not unsustainable.
- The **total liabilities-to-GDP ratio**, inclusive of both debt and non-debt components, has declined from 43 per cent in 2015 to about 38 per cent at end of 2018.
- The share of foreign direct investment has risen and that of net portfolio investment fallen in total liabilities, reflecting a transition to more stable sources of funding the current account deficit.
- The Indian Rupee traded in the range of 65-68 per US\$ in 2017-18 but depreciated to a range of 70-74 in 2018-19.
- The income terms of trade, a metric that measures the purchasing power to import, has been on a rising trend, possibly because the growth of crude prices has still not exceeded the growth of India's export prices.
- The exchange rate in 2018-19 has been more volatile than in the previous year, mainly due to volatility in crude prices, but not much due to net portfolio flows.
- Composition of India's exports and import basket in 2018-19(P):
  - **Exports** (including re-exports): INR23, 07,663 Cr.
  - **Imports**: INR35, 94,373 Cr.
  - **Top export items** continue to be Petroleum products, precious stones, drug formulations, gold and other precious metals.
  - **Top import items** continue to be Crude petroleum, pearl, precious, semi-precious stones and gold.
  - **India's main trading partners** continue to be the US, China, Hong Kong, the UAE and Saudi Arabia.
- India has signed 28 bilateral / multilateral trade agreements with various country/group of countries. In 2018-19,

- Exports to these countries stood at US\$121.7 billion accounting for 36.9 per cent of India's total exports.
- Imports from these countries stood at US\$266.9 billion accounting for 52.0 per cent of India's total imports.

## **Agriculture and Food Management**

- Agriculture sector in India typically goes through cyclical movement in terms of its growth.
  - Gross Value Added (GVA) in agriculture improved from a negative 0.2 per cent in 2014-15 to 6.3 per cent in 2016-17 but decelerated to 2.9 per cent in 2018-19.
- Gross Capital Formation (GCF) in agriculture as percentage of GVA marginally declined to 15.2 per cent in 2017-18 as compared to 15.6 per cent in 2016-17.
- The public sector GCF in agriculture as a percentage of GVA increased to 2.7 per cent in 2016-17 from 2.1 per cent in 2013-14.
- Women's participation in agriculture increased to 13.9 per cent in 2015-16 from 11.7 per cent in 2005-06 and their concentration is highest (28 per cent) among small and marginal farmers.
- A shift is seen in the number of operational land holdings and area operated by operational land holdings towards small and marginal farmers.
- 89% of groundwater extracted is used for irrigation. Hence, focus should shift from land productivity to 'irrigation water productivity'. Thrust should be on micro-irrigation to improve water use efficiency.
- Fertilizer response ratio has been declining over time. Organic and natural farming techniques including Zero Budget Natural Farming (ZBNF) can improve both water use efficiency and soil fertility.
- Adopting appropriate technologies through Custom Hiring Centers and implementation of ICT are critical to improve resource-use efficiency among small and marginal farmers.
- Diversification of livelihoods is critical for inclusive and sustainable development in agriculture and allied sectors. Policies should focus on
  - Dairying as India is the largest producer of milk.
  - Livestock rearing particularly of small ruminants.
  - Fisheries sector, as India is the second largest producer.

## Industry and Infrastructure

- Overall Index of Eight Core Industries registered a growth rate of 4.3 percent in 2018-19.
- India's ranking improved by 23 to 77<sup>th</sup> position in 2018 among 190 countries assessed by the World Bank Doing Business (DB) Report, 2019.
- Road construction grew @ 30 km per day in 2018-19 compared to 12 km per day in 2014-15.
- Rail freight and passenger traffic grew by 5.33 per cent and 0.64 per cent respectively in 2018-19 as compared to 2017-18.
- Total telephone connections in India touched 118.34 crore in 2018-19
- The installed capacity of electricity has increased to 3, 56,100 MW in 2019 from 3, 44,002 MW in 2018.
- Public Private Partnerships are quintessential for addressing infrastructure gaps
- Building sustainable and resilient infrastructure has been given due importance with sector specific flagship programmes such as SAUBHAGYA scheme, PMAY etc
- Institutional mechanism is needed to deal with time-bound resolution of disputes in infrastructure sector

## Services Sector

- Services sector (excluding construction) has a share of 54.3 per cent in India's GVA and contributed more than half of GVA growth in 2018-19.
- The IT-BPM industry grew by 8.4 per cent in 2017-18 to US\$ 167 billion and is estimated to reach US\$ 181 billion in 2018-19.
- The services sector growth declined marginally to 7.5 per cent in 2018-19 from 8.1 per cent in 2017-18.
  - **Accelerated sub-sectors:** Financial services, real estate and professional services.
  - **Decelerated sub-sectors:** Hotels, transport, communication and broadcasting services.
- Services share in employment is 34 per cent in 2017.
- Tourism:
  - 10.6 million foreign tourists received in 2018-19 compared to 10.4 million in 2017-18.
  - Forex earnings from tourism stood at US\$ 27.7 billion in 2018-19 compared to US\$ 28.7 billion in 2017-18.

## Social Infrastructure, Employment and Human Development

- The public investments in social infrastructure like education, health, housing and connectivity is critical for inclusive development.
- Government expenditure (Centre plus States) as a percentage of GDP on
  - Health: increased to 1.5 per cent in 2018-19 from 1.2 per cent in 2014-15.
  - Education: increased from 2.8 per cent to 3 per cent during this period.
- Substantial progress in both quantitative and qualitative indicators of education is reflected in the improvements in Gross Enrolment Ratios, Gender Parity Indices and learning outcomes at primary school levels.
- Encouraging Skill Development by:
  - Introduction of the skill vouchers as a financing instrument to enable youth obtain training from any accredited training institutes.
  - Involving industry in setting up of training institutes in PPP mode; in curriculum development; provision of equipment; training of trainers etc.
  - Personnel of Railways and para-military could be roped in for imparting training in difficult terrains.
  - Create a database of Instructors, skill mapping of rural youth by involving local bodies to assess the demand-supply gaps are some of the other initiatives proposed.
- Net employment generation in the formal sector was higher at 8.15 lakh in March, 2019 as against 4.87 lakh in February, 2018 as per EPFO.
- Around 1, 90, 000 km of rural roads constructed under Pradhan Mantri Gram Sadak Yojana (PMGSY) since 2014.
- About 1.54 crore houses completed under Pradhan Mantri Awas Yojana (PMAY) as against a target of 1 crore pucca houses with basic amenities by 31<sup>st</sup> March, 2019.
- Accessible, affordable and quality healthcare being provided through National Health Mission and Ayushman Bharat scheme for a healthy India.
- Alternative healthcare, National AYUSH Mission launched to provide cost effective and equitable AYUSH healthcare throughout the country to address the issue of affordability, by improving access to these services.
- Employment generation scheme, MGNREGA is prioritized by increasing actual expenditure over the budgetary allocation and an upward trend in budget allocation in the last four years.