Economic Survey 2017-18

A series of major reforms undertaken over the past year will allow real GDP growth to reach 6.75 percent this fiscal and will rise to 7.0 to 7.5 percent in 2018-19, thereby re-instating India as the world's fastest growing major economy. This was stated in the Economic Survey 2017-18 tabled in the Parliament by the Union Minister for Finance and Corporate Affairs, Arun Jaitley. It said that the reform measures undertaken in 2017-18 can be strengthened further in 2018-19.

The survey underlines that due to the launch of transformational Goods and Services Tax (GST) reform on July 1, 2017, resolution of the long-festering Twin Balance Sheet (TBS) problem by sending the major stressed companies for resolution under the new Indian Bankruptcy Code, implementing a major recapitalization package to strengthen the public sector banks, further liberalization of FDI and the export uplift from the global recovery, the economy began to accelerate in the second half of the year and can clock 6.75 percent growth this year.

The survey points out that as per the quarterly estimates; there was a reversal of the declining trend of GDP growth in the second quarter of 2017-18, led by the industry sector. The Gross Value Added (GVA) at constant basic prices is expected to grow at the rate of 6.1 per cent in 2017-18 as compared to 6.6 per cent in 2016-17. Similarly, Agriculture, industry and services sectors are expected to grow at the rate of 2.1 per cent, 4.4 per cent, and 8.3 per cent respectively in 2017-18. The survey adds that after remaining in negative territory for a couple of years, growth of exports rebounded into positive one during 2016-17 and expected to grow faster in 2017-18. However, due to higher expected increase in imports, net exports of goods and services are slated to decline in 2017-18. Similarly, despite the robust economic growth, the savings and investment as a ratio of GDP generally declined. The major reduction in investment rate occurred in 2013-14, although it declined in 2015-16 too. Within this the share of household sector declined, while that of private corporate sector increased.

The survey points out that India can be rated as among the best performing economies in the world as the average growth during last three years is around 4 percentage points higher than global growth and nearly 3 percentage points higher than that of Emerging Market and Developing Economies. It points out that the GDP growth has averaged 7.3 per cent for the period from 2014-15 to 2017-18, which is the highest among the major economies of the world. That this growth has been achieved in a milieu of lower inflation, improved current account balance and notable reduction in the fiscal deficit to GDP ratio makes it all the more creditable.

Though concerns have been expressed about growing protectionist tendencies in some countries but it remains to be seen as to how the situation unfolds. Some of the factors could have dampening effect on GDP growth in the coming year viz. the possibility of an increase in crude oil prices in the international market. However, with world growth likely to witness moderate improvement in 2018, expectation of greater stability in GST, likely recovery in investment levels, and ongoing structural reforms, among others, should be supporting higher growth. On balance, country's economic performance should witness an improvement in 2018-19.

The survey highlights that against the emerging macroeconomic concerns, policy vigilance will be necessary in the coming year, especially if high international oil prices persist or elevated stock prices correct sharply, provoking a "sudden stall" in capital flows. The agenda for the next year consequently remains full: stabilizing the GST, completing the TBS actions, privatizing Air India, and staving off threats to macro-economic stability. The TBS actions, noteworthy for cracking the long-standing "exit" problem, need complementary reforms to shrink unviable banks and allow greater private sector participation. The GST Council offers a model "technology" of cooperative federalism to apply to many other policy reforms. Over the medium term, three areas of policy focus stand out:

- Employment: finding good jobs for the young and burgeoning workforce, especially for women.
- Education: creating an educated and healthy labor force.
- Agriculture: raising farm productivity while strengthening agricultural resilience.

Above all, India must continue improving the climate for rapid economic growth on the strength of the only two truly sustainable engines—private investment and exports.

Main highlights of the Economic Survey are as under:-

- GDP to grow 7-7.5% in FY19; India to regain fastest growing major economy tag
- GDP growth to be 6.75% in FY2017-18
- Policy vigilance required next fiscal if high oil prices persist or stock prices correct sharply
- Policy agenda for next year -- support agriculture, privatise Air India, finish bank recapitalisation
- GST data shows 50% rise in number of indirect taxpayers
- Tax collection by states, local governments significantly lower than those in other federal countries
- Demonetisation has encouraged financial savings
- Insolvency Code being actively used to resolve NPA woes
- Retail inflation averaged 3.3% in 2017-18, lowest in last 6 fiscals
- India needs to address pendency, delays and backlogs in the appellate and judicial arenas
- Urban migration leading to feminisation of farm sector
- Rs 20,339 cr approved for interest subvention for farmers in current fiscal
- FDI in services sector rises 15% in 2017-18 on reforms
- Fiscal federalism, accountability to help avoid low equilibrium trap
- India's external sector to remain strong on likely improvement in global trade
- Technology should be used for better enforcement of labour laws
- Swachh Bharat initiative improved sanitation coverage in rural areas from 39% in 2014 to 76% in January 2018
- Priority to social infrastructure like education, health to promote inclusive growth
- Centre, states should enhance cooperation to deal with severe air pollution
- Survey 2017-18 in pink colour to highlight gender issues
- Indian parents often continue to have children till they have the desired number of sons

Cabinet approves amendments in FDI policy

The Union Cabinet chaired by the Prime Minister Narendra Modi, gave its approval to a number of amendments in the FDI Policy. These are intended to liberalise and simplify the FDI policy so as to provide ease of doing business in the country. In turn, it will lead to larger FDI inflows contributing to growth of investment, income and employment.

Foreign Direct Investment (FDI) is a major driver of economic growth and a source of non-debt finance for the economic development of the country. Government has put in place an investor friendly policy on FDI, under which FDI up to 100%, is permitted on the automatic route in most sectors/ activities. In the recent past, the Government has brought FDI policy reforms in a number of sectors viz. Defence, Construction Development, Insurance, Pension, Other Financial Services, Asset reconstruction Companies, Broadcasting, Civil Aviation, Pharmaceuticals, Trading etc.

Measures undertaken by the Government have resulted in increased FDI inflows in to the country. During the year 2014-15, total FDI inflows received were US $ 45.15 billion as against US $ 36.05 billion in 2013-14. During 2015-16, country received total FDI of US $ 55.46 billion. In the financial year 2016-17, total FDI of US $ 60.08 billion has been received, which is an all-time high.

It has been felt that the country has potential to attract far more foreign investment which can be achieved by further liberalizing and simplifying the FDI regime. Accordingly, the Government has decided to introduce a number of amendments in the FDI Policy

Government approval no longer required for FDI in Single Brand Retail Trading (SBRT)

- Extant FDI policy on SBRT allows 49% FDI under automatic route, and FDI beyond 49% and up to 100% through Government approval route. It has now been decided to permit 100% FDI under automatic route for SBRT.
- It has been decided to permit single brand retail trading entity to set off its incremental sourcing of goods from India for global operations during initial 5 years, beginning 1st April of the year of the opening of first store against the mandatory sourcing requirement of 30% of purchases from India. For this purpose, incremental sourcing will mean the increase in terms of value of such global sourcing from India for that single brand (in INR terms) in a particular financial year over the preceding financial year, by the non-resident entities undertaking single brand retail trading entity, either directly or through their group companies. After completion of this 5 year period, the SBRT entity shall be required to meet the 30% sourcing norms directly towards its India's operation, on an annual basis.
- A non-resident entity or entities, whether owner of the brand or otherwise, is permitted to undertake 'single brand' product retail trading in the country for the specific brand, either directly by the brand owner or through a legally tenable agreement executed between the Indian entity undertaking single brand retail trading and the brand owner.

Civil Aviation

As per the extant policy, foreign airlines are allowed to invest under Government approval route in the capital of Indian companies operating scheduled and non-scheduled air transport services, up to the limit of 49% of their paid-up capital. However, this provision was presently not applicable to Air India, thereby implying that foreign airlines could not invest in Air India. It has now been decided to do away with this restriction and allow foreign airlines to invest up to 49% under approval route in Air India subject to the conditions that:

- Foreign investment(s) in Air India including that of foreign Airline(s) shall not exceed 49% either directly or indirectly
- Substantial ownership and effective control of Air India shall continue to be vested in Indian National.

Construction Development: Townships, Housing, Built-up Infrastructure and Real Estate Broking Services

It has been decided to clarify that real-estate broking service does not amount to real estate business and is therefore, eligible for 100% FDI under automatic route.

Power Exchanges

Extant policy provides for 49% FDI under automatic route in Power Exchanges registered under the Central Electricity Regulatory Commission (Power Market) Regulations, 2010. However, FII/FPI purchases were restricted to secondary market only. It has now been decided to do away with this provision, thereby allowing FIIs/FPIs to invest in Power Exchanges through primary market as well.

Other Approval Requirements under FDI Policy

- As per the extant FDI policy, issue of equity shares against non-cash considerations like pre-incorporation expenses, import of machinery etc. is permitted under Government approval route. It has now been decided that issue of shares against non-cash considerations like pre-incorporation expenses, import of machinery etc. shall be permitted under automatic route in case of sectors under automatic route.
- Foreign investment into an Indian company, engaged only in the activity of investing in the capital of other Indian company/ies/ LLP and in the Core Investing Companies is presently allowed upto 100% with prior Government approval. It has now been decided to align FDI policy on these sectors with FDI policy provisions on Other Financial Services. Thus, if the above activities are regulated by any financial sector regulator, then foreign investment upto 100% under automatic route shall be allowed; and, if they are not regulated by any Financial Sector Regulator or where only part is regulated or where there is doubt regarding the regulatory oversight, foreign investment up to 100% will be allowed under Government approval route, subject to conditions including minimum capitalization requirement, as may be decided by the Government.

Competent Authority for examining FDI proposals from countries of concern

As per the existing procedures, FDI applications involving investments from Countries of Concern, requiring security clearance as per the extant FEMA 20, FDI Policy and security guidelines, amended from time to time, are to be processed by the Ministry of Home Affairs (MHA) for investments falling under automatic route sectors/activities, while cases pertaining to government approval route sectors/activities requiring security clearance are to be processed by the respective Administrative Ministries/Departments, as the case may be. It has now been decided that for investments in automatic route sectors, requiring approval only on the matter of investment being from country of concern, FDI applications would be processed by Department of Industrial Policy

& Promotion (DIPP) for Government approval. Cases under the government approval route, also requiring security clearance with respect to countries of concern, will continue to be processed by concerned Administrative Department/Ministry.

Pharmaceuticals

FDI policy on Pharmaceuticals sector inter-alia provides that definition of medical device as contained in the FDI Policy would be subject to amendment in the Drugs and Cosmetics Act. As the definition as contained in the policy is complete in itself, it has been decided to drop the reference to Drugs and Cosmetics Act from FDI policy. Further, it has also been decided to amend the definition of 'medical devices' as contained in the FDI Policy.

Prohibition of restrictive conditions regarding audit firms

The extant FDI policy does not have any provisions in respect of specification of auditors that can be appointed by the Indian investee companies receiving foreign investments. It has been decided to provide in the FDI policy that wherever the foreign investor wishes to specify a particular auditor/audit firm having international network for the Indian investee company, then audit of such investee companies should be carried out as joint audit wherein one of the auditors should not be part of the same network.