Indian Economy on the Eve of Union Budget 2019-20 (Interim)

Steady......strong......fastest moving economy

January 2019

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Executive Summary

The journey of Indian economy has been promising as the economic growth trajectory increased from steady during 1960s to 1990s to strong in 2000s and fastest in the 2010s. The advent of economic reforms has not only enhanced the economic growth, but also provided a conducive and promising business environment to the citizens of India.

During the last five years, a broad based strength in the economic indicators have been observed as the growth rate of real GDP has increased from 6.4% in FY2014 to 7.2% in FY2019. The per capita income has increased from Rs 79,118 in FY2014 to Rs 1,25,397 in FY2019. Exports growth has increased from 7.8% in FY2014 to 12.1% in FY2019. FDI inflows have increased from USD36 billion in FY2014 to USD62 billion in FY2019. Industry growth has increased from 3.8% in FY2014 to 7.8% in FY2019. GFCF growth has increased from 1.6% in FY2014 to 12.2% in FY2019. Forex reserves have increased from USD304.2 billion in FY2014 to USD393.2 billion in FY2019.

In the financial market segment, the BSE Sensex has increased from 22386 in FY2014 to 35749 in FY2019. In the business segment, India’s ranking in World Bank’s EODB rankings has improved from 142nd in 2014 to 77th in 2019. Whereas, inflation has come down from 9.5% in FY2014 to 3.3% in FY2019. Accordingly, monetary stance softened from 8% in FY2014 to 6.5% in FY2019.

Going ahead, the economy needs further bold measures to boost the investment environment and to trigger demand growth to the next level. Time has come to rationalise the direct taxes starting from reduction in Corporate Tax to a level of 25% for all corporate tax payers, without any turnover criteria. Further, continuous reforms in housing and construction sector, increase in public investments in agricultural infrastructure, credit availability to small and marginal farmers, focus on twin merit goods of education with skill development and basic health with safety and continuous reforms in agriculture sector to improve farm productivity and income levels are some of the areas which should be focused upon in the budget.
1. Trend of GDP Growth Rate

The GDP growth rate trend of Indian economy has changed from being steady to strong and now to fastest in the world. In 1960s, the growth rate of GDP has been at 4.0%, which decreased to 2.9% in 1970s. Decade of 1980s recorded a steep rise in the GDP growth rate, making the average growth rate rise to 5.6%. In 1990s and 2000s, the average growth rate increase to 5.8% and 7.2% respectively. Over the nine years, spanning from 2010 to 2019, the average growth rate of India has been recorded at 7.3%.

In the last five years, that is from 2014-15 to 2018-19, the average growth rate of GDP has been at 7.7%. This has made India the fastest moving emerging economy in the world economic system. The macro-economic environment has improved significantly during the last few years. Inflation is contained, fiscal consolidation is on the right path and foreign investment flows are growing year after year. During the last few years, government has undertaken a plethora of reforms and corresponding budgetary allocations for each and every segment of the population to facilitate all-inclusive growth and sustainable development of the economy.

According to the IMF, India is a bright spot in the global ecosystem and India’s growth is looking very lucrative in the coming years. India’s growth has surpassed many emerging and developing economies. Recent IMF data suggests that India is the fastest growing economy in the world and this trend will continue in 2019 and 2020 also. Recently, NITI Aayog expects India to grow at 9-10% by 2022-23 which would raise the size of the economy in real terms from USD2.7 trillion in 2017-18 to nearly USD4 trillion by 2022-23.

![GDP Growth Rate Graph](Graph.png)

Source: PHD Research Bureau, compiled from RBI, Planning Commission (Note: Data of last five years pertains to 2014-15 to 2018-19, in which data for 2018-19 are from First Advance Estimates)
2. Key Economic Indicators

During the last 4-5 years, the Indian economy has witnessed remarkable improvement in macro-economic environment with lead indicators in positive trajectory. The real GDP growth has increased from 6.4% in 2014 to 7.2% in 2019. Per-capita income at current prices has exhibited an increasing trend from Rs. 79,118 in 2014 to Rs. 1,25,397 in 2019. The overall inflation has contained over the last few years as the WPI inflation decreased from 5.2% in 2014 to 4.4% in 2019 and CPI inflation dipped from 9.5% in 2014 to 3.3% in 2019 which is highly encouraging.

The exports growth has steadily increased from 7.8% in 2014 to 12.1% in 2019 and the total trade of the country has improved from USD 764.5 billion in 2014 to USD 769.1 billion in 2019. The fiscal deficit as share of GDP declined from 4.5% in 2014 to 3.3% in 2019. Further, India recorded a consistent increase in foreign inflows over the last few years. The FDI inflows have increased from USD 36.0 billion in 2014 to USD 61.9 billion in 2019. The exchange rate in 2014 was INR/USD 60.5 however it is expected to dwindle between INR/USD 69-67 in 2019.

Going ahead, the industry growth is expected to increase from 3.8% in 2014 to 7.8% in 2019, while the services growth is also expected to show a positive trend, increasing slightly from 7.7% in 2014 to 7.9% in 2019. On the flip side, the agriculture sector is expected to grow at 3.8% in 2019. The public consumption has increased from 0.6% in 2014 to 9.2% in 2019. The GFCF grew from 1.6% in 2014 to 12.2% in 2019.

Other factors which stood in India’s favor are forex reserves, which increased from USD 304.2 billion in 2014 to USD 393.2 billion in 2019, BSE Sensex, which increased from 22386 in 2014 to 35749 in 2019. The average crude oil price (Rs./ 1BBBL) decreased from Rs 5982.3 per barrel in 2014 to Rs 4497.1 per barrel in 2019. The Reserve Bank of India has reduced repo rate from 8% in 2014 to 6.5% in 2019.

At the global charts, the Indian economy is looking remarkably attractive in comparison to its performance in the last five years. The improvement in the Ease of Doing Business from 142nd in 2014 to 77th in 2019 is the significant outcome of the diligent efforts of the government towards improving business environment in the economy. The improvement in World Bank’s Ease of Doing Business rankings has been observed primarily due to significant improvement in dealing with construction permits with improvement and trading across borders.
Indian Economy on the Eve of Union Budget 2019-20 (Interim): Steady...strong...fastest moving economy

**Summary of Economic Indicators**

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<tr>
<th>S. No.</th>
<th>Economic Indicators</th>
<th>FY14</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Real GDP Growth</td>
<td>6.4%</td>
<td>7.2%*</td>
</tr>
<tr>
<td>2</td>
<td>Per Capita Income at current prices</td>
<td>79,118%</td>
<td>1,25,397*</td>
</tr>
<tr>
<td>3</td>
<td>WPI Inflation**</td>
<td>5.2%</td>
<td>4.4%</td>
</tr>
<tr>
<td>4</td>
<td>CPI Inflation†</td>
<td>9.5%</td>
<td>3.3%</td>
</tr>
<tr>
<td>5</td>
<td>Exports Growth</td>
<td>7.8%</td>
<td>12.1%*</td>
</tr>
<tr>
<td>6</td>
<td>Imports Growth</td>
<td>-8.1%</td>
<td>13%</td>
</tr>
<tr>
<td>7</td>
<td>Fiscal Deficit as % of GDP</td>
<td>4.5%</td>
<td>3.3%*</td>
</tr>
<tr>
<td>8</td>
<td>Current Account Deficit as % of GDP</td>
<td>1.7%</td>
<td>2.7%</td>
</tr>
<tr>
<td>9</td>
<td>FDI Inflows</td>
<td>USD 36.0 bn</td>
<td>USD 61.9 bn**</td>
</tr>
<tr>
<td>10</td>
<td>Exchange Rate (INR/USD)</td>
<td>60.50</td>
<td>69-67</td>
</tr>
<tr>
<td>11</td>
<td>Agriculture Growth**</td>
<td>5.6%</td>
<td>3.8%*</td>
</tr>
<tr>
<td>12</td>
<td>Industry Growth**</td>
<td>3.8%</td>
<td>7.8%</td>
</tr>
<tr>
<td>13</td>
<td>Services Growth**</td>
<td>7.7%</td>
<td>7.9%*</td>
</tr>
<tr>
<td>14</td>
<td>Private Consumption</td>
<td>7.3%</td>
<td>6.4%*</td>
</tr>
<tr>
<td>15</td>
<td>Public Consumption</td>
<td>0.6%</td>
<td>9.2%</td>
</tr>
<tr>
<td>16</td>
<td>GFCF (Growth)</td>
<td>1.6%</td>
<td>12.2%*</td>
</tr>
<tr>
<td>17</td>
<td>Forex Reserves</td>
<td>USD 304.2 bn</td>
<td>USD 393.2 bn*</td>
</tr>
<tr>
<td>18</td>
<td>BSE Sensex†</td>
<td>22386</td>
<td>35749**</td>
</tr>
<tr>
<td>19</td>
<td>Crude Oil (Rs./1 BBL)</td>
<td>5982.36</td>
<td>4497.1**</td>
</tr>
<tr>
<td>20</td>
<td>Repo Rate</td>
<td>8.0%*</td>
<td>6.5%**</td>
</tr>
<tr>
<td>21</td>
<td>EODB Ranking</td>
<td>142</td>
<td>77</td>
</tr>
<tr>
<td>22</td>
<td>Total Trade</td>
<td>USD 764.5 bn</td>
<td>USD 769.1 bn**</td>
</tr>
</tbody>
</table>

Source: PHD Research Bureau, compiled from various sources
Note: *According to the First Advance Estimates of National Income, 2018-19; **Data pertains to first revised estimates of National Income, 2016-17; *** Data pertains to the new base year 2011-12; ♦ Data pertains to Budget Estimates of 2018-19; ^Data pertains to April-August FY2019; ' Data pertains to old base year 2004-05; " Data pertains to 28-01-2014; ^ Data pertains to RBI Monetary Policy, December 2018. **Data pertains to IMF’s WEO April 2018 forecast; *data pertains to April to November 2018-19; † data pertains to 21st Dec 2018; —average of FY19 till 18 Jan 2019; . . data pertains to FY2017-18; ® PHD Research Bureau Estimates; # Yearly average; ’ ’ data pertains to 31st January 2019.
3. Current Economic Situation

3.1 First Advanced Estimates of National Income, 2018-19

According to First Advanced Estimates of National Income, GDP estimated at 7.2% in FY2019 as compared to 6.7% in FY2018. The agriculture sector growth stands at 3.8% in FY2019 from 3.4% in FY2018. Manufacturing sector registered a growth of 8.3% in FY2019 as compared to 5.7% in FY2018. Construction registered a growth of 8.9% in FY19 as compared to 5.7% in FY2018. Growth of Trade, Hotel, Transport, and Communication has been registered at 6.9% in FY2019 from 8.0% in FY2018. Financial, Real Estate and Service registered a growth a 6.8% in FY2019 as compared to 6.6% in FY2018. GVA for ‘Public Administration and Defence and Other Services’ is expected to grow by 8.9% as compared to growth of 10.0% in 2017-18.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Gross Value Added at Basic Prices in 1st Advance Estimates (in crore)</th>
<th>Percentage change over previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agriculture, Forestry &amp; Fishing</td>
<td>17,16,746</td>
<td>17,74,573</td>
</tr>
<tr>
<td>2. Mining &amp;Quarrying</td>
<td>3,71,066</td>
<td>3,81,965</td>
</tr>
<tr>
<td>3. Manufacturing</td>
<td>20,48,711</td>
<td>21,66,267</td>
</tr>
<tr>
<td>4. Electricity, Gas, Water Supply &amp; other Utility Services</td>
<td>2,44,934</td>
<td>2,62,496</td>
</tr>
<tr>
<td>5. Construction</td>
<td>8,78,110</td>
<td>9,28,484</td>
</tr>
<tr>
<td>6. Trade, Hotels, Transport, Communication and Services related to Broadcasting</td>
<td>21,37,102</td>
<td>23,07,684</td>
</tr>
<tr>
<td>7. Financial, Real Estate &amp; Professional Services</td>
<td>24,37,857</td>
<td>25,99,927</td>
</tr>
<tr>
<td>8. Public Administration, Defence and other Services</td>
<td>14,13,103</td>
<td>15,54,759</td>
</tr>
<tr>
<td>GVA at Basic Price</td>
<td>1,12,47,629</td>
<td>1,19,76,155</td>
</tr>
</tbody>
</table>

Source: PHD Research Bureau compiled from CSO and MOSPI
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3.2 November 2018 core infra grows at 3.5%

The core infrastructure grows at 3.5% in November 2018 as against 4.8% in October 2018. The combined index of Eight Core Industries stood at 128.5 in November, 2018. This was 3.5% higher as compared to the index of November, 2017. Cement and Refinery products growth stands at 8.8% and 2.3% respectively in the month of November 2018. In cumulative terms, core infrastructure industries registered a growth of 5.1% as during April - November 2018-19 as against 3.5% during April- November 2017-18.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Weight</th>
<th>Oct 18</th>
<th>Nov 18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Oil</td>
<td>8.98</td>
<td>(-)5.0</td>
<td>(-)3.5</td>
</tr>
<tr>
<td>Natural Gas</td>
<td>6.88</td>
<td>(-)0.9</td>
<td>0.5</td>
</tr>
<tr>
<td>Petroleum Refinery Products</td>
<td>28.04</td>
<td>1.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Coal</td>
<td>10.33</td>
<td>11.3</td>
<td>3.7</td>
</tr>
<tr>
<td>Fertilizer</td>
<td>2.63</td>
<td>(-)1.5</td>
<td>(-)8.1</td>
</tr>
<tr>
<td>Electricity</td>
<td>19.85</td>
<td>10.9</td>
<td>5.4</td>
</tr>
<tr>
<td>Cement</td>
<td>5.37</td>
<td>18.4</td>
<td>8.8</td>
</tr>
<tr>
<td>Steel</td>
<td>17.92</td>
<td>2.6</td>
<td>6.0</td>
</tr>
<tr>
<td>Overall</td>
<td>100</td>
<td>4.8</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: PHD Research Bureau, compiled from the office of the economic advisor to the Govt. of India

3.3 November 2018 IIP decline to 0.5%

Growth in industry output, as measured in terms of IIP, for the month of November 2018 declined to at 0.5% as compared to 8.4% in October 2018. The growth in the three sectors mining, manufacturing and electricity in November 2018 stands at 2.7%, (-) 0.4% and 5.1% respectively over November 2017. Primary goods growth stands at 3.2%, capital goods growth stands at (-) 3.4%, intermediate goods growth stands at (-) 4.5%, infrastructure/construction goods growth stands at 5.0%, consumer durables stands at (-) 0.9% and consumer non-durables growth stands at (-) 0.6% during November 2018 as compared to the previous year.

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<tr>
<th>Recent growth pattern in IIP</th>
<th>Weight in IIP</th>
<th>April-November 2017-18</th>
<th>April-November 2018-19</th>
<th>October 2018</th>
<th>November 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>14.3</td>
<td>3.0</td>
<td>3.7</td>
<td>7.2</td>
<td>2.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>77.6</td>
<td>3.1</td>
<td>5.0</td>
<td>8.2</td>
<td>(-)0.4</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Electricity</th>
<th>7.9</th>
<th>5.3</th>
<th>6.6</th>
<th>10.8</th>
<th>5.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary goods</td>
<td>34.0</td>
<td>3.5</td>
<td>4.8</td>
<td>6.1</td>
<td>3.2</td>
</tr>
<tr>
<td>Capital goods</td>
<td>8.2</td>
<td>1.3</td>
<td>7.2</td>
<td>17.0</td>
<td>(-)3.4</td>
</tr>
<tr>
<td>Intermediate goods</td>
<td>17.2</td>
<td>1.1</td>
<td>0.7</td>
<td>1.9</td>
<td>(-)4.5</td>
</tr>
<tr>
<td>Infrastructure/construction goods</td>
<td>12.3</td>
<td>3.9</td>
<td>8.3</td>
<td>8.9</td>
<td>5.0</td>
</tr>
<tr>
<td>Consumer durables</td>
<td>12.8</td>
<td>(-)1.5</td>
<td>8.2</td>
<td>18.0</td>
<td>(-)0.9</td>
</tr>
<tr>
<td>Consumer non-durables</td>
<td>15.3</td>
<td>9.6</td>
<td>3.9</td>
<td>8.8</td>
<td>(-)0.6</td>
</tr>
</tbody>
</table>

Source: PHD Research Bureau, compiled from CSO

3.4 December 2018 CPI inflation falls to 2.19%

The all India general CPI inflation (Combined) for December 2018 (Prov.) falls to 2.19% from 2.33% in November 2018. The inflation rates for rural and urban areas for December 2018 (Prov.) are 1.65% and 2.91%, respectively, as compared to 1.71% and 3.12% respectively, for November 2018. Rate of inflation during December 2018 are for fuel and light (4.54%), housing (5.32%), transport and communication (4.30%), education (8.38%) and health (9.02%) etc.

![Consumer Price Inflation (Combined)](chart)

Source: PHD Research Bureau, compiled from CSO

3.5 December 2018 WPI inflation falls to 3.8%

The WPI inflation falls to 3.8% in December 2018 as compared to 4.64% in November 2018, 5.54% in October 2018, 5.22% in September 2018, 4.62% in August 2018 and 5.27% in July2018. The fall in WPI inflation in the month of December 2018 is attributed to fall in the price of potato (48.68%), Petrol (1.57%) and LG (6.87%). Build up inflation rate in the financial year so far was 3.27% compared to a build up rate of 2.21% in the corresponding period of the previous year. The WPI inflation for manufactured products
stands at 3.59% for December 2018 as against 4.21% for November 2018.

### 3.6 Gross bank credit grows at 14% in November 2018

Gross bank credit grows at 14% in November 2018 as against 13.1% in October 2018. The gross bank credit growth stands at 8.5% in November 2017. On a year-on-year (y-o-y) basis, non-food bank credit increased by 13.8 in November 2018 as against 13.4% in October 2018. Credit to agriculture and allied activities increased by 7.7% in November 2018 as against 8% in October 2018. Credit growth to infrastructure, textiles, chemical and chemical products and all engineering accelerated. However, credit growth to basic metal & metal product, cement & cement products, gems & jewellery and paper & paper products contracted/decelerated.

### 3.7 Merchandise exports grew by 0.34% and imports declined by 2.44%

India’s exports during December 2018 were valued at USD 27.93 Billion as compared to USD 27.83 Billion during December 2017 exhibiting a positive growth of 0.34%.
India's imports during December 2018 were valued at USD 41.01 Billion (Rs 2,90,032.95 crore) which was 2.44% lower in Dollar terms and 7.41% higher in Rupee terms over the level of imports valued at USD 42.03 Billion (Rs.2,70,015.44 crore) in December 2017. The major commodity groups of export showing positive growth over the corresponding month of last year are Petroleum Products (13.18%); Organic & Inorganic Chemicals (5.5%); Plastic & Linoleum (20.18%); RMG of all Textiles (2.77%) and Electronic Goods (50.81%).

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</thead>
<tbody>
<tr>
<td>Exports (USD billion)</td>
<td>25.91</td>
<td>28.86</td>
<td>27.7</td>
<td>25.77</td>
<td>27.84</td>
<td>27.95</td>
<td>26.98</td>
<td>26.50</td>
<td>27.93</td>
</tr>
<tr>
<td>Growth (%)</td>
<td>5.17</td>
<td>20.18</td>
<td>17.57</td>
<td>14.32</td>
<td>19.21</td>
<td>-2.15</td>
<td>17.86</td>
<td>0.8</td>
<td>0.34</td>
</tr>
<tr>
<td>Imports (USD billion)</td>
<td>39.63</td>
<td>43.48</td>
<td>44.3</td>
<td>43.79</td>
<td>45.24</td>
<td>41.93</td>
<td>44.11</td>
<td>43.17</td>
<td>41.01</td>
</tr>
<tr>
<td>Growth (%)</td>
<td>4.6</td>
<td>14.85</td>
<td>21.31</td>
<td>28.81</td>
<td>25.41</td>
<td>10.45</td>
<td>17.62</td>
<td>4.31</td>
<td>2.44</td>
</tr>
</tbody>
</table>

Source: PHD Research Bureau, compiled from Ministry of Commerce and Industry, Govt of India

India's current account deficit (CAD) stands at US$ 19.1 billion (2.9 per cent of GDP) in Q2 of 2018-19 increased from US$ 6.9 billion (1.1 per cent of GDP) in Q2 of 2017-18 and US$ 15.9 billion (2.4 per cent of GDP) in the preceding quarter. The widening of the CAD on a year-on-year (y-o-y) basis was primarily on account of a higher trade deficit at US$ 50.0 billion as compared with US$ 32.5 billion a year ago. Net services receipts increased by 10.2 per cent on a y-o-y basis mainly on the back of a rise in net earnings from software and financial services. Private transfer receipts, mainly representing remittances by Indians employed overseas, amounted to US$ 20.9 billion, increasing by 19.8 per cent from their level a year ago.

Major Items of India’s Balance of Payments (BoP)

<table>
<thead>
<tr>
<th></th>
<th>July-September 2018</th>
<th>July-September 2017</th>
<th>April-September 2018-19P</th>
<th>April-September 2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Credit</td>
<td>Debit</td>
<td>Net</td>
<td>Credit</td>
</tr>
<tr>
<td>A. Current Account</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>POL</td>
<td>12.1</td>
<td>35.2</td>
<td>-23.1</td>
<td>9.0</td>
</tr>
</tbody>
</table>

3.8 India’s CAD increased to 2.9% of GDP in Q2 of 2018-19 from 1.1% of GDP in Q2 of 2017-18
3.9 **ECBs Stand at USD 1.9 billion During November 2018**

Indian firms have raised about USD 1.9 billion through external commercial borrowing (ECBs) by automatic and approval route in November 2018 as against USD 1.4 billion in October 2018. The borrowings stood at USD 3.02 billion in November 2017. India has received gross ECBs worth around USD 359 billion between FY2001 and FY2019 (till November 2018). The lion’s share in ECBs during the month of November 2018 is held for On-lending/Sub-lending by about 37% of the total borrowings followed by general corporate purpose by around 35% and working capital purpose at about 16%.
3.10 November 2018 fiscal deficit stands at 114.8% of actual to BEs

The gross fiscal deficit of the central government stands at 114.8% of the actual budget estimates (BEs) at the end of November 2018 as compared to 112% of the actuals to budget estimates in the corresponding period of the previous year. The primary deficit was registered at 759.9% of the actuals to budget estimates at the end of November 2018 as compared to 1288.9% of the actuals to budget estimates during the corresponding period of the previous year. The revenue receipts at the end of November 2018 of the central government stands at 50.4% of the actuals to budget estimates as compared with 53.1% of the actuals to budget estimates at the end of November 2017.

Differentials in use of fiscal deficit space at the end of Oct’ 2018 vis-à-vis Oct’ 2017 (in %)

Source: PHD Research Bureau, compiled from Government of India, Accounts, Government of India

3.11 Direct Tax collections at Rs. 8.74 lakh crore for FY 2018-19 up to December

The provisional figures of gross Direct Tax collections up to December, 2018 are at Rs. 8.74 lakh crore, which is 14.1% higher than the gross collections for the corresponding period of last year. The net Direct Tax collections represent 64.7% of the total Budget Estimates of Direct Taxes for FY 2018-19 (Rs. 11.50 lakh crore).

The growth rate of gross collections for CIT is 14.8%, while that for PIT (including STT) is 17.2%. After adjustment of refunds, the net growth in CIT collections is 16.0% and that in PIT collections is 14.8%. Advanced tax collection stands at Rs. 3.64 lakh crore, which is 14.5% higher than the Advance Tax collections during the corresponding period of last year. The growth rate of Corporate Advance Tax is 12.5% and that of PIT Advance Tax is 23.8%. 

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4. **Budget Expectations**

Continuous reforms in agriculture sector to improve farm productivity and income levels, increased disposable income of the middle class vis-a-vis rationalisation of the direct taxes would give a further boost to the overall economic growth of the country.

At the global charts, the Indian economy is looking remarkably attractive due to its performance in the last five years. The improvement in the Ease of Doing Business from 142nd in 2014 to 77th in 2019 is the significant outcome of the diligent efforts of the government towards improving the business environment in the economy. What needs to be accelerated is a much greater interaction with Indian Businesses at the highest level in the Government of India. At this juncture, the economy needs further bold measures to boost the investment environment and to trigger demand growth to the next level.

The macro-economic environment has improved significantly during the last four years. Inflation has been contained remarkably, fiscal consolidation is on the right path and foreign investment flows are growing year after year. During the last four years, the government has been making continuous efforts to uplift industrial growth which has increased significantly from 3.8% in FY14 to 5.5% in FY18 and is expected to be 7.8% in FY19. To bolster the industrial sector further, double digit manufacturing growth with increased participation of manufacturing sector MSMEs would create maximum opportunities for employment for the growing young workforce in India.

Land reforms such as increase in the lease period and creation of land banks for the use of industry should be strengthened. Further reforms in labour laws and an emphasis on productivity are required to facilitate the manufacturing firms to enhance their competitiveness, although “Tenure Employment” is a great step forward. Continuous reforms in housing and construction sector would definitely create employment opportunities for millions of unskilled, semi skilled and skilled workforce. It should be noted that urbanisation has potential to shift disguised unemployment in agriculture sector to construction activities.

The increase in public investments in agricultural infrastructure would attract private investments in cold storage, warehousing and supply chain of agriculture produce in order to reduce food wastages and get them to urban citizens at moderate rates. It shall also raise the returns to agriculturists. To facilitate infrastructural development, strengthening of integrated public transport projects such as roadways, railways and waterways would reduce the logistics and time costs to businesses and enhance employment creation. Privatisation of railway and road transport on the lines on aviation industry is the answer for the future. Tourism is the largest investment market
in India, which has the larger number of stakeholders even than the stock exchanges in India. It is time to give this a further boost in private sector investment by not considering it a luxury.

In India, start-ups have made good strides to foster a new business environment. Going ahead, government should provide an exemption from angel tax to the start-ups to attract more and more innovative minds in entrepreneurship. Further, focus on twin merit goods of education with skill development and basic health with safety should continue with a longer term vision.

Consistent indirect tax revenue growth, along with reduction in GST rates by the government indicates that the tax base is widening and economic activity is rapidly expanding in India. Time has come to rationalise the direct taxes starting from reduction in Corporate Tax to a level of 25% for all corporate tax payers, without any turnover criteria. This will provide a boost to economic growth and would result in widening of the Direct Tax net, enhance collections and promote compliance further.

Income up to Rs. 3.5 lakhs should be considered for tax exemption, instead of the present Rs. 2.5 lakhs. The maximum personal income tax rate should be towards 25% to increase the personal disposable income which will boost demand in the economy. The Maximum marginal slab should also be raised to Rs. 15 Lacs instead of Rs. 10 Lacs. It is a settled principle that reduction in tax rate widens the tax net and promotes compliance.

For all the above sectors to come of age, India needs to be a more tax compliant nation. For this reason, it is time to invest in Big Data analytics to ensure that all potential tax payers pay all the taxes that they should be paying. And let us not do it through a raid-raj or tax terrorism, but with the help of data mining and making an example of major offenders and doing away with exemptions.
Indian Economy on the Eve of Union Budget 2019-20 (Interim): Steady…strong…fastest moving economy

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The Research Bureau has been instrumental in forecasting various lead economic indicators national and sub-national. Many of its research reports have been widely covered by media and leading newspapers. Recently, the Research Bureau has undertaken various policy projects of Government of India including Framework of University-Industry Linkages in Research assigned by DSIR, Ministry of Science & Technology, Study on SEZ for C&AG of India, Study on Impact of Project Imports under CTH 9801 for C&AG of India, among others.

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- State Profiles
- Impact Assessments
- Thematic Research Reports
- Releases on Economic Development

### Comments on Economic Developments

- Macro Economy
- States Development
- Infrastructure
- Foreign exchange market
- Global Economy & International Trade

### Newsletters

- Economic Affairs Newsletter (EAC)
- Global Economic Monitor (GEM)
- Trade & Investment Facilitation Services (TIFS)
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- State Development Monitor (SDM)
- Forex and FEMA Newsletter
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