



Friday, August 11, 2017

To

- Managing Committee Members
- Patron Members
- Promoter Chambers
- Corporate Associates
- Associated Chambers
- Ordinary Members

**Economic Survey 2016-17 Volume-2: State of the Economy - An Analytical Overview and Outlook for Policy**

Economic Survey 2016-17 Volume 2 was laid in the Parliament today (August 11, 2017). The Survey notices a rekindled optimism on structural reforms in Indian economy. Various factors such as launch of the GST; Positive impacts of demonetization; decision in principle to privatize Air India; further rationalization of energy subsidies and Actions to address the Twin Balance Sheet (TBS) challenge contribute to this optimism. The document also adds that a growing confidence that macro-economic stability has become entrenched is evident because of a series of government and RBI actions and because of structural changes in the oil market have reduced the risk of sustained price increases.

However, the Survey cautions that anxiety reigns because a series of deflationary impulses are weighing on an economy, yet to gather its full momentum and still away from its potential. These include: stressed farm revenues, as non-cereal food prices have declined; farm loan waivers and the fiscal tightening they will entail; and declining profitability in the power and telecommunication sectors, further exacerbating the TBS problem.

Examining if India is undergoing a structural shift in the inflationary process toward low inflation, the Survey notes that the oil market is very different today than a few years ago, in a way that imparts a downward bias to oil prices, or at least has capped the upside risks to oil prices. Also, Farm loan waivers could reduce aggregate demand by as much as 0.7 percent of GDP, imparting a significant deflationary shock to an economy. Spurt in New Tax Payers and Reported Income After Demonetization; 5.4 lakh New Tax Payers Post-Demonetization. Demonetization's impact on the informal economy increased demand for social insurance, particularly in less developed states. MGNREGS and its implementation by the Government have met the programme's stated role of being a social safety net during times of need. It also adds that sustaining current growth trajectory will require action on more normal drivers of growth such as investment and exports and cleaning up of balance sheets to facilitate credit growth. The ratio of stressed companies in the power sector (defined as the share of debt owed by companies with an interest coverage (IC) ratio of less than 1) has been steadily rising this year, reaching 70 percent, with an associated vulnerable debt of over Rs. 3.6 lakh crore. The telecommunications sector has experienced its

own version of the “renewables shock” in the form of a new entrant that has dramatically reduced prices for, and increased access to, data, thereby benefitting—at least in the short run—consumers; after launching of services by the new entrant in September 2016, the average revenue per user (ARPU) for the industry on aggregate has come down by 22 percent vis-à-vis the long term (December 2009-June 2016) ARPU, and by about 32 percent since September 2016.

As regards Outlook for Growth 2017-18, Survey (Volume I) had forecast a range for real GDP growth of 6.75 percent to 7.5 percent for FY 2018. For Outlook for Prices & Inflation 2017-18, the Survey notes the outlook for inflation in the near-term will be determined by a number of proximate factors, including:

- The outlook for capital flows and exchange rate which in turn will be influenced by the outlook and policy in advanced economies, especially the US;
  - the recent nominal exchange rate appreciation;
  - the monsoon;
  - the introduction of the GST;
  - the 7th Pay Commission awards;
  - likely farm loan waivers; and
  - the output gap

The document says that the fact that current inflation is running well below the 4 percent target, suggests that inflation by March 2018 is likely to be below the RBI’s medium term target of 4 percent.

As regards Review of Economic Developments 2016-17, the Survey notes that

- Real economy grew by 7.1 per cent in 2016-17 compared with 8 percent the previous year. This performance was higher than the range predicted in the Economic Survey (Volume I) in February.
- This growth suggested that the economy was relatively resilient to the large liquidity shock of demonetization which reduced cash in circulation by 22.6 percent in the second half of 2016-17. The apparent resilience was even more marked in nominal growth magnitudes because both nominal GVA and GDP growth accelerated by over 1 percentage point in 2016-17 compared with 2015-16.
- Annual inflation averaged 5.9 per cent in 2014-15 and has since declined to 4.5 per cent in FY 2017. More dramatic have been developments during 2016-17- inflation declined sharply from 6.1 percent in July 2016 to 1.5 percent in June 2017.
- The sharp dip in WPI inflation in late FY 2015 and throughout FY 2016 owed to the deceleration in global commodities prices, especially crude oil prices. With global commodity prices recovering and the ‘base effect’ (low inflation in the previous year) giving an upward push, wholesale inflation perked up during FY 2017
- With the green shoots slowly becoming visible in merchandise trade, and robust capital flows, the external position appears robust, reflected inter alia in rising reserves and a strengthening exchange rate.

- The current account deficit narrowed in 2016-17 to 0.7 percent of GDP, down from 1.1 percent of GDP the previous year, led by the sharp contraction in trade deficit which more than outweighed the decline in net invisibles
- Export growth turned positive after a gap of two years and imports contracted marginally, so that India's trade deficit narrowed to 5.0 per cent of GDP (US\$ billion) in FY 2017 as compared to 6.2 per cent (US\$ 130.1 billion) in the previous year.

**Highlights of Reforms Measures & Highlights of the Economic Survey 2016-17 Volume-2 are available on the following links for information of the members.**

<http://assochem.tv/static.assochem.tv/upload/product1/1502441759.pdf>

<http://assochem.tv/static.assochem.tv/upload/product1/1502441787.pdf>

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Secretary General

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