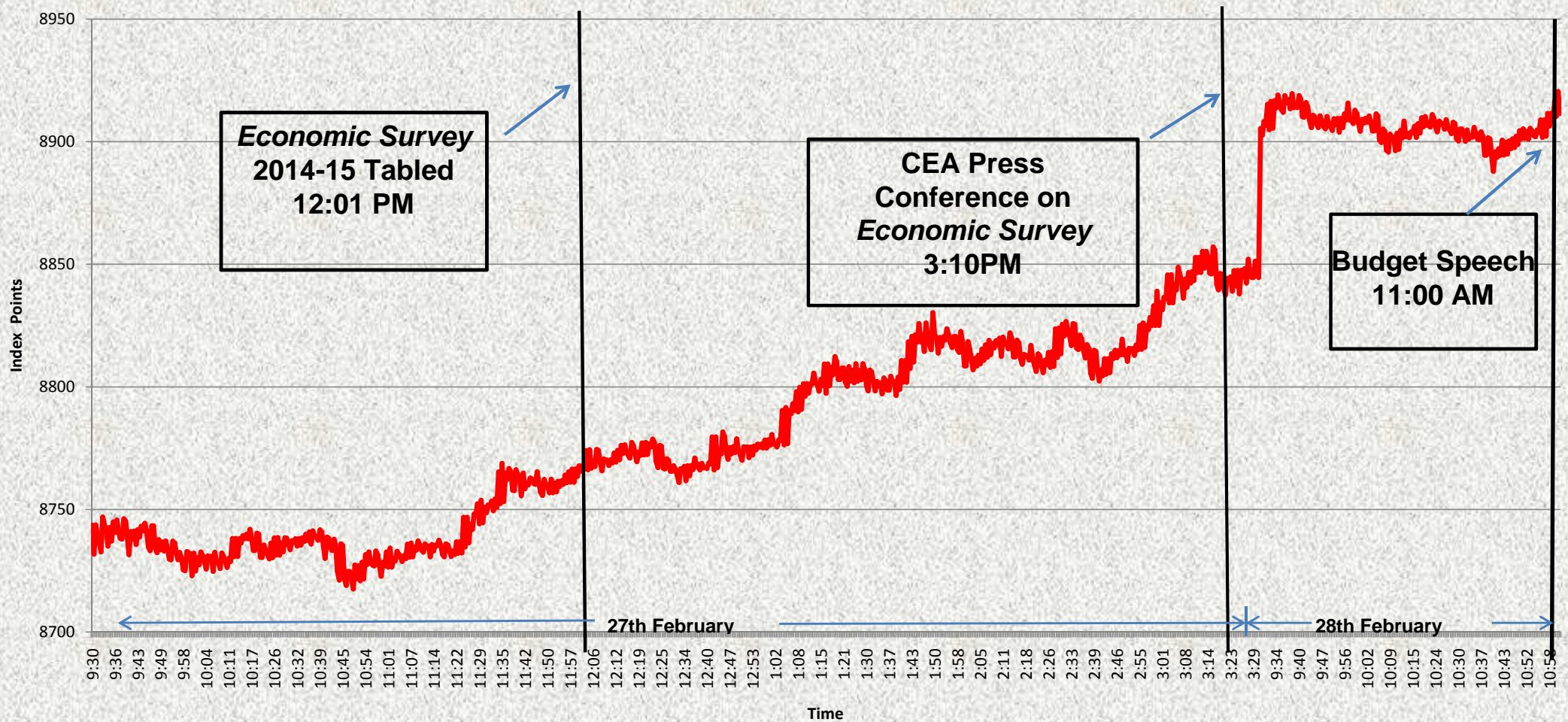


The Economic Survey of India, 2014-15

Centre for Development Studies, Thiruvananthapuram

May 9, 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?

What are Big Bang Reforms?

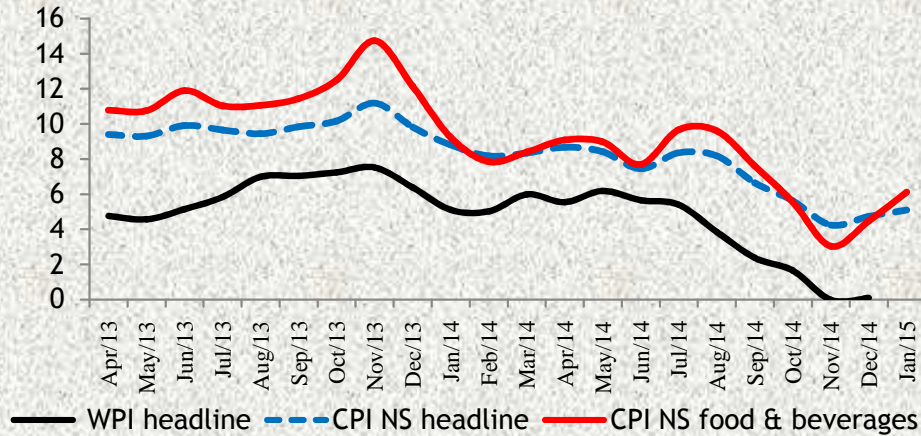
- ▶ Post-war cross country evidence suggests that Big Bang reforms occur during or in the aftermath of a major crisis
- ▶ Big Bang reforms in robust democracies with multiple actors & institutions with the power to do, undo & block are exceptions rather than rule
- ▶ With a bold policy shift in areas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

Policies for Double-Digit Growth

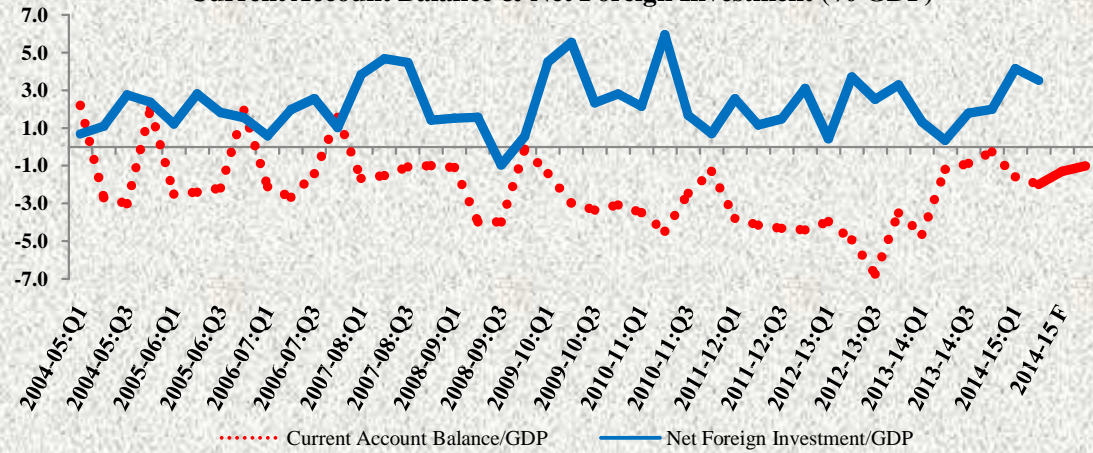
- ▶ Macroeconomic Stability
- ▶ Fiscal Federalism and Consolidation
- ▶ Targeted Subsidies: the Jan-Dhan, Aadhaar, Mobile (JAM) Solution
- ▶ Private Investment?
- ▶ Public Investment: Railways
- ▶ Sound and Effective Banking
- ▶ Skill India to complement Make in India
- ▶ Creating a Single Agricultural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

Macroeconomic Outlook: Dramatic Improvement in Macroeconomic Stability

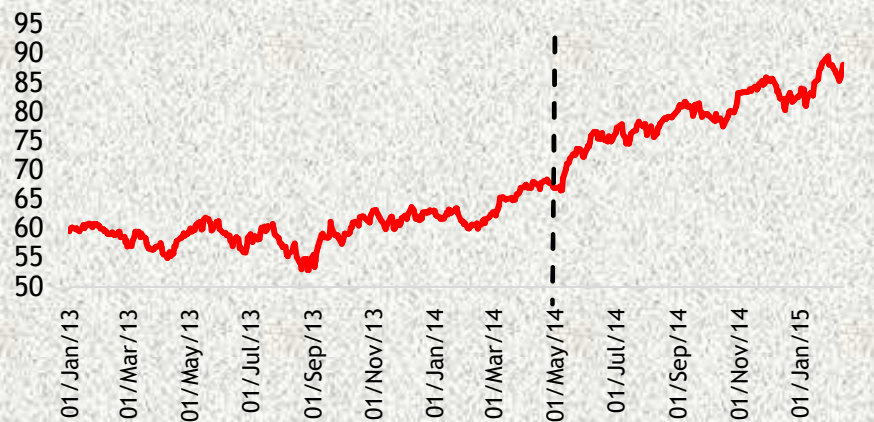
WPI and CPI Inflation (%)



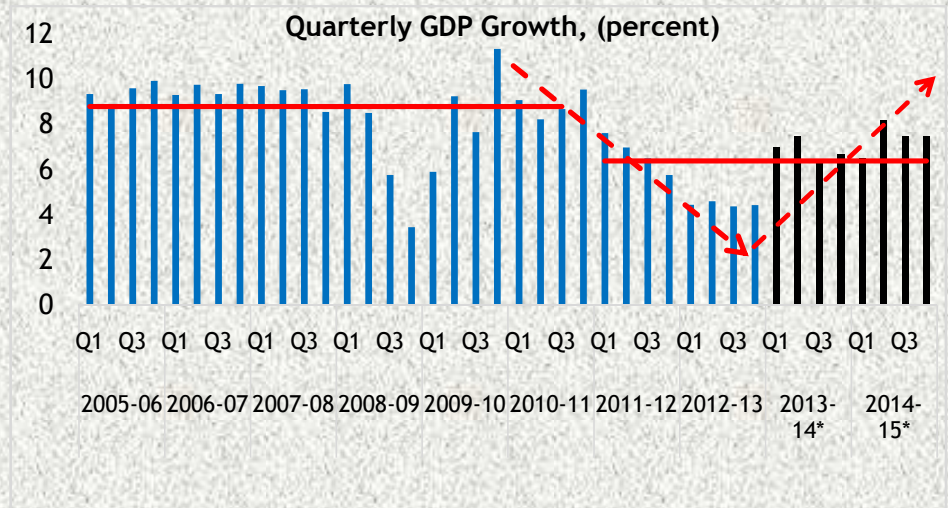
Current Account Balance & Net Foreign Investment (% GDP)



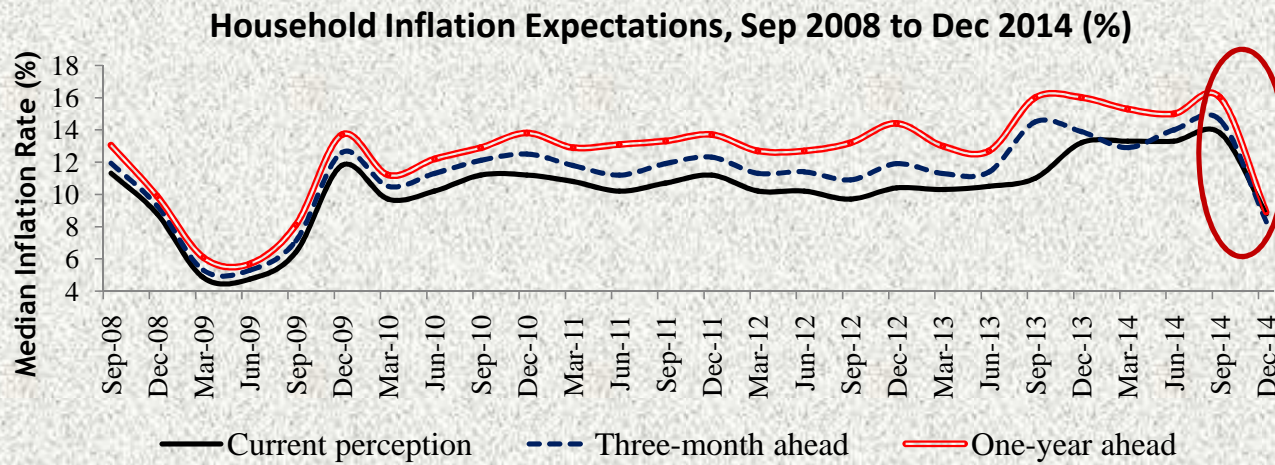
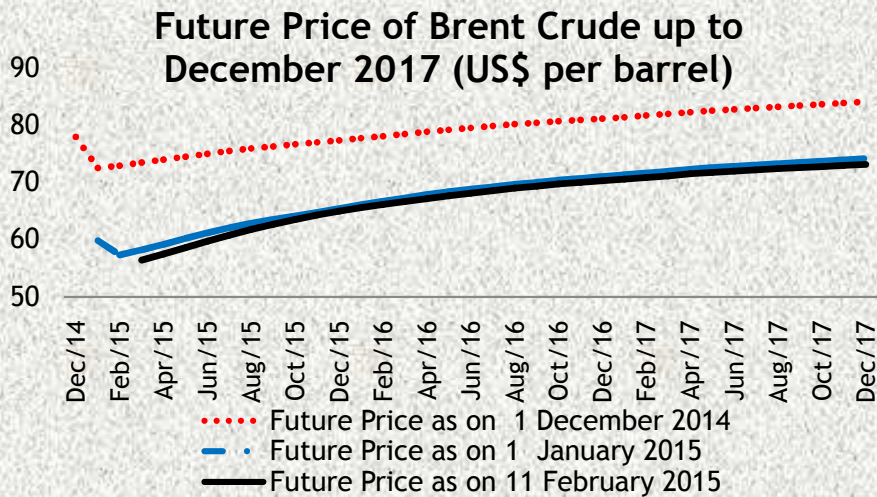
Daily Stock Prices (Nifty Index), factor of 100



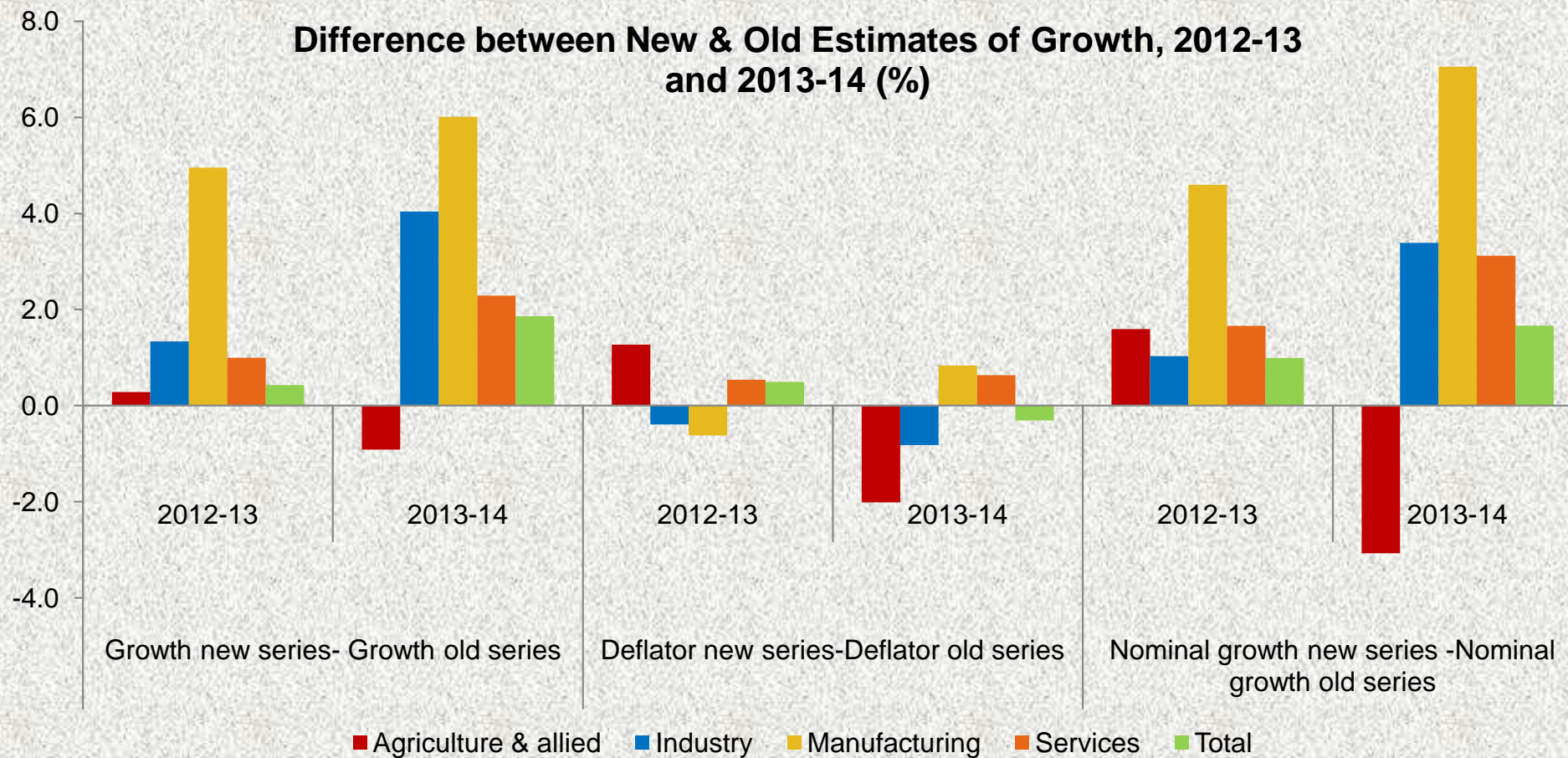
Quarterly GDP Growth, (percent)



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

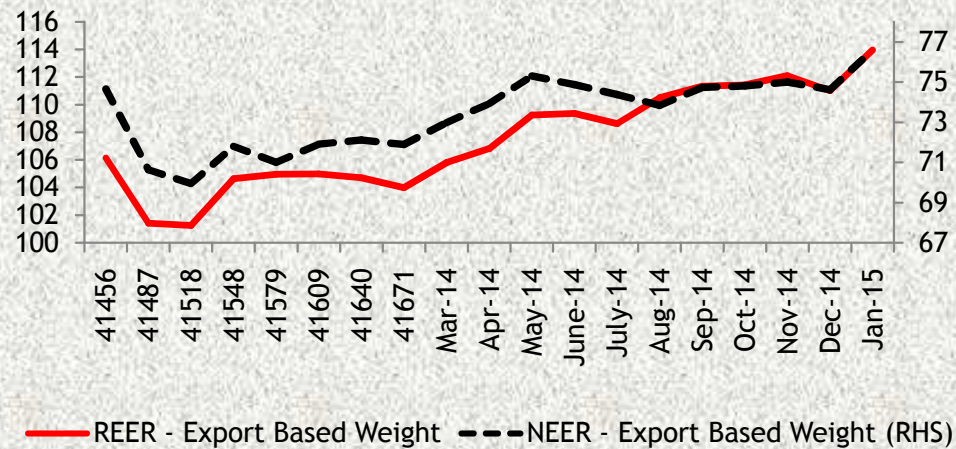


Growth Forecast: 8.1-8.5 % for 2015-16. Balance of evidence shows India is recovering robustly not surging

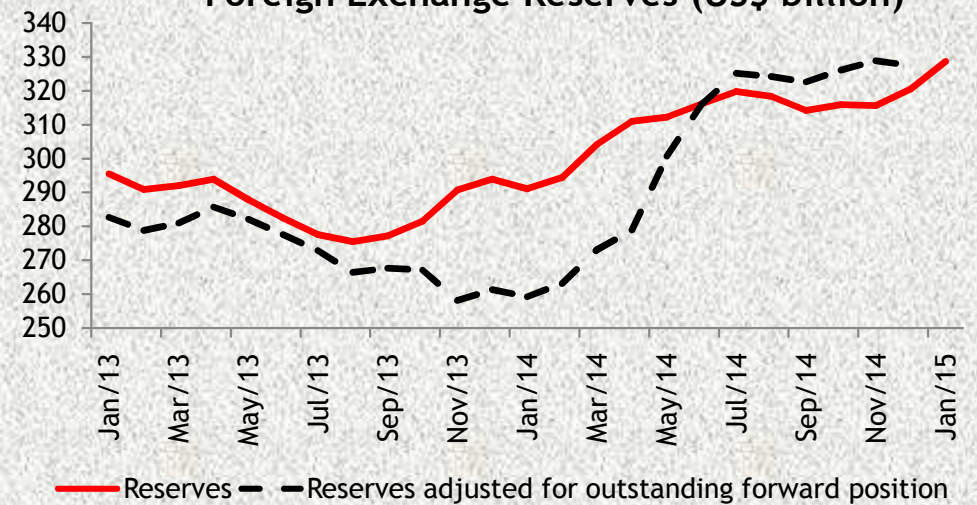


External Sector: Improved Current Account Deficit. Surfeit not Scarcity of Inflows may be Challenge?

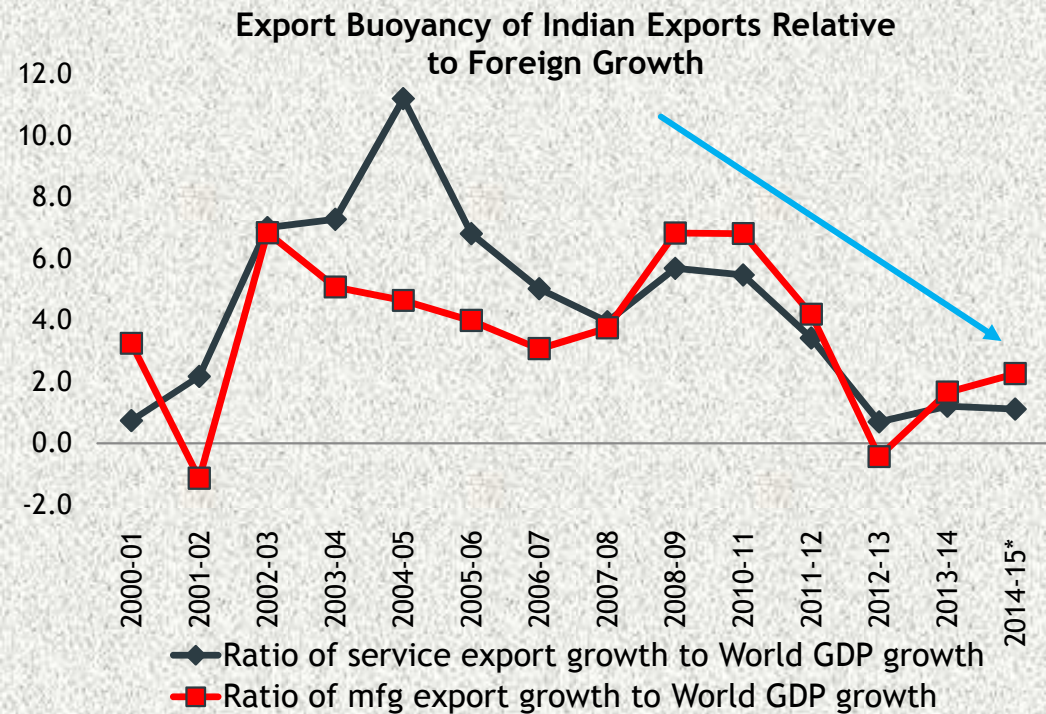
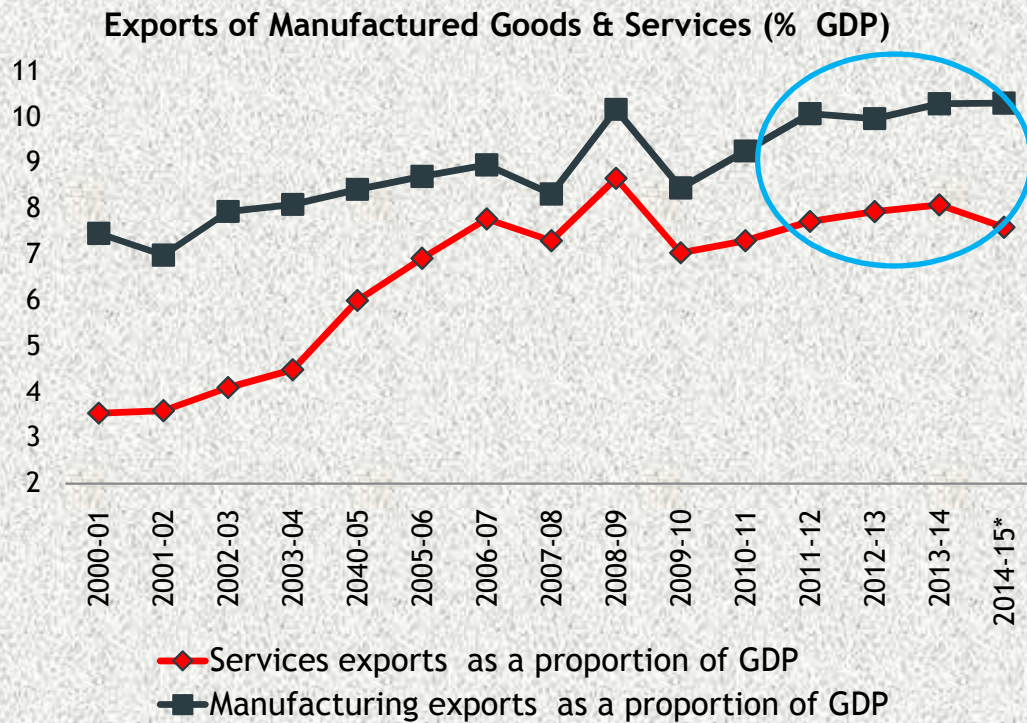
Nominal and Real Effective Exchange Rates-
Export-Based Indices



Foreign Exchange Reserves (US\$ billion)

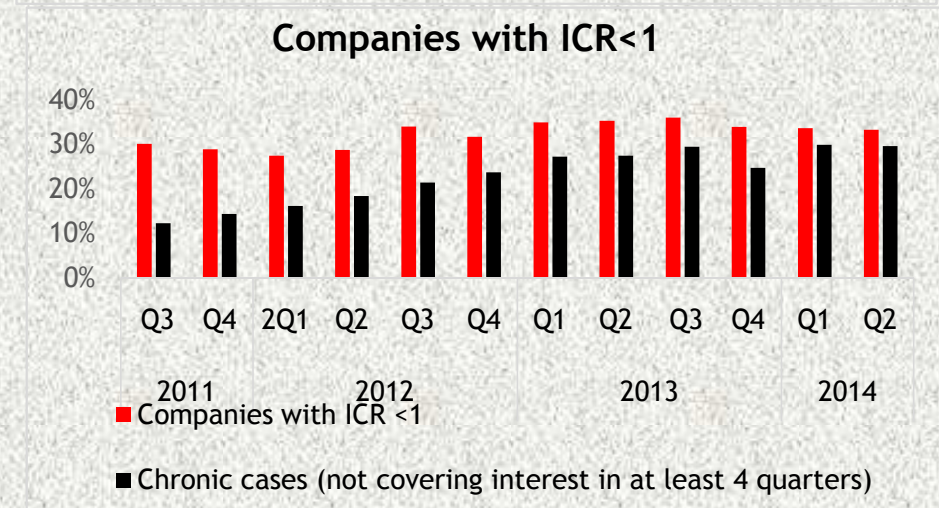
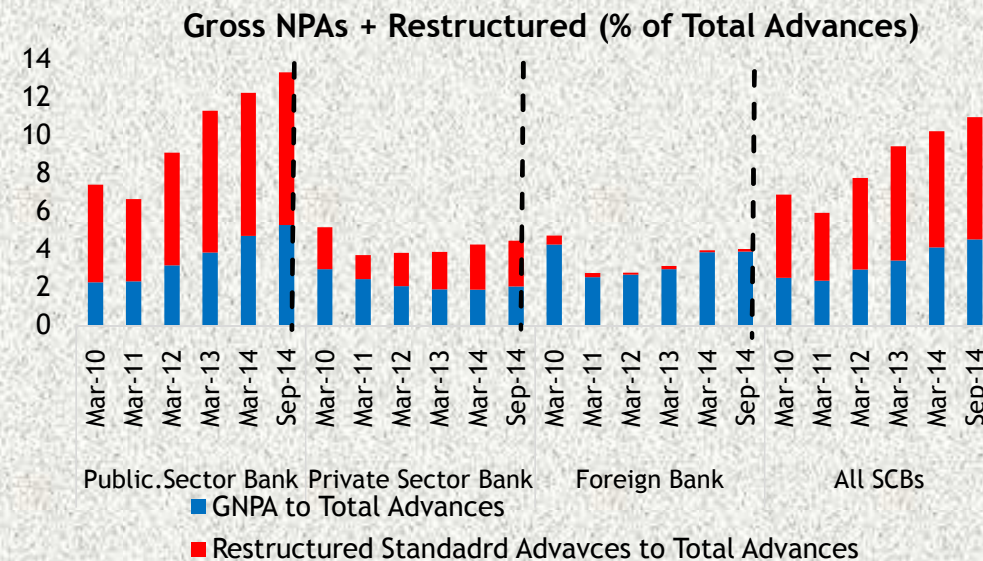
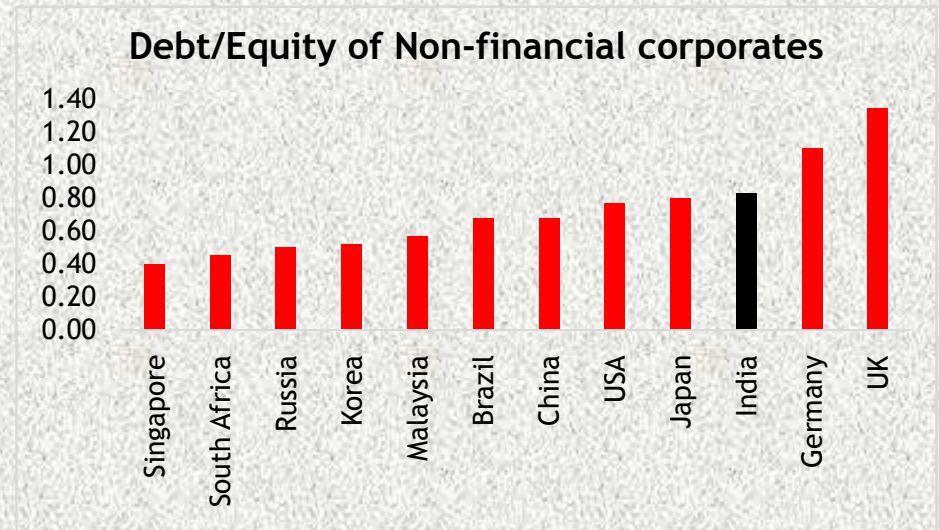


The Trade Challenge: Stagnating Exports, Deteriorating External Trade Environment



The 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%



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

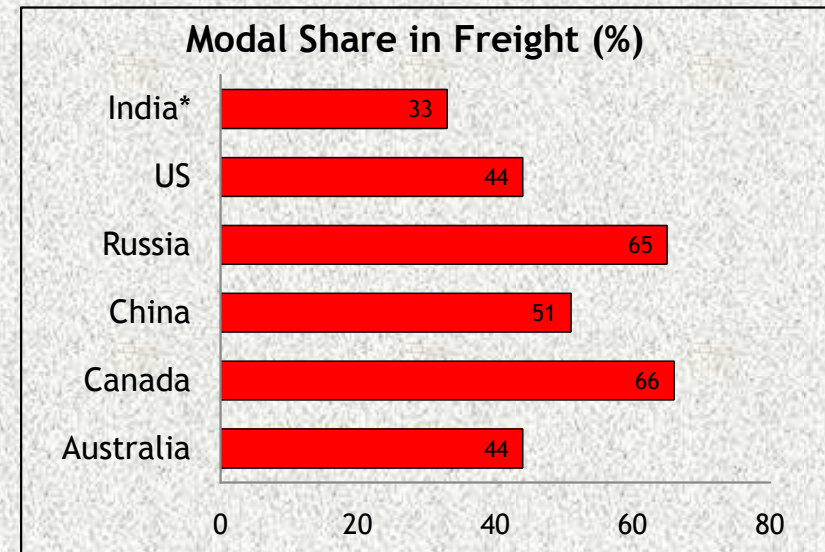
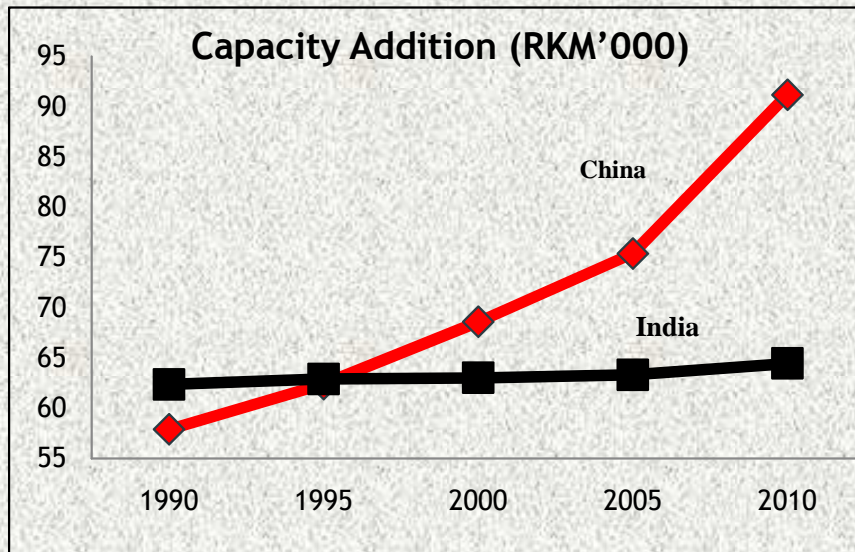


Table 1: Railways Efficiency Indicators: The case of coal in India and China

	India	China	Ratio (India/China)
1. Capacity (ton/hour)	67	182	0.37
2. Cost (\$/ton) in PPP terms	40.89	19.23	2.13

Source: Economic Survey 2014-15.

The Fiscal Consolidation Path: Growth and Fiscal discipline are compatible: Why 3.9% not 3.6%

- ▶ Macro-economic environment very different
- ▶ India still recovering, so why follow pro-cyclical fiscal policy
- ▶ Need space for public investment
- ▶ FFC shrank the resource envelope for Center
- ▶ Finally, the fiscal indicators look much better from a consolidated perspective

Consolidated Budget 2015-16: Assessment

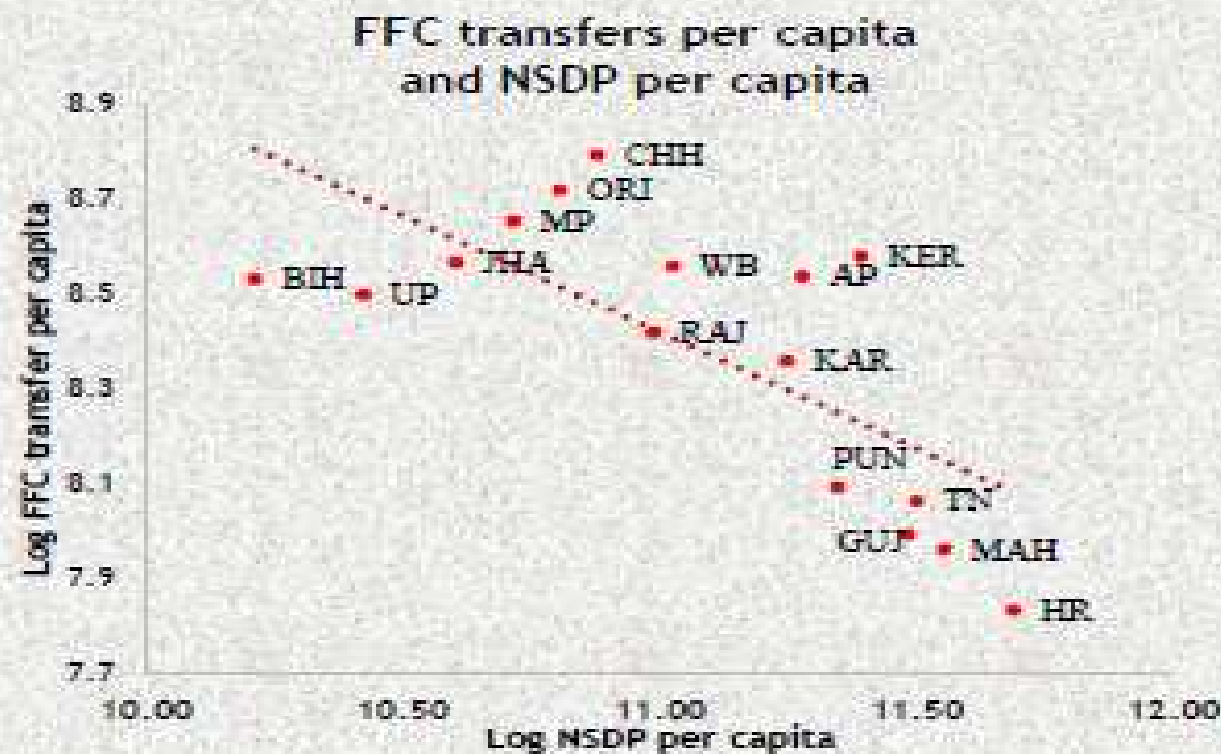
Three criteria to assess budget: Magnitude of consolidation, quality of consolidation, and growth boost via public investment

Fiscal Indicators of General Government (% of GDP)		
	2014-15 RE	2015-16 BE
Fiscal Deficit	6.9	6.5
Revenue Deficit	2.9	2.4
Capital Expenditure	4.6	5.1
RE= Revised Estimates; BE= Budget Estimates;		

Cooperative Federalism and FFC

► Federalism: India's Future

► Cooperative: Example of GST



Competitive Federalism and FFC

- ▶ Competitive Federalism: The Agent of change and dynamism
- ▶ How? States as “Models” and “Magnets”
 - ▶ Gujarat and Nano
 - ▶ Andhra Pradesh and e-governance
 - ▶ Rajasthan labour laws
 - ▶ Mamata Banerjee
- ▶ Democratic politics is facilitating competitive federalism

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%	

Thank You!

