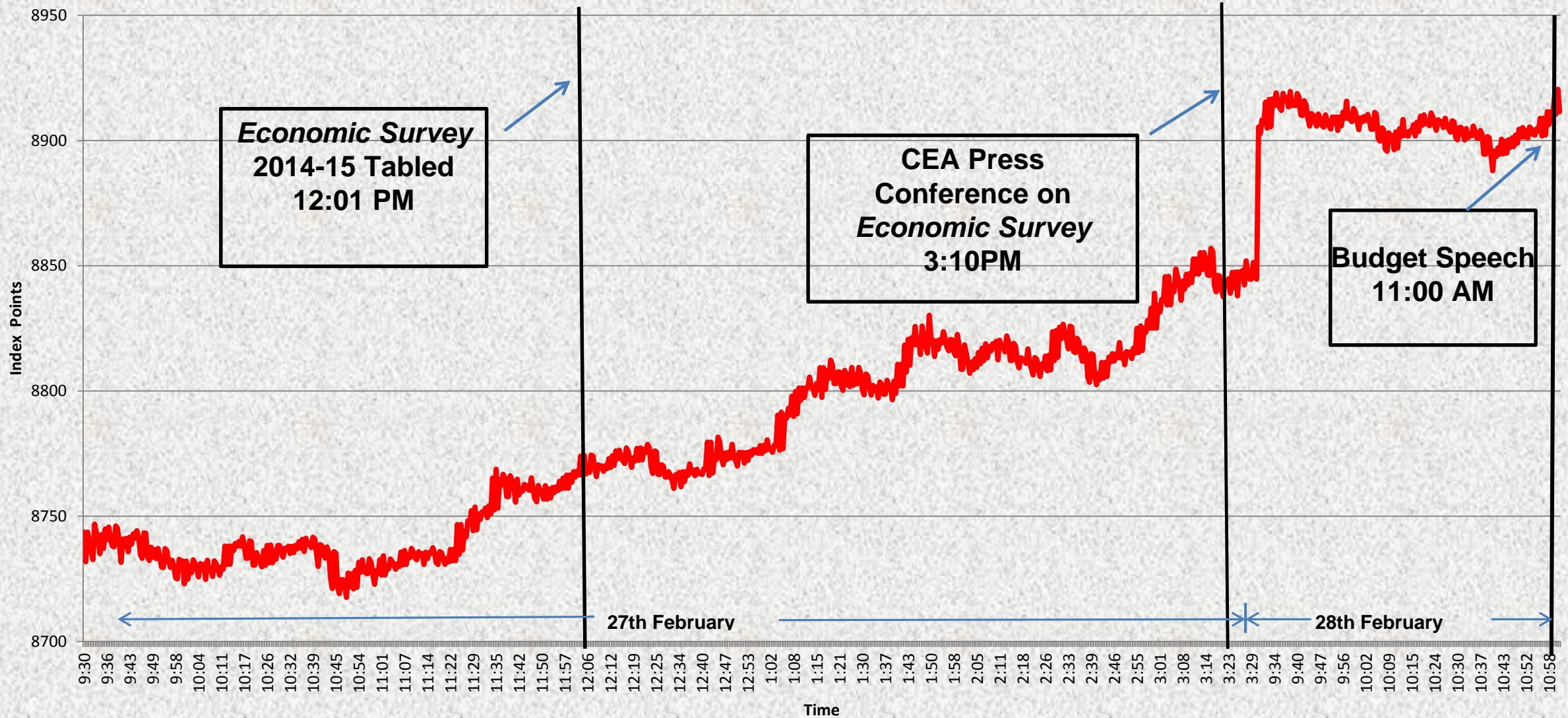


The Economic Survey of India, 2014-15

Madras School of Economics

April 8, 2015

“In the end, it is ideas not vested interests that are dangerous for good and evil”: Value of *Economic Survey* = 42 billion!!!



Structure

- ▶ Volume 1: Analytical, forward looking, and prescriptive
- ▶ Volume 2: Summary of current economic situation
- ▶ Chapters
- ▶ The Economic Survey should be seen as:
 - i. a repository of facts and data
 - ii. a technical analysis, and
 - iii. an ideas-generating document

Big Picture: India's Sweet Spot

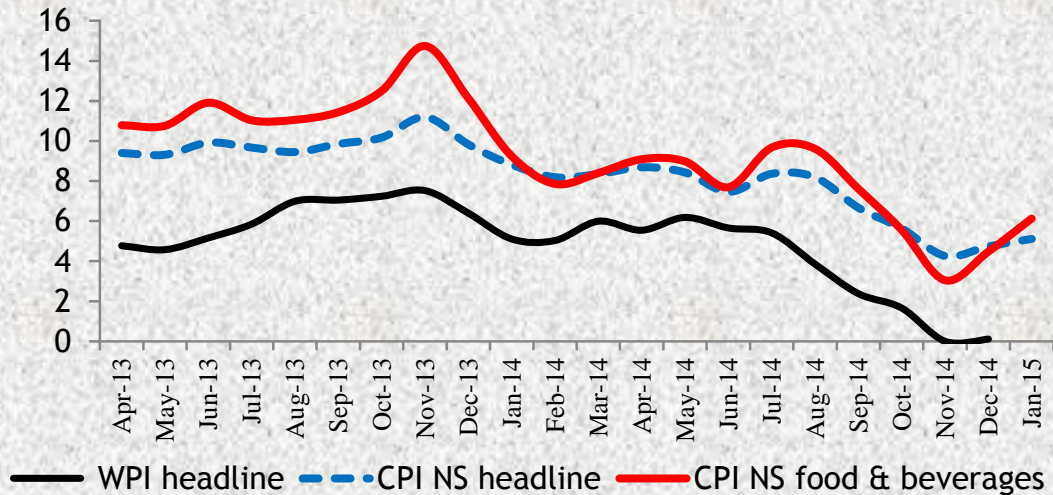
- ▶ A moment that comes “but rarely in history”
- ▶ Political mandate plus benign external environment = Possibility of achieving sustainable double-digit growth
- ▶ Fundamental objectives:
 - ▶ “Wipe every tear from every eye”
 - ▶ Create opportunities for young, middle class, and aspirational India
- ▶ How can this growth be achieved?

Policies for Double-Digit Growth

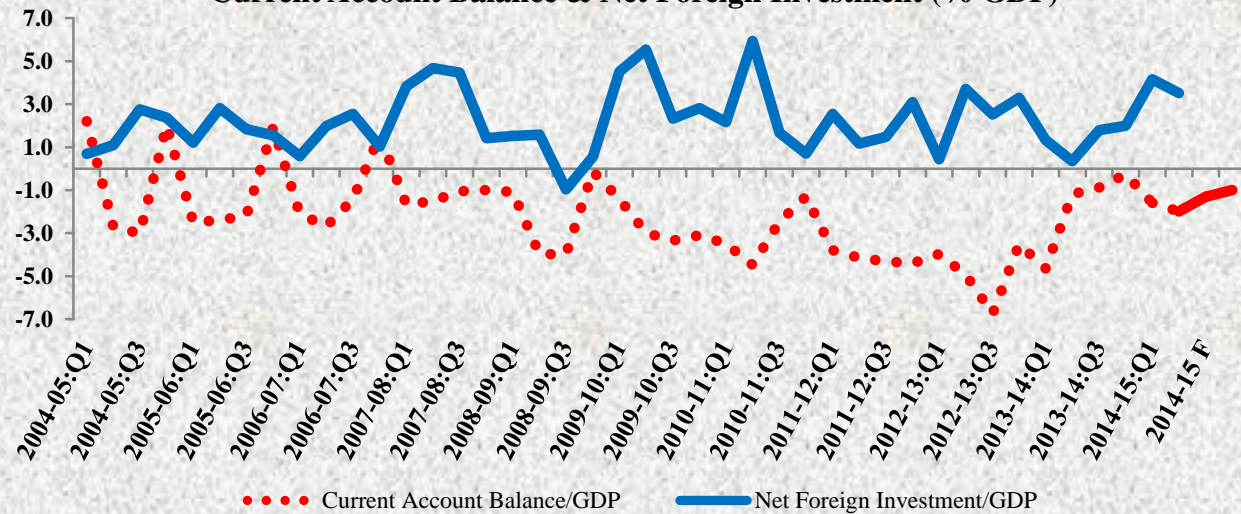
- ▶ Macroeconomic Stability
- ▶ Fiscal Federalism and Consolidation
- ▶ Targeted Subsidies: the Jan-Dhan, Aadhaar, Mobile (JAM) Solution
- ▶ Private Investment?
- ▶ Public Investment: Railways
- ▶ Sound and Effective Banking
- ▶ Skill India to complement Make in India
- ▶ Creating a Single Agricultural Market
- ▶ Green India
- ▶ Gender Equality

Macroeconomic Outlook: Dramatic Improvement in Macroeconomic Stability

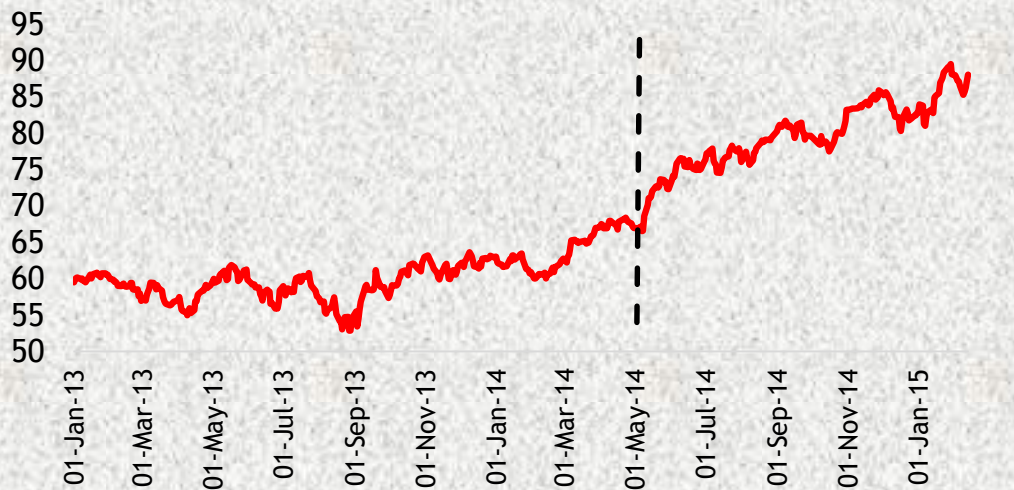
WPI and CPI Inflation (%)



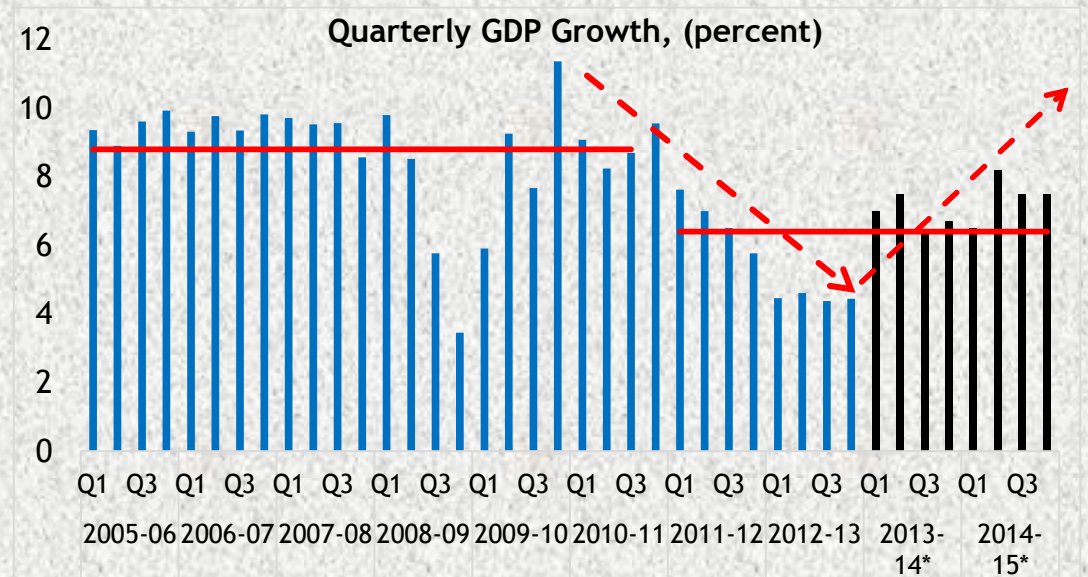
Current Account Balance & Net Foreign Investment (% GDP)



Daily Stock Prices (Nifty Index), factor of 100

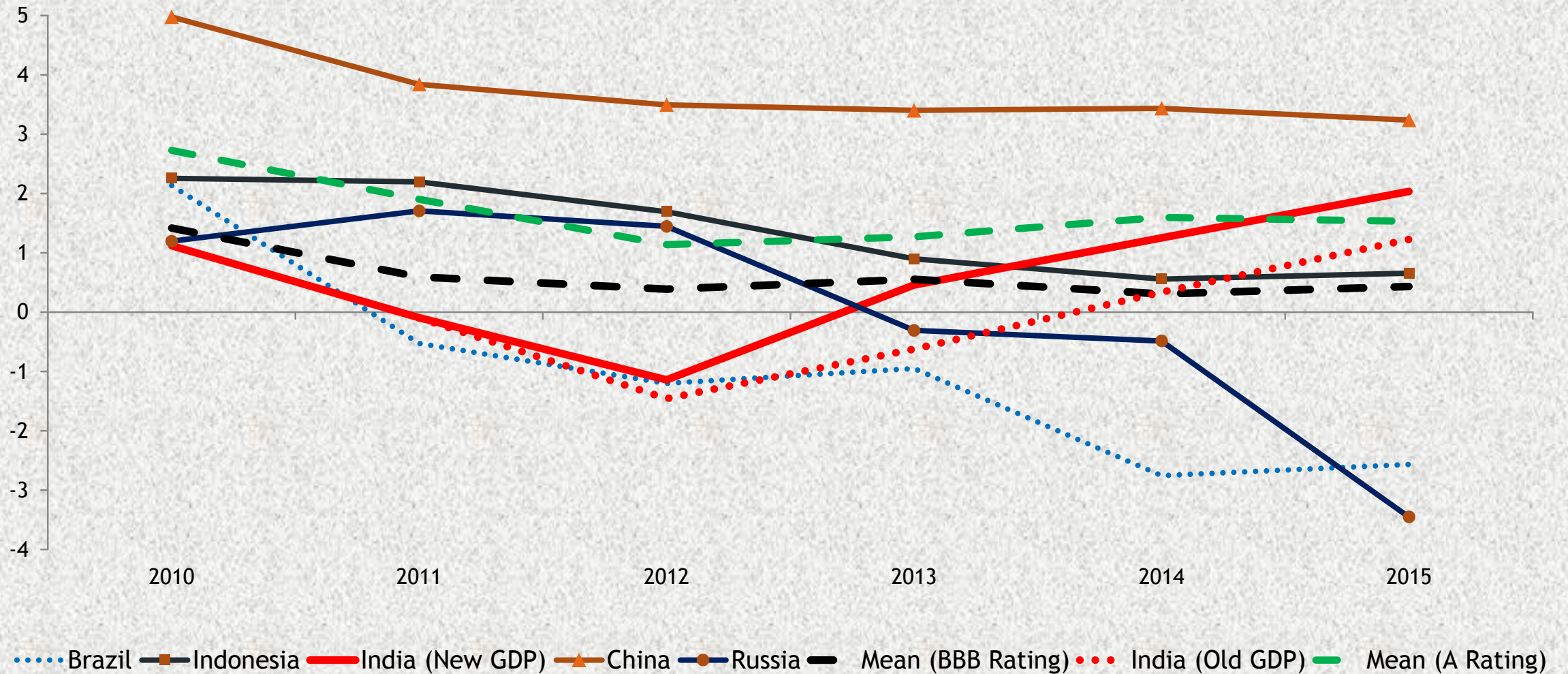


Quarterly GDP Growth, (percent)



International Context: India is an attractive destination

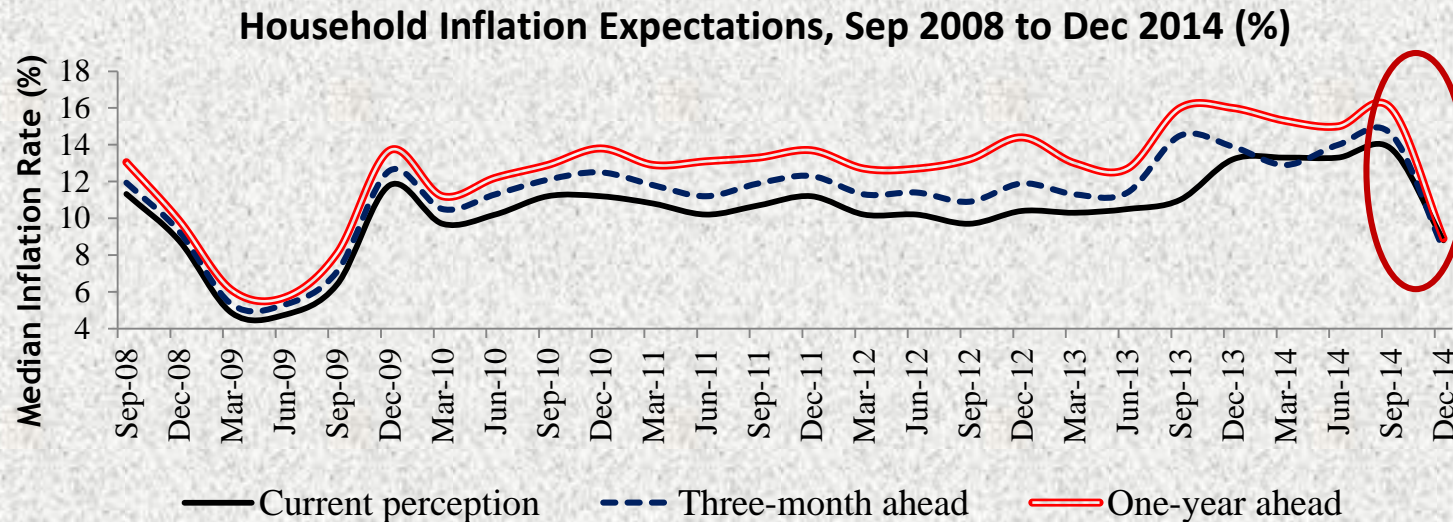
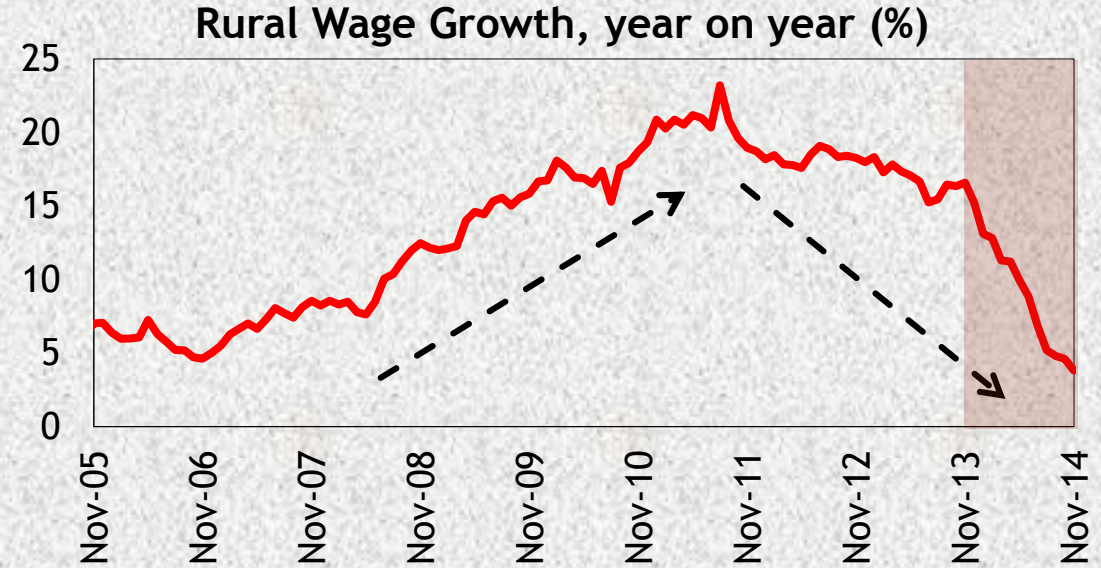
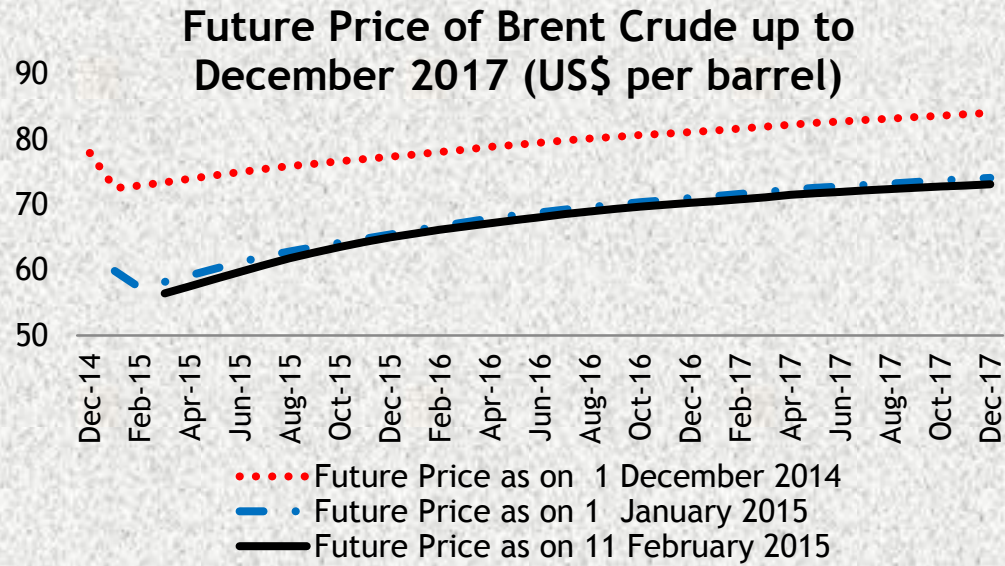
Rational Investor Ratings Index, Selected Emerging Market Countries



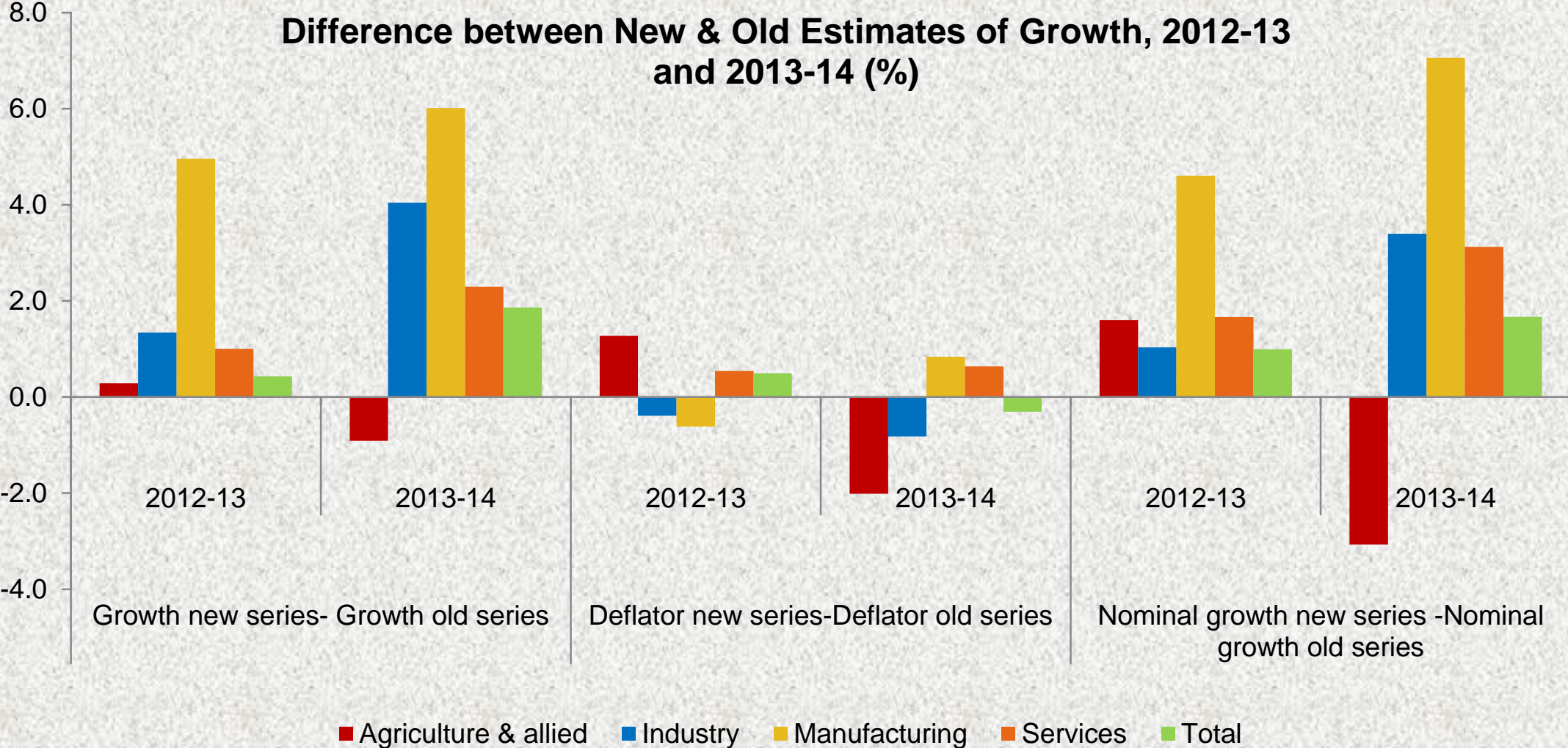
Reforms: Several Cumulating Actions, Some Game Changers

- ▶ Deregulating diesel prices, raising gas prices and taxing energy products
- ▶ Replacing the cooking gas subsidy by direct transfers on a national scale
- ▶ Passing an ordinance to reform the coal sector via auctions
- ▶ **Building political consensus on Goods and Services Tax (GST)**
- ▶ **Financial inclusion under Pradhan Mantri Jan Dhan Yojana -- over 12.5 crore new accounts opened**
- ▶ **Continuing the push to extending coverage under the Aadhaar program**
- ▶ Increasing FDI caps in defence
- ▶ Eliminating the quantitative restrictions on gold
- ▶ Passing an ordinance to make land acquisition less onerous, thereby easing the cost of doing business, while ensuring that farmers get more than fair compensation
- ▶ Passing an ordinance increasing the FDI cap in insurance to 49 percent
- ▶ Passing the Mines Ordinance- significant step in revival of stagnated mining sector in the country

Inflation: Structural Shift. Forecast = 5-5.5%, More Space for Monetary Easing

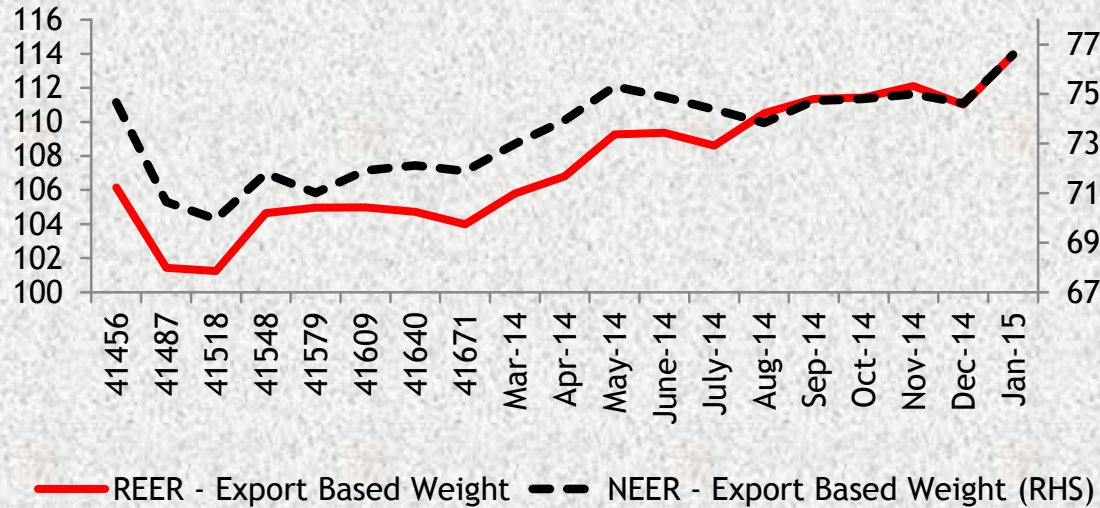


Growth Forecast: 8.1-8.5 % for 2015-16. Balance of evidence shows India is recovering robustly not surging

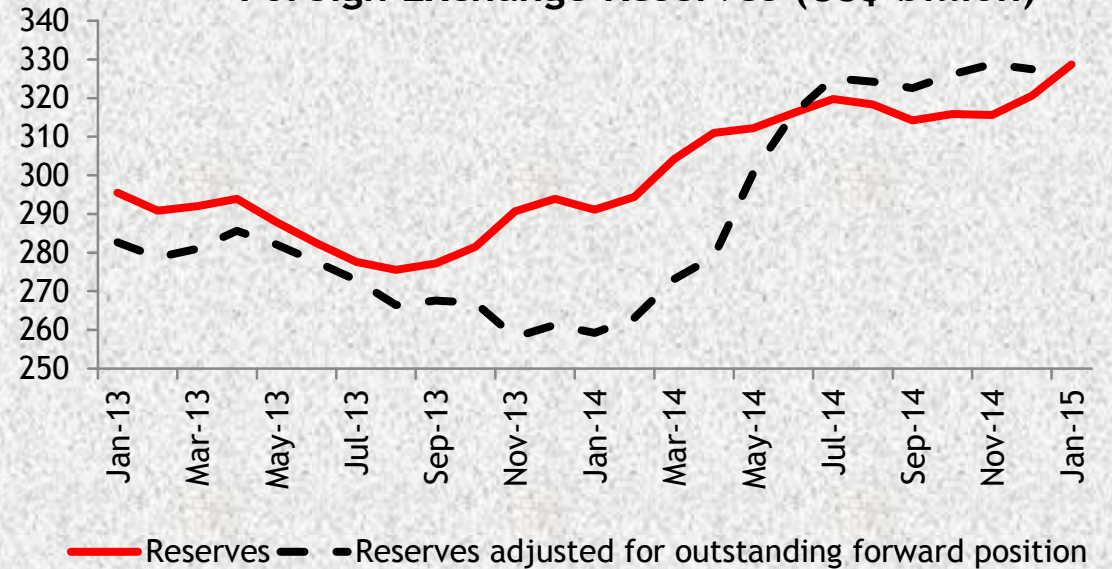


External Sector: Improved Current Account Deficit. Surfeit not Scarcity of Inflows may be Challenge?

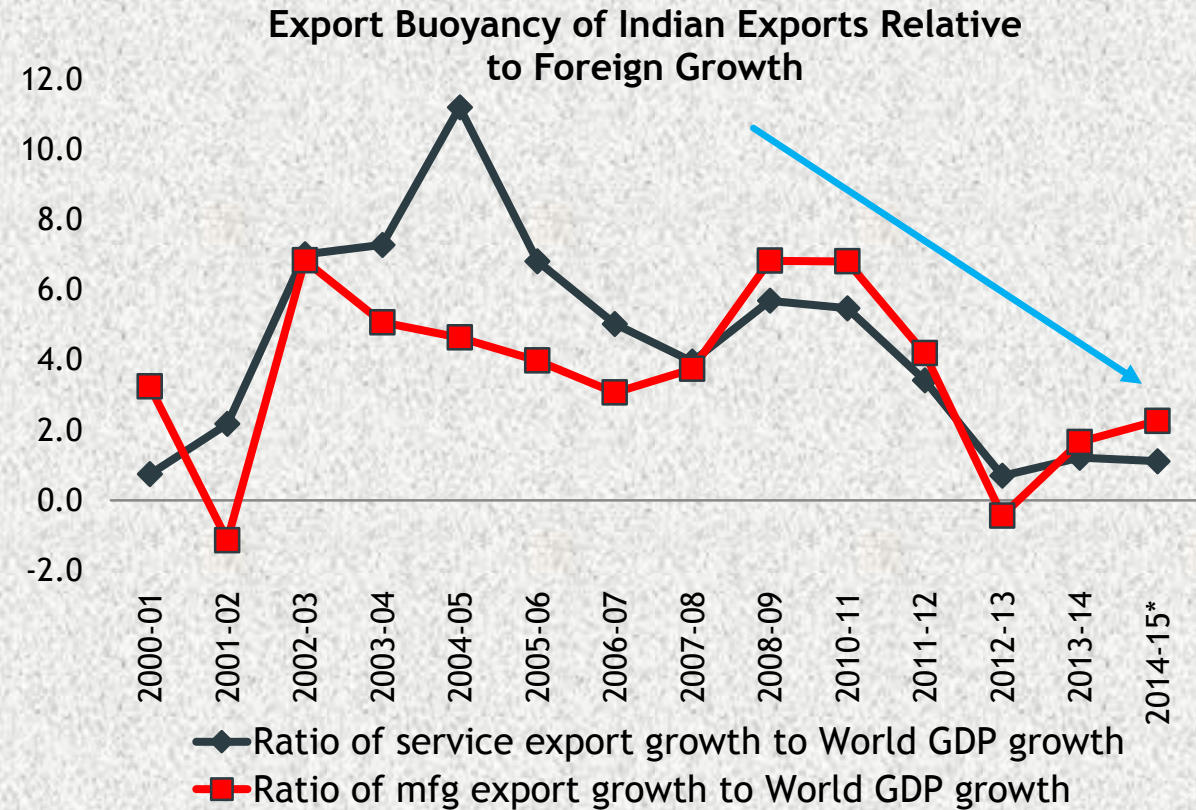
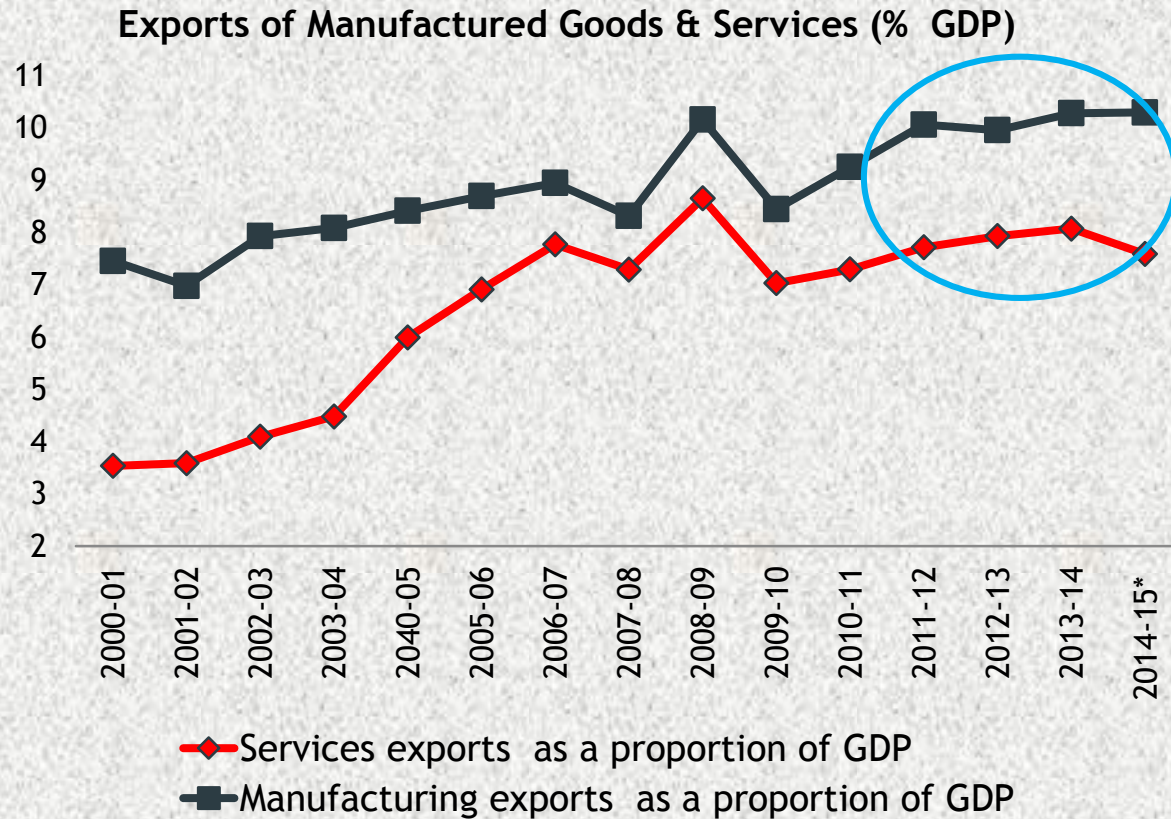
Nominal and Real Effective Exchange Rates-
Export-Based Indices



Foreign Exchange Reserves (US\$ billion)

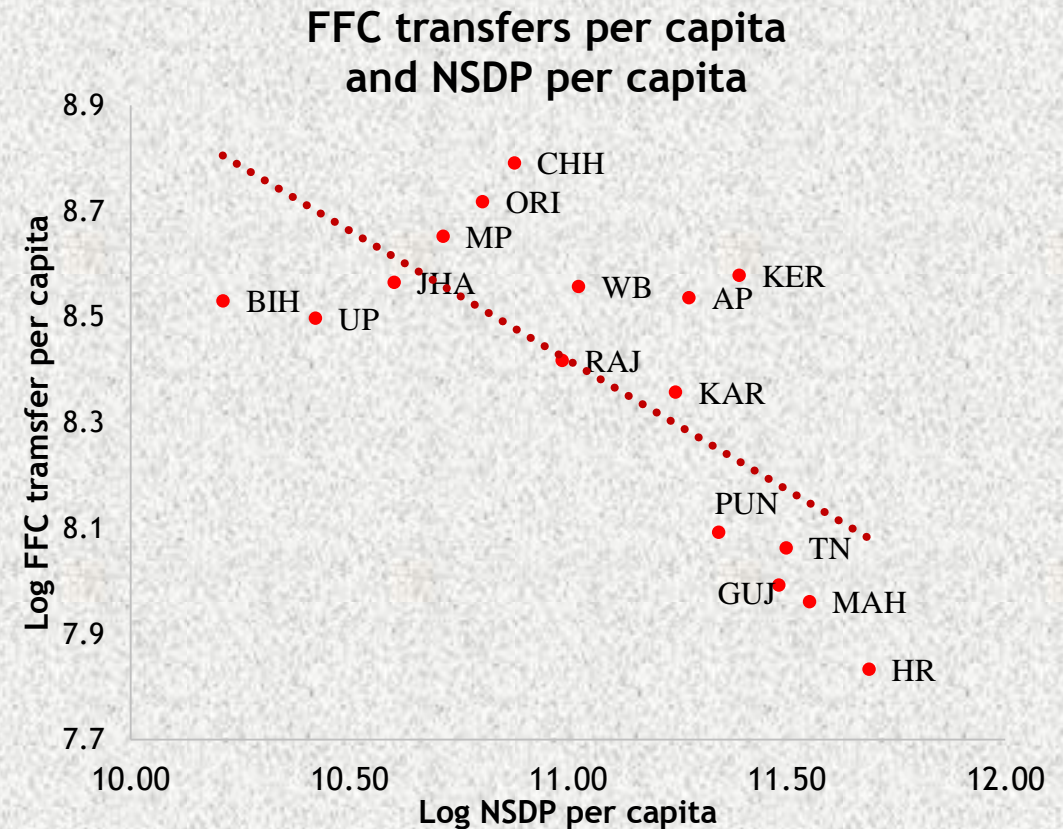


The Trade Challenge: Stagnating Exports, Deteriorating External Trade Environment



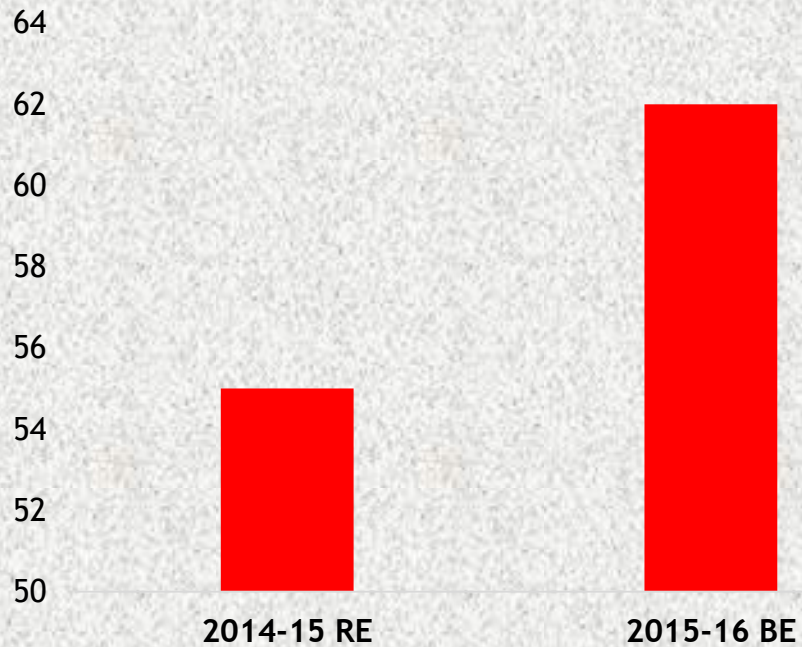
The Fourteenth Finance Commission: Watershed for Federalism and Public Finances

Transfers: Tax, Non-Plan and Plan (as % of divisible pool)			
	Average (last 3 years)	2014-15 RE	2015-16 BE
States share from FC	37.6	38.1	49.2
Tax Devolution	32	32	42
Non-Plan grants	5.6	6.1	7.2
FC transfers + CAS (Plan transfers)	63.9	62.3	64.0



Cont...

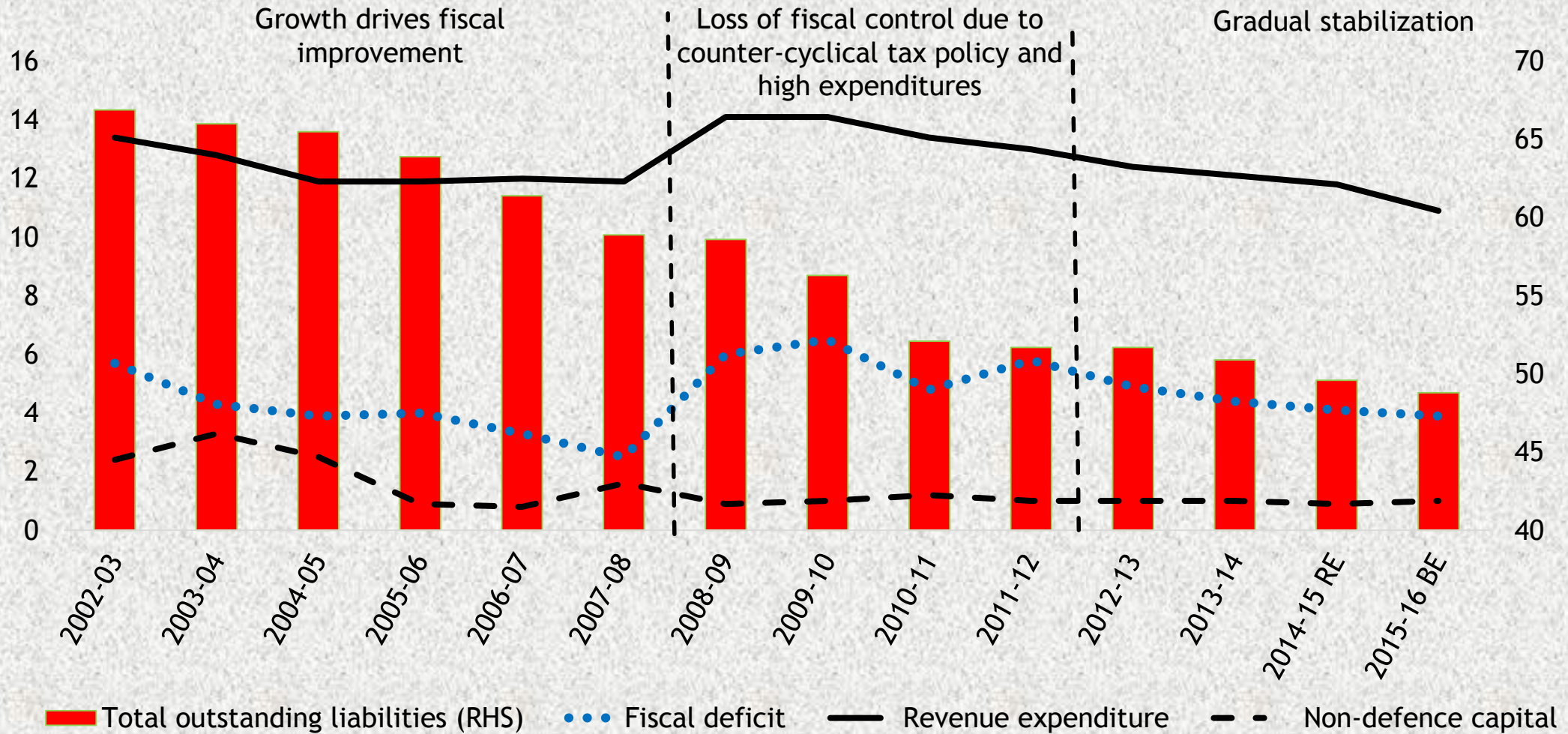
States' Share in National Taxes (%)



Fiscal Indicators of General Government (% of GDP)		
	2014-15 RE	2015-16 BE
Capital Expenditure	4.62	5.10
Revenue Deficit	2.86	2.43
Fiscal Deficit	6.86	6.48
RE= Revised Estimates; BE= Budget Estimates;		

Fiscal History Lessons: Control Expenditure, Improve its Quality

Recent Fiscal History, 2002-03 to 2014-15 (Percent of GDP)



The Fiscal Consolidation Path: Growth and Fiscal discipline are compatible

▶ Medium term

- ▶ Objective for Fiscal Deficit is 3%
- ▶ Move towards the golden rule
- ▶ Expenditure control and shift from revenue to capital expenditure
- ▶ Growth + GST will ensure medium-term targets are met

▶ Short-term

- ▶ Pressure for accelerated fiscal consolidation has lessened
- ▶ Ability conditioned by FFC recommendations
- ▶ Nonetheless, lessons of expenditure control and switch remain valid

▶ Broader implications

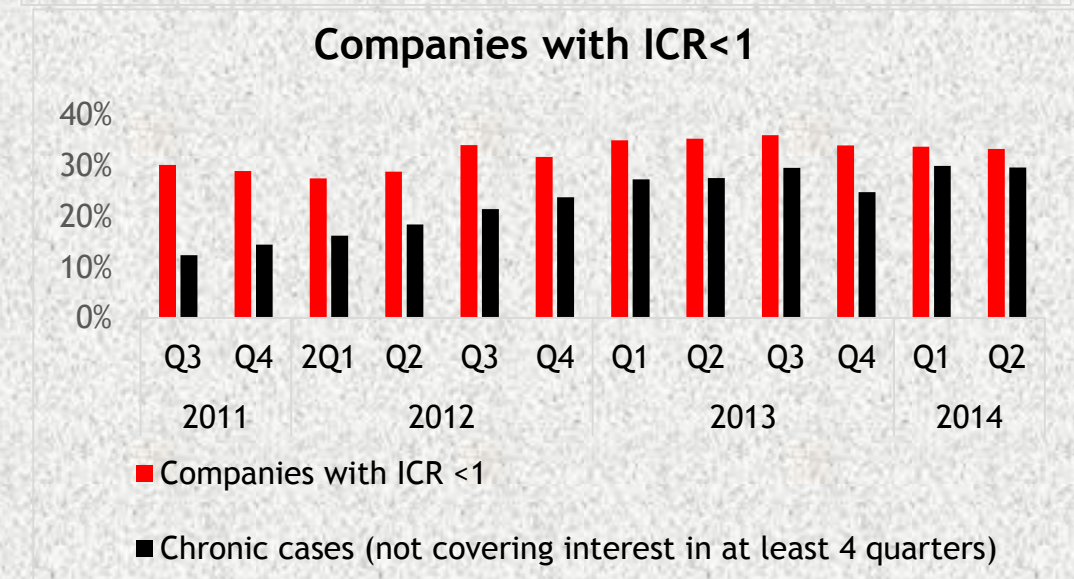
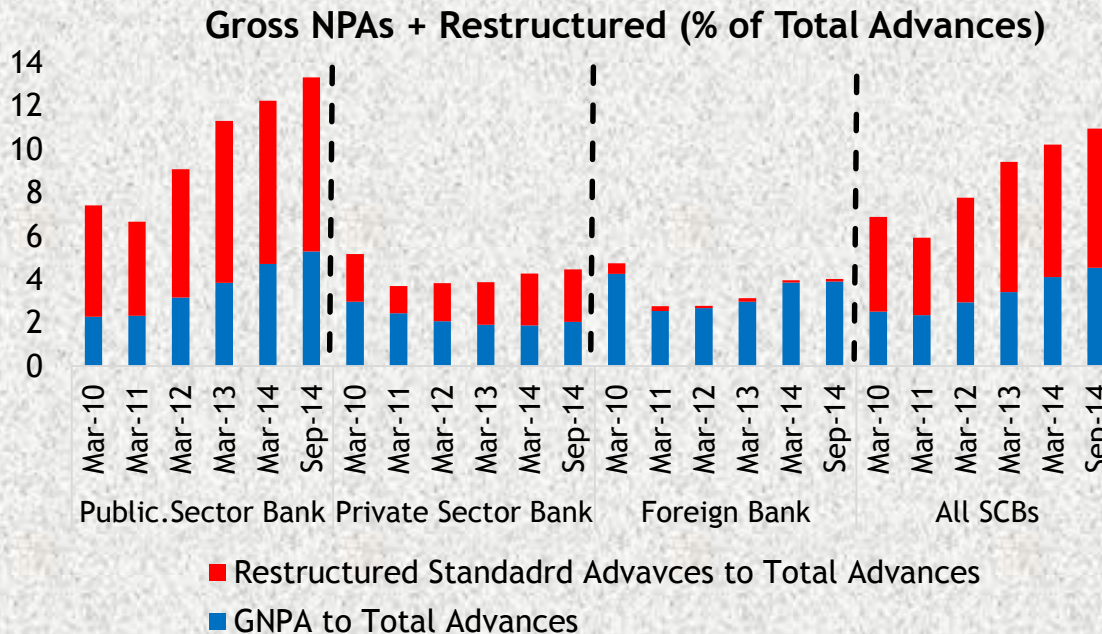
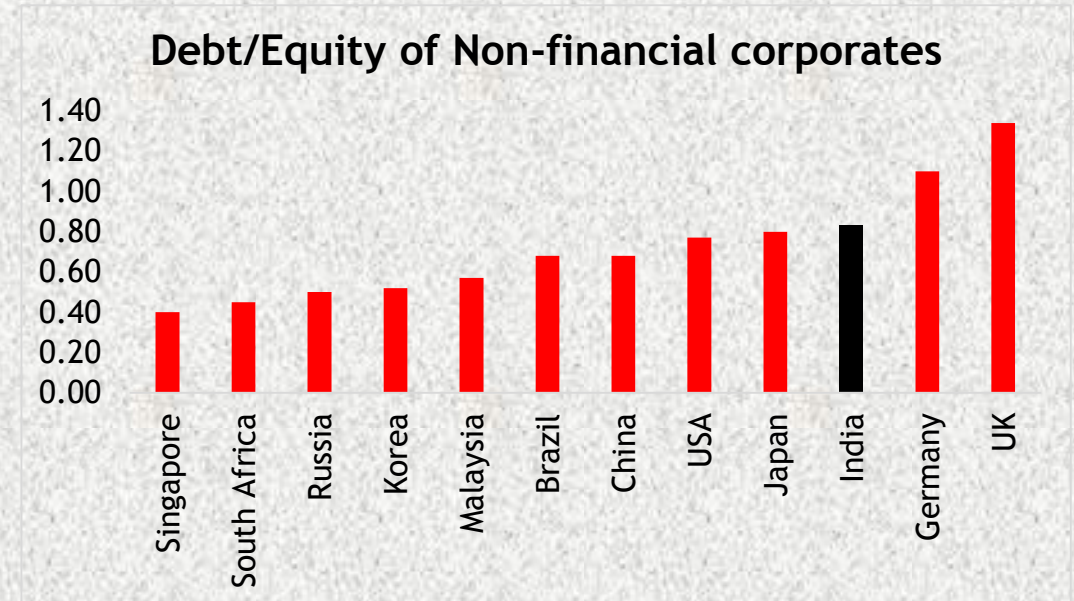
- ▶ In light of FFC, public finances must be assessed at consolidated (centre + states) level

Are Subsidies Helping the Poor? the JAM Number Trinity Solution

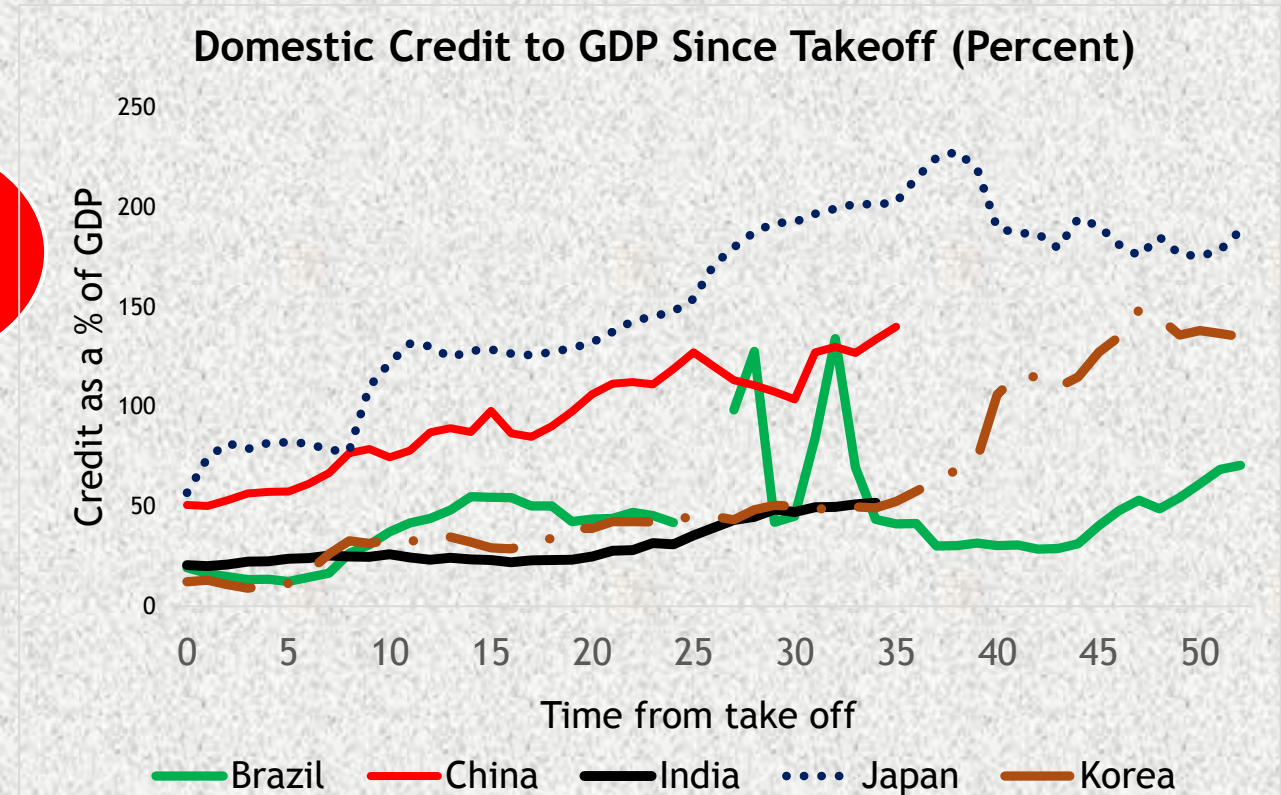
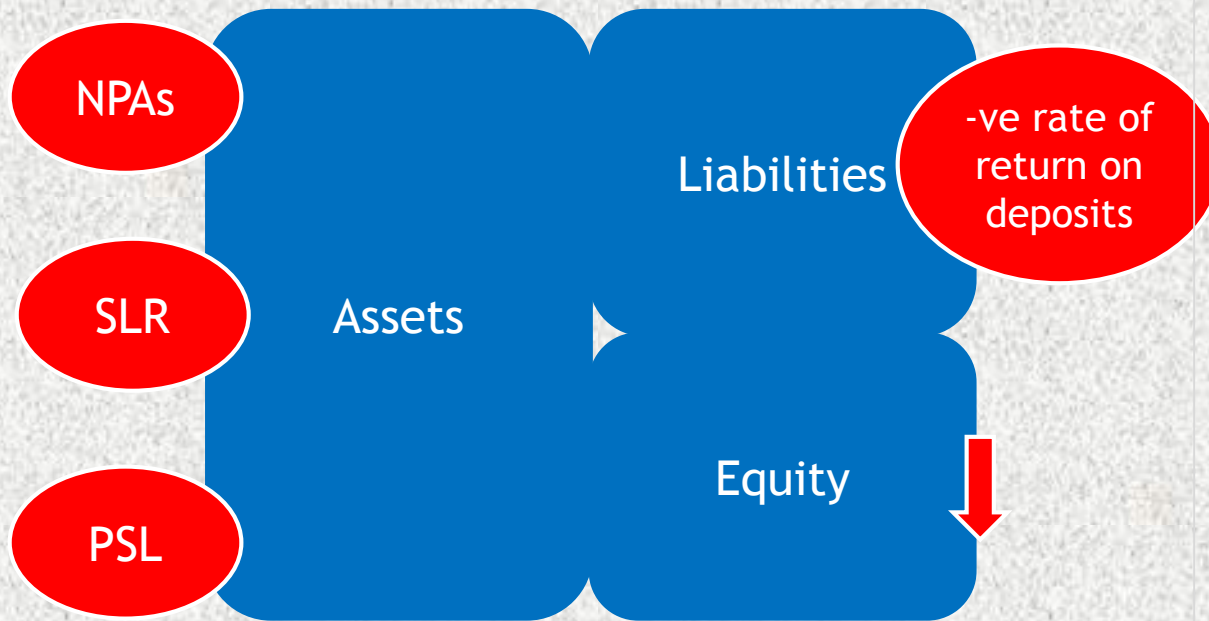
Product	Fiscal cost (Cr)	Cost (% of GDP)	What share of benefits accrue to the poor?
Railways	₹ 51,000	0.57%	Poorest 80% constitute 28.1% of total passenger throughfare
LPG	₹ 23,746	0.26%	Poorest 50% consume 25% of LPG
Kerosene	₹ 20,415	0.23%	41% of PDS kerosene allocation lost as leakage, BPL households consume 46% of remainder
Fertiliser	₹ 73,790	0.82%	Urea and P&K manufacturers derive most economic benefit
Rice (paddy)	₹ 129,000	1.14%	15% of PDS rice lost as leakage, poorest 30% consume 53% of remainder
Wheat			54% of PDS wheat lost as leakage, poorest 30% consume 56% of remainder
Electricity	₹ 32,300	0.36%	Poorest 20% consume 45 kWh/month, richest 20% consume 121 kWh/mth
Water	₹ 14,208	0.50%	Most water subsidies allocated to private taps, but most poor households get water from public taps
Sugar	₹ 33,000	0.37%	48% of PDS sugar lost as leakage. Poorest 30% consume 44% of remainder
Total	₹ 377,616	4.24%	

The Investment Challenge: Balance Sheet Syndrome with Indian Characteristics Holds Back Private Investment

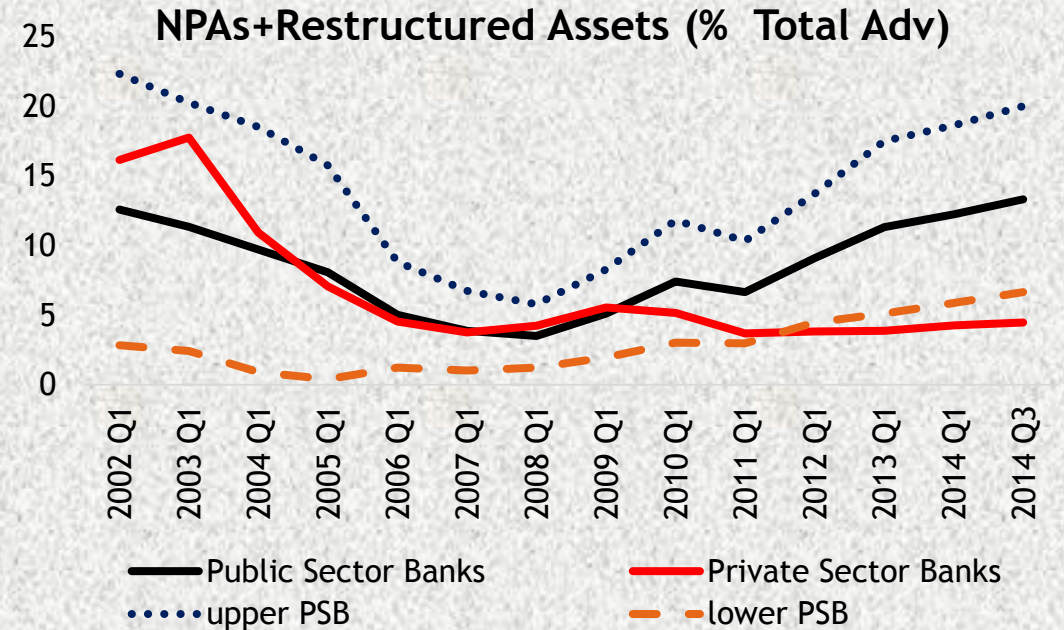
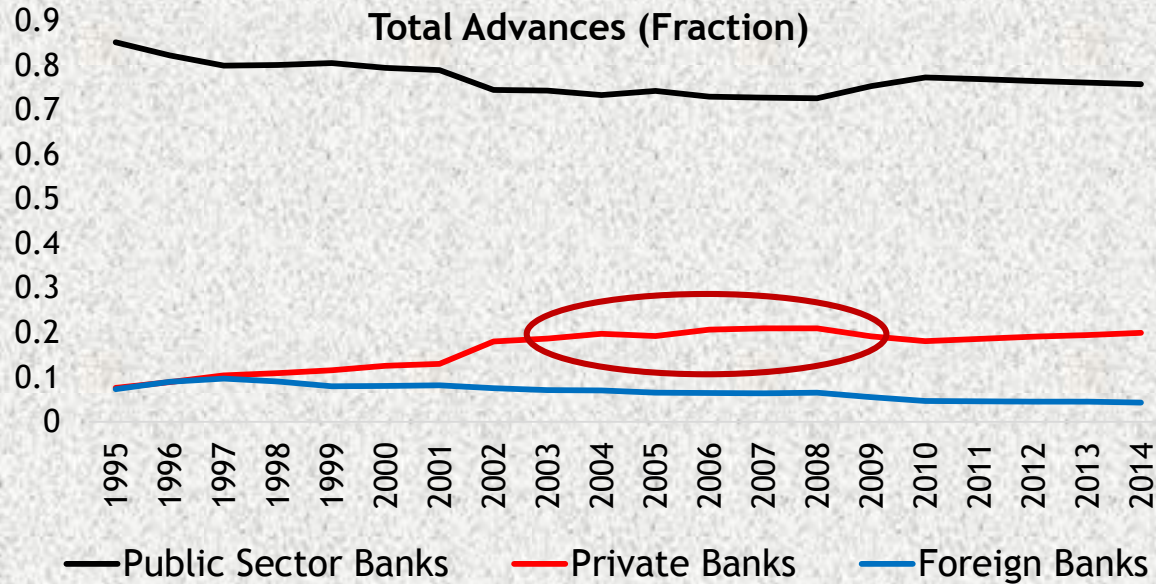
Stalled Projects (by value) as a fraction of GDP			
Year	Government	Private	Total
2011-12	2.0%	5.7%	7.7%
2012-13	1.9%	6.1%	8.9%
2013-14	1.8%	6.5%	8.3%
2014-15 (till Q3)	1.4%	5.5%	6.9%



Banking: Double Financial Repression and not so Imprudent Lending



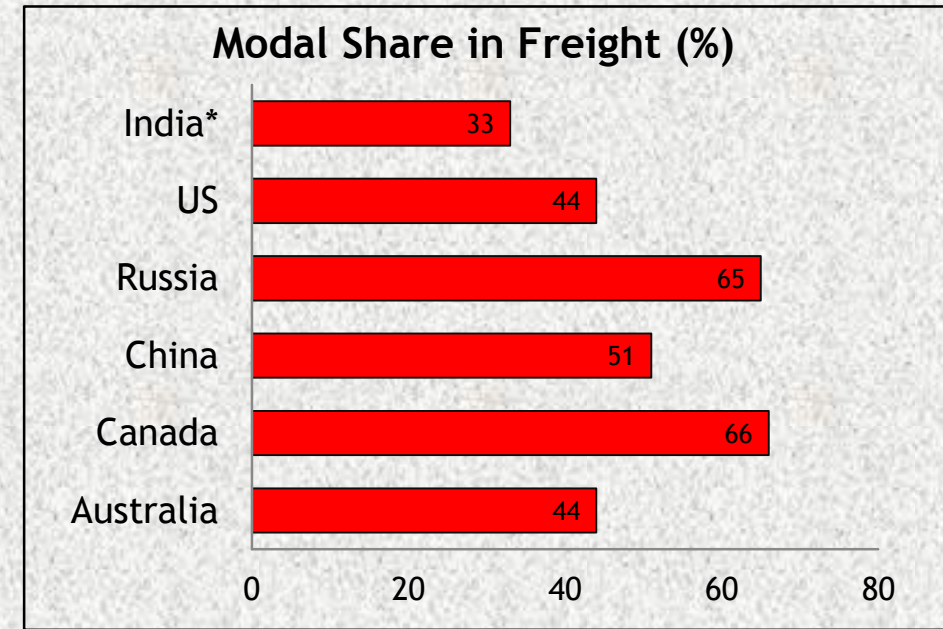
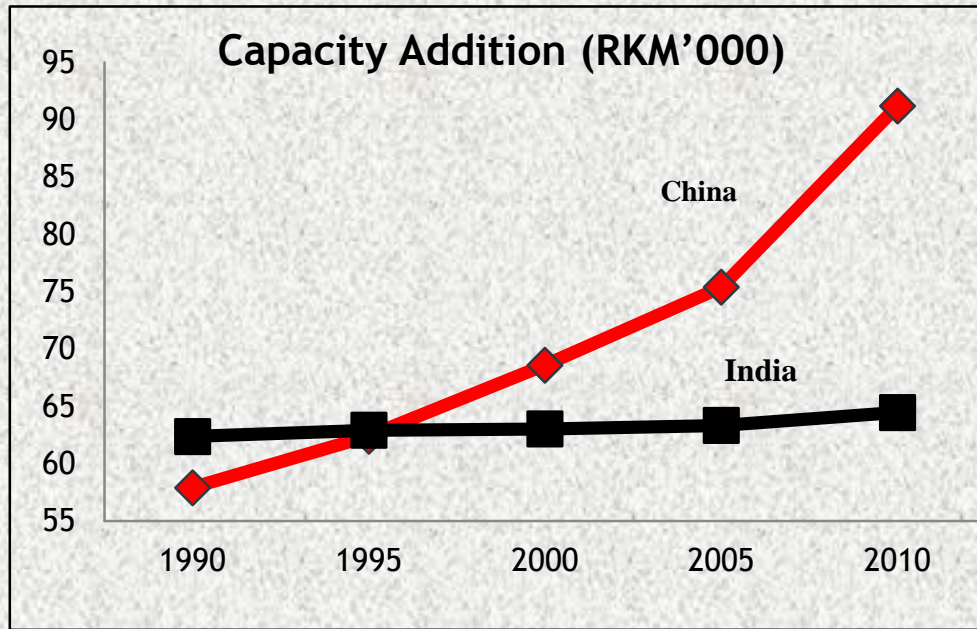
Banking: Stagnant (because impeded?) Private Banking and Heterogenous Public Sector Banks



► 4D's policy options:

- Deregulate (financial repression)
- Differentiate (between PSBs)
- Diversify (within banking and outside)
- Disinter (better exit procedures)

Public Investment: Railways for NDA-II Like Roads for NDA-I?



Passenger and Freight Yields in some Major Economies		
Country	Passenger Service Yield US Cents/Passenger-km adjusted for PPP (India=1)	Freight Yield US Cents/Total Tonne-km adjusted for PPP (India=1)
India	1.0	1.00
China	2.7	0.58
Russia	6.7	0.75

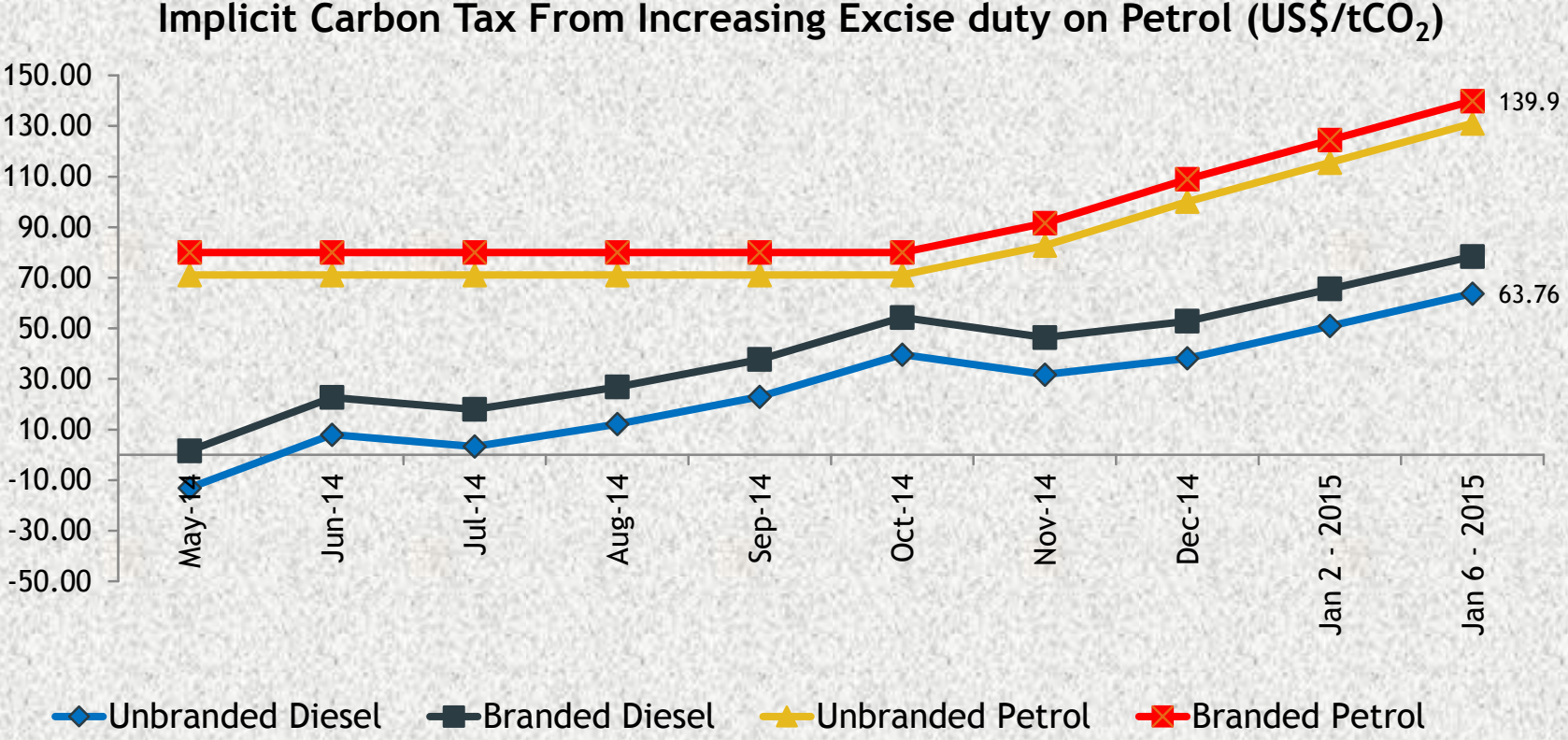
Skill India to complement Make in India

Feature	Registered Manufacturing	Trade, Hotels, & Restaurants	Transport, Storage & Communications	Financial Services and Insurance	Real Estate and Business Services, etc.	Construction
High productivity	Yes	No	Not really	Yes	Yes	No
Dynamism in Productivity within country	Yes	Yes	Yes	Yes	Yes	Yes
Dynamism in Productivity across countries	Yes, but not for India	No	No	Yes	Yes	Yes
Dynamic sector absorbs resources	No	Somewhat	Somewhat	No	Somewhat	Yes
Skill profile matches underlying endowments	Not really	Somewhat	Somewhat	No	No	Yes
Tradable	Yes	No	Somewhat	Yes	Somewhat	No

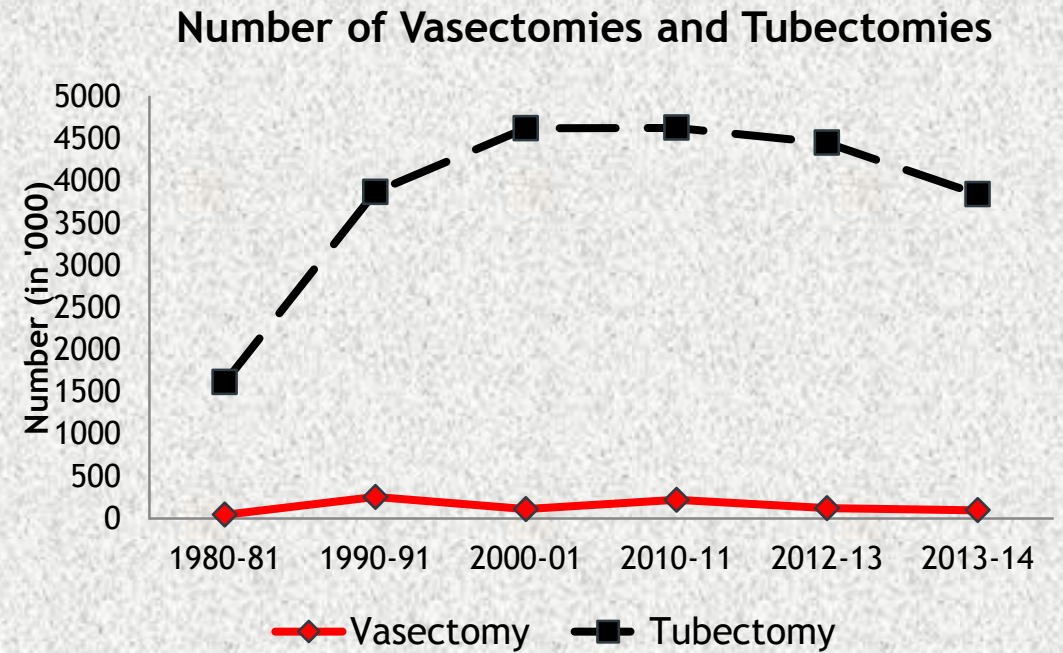
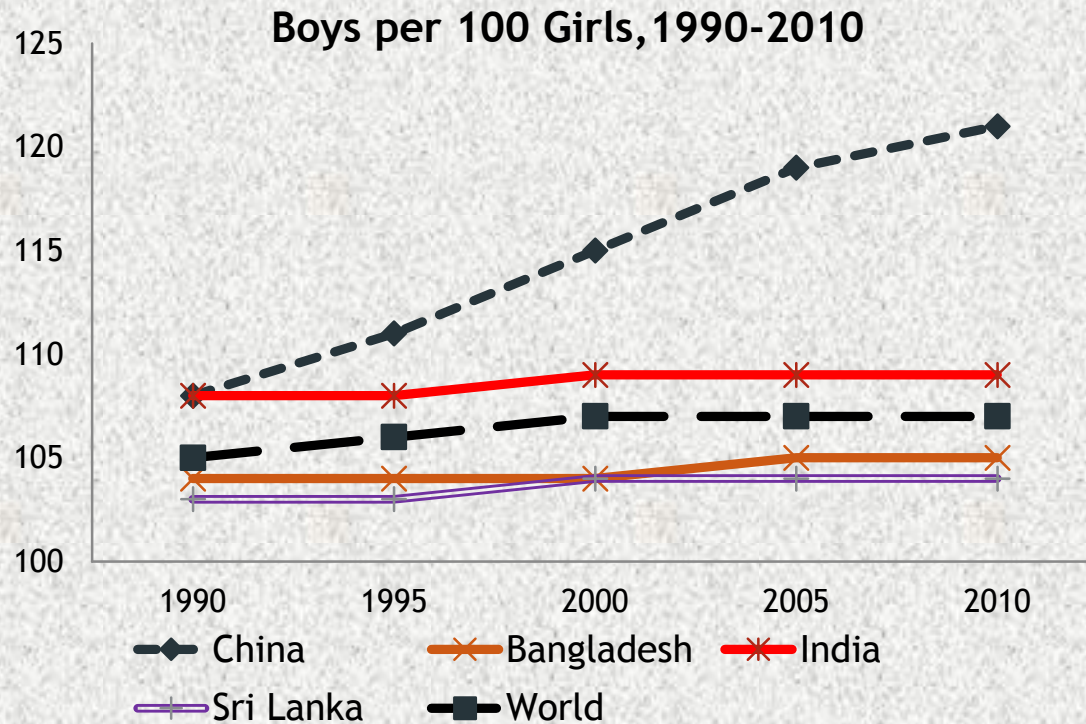
Agriculture: Not 1, not 29, but Thousands of Markets

		Taxes/levies/Interest Charges etc. (% of MSP) in KMS 2013-14	Price after tax over MSP (Rs.1310/qtl.)
1	Andhra Pradesh*	19.5	1565.45
2	Bihar	6.5	1395.15
3	Chhattisgarh**	9.7	1437.07
4	Gujarat	3.5	1355.85
5	Haryana	11.5	1460.65
6	Jharkhand	3.5	1355.85
7	Karnataka	4	1362.4
8	Madhya Pradesh	4.7	1371.57
9	Maharashtra	3.55	1356.51
10	Odisha***	15.5	1513.05
11	Punjab	14.5	1499.95
12	Rajasthan	3.6	1357.16
13	Uttar Pradesh	9	1427.9
14	Uttarakhand	9	1427.9
15	West Bengal	3	1349.3

Climate Change: Towards Green India

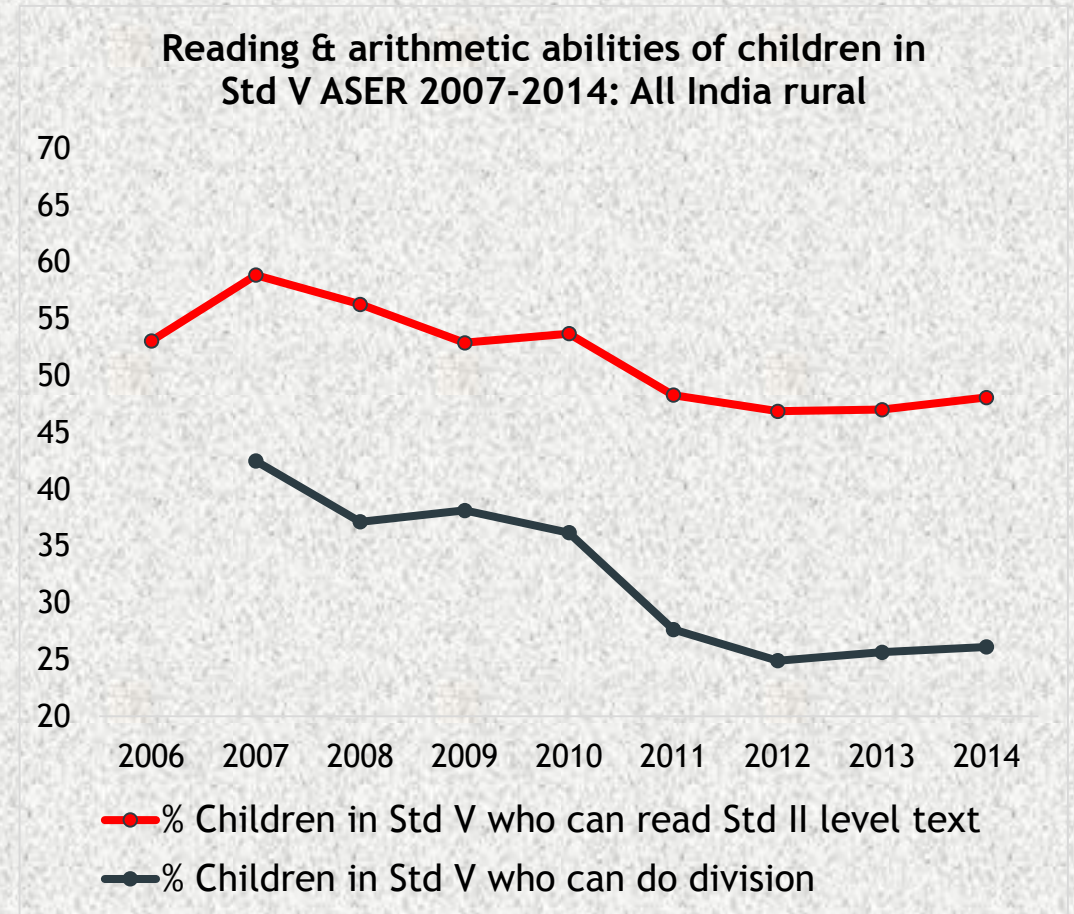


Naari Shakti: A stubbornly male India undermining reproductive autonomy of women



Annual Status of Education Report: Sobering Reading

- ▶ Main Findings of the survey:
 - ▶ 48% of Class V student can read Class II
 - ▶ Decline in arithmetic skills.
 - ▶ 22% schools have libraries.
 - ▶ Better provision of girls' toilets.
 - ▶ Rising private school enrolment.
 - ▶ Decline in teacher-student ratio.
 - ▶ Slight decline in actual attendance.
- ▶ A crisis of learning in primary education in India.



What are Big Bang Reforms?

- ▶ Post-war cross country evidence suggests that Big Bang reforms occur during or in the aftermath of a major crisis
- ▶ Big Bang reforms in robust democracies with multiple actors & institutions with the power to do, undo & block are exceptions rather than rule
- ▶ With a bold policy shift in areas under government control, plus “a persistent, encompassing, and creative incrementalism” in other areas can cumulate to a Bang

Thank You!

- ▶ Paraphrasing Herbert Simon: In a world full of information the greatest scarcity is the scarcity of attention. Sorry for aggravating this problem but seek your indulgence and attention.
- ▶ Look forward to your comments and suggestions.

Chapters

Volume 1

1. Economic Outlook
2. Fiscal Framework
3. Subsidies and JAM
4. Investment Climate
5. Banking and Credit
6. Public Investment
7. Make in India
8. Market for Agriculture
9. Climate Change
10. FFC

Volume 2

1. State of the Economy
2. Public Finance
3. Monetary Management & Intermediation
4. External Sector
5. Prices, Agriculture & Food Management
6. Industrial, Corporate and Infra
7. Services Sector
8. Climate Change & Sustainable Dev.
9. Social Infra, Employment & Human Dev.

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