*Highlights of Economic Survey*

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## Economic Survey 2015-16

**Economic Outlook**

- Economic Survey puts forth an optimistic picture of the Indian economy. Amidst persisting global headwinds, India remains one of the best performing economies. Inflation, fiscal deficit and current account balance have exhibited distinct signs of improvement.

- India's GDP growth is pegged to grow at 7-7.5% in the year 2016-17 despite moderating global growth. The survey pointed out that boosting demand would be most imperative and the implementation of the seventh pay commission and normal monsoons are expected to provide some reprieve. The Survey states that the economy would be able to touch 8.0% growth over the next couple of years.

- Further, the country's long run potential growth rate is still around 8-10% and realizing this potential requires a push on at least three fronts: being genuinely pro-competition, major investments in health and education of people, and focus on agriculture.

**Prices**

- Wholesale price inflation had been in the negative territory for more than a year and the consumer price inflation is also in line with RBI's indicative trajectory. CPI inflation rate forecast at 4.5-5.0% for 2016-17.

- The astute policies and management of inflation by the government through buffer stocking, timely release of cereals and import of pulses and moderate increase in Minimum Support Prices (MSP) of agricultural commodities helped in keeping prices of essential commodities under check during 2015-16.

- The Survey states that increase in wages and benefits recommended by the 7th pay Commission are not likely to destabilize prices and will have little impact on inflation.

**Fiscal Deficit**

- The fiscal deficit target of 3.9 per cent of GDP seems achievable as the Gross Tax Revenue (GTR) targets were achieved due to improved tax buoyancy and prudent expenditure management, assisted by declining oil prices.

- With respect to feasibility, two factors complicate the fiscal task in 2016-17 and beyond, the 7$^{th}$ pay commission and need to increase public investment.

- Concerns remain over approval of GST Bill, the disinvestment programme falling short of targets and the next stage of subsidy rationalization being a work-in-progress.

- There is need for widening of the individual tax payers' base. Just 5.5% of earning individuals are in the tax net, translating to a ratio of about 4% of tax payers to voters. This should be raised to a desirable estimate of about 23%.

- As a step towards building fiscal capacity, the easiest way to widen the tax base would be not to raise exemption thresholds. Bringing more and more people into the tax net via some form of direct taxation will help in realizing the promise of Indian democracy. Reasonable taxation of the better-off individuals regardless of where their income comes from, - Industry, Services, Real Estate or Agriculture.

## External Sector

- Last year's Survey had identified a weak external environment as a major medium- term risk. It turned out to be a short run risk as well, and the prospects are that it might continue to be one in the period ahead.

- Weak growth in advanced and emerging economies has taken a toll on India's exports and imports have also been on a downtrend, principally on account of reduced prices of crude oil for which the country is heavily dependent on imports.

- India's Balance of Payments (BoP) position remained comfortable during the first half of 2015-16 given the low levels of CAD coupled with moderate rise in capital inflows.

- Current Account Deficit likely to be in the range of 1-1.5% of GDP in 2016-17.

## Social Infrastructure, Employment & Human Development

- Skill gaps in various productive sectors in India are large and India has to address the challenges by increasing the employability of the labour force, which is correlated to knowledge and skills developed through quality education and training along with ensuring good quality of health.

- The Economic Survey pointed out the need to focus on quality of education in both public and private sectors

- To strengthen the delivery of public health services and infrastructure facilities, both public and private investments are necessary. Adoption of technology platforms and innovate models by leveraging Jan Dhan Aadhar Mobile scheme can improve the efficiency in delivery of services.

## Banking and Financial Sector

- One of the most critical short term challenges confronting the Indian economy is the twin balance sheet problem – the impaired financial positions of the Public Sector Banks (PSBs) and some corporate houses. The twin balance sheet challenge is the major impediment to private investment and a full-fledged economic recovery.

- Comprehensively resolving this challenge would require 4 Rs: Recognition, Recapitalization, Resolution, and Reform. Banks must value their assets as far as possible close to true value (recognition) as the RBI has been emphasizing; once they do so, their capital position must be safeguarded via infusions of equity (re-capitalisation)as the banks have been demanding; the underlying stressed assets in the corporate sector must be sold or rehabilitated (resolution) as the government has been desiring; and future incentives for the Private Sector and corporates must be set-right (reform) to avoid a repetition of the problem, as everyone has been clamouring.

## The Chakravyuha Challenge: Ease to enter, barriers to exit

- The Indian economy has made great strides in removing barriers to entry for firms, talent, and technology but less progress has been made in relation to exit. India seems to have a disproportionately large share of inefficient firms with very low productivity and with little exit. This lack of exit generates externalities that hurt the economy.

- Impeded exit has substantial fiscal, economic, and political costs.

- The Survey suggests five possible ways to address this problem.

  i. Promoting competition via private sector entry rather than change of ownership from public to private.
  ii. Direct policy action through better laws like the Insolvency and Bankruptcy Code 2015 will expedite exit. Also institutions need to be made stronger but flexible by empowering bureaucrats and reducing their vulnerability.
  iii. Increase the use of technology to remove persistent distortions by bringing down human discretion and layers of intermediaries.
  iv. Increasing transparency and highlighting social costs and benefits of various schemes and entitlements.
  v. Showcasing exit as an opportunity towards a newer and better tomorrow.

**FICCI's Comments on Eco Survey 2015-16**

The Economic Survey 2015-16 tabled today in the Parliament has highlighted that India's potential growth rate is in the range of 8 to 10 percent and achieving the same requires a push in three critical areas which are promoting entrepreneurship and reducing the role of the state, higher investments in health and education & greater focus on agriculture.

"*FICCI completely agrees with this prognosis and in one of our recent study we highlighted the importance of enhancing Total Factor Productivity in the economy to reach the double digit growth levels. In this context, the areas that require greater attention include skills, education, health, innovation and lower transaction costs. We hope that the forthcoming Union Budget will continue with its thrust on each of these areas*", said **Mr. Harshavardhan Neotia, President, FICCI.**

As per the near term projections for the economy, growth in the year 2016-17 will be in the range of 7 to 7.5 percent. "*Amidst a muted global economic scenario, this growth is encouraging. While the implementation of the seventh pay commission award and normal monsoons are expected to provide some reprieve, it is critical to pursue all measures that would boost demand on a sustained basis*", added **Mr. Neotia.**

*"FICCI would like to emphasize that the domestic capex cycle remains weak and the same has been evident in our latest surveys. Strengthening the investment cycle should be the top priority; as and when this happens we would see creation of more employment opportunities*", said **Mr. Neotia.**

With regard to the fiscal situation, the survey suggests improving the quality of expenditure and raising more revenues by ensuring better tax compliances and tapping new resources for sustained fiscal consolidation. *"FICCI believes that given the deflationary pressures in the economy, there is a need to push for public investments in productive capital expenditure while reining in unproductive expenditure on subsidies. If this requires recalibrating the fiscal deficit target slightly, the Finance Minister must not hesitate in doing so",* **he added.**

As a step towards building fiscal capacity, the survey recommends widening the tax base and bringing more people into the tax net via some form of direct taxation regardless of the source of income. *"FICCI has for long advocated this and we hope that the upcoming Union Budget will announce some measures in this direction. To start with, the Finance Minister could consider making filing of returns mandatory for all incomes (irrespective of source) above a certain threshold",* **said Mr. Neotia.**

*"As the economic growth improves and capacities improve, there will be greater need for funds from financial sector for expansion. The survey acknowledges the pressing twin balance sheet concerns of the banking and corporate sector. The 4R Strategy – Recognition, Recapitalization, Resolution and Reform suggested to deal with this challenge is in line with what FICCI has been suggesting. FICCI has for long made a case for setting up of a National Asset Management Company (NAMCO) for one time resolution of stressed assets particularly in the infrastructure sector. While remedial action to deal with the current situation of NPAs is imperative, it is equally important to put in place a system with a long term perspective in mind that gives a greater push to adoption of a preventive approach",* **said Mr. Neotia.**

To transform agriculture, the survey has suggested raising productivity by expanding the acreage under irrigation besides adopting water efficient technologies and making optimal utilization of all inputs, including fertilizers. The survey has rightly identified the need to rationalize fertilizer subsidies and has suggested a reform package to deal with the subsidy leakages and skewed mix of fertilizer use.