

General Studies-3; Topic: Indian economy – growth and development

Key takeaways from Economic Survey-2

1) **Introduction**

- The second volume of Economic Survey for the financial year 2016-17, proved to be a mixed bag.
- It mentions about a 'rekindled optimism' on structural reforms, driven by launch of GST, rationalization of energy subsidies and actions to address the twin balance sheet challenge.

2) **Brakes on GDP**

- Achieving the upper end of its economic growth estimates of 6.75% to 7.5% in the current fiscal will be difficult.
- Demonetization, GST, rupee appreciation and a continued deficiency of private investment and export demand has impacted the GDP growth.

3) **Fiscal Deficit to decline**

- Owing to the fiscal consolidation chalked out in Union Budget 2017-18, the fiscal deficit is expected to be 3.2% of GDP in the current fiscal.
- The fiscal deficit target of 3% under the FRBM framework is likely to be achieved in 2018-19.

4) **GST**

- The Survey mentioned Goods and Services Tax (GST) as the most significant economic reform in the financial year 2016-17.

5) **Growth in NPAs**

- The asset quality of banks has taken a hit on account of slow growth and increasing indebtedness in some sectors.

6) **RBI under pressure**

- The Disinflationary pressures allowed Reserve Bank of India cut the policy rate by 50 basis points during 2016-17.
- It shifted its monetary policy stance from accommodative to neutral in February 2017.

7) **Contracts Service sector growth**

- The services sector remains the key driver of India's economic growth, contributing almost 62 per cent of its gross value added growth in 2016-17.
- However, the Services sector has shown moderation recently.

8) **Challenges to agricultural sector**

- Regional disparity in the distribution of agricultural credit needs to be addressed.
- The key challenges in the horticulture sector are post-harvest losses, availability of quality planting material, and lack of market access for small farmers.
- The average farm size in India is small, and declining since 1970-71.
- The predominance of informal sources of credit for farmers is a concern.

9) Prices and Inflation

- CPI inflation fell to a series low of 1.5 percent in June 2017.
- Food inflation, which was the main driver of inflation in the past, declined significantly because of improvements in supply of pulses and vegetables on the back of a normal monsoon.
- Core inflation too declined in the last few months.
- The gap between rural and urban inflation has narrowed down in recent months.

10) Social Infrastructure, Employment and Human Development

- The deterioration in quality learning in primary education sector and achievement of targeted enrolment level in the middle education is a challenge
- There is lack of reliable jobs data
- Employment in India is dominated by informal, unorganized and seasonal workers,
- High levels of under employment and skill shortages
- Labour markets impacted by rigid labour laws, and the emergence of contract labour.
- The health sector faces many challenges like declining role of public delivery of health services and high Out of Pocket (OoP) expenses on health.
- Swachh Bharat Mission has had remarkable progress since its inception.

11) External Sector

- India's balance of payments situation improved in 2016-17, as a result of low trade and current account deficits and rising capital inflows, resulting in accretion of foreign exchange reserves.
- India's exports turned positive at 12.3 per cent in 2016-17 after an interregnum of two years.
- The ratio of external debt to GDP fell to 20.2 per cent from 23.5 per cent.

12) Climate Change, Sustainable Development and Energy

- India ratified the Paris Agreement on 2nd October, 2016.
- India is implementing the largest renewable energy expansion programme in the world.
- It envisages a 5-fold increase in the overall renewable energy capacity to 175 GW by 2022.
- Energy deprivation levels for a sizeable portion of population remain at high levels.
- Higher Social cost of coal and renewables based power.

13) Industry and Infrastructure

- Industrial performance has shown moderation from 8.8 percent during 2015-16 to 5.6 percent in 2016-17.
- Government introduced Minimum Import Price (MIP) to check dumping of steel into Indian markets, and it seems to have worked.
- Imports of Steel by India have declined by 36.2 percent while exports have risen by 102 percent in 2016-17
- India is far ahead than many emerging economies in terms of providing qualitative transportation related infrastructure.