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STUDENTS' ECONOMIC FORUM

A monthly publication from South Indian Bank

To kindle interest in economic affairs...
To empower the student community...

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Theme 303

ECONOMIC SURVEY 2016-17

26th Year of Publication

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Theme No: 303: Economic Survey 2016-17

A well informed customer will make the policy makers as well as organizations which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organizations and improve the quality of goods and services produced.

The "SIB Students' Economic forum" is designed to kindle interest in the minds of younger generation. We highlight one theme in every monthly meeting of the "Forum". This month, we will discuss "Economic Survey 2016-17".

1. What is Economic Survey?

i. Economic Survey is a flagship annual document of the Ministry of Finance, Government of India
ii. Economic Survey reviews the developments in the Indian economy over the previous 12 months, summarizes the performance on major development programmes, and highlights the policy initiatives of the government and the prospects of the economy in the short to medium term.
iii. This document is presented to both houses of Parliament during the Budget Session, on a day before the presentation of Union Budget by Finance Minister of India

2. Briefly describe the developments in 2016-17?

i. GDP growth rate at constant market prices for the current year 2016-17 is placed at 7.1 per cent.
ii. On account of better monsoon rains, growth in the agriculture sector is estimated at 4.15 % in 2016-17, significantly higher than the 1.2% in 2015-16
iii. Growth in the industrial sector has been estimated to moderate to 5.2% in 2016-17 from 7.4 % the previous financial year
iv. Service sector estimated to grow at 8.9 % in 2016-17
v. Due to decline in pulses prices there is a substantial decline in the CPI inflation which reached 3.7 % in 2016-17, compared to 5.3 % in 2015-16.
vi. The reversal of WPI inflation, from a trough of (-) 5.1 percent in August 2015 to 3.4 percent at end-December 2016, on the back of rising international oil prices.

3. What is the Impact of Demonestisation?

One intermediate objective of demonetisation is to create a less-cash or cash-lite economy, as this is key to channeling more saving through the formal financial system and improving tax compliance. Demonetisation will affect growth rate by 0.25-0.5 per cent, but will generate long-term benefits.

Agricultural sowing, passenger car sales, and overall excise taxes bear little imprint of demonetisation; and sales of two wheelers show a marked decline after demonetization. For nominal GDP, the impact would be lower growth between 0.25 percentage points and one percentage point relative to the baseline of 11.25 per cent. For real GDP the impact would be between 0.25 percentage points and 0.5 percentage points relative to the baseline of 7.0 per cent. Over the medium run, the implementation of GST, follow-up to demonetization and other structural reform measures should take the trend rate of growth of the economy to the 8-10 percent range that India needs.

4. How is the Performance of banking sector?

The performance of the banking sector, public sector banks (PSBs) in particular, continued to be subdued in the current financial year. The asset quality of banks deteriorated further. The gross non-performing assets (GNPA) to total advances ratio of scheduled commercial banks (SCBs) increased to 9.1 per cent from 7.8 per cent between March and September 2016. Profit after tax (PAT) contracted on year-on-year basis in the first half of 2016-17 due to higher growth in risk provisions, loan write-off and decline in net interest income.

5. How is the credit growth in the economy?

Non- food credit (NFC) outstanding grew at sub 10.0 per cent for all the months except for September 2016. Credit growth to industrial sector remained persistently below one per cent during the current fiscal, with contraction in August, October and November. However, bank credit lending to agriculture and allied activities (A&A) and personal loans (PL) segments continue to be the major contributor to overall NFC growth.

6. Why is a Public Sector Asset Rehabilitation Agency (PARA) Needed?

Economic Survey 2016-17 suggests setting up of a centralized Public Sector Asset Rehabilitation Agency, to resolve the twin balance sheet (TBS) problem. Corporations over-expand during a boom, leaving them with obligations that they can't repay. So, they default on their debts, leaving bank balance sheets impaired, as well. This combination then proves devastating for growth, since the hobbled corporations are reluctant to invest, while those that remain sound can't invest much either, since fragile banks are not really in a position to lend to them.

To avoid this, a formal agency may be needed to resolve the large bad debt cases, the same solution the East Asian countries employed after they were hit by severe TBS problems in the 1990s. In short, the time has arrived to create a 'Public Sector Asset Rehabilitation Agency' (PARA) for the following reasons:

It's not just about banks, it's a lot about companies. So far, public discussion of the bad loan problem has focused on bank capital, as if the main obstacle to resolving TBS was finding the funds needed by the public sector banks. But securing funding is actually the easiest part, as the cost is small relative to the resources the government commands. Far more problematic is finding a way to resolve the bad debts.

Delay is costly. Since banks can't resolve the big cases, they have simply refinanced the debtors, effectively "kicking the problems down the road". But this is costly for the government, because it means the bad debts keep rising, increasing the ultimate recapitalization bill for the government and the associated political difficulties. Delay is also costly for the economy, because impaired banks are scaling back their credit, while stressed companies are cutting their investments.

Progress may require a PARA. Private Asset Reconstruction Companies (ARCs) haven't proved any more successful than banks in resolving bad debts. But international experience shows that a professionally run central agency with government backing - while not without its own difficulties - can overcome the difficulties that have impeded progress

7. Briefly describe the India's Merchandise Trade during the FY 16-17?

Exports: In line with subdued global growth and trade, India's exports declined by 1.3 per cent and 15.5 per cent in 2014-15 and 2015-16 respectively. The trend of negative growth was reversed somewhat during 2016-17 (April-December), with exports registering a growth of 0.7 per cent to US$ 198.8 billion from US$ 197.3 billion in 2015-16 (April-December). During 2016-17 (April-December) Petroleum, oil and lubricants (POL) exports constituting 11.1 per cent of total exports declined by 9.8 per cent to US$ 22.0 billion over corresponding previous period.

Imports: Value of imports declined mainly on account of decline in crude oil prices resulting in lower levels of POL imports. During 2016-17 (April- December) imports declined by 7.4 per cent to US$ 275.4 billion compared to the corresponding period of previous year.

Balance of Payments: Despite moderation in India's exports, India's external sector position has been comfortable, with the current account deficit (CAD) progressively contracting. The downward spiral in international crude oil prices resulted in a decline in oil import bill by around 18 per cent which together with a sharp decline in gold imports led to a reduction in India's overall imports. The CAD has narrowed in 2016-17 (H1) to 0.3 per cent of GDP.

8. What is the position of Fiscal Deficit during the FY 16-17?

The government has acquired more credibility because of posting steady and consistent improvements in the fiscal situation for three consecutive years, the central government fiscal deficit declining from 4.5 per cent of GDP in 2013- 14 to 4.1 per cent, 3.9 per cent, and 3.5 per cent in the following three years. But fiscal policy needs to balance the cyclical imperatives with medium term issues relating to prudence and credibility.

Fiscal Development

i. Expecting fiscal windfall from Pradhan Mantri Garib Kalyan Yojana and low oil prices.
ii. The windfall to the public sector is both one off and a wealth gain not an income gain, it should be deployed to strengthening the government's balance sheet rather than being used for government consumption, especially in the form of programs that

create permanent entitlements. In this light, the best use of the windfall would be to create a public sector asset reconstruction company so that the twin balance sheet problem can be addressed, facilitating credit and investment revival; or toward the compensation fund for the GST that would allow the rates to be lowered and simplified; or toward debt reduction.

iii. The 13-year old Fiscal Responsibility and Budget Management (FRBM) Act needs to be modified to provide fiscal policy direction for "the India of tomorrow"

9. What is Universal Basic Income?

The Economic Survey 2016-17 has advocated the concept of Universal Basic Income (UBI) as an alternative to the various social welfare schemes in an effort to reduce poverty. UBI is a radical and compelling paradigm shift in thinking about both social justice and a productive economy. It is premised on the idea that a just society needs to guarantee to each individual a minimum income which they can count on, and which provides the necessary material foundation for a life with access to basic goods and a life of dignity. A universal basic income is, like many rights, unconditional and universal: it requires that every person should have a right to a basic income to cover their needs, just by virtue of being citizens.

10. What is the Outlook for the Economy for the Year 2017-18?

FY 2017-18, is expected to grow as the new currency notes in required quantities come back into circulation and as follow up actions to demonetisation are taken. Helping to maintain the momentum of such growth will be factors like possible normal monsoon, an increase in the level of exports following the projected increase in global growth. Some possible challenges to growth exist. For example, the prices of crude oil have started rising and are projected to increase further in the next year. Estimates suggest that oil prices could rise by as much as one sixth over the 2016-17 level, which could have some dampening impact on the growth. On balance, there is a strong likelihood that Indian economy may recover back to a growth of 6.75 per cent to 7.50 per cent in 2017-18.

The Way Ahead for year 2017-18:

i. GST and other structural reforms should take the growth rate to 8-10%
ii. An upsurge in protectionism poses serious medium-term risk for exports
iii. India is well positioned to take advantage of China's deteriorating competitiveness due to lower wage costs in most Indian states
iv. Implementation of wage hike and muted tax receipts to put pressure on fiscal deficit in 2017-18

11. What are the other important points in Economic Survey 2016-17?

- Labour migration in India increasing at an accelerating rate
- FDI reform measures were implemented, allowing India to become one of the world's largest recipients of FDI
- India's trade-GDP ratio is now greater than China's

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