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HIGHLIGHTS OF ECONOMIC SURVEY 2014-15

VOLUME – I

Chapter -1 : Economic Outlook, Prospects, and Policy Challenges

- India has reached a sweet spot – rare in the history of nations – in which it could be launched on a double digit medium-term growth trajectory which would allow the country to attain the fundamental objectives of "wiping every tear from every eye".

- The macro-economy has been rendered more stable, reforms have been launched, deceleration in growth has ended and the economy appears to be recovering.

- In the coming year, the real GDP growth at market prices is estimated to be about 0.6-1.1 percentage points higher vis-à-vis 2014-15. Using the new estimate for 2014-15 as the base, growth at market prices is expected at 8.1-8.5 percent in 2015-16.

- The budget should continue the process of fiscal consolidation. Overall revenue-to-GDP ratio for 2014 as estimated at 19.5 percent by the IMF, needs to move toward levels in comparator countries – estimated at 25 percent for emerging Asian economies and 29 percent for the emerging market countries in the G-20.

- To provide legal certainty and confidence to investors, the ordinances on coal, insurance, and land need to be translated into legislation.

- The constitutional amendment bill to implement the goods and services tax (GST) needs to be enshrined in legislation.

- The government and the RBI need to conclude the monetary policy framework agreement to consolidate the recent gains in inflation control and codify into an institutional arrangement.

- Reforms of labor and land laws and reducing the costs of doing business will need to be a joint endeavor of the states and center.

- The economy is likely to over-perform on the RBI's inflation target by about 0.5-1.0 percentage point, opening up the space for further monetary policy easing.

- The outlook is favorable for the current account and its financing. However, risks from a shift in US monetary policy and turmoil in the Eurozone need to be watched.

- Successful implementation of the far-reaching changes for sharing of revenues between the Center and the States as recommended by the Fourteenth Finance Commission will advance the cause of cooperative federalism.

- The time is ripe for a more broad-based response to the challenges in agriculture and to ensure that agriculture grows at about 4 percent on a sustained basis.

- To ensure fiscal credibility, and consistency with the medium-term goals, the upcoming budget should initiate the process of expenditure control to reduce both the fiscal and revenue deficits.

- Cash-based transfers based on the JAM number trinity – Jan Dhan, Aadhaar, Mobile – offer exciting possibilities to effectively target public resources to those who need it most.

- Private investment must remain the main engine of long-run growth. But in the short to medium term public investment especially by the railways, will have to play a catalytic role.

- Banking is hobbled by policy, which creates double financial repression and impedes competition. The solution lies in a four-fold policy response captured in 4 Ds: deregulate, differentiate, diversify, and disinter.

- The Prime Minister's Skill India objective should be accorded high priority along with, and indeed in order to realize, "Make in India."

- An intervention that can be immediately implemented is to eliminate the current negative protection facing Indian manufacturing.

- The trading environment is becoming more challenging as the buoyancy of Indian exports has declined.

- India has taken a number of green actions. It can make a positive contribution to the forthcoming Paris negotiations on climate change.

- Improving the status and treatment of women is a major development challenge.

- Family planning targets and the provision of incentives are leading to an undesirable focus on female sterilization. Family planning program should align with reproductive health rights of women.

- Successful implementation of the far-reaching changes for sharing of revenues between the Center and the States as recommended by the Fourteenth Finance

Commission will advance the cause of cooperative federalism.

Chapter -2 : Fiscal Framework

- India must meet its medium-term fiscal deficit target of 3 percent of GDP. This will provide the fiscal space to insure against future shocks.
- India must also reverse the trajectory of recent years and move towards the golden rule of eliminating the revenue deficit and ensuring that, over the cycle, borrowing is only for capital formation.
- The way to achieve this objective should be based on firm control over expenditures, most notably by eliminating leakages in subsidies and social expenditures.

Chapter -3 : 'Wiping every tear from every eye': the JAM Number Trinity Solution

- Price subsidies are often regressive, a rich household benefits more than a poor household.
- Leakages in subsidies are large and can be reduced without compromising household welfare.
- Cash transfers can augment the effectiveness of existing anti-poverty programs.
- The JAM Number Trinity – Jan Dhan Yojana, Aadhaar and Mobile numbers – allows the state to offer this support to poor households in a targeted and less distortive way.
- Two alternative financial delivery mechanisms are suggested – Mobile Money – with over 900 million cell phone users, it offers tremendous opportunities to direct Aadhaar based transfers, Post Offices – the large Postal Network in India can seamlessly fit into the Aadhaar linked benefits-transfer architecture.

Chapter -4 : The Investment Climate: Stalled Projects, debt Overhang and the Equity Puzzle

- The stalling rate of projects has been increasing at an alarmingly high rate in the last five years, and rate is much higher in the private sector.
- The good news is that the rate of stalling seems to have plateaued in the last three quarters.
- The stock of stalled projects has come down to about 7 percent of the GDP at the end of the third quarter of 2014-15 from 8.3 percent the previous year.

- Manufacturing dominates in total value of stalled projects even over infrastructure. The government's stalled projects are predominantly in infrastructure.
- Stalling of projects is severely affecting the balance sheets of the corporate sector and public sector banks, which in turn is constraining future private investment.
- Despite high rates of stalling, and weak balance sheets, the equity market seems to be performing quite well.
- Expectation that the private sector will drive investment needs to be moderated. In this light, public investment may need to step in to recreate an environment to crowd-in private sector investment in the short term.
- Efforts must be made to revitalize the public-private partnership model of investment, albeit in a different manner.

Chapter -5 : Credit, Structure and Double Financial Repression: A Diagnosis of the Banking Sector

- The Indian banking system is affected by what might be called "double financial repression."
- Financial repression on the asset side of the balance sheet is created by the statutory liquidity ratio (SLR) requirement that forces banks to hold government securities, and priority sector lending (PSL).
- Financial repression on the liability side has arisen from high inflation since 2007, leading to negative real interest rates, and a sharp reduction in households' financial savings.
- There appears to be a lack of competition, reflected in the private sector banks' inability to increase their presence.
- Even within the public sector banks there is sufficient variation in performance.
- The four key policy recommendations are the 4Ds -deregulate, differentiate, diversify and disinter.

Chapter -6 : Putting Public Investment on Track: The Rail Route to Higher Growth

- The decline in public as well as private corporate investment has been associated with the growth decline in recent years.
- The two biggest challenges facing increased public investment in India are financial resources and implementation capacity.

- The present government can now do for the neglected railways sector what the previous NDA government did for rural roads.
- This impetus has the potential to crowd in greater private investment and do so without jeopardizing India's public debt dynamics.
- Greater public investment in the railways would boost aggregate growth and the competitiveness of Indian manufacturing substantially.
- In the long run, the railways must be commercially viable.

Chapter -7 : What to Make in India? Manufacturing or Services?

- It is registered manufacturing, not manufacturing in general, which has the potential for structural transformation. It is characterized by unconditional domestic convergence.
- States and firms within India are converging to the Indian frontier but that could mean little unless they are also converging to the international manufacturing frontier.
- The talk on the transformational potential of manufacturing in India must focus on unskilled registered manufacturing.
- Sustaining a skill-intensive pattern would require a greater focus on education and skills development.

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Chapter -8 : A National Market for Agricultural Commodities – Some Issues and the Way Forward

- The provisions of the Model APMC Act do not go far enough to create a national – or even state-level common market for agricultural commodities.
- The 2014 budget recognizes the need for setting up a national market and stated that the central government will work closely with the state governments to reorient their respective APMC Acts to provide for the establishment of private market yards/private markets.
- More steps may have to be taken and incremental moves may need to be considered to get the states on board. For example, first it may be possible to get all the states to drop fruits and vegetables from the APMC schedule of regulated commodities, followed by cereals, pulse and oil seeds, and then all remaining commodities.
- State governments should also be specifically persuaded to provide policy support for setting up infrastructure, making available land etc. for alternative or special markets in private sector.

Chapter -9 : From Carbon Subsidy to Carbon Tax: India's Green Actions

- The recent steep decline in international oil prices is seen by many as an opportunity to rationalize the energy prices by getting rid of the distorting subsidies whilst shifting taxes towards carbon use.
- India has cut subsidies and increased taxes on fossil fuels turning a carbon subsidy regime into one of carbon taxation.
- The move to substantial carbon taxation combined with India's ambitious solar power program suggests that India can make substantial contributions to the forthcoming Paris negotiations on climate change.

Chapter -10 : The Fourteenth Finance Commission (FFC) – implications for Fiscal Federalism in India

- The FFC has radically enhanced the share of the states in the central divisible pool from the current 32 percent to 42 percent.
- The FFC has also proposed a new horizontal formula for the distribution of the states' share in divisible pool among the states.
- The recommendations will move the country toward greater fiscal federalism, conferring more fiscal autonomy on the states.

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VOLUME – II

Chapter 1
State of the Economy-An Overview

- India has emerged with brighter prospects among the few large economies with propitious economic outlook, amidst the mood of pessimism and uncertainties that engulfs a large number of advanced and emerging economies, today.
- The economy stands largely relieved of the vulnerabilities associated with an economic slowdown, persistent inflation, elevated fiscal deficit, slackening domestic

demand, external account imbalances and oscillating value of the rupee.

- The Central Statistics Office has revised the base year of National Accounts series from 2004-05 to 2011-12, which included methodological changes and use of comprehensive information on the corporate sector in manufacturing and services from the MCA21database of the Ministry of Corporate Affairs and greater coverage of information on financial sector and local bodies. This has resulted in revision of estimates of gross value added (GVA) at the aggregate and sectoral levels. Under the new methodology, the headline growth rate is measured by GDP at constant market prices instead of GDP at factor cost.

- The share of services measured by GVA at factor cost was 55.0 percent, 56.2 per cent and 57.0 per cent in 2011-12, 2012-13 and 2013-14 respectively as per the pre-revised (2004-05) series has been revised to 48.2 per cent, 49.6 per cent and 51.0 per cent respectively under the new (2011-12) series. On the other hand, the share of the industrial sector was revised upwards.

- The growth rate in GDP at constant (2011-12) market prices in 2012-13 was 5.1 per cent, which increased to 6.9 percent in 2013-14 and it is expected to further increase to 7.4 per cent in 2014-15 (advanced estimates).

- Quarter-wise the growth measured by GVA at basic prices at constant (2011-12 prices) was 7.0 per cent, 7.8 per cent and 7.5 per cent respectively in the first three quarters of 2014-15.

- The growth in final consumption expenditure in the economy (expressed at constant prices) got strengthened in the current year.

- The growth in 2014-15 is largely driven by domestic demand. There is hardly any external support to growth in 2014-15, as the growth in exports is projected to be only 0.9 per cent and the growth rate of imports, around (-) 0.5 per cent. The deceleration in imports owe substantially to the sharp decline in international oil prices in the current year that compressed the oil import bill.

- There has been a decline in the rate of gross domestic saving, from 33.9 per cent of the GDP in 2011-12 to 31.8 per cent in 2012-13 and further to 30.6 per cent in 2013-14, caused majorly by the sharp decline in the rate of household physical savings.

- Investment rate as measured by Gross capital formation (GCF) as a percentage of GDP declined from 38.2 per cent in 2011-12 to 36.6 per cent in 2012-13 and further to 32.3 per cent in 2013-14.

- Growth rate in Gross Value Added (GVA) at basic prices in agriculture is projected to decline from 3.7 per cent in 2013-14, an exceptionally good year from the point of view of rainfall, to 1.1 per cent in 2014-15, a year with not-so-favourable monsoon.

- The manufacturing sector registered a growth in GVA at basic prices of 6.2 per cent and 5.3 per cent respectively in 2012-13 and 2013-14, and it is expected to keep up the growth momentum in 2014-15 with a growth rate of 6.8 per cent.

- There is continued momentum in the services sector with the growth of the sector in 2014-15 expected to be 10.6 per cent, higher than 9.1 per cent recorded in 2013-14.
- The per capita net national income at current prices is estimated to attain a level of Rs. 88533 for 2014-15, as against Rs. 80388 in 2013-14.

Chapter 2

Public Finance

• The Budget 2014-15 sought to contain the fiscal deficit at 4.1 per cent of GDP against 4.5 per cent of GDP in 2013-14 provisional accounts (PA). Revenue deficit (RD) was placed at 2.9 per cent of GDP in 2014-15 (BE) against 3.2 per cent of GDP in 2013-14(PA).

• The Budget 2014-15 had indicated that while containing the fiscal deficit at 4.1 per cent of GDP was a daunting challenge given the then macroeconomic situation, it outlined the importance of adherence to fiscal consolidation and accepted the challenge. The fiscal consolidation plan as enunciated in Budget Estimates (BE) for 2014-15 entailed an increase in the tax to GDP and non-debt receipts to GDP ratios to 10.6 per cent and 9.8 per cent respectively and a continuance of the low level of total expenditure to GDP ratio at 13.9 per cent. The envisaged growth for gross tax revenue was 17.7 per cent over RE 2013-14 and 19.8 per cent over the PA 2013-14.

• The provisional outcome of April-December 2014-15 was released on 30th January, 2015 by CGA. Fiscal deficit stood at Rs 5.32 lakh crore which is 100.2 per cent of BE and higher than the last five years average of 77.7 per cent. This implies that for fiscal marksmanship this year too some expenditure compression may have to be undertaken. In order to obviate the need for large scale expenditure reduction, the Government has however put in place some additional revenue mobilization efforts.

• With the fiscal deficit of states at 2.4 per cent of GDP in 2013-14 RE, the fiscal deficit of consolidated general government (centre and states combined) was placed at 7.0 per cent of GDP in 2013-14 (RE) and estimated to decline to 6.4 per cent of GDP in 2014-15 BE.

• Going forward, enhanced revenue generation is a priority. The implementation of a well-designed GST and other tax reforms would also play the crucial role in this regard. Overhauling the subsidy regime which should entail further reducing fuel (LPG and kerosene) subsidies, tackling fertilizer subsidies, moving to Aadhaar based direct cash transfers of food subsidy would pave the way for expenditure rationalization.

• The main drivers of subsidies from 2009-10 to 2012-13 were food and petroleum subsidies. The deregulation of diesel price in October 2014, along with the introduction of direct benefit (subsidy) transfer into the bank accounts of domestic LPG consumers, coupled with a sharp decline in global crude oil prices would help contain the petroleum subsidy bill. The under-recoveries on petroleum products are expected to be Rs.74,664 crore during 2014-15, with PDS kerosene LPG accounting for 85 per cent of it, while diesel accounting for 15 per cent. These under-recoveries were Rs.1,39,869 crore in 2013-14, with diesel accounting for 45 per cent and kerosene and domestic LPG accounting for the balance 55 per cent.

Chapter 3

Monetary Management &Financial Intermediation

Monetary and Banking Developments

- Liquidity conditions have remained broadly balanced during 2014-15 so far, except transient tight conditions.
- The Reserve Bank of India kept policy rates unchanged during the year till January 2015. With the easing of inflationary conditions, RBI has signaled softening of monetary policy stance by cutting policy repo rates by 25 basis points to 7.75 percent in January 2015.
- RBI adopted the new Consumer Price Index (combined) as the measure of the nominal anchor (headline CPI) for policy communication from April 2014.
- The growth of aggregate deposits of scheduled commercial banks decelerated during 2014-15 till December mainly due to base effect, i.e., high accretion to NRI deposits last year during September-November and due to lower deposit mobilization during this year. The growth in non-food credit also decelerated.

Banking &Insurance

- Asset quality of banks showed some signs of stress during the year.
- Gross non- performing advances of scheduled commercial banks as a percentage to total advances showed an increase during the year. The gross non-performing advances of Scheduled Commercial Banks 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.
- A number of reforms measures initiated in banking and insurance sector
- Banks allowed to raise capital from the market to meet capital adequacy norms by diluting the government's stake up to 52 per cent.
- PradhanMantri Jan DhanYojana launched to provide universal access to banking facilities with at least one basic banking account for every household.

Financial Markets

- 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, establishment of FPI regulation framework were taken by SEBI to improve functioning of both primary and secondary markets.

Chapter 4

External Sector

- 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 in improving India's share in global exports and imports 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.
- In 2014-15 (April-January), imports grew by 2.2 per cent to US$ 383.4 billion from US$ 375.3 billion in 2013-14 (April-January). While value of Petroleum, Oil and Lubricants (POL) imports declined by 7.9 per cent in 2014-15 (April-January), as a result of decline in the price of international crude petroleum products. Gold and silver imports grew by 8.0 per cent in 2014-15 (April-January). 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 6.9 per cent in 2013-14.
- In 2014-15 (April-January), trade deficit increased by 1.6 per cent to US$ 118.4 billion as against US$ 116.5 billion in 2013-14 (April-January). Low export growth (2.4 per cent) and import growth (2.2 per cent), resulted in a modest increase in trade deficit by US $ 1.8 billion.
- 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, resulted in lower current account deficit and (ii) there was surge in capital inflows, enabled by higher portfolio investment, foreign direct investment and external commercial borrowings. Higher capital inflows were in excess of the financing requirement or CAD and resulted in accretion in foreign exchange reserves.
- As a proportion of GDP, 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. There was a marked improvement in the net capital/financial flows both in terms of quantum and quality in the first half of 2014-15. Net financial inflows were US$ 36.1 billion in the first half of 2014-15 compared to US$ 16.3 billion in the first half of 2013-14. Net foreign investment surged from US$ 7.8 billion in 2013-14 (April-September) to US$ 38.4 billion in 2014-15 (April-September). Similarly, net external commercial borrowing (ECB) also increased from US$ 2.4 billion in 2013-14 (April-September) to US$ 3.4 billion in 2014-15 (April-September).
- With net capital flows remaining higher than the CAD, there was net accretion to India's foreign exchange reserves (on BoP Basis) to the tune of US$ 18.1 billion in H1 of 2014-15 as against a drawdown of US$ 10.7 billion in H1 of 2013-14.
- Among the major economies with current account deficit, India is the second largest foreign exchange reserve holder after Brazil**.** India's foreign exchange reserves at US$ 328.7 billion at end January, 2015 mainly comprised foreign currency assets amounting to US$ 303.3 billion, accounting for 92.3 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 has declined from 29.3 per cent at end-March 2014 to 27.5 per cent as at end September 2014, the reserves 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 broadly remained stable during the year due to the huge inflow of FDI and FII in the equity and bond markets.
- India's external debt stock was increased by US$ 13.7 billion (3.1 per cent) to US$ 455.9 billion at end-September 2014 over the level at end-March 2014. The rise in external debt was on account of higher long term debt particularly commercial borrowings and 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 vis-à-vis 79.8 per cent at end-March 2014. The share of short-term debt in total external debt declined from 20.2 per cent at end-March 2014 to 18.9 per cent at end-September 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 in containing rise in external debt and maintaining a comfortable external debt position.

Chapter 5

Prices, Agriculture & Food Management

Prices

- Inflation has shown a decisive downtrend during 2014-15, after remaining high for a prolonged period.

- Average Wholesale Price Index inflation declined to 3.4 per cent in 2014-15 (April-December) as compared to an average of 6 per cent during 2013-14. The WPI (base:2004=100) inflation in fact was negative in November 2014(- 0.2 percent) and January 2015 (-0.4 percent).

- Like WPI inflation, CPI inflation has also moderated significantly since the second quarter of 2014-15. It declined to an all-time low of 5 per cent in Q3 of 2014-15 CPI inflation in terms of the revised series (base=2012) stood at 5.1 percent in January, 2015.

- The major factors contributing to the significant moderation in inflation include falling global commodity prices, especially of crude oil, decline in the growth rate of rural wages, moderation in the increase in minimum support prices as also slack in economic activity.

- For sustainability of low inflation, the policy focus should be on enhancing the resilience of the agriculture sector and eliminating leakages, inclusion and exclusion errors, and various distortions created by the present food policy. Growth in agriculture has now to increasingly come from non-price factors. Markets for agricultural commodities have to be made more competitive in the interests of both producers and consumers.

- The upside risk to inflation outlook also emanates from uncertainties surrounding the monsoon, international crude oil prices, and the stability in the value of the rupee, particularly in the event of monetary tightening by the US Fed.

Agriculture sector

- The agriculture sector registered an annual growth of 3.8 per cent in value added in the decade since 2004-05 on the back of increase in real prices (31 per cent during 2004-05 to 2011-12). A rising concern in recent times has been the high level of food inflation seasonal and short-term price spikes in some commodities like onions, tomatoes, and potatoes which have become more frequent, more severe, and more lasting, hurting consumers and causing economic instability. A strategy of price-led growth in agriculture is, therefore, not sustainable; also the room for increasing production through raising cropped area is virtually non-existent. Hence the strategy for growth in agriculture has to rely more on non-price factors, viz., yield and productivity..

- According to the new series of national income released by the CSO, at 2011-12 prices the share of agriculture in total GDP is 18 per cent in 2013-14. As against a growth target of 4 per cent for agriculture and allied sectors in the Twelfth Plan, the growth registered in the first year at 2011-12 prices was 1.2 per cent, 3.7 per cent in 2013-14, and 1.1 per cent in 2014-15.

- As per the 2nd Advance Estimates for 2014-15, total foodgrains production in the country is estimated at 257.07 million tonnes whch is the fourth highest quantity of annual foodgrains production in the country. It may be noted that despite deficiency of 12 % in the monsoon rainfall during the year, the loss in production has been restricted to just around 3 % over the previous year and has exceeded the average production during the last five years by 8.15 million tonnes.

- As compared to last year's production of 265.57 million tonnes, current year's production of foodgrains is lower by 8.5 million tonnes. This decline has occurred on account of lower production of rice, coarse cereals and pulses due to erratic rainfall conditions during the monsoon season- 2014.

- To improve resilience of the agricultural sector and bolster food security--including availability and affordable access--our strategy for agriculture has to focus on improving yield and productivity.

Chapter 6

INDUSTRIAL, CORPORATE AND INFRASTRUCTURE PERFORMANCE

- The latest gross domestic product estimates, based on a new methodology and with 2011-12 as base year, point towards industrial recovery which is in contrast to the earlier perception about slow industrial growth during the last three years.

- The Index of Industrial Production (IIP) suggests that the industrial sector is recovering slowly with a 2.1 per cent growth in April- December 2014-15 over the 0.1 per cent in the same period last year. The recovery is led by electricity, coal, and cement while manufacturing growth continues to remain tepid.

- Corporate sector performance of listed manufacturing companies in the private sector in terms of growth of sales and net profit appeared to turn around in Q1 of 2014-15. However, performance in Q2 of 2014-15 has dampened the expectations of sustained improvement.

- Except the mining sector, all other major industrial sectors have experienced slowdown in growth of credit in 2014-15 as compared to 2013-14.

- To improve industrial growth, the new government has emphasized on rapidly improving ease of doing business and skill development and launching fresh initiatives like Make in India and Digital India, creating a National Industrial Corridors Authority, streamlining environment and forest clearances and labour reforms.

- To overcome critical constraints holding up use of land and natural resources, action has been taken to remove regulatory uncertainty by passing Ordinances to streamline land acquisition, e-auction of coal blocks for private companies, and auction of iron ore and other new coal mines

- A number of schemes are being implemented for the establishment of new MSMEs and growth and development of existing ones .The 3.61 crore (MSMEs), contributing 37.5 per cent of the country's GDP, have a critical role in boosting industrial growth and ensuring the success of the Make in India programme.

- FDI up to 100 per cent is permitted under the automatic route in most sectors/activities. 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.

- In infrastructure, the focus has been on resolving long-pending issues like pricing of gas, establishing processes and procedures for transparent auction of coal and minerals, and improving power generation and distribution.

- During April –December 2014-15 growth in the eight core industries was 4.4 per cent growth. Electricity (9.7 per cent), coal (9.1 per cent), and cement (7.9 per cent) boosted the performance, while natural gas (-5.1 per cent), fertilizers (-1.4 per cent), crude oil (-0.9 per cent), refinery products (0.2 per cent), and steel (1.6 per cent) accounted for moderation in growth.

- To improve distribution of power, two new schemes have been launched viz. Integrated Power Development Scheme and Deendayal Upadhyaya Gram Jyoti Yojana.

- To provide a big push to solar energy, two new schemes, viz. Scheme for Development of Solar Parks and Ultra Mega Solar Power Projects and Pilot-cum-Demonstration Project for Development of Grid Connected Solar PV Power Plants on Canal Banks and Canal Tops were rolled out in December, 2014

- In railways, several new initiatives include bullet/semi-high speed trains, modernization of stations, premium special trains, next generation e ticketing applications and close monitoring for timely completion of Dedicated Freight Corridors and critical coal evacuation rail links .

- In the road sector, efforts have been undertaken to resolve problems associated with projects which are yet to be completed and the setting up of National Highways and Infrastructure Development Corporation Ltd. for speedy implementation of highway projects in the north-east.

- In civil aviation sector, there has been healthy increase in international passengers and cargo handled at Indian airports during 2014-15. The major initiatives are implementation of PPP projects at four airports of the AAI, setting up of greenfield airports and development of small airports in Tier II and Tier III cities.

- Three new schemes viz., the Swachh Bharat Mission (SBM), Heritage City Development and Augmentation Yojana (HRIDAY), and Smart City Scheme have been announced for development of urban infrastructure.

Chapter 7

Services Sector

International Comparison

- India ranked 11th in terms of services GDP in 2013 among the world's top 15 countries in terms of GDP (at current prices). However, India has the second fastest growing services sector with its CAGR at 8.7 per cent, just below China's 10.7 per cent, during 2001 to 2013.
- The share of services in world income declined from 68.8 per cent in 2001 to 66 per cent in 2013, while its share in employment increased from 39.1 per cent to 45.1 per cent. India's services sector has a high share in income and relatively low share in employment, while in China, the shares of both services income and services employment are relatively low.

India's Services Sector
GDP

- As per the new method of India's National Accounts Statistics, the services sector accounting for 51.3 per cent of India's gross value added (GVA) at basic prices (current prices) in 2013-14, grew by 9.1 per cent compared to 6.6 per cent total GVA growth and 6.9 per cent GDP growth at market prices.
- Interestingly, the services sector has the highest share (54.6 per cent) in the gross capital formation (GCF) of `35.4 lakhs in 2013-14. This is owing to the GCF in real estate, ownership of dwelling, and professional services at 20.1 per cent.
- As per the Advance Estimates (AE) in 2014-15, growth of the services sector accelerated further to 10.6 per cent as compared to 9.1 per cent in 2013-14. 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.

FDI

- In 2013-14, FDI inflows to the services sector (top five sectors including construction) declined sharply by 37.6 per cent to US$ 6.4 billion, though overall FDI inflows grew by 8.4 per cent. However, during (April to November) 2014-15, the FDI inflows to services grew by 105.8 per cent compared to 22.2 per cent growth in overall FDI inflows.

- The total FDI inflows to the top five services in the first eight months of this year are higher than for the whole of 2013-14 owing to major inflows in telecommunications.

Services trade

- 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.

Performance of some Major Services of India

Tourism

- *India's share in International tourist arrivals in 2013 is a paltry 0.6 per cent compared to 7.8 per cent in France and 6.4 per cent in the US. Even Vietnam and Indonesia have higher shares than India. However, in terms of International tourism receipts, India's share at 1.5 per cent is better than those of Vietnam and Indonesia though it is way below the share of the US at 14.5 per cent.*
- After poor foreign exchange earnings (FEE) growth in dollar terms at 4.0 per cent, despite growing foreign tourist arrivals at 5.9 per cent, in 2013, there was an increase in growth of both foreign tourist arrivals (7.1 per cent) and FEEs (6.6 per cent) in 2014.

Some Professional Services

- The IT–business process management (BPM) industry grew by an estimated 12 per cent, reaching US$ 119 billion in 2014-15, while the export market at US $ 98 billion grew by 12.3 per cent and domestic market at US $ 20.9 billion grew by 10 per cent over the previous year. Software products and services revenues for 2015-16 is projected to grow at 12-14 per cent to reach US $133-136 billion as per NASSCOM.
- Professional, scientific, and technical activities including R&D grew by 14.0 per cent in 2013-14. However, India's capacity for innovation has been lower than many countries. Even in quality of scientific research institutions India scores lower than China, Brazil, and South Africa.

Chapter 8

CLIMATE CHANGE AND SUSTAINABLE DEVELOPMENT

- The year 2015 is likely to be momentous 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 15 years.

- The latest scientific findings has estimated that out of the carbon budget of 2,900 Gt, only 1,000 Gt remains to be used between now and 2100 in order to limit the temperature increase to 2°C. Most of the current and cumulative carbon budget has been used by the developed countries. The key issue therefore for designing emission reduction commitment is how the remaining carbon budget needs to be allocated with a fair burden sharing mechanism.

- As a responsible country, India has been pursuing action oriented policies to address climate change and sustainable development. India launched its National Action Plan on Climate Change way back in 2008 and is currently revisiting National Missions in the light of new scientific information and technological advances. India introduced the clean energy cess on coal in 2010 which very few countries have in the world. This has been doubled recently. India's National solar Mission is being scaled up five-fold to 100,000 megawatts. India has set a National Adaptation Fund with an initial corpus `. 100 crore in 2014.

- Simultaneously, the multilateral Green Climate Fund (GCF) under the UNFCCC has made progress and is now ready for business with around US$ 10 billion pledged to it by the contributing Parties. At the country level, institutional mechanism required to access the GCF resources are being set up.
- The challenge for India is to protect its long term interests and emphasize the need for growth and development space while consciously following a path of sustainable development. With more than a billion population, India has to address the problems associated with increasing urbanization, tackle the problem of eradicating poverty, providing energy access to all and address other developmental priorities.
- As we put our acts together towards a post 2015 global agreement on climate change, it is absolutely critical to ensure that the new agreement is comprehensive, balanced, equitable and pragmatic and is in accordance with the principles and provisions of the UN Framework Convention on Climate Change, in particular common but differentiated responsibilities. 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. 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.

Chapter 9

SOCIAL INFRASTRUCTURE, EMPLOYMENT AND HUMAN DEVELOPMENT

- In 2020 the average age of India's population is expected to be the lowest in the world - around 29 years. When the global economy is expected to witness a shortage of young population of around 56 million by 2020, India would be the only country with a surplus of 47 million youth. The challenge for the country now is in planning and acting towards converting its 'potential' demographic burden into enhanced opportunities of growth.

- **Unique feature of India:** Substantial fertility decline in the south during the last two decades, has made south is ahead in the demographic transition compared to the north. Thus, state specific development policies are needed.
- **Educational Challenges:** Studies prove the positive correlation between education of a girl child and the health of a family. The new scheme Beti Bachao Beti Padhao, for promoting survival, protection and education of the girl child aims to address the issue of declining CSR through a mass campaign targeted at changing social mind set and creating awareness. Even though total enrolment in primary schools increased between 2007-08 and 2013-14, the overall standard of the education system is below global standards. In this direction, Padhe Bharat Badhe Bharat initiative aims to create a base for reading, writing, and math fluency.
- **Poverty:** Over a span of seven years the incidence of poverty declined from 37.2 per cent to 21.9 per cent in 2011-12 for the country as a whole, with a sharper decline in the number of rural poor. 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.

- **Skilling the Youth:** A major impediment to the pace of quality employment generation in India is the small share of manufacturing in total employment. The current size of India's formally skilled workforce is approximately 2 per cent; this number contrasts 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/receiving vocational training. For the period between 2013 and 2022, there is an incremental requirement of 120 million skilled people in the non-farm sector. Promoting growth of MSMEs is critical from this perspective.

- **Towards a Healthy India:** A direct relationship exists between water, sanitation, health, nutrition, and human well being. Consumption of contaminated drinking water, improper disposal of human excreta and improper disposal of solid and liquid waste have been the major causes of many diseases in developing countries like India. The Swachh Bharat Mission (Gramin) aims at attaining an Open Defecation Free India by 2nd October, 2019. Besides, Mission Indradhanush will cover all children by 2020 who are either unvaccinated, or are partially vaccinated against seven vaccine preventable diseases.

- **Gender related challenges:** Apart from violence against married/adult women, excess female child mortality, female infanticide, and child marriage are also considered violence against the female gender. Gender budgeting needs to be more effective in a holistic manner covering health, education, security and equality in all spheres.

- **Human Development: International Comparison:** India's HDI value for 2013 is 0.586 positioning the country at 135 out of 187 countries and territories – the lowest among the BRICS countries.

- **Fostering Inclusive Growth:** The disbursements of benefits need a systematic channel for this various schemes like Pradhan Mantri Jan Dhan Yojna (PMJDY), the RuPay Card have been launched which provides payment solution and are important arms of financial inclusion. To facilitate coordinated functioning of various social infrastructure and human development programmes, Sansad Adarsh Gram Yojna (SAGY) has been launched. Vanandhu Kalyan Yojna will be implemented in one block of ten states having Schedule V areas.

- **Strengthening PRIs:** In order to convert outlays of the panchayat /municipality-centric programmes into outcomes, the capacity of these institutions need to be enhanced through awareness generation, so that they act with greater responsibility, and accountability. There needs to be greater devolution of powers to the panchayats and municipalities in respect of the funds, functions and functionaries (triple Fs) in a phased manner. Such facilitation by the government will transform panchayats and municipalities into vibrant institutions and enable them to perform their envisaged role.

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ECONOMIC SURVEY 2014-15 HIGHLIGHTS

New Delhi, February 27, 2015

Economic Outlook, Prospects and Policy Challenges

- Macroeconomic fundamentals in 2014-15 have dramatically improved. Highlights are:
    - Inflation has declined by over 6 percentage points since late 2013.
    - The current account deficit has declined from a peak of 6.7 percent of GDP (in Q3, 2012-13) to an estimated 1.0 percent in the coming fiscal year.
    - Foreign portfolio flows have stabilized the rupee, exerting downward pressure on long-term interest rates, reflected in yields on 10-year

government securities, and contributed to the surge in equity prices.

- In response to the favourable terms of trade shock (especially with regard to oil), macroeconomic policy has appropriately balanced government savings (two-thirds) and private consumption (one-third).
- After a nearly 12-quarter phase of deceleration, real GDP has been growing at 7.2 percent on average since 2013-14, based on the new growth estimates of the Central Statistics Office. Notwithstanding the new estimates, the balance of evidence suggests that India is a recovering, but not yet a surging, economy.

- From a cross-country perspective, a Rational Investor Ratings Index (RIRI) which combines indicators of macro-stability with growth, illustrates that India ranks amongst the most attractive investment destinations. It ranks well above the mean for its investment grade category (BBB), and also above the mean for the investment category above it (on the basis of the new growth estimates).

- Several reforms have been undertaken and more are on the anvil. The introduction of the GST and expanding direct benefit transfers can be game-changers.

- Structural shifts in the inflationary process are underway due to lower oil prices, deceleration in agriculture prices and wages, and dramatically improved household inflation expectations. Going forward inflation is likely to remain in the 5-5.5 percent range, creating space for easing of monetary conditions.

- In the short run, growth will receive a boost from the cumulative impact of reforms, lower oil prices, likely monetary policy easing facilitated by lower inflation and improved inflationary expectations, and forecasts of a normal monsoon in 2015-16. Using the new estimate for 2014-15 as the base, GDP growth at constant market prices is expected to accelerate to between 8.1 and 8.5 percent in 2015-16.

- Medium-term prospects will be conditioned by the "balance sheet syndrome with Indian characteristics" that has the potential to hold back rapid increases in private sector investment. Private investment must be the engine of long-run growth. However,there is a case for reviving targeted public investment as an engine of growth in the short run to complement and crowd-in private investment.

- India can balance the short-term imperative of boosting public investment to revitalize growth with the need to maintain fiscal discipline. Expenditure control, and expenditure switchingfrom consumption to investment,will be key.

- The outlook is favourable for the current account deficit and its financing. A likely surfeit, rather than scarcity, of foreign capital will complicate exchange rate management. Reconciling the benefits of these flows with their impact on exports and the current account remains an important challenge going forward.

- India faces an export challenge, reflected in the fact that the share of manufacturing and services exports in GDP has stagnated in the last five years. The external trading environment is less benign in two ways: partner country growth and their absorption of Indian exports has slowed, and mega-regional trade agreements being negotiated by the major trading nations in Asia and Europe threaten to exclude India and place its exports at a competitive disadvantage.

- India is increasingly young, middle-class, and aspirational but remains stubbornly male. Several indicators suggest that gender inequality is persistent and high. In the short run, the renewed emphasis on family planning targets,backed by misaligned incentives, is undermining the health and reproductive autonomy of women.

The Fourteenth Finance Commission

- The FFC marks a watershed in the history of Indian federalism. Unprecedented increases in tax devolution will confer more fiscal autonomy on the states. This will be enhanced by the FFC-induced imperative of having to reduce the scale of other central transfers to the states. In other words, states will now have greater autonomy both on the revenue and expenditure fronts.

- All states stand to gain from extra resources although there will be some variation between the states.

- FFC transfers are highly progressive; that is, states with lower per capita NSDP receive on average much larger transfers per capita. In contrast, plan transfers were much less progressive.

- The concern that more transfers will undermine fiscal discipline is not warranted because states as a whole have been more prudent than the centre in recent years.

- In the wake of the FFC recommendations, and the implied additional transfer of resources to the states, India's public finances should now increasingly be assessed at the consolidated level (center plus states).

Fiscal Framework

- India must adhere to the medium-term fiscal deficit target of 3 percent of GDP. This will provide the fiscal space to insure against future shocks and also to move closer to the fiscal performance of its emerging market peers.

- India must also reverse the trajectory of recent years and move toward the golden ruleof eliminating revenue deficits and ensuring that, over the cycle, borrowing is only for capital formation.

- Expenditure control combined with recovering growth and the introduction of the GST will ensure that medium term targets are comfortably met.

- In the short run, the need for accelerated fiscal consolidation is lessened by the dramatically changed macro-circumstances and the less-than-optimal nature of pro-cyclical policy. The ability to do so will be conditioned by the recommendations of the Fourteenth Finance Commission (FFC).

- Nevertheless, to ensure fiscal credibility and consistency with medium-term goals, the process of expenditure control to reduce the fiscal deficit should be initiated. At the same time, the quality of expenditure needs to be shifted from consumption, by reducing subsidies, towardsinvestment.

- Finally, implementing the FFC recommendations will lead to states accounting for a large share of total tax revenue. This has the important implication that, going forward, India's public finances must be viewed at the consolidated level and not just at the level of the central government. If recent trends in state-level fiscal management continue, the fiscal position at the consolidated level will be on a sustainable path.

Subsidies and the JAM Number Trinity Solution

- The debate is not about whether but how best to provide support to the poor and vulnerable. The government subsidises a wide variety of goods and services with the aim of making them affordable for the poor, including: rice, wheat, pulses, sugar, railways, kerosene, LPG, naphtha, iron ore, fertiliser, electricity, water.
- The direct fiscal cost of these select subsidies is roughly Rs. 378,000 crore or 4.2

percent of 2011-12 GDP. This is roughly how much it would cost to raise the expenditure of every household to the level of a 35th percentile household (well above the 21.9percentTendulkar Committee poverty line).

- Are these subsidies effectively targeted at the poor? Unfortunately, subsidies can sometimes be regressive and suffer from leakages. For example, electricity subsidies by definition only help electrified households. Even in the case of kerosene, 41 percent of PDS kerosene is lost as leakage and only 46 percent of the remaining 59 percent is consumed by households that are poor.

- The JAM Number Trinity – ***J***an Dhan Yojana, ***A***adhaar, ***M***obile – can enable the State to transfer financial resources to the poor in a progressive manner without leakages and with minimal distorting effects.

The Investment Challenge

- The stock of stalled projects stands at about 7 percent of GDP, accounted for mostly by the private sector. Manufacturing and infrastructure account for most of the stalled projects. Changed market conditions and impeded regulatory clearances are the prominent reasons for stalling in private and public sectors, respectively.

- This has weakened the balance sheets of the corporate sector and public sector banks, which in turn is constraining future private investment, completing a vicious circle.

- Despite high rates of stalling, and weak balance sheets, the stock market valuations of companies with stalled projects are quite robust,which is a puzzle.

- Combining the situation of Indian public sector banks and corporate balance sheets suggests that the expectation that the private sector will drive investment needs to be moderated. In this light, public investment may need to step in to ramp up capital formation and recreate an environment to crowd-inthe private sector.

The Banking Challenge

- The Indian banking balance sheet is suffering from ‘double financial repression’. On the liabilities side, high inflation lowered real rates of return on deposits. On the assets side, statutory liquidity ratio (SLR) and priority sector lending (PSL) requirements have depressed returns to bank assets. As inflation moderates and the banking sector exits liability-side repression, it is a good time to consider addressing the asset-side counterpart.

- In a cross-country comparison, controlling for the level of development, the size of the Indian banking system, measured by credit indicators, does not seem too high either in absolute terms or relative to other sources of financing. However, going forward, capital markets and bond-financing need to be given a boost.

- Private sector banks did not partake in the biggest private-sector-fuelled growth episode in Indian historyduring 2005-2012. This is reflected in the near-constant share of private sector banks in deposits and advances in those years.

- There is substantial variation in the performance of the public sector banks, so that they should not be perceived as a homogenous block while formulating policy.

Putting Public Investment on Track – the Rail Route to Higher Growth.

- The Indian Railways over the years have beenon a 'route to nowhere'characterized by underinvestment resulting in lack of capacity addition and network congestion; neglect of commercial objectives; poor service provision; and consequent financial weakness. These have cumulated to below-potential contribution to economic growth.

- Very modest hikes in passenger tariffs and cross-subsidisation of passenger services from freight operations over the years have meant that Indian (PPP-adjusted) freight rates remain among the highest in the world, with the railways ceding significant share in freight traffic to roads (that is typically more costly and energy inefficient).

- As a result, the competitivenessof Indian industry has been undermined. Calculations reveal that China carries about thrice as much coal freight per hour vis-à-vis India. Coal is transported in India at more than twice the cost vis-à-vis China, and it takes 1.3 times longer to do so.

- Econometric evidence suggests that the railways public investment multiplier (the effect of a Rs. 1 increase in public investment in the railwayson overall output) is around 5.

- However, in the long run, the railways must be commercially viable and public support must be linked to railwayreforms: adoption of commercial practices; tariff rationalization; and technology overhaul.

Skill India to Complement Make in India

- What should we 'Make in India'? Sectors that are capable of facilitating structural transformation in an emerging economy must:
  - Have a high level of productivity.
  - Show convergence to the technological frontier over time.
  - Draw in resources from the rest of the economy to spread the fruits of growth.
  - Bealigned with the economy's comparative advantage; and
  - Betradeable.

- Registered manufacturing, construction and several service sectors -- particularly business services -- perform well on these various characteristics. A key concern with these sectors however is that they are rather skill-intensive and do not match the skill profile of the Indian labour force.
- India could bolster the Make in India''initiative, which requires improving infrastructure and reforming labor and land laws by complementing it with the''Skilling India initiative. This would enable a larger section of the population to benefit from the structural transformation that such sectors will facilitate.

A National Market for Agricultural Commodities

- Markets in agricultural products are regulated under the Agricultural Produce Market Committee (APMC) Act enacted by State Governments. India has not one, not 29, but thousands of agricultural markets.
- APMCs levy multiple fees of substantial magnitude, that are non-transparent, and hence a source of political power.
- The Model APMC Act, 2003 could benefit from drawing upon the 'Karnataka Model' that has successfully introduced an integrated single licensing system. The key here is to remove the barriers that militate against the creation of choice for farmers and against the creation of marketing infrastructure by the private sector.

Climate Change

- India has cut subsidies and increased taxes on fossil fuels (petrol and diesel along with a coal cess) turning a carbon subsidy regime into one of carbon taxation. The implicit carbon tax is US$ 140 for petrol and US$64 for diesel.

- In light of the recent falling global coal prices and the large health costs associated with coal, there may be room for further rationalization of coal pricing. The impact of any such changes on affordable energy for the poor must be taken into account.

- On the whole, the move to substantial carbon taxation combined with India's ambitious solar power program suggests that India can make substantial contributions to the forthcoming Paris negotiations on climate change.

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Economic Survey highlights the need for balance between 'Make in India' and 'Skilling India'

New Delhi, 27th February, 2015

Economic Survey 2014-15 discusses the "Make in India" the flagship initiative and a key policy objective of the new government. The Survey contemplates "*What should India make?Manufacturing or Services?* " As a prelude, the Survey states that, in order to bring about expansion and structural transformation, India should utilize its dominant resource of unskilled labour.

The survey distinguishes registered manufacturing (formal sector)from the general manufacturing which covers informal sector as well. The Economic Survey recognizes registered manufacturing as having "*the potential for structural transformation*." Registered manufacturing exhibits high productivity compared to other sectors of the economy.

However, the Economic Survey observes that manufacturing productivity in India lags behind other nations. The Survey points out that all Indian states exhibit declining share of manufacturing in the State GDP. In addition, the Survey identifies that registered manufacturing couldn't bridge regional disparities in India. In addition to this, registered manufacturing now in India has been identified as skill intensive which is not in line with the India's comparative advantage in unskilled labour.

The Economic Survey identifies four factors for non development of manufacturing as an engine of economic growth –

- Distortions in Labour Market
- Distortions in Capital Market
- Distortions in Land Market
- Specialization not in line with India's comparative advantage in unskilled labour

Certain subsectors of services – financial services and business services, exhibit higher productivity levels than registered manufacturing. However, these sectors being highly skill intensive (excluding construction) are out of line with the skill profile of the Indian labour force. They are unlikely to generate widely shared and inclusive growth. However, the survey observes that the service sector has the potential for domestic growth convergence across regions.

Hence, the survey redrafts the question of manufacturing versus service. It posits that the real question should be whether we want to concentrate on non-skilled labor intensive sectors or the development of skill intensive sector. The Economic Survey concludes that Indian growth should balance the nation's comparative advantage in availability of low skilled labour with skill development required by future generations to take advantage of lost opportunities. The registered manufacturing must be expanded to take leverage of India's abundant unskilled labour. While "Make in India" occupies prominence as an important goal, the future trajectory of Indian Development depends on both "Make in India" and "Skilling India", the Economic Survey says.

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MAJOR REFORM INITIATIVES UNDERTAKEN BY GOVERNMENT IN BANKING, INSURANCE AND FINANCIAL SECTOR

New Delhi: February 27, 2015

Economic Survey 2014- 15 states that liquidity conditions (money supply) have remained broadly balanced during 2014-2015 except for some temporary tight conditions due to delayed government expenditure. Steps taken by the Reserve Bank of India (RBI) played a positive role in managing the liquidity conditions.

- Till January 2015, RBI had kept the policy rates unchanged. As inflationary conditions eased, RBI softened the monetary policy by cutting the Repo rates by 25 basis points in January 2015 (from 8% to 7.75%).
- The Reserve Bank of India (RBI) also adopted new Consumer Price Index (combined) as the measure for nominal anchor (Headline CPI) for policy communication.

Economic Survey 2014- 15 also mentions about the many reform initiatives undertaken in the banking sector during 2014- 2015. These include

- Banks being allowed to raise capital from the market to meet capital adequacy norms by diluting the government’s stake up to 52 per cent.
- Pradhan Mantri Jan Dhan Yojana launched to provide universal access to banking facilities with at least one basic banking account for every household.
- In April 2014, two applicants have been granted ‘in principle’ approval to set-up new banks in the private sector within 18 months.

- RBI released guidelines and invited applications for setting up payments banks and local area banks.

According to Economic Survey, FY 2014- 2015 saw some stress on the asset quality of the Scheduled Commercial Banks as there was an increase in gross NPA (Non Performing Advances) to the total gross advances. NPA increased from 4.1 %(March 2014) to 4.5 %(September 2014). As on June 2014 , five subsectors, viz. Infrastructure, Textiles, Iron & Steel, Mining and aviation hold 54% of total stressed advances of Public Sector Banks.

Actions taken by RBI to deal with NPAs

- Issued guidelines, prompting banks to act as soon as a sign of stress is noticed in borrower's actions and not to wait for it to become a NPA.
- Tightened norms to Asset Reconstruction Companies, increasing the minimum investment in security receipts to 15% from 5%.
- Issued guidelines to bring flexibility in project loans to infrastructure and core industry projects.

2014- 2015 also saw a decline in the growth of bank credit due to high accretion of NRI deposits and also due to low deposit mobilization

Economic Survey points out that insurance penetration in India has grown from 2.3% in 2000 t0 3.9% in 2013. This insurance penetration level compares well with the emerging market economies. The sector registered a growth of 9.4% during 2013- 14 with Life Insurance Corporation of India registering 13.5 % growth.

- Reform initiatives in Insurance sector during 2014- 2015
  - Promulgation of Insurances Laws (Amendment) Ordinance 2014 :
    - to remove archaic and redundant provisions in insurance laws
    - empowering Insurance Regulatory and Development Authority to enable more effective regulation
    - to increase the foreign equity cap in Indian Insurance Companies from 26% to 49%

Equity Markets continue to do well for the financial year 2014- 2015 as per the Economic Survey 2014- 15. The benchmark indices, BSE Sensex and Nifty showed a general upward trend in the current year with growth rates of 29.9 % and 31.4 % year on year.

Reform initiatives in financial sector during 2014- 2015

- Improvement in Corporate Governance norms
- Establishment of a foreign portfolio investor for better functioning of both primary and secondary markets

Overall Economic Survey 2014-15 talks about increased financial inclusion, improved insurance penetration and fast growing equity markets in India. It also dwells into the problems faced by the banking sector and the major policy initiatives by the government to enable the growth of banking, insurance and financial sectors.

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WIPING EVERY TEAR FROM EVERY EYE: THE JAN DHAN YOJANA, AADHAAR AND MOBILE NUMBERS PROVIDE THE SOLUTION

NEW DELHI, 27TH FEBRUARY 2015

Both the Central and State Government subsidize the price of wide range of products with the expressed intention of making them affordable for the poor. Rice, wheat, pulses, sugar kerosene, LPG, naptha, water, electricity, diesel, fertilizer, iron ore, railways- these are just a few of the commodities and services that the Government subsidises.

There is always a question over how much of these benefits actually reach the poor.

- Price subsidies are often regressive: It means that a rich household benefits more from the subsidy than a poor household.

    - Price subsidies in electricity can only benefit the (relatively wealthy) 67.2 percent of household that are electrified.
    - The poorest 50 percent of household consume only 25 percent of LPG.
    - Majority (51 percent) of subsidized kerosene is consumed by the non-poor and almost 15 percent of subsidized kerosene is actually consumed by relatively well-off (the richest 40 percent).
    - A large fraction of price subsidies allocated to water utilities- upto 85 percent- are spent on subsidizing private taps when 60 percent of poor household get their water from public taps.
    - Controlled rail prices actually provide more benefits for wealthy household than poor households.

- Price subsidies can distort markets in ways that ultimately hurt the poor.

    - This contributes to food price inflation that disproportionately hurts poor household who tend to have uncertain income streams and lack the assets to weather economic shocks.
    - High MSPs and price subsidies for water together lead to water-intensive cultivation that causes water tables to drop, which hurts farmers, especially those without irrigation.
    - In order to cross subsidise low passenger fares, fright tariffs in railways are among the highest in the world. This reduces the competitiveness of Indian manufacturing and raises the cost of manufactured goods that all households, including the poor, consume.
    - Benefits from fertilizer price subsidies probably accrue to the fertilizer manufacturer and richer farmer, not the intended beneficiary, the farmer.

- Leakages seriously undermine the effectiveness of product subsidies.

    - Recent academic research on the subject of PDS leakages (kerosene, rice, wheat etc.) has found that leakages are falling through still unacceptably high.

PDS LEAKAGES

Items	**Rs. (In crores)**
Kerosene	10000
Rice	5800
Wheat	12600

THE POSSIBILITIES OFFERED BY CASH TRANSFERS

Recent experimental evidence documents that unconditional cash transfers- if targeted well- can boost household consumption and asset ownership, reduce food security problems for the ultra-poor and opportunities for leakage.

THE **JAM** NUMBER TRINITY SOLUTION

The JAM Number Trinity- ***J****an Dhan Yojana,* ***A****adhaar and* ***M****obile numbers*- allows the state to offer this support to poor households in a targeted and less distortive way.

- As of December 2013 over 720 million citizens had been allocated an Aadhaar card. By December 2015 the total number of Aadhaar enrolments in the country is expected to exceed 1 billion. Linking the Aadhaar Number to an active bank account is key to implementing income transfers.

- With the introduction of Jan Dhan Yojana, the number of bank accounts is expected to increase further and offering greater opportunities to target and transfer financial resources to the poor.

Two alternative financial delivery mechanisms below:

- ***Mobile Money***

    - With over 900 million cell phone users and close to 600 million unique users, mobile money offers a complementary mechanism of delivering direct benefits to a large proportion of the population. And this number is increasing at a rate of 2.82 million per month.

    - Aadhaar registrations include the mobile numbers of a customer, the operational bottlenecks required to connect mobile numbers with unique identification codes is also small.

- ***Post Offices***

- India has the largest Postal Network in the world with over 1,55,015 Post Offices of which (89.76 percent) are in the rural areas.
- Similar to the mobile money framework, the Post Office can seamlessly fit into the Aadhaar linked benefits-transfer architecture by applying for an IFSC code which will allow post offices to start seeding Aadhaar linked accounts.

Converting all subsidies into direct benefit transfers is therefore a laudable goal of government policy. Even as it focuses on second generation and third generation reforms in factor markets, India will then be able to complete the basic first generation of economic reforms.

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Improvement in female literacy and Educational Challenges

New Delhi, February 27, 2015

There has been a marked improvement in female literacy as per Census 2011. Though the male literacy is still higher at 80.9 percent than female literacy at 64.6 percent, the increase has been 10.9 percent compared to 5.6 percent of the males. The new Scheme Beti Bachao Beti Padhao, for promoting survival protection and education of girl child aims to address the issue of declining figures through a mass campaign targeted at changing social mindset and creating awareness. The right of Children to free and compulsory Education (RCE) act 2009 implemented under Sarv Shiksha Abhiyan aimed to increase the quality as well as accessibility of elementary Education in India.

Economic Survey points out that the overall Standard of Education in India is below global Standards. The Programme for International Students Assessment (PISA) which measures the knowledge and skills of 15 year-olds has rated Tamil Nadu and Himachal Pradesh only higher to other States in the Country. There is a considerable scope for Post-Secondary Education and Training System, as well as for places, to improve the Proficiency of young People.

The inadequacy of human capital at the base of the pyramid leading to a huge backlog in basic skills put become a big impediment in India's growth as a result of the changing demography and declining child population. The Padhe Bharat Badhe Bharat initiative to create a base for reading, writing, and math fluency can be effective if the local administration is fully involved and sensitized in it.

India has about 100 million young people in the age group of 15-18 years, majority of which could land up in unorganized sector as there are educational and age requirement for entry into most vocational skills Programmes. There is a need for research into the type of knowledge or skills required to address this issue.

In order to build capacity in secondary schools on par with expanded primary enrolments, several schemes like the Mid-Day Meal scheme, Rashtriya Madhyamik Shiksha Abhiyan, Model School Scheme and Saakshar Bharat/Adult Education have also been implemented in the country. To strengthen the cadre of teacher educators by providing early career choice to prospective teachers and to fill the vacancies in teacher education institutions, a new four-year integrated programme, i.e. BA./Bed, and BSc./Bed. has been introduced.

The Indian higher education system is one of the largest in the world with 713 universities, 36,739 colleges, and 11,343 diploma-level institutions. To make Higher Education to be futuristic envision areas that will generate future employment opportunities, there is a need to match the supply with demand and dovetail education policy to employment opportunities.

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Skill Development and Employment are major Challenges: Economic Survey

New Delhi, February 27, 2015

There is a dual challenge of developing skills and utilizing them in a proper way. The Economic Survey 2014-15 has stated that as per the Labour Bureau Report 2014, the present skilled workforce in India is only 2 percent, which is much lower when compared to the developing nations. As per the report, the number persons aged 15 years who have received or be receiving skills is merely 6.8 percent.

The Economic Survey 2014-15 stated that as per the National Skill Development Corporation there is a need of 120 million skilled people in the non-farm sector for the period 2013-14. Dearth of formal vocational education, lack of vide variation quality, high school dropout rates, inadequate skill training capacity, negative perception towards skilling, and lack of industry ready skills even in processional courses are the major cause of poor skill levels of India’s workforce. Some recent initiatives that aim to enhance access, equality, quality, innovation in the area of higher and vocational education are the Rashtriya Uchchatar Shiksha Abhiyan, Technical Education Quality Improvement Programme, and National Skill Qualification Framework.

A dedicated Department of Skill Development and Entrepreneurship has been created under the Ministry of Skill Development, Entrepreneurship, Youth Affairs and Sports to accord focused attention in this area. The Deen Dayal Upadhyaya Grameen Koushalya Yojana for poor rural youth and Nai Manzil for education and skill development of minority dropouts have also been set up.

The Economic Survey has shown the cause for concern is the deceleration in the compound annual growth rate of employment during 2004-05 to 2011-12 to 0.5 percent from 2.8 percent during 1999-2000 to 2004-05 as against growth rate of 2.9 percent and 0.4 percent respectively in the labour force for the same periods.

There have also been structural changes to the share of primary sector in total employment has dipped below the halfway mark while employment in secondary and tertiary sectors have shown a considerable increase. Self-employment continues to dominate, with a 52.2 percent share in total employment with significant share of workers engaged in low-income-generation activities, the Economic Survey added.

The Economic Survey also observed that there are other issues of concern like poor employment growth in rural areas, particularly among women. In order to improve generation of productive employment under the Mahatma Gandhi National Rural Employment Guarantee Act, the Intensive and Participatory Planning Exercise has been initiated to prepare the labour budget for financial year 2015-16 in selected 2500 backward blocks using participatory rural appraisal technique.

The Economic Survey 2014-15 has concluded that 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 NSSO round (2011-12) indicates a revival in employment growth in manufacturing from 11 percent in 2009-10 to 12.6 percent in 2011-12. This is significant given that the National Manufacturing Policy 2011 has set a target of creating 100 million jobs by 2022. Promoting growth of micro, small, and medium enterprises is critical from the perspective of job creation which has been recognized as a prime mover of the development agenda in India.

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Economic Survey 2014-15

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India needs to create additional Fiscal Space: Economic Survey 2014 – 15

New Delhi, February 27, 2015

India needs to create additional fiscal space in order to ensure macro stability and to create buffers for future economic downturns, says the Economic Survey, tabled in Parliament by the Union Finance Minister, Shri Arun Jaitley here today.

Medium-Term Strategy

The Survey advocates a medium-term fiscal strategy to create this space. The space, it says, is necessary to insure against future shocks. The recommended strategy would also take India closer in fiscal performance, to that of its emerging market peers.

The Survey outlines the two pillars of this medium-term strategy:

- Reduce deficits
    - Reduce fiscal deficit over the medium term to the established target of 3% of GDP
    - Move towards the golden rule of eliminating the revenue deficit
    - Ensure thereby that borrowing over the cycle is only for capital formation
- Expenditure Control and Expenditure Switching
    - Maintain a firm control on expenditures, in order to achieve the above targets
    - Improve quality of public expenditure; shift away from public

consumption (by reducing subsidies) towards investment

Based on Fundamental Principles as well as History

The medium-term fiscal strategy is based on fundamental principles of fiscal policy, as well as on the need to maintain fiscal credibility.

The Survey invokes the following golden rule: Governments are expected to borrow over the cycle only to finance investment, and not to fund current expenditures. Short-term targets should be set accordingly. This, the Survey argues, would assist the Government to take the Indian economy back to a durably higher growth path.

These considerations are reinforced by legacy and credibility issues. Adhering to fiscal deficit target set earlier is essential to maintain credibility and provide policy stability.

The Survey explains how an analysis of India's recent fiscal history too buttresses this strategy.

Need for Fiscal Action in short-term too

The Survey states that fiscal action cannot wait; it should continue in the upcoming year as well. It however adds that the need for accelerated fiscal consolidation has reduced, in view of reduced macroeconomic pressures.

Targets comfortably attainable

The Economic Survey assures us that concrete actions in the Union Budget to implement the medium-term fiscal strategy outlined above would lead to a comfortable attainment of the medium-term targets. India can thus balance i) the short-term imperative of boosting public investment to revitalize growth, with the ii) need to maintain fiscal discipline.

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INFRASTRUCTURE GROWTH IN TERMS OF EIGHT CORE INDUSTRIES HIGHER THAN INDUSTRIAL GROWTH SINCE 2011-12

NUMBER OF MACRO LEVEL AND SECTORAL INITIATIVES UNDERTAKEN TO IMPROVE INDUSTRIAL GROWTH

New Delhi: February 27th, 2015

The Index of Industrial production (IIP) suggests that industrial sector is recovering slowly with a 2.1 per cent in April - December 2014-15 over the 0.1 per cent in the same period last year. The Economic Survey presented by the Finance Minister Sh. Arun Jaitely in the Lok Sabha today says that the recovery is led by the infrastructure sectors namely electricity, coal and cement. Mining sector growth has turned positive while manufacturing growth continues to remain tepid, registering growth of 1.2 % in April – December 2014-15. The Survey observes that the low growth in manufacturing is mainly due to high rate of interest, infrastructure bottlenecks, and low domestic and external demand.

The Economic Survey 2014-15 points out that the latest Gross Domestic Products estimates, based on new methodology and with 2011-12 as a base year, points towards industrial recovery which is in contrast to earlier perception about slow industrial growth during the last three years.

To improve industrial growth, the Economic Survey says that the new Government has emphasized on rapidly improving ease of doing business, skill development and launching fresh initiatives like Make in India and Digital India, creating National Industrial Corridors Authority streamlining environment and forest clearances and labour reforms. To overcome critical constraints, holding up use of land and natural resources, the Government has taken actions to remove regulatory uncertainty by passing Ordinances to streamline land acquisition, e-auction of coal blocks for private companies and auction of iron ore and other new coal mines.

In infrastructure, the Survey mentions that the focus of the Government has been on resolving long pending issues like pricing of gas, establishing processes and procedures for transparent auction of coal and minerals and improving power generation and distribution.

According to the Survey, during April–December 2014 – 15, the overall growth in the eight core industries has improved marginally to 4.4 per cent compared to 4.1 per cent in the same period last year. Electricity, coal and cement boosted the performance while natural gas, fertilizers, crude oil, refinery products and steel accounted for moderation in growth. The improved performance in electricity is due to high growth in thermal generation, in coal mining due to higher production by Coal India Limited and captive mining and in cement due to capacity addition. Natural gas and crude oil production have decline because of no major discoveries and problem with old oil fields. Domestic steel production is affected by slow down in domestic demand and cheaper imports. Fertilizer production has contracted mainly because of non-availability of gas and similar capacity addition in past few years, the Economic Survey observes.

The pre-budget Economic Survey notes that 3.61 crores MSMEs contributes 37.5% of the country's GDP have a critical role in boosting industrial growth and ensuring the success of the Make in India programme. It further states that a number of schemes are being implemented for the establishment of new MSMEs and growth and development of the existing ones.

According to the Survey, an investor-friendly FDI policy has been put in place whereby FDI upto 100% is permitted under the automatic route in most sectors / activities. In 2014, FDI policy has been further liberalized. FDI upto 49% through the Government route have been permitted in the Defence industry. Higher FDI has also been allowed on a case to case basis. FDI upto 100% through automatic route has been permitted in construction, operation and maintenance of identified railways transport infrastructure. Norms related to minimum land area, capitalization and repatriation of funds for FDI in construction, development projects have been further liberalized. During April-November

2014, total FDI inflows (including equity inflow, reinvested earnings, and other capital) were US $27.4 billion, while FDI equity inflows were US $ 18.9 billion, the Economic Survey adds.

In the power sector, the Economic Survey describes that the government has taken several decisions to provide 24X7 power across the country by 2019 which includes steps for increasing power generation, strengthening of transmission and distribution, separation of feeder and metering of power to consumers. To improve the distribution of power, two new schemes have been launched namely Integrated Power Development Schemes and Deendayal Upadhyaya Gram Jyoti Yojana. The Electricity (Amendment) Bill 2014 has been introduced in the Lok Sabha to usher in reforms in the power sector, promote competition and efficiency in operation and improve the quality of supply of electricity, the Survey mentions.

According to the Survey, to provide a big push to solar energy, that two new schemes namely, Scheme for Development of Solar Parks and Ultra Mega Solar Power Projects and Pilot-cum-Demonstration Projects for Development of Grid Connected Solar PV Power plants on Canal Banks and Canal Tops were rolled out in December 2014.

Regarding Railways, the Economic Survey listed out key focus areas which include creation of capacity, modernization of network, improvement in asset utilization and productivity, modernization of rolling stock and maintenance practices, and improvement in the quality of services. Investments are being prioritized in important areas like Dedicated Freight Corridors (DFCs), high speed rail, high capacity rolling stock, last mile rail linkages, and port connectivity, the Survey adds.

In the road sector, efforts have been undertaken to resolve problems associated with projects which are yet to be completed and the setting up of National Highways and Infrastructure Development Corporation Ltd. for speedy implementation of highway projects in the north-east.

In civil aviation sector, there has been healthy increase in international passengers and cargo handled at Indian airports during 2014-15. The major initiatives are implementation of PPP projects at four airports of the AAI, setting up of greenfield airports and development of small airports in Tier II and Tier III cities.

Three new schemes viz., the Swachh Bharat Mission (SBM), Heritage City Development and Augmentation Yojana (HRIDAY), and Smart City Scheme have been announced for development of urban infrastructure, says the Economic Survey.

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GOVERNMENT REMAINS COMMITTED TO FISCAL CONSOLIDATION; ECONOMIC SURVEY SAYS ENHANCED REVENUE GENERATION IS A PRIORITY

New Delhi: 27th Feb 2015

The Government remains committed to fiscal consolidation. The Economic Survey 2014-15 presented in Parliament today states that the deficit target of 4.1% as envisaged in the Budget 2014-15 will be met. However, should the revenues not pick-up sufficiently, there would be need to persist with some compression in expenditure so as to meet the deficit target. It says that achieving the target is a daunting task in the backdrop of only a moderate increase in indirect taxes and a large subsidy bill despite significant decline in the oil subsidies burden in the current year. The Economic Survey mentions that going forward, enhanced revenue generation is a priority.

The fiscal consolidation plan as enunciated in Budget Estimates (BE) for 2014-15 entailed an increase in the tax to GDP ratio and non-debt receipts to GDP ratio to 10.6 per cent and 9.8 per cent respectively, and a continuance of the low level of total expenditure to GDP ratio at 13.9 per cent. The envisaged growth for Gross Tax Revenue (GTR) was 17.7 per cent over RE 2013-14 and 19.8 per cent over the Provisional Account (PA) 2013-14. Economic Survey states that the Budget for 2014-15 estimated GDP growth rate of 13.4% and growth in overall gross tax revenue at 19.8% over the last year but this seems to be an overestimation, given the trends in GDP growth and growth in GTR. Several important and path breaking initiative for reviving the economy and promoting investment in the manufacturing sector were taken, and measures for rationalization of tax provision so as to reduce litigation were introduced. Modernization of business processes of tax administration are being under taken in order to raise revenue and improve the ease of doing business.

The Economic Survey says in the current financial, the Government has disinvested its equity in SAIL, Coal India and others and realized about Rs 24,000 crore so far. The recovery of loans has been declining because of the Finance Commission's recommendations.

In 2014-15, the centrally sponsored schemes were restructured into 66 programmes for greater synergy and effective implementations. Central assistance to states and Union Territories for their plans increased from Rs 1.1 lakh crore in RE 2013-14 to Rs 3.38 lakh crore in BE 2014-15. The energy, transport, social service, and industry and mineral sectors got the maximum share in the central plan of 2014-15.

Non plan expenditure constituted around 68% of total expenditure in BE 2014-15. Expenditure like interest payment, subsidies, defence service, pension, and non plan revenue expenditure constituted around 87.4% of total non plan revenue expenditure in BE 2014-15. The rationalization and re-prioritization of non-plan revenue expenditure is expected to play a vital role in the process of fiscal consolidation and targeting expenditure more towards inclusive and sustained development. Among the subsidies, the under-recoveries on petroleum product are expected to be Rs 74,664 crore during 2014-15 against Rs 1,39,869 crore in 2013-14. The Survey says that rationalization of food subsidies is still an area where more effort is required.

The provisional outcome of April-December 2014-15 was released on 30th January, 2015 by CGA. Fiscal deficit stood at Rs 5.32 lakh crore which is 100.2 per cent of BE and higher than the last five years average of 77.7 per cent. The revenue deficit for April-December 2014 is estimated at 106.2% of BE. This implies that for fiscal marksmanship this year too some expenditure compression may have to be undertaken. In order to obviate the need for large scale expenditure reduction, the Government has however put in place some additional revenue mobilization efforts.

The growth in gross tax revenue increased by 7% in comparison to the corresponding period of 2013-14. The non-tax revenue during the period registered an increase of 27.3% over the same period of last year. On the expenditure side of Union government account, 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. Indirect taxes growth at 6.2 % in 2014-15 (April-December) is much lower than 25.8% over the corresponding period of 2013-14. Direct taxes collected in the first 9 months in the year are broadly in the same level as in the corresponding period of the last year. 6.2% growth at expenditure in April – December 2014 over the corresponding period in the previous year has helped in containing fiscal deficit for the first three quarters of the current fiscal.

The Economic Survey says that going forward, enhanced revenue generation is a priority. The implementation of a well-designed Goods and Services Tax (GST) and other tax reforms would also play the crucial role in this regard. Overhauling the subsidy regime which should entail further reducing fuel (LPG and kerosene) subsidies, tackling fertilizer subsidies, moving to Aadhaar based direct cash transfers of food subsidy would pave the way for expenditure rationalization. Fiscal consolidation is a necessity but the quality of consolidation is imperative to make it sustainable. To achieve this end it would be necessary put in place a medium to long term fiscal policy frame work with explicit revenue, expenditure and deficit target.

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SERVICES SECTOR CLOCKS DOUBLE DIGIT GROWTH

ECONOMIC SURVEY SAYS SERVICES SECTOR NEGOTIATIONS AT WTO CRUCIAL, SEEKS REMOVING MARKET ACCESS BARRIERS AND DOMESTIC REGULATIONS

New Delhi:27th February, 2015

India’s dynamic Services Sector clocked double digit growth rate of 10.6 per cent as per the Advance Estimate during the current financial year, as compared to 9.1 per cent in the last fiscal (FY 2013-14). Contributing almost 72.4 per cent of the growth in the GDP, in the year 2013 India had the second fastest growing Services Sector, next only to China. The Economic Survey notes that this Sector accounts for more than half of India’s Gross Value Added (GVA) growth and including Construction, a borderline Service, the Services share is 59.6 per cent with a growth rate of 8.1 per cent.

The Services Sector also has the highest share of 54.6 per cent in the Gross Capital Formation (GCF) of Rs. 35.4 lakhs in 2013-14. The growth rate of Services GCF at 3.1 per cent has also been higher than the total GCF growth of 1.4 per cent, offsetting the negative GCF growth in Agriculture, Industry and Manufacturing.

The 10.6 per cent estimated growth in the Services Sector is mainly due to better performance in Financial, Real Estate and Professional Services besides Public Administration, Defence and Other Services. There was also good growth in Trade, Hotels, Transport, Communication and related Services.

The Services Sector also continues to dominate the FDI equity inflows into the country. During 2014-15 (April to November), the FDI inflows into Services grew by 105.8 per cent compared to 22.2 per cent growth in overall FDI inflows. In the first half of 2014-15, Services exports grew by 3.7 per cent to US $ 75.9 billon while import of Services grew by 5.0 per cent to US $ 39.9 billon, resulting in net Services growth of 2.4 per cent. Net Services has been a major source of financing India's trade deficit in recent years. India's major Services exports in 2013-14 are Computer Services with 45.8 per cent share and Other Business Services making up 18.8 per cent share. However, in the first half of 2014-15 export growth decelerated further for Computer Services and was negative for Other Business Services. But, growth was robust for Travel at 18 per cent with pick up in Foreign Tourist Arrivals.

The Services Sector is also the dominant sector in most states of India with a share of more than 40 per cent in the Gross State Domestic Product in FY 2013-14 except for Arunachal Pradesh and Sikkim. The major Services in most of the states with high share are trade, hotels and restaurants followed by Real Estate, ownership of dwellings and Business Services. In 2013-14, Bihar had the highest Services growth of 17.3 per cent and Uttarkhand the lowest of 5.5 per cent. Bihar has been recording double-digit growth in the Services Sector in the last five years due to high growth in trade, hotels and restaurants.

The Economic Survey identifies Services Sector negotiations at WTO as bearing special significance to India and calls for removing many market access barriers and domestic regulations to realize the full potential of India's Services Sector.

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HYPER-GROWTH IN TECH START UPS IN INDIA, SAYS ECONOMIC SURVEY ON SERVICES SECTOR

RURAL PENETRATION OF IT SERVICES TO DRIVE 'MAKE IN INDIA' MISSION

ELECTRONIC VISA GIVES FILLIP TO TOURISM SECTOR

New Delhi: 27th February, 2015

Information Technology (IT) and IT -enabled Services (ITeS) makes up the single largest contributor to India's Services exports. The Economic Survey 2014-15 says the IT and ITeS sector including Business Process Management (BPM), continues to be one of the largest employers in the country, directly employing nearly 35 lakh people. NASSCOM estimates the revenue of the IT-BPM industry at US$119 billion grew by 12 per cent in 2014-15 with export market alone making up almost $100 billion. The year witnessed hyper-growth in the technology start-up and software product landscape, India ranking as the fourth largest start-up hub in the world with over 3,100 start-ups in the country. Software products and services revenues for 2015-16 is projected to grow at 12-14 per cent.

Recognizing the need for greater penetration of IT Services domestically, the Survey notes that the Government's "Make in India" mission has included IT and BPM among the 25 focus sectors.

Talking of the Tourism Sector, the Economy Survey says the easing of the Indian tourism visa regime through the expansion of Tourist Visa on Arrival enabled by Electronic Travel Authorization (ETA) will give a fillip to foreign tourist arrivals in the country. The Survey notes that there was an increase in growth on both foreign tourist arrivals at 7.1 per cent and foreign exchange earnings at 6.6 per cent in the year 2014. However, India's share of world tourism is a paltry 0.6 per cent of International Tourist Arrivals compared to 7.8 per cent in France and 6.4 per cent in the US.

Referring to Transport related Services, the Economic Survey points out there is an urgent need to improve India's ageing shipping fleet. Despite having one of the largest merchant shipping fleets among developing countries, India's share in total world Dead Weight Tonnage is only 1.1 per cent. While taking note of improved cargo traffic at Indian ports, the survey hints at a major capacity facelift with an investment target of around Rs. 3 Lakh crores by the year 2020, with FDI permissible upto 100 per cent under automatic route for construction and maintenance of ports.

Reviewing the Real Estate and Housing Sector, the Survey says the growth rate slowed down from 7.6 per cent in 2012-13 to 6 per cent in 2013-14 while FDI fell to US$ 703 million in the current fiscal (April – November, 2014). The widening gap between demand and supply of housing units and affordable housing finance solutions is a major policy concern. At present urban housing shortage is 18.8 million units of which over 95 percent is in EWS/LIG segments and required huge financial investment to overcome.

Talking of the over Rs. 11 lakh crores worth of Trade and Repair Services Sector comprising 11 percent of GDP, the Survey says that migration from traditional stores to modern retail continues, though the latter still accounts for only 8 percent of the total market. Pointing out that India's e-commerce market is expected to grow by more than 50 percent in the next five years, the Survey says the government proposes to include sufficient provisions for consumer safeguards in the ongoing amendments to the Consumer Protection Act, 1986.

The Survey also takes note of the vibrant Indian media and entertainment industry comprising TV, Print, Films, Radio, Movie, Animation, Gaming etc and says that with 100 percent FDI permitted in the Film Sector, India is emerging as the new favourite of international studios.

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Government approves a Rs. 200 crore Central Sector Scheme for implementing e-platform for agri-marketing

States directed to remove all restrictions on movement of agricultural produce within a state, entire state should be declared a single market

New Delhi, February 27, 2015

The Government has taken several important steps to make improvements in the area of Agricultural Marketing. According to the Economic Survey 2014-15, the Department of Agriculture (DAC) has issued a comprehensive advisory to states to go beyond the provisions of the Model Act and declare the entire state a single market with one licence valid across the entire state and removing all restrictions on movement of agricultural produce within the state.

In order to promote development of a common national market for agricultural commodities through e-platforms, the DAC has approved Rs. 200 crore for a central-sector scheme for promotion of national Agricultural Market through Agri-Tech Infrastructure Fund (ATIF) to be implemented during 2014-15 to 2016-17. Under the scheme, it is proposed to utilize the ATIF for migrating towards a national market through implementation of a common e-platform for agri-marketing across all states.

On the request of the Central Government, a number of State Governments have exempted the marketing of fruits and vegetables from the purview of the APMC Act. The NCT of Delhi has taken the initiative in this direction by issuing a notification on 2 September, 2014, ending the regulation of fruits and vegetables outside redefined market yard/sub-yard area of the APMC, MNI, Azadpur, APMC, Keshopur, and APMC Shahdara. The small Farmers Agribusiness Consortium (SFAC) has taken the initiative for developing a kisan mandi in Delhi with a view to providing a platform to FPOs for direct sale of their produce to prospective buyers totally obviating or reducing unnecessary layers of intermediation in the process. They plan to scale their activities in other states based on the outcome of the experience of the Delhi kisan mandi.

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Foodgrains production for 2014-15 estimated at 257.07 million tonnes; will exceed average food grain production of last five years by 8.5 million tonnes
Groundnut production increases by a massive 105.8% in 2013-14, shows a remarkable increase of 75.9% in productivity
Agriculture and allied sectors contribute 18% to GDP and grow by 3.7% in 2013-14
Economic Survey 2014-15 emphasizes the need to improve productivity in the agricultural sector to ensure food security

New Delhi, February 27, 2015

The Economic Survey 2014-15 states that as per the 2nd Advance Estimates, total Foodgrains production in the country is estimated at 257.07 million tonnes during 2014-15. This is the fourth highest quantity of annual Foodgrains production in the country. Despite deficiency of 12 % in the monsoon rainfall during the year, the loss in production has been restricted to just around 3 % over the previous year and has exceeded the average production during the last five years by 8.15 million tonnes.

As compared to last year’s production of 265.57 million tonnes, current year’s production of Foodgrains is lower by 8.5 million tonnes. This decline has occurred on account of lower production of rice, coarse cereals and pulses due to erratic rainfall conditions during the monsoon season of 2014.

According to the new series of national income released by the CSO, at 2011-12 prices, the share of agriculture and allied sectors in total GDP is 18% in 2013-14 which is the same as that of 2012-13 i.e., 18%. As against a growth target of 4% for agriculture and allied sectors in the Twelfth Plan, the growth registered in the first year in 2012-13 (at 2011-12 prices) was 1.2%, 3.7% in 2013-14 and 1.1% in 2014-15.

As per the fourth Advance Estimates for 2013-14, the production of rice is expected to be 106.5 million tonnes, showing an increase of 1.3% over the previous year.

The Production of wheat is likely to be 95.9 million tonnes with an increase of 2.6% over the previous year. Similarly, pulses with a production of 19.3 million tonnes show an increase of 5.3%. The oilseeds production of 32.9 million tonnes shows an increase of 6.4%. Within oilseeds, the groundnut production of 9.7 million tonnes show a commendable increase of 105.8% over the previous year.

As per the fourth Advance Estimates for 2013-14, the overall productivity of Foodgrains has gone down by 1.3% over the previous year. Rice productivity has shown a decline of 1.5% and wheat of 1.3% in the same year. The yield of groundnut increased by a remarkable 75.9%, that of Tur increased by 9.2% and cotton by 9.4% in 2013-14 over the previous year.

Among the states, for the year 2013-14, Punjab has shown the highest productivity of rice (3952 kg/ha), wheat (5017 kg/ha) and cotton. Gujarat has shown the maximum productivity of groundnut (2668 kg/ha) and West Bengal of Sugarcane (114273 kg/ha).

The Economic Survey 2014-15 states that to improve resilience of the agricultural sector and bolster food security--including availability and affordable access, the strategy for agriculture has to focus on improving yield and productivity.

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Inflation shows a declining trend during the year 2014-15 (April-December)
Average WPI inflation declines to 3.4% in 2014-15 (April-December) as against an average of 6% during the previous year
WPI food inflation falls to 4.8% during April-December, 2014 after a high of 9.4% in 2013-14
CPI inflation touches an all time low of 5% in Q3 of 2014-15 after remaining high at 9-10% for last two years
Government measures to control food inflation and persistent decline in crude prices results in declining trend in inflation

New Delhi, February 27, 2015

The year 2014-15 (April-December) witnessed a substantial decline in inflation. According to the Economic Survey 2014-15, the Average Wholesale Price Index (WPI) (base year 2004-05 = 100) inflation declined to 3.4% in 2014-15 (April-December) as compared to an average of 6% during 2013-14. The WPI inflation even breached the psychological level of 0% in November, 2014 and January, 2015.

The decline was caused by lower food and fuel prices. During the first quarter of 2014-15, WPI headline inflation stood at 5.8% as mainly food and fuel prices were high. In the second and third quarters of 2014-15, WPI inflation declined to 3.9% and 0.5% respectively. WPI food inflation which remained high at 9.4% during 2013-14 moderated to 4.8% during April-December, 2014 following a sharp correction in vegetable prices and moderation in prices of cereals and eggs, meat and fish.

The retail inflation as measured by the Consumer Price Index (CPI) (base year 2010= 100) moderated significantly since the second quarter of 2014-15. It declined to an all time low of 5% in Q3 of 2014-15 after having remained stubbornly sticky at around 9-10% for the last two years.

During the third quarter of 2014-15, the CPI food inflation declined considerably due to seasonal softening of food and vegetable prices after the late arrival of monsoon exerted some pressure on vegetable prices during June-August, 2014. CPI inflation in the fuel and light group registered a consistent decline during 2014-15, touching 3.4% in the third quarter following the sharp decline in International Crude Oil prices.

The main factors causing moderation in inflation include both global factors as well as domestic measures. Global factors, namely persistent decline in crude prices and softness in the global prices of tradables, particularly edible oils and even coal, helped moderate headline inflation. The tight monitary policy helped contain demand pressures, creating a buffer against any external shock and keeping volatility in the value of the Rupee under check. During the last one year the Rupee remained relatively stable vis-à-vis the currency of peer emerging countries, which too had a sobering influence on inflation. Moderation in wage rate growth reduced demand pressures on protein based items.

The swift decisive steps taken by the Government also helped control the stubbornly persistent inflation—particularly food inflation. The decline in inflation is found to be substantial in commodities where the Government had taken effective measures. The Government took a series of measures to improve availability of food-grains and de-clog the distribution channel. Some of the major steps taken recently in this regard include:

- Allocation of additional 5 million tonnes of rice to below and above poverty line (BPL and APL) families in the states, pending implementation of the National Food Security Act (NFSA), and allocation of 10 million tonnes of wheat under open market sales for domestic market in 2014-15.
- Moderation in increases in the MSPs during the last and current season;
- Advisory to the states to allow free movement of fruits and vegetables by delisting them from the Agricultural Produce Marketing Committee (APMC) Act;
- Bringing onions and potatoes under the purview of the Essential Commodities Act 1955, thereby allowing state Governments to impose stock limits to deal with cartelization and hoarding, and making violation of stock limits a non-bailable offence;
- Imposing a minimum export price (MEP) of US$ 450 per MT for potatoes with effect from 26 June, 2014 and US$ 300 per MT for onions with effect from 21 August, 2014.

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Food Subsidy Bill stands at Rs. 107823.75 crore during 2014-15 (upto January, 2015), shows an increase of 20% over previous year
Rationalisation of subsidies and better targeting of beneficiaries will release resources for public investment in agriculture: Economic Survey

New Delhi, February 27, 2015

The Economic Survey 2014-15 has acknowledged that the Food Subsidy Bill has increased substantially in the past few years putting a severe strain on the public exchequer.

An amount of Rs. 107823.75 crore has been released as Food Subsidy during the year 2014-15 (upto January 9, 2015). This is a substantial increase of 20.15% over 2013-14 when an amount of Rs. 89740 crore was released as food subsidy.

Provision of minimum nutritional support to the poor through subsidized foodgrains and ensuring price stability in different states are the twin objectives of the food security system.

The Economic Survey states that while the economic cost of wheat and rice has continuously gone up, the issue price has been kept unchanged since July 1, 2002. This has resulted in large amounts of subsidy on foodgrains distributed through the TPDS/NFSA and other welfare schemes.

The Economic Survey also states that agriculture and food sector needs huge investment in research, education, extension, irrigation, fertilizers, and laboratories to test soil, water and commodities, warehousing, cold-storage. Rationalization of subsidies and better targeting of beneficiaries would release resources for public investment in agriculture.

The survey opines that the focus of public expenditure for agriculture so far has been on provision of subsidies (public expenditure in agriculture is only one-fourth of expenditure towards food and fertilizer subsidies, CACP Kharif report 2014-15) and it is time it shifted towards investments to boost productivity. Recommendations of Shanta Kumar Committee provide useful suggestions for the future road-map of food-policy, says the Economic Survey.

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DSM/NB/PS

Economic Survey 2014-15

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Create National Common Market in Agricultural Commodities: Economic Survey 2014-15

New Delhi: February 27, 2015

The Economic Survey emphasizes on the need for a national common agricultural market and identifies un-integrated and distortion ridden agricultural market as the one of the most striking problems in agriculture growth.

The Economic Survey suggests 3 incremental steps as possible solution, building on the Budget 2014 recognition for setting up a national market, farmers’ markets and need for the Central Government and the State Government to work closely to reorient their respective APMC Act.

- It may be possible to get all States to drop fruits and vegetables from APMC schedule of regulated commodities and followed by other commodities.
- State governments should also be specifically persuaded to provide policy support for alternative or special markets in private sector.

- In view of the difficulties in attracting domestic capital for the setting-up marketing infrastructure, liberalization in FDI in retail could create possibilities for filling in the massive investment and infrastructure deficit in supply chain inefficiencies.

As a last resort, the Economic Survey suggests using Constitutional provisions to create a national common market for agricultural commodities. The Concurrent List Entry 33 covers trade and commerce and production, supply and distribution of food stuff including edible oilseeds and oils, raw cotton, raw jute etc. Entry 42 of Union List, viz., 'Interstate trade and commerce' also allows a role for the Union.

Presently, markets in agricultural products are regulated under the Agricultural Produce Market Committee (APMC) Act enacted by respective State Government. This Act notifies agricultural commodities produced in the region such as cereal, pulses, edible oilseed and even chicken, goat etc. The first sale in these commodities can be conducted only under the aegis of APMC through the commission agents licensed by the APMC. The typical amenities available in or around the APMC are: auction halls, weigh bridges, godowns, shops for retailers, farmer's amenity center etc. Various taxes, fees/charges and cess levied on the trades conducted in the Mandis are also notified under the Act.

Currently, APMCs charge multiple fees, of substantial magnitude, that are non-transparent. They charge a market fee of buyers, and they charge a licensing fee from the commissioning agents and licensing fees from a whole range of functionaries. In addition, commissioning agents charge commission fees on transactions between buyers and farmers.

These statutory levies/mandi tax, VAT etc. varying from state to state are the major source of market distortion. Such high level of taxes at the first level of trading has significant cascading effects on the price.

The APMC Act treats APMC as an arm of the state and the market fee as the tax levied by the state, rather than fee charged for providing services. This provision acts as a major impediment to creating national common market. The APMC operations are hidden from scrutiny as the fee collected is not under State legislature approval.

Also the commissions charged by commission agents are exorbitant as they are often charged on entire value of product sold rather than the net value. There is a perception that the positions in market committees and market boards are occupied by the politically influential and leading to the formation of cartels in APMC.

Ministry of Agriculture developed a Model APMC Act, 2003 for the freedom of farmers to sell their produce. The farmers could sell their produce directly to the contract-sponsors or in the market set up by private individuals, consumers or producers. The Model Act also increases the competitiveness of the market of agricultural produce by allowing common registration of market intermediaries. Many of the States have partially adopted the provisions of model Act and some states such as Karnataka have adopted changes to create greater competition within State. Karnataka Model provides for a single licensing system, offers automated auction and post auction facilities. It also facilitate warehouse-based sale of produce, facilitate commodity funding, prices dissemination by leveraging technology and private sector investment in marketing infrastructure.

However, the Model APMC Act does not go far enough to create a national or even state level common market for agriculture commodities. The Act retains the mandatory requirement of the buyers having to pay APMC charges even when the produce is sold directly outside the APMC area. Though the Model Act provides for setting up of markets by private sector, this is not adequate to create competition even within the state since the owner will have to collect fees/taxes on behalf of the APMC in addition to their own charges.

Economic Survey reemphasize that India needs a national common market for agricultural commodities by making the Agricultural Produce Market Committee just one among many options available for the farmers to sell their produce.

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Economic Survey 2014-15

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From Carbon Subsidy to Carbon Tax: India’s Green Actions

New Delhi: February 27, 2015

Economic Survey 2014-15 acknowledges the green actions taken by India, including imposing significantly higher taxation of petroleum products and thereby reenergizing the renewable energy sector. India shifted from a carbon subsidization regime to one of significant carbon taxation regime, from a negative price to an implicit positive price on carbon emissions.

India has cut subsidies and increased taxes on fossil fuels (petrol and diesel) turning a carbon subsidy regime into one of carbon taxation, by putting an effective price on emissions. This has significantly increased petrol and diesel price while serving as price signal to reduce fuel burnt and hence CO2 emissions.

Calculating CO2 emission reductions from measures taken for petrol and diesel suggests that there will be a net reduction of 11 million tons of CO2 emissions in less than a year compared to the baseline or 0.6 percent India's annual emissions.

In addition, India has increased the coal cess from Rs. 50 per ton to Rs. 100 per ton, which is equivalent to a carbon tax of about US$ 1 per ton. A higher tax on coal offsets the domestic externalities including health cost of coal for power generation. The Economic Survey points out that any rationalization of coal pricing must take account of the implications for power prices and hence access to energy for the poorest in India which is and must remain a fundamental objective of policy.

The Economic Survey observes that there is still a long way to go with potential large gains still to be reaped from reform of coal pricing and further reform of petroleum pricing policies.

Broadly, the move to substantial carbon taxation combined with India's ambitious solar power program suggests that India can make substantial contributions to the forthcoming Paris negotiations on climate change.

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Economic Survey 2014-15

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Revive public investment to improve investment climate: Economic Survey 2014 - 15

New Delhi, February 27, 2015

To improve the investment climate and reduce the backlog of stalled projects, Economic Survey 2014 – 15, tabled by the Union Finance Minister Shri Arun Jaitley in the Parliament today, argues for a three-pronged strategy:

- The Survey recommends revival of public investment in short term, to act as an engine of growth in infrastructure sector. It argues that public investment cannot be a substitute for private investment; but is required as a complement and to crowd it in.
- Creative solutions need to be devised to strengthen institutions relating to

bankruptcy, says the Survey. This will ensure that exit options are available. This will also ameliorate over-indebtedness that lowers the capacity to generate new investments. Towards this end, it contemplates setting up of a high-powered Independent Renegotiation Committee.

- Economic Survey highlights the need for reorientation and restructuring of the PPP model. This is expected to make them more viable in future.

These recommendations come in the backdrop of a large number of stalled projects. The total stock of stalled projects stands at Rs. 8.8 lakh crore or 7% of GDP. Economic Survey states cause of stalled projects is different for private and public sectors. In private sector, credit related factors dominate, while in the public sector, delay in regulatory clearances is the primary reason. Stalling of projects has put tremendous pressure on the balance sheets of the corporate sector and public sector banks. This in turn, limits future private investment, thus completing and perpetuating a vicious cycle.

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The Fourteenth Finance Commission (FFC) will enhance Fiscal Federalism in India: Economic Survey 2014-15

New Delhi: February 27, 2015

According to the Economic Survey "all States stand to gain from FFC transfers in absolute terms." The Survey observes that Fourteenth Finance Commission recommendations will enhance cooperative and competitive federalism.

The biggest gainers in absolute terms under general category states are Uttar Pradesh, West Bengal and Madhya Pradesh. Jammu & Kashmir, Himachal Pradesh and Assam are most benefitted in the Special Category States.

The Survey says that the FFC recommendations are expected to add substantial spending capacity to the States' budget.

The Survey identifies the FFC recommendations as progressive. The states with lower per capita Net State Domestic Product receive larger transfers on average per capita.

The Survey says that "Balancing the enhanced fiscal autonomy of the states with preserving fiscal space of the Centre entails reduction in Central Assistance to States".

The Economic Survey concludes, the FFC's Recommendations –

- Will bring about greater fiscal federalism
- Will reduce other Central transfers to states
- Will give greater autonomy to states on revenue and expenditure

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<u>SUMMARY OF ECONOMIC SURVEY 2015</u>

A GROWTH RATE OF OVER 8 PER CENT EXPECTED FOR THE COMING YEAR

A DOUBLE-DIGIT ECONOMIC GROWTH TRAJECTORY IS NOW A POSSIBILITY

SUCH A GROWTH COULD HELP IN 'WIPING EVERY TEAR FROM EVERY EYE' AND REALIZING ASPIRATION OF INDIA'S YOUTH

THERE IS POLITICAL MANDATE FOR REFORM AND BENIGN EXTERNAL ENVIRONMENT NOW, SAYS THE ECONOMIC SURVEY

THERE IS SCOPE FOR BIG BANG REFORMS NOW

New Delhi, February 27, 2015

Indian Economy is looking-up with brighter prospects amongst the world's major economies today. The Economic Survey 2014-15 presented by the Finance Minister Shri Arun Jaitley to the Parliament today indicates that a clear political mandate for reform and a benign external environment now is expected to propel India on to a double digit trajectory. It states that Indian economy appears to have now gone past the economic slowdown, persistent inflation, elevated fiscal deficit, slackening domestic demand, external account imbalances and oscillating value of the rupee.

The Economic Survey taking into consideration the change of base year by the Central Statistics Office of the National Accounts series from 2004-05 to 2011-12, states that growth at market prices for 2015-16 is expected to be 8.1-to 8.5 per cent.

The growth rate in GDP at constant (2011-12) market prices in 2012-13 was 5.1 per cent, which increased to 6.9 percent in 2013-14 and it is expected to further increase to 7.4 per cent in 2014-15 (According to advanced estimates). The change in methodology by the Central Statistics Office has also introduced the concept of Gross Value Added (GVA) at the aggregate and various sectoral levels.

The Economic Survey says that expectation for such a growth rate is also due to a number of reforms that have already been undertaken and more that are being planned for. The Survey enlist various reform measures like de-regulation of diesel price, taxing energy products, replacing cooking gas subsidy by direct transfer on national scale, passing an Ordinance to reform the coal sector via auctions, increasing the FDI caps in defence, etc.

The Survey report also commended the far reaching changes brought about on the issue of sharing of revenues between the Centre and States as recommended by the 14^{th} Finance Commission.

The Survey says that decline in inflation by over 6 percentage points since late 2013 and also reduction of current account deficit from a peak of 6.7 per cent of GDP in the third quarter of 2012-13 to about one (1) per cent in the coming fiscal year has made India an attractive investment destination well above most other countries.

The expected high growth rate in the coming year in the favourable economic environment has created a historic movement of opportunity to propel India into a double-digit growth trajectory to attain the fundamental objective of "wiping every tear from every eye" of the vulnerable and poor people of the country, the survey says. It also gives an opportunity to the increasingly young, middle-class and aspirational India to realize its full potential. As the new Government is to present its first full year budget, the Economic Survey states that it appears that India has reached a sweet spot and that there is a scope for Big Bang reforms now.

The growth estimates of over 8 per cent for the current year is on expectations that the monsoon will be favourable, as it was forecast to be normal, compared to last year. However the growth rate in Gross Value Added (GVA) at basic prices in agriculture is projected to decline from 3.7 per cent in 2013-14, an exceptionally good previous year from the point of view of rainfall, to 1.1 per cent in 2014-15, the current year with not-so-favourable monsoon.

The Economic Survey has also drawn our attention to certain other stagnating or declining elements of the economy in the recent past.

It says that the growth in 2014-15 is largely driven by domestic demand. There is hardly any external support to growth in 2014-15, as the growth in exports is projected to be only 0.9 per cent and the growth rate of imports, around (-) 0.5 per cent. The deceleration in imports owe substantially to the sharp decline in international oil prices in the current year that compressed the oil import bill.

It also says that there has been a decline in the rate of gross domestic saving, from 33.9 per cent of the GDP in 2011-12 to 31.8 per cent in 2012-13 and further to 30.6 per cent in 2013-14, caused majorly by the sharp decline in the rate of household physical savings.

Further it states that investment rate over the past years, as measured by Gross capital formation (GCF) as a percentage of GDP declined from 38.2 per cent in 2011-12 to 36.6 per cent in 2012-13 and further to 32.3 per cent in 2013-14.

On investments the Survey had significantly commented that while private investment must remain the primary engine of long-run growth, the public investment, especially in the railways, will have to play an important role at least in the interim, to revive growth and to deepen physical connectivity.

This Economic Survey prescribes, what its calls, a golden rule of fiscal policy saying that governments are expected to borrow over the cycle only to finance investment and not to fund current expenditures. It urged the government to aim at bringing down the centre's fiscal deficit down to 3 per cent of GDP.

The Economic Survey made some interesting comments saying that price subsidies do not appear to have had a transformative effect on the living standards of the poor, though they have helped poor households to weather inflation and price volatility. It says that a close look at price subsidies, which are estimated to be about 3,78,000 crore rupees, about 4.24 per cent of GDP, reveal that they may not be the government's best weapon for fighting poverty. Dwelling upon various subsidies to the poor, the Survey even stated that price subsidies are often regressive. It said, an analysis of current subsidy scheme indicates that rich households benefit more from the subsidy than a poor household. Among various examples that it had dwelt upon the Survey said that subsidy on electricity can only benefit the relatively rich. The Survey, however, concluded that eliminating or phasing down subsidies is neither feasible nor desirable. It said that by adopting what it called the JAM *Number Trinity*-Jan Dhan Yojana, Aadhaar and Mobile numbers would allow the State to deliver the subsidies to poor in a targeted and less distorted manner.

The Economic Survey had expressed a serious concern that several projects have been stalled and such a tendency is increased over the past years. In the same breath the Survey report expressed happiness that such stalling of projects seems to have plateaued. It suggested revitalizing public private partnership model of investment.

Dwelling upon the issue of manufacturing versus services for the growth of the economy the Survey says, both are equally important in the Indian context. Similarly, "Skilling India" is no less important and deserves an equal attention as the other important goal of "Make in India ".

In a Chapter on a Common National Market for Agricultural Commodities the Survey without making any conclusions suggested that there may be a Constitutional provision used to regulate trading in specified agricultural commodities to create a National Common Market.

In an exclusive Chapter relating to the Fourteenth Finance Commission(FFC) the Economic Survey quoted both Pt. Jawahar Lal Nehru, the first Prime Minister of the country and the current Prime Minister Shri Narendra Modi and said that adoption of the recommendations of the FFC and the creation of Niti Ayog earlier would further take forward the Government's vision of cooperative and competitive federalism.

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ECONOMIC SURVEY 2014-15

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PRESS INFORMATION BUREAU
GOVERNEMENT OF INDIA
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External Sector is returning to the path of strength and resilience: Economic Survey

New Delhi, 27th February, 2015

As per the Economic Survey, the outlook for the external sector is perhaps the most favorable since the 2008 global financial crisis and especially compared to 2012-13, when elevated oil and gold imports fuelled a surge in the current account deficit.

The Global Economy is likely to gain strength if lower global crude petroleum prices drive the demand recovery process in emerging markets. After the global crisis of 2008, the global economy came under a cloud of uncertainty and prolonged weakness in euro area particularly since 2011. This led the IMF to revise the global growth downwards. The global economic environment appears poised for a change for the better with recent sharp fall in the international prices of crude petroleum which is expected to boost global aggregate demand.

On the Issue of India's Merchandise Trade, over the last ten years, India's Merchandise Trade (on custom basis) increased manifold from US$ 195.1 billion in 2004-05 to US$ 764.6 billion in 2013-14 helping in improving India's share in global exports and imports from 0.8% to 1.0% respectively in 2004 to 1.7% and 2.5% in 2013.

- The Economic Survey says the overall trade performance signals an opportune time for withdrawal of restrictions on gold.
- The financial inflows in excess of the financial requirements has helped shore up foreign exchange reserves (US$ 328.7 billion at the end of January,2015). These have helped the lessen the vulnerability concern that led to serious stress last year.
- Reconciling the benefits of the financial inflows with their impact on exports and the current account remains an important challenge going forward.

In 2013-14, India's trade deficit(on custom basis) declined to US$ 135.8 billion from a high level of 190.3 billion in 2012-13 mainly on account of a decline in the growth of imports even though growth in exports was sluggish at 4.7%.

The decline in imports owed to lower growth in oil imports (0.4%) and negative growth in gold and silver imports.

Some of the Trade Policy Measures Taken by the Government as per the Economic Survey

- To promote domestic manufacturing capabilities different schemes namely FPS, FMS, VKGUY, MLFPS, Served From India Scheme , Agriculture Infrastructure Incentive Scheme(AIIS) for import of goods can be utilized for payment of excise duty for domestic procurement. This is an important measure for import substitution and will help save foreign exchange as well as create additional employment.

- Similarly scrips issued under the FPS, FMS, Vishesh Krishi and Gram Udyog Yojana(VKGUY) schemes can be utilized for payment of service tax.

- To diversify India's export, seven new markets (Algeria, Aruba, Austria, Cambodia, Myanmar, Netherlands, Antilles and Ukraine) have been added to FMS and 7 new markets(Belize, Chile, El Salvador, Guatemala, Honduras, Morocco and Uruguay) to Special FMS, 46 items to MLFPS and 12 new markets for first time and 100 new products to FPS list.

- Indian trade portal (www.indiantradeportal.in) was launched on 8th December, 2014.

Even though 2013-14 witnessed a sharp depreciation of the rupee in the initial part of the year with significant reserve drawdown, steps taken by the government and the Reserve Bank of India (RBI) resulted in a rise in the stock of foreign exchange reserves which was placed at US$ 304.2 billion at end-March 2014 as against US$292.0 billion at end-March,2014.

In the first half of 2014-15, India's foreign exchange reserves increased by US$ 18.1 billion on BoP basis(that is excluding valuation effect).

Economic Survey says among the major economies with current account deficit, India is the second largest foreign exchange reserve holder after Brazil.

Post 1991 BoP crisis India's prudent external debt policy and management with a focus on sustainability, solvency and liquidity have helped contain the increase in size of external debt to moderate level. India's total external debt stock at end March 2014 stood at US$ 442.3 billion (8.0 per cent) over the end-March 2013 level.

The rise in the external debt during the period was due to long term debt particularly NRI deposits and commercial borrowings.

At the end of September, 2014, a long term debt accounted for 81.1% of the total external debt vis-a-vis 79.8 per cent at the end of March, 2014 and short term debt accounted for 18.9% of the total external debt vis-à-vis 20.2% at the end of March, 2014.

The net external commercial borrowing has also increased from US$ 2.4 billion in 2013-14 to US $3.4 billion in 2014-15.

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ECONOMIC SURVEY 2014-15

Press Information Bureau
Government of India

Economic Survey Recommends Reform of Railway’s Structure, Commercial Practices, Overhaul of Technology

Greater Public Investment in Railways to Boost Growth and Manufacturing in India

New Delhi, the 27th February, 2015

The Economic Survey 2014-15 presented in the Parliament today recommends that greater public investment in the railways would boost aggregate growth and the competitiveness of Indian manufacturing substantially. Discussing the specific role of Indian railways in driving future Indian growth, the Survey says that there is merit in the case for reviving public investment as a key engine of growth in the short run - not to substitute for private investment but to compliment and promote further private investment. The Survey says that public investment in an efficient rail network can have positive effect on both manufacturing and aggregate output and the effects are permanent. It advocates that there is a need for bold, accelerated programme of investment in dedicated freight corridors (DFCs) that can parallel the Golden Quadrilateral in the road sector alongwith associated industrial corridors. The present government can do for the neglected railways sector what the previous NDA government under the then Prime Minister Atal Bihari Vajpayee did for rural roads. This impetus has the potential to boost greater private investment and do so without jeopardizing India's public debt dynamics. Such an initiative will transform Indian manufacturing industry with "Make in India" becoming a reality. With the separation of freight traffic, passenger trains can then be speeded up substantially with marginal investments, the Survey analyses.

The Survey calls for large public investment in railways as there is a strong case for channeling resources to transport infrastructure in India given the widely known spillover effects of transport networks to link markets, reduce a variety of costs, boost agglomeration economies, and improve the competitiveness of the economy, especially manufacturing which tends to be logistics –intensive. Today, the 'lifeline of the nation' operates over 19,000 trains carrying 23 million passengers and over 3 million tonnes of freight per day while employing over 13 lakh people. In part, these large gains derive from the current massive under-investment in the railways.

The Survey indicates that successive plans have allocated less resources to the railways compared to the transport sector and the share of railways in the total plan outlay is currently only 5.5% vis-à-vis about 11% for the other transport sectors and its share in overall development expenditure has remained low at below 2% over the past decade. China invests eleven times as much in per capita terms and underinvestment in the Indian Railways is also indicated by congestion, strained capacity, poor services, and weak financial health. Greater public investments once utilized efficiently can help the railways to overcome some of these problems.

In the long run, the railways must be commercially viable and public support for the railways should be restricted to (i) equity support for investment by the corporatized railways entities and (ii) for funding the universal service obligations that it provides. In the interim, there is scope for public support of railways, including through assistance via the general budget.

However, any public support should be clearly linked to serious reform: of the structure of the railways; of their adoption of commercial practices; of rationalizing tariff policies; and through an overhaul of technology, recommends the Economic Survey 2014-15.

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ECONOMIC SURVEY 2014-15

Press Information Bureau
Government of India

India’s National Solar Mission Being Scaled up Five-Fold to 100,000 Megawatts

Clean Energy Cess Doubled to Rs.100 per Tonne to Mop up Rs. 17,000 Crores in NCEF

India’s Action-Oriented Policies to Bring Rapid Development to People While Purposefully Addressing Climate Change

New Delhi, the 27th February, 2015

The Economic Survey 2014-15 presented in the Parliament today says that India has made considerable progress in tackling climate change issues. The year 2015 is going to witness new agreements on climate change and sustainable development. India has been following action-oriented policies to bring rapid development to its people while purposefully addressing climate change. India has been one of the foremost advocates of long-terms global cooperation in combating climate change in accordance with the principles and provisions of the UN Framework Convention on Climate Change (UNFCCC).

India launched its National Action Plan on Climate Change way back in 2008 and is currently revisiting National Missions in the light of new scientific information and technological advances.

India's total renewable power installed capacity as 31 December 2014 has reached 33.8 GegaWatts(GW). Wind energy continues to dominate this share accounting for 66 per cent of installed capacity followed by biomass, small hydro power and solar power. India's National solar Mission is being scaled up five-fold to 1,00,000 megawatts by 2022 In the next five years proposals are likely to generate business opportunities of the order of 160 billion US Dollars in the renewable energy sector. It offers very good opportunity for businesses to set and scale up industry, leapfrog technologies and create volumes. Some of India's major immediate plans on renewable energy include scaling up cumulative installed capacity to 170 gegawatts (GW) and establishing a National University for Renewable Energy.

India introduced the clean energy cess on coal in 2010 which very few countries have in the world. This has been doubled to Rs.100 per tonne in 2014. The total collection so far under the National Clean Energy Fund NCEF has crossed Rs. 17,000 crores and till September, 2014, 46 clean energy projects worth Rs.16,511.43 crores have been recommended for funding out of this fund.

Efforts are also under way by the government to build India's institutional capacity for mobilizing climate change finance. India has set a National Adaptation Fund with an initial corpus of Rs.100 crores in 2014 to support adaptation actions to combat the challenges of climate change in sectors like agriculture, water and forestry.

The Survey says the global agreement on climate change expected by December, 2015 under the UNFCCC applicable to all countries must be ambitious, comprehensive, equitable and balanced taking into account the huge development needs of developing countries. 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. Simultaneously, the multilateral Green Climate Fund (GCF) under the UNFCCC has made progress and is now ready for business with around US$ 10 billion pledged to it by the contributing Parties. At the country level, institutional mechanism required to access the GCF resources are being set up.

Prime Minister Shri Narendra Modi in his address in UN General Assembly in September, 2014 said "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. This should form the basis of continued action." India's stand in the ongoing negotiations has been guided by the principle of Equity and Common but Differentiated Responsibilities (CBDR). India believes that the climate change agreement of 2015 should take into consideration a whole gamut of issues including adaptation, finance, technology development and transfer, capacity building, transparency of action and support in a balanced manner and loss and damage in addition to mitigation.

The latest scientific findings has estimated that out of the carbon budget(CO_2 emissions) of 2,900 Giga tonnes (Gt), only 1,000 Gt remains to be used between now and 2100 in order to limit the temperature increase to 2°C. Most of the current and cumulative carbon budget has been used by the developed countries. The World Resources Institute estimates that if emissions continue unabated, the remaining budget will last only 30 more years. The key issue therefore for designing emission reduction commitment is how the remaining carbon budget needs to be allocated with a fair burden sharing mechanism. India's contribution to cumulative global CO_2 (1850-2011) was a meagre 3 per cent as against 21 per cent by USA and 18 per cent by the EU.

The Economic Survey 2014-15 focusses on sustainable development goals for India saying that the challenges for India are manifold. India is at the threshold of an urban flare-up. With more than a billion population, India has to address the problems associated with increasing urbanization, tackle the problem of eradicating poverty, providing energy access to all and address other developmental priorities. It says that hidden in these challenges 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 industrialized 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 Economic Survey suggests.

India's development plans lay a balanced emphasis on economic development and the environment. The country has witnessed the introduction of landmark environmental measures for conservation of rivers, improvement of urban air quality, enhanced forestation, significant increase in installed capacity of renewable energy technologies, shift towards public transport and enhancing rural and urban infrastructure. Recent key initiatives include the Swachh Bharat Mission, Clean Ganga Plan, scaling up of the National Solar Mission fivefold from 20,000 MW to 1,00,000 MW with an additional investment requirement 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.

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Infographs