ECONOMIC SURVEY 2020-21

VOLUME-2

SUMMARY

STRATEGY BOFFINS

CH 1 - STATE OF THE ECONOMY 2020-21: A MACRO VIEW

A growth in real GDP by 2.4 percent over the absolute level of 2019-20 – implying that the economy would take two years to reach and go past the pre-pandemic level.

Key Points

- While the lockdown resulted in a 23.9 per cent contraction in GDP in Q1, the recovery has been a V-shaped one as seen in the 7.5 per cent decline in Q2 and the recovery across all key economic indicators. Starting July, a resilient V-shaped recovery is underway, as demonstrated by the recovery in GDP growth in Q2 after the sharp decline in Q1, a sustained resurgence in high frequency indicators such as power demand, E-way bills, GST collection, steel consumption, etc.
- Imports contracted more sharply than exports, with Forex reserves rising to cover 18 months of imports. Inflation, mainly driven by food prices, remained above 6 per cent for much of the year; the softening in December suggests easing of supply-side constraints. India's GDP is estimated to contract by 7.7 per cent in FY2020-21, composed of a sharp 15.7 per cent 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. Government consumption and net exports have cushioned the growth from diving further down.
- After an estimated 7.7 per cent pandemic-driven contraction in 2020-21, India's real GDP is projected to record a growth of 11.0 percent in 2021-22 and nominal GDP by 15.4 per cent. These conservative estimates reflect upside potential that can manifest due to the continued normalisation in economic activities as the rollout of Covid-19 vaccines gathers traction.

Source: https://www.indiabudget.gov.in/economicsurvey/

CH 2 - FISCAL DEVELOPMENTS

The monthly GST collections have crossed the Rs 1 lakh crore mark consecutively for the last 3 months, reaching its' highest ever in December 2020.

Key Points

- In order to cater to the increased demand for resources, the target for gross market borrowings of the Central Government for the financial year 2020-21 was revised from the Budget estimate of Rs 7.8 lakh crore to Rs 12 lakh crore.
- The expenditure policy for 2020- 21 has been focused on re-prioritisation of expenditure according to evolving situation, with an increasing emphasis on capital expenditure. Capital expenditure during the last three months of the year 2020 recorded an unprecedented YoY growth of 129 per cent in October, 249 per cent in November and 62 per cent in December. Keeping in view the revenue shortfall and the demand for higher expenditure during the year, the Government is expected to register a fiscal slippage in 2020-21.
- Going forward, in order to sustain the recovery in aggregate demand, it is expected that the Government may have to continue with an expansionary fiscal stance. The expenditure support along with the various key reforms introduced during the year are likely to impart the required momentum to medium-term growth. The calibrated approach adopted by India allows space for maintaining a fiscal impulse the coming year. The growth recovery would facilitate buoyant revenue collections in the medium term, and thereby enable a sustainable fiscal path. Moreover the release of XV Finance Commission report in the coming months, will lay down the roadmap for the long-term fiscal policy strategy for both the Centre and the States.

Source: https://www.indiabudget.gov.in/economicsurvey/

CH 3 - EXTERNAL SECTOR

High levels of headline inflation, posits the classical trilemma before RBI to maintain a fine balance between tightening of monetary policy to control inflation on the one hand and stimulate growth on the other hand.

Key Points

- The economic crisis has led to a sharp decline in global trade, lower commodity prices and tighter external financing conditions with varying implications for current account balances and currencies of different countries. Global merchandise trade is expected to contract by 9.2 per cent in 2020.
- The changing nature of India's global trade manifested in terms of sliding exports of gems and jewellery, engineering goods, textile and allied products and improving exports of drugs and pharma, software and agriculture and allied products. Pharma exports, in particular, used this opportunity to enhance their share in total India's exports and indicate India's potential to be the pharmacy of the world. Supported by resilient software service exports, India is expected to witness a current account surplus during the current financial year after a gap of 17 years. Balance on the capital account, on the other hand, is buttressed by robust FDI and FPI inflows. These developments have led to accretion of foreign exchange reserves that rose to an all-time high of US$ 586.1 billion as on January 8, 2021.
- The disruption of global manufacturing value chains due to the COVID-19 pandemic presents a tremendous opportunity for India to become one of the key nodes in the chain.

Source: https://www.indiabudget.gov.in/economicsurvey/

CH 4 - MONETARY MANAGEMENT AND FINANCIAL INTERMEDIATION

Given the unprecedented shock of COVID-19 pandemic, monetary policy was significantly eased from March 2020 onwards.

Key Points

- The repo rate has been cut by 115 bps since March 2020, with 75 bps cut in first Monetary Policy Committee (MPC) meeting in March 2020 and 40 bps cut in second meeting in May 2020.
- Systemic liquidity in 2020- 21 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 etc. to manage liquidity situation in the economy.
- The higher reserve money growth did not fully translate into commensurate money supply growth due to the lower (adjusted) money multiplier reflecting large deposits by banks with RBI under reverse repo.
- Credit growth of banks slowed down to 6.7 per cent as on January 1, 2021. The credit offtake from banking sector witnessed a broad based slowdown in 2020-21. Gross Non-Performing Assets ratio of Scheduled Commercial Banks decreased from 8.21 per cent at the end of March 2020 to 7.49 per cent at the end of September 2020. However, this has to be seen in conjunction with the asset classification relief provided to borrowers on account of the pandemic.
- Capital to risk-weighted asset ratio of Scheduled Commercial Banks increased from 14.7 per cent to 15.8 per cent between March 2020 and September 2020 with improvement in both Public and Private sector banks. This year saw improvement in transmission of policy repo rates to deposit and lending rates, as reflected in the decline of 94 bps and 67 bps in Weighted Average Lending Rate on fresh rupee loans and outstanding rupee loans respectively from March 2020 to November 2020. Similarly, the Weighted Average Domestic Term Deposit Rate declined by 81 bps during the same period.

Source: https://www.indiabudget.gov.in/economicsurvey/

CH 5 - PRICES AND INFLATION

During 2020-21, retail and wholesale inflation saw movements in the opposite directions.

Key Points

- CPI-Combined (C) inflation has moderated since 2013-14. Overall, headline CPI inflation remained high during the COVID-19 induced lockdown period and subsequently, due to the persistence of supply side disruptions. The rise in inflation was mostly driven by food inflation, which increased to 9.1 per cent during 2020-21 (Apr-Dec).
- While headline CPI-C inflation saw an increase compared to the previous year, WPI inflation remained benign. Supply-side shocks especially owing to COVID-19 pandemic affected the retail inflation with food articles contributing to the overall rise in inflation. The easing of supply side restrictions, which saw inflation moderate in December 2020 are expected to continue this easing. Government interventions to augment the supply of commodities as well as to ensure the provision of essentials have likely softened the impact of the pandemic. On the other hand, improving demand conditions are likely to keep WPI inflation in the positive territory with improving pricing power for manufacturers.
- The base year of CPI needs to be revised to overcome the measurement error that may be arising from the change in food habits. For all these reasons, a greater focus on core inflation is warranted. Further, given the significant increases in e-commerce transactions, new sources of price data capturing e-commerce transactions must get incorporated in the construction of price indices.
- Consistency in import policy of sensitive food items warrants attention as frequent changes in import policy of pulses and edible oils adds to confusion and delays. To rein in the vegetable inflation, review of relevant buffer stock policies is essential. To avoid supply side disruptions that cause inflation seasonality in vegetables, food, CPI-C and in inflation expectations, a system needs to be developed to reduce wastages and ensure timely release of stock.

Source: https://www.indiabudget.gov.in/economicsurvey/

CH 6 - SUSTAINABLE DEVELOPMENT AND CLIMATE CHANGE

The sustainable macroeconomic development should entail an alignment of both climate and economic policies to the extent possible

Key Points

- Several initiatives have been taken at both the national and the sub national level to mainstream the Sustainable Development Goals (SDGs) into the policies, schemes and programmes of the Government.
- India has been taking several proactive climate actions to fulfil its obligations as per the principles of common but differentiated responsibilities and respective capabilities and equity. In its NDC, India has sought to reduce the emissions intensity of its GDP by 33 to 35 percent below 2005 levels by the year 2030; achieve 40 per cent of cumulative electric power installed capacity from non-fossil fuel sources by 2030; and enhance forest and tree cover to create additional carbon sink equivalent to 2.5 to 3 billion tons of carbon dioxide by 2030.
- The country is on its track to successfully decoupling its economic growth from GHG emissions. India's emission intensity of GDP reduced by 21 per cent in 2014 over the level of 2005.
- To ensure the use of cleaner automobile fuel, India has also leapfrogged from BS-IV to BS-VI emission norms on 1st April, 2020
- The effort of the International Solar Alliance in solar energy revolution is noteworthy and it has brought to fruition the 'One Sun One World One Grid' vision laid down by the Hon'ble Prime Minister of India.

Source: https://www.indiabudget.gov.in/economicsurvey/

CH 7 - AGRICULTURE & FOOD MANAGEMENT

Both production and post-production in agriculture needs urgent reforms to enable sustainable and consistent growth.

Key Points

- About 54.6 per cent of the total workforce in the country is still engaged in agricultural and allied sector activities (Census 2011) which accounts for approximately 17.8 per cent of the country's Gross Value Added (GVA) for the year 2019-20 (at current prices).
- While the difficulties created by COVID induced lockdowns adversely affected the performance of the non-agricultural sectors, the agriculture sector came up with a robust growth rate of 3.4 per cent at constant prices during 2020-21 (first advance estimates).
- Under the Pradhan Mantri Garib Kalyan Anna Yojana, 80.96 crores beneficiaries were provided additional foodgrains, i.e. above the National Food Security Act (NFSA) mandated requirements, of 5 kg per person per month free of cost till November, 2020. Over 200 LMT of foodgrains were provided amounting to a fiscal outgo of over Rs 75000 Crores.

Source: https://www.indiabudget.gov.in/economicsurvey/

CH 8 - INDUSTRY AND INFRASTRUCTURE

The year after the crisis (FY22) will require sustained and calibrated measures to facilitate the process of economic recovery.

Key Points

- The industrial sector experienced a sharp decline during the period of the lockdown. The economic activity, however, started recovering as the unlocking process began. The various subcomponents of Index of Industrial Production (IIP) and eight-core index have experienced a V-shaped recovery with consistent movement being seen towards the pre-crisis levels.
- Based on the IIP, the industrial activity contracted by 1.9 per cent in November-2020 recovering from the base of (-) 57.3 per cent in April-2020. Further improvement and firming up in industrial activities are foreseen with the Government enhancing capital expenditure as highlighted in the fiscal policy chapter, the vaccination drive and the resolute push forward on long pending reform measures.

Source: https://www.indiabudget.gov.in/economicsurvey/

CH 9 - SERVICES

Services sector accounts for over 54 per cent of the economy and almost four-fifths of total FDI inflows.

Key Points

- The COVID-19 pandemic, the subsequent lockdown and social distancing measures have had a significant impact on the contact-intensive services sector.
- During the first half of the financial year 2020-21, the services sector contracted by almost 16 per cent. Air passenger traffic, rail freight traffic, port traffic, foreign tourist arrivals, and foreign exchange earnings all contracted sharply following the first lockdown which was announced in March, 2020.
- As the economy gradually entered the unlock phase, most of these indicators showed signs of recovery. Services purchasing managers' index, rail freight traffic, and port traffic have bottomed out and are rising steadily now, showing a V-shaped recovery. Domestic passenger air traffic is also increasing gradually on a monthly basis, although travel remains muted as compared to last year.
- Interestingly, in spite of the global disruptions, FDI inflows into the services sector increased by 34 per cent YoY during April-September 2020 to reach US$ 23.61 billion. The space sector was opened up, telecom related regulations were removed from the IT-BPO sector, and consumer protection regulations were introduced for e-commerce.

Source: https://www.indiabudget.gov.in/economicsurvey/

CH 10 - SOCIAL INFRASTRUCTURE, EMPLOYMENT AND HUMAN DEVELOPMENT

Investment in social infrastructure played a crucial role in India's economic growth.

Key Points

- Public spending on social sector was increased in 2020-21 to mitigate the hardships caused by the pandemic and the loss to livelihood due to the lockdown.
- As per the PLFS report 2018-19, there was an increase in workforce totalling 48.78 crore during 2018-19 as compared to 47.14 crore during 2017- 18. The size of the workforce increased by about 1.64 crore, of which 1.22 crore were in rural sector and 0.42 crore in urban sector. The gender composition was 0.92 crore females and 0.72 crore males. Number of unemployed persons declined by about 0.79 crore between 2017-18 and 2018-19, largely in the category of females, and in rural sector.
- The net payroll data of Employees' Provident Fund Organisation (EPFO) as on 20th December, 2020 shows a net increase of new subscribers in EPFO of 78.58 lakhs in 2019-20 as compared to 61.1 lakhs in 2018-19.The quarterly PLFS, which covers the urban areas, shows improvements in the employment situation in Q4-2020 when compared to Q4-2019.
- Allocation for the health sector has flowed towards special requirements in the fight against COVID-19 to ensure essential medicines, hand sanitizers, protective equipment including masks, PPE Kits, ventilators and adequate testing and treatment facilities as well as in vaccinating the population.
- In 2020-21, to mitigate the effects of COVID-19 induced restrictions on loss of livelihood, the Government has taken various measures such as giving incentive to boost employment under the scheme Aatmanirbhar Bharat Rojgar Yojana, higher allocation under MGNREGS, Garib Kalyan Rozgar Abhiyan for migrant workers in the destinations States and has also notified path-breaking labour reforms to attract big investment in the economy.

Source: https://www.indiabudget.gov.in/economicsurvey/