Expert Speak: Economic Survey is pragmatic in approach, optimistic on outlook

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Economic Survey for 2021-22 (FY22) again prepared under the shadow of Covid pandemic (third wave) marks a deviation from the past surveys in many ways. First, it has shifted from the two-volume format of recent years to a single volume to make it less unwieldy and to establish a logical link between the thematic and the sectoral chapters. Second, it explicitly accepts the reduced effectiveness of forecasting exercises under the conditions of extreme uncertainty. Third, it offers a strong justification of Indian government's "agile" response to the pandemic shock, which is different from the traditional "waterfall" approach. While the waterfall approach requires detailed planning and meticulous implementation, the agile approach is based on feed-back loops, real time monitoring of actual outcomes, and flexible responses. And this is facilitated by rich availability of high frequency activity indicators — both on the public platforms and generated by the private sector. To name a few, such information includes GST collections, digital payments, satellite photographs, electricity production, cargo movements, internal/external trade, infrastructure roll-out, mobility indicators, delivery of various schemes, etc.

According to the Survey, this approach has helped in shaping the short-term policy responses of the government in a more pragmatic way.

The Survey appears to be sanguine in its macro-economic assessment. It expects Indian economy to grow in real terms by 8.0-8.5% in FY23, led by widespread vaccine coverage, gains from supply-side reforms & easing of regulations (like deregulation of many sectors, simplification of processes, removal of retrospective taxation, production-linked incentives, privatisation, etc.), robust export growth and availability of fiscal space to ramp up capital spending. The Survey's expectation is an average of what World Bank (at 8.7%) and Asian Development Bank (at 7.5%) are expecting for India's growth in FY23.

But the assumptions on which the Survey's FY23 growth expectation is based are highly restrictive. The survey assumes that: (1) there will be no further debilitating pandemic related economic disruption (when scientists are warning that the virus will definitely stay with us for the "foreseeable" future), (2) monsoon will be normal (when the frequency of extreme rainfall events has significantly increased due to climate change/global warming), (3) withdrawal of global liquidity by major central banks will be broadly orderly (when problems for emerging markets like India will be compounded due to elevated inflation & very high public debt), (4) oil prices will be in the range of $70-$75 per barrel (when Brent crude is hovering near $90 per barrel currently) and (5) global supply chain disruptions will steadily ease over the course of the year (when the world is facing great deal of uncertainty over the future course of the virus and due to China's zero Covid policy).

According to the Survey, Indian agriculture has been the least impacted by the pandemic. While this holds true for the first wave of the pandemic, the same is not true after the second & the third wave. Moreover, agricultural & rural cash-flows are under severe stress due to the extreme rainfall events, delayed harvesting, relatively low levels of rural wages and mandi prices. Rural demand has slowed significantly compared to urban demand and this is getting reflected in the negative sales growth of tractors, two wheelers, etc. Even the large FMCG companies have started issuing caution on the slowdown in rural demand.

The survey sees scope for increased capex during FY23 to support growth. But the latest statistics shows that despite the central government's pushing central public sector enterprises (CPSEs) to frontload capex, these companies were able to spend only 63.3% of their annual capex target during the first nine months of FY22. Though there were some early signs of private investment recovery, the Omicron variant has again dented both consumer and investment sentiment.

Against the backdrop of India's two-speed recovery between organised & unorganized sectors, large & small companies, urban & rural regions, there is a strongly felt need for more granular economic data at the level of cities and districts to make the "agile" (or barbell) approach recommended by the Survey more effective. While the shift from "waterfall" to "agile" approach makes great sense during the present uncertain times, the paucity of high frequency indicators in India is a big hurdle in the way of introducing target policy measures and undertake a course correction more efficiently.

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