GS SCORE

Gist of

ECONOMIC SURVEY

2017-18

Vol. - II

For Civil Services Examination

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Economic Survey (2017-2018)
Volume - II

INDEX

1 AN OVERVIEW OF INDIA'S ECONOMIC PERFORMANCE IN 2017-18

Context

After registering GDP growth of over 7 per cent for the third year in succession in 2016-17, the Indian economy is headed for somewhat slower growth, estimated to be 6.5 per cent in 2017-18, as per first Advance Estimates released by CSO. This is slightly lower than the range of 6.5 per cent to 6.75 per cent being currently projected based on recent developments. Even with this lower growth for 2017-18, 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.

Concerns have been expressed about growing protectionist tendencies in some countries. 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.

Terminologies

RESIDEX Index:

- It was first launched in 2007 by the National Housing Bank (NHB) to provide an index of residential prices in India across cities and over time.

Headline Inflation:

- It is a measure of the total inflation within an economy, including commodities such as food and energy prices (e.g., oil and gas), which tend to be much more volatile and prone to inflationary spikes.

Core Inflation:

- Core inflation represents the long run trend in the price level. In measuring long run inflation, transitory price changes should be excluded. One way of accomplishing this is by excluding items frequently subject to volatile prices, like food and energy.

Twin Balance Sheet Problem:

- India's Twin Balance Sheet problem includes overleveraged and distressed companies and the rising NPAs in Public Sector Banks balance sheets.

Reserve Money (M0):

- M0 = Currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI = Net RBI Credit to the Government + RBI credit to the commercial sector + RBI's claims on banks + RBI's net foreign assets + Government's currency liabilities to the public – RBI's net non-monetary liabilities.

Notes

- It is the most liquid measure of the money supply. It only includes cash or assets that could quickly be converted into currency. This measure is known as narrow money because it is the smallest measure of the money supply.

Real Effective Exchange Rate (REER):

- This index is used as indicators of external competitiveness of the country over a period of time.
- It captures movements in cross-currency exchange rates as well as inflation differentials between India and its major trading partners and reflects the degree of external competitiveness of Indian products.

Gist of Chapter

GDP GROWTH IN 2017-18

- With Gross Domestic Product (GDP) growth averaging 7.5 per cent between 2014-15 and 2016-17, India can be rated as among the best performing economies in the world on this parameter.
- Although growth is expected to decline to 6.5 per cent in 2017-18, bringing the 4-year average to 7.3 per cent, the broad story of India's GDP growth to be significantly higher than most economies of the world does not alter. The growth is around 4 percentage points higher than global growth average of last 3 years and nearly 3 percentage points more than the average growth achieved by emerging market & developing economies (EMDE).
- As per the first Advance Estimate released by Central Statistics Office (CSO), growth rate of Gross Value of Added (GVA) at constant basic prices is estimated at 6.1 per cent in 2017-18, as compared to 6.6 per cent in 2016-17.
- This is on account of lower growth in 'Agriculture & allied', and 'Industry' sector, which are expected to grow at 2.1 per cent and 4.4 per cent respectively.
- In 2017-18, service sector is expected to grow at 8.3 per cent, as compared to 7.7 per cent in 2016-17. Within the services sector, only the growth of 'Public administration, defence & other services' sector is expected to decline in 2017-18.
- From a low of 5.5 per cent in 2012-13, growth in GDP improved in 2015-16. Growth started slowing down in 2016-17. However, the second quarter (Q2) of 2017-18 witnessed reversal of declining trend of GDP growth, with growth increasing to 6.3 per cent. The nominal GDP and GVA growth also picked up to 9.4 per cent and 8.6 per cent respectively in Q2 of 2017-18.
- The growth in nominal GDP in 2016-17 is estimated to be 11 per cent and it is expected at 9.5 per cent in 2017-18 on account of both lower real growth as well as lower value of deflator in 2017-18.
- The growth of nominal GVA in these two years is estimated to the 9.7 per cent and 9.0 per cent respectively. The differences in the nominal growth between GVA and GDP have also increased in the last few years. This is indicative of an increase in the share of net indirect taxes in GDP.

GVA growth of major sectors

- As expected, the agriculture sector registered significantly higher growth in 2016-17 than the previous two years on the back of normal monsoon. Most other crops and non-crop agriculture sector also showed significant growth.
- Public administration, defence & other services sector registered double-digit growth in 2016-17 that largely owed to higher payouts in salaries and arrears on account of implementation of the recommendations of the Seventh Pay Commission.

Notes

- The growth of industry sector declined by over 3 percentage points in the last financial year.
- The growth of manufacturing sector, in particular, showed an improvement from 1.2 per cent in Q1 to 7.0 per cent in Q2 of 2017-18.
- One of the salient features of GVA growth in 2016-17 has been that two sectors viz. 'Agriculture & allied', and 'Public administration, defence & other services, contributed nearly one-third of the total growth of the economy. These sectors on an average contributed to about one-sixth of the GVA growth in the period 2012-13 to 2015-16.

Quarter wise GVA growth

- After declining in previous few quarters, GVA growth picked up to 6.1 per cent in Q2 of 2017-18. The increasing trend of GVA growth of 'Agriculture & allied' sector since last quarter of 2015-16 was reversed from Q4 of 2016-17.
- The decline in growth of industry had started in the Q1 of 2016-17 and the growth was particularly low in Q4. One reason why industry growth might have decelerated could be the slowdown in credit growth. Growth of credit deployed (outstanding) to industry slowed significantly in 2015-16, turned negative in 2016-17, and has continued to remain so in H1 of 2017-18. This decline may be due to lower demand for credit or greater recognition of the problem of non-performing assets (NPAs) that might have led the banks to become more cautious on lending.
- However, as on November 24, 2017, credit outstanding to industry sector was 1 per cent higher than what was on November 25, 2016.

Per-capita Income

- The real per capita income (measured in terms of per capita net national income at constant (2011-12) prices is one of the important indicators representing the welfare of people of a country. It is expected to increase from Rs. 77,803 in 2015-16 to Rs. 86,660 in 2017-18, growing at an annual average rate of 5.5 per cent. In nominal terms it increased by an average of 9.0 per cent per annum from Rs. 94,130 in 2015-16 to Rs. 111,782 in 2017-18.
- Growth of services sector, which had declined in Q3 of 2016-17, picked up slightly in Q4, primarily due to 17 per cent growth in real terms in 'Public administration, defence & other services' sector.
- The growth of 'Trade, transport, storage, communications etc.' sector was low, at 6.5 per cent in Q4 of 2016-17, partly due to high base effect (growth of this sector was 12.8 per cent in Q4 of 2015-16).
- There has been some recovery in the services growth in the H1 of 2017-18, vis-a-vis H2 of 2016-17, on the strength of higher growth in 'Financial services, real estate & professional services' and 'Trade, hotels, transport, communication & broadcasting services' sector.

GDP AND ITS COMPONENTS

- Consumption expenditure has been the major driver, accounting for nearly sixty per cent of the total GDP growth between 2012-13 and 2015-16. This contribution increased to over 95 per cent in 2016-17, which is attributed to higher growth of both Private Final Consumption Expenditure (PFCE) and Government Final Consumption Expenditure (GFCE), particularly the latter.
- Growth of GFCE was nearly 21 per cent in 2016-17, against an average growth of 3.5 per cent during 2012-13 to 2015-16.

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- This owed mainly to the payment of higher wages and salaries to the government staff that followed the implementation of the recommendations of the Seventh Pay Commission. The growth of both PFCE and GFCE is expected to be lower in 2017-18.

Final Consumption Expenditure

- In the 6 years between 2011-12 and 2016-17, the share of PFCE averaged 57.5 per cent in total GDP and its growth averaged 6.8 per cent. PFCE has been the single most important driver of GDP growth and particularly so in 2016-17, when it contributed nearly two-thirds to GDP growth. Added to this, the contribution of GFCE was 29 per cent.
- As per the 1st AE of 2017-18, the contribution of PFCE and GFCE to GDP growth is estimated to be 54.3 per cent and 14.4 per cent respectively. While PFCE contribution reverted to the average levels achieved in 2011-12 to 2015-16, the contribution of GFCE continues to be higher than that average.

SAVINGS AND INVESTMENT

- The investment rate (Gross Capital Formation (GCF) as a share of GDP) in the economy declined by nearly 5.6 percentage points between 2011-12 and 2015-16. The major reduction occurred in the year 2013-14, when investment rate declined by nearly 5 percentage points.
- This was on account of number of factors viz. difficulties in acquiring land, delayed and cumbersome environmental clearances, problems on infrastructure front, etc. Although many of these problems have been addressed, resulting in improved power situation, lessening of infrastructure bottlenecks, etc., the investment rate (mainly fixed investment) has not picked up.
- The faster decline in investment rate vis-à-vis the savings rate has led to lower level of current account deficit (Savings Investment Gap) from 2013-14 to 2015-16.

Savings

- Savings in an economy originate from households, private corporate sector and public sector (including general government).
- In line with overall savings of the economy, the savings of household sector as a ratio of GDP have declined from 23.6 per cent in 2011-12 to 19.2 per cent in 2015-16, while that of private corporate sector have increased.
- Household sector accounts for the bulk of the savings. However, the share of household savings in total savings declined from around 68 per cent in 2011-12 to 59 per cent in 2015-16. Within the households' savings, there has been a substitution away from physical to financial assets, with the share of former declining by over 10 percentage points.
- Public savings that declined from 1.5 per cent of GDP in 2011-12 to 0.9 per cent in 2014-15, however, increased again in 2015-16. This could be partly explained by higher collection of union excise duties, particularly from petroleum products and reduced level of petroleum subsidy bill of the central government.
- The share of private corporate sector in the total savings increased from 9.5 per cent of GDP in 2011-12 to about 12 per cent of GDP in 2015-16.
- The overall financial savings of the households registered an increase of over 20 per cent in 2016-17. There was a decline in the savings in the form of currency by over 250 per cent (of about Rs. 5 lakh crore). This decline primarily owed to the withdrawal of high denomination currency notes in November 2016 and partial remonetisation by end March 2017.

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- Shares and debentures increased by 82 per cent, 66 per cent and 345 per cent respectively in 2016-17. Savings in the form of mutual funds registered more than 11-fold increase. This happened in a period when the BSE Sensex increased by an average of just about 1.5 per cent per annum.

Investment

- There has been a consistent reduction in investment rate from close to 39 per cent in 2011-12 to 33.3 per cent in 2015-16.
- Gross fixed capital formation (GFCF) which accounts for overwhelming proportion of GCF, changes in stock and valuables, for 2016-17 and 2017-18. Fixed investment rate (GFCF as a share of GDP) declined by 5 percentage points between 2011-12 and 2015-16.
- The slow growth in fixed investment in the recent years could partly be ascribed to twin-balance sheet problem. This trend of declining fixed investment rate needs to be reversed at the earliest to realise the potential growth of over 8 per cent in the years to come.
- The investment rate of public sector (including general government) consistently declined from 2011-12 to 2014-15. However, it increased to 7.5 per cent of GDP in 2015-16. This is in line with the greater focus on capital expenditure by the central government as well as the state governments during the year.
- The share of private corporate sector in total investment increased from 36 per cent in 2011-12 to 41 per cent in 2015-16 and it has become largest sector for investment in the economy, replacing the household sector. The investment of household sector (including non-profit institutions serving the households) declined by nearly 5 percentage points from 15.9 per cent of GDP in 2011-12 to 10.9 per cent of GDP in 2015-16.
- Fixed investment accounts for around 90 per cent of total investment. Fixed investment is in various assets including dwellings, machinery & equipment and intellectual property products (IPP), along with small contribution coming from cultivated biological resources (CBR).
- Dwellings account for around 57-58 per cent of fixed investment and this share has remained fairly stable between 2011-12 and 2015-16. However, household's investment in dwellings has declined considerably, which is possibly linked to reduction in the share of household's savings in the form of physical assets. On the other hand, nearly the entire increase in the share of fixed investment of public sector is on dwellings. The reduction in share of machinery segment of fixed investment is primarily accounted for by the household sector. The share of 'Others' (IPP along with CBR) increased on account of higher investment in this category by the private corporate sector.

PUBLIC FINANCE

- Based on the firm footing provided by the discernible improvements in most fiscal indicators, viz. revenue buoyancy, expenditure quality, tax devolution and deficits, the Government, in partnership with the States, ushered in the long- awaited Goods and Service Tax (GST) with effect from July 2017.
- The Government is navigating the change and challenges, including the possibility that a substantial portion of the last-month (March 2018) GST collections may spill over to the next financial year.
- The data on Central Government finances are available till November 2017 from the Controller General of Accounts (CGA). Based on this data, on the revenue front, there are three distinct trends

Notes

during the first eight months of the current year: direct tax collections are on track; non-tax revenues have under-performed; and non-debt capital receipts, mainly proceeds from disinvestment, are doing well.

- The growth in direct tax collections of the Centre is 13.7 per cent. The budgeted growth for indirect taxes for the full year 2017-18 is 7.6 per cent; the actual growth till November is 18.3 per cent.
- The States' share in taxes grew by about 25 per cent during 2017-18, much higher than the growth in Centre's net tax revenue at 12.6 per cent and of gross tax revenue at 16.5 per cent.
- The total expenditure of the Government increased by 14.9 per cent during 2017-18 (Apr-Nov), as compared to 12.6 per cent in the same period of the previous year. The revenue expenditure grew by 13.1 per cent and capital expenditure by 29.3 per cent during the first eight months of the current year.
- States targeted to consolidate in the current year, after the UDAY-led aberration in their fiscal balances for the previous two years. The position of 21 State Governments that account for about 86 per cent of the total GSDP and for which comparable data are available, shows that their revenue receipts have kept pace with the previous year in terms of growth and in relation to the corresponding budget estimates.
- With the expected revenues from GST becoming increasingly clearer, the fiscal balance of the General Government vis-à-vis budget estimates will depend on the emerging patterns of revenue expenditure in the fourth quarter.

PRICE AND MONETARY MANAGEMENT

Prices and Inflation:

- Inflation in the country continued to moderate during 2017-18. Headline inflation as per Consumer Price Index – Combined (CPI-C) declined to 3.3 per cent in 2017-18 (Apr-Dec) from 4.8 per cent in the corresponding period of 2016-17.
- CPI inflation, which was below 3.0 per cent in the first quarter of 2017-18 mainly due to lower food inflation, especially pulses and vegetables, rose marginally and stood at 3.0 per cent in the Q2 of 2017-18.
- CPI-based core (non-food, non-fuel) inflation also declined to 4.5 per cent in 2017-18 (Apr-Dec) from 4.8 per cent in 2016-17.
- Average inflation based on the Wholesale Price Index (WPI) stood at 2.9 per cent in 2017-18 as compared to 0.7 per cent in 2016-17.
- WPI inflation which remained subdued for several months, surged during February and March 2017 due to sudden spurt in global crude oils prices. Thereafter, with the moderation in the global crude prices, inflation also moderated in the next four months till July, reaching a low of 0.9 per cent in June 2017. As oil prices bounced back and moved upwards in the successive months, coupled with rising food prices, inflation too rose and reached the level of 3.6 per cent in December 2017.
- WPI based core (non-food manufactured products) inflation stood at 2.6 per cent in 2017-18 (Apr-Dec) as compared to -0.8 per cent in 2016-17 (Apr-Dec). The inflation of manufactured group, which has the weight of 64.2 per cent in the WPI basket, has however, remained range bound hovering around 2.6 per cent.

Notes

Monetary Management and Financial Intermediation

- Monetary policy during 2017-18 was conducted under the revised statutory framework, which became effective from August 5, 2016. The Monetary Policy Committee decided to reduce the policy Repo Rate by 25 basis points to 6.0 per cent.
- In tandem with the re-monetisation process, from November 17, 2017, as a favourable base effect set in, the Year on Year (YoY) growth of both 'Currency in circulation' and 'Reserve money' (M0) turned sharply positive and higher than their respective growth rates in the previous year.
- The performance of the banking sector, and in particular the Public Sector Banks, continued to be subdued in the current financial year. The gross non-performing advances (GNPA) ratio of Scheduled Commercial Banks increased from 9.6 per cent to 10.2 per cent between March 2017 and September 2017. Non Food Credit (NFC) grew at 8.9 per cent in November 2017.

EXTERNAL SECTOR

- The global economy has been gathering pace and is expected to accelerate from 3.2 per cent in 2016 to 3.7 per cent in 2018. World trade volume growth is projected to increase from 2.4 per cent in 2016 to 4.2 per cent and 4.0 per cent respectively in 2017 and 2018.
- Commodity prices (fuel and nonfuel) are also expected to grow in contrast to decline in the last few years. India's external sector has continued to be resilient and strong in 2017-18 so far and the balance of payments (BoP) situation continued to be comfortable.
- Current Account Deficit (CAD) was 1.8 per cent of GDP, merchandise exports grew by 12 per cent, net services receipts grew by 14.6 per cent, net foreign investment grew by 17.4 per cent, and external debt indicators improved in H1 of 2017-18.

India's Merchandise trade

- The year 2016-17 was characterized by positive growth in merchandise exports after two years of negative growth. Similarly, merchandise imports also printed positive growth in 2016-17 after three years of negative growth mainly due to a reduction in value of imports of crude oil and petroleum products, reduction of gold and silver imports during this period. Thus, these two commodity groups accounted for nearly 97 per cent of the reduction in imports.
- The reduction in trade deficit in this period has been the major contributor to bringing about an improvement in the current account deficit that declined from 4.8 per cent of GDP in 2012-13 to around 0.7 per cent of GDP in 2016-17. With capital flows remaining at healthy levels, the foreign exchange reserves steadily increased from US$ 292 billion at the end of March 2013 to US$ 370 billion at the end of March 2017.

Balance of Payments

- India's balance of payments situation which has been benign since 2013-14, continued to be so in 2017-18, despite some rise in CAD. The CAD increased from US$ 3.8 billion (0.4 per cent of GDP) in of 2016 -17 to US$ 22.2 billion (1.8 per cent of GDP) in 2017-18, primarily on account of a higher trade deficit brought about by a larger increase in merchandise imports relative to exports. The surge in imports owed to sharp rise in imports of gold and increase in oil prices in the international markets.
- While trade deficit widened in 2017-18 as compared to 2016-17, the improvement in invisibles balance along with the net capital flows dominated by foreign investment and banking capital was more than sufficient to finance the trade deficit leading to accretion in foreign exchange reserves in H1 of 2017-18.

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Invisibles

- In 2017-18, there has been an increase in net invisibles surplus to US$ 52.5 billion from US$ 45.7 billion in 2016-17, with increase observed in net services and net private transfers.

Capital/Financial account of BoP in H1 of 2017-18

- Notwithstanding a decline in Foreign Direct Investment (FDI) inflows in 2017-18, net foreign investment recorded a growth of 17.4 per cent owing to a sharp rise in portfolio investment to India. Moderation in FDI flows in Q2 of 2017-18 led to a cumulative decline in FDI flows by 6.3 per cent in 2017-18 over its level during the corresponding period of the previous year.
- However, foreign portfolio investment (FPI) increased by 78.0 per cent, from US$ 8.2 billion in 2016-17 to US$ 14.5 billion in H1 2017-18 reflecting positive outlook about growth potential of Indian economy.

Foreign Exchange Reserves

- India's foreign exchange reserves reached US$ 409.4 billion on December 29, 2017, with a growth of 14.1 per cent on a YoY basis from end-December 2016 and growth of 10.7 per cent from end-March 2017.
- The foreign exchange reserves were US$ 413.8 billion on 12th January 2018.

Exchange Rate

- During 2017-18 (up to December 2017), the rupee generally traded with an appreciating bias against the US dollar, barring intermittent depreciation in September and October 2017. The appreciation of the rupee (in real effective exchange rate (REER) terms) indicates that India's exports may have become slightly less competitive.

External Debt

- India's stock of external debt increased by 5.1 per cent to US$ 495.7 billion at end-September 2017 from end-March, 2017. The increase in long term debt was primarily due to the increase in foreign portfolio investment included under commercial borrowings.
- Share of Government (Sovereign) debt in total debt increased to 21.6 per cent at end- September 2017 from 19.4 per cent at end-March 2017 mainly due to other Government external debt component reflecting the increasing level of foreign portfolio investments in Government securities.

Trade Policy

- Two important developments in the trade policy during the year are:
  1. The mid-term review of Foreign Trade Policy (FTP).
  2. The recent multilateral negotiations of WTO in December 2017.
- There were some developments on the trade logistics front and anti-dumping measures. MEIS (Merchandise Exports from India Scheme) incentives for two sub-sectors of textiles and SEIS (Service Exports from India Scheme) for notified services have been increased by 2 per cent.
- In December 2017, a special package for employment generation in leather and footwear sector was approved by the Government which is likely to help exports from these sectors.

Notes

- Improved logistics have huge implications on increasing exports. Government has recognized the need for integrated development of logistics sector. The Indian logistics market is expected to reach about US$ 215 billion in 2019-20.

PROSPECTS OF GROWTH FOR 2018-19

- CSO has estimated the GDP growth in 2017-18 to be 6.5 per cent. The growth during 2018-19 could be higher, depending on a number of factors.
- As per IMF's World Economic Outlook released in October 2017, the global growth is expected to accelerate to 3.7 per cent in 2018 from 3.6 per cent in 2017. This can be expected to provide further boost to India's exports, which have already shown acceleration in the current financial year.
- Remittances have shown signs of revival in the first half of current year and can be expected to pick up, particularly if oil prices maintain their rising trend witnessed in the current year.
- The policy rates can be expected to remain fairly stable if the inflation rate does not deviate much from its current levels. This, along with the still favourable interest rate regime prevailing in the global markets could provide greater certainty to the investment climate.
- The reform measures undertaken in 2017-18 can be expected to strengthen further in 2018-19 and reinforce growth momentum. On the other hand, downside risk to higher growth emanate from higher crude oil prices, which (going by current indications) can be expected to increase by about 10-15 per cent over and above the likely average price of around US$ 56-57 per barrel (for Indian basket) for 2017-18.
- Protectionist tendencies in some of the countries could have an impact on exports growth, while the possibility of tightening of monetary conditions in the developed countries could lead to lower capital inflows. This monetary tightening could also lead to the possibility of financial stress and therefore can be a downside risk. On balance, there is a strong possibility of growth in 2018-19. Growth of GDP in 2018-19 could be in the range of 7.0 to 7.5 per cent.

SECTORAL DEVELOPMENTS

Agriculture and allied sectors:

- The share of agriculture and allied sectors in GVA declined from 18.2 per cent in 2012-13 to 16.4 per cent in 2017-18.
- The declining share does not undermine the significance of the sector for employment, livelihood and food security.
- India ranks first, with 9.6 per cent (179.8 Mha) of the global net cropland area according to United States Geological Survey, 2017. Hence, India has tremendous potential for crop diversification and to make farming a sustainable and profitable economic activity.
- Towards achieving a more diversified cropping pattern, the government is implementing the Crops Diversification Programme in original green revolution states viz. Punjab, Haryana and in Western UP, to diversify paddy area towards less water requiring crops. It will also help in mitigating the risks faced by farmers in terms of price shocks and production/harvest losses.
- Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) is being implemented in mission mode with the help of Command Area Development to complete 99 major and medium irrigation projects covering 76.0 lakh hectares in a phased manner by December 2019 to increase the coverage of irrigated area and thereby agricultural productivity.

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- The Pradhan Mantri Fasal Bima Yojana (PMFBY) which is a yield index based crop insurance scheme was launched in 2016. It has made substantial progress with more ground coverage compared to erstwhile schemes. During Kharif 2016 season, 23 States implemented PMFBY and during Rabi season of 2016-17, 25 States/Union Territories implemented PMFBY. As on December 2017, total claims of Rs. 13,292 crore have been approved for 116 lakhs farmers (applications) and Rs. 12,020 crore have been paid under PMFBY.

Industrial, Corporate and Infrastructure Performance:

- As per the Index of Industrial Production (IIP), which is a volume index with base year 2011-12, the industrial output increased by 3.2 per cent during April-November 2017-18.
- This was a composite effect of growth in electricity generation at 5.2 per cent and growth in mining and manufacturing sectors at 3.0 per cent and 3.1 per cent respectively.
- The eight Core infrastructure supportive industries, viz. coal, crude oil, natural gas, petroleum refinery products, fertilizers, steel, cement and electricity that have a total weight of nearly 40 per cent in the IIP attained a cumulative growth of 3.9 per cent during April-November 2017-18.
- Positive production growth: Coal, natural gas, refinery products, steel, cement and electricity.
- The steel production increased substantially, while the production of crude oil and fertilizers fell marginally during the period.
- India has leapt 30 ranks over its previous rank of 130 in the World Bank's latest Doing Business Report 2018.
- Moody's Investors Service has raised India's rating from the lowest investment grade of Baa3 to Baa2. This has been made possible due to a host of measures undertaken by the Government including implementation of GST, Insolvency and Bankruptcy Code, and announcement of bank recapitalization.
- A number of reforms were undertaken to boost industrial growth including Make in India programme, Start-up India and Intellectual Rights Policy.

Sectoral Initiatives:

a) Steel:

- In order to address dumping of cheap steel imports from China, South Korea and Ukraine, the Government raised customs duty and imposed anti-dumping duty.
- Minimum Import Price (MIP) was introduced on a number of items in February 2016, with a sunset clause of one year.
- In February 2017, Government notified anti-dumping duties and countervailing duties on various steel products. The Government also rolled out a New Steel Policy in May 2017.

b) Micro, Small and Medium Enterprises (MSME) Sector:

- MSMEs play a crucial role in providing large scale employment opportunities at comparatively lower capital cost than large industries and also in industrialization of rural & backward areas.
- The Government has initiated the Pradhan Mantri Mudra Yojana for development and refinancing activities relating to micro industrial units.

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c) Textiles and Apparels:

- To address some of the constraints faced by apparel firms Cabinet announced a Rs. 6,000 crore package for the apparel sector on June 2016.
- Government in December 2017, approved the scheme for Capacity Building in Textile Sector with an outlay of Rs. 1,300 crore for the period from 2017-2018 to 2019-2020.

d) Leather sector:

- It is highly labour intensive sector.
- For the purpose of promotion of employment in the leather & footwear sector, a scheme was announced in December 2017 with an outlay of Rs 2600 crore over three financial years from 2017-18 to 2019-2020.

e) Gems and Jewellery:

- India is one of the largest exporters of gems and jewellery. Growth of exports from this sector has risen from 0.7 per cent in 2014-15 to 12.8 per cent in 2016-17.

INFRASTRUCTURE PERFORMANCE

The Government has been increasing its investment over time on building infrastructure to support India's long-term growth. The performance of some of the key infrastructure sectors is discussed in the following paragraphs.

Roads:

- The primary agenda of the Government in this sector has been building new National Highways (NHs) and also converting State Highways (SHs) into NHs.
- The new umbrella program 'Bharatmala Pariyojana' aims to achieve optimal resource allocation for a holistic highway development.

Railways:

- During 2017, Indian Railways carried 558.1 million tonnes of revenue earning freight traffic showing an increase of 5.1 per cent during this period.
- The pace of commissioning Broad Gauge (BG) lines and completion of electrification have been accelerated.
- With financial assistance from GOI, 425 km of metro rail systems are operational and about 684 km are under construction in various cities across India as in December 2017.

Ports:

- In 2017-18 (till 31.12.2017), cargo traffic handled at Major Ports has been 499.4 million tonnes.
- Under the Sagarmala Programme which aims to promote port-led development along Indian coast line, 289 projects worth Rs. 2.17 lakh crore are under various stages of implementation and development.

Telecom:

- The programmes including 'Bharat Net' and 'Digital India' aim at converting India into a digital economy. At the end of September 2017, the number of subscribers stood at 1,207 million, out of which 502 million connections were in the rural areas and 705 million in the urban areas.

Notes

Civil Aviation:

- In April–September 2017, domestic airlines carried 57.5 million passengers, showing a growth rate of 16 per cent over the corresponding period of previous year.
- Government is taking initiatives like liberalization of air services, airport development and regional connectivity through UDAN scheme.

Power:

- All-India installed power generation capacity reached 330,861 MW as on November 30, 2017.
- The Ujjawal DISCOM Assurance Yojana (UDAY) has focused on enhancing the financial health of DISCOMs by reducing interest burden, cost of power and aggregated technical and commercial losses.
- A new scheme, Saubhagya (Pradhan Mantri Sahaj Bijli Har Ghar Yojana), was launched in September 2017 to ensure electrification of all remaining willing households in the country in rural and urban areas.

Services

- With a share of 55.2 per cent in India's GVA, the services sector continued to be the key driver of India's economic growth, and is expected to contribute almost 72.5 per cent of GVA growth in 2017-18.
- Out of the 32 States and Union Territories (UTs) for which data are released for new base (2011-12 series) by CSO, the services sector is the dominant sector contributing to more than half of the gross state value added (GSVA) in 15 states and UTs.
- Among these 32 states and UTs, Delhi and Chandigarh are at the top with over 80 per cent and Sikkim is at the bottom with 31.7 per cent, in terms of services sector GVA share.
- In 2016-17, FDI equity inflows to the services sector (top 10 sectors including construction) declined by 0.9 per cent to US$ 26.4 billion, though overall FDI equity inflows grew by 8.7 per cent.
- India remained the eighth largest exporter of commercial services in the world in 2016 (WTO, 2017) with a share of 3.4 per cent, which is double the share of India's merchandise exports in the world.
- In India, the tourism sector has been performing robustly with Foreign Tourist Arrivals (FTAs) growing to 8.8 million in 2016. Foreign Exchange Earnings (FEEs) from tourism grew at 8.8 per cent to US$ 22.9 billion in 2016.
- **IT Sector:**
  - As per NASSCOM data, India's Information Technology – Business Process Management (IT-BPM) industry grew by 8.1 per cent in 2016-17 to US$ 139.9 billion (excluding e-commerce and hardware).
  - IT-BPM exports grew by 7.6 per cent to US$ 116.1 billion in 2016-17. E-commerce market is estimated at US$ 33 billion, with a 19.1 per cent growth in 2016-17.
  - As per the RBI data, software exports contracted by 0.7 per cent in 2016-17. In H1 of 2017-18, it grew by 2.3 per cent. USA, UK and EU account for around 90 per cent of the total IT-ITES exports. While, there are new challenges surfacing in these traditional geographies, demand from Asia Pacific Countries (APAC), Latin America and Middle East Asia is growing and new opportunities are emerging for expanding in continental Europe, Japan, China and Africa.

Notes

- The share of real estate sector which includes ownership of dwellings accounted for 7.7 per cent in India's overall GVA in 2015-16.
- As per NHB's RESIDEX Index, housing prices increased in 36 cities during April-June 2017 out of 50 major cities, while 13 cities witnessed a decline.
- **Research and Development:**
  - India-based R&D services companies, which account for almost 22 per cent of the global market, grew by 12.7 per cent. However, India's gross expenditure on R&D has been low at just around 1 per cent of GDP.
  - India currently ranks 60th out of 127 on the Global Innovation Index (GII) 2017, improving from 66th rank in 2016.
  - According to the Global Competitiveness Report 2017-18, India's capacity for innovation has been lower than that of many countries like the USA, the UK, South Korea, but it is better than that of China.
  - However, in terms of patent applications per million populations, India significantly lags behind other BRICS countries and in terms of company spending on R&D, India ranks marginally below China.
  - In the case of Satellite Launching, as on March 2017, PSLV had successfully launched 254 satellites. Foreign exchange earnings of India from export of satellite launch services have increased noticeably in the recent years. Consequently, India's share in global satellite launch services revenue has also increased to 1.1 per cent in 2015-16 from 0.3 per cent in 2014-15.

The Government has taken many initiatives in the different services sector, which include digitization, e-visas, infrastructure status to Logistics, Start-up India, schemes for the housing sector, etc., which could give a further fillip to the services sector. The prospects look bright with good performance of sub sectors like Tourism, Aviation, and Telecom. The downward risk however lies in the external environment for software and business services.

SOCIAL INFRASTRUCTURE

Expenditure on social infrastructure:

- The all India expenditure on social services as a percentage of GDP has increased from 5.8 per cent in 2015-16 to 6.6 per cent in 2017-18 (BE).

Status on education:

- As per the Right to Education (RTE) indicators which reflect the effectiveness of universalization of education, most of the States have registered an increase in the percentage of schools complying with the PTR (Pupil Teacher Ratio) norms.
- The GPI (Gender Parity Index) reflects disparity of girls vis-a-vis boys in access to education.
- With consistent efforts by the government through programmes like Beti Padhao, Beti Bachao, the GPI has improved substantially at the primary and secondary levels of enrolment.
- However, in higher education, gender disparities still prevail in enrolment, for which various programmes are being implemented by the Government to improve net intake rate of women in higher education.

Notes

Status on health:

- The report 'India: Health of the Nation's States', 2017 has for the first time provided comprehensive set of findings on the distribution of diseases and risk factors across all States of the country from 1990 to 2016.
- Malnutrition still remains the most important risk factor (14.6 per cent) that results in disease burden in the country, though dropping substantially since 1990.
- Of the total disease burden in India, 33 per cent was due to communicable, maternal, neonatal, and nutritional diseases (termed infectious and associated diseases) in 2016.
- The contribution of non-communicable diseases has increased from 30 per cent of the total disease burden in 1990 to 55 per cent in 2016 and that of injuries from 9 per cent to 12 per cent.
- Around 5 per cent of health loss is attributable to unsafe water, sanitation, and hand-washing practices, which the government is trying to address through the Swachh Bharat Mission (SBM).

Swachh Bharat Mission-Gramin:

- According to the World Bank estimates, the lack of sanitation facilities costs India over 6 per cent of GDP.
- Taking cognizance of the role of cleanliness in healthy living, and to accelerate the efforts to achieve universal sanitation coverage, Government launched the Swachh Bharat Mission on 2nd October, 2014.
- As per baseline survey conducted by Ministry of Drinking Water & Sanitation, 55 crore persons were defecating in open in October 2014, which declined to 25 crore in January 2018; at a much faster pace compared to the trend observed before 2014.

Labour Reforms:

- The Government is in the process of rationalization of the 38 Labour Acts by framing relevant provisions of existing laws into 4 labour codes viz.

    1. Code on Wages.
    2. Code on Industrial Relations.
    3. Code on Social Security & Welfare.
    4. Code on Safety & Working conditions.

SUSTAINABLE DEVELOPMENT, ENERGY AND CLIMATE CHANGE

Sustainable Development Goals:

- There are many similarities between the path India has chosen for development and the UN Goals for Sustainable Development.
- The UN Sustainable Development Goals (SDGs) adopted by the international community in September 2015 comprehensively cover social, economic and environmental dimensions and build on the Millennium Development Goals (MDGs). There are 17 SDGs which have 169 targets to be achieved by 2030.
- India presented its first Voluntary National Review (VNR) on the implementation of SDGs on 19th July, 2017 at the High Level Political Forum on Sustainable Development (HLPF) at United Nations, New York.

Notes

- The VNR report focused on 7 SDGs: SDGs 1 (No Poverty); 2 (Zero Hunger); 3 (Good Health and Well-Being); 5 (Gender Equality); 9 (Industry, Innovation and Infrastructure), 14 (Life below Water) and 17 (Partnerships for the Goals).

Urban India and Sustainable Development:

- The SDG 11 states "make cities inclusive, safe, resilient and sustainable".
- India is now embarking on a fast rural to urban transition. The need of the hour is the provision of public services by the cities to its residents.
- The way forward is to encourage the ULBs to raise resources through various innovative financial instruments such as municipal bonds, PPPs, credit risk guarantees, etc.

Access to Sustainable Energy:

- Access to modern energy sources is of paramount importance, as it can reduce the amount of time spent on collection of firewood thereby leading to a positive impact on girls' education and employment.
- Government of India had launched "Pradhan Mantri Ujjwala Yojana" (PMUY) in May, 2016 and upgraded it to provide 80 million LPG connections by 2020 to BPL households.
- Complementing the above scheme, Government has come out with other initiatives namely "Ujjawala Plus" which will address the cooking needs of deprived people who are not covered under the Socio-Economic Caste Census (SECC) 2011. During 2016-17, 3.25 crore new LPG connections were released that includes 2 crore connections released under PMUY.
- Government of India is committed to provide 24X7 reliable and quality power supply to all its consumers by 2019.
- The Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) scheme was launched in 2015 to achieve 100 per cent village electrification and Saubhagya scheme was launched on 25th September, 2017, to provide energy access to all by last mile connectivity and electricity connections to all remaining un-electrified households in rural and urban areas to achieve universal household electrification in the country.
- As per Saubhagya portal of Rural Electrification Corporation, out of 18.1 crore rural household in the country, 14.2 crore (78%) rural households have been electrified (as on January 16, 2018). Out of the total installed capacity of electricity in India, around 18 per cent was from renewable energy sources (as on November 30, 2017).
- International Solar Alliance (ISA), which was launched by Shri Narendra Modi, Hon'ble Prime Minister of India and Mr. François Hollande, former President of France on November 30, 2015 in Paris, entered into force on December 6, 2017. Currently, 46 countries have signed and out of these, 19 countries have ratified the ISA Framework Agreement.

India and Climate Change

- Government of India is implementing the National Action Plan on Climate Change (NAPCC), which includes eight national missions covering solar, energy efficiency, agriculture, water, sustainable habitat, forestry, Himalayan eco system and knowledge, apart from various other initiatives. These actions reflect its commitment to address climate change.

Notes

Current Multilateral Negotiations on Climate Change

- At the 23rd session of the Conference of Parties to the UNFCCC (COP 23), the Parties advanced the work programme under Paris Agreement.
- Key takeaways for India from COP 23 have been that the agenda of pre-2020 climate change commitments and implementation has found a significant place in COP 23 outcome in the form of a decision with steps for future action on pre-2020 action and ambition.
- This decision emphasizes that enhanced pre-2020 actions can lay a solid foundation for enhanced post-2020 ambitions.
- India has been able to preserve differentiation in informal notes/texts on various elements of Paris Agreement work programme including nationally determined contributions, adaptation communication, transparency framework, compliance, technology framework, finance and capacity building prepared for further work on rules, modalities and guidelines for Paris Agreement.

Prelims Facts

- **World Economic Forum: Global Competitiveness Index Report.**
- **World Bank: Ease of Doing Business Report.**
- **International Monetary Fund (IMF): World Economic Outlook Report.**
- **Global Innovation Index (GII):**
  a) It is an annual ranking of countries by their capacity for, and success in, innovation.
  b) It is published by Cornell University, INSEAD, and the World Intellectual Property Organization, in partnership with other organisations and institutions.
- **Central Statistics Office (CSO):**
  a) It is a governmental agency in India under the Ministry of Statistics and Programme Implementation responsible for co-ordination of statistical activities in India, and evolving and maintaining statistical standards.
  b) It has a well-equipped Graphical Unit. The CSO is located in Delhi. Some portion of Industrial Statistics work pertaining to Annual Survey of industries is carried out in Calcutta.
- **Monetary Policy Committee:**
  a) It is a committee of the Reserve Bank of India that is responsible for fixing the benchmark interest rate in India.
  b) The meetings of the Monetary Policy Committee are held at least 4 times a year and it publishes its decisions after each such meeting.
  c) The committee comprises six members - three officials of the Reserve Bank of India and three external members nominated by the Government of India.
  d) They need to observe a "silent period" seven days before and after the rate decision for "utmost confidentiality".
  e) The Governor of Reserve Bank of India is the ex-officio chairperson of the committee.
  f) Decisions are taken by majority with the Governor having the casting vote in case of a tie.

Notes

g) The current mandate of the committee is to maintain 4% annual inflation until March 31, 2021 with an upper tolerance of 6% and a lower tolerance of 2%.

h) The committee is answerable to the Government of India if the inflation exceeds the range prescribed for three consecutive months.

- **Controller General of Accounts (CGA)**

a) The information regarding accounts of the union government are released/disseminated by the Controller General of Accounts (CGA).

b) These include data related to budget estimates, fiscal/revenue deficits etc.

c) CGA works under the Ministry of Finance, Government of India.

d) Though it is not a constitutional body, it derives its mandate from Article 150 of the constitution which says: The accounts of the Union and of the States shall be kept in such form as the President may, on the advice of the Comptroller and Auditor-General of India, prescribe.

- **Merchandise Export from India Scheme (MEIS):**

a) The Government of India has introduced Merchandise Exports from India Scheme (MEIS) through the Foreign Trade Policy (FTP) 2015-20 w.e.f. April 1, 2015.

b) It seeks to promote export of notified goods manufactured/produced in India.

c) MEIS is a major export promotion scheme of GOI implemented by the Ministry of Commerce and Industry.

d) Incentives under MEIS are available to units located in SEZs also.

- **Service Export from India Scheme (SEIS):**

a) The Government has introduced the Service Exports from India Scheme (SEIS) w.e.f. 01.04.2015 under the Foreign Trade Policy (FTP), 2015-20, replacing the earlier scheme 'Served from India Scheme' under the FTP, 2009-15.

b) Under SEIS, the service providers of notified services are incentivized in the form of Duty Credit Scrips at the rate of 3 or 5% on their net foreign exchange earnings.

c) These SEIS scrips are transferrable and can also be used for payment of a number of Central duties/taxes including the basic customs duty.

- **Bharat Net:**

a) It is Centre's rural internet connectivity programme which is implemented by Bharat Broadband Network Limited (BBNL).

b) It is world's largest rural broadband connectivity programme using Optical fibre. Bharat Net seeks to connect all of India's households, particularly the rural areas, through demand, affordable broadband connectivity of 2 Mbps to 20 Mbps to realise the vision of Digital India.

c) The project is being funded by Universal Service Obligation Fund (USOF).

- **Bharatmala Pariyojana:**

a) It is a centrally-sponsored and funded road and highways project of the Government of India.

Notes

b) The project will build highways from Gujarat and Rajasthan, move to Punjab and then cover the entire string of Himalayan states - Jammu and Kashmir, Himachal Pradesh, Uttarakhand - and then portions of borders of Uttar Pradesh and Bihar alongside Terai, and move to West Bengal , Sikkim, Assam, Arunachal Pradesh, and right up to the Indo-Myanmar border in Manipur and Mizoram.

c) Special emphasis will be given on providing connectivity to far-flung border and rural areas including the tribal and backward areas.

d) The ambitious umbrella programme will subsume all existing highway projects including the flagship National Highways Development Project (NHDP), launched by the Atal Bihari Vajpayee government in 1998.

- **Sagarmala Project:**

a) The prime objective of the project is to promote port-led direct and indirect development and to provide infrastructure to transport goods to and from ports quickly, efficiently and cost-effectively.

b) To develop access to new development regions with intermodal solutions and promotion of the optimum modal split, enhanced connectivity with main economic centres and beyond through expansion of rail, inland water, coastal and road services.

c) It will address challenges by focusing on three pillars of development, namely:

1. Supporting and enabling Port-led Development through appropriate policy and institutional interventions and providing for an institutional framework for ensuring inter-agency and ministries/departments/states' collaboration for integrated development.

2. Port Infrastructure Enhancement, including modernization and setting up of new ports.

3. Efficient Evacuation to and from hinterland.

Notes

2 REVIEW OF FISCAL DEVELOPMENTS

Context

Sound public financial management has been one of the pillars of India's macro-economic stability in the last three years. Based on this firm footing, the Government, in partnership with the States, ushered in the long-awaited GST era. The Government is navigating the change and challenges, including the possibility that a substantial portion of the last-month GST collections may spill over to the next year. Meanwhile, direct tax collections are expected to meet targets. And spending plans are broadly on track.

Terminologies

Tax Buoyancy:

- It is an indicator to measure efficiency and responsiveness of revenue mobilization in response to growth in the Gross domestic product or National income.
- A tax is said to be buoyant if the tax revenues increase more than proportionately in response to a rise in national income or output.

GST:

- GST is an Indirect Tax which has replaced many Indirect Taxes in India.
- It is a comprehensive, multi-stage, destination-based tax that is levied on every value addition.
- There are 3 taxes applicable under GST: CGST, SGST & IGST:
  - **CGST:** Collected by the Central Government on an intra-state sale (Eg: Within Maharashtra).
  - **SGST:** Collected by the State Government on an intra-state sale (Eg: Within Maharashtra).
  - **IGST:** Collected by the Central Government for inter-state sale (Eg: Maharashtra to Tamil Nadu)

Exchange-Traded Fund (ETF):

- An ETF, or exchange-traded fund, is a marketable security that tracks an index, a commodity, bonds, or a basket of assets like an index fund. Unlike mutual funds, an ETF trades like a common stock on a stock exchange. ETFs experience price changes throughout the day as they are bought and sold. ETFs typically have higher daily liquidity and lower fees than mutual fund shares, making them an attractive alternative for individual investors.
- Because it trades like a stock, an ETF does not have its net asset value (NAV) calculated once at the end of every day like a mutual fund does.

Notes

Tax Neutrality:

Tax that does not cause individuals or firms to shift their economic choices, such as to choose among different goods, inputs, locations, etc.

Foreign Tax Credit:

- A non-refundable tax credit for income taxes paid to a foreign government as a result of foreign income tax withholdings.
- The foreign tax credit is available to anyone who either worked in a foreign country or has investment income from a foreign source.

Permanent Account Number (PAN)

- It is a 10-digit alphanumeric identity number, issued under section 139A of Income-tax Act, 1961, by the income tax department. It enables the department to identify all the transaction of a tax assesses, such as: tax payment, tax returns, and specified transaction where PAN has to be quoted. It is essential for every individual to have a PAN, if the income earned during the year is taxable.
- Once obtained, PAN is valid throughout India and for the lifetime of the assessed.

Tax Deduction and Collection Account Number (TAN)

- It is a unique 10 digit alpha numeric code whose primary purpose is related to deduction or collection of tax.
- All entities who deduct or collect tax must have a TAN, quoting it in their TDS or TCS documents.

Gist of Chapter

RECEIPTS AND EXPENDITURE OF THE CENTRAL GOVERNMENT

A. Receipts:

- There are three distinct patterns on the revenue front till November 2017, the confluence of which is reflected in the trends in non-debt receipts of the Centre.
  - i) The gross tax collections are reasonably on track.
  - ii) The non-tax revenues have visibly under-performed.
  - iii) Non-debt capital receipts, mainly proceeds from disinvestment, are doing well.
- As against last year's achievement of Rs. 46,247 crore realized from 16 transactions of disinvestment, the budget estimate for 2017-18 was set at Rs. 72,500 crore, split into Rs. 46,500 crore from disinvestment of Central Public Sector Enterprises (CPSEs), Rs. 15,000 crore from strategic disinvestment and Rs. 11,000 crore from listing of insurance companies.
- The share of States in taxes grew by 25.2 per cent in 2017, much higher than the growth in net tax revenue (to centre), which is what the Centre has at its disposal to spend from its own taxes. Disinvestment proceeds and non-tax revenues have shown contrasting growth patterns, the former reinforcing the revenue position and the latter dampening it.

B. Expenditure and Deficits

- Central Government expenditure progressed at a robust pace during April-November 2017. One of the major fiscal reforms in the current year was the advancing of the budget cycle and processes by almost a month.

Notes

- This gave considerable leeway to the spending agencies to plan in advance and start implementation early in the financial year.
- The expenditure trends in the current year at any midpoint both as percentage of budget estimates and in terms of their growth rates become not comparable with those of previous years. This has also partly contributed to greater deficits in the current year so far, compared to corresponding periods in the previous years.
- The trends in fiscal and revenue deficits are the combined effect of the patterns in non-debt receipts and expenditure.
- Apart from the early progression of expenditure, the fiscal deficit overshooting the budgetary target during April-November 2017 has also been due to the front-loading of some expenditure, undertaken as part of **prudent expenditure management.**
- Movements in revenue expenditure can be majorly explained by changes in interest payment liabilities and subsidy payments. Interest payment liabilities have firmed up moderately during April-November 2017, possibly due to outgo on account of servicing the **market stabilization bonds** issued to reduce excess liquidity, post demonetization.
- With the loss of price advantage in petroleum products in the international market, the petroleum subsidy has firmed up. On the whole subsidies seem to be within control and target. The outgo on pensions grew strongly during the first eight months reflecting enhanced payments under the Seventh Pay Commission.

STATE AND GENERAL GOVERNMENT

- The position of 21 State Governments that account for about 86 per cent of the total GSDP of all states and for which comparable data are available shows that their revenue receipts have kept pace with the previous year in terms of growth and in relation to the corresponding budget estimates for the full year.
- Data on 23 States shows that both revenue and fiscal deficits as percentage of the corresponding budget estimates is lower in the current year, compared to the previous year.
- The net market borrowings by the State Governments, as reported by the Reserve Bank of India (RBI), during April-December of the current and previous years stood at Rs. 2493.0 billion and Rs. 2351.6 billion respectively.
- Coupled with the Central Government's target for reducing fiscal deficit by 0.3 percentage points of GDP, the State fiscal targets for 2017-18 meant that the General Government targeted to achieve an overall improvement in their fiscal position in the current year, boosted by a compression in revenue expenditure and a modest improvement in capital expenditure.
- For the general government as a whole, with the expected revenues from GST becoming increasingly clearer, the fiscal balance vis-à-vis budget estimates will depend on the emerging patterns of revenue expenditure in the fourth quarter. Considering the complexities involved in rolling out the GST, the preliminary assessment should be that the general government is navigating the initial phases of this momentous change reasonably. The difficulties faced by various sections of tax payers are being addressed through various rationalisation measures, including substantive revision in tax rates.

Notes

SALIENT MEASURES UNDER INDIRECT TAXES DURING 2017-18

A. Customs duty changes to incentivize 'Make in India':

- Basic Customs Duty:
    - It was reduced on inputs and raw materials like liquefied natural gas, o-Xylene, vegetable tanning extracts, nickel, medium quality terephthalic acid and qualified terephthalic acid, etc.
    - It was increased on specified goods manufactured indigenously in significant quantity, including: Ad-valorem Component on 298 items of fabrics, on manmade fibres, etc.
    - It was increased on crude and refined palm oil of edible grade, etc. to protect the interest of farmers and local producers of agricultural product.
- Export Duty of 15% was imposed on other aluminium ores, including laterite.

B. Rollout of GST:

- In a historic tax reform, the goods and services tax was rolled out on 1st July, 2017, subsuming almost all major indirect taxes like Central Excise Duty, Service Tax, VAT, CST, entertainment tax, Octroi, luxury tax, a large number of cesses/surcharges and various other state and central levies on goods and services.
- **Addressing concerns under GST:**
    - A Committee on exports was constituted to address the concerns of exporters. The GST Council also recommended significant rationalization in rates.
    - Extensive exercises were undertaken for streamlining tax administration, ensuring that taxpayer has single interface (with either Central or State tax authority). Committees of officers examined issues relating to law and processes and sectoral issues like handicrafts.
    - A number of procedural changes have been made to simplify processes. Extensive efforts were made for taxpayer education and facilitation by way of knowledge sharing, dissemination of information and replies to frequently asked questions.
- **Facilitation measures taken in GST:**
    - **Ease of doing business for small traders:** GST has significantly raised turnover thresholds of Rs 20 lakh for an entity to be taxable in GST. Threshold for composition was increased in general to Rs. 1 crore (Rs 75 lakh for special category states except Jammu & Kashmir and Uttarakhand).

C. Other measures for MSME sector include:

- Service providers whose annual aggregate turnover is less than Rs. 20 lacs (Rs. 10 lacs in special category states except J&K) were exempted from obtaining registration even if they are making inter-State taxable supplies of services.
- This measure will significantly reduce the compliance cost of small service providers.
- Small and medium businesses with annual aggregate turnover up to Rs. 1.5 crores would be required to file quarterly return (monthly for other taxpayers).
- The reverse charge mechanism under the CGST Act, 2017 and under the IGST Act, 2017 has been suspended till 31.03.2018.

Notes

- The requirement to pay GST on advances received was proving to be burdensome for small dealers and manufacturers. In order to mitigate their inconvenience on this account, it was decided that taxpayers having annual aggregate turnover up to Rs. 1.5 crores shall not be required to pay GST at the time of receipt of advances on account of supply of goods.

D. Rationalization of GST rate structure for goods and services.

25th Meeting of the GST Council:

- The meeting that held on 18th January 2018 recommended many relief measures regarding GST rates on goods and services and certain clarifications on issues relating to GST rates and taxability of certain goods and services.
- Some of the important changes in the rate of goods recommended by the Council include: From 28% to 18% on buses exclusively run on bio fuels.
  - From 18% to 12% on drip irrigation system including laterals, sprinklers, mechanical sprayer, 12 specified bio-pesticides, bamboo wood building joinery (HS Code 4418), fertilizer grade phosphoric acid, bio-diesel, drinking water packed in 20 litters bottles.
  - From 3% to 0.25% on diamonds and precious stone. Rough diamonds and precious stones are already at 0.25%. From 28% GST plus applicable cess to 12% on used motor vehicles [other than medium and large cars and SUVs] on the margin of the supplier of such vehicles, subject to condition that no input tax credit of central excise duty/Value Added Tax or GST paid on them has been availed.
  - From 28% GST plus applicable cess to 18% on used medium and large cars and SUVs on the margin of the supplier of such vehicles, subject to condition that no input tax credit of central excise duty/Value Added Tax or GST paid on them has been availed.
  - From 12% to 5% with no refund of unutilised input tax credit on velvet fabrics.

Some of the important changes recommended on the rate of services include:

- Reduce GST rate on construction of metro and monorail projects (construction, erection, commissioning or installation of original works) from 18 per cent to 12 per cent.
- Reduce GST rate on transportation of petroleum crude and petroleum products (MS, HSD, ATF) from 18 per cent to 5 per cent without ITC and 12 per cent with ITC.
- Reduce GST to 12 per cent in respect of mining or exploration services of petroleum crude and natural gas and for drilling services in respect of the said goods.
- Extend the concessional rate of GST on houses constructed/acquired under the Credit Linked Subsidy Scheme for Economically Weaker Section/Lower Income Group/Middle Income Group-1/ Middle Income Group-2 under the Housing for All (Urban) Mission/Pradhan Mantri Awas Yojana (Urban) and low-cost houses up to a carpet area of 60 square metres per house in a housing project which has been given infrastructure status under the same concessional rate.

SALIENT MEASURES TAKEN ON DIRECT TAXES IN THE BUDGET 2017-18 AND THEREAFTER:

- Lowering of tax rate on domestic companies with turnover or gross receipts less than or equal to Rs. 50 Crore in FY 2015-16 to 25 per cent from 30 per cent.
- Lowering of tax rate on individuals between income of Rs. 2.5 lakhs and Rs. 5 lakhs to 5 per cent from 10 per cent.

Notes

- Levying of surcharge at 10 per cent on individuals with income between Rs. 50 lakhs and Rs. 1 crore.
- In moving towards a less cash economy and to incentivise small traders/businesses to proactively accept payments by digital means, the existing rate of deemed profit of 8% under section 44AD of the Act was reduced to 6% for amount of total turnover or gross receipts received through banking channel/digital means for the financial year 2016-17 and subsequent years.
- Clarification that provisions for taxation of indirect transfers not to apply in case of certain foreign institutional investor, and those registered as category-I or category-II foreign portfolio investor under the SEBI Regulations, 2014 made under SEBI Act, 1992.
- Clarification that the condition of maintaining the monthly average of the corpus of the fund at minimum Rs. 100 crore provided in section 9A of the Income-tax Act, 1961 ('the Act') not to apply to the previous year in which the fund is being wound up.
- Exemption provided to Prime Minister's Relief Fund under the Act also extended to Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund.
- Clarification that corpus donations to exempt charitable institutions not to be treated as application of income.
- Exemption from levy of tax extended to income accruing or arising to a foreign company on account of sale of leftover stock of crude oil, if any, from a facility in India after the expiry of an agreement or an arrangement, subject to conditions to be notified.
- Section 12A of the Act amended to make it mandatory for a trust or institution, which has been granted exemption under the Act, to seek fresh registration on adopting or undertaking modifications of the objects such that the modified objects do not conform to the conditions of registration.
- In respect of exempted trusts or institutions, additional condition of furnishing return within due date by the person in receipt of the income chargeable to income-tax provided.
- A new safe harbour regime has been notified for three years with effect from 1st April, 2017 to reduce transfer pricing disputes, provide certainty to taxpayers, align safe harbour margins with industry standards and enlarge the scope of safe harbour transactions.
- Rules for maintaining and furnishing of transfer pricing documentation by multinational enterprises in the Master File and Country-by-Country report were notified.
- Fair market value of the asset to be the cost of acquisition for capital gains purpose if the asset taken into account for computation of accreted income and taxes paid thereon.
- Benefit of lower rate of 5 per cent withholding tax, in respect of interest payable to a non-resident by a specified company on borrowings made by it in foreign currency from sources outside India under a loan agreement or by way of issue of any long-term bond including long-term infrastructure bond, extended till 30.06.2020.
- Appreciation of rupee to be ignored for capital gains calculation at the time of redemption of rupee denominated bond of an Indian company in respect of secondary holders as well.
- Transfer of capital asset, being rupee denominated bond of Indian company issued outside India, by a non-resident to another non-resident not to be regarded as transfer.
- Benefit of lower rate of 5 per cent withholding in respect of interest payable to FIIs and QFIs on their investments in Government securities and rupee denominated corporate bonds, at the rate of interest not exceeding the notified rate, extended to 30.06.2020.

Notes

- Period of holding for computation of long term capital gains in the case of immovable property reduced from 36 months to 24 months to give fillip to the housing sector.
- 100 per cent deduction of profit has been made available to an assessee developing and building affordable housing projects if the housing project is approved by the competent authority before the 31st March, 2019 subject to certain conditions.
- Capital gains exemption provided to an individual or Hindu Undivided Family under the land pooling scheme notified under the provisions of Andhra Pradesh Capital Region Development Authority Act, 2014.
- Categories of bond investments under section 54EC of the Act, for the purpose of availing capital gain exemption, have been expanded.
- To remove complexities in chargeability of tax in the case of Joint Development Agreements, it has been provided that the capital gain shall be chargeable to income tax as income of the previous year in the year of the completion of project.
- Base year for fair market value and cost inflation index has been shifted from 1981 to 2001.
- Period of Tax credit available in respect of Minimum Alternate Tax (MAT) and Alternate Minimum Tax (AMT) has been increased from the existing 10 years to 15 years.
- Tax neutrality has been provided on the conversion of preference shares of a company into equity shares of that company.
- The cost of acquisition of share of an Indian company, received in a tax neutral demerger, shall be taken as the cost of acquisition in the hands of resulting foreign company.
- Period of claim of profit-linked deduction by eligible start-ups has been increased from 3 out of 5 years to 3 out of 7 years and conditions for carry forward of loss of such start-up in case of change in shareholding relaxed.
- Limit of cash donations under Section 80G of the Act reduced to Rs. 2000 from Rs. 10,000. Self-employed individual shall be eligible for deduction up to 20 per cent of his gross total income in respect of contribution made to National Pension System Trust. Exemption from taxation has been provided to partial withdrawal made by subscriber of New Pension Scheme.
- The provisions relating to computation of book profit for the purpose of levy of minimum alternate tax (MAT) have been amended so as to align them with the Indian Accounting Standards (Ind-AS).
- The amendment made by the Finance Act, 2016 providing for concessional rate of tax for transfer of share of a private limited company shall be applicable retrospectively from assessment year 2013-14.
- Section 10AA of the Act has been amended to provide that the amount of deduction referred therein shall be allowed from the total income computed in accordance with provisions of the Act before giving effect to provisions of the said section and that the deduction shall not exceed the total income.
- Further, to bring transparency in the source of funding to political parties, the provisions of section 13A of the Act have been amended to provide for the following additional conditions for availing the benefit of the exemption from income-tax: No donations of Rs. 2000/- or more are received otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or through electoral bonds.

Notes

- In order to strengthen the PAN mechanism a new section 206CC was inserted in Act to provide for collection of tax at source (TCS) at higher rate of 20 per cent in case of non-quoting of Permanent Account Number (PAN).
- To widen the scope of tax deduction at source, a new section 194-IB was inserted in the Act to provide that individuals or a Hindu Undivided Family (other than those covered under section 44AB of the Act) responsible for paying to a resident any income by way of rent exceeding Rs. 50,000 for a month or part of month during the previous year, shall deduct an amount equal to 5 per cent of such income as tax thereon.
- To address the concern of recovery of revenue in doubtful cases, a new section 241A has been inserted, which inter alia provides that refund shall be withheld only in some cases in the manner provided in said section and with the prior approval of the higher authorities. This shall be applicable to returns furnished for assessment year commencing on or after 1st April, 2017.
- Necessary amendments have been made to Chapter XIX-B of the Act to enable merger of the Authority for Advance Ruling (AAR) for income-tax, central excise, customs duty and service tax.
- A new section 269ST was inserted in the Act to prohibit cash receipt equal to or exceeding Rs. 2 lakh.
- In order to eliminate bogus/multiple PANs, a new section 139AA was inserted in the Act, which inter alia mandates linking of Aadhaar with PAN database.
- Rule 114 and rule 114A of the Income-tax Rules, 1962 have been amended to enable allotment of PAN and TAN through a common application form published in Official Gazette.
- Income-tax return (ITR) Forms have been rationalised to make it more objective and taxpayer friendly. Viz. at one page ITR-1 (Sahaj) Form has been notified for the assessment year 2017-18 for taxpayers having income upto Rs. 50 Lakh from salary and one house property.

POLICY INITIATIVES ON INVESTMENT MANAGEMENT IN CPSES:

- The thrust of the Government is presently directed towards efficient management of its investment in CPSEs, with the overall focus on higher economic growth through consistent long-term policies as well as efficient and effective allocation of resources.
- Based on this philosophy, Budget 2016-17 focused on the need to migrate from the' disinvestment based approach' to 'investment based approach' for CPSEs. Accordingly, renaming the Department as 'DIPAM' with expanded mandate denotes a paradigm shift in the thinking process of the Government on its strategy to manage its investment in CPSEs.
- The Department also laid down comprehensive guidelines on "Capital Restructuring of CPSEs:" in May, 2016 for efficient management of Government's investment in CPSEs by addressing various aspects, such as, payment of dividend, buyback of shares, issues of bonus shares and splitting of shares.
- The commitment for time-bound listing of CPSEs has been taken on-board as an integral part of the reforms initiatives of the Government by making an announcement to this effect in the Budget 2017-18.
- In line with the budget announcement, the Government also approved listing of 14 CPSEs (including 2 insurance companies) on the stock exchanges. During the current financial year, 4 IPO issues of Housing and Urban Development Corporation (HUDCO), Cochin Shipyard Ltd. (CSL), General Insurance Corporation and New India Assurance Company Ltd have been successfully listed on the stock exchange.

Notes

- Post listing, while disinvestment of Government's shareholding through 'minority stake sale (upto 49%) ' in CPSEs are undertaken as per the extant policy, the focus of the strategic disinvestment is on adopting a pragmatic approach for the Government to exit from non-strategic business to optimize economic potential for business enterprises by promoting efficiency and professional management in the company.
- Keeping in view its inherent benefits, beginning January, 2017 the Government started using index based ETF to offer an investment opportunity in CPSEs to pension funds and retail investors in India. And pursuant to the announcement made in the Budget in this regard, a new ETF, namely BHARAT 22 was announced in August, 2017.

Prelims Facts

Exemption from levy of GST:

- Services provided by and to Fédération Internationale de Football Association (FIFA) and its subsidiaries directly or indirectly related to any of the events under FIFA U-17 World Cup 2017 to be hosted in India.
- Supply of services associated with transit cargo to Nepal and Bhutan (landlocked countries).
- Supply of service by a Government Entity to Central Government, State Government, Union territory, local authority or any person specified by Central Government, State Government, Union territory or local authority against consideration received from Central Government, State Government, Union territory or local authority, in the form of grants.
- Service provided by Fair Price Shops to Central Government, State Government or Union territory by way of sale of food grains, kerosene, sugar, edible oil, etc. under Public Distribution System against consideration in the form of commission or margin.
- Services provided by a goods transport agency to an unregistered person, including an unregistered casual taxable person, other than the following recipients, namely: any factory registered under or governed by the Factories Act, 1948 (63 of 1948); or any Society registered under the Societies Registration Act, 1860 (21 of 1860) or under any other law for the time being in force in any part of India; or any Co-operative Society established by or under any law for the time being in force; or any body corporate established, by or under any law for the time being in force; or any partnership firm whether registered or not under any law including association of persons; any casual taxable person registered under the Central Goods and Services Tax Act or the Integrated Goods and Services Tax Act or the State Goods and Services Tax Act or the Union Territory Goods and Services Tax Act.
- Service by way of access to a road or a bridge on payment of annuity.
- Services by way of admission to a protected monument so declared under the Ancient Monuments and Archaeological Sites and Remains Act 1958 (24 of 1958) or any of the State Acts, for the time being in force.
- Services by way of right to admission to the events organised under FIFA U-17 World Cup 2017.

Controller General of Accounts (CGA)

- The information regarding accounts of the union government are released/disseminated by the Controller General of Accounts (CGA).
- These include data related to budget estimates, fiscal/revenue deficits etc.

Notes

- CGA works under the Ministry of Finance, Government of India.
- Though it is not a constitutional body, it derives its mandate from Article 150 of the constitution which says: The accounts of the Union and of the States shall be kept in such form as the President may, on the advice of the Comptroller and Auditor-General of India, prescribe.

Goods Transport Agency:

- It means any person who provides service in relation to transport of goods by road and issues consignment note, by whatever name called.
- This means, while others might also hire out vehicles for goods transportation, only those issuing a consignment note are considered as a GTA. Thus, a consignment note is an essential condition to be considered as a GTA.
- The service includes not only the actual transportation of goods, but other intermediate/ancillary service provided such as-
  - Loading/unloading
  - Packing/ unpacking
  - Trans-shipment
  - Temporary warehousing etc.

Revenue deficit = Revenue expenditure - Revenue receipts.

Fiscal deficit = Total Expenditure - Total receipts (excluding borrowings).

Department of Investment and Public Asset Management (DIPAM):

- The Department of Disinvestment has been renamed as Department of Investment and Public Asset Management or 'DIPAM', a decision aimed at proper management of Centre's investments in equity including its disinvestment in central public sector undertakings.
- The department took up all the functions of the erstwhile ministry which broadly was responsible for systematic policy approach to disinvestment and privatisation of Public Sector Units (PSUs).

Indian Accounting Standard:

- It is the Accounting standard adopted by companies in India and issued under the supervision and control of Accounting Standards Board (ASB), which was constituted as a body in the year 1977.
- ASB is a committee under Institute of Chartered Accountants of India (ICAI) which consists of representatives from government department, academicians, other professional bodies viz. ICAI, representatives from ASSOCHAM, CII, FICCI, etc.

National Pension System Trust:

- It has been set-up and constituted by Pension Fund Regulatory Development Authority (PFRDA) for taking care of the assets and funds under the National Pension System (NPS) in the interest of the beneficiaries (subscribers).
- It has launched its new website www.npstrust.org. The website is aimed to provide proper and effective information dissemination to the stakeholders and provide ease of access to various beneficiaries under NPS.

Notes

Withholding Tax:

- Withholding tax is income tax withheld from employees' wages and paid directly to the government by the employer, and the amount withheld is a credit against the income taxes the employee must pay during the year.
- It is also a tax levied on income (interest and dividends) from securities owned by a non-resident as well as other income paid to non-residents of a country.

Authority for Advance Rulings:

- The Authority for Advance Rulings has emerged as an important adjudicatory body on tax matters.
- The Responsibility of the AAR is to provide the facility of ascertaining the income-tax liability of a non-resident as well as that of certain special categories of residents. If an entity or company has any doubt about the tax liability of its business, it can go to the AAR. The AAR here gives a ruling and it will become policy guideline to the company as well as to the tax authorities. Hence, the companies can plan their income-tax affairs well in advance to avoid long drawn and expensive litigation.

Qualified Foreign Investor:

- QFI scheme was introduced by Government of India in consultation with RBI and SEBI in the year 2011, through a Union Budget announcement.
- The objective of enabling QFIs is to deepen and infuse more foreign funds in the Indian capital market and to reduce market volatility as individuals are considered to be long term investors, as compared to institutional investors.

Notes

3 MONETARY MANAGEMENT AND FINANCIAL INTERMEDIATION

Context

During 2017-18 monetary policy remained steady. As the Year over Year (Y-o-Y) effect of demonetisation wore off, the growth rate of both Currency in Circulation (CIC) and reserve money turned sharply positive. However, bank credit growth remains subdued, especially to the industrial sector. An ecosystem for the new insolvency and bankruptcy process took shape in this year. The IBC mechanism is being used actively to resolve the NPA problem of the banking sector. The stock markets also hit record highs this financial year.

Terminologies

A. **Monetary Policy Committee (MPC):** It constituted by India's RBI and lead by its Governor, which is assigned with the mission of fixing the benchmark policy interest rate (repo rate) to restrain inflation within the particular target level.

- Total 6 members body, 3 from RBI & other 3 appointed by the government.
- The MPC takes decisions based on **majority vote.**

B. **Liquidity Adjustment Facility (LAF):** Is a monetary policy which allows banks to borrow money through repurchase agreements.

- LAF consists of repo and reverse repo operations.

C. **Marginal Standing Facility (MSF):** Is a window for banks to borrow from the Reserve Bank of India in an emergency situation when inter-bank liquidity dries up completely.

- It is a **short-term borrowing** scheme for Scheduled commercial banks.
- The minimum amount which can be accessed through MSF is Rs. 1 crore and in multiple of 1 crore.

D. **Treasury Bills:** It is a promissory note issued by the RBI to meet the short-term requirement of funds. Treasury bills are highly liquid instruments.

E. **Weighted Average Call Rate (WACR):** The declared operating target of the RBI is the overnight call money rate. This is referred to as the weighted average call rate (WACR), since it has to be averaged across what can be quite wild swings even in the course of any single trading day.

F. **Open Market Operations (OMO):** When RBI starts buying or selling government securities in open market to control money supply.

- RBI selling government securities - Less money with banks (as they invested in government securities) - Inflation reduced.

Notes

– RBI buying government securities - More money with banks (as they sold government securities) - Deflation reduced.

G. Non-Performing Assets: NPA is any asset of a bank which is not producing any income. In other words, a loan or lease that is not meeting its stated principal and interest payments.

H. Non-Banking Financial Companies (NBFCs): A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956, whose principal business is lending, investments and receiving deposits.

– NBFC does not include any institution whose principal business is agricultural activity, trading activity, industrial activity or sale/purchase/construction of immovable property.

Gist of Chapter

MONETARY DEVELOPMENTS DURING 2017-18:

- Monetary policy during 2017-18 was conducted under the revised statutory framework, which became effective from August 5, 2016.
- With the re-monetisation process, the Y-o-Y growth of Reserve Money (M0) during the financial year 2017-18 increased sequentially. But remained in the negative territory and significantly lower than that in the previous year, reflecting the lingering, though progressively attenuated, impact of demonetisation.
- In financial year 2017-18 expansion in M0 was driven by the decline in LAF reverse repo (net) and increase in RBI's net foreign assets.
- Net RBI credit to government declined owing to net open market sales as well as an increase in government deposits.

LIQUIDITY CONDITIONS AND ITS MANAGEMENT:

- After demonetisation the Reserve Bank had scaled up its liquidity absorption operations using a mix of both conventional and unconventional instruments.
- Liquidity absorption under LAF was 419 thousand crores in March 2017 and 66 thousand crores in November 2017.
- 100 thousand crore absorbed through issuance of Treasury Bills (TBs) under the Market Stabilisation Scheme.

DEVELOPMENTS IN THE G-SEC MARKET:

- During 2017-18 the direction of movement of the 10-year generic G-sec yield altered significantly.
- In April 2017, G-secs traded with a moderate hardening bias. Between May 2017 and July 2017, G-secs traded with a softening bias on account of better than expected economic data viz., lower inflation, positive monsoon forecast and dovish stance of monetary policy.
- India's sovereign rating upgrade by Moody's.

BANKING SECTOR:

- The performance of the banking sector, Public Sector Banks (PSBs) in particular, continued to be subdued in the current financial year.

Notes

- The Gross Non-Performing Advances (GNPA) ratio of Scheduled Commercial Banks (SCBs) increased whereas, their Restructured Standard Advances (RSA) ratio declined. The Stressed Advances (SA) ratio rose marginally during the same period.
- Capital to Risk-weighted Asset Ratio (CRAR) of SCBs increased from 13.6% to 13.9% between March 2017 and September 2017 largely due to an improvement for private sector banks (PVBs).
- Many PSBs have continued to record negative profitability ratios since March 2016.

CREDIT GROWTH:

- Non Food Credit (NFC) grew at double rate as compared to 2016.
- Bank credit lending to Services and Personal Loans (PL) segments continue to be the major contributor to overall NFC growth.
- Credit growth finally picked up in industrial sector after remaining persistently negative.
- Growth of credit to medium scale industries has remained negative since June 2015.

NON-BANKING FINANCIAL SECTOR:

- Non-Banking Financial Companies (NBFCs) bring in diversity and efficiency to the financial sector and make it more responsive to the needs of the customers.
- Peer to Peer (P2P) and Account Aggregators are the new categories of NBFC that have been introduced recently.
- To further financial inclusion through direct interaction between small lenders and small borrowers and to address the associated consumer protection issues, the Reserve Bank has introduced a new category of Non-Banking Financial Company (NBFC) called NBFC-P2P (NBFC- Peer to Peer Lending Platform) with light touch regulation and emphasis on adequate disclosures.
- The NBFC sector, as a whole, accounted for 17% of bank assets and 0.26% of bank deposits as on September 30, 2017.
- NBFCs depended largely on public funds for funding their balance sheets. Borrowings through Non-Convertible Debentures (NCDs) witnessed a growth.
- The Capital to Risk Weighted Assets Ratio (CRAR) of NBFC sector declined slightly in this financial year.

DEVELOPMENTS IN CAPITAL MARKET:

A. Primary Market:

- The year 2017-18 witnessed a **steady increase** in resource mobilisation in the primary market segment as compared to the corresponding period in the last financial year.
- The Indian mutual fund industry also registered a robust growth.
- Resource mobilisation through issuance of corporate bonds (public issuance and private placement) rose rapidly during 2017-18 as compared to the corresponding period in the previous year.
- Private placements continued to dominate the corporate bond market. However, the resource mobilized through public and private placement of corporate bonds is not a substitute for bank credit.

Notes

B. Secondary Market:

- S&P BSE Sensex, the benchmark index of BSE, **witnessed a gain of 16.5%.** It touched its highest level of 34,443 points on January 9, 2018 and lowest of 29,319 points on April 18, 2017.
- Nifty 50 the benchmark index of NSE witnessed a gain of 15.9%. Nifty 50 touched its highest level of 10,637 points on January 2018 and it's lowest of 9,105 points on April 2017.

INSURANCE SECTOR:

- Insurance, being an integral part of the financial sector, plays a significant role in India's economy.
- The potential and performance of the insurance sector should be assessed on the basis of 2 parameters:
  1. **Insurance Penetration:** The ratio of premium underwritten in a given year to the gross domestic product (GDP).
  2. **Insurance Density:** The ratio of premium underwritten in a given year to the total population.
- The Insurance penetration which was 2.71% in 2001, increased to 3.49% in 2016. Globally insurance penetration and density were 3.47%.
- The insurance density in India, which was US$ 11.5 in 2001, has increased to US$ 59.7 in 2016.
- Crop insurance, motor sales, health insurance etc. helped the industry report this growth.
- Life insurance industry registered a growth of 14.04%.

Prelims Facts

- **Policy Rates:**
  - **Repo Rate:** It is rate at which RBI lends to its clients generally against government securities.
  - **Reverse Repo Rate:** It is rate at which banks lend funds to RBI.
  - **Marginal Standing Facility (MSF) Rate:** It is rate at which scheduled banks can borrow funds overnight from RBI against government securities. It is very short term borrowing scheme for scheduled banks.
  - **Bank Rate:** It is rate charged by central bank for lending funds to commercial banks. It influences lending rates of commercial banks. Higher bank rate will translate to higher lending rates by banks.
  - **Cash Reserve Ratio (CRR):** It is amount of funds that banks have to keep with RBI.
  - **Statutory Liquidity Ratio (SLR):** It is amount that banks have to maintain a stipulated proportion of their net demand and time liabilities (NDTL) in form of liquid assets like cash, gold and unencumbered securities, treasury bills, dated securities etc.
- **Market Stabilization Scheme (MSS):** Is a monetary policy intervention by the RBI to withdraw excess liquidity (or money supply) by selling government securities in the economy. MSS is used when there is high liquidity in the system.
- Technical definition by RBI on NPA on different cases:

Notes

- **NPA is a loan or an advance where:**
  - Interest and/or installment of principal remain overdue for a period of more than **90 day**s in respect of a term loan.
  - The account remains '**out of orde**r' in respect of an Overdraft/Cash Credit (OD/CC).
  - The bill remains overdue for a period of more than **90 days** in the case of bills purchased and discounted.
  - The installment of principal or interest thereon remains overdue for **two crop seasons for short duration crops.**
  - The installment of principal or interest thereon remains overdue for **one crop season for long duration crops**.
- **Money Market:** The money market is a market for short-term funds, which deals in financial assets whose period of maturity is up-to one year.
  - It deals with **credit instruments such as bills of exchange, promissory notes, commercial paper, treasury bills, etc.**
  - The Indian money market consists of Reserve Bank of India, Commercial banks, Co-operative banks, and other specialised financial institutions.
- **Capital Market:** It is an institutional arrangement for borrowing medium and long-term funds and provides facilities for marketing and trading of securities.
  - Securities such as shares, debentures, bonds, etc.
  - The securities market has two different segments namely primary and secondary market.
  - **Primary Market:** Consists of arrangements for procurement of long-term funds by companies by fresh issue of shares and debentures.
  - **Secondary Market:** Secondary market or stock exchange provides a ready market for existing long term securities.
- **Currency in circulation:** It is a major **liability componen**t of a central bank's balance sheet. It comprises of:

  a) Currency notes and coins with the public.

  b) Cash in hand with banks.
- **Reserve Money:** It is "High Powered Money" and also "Monetary Base".
  - Reserve Money is all the Cash in the economy and denoted by M0.
  - This has the following components:
    1. Currency with Public.
    2. Other Deposits with the RBI.
    3. Cash Reserves of the banks held with themselves.
    4. Cash Reserves of the Banks held with RBI.

- **Narrow Money (M1)** = Currency with the public + Demand Deposits of public in Banks.
- When a third component viz. Post office Savings Deposits is also added to M1, it becomes M2.
  - **M2** = M1 + Post Office Savings.
- M3: (Broad concept of money supply)
  - M3 = M1+ Time deposits with the banking system.
- **M4** = M3 + All deposits with post office savings banks (excluding National Savings Certificates).

Notes

4 PRICES AND INFLATION

Context

Inflation in the country continued to moderate during 2017-18. CPI based headline inflation averaged 3.3%, the lowest in the last six financial years. The significant reduction in food inflation, particularly of pulses and vegetables, moderated the general inflation. The average food inflation fell to 1.2%. Core inflation too declined during this period. Many States witnessed reduction in inflation across rural as well as urban areas during the year.

Terminologies

A. **Inflation:** Inflation is defined as a situation where there is sustained, unchecked increase in the general price level and a fall in the purchasing power of money. Thus, inflation is a condition of price rise. The reason for price rise can be classified under two main heads: (1) Increase in demand, and (2) Reduced supply.

B. **Headline Inflation:** It is the measure of total inflation within an economy. It includes price rise in food, fuel and all other commodities. The inflation rate expressed in Wholesale Price Index (WPI) usually denotes the headline inflation.

C. **Core Inflation:** This term is used to denote extend of inflation in an economy. It is also called Underline Inflation or Non-food Inflation because Core inflation does not consider the inflation in food and fuel. This is a concept derived from headline inflation.

D. **Refined Core Inflation:** This type of inflation does not consider the inflation in food and fuel and **petrol & diesel** as well.

E. **Consumer Price Index (CPI):** It is based on the final prices of goods at the retail level. Because of the wide disparities in the consumption baskets for different segment of consumers, India has adopted four CPIs

- CPI (Industrial Workers)
- CPI (Urban Non-Manual Employees)
- CPI (Agricultural Labour)
- CPI (Rural Worker)
- In India, RBI uses CPI (combined) released by CSO (Ministry of Statistics and Programme Implementation) for inflation purpose with base year as 2012.

F. **Wholesale Price Index (WPI):** It is based on the price prevailing in the wholesale markets or the price at which bulk transactions are made.

Notes

It includes three components

a) Manufactured products.

b) Primary articles.

c) Fuel and power.

It is calculated by Office of the Economic Adviser, in Department of Industrial Policy and Promotion (DIPP), In Ministry of Commerce & Industry.

G. Central Statistical Organization (CSO): It is the principal data collecting, processing and disseminating agency responsible for coordinating, monitoring and supervising the National Statistical System.

The statutory mandate also includes the responsibility of providing advisory and technical service to all users on statistical matters.

Gist of Chapter

INTRODUCTION:

- In the last 4 years economy witnessed a gradual transition from a period of high and variable inflation to more stable prices.
- Headline inflation measured by the Consumer Price Index (CPI) has remained under control for the fourth successive year.
- Financial year (FY) 2017-18 began with an annual inflation rate of 3.0%.
- Food inflation measured by the Consumer Food Price Index (CFPI) declined to a low of 1.2 per cent during the FY 2017-18.
- WPI based inflation for FY 2017-18 stood at 2.9%.

CURRENT TRENDS IN INFLATION:

- The average CPI-combined (CPI-C) inflation declined to 3.3% in FY 2017-18 as compared to 4.5% in last year.
- **Food Inflation:** Good agricultural production coupled with regular price monitoring by the Government helped to contain inflation, especially food inflation.
- Though decline in food inflation is broad-based, major drivers are meat & fish, oil & fats, spices and pulses & products.
- The rise in food inflation in recent months is mainly due to factors driving prices of vegetables and fruits.
- Food inflation based on WPI has also declined.
- **Core Inflation:** CPI based core inflation has remained above 4% during the last four financial years. And significant moderation has been witnessed in the headline and food inflation.

DRIVERS OF INFLATION:

- At the all India level, CPI-C inflation was driven mainly by food during last year. The miscellaneous group has contributed the most to it during the current FY 2017-18.

Notes

- **Miscellaneous group:** Includes household goods & services, health, transport & communication, recreation and amusement, education and personal care and effects.
- **Rural:** Food was the main driver of CPI (Rural) inflation in last year but miscellaneous category contributed the most to inflation in rural areas of the current financial year.
- The contribution of fuel and light, clothing and footwear and pan, tobacco and intoxicants categories in CPI (Rural) inflation has risen.
- **Urban:** Housing sector has contributed the most to CPI (Urban) inflation in the current financial year, followed by other miscellaneous category.

Producer Price Index (PPI):

Recommendations of working Group under the Chairmanship of B. N. Goldar on PPI are as follows:

i) PPI in India may be compiled based on Supply Use Table 2011-12 using Total Final Use values for higher level weights.

ii) Two separate sets of input PPIs may be compiled - one including services and the other excluding services.

iii) Additional set of output PPI based on Final Demand and Intermediate Demand framework may also be compiled for the benefit of the users.

iv) The PPIs may be initially compiled on an experimental basis and switching over from WPI to PPI should be undertaken after the PPI series stabilizes and due consultation with the stakeholders is done

v) For compilation of experimental PPI, price quotations collected for current series of WPI may be used.

vi) The experimental PPI will be released on monthly basis. Initially, the base year of the experimental PPI would be 2011-12.

vii) It also recommended inclusion of 15 services in the PPI basket to begin with. The coverage of service sector may be extended to all key sectors on an urgent basis during the experimental phases of PPI.

Producer Price Index (PPI) measures the average change in the prices of goods and services, either as they leave the place of production called Output PPI or as they enter the production process called Input PPI.

PPI contrasts with other measures such as the Consumer Price Index (CPI) which measures changes in prices from buyers or consumers perspective.

PPIs significantly reduce the distortion arising from multiple counting by deriving weights from Supply Use Table compiled by the CSO. Further, the scope of PPI extends to services which are not presently covered under WPI.

Benefits of migrating from WPI to PPI are to cover bulk transactions of all goods and services, do away with the bias of double counting inherent in WPI and to compile indices that are conceptually consistent with the National Accounts Statistics (NAS) for use as deflators.

Notes

Housing Price Index:

- The Housing Price Indices (HPIs) are a broad measure of movement of residential property prices observed within a geographic boundary.
- The first official housing price index for the country named 'NHB RESIDEX' was launched in 2007 by the National Housing Bank (NHB).
- Currently, NHB is publishing NHB RESIDEX for 50 cities on quarterly basis with FY 2012-13 as base year. Among 50 cities covered are 18 State/UT capitals and 37 Smart Cities.
- NHB is not computing the composite all India housing price index as of now. Using population proportion as weights, an all India index as weighted average of city indices has been computed in-house.
- The RBI also began compiling a house price index (HPI) in 2007 with a quarterly HPI for Mumbai city.

STATE-WISE INFLATION:

- Many States have witnessed sharp fall in CPI inflation during 2017-18.
- Only 5 States, namely, J&K, Kerala, Delhi, Tamil Nadu and Himachal Pradesh recorded inflation of more than 4% in FY 2017-18.Whereas in last year 19 States had inflation of more than 4%.
- Ten States had inflation rate lower than All India average for FY 2017-18 with Odisha having the lowest inflation followed by Uttar Pradesh, Bihar and Chhattisgarh, respectively.
- In case of both urban areas and CPI-Rural, 15 States recorded inflation of less than 4% in FY 2017-18.

TRENDS IN GLOBAL COMMODITY PRICES:

- As per the commodity prices published by the World Bank, **energy commodity prices** are surging recently. These recorded average inflation of 15.3% in FY 2017-18.
- Movement of 'Fuel & Power' inflation based on All India WPI tracks World Bank Energy price index and increased at an average of 9.7% in FY 2017-18 as compared to -6.5% in last year.
- World Bank Food price index declined by 3.0%, in contrast, FAO food prices have recorded higher inflation of 5.8% in 2017-18.
- WPI 'Basic Metals' prices have also tracked World Bank's 'Base Metals' prices.

Seasonal Movements in CPI-C and its Food components:

- The price variations/fluctuations in items arising from supply shocks during certain periods of the year are characterized as seasonal in nature.
- General (Headline) inflation is more volatile than core; it fluctuates more due to large changes in the relative prices of certain food items vulnerable to supply shocks.
- Food basket which has a large weight in the price indices (particularly in Consumer Price Index) in India is affected by seasonality. Within food basket of the price indices, pulses, fruits and vegetables groups, in particular, have witnessed large changes in prices mainly due to their seasonal nature.

Notes

- Unlike the presence of seasonality in Food groups of CPI-C, its Non-Food groups display negligible seasonality.
- Within Food price indices, variability level of vegetables is several times more than that of pulses.

EFFORTS TO CONTAIN INFLATION:

- Central Government monitors the price situation on a regular basis as controlling inflation is a priority area. It has taken a number of measures to control inflation **especially food inflation** which, inter alia, includes:

  a) Advisories are being issued, as and when required, to State Govts. to take strict action against hoarding & black marketing and effectively enforce the Essential Commodities Act, 1955 & the Prevention of Black-marketing and Maintenance of Supplies of Essential Commodities Act, 1980 for commodities in short supply.

  b) Regular review meeting on price and availability situation is being held at the highest level. Ex. Committee of Secretaries, Inter Ministerial Committee, Price Stabilization Fund Management Committee.

  c) Higher MSP has been announced so as to incentivize production and thereby enhance availability of food items which may help moderate prices.

  d) Price Stabilization Fund (PSF) scheme is being implemented to control price volatility of agricultural commodities like pulses, onions, etc.

  e) Government approved enhancement in buffer stock of pulses from 1.5 lakh MT to 20 Lakh MT to enable effective market intervention for moderation of retail prices.

  f) A dynamic buffer stock of pulses of up-to 20 lakh tonnes has been built under the Price Stabilization Fund (PSF) Scheme through both domestic procurement as well as imports.

  g) Pulses from the buffer are being provided to States/UTs for PDS distribution, Mid-day Meal scheme, etc. Also are being utilized to meet the requirement of pulses by Army and Central Para-military Forces.

  h) Export of edible oils was allowed only in branded consumer packs of up to 5 kg with a minimum export price. With a view to incentivizing domestic production this restriction has been removed on oil except for palm oil, mustard oil and sunflower oil.

  i) Government has imposed stock holding limits on stockiest/dealers of sugar till April, 2018, and also imposed 20% duty on export of sugar for promoting availability and moderating price rise.

  j) Permitted import of 5 lakh tonnes of raw sugar at zero duty; subsequently, import of additional 3 lakh tonnes was allowed at 25% duty.

  k) States/UTs have been advised to impose stock limit on onions. States were requested to indicate their requirement of onions so that import of requisite quantity may be undertaken to improve availability and help moderate the prevailing high prices.

CONCLUSION:

- CPI inflation declined to 3.3% during FY 2017-18, with broad based decline in inflation across major commodity groups except Housing and Fuel & Light. Headline inflation has been below 4% for 12 straight months, from November, 2016 to October, 2017 and CPI food inflation averaged around 1% in the current financial year.

Notes

Prelims Facts

There can be two set of factors that can cause inflation in an economy. They are Demand Pull and Cost Push.

Demand Pull Factors	Cost Push Factors
• Rise in population.	• Infrastructure bottlenecks which lead to rise in production and distribution costs.
• Black money.	• Rise in Minimum Support Price (MSP).
• Rise in income.	• Rise in international prices.
• Excessive government expenditure.	• Hoarding and black marketing.
	• Rise in indirect taxes.

The **RBI controls** the money supply by its monetary policy that are Repo Rate, Reverse Repo Rate, Marginal Standing Facility and the key banking reserve requirements are SLR and CRR.

Qualitative Tools	Inflation Fight (Tight/Dear money policy.	Deflation Fight (Easy/Cheap Money policy)
CRR, SLR	Increase	Decrease
Open Market Operation	Sell securities	Buy securities
Policy Rate	Increase	Decrease

Fiscal Measures to control Inflation:

The government can take the following Fiscal Measures to contain Inflation:

- Reducing Import Duties.
- Allowing imports of the commodities which are scarce in market.
- Removing levy obligations in case of sugar.
- Banning exports of commodities such rice and oils.
- Imposing minimum export prices.
- Suspending or banning the futures trading is some commodities.
- Raising the stock limit of some commodities.
- Making available the commodities via various organizations such as NAFED and NCCF.

Base Year: A base year is the year used for comparison for the level of a particular economic index.

Deflation: It is a decrease in the general price level of goods and services so that inflation rate becomes negative.

A reduction in money supply or credit availability is the reason for deflation in most cases. Reduced investment spending by government or individuals may also lead to this situation.

Dis-inflation: It is a decrease in the rate of inflation – a slowdown in the rate of increase of the general price level of goods and services in a nation's gross domestic product over time.

Notes

Reflation: It is the act of stimulating the economy by increasing the money supply or by reducing taxes, seeking to bring the economy (specifically price level) back up to the long-term trend, following a dip in the business cycle. It is the opposite of disinflation, which seeks to return the economy back down to the long-term trend.

Skew-inflation: The economic survey 2009-10 has coined this new term. As some sectors were facing a huge inflation and few other sectors faced were no changes or even deflation (opposite of inflation) so they termed it as "skew-inflation".

Stagflation: Stagflation is commonly referred to a situation of stagnation in growth and high inflation.

Liquidity trap: Liquidity trap is a situation when expansionary monetary policy (increase in money supply) does not increase the interest rate, income and hence does not stimulate economic growth.

Price Stabilization Fund: Central Sector Scheme to support market interventions for price control of perishable agro-horticultural commodities.

PSF is used to advance interest free loan to State Governments and Central agencies to support their working capital and other expenses on procurement and distribution interventions for such commodities

Procurement of the commodities is undertaken directly from farmers or farmers' organizations at farm gate/mandi and made available at a more reasonable price to the consumers.

This fund was **earlier under Agriculture Ministry** but was transferred to Consumer Affairs Ministry in Feb 2016.

Notes

5 SUSTAINABLE DEVELOPMENT, ENERGY AND CLIMATE CHANGE

Context

India continues to undertake and effectively implement a large number of actions relating to energy, environment and climate, in particular, covering renewable energy, energy efficiency, sustainable agriculture, sustainable habitat, water, forestry, Himalayan ecosystem, and knowledge and capacity building. These actions reflect India's commitment to meet (and reconcile) the goals of climate change, sustainable development and energy access. India also expects the international community to be ambitious and fulfil its commitments in accordance with the principles of equity and common but differentiated responsibilities.

Terminologies

- **UN Sustainable Development Goals:** The **Sustainable Development Goals** (SDGs), otherwise known as the Global **Goals**, are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. They tackle the root causes of poverty and unite us together to make a positive change for both people and planet.
- **Pradhan Mantri Jan-Dhan Yojana (PMJDY)** is National Mission for Financial Inclusion to ensure access to financial services, namely, Banking / Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner. Account can be opened in any bank branch or Business Correspondent (Bank Mitr) outlet. Accounts opened under PMJDY are being opened with Zero balance. However, if the account-holder wishes to get cheque book, he/she will have to fulfill minimum balance criteria.
- **High-Level Political Forum:** The establishment of the United Nations High-level Political Forum on Sustainable Development (HLPF) was mandated in 2012 by the outcome document of the United Nations Conference on Sustainable Development (Rio+20), "The Future We Want". The format and organizational aspects of the Forum are outlined in General Assembly resolution 67/290. The Forum meets annually under the auspices of the Economic and Social Council for eight days, including a three-day ministerial segment and every four years at the level of Heads of State and Government under the auspices of the General Assembly for two days.
- The **Voluntary National Reviews** (VNRs) aim to facilitate the sharing of experiences, including successes, challenges and lessons learned, with a view to accelerating the implementation of the 2030 Agenda. The VNRs also seek to strengthen policies and institutions of governments and to mobilize multi-stakeholder support and partnerships for the implementation of the Sustainable Development Goals.
- **Line of Credit:** A *line of credit*, abbreviated as LOC, is an arrangement between a financial institution, usually a bank, and a customer that establishes a maximum loan balance that the lender permits the borrower to access or maintain.

Notes

Gist of Chapter

Introduction

The UN Sustainable Development Goals (SDGs) adopted by the international community in September, 2015 comprehensively covers social, economic and environmental dimensions and build on the Millennium Development Goals (MDGs). Notably, the SDGs constitute a universal agreement to end poverty in all its forms and dimensions, including extreme poverty. There are 17 SDGs which have 169 targets to be achieved by 2030. India played an important role in shaping the SDGs.

Several of the Government's programmes would directly contribute to advancement of the SDG agenda.

While targeting economic growth, infrastructure development and industrialisation, the country's fight against poverty has become fundamentally focussed on social inclusion and empowerment of the poor. Reinforcing India's commitment to the national development agenda and SDGs, the country's Parliament has organized several forums to develop policy and perspectives on elimination of poverty, promoting gender equality and addressing climate change. India is one of the countries that has volunteered to take part in the Voluntary National Reviews (VNRs) at the High-Level Political Forum (HLPF) 2017.

The National Institution for Transforming India (NITI) Aayog's role will be to collect, validate and document best practices in implementation of SDGs for wider dissemination. On a regular basis, progress on SDGs will be tracked through an integrated dashboard.

URBAN INDIA AND SUSTAINABLE DEVELOPMENT

The SDG 11 states: "make cities inclusive, safe, resilient and sustainable".

India is now embarking on a fast rural to urban transition. As cities are the centres of economic activity, how cities deliver on a number of basic services will determine the path and progress of sustainable development. In other words, one of the defining parameters for delivering India's sustainable development agenda will be the development path chosen by urban India.

According to Census 2011, 377.1 million Indians comprising 31.16 per cent of the country's population live in urban areas. India's urban population is projected to grow to about 600 million by 2031. Many Indian cities are now struggling with multiple problems of poverty, inadequate provision of urban services, congestion, air pollution, sizeable slum population, lack of safety measures, and challenges in terms of garbage removal, sewage system, sanitation, affordable housing, and public transport.

Government of India has undertaken several measures to improve sustainability of cities, which include the Smart Cities Mission, National Urban Housing & Habitat Policy (2007), Swachh Bharat Mission (Urban), and management of Municipal Solid Waste (MSW) etc.

Yet, many challenges remain. According to the High Powered Expert Committee appointed by the Ministry of Housing and Urban Affairs:

- Rs. 39 lakh crore (at 2009-10 prices) was required for creation of urban infrastructure over the next 20 years.
- Out of this, about Rs. 17 lakh crore (44 per cent) was needed for roads and Rs. 8 lakh crore (20 per cent) for services such as water supply, sewerage, solid waste management and storm water drains.
- In addition, the requirement for operation and maintenance was separately estimated to be Rs. 20 lakh crore.

Raising resources of this magnitude is going to be a daunting challenge. Besides the average cost recovery is less than 50 per cent in most of the Urban Local Bodies (ULBs).

Notes

The way forward is to encourage the ULBs to raise resources through various innovative financial instruments such as municipal bonds, PPPs, credit risk guarantees, etc. Example of one such instrument that has been experimented in India worth highlighting is that of municipal bonds.

Municipal bonds can be one among the options for the massive investment requirement in the urban infrastructure.

ACCESS TO SUSTAINABLE ENERGY

Access to affordable, reliable, sustainable and modern energy is the sine qua non of achieving all the SDGs due to its deep inter-linkages with all the other goals. Its importance in achieving economic prosperity is straightforward. However, it is also directly and indirectly linked to other sustainable development objectives such as good health and well-being, gender equality, industry, innovation and infrastructure, sustainable cities and communities.

In India, the burden of collecting fuel wood and water and cooking falls disproportionately on the female members of households.

The adverse impacts of indoor air pollution also fall disproportionately on women and children who are directly involved in cooking or spend a major portion of their time indoors.

Not only does using inefficient fuels like firewood and dung cakes cause health hazards, they require a considerable amount of time to be devoted for their collection. One of the estimates of the amount of time spent on collecting firewood in India suggests that on an average, women spend around 374 hours every year for collection of firewood.

Although, over the years the country has made considerable progress in providing access to households to clean cooking options, the proportion of population without access to clean cooking was around 64 per cent in 2015 compared to a World average of 38 per cent and 33 per cent for China in the same year.

Access to modern energy sources can reduce the amount of time spent on collection of firewood thereby leading to a positive impact on girls' education and employment.

Government of India had launched "Pradhan Mantri Ujjwala Yojana" (PMUY) in May, 2016 and upgraded it to provide 80 million LPG connections by 2020 to BPL households. Complementing the above scheme, Government has come out with other initiatives namely "Ujjwala Plus" which will address the cooking needs of deprived people who are not covered under the Socio-Economic Caste Census (SECC) 2011.

The Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) scheme was launched in 2015 to achieve 100 per cent village electrification and Saubhagya scheme launched on 25th September, 2017, to provide energy access to all by last mile connectivity and electricity connections to all remaining unelectrified households in rural and urban areas to achieve universal household electrification in the country.

Not only has the government focussed on providing reliable electricity to the common man but also has strived to ensure that the additions are from sustainable sources. As on 30th November, 2017, the total installed capacity of electricity in India was 330860.6 MW out of which 18 per cent was from renewable energy sources. Between March, 2016 and December, 2017, the installed capacity of solar power increased from around 6.8 GW to 17 GW. In recent years, India has been witnessing falling solar tariffs.

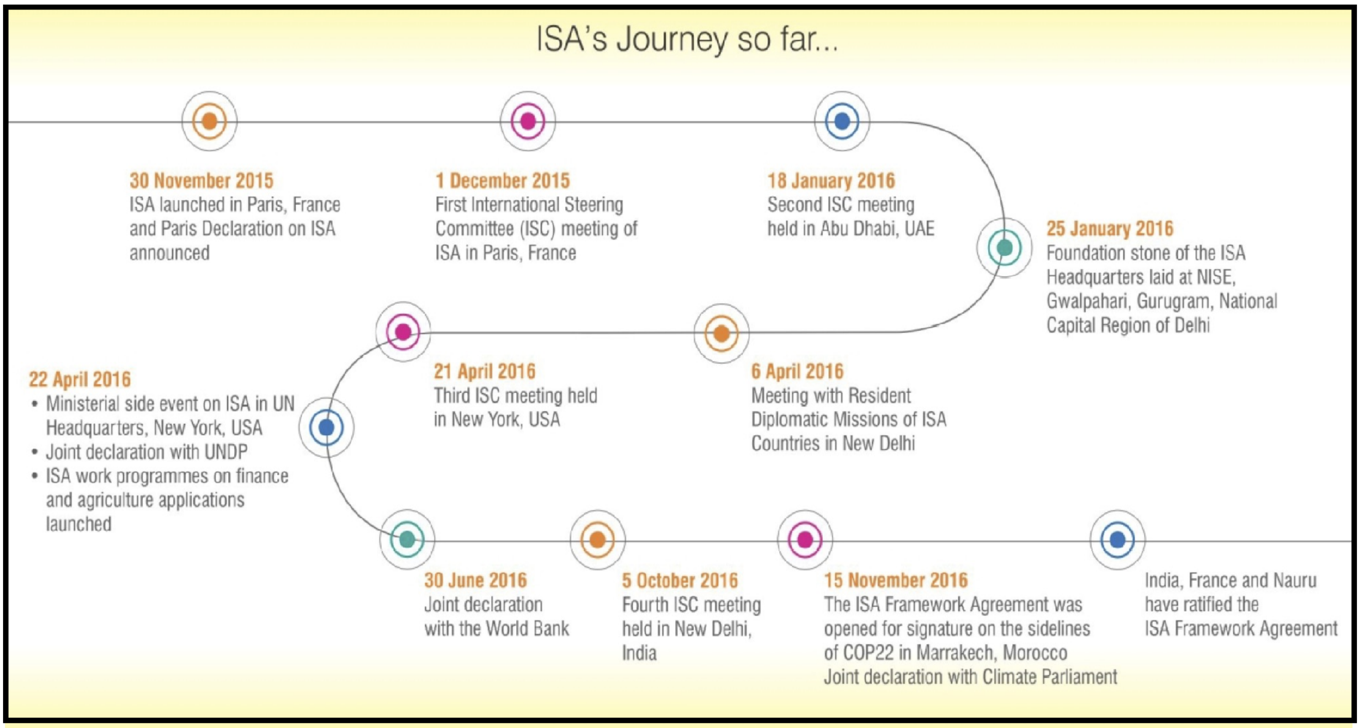
Also important is the efficient and effective use of energy resources. As a move in the direction of efficient energy use, the Ministry of Finance has issued guidelines for mandatory installation of energy efficient appliances in all Central Government buildings across India. Buildings Energy Efficiency Programme was launched in May, 2017 which is being implemented by Energy Efficiency Services Limited (EESL).

Notes

Under this scheme, EESL is likely to retrofit about one crore LED lights, 15 lakh energy efficient ceiling fans, and 1.5 lakh energy efficient ACs in more than 10,000 government and private buildings by the year 2020.

INTERNATIONAL SOLAR ALLIANCE (ISA) ENTERED INTO FORCE

- ISA has become a de jure treaty-based International Intergovernmental Organization.
- ISA is the first International intergovernmental treaty-based organization headquartered in India (Gurugram, Haryana).
- As on date, 46 countries have signed and out of these, 19 countries have ratified the ISA Framework Agreement.
- ISA is a coalition of solar resource rich countries lying fully or partially between the Tropics of Cancer and Capricorn and aims to specifically address energy needs by harnessing solar energy. The Paris Declaration establishing ISA states that the countries share the collective ambition to undertake innovative and concerted efforts for reducing the cost of finance and cost of technology for immediate deployment of solar generation assets. This will help pave the way for future solar generation, storage and good technologies for each prospective member country's individual needs by mobilizing more than US$ 1 trillion dollars in investments that will be required by 2030.
- Presently ISA has three programmes Scaling Solar Applications for Agricultural Use, Affordable Finance at Scale and Scaling Solar Mini-grids. In addition, ISA plans to launch two more programmes on Scaling Solar Rooftops, and Scaling E-Mobility & Storage. Strategic and financial partnerships have been entered into with the UNDP, the World Bank, EIB, EBRD and the Climate Parliament to further the mandate of ISA. The United Nations including its organs are ISA's strategic partners. ISA is also developing "Common Risk Mitigating Mechanism" (CRMM) for de-risking and reducing the financial cost of solar projects.
- ISA also plans to administer global awards for solar R&D, applications and innovative financing.



Notes

INDIA AND CLIMATE CHANGE

India's climate ranges from continental to coastal, from extremes of heat to extremes of cold, from extreme aridity and negligible rainfall to excessive humidity and torrential rainfall.

The rainfall in India shows great variation, unequal seasonal and geographical distribution and frequent departures from the normal. Temperature variations are also notable in the Indian sub-continent.

India has always engaged constructively at the multilateral level under the United Nations Framework Convention on Climate Change (UNFCCC) and India is now actively engaged in the efforts towards developing guidelines for effective implementation of the Paris Agreement on climate change.

Domestically, India has launched various policies and set up institutional mechanisms to advance its actions. Government of India is implementing the National Action Plan on Climate Change, which includes eight national missions covering solar, energy efficiency, agriculture, water, sustainable habitat, forestry, Himalayan ecosystem and knowledge, apart from various other initiatives. These actions reflect its commitment to address climate change. Key initiatives and progress in various areas include:

- As part of the mission on strategic knowledge on climate change, India has established 8 Global Technology Watch Groups in the areas of Renewable Energy Technology, Advance Coal Technology, Enhanced Energy Efficiency, Green Forest, Sustainable Habitat, Water, Sustainable Agriculture and Manufacturing.
- The broad policy initiatives of the central government are supplemented by actions at the sub-national levels. 32 States and Union Territories have put in place the State Action Plans on Climate Change attempting to mainstream climate change concerns in their planning process.
- **Climate Change Action Programme,** launched in 2014 with an objective of building and supporting capacity at central & state levels, strengthening scientific & analytical capacity for climate change assessment, establishing appropriate institutional framework and implementing climate related actions has been extended from the period 2017-18 to 2019-20.
- **National Adaptation Fund on Climate Change** established in 2015 to support concrete adaptation activities which are not covered under on-going activities through the schemes of State and Central Government, continues till 31st March 2020 with financial implication of Rs. 364 crore.
- India is one of the few countries where, despite ongoing development, forest and tree cover has increased transforming country's forests into a net sink owing to national policies aimed at conservation and sustainable management of forests. India's growth in the forest cover has been in the positive territory while that for Indonesia and Brazil, which are countries with substantial forest cover, the growth has been in the negative territory during the same period.
- **Pradhan Mantri Krishi Sinchayee Yojana** has been formulated with the vision of extending the coverage of irrigation and improving water use efficiency.
- **Zero Effect, Zero Defect** is a policy initiative to enhance energy efficiency and resources efficiency in Medium & Small Industries.
- The **National Mission for Clean Ganga** seeks to rejuvenate the river along its length of more than 2,500 km.
- In February, 2017, India launched the world's first interoperable Quick Response (QR) code acceptance solution. It is a sticker pasted on the teller counter wall of the merchant and can be generated dynamically on merchant itself, removing the need to even print. By providing the Bharat QR option, India is taking the right step in the direction of greener and sustainable future.

Notes

CURRENT MULTILATERAL NEGOTIATIONS ON CLIMATE CHANGE

Currently, the multilateral climate change negotiations are primarily focused on framing the rules and regulations for implementing the Paris Agreement.

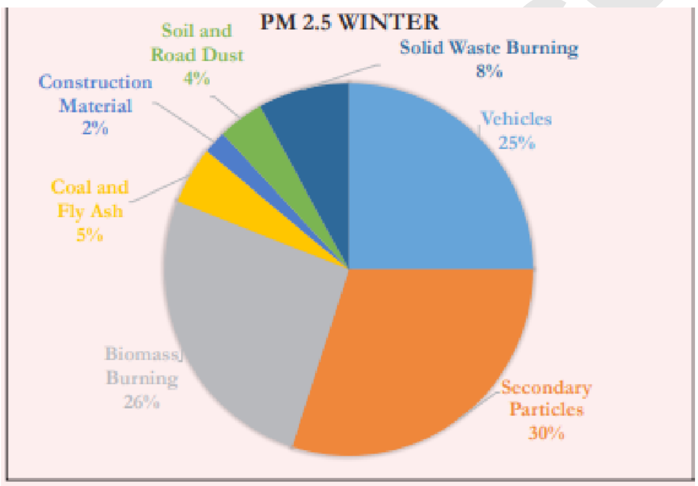
Key takeaways for India from COP 23 have been that the agenda of pre-2020 climate change commitments and implementation has found a significant place in COP 23 outcome in the form of a decision with steps for future action on pre-2020 action and ambition. This decision emphasizes that enhanced pre-2020 actions can lay a solid foundation for enhanced post-2020 ambition. India has been able to preserve differentiation in informal notes/texts on various elements of Paris Agreement work programme including nationally determined contributions, adaptation communication, transparency framework, global stocktake, compliance, technology framework, finance and capacity building prepared for further work on rules, modalities and guidelines for Paris Agreement.

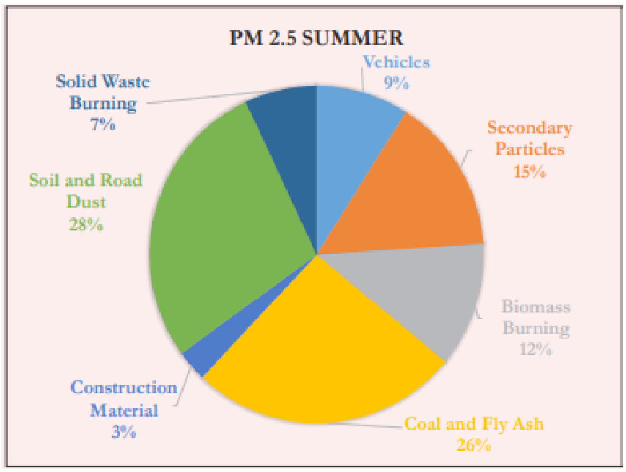
Air Pollution in Delhi — Possible Solutions

In recent years, the National Capital Delhi and adjoining areas have experienced alarmingly poor air quality with starting of winter. The farmers mainly from Northern India set their paddy fields on fire after harvesting. The resultant smoke, however, gets carried by winds all the way to Delhi and beyond, adding to the existing suspended particulate matter (SPM) and noxious substances that clogs lungs and leaves behind a near eclipsed sun.

A combination of reasons, among which crop burning in the adjoining states plays a major role, piling on top of one another, in a dense urban concentration of a massive and growing capital city renders this region in a serious hazardous state.

The solution? Addressing each source problem, systematically, one-by-one, coordinating across agencies and governments, and with sustained civic engagement.





Crop residue, biomass burning (26-29 per cent). Some 35 million tons of rice-paddy stubble in 10 million ha, in 3 adjoining states (Punjab, Haryana and Western Uttar Pradesh), burnt in late October, and whose plumes drift eastward, and seasonal load from other sources, including fire-cracker burning during Diwali (banned in 2017 by the Supreme Court, which saw a notable decrease as a contributory factor). Crop residue burning is a practice that came with combine harvesters — machines that harvest, thresh and clean the separated grain at one go. It takes barely an hour and Rs.1,000-1,500 to cover an acre of paddy using combines. The same job through traditional sickle-harvesting and manual threshing-cum-cleaning requires about 10 men working a full day, and costing Rs.4,500 or upwards. But combine-harvesting also leaves behind 14-15- inch long stalks in the fields that farmers have to, then, find a way to get rid of. This is to reduce the cost of disposing off the stubble.

Notes

a) According to a 2014 study by the Indian Agricultural Research Institute (IARI), in 2008-09 the country generated 620 million tonnes of crop residue, of which around 16 per cent was burnt on farms. Of which, 60 per cent was paddy straw, whereas wheat accounted for just 22 per cent. As per estimates, Punjab alone produces 19-20 million tonnes of paddy straw and about 20 million tonnes of wheat straw. About 85-90 per cent of this paddy straw is burnt in the field, and, as the satellite images show, wheat straw is also increasingly being burnt in recent years.

b) IARI report also shows that the main reasons for burning crop residues in field include unavailability of labour, high cost in removing the residues and use of combines in rice-wheat cropping system especially in the Indo-Gangetic plains (IGP). Primary crop types whose residues are typically burned include rice, wheat, cotton, maize, millet, sugarcane, jute, rapeseed, mustard and groundnut. Farmers in northwest India dispose a large part of rice straw by burning in situ. Wheat crop residue burning is emerging as a major issue in districts where irrigation is not a concern, cropping patterns are intense and mechanised farming options are abundant. Increased irrigation network has resulted in acreage and thus proportionate increase in residue burnings as well.

c) The usage of combine harvesting machines appear to be an important reason because it only reaps the grains, leaving stalks or stubble of around 40 cm. Removing the stubble manually or by using specialised machines to do the job is costly. For every 0.4 ha of wheat crop, the cost of renting a combine harvester is just Rs.800. Once the machine has harvested, the cost of getting the stubble removed is Rs.3,500/ha. So the value of fodder is discounted because it is more economic for the farmers to just burn by using one Rupee match box and clear the fields.

On December 10, 2015, the National Green Tribunal (NGT) banned crop residue burning in states of Rajasthan, Uttar Pradesh, Haryana and Punjab. Parts of these states constitute the National Capital Territory. Earlier in 2014, the Union government had released the National Policy for Management of Crop Residue, which NGT directed the states to implement. Under this policy each state needs to have an action plan to stop residue burning by involving people at different levels—from communities to panchayats to state governments. It also calls for a mechanism to alert to cases of crop burning. Moreover, crop residue burning is punishable under the Air (Prevention and Control of Pollution) Act, 1981.

Steps needed

- **Short-Term Emergency Plan** (when 24-hourly PM2.5 exceeds 300-400 mg/m3): Strict enforcement through heavy penalties on agricultural waste burning using satellite based tools detecting fires, and mobile based applications in NCR; and incentive payments to farmers, coordinated across states and NCR.
- **Medium and Long-Range Actions:** Implement congestion pricing for vehicles, expand and improve public buses dramatically to reduce private vehicle use, and for connectivity to and beyond metro. Phase-out old vehicles, accelerate BS-VI (already notified and to be commenced from 2020), and expand modernized bus fleets.
- **Use technologies to convert agricultural waste into usable concentrated fodder or bio-fuels**, develop and implement business models with private sector and communities and incentivize shift to non-paddy crops. In other words, explore the business cases for finding uses for the crop residues such as manure to reduce fertilizer cost, generate power so that economic values could be assigned. One such example is the straw management system for rice and wheat farming. A technology called Happy Seeder machine could be a possible technological solution. It is a machine that sows seeds without the need to remove paddy straw and works well when the straw is spread evenly on the field through the straw management system. The technological solution has to be combined with the economics of it by further incentivizing by the Centre and States and implemented through agricultural cooperatives, local bodies etc.

Notes

WAY FORWARD

The Global Climate Risk Index 2018 has put India amongst the six most vulnerable countries in the world. Given that a sizeable population under poverty live in areas prone to climatic shifts and in occupations that are highly climate-sensitive, future climate change could have significant implications for living standards. At the same time, the effect of climate change will vary significantly depending on the level of exposure and the inherent adaptive capacities of individuals, households, and communities. India's efforts on sustainable development and climate change have ensured several positive outcomes. There are immense financial requirements to fulfil the commitments. Yet, climate change has been given high importance in policy decisions.

The obligations of the provision of the long-term climate finance under the multilateral climate regime have not been fulfilled in any meaningful way. To allay such uncertainties on funding in the coming years, it is necessary for developed countries to be compliant on their commitments based on historical responsibilities and the principle of equity and common but differentiated responsibilities. Acting upon their fair share of responsibilities by each nation would provide the pathway of low carbon climate resilient development for our Planet.

Prelims Facts

- **Smart Cities Mission:** Smart Cities Mission is an urban renewal and retrofitting program by the Government of India with the mission to develop 100 cities across the country making them citizen friendly and sustainable. The Union Ministry of Urban Development is responsible for implementing the mission in collaboration with the state governments of the respective cities. Smart Cities Mission envisions developing an area within 100 cities in the country as model areas based on an area development plan, which is expected to have a rub-off effect on other parts of the city, and nearby cities and towns.
- **National Urban Housing & Habitat Policy:** The National Urban Housing & Habitat Policy 2007 seeks to promote various types of public-private partnerships for realizing the goal of 'Affordable Housing For All' with special emphasis on the urban poor.

  The salient features of the National Urban Housing & Habitat Policy, 2007 are:

  a) Focus of the Policy is on **affordable urban housing** with special emphasis on the urban poor.

  b) Role of Housing and provision of basic services to the urban poor has been integrated into the objectives of the Jawaharlal Nehru Urban Renewal Mission (JNNURM).

  c) Special emphasis has been laid on Scheduled Castes / Tribes / Backward Classes / Minorities, empowerment of Women within the ambit of the urban poor.

  d) The Policy focuses on a symbiotic development of rural and urban areas in line with the objectives of the 74th Constitution Amendment Act.

  e) Policy gives primacy to provision of shelter to urban poor at their present location or near their work place.
- **Swachh Bharat Mission (Urban):** Swachh Bharat Abhiyan (SBA) (or Swachh Bharat Mission (SBM) or Clean India Mission in English) is a campaign in India that aims to clean up the streets, roads and infrastructure of India's cities, smaller towns, and rural areas. The objectives of Swachh Bharat include eliminating open defecation through the construction of household-owned and community-owned toilets and establishing an accountable mechanism of monitoring toilet use.

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- **Pradhan Mantri Ujjwala Yojana:** Under the scheme, five crore LPG connections are to be provided to BPL households. The identification of eligible BPL families will be made in consultation with the State Governments and the Union Territories.
- **Ujjwala Plus:** 'Ujjwala Plus' will allow individuals to donate cooking gas connections to poor households.
- **Deen Dayal Upadhyaya Gram Jyoti Yojana:** The **DDUGJY** scheme will enable to initiate much awaited reforms in the rural areas. It focuses on feeder separation (rural households & agricultural) and strengthening of sub-transmission & distribution infrastructure including metering at all levels in rural areas. This will help in providing round the clock power to rural households and adequate power to agricultural consumers. The earlier scheme for rural electrification viz. Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) has been subsumed in the new scheme as its rural electrification component.

Notes

6 EXTERNAL SECTOR

Context

India's external sector continued to be resilient and strong in 2017-18 so far, with the Balance of Payments situation continuing to be comfortable with the Current Account Deficit at 1.8% of GDP in the first half (H1) of 2017-18. Merchandise exports picking up with a growth of 12.1% in April-December 2017, net services receipts increasing by 14.6% and net foreign investment growing by 17.4% in H1 of 2017-18 and the external debt indicators improving. Supportive measures in the budget, mid-term review of the Foreign Trade Policy and suitable policy changes related to GST helped in overcoming the teething challenges while implementing these major reforms.

Terminologies

A. **H1 and H2** stand for "half first" and "half second" of a particular year.

B. **Balance of Payments (BoP):** It is the record of the transactions in goods, services, and assets between residents of a country with the rest of the world for a specified time period typically a year.

It represents a summation of country's current demand and supply of the claims on foreign currencies and of foreign claims on its currency.

C. **Current Account Deficit (CAD):** It means the value of imports of goods/services/investment incomes is greater than the value of exports.

The major contributor to India's Current Account Deficit (CAD) has been imports of Gold and Crude Oil.

D. **Exchange Rate:** Foreign Exchange Rate is the amount of domestic currency that must be paid in order to get a unit of foreign currency. According to Purchasing Power Parity theory, the foreign exchange rate is determined by the relative purchasing powers of the two currencies.

E. **Trade Deficit:** It is an economic measure of a negative balance of trade in which a country's imports exceeds its exports. A trade deficit represents an outflow of domestic currency to foreign markets.

F. **Foreign Exchange Reserves:**The FOREX are reserve assets held by a central bank in foreign currencies. It acts as buffer to be used in challenging times and used to back liabilities on their own issued currency as well as to influence monetary policy.

4 components of our FOREX Reserves: Foreign currency assets (FCAs), Gold, Special Drawing Rights (SDRs) and RBI's Reserve position with International Monetary Fund (IMF). FCAs constitute largest component of Indian FOREX Reserves.

G. **External Debt:** It is owed to creditors outside the country. The outsider creditors can be foreign governments, International Financial Institutions like WB, IMF etc., corporate and foreign private

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households. External debt may be of several kinds such as multilateral, bilateral, IMF loans, Trade credits, External commercial borrowings etc.

Gist of Chapter

GLOBAL ECONOMIC ENVIRONMENT

International Developments:

- The global economy is gathering pace and is expected to accelerate from 3.2% in 2016 to 3.6% in 2017 and 3.7% in 2018.
- The upward revisionprojections by the IMF in world growth is supported by better than expected results in Euro Area, Japan, emerging Asia and Russia even though there are downward revisions in USA and UK.
- World trade volume is projected to increase from 2.4% in 2016 to 4.2% in 2017 and 4.0% in 2018.
- Commodity prices (Oil and Nonfuel) are also expected to grow, in contrast to previous years of decline.
- According to the IMF global recovery is not yet complete, as inflation is still below the target in most advanced economies and commodity exporters, particularly fuel exporters have been hit due to fall in oil prices.
- While short term risks are broadly balanced, medium-term risks are still tilted towards the downside.

INDIA'S BALANCE OF PAYMENTS (BoP) DEVELOPMENTS

Overview of Balance of Payments:

- India's BoP situation, which has been benign and comfortable since 2013-14, continued to be so in the first half of 2017-18, despite some rise in current account deficit (CAD).
- India's CAD stood at 1.2% of GDP in Q2 of 2017-18, narrowing sharply from 2.5% of GDP in the preceding quarter.
- On a cumulative basis, India's CAD increased from 0.4% of GDP in H1 of 2016-17 to 1.8% of GDP in H1 of 2017-18. This widening of the CAD was primarily on account of a higher trade deficit brought about by a larger increase in merchandise imports relative to exports.
- The surge in imports owed to the sharp rise in imports of gold along with the rise in crude oil prices (Indian basket) resulting in increase in oil import bill, led to the increase in imports.
- Among the other current account components of BoP, net invisibles receipts were higher in H1 of 2017-18, mainly due to the increase in net services earnings and private transfer receipts.

CURRENT ACCOUNT DEVELOPMENTS IN H1 OF 2017-18

Merchandise:

- In H1 of 2017-18, merchandise imports (on BoP basis) grew by 22.1% vis-á-vis 11.3% for exports. On Customs basis this growth was 25.9% and 10.8% respectively.
- **Export:** India's positive export growth in 2016-17 owed to the positive growth of both **POL (petroleum, oil and lubricants)** and non POL exports at 3.2% and 5.4% respectively. In 2017-18 export growth was 12.1%, with POL and non POL growth at 18.5% and 11.2% respectively.

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- **Imports:** The increase in the value of imports in 2016-17, despite the decline in gold and silver imports by 17.3%, was due to rise in POL imports.
- In 2017-18 imports grew by 21.8%. Growth of POL import was 24.2% mainly due to the rise in crude oil prices. Non-POL imports registered a growth of 21.1% due to the growth in gold & silver imports, while non-POL and non-gold & silver imports grew by 18.1%.

Trade Deficit:

- Top 5 countries with which India has **negative** bilateral trade balance: China, Switzerland, Saudi Arabia, Iraq and South Korea.
- Top 5 countries with which it has **surplus** trade balance: USA, UAE, Bangladesh, Nepal and UK.
- **Highest trade deficit is with China** its share in India's total trade deficit increased from 20.3% in 2012-13 to 43.2% in 2017-18.
- India's major items of **imports from China:** Telephone sets (mobiles, automatic data processing machines, diodes & semi-conductor devices), electronic devices, chemical fertilisers, etc.
- India's major items of **exports to China**: Cotton yarn, copper, refined and copper alloys unwrought, POL items, granite, aluminium ores, other fixed vegetable fats & oils, cyclic hydrocarbons, cotton, polymers and iron ore.
- The trade deficit with **Switzerland** is mainly due to import of gold. This deficit has fallen in the last two years.
- In the case of Saudi Arabia and Iraq, the deficit is due to crude oil imports, while for South Korea it is due to import of electrical machinery and equipment's and iron and steel.

Invisibles: (In H1 of 2017-18)

- Net invisibles surplus has witnessed an increase with increase observed both in net services and net private transfers.
- Net services receipts increased by 14.6% on a Y-o-Y basis, primarily on account of the rise in net earnings from travel and telecommunications, computer & information services.
- Net travel receipts more than doubled, as foreign tourist arrivals increased significantly. Notwithstanding uncertainties in the Indian IT industry from tougher visa policies in some countries, software exports recorded a growth of 2.3%.
- Private transfer receipts, mainly representing remittances by Indians employed overseas, increased by 10%.
- India has remained one of the major recipients of cross border remittances. According to the World Bank **India will remain a top remittance recipient country in 2017**, followed by China, the Philippines, and Mexico.
- However, the private transfers (gross) inflows to India declined by 6.5% in 2016-17. This was due to constrained labour market conditions in the source countries, particularly GCC (Gulf Cooperation Council) countries, largely caused by the fall in international crude oil prices.
- According to the World Bank, the number of Indian workers emigrating to Saudi Arabia (India's third largest remittance sender) dropped from 3.0 lakhs in 2015 to 1.6 lakh in 2016; and to the United Arab Emirates (India's **largest** inward remittance contributor) from 2.2 lakh in 2015 to 1.6 lakh in 2016. Total Indian workers outflow fell from 7.8 lakh in 2015 to 5.1 lakh in 2016.

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- Among the structural factors, tightening norms of hiring foreign workers in USA, labour market adjustment in GCC countries and rising anti-immigration sentiments in many source countries pose considerable downside risk.
- With recovery in the global economy, remittance flows to India are expected to increase by 4.2% in 2017. The rise in crude oil prices could also help in the increase in remittances as the movement of the latter has close correspondence with the movement of the former.
- Net outflow on account of investment income which have been increasing in the last two years continued to rise

Capital/financial account of BoP in H1 of 2017-18:

- Notwithstanding a decline in FDI inflows in H1 of 2017-18, net foreign investment recorded a growth of 17.4% owing to a sharp rise in portfolio investment to India.
- Banking capital recorded a net inflow of US$ 6.3 billion with increase in overseas borrowings and liquidation of foreign assets by banks, while net repayment of external commercial borrowings resulted in an outflow of US$ 1.5 billion.
- 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$ 20.9 billion in H1 of 2017-18 as compared to the US$ 15.5 billion in last year.

COMPOSITION OF TRADE

- In 2017-18 among the major sectors, there was good export growth in engineering goods and Petroleum crude and products; moderate growth in chemicals & related products, and textiles & allied products; but negative growth in gems and jewellery.
- Sector-wise, import of POL increased by 4.8% in 2016-17 and 24.2% in 2017-18 mainly due to an increase in international crude oil price.
- In 2017-18 all major sectors registered positive growth with the capital goods imports, which are needed for industrial activity, registering an 11.3% growth.

TRADE POLICY

- Two important developments on the trade policy front during the year relate to the mid-term review of Foreign Trade Policy (FTP) and the recent multilateral negotiations of WTO in Dec 2017.
- Also there were some developments on the trade logistics front and anti-dumping measures.

FTP- Mid Term Review and subsequent trade related policies:

- In the mid-term review of FTP released, some additional measures have been taken to help India's trade sector. A special package for employment generation in leather and footwear sector was approved by the Government which is also likely to help exports from this sector.

Highlights of the Mid Term Review of Foreign Trade Policy and subsequent trade related policies:

- MEIS (Merchandise Exports from India Scheme) incentives for two sub-sectors of Textiles, i.e. Ready Made Garments and Made Ups increased from 2% to 4%.
- Across the board increase of 2% in existing MEIS incentive for exports by MSMEs / labour intensive industries amounting to Rs. 4576 crore.

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- To provide an impetus to the services trade, the SEIS (Service Export from India Scheme) incentives have been increased by 2% for notified services such as Business, Legal, Accounting, Architectural, Engineering, Educational, Hospital, Hotels and Restaurants amounting to Rs. 1140 crore.
- GST rate for transfer/sale of scrips has been reduced to zero from the earlier rate of 12%.
- New trust based Self Ratification Scheme introduced to allow duty free inputs for export production under duty exemption scheme with a self-declaration.
- Contact@DGFT service for Complaint Resolution has been activated on the DGFT website (www.dgft.gov.in) as a single window contact point for exporters and importers for resolving all foreign trade related issues.
- To focus on improving Ease of Trading across Borders for exporters and importers, a professional team envisaged to handhold, assist and support exporters with their export related problems, accessing export markets and meeting regulatory requirements.
- New Logistics Division created in the Commerce Department to develop and coordinate implementation of an Action Plan for the integrated development of the logistics sector.
- For clarity, a negative list of capital goods which are not permitted under the EPCG (Export Promotion on Capital Goods) scheme has been notified.
- The concept of Domestic Tariff Area (DTA) sale from Export Oriented Units (EoUs) on concessional and full duty has been removed and hence, the limit on entitlement of DTA sale has also been removed.
- Second Hand Goods imported for the purpose of repair/refurbishing/re-conditioning or re-engineering have been made free, thereby facilitating generation of employment in the repair services sector.
- Issue of working capital blockage of the exporters due to upfront payment of GST on inputs has been addressed. Under advance authorization Export Promotion for Capital Goods (EPCG) Scheme, 100% EoU's, exporters have been extended the benefit of sourcing inputs/capital goods from abroad as well as domestic suppliers for exports without upfront payment of GST.
- The special package for employment generation in leather and footwear sector. The package involves implementation of Central Sector Scheme "Indian Footwear, Leather & Accessories Development Programme" with an approved expenditure of Rs. 2600 crore over the three years from 2017-18 to 2019-20.

MULTILATERAL NEGOTIATIONS

- The 11th Ministerial Conference (MC) of WTO ended without a Ministerial Declaration or any substantive outcome. In the run-up to MC11, decisions were expected on a permanent solution on food security and other agriculture issues.
- Unfortunately, the strong position of one of the member against agricultural reforms based on current WTO mandates and rules, led to a deadlock without any outcome on agriculture or even a work programme for the next two years.
- Some of the other decisions that were taken included a Work Programme on disciplines on Fisheries Subsidies with a view to arriving at a decision by MC12.
- It was also decided to continue with the non-negotiating mandate of the existing Work Programme on E-commerce.

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- Ministerial Decisions on new issues like Investment Facilitation, MSMEs, gender and trade, which lacked a mandate or consensus, were not taken forward.
- **India's Stand**: India stood firm on its stand on the fundamental principles of the WTO, including multilateralism, rule-based consensual decision-making, an independent and credible dispute resolution and appellate process, the centrality of development, which underlies the Doha Development Agenda (DDA), and special and differential treatment for all developing countries.

TRADE RELATED LOGISTICS

- The Indian logistics industry has grown at a compound annual growth rate (CAGR) of 7.8% over the past five years.
- Considering the impact of implementation of GST the Indian logistics market is expected to reach about US$ 215 billion in 2019-20, growing at a CAGR of 10.5%.
- Improved logistics have huge implications on increasing exports, as a 10% decrease in indirect logistics cost can contribute to around 5-8% of extra exports.
- India has improved its ranking in the "Logistics Performance Index" (LPI) from 54 in 2014 to 35 in 2016. But as compared to countries like Singapore (rank 5), South Africa (20), Taiwan (25) and China (27), India has some way to go.

Logistics: Challenges and Suggested Action Plan

Some key challenges:

- High cost of logistics – impacting competitiveness in domestic & global market.
- Unfavorable modal mix (Roadways 60%, Railways 30%) and inefficient fleet mix.
- Under-developed material handling infrastructure and fragmented warehousing.
- Multiple regulatory/policy making bodies with procedural complexities including cumbersome and duplicate processes.
- High dwell time and lack of seamless movement of goods across modes.

Suggested Action Plan:

- Formulation of National Integrated Logistics Policy to bring in greater transparency and enhance efficiency in logistics operations.
- Develop integrated IT Platform as a single window for all logistics related matters. This portal will have linkages with the IT systems of Railways, Road transport & Highways, Shipping and act as a Logistics marketplace.
- Usher in ease of documentation, faster clearance, and digitization.
- Bring down logistics cost to less than 10% of GDP by 2022.
- Faster clearances for setting up of logistics infrastructure like Multi-modal logistic parks (MMLPs), Container Freight Station (CFS), Air Freight Station (AFS) & Inland Container Depot (ICD).
- Introduce professional standards and certification for service providers.
- Promote introduction of high-end technologies like high-tech scanning equipment, RFID, GPS, EDI, online Track.
- Trace systems in the entire logistics network.
- Improve Logistics skilling in the country and increase jobs in Logistics sector to 40 million by 2022.

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ANTI-DUMPING MEASURES

- Complaints of dumping have been rising in the aftermath of the global slowdown.
- India conducts anti-dumping investigations on the basis of applications filed by the domestic industry with prima facie evidence of dumping of goods in the country, injury to the domestic industry and causal link between dumping and injury to the domestic industry.
- India is leading at anti-dumping investigations by doing 69 investigations out of 300.
- Products wherein anti-dumping duty has been imposed fall in the products group of Chemicals & Petrochemicals, Products of Steel & other metals and Rubber or Plastic Products.
- The major products found to have been dumped from China.

FOREIGN EXCHANGE RESERVES

- India's foreign exchange reserves reached US$ 409.4 billion on end-December 2017. It grew by 10.7%.
- The level of foreign exchange reserves can change due to change in reserves on BoP basis as well as valuation changes in the assets held by the RBI.
- The import cover of India's foreign exchange reserves is 11.3 months.
- Within the major economies running current account deficit, India is among the largest foreign exchange reserve holder and sixth largest among all countries of the world.

EXCHANGE RATE

- During 2017-18 the rupee generally traded with an appreciating bias against the US dollar. The rupee strengthened by 2.5 per cent to a level of Rs.64.24/US dollar during December, 2017.
- Due to improved macroeconomic conditions coupled with reforms initiated by the Government, there is significant capital flows, both foreign portfolio flows and FDI.
- Rupee appreciated by about 6.0% against the pound sterling, 0.2% against the Euro and 9.2% against the Japanese Yen during the period April-December, 2017 over the same period of the last fiscal year.
- Following the IMF methodology of the REER, there was appreciation of 4.5% during the April-November 2017.

EXTERNAL DEBT

- India's External Debt stock increased to US$ 495.7 billion.
- There is increase in long term debt primarily due to the increase in foreign portfolio investment in the debt segment of domestic capital market included under commercial borrowings.
- Short term debt grew mainly due to other Government external debt component reflecting the increased level of foreign portfolio investments in Government securities.
- The ratio of short term debt by residual maturity to foreign exchange reserves slightly fell down.
- The World Bank data shows that among the top 20 developing debtor countries in 2016, India's external debt stock to Gross National Income (GNI) ratio at 20.4% was the second lowest after China's 12.8%.

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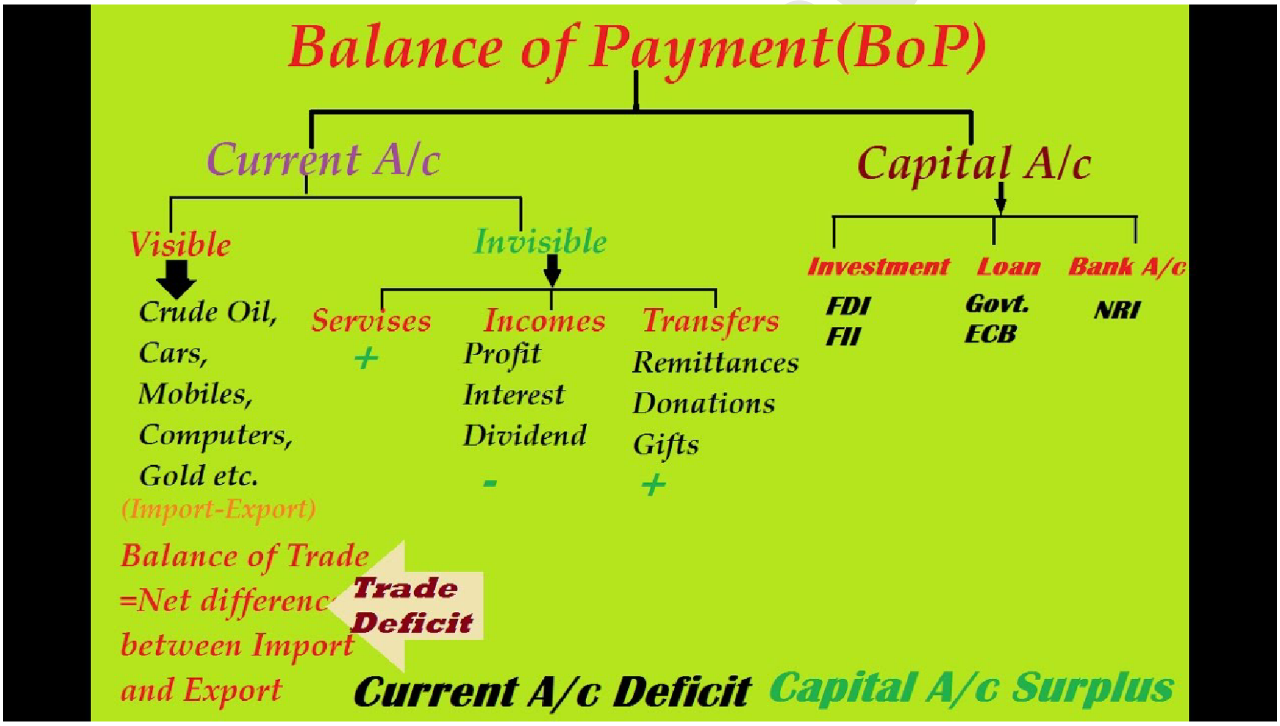
- In terms of the foreign exchange reserves cover to external debt, India's position is the 5th highest and India's debt service rate is the 8th lowest.
- As per the World Bank data, **India is 26th in world and 3rd largest debtor country among developing countries** (after China and Brazil). But India's share of short term debt to total debt is only 18.3% in 2017 as compared to China's 60.1%.

CONCLUSION

- The prospects for India's External Sector in this and coming year look bright with world trade projected to grow at 4.2% and 4% in 2017 and 2018 respectively. As trade of major partner countries improving and above all India's export growth also picking up the downside risks lie in the rise in oil prices. However, this could also lead to higher inflow of remittances which have started picking up. The supportive policies like GST, logistics and trade facilitation policies of the government could help further.

Prelims Facts



A. World Bank Report on Migration and Remittances.

B. **Logistics Performance Index:** Given by **World Bank** & it measures countries across six components—Customs, infrastructure, international shipments, logistics quality and competence, tracking and tracing, and timeliness.

C. **NEER & REER:** Nominal Effective Exchange Rate (NEER) is the weighted average of bilateral nominal exchange rates of the rupee in terms of foreign currencies.

The Real Effective Exchange Rate (REER) is the weighted average of nominal exchange rates, **adjusted for inflation**.

The indices of Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) are used as indicators of external competitiveness by RBI.

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D. Anti-dumping duty: It is a tariff that a country uses to protect its domestic producers from cheap imports. This situation occurs when in domestic market imports any items at price less than even cost of production. Government imposes it on foreign Imports under the Multilateral World Trade Organization (WTO) agreement.

E. International Monetary Fund (IMF):

- Outcome of Bretton Woods conference 1944.
- HQ – Washington
- Formally created in 1945 by 29 member countries.
- Stated goal was to assist in the reconstruction of world's international payment system post World War II.
- Maintains **global financial stability** through technical assistance, training, and loans to member states to tide over short term balance of payment crisis.
- Countries contribute funds to a pool through a quota system from which countries with payment imbalances temporarily can borrow money and other resources.
- Reports published by IMF: Global Financial Stability Report & World Economic Outlook.

F. Twin Deficits: Fiscal Deficit and Current Account Deficit are called as twin deficits.

G. Fiscal deficit: It is the difference between the government's total expenditure and its total receipts (excluding borrowing). Fiscal deficit in layman's terms corresponds to the borrowings and liabilities of the government.

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7 AGRICULTURE AND FOOD MANAGEMENT

Context

Agriculture and allied sector has a critical role in ensuring food security, reducing poverty and sustaining growth in India. To improve productivity in agriculture the focus has been on the critical inputs like irrigation, seeds, fertilisers and mechanization. The dynamics of agricultural growth reflect a reduction in the share of crop sector and an increase in the share of agricultural sub-sectors. As agriculture entails risks related to production, weather, prices and policy, capitalizing the structural changes in the agriculture sector by diversifying income generating activities can mitigate the risks and sustain growth of the economy.

Terminologies

- **Gross Value Added: Gross value added** (GVA) is the measure of the **value** of goods and services produced in an area, industry or sector of an economy. In national accounts GVA is output minus intermediate consumption; it is a balancing item of the national accounts' production account.

- **Gross Capital Formation:** Gross fixed capital formation (GFCF) refers to the net increase in physical assets (investment minus disposals) within the measurement period. It does not account for the consumption (depreciation) of fixed capital, and also does not include land purchases. It is a component of expenditure approach to calculating GDP. The importance of the Gross Capital formation lies in the fact that this is that part of GDP which helps in the growth of the GDP itself. This is a must for achieving high rate of production, capital formation, changes in production techniques and change in the outlook of the people themselves.

- **Index of Crop Diversification:** Index of Crop Diversification = (Percentage of total cropped area under 'n' crop ÷ Number of 'n' crops) Where 'n' denotes those crops which individually occupied at least 5 % or more of total cropped area in the Tahsil.

  For the measurement of diversification of crops there is also a formula based on the gross cropped area. The formula has been expressed as: Index of crop diversification= (Percent of sown area under x crops ÷ number of x crops)

- **Seed Replacement Rate:** Seed Replacement Rate is the percentage of area sown out of total area of crop planted in the season by using certified/quality seeds other than the farm saved seed. The low replacement rate in groundnut indicates that farmers used the crop retained for seed purpose or obtained it from fellow farmers. However, these seeds need not be of poor quality.

- **Varietal Replacement Rate:** The rate of crop varietal replacement on farms is an important measure of the impacts of plant breeding programmes, the degree of varietal diversification over time, and the potential exposure to disease epidemics due to breakdown in disease resistance of older varieties.

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- **Gross Cropped Area: Gross Cropped Area** (GCA) is the **total area sown** once as well as more than once in a particular year. When the **crop** is **sown** on a piece of land for twice, the **area** is counted twice in GCA. On the other hand, Net **Sown Area** is the **area sown** with crops but is counted only once.
- **Kisan Credit Card:** A Kisan Credit Card (KCC) is a credit delivery mechanism that is aimed at enabling farmers to have quick and timely access to affordable credit. It was launched in 1998 by the Reserve Bank of India and NABARD. The scheme aims to reduce farmer dependence on the informal banking sector for credit – which can be very expensive and suck them into a debt spiral. The card is offered by cooperative banks, regional rural banks and public sector banks.
- **Electronic National Agriculture Market:** National Agriculture Market (NAM) is a pan-India electronic trading portal which networks the existing APMC mandis to create a unified national market for agricultural commodities. The NAM Portal provides a single window service for all APMC related information and services. This includes commodity arrivals & prices, buy & sell trade offers, provision to respond to trade offers, among other services. While material flow (agriculture produce) continue to happen through mandis, an online market reduces transaction costs and information asymmetry.
- **ICAR:** The Indian Council of Agricultural Research (ICAR) is an autonomous organisation under the Department of Agricultural Research and Education (DARE), Ministry of Agriculture and Farmers Welfare, Government of India. Formerly known as Imperial Council of Agricultural Research, it was **established on 16 July 1929** as a registered society under the Societies Registration Act, 1860 in pursuance of the report of the Royal Commission on Agriculture. The ICAR has its headquarters at New Delhi. The Council is the apex body for co-ordinating, guiding and managing research and education in agriculture including horticulture, fisheries and animal sciences in the entire country. The ICAR has played a pioneering role in ushering Green Revolution and subsequent developments in agriculture in India through its research and technology development.
- **Targeted Public Distribution System:** Under TPDS, Central government is responsible for procurement, allocation and transportation of the food grains up to the designated depots of the Food Corporation of India. The food grains transported by the centre to state and UT depots are distributed to eligible beneficiaries by states. They also have responsibilities for identification of the eligible beneficiaries, issuing ration cards to them, supervision and monitoring of the Fair Price Shops (FPSs) etc.

Gist of Chapter

In a developing country like India, agriculture sector and rural economy have a significant role in providing livelihoods, ensuring food security and providing impetus to the growth of industries and service sectors. The process of development inter alia results in declining share of agriculture in Gross Value Added (GVA), which is being witnessed in India too. However, the declining share does not undermine the significance of the sector for employment, livelihood and food security. With structural changes in agriculture, there is greater scope to broaden the range of activities related to agriculture to improve productivity and make way for sustainable growth.

OVERVIEW OF AGRICULTURE AND ALLIED SECTORS

- The Gross Capital Formation (GCF) in Agriculture and Allied Sectors relative to GVA in this sector has been showing a fluctuating trend from 18.2 per cent in 2011-12 to 16.4 per cent in 2015-16.
- The Gross Capital Formation in agriculture and allied sectors as a proportion to the total GCF showed a decline from 8.3 per cent in 2014- 2015 to 7.8 per cent in 2015-16.
- As per the Fourth Advance Estimates for 2016-17 released by Department of Agriculture, Cooperation and Farmer's Welfare, the country achieved a record production of food grains estimated at 275.7

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million tonnes, which is higher by 10.6 million tonnes than the previous record production of food grains in 2013-14. The production of rice is estimated at 110.2 million tonnes during 2016-17 which is also a new record.

- Another significant achievement is in the production of pulses which is estimated at 23.0 million tonnes during 2016-17 and higher by 3.7 million tonnes than the previous record production achieved during 2013-14.
- The production of oilseeds and cotton registered a growth of 27 per cent and 10.3 per cent respectively in 2016-17.
- As per the First Advance Estimates released on 22nd September, 2017, kharif food grains production during 2017-18 is estimated at 134.7 million tonnes which is expected to be lower by 3.9 million tonnes from the production of 138.5 million tonnes during 2016-17. The total production of rice during 2017-18 is estimated at 94.5 million tonnes vis-à-vis 96.4 million tonnes in 2016-17.
- India ranks first, with 179.8 Mha (9.6 percent of the global net cropland area) of net cropland area according to United States Geological Survey 2017. The pattern of cropping is determined by various factors like agro-climatic conditions, farm size, prices, profitability and government policies. A diversified cropping pattern will help in mitigating the risks faced by farmers in terms of price shocks and production/harvest losses. With 9.6 per cent of the global net cropland area, India has tremendous potential for crop diversification and to make farming a sustainable and profitable economic activity.

Crop diversification needs to be encouraged to improve soil health, productivity and thereby profitability of cultivation. The inverse relationship between change in crop diversification index and variability of output can be seen in the plot of States.

There is a need to diversify into high value crops and horticulture crops for which Government has taken several measures. Crops Diversification Programme is being implemented by the Government in original green revolution states viz. Punjab, Haryana and in Western UP to diversify paddy area towards less water requiring crops like oilseeds, pulses, coarse cereal, agro-forestry and shifting of tobacco farmers to alternative crops/cropping system in tobacco growing States viz. Andhra Pradesh, Bihar, Gujarat, Karnataka, Maharashtra, Odisha, Tamil Nadu, Telangana, Uttar Pradesh and West Bengal.

Policy for Women Farmers

Women play a significant and crucial role in agricultural development and allied fields including in the main crop production, livestock production, horticulture, post-harvest operations, agro/social forestry, fisheries, etc. is a fact long taken for granted. For sustainable development of the agriculture and rural economy, the contribution of women to agriculture and food production cannot be ignored. As per Census 2011, out of total female main workers, 55 per cent were agricultural labourers and 24 per cent were cultivators. However, only 12.8 per cent of the operational holdings were owned by women, which reflect the gender disparity in ownership of landholdings in agriculture. Moreover, there is concentration of operational holdings (25.7 per cent) by women in the marginal and small holdings categories.

With growing rural to urban migration by men, there is ‘feminisation’ of agriculture sector, with increasing number of women in multiple roles as cultivators, entrepreneurs, and labourers. Globally, there is empirical evidence that women have a decisive role in ensuring food security and preserving local agro-biodiversity. Rural women are responsible for the integrated management and use of diverse natural resources to meet the daily household needs. This requires that women farmers should have enhanced access to resources like land, water, credit, technology and training which warrants critical

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analysis in the context of India. In addition, the entitlements of women farmers will be the key to improve agriculture productivity. The differential access of women to resources like land, credit, water, seeds and markets needs to be addressed. Towards this, Government has been implementing various schemes which help in improving the entitlements of women farmers, which will prove to be advantageous in bridging the policy gaps which exist in the sector. The following measures have been taken to ensure mainstreaming of women in agriculture sector:

- Earmarking at least 30 per cent of the budget allocation for women beneficiaries in all ongoing schemes/ programmes and development activities.
- Initiating women centric activities to ensure benefits of various beneficiary-oriented programs/schemes reach them.
- Focusing on women self-help group (SHG) to connect them to micro-credit through capacity building activities and to provide information and ensuring their representation in different decision-making bodies.
- Recognising the critical role of women in agriculture, the Ministry of Agriculture and Farmers Welfare has declared 15th October of every year as Women Farmer's Day.

With women predominant at all levels - production, pre-harvest, post-harvest processing, packaging, marketing - of the agricultural value chain, to increase productivity in agriculture, it is imperative to adopt gender specific interventions. An 'inclusive transformative agricultural policy' should aim at gender-specific interventions to raise productivity of small farm holdings, integrate women as active agents in rural transformation, and engage men and women in extension services with gender expertise.

INPUT MANAGEMENT IN AGRICULTURE

Agricultural productivity is determined by the appropriate use of critical inputs like irrigation, seeds, fertilisers, credit, machines, technology and extension services. For instance, the Green Revolution in India which brought about self-sufficiency in food production was driven by the use of high yielding varieties (HYVs) of seeds, intensive use of fertilisers and irrigation. Managing the inputs in appropriate combinations for specific crops can improve the productivity in agriculture without losing soil fertility and causing environmental damages. In this context, the significance of extension services and capacity of farmers to adopt new innovations, technologies and inputs for improving productivity become pertinent.

- **Operational Holdings by Educational status:** The educational level of farmers has a significant impact on the capacity of farmers to adopt and inculcate new methods of cultivation and input management.

  With predominance of small and marginal farm holdings, it is necessary to improve the educational status of farmers to increase their capacity to absorb technologies, and adopt risk mitigating measures.

- **Use of Inputs by Agricultural Holdings:** The use of inputs like fertilisers, hybrid seeds and organic manure are critical in increasing productivity in agriculture.

  The percentage of small holdings which use hybrid seeds and fertilisers are also lower in comparison to marginal holdings. However, the use of fertilizers and hybrid seeds can bring about better yields if there is adequate coverage of irrigation since agriculture in India is largely rainfed.

Direct Benefit Transfer in Fertiliser sector

The Government of India has introduced Direct Benefit Transfer (DBT) system for fertilizer subsidy on Pilot Basis with effect from October, 2016. Under the proposed fertilizer DBT system, 100 per cent

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subsidy on various fertilizer grades shall be released to the fertilizer companies on the basis of actual sales made by the retailers to the beneficiaries. The sale of all subsidized fertilizers to farmers/buyers will be made through Point of Sale (PoS) devices installed at each retailer shop and the beneficiaries will be identified through Aadhar Card, KCC, Voter Identity Card etc.

The implementation of the DBT Scheme requires development of PoS devices at every retailer shop, training of retailers for using PoS device, Stock initialization in the PoS device after verifying the physical stock at retail point, before making sales transactions. Presently, the DBT scheme is under implementation in 17 pilot districts. Based on the deployment of PoS device in different States, preparedness of State Government, Lead fertilizer Suppliers/Fertilizer companies, the Department has drawn up a detailed action plan to extend the DBT Scheme to other States in a phased manner. As on 22nd December, 2017, 14 States/UTs have been brought under DBT Framework.

The benefits of the DBT Scheme are: (a) The proposed DBT framework is a beneficiary driven subsidy payment mechanism being initiated at national level. (b) It creates Aadhaar seeded data base of beneficiaries and provides transaction visibility at the level of buyers. (c) By linking the actual sales to subsidy payments, it facilitates a more transparent and faster tracking of funds along the value chain, i.e. from manufacturers to beneficiaries. (d) Diversion of fertilizers is expected to be minimized.

- **Irrigation:** The all India percentage of net irrigated area to total cropped area was 34.5 per cent, which makes a large segment of cultivation dependent on rainfall.

  There is tremendous potential to increase the coverage of irrigated area for which the Government launched the Prime Minister's Krishi Sinchayee Yojana (PMKSY) in 2015. PMKSY has been approved for implementation across the country with an outlay of Rs.50,000 crore in five years.

  PMKSY Scheme is being implemented in the mission mode with the help of Command Area Development to complete 99 major and medium irrigation projects covering 76.0 lakh hectares in a phased manner by December 2019.

- **Agricultural Mechanization:** Farm mechanization and crop productivity has a direct correlation as farm mechanization saves time and labour, reduces drudgery, cut down production cost in the long run, reduces post-harvest losses and boosts crop output and farm income. Use of improved implements has potential to increase productivity up to 30 per cent and reduce the cost of cultivation up to 20 per cent. At present, Indian farmers are adapting farm mechanization at a faster rate in comparison to recent past. Although, the sale of tractors in India cannot be taken as the only measure of farm mechanization but to a great extent it reflects the level of mechanization. Indian tractor industries have emerged as the largest in the world and account for about one-third of total global tractor production.

  According to the World Bank estimates, half of the Indian population would be urban by the year 2050. It is estimated that percentage of agricultural workers of total work force would drop to 25.7 per cent by 2050 from 58.2 per cent in 2001. Thus, there is a need to enhance the level of farm mechanization in the country. Due to intensive involvement of labour in different farm operations, the cost of production of many crops is quite high.

MITIGATING RISKS IN AGRICULTURE: CROP INSURANCE AND CROP LOSS

The NSSO Report (July 2012 – June 2013) had indicated that a very small share of agricultural households engaged in crop production activities were insuring their crops. In respect of wheat and paddy, the two most harvested cereals in the country, less than 5 percent of the cultivating agricultural households insured their crops.

Notes

The reasons for not insuring for selected crops as highlighted:

Share of Agriculture households not insuring crops by reasons for not insuring

		Agricultural households not insuring by reason for (July 2012 to Dec 2012) (in %)		
	Reasons for not insuring	Paddy	Arhar	Groundnut
1.	Not aware about crop insurance	43	41	49
2.	Not aware about availability of facility	19	16	18
3.	Not interested/not felt the need to insure	20	18	19
4.	Insurance facility not available	6	9	5
5.	Lack of resources for premium payment	4	6	3
6.	Complex procedures	3	2	1
7.	Delay in claim payment	0.9	0.7	0.2

To enhance the coverage and rate of crop insurance among agricultural households, proper awareness needs to be generated along with enhanced geographical coverage and simplification of procedures.

In this context, it is noteworthy that the Pradhan Mantri Fasal Bima Yojana (PMFBY), which is a yield index based crop insurance scheme launched in 2016, has made substantial progress with more ground coverage compared to erstwhile schemes.

PMFBY provides comprehensive coverage of risks from pre-sowing to post harvest against natural non-preventable risks. The insurance premium is to be paid to companies on actuarial basis, with however is very low share to be paid by farmers on a uniform basis across the country (2 per cent & 1.5 per cent for is food & oilseed crops for Kharif & Rabi seasons respectively and 5 per cent for annual commercial/horticultural crops) and balance premium to be paid upfront and shared equally by Central and State Governments. It provides better protection for the farmers in terms of sum insured which has been made equal to the scale of finance.

Reasons for Crop Loss

Among the agricultural households which experienced crop loss during the two halves of the agricultural year July, 2012 - June, 2013, reason for the crop loss and the average total loss were ascertained with respect to each major crop reported by the households. Inadequate rainfall/drought was most reported reason for crop loss for all the selected crops except coconut and urad during the first half of the agricultural year. In respect of coconut and urad, the highest reported single reason for crop loss during this period was “disease/insect/animal”.

Policy to Promote Climate Smart Agriculture: Climate change incidence on agriculture can be in the form of increased variability in temperature and rainfall and intensity of extreme weather events like drought and flood ultimately creating disturbance to agro-ecosystems, thereby impacting farmers and farming community. This necessitates the need to address adaptation and rural development in an integrated manner, so as to achieve climate resilient development. It is in this context that there is emergence of the concept and significance of ‘Climate Smart Agriculture’ (CSA). Climate Smart Agriculture (CSA) is an approach that helps to guide actions needed to transform and reorient agricultural systems to effectively support development and ensure food security in a changing climate. CSA aims to tackle three main objectives: sustainably increasing agricultural productivity and incomes; adapting and building resilience to climate change; and reducing and/or removing greenhouse gas emissions wherever possible. CSA is an approach for developing agricultural strategies to secure sustainable food security under climate change. CSA provides the means to help stakeholders identify agricultural strategies suitable to their local conditions.

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AGRICULTURAL CREDIT AND MARKETING INITIATIVES

A sum of Rs.20,339 crore has been approved by the Government of India in 2017-18 to meet various obligations arising from interest subvention being provided to the farmers on short term crop loans, as also loans on post-harvest storages meets an important input requirement of the farmers in the country especially small and marginal farmers who are the major borrowers. Thus government has initiated Interest Subvention Scheme.

The Interest Subvention Scheme (ISS) has been operational since 2006-07. Under this scheme, the farmers can avail concessional crop loans of upto Rs.3 lakh at 7 per cent rate of interest. It also provides for an additional subvention of 3 per cent for prompt repayment within a period of one year from the date of advance. The scheme for 2017-18 will help farmers to avail of short term crop loans up to Rs. 3 lakh payable within one year at only 4 per cent per annum.

As a measure to check distress sale, post-harvest loans for storage in accredited warehouses against Negotiable Warehouse Receipts (NWRs) are available for upto 6 months for KCC holding small & marginal farmers. The Interest Subvention Scheme will continue for one year and it will be implemented by NABARD and RBI.

The interest subvention will be given to Public Sector Banks (PSBs), Private Sector Banks, Cooperative Banks and Regional Rural Banks (RRBs) on use of own funds and to NABARD for refinance to RRBs and Cooperative Banks. The salient features of the scheme are as follows:

- The Central Government will provide interest subvention of 5 per cent per annum to all prompt payee farmers for short term crop loan upto one year for loan upto Rs. 3 lakhs borrowed by them during the year 2017-18. Farmers will thus have to effectively pay only 4 per cent as interest. In case farmers do not repay the short term crop loan in time they would be eligible for interest subvention of 2 per cent as against 5 per cent available above.
- The Central Government will provide approximately Rs. 20,339 crore as interest subvention for 2017-18.
- In order to give relief to small and marginal farmers who would have to borrow at 9 per cent for the post-harvest storage of their produce, the Central Government has approved an interest subvention of 2 per cent, i.e. an effective interest rate of 7 per cent for loans upto 6 months.
- To provide relief to the farmers affected by natural calamities, the interest subvention of 2 per cent will be provided to Banks for the first year on the restructured amount.
- In case farmers do not repay the short term crop loan in time they would be eligible for interest subvention of 2 per cent as against available above.

FOOD MANAGEMENT

The food security system in India is managed by intertwined organizational framework between Centre and States that involves centralized and decentralised procurement of foodgrains through price support operations, allocation and distribution of foodgrains at reasonable prices to consumers/beneficiaries through TPDS (Targeted Public Distribution System) and the maintenance of buffer stocks for price stabilization. There are multiple objectives to be achieved through the system of procurement operations as implemented in India in terms of providing fair price to farmers, making foodgrains affordable to low income consumers, provisioning for contingencies/shortages by maintaining buffer stocks and to reduce food price volatility.

With a view to make receipt of foodgrains under TPDS a legal right, Government of India has enacted NFSA which came into force w.e.f. 5th July, 2013. The Act provides for coverage of upto 75 per cent

Notes

of the rural population and upto 50 per cent of the urban population for receiving subsidized foodgrains under Targeted Public Distribution System (TPDS), thus covering about two-third of the population. The eligible persons identified by the States/UTs are entitled to receive 5 kg of foodgrains per person per month at subsidized prices of Rs.3/2/1 per kg for rice/ wheat/ nutri-grains (coarse grains) respectively. The existing Antyodaya Anna Yojana (AAY) households, which constitute the poorest of the poor, continue to receive 35 kg of foodgrains per household per month.

Economic Costs of Foodgrains to FCI

The Economic Cost of foodgrains consists of three components, namely, pooled cost of grains, procurement incidentals and the cost of distribution. Pooled cost of food grains is the weighted MSP of the stock of foodgrains available with FCI at the time of calculating the economic cost.

The economic cost for both wheat and rice witnessed significant increase during the last few years due to increase in MSPs and proportionate increase in the incidentals.

Open Market Sale Scheme

In addition to maintaining buffer stocks and for making a provision for meeting the requirement of the Targeted Public Distribution System (TPDS) and Other Welfare Schemes (OWS), FCI on the instructions from the Government sells excess stocks out of Central Pool through Open Market Sale Scheme (Domestic) [OMSS (D)] in the open market from time to time at predetermined prices to achieve the following objectives:

- To enhance the supply of food grains during the lean season and deficit regions.
- To moderate the open market prices.
- To offload the excess stocks.
- To reduce the carrying cost of food grains.

THE WAY FORWARD

The agriculture sector in India is experiencing structural changes which are opening up new challenges and opportunities. The Government has initiated reforms in the field of agricultural marketing, given a big push to the use of technology in agriculture, and also adopted Direct Benefit Transfer (DBT) mode for timely delivery of extension services, credit and other inputs to small and marginal farmers. The central priority of the government will be to provide opportunities for farmers to diversify their income generating opportunities to reduce the various risks by facilitating the development of agricultural sub-sectors like livestock and fisheries.

The transformation of agriculture and allied sector is imminent by way of appropriate policy interventions related to prices, trade, adoption of Climate Smart Agriculture, increased focus on small, marginal and women farmers. Though the share of agriculture and allied sector in GVA is on the decline, in the quest for inclusive economic development in India, agriculture sector will remain an engine of broad based growth which will reduce inequalities and provide food security.

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8 INDUSTRY AND INFRASTRUCTURE

Context

For economic development today we need employment intensive INDUSTRY and resilient infrastructure. In this regards many structural reforms like Goods and Services Tax, Insolvencyand Bankruptcy Code and measures to facilitate Ease of Doing Business are undertaken by Government. Also sector specific reforms, such as Steel, Apparel, Leather and Power sectors to address specific challenges associated with each of these sectors are also made. As a result, India achieved rank 100/190, over its previous rank of 130 in theWorld Bank's latest Doing Business Report 2018.

In INFRASTRUCTURE sector, there has been considerable progress in Roads, Railways, Metro Rail, Shipping, Civil Aviation, Power and Logistics Infrastructure. This Sector is expected to boost growth of India. Also problems in infrastructure such as stalled projects and NPAs (Non-performing assets) in road sector need to be reviewed.

Several key measures and achievements in the industry and infrastructure sector have been discussed in this Chapter.

Terminologies

1. ***Goods and Services Tax:*** GST is *one indirect tax for the whole nation*, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

2. ***Ease of Doing Business:*** Ease of doing business is an index published by the World Bank. It is an aggregate figure that includes different parameters which define the ease of doing business in a country. India ranked 100 among 190 countries (2018).

3. ***Sunset Clause:*** In public policy, a sunset provision or clause is a measure within a statute, regulation or other law that provides that the ***law shall cease to have effect after a specific date***, unless further legislative action is taken to extend the law.

4. ***Index of Industrial Production (IIP):*** It can be defined as a combined indicator, expressed in the form of an index number, which measures short term variations in the production volume of a basket of industrial goods during a particular time period with reference to a base time period. For example: Suppose the value of IIP in 2017 was 140, this means that there has been a 40% (140-100) increase in the industrial activities in India as compared to the industrial activities in 2011-2012 (base year).

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5. ***Hybrid Annuity Model (HAM):*** Hybrid Annuity Model (HAM) is a combination of two models, i.e., the EPC (Engineering, Procurement and Construction) model and BOT - Annuity (Build, Operate, and Transfer) model. HAM combines EPC (40 per cent) and BOT-Annuity (60 per cent) Models.

Gist of Chapter

A. INDUSTRY: Several ***industry specific*** reform initiatives taken by the Government since 2014 have significantly improved the overall business environment in the country. The reform process has been comprehensive in scope covering Centre and the State Governments. This gives following results:

1. India has gone up 30 ranks (100/190) than previous rank of 130 in the World Bank's ease of doing Business index 2018. ***Industrial sector growth is at 4.4%*** with manufacturing growth at 4.6%.

2. This was possible due to measures undertaken by the Government such as Goods and Services Tax, Insolvency and Bankruptcy Code, introduction of inflation targeting regime and announcement of bank recapitalisation. Other measures being initiation and simplification of online application for Industrial License and Industrial Entrepreneur Memorandum, integration of twenty services with the eBiz portal (which functions as a single window portal for obtaining clearances from various Government agencies), limiting the number of documents required for export and import etc.

3. ***Index of Industrial Production (IIP)*** registered ***growth of 8.4 per cent*** with manufacturing **growing at 10.2 per cent** in November 2017.

4. This growth is significantly due to major industry groups have contributed positively to growth during this period. These are coke and refined petroleum products; pharmaceuticals, medicinal chemicals and botanical products; basic metals; computer, electronic and optical products; and motor vehicles, trailers & semi-trailers.

5. In 2016-17, the ***eight core industries*** **grew by 4.8 per cent** as compared to 3 per cent in 2015-16.

6. It is due to the production of Coal, Refinery Products, Fertilizers, Steel and Electricity registered positive growth, *with Steel registering a robust growth of 10.7 per cent.* This can be attributed to the positive measures taken by the Government such as imposition of Minimum Import Price (MIP), anti-dumping duty etc. on Steel imports.

7. ***Foreign Direct Investment:*** Total FDI inflow was US$ 60.08 billion in 2016-17 (top three shares in FDI Equity inflows is from, Mauritius, Singapore and Japan). **It is the highest ever for a particular financial year**.

Key initiatives taken by the Government to boost industrial performance

1. **The 'Make in India' programme:** Which aims at making India a global hub for manufacturing, research & innovation and integral part of the global supply chain.

2. **Intellectual Property Rights (IPR) Policy:** In May, 2016, Government for the first time adopted a comprehensive National Intellectual Property Rights (IPR) policy **to lay future roadmap for intellectual property**. This aims to improve Indian intellectual property ecosystem, and to aspires towards ***"Creative India; Innovative India".***

3. **Start-up India:** The initiative aims to create an ecosystem that is conducive to growth of Startups. In order to provide support, a Fund of Funds for Startups (FFS) with a corpus of Rs. 10,000 crores has been created and is being managed by SIDBI (Small Industries Development Bank of India).

Notes

SECTOR WISE ISSUES AND INITIATIVES in Industry:

1. ***Steel sector:*** due to slowdown in global economy there is a fall in international prices. India has increased import of steel from countries like China, South Korea and Ukraine into Indian markets at low prices since early 2014-15. This dumping of cheaper steel imports adversely affected domestic producers. In order to address this, apart from raising customs duty and imposition of anti-dumping duty, Minimum Import Price (MIP) on a number of items was introduced in February 2016 with a ***sunset clause*** of one year.

2. ***MSME Sector:*** MSMEs play a crucial role in providing large scale employment opportunities. There are 633.8 lakh unincorporated non-agriculture MSMEs in the country, providing employment to 11.10 crore workers. The MSME sector faces a major problem in terms of getting adequate credit for expansion of business activities. The MSME received only 17.4 per cent of the total credit outstanding.

   The major schemes implemented for the development of MSME sector are as follows:

   i) **Prime Minister's Employment Generation Programme (PMEGP)**: It is aimed at generating self-employment opportunities through establishment of micro-enterprises in the non-farm sector by helping traditional artisans and unemployed youth.

   ii) **Credit Guarantee Scheme for Micro and Small Enterprises:** Covers collateral free credit facility, up to Rs. 200 lakh per borrowing unit.

   iii) **Credit Linked Capital Subsidy Scheme (CLCSS):** Aims at facilitating technology upgradation of the MSME sector.

   iv) **Pradhan Mantri Mudra Yojana:** For development and refinancing activities relating to micro industrial units. In 2016-17 Rs. 1.8 lakh crore loan have been disbursed.

3. ***Textiles and Apparels:*** The sector witnesses a historic opportunity with China losing market share in clothing exports due to rising labour costs. However, India has not been able to leverage this opportunity due to India's competitors, i.e. Bangladesh, Vietnam, Ethiopia having duty free access to markets of EU and USA. To address some of these constraints, the Cabinet announced a Rs. 6000 crore package for the apparel sector. The Government has (December 2017) approved the scheme for Capacity Building in Textile Sector (SCBTS). It shall have the National Skill Qualification Framework (NSQF) compliant training courses, with funding as per the common norms notified by Ministry of Skill Development and Entrepreneurship (MSDE).

4. ***Leather sector:*** The global demand for footwear is moving towards non leather footwear, while Indian tax policies favour leather footwear production. The scheme with Rs. 2600 crore launched to development of infrastructure for the leather sector, address environment concerns specific to the sector, facilitate additional investments, employment generation and increase in production.

5. ***Gems and Jewellery:*** India is one of the largest exporters of Gems and Jewellery. It is one of the fastest growing sectors and is export oriented and labour intensive. In view of the tremendous scope in gems and jewellery sector, some programmes are undertaken. Public Private Partnership models could be explored for training in jewellery designing.The jewellery training institutes may be affiliated with the Gems and Jewellery Sector Skill Council. Setting up infrastructure such as refineries, hallmarking centers etc.

B. INFRASTRUCTURE SECTOR: In order to ensure high and sustainable growth, there were several steps taken in infrastructure sector. Mostly on transportation, energy, communication, housing & sanitation and urban infrastructure sector. *Around US$ 4.5 trillion of investments is required by India till 2040 to develop infrastructure to improve economic growth and community wellbeing.*

Notes

Today India can meet around US$ 3.9 trillion infrastructure investment. *Reasons behind such under investment are:*

1. Collapse of Public Private Partnership (PPP) especially in power and telecom projects.
2. Stressed balance sheet of private companies.
3. Issues related to land & forest clearances.

The infrastructure investment gap can be fill by financing from private investment, institutions dedicated for infrastructure financing like National Infrastructure Investment Bank (NIIB), Asian Infrastructure Investment Bank (AIIB), New Development Bank (erstwhile BRICS Bank) etc.

Now let us look at sector wise infrastructure problems and measures:

1. **ROAD:** Road transport is the dominant mode of transport in India. It plays a key role in promoting equitable socio-economic development across regions of the country. Easy accessibility, flexibility of operation, door-to-door service and reliability have earned road transport a greater significance in both passenger and freight traffic vis-à-vis other modes of transport.

   India has one of the largest road networks of over 56.17 lakh km. India's road density at 1.66 km/sq.km of area was higher than that of Japan, USA, China, Brazil, and Russian Federation.

   Issues in road sector:

   Stalled Projects and NPAs- As on September 2017, out of the 1263 total ongoing projects, there are 482 projects in Road Transport and Highways. Of these, 43 projects face cost overruns and 74 projects time overruns. Some of the projects under different phases of National Highway Development Program are delayed mainly due to problems in land acquisition, utility shifting, and poor performance of contractors, environment/forest/wildlife clearances.

   Measures taken for revival of stalled projects:

   In order to facilitate implementation of the projects, ***Hybrid Annuity Model (HAM)*** instead of Engineering, Procurement and Construction (EPC) has been adopted. Further monetization of projects through the Toll-Operate in Transfer model, securitization of toll revenue, adopting the Infrastructure Investment Trusts route, other innovative financing options including LIC, Long Term Pension Funds etc.; have been taken to attract fresh capital from the market on the strength of already operational projects.

Bharatmala Pariyojana

Bharatmala Pariyojana is a new umbrella program for the highways sector that focuses on optimizing efficiency of freight and passenger movement across the country by bridging critical infrastructure gaps through effective interventions like development of Economic Corridors, Inter Corridors and Feeder Routes, National Corridor Efficiency Improvement, Border and International connectivity roads, Coastal and Port Connectivity roads and Green-field expressways. A total of around 24,800 km are proposed to be constructed in Phase I. In addition, Phase I also includes 10,000 km of balance road works under NHDP.

2. **Railways:** The share of Indian Railways in freight movement has been ***declining*** over a period of time primarily due to non-competitive tariff structure. While the passenger fare had remained more or less flat, the freight fare has increased sharply over the year. To make rail transportation attractive and arrest the declining trend of rail share, various initiatives were taken in 2016-17.

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Initiatives: tariff rationalization, classification of new commodities, new policy guideline for station to station rates, expansion of freight basket through containerization, withdrawal of dual freight policy for export of iron ore, rationalization of coal tariff, policy guidelines of Merry Go Round System, discount for loading of bagged consignment in open and flat wagons, new delivery models like Roll-on Roll-off services, re-introduction of short lead concession and reduction in minimum distance for charge, digital payment for freight business, Long Term Tariff Contract Policy (which provides tariff stability and attractive rebate in freight to customers), and Liberalised Automatic Freight Rebate scheme for traffic loaded in empty flow directions etc.

3. **Civil Aviation:** India is the 3rd largest and the fastest growing domestic aviation market in the world in terms of number of domestic tickets sold. In 2017-18 domestic airlines carried 57.5 million passengers. During this period, the domestic air cargo handled was 0.61 million MT. Recent initiatives taken for the growth of the Civil Aviation sector are as follows:

   Initiatives:

   1. ***Regional Connectivity Scheme:*** 'Ude Desh ka Aam Naagrik' (RCS-UDAN)- To make flying accessible and affordable for the masses in the regionally important cities, the RCS-UDAN scheme was launched in October 2016.

   2. ***Airport Development:*** Provision of Rs. 4,500 crore for revival of 50 unserved and underserved airports/air strips has been taken up with budgetary support of Government to be completed by December 2018.

4. **Shipping:** Around 95 percent of India's trade by volume and 68 per cent in terms of value are transported by sea. To encourage the growth of Indian tonnage and for higher participation of Indian ships in Indian trade, the Government has implemented several measures.

   Initiatives: Reduction of GST from 18 per cent to 5 per cent on bunker fuel used in Indian flag vessels; brought parity in the tax regime of Indian sea, removing obstacles in the smooth implementation of the India Controlled Tonnage (ICT) scheme which allows Indian companies to directly own ships in foreign flags; and easing many procedural compliance issues like ship registration, procuring chartering permission and payment of chartering fees online.

   Port Development: Government has taken following initiatives to improve the performance of Major Ports:

   a) Major Ports have been benchmarked to international standards.

   b) Major Ports Authorities Bill, 2016 to replace Major Ports Trust Act, 1963 to modernise the institutional structure of Major Ports has been introduced in the Parliament.

   c) *Radio Frequency Identification System (RFID)* to reduce dwells time, transaction time and ease congestion has been operationalized in 9 Major Ports.

Sagarmala programme

The Sagarmala programme is the flagship programme of the Ministry of Shipping to promote port-led development in the country through harnessing India's 7,500 km long coastline, 14,500 km of potentially navigable waterways and strategic location on key international maritime trade routes. The main vision of the Sagarmala Programme is to reduce logistics cost for international and domestic trade,with minimal infrastructure investment.

Notes

5. **Telecom:** As on end of September 2017, the total subscribers stood at 1207.04 million, out of which 501.99 million connections were in the rural areas and 705.05 million in the urban areas. However, it is important to note that the telecom sector is going through a stress period with growing losses, debt pile, price war, reduced revenue and irrational spectrum costs. To check this, Government has taken various initiatives.

   Initiatives: The Government is implementing the flagship 'Bharat Net' project, to link each of the 2.5 lakh Gram Panchayats of India through optical fiber network. Government is in the process of formulating the New Telecom Policy, targeted to be released in 2018, after holding wide range of consultations with various stakeholders.

6. **Power:** The All-India installed power generation capacity has increased substantially over the years and reached 330,860.6 MW. There were 18,542 un-electrified census villages. To solve electrification challenges some initiatives are undertaken:

   Initiatives:

   Deen Dayal Upadhyaya Gram Jyoti Yojana: was launched in December 2014 to extend financial assistance for capital expenditure by distribution companies (discoms) for strengthening and augmenting distribution infrastructure, including metering, in rural areas.

   Saubhagya (Pradhan Mantri Sahaj Bijli Har Ghar Yojana), was launched in September 2017 to ensure electrification of all remaining willing households in the country in rural and urban areas with an outlay of Rs. 16320 crore. The scheme envisages electrification of around 4 crore households that do not have electricity connection by March 2019.

   Energy Conservation: National LED programme: A programme for promoting use of the most efficient lighting technology at affordable rates was launched in January 2015. The programme includes two components (a) Unnat Jyoti by Affordable LED for All (UJALA) providing LED bulbs to domestic consumers with a target to replace 77 crore incandescent bulbs with LED bulbs and (b) Street Lighting National Programme (SLNP) to replace 1.34 crore conventional street lights with smart and energy efficient LED street lights by March 2019.

7. **Petroleum & Natural Gas:** India has 26 sedimentary basins covering an area of 3.14 million Sq.Km. spread over onshore, shallow water and deep water.

   Initiatives:

   Pradhan Mantri Ujjwala Yojana: Under Pradhan Mantri Ujjwala Yojana (PMUY), 5 crore LPG connections are targeted to be provided to BPL families with a support of Rs.1600 per connection by 2018-19. The scheme is aimed at replacing the unclean cooking fuels mostly used in rural India with the clean and more efficient LPG.

Prelims Facts

1. **Goods and Services Tax (GST):** It is a **destination-based indirect taxation system**. It has been established by the 101st Constitutional Amendment Act. Its objective is to make "One Nation One Tax" to make India a unified market. It is calculated only in the "Value addition" at any stage of a goods or services.

2. **Ease of Doing Business index:** This is an index created by the ***World Bank.*** Higher rankings indicate better, regulations for businesses. It meant to measure regulations directly affecting businesses. A nation's ranking on the index is based on the average of 10 sub-indices- Starting a Business, Dealing with construction permits, Employing workers, Registering property, Getting credit, Protecting investors, Paying taxes, Trading across borders, Enforcing contracts, Closing a business.

Notes

3. As per national income 2017-18, overall industrial sector growth is at 4.4 per cent with manufacturing growth at 4.6 per cent.

4. **Index of Industrial Production (IIP)**: It is released by the Central Statistics Office (CSO) of the Ministry of Statistics and Programme Implementation. It is an index which helps us understand the growth of various sectors in the Indian economy such as mining, electricity and manufacturing. *CSO revised the base year of IIP in May, 2017 from 2004-05 to 2011-12.*

5. **Eight Core Industries:** Coal, Crude Oil, Natural Gas, Petroleum Refinery Products, Fertilizers, Steel, Cement and electricity. The industries included in the eight core industries comprise about 40 per cent weight in the IIP. (Department of Industrial Policy and Promotion, revised the base year of Index of Eight Core Industries from 2004-05 to 2011-12).

6. **Minimum Import Price (MIP):** It is the minimum price per ton that Indian firms have to pay while importing products into India.

7. **Anti-Dumping Duty:** Dumping is a process where a company exports a product at a price lower than the price it normally charges on its own home market. An anti-dumping duty is a protectionist tariff that a domestic government imposes on foreign imports that it believes are priced below fair market value.

8. The share of MSME Sector in the country's Gross Value Added (GVA) is ***approximately 32 per cent.***

Notes

9 SERVICES SECTOR

Context

India's services sector contributes 55.2 per cent in India's gross value added. Growth of this sector in 2017-18 is expected to be at 8.3 per cent. Services exports and net services were robust at 16.2 per cent and 14.6 per cent respectively. The Government has taken many initiatives in the different services which include digitization, e-visas, infrastructure status to Logistics, Start-up India, schemes for the housing sector, etc. which could give a further fillip to this sector.

Terminologies

1. ***Gross Value Added (GVA):*** It is a measure of total output and income in the economy. It provides the rupee value for the amount of goods and services produced in an economy after deducting the cost of inputs and raw materials that have gone into the production of those goods and services. It also gives sector-specific picture like what is the growth in an area, industry or sector of an economy.

2. ***Baltic Dry Index – BDI:*** The Baltic Dry Index (BDI) is shipping and trade index created by the London-based Baltic Exchange that measures change in the cost of transporting various raw materials.

3. ***Foreign Investment Promotion Board (FIPB):*** The Foreign Investment Promotion Board (FIPB) was a national agency of Government of India, with the remit to consider and recommend foreign direct investment (FDI) which does not come under the automatic route. It acted as a single window clearance for proposals on foreign direct investment (FDI) in India. The Foreign Investment Promotion Board (FIPB) was housed in the Department of Economic Affairs, Ministry of Finance. FIPB was abolished on 24 May 2017.

4. ***World Tourism Barometer:*** The UNWTO World Tourism Barometer is a regular publication of the Tourism Market Trends Programme of UNWTO aimed at monitoring the short-term evolution of tourism and providing the sector with relevant and timely information. It contains three permanent elements: an overview of short-term tourism data from destination countries and air transport, a retrospective and prospective evaluation of tourism performance by the UNWTO Panel of Tourism Experts and selected economic data relevant for tourism.

5. ***National Real Estate Development Council (NAREDCO):*** National Real Estate Development Council (NAREDCO) was established as an autonomous self-regulatory body in 1998 under the aegis of Ministry of Housing and Urban Affairs, Govt. of India. The National Real Estate Development Council strives to be the collective force influencing and shaping the real estate industry. It seeks to be the leading advocate of developing standards for efficient, effective, and ethical real estate business practices, valued by all stakeholders of real estate sector and viewed by them as crucial to their success.

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Gist of Chapter

Glance at INDIA'S SERVICES SECTOR

As per the estimates of national income 2017-18 released by Central Statistics Office (CSO), services sector growth (GVA at constant (2011-12) basic prices) is expected to be 8.3 per cent during 2017-18. The growth in trade, hotels, transport, communication and broadcasting is expected to be 8.7 per cent during 2017-18. Growth in the 'financial, real estate & professional services' category is likely to accelerate to 7.3 per cent during 2017-18. The 'public administration, defence & other services' category registered a growth of 11.3 per cent in 2016-17.

International Comparison

India's rank is 7/15 largest economies in terms of overall GDP (As per the UN National Accounts Statistics data). As per the ILO's (International Labour Organisation) estimates, among the top 15 economies, ***the India's share services sector is 30.6 per cent***. As per World Trade Organization (WTO) data for, services export World growth was 4.3 per cent, and 9.9 per cent for India. As per the World Investment Report 2017 global FDI flows was $1.75 trillion.

State-wise Comparison

Services sector is the dominant sector, contributing to more than half of the ***gross state value added (GSVA).*** The major services in most of the states are trade, hotels and restaurants, followed by real estate, ownership of dwellings and business services. In Gross state value added (GSVA) contribution, Delhi and Chandigarh are at the top, while Sikkim is at the bottom.

FDI in India's Services Sector

In 2016-17, FDI equity inflows to the services sector was ***US$ 26.4 billion.*** FDI policy provisions were radically overhauled across sectors such as construction development, broadcasting, retail trading, air transport, insurance and pension. Recently, on 10th January 2018, Union Cabinet approved amendments in FDI policy allowing 100 per cent FDI under automatic route for Single Brand Retail Trading. Foreign airlines also have been allowed to invest up to 49 per cent in Air India.

India's Services Trade

India remained the eighth largest exporter of commercial services in the world in 2016 (WTO, 2017) with a share of 3.4 per cent. Services exports recorded a robust growth of 16.2 per cent during April-September 2017-18. Lower growth in services exports than in imports led to a decline in net services receipts in 2015-16 and 2016-17. Net services receipts rose by 14.6 per cent during April-September of 2017-18.

MAJOR SERVICES: SECTOR-WISE PERFORMANCE AND SOME RECENT POLICIES

This section covers some of the important services for India based on their significance in terms of GDP/GVA, employment, exports and future prospects.

Tourism

In India, the Tourism sector has been performing well with Foreign Tourist Arrivals (FTAs) being 8.8 million and Foreign Exchange Earnings (FEEs) being US$ 22.9 billion in 2016. Outbound tourism has also picked up with the number of departures of Indian nationals from India being 21.9 million. Amongst protected monuments, for domestic visitors, Taj Mahal was the most visited monument in 2016 followed by Qutub Minar and Red Fort.

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Initiatives: Various initiatives have been taken by the Government to promote tourism. Recent measures include the introduction of the e-Visa facility under three categories of Tourist, Medical and Business for the citizens of 163 countries; launch of Global Media Campaign for 2017-18 on various Channels; launch of 'The Heritage Trail' to promote the World Heritage Sites in India. 'Paryatan Parv' launched having 3 components namely 'Dekho Apna Desh' to encourage Indians to visit their own country, 'Tourism for All' with tourism events at sites across all states in the country, and 'Tourism & Governance' with interactive sessions & workshops with stakeholders on varied themes.

IT–BPM Services

India's Information Technology – Business Process Management (IT-BPM) industry have US$ 139.9 billion total turnover (NASSCOM data). E-commerce market is estimated at US$ 33 billion in 2016-17. *However as per the RBI data, software exports registered a growth of (-) 0.7 per cent in 2016-17.* IT-BPM industry is estimated to employ nearly 3.9 million people in 2016-17.

Initiatives: To promote this sector, many initiatives have been taken. These include the establishment of BPO Promotion and Common Services Centers to help create digital inclusion and equitable growth and provide employment to 1.45 lakh persons, mostly in the small towns; setting up a separate Northeast BPO promotion schemewith 5000 seats and having employment potentialof 15000 persons; preparing the draft open data protection policy law; besides long-term initiatives like Digital India, Make in India, Smart Cities, e-Governance, push for digital talent through Skill India, drive towards a cashless economy and efforts to kindle innovation through Start-up India.

Real Estate and Housing

The share of real estate sector which includes ownership of dwellings accounted for 7.7 per cent in India's overall GVA in 2015-16. Real estate and construction together, is the second largest employment provider in the country, next only to agriculture. It employed over 52 million work force in 2017, and 67 million workforce is projected by 2022. Over 80 per cent of the employment in real estate and construction constitutes minimally skilled workforce, while skilled workforce account for over 9 per cent.

Rising NPAs, higher risk provisioning assigned to real estate sector and dwindling profits in the real estate sector, have made banks reluctant to lend to the sector.

Initiatives: Some of the recent reforms and policies related to Real Estate sector include the Pradhan Mantri Awas Yojana (PMAY) with the government sanctioning over 3.1 million houses for the affordable housing segment in urban regions till November 2017. PPP policy for affordable housing was also announced, for affordable housing segment to provide further impetus to the ambitious 'Housing for all by 2022' mission. Credit Linked Subsidy Scheme (CLSS) under PMAY was extended to the Middle Income Group (MIG) segment.

Research and Development

India-based R&D services companies, account for almost 22 per cent of the global market. However, India's gross expenditure on R&D has been low at around ***1 per cent of GDP.*** India ranks 60th out of 127 on the Global Innovation Index (GII) 2017. According to the Global Competitiveness Report 2017-18, India's capacity for innovation has been lower than that of many countries like the USA, the UK, South Korea, but better than China's.

Initiatives: The government has taken many initiatives to promote the R&D sector in India, which include establishing the Atal Innovation Mission (AIM). Some other initiatives related to R&D includes- The agreement between India and Israel in 2016 to enhance bilateral cooperation in science and technology provides US$ 1 million from each side in the next two years to support new R&D projects in the areas

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of big data analytics in healthcare and cyber security. The Ministry of Environment, Forest and Climate Change (MoEFCC) has announced an R&D initiative to develop next generation sustainable refrigerant technologies as alternatives to the currently used refrigerant gases like hydrofluorocarbons (HFCs), in order to mitigate its impact on the ozone layer and climate.

Space Services

Indian Space Programme contributes to national development, through the applicationof space technology, comprising communication, navigation and earth observation to address issues related to societal development and strategic requirements. Satellite based mapping and launching services are the two areas in which India is making a mark and has huge potential for the future. In Satellite Mapping, there has been a decline in the foreign exchange earnings in recent years, primarily due to free and open data policy adopted by many space agencies.

Initiatives: Indian Space Research Organisation (ISRO) is pursuing a project to support ASEAN Member states including Myanmar to receive and process data from Indian remote sensing satellites (Resourcesat-2 and Oceansat-2) and also to provide training in space science, technology and applications for the benefit of the ASEAN member countries.

Prelims Facts

1. World Tourism Barometer – given by United Nation's World Tourism Organization.
2. As per the World Investment Report 2017 published by United Nations Conference on Trade and Development (UNCTAD).
3. (GSVA): Gross state value added.
4. (IT-BPM): Information Technology – Business Process Management
5. India's share services sector is 30.6 per cent.
6. India is eighth largest exporter of commercial services in the world.
7. India ranks 60th out of 127 on the Global Innovation Index (GII) 2017.
8. In the case of Satellite Launching, as on March 2017, PSLV had successfully launched 254 satellites. This includes 37 National Satellites, 8 student satellites built by universities / academic institutions, one re-entry mission and 209 foreign satellites from 29 Countries.

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10 SOCIAL INFRASTRUCTURE, EMPLOYMENT AND HUMAN DEVELOPMENT

Context

To engineer an inclusive and sustainable growth for India, the social infrastructure like education, health and social protection are being given utmost priority by the Government. The Government has been enhancing the expenditure on human capital along with adopting measures to improve the efficiency of expenditure by convergence of schemes. Several labour reform measures including legislative ones, are being implemented for creation of employment opportunities and for providing sustainable livelihoods for the population who are largely engaged in the informal economy.

Hereby, analyzing the social infrastructure, Employment and Human development scenario in India.

Terminologies

- **Gross State Domestic Product:** It is defined as a measure, in monetary terms, of the volume of all goods and services produced within the boundaries of the State during a given period of time, accounted without duplication.
- **Pupil Teacher Ratios**: It is the number of students who attend a school or university divided by the number of teachers in the institution.
- **Student Classroom Ratio:** It is defined as average number of pupils (students) per classroom in a school in a given school-year.
- **Gender Parity Index**: The Gender Parity Index (GPI) is a socio-economic index usually designed to measure the relative access to education of males and females. This index is released by UNESCO.

Gist of Chapter

Introduction

Investment in human capital is a prerequisite for a healthy and productive population for nation building. Being a developing economy, there is not enough fiscal space to increase the expenditure on critical social infrastructure like education and health in India. However, given the limited resources, the Government has consistently prioritized strengthening the educational and health profile of the population. As India is poised to grow as one of the leading knowledge economies, education, skill development and health will remain priorities for the Government.

Trends in social sector expenditure

- The expenditure on social services by the Centre and States as a proportion of GDP has remained in the range of 6 per cent during 2012-13 to 2014-15.

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- In 2015-16, it decline to 5.8%.
- 2017-18 (BE), it moved by to 6.6%.

Education

- The Government of India is committed to achieving the Sustainable Development Goal (SDG-4) for education – "Ensure inclusive and quality education for all and promote lifelong learning" by 2030.
- With a view to achieve the goal of universalization of elementary education, the Right to Free & Compulsory Education (RTE) Act, 2009 had been enacted in 2010 that provides a justiciable legal framework entitling all children between the ages of 6-14 years free and compulsory admission, attendance and completion of elementary education. It provides for children's right to an education of equitable quality, based on principles of equity and non-discrimination.
- India has made significant progress in quantitative indicators such as enrolment levels, completion rates and other physical infrastructure like construction of school buildings/class rooms, drinking water facilities, toilet facilities and appointment of teachers etc. at elementary school level.
- In addition to quantitative indicators, to improve the qualitative indicators, Central Rules under the RTE Act have been amended in February, 2017 to include the defined class-wise, subject-wise learning outcomes.

Indicators for assessing the effectiveness and inclusiveness of the schooling system

a) **Student Classroom Ratio:** SCR is defined as average number of pupils (students) per classroom in a school in a given school-year. The ideal size should be at 30 students per classroom. At all India level, percentage of schools with SCR greater than 30 students declined from 43 per cent in 2009-10 to 25.7 per cent in 2015-16.

b) **Pupil Teacher Ratio:** At primary level and upper primary level, the PTR should be 30:1 and 35:1 respectively. The recruitment, service conditions and redeployment of teachers are primarily in the domain of respective State Governments and UT Administrations. However, the Central Government through the flagship programmes of Sarva Shiksha Abhiyan (SSA) at elementary level and Rashtriya Madhyamik Shiksha Abhiyan (RMSA-Integrated) at secondary level provides assistance to the State Governments and UTs for additional teachers to maintain appropriate PTR as per the prescribed norms for various levels of schooling. The Central Government has been consistently pursuing the matter for expeditious recruitment and redeployment of teachers with States and UTs at various fora.

c) **Gender Parity Index:** Gender Parity Index (GPI) in education is a valuable indicator which reflects the discrimination against girls in access to educational opportunities. In higher education, gender disparities still prevail in enrolment for which continuous efforts are being made by the Government to improve net intake rate for women in higher education. With consistent efforts by the Government through programmes like Beti Padhao, Beti Bachao, the GPI has improved substantially at the primary and secondary levels of enrolment.

PROGRESS IN LABOUR REFORMS

- The Government is in the process of rationalizing 38 Central Labour Acts by framing relevant provisions of existing laws into 4 labour codes, viz. Code on Wages, Code on Safety and Working Conditions, Code on Industrial Relations, and Code on Social Security and Welfare. Some are discussed below:

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a) The Draft Code on Wages Bill 2017 has been introduced in Lok Sabha in August 2017 and referred to the Standing Committee on Labour for examination.

Draft Code on Wages Bill 2017

- At present, the provisions of the Minimum Wages Act and the Payment of Wages Act do not cover substantial number of workers, as the applicability of both these Acts is restricted to the Scheduled Employments / Establishments. However, the new Code on Wages will ensure minimum wages to one and all and timely payment of wages to all employees irrespective of the sector of employment without any wage ceiling.
- A concept of statutory National Minimum Wage for different geographical areas has been introduced. It will ensure that no State Government fixes the minimum wage below the National Minimum Wages for that particular area as notified by the Central Government.
- The proposed payment of wages through cheque or digital/ electronic mode would not only promote digitization but also extend wage and social security to the worker. Provision of an Appellate Authority has been made between the Claim Authority and the Judicial Forum which will lead to speedy, cheaper and efficient redressal of grievances and settlement of claims.
- Penalties for different types of violations under this Code have been rationalized with the amount of fines varying as per the gravity of violations and repeat of the offences. Provision of compounding of offences has been made for those which are not punishable by a penalty of imprisonment.
- Further, the Code on Wages Bill 2017, in the clause 9 (3), clearly states that the Central Government, before fixing the national minimum wage, may obtain the advice of the Central Advisory Board, having representatives from employers and employees. Therefore, the Code provide for a consultative mechanism before determining the national minimum wage.

b) The Government has undertaken numerous technology enabled transformative initiatives such as Shram Suvidha Portal, Ease of Compliance to maintain registers under various Labour Laws/ Rules.

c) The Universal Account Number have been effected in order to reduce the complexity in compliance and to bring transparency and accountability for better enforcement of the labour laws. Further, the Government initiated the National Career Service portal (www.ncs.gov.in) by linking all employment exchanges of the country to facilitate online registration and posting of jobs for job-seekers and to provide employment related services like career counselling, vocational guidance, information on skill development courses and internships.

d) Further, the Employee's State Insurance (ESI), Act has been extended to all 325 complete districts as well as 93 district headquarters area. The scheme is also partially available in centers in 85 districts. Arrangements are being made for further extension of the scheme across the country by 2022. Under the scheme, insured persons are entitled to various cash benefits in the event of abstention from work due to sickness, temporary disablement, permanent disablement, dependent benefit, unemployment allowance, maternity benefit etc. The family members of the insured persons are also entitled to medical benefit. As on 31.03.2017, the number of insured persons covered under ESI scheme is 3.19 crore and total beneficiaries including their family members are 12.40 crore. ESI has a network of 152 hospitals, 1,467 dispensaries, 628 branch offices and 62 regional /sub regional offices across the country.

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Gender Gap in Employment

In the case of India, the gender gap in labour force participation rate is more than 50 percentage points. The lower participation of women in economic activities adversely affects the growth potential of the economy. The Government has been taking measures to increase the participation of women in productive economic activities by schemes to provide support services to working women and also through legislative measures to enhance maternity benefits. Thus steps taken are:

a) **Mahatma Gandhi National Rural Employment Guarantee Act** (MGNREGA) is one of the important schemes which ensures participation by women in the economic activity by stipulating minimum 33 per cent participation by women. There has been highest ever budget allocation of Rs 48,000 crore under MGNREGA during 2017-18.

b) For economic empowerment of women through promoting the spirit of creating self-employment ventures, **Mahila E-Haat**, an initiative for meeting aspirations and needs of women entrepreneurs has been launched with the objective to provide an e-marketing platform by leveraging technology for showcasing product made/manufactured/sold by women entrepreneurs/SHGs/NGOs.

c) As per the **Maternity Benefit (Amendment) Act, 2017**, the women are entitled to enhanced maternity leave for a period of 26 weeks (6 months) working in registered establishment under any Central or State law. It has been made mandatory for the establishments employing 50 or more employees to provide crèche facility, either separately or along with common facilities within a prescribed distance.

POLITICAL EMPOWERMENT OF WOMEN

- The representation of women in Parliament and in decision making roles in public sphere is one of the key indicators of empowerment.
- As per the report 'Women in Politics 2017 (IPU & UN)' Lok Sabha had 64 (11.8 percent of 542 MPs) and Rajya Sabha had 27 (11 per cent of 245 MPs) women MPs.
- Among the State assemblies, the highest percentage of women MLAs were from Bihar, Haryana and Rajasthan with 14 per cent followed by Madhya Pradesh and West Bengal with 13 per cent and Punjab with 12 per cent
- In a country like India with around 49 per cent of women in the population, the political participation of women has been low. There are various factors that determine women's participation in public services, especially in societies that follow patriarchal norms and prejudices.

Top 5 Factors that deter Men and Women from entering Politics

	Deterrents for women	Deterrents for men
1.	Domestic responsibilities	Lack of support from the electorate
2.	Prevailing cultural attitudes regarding the roles of women in society	Lack of Finance
3.	Lack of support from family	Lack of support of political parties
4.	Lack of confidence	Lack of experience in 'representative functions' public speaking, constituency relations
5.	Lack of Finance	Lack of confidence

Source : **IPU, Equality in Politics: A survey of Women and Men in Politics, 2008.**

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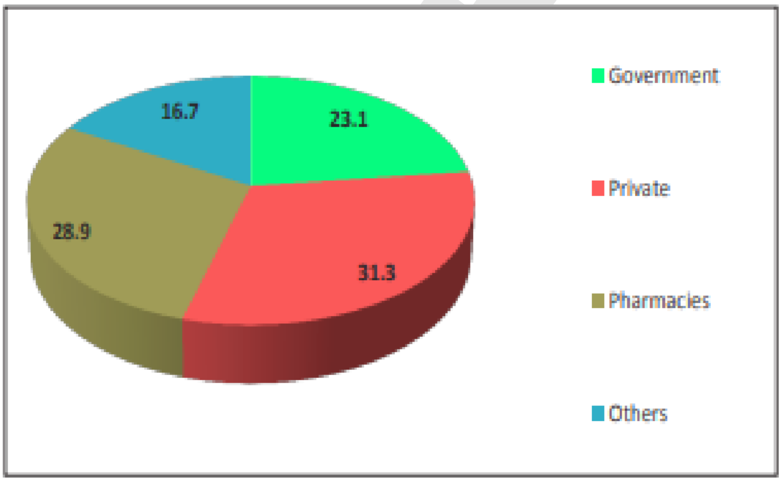
- As promoting women's political participation and leadership roles has vast implications for gender equality policies, Article 243D (3) of the Constitution of India provides that not less than one third of the total number of seats be reserved for women. Further, Article 243D (4) of the Constitution of India provides that not less than one third of the total offices of Chairpersons in Panchayats at each level shall be reserved for women. There has been substantial representation of women at the local government levels but varies from State to State.
- Further, for leadership development and to address women's issues at village levels, Mahila Shakti Kendra scheme has been launched at the village level which will provide convergence at the district level for all initiatives related to women. Besides, Nai Roshni, a leadership development programme, is also operational for benefiting the women belonging to minority communities.

HEALTH FOR ALL

Ensuring healthy lives and promoting the well-being for all at all ages is essential to sustainable development (SDG-3). India's commitment to achieve the targets under SDG-3 with some of them also aligned with the National Health Policy 2017, will help in strengthening health delivery systems and in achieving universal health coverage.

Current Health Expenditure by Healthcare Providers 2014-15 (per cent)



Source: **National Health Accounts, Estimates for India, M/o H& FW.**

Note: **Government expenditure includes General & specialized hospitals, family welfare and primary health centres etc. Private expenditure includes general & specialized hospitals and clinics.**

In a developing country like India, incurring higher levels of Out of Pocket Expenditure (OoPE) on health adversely impacts the poorer sections and widens inequalities.

Diagnostics are an important part of the health care system that provide information needed by service providers to make informed decisions about healthcare provision related to treatment and management. Limited affordability and access to quality medical services are among the major challenges contributing to delayed or inappropriate responses to disease control and patient management.

There is a need to prioritize standardization of rates by devising appropriate quality assurance framework and regulatory mechanism. Though, the Government has already enacted Clinical Establishments (Registration and Regulation) Act, 2010 and notified the Clinical Establishments (Central Government) Rules, 2012 to regulate the clinical establishments across the country, presently, the Act is applicable in 10 States/UTs, which needs to be taken up by remaining States while ensuring strict compliance as well.

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Steps taken by the Government to regulate prices of Drugs and Diagnostics

- **Under National Health Mission** (NHM), Government is supporting States through National Free Diagnostic Service Initiative to provide essential diagnostic services in public health facilities. Government of India has brought out guidelines in July 2015 to provide states with a broad framework for implementing free drug initiatives. The number of tests varies from State to State. An amount of Rs 759 crore has been approved for free diagnostic service initiative under NHM for 29 States/ UTs in 2017-18.
- **National Free Drug Initiative** under NHM aims at expanding the availability of free drug provision in all public health facilities. The initiative would not only provide support to States for purchase of drugs but enabling States to place transparent system of procurement and quality assurance, robust supply management and logistics that would ensure highest level of safety and quallty of drugs. All States have notified free drug policy. Over 25 States are implementing IT based supply chain management of drugs.
- Under **Clinical Establishments (Registration and Regulation) Act, 2010** and Clinical Establishments (Central Government) Rules, 2012, the clinical establishments (in the States / Union Territories where the Act is applicable) shall charge the rates for each type of procedure and services within the range of rates determined by the Central Government from time to time in consultation with the State Governments. The clinical establishments are also required to display the rates charged for each type of services provided and facilities available, at a conspicuous place both in the local language and English. The National Council for Clinical Establishments has approved a standard list of medical procedures and a standard template for costing of medical procedures and shared the same with the States and UTs.
- **Medical Council of India (MCI)** has amended the Indian Medical Council (Professional Conduct, Etiquette and Ethics) Regulations, 2002 vide notification dated 21.09.2016, which stipulates that 'every physician should prescribe drugs with generic names legibly and preferably in capital letters and he/she shall ensure that there is a rational prescription and use of drugs'. All the Registered Medical Practitioners under the Indian Medical Council (IMC) Act have been directed to comply with the aforesaid provisions.

Burden of Diseases: India and States Data outcomes

- **Life Expectancy:** In 1990, life expectancy at birth in India was 58.3 years for males and 59.7 years for females. By 2016, life expectancy at birth increased to 66.9 years for males and 70.3 years for females. India has made substantial progress in improving the life expectancy at birth. However, life expectancy varied widely between the states of India.
- **Under-5 mortality rate:** The under-5 mortality rate has reduced substantially from 1990 in all states, but there was a four-fold difference in this rate between the highest in Assam and Uttar Pradesh as compared with the lowest in Kerala in 2016, highlighting the vast health inequalities between the states.
- **Infectious disease:** The burden of most infectious and associated diseases reduced in India from 1990 to 2016, but five of the ten individual leading causes of disease burden in India in 2016 still belonged to this group: diarrhoeal diseases, lower respiratory infections, iron-deficiency anaemia, preterm birth complications, and tuberculosis.

  The burden caused by these conditions generally continues to be much higher in the Empowered Action Group (EAG) and North-East state groups than in the other states, but there were notable variations between the states within these groups as well.

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The burden also differed between the sexes, with diarrhoeal disease, iron-deficiency anaemia, and lower respiratory infections higher among females, and tuberculosis higher among males.

The proportion of total disease burden caused by infectious and associated diseases was highest among children, which contributed to the disproportionately higher overall disease burden suffered by the under-5 years age group.

- **Non communicable diseases:** The contribution of most of the major non-communicable disease groups to the total disease burden has increased all over India since 1990, including cardiovascular diseases, diabetes, chronic respiratory diseases, mental health and neurological disorders, cancers, musculoskeletal disorders, and chronic kidney disease.

  Among the leading non-communicable diseases, the largest disease burden or DALY rate increase from 1990 to 2016 was observed for diabetes, at 80%, and ischaemic heart disease, at 34%.

  In 2016, three of the five leading individual causes of disease burden in India were non-communicable, with ischaemic heart disease and chronic obstructive pulmonary disease as the top two causes and stroke as the fifth leading cause.

- **Injuries:** The contribution of injuries to the total disease burden has increased in most states since 1990. The highest proportion of disease burden due to injuries is in young adults.

  Road injuries and self-harm, which includes suicides and non-fatal outcomes of self-harm, are the leading contributors to the injury burden in India.

  The range of disease burden or DALY rate varied 3 fold for road injuries and 6 fold for self-harm among the states of India in 2016. There was no consistent relationship between the DALY rates of road injuries or self-harm versus the stage of epidemiological transition of the states.

  The burden due to road injuries was much higher in males than in females.

- **Child and Maternal Malnutrition:** Child and maternal malnutrition contributes to disease burden mainly through increasing the risk of neonatal disorders, nutritional deficiencies, diarrhoeal diseases, lower respiratory infections, and other common infections.

  As a stark contrast, the disease burden due to child and maternal malnutrition in India was 12 times higher per person than in China in 2016.

  Kerala had the lowest burden due to this risk among the Indian states, but even this was 2.7 times higher per person than in China.

- **Unsafe and water sanitation:** Unsafe water and sanitation was the second leading risk responsible for disease burden in India in 1990, but dropped to the seventh leading risk in 2016, contributing 5% of the total disease burden, mainly through diarrhoeal diseases and other infections.

  The burden due to this risk is also highest in several EAG states and Assam, and higher in females than in males.

- **Pollution:** The contribution of air pollution to disease burden remained high in India between 1990 and 2016, with levels of exposure among the highest in the world.

  It causes burden through a mix of non-communicable and infectious diseases, mainly cardiovascular diseases, chronic respiratory diseases, and lower respiratory infections.

  The burden due to household air pollution is highest in the EAG states, where its improvement since 1990 has also been the slowest. On the other hand, the burden due to outdoor air pollution is highest in a mix of northern states, including Haryana, Uttar Pradesh, Punjab, Rajasthan, Bihar and West Bengal.

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- **Cardiovascular disease:** Of the total disease burden in India in 1990, a tenth was caused by a group of risks including unhealthy diet, high blood pressure, high blood sugar, high cholesterol, and overweight, which mainly contribute to ischaemic heart disease, stroke, and diabetes.

  The contribution of this group of risks increased massively to a quarter of the total disease burden in India in 2016. The combination of these risks was highest in Punjab, Tamil Nadu, Kerala, Andhra Pradesh, and Maharashtra in 2016, but importantly, the contribution of these risks has increased in every state of the country since 1990.

Combating Antimicrobial Resistance (AMR) in India

Antimicrobial resistance (AMR) occurs when microorganisms such as bacteria, viruses, fungi and parasites change in ways that render the medications used to cure the infections they cause ineffective. It occurs naturally but is facilitated by the inappropriate use of medicines, for example using antibiotics for viral infections such as cold or flu, or sharing antibiotics. Low-quality medicines, wrong prescriptions and poor infection prevention and control also encourage development and spread of drug resistance.

World Health Organization's first global report on AMR in 2014 reported that it is not a country specific issue but a global concern that is jeopardizing global health security. AMR is of particular concern in developing nations, including India, where the burden of infectious diseases is high and healthcare spending is low. The country has among the highest bacterial disease burden in the world. Antibiotics, therefore, have a critical role in limiting morbidity and mortality in the country.

The challenges associated with controlling antibiotic resistance, particularly in India, are many and multifaceted. On the one hand, antibiotics are necessary in many life-threatening cases. But on the other hand, overuse of antibiotics can be disastrous in the long run. Hence, judicious use of antibiotics is required, but acceptable strategies to achieve this goal and to address the challenges must be devised and awareness needs to be generated among the public.

Acknowledging AMR as a serious threat to global public health, India has finalized a comprehensive and multi-sectoral National Action Plan aligning to the Global Action Plan and adopted a holistic and collaborative approach involving all stakeholders such as UN, WHO, FAO and other UN agencies towards prevention and containment of AMR. The National Action Plan has been prepared through extensive national consultations with various stakeholders in alignment with global action plan which has objectives of enhancing awareness, strengthening surveillance, improving rational use of antibiotics, reducing infections and promoting research in India. In addition, India aims to support neighboring countries in collective fight against infectious diseases. The Government of India has initiated series of actions including setting up a National Surveillance System for AMR, enacted regulations (Schedule-H-1) to regulate sale of antibiotics, brought out National Guidelines for use of antibiotics etc.

However, more efforts are required considering the large size of our country, magnitude of the problem and the fact that AMR needs to be addressed comprehensively under "One Health Approach". The challenge now is in its efficient implementation through a coordinated approach at all levels of use of antibiotics for which all State Governments need to develop state-specific action plans.

Government Programmes for Women and Children

In the current financial year (2017-18) the scope of several existing programmes and schemes have been expanded and several new initiatives have been taken up to foster all round development of Women and Children in the country. Some of the schemes are mentioned below:

- **Integrated Child Development Services (ICDS):** ICDS scheme aims at the holistic development of children upto 6 years of age and to meet nutritional needs of pregnant women and lactating mothers. Recently, rationalization, restructuring and continuation of four child centric schemes such as (a) Anganwadi Services (in place of ICDS); (b) Scheme for Adolescent Girls (SAG) (in place of SABLA);

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(c) Child Protection Services (in place of Integrated Child Protection Scheme) and (d) National Crèche Scheme (in place of Rajiv Gandhi National Crèche Scheme) under 'Umbrella Integrated Child Development Services' Scheme has been approved by the Government. Keeping in line with the Swachh Bharat Abhiyan, special emphasis has been given on providing toilet and safe drinking water facility at every Anganwadi Centre under the restructured Anganwadi Services Scheme. The scheme has been universalized with cumulative approval of 7076 projects and 14 lakh Anganwadi Centres (AWCs) including 20,000 anganwadis on demand. Digitization of Anganwadi Centres (AWCs) has already begun in 8 States with ICTs enabled monitoring of the Schemes through smart phones/ Tablets to anganwadi worker and supervisor. A new web-portal has been created for enabling the MIS data entry by the States/UTs. The Ministry has taken an initiative to address the micro-nutrient deficiencies among women and children in the country. In this regard, fortification of food items with essential micro-nutrients has been made mandatory in the Government funded nutrition related schemes.

- **Pradhan Mantri Matru Vandana Yojana (PMMVY):** The earlier Maternity Benefit Programme, for the eligible pregnant women and lactating mothers (PW&LM) has now been named as Pradhan Mantri Matru Vandana Yojana (PMMVY) a Centrally Sponsored Scheme, in January, 2017 for providing partial compensation for the wage loss in terms of cash incentive so that the woman can take adequate rest before and after delivery of the first child. The cash incentive provided would lead to improved health seeking behaviour amongst the PW&LM. The Scheme envisages providing cash incentive amounting to Rs.5,000 in DBT Mode during pregnancy and lactation. The remaining cash incentive of Rs.1000 is provided towards maternity benefit under Janani Suraksha Yojana (JSY) after institutional delivery so that on an average, an eligible women will get Rs.6,000.
- **National Nutrition Mission (NNM):** The Government of India has approved setting up of National Nutrition Mission (NNM) commencing from 2017-18 The NNM, as an apex body, will monitor, supervise, fix targets and guide the nutrition related interventions across the Ministries. The programme through the targets will strive to reduce the level of stunting, under-nutrition, anaemia and low birth weight babies. It will create synergy, ensure better monitoring, issue alerts for timely action to achieve the targeted goals.
- **Pradhan Mantri Ujjwala Yojana (PMUY):** PMUY was launched in May 2016, for providing LPG connections to 5 crore women belonging to the BPL families over a period of 3 years from 2016-17. The scheme aims to safeguard the health of women & children by providing them with a clean cooking fuel – LPG, so that they do not have to compromise with their health in smoky kitchens or wander in unsafe areas collecting firewood. Since inception, around 3.3 crore LPG connections have already been provided as on 18.01.2018.

Health and Economic Impact of Sanitation

According to UNICEF, the lack of sanitation is responsible for the deaths of over 100,000 children in India annually and for stunting of 48 per cent children. In order to assess the impact of sanitation programme on health status, a pilot study was undertaken by the Bill & Melinda Gates Foundation (BMGF) in selected ODF and non ODF districts.

The non-ODF districts have lower percentage of population with secondary education, reflect higher levels of diarrhea, stunting, wasting and BMI owing to behavioural inertia. However, in ODF areas, with higher percentage of population with secondary education, there has been a clear cut evidence of behavioral shift of the individuals due to larger presence and proactive work undertaken by village health and sanitation committees (VHSC).

The health of the nation is closely related to clean drinking water, sanitation and living environment. Taking cognizance of the role of cleanliness in healthy living, and to accelerate the efforts to achieve universal sanitation coverage and to put focus on sanitation, the Prime Minister of India launched the Swachh Bharat Mission on 2nd October, 2014.

Notes

Data:

- The number of persons defecating in open in rural areas, which were 55 crore in October, 2014 declined to 25 crore by January, 2018.
- 296 districts and 307,349 villages all over the India have been declared as Open Defecation Free (ODF). Eight States and two Union Territories i.e. Sikkim, Himachal Pradesh, Kerala, Haryana, Uttarakhand, Chhattisgarh, Arunachal Pradesh, Gujarat, Daman & Diu and Chandigarh have been declared as ODF completely.
- The lack of sanitation facilities costs India over 6 per cent of GDP.

Conclusion

Towards inclusive development, India has been implementing programmes for social sectors like education and health to include women and the marginalized sections of the people to bridge the gaps in educational attainments, health outcomes and employment opportunities. Though macroeconomic growth and efficient markets are essential, it is necessary to equally ensure that the benefits of growth are equitably accessible to all citizens to make growth broad based.

Prelims Facts

- **Sarva Shiksha Abhiyan:** It is an Indian Government programme aimed at the universalisation of elementary education 'in a time bound manner', as mandated by the 86th Amendment to the Constitution of India making free and compulsory education to children between the ages of 6 to 14 (estimated to be 205 million children in 2001) a fundamental right.
- **Rashtriya Madhyamik Shiksha Abhiyan:** It is a centrally sponsored scheme of the Ministry of Human Resource Development, Government of India, for the development of secondary education in public schools throughout India. The scheme includes a multidimensional research, technical consulting, various implementations and funding support.
- **Beti Padhao, Beti Bachao:** It is a social campaign of the Government of India that aims to generate awareness and improve the efficiency of welfare services intended for girls. The scheme was launched with an initial funding of Rs.100 crore (US$16 million). It has been the target of fraudsters in Uttar Pradesh, Haryana, Uttarakhand, Punjab, Bihar and Delhi.
- **Pre-Conception & Pre Natal Diagnostic Techniques (PC&PNDT) Act:** Pre-Natal Diagnostic Techniques (Regulation and Prevention of Misuse) Act, 1994 (PNDT) was passed in 1994 to stop female foeticides and arrest the declining sex ratio in the country. This act banned the use of sex selection techniques before or after conception. However, this was not followed up by effective implementation, mainly because it did not specify the techniques of sex selection and it did not bring all techniques within its ambit. Then, the need for smaller families – led to even more intensified misuse of such technologies, cutting across barriers of caste, class, religion and geography to ensure that at least one child, if not more, is a son.
- **Non-communicable diseases:** Non-communicable - or chronic - diseases are diseases of long duration and generally slow progression. The four main types of non-communicable diseases are cardiovascular diseases (like heart attacks and stroke), cancer, chronic respiratory diseases (such as chronic obstructed pulmonary disease and asthma) and diabetes. Non-communicable diseases, or NCDs, are by far the leading cause of death in the world, representing 63% of all annual deaths. Non-communicable diseases (NCDs) kill more than 36 million people each year. Some 80% of all NCD deaths occur in low- and middle-income countries.

Notes