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INDIA ECONOMIC SURVEY

2020-2021

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India Economic Survey | Key Takeaways

Ahead of the Union Budget 2021, the Economic Survey released on January 29, 2021 details the performance, challenges and prospects of the policy driven economic trajectory of the Indian state.

With India stepping into a transformational decade as stated by our honourable Prime Minister, the Economic Survey 2021 brings around congenial emotions and revamped outlook for the nation to transition out thrivingly from the pandemic hit fiscal. The key highlights from the session were:

India's response to the pandemic:

- To the policy dilemma of 'lives versus livelihoods', India's policy response focused on saving human lives recognizing that the short-term pain of initial stringent lockdown would lead to long-term benefits and accelerate the pace of economic recovery.

- In the initial months of pandemic, India did not waste precious fiscal resources trying to pump up discretionary consumption. Rather the focus was on all essentials, including direct benefit transfers to vulnerable sections and world's largest food subsidy program targeting 809 million beneficiaries.

Macro Economic Facet:

- Recovering from the 7.7% GDP contraction driven by the pandemic, estimates for a real GDP growth of 11% and nominal GDP growth of 15.4% have been put forth. The economic survey projections move hand in hand with the IMF's assumption of 11.5% growth rate for India in 2021-22.
- A V-shaped recovery curve has been foreseen for the economy, backed by the mega vaccination drive. Having established a rather interesting correlation between the lockdowns stringency and V-shaped recovery curve, the survey calls for a more active, counter cyclical fiscal policy.
- The survey states India's forex reserves to be sufficient to cover controlled negative movements. While at the same time, India's sovereign credit rating of BBB- has been claimed to not truly reflect the Indian economy's fundamentals.
- In 2020-21, government consumption and net exports have comforted the GDP contraction whilst Gross Capital Formation (GCF) and private consumption have proven to be shaky. Gross Value Added (GVA) stands at -7.2% for the same year alongside CPI Inflation averaging to 6.6% majorly induced by the food inflation levels with retail and wholesale inflation moving opposite for the year under review.

Fiscal Policy and related measures:

- Export and import figures have taken a sharp hit in the early period of 2020-21 lending its impact on the balance of payments position. The 2% current account surplus captures the first positive balance for the nation over the past 17 years.

- Record high forex reserves of US$ 586.10 bn, splurging monthly GST collections consecutively crossing the 1 lakh crore bar, structural tax reforms, improved capex spending and a brawny capital account balance reinforced by robust FDI and FPI inflows altogether indicate a path of recovery and growth.

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- Alongside successful RBI interventions helping control the volatility causing one-sided rupee appreciation, exports have been promoted vide numerous schemes thereby demanding better logistics infrastructure and digital initiatives.

- With ambitious divestment targets stated in the previous budget, the government managed to raise INR 15,220 crore and lay heavy focus on privatisation and big-ticket sales of eminent CPSE's such as Air India, BPCL, Container Corporation of India and Shipping Corporation of India for 2021-22.

- Target for gross market borrowings of Central Government for FY 2020-21 revised from budget estimate of INR 7.8 lakh crore to INR 12 lakh crore, to cater increased demand on resources. Government expected to register a fiscal slippage in 2020-21.

Accommodative Monetary Policies of the RBI:

- Owing to the need for a liquidity injection, the RBI resorted to an accommodative monetary policy throughout the fiscal year. The repo rate had been cut by 115 bps since March 2020.
- The RBI has managed to maintain a surplus in its systemic liquidity so far in 2020-21, by implementing a balanced combination of conventional and unconventional measures. Open market operations, long term repo rate operations, targeted long term repo rate operations and tweaking of mandatory liquidity ratios were some of the techniques effectively utilised by the RBI for managing the crunch liquidity situation.
- However, the survey also highlighted that the transmission of high reserve money growth into money supply growth was only partial and indicated towards impaired liquidity transmission as some banks resorted to depositing money back with the RBI under the reverse repo, thus seeking a safer hedge.
- The credit off-take from the banking sector experienced a broad-based slowdown. Credit growth of banks flatlined to 6.7% as on January 1, 2021.

- The RBI ensured economic insulation from a sudden pile up of NPAs. This could be seen in the gross NPA ratio of scheduled commercial banks falling from 8.21% at the end of March 2020 to 7.49% at the end of September 2020. However, this needs to be seen in conjunction with the asset classification relief provided to the borrowers on account of the pandemic.

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Sectoral Highlights:

Pharmaceutical:

- The survey highlighted that the Indian pharmaceutical sector needs to rise to the opportunity presented by the pandemic and emerge as the *Pharmacy of the World*.
- It suggested that India needs to broaden its base in terms of markets, as well as product categories. It needs to pursue opportunities in newer product classes like biosimilars, gene therapy and specialty drugs and increase exports to large and underpenetrated markets like Japan, China, Africa, Indonesia, Russia/CIS countries, Brazil and Latin America. According to the Economic Survey this can usher-in the next leg of growth for Indian pharma industry.
- It has also said that the pharma industry needs greater R&D expenditure to move up the value chain from generics to Novel Chemical Entities (NCEs).

Healthcare:

- Accredited to the emphasised impact resulting out of COVID, healthcare has gained the limelight on the economic roadmap. Technology enabled healthcare is being harnessed and the Pradhan Mantri Jan Arogya Yojna surfaces as a compelling stride towards improved healthcare access for the masses.
- The survey has recommended a spending of 2.5-3% of the GDP towards shaping an equitable, affordable and accountable healthcare framework thereby targeting a reduction to 30% for out of pocket expenditure (OOPE) which currently stands around 60% of the overall healthcare spend.
- The National Health Accounts data shows that the states undertake 66% of the healthcare spending. The survey thus encourages the states to target a spending of 2.5 to 3% of GDP.

Services:

- Hit hard owing to its contact intensive nature, the services sector is set on the path of positive growth post an overall contraction of 16% during the first half of 2020-21. Air passenger traffic, rail freight traffic, port traffic, foreign tourist arrivals, and foreign exchange earnings all contracted sharply.
- Amidst the downfall, services sector still stands as the largest FDI recipient having recorded a YOY growth of 34% taking the gross inflow levels to US$ 23.6 Bn for the April-September 2020 tranche.
- Sub-sectors herein have garnered sharp recovery rates supported by significant structural reforms such as removal of telecom related regulations from IT-BPO sector and introduction of consumer protection regulations for e-commerce in 2020-21.
- Even the Indian start-up ecosystem has cashed in symbolic progress with 12 new entrants to the unicorn club in this pandemic struck year, taking the tally to 38 unicorns. The Indian space ecosystem is undergoing several policy reforms as well to engage private players and attract innovation and investment.
- With predictions circumventing the aircraft movement and passenger travel to pre-COVID levels by early 2021, the bidding process for privates trains is targeted to be completed by May 2021 with 2023-24 likely to be seeing introduction of private trains.

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Banking and Financial:

- Drawing precedence from the global financial crisis, the survey stated that forbearance in loan repayments helps borrowers' tide over temporary hardship caused due to economic struggles, thus avoiding a larger contagion. However, the forbearance continued long after the economic recovery, resulting in unintended and detrimental consequences for banks, firms and the economy.
- Banks exploited the relaxed provisioning requirements to restructure loans and window-dress their books of accounts. Owing to the distorted incentives, misallocation of credit became prevalent, thereby damaging the quality of investments in the economy.
- As a result, the survey suggested that forbearance represents a mere emergency medicine that should be discontinued at the first available opportunity when the economy exhibits recovery. To enable policymaking that involves an exercise of judgement, using hindsight becomes a must.
- The survey recommended that given the problem of asymmetric information, which gets accentuated during the moratorium period, between the regulator and the banks, an asset quality review exercise must be conducted immediately after the forbearance is withdrawn in order to clean the balance sheets of banks.
- Coupled with this, the legal infrastructure for the recovery of loans needs to be strengthened *de facto.*

Industry and Infrastructure:

- The Index of Industrial Production (IIP) exhibited a sharp recovery and has inched up to the pre-COVID levels. The broad-based recovery in the IIP resulted in a growth of -1.9% in November 2020 as compared to 2.1% in November 2019. The survey foresees further improvement and firming up in industrial activities with the Government enhancing capital expenditure going forward.
- It is pertinent to note that the survey mentions that the infrastructural reforms being undertaken in the country are probably one of the most comprehensive among the major economies of the world. This can be seen in the Government's decision to have previously announced a remedial and reform package in the form of Aatmanirbhar Bharat Abhiyan with a stimulus amounting to 15% of India's GDP.
- During FY20, total FDI equity inflows stood at US$ 49.98 bn compared to US$ 44.37 bn for FY19. The similar number for FY21 (up to September 2020) is pegged to be US$ 30 bn. The bulk of the FDI equity flows were towards the non-manufacturing sector. Within the manufacturing sector, industries like automobile, telecommunication, metallurgical, non-conventional energy, chemical, food processing and petroleum and gas received majority of the FDI traction.
- With the objective of enhancing India's industry and manufacturing capabilities and exports, the Government has introduced production-linked incentive (PLI) schemes in the 10 key sectors under the aegis of Aatmanirbhar Bharat. The scheme shall be implemented by the concerned ministries with an overall expenditure estimated at INR 1.46 lakh crores and sector specific limits.

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Agriculture:

- Despite the pandemic, agriculture sector output was strong. The agriculture sector showed robust growth of 3.4% at constant prices during 2020-21 (first advance estimates).
- The survey emphasized that the new agricultural laws shall herald a new era of market freedom for agriculturists and farmers. It weighted that the new reforms were designed primarily to benefit small and marginal farmers who constitute 85% of the total farmers.
- The laws shall empower farmers in their engagement with processors, wholesalers, aggregators, large retailers and provide level playing field for all market participants. The reform shall aim at transferring the risk of market unpredictability from farmer to the sponsor and enable access to modern technology.
- Farmers shall have autonomy in the contract to fix a sale price of their choice for the produce and receive payments within a maximum of 3 days. Small farmers shall be united together via the formation of 10,000 farmer producer organizations throughout the country.

Conclusion:

As the nation moves towards the new normal, Economic Survey 2021 has rekindled optimism towards building an Aatmanirbhar Bharat. Agriculture has emerged as the bright spot, whilst manufacturing and services seem to be recovering from the hit. Strong emotions against conservatism on fiscal forefront have emerged inflating expectations towards public spending boosts. Streamlining supply chains, relaxation of policy norms, dynamic capitalisation play, and a widespread innovation push are primary pillars supporting the GDP forecasts.

Alongside active advocation of counter cyclical fiscal policy, the V-shaped recovery curve provides elation on health as well as economic fronts. Consensus stays on uplifting poverty via growth and not redistribution. As the country advances into economic recovery including a mega vaccination drive phase, spirits stay high on receiving the necessary impetus from the forthcoming Union Budget.