

Economic Survey 2020

The Chief Economic Advisor-Krishnamurthy Subramanian presented the Economic Survey.

What is the Economic Survey?

The Economic Survey is a thorough report card on the economy, prepared by the Government of India's Chief Economic Advisor. This would be tabled in Parliament by the Finance Minister a day before the presentation of Annual Budget.

It was first presented in the 1950-51. It was submitted in the Lok Sabha along with the Union Budget until the year 1964. In 1964, the survey began to be released a day before budget day and this practice has continued till date.

The **theme** of Economic Survey 2020 is – “Enable Markets, Promote 'Pro-Business' Policy & Strengthen 'Trust' in Economy”

Key Highlights:

- Economic Survey 2020 document consists of 2 volumes.
- The two-volumes of Economic Survey this year was printed in lavender, the same as the colour of the new 100 rupee currency note.
- It projected India's economic growth at 6% to 6.5% in the next financial year starting April 1, saying the economy has bottomed out.

India's Economic Performance in 2019-20

- India's GDP growth declined to 4.8 % in H1 of 2019-20, amidst a weak environment for global manufacturing, trade and demand.
- The Real consumption growth has recovered in Q2 of 2019-20, by a significant growth in government final consumption.
- Current Account Deficit narrowed to 1.5 % of GDP in H1 of 2019-20 from 2.1 % in 2018-19.
- Current Account Deficit narrowed to 1.5 % of GDP in H1 of 2019-20 from 2.1 % in 2018-19.
- 5 % GDP growth for 2019-20 is expected based on CSO's first Advance Estimates.

Fiscal Developments

- Revenue Receipts have shown a higher growth during the first eight months of 2019-20, compared to the same period last year.
- Gross GST monthly collections have crossed Rs. 1 lakh crore for a total of five times during 2019-20 i.e, up to December 2019.
- Structural reforms in taxation
- Change in corporate tax rate.
- Measures to ease the implementation of GST.

External Sector

- India's BoP position has improved from US\$ 412.9 bn of forex reserves in end March, 2019 to US\$ 433.7 bn by end of September, 2019.
- As on 10th January, 2020 Foreign reserves stood at US\$ 461.2 bn.
- India's top five trading partners will continue to be USA, China, UAE, Saudi Arabia and Hong Kong.

Wealth Creation: The Invisible Hand Supported by the Hand of Trust

- The Economic Survey speaks about the need to bring openness in the market for to create wealth through increased investment. In this point of view, the survey points towards an Invisible Hand that is supported by the Hand of Trust.
- It presents an amalgamation of old and new; old in terms of ancient Indian tradition and new in terms of use of FinTech in Indian Public Sector Banks.
- It calls for strengthening this invisible hand through:
 1. Equal opportunities for new entrants
 2. Fair competition & ease doing business
 3. Trade for job creation
 4. Scaling up of the banking sector
 5. Introduction of the idea of trust as a public good

Entrepreneurship and Wealth Creation at the Grassroots

The Survey calls for the creation of wealth through:

1. Entrepreneurship of the working class
2. Pro-business policies to test the power of competitive markets
3. Elimination of policies that weaken the markets
4. Integration of Assemble in India into Make in India
5. Scaling up of the banking sector
6. Privatization to foster efficiency

Pro-business versus Pro-markets

- Survey states that India's aspiration of becoming a \$5 trillion economy depends critically on:
Promoting a 'pro-business' policy that unleashes the power of competitive markets to generate wealth. Detaching from 'pro-crony' policy that may favour specific private interests, especially powerful incumbents.
- The Survey says that until 2011, several Pro-Crony policies were followed like preferential allocation of natural resources. These pro-crony policies were majorly led to willful defaults which drained off the banks.

Undermining Markets: When Government Intervention Hurts More Than It Helps

Government intervention, though well intended, often ends up undermining the ability of the markets to support wealth creation and leads to outcomes opposite to those intended.

Four examples of anachronistic government interventions:

1. Essential Commodities Act (ECA), 1955
2. Drug Price Control under ECA
3. Government intervention in Grain markets
4. Debt waivers

The survey suggests that:

The government must systematically examine areas of needless intervention and undermining of markets, but it does not argue that there should be no Government

intervention. Instead, it suggests that the interventions that were apt in a different economic setting may have lost their relevance in a transformed economy. Eliminating such instances will enable competitive markets, spurring investments and economic growth.

Creating Jobs and Growth by Specializing in Network Products

- According to the Survey India has unprecedented opportunity to chart a China-like, labour-intensive, export trajectory.
- By integrating “Assemble in India for the world” into Make in India, India can actually raise its export market share to about 3.5% by 2025 and 6% by 2030.
- Create four crore well-paid jobs by 2025 and 8 crores by 2030. Exports of network products can provide one-quarter of the increase in value-added required for making India a \$5 trillion economy by the year 2025.

Targeting Ease of Doing Business in India

- A jump of 79 positions to 63 in the year 2019 from 142 in 2014 in the World Bank’s Doing Business rankings.
- India still lags in parameters such as Ease of Starting Business, Registering Property, Paying Taxes and Enforcing Contracts.
- The survey has numerous case studies:
- For merchandise exports, the logistics process flow for imports is more efficient than that for shipping.
- Electronics exports and imports through Bengaluru airport show how Indian logistical processes can be world-class.

Golden jubilee of Bank Nationalisation

- The survey observes the year 2019 as the golden jubilee year of bank nationalization.
- Accomplishments of lakhs of Public Sector Banks employees are valued and an objective assessment of PSBs suggested by the Survey.
- Since the year 1969, India’s banking sector has not developed proportionately to the growth in the size of the economy.
- India has only one bank in the global top 100 same as countries that are a fraction of its size i.e, Finland (about 1/11th), Denmark (1/8th), etc.
- A large economy needs an efficient banking sector to support the growth.

Privatisation and Wealth Creation

- The examined Survey realized efficiency gains from privatization in the Indian context and bolsters the case for aggressive disinvestment of CPSEs.
- Strategic disinvestment of Government's shareholding of 53.29% in HPCL led to an increase of around Rs. 33,000 crores in national wealth.
- The survey presents an analysis of before-after performance of 11 Central Public Sector Enterprises (CPSEs) which underwent strategic disinvestment from 1999-2000 to 2003-04:
- Financial indicators like net profit, net worth, return on assets, return on equity etc. of the privatized CPSEs, on an average, have improved significantly.
- Privatized CPSEs have been able to generate more wealth from the same resources.

Thalinomics: Economics of Plate of Food in India

- It is an attempt to quantify what a common person pays for a Thali across India.
- A shift in the dynamics of Thali prices since the year 2015-16.
- Absolute prices of a vegetarian Thalis have decreased significantly since 2015-16 across India; though the price has increased during 2019-20.

Post 2015-16:

- The 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 by 29 %.
- Affordability of non-vegetarian Thalis improved by 18 %.

Prices and Inflation

- CPI inflation increased to 4.1% in 2019-20 from 3.7% in 2018-19
- WPI inflation declined to 1.5% in 2019-20 from 4.7% in 2018-19
- The major drivers of CPI inflation in 2019-20 were food and beverages, particularly vegetables and pulses