

# ECONOMIC SURVEY 2020

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## STATE OF THE ECONOMY

### ✓ **Gross Domestic Product:**

- The GDP growth rate is estimated to be 5% in 2019-20 as compared to 6.8% in 2018-19.
- The GDP growth decelerated for the sixth consecutive quarter.
- In 2020-21, India's GDP growth rate is expected to be in the range of 6.0%-6.5%.
- In the first half of 2019-20 (April-September), GDP is estimated to grow

at 4.8% as compared to the 2<sup>nd</sup> half of 2018-19 (October-March) at 6.2%.

- The sluggish growth of consumption and consequent decline in fixed investment led to the decline in GDP growth during this period.
- The year 2019 was a difficult year for the global economy with world output growth growing at its slowest pace of 2.9% since the global financial crisis in 2009. Concerns of over-estimation of India's GDP are unfounded.

### ✓ **Inflation:**

- The Consumer Price Index (CPI) based inflation increased from 3.7% in 2018-19 (April to December, 2018) to 4.1% in 2019-20 (April to December). This increase was mainly due to food inflation.
- The Wholesale Price Index (WPI) based inflation decreased from 4.3% in 2018-19 to 1.5% in 2019-20 (April to December).

### ✓ **Current Account Deficit (CAD) and fiscal deficit:**

- India's CAD decreased from 2.1% of GDP in 2018-19 to 1.5% of GDP in 2019-20 (April-December).
- The fiscal deficit for 2019-20 is estimated at 3.3% and the primary deficit for the year is estimated at 0.2% of GDP (primary deficit is the fiscal deficit excluding the interest payments).
- As of November 2019, fiscal deficit stood at 114.8% of the budgeted level.

- Fiscal deficit target may have to be relaxed for the current year given the urgent priority of the government to revive growth in the economy.

### **AGRICULTURE AND ALLIED ACTIVITIES**

- Growth of agriculture sector has been fluctuating: it increased from -0.2% in 2014-15 to 6.3% in 2016-17, and then declined to 2.8% in 2019-20.
- Gross fixed capital formation in agriculture decreased from 17.7% of Gross Value Added (GVA) in 2013-14 to 15.2% of GVA in 2017-18.
- The contribution of agriculture to the GVA has decreased from 18.2% in 2014-15 to 16.5% in 2019-20. The decline was mainly due to a decrease in share of GVA of crops from 11.2% in 2014-15 to 10% in 2017-18.
- The share has been declining on account of relatively higher growth performance of non-agricultural sectors.
- Doubling farmer's income will require addressing issues such as access to credit, insurance coverage, and investments in agriculture.
- India has relatively lower farm mechanisation which needs to be addressed.
- The food processing sector requires more focussed attention as it can play an important role in reducing post-harvest losses and aid the creation of an additional market for farm outputs.

### **INDUSTRY & INFRASTRUCTURE**

- The overall industrial sector growth is estimated to be 2.5% in 2019-20 as compared to 6.9% growth in 2018-19.
- Manufacturing sector is estimated to grow at 2.0% during 2019-20. In 2018-19, share of the Industry sector in GVA was 29.6%.
- Index of Industrial Production Growth (IIP) is 0.6% during 2019-20 (April-November). IIP is a measure of industrial performance. It assigns a weight of 78% to manufacturing followed by 14% to mining and 8% to electricity.
- Manufacturing activities were subdued due to a decrease in domestic demand for key sectors such as automotive and pharmaceuticals.
- Exports of labour-intensive sectors such as jewellery, basic metals, leather and textile also underperformed during the current financial year.
- Liquidity crunch due to reduced lending by NBFC also had an adverse impact.
- The National Infrastructure Pipeline (NIP) has projected an investment of Rs 100 lakh crore over five years (2020-25) in various projects. Financing of the NIP will be a challenge.

### **SERVICES SECTOR**

- Services sector is estimated to grow at 6.9% in 2019-20 as compared to 7.5% in 2018-19.

- The services sector is estimated to contribute 55.3% to India's GVA in 2019-20.
- Currently, the services sector accounts for over 50% of the Gross State Value Added in 15 states and UTs.
- Sub-sectors such as trade, hotels, transport, communication & services related to broadcasting, financial and real estate services saw a deceleration during this period.
- The share of services exports in overall exports of India has been increasing. India's share in the world's commercial services exports was 3.5% in 2018, twice the share in the world's merchandise exports at 1.7%.

### **HUMAN DEVELOPMENT**

- India's rank in the human development index (HDI) was 129 in 2018.
- Expenditure on social services (including health and education) increased by 1.5% of GDP during the 2014-20 period.
- Out of pocket expenditure as a percentage of total health expenditure declined from 64.2% in 2013-14 to 58.7% in 2016-17.
- The gross enrolment ratio at secondary, higher secondary and higher education level need improvement.

### **EMPLOYMENT**

- Total formal employment in the economy increased from 8% in 2011-12 to 10% in 2017-18.
- During the 2011-18 period, 2.62 crore new jobs were created among regular wages/salaried employees.
- The female participation in the labour workforce declined, especially in rural areas.

### **STRENGTHENING TRUST IN MARKET**

- The Survey outlined that India's aspiration to become \$5 trillion-dollar economy by 2025 requires strengthening the trust in the market with pro-business policies. This includes
  - (i) providing equal opportunities for new entrants, enabling fair competition and ease of doing business,
  - (ii) eliminating policies which unnecessarily undermine markets through government intervention,
  - (iii) enabling trade for job creation, and
  - (iv) scaling up the banking sector to be proportionate to the size of the economy. While pro-business policies need to be promoted, pro-crony policies that favour specific private interests and powerful incumbents need to be done away with.
- The Survey observed that eliminating cases where government intervention is unnecessary will enable competitive

markets and thereby spur investments and economic growth. For instance, the emergence of government as the largest procurer of food led to problems such as:

- ✓ Rising subsidy burden,
- ✓ Divergence between demand and supply of cereals, and
- ✓ A disincentive towards crop diversification
- India has jumped from 142 in 2014 to 63 in 2019 in ease of doing business rankings. However, India continues to trail in various parameters such as:
  - ✓ Ease of starting business (rank 136),
  - ✓ Registering property (rank 154),
  - ✓ Paying taxes (rank 115), and
  - ✓ Enforcing contracts (rank 163)
- These parameters provide a scope for further improvement.

### **ENTREPRENEURSHIP AT GRASSROOTS LEVEL**

- Entrepreneurship at the district level has a significant impact on wealth creation at the grassroots level.
- A 10% increase in registration of new firms in a district yields a 1.8% increase in GDP of the district.
- The Survey noted that India ranks third in the number of new firms created in the world. Birth of new firms has been dispersed across districts and across sectors.
- The level of education and quality of infrastructure in the district influence the creation of new firms significantly. Policies enabling ease of doing

business and flexible labour legislation enables new firm creation, especially in the manufacturing sector.

### **EXPORT OF NETWORK PRODUCTS FOR JOB CREATION**

- Exports of network products can contribute a quarter of the increase in value-added required for making India a \$5 trillion economy by 2025. (Network products refer to the products where production occurs across the global value chain operated by multi-national corporations.)
- This can be achieved by integrating 'Assemble in India for the world' in the 'Make in India' initiative.
- This can create 4 crore well-paid jobs by 2025 and 8 crore jobs by 2030.

### **BANKING SECTOR**

- India's banking sector is disproportionately under-developed given the size of its economy.
- India has only one bank in the global top 100.
- Public sector banks (PSBs) account for 70% of the market share in Indian banking. However, on various performance parameters, PSBs are inefficient as compared to private banks.
- The survey suggests the use of financial technology across all banking functions, employee stock ownership across all levels to enhance efficiencies in PSBs.

- A GSTN type of entity can be set up for use of big data, artificial intelligence and machine learning on data from PSBs for credit decisions.

### **DISINVESTMENT OF CENTRAL PUBLIC SECTOR ENTERPRISES**

- An analysis of 11 central public sector enterprises shows that on average, the privatized enterprises perform better post-privatization than their peers in terms of various parameters, such as:
  - Net worth,
  - Net profit, and
  - Net profit margin
- Disinvestment through the strategic sale of CPSEs increase their potential to create wealth. Hence, aggressive disinvestment should be undertaken to bring in high profitability.

### **PRO-BUSINESS VERSUS PRO-CRONY**

- **Survey says that India's aspiration of becoming a \$5 trillion economy depends critically on:**
  - ✓ Promoting 'pro-business' policy that unleashes the power of competitive markets to generate wealth.
  - ✓ Weaning away from 'pro-crony' policy that may favour specific private interests, especially powerful incumbents.
- **Viewed from the lens of the Stock market, creative destruction increased significantly post-liberalisation:**

- ✓ Before liberalisation, a Sensex firm expected to stay in it for 60 years, which decreased to only 12 years after liberalisation.
- ✓ Every five years, one-third of Sensex firms are churned out, reflecting the continuous influx of new firms, products and technologies into the economy.
- **Despite impressive progress in enabling competitive markets, pro-crony policies destroyed value in the economy:**
  - ✓ An equity index of connected firms significantly outperformed market by 7 % a year from 2007 to 2010, reflecting abnormal profits extracted at common citizens' expense.
  - ✓ In contrast, the index underperforms market by 7.5 % from 2011, reflecting inefficiency and value destruction inherent in such firms.

### **THALINOMICS: THE ECONOMICS OF A PLATE OF FOOD IN INDIA**

- An attempt to quantify what a common person pays for a Thali across India.
- A shift in the dynamics of Thali prices since 2015-16.
- Absolute prices of a vegetarian Thali have decreased significantly since 2015-16 across India and the four regions; though the price has increased during 2019-20.
- **Post 2015-16:**
  - ✓ Average household gained close to Rs. 11, 000 on average per year from the

moderation in prices in the case of vegetarian Thali.

- ✓ Average household that consumes two non-vegetarian Thalis gained close to Rs. 12, 000 on average per year during the same period.
- **From 2006-07 to 2019-20:**
- ✓ Affordability of vegetarian Thalis improved 29 %.
- ✓ Affordability of non-vegetarian Thalis improved by 18 %.

### **FISCAL DEVELOPMENTS**

- Revenue Receipts registered a higher growth during the first eight months of 2019-20, compared to the same period last year, led by considerable growth in Non-Tax revenue.
- Gross GST monthly collections have crossed the mark of Rs. 1 lakh crore for a total of five times during 2019-20 (up to December 2019).
- Structural reforms undertaken in taxation during the current financial year:
  - Change in corporate tax rate.
  - Measures to ease the implementation of GST.
  - Fiscal deficit of states within the targets set out by the FRBM Act.
  - Survey notes that the General Government (Centre plus States) has been on the path of fiscal consolidation.

### **EXTERNAL SECTOR**

- **Balance of Payments (BoP):**

- ✓ India's BoP position improved from US\$ 412.9 bn of forex reserves in end March, 2019 to US\$ 433.7 bn in end September, 2019.
- ✓ Current account deficit (CAD) narrowed from 2.1% in 2018-19 to 1.5% of GDP in H1 of 2019-20.
- ✓ Foreign reserves stood at US\$ 461.2 bn as on 10<sup>th</sup> January, 2020.
- **Global trade:**
- ✓ In sync with an estimated 2.9% growth in global output in 2019, global trade is estimated to grow at 1.0% after having peaked in 2017 at 5.7%.
- ✓ However, it is projected to recover to 2.9% in 2020 with recovery in global economic activity.
- ✓ India's merchandise trade balance improved from 2009-14 to 2014-19, although most of the improvement in the latter period was due to more than 50% decline in crude prices in 2016-17.
- ✓ India's top five trading partners continue to be USA, China, UAE, Saudi Arabia and Hong Kong.

### **MONETARY MANAGEMENT**

- **Monetary policy:**
- ✓ Remained accommodative in 2019-20.
- ✓ Repo rate was cut by 110 basis points in four consecutive MPC meetings in the financial year due to slower growth and lower inflation. However, it was kept unchanged in the fifth meeting held in December 2019.
- ✓ In 2019-20, liquidity conditions were tight for initial two months; but subsequently it remained comfortable.

• **The Gross Non Performing Advances ratio:**

- ✓ Remained unchanged for Scheduled Commercial banks at 9.3% between March and September 2019
- ✓ Increased slightly for the Non-Banking Financial Corporations (NBFCs) from 6.1% in March 2019 to 6.3% in September 2019.

• **Credit growth:**

- ✓ The financial flows to the economy remained constrained as credit growth declined for both banks and NBFCs.
- ✓ Bank Credit growth (YoY) moderated from 12.9% in April 2019 to 7.1% as on December 20, 2019.
- ✓ Capital to Risk-weighted Asset Ratio of SCBs increased from 14.3% to 15.1% between March 2019 and September 2019.

**SUSTAINABLE DEVELOPMENT AND CLIMATE CHANGE**

• **SDG India Index:**

- ✓ Himachal Pradesh, Kerala, Tamil Nadu, Chandigarh are front runners.
- ✓ Assam, Bihar and Uttar Pradesh come under the category of Aspirants.

• **India hosted COP-14 to UNCCD which adopted the Delhi Declaration:**

- ✓ Investing in Land and Unlocking Opportunities.

• **COP-25 of UNFCCC at Madrid:**

- ✓ India reiterated its commitment to implement Paris Agreement.
- ✓ COP-25 decisions include efforts for climate change mitigation, adaptation and means of implementation from developed country parties to developing country parties.

• **Forest and tree cover:**

- ✓ Increasing and has reached 80.73 million hectare.
- ✓ 24.56 % of the geographical area of the country.

- Burning of agricultural residues, leading to rise in pollutant levels and deterioration of air quality, is still a major concern though the total number of burning events recorded reduced due to various efforts taken.

• **International Solar Alliance (ISA)**

- ✓ 'Enabler' by institutionalizing 30 Fellowships from the Member countries.
- ✓ 'Facilitator' by getting the lines of credit worth US\$ 2 Billion from EXIM Bank of India and 1.5 Billion from the French Development Agency.
- ✓ 'Incubator' by nurturing initiatives like the Solar Risk Mitigation Initiative.
- ✓ 'Accelerator' by developing tools to aggregate demand for 1000 MW solar and 2.7 lakh solar water pumps.