ECONOMIC SURVEY 2020-21

29 January 2021

Double digit growth in FY22

Economic Survey estimates growth to improve to 11% in FY22 after contracting by 7.7% in FY21, on the back of a low base, PLI scheme, infra investments and roll-out of vaccine drive. The Survey postulates a counter cyclical fiscal policy with larger role for government during economic downturns, as fiscal multiplier tends to be higher. It also highlights the need for expanding health spending from 1% of GDP to 2.5-3% of GDP. Notably, it calls for withdrawing banking forbearance once the economy recovers and recommends immediate AQR.

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Growth estimated at 11% for FY22: Economic Survey estimates a V-shaped recovery with GDP growth at 11% in FY22 following a 7.7% contraction in FY21. Nominal GDP growth is estimated at 15.4% in FY22. Recovery will be led by infrastructure investments by government, boost to manufacturing sector through PLI Schemes, recovery of pent-up demand for services sector, increase in discretionary consumption subsequent to roll-out of the vaccine and pick up in credit given adequate liquidity and low interest rates.

Debt-sustainability analysis: Amidst a global pandemic, debate on debt sustainability has resurfaced. Survey highlights that countries, such as India, which have negative Interest Rate Growth Differential (IRGD) can be allowed to increase their public debt levels in order to pursue countercyclical fiscal policy to push growth. A nominal growth above nominal interest rates implies debt will automatically become sustainable. Simulations also showed that even assuming the worst case scenario (real GDP growth of 4% in the next 10 years), India's debt is estimated to be sustainable.

Focus on Healthcare: The Survey highlights the importance of healthcare infrastructure and inter linkages with other sectors. It notes that hiking the public healthcare spending by 1% to 2.5%-3% of GDP will decrease the out-of-pocket expenditure from 65% to 35% of total healthcare spending. It has also suggested appointing a regulator to cater to the market failures due to asymmetric information.

AQR after forbearance is withdrawn: The Survey notes that forbearance should be withdrawn once economy recovers. It should be immediately followed up by an Asset Quality Review to recognise the extent of bad loans and provide for them. Judicial process should be strengthened for faster recovery.

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