PRABHA IASIPS COACHING ACADEMY

ECONOMIC SURVEY 2020-21

Saving a life that is in jeopardy is the origin of dharma – Mahabharata (Shanti parva)-(Saving life from COVID is duty of govt)

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 Per Cent in FY2020-21

Agriculture to Clock 3.4 Per Cent Growth, While Industry and Services to Contract by 9.6 Per Cent and 8.8 Per Cent Respectively this Year This Year

India to Have a Current Account Surplus of 2 Per Cent 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

India's real GDP to record a growth of 11 per cent in 2021-22 and nominal GDP by 15.4 per cent-the highest since independence. The V-shaped economic recovery is supported by the initiation of a mega vaccination drive with hopes of a robust recovery in the services sector and prospects for robust growth in consumption and investment. The Union Minister for Finance & Corporate Affairs, Smt Nirmala Sitharaman presented the Economic Survey 2020-21 in Parliament today, which states that the rebound will be led by the low base and continued normalization in economic activities as the rollout of COVID-19 vaccines gathers traction. The fundamentals of the economy remain strong as gradual scaling back of lockdowns along with the astute support of Atmanirbhar Bharat Mission have placed the economy firmly on the path of revival. This path would entail 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. These projections are in line with IMF estimate of real GDP growth of 11.5 per cent in 2021-22 for India and 6.8 per cent in 2022-23. India is expected to emerge as the fastest growing economy in the next two years as per IMF.

The Survey says, India's mature policy response to this "once-in-a-century" crisis provides important lessons for democracies to avoid myopic policymaking and demonstrates the significant benefits of focusing on long-term gains. India adopted a unique four-pillar strategy of containment, fiscal, financial, and long-term structural reforms. Calibrated fiscal and monetary support was provided given the evolving economic situation, cushioning the vulnerable in the lockdown and boosting consumption and investment while unlocking, mindful of fiscal repercussions and entailing debt sustainability. A favorable monetary policy ensured abundant liquidity and immediate relief to debtors via temporary moratoria, while unclogging monetary policy transmission.

The Survey says, 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.

As anticipated, 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. As India's mobility and pandemic trends aligned and improved concomitantly, indicators like E-way bills, rail freight, GST collections and power consumption not only reached pre-pandemic levels but also surpassed previous year levels. The reignited inter and intra state movement and record-high monthly GST collections have marked the unlocking of industrial and commercial activity. A sharp rise in commercial paper issuances, easing yields, and sturdy credit growth to MSMEs portend revamped credit flows for enterprises to survive and grow.

Dwelling on the sectoral trends, the Survey says that the year also saw manufacturing sector's resilience, rural demand cushioning overall economic activity and structural consumption shifts in booming digital transactions. It adds that Agriculture is set to cushion the shock of the COVID-19 pandemic on the Indian economy in 2020-21 with a growth of 3.4 per cent in both Q1 and Q2. A series of progressive reforms undertaken by the government have contributed to nourishing a vibrant agricultural sector, which remains a silver lining to India's growth story of FY 2020-21.

A palpable V-shaped recovery in industrial production was observed over the year. Manufacturing rebounded and industrial value started to normalize. Indian services sector sustained its recovery from the pandemic driven declines with PMI Services output and new business rising for the third straight month in December.

Bank credit remained subdued in FY 2020-21 amid risk aversion and muted credit appetite. However, credit growth to agriculture and allied activities accelerated to 7.4 per cent in October 2020 from 7.1 per cent in October 2019. October 2020 saw resilient credit flows to sectors such as construction, trade and hospitality, while bank credit remained muted to the manufacturing sector. Credit growth to the services sector accelerated to 9.5 per cent in October 2020 from 6.5 per cent in October 2019.

High food prices remained a major driver of inflation in 2020. However, inflation in December, 2020 fell back into the RBI's target range of 4+/-2 per cent to reach 4.6 per cent to reach 4.6 per cent year-on-year as compared to 6.9 per cent in November. This was driven by a step fall in food prices, particularly of vegetables, cereals, and protein products and favorable base effects.

The external sector provided an effective cushion to growth with India recording a current account surplus of 3.1 per cent of GDP in the first half of the year, largely supported by strong services exports, and weak demand leading to a sharper contraction in imports (with merchandise imports contracting by 39.7%) than exports (with merchandise exports contracting by 21.2%). Consequently, the Foreign exchange reserves rose to cover 18 months of imports in December 2020.

External debt as a ratio to GDP rose marginally to 21.6 per cent at end-September 2020 from 20.6 per cent at end-March 2020. However, the ratio of foreign exchange reserves to total and short-term debt (original and residual) improved because of the sizable accretion in reserves.

India remained a preferred investment destination in FY 2020-21 with FDI pouring in amidst global asset shifts towards equities and prospects of quicker recovery in emerging economies. Net FPI inflows recorded an all-time monthly high of US$ 9.8 billion in November 2020, as investors' risk appetite returned, with a renewed search for yield, and US dollar weakened amid global monetary easing and fiscal stimulus packages. India was the only country among emerging markets to receive equity FII inflows in 2020.

Buoyant Sensex and NIFTY resulted in India's market-capitalisation to Gross Domestic Product (GDP) ratio crossing 100 per cent for the first time since October 2010. This, however, raises concerns on the disconnect between the financial markets and real sector.

Exports are expected to decline by 5.8 per cent and imports by 11.3 per cent in the second half of the year. India is expected to have a Current Account Surplus of 2 per cent of GDP in FY21, a historic high after 17 years.

On the supply side, Gross Value Added (GVA) growth is pegged at -7.2 per cent in 2020-21 as against 3.9 per cent in FY:2019-20. Agriculture is set to cushion the shock of the Covid-19 pandemic on the Indian economy in 2020-21 with a growth of 3.4 per cent, while industry and services are estimated to contract by 9.6 per cent and 8.8 per cent during the year.

The Survey underlines that the year 2020 was dominated by the COVID-19 pandemic and the ensuing global economic downturn, the most severe one since the Global Financial Crisis. The lockdowns and social distancing norms brought the already slowing global economy to a standstill. Global economic output is estimated to fall by 3.5 percent in 2020 (IMF January 2021 estimates). In view of this, Governments and central banks across the world deployed a range of policy tools to support their economies such as lowering key policy rates, quantitative easing measures, loan guarantees, cash transfers and fiscal stimulus measures. India recognized the disruptive impact of the pandemic and charted its own unique path amidst dismal projections by several international institutions of the spread in the country given its huge population, high population density and an overburdened health infrastructure.

The Survey observes that the intense lockdown implemented at the start of the pandemic – when India had only a 100 confirmed cases – characterized India's unique response in several ways. First, the policy response was driven by the findings from both epidemiological and economic research. Specifically, faced with enormous uncertainty about the potential spread of the pandemic, the policy implemented the Nobel-prize winning research in Hansen and Sargent (2001) that recommends a policy focussed on minimising losses in a worst case scenario. Faced with an unprecedented pandemic, loss of scores of human lives captured this worst case scenario. Moreover, epidemiological research highlighted the importance of an initial, stringent lockdown especially in a country where high population density posed difficulties with respect to social distancing. Therefore, India's policy humane response that focused on saving human lives, recognised that the short-term pain of an initial, stringent lockdown would lead to long-term gains both in the lives saved and in the pace of the economic recovery. The scores of lives that have been saved and the V-shaped economic recovery that is being witnessed bear testimony to India’s boldness in taking short-term pain for long-term gain.

Second, India recognised that the pandemic impacts both supply and demand in the economy. The slew of reforms – again unique amidst all major economies – were implemented to ensure that the supply-side disruptions, which were inevitable during the lockdown, are minimized in the medium to long-run. The demand side policy reflected the understanding that aggregate demand, especially that for non-essential items, reflects precautionary motives to save, which inevitably remains high when overall uncertainty is high. Therefore, during the initial months of the pandemic when uncertainty was high and lockdowns imposed economic restrictions, India did not waste precious fiscal resources in trying to pump up discretionary consumption. Instead, the policy focused on ensuring that all essentials were taken care of, which included direct benefit transfers to the vulnerable sections and the world’s largest food subsidy programme targeting 80.96 crore beneficiaries. Government of India also launched Emergency Credit Line Guarantee Scheme to provide much needed relief to stressed sectors by helping entities sustain employment and meet liabilities.

During the unlock phase, when uncertainty declined and the precautionary motive to save subsided, on the one hand, and economic mobility increased, on the other hand, India has ramped up its fiscal spending. A favorable monetary policy ensured abundant liquidity and immediate relief to debtors via temporary moratoria, while unclogging monetary policy transmission. India’s demand-side policy, thus, underscores the idea that pressing on the accelerator while the brakes are clamped only wastes scarce fuel.

The year 2020 threw at the world a bedlam of novel COVID-19 virus, threatening all that was taken for granted –mobility, safety, and a normal life itself. This, in turn, posed the most formidable economic challenge to India and to the world in a century. Bereft of a cure or a vaccine, public health policy became central to tackling this all-pervasive crisis. The imperative of flattening the disease curve was entwined with the livelihood cost of an imminent recession, which emanated from the restrictions in economic activities from the lockdown required to contain the pandemic. This inherent trade-off led to the policy dilemma of “lives versus livelihoods”.

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**
  - GDP growth will recover from the temporary shock caused by the pandemic
- An **early, intense lockdown provided a win-win strategy** to save lives, and preserve livelihoods via economic recovery in the medium to long-term
- Strategy also motivated by the Nobel-Prize winning research by Hansen & Sargent (2001): a policy focused on **minimizing losses in a worst-case scenario** when uncertainty is very high
- India's strategy **flattened the curve,** pushed the peak to September, 2020
- After the September peak, India has been unique in experiencing **declining daily cases despite increasing mobility**
- **V-shaped recovery**, as seen in 7.5% decline in GDP in Q2 and recovery across all key economic indicators vis-à-vis the 23.9% GDP contraction in Q1
- COVID pandemic affected both demand and supply:
  - India was the only country to announce **structural reforms to expand supply** in the medium-long term and avoid long-term damage to productive capacities
  - **Calibrated demand side policies** to ensure that the accelerator is slowly pushed down only when the brakes on economic activities are being removed
  - A public investment programme centered around the **National Infrastructure Pipeline** to accelerate the demand push and further the recovery
- **Upturn in the economy, avoiding a second wave of infections** - a sui generis case in strategic policymaking amidst a once-in-a-century pandemic

State of the Economy in 2020-21: A Macro View

- COVID-19 pandemic ensued **global economic downturn**, the most severe one since the Global Financial Crisis
- The lockdowns and social distancing norms brought the already slowing **global economy to a standstill**

- Global economic output estimated to fall by 3.5% in 2020 (IMF January 2021 estimates)
- Governments and central banks across the globe deployed various policy tools to support their economies such as lowering policy rates, quantitative easing measures, etc.
- India adopted a **four-pillar strategy** of containment, fiscal, financial, and long-term structural reforms:
    - o **Calibrated fiscal and monetary support** was provided, cushioning the vulnerable during the lockdown and boosting consumption and investment while unlocking
    - o A **favourable monetary policy** ensured abundant liquidity and immediate relief to debtors while unclogging monetary policy transmission
- As per the advance estimates by NSO, India's GDP is estimated to grow by (-) 7.7% in FY21 - a **robust sequential growth of 23.9%** in H2: FY21 over H1: FY21
- India's **real GDP** to record a **11.0% growth in FY2021-22** and **nominal GDP** to grow by **15.4%** – the **highest since independence**:

- Rebound to be led by low base and continued normalization in economic activities as the rollout of COVID-19 vaccines gathers traction

- **Government consumption** and **net exports** cushioned the growth from diving further down, whereas investment and private consumption pulled it down
- The recovery in second half of FY2020-21 is expected to be powered by **government consumption**, estimated to grow at **17% YoY**
- Exports expected to decline by 5.8% and imports by 11.3% in the second half of FY21
- India expected to have a **Current Account Surplus of 2% of GDP** in FY21, a **historic high after 17 years**
- On supply side, Gross Value Added (GVA) growth pegged at -7.2% in FY21 as against 3.9% in FY20:
    - o **Agriculture set to cushion the shock of the COVID-19 pandemic on the Indian economy in FY21 with a growth of 3.4%**

- o **Industry and services estimated to contract by 9.6% and 8.8% respectively during FY21**

• Agriculture remained the silver lining while **contact-based services, manufacturing, construction were hit hardest**, and recovering steadily

• India remained a **preferred investment destination** in FY 2020-21 with FDI pouring in amidst global asset shifts towards equities and prospects of quicker recovery in emerging economies:

- o Net **FPI inflows** recorded an **all-time monthly high of US$ 9.8 billion** in November 2020, as investors' risk appetite returned
- o **India was the only country among emerging markets to receive equity FII inflows in 2020**

• Buoyant SENSEX and NIFTY resulted in India's **market-cap to GDP ratio crossing 100% for the first time since October 2010**

• **Softening of CPI inflation** recently reflects easing of supply side constraints that affected food inflation

• Mild contraction of 0.8% in investment (as measured by Gross Fixed Capital Formation) in 2nd half of FY21, as against 29% drop in 1st half of FY21

• Reignited **inter and intra state movement** and record-high monthly **GST collections** have marked the unlocking of industrial and commercial activity

• The **external sector** provided an effective cushion to growth with India recording a **Current Account Surplus of 3.1% of GDP** in the first half of FY21:

- o **Strong services exports** and weak demand leading to a sharper contraction in imports (merchandise imports contracted by 39.7%) than exports (merchandise exports contracted by 21.2%)
- o **Forex reserves** increased to a level so as to cover 18 months worth of imports in December 2020
- o **External debt** as a ratio to GDP increased to 21.6% at end-September 2020 from 20.6% at end-March 2020
- o Ratio of forex reserves to total and short-term debt improved because of the sizable accretion in reserves

• **V-shaped recovery** is underway, as demonstrated by a sustained resurgence in high frequency indicators such as power demand, e-way bills, GST collection, steel consumption, etc.

- India became the **fastest country to roll-out 10 lakh vaccines** in 6 days and also emerged as a **leading supplier of the vaccine** to neighbouring countries and Brazil
- **Economy's homecoming to normalcy** brought closer by the initiation of a mega vaccination drive:
  - o **Hopes of a robust recovery** in services sector, consumption, and investment have been rekindled
  - o Reforms must go on to enable India realize its potential growth and erase the adverse impact of the pandemic
- India's **mature policy response** to the 'once-in-a-century' crisis provides important lessons for democracies to avoid myopic policy-making and demonstrates benefits of focusing on **long-term gains**

Does Growth lead to Debt Sustainability? Yes, But Not Vice- Versa!

- **Growth leads to debt sustainability** in the Indian context but not necessarily 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

  - o In India, **interest rate on debt is less than growth rate** - by norm, not by exception
- **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
- Fiscal multipliers are disproportionately higher during economic crises than during economic booms
- **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

- **Desirable to use counter-cyclical fiscal policy** to enable growth during economic downturns
- Active, counter-cyclical fiscal policy - not a call for fiscal irresponsibility, but to break the intellectual anchoring that has created an **asymmetric bias against fiscal policy**

Does India's Sovereign Credit Rating Reflect Its Fundamentals? No!

- 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:

  - Reflecting the economic size and thereby the ability to repay debt, the fifth largest economy has been predominantly rated AAA

    - China and India are the only exceptions to this rule – China was rated A-/A2 in 2005 and now India is rated BBB-/Baa3

- **India's sovereign credit ratings do not reflect its fundamentals:**

  - A clear outlier amongst countries rated between A+/A1 and BBB-/Baa3 for S&P/ Moody's, on several parameters

    - Rated significantly lower than mandated by the effect on the sovereign rating of the parameter

- 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**

    - India's **ability to pay** can be gauged by low foreign currency denominated debt and **forex reserves**

- Sovereign credit rating changes for India have **no or weak correlation with macroeconomic indicators**
- India's fiscal policy should reflect Gurudev Rabindranath Tagore's sentiment of ***'a mind without fear'***
- Sovereign credit ratings methodology should be made **more transparent, less subjective** and better attuned to reflect economies' fundamentals

Inequality and Growth: Conflict or Convergence?

- The relationship between inequality and socio-economic outcomes vis-à-vis economic growth and socio-economic outcomes, is different in India from that in advanced economies.
- 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**
- ***Expanding the overall pie*** - redistribution in a developing economy is feasible only if the size of the economic pie grows

Healthcare takes centre stage, finally!

- 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** so as 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
- Emphasis on NHM in conjunction with **Ayushman Bharat** should continue
- 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
- A **regulator for the healthcare sector** must be considered given the market failures stemming from information asymmetry

○ Mitigation of information asymmetry will help **lower insurance premiums**, enable the offering of better products and **increase insurance penetration**

o Information utilities that help mitigate the information asymmetry in healthcare sector will be useful in **enhancing overall welfare**

- **Telemedicine** needs to be harnessed to the fullest by investing in **internet connectivity** and **health infrastructure**

Process Reforms

- India over-regulates the economy resulting in regulations being ineffective even with relatively good compliance with process
- 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
- Discretion, however, needs to be balanced with **transparency**, systems of ex-ante accountability and ex-post resolution mechanisms
- The above intellectual framework has already informed reforms ranging from labour codes to removal of onerous regulations on the BPO sector

Regulatory Forbearance an emergency medicine, not staple diet!

- During the Global Financial Crisis, regulatory **forbearance** helped borrowers tide over temporary hardship
- Forbearance continued long after the economic recovery, 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
- Forbearance represents emergency medicine that should be discontinued at the first opportunity when the economy exhibits recovery, not a staple diet that gets continued for years
- 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

- An **Asset Quality Review** exercise must be conducted immediately after the forbearance is withdrawn
- The **legal infrastructure** for the recovery of loans needs to be strengthened de facto

Innovation: Trending Up but Needs Thrust, Especially from the Private Sector

- **India entered the top-50 innovating countries for the first time in 2020** since the inception of the Global Innovation Index in 2007, ranking **first in Central and South Asia**, and third amongst lower middle-income group economies
- India's gross domestic expenditure on R&D (GERD) is lowest amongst top ten economies
- **India's aspiration must be to compete on innovation with the top ten economies**
- The **government sector contributes a disproportionately large share in total GERD** at three times the average of top ten economies
- The business sector's contribution to GERD, total R&D personnel and researchers is amongst the lowest when compared to top ten economies
- This situation has prevailed despite higher tax incentives for innovation and access to equity capital
- **India's business sector needs to significantly ramp up investments in R&D**
- Indian resident's share in total patents filed in the country must rise from the current 36% which is much below the average of 62% in top ten economies
- For achieving higher improvement in innovation output, India must focus on **improving its performance on institutions and business sophistication innovation inputs**

JAY Ho! PM'JAY' Adoption and Health outcomes

- **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**

- PM-JAY is being used significantly for high frequency, low cost care such as dialysis and continued during the Covid pandemic and the lockdown.
- Causal impact of PM-JAY on health outcomes by undertaking a Difference-in-Difference analysis based on National Family Health Survey (NFHS)-4 (2015-16) and NFHS-5 (2019-20) is following:

  - 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.

- Each of these health effects manifested similarly when we compare all states that implemented PM-JAY versus the states that did not
- Overall, the comparison reflects **significant improvements in several health outcomes in states that implemented PM-JAY versus those that did not**

<u>Bare Necessities</u>

- **Access to the 'bare necessities' has improved across all States in the country in 2018 as compared to 2012**

  o It is highest in States such as Kerala, Punjab, Haryana and Gujarat while lowest in Odisha, Jharkhand, West Bengal and Tripura

  o **Improvement in each of the five dimensions** viz., access to water, housing, sanitation, micro-environment and other facilities o Inter-State disparities declined across rural and urban areas as the laggard states have gained relatively more between 2012 and 2018

o Improved disproportionately more for the poorest households when compared to the richest households across rural and urban areas

- Improved access to the 'bare necessities' has led to **improvements in health indicators** such as infant mortality and under-5 mortality rate and also **correlates with future improvements in education indicators**
- Thrust should be given to reduce variation in the access to bare necessities across states, between rural and urban and between income groups
- The schemes such as **Jal Jeevan Mission, SBM-G, PMAY-G**, etc. may design appropriate strategy to reduce these gaps
- 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.

Fiscal Developments

- India adopted a **calibrated approach** best suited for a resilient recovery of its economy from COVID-19 pandemic impact, in contrast with a front-loaded large stimulus package adopted by many countries
- **Expenditure policy** in 2020-21 initially aimed at supporting the vulnerable sections but was re-oriented to boost overall demand and capital spending, once the lockdown was unwound
- **Monthly GST collections** have crossed the **Rs. 1 lakh crore** mark consecutively for the last 3 months, reaching its **highest levels in December 2020 ever since the introduction of GST**
- **Reforms in tax administration** have begun a process of transparency and accountability and have incentivized tax compliance by enhancing honest tax-payers' experience
- Central Government has also taken consistent steps to impart support to the States in the challenging times of the pandemic

External Sector

- COVID-19 pandemic led to a sharp decline in global trade, lower commodity prices and tighter external financing conditions with implications for current account balances and currencies of different countries

- India's **forex reserves at an all-time high of US$ 586.1 billion as on January 08, 2021**, covering about 18 months worth of imports

- India experiencing a Current Account Surplus along with robust capital inflows leading to a **BoP surplus since Q4 of FY2019-20**

- Balance on the capital account is buttressed by **robust FDI and FPI inflows**:

    o Net FDI inflows of US$ 27.5 billion during April-October, 2020: 14.8% higher as compared to first seven months of FY2019-20

    o Net FPI inflows of US$ 28.5 billion during April-December, 2020 as against US$ 12.3 billion in corresponding period of last year

- In H1: FY21, steep contraction in merchandise imports and lower outgo for travel services led to:

    o Sharper fall in current payments (by 30.8%) than current receipts (15.1%)

    o Current Account Surplus of US$ 34.7 billion (3.1% of GDP)

- **India to end with an Annual Current Account Surplus after a period of 17 years**

- India's **merchandise trade deficit was lower** at US$ 57.5 billion in April-December, 2020 as compared to US$ 125.9 billion in the corresponding period last year

- In April-December, 2020, **merchandise exports** contracted by 15.7% to US$ 200.8 billion from US$ 238.3 billion in April-December, 2019:

    o Petroleum, Oil and Lubricants (POL) exports have contributed negatively to export performance during the period under review

    o Non-POL exports turned positive and helped in improving export performance in Q3 of 2020-21

    o Within Non-POL exports, agriculture & allied products, drugs & pharmaceutical and ores & minerals recorded expansion

- Total **merchandise imports** declined by (-) 29.1% to US$ 258.3 billion during April-December, 2020 from US$ 364.2 billion during the same period last year:

    o Sharp decline in POL imports pulled down the overall import growth o Imports contracted sharply in Q1 of 2020-21; the pace of contraction eased in subsequent quarters, due to the accelerated positive growth in Gold and Silver imports and narrowing contraction in non-POL, non-Gold & non-Silver imports

o Fertilizers, vegetable oil, drugs & pharmaceuticals and computer hardware & peripherals have contributed positively to the growth of non-POL, non-Gold & non-Silver imports

- **Trade balance with China and the US improved as imports slowed**
- **Net services receipts** amounting to US$ 41.7 billion remained stable in April-September 2020 as compared with US$ 40.5 billion in corresponding period a year ago.
- **Resilience of the services sector** was primarily driven by software services, which accounted for 49% of total services exports
- **Net private transfer receipts**, mainly representing remittances by Indians employed overseas, totaling US$ 35.8 billion in H1: FY21 declined by 6.7% over the corresponding period of previous year
- At end-September 2020, India's **external debt** placed at US$ 556.2 billion - a decrease of US$ 2.0 billion (0.4%) as compared to end-March 2020.
- Improvement in **debt vulnerability indicators**:

o Ratio of forex reserves to total and short-term debt (original and residual)

o Ratio of short-term debt (original maturity) to the total stock of external debt.

o Debt service ratio (principal repayment plus interest payment) increased to 9.7% as at end-September 2020, compared to 6.5% as at end-March 2020

- **Rupee appreciation/depreciation:**

o In terms of 6-currency nominal effective exchange rate (NEER) (trade-based weights), Rupee depreciated by 4.1% in December 2020 over March 2020; appreciated by 2.9% in terms of real effective exchange rate (REER)

o In terms of 36-currency NEER (trade-based weights), Rupee depreciated by 2.9% in December 2020 over March 2020; appreciated by 2.2% in terms of REER

- **RBI's interventions in forex markets** ensured financial stability and orderly conditions, controlling the volatility and one-sided appreciation of the Rupee
- **Initiatives undertaken to promote exports:**
  - o Production Linked Incentive **(PLI) Scheme**
  - o Remission of Duties and Taxes on Exported Products (**RoDTEP**)
  - o Improvement in logistics infrastructure and digital initiatives

Money Management and Financial Intermediation

- **Accommodative monetary policy** during 2020: repo rate cut by 115 bps since March 2020
- **Systemic liquidity** in FY2020-21 has remained in surplus so far. RBI undertook various conventional and unconventional measures like:
  - o Open Market Operations
  - o Long Term Repo Operations
  - o Targeted Long Term Repo Operations
- **Gross Non-Performing Assets** ratio of Scheduled Commercial Banks decreased from 8.21% at end-March, 2020 to 7.49% at end-September, 2020
- The monetary transmission of lower policy rates to deposit and lending rates improved during FY2020-21
- NIFTY-50 and BSE SENSEX reached **record high closing** of 14,644.7 and 49,792.12 respectively on January 20, 2021
- The recovery rate for the Scheduled Commercial Banks through IBC (since its inception) has been over 45%

Prices and Inflation

- **Headline CPI inflation:**
  - o Averaged 6.6% during April-December, 2020 and stood at 4.6% in December, 2020, mainly driven by rise in food inflation (from 6.7% in 2019-20 to 9.1% during April-December, 2020, owing to build up in vegetable prices)

o CPI headline and its sub groups witnessed inflation during April-October 2020, driven by substantial increase in price momentum - due to the **initial disruptions caused by COVID-19 lockdown**

o Moderated price momentum by November 2020 for most sub groups, coupled with positive base effect helped ease inflation

- **Rural-urban difference in CPI inflation** saw a decline in 2020:

  - Since November 2019, CPI-Urban inflation has closed the gap with CPI-Rural inflation
  - Food inflation has almost converged now
  - Divergence in rural-urban inflation observed in other components of CPI like fuel and light, clothing and footwear, miscellaneous etc.

- During April-December, 2019 as well as April-December, 2020-21, the major driver of CPI-C inflation was the **food and beverages** group:

  - Contribution increased to 59% during April-December, 2020, compared to 53.7% during April-December, 2019

- **Thali cost increased** between June 2020 and November 2020, however a sharp fall in the month of December reflecting the fall in the prices of many essential food commodities

- **State-wise trend:**

  - CPI-C inflation increased in most of the states in the current year
  - Regional variation persists
  - Inflation ranged from 3.2% to 11% across States/UTs during June-December 2020 compared to (-) 0.3% to 7.6% during the same period last year.

- **Food inflation** driving overall CPI-C inflation due to the relatively more weight of food items in the index.

- Steps taken to stabilize prices of food items:

  - Banning of export of onions
  - Imposition of stock limit on onions
  - Easing of restriction on imports of pulses

- **Gold prices:**

  - Sharp spike as investors turned to **gold as a safe haven investment amid COVID-19** induced economic uncertainties

- Compared to other assets, gold had considerably higher returns during FY2020-21

- Consistency in import policy warrants attention:

  - Increased dependence on imports of edible oils poses risk of fluctuations in import prices
  - Imports impacting production and prices of domestic edible oil market, coupled with frequent changes in import policy of pulses and edible oils, add to confusion among farmers/producers and delay imports

Sustainable Development and Climate Change

- India has taken several proactive steps to **mainstream the SDGs** into the policies, schemes and programmes
- **Voluntary National Review** (VNR) presented to the United Nations High-Level Political Forum (HLPF) on Sustainable Development
- **Localisation of SDGs** is crucial to any strategy aimed at achieving the goals under the 2030 Agenda

  - Several States/UTs have created institutional structures for implementation of SDGs and also nodal mechanisms within every department and at the district levels for better coordination and convergence

- Sustainable development remains core to the development strategy despite the unprecedented COVID-19 pandemic crisis
- Eight National Missions under **National Action Plan on Climate Change (NAPCC)** focussed on the objectives of adaptation, mitigation and preparedness on climate risks
- **India's Nationally Determined Contributions** (NDC) states that finance is a critical enabler of climate change action
- The financing considerations will therefore remain critical especially as the country steps up the targets substantially
- The goal of jointly mobilizing US$ 100 billion a year by 2020 for climate financing by the developed countries has remained elusive
- The postponement of COP26 to 2021 also gives less time for negotiations and other evidence-based work to inform the post-2025 goal

• Despite overall growth in the global bond markets, green bond issuance in the first half of 2020 slowed down from 2019, possibly as a result of the on-going COVID-19 pandemic

• **International Solar Alliance (ISA)** launched two new initiatives – **'World Solar Bank'** and **'One Sun One World One Grid Initiative'** - poised to bring about solar energy revolution globally

Agriculture and Food Management

• India's **Agricultural (and Allied Activities) sector** has shown its resilience amid the adversities of COVID-19 induced lockdowns with a **growth of 3.4% at constant prices during 2020-21 (first advance estimate)**

• The share of Agriculture and Allied Sectors in Gross Value Added (GVA) of the country at current prices is **17.8%** for the year 2019-20 (CSO-Provisional Estimates of National Income, 29th May, 2020)

• **Gross Capital Formation (GCF)** relative to GVA showing a fluctuating trend from 17.7 % in 2013-14 to 16.4 % in 2018-19, with a dip to 14.7 % in 2015-16

• **Total food grain production** in the country in the agriculture year 2019-20 (as per Fourth Advance Estimates), is **11.44 million tonnes** more than than during 2018-19

• The **actual agricultural credit flow** was **☐13,92,469.81** crores against the target of ☐13,50,000 crores in 2019-20. The target for 2020-21 was ☐15,00,000 crores and a sum of ☐ 9,73,517.80 crores was disbursed till 30th November, 2020:

•

- **1.5 crore dairy farmers** of milk cooperatives and milk producer companies' were targeted to provide Kisan Credit Cards (KCC) as part of Prime Minister's AatmaNirbhar Bharat Package after the budget announcement of February 2020
- As of mid January 2021, a total of **44,673 Kisan Credit Cards (KCCs)** have been issued to fishers and fish farmers and an additional 4.04

lakh applications from fishers and fish farmers are with the banks at various stages of issuance

- The **Pradhan Mantri Fasal Bima Yojana** covers over **5.5 crore farmer** applications year on year

-
  - Claims worth **Rs. 90,000 crore** paid, as on 12th January, 2021
  - Speedy claim settlement directly into the farmer accounts through Aadhar linkage
  - **70 lakh farmers** benefitted and claims worth Rs. 8741.30 crores were transferred during COVID-19 lock down period

- An amount of **Rs. 18000 crore** have been deposited directly in the bank accounts of **9 crore farmer families** of the country in December, 2020 in the 7th installment of financial benefit under the **PM-KISAN** scheme

- **Fish production** reached an all-time high of 14.16 million metric tons during 2019-20:

-
  - GVA by the Fisheries sector to the national economy stood at □2,12,915 crores constituting 1.24% of the total national GVA and 7.28 % of the agricultural GVA

- **Food Processing Industries (FPI)** sector growing at an Average Annual Growth Rate (AAGR) of around 9.99 % as compared to around 3.12 % in Agriculture and 8.25 % in Manufacturing at 2011-12 prices during the last 5 years ending 2018-19

- **Pradhan Mantri Garib Kalyan Anna Yojana:**

-
  - 80.96 crore beneficiaries were provided foodgrains above NFSA mandated requirement free of cost till November, 2020.
  - Over 200 LMT of foodgrains were provided amounting to a fiscal outgo of over Rs. 75000 Crores

- **AatmaNirbhar Bharat Package:** 5 kg per person per month for four months (May to August) to approximately 8 crores migrants (excluded under NFSA or state ration card) entailing subsidy of Rs. 3109 crores approximately

Industry and Infrastructure

- A strong **V-shaped recovery** of economic activity further confirmed by IIP data
- The **IIP** & **eight-core index** further inched up to pre-COVID levels
- The broad-based recovery in the IIP resulted in a growth of (-) 1.9 % in Nov-2020 as compared to a growth of 2.1 % in Nov-2019 and a nadir of (-) 57.3 % in Apr-2020
- Further improvement and firming up in industrial activities are foreseen with the Government enhancing capital expenditure, the vaccination drive and the resolute push forward on long pending reform measures
- **AatmaNirbhar Bharat Abhiyan** with a stimulus package worth **15 % of India's GDP** announced
- India's rank in the **Ease of Doing Business** (EoDB) Index for 2019 has moved upwards to the **63rd position in 2020** from 77th in 2018 as per the Doing Business Report (DBR):

-
  - India has improved its position in 7 out of 10 indicators
  - Acknowledges India as one of the top 10 improvers, the third time in a row, with an improvement of 67 ranks in three years
  - It is also the highest jump by any large country since 2011

- **FDI equity inflows were US$49.98 billion in FY20** as compared to US$44.37 billion during FY19:

-
  - It is US$30.0 billion for FY21 (up to September-2020)
  - The bulk of FDI equity flow is in the non-manufacturing sector
  - Within the manufacturing sector, industries like automobile, telecommunication, metallurgical, non-conventional energy, chemical (other than fertilizers), food processing, petroleum & natural gas got the bulk of FDI

- Government has announced a **Production-Linked Incentive (PLI) Scheme** in the 10 key sectors under the aegis of **AatmaNirbhar Bharat** for enhancing India's manufacturing capabilities and exports:

-
  - To be implemented by the concerned ministries with an overall expenditure estimated at Rs.1.46 lakh crores and with sector specific financial limits

Services Sector

- India's services sector contracted by nearly 16 % during H1: FY2020-21, during the COVID-19 pandemic mandated lockdown, owing to its **contact-intensive nature**
- **Key indicators** such as Services Purchasing Managers' Index, rail freight traffic, and port traffic, are all displaying a V-shaped recovery after a sharp decline during the lockdown
- Despite the disruptions being witnessed globally, **FDI inflows** into India's services sector grew robustly by 34% Y-o-Y during April-September 2020 to reach US$ 23.6 billion
- The services sector accounts for over **54 % of India's GVA** and nearly **four-fifths of total FDI inflow into India**
- The sector's share in GVA exceeds 50% in 15 out of 33 States and UTs, and is particularly more pronounced (greater than 85%) in Delhi and Chandigarh
- Services sector accounts for **48% of total exports**, outperforming goods exports in the recent years
- The **shipping turnaround time** at ports has almost halved from 4.67 days in 2010-11 to **2.62 days** in 2019-20
- The Indian **start-up ecosystem** has been progressing well amidst the COVID-19 pandemic, being home to **38 unicorns** - adding a record number of 12 start-ups to the unicorn list last year
- India's **space sector** has grown exponentially in the past six decades:

-
  - Spent about US$ 1.8 billion on space programmes in 2019-20
  - Space ecosystem is undergoing several policy reforms to engage private players and attract innovation and investment

PRABHA IASIPS COACHING ACADEMY

Social Infrastructure, Employment and Human Development

- The combined (Centre and States) **social sector expenditure** as % of GDP has increased in 2020-21 compared to last year.
- India's rank in HDI 2019 was recorded at 131, out of a total 189 countries:
  - India's **GNI per capita** (2017 PPP $) has increased from US$ 6,427 in 2018 to US$ 6,681 in 2019
  - **Life expectancy at birth** improved from 69.4 years in 2018 to 69.7 years in 2019
- The access to data network, electronic devices such as computer, laptop, smart phone etc. gained importance due to **online learning** and **remote working** during the pandemic
- Major proportion of workforce engaged as regular wage/salaried in the urban sector during the period of January 2019-March 2020 (quarterly survey of PLFS)
- Government's incentive to boost employment through **AatmaNirbhar Bharat Rozgar Yojana** and rationalization and simplification of existing labour codes into 4 codes
- Low level of female LFPR in India:
  - Females spending disproportionately more time on unpaid domestic and care giving services to household members as compared to their male counterparts (Time Use Survey, 2019)
  - Need to promote non-discriminatory practices at the workplace like pay and career progression, improve work incentives, including other medical and social security benefits for female workers
- Under **PMGKP** announced in March, 2020, **cash transfers of upto Rs.1000** to existing old aged, widowed and disabled beneficiaries under the National Social Assistance Programme (NSAP)
- An amount of Rs. 500 each was transferred for three months digitally into bank accounts of the women beneficiaries under **PM Jan Dhan Yojana**, totalling about **Rs. 20.64 crores**

- **Free distribution of gas cylinders** to about **8 crore** families for three months
- Limit of collateral free lending increased from Rs. 10 lakhs to Rs. 20 lakhs for **63 lakh women SHGs** which would support 6.85 crore households
- **Wages under Mahatma Gandhi NREGA** increased by Rs.20 from Rs.182 to Rs.202 w.e.f. 1st April, 2020

India's fight against COVID-19:

-
  - Initial measures of lockdown, social distancing, travel advisories, practicing hand wash, wearing masks reduced the spread of the disease
  - Country also acquired **self-reliance in essential medicines**, hand sanitizers, protective equipment including masks, PPE Kits, ventilators, COVID-19 testing and treatment facilities
  - **World's largest COVID-19 vaccination drive** commenced on 16th January, 2021 using two indigenously manufactured vaccines

<u>CO VID IMPACTS</u>

The world has endured a year of the unexpected onslaught by the novel COVID-19 virus - SARS-CoV-2 - first identified in Wuhan city of China in December 2019. The virus has posed an unprecedented challenge for policy making, globally and nationally. It has tested the mettle of policymakers to deal with uncertain, fluid, complex and dynamic situations having far-reaching socio-economic implications. It has also tested the frontiers of medical science, which rose to the challenge by developing an effective vaccine within a year.

The only strategy that seemed viable for containment of the pandemic was active surveillance, early detection, isolation and case management, contact tracing and prevention of onward spread by practicing social distancing and safety precautions

The world economy is estimated to contract in 2020 by 4.3 per cent, as per World Bank, and 3.5 per cent, as per IMF. The crisis World is facing today is unique in a number of ways. Firstly, the health crisis-induced global recession is in contrast with previous global recessions which were driven by confluences of a wide range of factors, including financial crises (the Great Depression in 1930-32; 1982; 1991; 2009), sharp movements in oil prices (1975; 1982), and wars (1914; 1917-21; 1945-46)

The pandemic curve needs to be ‘flattened’ to spread the pandemic over time and enable more people to receive proper health treatment, thereby lowering the fatality rate ultimately. b. Given the network structures that affect the transmission of the pandemic, higher population can lead to faster spread of the pandemic. c. Denser areas are more vulnerable to faster spread of the virus and this effect is especially strong at the onset of the pandemic. d. Early lockdowns delay the time taken to reach the peak, reduces the magnitude of the peak, and thereby decreases the total mortality burden by providing valuable time to ramp up the health and testing infrastructure. e. Implementing lockdowns earlier in the pandemic and using them more intensely – while costly in the short-run – led to a much sharper economic recovery and reduced mortality as well. f. When faced with enormous uncertainty, policies must be designed with the objective of minimizing large losses by selecting the policy that would be optimal under the worst-case scenario.

In the absence of a potent cure, preventive vaccine; interplay of network structures in densely populated areas, and a high CFR, India weighed the costs and opportunities strategically. Given that India is the second largest populated country in the world with a high density, the transmission potential of COVID-19 was high

Given the ‘black swan event’ marked by sheer uncertainty and once in a century crisis, Indian policymakers followed an approach similar to the Barbell strategy in finance – hedging for the worst outcome initially, and updating its response step-by-step via feedback. The clear objective of ‘Jaan Hai to Jahan hai’ and to ‘break the chain of spread’ before it reaches ‘community transmission’ helped the government face the dilemma of ‘lives vs livelihood’, pace the sequence of policy interventions and adapt its response as per the evolving situation. India was amongst the first of the countries that imposed a national lockdown when there were only 500 confirmed cases. The stringent lockdown in India from 25th March to 31st May. 2 Evidence from the experience of Spanish flu establishes that cities that intervened with lockdowns earlier and more aggressively experience stronger recovery in economic front in the long run. Learning from this experience, India implemented an early and stringent lockdownThe economy was gradually unlocked since June, 2020 and has experienced a V-shaped recovery since then. An attempt has been made to capture the impact of the stringency of lockdown on high-frequency indicators of economic activity States across India. The contemporaneous as well as lagged impact of change in stringency of lockdown across States on month-on-month growth of varied economic indicators from time period since unlock begins

The lockdown provided the necessary time to put in place the fundamentals of the '5 T' strategy - Test, Track, Trace, Treat, Technology.

The Oxford COVID-19 Government Response Tracker (OxCGRT), provides a systematic way to track government responses to COVID-19 across countries. Common lockdowns used included school closings, travel restrictions, bans on public gatherings, emergency investments in healthcare facilities, new forms of social welfare provision, contact tracing, wide scale testing and other interventions to contain the spread of the virus, augment health systems, and manage the economic consequences of these actions

Elderly Population (above 60 Years of Age) is Much Higher in India than Other Countries

Indian policymakers also recognized that the 'supply' shock induced by the lockdown would disrupt the productive capacity of the economy. This capacity would need to be strengthened to meet the pent-up demand once it resumes – any mismatch would lead to macro-economic instabilitieS

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. ¬

Unlike previous crises, the Covid pandemic affects both demand and supply. India was the only country to announce a slew of structural reforms to expand supply in the medium to long term and avoid long-term damage to productive capacities. Saving Lives and Livelihoods Amidst a Once-in-a-Century Crisis

¬ On the demand side, India's policies have been calibrated to ensure that the accelerator is slowly pushed down only when while the brakes are being removed on economic activities. A public investment programme centred around the National Infrastructure Pipeline is likely to accelerate the demand push and further the recovery.

Major Structural Reforms Undertaken as a Part of Atmanirbhar Bharat

Package Sector Structural Reform Undertaken Deregulation and Liberalization of Sectors

Agriculture • Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020 • Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020 • Essential Commodities (Amendment) Act, 2020

MSMEs • New MSME definition covering almost 99 per cent of all firms enabling MSMEs to grow in size and create jobs • Removal of artificial separation between manufacturing and service MSMEs

Labour • Enactment of four labour codes namely, Wage Code, Industrial Relations Code, 2020, Code on Occupational Safety, Health & Working Conditions Code, 2020 & Social Security Code, 2020 • 'One labour return, one licence and one registration'

Business Process Outsourcing (BPO) • Simplification of the Other Service Provider (OSP) guidelines of the Department of Telecom. Several requirements, which prevented companies from adopting 'Work from Home' and 'Work from Anywhere' policies have been removed

Power • Tariff Policy Reform: DISCOM inefficiencies not to burden consumers, Progressive reduction in cross subsidies, Time bound grant of open access, etc. • Privatization of Distribution in UTs

PSUs • PSUs in only strategic sectors • Privatization of PSUs in non-strategic sectors

Mineral Sector • Commercial Mining in Coal Sector • Removal of distinction between captive and merchant mines • Transparent auction of mining blocks • Amendment to Stamp Act, 1899 to bring uniformity in stamp duty across States • Introduction of a seamless composite exploration-cum-mining-cum-production regime Strengthening Productive Capacity

Industry • Production Linked Incentive (PLI) Scheme for 10 identified sectors • National GIS-enabled Land Bank system launched

Space • Level playing field provided to private companies in satellites, launches and space-based services • Liberal geo-spatial data policy for providing remote-sensing data to techentrepreneurs

Defence • Corporatization of Ordnance Factory Board • FDI limit in the Defence manufacturing under automatic route to be raised from 49 per cent to 74 per cent. • Time-bound defence procurement process Strengthening Productive Capacity

Education • PM-eVidya to enable multi-mode and equitable access to education • Manodarpan initiative for psychosocial support

Social Infrastructure • Scheme for Financial Support to Public Private Partnerships (PPPs) in Infrastructure Viability Gap Funding (VGF) Scheme extended till 2024-25 Ease of Doing Business

Financial Markets • Direct listing of securities by Indian public companies in permissible foreign jurisdictions • Provisions to reduce time line for completion of rights issues by companies • Private companies which list NCDs on stock exchanges not to be regarded as listed companies Saving Lives and Livelihoods Amidst a Once-in-a-Century Crisis 37

Corporates • Including the provisions of Part IXA (Producer Companies) of Companies Act, 1956 in Companies Act, 2013 • Decriminalization of Companies Act defaults involving minor technical and procedural defaults • Power to create additional/ specialized benches for NCLAT • Lower penalties for all defaults for Small Companies, One-person Companies, Producer Companies & Start Ups • Simplified Proforma for Incorporating Company Electronically Plus (SPICe +) introduced

Administration • National platform for recruitment: National Recruitment Agency to conduct a Common Eligibility Test • Revised guidelines on Compulsory retirement to remove ineffective or corrupt officials through Fundamental Rule 56(j)/(l) and Rule 48 of CCS (Pension) Rule • Faceless tax assessment and a 12-point taxpayers charter • Fast track Investment Clearance through Empowered Group of Secretaries

COMMITTEES ON AGRICULTURAL REFORMS

Expert Committee on Strengthening and Developing of Agricultural Marketing 2001 Shankerlal Guru

2 Report on the Task Force on Employment Opportunities 2001 Montek Singh Ahluwalia Saving Lives and Livelihoods Amidst a Once-in-a-Century Crisis 39

3 Inter-Ministerial Task Force 2001 R.C.A. Jain

4 Model APMC Act created 2003

5 First Report of National Commission on Farmers 2004 M.S. Swaminathan

6 Second Report of National Commission on Farmers 2005 M.S. Swaminathan

7 Towards an Indian Common Market: Removal of Restrictions on Internal Trade in Agriculture Commodities, the Food and Agriculture Organisation of the United Nations 2005

8 Third Report of National Commission on Farmers 2005 M.S. Swaminathan

9 Fourth Report of National Commission on Farmers 2006 M.S. Swaminathan

10 Fifth Report of National Commission on FarmersVolume I & II 2006 M.S. Swaminathan

12 Draft State Agricultural Produce Marketing (Development and Regulation) Rules, 2007 2007

13 Economic Survey 2011-12, Chapter 8: Agriculture and Food 2012 Chief Economic Adviser (CEA): Dr. Kaushik Basu

14 Final Report of Committee of State Ministers, In-charge of Agriculture Marketing to Promote Reforms 2013 Harshvardhan Patil

15 Economic Survey: 2012-13, Chapter 8: Agriculture and Food Management 2013 CEA: Dr. Raghuram G. Rajan

16 Economic Survey 2013-14, Chapter 8: Agriculture and Food Management 2014 Finance Secretary: Dr. Arvind Mayaram

17 Economic Survey 2014-15, Volume I, Chapter 8: A National Market for Agricultural Commodities – Some Issues and the Way Forward 2015 CEA: Dr. Arvind Subramanian

18 Economic Survey 2014-15, Volume II, Chapter 5: Prices, Agriculture and Food Management 2015 CEA: Dr. Arvind Subramanian

19 Budget 2017-2018- Market reforms to be undertaken and the States to be urged to denotify perishables from APMC 2017 Finance Minister: Arun Jaitley

20 Economic Survey 2016-17, Volume II, Chapter 7: Agriculture and Food Management 2017 CEA: Dr. Arvind Subramanian

21 Standing Committee On Agriculture (2018-2019), Ministry Of Agriculture And Farmers Welfare (Department Of Agricultural, Cooperation And Farmers Welfare): Agriculture Marketing And Role Of Weekly Gramin Haats 2019 Hukmdev Narayan Yadav

22 Economic Survey 2019-20, Volume I, Chapter 4: Undermining Markets 2020 CEA: Dr. K. V. Subramanian 22 Parliament enacts three laws that usher in agricultural reforms 2020

The state collects tax for the greater welfare of its citizens in the same way as the sun evaporates water, only to return it manifold in the form of rain. KALIDASA IN RAHUVAMSAM

DETAILED POINTS

This Chapter establishes clearly that growth leads to debt sustainability in the Indian context but not necessarily vice-versa. This is because the interest rate on debt paid by the Indian government has been less than India's growth rate by norm, not by exception. As Blanchard (2019) explains in his 2019 Presidential Address to the American Economic Association: "If the interest rate paid by the government is less than the growth rate, then the intertemporal budget constraint facing the government no longer binds." This phenomenon highlights that debt sustainability depends on the "interest rate growth rate differential" (IRGD), i.e. the difference between the interest rate and the growth rate in an economy. ¾

In advanced economies, the extremely low interest rates, which have led to negative IRGD, on the one hand, and have placed limitations on monetary policy, on the other hand, have caused a rethink of the role of fiscal policy. The same phenomenon of a negative IRGD in India – not due to lower interest rates but much higher growth rates – must prompt a debate on the saliency of fiscal policy, especially during growth slowdowns and economic crises.

The confusion about causality – from growth to debt sustainability or vice-versa – is typical of several macro-economic phenomena, where natural experiments to identify causality are uncommon. In the specific context of growth and debt sustainability, this confusion also stems from the fact that the academic and policy literature focuses primarily on advanced economies, where causality is entangled by lower potential growth when compared to India. Indeed, the chapter studies the evidence across several countries to show that 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. By integrating ideas from Corporate Finance into the macro-economics of Government debt a la Bolton (2016), the Survey lays the conceptual foundations to understand why these differences can manifest between high-growth emerging economies and low-growth advanced economies.

As the COVID-19 pandemic has created a significant negative shock to demand, active fiscal policy – one that recognises that fiscal multipliers are disproportionately higher during economic crises than during economic booms – can ensure that the full benefit of seminal economic reforms is reaped by limiting potential damage to productive capacity. As the IRGD is expected to be negative in the foreseeable future, a fiscal policy that provides an impetus to growth will lead to lower, not higher, debt-to-GDP ratios. In fact, simulations undertaken till 2030 highlight that given India's growth potential, debt sustainability is unlikely to be a problem even in the worst scenarios. The chapter thus demonstrates the desirability of using counter-cyclical fiscal policy to enable growth during economic downturns.

While acknowledging the counterargument from critics that governments may have a natural proclivity to spend, the Survey endeavours to provide the intellectual anchor for the government to be more relaxed about debt and fiscal spending during a growth slowdown or an economic crisis. The Survey's call for more active, counter-cyclical fiscal policy is not a call for fiscal irresponsibility. It is a call to break the intellectual anchoring that has created an asymmetric bias against fiscal policy.

While fiscal policy is especially salient during an economic crisis, in general, fiscal policy must be counter-cyclical to smooth out economic cycles instead of exacerbating them. As seen for the United States and United Kingdom, the correlation between private sector and public sector net balances is almost perfectly negative In India, however, fiscal policy has not been counter-cyclical in general

While counter-cyclical fiscal policy is necessary to smooth out economic cycles, it becomes critical during an economic crisis (Box 1). This is because fiscal multipliers, which capture the aggregate return derived by the economy from an additional Rupee of fiscal spending, are unequivocally greater during economic crises when compared to economic booms.

Indian Kings used to build palaces during famines and droughts to provide employment and improve the economic fortunes of the private sector. Economic theory, in effect, makes the same recommendation: in a recessionary year, Government must spend more than during expansionary times. Such counter-cyclical fiscal policy stabilizes the business cycle by being contractionary (reduce spending/increase taxes) in good times and expansionary (increase spending/reduce taxes) in bad times. On the other hand, a pro-cyclical fiscal policy is the one wherein fiscal policy reinforces the business cycle by being expansionary during good times and contractionary during recessions

Fiscal rules are quantitative targets with respect to budgetary aggregates such as deficits, debt, expenditure or revenue, which impose a long-lasting constraint on the fiscal policy. Broadly they are referred to as "budgetary institutions"

During economic crises, a well-designed expansionary fiscal policy stance can contribute to better economic outcomes in two ways. First, it can boost potential growth with multi-year public investment packages that raise productivity. The multi-year nature of public investment would contribute to

credibly lifting growth expectationst. Second, there is a risk of the Indian economy falling into a low wage-growth trap, as has happened in Japan during the last two decades. Implementing the NIP via front-ended fiscal spending could generate higher-paying jobs and boost productivity
The experience of Chile in implementing fiscal rules that enable counter-cyclical fiscal policy is quite informative

Never in the history of sovereign credit ratings has the fifth largest economy in the world been rated as the lowest rung of the investment grade (BBB-/Baa3). Reflecting the economic size and thereby the ability to repay debt, the fifth largest economy has been predominantly rated AAA. China and India are the only exceptions to this rule – China was rated A-/A2 in 2005 and now India is rated BBB-/Baa3.

India'ssovereign credit ratings do not reflect itsfundamentals. Within itssovereign credit ratings cohort – countries rated between A+/A1 and BBB-/Baa3 for S&P/ Moody's – India is a clear outlier on several parameters, i.e. it is rated significantly lower than mandated by the effect on the sovereign rating of the parameter. These include GDP growth rate, inflation, general government debt (as per cent of GDP), cyclically adjusted primary balance (as per cent of potential GDP), current account balance (as per cent of GDP), political stability, rule of law, control of corruption, investor protection, ease of doing business, short-term external debt (as per cent of reserves), reserve adequacy ratio and sovereign default history. This outlier status remains true not only now but also during the last two decades.

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. India's ability to pay can be gauged not only by the extremely low foreign currency denominated debt ofthe sovereign but also by the comfortable size of its foreign exchange reserves that can pay for the short term debt of the private sector as well as the entire stock of India's sovereign and non-sovereign external debt. India's forex reserves can cover an additional 2.8 standard deviation negative event, i.e. an event that can be expected to manifest with a probability of less than 0.1 per cent after meeting all short-term debt.

As ratings do not capture India's fundamentals, it comes as no surprise that past episodes of sovereign credit rating changes for India have not had major adverse impact on select indicators such as Sensex return, foreign exchange rate and yield on government securities. Past episodes of rating changes have no or weak correlation with macroeconomic indicators

Despite ratings not reflecting fundamentals, they can however be pro-cyclical and can affect equity and debt FPI flows of developing countries, causing damage and worsening crisis. It is therefore imperative that sovereign credit ratings methodology be made more transparent, less subjective and better attuned to reflect economies' fundamentals.

Further, during most of the 1990s and mid 2000s, India's sovereign credit rating was speculative grade. India's credit rating was upgraded to investment grade by Moody's in 2004, Fitch in 2006 and S&P in 2007 (Table 1). Notably, Indian economy grew at an average rate of over six per cent and at approximately eight per cent in several years during this period. Hence, during most of the decade of 1990 and early 2000's, India's high rate of economic growth co-existed with a sovereign credit rating of "speculative grade".

Sovereign credit ratings seek to quantify issuers' ability to meet debt obligations. When favourable, these can facilitate countries access to global capital markets and foreign investment.

The relationship between inequality and socio-economic outcomes, on the one hand, and economic growth and socio-economic outcomes, on the other hand, is different in India from that observed in advanced economies.

By examining the correlation of inequality and per-capita income with a range of socioeconomic indicators, including health, education, life expectancy, infant mortality, birth and death rates, fertility rates, crime, drug usage and mental health, the Survey highlights that both economic growth – as reflected in the income per capita at the state level –and inequality have similar relationships with socio-economic indicators.

Unlike in advanced economies, economic growth and inequality converge in terms of their effects on socio-economic indicators in India.

Economic growth has a far greater impact on poverty alleviation than inequality.

Given India's stage of development, India must continue to focus on economic growth to lift the poor out of poverty by expanding the overall pie. Redistribution is only feasible in a developing economy if the size of the economic pie grows.

HEALTH CARE

The recent COVID-19 pandemic has emphasised the importance of healthcare sector and its inter-linkages with other key sectors of the economy. The ongoing pandemic has showcased how a healthcare crisis can get transformed into an economic and social crisis.

Healthcare policy must not become beholden to "saliency bias", where policy overweights a recent phenomenon. To enable India to respond to pandemics, the health infrastructure must be agile.

The National Health mission (NHM) has played a critical role in mitigating inequity as the access of the poorest to pre-natal and post-natal care as well as institutional deliveries has increased significantly. Therefore, in conjunction to with Ayushman Bharat, the emphasis on NHM should continue.

An increase in public spend from 1 per cent to 2.5-3 per cent of GDP – as envisaged in the National Health Policy 2017 – can decrease the OOPE from 65 per cent to 30 per cent of overall healthcare spend.

A sectoral regulator to undertake regulation and supervision of the healthcare sector must be considered given the market failures stemming from information asymmetry; WHO also highlights the growing importance of the same.

The mitigation of information asymmetry would also help lower insurance premiums, enable the offering of better products and help increase the insurance penetration in the country. Information utilities that help mitigate the information asymmetry in healthcare sector can be very useful in enhancing overall welfare.

Telemedicine needs to be harnessed to the fullest by investing in internet connectivity and health infrastructure.

The health of a nation depends critically on its citizens having access to an equitable, affordable and accountable healthcare system. Health affects domestic economic growth directly through labour productivity and the economic burden of illnesses (WHO 2004). Increasing life expectancy from 50 to 70 years (a 40 per cent increase) could raise the economic growth rate by 1.4 percentage points per year (WHO 2004)

In fact, an increase in government healthcare spending over a decade in varied countries such as China, Indonesia, Philippines, Pakistan and Thailand significantly decreased the out-ofpocket expenditures of its citizens
As the evidence below illustrates faced with such a devastating pandemic, even the infrastructure created by greater healthcare spending in the advanced economies could not deal with the disease burden created by the pandemic. We observe positive correlations between total number of cases and deaths with respect to health expenditure per capita implying better health infrastructure. So, better health infrastructure is no guarantee that a country would be able to deal better with devastating pandemics like Covid-19
Despite improvements in healthcare access and quality (healthcare access and quality scored at 41.2 in 2016, up from 24.7 in 1990), India continues to underperform in comparison to other Low and Lower Middle Income (LMIC) countries. On quality and access of healthcare, India was ranked 145th out of 180 countries
As health is a state subject in India, spending on healthcare by states matters the most when examining government healthcare spending.

It is not possible to have complete regulations in a world which has uncertainty as it is not possible to account for all possible outcomes. The evidence, however, shows that India over-regulates the economy. This results in regulations being ineffective even with relatively good compliance with process.
This chapter argues that the root cause of the problem of over-regulation is an approach that attempts to account for every possible outcome. This is illustrated by a study of the time and procedures needed to voluntarily close a company in India, even when there is no outstanding dispute or litigation. ¾ Both economic theory and evidence shows that in an uncertain and complex world, it is not possible to

write regulations that account for all possible outcomes. This makes discretion unavoidable in decision-making. The attempt to reduce discretion by having ever more complex regulations, however, results in even more non-transparent discretion. The solution is to simplify regulations and invest in greater supervision which, by definition, implies willingness to allow some discretion. Process Reforms: Enabling decision-making under uncertainty

Discretion, however, needs to be balanced with transparency, systems of ex-ante accountability and ex-post resolution mechanisms. The experience with GeM portal for public procurement illustrates how transparency not only reduces purchase prices but also provides the honest decision maker with a clean process.

The above intellectual framwework has already informed reforms ranging from labour codes to removal of onerous regulations on the BPO sector. The same approach is also reflected in the rationalisation of autonomous bodies.

During the Global Financial Crisis, forbearance helped borrowers' tide over temporary hardship caused due to the crisis and helped prevent a large contagion. ¬ However, the forbearance continued long after the economic recovery, resulting in unintended and detrimental consequences for banks, firms, and the economy. ¬ Given relaxed provisioning requirements, banks exploited the forbearance window to restructure loans even for unviable entities, thereby windowdressing their books. ¬ As a result of the distorted incentives, banks misallocated credit, thereby damaging the quality of investment in the economy. ¬ Forbearance represents emergency medicine that should be discontinued at the first opportunity when the economy exhibits recovery, not a staple diet that gets continued for years ¬ To enable policymaking that involves an exercise of judgement amidst uncertainty, ex-post inquests must recognise the role of hindsight bias and not make the mistake of equating unfavorable outcomes to either bad judgement, or worse, malafide intent. ¬ Given the problem of asymmetric information between the regulator and the banks, which gets accentuated during the forbearance regime, an Asset Quality Review exercise must be conducted immediately after the forbearance is withdrawn. ¬ The legal infrastructure for the recovery of loans needs to be strengthened de facto

India entered the top 50 innovating countries for the first time in 2020 since the inception of the Global Innovation Index in 2007, by improving its rank from 81 in 2015 to 48 in 2020. India ranks first in Central and South Asia, and third amongst lower middleincome group economies.

For India to become an innovation leader, it needs greater thrust on innovation. India's aspiration must be to compete on innovation with the top ten economies. India's gross domestic expenditure on R&D (GERD) is lowest amongst other largest economies. The government sector contributes a disproportionate large share in total GERD at three times the average of other largest economies. However, the business sector's contribution to GERD is amongst the lowest. The business sector's contribution to total R&D personnel and researchers also lags behind that in other large economies. This situation has prevailed despite the tax incentives for innovation having been more liberal than other economies. India's innovation ranking is much lower than expected for its level of access to equity capital. This points towards the need for India's business sector to significantly ramp up investments in R&D.

Indian residents' share in total patents filed in the country stands at 36 per cent. This lags behind the average of 62 per cent in other largest economies. Resident share in patent applications must rise for India to become an innovative nation.

India must focus on improving its performance on institutions and business sophistication innovation inputs. These are expected to result in higher improvement in innovation output.

This chapter demonstrates strong positive effects on healthcare outcomes of the 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. This is despite the short time since the introduction of the program.

PM-JAY is being used significantly for high frequency, low cost care such as dialysis and continued to be utilised without disruption even during the Covid pandemic and the lockdown. General medicine – the overwhelmingly major clinical specialty accounting for over half the claims - exhibited a V-shaped recovery after falling during the lockdown and reached pre-Covid-19 levels in December 2020.

The final – but the most crucial – analysis in the chapter attempts to estimate the impact of PM-JAY on health outcomes by undertaking a difference-in-difference analysis. As PMJAY was implemented in 2018, health indicators measured by National Family Health Surveys 4 (in 2015-16) and 5 (in 2019-20) provide before-after data to assess this impact. To mitigate the impact of various confounding factors that may be contemporaneously correlated with the adoption of PM-JAY, we compute a difference-in-difference by comparing states that implemented PM-JAY versus those that did not. We undertake this analysis in two parts. First, we use West Bengal as the state that did not implement PMJAY and compare its neighbouring states that implemented PM-JAY – Bihar, Sikkim and Assam. Second, we repeat the same analysis for all states that did not implement PM-JAY vis-à-vis all states that did. JAY Ho: Ayushman Bharat's Jan Arogya Yojana (JAY) and Health Outcomes

PM-JAY 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 per cent while it decreased by 12 per cent over the same period in West Bengal. Across all the states, the proportion of households with health insurance increased by 54 per cent for the states that implemented PM-JAY while falling by 10 per cent in states that did not.

From 2015-16 to 2019-20, infant mortality rates declined by 12 per cent for states that did not adopt PM-JAY and by 20 per cent for the states that adopted it. Similarly, while states that did not adopt PM-JAY saw a fall of 14 per cent in its Under-5 mortality rate, the states that adopted it witnessed a 19 per cent reduction. While states that did not adopt PM-JAY witness 15 per cent decline in unmet need for spacing between consecutive kids, the states that adopted it recorded a 31 per cent fall. Various metrics for mother and child care improved more in the states that adopted PM-JAY as compared to those who did not. Each of these health effects manifested similarly when we compare Bihar, Assam and Sikkim that implemented PM-JAY versus West Bengal that did not. While some of these effects stemmed directly from enhanced care enabled by insurance coverage, others represent spillover effects due to the same. Overall, the comparison reflects significant improvements in several health outcomes in states that implemented PM-JAY versus those that did not. As the difference-in-difference analysis controls for confounding factors, the Survey infers that PM-JAY has a positive impact on health outcomes

The "basic needs" approach to economic development focuses on the minimum specified quantities of basic necessities such as food, clothing, shelter, water and sanitation that are necessary to prevent ill health, and undernourishment (Streeten, 1981; Emmerij, 2010). Sen (1999) defines poverty as a failure to achieve certain minimum basic needs or capacities. Shaffer (2008) similarly defines poverty as the deprivation of material requirements for the minimum acceptable fulfilment of basic needs. The Bare Necessities Index (BNI) is an attempt to quantify this approach to economic development using data from the National Statistical Office (NSO
Compared to 2012, access to "the bare necessities" has improved across all States in the country in 2018. Access to bare necessities is the highest in the States such as Kerala, Punjab, Haryana and Gujarat while it is the lowest in Odisha, Jharkhand, West Bengal and Tripura. ¾ The improvements are widespread as they span each of the five dimensions viz., access to water, housing, sanitation, micro-environment and other facilities. Inter-State disparities in the access to "the bare necessities" have declined in 2018 when compared to 2012 across rural and urban areas. This is because the States where the level of access to "the bare necessities" was low in 2012 have gained relatively more between 2012 and 2018.
Access to "the bare necessities" has improved disproportionately more for the poorest households when compared to the richest households across rural and urban areas. The improvement in equity is particularly noteworthy because while the rich can seek private alternatives, lobby for better services, or if need be, move to areas where public goods are better provided for, the poor rarely have such choices. ¾ Using data from the National Family Health Surveys, we correlate the BNI in 2012 and 2018 with infant mortality and under-5 mortality rate in 2015-16

and 2019-20 respectively and find that the improved access to “the bare necessities” has led to improvements in health indicators.

Similarly, improved access to “the bare necessities” correlates with future improvements in education indicators. Thrust should be given to reduce variation in the access to bare necessities across states, between rural and urban and between income groups, on bare necessities. The schemes, inter alia, Jal Jeevan mission, SBM-G, PMAY-G, may design appropriate strategy to reduce these gaps.

A BNI based on 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.

Since the 1950s, when Shri. Pitambar Pant advocated the idea of “minimum needs”, the idea that economic development can be viewed as a process of providing the “bare necessities of life” to citizens has been around in India

The “bare necessities” of housing, water, sanitation, electricity and clean cooking fuel are jointly consumed by all the members of a household. They, therefore, touch the life of every member in the household. As these are durable assets, they deliver services to the household over long periods of time. Access to clean drinking water, safe sanitation and clean cooking fuel also have direct linkages with health of the members in the household. Access to these saves time for a household, which they can utilise in productive activities such as education and learning.