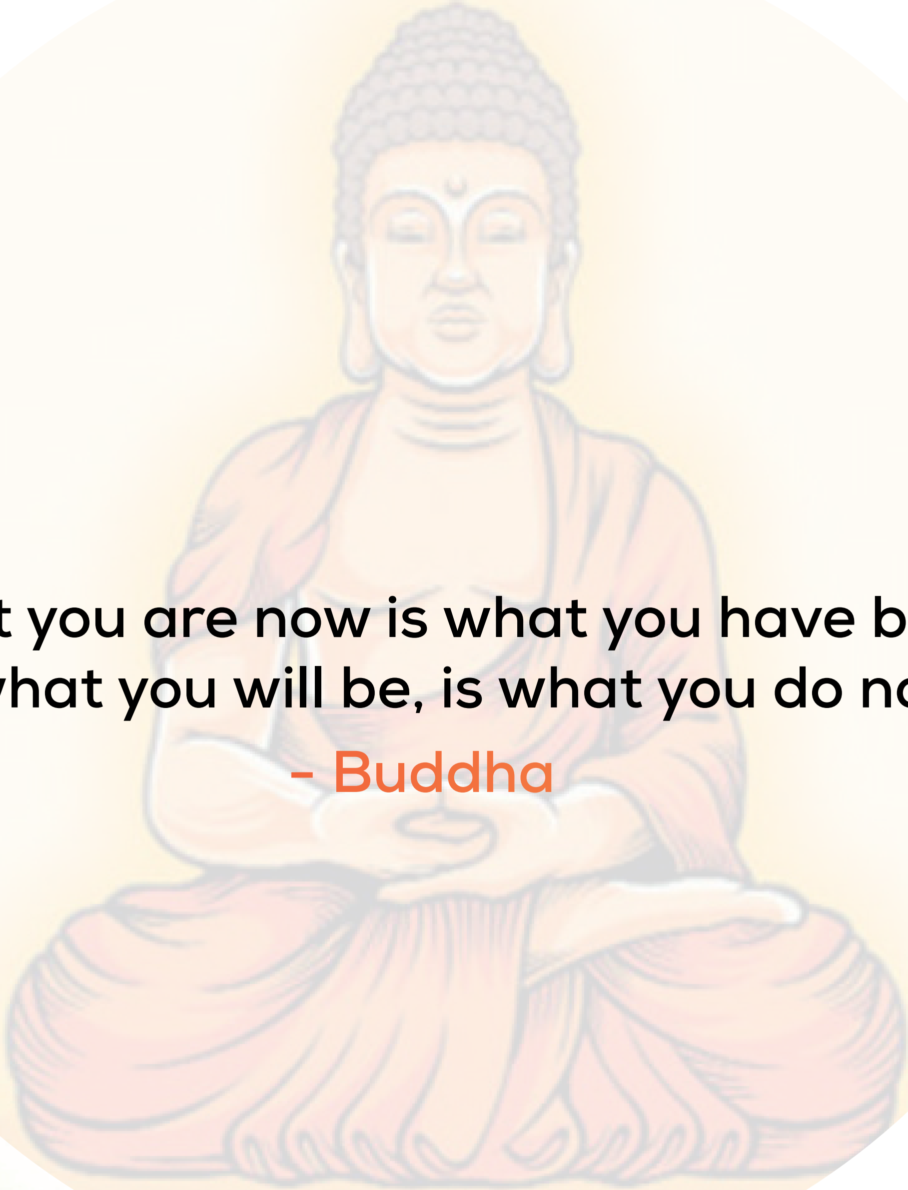
National Youth Parliament Organisation

Presents

Budget Dialogues 2021

7th & 8th January 2021

Economic Outlook FY21-22



" What you are now is what you have been.
But what you will be, is what you do now"

- Buddha

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Chapter 1: A Macro-Economic View of FY20-21

The year 2020 witnessed an unprecedented global crisis due to novel strain of Coronavirus, that started from China in December 2019 and gripped the world.

For Covid-19, the World Health Organization issued pandemic warning for in March 2020. By the end of the year, Covid19 caused more than more than 1.8 million deaths with more 85 million testing positive. Compare this with H1N1 swine flu pandemic, that affected 60 million people between April 2009 and April 2010, causing 12,469 deaths. India too suffered, as more than 10 million people tested positive and 1.5 lakh people died due to Covid-19.

During the summer, the country witnessed one of the heaviest lockdowns, unseen in any parts of the world. It took some time to spruce up the testing infrastructure. But our hard lock-down and extensive strategy appears to have worked when seen in light of resurgence of Covid in many parts of the world. Towards the end of the year, medical research, clinical trials and drug administrators have provided HOPE with from announcement of approvals of few vaccine. However, the risk of Covid is not over, as recently new strains of Covid that spreads at faster rate has been found in UK.

Social distancing and national lock-down as a quick emergency response to Covid-19 severely impacted the economy. As fear and uncertainty gripping the markets, India also witnessed a wave of reverse labour migration from its employment centres to villages battling the summer heat. This showed up in the Q1, FY21 economic numbers with GDP declining by 23.9%.

To address the lives vs livelihood issue, in May 20, government undertook a series of measures in the form of Atma Nirbhar Bharat strategy. A special economic package of Rs. 20 lakh crore was announced with the aim of making the country independent against the tough competition in the global supply chain and to help in empowering the poor, labourers, migrants who were been adversely affected by Covid. The Reserve Bank of India, acted quickly to create liquidity in the economy through CRR reduction and enhancement of borrowing limits. More importantly, for the adversely affected people and businesses, a moratorium was provided on repayment of loan installments.

India also embarked a phased unlock strategy and after the full unlock in August 20, it has adopted the horses for courses approach of fighting Covid with localised lockdowns. Despite of the frictions caused by Covid-19, specifically in big metropolitan centres, the combined effect of Atma Nirbhar and Unlock strategies, helped India make smart recovery in Q2, FY21, when it reported a GDP growth of -7.5%, which still was a sharp rise from the lows of first quarter. Technically, it also meant that India reported its first recession after forty years.

The early indicators of Q3,FY21 (Table 1) indicate that India has stopped contracting and has moved into positive growth cycle.

Indicators	Q3, FY19-20	Q3, FY20-21	% Change
GST Collection (INR crore)	302	325	+7.6%
Electricity Consumption (Billion Units)	292	319	+9.2%
HSD Consumption (Million Tonnes)	21.46	21.04	- 1.96%
Two Wheeler Sales (million)	4.2	4.9	+16.7%
Car Sales ('000)	780	895	+14.7%
Railway Freight (Million Tonnes)	311	336	+8.0%

Table 1: Early Economic Indicators | Shatadree

Overall Economic Outlook for FY20-21

The sharp recovery has prompted spate of economic commentators and agencies to recast the gloomy economic outlook previously made by them.

- Fitch Ratings raised FY21 GDP forecast to -9.4 % from previously projected contraction of 10.5%
- Moody's Investors Service has revised its FY21 GDP projection 10.6% contraction compared to a 11.5% drop it had estimated earlier.
- SBI Research has revised the FY21 GDO estimate to -7.6% as compared to -10.6% earlier.

In the Monetary Policy Statement of December 20, the Reserve Bank of India indicated that consumers are optimistic and business sentiment of manufacturing is gradually improving. It further said that the fiscal stimulus is moving beyond being supporting consumption and liquidity to supporting growth-generating investment. Therefore, the RBI has projected real GDP growth -7.5% for FY20-21, with (+)0.1% for Q3, FY21 and 0.7% for Q4, FY21.

The RBI goes on to project H1,FY21-22 growth in the range of 6.5% to 21.9%. Similar view have been echoed by other agencies for FY21-22.

Sectoral View of the Economy

The gross value added published by Ministry of Statistics and Programme Implementation, provides a high-level view of different sectors of economy. This is in the Table 2 below:

Sectors	Share in Economy	5 year CAGR
Agriculture, Forestry & Fishing	21.9%	7.97%
Mining & Quarrying	2.5%	3.37%
Manufacturing	17.4%	4.48%
Electricity, Gas, Water Supply etc.	3.3%	7.44%
Construction	8.5%	5.42%
Trade, Hotels, Transport & Communication	20.4%	7.01%
Financial, Real Estate & Professional Services	26.5%	3.78%
Public Administration, Defence and Other Services	19.0%	11.63%

Table 2: Sectoral View of the Economy

Table 2 is illustrative as it highlights how India has grown sectorally in the last 5 years. For example, it has registered biggest growth (11.6% nominal CAGR) in public administration highlighting the importance of government, public sectors and other public institutions.

It can also be seen that in the last 5 years, financial sector has grown only at 3.78% in nominal terms, which translates to negative growth in real terms. The prime reason for this was huge overhang of non- performing loans from corporate sector as well as write-off of farmers loans leading to cleaning up of balance sheets of banks and NBFCs. It is also evident that with real degrowth of financial sector, the overall growth of economy has remained impeded in the last five years.

The next year shall also have challenges. Covid moratorium due to loss of income in the hands of people has impacted the cash flows of financial institutions and it is expected that non-performing loans shall increase in FY21-22.

Chapter 2: The State of Government Finances

For emerging economies, the share of government in overall GDP is relatively higher as compared to developed economies, therefore General Budget becomes one of the most important policy tools for macro-economic management.

As bulk of the government revenues come from taxes which is function of economic landscape, it is natural that a pandemic year would have impacted the revenues of the government. Therefore, to meet its expenditure goals – regular as well as relief and support packages, government all across the world increased public borrowings.

Table 2 below provides the high level view of budget numbers including the actuals for FY19-20, budget estimates for FY20-21 and actuals upto November'20 (accessed from Controller General of Accounts of India's website). The last column is our estimate of Revised Estimates for FY20-21

(all figures in INR lakh crore)	FY19-20 Actuals	BE20-21	Actuals up to Nov 20 (CGA)	NYP - RE for FY20-21
Net tax revenue	15.04	16.36	6.88	13.2
Non tax Revenue	3.45	3.85	1.24	3.2
Non debt capital receipts	0.81	2.25	0.18	1.8
Total Receipts	19.32	22.46		18.2
Revenue Expenditure (ex. Interest)	17.25	19.22	12.82	18.5
Interest Payments	6.25	7.08	3.83	7.2
Capital Expenditure	3.48	4.12	2.41	4.0
Total Expenditure	26.98	30.42	19.06	29.7
Fiscal deficit	7.66	7.96	10.75	11.5
GDP (nominal)	204	227.4	192	192
Fiscal Deficit as a % of GDP	3.75%	3.5%	5.6%	5.99%

Table 2: Government of India, Budget Numbers | Shatadree

Clearly, the current year was challenging. The fiscal deficit (Rs. 10.75 Cr) till Nov-20 overshot the annual target (Rs. 7.96Cr) and as a percentage of GDP, it is at a very high level of 5.6%. Higher fiscal deficit implies higher borrowing of state. The gross borrowings of Government of India is expected to reach Rs. 105 lakh crore by the end of FY20-21. That means, Government debt shall be at 55% of GDP.

Considering the state of the finances of State Governments, who also had to bear the brunt of Covid-19 while carrying out the responsibilities of a good state, the overall debt burden of country shall touch an alarming level of nearly 95% of GDP.

A public debt of 95% of GDP has multiple ramifications, starting from higher interest payment burden to re-classification of financial rating of the country that could lead to higher interest foreign borrowings. However, all is not gloomy. In a year, where every country of the world has struggled, this risk at best appears temporary. The need of the hour is of confident response action to tackle the after-effects of pandemic. Countries like USA have undertaken massive borrowing program of $3 trillion to support the economy recovery with countries debt rising to 120% of its GDP.

Chapter 3: The State of Agriculture and Manufacturing

The State of Agriculture

It contributes 22 percent to the country's gross domestic product (GDP). Out of a total 329 million ha, the net cropped area is 142.5 million ha. More than 70 percent of Indians live in rural areas, and agriculture is the major livelihood for the majority of the rural population. Overall it keeps 46% workforce employed.

In terms of food grain, India's production of food grains has been increasing every year, and India is among the top producers of several crops such as wheat, rice, pulses, sugarcane and cotton. It is the highest producer of milk and second highest producer of fruits and vegetables.

The real challenge for agriculture has been volatility. The growth rates vary every year. However, in the year of pandemic, this sector has been a prime driver of economic recovery. Some of the major issues affecting agriculture is relatively low levels of agricultural productivity dure to factors like smaller size of land holdings, access of credit, inadequate use of technology and inputs such as mechanization, soil nutrients, access to modern technology and challenges in market mechanism in agricultural sector. The issue of control of agriculture through archaic APMC system clearly requires a revamp.

The State of Manufacturing

Manufacturing sector contributes about 16% of countries GDP and provides employment to about 12% of the workforce. However, manufacturing is important for growth as it deals with countries transformation, as it is the bedrock of innovation, besides having higher employment multiplier.

In 2015, India launched the 'Make in India' program to place India on the world map as a manufacturing hub and give global recognition to the Indian economy. The goals of Make in India is also to increase the share of Manufacturing to GDP to 25% as well as create 100 million new jobs in the sector by 2022.

Chapter 4: The State of Jobs

The golden age of India's economic growth is largely predicated on demographic dividend as the median age of Indian population at 26.8 years is on the lower end of working age of population, generally considered between 15 to 64 years of age. The demographic divided period of India is expected to last until 2055, when the proportion of working population shall be higher than proportion of dependent population. However, the demographic dividend can be achieved only when there is aquate number of numbers for the population. The Table 4 below provides sector wise break-down of workforce employed and unemployment estimates.

Major Sectors	Workforce (mn)	Unemployment Estimates (%)	Sectoral Outlook for FY21-22
Agriculture, Forestry & Fishing	211.30	1% to 2%	Highly Optimistic
Mining & Quarrying	1.80	1% to 2%	Optimistic
Manufacturing	46.30	55%	Optimistic
Food, Beverages and Tobacco	11.25	2% to 5%	Optimistic
Gems, Jewellery, Misc. Manufacturing	6.65	5% to 10%	Neutral
Electricity, Gas, Water Supply & Utilities	3.20	1% to 2%	Optimistic
Construction	51.50	10% to 15%	Pessimistic to Neutral
Trade, Hotels, Transport & Communication	75.37	2% to 5%	High
Transportation and Storage	19.94	2% to 5%	Optimistic
Hotels and Restaurants	8.78	15% to 20%	Pessimistic
Financial, Real Estate & Professional Services	38.62	2% to 5%	Neutral
Real Estate	23.33	2% to 5%	Neutral
Professional Services	10.13	2% to 5%	Optimistic
Public Administration, Defence and Others	39.98	2% to 5%	Optimistic
Education	14.96	2% to 5%	Optimistic
Health & Social Work	5.02	1% to 2%	Highly Optimistic
Total	**468 mn**	**~ 5%**	

Table 4 – Estimate of total workforce and unemployed due to Covid19

The real challenge for our country is two fold – (a) create large number of jobs at scale and (b) create large number of jobs in formal sectors of economy.

Chapter 5: Ideas for Growth

The latest GDP numbers with sharp uptick validates that "Unlock 1.0, 2.0 and 3.0" has paid handsomely. Though, the question remains are we really out of the negative cycle?

In the festive season, retail e-commerce performed exceedingly well, automotive production was high but dealer sales not so buoyant, fuel consumption rose and GST collections showed healthy recovery. As winter settles, there are headwinds. Loan moratorium is over and farmers unrest looms large over the impending Rabi season, we look at the Indian economic scenario for the CY2021.

Six Major Macroeconomic Trends for FY21-22

There are five key macro-economic trends shall impact the economy in the CY2021.

1. India seems to have flattened-the-curve. But, risk of second wave faintly looms. Job losses and wage correction will continue to affect incomes. As per estimates, there are more than 1 crore people have been without job for more than 6 months in FY20-21 Further, about 1.5 to 2 crore daily wage earners have had wage reset of average 20% in last 6 months. That means it impacts at least 5 crore people. This will impact consumption in FY21-22. Average ticket size of spending to remain suppressed. Price corrections, discounts and buyback offers shall be the new norm.

2. Discretionary spending to remain down. Services sector shall remain affected. Sectors such as Travel, Tourism, Restaurants, Entertainment, Fashion, Beauty and Salons shall face headwinds.

3. Tax collections are down in FY20-21. It is expected to remain down in CY21 also. That means, gross fixed capital formation shall remain affected due to reduction in government spending, even as fiscal deficit and government borrowings rise. There is possibility of rise in interest rates, which poses a risk for the economy.

3. Foreign capital is looking positive for India. Global anti-China sentiments is expected to benefit India. That should bring long term investments next fiscal.

5. Financial services will remain plagued with NPAs and real estate economy has huge inventory. Unless there is perceptible correction, demand pick-up shall be a challenge.
6. Finally, digital disruption will continue. Health, Safety and Data spend is looking up.

Digital Disruption

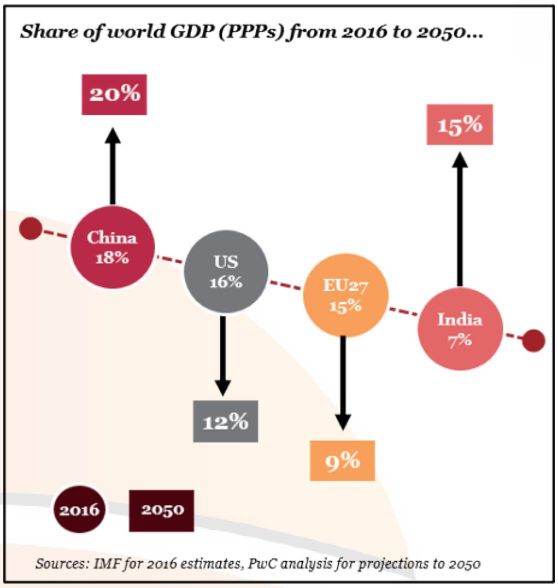
An economy under lockdown discovered the power of digital. Government organisations, firms and other entities those were digitally ready were able to quickly move to newer ways of work. But organisations that lagged in digital infrastructure struggled.

A case in point is education, hitherto, taken as a social responsibility of the government. Schools those were digitally enabled, mostly private schools, were able to switch over to newer models of education. But, students in most part of the country, without any access to laptops, tablets or smartphones, struggled. Images of village walls painted with chalks portray the stark reality of Bharat.

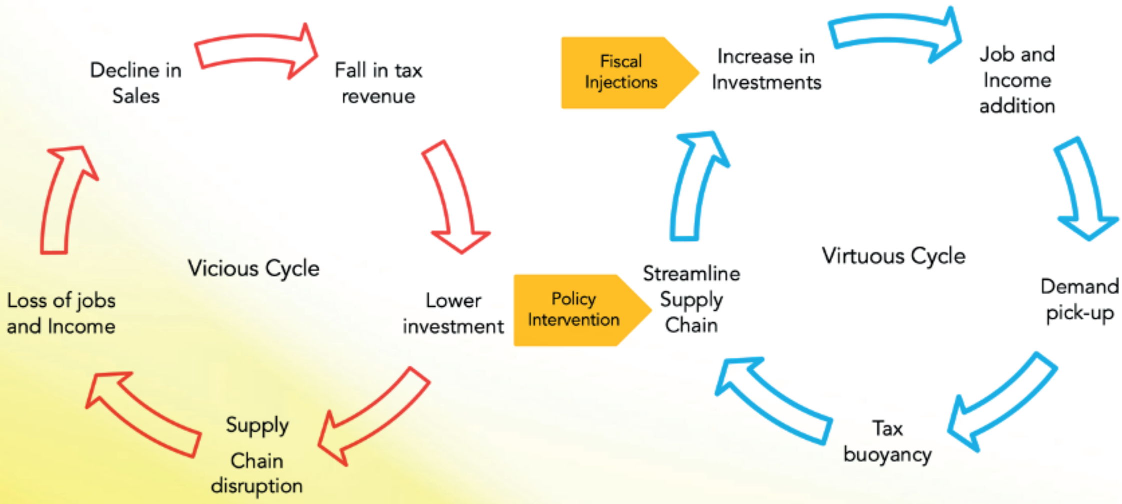
This must be addressed on high priority by all stakeholders. Smart devices have to be provided to all children in India, otherwise, we have a huge risk of leaving a large portion of population bereft of any formal education.

Demographic Dividend

According to a study titled, The World in 2050 by PwC, India is expected to become the second largest economy in the world in terms of purchasing power parity with nearly 15% of global economy. The annual per capita income of India is expected to increase from $1800 (2019) to $26000 (2050). But this can be achieved only when we take steps to harvest the demographic dividend.



With over 600 million people below the age of 25 years, the country's workforce is surging with young and aspiring workers, but lacks the skills required for India to remain globally competitive is a cause for concern. India risks losing this huge opportunity if it cannot adequately skill its young population as well as create high quality employment opportunities at a large scale. A country like India requires skilled people is basic sectors of economy in as much as advanced sectors of economy such as information technology, artificial intelligence, biotechnology, healthcare technologies and agriculture.



India has been able to leapfrogging from the vicious cycle of slowdown to galvanizing the virtuous cycle of growth riding on right form and measure of fiscal and policy interventions. However, unleashing demographic divided requires, new set of interventions.

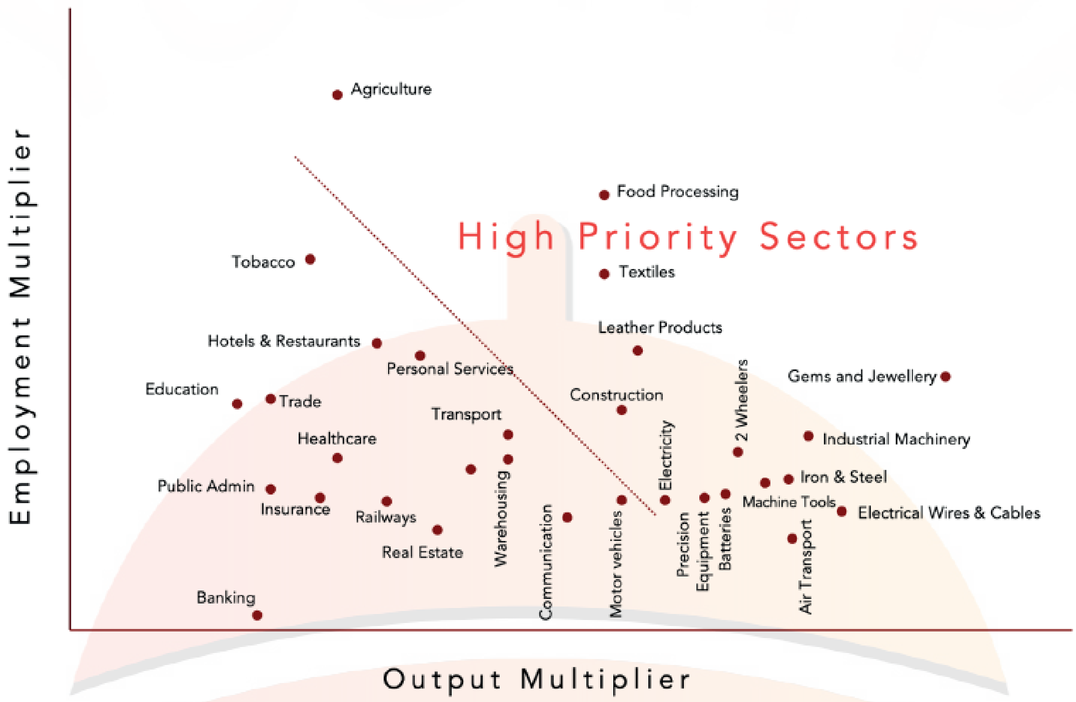
A look at Economic Multiplier

It is well known that an increase in government's capital expenditure stimulates private investment so as to accelerate overall economic output. Reserve Bank of India in its Monetary Policy Report13 of April 2019 has estimated revenue expenditure multiplier at 0.45 and capital expenditure multiplier at 3.25. Ashima Goyal and Bhavyaa Sharma in their research14, have estimated multipliers in the presence of supply shocks and endogenous policy response, as summarised at Table 5.

Multipliers	Revenue Expenditure	Capital Expenditure
Short term	0.41	0.22
Peak	0.41	0.58
Long term	1.69	4.02

Table 5 – Government Expenditure Multiplier

These results are instructive for policy making. Over shorter periods, revenue expenditure has higher multiplier than capital expenditure as it takes few weeks for capital allocations to start showing up. But, in about two quarters the effect of capital expenditure exceeds revenue expenditure and over a period of two years, each unit of capital spend is 238% more productive than each unit of revenue spend. In a similar study on fiscal multipliers, Sukanya Bose and N. R. Bhanumurthy, have estimated, values of tax multipliers i.e. corporate tax at (-1.02), goods and services tax at (-1.08) and personal income tax (-1.01). Negative values imply increase in economic output can be achieved through reduction in taxes.



In a year, where resources are scarce, there is no option but to deploy resources in sectors that can yield the most for each unit of input. Singh and Saluja, have made an assessment of sectoral output and employment multipliers. This provides clarity in terms of sectors to focus during FY20-21. The high priority sectors are agriculture, food processing, textiles, leather products, gems and jewellery, industrial machinery, construction, scooters and motor cycles, batteries, electricity and utilities, medical and precision equipment, machine tools, iron and steel, electrical & cables and air transport. It is also obvious that are few sectors such as healthcare, transportation, hospitality and travel which would be of relevance, considering their importance in employment generation.

Five Big Ideas for Budget

In conclusion, there are five big ideas for Government of India

1. Invest in the mobile infrastructure – waves and new technology like 5G, including providing smartphones to all children in India. Smartphone for all should be the growth mantra. This could also be in the form of tax incentives to hand-set manufacturers and direct cash back. This alone would unleash a new wave of growth by raising productivity and improving efficiency in all segments of economy.
2. The large wave of labour migration in April'20 creates a hope for Indian rural sector. India needs to unleash the rural human capital. Government must invest in rural technology centres, rural IT infrastructure and applications in vernacular language. Access to rural technology, can bring knowledge at faster pace and streamline as the inefficiencies in rural India.
3. No demographic dividend is possible without mainstreaming of women. There are studies that show less than 15% contribution of Indian women in economy. There are studies that indicate higher economic multiplier for every unit of penny that goes to women. Budget 21-22 should provide incentives to organisations who provide employment to women.
4. History of economic growth tells us that no country has leapfrogged unless it has adequately invested in manufacturing. India needs to sell its low cost labour to foreign investors who can bring new technology industries, create incentives for industrial research and development. Government sponsored plug and play industrial parks could attract new investors and industries.
5. Finally, investment in infrastructure has to be continued with renewed vigour. India needs more ports, airports, railway lines, highways, logistics parks, housing, hospitals, schools and a big communications infrastructure. The budgeted amount of Rs. 425,000 is too little.

Lastly, sustainable growth cannot be achieved in paucity of funds. The country has to continue with its borrowing programme in FY21-22. If there are budgetary constraints, strategic sale of public sector enterprises must be undertaken with full vigour.

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