

# An analysis and understanding of Economic Survey 2020-21

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- The Economic Survey document is prepared by the **Economics Division of the Department of Economic Affairs (DEA)**. The Economic Survey 2020-21 is followed by the Union Budget 2020-21.

### **The theme of Economic Survey, 2020-21:**

- #SavingLives&Livelihoods
- #VshapedRecovery

## What is the Economic Survey?

- The Economic Survey is an annual document of the Ministry of Finance. It reviews the economic progress of the country and issues in the last 12 months.
- The survey provides information related to the performance of key developmental schemes launched by the government. The document also explains the performance of major government policies and their impact.
- The Economic Survey discusses major fiscal developments, macroeconomic factors, inflation, and other economic factors. The document also highlights the impact of agriculture, climate change, and employment on the economy of the country.
- The 1st Economic Survey was tabled in **1950-51**. However, till the year **1964**, it was presented along with the budget.

According to the survey, India's economy could contract **7.7 per cent** in the financial year that ends on March 31, pulled down mainly by the coronavirus pandemic and the weeks-long nationwide lockdown to contain the disease. Real GDP growth could be 11 per cent in the next financial year.

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

- India focused on saving lives and livelihoods by its willingness to take **short-term pain for long-term gain**, at the onset of the COVID-19 pandemic.
- Response stemmed from the **humane principle** that:
- **Human lives lost cannot be brought back**

## Capital budget allocated for defence fully utilised since 2016-17

- The allocated capital budget for defence has been fully utilised since 2016-17, reversing the previous trends of surrender of funds, according to the Economic Survey 2020-21.
- “The trend of underutilisation of defence budget has also been reversed from financial year 2016-17,” the Survey stated. The allocation of defence budget, including civil estimates and pensions for 2020-21, was ₹4,71,378.00 crore, which was ₹40,367.71 crore over the budget estimates of 2019-20.

**Health outcomes  
of States that  
adopted PM-JAY  
improved  
compared to  
those who didn't**

- The health outcomes of the States that adopted Pradhan Mantri Jan Arogya Yojana (PM-JAY) improved when compared to the States that did not adopt the scheme, according to the Economic Survey 2020-21.
- States that adopted the PM-JAY experienced greater penetration of health insurance and a reduction in infant and child mortality rates, as well as realised improved access and utilisation of family planning services, and greater awareness about HIV/AIDS, it added.

## **PLI scheme to make India integral part of global supply chain**

- The ₹1.46-lakh crore PLI scheme is expected to make India an integral part of the global supply chain and create huge employment opportunities, according to the Economic Survey.
- The production-linked incentive (PLI) scheme was recently expanded to 10 sectors, after registering traction from global investors in the mobile manufacturing segment.



**Infrastructure to boost growth; sectors to grow with unlocking of economy**

- Terming investment in infrastructure as most important factor to boost growth, the Economic Survey said post unlocking of the economy, infra sectors are poised for growth and construction of roads is expected to return to the high pace attained before COVID-19.
- The infrastructure sector will be the key to overall economic growth and macroeconomic stability, the Survey said emphasising that the year after the crisis (2021-22) will require sustained and calibrated measures to facilitate the process of economic recovery and enable the economy to get back on its long-term growth trajectory.

**Vocational  
courses to be  
rolled out for  
skill  
development of  
school students**

- Vocational courses will be introduced phase-wise in schools for classes 9 to 12 to expose students to skill development avenues, as part of the Centre's flagship skilling scheme Pradhan Mantri Kaushal Vikas Yojana 3.0, according to the Economic Survey 2020-21.
- By March 21, merely 2.4 per cent of India's workforce in the age group of 15-59 years have received formal vocational or technical training, while another 8.9 per cent obtained training through informal sources.

**Economic  
Survey exhorts  
rating agencies  
to be more  
transparent, less  
subjective in  
sovereign rating**

- India's sovereign credit ratings do not reflect the economy's fundamentals, the Economic Survey said and nudged the global agencies to become more transparent and less subjective in their ratings.
- The Economic Survey 2020-21, said that sovereign credit ratings methodology must be amended to reflect economies' ability and willingness to pay their debt obligations, and suggested that developing economies must come together to address this bias and subjectivity inherent in sovereign credit ratings methodology.

## India's COVID response saved over 1 lakh lives

- India's pandemic response, focused on saving lives and livelihoods, restricted the COVID-19 spread by 37 lakh cases and saved more than 1 lakh lives, as per the **Economic Survey 2020-21**.
- **Economic Survey** noted that in the absence of a potent cure, preventive vaccine; interplay of network structures in densely populated areas, and a high case fatality rate (CFR), India weighed the costs and opportunities strategically.
- The limits of scientific understanding of the disease, lack of good data on the mode of spread and potency of the virus made it difficult to model the likely impact of different policy options in a reliable and timely way.
- To aggravate the uncertainty, it was estimated that India would have 30 crore cases and several thousand deaths by the end of May, 2020, it noted.

## Enhanced government spending on healthcare to cut out-of-pocket spending

- An increase in government spending on the healthcare sector – from the current 1% to 2.5-3% of GDP – as envisaged in the National Health Policy 2017 could reduce out-of-pocket expenditures, as per the Economic Survey 2020-21.
- The rise in public spending can lead to a reduction in out-of-pocket expenditures from 65% to 30% of overall healthcare spend, it noted.
- The Economic Survey said that for the country to effectively respond to future pandemics, the country's health infrastructure needs to be agile.

## 'New farm laws herald new era of market freedom'

- **Economic Survey** strongly defended new farm laws, saying they herald a new era of market freedom which can go a long way in improving lives of small and marginal farmers in India.
- These legislations were designed "primarily" for the benefit of "small and marginal farmers", which constitute around 85% of the total number of farmers and are the biggest sufferer of the "regressive" APMC-regulated market regime, the survey said.
- It defended the farm laws in the backdrop of long-running farmers' agitation at various borders of the national capital seeking repeal of these legislations expressing concern that they are pro-corporate and could weaken government regulated mandis, also called Agriculture Produce Marketing Committees (APMCs).

## Optimism with caution

- To summarise, India is witnessing a V-shaped economic recovery. This is the testimony to resilience and intrinsic strength of India's economy.
- Given the large vaccination drive and the swift roll out of the same, Govt. present this Survey with optimism on both health and economic fronts. At the same time, humbly requesting everyone to continue observing caution till vaccinated, he adds.

## **Bare Necessities: Roti, Kapada and Makaan**

- This Chapter analyses how the bare necessities have changed. 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 as the laggard states have gained relatively more between 2012 and 2018.
- Improved disproportionately more for the poorest households when compared to the richest households across rural and urban areas.
- Increase in equity is noteworthy as rich can access private options for public goods.
- A Bare Necessities Index (BNI) based on the large annual household survey data can be constructed using suitable indicators and methodology at district level for all/targeted districts to assess the progress on access to bare necessities.



## Regulatory forbearance

- Regulatory forbearance is an emergency medicine, not staple diet, states the Survey.
- During the Global Financial Crisis, regulatory forbearance helped borrowers tide over temporary hardship. Forbearance continued long after the economic recovery, for over seven years, resulting in unintended consequences for the economy.
- Banks exploited the forbearance window for window-dressing their books and misallocated credit, thereby damaging the quality of investment in the economy, notes the Survey.
- 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.

## Process reforms

- It takes about 1,600 days to close a company in India even if all the papers are fine. The same for Singapore is just 128 days! This to highlight excessive regulation in the country, Economic Survey noted.
- India over-regulates the economy resulting in regulations being ineffective even with relatively good compliance with process, states the Survey.
- The root cause of the problem of overregulation is an approach that attempts to account for every possible outcome. Increase in complexity of regulations, intended to reduce discretion, results in even more non-transparent discretion
- The solution is to simplify regulations and invest in greater supervision which, by definition, implies greater discretion.

## A thumbs up for PM-JAY

- Pradhan Mantri Jan Arogya Yojana (PM-JAY) – the ambitious program launched by Government of India in 2018 to provide healthcare access to the most vulnerable sections demonstrates strong positive effects on healthcare outcomes in a short time, notes the Survey.

Based on Difference-in-Difference analysis of National Family Health Survey (NFHS)-4 (2015-16) and NFHS-5 (2019-20) following outcome:

- Enhanced health insurance coverage: The proportion of households that had health insurance increased in Bihar, Assam and Sikkim from 2015-16 to 2019-20 by 89% while it decreased by 12% over the same period in West Bengal
- Decline in Infant Mortality rate: from 2015-16 to 2019-20, infant mortality rates declined by 20% for West Bengal and by 28% for the three neighbouring states
- Decline in under-5 mortality rate: Bengal saw a fall of 20% while, the neighbours witnessed a 27% reduction

- Modern methods of contraception, female sterilization and pill usage went up by 36%, 22% and 28% respectively in the three neighbouring states while the respective changes for West Bengal were negligible
- While West Bengal did not witness any significant decline in unmet need for spacing between consecutive kids, the neighbouring three states recorded a 37% fall
- Various metrics for mother and child care improved more in the three neighbouring states than in West Bengal.
- Overall, the comparison reflects significant improvements in several health outcomes in states that implemented PM-JAY versus those that did not

## More allotment needed for health

- An increase in public healthcare spending from 1% to 2.5-3% of GDP can decrease the out-of-pocket expenditure from 65% to 35% of overall healthcare spending, states the Survey.
- 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.
- India's health infrastructure must be agile to respond to pandemics - healthcare policy must not become beholden to 'saliency bias'.
- 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. The scheme should be given prominence under Ayushman Bharat.
- A regulator for the healthcare sector must be considered given the market failures stemming from information asymmetry.
- Telemedicine needs to be harnessed to the fullest by investing in internet connectivity and health infrastructure

## Inequality and Growth: Conflict or Convergence?

- This Chapter of the Survey deals with inequality and growth.
- Both inequality and per-capita income (growth) have similar relationships with socio-economic indicators in India, unlike in advanced economies.
- Economic growth has a greater impact on poverty alleviation than inequality.
- India must continue to focus on economic growth to lift the poor out of poverty. Redistribution in a developing economy is feasible only if the size of the economic pie grows, says the Survey.

## India's Sovereign Credit Rating does not reflect its fundamentals

- The fifth largest economy in the world has never been rated as the lowest rung of the investment grade (BBB-/Baa3) in sovereign credit ratings, states the Survey.
- Credit ratings map the probability of default and therefore reflect the willingness and ability of borrower to meet its obligations.
- India's willingness to pay is unquestionably demonstrated through its zero sovereign default history. The Survey recalls how India shipped gold to repay its debt.
- India's ability to pay can be gauged by low foreign currency denominated debt and forex reserves.

## Does Growth lead to Debt Sustainability? Yes, But Not 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.
- In India, **interest rate on debt is less than growth rate.**
- Negative IRGD in India – not due to lower interest rates but much higher growth rates – prompts a debate on fiscal policy, especially during growth slowdowns and economic crises.
- Growth causes debt to become sustainable in countries with higher growth rates; such clarity about the causal direction is not witnessed in countries with lower growth rates, the Survey states.
- Active fiscal policy can ensure that the full benefit of reforms is reaped by limiting potential damage to productive capacity. Fiscal policy that provides an impetus to growth will lead to lower debt-to-GDP ratio.
- Given India’s growth potential, debt sustainability is unlikely to be a problem even in the worst scenarios.



## COVID and Economy

- Economic Survey speaks about India's policy response to COVID-19 response, amidst a once-in-a-lifetime crisis.
- India's policy response recognised that the GDP growth will come back, and it certainly has, but human lives will not.
- India's policy response also derived from extensive research on epidemiology, especially that looked at Spanish Flu of 1918. One of the key insights was that pandemic spreads faster in higher and denser population and intensity of lockdown matters most at the beginning of the pandemic, he adds.
- As per the survey estimates, India avoided about 37 lakh cases and about 1 lakh deaths through the policies it adopted.
- Even without the lockdown, the economy would have significant economic impact. Strong correlation of lockdown with decline in cases and deaths is found across states, not just within a few states. Hence Economic Survey infers that lockdown had a causal effect on Saving Lives and Livelihoods.

## Highlights of the Survey

- V-shaped economic recovery due to mega vaccination drive, robust recovery in the services sector and robust growth in consumption and investment
- V-shaped recovery is due to resurgence in high frequency indicators such as power demand, rail freight, E-Way bills, GST collection, steel consumption, Etc
- India to become the fastest growing economy in next two years as per IMF
- India's GDP is estimated to contract by 7.7% in FY2020-21
- Agriculture to clock 3.4% Growth, while industry and services to contract by 9.6% and 8.8% respectively this year
- India to have a Current Account Surplus of 2% of GDP in FY21, A historic high after 17 years
- Net FPI Inflows recorded an all-time monthly high of 9.8 Billion Dollars in November 2020
- Scores of lives saved and V-Shaped Economic Recovery bear testimony to India's boldness in taking short-term pain for long-term gain.

**Thank You**