

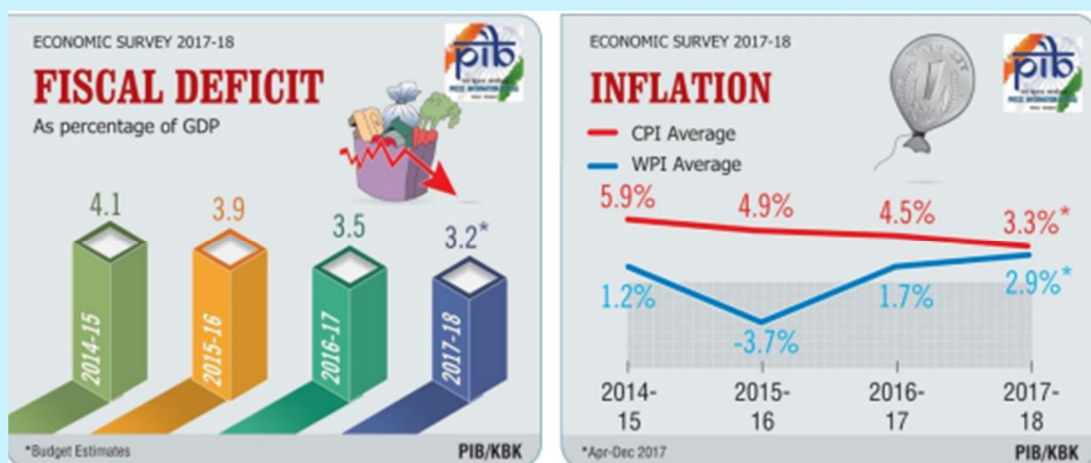
Economic Survey 2017-18 pragmatic and forward looking

The Economic Survey 2017-18 presented by the Hon'ble Finance Minister, Shri Arun Jaitley stated that series of major reforms undertaken over the past year will allow real GDP growth to reach 6.75 percent this fiscal and will rise to 7.0 to 7.5 percent in 2018-19, thereby re-instating India as the world's fastest growing major economy.

The key reforms announced included launch of transformational Goods and Services Tax (GST), resolution of the long-festering Twin Balance Sheet (TBS) problem by sending the major stressed companies for resolution under the new Indian Bankruptcy Code, implementing a major recapitalization package to strengthen the public sector banks, liberalization of FDI and the export uplift from the global recovery.

The survey points out that as per the quarterly estimates; there was a reversal of the declining trend of GDP growth in the second quarter of 2017-18, led by the industry sector. The Gross Value Added (GVA) at constant basic prices is expected to grow at the rate of 6.1 per cent in 2017-18 as compared to 6.6% in 2016-17. Similarly, Agriculture, industry and services sectors are expected to grow at the rate of 2.1%, 4.4%, and 8.3% respectively in 2017-18.

The survey reflects that after remaining in negative territory for a couple of years, growth of exports rebounded into positive one during 2016-17 and expected to grow faster in 2017-18. However, due to higher expected increase in imports, net exports of goods and services are slated to decline in 2017-18. Similarly, despite the robust economic growth, the savings and investment as a ratio of GDP generally declined. The major reduction in investment rate occurred in 2013-14, although it declined in 2015-16 too. Within this the share of household sector declined, while that of private corporate sector increased.



The survey highlights that against the emerging macroeconomic concerns, policy attention will be necessary in the coming year, especially if high international oil prices persist or elevated stock prices correct sharply, provoking a —sudden stall in capital flows. The agenda for the next year consequently remains full: stabilizing the GST, completing the TBS actions, privatizing Air India, and staving off threats to macro-economic stability.

The TBS actions, noteworthy for cracking the long-standing —exit problem, need complementary reforms to shrink unviable banks and allow greater private sector participation. The GST Council offers a model —technology of cooperative federalism to apply to many other policy reforms. Over the medium term, three areas of policy focus stand out: Employment: finding good jobs for the young and burgeoning workforce, especially for women. Education: creating an educated and healthy labor force. Agriculture: raising farm productivity while strengthening agricultural resilience. Above all, India must continue improving the climate for rapid economic growth on the strength of the only two truly sustainable engines—private investment and exports.

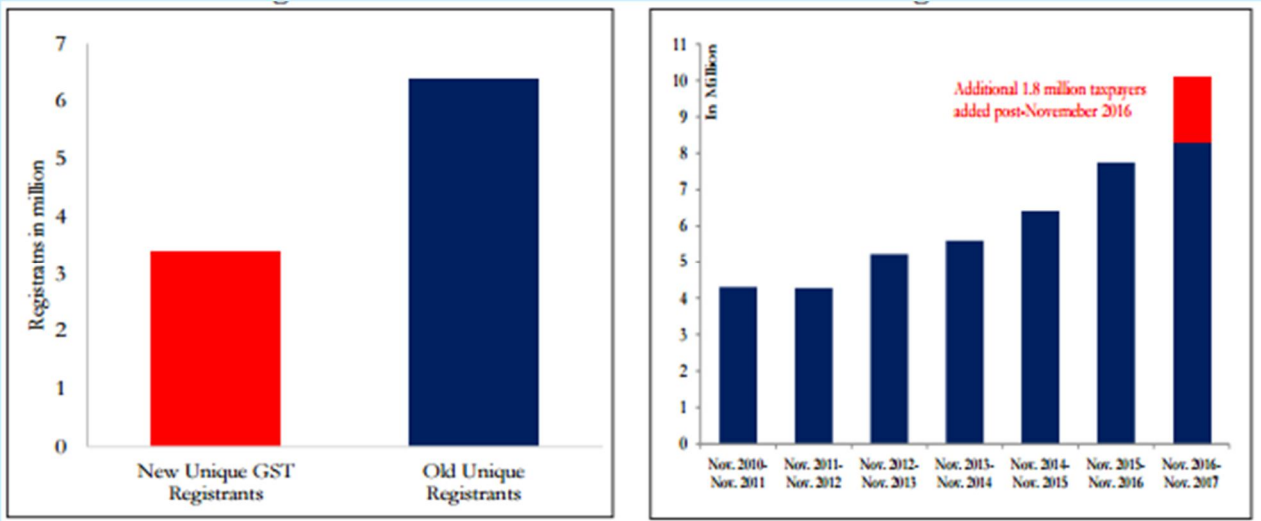
Major Highlights of Economic Survey 2017-18

1. There has been a large increase in registered indirect and direct taxpayers

There has been a 50% increase in the number of indirect taxpayers, besides a large increase in voluntary

registrations, especially by small enterprises that buy from large enterprises and want to avail themselves of Input Tax Credits (ITC). Gujarat, Maharashtra, Tamil Nadu and UP are the States with the greatest number of GST registrants. UP and West Bengal have been large increases in the number of tax registrants compared to the old tax regime.

- Similarly, there has been an addition (over and above trend growth) of about 1.8 million in individual income tax filers since November 2016 .



2. Gender issues against backdrop of development

Over the last 10-15 years, India's performance improved on 14 out of 17 indicators of women's agency, attitudes, and outcomes. On seven of them, the improvement has been such that India's situation is comparable to that of a cohort of countries after accounting for levels of development.

3. Coordinated action between government and judiciary to boost economic activity- ease of doing business

The Economic Survey notes that India jumped 30 places to break into the top 100 for the first time in the World Bank's Ease of Doing Business Report (EODB), 2018. The rankings reflect the government's reform measures on a wide range of indicators. India leaped 53 and 33 spots in the taxation and insolvency indices, respectively, on the back of administrative reforms in taxation and passage of the Insolvency and Bankruptcy Code (IBC), 2016. It also made strides on protecting minority investors and obtaining credit, and retained a high rank on getting electricity, after a 70 spot rise in EODB, 2017 due to the government's electricity reforms. The Survey however says that India continues to lag on the indicator on enforcing contracts, marginally improving its position from 172 to 164 in the latest report

The Economic Survey also suggests that the Government could consider including efforts and progress made in alleviating pendency in the lower judiciary as a performance-based incentive for States. Expenditure could be prioritized for filing, service and other delivery related issues that tend to cause maximum delays. However, the review cautions that building additional judicial capacity may not be effective unless existing capacity is fully utilized.

4. Inflation during 2017-18 averaged to the lowest in the last six years

The Survey observes that the economy has witnessed a gradual transition from a period of high and variable inflation to more stable prices in the last four years. Inflation in the country continued to moderate during 2017-18. Consumer Price Index(CPI) based headline inflation averaged 3.3% during the period which is the lowest in the last six financial years.



The decline in the inflation was broad-based across major commodity groups except Housing and Fuel & Light. The Headline inflation has been below 4% for 12 straight months, ie from November, 2016 to October, 2017 and CPI food inflation averaged around 1% during April-December in the current financial year.

5. Promoting inclusive employment – intensive industry

According to the Survey, promoting inclusive employment – intensive industry, and building resilient infrastructure are vital factors for economic development. The Government is investing massively on building infrastructure to support India's long term growth. India is far ahead than many emerging economies in terms of providing qualitative transportation related infrastructure.

In the Telecommunication Sector, the Survey pointed out that the programme like 'Bharat Net' and Digital India' are to convert India into a digital economy. During the last five years, Indian logistics industry worth around US\$ 160 Billion has grown at a compound annual growth rate (CAGR) of 7.8%.

6. Agricultural Mechanization picks up pace

The survey points out, that an inclusive transformative agricultural policy should aim at gender-specific intervention to raise productivity of small farm holdings, integrate women as active agents in rural transformation, and engage men and women in extension services with gender expertise. This will help reduce the gender gap in the country in the coming times.

7. Agricultural R&D required to sustain agricultural Productivity

Agricultural R&D is the main source of innovation, which is needed to sustain agricultural productivity growth in the long-term. According to the survey, small operational holding is still predominant in Indian agriculture. Thus, there is a need to consolidate the land holdings in order to reap the benefits of agricultural mechanization.

8. India's commitment towards climate change

The survey highlights that India has strengthened its response to the threat of climate change in accordance with the principles of equity and common but differentiated responsibilities and in light of national circumstances with the 'Paris Pledge' to reduce the emission intensity of GDP by around 35% over 2005 levels by the year 2030.

9. During April- September 2017-18, growth in services exports and services imports

India remained the eighth largest exporter in commercial services in the world in 2016 with a share of 3.4%. This is double the share of India's merchandise exports in the world at 1.7%, which shows a promising growth in the exports, going forward. According to the Economic Survey 2017-18, during the period April – September 2017-18, growth in services exports and services imports robust at 16.2% and 17.4% respectively

10. Services sector dominant in Indian states

According to the Economic Survey, Services Sector is dominant in 15 States and UTs, contributing more than half of the

Gross State Value added (GSVA) and major services in most of the States are hotels and restaurants, trades, real estate etc. Given a remarkable footprint of services sector in India's GSDP, it has a huge potential in the country with immense complement tires with associated sectors.

11. FDI Equity inflows to the services sector

The Economic Survey 2017-18 mentioned that the FDI equity inflows to the services sector grew by 15% during 2017-18 (April - October). This was possible because the Government has undertaken a number of reforms to ensure that India remains an increasingly attractive investment destination, which includes announcement of various policies such as National Intellectual Property Rights (IPR) policy, implementation of GST, reforms for ease of doing business etc.

12. Utmost priority given to social infrastructure like education, health and social protection

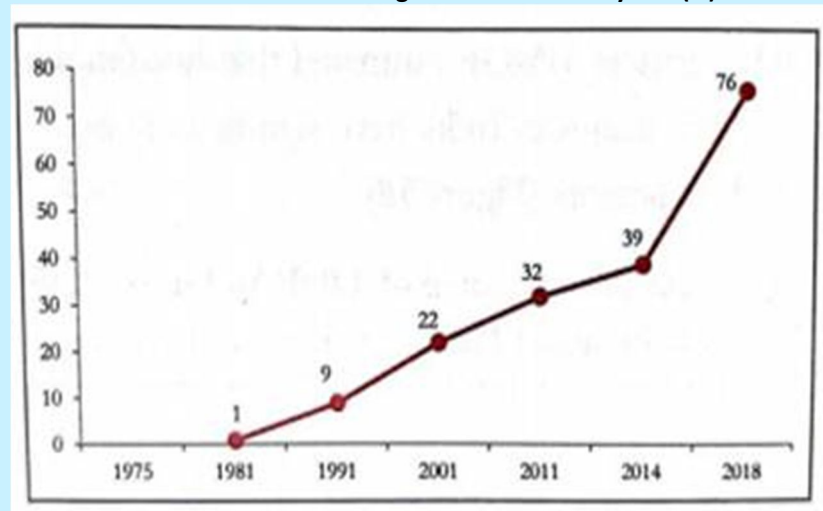
For an all inclusive and sustainable growth for India, utmost priority is given to education, social infrastructure, health protection. The survey highlights "Social Infrastructure, Employment and Human Development", which will help in bridging the gender gaps in education, skill development, employment, earnings and reducing social inequalities prevalent in the society that have been underlying goals of the development, which will help in enhancing the human capabilities in coming times.

The Survey highlights the National Health Policy 2017 which recommended increasing State sector health spending to more than 8% of the States' Government Budget by 2020. It also takes a note of the Report 'India: Health of Nation's States' 2017', which provides first comprehensive set of findings for the distribution of diseases and risk factors across all States from 1990 to 2016.

13. Positive health and economic impact in Open Defecated (ODF) Areas

The Sanitation Coverage in Rural India has substantially increased from 39% in 2014 to 76% in January, 2018, which proves that the basic quality of hygiene and sanitation has made a significant impact in improving the health outcomes of people in the country. Further, the survey revealed that there has been a substantial reduction in the number of persons defecating in open in rural areas which has had a positive health and economic impact in ODF areas. This would go a long way to foster rural development in the coming times.

Rural Sanitation Coverage in India over the years (%)



Source : Ministry of Drinking Water & Sanitation (As on 10-01-2018)

14. Demonetisation has helped in increasing the share of financial savings

It is also heartening to know that demonetisation has enhanced the share of financial savings in the economy.

15. Fiscal Federalism and accountability to avoid low equilibrium

The Survey highlighted out low level of tax collections by the local Governments in rural areas is posing challenge in reconciling fiscal federalism and accountability. Various panchayats have received 95% of their revenues from the devolved funds from the Centre/State while generating only 5% from own resources.

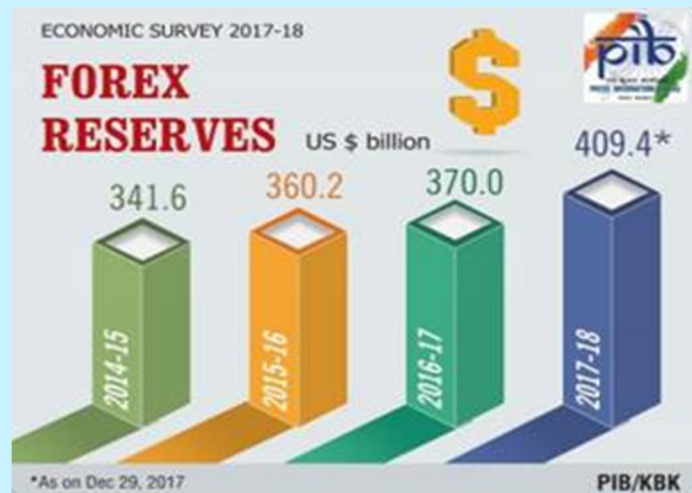
16. Rapid improvement of human capital and agricultural productivity

The Survey points out that there is a need to focus on rapid improvement of human capital and agricultural productivity to sustain growth trajectory.

17. Developments in Trade Policy

The survey reveals that in the mid-term review of Foreign Trade Policy, a special package for employment generation in the leather and footwear sector has been approved by the government, which is highly appreciable and will also give a boost to the exports from this sector.

India's foreign exchange reserves reached US\$ 409.4 billion on end-December 2017. Foreign exchange reserves grew by 14.1 percent on a y-o-y basis from end December 2016 (US\$ 358.9 billion) to end December 2017 (US\$ 409.4 billion) and it grew by 10.7 percent from end- March, 2017 (US\$370.0 billion) to end December 2017. Foreign exchange reserves increased further to US\$ 413.8 billion on January 12, 2018.



18. Indian Science & Technology

The survey highlights that looking at the publications and patents in Science & technology in India can help assess the productivity and quality of Indian research. In 2013, India ranked 6th in the world in scientific publications and its ranking has been increasing as well. The growth of annual publications between 2009 to 2014 was almost 14%. This increased India's share in global publications from 3.1% in 2009 to 4.4 % in 2014 as per the Scopus Database.

19. India's external sector continues to be strong

The Economic Survey 2017-18 mentioned that the prospects for India's External Sector in this and coming year looks bright with world trade projected to grow at 4.2% and 4% in 2017 and 2018 respectively from 2.4% in 2016; trade of major partner countries improving and above all India's export growth also picking up. The downside risks lie in the rise in oil prices. However, this could also lead to higher inflow of remittances which have started picking up. The supportive policies like GST, logistics and trade facilitation policies of the government could help further.



20. India needs to be a net producer of Knowledge

According to the Economic Survey 2017-18, India emerges as one of the world's largest economies, it needs to gradually move from being a net consumer of knowledge to becoming a net producer. Given the dizzying pace and expansion of scientific research and knowledge on one hand and a generally given higher importance to careers in engineering, medicine, management and government jobs amongst India's youth on the other, India needs to rekindle the purpose that would attract more young people to scientific enterprise. Doing so would lay the knowledge foundations to address some of India's most pressing development challenging in addition to maintain a decent, open society.

Our Viewpoint

The Economic Survey 2017-18 points out inspiring growth numbers for FY2018-19 at 7-7.5% with focus of the government in the medium term on employment, education and agriculture which would foster a sustainable economic environment, going forward.

We are happy to know that India is rated as the best performing country in the world with an average growth four percentage points higher than global growth and three percentage points higher than growth of emerging market and developing economies. The agenda for the next year is inspiring as it includes stabilizing the GST, completing the Twin Balance Sheet actions, privatizing Air India and staving off threats to macro-economic stability.

The improvement in 14 out of 17 indicators of women's agency, attitudes and outcomes is heartening to know and reasserts our belief in improvement in gender equality in the times to come. We appreciate that the government is investing massively on building infrastructure to support India's long term growth which is imperative to support growth of the manufacturing sector, going forward.

We believe agriculture sector needs a greater transformation to improve livelihoods of the farmers and to achieve food security. Consequently, the focus of the Economic Survey on agri R&D is also exhilarating as it is the need of the hour to sustain agricultural productivity growth in the long run.

It is inspiring to know that the government is committed to achieve the Sustainable Development Goal (SDG-4) for education and has attained significant progress in universalizing primary education, with sustainable improvement in enrolment and completion rates of education of children. Going ahead, there is a need to focus on rapid improvement of human capital and agricultural productivity to sustain growth trajectory.

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

Warm regards,

Dr. S P Sharma
Chief Economist

PHD Chamber of Commerce and Industry
PHD House, 4/2 Siri Institutional Area
August Kranti Marg, New Delhi-110016
Ph.: + 91-11-26863801-04, 49545454
Fax: +91- 26855450, 49545451
Email: spsharma@phdcci.in
Website: www.phdcci.in

"We Walk Our Talk"

PHD CHAMBER OF COMMERCE AND INDUSTRY

PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi - 110 016 (India) • Tel. : +91-11-2686 3801-04, 49545454, 49545400
Fax : +91-11-2685 5450 • E-mail : president@phdcci.in • Website : www.phdcci.in, CIN: U74899DL1951GAP001947

