

Report Summary

Economic Survey 2021-22

- The Finance Minister, Ms Nirmala Sitharaman tabled the Economic Survey 2021-22 on January 31, 2022. Key highlights of the Survey include:

State of the economy

- **Gross Domestic Product (GDP):** The Survey estimates real GDP growth of 8-8.5% in 2022-23. Growth in 2022-23 is expected to be supported by widespread vaccine coverage, gains from supply-side reforms, robust export growth, and availability of fiscal space to increase capital spending. In 2021-22, India's real GDP is estimated to grow by 9.2% after contracting by 7.3% in 2020-21.
- **Inflation:** Consumer Price Index (CPI) based inflation was 6.2% in 2020-21. The Survey observed that this was due to supply chain disruptions from COVID-19 restrictions. CPI inflation in 2021-22 (April-December) was 5.2% which is lower than inflation of 6.6% during the same period in 2020-21. This decline was led by easing of food inflation. Inflation in 2021-22 (April-December) was driven by international crude oil, petroleum product prices, and higher taxes. The Survey noted that inflation has reappeared as a global issue in both advanced and emerging economies.
- **Current account balance:** During April-September 2021, India's current account slipped into a deficit of USD 3.1 billion as compared to a surplus of USD 34.3 billion in the corresponding period of 2020. This was because of an increase in merchandise trade deficit. This was lower than current account deficit of USD 22.6 billion in April-September 2019. In 2020-21, India reported a current account surplus in April-September due to a steeper decline in merchandise imports relative to exports.
- **Fiscal deficit:** Fiscal deficit for April-November 2021 was 46.2% of the budget estimate as compared to 135.1% in the same period in 2020. The Survey noted that the fiscal deficit for the current year was more realistic as it brought in several off-budget items, such as food subsidy payments, within the budget allocation. In April-November 2021, revenue deficit was 38.8% of the budget estimate.
- **Debt:** Central government debt has increased from 49.1% of GDP in 2019-20 to 59.3% of GDP in 2020-21. This is due to increased borrowings on account of COVID-19. Central government debt is expected to follow a declining trajectory with economic recovery. Total liabilities of the central government include debt taken against the Consolidated Fund of India (public debt) and liabilities in the public account. At the end of March 2021, central government's total outstanding liabilities were at Rs 117 lakh crore. Public debt accounted for 89.9% of total liabilities.

Agriculture and allied activities

- The agriculture sector has witnessed buoyant growth in the last two years. In 2020-21 the sector grew by 3.6% and is expected to grow by 3.9% in 2021-22. Growth in allied sectors including livestock, dairying, and fisheries have driven the overall growth in the sector. The Survey noted that the share of the agriculture sector in total nominal gross value added (GVA) of the economy has a long-term trend of around 18%. This changed to 20.2% in 2020-21 and 18.8% in 2021-22.
- The gross capital formation (GCF) in agriculture and allied sectors relative to their real GVA has been fluctuating. It touched a high of 18.2% in 2011-12 before falling to 15.9% in 2019-20. Public investment has remained stable (ranged in 2.4%-2.9%) whereas private investment has fluctuated. The Survey suggested that there should be a focussed and targeted approach to ensure higher public and private investment in the sector.
- Crop diversification towards oilseeds, pulses, and horticulture needs to be given priority. This requires addressing core issues of irrigation, investment, credit, and markets in their cultivation. There is a need for coordinated action from state governments to facilitate the shift to high value and less water consuming crops. Use of alternative fertilisers such as Nano Urea and organic fertilisers should be promoted. These fertilisers protect the soil, are more productive, and contribute to higher nutrient use efficiency.

Industry and infrastructure

- The industrial sector is estimated to grow by 11.8% in 2021-22 against a contraction of 7% in 2020-21. The Survey noted that buoyant FDI inflows and improvements in overall business sentiments signal a positive outlook for industry. Over the last decade, manufacturing had an average share of 16.3% in nominal GVA. This declined to 14.4% in 2020-21 but is expected to improve to 15.3% in 2021-22. In 2021-22, the manufacturing sector is expected to register a growth of 12.5% after contracting by 7.2% in 2020-21.
- In 2020-21, Index of Industrial Production (IIP) contracted 8.4% reflecting the impact of the pandemic on the industrial sector. IIP is a measure of industrial performance that assigns a weight of 78% to manufacturing, 14% to mining, and 8% to electricity. During April-November 2021-22, IIP grew at 17.4% as compared to a contraction of 15.3% in the corresponding period of 2020-21. According to studies on corporate performance by Reserve Bank of India (RBI), net profit to sales ratio of large corporates reached a level of 10.6% in the second quarter (July-September) of 2021-22 despite the pandemic.

- Gross fixed capital formation (GFCF) indicates the state of investments in the economy. During 2019-20, share of the industrial sector in total GFCF (at current prices) was 30.1%. This was slightly lower as compared to 31% in 2018-19. In 2018-19, aggregate and industrial GFCF (at constant prices) increased by 9.9% and 12.4% respectively. Growth rate of aggregate GFCF decreased to 5.4% in 2019-20 while that of industrial GFCF decreased to 3.7%.
- India registered its highest ever annual FDI inflow of USD 82 billion in 2020-21. Between 2014-21, India received FDI inflow worth USD 440 billion.

Services sector

- Services sector contributed to over 50% of India's GDP. It contracted by 8.4% in 2020-21 and is estimated to grow by 8.2% in 2021-22. The Survey noted that the services sector has been the worst affected from the COVID-19 pandemic. Its share in India's GVA declined from 55% in 2019-20 to 53% in 2021-22.
- Most of India's start-ups are in the information technology/knowledge-based sector. Intellectual property and patents are key to this knowledge-based economy. The number of patents filed in India has increased from 39,400 in 2010-11 to 58,502 in 2020-21. During the same period, patents granted have increased from 7,509 to 28,391. The Survey noted that the number of patents granted in India is a fraction compared to China, USA, Japan, and Korea. One of the reasons for relatively low patents in India is low expenditure on research and development which was 0.7% of GDP in 2020. Procedural delays and complex processes also contribute to low patents in India. The average pendency for final decision in acquiring patents in India was 42 months in 2020. In comparison, this was 20.8 months in USA and 20 months in China.

Employment

- Before the outbreak of COVID-19, the urban labour force had shown signs of improvement in terms of labour force participation rate. The nationwide lockdown imposed in late March 2020 adversely impacted the urban labour market. In the first quarter (April-June) of 2020-21 unemployment rate for urban sector (measured by current weekly status) increased to 20.8%. With economic revival, unemployment rate declined to 9.3% in fourth quarter (January-March) of 2020-21.
- The Survey observed that the latest payroll data from Employees' Provident Fund Organisation (EPFO) suggests acceleration in formalisation of the job market. This has been driven by new formal jobs and

formalisation of existing jobs. There were 13.95 lakh net additions to EPF subscribers in November 2021.

- Data on demand for work under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) indicates: (i) MGNREGS employment peaked during the nation-wide lockdown in 2020, (ii) demand for MGNREGS has stabilised after the second COVID-19 wave, and (iii) aggregate MGNREGS employment is higher than pre-pandemic level. During the second COVID-19 wave, demand for MGNREGS reached the maximum level of 4.59 crore persons in June 2021.

Education

- The Survey cited data from the Annual Status of Education Report (ASER) which found that during the pandemic, children aged 6-14 years who are not currently enrolled in schools increased from 2.5% in 2018 to 4.6% in 2021. The enrolment decline was relatively large among the age group of 7-10 years.
- According to ASER, during the pandemic, children in rural areas moved out of private to government schools. The possible reasons for these shifts are (i) shut down of low-cost private schools, (ii) financial distress of parents, (iii) free facilities in government schools, and (iv) families migrating back to villages.

Sustainable development and climate change

- There is a greater thrust on climate action following India's announcement to achieve net zero emissions by 2070. Climate finance will remain critical to successful climate action by developing countries including India.
- India's overall score on the NITI Aayog SDG India Index and Dashboard improved from 60 in 2019-20 to 66 in 2020-21. India ranked third globally in increasing its forest area during 2010 to 2020. Forests covered 24% of India's geographical area. During 2011-2021, India's forest cover has increased by more than 3% primarily due to increase in very dense forests (by 20% during the same period). The Survey observed that going forward, there is a need to further improve forest and tree cover. Social forestry could also play a significant role in this regard.
- The extent of ground water extraction varies across the country. During 2004-2020, ground water assessment units categorised as safe (less than 70% extraction) have declined from 73% in 2009 to 64% in 2020. Semi-critical units (extraction between 70% and 90%) have increased from 9% in 2009 to 15% in 2020. States/UTs need to improve management of its ground water resources through improving its recharge and stemming over exploitation.

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