

# The Union Budget 2020-21

The 13<sup>th</sup> 5-Institute Budget Seminar  
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# Outline

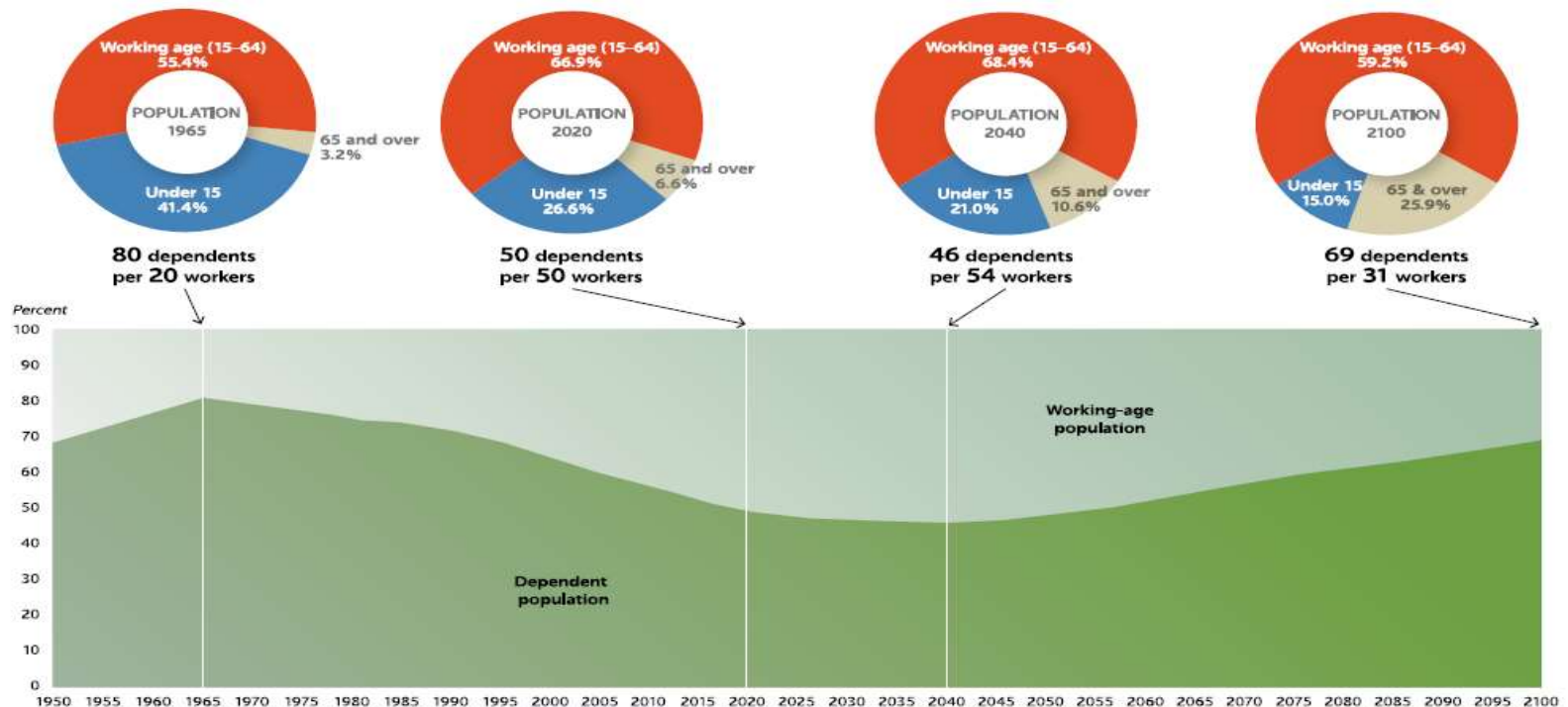
- Key Messages
- Long-Run Transitions
  - Demographic
  - Urbanisation
- Medium-Run infrastructure needs
- Short-Run Economic Challenges
  - GDP
  - Gross capital formation
  - Rural demand constraints
- Budget
  - Infrastructure
  - Agriculture
- Broader issues around incentives, macro-micro linkages, “mechanism design”, role of the state

# Key Messages

- India changing demographically and spatially: the next decade is crucial
- Government has set \$5 trillion economy target by 2024-25
- India experiencing sharpest economic slowdown in recent history
- Limited fiscal & monetary space: a tightrope walk between boosting short-run growth through demand management & boosting potential long-run, rapid growth through structural reforms
- Does the Budget recognize the problem?
- The *Economic Survey* lays out vision for rapid wealth creation using well-functioning markets & sound regulation: does Budget reflect this well?
- Does the Budget successfully walk the policy tightrope for agriculture and infrastructure?
- Is it sufficiently counter-cyclical & does it do enough on structural reforms?

# No time to lose: India must get rich before it gets old

Share of population

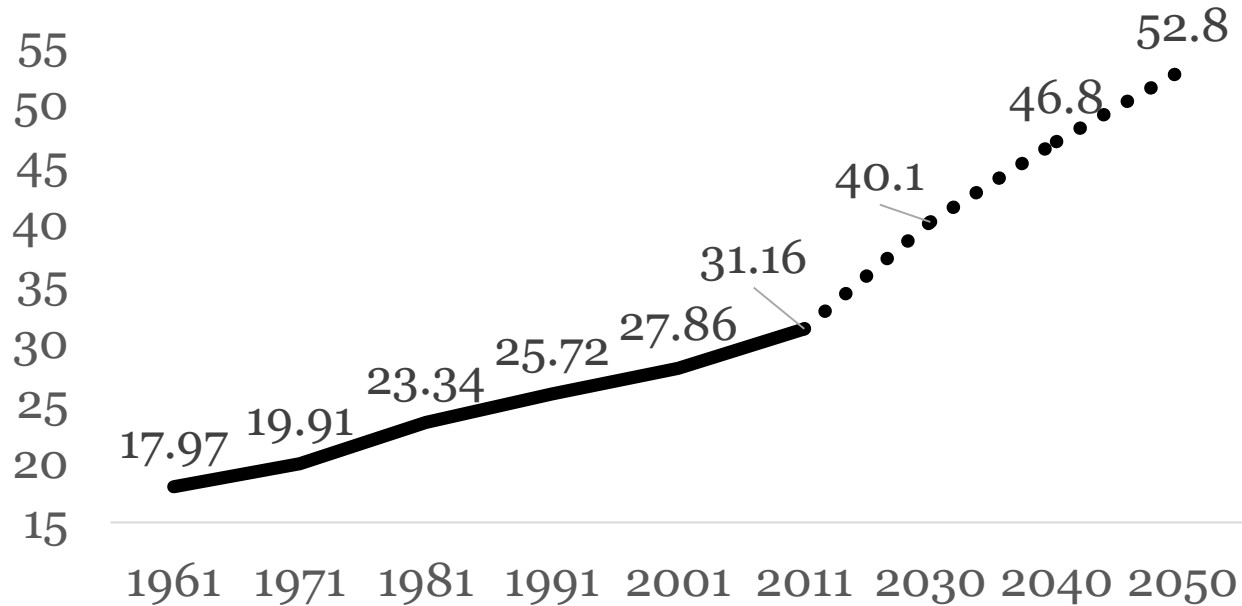


Source: United Nations, Department of Economic and Social Affairs, Population Division, 2017 Revision of World Population Prospects, data acquired at website.

Source: *Skilling India: No Time to Lose*, NCAER 2018

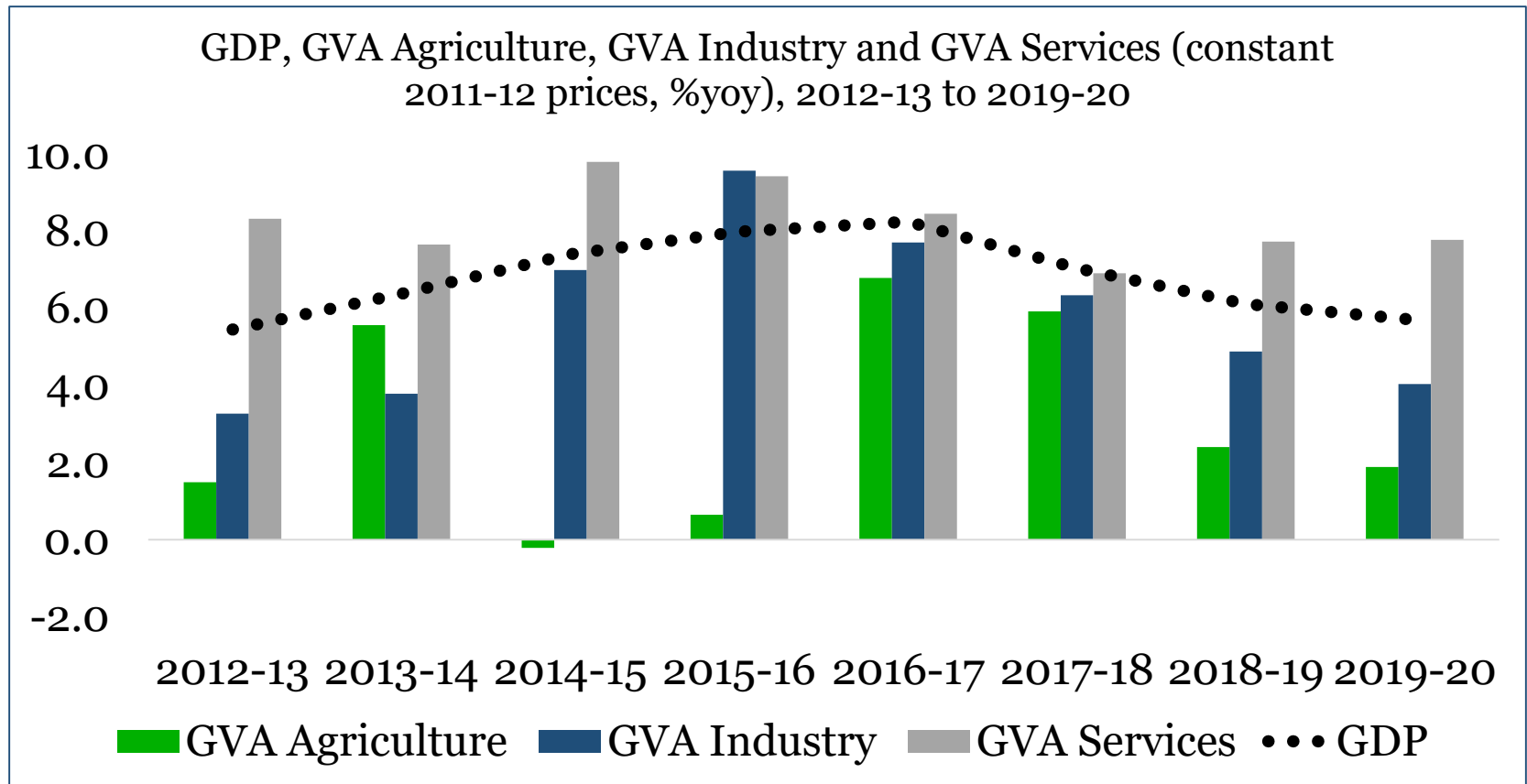
# India is urbanizing rapidly....

Urbanisation (% of urban population)  
1961 to 2050



Sources: Bhagat, R.B. 2011. "Emerging Pattern of Urbanisation in India". *Economic & Political Weekly*. 46(34): 10-12 and UN (DESA). 2018. World Urbanisation Prospects. <https://population.un.org/wup/Country-Profiles/>.

# GDP growth has deteriorated steadily since 2016-17

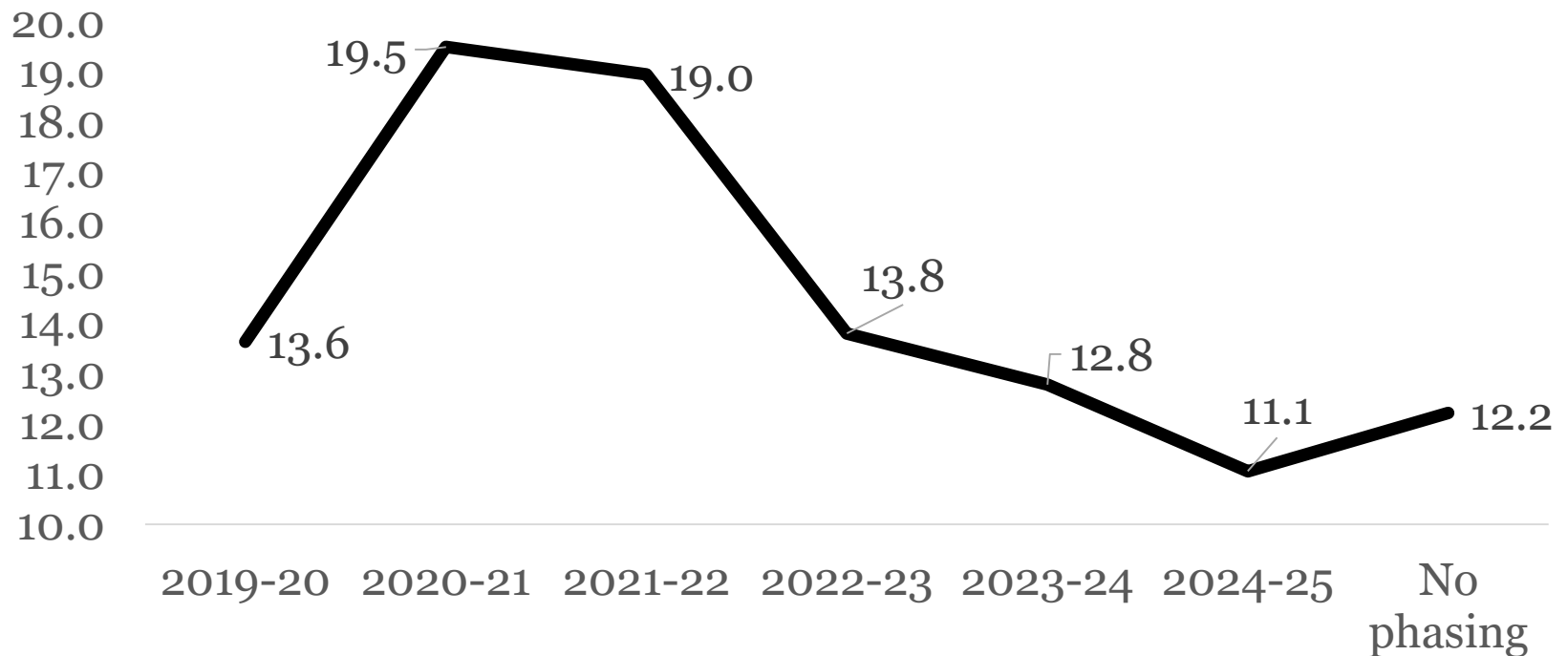


Note: 2016-17 GVA growth are Third Revised Estimates. 2017-18 are Second Revised Estimates. 2018-19 are First Revised Estimates and 2019-20 are Advance Estimates.

Source: CSO

# Infrastructure spend Rs 100 lakh crore, \$1.4 trillion, needed for \$5 trillion economy by 2024-25

Infra expenditure needed (Rs lakh crore)



**Source:** Ministry of Finance (2019). National Infrastructure Pipeline. Report of the Taskforce, Department of Economic Affairs, Ministry of Finance, Government of India.

# Infrastructure sectors all need attention

## Economic Infrastructure

### Transport

- Roads, Railways, Civil Aviation, Shipping, Urban Infrastructure, Digital Infrastructure, Irrigation, Rural infrastructure and Water & Sanitation

### Energy

- Power, Renewable Energy, Atomic Energy and Petroleum and Natural Gas

### Agriculture & Food processing infrastructure

- Agriculture, Food Processing Industries and Food and Public Distribution

### Industrial Infrastructure

- Industries & Internal Trade and Steel

## Social Infrastructure

Higher Education

School Education

Health & Family Welfare

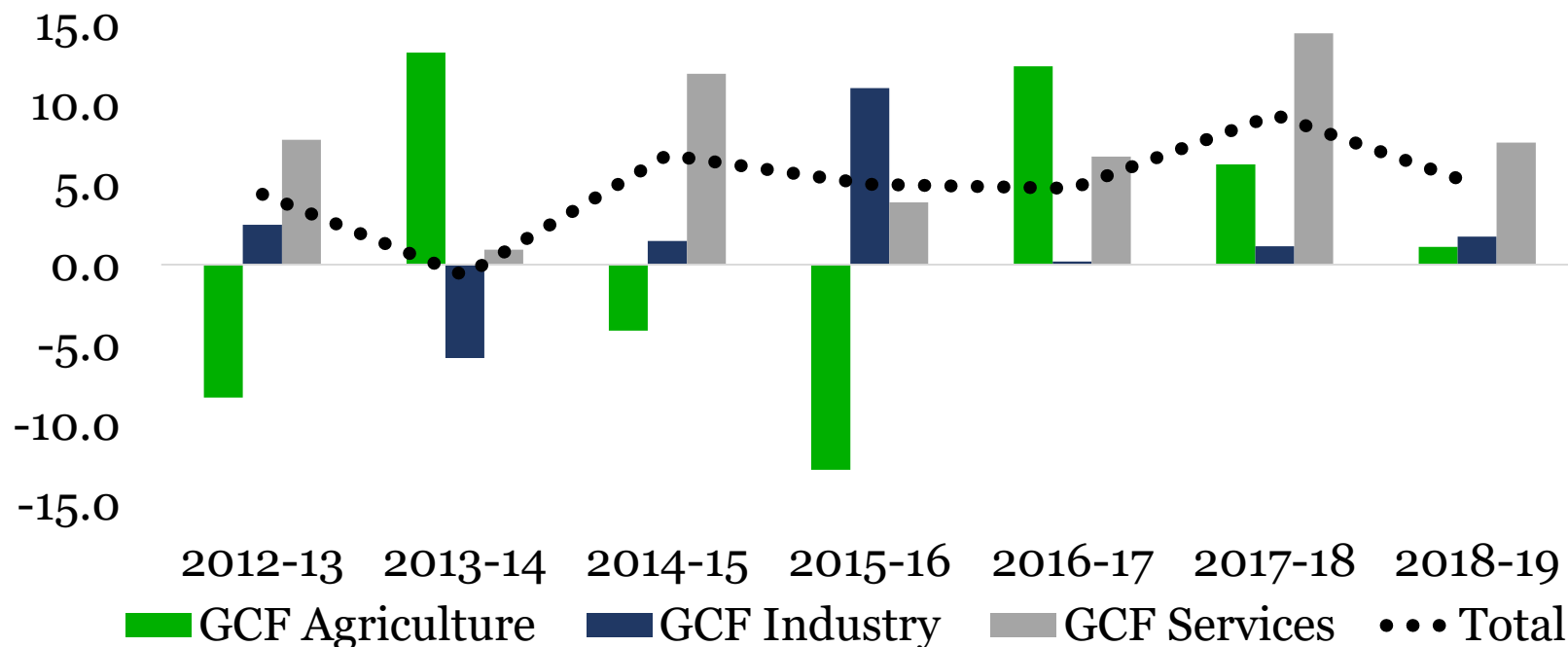
Sports

Tourism



# Gross Capital Formation humdrum in Agriculture & Industry post 2016-17

Gross Capital Formation in Agriculture, Industry, Services and Total (%yoy)

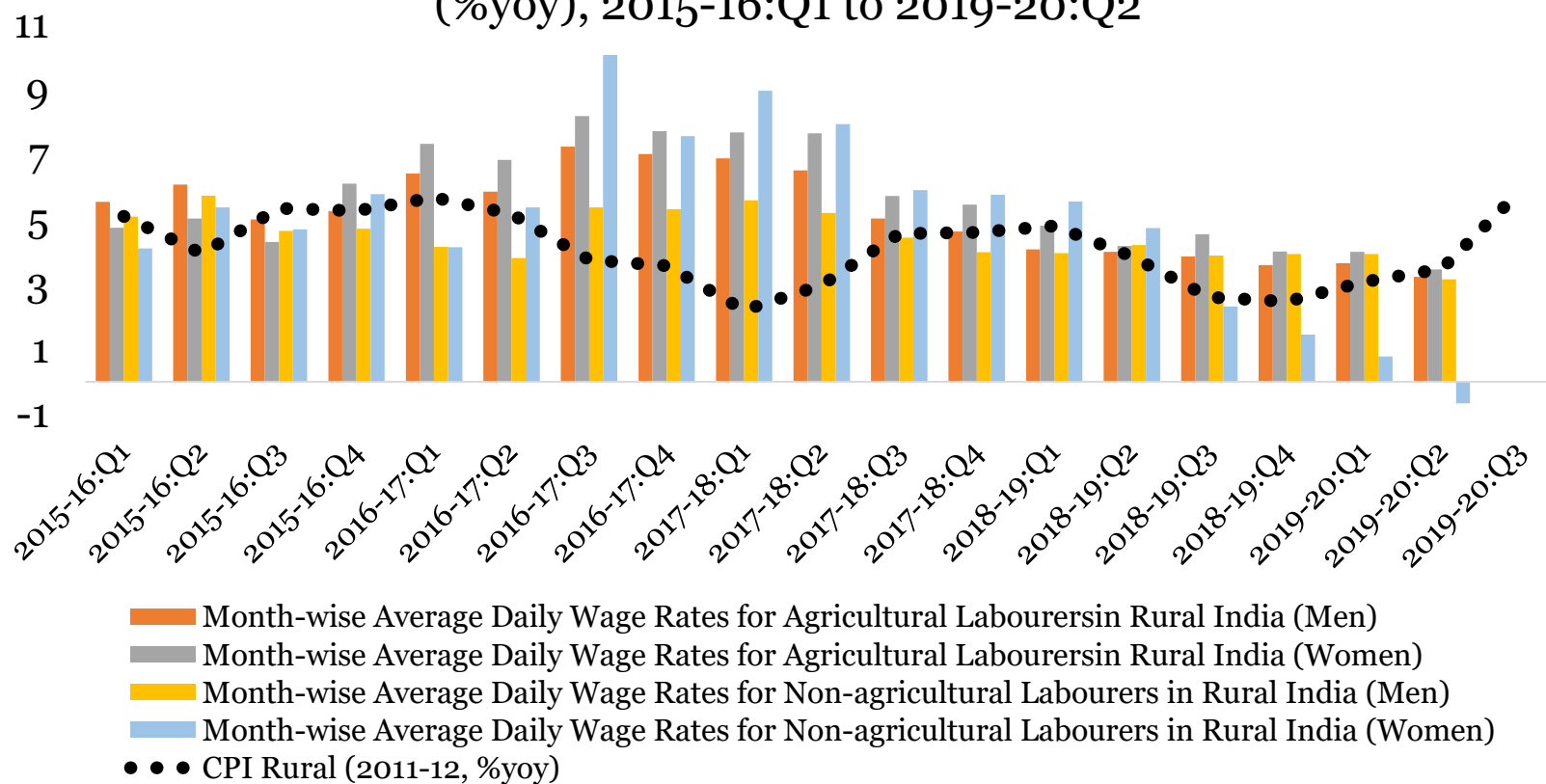


Note: 2016-17 are Third Revised Estimates. 2017-18 are Second Revised Estimates, 2018-19 are First Revised Estimates and 2019-20 are Advance Estimates.

Source: CSO

# Constraints on rural demand

Monthly Average Daily Wage Rates for Agricultural and Non-Agricultural Labour by Gender in Rural India and CPI Rural, (%yoy), 2015-16:Q1 to 2019-20:Q2



Source: CSO and Ministry of Labour and Employment, Govt. of India. Extracted from indiastat

# Not meeting infra spending targets

Sector	Requirements from Central Government (Rs lakh crore)		Total Expenditure (Rs lakh crore)		
	2019-20	2020-21	2018-19 (AE)	2019-20 (RE)	2020-21 (BE)
Energy	0.70	0.98	0.5	0.6	0.7
Roads	1.25	1.44	0.8	0.7	0.8
Railways	1.13	2.26	2.4	2.7	2.9
Civil Aviation	0.05	0.05	0.1	0.04	0.04
Shipping plus Ports & Lighthouses	0.05	0.10	0.01	0.01	0.01
Urban Infrastructure	0.90	1.27	0.03	0.05	0.05
Digital Infrastructure	0.19	0.14	0.09	0.09	0.5
Irrigation	0.22	0.37	0.03	0.04	0.05

Note: AE are actual estimates, RE is revised estimates and BE is budget estimates. Red shades mean that we have not met the targets set in NIP.

Source: Ministry of Finance (2019). National Infrastructure Pipeline. Report of the Taskforce, Department of Economic Affairs, Ministry of Finance, Government of India and Union Budget 2020-21 and Annual Financial Statement, Union Budget 2019-20.

# Rural development has received less priority

	<i>2018-19 (AE)</i>	<i>2019-20 (BE)</i>	<i>2019-20 (RE)</i>	<i>2020-21 (BE)</i>
<b><i>Total Expenditure as a percentage of Total Central Government Expenditure</i></b>				
Agriculture and Allied Activities	2.04	3.67	2.51	2.59
Rural Development	0.73	0.69	0.78	0.62
Irrigation and Flood Control	0.03	0.04	0.04	0.04

# Supply-side approach: addressing short-run distress and medium-run potential

Real Growth in Expenditure (assuming 4% retail inflation rate)				
	<i>2019-20 (RE) over 2018-19 (AE)</i>	<i>2020-21 (BE) over 2019-20 (RE)</i>	<i>Doubling Farmers' Income</i>	<i>Addressing short-run distress</i>
Agriculture and Allied Activities	20.7	8.4	√	√
Rural Development	9.7	-17.3	X	X
Irrigation and Flood Control	13.0	25.0	√	√

Note: CPI Inflation of 4% has been used to compute the real growth in expenditure.  
 The symbols are based on 2019-20 growth in expenditure and assuming that these trends hold despite the high aspirational allocation in BEs  
 Source: Union Budget 2020-21

<b>Agriculture and Allied Activities (Real Growth in Expenditure)</b>	<i>Revenue Expenditure</i>		<i>Capital Expenditure</i>	
	<b>2019-20 (RE) over 2018-19 (AE)</b>	<b>2020-21 (BE) over 2019-20 (RE)</b>	<b>2019-20 (RE) over 2018-19 (AE)</b>	<b>2020-21 (BE) over 2019-20 (RE)</b>
Crop Husbandry	95.6	16.3	190.2	66.9
Soil and Water Conservation	5.1	5.5	-	-
Animal Husbandry	24.9	36.5	53.4	40.7
Dairy Development	-26.5	-24.4	-	586.6
Fisheries	1.0	-1.2	488.9	31.2
Forestry and Wild Life	-2.8	-14.0	25.5	98.3
Plantations	12.2	-6.2	-	-
Food Storage and Warehousing	3.0	2.3	73.9	-2.9
Agricultural Research and Education	-6.1	2.0	-	-
Agricultural Financial Institutions	40.5	14.0	0.6	-49.6
Co-operation	-12.3	185.4	-	-
Other Agricultural Programmes	-30.7	174.4	-0.9	-4.0 <sub>14</sub>