# Economy on the eve of Union Budget 2016-17

PHD Research Bureau

PHD CHAMBER OF COMMERCE & INDUSTRY

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The Economic Survey 2015-16 has been released by the Ministry of Finance. Majorly the direction of the Economic Survey is indicating towards a healthy and a robust growth potential for India. The survey highlighted that India is expected to grow at a rate of 7%-7.75% in 2015-16.

## PHD Chamber's Viewpoint

### Economic Survey envisages promising growth outlook; ease of doing business

Despite the global headwinds, economy holds immense growth potential to grow more than 8% in the next couple of years. Government's commitment to carry the reform process forward is highly encouraging and indicates that the double digit growth trajectory is not far away.

Economy is making great achievement in ease of doing business vis-a-vis removing barriers to entry for businesses. However, lot needs to be done in the ease of doing business as the economy is moving from socialism to marketism without exit policy.

Creating a more captive environment would be critical to address the exit problem which affects the performance of businesses and economy. We appreciate achievements in the power sector in last two years; record generation capacity with reforms in discoms and developments in renewable energy are really appreciable.

The Chamber believes time is most opportune to allow industries with higher power demands to absorb excess generation capacity through open access to strengthen Make in India programme. Agriculture sector needs a greater transformation to improve livelihoods of the farmers and to achieve food security.

Raising productivity in agriculture by investing in efficient irrigation technologies and efficient use of inputs would be critical to improve the state of farm sector. There is urgent need to rationalize agricultural policies including subsidies by making them 'input-crop and region-neutral' to improve productivity in agriculture.

Water productivity needs to be enhanced through tapping harvesting and recycling water, efficient on farm management practices, micro irrigation, and use of waste water and resource conservation technologies. The performance of social sector schemes of the government is appreciable particularly the women empowerment.

Women account for 57% of employment given under MGNREGA in the current financial year. There is a need to increase investments in health and education of people to exploit India's demographic dividend to optimal level. Supply side factors for the Indian economy are very crucial, so the focus must be on timely and uninterrupted supply.

It is worrying that India has the second highest number of undernourished people. India needs to have a greater focus on this problem to build a healthy and strengthened India. Government's effort in controlling inflation is worth appreciation. Astute policies and management of inflation by the government through buffer stocking, timely release of cereals and import of pulses has helped in keeping prices of essential commodities under check during 2015-16.

It is inspiring to know that India is increasingly becoming strong in the production of perishables and protein contain food items. Overall, India ranks first in production of milk and accounts for 18.5% of world production. The per capita availability of milk in India has increased from 176 grams per day in 1990-91 to 322 grams per day by 2014-15.

Overall, state of the Indian economy is inspiring and PHD Chamber looks forward to a dynamic budget announcement to pave way for strong and sustainable growth environment with a greater ease of doing business.

# 1. State of the Economy

The global macroeconomic landscape is currently going through a slowdown and turmoil characterized by weak growth of world output. The situation has been aggravated by; (i) declining prices of a number of commodities, with reduction in crude oil prices being the most visible of them; (ii) turbulent financial markets (iii) volatile exchange rates. Nonetheless, India has registered a robust and steady pace of economic growth in 2015-16. Additionally, its other macroeconomic parameters like inflation, fiscal deficit and current account balance are improving. Wholesale price inflation has been in negative territory for more than a year and the all-important consumer prices inflation has declined to nearly half compared to previous years.

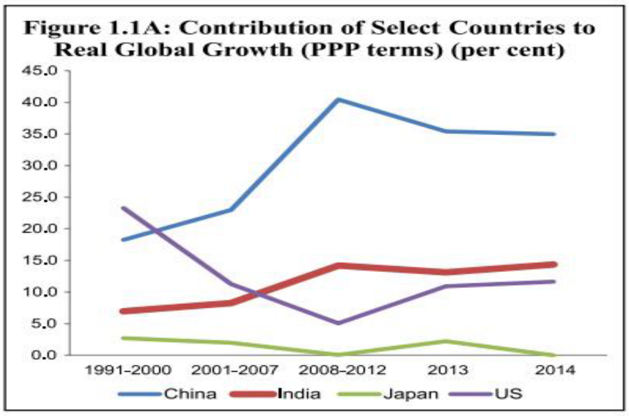
However, India's exports are slowing down owing to weak growth in advanced and emerging economies. As imports have also declined, trade and current account deficits continue to be moderate. Growth in agriculture has been poor due to two successive years of less than-normal monsoon rains. Saving and investment rates are showing hardly any signs of revival. The rupee has depreciated vis-à-vis the US dollar but has appreciated against a number of other major currencies. Still there is ample scope for major macro-economic indicators to revive in the coming times. The Indian economy stands out as a haven of macroeconomic stability, resilience and optimism and can be expected to register GDP growth that could be in the range of 7% to 7.75 % in the coming year. With focus on reforms in key sectors coupled with stable macroeconomic conditions, the above growth prospect for the economy in the next year appears achievable.

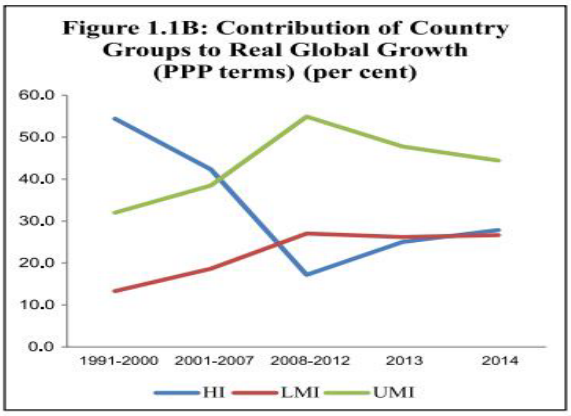
## 1.1 Indian growth story appears particularly bright

Despite global headwinds and a truant monsoon, India registered robust growth of 7.2% in 2014-15 and 7.6% in 2015-16, thus becoming the fastest growing major economy in the world. While growth in advanced economies has improved modestly since 2013, the emerging economies have witnessed a consistently declining trend in growth rate since 2010.

## 1.2 India's increasing importance to global growth

India's contribution to global growth in PPP terms increased from an average of 8.3% during the period 2001 to 2007 to 14.4% in 2014. In 2013 and 2014 India's contribution was higher than that of the US by 2.2 and 2.7 percentage points respectively. During 1991-2014, low growth in Japan (0.9 % annually) resulted in its low contribution (1.5 %) to global growth. India and China constitute 42.5 % and 53.2 % respectively of the total PPP measure of the lower-middle income countries and upper-middle income countries.




HI=high income countries; LMI=lower middle income countries; UMI=upper middle income countries

*Source: PHD Research Bureau compiled from Economic Survey 2015-16*

**Figure 1: Key Indicators of Indian Economy**

| Data categories | Unit | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| **GDP and Related Indicators** | | | | | |
| GDP (2011-12 prices) | ₹ Crore | 9226879[2R] | 9839434[2R] | 10552151[1R] | 11350962[AE] |
| Growth Rate | % | 5.6 | 6.6 | 7.2 | 7.6 |
| GVA at basic prices (2011-12 prices) | ₹ Crore | 8546552[2R] | 9084369[2R] | 9727490[1R] | 10437579[AE] |
| Growth Rate | % | 5.4 | 6.3 | 7.1 | 7.3 |
| Savings Rate | % of GDP | 33.8 | 33.0 | 33.0 | na |
| Capital Formation Rate | % of GDP | 38.6 | 34.7 | 34.2 | na |
| Per Capita Net National Income (At current market prices) | ₹ | 71050 | 79412 | 86879 | 93231 |
| **Production** | | | | | |
| Food grains | Million tonnes | 257.1 | 265.0 | 252.0 | 253.2[a] |
| Index of Industrial Production[b] | | | | | |
| (Growth) | % | 1.1 | -0.1 | 2.8 | 3.1[d] |
| Electricity Generation | | | | | |
| (Growth) | % | 4.0 | 6.0 | 8.4 | 4.4[d] |
| **Prices** | | | | | |
| Inflation (WPI) (average) | % | 7.4 | 6.0 | 2.0 | -2.8[e] |
| Inflation CPI (Combined) (average) | % | 10.2 | 9.5 | 5.9 | 4.9[e] |
| **External Sector** | | | | | |
| Export Growth ( US$) | % | -1.8 | 4.7 | -1.3 | -17.6[e] |
| Import Growth (US$) | % | 0.3 | -8.3 | -0.5 | -15.5[e] |
| Current Account Balance (CAB)/GDP | % | -4.8 | -1.7 | -1.3 | -1.4[f] |
| Foreign Exchange Reserves | US$ billion | 292.0 | 304.2 | 341.6 | 349.6[c] |
| Average Exchange Rate | ₹/US$ | 54.40 | 60.51 | 61.14 | 65.03[e] |
| **Money and Credit** | | | | | |
| Broad Money (M3) (annual) | % change | 13.6 | 13.4 | 10.8 | 11.0[g] |
| Scheduled Commercial Bank Credit | % change | 14.1 | 13.9 | 9.0 | 11.3[g] |
| **Fiscal Indicators (Centre)** | | | | | |
| Gross Fiscal Deficit | % of GDP | 4.9 | 4.5 | 4.0[i] | 3.9[h] |
| Revenue Deficit | % of GDP | 3.7 | 3.2 | 2.9[i] | 2.8[h] |
| Primary Deficit | % of GDP | 1.8 | 1.1 | 0.8[i] | 0.7[h] |

Notes:

na : Not available,

2R : Second Revised Estimates

1R: First Revised Estimates

AE: Advance Estimates

a : 2nd Advance Estimates

b : Base (2004-05=100)

c : As at end-January 2016

d : April-December 201516

e : April-January 2015-16

f : April-September, 2015-16

g : y-o-y growth rate as on January 08, 2016

h : Budget Estimates

*Source: PHD Research Bureau compiled from Economic Survey 2015-16*

## 1.3 Aggregate Demand: Consumption-Driven Economy

Three visible changes are taking place in aggregate demand in India. **First,** with improving growth in private consumption, its contribution to GDP growth is getting aligned to its GDP share. **Second,** aided by the growth in capital goods, the growth of fixed capital formation has picked up. **Third,** the substantial erosion of global demand for Indian output, manifest in loss of Indian Exports, acts as a drag on domestic growth. Owing to these changes, India's achievement of being able to sustain its high growth, primarily on the strength of her domestic absorption, becomes noteworthy.

**Figure 2: Contribution of Components to Real GDP Growth**

| Final expenditures | Share in GDP | | Growth (in per cent) | | | Contribution to GDP growth (in per cent) | | |
|---|---|---|---|---|---|---|---|---|
| | 2011-12 | 2015-16 | 2013-14 | 2014-15 | 2015-16 (AE) | 2013-14 | 2014-15 | 2015-16 (AE) |
| Private final consumption | 56.2 | 59.8 | 6.8 | 6.2 | 7.6 | 57.1 | 48.3 | 55.9 |
| Government final consumption | 11.1 | 10.7 | 0.4 | 12.8 | 3.3 | 0.7 | 17.6 | 4.5 |
| Fixed capital formation | 34.3 | 29.4 | 3.4 | 4.9 | 5.3 | 17.5 | 22.1 | 22.4 |
| Change in stock | 2.4 | 1.7 | -18.6 | 20.3 | 5.5 | -6.0 | 4.6 | 1.4 |
| Valuables | 2.9 | 1.5 | -42.2 | 15.4 | 13.3 | -17.9 | 3.2 | 2.9 |
| Net exports | -6.5 | -2.6 | 70.0 | 11.7 | 6.1 | 67.4 | 2.9 | 1.2 |
| GDP at constant market prices | 100.0 | 100.0 | 6.6 | 7.2 | 7.6 | 100.0 | 100.0 | 100.0 |

*Source: PHD Research Bureau compiled from Economic Survey 2015-16*
*Note: AE--Advance Estimates. Shares/contributions may not add up to 100 due to errors and omissions.*

India has generally been a net importer. However, the growth contribution of net exports was positive in many years. In the current year, the rupee values of exports and imports are both projected to decline; the former on account of the sluggish global demand and the latter due to steep decline in international crude oil prices and other commodity prices. The net exports are estimated to make a positive contribution to growth because of the expected decline in the wedge between exports and imports.

## 1.4 Growth in Gross Value Added

The Gross Value Added (GVA) has registered an increase in the growth rate from 5.4% in 2012-13 to 7.1% in 2014-15. In the current year, the growth in GVA is likely to increase to 7.3%, as per the Advance Estimates (AE) affirming the positive trends in the economy indicated by GDP.

**Figure 3: Growth in GDP and Major Sectors (in %)**

| Sector | 2013-14 (2R) | 2014-15 (1R) | 2015-16 (AE) |
|---|---|---|---|
| **Agriculture, forestry and fishing** | 4.2 | -0.2 | 1.1 |
| **Industry** | 5.0 | 5.9 | 7.3 |
| Mining and quarrying | 3.0 | 10.8 | 6.9 |
| Manufacturing | 5.6 | 5.5 | 9.5 |
| Electricity, gas, water supply, etc. | 4.7 | 8.0 | 5.9 |
| Construction | 4.6 | 4.4 | 3.7 |
| **Services** | 7.8 | 10.3 | 9.2 |
| Trade, hotels, transport and communication | 7.8 | 9.8 | 9.5 |
| Financing, real estate, professional services, etc. | 10.1 | 10.6 | 10.3 |
| Public administration, defence and other services | 4.5 | 10.7 | 6.9 |
| GVA at constant basic prices | 6.3 | 7.1 | 7.3 |
| GDP at constant market prices | 6.6 | 7.2 | 7.6 |

*Source: PHD Research Bureau compiled from Economic Survey 2015-16*

## 1.5 Quarter-wise growth

Tracking quarter-wise dynamics helps in identifying short-term growth patterns and assessing the near-term outlook. The quarterly growth has been summarised below:

**Figure 4: Quarter wise Growth in GVA at (2011-12) Basic Prices (Y-O-Y)**

| | 2014-15 | | | | 2015-16 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Agriculture and allied | 2.3 | 2.8 | -2.4 | -1.7 | 1.6 | 2.0 | -1.0 | 2.6 |
| Industry | 8.0 | 5.9 | 3.8 | 5.7 | 6.8 | 6.4 | 9.0 | 7.3 |
| Services | 8.6 | 10.7 | 12.9 | 9.3 | 9.0 | 9.4 | 9.4 | 9.0 |
| GVA at basic prices | 7.4 | 8.1 | 6.7 | 6.2 | 7.2 | 7.5 | 7.1 | 7.4 |
| Net indirect taxes | 8.5 | 10.8 | 5.3 | 11.4 | 13.4 | 10.2 | 9.7 | 10.4 |
| GDP | 7.5 | 8.3 | 6.6 | 6.7 | 7.6 | 7.7 | 7.3 | 7.7 |

*Source: PHD Research Bureau compiled from Economic Survey 2015-16*

## 1.6 Revision in Real GDP Growth and Per Capita Income

The levels of GDP have been revised right from the base year, 2011-12. Growth rate of GDP at market prices for the years 2012-13, 2013-14 and 2014-15 is currently estimated to be 5.6 %, 6.6 % and 7.2 % respectively. Earlier, these were estimated to be 5.1 %, 6.9 % and 7.3 % respectively. Similarly, growth rate of GVA at basic prices for the years 2012- 13, 2013-14 and 2014-15 is now estimated to be 5.4 %, 6.3 % and 7.1 % respectively as against earlier levels of 4.9 %, 6.6 % and 7.2 % respectively. The growth of sectors, namely agriculture, industry and services, has been also revised.

**Figure 5: Revision in Real GDP Growth**

| Item | Annual average growth rate (2012-13 to 2014-15) | |
|---|---|---|
| | PE | RE |
| Consumption | 5.9 | 5.8 |
| GFCE | 5.5 | 4.6 |
| PFCE | 6.0 | 6.1 |
| Fixed investment | 2.4 | 4.4 |
| GDP | 6.4 | 6.5 |

*Source: PHD Research Bureau compiled from Economic Survey 2015-16*
*Notes: PE: Provisional Estimates released in May 2015; RE: Revised Estimates released in January 2016; GFCE: Government Final Consumption Expenditure; PFCE: Private Final Consumption Expenditure.*

The public sector constitutes about a fifth of the Indian economy in terms of GVA at basic prices, the private corporate sector a little above one-third and the household sector the rest. Per capita Income level in 2015-16 stands at Rs 88472 (constant prices) and at Rs. 105746 (current prices) registering a growth rate (constant prices) of 6.2% in 2015-16 (Y-O-Y).

## 1.7 Public Finance

The Budget 2015-16 sought to contain the fiscal deficit at Rs. 5.56 lakh crore (3.9% of GDP) as against Rs. 5.13 lakh crore (4.1% of GDP) in 2014-15 (RE). The desired fiscal consolidation was planned to be achieved by an estimated growth of 15.8 % in gross tax revenue (GTR) over RE 2014-15. The overall non-debt receipts for the 2015-16 were estimated to be 12.2 lakh crore against the total expenditure of Rs. 17.77 lakh crore which was 5.7% higher than 2014-15 (RE). Within the total expenditure, the expected growth in capital expenditure was 25.5% which ensures the better quality of expenditure. The fiscal deficit target of 3.9% of GDP seems achievable.

## 1.8 Prices and Monetary Management

Inflation has exhibited distinct signs of improvement. Wholesale price inflation has been in negative territory for more than a year and the all-important consumer prices inflation has declined to nearly half of what it was a few years ago. WPI inflation has remained in the negative territory since November 2014 and was (-) 2.8% in 2015-16 (April-January) as compared to 2.0 % in 2014- 15. CPI-based core (non-food, non-fuel) inflation also remained range-bound, inching marginally upwards from 4.2% in March 2015 to 4.7% in January 2016. Repo rate stands at 6.75%.

## 1.9 External Balance

During the current financial year (April-January 2015-16), India's exports declined year-on-year by 17.6 % to US$ 217.7 billion and this decline was broad-based. In keeping with the global trends of slow growth, imports have declined by 15.5 % in 2015-16 (April-January) to US $ 324.5 billion. Lower imports of petroleum, oil and lubricants (POL) were the main reason for the decline in total imports this year so far. India's foreign exchange reserves at US$351.5 billion as on 5 February 2016 mainly comprised foreign currency assets amounting to US$328.4 billion, accounting for about 93.4 % of the total. During 2015-16 (April-January), the average exchange rate of the rupee depreciated to Rs 65.04 per US dollar as compared to Rs 60.92 per US dollar in 2014-15 (April-January).

## 1.10 Sectoral Developments

### a. Agriculture

The growth rates in agriculture have been fluctuating at 1.5 % in 2012-13, 4.2 % in 2013-14, (-) 0.2 % in 2014-15 and a likely growth of 1.1 % in 2015-16. As per the Second Advance Estimates for 2015-16, foodgrains production during 2015-16, estimated at 253.16 million tonnes, is expected to be higher by 1.14 million tonnes over the production of 252.02 million tonnes during 2014-15.

### b. Industrial, Corporate and Infrastructure Performance

As per the data on RE of national income, the growth of the industrial sector comprising mining and quarrying, manufacturing, electricity, gas, water supply and other utility services, and construction is 5.9 % during 2014-15, as against 5.0 % during 2013-14. The growth is expected to strengthen further to 7.3 % for 2015- 16 as per the AE released by the CSO recently.

### c. Services Sector

Services sector growth in India accelerated to 10.3 % in 2014-15 from 7.8 % in the previous year, on account of higher growth in services sub-sectors like trade, repair, hotels & restaurants (10.7 %), financial services (7.9 %), public administration and defence (9.8 %), and other services (11.4 %). In

2015-16, as per the AE, the services sector registered a growth of 9.2 % (constant prices), mainly due to the lower growth of 6.9 % in public administration, defence and other services vis-à-vis 10.7 % growth achieved in 2014-15.

**d. Social Infrastructure, Employment and Human Development**

Expenditure on Social Infrastructure: Expenditure on education as a proportion of GDP has hovered around 3 % during the period 2008-09 to 2014-15. Poverty estimates based on the Tendulkar Committee methodology using household consumption expenditure survey data collected by the NSSO in its 68th round (2011-12), show that the incidence of poverty declined from 37.2% in 2004-5 to 21.9% in 2011-12 for the country as a whole, with a sharper decline in the number of rural poor. Mission Indradhanush which was launched in December 2014, has covered 352 districts of the country so far.

**e. Climate Change and Sustainable Development**

Domestically, many initiatives have been taken by India on climate change and sustainable development. India has submitted ambitious targets in its Intended Nationally Determined Contribution (INDC) in the renewable energy sector, mainly from solar and wind energy. With a potential of more than 100 GW, the aim is to achieve a target of 60 GW of wind power as well as 100 GW of solar power installed capacity by 2022. The principle of equity and Common but Differentiated Responsibilities (CBDR), historical responsibilities and India's development imperatives, enhanced adaptation requirements, etc. have been a recurring theme in the INDC document. India's INDC has been welcomed as fair and ambitious specifically on renewable energy and forestry sector.

## 2. Economic Outlook, Prospects, and Policy Challenges

At the backdrop of an unusually volatile external environment and significant risks of weaker global activity, stimulating the Indian economy against possible spillovers is an obvious and inevitable priority. However, amidst this gloomy landscape, India stands out as a haven of stability and a frontier of opportunity.

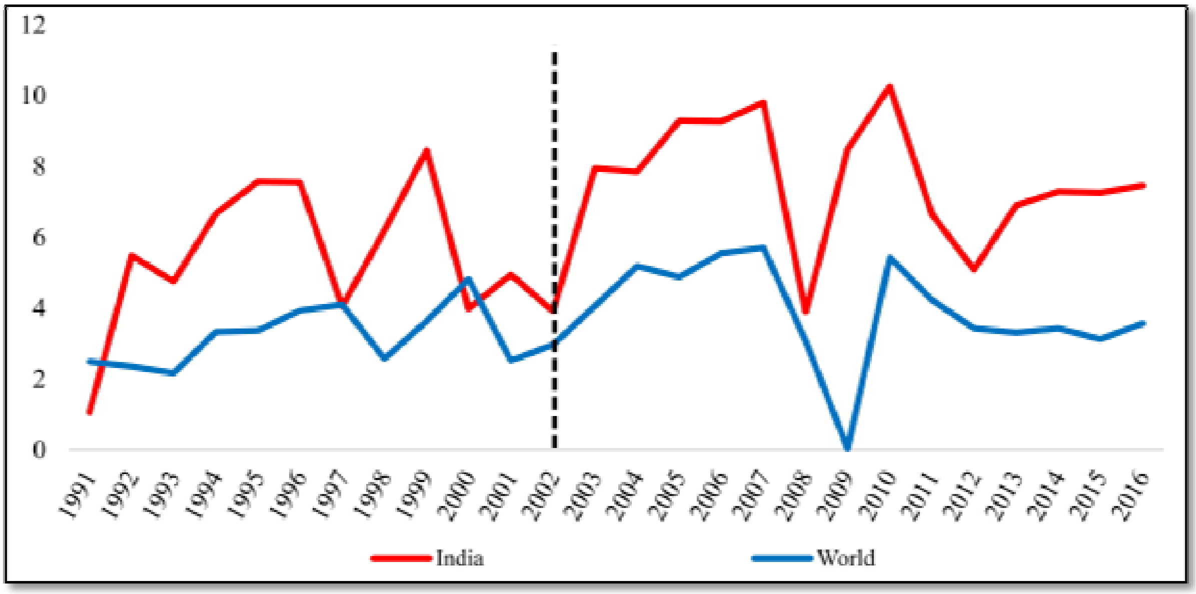
India's economic growth is amongst the highest in the world, helped by a reorientation of government spending toward the much needed public infrastructure. These achievements are remarkable because they have been accomplished in the face of global headwinds and a second successive season of poor rainfall.

As the global prospects and policy challenges point towards a weak global recovery, the task is to sustain India's achievements in a more difficult global environment as the correlation between global and Indian growth has been growing significantly.

India's economic performance can be measured against two distinct benchmarks: India versus other countries; and India versus its own medium-term potential. On the first, the Indian economy has fared well; on the second, steady progress is being made and there is still scope for translating potential into reality.

At a time when the world economy is facing major headwinds and volatility, India is a refuge of recovery and stability. Its macro-economy is robust, and it is likely to be the fastest growing major economy in the world in 2016. Nonetheless, careful economic management as regards monetary and liquidity policy, inflation, growth outlook, and fiscal consolidation is essential for sustaining India's growth.

**Figure 6: India and world growth since 1991 (%)**




Source: PHD Research Bureau, compiled from Economic Survey 2015-16

For an economy where exports have declined due to weak global demand and private investment remains weak, India's economy is performing remarkably well. In part, this performance reflects the implementation of a number of meaningful reforms including, liberalizing foreign direct investment (FDI) across-the-board, passing the long-awaited insurance bill, and vigorously pursuing efforts to ease the cost of doing business which has allowed India to advance in cross-country competitiveness rankings.

Additionally, settlement of the Minimum Alternate Tax (MAT) imposed on foreign companies, instituting a major crop insurance program to cushion farmers against adversity; advancing the game-changing JAM (Jan Dhan Aadhaar Mobile) agenda, attempting to change social norms in a number of areas like open defecation, voluntarism in giving up subsidies, comprehensive reforms in the power sector, among others has created the right policy environment for India's remarkable performance.

On the other hand, the underlying anxiety is that the Indian economy is not realizing its full potential. The country's long run potential growth rate is still around 8%-10%. Realizing this potential requires a push on at least three fronts. These efforts include creating a more competitive environment to address the exit problem (Chakravyuha) which is an impediment to investment, efficiency, job creation and growth.

Second push is needed to stimulate major investments in people, their health and education that are necessary to exploit India's demographic dividend. Most importantly, while dynamic sectors such as services and manufacturing tend to grab public attention, India cannot afford to neglect its agriculture sector which is vulnerable to productivity, weather, and market shocks changes that affect its incomes. The newly introduced crop insurance schemes should begin to address these problems to a great extent.

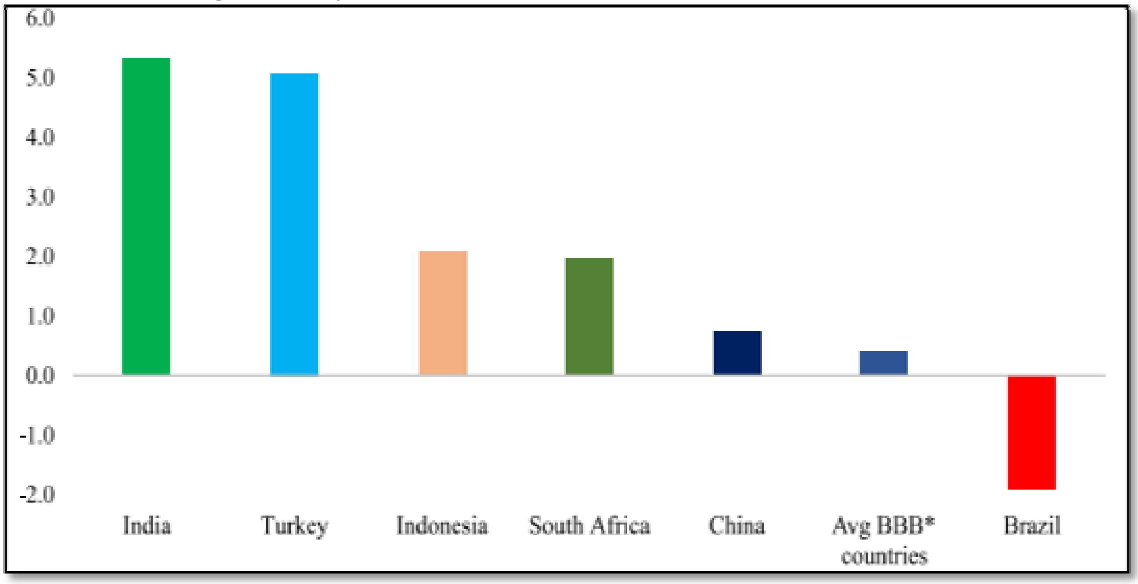
The Indian economy has continued to consolidate the gains achieved in restoring macroeconomic stability in the previous year. Inflation, the fiscal deficit, and the current account deficit have all declined, rendering India a relative haven of macro-stability in these turbulent times. Economic growth appears to be recovering, albeit at varying speeds across sectors.

At the same time, the upcoming Budget and 2016-17 (FY2017) economic policy more broadly, will have to contend with an unusually challenging and weak external environment. Although the major international institutions are yet again predicting that global growth will increase from its current subdued level, they assess that risks remain tilted to the downside. This uncertain and fragile outlook will complicate the task of economic management for India.

One tail risk scenario that India must plan for is a major currency re-adjustment in Asia in the wake of a similar adjustment in China; as such an event would spread deflation around the world. This will weaken the foreign demand, forcing India, in the short run to find and activate domestic sources of demand to prevent the growth momentum from weakening.

According to the previous year's Economic survey 2014-15 **overall index of macroeconomic vulnerability**, which adds a country's fiscal deficit, current account deficit, and inflation showed that in 2012 India was the most vulnerable of the major emerging market countries. Subsequently, India has made the most dramatic strides in reducing its macro-vulnerability.

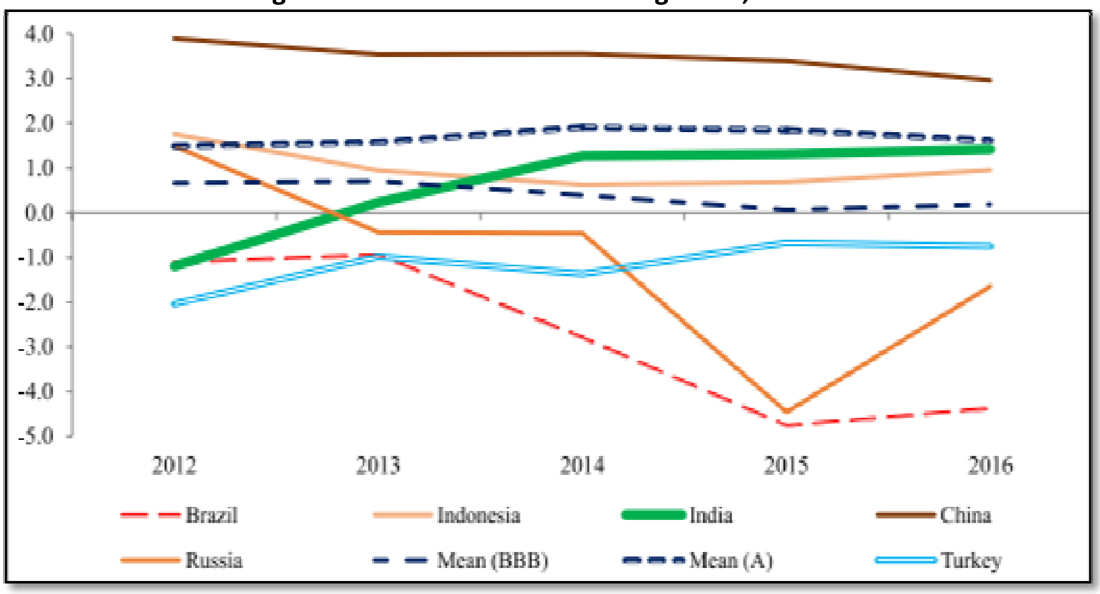
**Figure 7: Improvement in Macro-Economic Resilience, 2013-16**




Source: PHD Research Bureau, compiled from Economic Survey 2015-16
*BBB is classification of countries as per Fitch ratings agency

If macro-economic stability is one key element of assessing a country's attractiveness to investors, its growth rate is another. In last year's Survey a simple **Rational Investor Ratings Index (RIRI)** was constructed. Higher levels indicate better performance. As can be seen, India performs well not only in terms of the change of the index but also in terms of the level, which compares favourably to its peers in the BBB investment grade and even its "betters" in the A grade1 . As an investment proposition, India stands out internationally.

**Figure 8: Rational Investors Rating Index, 2012-16**



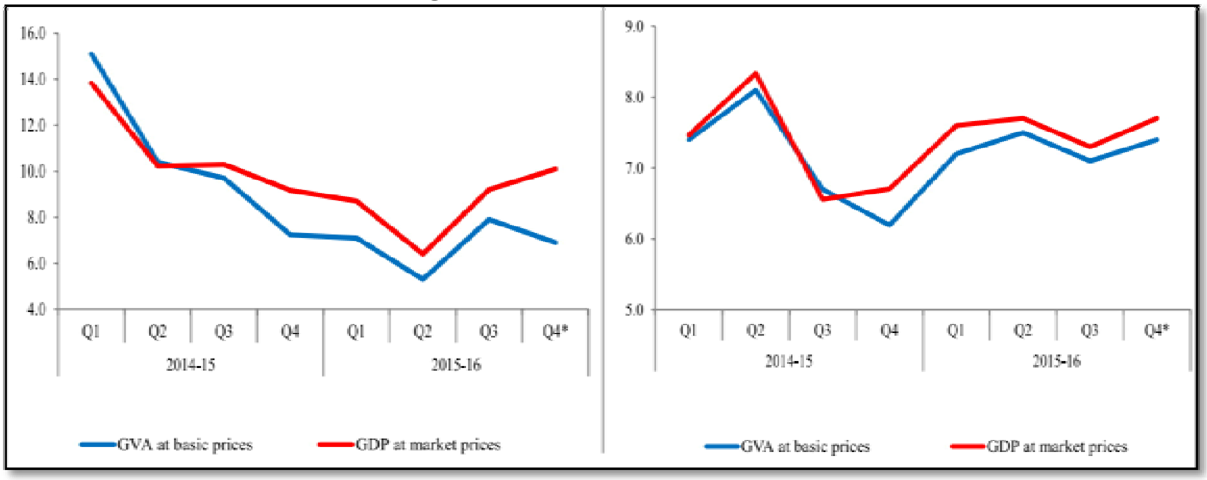

Source: PHD Research Bureau, compiled from Economic Survey 2015-16

## 2.1 Review of Major Developments

### 2.1.1 Growth

In the Advance Estimates of GDP that the Central Statistics Office (CSO) released recently, the growth rate of GDP at constant market prices is projected to increase to 7.6 % in 2015-16 from 7.2 % in 2014-15, mainly because private final consumption expenditure has accelerated. Similarly, the growth rate of GVA for 2015-16 is estimated at 7.3 % vis-à-vis 7.1 % in 2014-15.

**Figure 9: GVA and GDP Growth**

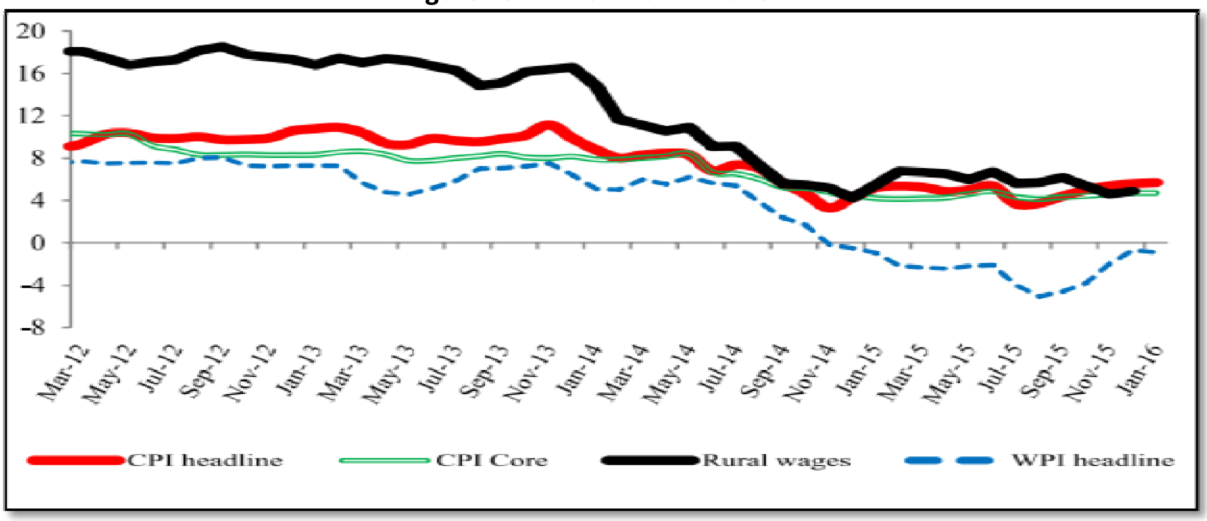



Source: PHD research Bureau, compiled from Economic Survey 2015-16

### 2.1.2 Inflation

Inflation remains under control. The CPI-New Series inflation has fluctuated around 5.5%, while measures of underlying trends, core inflation, rural wage growth and minimum support price increase have similarly remained muted. Meanwhile, the WPI has been in negative territory since November 2014, the result of the large falls in international commodity prices, especially oil.

**Figure 10: WPI and CPI inflation**

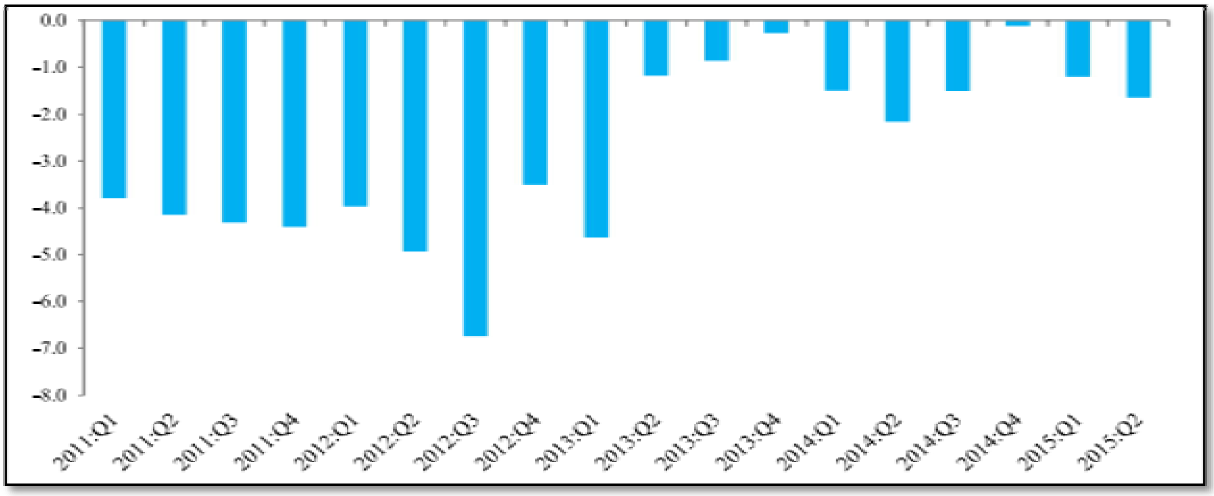



Source: PHD research Bureau, compiled from Economic Survey 2015-16

### 2.1.3 External Sector

The external position appears robust. The current account deficit has declined and is at comfortable levels; foreign exchange reserves have risen to US$351.5 billion in early February 2016, and are well above standard norms for reserve adequacy; net FDI inflows have grown from US$21.9 billion in April-December 2014-15 to US$27.7 billion in the same period of 2015- 16; and the nominal value of the rupee, measured against a basket of currencies, has been steady.

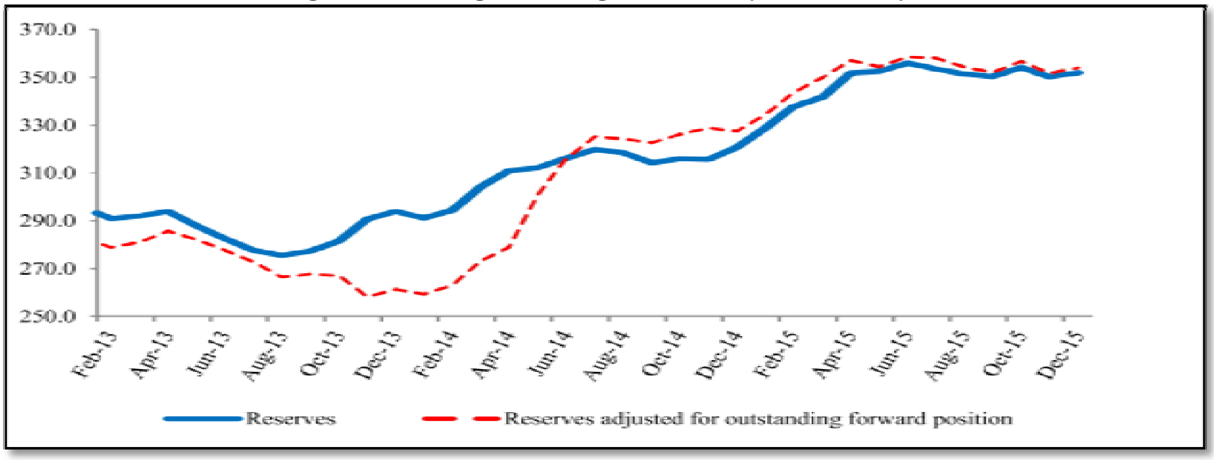
**Figure 11: Current Account Deficit (% of GDP)**




Source: PHD Research Bureau, compiled from Economic Survey 2015-16

Despite the decline in nominal GDP growth relative to the Budget assumption (11.5% in Budget 2015-16 vis-à-vis 8.6% in the Advance Estimates), the central government will meet its fiscal deficit target of 3.9% of GDP, continuing the commitment to fiscal consolidation. Government tax revenues are expected to be higher than budgeted levels. Direct taxes grew by 10.7% in the first 9 months of 2015-16. Indirect taxes were also buoyant.

**Figure 12: Foreign Exchange Reserves (US$ billions)**




Source: PHD Research Bureau, compiled from Economic Survey 2015-16

## 2.2. Prospects and Policy Challenges

### 2.2.1 Real GDP growth

Real GDP growth for 2015-16 is expected to be in the 7% to 7.75% range, reflecting various and largely offsetting developments on the demand and supply sides of the Indian economy. India's long-run potential GDP growth is substantial, about 8%-10%. However, its actual growth in the short run will also depend upon global growth and demand. Accordingly, if the world economy remains weak, India's growth will face considerable headwinds.

### 2.2.2 Exports

In order to boost exports, on the domestic side, two factors could boost consumption. If and to the extent that the Seventh Pay Commission (7th PC) is implemented, increased spending from higher wages and allowances of government workers will start flowing through the economy.

In addition if, the monsoon returns to normal, agricultural incomes will improve with attendant gains for rural consumption, which over the past two years of weak rains has remained depressed. However, turmoil in the global economy could worsen the outlook for exports and tighter financial conditions significantly. Realizing India's medium term growth potential of 8-10% will require rapid growth of exports.

### 2.2.3 Inflation

For most of the current fiscal year, inflation has remained dormant, hovering within the RBI's target range of 4%-6%. The outlook for inflation is encouraging as oil prices have plunged in the first two months of 2016, as have some commodity prices, suggesting that input prices are likely to be lower next fiscal year. Beyond this factor lie other deflationary forces. Chief among which is, as China continues to slow, excess capacity there could continue to increase, which will put further downward pressure on the prices of tradable goods all around the world.

### 2.2.4 Medium-Term Fiscal Framework

The 2016-17 fiscal stance needs to be assessed in two contexts. Most obviously, it needs to be evaluated against the likely short term outlook for growth and inflation. At the same time, it also needs to be framed in a medium-term context. That's because the most fundamental task of budget policy is to preserve fiscal sustainability.

### 2.2.5 External Outlook

Last year's Economic Survey had identified a weak external environment as a major medium- term risk. It turned out to be a short run risk as well, and the prospects are that it might continue to be one in the period ahead. One of the puzzles this year has been how remittances have held up despite a dramatic decline in oil prices and hence in the health of countries that host overseas Indian workers.

### 2.2.6 Trade Policy

For decades, India's fundamental position on trade has been common across the political spectrum, shared by a wide range of intellectual opinion. But during this period the economy has changed almost beyond recognition. The non-success of the Nairobi WTO negotiations, the seismic shifts in the international trade architecture because of the emergence of mega-regional trade agreements, and a slowing world economy which creates pressures on domestic industry combine to present India with a great opportunity to collectively self-interrogate on the national near-consensus.

**Introspection is overdue on five issues:** Providing support to farmers in light of WTO rules; Mitigating the impact of erratic trade policy on farmer incentives; Reconciling the "big but poor" dilemma that confronts India in trade negotiations; Dealing with ongoing stresses brought on by the external environment; and Engaging more broadly with the world on trade.

### 2.2.7 Agriculture and the WTO

The two key issues in the Doha Development Agenda (DDA): the special safeguard mechanism (SSM) and food security/public stockholding both of which affect farmer interests need serious thought and attention. Whether a permanent solution on the food security/ stockholding issue is vitally necessary or not also needs some attention. Further, at a time of farm stress, India must have the freedom to provide support to its farmers.

## Conclusions

**To sum up, India is bright spot in the global economic system, projected to grow at a robust pace in the times to come. India stands out as a haven of stability and an outpost of opportunity. Its macro-economy is stable, founded on the government's commitment to fiscal consolidation and low inflation.**

**For a sustained growth over the next few decades requires timely implementation of the reforms agenda even though continuing sensitivity to shocks can derail growth, given that the world environment is far from conducive to sustained high growth. If the reforms agenda is implemented effectively at the grass root level, we should expect to see India progressing rapidly with increased presence in the world economic system in the coming times.**

**Given the fact that the government is committed to carrying the reform process forward, aided by the prevailing macroeconomic stability, India has every potential to raise the economy's growth momentum and achieve growth rates of 8% or higher in the coming years. At the same time, growth in 2016-17 may not pick up dramatically from the levels achieved in 2015-16 as the possibility of slow global economic growth and financial sector uncertainties still haunt the nation.**

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