



## **Economic Survey 2020-21 Part - II**

1) Consider the following statements with respect to *Interest Rate Growth Rate Differential (IRGD)*

1. It is the difference between the interest rate and the growth rate in an economy.
2. In advanced economies, the negative IRGD is due to much higher growth rates whereas in India, it is due to lower interest rates.

Which of the statement(s) given above is/are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : a

### ***Interest Rate Growth Rate Differential (IRGD)***

- It is the difference between the interest rate and the growth rate in an economy.
- According to Economic Survey 2020-21, the extremely low interest rates in advanced economies have led to negative IRGD.
- In India, the negative IRGD is not due to lower interest rates but much higher growth rates.

2) Consider the following statements:

1. Counter-Cyclical Fiscal Policy stabilizes the business cycle by being contractionary in good times and expansionary in bad times.
2. Pro-cyclical fiscal policy reinforces the business cycle by being expansionary during good times and contractionary during recessions.

Which of the statement(s) given above is/are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : c

### ***Counter-Cyclical Fiscal Policy***

- It refers to strategy by the government to counter boom or recession through fiscal measures.
- It works against the ongoing boom or recession trend; thus, trying to stabilize the economy.
- A Counter-Cyclical Fiscal Policy stabilizes the business cycle by being contractionary (reduce spending/increase taxes) in good times and expansionary (increase spending/reduce taxes) in bad times.

- It softens the recession and moderates the expansions, thereby decreasing fluctuations in the business cycle.
- In a country like India, which has a large workforce employed in the informal sector, counter-cyclical fiscal policy becomes even more paramount.
- In advanced economies, where the public and private sector labour markets are not too segmented, fiscal spending can increase public sector employment, reduce the supply of labour in the private sector, bid up wages, and thereby crowd out private sector employment.
- However, in a country like India, where the private and public sector labour markets are largely segmented, such crowding out of private sector employment is minimal.
- Thus, debt-financed public expenditure is more cost-effective to employ during recessions than during economic booms.

### ***Pro-Cyclical Fiscal Policy***

- On the contrary, a pro-cyclical fiscal policy is the one wherein fiscal policy reinforces the business cycle by being expansionary during good times and contractionary during recessions.
- It deepens recessions and amplifies expansions, thereby increasing fluctuations in the business cycle.

3) Consider the following statements

1. India's public debt-to-GDP has been significantly low compared to high global debt levels.
2. The public debt and overall debt level for India has declined since 2003 and has been stable since 2011.

Which of the statement(s) given above is/are *incorrect*?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2



**SHANKAR**  
**IAS PARLIAMENT**  
*Information is Empowering*

Answer : d

### ***Structure and characteristics of India's public debt***

- India's public debt-to-GDP has been significantly low compared to high global debt levels.
- A cross-country comparison of debt levels points out that for India, the government debt level as a proportion of GDP is equal to the median in the group of G-20 OECD countries and in the group of BRICS nations.
- India's overall debt levels as a per cent of GDP are the lowest amongst the group of G-20 OECD countries and also among the group of BRICS nations.
- Moreover, public debt and overall debt level for India has declined since 2003 and has been stable since 2011.

4) Consider the following statements with respect to *National Infrastructure Pipeline (NIP)*

1. It aims to improve project preparation and attract investments into infrastructure in identified sectors for FY 2019-2025.
2. It is a whole-of-government exercise funded jointly by the Centre, states and the private sector.

Which of the statement(s) given above is/are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : c

### ***National Infrastructure Pipeline (NIP) for FY 2019-25***

- It is a first-of-its-kind, whole-of-government exercise to provide world-class infrastructure to citizens and improving their quality of life.
- It aims to improve project preparation and attract investments into infrastructure.
- The funding of the National Infrastructure Pipeline will be jointly made by the Centre, states and the private sector in the proportion of 39:39:22 (39 % each by the centre and states and 22% by the private sector).

5) With respect to *Credit Rating*, consider the following statements:

1. A sovereign credit rating is an independent assessment of a country's ability to repay its debt obligations.
2. India, being the fifth largest economy of the world, has been rated as the lowest rung of the investment grade BBB-.

Which of the statement(s) given above is/are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : c

- India had been rated as the lowest rung of the investment grade (BBB-/Baa3).
- It is never in the history of sovereign credit rating, the fifth largest economy in the world, has been rated the lowest.
- Reflecting the economic size and thereby the ability to repay debt, the fifth largest economy has been predominantly rated AAA.
- China and India are the only exceptions to this rule.
- China was rated A-/A2 in 2005 and now India is rated BBB-/Baa3.
- Currently, India is rated investment grade by three major rating agencies - S&P, Moody's and Fitch.