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February 2021 | ISSUE 02

PERFECT 7

Weekly Current Affairs

An Initiative of Dhyeya IAS

Special Issue on

ECONOMIC SURVEY 2020-21

Volume-II

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DHYEYA IAS : AN INTRODUCTION

Vinay Kumar Singh
Founder & CEO

The guiding philosophy of the institute, throughout, has been creation of knowledge base. Dhyeya IAS inculcates human values and professional ethics in the students, which help them make decisions and create path that are good not only for them, but also for the society, for the nation, and for the world as whole. To fulfill its mission in new and powerful ways, each student is motivated to strive towards achieving excellence in every endeavor. It is done by making continuous improvements in curricula and pedagogical tools.

The rigorous syllabi not only instills in them, a passion for knowledge but also attempts to teach them how to apply that knowledge in real-life situations. The programmes lay emphasis on well-rounded personality development of the students and also in inculcating the values of honesty and integrity in them.

Q.H. Khan
Managing Director

Dhyeya IAS is an institution that aims at the complete development of the student. Our faculty are hand-picked and highly qualified to ensure that the students are given every possible support in all their academic endeavors. It is a multi-disciplinary institution which ensures that the students have ready access to a wide range of academic material.

Our brand of education has broad horizons as we believe in exposure. Our students are encouraged to widen their knowledge base and study beyond the confinements of the syllabus. We aim to lend a gentle guiding hand to make our students recognize their inner potential and grow on their own accord into stalwarts of tomorrow's society.

PERFECT 7 : AN INTRODUCTION

Kurban Ali
Chief Editor

With immense pleasure I would like to inform you that the new version of 'Perfect 7', from the Dhyeya IAS, is coming with more information in a very attractive manner. Heartily congratulations to the editorial team. The 'Perfect 7' invites a wider readership in the Institute. The name and fame of an institute depends on the caliber and achievements of the students and teachers. The role of the teacher is to nurture the skills and talents of the students as a facilitator. This magazine is going to showcase the strength of our Institute. Let this be a forum to exhibit the potential of faculties, eminent writers, authors and students with their literary skills and innovative ideas.

Please do visit our website www.dhyeyaias.com and our youtube channel for regular and updated information on current affairs.

Ashutosh Singh
Managing Editor

We have not only given the name 'Perfect 7' to our magazine, but also left no stone unturned to keep it 'near to perfect'. We all know that beginning of a task is most vital and full of challenges. So we met the same fate.

Publishing 'Perfect 7' provided us various challenges because from the beginning itself we kept our bar too high to ensure the quality. Right from the very first issue we had a daunting task to save aspirants from the 'misinformation' or 'overdose of information'. Focussing on civil services examination 'Perfect 7' embodies in itself perfect friend and guide in your preparation. This weapon is built to be precise yet comprehensive. It is not about bombardment of mindless facts, rather an analysis of various facets of the issues, selected in a systematic manner. We adopted the 'Multi Filter' and 'Six Sigma' approach, in which a subject or an issue is selected after diligent discussion on various levels so that the questions in the examination could be covered with high probability.

Being a weekly magazine there is a constant challenge to provide qualitative study material in a time bound approach. It is our humble achievement that we feel proud to make delivered our promise of quality consistently without missing any issue since its inception.

Your suggestions and popular demands always motivate us and keep our morale high.

May this version of 'Perfect 7' instill a new energy and a new spirit in you. We wish that the bond of affection between you and Dhyeya IAS reaches at a new height.

PREFACE

Dhyeya family has decided to bring a new colourful and vibrant version of **'Perfect 7'** – a panacea for current affairs, which will add positive and dynamic energy in your preparation.

'Perfect7' is an outstanding compilation of current affairs topics as per the new pattern of Civil Services Examination (CSE). It presents weekly analysis of information and issues (national and international) in the form of Articles, News Analysis, Brain Boosters, PIB Highlights and Graphical Information, which helps to understand and retain the information comprehensively. Hence,**'Perfect 7'** will build in-depth understanding of various issues in different facets.

'Perfect7' is our genuine effort to provide correct, concise and concrete information, which helps students to crack the CSE. This magazine is the result of the efforts of the eminent scholars and the experts from different fields. **'Perfect 7'** is surely a force multiplier in your effort and plugs the loopholes in the preparation.

We believe in environment of continuous improvement and learning. Your constructive suggestions and comments are always welcome, which could guide us in further revision of this magazine.

Omveer Singh Chaudhary

Editor
Dhyeya IAS

As a proud jewel of Dhyeya IAS, **'Perfect 7'** now comes in a new coloured avatar. **'Perfect 7'** is a quintessential part of your preparation strategy for Civil Services Examination. A regular and manageable dose of current affairs will now reach you in new format, making it more reader friendly. Our humble attempt to serve you is surely rewarded by your appreciations. It encourages us to innovate and provide the best as per our ability.

A dedicated team of experts at Dhyeya IAS toils night and day to make your dream of Civil Services come true. I heartily thank and express my gratitude to the esteemed readers and all the people involved in making this magazine a shining star in the galaxy of Dhyeya IAS.

Rajat Jhingan

Editor
Dhyeya IAS

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VOLUME-II

01 State of the Economy 2020-21: A Macro View

CONTEXT

- The year 2020 was predominated by the COVID-19 pandemic, posing the most formidable economic challenge to India and to the world, since the Global Financial Crisis.
- Global economic output is estimated to fall by 4.4 per cent in 2020, the sharpest contraction in a century. Advanced economies were hit harder, in terms of lives and economic output, compared to Emerging Market Developing Economies.
- The imperative of flattening the disease curve was entwined with the livelihood cost of an imminent recession, which emanated from the restrictions in economic activities from the lockdown required to contain the pandemic. This inherent trade-off led to the policy dilemma of "lives versus livelihoods".

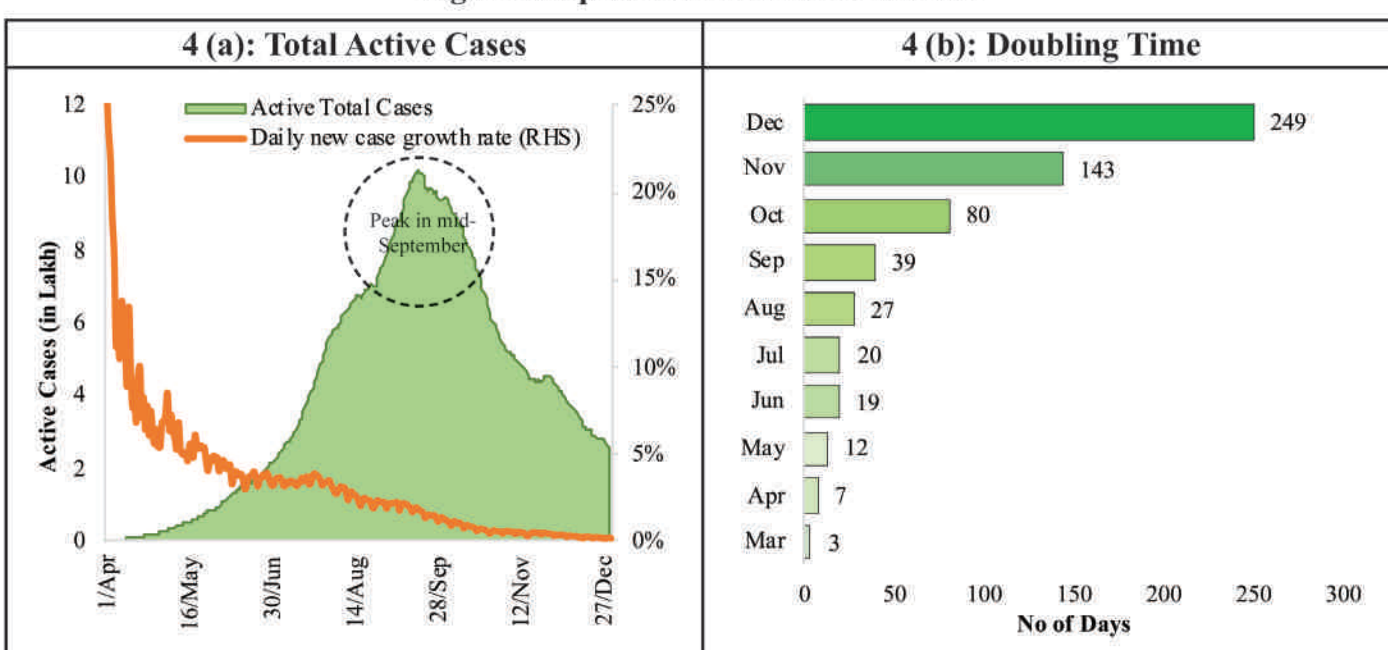
INTRODUCTION

- The year 2020 threw at the world a bedlam of novel COVID-19 virus, threatening all that was taken for granted – mobility, safety, and a normal life itself. This, in turn, posed the most formidable economic challenge to India and to the world in a century. Bereft of a cure or a vaccine, public health policy became central to tackling this all-pervasive crisis.
- Governments and central banks across the world deployed a range of policy tools to support their economies such as lowering key policy rates, quantitative easing measures, loan guarantees, cash transfers and fiscal stimulus measures. India recognised the disruptive impact of the pandemic and charted its own unique path amidst dismal projections by several international institutions of the spread in the country given its huge population, high population density and an overburdened health infrastructure.
- Specifically, faced with enormous uncertainty about the potential spread of the pandemic, the policy implemented the Nobel-prize winning research in Hansen and Sargent (2001) that recommends a policy focussed on minimising losses in a worst case scenario. Faced with an unprecedented pandemic, loss of scores of human lives captured this worst case scenario.
- Moreover, epidemiological research highlighted the importance of an initial, stringent lockdown especially in a country where high population density posed difficulties with respect to social distancing. Therefore, India's policy humane response that focused on saving human lives, recognised that the short-term pain of an initial, stringent lockdown would lead to long-term gains both in the lives saved and in the pace of the economic recovery.
- The scores of lives that have been saved and the V-shaped economic recovery that is being witnessed – due to the causal impact of the initial lockdown – bear testimony to India's boldness in taking short-term pain for long-term gain.
- The V-shaped economic recovery is supported by the initiation of a mega vaccination drive with hopes of a robust recovery in the services sector. Together, prospects for robust growth in consumption and investment have been rekindled with the estimated real GDP growth for FY 2021-22 at 11 per cent. India's mature policy response to this "once-in-a-century" crisis thus provides important lessons for democracies to avoid myopic policymaking and demonstrates the significant benefits of focusing on long-term gains.

SPREAD OF THE PANDEMIC: IN-BRIEF

- The World Health Organization (WHO) declared COVID-19 a 'Public Health Emergency of International Concern' (PHEIC) on 30th January, 2020 and advised that all countries should be prepared for containment, including active surveillance, early detection, isolation and case management, contact tracing, and prevention of onward spread. The exponential rise in the number of daily cases compelled the WHO to title this outbreak a pandemic on 11th March, 2020 - within a period of three months of its emergence.
- Since its first outbreak in Wuhan, China, COVID-19 has infected all continents, including Antarctica (in December, 2020), and more than 220 countries.
- In the initial stages of the pandemic, the Advanced Economies (AE) of North American and West European region were disproportionately impacted with more than 70 per cent of the total cases and total deaths. The pandemic quickly intensified in number of Emerging Market and Developing Economies (EMDEs) such as Brazil, India, Mexico, Russia and Turkey– that now constitute around 50 per cent of total cases and total deaths. In recent months, amidst a repeat wave, AEs—particularly the United States and several Euro area countries—have accounted for an increasing share of cases; in EMDEs, outbreaks in the Latin America and the Caribbean, and Europe and Central Asia regions have continued to grow. It is evident that AEs have been affected harder by the pandemic.
- India imposed a stringent nation-wide lockdown during the initial phase of the pandemic in March-April, 2020, followed by gradual unlocking and phasing out of the containment measures. India crossed its peak in mid-September with 11.12 lakh active cases on 17th September, 2020 and 97,860 daily new cases on 16th September, 2020. Subsequently, new cases have moved down to less than 16,000 cases per day in January, 2021 despite the festive season and onset of the winter season. The confirmed cases in India have touched more than 1.06 crore, representing around 11 per cent of the world's total case load. India's share in new cases load globally has drastically come down from 31 per cent in September, 2020 to 4 per cent in December, 2020. The pace of spread has been controlled with doubling time of cases rising from 12 days in May, 2020 to 249 days in December, 2020.
- The total death toll in India, as on 31st December, 2020, was 1.48 lakh with more than 50 per cent of the fatalities occurring in western and southern zones of the country. Throughout the pandemic, Maharashtra has been the worst affected state having highest incidence of deaths in India. All zones, except the northern zone, experienced a single wave in terms of deaths. The northern region witnessed three death waves, with the third wave proving to be the most lethal as deaths exceeded 1.7 times more than what it was during the first wave.

Figure 4: Spread of COVID-19 in India



Source: Data accessed from https://www.covid19india.org/, Ministry of Health and Family Welfare (MoH&FW)
Note: Doubling rate is defined as ln2/ ln (1 + r), where r is the average of last seven days of growth in cumulative cases.

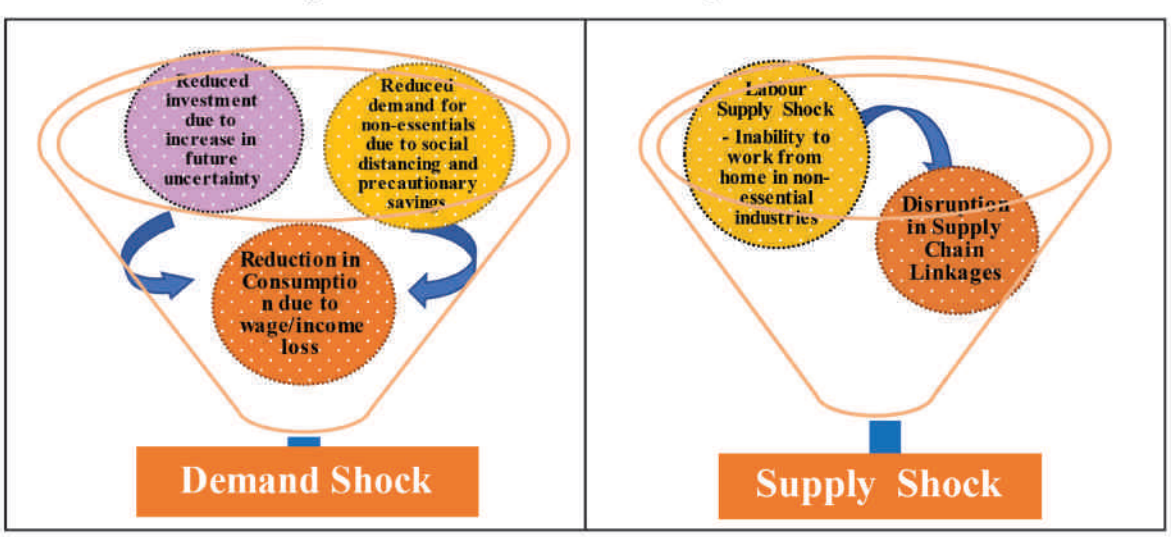
RAMPING UP TESTING

- As the first step towards timely identification, prompt isolation & treatment, testing was identified as an effective strategy to limit the spread of infection. A characteristic of the pandemic, which aggravated its virulence, was its probable transmission by asymptomatic people. Large-scale testing was, therefore, imperative for quick identification of cases, immediate isolation to prevent spread and timely treatment.
- India rapidly ramped up its capacity to rapidly scale-up tests. In January 2020, India had only one laboratory testing for COVID-19, at the National Institute of Virology, Pune. Today there are more than 2300 laboratories across the country, performing molecular tests for its diagnosis - an unparalleled achievement in the history of the Indian health system.

SHOCK AND SPEEDY RECOVERY OF INDIAN ECONOMY

- India has been able to avoid the second wave while ably managing to flatten the epidemiological curve, with its caseload peaking in mid-September.
- The initial stringent lockdown was critical to saving lives and the V-shaped economic recovery.
- The continuous drop in daily cases and fatalities bespeak India's escape from a Sisyphus fate of back-and-forth policy responses, enabling continual unlocking of the economy.
- As anticipated, while the lockdown resulted in a 23.9 per cent contraction in GDP in Q1, the recovery has been a V-shaped one as seen in the 7.5 per cent decline in Q2 and the recovery across all key economic indicators.
- Starting July, a resilient V-shaped recovery is underway, as demonstrated by the recovery in GDP growth in Q2 after the sharp decline in Q1, a sustained resurgence in high frequency indicators such as power demand, E-way bills, GST collection, steel consumption, etc.
- The reignited inter and intra state movement and record-high monthly GST collections have marked the unlocking of industrial and commercial activity.
- A sharp rise in commercial paper issuances, easing yields, and sturdy credit growth to MSMEs portend revamped credit flows for enterprises to survive and grow. Imports contracted more sharply than exports, with Forex reserves rising to cover 18 months of imports.
- Inflation, mainly driven by food prices, remained above 6 per cent for much of the year; the softening in December suggests easing of supply-side constraints.
- India's GDP is estimated to contract by 7.7 per cent in FY2020-21, composed of a sharp 15.7 per cent decline in first half and a modest 0.1 per cent fall in the second half.
- Sector-wise, agriculture has remained the silver lining while contact-based services, manufacturing, construction were hit hardest, and have been recovering steadily. Government consumption and net exports have cushioned the growth from diving further down.

Figure 11: Twin Economic Shocks by the Pandemic



Source: Adapted from Estupinan, Xavier and Sharma, Mohit and Gupta, Sargam and Birla, Bharti (2020)

POLICY DILEMMAS AND IMPACT UNDERLYING COVID-19

- Given the fast spread of the pandemic, the immediate public health policy priority was, 'flattening the epidemiological curve' to mitigate the impact of the spread.
- The steps to "flatten the curve" were intended to slow the transmission of the virus, push the peak of the curve and spread the distribution of cases over time.
- Countries, accordingly, across the globe adopted various non-pharmaceutical interventions (NPIs) like social distancing measures via work & school closures, travel bans, cancellations of public events and restrictions of internal movement and, by social isolation measures via quarantining infected people from the population, tracing infected persons contacts and enhanced testing.
- The containment measures allowed ramping up of the health and testing infrastructure, arresting the spread of the virus and saving 'lives'.
- Even if no containment measures were implemented, a recession would have been fuelled by the precautionary and/ or panic behaviour of households and firms faced with the uncertainty of dealing with a pandemic that had no cure.
- **Demand Shocks:** Increased uncertainty, lower confidence, loss of incomes, weaker growth prospects, fear of contagion, curtailment of spending options due to closure of all contact-sensitive activities, the triggering of precautionary savings, risk aversion among businesses and resultant fall in consumption and investment – leading to the first order demand shock.
- **Supply Shocks:** The supply chain disruptions caused by closure of economic activity and restricted movement of labour lead to the first order supply shocks.
- The initial supply shock, resulting in wage and income loss, could impact aggregate demand and impair productive capacity leading to supply shocks. These effects were further amplified through international trade and financial linkages, dampening global activity and pushing commodity prices down. The feedback loops of demand and supply generated potential hysteresis effects - when households demand less, firms get reduced revenues, which feeds into reduced activity by firms, and thus reduced household income.
- The spread and intensity of COVID-19 induced twin economic shock can be broadly captured through impact on output/Gross Value Added (GVA) and employment. In terms of GVA shock, non-essential activities are likely to endure a combined shock directly proportional to their respective GVA contribution, given that they could not operate during lockdown.
- Essential activities are likely to undergo a dampened shock, primarily arising from the indirect impact of restricted activities in non-essential sectors. In terms of employment shock, contact-sensitive sectors like trade, hotels, transport, tourism, etc. are likely to undergo a shock proportional to the respective employment share, with informal workers likely to bear the larger brunt.
- The construction and mining sectors, that employ a larger share of informal workers, have been severely affected by the pandemic-induced lockdowns.
- Agriculture was largely insulated from the lockdown in India as timely and proactive exemptions from COVID-induced lockdowns to the sector facilitated uninterrupted harvesting of rabi crops and sowing of kharif crops. However, supply chain disruptions impacted the flow of agricultural goods leading to high food inflation and adverse initial impact on some major agricultural exports. The manufacturing sector was hit hard in the first quarter but has since picked up though mining still remains impacted. Construction and Services sector were hit the hardest due to the pandemic induced requirements of social distancing and minimising of personal interaction.

DISRUPTION OF GLOBAL ECONOMY BY THE PANDEMIC

- Since 2018, the growth momentum in global output was on a weakened footing owing to various factors like trade tensions, political instability, slowed demand and reduction in industrial activity. COVID-19 pandemic accentuated the deceleration by causing severe demand and supply disruptions.
- The month of April 2020 became the month of "Global Lockdown" with world economic activity coming to a standstill – leading to a steep fall in output during second quarter of 2020.

- Global financial conditions have remained accommodative on the back of continued policy support via unprecedented swift interventions by Central banks. Despite subdued activity and a highly uncertain outlook, global equity markets have rebounded at a faster pace from the March lows, though with notable differentiation across countries, depending on the spread of the virus, the scope of policy support, and sectoral composition.
- Some sectors (such as airlines, hotels, energy, and financials) have been more affected by the lockdown and social distancing, whereas those that are less contact-intensive (information technology, communications) have fared better.
- Global output is expected to witness the sharpest contraction in a century, contracting in the range of 3.5 - 4.3 per cent in 2020 as per the estimates provided by IMF and World Bank. The estimates for global growth were revised upward through the year with easing of lockdowns and resurgence in economic activity in July-September quarter of the year.
- The rebound in global activity has, however, been uneven and subdued since the beginning of second half of the year due to resurgence in COVID-19 infection rates in AEs.
- Debt levels have reached historic highs, making the global economy particularly vulnerable to financial market stress (Figure 19). General government debt in major economies rose during Q2 2020. Debt is likely to rise further as governments finance the recovery by facilitating the transition of capital, labor, skills, and innovation to a post-pandemic economic environment.

INDIAN ECONOMY ON THE PATH OF A RESILIENT V-SHAPED TRAJECTORY

- The Indian economy, after subdued growth in 2019, had begun to regain momentum January 2020 onwards, only to be stalled by the once-in-a-century black swan COVID-19 outbreak. The economy witnessed a sharp contraction of 23.9 per cent in Q1: FY 2020-21 and 7.5 per cent in Q2: FY 2020-21 due to the stringent lockdown imposed during March-April, 2020. Since then, several high frequency indicators have demonstrated a V-shaped recovery.
- There has been rapid recovery in India's economic activity from the COVID-19 pandemic induced unprecedented lows of the first quarter of FY 2020-21 on the back of extraordinary fiscal and monetary support provided by the Government and RBI. Overall movement of high frequency indicators over Q1, Q2 and Q3 indicated speedy pickup in Q2 and growing convergence to pre-pandemic levels in Q3.
- As India's mobility and pandemic trends aligned and improved concomitantly, indicators like E-way bills, rail freight, GST collections and power consumption not only reached pre-pandemic levels but also surpassed previous year levels.
- The year also saw manufacturing sector's resilience, rural demand cushioning overall economic activity and structural consumption shifts in booming digital transactions.

Agriculture and Rural Economy

- Agriculture is set to cushion the shock of the COVID-19 pandemic on the Indian economy in 2020-21 with a growth of 3.4 per cent in both Q1 and Q2. It is the only sector that has contributed positively to the overall Gross Value Added (GVA) in both Q1 and Q2 2020-21. This indicates that agricultural activities for rabi harvesting and kharif sowing were largely unaffected by the COVID 19-induced lockdown. Given the expectation of a bountiful kharif harvest, the food grain production target has been set at 301 million tonnes for the 2020-21 crop year, up by 1.5 per cent from the record output achieved in 2019-20. Sowing remained healthy while procurement continued unabated, firming up buffers and channelizing supply, while ensuring food security throughout the year.
- Rural demand has remained resilient empowered by the government's thrust on the rural economy and infrastructure in previous years, through a bouquet of reforms for both farm and non-farm sectors.
- Rural digitalisation and financial inclusion drives aided in smooth implementation of demand push measures during COVID-19. Initiatives to spur skill development, entrepreneurship, Self Help Groups and livelihoods have further empowered the rural economy to combat the COVID-19 induced vagaries. Critical steps such as PM-KISAN, adoption of cost plus 50 per cent formula for MSP, focus onirrigation via PM Krishi Sinchai Yojana, micro-irrigation scheme, promoting economies of scale through FPOs, and institutionalizing e-NAM (Electronic national agricultural market), and promotion of agricultural mechanization through subsidies and custom hiring centres, have contributed to nourishing a vibrant agricultural sector, which remains a silver lining to India's growth story of FY 2020-21.

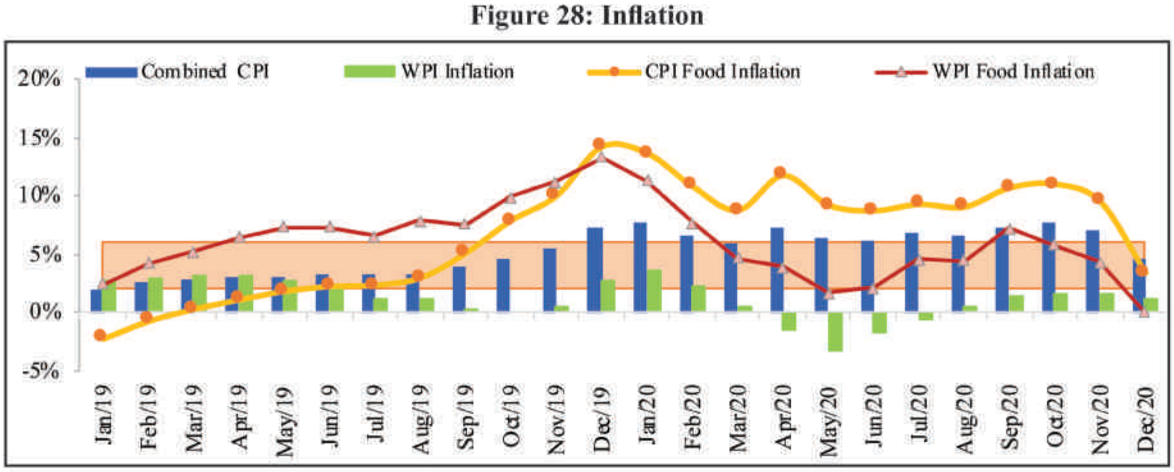
Manufacturing and Services

- Manufacturing rebounded and industrial value started to normalize. Headwinds, however, lingered on.
- The index of eight core industries, which make up around 40 per cent of the index, registered a growth of (-) 2.6 per cent in November, 2020 as compared to a growth of 0.7 per cent in November, 2019 and (-) 0.9 per cent in October, 2020. Consequently, IIP, after registering positive growth in October 2020 slipped back into contractionary zone in November, 2020.
- PMI Manufacturing, however, continued to remain in expansionary zone in December 2020. Resuscitating steel consumption reinforced acceleration in construction sector, propping up employment as economy unlocked.
- The housing market, a key forward linkage sector for steel consumption, saw gradual resurgence from its Q1: 2020-21 trough.
- Electricity sector retained its momentum with power consumption registering positive YoY growth since September, 2020.
- Revitalized inter and intra-state movement along with a sustained spurt in industrial and commercial activity heralded the economy's returning to normalcy. E-way bills, electronic toll collection, rail freight and port cargo traffic not just recovered but surpassed previous year levels in Q3: 2020-21, while rail passenger earnings and domestic aviation witnessed a steady recovery. Indian services sector sustained its recovery from the pandemic driven declines with PMI Services output and new business rising for the third straight month in December.

Inflation and Bank Credits

- High food prices remained a major driver of inflation in 2020. However, inflation in December, 2020 fell back into the RBI's target range of 4 +/- 2 per cent to reach 4.6 per cent year-on-year as compared to 6.9 per cent in November.
- This was driven by a steep fall in food prices, particularly of vegetables, cereals, and protein products and favourable base effects. After consistently rising for six months since Q1:2020-21, headline inflation also eased sequentially in December. However, fuel inflation remained sticky owing to higher crude oil prices. Core inflation remained elevated on a yearly basis but eased as compared to the previous month.

Figure 28: Inflation



Source: MOSPI

- Bank credit remained subdued in FY 2020-21 amid risk aversion and muted credit appetite.
- While overall bank credit growth and credit to commercial sector gradually picked up from its April lows to reach 6.7 per cent and 6.2 per cent YoY respectively as on 1st January, it remained sluggish compared to previous year levels.
- Credit growth to agriculture and allied activities accelerated to 7.4 per cent in October 2020 from 7.1 per cent in October 2019. October 2020 saw resilient credit flows to sectors such as construction, trade and hospitality, while bank credit remained muted to the manufacturing sector. Credit growth to the services sector accelerated to 9.5 per cent in October 2020 from 6.5 per cent in October 2019.
- While personal loans registered a decelerated growth of 9.3 per cent in October 2020 as compared with 17.2 per cent growth a year ago, vehicle loans continued to perform well, registering accelerated growth of 8.4 per cent in October 2020 vis-a-vis a growth of 5.0 per cent in October 2019.

- On the non-bank financing side, assets under management (AUM) of mutual funds grew at 17.73 per cent during April to November 2020.
- RBI's special liquidity window for mutual funds helped them to tide over this difficult period. RBI's liquidity enhancing measures also boosted Commercial Paper (CP) issuances and eased spreads. In December 2020, CP issuances rose by 55 per cent to reach `1.88 lakh crore as compared to ` 1.21 lakh crore in November 2020.

Fiscal Arithmetic

- During April-December 2020 (Flash estimates), total non-debt receipts of Central Government fell by 4.7 per cent YoY. However, gross GST collections (Centre plus states) gained buoyancy October onwards, crossing the ` 1 lakh crore mark consecutively for 3 months, thereby providing much needed succour to the Government's revenue position.
- Total expenditure of the Central Government recorded a growth of 11 per cent during April-December 2020 (Flash estimates), with capital expenditure growing by 24.1 per cent and revenue expenditure by 9.2 per cent year-on-year.
- States, however, witnessed a contraction in total expenditure by 4.1 per cent year-on-year during April-October 2020. While revenue expenditure of states did not see any significant uptick during this period, growth in capital expenditure of state governments emerged out of eight months of consecutive decline to record positive growth in October 2020.
- As on 8th January 2021, the Central Government gross market borrowing for FY2020-21 reached ` 10.72 lakh crore, while State Governments have raised ` 5.71 lakh crore. While Centre's borrowings are 65 per cent higher than the amount raised in the corresponding period of the previous year, state governments have seen a step up of 41 per cent.
- Government and RBI led liquidity support measures, increase in limits of ways and means advances, and relaxation of rules governing withdrawals from the Consolidated Sinking Fund (CSF) enabled bond markets to absorb pressures of increased government borrowings and added to their buoyancy.

External Sector

- Amid domestic and global demand and supply disruptions, India's merchandise exports fell by 21.1 per cent in the first half of 2020-21 with the contraction being more severe for imports at 38.8 per cent.
- Exports, however, revived gradually as the rate of contraction eased to 5.0 per cent in Q3:2020-21, with non-oil exports increasing by 2.3 per cent during the quarter.
- With the gradual unlocking of the economy, the decline in imports has also moderated to 8.3 per cent during Q3: 2020-21. While trade deficit narrowed to US$ 26.2 billion in April-September 2020-21 from US$ 88.9 billion a year ago, it stood at US$ 31.2 billion during the third quarter of the year, lower than US$ 37.0 billion in the same quarter last year.
- India recorded a current account surplus of 3.1 per cent of GDP in the first half of the year largely supported by strong services exports.
- While prospects of external demand normalization are underway, its pace is contingent on the global COVID-19 outlook and successful rollout of vaccinations across the world.
- India remained a preferred investment destination in FY 2020-21. FDI poured in amidst global asset shifts towards equities and prospects of quicker recovery in emerging economies. Subsequent to an unrivalled global portfolio investor selloff in March 2020, surges of FPI flows were witnessed June onwards marking a renewed appetite for risky assets and yield, and weakening of US dollar amid global monetary easing and fiscal stimulus packages.
- Net FPI inflows recorded an all-time monthly high of US$ 9.8 billion in November 2020. During April-December 2020, equities witnessed inflow of at USD 30.0 billion, five times its previous year value - India was the only country among emerging markets to receive equity FII inflows in 2020.
- Combined with a rise in gold reserves and foreign currency assets, India's foreign exchange reserves climbed to a new high of US$ 586.08 billion as on 8th January, 2020, covering more than 18 months of imports.
- External debt as a ratio to GDP, which is comprised primarily of private sector's external debt, rose marginally to 21.6 per cent as at end-September 2020 from 20.6 per cent at end-March 2020. However, the ratio of foreign exchange reserves to total and short-term debt (original and residual) improved because of the sizable accretion in reserves.
- Reflecting lower current receipts, debt service ratio (principal repayment plus interest payment), however, increased to 9.7 per cent as at end-September 2020 as compared to 6.5 per cent at end-March 2020.

INDIA'S STRATEGIC MULTI-PRONGED POLICY RESPONSE

Table 1: Policy Package in India to Combat COVID-19

Policy Tools	Nature	Policy Tools
Containment measures	◆ Containment and Closure Policy ◆ Transmission prevention	◆ School closure ◆ Complete Nation-wide lock-down for 21 days ◆ Travel bans/restrictions ◆ Closure of public places/cancellation of public events ◆ Curtailment of non-essential economic activities ◆ Risk profiling of districts into Red Zones (hot spots), Orange and Green Zones ◆ Social distancing norms ◆ Mandatory use of masks
Fiscal Policy Measures	◆ Health ◆ Welfare ◆ Tax Measures ◆ Demand push ◆ Investment push	◆ Emergency health fund (INR 150 billion) ◆ Pradhan Mantri Garib Kalyan Yojana - Financial assistance and food security ◆ Increment in daily wage under MGNREGS ◆ Garib Kalyan Rojgar Abhiyaan – livelihood creation in rural areas ◆ Tax & contribution policy changes ◆ Support to States, linking borrowings to Reforms **Aatma Nirbhar Bharat Package 1** ◆ Emergency Credit Line Guarantee Scheme (ECLGS) for MSMEs ◆ Subordinate Debt for Stressed MSMEs and Equity Infusion through Fund of Funds for MSME ◆ Extension of Partial Guarantee Scheme to help NBFCs & MFIs ◆ Special Credit Facility to Street Vendors ◆ Liquidity Injection for DISCOMs ◆ Special liquidity Scheme for NBFC/HFC/ MFIs ◆ Interest Subvention for MUDRA Shishu Loans ◆ Housing Credit Linked subsidy Scheme - MIG ◆ Additional Emergency Working Capital through NABARD ◆ Additional credit through KCC ◆ Creation of Agri Infrastructure Fund, Animal Husbandry Infrastructure Development Fund ◆ Promotion of Herbal Cultivation ◆ Beekeeping Initiative ◆ Viability Gap Funding Scheme for Social Infrastructure projects

		Aatma Nirbhar Bharat Package 2 ◆ Boost Capital Expenditure ◆ LTC voucher Scheme ◆ Festival Advance **Aatma Nirbhar Bharat Package 3** ◆ Boost for Atma Nirbhar Manufacturing - Production Linked Incentives ◆ Boost for Rural Employment ◆ R&D Grant for COVID Suraksha – Indian vaccine development ◆ Atma Nirbhar Bharat Rozgar Yojana ◆ Industrial Infrastructure, Industrial Incentives and Domestic Defence Equipment ◆ Support for Agriculture – Fertiliser Subsidy ◆ Housing for All - PMAY-U ◆ Boost for Infrastructure-equity infusion in NIIF Debt PF ◆ Boost for Project Exports – Support for EXIM Bank
Monetary measures	◆ Policy Rates ◆ Liquidity ◆ Asset Purchases ◆ Loan moratorium	◆ Lowering of Repo and reverse repo rate by 115 and 155 bps respectively. ◆ Injection of durable liquidity through Open Market Operation (OMO) ◆ Targeted Long Term Repo Operations (TLTROs) of up to three years' ◆ Reduction in the CRR requirement of banks ◆ Raised bank's borrowing limit ◆ Working capital support- term loan moratorium, deferment of interest and easing of financing requirements ◆ Enhanced WMA borrowing limits and relaxation of CSF withdrawal rules ◆ Easing of compliance to stressed asset classify ◆ Deferment, easing of capital buffer & liquidity coverage requirements ◆ Deferring compliance requirements for FPIs under Voluntary Retention Route (VRR)
Structural reforms	◆ Agriculture ◆ MSMEs ◆ Labour ◆ Business Process Outsourcing (BPO) ◆ Power ◆ Privatization of PSUs ◆ Mineral Sector ◆ Industry ◆ Space ◆ Defence	**Agriculture** ◆ Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020 ◆ Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020 ◆ Essential Commodities (Amendment) Act, 2020 **MSMEs** ◆ New MSME definition covering almost 99 per cent of all firms enabling MSMEs to grow in size and create jobs ◆ Removal of artificial separation between manufacturing and service MSMEs

		Labour ◆ Enactment of four labour codes namely, Wage Code, Industrial Relations Code, 2020, Code on Occupational Safety, Health & Working Conditions Code, 2020 & Social Security Code, 2020 ◆ 'One labour return, one licence and one registration' . **Business Process Outsourcing (BPO)** ◆ Simplification of the Other Service Provider (OSP) guidelines of the Department of Telecom. Several requirements, which prevented companies from adopting 'Work from Home' and 'Work from Anywhere' policies have been removed. **Power** ◆ Tariff Policy Reform: DISCOM inefficiencies not to burden consumers, Progressive reduction in cross subsidies, Time bound grant of open access, etc. ◆ Privatization of Distribution in UTs **Privatization of PSUs** ◆ PSUs in only strategic sectors ◆ Privatization of PSUs in non-strategic sectors **Mineral Sector** ◆ Commercial Mining in Coal Sector ◆ Introduction of a seamless composite exploration-cum-mining-cum-production regime. **Industry** ◆ Production Linked Incentive (PLI) Scheme **Space** ◆ Level-playing field provided to private companies in satellites, launches and space-based services ◆ Liberal geo-spatial data policy for providing remote-sensing data to techentrepreneurs **Defence** ◆ Corporatization of Ordnance Factory Board ◆ FDI limit in the Defence manufacturing under automatic route will be raised from 49 per cent to 74 per cent.

Resilience in Economy

- NSO has estimated a contraction of real GDP by 7.7 per cent in 2020-21 as compared to a growth of 4.2 per cent in 2019-20. This is the fourth contraction in India's GDP since 1960-61. The contraction this year reflects the 'once in a century crisis' unleashed by the pandemic and associated public health measures.
- The advance estimates for FY:2020-21 released by NSO manifest that the economy is expected to stage a resilient V-shaped recovery in H2:2020-21. As per quarterly estimates released by NSO, the economy has shown a decline of 15.7 per cent by H1: FY 2020-21. A decline of real GDP by 7.7 per cent for the whole FY:2020-21 indicates a modest decline of 0.1 per cent in GDP growth in second half of the year. It also indicates a 23.9 per cent growth in H2: FY2020-21 over H1: FY2020-21. Faster normalisation of business activities amid gradual lifting of restrictions, higher festive and pent-up demand and policy support is expected to translate into a faster-than-anticipated economic recovery over the second half. This is supported by a strong rebound seen in several high frequency indicators in Q3: FY 2020-21.

- On the demand side, the recovery is expected to be broad-based in the second half. The biggest growth driver is likely to be government consumption that is expected to grow at a strong 17 per cent YoY in second half as against a 3.9 per cent contraction the first half.
- Private consumption is also expected to improve significantly with a mild contraction of 0.6 per cent as against a contraction of 18.9 per cent in the first half.
- Investment, as measured by Gross Fixed Capital Formation (GFCF), is also expected to recover significantly with a mild contraction of 0.8 per cent in the second half against a sharp 29 per cent drop in H1FY21.
- Net Exports (Exports – Imports) turned positive in the first half of the year with a larger contraction in imports of 29.1 per cent as compared to contraction in exports of 10.7 per cent.
- With gradual recovery of economic activity, both imports and exports have picked up and net exports is expected to re-enter the negative territory in the second half. Exports are expected to decline by 5.8 per cent and imports by 11.3 per cent in the second half of the year.
- On the supply side, Gross Value Added (GVA) growth is pegged at -7.2 per cent in 2020-21 as against 3.9 per cent in 2019-20. Only Agriculture contributed to positive growth while Service and Industry contributed to the contraction in GDP.
- Within Industry, Mining is estimated to contract by 12.4 per cent, Manufacturing by 9.4 per cent and construction by 12.6 per cent. The utilities sector has shown a sharp recovery and is set to register a positive growth of 2.7 per cent in 2020-21. Within Services Sector, trade, hotels, transport & communication are estimated to contract by 21.4 per cent.
- Industry sector has staged a robust recovery in second half with a positive growth of 1.1 per cent as against a sharp 20.5 per cent drop in the first half with a sharp pick up in manufacturing sector to 0.5 per cent in second half against a contraction of 19.4 per cent in first half. Electricity and Construction sectors are also estimated to register V-shaped recovery with growth of 7.1 per cent and 4.4 per cent respectively in the second half.

WAY FORWARD

- After an estimated 7.7 per cent pandemic-driven contraction in 2020-21, India's real GDP is projected to record a growth of 11.0 percent in 2021-22 and nominal GDP by 15.4 per cent. These conservative estimates reflect upside potential that can manifest due to the continued normalisation in economic activities as the rollout of Covid-19 vaccines gathers traction.
- These projections are in line with IMF estimate of real GDP growth of 11.5 per cent in 2021-22 for India and 6.8 per cent in 2022-23. India is expected to emerge as the fastest growing economy in the next two years as per IMF.
- These projections are in line with IMF estimate of real GDP growth of 11.5 per cent in 2021-22 for India and 6.8 per cent in 2022-23. India is expected to emerge as the fastest growing economy in the next two years as per IMF. vaccines for emergency use, India initiated the mega vaccination drive on 16th January, 2020. The COVID Vaccine Intelligence Network (Co-WIN) system – a digitalised platform - provides real-time information of vaccine stocks, their storage temperature and individualised tracking of beneficiaries of the vaccine on a real-time basis.
- With the economy's returning to normalcy brought closer by the initiation of a mega vaccination drive, hopes of a robust recovery in services sector, consumption, and investment have been rekindled.

02 Fiscal Developments

CONTEXT

- To facilitate a resilient recovery of the economy from the impact of COVID-19 pandemic, Government of India adopted a calibrated approach best suited for the evolving situation of the economy in contrast with a front-loaded large stimulus package adopted by many countries.
- The expenditure policy in 2020-21 changed according to the needs of an evolving situation. It was initially aimed at supporting the vulnerable sections but once the lockdown was unwound, it was re-oriented to reinflating overall demand through capital spending.

INTRODUCTION

- Amidst the shock and uncertainty of Wuhan Coronavirus massive fiscal measures, amounting to 12 percent of global GDP, were taken globally to mitigate the adverse impact of the pandemic. Fiscal policy, in combination with monetary policy measures, emerged as an effective policy tool in times of crisis.
- The shortfall in revenue collection owing to the interruption in economic activity and the additional expenditure requirements to mitigate the fallout of the pandemic on vulnerable people, small businesses, and the economy in general, created immense pressure on the available limited fiscal resources. In order to cater to the increased demand for resources, the target for gross market borrowings of the Central Government for the financial year 2020-21 was revised from the Budget estimate of Rs 7.8 lakh crore to Rs 12 lakh crore.
- The fiscal policy response of the Government of India to the pandemic was distinct from other countries. Unlike many other countries that chose a front-loaded grand stimulus package for revival of the economy, Government of India adopted a step-by-step approach. The approach was to provide a cushion for the poor and vulnerable section of society and to the business sector (especially the MSMEs) in the initial phase of lockdown.
- This included the world's largest food programme, direct transfers to Jan Dhan accounts, as well as government guarantees for credit, postponement of financial deadlines etc.
- With the gradual un-locking of the economy, the focus of the fiscal stimulus has been widened with various measures taken to boost the domestic demand such as ramping up of capital expenditure, Production Linked Incentives and other schemes to revive consumption demand.

FISCAL SITUATION AND RESPONSE TO COVID-19 PANDEMIC

- During the first two quarters of financial year 2020-21, Ministries were classified into three categories.
  - Ministries in category 'A' were providing relief or welfare to the public. No expenditure restrictions were placed on these Ministries and in fact enhanced allocations were made available to them.
  - Other Ministries which were not directly involved in the pandemic were placed in the category 'B' and allowed to spend 20% of their budget per quarter.
  - Ministries with low priority in the pandemic situation were placed in category 'C' and allowed to spend 15% of their budget in each of the first two quarters.
- However, even in Category B and C Ministries, spending on domestic capital expenditure was permitted beyond these ceilings. This categorization enabled the Government to ensure that funds for essential activities were made available in full despite a sharp contraction in revenue receipts, and that scarce resources were conserved for re-prioritisation.
- With effect from the third quarter, the spending ceilings were relaxed on the basis of revised full year allocations. The revised allocations reflected a substantial re-prioritisation of expenditure to those sectors with the most positive effect on the economy, either in terms of re-kindling growth or meeting welfare needs.
- Ministries were allowed to decide the timing of expenditure within the revised allocation.

- Second to pandemic relief, the Government has placed maximum priority on productive domestic capital expenditure which has a high multiplier effect on the economy.
- The capital expenditure for April to December 2020 stood at Rs 3.17 lakh crore, 24 per cent higher than the capital expenditure during the corresponding period in the previous year.
- The total expenditure also recorded a YoY growth of 11 per cent, increasing from Rs 21.1 lakh crore during April to December 2019 to Rs 23.4 lakh crore during April to December 2020.
- An analysis of the monthly expenditure also shows that the total expenditure registered an increase during the last three months of the year 2020 by 9.5 per in October, 48.3 per cent in November and 50.2 per cent in December compared to the same months in the previous year.
- Moreover, the capital expenditure during the last three months of the year 2020 recorded a phenomenal growth of 129.5 per cent in October, 248.5 per cent in November and 81.9 per cent in December as compared to same months in previous year.
- Recovery is also evident on the revenue front, as the monthly gross GST collection has crossed the Rs 1 lakh crore mark consecutively for the last 3 months. Monthly GST revenues for the month of December 2020 stood at Rs 1.15 lakh crore, after registering a 12 per cent growth in the GST revenues over December 2019. This has been the highest monthly GST collection since the introduction of GST. The recovery in GST collection has been due to the combined effect of the rapid economic recovery post pandemic and the nation-wide drive against GST evaders and fake bills along with many systemic changes introduced recently, which have led to improved compliance.

Table 1: Provisional Outcome for 2020-21 (Up to November 2020)

		2020-21 BE	In ₹ lakh crore		Percentage of respective BE		Growth over last year (per cent)	
			2019-20 (Apr – Nov)	2020-21 (Apr – Nov)	2019-20 (Apr – Nov)	2020-21 (Apr – Nov)	2019-20 (Apr – Nov)	2020-21 (Apr – Nov)
1	Revenue Receipts	20.21	9.83	8.13	50.1	40.2	13.0	-17.3
2	Gross tax revenue	24.23	11.74	10.26	47.7	42.4	0.8	-12.6
3	Assignment to States	7.84	4.22	3.34	52.1	42.6	-2.3	-20.7
4	Tax Revenue (net to Centre)	16.36	7.51	6.88	45.5	42.1	2.6	-8.3
5	Non Tax Revenue	3.85	2.33	1.24	74.3	32.3	67.8	-46.6
6	Non Debt Capital Receipts	2.25	0.29	0.18	24.2	8.1	10.4	-37.5
7	Non Debt receipts	22.46	10.12	8.31	48.6	37.0	12.9	-17.9
8	Total Expenditure	30.42	18.20	19.06	65.3	62.7	12.8	4.7
9	Revenue Expenditure	26.30	16.06	16.65	65.6	63.3	13.0	3.7
10	Capital Expenditure	4.12	2.14	2.41	63.2	58.5	11.7	12.8
11	Revenue Deficit	6.09	6.23	8.52	128.4	139.9	13.0	36.8
12	Fiscal Deficit	7.96	8.08	10.76	114.8	135.1	12.7	33.1
13	Primary Deficit	0.88	4.66	6.92	1076.5	785.3	26.5	48.5

Source: CGA Monthly Accounts; BE: Budget Estimates

Table 2: Expenditure on major subsidies

Items	Budget Estimate (In ₹ lakh crore)	April to November (In ₹ lakh crore)			Rate of growth over same period in previous year (April -Nov)		
	2020-21	2018	2019	2020	2018	2019	2020
Total Major Subsidies	**2.28**	**2.19**	**2.35**	**2.02**	**6.3**	**7.3**	**-14.0**
Food Subsidy	1.16	1.42	1.32	1.16	5.3	-7.2	-12.0
Nutrient Based Fertilizers Subsidy	0.24	0.20	0.22	0.16	14.9	11.3	-29.6
Urea Subsidy	0.48	0.33	0.51	0.50	4.6	52.7	-1.8
Petroleum	0.41	0.23	0.30	0.20	8.1	27.7	-31.9

Source: CGA Monthly Accounts

PERFORMANCE OF FISCAL INDICATORS AND THEIR COMPONENTS

- The data on Government accounts for April to November 2020, released by the Controller General of Accounts, show that the fiscal deficit of the Central Government at end November 2020 stood at 135.1 per cent of the BE compared to 114.8 per cent during the same period in 2019-20.
- Given the enormity of the situation faced by the pandemic, most of the countries including India have been fiscally strained, which reflected in the deficit figures. In order to cater to the increased demand for resources required by the Government, the target for gross market borrowings of the Central Government for the financial year 2020-21 was revised from the Budget estimate of Rs 7.8 lakh crore to Rs 12 lakh crore.
- The non-debt receipts have been adversely hit by the slump in economic activity after the pandemic outbreak. During April to November 2020, the non-debt receipts have registered a growth of -17.9 percent relative to the corresponding period last year.
- This shortfall is attributed to a fall in all components of non-debt receipts viz. net tax revenue, non-tax revenue and non-debt capital receipts. The Non-Tax revenue collections up to November 2020 registered a decrease of 46.6 per cent relative to the corresponding period last year. This was led by a decrease in dividends and profits by Rs 0.88 lakh crore over April to November 2019, which stood at 45.4 per cent of BE.
- The Gross Tax Revenue during the first eight months of 2020-21 was Rs 10.26 lakh crore, 42% of BE, 12.6 per cent lower than in the same period last year. This decline was owing to the negative growth in all direct taxes and major indirect taxes, except excise duties. In particular, the shortfall in direct tax collection contributed to 92 per cent of the shortfall in Gross Tax Revenue.
- The Corporation Tax and Personal Income Tax stood at 27.3 per cent of BE and 36.8 per cent of BE for the period up to November 2020.
- The shortfall in indirect taxes during April to November 2020 was led by shortfall in customs and GST collections for the Centre. Revenue collection from customs stood at 45.7 per cent of BE and GST collections for the Centre were 48 per cent of BE during April to November 2020. This shortfall was partly offset by the revenue collection through the excise duties, which rose by 48 per cent during the first eight months of the fiscal relative to the same period last year.
- The adverse market conditions arising due to COVID-19 have also negatively impacted the Government's plans to achieve the target for disinvestment receipts, which is a major component of Non-debt Capital receipts. The Budget 2020-21 had envisaged to mobilize ` 2.1 lakh crore from disinvestment proceeds during current fiscal year, of which Rs 90,000 crore was envisaged for disinvestment in financial institutions. As on 20th January, 2021, the Government has been able to raise Rs 15,220 crore.

- The expenditure policy during the year 2020-21 has focused on restructuring and prioritisation of expenditure to meet the unforeseen expenditure demands arising due to COVID-19. The total Government expenditure during April to November 2020 stood at 62.7 per cent of Budget estimate, compared to 65.3 per cent in April to November 2019.
- The revenue expenditure has grown by 3.7 per cent during the first eight months of 2020-21 compared to the same period in 2019-20.
- The monthly accounts data up to November 2020 shows that subsidies registered a negative growth of 14 per cent during the first eight months of FY 2020-21.
- The decline in global petroleum prices acted as an important fiscal shock absorber during 2020-21, as it led to a decline in petroleum subsidies and an increase in revenue collection from excise duties (owing to increased excise duty levies on petroleum products).
- In order to support the creation of long-term assets and infrastructure, the Central Government had enhanced the budget provision for Capital Expenditure on roads, defence, water supply, urban development and domestically produced capital equipment by Rs 25,000 crore for FY 2020-21. The capital expenditure during April to November 2020 has grown by 12.8 per cent over the same period in 2019-20.
- Given the adverse impact of COVID-19 on economic activities particularly the decline in individual and corporate incomes, consumption of goods and services and the muted domestic and international trade in the first half of FY 2020-21, it is expected that the tax revenues may fall short of the Budget estimates during 2020-21.
- During the past months, positive signs of recovery in revenue collections have been seen in terms of positive growth in monthly GST collections and more than 50 per cent growth in revenue receipts for the month of October 2020 and November 2020 relative to the corresponding months of 2019.

FISCAL STIMULUS BY GOVERNMENT OF INDIA

- In order to facilitate a resilient recovery of the economy from the impact of COVID-19 pandemic and the following lockdown, Government of India and RBI together announced a total stimulus worth Rs 29.87 lakh crore, which is 15% of national GDP. Out of this, stimulus worth 9% of GDP has been provided by the Government under Atma Nirbhar Bharat Package. This stimulus was provided in the following tranches:
  - Special economic and comprehensive package, announced from 13-17 May 2020.
  - Measures to stimulate consumer spending in the economy announced on 12 October 2020.
  - Measures under Atma Nirbhar Bharat 3.0 announced on 12 November 2020.
- It may be emphasized that in contrast with the fiscal policy approach adopted by some of the other countries, whereby a one-time large demand stimulus package was announced, the fiscal stimulus by the Government of India was introduced in a phased manner.
- The special economic and comprehensive package announced in the initial phase of lockdown focused on measures to primarily provide a cushion to the vulnerable sections of the society and the small businesses. This included direct food transfers to the poor and vulnerable, livelihood programmes, guarantees and liquidity enhancing measures.
- Subsequently, along with the steady unwinding of the lockdown and restrictions, the demand side impetus was given to re-inflate consumption demand.
- When the economic recovery began after the lifting up of the lockdown, the focus of the stimulus measures shifted towards on investment boosting measures like Production Linked Incentives, enhancing capital expenditure and steps to encourage investment in infrastructure sector. This change in mix of the stimulus measures, as shown in the figure below, reflects that the fiscal policy had the flexibility of adapting to an evolving situation in order to enable a resilient recovery.

REFORMS IN TAX ADMINISTRATION

'Honoring the Honest' Platform

- The platform for 'Transparent taxation- Honoring the Honest' was launched in August 2020 with an objective to impart greater efficiency, transparency and accountability, and to eliminate physical interface between taxpayers and tax officers. The key features of the platform are
  - Usage of technology, data analytics and Artificial Intelligence and
  - Recognizing taxpayers as partners in nation-building.
- The Platform stands on 3 pillars of tax administration reforms namely,
  - Faceless assessment:The Faceless Assessment Scheme, 2019 (earlier called the e-assessment Scheme and renamed in August 2020) was based on the idea that automated random allocation of cases across Income Tax teams with dynamic jurisdiction and elimination of face-to-face contact. The scheme establishes a National Faceless Assessment Centre (NFAC) in Delhi, headed by Principal Chief Commissioner of Income Tax, as the sole point of contact between the Department and the taxpayer.
  - Faceless appeal:Under Faceless Appeals Scheme, 2020, all Income Tax appeals will be finalised in a faceless manner under the faceless ecosystem with the exception of appeals relating to serious frauds, major tax evasion, sensitive & search matters, International tax and Black Money Act. The Scheme establishes a National Faceless Appeal Centre (NFApC) as the apex body for conduct of e-appeal proceedings in a centralized manner. Under the NFApC are Regional Faceless Appeal Centers (RFAC) to facilitate the e-appeal proceedings. The Appeal Units, headed by one or more Commissioner (Appeals) and are placed under the RFAC. The NFApC will be the only point of contact between the taxpayer and the underlying Appeal Units; and Appeal Units and NeAC/Assessing Officer. All internal and external communication takes place electronically and the assessee or the Assessing Officer are not required to attend the proceedings personally or through an authorised representative.
  - Taxpayers' Charter:The taxpayer's charter for India comprises of commitments by the Income Tax Department and obligations of the taxpayers.

TRENDS IN GOVERNMENT FINANCES

Central Government Finances

- Fiscal Deficit for 2019-20 Provisional Actuals stood at 4.6 per cent of GDP, which was 0.8 percentage points higher than the Fiscal Deficit envisaged in 2019-20 RE, and 1.2 percentage points higher than Fiscal deficit in 2018-19.
- The effective Revenue Deficit which captures the shortfall in current receipts over current expenditure also increased by 1 per cent of GDP to reach 2.4 per cent of GDP in 2019-20 PA relative to 2018-19.
- The Medium Term Fiscal Policy (MTFP) Statement presented with Budget 2020-21 pegged the fiscal deficit target for FY 2020-21 at 3.5% of GDP, after providing adequate space for fiscal impact of the reforms adopted by the Government in FY 2019-20.
- **Trends in Receipts :** Central government receipts can broadly be divided into Non-debt and debt receipts. The Non-debt receipts comprise of tax and Non-Tax revenue, and Non-debt Capital receipts like recovery of loans and disinvestment receipts. Debt receipts mostly comprise of market borrowings and other liabilities, which the government is obliged to repay in the future.
- **Tax Revenue :** Budget 2020-21 estimated the Gross Tax Revenue (GTR) to be Rs 24.23 lakh crore which is 10.8 per cent of GDP. This builds into growth of 12 per cent over the revised estimates (RE) of 2019-20 and 20.6 per cent over 2019-20 PA. The direct taxes, comprising mainly of corporate and personal income tax, constitute around 55 per cent of GTR. These were envisaged to grow at 12.7 per cent relative to 2019-20 RE and 27.2 per cent relative to 2019-20 PA. On the other hand, the indirect taxes were expected to grow at 11.1 per cent vis-à-vis 2019-20 RE and 15 per cent as against 2019-20 PA.

- **Non-Tax Revenue:** Non-Tax revenue comprises mainly of interest receipts on loans to States and Union Territories, dividends and profits from Public Sector Enterprises including surplus of Reserve Bank of India (RBI) transferred to Government of India, receipts from services provided by the Central Government and external grants. The Budget 2020-21 aimed to raise Rs 3.85 lakh crore of Non-Tax revenue, 1.7 per cent of the GDP, 0.1 percentage points more than in 2019-20 PA. Nearly 40 per cent of the Non Tax revenue is envisaged to be raised from dividends and profits. As against the 2020-21 BE of Rs 3.85 lakh crore for Non-Tax Revenue, the actual realization up to November 2020 has been 32.3 per cent of the BE.
- **Non-debt Capital Receipts :** Non-debt Capital receipts mainly consist of recovery of loans and advances, and disinvestment receipts. The contribution of Non-debt Capital receipts in the total pool of Non-debt receipts have declined from 6.8 per cent in 2018-19 to 3.9 per cent 2019-20 PA, primarily due to shortfall in disinvestment proceeds. The major component of Non-debt Capital receipts is disinvestment receipts that accrue to the government on sale of public sector enterprises owned by the government (including sale of strategic assets).
- **Trends in Expenditure:** On the expenditure front, Budget 2020-21 estimated total expenditure at Rs 30.42 lakh crore, comprising revenue expenditure of Rs 26.3 lakh crore and capital expenditure of Rs 4.12 lakh crore, which work out to be 11.7 per cent and 1.7 per cent of GDP, respectively. As a percentage of GDP, the anticipated growth of total expenditure in 2020-21 BE over 2019-20 PA is 0.3 per cent of GDP with growth equivalent to 0.15 per cent of GDP each in both Revenue and capital expenditure.
- A significant proportion of revenue expenditure such as expenditure on salaries, pensions and interest payments is broadly committed in nature.
- In 2016, approximately 66 Centrally Sponsored Schemes were rationalized into 28 Umbrella Schemes. The cycle of these Schemes was also made co-terminus with the Finance Commission cycle, to ensure more clarity on flow of resources available to both the Union and the State Governments over a Finance Commission cycle.
- The expenditure on major subsidies which was pegged at 1.0 per cent of GDP in 2020-21 BE, accounted for a moderate growth of 2.1 per cent over 2019-20 PA. In 2019-20 PA, there was an increase of 13.9 per cent in the subsidy bill of the Government, as the food, fertilizer and petroleum subsidies grew by 7.3 per cent, 14.9 per cent and 34.5 per cent respectively, relative to 2018-19.
- The major sectors apart from defence services, that account for bulk of capital expenditure allocation in 2020-21 BE include industry and minerals, construction of roads and bridges, communication services, and space technology.
- Apart from budgetary spending, Extra Budgetary Resources (EBR) have also been mobilized to finance infrastructure investment since 2016-17. EBRs are those financial liabilities that are raised by public sector undertakings for which repayment of entire principal and interest is done from the Central Government Budget. Government has raised EBRs of Rs 1.35 lakh crore during the period from 2016-17 to 2019-20. It proposes to raise EBR of Rs 49,500 crore in 2020-21 BE which is 0.22 per cent of GDP.

Table 5: Central Government's Fiscal Parameters

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20 PA	2020-21 BE
	(in ₹ Lakh crore; Figures in parenthesis are as a per cent of GDP)						
Revenue Receipts	11.01	11.95	13.74	14.35	15.53	16.82	20.21
	(8.8)	(8.7)	(8.9)	(8.4)	(8.2)	(8.3)	(9)
Gross Tax Revenue	12.45	14.56	17.16	19.19	20.80	20.10	24.23
	(10)	(10.6)	(11.2)	(11.2)	(11)	(9.9)	(10.8)
Net tax revenue	9.04	9.44	11.01	12.42	13.17	13.56	16.36
	(7.2)	(6.9)	(7.2)	(7.3)	(6.9)	(6.7)	(7.3)
Non-tax revenue	1.98	2.51	2.73	1.93	2.36	3.26	3.85
	(1.6)	(1.8)	(1.8)	(1.1)	(1.2)	(1.6)	(1.7)

Non-debt capital receipts*	0.51	0.63	0.65	1.16	1.13	0.69	2.25
	(0.4)	(0.5)	(0.4)	(0.7)	(0.6)	(0.3)	(1)
Non-debt receipts	11.53	12.58	14.4	15.51	16.66	17.51	22.46
	(9.2)	(9.1)	(9.4)	(9.1)	(8.8)	(8.6)	(10)
Total Expenditure	16.64	17.91	19.75	21.42	23.15	26.86	30.42
	(13.3)	(13.0)	(12.9)	(12.5)	(12.2)	(13.2)	(13.5)
Revenue Expenditure	14.67	15.38	16.91	18.79	20.07	23.50	26.30
	(11.8)	(11.2)	(11.0)	(11.0)	(10.6)	(11.6)	(11.7)
Capital Expenditure	1.97	2.53	2.85	2.63	3.08	3.37	4.12
	(1.6)	(1.8)	(1.9)	(1.5)	(1.6)	(1.7)	(1.8)
Fiscal Deficit	5.11	5.33	5.36	5.91	6.49	9.36	7.96
	(4.1)	(3.9)	(3.5)	(3.5)	(3.4)	(4.6)	(3.5)
Revenue Deficit	3.66	3.43	3.16	4.44	4.54	6.68	6.09
	(2.9)	(2.5)	(2.1)	(2.6)	(2.4)	(3.3)	(2.7)
Primary Deficit	1.08	0.91	0.55	0.62	0.67	3.25	0.88
	(0.9)	(0.7)	(0.4)	(0.4)	(0.4)	(1.6)	(0.4)
Memo Item							
GDP at Market Price	124.68	137.72	153.62	170.95	189.71	203.40	224.89

Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals
*includes disinvestment proceeds

Transfer to States

- The Central Government has accepted the recommendations made by the Fifteenth Finance Commission (FC-XV) in its Report for financial year 2020-21, relating to the Post Devolution Revenue Deficit Grant, Grants to Local bodies and Disaster Management Grants for the financial year 2020-21.
- FC-XV recommended Grant-in-Aid amounting to Rs 1.99 lakh crore for transfer to States during 2020-21 for Post Devolution Revenue Deficit Grant, Grants to Local bodies and Disaster Management Grants which is approximately 50% higher than recommended by the FC-XIV for the award year 2019-20.
- Out of the corpus of ` 90,000 crore allocated as grant for local bodies in the year 2020-21, 32.5 per cent have been recommended for urban local bodies and the remaining for rural local bodies. Unlike that of the FC-XIV recommended grants, the local bodies grant during the year 2020-21 were also allocated to Fifth and Sixth Schedule Area as well as Mandal/Tehsil and District/Zila Panchayats in case of rural local bodies, and also allocated to fifty-nine Cantonment Boards in case of the urban local bodies. Moreover for the first time, Finance Commission grants were also allocated for the purpose of improving ambient air quality in million plus cities/ urban agglomerations.
- The Budget 2020-21 envisaged a rebound in the total transfers to States from 5.7 per cent of GDP in 2019-20 RE to 6 per cent of GDP in 2020-21 BE.

Central Government Debt

- Total liabilities of the Central Government include debt contracted against the Consolidated Fund of India, technically defined as Public Debt, as well as liabilities in the Public Account.
- These liabilities include external debt (end-of-the financial year) at current exchange rate but exclude part of NSSF liabilities to the extent of States' borrowings from the NSSF and investments in public agencies out of the NSSF, which do not finance Central Government deficit.
- Total liabilities of the Central Government at end March 2020 stood at Rs 97.05 lakh crore. Out of these, 88.67 per cent was public debt and the remaining 10 per cent catered to Public Account liabilities, which include National Small Savings Fund, State Provident Funds, Reserve Funds and Deposits and other Accounts.

- Total liabilities of the Central Government, as a ratio of GDP, declined steadily immediately after the enactment of the FRBM Act, 2003, and has sustained at a level during the last decade.
- Most of the public debt has been contracted at fixed interest rate making India's debt stock virtually insulated from interest rate volatility. This lends certainty and stability to budget in terms of interest payments.

Table 11: Debt Position of the Central Government (in ₹ Lakh crore)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20 P
A. Public Debt (A1+A2)	51.05	57.11	61.50	68.84	75.88	86.05
A1. Internal Debt (a+b)	47.38	53.05	57.42	64.01	70.75	80.20
a. Marketable Securities	43.09	47.28	50.49	55.10	59.69	65.60
b. Non-marketable Securities	4.29	5.77	6.93	8.91	11.06	14.60
A2. External Debt*	3.66	4.07	4.08	4.83	5.13	5.85
B. Public Account - Other Liabilities	7.62	8.16	8.57	9.15	9.96	9.89
C. Extra-Budgetary Resources	0.00	0.00	0.09	0.24	0.88	1.10
D. Total Liabilities (A+B+C)	58.66	65.27	70.16	78.23	86.72	97.05

Source: Various issues of Status Paper on Government Debt and Quarterly Report on Public Debt; P: Provisional

State Finances

- The States had budgeted for a consolidated gross fiscal deficit of 2.8 per cent of GDP in 2020-21 BE. The average Gross Fiscal Deficit Budget Estimate for states that presented their budgets before the outbreak of COVID-19 was 2.4 per cent of GSDP, while the average for budgets presented post-lockdown was 4.6 per cent of GSDP (RBI Study on State Finances).
- As per 2020-21 Budget Estimates of the State Governments, the States' combined own Tax revenue and own Non-Tax revenue were anticipated to grow at 11.8 per cent and 12.1 per cent respectively over 2019-20 RE, higher than the growth displayed in 2019-20 RE.
- On the expenditure side, revenue expenditure and capital expenditure in 2020-21 BE were envisaged to grow at 8.2 per cent and 11.8 per cent respectively over 2019-20 RE.
- The RBI Study on State Finances highlights the decline in actual capital spending relative to BE observed in the states for the last 3 years (2017-18 Actuals, 2018-19 Actuals and 2019-20PA). This may have adverse implications for the pace and quality of economic development, given the high fiscal multiplier effect of capital expenditure.
- In order to re-orient the focus of the States' fiscal policy on capital expenditure, Central Government has announced Scheme for Special Assistance to States for Capital Expenditure during FY2021.

MEASURES TAKEN BY THE CENTRE TO SUPPORT THE STATES IN TIMES OF COVID-19

- Enhanced limit of borrowing for FY2020-21 under Atma Nirbhar Bharat package
  - Under the Atma Nirbhar Bharat package, additional borrowing limit of up to 2 percent of Gross State Domestic Product (GSDP) was allowed to the States, which was equivalent to ` 4.27 lakh crore. Of the additional 2 per cent borrowing allowed to the States, the first instalment of 0.5 per cent borrowing was untied for all the states. The second part amounting to 1 per cent of GSDP was subject to implementation of following four specific State level reforms, where weightage of each reform is 0.25 per cent of GSDP:-

- Implementation of One Nation One Ration Card System;
- Ease of doing business reform;
- Urban Local body/ utility reforms; and
- Power Sector reforms

- The final 0.5 per cent borrowing was conditional on undertaking at least 3 out of the above mentioned reforms.
- As on 30 December 2020, 10 States have implemented the One Nation One Ration Card System, 7 States have completed the stipulated reforms in the Ease of Doing Business, and 2 States have done local body reforms. Total additional borrowing permission issued so far to the States who have done the reforms stands at ` 51,682 crore.

- Compensation to the States for loss in GST revenue
    - In order to compensate the states for the loss of GST revenue during FY 2020-21, Central Government had given the states an option to either borrow the shortfall arising out of GST implementation through issue of debt under a Special Window coordinated by the Ministry of Finance which was passed on to the States and UTs (Option 1), or raise the entire shortfall through the issue of market debt (Option 2). All the 28 states and 3 UTs with legislature decided to go for option 1 which involves back-to-back borrowing coordinated by the Ministry of Finance, and would ensure steady flow of resources similar to the flow under GSTcompensation. The special window of ` 1.1 lakh crore has been operationalised since 23rd October, 2020 and the Government of India has already borrowed an amount of ` 54,000 crore on behalf of the States in five instalments and passed it on to the States and UTs.
- Scheme for Special Assistance to States for Capital Expenditure
    - During the year 2020-21, considering the fiscal environment faced by the State Governments due to the shortfall in tax revenues arising from the COVID-19 pandemic, 'Scheme for Special Assistance to States for Capital Expenditure', has been approved wherein special assistance is being provided to the State Governments in the form of 50-year interest free loan up to an overall sum not exceeding ` 12,000 crore.
    - The Scheme comprises of ` 1600 crore loan for the eight North East states (200 crore each), ` 900 crore loan for the states of Uttarakhand and Himachal Pradesh (` 450 crore each), ` 7,500 crore for remaining states (as per 15th Finance Commission devolution), and ` 2,000 crore for those states which fulfil at least 3 out of 4 reforms mentioned under enhanced borrowing provision in Aatma Nirbhar Bharat Package.
- SDRF
    - The Central Government by way of a special one-time dispensation had decided to treat COVID-19 as a notified disaster for the purpose of providing assistance under SDRF. Tostrengthen the States to deal with the pandemic, the Centre had released the 1st instalment of SDRF amounting to ` 11,092 crore to State Governments in April 2020. In September 2020, the states' limit for spending the SDRF during FY 2020-21 was raised to 50%, in order to support them in containment measures of COVID-19 including measures for quarantine, sample collection and screening; and procurement of essential equipment/ labs for response to COVID-19.

WAY FORWARD

- The year 2020-21 has been a difficult year from the fiscal perspective. Based on the trends available for April to November 2020, there is likely to be a fiscal slippage during the year.
- The fiscal policy response of the Government has been a combination of demand and supply side policies under the ambit of 'Atma Nirbhar Bharat' to cushion against the pandemic shock, and subsequently fuel the economic recovery.
- Going forward, in order to sustain the recovery in aggregate demand, it is expected that the Government may have to continue with an expansionary fiscal stance.
- The expenditure support along with the various key reforms introduced during the year are likely to impart the required momentum to medium-term growth. The calibrated approach adopted by India allows space for maintaining a fiscal impulse the coming year. The growth recovery would facilitate buoyant revenue collections in the medium term, and thereby enable a sustainable fiscal path.
- Moreover the release of XV Finance Commission report in the coming months, will lay down the roadmap for the long-term fiscal policy strategy for both the Centre and the States.

03 External Sector

CONTEXT

- COVID-19 pandemic has led to a sharp decline in global trade, lower commodity prices and tighter external financing conditions with varying implications for current account balances and currencies of different countries. Trade balance with China and the US improved as imports slowed.
- While exports of gems and jewellery, engineering goods, textile and allied products slide, exports of drugs and pharma, software and agriculture and allied products improved. Pharma exports, in particular, hold the potential to be the pharmacy of the world. Overall, India is expected to witness current account surplus during the current financial year after a gap of 17 years.

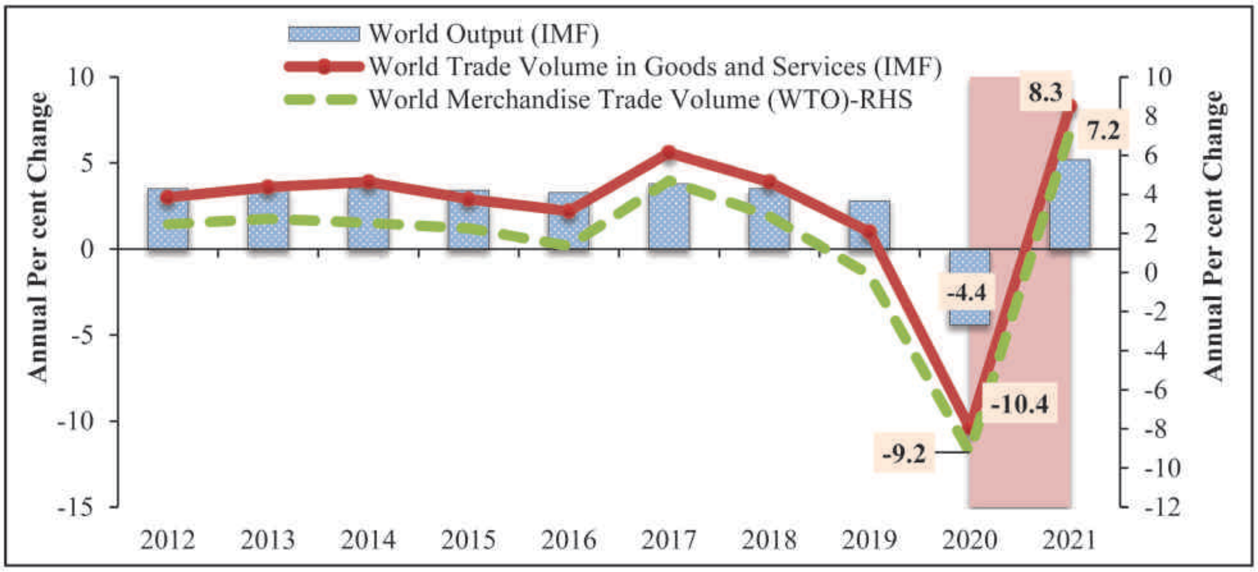
INTRODUCTION

- COVID-19 pandemic has triggered the worst global recession in 2020 since the Great Depression; the adverse economic impact is, however, expected to be lesser than initially feared.
- Global merchandise trade is expected to contract by 9.2 per cent in 2020. Trade balance with China and the US improved as imports contracted.
- The changing nature of India's global trade manifested in terms of sliding exports of gems and jewellery, engineering goods, textile and allied products and improving exports of drugs and pharma, software and agriculture and allied products. Pharma exports, in particular, used this opportunity to enhance their share in total India's exports and indicate India's potential to be the pharmacy of the world. Supported by resilient software service exports, India is expected to witness a current account surplus during the current financial year after a gap of 17 years. Balance on the capital account, on the other hand, is buttressed by robust FDI and FPI inflows. These developments have led to accretion of foreign exchange reserves that rose to an all-time high of US$ 586.1 billion as on January 8, 2021.
- RBI's interventions in forex market have been largely successful in controlling the volatility and one-sided appreciation of the rupee. High levels of headline inflation, however, posits the classical trilemma before RBI to maintain a fine balance between tightening of monetary policy to control inflation on the one hand and stimulate growth on the other hand. Against the aforesaid backdrop, various initiatives undertaken to promote exports, including Production Linked Incentive (PLI) Scheme, Remission of Duties and Taxes on Exported Products (RoDTEP), emphasis on improvement of trade logistics infrastructure and use of digital initiatives would go a long way in enabling 'ease of doing exports'.

GLOBAL ECONOMIC ENVIRONMENT

- The contraction in GDP has been much stronger in the current recession when compared to the fall in trade which has been more moderate. World Trade Organization (WTO), in April 2020, predicted a fall in world merchandise trade by 13-32 per cent in 2020.
- In the October 2020 edition of the World Economic Outlook, the IMF expected a sharper fall in world output of 4.4 per cent in 2020, but lower contraction in world trade volume of 10.4 per cent in 2020 as against 3.0 per cent and 11.0 per cent respectively predicted in April 2020.
- In advanced economies (AEs), the contraction for GDP as well as trade volume is projected to be more severe than for the emerging markets and developing economies (EMDEs).
- Global merchandise trade, as per data available from WTO, recorded its sharpest ever one-period decline in Q2-2020. The WTO's goods trade barometer index for the said quarter was at 84.5 – the lowest on record since 2007 – i.e., 15.5 points below the baseline value of 100 for the index and 18.6 points down from the same period last year.
- In 2020 (upto Q3), AEs suffered the steepest decline in exports by 12.9 per cent and imports by 10.8 per cent, while EMDEs witnessed lower contraction in exports by 7.6 per cent and in imports by 10.1 per cent. Among the EMDEs, South East Asian export-oriented countries witnessed still lower shrinkage of exports by 2.4 per cent and imports by 9.6 per cent. This can be attributed to the impressive export performance of few countries such as Vietnam, Taiwan, and Malaysia, and their continuous narrowing contraction in imports in subsequent quarters.

Figure 1:Trends in Growth of World Output and Trade Volume



Source: International Monetary Fund and World Trade Organization (WTO)
Note: Figures for 2020 and 2021 are projections indicated as shaded portion.

- As per IMF's October Global Financial Stability Report 2020, near-term global financial stability risks have been contained for now due to the unprecedented and timely policy responses to maintain the flow of credit to the economy and avoided adverse macro-financial feedback loops, thereby creating a bridge to recovery.
- EMDEs rely primarily on commodity exports, remittances and tourism for forex earnings, all of which plummeted as the pandemic unfolded. However, its impact on EMDEs so far has been milder than expected as just six countries – Argentina, Ecuador, Belize, Lebanon, Suriname and Zambia – have defaulted on their sovereign debt and only the first two restructured their debts. Potential debt defaults could ensue in 2021 as a large amount of foreign debt is estimated to be due for repayment in that year.

DEVELOPMENTS IN INDIA'S BALANCE OF PAYMENTS (BOP)

Merchandise Trade

- During Q1: FY 2020-21, India's exports and imports saw a sharp contraction in line with the contraction in global trade.
- The decline in imports outweighed that in exports – leading to smaller trade deficit of US$ 9.8 billion as compared to US$ 49.2 billion in Q1 last year.
- India registered a trade surplus in the month of June, 2020 after a gap of 18 years. With the unlocking of the economy from June onwards, a gradual revival in India's merchandise trade got underway.
- The trade deficit during the April-December, 2020-21 was US$ 57.5 billion as compared to US$ 125.9 billion in the corresponding period last year.
- India's merchandise trade balance for major countries for the period of 2020-21 (April-November) as compared to 2019-20 (April-November) shows that India had the most favourable trade balance with USA followed by Bangladesh and Nepal. The highest trade deficit is with China followed by Iraq and Saudi Arabia during April-November, 2020-21 and April-November, 2019-20.

Merchandise Exports

- Total exports during April-December, 2020-21 amounted to US$ 200.8 billion contracted by (-) 15.7 per cent as compared with (-) 2.4 per cent during the same period of the previous year.
- Petroleum, Oil and Lubricants (POL) exports, which constitute about 10-15 per cent of the total exports, have contributed negatively to export performance during the period under review. The fall in POL exports was largely driven by the softening of international crude oil prices, which plunged in Q1: FY 2020-21 by (-) 54.0 per cent and remain muted by (-) 28.7 per cent by Q3: FY 2020-21 as compared to last year.

- On the other hand, Non-POL exports, which contributed significantly to the shrinkage of exports in Q1 of 2020-21, turned positive and helped in improving export performance in Q3. Within Non-POL exports, agriculture & allied products, drugs &pharmaceutical and ores & minerals proved resilient and recorded expansion.
- However, key commodities such as organic and inorganic chemicals, electronic goods, textiles & allied products, engineering products, gems and jewellery pulled export growth down.
- Drug formulations, biologicals have consistently registered positive growth and highest increase in absolute terms in recent months. This led to rise in its share to 7.1 per cent in April-November, 2020 from 5.0 per cent in April-November, 2019, making it the second largest exported commodity among the top 10 export commodities. This shows that India has the potential to be the 'pharmacy of the world'.
- Iron and Steel is another commodity whose share has increased from 3.0 per cent to 4.4 per cent in the said period. However, the pandemic-related disruptions led to sharp fall in exports of Motor Vehicles/ Cars as it no longer figures among the top 10 exported commodities in April-November, 2020.
- In so far as the top export destinations are concerned, USA continues to be the largest export market for India in April-November, 2020, while China has occupied the 2nd position, moving up from 3rd spot in April-November, 2019. Exports to China in April-November, 2020 constitute around 7.8 per cent vis-à-vis 5.4 per cent in April-November, 2019. Malaysia is a new entrant among the top 10 export destinations, as compared to last year, while Nepal no longer occupies position among the top 10 destinations.

Merchandise Imports

- The total imports during April-December, 2020 amounted to US$ 258.3 billion contracted by (-) 29.1 per cent, as compared with (-) 7.2 per cent during the same period last year.
- The sharp decline in POL imports that constitute about a quarter of total merchandise imports pulled down the overall import growth.
- While the total merchandise imports contracted sharply in Q1 of 2020-21 by (-) 52.9 per cent, the pace of contraction eased in Q2 and Q3 to (-) 23.2 per cent and (-) 8.3 per cent, respectively.
- Fertilizers, vegetable oil, drugs & pharmaceuticals and computer hardware & peripherals have contributed positively to the growth of non-POL, non-Gold & Silver imports, while capital goods contributed most to its weakness.
- Crude Petroleum continues to be the highest imported commodity in April-November, 2020, accounting for 14.3 per cent share vis-à-vis 21.0 per cent in April-November, 2019. The share of gold imports reduced to 5.6 per cent in April-November, 2020 from 6.3 per cent in corresponding period a year ago, slipping to third position from second earlier. Computer hardware and peripherals is one of the new additions in the list of top 10 import commodities in April-November, 2020, accounting for 3.0 per cent of total imports driven by increased demand due to more people working from home.
- Among the top 10 countries for import origin, China continues to be the largest import source for India in April-November, 2020, with share of imports rising to 17.7 per cent, up from 14.5 per cent in April-November, 2019 (Figure 11). While Switzerland does not appear to be the among the top 10 import sources, Germany is the new addition in the list accounting for 3.7 per cent share of total imports.

Invisibles

- 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, notwithstanding a sharp contraction in travel receipts owing to the international mobility restrictions imposed at the onset of the pandemic and falling remittances.
- Resilience of the services sector was primarily driven by software services, which accounted for 49 per cent of total services exports.
- Net private transfer receipts, mainly representing remittances by Indians employed overseas, totaling US$ 35.8 billion in H1: FY 2020-21 declined by 6.7 per cent over the corresponding period of previous year. It is pertinent to note that as per the World Migration Report 2020,India has the largest number of migrants living abroad (17.5 million) and was the top recipient of remittances of US$ 83.3 billion in 2019.

- However, as per World Bank, remittance flows to low and middle-income countries (LMICs) are estimated to decline in 2020, by around 7.2 per cent. For India, remittances are projected to fall by about 8.9 per cent to US$ 76 billion in 2020.
- Net outgo due to cross border income payments associated with the production and ownership of financial and other non-produced assets, which had been moving upward since 2011-12, declined in 2019-20. In H1: FY 2020-21, there was a net outflow of primary income of US$ 16.8 billion as against outflow of US$14.7 billion in corresponding period a year ago.

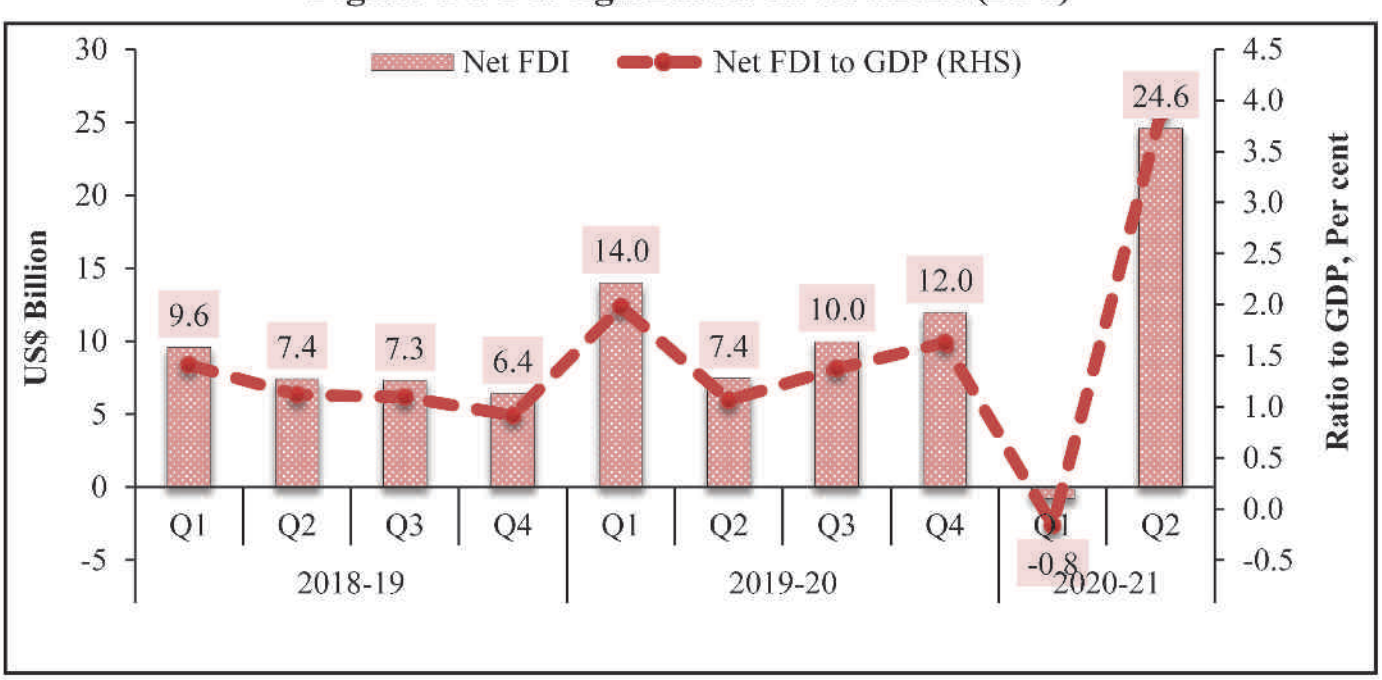
Current Account of BOP

- India's current account deficit averaged 2.2 per cent of GDP in the last 10 years.
- Reversing this trend, current account balance turned into surplus (0.1 per cent of GDP) in Q4: FY 2019-20 on the back of, among others, a lower trade deficit and a sharp rise in net invisible receipts.
- This quarterly surplus was registered after a gap of 13 years after Q4: FY 2006-07. This has been followed by successive current account surpluses in Q1 and Q2 of FY 2020-21.
- In H1: FY 2020-21, steep contraction in merchandise imports and lower outgo for travel services led to a sharper fall in current payments (by 30.8 per cent) than current receipts (15.1 per cent) – leading to a current account surplus of US$ 34.7 billion (3.1 per cent of GDP).
- Given the trend in imports of both goods and services, it is expected that India will end with an annual current account surplus of atleast 2 per cent of GDP – after a period of 17 years.

Capital/ Financial Account of BOP

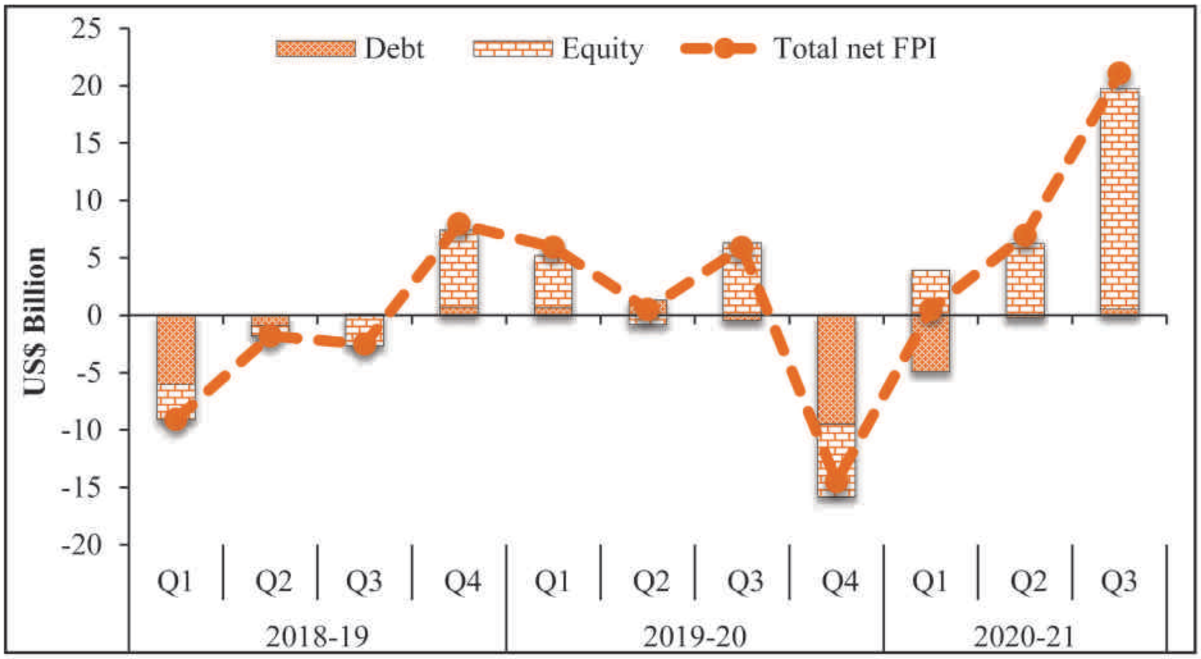
- Net capital flows was modest in H1: FY 2020-21 at US$ 16.5 billion, as against US$ 40.0 billion in HI: FY 2019-20, mainly accounted for by net repayments of external commercial borrowings (ECBs) and decline in banking capital. However, there is an increase in net foreign investment to US$ 31.4 billion in H1: FY 2020-21, vis-à-vis US$ 28.7 billion in corresponding period a year ago.
- Singapore continues to be the top investing country, in terms of FDI equity inflows, while US has taken second position, as against being at 4th spot during corresponding period a year ago.

Figure 14: Foreign Direct Investment (FDI)



Source: RBI
Note: The net FDI inflows in Oct 2020 were to the tune of US$ 4.6 billion.

Figure 15: Foreign Portfolio Investment (FPI)



Source: National Securities Depository Limited (NSDL).
Note: Total net FPI is summation of debt, equity, hybrid and VRR, however, only debt and equity are depicted in above chart as they together account for more than 90 per cents of the total net FPI.

- Indian equities have been supported by abundant global liquidity, better corporate earnings in subsequent quarters and better management of COVID-19 re-igniting economic recovery prospects. The addition of Indian stocks to Morgan Stanley Capital International (MSCI) Global Standard indices has also helped in attracting foreign capital inflows.
- Banking capital recorded a net outflow of US$ 8.9 billion in H1: FY 2020-21, higher than the net outflow of US$ 5.7 billion, in first half of 2019-20. With repayments exceeding fresh disbursals, net outflows on ECBs increased to US$ 5.7 billion in April-September, 2020. Net inflow on account of non-resident deposits was US$ 4.9 billion, as against US$ 5.0 billion in April-September, 2019.

External Debt

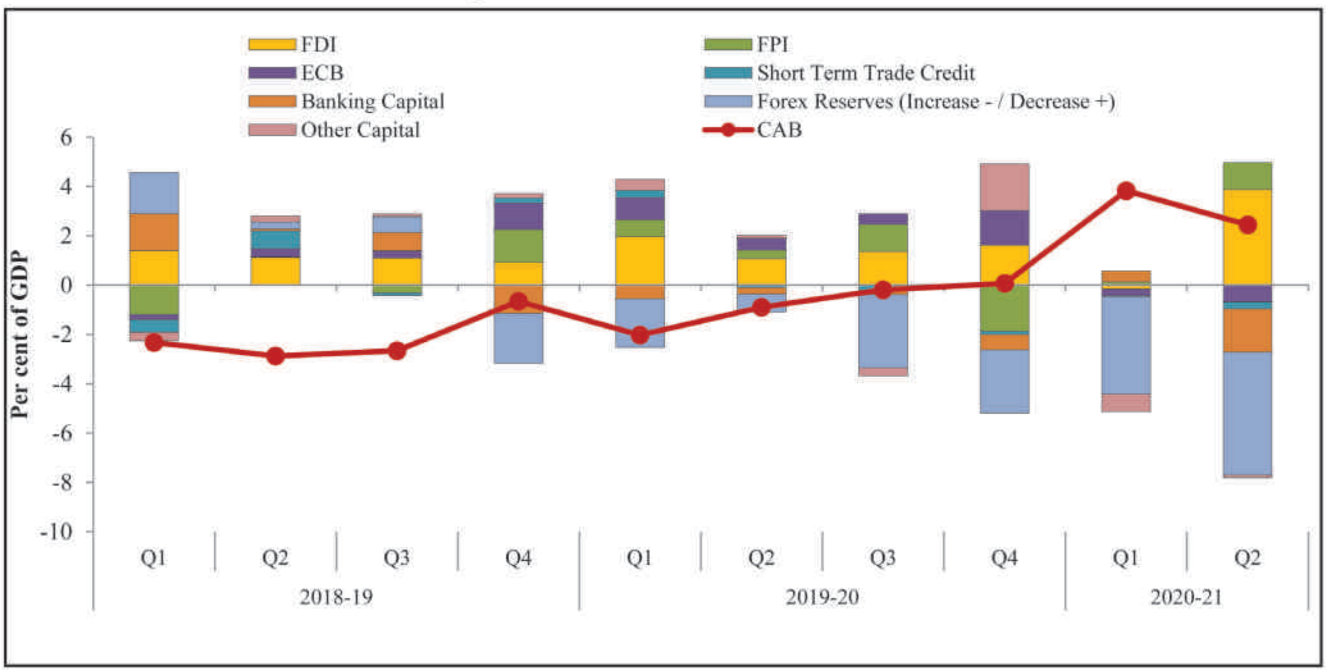
- At end-September 2020, India's external debt was placed at US$ 556.2 billion recording a decrease of US$ 2.0 billion (0.4 per cent) over the level, as at end-March 2020.
- Excluding the valuation loss, due to the depreciation of the US$ vis-à-vis major currencies, the decrease in external debt would have been US$ 8.3 billion.
- ECBs, the largest component of external debt, at US$ 207 billion as at end- September 2020, contracted by 5.8 per cent over the level as at end-March 2020.
- While the stock of NRI deposits, the second largest component, rose 5.1 per cent to US$ 137.3 billion over the level as at end-March 2020, the (import-financing) trade credit, the third largest component at US$ 99.4 billion shrank by 2.0 per cent.
- Government debt increased to US$ 103.6 billion from US$ 100.9 billion as at end-March 2020.
- External debt as a ratio to GDP rose marginally to 21.6 per cent as at end-September 2020 from 20.6 per cent at end-March 2020.

OVERALL BOP

- India, being a developing and emerging market economy, typically runs a deficit on the current account to supplement domestic savings with foreign savings to fund higher investment.
- The current account deficit is usually financed by a capital account surplus. However, since Q4: FY 2019-20, India has been experiencing a current account surplus along with robust capital inflows leading to a BoP surplus.

- The appreciation of the Rupee, however, was modest as compared with its emerging market peers, such as Malaysian ringgit, Thai baht, Philippine peso, Chinese yuan, South African rand, Mexican peso, Indonesian rupiah. Although Rupee appreciated against US$, it depreciated against other major currencies between end-October, 2019 and end-March, 2020. It depreciated by 4.5 per cent, 3.4 per cent and 1.7 per cent against euro, pound sterling, and yen, respectively.
- After depreciating to its lowest level of `76.86 on April 16, 2020, the ` subsequently appreciated owing to FPI flows to the domestic equity market and the weakening of the US$. In terms of 6-currency nominal effective exchange rate (NEER) (trade-based weights), ` depreciated by 4.1 per cent in December 2020 over March 2020, and it appreciated by 2.9 per cent in terms of real effective exchange rate (REER).
- In the months following the outbreak of the pandemic, India experienced unprecedented FPI outflows of US$ 15.92 billion in March 2020, after recording cumulative inflows of US$ 1.42 billion in January 2020 and February 2020, with high volatility in the INR. RBI deployed several conventional and unconventional tools in order to ensure financial stability and orderly conditions in financial markets and has been largely successful in controlling the volatility in the Rupee.

Figure 16: Trends in India's BoP



Source: RBI
Details available at Annexure.

Indian Rupee (₹) Exchange Rate

3.27 Indian ₹ depreciated by 1.4 per cent (y-o-y basis) *vis-à-vis* US$ in 2019-20. The ₹ appreciated by 1.9 per cent against US$ between end-October 2019 and end-March 2020.

Foreign Exchange Reserves

- While improved current account balance has been a key factor for reserve accretion in H1 of 2020-21, robust capital flows, particularly FDI and FPI, in subsequent months largely drove foreign exchange reserves to an all-time high of US$ 586.1 billion as on January 8, 2021, covering about 18 months of imports.
- As at end-September 2020, India is the fifth largest foreign exchange reserves holder among all countries of the world after China, Japan, Switzerland and Russia.
- India's international financial liabilities are 210.7 per cent of foreign exchange reserves as at end-September 2020 as compared with 229.7 per cent as at end-March 2020.
- The rise in the foreign exchange reserves of the RBI has largely been due to the current account surplus which, in turn, is largely due to contraction in imports rather than increase in competitiveness of exports.

INITIATIVES TAKEN BY GOVERNMENT TO BOOST EXPORTS

Trade Facilitation

- With an aim to reduce trade barriers caused by inefficient and overly burdensome regulatory administrative procedures, the Trade Facilitation Agreement (TFA), negotiated at WTO, came into force on 22nd February 2017. A National Committee on Trade Facilitation (NCTF) was, accordingly, constituted in India in August 2016 with the Cabinet Secretary as the Chair.
- A National Trade Facilitation Action Plan (NTFAP) for 2017-2020 containing specific activities to further ease out the bottlenecks to trade was prepared. For the period 2020 to 2023, a new NTFAP is under preparation, to take additional reforms to bolster trade facilitation efforts and transform the cross-border clearance eco-system through efficient, transparent, risk based, coordinated, digital, seamless and technology driven procedures.
- India has been making proactive strides in TFA implementation under the guidance of NCTF. Many of the commitments, which are otherwise due by 2022, have already been notified to WTO as implemented viz. Establishment of a Single Window (Article 10.4), Risk Management for clearance of goods (Article 7.4), etc.
- Further, the transparency notifications covering information on import and export procedures, enquiry points, single windows etc., have also been notified in April, 2019, reflecting India's commitment towards facilitation of trade with an emphasis to transparency and openness.
- Further various regulatory relaxation measures were extended for facilitating trade during COVID-19, which include 24X7 clearance, dedicated single window, condonation of delay in filing import declarations, waiver of late filing fees, undertakings instead of bond, etc.
- India has been at the forefront in undertaking initiatives aimed at maximizing predictability and automation in trade, reflecting in the consistent improvement on the United Nation's Global Survey on Digital and Sustainable Trade.
- **Remission of Duties and Taxes on Exported Products (RoDTEP):** In order to continue supporting the industry and to eliminate any uncertainty amongst the exporting community, Government has rolled out a new WTO compliant scheme, namely Remission of Duties and Taxes on Exported Products (RoDTEP), for all export goods with effect from 1st January, 2021.Under this Scheme, duties and taxes levied at the Central, State and local levels, such as electricity duties and VAT on fuel used for transportation, which are not getting exempted or refunded under any other existing mechanism will be refunded to exporters in their ledger account with Customs. The credits can be used to pay basic customs duty on imported goods or transferred to other importers – facilitating ease of transactions for exports. The RoDTEP rates would be notified by the Department of Commerce.
- **Production-Linked Incentive (PLI) Scheme:** In order to boost domestic manufacturing and exports, the Production-Linked Incentive (PLI) scheme with an outlay of Rs 1.46 lakh crore has been introduced. This Scheme aims to give incentive to companies on incremental sales from products manufactured in domestic units. The ten-identified champion sectors under PLI scheme are advanced chemistry cell (ACC) battery (approved financial outlay over a five year period of Rs 18,100 crore), electronic/technology products (Rs 5,000 crore), automobile and auto component (Rs 57,042 crore), pharmaceuticals drugs (Rs 15,000 crore), telecom and networking products (Rs 12,195 crore), textile products (Rs 10,683 crore), food products (Rs 10,900 crore), high efficiency solar photovoltaic modules (Rs 4,500 crore), white goods (ACs and LEDs) (`6,238 crore) and specialty steel (Rs 6,322 crore).
- These are in addition to the already notified PLI schemes for mobile manufacturing and specified electronic components (Rs 40,951 crore), critical Key Starting materials/ Drug Intermediaries and Active Pharmaceutical Ingredients (Rs 6,940 crore) and manufacturing of medical devices (`7420 crore).

Trade Related Logistics

- India's rank has improved significantly in trading across borders parameter of 'Ease of Doing Business' index from 146 in 2018 to 68 in 2020.
- Some Infrastructure Initiatives which are at various stages of implementation are:
  - Bharatmala Pariyojana is a new umbrella program for the highways sector that envisages building more than 80,000 Km of roads, highways, greenfield expressways, bridges with an investment of around US$ 107 billion.

- Sagarmala aims at Port Modernization & New Port Development, Port Connectivity Enhancement, Port-linked Industrialization, Coastal Community Development and giving impetus to Coastal Shipping. 508 projects have been identified and 111 waterways have been declared National waterways, for which the work is ongoing in phases.
- Multi-Modal Logistics Parks shall act as hubs for freight movement enabling freight aggregation, distribution and multi-modal transportation. They would provide modern mechanized warehousing space and value-added services such as customs clearance with bonded storage yards, warehousing management services, etc.
- Dedicated Freight Corridors (DFCs) aims at reduction in unit cost of transportation with higher speed of freight trains and better turnaround of wagons. Around 70 per cent of freight is expected to shift to DFC, freeing up capacity on Indian Railways.
- Trade Infrastructure for Export Scheme (TIES) aims to assist creation of appropriate infrastructure for growth of exports from the States.

- Some Digital/Technological Initiatives that are under development are:
  - Logistics Planning and Performance Monitoring Tool (LPPT) shall allow real-time monitoring of operational performance and asset utilization of various logistics infrastructure such as ports, airports, various corridors comprising national and state highways, Inland Container Depots (ICDs), etc.
  - India Logistics Platform (iLOG) - Several IT-based solutions have been deployed by government over the years such as Indian Customs EDI Gateway (ICEGATE) and Single Window Interface for Trade (SWIFT) developed for trade facilitation; Port Community System (PCS) for cargo handling at seaports; Freight Operations Information System (FOIS) by Indian Railways and VAHAN (National Vehicle Registration System) by Ministry of Road Transport and Highways. However, each system owner has adopted a different approach, leaving critical gaps that require manual or offline processing at various stages. Therefore, a comprehensive platform iLOG is being developed for integrating all logistics related digital portals.

WAY FORWARD

- The global economy is still reeling under the impact of the unprecedented COVID-19 shock. Amidst this uncertain and shaky global economic environment, India's external sector has emerged as a key cushion for resilience. The comfortable external balance position of India has been supported by surplus current account balances over three consecutive quarters, resumption of portfolio capital inflows, robust FDI inflows and sustained build-up of foreign exchange reserves.

04 Monetary Management and Financial Intermediation

CONTEXT

- Given the unprecedented shock of COVID-19 pandemic, monetary policy was significantly eased from March 2020 onwards. The repo rate has been cut by 115 bps since March 2020, with 75 bps cut in first Monetary Policy Committee (MPC) meeting in March 2020 and 40 bps cut in second meeting in May 2020. The policy rates were kept unchanged in further meetings, but the liquidity support was significantly enhanced.
- Systemic liquidity in 2020-21 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 etc. to manage liquidity situation in the economy.

INTRODUCTION

- The financial flows to the real economy however remained constrained on account of subdued credit growth by both banks and Non-Banking Financial Corporations.
- The higher reserve money growth did not fully translate into commensurate money supply growth due to the lower (adjusted) money multiplier reflecting large deposits by banks with RBI under reverse repo.
- Credit growth of banks slowed down to 6.7 per cent as on January 1,2021.
- The credit offtake from banking sector witnessed a broad based slowdown in 2020-21. Gross Non Performing Assets ratio of Scheduled Commercial Banks decreased from 8.21 per cent at the end of March 2020 to 7.49 per cent at the end of September 2020. However, this has to be seen in conjunction with the asset classification relief provided to borrowers on account of the pandemic.
- Capital to risk-weighted asset ratio of Scheduled Commercial Banks increased from 14.7 per cent to 15.8 per cent between March 2020 and September 2020 with improvement in both Public and Private sector banks. This year saw improvement in transmission of policy repo rates to deposit and lending rates, as reflected in the decline of 94 bps and 67 bps in Weighted Average Lending Rate on fresh rupee loans and outstanding rupee loans respectively from March 2020 to November 2020.
- Similarly, the Weighted Average Domestic Term Deposit Rate declined by 81 bps during the same period. Nifty50 and S&P BSE Sensex reached record high closing of 14,644.7 and 49,792.12 on January 20,2021 respectively during 2020-21.
- The recovery rate for the Scheduled Commercial Banks through IBC (since its inception) has been over 45 per cent.
- In view of COVID-19 pandemic, initiation of Corporate Insolvency Resolution Process (CIRP) was suspended for any default arising on or after March 25, 2020 for a period of 6 months.
- This was further extended twice for 3 months on September 24, 2020 and December 22, 2020. The suspension along with continued clearance has allowed a small decline in accumulated cases.

MONETARY MANOEUVRES

- The Monetary Policy Committee (MPC) of the Reserve Bank met five times since March 2020.
- Since March 27, 2020, the policy repo rate has been reduced by 115 basis points (bps) from 5.15 per cent to 4.0 per cent so far. The monetary policy responses during the year 2020-21 were necessitated by the extraordinary situation prevailing due to COVID-19.

Table 1: Revision in Policy Rates

Effective Date	Repo Rate (per cent)	Reverse Repo Rate (per cent)	Cash Reserve Ratio (per cent of NDTL)	Statutory Liquidity Ratio (per cent of NDTL)	Bank Rate/ MSF Rate (per cent)
06-02-2020	5.15	4.9	4.0	18.25	5.4
27-03-2020	4.4	4.0	4.0	18.25	4.65
28-03-2020	4.4	4.0	3.0	18.25	4.65
17-04-2020	4.4	3.75	3.0	18.0	4.65
22-05-2020	4.0	3.35	3.0	18.0	4.25

Source: RBI
Note: NDTL: Net demand and time liabilities

- During 2020-21, the growth of monetary aggregates witnessed higher growth as compared to previous few years on account of higher liquidity in the economy. In 2020-21 so far, Reserve money (M0) recorded a Year on Year (YoY) growth of 15.2 per cent as on January 15, 2021 as compared to 11.4 per cent a year ago.
- Expansion in M0 during 2020-21 was driven by currency in circulation (CIC) from the component side, which witnessed a surge in the post-COVID-19 pandemic period. The growth (YoY) in CIC was 21.9 per cent as on January 15, 2021, as compared to 11.6 per cent in the corresponding period of previous year.
- In 2020-21 so far (as on January 1, 2021), the YoY growth of Broad Money (M3) stood at 12.5 per cent, as compared to 10.1 per cent in the corresponding period a year ago. The significant rise in reserve money has not translated into a commensurate increase in money supply as the money multiplier has remained depressed due to a sharp rise in currency-deposit ratio, and also large amount of funds parked under reverse repos with RBI.
- Money multiplier, measured as a ratio of M3/M0 which was mostly increasing from 1980s onwards up to 2016-17, has however been declining since then. As on March 31, 2020, themoney multiplier was 5.5, slightly lower than 5.6 a year earlier.
- This shows that the money supply has responded only partially to reserve money growth, reflecting that the liquidity transmission in the economy remains impaired. The gap between money multiplier and adjusted money reflected the large amount of funds parked by banks under reverse repo window by RBI.

LIQUIDITY CONDITIONS AND ITS MANAGEMENT

- The systemic liquidity in 2020-21 so far has consistently remained in surplus reflecting several liquidity enhancing measures undertaken by the Reserve Bank in the wake of COVID-19 induced disruptions. The main drivers of liquidity during 2020-21 have been Currency in Circulation (CIC), Government cash balances and the Reserve Bank's forex operations. While CIC withdrawals and build-up of Government cash balances resulted in liquidity drainage from the banking system, the Reserve Bank's forex operations augmented systemic liquidity.
- Reserve Bank undertook several conventional and unconventional measures to manage the liquidity in the economy starting from February 2020. These measures, inter alia, included:
  - Injection of durable liquidity of more than Rs 2.7 lakh crore through Open MarketOperation (OMO) purchases between February 6-December 4, 2020.
  - OMOs in State Development Loans (SDLs) as a special case were also introduced during the current financial year. The OMOs were conducted for a basket of SDLs comprising securities issued by states. Aggregate liquidity to the tune of ` 30,000 crore was injected through three OMO purchase auctions (October 22, 2020, November 5, 2020 and December 23, 2020) under this facility.

- Targeted Long Term Repo Operations (TLTROs) of up to three years' tenor for a total amount of Rs 1.13 lakh crore for investment in corporate bonds, commercial papers, and non-convertible debentures, in addition to injection of Rs 1.25 lakh crore through Long Term Repo Operations (LTROs) conducted in February-March 2020.
- Reduction in the CRR requirement of banks from 4 per cent of net demand and time liabilities (NDTL) to 3 per cent with effect from March 28, 2020 augmenting primary liquidity in the banking system by about Rs 1.37 lakh crore.
- Raising banks' limit for borrowing overnight under the MSF by dipping into their Statutory Liquidity Ratio (SLR) to 3 per cent of NDTL from 2 per cent, allowing the banking system to avail an additional Rs 1.37 crore of liquidity.
- Special Liquidity Facility for mutual funds for Rs 50,000 crore; and
- Refinance facility worth Rs 75,000 crore for all India financial institutions i.e., NABARD, NHB, SIDBI and EXIM Bank.

- In the wake of sell off triggered by risk aversion and flight to safety in the beginning of year 2020, RBI conducted two 6-month USD/INR sell/buy swap auctions on March 16 and March 23, 2020 and injected dollar liquidity of US$ 2.7 billion to meet the increased demand for US dollars in the foreign exchange market. The measures listed above coupled with forex purchases resulted in expansion of surplus liquidity, as reflected in average daily net liquidity absorptions under the liquidity adjustment facility (LAF), from Rs 3.43 lakh crore at end of January 2020 to Rs 5.47 lakh crore on January 15, 2021

MONETARY POLICY TRANSMISSION

- RBI has reduced repo rate by 250 bps since February 2019 (the current easing cycle). The transmission of policy repo rate changes has been weak on quantity of credit. However, there has been improved transmission on rate structure and term structure.

Rate structure

- The transmission of policy repo rate changes to deposit and lending rates of scheduled commercial banks (SCBs) has improved since March 2020 reflecting the combined impact of policy rate cuts, large liquidity surplus with accommodative policy stance, and the introduction of external benchmark-based pricing of loans.
- The weighted average lending rate (WALR) on fresh rupee loans declined by 94 bps between March 2020 and November 2020 in response to the reduction of 115 bps in the policy repo rate and comfortable liquidity conditions. In the current easing phase (February 2019 to November 2020), the change in the WALR on outstanding rupee loans has shown significant improvement since March 2020.
- Across bank groups, Private Sector Banks exhibited greater transmission in terms on fresh loans, however Public Sector Banks exhibited greater transmission on outstanding loans for the entire easing cycle. Private Sector Banks also reduced deposit more than Public Sector Banks.
- Apart from the reduction in term deposit rates, many banks also lowered their saving deposit rates during the current easing cycle. The saving deposit rates of five major banks, which ranged 3.25-3.5 per cent prior to the introduction of the external benchmark (in end September 2019), were placed at 2.7-3.0 per cent as on January 15, 2021. The flexible adjustment of saving deposit rates bodes well for monetary transmission to lending rates.

Credit Growth

- Cumulatively, since February 2019, the reduction in policy rate has been of 250 bps, yet the credit growth been declining since then. Credit growth (YoY) stood at 14.8 per cent in February 2019 and had declined to 5.1 per cent as on October 23, 2020. Note that it subsequently accelerated and stands at 6.7 per cent as on January 1,2021.
- The non-food credit growth (YoY), based on sectoral deployment of bank credit data was 6.0 per cent in November 2020 (details available up to November only) as compared with a growth of 7.2 per cent in November 2019.
- The moderation in credit growth in 2020-21 was witnessed in mostly all the sectors, barring services.
- Credit growth to agriculture & allied activities decelerated in first quarter of 2019-20 but then accelerated to 8.5 per cent in November 2020 with significant pick up since September.
- Credit growth to industry has been decelerating consistently and infact contracted by 1.7 per cent in October 2020 and 0.7 per cent in November 2020.

- Services sector bucked the downtrend with credit growth to this sector accelerating to 9.5 per cent in October 2020 and 8.8 per cent in November 2020.
- Credit growth to commercial real estate and NBFCs declined in 2020-21. Personal loans growth decelerated to 10 per cent in November 2020 from 16.4 per cent in November 2019.
- Within the personal loan segment, the two main components are vehicle loans and housing loans. While the growth of vehicle loans growth accelerated to 10 per cent in October 2020 from 4.7 per cent a year ago, that of housing loans growth decelerated to 8.5 per cent in November 2020 from 18.3 per cent a year ago.

Term Structure

- The reduction in policy rates and surplus liquidity helped in bringing down both the short term and long-term interest rates. However, the impact has been much smaller on longer term interest rates. Since the beginning of this financial year, the interest on 1 year security has fallen much more than that on 10-year G-Secs (Government Securities).
- The yield on 1 year G-Sec has reduced by 157 bps from April 2020 to December 2020, whereas the yield on 10 year G-sec has declined by only 24 bps in the same time period (Figure 12). The gap between two yields have widened over this year.
- The lower policy rates have transmitted to corporate bonds and the yield has come down substantially from March 2020. Rates have reduced for both AA and AAA rated bonds.

REGULATORY MEASURES IN BANKING SECTOR

Commercial Banks

- **Merger of PSBs:** Consolidation among another 10 PSBs, with Punjab National Bank, Canara Bank, Union Bank of India and Indian Bank as anchor banks came into effect from April 1, 2020.
- **Restructuring of MSME loans:** A one-time restructuring of loans to MSMEs that were in default but 'standard' as on January 1, 2019, was permitted, without an asset classification downgrade, subject to certain conditions like aggregate exposure (including non-fund-based facilities) of banks and NBFCs to the borrower not exceeding `25 crore as on January 1, 2019. The borrowing entity has to be GST-registered. However, this condition will not apply to MSMEs that are exempt from GST-registration. The cut-off date of January 1, 2019 was extended to March 1, 2020 to support viable MSME entities on account of the fallout of COVID-19. The banks are required to implement the restructuring by March 31, 2021.
- **Large exposure framework:** A bank's exposure under the Large Exposure Framework to a group of connected counterparties was increased from 25 per cent to 30 per cent of the eligible capital base of the bank. The increased limit will be applicable up to June 30, 2021.
- **Export Credit:** The maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks was increased from one year to 15 months for disbursements made up to July 31, 2020, in line with the relaxation granted in the period of realization and repatriation of the export proceeds to India.
- **Monetary policy transmission – external benchmarking of loans:** RBI deregulated the interest rates on advances by SCBs (excluding RRBs). With a view to strengthen the transmission of monetary policy, the banks were mandated to link all new floating rate personal or retail loans and floating rate loans extended to MSMEs to external benchmarks such as repo rate, Treasury Bill Rate and any external benchmark published by Financial Benchmarks India Pvt Ltd (FBIL). Banks can offer such external benchmark linked loans to other types of borrowers as well. In order to ensure transparency, standardisation, and ease of understanding of loan products by borrowers, banks were also advised to adopt a uniform external benchmark within a loan category. Under the external benchmark system, the interest reset period for loans was also reduced to three months with a view to pass on the benefit of reduction in policy repo rate to the borrowers more frequently. Further, to make the benefit of external benchmark linked interest rate regime available to the existing borrowers (Base Rate/MCLR), banks were advised to provide a switchover option to such borrowers on mutually agreed terms.

Co-operative Banks

- **Revision in the target for priority sector lending:** To promote financial inclusion, the overall priority sector lending target for Urban Co-operative Banks has been increased from the present level of 40 per cent of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposure (CEOBSE), whichever is higher, to 75 per cent of ANBC or CEOBSE, whichever is higher by March 31, 2024.
- **Inclusion of co-operative banks as eligible member lending institutions under interest subvention scheme for MSMEs - issuance of guidelines:** All co-operative banks have been advised of their inclusion as Eligible Lending Institutions under the "Interest Subvention Scheme (ISS) for MSMSEs 2018" of the Government. This scheme provides an interest relief of two per cent per annum to eligible MSMEs on their outstanding fresh/incremental term loan/working capital during the period of its validity.
- **Reporting of large exposures to Central Repository of Information on Large Credits (CRILC):** Urban Cooperative Banks (UCBs) with assets of `500 crore and above were brought under the CRILC reporting framework. Accordingly, UCBs shall report credit information, including classification of an account as Special Mention Account (SMA), on all borrowers having aggregate exposures of `5 crore and above with them to CRILC.
- **Limits on exposure to single and group borrowers and large exposures:** The exposure norms for single borrower and a group of borrowers from 15 per cent and 40 per cent of UCB's capital funds, to 15 per cent and 25 per cent, respectively, of UCB's Tier-I capital. The revised exposure limits shall apply to all types of fresh exposures taken by UCBs, and they shall bring down their existing exposures which are in excess of the revised limits to within the aforesaid revised limits by March 31, 2023. Further, UCBs shall have at least 50 per cent of their aggregate loans and advances comprising loans of not more than `25 lakh or 0.2 per cent of their tier I capital, whichever is higher, subject to a maximum of `1 crore, per borrower.
- **Submission of returns under Section 31 (read with section 56) of the Banking Regulation Act, 1949 - Extension of time:** In view of the difficulties faced by UCBs in submission of the returns due to the ongoing COVID-19 pandemic, the timeline for the furnishing of the returns for the financial year ended on March 31, 2020, was first extended by three months, i.e., till September 30, 2020 and then further to December 31,2020.
- **Amendments to the Banking Regulation Act, 1949:** Banking Regulation (Amendment) Act, 2020: The Banking Regulation Act has been amended by the Banking Regulation (Amendment) Act, 2020. The key changes in the regulatory regime of UCBs pursuant to the Banking Regulation (Amendment) Act, 2020 are as under:
  - The Reserve Bank has been given powers over the management of the UCBs, owing to which it can issue directions relating to the management of UCBs including approval for appointment of Chairman / MD / CEO, removal and remuneration of MD / CEO. Further, the Board of UCBs would be required to have not less than 51 per cent members having special knowledge / practical experience in specified areas.
  - The statutory restriction on grant of director-related loans / advances has been widened and common directorship across banks shall be prohibited as per the provisions of the amended Act.
  - The Reserve Bank has been vested with powers of approval of the appointment /removal of statutory auditors of UCBs.
  - Provisions of the revised Act will enable UCBs to raise capital by issue of equity/preference/special shares and debentures/bonds/like securities subject to such conditions as the Reserve Bank may specify in this behalf.
  - The Reserve Bank has been empowered to supersede the Board of Directors of a UCB; though in case of a UCB having operations confined to a single State, in consultation with the concerned State Government.
  - The Reserve Bank has been empowered to sanction voluntary/compulsory amalgamation and to prepare scheme for reconstruction of a UCB with the approval of the Central Government.

NON-BANKING FINANCIAL COMPANIES (NBFC) SECTOR

- Credit growth of NBFCs continued to slow down. Credit growth (YoY) of the NBFC sector was close to 3 per cent in June 2020. Further, the credit growth contracted in September 2020 with a YoY growth of -6.6 per cent. The sector had witnessed credit growth of 2.72 per cent from `23.16 lakh crore in March 2019 to `23.8 lakh crore in March 2020 as compared with 17.7 per cent growth during the previous year.

- NBFCs witnessed slowdown in their growth in 2019-20 largely due to isolated credit events in few large NBFCs and challenges in accessing funds.
- There was some shift in sources of funding for the NBFC sector in 2019-20. Banks' total exposure to NBFCs increased from Rs. 7.01 lakh crores in March 2019 to Rs. 8.04 lakh crores in March 2020, and further to Rs. 8.17 lakh crores in June 2020. Bank credit to the NBFC sector was Rs. 7.05 lakh crore in June 2020, which comprised around 6.6 per cent of total banking credit. However, mutual funds lending to NBFCs continued to contract in 2020-21 as well.
- The external liabilities of NBFCs in the form of secured and unsecured borrowings and public deposits increased by 13.7 per cent on YoY basis in June 2020.
- Cost of funds for all types of borrowings by NBFCs marginally declined in June 2020, compared to March 2020 or June 2019, except for Non-Convertible Debentures (NCDs)

DIGITAL PAYMENTS

- Financial transactions have been seeing high growth over the last few years. This financial year has witnessed jumps in both volume and value of digital payments across all categories. Overall transactions worth Rs. 19.35 lakh crore have been done via UPI and Rs. 1.02 lakh crore via RuPay cards in 2020-21 (upto October).
- Reserve Bank of India has constructed a composite Digital Payments Index (DPI) to capture the extent of digitisation of payments across the country. The RBI-DPI comprises of 5 broad parameters that enable measurement of deepening and penetration of digital payments in the country over different time periods. These parameters are: (i) Payment Enablers (weight 25%), (ii) Payment Infrastructure – Demand-side factors (10%), (iii) Payment Infrastructure – Supply-side factors (15%), (iv) Payment Performance (45%) and (v) Consumer Centricity (5%).
- The RBI-DPI has been constructed with March 2018 as the base period, i.e. DPI score for March 2018 is set at 100. The DPI for March 2019 and March 2020 work out to 153.47 and 207.84 respectively, indicating high growth over the years. The index has grown more than 100 per cent in a span of 2 years.

INVESTMENT BY FOREIGN PORTFOLIO INVESTORS

- There were net inflows to the tune of Rs. 2.1 lakh crore on account of the foreign portfolio investors (FPIs) in the Indian capital market during 2020-21 (up to December), as compared to net inflows of ` 0.81 lakh crore during the same period in 2019-20.
- The total cumulative investment by FPIs (at the acquisition cost) increased by 5.4 per cent to US$ 273.6 billion as on December 31, 2020 from US$ 259.5 billion as on December 31, 2019.

MOVEMENT OF INDIAN BENCHMARK INDICES

- During 2020-21 (upto January 20, 2021), India's benchmark indices, namely, Nifty50 and S&P BSE Sensex index reached record highs of 14,644.7 and 49,792.1 respectively on January 20,2021.
- There were some significant corrections due to COVID-19 induced uncertainty in the beginning of this financial year, however both Nifty50 and S&P BSE Sensex index recovered strongly afterwards.
- The S&P BSE Sensex, the benchmark index of BSE, rose by 68.9 per cent to 49,792.1 on January 20,2021, compared to 29,468 on March 31, 2020. During the same period, Nifty 50 index of National Stock Exchange (NSE) gained by 70.3 percent from March 31, 2020 to January 20, 2021.
- India VIX, an index circulated by NSE which indicates the degree of fluctuation that can be expected in Nifty 50 index by active traders over the next 30 days has fallen considerably since March 2020, indicating decline in volatility in stock market.

INSURANCE SECTOR

- The performance and potential of insurance sector is assessed using two indicators- Insurance penetration and Insurance Density. Insurance penetration is calculated as percentage of insurance premium to GDP and insurance density is calculated as ratio of insurance premium to population.

- As of 2019, the penetration for Life insurance in India is 2.82 per cent, the penetration for Non-Life insurance is much at 0.94 per cent. Globally insurance penetration was 3.35 per cent for the life segmentand 3.88 per cent for the non-life segment in 2019. Although the penetration is lower in India for both, it is particularly low for Non-life insurance as compared to other countries.
- Density for Life insurance is US$ 58 and Non-Life insurance is much lower at US$ 19 in 2019 in India. Globally insurance density was US$ 379 for the life segment and US$ 439 for the non-life segment respectively in 2019. United States has particularly high insurance density in the Non-life category. India has extremely low insurance penetration as compared to global average and other comparable countries.
- During 2019-20, the gross direct premium of Non-Life insurers was Rs. 1.89 lakh crore, as against Rs. 1.69 lakh crore in 2018-19, registering a growth of 11.45 per cent. Within non-life category, motor and health segments primarily are the main contributors to industry to report this growth. Life insurance industry recorded a premium income of Rs. 5.73 lakh crore in 2019-20, as against ` 5.08 lakh crore in the previous financial year, registering a growth of 12.75 per cent.

PENSION SECTOR

- The overall contribution under NPS grew by more than 30 per cent. Maximum growth was registered by All-Citzen model/ UoS (52.3 per cent) followed by APY (46.1 per cent), Corporate Sector (34.8 per cent) and State Govt. Sector (30.7 per cent).
- The Assets Under Management (AUM) of NPS stands at Rs. 4.94 lakh crore as on September 30, 2020, as compared to Rs. 3.71 lakh crore at the end of September, 2019, thereby recording an overall growth (YoY) of 33.3 per cent.
- The maximum growth was recorded under APY i.e. 49.2 per cent over the year, followed by All-Citizen/UoS (45.8 per cent), Corporate Sector (39.6 per cent) and State Government Sector (33.9 per cent).

INSOLVENCY AND BANKRUPTCY CODE

- Since the inception of the Code in December 2016, 4,117 applications have been admitted as on December 31, 2020.
- Nearly 23 per cent of the cases admitted were settled or withdrawn after the commencement of Corporate Insolvency Resolution Process (CIRP). Out of the 1420 cases for which the CIRP process has been completed, liquidation as an outcome has happened nearly 3.6 times the resolution. However, this does not represent an accurate picture of the performance of the Code. This is because 73 per cent (799 cases) of cases undergoing liquidation and 33 per cent of cases (101 cases) undergoing resolution had been brought in from earlier Board for Industrial and Financial Reconstruction (BIFR) regime.
- Most of these cases have been considered to be dead corpus with most of the net worth being eroded by the time they entered CIRP. Having been able to revive 101 of such cases is an achievement in itself.
- The CIRP for non-BIFR legacy has yielded 195 resolutions and 288 liquidations till date. This also means that the resolution rate for non-BIFR legacy cases is more than three times higher at 40 per cent when compared to BIFR cases The ongoing CIRPs at the end of March 2020 were 1966.
- In view of COVID-19 pandemic, the Insolvency and Bankruptcy (Amendment) Ordinance, 2020 was promulgated on June 5, 2020 which suspended initiation of the CIRP of a corporate debtor (CD) under section 7, 9 and 10 for any default arising on or after March 25, 2020.
- Further, the government extended the suspension of the Code twice for 3 months each on September 24, 2020 and December 22, 2020 to provide relief to the firms undergoing stress due to ongoing COVID-19 pandemic. The relaxation combined with continued resolutions has allowed the number of cases to decline since July 2020.
- Manufacturing Sector, Real Estate and Construction are among the top three sectors initiating CIRP with 39 per cent, 20 per cent and 11 per cent of the ongoing CIRPs respectively.
- **Resolution:** The Code has rescued 308 CDs as on December 2020 through resolution plans. They owed Rs. 4.99 lakh crore to creditors. However, the realisable value of the assets available with them, when they entered the CIRP, was only Rs. 1.03 lakh crore. Under the Code, the creditors recovered Rs. 1.99 lakh crore, which is more than 193 per cent of the

realisable value of these CDs. The recovery for financial creditors (FCs), as compared to their claims, was found to be more than 43 per cent for all the years since the inception of the Code. The Code has facilitated the recovery of NPAs by banks. RBI data indicates that as a percentage of claims, scheduled commercial banks (SCBs) have been able to recover 45.5 per cent of the amount involved through IBC for the financial year 2019-20, which is the highest as compared to recovery under other modes and legislations. Further, the amount recovered by SCBs under IBC was Rs. 1.73 lakh crores which is more than all the amount recovered by all other alternative mechanisms combined for 2019-20.

- **Liquidation :** Although the Code has rescued 308 CDs, 1112 CDs went into liquidation. The CDs rescued had assets valued at Rs. 1.03 lakh crore, while the CDs (for which data are available) referred for liquidation had assets valued at Rs. 0.43 lakh crore when they entered the CIRP. Thus, in value terms, around three fourth of distressed assets were rescued. TillDecember 31, 2020, 181 CDs have been completely liquidated which had outstanding claims of Rs. 26,251 crores, but the assets valued at Rs. 598 crores. Rs. 607 crores were realised through the liquidation of these companies.

WAY FORWARD

- Monetary policy remained accommodative in 2020. The repo rate has been cut by 115 bps since March 2020. Systemic liquidity in 2020-21 remained in surplus so far. RBI undertook various conventional and unconventional measures like OMOs, Long Term Repo Operations, Targeted Long Term Repo Operations etc. to manage liquidity situation in the economy. The transmission of high reserve money growth to money supply growth was only partial, showing impaired liquidity transmission as the banks put money back with RBI under reverse repo. The recovery rate for the Scheduled Commercial Banks through IBC (since its inception) has been over 45 per cent. India seems to have done a fine to good job on the monetary management front to tide over the crisis induced by the pandemic.

05 Prices and Inflation

CONTEXT

- Headline CPI inflation averaged 6.6 per cent in 2020-21 (Apr-Dec) and stood at 4.6 per cent in December 2020, mainly driven by rise in food inflation, which has increased from 6.7 per cent in 2019-20 to 9.1 per cent in 2020-21 (Apr-Dec), owing to build up in vegetable prices. At the global level, inflation remained benign on the back of subdued economic activity as a result of COVID-19 outbreak and sharp fall in international crude oil prices in advanced economies.
- Steps were taken to stabilise prices of food items like banning of export of onions, imposition of stock limit on onions, easing of restriction on imports of pulses etc.

INTRODUCTION

- Year 2020 was unprecedented with the global pandemic of COVID-19 induced social distancing disrupting economic activity globally. At the domestic level, two opposing forces were at play. On the one hand, there was a dampening of demand owing to lower economic activity. On the other hand, supply chain disruptions have caused spikes in food inflation that have continued to persist during the unlocking of the economy, though the effect has softened in the recent months.
- Overall, headline CPI inflation remained high during the COVID-19 induced lockdown period and subsequently, due to the persistence of supply side disruptions.
- The rise in inflation was mostly driven by food inflation, which increased to 9.1 per cent during 2020-21 (Apr-Dec). Due to COVID-19 induced disruptions, an overall increase in the price momentum is witnessed, driving inflation since April 2020, whereas positive base effect has been a moderating factor.
- The difference in rural-urban CPI inflation, which was high in 2019, saw a decline from November 2019 that continued in 2020.
- Inflation ranged between 3.2 per cent to 11 per cent across States/UTs in 2020-21 (Jun-Dec) compared to (-) 0.3 per cent to 7.6 per cent in the same period last year.
- Thali prices for both vegetarian and non-vegetarian Thalis declined significantly in January-March 2020 before rising sharply during April to November in both rural and urban areas before easing in December 2020. The easing in CPI-C is expected to ease Thali prices going forward.
- The Survey finds that sole focus on CPI-C inflation may not be appropriate for four reasons.
  - First, food inflation, which contributes significantly to CPI-C is driven primarily by supply-side factors.
  - Second, given its role as the headline target for monetary policy, changes in CPI-C anchor inflation expectations. This occurs despite inflation in CPI-C being driven by supply-side factors that drive food inflation.
  - Third, several components of food inflation are transitory with wide variations within the food and beverages group.
  - Finally, food inflation has been driving overall CPI-C inflation due to the relatively higher weight of food items in the index.
- In Emerging Markets and Developing Economies (EMDEs), there was slight fall in inflation on account of weaker economic activity, though there has been uptick in inflation in some economies ending at similar levels as in the previous year (IMF, 2020).

CURRENT TRENDS IN INFLATION

- Headline inflation based on CPI-Combined (CPI-C) was on a downward path from 2014 to 2018. Though a rising trend was observed since 2019, a moderation in inflation is clearly visible now.

Table 1: General inflation based on different price indices (in per cent)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21*
WPI	5.2	1.2	–3.7	1.7	3.0	4.3	1.7	–0.1 (P)
CPI - C	9.4	5.9	4.9	4.5	3.6	3.4	4.8	6.6 (P)^
CPI - IW	9.8	6.4	5.6	4.2	2.9	5.6	7.3	5.5#
CPI - AL	11.6	6.6	4.4	4.2	2.2	2.1	8.0	7.0
CPI - RL	11.5	6.9	4.6	4.2	2.3	2.2	7.7	6.8

Source: Office of the Economic Adviser, Department for Promotion of Industry and Internal Trade (DPIIT) for Wholesale Price Index, National Statistical Office (NSO) for CPI-C and Labour Bureau for CPI-IW, CPI-AL and CPI-RL.

Notes: #CPI-IW inflation for 2020-21 is based on new series 2016=100; (P) - Provisional; C- stands for Combined, IW- stands for Industrial Workers, AL - stands for Agricultural Labourers and RL- stands for Rural Labourers.

* April to December 2020 for WPI, CPI-C and April- November 2020 for others.

^ CPI-C inflation for the months of April-May, 2020 are imputed, which are based on limited set of observations due to COVID-19 pandemic.

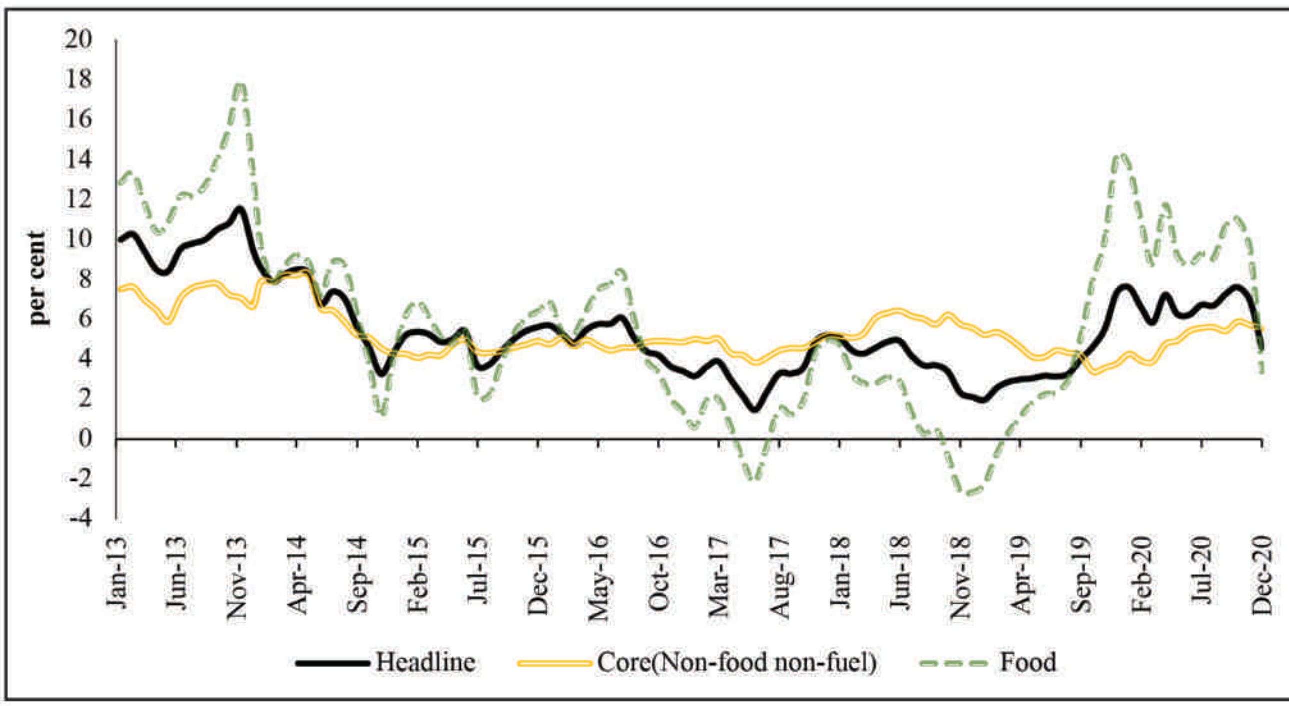
- The average CPI-C inflation, which was 5.9 per cent in 2014-15, fell continuously to 3.4 per cent in 2018-19 and recorded 4.8 per cent in 2019-20. It however increased to 6.6 per cent in 2020-21 (Apr-Dec) before easing to a 15-month low of 4.6 per cent in December 2020.
- Within various groups of CPI-C, the increase in inflation in the current year was mainly driven by rise in food inflation, which increased from 0.1 per cent in 2018-19 to 6.7 per cent in 2019-20 and further to 9.1 per cent in 2020-21 (Apr-Dec), owing to build up in vegetable prices.
- However, the swift steps taken by the Government eased food inflation significantly to 3.4 per cent in December 2020 from a high of 11 per cent in October 2020. CPI Core (non-food non-fuel) inflation declined from 5.8 per cent in 2018-19 to 4.0 per cent in 2019-20 and averaged 5.4 per cent in 2020-21 (Apr-Dec).
- Rise in core inflation in the current year is mainly on account of miscellaneous group which primarily consists of services. Inflation in transport & communication, which have maximum weightage in the miscellaneous group, increased to 9.4 per cent in the current year as compared to 2.4 per cent in 2019-20. Further, volatility in gold and silver prices also pushed core inflation up.
- WPI inflation declined from 4.3 per cent in 2018-19 to 1.7 per cent in 2019-20 and further to (-) 0.1 per cent in 2020-21 (Apr-Dec). It remained negative from April to July 2020 and stood at 1.2 per cent in December 2020. The decline in WPI inflation in the current year is mainly on account of fuel & power. Persistent volatility in the global crude oil prices during the year led to fall in inflation of major fuel products.
- WPI food inflation declined from 6.9 per cent in 2019-20 to 4.2 per cent in 2020-21 (Apr-Dec) and WPI core inflation increased to 0.8 per cent in 2020-21 (Apr-Dec) as compared to (-) 0.4 per cent in 2019-20.
- The rural-urban difference in CPI inflation, which was high in 2019, saw a decline in 2020. From July 2018 to December 2019, CPI-Urban inflation was consistently above CPI-Rural inflation, mainly on account of the differential rates of food inflation between rural and urban areas witnessed during this period.
- Inflation in non-food components of CPI is higher in urban areas as compared to rural areas in the current year.
- CPI-IW is a price index released by the Labour Bureau to measure the impact of price rise on the cost of living for working class families spread across certain select industries. The base year of CPI-IW has been revised from its earlier 2001 to a more recent base year of 2016.
- Inflation trends are usually interpreted using the twelve-month change in the index to eliminate the effect of seasonal fluctuations. However, one challenge with using the YoY change in inflation is that it does not distinguish between recent price changes and price changes a year before.

- When changes in the CPI in the base month have a considerable effect on changes in YoY inflation, this is referred to as base effect. Base effects are therefore the contribution to changes in the annual rate of measured inflation from abnormal changes in the CPI in the base period.
- CPI headline and CPI core inflation from April 2020 to October 2020 was driven mostly by substantial increase in price momentum i.e., increase in recent price index was pushing up the inflation each month.

IMPACT OF FOOD INFLATION

- During 2019-20 (Apr-Dec) as well as 2020-21 (Apr-Dec), the major driver of CPI-C inflation was the food and beverages group, though its contribution has increased to 59.0 per cent in 2020-21 (Apr-Dec) compared to 53.7 per cent in 2019-20 (Apr-Dec). Miscellaneous group was the second largest contributor to inflation, contributing to 26.8 per cent of overall inflation.

Figure 2: Trends in CPI-C Headline, Core and Food inflation



Source: NSO.

- Among the sub-groups in miscellaneous group, transport and communication contributed the most followed by personal care and effects.
- Food inflation based on CFPI which remained negative from October 2018 to February 2019, showed a sharp increase since the second half of 2019, mainly due to surge in vegetable prices, before declining in the recent months. High food inflation since March, 2020 is indicative of supply chain bottlenecks owing to COVID-19 induced disruptions. The contribution of food sub-groups to CFPI shows that 'vegetables', 'meat & fish', 'oils & fats' and 'pulses &products' were the major contributors to food inflation in the current year. Contribution of vegetables turned negative in December 2020 owing to sharp fall in vegetable prices. Cereals, which contributed highly to food inflation in June 2020, has declined continuously since then.
- Inflation in vegetables remained elevated during the period September 2019 to April 2020. It declined to 4 per cent in June 2020 and remained in double digits from July to November 2020. The rise in vegetables inflation was mainly on account of rise in prices of potatoes and onions during the lean season. In the case of onion, arrivals declined by 74 per cent in April 2020 and by 62 per cent in case of potatoes in August 2020. However, immediate steps have been taken by the Government to contain the price rise of these items, resulting in a steep decline in vegetables inflation to (-)10.4 per cent in December 2020.

- Apart from vegetables, inflation in some of the protein rich items like egg, meat & fish and pulses & products remained elevated in the current year, thereby contributing significantly to food inflation. The only exception was inflation in milk & products which declined continuously from 9.4 per cent in April 2020 to 4.0 per cent in December 2020. Inflation in meat & fish has remained in double digits in most part of the current year mainly on account of rise in prices of chicken and mutton. After reaching peak in April 2020, inflation in pulses & products declined, before rising to 18.3 per cent in October 2020 and then declined to 16.0 per cent in December 2020. However, lately, inflation in all these items has declined.
- Further, inflation in oils & fats and spices has shown a rising trend in the current year. However, sizeable drop in inflation since April 2020 has been observed for some of the major food groups like cereals & products which declined from 7.8 per cent in April 2020 to 1.0 per cent in December 2020, and sugar which declined from 10.3 per cent in April 2020 to 0.5 per cent in December 2020.
- Imports can add to the availability of any commodity and thus moderate prices in case of shortfalls in domestic supply. In the case of pulses, it is seen that import is highly negatively correlated with production. In the year of low production, import increases and in the year of bumper crop, imports fall. Each year, import policy is changed according to the level of production. However, such frequent changes in import policy adds to confusion of market participants owing to uncertainty in policy regime.
- Escalation in wholesale prices was also witnessed after the COVID-19 induced restrictions possibly because of labour shortages on account of reverse migration, social distancing in factories, and other transaction costs in the production and distribution network. Although production of total oilseeds is estimated to have increased in 2019-20 and 2020-21, production of soyabean has declined significantly in 2019-20. The kharif production of sunflower for 2020-21 is estimated to have declined as compared to the previous year. The production of sunflower has been declining continuously over the years, and only a marginal increase has been observed in 2019-20. Production of mustard also has declined in 2019-20.

BASE REVISION OF CONSUMER PRICE INDEX FOR INDUSTRIAL WORKERS (CPI-IW)

- The CPI-IW is compiled and disseminated by the Labour Bureau on a monthly basis. It measures changes in the retail prices of a fixed basket of goods and services being consumed by an average working-class family. Apart from serving as a guide for policy formulations, these index numbers are utilized for fixing/revising wages, regulating the dearness allowances paid to large number of manual workers and Central/ State Govt. employees. To capture the latest consumption pattern of working-class family, Labour Bureau has revised the base year of the existing CPI-IW series 2001=100 to a more recent base year 2016=100.
- The new series of CPI-IW covers the industrial workers from the existing seven sectors viz. Factories, Mines, Plantation, Railways, Public Motor Transport Undertakings, Electricity Generating & Distributing Establishments and Ports & Docks. The new series has a wider coverage in terms of sample size, number of centres, markets/outlets, items etc.
- As recommended by Technical Advisory Committee on Statistics of Prices and Cost of Living (TAC on SPCL), Labour Bureau has revised the classification of items in CPI-IW into different Groups and Sub-Groups in line with NSO's Classification of Individual Consumption by Purpose (COICOP).

WHICH MEASURE OF INFLATION REFLECTED ECONOMIC ACTIVITY BETTER IN 2020-21?

- The previous two sections indicate the role of supply-side constraints, especially in the case of perishable vegetables contributing to inflation. Since February 2017, CPI-C inflation and WPI inflation have been moving more or less in tandem till beginning of 2019-20. After this period, gap has emerged, which has widened in the recent months.
- Between April-July 2020, WPI inflation has been in the negative region while CPI-C inflation has been above 6 per cent. The major feature in this widening gap is that this has happened in a period witnessing high food inflation.
- The movement in CPI-C inflation is quite contrary to the weak demand conditions prevalent in the economy in the recent months owing to the COVID-19 crisis. Food items have a large weight of around 39 per cent in the CPI-C index. This means that shocks to food prices can have large impacts on CPI-C inflation.

- For the period April 2020 to November 2020, CPI-C is weakly related to IIP growth while WPI inflation and CPI-C Core inflation are positively and strongly related to IIP growth. Therefore, core CPI-C inflation and WPI Inflation, have been more in sync with the demand conditions in the economy.
- A tight monetary policy may have a role in managing inflation in case of excess demand driving high inflation. However, the current scenario presents a different picture. The current spike in CPI inflation driven by spike in food prices is mainly a supply-side phenomenon. This can be easily assessed from the fact that arrivals in the market, for agricultural commodities like onion, tomato and potato that have witnessed spikes in recent times, have been much lower compared to the previous years. Further, the weights of all items in CPI-C are based on NSO Household Consumption Expenditure Survey 2011-12. Weight of food items in the index might have significantly decreased over the decade since 2011-12.

HEADLINE INFLATION OR CORE INFLATION AS TARGET FOR MONETARY POLICY

- Core inflation (inflation in the price index excluding food, fuel and other volatile components) has been viewed by many as the better measure of inflation for monetary policy purposes. This is because food and fuel price shocks are transitory as well as mainly supply driven and therefore not a monetary phenomenon.
- Theoretical work in the area has used models with price and/or wage stickiness to show that targeting core inflation maximizes welfare. When prices are sticky, mark-ups fluctuate and therefore also distort relative prices. In these models, the flexible price equilibrium is restored by central banks trying to minimize these fluctuations by targeting sticky prices.
- Much of the literature assumes that markets are complete, allowing households to fully insure against idiosyncratic risks. However, in the case of developing economies there are two deviations from these assumptions:
  - inability of agents to smooth their lifetime consumption, and
  - other structural differences such as a high share of food in household consumption expenditure.
- A recent RBI working paper (Nadhanael, 2020), analyses weekly price data on 45 food items in India, for the period 2005-18, from the data collected by the Directorate of Economics and Statistics, Ministry of Agriculture and Farmers Welfare. The paper finds heterogeneity in the extent of price stickiness among food products.
- The prices of food items change, on average, in 1.29 months. Vegetable prices change at higher frequency than others (almost twice a month on average), price of pulses changes thrice almost every 2 months, the price of milk changes once in five months, and prices of eggs, meat and fish change on average once a month, prices of cereals change once almost every three and a half months.
- Given this finding of wide variations in the price stickiness of food items, the paper suggests that it is important to pay attention to the sticky component of food inflation in addition to core inflation.

NHB RESIDEX

- The Housing Price Indices (HPIs) are a broad measure of movement of residential property prices observed within a geographic boundary.
- The National Housing Bank (NHB) RESIDEX captures two housing price indices viz. HPI@ Assessment Prices and HPI@ Market Prices - Under Construction Properties based on the data available for 50 cities with quarterly updation. The Composite HPI@Assessment Prices which stood at 83 in June 2013 has moved up to 112 in the quarter ending September 2020.
- The index has moved up with a compound annual growth rate of 4.2 per cent over the years. The Composite HPI@ Market Prices for Under Construction Properties which stood at 85 in June 2013 has steadily moved up to 104 in the quarter ending September 2020. The index has moved up with a CAGR of 2.8 per cent over the years. The total number of transactions for HPI@Assessment Price reduced by 71 per cent from March 20 to June 20 on Q-o-Q basis while on YoY basis transactions reduced by 67 per cent from June 19 to June 20, indicating that COVID-19 crisis has significantly impacted the residential real estate market.

GLOBAL COMMODITY PRICES

- The largest impact of COVID-19 has been on energy prices driven by fall in crude oil prices. Energy prices have seen some rebound since the pandemic owing to production cuts by OPEC+ countries (World Bank, 2020b), though they continue to be below levels of the previous year.
- Agricultural prices remained more or less stable during the period of pandemic induced restrictions. This may be attributed to the lower income elasticity of demand for these commodities compared to other commodities (World Bank, 2020a). Growth in prices of agricultural commodities, metals and minerals and fertilizers have now returned to the positive territory.
- Edible oil prices have been a major driving force in putting upward pressures on agriculture prices.
- Metal prices have risen owing to higher industrial demand from China (World Bank, 2020b). The average growth in energy index stood at (-) 35.1 per cent in 2020-21 (Apr-Dec) compared to (-) 14.7 per cent in 2019-20 (Apr-Dec). On the other hand, average growth in agriculture index was 5.2 per cent in 2020-21 (Apr-Dec) compared to (-) 3.2 per cent in 2019-20 (Apr-Dec). Precious metals saw a 28.9 per cent growth in 2020-21 (Apr-Dec) compared to 12.5 per cent in 2019-20 (Apr-Dec).
- From January 2020 onwards, gold prices have sharply increased with the sharp rise in the GEPU. In fact, compared to other assets, gold had returns during the year that were considerably higher.

REGULATION OF DRUG PRICES

- Drug prices in India are regulated to ensure continued availability and affordability of essential lifesaving drugs with improved access to consumers.
- National Pharmaceutical Pricing Authority (NPPA), which is an independent regulator for pricing of drugs and to ensure availability and accessibility of medicines at affordable prices, has played an active role in addressing the exigencies arising out of COVID-19 pandemic and undertook necessary measures to ensure continued availability of life saving essential medicines throughout the country.
- It invoked extraordinary powers in public interest to ensure that policy enhances access to life saving drugs like Heparin and Medical Oxygen. NPPA has revised upward the ceiling price of Heparin, a Scheduled Drug, included in the COVID-19 Treatment Protocol for a period of six months to ensure its continued availability during the pandemic.
- NPPA also invoked extraordinary powers in public interest under Drug Price control Order, 2013 and National Disaster Management Act to cap the price of Liquid Medical Oxygen (LMO) and the Oxygen Inhalation (Medicinal gas) for six months.
- In order to ensure availability of N95 mask at affordable prices in the country, NPPA, directed Manufacturers/ Importers/ Suppliers of N95 mask to maintain parity in prices for non-government procurements and to make available the same at reasonable prices. After issuing such an advisory, major manufacturers/importers of N95 masks have reduced their prices significantly up to 67 per cent.
- During the pandemic period, the government constituted an Inter-Ministerial Empowered Committee to make recommendation for the export of drugs/items requested by foreign governments especially drugs like Hydroxychloroquine (HCQ) and Paracetamol.
- On the intervention of Empowered Committee, during March-May 2020, the number of manufacturing units of Hydroxychloroquine increased from 2 to 12 and the country's production capacity of Hydroxychloroquine has increased three times i.e., from approximately 10 crore tablets per month to approximately 30 crore tablets per month.
- Currently, India is having surplus of Hydroxychloroquine tablets over and above its domestic requirements.

MEASURES TO CONTROL INFLATION

- The Government reviews the price situation regularly and has taken number of measures from time to time to stabilize prices of food items. In the wake of rising prices of pulses, onion and potato, the Government has taken several steps to improve the availability of these commodities and make them available to consumers at affordable prices. These include:
  - Banning the export of onion w.e.f. 14.09.2020, revoked w.e.f. 1.01.2021.
  - Imposition of stock limit on onion under the EC Act w.e.f. 23.10.2020 to prevent hoarding, lapsed 31.12.2020.
  - Easing of restrictions on imports, facilitating imports at integrated check-posts, issuance of licenses for imports and reduction in import duties.
- These measures have resulted in increased imports of onion, tur dal and masur dal in the country and resultant cooling of prices.

Other measures to control undue price rise include:

- Price Stabilization Fund (PSF) Scheme is being efficiently implemented and has succeeded in achieving its objective of stabilizing prices of pulses and offered significant benefits to all stakeholders. Government in 2016 has approved creation of a dynamic buffer of up to 20 lakh tonnes of pulses for appropriate market intervention. A buffer stock of 20.5 lakh tonnes of pulses was built through both domestic procurement of 16.7 lakh tonnes by Food Corporation of India (FCI), National Agricultural Cooperative Marketing Federation of India (NAFED) and Small Farmers' Agribusiness Consortium (SFAC) during November 2015 to July 2017, and imports of 3.8 lakh tonnes by Metals and Minerals Trading Corporation (MMTC) and State Trading Corporation of India (STC). Domestic procurement for the buffer was done from farmers and farmers' association during Kharif Marketing Seasons (KMS) of 2015-16 and 2016-17 as well as Rabi Marketing Seasons (RMS) of 2016-17 and 2017-18, benefitting about 8.5 lakh farmers. Last import was contracted in November 2016, i.e., up to period when domestic availability was low during 2015-16 and 2016-17.
- Government has taken a decision that all Ministries/Department having schemes with nutrition component or providing food/ catering/hospitality services would utilize pulses from the central buffer. Pulses from the buffer are utilised for PDS distribution, in Mid-day Meal Scheme and in ICDS Scheme. In addition, pulses from the buffer are being utilized to meet the requirement of Army and Central Para-Military Forces. The balance stock is disposed in market, based on considerations like shelf life, efficient buffer management, market prices etc.
- Creation of buffer stock of pulses has helped in moderating pulses prices. Lower prices of pulses lead to consumer savings. Built buffer also led to remunerative prices to farmers as procurement for buffer was undertaken at MSP or higher rates from them. This incentivized production which led to two successive years of bumper production taking country towards self-sufficiency and resulting in reduced imports and concomitant savings in forex.
- Subsequently, Government has decided that procurement at MSP would be under Price Support Scheme of Department of Agriculture, Cooperation and Farmers Welfare and requirement towards building suitable buffer would be met from the PSS stock in case procurement is not required to be undertaken under PSF. As the procurement since Rabi-17 was under MSP operation of PSS, pulses procured under Price Support Scheme (PSS) of Department of Agriculture and Cooperation and Farmers Welfare (DACFW) have since been channelized to PSF to the extent of meeting buffer requirements. Since April 2019, around 20.07 LMT has been transferred from PSS to PSF to replenish buffer under PSF. Further, based on request from States and endorsement of the same by DACFW, 1.8 LMT Tur was procured under PSF at MSP during KMS 2019-20. Also, around 93 MT Masur was procured at market prices during RMS 2020 under PSF.
- States/UTs are also being encouraged to set up their own State level PSF. Till date, financial assistance has been provided to Odisha, West Bengal, Andhra Pradesh, Telangana, Tamil Nadu and Assam.
- Government of India has entered into a MoU with Mozambique to ensure assured supply of pulses (Tur and other pulses) in India. The MoU envisages imports of 2 LMT pulses during 2020-21.
- Pulses from the PSF buffer are also being utilized for free supplies under PMGKAY and ANB package. This has helped in ensuring food security during the challenging times of COVID-19.

- Government of India maintains buffer stocks of onion under PSF for making appropriate price stabilizing market interventions. Onion from buffer stock is released in a calibrated manner through retail intervention to retail agencies/ State/UTs and open market sale during lean season/period to contain prices and availability. Buffer stock of about 1 LMT created from Rabi 2020 onion is released in a calibrated manner to moderate prices of onion since September 2020. The Government also conveyed approval for procurement of 1 LMT onion Kharif 2020-21.

OUTLOOK

- During 2020-21, retail and wholesale inflation saw movements in the opposite directions.
- While headline CPI-C inflation saw an increase compared to the previous year, WPI inflation remained benign. Supply-side shocks especially owing to COVID-19 pandemic affected the retail inflation with food articles contributing to the overall rise in inflation.
- The easing of supply side restrictions, which saw inflation moderate in December 2020 are expected to continue this easing.
- Government interventions to augment the supply of commodities as well as to ensure the provision of essentials have likely softened the impact of the pandemic.
- Food inflation has already eased in December reducing overall inflationary pressures. Going forward, as food inflation eases further, overall inflation is expected to moderate further.
- On the other hand, improving demand conditions are likely to keep WPI inflation in the positive territory with improving pricing power for manufacturers.

WAY FORWARD

- Apart from the short-term measures to curtail the upward price movement, we need to invest in medium to long-term measures such as decentralized cold storage facilities at production centres. Good storer varieties, judicious use of fertilizers, timely irrigation and post-harvest technology are essential to reduce the losses in stored onions (Operation Greens portal). Review of onion buffer stock policy is also essential. System needs to be developed to reduce wastages, efficient management and ensure timely release.
- Consistency in import policy also warrants attention. Increased dependence on imports of edible oils poses risk of fluctuations in import prices and imports impacting production and prices of domestic edible oil market, coupled with frequent changes in import policy of pulses and edible oils adds to confusion among farmers/producers and delay in imports.

06 Sustainable Development and Climate Change

INTRODUCTION

- As the official adoption of SDGs reached its 4th anniversary, World Health Organization declared the outbreak of the coronavirus disease 2019 (COVID-19), on 30th January 2020.
- The year 2020 was supposed to be the year by which developed country Parties were to fulfill the goal of jointly mobilizing US$ 100 billion a year for climate finance, an essential component of the commitments made by the developed countries, which has remained elusive. The postponement of COP 26 to 2021 also gives less time for negotiations and other evidencebased work to inform the post-2025 goal.

INDIA AND THE SDGs

- India has taken several proactive steps at both the national and the sub national level to mainstream the SDGs into the policies, schemes and programmes of the Government. In 2020, the highlight of India's SDG initiatives has been the Voluntary National Review (VNR) presented to the United Nations High-Level Political Forum (HLPF) on Sustainable Development which is the highest international platform for review and follow-up of the SDGs under the auspices of the United Nations Economic and Social Council. The reviews are voluntary and country -led and are aimed at facilitating the sharing of experiences, including successes, challenges and lessons learned. NITI Aayog presented India's second VNR to the HLPF in July 2020, which highlighted the country's accomplishments and the way forward on its journey towards achieving the SDGs. In addition to the progress achieved in various sectors, the VNR Report also presented the Indian model of SDG localisation, perspectives from various stakeholder consultations, strategies of integrating businesses with the implementation of SDGs, and ways to strengthen the means of implementation.

Localization of the SDGs

- Localisation of SDGs is crucial to any strategy aimed at achieving the goals under the 2030 Agenda. Essentially, localising SDGs involves the process of adapting, planning, implementing and monitoring the SDGs from national to local levels by relevant institutions and stakeholders. In terms of engagement and collaboration of institutions, it is consequential how the Centre, State and Local Governments work together to achieve the SDGs at the national level; and how SDGs provide a framework for subnational and local policy, planning and action for realisation of the SDG targets at local levels. To accelerate SDG achievements, the country has adopted the approach of cooperative and competitive federalism which is based on Centre-State collaboration in nation building and healthy competition among the States in various development outcomes. The SDG India Index and Dashboard, designed and developed by NITI Aayog, is the principal tool to measure and monitor SDG performance at the national and sub-national levels. The states are institutionally empowered and positioned to achieve the SDGs with the support of the Central Government and allied institutions. Hence, the States are the key actors in the process of localisation of SDGs with the Central Government playing an enabling role.

Figure 2: SDG Localisation

Source: NITI Aayog

CLIMATE CHANGE

- India has been taking several proactive climate actions to fulfil its obligations as per the principles of common but differentiated responsibilities and respective capabilities and equity. The Nationally Determined Contribution (NDC) submitted by the country has been formulated keeping in mind the developmental imperatives of the country and is on a "best effort basis". In its NDC, India has sought to reduce the emissions intensity of its GDP by 33 to 35 per cent below 2005 levels by the year 2030; achieve 40 per cent of cumulative electric power installed capacity from non-fossil fuel sources by 2030; and enhance forest and tree cover to create additional carbon sink equivalent to 2.5 to 3 billion tons of carbon dioxide by 2030. The other goals pertain to adoption of sustainable lifestyles based on traditional values of conservation and moderation, adaptation to climate change, clean economic development and environmentfriendly technology, etc.

Prominent Government initiatives on mitigation & adaptation actions and their progress

- India's National Action Plan on Climate Change (NAPCC) was launched in 2008. It has through 8 National Missions focussed on advancing the country's climate change related objectives of adaptation, mitigation and preparedness on climate risks. The Government has decided to revise the NAPCC in line with the NDC submitted by India under the Paris Agreement to make it more comprehensive in terms of the priority areas.
- The Government launched the Jawaharlal Nehru National Solar Mission (JNNSM) in 2010 with the aim to (i) deploy 20,000 MW of grid connected solar power by 2022 to be achieved in 3 phases, (ii) 2,000 MW of off-grid solar applications including 20 million solar lights by 2022 and (iii) 20 million sq. m. solar thermal collector area.
- Subsequently, Government had revised the target of grid connected solar power projects from 20,000 MW by the year 2021-22 to 100,000 MW by the year 2021-22 under the National Solar Mission in 2015.
- The National Mission for a Green India (GIM) was introduced with the aim to protect, restore and enhance India's forest cover. It takes a holistic view on greening and focuses on multiple ecosystem services along with carbon sequestration and emission reduction as co-benefits.
- Climate Change Action Plan (CCAP) a Central Sector Scheme, was approved in January 2014 to build and support the scientific and analytical capacity for assessment of climate change in the country.

- Two important components of the CCAP scheme are the National Carbonaceous Aerosols Program (NCAP) and the Long-Term Ecological Observatories (LTEO).
- In addition to the above, National Adaptation Fund on Climate Change (NAFCC) a Central Sector Scheme with National Bank for Agriculture and Rural Development (NABARD) as the National Implementing Entity was operationalized in 2015-16, with a budget allocation of Rs. 350 crores for the 12^{th} Five Year Plan. This scheme has continued beyond the 12^{th} Five Year Plan till 31^{st} March 2020 with a financial implication of Rs. 364 crores.
- The Government is implementing Faster Adoption and Manufacturing of (Hybrid&) Electric Vehicle in India (FAME India) scheme w.e.f 1st April, 2015 to encourage progressive induction of reliable, affordable and efficient electric and hybrid vehicles.

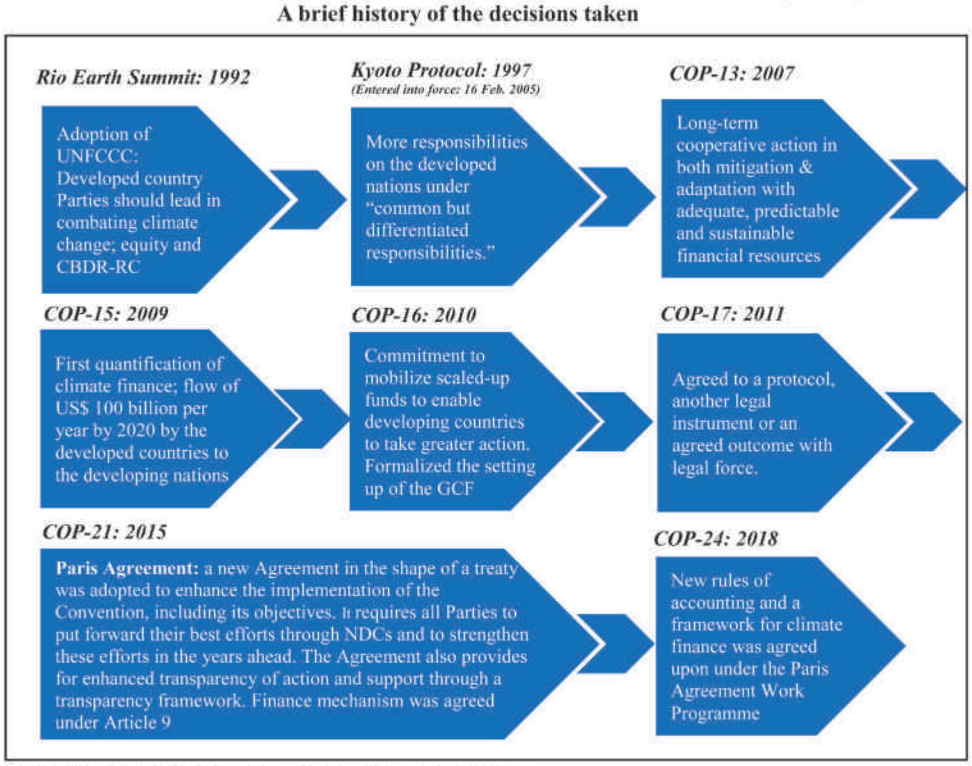
India's NDC and its forthcoming challenges

- India has recognized that its path of development must be one which places adequate emphasis on all the three pillars of sustainable development, namely, economic, social and environmental.
- The implementation of NDC effectively commences on 01.01.2021. India's NDC clearly states that finance is a critical enabler of climate change action. The preliminary financial estimates in NDC document indicates that India would need around US$ 206 billion (at 2014-15 prices) between 2015 and 2030 for implementing adaptation actions in key areas like agriculture, forestry, fisheries, infrastructure, water resources and ecosystems. Apart from this, additional investments will be needed for strengthening resilience and disaster management.
- To fully implement our NDC in a timely manner, the country requires enhanced new and additional financial resources, technological support and capacity building. New and additional financial resources and technological support to the developing countries was committed to by the developed countries under the Paris Agreement and this needs to be implemented.

MULTILATERAL NEGOTIATIONS ON CLIMATE CHANGE

- Since the Rio Conference and the adoption of the United Nations Framework Convention on Climate Change (UNFCCC) in 1992, the multilateral regime on climate change has evolved and adopted a number of agreements and decisions to strengthen the global response to address the problem of climate change. The latest treaty - the Paris Agreement was adopted under UNFCCC in December 2015 to enhance the implementation of the Convention.

Rio Summit 1992 to the 24th Session of the Conference of Parties (COP 24)- A brief history of the decisions taken



Source: Various COP Decisions. GCF – Green Climate Fund

25th Session of the Conference of Parties (COP 25)

- The COP 25 decision text, titled 'Chile Madrid Time for Action', emphasized the continued challenges that the developing countries face in accessing financial, technology and capacitybuilding support. It recognized the urgent need to enhance the provision of support to the developing country Parties to enable them to strengthen their national adaptation and mitigation efforts. The decision also recalled the commitment made by the developed country Parties to the goal of mobilizing jointly US$ 100 billion per year by 2020 to address the needs of the developing country Parties. On the issue of global ambition for combating climate change, the decision adopted provided for a balanced and integrated view that includes not only efforts for climate change mitigation, but also for adaptation and 'means of implementation' support from the developed country Parties to the developing country Parties.

26th Session of the Conference of Parties (COP 26) and Post 2020 Issues

- Due to COVID-19 pandemic, the COP 26 and the preceding UNFCCC subsidiary bodies' sessions has now been postponed to 2021. COP 26 is expected to take forward the discussions and reach consensus on the transparency mechanism; Article 6 (market and non market mechanisms); common time frames for nationally determined contributions; longterm climate finance etc. The other important issues for COP 26 include governance of Warsaw International Mechanism for loss and damage, continued work on pre-2020 implementation and launch of second periodic review of the long-term global goal under the Convention and of overall progress towards achieving it.

ALIGNING FINANCE WITH SUSTAINABILITY

Augmenting Finance for Sustainable Development

- There is a coherent move to augment financing for sustainable development. Consistent with the aspirational vision for the financial sector in India, the Government's development priorities and the need to support the well-being of the people, several measures have already been taken in the past few years and further steps are being taken. These include the following:
  - (i) National Voluntary Guidelines for Responsible Financing was finalized in 2015. These are financial sector-specific guidelines that combine and adapt international and national best practices.
  - (ii) In 2015, the RBI included lending to social infrastructure and small renewable energy projects within the priority sector targets.
  - (iii) The 'Voluntary Guidelines on Corporate Social Responsibility' were issued in 2009 to mainstream the concept of business responsibility. The revised guidelines were released as the National Guidelines on Responsible Business Conduct in March 2019. The NGRBC has been designed to assist businesses to embrace the principle of responsible conduct.
  - (iv) Going beyond the innovative sustainability-themed capital market products such as Green Bonds or Social Impact Bonds, India is moving in the direction of creating a Social Stock Exchange (SSE), under the regulatory ambit of SEBI for raising capital by Social Enterprises working for the realization of a social welfare objective.
  - (v) Green bonds are debt instrument issued by an entity for raising funds from investors and the proceeds of a green bond offering are used towards financing 'green' projects.
- The cumulative issuance of global green bonds crossed US$ 1 trillion mark in 2020. India has the second largest green bond market among the emerging markets after China.
- With the objective of promoting global cooperation in sustainable finance, India joined the European Commission-led International Platform on Sustainable Finance (IPSF) in October 2019 as one of the founding members.
- India and United Kingdom have agreed during the 10th India-UK Economic and Financial Dialogue held on 28th October 2020 to establish a bilateral Sustainable Finance Forum to drive forward deeper cooperation between the UK and India on sustainable finance. The Forum would draw members from finance ministries/treasury and other important stakeholders from both sides.

Investing in Resilience for Sustainable Development

- As per the Global Climate Risk Index, in 2018, India lost US$ 37 billion due to climate events such as cyclones battering the east coast and flooding and landslides in Kerala where about a quarter million people were displaced, 20,000 houses and 80 dams were destroyed. During 1998-2017 these losses added up to US$ 79.5 billion (Eckstein, et al.

2019). On the other side, in 2019, 42 per cent of land faced drought conditions worsening the farm crisis (Kapil 2019). Chennai's record-breaking 272 mm rainfall in 12 hours (2015) affected over 10 thousand MSMEs and reportedly caused US$ 250 million in damage (Idicheria, et al. 2016). International Labour Organisation's study concludes that India would lose 5.8 per cent of its working hours by 2030 due to heat stress. Moreover, because of its large population, India is in absolute terms expected to lose the equivalent of 34 million full-time jobs in 2030 as a result of heat stress. Although most of the impact in India will be felt in the agricultural sector, more and more working hours are expected to be lost in the construction sector, because of heat stress. These losses underscore the need for investment in building resilience and adoption of policies for mainstreaming risks through building appropriate social protection systems, including the provision of social insurance and social assistance which can help workers and their families to adapt to the consequences of heat stress (ILO 2019).

Climate Risk Insurance

- Climate risk insurance is an important tool for providing security against loss of livelihoods and of assets as a consequence of disasters. The basic risk faced by agriculturalists is that of weather variability and the uncertainty of crop yield.
- Thus, given the significant contribution of the agricultural sector in the Indian economy, coupled with looming "climatic aberrations," crop insurance becomes a necessity to mitigate the risks associated with a majority of the country's farmers.
- Studies suggest moving towards parametric insurance that agrees to make payment on just the occurrence of a climate event, data for which is easily accessible. Further, the use of climate information services could also be useful. The example of the Karnataka State Natural Disaster Monitoring Centre's Varuna Mitra which has not only benefitted 3.5 lakh farmers through its weather advisories but also provides data to insurers at panchayat scale to improve pay-outs to farmers (Manjunatha 2018) is a case in point.
- With increasing conversion of natural/primary forests to secondary forests driven by agriculture and development (Padma 2018) risk of new infectious diseases is high; requiring climate risk insurance to include pandemic insurance as well.

Developmental Schemes and Protection of Environment-Need for Convergence

- Many Central and State level incentive schemes (especially KUSUM and state solar policies) are promoting uptake of low carbon technologies such as decentralised solar systems for community scale water supply and irrigation as part of its agenda to build rural resilience in rainfed regions. Some water supply schemes mandate ground water assessments before approving solar based pumping installations. However, these assessments do not consider climate projections for the regions. Similarly, solar irrigation pumps are being subsidised all over the country without any incentive for farmers to use ground water judiciously. Such schemes have an immense impact in reducing production losses during dry periods; but can also lead to unsustainable extraction of ground water. These incentive schemes need to be designed by considering cropping patterns, local environment, and climate projections, and should further incentivise farmers to adopt water conservation and rainwater harvesting practices. Such convergence will not only build local resilience while transitioning to low carbon technology but will also influence the credit market in developing guidelines for supporting much needed technological advancement in the agriculture sector.
- To institutionalize its partnership with the Corporate sector, the ISA Secretariat has recently launched a 'Coalition for Sustainable Climate Action' comprising of global public and private corporates. The partner organisations under the coalition would benefit from the network and the platform provided by ISA to leverage and demonstrate their expertise in promoting sustainable development globally.
- ISA organized the First World Solar Technology Summit (WSTS) in September 2020 with an objective of showcasing to Member Countries the state of the art and next-generation solar technologies.

Coalition for Disaster Resilient Infrastructure

- Since the launch of the Coalition for Disaster Resilient Infrastructure (CDRI) in September 2019 at the UN Climate Action Summit, the need for disaster resilience in all aspects of human activity has been unambiguously highlighted by the COVID-19 pandemic.
- As of December 2020, 19 countries and 4 multilateral organizations have become members of the Coalition. The CDRI is co-chaired by India and the United Kingdom (UK).

CONCLUSION AND WAY FORWARD

- There is an increasing recognition that the sustainable macroeconomic development should entail an alignment of both climate and economic policies to the extent possible. India's endeavour is to ensure a robust growth and a sustainable development path while combating the climate change risks on best effort basis. India has taken a number of initiatives on both mitigation and adaptation strategies with emphasis on clean and efficient energy system; resilient urban infrastructure; water conservation & preservation; safe, smart & sustainable green transportation network; planned afforestation, as well as by supporting various sectors such as agriculture, forestry, coastal and low-lying systems and disaster management. ISA and CDRI are evidence of India's serious action at the international level.
- The country is on its track to successfully decoupling its economic growth from GHG emissions. As per the second BUR submitted to UNFCCC in 2018, India's emission intensity of GDP reduced by 21 per cent in 2014 over the level of 2005. To ensure the use of cleaner automobile fuel, India has also leapfrogged from BS-IV to BS-VI emission norms on 1st April, 2020, earlier than the initial date for adoption in 2024. The effort of the International Solar Alliance in solar energy revolution is noteworthy and it has brought to fruition the 'One Sun One World One Grid' vision laid down by the Hon'ble Prime Minister of India.
- India's proactive climate actions mainly rely on the domestic budgetary resources. Climate finance is critical to fulfil the execution of NDC targets submitted by India in a timely manner. Climate finance is an obligation of the developed countries as a part of their historical responsibility as they are the major contributors to the stock of GHG in the atmosphere accumulated since the industrial revolution. By 2020, the developed country partners had to fulfill the promised support of US$ 100 billion per year in the form of climate finance to the developing nations. This has not happened. The lack of required momentum in the scope, scale and speed of climate finance from developed to developing countries needs to be addressed. The enhanced new and additional financial resources, technological support and support in capacity building should be mobilized and delivered to strengthen the on-going climate actions in developing nations like India.

07 Agriculture & Food Management

INTRODUCTION

- COVID-19 pandemic has influenced the lives of people across the globe and India is no exception to that. The farming activities also experienced the impact of this pandemic as the COVID induced lockdowns influenced the movement of farm inputs including farm machinery from one location to other. The national lockdown coincided with the commencement of the harvesting season for the Rabi crops creating further adversity for the sector. Migration of agricultural labourers to their native places during the lockdown created a shortage of farm labourers. India's agricultural system demonstrated its resilience amid such adversities. The agriculture and allied sectors were the sole bright spot amid the slide in performance of other sectors, clocking a growth rate of 3.4 per cent at constant prices during 2020-21. Against all adversities due to COVID-19, continuous supply of agriculture commodities, especially staples like rice, wheat, pulses and vegetables, has been maintained thereby enabling food security. In order to further strengthen and support the agricultural sector, several initiatives have been taken by the Government of India under the Atma Nirbhar Bharat Abhiyan (Box 1).

Box 1: Major Announcements for Agriculture and Food Management under the Atma Nirbhar Bharat Abhiyan

Announcement	Objectives
₹ 1 lakh crores Agri Infrastructure Fund	Financing will be provided for funding agriculture infrastructure projects at farm-gate & at aggregation points and for financially viable post-harvest management infrastructure.
₹ 10,000 crores scheme for Formalisation of Micro Food Enterprises (MFE)	Aiding 2 lakh MFEs who need technical upgradation to attain FSSAI food standards, build brands and support marketing.
₹ 20,000 crores for fisherman through Pradhan Mantri Matsya Sampada Yojana (PMMSY)	It aims at integrated, sustainable and inclusive development of marine and inland fisheries by developing infrastructure such as fishing harbours, cold chain, markets, etc.
National Animal Disease Control Programme	It targets Foot and Mouth Disease (FMD) and Brucellosis by ensuring 100 per cent vaccination of cattle, buffalo, sheep, goat and pig population.
Animal Husbandry Infrastructure Development Fund - ₹ 15,000 crores	It is to support private investment in dairy processing, enable value addition and improved cattle feed infrastructure.
From 'TOP' to TOTAL	"Operation Greens" run by Ministry of Food Processing Industries (MOFPI) to be extended from tomatoes, onion and potatoes to ALL fruit and vegetables.
Reforms in Essential Commodities Act, Agriculture Marketing and Agriculture Produce Pricing and Quality Assurance	These legislative reforms seek to remove agricultural commodities such as cereals, pulses, oilseeds etc. from the list of essential commodities and aim to reform agricultural marketing.
PM Garib Kalyan Ann Yojana	The scheme aimed at ensuring food and nutritional security to around 80 crores ration card holders who were affected due to the COVID-19 induced national lockdown.
One Nation One Ration Card Scheme	This scheme will enable migrant workers and their family members to access PDS benefits from any fair price shop in the country.

OVERVIEW OF AGRICULTURE

Gross Value Added in Agriculture

- As per the provisional estimates of national income released by CSO on 29th May, 2020, the share of agriculture and allied sectors in Gross Value Added (GVA) of the country at current prices is 17.8 per cent for the year 2019-20. GVA of agriculture and allied sectors and its share in total GVA of the country during the last six years at current prices is as given in Table 1.

Table 1: Share of Agriculture and Allied Sectors in Total GVA at current prices

	Year					
Items	2014-15	2015-16	2016-17*	2017-18#	2018-19@	2019-20**
Share of GVA of Agriculture & Allied Sector in GVA of Total Economy (per cent)	18.2	17.7	18.0	18.0	17.1	17.8
Share of Crops	11.2	10.6	10.6	10.4	9.4	NA
Share of Livestock	4.4	4.6	4.8	5.1	5.1	NA
Share of Forestry & logging	1.5	1.5	1.5	1.4	1.3	NA
Share of Fishing & aquaculture	1.0	1.1	1.1	1.2	1.2	NA

Source: Department of Agriculture, Cooperation & Farmers Welfare (DAC&FW).
Note:**As per the Provisional Estimates of Annual National Income 2019-20 released by CSO on 29th May 2020. @As per the First Revised Estimates of National Income, Consumption Expenditure, Saving and capital Formation for 2018-19 released on 31st January, 2020. # Second Revised Estimate. * Third Revised Estimate.
NA- Data not available.

- The share of agriculture and allied sectors in GVA of the country has declined from 18.2 per cent in 2014-15 to 17.8 per cent in 2019-20 (Table 1), an inevitable outcome of a development process in which the relative performance of non-agricultural sectors becomes more dominant. Within the agriculture sector, the share of crops has fallen from 11.2 per cent in 2014-15 to 9.4 per cent in 2018-19. The decline in the share of crops has been made up by an increase in the share of livestock and fisheries sectors.

Growth in Agriculture & Allied Sectors

- The growth in GVA of agriculture and allied sectors has been fluctuating over time. However, during 2020-21, while the GVA for the entire economy contracted by 7.2 per cent, growth in GVA for agriculture maintained a positive growth of 3.4 per cent.

Gross Capital Formation

- Gross Capital Formation (GCF) in the agriculture and allied sector as a proportion to GVA has been showing a fluctuating trend from 17.7 per cent in 2013-14 to 16.4 per cent in 2018-19, with a dip to 14.7 per cent in 2015-16.

Production of Crops

- In the year 2019-20 (as per fourth advance estimates), total food grain production in the country is estimated at record 296.65 million tonnes which is higher by 11.44 million tonnes than the production of food grain of 285.21 million tonnes achieved during 2018-19. Further, the production during 2019-20 is higher by 26.87 million tonnes than the previous five years' (2014-15 to 2018-19) average production of 269.78 million tonnes.

Agricultural Credit

- Given the large proportion of resource constrained small and marginal farmers in India, timely availability of adequate credit is fundamental for the success of farming activities. The agricultural credit flow target for the year 2019-20 was fixed at Rs. 13,50,000 crores and against this target the achievement was Rs. 13,92,469.81 crores. The agriculture credit flow target for 2020-21 was fixed at Rs. 15,00,000 crores and till 30th November, 2020 a sum of Rs. 9,73,517.80 crores was disbursed. The Agriculture Infrastructure Fund announced as a part of Atma Nirbhar Bharat Abhiyan will further boost credit flow to the agriculture sector. The regional distribution of the agricultural credit has, however, been skewed in favour of the Southern Region. The share of north-eastern states has been very low.

- During the year 2020-21, in the total disbursement as on 30th November, 2020, the share of southern region in agricultural credit was more than 40 per cent while it was less than 2 per cent for the north-eastern region (NER). This low coverage of the agricultural credit in NER is because the total cultivable area in North Eastern States is only about 2.74 per cent of the total GCA of the country. Moreover, community ownership of land is prevalent in most of the NE States. These two factors affected the intake of Kisan Credit Card (KCC) loans in NER as these loans are given against land documents.

Agriculture Infrastructure Fund
Hon'ble Finance Minister on 15.05.2020 announced a Rs. 1 lakh crore Agriculture Infrastructure Fund for creation of farm-gate infrastructure for farmers. Accordingly, central sector scheme of financing facility under Agriculture Infrastructure Fund was formally launched by the Hon'ble Prime Minister of India on 09.08.2020.
This scheme is operational from the year 2020-21 to 2029-30. The scheme provides for medium to long term debt financing facility for investment in viable projects for post-harvest management infrastructure and community farming assets Under the scheme, Rs. 1 lakh crores will be provided by banks and financial institutions as loans to primary agricultural credit societies (PACS), marketing cooperative societies, farmer producers organizations (FPOs), self help group (SHG), farmers, joint liability groups (JLG), multipurpose cooperative societies, agri-entrepreneurs, startups and central/state agency or local body sponsored public private partnership project, etc.
All loans under this financing facility will have interest subvention of 3 per cent per annum up to a limit of Rs. 2 crores. This subvention will be available for a maximum period of 7 years. Further, credit guarantee coverage will be available for eligible borrowers from this financing facility under Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) scheme for a loan up to Rs 2 crores.

Minimum Support Price (MSP)

- The Union Budget for 2018-19 had announced that MSPs would be kept at the level of 1.5 times of the cost of production. On the basis of the above-mentioned principle, Government recently increased the MSPs for all mandated kharif and rabi crops for 2020-21 season.

Crop Insurance

- Pradhan Mantri Fasal Bima Yojana (PMFBY) is a milestone initiative to provide a comprehensive risk solution at the lowest uniform premium across the country for farmers. As an end to end risk mitigation mechanism for farmers, the scheme extends coverage for the entire cropping cycle from pre-sowing to post-harvest including coverage for losses arising out of prevented sowing and mid-season adversities. Individual farm level losses arising out of localized calamities and post-harvest losses are also covered due to perils such as inundation, cloudburst and natural fire. The average sum insured per hectare has increased from Rs. 15,100 during the pre-PMFBY Schemes to Rs. 40,700 under PMFBY. The scheme completed five successful years of implementation on 13th January, 2021

PM-KISAN

- The Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) Scheme was launched in 2019 to provide income support to all landholder farmer families across the country with cultivable land, subject to certain exclusions. Under the Scheme, an amount of Rs. 6000 per year is released in three instalments of Rs. 2000 each directly into the bank accounts of the beneficiaries.

ALLIED SECTORS: ANIMAL HUSBANDRY, DAIRYING & FISHERIES

- Livestock sector is an important sub-sector of agriculture in the Indian economy. It grew at CAGR of 8.24 per cent during 2014-15 to 2018-19. As per the estimates of National Accounts Statistics (NAS) 2020, the contribution of livestock in total agriculture and allied sector GVA (at constant prices) has increased from 24.32 per cent (2014-15) to 28.63 per cent (2018-19). Livestock sector contributed 4.2 per cent of total GVA in 2018-19.

Milk

- India continues to be the largest producer of milk in the world. Several measures have been initiated by the Government to increase the productivity of livestock, which has resulted in increasing the milk production significantly. Milk production in the country has increased from 146.3 million tonnes in 2014-15 to 198.4 million tonnes in 2019-20* The per capita availability of milk was 407 grams per day in (2019-20*).

- The rural sector has an estimated share of 57 per cent in the total consumption. The per capita consumption in the urban areas (592 ml) remains higher than the rural areas (404 ml) even in the 2030 projections.

Livestock Population and Production

- According to FAOSTAT production data (2019), India ranks 3rd in egg production in the world. The egg production in the country has increased from 78.48 billion in 2014-15 to 114.38 billion in 2019-20*. The per capita availability of egg was 86 eggs per annum in 2019-20.
- According to FAOSTAT production data (2019), India ranks 5th in meat production in the world. Meat production in the country has increased from 6.7 million tonnes in 2014-15 to 8.6 million tonnes in 2019-20*. The annual growth rate of meat production was 5.98 per cent in 2019-20.

RECENT INITIATIVES IN THE LIVESTOCK SECTOR

- Covid-19 lockdown caused a drop in the market demand due to closure of the outlets selling livestock products. With closure of sweet shops and tea stalls, a large number of private dairies were impacted and they stopped milk procurement from the farmers. This resulted in the farmers diverting their milk to the cooperatives. As a result, milk procurement in the cooperative sector increased because, as per their mandate, they could not reject milk supplied by the farmers. The cooperatives are faced with liquidity problems due to higher conversion into milk powder and white butter caused by higher milk procurement.
- As one-time support, a sub-scheme for providing interest subvention on working capital loans was designed for the financial year 2020-21 under the ongoing scheme State Dairy Cooperative & Farmers Producers Organization (SDCFPO) to provide interest subvention of 2 per cent per annum, with an additional incentive of 2 per cent interest subvention for prompt and timely repayment to the financially stressed milk unions. Consequent upon budget announcement on inclusion of livestock sector in Kisan Credit Card in February 2020, 1.5 crores dairy farmers of milk cooperatives and milk producer companies' were targeted to provide Kisan Credit Cards (KCC) as part of Prime Minister's Atma Nirbhar Bharat Package.

Animal Husbandry Infrastructure Development Fund (AHIDF)

- As a part of the Atma Nirbhar Bharat Abhiyan stimulus package, a Rs. 15000 crores Animal Husbandry Infrastructure Development Fund (AHIDF) has been set up. The AHIDF will incentivize investments by individual entrepreneurs, private companies including MSME, farmers producers organizations (FPOs) and Section 8 companies to establish (i) dairy processing and value addition infrastructure (ii) meat processing and value addition infrastructure, and
- (iii) animal feed plant.
- The Government of India will provide 3 per cent interest subvention to eligible beneficiaries. There will be a 2 year moratorium period for the principal loan amount and 6 years repayment period thereafter. The Government of India would also set up a Credit Guarantee fund of ` 750 crores to be managed by NABARD.

National Animal Disease Control Programme (NADCP)

- The Government has approved an ambitious scheme "National Animal Disease Control Programme (NADCP) for control of Foot & Mouth Disease (FMD) and Brucellosis" for vaccinating all cattle, buffalo, sheep, goat and pig population against FMD and all bovine female calves of 4-8 months of age against brucellosis. The programme has a total outlay of Rs.13,343 crores for five years (2019-20 to 2023-24).

FISHERIES

- India is the second largest fish producing country in the world and accounts for 7.58 per cent of the global production. The fish production in India has reached an all-time high of 14.16 million metric tons during 2019-20. The fisheries sector contributes 1.24 per cent to the GVA and 7.28 per cent to the agricultural GVA.
- Realizing the potential, scope and importance of the fisheries sector, new flagship scheme Pradhan Mantri Matsya Sampada Yojana (PMMSY) was launched in May, 2020 as a part of Atma Nirbhar Bharat Package by Government of India for a period of five years from FY 2020-21 to FY 2024-25. PMMSY aims to enhance fish production to 220 lakh metric tons by 2024-25 at an average annual growth rate of about 9 per cent.

- PMMSY further intends to increase aquaculture productivity to 5 tonnes per hectare (up from national average of 3 tonnes per hectare), enhance domestic fish consumption and attract investments in fisheries sector from other sources. Insurance coverage for fishing vessels is being introduced for the first time under PMMSY.

AGRICULTURAL RESEARCH AND EDUCATION

- Indian Council of Agricultural Research (ICAR), is a premier research organization for coordinating, guiding and managing agriculture research and education including in horticulture, fisheries and animal sciences in the entire country.

Natural Resource Management and Integrated Farming

- The Council has developed 60 location specific, cost effective, eco-friendly, socially acceptable multi-enterprise Integrated Farming System (IFS) models in farmers' participatory mode to reduce risk in farming, enhance farm productivity/profitability and secure livelihoods of resource poor small and marginal farmers. Bio-intensive cropping systems having higher productivity potential for different agro-climatic zones have been included in the crop production guide /package of practices of respective states.
- The Council has developed an agri-voltaic system to generate electricity in interspace area of crops and to harvest rainwater from top surface of photovoltaic (PV)-module has been designed. It is a step towards achieving the ambitious target of 100,000 MW of solar PV based power generation capacity in the country and doubling the farmers' income.

Demonstration and Upscaling of Climate Resilient Technologies

- Climate resilient technologies are being demonstrated in 446 villages and up-scaled in about 300 cluster villages in the country.

Mechanization and Crop Residue Management

- To increase availability of equipments/machines to the small and marginal farmers on hire basis, 9970, 2866 and 4170 custom hiring centres have so far been initiated in Punjab, Haryana and UP respectively. Several measures have been taken to manage crop residue which include i) distribution of 1,52,579 machines to the farmers in these states during the last two years and the current year, ii) awareness creation about in-situ crop residue management by conducting 1,817 awareness programmes, 28,247 demonstrations, 696 training programs and 130 kisan melas during last two years and current year, iii) Replacement of long duration variety with short duration paddy. With the result area under long duration variety reduced from 8.30 lakhs hectare in 2019-20 to 4.82 lakh hectare area in 2020-21, and iv) crop diversification leading to reduction in area under paddy. As a result, the crop burning events in these states reduced from 127774 in 2016 to 61332 in 2019.

Reaching to the Farmers and Youth with Improved Technologies

- The linking of 3.37 lakh common service centers with 721 KVKs has tremendously enhanced outreach of the KVKs and provided demand driven services and information to farmers.

FOOD PROCESSING SECTOR

- During the last 5 years ending 2018-19, food processing industries (FPI) has been growing at an average annual growth rate of around 9.99 per cent as compared to around 3.12 per cent in agriculture and 8.25 per cent in manufacturing at 2011-12 prices. Food processing sector has also emerged as an important segment of the Indian economy in terms of its contribution to GDP, employment and investment. The sector constitutes as much as 8.98 per cent of Gross Value Added (GVA) in manufacturing in 2018-19 at 2011-12 prices.

New Initiatives in Food Processing Sector

Formalization of Micro Food Processing Enterprises

- Under the Atma Nirbhar Bharat Abhiyan, Ministry of Food Processing Industries (MoFPI) has launched a new Centrally Sponsored Scheme, Prime Minister-Formalisation of Micro Food Processing Enterprises (PM-FME) with a total outlay of Rs. 10,000 crores over the period 2020-2025. The scheme is expected to benefit 2 lakh micro food processing units through credit linked subsidy. The Scheme adopts One District One Product (ODOP) approach to reap benefit of scale in terms of procurement of inputs, availing common services and marketing of products.

Operation Greens

- MoFPI is implementing a central sector scheme "Operation Greens – A scheme for integrated development of Tomato, Onion and Potato (TOP) value chain" to provide support to farmers when prices of agri produce is low. This scheme is not meant for intervention in the market during price rise. Under the short term- price stabilization measures of the scheme, there is a provision for 50 per cent subsidy on cost of transportation and storage for evacuation of surplus production from producing area to the consumption center during the glut situation. By November, 2020, 5 approved projects (2 for tomato in AP & Gujarat, 2 for onion in Gujarat & Maharashtra and 1 for Potato in Gujarat) are under implementation for long-term integrated value chain creation.
- Government gave its approval in November 2020 to introduce the Production-Linked Incentive (PLI) Scheme in 10 key sectors, including food processing sector, for enhancing India's manufacturing capabilities and improving exports.

Pradhan Mantri Kisan SAMPADA Yojana (PMKSY)

- Under the umbrella scheme Pradhan Mantri Kisan SAMPADA Yojana, the Ministry is implementing various component schemes which, inter-alia, includes (i) Mega Food Parks, (ii) Integrated Cold Chain and Value Addition Infrastructure, (iii) Infrastructure for Agro-processing Clusters, (iv) Creation of Backward and Forward Linkages (v) Creation/ Expansion of Food Processing & Preservation Capacities, and (vi) Operation Greens. The status of the sanctioned projects and completed /operational projects as on 31.12.2020 may be seen in Table 2.

Table 2: Sanctioned Projects and Completed /Operational Projects under PMKSY

Sl. No.	Name of the Scheme	Number of sanctioned Projects	Number of completed/ operational projects
1	Mega Food Park	37	21
2	Cold Chain	327	210
3	Agro-processing Clusters	55	0
4	Unit Scheme	287	44
5	Backward & Forward Linkages	62	21
6	Operation Greens	5	0
	Total	**773**	**296**

Source: MoFPI

FOOD MANAGEMENT

- For prudent management of foodgrain stock and to ensure adequate availability of wheat and rice in central pool with a view to augment the domestic availability of wheat and rice and ensure food security, the Central Government has undertaken the following measures:
  I. MSP of wheat and paddy has been increased to protect the interest of farmers.
  II. State Governments, particularly those undertaking Decentralized Procurement (DCP), are encouraged to maximize procurement of wheat and rice by state agencies.
  III. Strategic reserves of 5 million tons of food grains over the existing buffer norms have been maintained to be used in extreme situations.
  IV. Sale of wheat and rice is undertaken through Open Market Sale Scheme (OMSS) (Domestic) to check inflationary trend of food in market.

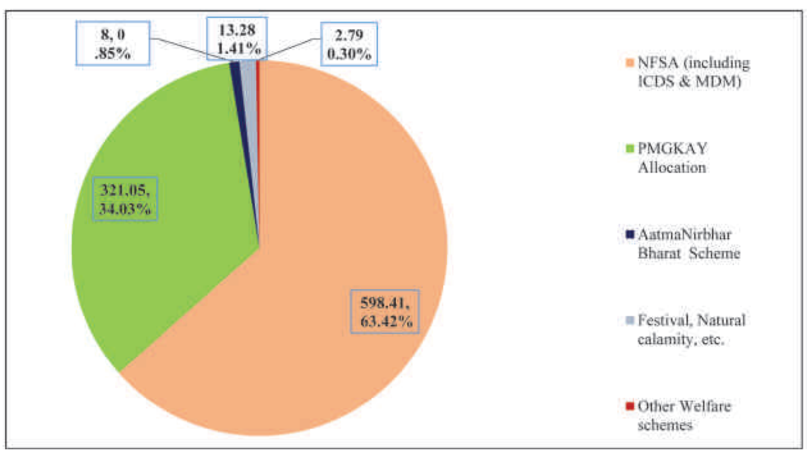
Procurement of Foodgrains

- During the Kharif Marketing Season (KMS) 2019-20, 519.97 lakh metric tons (LMT) of Rice was procured against an estimated target of 529.05 LMT. In the ensuing KMS 2020-21, a total of 374.93 LMT of rice has been procured as on 15.01.2021. During Rabi Marketing Season (RMS) 2020-21, 389.92 LMT wheat was procured against 347.89 LMT procured during RMS 2019-20. During the Kharif Marketing Season 2020-21, a total of 4.78 LMT of coarse grains have been procured as on 18.01.2021.

Allocation of Foodgrains

- During the Financial Year 2020-21, allocation of foodgrains has been done through two channels- under the National Food Security Act (NFSA) and the Pradhan Mantri Garib Kalyan Anna Yojana (PM-GKAY) scheme. At present NFSA is being implemented in all the 36 States/UTs and they are receiving monthly allocation of foodgrains under NFSA.
- In pursuance of the pro-poor announcement made under Pradhan Mantri Garib Kalyan Package, Government of India launched the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) scheme for additional allocation of foodgrains from the Central Pool at the rate of 5 kg per person per month free of cost for all the beneficiaries covered under Targeted Public Distribution System (TPDS) (AAY & PHH) including those covered under Direct Benefit Transfer (DBT) for a period of 3 months i.e April-June, 2020.
- Further under Atma Nirbhar Bharat Package, Government of India made allocation of free foodgrain (wheat and rice) at the rate of 5 kg per person per month for two months (May and June, 2020) to benefit approximately 8 crores migrants/ stranded migrants who are not covered under NFSA or state ration card.
- During the year 2020-21, Government of India has so far (by the end of December, 2020) allocated 943.53 lakh tons of foodgrains to States/UTs under NFSA and Other Welfare Schemes etc. as per break up given in Figure 16.

Figure 16: Break up of Allocation under Various Schemes (share in per cent and quantity in lakh tons)



Source: Based on data received from Department of Food & Public Distribution (DFPD)

Fortification of Rice and Its Distribution

- To address the issue of anaemia and micro-nutrient deficiency and to promote nutrition security in the country, a centrally sponsored pilot scheme on "Fortification of Rice & its Distribution under Public Distribution System" was approved for a period of 3 years beginning in 2019-20 with total budget outlay of Rs. 174.64 crores. The pilot scheme is being funded by Government of India in the ratio of 90:10 in respect of North Eastern, Hilly and Island States and 75:25 ratio in the rest of the States.
- The pilot scheme will focus on 15 Districts, preferably one district per state during the initial phase of implementation. Following State Governments, namely, Andhra Pradesh, Karnataka, Kerala, Maharashtra, Odisha, Assam, Gujarat, Uttar Pradesh, Tamil Nadu, Telangana, Punjab, Chhattisgarh, Jharkhand, Uttarakhand & Madhya Pradesh have consented and identified their respective districts for implementation of the pilot scheme. Uttar Pradesh, Chattisgarh, Andhra Pradesh, Gujarat, Maharashtra and Tamil Nadu have already started distribution of fortified rice under the scheme in their selected districts.

One Nation One Ration Card

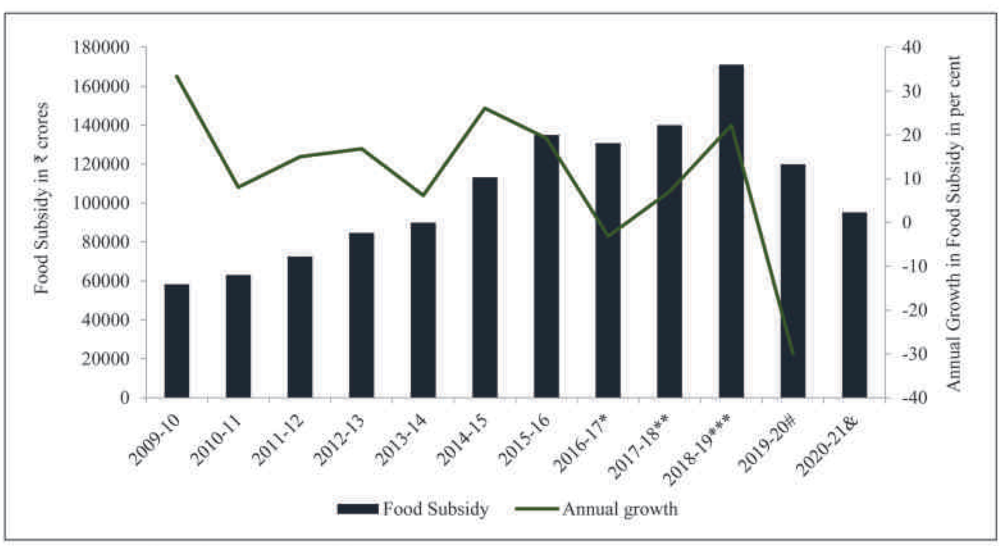
- The Department of Food & Public Distribution in collaboration with all States/UTs is implementing a central sector scheme namely "Integrated Management of Public Distribution System (IM-PDS)" the validity of which is extended up to 31.03.2022. The main objective of the scheme is to introduce nation-wide portability of ration card under National Food Security Act (NFSA) through 'One Nation One Ration Card' System. This system will enable the ration card holders to lift their entitled foodgrains from any fair price shop (FPS) of their choice anywhere in the country by using their same/existing ration card. At present, the facility is seamlessly enabled in 32 States/UTs covering nearly 69 crores beneficiaries (86 per cent of the total NFSA population) in the country. Under this system, equivalent food subsidy through DBT (Cash Transfer) is provided to portability beneficiaries in Chandigarh and Puducherry instead of subsidised foodgrains. Open Market Sale Scheme (Domestic)

- In addition to maintaining buffer stocks and for making a provision for meeting the requirement of the National Food Security Act (NFSA) and Other Welfare Schemes (OWS), the Food Corporation of India (FCI) on the instructions from the Government sells excess stocks out of Central Pool through Open Market Sale Scheme (Domestic) [OMSS (D)] in the open market from time to time at predetermined prices.
- A special dispensation was introduced, w.e.f. 8th April, 2020, for supply of foodgrains to all the charitable/ non-governmental organizations etc. engaged in providing relief or in running community kitchens for migrant labourers and vulnerable groups during the lock down. Under this scheme, wheat at the uniform rate of Rs. 21 per kilogram and rice at the uniform rate of Rs. 22 per kilogram are issued to charitable institutions/NGOs. There is no upper limit for allocation of foodgrains to each such organization from any FCI depot. This special dispensation was initially upto June, 2020 which has been extended at the same rate and terms and conditions for the rest of the year 2020-21.

Food Subsidy

- The difference between the per quintal economic cost and the per quintal Central Issue Price (CIP) gives the quantum of per quintal food subsidy. In order to ensure food security to the vulnerable sections, the Government has continued with the subsidized pricing under NFSA. The CIP of wheat and rice for NFSA beneficiaries has not been revised since the introduction of the Act in 2013 from Rs. 200 per quintal in case of wheat and Rs. 300 per quintal in case of rice. On the other hand, the economic cost of wheat for FCI operations has increased from Rs. 1908.32 per quintal in 2013-14 to Rs. 2683.84 per quintal in 2020-21. Similarly, the economic cost of rice has increased from Rs. 2615.51 per quintal in 2013-14 to Rs. 3723.76 per quintal in 2020-21. Further, the NFSA provides a wider coverage than the erstwhile TPDS. These all taken together has resulted in the rise in food subsidy (Figure 18).

Figure 18: Trend in Food Subsidy Released by the Government of India since 2009-10



Source: Based on data received from DFPD

Notes: The total release in FY 2020-21 has included ₹ 8347.86 crores released under Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) scheme.

*Includes National Small Savings Fund (NSSF) loan of ₹ 25000 crores to FCI. ** Includes NSSF loan of ₹ 40000 crores to FCI. ***Includes NSSF loan of ₹ 70000 crores to FCI. & As on 30.11.2020. # ₹ 11436 crores has been reimbursed to DCP State from unutilized NSSF Loan sanctioned to FCI as per instruction of Minister of Finance in March, 2020 in FY 2019-20. Out of ₹ 11436 crores, ₹ 10000 crores has been recouped to FCI from budgetary allocation for DCP head in FY 2020-21.

Storage

- The total storage capacity available with FCI and state agencies for storage of foodgrains as on 31.12.2020 was 819.19 LMT, comprising covered godowns of 669.10 LMT and Covered and Plinth (CAP) facilities of 150.09 LMT. Out of the total available storage capacity of 819.19 LMT, FCI has a capacity of 407.76 LMT while state agencies have a capacity of 411.43 LMT. The stock of rice and wheat in the Central Pool as on 01.01.2021 was 529.59 LMT.

- Construction of godowns has been undertaken in PPP mode in 24 states under Private Entrepreneurs Guarantee (PEG) Scheme through the private sector as well as the Central Warehousing Corporation (CWC) and the State Warehousing Corporation (SWC). As on 30.11.2020, a capacity of 144.06 LMT has been created under this scheme. Apart from this, godowns are also being constructed through a central sector scheme by FCI in the North Eastern States, Kerala, Jharkhand and Himachal Pradesh. The Government of India has also approved action plan with construction of steel silos in the country for a capacity of 100 LMT in public private partnership (PPP) mode with a view to modernize storage infrastructure and improve shelf life of stored foodgrains. Against this, as on 31.12.2020, a total capacity of 8.25 LMT of silos was completed.

Ethanol

- The Government has set 10 per cent blending target for mixing ethanol with petrol by 2022 & 20 per cent blending target by 2030. With a view to achieve these blending targets, Government is encouraging sugar mills and molasses based standalone distilleries through various financial assistance to enhance their ethanol distillation capacity. The ethanol supply under Ethanol Blended Petrol (EBP) Programme, which was only about 38 crore litre in 2013-14, has increased to about 189 crores litre during Ethanol Supply Year (ESY) 2018-19 and it was 173 crores litre in ESY 2019-20. In the ESY 2020-21, about 325 crores litre ethanol is targeted to be produced to achieve 8.5 per cent blending and in ESY 2021-22, it is targeted to achieve 10 per cent blending by producing more than 400 crores litre of ethanol. Government has also allowed conversion of surplus stock of rice with FCI and Maize to ethanol so that these targets of blending can be achieved smoothly.

RECENT AGRICULTURAL REFORMS: A REMEDY, NOT A MALADY

- The President gave his assent on September 27, 2020 to three reforms related to agriculture sector—Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, and the Essential Commodities (Amendment) Act. Major provisions of the Reforms are presented below.

The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020

- It seeks to create an ecosystem where the farmers and traders enjoy the freedom of choice relating to sale and purchase of farmers' produce. The reform grants freedom to farmers and buyers to transact in agricultural commodities even outside notified APMC mandis ensuring competitive alternative trading channels to promote efficient, transparent and barrier-free interstate and intra-state trade.

The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020

- It seeks to provide for a national framework on contract farming that protects and empowers farmers in their engagement with agri-business firms, processors, wholesalers, exporters or large retailers for farm services and sale of future farming produce at a mutually agreed remunerative price in a fair and transparent manner.

The Essential Commodities (Amendment) Act, 2020

- It seeks to remove commodities like cereals, pulses, oilseeds, edible oils, onion and potatoes from the list of essential commodities. The reform ends the era of frequent imposition of stock-holding limits except under extraordinary circumstances.

Benefits of the Farm Reforms

- The farmers in India have suffered from various restrictions in marketing their produce. There were restrictions for farmers in selling agri-produce outside the notified APMC market yards. The farmers were also restricted to sell the produce only to registered licensees of the state governments. Further, barriers existed in free flow of agriculture produce between various States owing to the prevalence of various APMC legislations enacted by the state governments.
- APMC regulations have indeed resulted in a number of inefficiencies and consequent loss to the farmers. The presence of multiple intermediaries between the farmers and the final consumers has led to low realization by farmers. Further, a large range of taxes and cesses levied by APMCs cuts into farmers' price realization while only a small proportion is ploughed back into the development of mandi infrastructure. Poor infrastructure at the mandis compounds the problem of price realization for the farmers.

- Recognizing the above limitations of existing market regulations, various committees had recommended several reforms in the marketing of agricultural commodities.
- The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020 will empower farmers in their engagement with processors, wholesalers, aggregators, large retailers, exporters and will provide a level playing field. It will transfer the risk of market unpredictability from the farmer to the sponsor and also enable the farmer to access modern technology and better inputs. Farmers have been provided adequate protection as sale, lease or mortgage of farmers' land is totally prohibited and farmers' land is also protected against any recovery. The farmers will have full power in the contract to fix a sale price of their choice for the produce. They will receive payment within a maximum of 3 days. As part of this law, 10000 Farmer Producer Organizations are being formed throughout the country. These FPOs will bring together small farmers and work to ensure remunerative pricing for farm produce. After signing the contract, farmer will not have to seek out traders as the purchasing consumer will need to take the produce directly from the farm.
- The Essential Commodities (Amendment) Act 2020 removes commodities like cereals, pulses, oilseeds, edible oils, onion and potatoes from the list of essential commodities. This aims to remove fears in private investors from excessive regulatory interference in their business operations. The freedom to produce, hold, move, distribute and supply will lead to harnessing of economies of scale and will attract private sector/foreign direct investment into the agriculture sector. The legislation will help drive up investment in cold storages and modernization of food supply chain.
- The three agricultural reform legislations are designed and intended primarily for the benefit of small and marginal farmers which constitute around 85 per cent of the total number of farmers and are the biggest sufferer of the regressive APMC regulated market regime. The newly introduced farm laws herald a new era of market freedom which can go a long way in the improvement of farmer welfare in India.

WAY FORWARD

- There is a need for a paradigm shift in how we view agriculture from a rural livelihood sector to a modern business enterprise. In this context, both production and post production in agriculture needs urgent reforms to enable sustainable and consistent growth. Increase in area under irrigation, adoption of hybrid and improved seeds, increasing variety replacement ratio and augmentation in seed testing facilities will help address low productivity concerns. Adequate storage and remunerative markets for agricultural products should be the main focus of post-production management. It is also important to integrate agriculture with nutritional outcomes by means of food fortification of staples.
- On the post-production front, measures like village level procurement centres, linkages between production and processing, development of rural markets, option of selling outside the APMC markets – warehouse upgradations and strengthening of railways freight operations, dedicated freight corridors among others are needed and are being taken up. These measures will not only reduce post-harvest losses but will also help realize the objective of doubling farmers' income.
- All business enterprises need to optimise on inputs - both knowledge and materials. Therefore, it is also essential to impart farmers with basic education and training to transform his / her role from that of a producer to an entrepreneur. The option of setting up of rural agricultural schools for hands-on training may be explored in this regard. Allied sectors including animal husbandry, dairying and fisheries have gradually become a significant source of farm income and employment. Measures need to be taken to increase the productivity of the allied sectors along with sufficient provision for marketing of their products. Another area of emphasis is the need to strengthen agriculture extension services which are extremely important as they provide technical information to the farmer about improved agricultural practices, guidance on the use of these inputs and other services in support of their production.
- The food subsidy bill is becoming unmanageably large. While it is difficult to reduce the economic cost of food management in view of rising commitment towards food security, there is a need to consider the revision of CIP to reduce the bulging food subsidy bill.

08 Industry and Infrastructure

CONTEXT

- The Indian economy encountered a “once in a century” crisis due to the COVID-19 pandemic that affected economic activities and consequently impacted the livelihood of billions of people. The industrial sector, not an exception to this shock, experienced a sharp decline during the period of the lockdown. The economic activity, however, started recovering as the unlocking process began. The various subcomponents of Index of Industrial Production (IIP) and eight-core index have experienced a V-shaped recovery with consistent movement being seen towards the pre-crisis levels.

INTRODUCTION

- The unlocking of the economy in a phased manner has helped the economy to get back on its feet. The rebuilding of the Indian economy is hinged on various reform measures aimed at addressing concerns of businesses and support to livelihoods. India implemented policies aimed at reducing transaction costs, supporting Micro Small and Medium Enterprises (MSMEs), enhancing competition, fostering employment creation and securing sustenance through the Atmanirbhar Bharat Abhiyan. The performance of the industrial sector is critical given its deep backward and forward linkages with the other sectors of the economy. A strong industrial sector is a sine quo non for an Atmanirbhar Bharat.
- A bouquet of measures equivalent to ` 29.87 lakh crores or 15 per cent of India’s GDP were introduced as a measure of relief and support to the economy. These were subsequently backed by initiatives to further strengthen the economy.
- As per the latest estimates on Gross Value Added (GVA), the industrial sector is expected to record a growth of -9.6 per cent with an overall contribution in GVA of 25.8 per cent in 2020-21 (FY21). The contribution of the industrial sector has been constantly declining since 2011-12.
- The fall in share is across the board except in case of ‘Electricity, gas, water supply & other utility services’ whose share in GVA has increased from 2.3 per cent in FY12 to 2.7 per cent in FY21. The performance of the various components of the industrial sector namely, manufacturing, mining and quarrying, electricity, and construction.

ATMANIRBHAR BHARAT ABHIYAN

Atmanirbhar Bharat 1.0

- Relief and credit support to MSMEs to fight against COVID-19.
  - Rs 3 lakh crores Collateral-free Automatic Loans for Businesses, including MSMEs: The Emergency Credit Line Guarantee Scheme (ECLGS) has been formulated as a relief measure to the MSMEs by providing them additional funding of up to ` 3 lakh crores in the form of a fully guaranteed emergency credit line. The borrowers with up to ` 25 crores outstanding and ` 100 crores turnover are eligible. This scheme provides 100 per cent credit guarantee cover to Banks and NBFCs on principal and interest. No guarantee fee, no fresh collateral is required.
  - Rs 20,000 crores Subordinate Debt for Stressed MSMEs: Provision made for ` 20,000 crores subordinate debt for the MSMEs which are NPAs or are stressed. Government to support them with ` 4,000 crores to Credit Guarantee Trust for Micro and Small enterprises (CGTMSE). Banks are expected to provide the subordinate-debt to promoters of such MSMEs equal to 15 per cent of the existing stake in the unit subject to a maximum of ` 75 lakhs.
  - Rs 50,000 crores equity infusion through MSME Fund of Funds: Government to set up a Fund of Funds with a corpus of ` 10,000 crores that will provide equity funding support for the MSMEs. The Fund of Funds shall be operated through a mother and a few daughter funds. It will provide equity funding for viable MSMEs. This scheme will help the MSMEs to expand its size and capacity and will also encourage them to get listed on stock exchanges.
  - New definition of MSME: Low threshold in the MSME definition have created a fear among the MSMEs of graduating out of the benefits. Hence, the government has revised the definition of MSME by raising the investment limit. An additional criteria of turnover has been introduced and distinction between manufacturing and service sector stands removed. Revised MSME classification is discussed in Table 9.
  - Global tenders to be disallowed uptoRs 200 crores: General Financial Rules (GFR) of the Government amended to disallow global tender enquiries in government procurement of goods and services of value of less than ` 200 crores. This is a step in support of the Make in India initiative and will promote MSMEs to grow.

- Other Measures for MSMEs: e-market linkage for MSMEs to act as a replacement for trade fairs and exhibitions. The MSME receivables from the Government and the CPSEs to be released in 45 days. This would help the MSMEs to solve the problems of marketing and liquidity.
- Income Tax Refund: Income tax refunds to nearly 8.2 lakh small businesses worth ` 5,204 crores has been issued with the objective to help the MSMEs to carry on their business activities without pay cuts and layoffs in these challenging times.
- Relief of Rs 1500 crores to MUDRA-Shishu loans: GoI to provide interest subvention of 2 per cent to prompt payees for a period of 12 months. Small business under MUDRA to be benefited.
- Ease of doing business for business including MSMEs: The Government announced further enhancement of ease of doing business through the Insolvency and Bankruptcy Code (IBC) related measures which include (a) raising of the minimum threshold to initiate insolvency proceedings to Rs 1 crores from Rs 1 lakhs (which largely insulates the MSMEs), (b) special insolvency resolution framework for the MSMEs under Section 240A of the Code,(c) suspension of fresh initiation of insolvency proceedings for up to one year depending upon the pandemic situation and (d) empowering the Central Government to exclude COVID 19 related debt from the definition of "default" under the Code for the purpose of triggering insolvency proceedings.

- **Packages for Power Sector:** Rs 90,000 crores liquidity injection for DISCOMs
- **Real Estate:** The extension of registration and completion date of real estate projects under Real Estate (Regulation and Development) Act (RERA). Ministry of Housing and Urban Affairs to advise States/UTs and their regulatory authorities to the following effect:
  - Treat COVID-19 as an event of 'Force Majeure' under RERA.
  - Extend the registration and completion date suo-moto by 6 months for all registered projects expiring on or after 25th March 2020 without need for individual applications.
  - Regulatory Authorities may extend this for another period of up to 3 months, if needed
  - Issue fresh 'Project Registration Certificates' automatically with revised timelines.
  - Extend timelines for various statuary compliances under RERA concurrently.
- Public Sector Enterprise Policy for a New, Self-reliant India
  - Government to announce a new coherent policy—where all sectors are open to the private sector while public sector enterprises (PSEs) will play an important role in defined areas
  - List of strategic sectors requiring presence of PSEs in public interest will be notified
  - In strategic sectors, at least one enterprise will remain in the public sector but private sector will also be allowed
  - In other sectors, PSEs will be privatized (timing to be based on feasibility etc.)
  - To minimize wasteful administrative costs, number of enterprises in strategic sectors will ordinarily be only one to four; others will be privatized/ merged/ brought under holding companies.

Atmanirbhar Bharat 2.0

- The second tranche of measures provided Rs 25,000 crores as additional capital expenditure to the Ministry of Road Transport and Ministry of Defence

Atmanirbhar Bharat 3.0

- The third tranche of measures covered initiatives that impact the industrial sector include:
- Ra 1.46 lakh crores boost for Atmanirbhar manufacturing production-linked incentives for 10 Champion Sectors.
- Rs 18,000 crores additional outlay for PM Awaas Yojana (PMAY) –Urban
- Support for construction & infrastructure – relaxation of Earnest Money Deposit (EMD) & performance security on Government tenders
- Ra 1.10 lakh crores platform for infra debt financing – ` 6000 crores equity infusion in National Investment and Infrastructure Fund (NIIF) Debt Platform, ` 10,200 crores additional budget outlay will be provided towards capital and industrial expenditure for domestic defence equipment, industrial incentives, industrial infrastructure, and green energy.

TRENDS IN INDUSTRIAL SECTOR

Index of Eight-Core Industries and Index of Industrial Production (IIP)

- The eight-core industries that support infrastructure, such as coal, crude oil, natural gas, refinery products, fertilizers, steel, cement, and electricity have a total weight of nearly 40 percent in the IIP. The eight-core index recorded its all-time low growth of (-) 37.9 due to COVID-19 led nation-wide lockdown (April-2020). The fall in growth and index was expected as was the recovery of the index too. The eight-core industries registered (-) 2.6 per cent growth in November-2020 as compared to 0.7 per cent in November-2019 and (-) 0.9 per cent in October-2020. The cumulative growth of core industries during April-November 2020 was (-) 11.4 per cent as compared to 0.3 per cent during April-November 2019.
- The trajectory of the eight-core index has been improving since May-2020 and further recovery/expansion is expected in remaining months of FY21. The current level (November-2020) of the seasonally adjusted eight-core index is 6 per cent lower than the pre-lockdown levels in February-2020.
- The overall IIP broadly follows the eight-core index. The IIP attained a growth of (-) 1.9 per cent in November-2020 as compared to 2.1 per cent in November-2019 (Table 3 and Figure 2). The cumulative growth of IIP for the period April-November 2020 was (-) 15.5 per cent as compared to 0.3 per cent from April-November 2019. The improvement in the eight-core index and the IIP from their nadir is evident as both the indices stood at 94 per cent and 96.5 per cent of the pre-lockdown (February-2020) levels, respectively on a seasonally adjusted basis.
- Based on the broad-sectoral classification, in November-2020, mining contracted by 7.3 per cent as against a contraction of 1.9 per cent in November-2019. The manufacturing sector recorded a growth of (-) 1.7 per cent in November-2020 as against a growth of 3.0 per cent in November-2019, and the electricity sector recorded a growth of 3.5 per cent in November-2020 as against a contraction of 5.0 per cent in November-2019
- Industrial activities recovered sharply except the mining sector, which is still at lower levels as compared to the pre-lockdown levels. A similar pattern has been observed in all the major indices captured under the Used Based Classification (Figure 7). However, performance of the primary goods sector, which has a weight of 34.05 per cent was sluggish as compared to its counterparts in the IIP.

Gross Capital Formation in the Industrial Sector

- The rate of growth of Gross Capital Formation (GCF) in industry registered a sharp rise from 1.2 per cent in FY18 to 17.5 per cent in FY19, showing a substantive improvement in GCF in the sector.
- Mining & Quarrying, Manufacturing, 'Electricity, Gas, Water Supply & Other Utility Services' and Construction had registered a growth rate of 14.9 per cent, 15.9 per cent, 15.3 per cent, and 24.4 per cent respectively in FY19. However, the share of GCF of the industrial sector had declined from 38.2 per cent in FY12 to 30.2 per cent of GDP in FY18 before an uptick (31.9 per cent) was recorded in FY19.

Credit to the Industrial Sector

- Gross bank credit to the industrial sector, on a YoY basis, recorded (-) 1.7 growth in October-2020 as compared to 3.4 per cent growth in October-2019. Some of the industries recorded a nominal credit growth including the construction sectors.
- The laggards in the group are ‘All Engineering’, ‘Cement & Cement Products’, and ‘Basic Metal & Metal Products’ which recorded a YoY negative growth in October-2020.

Performance of Central Public Sector Enterprises (CPSEs)

- Under the aegis of the Atmanirbhar Bharat Mission, the government has proposed to rationalise the participation of the CPSEs in commercial activities. It has been argued that the existence of the CPSEs should only be in the ‘strategic sectors’.
- Accordingly, the number of PSEs in the strategic sector will ideally be limited to four– others would either be merged or privatized or brought under holding companies. Further, the CPSEs in the non-strategic sectors would be privatized as per guidelines issued. This initiative is expected to bring healthy competition in sectors and will also assist the Government to focus extensively on ‘strategic sectors.’

- In view of COVID-19 outbreak, the Ministry of Corporate Affairs has extended the last date for conducting AGM in case of all the companies including CPSEs to 31st December 2020. Hence, there has been a delay in conducting annual audit and in preparing financial statements of the CPSEs. As of January 15, 2021, based on provisional information with Department of Public Enterprises, there are 366 CPSEs as of March 2020. Of these, 256 are in operation, but only 171 CPSEs booked profit during FY20. The total profit of profit-making CPSEs was ` 1.38 lakh crores in FY20, whereas the consolidated loss of loss-making enterprises was ` 44,816 crores. The overall net profit of the CPSEs declined by 34.6 per cent to reach ` 93,295 crore in FY20 from ` 1.43 lakh crore in FY19. CPSEs are operating in 4 sectors – Agriculture, Mining & Exploration, Manufacturing, and Services.

Corporate Sector Performance

- As per the RBI report on corporate performance, demand conditions in the manufacturing sector moved to the path of recovery with a softer contraction of 4.3 per cent (YoY) in nominal sales for Q2:2020-21 after a contraction of 41.1 per cent in the previous quarter due to pandemic led country-wide lockdown.
- The recovery was led by iron and steel, food products, cement, automobile, and pharmaceutical companies. The net profit for the manufacturing sector contracted by 7.8 per cent in Q2:2020-21

Ease of Doing Business

- As per the Doing Business Report (DBR), 2020, the rank of India in the Ease of Doing Business (EoDB) Index for 2019 has moved upwards to the 63rd position amongst 190 countries from a rank of 77 in 2018. India has improved its position in 7 out of 10 indicators, inching up to the international best practices. The DBR, 2020 acknowledges India as one of the top 10 improvers, the third time in a row, with an improvement of 67 ranks in three years.
- As per the DBR 2020 report, the lead subcomponents of EoDB were ‘getting electricity’, ‘trading across borders’ and others (Figure 15, bars shaded in green), whereas the main laggards were ‘enforcing contracts’, ‘registering property’, ‘revoking insolvency’, and ‘pay taxes’

Start-up India

- Startups are the platform for entrepreneurs who have the ability to think out of the box and innovate to conceive products that can create a niche for themselves in a dynamically changing world.
- Startups have the potential to be the engine of growth in the medium to long run. To facilitate the growth of startups, GoI had announced the “Startup India, Stand-up India” initiative.
- The action plan is based on the three pillars “Simplification and Handholding”, “Funding Support and Incentives”, and “Industry-Academia Partnership and Incubation”.
- As on December 23, 2020, GoI has recognized a total of 41061 startups and 4,70,000 jobs have been reported by more than 39,000 startups.

Foreign Direct Investment (FDI)

- During FY20, total FDI equity inflows were US$49.98 billion as compared to US$44.37 billion during FY19. The similar number for FY21 (up to September-2020) was US$30.0 billion.
- The bulk of FDI equity flow is in the non-manufacturing sector leading to a reduction in the share of manufacturing in the FDI flows.
- Within the manufacturing sector, industries like automobile, telecommunication, metallurgical, non-conventional energy, chemical (other than fertilizers), food processing, and petroleum & natural gas get the bulk of FDI equity flows. These industries together accounted for about 67 per cent of FDI equity flows into the manufacturing sector in FY20.

COAL SECTOR

- Coal is the one of the most important and abundant fossil fuel in India. It accounts for 55 per cent of the country's energy needs. Coal is not only the primary source of energy in the country but is also used as an intermediary by many industries such as steel, sponge iron, cement, paper, brick-kilns, etc.
- Measures Taken by GoI in the Coal Sector
  - Clean Coal
  - Creating carbon sink: About 54500 ha land has been brought under green cover by planting 132 million trees - estimated carbon sink of 2.7 lakh tonnes of CO2 equivalent/year. Plan to cover 20000 ha of additional area by plantation of around 50 million trees by 2030.
  - Two Coal Bed Methane (CBM) Projects with considerable potential for carbon footprint reduction are in the pipeline
  - Surface coal gasification projects (100 million tonnes (MT) coal by 2030) with relatively lesser carbon footprint.
  - First mile connectivity projects: transportation of coal from pitheads to dispatch points.
  - Amendment in Act & Rules and other measures
  - Several amendments were brought into the Coal Mines (Special Provisions) Act, 2015 through the Mineral Laws (Amendment) Act, 2020 enacted on 13.03.2020.
  - A total of 11 coal blocks are allocated under Mines and Minerals (Regulation and Development)(MMDR) Act. Further, directions had been issued to Nominated Authority for allocation of 25 coal blocks by auction for sale of coal
  - Of the auction of 38 coal mines for commercial mining in June-2020, 19 were successfully auctioned (a success rate of 50 per cent as compared to 30 per cent in the past).

MICRO, SMALL & MEDIUM ENTERPRISES (MSME) SECTOR

- The GoI has undertaken numerous initiatives to empower the MSMEs to tide over the present crisis and become drivers of growth for the Indian economy. With more than 6 crores MSMEs, the sector has been the backbone of the economy and plays a crucial role in employment generation and in contribution to GDP. The sector employs more than 11 crores people, contributes roughly 30 per cent to the GDP, and contributes half of the country's exports helping in building a stronger and a self-reliant India.
- The MSME sector was one of the worst hit sectors during the nation-wide lockdown. Several corrective and supportive measures have been taken to bring the sector on track. The first among those is the revision of the investment criteria in the MSME definition.
- This upward revision in investment criteria is expected to make them globally competitive and facilitate robust expansion of the MSMEs in the country. It will help in unleashing the economies of scale in production without the fear of forgoing the benefits of an MSME unit.

PRODUCTION LINKED INCENTIVE SCHEME

- With the objective of enhancing India's manufacturing capabilities and exports, the GoI has introduced the Production-Linked Incentive (PLI) Scheme in the 10 key sectors under the aegis of Atmanirbhar Bharat (Table below). The scheme will be implemented by the concerned ministries with an overall expenditure estimated at ` 1.46 lakh crores and with sector specific financial limits.
- The scheme will make Indian manufacturers globally competitive, attract investment in the areas of core competency and cutting-edge technology; ensure efficiencies, create economies of scale, enhance exports, provide conducive manufacturing ecosystem, and make India an integral part of the global supply chain especially for the 10 sectors identified under the scheme. Further the scheme will also establish backward linkages with the MSME sector in the country which in turn will lead to more inclusive growth and create huge employment opportunities.

Sector in PLI	Estimated Expenditure (₹ Crores)
Advance Cell Chemistry Battery	18,100
Electronic/Technology Products	5,000
Automobiles & Auto Components	57,042
Pharmaceuticals Drugs	15,000
Telecom & Networking Products	12,195
Textile Products	10,683
Food Products	10,900
High Efficiency Solar PV Modules	4,500
White Goods (ACs & LED)	6,238
Specialty Steel	6,322
Total	1,45,980

INFRASTRUCTURE

- GoI launched the National Infrastructure Pipeline (NIP) for the FY 2020-2025 to facilitated world class infrastructure projects to be implemented. This first of its kind initiative will boost the economy, generate better employment opportunities, and drive the competitiveness of the Indian economy.
- It is jointly funded by the Central Government, State Government, and the private sector.
- The NIP was launched with the projected infrastructure investment of ` 111 lakh crore ($1.5 trillion) during the period 2020-2025.
- The sectors like energy, roads, urban infrastructure, railways have a major share in the NIP.
- The GoI set up the Public Private Partnership Appraisal Committee (PPPAC) responsible for the appraisal of PPP projects in the Central sector. During FY20, PPPAC recommended 5 projects with total project cost of ` 4,321 crore. Out of these 5 projects, 4 are railway sector projects (passenger train projects) and 1 is port sector project. In FY21, PPPAC recommended 7 projects with total project cost of ` 66,600.59 crore. Out of these 7 projects, 1 is a telecom sector project, 3 are railway sector projects (2 station redevelopment projects & 1 passenger train project), 2 are MHA sector projects (Eco-tourism projects) and 1 is port sector project.
- In FY21, the GoI approved the continuation of the revamped Infrastructure Viability Gap Funding (VGF) scheme till 2024-25. Revamping of the proposed VGF scheme will attract more PPP projects and facilitate the private investment in the social sectors (Health, Education, Waste Water, Solid Waste Management, Water Supply etc.). The revamped Scheme is mainly related to introduction of the two sub-schemes for mainstreaming private participation in social infrastructure.

WAY FORWARD

- The year after the crisis (FY22) will require sustained and calibrated measures to facilitate the process of economic recovery and to enable the economy to get back to its long-term growth trajectory. The revival of the industrial and infrastructure sector will be key to overall economic growth and macroeconomic stability.
- The COVID-19 led economic crisis adversely affected the global and domestic economy. The economic activities across the sectors were suddenly suspended that forced billions of people to restrict their movement. The crisis management strategy had to encompass all the stakeholders, especially the weaker and the vulnerable sections. The nature and scale of the unprecedented shock triggered several interventions from the Government –short term as well as those aimed at ushering in structural reforms through the Atmanirbhar Bharat package. A rapid recovery of the industrial sector following a sudden fall in the high frequency growth indicators could only be witnessed because of timely, meaningful, and appropriate policy measures.

09 Services

INTRODUCTION

- The COVID-19 pandemic, the subsequent lockdown and social distancing measures have had a significant impact on the contact-intensive services sector. During the first half of the financial year 2020-21, the services sector contracted by almost 16 per cent.
- Air passenger traffic, rail freight traffic, port traffic, foreign tourist arrivals, and foreign exchange earnings all contracted sharply following the first lockdown which was announced in March, 2020.
- As the economy gradually entered the unlock phase, most of these indicators showed signs of recovery. Services purchasing managers' index, rail freight traffic, and port traffic have bottomed out and are rising steadily now, showing a V-shaped recovery.
- Domestic passenger air traffic is also increasing gradually on a monthly basis, although travel remains muted as compared to last year.
- Interestingly, in spite of the global disruptions, FDI inflows into the services sector increased by 34 per cent YoY during April-September 2020 to reach US$ 23.61 billion.
- The year 2020-21 witnessed many significant structural reforms. The space sector was opened up, telecom related regulations were removed from the IT-BPO sector, and consumer protection regulations were introduced for e-commerce.
- Services sector's significance in the Indian economy has been steady, with the sector now accounting for over 54 per cent of the economy and almost four-fifths of total FDI inflows.
- Meanwhile, the shipping turnaround time at ports has almost halved from 4.67 days in 2010-11 to 2.62 days in 2019-20.
- India is home to 38 unicorns, adding a record number of 12 start-ups to the unicorn list last year.
- With the ongoing vaccination drive, the contact intensive service sectors can expect to witness revival.

SERVICES SECTOR PERFORMANCE IN INDIA

Impact of COVID-19 on Services Sector

- The contact intensive services sector was severely impacted, particularly sub-sectors such as tourism, aviation, and hospitality. The first half of FY 2020-21 saw services sector contract by almost 16 per cent YoY.
- This decline was led by a sharp contraction in all sub-sectors particularly 'Trade, hotels, transport, communication & services related to broadcasting', which contracted by 31.5 per cent in H1 FY 2020-21.
- As per the first advance estimates, Gross Value Added (GVA) of services sector is estimated to contract by 8.8 per cent in 2020-21, whereas it grew by 5.5 per cent in 2019-20. Sub-sectors 'Trade, hotels, transport, communication & broadcasting services', 'Financial, real estate & professional services', and 'Public administration, defence & other services' are estimated to contract by 21.41 per cent, 3.68 per cent and 0.82 per cent respectively.
- It is pertinent to note that while the services sector contracted by over 20 per cent in the first quarter (Q1) of FY 2020-21, the contraction narrowed to 11.4 per cent in the second quarter (Q2) of FY 2020-21.
- This pace of recovery is broadly aligned with high frequency indicators that point to a pick in economic momentum with the measured opening up of the economy from June 2020.

Table 1: Services Sector Performance in India's GVA

Sector	Share in GVA (per cent)	Growth (per cent YoY)					
	2020-21 (AE)	2018-19 (1st RE)	2019-20 (PE)	2020-21 (AE)	2020-21 (H1)	2020-21 Q1	2020-21 Q2
Total Services (Excluding construction)	54.3	7.7	5.5	– 8.8	– 15.9	– 20.6	– 11.4
Trade, hotels, transport, communication & services related to broadcasting	15.4	7.7	3.6	– 21.41	– 31.5	– 47.0	– 15.6
Financial, real estate & professional services	22.2	6.8	4.6	– 0.82	– 6.8	– 5.3	– 8.1
Public administration, defence & other services	16.7	9.4	10.0	– 3.68	– 11.3	– 10.3	– 12.2

Source: Ministry of Statistics and Programme Implementation.
Note: Shares are in current prices and growth in constant 2011-12 prices; RE: Revised Estimates. PE: Provisional Estimates. AE: Advance Estimates

- India's services sector activity, which had contracted for five consecutive months since March as the Covid-19 pandemic dented demand, has started to pick up since September 2020. The IHS Markit India Services Business Activity Index also known as Services Purchasing Managers' Index (PMI), which was at an 85 month high of 57.5 in February, 2020, fell to its lowest level of 5.4 in April, 2020 (Figure 1(a)). As mobility restrictions were lifted and business resumed, Services PMI recovered sharply to 54.1 in October 2020. The index softened to 52.3 in December 2020, although a print above 50 still means expansion.
- Similarly, rail freight traffic growth nosedived to (-) 35.3 per cent YoY in April 2020 before rising back sharply to 15.5 per cent YoY in September 2020, (Figure 1(b)). The growth momentum has continued till December 2020. Indian Railways loading was 118.13 million tonnes in December 2020, which is 8.54 per cent higher YoY compared to last year's loading (108.84 million tonnes) for the same period. It is worth mentioning that a number of concessions/ discounts are also being given in Indian Railways to make Railways Freight movement very attractive.
- Indian airlines were grounded for about two months between March and May, as the government then implemented travel restrictions to curb the spread of the pandemic. Air passenger traffic, thus, fell sharply in April 2020. Airlines were allowed to resume domestic operations from late May in a calibrated manner. Domestic air passenger traffic has been showing a gradual recovery since August on a monthly basis, although travel remains muted as compared to last year. According to Directorate General of Civil Aviation (DGCA), 63.54 lakh domestic passengers travelled by air in November, which was 20.54 per cent higher than the passenger traffic in October when 52.71 lakh passengers flew. The domestic air traffic, however, stands 50.93 per cent lower in November 2020 as compared to November 2019, wherein 1.3 crore passengers had flown.
- Bank credit growth YoY to services sector had moderated significantly between September 2018 and December 2019. However, credit growth to the services sector was stronger in 2020, increasing to 8.76 per cent YoY at the end of November 2020 as compared to 4.84 per cent a year ago. This was driven by growth in sub-sectors 'Tourism, Hotels & Restaurants', 'Transport Operators', and 'Other Services'. However, bank credit growth to 'Professional Services' and 'Shipping' contracted by 24.66 per cent and 20.51 per cent YoY respectively.

Table 2 : Growth in Bank Credit to Services Sub-Sectors (YoY)

	November 2020	November 2019
Services	8.76	4.84
Transport Operators	10.73	8.14
Computer Software	0.36	-0.39
Tourism, Hotels & Restaurants	18.04	13.09
Shipping	– 20.51	5.13
Professional Services	– 24.66	1.30
Commercial Real Estate	5.69	6.04
NBFCs	5.65	17.60
Retail Trade	7.84	29.06
Wholesale Trade (excl. food procurement)	15.81	-19.53
Other Services	– 3.5	11.3

Source: RBI.

Service sector share at the State and UT level

- The services sector accounts for more than 50 per cent of the Gross State Value Added (GSVA) in 15 out of the 33 states and UTs.
- In eight states, services sector accounts for more than 60 per cent of GSVA.
- Chandigarh and Delhi stand out with a particularly high share of services in GSVA of over 85 per cent while Sikkim's share remains the lowest at 27.02 per cent.
- Even states with relatively lower share of services in GSVA, such as Tripura, Uttarakhand Andhra Pradesh, Gujarat, Madhya Pradesh, Jharkhand, Odisha, and Arunachal Pradesh have witnessed strong services sector growth in the recent years.

FDI Inflows into Services Sector

- India improved its position from 12th in 2018 to 9th in 2019 in the list of the world's largest FDI recipients according to the latest World Investment Report 2020 by United Nations Conference on Trade and Development (UNCTAD).
- FDI into India recorded almost 17 per cent jump during April-September 2020 over the corresponding period last year, despite the global slowdown, the COVID-19 pandemic, lockdown measures and supply chain disruptions.
- Services sector, being the largest recipient of FDI in India, witnessed a strong growth during April-September 2020.
- The gross FDI equity inflows (excluding re-invested earnings) into the services sector jumped 34 per cent YoY during April-September 2020 to reach US$ 23.61 billion, accounting for almost four-fifth of the total gross FDI equity inflows into India during this period.
- The jump in FDI equity inflows was driven by strong inflows into the 'Computer Software & Hardware' sub-sector, wherein FDI inflows increased to US$ 17.55 billion which is over 336 per cent higher over the corresponding period last year.
- High growth in FDI inflows was also present in sub- sectors such as 'Retail Trading', 'Agriculture Services', and 'Education'.

TRADE IN SERVICES SECTOR

- In 2020, the world trade in services was severely impacted by the COVID-19 pandemic and the resultant supply chain disruptions worldwide.
- While World Trade Organisation (WTO) projects the global merchandise trade volume growth to fall by 9.2 per cent in 2020, the IMF expects volume of global trade in goods and services to contract by 10.4 per cent in 2020.

- WTO services trade activity index indicated a decline in global trade in commercial services of 4.3 per cent in the first three months of 2020, reflecting partly the adverse effect from spread of COVID-19.
- During Q2 of 2020 (April-June), the global trade in commercial services plunged by 30 per cent YoY as several countries imposed lockdown and transportation restrictions that covered cross-border measures as well.
- India has a significant presence in the services sector exports. It remained among the top ten trading countries in commercial services in 2019 accounting for 3.5 per cent of world services exports.
- India's services export growth moderated to 2.5 per cent in 2019-20 from 6.6 per cent in 2018-19 as receipts primarily on account of transportation, insurance and communication services. With contraction in global demand and implementation of COVID-19 induced lockdown measures, services exports declined by 7.87 per cent in H1 of FY2020-21 as against a growth of 6.39 per cent in the corresponding period of previous year.
- With significant drop in foreign touris tarrival sowing to the mobility restrictions imposed worldwide, travel receipts witnessed a decline of 73.49 per cent in H1 of 2020-21 as against a growth of 8.21 per cent in corresponding period of the previous year.
- India's services imports exhibited sharper decline of 13.95 per cent in H1 of FY2020- 21 in comparison with services exports.
  - Payments for all major services imports decreased on YoY basis. Among the major sectors, payments for overseas travel fell by 55.09 per cent due to restrictions on outbound travel from India.
  - Payments for transport services (accounting for over 16 per cent share in total services imports) recorded a decline of 25.9 per cent in H1 of FY2020- 21 on a year-on-year basis.
  - Payment for imports of business services, which accounted for 43.41 per cent of total services imports, increased by 4.22 per cent in H1 of 2020-21.
- Sharper decline in services imports over exports led to an increase in net services receipts by 2.1 per cent in Q1 of 2020-21 over the previous year. Sharp contraction in merchandise trade deficit and a stable net services receipts led to a current account surplus of 3.9 per cent of GDP in Q1 of 2020-21. According to the World Trade Organization (WTO), though the world services trade declined by 4.3 per cent (YoY) in Q1 of 2020 (January-March), key sectors have started showing signs of rebound.

MAJOR SERVICES: SUB-SECTOR WISE PERFORMANCE AND RECENT POLICIES

- Aviation and tourism declined sharply in 2020. Only 2.46 million foreign tourist arrived in India during January-June 2020 as compared to 5.29 million during January-June last year.
- Consequently, foreign exchange earnings from tourism declined to US$ 6.16 billion during the first six months of 2020 as compared to US$ 14.19 billion during in corresponding period last year.
- Domestic passenger traffic too dropped to 22.77 million during April-November 2020 from 95.7 million during the corresponding period last year.
- In the ports sector, Cargo traffic at ports fell by 10.09 per cent to 777.04 million tonnes (MT) during April-November period of the current fiscal compared to 864.32 MT during April-November 2019.

Tourism Sector

- Tourism sector is a major engine of economic growth that contributes significantly in terms of GDP, foreign exchange earnings and employment. However, the COVID-19 pandemic has had a debilitating impact on world travel and tourism, including India.
- As per the World Tourism Barometer of the United Nation's World Tourism Organization (December, 2020 edition), international arrivals fell by 72 per cent globally over the first ten months of 2020, with restrictions on travel, low consumer confidence and a global struggle to contain the COVID-19 virus, all contributing to the worst year on record in the history of tourism.
- World destinations received 900 million fewer international tourists between January-October when compared with the same period of 2019, translating into a loss of US$ 935 billion in export revenues from international tourism.
- International Tourist Arrivals (ITA) had reached a total of 1.5 billion in 2019.

- The tourism sector in India had been performing well with Foreign Tourist Arrivals (FTAs) growing at 14 per cent to 10.04 million and Foreign Exchange Earnings (FEEs) at 19.1 per cent to US$ 27.31 billion in 2017. However, the sector underwent a slowdown in 2018 and 2019 before declining sharply in 2020.
- Indiaranked23rdintheworldintermsofinternationaltouristarrivalsin2019,fallingslightly from the 22nd position in 2018. The country accounts for 1.23 per cent of world's international tourist arrivals and 4.97 per cent of Asia & Pacific's international tourist arrivals. India ranks 12th in the world and 7th in Asia & Pacific in terms of tourism foreign exchange earnings, accounting for over 2 per cent of the world's tourism foreign exchange earnings.

Table 7: Foreign and International Tourist Arrivals and Tourism Receipts in India and the World

Parameter	2015	2016	2017	2018	2019
Foreign Tourist Arrivals (FTA) to India (million)	8.03	8.80	10.04	10.56	10.93
International Tourist Arrivals (ITAs) in India (million)*	13.76	15.03	16.81	17.42	17.91
International Tourist Arrivals (ITAs) around the World (million)	1,195	1,241	1,333	1,408	1,460
India's Share in World's ITAs (per cent)	1.15	1.21	1.26	1.24	1.23
India's Rank in World's ITAs	24th	26th	26th	22nd	23rd
ITAs in Asia & the Pacific (million)	284.1	306.6	324.1	347.7	360.1
India's Share in Asia Pacific's ITAs (per cent)	4.84	4.90	5.19	5.01	4.97
India's Rank in Asia Pacific's ITAs	7th	8th	7th	7th	7th
India's Share in World Tourism Receipts (per cent)	1.73	1.84	2.02	1.97#	2.03#
Foreign Exchange Earnings through Tourism (US $ billion)	21.01	22.92	27.31	28.59	30.06
India's Rank in World Tourism Receipts	14th	13th	13th	13th#	12th#
India's Share in Asia Pacific's Tourism Receipt (per cent)	5.91	6.18	6.89	6.55#	6.57#
India's Rank in Asia Pacific's Tourism Receipts	7th	7th	7th	7th#	6th#

Source: Ministry of Tourism.
Note: All figures are calendar year wise.
* International Tourist Arrivals is the sum of Foreign Tourist Arrivals and NRI arrivals in the country; #Provisional.

- Foreign tourists from the top 10 countries visiting India are from Bangladesh, USA, UK, Australia, Canada, China, Malaysia, Sri Lanka, Germany and Russia. They accounted for 67 per cent of the total foreign tourist arrivals in India in 2019. Among the foreign tourists, 57.1 per cent tourists visited for leisure, holiday and recreation, 14.7 per cent for business purposes, and 12.7 per cent was Indian diaspora.
- Looking at tourism trends at the state level, the top five states attracting domestic tourists are Uttar Pradesh, Tamil Nadu, Andhra Pradesh, Karnataka, and Maharashtra, accounting for nearly 71 per cent of the total domestic tourist visits in the country in 2019.
- The top five states attracting foreign tourists are Tamil Nadu, Maharashtra, Uttar Pradesh, Delhi and West Bengal, accounting for 69.4 per cent of the total foreign tourist visits in the country in 2019.
- To facilitate international tourism, India introduced the e-Tourist Visa regime in September 2014 for 46 countries. Prior to the launch of the scheme, the e-Visa facility was available for only 12 countries. The government further liberalized the visa regime in 2016, renaming it to e-Visa scheme with five sub-categories i.e. 'e-Tourist Visa', 'e-Business Visa', 'e-Medical Visa', 'e-Conference Visa' and 'e-Medical Attendant Visa'. The e-Visa scheme is now available for 169

countries with valid entry through 28 designated airports and 5 designated seaports. With this, foreign tourist arrivals to India on e-visas have increased from 4.45 lakh in 2015 to 29.28 lakh in 2019 and stood at 8.37 lakh in January-March 2020.

- India ranked 34th in Travel and Tourism Competitiveness Index, improving significantly from its rank of 65 in 2013. Tourism contributed 5 per cent share to India's total GDP in 2018-19. It also supports almost 13 per cent of total employment in India.

IT BPM Services

- TheIndianIT-BPMIndustryhasbeentheflag-bearerofIndia'sexportsoverthelast20years. While 1999-2000 to 2009-10 was a decade of growth, the last decade has been that of consolidation and the industry succeeded in decoupling revenue and employee growth.
- Over the last decade, the industry grew by 102 per cent reaching US$ 190.5 billion in revenues in 2019-20.
- It also added 1.8 million employees, up 70 per cent over the last 10 years. However, the business model has changed over the years.

Chart 1: Evolution of the business model for IT-ITeS

			Customer Centric	Customer + Collaboration
Dimensions	**1990**	**2000**	**2010-2015**	**2016-2020**
Services	One client, one solution	Enterprise Services	Enterprise Solutions	Digital Enterprise products & solutions
Service Delivery	Custom, People Driven	Industrialised capacity & Method-driven	Capacity & IP driven	Platforms & Automation
Technology	Mainframe to Client Server	Y2K, dotcom enablement	Cloud, virtualisation, Mobile computing	Digital Tech (AI, ML/NLP, IoT, Blockchain)
Pricing	Input-based, Fixed Costs	Output-based, Fixed Costs or Gain share	Pay-per-use	Outcome-based
Deal structure	Deals relating to CAD/M & Maintenance	Multiple vendors, Large size, Long duration	Small deal wins, Short duration, End-to-end	Structured deals, Internet focused transactions
Resources	Staff-augmentation	Fixed Capacity	Non-linear	Humans+Machines, Domains & Tech Experts
Time to Deploy	Years	Months	Weeks or Days	Continuous Releases

Source: NASSCOM

- Over the last six years, IT services has constituted the majority share (over 50 per cent) of the IT-BPM sector, with about US$ 97 billion in revenues in 2019-20.
- Software & Engineering Services has witnessed a consistent growth each year, constituting a share of 21 per cent in the sector and US$ 40.2 billion in revenue in 2019-20.
- BPM Services has maintained its share at 19.8 per cent, while the Hardware services has been declining in share each year but maintaining growth in revenues.

Table 8: Exports and Domestic Market Size of Indian IT-BPM Industry (Excluding Hardware & E-Commerce)

	USD billion			Per cent (YoY)		
Year	Domestic	Exports	Total	Domestic	Exports	Total
2015-16	21.58	107.83	129.41	3.2	10.3	9.1
2016-17	23.84	116.06	139.90	10.4	7.6	8.1
2017-18	26.33	125.08	151.40	10.4	7.8	8.2
2018-19	26.25	135.51	161.76	-0.3	8.3	6.8
2019-20E	27.99	146.55	174.53	6.6	8.1	7.9

Source: NASSCOM. Note: E: Estimate.

9.27 Out of the total US$ 146.55 billion in exports of the IT-BPM sector in 2019-20, IT services contributed US$ 79.1 billion, accounting for 54 per cent of the exports. BPM and Software Products & Engineering services accounted for the remaining 46 per cent with

- Out of the total US$ 146.55 billion in exports of the IT-BPM sector in 2019-20, IT services contributed US$ 79.1 billion, accounting for 54 per cent of the exports.
- BPM and Software Products & Engineering services accounted for the remaining 46 per cent with each accounting for a roughly equal share of about 23 per cent.
- All three sub- sectors witnessed an increase in export revenues in 2019-20, with IT services growing by 6.9 per cent, BPM services by 8.4 per cent and Software Products & Engineering Services by 10.7 per cent.
- Looking at country-wise distribution of export revenues, USA remained the biggest recipient of exports, amounting to US$ 91 billion, accounting for 62 per cent of total IT-BPM exports (excluding hardware) in 2019-20. This is followed by UK, being the second largest export market for IT-BPM services amounting US$ 24.7 billion but with a much smaller share of around 17 per cent. Europe (excluding UK) and Asia-Pacific account for 11.4 per cent and 7.6 per cent of the export earnings of India, respectively.
- In 2021, a number of significant structural reforms have been undertaken to drive innovation, technology adoption and efficiency in the IT-BPM sector, including Relaxation of OSP Terms & Conditions, and Consumer Protection (E-commerce) Rules, 2020. This would significantly expand access to talent, increase job creation, make India a global hub for digital services and catapult the sector to the next level of growth and innovation.
- The Indian start-up ecosystem has been progressing well, despite the Covid-19 pandemic. Faced with a myriad of challenges at the onset of the pandemic, the ecosystem defied the odds and had a record number of 12 start-ups that reached unicorn status. The country is home to 38 unicorns at present, as per the Nasscom Tech Start up Report 2021. The US and China have 243 and 227 unicorns, respectively.
- Major policy initiatives and reforms in IT-BPM Sector
  - Relaxation of OSP Terms & Conditions
    - With an aim to improve the Ease of Doing Business of the IT Industry particularly Business Process Outsourcing (BPO) and IT Enabled Services, the Government, in November 2020, simplified the Other Service Provider (OSP) guidelines of the Department of Telecom.
    - The new guidelines tremendously reduce the compliance burden of the BPO industry and enables to 'Work from Home' (WFH).
    - In effect, the registration requirements of Other Service Providers (OSPs) were done away with altogether and Business Process Outsourcing (BPO) services engaged in data related operations have been taken out of the ambit of OSP.

- In addition, other requirements such as deposit of bank guarantees, requirement for static IPs, frequent reporting obligations, publication of network diagram, penal provisions etc. have also been removed.
- These changes will enable IT-BPM companies to 'Work from Home' and 'Work from Anywhere'. Additional dispensations to enhance flexibility for the Industry have been allowed.

- Consumer Protection Act, 2019
  - The Act came in to force on 20th July 2020 empowering consumers and to protect their rights through its various notified rules and provisions such as Consumer Protection Councils, Consumer Disputes Redressal Commissions, Mediation, Product Liability and punishment for manufacture or sale of products containing adulterant / spurious goods.
  - The Act includes establishment of the Central Consumer Protection Authority (CCPA) to promote, protect and enforce the rights of consumers. Moreover, every e-commerce entity is required to provide information relating to return, refund, exchange, warranty/guarantee, delivery, modes of payment, grievance redressal, payments, charge-back options, etc. including country of origin which are necessary for enabling the consumer to make an informed decision at the pre-purchase stage on its platform.
  - Further, the New Act introduces the concept of product liability and brings within its scope, the product manufacturer, product service provider and product seller, for any claim for compensation.
  - The Department of Consumer Affairs (DoCA) published the Consumer Protection (E-commerce) Rules, 2020 in July 2020.

Ports, Shipping and Waterways Services

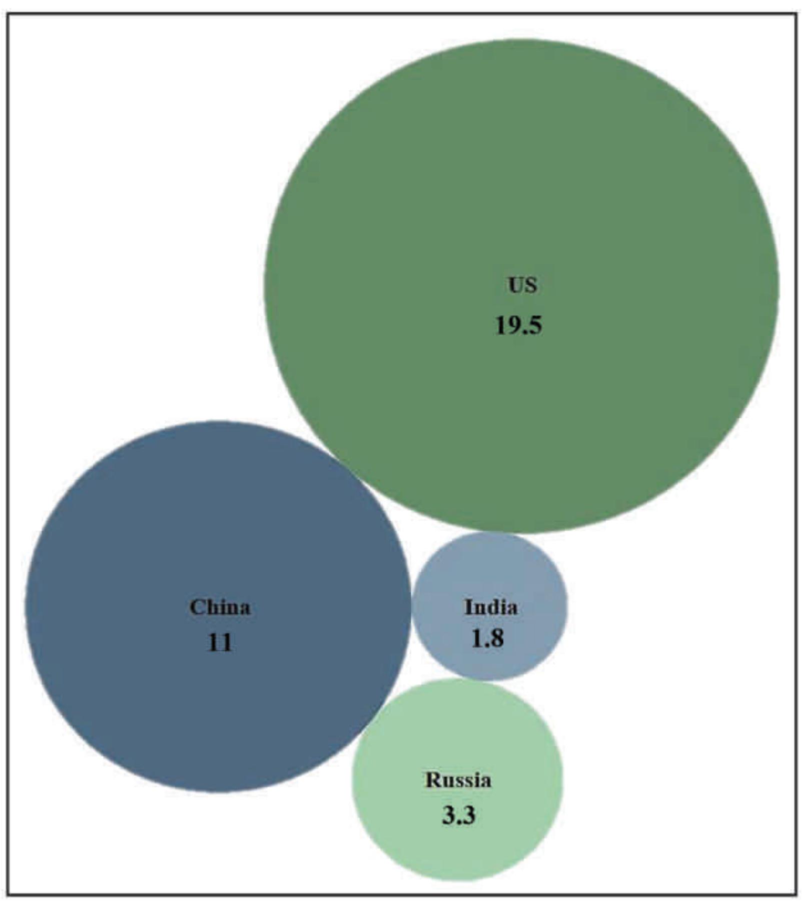
- Ports handle around 90 per cent of export-import cargo by volume and 70 per cent by value in India.
- The total cargo capacity of major ports which was 871.52 Million Tonnes Per Annum (MTPA) at the end of March 2014 has increased to 1,534.91 MTPA by the end of March 2020 and handled traffic of 704.92 MT during 2019-20.
- Ports including Deendayal (Kandla), Paradip, JNPT, Vishakhapatnam, and Chennai had the highest cargo capacities as of March 2020.
- India has a 1 per cent share in world fleet as on January 2020.
- The total numbers of ships owned by Indian companies stood at 1,431 in 2019-20, up from 1,210 in 2014-15.
- A consistent growth of around 6 per cent was maintained in overall port traffic between 2015-16 and 2018-19.
- It decelerated to 1.98 per cent in 2019-20 before falling sharply in 2020 owning to the lockdown in the wake of COVID-19 pandemic.
- Cargo traffic growth contracted considerably between April to June 2020, however is now showing signs of pick up. Infact, cargo traffic growth has turned positive since September 2020.
- The turnaround time of ships, which is a key indicator of efficiency of the ports sector, has declined from 4 days in 2014-15 to 2.62 days in 2020-21 (April-September).
- The shipping turnaround time has declined across all major ports and is now the lowest at the Cochin port and the highest at the Mormugao port.
- Among all the major ports, Paradip port has shown biggest improvement in reducing average turnaround time of ships from over 7 days in 2014-15 to less than 3 days in 2020-21(April-September).
- As per the latest UNCTAD data, the median ship turnaround time globally is 0.97 days, suggesting that India has room to further improve upon the efficiency at ports.
- To harness the coastline, 14,500 km of potentially navigable waterways and strategic location on key international maritime trade routes, the Government has embarked on the ambitious Sagarmala Programme to promote port-led development in the country.
  - The vision of the Programme is to reduce logistics cost of Exports-Imports and domestic trade with minimal infrastructure investment.

- This includes reducing the cost of transporting domestic cargo; lowering logistical cost of bulk commodities by locating future industrial capacities near the coast; improving export competitiveness by developing port proximate discrete manufacturing clusters, etc.
- The Sagarmala programme has identified 504 projects under four pillars – 211 port modernization projects, 199 port connectivity projects, 32 port-led industrialization projects and 62 coastal community development projects which can unlock the opportunities for port- led development and are expected to mobilize more than ` 3.57 Lakh Crore of infrastructure investment.

Space Sector

- India's space programme has grown exponentially in the past six decades, expanding from simple mapping services in the 1960s to many diversified uses including- design and development of a series of launch vehicles and related technologies, satellites and related technologies for earth observation, telecommunication & broadband, navigation, meteorology and space science, R&D in space sciences, & most recently, planetary exploration.
- India spent about US$ 1.8 billion on space programmes in 2019-20. However, the country still lags behind the major players in the space sector, such as USA, which spent about 10 times more than India in the space sector in 2019-20, and China, which spent about 6 times more.
- India has launched around 5-7 satellites per year in the recent years. On the other hand, USA, Russia and China dominate the satellite launching services with 19, 25 and 34 satellites respectively in 2019.

Figure 7: Expenditure (US$ Billion at 2019 - 2020 prices)



Source: ISRO.

- Prospects for commercialization and attracting private investment in the space sector
  - India's space programme is one of the most well-developed in the world and has achieved numerous successes through its state-owned agency, the Indian Space Research Organisation (ISRO) which is responsible for driving the space activities in India.

- With the long term vision of making the country self-reliant and technologically advanced, the Government in June 2020, opened up the Space sector enabling the participation of Indian private sector in the entire gamut of space activities.
- New Space India Limited (NSIL), a Central Public Sector Enterprise under Department of Space, has been mandated to transfer the technologies emanating out of Indian space programme and enable Indian industry to scale up high-technology manufacturing base.
- Government of India has also established Indian National Space Promotion and Authorisation Centre (IN-SPACe) for promoting industries and attracting investment in space sector.
- Further, ISRO would be sharing its infrastructure, transfer technology know-how for production and spin-off. These measures would help India become a manufacturing hub of space assets.
- As per Satellite Industry Association Report (2020), the global space economy in 2019 was pegged at US$ 366 billion, growing by about 1.7 per cent over 2018.
- The commercial satellite industry is accounting for nearly 75 per cent of global space business.
- Technology innovations and demand drives the need for higher bandwidth capacity, throughput speeds, improved optical, radar and thermal imaging.
- PwC estimates that the Indian space economy is valued at US$ 7 billion, which is around 2 per cent of the global space economy.

10 Social Infrastructure, Employment and Human Development

INTRODUCTION

- The COVID-19 has brought into focus the vulnerabilities of societies, states and countries in facing a pandemic. India imposed a complete lockdown of the economy from 24th March, to 31st May 2020, which helped in arresting the number of fatalities due to COVID-19 as well as taking precautionary measures to contain the spread of the disease and it has helped India to save lakhs of lives. However, the lockdown had an inevitable impact on the vulnerable and informal sector, the education system, and on the economy as a whole.

TRENDS IN SOCIAL SECTOR EXPENDITURE

- The expenditure on social services (education, health and other social sectors) by Centre and States combined as a proportion of GDP increased from 6.2 to 8.8 per cent during the period 2014-15 to 2020-21 (BE). This increase was witnessed across all social sectors. For education, it increased from 2.8 per cent in 2014-15 to 3.5 per cent and for health, from 1.2 per cent to 1.5 per cent during the same period. Relative importance of social services in government budget, as measured in terms of the share of expenditure on social services out of total budgetary expenditure, has also increased to 26.5 per cent in 2020-21 (BE) from 23.4 per cent in 2014-15.
- A clarion call for 'Atma Nirbhar Bharat' was announced to revive the economy and to address the pandemic. A special economic and comprehensive package of Rs. 20 lakh crore - equivalent to 10 per cent of India's GDP was announced in May 2020. In subsequent announcements, additional support cumulating to Rs. 29.88 lakh crore up to November 2020 was announced. Of these, provision for Rs. 4.31 lakh crore made for social sector includes PMGKY and PMGKY Anna Yojana, housing and health (including R & D Grant for COVID-19 Suraksha), EPF support to worker & employers, street vendors, MGNREGS workers and ABRY etc.

HUMAN DEVELOPMENT

- India's rank in Human Development Index (HDI) was 131 in 2019, compared to 129 in 2018, out of a total 189 countries according to UNDP Human Development Report, 2020. It may be mentioned that the decline in HDI ranking by two points in 2019 as compared to 2018 is relative to other countries.

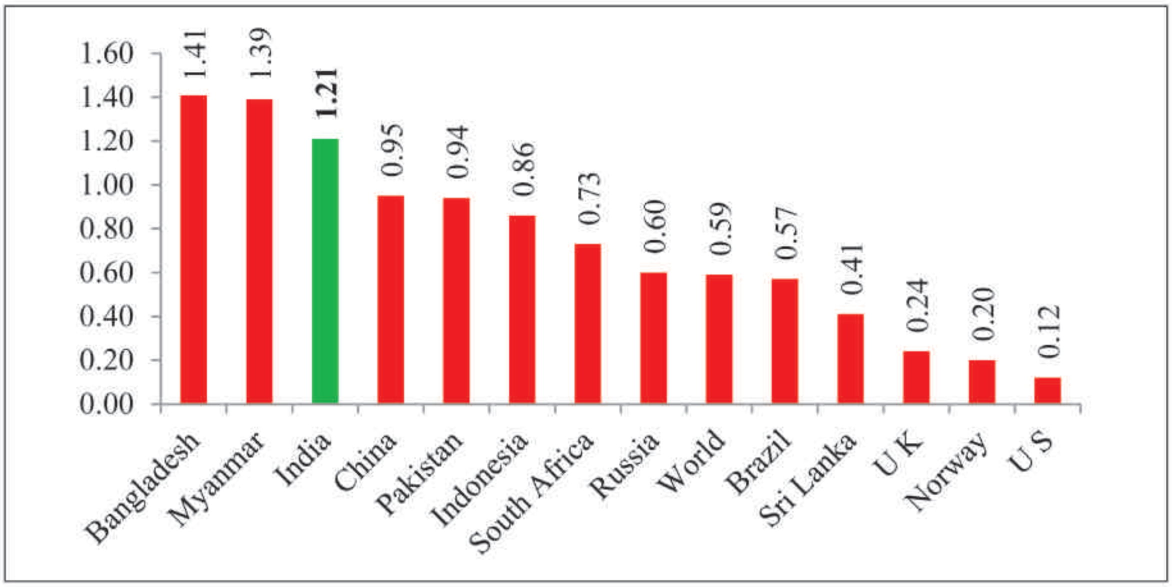
Trends in India's HDI Value and its Sub-components

Year	1990	2000	2005	2010	2015	2017	2018	2019
Life expectancy at birth	57.9	62.5	64.5	66.7	68.6	69.2	69.4	69.7
Expected years of schooling[b]	7.6	8.3	9.7	10.8	12.0	12.3	12.2	12.2
Mean years of schooling[b]	3.0	4.4	4.8	5.4	6.2	6.5	6.5	6.5
GNI per capita[a]	1,787	2,548	3,217	4,182	5,391	6,119	6,427	6,681
HDI value	**0.429**	**0.495**	**0.536**	**0.579**	**0.624**	**0.640**	**0.642**	**0.645**

Source: Human Development Report, 2020, UNDP.
Note: [a]GNI (Gross national income) is based on 2017 dollar purchasing power parity (PPP), [b]Data refers to 2019 or the most recent year available.

- The value of HDI for India has increased from 0.579 in 2010 to 0.645 in 2019. The average annual HDI growth during 2010-2019 was 1.21 per cent as compared to 1.58 per cent during the period 2000-2010. Cross country comparison of average annual HDI growth shows India is ahead of BRICS countries (Figure 1). To sustain this momentum, and overcome possible fallouts of COVID-19 on human development, the thrust on access to social services such as education and health is critical.

Figure 1: Average Annual HDI Growth Rate (per cent), 2010-2019



Source: Human Development Report, 2020, UNDP

QUALITY EDUCATION FOR ALL

- The progress in school and higher education infrastructure and gross enrolment at all levels is given in Table 3. As per The Unified District Information System for Education plus (U-DISE+) 2018-19, the physical infrastructure of more than 9.72 lakh government elementary schools has improved significantly. Out of these, 90.2 per cent have girls' toilet, 93.7 per cent have boys' toilet, 95.9 per cent have provision of drinking water facility, 88.1 per cent have hand wash facility, 82.1 per cent have wash (drinking water, toilet and hand wash) facility, 84.2 per cent have medical check-up facility, 20.7 per cent have computer and 67.4 per cent have electricity connection, 74.2 per cent have ramps, 56.5 per cent have boundary wall, 69.3 per cent have playground, 83.8 per cent have library, 21.5 per cent have kitchen garden and 13.9 per cent have rainwater harvesting structure, 23.6 per cent have facility for testing of water and 14.8 per cent have incinerator.

Table 3: Increase in Number of Recognized Schools, Colleges and Universities Infrastructure

Year	Primary & Upper Primary schools (in lakhs)	Secondary and Sr. Secondary Schools (in lakhs)	Colleges	Universities
2011-12	11.93	2.12	34852	642
2018-19	12.37	2.76	39931	993

Source: Education Statistics at a Glance, 2018 & U-DISE+ Report and AISHE Report 2018-19, M/o Education

Table 4: Percentage of Literates (age 7 years & above) by Social/ Religious Group in 2017-18

Category	Rural + Urban		Category	Rural + Urban	
Social Group	Male	Female	Religious Groups	Male	Female
ST	77.5	61.3	Hinduism	85.1	70.0
SC	80.3	63.9	Islam	80.6	68.8
OBC	84.4	68.9	Christianity	88.2	82.2
Others	90.8	80.6	Sikhism	87.3	75.9
All	84.7	70.3	All^	84.7	70.3

Source: NSS Report 585: Households Social Consumption on Education in India, 2017-18
Note: ^ All includes Jainism, Buddhism, Zoroastrianism and others

- While India has attained a literacy level of almost 96 per cent at the elementary school level, it is still behind in achieving 100 per cent literacy. As per National Sample Survey (NSS), the literacy rate of persons of age 7 years and above at the All India level stood at 77.7 per cent but the differences in literacy rate attainment among social-religious groups, as well as gender still persists (Table 4). Female literacy remained below national average among social groups of SC, ST, OBC, including religious groups of Hinduism and Islam.
- The age specific attendance ratio (ASAR) indicates the proportion of children of a particular age group actually attending schools/colleges irrespective of the level or class in which they are studying. Children in the age-group of 6-13 years have reported almost 95 per cent and above attendance across States. But the attendance rate in the early childhood education, which the National Education Policy (NEP), 2020 emphasises on is low and diverging irrespective of the achievement in education status of the States concerned. While Punjab reported a high attendance rate of 61.6 per cent of the children in the age groups of 3-5 years (i.e. early childhood education), Karnataka reports the lowest attendance rate of only 18.3 per cent. In the 14-17 years age group, which covers the secondary and higher secondary education level, the attendance rates are low as compared to national average in Madhya Pradesh, Odisha, Assam, Gujarat, and Rajasthan. In the 18-23 years age bracket, which comprises students pursuing higher education, Kerala and the hilly States have reported higher attendance compared to rest of India.
- The efforts made by the Government to provide quality education in schools and institutions of the government in affordable and competitive manner are given in Box 1. The government announced the new National Education Policy, 2020 replacing the 34 year old National Policy on Education, 1986.

Programmes and Schemes for School Education during 2020-21

- Samagra Shiksha, an overarching programme for the school education sector extending from preschool to class 12, is being implemented with the broader goal of improving school effectiveness measured in terms of equal opportunities for schooling and equitable learning outcomes. The vision of the Scheme is to ensure inclusive and equitable quality education from pre-school to senior secondary stage in accordance with the SDG for Education. The main outcomes of the Scheme are envisaged as Universal Access, Equity and Quality including Vocational Education, Inclusive Education, increased use of Technology and strengthening of Teacher Education Institutions (TEIs). The scheme was launched in 2018-19 with the following major features:

Key Features

- Enhanced focus on improving quality of education and learning outcomes by focus on the two T's – Teachers and Technology.
- Support for Rashtriya Avishkar Abhiyan to promote Science and Math learning.
- Support to "DIKSHA", a digital platform which offers teachers, students and parents engaging learning material relevant to the prescribed school curriculum.
- Upgradation of Kasturba Gandhi BalikaVidyalayas (KGBVs) from Class 6-8 to Class 6-12.
- Self-defence training for girls from upper primary to senior secondary stage
- Stipend for Children with Special Needs (CWSN) girls to be provided from Classes I to XII. –earlier only IX to XII.
- Enhanced Commitment to 'Beti Bachao Beti Padhao'
- Under the Samagra Shiksha scheme, a National Mission to improve learning outcomes at the elementary level through an Integrated Teacher Training Programme called NISHTHA (National Initiative for School Heads' and Teachers' Holistic Advancement) was contextualized and made 100 per cent online according to the needs of teaching and learning during the COVID-19 pandemic.
- **Padhna Likhna Abhiyan:** An adult education scheme has been introduced in FY 2020-21 with financial outlay of Rs. 142.61 crore with a target to make 57 lakh learners' literate.
- During 2019-20, the Mid-Day Meal (MDM) Programme in schools covered 11.59 crore children enrolled in elementary classes (I-VIII) in 11.34 lakh eligible schools. During COVID-19 pandemic, it was decided to provide food grains and pulses, oil etc., (equivalent to cooking cost) as a one-time special measure to eligible children during the summer vacations.

Impact of COVID-19 pandemic on School Education

- Since March 2020, most of the schools are closed due to the COVID-19 induced restrictions and children are taught online from their homes using available assets at home. Access to data network, electronic devices such as computer, laptop, smart phone etc. gained importance due to distance learning and remote working. As per Annual Status of Education Report (ASER) 2020 Wave-1 (Rural), released in October 2020, percentage of enrolled children from government and private schools owning a smartphone increased enormously from 36.5 per cent in 2018 to 61.8 per cent in 2020 in rural India. If utilized well, the resultant reduction in the digital divide between rural and urban, gender, age and income groups is likely to reduce inequalities in educational outcomes. To enable this process, the Government is implementing several initiatives to make education accessible to children during this pandemic (Box 3).

Box 3: Initiatives for school going students during COVID-19 pandemic

1. **PM eVIDYA:** This initiative was announced for school and higher education under the Atma Nirbhar Bharat programme in May, 2020. It is a comprehensive initiative to unify all efforts related to digital/online/on-air education to enable multi-mode and equitable access to education for students and teachers. The four PM e-Vidya components of school education are:
   a. **One nation, one digital education infrastructure:** Under this component all States/UTs have free access to a single digital infrastructure i.e, DIKSHA. It is artificial intelligence based, highly scalable, and can be accessed through a web-portal and mobile application. It provides access to a large number of curricula linked e-content through several use cases and solutions such as QR coded Energized Textbooks (ETBs), courses for teachers, quizzes and others. DIKSHA has experienced more than 800 crore hits since lockdown. In April, 2020, VidyaDaan portal was launched on Diksha as a national content contribution program that leverages the DIKSHA platform and tools to seek and allow contribution/donation of e-learning resources for school education by educational bodies, private bodies, and individual experts.
   b. **One class, one TV channels through Swayam Prabha TV Channels:** Swayam Prabha DTH channels are meant to support and reach those who do not have access to the internet. 12 channels are devoted to telecast high quality educational programmes in school education. The pilot/beta version has been launched in October, 2020.
   c. **Extensive use of Radio, Community radio and Podcasts:** Radio broadcasting is being used for children in remote areas who are not online. 303 pieces of curriculum-based radio programmes (for Classes 1-8) have been produced by CIET-NCERT for its dissemination/broadcast on 12 GyanVani FM Radio Stations, 60 Community Radio Stations, iRadio and Jio Saavn Mobile apps. 289 Community Radio Stations have also been used to broadcast content for NIOS for grades 9 to 12. A Podcast of CBSE called Shiksha Vani is being effectively used by learners of grades 9 to12. It contains over 430 pieces of audio content for all subjects of grades 9 to 12.
   d. **For the differently-abled:** One DTH channel is being operated specifically for hearing impaired students in sign language. For visually and hearing-impaired students, study material has been developed in Digitally Accessible Information System (DAISY) and in sign language; both are available on NIOS website/ YouTube. 25 NCERT textbooks have also been converted into DAISY format.
2. **Swayam MOOCs for open schools and pre-service education:** Online MOOC courses relating to NIOS (grades 9 to 12 of open schooling) are uploaded on SWAYAM portal. Around 92 courses have started and 1.5 crore students are enrolled under Swayam MOOCs.
3. **Funding support for digital initiative:** To mitigate the effect of COVID-19, ` 818.17 crore is allotted to states/UTs to promote online learning through digital initiatives, and Rs. 267.86 crore for online teacher training to ensure continuous professional development of teachers under Samagra Shiksha Scheme.
4. **National Repository of Open Educational Resources (NROER):** NROER is an open storehouse of e-content. Nearly 17,500 pieces of e-content are available for various school subjects in all grades.
5. **PRAGYATA guidelines on digital education** was developed with a focus on online/blended/digital education for students who are presently at home due to the closure of schools.
6. **MANODARPAN:** The 'Manodarpan' initiative for psychosocial support has been included in the Atmanirbhar Bharat Abhiyan, as part of strengthening and empowering the human capital to increase productivity and efficiency through reforms and initiatives in the education sector.

SKILL DEVELOPMENT

- There is an improvement in the proportion of skilled people over the annual cycle of Periodic Labour Force Survey (PLFS) across rural, urban and gender classification.
- However, the level of skill acquirement remained low, as only 2.4 per cent of the workforce of age 15-59 years have received formal vocational / technical training and another 8.9 per cent of the workforce received training through informal sources. Out of the 8.9 per cent workforce who received non-formal training, the largest chunk is contributed by on-the-job training (3.3 per cent), followed by self-learning (2.5 per cent) and hereditary sources (2.1 per cent) and other sources (1 per cent).
- Among those who received formal training, the most opted training course is IT-ITeS among both males and females, followed by electrical-power and electronics, mechanical engineering- capital goods- strategic manufacturing, automotive, office and business-related work for males while the other preferred courses of females were textileshandloom-apparels, office & business-related work, healthcare & life sciences and work related to childcare-nutrition-pre-school & crèche.

STATUS OF EMPLOYMENT

- Based on the results of PLFS, estimates in absolute numbers of labour force, employed persons and unemployed persons have been derived for 2017-18 and 2018-19, separately for rural and urban sectors and for males and females in usual status (ps+ss) for all ages.
- The size of labour force in 2018-19 was estimated at about 51.8 crore persons: about 48.8 crore employed and 3.0 crore unemployed. The size of the labour force increased by about 0.85 crore between 2017-18 and 2018-19. Out of these, 0.46 crore were from urban sector and 0.39 crore were from rural sector. The gender composition of the increase in the labour force comprised about 0.64 crore males and about 0.21 crore females. The size of the workforce increased by about 1.64 crore, of which 1.22 crore were in rural sector and 0.42 crore in urban sector. The gender composition was 0.92 crore females and 0.72 crore males.
- Number of unemployed persons declined by about 0.79 crore between 2017-18 and 2018-19, largely in the category of females, and in rural sector. The females labour force participation rate increased from 17.5 per cent in 2017-18 to 18.6 per cent in 2018-19. These facts reveal that 2018-19 was a good year for employment generation.
- Industry-wise estimates on workforce shows that the largest, about 21.5 crore persons are employed in 'Agriculture', which is still the largest employer with 42.5 per cent of workforce. Next important industry is ‘other services’ where about 6.4 crore persons (13.8 per cent) were engaged. 'Manufacturing' and ‘Trade, hotel & restaurants’ each employed about 5.9 crore persons with the share of nearly 12.1 per cent and 12.6 per cent respectively, while ‘Construction’ sector employed about 5.7 crore persons in 2018-19 with share of 12.1 per cent. Employed persons have significantly increased in Agriculture, Manufacturing and Transport storage & communication in 2018-19 from 2017-18.
- Among the total employed, about 25 crore are self-employed, 12.2 crore regular wage/ salaried employees and 11.5 crore casual workers. Self-employment is still the major source of employment with close to 52 per cent of the workforce was self-employed. The proportion of regular wage/salaried employees saw an increase in both rural & urban areas and for both males & females. This increase was more among urban females which increased from 52.1 per cent in 2017-18 to 54.7 per cent in 2018-19.

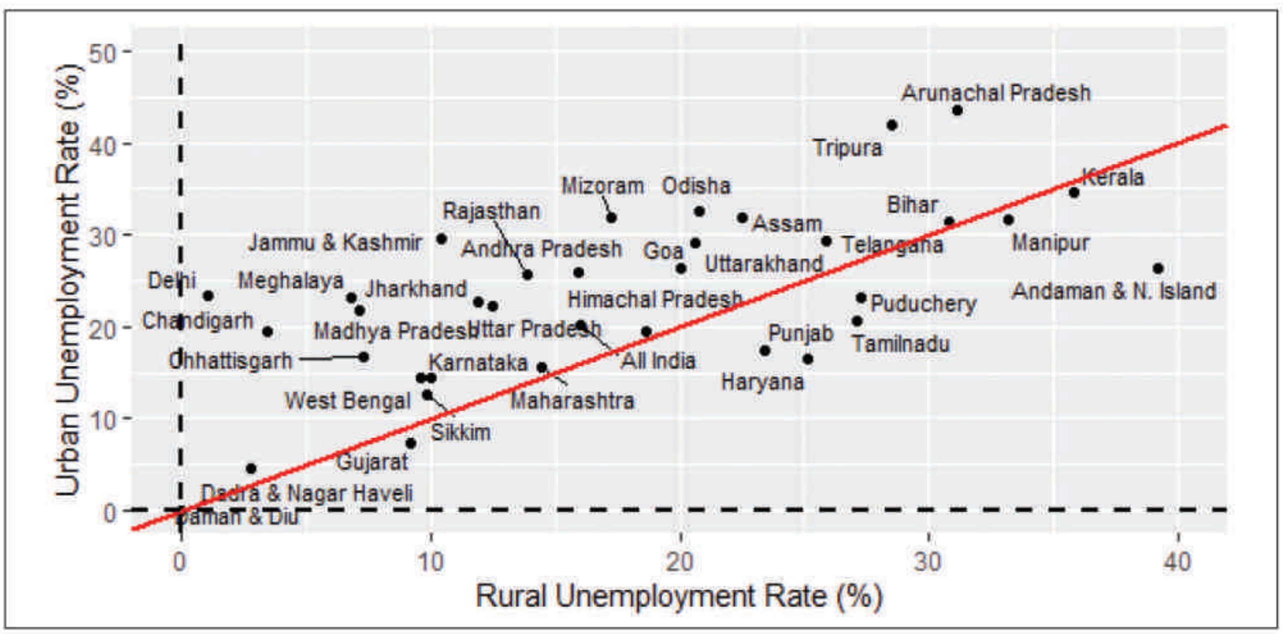
Formal Employment

- The net payroll data of Employees' Provident Fund Organisation (EPFO) as on 20th December, 2020 shows a net increase of new subscribers in EPFO of 78.58 lakhs in 2019-20 as compared to 61.1 lakhs in 2018-19. These estimates are net of the members newly enrolled, exited and re-joined during the year as per records of the EPFO. During FY 2020-21, the net new EPF subscribers shows an increase across all age groups and had peaked in September, 2020 to 14.2 lakh subscribers. Data from Department for Promotion of Industry and Internal Trade also shows that employment reported by startups increased from 1.52 lakh in January-December, 2019 to 1.75 lakh in January-December, 2020 due to increase in the number of active recognition of startups from 11,694 to 14,784 in the same period.

Unemployment

- Unemployment rates at all India level, for all ages, as per usual status, declined marginally to 5.8 per cent in 2018-19 from 6.1 per cent in 2017-18.
- The decline in unemployment rate is widespread across all the categories. The highest decline in unemployment rates is seen among those who have received formal vocational/technical training. The level of unemployment is recorded the highest, 20.2 per cent, among urban youth (age 15-29 years) and the lowest for the subgroup 'not literates' at 1.1 per cent among the persons of age 15 years and above with different educational attainments.
- Youth unemployment rates of State/UTs in 2018-19 for urban and rural areas are plotted in Figure 6. The youth unemployment rates varies widely across States in India. The States like Arunachal Pradesh, Kerala, Manipur, and Bihar are on the high extreme while the States such as Gujarat, Karnataka, West Bengal and Sikkim are on the lower extreme. States/UTs on the red line or close to it, such as Bihar, Himachal Pradesh and Maharashtra, indicates that their youth unemployment rate in urban areas is almost equal to the unemployment rate in rural areas, and the States/UTs above the line indicate higher youth unemployment in urban than rural. It is quite visible that unemployment rates in urban are much higher than the rural sector in most of the States/UTs.

Figure 6: Rural and Urban Unemployment Rates in States (2018-19)



Source: Annual Report PLFS, 2018-19.

Changing Nature of Work: Gig and Platform Workers

- The nature of work has been changing with the change in technology, evolution of new economic activities, innovation in organization structures and evolving business models. Digital platforms have emerged as enablers for employment creation with the power to easily discover job seekers and job providers in the absence of middlemen.
- Digital technology enables two-sided markets which saw the emergence of e-commerce and online retailing platforms such as Amazon, Flipkart, Ola, Uber, Urban Clap, Zomato, Swiggy etc. India has emerged as one of the largest country for flexistaffing in the world.
- During the period of COVID-19 induced lockdown, the increasing role of the gig economy was evident with significant growth of online retail business. The lockdown period also saw employers preferring 'Work from home' of their employees, cutting down on staff strength and engaging freelancers or outsourcing tasks to reduce overhead costs as well as to hire skilled services. With increasing demand in industries for on hire project-specific consultants, logo/content designers, web designers etc. for the white-collar workers, the delivery boys and taxi drivers engaged in platforms like Uber/Ola, Swiggy, Big Basket, Pizza Hut etc, are now showing potential as well. As a result, the gig economy have been popular amongst the workers in India. The benefit of the gig economy is that it allows flexibility in employer-employee relationship to both service seeker and service provider.

Impact of COVID-19 on the Labour Market

- COVID-19 has exposed the vulnerability of urban casual workers, who account for 11.2 per cent of urban workforce (All-India) as per PLFS, January-March, 2020, a significant proportion of them are supposed to be migrants who were impacted by the lockdown. About 63.19 lakh migrant workers travelled through Shramik Special trains from May-August 2020. With limited data available on inter-state migration and employment in informal sectors, it is difficult to figure the numbers of migrants who lost jobs and accommodation during the pandemic and returned home.

GENDER DIMENSION OF EMPLOYMENT

- LFPR of females in the productive age (15-59 years) was 26.5 per cent in 2018-19, as compared to 80.3 per cent for males (rural+urban). While 54.7 per cent of urban women were employed in the regular wage/salaried category, about 59.6 per cent of rural females were not only self-employed but 37.9 per cent among them were helpers in household enterprises. The low female LFPR is attributed to high participation of women (15 years & above) in domestic duties (activity code of 92 & 93 of NCO, 2004), that is 55.7 per cent in rural areas and 59.1 per cent in urban areas in 2018-19.
- The NSO conducted Time Use Survey (TUS) during Jan-Dec, 2019 which interalia, provides insights on how males and females spend their time in rural and urban areas in various activities during a 24-hour time period. It is observed that time spent by a female on unpaid domestic services and unpaid caregiving services to household members is prominent and higher than male counterparts. Time spent on employment-related activities by female members is 127 minutes lower than male. Among unpaid caregiving services for household members, females spent disproportionately higher time on childcare and instruction as compared to males. Similarly, among unpaid domestic services for household members, females spent most of the time in food, meal management and preparation.
- The unpaid domestic and caregiving services provided by women are not influenced by their level of education. Even with education level of “secondary and above”, women spend 295 minutes in unpaid domestic services for household members and 146 minutes in unpaid caregiving services for household members.
- In terms of contribution to the economy, while women of productive age group spent 337 minutes in unpaid non-SNA activity, it was only 41 minutes in the case of males. Similarly, males spent 305 minutes in paid activities, while it was only 68 minutes for females.
- Similarly, the time spent on unpaid domestic and care giving services (340 minutes or 5.6 hrs) is high for females in the workforce as compared to males but relatively less than females who are not in the labour force (457 minutes or 7.60 hours) . Thus, women in the workforce shoulder the responsibility of domestic activities as well as paid work, which leaves them with less time to spend on employment related activities.
- In order to incentivise more women to join into the labour force, investment in institutional support to affordable and quality child care facilities, paid paternal leave, family-friendly work environment, and support for elderly care needs to be made. There is also a need to promote non-discriminatory practices at the workplace like pay and career progression, improve work incentives, including other medical and social security benefits for female workers.

HEALTH

- Health indicators shows, Total Fertility Rate (TFR) has reduced sharply from 3.6 in 1991 to 2.2 in 2018. Maternal Mortality Ratio (MMR) was 113 per 1,00,000 live births for the period 2016-2018 and Under Five Mortality Rate (U5MR) was 36 per 1000 live births in 2018. But in 2020, it was the COVID-19 pandemic that put to test the health infrastructure of India.
- There are more than 1 crore Covid-19 cases reported in India, with recovery of more than 95 per cent. However, the country lost around 1.52 lakh lives due to the Covid-19 pandemic. Public health measures were taken in pre-emptive, pro-active and graded manner based on the evolving scenario. To provide, financial support, ‘COVID-19 Emergency Response and Health Systems Preparedness Package’ of `15000 crore was announced and implemented with an aim to deliver a combination of emergency response and health system capacity building efforts. Government has taken several measures including world's largest vaccination drive to prevent, control, and mitigate the impact of COVID-19 (Box 7).

Box 7: Achievements in Fight Against COVID-19

- The Government has assessed and ensured the availability of the essential medicines, hand sanitizers as well as protective equipments including masks, PPE Kits.
- A Fit Health Worker Campaign was launched at Auyshman Bharat-Health & Wellness Centres (AB-HWCs) to enable the screening and early detection of non-communicable diseases in the Frontline-Health care workers.
- The **'PMGKP Insurance Scheme for Health Workers Fighting COVID-19'** was announced on 30th March 2020. The Scheme provides and insurance cover of ` 50 lakh to healthcare providers, including community health workers, who may have to be in direct contact and care of COVID-19 patients and therefore at risk of being infected.
- **Covid-19 Vaccine:** The world's largest COVID-19 immunization programme commenced on 16th January 2021 through the two indigenously manufactured vaccines viz; COVISHIELD and COVAXIN.

- **Accredited Social Health Activists (ASHAs):** ASHAs played a key role in the country's response for prevention and management of the COVID-19. During the pandemic, in addition to performing tasks related to COVID-19, they also continued to support community members for accessing essential health services such as anti-natal care, immunization, safe delivery and treatment adherence for chronic illnesses. All ASHAs and ASHA facilitators were covered under PMGKP insurance scheme. Their incentives were increased to Rs. 2000 per month.

Child health outcomes

- The Phase-I of National Family Health Survey-5 (NFHS-5), shows that immunization coverage for children has increased for all 10 States under analysis except for Kerala. The cash incentives for institutional delivery of pregnant women and ASHAs under Janani Suraksha Yojana (JSY) and conditional cash transfer under Pradhan Mantri Matru Vandana Yojana (PMMVY) aims to reduce maternal and infant mortality rates.
- Infant mortality rate and under five mortality rate have declined in most of the selected States in NFHS-5 compared to NFHS-4. However, inter-State difference in mortality rates remained quite large. The findings also show mixed picture on stunting, wasting and anaemic children. When compared to NFHS-4, stunting has declined in Andhra Pradesh, Assam, Bihar and Karnataka in NFHS-5. Similarly, Andhra Pradesh, Bihar and Karnataka have done better in reducing underweight children during the same period. Wasting has also declined in Andhra Pradesh, Gujarat and Karnataka during NFHS-5. To address the problem of malnutrition in the country, Anganwadi Services, Pradhan Mantri Matru Vandana Yojana and Scheme for Adolescent Girls under the Umbrella Integrated Child Development Services Scheme (ICDS) are some targeted interventions of the Government. PM Overarching Scheme for Holistic Nutrition (POSHAN) Abhiyan was launched on 8th March, 2018 to address the problem of malnutrition in a mission-mode.
- **AYUSH:** About 12,500 HWCs to be set up through National AYUSH Mission. The AYUSH HWCs would be created by upgrading existing AYUSH dispensaries (10000) and Sub Health Centres (2500) to provide comprehensive primary health care to the general public with focus on the AYUSH system of medicine. A total of 4061 facilities are approved for upgradation as AYUSH HWCs in 27 States/UTs during 2019-20 and 2020-21.

WATER AND SANITATION

Swachh Bharat Mission-Grameen (SBM-G)

- Under SBM-G, rural sanitation coverage has made an incredible leap in the target achievement from 39 per cent in 2014 to 100 per cent in 2019 with more than 10 crore toilets built since 2014.
- With a view to sustain the gains made under the programme in the last five years and to ensure that no one is left behind and to achieve the overall cleanliness in villages, Phase-II of SBM(G) from 2020-21 to 2024-25 is being implemented.
- Further, PMGKRA was also launched in June, 2020 under ANB package for creating employment opportunities and sanitary infrastructure creation in order to have better, safe hygiene and sanitary practices during COVID-19.

Jal Jeevan Mission (JJM)

- Government has accorded highest priority to improve the quality of life and enhance ease of living of people especially those living in rural areas by announcing the Jal Jeevan Mission. At the time of roll out of the scheme in August 2019, about 3.23 crore (17 per cent) households out of total 18.93 crore rural households had tap water supply. Remaining 15.70 crore (83 per cent) rural households were to be provided with functional tap water connections (FTWC) by 2024.

- Keeping with 'no one is left out' principle, 18 districts in the country spread across Gujarat (5), Telangana (5), Himachal Pradesh (1), Jammu & Kashmir (2), Goa (2) and Punjab (3) have become 'Har Ghar Jal districts'. Similarly, 402 Blocks, 31,848 Gram Panchayats, 57,935 villages have also become 'Har Ghar Jal Block', 'Har Ghar Jal Panchayat' and 'Har Ghar Jal Gaon', respectively. Goa has become first State in the country to have 100 per cent households with 'tap water connections i.e. 'Har Ghar Jal Rajya'. About 3.2 crore of rural households have been provided with FTWC since the launch of the Mission.

RURAL DEVELOPMENT

- The rural sector in India witnessed the phenomenon of reverse migration during the period of complete lockdown, with migrants availing all possible means of transport or even walking back kilometers to reach homes. But the eventual return of these migrants back to metropolitan cities would materialize only with the normalization of COVID-19 related stringencies. Despite such adversities, the resilience of the rural economy in tackling the COVID -19 related crisis was supported by a good crop season and stimulus packages of the Government.
- The first of measures announced under the PMGKP in March, 2020 included cash transfers of upto Rs. 1000 in two installments of Rs. 500 each to the existing old aged, widowed and disabled beneficiaries under the National Social Assistance Programme (NSAP). An amount of Rs. 500 each was transferred for three months digitally into bank accounts of the women beneficiaries in PM Jan Dhan Yojana, totaling about 20.64 crores. Free distribution of gas cylinders to about 8 crore families for three months was also undertaken. Limit of collateral free lending for 63 lakh women SHGs increased from Rs. 10 lakhs to Rs. 20 lakhs which would support 6.85 crore households.
- In the second tranche of stimulus measures announced under ANB Abhiyan, an additional Rs. 40,000 crore was allocated for Mahatma Gandhi NREGS to help generate nearly 300 crore person-days to address the need for more work for the returning migrant workers as well as to take care of the monsoon season. Wages under Mahatma Gandhi NREGA was increased by Rs. 20 from Rs. 182 to Rs. 202 w.e.f. 1st April, 2020.

Deen Dayal Antyodaya Yojana-National Rural Livelihoods Mission (DAY-NRLM)

- DAY-NRLM seeks to alleviate rural poverty through building sustainable community institutions of the poor. The mission aims at mobilizing about 9-10 crore households into SHGs and link them to 'sustainable livelihoods opportunities by building their skills and enabling them to access formal sources of finance, entitlements and services from both public and private sectors.
- DAY-NRLM has also been instrumental in providing the last mile delivery of financial services in remote rural areas through promotion of digital finance and deployment of SHG Women as Banking Correspondent Sakhi (BC Sakhi), with the support of banks and Common Service Centres.

Pradhan Mantri Gram Sadak Yojana (PMGSY)

- PMGSY was launched on 25th December, 2000 with the objective to provide single allweather road connectivity to all eligible unconnected habitations of the designated population size (500+ in plain areas, 250+ in North-Eastern and Himalayan States) in rural areas of country. The PMGSY has completed two phases and third phase has been launched with the target allocation of 1.25 lakh km all-weather road connectivity. More than 6.44 lakh km road length has been constructed so far under the Scheme. The scheme has helped immensely in providing access to basic services and lifting the income of rural masses.

Garib Kalyan Rojgar Abhiyan (GKRA)

- GKRA was launched on 20th June, 2020 for a period of 125 days with a focus on 25 works in 6 States.
- The major objectives of the initiative include the provision of livelihood opportunities to returning migrants and similarly affected rural citizens, saturate villages with public infrastructure viz. roads, housing, anganwadis, panchayat bhavans, various livelihood assets and community complexes, among others and a basket of a wide variety of works.

CONCLUSION

- Investment in social infrastructure played a crucial role in India's economic growth. The government is committed to invest in social sector viz education, healthcare, skill development, providing employment opportunity, housing, sanitation etc in order to bring overall improvement in socio-economic indicators and achieving SDGs. Inspite of COVID-19 pandemic, public spending on social sector has increased in 2020-21 and efforts continued through Aatma Nirbhar Bharat Rojgar Yojana, higher allocation under MGNREGS, Garib Kalyan Rozgar Abhiyan and path-breaking labour reforms etc. India's progress towards vibrant economy is deep-seated in investing in social capital.

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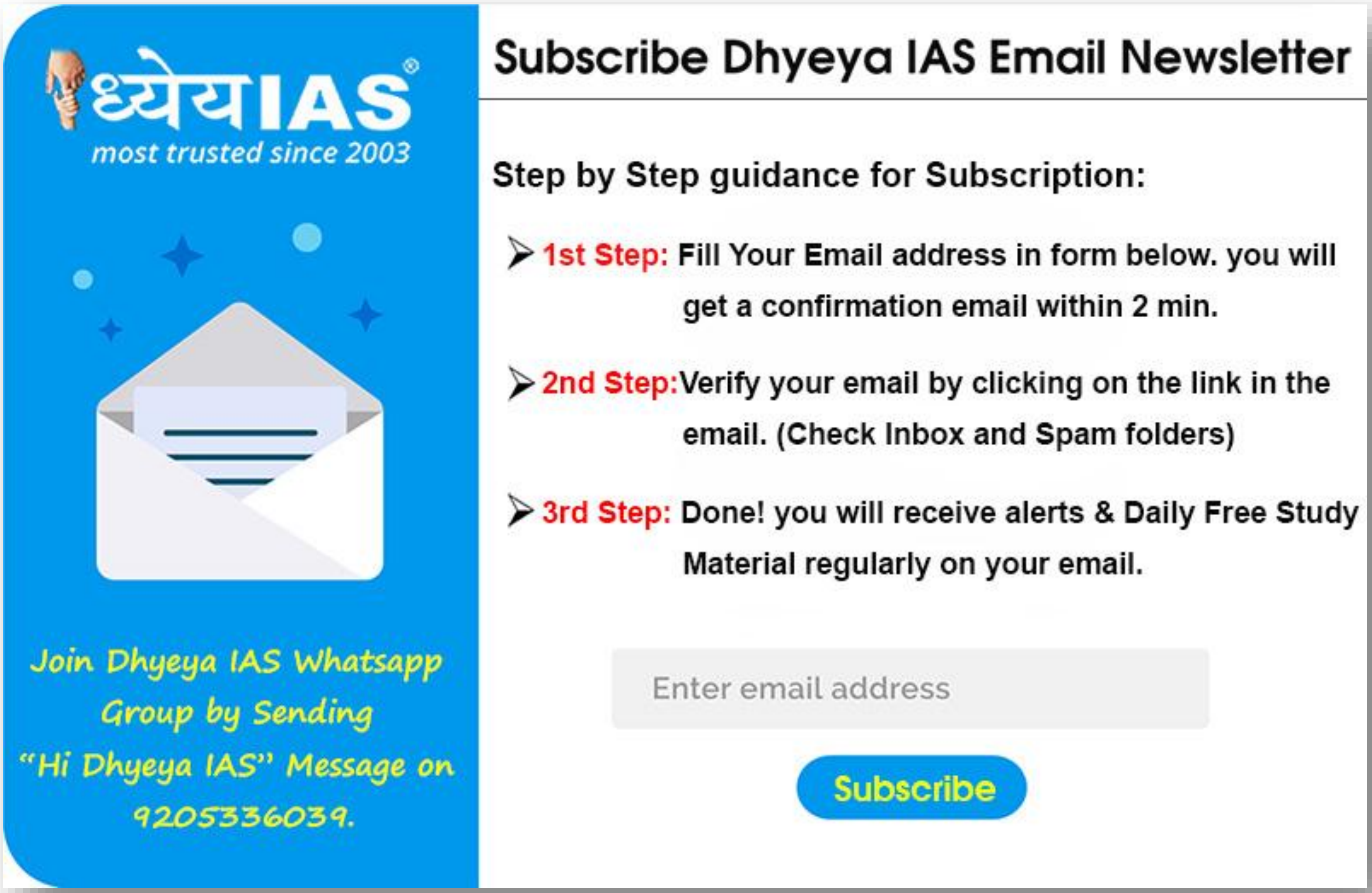
नोट (Note): अगर आपको हिंदी और अंग्रेजी दोनों माध्यम में अध्ययन सामग्री प्राप्त करनी है, तो आपको दोनों में अपनी ईमेल से Subscribe करना पड़ेगा | आप दोनों माध्यम के लिए एक ही ईमेल से जुड़ सकते हैं |



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