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Service sector in the budget and the survey : A bird's eye view

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In a federal economy like India with deep cultural, religious, economic diversity budget is always looked upon with much reverence. It is looked upon as panacea which can uplift the underprivileged, mitigate regional disparity, upgrade economic capabilities and can bring in economic stability.

This year's budget is more important especially with the COVID- 19 pandemic and the subsequent lockdown and the social distancing measures. Every sectors of the economy were severely affected. The sector that I will be glancing through will be the service sector, which is infact a sector that contributes to 54% of India's GDP and provides employment to around 30% of India's labour force. The economic survey tries to provide a glimpse of the sector, particularly the impact of COVID- 19 on the contact intensive sectors that is sick with social distancing and lockdown measures. With the lockdown, the service sector has in fact contracted by almost 16% during the first half of 2021.

Sub sectors like tourism, aviation and hospitality as well as transport, communication and broadcasting, financial and real estate, professional services, public administration, defence etc. were found to have contracted. The Purchasing Mangers Index (PMI) which was an 85 months high of 57.5% in February 2020 fell almost to the lowest level of 5.4% in April 2020. Even the rail fright traffic growth nosedived to negative 35.3% in April 2020.

The service sector accounts for 50% of the gross state value added in 15 out of the 33 states and Union Territories put together. Infact the Economic Survey has not painted every sub sector in the service sector in dull colours. It presents some rosy pictures also of the sector. The FDI equity inflow into the sector has jumped 34% in April - September 2021 to reach $23.61 billion accounting to about one fifth of the gross FDI inflows into India during the time. The jump in FDI inflows was driven by the strong inflows into the computer software and hardware sector. Notwithstanding the setback witnessed in the wake of the pandemic, India's service sector remained relatively resilient. This was evident in the software exports which contributed to around 49.3% of the total service exports, it remains resilient with high demand for digital support and so also demand for the digital support cloud services infrastructure modernization and thereby catering to the challenges posed by the pandemic. Most software companies have shown signs of rebounding especially with growth on account of increased revenue from financial, banking, life sciences and healthcare units. On the other hand, a sharper declined was experienced in the import of services. This along with positive exports has provided a net inflow of net foreign exchange received from the service sector. Looking from this background. The economic survey presents this sector with a positive outlook especially with words like resilience, rebounding etc. With these arguments the survey had put in some very serious efforts to present the different sub sectors and come up with an argument that the economy is poised to have a 'V' shaped recovery. The description for this 'V' shape recovery was presented in the budget too.

With these arguments in the background let us look into the possibility of a 'V' shaped recovery from the service sector's perspective.

Will this sector provide the much needed medicine or the vaccine for this economy?

For the economy of India's magnitude the antidot for negative growth is creating gainful employment. What has happened to the labour in this sector?

The CMIE data as of December 2020 shows that around 14.7 million people in the organized sector have lost their jobs. Of this 5 million are supposed to be professionals. CMIE also sees the unemployment for the month of December was 9.1%. With all category of workers are put together CMIE estimate that around 120 million people have lost their jobs.

It was these people who constituted a good part of the Indian consumers. Loss of job means loss of income, loss of income means loss of demand. The important thing that needs to be stressed here is that the job loss was not triggered because of the pandemic. This had its beginning, from the time of Demonetization. This is because the demonetization affected the unorganized sector more, mainly because this sector works on cash. Also, the GST too played a much bigger role in applying the brake on the economy which was infact was moving like a car in the racing track. This is because with GST demand shifted from the unorganized to the organized sector.

Ever since the reforms, the higher growth rate was masking the decline of the unorganized sector. The service sector offered the bulk of this unorganized jobs. The demonetization and GST and the lockdown has left vast majority of these unorganised labours unemployed. These three policies had in fact ruptured the social fabric of the economy with struggling families and widening the gulf between the rich and the poor. As suggested by Dr.M.A.Ommen in the morning session the headline macro economic numbers does not reflect the real situation.

Numbers like GDP, stock market indices, industrial activity indices does not reflect the real ground situation.

The present budget is seen again focusing on growth and specifically a 'V' shaped revival. The budget aims to achieve this objective through the policy of increasing liquidity rather than through any direct intervention into the system. The survey as well as the budget excepts the trickling down of the benefits of such an ensuing growth. But over the years our experience has taught us that in India the trickling down of growth tends to stops at the privileged level and rarely moves down and reaches the poor and the needy. This has been helping to widen the disparity between the rich and the poor.

Finance Minister's budget seems to have choosen between liberalism and protectionism. With India's public debt to GDP ratio running close to 90% the survey and the budget has refuted the theory that the public debt of this level can hurt growth. Any widening of fiscal deficit can further escalate general price level and can crowd out private investments. In fact, this can further affect the demand regressively rather progressively. The budget does not offer material triggers to rekindle the animal spirits for the Indian economy but can only help the corporates to increase their market share and there by not work as an antidot against the recessionary trends but can only work as a catalyst to rupture the very social fabric of the economy.