CHAPTER 25

ECONOMIC SURVEY 2017–18

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After registering GDP growth of over 7 per cent for the third year in succession in 2016-17, the Indian economy is headed for somewhat slower growth, estimated to be 6.5per cent in 2017-18, as per first Advance Estimates released by CSO. This is slightly lower than the range of 6.5 per cent to 6.75 per cent being currently projected based on recent developments. Even with this lower growth for 2017-18, GDP growth has averaged 7.3 per cent for the period from 2014-15 to 2017-18, which is the highest among the major economies of the world. That this growth has been achieved in a milieu of lower inflation, improved current account balance and notable reduction in the fiscal deficit to GDP ratio makes it all the more creditable. In addition to the introduction of GST, the year also witnessed significant steps being undertaken towards resolution of problems associated with non-performing assets of the banks, further liberalizing of FDI, etc., thus strengthening the momentum of reforms. After remaining in negative territory for a couple of years, growth of exports rebounded into positive one during 2016-17 and strengthened further in 2017-18. There was an augmentation in the spot levels of foreign exchange reserves to close to US$ 414 billion, as on 12th January 2018.

Concerns have been expressed about growing protectionist tendencies in some countries and it remains to be seen as to how the situation unfolds. Additionally, average crude oil (Indian basket) prices have risen by around 14 per cent so far in 2017-18 (mid January 2018) vis-à-vis 2016-17. Going by the recent trends, the average crude oil prices could be in the vicinity of US$ 56-57 per barrel in the current financial year and could rise further by another 10-15 per cent in 2018-19. Some of these factors could have dampening effect on GDP growth in the coming year. However, with world growth likely to witness moderate improvement in 2018, expectation of greater stability in GST, likely recovery in investment levels, and ongoing structural reforms, among others, should be supporting higher growth. On balance, country's economic performance should witness an improvement in 2018-19.

GDP GROWTH IN 2017-18

1.1 With Gross Domestic Product (GDP) growth averaging 7.5 per cent between 2014-15 and 2016-17, India can be rated as among the best performing economies in the world on this parameter. Although growth is expected to decline to 6.5 per cent in 2017-18, bringing the 4-year average to 7.3 per cent, the broad story of India's GDP growth to be significantly higher than most economies of the world does not alter. The growth is around 4 percentage points higher than global growth average of last three years and nearly 3 percentage points more than the average growth achieved by emerging market and developing economies (EMDE) (Figure 1).

Table 1: *Key Indicators*

Data categories	Unit	2014-15	2015-16	2016-17	2017-18
GDP and Related Indicators					
GDP at constant market prices	₹ Crore	10536984	11381002	12189854PE	2985363AE
Growth Rate	%	7.5	8.0	7.1	6.5
GVA at constant basic prices	₹ Crore	9719023	10490514	11185440PE	1871321AE
Growth Rate	%	7.2	7.9	6.6	6.1
Gross Savings	% of GDP	33.1	32.3	na	na
Gross Capital Formation	% of GDP	34.4	33.3	na	na
Per Capita Net National Income (at current prices)	₹	86454	94130	103219	111782
Production					
Food grains	Million tonnes	252.0	251.6	275.7*	134.7#
Index of Industrial Production[a] (growth)	%	4.0	3.3	4.6	3.2[b]
Electricity Generation (growth)	%	14.8	5.7	5.8	4.9[b]

Prices					
WPI Inflation (average)	% change	1.2	-3.7	1.7	2.9[c]
CPI (Combined) Inflation (average)	% change	5.9	4.9	4.5	3.3[c]
External Sector					
Export Growth (US$)	% change	-1.3	-15.5	5.2	12.1[c]
Import Growth (US$)	% change	-0.5	-15.0	0.9	21.8[c]
Current Account Balance (CAB)/GDP	%	-1.3	-1.1	-0.7	-1.8[d]
Foreign Exchange Reserves	US$ Billion	341.6	360.2	370.0	409.4[e]
Average Exchange Rate	₹/us$	61.14	65.46	67.07	64.49[c]
Money and Credit					
Broad Money (M3) (annual)	% change	10.9	10.1	10.1	10.5[f]
Scheduled Commercial Bank Credit (growth)	% change	9.0	10.9	8.2	9.3[g]
Fiscal Indicators (Centre)					
Gross Fiscal Deficit	% of GDP	4.1	3.9	3.5	3.2[BE]
Revenue Deficit	% of GDP	2.9	2.5	2.1	1.9[BE]
Primary Deficit	% of GDP	0.9	0.7	0.4	0.1[BE]

Notes:

na: Not Available: PE: Provisional Estimates
* : 4th Advance Estimates
a : Base (2011-12=100)
c : April-December 2017
e : As on end 29th December 2017
g : As on November 2017
AE : First Advance Estimates; BE : Budget Estimates
: 1st Advance Estimates, Kharif crops only
b : April-November 2017
d : April-September 2017
f : As on 22nd December 2017

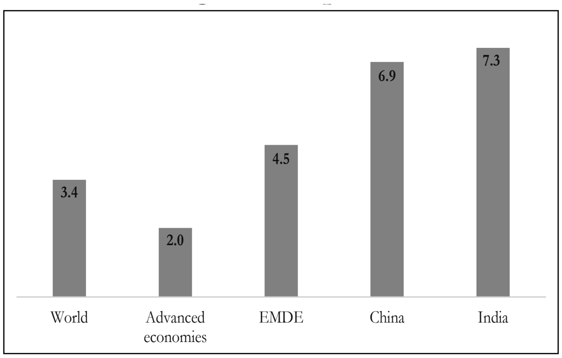

***Figure 1:** Average growth of GDP during 2014-17 (per cent)*

Source: Based on IMF's World Economic Outlook Database (October 2017)

1.2 As per the first Advance Estimates (1st AE), released by Central Statistics Office (CSO), growth rate of Gross Value of Added (GVA) at constant basic prices is estimated at 6.1 per cent in 2017-18, as compared to 6.6 per cent in 2016-17. This is on account of lower growth in 'Agriculture and allied', and 'Industry' sector, which are expected to grow at 2.1 per cent and 4.4 per cent respectively. In 2017-18, service sector is expected to grow at 8.3 per cent, as compared to 7.7 per cent in 2016-17. Within the services sector, only the growth of 'Public administration, defence and other services' sector is expected to decline in 2017-18 (Table 1).

1.3 From a low of 5.5 per cent in 2012-13, growth in GDP steadily improved for 3 years and peaked in 2015-16, particularly in fourth quarter (Q4) when it printed 9.1 per cent (GVA growth also peaked in Q4 of 2015-16). However, growth started slowing down from first quarter (Q1) of 2016-17. GDP and GVA growth slowed to 6.1 per

***Table 2:** Annual real GVA and GDP growth (per cent)*

GVA at basic prices from	2014-15	2015-16	2016-17	2017-18 (1st AE)
Agriculture, forestry and fishing	**-0.2**	**0.7**	**4.9**	**2.1**
Industry	**7.5**	**8.8**	**5.6**	**4.4**
Mining and quarrying	**11.7**	10.5	**1.8**	**2.9**
Manufacturing	**8.3**	10.8	**7.9**	**4.6**
Electricity, gas, water supply and other utility services	**7.1**	**5.0**	**7.2**	**7.5**
Construction	**4.7**	**5.0**	**1.7**	**3.6**
Services	**9.7**	**9.7**	*in*	**8.3**
Trade, hotel, transport, storage, communication and services related to broadcasting	**9.0**	10.5	**7.8**	**8.7**
Financial, real estate and professional services	**11.1**	10.8	**5.7**	**7.3**
Public administration, defence and other services	**8.1**	**6.9**	**11.3**	**9.4**
GVA at basic prices	**7.2**	**7.9**	**6.6**	**6.1**
GDP at market prices	**7.5**	**8.0**	**7.1**	**6.5**

Source: Based on data from CSO

cent and 5.6 per cent respectively in Q4 of 2016-17. GDP growth further declined to 5.7 per cent in Q1 of 2017-18. However, the second quarter (Q2) of 2017-18 witnessed reversal of declining trend of GDP growth, with growth increasing to 6.3 per cent. The nominal GDP and GVA growth also picked up to 9.4 per cent and 8.6 per cent respectively in Q2 of 2017-18 (Figure 2).

1.4 As per the 1st AE, the real GDP growth is expected to be 6.5 per cent in 2017-18, while the

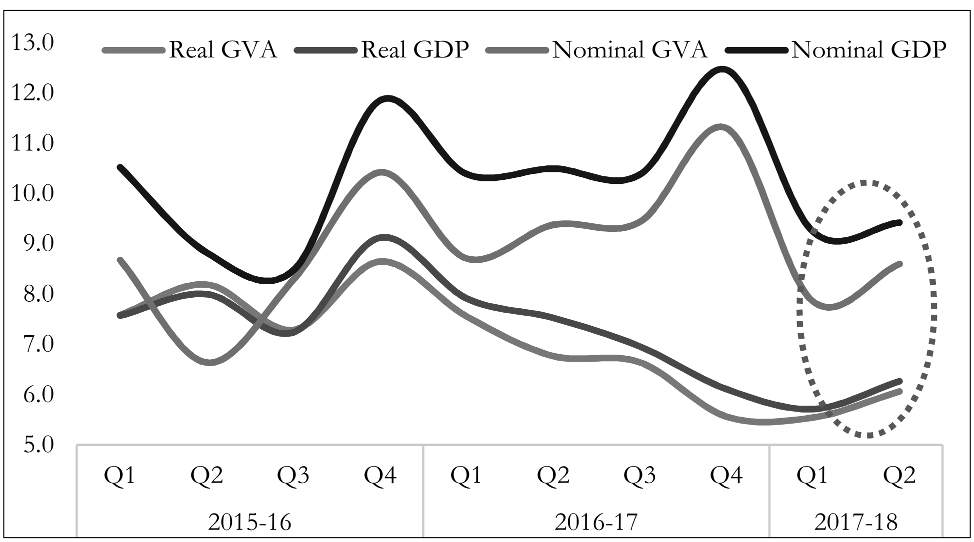

***Figure 2:** Quarterly growth in GDP and GVA (per cent)*
Source: Central Statistics Office (CSO)

real GVA at basic prices is expected to register a growth of 6.1 per cent. With GDP and GVA growth of 6.0 per cent and 5.8 per cent respectively in the first half (H1) of the current financial year, the implicit growth for the second half (H2) of the year works out to be 7.0 per cent and 6.4 per cent respectively, indicating further recovery of the economy that began in the Q2 of 2017-18. Major macro indicators viz. gross fixed investment and exports are also expected to grow at a faster pace in H2 vis-à-vis H1 of 2017-18.

1.5 In the recent years, the wedge between the real and nominal GDP growth has narrowed significantly. While the real GDP growth averaged 6.4 per cent between 2012-13 and 2014-15, the nominal growth was 12.5 per cent in this period. In comparison, during the three-year period from 2015-16 to 2017-18, the real and nominal GDP average growth is estimated to be 7.2 per cent and 10.1 per cent respectively, pointing to higher differences in the former period than latter. This is not surprising, given that the fact that inflation in the earlier period (particularly in 2012-13 and 2013-14) was significantly higher than the latter.

1.6 The growth in nominal GDP in 2016-17 is estimated to be 11 per cent and it is expected at 9.5 per cent in 2017-18 on account of both lower real growth as well as lower value of deflator in 2017-18. The growth of nominal GVA in these two years is estimated to be 9.7 per cent and 9.0 per cent respectively. The differences in the nominal growth between GVA and GDP have also increased in the last few years. This is indicative of an increase in the share of net indirect taxes in GDP.

GVA GROWTH OF MAJOR SECTORS

1.7 As expected, the agriculture sector registered significantly higher growth in 2016-17 than the previous two years on the back of normal monsoon. As per the fourth advance estimates of food grains production, it was estimated that the output of food grains would be of the order of 275.7 million tonnes in 2016-17, with both cereals and pulses achieving record levels of production. Most other crops and non-crop agriculture sector also showed significant growth. 'Public administration, defence and other services' sector also registered double-digit growth in 2016-17 that largely owed to higher payouts in salaries and arrears on account of implementation of the recommendations of the Seventh Pay Commission. However, growth of industry sector declined by over 3 percentage points in the last financial year.

1.8 GVA growth in H1 of 2017-18 was 5.8 per cent, with the two quarters depicting different picture. The declining trend seen in the previous few quarters in GVA growth was arrested in Q1 of 2017-18, which registered the same rate of growth as in Q4 of 2016-17. There was a reversal of this declining trend in Q2 of 2017-18 with GVA growth of 6.1 per cent, an improvement of 0.5 percentage points vis-à-vis Q1. This was basically led by the industry sector. The growth of manufacturing sector, in particular, showed an improvement from 1.2 per cent in Q1 to 7.0 per cent in Q2 of 2017-18. The implicit growth of GVA for H2 of 2017-18 is estimated to be 6.4 per cent. The implicit growth in H2 of all three major sectors of the economy viz. agriculture and allied, industries, and services sectors being 2.2 per cent, 5.1 per cent and 8.7 per cent respectively is better than H1 of 2017-18 (Figure 3). The growth of manufacturing sector is expected to improve from 4.0 per cent in H1 to 5.1 per cent in H2 of 2017-18. 'Trade, transport, hotels, storage, communications and services relating to broadcasting', which is a part of services sector is the only sector that is likely to register a decline in growth in H2 vis-à-vis H1 of 2017-18.

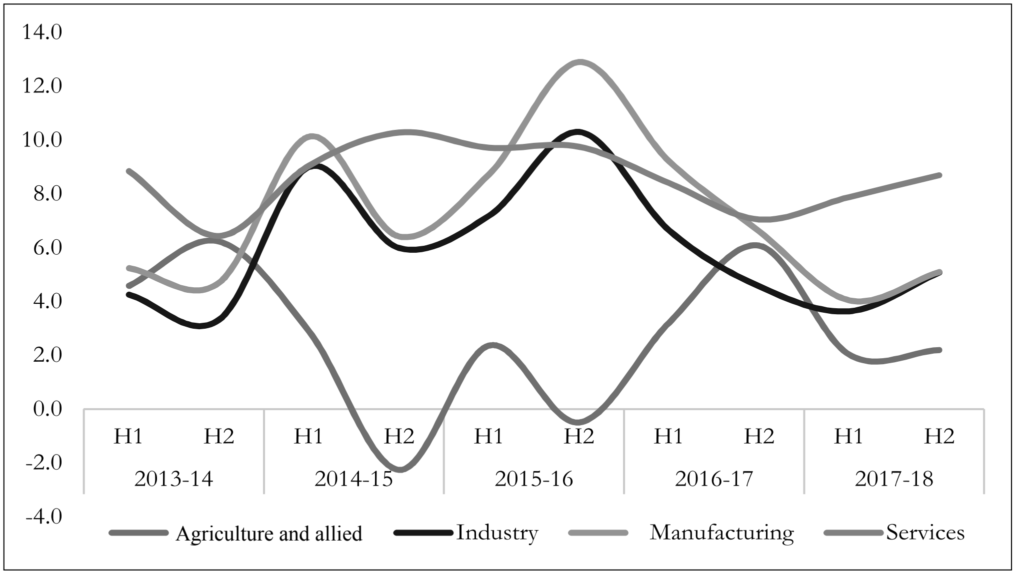

***Figure 3:** Half-yearly growth in GVA at (2011-12) basic prices (per cent)*

Source: Based on data from

Note: H2 of 2017-18 is calculated based on 1st AE and quarterly estimates upto Q2 of 2017-18.

1.9 One of the salient features of GVA growth in 2016-17 has been that two sectors viz. 'Agriculture and allied', and 'Public administration, defence and other services 4.0[1], contributed nearly one-third of the total growth of the economy. These sectors on an average contributed to about one-sixth of the GVA growth in the period 2012-13 to 2015-16 (Figure 4). The higher contribution of these sectors in 2016-17, mainly owed to higher growth in both of these sectors. Services (excluding public administration, defence, etc.) accounted for nearly 57 per cent of the total GVA growth between 2012-13 and 2015-16. It declined to 41 per cent in 2016-17, mainly on account of lower growth in 'Financial, real estate and professional services' sector. The contribution of 'Public administration, defence and other services' to total growth during 2016-17 was nearly twice its average contribution to growth between 2012-13 and 2015-16. On the other hand, the contribution of 'Financial services, real estate and professional services' to GVA growth progressively declined since 2013-14. It declined from an average of 32.7 per cent of GVA growth during 2012-13 to 2015-16 to 18.8 per cent in 2016-17.

1.10 In 2017-18, the contribution of agriculture sector to GVA growth reverted to the mean of the period between 2011-12 to 2015-16. Contribution of 'Public administration, defence and other services' declined somewhat in 2017-18 as the growth of this sector decelerated. The contribution of industry sector to GVA growth declined in 2017- 18, primarily on account of lower growth in this sector in H1 and particularly in Q1.

QUARTER WISE GVA GROWTH

1.11 After declining in previous few quarters, GVA growth picked up to 6.1 per cent in Q2 of 2017-18. The increasing trend of GVA growth of "Agriculture and Allied' sector since last quarter of 2015-16 was reversed from Q4 of 2016-17. The

1. Other services comprise community services e.g. coaching centres, education, personal services, etc.

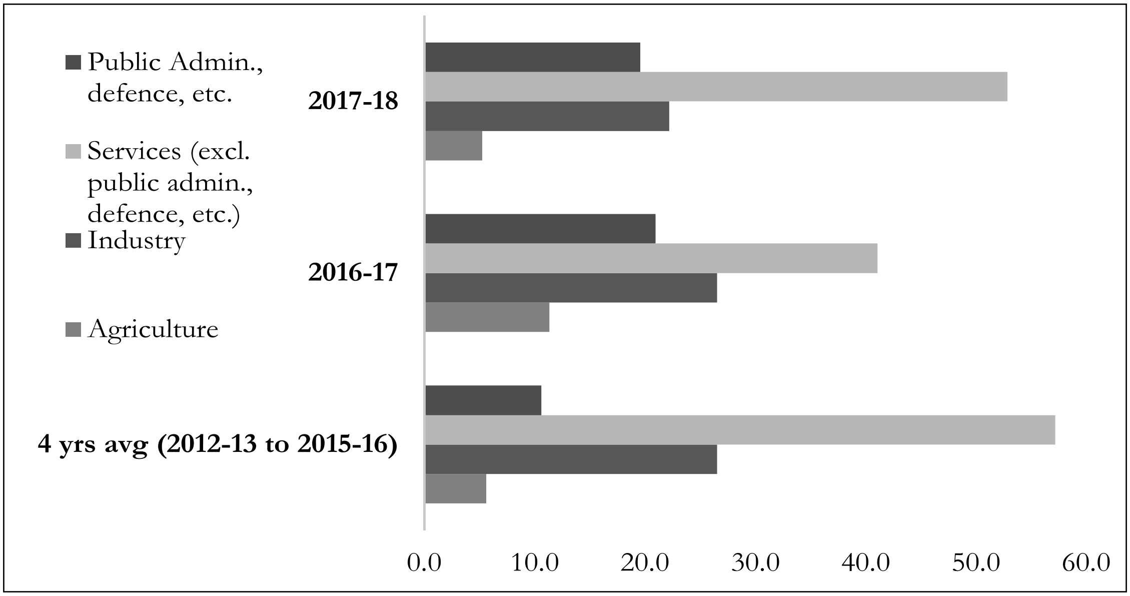

Figure 4: *Percentage contributionto GVA growth*

Source: Based on data from

decline in growth of industry had started in the Q1 of 2016-17 and the growth was particularly low in Q4. However, the growth of industry picked up in Q2 of 2017-18. GVA growth of manufacturing sector declined in each of the successive quarters from Q4 of 2015-16 (barring third quater (Q3) of 2016-17) till Q1 of 2017-18, when it reached 1.2 per cent. It recovered sharply to 7.0 per cent in Q2 of 2017-18 (Table 3). One reason why industry growth might have decelerated could be the slowdown in credit growth. Growth of credit deployed (outstanding) to industry slowed significantly in 2015-16, turned negative in 2016-17, and has continued to remain so in H1 of 2017-18. This decline may be due to lower demand for credit or greater recognition of the problem of non-performing assets (NPAs) that might have led the banks to become more cautious on lending. However, as on November 24, 2017, credit outstanding to industry sector was 1 per

Table 3 : *Quarter wise real GVA and GDP growth (per cent)*

	2016-17				2017-18	
Sector	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
GVA at basic prices	**7.6**	**6.8**	**6.7**	**5.6**	**5.6**	**6.1**
Agriculture and allied	**2.5**	**4.1**	**6.9**	**5.2**	**2.3**	**1.7**
Industry	**7.4**	**5.9**	**6.2**	**3.1**	**1.6**	**5.8**
of which, Manufacturing	10.7	**7.7**	**8.2**	**5.3**	**1.2**	**7.0**
Services	**9.0**	**7.8**	**6.9**	**7.2**	**8.7**	**7.1**
GDP at market prices	**7.9**	**7.5**	**7.0**	**6.1**	**5.7**	**6.3**

Source: Based on data from CSO

cent higher than what was on November 25, 2016. Although, the value added in construction sector contracted in Q4 of 2016-17, it recovered in the subsequent quarters two quarters of 2017-18, as compared to Q3 and Q4 of 2016-17

PER-CAPITA INCOME

1.12 The real per capita income (measured in terms of per capita net national income at constant (2011-12) prices is one of the important indicators representing the welfare of people of a country. It is expected to increase from Rs. 77,803 in 2015-16 to Rs. 86,660 in 2017-18, growing at an annual average rate of 5.5 per cent. In nominal terms it increased by an average of 9.0 per cent per annum from Rs. 94,130 in 2015-16 to Rs. 111,782 m 2017-18.

1.13 Growth of services sector, which had declined in Q3 of 2016-17, picked up slightly in Q4, primarily due to 17 per cent growth in real terms in 'Public administration, defence and other services' sector. The growth of 'Trade, transport, storage, communications etc.' sector was low, at 6.5 per cent in Q4 of 2016-17, partly due to high base effect (growth of this sector was 12.8 per cent in Q4 of 2015-16).There has been some recovery in the services growth in the H1 of 2017-18, vis-a-vis H2 of 2016-17, on the strength of higher growth in 'Financial services, real estate and professional services' and 'Trade, hotels, transport, communication and broadcasting services' sector. On the other hand, growth in 'Public administration, defence and other services' has been lower in first

GDP AND ITS COMPONENTS

1.14 Consumption expenditure has been the major driver, accounting for nearly sixty per cent of the total GDP growth between 2012-13 and 2015-16. This contribution increased to over 95 per cent in 2016-17, which is attributed to higher growth of both Private Final Consumption Expenditure (PFCE) and Government Final Consumption Expenditure (GFCE), particularly the latter. Growth of GFCE was nearly 21 per cent in 2016-17, against an average growth of 3.5 per cent during 2012-13 to 2015-16. This owed mainly to the payment of higher wages and salaries to the government staff that followed the implementation of the recommendations of the Seventh Pay Commission. The growth of both PFCE and GFCE is expected to be lower in 2017-18 as compared to 2016-17. The share of investment, and in particular that of fixed investment in the GDP continuously declined between 2011-12 and 2016-17. While fixed investment was 34.3 per cent of GDP in 2011-12, it declined to 27.1 per cent in 2016-17. Although fixed investment is expected to grow at a faster rate in 2017-18 than in 2016-17 (thus pointing to some recovery in investment), it is still not high enough to prevent a further reduction in the share of fixed investment in GDP. After nearly stagnating in 2014-15 and declining in 2015-16, exports of goods and services began to pick up in 2016-17. Imports also increased but at a slower pace, thus helping in narrowing the current account deficit in 2016-17. Exports are expected to grow at 4.5 per cent in 2017-18, while imports are expected to grow at a faster rate. As a result, the share of net exports of goods and services (as reflected in National Accounts Statistics) in GDP is expected to decline from (-) 0.7 per cent in 2016-17 to (-) 1.8 per cent in 2017-18.

FINAL CONSUMPTION EXPENDITURE

1.15 In the six years between 2011-12 and 2016-17, the share of PFCE averaged 57.5 per cent in total GDP and its growth averaged 6.8 per cent. PFCE has been the single most important driver of GDP growth and particularly so in 2016-17, when it contributed nearly two-thirds to GDP growth. Added to this, the contribution of GFCE was 29 per cent. As per the 1st AE of 2017-18, the contribution of PFCE and GFCE

***Box 1.1:** Engel's elasticity of major commodity groups with respect to PFCE*

One of the ways to analyse the consumer's behaviour is through Engel's elasticity. Table 1 below gives Engel's elasticity for some selected group of commodities. It may be mentioned that the elasticities calculated here refer to the responsiveness of PFCE of a particular commodity group to the aggregate PFCE, at constant 2011-12 prices.

***Table 1:** CAGR of Private Final Consumption Expenditure in domestic market* and *Engel's Elasticity*

Item Description	CAGR (percent) 2011-12 to 2015-16	Elasticity with respect to PFCE
Food and non-alcoholic beverages	**4.1**	0.61
Clothing and footwear	**9.6**	**1.44**
Housing, water, electricity, gas and other fuels	**5.2**	0.78
Furnishing, household equipment and routine household maintenance	**9.3**	**1.39**
Health	13.1	**1.95**
Transport	**6.5**	0.98
Communication	**7.3**	1.09
Education	**6.3**	0.93
Private Final Consumption Expenditure in domestic market	**6.7**	

Source: National Accounts Statistics (NAS), CSO

As expected, the Engel elasticity of food items is significantly less than one, confirming the hypothesis that as the income levels rise, the expenditure on food increases less than proportionately. Within food, the elasticity of products like eggs, meat and fish, vegetables, etc. is higher than that on items like bread, cereals and pulses, etc. While the elasticity of expenditure on health is significantly higher than unity, surprisingly that of education is a little less than unity.

to GDP growth is estimated to be 54.3 per cent and 14.4 per cent respectively. While PFCE contribution reverted to the average levels achieved in 2011-12 to 2015-16, the contribution of GFCE continues to be higher than that average.

1.16 Further disaggregation of PFCE (details of which are available only upto 2015-16) reveals that the share of non-durable goods (bulk of which is food products) declined somewhat between 2011-12 and 2015-16 (after 2013-14) (Figure 5). This

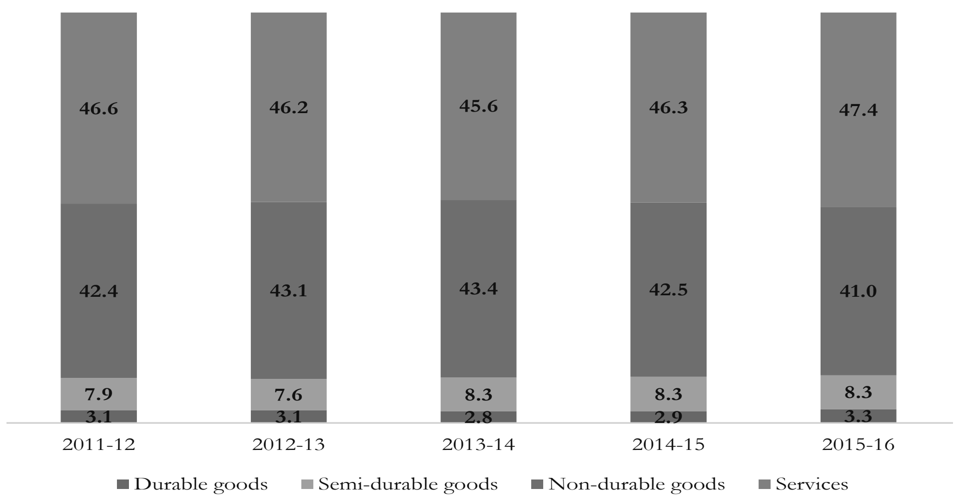

***Figure 5:** Share in Private Consumption Expenditure at current prices (per cent)*
Source: Based on data from CSO

***Table 4:** Saving, Investment rate (per cent)*

	2011-12	2012-13	2013-14	2014-15	2015-16
Investment rate	39.0	38.7	33.8	34.4	33.3
Savings rate	34.6	33.9	32.1	33.1	32.3
Saving Investment gap	**-4.3**	**-4.8**	**-1.7**	**-1.3**	**-1.0**

Source: Based on data from CSO

reduction is on expected lines, as with an increase in income levels, the share of food products and in particular food grains tends to decline (For analysis based on Engel's elasticities, see Box 1.1). There was a faster reduction in this share in terms of constant prices, which is associated with lower value of deflator (implying higher price rise) for some of food products viz. fish and seafood, fruits, etc. as compared to other commodity groups during this period.

SAVINGS AND INVESTMENT

1.17 Despite the fact that Indian economy has registered a fairly robust growth in the four years between 2014-15 and 2017-18, story on savings and investment in the economy has not been so heartening. The investment rate (Gross Capital Formation (GCF) as a share of GDP) in the economy declined by nearly 5.6 percentage points between 2011-12 and 2015-16. As can be seen from Table 4, the major reduction occurred in the year 2013-14, when investment rate declined by nearly 5 percentage points. This was on account of number of factors viz. difficulties in acquiring land, delayed and cumbersome environmental clearances, problems on infrastructure front, etc. Although many of these problems have been addressed, resulting in improved power situation, lessening of infrastructure bottlenecks, etc., the investment rate (mainly fixed investment) has not picked up. Savings rate (Gross saving as a share of GDP) also declined by two and half percentage points between 2011-12 and 2013-14 and has remained rangebound thereafter. The faster decline in investment rate vis-à-vis the savings rate has led to lower level of current account deficit (Savings Investment gap) from 2013-14 to 2015-16.

Savings

1.18 Savings in an economy originate from households, private corporate sector and public sector (including general government). In line with overall savings of the economy, the savings of household sector as a ratio of GDP have declined from 23.6 per cent in 2011-12 to 19.2 per cent in 2015-16, while that of private corporate sector have increased (Figure 6). With the general government savings showing an improvement, (although it continued to be in negative territory), the reduction in the public savings up to 2014-15 can be ascribed to lower level of savings of public sector undertakings.

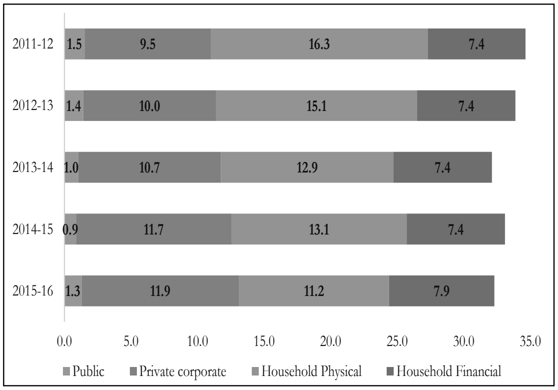

***Figure 6:** Gross Savings as a share of GDP (per cent)*

Source: Based on data from CSO

Note: Public sector includes general government, public sector undertakings and departmental enterprises

1.19 Household sector accounts for the bulk of the savings. However, the share of household savings in total savings declined from around 68 per cent in 2011-12 to 59 per cent in 2015-16. Within the households' savings, there has been a substitution away from physical to financial assets, with the share of former declining by over 10 percentage points. Public savings that declined from 1.5 per cent of GDP in 2011-12 to 0.9 per cent in 2014-15, however, increased again in 2015-16. This could be partly explained by higher collection of union excise duties, particularly from petroleum products and reduced level of petroleum subsidy bill of the central government. The share of private corporate sector in the total savings increased from 9.5 per cent of GDP in 2011-12 to about 12 per cent of GDP in 2015-16.

1.20 The data for gross savings is not available beyond 2015-16. However, preliminary information for financial savings of the household sector is available from RBI till 2016-17[2]. Financial savings by the households are held mainly in currency, bank deposits, life insurance funds, provident and pension funds and of late in the form of shares and debentures. Bank deposits accounted for about 50 per cent of the aggregate financial savings between 2011-12 and 2015-16. There was a significant decline in the proportion of deployment of financial savings in bank deposits and life insurance funds and an increase in share of currency, provident and pension funds, claims on government (primarily in small savings) in 2015-16. Savings held in shares and debentures more than doubled, and within this category, mutual funds segment increased by 126 per cent in 2015-16 over the previous year.

1.21 The pattern of household's financial savings was significantly different in 2016-17 vis-à-vis the preceding five years. While the overall financial savings of the households registered an increase of over 20 per cent in 2016-17 (significantly higher than the growth witnessed in any of the preceding five years), there was a decline in the savings in the form of currency by over 250 per cent (of about Rs. 5 lakh crore). This decline primarily owed to the withdrawal of high denomination currency notes in November 2016 and partial remonetisation by end March 2017. The savings channeled into bank deposits and, life insurance funds. CSO will release information on financial savings based on the information available from RBI and its own estimates of physical savings to estimate overall savings of the economy for the year 2016-17 at the end of January 2018 and shares and debentures increased by 82 per cent, 66 per cent and 345 per cent respectively in 2016-17 (Figure 7). Within the shares and debentures category, the growth of savings in mutual funds registered a phenomenal increase of more than 400 per cent over and above the growth of 126 per cent witnessed in 2015-16. Thus within a span of two years, savings in the form of mutual funds registered more than 11-fold increase. That this happened in a period when the BSE Sensex increased by an average of just about 1.5 per cent per annum needs to be analyzed in more detail.

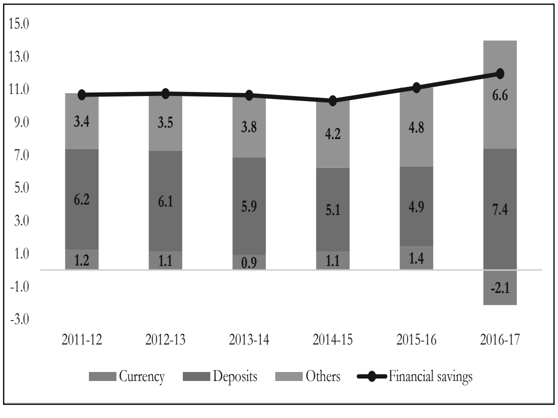

Figure 7: Household financial savings as a share of GDP (per cent)

2. CSO will release information on financial savings based on the information available from RBI and its own estimates of physical savings to estimate overall savings of the economy for the year 2016-17 at the end of January 2018.

INVESTMENT

1.22 There has been a consistent reduction in investment rate from close to 39 per cent in 2011-12 to 33.3 per cent in 2015-16, the latest year for which the information is available for GCF. However, information is available for the major components of investment viz. gross fixed capital formation (GFCF) which accounts for overwhelming proportion of GCF, changes in stock and valuables, for 2016-17 and 2017-18. Fixed investment rate (GFCF as a share of GDP) declined by 5 percentage points between 2011-12 and 2015-16. It declined by another 2 percentage points in 2016-17. The 1st AE of 2017-18 suggest that although the growth rate of fixed investment is expected to improve to 4.5 per cent from 2.4 per cent in 2016-17, the fixed investment rate would continue its declining trend. The slow growth in fixed investment in the recent years could partly be ascribed to a twin-balance sheet problem. This trend of declining fixed investment rate needs to be reversed at the earliest to realise the potential growth of over 8 per cent in the years to come. The share of valuables in GDP has generally been declining since 2011-12. However, it is expected to increase to 1.5 per cent of GDP in 2017-18 from 1.1 per cent in 2016-17.

1.23 The institution-wise break-up of the investment in the economy has undergone significant changes in the last few years. The investment rate of public sector (including general government) consistently declined from 2011-12 to 2014-15. However, it increased to 7.5 per cent of GDP in 2015-16. This is in line with the greater focus on capital expenditure by the central government as well as the state governments during the year. As per information available from National Accounts Statistics, the growth rate of capital expenditure by the general government (at current prices) increased from an average of about 7 per cent in during 2012-13 to 2014-15 to over 21 per cent in 2015-16. The share of private corporate sector in total investment increased from 36 per cent in 2011-12 to 41 per cent in 2015-16 and it has become largest sector for investment in the economy, replacing the household sector. The investment of household sector (including non-profit institutions serving the households) declined by nearly 5 percentage points from 15.9 per cent of GDP in 2011-12 to 10.9 per cent of GDP in 2015-16 (Figure 8).

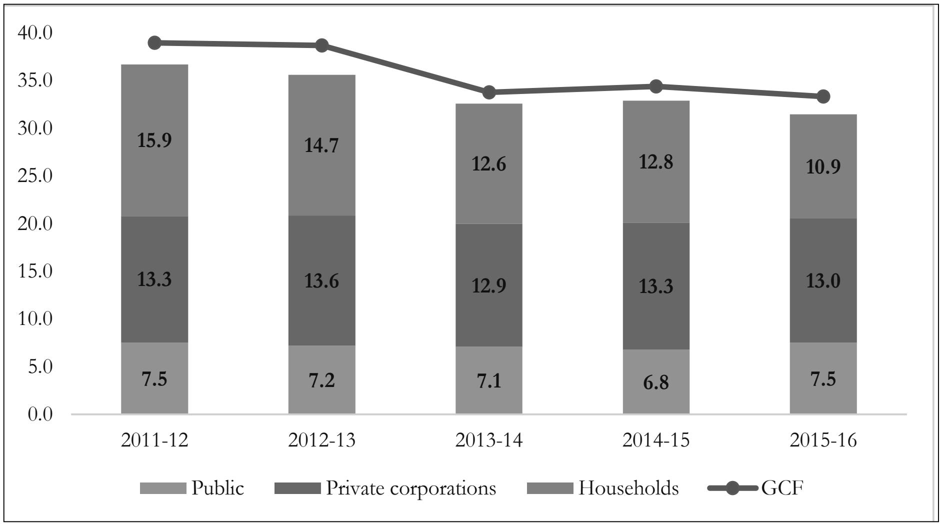

***Figure 8:** Investment by different institutions as percentage of GDP (per cent)*

Source: Based on NAS, CSO
Note: Investment across different sectors does not includes valuables and errors and omissions, hence will not add up to GCF.

Table 5: *Assets-wise fixed investment by institutional sector as a share of total fixed investment (per cent)*

		2011-12	2012-13	2013-14	2014-15	2015-16
GFCF	Dwellings	57.5	56.6	57.7	58.6	57.1
	Machinery and Equipment	35.0	34.5	31.9	31.6	32.5
	Others	7.6	9.0	10.5	9.9	10.5
Public Sector (incl. General Government)	Dwellings	12.0	12.3	12.7	13.4	16.1
	Machinery and Equipment	8.1	7.3	8.0	7.4	8.1
	Others	1.4	1.5	2.0	1.3	1.1
Private Corporate Sector	Dwellings	8.0	9.6	9.5	10.0	10.4
	Machinery and Equipment	18.7	18.4	19.6	17.9	18.2
	Others	6.0	7.2	8.3	8.3	9.1
Household Sector	Dwellings	37.4	34.7	35.5	35.2	30.6
	Machinery and Equipment	8.2	8.9	4.3	6.4	6.2
	Others	0.2	0.2	0.2	0.2	0.2

Source: NAS, CSO

Note: 'Others' include IPP and CBR

1.24 Fixed investment accounts for around 90 per cent of total investment. Fixed investment is in various assets including dwellings, machinery and equipment and intellectual property products (IPP), along with small contribution coming from cultivated biological resources (CBR) (Table 5).

1.25 Dwellings account for around 57-58 per cent of fixed investment and this share has remained fairly stable between 2011-12 and 2015-16. However, household's investment in dwellings has declined considerably, which is possibly linked to reduction in the share of household's savings in the form of physical assets. On the other hand, nearly the entire increase in the share of fixed investment of public sector is on dwellings. The reduction in share of machinery segment of fixed investment is primarily accounted for by the household sector. The share of 'Others' (IPP along with CBR) increased on account of higher investment in this category by the private corporate sector.

PUBLIC FINANCE

1.26 Based on the firm footing provided by the discernible improvements in most fiscal indicators, viz. revenue buoyancy, expenditure quality, tax devolution and deficits, the Government, in partnership with the States, ushered in the long-awaited Goods and Service Tax (GST) with effect from July 2017. The GST was unveiled after comprehensive preparations and multi-stage consultations, yet the sheer magnitude of change meant that it needed to be carefully managed. The Government is navigating the change and challenges, including the possibility that a substantial portion of the last-month (March 2018) GST collections may spill over to the next financial year.

1.27 The data on Central Government finances are available till November 2017 from the Controller General of Accounts (CGA). Based on this data, on the revenue front, there are three distinct trends during the first eight months of the current year: direct tax collections are on track; non-tax revenues have under-performed; and non-debt capital receipts, mainly proceeds from disinvestment, are doing well. The growth in direct tax[3] collections of the Centre kept pace with the previous year, with a growth of 13.7 per cent. The budgeted growth for indirect taxes for the full year 2017-18 is 7.6 per cent; the actual growth till November is 18.3 per cent. The eventual outcome in indirect taxes during this year will depend on the final settlement of GST accounts between the Centre and the States and the likelihood that only taxes for eleven months (excluding IGST on imports) will be realized. The States' share in taxes grew by about 25 per cent during 2017-18 (Apr-Nov), much higher than the growth in centre's net tax revenue at 12.6 per cent and of gross tax revenue at 16.5 per cent.

1.28 The total expenditure of the Government increased by 14.9 per cent during 2017-18 (Apr-Nov), as compared to 12.6 per cent in the same period of the previous year. The revenue expenditure grew by 13.1 per cent and capital expenditure by 29.3 per cent during the first eight months of the current year. The advancing of the budget cycle and processes by almost a month gave considerable leeway to the spending agencies to plan in advance and start implementation early in the financial year, leading to progression of Central expenditure at a robust pace. This coupled with front-loading of some expenditure and increased interest outgo, exerted pressure on fiscal deficit which stood at 112 per cent of budget estimates by November 2017. This growth will to an extent, normalize as the year progresses.

1.29 States targeted to consolidate in the current year, after the UDAY-led aberration in their fiscal balances for the previous two years. The position of 21 State Governments that account for about 86 per cent of the total GSDP and for which comparable data are available, shows that their revenue receipts have kept pace with the previous year in terms of growth and in relation to the corresponding budget estimates. If indications till November 2017 are to hold, fiscal deficit target for the current year may be within the reach of States taken together.

1.30 With the expected revenues from GST becoming increasingly clearer, the fiscal balance of the General Government vis-à-vis budget estimates will depend on the emerging patterns of revenue expenditure in the fourth quarter.

PRICES AND MONETARY MANAGEMENT

Prices and Inflation

1.31 Inflation in the country continued to moderate during 2017-18. Headline inflation as per Consumer Price Index — Combined (CPI-C) declined to 3.3 per cent in 2017-18 (Apr-Dec) from 4.8 per cent in the corresponding period of 2016-17. CPI inflation, which was below 3.0 per cent in the first quarter of 2017-18 mainly due to lower food inflation, especially pulses and vegetables, rose marginally and stood at 3.0 per cent in the Q2 of 2017-18. Food inflation in terms of the Consumer Food Price Index (CFPI) declined to 1.2 per cent during 2017-18 (Apr-Dec) from 5.1 per cent in 2016-17 (Apr-Dec). CPI-based core (non-food, non-fuel) inflation also declined to 4.5 per cent in 2017-18 (Apr-Dec) from 4.8 per cent in 2016-17 (Apr-Dec). Inflation for all the major subgroups of CPI-C, except housing and fuel and light groups, declined in 2017-18 (Apr-Dec) over 2016-17 (Apr-Dec). The decline was sharpest for food and beverages.

1.32 Average inflation based on the Wholesale Price Index (WPI) stood at 2.9 per cent in 2017-18 (Apr-Dec) as compared to 0.7 per cent in 2016- 17 (Apr-Dec). WPI inflation which remained subdued for several months, surged during February and March 2017 due to sudden spurt

3. Direct taxes include personal income tax and corporate tax.

in global crude oil prices. Thereafter, with the moderation in the global crude prices, inflation also moderated in the next four months till July, reaching a low of 0.9 per cent in June 2017. As oil prices bounced back and moved upwards in the successive months, coupled with rising food prices, inflation too rose and reached the level of 3.6 per cent in December 2017.

1.33 WPI based food inflation declined to 2.3 per cent in 2017-18 (Apr-Dec) from 6.3 per cent in the corresponding period of 2016-17. WPI fuel and power inflation increased to 9.7 per cent 2017-18 (Apr-Dec) from (-)6.5 per cent in the corresponding period of the previous year. WPI based core (non-food manufactured products) inflation stood at 2.6 per cent in 2017-18 (Apr-Dec) as compared to -0.8 per cent in 2016-17 (Apr-Dec). The inflation of manufactured group, which has the weight of 64.2 per cent in the WPI basket, has however, remained range bound hovering around 2.6 per cent.

MONETARY MANAGEMENT AND FINANCIAL INTERMEDIATION

1.34 Monetary policy during 2017-18 was conducted under the revised statutory framework, which became effective from August 5, 2016. In the third bi-monthly Monetary Policy Statement for 2017-18 (in August 2017), the Monetary Policy Committee decided to reduce the policy Repo Rate by 25 basis points to 6.0 per cent. It kept the rates unchanged in both October and December 2017.

1.35 In tandem with the re-monetisation process, from November 17, 2017, as a favourable base effect set in, the Year on Year (YoY) growth of both 'Currency in Circulation' and 'Reserve Money' (M0) turned sharply positive and higher than their respective growth rates in the previous year. After demonetisation in early November 2016, the Reserve Bank had scaled up its liquidity absorption operations using a mix of both conventional and unconventional instruments. Liquidity conditions remain in surplus mode even as its magnitude moderated gradually with progressive remonetisation.

1.36 The performance of the banking sector, and in particular the Public Sector Banks, continued to be subdued in the current financial year. The gross non-performing advances (GNPA) ratio of Scheduled Commercial Banks increased from 9.6 per cent to 10.2 per cent between March 2017 and September 2017. Non Food Credit (NFC) grew at 8.9 per cent in November 2017, as compared to 4.8 per cent in November 2016. 'Bank credit lending to Services' and 'Personal loans' segments continue to be the major contributor to overall NFC growth.

EXTERNAL SECTOR

1.37 The global economy has been gathering pace and is expected to accelerate from 3.2 per cent in 2016 to 3.7 per cent in 2018. World trade volume growth is projected to increase from 2.4 per cent in 2016 to 4.2 per cent and 4.0 per cent respectively in 2017 and 2018. Commodity prices (fuel and non-fuel) are also expected to grow in contrast to decline in the last few years. India's external sector has continued to be resilient and strong in 2017-18 so far and the balance of payments (BoP) situation continued to be comfortable. Current account deficit (CAD) was 1.8 per cent of GDP, merchandise exports grew by 12 per cent, net services receipts grew by 14.6 per cent, net foreign investment grew by 17.4 per cent, and external debt indicators improved in H1 of 2017-18.

INDIA'S MERCHANDISE TRADE

1.38 The year 2016-17 was characterized by positive growth in merchandise exports after two years of negative growth. Similarly, merchandise imports also printed positive growth in 2016-17 after three years of negative growth. Imports declined by around US $107 billion from US$ 491 billion in 2012-13 to US$ 384 billion in 2016-17. This was mainly due to a reduction in value of imports of crude oil and petroleum products to the tune of US $77 billion along with US $26.4 billion reduction of gold and silver imports during this period. Thus, these two commodity groups accounted for nearly 97 per cent of the reduction in imports. The reduction in oil imports could be mainly attributed to a sharp fall in the prices of crude oil in international market. The import price of Indian basket of crude oil declined from an average of around US $108 per barrel in 2012-13 to US $47.6 per barrel in 2016-17. Reduced prices of petroleum products also resulted in lower value of POL exports from nearly US$ 61 billion in 2012-13 to US$ 32 billion in 2016-17. The non-POL exports increased from US$ 239.5 billion in 2012-13 to US$ 244.3 billion in 2016-17. The total merchandise exports declined by nearly US$ 24.5 billion in these years.

1.39 A larger reduction in value of imports vis-à-vis that of exports helped in significant improvement in the merchandise trade balance, from US$ 190 billion in 2012-13 to US$ 108.5 billion in 2016-17 (Figure 9). The reduction in trade deficit in this period has been the major contributor to bringing about an improvement in the current account deficit that declined from 4.8 per cent of GDP in 2012-13 to around 0.7 per cent of GDP in 2016-17. With capital flows remaining at healthy levels, the foreign exchange reserves steadily increased from US$ 292 billion at the end of March 2013 to US$ 370 billion at the end of March 2017 imports grew by 21.8 per cent. POL import growth was 24.2 per cent mainly due to the rise in crude oil prices. Non-POL imports registered a growth of 21.1 per cent. Gold and silver imports registered a growth of 52 per cent. Non-POL and non-gold and silver imports grew by 18.1 per cent.

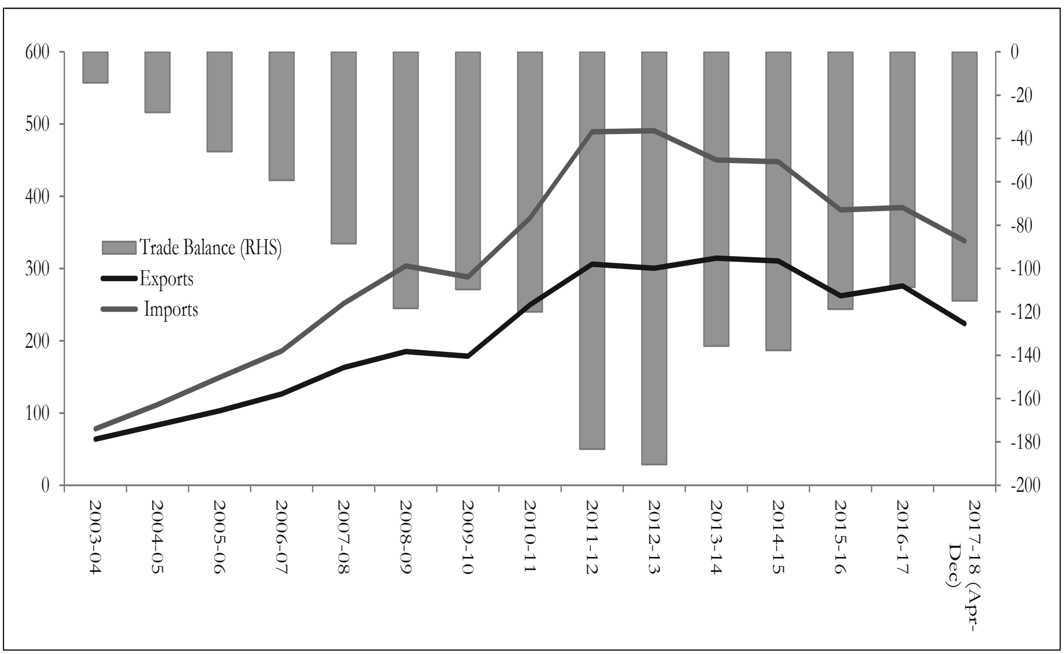

Figure 9: *Exports, Imports and Trade Deficit (US$ billion)*

Note: For 2016-17 and 2017-18 figures are provisional.

Source: Ministry of Commerce and Industry

1.40 India's export growth continued to be negative in the H1 of 2016-17 at (-)1.3 per cent. However, in the H2 of 2016-17, it started recovering and the year 2016-17 witnessed a growth of 5.2 per cent. In 2017-18 (Apr-Dec) export growth picked up further to 12.1 per cent. India's export volume growth which moved to positive territory since March 2016 showed an upward trend till April 2017, but started decelerating afterwards, though it is still in positive territory. In 2017-18 (Apr-Dec), continuous decline between 2014-15 and 2016-17, widened to US$ 74.5 billion in H1 of 2017-18 from US$ 43.4 billion in H1 of 2016-17. In 2017-18 (April-December) trade deficit shot up to US$ 114.9 billion.

BALANCE OF PAYMENTS

1.41 India's balance of payments situation which has been benign since 2013-14, continued to be so in the H1 of 2017-18, despite some rise in CAD in Q1. The CAD increased from US$ 3.8 billion (0.4 per cent of GDP) in H1 of 2016 -17 to US$ 22.2 billion (1.8 per cent of GDP) in H1 of 2017-18, primarily on account of a higher trade deficit brought about by a larger increase in merchandise imports relative to exports. The surge in imports owed to sharp rise in imports of gold and increase in oil prices in the international markets. While trade deficit widened in H1 of 2017-18 as compared to H1 of 2016-17, the improvement in invisibles balance along with the net capital flows dominated by foreign investment and banking capital was more than sufficient to finance the trade deficit leading to accretion in foreign exchange reserves in H1 of 2017-18.

INVISIBLES

1.42 In H1 of 2017-18, there has been an increase in net invisibles surplus to US$ 52.5 billion from US$ 45.7 billion in H1 of 2016-17, with increase observed in net services and net private transfers. Net services receipts increased by 14.6 per cent on a Yo Ybasis during H1 of 2017- 18 primarily because of the rise in net earnings from travel and telecommunications, computer and information services. Private transfer receipts, mainly representing remittances by Indians employed overseas, increased by 10.0 per cent in H1 of 2017-18 over the corresponding period of the previous year. Outflows on account of net investment income which had been increasing in the last two years, continued to rise in H1 of 2017-18 amounting to US$ 15.3 billion from US$ 14.9 billion in H1 of 2016-17.

CAPITAL /FINANCIAL ACCOUNT OF BOP IN H1 OF 2017-18

1.43 Notwithstanding a decline in Foreign Direct Investment (FDI) inflows in H1 of 2017-18, net foreign investment recorded a growth of 17.4 per cent owing to a sharp rise in portfolio investment to India. Moderation in FDI flows in Q2 of 2017- 18 led to a cumulative decline in FDI flows by 6.3 per cent in H1 of 2017-18 over its level during the corresponding period of the previous year. However, foreign portfolio investment (FPI) increased by 78.0 per cent, from US$ 8.2 billion in H1 of 2016-17 to US$ 14.5 billion in H1 2017-18 reflecting positive outlook about growth potential of Indian economy.

FOREIGN EXCHANGE RESERVES

1.44 India's foreign exchange reserves reached US$ 409.4 billion on December 29, 2017, with a growth of 14.1 per cent on a YoY basis from December-end 2016 and growth of 10.7 per cent from March-end 2017. The foreign exchange reserves were US$ 413.8 billion on January 12th, 2018. The foreign exchange reserves in nominal terms (including the valuation effects) increased by US$ 30.3 billion during H1 of 2017 as compared to an increase of US$ 11.8 billion during the same period of preceding year. The import cover of India's foreign exchange reserves **increased to 11.1 months** at end-September 2017.

EXCHANGE RATE

1.45 During 2017-18 (up to December 2017), the rupee generally traded with an appreciating bias against the US dollar, barring intermittent depreciation in September and October 2017. The rupee strengthened by 2.5 per cent to a level of Rs. 64.24 per US dollar during December 2017 from the level of Rs. 65.88 per US dollar during March 2017 on the back of significant capital flows. The appreciating trend vis-à-vis US$ has continued in January so far. During 2017-18 (Apr-Dec), on an average, the rupee has also appreciated against other major currencies besides the US dollar. The appreciation of the rupee (in real effective exchange rate (REER) terms) indicates that India's exports may have become slightly less competitive. In the last few years, the value of rupee has been relatively stable vis-à-vis the US dollar. The rupee depreciated by much higher levels between 2011-12 and 2013-14 than between 2014-15 and 2016-17. Not only this, within year fluctuations have been much less (See Box 1.2).

EXTERNAL DEBT

1.46 India's stock of external debt increased by 5.1 per cent to US$ 495.7 billion at September-end 2017 from March-end, 2017. The increase in long term debt was primarily due to the increase in foreign portfolio investment included under commercial borrowings. Short term debt grew by 5.4 per cent, mainly due to an increase in trade related credits. Share of Government (Sovereign) debt in total debt increased to 21.6 per cent at September-end 2017 from 19.4 per cent at March-end 2017 mainly due to other Government external debt component reflecting the increasing level of foreign portfolio investments in Government

***Box 1.2:** The Stability of the Rupee vis-à-vis US Dollar*

One of the salient features of the external sector developments in the recent years has been the relatively stable rupee-dollar exchange rate and much lower level of fluctuations within the year. The average value of the rupee had depreciated by over 21 per cent vis-à-vis the US dollar between 2011-12 and 2013-14, while it depreciated by 8.8 per cent between 2014-15 and 2016-17. The average value of rupee has appreciated with respect to US$ in 2017-18, so far, over 2016-17. Within the year fluctuations have been measured in terms of deviation of average daily rupee-dollar exchange rate from the annual average rate and have been reflected by the coefficient of variation around that annual average. The coefficient of variation is much lower in the last four years (2014-15 to 2017-18 (up to end December)), reflecting a more stable (lower within the year variations) exchange rate.

***Table 1:** Rupee Dollar Exchange Rate*

	Rupee/Dollar exchange rate (average for the year)	Standard deviation	Coefficient of variation (per cent)
2011-12	47.92	3.03	6.32
2012-13	54.41	**1.25**	2.29
2013-14	60.50	3.06	5.05
2014-15	61.14	**1.19**	**1.94**
2015-16	65.46	1.69	2.57
2016-17	67.07	0.71	1.06
2017-18 (upto December-end)	64.49	0.42	0.65

Source: Estimated from daily exchange rate available from RBI securities. Foreign exchange reserves cover to total external debt improved to 80.7 per cent at end-September 2017 as compared to 78.4 per cent at March-end 2017. The ratio of short term debt by original maturity to foreign exchange reserves fell to 23.2 per cent at September-end 2017 from 23.8 per cent at March-end 2017.

TRADE POLICY

1.47 Two important developments in the trade policy during the year are the mid-term review of Foreign Trade Policy (FTP) and the recent multilateral negotiations of WTO in December 2017. There were some developments on the trade logistics front and anti-dumping measures. MEIS (Merchandise Exports from India Scheme) incentives for two sub-sectors of textiles and SEIS (Service Exports from India Scheme) for notified services have been increased by 2 per cent. Besides this, in December 2017, a special package for employment generation in leather and footwear sector was approved by the Government which is likely to help exports from these sectors. Improved logistics have huge implications on increasing exports. Government has recognized the need for integrated development of logistics sector. The Indian logistics market is expected to reach about US$ 215 billion in 2019-20.

PROSPECTS OF GROWTH FOR 2018-19

1.48 CSO has estimated the GDP growth in 2017-18 to be 6.5 per cent. However, there are indicators that have emerged in the last few days like manufacturing and services PMI, growth of industrial sector as reflected by higher IIP, automobile sales, etc. which seem to suggest that the GDP growth could be a little higher than CSO's estimates and for 2017-18, (it could be in the range of 6.5 to 6.75 per cent). The growth during 2018-19 could be higher, depending on a number of factors. On the positive side, as per IMF's World Economic Outlook released in October 2017, the global growth is expected to accelerate to 3.7 per cent in 2018 from 3.6 per cent in 2017. This can be expected to provide further boost to India's exports, which have already shown an acceleration in the current financial year. Remittances have shown signs of revival in the first half of current year and can be expected to pick up, particularly if oil prices maintain their rising trend witnessed in the current year. There are signs of revival of investment activity in the economy and the recent pick up in the growth of fixed investment can be expected to maintain momentum in the coming year. The policy rates can be expected to remain fairly stable if the inflation rate does not deviate much from its current levels. This, along with the still favourable interest rate regime prevailing in the global markets could provide greater certainty to the investment climate. The reform measures undertaken in 2017-18 can be expected to strengthen further in 2018-19 and reinforce growth momentum. On the other hand, downside risk to higher growth emanate from higher crude oil prices, which (going by current indications) can be expected to increase by about 10-15 per cent over and above the likely average price of around US$ 56-57 per barrel (for Indian basket) for 2017-18. Protectionist tendencies in some of the countries could have an impact on exports growth, while the possibility of tightening of monetary conditions in the developed countries could lead to lower capital inflows. This monetary tightening could also lead to the possibility of financial stress and therefore can be a downside risk. On balance, there is a strong possibility of growth in 2018-19 to be higher than what it is expected to be in 2017-18. Growth of GDP in 2018-19 could be in the range of 7.0 to 7.5 per cent.

SECTORAL DEVELOPMENTS

Agriculture and allied sectors

1.49 The process of development, *inter-alia,* generally results in decline in share of agriculture

Table 5: Agriculture Sector - Key indicators

Item	2012-13	2013-14	2014-15	2015-16	2016-17 (PE)	2017-18 (AE)
Growth in GVA in Agriculture and Allied Sectors (at constant 2011-12 prices)	1.5	5.6	-0.2	0.7	4.9	2.1
Share of Agriculture and Allied Sectors in total GVA (at current prices)	18.2	18.6	18.0	17.5	17.4	16.4
Share of Agriculture and Allied Sectors in total GCF, of which	7.7	9.0	8.3	7.8	na	na
Share of crops*	6.5	7.7	6.9	6.5	na	na
Share of livestock*	0.8	0.9	0.8	0.8	na	na
Share of forestry and logging*	0.1	0.1	0.1	0.1	na	na
Share of fishing *	0.4	0.5	0.5	0.5	na	na

*Note:** : Shares in total GCF. Based on NAS, 2017 and 1st AE of 2017-18, na: Not Available

Source: Central Statistics Office

in GVA, which is being witnessed in India too. The share of agriculture and allied sectors in GVA declined from 18.2 per cent in 2012-13 to 16.4 per cent in 2017-18 (1st AE). However, the declining share does not undermine the significance of the sector for employment, livelihood and food security. Further, the agriculture sector itself has been witnessing a gradual structural change in recent years. The share of livestock in GVA of agriculture has been rising since 2011-12, while that of the crop sector declined from 65 per cent in 2011-12 to 60 per cent in 2015-16.

1.50 As per the fourth Advance Estimates for 2016-17 released by Department of Agriculture, Cooperation and Farmers' Welfare, India achieved a record production of food grains estimated at 275.7 million tonnes during 2016-17. As per the 1st AE released on September 22nd 2017, food grains production for the kharif season during 2017-18 is estimated at 134.7 million tonnes, lower by 3.9 million tonnes as compared to 2016-17. The total production of rice during 2017-18 is estimated at 94.5 million tonnes vis-a-vis 96.4 million tonnes (4th Advance Estimates) in 2016-17. The production of pulses during 2017-18 is estimated at 8.7 million tonnes, sugarcane at 337.7 million tonnes, oilseeds at 20.7 million tonnes and cotton at 32.3 million bales of 170 kgs each.

1.51 India ranks first, with 9.6 per cent (179.8 million hectare) of the global net cropland area according to United States Geological Survey, 2017. Hence, India has tremendous potential for crop diversification and to make farming a sustainable and profitable economic activity. However, the pattern of cropping is determined by various factors like agro-climatic conditions, farm size, prices, profitability and government policies. Towards achieving a more diversified cropping pattern, the government is implementing the Crops Diversification Programme in original green revolution states viz. Punjab, Haryana and in Western UP, to diversify paddy area towards less water requiring crops. It will also help in mitigating the risks faced by farmers in terms of price shocks and production/harvest losses.

1.52 Agricultural productivity is determined by the appropriate use of critical inputs like irrigation, seeds, fertilisers, credit, machines, technology and extension services. As reported in input survey (2011-12), out of total operational holdings, only 9.4 per cent used certified seeds, 27 per cent used seeds of notified variety and only 9.8 per cent used hybrid seeds. The All India percentage of net irrigated area to total cropped area was 34.5 per cent in 2014-15, which makes a large part of agriculture in India dependent on rainfall. Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) is being implemented in mission mode with the help of Command Area Development to complete 99 major and medium irrigation projects covering 76 lakh hectares in a phased manner by December 2019 to increase the coverage of irrigated area and thereby agricultural productivity.

1.53 The NSSO Report (July 2012 - June 2013) had indicated that a very small share of agricultural households engaged in crop production activities were insuring their crops. There is a need to raise awareness about crop insurance among agricultural households. In this context the Pradhan Mantri Fasal Bima Yojana (PMFBY) which is a yield index based crop insurance scheme was launched in 2016. It has made substantial progress with more ground coverage compared to erstwhile schemes. During kharif 2016 season, 23 states implemented PMFBY and during rabi season of 2016-17, 25 states/union territories implemented PMFBY. As on December 2017, total claims of Rs. 13292 crores have been approved for 116 lakh farmers (applications) and Rs. 12020 crore have been paid under PMFBY.

INDUSTRIAL, CORPORATE AND INFRASTRUCTURE PERFORMANCE

1.54 As per the Index of Industrial Production (IIP), which is a volume index with base year 2011-12, the industrial output increased by 3.2 per cent during April-November 2017-18 vis-à-vis the corresponding period of previous year. This was a composite effect of growth in electricity generation at 5.2 per cent and growth in mining and manufacturing sectors at 3.0 per cent and 3.1 per cent respectively. In November 2017, the IIP registered a growth of 8.4 per cent to take the April-November growth to 3.2 per cent over the corresponding period of previous year. The eight core infrastructure supportive industries, viz. coal, crude oil, natural gas, petroleum refinery products, fertilizers, steel, cement and electricity that have a total weight of nearly 40 per cent in the IIP attained a cumulative growth of 3.9 per cent during April-November 2017-18 over the corresponding period of previous year. The production growth of coal, natural gas, refinery products, steel, cement and electricity were positive. The steel production increased substantially, while the production of crude oil and fertilizers fell marginally during the period.

1.55 Nominal outstanding credit growth to industry at November-end 2017 was 1 per cent higher as compared to November-end 2016 as per the latest RBI data. Demand for funds by Indian firms, in the wake of the credit slowdown, has been somewhat met by alternative sources such as corporate bonds, external commercial borrowings and commercial paper.

1.56 India has leapt 30 ranks over its previous rank of 130 in the World Bank's latest Doing Business Report 2018. Moody's Investors Service has also raised India's rating from the lowest investment grade of Baa3 to Baa2. This has been made possible due to a host of measures undertaken by the Government including implementation of GST, Insolvency and Bankruptcy Code, and announcement of bank recapitalization. A number of reforms were undertaken to boost industrial growth including Make in India programme, Start-up India and Intellectual Rights Policy.

1.57 Sectoral Initiatives

- *Steel:* In order to address dumping of cheap steel imports from China, South Korea and Ukraine, the Government raised customs duty and imposed anti-dumping duty. Similarly, Minimum

Import Price (MIP) was introduced on a number of items in February 2016, with a sunset clause of one year. These measures helped the domestic producers and exports started recovering. In February 2017, Government notified anti-dumping duties and countervailing duties on various steel products. The Government also rolled out a New Steel Policy in May 2017.

- *Micro, Small and Medium Enterprises (MSME) Sector:* MSMEs play a crucial role in providing large scale employment opportunities at comparatively lower capital cost than large industries and also in industrialization of rural and backward areas. The Government has also initiated the Pradhan Mantri Mudra Yojana for development and refinancing activities relating to micro industrial units.
- *Textiles and Apparels:* To address some of the constraints faced by apparel firms, Cabinet announced a Rs. 6000 crore package for the apparel sector on June 2016. It was found that since its implementation in June 2016, the package had a positive impact on the exports of Ready Made Garments (RMG) of Man-made fibres, while it did not have a statistically significant impact on the RMG of other natural fibres, except wool. The impact of the package improved over time and did not show any signs of attenuation. Government. In December 2017, the approved the scheme for Capacity Building in Textile Sector with an outlay of ₹1,300 crore for the period from 2017-2018 to 2019-2020.
- *Leather sector:* Leather sector is also highly labour intensive sector. For the purpose of promotion of employment in the leather and footwear sector, a scheme was announced in December 2017 with an outlay of ₹ 2600 crore over three financial years from 2017-18 to 2019-2020.
- *Gems and Jewellery:* India is one of the largest exporters of gems and jewellery. Growth of exports from this sector have risen from 0.7 per cent in 2014-15 to 12.8 per cent in 2016-17. The sector faces certain constraints that would require training in jewellery designing, setting up hallmarking centres, etc. and creation of multiple jewellery parks.

INFRASTRUCTURE PERFORMANCE

1.58 The Government has been increasing its investment over time on building infrastructure to support India's long-term growth. The performance of some of the key infrastructure sectors is discussed in the following paragraphs.

- *Roads:* The primary agenda of the Government in this sector has been building new National Highways (NHs) and also converting State Highways (SHs) into NHs. As of September 2017, the length of roadways comprises 115,530 km of NHs along with 1,76,166 km of state highways and 53,26,166 km of other roads. In order to expedite completion of delayed projects, various steps have been taken for streamlining of land acquisition and environment clearances. The new umbrella program 'Bharatmala Pariyojana' aims to achieve optimal resource allocation for a holistic highway development
- *Railways:* During April-September 2017, Indian Railways carried 558.1 million tonnes of revenue earning freight traffic as against 531.2 million tonnes during the corresponding period of previous year, showing an increase of 5.1 per cent

during this period. The Government has emphasized on railways infrastructure development. The pace of commissioning Broad Gauge (BG) lines and completion of electrification have been accelerated. With financial assistance from Government of India, 425 km of metro rail systems are operational and about 684 km are under construction in various cities across India as in December 2017.

- *Ports:* In 2017-18 (till December 31, 2017), cargo traffic handled at Major Ports has been 499.4 million tonnes, as compared to 481.8 million tonnes handled during the corresponding period of 2016-17. Under the Sagarmala Programme which aims to promote port-led development along Indian coast line, 289 projects worth ₹ 2.17 lakh crore are under various stages of implementation and development.
- *Telecom:* The programmes including 'Bharat Net' and 'Digital India' aim at converting India into a digital economy. At the end of September 2017, the number of subscribers stood at 1207 million, out of which 502 million connections were in the rural areas and 705 million in the urban areas
- *Civil Aviation:* In April-September 2017, domestic airlines carried 57.5 million passengers, showing a growth rate of 16 per cent over the corresponding period of previous year. Government is taking initiatives like liberalization of air services, airport development and regional connectivity through UDAN scheme
- *Power:* All-India installed power generation capacity reached 330,861 MWas on November 30, 2017. As on April 1, 2015, there were 18,542 unelectrified census villages, of these electrification of 15,183 villages has been completed as on November 30, 2017. The Ujjawal DISCOM Assurance Yojana (UDAY) has focused on enhancing the financial health of DISCOMs by reducing interest burden, cost of power and aggregated technical and commercial losses. A new scheme, Saubhagya (Pradhan Mantri Sahaj Bijli Har Ghar Yojana), was launched in September 2017 to ensure electrification of all remaining willing households in the country in rural and urban areas.

SERVICES

1.59 With a share of 55.2 per cent in India's GVA, the services sector continued to be the key driver of India's economic growth, and is expected to contribute almost 72.5 per cent of GVA growth in 2017-18. While the growth of this sector in 2017-18 is expected to be at 8.3 per cent, the growth in services exports and net services were robust at 16.2 per cent and 14.6 per cent respectively in H1 of 2017-18.

1.60 Out of the 32 States and Union Territories (UTs) for which data are released for new base (2011-12 series) by CSO, the services sector is the dominant sector contributing to more than half of the gross state value added (GSVA) in 15 states and UTs. Among these 32 states and UTs, Delhi and Chandigarh are at the top with over 80 per cent and Sikkim is at the bottom with 31.7 per cent, in terms of services sector GVA share.

1.61 In 2016-17, FDI equity inflows to the services sector (top 10 sectors including construction) declined by 0.9 per cent to US$ 26.4 billion, though overall FDI equity inflows grew by 8.7 per cent. However, during 2017-18 (Apr- Oct), the FDI equity inflows to these sectors grew by 15.0 per cent, as compared to 0.8 per cent growth in total FDI equity inflows, mainly due to higher FDI in two sectors i.e., telecommunications and computer software and hardware.

1.62 India remained the eighth largest exporter of commercial services in the world in 2016 (WTO, 2017) with a share of 3.4 per cent, which is double the share of India's merchandise exports in the world. India's services export growth returned to positive territory with 5.7 per cent growth in 2016-17 from growth of (-) 2.4 per cent in 2015-16. Services exports recorded a robust growth of 16.2 per cent during April-September 2017, with turnaround observed in some major sectors like travel and software services. India's service sector imports also exhibited a much higher growth of 17.4 per cent in April-September 2017. Net services receipts rose by 14.6 per cent during April-September of 2017-18 as compared to H1 of 2016-17. Net surplus in services financed about 49 per cent of India's merchandise trade deficit in H1 of 2017-18 and cushioned the current account deficit.

1.63 In India, the tourism sector has been performing robustly with Foreign Tourist Arrivals (FTAs) growing to 8.8 million in 2016. Foreign Exchange Earnings (FEEs) from tourism grew at 8.8 per cent to US$ 22.9 billion in 2016. As per the provisional data of Ministry of Tourism, FTAs during 2017 were 10.2 million with a growth of 15.6 per cent, while the FEEs from tourism were US$ 27.7 billion with a growth of 20.8 per cent over 2016. Outbound tourism has also picked up in recent years, with the number of departures of Indian nationals from India growing by 7.3 per cent to 21.9 million during 2016 from 20.4 million in 2015. This is more than double the foreign tourist arrivals in India. Domestic tourist visits grew by 12.7 per cent to 1,614 million in 2016 from 1,432 million in 2015.

1.64 As per NASSCOM data, India's Information Technology — Business Process Management (IT-BPM) industry grew by 8.1 per cent in 2016-17 to US$ 139.9 billion (excluding e-commerce and hardware). IT-BPM exports grew by 7.6 per cent to US$ 116.1 billion in 2016-17. E-commerce market is estimated at US$ 33 billion, with a 19.1 per cent growth in 2016-17. However, as per the RBI data, software exports contracted by 0.7 per cent in 2016-17. In H1 of 2017-18, it grew by 2.3 per cent. USA, UK and EU account for around 90 per cent of the total IT-ITES exports. While, there are new challenges surfacing in these traditional geographies, demand from Asia Pacific Countries (APAC), Latin America and Middle East Asia is growing and new opportunities are emerging for expanding in continental Europe, Japan, China and Africa.

1.65 The share of real estate sector which includes ownership of dwellings accounted for 7.7 per cent in India's overall GVA in 2015-16. The growth of this sector decelerated in the last three years from 7.5 per cent in 2013-14 to 4.4 per cent in 2015-16. This was mainly due to growth of the ownership of dwelling segment decelerating from 7.1 per cent in 2013-14 to 3.2 per cent in 2015-16. As per NHB's RESIDEX Index, housing prices increased in 36 cities during April-June 2017 out of 50 major cities, while 13 cities witnessed a decline.

1.66 The professional scientific and technical activities, which include R&D services, grew by 17.5 per cent and 41.1 per cent in 2014-15 and 2015-16 respectively. India-based R&D services companies, which account for almost 22 per cent of the global market, grew by 12.7 per cent. However, India's gross expenditure on R&D has been low at just around 1 per cent of GDP. India currently ranks 60th out of 127 on the Global Innovation Index (GII) 2017, improving from 66th rank in 2016. According to the Global Competitiveness Report 2017-18, India's capacity for innovation has been lower than that of many countries like the USA, the UK, South Korea, but it is better than that of China. However, in terms of patent applications per million population, India significantly lags behind other BRICS countries and in terms of company spending on R&D, India ranks marginally below China.

1.67 In the case of Satellite Launching, as on March 2017, PSLV had successfully launched 254 satellites. Foreign exchange earnings of India from export of satellite launch services has increased noticeably in the recent years. Consequently, India's share in global satellite launch services revenue have also increased to 1.1 per cent in 2015-16 from 0.3 per cent in 2014-15.

1.68 The Government has taken many initiatives in the different services sector, which include digitization, e-visas, infrastructure status to Logistics, Start-up India, schemes for the housing sector, etc., which could give a further fillip to the services sector. The prospects look bright with good performance of sub sectors like Tourism, Aviation, and Telecom. The downward risk however lies in the external environment for software and business services.

SOCIAL INFRASTRUCTURE

EXPENDITURE ON SOCIAL INFRASTRUCTURE

1.69 The all India expenditure on social services as a percentage of GDP had remained in the range of 6 per cent during 2012-13 to 2014-15; and has increased from 5.8 per cent in 2015-16 to 6.6 per cent in 2017-18 (BE). The expenditure on social services as a percentage of GSDP for 29 states during the three years (i.e., from 2014-15 to 2016-17(BE)) indicates an upward trend from 6 per cent to 6.9 per cent.

STATUS ON EDUCATION

1.70 As per the Right to Education (RTE) indicators which reflect the effectiveness of universalization of education, most of the States have registered an increase in the percentage of schools complying with the PTR (Pupil Teacher Ratio) norms. The GPI (Gender Parity Index) reflects disparity of girls vis-a-vis boys in access to education. With consistent efforts by the government through programmes like *Beti Padhao, Beti Bachao,* the GPI has improved substantially at the primary and secondary levels of enrolment. However, in higher education, gender disparities still prevail in enrolment, for which various programmes are being implemented by the Government to improve net intake rate of women in higher education.

STATUS ON HEALTH

1.71 The report 'India: Health of the Nation's States', 2017 has for the first time provided comprehensive set of findings on the distribution of diseases and risk factors across all States of the country from 1990 to 2016. Malnutrition still remains the most important risk factor (14.6 per cent) that results in disease burden in the country, though dropping substantially since 1990. Of the total disease burden in India, 33 per cent was due to communicable, maternal, neonatal, and nutritional diseases (termed infectious and associated diseases) in 2016. The contribution of non-communicable diseases has increased from 30 per cent of the total disease burden in 1990 to 55 per cent in 2016 and that of injuries from 9 per cent to 12 per cent. Around 5 per cent of health loss is attributable to unsafe water, sanitation, and hand-washing practices, which the government is trying to address through the Swachh Bharat Mission (SBM).

SWACHH BHARAT MISSION-GRAMIN

1.72 Several studies have pointed out that there are health and economic gains from being Open Defecation Free (ODF) areas. According to the World Bank estimates, the lack of sanitation facilities costs India over 6 per cent of GDP. Taking cognizance of the role of cleanliness in healthy living, and to accelerate the efforts to achieve universal sanitation coverage, Government launched the Swachh Bharat Mission on October 2nd, 2014. As per baseline survey conducted by Ministry of Drinking Water and Sanitation, 55 crore persons were defecating in open in October 2014, which declined to 25 crore in January 2018; at a much faster pace compared to the trend observed before 2014.

LABOUR REFORMS

1.73 The employment sector in India poses great challenge in terms of its structure which is dominated by informal workers, high levels of under employment, skill shortages and labour markets with rigid labour laws and institutions. In this context, the Government is in the process of rationalization of the 38 Labour Acts by framing relevant provisions of existing laws into four labour codes viz Code on Wages, Code on Industrial Relations, Code on Social Security and Welfare, and Code on Safety and Working conditions.

SUSTAINABLE DEVELOPMENT, ENERGY AND CLIMATE CHANGE

Sustainable Development Goals

1.74 There are many similarities between the path India has chosen for development and the UN goals for Sustainable Development. The UN Sustainable Development Goals (SDGs) adopted by the international community in September 2015 comprehensively cover social, economic and environmental dimensions and build on the Millennium Development Goals (MDGs). There are 17 SDGs which have 169 targets to be achieved by 2030.

1.75 India presented its first Voluntary National Review (VNR) on the implementation of SDGs on July 19th, 2017 at the High Level Political Forum on Sustainable Development (HLPF) at United Nations, New York. The VNR report is based on an analysis of progress under various programmes and initiatives in the country. The VNR report focused on 7 SDGs: SDGs 1 (No Poverty); 2 (Zero Hunger); 3 (Good Health and Well-Being); 5 (Gender Equality); 9 (Industry, Innovation and Infrastructure), 14 (Life below Water) and 17 (Partnerships for the Goals).

Urban India and Sustainable Development

1.76 The SDG 11 states “make cities inclusive, safe, resilient and sustainable”. India is now embarking on a fast rural to urban transition. The need of the hour is the provision of public services by the cities to its residents. However, raising resources of the magnitude that is required for a sustainable urban transformation is going to be a daunting challenge. The average cost recovery is less than 50 per cent in most of the Urban Local Bodies (ULBs). The way forward is to encourage the ULBs to raise resources through various innovative financial instruments such as municipal bonds, PPPs, credit risk guarantees, etc.

ACCESS TO SUSTAINABLE ENERGY

1.77 Access to affordable, reliable, sustainable and modern energy has deep inter-linkages with all the other goals. It is directly and indirectly linked to other sustainable development objectives such as good health and well-being, gender equality, industry, innovation and infrastructure, sustainable cities and communities. In India, the burden of collecting fuel wood and water and cooking falls disproportionately on the female members of households. The adverse impacts of indoor air pollution also fall disproportionately on women and children who are directly involved in cooking or spend a major portion of their time indoors. Although, over the years the country has made considerable progress in providing access to clean cooking options to households, a large number of people still lack access to clean cooking fuels. Access to modern energy sources is of paramount importance, as it can reduce the amount of time spent on collection of firewood thereby leading to a positive impact on girls' education and employment.

1.78 As reported in the previous edition of the Economic Survey, Government of India had launched "Pradhan Mantri Ujjwala Yojana" (PMUY) in May, 2016 and upgraded it to provide 80 million LPG connections by 2020 to BPL households. Complementing the above scheme, Government has come out with other initiatives namely "Ujjawala Plus" which will address the cooking needs of deprived people who are not covered under the Socio-Economic Caste Census (SECC) 2011. During 2016-17, 3.25 crore new LPG connections were released that includes 2 crore connections released under PMUY.

1.79 In addition, Government of India is committed to provide 24X7 reliable and quality power supply to all its consumers by 2019. The Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) scheme was launched in 2015 to achieve 100 per cent village electrification and Saubhagya scheme was launched on September 25th, 2017, to provide energy access to all by last mile connectivity and electricity connections to all remaining un-electrified households in rural and urban areas to achieve universal household electrification in the country. As per Saubhagya portal of Rural Electrification Corporation, out of 18.1 crore rural household in the country, 14.2 crore (78%) rural households have been electrified (as on January 16, 2018). Out of the total installed capacity of electricity in India, around 18 per cent was from renewable energy sources (as on November 30, 2017).

1.80 International Solar Alliance (ISA), which was launched by Narendra Modi, Hon'ble Prime Minister of India and François Hollande, former President of France on November 30, 2015 in Paris, entered into force on December 6, 2017. ISA is a coalition of solar resource rich countries lying fully or partially between the Tropics of Cancer and Capricorn and aims to specifically address energy needs by harnessing solar energy. ISA is also the first International inter-governmental treaty-based organization headquartered in India. Currently, 46 countries have signed and out of these, 19 countries have ratified the ISA Framework Agreement. ISA is a trillion-dollar opportunity in solar energy. Economy and industry in turn can get benefitted by the business opportunities available across 121 ISA member countries.

INDIA AND CLIMATE CHANGE

1.81 Domestically, India has launched various policies and set up institutional mechanisms to advance its climate actions. Government of India is implementing the National Action Plan on Climate Change (NAPCC), which includes eight national missions covering solar, energy efficiency, agriculture, water, sustainable habitat, forestry, Himalayan eco system and knowledge, apart from various other initiatives. These actions reflect its commitment to address climate change.

CURRENT MULTILATERAL NEGOTIATIONS ON CLIMATE CHANGE

1.82 Currently, the multilateral climate change negotiations are primarily focused on framing the rules and regulations for implementing the Paris Agreement. At the 23rd session of the Conference of Parties to the UNFCCC (COP 23), the Parties advanced the work programme under Paris Agreement. Key takeaways for India from COP 23 have been that the agenda of pre-2020 climate change commitments and implementation has found a significant place in COP 23 outcome in the form of a decision with steps for future action on pre-2020 action and ambition. This decision emphasizes that enhanced pre-2020 actions can lay a solid foundation for enhanced post-2020 ambitions. India has been able to preserve differentiation in informal notes/texts on various elements of Paris Agreement work programme including nationally determined contributions, adaptation communication, transparency framework, compliance, technology framework, finance and capacity building prepared for further work on rules, modalities and guidelines for Paris Agreement.