ECONOMIC SURVEY

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INTRODUCTION

The *Economic Survey 2014–15* is different from its predecessors. In the words of Survey itself, it has been inspired by the World Economic Outlook of the IMF—departing *structurally* from its predecessors presenting its output in *two volumes*. **Volume 1** discusses the outlook and prospects as well as presents a number of analytical chapters addressing topical policy concerns. Volume 2 describes recent developments in all the major sectors of the economy and contains all the statistical tables and data. In a sense, Volume 1 is forward-looking but gaining from the perspective provided by the recent past which is the subject of Volume 2.

The survey begins with a famous quote from J. M. Keynes—'it is necessary to distinguish the important from the urgent'. This has been done to fulfil the aim of providing the new government a better insight into the issues, concerns and the policy choices. The *broad themes* of the survey are "creating opportunity and reducing vulnerability." Growth is the prerequisite for achieving many economic and indeed other objectives. Maximising the benefits of growth will, of course, require complementary public actions, but without growth, possibilities across the income spectrum shrink. Increasingly, the debate on reducing poverty and vulnerability more generally is less about 'whether' and more about 'how best' direct government support can complement broader economic growth. *Growth versus distribution* is, as it always should have been, a false choice.

Volume 1 begins with a chapter on the macroeconomic outlook and prospects for the Indian economy which sets the context for brief discussions of the policy issues focused on 'creating opportunity and reducing vulnerability.' These issues are then elaborated in the following nine chapters.

Growth requires macroeconomic and hence fiscal stability. A re-visiting of the fiscal framework is also necessary because this is the first full budget of the government and because of the reported recommendations of the Fourteenth Finance Commission that could decisively shape centre-state fiscal relations. This is followed by a chapter on 'wiping every tear from every eye' where the focus is on how support is best provided and the *role that technology* can play in this regard. Volume 1 covers several burning issues—

- The state of stalled projects and their implications for private and public investment going forward;
- A brief diagnosis of the banking system and its implications for reforming it;
- The role of railways in driving future Indian growth;
- *Make in India* initiative, shedding light on the debate between manufacturing and services and suggesting alternative ways of thinking about transformational sectors;
- The need a *single market* in agriculture;
- Climate change issue linking with the carbon tax issue;
- The *dramatic re-shaping* of Centre-State fiscal relations due to the acceptance to the recommendations of the recommendations of the *14th Finance Commission.*

The survey places a premium on new ideas or new perspectives both of an academic and policy nature. The limitations of time and resources mean that new ideas may not pass the most rigorous standards of the academy. But the approach is to find new data or present old data in a new form, to make connections, and to draw insights wherever possible, all with the aim of shedding light on policy. The aim is to provoke and stimulate debate and discussion, thereby enriching the process of policymaking, and hopefully, improving its outcome. The survey also aims to be readable, rising to the challenge of making dry economics as accessible as an op-ed (or perhaps a blog) without fully sacrificing the rigor of a more serious tome. 'The discipline may be dismal but, dear reader, it should not be dreary', the survey appeals at the end.

HIGHLIGHTS OF THE ECONOMIC SURVEY 2014–15

A synoptic view of the *Economic Survey 2014–15*, Volume 2 is presented below.

A BRIEF VIEW

While comparing economic performance of different countries in 2014–15, one of the redeeming features has been, the *emergence* of India among the few large economies with propitious economic outlook, amidst the mood of pessimism and uncertainties that engulf a number of advanced and emerging economies (severe recession). Brighter prospects in India owe mainly to the fact that the economy stands largely *relieved of the vulnerabilities* associated with—

(i) an economic slowdown,
(ii) persistent inflation,
(iii) elevated fiscal deficit,
(iv) slackening domestic demand,
(v) external account imbalances, and
(vi) oscillating value of the rupee in 2011–12 and 2012–13.

From the macroeconomic perspective, the worst is clearly behind us. The latest indicators, emerging from the recently revised estimates of national income brought out by the CSO, point to the fact that the revival of growth had started in 2013–14 and attained further vigour in 2014–15.

Issues like the steep decline in oil prices, plentiful flow of funds from the rest of the world, and potential impact of the reform initiatives of the new government at the centre along with its commitment to calibrated fiscal management and consolidation bode well for the growth prospects and the overall macroeconomic situation.

Encouraged by the greater macro-economic stability and the reformist intent and actions of the government, coupled with improved business sentiments in the country, institutions like the IMF and the World Bank have presented an optimistic growth outlook for India for the year 2015 and beyond. The possible headwinds to such promising prospects, however, emanate from ***factors*** like (external and domestic)—

(i) Inadequate support from the global economy saddled with subdued demand conditions, particularly in Europe and Japan;
(ii) Recent slowdown in China;
(iii) Possible spill-overs of below normal agricultural growth; and
(iv) Challenges relating to the massive requirements of skill creation and infrastructural upgradation.

The encouraging results from the Advance Estimates for 2014–15 suggest that though the global sluggishness has partly fed into the lacklustre growth in foreign trade; yet this downward pressure has been compensated by strong domestic demand, keeping the growth momentum going.

RECENT GROWTH RECORD

Before analysing the recent macroeconomic trends, it may be mentioned that the Central Statistics Office (CSO) has recently revised the national accounts aggregates by shifting to the new base of 2011–12 from the earlier base of 2004–05 (for details see *Chapter 1* of the book). Given the provisional and preliminary nature of the available information that may take time to stabilize and the fact that information for growth-related parameters is available only for three years on the revised base, it becomes difficult to objectively analyse the broad macroeconomic trends on a longer term horizon. The new set of information also cannot be compared with the information and analysis based on the 2004–05 series.

The economic scenario presented by the new series (with 2011–12 as base year) reveals that there was perceptible improvement in some of the macro-aggregates of the economy in 2013–14, which got strengthened in 2014–15.

- Economic growth, measured by growth in gross domestic product (GDP) at constant market prices, estimated at 5.1 per cent and 6.9 per cent respectively during 2012–13 and 2013–14, was higher than the corresponding figures of 4.7 per cent and 5.0 per cent released under the 2004–05 series in May 2014.
- That this high growth occurred in a year when the both the savings and investment to GDP ratios were lower than the average of a number of years and when the level of imports (that are generally positively associated with GDP) actually declined by 8.4 per cent in real terms, is somewhat puzzling.
- One of the reasons why the real GDP growth rate for 2013–14 appears to be strong is the lower GDP level in 2011–12 and 2012–13 along with lower GDP deflators than were thought hitherto.

The *Table 1* captures these effects separately based on the new and old series.

AGGREGATE DEMAND

The Indian economy underwent serious demand and supply constraints in recent years. With the firming up of growth in 2013–14, the final consumption expenditure in the economy (expressed at constant prices) also got strengthened. ***Important features*** regarding aggreagte demand in the economy have been as given below:

- There was a downward pressure on aggregate demand due to the steep decline in the rate of capital formation, constraining domestic absorption (consumption plus investment) to grow by only 2.8 per cent in 2013–14. Despite this, a growth close to 7 per cent was achieved in 2013–14 on the back of the robust 7.3 per cent growth in exports of goods and services and 8.4 per cent downslide in imports.
- The decline in the rate of gross fixed capital formation (GFCF) during 2013–14 was much less pronounced than in the overall investment rate (gross capital formation-GCF), because the other two components of GCF, viz. changes in stock and valuables, declined significantly. The correction in the stock of inventories is an ongoing process that is determined by the demand and supply conditions and is not, in a big way, related to the capital base of the economy.
- Likewise, valuables, i.e. the accumulation of gold, silver, and other precious metals, do not add much to the productive base either. Hence the decline in these items in 2013–14, though in accounting sense leads to a moderation in investment, need not be read much into. However, the almost five percentage point reduction in the rate of fixed investment from 2011–12 to 2014–15 would need to be reversed for growth to be sustained and augmented.
- Contrary to the long-term trends in consumption, the average propensity to consume increased visibly during the last three years (2012–15), mainly on account of higher growth in government consumption expenditure. This is expected to partially provide the required demand impetus to growth.

- The demand side of the GDP presented mixed signals in 2014–15—
  - (i) The increasing trends in consumption have gradually firmed up, with both private and government consumption growing in strength.
  - (ii) The fixed capital formation in the economy has picked up growth but lost share in aggregate demand.
  - (iii) There is hardly any support to growth from exports.
- The deceleration in imports owes substantially to the sharp decline in international oil prices in the current year that compressed the oil import bill. Hence one cautious conclusion could be that the ongoing growth revival is predominantly domestic consumption-driven.
- Comparison of the growth rates and ratios of GFCF to GDP among countries conveys that India operates at the *lowest* incremental capital output ratios (ICOR-based on GFCF) among the BRICS countries (and Indonesia). Given an average fixed investment rate of **30.5** per cent for 2012–13 and 2013–14, and given the average GDP growth of 6 per cent for these years, the ICOR works out to 5.1. With growth improving to 7.4 per cent in 2014–15 and with the ratio of GFCF declining slightly (despite acceleration in the rate of growth of GFCF), the ICOR for India may have declined further.
- From the past trends in the **saving rate** (gross domestic savings as percentage of GDP) available from the pre-revised series, it is observed that it reached its historical peak in 2007–08 (**36.8** per cent) and then remained volatile, with a general downward movement. While private corporate savings steadily declined, household savings witnessed realignment in favour of accumulation of physical assets at the cost of financial savings. Indications of compositional changes in savings can be seen from the data for three years based on the new series.

FACTOR SHARES IN GVA

In line with the *income approach* to GDP, the GVA (Gross Value Added) at basic prices in a year can be expressed as the sum of the compensation of employees (CE), operating surplus (OS)/mixed income of the self-employed (MI), consumption of fixed capital (CFC) and taxes net of subsidies on production. The CE is the composite value of wages and salaries paid in the sector, including the social contributions made by the employer, representing the income share of employees in the GVA. In the organized sector, OS is the difference between net value added and compensation of employees. As a result of the existence of unincorporated enterprises and household industries in the unorganized sector, which either do not maintain accounts or are wholly managed by self-employed workers, net value added (NVA) cannot be separated as income of labour and entrepreneurship. This necessitated the introduction of an item called mixed income of selfemployed to complete the account.

In the *agricultural sector*, CE represents only the share of wages to hired labour and hence the total returns to farmers working on their own fields/ fields hired by them, becomes part of MI. Hence, it is difficult to relate the employment share in agriculture to CE in agriculture. The presence of a large unorganized segment in *manufacturing* and certain services also makes it difficult to establish correspondence between their employment shares and the CE to GVA ratios. It may be noted that the employment share of the construction sector is higher than its GVA share, and the same gets reflected in the sector's CE to GVA ratio. Apart from agriculture, construction is the only sector whose employment share is higher than GVA share. As per the AE for 2014–15, the growth in construction is gradually picking up, which should auger well for employment generation.

Among *service-sector* activities, two sectors with comparatively lower presence of the unorganised segment include financial, real estate, and business services and community, social, and personal services. Consistent with the contrast in their GVA and employment shares, the ratio of CE to GVA is also vastly different in these sectors. Community, social, and personal services have a majority government presence.

During 2012–13 to 2013–14, the average growth in **per capita income**, i.e., 4.3 per cent as per the new series, is much higher than the corresponding growth of 2.4 per cent presented by the old series.

PUBLIC FINANCE

The public finance sector has seen sveral changes in the past few years:

- In 2013–14, *proactive policy decisions* of the government with firm commitment to the policy of fiscal rectitude improved the year-end performance of the fiscal deficit target set for year. The first nine months of 2014–15 witnessed some major policy reforms—
  (i) Change in the subsidy regime;
  (ii) The modified direct benefit transfer scheme has been launched;
  (iii) The new domestic gas pricing policy has been approved; and
  (iv) Diesel prices have been deregulated.
  (v) An Expenditure Management Commission has been constituted to lookintovariousaspectsofexpenditure reforms to achieve the goal of fiscal consolidation. It will review the allocative and operational efficiencies of government expenditure to achieve maximum output.
- The fiscal deficit for 2013–14 (PE) worked out at 4.5 per cent of GDP as opposed to the Budget Estimate (BE) of 4.8 per cent. Fiscal deficit and revenue deficit were budgeted at Rs. 5,31,177 crore (**4.1** per cent of GDP) and Rs. 3, 78,348 crore (**2.9** per cent of GDP) respectively in 2014–15.
- The BE for 2014–15 aimed at achieving *tax to GDP* and *non-debt receipt to GDP* ratios of 10.6 per cent and 9.8 per cent, respectively as against a 13.9 per cent total expenditure to GDP ratio. The envisaged growth for *gross tax revenue* was 17.7 per cent over the Revised Estimates (RE) for 2013–14 and 19.8 per cent over the Provisional Actuals (PA) 2013–14. Total expenditure was estimated to increase by 12.9 per cent and 14.8 per cent in BE 2014–15 over RE 2013–14 and PA 2013–14 respectively.
- On the expenditure side of Union Government accounts, the notable trends during April–December 2014 include a shortfall in growth in Plan and non-Plan expenditure vis-à-vis the corresponding period of the previous year. Major subsidies during April–December 2014 have increased by 12.5 per cent compared to April-December 2013 due to increase in food subsidy (Rs. 21,807 crore) and fertilizer subsidy (Rs. 6620 crore). A significant positive outcome in 2014–15 so far is a decline in petroleum subsidy by ' 4908 crore compared to the corresponding period in 2013–14 due to fuel pricing reforms and fall in the global prices of petroleum products.
- Fiscal deficit at 100.2 per cent of BE in 2014–15 (April–December) is much

higher than the five-year-average of 77.7 per cent. The revenue deficit for April-December 2014 is estimated at 106.2 per cent of BE and is significantly higher than the five-year -average of 81.4 per cent.

PRICES AND MONETARY MANAGEMENT

Prices and monetary management did show the following picture:

- Headline inflation (WPI with the base year 2004–05=100) which remained persistently high at around 6–9 per cent during 2011–13 *moderated* to an average of 3.4 per cent in 2014–15(April-December) on the back of lower food and fuel prices.
- During the first quarter of 2014–15, WPI headline inflation was at 5.8 per cent mainly because *food and fuel prices* continued to be high. In the second and third quarters of 2014–15, WPI inflation declined to 3.9 per cent and 0.5 per cent respectively. WPI headline inflation declined by 0.4 per cent in January 2015 as compared to January 2014.
- Retail inflation (CPI-C with the base year 2010=100) had remained stubbornly sticky around 9–10 per cent during 2012–13 and 2013–14. Like the WPI inflation, CPI inflation has also *moderated* significantly since the second quarter of 2014–15, with moderation in inflation observed in all the three major subgroups: food and beverages, and tobacco; fuel and light; and others. The CPI (combined) inflation declined to 5.1 per cent in January 2015.

The decline in inflation during the year turned out to be much faster than was anticipated in the initial months of the year due to the *following external and global factors*—

(i) Global factors, namely persistent decline in crude prices, soft global prices of tradables, particularly edible oils and even coal, helped moderate headline inflation.

(ii) The tight monetary policy was helpful in keeping the demand pressures contained, creating a buffer against any external shock, and keeping volatility in the value of the rupee under check.

(iii) During the last one year, the rupee remained relatively stable vis-à-vis the major currencies, which too had sobering influence on inflation.

(iv) Moderation in wage rate growth reduced demand pressures on proteinbased items.

(v) Base effect also contributed to the decline in headline inflation.

MONETARY DEVELOPMENTS

The RBI kept policy rates unchanged during the year till January 2015. With the easing of inflationary conditions, the RBI has signalled softening of the monetary policy stance by cutting policy repo rates by 25 basis points to 7.75 percent in January 2015. Subsequently, the RBI also reduced the statutory liquidity ratio (SLR) by 50 basis points from 22.0 per cent of net demand and time liabilities (NDTL) to 21.5 per cent. The RBI adopted the new CPI-C as the measure of the nominal anchor for policy communication from April 2014.

With a view to ensuring flexibility, transparency, and predictability in liquidity management operations, the RBI revised its liquidity management framework (LMF) in September 2014. Liquidity conditions have remained broadly balanced during 2014–15 so far, except transient *tight conditions*. The revised liquidity management framework helped the weighted average cut-off rates in the *14-day term* *repo* auctions as well as in the overnight variable rate repo auctions to remain close to the repo rate.

EXTERNAL SECTOR

The situations on the external front have been mixed over the last few years due to fluctuations in the external factors, of late traits of recovery have been visible:

- After a turbulent initial phase in 2013–14, the outcome for the year as a whole was robust owing to the policies that were put in place to correct the extraordinary situation. A continuance of the robust external sector outcome through the year 2014–15 facilitated the lifting of restrictions on gold and, in tandem with lower international prices of crude petroleum, helped usher in reform in diesel pricing. The lack of full pass-through of global crude petroleum prices to domestic diesel prices was a major factor in the elevated levels of *twin deficits*. Going forward, the robustness of the external outcome is on a sustainable reform anchor.
- Over the **last ten years**, India's merchandise trade (on customs basis) increased manifold from US$ 195.1 billion in 2004–05 to US$ 764.6 billion in 2013–14 helping India's share in global exports and imports improve from **0.8** per cent and **1.0** per cent respectively in 2004 to 1.7 per cent and **2.5** per cent in 2013. Its ranking amongst the leading exporters and importers improved from 30 and 23 in 2004 to 19 and **12** respectively in 2013.
- After growing by 4.7 per cent in 2013–14, India's merchandise exports growth moderated to 2.4 per cent to reach US$ 265 billion in 2014–15 (April-January). During 2013–14, India's merchandise imports contracted by 8.3 per cent to US$ 450.2 billion.
- The value of petroleum, oil, and lubricants (**POL**) imports, which accounted for **36.6** per cent of India's total imports in 2013–14, declined by 7.9 per cent in 2014–15 (April-January) as a result of decline in the price of international crude petroleum products. The growth in imports of POL was 5.9 per cent and 0.4 per cent respectively in 2012–13 and 2013–14. Given the less than adequate pass-through, the level of POL imports continued to be elevated till the first quarter of the 2014–15. There was moderation in international crude oil prices (Brent) from US$109.8 per barrel in the first quarter of 2014–15 to US$ 76.0 per barrel in the third quarter which resulted in the value of POL imports declining by 7.9 per cent in 2014–15 (April–January).
- The share **of gold and silver** imports in India's total imports was 11.4 per cent in 2012–13 and 7.4 per cent in 2013–14. Gold and silver imports that declined by 9.6 per cent and 40.4 per cent respectively in 2012–13 and 2013–14 grew by 8.0 per cent in 2014–15 (April-January).
- **Capital goods** imports declined continuously from 2011. Non-POL and non-gold and silver imports, which largely reflect the imports needed for industrial activity, grew by 7.8 per cent in 2014–15 (April–January), after registering a decline of 0.7 per cent and 6.9 per cent respectively in 2012–13 and 2013–14.
- **Manufactured goods** constituted the bulk of exports—over **63** per cent in recent years—followed by crude and petroleum products (including coal)

with 20 per cent share and agriculture and allied products with 13.7 per cent share. After crossing US $ 300 billion in 2011–12, there has been significant deceleration in growth rates of exports which is somewhat a global phenomenon as global trade volumes have not picked up significantly since the 2011 *Eurozone crisis*.

- Growth in exports of petroleum and agriculture and allied products which were in positive territory for the last four years turned negative in 2014–15 (April-January). *Gems and jewellery* exports which exhibited a declining trend in 2012–13 and 2013–14, continued to decline in 2014–15 (April-January). Similarly, the decline in *electronic goods* exports since 2012–13 continued in 2014–15. During 2014–15 (April-January), some sectors like transport equipment; machinery and instruments; manufactures of metals; and ready-made garments registered positive growth in exports. Marine products and leather and leather manufactures recorded relatively higher growth in 2012–13, 2013–14, and 2014–15 (April-January).
- There has been significant *market diversification* in India's trade in recent years—a process that has helped cope with the sluggish global demand, which owes to a great extent to the weakness in the Eurozone.
- **Region-wise**, India's export shares to Europe and America have declined over the years from 23.6 per cent and 20.1 per cent respectively in 2004–05 to 18.6 per cent and 17.2 per cent respectively in 2013–14. Conversely, shares of India's exports to Asia and Africa have increased from 47.9 per cent and 6.7 per cent respectively in 2004–05 to 49.4 per cent and 9.9 per cent respectively in 2013–14.
- In 2014–15 (April-January), **trade deficit** increased marginally by 1.6 per cent to US$ 118.4 billion as against US$ 116.5 billion in 2013–14(April-January). Lower growth of exports (2.4 per cent) and imports (2.2 per cent) in 2014–15 (April–January) has resulted in a marginal increase of US $ 1.9 billion in the trade deficit.

BALANCE OF PAYMENT

- The widening of the current account deficit (CAD) in 2011–12 and 2012–13 owed to elevated levels of imports and its financing had implications in terms of larger outgo as investment income in the invisibles account. As a proportion of the level of CAD, such outgo rose from 28.2 per cent in 2007–08 to 72.6 per cent in 2013–14. One of the important considerations for reduction in CAD was that even with its full financing, the levels of CAD have a cascading impact through investment income outgo.
- In the first half of 2014–15, India's external-sector position was benign and comfortable. Two important developments were:
  (i) lower trade deficit along with moderate growth in invisibles that resulted in lower CAD and
  (ii) surge in capital inflows, enabled by higher portfolio investment, foreign direct investment (FDI), and external commercial borrowings (ECB).
- Capital inflows were in excess of the financing requirement of the CAD and resulted in accretion in foreign exchange reserves. The CAD was placed at US $ 17.9 billion in 2014–15 (April–September) as against US $ 26.9 billion in the same

period of 2013–14. As a proportion of GDP, the CAD declined from 3.1 per cent in the first half of 2013–14 to 1.9 per cent in the first half of 2014–15.

- Among the major economies with a CAD, India is the **second largest** foreign exchange reserve holder after Brazil. India's foreign exchange reserves at US$ 330.2 billion as on 6 February 2015 mainly comprised foreign currency assets amounting to US$ 305.0 billion, accounting for about 92.5 per cent of the total.
- With increase in reserves in the first half of 2014–15, all reserve-based traditional external sector vulnerability indicators have improved. For instance, the ratio of short-term external debt to reserves declined from 29.3 per cent at end-March 2014 to 27.5 per cent as at end-September 2014 and the *reserve cover* for imports also increased from 7.8 months at end-March 2014 to 8.1 months as at end-September 2014.
- The rupee-US dollar exchange rate has remained *broadly stable* during the year thanks to the huge inflow of FDI and foreign institutional investment (FII) in the equity and bond markets. Due to the weak economic outlook in Europe and Japan, the rupee has appreciated against the euro and yen since September 2014 in tandem with cross-currency movements of the euro and yen vis-à-vis the US dollar.

External Debt

The external debt stock of India increased by US$ 13.7 billion (3.1 per cent) to US$ 455.9 billion at end-September 2014 over the end-March 2014 level. The rise in external debt was on account of higher long-term debt particularly commercial borrowings and non-resident Indian (NRI) deposits.

The maturity profile of India's external debt indicates the dominance of long-term borrowings. At end-September 2014, long-term debt accounted for **81.1** per cent of the total external debt as against 79.8 per cent at end-March 2014. India's external debt has remained within manageable limits as indicated by the *external debt to GDP ratio* of 23.5 per cent and *debt service ratio* of 5.9 per cent in 2013–14.

The prudent external debt management policy of the Government of India has helped maintain a comfortable external debt position.

OUTLOOK FOR 2015–16

- The outlook of the economy for the year 2015–16 has been outlined by the survey in the following way:
- The *macroeconomic situation* in India has improved significantly during the current year. The release of the new series of national accounts revealed that the economy has been performing much better than what was being depicted earlier. The steady acceleration in services and manufacturing growth in the face of subdued global demand conditions point to the strengthening of domestic demand. Most of the buoyancy in domestic demand can be traced to consumption.
- *Investment* activity, which is slowly picking up, needs to be grounded on a stronger footing. The savings-investment dynamics will be crucial for the growth to strengthen further in the coming years, in addition to reversal of the subdued export performance being currently witnessed. The key will be the response of savings to improved price and financial market stability, and of investment, particularly

in the crucial infrastructure sector, to reform efforts of the Government that are underway.

- On the *supply side*, there are concerns about tentative growth patterns in construction and mining activities that need to be addressed to. This is particularly important in view of the strong intersectoral linkages that these sectors have. The farm sector suffered from a relatively poor monsoon, but there are no indications of its spillover to be next year. The improving rate of value addition in the economy, represented by the ratio of value added to output, and the falling incremental capital output ratio indicate better resource use in production.
- On the *global front*, the United States radiates confidence and strength, while some other structurally important economies like China, Russia, Euro area and Japan face uncertain prospects, thereby affecting global growth and investment outlook. The sharp decline in oil prices has provided an incentive for overall global growth and stability. At the same time, it has diminished fortunes of oil exporting countries that can influence economic activity adversely.

In the light of the government's commitment to reforms, along with the improvements in the price and external sector scenarios including the possibility of international oil prices remaining generally benign, the outlook for domestic macroeconomic parameters is generally optimistic, notwithstanding the uncertainties that could also arise from an increase in the interest rates in the United States and situation prevailing in Greece within Euro-zone. Given the above, and assuming normal monsoons better prospects in the world economy that could provide impetus to higher exports for Indian products and services, a growth of around 8.5 per cent is in the realm of possibility in 2015–16.

SECTORAL DEVELOPMENTS

AGRICULTURE

During the Tenth Plan, the contribution of agriculture and allied sectors to the GDP (at 2004–05 prices) of the country was 19 per cent and it declined to 15.2 per cent during the Eleventh Plan. This is in accordance with the typical past pattern of structural transformation of the economies in transition. Agriculture and allied sectors registered a growth of 2.5 per cent in the Ninth Plan, 2.4 per cent in Tenth Plan, and 4.1 per cent in the Eleventh Plan.

For the year 2013–14, total foodgrain production has been estimated at 265.6 million tonnes, which is higher by 8.5 million tonnes than the previous year's production and 22.1 million tonnes than the average production of foodgrains during the last five years. As per the second AE released by the Ministry of Agriculture on 18 February 2015, total production of foodgrains during 2014–15 is estimated at **257.1** million tonnes.

The *Survey* highlights the following **challenges** and **policy recommendations** for the Indian agriculture—

(i) Agriculture and food sectors need huge investment in research, education, extension, irrigation, fertilizers, and laboratories to test soil, water, and commodities, and warehousing and cold storage. Rationalization of subsidies and better targeting of subsidies would generate part of the resources for public investment.

(ii) There are wide differences in yields between states. Even the best of states have much lower yield in different crops when compared to the best in the world. This provides ample opportunity to increase production by bridging the yield gap to the extent feasible within the climatic zone.

(iii) Providing irrigation can improve yield substantially, as vast cropped area is still unirrigated. For a shift in production function, investment in basic research would be necessary.

(iv) Recommendations of the Shanta Kumar Committee provide useful suggestions for the future road-map of food policy. Every effort should be made to bring states on board for creating a national common market for agricultural commodities.

(v) Distortions emerging from various policies, including exempting user charges for electricity and water should be removed.

(vi) For providing efficient advance price discovery to farmers and enabling them to hedge price risk, the Forward Markets Commission should be strengthened and empowered to regulate the market more effectively.

Industrial, Corporate, and Infrastructure Performance ■

The major characteristics have been as given below:

- As per recently released national accounts data, with 2011–12 as the base year, industrial growth was much better in 2012–13 and 2013–14 at 2.4 per cent and 4.5 per cent respectively than earlier estimated, with 2004–05 as the base year. The declining trend was attributed to moderation in domestic demand, inflationary pressures, increase in input costs, and slowdown in the world economy. Further, the 1.4 per cent growth in GCF in industry in 2013–14 implies that recovery in industrial growth had commenced last year.
- The *industrial growth* picture as per the IIP suggests that industrial production which had slowed down since 2011–12, reversed the trend in 2014–15. In terms of use-based classificationof the IIP, basic goods and capital goods witnessed marked improvement in growth during April–December 2014–15. While the growth in intermediate goods remained sluggish, consumer goods contracted in April–December 2014–15, particularly due to contraction in the consumer durables sector.
- Growth in *infrastructure*, based on an index of eight core industries, has improved slightly to 4.4 per cent during April–December 2014–15 as compared to 4.1 per cent in the same period in 2013–14. The performance of coal, electricity, and cement has shown marked improvement, steel and refinery products have grown marginally by 1.6 per cent and 0.2 per cent, while crude oil, gas, and fertilizers have seen negative growth. In the transport sector, growth in the first nine months of 2014–15 has improved in railway freight (5.1 per cent), domestic air passenger traffic (7.1 per cent), international passenger traffic (10.3 per cent), international cargo (8.3 per cent), domestic cargo (19.3 per cent), and cargo throughput at major and non-major ports (6.8 per cent)as compared to the same period in the 2013–14.
- The performance of *listed manufacturing companies* (Ltd. firms) in the private sector in terms of growth of sales and net profit appeared to turn around in Q1 2014–15. However, the performance in Q2 2014–15

dampened expectations of sustained improvement. There is no discernible improvement in capacity utilisation in the first two quarters of 2014–15, as per the RBI's twenty-seventh round of the Order Books, Inventories, and Capacity Utilization Survey.

- Of the total 246 central infrastructure projects costing Rs. 1,000 crore and above, 124 are delayed with respect to the latest schedule and 24 have reported additional delays vis-à-vis the date of completion reported in the previous month *(Flash Report for October 2014, Ministry of Statistics and Programme Implementation)*.
- All the other major industrial sectors except mining have witnessed slowdown in the growth of credit in 2014–15 as compared to 2013–14. The growth of credit flow to the manufacturing sector at 13.3 per cent in 2014–15 is lower than the growth of 25.4 per cent in 2013–14. Chemicals, food processing, and textiles have seen a sharp decline in growth of credit in 2014–15.
- During April–November 2014–15, total FDI inflows (including equity inflows, reinvested earnings, and other capital) were US$ 27.4 billion, while FDI equity inflows were US$ 18.9 billion. Cumulative FDI inflows from April 2000 to November 2014 were US$ 350.9 billion. Services, construction, telecommunications, computer software and hardware, drugs and pharmaceuticals, automobile industry, chemicals, and power have attracted a disproportionately high share of total inflows.

Services Sector

The performance of the services sector has been as given below:

- The services sector of India remains the *major driver* of economic growth contributing **72.4** per cent of GDP growth in 2014–15. Services-sector growth has increased from 8.0 per cent in 2012–13 to 9.1 per cent in 2013–14 and further to 10.6 per cent in 2014–15.
- This is mainly due to growth acceleration in financial, real estate, and professional services to 13.7 per cent from 7.9 per cent and public administration, defence, and other services to 9.0 per cent from 7.9 per cent in the previous year. Growth in trade, hotels, transport, communication, and related services was 8.4 per cent in 2014–15 compared to 11.1 per cent in 2013–14.
- Data available for the beginning months of 2015 indicates pick-up in the services sector with expansion in business activity as indicated by services PMI data. This growth momentum is expected to continue in 2015–16.
- The services sector is also the *dominant sector* in most of the states of India with a more than 40 per cent share in the gross state domestic product (GSDP) in 2013–14 for almost all states. This sector has made substantial contribution to FDI inflows, exports, and employment.
- During the last twelve years, with a compound annual growth average (CAGR) of 8.7 per cent, India had the **second fastest** growing services sector, just below China's 10.7 per cent. In commercial services exports, India had the highest CAGR of 20 per cent during this period.
- India's share in global exports of commercial services increased to 3.2 per cent in 2013 from 1.2 per cent in 2000.

Its ranking among the leading exporters in 2013 was **sixth**.

- In the first half of 2014–15, services exports grew by 3.7 per cent to US$ 75.9 billion and import of services grew by 5.0 per cent to US$ 39.9 billion, resulting in net services growth of only 2.4 per cent. The services value-added content in exports has also been rising.
- India is very active in the services negotiations in the World Trade Organization (WTO) and has recently provided more liberal offers to least developed countries.
- Among the sub-sectors, computer and related services with a share of 3.3 per cent in India's GDP grew by 14.4 per cent in 2013–14. The contribution of tourism to total income and employment of the country during 2012–13 was 6.9 per cent and 12.5 per cent respectively. In 2014, foreign tourist arrivals and foreign exchange earnings increased by 7.1 per cent and 6.6 per cent respectively.

Banking and Insurance

Banking and insurance sector did show the following trends:

- Asset quality of banks showed some signs of stress during the year. The gross non-performing advances (NPAs) of scheduled commercial banks (SCB) as a percentage of the total gross advances increased to 4.5 per cent in September 2014 from 4.1 per cent in March 2014. Stressed advances increased to 10.7 per cent of the total advances from 10.0 per cent between March and September 2014. RBI has taken a number of steps to resolve the NPA issue.
- The growth of aggregate deposits of SCBs decelerated during 2014–15 till December mainly due to base effect, i.e., high accretion to NRI deposits last year during September-November and lower deposit mobilisation during this year. The growth in non-food credit also decelerated.
- To achieve the objective of financial inclusion, the *Pradhan Mantri Jan-Dhan Yojana (PMJDY)* was launched on 28 August 2014. The Yojana envisages universal access to banking facilities with at least one basic banking account for every household. The scheme is expected to provide a big push to the Direct Transfer Benefit scheme.
- The year 2014–15 saw other reform initiatives in the banking and insurance sector, which include allowing banks to raise capital from the market to meet capital adequacy norms by diluting the government's stake up to 52 per cent and notifying of an ordinance to enhance the foreign equity cap in the insurance sector.
- Equity markets continued to do well during the year. The benchmark indices BSE Sensex and Nifty showed a general upward trend in the current year. A number of steps such as improvement in corporate governance norms and establishment of foreign portfolio investor (FPI) regulation framework were taken by the Securities and Exchange Board of India (SEBI) to improve functioning of both primary and secondary markets.

HUMAN DEVELOPMENT

India's social sector performance has been outlined by the Survey in the following way:

- India is projected to be the youngest nation in the world by 2020. While this provides great opportunities, it also poses challenges before the nation. India's total fertility rate (TFR) has been steadily declining and is currently at 2.3 although state-wise disparities exist.

- As per Sample Registration System (SRS) data for 2013, there has been a gradual decline in the share of population in the age group 0–14 from 41.2 to 38.1 per cent during 1971 to 1981 and from 36.3 to 28.4 percent during 1991 to 2013, whereas the economically active population (15-59 years) has increased from 53.4 to 56.3 per cent during 1971 to 1981 and from 57.7 to 63.3 per cent during 1991 to 2013. Of concern is the secular decline in the child sex ratio (CSR).
- A new scheme, *Beti Bachao Beti Padhao,* for promoting survival, protection, and education of the girl child was launched in January 2015. It aims to address the declining CSR through a mass campaign targeted at changing social mindset and creating greater awareness.
- In 2020 the average age of India's population at around 29 years is expected to be among the lowest in the world. Consequently, while the global economy is expected to witness a shortage of young population of around 56 million by 2020, India will be the only country with a youth surplus of 47 million. These young people need to be healthy, suitably educated, and appropriately skilled to contribute optimally to the economy

Educational Challenges are outlined as—

- While only 73 per cent literacy has been achieved (Census 2011), there is marked improvement in female literacy. Male literacy at 80.9 per cent is still higher than female literacy at 64.6 per cent but the latter increased by 10.9 percentage points compared to the 5.6 percentage points for the former.
- Total enrolment in primary schools has declined in 2013–14 while upper primary enrolment has grown. This is in line with the demographic changes in the age structure. However, the overall standard of the education system is well below global standards.
- The single most significant finding of the Annual Status of Education Report (**ASER**) is that learning levels across the country, whether in public or private schools, have not improved. Clearly, the policy prescription lies in shifting attention away from inputs to outcomes and focus on building quality education and skill development infrastructure. The Padhe Bharat Badhe Bharat initiative to create a base for reading, writing, and math fluency is a good step in this direction.

Skilling generation faces the following challenges—

- As per the *Labour Bureau Report 2014,* the current size of India's formally skilled workforce is small, approximately 2 per cent; this number compares poorly with smaller countries like South Korea and Japan which report figures of 96 and 80 per cent respectively. At all-India level, around 6.8 per cent of persons aged 15 years and above are reported to have received/are receiving vocational training.
- As per the *National Skill Development Corporation (NSDC),* for the period between 2013 and 2022 there is an incremental requirement of 120 million skilled persons in the non-farm sector. A dedicated *Department of Skill Development and Entrepreneurship* has been created for

focused attention to skill development. Besides, skilling of rural youth has now been re-focused and reprioritised towards building the capacity of poor rural youth. New programmes have also been started for bringing minorities into mainstream development.

Employment generation has been sluggish and faces the following challenges—

- A cause for concern is deceleration in the CAGR of employment during 2004–05 to 2011–12 to 0.5 per cent from 2.8 per cent during 1999–2000 to 2004–05 as against CAGRs of 2.9 per cent and 0.4 per cent in the labour force respectively for the same two periods.
- During 1999–2000 to 2004–05, employment on usual status (US) basis increased by 59.9 million persons from 398.0 million to 457.9 million as against the increase in labour force by 62.0 million persons from 407.0 million to 469.0 million.
- After a period of slow progress during 2004–05 to 2009-10, employment generation picked up during 2009–10 to 2011–12, adding 13.9 million persons to the workforce, but not keeping pace with the increase in labour force (14.9 million persons).
- A major impediment to the pace of quality employment generation in India is the *small share of manufacturing* in total employment.
- However, data from the 68th Round of the National Sample Survey (NSS) indicates a revival in employment growth in manufacturing from 11 per cent in 2009-10 to 12.6 per cent in 2011–12. Promoting growth of micro, small, and medium enterprises (MSME) is critical from this perspective.

Labour Reforms is a critical area with a 'multiplicity of labour laws' and difficulty in their compliance has been an impediment to industrial development. In a major initiative for bringing compliance in the system and ensuring ease of doing business, a set of labour reform measures has been put forth by the government.

Challenges of the Health sector have been there. The Swachh Bharat Mission (Gramin) launched in October 2014, aims at attaining an *Open Defecation Free India* by October 2, 2019. Besides, *Mission Indradhanush* launched in December 2014 will cover all children by 2020 who are either unvaccinated or are partially vaccinated against seven vaccine-preventable diseases. The erstwhile Department of AYUSH (Ayurveda,Yoga and Naturopathy, Unani, Siddhi, and Homoeopathy) has now been elevated to a full-fledged Ministry.

The latest estimates of **poverty** are available for the year 2011–12. These estimates have been made following the Tendulkar Committee methodology using household consumption expenditure survey data. For 2011–12, the percentage of persons living below the poverty line is estimated as 25.7 percent in rural areas, 13.7 percent in urban areas, and 21.9 percent for the country as a whole

India's **Human Development in International perspective** has been weak. The Human Development Report (HDR) 2014 presents the Human Development Index (HDI)—values and ranks—for 187 countries. India's HDI value for 2013 is 0.586, ranking it **135** out of 187 countries and territories, the lowest among the BRICS countries with Russia at 57, Brazil at 79, China at 91, and South Africa at118, and slightly ahead of Bangladesh and Pakistan.

India also ranks low with respect to the *Gender Development Index (GDI)*. The GDI value for India is 0.828 and it is ranked 132 among 148 nations. In comparison, Bangladesh and China are ranked higher.

Fostering Inclusive Growth has been among the major policy planks of the government. Few strong steps taken in this regard are:

- The *PMJDY* launched in August 2014 and the *RuPay Card*, which is a payment solution, are important new measures for financial inclusion.
- Besides, the government has restructured a number of ongoing programmes based on field experience to make them need based. To facilitate coordinated functioning of various social infrastructure and human development programmes, the *Sansad Adarsh Gram Yojna (SAGY)* has been launched which will be implemented through convergence of existing programmes.
- Another scheme launched is the *Vanbandhu Kalyan Yojna* that will be implemented in one block of each of the ten states having Schedule V areas. Given the multiple schemes implemented to foster inclusive growth, the role of *Panchayati Raj institutions* is critical and there is need to strengthen the panchayats and urban local governments.
- RBI data on social services shows that there was a consistent rise in absolute social-sector expenditure by the general government (centre–state) even in the time of the 2008–09 global crisis and 2011–12 Euro area crisis.
- A unique feature of India is the *lag in demographic transition* between different states. Due to the substantial fertility decline in the south during the last two decades, the south is ahead in the demographic transition compared to the north. For instance, the projected average age of population in 2020 of 29 years has already been surpassed in some states like Kerala (33 years), Goa (32.3), Tamil Nadu (31.3), Himachal Pradesh (30.4), Punjab (29.9), Andhra Pradesh (29.3) and West Bengal (29.1).

Climate Change and Sustainable Development

The year 2015 is likely to be a momentous year with the world set to witness new agreements on climate change and sustainable development. This will determine the course for international development and environmental policy agenda for the global community for the next fifteen years—

- The negotiations under the United Nations Framework Convention on Climate Change (UNFCCC) are expected to result in a global agreement by December 2015, applicable to all countries to take action on climate change from 2020. Simultaneously, the governments are due to agree to a new post-2015 development agenda including a set of sustainable development goals (SDGs), replacing the Millennium Development Goals, which are coming to an end in 2015.
- The latest scientific findings of the **IPCC AR5** have estimated the following:
  (i) To remain below 2°C, the world can emit only about 2900 giga-tonne (Gt) of CO_2 from all sources from the industrial revolution till 2100.
  (ii) Till 2011, the world has already emitted 1900 Gt of CO_2 and consumed around two-third of this budget. This means that out of the budget of 2900 Gt, only 1000 Gt remains to be used between now and 2100.

(iii) The key issue therefore for designing emission reduction commitment is how we should allocate this remaining sparse carbon budget between countries in a manner which is both fair and achievable.

(iv) There are substantial variations in total and per capita emissions of different countries. In terms of absolute CO_2 emissions in 2013, China, the USA, and EU hold the first three positions respectively with India a distant fourth. However, in terms of per capita CO2 emissions in 2013, countries like India, Brazil, and South Africa fall in the bottom 100 among 196 countries.

As a responsible country India has on its own chalked out policies on sustainable development and climate change:

- India was one of the early adopters of a National Action Plan on Climate Change (NAPCC).
- It is now revisiting National Missions under the NAPCC in the light with a view to undertaking additional interventions in areas like greenhouse gas (GHG) mitigation in power generation, other renewable energy technology programmes, and disaster management and exploring possibilities of new missions on wind energy, health, and waste to energy.
- Efforts are also under way by the government to build India's institutional capacity for mobilizing climate change finance. A *National Adaptation Fund* with an initial corpus of Rs. 100 crore has been set up to support adaptation actions to combat the challenges of climate change in sectors like agriculture, water, and forestry.
- Other recent key initiatives include scaling up of the *Solar Mission* **fivefold** from 20,000 megawatts to 100,000 megawatts requiring an additional investment of US$ 100 billion, development of 100 *Smart Cities* with integrated policies for sustainable development, and preparations for developing a *National Air Quality Index* and a *National Air Quality Scheme.*

The challenge for India is manifold. India is at the threshold of an *urban flare-up*. As population increases, demand for every key service will increase five-to seven fold. These trends combined with the current challenges of poverty eradication, food and energy security, urban waste management, and water scarcity will put further pressure on our limited resources which will add to greater energy needs and cause a parallel increase in emission if decoupling does not take place.

At the same time, hidden in this challenge are great opportunities. Unlike many countries, India has a young population and therefore can reap the fruits of demographic dividend. With more than half of the India of 2030 yet to be built, we have an opportunity to avoid excessive dependence on fossil fuel-based energy systems and carbon lock-ins that many industrialised countries face today. A conscious policy framework which takes into account both developmental needs and environmental considerations could help turn the challenges into opportunities.

The sum up, as we put our acts together towards a post-2015 global agreement on climate change, it is absolutely critical to ensure that—

(i) the new agreement is comprehensive, balanced, equitable, and pragmatic.

(ii) it should address the genuine requirements of developing countries like India by providing them equitable carbon and development space to achieve sustainable development and eradicate poverty.

(iii) to achieve this, adherence to the principles and provisions of the UNFCCC is the key.

(iv) importantly, global climate action rests heavily on the means of implementation, especially on finance and technology, which needs to be addressed adequately in the agreement.

As India's Prime Minister said in the UN General Assembly in September 2014, 'We should be honest in shouldering our responsibilities in meeting the challenges. The world community has agreed on a beautiful balance of collective action—common but differentiated responsibilities. That should form the basis of continued action.'