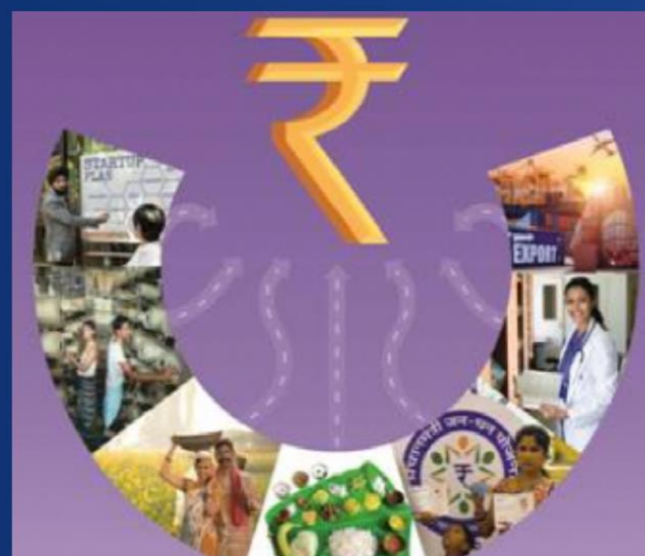
Summary of Economic Survey 2019-20



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The epic treatise of modern economics, written by **Adam Smith in 1776**, was interestingly titled "**An Inquiry into the Nature and Causes of the Wealth of Nations**". With India having become the **fifth largest economy** in the world in 2019 and aspiring to be the third largest by 2025, it is only befitting to go back to one of the foundational questions posed by Smith, "What causes wealth and prosperity of nations?"

The Survey documents that ideas of wealth creation are rooted in India's old and rich tradition ranging from **Kautilya's Arthashastra** to **Thiruvalluvar's Thirukural**, which emphasizes ethical wealth creation as a noble human pursuit.

Chapter 1 - Wealth Creation: The Invisible Hand Supported by the Hand of Trust

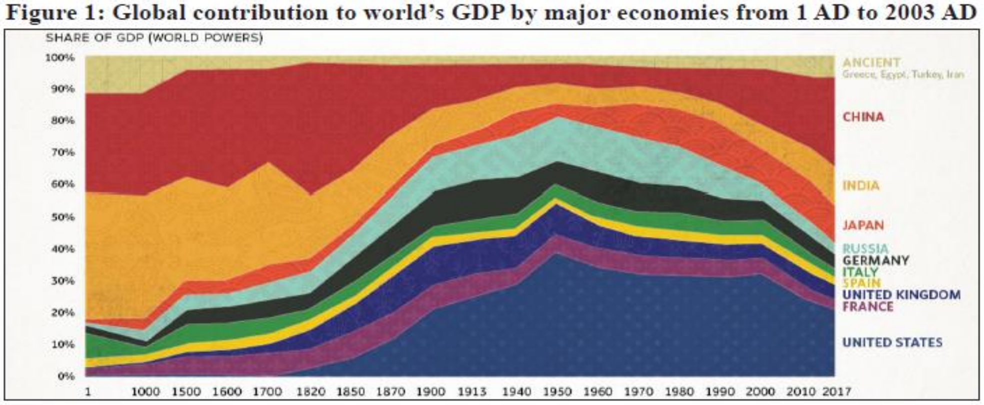
The Survey posits that India's aspiration to become a $5 trillion economy depends critically on strengthening the **invisible hand of markets** together with the hand of trust that can support markets. The invisible hand needs to be strengthened by promoting pro-business policies to

i. provide equal opportunities for new entrants, enable fair competition and ease doing business,
ii. eliminate policies that undermine markets through government intervention even where it is not necessary,
iii. enable trade for job creation, and
iv. efficiently scale up the banking sector to be proportionate to the size of the Indian economy.

Introducing the idea of "trust as a public good that gets enhanced with greater use", the Survey suggests that policies must empower transparency and effective enforcement using data and technology to enhance this public good.

India has been the dominant economic power globally for more than three-fourths of known economic history, (Maddison, 2007). See this graph below:

Figure 1: Global contribution to world's GDP by major economies from 1 AD to 2003 AD



Source: Maddison A (2007). Note: X-axis of graph has non-linear scale, especially for 1-1500 AD, which underestimates the dominance of India.

Wealth creation happens in an economy when the right policy choices are pursued. The wealth created by an entrepreneur's correlates with the benefits to the employees, suppliers and government. Wealth created also positively correlates with foreign exchange reserves, capital expenditure, tax inflows.

Kautilya advocates economic freedom by asking the King to "remove all obstructions to economic activity". A key contributor to ancient India's prosperity was internal and external trade. During much of India's economic dominance, the economy relied on the **invisible hand of the market.**

Since 1991, in Indian economy, sectors that were liberalized grew significantly faster than those that remain closed. Credit in the banking sector expanded at much higher rates after the sector was opened to private sector banks. After economic liberalisation growth in open sectors like steel, roads, cement has been better than the growth in closed sectors like coal and railways.

Peninsular states dominate entry of new firms, entrepreneurship is dispersed across India and is not restricted just to a few metropolitan cities

The vibrancy of economic opportunities is defined by the extent to which the economy enables fair competition, which corresponds to a "pro-business" economy. This is in contrast to the influence of incumbents in extracting rents from their incumbency and proximity to the corridors of power, which corresponds to "pro-crony" economy. It is crucial in this taxonomy to relate the term "pro-business" to correspond to an economy that enables fair competition for every economic participant. Given this backdrop, do new entrants have equal opportunity of wealth creation as the incumbents?

Key financial indicators such as net worth, net profit and return on assets of the privatized CPSEs (Central Public Sector Enterprises), on an average, have increased significantly in the post-privatization period compared to the peer firms. This improved performance holds true for each CPSE taken individually as well.

- A large economy needs an efficient banking sector to support its growth
- PSBs account for about 70 per cent of the market share in Indian banking
- India has only one bank (SBI) in the global top 100 banks

If the Indian economy had the data infrastructure such as **CRILC** (Central Repository of Information on large Corporates) during the in pre-2014 credit boom, the extent of systemic NPAs may have been lower. This information would have alerted lenders to limit exposures to corporates who have been tagged as NPA by another bank or NBFC. This information availability would have reduced NPAs in the entire banking system considerably.

The U.S. Federal Trade Commission has one employee for every two listed firms, while the Competition Commission of India has one employee for every 38 listed firms. Securities and Exchange Commission (SEC) has almost one employee for each listed company. In contrast, SEBI has one employee for six listed companies. In fact, in key divisions such as Corporate Finance, SEC has more than fifteen times as many employees as SEBI. This resource deficit needs to be reduced to strengthen government's role as a referee to ensure fair-play for all wealth creators.

Chapter 2 - Entrepreneurship and Wealth Creation at the Grassroots

As per World Bank's Data on Entrepreneurship, **India ranks third** in number of new firms created. The same data shows that new firm creation has gone up dramatically in India since 2014. Reflecting India's new economic structure, i.e. comparative advantage in the Services sector, **new firm creation in services** is significantly higher than that in manufacturing, infrastructure or agriculture

On a per-capita basis, India has low rates of entrepreneurship in the formal economy. Between 2006 and 2016, the mean (median) number of new firms registered per year per 1000 workers as 0.10 (0.11). In contrast, the mean (median) entrepreneurial intensity for the United Kingdom and the United States was 12.22 (11.84) and 12.12 (11.81) respectively. In general, the entrepreneurial intensity is significantly higher for the developed economies. It is also growing across all countries except Brazil, which has seen a significant decline from 2010 to 2018.

Birth of new firms is **very heterogeneous** across Indian districts and across sectors. Moreover, it is dispersed across India and is not restricted to just a few cities. Relative to entrepreneurial capabilities in Manufacturing, Services and Infrastructure, entrepreneurial capabilities in the Agriculture sector are not geographically localized and seem to be distributed evenly across most districts in India. States in the highest quintile of relative entrepreneurial activity in the Agriculture sector are Manipur, Meghalaya, Madhya Pradesh, Assam, Tripura and Orissa. Establishments in the North East are more likely to be private enterprises in the food business such as organic produce farms and tea plantations while a majority of the establishments in Madhya Pradesh and Orissa are farmer producer companies.

- Entrepreneurial capabilities in the Agriculture sector seem to be better distributed evenly across most districts in India.
- Entrepreneurial activity in the Manufacturing sector is highest in the regions of Gujarat, Meghalaya, Puducherry, Punjab and Rajasthan.
- Entrepreneurial activity in a district is correlated with employment in the district
- Number of new firms formed increases with an increase in the literacy in the district

Despite being the 3rd largest ecosystem for entrepreneurship in the world, India appears to have lower rates of formal entrepreneurship on a per-capita basis when compared to other countries. The eastern part of India has the lowest literacy rate of about 59.6 per cent according to the census of 2011. This is also the region in which formal entrepreneurial activity is the lowest. Therefore, entrepreneurial activity in a district can be promoted through:

i. Increase the literacy levels rapidly through the institution of more schools and colleges
ii. Improve connectivity of villages through tar roads to provide better access to local markets
iii. Foster policies that help in ease of doing business and flexible labour regulation, especially in the manufacturing sector

Chapter 3 – Pro-Business versus Pro-Crony

Economic events since 1991 provide powerful evidence that "pro-business" policy that unleashes the power of competitive markets, generate wealth. Every five years, one-third of Sensex firms are churned out, reflecting the continuous influx of new firms, products and technologies into the economy. Pro-crony policies as reflected in discretionary allocation of natural resources till 2011 led to rent-seeking by beneficiaries while competitive allocation of the same resources post 2014 have put an end to such rent extraction. Similarly crony lending that led to wilful default, wherein promoters have collectively siphoned off wealth from banks, led to losses that dwarf subsidies directed towards rural development.

While pro-business policies increase competition, correct market failures, or enforce business accountability, pro-crony policies hurt markets. Such policies may promote narrow business interests and may hurt social welfare because what crony businesses may want may be at odds with the same. For example, crony businesses may lobby the government to limit competition in their industry, restrict imports of competing goods or reduce regulatory oversight. These initiatives enhance the lobbying group's income but undermine markets and reduce aggregate welfare. Thus, pro-crony policy can inadvertently end up being hurtful to businesses in general.

The RBI defines wilful defaulter as a firm that has defaulted in meeting its repayment obligations even though it has the capacity to honour these obligations. A firm could also be branded a wilful defaulter if it uses the funds for purposes other than what is sanctioned by the lender, siphons the money out to related parties or removes the assets used to secure the loan.

Wilful default occurs when firms take loans, divert the proceeds out of the firm for the personal benefit of owners, default on loans and declare bankruptcy, thereby expropriating a range of stakeholders – lenders, minority shareholders, employees, regulators and state coffers.

- Wilful defaulters tend to be more opaque than both non-defaulters and firms that default out of genuine distress (hereafter distress defaulters).
- Promoters at the helm of wilfully defaulting firms pledge, on average, almost 50 per cent of their shareholding to lenders. In contrast, the corresponding figures for distress defaulters and non-defaulters are 30 per cent and 11 per cent respectively.
- Third, wilful defaulters make large loans to related parties.

India's aspiration to become a $5 trillion economy depends critically on promoting "pro-business" policy that unleashes the power of competitive markets to generate wealth, on the one hand, and weaning away from "pro-crony" policy that may favour specific private interests, especially powerful incumbents, on the other hand. Economic events since 1991 provide powerful evidence supporting this crucial distinction.

Chapter 4 – Undermining Markets: When Government Intervention Hurts More Than It Helps

Government intervention, sometimes though well intended, often ends up undermining the ability of the markets to support wealth creation and leads to outcomes opposite to those intended.

1. Frequent and unpredictable imposition of blanket stock limits on commodities under Essential Commodities Act (ECA) does not help in the price volatility of commodities

2. The regulation of prices of drugs through the DPCO 2013, has led to increase in the price of a regulated pharmaceutical drug vis-à-vis that of a similar drug whose price is not regulated.

3. Government policies in the foodgrain markets has led to the emergence of Government as the largest procurer and hoarder of foodgrains – adversely affecting competition in these markets.

4. Analysis of debt waivers given by States/Centre shows that full waiver beneficiaries consume less, save less, invest less and are less productive after the waiver when compared to the partial beneficiaries. The share of formal credit decreases for full beneficiaries when compared to partial beneficiaries, thereby defeating the very purpose of the debt waiver provided to farmers.

In the global indices of economic freedom, India ranks in the bottom half. Economic freedom as the freedom of choice enjoyed by individuals in acquiring and using economic goods and resources. In the Index of Economic Freedom, India was categorized as 'mostly unfree' with a score of 55.2 in 2019 ranking the Indian economy 129th among 186 countries, i.e., in the bottom 30 per cent of countries. In the component pertaining to "investment freedom", which measures the ease of flow of investment capital both internally and across the country's borders, India scores a low 40.0 on a scale of 0-100 (repressed) against the world average of 58.5. In the Index of Global Economic Freedom too, India ranks 79th among 162 countries with 108th rank in business regulation.

Essential Commodities Act (ECA), 1955 was enacted to control the production, supply and distribution of, and trade and commerce in, certain goods considered as essential commodities. The Act also provides for action to confiscate the stock seized; to suspend/ cancel licences, if any and impose punishments like imprisonment. The Act also gives the power to fix price limits, and selling the particular commodities above the limit will attract penalties. Most of the powers under the Act have been delegated by the Central Government to the State Governments with the direction that they shall exercise these powers. The major commodity groups included in the Act are:

(i) Petroleum and its products, including petrol, diesel, kerosene, Naphtha, solvents etc

(ii) Food stuff, including edible oil and seeds, vanaspati, pulses, sugarcane and its products like, khandsari and sugar, rice paddy

(iii) Raw Jute and jute textiles

(iv) Drugs- prices of essential drugs are still controlled by the DPCO

(v) Fertilisers- the Fertiliser Control Order prescribes restrictions on transfer and stock of fertilizers apart from prices

(vi) Onion and Potato

(vii) Seeds of food crops, fruits and vegetables, cattle fodder, Jute seeds and Cotton seeds

The ECA, however, affects the efficient development of agricultural markets by creating market distortions (Figure 7). As agriculture is a seasonal activity, it is essential to store produce for the off-season to ensure smoothened availability of a product at stable prices throughout the year.

In India, the Government has historically relied on price controls to regulate the prices of pharmaceutical drugs through the National Pharmaceutical Pricing Authority (NPPA) and Drug (Prices Control) Order (DPCO). The National List of Essential Medicines (NLEM), prepared by Ministry of Health and Family Welfare, is a list of medicines considered essential and high priority for India's health needs.

The Drugs Prices Control Order (DPCO) is an order issued under Sec. 3 of Essential Commodities Act (ECA), 1955 that seeks to regulate the prices of pharmaceutical drugs. The DPCO, among other things, specifies the list of drugs that come under the price ceiling and the formula for calculating the ceiling price. The National List of Essential Medicines (NLEM) lists the pharmaceutical drugs that fall under price control. The DPCO, 2013 for instance, contains 680 scheduled drug formulations spread across 27 therapeutic groups whose prices are regulated.

National Pharmaceutical Pricing Authority (NPPA) is responsible for fixing and revising the prices of pharmaceutical products as well as the enforcement of the DPCO. The Government of India has amended the DPCO several times and most recently in 2013. Until 2013, DPCO specified the price ceiling using the cost-based pricing method in which the ceiling price was calculated as a multiple of the cost that it took producers to promote and distribute a pharmaceutical drug. This multiple referred to as the Maximum Allowable Post-manufacturing Expenses (MAPE) was set at 50 per cent for formulations imported into India and at 100 per cent for indigenously manufactured formulations.

In 2013, for the first time, India transitioned from cost-based pricing to market-based pricing. Under the market-based pricing method, the Government determines the ceiling prices as the maximum mark-up that a retailer can charge over the reference price, which is the simple average of the prices of the all the brands with market share of greater than or equal to 1 per cent based on market data provided by IMS Health, a market research firm. The order capped the maximum mark-up to 16 per cent for all formulations specified in the NLEM.

Our estimates also show that the prices of drugs that came under DPCO, 2013 increased on average by Rs.71 per mg of the active ingredient. For drugs that were unaffected by DPCO, 2013, the prices increased by Rs.13 per mg of the active ingredient. The difference-in-difference estimate in prices was Rs. 58 per mg of the active ingredient, which was statistically significant at 5 per cent.

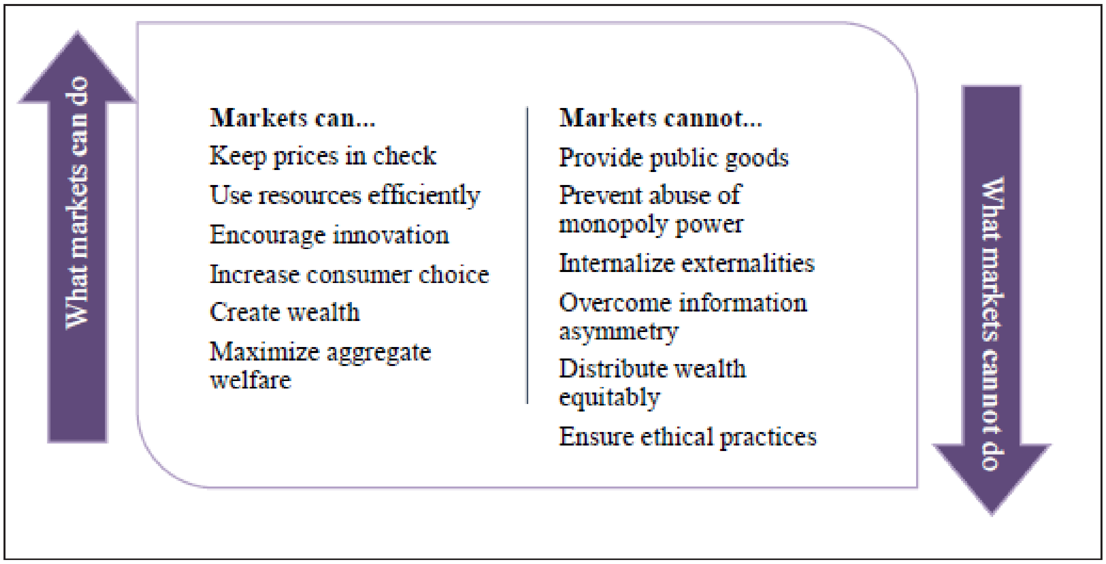
DEBT WAIVERS

Government intervention in credit markets, in the form of full or partial, conditional or unconditional, debt relief has become increasingly common at the state level in India. The phenomenon of granting debt waivers to farmers just before or after an election, which was to fulfill the promise made in the election manifesto, had died down in the early nineties. However, this phenomenon has become widespread after the large-scale farm debt waiver announced by the union government in 2008. This was followed by announcement of waivers in states such as Andhra Pradesh, Telangana, Uttar Pradesh, Madhya Pradesh, Rajasthan, Punjab, Maharashtra, and others.

"**debt overhang**" refers to a situation where all current income gets used up in repaying the accumulated debt, leaving little incentives to invest either in physical or human capital. Debt overhang, therefore, leads to abandonment of beneficial investment and hence reduces social welfare. Given this situation, proponents of debt relief argue that a debt waiver helps the borrowers to come out of the debt trap as it cleans their balance sheet and reduces the burden of debt servicing.

An unconditional and blanket debt waiver is a bad idea. It does not achieve any meaningful real outcomes for the intended beneficiaries while the costs to the exchequer are significant. Most importantly, debt waivers disrupt the credit culture and end up reducing the formal credit flow to the very same farmers it intends to help.

Figure 25: Strengths and Weaknesses of Markets



Note that the Economic Survey does not argue that there should be no Government intervention. Instead, interventions that were apt in a different economic setting may have lost their relevance in a transformed economy. Eliminating such instances will enable competitive markets and thereby spur investments and economic growth.

Chapter 5 – Creating Jobs and Growth by Specializing to Exports in Network Products

By integrating "Assemble in India for the world" into Make in India, India can create 4 crore well-paid jobs by 2025 and 8 crore by 2030. China's remarkable export performance vis-à-vis India is driven primarily by deliberate specialization at large scale in labour-intensive activities, especially "network products", where production occurs across Global Value Chains (GVCs) operated by multi-national corporations. The US–China trade war is causing major adjustments in Global Value Chains (GVCs) and firms are now looking for alternative locations for their operations. These developments present India an unprecedented opportunity to chart a similar export trajectory as that pursued by China and create unparalleled job opportunities for its youth. As no other country can match China in the abundance of its labour, we must grab the space getting vacated in labour-intensive sectors. Examples of network products include computers, electronic and electrical equipment, telecommunication equipment, road vehicles etc.

Overall, high diversification combined with low specialization implies that India is spreading its exports thinly over many products and partners, leading to its lacklustre performance compared to China. if India wants to become a major exporter, it should specialize more in the areas of its comparative advantage and achieve significant quantity expansion.

By integrating "Assemble in India for the world" into Make in India, India can raise its export market share to about 3.5 per cent by 2025 and 6 per cent by 2030. This will create 4 crore well-paid jobs by 2025 and 8 crore by 2030. One-quarter of the increase in value added required for making India a $5 trillion economy by 2025 can come from exports of network products.

The key learning from the successful case study of the Indian Automobiles sector is that domestic firms graduate up the production value chain by first starting with low-technology operations such as assembly and then moving to manufacturing of components. In the process, imports of components increase in the short run. Following a policy of import substitution right from the outset does not enable the process of graduation up the production value chain.

India toppled Vietnam to become the second largest manufacturer of mobile phones globally following China in 2018 with a world share of 11 per cent. India could manufacture around 1.25 billion handsets across various segments by 2025, firing up an industry worth around $230 billion (ICEA-McKinsey report, 2018).

As an India that harbours misplaced insecurity on the trade front is unlikely to grab this opportunity, our trade policy must be an enabler. In fact, contrary to recent fears, careful analysis that controls for all confounding factors shows that India has gained from trade agreements: a 0.7 per cent increase per year in trade surplus with partner countries for manufactured products and 2.3 per cent per year for total merchandise.

Chapter 6 – Targeting Ease of Doing Business in India

Ease of doing business is key to entrepreneurship, innovation and wealth creation. India has made substantial gains in the World Bank's Doing Business rankings from 142 in 2014 to 63 in 2019. It has progressed on seven out of the 10 parameters. The Goods and Service Tax (GST) and the Insolvency and Bankruptcy Code (IBC) top the list of reforms that have propelled India's rise in rankings. However, India continues to trail in parameters such as Ease of Starting Business (rank 136), Registering Property (rank 154), Paying Taxes (rank 115), and Enforcing Contracts (rank 163).

Enforcing contracts is one parameter in which India's performance has been very poor over the years. While India takes 1,445 days to resolve an average dispute, New Zealand takes approximately one-seventh of it, i.e., 216 days.

Setting up and operating a services or manufacturing business in India faces a maze of laws, rules and regulations. Many of these are local requirements, such as burdensome documentation for police clearance to open a restaurant. This must be cleaned up and rationalized one segment at a time. Case studies of merchandise exports found that logistics is inordinately inefficient in Indian sea-ports. The process flow for imports, ironically, is more efficient than that for exports.

Chapter 7 – Golden Jubilee of Bank Nationalisation: Taking Stock

In 2019, India completed the 50th anniversary of bank nationalization. It is, therefore, apt to celebrate the accomplishments of the 3,89,956 officers, 2,95,380 clerks, and 1,21,647 sub-staff who work in Public Sector Banks (PSBs). At the same time, an objective assessment of PSBs is apposite. As PSBs account for 70 per cent of the market share in Indian banking, the onus of supporting the Indian economy and fostering its economic development falls on them. Yet, on every performance parameter, PSBs are inefficient compared to their peer groups.

In 2019, every rupee of taxpayer money invested in PSBs, on average, lost 23 paise. In contrast, every rupee of investor money invested in "New Private Banks" (NPBs)—banks licensed after India's 1991 liberalization—on average gained 9.6 paise. As PSBs and NPBs operate in the same domestic market, there is a case for enhancing the efficiency of PSBs.

The market structure of the banking sector has evolved in the 50 years since the 1969 nationalization. As of March 2019, PSBs had Rs.80 lakh crore in deposits, held Rs. 20 lakh crore in government bonds, and made loans and advances of Rs.58 lakh crore, representing between 65 per cent and 70 per cent of the aggregates for all scheduled commercial banks operating in India. They also hold about Rs. 20 lakh crore of the government debt, a large part of it driven by the requirements for a minimum "statutory liquidity" ratio. PSBs thus continue to have a significant footprint today albeit with a market share that is less than the 91 per cent share after the 1980 nationalization. The decline in PSB market share has been largely absorbed by "new private banks" (NPBs), which were licensed in the early 1990s after a liberalization of licensing rules that earlier regulated bank entry.

THE WEAKENING OF PUBLIC SECTOR BANKS

High NPAs - In 2019 public sector banks reported gross and net NPAs of Rs. 7.4 lakh crore and Rs.4.4 lakh crore respectively, amounting to about 80 per cent of the NPAs of India's banking system. The gross NPAs of PSBs amount to a significant 11.59 per cent of their gross advances, although a slightly encouraging trend is that the NPA ratio is below the 14.58 per cent ratio in 2018, raising hopes that the nonperforming asset problem has peaked and is now coming down.

Operation Losses- In 2019, PSBs suffered losses of Rs.661 billion compared to profits of Rs.421 billion of other scheduled commercial banks or profits of Rs.390 billion of the NPBs.

Frauds - The Reserve Bank of India (RBI)'s supervisory returns reveal that PSBs account for 92.9 per cent of the 5,835 cases of fraud and 85 per cent of the fraud amounts of about Rs.41,000 crore reported in 2017-2018. A large majority (90.2 per cent) of these frauds related to advances About 90 per cent of advances above Rs.1 crore occur in PSBs. Therefore, the quality of screening and monitoring processes for corporate lending adopted by PSBs needs urgent attention.

ENHANCING EFFICIENCY OF PSBs: THE WAY FORWARD

1. **Credit Analytics using AI & ML (Artificial Intelligence and Machine Learning)** - One is India's demographic dividend. 62 per cent of India's population is between 15 and 60 and a further 30 per cent of the population is under 15. Thus, India is poised to enjoy the benefits of a substantial working age population for a long period of time. The second force driving India's growth opportunities is the JAM "trinity," viz., the PMJDY bank account programme, the Aadhaar unique identity programme, and the mobile phone infrastructure, each of which has been implemented to cover practically the entire country. The growth in digital transactions as a result of these two factors has been significant.

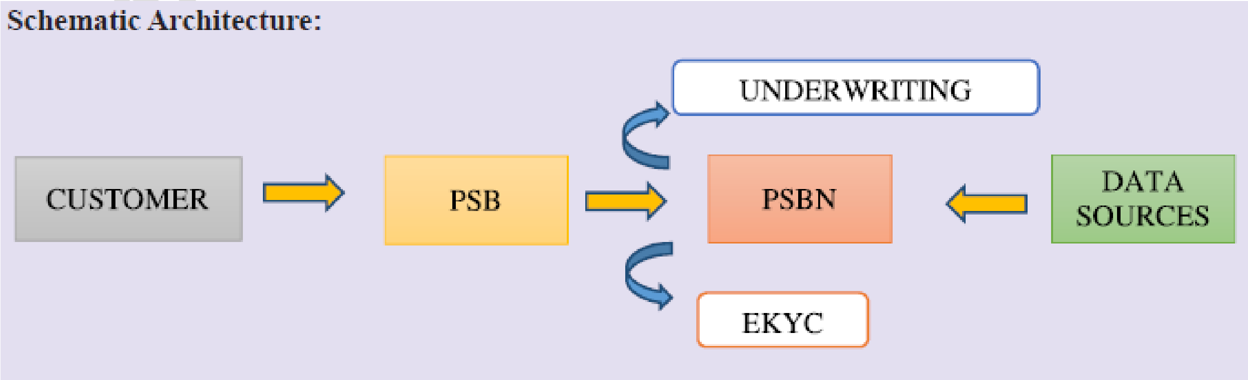
Analytics based on market data are quite capable of providing accurate predictions of corporate distress. Variants of such approaches appear to hold promise for both consumer loans and commercial and industrial loans. The data that can be employed for credit analytics is available in both structured and unstructured form, micro-data is available in text, images, geo-tagged data, social network data, mobile apps, as well as other shallow or deep digital footprints of current and potential customers. Leveraging these data requires new data, analytics, and modelling skills.

2. **Learning on use of credit analytics for corporate lending from retail loans**

The use of credit analytics and the resultant reduction in defaults offers important lessons that can be implemented in corporate lending in India.

3. **Creation of a FinTech Hub for PSBs: The Public Sector Banking Network (PSBN)**

FinTech has radically changed the way information is processed by banks. In corporate lending, for instance, a huge mass of quantitative data such as company financials and qualitative data such as company filings and analyst call reports are machine-analysed using both supervised and unsupervised learning algorithms. Tools such as Machine Learning (ML), Artificial Intelligence (AI) as well as Big Data and matching provide banks the ability to recognize patterns quickly by analysing vast datasets, an activity that would be virtually impossible for humans, even using conventional information technology.



Chapter 8 – Financial Fragility in the NBFC Sector

Following payment defaults by subsidiaries of Infrastructure Leasing and Financing Services and by Dewan Housing Finance Limited, investors in Liquid Debt Mutual Funds (LDMFs) ran collectively to redeem their investments. In fact, the defaults triggered panic across the entire gamut of NBFC-financiers, thereby causing a funding (liquidity) crisis in the NBFC sector.

“Shadow banking comprises a set of activities, markets, contracts and institutions that operate partially (or fully) outside the traditional commercial banking sector and are either lightly regulated or not regulated at all. A shadow banking system can be composed of a single entity that intermediates between end-suppliers and end-users of funds, or it could involve multiple entities forming a chain”. Shadow banks do not have explicit access to central bank liquidity. The shadow banking system is highly levered with risky and illiquid assets while its liabilities disposed to “bank runs”. Three important segments of the shadow banking system in India, namely, Non-Banking Housing Finance Companies (HFCs), Retail Non-Banking Financial Companies (Retail-NBFCs) and Liquid Debt Mutual Funds (LDMFs). The NBFC sector is lightly regulated as compared to the traditional banking system consisting of public and private sector banks and other financial institutions.

NBFCs raise capital in the short-term (1-3 months) commercial paper (CP) market at a lower cost, and keep on issuing such CPs again at short frequencies of a few months. The frequent re-pricing exposes NBFCs to the risk of facing higher financing costs and, in the worst case, credit rationing. Such refinancing risks are referred as Rollover Risk. The LDMF sector is a primary source of short-term wholesale funds in the NBFC sector. Thus, the NBFC sector is intricately connected with the Liquid Debt Mutual Fund (LDMF) sector. This interconnectedness is a channel for the transmission of systemic risk from the NBFC sector to the LDMF sector. Shocks in the NBFC sector may lead to concerted redemptions by investors in the LDMF sector at fire-sale prices.

HFCs hold much longer duration assets (housing loans, developer loans etc.,) as compared to Retail-NBFCs, which hold medium-term assets (auto, consumer durables, gold loans, etc.).

Retail-NBFCs rely much more on the short-term wholesale funding market as compared to HFCs. For the sample, the average level of CP as a percentage of borrowings in HFCs was 8.50 per cent while that in Retail-NBFCs was 12.74 per cent from March 2015 till March 2019. Thus, HFCs are less exposed to interconnectedness risk, as compared to Retail-NBFCs.

The implication of these factors is that the key drivers of Rollover Risk for HFCs are ALM Risk and Financial and Operating Resilience, whereas, for Retail-NBFCs, Interconnectedness Risk and Financial and Operating Resilience are the key drivers of Rollover Risk.

ALM risk is more problematic for HFCs based on a quarter-on-quarter comparison of trends in ALM for the HFC and Retail- NBFC sector. HFCs short term liabilities (up to maturities of 3 years) are clearly greater than their assets in these maturity buckets. Therefore, HFCs face significant rollover risk due to their ALM mismatch problem. In contrast, for Retail-NBFCs, the assets are greater than their liabilities with respect to the profile of cashflows for all maturity buckets. The Rollover Risk stemming from ALM mismatch is, therefore, lower for Retail- NBFCs.

Interconnectedness Risk is a measure of the transmission of systemic risk between an NBFC and the LDMF sector that arises from two factors:

First, if the LDMF sector, on average, holds concentrated positions in the CPs of a specific stressed NBFC, it may lead to a greater redemption risk from their own investors who fear rise in default probabilities due to deterioration of asset quality of the NBFC.

Second, LDMFs are subject to run risk or redemption risk from their investors if their cash holdings do not account for extreme tail events. Thus, low levels of cash holdings in the LDMF sector, on average, diminish the ability of the LDMF sector to absorb redemption pressures.

Chapter 9 – Privatization and Wealth Creation

Privatized CPSEs, on an average, perform better post privatization than their peers in terms of their net worth, net profit, return on assets (ROA), return on equity (RoE), gross revenue, net profit margin, sales growth and gross profit per employee. More importantly, the ROA and net profit margin turned around from negative to positive surpassing that of the peer firms, which indicates that privatized CPSEs have been able to generate more wealth from the same resources. This improved performance holds true for each CPSE taken individually too.

UK Model of Privatization - The British privatization programme started in 1980 under the stewardship of then Prime Minister of United Kingdom (UK), Margaret Thatcher. In the initial phase (1979-81), the focus was on privatizing already profitable entities to raise revenues and thus reduce public-sector borrowing like in British Aerospace and Cable & Wireless. In the next phase (1982-86), focus shifted to privatizing core utilities and the government sold off Jaguar, British Telecom, the remainder of Cable & Wireless and British Aerospace, Britoil and British Gas. In the most aggressive phase (1987-91), British Steel, British Petroleum, Rolls Royce, British Airways, water and electricity were sold.

The dominant method was through an initial public offering (IPO) of all or a portion of company shares. British Aerospace was privatized in 1981 with an IPO of 52 per cent of its shares, with remaining shares unloaded in later years. The British Telecom (BT) IPO in 1984 was a mass share offering, and more than two million citizens participated in the largest share offering in world history to that date. The OECD (2003: 24) called the BT privatization "the harbinger of the launch of large-scale privatizations" internationally. In subsequent years, the British government proceeded with large public share offerings in British Gas, British Steel, electric utilities, and other companies.

A second privatization method is a direct sale or trade sale, which involves the sale of a company to an existing private company through negotiations or competitive bidding. A third privatization method is an employee or management buyout. Britain's National Freight Corporation was sold to company employees in 1982, and London's bus services were sold to company managers and employees in 1994.

Evolution of Disinvestment Policy in India - The liberalization reforms undertaken in 1991 ushered in an increased demand for privatization/ disinvestment of PSUs. In the initial phase, this was done through the sale of minority stake in bundles through auction. This was followed by separate sale for each company in the following years, a method popularly adopted till 1999-2000. India adopted strategic sale as a policy measure in 1999-2000 with sale of substantial portion of Government shareholding in identified Central PSEs (CPSEs) up to 50 per cent or more, along with transfer of management control.

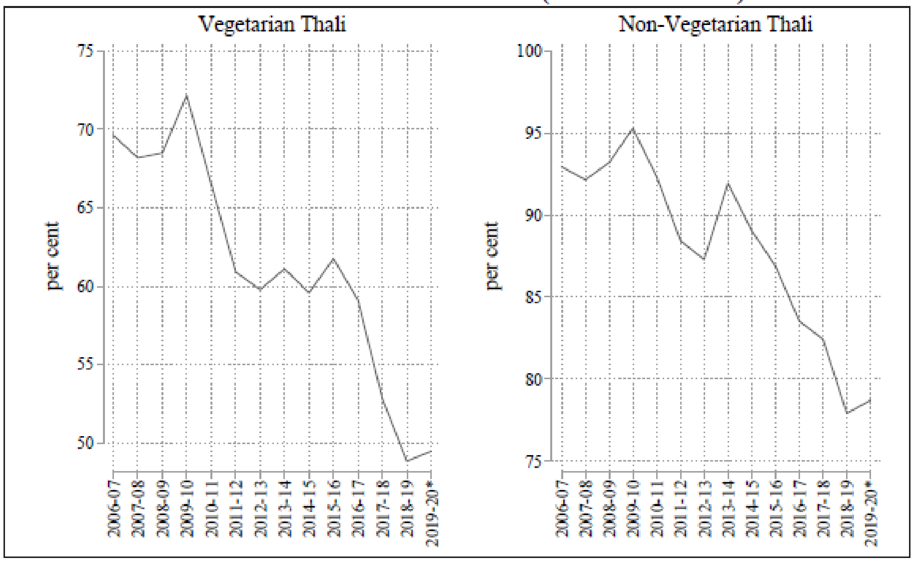
Chapter 10 – Is India's GDP Growth Overstated? No!

This chapter considers the important issue of the accuracy of India's GDP estimation. The level and growth of a country's GDP informs several critical policy initiatives as it is a barometer of the economy's size and health. It is also a pre-eminent driver of investment. Therefore, it is important that GDP is measured as accurately as possible. The granular evidence shows that a 10 per cent increase in new firm creation increases district-level GDP growth by 1.8 per cent. Granular evidence on new firm creation shows that new firm creation in the Service sector is far greater than that in manufacturing, infrastructure or agriculture. The models that incorrectly over-estimate GDP growth by 2.7 per cent for India post-2011 also mis-estimate GDP growth over the same time period for 51 other countries out of 95 countries in the sample. Several advanced economies such as UK, Germany and Singapore turn out to have their GDPs misestimated when the econometric model is incompletely specified. Concerns of a misestimated Indian GDP are unsubstantiated by the data and are thus unfounded.

Chapter 11 – Thalinomics: The Economics of a Plate of Food in India

"Thalinomics: The economics of a plate of food in India" – an attempt to quantify what a common person pays for a Thali across India. Using the dietary guidelines for Indians (NIN, 2011), the price of Thalis are constructed. Price data from the Consumer Price Index for Industrial Workers for around 80 centres in 25 States/UTs from April 2006 to October 2019 is used. Both across India and the four regions – North, South, East and West – it is found that the absolute prices of a vegetarian Thali have decreased significantly since 2015-16 though the price has increased in 2019. As a result, an average household of five individuals that eats two vegetarian Thalis a day gained around Rs.10887 on average per year while a non-vegetarian household gained Rs.11787, on average, per year. Using the annual earnings of an average industrial worker, it is found that affordability of vegetarian Thalis improved 29 per cent from 2006-07 to 2019-20 while that for non-vegetarian Thalis improved by 18 per cent.

Figure 5: Share of a Day's Wage of a Worker Needed to Afford Two Thalis for a household of Five Individuals (All-India Level)



Source: Survey calculations

Note: *: Calculations for 2019-20 based on prices for the period April-October, 2019

At the all-India level, prices of almost all the components have been mostly lower compared to the projected prices since 2015-16

QUESTIONS

Q1. "An Inquiry into the Nature and Causes of the Wealth of Nations" is written in 1776, by?
1. John Maynard Keyens
2. Adam Smith
3. Karl Marx
4. Milton Friedman
5. Amartya Sen

Q2. The cover page of Economic Survey 2019-20 conveys?
1. Empowerment of women
2. Complementary inter-linkages between macroeconomic variables like growth, demand, exports and job creation
3. Inclusive development of the society by distributing wealth and employment opportunities
4. Synthesis of lavender of the new "Rs.100 note" with the one of older Rs.100 notes
5. Synthesis of lavender of the new "Rs.2000 note" with the one of older Rs.2000 notes

Q3. 'Thalinomics' as mentioned in the Economic Survey indicates?
1. Relate economics to the Thali (meal plate) of a common man
2. Economics taking circles like that of a Thali (meal plate)
3. Following Thali model for economic growth
4. Accelerating economic growth by growing all sectors of the economy like various items on a food plate (Thali)
5. None of the above

Q4. The Economic Survey posits that India's aspiration to become a $5 trillion economy depends on all of the following, except on?
1. Providing equal opportunities for new entrants
2. Reduce government intervention
3. Enable trade for job creation
4. Scale up the banking sector to be proportionate to the size of the Indian economy.
5. None of the above

Q5. As per the Economic Survey which of the following, is not correct?
1. India traditional economic thinking has always emphasized enabling markets and eliminating obstacles to economic activity.
2. A key contributor to ancient India's prosperity was internal and external trade
3. During much of India's economic dominance, the economy relied on the invisible hand of the market
4. Since 1991, in Indian economy, sectors that were liberalized grew significantly faster than those that remain closed.
5. All of the above are correct

Q6. As per the Economic Survey which of the following, is not correct?
1. Credit in the banking sector expanded at much higher rates after the sector was opened to private sector banks
2. After economic liberalisation growth in open sectors like steel, roads, cement has been better than the growth in closed sectors like coal and railways.
3. Peninsular states dominate entry of new firms, entrepreneurship is dispersed across India and is not restricted just to a few metropolitan cities
4. In 'pro-business economy' incumbent business extract rent from their incumbency and proximity to the corridors of power
5. All of the above are correct

Q7. The Economic Survey mentions "unshackling the economic freedom for markets augments wealth creation" which of the following, is the correct explanation of this?
1. Economic growth is higher in a market led economy
2. Economic growth is higher in a tightly regulated economy
3. Economic growth has nothing to do with the government regulation of the economy
4. Growth in exports will lead to job creation in India
5. An efficient financial sector is extremely crucial for enhancing efficiency in the economy.

Q8. Which of the following statement is NOT correct about banking system in India?
1. A large economy needs an efficient banking sector to support its growth
2. PSBs account for about 70 per cent of the market share in Indian banking
3. India has only one bank in the global top 100 banks
4. Shadow banking sector is insignificant in India
5. All of the above are correct

Q9. The Economic Survey mentions "trust as a public good that gets enhanced with greater use" which of the following is NOT correct?
1. The marginal cost of supplying this public good to an extra citizen is zero
2. Trust is non-rejectable
3. People's self-esteem needs could be an intrinsic motivation to be seen as "trustworthy."
4. Global Financial Crisis denotes that trust works in global markets as well
5. Adam Smith also advocates the importance of "mutual sympathy" (i.e. trust)

Q10. As per the Economic Survey which of the following is NOT one of the 'lagging indicators of stress or impending default' by large loan defaulters?
1. Weakness in internal controls
2. Non-compliance of provisions of the Companies Act
3. Default in repayment of borrowings
4. Lack of corporate governance
5. Going concern issue

Q11. As per the World Bank's Data on Entrepreneurship, India ranks …….. in the number of new firms created.?
1. First
2. Second
3. Third
4. Fourth
5. Fifth

Q12. As per the Economic Survey which of the following is NOT correct?
1. Entrepreneurial capabilities in the Agriculture sector seem to be better distributed evenly across most districts in India.
2. Entrepreneurial activity in the Manufacturing sector is highest in the regions of Gujarat, Meghalaya, Puducherry, Punjab and Rajasthan.
3. Entrepreneurial activity in a district is not correlated with employment in the district
4. Number of new firms formed increases with an increase in the literacy in the district
5. All of the above are correct

Q13. "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one.", is knows as?
1. Darwinian Evolution
2. Malthusian Mutation
3. Free market phenomenon
4. Creative destruction
5. None of the above

Q14. "As per RBI, a firm will be called Wilful Defaulter if?

A. It has defaulted in meeting its repayment obligations even though it has the capacity to honour these obligations
B. It uses the funds for purposes other than what is sanctioned by the lender
C. It removes the assets used to secure the loan

1. Only A is correct
2. Only A and B are correct
3. Only A and C are correct
4. Only B and C are correct
5. All A, B and C are correct

Q15. As per the Economic Survey 2-19-20 which of the following is NOT correct?

1. Frequent and unpredictable imposition of blanket stock limits on commodities under Essential Commodities Act (ECA) does not help in the price volatility of commodities
2. The regulation of prices of drugs, has led to increase in the price of a regulated pharmaceutical drug vis-à-vis that of a similar drug whose price is not regulated.
3. Government policies in the foodgrain markets has led to the emergence of Government as the largest procurer and hoarder of foodgrains – adversely affecting competition in these markets.
4. The share of formal credit decreases for full beneficiaries of debt waivers given by government, when compared to partial beneficiaries
5. All of the above are correct

Q16. Which of the following commodity groups are NOT included in the Essential Commodities Act (ECA), 1955?

1. Petroleum and its products
2. Food stuff, including edible oil and seeds, vanaspati, pulses, sugarcane etc.
3. Raw Jute and jute textiles
4. Onion and Potato
5. All of the above are included

Q17. NPPA is responsible for fixing and revising the prices of pharmaceutical products as well as the enforcement of the DPCO (Drugs Prices Control Order). NPPA stands for ?

1. National Price Protocol Agency
2. National Pharmaceutical Pricing Agency
3. National Pharmaceutical Price Act
4. National Pharmaceutical Pricing Authority
5. National Producers' Pricing Authority

Q18. Which of the following statement is NOT correct about the Food Corporation of India (FCI)?

1. It was set up in 1955 under the Food Corporations Act, 1954
2. It procures food-grains from farmers at Minimum Support Prices (MSP) announced by the Government
3. It distribution of foodgrains to consumers through PDS
4. It maintains buffer stock of foodgrains for food security and price stability
5. All of the above are correct

Q19. National Food Security Act (NFSA), 2013 that covers upto …….... per cent of the rural population ……….. per cent of the urban population to receive subsidized foodgrains?

1. 90% and 70% respectively
2. 90% and 50% respectively
3. 75% and 33% respectively
4. 75% and 50% respectively
5. 50% and 33% respectively

Q20. Which of the statements is/are correct about government Debt Waivers?

A. In recent years many state governments have granted debt waivers to farmers due to elections
B. "debt overhang" refers to a situation where all current income gets used up in repaying the accumulated debt, leaving little incentives to invest either in physical or human capital.
C. An unconditional and blanket debt waiver helps in improving credit culture

1. Only A is correct
2. Only A and B are correct
3. Only A and C are correct
4. Only B and C are correct
5. All A, B and C are correct

Q21. In Ease of Doing Business (EoDB), India lag behind in which of the parameters?

1. Starting Business
2. Registering Property,
3. Paying Taxes
4. Enforcing Contracts
5. All of the above

Q22. On January 20, 2020, the market-to-book ratio, which indicates the quality of a bank's governance, is close to …. For PSBs (Public Sector Banks) and ……..for NPB (New Private Banks)?

1. 0.3 and 2 respectively
2. 0.8 and 4 respectively
3. 1.2 and 4 respectively
4. 2.2 and 4 respectively
5. 2.5 and 5 respectively

Q23. What is SBI's ranks among the largest bank globally?

1. 15^{th}
2. 23^{rd}
3. 35^{th}
4. 43^{th}
5. 55^{th}

Q24. Which of the following is NOT a weakness of Public Sector Banks?

1. Higher NPAs (Non-Performing Assets)
2. NPAs are increasing
3. Operational inefficiencies resulting into losses
4. Large number of frauds
5. All of the above are weaknesses of PSBs

Q25. Which of the statements is/are correct about wilful defaulters?

A. Higher percentage of their holdings were pledged than that of non-defaulters
B. They had higher disclosures of related party transactions than that of non-defaulters
C. Quality of audit disclosure in these firms was very poor.

1. Only A is correct
2. Only A and B are correct
3. Only A and C are correct
4. Only B and C are correct
5. All A, B and C are correct

Q26. NBFCs raise capital in the short-term (1-3 months) commercial paper (CP) market at a lower cost, and keep on issuing such CPs again at short frequencies of a few months. The frequent re-pricing exposes NBFCs to the risk of facing higher financing costs and, in the worst case, credit rationing. Such refinancing risks are referred as?
1. Takeover Risk
2. Rollover Risk
3. Market Risk
4. Short Term Risk
5. Liquidity Risk

Q27. Which of the statements is/are correct?
A. HFCs (Housing Finance Companies) hold much longer duration assets (housing loans, developer loans etc.,) as compared to Retail-NBFCs,
B. HFCs are less exposed to interconnectedness risk, as compared to Retail-NBFCs.
C. For HFCs, which invest in significantly longer duration (15 to 20-year horizon) assets, the key driver of Rollover Risk is the ALM risk.

1. Only A is correct
2. Only A and B are correct
3. Only A and C are correct
4. Only B and C are correct
5. All A, B and C are correct

Q28. Which of the following is/ are correct regarding Adam Smith's concept of the 'invisible hand' with respect to Indian context?
A. The central government's policy interventions for general welfare
B. Individuals making decisions in their own self-interest
C. Regulators (RBI/SEBI/CCI) protecting public interest

1. Only A is correct
2. Only B is correct
3. Only A and B are correct
4. Only A and C are correct
5. All A, B and C are correct

For detailed answer explanation of these questions, go through the video at https://youtu.be/lwtM2hOadVs

Answers 1- 2; 2-4; 3- 1; 4-5; 5-5; 6-4; 7-1; 8- 4; 9- 4; 10-4; 11-3; 12-3; 13-4; 14-5; 15-5; 16-5; 17-4; 18-1; 19-4; 20- 2; 21-5; 22-2; 23-5; 24-2; 25-3; 26-2; 27-5; 28-2

This summary notes are to be studied with the video explanation of the concepts and answer explanations at https://youtu.be/lwtM2hOadVs