

Report Summary

Economic Survey 2020-21

- The Finance Minister, Ms Nirmala Sitharaman tabled the Economic Survey 2020-21 on January 29, 2021. Key highlights of the Survey include:
- In March 2020, COVID-19 was declared a pandemic by the World Health Organisation, and a nationwide lockdown was imposed in India to contain the spread of the virus. The survey noted that early use of intense lockdowns delayed the time taken to reach the peak and reduced the magnitude of the peak. This led to a low mortality rate and also allowed for a sharp (V-shaped) recovery in economic activities.

State of the economy

- *Gross Domestic Product (GDP):* The survey estimates nominal GDP growth of 15.4% and real GDP growth of 11% in 2021-22. In 2020-21, GDP declined by 23.9% in the first quarter and by 7.5% in the second quarter. Overall, GDP is expected to decline by 7.7% in 2020-21 as compared to the growth of 4.2% in 2019-20.
- *Inflation:* The Consumer Price Index (CPI) based inflation was 6.6% in 2020-21 (April-December). The inflation mainly due to food inflation which increased from 6.7% in 2019-20 to 9.1% in 2020-21 (April-December).
- *Current account surplus:* In the first half of 2020-21, the current account surplus was 3.1% of GDP. The survey expects current account surplus to be at least 2% of the GDP by end of 2020-21. If achieved, this will break a 17-year trend of current account deficits. The surplus is due to reduction in merchandise imports and lower expense on travel services, which led to higher decline in current payments (30.8%) as compared to the decline in current receipts (15.1%).
- *Fiscal deficit:* As of November 2020, the fiscal deficit was 135.1% of budget estimate. In comparison, between April to November 2019, fiscal deficit was 114.8% of the budget estimate. The survey noted that the country was fiscally strained due to the disruptions caused by the COVID-19 pandemic.

Agriculture and allied activities

- In 2020-21, the growth rate of agriculture is estimated to be 3.4%. While the contribution of the sector to Gross Value Added (GVA)

declined from 18.3% to 17.8% between 2014-15 and 2019-20, it is estimated to increase to 19.9% in 2020-21. This is because the agricultural sector faced fewer disruptions on account of the COVID-19 pandemic as compared to non-agricultural sectors.

- Under National Food Security Act, 2013, the central government provides rice and wheat at subsidised rates (called central issue price (CIP)). The difference between the CIP and the market price gives quantum of food subsidy. While the CIP of wheat and rice has not been revised since the introduction of the Act, the economic cost of wheat increased from Rs 1,908.32 per quintal in 2013-14 to Rs 2,683.84 in 2020-21 (an increase of 41%). In addition, the economic cost of rice increased from Rs 2,615.51 per quintal in 2013-14 to Rs 3,723.76 per quintal in 2020-21 (an increase of 42%). The survey observes that revision of CIP to reduce the rising expenses on food subsidy bill.

Industry and infrastructure

- The industrial sector is estimated to decline by 9.6% in 2020-21. Within the sector, highest decline is estimated in construction (12.6%) and mining (12.4%). The contribution of the industrial sector to GVA has declined from 32.5% in 2011-12 to 25.8% in 2020-21.
- The Index of Industrial Production (IIP) growth declined by 15.5% between April-November 2020 as compared to growth of 0.3% during same period in 2019. IIP is a measure of industrial performance that assigns a weight of 78% to manufacturing, 14% to mining, and 8% to electricity. Out of 407 items in IIP, the number of items which observed growth increased from 28 in April 2020 to 171 in November 2020, thereby, indicating a sharp economy recovery.
- The National Infrastructure Pipeline was launched with an investment plan of Rs 111 lakh crore over five years (2020-25). The project is aimed at increasing growth, competitiveness, and employment. The state governments, central government, and the private sector will invest 40%, 39%, and 21% in the project, respectively. The major share of the funds will be given to: (i) energy sector (24%), (ii) roads (18%), (iii) urban infrastructure (17%), and (iv) railways (12%).

Service sector

- In 2020-21, the service sector is estimated to contract by 8.8% (with trade and hospitality contracting the most (21.4%)) as compared to 5.5% growth in 2019-20. Software services was the only sub-sector with positive growth (3.6%) in the period of April-September 2020.
- While the pandemic led to a global slowdown in trade, the Indian service sector export remained resilient. The net services export receipts in first half of 2020-21 was USD 41.67 billion, which is 3% higher than the service export receipts in first half of 2019-20 (USD 40.47 billion).

Health

- The survey notes that Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (AB-PM-JAY) enhanced health insurance coverage. The proportion of health insured households between 2015-16 to 2019-20 increased by 54% in states that implemented AB-PM-JAY and decreased by 10% for states which did not implement the scheme. During this period, infant mortality rate decreased by 20% in states that implemented AB-PM-JAY whereas in states that did not implement AB-PM-JAY, infant mortality rate declined by 12%.
- The survey further notes that better access to bare necessities (such as housing, water, sanitation, electricity, and cooking fuel) lead to an improvement in health indicators.
- India has one of the highest levels of out-of-pocket expenses as a share of total health expenditure. The survey observes that increasing the spending on public health from 1% of GDP to 2.5-3% of GDP will help in reducing the out-of-pocket expenses from 65% to 30%.
- The survey noted that mitigating information asymmetry in the healthcare sector will help in achieving lower insurance premiums and better welfare of people. It recommends setting up a regulator for the healthcare sector to prevent market failures due to information asymmetry (specifically in private healthcare sector).

Banking sector

- During an economic crisis, adoption of regulatory forbearance could help ease stress in the financial sector. Regulatory forbearance includes measures such as allowing banks to

restructure certain loans rather than change the asset classification. The survey suggests that such measures must be withdrawn in a timely manner. It was noted that regulatory forbearance was adopted after the Global Financial Crisis in 2008 for seven years. This led to an increase in non-performing assets and reduced credit growth once the measures were withdrawn. The survey observed that withdrawal of regulatory forbearance must be followed by a review of the quality of the bank's assets, and capitalisation to ensure growth in lending.

Credit Rating

- The survey noted that India's credit rating does not reflect the country's fundamentals in terms of GDP growth, inflation, government debt as a % of GDP, among others. It observed a bias in ratings against emerging economies like India and China. Credit rating maps the probability of default, reflecting the willingness and ability of borrower to meet debt obligations. India has no history of sovereign default (demonstrating willingness to pay), and the foreign exchange reserves are greater than the total external debt of the country (demonstrating ability to pay). Poor sovereign credit ratings have adverse impact on inflow of foreign investments.

Innovation

- India ranked 48 in Global Innovation Index in 2020, which makes it first among Central and South Asian countries, and third among the lower middle-income economies. However, India's gross domestic expenditure on research and development (GERD) is lowest amongst larger economies. India spends 0.7% of GDP on GERD as compared to the expenditure of over 2% of GDP by China and over 2.5% of GDP in the United States of America.
- Currently, the government sector contributes 56% of the total GERD, which is higher than the contribution of the government sector (20%) in top ten economies (such as China, United Kingdom, and Japan). The contribution by business sector to GERD in India is 37%, which is significantly lower than the contribution of the sector in other large economies (68%). The survey observes that GERD should be increased to over 2% of GDP by enhancing research and development facilities, especially in the private sector.

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