ECONOMIC SURVEY

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Economic Survey advocates "Agile" approach

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This year's Economic Survey has painted a positive picture of growth, supported by central Government's "Barbell strategy and Agile response". Also, given higher revenue collections, there is fiscal space to further improve capex in FY23. Notably, India will need to spend US$ 1.4tn by 2025 in order to become a US$ 5tn economy by then. Private investment will also have to be crowded in, aided by supply and process reforms. GDP growth estimated at 8-8.5% is higher than our projection of 7.5%

Key themes: The latest Economic Survey builds on the "Agile" approach introduced in the previous year and identifies it as the central theme this year. The availability of 80-high-frequency indicators such as e-way bills, digital payments, electricity production etc., form the backbone of this approach. The major features of this framework are: feed-back loops, real time monitoring, flexible response, safety-nets etc., This is complimented by the "Barbell" strategy that protects against unfavourable outcomes by providing safety-nets.

Supply and process reforms: In order to deal with the pandemic, apart from supporting demand, government also relied upon supply side reforms as part of its economic response. These included deregulation of sectors (space, drones, geo-spatial mapping, trade finance factoring) and process reforms (in government procurement, telecommunications sector; removal of legacy issues like retrospective tax; privatization and monetization). Introduction of PLI scheme, liberalised guidelines for OSPs, enhancement of FDI limit in defence sector, and notification of four labour codes, are other key measures identified by the Economic Survey as critical for improvement in overall growth.

GDP growth: Economic Survey pegs India's GDP growth in the range of 8-8.5% for FY23. This will be led by improvement in private investment and capital expenditure. The above estimate is based on certain assumptions including limited or no economic impact of future Covid-19 waves, normal monsoon, easing of global supply chain bottlenecks, orderly withdrawal of global liquidity and range-bound oil prices. However certain caveats apply. While global central banks have been winding down surplus liquidity in a phased and gradual manner, RBI's stance on policy normalisation has been conservative. Further, the assumption of oil prices in the range of US$ 70-75/bbl may not materialise as oil prices are likely to remain elevated at ~US$ 80-85/bbl at least in H1FY23.

Room for fiscal support: The Economic Survey acknowledges that central government has "fiscal space to provide additional support as well" supported by robust revenue growth between Apr to Nov'21. It notes that revenue receipts are up by 67.2% in FYTD22, versus 9.6% in FY22BE, due to rebound in both direct and indirect tax collections. In addition, fiscal deficit till Nov'21 is only at 46.2% of the BE compared with 135.1% of BE last year. Thus, the Survey expects government to be "well on track to achieve budget estimate" of 6.8% as fiscal deficit in FY22. This is contrary to our view, as we expect higher subsidy bill and other revenue spending, and uncertainty around meeting the disinvestment target, to push deficit up to ~7%. Even with fiscal deficit at ~6.8%, we continue to maintain our view that deficit target for FY23 will be kept around 6%. Following the announcement of switching of government securities, we expect government to save Rs 800bn as repayments in FY23, thus allowing scope for higher net borrowing and spending even if the gross borrowing programme is between Rs 12-13 tn.

Imported inflation: Owing to disruptions in global supply chains, and revival in global demand, international commodity and energy prices had seen a sharp uptick in CY21. This has in turn impacted both CPI and WPI in India. While CPI is still within RBI's target band, supported by dip in food inflation, WPI remains uncomfortably high. Thus the Economic Survey has pointed out that "India does need to be wary of imported inflation, especially from elevated global energy prices". In the near-term, we expect pressure from higher energy prices to persist, impacting WPI and CPI.

Financial intermediaries: Economic Survey noted that banking sector has fared well during the year, citing that GNPA of SCBs has reduced to 6.9% as of Sep'21 from 7.5% as of Sep'20. CRAR of PSBs has also improved, indicating that "the banking system is well capitalized". Credit growth too has picked up to 9.2% as of 31 Dec 2021. Personal loan growth is now in double digits (11.6% as of Nov'21), led by housing loans (8%) and vehicle loans (7.7%). However, it also highlighted "some lagged impact still in the pipeline". Government measures to resume stalled insolvency process may help mitigate long-term risk to financial sector.

External stability: Economic Survey notes that India's external position has strengthened in FY22. Exports and imports have crossed the pre-pandemic levels buoyed by recovery in global and domestic demand, as well as higher commodity prices. Services receipts have been aided by software sector, even as tourism sector continued to trail. Capital inflows have also been supportive. This has bolstered India's foreign exchange reserves. Comparing with the period during taper-tantrum, India is much better placed (higher import cover, lower debt/GDP ratio and manageable CAD) to face any headwinds arising from monetary policy normalisation by other global central banks.

Thrust on infrastructure: Economic Survey identifies infrastructure development to be an important engine for growth. It notes that about US$ 1.4tn of infrastructure expenditure is required for India to achieve its target of becoming a US$ 5tn economy by FY25. Railways is likely to play an important role, and is expected to receive increased capex allocation. Further, apart from improvement in demand, industry growth is expected to recover driven by supply side reforms, labour code rationalisation and introduction of PLI and Atma Nirbhar Bharat Scheme.

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