Summary of

ECONOMIC SURVEY 2018-19

Important for All Government Exams

The most concise and comprehensive summary of Economic Survey 2018-19

compiled by www.ixamBee.com

Economic Survey 2018-19

SHIFTING GEARS

Private Investment will be the Key Driver of Growth, Jobs, Exports and Demand

- The Survey states that the most important links in the Indian Economy, the pathways for trickle-down have opened up during the last five years and the benefits of growth and macroeconomic stability have started reaching the bottom of the pyramid to the lowest strata of the society.
- It states that a sustained real GDP growth rate of 8% will be needed for the Indian Economy reaching the $5 trillion mark by 2024-25.
- The key assumption by the Economic Survey is that a "**Virtuous Cycle**" of savings, investment and exports catalysed/made feasible and supported by a favourable demographic phase required for sustainable growth ahead.
- **The Survey believes that Private investment**-is the key driver for demand, capacity, labour productivity, new technology, creative destruction and job creation.
- The 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.
- Modern Tools have been marked as key ingredients for a self-sustaining virtuous cycle. These are:
    - Presenting *data as a public good*.
    - Emphasizing *legal reforms*.
    - Ensuring *policy consistency*.
    - Encouraging *behaviour change* using *principles of behavioural economics*.
    - Nourishing MSMEs to create more jobs and become more productive.
    - Reducing the cost of capital.
    - Rationalizing the risk-return trade-off for investments.

The New Tool-Behavioural Economics--Leveraging the Behavioural Economics of "Nudge"

- **Behavioural economics** provides insights to '**nudge**' / push people towards desirable behaviour, which has a positive impact on economic growth.
- The **Three Key principles of behavioural economics** are:
    - Emphasizing the beneficial social norm (communication to the masses the benefits of a particular/set of social norms).
    - Changing the default option (Informing the population/masses that an alternative/better option/options is/are available).
    - Repeated reinforcements (through mass media, thus also building social pressure).

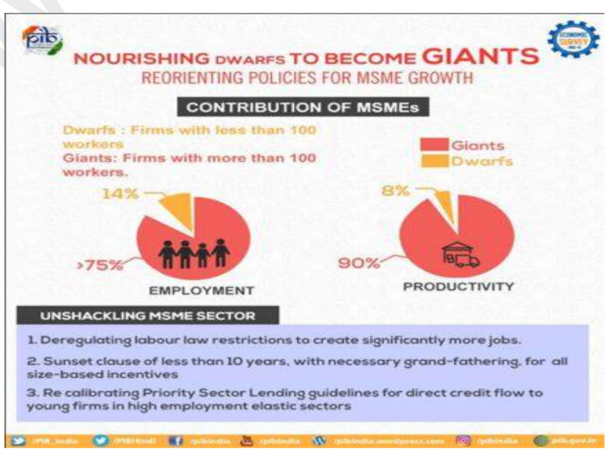
- The Economic Survey has emphasised on Using the insights from behavioural economics to **create an aspirational agenda for social change,** *Moving up to the next level*:
    a) From 'Beti Bachao Beti Padhao' to 'BADLAV' (Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi).
    b) From 'Swachh Bharat' to 'Sundar Bharat'.
    c) From 'Give it up" for the LPG subsidy to 'Think about the Subsidy'.
    d) From 'Tax evasion' to 'Tax compliance'.

The Economic Survey states that while several Indian programmes have applied the principles of **behavioural economics**, there is still **ample scope for leveraging these insights to enhance the efficacy of programmes in India.**

The Economic Survey recommends setting up of a behavioural economic unit in the NITI Aayog. It also strongly recommends that every programme must go through a 'behavioural economics audit' before its implementation.

MSME-Nourishing Dwarfs to become Giants: Reorienting policies for 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.
- **Unshackling MSMEs** and enabling them to grow by way of:
    i. A sunset clause of less than 10 years, with necessary grand-fathering, for all size-based incentives.
    ii. Deregulating labour law restrictions to create significantly more jobs, as evident from Rajasthan.
    iii. Re-calibrating Priority Sector Lending (PSL) guidelines for direct credit flow to young firms in high employment elastic sectors.



EXPLANATION OF ABOVE POINTS

Re-orienting Priority Sector Lending (PSL): As per extant policy, certain targets have been prescribed for banks for lending to the Micro, Small and Medium (MSME) sector that exacerbates perverse incentives to firms to remain small. As per PSL guidelines, 7.5 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher is applicable to Micro enterprises. Under MSME's PSL targets, it is necessary to prioritize 'start ups' and 'infants' in high employment elastic sectors. This would enhance direct credit flow to sectors that can create the most jobs in the economy.

Sunset Clause for Incentives: With appropriate grandfathering, every incentive for fostering growth should have a 'sunset' clause, say, for a period of five to seven years after which the firm should be able to sustain itself. The policy focus would thereby remain on infant firms.

Focus on High Employment Elastic Sectors: The manufacture of rubber and plastic products, electronic and optical products, transport equipment, machinery, basic metals and fabricated metal products, chemicals and chemical products, textiles and leather & leather products, are the sub-sectors with highest employment elasticities. To step-up the impact of economy growth on employment, the focus has to be on such high employment elastic sectors.

The Survey is for reorienting policies for growth in the MSME sector, the Economic Survey states that MSMEs that grow not only create greater profits for their promoters but also contribute to job creation and productivity in the economy. Therefore, policies must focus on enabling MSMEs to grow by unshackling them.

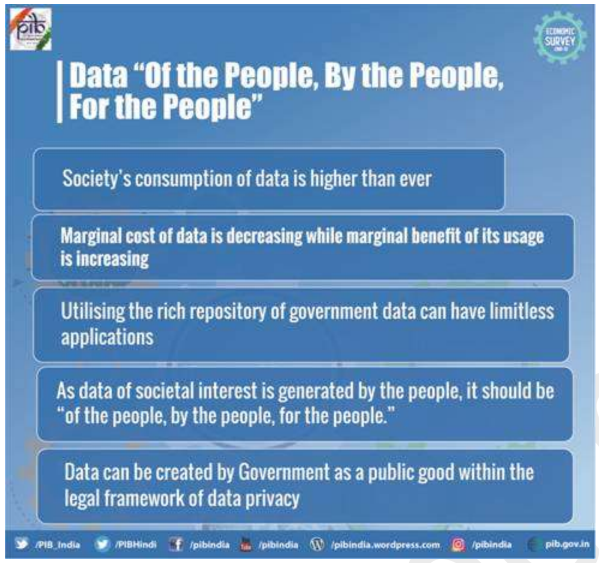
Survey also focuses on service sectors such as tourism, with high spill over effects on other sectors such as hotel & catering, transport, real estate, entertainment etc., for job creation.

Focus on Service Sectors with high Spill over Effects such as Tourism: Developing key tourist centres will have ripple effects on job creation in areas such as tour and safari guides, hotels, catering and housekeeping staff, shops at tourist spots etc. **It is possible to identify 10 tourism spots in each of the larger 20 states and 5 spots in the 9 smaller states and build road and air connectivity in these tourist attractions, which would boost economic activity along the entire route and would also reduce the migration of the rural labour force who form a major proportion of the total labour force.**

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.
- 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.

- Government must intervene in creating data as a public good, especially of the poor and in social sectors.
- Merging the distinct datasets held by the Government already would generate multiple benefits.



EXPLANATION OF ABOVE POINTS

- **The Survey says that Government must intervene in creating Data as a public good, especially of the poor and in the social sectors of the country**, to unlock its benefit for larger betterment of Society. This is very important as private sector may not invest in harnessing data where it is not profitable, the Survey states.

Reason: Data as Public good

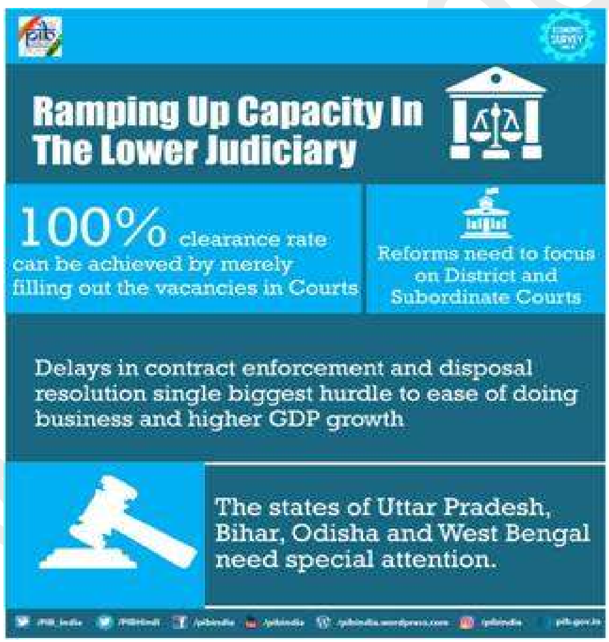
Managing data explosion

- For a decent life, the **optimum data footprint** that a society like India **consume much higher than before.**
- **Private sector investment in data-related endeavours** is higher than ever before. **Social media giants** like Twitter, Facebook, and Instagram etc. earn **huge profits on data generated by Indian users.**
- **A useful resource for planning**
- Agriculture sector in India can best benefit through **nationally integrated agricultural market.**
- A **district education officer can make better decisions** if he knows, for each school in his district, attendance rates of students and teachers, average test scores etc.
- Similarly, **parents can make better decisions** about which school to send their children.
- **Data for welfare**
- The **benefits of data pertains to entire society**, not to an individual agent, be it a farmer or a firm. Ex. Farmers access to weather updates
- **To the private firm,** the prospect of a nationally integrated agriculture market, and the resulting **social welfare, is a positive externality.**

- Because the firm does not internalize the benefit of social welfare, the optimal amount of data that the firm would gather and disseminate falls short of the social optimum.

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.
- 100 per cent clearance rate can be achieved by filling out merely 2279 vacancies in the lower courts and 93 in High Courts.
- 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.



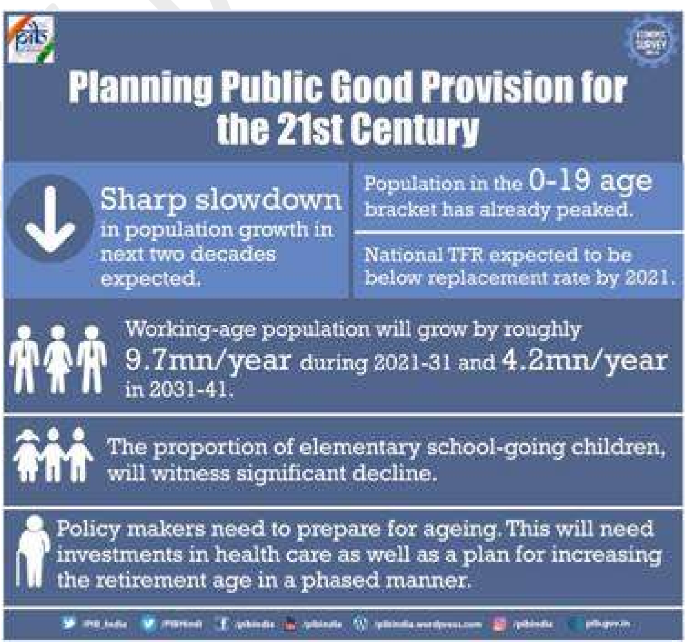
For enhancing productivity in the judiciary, the Survey suggests: Increase number of working days; Establishment of Indian Courts and Tribunal Services to focus on the administrative aspects of the legal system; Deployment of Technology to improve efficiency of the courts, e.g. eCourts Mission Mode Project and the National Judicial Data Grid being rolled-out in phases by the Ministry of Law and Justice.

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.
- Survey proposes reduction in economic policy uncertainty by way of:
  - Consistency of actual policy with forward guidance.
  - Quality assurance certification of processes in Government departments.

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.
- National Total Fertility Rate expected to be below replacement rate by 2021.
- Working age population to grow by roughly 9.7mn per year during 2021-31 and 4.2mn per year during 2031-41.
- Significant decline to be witnessed in elementary school-going children (5-14 age group) over next two decades.
- 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.



DETAILS OF ABOVE POINTS

Economic Survey suggests increasing the retirement age could be considered given that life expectancy is likely to continue rising

- Highlighting India's demography, the Economic Survey 2018-19 states that "India is set to witness a sharp slowdown in population growth in the next two decades. Although the country as a whole will enjoy the demographic dividend phase, some States which are in the advanced stage of demographic transition will witness transition to an ageing society as early as 2030s."

- Population projection at the national and State level up to 2041 show that India has entered the next stage of demographic transition, with population growth set to slow sharply in the next two decades. This is mainly due to the rapid decline in the total fertility rate (TFR) in recent decades, which is expected to be below replacement level fertility by 2021. While all major States have witnessed a marked deceleration in population growth, the slowdown in States with historically high population growth such as Bihar, Uttar Pradesh, Rajasthan and Haryana is particularly noteworthy.

- The projected population and age structure over the next two decades has several implications for policy making in the fields of health care, old age care, school facility, retirement related financial services, public pension funding, income tax revenue, labour force and labour participation rate and retirement age.

- Talking about the population growth trajectory, the Economic Survey states "both the trajectory of population and population growth will vary across States. States ahead in the demographic transition will witness a continued deceleration in population growth and reach near-zero growth rate by 2031-41. States lagging behind in the demographic transition will also witness a marked slowdown in population growth during 2021-41.

- A surprising fact is that population in the age bracket 0-19 has already peaked due to sharp decline in TFR across the country. The national TFR is expected to be below replacement rate by 2021. The share of India's young i.e. 0-19 years is projected to drop from as high as 41% in 2011 to 25% by 2041. On the other hand, the share of elderly, 60 years and above, population will continue to rise steadily nearly doubling from 8.6% in 2011 to 16% by 2041. The working age population will grow by roughly 9.7 million per annum during 2021-31 and 4.2 million per annum during 2031-41.

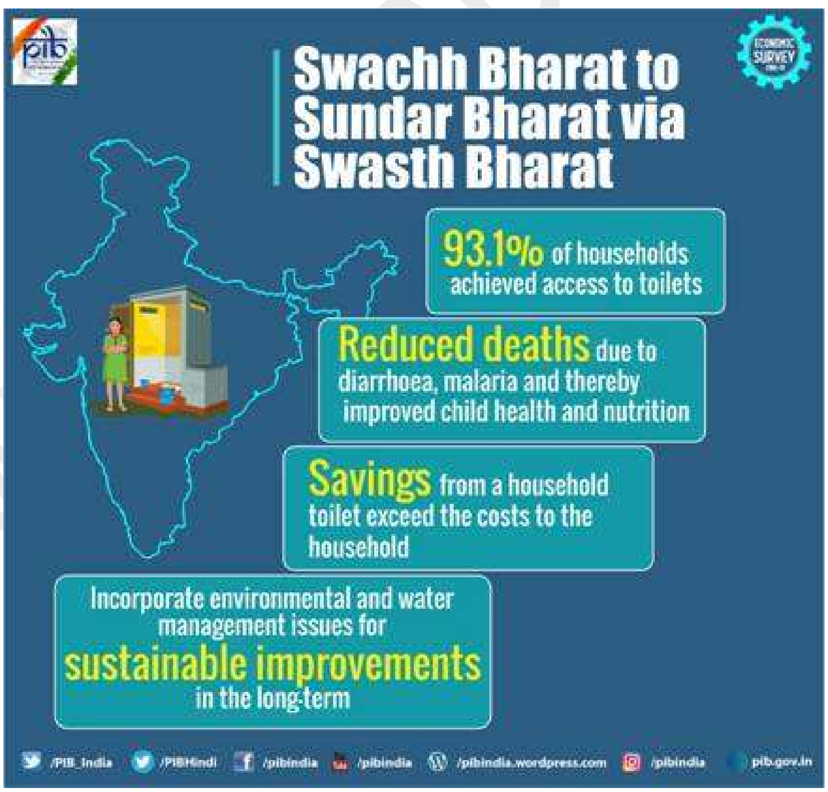
- Talking about the implication for working age population, the Economic Survey states that "its size plays a key role in determining the size of labour force and direction of inter-state migration. It further states that depending upon the trajectory of labour force participation during 2021-41, additional jobs will need to be created to keep pace with the projected annual increase in working age population". The States with rising working age population could meet the labour deficit in many ageing States. The current migration trends broadly follow this pattern.

KEY POINT

The change in demographic break-up has several policy implications such as those on elementary schools, health care facilities and deciding the retirement age.

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 **(IHHL)** 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.
- Environmental and water management issues need to be incorporated in SBM for sustainable improvements in the long-term.



Note: Open Defecation Free (ODF)

DETAILS OF ABOVE POINTS

Economic Survey says that "SBM has brought in a remarkable transformation and traceable benefits to the society as a whole. It is one of the largest cleanliness drives in the world. Many States have achieved the status of 100 per cent ODF and IHHL coverage, thereby has led to a sea change in the dignity of people, especially women. This mission acts as a driver for eliminating the gender disparity through the construction of gender-specific latrines in public areas such as schools, roads and parks. **This public movement will have indirect positive impact on society by increasing the enrolment ratio of girls in schools and improving health standards."**

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 CO_2 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.

India undertaking one of the world's largest renewable energy expansion programmes Globally India stands 4th in wind power, 5th in solar power and 5th in overall renewable power installed capacity The share of renewables in total electricity generation increased from 6 per cent in 2014-15 to 10 per cent in 2018-19 Additional investments in renewable plants upto the year 2022 would be about USD 80 billion and USD 250 billion for the period 2023-2030

While renewable energy capacity has been expanded manifold, fossil fuel based energy is likely to continue to be an important source of power, the Survey adds.

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.

DETAILS OF ABOVE POINTS

The Survey points out that National electronic Fund Management System (NeFMS) is implemented in 24 States and 1 Union Territory wherein payment of wages is being credited directly to the bank/ post office accounts of MGNREGS workers by the Central Government. This initiated the implementation of the DBT in the Scheme. As a result of this initiative, the e-payment under MGNREGS has increased from 77.34 per cent in FY 2014-15 to 99 per cent in FY 2018-19.

In 2015, the Government introduced Aadhar Linked Payments (ALP) in MGNREGS in 300 districts that had a high banking penetration. Remaining districts were covered under ALP in 2016. Conceptually, ALP could speed up the wage payment cycle in the following two ways.

Out of the 11.61 crore active works under MGNREGS, Aadhaar numbers of 10.16 crore workers (87. 51 per cent) have been collected and seeded. Almost 55.05 per cent of all payments under MGNREGS are through Aadhaar Based Payment System (ABPS) , the number of beneficiaries and the fund transferred under DBT under the Scheme has jumped manifold from 2015-16 to 2018-19.

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.
- Present minimum wage system in India has 1,915 minimum wages for various scheduled 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.
- Minimum wages to all employments/workers proposed by the Survey.
- **'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'.
- Minimum wages can be notified based either on the skills or on geographical region or on both grounds.
- 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.

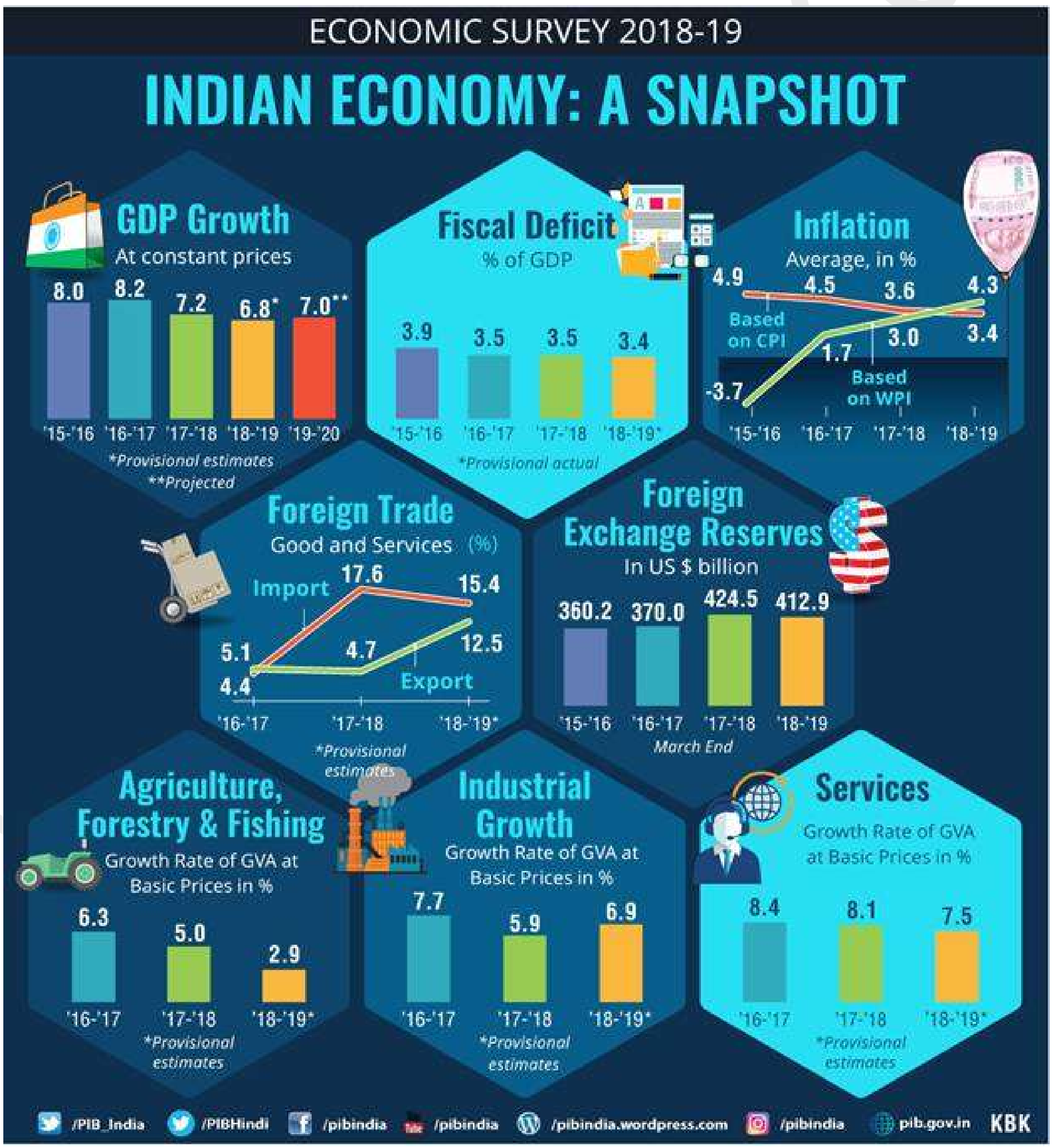
DETAILS OF ABOVE POINTS

- Following are the Policy recommendations for an effective design of minimum wages system as per the Economic Survey 2018-19:
- **Simplification and Rationalisation**: Rationalisation of minimum wages as proposed under the Code on Wages Bill needs to be supported. 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. The definition of 'wage' in the new legislation should subsume the present situation of 12 different definitions of wages in different Labour Acts.
- **Setting a National Floor Level Minimum Wage**: Central Government should notify a "national floor minimum wage" that can vary broadly across five geographical regions. Thereafter, states can fix their minimum wages at levels not lower than the "floor wage". This would bring some uniformity in minimum wages across country and would make all states almost equally attractive from the point of view of labour cost for investment as well as reduce distress migration.
- **Criteria for setting minimum wage**: The Code on Wages Bill should consider fixing minimum wages based on either of the two factors viz; (i) the skilled category i.e. unskilled, semi-skilled, skilled and highly skilled; and (ii) the geographical region, or else both. This Key change would substantially reduce the number of minimum wages in the country.
- **Coverage:** The proposed Code on Wages Bill should extend applicability of minimum wages to all employments/workers in all sectors and should cover both the organized as well as the unorganized sector.
- **Regular Adjustment and Role of Technology**: A mechanism should be developed to adjust minimum wages regularly and more frequently. A national level dashboard can be created at the Centre with access to the state governments whereby the states can regularly update the notifications regarding minimum wages. This portal must be made available at Common Service Centres (CSCs), rural haats etc., with the required mass media coverage so that the workers are well-informed their bargaining skills and decision-making power are strengthened.
- **Grievance Redressal**: There should be an easy to remember toll-free number to register grievance on non-payment of the statutory minimum wages should be given wide-publicity to provide low-paid workers a forum to voice their grievance.

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.

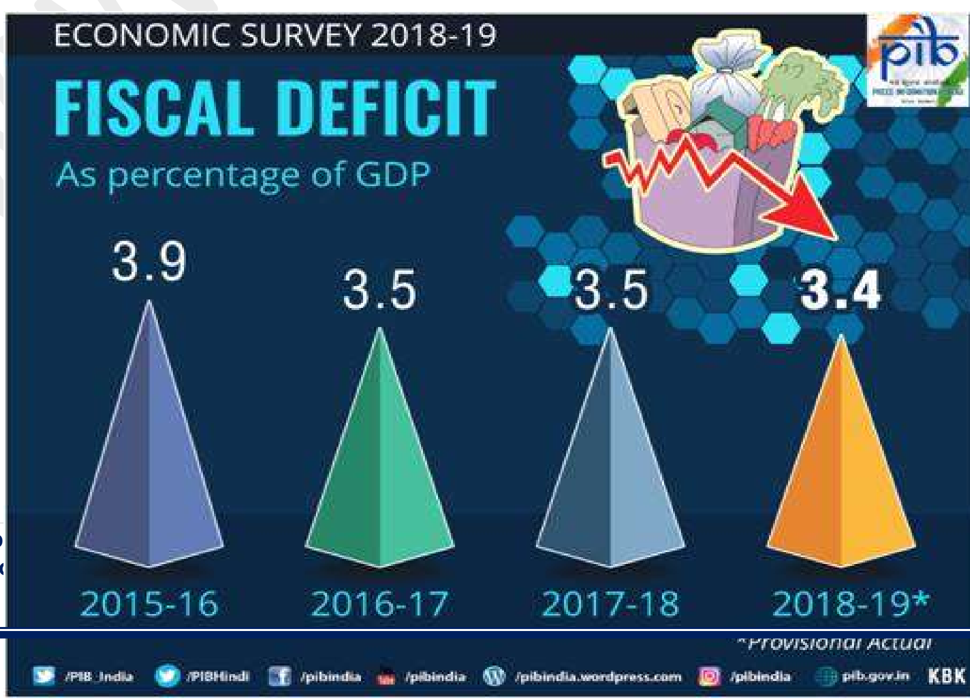


GDP to grow at 7% in 2019-20 due to growth of investment & consumption Service exports enhanced to Rs. 14.389 lac cr in 2018-19 from Rs. 0.746 lac cr in 2000-01. India's share in world service exports increased from 2% in 2005 to 3.5 % in 2017 India's foreign exchange reserves comfortably placed at US $ 422.2 billion in June 2019. FDI inflows growing at a high rate since 2015-16 in services, automobiles and chemicals Credit to both, large and micro, small and medium enterprises have seen pickup in growth in the industry accelerated during 2018-19 due to improved manufacturing and construction activity

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.

Economy expected to grow at 6.8 per cent in 2018-19 Fiscal Deficit of 3% of GDP by FY2020-21 & Central Government debt to 40% of GDP by 2024-25 Targeted Improving Quality of Expenditure is key Priority; Broadening and Deepening the Direct Tax base and Stabilization of Goods and Services Tax are the Other Priorities Total Transfers to States rose by 1.2 %age points of GDP from 2014-15 to 2018-19 RE



DETAILS OF ABOVE POINTS

Economic Survey 2018-19 says State budgets expanded considerably in 2017-18 RE over 2016-17 on account of increase in revenue expenditure. On the revenue front, States' own tax and non-tax revenue display robust growth in 2017-18 RE which is envisaged to be maintained in 2018-19 BE. The document concludes there has been improvement in fiscal deficit to GDP ratio in 2017-18 RE when compared to 2016-17.

The Economic Survey cautions that the coming year will pose several challenges on the fiscal front. Firstly, there are apprehensions of slowing of growth, which will have implications for revenue collections.

Secondly, the financial year 2018-19 has ended with shortfall in GST collections. Therefore, revenue buoyancy of GST will be key to improved resource position of both Central and State Governments.

Thirdly, resources for now expanded Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) and Ayushmaan Bharat, as well as new initiatives of the new Government, will have to be found without compromising the fiscal deficit target as per the revised glide path.

Fourthly, US sanctions on oil import from Iran is likely to have impact on oil prices and thereby on the petroleum subsidy, apart from implications for current account balances. Finally, Fifteenth Finance Commission will submit its report for next five years beginning April 2020. Its recommendation especially on tax devolution will have implications for Central Government finances.

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 worthINR1, 73,359 crores.
    - As on 28 Feb 2019, 6079 cases involving INR2.84 lakh crores have been withdrawn.
    - As per RBI reports, INR50,000 crore received by banks from previously non-performing accounts.
    - Additional INR50,000 crore "upgraded" from non-standard to standard assets.
- Benchmark policy rate first hiked by 50 bps and later reduced by 75 bps last year.
- Liquidity conditions remained systematically tight since September 2018 thus impacting the yields on government papers.

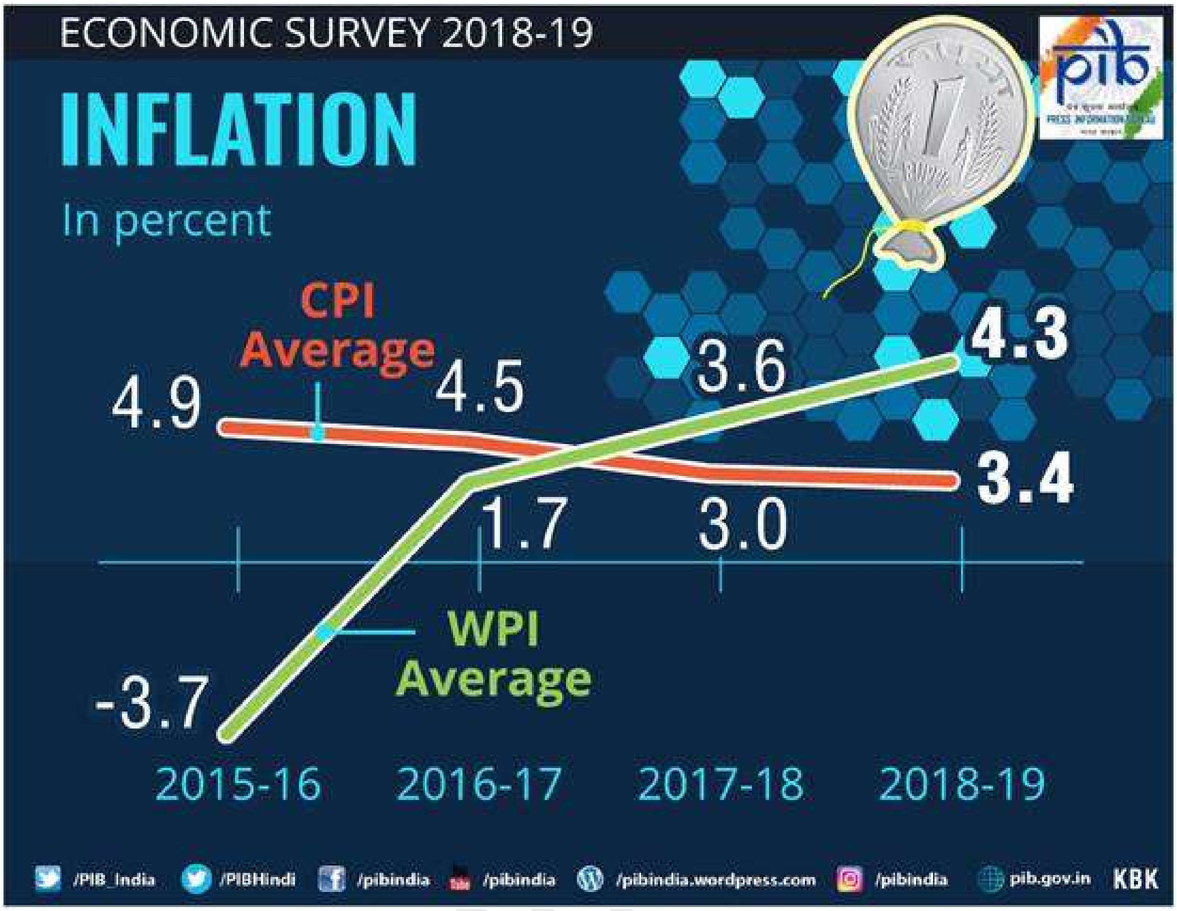
- Financial flows remained constrained because of decline in the equity finance raised from capital markets and stress in the NBFC sector.
  - Capital mobilized through public equity issuance declined by 81 per cent in 2018-19.
  - Credit growth rate y-o-y of the NBFCs declined from 30 per cent in March 2018 to 9 per cent in March 2019.

- **Debt recovery mechanism strengthened with the enactment of Insolvency and Bankruptcy Code (IBC), 2016**
- **Claims worth over Rs.1,73,000 crore settled National Companies Law Tribunals being beefed up**

The Survey says the ecosystem for insolvency and bankruptcy is getting systematically built out with recovery and resolution of significant amount of distressed assets. Till March 31, 2019, the Corporate Insolvency Resolution Process (CIRP) yielded a resolution of 94 cases which has resulted in the settlement of claims worth Rs.1,73,359 crore. Moreover, as on February 28, 2019, 6,079 cases involving a total amount of Rs. 2.84 lakh crores have been withdrawn before admission under provisions of the Insolvency and Bankruptcy Code (IBC). Further, as per RBI reports, Rs. 50,000 crore has been received by banks from previously non-performing accounts. RBI also reports that additional Rs. 50,000 crore has been "upgraded" from non-standard to standard assets. Taking note of the accelerated recoveries, the Economic Survey says, all these shows behavioural change for the wider lending ecosystem even before entering the IBC process.

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.
- CPI rural inflation declined during FY 2018-19 over FY 2017-18. However, CPI urban inflation increased marginally during FY 2018-19. Many States witnessed fall in CPI inflation during FY 2018-19.



Food inflation based on Consumer Food Price Index (CFPI) declines over last five years, and remains below 2.0 per cent for the last two consecutive years Rural Inflation (CPI) declined during FY 2018-19; many States witnessed fall in CPI Inflation during FY 2018-19

DETAILS OF ABOVE POINTS

Current trends in Inflation

Referring to the current trends in Inflation, the Economic Survey states "The CPI-C inflation for the month of April 2019 stood at 2.9 per cent same as in March 2019 as compared to 4.6 per cent in April 2018". It further states that the decline in the inflation in the FY 2018-19 was mainly due to low food inflation which ranged between (-) 2.6 to 3.1 per cent.

According to the Economic Survey, Food Inflation in the country has been extremely benign. It stood at 1.1 per cent in April 2019 compared to 0.3 per cent in March 2019 and 2.8 per cent in April, 2018. Food inflation based on Consumer Food Price Index (CFPI) declined to 1.8 per cent in 2017-18 from 4.2 per cent in 2016-17, 4.9 per cent in 2015-16 and 6.4 per cent in 2014-15. Average food inflation for the financial year 2018-19 declined to a low of 0.1 per cent. "The food deflation in the second half of FY 2018-19 is mainly due to deflation in vegetables, fruits, pulses and products, sugar & confectionary and eggs, which together account for 13.1 per cent rate in overall CPI-C", the Survey notes.

The Survey further states, "Food inflation based on Wholesale Price Index too declined over the last two financial years. It was over 0.6 per cent in 2018-19. WPI food inflation was at 4.9 per cent in April, 2019 as compared to 3.9 per cent in March, 2019 and 0.8 per cent in April, 2018".

Reduction in both Rural & Urban Inflation

According to the Economic Survey, the current phase of low inflation is also marked by reduction in both urban and rural inflation. It states that the decline in rural inflation is steeper than that of urban inflation since July, 2018 resulting in decline in headline inflation. “Fall in rural inflation is due to moderation in food inflation, which has been negative for last six months (October 2018 to March, 2019)” the Survey adds.

Many State Witness Fall in CPI Inflation

The Survey notes that many States witnessed fall in CPI inflation during FY 2018-19 and Inflation in 23 States/ UTs was below 4 percent in FY 2018-19. It further states that as many as 16 States/UTs had inflation rate lower than All India average for FY 2018-19 with Daman & Diu having the lowest inflation followed by Himachal Pradesh and Andhra Pradesh.

Drivers of Inflation

According to the Economic Survey, at all India level, CPI-C inflation during FY 2018-19 was driven mainly by miscellaneous group followed by housing as well as fuel and light group. The Survey further states that the relative importance of services in shaping up headline inflation has increased as it has contributed more than its weight. 40 items of services account for 23.37 per cent weight in CPI-C.

Measures to Contain Inflation

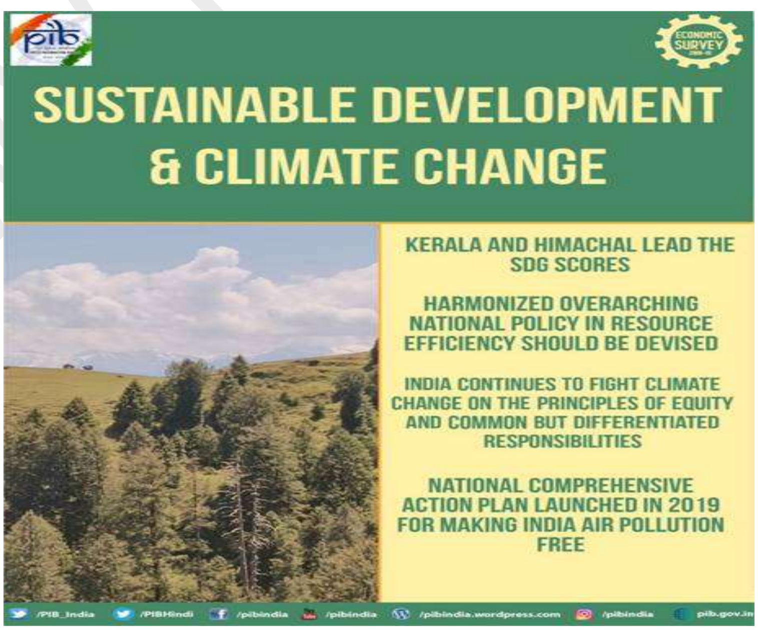
Elaborating the measures taken by the Government to contain inflation, the Economic Survey states that controlling Inflation remains a key area of policy focus. The Government has taken a number of measures to control inflation specially food inflation. “The measures, inter alia, taken include both general measures and specific measures”, the Survey adds.

According the Survey, the general measures include regular monitoring of Inflation, issuing advisories to States against hoarding and black marketing, holding regular review meetings on prices and availability of key commodities, higher Minimum Support Prices for pulses and other crops to incentivize production and setting up of Price Stabilization Fund (PSF) for procurement of agri-horticultural commodities.

As per the Survey, the specific measures taken by the Government include releasing the onions at reasonable prices from the stock procured under PSF, utilization of pulses from buffer for strategic market interventions and to meet the requirements of Army and Central Para-Military Forces, etc.

Sustainable Development and Climate Change

- India's SDG **(Sustainable Development)** 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 crores 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.



DETAILS OF ABOVE POINTS

Policy Initiatives for Sustainable Development

The Survey cites current Government of India policies in direction of achieving SDGs. These include Swachh Bharat mission, Beti Bacho Beti Padhao, Pradhan Mantri AwasYojana, Smart Cities, Pradhan Mantri Jan Dhan Yojana, Deen Dayal Upadhyay Gram Jyoti Yojana and Pradhan Mantri UjjwalaYojana, among others.

The **Namami Gange Mission**- a key policy priority towards achieving the SDG 6 - was launched as a priority programme with a budget outlay of Rs.20,000 crores for the period 2015-2020. Major components include sewerage project management, urban and rural sanitation, tackling industrial pollution, water use efficiency and quality improvement, ecosystem conservation and Clean Ganga Fund, among others.

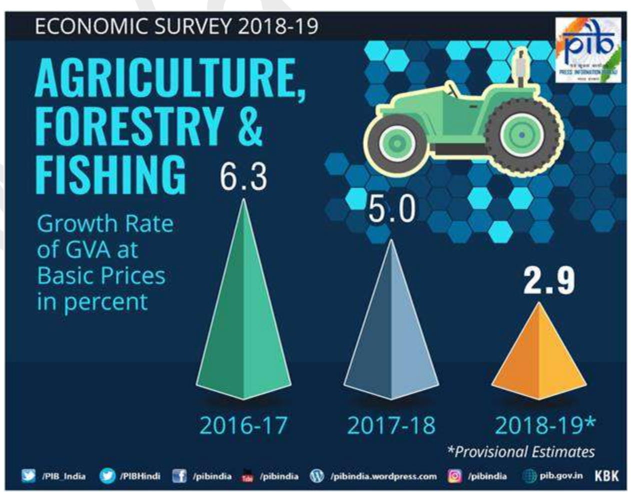
External Sector

- 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.
- Net capital inflows moderated in April-December of 2018-19 despite robust foreign direct investment (FDI) inflows, outweighed by withdrawals under portfolio investment.
- 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 Indian Rupee traded in the range of 65-68 per US$ in 2017-18 but depreciated to a range of 70-74 in 2018-19.
- 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):
    - **Exports** (including re-exports): INR23, 07,663 Cr.
    - **Imports**: INR35, 94,373 Cr.

  - **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. In 2018-19,
  - Exports to these countries stood at US$121.7 billion accounting for 36.9 per cent of India's total exports.
  - Imports from these countries stood at US$266.9 billion accounting for 52.0 per cent of India's total imports.

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.
- Gross Capital Formation (GCF) in agriculture as percentage of GVA marginally declined to 15.2 per cent in 2017-18 as compared to 15.6 per cent in 2016-17.
- The public sector GCF in agriculture as a percentage of GVA increased to 2.7 per cent in 2016-17 from 2.1 per cent in 2013-14.



- 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.

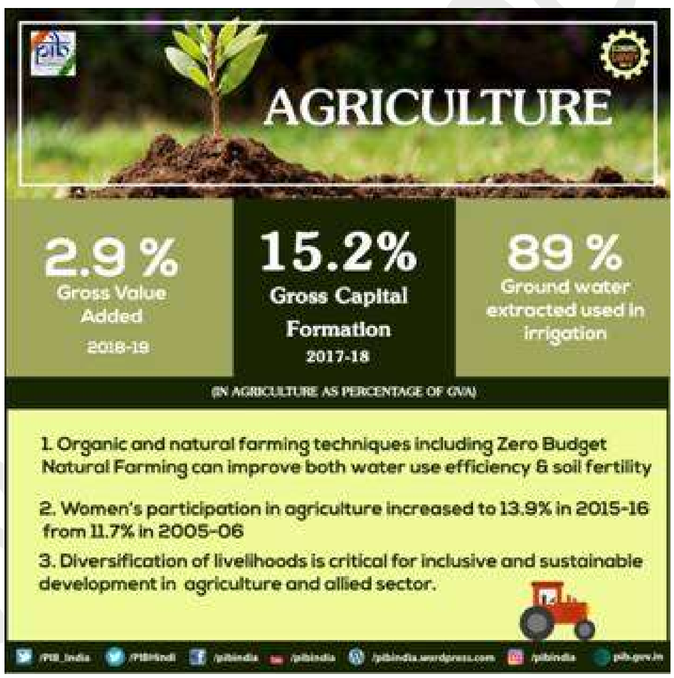
- Adopting appropriate technologies through Custom Hiring Centers and implementation of ICT are critical to improve resource-use efficiency among small and marginal farmers.

- 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.



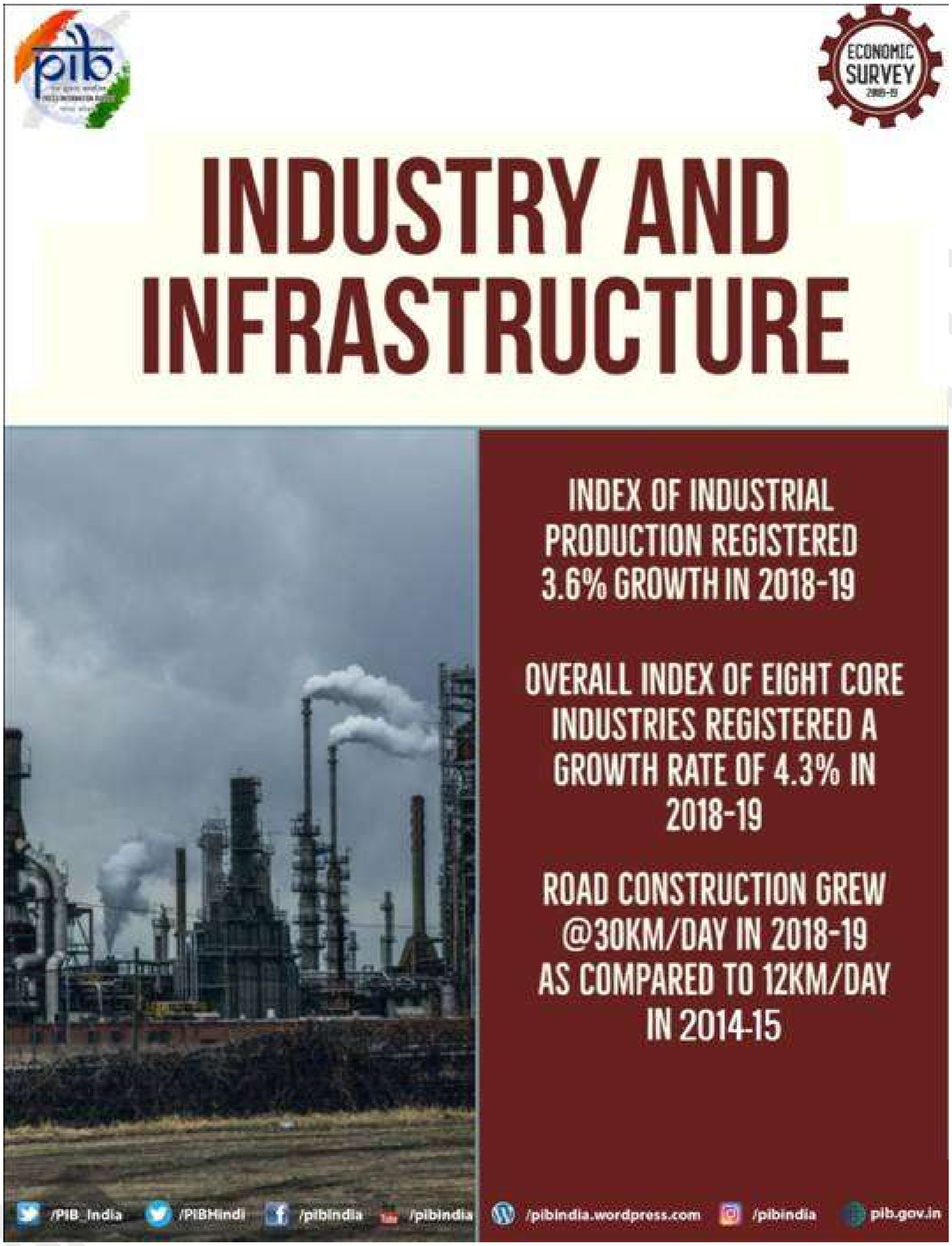
DETAILS OF ABOVE POINTS

The Economic Survey 2018-19 suggests that “focus should shift from ‘land productivity’ to ‘irrigation water productivity’. Devising policies to incentivize farmers to improve water use should become a national priority. Thrust should be on micro-irrigation that can improve water use efficiency”. In India according to the Asian Water Development Outlook, 2016, almost 89% of groundwater extracted is used for irrigation. “There is a major concern whether the present practice of ground water use can be sustained as the depth of ground water level continues to drop. The cropping pattern in India is highly skewed towards crops that are water intensive. The incentive structure like MSP, heavily subsidized electricity, water and fertilizer have played a significant role in misalignment of crop pattern". The Survey lays special emphasis on the agriculture and food sector as a large proportion of population is engaged in it despite the reduction in its contribution to overall growth. The Survey says that "agriculture is critical for the country's food security".

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

A Robust and Resilient Infrastructure Needed to Create a Ten Trillion Dollar Economy by 2032



Survey Stresses on Innovative Approach Under PPP to Bridge Investment Gaps in Infrastructure

Institutional Mechanism Required for Dispute Resolution in Infrastructure Sector Says Survey

DETAILS OF ABOVE POINTS

The Survey further observes that the Government has initiated a number of measures such as Start-up India, Ease of doing Business, Make in India, Foreign Direct Investment Policy reforms in crucial sectors to accelerate higher manufacturing growth. India has considerably improved its ranking to 77th position from the previous 100th among 190 countries, in the World Bank Ease of Doing Business Report in 2018. The Government is playing a proactive role in investment promotion through a liberal FDI policy. During 2018-19, total FDI equity inflows were US$ 44.36 billion as compared to US$ 44.85 billion during 2017-18. Building sustainable and resilient infrastructure has also been given due importance with the formulation of sector specific flagship programmes such as SAUBHAGYA, PMAY etc. Road construction in kms grew @ 30 kms per day in 2018-19 as compared to 12 kms 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 from 3,44,002 MW in 2018 to 3,56,100 MW in 2019.

The Survey notes that the industrial sector performance during 2018-19 has improved as compared to 2017-18. The growth of industry real Gross Value Added was higher at 6.9 percent in 2018-19 as compared to 5.9 percent in 2017-18. The industrial growth rate in terms of Index of Industrial Production (IIP) was 3.6 percent in 2018-19 as compared to 4.4 percent in 2017-18. The mining, manufacturing and electricity sectors registered positive growth rates of 2.9 percent, 3.6 percent and 5.2 percent respectively in 2018-19.

The Central Public Sector Enterprises (CPSEs) play a significant role in Indian economy. Out of 257 operational CPSEs,174 are making profits and two are at no profit and no loss. The Survey states that there is great scope for improvement in performance of CPSEs.

The Survey further notes that the rate of growth of Gross Capital Formation in industry has registered a sharp rise from (-) 0.7 percent in 2016-17 to 7.6 percent in 2017-18, showing upward momentum of investment in industry. Also, according to RBI, the growth in Gross Bank Credit Flow to the industrial sector has increased by 6.9 percent in March 2019 compared to increase of 0.7 percent in March 2018.

The Survey goes on to observe that a robust and resilient infrastructure is fundamental and essential for budding industries. While India has invested in its infrastructure over the years, the challenge is to mobilize adequate investment in infrastructure sector which runs into several trillions of dollars. The investment gaps in the infrastructure would have to be addressed through various innovative approaches with the collaboration of both public and private sector. Private investment in infrastructure has come mainly in the form of PPPs.

One of the challenges facing this sector is to devise a comprehensive resolution/ settlement option for projects which are either stuck-up mid-way or wherein the arbitral disputes/claims have not been settled. The need is to establish an institutional mechanism to deal with time-bound resolution of disputes in infrastructure sectors.

In order to create a ten trillion-dollar economy by 2032 India needs a robust and resilient infrastructure. Public investment cannot fund the entire infrastructure investment requirements of the country. Therefore, the real challenge lies in bringing adequate private investment across the country with the collaboration of public 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.

Deregulating labour law restrictions

Deregulating labour law restrictions can create significantly more jobs, as seen by the recent changes in Rajasthan when compared to the rest of the states. The Survey states no major labour reforms were initiated by the states from 2007 to 2014. In 2014, Rajasthan was the first State that introduced labour reforms in the major Acts. Thereafter, many States followed Rajasthan. A comparison between the indicators for labour, capital and productivity of manufacturing firms makes it clear that flexibility labour laws creates a more conducive environment for growth of industry and employment generation. The States which are rigid in respect of their labour laws are suffering in all dimensions and are unable to create enough employment and cannot attract adequate capital into their States.

On average, plants in labour-intensive industries and in States that have transited towards more flexible markets are 25.4 per cent more productive than their counterparts in States which continue to have labour rigidities.

Size based Limitations posed by Key Labour Legislations

S.No.	Labour Acts	Applicability of Establishments
1	Industrial Disputes Act, 1947, Chapter V relating to strikes, lockouts, retrenchment, layoff	Employing 100 or more workers
2	Trade Union Act, 2001 – Registration of trade unions	Membership of 10 per cent or 100 workmen whichever is less
3	Industrial Employment (Standing Orders) Act, 1946	100 or more workmen
4	Factories Act, 1948	10 or more workers with power and 20 or more workers without power
5	Contract Labour (Regulation & Abolition) Act, 1970	20 or more workers engaged as contract labour
6	The Minimum Wages Act, 1948	Employment in the schedule having more than 1000 workers in the State

7	Employees' State Insurance Act, 1948 – ESI Scheme	10 or more workers and employees monthly wage does not exceed Rs.21000/-
8	Employees' Provident Fund & Miscellaneous Provisions Act, 1952	20 or more workers

Sustainable and Clean Energy Sources

Priority for the Government is to ensure access to sustainable and clean energy sources; Task now is to ensure that households with LPG continue to use the clean fuel for cooking purposes through continued refilling, says the Economic Survey

The Economic Survey says that it is heartening to see a wide acceptance of LPG as the cooking fuel in Urban areas. It says that while the share of LPG as a cooking fuel has increased over the years, the share of households reporting it to be as the primary source of energy for cooking has been low compared with the Urban areas. The access to clean cooking fuel has increased considerably in the recent years.

The Economic Survey states that Direct Benefit Transfer for LPG consumer (DBTL) Scheme namely "PAHAL" in 54 districts of the country on 15 November, 2014 has also been launched to rationalize subsidies based on approach to cut subsidy leakages. As on 5th March, 2019, 24.39 Crore LPG consumers have joined the scheme. The Survey mentions that PAHAL has been recognized by the "Guinness Book of World Records" as the world's largest direct benefit scheme.

India need to increase its per capita energy consumption at least 2.5 times to increase its Real Per Capita GDP by $5000 per capita to enter the Upper-middle Income Group

Energy efficiency programmes in India generated cost savings worth more than Rs 50,000 crore and a reduction of about 108.28 million tonnes of CO2 emissions in 2017-18.

The Economic Survey says, "India, with a per-capita energy consumption of about one-third of the global average, will have to increase its per capita energy consumption at least 2.5 times to increase its real per capita GDP by $5000 per capita, in 2010 prices, to enter the upper-middle income group." It adds, "If India has to reach the HDI level of 0.8, it has to increase its per capita energy consumption by 4 times." This will require huge resources that would also need to increase with time, the Survey notes.

The Survey further says that though India accounts for around 18 percent of world's population, it uses only around 6 percent of the world's primary energy. India's per capita energy consumption equals 0.6 tonnes of oil equivalent (toe) as compared to the global per capita average of 1.8 toe.

Referring to the close link between energy consumption and various social indicators, the Economic Survey says, "Energy is the mainstay of the development process of any economy. The priority for the government is ensuring access to sustainable and clean energy sources." India's economic future and prosperity is dependent on her ability to provide affordable, reliable and sustainable energy to all her citizen, the Survey concludes.

Energy Efficiency- A win-win situation

Noting that energy efficiency is a strategy that can lead to a win-win situation through better utilization of energy resources, the Economic Survey says, "Future policy direction should orient itself to enhanced energy efficiency programmes in different sectors of the economy as well as technological solutions to better utilize the natural resource endowments of the country for greater prosperity."

Referring to a BEE study, the Survey says that, "Energy efficiency program has resulted in total cost savings worth Rs 53,000 crore (approx) in 2017-18 and contributed in reducing 108.28 Million Tonns of CO2 emissions. The contribution is largely from three major programs – Perform Achieve and Trade (PAT), UJALA and Standards & Labelling Programme."

The Survey further notes that India's energy intensity of GDP started declining at a much lower level of per capita GDP as compared to the developed world. India's primary energy intensity of GDP has fallen from 0.0004 toe in 1990 to 0.0002 toe in 2017.