

Report Summary

Economic Survey 2019-20

- The Finance Minister, Ms Nirmala Sitharaman tabled the Economic Survey 2019-20 on January 31, 2020. Some highlights of the survey are:

State of the economy

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

In the first half of 2019-20 (April-September), GDP is estimated to grow at 4.8% as compared to the 2nd half of 2018-19 (October-March) at 6.2%. The survey observed that sluggish growth of consumption and consequent decline in fixed investment led to the decline in GDP growth during this period.

The survey noted that the year 2019 was a difficult year for the global economy with world output growth growing at its slowest pace of 2.9% since the global financial crisis in 2009. A weak environment for global manufacturing, trade, and demand adversely impacted the Indian economy.

The survey also stressed that the concerns of over-estimation of India's GDP are unfounded.

- Inflation:** The Consumer Price Index (CPI) based inflation increased from 3.7% in 2018-19 (April to December, 2018) to 4.1% in 2019-20 (April to December). This increase was mainly due to food inflation. The Wholesale Price Index (WPI) based inflation decreased from 4.3% in 2018-19 to 1.5% in 2019-20 (April to December).
- Current Account Deficit (CAD) and fiscal deficit:** India's CAD decreased from 2.1% of GDP in 2018-19 to 1.5% of GDP in 2019-20 (April-December). The fiscal deficit for 2019-20 is estimated at 3.3% and the primary deficit for the year is estimated at 0.2% of GDP (primary deficit is the fiscal deficit excluding the interest payments). As of November 2019, fiscal deficit stood at 114.8% of the budgeted level. The survey noted that fiscal deficit target may have to be relaxed for the current year given the urgent priority of the government to revive growth in the economy.

Agriculture and allied activities

- Growth of agriculture sector has been fluctuating: it increased from -0.2% in 2014-15 to 6.3% in 2016-17, and then declined to 2.8% in 2019-20. Gross fixed capital formation in agriculture decreased from 17.7% of Gross Value Added (GVA) in 2013-14 to 15.2% of GVA in 2017-18.

- The contribution of agriculture to the GVA has decreased from 18.2% in 2014-15 to 16.5% in 2019-20. The decline was mainly due to a decrease in share of GVA of crops from 11.2% in 2014-15 to 10% in 2017-18. The share has been declining on account of relatively higher growth performance of non-agricultural sectors.
- Doubling farmer's income will require addressing issues such as access to credit, insurance coverage, and investments in agriculture. India has relatively lower farm mechanisation which needs to be addressed. Further, the food processing sector requires more focussed attention as it can play an important role in reducing post-harvest losses and aid the creation of an additional market for farm outputs.

Industry and infrastructure

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

Services sector

- Services sector is estimated to grow at 6.9% in 2019-20 as compared to 7.5% in 2018-19. The services sector is estimated to contribute 55.3% to India's GVA in 2019-20. Currently, the services sector accounts for over 50% of the Gross State Value Added in 15 states and UTs. Sub-sectors such as trade, hotels, transport, communication & services related to broadcasting, financial and real estate services saw a deceleration during this period.
- The share of services exports in overall exports of India has been increasing. India's share in the world's commercial services exports was 3.5% in 2018, twice the share in the world's merchandise exports at 1.7%.

Human development and employment

- India's rank in the human development index was 129 in 2018. Expenditure on social services (including health and education) increased by 1.5% of GDP during the 2014-20 period. Out of pocket expenditure as a percentage of total health expenditure declined from 64.2% in 2013-14 to 58.7% in 2016-17. The Survey also noted that the gross enrolment ratio at secondary, higher secondary and higher education level need improvement.
- Total formal employment in the economy increased from 8% in 2011-12 to 10% in 2017-18. During the 2011-18 period, 2.62 crore new jobs were created among regular wages/salaried employees. The female participation in the labour workforce declined, especially in rural areas.

Strengthening trust in market

- The Survey outlined that India's aspiration to become \$5 trillion-dollar economy by 2025 requires strengthening the trust in the market with pro-business policies. This includes (i) providing equal opportunities for new entrants, enabling fair competition and ease of doing business, (ii) eliminating policies which unnecessarily undermine markets through government intervention, (iii) enabling trade for job creation, and (iv) scaling up the banking sector to be proportionate to the size of the economy. While pro-business policies need to be promoted, pro-crony policies that favour specific private interests and powerful incumbents need to be done away with.
- The Survey observed that eliminating cases where government intervention is unnecessary will enable competitive markets and thereby spur investments and economic growth. For instance, the emergence of government as the largest procurer of food led to problems such as rising subsidy burden, divergence between demand and supply of cereals and a disincentive towards crop diversification.
- India has jumped from 142 in 2014 to 63 in 2019 in ease of doing business rankings. However, India continues to trail in various parameters such as ease of starting business (rank 136), registering property (rank 154), paying taxes (rank 115), and enforcing contracts (rank 163). These parameters provide a scope for further improvement.

Entrepreneurship at grassroots level

- Entrepreneurship at the district level has a significant impact on wealth creation at the grassroots level. A 10% increase in registration of new firms in a district

yields a 1.8% increase in GDP of the district. The Survey noted that India ranks third in the number of new firms created in the world. Birth of new firms has been dispersed across districts and across sectors.

- The level of education and quality of infrastructure in the district influence the creation of new firms significantly. Policies enabling ease of doing business and flexible labour legislation enables new firm creation, especially in the manufacturing sector.

Export of network products for job creation

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

Banking sector

- India's banking sector is disproportionately under-developed given the size of its economy. India has only one bank in the global top 100. Public sector banks (PSBs) account for 70% of the market share in Indian banking. However, on various performance parameters, PSBs are inefficient as compared to private banks.
- The survey suggests the use of financial technology across all banking functions, employee stock ownership across all levels to enhance efficiencies in PSBs. A GSTN type of entity can be set up for use of big data, artificial intelligence and machine learning on data from PSBs for credit decisions. Such investments will be critical to ensuring better screening and monitoring of large borrowers.

Disinvestment of central public sector enterprises

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

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