

HIGHLIGHTS OF ECONOMIC SURVEY 2020-2021

Economic survey is **annual document** prepared by **Department of Economic Affairs, the Ministry of Finance** under the guidance of Chief Economic Advisor. It is regarded as the **official report card of the union government** which gives a roadmap for the country's economy and spells the way forward. It provides a summary of the annual economic development across the country during the financial year. This year's Survey is an ardent tribute to the immortal human spirit of grit and compassion encapsulated **by the tireless battle against the pandemic by frontline COVID-19 warriors.**

Volume I, **attempts to provide evidence based economic analyses** of the challenges of policymaking and tools to make it more effective.

Volume II **reviews recent developments in the major sectors of the economy** with a focus on the challenges faced due to the pandemic this year. This would serve as the ready reckoner for the existing status and outlook

VOLUME - I

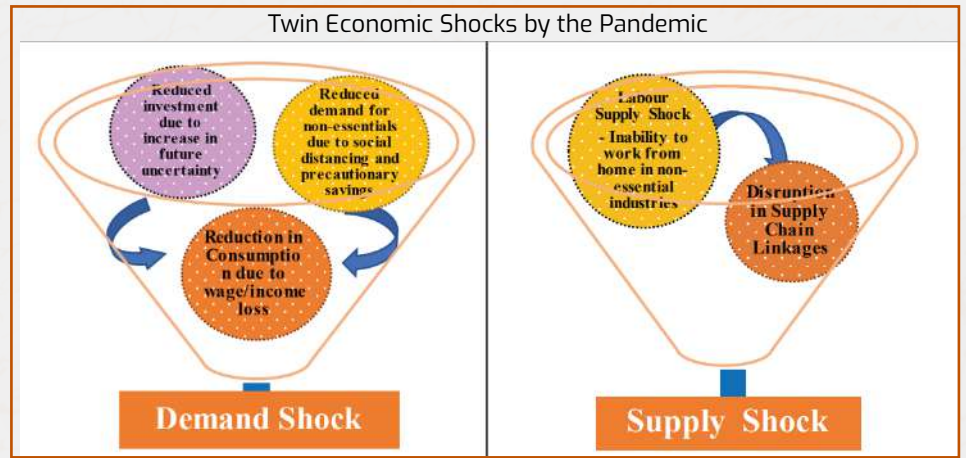
Saving Lives and Livelihoods amidst a Once-in-a-Century Crisis

- India's response to COVID-19 pandemic stemmed from the **humane principle** that:
 - **Human lives lost cannot be brought back**
 - ⊕ **40-day lockdown period was used to scale up the necessary medical and para-medical infrastructure** for active surveillance, expanded testing, contact tracing, isolation and management of cases, and educating citizens about social distancing and masks, etc.
 - **GDP growth will recover from the temporary shock** caused by the pandemic
 - ⊕ While the lockdown resulted in a 23.9% contraction in GDP in Q1, the recovery has been a V-shaped one as seen in the 7.5% decline in Q2 and the recovery across all key economic indicators.
- Strategy was motivated by the **Nobel-Prize winning research by Hansen & Sargent (2001): a policy focused on minimizing losses in a worst-case scenario when uncertainty is very high.**
- **COVID pandemic affected both demand and supply:**
 - India announced structural reforms to expand supply in the medium-long term and avoid long-term damage to productive capacities

⊗ Major structural reforms launched in agriculture markets, labour laws and definition of MSMEs to provide unparalleled opportunity to grow and prosper now and thereby contribute to job creation in the primary and secondary sectors.

● **Calibrated demand side policies** to ensure that the accelerator is slowly pushed down only when the brakes on economic activities are being removed.

⊗ A **public investment programme centred around the National Infrastructure Pipeline** is likely to accelerate this demand push and further the recovery.



Does Growth lead to Debt Sustainability? Yes, But Not Vice- Versa!

➤ Amidst the Covid-19 crisis, higher Government debt to support a fiscal expansion is accompanied by concerns about its implications for future growth, debt sustainability, sovereign ratings, and possible vulnerabilities on the external sector.

➤ In the Indian context, **Growth leads to debt sustainability** but not necessarily vice-versa:

● Debt sustainability depends on the 'Interest Rate Growth Rate Differential' (IRGD), i.e., the difference between the interest rate and the growth rate

● **Growth causes debt to become sustainable** in countries with higher growth rates;

➤ In India, **interest rate on debt is less than growth rate (Negative IRGD)** - by norm, not by exception.

● Given India's growth potential, **debt sustainability is unlikely to be a problem** even in the worst scenarios

➤ Fiscal policy that provides an impetus to growth will lead to **lower debt-to-GDP ratio**.

Does India's Sovereign Credit Rating reflect its fundamentals No!

➤ Chapter reflects bias against emerging giants in sovereign credit ratings.

● Credit ratings map

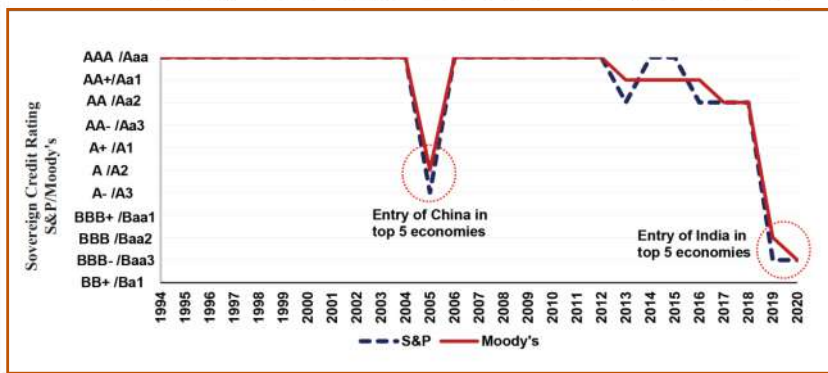
the probability of default and therefore reflect the willingness and ability of borrower to meet its obligations

➤ **No fifth largest economy** in the world has ever been **rated as the lowest rung of the investment grade (BBB-/Baa3)** in sovereign credit ratings. Reflecting the economic size and thereby the ability to repay debt, the fifth largest economy has been predominantly rated AAA.

● China and India are the only exceptions to this rule - China was rated A-/A2 in 2005 and now India is rated BBB-/Baa3.

➤ **India's sovereign credit ratings do not reflect its fundamentals.** For e.g. Credit ratings map the probability of default and therefore reflect the willingness and ability of borrower to meet its obligations.

Sovereign Credit Rating of Fifth Largest Economy (Current US \$)



- India's willingness to pay is unquestionably demonstrated through its zero sovereign default history
- India's ability to pay can be gauged by low foreign currency denominated debt and forex reserves.
- Downgrading (or upgrading) sovereign debt below (or above) investment grade may have a **drastic impact on prices because these rating changes can affect the pool of investors.**

- Commercial banks **downgraded to subinvestment grade will find it costly to issue internationally recognized letters of credit for domestic exporters and importers**, isolating the country from international capital markets.

➤ Sovereign credit ratings methodology should be made **more transparent, less subjective** and better attuned to reflect economies' fundamentals. Developing economies must come together to address this bias.

Inequality and Growth: Conflict or Convergence?

➤ This chapter shows that the **relationship between inequality and socio-economic outcomes vis-à-vis economic growth and socio-economic outcomes is different in India** from that observed in advanced economies.

- The findings from studies in Indian and China imply that there is an absence of a trade-off between economic growth and inequality. This trade-off is observed in advanced economies.

➤ In this chapter, the Survey examines if inequality and growth conflict or converge in the Indian context.

- Studies in the advanced economies show that higher inequality leads to adverse socio-economic outcomes (health, education, life expectancy etc) but income per capita, a measure that reflects the impact of economic growth, has little impact.

- By examining the correlation of inequality and per-capita income, which reflects the impact of economic growth, with a range of socio-economic indicators, the Survey highlights that **both economic growth and inequality have similar relationships with socio-economic indicators.**

- Therefore, **unlike in advanced economies, in India economic growth and inequality converge in terms of their effects on socio-economic indicators.**

➤ Furthermore, this chapter finds that economic growth has a far greater impact on poverty alleviation than inequality.

➤ Therefore, given India's stage of development, India must continue to focus on economic growth to lift the poor out of poverty by expanding the overall pie.

➤ The survey argues that **redistribution is only feasible** in a developing economy **if the size of the economic pie grows.**



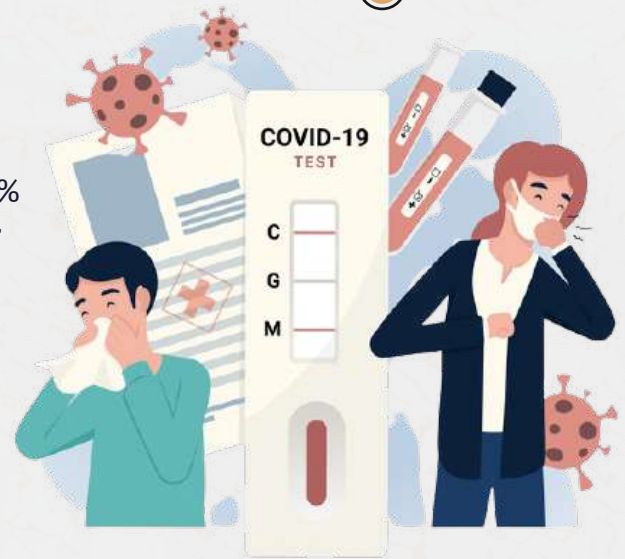
Healthcare takes centre stage, finally!

➤ COVID-19 pandemic **emphasized the importance of healthcare sector and its inter-linkages with other sectors** - showcased how a health crisis transformed into an economic and social crisis

➤ **National Health Mission (NHM)** played a critical role in mitigating inequity as the access of the poorest to pre-natal/post-natal care and institutional deliveries increased significantly.

➤ Key suggestions for Healthcare amid COVID 19:

- Emphasis on NHM in conjunction with **Ayushman Bharat** should continue
- **Increase in public healthcare spending:** From 1% to 2.5-3% of GDP which will also decrease the out-of-pocket **expenditure from 65% to 35%** of overall healthcare spending
- A **regulator for the healthcare sector** must be considered.
- **Mitigation of information asymmetry** to:
 - ⊗ help lower insurance premiums,
 - ⊗ enable the offering of better products
 - ⊗ **increase insurance penetration**
- **Telemedicine** needs to be harnessed to the fullest.



Process Reforms

- In this chapter, **issue of over-regulation is illustrated through time taken for a company to undergo voluntary liquidation in India** (1570 days even when there is no litigation/dispute).
- **Over-regulation results in regulations being ineffective** even with relatively good compliance with process.
- Root cause of the problem of overregulation is an **approach that attempts to account for every possible outcome.**
 - As it is not possible to have regulations accounting for all possible outcomes, discretion becomes unavoidable in decision-making.
- **Attempt to reduce discretion by having ever more complex regulations**, however, results in even more non-transparent discretion.
- **Solution is to simplify regulations and invest in greater supervision** which, by definition, implies allowing greater discretion.
- However, **discretion needs to be balanced with transparency in decision making process, systems of ex-ante accountability** (such as bank boards) and **ex-post resolution mechanisms.**
- The above intellectual framework has **already informed reforms ranging from labour codes to removal of onerous regulations on the BPO sector.**

Regulatory Forbearance an emergency medicine, not staple diet!



- This chapter studies the **policy of regulatory forbearance adopted following the 2008 Global Financial Crisis (GFC) to extract important lessons** for addressing economic challenges posed by COVID-19 pandemic.
- Emergency measures such as **forbearance prevent spillover of the failures in the financial sector to the real sector**, thereby avoiding a deepening of the crisis.
 - During the Global Financial Crisis, **regulatory forbearance helped borrowers tide over temporary hardship.**
 - Regulatory forbearance for banks involved relaxing the norms for restructuring assets, where restructured assets were no longer required to be classified as Non-Performing Assets (NPAs henceforth) and therefore did not require the levels of provisioning that NPAs attract.



- But forbearance continued long (till 2015) after the economic recovery and **Banks exploited forbearance window for window-dressing their books and misallocated credit**, thereby damaging the quality of investment in the economy.
 - P. J. Nayak Committee (2014) highlighted twin concerns stemming from forbearance regime: **ever-greening of loans by classifying NPAs as restructured assets and the resultant undercapitalization of banks.**
- **Learnings for current regime of regulatory forbearance following the COVID-19 crisis.:**
 - Instead of continuing regulatory forbearance for years, policymakers should lay out **thresholds of economic recovery at which such measures will be withdrawn.**
 - An **Asset Quality Review** exercise must be conducted by banks immediately after the forbearance is withdrawn.
 - **Legal infrastructure** for the recovery of loans needs to be strengthened de facto.
 - To promote judgement amidst uncertainty, **ex-post inquests must recognize the role of hindsight bias** and not equate unfavourable outcomes to bad judgement or malafide intent.

Innovation: Trending Up but Needs Thrust, Especially from the Private Sector

- **India entered the top-50 innovating countries for the first time in 2020** since the inception of the Global Innovation Index in 2007, ranking **first in Central and South Asia**, and third amongst lower middle-income group economies.
- India's gross domestic expenditure on R&D (GERD), 0.65% of GDP, is lowest amongst top ten economies (1.5-3%).
- The **government sector contributes a disproportionately large share in total GERD (almost 56%)** at three times the average of top ten economies.
 - Also, **government sector contributes the highest share of total R&D personnel (36%) and researchers (23%)** amongst the top ten economies (9% on average).
- **Business sector's contribution to GERD (about 37%), total R&D personnel (30%) and researchers (34%)** is amongst the lowest when compared to top ten economies (over 50% on average).
 - This situation has prevailed **despite higher tax incentives for innovation and access to equity capital.**
- **Indian resident's share in total patents filed in the country must rise from the current 36%** which is much below the average of 62% in top ten economies
- For achieving higher improvement in innovation output, India must focus on **improving its performance on institutions and business sophistication innovation inputs.**

JAY Ho! PM'JAY' Adoption and Health outcomes



- **Pradhan Mantri Jan Arogya Yojana (PM-JAY)**, launched in 2018, aims to provide healthcare access to the most vulnerable sections. It has had a **strong positive impact on the health-care outcomes of those States that have adopted the healthcare scheme.**
- **Following causal impact of PM-JAY on health outcomes** were observed:
 - **Enhanced health insurance coverage:** Across all the states, the proportion of households with health insurance increased by 54% for the states that implemented PM-JAY while falling by 10% in states that did not.
 - **Decline in Infant Mortality rate (IMR):** IMR declined by 12% for states that did not adopt PM-JAY and by 20% for the states that adopted it.
 - **Decline in under-5 mortality rate**
- Overall, the comparison reflects **significant improvements in several health outcomes in states that implemented PM-JAY versus those that did not**

Bare Necessities

- Access to “the bare necessities” such as **housing, water, sanitation, electricity and clean cooking fuel** are a sine qua non to live a decent life.
- This chapter examines the progress made in providing access to “the bare necessities” by constructing a **Bare Necessities Index (BNI) at the rural, urban and all India level**. BNI summarises 26 indicators on five dimensions viz.,

- Water,
- Sanitation,
- Housing,
- Micro-environment,
- Other facilities

➤ **Key findings related to bare necessities:**

- **Access to the ‘bare necessities’ has improved across all States** in the country in 2018 as compared to 2012

- It is **highest in States such as Kerala,**

Punjab, Haryana and Gujarat while lowest in Odisha, Jharkhand, West Bengal and Tripura

- **Inter-State disparities declined across rural and urban areas.**

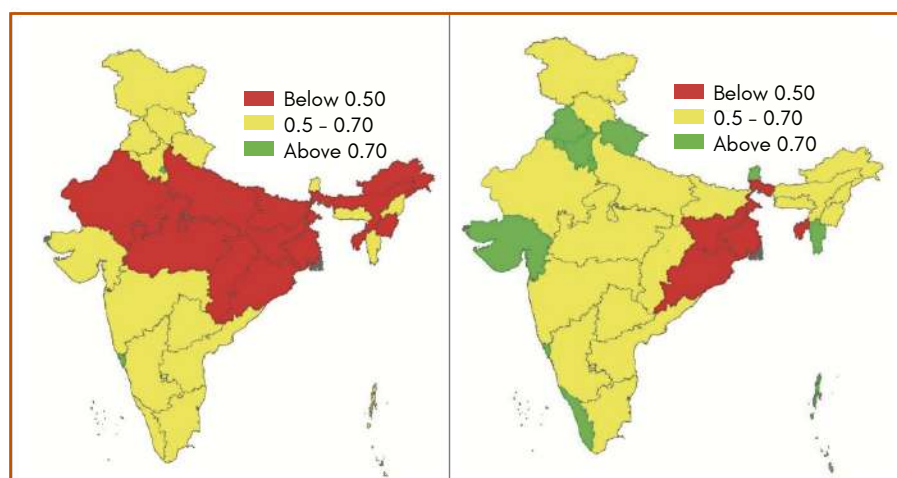
- Improved access to the ‘bare necessities’ has led to **improvements in health indicators** such as IMR and also correlates with future improvements in education indicators.

- Schemes such as **Jal Jeevan Mission, SBM-G, PMAY-G**, etc. may design appropriate strategy to reduce the gaps.

Figure 1: Improvement in the Bare Necessities Across India (Rural + Urban) from 2012 to 2018

BNI for India (Rural + Urban) 2012

BNI for India (Rural + Urban) 2018



VOLUME - II

The year 2020 was predominated by the **COVID-19 pandemic, posing the most formidable economic challenge to India and to the world**, since the Global Financial Crisis.

Policymakers faced a dilemma of “lives versus livelihoods, i.e., flattening the disease curve would invariably entail steepening of the recession curve.

Around the globe, **governments and central banks deployed a range of policy tools** such as lowering key policy rates, quantitative easing measures, loan guarantees, and fiscal stimuli.

India recognised the disruptive impact of the pandemic and charted its own unique path amidst different dismal projections given its **huge population, high population density and an overburdened health infrastructure**. **India’s policy humane response focused on saving human lives**, recognised that the short-term pain of an initial, stringent lockdown would lead to long-term gains both in the lives saved and in the pace of the economic recovery.

State of the Economy

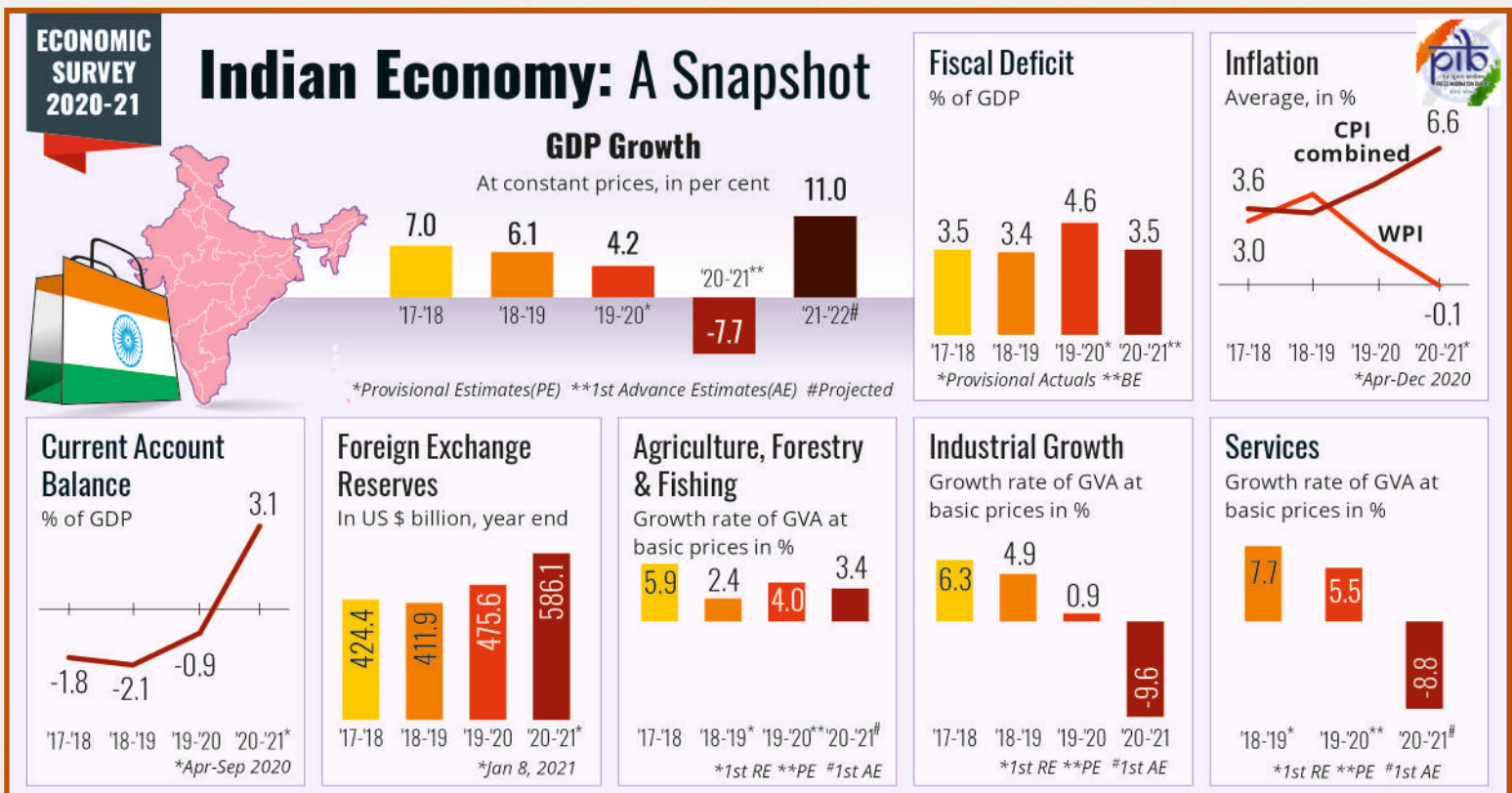
- **Advanced economies were hit harder by COVID 19**, in terms of lives and economic output, compared to Emerging Market Developing Economies.
- V-shaped economic recovery is supported by the initiation of a mega vaccination drive with hopes of a robust recovery in the services sector.

	<ul style="list-style-type: none"> ➤ India's GDP is estimated to contract by 7.7 % in FY2020-21, composed of a sharp 15.7 % decline in first half and a modest 0.1 per cent fall in the second half. ➤ Sector-wise, agriculture has remained the silver lining while contact-based services, manufacturing, construction were hit hardest, and have been recovering steadily. ➤ India became the fastest country to roll-out 10 lakh vaccines in a matter of six days and has also emerged as a leading supplier of the vaccine to Brazil and neighbouring countries.
Fiscal Developments	<ul style="list-style-type: none"> ➤ Expenditure policy in 2020-21 initially aimed at supporting the vulnerable sections but was re-oriented to boost overall demand and capital spending, once the lockdown was unwound ➤ Monthly GST collections have crossed the Rs. 1 lakh crore mark and reached its highest levels in December 2020 ever since the introduction of GST.
External Sector	<ul style="list-style-type: none"> ➤ COVID-19 pandemic led to a sharp decline in global trade, lower commodity prices and tighter external financing conditions with implications for current account balances and currencies of different countries ➤ India's forex reserves at an all-time high of US\$ 586.1 billion as on January 08, 2021. ➤ India to end with an Annual Current Account Surplus after a period of 17 years. ➤ Parameters in April-December 2020 compared to same period last year. <ul style="list-style-type: none"> ● India's merchandise trade deficit was lower at US\$ 57.5 billion. ● Merchandise exports contracted by 15.7% from US\$ 238.3 billion. <ul style="list-style-type: none"> ⊗ Petroleum, Oil and Lubricants (POL) exports have contributed negatively to export performance. ⊗ Non-POL exports turned positive. ● Total merchandise imports declined by (-) 29.1% to US\$ 258.3 billion. ● Net services receipts remained stable. <ul style="list-style-type: none"> ⊗ Resilience of the services sector was primarily driven by software services, which accounted for 49% of total services exports ➤ Trade balance with China and the US improved as imports slowed. ➤ Net private transfer receipts, mainly representing remittances by Indians employed overseas, declined by 6.7%. ➤ Improvement in debt vulnerability indicators like Ratio of forex reserves to total and short-term debt (original and residual) etc.
Monetary Management and Financial Intermediation	<ul style="list-style-type: none"> ➤ Accommodative monetary policy during 2020: repo rate cut by 115 bps since March 2020. ➤ Systemic liquidity in FY2020-21 has remained in surplus so far. RBI undertook various conventional and unconventional measures like Open Market Operations, Long Term Repo Operations, Targeted Long Term Repo Operations. ➤ Gross Non-Performing Assets ratio of Scheduled Commercial Banks (SCBs) decreased from 8.21% at end-March, 2020 to 7.49% at end-September, 2020. ➤ NIFTY-50 and BSE SENSEX reached record high closing of 14,644.7 and 49,792.12 respectively on January 20, 2021. ➤ Recovery rate for SCBs through Insolvency Bankruptcy Code (since its inception) has been over 45%.
Prices and Inflation	<ul style="list-style-type: none"> ➤ Headline CPI inflation: Averaged 6.6% during April-December, 2020 and stood at 4.6% in December, 2020, mainly driven by rise in food inflation. ➤ Rural-urban difference in CPI inflation saw a decline in 2020.

	<ul style="list-style-type: none"> ➤ Thali cost increased between June 2020 and November 2020, however a sharp fall in December reflecting the fall in the prices of many essential food commodities. ➤ Steps taken to stabilize prices of food items: Banning of export of onions, Imposition of stock limit on onions, Easing of restriction on imports of pulses. ➤ Gold Prices saw a sharp spike as investors turned to gold as a safe haven investment amid COVID-19 induced economic uncertainties.
External Sector	<ul style="list-style-type: none"> ➤ Voluntary National Review presented to United Nations High-Level Political Forum (HLPF) on Sustainable Development. ➤ Localisation of SDGs: Several States/UTs have created institutional structures for implementation of SDGs and also nodal mechanisms within every department and at the district levels for better coordination and convergence. ➤ International Solar Alliance (ISA) launched two new initiatives – ‘World Solar Bank’ and ‘One Sun One World One Grid Initiative’ - poised to bring about solar energy revolution globally.
Agriculture and Food Management	<ul style="list-style-type: none"> ➤ Agricultural (and Allied Activities) sector has shown its resilience amid COVID-19 with a growth of 3.4% at constant prices during 2020-21. <ul style="list-style-type: none"> ● Share of Agriculture and Allied Sectors in Gross Value Added at current prices is 17.8% for 2019-20. ➤ 1.5 crore dairy farmers were targeted to provide Kisan Credit Cards (KCC) as part of AatmaNirbhar Bharat Package. ➤ Pradhan Mantri Fasal Bima Yojana covers over 5.5 crore farmer applications year on year. ➤ Fish production reached an all-time high of 14.16 million metric tons during 2019-20. ➤ Pradhan Mantri Garib Kalyan Anna Yojana: 80.96 crore beneficiaries were provided foodgrains .
Industry and Infrastructure	<ul style="list-style-type: none"> ➤ A strong V-shaped recovery of economic activity further confirmed in the Index of Industrial Production data or IIP. The IIP & eight-core index further inched up to pre-COVID levels. ➤ India’s rank in the Ease of Doing Business (EoDB) Index for 2019 has moved upwards to the 63rd position in 2020 from 77th in 2018 as per the Doing Business Report (DBR) ➤ During FY20, total FDI equity inflows were US\$49.98 billion as compared to US\$44.37 billion during FY19. <ul style="list-style-type: none"> ● The bulk of FDI equity flow is in the non-manufacturing sector leading to a reduction in the share of manufacturing in the FDI flows. ➤ Government has announced a Production-Linked Incentive (PLI) Scheme in the 10 key sectors under the aegis of AatmaNirbhar Bharat for enhancing India’s manufacturing capabilities and exports.
Services Sector	<ul style="list-style-type: none"> ➤ India’s services sector contracted by nearly 16 % during H1: FY2020-21, during the COVID-19 pandemic mandated lockdown, owing to its contact-intensive nature ➤ The services sector accounts for over 54 % of India’s GVA and nearly four-fifths of total FDI inflow into India ➤ Services sector accounts for 48% of total exports, outperforming goods exports in the recent years ➤ India’s space sector has grown exponentially in the past six decades

Social Infrastructure, Employment and Human Development

- **Expenditure on social services** (education, health and other social sectors) by Centre and States combined as a proportion of GDP increased from 6.2 to 8.8 per cent during the period 2014-15 to 2020-21 (BE).
- The access to data network, electronic devices such as computer, laptop, smart phone etc. gained importance due to online learning and remote working during the pandemic
- **Formal skill training showed an improvement** across all socio-economic classification including rural, urban and gender classification.
- **Females spending disproportionately more time on unpaid domestic and care giving services** to household members as compared to their male counterparts (Time Use Survey, 2019)
- **Need to promote non-discriminatory practices at the workplace** like pay and career progression, improve work incentives, including other medical and social security benefits for female workers
- NFHS-5 (Phase-I), results show **improvement in immunization coverage for children, institutional birth, infant mortality rate and under-five mortality rate in most of the selected States.**



Budget Summary will be provided on 2nd February and Detailed analysis of Economic Survey will be provided in second week of February.