Road to $5 Trillion Economy

AJSH & Co LLP
Mercurius Advisory Services

Contents

Introduction

India is one of the fastest growing major economies and is currently ranked as the world's fifth largest economy. India's commitment to fiscal discipline, sound external position, unprecedented foreign direct investment (FDI) inflows, comprehensive structural reforms, efficient delivery of services through the India stack and enhanced emphasis on social protection and financial inclusion have provided a robust framework for sustaining strong and inclusive growth going forward. India's performance in the Doing Business Ranking, Global Competitiveness Index, Logistics Performance Index and Global Innovation Index are all positive and encouraging.

There are several underlying strengths that are indicative of the latent potential of the economy. India is currently bestowed with a "youth bulge" – by 2020, the average age in India will be 29 years. India offers an expanding market with income levels and size of the middle class increasing. Investments in infrastructure are projected over the medium term to lead to better connectivity and reduced logistics costs for businesses. State Governments have been proactive in helping improve business environment. Digital technology has led to positive disruption in both governance and businesses.

According to the economic Survey, 2018-19 assumed an average real annual growth rate in gross domestic product (GDP) of 8 percent from 2020-21 to 2024-25. It also assumed an inflation rate of 4 percent. This implied a nominal growth rate of 12 percent. Further, it assumed an exchange rate of Rs 75 per dollar in March 2025.

Presently, India is the fifth largest economy in the world with GDP of around US$ 3 trillion in 2019-20. If the US$ 5 trillion target is translated into reality, the country will leave behind Germany to become world's fourth largest economy in 2024-25, only behind US, China and Japan.

India is projected to be the world's most populous country by 2025, with at least 145 crore (1.45 billion) people. Given the large geographic and demographic size of the country, the target is the minimum the people of India can aspire for.

When all was going well at the beginning of this year, the outbreak of coronavirus epidemic in China was reported. All countries of the world were alerted. On March 11, 2020, the World Health Organization (WHO) declared the coronavirus epidemic as a pandemic. To cope with the medical crisis, the Prime Minister, in a televised address to the nation, announced on March 24, 2020 a stringent countrywide lockdown from March 25 to April 14 which was extended in installments until June 30 but with gradual relaxations.

In the months of April and May, all transportation (railways, airways, metros, road transport) was halted. Business establishments were closed down. The supply of only essential goods and services was permitted. The severity of the lockdown can be gauged from the fact that not a single motor vehicle was sold in the country during the month of April.

Data released by the National Statistical Office (NSO) on August 31, 2020 showed that India's

GDP contracted by 23.9 percent in the first quarter (April-June) of 2020 compared to the same period the previous year. The contraction affected the entire non-farm sector, construction being the worst hit. Agriculture was the only exception with a growth rate of 3.4 percent. As expected, countrywide lockdown in the wake of pandemic hit the economy hard. Both consumption and investment demand collapsed during the lockdown.

On October 9, 2020, the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) stated that the Indian economy had bottomed out in April-June quarter and a process of sequential recovery with gradual removal of lockdown restrictions was underway. According to MPC, the economy—which contracted by 23.9 percent in the first quarter—was expected to witness a deceleration of 9.8 percent in the second quarter (July-September), 5.6 percent in the third quarter (October-December) and enter positive territory with a growth of 0.5 percent in the fourth quarter (January-March). The next financial year (2021-22) would begin with a 20.6 percent growth in the first quarter.

MPC forecasted that India could see its worst recession ever in 2020-21 with the economy contracting by 9.5 percent. Similarly, in its half-yearly South Asia Focus update released on October 8, 2020, the World Bank predicted that Indian economy would shrink by 9.6 percent in 2020-21 because of the pandemic. On the brighter side, the update projected that growth would rebound to 5.4 percent in 2021-22.

Likewise, on September 13, 2020, International Monetary Fund (IMF) in its biannual World Economic Outlook predicted India's GDP to contract by 10.3 percent in 2020-21. It also said that the economy would rebound to an impressive 8.8 percent growth in 2021-22, thus regaining its position of the fastest growing emerging economies, surpassing China's projected growth rate of 8.2 percent.

From the above projections, it can be inferred that the set back to Indian economy is short-lived and that it would rebound soon to pre-covid growth rate which may be reinforced as a result of stimulus packages and economic reforms, particularly in the agricultural and labour sectors, rolled out in the wake of the medico-economic crisis. Moreover, there are some positive developments in the economy which give hope for the future.

India's Macro Matrix at a glance

- GDP contracted by 7.3% in 2020-21
- SLR 18% in 2020-21
- Repo rate 4% in 2020-21
- Per-Captia income INR 86,659 in 2020-21
- CPI 6.26% in 2020-21
- Reverse repo rate 3.35% in 2020-21
- FDI USD 81.72 in 2020-21
- WPI 13.11% in 2020-21
- Exports growth 37.55% in 2020-21
- Core-infra 16.8% in 2020-2021
- Traded deficit USD $396.60 in 2020-21
- CRR 4% in 2020-2021
- FPI/FII is INR 4,433 crore in 2020-21
- MSF 4.25% in 2020-2021
- GDP at constant prices INR 26.95 crore in 2020-21
- Foreign reserveS USD $99.20 in 2020-2021
- Fiscal deficit 9.3% in 2020-2021
- External debt USD $570 billion in 2020-21
- Bank rate 4.25% in 2020-2021

Structure of economy and emerging dynamics

India has emerged as the fastest growing major economy in the world and is expected to be one of the top three economic powers in the world over the next 10-15 years, backed by its robust democracy and strong partnerships.

India’s GDP (at constant 2011-12 prices) was estimated at Rs. 33.14 trillion (US$ 452.74 billion) for the second quarter of FY2020-21, against Rs. 35.84 trillion (US$ 489.62 billion) in the second quarter of FY2019-20.

India is the fourth-largest unicorn base in the world with over 21 unicorns collectively valued at US$ 73.2 billion, as per the Hurun Global Unicorn List. By 2025, India is expected to have ~100 unicorns by 2025 and will create 1.1 million direct jobs according to the Nasscom-Zinnov report ‘Indian Tech Start-up’.

India needs to increase its rate of employment growth and create 90 million non-farm jobs between 2023 and 2030’s, for productivity and economic growth according to McKinsey Global Institute. Net employment rate needs to grow by 1.5% per year from 2023 to 2030 to achieve 8-8.5% GDP growth between 2023 and 2030.

India’s foreign exchange reserves stood at US$ 581.131 billion in the week up to December 18, 2020 according to data from RBI.

In November 2020, the Government of India announced Rs. 2.65 lakh crore (US$ 36 billion) stimulus package to generate job opportunities and provide liquidity support to various sectors such as tourism, aviation, construction and housing. Also, India’s cabinet approved the production-linked incentives (PLI) scheme to provide ~Rs. 2 trillion (US$ 27 billion) over five years to create jobs and boost production in the country.

Numerous foreign companies are setting up their facilities in India on account of various Government initiatives like Make in India and Digital India. Mr Narendra Modi, Prime Minister of India, launched Make in India initiative with an aim to boost country’s manufacturing sector and increase purchasing power of an average Indian consumer, which would further drive demand and spur development, thus benefiting investors. The Government of India, under its Make in India initiative, is trying to boost the contribution made by the manufacturing sector with an aim to take it to 25% of the GDP from the current 17%. Besides, the Government has also come up with Digital India initiative, which focuses on three core components: creation of digital infrastructure, delivering services digitally and to increase the digital literacy.

India's GDP is expected to reach US$ 5 trillion by FY25 and achieve upper-middle income status on the back of digitization, globalization, favorable demographics, and reforms.

India is also focusing on renewable sources to generate energy. It is planning to achieve 40% of its energy from non-fossil sources by 2030, which is currently 30%, and have plans to increase its renewable energy capacity from to 175 gigawatt (GW) by 2022.

India is expected to be the third largest consumer economy as its consumption may triple to US$ 4 trillion by 2025, owing to shift in consumer behavior and expenditure pattern, according to a Boston Consulting Group (BCG) report. It is estimated to surpass USA to become the second largest economy in terms of purchasing power parity (PPP) by 2040 as per a report by PricewaterhouseCoopers.

The predominant role that services sector plays in the economy today and the emerging trends emphasise the role that services will play in the future.

Policy Facilitation

India has emerged as the fastest growing economy in the world. The improvement in India's economic fundamentals has accelerated in the current year with the combined impact of strong government reforms, RBI's inflation focus supported by rebound in global growth.

The Government of India has taken significant initiatives to strengthen the economic credentials of the country and make it one of the strongest economies in the world. India is becoming home to start-ups focused on high growth areas such as mobility, e-commerce and other vertical specific solutions - creating new markets and driving innovation.

Owing to higher infrastructure spending, increased fiscal devolution to states, and continued reforms in fiscal and monetary policy, the Indian economic outlook has strengthened. The Government of India is striving to move steadily to minimize structural and political bottlenecks, attract higher investment and improve economic performance.

- Goods and Services Tax (GST)
  The Game Changer - GST was implemented on July 1st, 2017. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. The introduction of GST has simplified taxation system in the economy and increased tax collection significantly.

- Demonetization

  Historic move on curbing corruption and black money - In a historic move that recorded strength in the fight against corruption, black money, money laundering, and counterfeit notes. The Government of India had decided that the five hundred and one thousand rupee notes would no longer be legal tender from the midnight of 8th Nov 2016.

- Digital India: Linking millions

  The Digital India programme is a flagship programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy.

- Make in India: Turning ambition into reality

  Make in India Campaign, launched on 25th September 2014 globally is a major national initiative covering 25 sectors which focuses on making India a global manufacturing Hub. The campaign aims take the manufacturing growth to 10% on a sustainable basis by introducing a business friendly regulatory environment, enhancing the ease of doing business and improving manufacturing infrastructure, among others

- Pradhan Mantri Jan Dhan Yojana: Large scale banking outreach

  Pradhan Mantri Jan-DhanYojana (PMJDY) was launched on August 2014. Backed by the National Mission for Financial Inclusion, the PMJDY aimed to provide at least one bank account to every Indian household. It is meant to be the launch vehicle of economic streamlining, providing access to a host of financial services including bank deposit accounts, credit, and going forward even insurance and pension.

- Swachh Bharat Mission: Fostering Clean India

  To accelerate the efforts to achieve universal sanitation coverage and to put focus on sanitation, the Prime Minister of India launched the Swachh Bharat Mission on 2ndOctober, 2014.

- Start-Up India: Empowering fledgling businesses

  Startup India is a flagship initiative of the Government of India, intended to build a strong ecosystem for nurturing innovation and Startups in the country. This will drive sustainable economic growth and generate large scale employment opportunities.

- Skill India: Developing Human Capital

  Skill India campaign was launched to train people, to create opportunities, and scope for the development of the talents of the Indian youth and to develop sectors which comes under skill development and also to identify new sectors for skill development.

Emphasis need to be laid on skilling the youth in such a way that they get employment and also improve entrepreneurship. This scheme will provide training, support and guidance for all occupations that were of traditional type like carpenter, cobblers, tailors and weavers etc. More emphasis will be given on areas like rural estate, construction, transportation, tourism and other sectors where skill development is inadequate or nil. Skill development will create workforce for Make in India.

- National Company Law Tribunal
  The NCLT was established under the Companies Act 2013 and was constituted on 1 June 2016 by the government of India & is based on the recommendation of the justice Eradi committee on law relating to insolvency and winding up of companies.

- Ease of Doing Business
  The Ease of Doing Business (EODB) index is a ranking system established by the World Bank Group. In the EODB index, 'higher rankings' (a lower numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights. Since 2014, the Government of India launched an ambitious program of regulatory reform aimed at making it easier to do business in India. The program represents a great deal of effort to create a more business-friendly environment.

Business Reforms Action Plan (BRAP)
DIPP launched an online portal in April 2016 to track implementation of reforms on a real-time basis. The online portal is aimed to provide the following:

1. Real time ranking and tracking of the States and UTs based on implementation of the recommendations
2. Details of the good practices to learn and replicate
3. Provide information on current policies and practices across States and UTs.

- Change in MSME Definition
  Definition on the basis of Annual Turnover; Micro enterprise- a unit where the annual turnover does not exceed five crore rupees; Small enterprise- a unit where the annual turnover is more than five crore rupees but does not exceed Rs 50 crore; and Medium enterprise- a unit where the annual turnover is more than seventy five crore rupees but does not exceed Rs 250 crore.

- Real Estate Regulatory Authority
  Is an act which seeks to protect home-buyers as well as help boost investments in the real estate industry. The Act establishes Real Estate Regulatory Authority (RERA) in each state for regulation of the real estate sector and also acts as an adjudicating body for speedy dispute redressal.

- Micro Units Development and Refinance Agency Bank (MUDRA)
  MUDRA bank was set up by the Government of India as a wholly owned subsidiary of Small Industries Development bank of India (SIDBI) with 100% capital being contributed by it. Pradhan Mantri Mudra Yojana under the Micro Units Development and Refinance Agency (MUDRA) Bank is a new institution being set up by Government of India for development and refinancing activities relating to micro units.

- One District One Product
  The ambitious One District One Product Scheme was launched in the state of Uttar Pradesh. It aims to give boost to the traditional industries of in the state and

enable the people to gain expertise in one product.

It will link the local craft skills with specialized products and create employment opportunities. The few objectives of the ODOP scheme are to improve the quality of the product, transforming the product through packaging and branding and to strengthen the initiative of ODOP to national and international level.

- Infrastructure

1. Bharatmala

   Bharatmala Project is the second largest highways construction project in the country since NHDP, under which almost 50,000 km or highway roads were targeted across the country. It will look to improve connectivity particularly on economic corridors, border areas and far flung areas with an aim quicker movement of cargo and boosting exports.

2. Smart City Mission

   Is an urban renewal and retrofitting program by the Government of India with the mission to develop 100 cities across the country making them citizen friendly and sustainable.

3. Affordable Housing

   In 2015, Hon'ble Prime Minister Shri. Narendra Modi ji announced 'Housing for All by 2022' scheme targeting two crore homes to be built across all urban locations over the next five years.

Government initiatives for rural development in India

The various initiatives launched by the government of India for developing the rural India in a holistic manner are, National Food for Work Programme, Rurban (Mission launched to transform rural areas and develop them to reduce the gap between rural & urban), Gramoday (focusing on the development work done in villages), Ujjawala Yojana (for providing LPG cylinders in every household), Gram Swaraj Abhiyan (to promote social harmony, reach out to poor rural households, obtain feedback on ongoing programmes, enroll in new initiatives, focus on doubling farm)

Following are the sectors in which if progressive intervention is taken, then it will lead to the growth of the rural economy.

- Food Processing

  India is the largest producer of milk & 2nd largest producer of fruits & vegetables. The government expects the food processing to grow by 25% of the total produce by 2025. The food processing industry is one of the largest industries in India and ranks 5th in terms of production, consumption and exports.

  Various policy initiatives have been taken by the government of India in order to promote food processing industry:

  1. Exempting all the processed food items from the purview of licensing under the Industries (Development and Regulation) Act, 1951.

2. Automatic approval for foreign equity upto100% for most of the processed food items excepting alcohol and beer subject to certain conditions.

3. 100% Foreign Direct Investment under government approval route for trading, including through e-commerce, in respect of food products manufactured or produced in India.

4. Reducing Excise Duty on food processing and packaging machinery from 10% to 6%.

This is an area that offers excellent opportunities for entrepreneurs, corporate- and modern-minded farmers to set up agribusiness and agro-industry. Employment generation potential is much higher in the food sector than any other sector. Since 66% of the population resides in rural India, this population can be absorbed in the food processing sector effectively to facilitate higher growth of the sector in the coming times.

- Agriculture Sector

  Rural economy has traditionally been associated with agriculture. India is primarily an agrarian society with 66% of its population living in rural areas. The performance of agriculture sector, therefore, plays a vital role in the economic growth of our country.

  But over the years, there is a significant decrease in the contribution of agriculture to the national economy – from a high of around 44% of GDP at the time of Independence to around 15% at present. Still the overall growth of the Indian economy has depended much on the performance of agriculture because it's one of the sector that provides employment to about 53% of the total population.

  India is the largest producer of spices, pulses, milk, tea, cashew and jute and the second largest producer of wheat, rice, fruits and vegetables, sugarcane, cotton and oilseeds.

- Non-Farm sector Transforming Rural India

  One of the celebrated laws in the area of development studies is that an indicator of growth and development is the sectoral composition of the economy. As an economy grows, the agricultural sector's share will come down and the shares of the manufacturing and service sectors will go up. Traditionally, Indian rural areas also have some manufacturing activities like handloom weaving, oil pressing, bidi manufacturing and so on.

  Further, the growing demand for milk, meat and eggs has resulted in the increased importance of livestock in the rural economy of India. Another employment and income generator in the rural areas is the small scale and cottage industries next to textiles industry.

- Khadi and Village Industry

  Khadi has been a source of livelihood for more than ten lakh rural persons in 2016-17, both directly and indirectly which includes spinners, weavers and other artisans spread across the country. In such time when employment generation has become the most important prerogative for the policy makers, Khadi can play a game changing role in upliftment of rural growth, going forward.

Similarly, village industries programmes have also shown a significant progess by registering production of Rs 41110.26 crores which provided employment to 131.84 lakhs persons in 2016-17. Altogether, Khadi and Village Industries sector provided cumulative employment to 136.40 lakh persons. Khadi Village and Industries Commission (KVIC), through its 38 training centres, is imparting skill based training to the entrepreneurs of the micro Village Industries units in India.

- Small and Cottage Industries

A major occupation in Indian villages other than agriculture in India is the cottage industry. This industry has emerged as a major source of employment in Indian villages over the period of time. Large portion of the rural population of India acting as one of the major source of its economy is supported by Small and Cottage Industries.

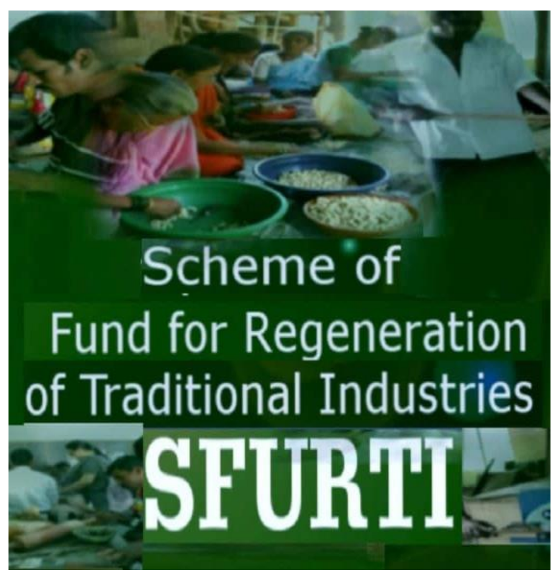
Village and small industries (VSI) sector comprises both traditional and modern small industries. India is one of the most populated countries in the world with almost a billion people, cottage and small scale industries are of great importance to the Indian economy and its rural counterpart.

- Regeneration of traditional industries

Some of India's traditional industries, namely coir, handloom, handicrafts, sericulture, leather, pottery and other cottage industries not only contain great potential for growth and exports, but are integral for the people to shift from low productivity agriculture jobs to other sectors and to provide them with means of livelihood and improved standards of livings.

With the increased participation of rural sector in these areas, the rural sector will grow significantly thereby fueling economic growth, going forward. At this juncture, the initiative taken by the Government to double the farmers' income by 2022 will have direct positive impact on the growth of agriculture production.

Focusing on food processing industry of the rural market can be a good strategy which has the potential to increase the nation's presence in the international food processing industry and thus benefit the farmers in terms of their increased income levels.



Forecast of size of India's Economy

India's GDP growth was contracted by 7.3 per cent in 2020-21 and it moderated to 4.8 per cent in H1 of 2019-20, amidst a weak environment for global manufacturing, trade and demand. In 2019-20, fiscal deficit was budgeted at Rs 7.04 lakh crore (US$ 99.56 billion) (3.3 per cent of GDP), as compared to Rs 6.49 lakh crore (US$ 91.86 billion) (3.4 per cent of GDP) in 2018-19. Inflation increased from 3.3 per cent in H1 of 2019-20 to 7.35 per cent in December 2019-20 due to temporary increase in food inflation. Reforms undertaken during 2019-20 to boost investment, consumption and exports:

- Speeding up the insolvency resolution process under Insolvency and Bankruptcy Code (IBC).
- Easing of credit, particularly for the stressed real estate and NBFC sectors.
- The National Infrastructure Pipeline for the period FY 2020-2025 launched.

The Union Minister for Finance & Corporate Affairs, Ms. Nirmala Sitharaman presented the Economic Survey 2020-21. The key highlights of the Economic Survey 2020-21 are as follows:

1. Saving Lives and Livelihoods amidst a Once-in-a-Century Crisis

- India focused on saving lives and livelihoods by its willingness to take short-term pain for long-term gain, at the onset of the COVID-19 pandemic.
- An early, intense lockdown provided a win-win strategy to save lives and preserve livelihoods via economic recovery in the medium to long-term.
- Strategy also motivated by the Nobel-Prize winning research by Hansen & Sargent (2001) a policy focused on minimizing losses in a worst-case scenario when uncertainty is very high.
- India was the only country to announce structural reforms to expand supply in the medium-long term and avoid long-term damage to productive capacities.
- Calibrated demand side policies to ensure that the accelerator is slowly pushed down only when the brakes on economic activities are being removed.
- A public investment programme centred on the National Infrastructure Pipeline to accelerate the demand push and further the recovery.
- Upturn in the economy, avoiding a second wave of infections - a sui generis case in strategic policymaking amidst a once-in-a-century pandemic.

2. Healthcare takes centre stage

- COVID-19 pandemic emphasized the importance of healthcare sector and its inter-linkages with other sectors showcased how a health crisis transformed into an economic and social crisis.
- National Health Mission (NHM) played a critical role in mitigating inequity as the access of the poorest to pre-natal/post-natal care and institutional deliveries increased significantly.

3. India's Economic Performance in 2020-21

- India's real GDP to record an 11.0% growth in FY2021-22 and nominal GDP to grow by 15.4%.
- India expected to have a Current Account Surplus of 2% of GDP in FY21, a historic high after 17 years.
- India remained a preferred investment destination in FY 2020-21 with FDI pouring in amidst global asset shifts towards equities and prospects of quicker recovery in emerging economies:
  - Net FPI inflows recorded an all-time monthly high of US$ 9.8 billion in November 2020, as investors' risk appetite returned.
  - India was the only country among emerging markets to receive equity FII inflows in 2020.

- V-shaped recovery is underway, as demonstrated by a sustained resurgence in high frequency indicators such as power demand, e-way bills, GST collection, steel consumption, etc.
- India became the fastest country to roll-out 10 lakh vaccines in 6 days and also emerged as a leading supplier of the vaccine to neighbouring countries and Brazil.
- India adopted a four-pillar strategy of containment, fiscal, financial, and long-term structural reforms:
  - Calibrated fiscal and monetary support was provided, cushioning the vulnerable in the lockdown and boosting consumption and investment while unlocking.
  - A favourable monetary policy ensured abundant liquidity and immediate relief to debtors while unclogging monetary policy transmission.
- Innovation
  - India entered the top-50 innovating countries for the first time in 2020 since the inception of the Global Innovation Index in 2007, ranking first in Central and South Asia, and third amongst lower middle-income group economies.

4. Fiscal Developments

- Expenditure policy in 2020-21 initially aimed at supporting the vulnerable sections but was re-oriented to boost overall demand and capital spending once the lockdown was unwound.
- Monthly GST collections have crossed the Rs. 1 lakh crore (US$ 13.70 billion) mark consecutively for the last 3 months, reaching its highest levels in December 2020 ever since the introduction of GST.
- Reforms in tax administration have begun a process of transparency and accountability and have incentivized tax compliance by enhancing honest tax-payers' experience.

5. External Sector

- India's forex reserves at an all-time high of US$ 586.1 billion as on January 08, 2021.
- India experiencing a Current Account Surplus along with robust capital inflows leading to a BoP surplus since Q4 of FY2019-20.
- Balance on the capital account is buttressed by robust FDI and FPI inflows:
  - Net FDI inflows of US$ 27.5 billion in April-October 2020: 14.8% higher as compared to first seven months of FY2019-20.
  - Net FPI inflows of US$ 28.5 billion in April-December 2020 as against US$ 12.3 billion in corresponding period of last year.
- India to end with an Annual Current Account Surplus after a period of 17 years.
- Net services receipts amounting to US$ 41.7 billion remained stable in April-September 2020 as compared with US$ 40.5 billion in corresponding period a year ago.
- Resilience of the services sector was primarily driven by software services, which accounted for 49% of total services exports.
- Net private transfer receipts, mainly representing remittances by Indians employed overseas, totaling US$ 35.8 billion in H1: FY21.
- External debt stood at US$ 556.2 billion at the end of September 2020, a decrease of US$ 2.0 billion (0.4%) as compared to end-March 2020.
- RBI's interventions in forex markets ensured financial stability and orderly conditions, controlling the volatility and one-sided appreciation of the Rupee.
- Initiatives undertaken to promote exports:
  - Production Linked Incentive (PLI) Scheme.
  - Remission of Duties and Taxes on Exported Products (RoDTEP).
  - Improvement in logistics infrastructure and digital initiatives.

6. Monetary Management and Financial Intermediation

- Accommodative monetary policy in 2020: repo rate cut by 115 basis point since March 2020.
- Systemic liquidity in FY2020-21 has remained in surplus so far. RBI undertook various conventional and unconventional measures like:
  - Open Market Operations
  - Long Term Repo Operations
  - Targeted Long Term Repo Operations
- The monetary transmission of lower policy rates to deposit and lending rates improved in FY2020-21.

7. Prices and Inflation

- Consumer Price Index (CPI) inflation stood at 4.6% in December 2020, mainly driven by rise in food inflation (from 6.7% in 2019-20 to 9.1% in April-December 2020, owing to build up in vegetable prices).

8. Sustainable Development and Climate Change

- India has taken several proactive steps to mainstream the SDGs into the policies, schemes, and programmes.
- Voluntary National Review (VNR) presented to the United Nations High-Level Political Forum (HLPF) on Sustainable Development.
- Localisation of SDGs is crucial to any strategy aimed at achieving the goals under the 2030 Agenda
- Eight National Missions under National Action Plan on Climate Change (NAPCC) focussed on the objectives of adaptation,

mitigation, and preparedness on climate risks.

- International Solar Alliance (ISA) launched two new initiatives – 'World Solar Bank' and 'One Sun One World One Grid Initiative' - poised to bring about solar energy revolution globally.

9. Agriculture and Food Management

- The share of Agriculture and Allied Sectors in Gross Value Added (GVA) of the country at current prices is 17.8% for the year 2019-20 (CSO-Provisional Estimates of National Income, May 29, 2020).
- Total food grain production in the country in the agriculture year 2019-20 (as per Fourth Advance Estimates), is 11.44 million tonnes more than 2018-19.
- The actual agricultural credit flow was Rs. 13,92,469.81 crore (US$ 190.82 billion) against the target of Rs. 13,50,000 crore (US$ 185.00 billion) in 2019-20. The target for 2020-21 was Rs. 15,00,000 crore (US$ 205.56 billion) and a sum of Rs. 9,73,517.80 crore (US$ 133.41 billion) was disbursed until November 30, 2020:
  - 1.5 crore dairy farmers of milk cooperatives and milk producer companies were targeted to provide Kisan Credit Cards (KCC) as part of Prime Minister's Aatmanirbhar Bharat Package after the budget announcement of February 2020.
  - As of mid-January 2021, a total of 44,673 Kisan Credit Cards (KCCs) have been issued to fishers and fish farmers and an additional 4.04 lakh applications from fishers and fish farmers are with the banks at various stages of issuance.
- The Pradhan Mantri Fasal Bima Yojana covers over 5.5 crore farmer applications year on year
  - Claims worth Rs. 90,000 crore (US$ 12.33 billion) paid, as on January 12, 2021.
  - Speedy claim settlement directly into the farmer accounts through Aadhar linkage
  - 70 lakh farmers benefitted and claims worth Rs. 8741.30 crore (US$ 1.20 billion) were transferred in COVID-19 lock down period.
- An amount of Rs. 18000 crore (US$ 2.47 billion) have been deposited directly in the bank accounts of 9 crore farmer families of the country in December 2020 in the 7th instalment of financial benefit under the PM-KISAN scheme.
- Fish production reached an all-time high of 14.16 million metric tons in 2019-20:
  - GVA by the Fisheries sector to the national economy stood at Rs. 2,12,915 crore (US$ 29.18 billion) constituting 1.24% of the total national GVA and 7.28% of the agricultural GVA.

- Food Processing Industries (FPI) sector growing at an Average Annual Growth Rate (AAGR) of around 9.99% as compared to around 3.12% in Agriculture and 8.25% in Manufacturing at 2011-12 prices in the last 5 years ending 2018-19.
- Pradhan Mantri Garib Kalyan Anna Yojana:
  - 80.96 crore beneficiaries were provided food grains above NFSA mandated requirement free of cost until November 2020.
  - Over 200 LMT of food grains were provided amounting to a fiscal outgo of over Rs. 75000 crore (US$ 10.28 billion).
- Aatmanirbhar Bharat Package: 5 kg per person per month for four months (May to August) to approximately 8 crores migrants

(excluded under NFSA or state ration card) entailing subsidy of Rs. 3109 crore (US$ 426.05 million) approximately.

10. Industry and Infrastructure

- A strong V-shaped recovery of economic activity further confirmed by IIP data.
- The broad-based recovery in the IIP resulted in a growth of (-) 1.9% in Nov-2020 as compared to a growth of 2.1% in Nov-2019 and a nadir of (-) 57.3% in Apr-2020.
- Further improvement and firming up in industrial activities are foreseen with the Government enhancing capital expenditure, the vaccination drive, and the resolute push forward on long pending reform measures.
- Aatmanirbhar Bharat Abhiyan with a stimulus package worth 15% of India's GDP announced.
- India's rank in the Ease of Doing Business (EoDB) Index for 2019 has moved upwards to the 63rd position in 2020 from 77th in 2018 as per the Doing Business Report (DBR):
  - India has improved its position in 7 out of 10 indicators.
  - Acknowledges India as one of the top 10 improvers, the third time in a row, with an improvement of 67 ranks in three years.
  - It is also the highest jump by any large country since 2011.
- FDI equity inflows were US$ 49.98 billion in FY20 as compared to US$ 44.37 billion in FY19:
  - It is US$ 30.0 billion for FY21 (up to September-2020).
  - Within the manufacturing sector, industries like automobile, telecommunication, metallurgical, non-conventional energy, chemical (other than fertilizers), food processing, petroleum & natural gas got the bulk of FDI.
- Government has announced a Production-Linked Incentive (PLI) Scheme in the 10 key sectors under the aegis of Aatmanirbhar Bharat for enhancing India's manufacturing capabilities and exports:
  - To be implemented by the concerned ministries with an overall expenditure estimated at Rs. 1.46 lakh crore (US$ 20.01 billion) and with sector specific financial limits.

11. Services Sector

- FDI inflows into India's services sector grew robustly by 34% YoY in April-September 2020 to reach US$ 23.6 billion.
- The services sector accounts for over 54% of India's GVA and nearly four-fifths of total FDI inflow into India.
- The sector's share in GVA exceeds 50% in 15 out of 33 States and UTs and is particularly more pronounced (greater than 85%) in Delhi and Chandigarh.
- Services sector accounts for 48% of total exports, outperforming goods exports in the recent years.
- The shipping turnaround time at ports has almost halved from 4.67 days in 2010-11 to 2.62 days in 2019-20.
- The Indian start-up ecosystem has been progressing well amidst the COVID-19 pandemic, being home to 38 unicorns - adding a record number of 12 start-ups to the unicorn list last year.
- India's space sector has grown exponentially in the past six decades:
  - Spent about US$ 1.8 billion on space programmes in 2019-20.
  - Space ecosystem is undergoing several policy reforms to engage private players and attract innovation and investment.

12. Social Infrastructure, Employment and Human Development

- The combined (Centre and States) social sector expenditure as% of GDP has increased in 2020-21 compared to last year.
- India's rank in HDI 2019 was recorded at 131, out of a total 189 countries:
  - India's GNI per capita (2017 PPP $) has increased from US$ 6,427 in 2018 to US$ 6,681 in 2019.
  - Life expectancy at birth improved from 69.4 years in 2018 to 69.7 years in 2019.
- The access to data network, electronic devices such as computer, laptop, smart phone etc. gained importance due to online learning and remote working in the pandemic.
- Government's incentive to boost employment through Aatmanirbhar Bharat Rozgar Yojana and rationalization and simplification of existing labour codes into 4 codes.
- Under PMGKP announced in March 2020, cash transfers of up to Rs. 1000 (US$ 13.70) to existing old aged, widowed, and disabled beneficiaries under the National Social Assistance Programme (NSAP).
- An amount of Rs. 500 (US$ 6.85) each was transferred for three months digitally into bank accounts of the women beneficiaries under PM Jan Dhan Yojana, totalling about Rs. 20.64 crore (US$ 2.83 million).
- Limit of collateral free lending increased from Rs. 10 lakh (US$ 13.70 thousand) to Rs. 20 lakh (US$ 27.41 thousand) for 63 lakh women SHGs which would support 6.85 crore households.

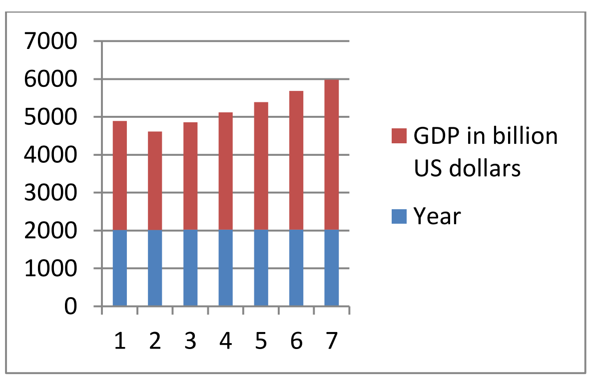
India's GDP size

Graph shows the size of India's GDP from FY2019 to FY2025. In 2019, GDP in India was around at 2.59 trillion U.S. dollars.

All the factors and empirical data that give an insight into the shape of a national economy, there aren't as many indicators more telling than GDP. GDP is the total market value of all final goods and services that have been produced within a country in a given period of time, usually a year. Real GDP figures serve as an even more reliable tool in estimating in which direction a country's economy may be heading, as they are adjusted for inflation and reflect real price developments.

The decision of the newly independent Indian government to adopt a mixed economy, adopting both elements of both capitalist and socialist systems, resulted in huge inefficiencies borne out of the culture of interventionism that was a direct result of the lacklustre implementation of policy and failings within the system itself. The desire to move towards a Soviet style mass planning system failed to gain much momentum in the Indian case due to a number of hindrances, an unskilled workforce being one of many.

When the government of the early 90's saw the creation of small scale industry in large numbers due to the removal of price controls, the economy started to bounce back, but with the collapse of the Soviet Union - India's main trading partner - the hampering effects of socialist policy on the economy were exposed and it underwent a large scale liberalization. By the turn of the 21st century, India was rapidly progressing towards a free-market economy.



Short term measures

- Private traders account for a disproportionately large share in revenue from the sale of agricultural produce relative to the services they provide because under the erstwhile Agriculture Produce Market Committee Act, the auction system in wholesale markets has been quite opaque. State Governments may be encouraged and incentivized to reform their respective agricultural marketing systems on the pattern of Model APLM Act 2017 for enabling better price realization by the farmers.

- Promotion of awareness and extension efforts on identified technologies to improve and optimize overall input efficiency. Eg. Zero-tillage, system of rice intensification, mechanization of specific agricultural operations, integrated pest management, integrated farming systems.

- Allocation of greater resources towards minor and micro irrigation, accounting for the fact that marginal efficiency of capital is much higher in minor and micro irrigation than major and medium irrigation systems.

- Encourage investments, public and private, to develop integrated cold chain, warehouses, pack-houses and other integrated agri-logistics systems. Incentivise private corporate sector participation in these activities.

- Credit support to individual farmer and clusters channelized towards diversification to horticulture, high value crops, post-harvest and food processing ventures. Special attention needs to be paid to the north-eastern, eastern and rainfed State/regions for augmenting the scope of access to institutional credit.

- Strengthen the input delivery mechanism, especially with regard to seeds and extension services, and enhance the efficiency of public agencies within the existing institutional set-up.

- Rationalization and targeting of input subsidies towards small and marginal farmers in the less developed states to trigger growth through increased input use.

- Reform land leasing laws to promote land consolidation and contract farming.

- Strengthen government's investments in agriculture by convergence of resources through various schemes being implemented in different Departments and Ministries. Eg. utilisation of funds under MGNREGA for the creation of small irrigation facilities and water harvesting structures.

Medium/ Long-term measures

- Accelerating the pace of public investment in agriculture and ensure greater efficiency in capital use. Inter-ministerial coordination to converge public investments by targeting common outcomes can decrease the Incremental Capital Output Ratio (ICOR) across States.

- Continued emphasis towards agricultural research and extension to improve crop productivity.

- Strengthened linkages with micro, small and medium enterprises (MSMEs)

- Encourage aggregation and pooling of output from farms and in organising the market linkages, reducing post-harvest losses as well as optimising transaction costs. Scaling up post-harvest operations and directly linking them with markets beyond the local mandi/market.

- Efforts to take advantage of India's comparative advantage in fresh produce and expand exports of value added/processed foods. For this a more stable trade regime is recommended.

Implications

Presented promisingly at the tail-end of the pandemic and at the beginning of the inoculation drive, this lived up to the expectation of being an exercise to push growth. Not only does it have the levers to take forward the economy to its pre-pandemic growth path but the clarity as well on the distribution of these levers between the public and private sectors.

It further looks to build capacity now to sustain high growth later with an inclusive strategy. So, is the Budget a harbinger for the economy to grow to $5 trillion by 2025?

India can take two different paths to becoming a $5-trillion economy by the target date. One is the accounting way that shows the target to be achievable with a high growth of nominal GDP, comprising a large inflationary component, and a strong currency. Intuitively, this can happen when a sustained deluge of capital inflows partly appreciates the rupee and partly augments the forex reserves.

Increase in reserves injects liquidity that, in the absence of sterilisation, fuels inflation in the economy. The final outcome includes a huge build-up of reserves, an over-valued currency, high inflation and, most disconcertingly, low growth and employment. It is doubtful whether even this weak outcome can endure as inflation-targeting central bank stamps out high inflation and capital inflows become wary of high inflation/low growth economies.

The other path to reaching the target is the real way that the Budget elaborates under the pillar of physical and financial capital, and infrastructure. A strong infrastructure push driven by the public sector increases the investment rate in the economy. The multiplier then comes into play raising income and consumption levels. Higher consumption, in turn, induces private investment through the investment accelerator. The induced private investment further amplifies the income and consumption levels as the multiplier once again comes into play.

Thus pushes a capex stimulus that brings in a multiplier-accelerator interface to set in motion an investment-income-consumption spiral in the economy. This 'real way' increases the growth of real GDP, creates job opportunities and keeps inflation low and stable to raise the standard of living. It also accommodates an appreciated currency by increasing export competitiveness through productivity gains. The pillars of reinvigorating human capital and innovation and R&D in the Budget include strategies to increase total factor productivity in the economy.

In the next two-three years, high real GDP growth rates will be a rarity in most of the economies as they slowly recover from the impact of the pandemic. The IMF also, in its January 2021 update of the World Economic Outlook, has only marginally raised the projected growth of world output in 2021 and beyond. With world incomes growing slowly, the export stimulus to India's GDP growth will take some time to go into overdrive.

Clearly, the domestic market holds the key to India's growth in the next few years with enhanced local manufacturing gradually substituting for goods and services supplied from abroad. In this regard, the Productivity Linked Incentive Scheme will herald a new chapter of Make in India to boost domestic production. As domestic manufacturing moves up the global technology frontiers, productivity gains will ensure that output is competitive enough to penetrate world markets.

At 6.8 per cent of GDP, the budgeted fiscal deficit will fund a large capital outlay to take the economy forward, the real way. A moderate fiscal consolidation plan allowing the glide path of fiscal deficit to reach 4.5 per cent in 2026 portends large capex in the next few years as well. High real GDP growth rates are on the anvil to quickly make the economy a $5 trillion one although the timing of attaining it is uncertain. With growth set to happen the real way, a $5 trillion-economy should be seen as an idea to pursue for all-round development of the country and not a numbered target monitored in an accounting way.

An economic survey was undertaken and a 'Team India' formed to make India a $5 trillion economy. The Government has also taken steps to help NBFCs and HFCs with credit guarantee systems by sanctioning support of ₹5 lakh crore to these firms. It has also approved various proposals worth ₹7,000 crores and more.

On the real estate side, the system has taken steps to support real estate firms, corporate tax, and capitalisation of banks. It has cleared dues worth lakhs of crores to enhance market liquidity. The RBI has sanctioned more than ₹70,000 crore worth of loans under the new regime. The Government is encouraging schemes to boost private investments in the country. The MSMEs marked ₹80,000 crores worth of investments. FDI is missioned to improve exports and boost exchange returns.

In essence, there is consensus that development is a concept broader than just economic growth. By larger mobilisation of resources and raising their productivity, output levels can be raised in a relatively straightforward manner. Though it may be a necessary requirement, it is not a sufficient condition for development which requires a reduction in inequality, an improvement in employment and a drastic reduction in poverty. It will appear strange that even though the growth doubles, it will be foolhardy to call it development if the central problems remain unaddressed and unmitigated.

If there is no improvement or there is an actual decline in employment, equality and in the real income of the bottom 40 per cent of the population, the growth will bring in egregious components will have to be there for equity and inclusiveness: distribution and access of food, shelter, health and protection; provision of consequences. At least the following provision of more jobs; better education; and availability of economic and social choices.

Conclusion

The Indian government has announced its desire to boost the economy to a level of US $5 trillion (US $7.16 trillion) by 2025. While fixing a bold target is commendable, the government must lay out the roadmap designed for each of the major sectors. Such a roadmap should have measurable milestones and should be put out in the public domain.

India's macroeconomic indicators are basically sound. The need of the hour is to create demand and employment, fix the issues facing the auto, construction, manufacturing, mining and electricity sectors, lay a roadmap for boosting exports, increase the percentage of taxpayers, and chart out a year-wise plan for the next five years to help the country become a $5 trillion economy.

A $5 trillion economy for India is absolutely achievable, with a beautiful blend of growth in labour, capital and technology. India is blessed with a large labour pool. It could be an attractive investment destination with the potential to pull in capital in the coming years as interest rates offered by developed countries keep falling. Moreover, the country has strongly focused on technology in recent years as more businesses realize the benefit of cost-cutting through technological innovation and integration.

The achievement of an aspirational goal of $5 trillion in a limited timeframe, with an initial position of below $2-trillion real GDP post-pandemic looks difficult. Even India come back to the pre-pandemic pathway by 2025, it may reach this target by 2035. That the destination has receded is not the point here. The point is what it means to the quality of life of the people at large.

Bibliography

1. Times Now
https://www.timesnownews.com/business-economy/economy/article/is-india-s-us5-trillion-economy-dream-still-alive-a-cautious-yes/679260

https://www.timesnownews.com/business-economy/economy/article/is-india-s-us5-trillion-economy-dream-still-alive-a-cautious-yes/679260

2. Monetary policy
https://www.myloancare.in/rbi-monetary-policy/

3. ReLakhs
https://www.relakhs.com/crr-slr-repo-rate-reverse-repo-rate/

4. The balance
https://www.thebalance.com/u-s-trade-deficit-causes-effects-trade-partners-3306276

5. Indian Economy
https://www.ibef.org/economy/economic-survey-2019-

20#:~:text=India's%20Economic%20Performance%20in%202019,global%20manufacturing%2C%20trade%20and%20demand.

6. Statista
https://www.statista.com/statistics/263771/gross-domestic-product-gdp-in-india/

7. Business Line
https://www.thehindubusinessline.com/opinion/budget-has-no-roadmap-to-a-5-trillion-economy/article30785036.ece

8. Business Standard
https://www.business-standard.com/article/economy-policy/india-s-gdp-growth-rate-for-2019-20-revised-downwards-to-4-from-4-2-121012902037_1.html

9. IBEF
https://www.ibef.org/economy/economic-survey-2020-21

Disclaimer

The contents herein are solely meant for communicating information and not as professional advice. It may contain confidential or legally privileged information. The addressee is hereby notified that any disclosure, copy, or distribution of this material or the contents there of may be unlawful and is strictly prohibited. Also the contents cannot be considered as any opinion/ advice and should not be used as basis for any decision. Before taking any decision/ advice please consult a qualified professional advisor. While due care has been taken to ensure the accuracy of information contained herein, no warranty, express or implied, is being made by us as regards the accuracy and adequacy of the information contained herein. AJSH & Co LLP and Mercurius Advisory Services shall not be responsible for any loss whatsoever sustained by any person who relies on this material.

About Us

AJSH & Co LLP ("AJSH") is an independent firm of Business Advisors and Chartered Accountants with its corporate office situated at New Delhi. AJSH has brought together a team of highly qualified and experienced consultants from diverse professional fields and expertise. We cater to Indian and multinational corporates, high net worth individuals, financial institutions, start-ups and expatriates.

We specialize in the fields of accounting, auditing and assurance, taxation, foreign investments along with a host of other financial services. AJSH is an ISO 9001:2015 certified firm and is also registered with Public Company Accounting Oversight Board (USA) and Canadian Public Accounting Board (Canada). We have clients in India, USA, Africa, Australia, Europe, Hong Kong, Japan, China, Malaysia, Singapore and Thailand. Thus, we work across several different time zones based on our client needs.

We are a member firm of TIAG (USA). TIAG is a worldwide alliance of independent accounting firms with more than 120 member firms based in over 70 countries and UTN. We are also a member of United Tax Network (UTN) representing from India, getting the firm's foothold in Western Countries.

Mercurius Advisory Services ("MAS") is a team of eminent and trained advisors and consultants, specializing in the field of outsourcing services based in New Delhi, India. It offers a comprehensive suite of professional consultancy services to its clients ranging from accounting, finance and taxation to legal consultancy and human resource management.

MAS has achieved an exponential growth in its international accounting and business consulting practice and has position itself amongst one of the most reputed accounting companies in India.

MAS, inter alia, provide low cost accounting solutions to its clients across the globe on an outsourced basis. We support our clients to streamline their day-to-day business operations and lower their overhead costs without compromising on quality or productivity. Our clientele ranges from start-ups to large established business houses that operate across the globe in various sectors.

MAS is also a member firm of TIAG (USA) and holds ISO certificate 27001:2013.

Contact us

Ankit Jain
+91 98106 61322
ankit@ajsh.in
ankit@mas.net.in

Siddhartha Havelia
+91 98113 25385
siddhartha@ajsh.in
siddhartha@mas.net.in

Address: A-94/8, Wazirpur Industrial Area, Main Ring Road, New Delhi-110052
T: +91-11-4559 6689

Connect with us

www.ajsh.in

info@ajsh.in

https://www.linkedin.com/company/ajsh-&-co

https://www.facebook.com/Ajshco

https://www.instagram.com/ajsh_india/

www.mas.net.in

info@mas.net.in

https://www.linkedin.com/company/mercurius-advisory-

https://www.facebook.com/MercuriusAdvisoryServices

https://www.instagram.com/maspl_global/