Report Summary
Economic Survey 2018-19

- The Finance Minister, Ms Nirmala Sitharaman tabled the Economic Survey 2018-19 on July 4, 2019. Some highlights of the survey are:

1. Macro economy

- **Gross Domestic Product (GDP):** The Central Statistics Office (CSO) has estimated the GDP growth to be 6.8% in 2018-19 as compared to 7.2% in 2017-18. The GDP growth in 2016-17 was 8.2%. In 2018-19, the agriculture and industry sectors are expected to grow at 2.9% and 6.9% respectively, while the service sector is estimated to grow at 7.5%.

- **Inflation:** The Consumer Price Index (CPI) based inflation declined from 3.6% in 2017-18 to 3.4% in 2018-19. This decline was mainly due to low food inflation. The Wholesale Price Index (WPI) based inflation increased from 3.0% in 2017-18 to 4.3% in 2018-19.

- **Current Account Deficit (CAD) and fiscal deficit:** India’s CAD increased from 1.9% of GDP in 2017-18 to 2.6% of GDP in 2018 (April-December). This has been attributed to an increase in international crude oil prices. The fiscal deficit for 2018-19 stood at 3.4% and the primary deficit for the year was 0.3% of GDP (primary deficit is the fiscal deficit excluding the interest payments).

2. Agriculture and food management

- Growth of agriculture sector has been fluctuating: it increased from -0.2% in 2014-15 to 6.3% in 2016-17, and then declined to 2.9% in 2018-19. Gross fixed capital formation in agriculture has decreased from 17.7% in 2013-14 to 15.2% in 2017-18.

- The contribution of agriculture to the GVA has decreased from 15% in 2015-16 to 14.4% in 2018-19. The decline was mainly due to decrease in share of GVA of crops from 9.2% in 2015-16 to 8.7% in 2017-18.

- **Water resources:** Almost 89% of groundwater is extracted for irrigation. Further, crops such as paddy and sugarcane consume more than 60% of irrigation water available in India, which reduces water availability for other crops. There is an urgent need to focus on irrigation water productivity (ratio of crop output to irrigation water applied by farmer) to improve agricultural productivity.

3. Industry and infrastructure

- **Industrial growth:** The overall industrial sector growth was 6.9% as per the estimate of national income for 2018-19. This was higher than the industrial growth in 2017-18 at 5.9%. The manufacturing sector experienced a growth of 6.9% during 2018-19. The contribution of industry to the GVA was 29.6% in 2018-19.

- **Infrastructure:** India needs to spend USD 200 billion annually on its infrastructure, but has been able to spend only USD 100-110 billion annually. As per the current trend, India can raise around USD 3.9 trillion. There is an urgent need to increase the flow of private capital into infrastructure. Private investment in infrastructure mainly comes in the form of PPPs. However, the sector has been facing challenges due to lack of dispute resolution.

4. Services sector

- The services sector contributed 54.3% to India’s GVA in 2018-19. As per the CSO the growth of the services sector is expected to be 7.5% in 2018-19 as compared to 8.1% in 2017-18. In 14 states, services contribute to more than half of the gross state value added. India ranked ninth in the world in terms of size of the services sector in 2017.

- Share of employment of services sector is at 34%, which is significantly lower than its share in GVA.

5. Private investment

- To achieve the objective of becoming a five trillion dollar economy by 2024-25, India needs to sustain a real GDP growth rate of 8%. Such growth can only be sustained by a cycle of of savings, investment, and exports, along with a favourable demographic phase. Private investment will drive demand, create capacity, and increase labour productivity, which generates more jobs.

- **Reducing policy uncertainty:** Domestic and foreign investment is negatively affected by increase in policy uncertainty. Therefore, reducing policy uncertainty is critical to improving investment. Policy uncertainty can be reduced when policy-makers ensure their actions are predictable and reduce arbitrariness in implementation. Further, quality assurance processes should be put in place to ensure effective policy implementation at lower levels of government.

6. Demographic trends and employment

- The annual population growth rate is set to decline from 1.1% in 2011-21 to 0.5% in 2031-41. Given changing age composition, India’s working age population will increase by 95.6 million during 2021-31, and by 41.5 million during 2031-41. This will have implications for the required job creation in the economy. Further, life expectancy for men and women is expected to increase in India. Therefore,
increasing the retirement age could be considered to keep the pension system viable.

- **Employment:** During 2017-18, the unemployment rate was at 6.1%. Formal employment (number of subscribers to the major social security schemes such as Employees Provident Fund Scheme, and National Pension Scheme) increased from 4.9 lakh in February 2018 to 8.2 lakh in March 2019.

7. Minimum wage system

- The minimum wage system in India is complex due to lack of uniform coverage and criteria for fixing minimum wages. Further, multiple minimum wage rates can lead to lack of effective compliance. Setting a national floor level minimum wage can bring uniformity in minimum wages across the country. Minimum wages should be fixed on the basis of skill or geography, or both. This would substantially reduce the number of minimum wages in the country.

8. Micro, small and medium enterprises

- Firms employing less than 100 workers account for half of all the firms in organized manufacturing, but their share in employment is only 14.1%. Firms that employ more than 100 workers and are less than 10 years old contribute 21.2% of employment. Such younger firms account for a higher share of productivity and employment. Therefore, small firms which are young can grow to become large firms that generate employment.

- The current regulations create an incentive for firms to remain small. In order to enable micro, small, and medium enterprises to grow, all size-based incentives should have a sunset clause of less than ten years, after which the firm should be able to sustain itself.

9. Skill development

- Skill training equips the youth to enter the labour market and improves their employability. Skill development will be improved by: (i) incentivising industry to set up training institutions in PPP mode, and (ii) introducing skill vouchers as a financial instrument which will enable individuals to sign up for vocational education at any accredited institute.

10. Sustainable Energy

- India accounts for 18% of the world’s population but uses only 6% of the world’s primary energy. India cannot become an upper-middle income country without (i) significantly increasing its share of global energy consumption, and (ii) ensuring universal access to commercial energy at affordable prices. Almost 60% of India’s energy is in thermal power, of which the main component is coal based power plants. Further, given India’s commitments to mitigating climate change, efforts have been made to increase access to renewable energy. A comprehensive energy policy must take into account the economics of both coal and renewables.

- Electric vehicles (EVs) have significant potential since they are environment friendly. Further, India can emerge as a hub for manufacture of electric vehicles. Policy measures are needed to lower the ownership costs of EVs and make them an attractive alternative to consumers.

11. Swacch Bharat Mission

- The Swacch Bharat Mission has brought about significant improvements in waste management and health indicators. Since October 2014, over 9.5 crore toilets have been built nationally, and 5.6 lakh villages have been declared open defecation free (ODF). Becoming ODF has reduced deaths due to diarrhoea, malaria, and improved child health. The Mission must focus on environmental and water management issues for long-term improvements.

12. Disposal of cases by judiciary

- In relation to enforcement of contracts, India moved up by only one rank in the Ease of Doing Business for 2018. Economic activity is affected by pendency in the legal system. District and Subordinate Courts account for 87.5% of total pending cases. Allocating additional judges can improve the disposal rate. To reach 100% case clearance rate in 2018, 2,279 additional judges were required in district and subordinate courts.

13. Public Data

- As data for social welfare may not be generated by the private sector in optimal quantity, government must view data as a public good and make the necessary investments. The government collects various kinds of data such as administrative, survey, institutional, and transactions data. Merging these distinct datasets would generate multiple benefits to government, private firms, and citizens.

- This integrated data system would mostly include data that individuals share with government agencies with fully informed consent or data that is legally sanctioned to be collected by the government (such as for tax collection or delivering welfare). Each department of the government would be responsible for making available the data they hold, as a data provider. Public or private institutions may request for this data, but can access it only with appropriate user consent.

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