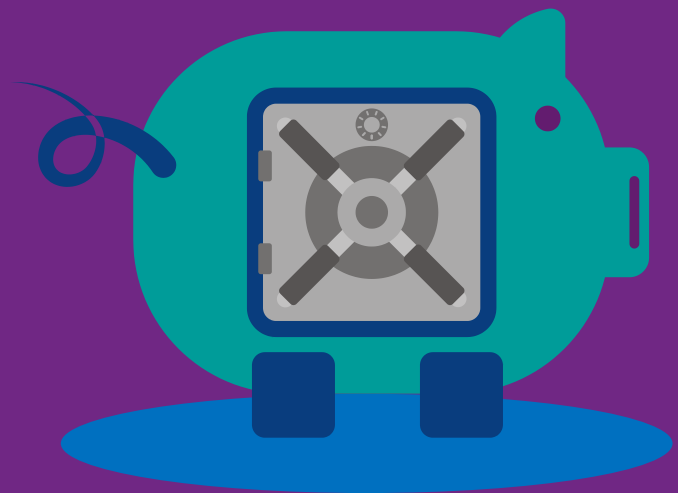




India Economic Survey 2019-20: Key highlights

Flash News

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The Hon'ble Finance Minister, Nirmala Sitharaman and the Chief Economic Advisor, KV Subramanian presented the Economic Survey 2019–20 before the Parliament on 31 January 2020. This annual document contains the developments in the Indian economy during the financial year 2019–20, summarises the performance of major developmental initiatives, and highlights the steps taken by the government and the prospects of the economy in the short to medium-term. The content herewith is based on the Economic Survey 2019-20 released by the Chief Economic Advisor and the data from other sources have been referenced in the document. Following are some key highlights of the survey:

The state of the Indian economy

Performance during 2018–19 and 2019–20¹

- The global economy is showing early signs of a turnaround owing to estimated economic performance improvements across South East Asia, the Middle East and Latin America and receding trade tensions between the U.S. and China. The global GDP growth which dipped to 2.9 per cent in 2019 from 3.6 per cent in 2018², is expected to improve to 3.3 per cent in 2020 and further grow by 3.4 per cent in 2021.³
- The Indian economy registered a slowdown in 2019-20 with GDP growth falling from 6.8 per cent in 2018-19 to 5 per cent in the first quarter of 2019-20 and to 4.5 per cent in the second quarter of 2019-20. A weak rural demand and the stress on the financial sector are being cited as key contributing factors for the sluggish growth.
- The reduction in the Current Account Deficit (CAD) as a percentage of GDP to 1.5 per cent in the first half of 2019-20 along with robust growth in Foreign Direct Investments (FDI), rebound in Foreign Portfolio Investments (FPI) and expanding Foreign Reserves indicates a positive trajectory of the economy on the external front.
- The government has taken a slew of measures to revamp the financial sector, address the Non-Banking Financial Companies (NBFCs) crisis, reduce the stress in the real estate sector and speed up the resolution process under Insolvency and Bankruptcy Code (IBC).
- The measures taken by the government are supported by an accommodative monetary policy. The Reserve Bank of India (RBI) cut the repo-rate by 110 basis points since April 2019 to ease the credit flow in the economy. These initiatives have had a positive impact on the economy as the real consumption growth recovered in second quarter of 2019-20. An uptick in investment under the National Infrastructure Pipeline is expected to improve India's GDP growth rate to 5 per cent in 2019-20 and to 6-6.5 per cent in 2020-21.

GDP indicators	2018–19^a	2019–20^b
GDP (constant market prices) (INR lakh crore)	140.8	147.8
Growth (in %)	6.8	5.0
GVA at constant basic prices (2011-12 prices)	129.1	135.4
Growth (in %)	6.6	4.9

¹ Economic Survey 2019-20: Volume 2, Ministry of Finance, Accessed on 31 January 2020

² The Global Economy: A Delicate Moment, IMF, 09 April 2019

³ World Economic Outlook, IMF, January 2020

GDP performance in 2019–20 from the demand side (comprising consumption, investment and net exports)

- The Private Final Consumption Expenditure (PFCE) grew by 3.1 per cent in first quarter of 2019-20 and improved to 5.1 per cent in the second quarter of 2019-20 but remained slower as compared to provisional estimates of 8.1 per cent in 2018-19. The Government Final Consumption Expenditure (GFCE) grew at 8.8 per cent in first quarter of 2019-20 and improved to 15.6 per cent in the second quarter of 2019-20, showing a significant growth as compared to 9.2 per cent of provisional estimates of 2018-19. The total consumption grew by 4.1 per cent in first quarter of 2019-20 and improved to 6.9 per cent in quarter of 2019-20 but remained slower as compared provisional estimates of 8.3 per cent of 2018-19.
- The Gross Fixed Capital Formation, an indicator of investments across the country, showed a decline of 1.2 per cent (advanced estimates) during 2019-20, against the growth of 10 per cent recorded in 2018-19.
- Exports of goods and services declined by 1.3 per cent during 2019-20 (advanced estimates). Imports, too, declined by 2.4 per cent, during the same period. As a result, net exports saw a growth of 1.1 per cent in 2019-20.

Inflation and monetary policy

- India's Wholesale Price Index (WPI) based inflation stood at 1.5 per cent, during April-December 2019-20, vis-à-vis 4.3 per cent in 2018-19. The moderation could be attributed to the weakening of demand pressure in the economy.
- Consumer Price Index (CPI) based inflation stood at 3.3 per cent in first half of 2019-20 but increased to 7.35 per cent in December 2019-20 due to food inflation. The unseasonal rainfall and floods in many parts of the country played a major role in the rising food inflation.

GDP outlook for 2020-21

- After three months of negative growth in Index of Industrial Production (IIP), there was an uptick on the manufacturing front and the IIP grew by 1.8 per cent in November 2019. If the IIP continues an upward trend, the economy is poised to grow at a pace of 6-6.5 per cent in the year 2020-21.
- Global trade is on path of recovery and if the current trend continues in the first half of 2020, it will be beneficial for the growth of Indian exports, backed by the expanding order book of Indian exporters.
- The escalation in the U.S.-Iran geo-political tensions may lead to an increase in the crude-oil prices and depreciation of the rupee. This can have an adverse impact on the CAD and increase the inflationary pressure on the economy. The weakening of the rupee may also impact the flow of FPI investment in the capital markets. Thus, it is important for the government to hedge the economy from this emerging geo-political scenario.
- The government's focus on infrastructure through the National Infrastructural Pipeline (NIP) of INR102 lakh crore remains key for achieving vision of an INR5 trillion economy by 2025.
- India continues to remain a favourable destination for foreign investment. With the NIP in place, India could attract more foreign investments in 2020-21, giving a thrust to the economy. Owing to the supportive policies devised by the government, India could attract further investments amidst global trade tensions.
- The move to cut the basic corporate tax to 15 per cent for new manufacturing companies has the potential to increase the rate of return on investment, thus, improving the

competitiveness of Indian companies. This is expected to bear fruit in 2020-21, attracting investments in the manufacturing sector.

- The key to unleash the growth potential of India in 2020-21 depends highly on easing of financial stress in the economy. The government will have to support the financial sector with progressive and incremental reforms that improve the credit flow in the market. It also needs to undertake further structural reforms to improve the consumer sentiment and other measures to boost rural income, which remains of high importance to revamp the growth in the economy.

Public finance

- The main intent of the union fiscal policy is based on the backdrop of fiscal consolidation. The fiscal policy 2019-20 was characterised by sluggish growth in tax revenue against the budget estimates. The government adapted the fiscal targeting framework amidst the global scenario of subdued growth and intense trade tensions. The government was able to achieve a fiscal deficit of 3.3 per cent of GDP in 2019-20 while setting a target of 3 per cent of fiscal deficit for 2020-21 and 2021-22 and debt to GDP ratio of 46.2 per cent for 2020-21 and 44.4 per cent for 2021-22.

Sources of Gross Tax Revenue (as a percent of GDP)

Tax head	2019-20 (Budget Estimates)	2018-19 (Provisional Actuals (PA))
Corporation tax	3.6	3.5
Income tax (Includes Securities Transaction Tax)	2.7	2.4
Customs duty	0.7	0.6
Union excise duty	1.4	1.2
GST	3.1	3.1
Tax to GDP	11.5	10.8

Central Government's fiscal parameters (Budget Estimates)

Particulars	Central government receipts (INR lakh crore)		Percentage change over previous years	
	2019-20 BE	2018-19 PA	2019-20 BE	2018-19 PA
Gross tax revenue	24.61	20.80	18.3	8.4
Net tax revenue	16.50	13.17	25.3	6.0
Non-tax revenue	3.13	2.36	32.9	22.3
Revenue receipts	19.63	15.53	26.4	8.2
Non-dept capital receipts	1.20	1.13	6.3	-2.5
Non-dept receipts	20.83	16.66	25.0	7.4

- Tax revenue from direct taxes has grown to the tune of 18.7 per cent in 2019-20 as compared to 2018-19 PA backed by improved corporate and personal income tax. On the indirect taxes front, the actual receipts fell short to budget expectations by 20.6 per cent in 2019-20 as compared to 2018-19 PA.
- The Budget expectations for non-tax revenues stood at INR3.13 lakh crore. This segment constitutes around 1.5 per cent of the GDP of 2019-20 PA. Two thirds of the increase in this revenue was derived from dividends and profits earned by surplus transferred by the Reserve Bank of India (RBI).
- Budget 2019-20 estimates total expenditure at INR27.86 lakh crore. It is envisaged that the share of capital expenditure in total expenditure will decline by a percentage point in 2019-20 over 2018-19 PA. However, capital spending in 2019-20 is estimated to grow by 10 per cent to reach INR3.39 lakh crore as against 2018-19 PA. Apart from defence services, major sectors that account for bulk of capital expenditure allocation in 2019-20 include internal security, investments in Financial Institutions, pass through assistance for metro projects, space technology and construction of Roads and Railways.

Monetary management and financial intermediation

- In the first half of 2019-20, India's monetary policy stance was changed from neutral to accommodative guided by low inflation and the need to strengthen domestic growth by encouraging private investment in the economy. The repo rate was cut by 110 basis points (bps) to 5.15 per cent in October 2019 from 6.25 per cent in April 2019. As of 04 January 2020, the key rates – repo, reverse repo and bank, stand at 5.15, 4.90 and 4.40 per cent, respectively.
- In December 2019, the Monetary Policy Committee maintained the 5.15 per cent policy repo rate citing the rising consumer price inflation as one of the reasons and signalling its intention to wait for an effective monetary policy transmission.
- Till YTD, April 2019 and May 2019 were the only two months in 2019-20 to witness deficit liquidity owing to imposition of model code of conduct during general elections which restrained government spending as well as a high demand for cash. To inject durable liquidity, the Reserve Bank of India (RBI) undertook four Open Market Operations (OMOs) purchase auctions and a USD5 billion buy/sell swap auction in the first quarter of 2019-20. As a result, systemic liquidity has been largely in surplus since June 2019.
- The Gross Non-Performing Advances (GNPA) ratio of Scheduled Commercial Banks (SCBs) remained constant at 9.3 per cent between March-September 2019. During the same period, GNPA ratio of Public Sector Banks (PSBs) remained unchanged at 12.3 per cent.
- Aided by improvement in the capital to risk-weighted asset ratio (CRAR) of PSBs, the CRAR of SCBs increased from 14.3 per cent to 15.1 per cent during March-September 2019.
- Return on Assets (RoA) and Return on Equity (RoE) of SCBs have recovered from (-) 0.1 per cent to 0.4 per cent and (-) 1.6 per cent to 4.1 per cent during H1 of 2019-20. However, since 2016, the profitability ratios of many PSBs have been in the negative, primarily due to provisioning requirements.

- Average non-food bank credit growth moderated in November 2019 to 7.2 per cent as compared to 12.3 per cent in March 2019 led by a steep deceleration in credit growth to the services sector.
- In similar lines, gross bank credit flow to the industrial sector saw a slow growth of 2.4 per cent in November 2019 as compared to 6.9 per cent growth in March 2019. The slowdown has been attributed to the negative growth of credit to Micro, Small and Medium Enterprises and Textiles.
- The liquidity challenges faced by Non-Banking Financial Companies (NBFCs) continues this year as well. The growth of loans from NBFCs came down from 27.6 per cent in September 2018 to 9.9 per cent in September 2019.
- The other performance indicators which deteriorated are GNPA's which increased to 6.3 per cent in September 2019 from 5.8 per cent in March 2018, RoA declined marginally to 1.5 per cent in March 2019 from 1.6 per cent in March 2018 and RoE also moderated to 6.6 per cent in March 2019 from 6.9 per cent in March 2018.
- The Indian Mutual Fund industry registered a net inflow of INR1.9 lakh crore during April-December 2019 as compared to INR0.8 lakh crore during April-December 2018. The cumulative net assets under management increased by 18.4 per cent to INR26.3 lakh crore at end of 31 December, 2019 from INR22.2 lakh crore at end of 31 December, 2018.
- Life insurance has declined from 2011 to 2.74 per cent in 2018, whereas for the non-life insurance has increased consistently to 0.97 per cent in 2018. The insurance density, which was USD11.5 in 2001, increased to USD74 in 2018 (Life Insurance – USD55 and Non-Life – USD19). The insurance density in India, which was USD11.5 in 2001, has increased to USD73 in 2017 (Life - USD55 and General - USD18).
- Up to September 2019, about 743 corporates had completed the process under the Insolvency and Bankruptcy Code (IBC) yielding either resolution or liquidation and 498 corporates have commenced voluntary liquidation process. As of December 2019, INR1.58 lakh crore was realizable in cases resolved under Corporate Insolvency Resolution Processes (CIRPs).
- Policy changes to banking regulations:
 - RBI permitted restructuring of MSME loans up to INR25 crore classified as standard' as of 01 January 2019 subject to certain conditions.
 - Banks have been permitted to lend to Infrastructure Investment Trusts (InvITs), subject to certain safeguards.
 - RBI released the new Prudential Framework for Resolution of Stressed Assets, giving lenders 30 days to review and label a borrower account as NPA in case of default.
 - RBI has mandated banks to link all new floating rate personal or retail loans and floating rate loans to micro and small enterprises (MSE) to an external benchmark from 01 October 2019.
- Nifty50 and S&P Bombay Stock Exchange (BSE) Sensex indices had touched a record high closing of 12,355 and 41,952 respectively during 2019-20 (Till 16 January 2020).

External sector

- The Balance of Payment (BoP) scenario during H1 2019-20 has improved due to the decline in the global crude oil prices causing a contraction in the Current Account Deficit (CAD) scenario and lower growth of imports.
- The service exports have remained stable growing between 7.4 to 7.7 per cent which provides stability to the BoP. But the decline in net services to GDP ratio would result in decline of financing merchandise trade deficit which is -6.3 per cent in first half of 2019-20.
- The external debt held by India remained 0.3 per cent higher at the end of first half of 2020 standing at 20.1 per cent as compared to March 2019 due to increase in commercial borrowings, non-resident deposits and short-term trade credit, though partially offset by valuation gains due to appreciation of the US dollar against Indian rupee and other major currencies.
- India saw the net FDI flows growing during the first six months of 2019-20 attracting USD21.3 billion more than 50 per cent as compared to previous year due to continuous liberalization of FDI guidelines.
- India logged exports worth USD162.7 billion in the first six months of 2019-20, a decline of 2.4 per cent over previous year and logged imports worth USD247.0 billion in the first six months of 2019-20, a decline of 5.9 per cent over previous year.
- India has 10 free trade agreements and 6 preferential trade agreements in force and have 22 on-going trade negotiations.

Balance of payments: summary (USD million)

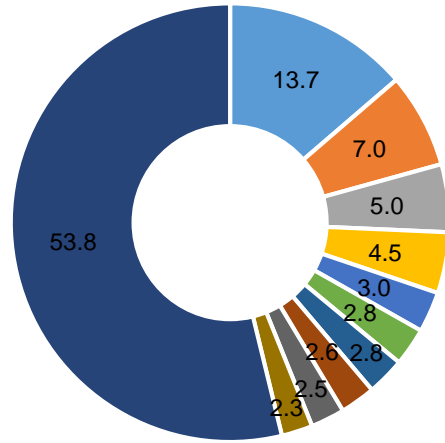
Particulars	2019-20 6M (Apr-Sep)	2018-19 6M (Apr-Sep)
Current account balance	-20,621	-34,857
Capital account balance	39,935	21,391
Overall balance	19,102	-13,206

Bilateral Trade Surplus/Deficit of top countries (in USD billion)

Particulars	2019-20 (Apr-Nov)	2018-19	2017-18
The U.S.	10.91	16.86	21.27
United Arab Emirates	0.25	0.34	6.41
China PRP	-35.32	-53.57	-63.05
Saudi Arabia	-14.32	-22.92	-16.66
Iraq	-13.98	-20.58	-16.15
Germany	-3.09	-6.26	-4.61
Korea RP	-7.80	-12.05	-11.90
Indonesia	-6.99	-10.57	-12.48
Switzerland	-11.97	-16.90	-17.84
Hong Kong	-3.88	-4.99	4.01
Singapore	-3.15	-4.71	2.74

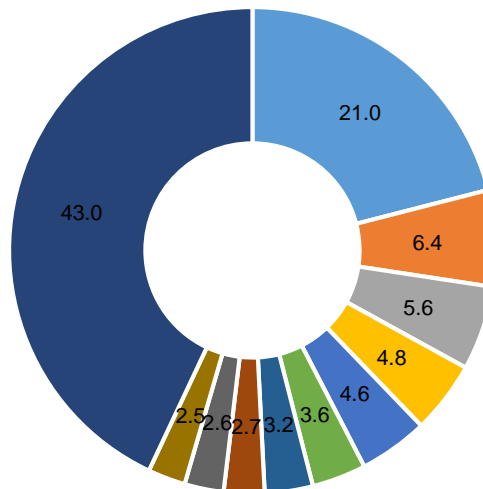
**Top 10 commodities account for 46 per cent of total exports
(2019-20 April-November) (in per cent)**

- Petroleum products
- Pearl, Precious, Semi-Precious Stones
- Drug Formulations, Biologicals
- Gold & other precious metal jewellery
- Iron & Steel
- Electric Machinery and equipment
- Organic Chemicals
- RMG cotton incl Accessories
- Motor Vehicles/ Cars
- Marine Products
- Others



**Top 10 commodities account for 57 per cent of total imports
(2019-20 April-November) (in per cent)**

- Petroleum: crude
- Gold
- Petroleum products
- Coal, Coke and Briquettes, etc.
- Pearl, Precious, Semi-Precious Stones
- Electronics Components
- Telecom Instruments
- Organic chemicals
- Industrial machinery for dairy, etc.
- Iron and Steel
- Others



Sector-wise performance of GDP

Agriculture and food management

- The GVA by agricultural and allied sectors saw a jump from INR27.75 lakh crore in 2018-19 PE to INR30.47 lakh crore in 2019-20 FAE.
- The Agriculture, Forestry and Fishing sector GVA has shown a marginal decline. It grew by 2.8 per cent in 2019-20 as compared to growth of 2.9 per cent in 2018-19.
- The share of agriculture and allied sectors in total GVA increased from 16.1 per cent in 2018-19 PE to 16.5 per cent in 2019-20 FAE.
- India continues to be the largest producer of milk in the world. Milk production in the country stood at 187.7 million tonnes and registered a growth rate of 6.47 per cent in 2018-19 on a y-o-y basis.
- Egg production in India increased from 95.2 billion units in 2017-18 to 103.3 billion units in 2018-19 registering a growth of 8.5 per cent on a y-o-y basis.
- Export of major agriculture and allied commodities has witnessed risen by 9.15 per cent to reach INR274.57 thousand crore in 2018-19 as compared to INR251.56 thousand crore in 2017-18.
- The tractor sales in 2018-19 saw a growth of 12.6 per cent on a y-o-y basis logging sale of 0.89 million tractors in 2018-19 as against 0.79 million tractors in 2017-18. The increased pace of agricultural mechanization will increase the productivity in the Indian agricultural sector.
- The government introduced the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) scheme for all farmer families. Under this scheme, the government has provided an income support of INR 6,000 per year for all farmer families, giving a boost to rural income.
- The National Animal Disease Control Programme (NADCP) was announced with a budget of INR13,343 crore for a five-year period from 2019-24 to control Foot and Mouth Diseases (FMD). It aims to control FMD by 2025 with vaccination and eventually eradicate it by 2030.
- To promote Agricultural Mechanization for In-Situ Management of Crop Residue in the States of Punjab, Haryana, Uttar Pradesh and NCT of Delhi, a subsidy of 50 per cent has been provided to individual farmers and 80 per cent subsidy on machines and equipment for custom hiring centres during 2018-19 and 2019-20.
- With the implementation of the National Food Security Act from July 2013, the food subsidy bill has increased from INR 1.13 lakh crore in 2014-15 to INR 1.71 lakh crore in 2018-19. While the interests of the vulnerable sections of the population need to be safeguarded for sustainability of food security operations, the issue of burgeoning food subsidy bill needs to be addressed.

Industrial, corporate and infrastructure performance

- Industrial sector, which constitutes mining, manufacturing, electricity and construction registered a growth of 2.5 per cent during 2019-20 (1st AE), as against a growth of 6.9 per cent during 2018-19. This was mainly due to the robust growth of 5.4 per cent and 3.2 per cent in electricity and construction sector respectively.
- The industrial growth rate (in terms of IIP) was 0.6 per cent in 2019-20 (April-November) as against 5.0 per cent during the same period previous year.

IIP-based growth rates of broad sectors/use-based classification (in per cent)

Sector/UBC	2018-19	2018-19 (April-November)	2019-20 (April-November)
Sectoral classification			
Mining	2.9	3.7	-0.1
Manufacturing	3.9	4.9	0.9
Electricity	5.2	6.6	0.8
General Index	3.8	5.0	0.6
Use Based Classification (UBC)			
Primary goods	3.5	4.8	0.1
Capital goods	2.7	7.2	-11.6
Intermediate goods	0.9	0.7	12.2
Infrastructure/construction goods	7.3	8.3	-2.7
Consumer durables	5.5	7.8	-6.5
Consumer non-durables	4.0	4.0	3.9

- The index of eight core industries measures the performance of Coal, Crude Oil, Natural Gas, Petroleum Refinery Products, Fertilizers, Steel, Cement and Electricity. The overall index of eight core industries remained flat for 2019-20 (April-November) as compared to 5.1 per cent in 2018-19 (April-November).

Growth in production of eight core industries (in Per cent)

Sector/UBC	2018-19	2018-19 (April-November)	2019-20 (April-November)
Coal	7.4	9.0	-5.3
Crude Oil	-4.1	-3.6	-5.9
Natural Gas	0.8	-0.7	-3.1
Refinery Products	3.1	5.3	-1.1
Fertilizers	0.3	-1.3	4.0
Steel	5.1	3.6	5.2
Cement	13.3	14.2	0.0
Electricity	5.2	6.6	0.7
Overall Index	4.4	5.1	0.0

- Sales growth (YoY) of more than 1,700 non-governmental non-financial (NGNF) listed manufacturing companies witnessed a decline of 7.7 per cent in Q2 2019-20 due to weaker demand for petroleum products, iron and steel, motor vehicles and other transport equipment companies.
- Growth in gross bank credit flow to the industrial sector rose to 2.7 per cent in September 2019 as compared to 2.3 per cent in September 2018. Credit flow increased across industries such as wood & wood products, all engineering, cement & cement products, construction and infrastructure in September 2019 as compared to September 2018, while it decreased across sectors such as mining & quarrying, textiles, petroleum, coal products & nuclear fuel, glass & glassware and basic metal & metal products in the same period. Credit flow to industries like food processing, chemicals & chemical products, vehicles, vehicles parts & transport equipment registered lower growth in September 2019 as compared to September 2018.
- Gross Capital Formation (GCF) in industry has witnessed a sharp rise from -0.7 per cent in 2016-17 to 7.6 per cent in 2017-18, indicating an upward momentum of investment. The Mining and Quarrying, Manufacturing, Electricity, Gas, Water Supply and Other Utility Services and Construction had registered a growth rate of 7.1 per cent, 8.0 per cent, 6.1 per cent and 8.4 per cent respectively in 2017-18.
- FDI equity inflows during 2019-20 (up to September 2019) stood at USD26.1 billion as compared to USD22.66 billion during 2018-19 (up to September 2019) due to liberal FDI policies promoting investment in the country.
- Fertilizer sector witnessed a growth of 4.0 per cent during 2019-20 (April-November) as compared to -1.3 per cent during same period previous year.
- During 2018-19, railways generated revenue earning freight loading of 12,215 lakh tonnes as compared to 11,596 lakh tones in 2017-18, growing by 5.34 per cent.
- Crude steel production saw a growth of 1.5 per cent during 2019-20 (April-October).
- Domestic airport operators in the country scaled their internal aircraft seat capacity to 0.12 annual seats per capita in 2018 from 0.07 annual seats per capita in 2013. Total domestic and international passengers handled grew from 2,268 lakh from 2018-19 (P) (April to November 2018) to 2,308 lakhs in 2019-20 (P) (April to November 2019).

- Domestic air cargo handled, declined marginally standing at 2,290 thousand tonnes in 2019-20 (April to November 2019) from 2,407 thousand tonnes during the same period previous year.
- As on September 2019, the total subscription stood at 11,943 lakhs out of which 5,147 lakh connections were in the rural areas and 6,796 lakhs in the urban areas. The wireless telephony constitutes 98.27 per cent of all subscriptions whereas share of landline telephones stands at only 1.73 per cent.
- The installed capacity has increased from 3,56,100 MW in March 2019 to 3,64,960 MW as on 31 October 2019. The peak deficit declined from around 9 per cent in 2012-13 to 0.7 per cent during 2019-20 (October 2019).

Services sector

- **Provisional estimates of growth for 2019–20:** According to the provisional estimates for 2019–20, services sector contributed 55 per cent to India’s total GVA. The growth rate continued to moderate, growing by 6.9 per cent in 2019-20 (1st AE) compared to 7.5 per cent in 2018-19. The deceleration was attributed to a slow growth in the sub-sectors i.e. financial services, real estate & professional services (6.4 per cent) and a downward trend in trade, hotels, transport, communication & broadcasting services (5.9 per cent). However, growth was sustained by an acceleration in public administration, other services to 9.1 per cent in 2019-20.

Share and growth of India’s services sector in India’s GVA

Particulars	Share in GVA in per cent	Growth (per cent YoY)		
	2019-20 (1 st AE)	2017-18 (RE)	2018-19 (PE)	2019-20 (1 st AE)
Total services (Excluding construction)	55.3	8.1	7.5	6.9
Trade, hotels, transport, communication and services related to broadcasting	18.3	7.8	6.9	5.9
Financial, real estate and professional services	21.3	6.2	7.4	6.4
Public administration, defence and other services	15.6	11.9	8.6	9.1

Notes: Per cent shares are at current prices, and growth numbers (in parenthesis) at constant 2011–12 prices; RE: Revised Estimates. PE: Provisional Estimates, 1st AE: 1st Advance Estimates

Services in states: The services sector accounted for more than half (>50 per cent) of the Gross State Value Added (GSVA) in 15 out of 33 states and Union Territories (UTs) including Chandigarh and Delhi where services sector contributed over 80 per cent. In recent years, even states that had a comparatively lower share of services in GSVA have seen strong growth in

the services sector in recent years. This include Andhra Pradesh, Uttarakhand, Gujarat, Arunachal Pradesh, Jharkhand, Odisha, Madhya Pradesh, and Goa. However, services sector in Tripura and Sikkim that accounts for less than 40 per cent of the GVSA witnessed low five-year growth rate at 3 per cent and 4.4 per cent respectively.

- **Growth of FDI in services:** During April-September 2019, FDI equity inflows into services sector soared up by 33 per cent y-o-y to USD17.58 billion, accounting for nearly two-thirds of India's overall FDI inflows. This growth was mainly driven by FDI inflows into sub-sectors such as information & broadcasting, telecommunications, consultancy services, air transport, and hotel & tourism.
- **Services trade**
 - **Exports:**
 - Services exports between April and September 2019 retained their momentum from 2018-19 and grew to USD104.6 billion at a growth rate of 6.4 per cent. The growth is a result of robust growth in travel, software, business and financial services exports which offset the decline in export of insurance and other services (including construction).
 - Software and business services account for 65.5 per cent of the total services exports of India.
 - Higher receipts for technical and trade related services, R&D services, and professional and management consultancy services have given impetus to the strong growth in business services exports.
 - After Ireland, India recorded the second highest growth in commercial services exports during January-June 2019.
 - However, India's services exports are susceptible to external factors such as Brexit uncertainty, stringent U.S. visa norms, rising cost pressures and exchange rate fluctuations. These factors pose a downward risk on India's services sector exports.
 - **Imports:** Similarly, India's services imports grew by 7.9 per cent to USD64.1 billion during April-September 2019. Though imports contracted in financial, insurance and travel services sectors, sectors such as transport, software, communication and business witnessed an upward trend.
- **Tourism:** The growth in tourism sector continued a downward trend with Foreign Tourist Arrivals (FTAs) decelerating to 5.2 per cent growth in 2018-19 and 2.7 per cent in January-October 2019. However, the Foreign Exchange Earnings (FEEs) from tourism witnessed a growth of 2 per cent in January-October 2019.
 - With the e-Visa scheme now available for 169 countries, the foreign tourist arrivals to India on e-visas stood at 21.75 lakh in January-October 2019, recording nearly 21 per cent y-o-y growth from the previous year.
- **Ports and shipping services:** Indian companies owned 1,414 ships as of August 2019, a 36 per cent jump from 1,040 ships in 2010. Similarly, the traffic handled at major ports also increased by 1 per cent y-o-y in April-December 2019.
- **Services Purchasing Managers' Index (PMI):** The services PMI has stabilized in the recent months above 50 (which indicates that service sector activity is expanding) after having softened during Q4 of 2018-19, June 2019 and October 2019.

Recent initiatives to boost industrial growth

1.1 Spending

- On 23 August 2019, to improve the liquidity squeeze situation and boost lending, government announced a capital infusion of INR70,000 crore into public sector banks. This initiative was focussed on generating an additional INR5 lakh crore liquidity and lending in the market⁴.
- Government rolled out a blueprint for an investment plan worth USD1.4 trillion in infrastructure development projects over a period of five years starting from 2020⁵.
- In the interim budget, government announced a cash transfer scheme - PM-KISAN, to provide an income support of INR6,000 per year to each farmer. This scheme was earlier dedicated to only those farmers who had a land holding of less than 2 hectares, but now has been extended to all farmers.
- Pension benefits are extended to an estimated 3 crore retail traders and small shopkeepers in the unorganised sector. Anyone in this sector with an annual turnover of less than INR1.5 crore is entitled to receive a monthly pension of INR3,000 after the age of 60⁶.

1.2 Taxation

- On 21 September 2019, corporate tax rate was slashed to bring it at par with other Asian countries. For domestic companies, the taxes were reduced to 22 per cent from 30 per cent. This would decrease the effective corporate tax rate (including surcharge and cess) to 25.17 per cent from previous 34.95 per cent⁷.
- The corporate tax was reduced to 15 per cent from 25 per cent for new domestic companies incorporated on or after 1st October 2019, and making fresh investments in manufacturing
- To promote electric vehicles, an additional income tax deduction of INR1.5 lakhs on the loan interest, was announced in budget 2019. GST rates on electric vehicles were also reduced to 5 per cent from 12 per cent⁸.

1.3 Ease of Doing Business⁹

- 100 per cent FDI under the automatic route has been allowed for coal mining activities for sale of coal, including associated processing infrastructure.
- 100 per cent FDI under the automatic route has been allowed for contract manufacturing to promote domestic manufacturing activities.

⁴ Govt to upfront infuse Rs 70,000-cr capital into public sector banks, Economic Times, 23 August 2019

⁵ Finance Minister Smt Nirmala Sitharaman releases Report of the Task Force on National Infrastructure Pipeline for 2019-2025, Press Information Bureau, 31 December 2019

⁶ Budget 2019 | Pension scheme for retail traders and shopkeepers, The Hindu, 05 July 2019

⁷ Sitharaman's tax cut move: Why it matters so much for India Inc, economy and Modi gov't, Economic Times, 21 September 2019

⁸ Budget 2019: Rs 1.5 lakh income tax deduction on loans taken to buy e-vehicles, India Today, 05 July 2019

⁹ Govt okays 100% FDI in contract mfg, eases rules for single brand retail, Business Standard, 28 August 2019

- Sourcing norms for the single-brand retail trading (SBRT) has been eased, and the previous requirement of 30 per cent local procurement norm has been changed.
- SBRT agencies are now permitted to commence online sales without prior opening of brick and mortar store. This is subject to a condition that SBRT entities must operate brick and mortar outlets within two years from commencement of online retail operations.
- Cabinet also permitted 26 per cent FDI under government route for uploading/streaming of News and current Affairs through digital media. The previous FDI policy provided 49 per cent FDI under approval route for up-linking of news and current affairs.

1.4 Banking and Financial Sector Reforms

- Consolidation of ten public sector banks into four major banks, led to structural change in Indian banking sector. The country now has 12 public sector banks compared to 27 banks in 2017¹⁰.
- On 04 September 2019, RBI mandated banks to link all new floating rate retail loans or personal loans and floating rate loans to MSMEs to an external benchmark.
- The government has proposed a separate financial institution for credit improvement for infrastructure and housing projects. This initiative would expedite debt flows to infrastructure projects.

1.5 Reforms to boost Exports

- On 14 September 2019, government announced several reforms to boost exports, including easy export credit availability and a new scheme to refund duties and taxes on exports. The previous Merchandise Exports from India Scheme is being replaced by Remission of Duties or Taxes on Export Product scheme, effective 01 January, 2020¹¹.
- Revised priority sector lending norms were also announced for exporters, under which the government would release an additional INR36,000 crores to INR68,000 crores for export credit.
- The government announced establishment of Free Trade Agreement Utilisation Mission¹² to create more awareness of preferential duty benefits among MSMEs. The agency will work with the Federation of Indian Export Organisations to leverage concessional tariffs in each free trade agreement.
- India plans to organise an annual mega shopping festival in March 2020. This initiative is aimed at promoting exports in the country and would focus on four major sectors, including handicrafts/yoga/tourism, gems and jewellery, leather, and textiles.
- Announced the launch of an online Origin Management System, which would ease the process of obtaining Certificates of Origin for exporters.
- The government also announced a new Export Credit Insurance Scheme – Nirvik, to ease capital access for exporters, by increasing the insurance cover from 60 per cent to 90 per cent of the principal and interest¹³.
- To reduce the costs associated with adoption of standards and certification, the government announced development of an economical testing and certification infrastructure. This development is projected to be done in Public-Private Partnership

¹⁰ Nirmala Sitharaman announces big reforms for Public Sector Banks: Key highlights, Economic Times, 30 August 2019

¹¹ Finance Minister announces new tax refund scheme, easy credit to boost exports, Economic Times, 14 September 2019

¹² FTA Utilisation Mission to be set-up for export promotion, Outlook India, 14 September 2019

¹³ MSMEs' overall export credit cost to be reduced with new loan scheme for exporters, Financial Express, 17 September 2019

(PPP) mode and would facilitate exporters an easy access to all internationally recognised certifications and tests¹⁴.

- Technology would be utilised to reduce the turn-around time or time to export, focussing on reduction of manual services and digitising export clearances. Implementation of an action plan by Dec-2019, in-line with international standards, to reduce turn-around time in airports and ports.
- Announcement of special exemption for assisting and on-boarding handicrafts craftspeople and associations on e-commerce portals, to boost exports.

1.6 Housing Sector

- On 14 September 2019, the government announced establishment of an INR10,000 crore special window for completion of ongoing housing projects that are non-NPAs and non-NCLT projects¹⁵.
- The centre has slashed interest rates on house building advance for government employees. The interest rates have been reduced to 7.9 per cent from previous 8.5 per cent¹⁶, and would now be linked to the 10-year G-sec yields
- The external commercial borrowing guidelines will be relaxed to provide easy financing for home buyers who are eligible under the Pradhan Mantri Awas Yojana mission.
- The government created a fund of INR25,000 crore for funding the stalled projects in the real estate sector.¹⁷

1.7 Auto Sector

- The proposed hike in registration fee has been deferred till June 2020.
- Mandated government organisations to replace old vehicles and lifted the ban on purchase of vehicles by government departments, thus making way for new vehicles in government agencies
- To drive sustainable mobility initiatives, the government set up National Mission on Transformative Mobility and Battery Storage.
- Launched Phased Manufacturing Programme (PMP) for 5 years up to 2024, to support localised production of EV components across the entire value chain. The scheme has also been introduced for setting up of export oriented integrated batteries and cell-manufacturing Giga plants in India.¹⁸

1.8 MSME

- On 19 September 2019, the government urged banks not to declare any stressed loan accounts of MSME as non-performing asset till March 2020.
- Credit Linked Capital Subsidy and Technology upgradation Scheme was introduced by integrating various ongoing schemes to increase the competitiveness of the MSME sector at a cost of INR2,900 crore.

1.9 Agriculture

- Created a fund of INR2,000 crore for Agri-Market infrastructure with NABARD for upgrading and developing agriculture marketing infrastructure in Gramin Agricultural Markets and Regulated Wholesale Markets.¹⁹

¹⁴ Measures to Boost Economic Growth, Ministry of Finance, 14 September 2019

¹⁵ Government announces Rs 10,000 crore special window for completion of non-NPA housing projects, Economic Times, 14 September 2019

¹⁶ Centre reduces interest rate on house building advance for government employees, Economic Times, 03 October 2019

¹⁷ Finance ministry unveils detailed presentation on steps taken to boost economy, Economic Times, 13 December 2019

¹⁸ National Mission on Transformative Mobility and Battery Storage approved by Cabinet, PIB, 7 March 2019

¹⁹ Monthly economic report april 2019, DEA, accessed on 30 January 2019

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