State of the Economy: An Overview

01
CHAPTER

The global macroeconomic landscape is currently chartering a rough and uncertain terrain characterized by weak growth of world output. The situation has been exacerbated by; (i) declining prices of a number of commodities, with reduction in crude oil prices being the most visible of them, (ii) turbulent financial markets (more so equity markets), and (iii) volatile exchange rates. These conditions reflect extreme risk-aversion behaviour of global investors, thus putting many, and in particular, commodities exporting economies under considerable stress. Even in these trying and uncertain circumstances, India's growth story has largely remained positive on the strength of domestic absorption, and the country has registered a robust and steady pace of economic growth in 2015-16 as it did in 2014-15. Additionally, its other macroeconomic parameters like inflation, fiscal deficit and current account balance have exhibited distinct signs of improvement. Wholesale price inflation has been in negative territory for more than a year and the all-important consumer prices inflation has declined to nearly half of what it was a few years ago. However, weak growth in advanced and emerging economies has taken its toll on India's exports. As imports have also declined, principally on account of reduced prices of crude oil for which the country is heavily dependent on imports, trade and current account deficits continue to be moderate. Growth in agriculture has slackened due to two successive years of less-than-normal monsoon rains. Saving and investment rates are showing hardly any signs of revival. The rupee has depreciated vis-à-vis the US dollar, like most other currencies in the world, although less so in magnitude. At the same time, it has appreciated against a number of other major currencies. Given the fact that the government is committed to carrying the reform process forward, aided by the prevailing macroeconomic stability, it appears that conditions do exist for raising the economy's growth momentum and achieving growth rates of 8 per cent or higher in the next couple of years. At the same time, growth in 2016-17 may not pick up dramatically from the levels achieved in 2015-16 as the possibility of slow global economic growth and financial sector uncertainties still loom large. Given the prevalent overall macroeconomic scenario, and assuming a normal level of rains in 2016-17, it would not be unreasonable to conclude that the Indian economy is all set to register growth in excess of 7 per cent for the third year in succession.

1.2 Despite global headwinds and a truant monsoon, India registered robust growth of 7.2 per cent in 2014-15 and 7.6 per cent in 2015-16, thus becoming the fastest growing major economy in the world. As per the estimates of the International Monetary

Table 0.1 : Key Indicators

Data categories	Unit	2012-13	2013-14	2014-15	2015-16
GDP and Related Indicators					
GDP (2011-12 prices)	₹ Crore	9226879[2R]	9839434[2R]	10552151[1R]	11350962[AE]
Growth Rate	%	5.6	6.6	7.2	7.6
GVA at basic prices (2011-12 prices)	₹ Crore	8546552[2R]	9084369[2R]	9727490[1R]	10437579[AE]
Growth Rate	%	5.4	6.3	7.1	7.3
Savings Rate	% of GDP	33.8	33.0	33.0	na
Capital Formation Rate	% of GDP	38.6	34.7	34.2	na
Per Capita Net National Income (At current market prices)	₹	71050	79412	86879	93231
Production					
Food grains	Million tonnes	257.1	265.0	252.0	253.2[a]
Index of Industrial Production[b]					
(Growth)	%	1.1	-0.1	2.8	3.1[d]
Electricity Generation					
(Growth)	%	4.0	6.0	8.4	4.4[d]
Prices					
Inflation (WPI) (average)	%	7.4	6.0	2.0	-2.8 [e]
Inflation CPI (Combined) (average)	%	10.2	9.5	5.9	4.9 [e]
External Sector					
Export Growth (US$)	%	-1.8	4.7	-1.3	-17.6[e]
Import Growth (US$)	%	0.3	-8.3	-0.5	-15.5[e]
Current Account Balance (CAB)/GDP	%	-4.8	-1.7	-1.3	-1.4[f]
Foreign Exchange Reserves	US$ billion	292.0	304.2	341.6	349.6[c]
Average Exchange Rate	₹ /US$	54.40	60.51	61.14	65.03[e]
Money and Credit					
Broad Money (M3) (annual)	% change	13.6	13.4	10.8	11.0[g]
Scheduled Commercial Bank Credit	% change	14.1	13.9	9.0	11.3[g]
Fiscal Indicators (Centre)					
Gross Fiscal Deficit	% of GDP	4.9	4.5	4.0[i]	3.9[h]
Revenue Deficit	% of GDP	3.7	3.2	2.9[i]	2.8[h]
Primary Deficit	% of GDP	1.8	1.1	0.8[i]	0.7[h]

Notes:

na : Not available, 1R: First Revised Estimates
2R : Second Revised Estimates AE: Advance Estimates
a : 2nd Advance Estimates
b : Base (2004-05=100)
c : As at end-January 2016
d : April-December 201516
e : April-January 2015-16
f : April-September, 2015-16
g : y-o-y growth rate as on January 08, 2016
h : Budget Estimates
i : Provisional Actuals

Fund (IMF), global growth averaged 3.1 per cent in 2015, declining from 3.4 per cent registered in 2014. While growth in advanced economies has improved modestly since 2013, the emerging economies have witnessed a consistently declining trend in growth rate since 2010. It is against this background that the recent Indian growth story appears particularly bright.

INDIA'S INCREASING IMPORTANCE TO GLOBAL GROWTH

1.3 India has made striking progress in its contribution to the global growth of Gross Domestic Product (GDP) in Purchasing Power Parity (PPP) terms. PPP represents the number of units of a country's currency required to purchase the same amount of goods and services in the domestic market as the US dollar would purchase in the United States, thus adjusting for purchasing power differentials between currencies in relevant markets. India's contribution to global growth in PPP terms increased from an average of 8.3 per cent during the period 2001 to 2007 to 14.4 per cent in 2014. During the 1990s, the US's contribution to the global GDP growth in PPP terms was, on an average, around 16 percentage points higher than India's. The picture changed dramatically in 2013 and 2014 when India's contribution was higher than that of the US by 2.2 and 2.7 percentage points respectively. During 1991-2014, low growth in Japan (0.9 per cent annually) resulted in its low contribution (1.5 per cent) to global growth. India and China constitute 42.5 per cent and 53.2 per cent respectively of the total PPP measure of the lower-middle income countries and upper-middle income countries; and hence those country groups largely reflect India's and China's patterns (Figure1.1B).

1.4 The global economy—in particular the global growth powerhouse, China—is rebalancing, leading to an increasing role for India. After the onset of the multiple crises in different parts of the world, India's contribution has become much more valuable to the global economy (Figure 1.1A).

1.5 India's share in world GDP has increased from an average of 4.8 per cent during 2001-07 to 6.1 per cent during 2008-13 and further to an average of 7.0 per cent during 2014 to 2015 in current PPP terms (IMF). India's resilience and current levels of reasonably strong growth should, thus, be appreciated in the light of its increasing contribution to global growth.

Figure 1.1A: Contribution of Select Countries to Real Global Growth (PPP terms) (per cent)

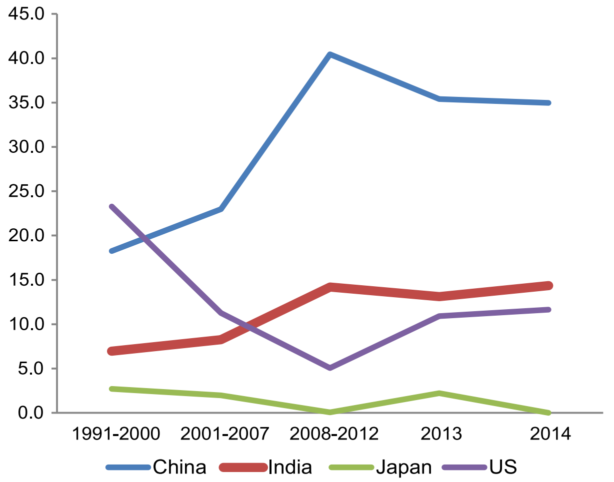
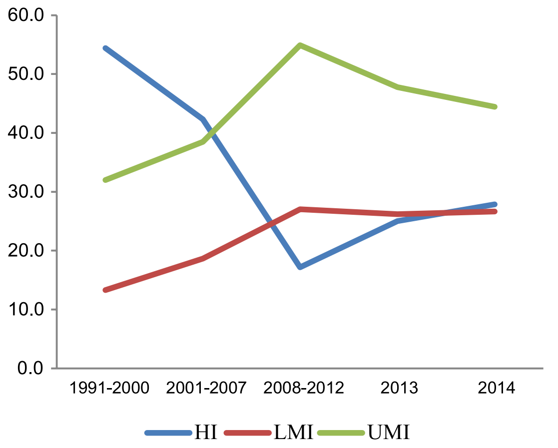


Figure 1.1B: Contribution of Country Groups to Real Global Growth (PPP terms) (per cent)



HI=high income countries; LMI=lower middle income countries; UMI=upper middle income countries

Source: **World Bank.**

Box 1.1: Global growth drivers and the Indian contrast

Overall, final consumption was the major component of global growth, accounting for nearly 72 per cent of the growth between 1991 and 2013. About one-fourth was accounted for by investment. The average shares of consumption (private and public) and investment in global output during the period were 76.1 per cent and 23.2 per cent respectively (Figure 1A & 1B). There were, however, substantial variations across periods, countries and continents.

Figure 1A: Share of final consumption expenditure in GDP (per cent)

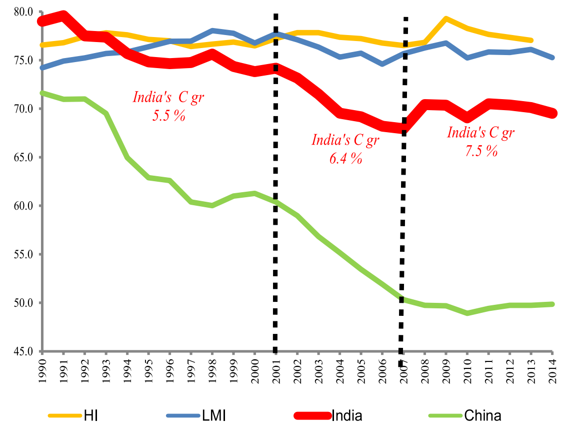
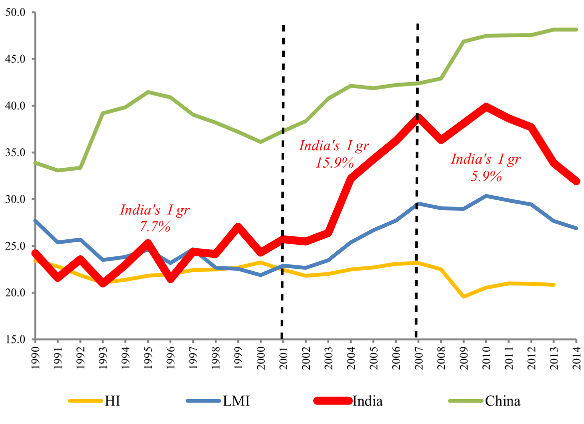
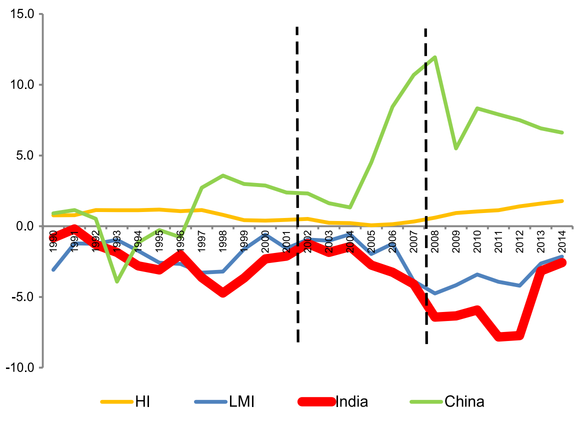


Figure 1B: Share of investment in GDP (per cent)



The period 2001-07 was marked by an increase in the growth of investment globally, with a gradual increase in the share of investment in global output and a pick-up in the rate of growth of the global economy. Given the sheer size of the high-income economies, the global picture closely tracked their patterns. The pick-up in investment growth was the sharpest among the lower middle income countries; and even among them, India stood as a positive outlier. Such movements in investment growth got reflected in the investment share in GDP. The growth surge in India during 2000–07 could be largely attributed to a significant increase in investment from about US$146 billion (at constant 2005 US$) in 2000 to US$388 billion in 2007.

Figure 1C: Share of net exports in GDP (per cent)



C gr=Average consumption growth I gr: Average investment growth

Source : **World Bank**

The high-income countries generally enjoyed an export surplus, which was compensated by the deficits of the lower income countries. China has also enjoyed an export surplus since the mid-1990s; notably though, China's export surplus has been generally declining since 2007. China, being an upper-middle income (UMI) country with a share of 45 to 50 per cent in the total output of UMI countries, largely influenced the patterns and trends shown by UMI countries as a group (not shown in the figures above). The first half of the 2000s witnessed a general improvement in the net export position of lower-middle income countries and their deficits came down, before worsening steeply. India exhibited these movements in an amplified manner. Corresponding opposite movements can be traced in the net export position of high-income countries.

The high-income countries have a relatively higher share of consumption, which has been sticky downwards, and lower share of investment in GDP, as compared to the middle-income countries (Figures 1A &1B). None of the countries/country groups have exhibited a consistently declining propensity to consume with China largely remaining an exception. China's consumption share, always below its upper-middle income peers, trended steeply downwards till 2010 to reach an exceptionally low level of around 49 per cent of GDP. India, as opposed

Contd....

to its lower-middle income peers, started with as high a consumption share in GDP as the high-income countries, and then went through a period of decline in consumption share by about 10 percentage points of GDP from 1993 to 2007, while the other lower-middle income countries generally stayed put. The space vacated by consumption, as noted above, was occupied by investment, engendering a period of investment-led growth for India in the last decade till 2007.

However, the story changed remarkably after 2007-08, the year that marked the global financial crisis. The share of consumption remained more or less the same for the high-income economies, but for a one-off spike in 2009 (which was not because of any growth in consumption, but on account of a significant decline in investment in the year). However, their investment share came down in a couple of years from 2007 and has remained at the reduced level, with a counterbalancing increase in the share of export surpluses. China's investment rate has plateaued at 48 per cent in recent years. India's has been an exceptional case where economic growth in the post crisis period was propelled by strengthening of consumption growth, thus defying the secular trends of declining share of consumption. The investment share in India declined much more than the average decline in the lower-middle income countries. Perhaps with the strengthening of the gradual improvement in corporate investment growth, evidenced by the national accounts for 2014-15, India can get back on an investment-led path.

Aggregate Demand

1.6 The recent growth revival in India is predominantly consumption-driven (Box 1.1). To make this clear, the following sections examine the expenditure components of GDP (aggregate demand) in detail.

1.7 From the expenditure side, GDP at current market prices can be seen as the sum of (a) consumption—both private and public, (b) investment, also known as Gross Capital Formation (GCF) which comprises fixed capital formation, change in stock and valuables, and, (c) net exports which represent the difference between exports and imports of goods and non-factor services. Gross fixed capital formation or fixed investment mainly refers to the value of new machinery and equipment plus the value of new construction activity undertaken during the year. Net acquisition of valuables covers precious articles, gems and stones, silver, gold, platinum, and gold and silver ornaments.

1.8 Three visible changes are taking place in aggregate demand. First, with improving growth in private consumption, its contribution to GDP growth is getting aligned to its GDP share. Private consumption has strengthened in the current year (Table 1.1). There was a significant increase in the growth of government consumption expenditure in 2014-15, which got corrected in the current year. Second, aided by the growth in capital

Table 1.1: Contribution of Components to Real GDP Growth

Final expenditures	Share in GDP		Growth (in per cent)			Contribution to GDP growth (in per cent)		
	2011-12	2015-16	2013-14	2014-15	2015-16 (AE)	2013-14	2014-15	2015-16 (AE)
Private final consumption	56.2	59.8	6.8	6.2	7.6	57.1	48.3	55.9
Government final consumption	11.1	10.7	0.4	12.8	3.3	0.7	17.6	4.5
Fixed capital formation	34.3	29.4	3.4	4.9	5.3	17.5	22.1	22.4
Change in stock	2.4	1.7	-18.6	20.3	5.5	-6.0	4.6	1.4
Valuables	2.9	1.5	-42.2	15.4	13.3	-17.9	3.2	2.9
Net exports	-6.5	-2.6	70.0	11.7	6.1	67.4	2.9	1.2
GDP at constant market prices	100.0	100.0	6.6	7.2	7.6	100.0	100.0	100.0

Source: **Central Statistics Office (CSO).**

Note: **AE--Advance Estimates. Shares/contributions may not add up to 100 due to errors and omissions.**

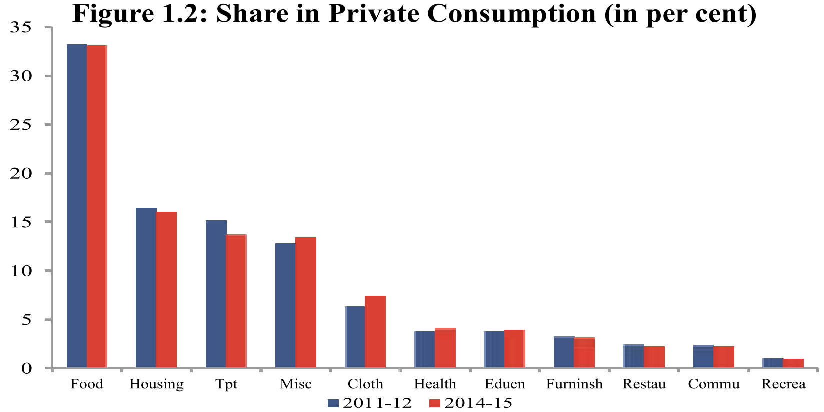
goods, the growth of fixed capital formation (also known as fixed investment and which reflects addition to the productive capacity in the economy) has picked up. A robust growth in valuables has been recorded during the current year. Third, the substantial erosion of global demand for Indian output, manifest in loss of Indian Exports, acts as a drag on domestic growth. It is from this angle that the India's achievement of being able to sustain its growth at a fairly high level, primarily on the strength of her domestic absorption, becomes noteworthy.

1.9 As per the four-year data from the new series, the share of private final consumption expenditure in GDP at current market prices increased from 56.2 per cent in 2011-12 to 59.8 per cent in 2015-16. This also supports the argument of the consumption-led growth revival. A decline of household investment in construction activities, and a more pronounced reduction in household acquisition of machinery and equipment, indicates a realignment of household expenditures in favour of consumption. Partly this could be on account of higher inflation in items in the consumption basket than in the investment, as reflected in a higher deflator for private final consumption expenditure than for gross fixed capital formation of the household sector.

1.10 In assessing the changes in consumption patterns, a four-year time period may be too short a span and the changes during the period may reflect more relative price changes than conclusive shifts in preferences and patterns (Figure 1.2). As opposed to the secular decline in the share of food and non-alcoholic beverages in India's total consumption basket evidenced in pre-revised series, the share of these items in private consumption (in current prices) remained largely sticky during the period 2011-12 to 2014-15, perhaps on account of the higher relative prices of the food group during the period. This is clear from the fact that the pattern changes when the ratios are calculated at constant prices.

1.11 Among India's external transactions, exports create demand for Indian output and hence contribute positively to GDP growth, while imports account for India's demand from the rest of the world. Since 1950-51, India has had only seven years of marginal net export (exports minus imports of goods and non-factor services) surpluses; and never since 1993-94. Thus, India has generally been a net importer. However, the growth contribution of net exports was positive in many years—substantially positive in some—when its negativity declined from the immediately preceding year. For example; in 2013-14, when GCF declined at constant prices, vis-

Figure 1.2: Share in Private Consumption (in per cent)

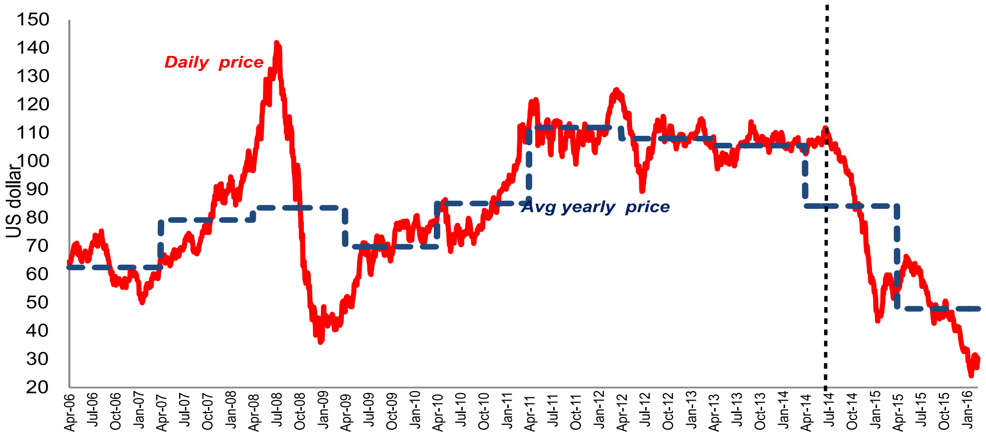


Source: **CSO**

Note:

Food : Food, beverages & tobacco **Housing: Housing, water & energy** **Tpt: Transport**
Misc: Misc. goods & services **Cloth: Clothing and footwear** **Health: Health**
Educn: Education **Furninsh: Furnishing, equipment & maintenance**
Restau: Restaurants & hotels **Commu: Communication** **Recrea: Recreation &culture**

Figure 1.3: Price of Crude Oil (Indian Basket US $ per barrel)



Note: **Based on data of Ministry of Petroleum and Natural Gas (PPAC).**

a-vis 2012-13, net exports contributed two-thirds of the GDP growth. In the current year, the rupee values of exports and imports (of goods and non-factor services) are both projected to decline; the former on account of the sluggish global demand and the latter due to steep decline in international crude oil prices (which was at multi-year lows, as seen from Figure 1.3) and other commodity prices. Such a dual decline would be the first since 1965-66; nonetheless, the net exports are estimated to make a positive contribution to growth—though marginal—because of the expected decline in the wedge between exports and imports.

Growth in Gross Value Added

1.12 The Gross Value Added (GVA), which broadly reflects the supply or production side of the economy, registered an increase in the growth rate from 5.4 per cent in 2012-13 to 7.1 per cent in 2014-15. In the current year, the growth in GVA is likely to increase to 7.3 per cent, as per the Advance Estimates (AE) released by the Central Statistics Office (CSO), affirming the positive trends in the economy indicated by GDP growth.

1.13 Growth in the agriculture sector in 2015-16 has continued to be lower than the average of last decade, mainly on account of it being the second successive year of lower-than-normal monsoon rains. Growth in the services sector moderated slightly, but still remains robust; while the acceleration in manufacturing growth compensated for it (Table 1.2).

Table 1.2: Growth in GDP and Major Sectors (in per cent)

Sector	2013-14 (2R)	2014-15 (1R)	2015-16 (AE)
Agriculture, forestry and fishing	4.2	-0.2	1.1
Industry	5.0	5.9	7.3
Mining and quarrying	3.0	10.8	6.9
Manufacturing	5.6	5.5	9.5
Electricity, gas, water supply, etc.	4.7	8.0	5.9
Construction	4.6	4.4	3.7
Services	7.8	10.3	9.2
Trade, hotels, transport and communication	7.8	9.8	9.5
Financing, real estate, professional services, etc.	10.1	10.6	10.3
Public administration, defence and other services	4.5	10.7	6.9
GVA at constant basic prices	6.3	7.1	7.3
GDP at constant market prices	6.6	7.2	7.6

Source: **Based on data from CSO.**

1.14 The farm sector has experienced two years of low growth on account of two consecutive years of deficient south-west monsoon (June-September) rainfall, the only fourth such occurrence during the last 115 years (source; National Council of Applied Economic Research). The post monsoon (October-December) rains also turned out to be below normal. Among the agriculture and allied sectors, crops including fruits and vegetables account for about 61.0 per cent of the GVA; the rest by the allied sectors consisting of livestock products, forestry and fisheries. As per the information of the Department of Agriculture, Cooperation and Farmers Welfare for 2015-16, the production of foodgrains and oil- seeds is estimated to decline by 0.5 per cent and 4.1 per cent respectively; while the production of fruits and vegetables is likely to increase marginally. As per the AE, a brighter picture is expected to emerge from the allied sectors, with a growth exceeding 5.0 per cent in 2015-16, which would have provided some impetus to rural incomes during the year.

1.15 Growth in industry is estimated to have accelerated during the current year on the strength of improving manufacturing activity (Table 1.2). The private corporate sector, with an around 69 per cent share of the manufacturing sector, is estimated, from available data of listed companies, to grow by 9.9 per cent at current prices in April-December 2015-16. The Index of Industrial Production (IIP) showed that manufacturing production grew by 3.1 per cent during April-December 2015-16, vis-à-vis a growth of 1.8 per cent in the corresponding period of the previous year. The ongoing manufacturing recovery in the current year is aided by robust growth in petroleum refining, automobiles, wearing apparels, chemicals, electrical machinery and wood products and furniture. Apart from manufacturing, the other three segments of the industry sector, i.e. electricity, gas, water supply and related utilities, mining and quarrying and construction activities, are witnessing a deceleration in growth.

1.16 The importance of sustaining the revival can be seen from the fact that manufacturing activity contributed only 17.4 per cent (at 2011-12 prices) to the total value addition in the economy (Table 1.3); but accounted for more than a third of the production of output. The difference between the output and GVA contributions has not been so stark in any other sector. This indicates that manufacturing provides the demand base for the products of many other growing sectors of the economy, thereby creating substantial backward linkages.

Table 1.3: Relationship between Output and Value Added, 2011-12 to 2014-15

Sector	Average Ratio of	
	Sectoral output to total output	Sectoral GVA to total GVA
Agriculture and allied	10.5	17.5
Industry, *of which*	53.9	31.8
Manufacturing	36.7	17.4
Services	35.6	50.7
Total	**100.0**	**100.0**

Source: **Based on data from CSO.**

1.17 More than half of the Indian economy is the services sector. Being the main driver of the economy, the sector contributed about 69 per cent of the total growth during 2011-12 to 2015-16; in the process expanding its share in the economy by 4 percentage points from 49 to 53 per cent.

1.18 One of the major services, domestic trade, is a highly disaggregated sector with a substantial informal sector presence in numerical terms. As per the NSSO (National Sample Survey Office) Survey on Unincorporated Non-agricultural Enterprises (excluding construction) in India, out of the estimated universe of 5.8 crore such enterprises in 2010-11, 2.1 crore were involved in trading activities. It is noteworthy that the trade and repair services contributed almost as much to GVA as the crop sector in 2014-15.

1.19 The hospitality sector seems to be strengthening with the private corporate sector in the hotels and restaurant segment growing by 26.5 per cent at current prices during April-December 2015, as per the available data on listed companies. The different segments of transport services are giving mixed signals. The key indicators of railways, i.e. net tonne kilometers and passenger kilometers, contracted modestly during the first three quarters of the current year. In contrast, passengers handled by civil aviation, cargo handled by civil aviation and cargo handled at major ports registered growth rates of 16.5 per cent, 5.9 per cent and 3.2 per cent respectively during the same period. The sales of commercial vehicles grew by 8.5 per cent during the period, indicating pick-up in road freight transport.

1.20 Like in 2014-15, financial, insurance, real estate and professional services together are estimated to achieve double-digit growth this year. Real estate and professional services account for as much as 71.0 per cent of the GVA of these services. The corporate entities in the real estate sector and computer-related activities recorded growth at current prices of 1.0 per cent and 11.7 per cent during April-December 2015. Financial sector indicators, i.e. aggregate bank deposits and bank credits, grew by 10.4 per cent and 9.8 per cent respectively as on November 2015.

1.21 As per the advance estimates for 2015-16, the growth rate of public administration, defence and other services has decelerated, but remains reasonably high (Table 1.2). Public sector has a monopolistic presence in public administration and defence, while it accounts for about 44 per cent of the GVA of 'other services' that mainly include health, education, social work, arts and entertainment and personal services. One of the key indicators for these sectors is the union government revenue expenditure, which grew by 2.8 per cent during April-December 2015 as compared to 9.0 per cent in April-December 2014.

Quarter-wise growth

1.22 Tracking quarter-wise dynamics helps in identifying short-term growth patterns and assessing the near-term outlook. In the third quarter (Q3) of 2014-15, a GVA growth of only 1.7 per cent was realized in the manufacturing sector, adversely affecting industrial growth (Table 1.4). As per the IIP, the production of consumer durables plummeted by more than 20 per cent during the quarter. This was a one-off moderation in overall manufacturing, which got corrected in the fourth quarter (Q4) and its GVA growth bounced back to 6.6 per cent. However, the aforementioned moderation created a positive base effect for Q3 of the current year, taking advantage of which factory sector growth strengthened. This gets reflected in the spike in industrial growth in Q3 of the current year. But for this, the industry and services sectors

Table 1.4: Quarter-wise Growth in GVA at (2011-12) Basic Prices (year-on-year)

	2014-15				2015-16			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Agriculture and allied	2.3	2.8	-2.4	-1.7	1.6	2.0	-1.0	2.6
Industry	8.0	5.9	3.8	5.7	6.8	6.4	9.0	7.3
Services	8.6	10.7	12.9	9.3	9.0	9.4	9.4	9.0
GVA at basic prices	7.4	8.1	6.7	6.2	7.2	7.5	7.1	7.4
Net indirect taxes	8.5	10.8	5.3	11.4	13.4	10.2	9.7	10.4
GDP	7.5	8.3	6.6	6.7	7.6	7.7	7.3	7.7

Source: **Based on data from CSO.**

and total GVA followed a smooth trajectory of growth in the current year.

1.23 The difference between GDP and GVA is product taxes net of product subsidies and indicates net indirect taxes (NIT). As Table 1.4 shows, NIT growth is consistently higher than GVA growth (both at constant prices) thereby placing GDP growth higher than GVA growth in the recent quarters. During the first three quarters of the current year, the indirect taxes of the central government grew by 34.8 per cent, partly reflecting improving dynamics of economic activity and partly efforts for mobilizing additional resources to finance public investment. As per the National Accounts, the NIT of the general government is estimated to increase by 29.4 per cent in the current year. National Accounts align the growth in net indirect taxes to the underlying volume growth, treating the balance realization as price effect. By this procedure, the impressive current price growth of 29.4 per cent gets decomposed into a constant price growth of 10.8 per cent and an increase of implicit NIT deflator of 16.9 per cent for the full year. The quarter-wise NIT growth figures (Table 1.4) suggest that collections have been robust throughout the year, which aligns with the improving supply-side story.

1.24 With the revision of the data on annual National Accounts from the Provisional Estimates (PE) of May 2015 to the Revised Estimates (RE) of January 2016, the growth narrative of the Indian economy in the recent past has changed to an extent in certain respects. Such modifications used to occur in the earlier revisions too. This owes to the fact that on certain components of GVA, more comprehensive information becomes available with a lag, like manufacturing growth based on the Annual Survey of Industries and MCA database being different from the results indicated by the IIP. Major changes include the following.

1.25 The levels of GDP have been revised right from the base year, 2011-12. Growth rate of GDP at market prices for the years 2012-13, 2013-14 and 2014-15 is currently estimated to be 5.6 per cent, 6.6 per cent and 7.2 per cent respectively. Earlier, these were estimated to be 5.1 per cent, 6.9 per cent and 7.3 per cent respectively. Similarly, growth rate of GVA at basic prices for the years 2012-13, 2013-14 and 2014-15 is now estimated to be 5.4 per cent, 6.3 per cent and 7.1 per cent respectively as against earlier levels of 4.9 per cent, 6.6 per cent and 7.2 per cent respectively. The growth of sectors, namely agriculture, industry and services, has been also revised.

1.26 A more balanced picture of the ongoing growth recovery emerges from the revision in accounts on the demand side, with the growth rate in fixed investment having been revised upwards. The pre-revised data had indicated a much more consumption-led growth process (Table1.5). The contribution of consumption to overall GDP growth during the period 2012-13 to 2014-15 has been revised downwards from 63.1 per cent to 59.9 per cent, while the corresponding contribution of fixed investment has been revised upwards from 12.2 per cent to 22.6 per cent.

Table 1.5: Revision in Real GDP Growth

Item	Annual average growth rate (2012-13 to 2014-15)	
	PE	RE
Consumption	5.9	5.8
GFCE	5.5	4.6
PFCE	6.0	6.1
Fixed investment	2.4	4.4
GDP	6.4	6.5

Source: **CSO.**

Notes: **PE: Provisional Estimates released in May 2015; RE: Revised Estimates released in January 2016; GFCE: Government Final Consumption Expenditure; PFCE: Private Final Consumption Expenditure.**

Share of Public Sector in GVA

1.27 The public sector constitutes about a fifth of the Indian economy in terms of GVA at basic prices, the private corporate sector a little above one-third and the household sector the rest. One conspicuous change over the four-year period from 2011-12 to 2014-15 was the decline in the shares of the public and household sectors in total GVA, which was fully taken over by the private corporate sector as can be seen from Table 1.6.

Table 1.6: Contribution to GVA at Current Basic Prices (per cent)

	2011-12	2014-15
Public sector	20.6	19.4
Private corporate sector	33.9	35.9
Household sector	45.5	44.8

Source: **CSO.**

Factor incomes

1.28 The GVA at basic prices is the sum of Compensation of Employees including social contributions made by the employer (CE), Operating Surplus (OS)/ Mixed Income of the Self-employed (MI), Consumption of Fixed Capital (CFC) and taxes net of subsidies on production. OS is the difference between Net Value Added (NVA) and CE. However, the significant presence of unincorporated enterprises and household industries, with imperfect accounts, makes it impossible to separate the income of labour from that of entrepreneurship. This necessitates the introduction of MI to complete the accounts.

1.29 Table 1.7 indicates that the share of compensation of employees in the economy increased by almost a percentage point from 2011-12 to 2014-15, with an almost corresponding decline in the share of OS/ MI. The sectors that contributed most to this change include manufacturing, construction, financial services and public administration and defence. The absence of reliable complementary information on employment, sector-wise wage indexation to inflation, etc. makes it difficult to do further analysis on this information.

Per capita Income

1.30 Net national income (NNI), also known as national income, is the sum of GDP at market prices adjusted for CFC and net compensation of employees and property income from the rest of the world, during

Table 1.7: Segregation of GVA into Income Categories

Sector	Share in GVA in 2014-15			Change in share from 2011-12	
	CE	OS/MI	CFC	CE	OS
Agriculture & allied	15.1	81.0	7.3	-0.2	-0.1
Mining & quarrying	25.2	58.3	15.7	0.3	-3.3
Manufacturing	26.0	56.1	17.3	3.1	-1.4
Electricity, gas, water supply	30.3	36.7	34.5	-4.9	2.7
Construction	68.0	25.5	6.0	2.5	-3.4
Trade, repair, hotels & restaurant	15.6	77.6	5.4	-0.3	-0.2
Transport, storage & communication	31.2	53.1	18.6	-3.3	0.5
Financial services	31.8	66.3	1.8	3.9	-4.3
Real estate and professional services	25.8	56.5	15.2	1.7	-1.3
Public administration & defence	85.0	0.0	15.0	2.4	0.0
Other services	62.5	29.1	7.9	-1.4	2.5
Total	**33.6**	**54.9**	**11.6**	**0.9**	**-1.0**

Source: **CSO.**

Table 1.8: Level and Growth of Per Capita Income and Consumption

Item	Level in 2015-16 (in ₹)		Growth at constant prices (in per cent)			
	Current prices	Constant prices	2012-13	2013-14	2014-15	2015-16
Per capita GDP	105746	88472	4.3	5.3	5.9	6.2
Per capita NNI	93231	77431	3.5	4.9	5.8	6.2

Source: **CSO**

the reference year. With the combined share of the aforesaid two components of primary income from the rest of the world hovering around - 1.1 per cent of the Gross National Income (GNI) during 2011-12 to 2014-15, GNI remained lower than GDP during the period. Per capita income, defined as NNI divided by the estimated population, recorded a healthy growth rate in the last two years, which seems to have been reinforced in the current year (Table 1.8).

The Saving-Investment Balance

1.31 Broadly, there are three institutional sectors that save and invest, i.e. households, the private corporate sector—both financial and non-financial—and the public sector consisting of the general government and public corporations (Table 1.9).

1.32 The gross domestic savings rate in the economy declined by 1.6 percentage points of the GDP from 2011-12 to 2014-15. This happened despite a 3.2 percentage point pick-up in the private corporate savings rate. A marginal decline in the public savings rate has been counterbalanced by a proportionate increase in household financial savings. The other component of household savings, physical savings, is a mirror image of household investment, which consists of household construction, their possession of machinery and equipment and valuables, etc. Household construction, which constitutes the bulk of household investment, stood almost at the same level in 2014-15 as it did in 2011-12, resulting in a decline in the ratio of household physical savings by 4.9 percentage points of the GDP. Thus, the financial savings (public plus private corporate plus household financial savings) in the economy increased by 3.2 percentage points of the GDP from 18.4 per cent of the GDP in 2011-12 to 21.6 per cent in 2014-15, even while there was a decline in the gross savings rate.

Table 1.9: Gross Saving as Percentage of GDP at Current Market Prices

	2011-12	2012-13	2013-14	2014-15
Gross saving	34.6	33.8	33.0	33.0
Public	1.5	1.4	1.3	1.2
Private corporate	9.5	10.0	10.8	12.7
Household	23.6	22.4	20.9	19.1
Physical*	16.3	15.1	13.3	11.4
Financial	7.4	7.4	7.7	7.7

Source: **CSO.**

Note: *** household physical savings include valuables.**

Table 1.10: GFCF as Percentage of GDP at Current Market Prices

Item	2011-12	2012-13	2013-14	2014-15	2015-16
Gross fixed capital formation	34.3	33.4	31.6	30.8	29.4
Public sector	7.3	7.0	7.1	7.5	*
Private corporate	11.2	11.8	11.7	12.3	*
Household	15.7	14.6	12.9	11.0	*

Source: **CSO.**

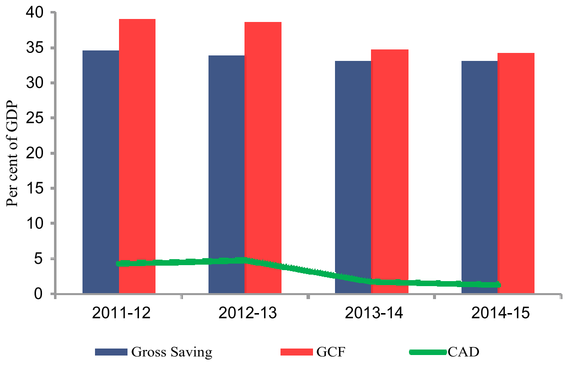
Note: *** Not available.**

This indicates that the GDP share of the domestically generated financial resources that can be available to potential investors has increased, mainly on account of the retained profits of the private corporate sector (Table 1.9).

1.33 In tandem with the trends in gross savings, fixed investment as proportion of GDP declined by 3.5 percentage points from 2011-12 to 2014-15 (Table 1.10). This was due to a 4.8 percentage points of GDP decline in the household sector's fixed assets and machinery, which was partly compensated by an increase of 1.1 percentage points in fixed investment in the private corporate sector.

1.34 Two points stand out in this context. First, there was a pickup in private corporate investment, but not to the extent of the pickup in its savings. Hence, while the retained profits of the companies might have improved robustly during the period, they were guarded in their investment decisions, perhaps in view of the shrinkage in demand due to global slowdown. Second, non-household fixed investment as a proportion of GDP increased from 18.5 per cent in 2011-12 to 19.8 per cent in 2014-15. This, in brief, suggests that when households are excluded from the picture, both the savings and investment scenarios appeared brighter in 2014-15. On the other hand, as noted earlier, improved household consumption has given some impetus to the ongoing growth recovery. From the limited information available from the AE for 2015-16, fixed investment stands reduced by 1.4 percentage points of the GDP; the composition of this decline will be known only when detailed information becomes available in January 2017.

Figure 1.4: Gap between Saving and Investment



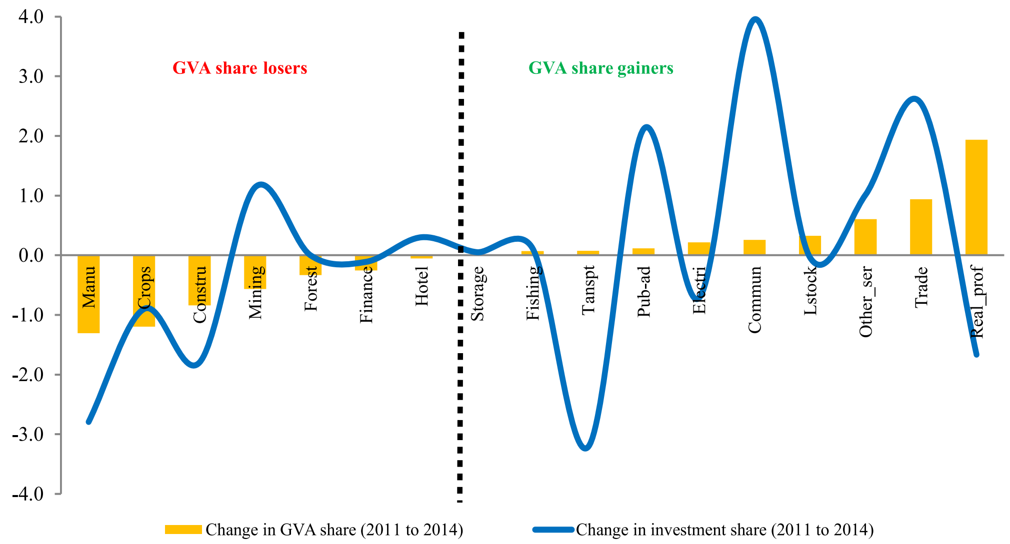
Source: **CSO and RBI**

1.35 The current account balance of the Balance of Payments (BoP) mirrors the difference between domestic savings and domestic investment, and conveys the extent of this gap that needs to be bridged by foreign savings. As is seen in Figure 1.4, the gap between investment and savings has been declining over time. However, it is due to the greater decline in the investment rate (measured as ratio of GCF to GDP) vis-à-vis the savings rate.

1.36 A look at the GCF by industry of use would reveal that the share of gross investment (excluding valuables) in agriculture and allied sectors and industry (including mining and quarrying and construction sectors in addition to manufacturing and electricity and other utilities) declined between 2011-12 and 2014-15, while it increased in services sector. However, it would be highly simplistic to ascribe the increased share of services in the GVA to this phenomenon, as is evident in Figure 1.5.

1.37 Figure 1.5 shows that there is, in general, some positive correlation between the change in sectoral shares in capital formation and the change in sectoral shares of GVA during the period 2011-12 to 2014-15; with notable exceptions being the mining and quarrying, transport, electricity, gas and water supply and real estate and professional services sectors. The relation could have been stronger, if excess capacities and lagged output responses had been fully controlled for. Nonetheless, this simple plot indicates that sectors like manufacturing, the crop segment of the agriculture sector and construction have significantly lost their GVA share and investment shares during the four-

Figure 1.5: Change in GVA Share and Investment Share (2011-2014)



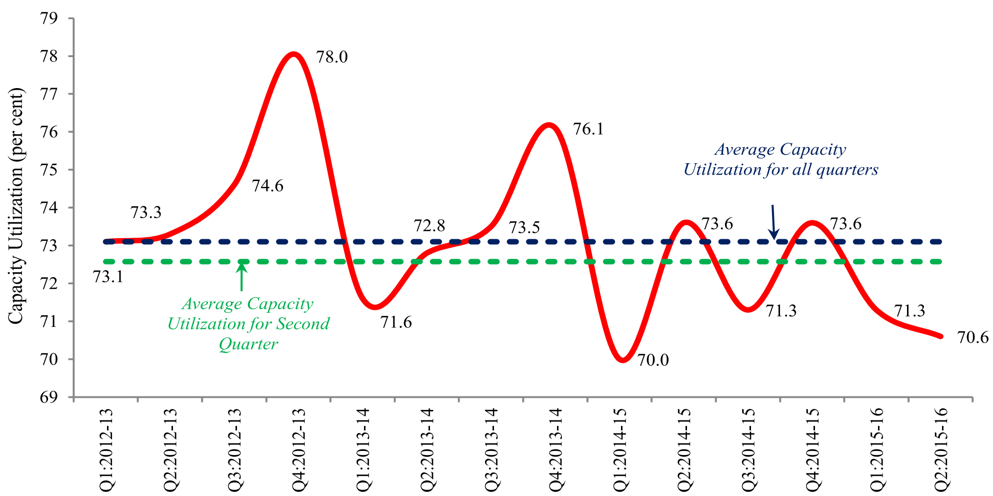
Source: **CSO**

Manu : Manufacturing	Crops: Crops	Constru: Construction
Mining: Mining & Quarrying	Forest : Forestry And Logging	Finance : Financial Services
Hotel: Hotels & Restaurants	Storage: Storage	Fishing: Fishing & Aquaculture
Tanspt: Transport	Pub-ad:Pub Ad & Defence	Electri: Electricity, Gas,Etc
Commun: Communication	Lstock: Livestock	Other_ser: Other Services
Trade: Trade & Repair Services	Real_prof: Real Estate, Professional Services	

year period. In sharp contrast, sectors like trade and repair services and miscellaneous services gained on both grounds, while real estate and professional services as well as mining and quarrying presented a mixed picture.

1.38 Suboptimal capacity utilization may be one of the factors affecting slackness in investment in manufacturing. The July-September 2015 Round of the Order Books, Inventories and Capacity Utilization Survey (OBICUS) of the Reserve Bank of India (RBI) showed that at the aggregate level, capacity utilization of a sample of manufacturing companies recorded fractional decline in Q2 2015-16 over the previous quarter and over the corresponding quarter of the previous

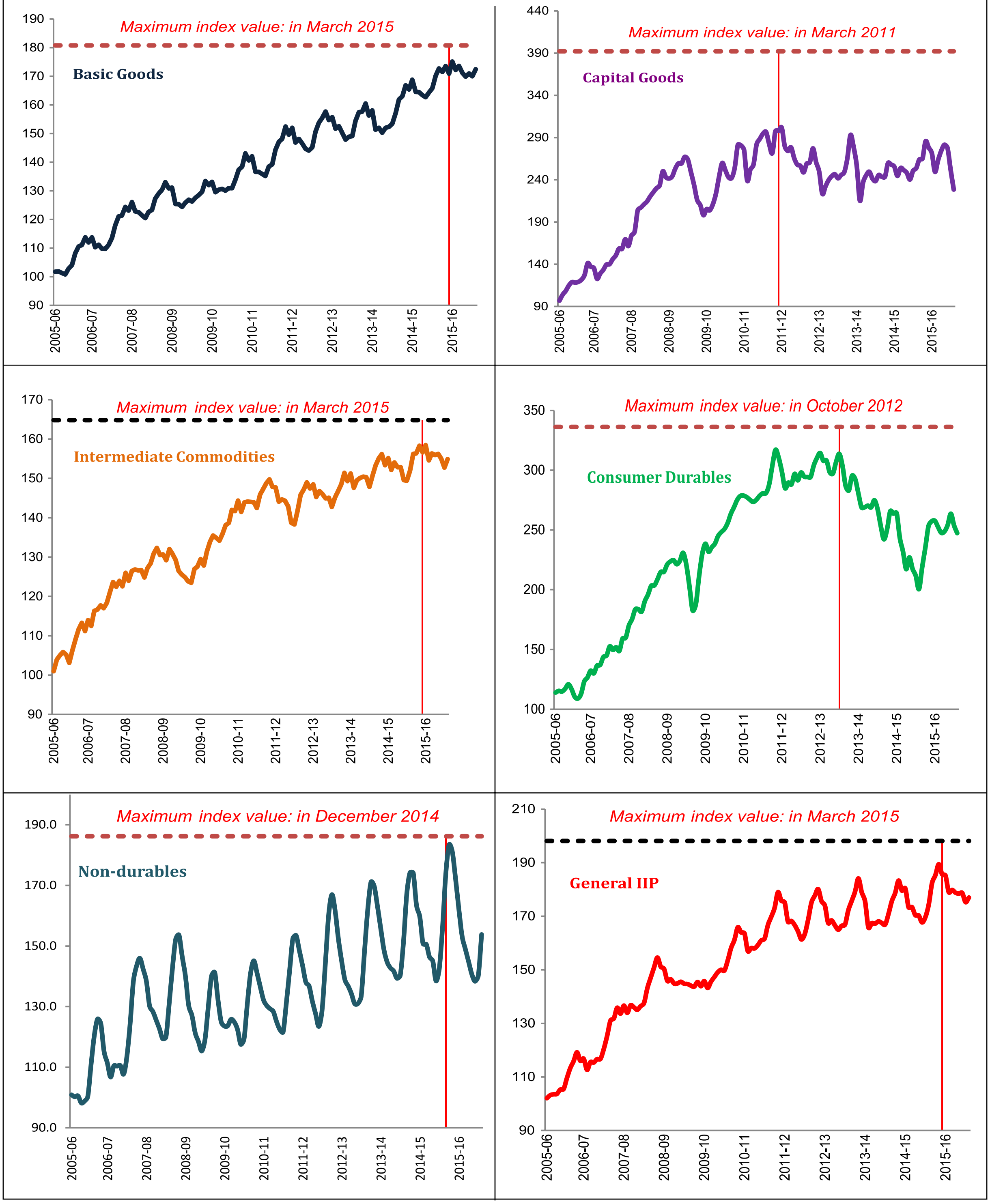
Figure 1.6: Capacity Utilization for Selected Manufacturing Companies



Source: **Based on RBI data.**

year (Figure 1.6). The Q1 OBICUS results indicated that capacity utilization in the manufacturing sector had improved over the corresponding quarter of the previous year. That there has been some improvement in capacity utilization in 2015-16 vis-a-vis 2014-15 becomes evident from looking at the IIP (Figure 1.7).

Figure 1.7 : Three-month moving average indices of different IIP categories



Note: **Based on CSO data**
Maximum index implies the highest achieved in the actual series since 2004-05.
The vertical line in each figure indicates the month in which maximum was achieved.

1.39 The indices of production of different industrial categories subsumed under the IIP point towards the existence of significant excess capacities in sectors like capital goods and consumer durables. Purely judged from this angle, a sustained pickup in the demand for consumer goods--either domestic or external--may condition robust industrial growth and investment in the economy.

Public Finance

1.40 The General Budget 2015-16, post Fourteenth Finance Commission (FFC) recommendations, ushered in a new era of 'co-operative federalism with shared responsibilities' between the centre and the states, and among the states for achieving development goals together. It was presented in a relatively stable economic environment as compared to the just preceding years but the challenge was to ensure the delicate equilibrium between the concerns of stirring growth, accommodating the resources transfer that greater fiscal federalism entailed and ensuring fiscal consolidation. The equilibrium was sought through a higher capital expenditure, higher net resource transfers to states and higher gross tax revenues.

1.41 The Budget 2015-16 sought to contain the fiscal deficit at ₹5.56 lakh crore (3.9 per cent of GDP) as against ₹ 5.13 lakh crore (4.1 per cent of GDP) in 2014-15 (RE). The desired fiscal consolidation was planned to be achieved by an estimated growth of 15.8 per cent in gross tax revenue (GTR) over RE 2014-15. The overall non-debt receipts for the 2015-16 were estimated to be 12.2 lakh crore against the total expenditure of ₹17.77 lakh crore which was 5.7 per cent higher than 2014-15 (RE). Within the total expenditure, the expected growth in capital expenditure was 25.5 per cent which ensures the better quality of expenditure.

1.42 The benign fiscal outcome in 2015-16 owed to improved tax buoyancy and prudent expenditure management with assistance from the decline in oil prices. The robust growth in GTR in the first three quarters of 2015-16 was aided by the 34.8 per cent growth in indirect taxes, with union excise duties growing by about 68 per cent. The excise collections may partly have been bolstered by the improved dynamics of economic activity as well as measures like increasing the excise duty on petrol and diesel in the milieu of falling international prices of crude oil. On the tax devolution front, with the changed regime for tax devolution, the taxes assigned to the states/UTs were raised by 36.6 per cent in April-December 2015 over the corresponding period of the previous year. The trends in expenditure in the first nine months of the current year are encouraging and the 33.5 per cent increase in capital expenditure, mainly led by plan expenditure, was very much in line with the budgetary objective for ensuring improved quality of expenditure.

1.43 Given the pattern of revenue and expenditure in the first nine months of the current financial year, in spite of the challenges posed by the lower-than-projected nominal GDP growth, the fiscal deficit target of 3.9 per cent of GDP seems achievable.

Prices and Monetray Management

Prices

1.44 The year 2015-16 continues to experience moderation in general price levels in the country. The substantial decline in price of the Indian basket of crude oil, through its direct and second round effects, partly contributed to the decline in general inflation for the second successive year. Further, the astute policies and management of inflation by the government through buffer stocking, timely release of cereals and import of pulses and moderate increase in Minimum Support Prices (MSP) of agricultural commodities helped in keeping prices of essential commodities under check during 2015-16. Headline inflation, based on the Consumer

Price Index (CPI) (combined for rural and urban areas) series, dipped to 4.9 per cent during April-January 2015-16 as against 5.9 per cent in 2014-15. Food inflation in terms of the Consumer Food Price Index (CFPI) declined to 4.8 per cent during April-January 2015-16 as compared to 6.4 per cent in 2014-15. CPI-based core (non-food, non-fuel) inflation also remained range-bound, inching marginally upwards from 4.2 per cent in March 2015 to 4.7 per cent in January 2016. For various subgroups of the CPI (combined), the decline in inflation was broad based and mainly driven by lower inflation of food articles and items under the non-food non-fuel category. The decline in CPI non-food, non-fuel inflation was largely on account of decline in the inflation of housing (rent), transport, communication, education and other services.

1.45 Headline wholesale price index (WPI) inflation declined following the global trend of declining commodity and producers prices. WPI inflation has remained in the negative territory since November 2014 and was (-) 2.8 per cent in 2015-16 (April-January) as compared to 2.0 per cent in 2014-15. The WPI inflation in fuel and power group declined significantly and was (-) 12.3 per cent in 2015-16 (April-January) from (-) 0.9 per cent in 2014-15. The decline in global commodity prices resulted in the drop in the WPI based core inflation from 2.4 per cent in 2014-15 to (-) 1.5 per cent in 2015-16 (April-January). WPI-based food inflation continues to remain moderate at 2.2 per cent during 2015-16 (April-January), despite the below average monsoon this year and the sporadic spurt in the prices of pulses and a few other essential commodities in the second half of the year.

Monetary Developments

1.46 With the easing of inflation and moderation in inflationary expectations, the RBI reduced the repo rate by 25 basis points (bps) to 7.75 per cent on 15th January 2015. Subsequent reductions by 25 bps each on 4 March 2015 and 2 June 2015 and 50 bps on 29 September 2015—brought it down another 100 bps to 6.75 per cent. The RBI has kept the policy repo rate unchanged in its sixth bi-monthly monetary policy statement on 2 February 2016.

1.47 Liquidity conditions were generally tight during Q1 of 2015-16, mainly due to restrained government spending. In Q2 of financial year (FY) 2015-16, however, liquidity conditions eased significantly as public expenditure picked up and deposits exceeded credit substantially. In Q3 of FY 2015-16, liquidity conditions tightened again, mainly due to festive season currency demand. The RBI conducted variable rate repo and reverse repo (overnight and term) auctions in order to address the day-to-day liquidity requirements arising out of frictional factors, besides regular liquidity operations under the Liquidity Adjustment Facility coupled with Open Market Operations (OMO). Accordingly, the weighted average call rate or the operating target of monetary policy remained closely aligned to the policy repo rate.

New initiatives in the Banking sector

1.48 The performance of Scheduled Commercial Banks (SCB) during the current financial year remained subdued. The Year-on-Year (Y-o-Y) growth in bank credit remained below 10 per cent. For the fortnight ended November 2015, credit growth stood at 9.3 per cent. The sluggish growth of bank credit can be attributed to several factors: (a) incomplete transmission of the monetary policy as banks have not passed on the entire benefit to borrowers; (b) unwillingness of the banks to lend credit on account of rising Non-performing Assets (NPA); (c) worsening of corporate balance sheets, forcing them to put their investment decisions on hold; (d) interest rates in the bond market being more attractive to borrowers. Besides, it is also instructive to note that bank credit explains about half of the resource flow to productive sectors.

1.49 There was considerable increase in the opening of basic savings bank deposit accounts during the year in view of the government's initiative under the Pradhan Mantri Jan Dhan Yojana. For creating a universal social security system for all Indians, especially the poor and the underprivileged, three schemes were launched in 2015 in the insurance and pension sectors--the Pradhan Mantri Suraksha BimaYojana, the Pradhan Mantri Jeevan Jyoti Bima Yojana and the Atal Pension Yojana--on pan-India basis on 9 May 2015

1.50 In pursuance of the announcement in the Union Budget 2015-16 of the setting up of a Micro Units Development Refinance Agency (MUDRA) Bank to refinance last-mile financers, the Pradhan Mantri Mudra Yojana has been launched on 8 April 2015. MUDRA seeks to offer two products, namely refinance products with a loan requirement up to ₹10 lakh and support to micro-finance institutions by way of refinance. In order to mobilize gold for productive purpose and to reduce the country's reliance on imports of gold, two main schemes were launched in 2015: (i) the Sovereign Gold Bond Scheme and (ii) the Gold Monetization Scheme.

External Sector

1.51 One important positive outcome in 2015 is the modest pickup in the growth of some of the advanced economies. However, growth in emerging market and developing economies declined for the fifth consecutive year. As a result, overall global economic activity remained subdued in 2015. In its latest Update of the World Economic Outlook (WEO), published on 19 January 2016, the IMF projected growth in the global economy to improve from 3.1 per cent in 2015, to 3.4 per cent in 2016 and further to 3.6 per cent in 2017. Growth in advanced economies is projected at 2.1 per cent in 2016 and to continue through 2017 at the same rate.

1.52 The slowdown and rebalancing of the Chinese economy, lower commodity prices, and strains in some large Emerging Market and Developing economies (EMDE) are likely to continue to weigh on their growth prospects in 2016–17. Assessments indicate that mixed inflation developments in the EMDEs reflect the conflicting implications of weak domestic demand and lower commodity prices versus marked currency depreciations over the past year. The WEO Update also indicated that India and the rest of emerging Asia are bright spots, with some other countries facing strong headwinds from China's economic rebalancing and global manufacturing weakness. World trade volume growth projections have been placed at 2.6 per cent and 3.4 per cent respectively for 2015 and 2016, which is much lower than what was estimated earlier in WEO in October 2015.

India's merchandise trade

1.53 After reaching unsustainably high levels, trade and current account deficits moderated on import restrictions in 2013-14 and continued so in 2014-15. It might be recalled that the restrictions on gold were withdrawn mid-year in 2014-15 and the continuance of robust outcome in 2015-16 indicates that the external sector position is sustainable. Such an outcome in times of continued low growth in trade volumes and weak global prospects is significant. India's merchandise exports have been declining continuously since December 2014, which is in line with the performance of export growth in different countries. During the current financial year (April-January 2015-16), India's exports declined year-on-year by 17.6

per cent to US$ 217.7 billion and this decline was broad-based. The decline in India's exports owed to sluggish global demand and low global commodity prices, particularly petroleum.

1.54 In keeping with the global trends of slow growth, imports have declined by 15.5 per cent in 2015-16 (April-January) to US $ 324.5 billion. Lower imports of petroleum, oil and lubricants (POL) were the main reason for the decline in total imports this year so far. POL imports declined by 41.4 per cent to US$ 73.1 billion 2015-16 (April-January) as against US$ 124.8 billion 2014-15 (April-January), as a result of steep fall in international crude oil prices. Non-POL imports at US$ 251.4 billion in 2015-16 (April- January) were 3.0 per cent lower than non-POL imports of US$ 259.1 billion in 2014-15 (April- January). Gold and silver imports increased by 5.1 per cent to US$ 32.9 billion in 2015-16 (April-January) as compared to US$ 31.3 billion in the corresponding period of the previous year. Moderation in trade deficit in 2014-15 was due to, among other factors, decline in the value of POL imports by 16.0 per cent, caused by fall in international oil price by 20.2 per cent in 2014-15. The moderation continues through in 2015-16 with further decline in global crude oil prices, with trade deficit in 2015-16 (April- January) placed at US $ 106.8 billion.

1.55 The composition and direction of trade is undergoing changes and sectors that are resilient are accounting for higher proportions to total trade and also changing the trade direction. During 2015-16 (April-December), there was a broad-based decline in exports to Europe, America, Africa, Asia and the CIS. Imports from all five regions declined, with the highest decline of 21.5 per cent in imports from America in 2015-16 (April-December). India's imports from China registered a growth of 2.5 per cent in 2015-16 (April-December) while imports from other major countries registered negative growth rates.

Trade policy and World Trade Organization negotiations

1.56 In the wake of declining exports, the government took various measures to boost exports in the Union Budget 2015-16 and in the new Foreign Trade Policy (FTP), for the period 2015-20, announced on 1 April 2015. The focus of the new FTP has been on supporting both manufacturing and services exports and improving ease of doing business. The FTP aims to increase India's exports to US$900 billion by 2019-20 and it also provides the road map for by the government to align it with the 'Make in India' and 'Digital India' programmes and to ease trade.

1.57 The Tenth Ministerial Conference of the World Trade Organization (WTO) was held in Nairobi, Kenya, from 15 to 19 December 2015. The outcomes of the conference, referred to as the 'Nairobi Package' include Ministerial Decisions on agriculture, cotton and issues related to Least Developed Countries (LDCs). These cover public stockholding for food security purposes, a Special Safeguard Mechanism (SSM) for developing countries, a commitment to abolish export subsidies for farm exports, particularly from the developed countries, and measures related to cotton. Decisions were also taken regarding preferential treatment to LDCs in the area of services and the criteria for determining whether exports from LDCs may benefit from trade preferences. As regards the future of the Doha Round of trade negotiations, the Nairobi Ministerial Declaration reflects divergence amongst the WTO membership on the relevance of reaffirming the Doha mandate as the basis of future negotiations. With the process of multilateral negotiations being slow, mega-regional trading agreements like the Trans-Pacific Partnership have emerged. This has implications in the long run for many emerging countries, as the dominant interests and emphasis of its current membership may not be aligned with the requirements of emerging markets like India.

Balance of Payments

1.58 Despite the decline in merchandise exports during the first half (H1) of 2015-16, India's BoP position remained comfortable. Some of the salient external sector developments are: (i) lower trade deficit and modest growth in invisibles resulted in lower Current Account Deficit (CAD), (ii) continued increase in Foreign Direct Investment (FDI) inflows and Non-resident Indian (NRI) deposits and (iii) net outflow of portfolio investment. Although, there was a net outflow under portfolio investment, capital/financial flows were in excess of the CAD and the absorption of the same by the RBI led to an accretion in reserves.

1.59 Trade deficit (on BoP basis) declined from US$74.7 billion in 2014-15 (April-September) to US$71.6 billion in 2015-16 (April-September). The surplus of net invisibles increased by around US$1 billion to US$57.2 billion in the first half of 2015-16. Moderate growth in invisibles surplus coupled with lower trade deficit, resulted in a lower CAD of US$26.8 billion (1.3 per cent of GDP) in 2014-15 and US$ 14.4 billion (1.4 per cent of GDP) in H1 of 2015-16.

1.60 Net portfolio investment recorded an outflow of US$8.7 billion in H1 of 2015-16 as against net inflow of US$22.2 billion in H1 of 2014-15. Net FDI reached the level of US$16.7 billion in H1 of 2015-16 (US$15.1 billion in H1 of 2014-15). External commercial borrowings (ECBs) are another relatively less volatile item of the capital/finance account. Net ECBs were US$ 1.6 billion in 2014-15; during H1 of 2015-16, net ECBs logged an outflow of US$ 0.9 billion. During H1 of 2015-16, NRI deposits reached US$10.1 billion as against 6.5 billion in H1 of 2014-15. Net capital flows in 2014-15 were at their second highest at US$88.2 billion. The highest was US$107.9 billion in 2007-8. Net capital inflows were 4.3 per cent of GDP during 2014-15 (2.6 per cent of GDP during 2013-14). During H1 of 2015-16, net capital/finance flows was US$24.9 billion as against US$36.5 billion in H1 of 2014-15. Low levels of CAD coupled with moderate rise in capital inflows resulted in accretion in foreign exchange reserves of US$10.6 billion in H1 of 2015-16.

Foreign exchange reserves

1.61 India's foreign exchange reserves at US$351.5 billion as on 5 February 2016 mainly comprised foreign currency assets amounting to US$328.4 billion, accounting for about 93.4 per cent of the total. With an increase in reserves in 2015-16, all traditional reserve-based external sector vulnerability indicators, namely foreign exchange cover for imports and short-term debt, have improved.

Exchange rate

1.62 During 2015-16 (April-January), the average exchange rate of the rupee depreciated to ₹65.04 per US dollar as compared to ₹60.92 per US dollar in 2014-15 (April-January). This was mainly on account of the fact that the dollar strengthened against all the major currencies because of stronger growth in the USA as well as the fact that China's growth and currency developments this year deteriorated, impacting the outlook on other EDMEs owing to risk-aversion perceptions of global investors. It is, however, instructive to note that in 2015-16 so far, the rupee has performed better than the currencies of most of other EDMEs (except the Chinese yuan).

External debt

1.63 As per the latest available data, India's external debt stock increased by US$8.0 billion (1.7 per cent) to US$483.2 billion at end-September 2015 over end-March 2015. This rise in external debt occurred on account of long-term debt, particularly commercial borrowings and NRI deposits. However, on a sequential basis, total external debt at end-

September 2015 declined by US$291 million from the end-June 2015 level. The maturity pattern of India's external debt shows the predominance of long-term borrowings. At end-September 2015, long-term debt accounted for 82.2 per cent of India's total external debt, vis-à-vis 82.0 per cent at end-March 2015. Correspondingly, the proportion of short-term debt declined. India's external debt has remained in safe limits, with an external debt to GDP ratio of 23.7 per cent and a debt service ratio of 7.5 per cent in 2014-15.

1.64 India's foreign exchange reserves provided a cover of 72.5 per cent to total external debt stock at end-September 2015 vis-à-vis 71.9 per cent at end-March 2015. The ratio of short-term external debt to foreign exchange reserves was 24.6 per cent at end-September 2015 as compared to 25.0 per cent at end-March 2015. The ratio of short term debt to total external debt decreased steadily and stood at 17.8 per cent at end-September 2015 as against 18.0 per cent at end-March 2015.

External sector outlook

1.65 The global economic outlook has remained under clouds of uncertainty for long, with periodic financial market turbulence and heightened risk aversion. The recent bout of uncertainty owes to developments and concerns about China's growth, financial markets and currency. The spill overs are causing shocks in vulnerable economies. India's external sector outcome continues to be strong and sustainable because of strong macroeconomic fundamentals and low commodity prices. As such, while export slowdown may continue for a while before picking up in the next fiscal, continuance of low global commodity prices augurs well for sustaining low trade and current account deficits. As a proportion of GDP, the CAD is likely to be in the low range of 1-1.5 per cent. While global developments like concern over China and normalization of the monetary policy in the US may affect global financial flows, with policy reform initiatives and strong macroeconomic outcome, deficit in the current account is likely to be more than fully financed through stable flows and the volatility in global financial markets may affect the exchange rate less than in other emerging economies.

Outlook

1.66 The Indian economy has made substantial improvements in its macroeconomic fundamentals and impressive strides in reducing macro-vulnerability with reforms in key areas, pursuit of fiscal prudence and consolidation, focus on price stability and the resultant benign price situation and comfortable level of external current account. With improved industrial growth supplementing the buoyant services sector, overall economic growth has also picked up. Set against the background of the unsupportive global economic landscape, and back-to-back weak monsoons with deleterious effects on farm production, the growth rate of 7.6 per cent in 2015-16 as estimated by the CSO is encouraging. In sharp contrast, the global economy, shrouded in uncertainties and constrained by sluggish demand, has failed to generate confidence. While the emerging market economies have clearly slowed down, the large Chinese economy is faced with concerns of rebalancing investment and consumption activities. In this milieu, the Indian economy stands out as a haven of macroeconomic stability, resilience and optimism and can be expected to register GDP growth that could be in the range of 7.0 to 7.75 per cent in the coming year.

1.67 With focus on reforms in key sectors coupled with stable macroeconomic conditions, the above growth prospect for the economy in the next year appears reasonable. Yet, the outlook will be conditioned by a number of factors; some of which indicate downside risks; the strongest of them being weak global demand. In 2015-16, the external vulnerability indicators improved and the rupee weathered the depreciation pressure better than the currencies of most emerging market economies. The headwinds to growth may come from sluggish global demand as the Indian economy is closely integrated with the rest of the world; exports and imports together constitute 42 per cent of the GDP, even at the reduced levels in 2015-16. On the brighter side, however, the composite growth of India's trading partners is projected to modestly improve in 2016. Improved competitiveness and brighter perceptions about the Indian economy get reflected in greater investment inflows.

1.68 From the angle of aggregate demand, domestic absorption has remained reasonably strong, despite reduction in overall investment. Private consumption has, of late, been the major driver of growth. The possible shifts on the consumption front in the next year are: first, consumption incentives flowing from declining oil prices may partially recede in the next year; second, the pay commission awards could potentially add modestly to consumption demand; third, an improved farm sector performance can add to rural consumption. However, it may be hard to endlessly expect significantly higher growth impetus from consumption. Government's focus on fiscal consolidation rightly limits the option of raising general government consumption expenditure. Private corporate savings and investment showed encouraging results in 2014-15; but the eventual outcome may also be influenced by indications of excess capacity in some sectors. However, with multifaceted measures from the government to foster industry and enterprise, investment-led growth should return.

1.69 To encapsulate, in the short run, Indian growth may fall short of its growth potential of 8-9 per cent. Yet, the economy could continue weathering the global sluggishness with resilience and consolidate the gains in macroeconomic stability in the year ahead. This is an outlook that multilateral institutions, in their latest assessments, have also attested to.

Sectoral Developments

Agriculture

1.70 The contribution of agriculture and allied sectors to the GVA (at 2011-12 prices) of the country has been declining. The growth rates in agriculture have been fluctuating at 1.5 per cent in 2012-13, 4.2 per cent in 2013-14, (-) 0.2 per cent in 2014-15 and a likely gowth of 1.1 per cent in 2015-16. The uncertainties in growth in agriculture are explained by the fact that 60 per cent of agriculture in India is rainfall dependent and there have been two consecutive years of less then normal rainfall in 2014-15 and 2015-16.

1.71 As per the Second Advance Estimates for 2015-16 released on 15 February 2016, foodgrains production during 2015-16, estimated at 253.16 million tonnes, is expected to be higher by 1.14 million tonnes over the production of 252.02 million tonnes during 2014-15. As per the fourth AE, the production of foodgrains during 2014-15 is placed at 252.7 million tonnes (rice at 104.8 million tonnes and wheat at 88.9 million tonnes) vis-à-vis 265.0 million tonnes (rice at 106.6 million tonnes and wheat at 95.9 million tonnes) in 2013-14 (final estimates) and the production of pulses is estimated at 17.2 million tonnes, sugarcane at 359.3 million tonnes, oilseeds at 26.7 million tonnes and cotton at 35.5 million bales of 170 kg each.

1.72 At present, there are multifarious issues and challenges faced by the agriculture sector and in order to revive it, a significantly different approach needs to be followed. The following measures, inter alia, need to be taken to step up productivity in agriculture and transform the sector:

Table 1.11: Agriculture Sector: Key indicators (per cent change at 2011-12 prices)

Item	2011-12*	2012-13*	2013-14*	2014-15@
Growth in GDP in agriculture & allied sectors (at constant 2011-12 prices)	5.0#	1.5	4.2	-0.2
Share of agriculture & allied sectors in total GVA (at current 2011-12 prices)	18.5	18.2	18.3	17.4
Share of crops	12.1	11.8	11.9	10.9
Share of livestock	4.0	4.1	4.1	4.4
Share of forestry and logging	1.5	1.5	1.4	1.2
Share of fishing	0.8	0.9	0.9	0.9
Share of agriculture & allied sectors in total GCF (at current 2011-12 prices)	8.6	7.8	8.6	7.7
Share of crops	7.3	6.6	7.3	6.4
Share of livestock	0.8	0.8	0.8	0.8
Share of forestry and logging	0.1	0.1	0.1	0.1
Share of fishing	0.4	0.4	0.5	0.5
GCF in agriculture & allied sectors as per cent to GVA of the sector (at current 2011-12 prices)	18.3	16.3	17.0	15.8

Source: **CSO.**

Notes: # at 2004-05 prices; * Second RE (new series); @ First RE.

- Need to scale up investments to expand water efficient irrigation to achieve 'more crop per drop' to improve productivity in agriculture. The low and skewed distribution of irrigated area needs to be corrected through appropriate policy measures.
- Effective use of other inputs like fertilizers, quality seeds and pesticides is also required, along with irrigation, to reach optimal agricultural potential of India.
- The success of dairy, an allied sector, has been the result of an integrated cooperative system of milk collection, transportation, processing and distribution. Diversification of the produce through value added products in the dairy industry has minimized the seasonal impact on suppliers, which is a strategy that needs to be emulated by other allied sectors in agriculture.
- There is tremendous potential to increase availability of agricultural produce by reducing wastage in the post-harvest value chain. Reducing post-harvest losses through investments in storage facilities and drying facilities will also help ensure food security for the population.

Industrial, Corporate and Infrastructure Performance

1.73 The industrial sector has continued to perform well in the wake of various reforms measures undertaken by the government recently. As per the data on RE of national income, the growth of the industrial sector comprising mining and quarrying, manufacturing, electricity, gas, water supply and other utility services, and construction is 5.9 per cent during 2014-15, as against 5.0 per cent during 2013-14. The growth is expected to strengthen further to 7.3 per cent for 2015-16 as per the AE released by the CSO recently. Within the industrial sector, manufacturing is expected to register a growth of 9.5 per cent. In the first nine months of 2015-16, the growth rate in terms of the IIP was 3.1 per cent as compared to 2.6 per cent in the corresponding period of 2014-15. The rate of growth of GCF in industry registered a sharp rise from (-) 3.7 per cent in 2013-14 to 3.6 per cent in 2014-15, showing upward momentum of investment in industry. The sector-wise shares in overall GCF shows that the share of electricity has gone up, while those of mining, manufacturing and construction have declined.

1.74 The eight core infrastructure-supportive industries--coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity--that have a total weight of nearly 38 per cent in the IIP registered a cumulative growth of 1.9 per cent during April-December 2015-16 as compared to 5.7 per cent during April-December, 2014-15. Month-wise performance of eight core sectors shows that the production of coal and fertilizer increased substantially, while that of crude oil, natural gas and steel mostly declined. Refinery products, cement and electricity attained moderate growth.

1.75 The performance of the corporate sector highlighted that the growth of sales has been contracting since Q3 of 2014-15. Similarly, the last four successive quarters since Q3 of 2014-15, witnessed a steep contraction in raw material expenses. Y-o-Y growth in interest expenses moderated during 2014-15 as compared to 2013-14. There was a further decline in the growth of interest expenses from 9.4 per cent in Q1 of 2015-16 to 4.2 per cent in Q2 of 2015-16. Other income, which was contracting since Q3 of 2014-15, grew by 12.5 per cent in Q2 of 2015-16. Net profit grew by 19.8 per cent in Q2 of 2015-16, after a contraction in three successive quarters. Growth in credit flow to the industrial sector, including mining and manufacturing, has slowed down in 2015-16 as compared to 2014-15. Growth of credit flow to the manufacturing sector was 2.5 per cent in 2015-16 (up to December) as compared 13.2 per cent in 2014-15 (up to December).

1.76 With a view to creating investment and a business-friendly environment, the government has initiated various reform measures for simplification and rationalization of procedures and processes to attract more FDI. The impact of these has started becoming visible. After the launch of the initiatives in September 2014, there was nearly 40 per cent increase in FDI inflows during October 2014 to June 2015 over the corresponding period of the previous year. During April-November 2015-16, total FDI inflows of were US$34.8 billion as compared to US$27.7 billion during April-November 2014-15, showing a 26 per cent surge. The FDI equity inflows also increased from US $18.9 billion during April-November 2014-15 to US$24.8 billion during April-November 2015-16, showing a 31 per cent growth.

1.77 Development of the infrastructure sector has been a priority area for the government and has witnessed enhanced public investment. Many reforms have been initiated in the infrastructure sector, resulting in robust growth in most of the sectors. Major infrastructure sectors, namely power, road, railways, civil aviation, ports and telecommunication, have performed better during 2014-15 as compared to 2013-14. During 2014-15, electricity generation was 1048.4 billion units (BU) as against a target of 1023 BU, registering Y-O-Y growth of 8.4 per cent. Continuing with similar trends, electricity generation in the country during the current year (April–December 2015) registered a growth of 4.4 per cent. Considering the renewable energy potential of the country, the government has laid major emphasis on this sector. A total of 3030 MW of grid-connected power generation capacity from renewable energy sources like solar and wind has been added so far this fiscal (April-December), taking the cumulative generation capacity in the country to over 38,820 MW from the sources.

1.78 In Indian Railways, the freight carried shows an increase of 9.0 million tonnes during April-November 2015, over the freight traffic of 2014-15, translating into growth of 1.3 per cent. Under the National Highways Development Project (NHDP), total length of 26, 177 km road has been completed as on 31 December 2015. Similarly, the civil aviation sector witnessed an improvement of 20.4 per cent in domestic traffic and 7.8 per cent in international passenger traffic during April-November 2015-16 over the same period of the previous year. During April-September 2015 while cargo traffic at all ports increased by 1.1 per cent, major ports reported an increase of 4.1 per cent and non-major ports a decline of 1.0 per cent as compared to the corresponding period in 2014-15. The performance of the telecommunication sector during 2015-16 has been encouraging, with approximately 33.4 million new telephone connections added during April-October 2015, which is way ahead of the 29.7 million new connections in the corresponding period of 2014-15.

Services Sector

1.79 The services sector has emerged as the most dynamic sector globally and remains the key driver of India's economic growth. The global growth of services in the post-crisis period (2010-14) at 2.5 per cent was lower than the 3.0 per cent growth in the pre-crisis period (2001-8). India's services sector growth in the pre-crisis period was 9.3 per cent which declined to 8.6 per cent in the post crisis period. The impact of the global financial crisis was more pronounced in services trade, with the Compound Annual Growth Rate (CAGR) of world commercial services exports during the post-crisis period decelerating to 6.4 per cent compared to the 15.0 per cent during the pre-crisis period. The corresponding growth for India in the pre-crisis and post-crisis periods was 30.1 per cent and 7.5 per cent respectively. In 2015, world's services trade growth was in negative territory from Q1 to Q3, and this was so for India in Q2 and Q3.

1.80 Services sector growth in India accelerated to 10.3 per cent in 2014-15 from 7.8 per cent in the previous year, on account of higher growth in services sub-sectors like trade, repair, hotels & restaurants (10.7 per cent), financial services (7.9 per cent), public administration and defence (9.8 per cent), and other services (11.4 per cent). In 2015-16, as per the AE, the services sector registered a growth of 9.2 per cent (constant prices), mainly due to the lower growth of 6.9 per cent in public administration, defence and other services vis-à-vis 10.7 per cent growth achieved in 2014-15.

1.81 The share of services in the Gross State Domestic Product (GSDP) varies across states. Out of the 23 states and union territories (UT) for which data is available for 2014-15, the services sector accounted for 87.5 per cent of Delhi's GSDP, followed by Maharashtra at 63.8 per cent, with growth rates of 8.2 per cent and 5.7 per cent respectively. On the other extreme, services sector accounted for only 30.2 per cent of the GSDP in Arunachal Pradesh in 2014-15.

1.82 In 2014-15, while total FDI equity inflows grew by 27.3 per cent to US$30.9 billion, FDI equity inflows to the services sector (top 10 services including construction) grew by a whopping 70.4 per cent to US$16.4 billion. This rising trend is continuing in the first seven months of 2015-16, with the FDI equity inflows in the services sector growing by 74.7 per cent to US$14.8 billion, while total FDI equity inflows grew by 26.1 per cent to US$27.1 billion.

1.83 India's services exports increased from US$16.8 billion in 2001 to US$155.6 billion in 2014, making the country the eighth largest services exporter in the world. The share of India's services exports in global services exports, at 3.2 per cent in 2014, is nearly double that of its merchandise exports in global merchandise exports at 1.7 per cent. Of late, India's services exports witnessed sluggishness, much more discernible since H2 of 2014-15 with 3.7 per cent growth, which decelerated further to 0.7 per cent in H1 of 2015-16. The impact of the global slowdown on services exports is evident. Growth of net services, which has been a major source of financing India's trade deficit in recent years, decelerated to 5.0 per cent in 2014-15 from 12.4 per cent in 2013-14 and became negative at (-) 3.1 per cent in H1 of 2015-16. This was mainly due to a 17 per cent reduction in receipts from transportation services and increased payments of non-software miscellaneous services.

1.84 Foreign Tourist Arrivals (FTA) registered a growth of 10.2 per cent and there was nearly 9.7 per cent growth in Foreign Exchange Earnings (FEE) in 2014.It decelerated to 4.5 per cent in terms of FTAs and fell by 2.8 per cent in terms of FEEs in 2015.

1.85 The shipping sector has been passing through tumultuous waters in recent years. The Baltic Dry Index, a freight index and a good proxy for the robustness of trade and also an indicator of shipping services declined from 10720 in May 2008 to 747 in December 2008, but partially recovered to 2517 in May 2009. Though it picked up slightly in the following years, it has remained very low in the recent months, reaching 386 in January 2016 and has averaged 300 in February 2016 so far. This is a reflection of slowdown in India's and the world's merchandise trade as well as of overseas shipping services.

1.86 The three prominent ports-related performance indicators have shown improvement with the average turnaround time and average pre-berthing detention time falling to 2.08 days and 0.17 day respectively and the average output per ship berth day improving to 12,570 tonnes in 2015-16 (up to November 2015).

1.87 Total revenue (exports plus domestic) of the information technology and business process management (IT-BPM) sector for 2015-16 including and excluding hardware is expected at US$143 billion and US$129 billion, with growths of 8.3 per cent and 9.3 per cent respectively over the previous year. Exports including hardware and excluding hardware are likely to record 10.2 per cent growth (both) to reach US$ 108 billion and US$107.6 billion respectively. The domestic market including hardware and excluding hardware is set to grow at 2.9 per cent to reach US$35 billion (excluding e-commerce) and 4.8 per cent to reach US$ 22 billion over the previous year respectively. E-commerce growth in 2015-16 is expected at 21.4 per cent to reach US$17 billion.

1.88 Despite the slowdown, the growth prospects of the services sector are promising, as also indicated by some other estimates like the Nikkei/Markit Services PMI for India, which rose to 54.3 in January 2016 from 53.6 in December 2015, the highest reading since June 2014. A targeted policy of speedily addressing the issues in major and potential services can result in higher dividends in the form of higher services growth and services exports which in turn can help in pulling the economy to higher growth.

Social Infrastructure, Employment and Human Development

1.89 Social infrastructure like education and health is critical for improving the output productivity of the population. Lack of access to affordable and quality health and educational facilities leads to economic impoverishment and lowers potential human capabilities for many. Economic development needs to be inclusive by involving all sections of society, deprived and marginalized groups like women and children, scheduled tribes, scheduled castes, the differently abled and senior citizens. Additionally, skill gaps in various productive sectors in India are large and will require upscaling of training and skill development to maximize the benefits of its demographic dividend and make India's development trajectory more inclusive and productive. Thus, India has to address the challenges of not just providing employment but of increasing the employability of the labour force, which is correlated to knowledge and skills developed through quality education and training along with ensuring good quality of health.

1.90 Expenditure on Social Infrastructure: Expenditure on education as a proportion of GDP has hovered around 3 per cent during the period 2008-09 to 2014-15. Similarly, there has not been any significant change in the expenditure on health as a proportion of GDP, which has remained stagnant at less than 2 per cent during the same period. However, increase in expenditure may not always be a guarantee for appropriate outcomes. The efficiency of expenses incurred so far can be assessed by the performance of various social indicators.

1.91 Progress in Education: Though India has made considerable progress in education over the years, there still persist inequalities in access and achievements across regions and populations. As per the Annual Status of Education Report (ASER 2014), the trends in enrolment reflect a decline in the percentage of enrolment in government schools from 72.9 per cent in 2007 to 63.1 per cent in rural areas (with corresponding increase in private schools enrolment), while levels of the children in class V who can read class II text declined during the same period. There has been perceptible improvement in the education of girls, with the Gender Parity Index becoming favourable at all levels of school education, except for scheduled caste students in higher education and scheduled tribe students at all levels of education, for which special efforts have to be made.

1.92 Employment Scenario: As per the fourth Annual Employment-Unemployment Survey conducted by the Labour Bureau during the period January 2014 to July 2014, the Labour Force Participation Rate (LFPR) (usual principal status) is 52.5 for all persons. The LFPR of women is significantly lower than that of males in both rural and urban areas. The Worker Population Ratio (WPR) reflects similar patterns. Female participation in the labour force and employment rates are affected by economic, social and cultural issues and unpaid work by women remain unaccounted for by the conventional employment surveys. A notable aspect of the employment situation in India is the large share of informal employment and growth in informal employment in the organized sector. The share of informal employment in total employment has remained above 90 per cent throughout the period 2004-05 to 2011-12. The informal sector has to be given due attention in order to achieve the stated development objectives. In a major initiative for bringing compliance in the system, the central and state governments have initiated reforms in the labour markets.

1.93 Skill Development: At present there is preponderance of unskilled workers in India, mainly engaged in less productive informal sectors. According to the NSDC (National Skill Development Corporation), there is a severe quality gap and lack of availability of trainers in the vocational education and training sector. By 2017, the skill gap within the vocational training sector including both teachers and non-teachers will be to the tune of 211,000. The workforce requirement is projected to increase to 320,000 by 2022. The government has to invest in bridging the skill gap in the vocational education and training sector to improve the employability of people. A multipronged policy approach to enable skill development (including but not limited to initiatives such as setting up of SSCs (Sector Skill Councils), definition of Occupation Standards, definition of NSQF (National Skills Qualification Framework) funding initiatives such as the Standard

Training and Assessment Reward (STAR) scheme are likely to create a widespread positive impact on the skills ecosystem in India. Besides, under the Pradhan Mantri Kaushal Vikas Yojana aiming to offer 24 lakh Indian youth meaningful, industry-relevant, skill-based training, 4.38 lakh persons have successfully completed training throughout India.

1.94 Health and Sanitation: There are innumerable challenges in the delivery of efficient health services in India given the paucity of resources and the plethora of requirements in the health sector. According to the World Bank's Universal Health Coverage (UHC) Index 2015, India's level of immunization is very low. High-risk patients like children and pregnant women require special preventive health care services. With the aim of covering all those children who are either unvaccinated, or are partially vaccinated, against seven vaccine-preventable diseases by 2020, Mission Indradhanush was launched in December 2014 and has covered 352 districts of the country so far.

1.95 Health is closely related to sanitation and a hygienic environment. The progress in sanitation has witnessed a spurt since the launch of the Swachh Bharat Mission. More than 122 lakh toilets have already been constructed in rural areas since the beginning of the Swachh Bharat Mission (Gramin). It is also imperative that the constructed toilets are maintained and utilized by the beneficiaries to reap the benefits of the Swachh Bharat Mission. In order to improve availability of drinking water in rural areas, the National Rural Drinking Water Programme initiated a new World Bank-supported project named the Rural Water Supply and Sanitation Project–-Low Income States.

1.96 Poverty: Poverty estimates based on the Tendulkar Committee methodology using household consumption expenditure survey data collected by the NSSO in its 68th round (2011-12), show that the incidence of poverty declined from 37.2 per cent in 2004-5 to 21.9 per cent in 2011-12 for the country as a whole, with a sharper decline in the number of rural poor. The high rural poverty can be attributed to lower farm incomes due to subsistence agriculture, lack of sustainable livelihoods in rural areas, impact of rise in prices of food products on rural incomes, lack of skills, underemployment and unemployment.

1.97 Technology for Efficient Delivery of Services: Technology will play a crucial role as an enabler of inclusiveness and provider of efficient services by preventing leakages. The government has introduced the game-changing potential of technology-enabled Direct Benefits Transfers (DBT), namely the JAM (Jan Dhan-Aadhaar-Mobile) Number Trinity solution, which offers possibilities for effectively targeting public resources to those who need them most, and including all those who have been deprived in multiple ways. The progress is already evident with overhauling of the subsidy regime and moving to Aadhaar- based DBT. It is paving way for expenditure rationalization and is ensuring the removal of, so far undetected, fake and duplicate entities from the beneficiary lists, resulting in substantial savings of public money for giving renewed focus on social welfare schemes.

Climate Change and Sustainable Development

1.98 The year 2015 witnessed two landmark international events. The historic climate change agreement under the United Nations Framework Convention on Climate Change (UNFCCC) was adopted by 195 nations in Paris in December 2015, with the aim of keeping the rise in global temperature well below 2°C, which will set the world towards a low carbon, resilient and sustainable future. The world also witnessed the adoption of the Sustainable Development Goals (SDGs) in September 2015 which replace the

Millennium Development Goals (MDGs) and set the development agenda for the next 15 years with the aim of guiding the international community and national governments on a path of sustainable development.

1.99 Placing emphasis on concepts like climate justice and sustainable lifestyles, the Paris agreement seeks to enhance the 'implementation of the Convention' while reflecting the principles of equity and common but differentiated responsibilities and respective capabilities, in the light of different national circumstances. Further, the Agreement is not mitigation-centric and covers all crucial areas identified as essential for a landmark conclusion, including adaptation, loss and damage, finance, technology, capacity building and transparency of action and support. To achieve the long-term temperature goal of keeping the increase below 2°C, parties in the Agreement aim to reach global peaking of greenhouse gas as soon as possible while noting that developing countries will take longer to peak their emissions. The agreement also establishes a framework for global stocktaking to assess the collective action towards achieving the long-term goals mentioned in the agreement.

1.100 The Agreement provides binding obligation for developed countries to provide financial resources to developing countries for both mitigation and adaptation while encouraging other countries to provide support on voluntary basis. It reaffirms that developed countries will take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels, noting the significant role of public funds. The decision also sets a new collective quantified goal from a floor of US$100 billion per year prior to 2025 , taking into account the needs and priorities of developing countries. Pre-2020 actions are also part of the decisions. The Agreement also called upon developed countries to scale up their level of financial support with a complete road map for achieving the goal of jointly providing US$100 billion by 2020 for mitigation and adaptation, by significantly increasing adaptation finance from current levels and to further provide appropriate technology and capacity building support.

1.101 The United Nations General Assembly (UNGA) in its 17th session in September 2015 announced a set of 17 SDGs and 169 targets which will stimulate action over the next 15 years. This set of goals replaces the MDGs which were coming to an end in 2015 and aims to work on the areas which could not be completed earlier. The agenda highlights poverty eradication, combating inequalities, promoting gender equality and the empowerment of women and girls as the ambient goal and has at its core the integration of the economic, social and environmental dimensions of sustainable development. This also calls for an invigorated global partnership for sustainable development, including multi-stakeholder partnerships, in addition to enhancing capacities of stakeholders in better quality measurement and compilation of data or information on sustainable development.

1.102 Domestically, many initiatives have been taken by India on climate change and sustainable development. India has submitted ambitious targets in its Intended Nationally Determined Contribution (INDC) in the renewable energy sector, mainly from solar and wind energy. With a potential of more than 100 GW, the aim is to achieve a target of 60 GW of wind power as well as 100 GW of solar power installed capacity by 2022. India's INDC is comprehensive and covers all elements, i.e. adaptation, mitigation, finance, technology and capacity building. The country's goal is to reduce overall emission intensity and improve energy efficiency of its economy over time, at the same time protecting the vulnerable sectors and segments of the economy and society. The principle of equity and

Common but Differentiated Responsibilities (CBDR), historical responsibilities and India's development imperatives, enhanced adaptation requirements, etc. have been a recurring theme in the INDC document. India's INDC has been welcomed as fair and ambitious specifically on renewable energy and forestry sector.

1.103 India has also taken the initiative of setting up an International Solar Alliance (ISA), an alliance of 121 solar-resource-rich countries, lying fully or partially between the Tropic of Cancer and Tropic of Capricorn. This alliance was jointly launched by the Prime Minister of India and President of France on 30 November 2015 at Paris, on the sidelines of the 21st Conference of Parties to the UNFCCC. The Paris declaration on the ISA states that the countries share the collective ambition to undertake innovative and concerted efforts for reducing the cost of finance and technology for immediate deployment of competitive solar generation and to pave the way for future solar generation, storage and good technologies for countries' individual needs.

1.104 Successful implementation of the Paris Agreement, SDGs and the ambitious targets set out in the INDCs would require huge financing which cannot be met through budgetary sources alone. In this context it is important that the issue of mobilization and tracking of finance, with increased importance to adaptation and clean technology is adequately addressed.