Economic Survey 2018-19: Key Highlights

- The Economic Survey is an **annual document** that **reviews the developments in the economy** over the previous 12 months.
- The **Department of Economic Affairs**, Finance Ministry of India presents the Economic Survey in the parliament every year, just before the Union Budget.
- It is prepared under the guidance of the **Chief Economic Adviser**, Finance Ministry.
- The Economic Survey serves as a useful policy document since it contains policy ideas, key statistics on economic parameters and in-depth research on macro and sectoral trends.
- Often, the survey serves as a policy guideline for the Union Budget. However, its **recommendations are not binding** on the government.

**Highlights of previous Economic Surveys**

- The **2015 survey** was reportedly inspired by the International Monetary Fund's (IMF) World Economic Outlook. The survey basically focused on JAM – Jan Dhan, Aadhaar and Mobile.
- The next **Economic Survey (2016)** focused on creating a more competitive environment and highlighted the “Chakravyuh challenge”, a Mahabharata-inspired term to denote the lack of exit policy for companies running in losses.
  - The survey noted that the lack of exit policy has been an impediment to investment, efficiency, job creation, and growth.
  - The survey also talked about major investments in human resources to reap the demographic dividend.
- The **2017 Economic Survey** deliberated on the demonetisation policy.
  - While claiming that demonetisation was a complex idea, the document noted that the policy had short-term costs but potentially long-term benefits.
  - The survey also introduced the idea of ensuring **Universal Basic Income (UBI)** for every citizen.
- The **Economic Survey 2018** had a bright pink cover in order to send the message of empowerment of women and gender equality.
  - The survey also touched upon the cultural obsession with having a male child and focused on parameters determining women empowerment in India.

Theme that underlies this Economic Survey is, the sky blue colour, the colour used for the survey, captures unfettered blue sky thinking.

- **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% is 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.
  - Humans, being not-so-rational, often need encouragement or intervention — a nudge — to get going and do what’s best for the country or society at large.
  - The ‘Nudge Theory’ recognizes this behavioral trait. It says that people, rather than being forced, can be encouraged and influenced to pursue or desist from certain actions through nudges.
  - The ‘Nudge theory’ got international spotlight in 2017 when Richard Thaler bagged the Economics Nobel that year for his work on behavioral economics.

- Behavioral economics provides the necessary tools and principles to not only **understand how norms affect behaviour**, but also to utilize these norms to effect behavioural change.

- Given India’s rich cultural and spiritual heritage, **social norms play a very important role** in shaping the behaviour of each individual.

- Nudge policies gently **steer people towards desirable behaviour** while preserving their liberty to choose.

- Using insights from behavioral economics to create an aspirational agenda for social change:
  - From ‘Beti Bachao 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’.
- Highest taxpayers over a decade could be recognised by naming important buildings, monuments, roads, trains, initiatives, schools and universities, hospitals and airports in their name.

**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.
- Job creation in India suffers from policies that foster dwarfs, that is small firms that never grow, instead of infant firms that have the potential to grow and become giants rapidly.
- 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 beyond which a small firm should be able to sustain itself.
  - In public policy, a sunset provision or clause is a measure within a statute, regulation or other law that provides that the law shall cease to have effect after a specific date, unless further legislative action is taken to extend the law.
  - Deregulating labour 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.
- Survey has called for setting up a central welfare database of citizens by merging different data maintained by separate Ministries and departments.
- 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.
The government could utilise the information embedded in these distinct datasets to enhance ease of living for citizens, enable truly evidence-based policy, improve targeting in welfare schemes, uncover unmet needs, integrate fragmented markets, bring greater accountability in public services and generate greater citizen participation in governance.

Survey has also recommended granting access to select database to private sector for a fee, given that stringent technological mechanisms exist to safeguard data privacy.

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.
- There are currently 17,891 judges compared to the sanctioned strength of 22,750. On average, a judge disposes of 746 cases.
- **100 per cent case clearance rate (CCR)** can be achieved by **filling out merely 2279 vacancies** in the lower courts and 93 in High Courts.
  - CCR is the ratio of the number of cases disposed of in a given year to the number of cases instituted in that year.
- 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.
- Survey suggested improving the efficiency of the courts, increasing number of working days of courts, establishment of Indian Courts and Tribunal Services, and deployment of technology in legal system.

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.
- Top-level policy makers must ensure that their policy actions are predictable, provide forward guidance on the stance of policy, maintain broad consistency in actual policy with the forward guidance, and reduce ambiguity, arbitrariness in policy implementation.
- To ensure predictability, the horizon over which policies will not be changed must be mandatorily specified so that investor can be provided the assurance about future policy certainty.
- The government must encourage construction of economic policy uncertainty sub-indices to capture uncertainty stemming from fiscal policy, tax policy, monetary policy, trade policy, and banking policy.
- As organisations in the private sector compete and seek the highest level of quality certifications, government departments must also be mandated to similarly seek quality certifications.
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.
- It is forecasted that the population rate will grow less than 1% from 2021 to 2031 and under 0.5% from 2031 to 2041.
- This is primarily due to the fall in the total fertility rate (TFR), which is projected to decline between 2021-2041 and fall below replacement level fertility at 1.8 as early as 2021.
- The total fertility rate of 2.1 is called the replacement level fertility below which populations begin to decline.
- For India, the effective replacement level fertility is slightly higher than the normal benchmark due to the skewed gender ratio and is at 2.15-2.2.
- The current TFR in 14 out of the 22 major States is already below the effective replacement level fertility.
- The size of the elderly population, 60 years and above, is expected to nearly double from 8.6% in 2011 to 16% by 2041, whereas the population size of those between 0-19 years, which is on the decline, is likely to drop from as high as 41% in 2011 to 25% by 2041.
- 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.
- This will be key to the viability of pension systems and would also help increase female labour force participation in the older age-groups.
- Many countries such as the U.S., Germany and France have already raised the retirement age to reduce the burden on pension funding.

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 (IHHHL) 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.
- The next big goal on the Swachh Bharat journey is the 100% safe and scientific disposal of solid and liquid waste.
- Some of the areas which must be dealt with in this next phase are sewer construction and water availability, scientific techniques for waste disposal, treatment of industrial effluence, drain bio-remediation, river surface cleaning, sustained rural sanitation and monitoring of villages.
- As the resource requirements are large, there is a need to facilitate and sustain innovative financing mechanisms. Some examples are micro-financing, concessional loans, private partnerships, corporate social responsibility, and crowd funding aligned with local government financing.
- Apart from financial resources, mindset change is the other major ingredient required for sustained progress in sanitation. The swachhagrahis or village level ambassadors are key to maintaining momentum & keeping with its thrust on leveraging behavioural economics.
- **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.
  - Currently, the minimum wage system, under the **Minimum Wages Act, 1948**, in India is complex, with 1,915 different minimum wages defined for different 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.
  - This code amalgamates the Minimum Wages Act, 1948, the Payment of Wages Act, 1936, the Payment of Bonus Act, 1965 and the Equal Remuneration Act, 1976 into a single piece of legislation.
  - ‘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’. The floor wage is currently non-statutory.
  - Minimum wages should be **fixed for four categories** namely, unskilled, semi-skilled, skilled and highly skilled based on the geographical region and should cover all workers, irrespective of any wage ceilings.
  - 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 INR 1,73,359 crore.
- 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.

❖ 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.
- 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 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):
  - 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.

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.
- 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 77th 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 31st 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.