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Economic Survey 2019: This year's annual survey misses the point, says Rupa Rege Nitsure

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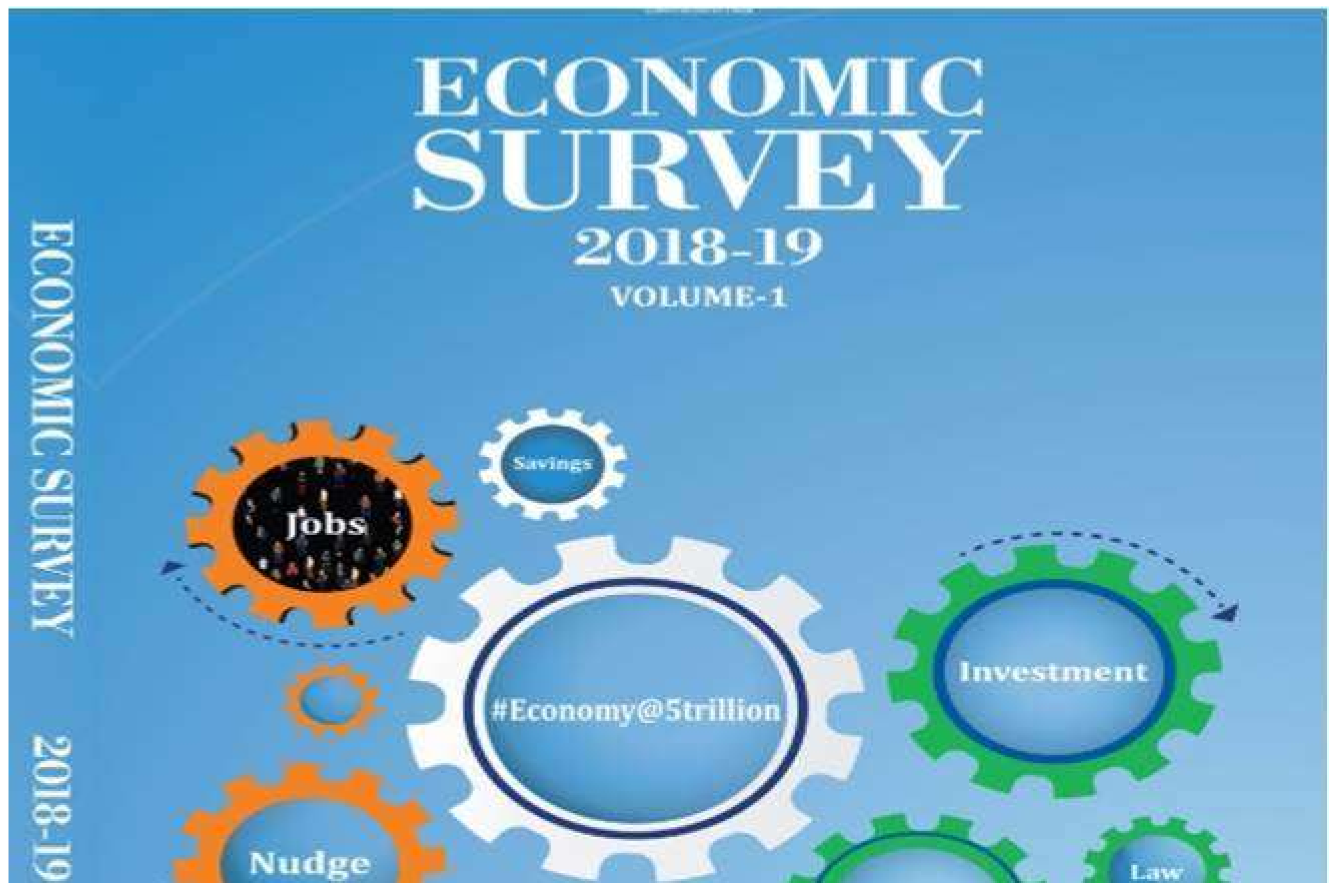

By Rupa Rege Nitsure

The annual Economic survey is a pathology report on the economy's health that is expected to be used by policymakers to determine a diagnosis or treatment plan for pressing economic troubles. An accurate diagnosis made in a timely manner offers the nation the best opportunity for positive health outcomes.

Critical public policy prescriptions such as resource allocation decisions or removal of economic barriers in specific sectors, determination of future policy priorities, etc., get influenced by this diagnostic information.

Key assessment of this year's Survey is that Indian economy has performed well in the past five years with average growth of 7.5%. However, to sustain such high growth rate going ahead, the Survey has identified "private investment" as the key driver based on the cross-country experience. If that is the case, it is not clear how India achieved 7.5% (average) in the past five years, when private investment growth (gross capital formation) significantly lagged public investment growth during this period. This means either this linkage is not correct or there is an overstatement of GDP growth.

The Survey asserts the government stood by its path of fiscal consolidation in FY19. But one sees a wide gap in fiscal consolidation as a result of extraordinary build-up in off-budgetary borrowings and liabilities that have masked the true fiscal deficit numbers.

During FY15 to FY19, the off-budgetary borrowings by top seven PSUs have more than tripled. When such humongous growth in the PSUs' off-budgetary borrowings is pushing up long-term yields and crowding out private investment, how can one expect "private investment" to revive and act as a growth driver for India?

The Survey tries to draw lessons from the East Asian miracle nations and advocates a growth model similar to theirs. In this context, it is necessary to remember that public policies in East Asian economies promoted investments by making banks more reliable and encouraging high levels of domestic savings. The challenge for India is that its savings rate has declined from near 37% in FY11 to 30.5% in FY18 and its major credit intermediaries — both banks (mainly state-owned banks) and NBFCs have slowed down significantly.

Rather than offering any concrete solutions as to how-to step-up savings (both public & private) and re-energise the credit intermediaries, the Survey has based its hopes on accommodative monetary policy for reviving private investments.

It says accommodative monetary policy should help in decreasing real lending rates, if the transmission mechanism improves. Since February, the RBI has eased monetary policy in a steady fashion but the effective lending rates of banks have not fallen beyond 5 to 10 bps and the spreads between government securities and corporate bonds remain elevated across various tenors due to a confluence of factors like very high credit risk premia, elevated market borrowings by PSUs, shortage of liquidity for NBFCs/HFCs, etc.

The Survey attributes slowdown in overall demand to the ongoing credit crunch in India's NBFC sector, which is not entirely true. A large part of demand slowdown has, in fact, originated from the rural and

agrarian belts, which suffered due to subdued prices of key food grains and near drought like conditions during FY19.

Finally, while the survey claims the political stability in the country should push the animal spirits of the economy, the economic wisdom has taught us that appropriate management of animal spirits requires the steady hand of regulators and the government. In the absence of such support, there is a heightened risk of a permanent reduction in the nation’s wealth.

(The writer is group chief economist at L&T Financial Services.)