

Economic Survey 2016-17

Indian Economy paving towards fastest-growing major economy in the world

The Economic Survey 2016-17 presented by the Hon'ble Finance Minister, Shri Arun Jaitley stated that against the backdrop of robust macro-economic stability, this year has been marked by several historic economic policy developments.

The Indian Economy has sustained a macro-economic environment of relatively lower inflation, fiscal discipline and moderate current account deficit coupled with broadly stable rupee dollar exchange rate.

This year's survey comes in the wake of a set of tumultuous international developments – Brexit, political changes in advanced economies-and two radical domestic policy actions: the GST and demonetization.

The survey highlighted that India seems to be a demographic sweet spot with its working age population projected to grow by a third over the next three decades providing it a potential the growth boost from the demographic dividend which is likely to peak within next five years.

The Survey report mentioned that demonetization has had short-term costs but holds the potential for long-term benefits. Follow-up actions to minimize the costs and maximize the benefits include: fast, demand-driven, remonetisation; further tax reforms, including bringing land and real estate into the GST, reducing tax rates and stamp duties; and acting to allay anxieties about over-zealous tax administration.

These actions would allow growth to return to trend in 2017-18, possibly making it the fastest-growing major economy in the world, following a temporary dip in 2016-17. The survey highlighted the real GDP growth in 2017-18 is projected to be in the range of 6¾-7½ percent.

Major highlights of the survey are as follows:

Global outlook: The Economic Survey 2016-17 stated that the year was also marked by some tumultuous external developments. In the short-run, world GDP growth is expected to increase because of a fiscal stimulus in the United States but there are considerable risks. These include higher oil prices, and eruption of trade tensions from sharp currency movements, especially involving the Chinese yuan, and from geo-political factors. Another serious medium-term risk is an

upsurge in protectionism that could affect India's exports.

In creating one Economic India, Technology, Economics and Politics are Surging Ahead - The Economic Survey 2016-17 suggested that on the question of creating one economic India, technology, economics and politics have been surging ahead. Perhaps, it is time for the laws to catch up to further facilitate this surging internal integration.

Real per capita GSDP between 1983 and 2014, shows across-the-board improvement- The Economic Survey 2016-17 mentioned that when studying real per capita GSDP over time between 1983 and 2014, there has been a clear increase in levels indicating an across-the-board improvement.

Good fiscal performance by States should be incentivized to keep the overall fiscal performance on track - The Economic Survey 2016-17 highlighted the need for fiscal prudence both by the Centre as well as the States in order to maintain overall fiscal health of the economy. As per the Economic Survey, there has been an improvement in the financial position of the States over the last few years. The average revenue deficit has been eliminated, while the average fiscal deficit was curbed to less than 3 percent of GSDP. The average debt to GSDP ratio has also fallen.

Labour migration in India increasing at an accelerating rate: New estimates of labour migration in India as highlighted by the Economic Survey 2016-17 revealed that inter-state labor mobility is significantly higher than previous estimates. The study based on the analyses of new data sources and new methodologies also shows that the migration is accelerating and was particularly pronounced for females.

Apparel and Leather industry key to generation of formal and productive jobs- The Economic Survey 2016-17 highlighted that the apparel and Leather & Footwear sectors provides immense opportunities for creation of jobs for the weaker sections, especially for women, and can become vehicles for broader social transformation in the country. The Survey suggests several measures to make these sectors globally competitive and unlock its potential for creating new jobs and generating growth. It recommends that there is a need to undertake rationalization of domestic policies which are inconsistent with global demand patterns.

Middle class to get affordable housing due to fall in Real Estate prices – The Economic Survey 2016-17 stated that the weighted average price of real estate in eight major cities which was already on a declining trend fell further after November 8, 2016 with the announcement of demonetization. It goes on to add that an equilibrium reduction in real estate prices is desirable as it will lead to affordable housing for the middle class and facilitate labour mobility across India currently impeded by high and unaffordable rents.

Setting up of a centralised Public Sector Asset Rehabilitation Agency- The Economic Survey 2016-17 observed that our country has been trying to solve its 'Twin Balance Sheet' (TBS) problem – overleveraged companies and bad-loan-encumbered banks, a legacy of the boom years around the Global Financial Crisis. So far, there has been limited success. The problem has consequently continued to fester: Non-Performing Assets (NPAs) of the banking system (and especially public sector banks) keep increasing, while credit and investment keep falling. Now it is time to consider a different approach – a centralised Public Sector Asset Rehabilitation Agency (PARA) that could

take charge of the largest, most difficult cases, and make politically tough decisions to reduce debt.

Universal Basic Income (UBI) Scheme an alternative to plethora of State subsidies for poverty alleviation - The Economic Survey 2016-17 advocated the concept of Universal Basic Income (UBI) as an alternative to the various social welfare schemes in an effort to reduce poverty. The survey juxtaposes the benefits and costs of the UBI scheme in the context of the philosophy of the Father of the Nation, Mahatma Gandhi.

Economic Survey advocates reforms to unleash economic dynamism and social justice- The Economic Survey 2016-17 highlighted that India needs an evolution in the underlying economic vision across the political spectrum and further reforms are not just a matter of overcoming vested interests that obstruct them. The Survey lists the some of the challenges that might impede India's progress as follows: ambivalence about property rights and the private sector, deficiencies in State capacity, especially in delivering essential services and inefficient redistribution.

The survey highlighted that the Swachh Bharat Abhiyan which has the objective of ensuring safe and adequate sanitation, water security and hygiene has been a part of serious policy issue which would promote a broader fundamental right to privacy for women in the country.

Societal shifts at the level of ideas and narratives will be needed to overcome three long-standing meta-challenges: inefficient redistribution, ambivalence about the private sector and property rights, and improving but still-challenged state capacity. Doing so would lift an economy that is oozing with potential. In the aftermath of demonetisation, and at a time of gathering gloom about globalization, articulating and embracing those ideational shifts will be critical to ensuring that India's sweet spot is enduring not evanescent.

Fiscal activism embraced by advanced economies not relevant for India- The Economic Survey 2016-17 observed that fiscal activism embraced by advanced economies- giving a greater role to counter-cyclical policies and attaching less weight to curbing debt- is not relevant for India. Although, India's fiscal experience has underscored the fundamental validity of the fiscal policy principles enshrined in the Fiscal Responsibility and Budget Management Act (FRBM) Act 2003, but has reaffirmed the need for rules to contain fiscal deficits, because of the proclivity to spend during booms and undertake stimulus during downturns.

PHD Chamber's Viewpoint

Despite the global headwinds, economy holds immense growth potential to grow by more than 8% in the next couple of years. It is inspiring to know from the Economic Survey 2016-17 that demonetisation has the potential to generate long-term benefits in terms of reduced corruption, greater digitalization of the economy, increased flows of financial savings and greater formalization of the economy, all of which could eventually lead to higher GDP growth, better tax compliance and greater tax revenues. However, as the Economic Survey observes that despite growing rapidly on average, there are signs of growing inequality among the Indian States, we believe that best practices of the successful states would help the lagging states to recover and match with the socio-economic developments of the country.

We appreciate the landmark reform related to overhauling of the bankruptcy laws so that the “exit” problem that pervades the Indian economy can be addressed effectively and expeditiously. We are proud of our economy as it is among the world’s fastest growing major economies, underpinned by a stable macro-economy with declining inflation and improving fiscal and external balances and enacting major structural reforms. However, on the international front, Brexit and the US regime change may herald a tectonic shift, forebodingly laden with darker possibilities for the global, and even the Indian economy for the short run. But, we believe that the Indian economy is resilient to face any global headwinds, going forward.

As economic survey provides road map for the implementation of GST, it will create a common market in India, improve tax compliance and governance, boost investment and growth and indicate that the double digit growth trajectory is not far away. We appreciate Government initiatives to facilitate investment and ease of doing business in the country by introducing online application for Industrial License and Industrial Entrepreneur Memorandum through the eBiz website 24x7 for entrepreneurs. Overall, state of the Indian economy is inspiring and we look forward to a dynamic budget announcement to pave way for strong and sustainable growth environment with a greater ease of doing business.

Please contact for any query related to this mail to Ms. Areesha , Research Associate at areesha@phdcci.in, with a cc to Dr. S P Sharma, Chief Economist, PHD Chamber of Commerce & Industry.

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