Economic
Division

Monthly Economic Review

January, 2021

आर्थिक कार्य विभाग
DEPARTMENT OF
ECONOMIC AFFAIRS

सत्यमेव जयते

Overview

With each day ending with positive COVID-19 cases falling to new lows and economic activity levels attaining new peaks, India has worked its way around the pandemic through the will of the brave people of India and astute policy interventions by the Government. The fact that complacency is far from settling in is demonstrated by India administering close to four million doses of COVID-19 vaccine within a span of two weeks since 16th January, 2021 to become the fifth largest inoculated country in the world. India has not only become the vaccine hub of the world but has also extended assistance to more than 90 nations requesting doses for stocking up.

Early lockdown, health-infra ramp up, gradual unlocking, blanket testing, social distancing, calibrated fiscal stimulus to minimize supply side disruptions and revive demand and structural reforms pursued diligently by Government since March, 2020 have now come to fruition to limit the fatality rate to globally one of the lowest at 1.2 per cent. The estimated contraction of output to 7.7 percent of GDP in FY 2020-21 is much smaller than originally apprehended. FY 2021-22 will be the year to rebuild with the IMF projecting growth of output at 11.5 per cent, Economic Survey at 11.0 per cent and the RBI's Monetary Policy Committee at 10.5 per cent. With the IMF keeping India's growth projections elevated at 6.8 percent in FY 2022-23, India is back as the fastest growing major economy in the world.

The Economic Survey, 2020-21 has drawn attention to the V-shaped economic recovery as a testimony to the resilience and intrinsic strength of the Indian economy. The Survey roots for growth through counter cyclical fiscal policy emphasizing that growth alone is the answer to sustaining the public debt burden of the country. The Budget, 2021-22 presented two days later implemented the counter cyclical fiscal policy by raising the target of fiscal deficit to 6.8 per cent of GDP, more than double the FRBM target.

With the expanded borrowing programme mostly meant for funding the enhanced capital outlay, the Budget has set in place the multiplier impact on growth to support the prescribed fiscal glide path tapering to 4.5 per cent of GDP in 2026. Taking the private sector as more than an equal partner in the growth process, the budget facilitates their access to infra-finance, introduces structural reforms to ease binding constraints on their investment and announces tax administration measures to ease compliance and, thereby, support them for making India self-reliant. The MPC statement issued four days after the Budget has kept the already low policy repo rates unchanged and maintained its accommodative stance on growth, extending deeper into FY 2021-22. A convergence across three windows of policy intervention lays to rest any ambiguity on the growth agenda of the Government.

A sustained and strengthening economic recovery continues to be witnessed in January, 2021 across key high frequency indicators such as power consumption, inter and intra state mobility, manufacturing capacity utilisation, business expectations and consumer confidence. GST collections in January, 2021 have been the highest monthly collections so far in the history of this tax regime. Manufacturing and services PMI remain in expansionary zone while augmented credit growth, surging FDI and FPI flows and private placement of corporate bonds are providing critical financial cushion to the real recovery.

The structural reforms and the policy push under the AatmaNirbhar Bharat Mission along with the slew of measures announced in the Union Budget 2021-22 towards achieving broad based inclusive growth will strengthen the fundamentals of the economy and bring it back on to a strong and sustainable growth path in the year ahead. Growth and inflation outlook in 2021-22 portends more than full recovery.

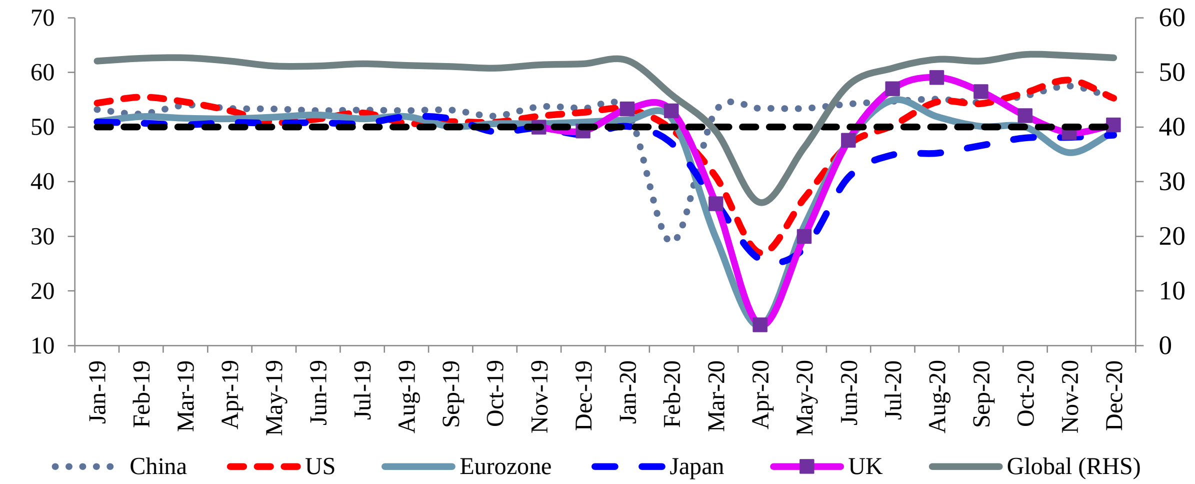
Dawn of the COVID-19 Vaccine amid continuing challenge posed by the pandemic

1. The pandemic is still posing a sustained challenge globally. The number of new daily confirmed cases has increased in recent months with infection rates rising both in advanced economies and in several Emerging Development and Market Economies (EDME). The growing outbreak has forced many countries to maintain or reintroduce various lockdown measures. The number of confirmed cases of COVID-19 globally now exceeds 102 million with more than 2.2 million deaths with an average case fatality rate of 2.2 per cent.

Rise in new cases weighing down global economy recovery

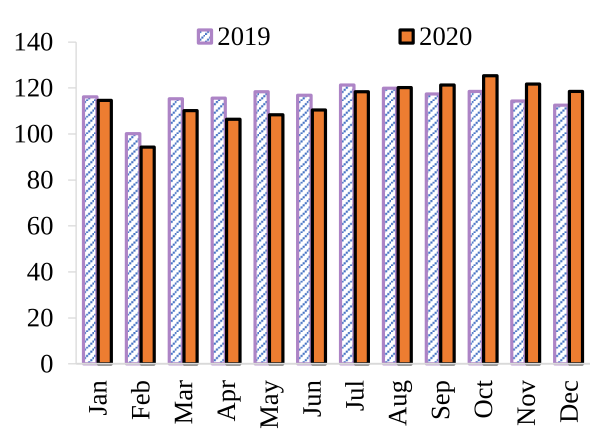
2. Re-introduction of lockdown measures has led to slowdown in activity levels in several regions of the world. The service economy in particular has been hard-hit by restrictions on trade and reduced consumer spending, with business activity falling at the fastest pace for eight months. Global composite Purchasing Managers Index (PMI) expanded at a slower rate of 52.7 in December from 53.1 in November. Preliminary estimates for January PMI Composite Index continued to show mixed results for major economies.

Global PMI Composite Indices



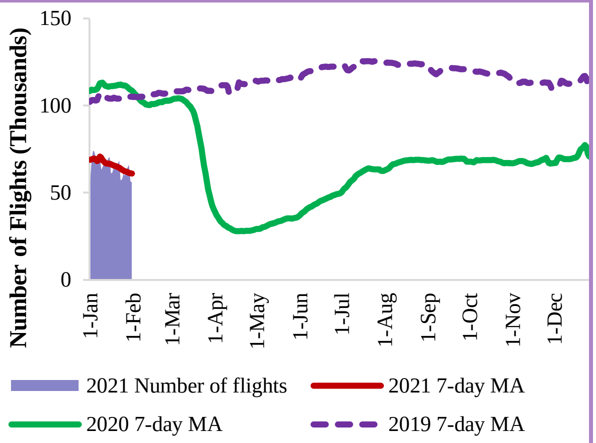
Source: IHS Markit

Port Traffic



Source: Institute of Shipping Economics & Logistics

Commercial Flight Activity



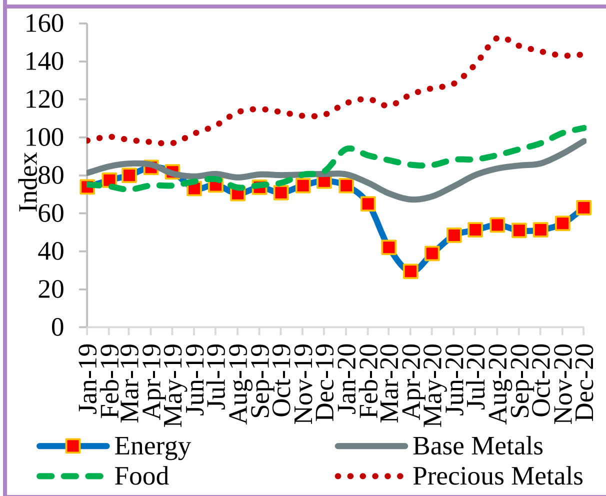
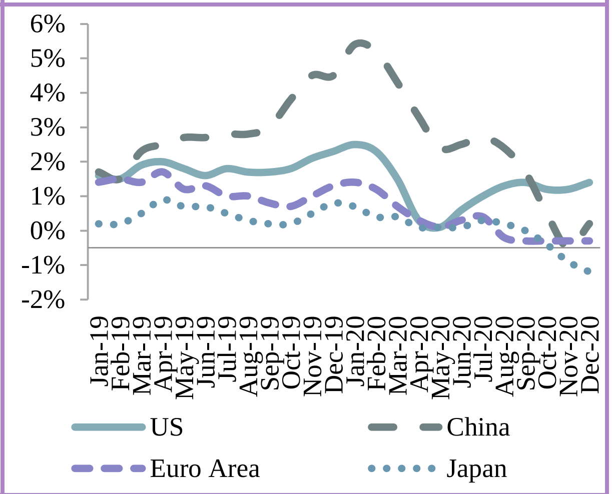
Source: Flightradar24

Revival in goods and services global trade remained stagnant

3. New export orders component of Global PMI manufacturing and services have remained stagnant since September and August respectively. Port traffic activity tracked by the RWI/ISL container throughput index declined further by 2.6 per cent compared to previous month. Average daily number of international commercial flights in January also did not rise and remained steady at 56 per cent of previous year level.

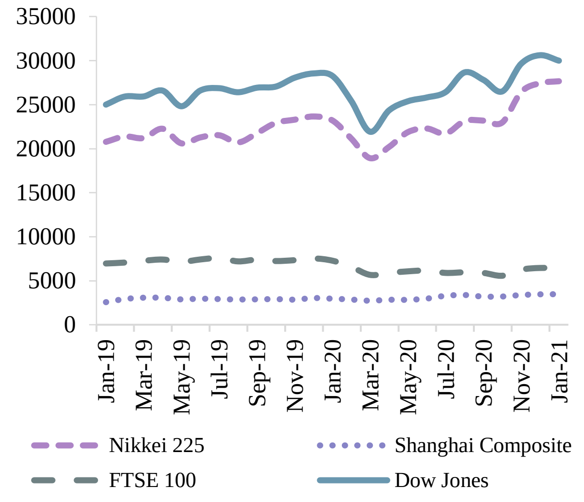
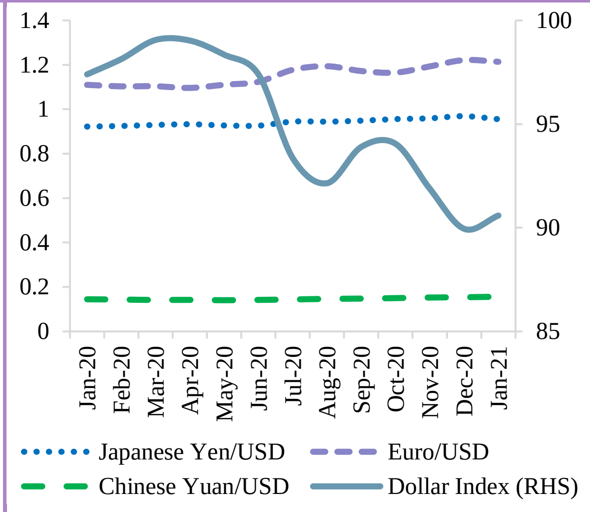
Commodity prices rose further in December, supported by economic activity

4. Energy commodity prices rose by 15.0 percent during December supported by rising optimism in financial markets amid the start of COVID-19 vaccination program and the expectation of additional fiscal stimulus in the US. Coal prices strengthened further for fourth consecutive month in December supported by the expectation of colder than average winter temperatures in North East Asia and strong economic activity. Base metal prices rose by 7.2 percent with a further acceleration in global manufacturing activity. Gold prices moderated slightly following some decline in safe haven demand, but strengthened towards the end of the month as real interest rates declined. Consumer inflation however remained stable and low in most parts of the world mostly in Advanced Nations with mixed trends prevailing in Emerging Market Economies.

Commodity Prices	Global Inflation Trend
	
Source: World Bank	Source: Compiled using various agencies

Global equity market drops amid higher volatility, volumes and worries related to pandemic

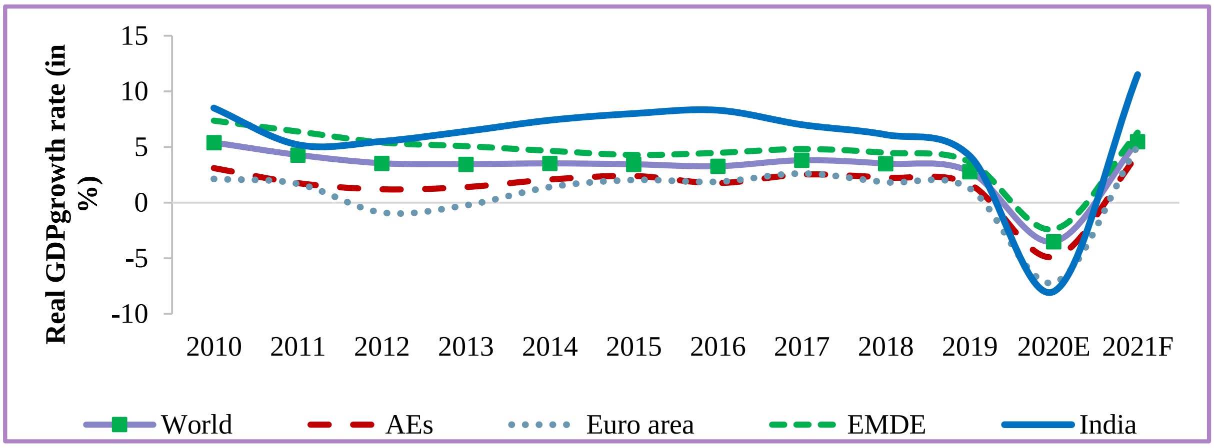
5. Global equity markets declined in January amid much higher volatility and trading volumes. US's S&P 500 index and Dow Jones recorded losses of 1.1 per cent and 2.0 percent respectively. European shares fell amid worries that the economy could slow due to the raging coronavirus pandemic and delays in the distribution of coronavirus vaccines. Germany's DAX and France CAC 40 index declined by 2.08 per cent and 2.74 per cent respectively during January while UK's FTSE 100 declined by 0.8 per cent. However, Japan's Nikkei 225 rose further by 0.8 per cent and Chinese stocks inched up marginally by 0.3 per cent. In the currency markets, US dollar index inched by 0.7 per cent in January against defined basket of currencies.

Financial Market Performance	Exchange Rates
	
Source: Compiled using various agencies	Source: Thomson Reuters

IMF estimates lower contraction in 2020 and higher growth in 2021 inspired by commencement of inoculation and expected additional policy support

6. The IMF in its January, 2021 update of the World Economic Outlook has stated that amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021 and 4.2 percent in 2022. It has revised up its 2021 forecast by 0.3 percentage point relative to the previous forecast citing reasons of expectations from a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies. The update also reduces the 2020 contraction earlier estimated by 0.9 percentage point to arrive at the new estimate of 3.5 percent reflecting stronger than expected momentum in the second half of the year. IMF has however observed that the strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers, and structural characteristics entering the crisis.

Global GDP Growth Rate



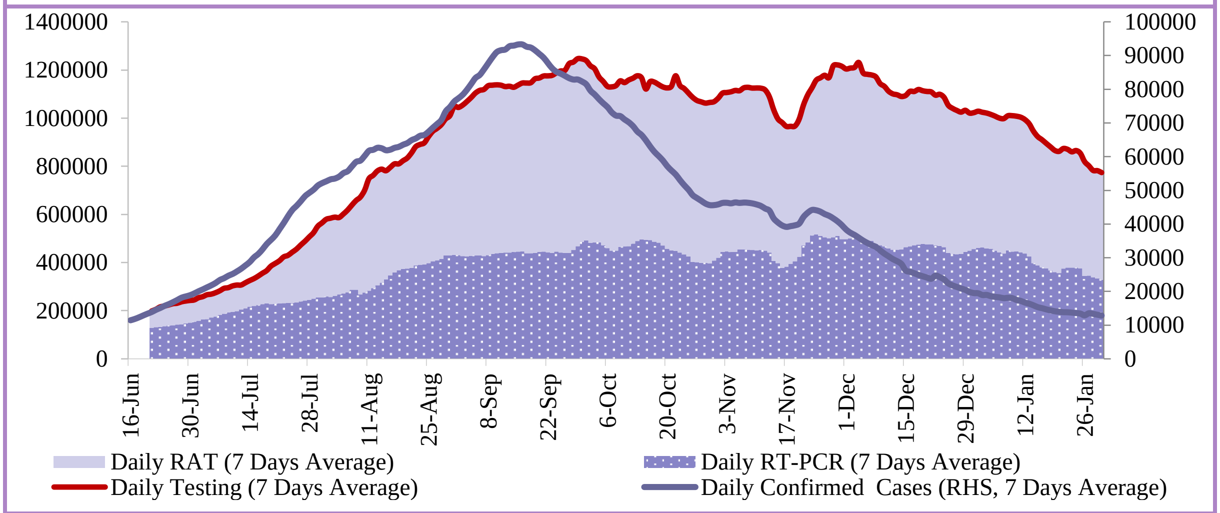
Source: IMF

Note: E is Estimate F stands for Forecast

India riding against the COVID-19 wave

7. India has been successful in bending the COVID infection curve till now and enters the new year with cautious optimism. Daily recoveries have been outnumbering the daily new cases since 8th Jan 2021 with recovery rate growing to 97 per cent. The case fatality rate stands at one of the lowest globally at 1.4 per cent despite having the second largest confirmed cases at 1.08 crore. India has tested nearly 21.3 crore cumulative COVID-19 samples as on 31st January. The tests per million, now standing at around 1,54,104 is among the top countries in the world. The cumulative test positivity rate at 5.1 per cent is almost equal to the WHO standard of 5 per cent. The 7-day positivity rate has shown a decrease to 1.6 percent.

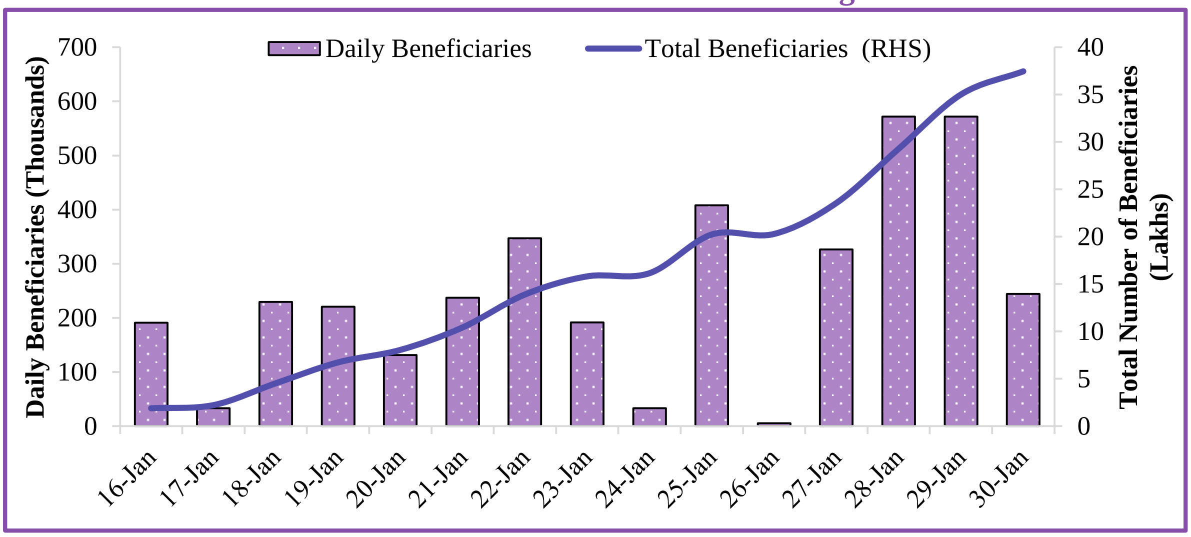
Trend in Daily confirmed cases and Testing in India



Source: India COVID-19 Tracker. https://www.covid19india.org

8. As on 31st January, 2021, total of 37.44 lakh beneficiaries have received the vaccination under the countrywide COVID19 vaccination exercise. India is at the fifth position globally in terms of the number of COVID-19 vaccine doses administered within the country, while the total active cases have dropped to 1.68 lakh comprising just 1.57 per cent of the total cases.

India COVID-19 Vaccination Progress

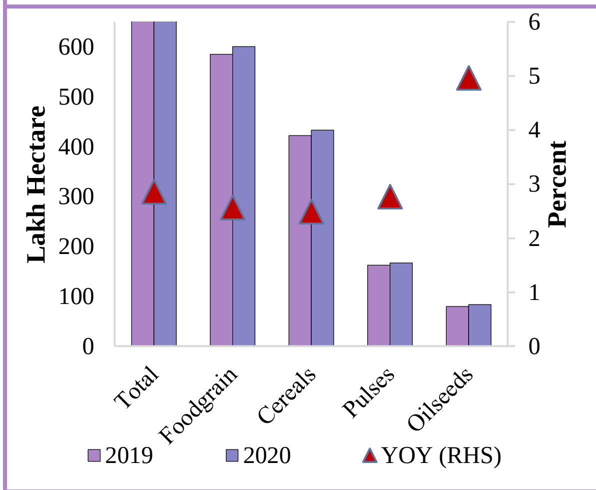


Source: Ministry of Health and Family Welfare, PIB

Agricultural Sector remains the silver lining of India's Economy

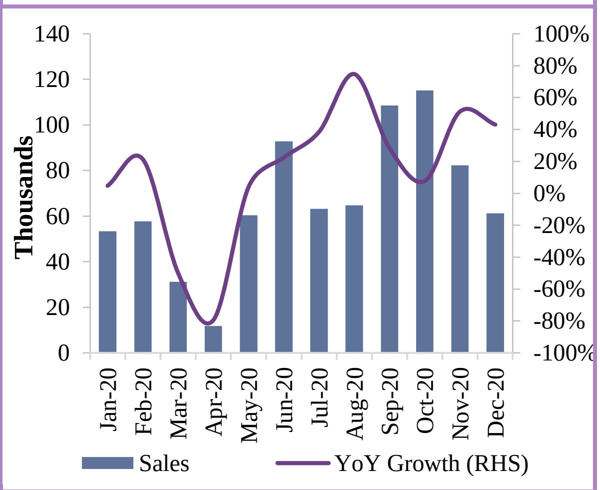
9. Being least impacted by the lockdown measures agriculture continues to remain resilient and robust. As on 29 January 2021, area sown under rabi crops hit a record high of 685 lakh hectares, 2.9 per cent higher than the area sown a year ago. During the 2020-21 kharif season, area sown increased by 4.8 per cent to an all-time high 1117 lakh hectares. Healthy kharif output and healthy rabi sowing are further reflected in rising tractor sales which grew at 41.2 per cent YoY in December 2020.

Progress in Rabi sowing



Source: Ministry of Agriculture

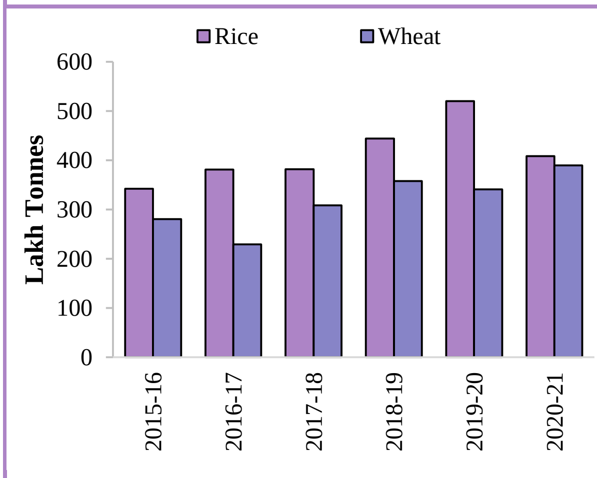
Tractor Sales



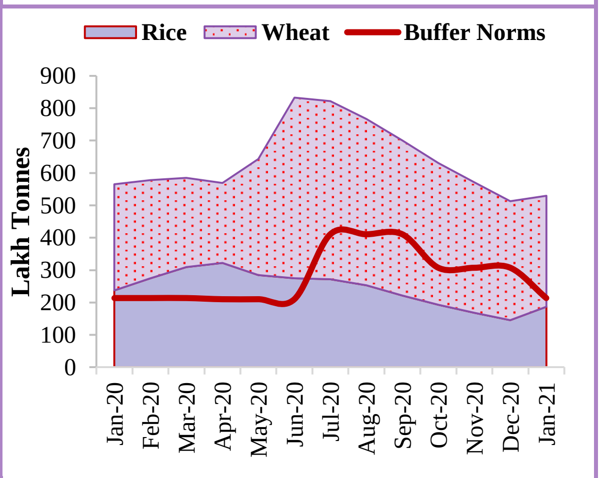
Source: Tractor and Mechanization Association

10. Paddy procurement for Kharif 2020-21, as on 4th February, 2021 is continuing smoothly in the procuring States & UTs with an increase of 17.75 per cent against the last year corresponding purchase of 516.94 LMT. About 89 lakh farmers have already been benefitted from the ongoing KMS procurement Operations with MSP value of Rs. 1.14 lakh crore.

Procurement of Rice and Wheat

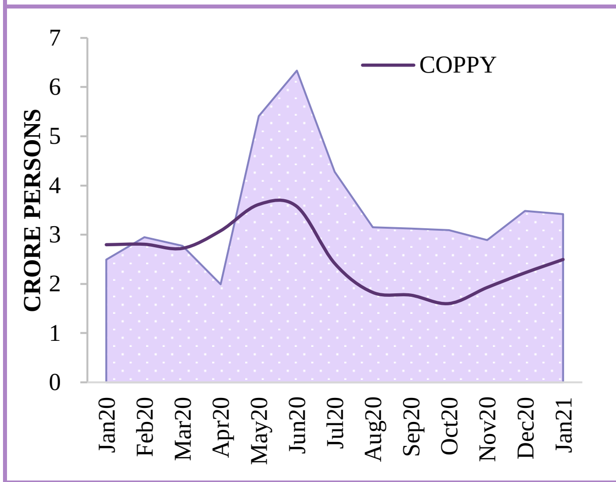
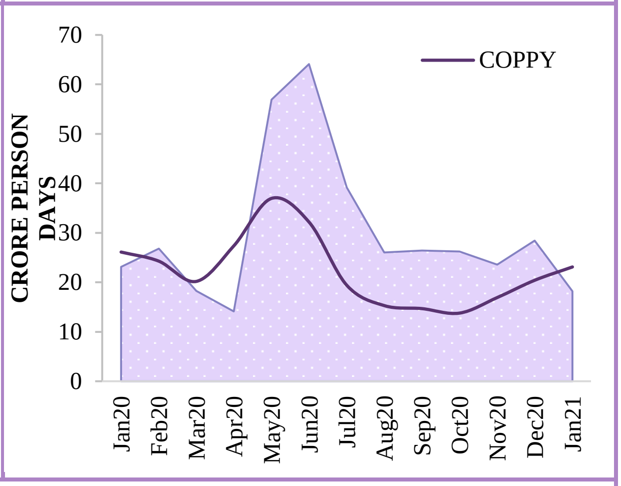


Central Pool Stocks in 2020



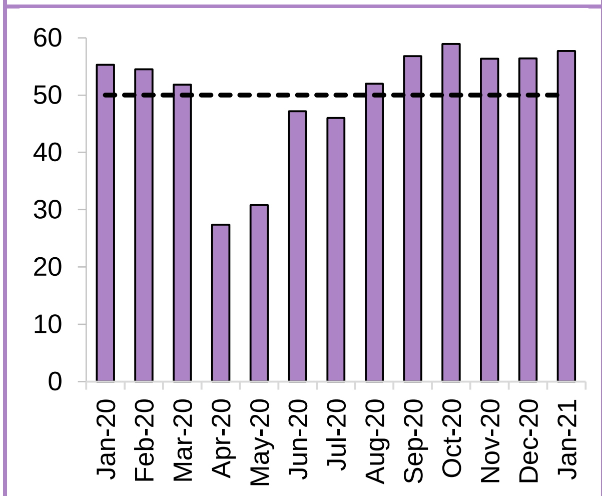
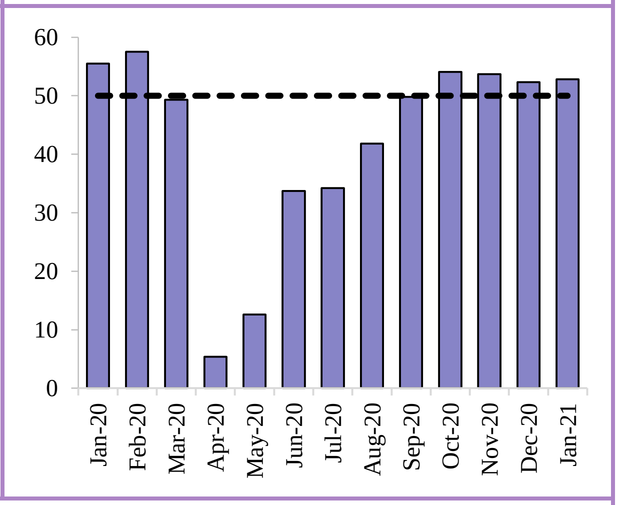
Source: Department of Food and Public Distribution

11. Demand for jobs under the Mahatma Gandhi National Rural Employment Guarantee scheme (MGNREGS) has surged, with a y-o-y growth of 51.5 per cent during April 2020 to January 2021. Till January, 2021, 323.2 crore person days have been created under MGNREGS – a jump of 46.8 per cent as compared to previous year.

Demand of work under MGNREGS	Supply of work under MGNREGS
	

Source: M/o Rural Development. Note: COPPY: Corresponding period of previous year

12. Both manufacturing and services activity continued to accelerate reflecting the sustenance of India's economic recovery. India's manufacturing purchasing managers' index (PMI) improved from 56.4 in December, 2020 to 57.7 in January, 2021 with output, new orders and exports rising at faster rates, slower decline in employment and sharpest increase in input stocks in over a decade. PMI Services index also increased from 52.3 in December 2020 to 52.8 in January 2021. Importantly, both manufacturing and services are in the expansion zone. Overall business optimism improved to eleven-month high boosted by launch of COVID-19 vaccine program.

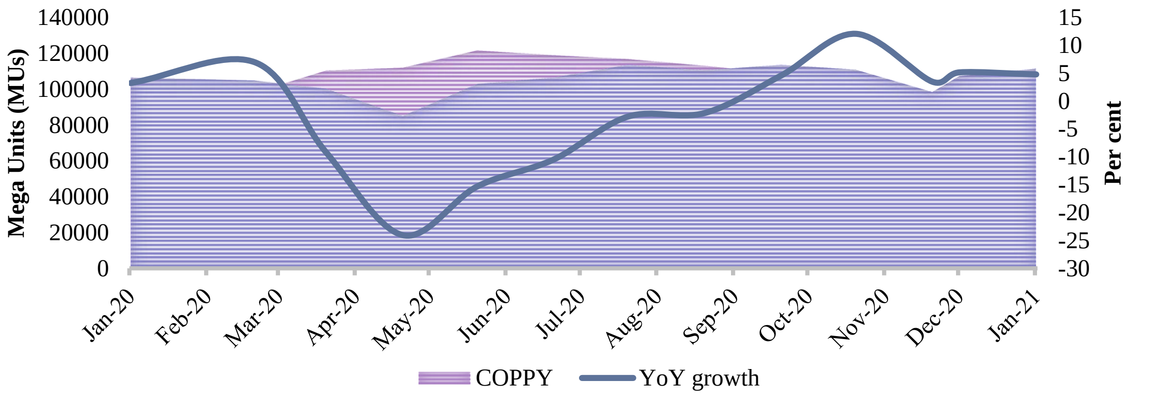
PMI Manufacturing	PMI Services
	

Source: IHS Markit

Sustained growth momentum in power consumption, railway freight and GST Collections setting a new record in January 2021 are significant pointers to economic recovery

13. Power consumption grew at 5.2 per cent (YoY) in December 2020 and 4.8 per cent (YoY) in January 2021, signalling sustained spurt in commercial and industrial activity.

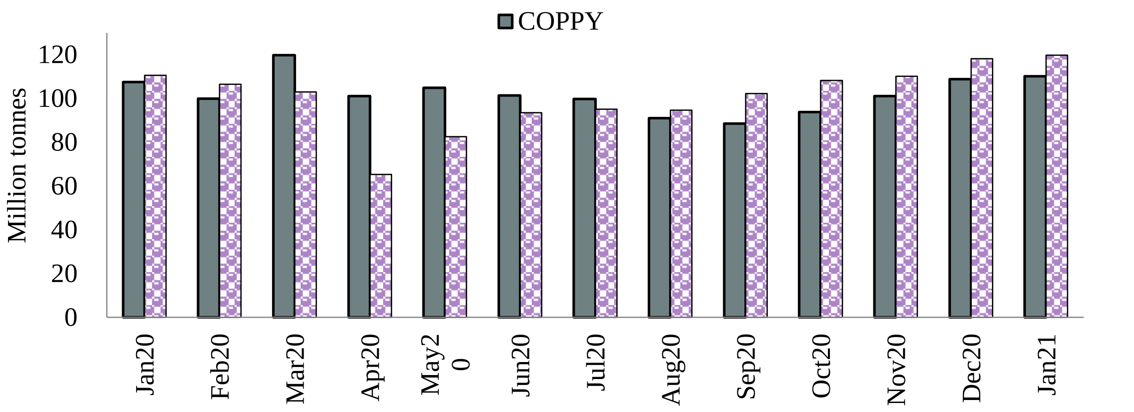
Power Consumption



Source: POSOCO. Note: COPPY: Corresponding period of previous year

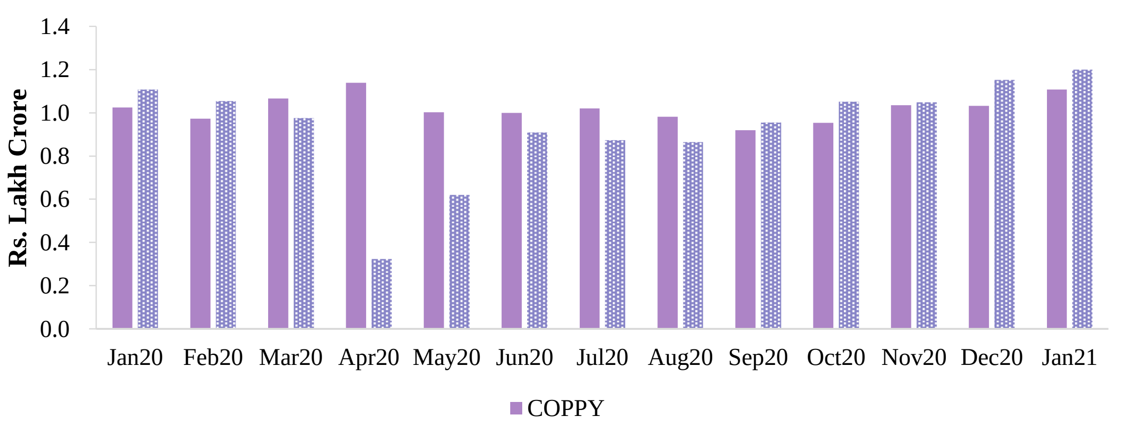
14. Railway freight traffic recorded a growth of 8.71 per cent in January 2021 over corresponding previous year level with broad based improvement seen across various categories of commodities.

Revenue Earning Freight Traffic



Source: Ministry of Railways. Note: COPPY: Corresponding period of previous year

GST Collection



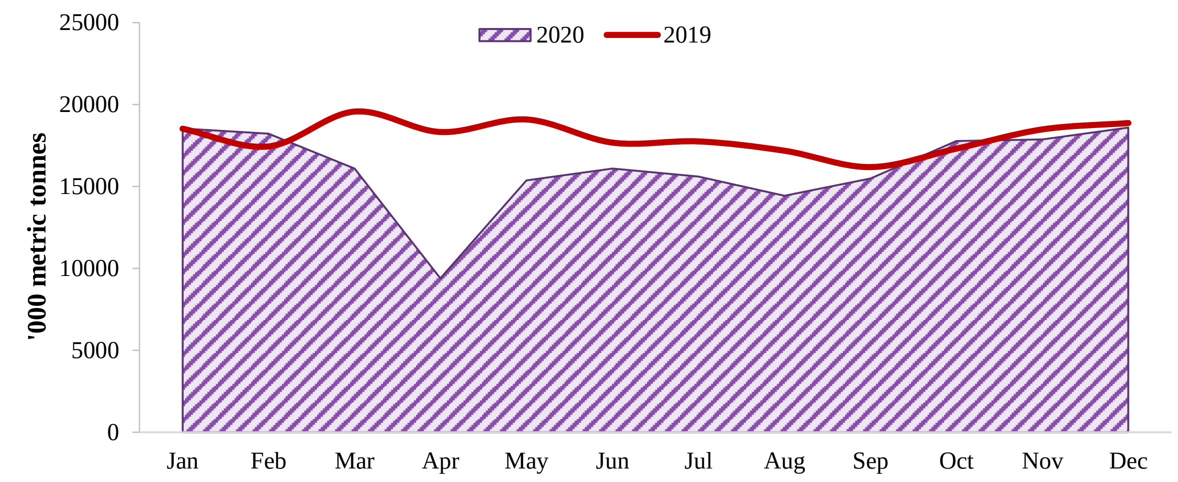
Source: GSTN. Note: COPPY: Corresponding period of previous year

15. GST revenues at Rs. 1.2 lakh crore in January, 2021 recorded its highest level since its introduction in July, 2017 and is 8 per cent higher than previous year level. The average YoY growth in GST revenues over the first four months in the second half of the FY 2020-21 has been 8 per cent as compared to (-) 24 per cent during the first half of the year.

Oil market sentiment lifted on the back of increase in demand for petroleum products

16. The Indian basket crude oil increased to USD 58.40 a barrel as on 4th February, 2021 compared to USD 51.00 a barrel on 31st December, 2020, signalling upbeat oil market sentiment with increasing economic activity and Covid-19 vaccine roll out. This follows a rise in consumption of petroleum products now in physical terms almost at the same as in the corresponding month of the previous year.

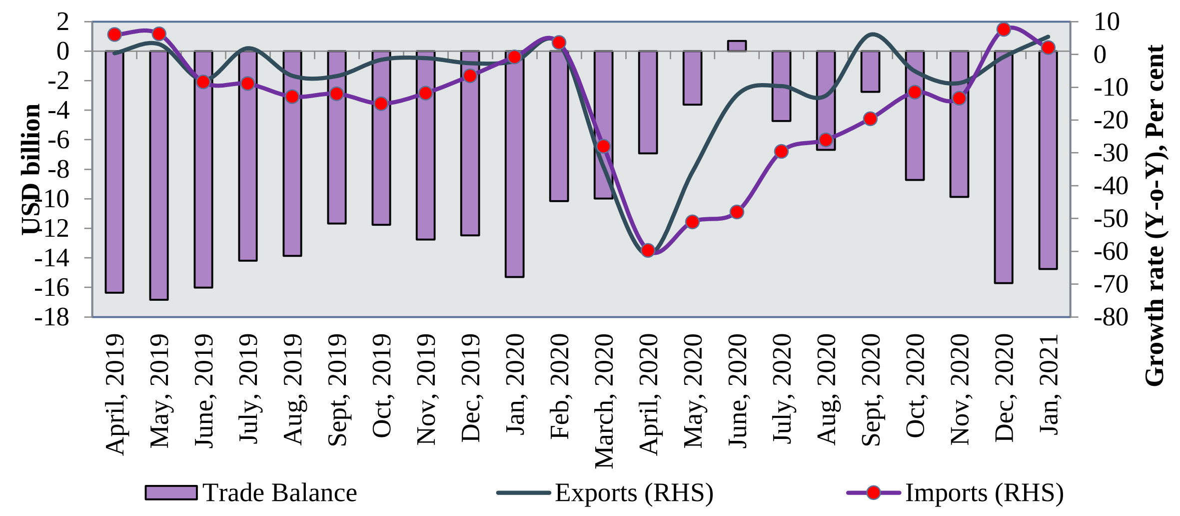
Consumption of petroleum products



Source: PPAC, M/o Petroleum & Natural Gas

Lower merchandise trade deficit in January 2021 amid positive import growth also reflects pick up of pace in economic activity

Merchandise Trade



Source: Department of Commerce, Ministry of Commerce & Industry

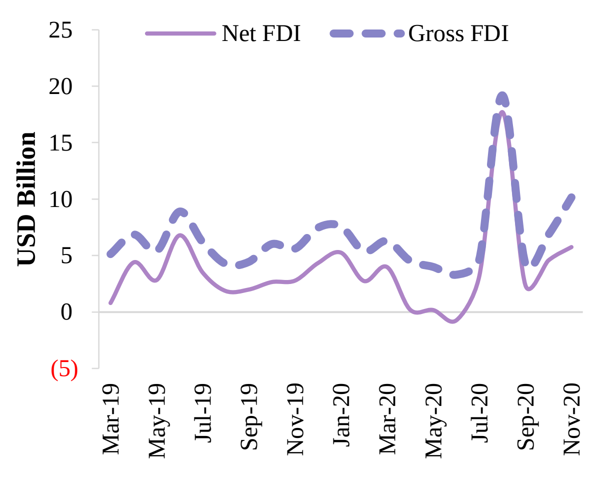
*Data for January is Preliminary

17. In January 2021, India registered a lower merchandise trade deficit of USD 14.8 billion, as against the deficit of USD 15.3 billion in January 2020 and USD 15.7 billion in December 2020. For the second consecutive month, merchandise imports registered a positive year on year growth of 2.0 per cent in January reflecting an acceleration in domestic economic activity. A still higher export growth of 5.4 per cent in January as well further endorses the continuing economic recovery.

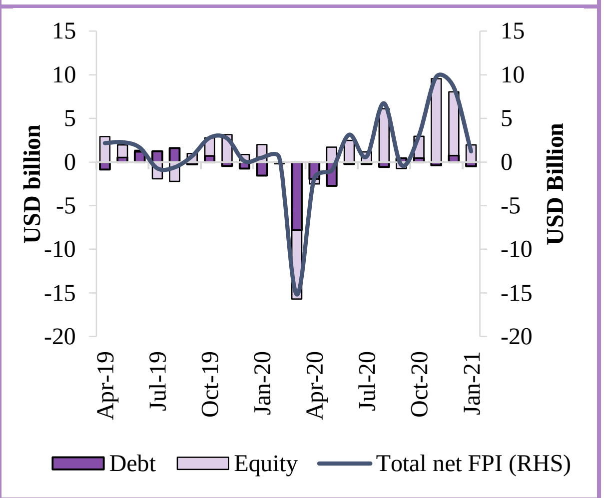
Robust Foreign Direct Investment (FDI) inflow and FPIs

18. During April-November, 2020, total FDI inflow stood at a record high of US$ 58.37 billion, 22.4 per cent higher as compared to first eight months of 2019-20, an endorsement of India's status as a preferred investment destination amongst global investors. Net FPI inflows reaching a historic high of USD 9.7 billion in November, 2020 before declining yet remaining positive at 8.6 billion in December 2020 and USD 1.23 billion in January, 2021.

Foreign Direct Investment (FDI)

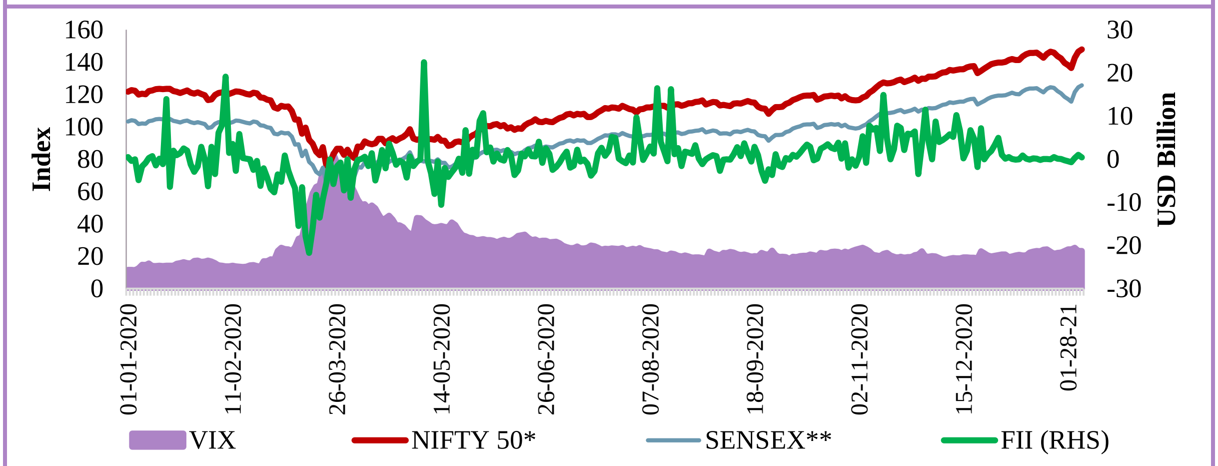


Foreign Portfolio Investment (FPI)



Source: RBI, CDSL.

Movements in NIFTY50, SENSEX, VIX and FII



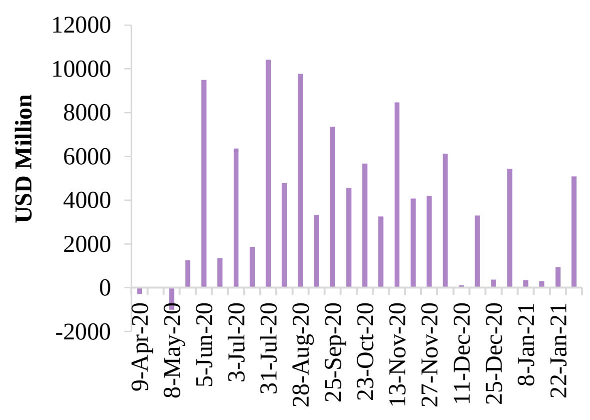
Source: NSE, BSE and CDSL

Note: NIFTY 50*- scaled down by 100 , SENSEX**- scaled down by 400

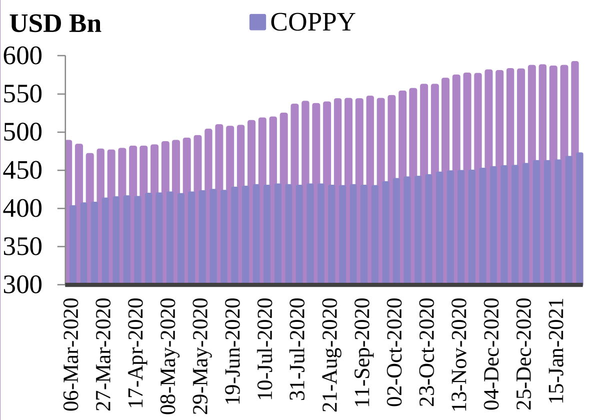
19. Following robust FDI inflows Indian equity market has exhibited strong investors' sentiment with NIFTY and Sensex reaching record levels in November and December 2020 and continued their momentum in January 2021 with volatility in NIFTY also declining.

20. RBI's dollar purchases in the foreign exchange market continue to keep the rupee largely range bound at 72.82-73.45 INR/USD in January, 2021. Accumulation of dollars is enhancing liquidity in the banking system, keeping bond yields in check and supporting effective transmission. On the back of purposeful dollar buying by RBI, rise in gold reserves and foreign currency assets, India's foreign exchange reserves climbed to a new high of US$ 590.18 billion as on 29th January, 2021, covering about 18 months of imports.

Net purchase (+)/sale (-) of US dollar



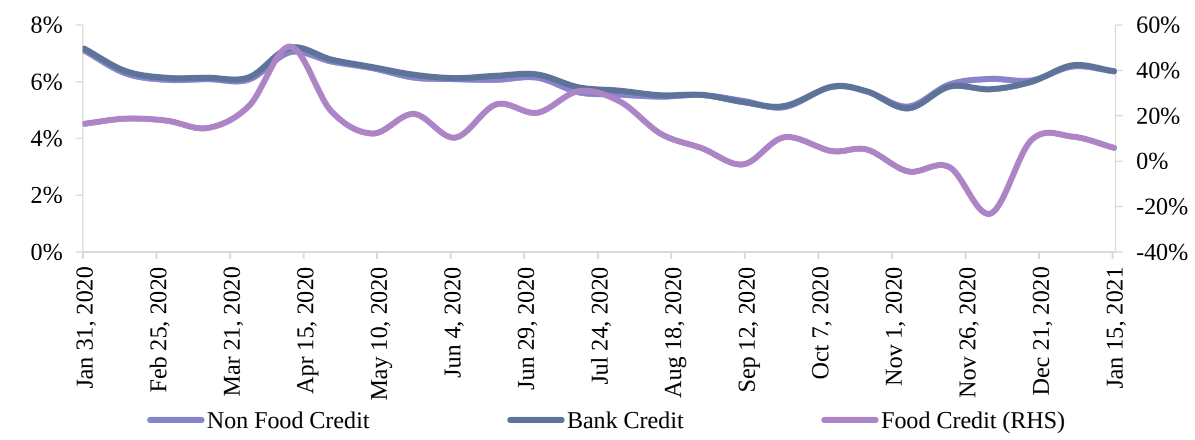
Foreign exchange reserves



Source: RBI

Non-food credit growth steady in January, ECLGS continues to support robust credit growth to industries

Credit Growth YoY



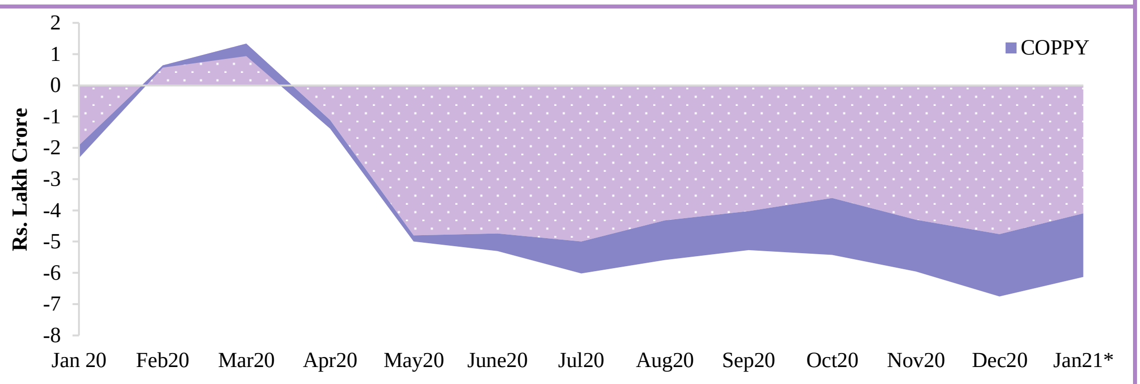
Source: RBI

21. Non-food credit growth as on 15th January was 6.4 per cent of which bank credit to commercial sector grew at 5.9 per cent growth year-on-year. The overall incremental credit growth is attributable to the liquidity booster, Emergency Credit Line Guarantee Scheme (ECLGS) which continues to support robust credit disbursements to MSMEs. ECLGS has seen significant progress, with Rs 1.65 lakh crore being disbursed to 42.46 lakh borrowers as on 8th January, 2021. Additionally, extension of ECLGS to 26 stressed sectors identified by the Kamath Committee and the healthcare sector till March, 2021 with operational guidelines issued on 26th November bodes well for maintaining the momentum of credit disbursements to close to 45 lakh business units.

RBI continues to ensure comfortable liquidity

22. System liquidity declined moderately in January 2020 as average daily net absorptions under the liquidity adjustment facility (LAF) decreased. Yet the liquidity position continues to be comfortable.

Net Liquidity Injection (+)/Absorption (-)



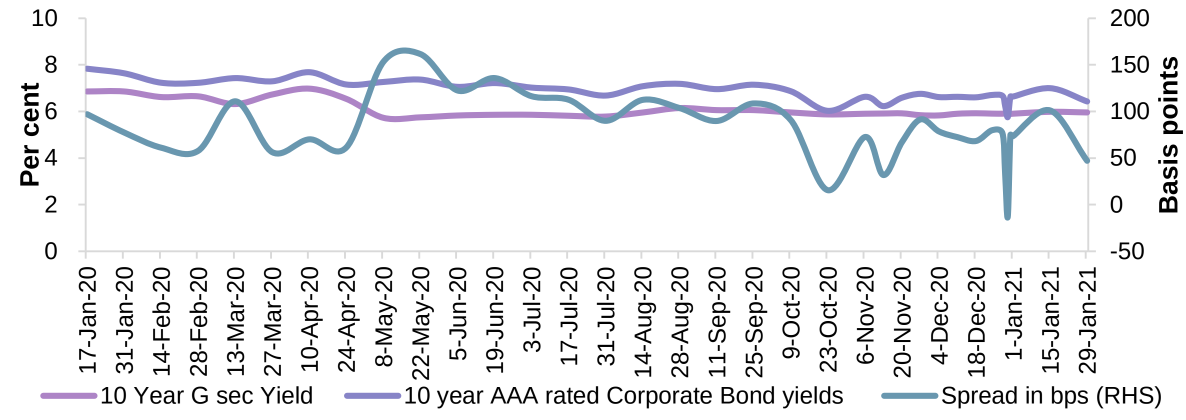
Source: RBI

*As on 24th January, 2021. Note: COPPY: Corresponding period of previous year

Easing of bond yields continue

23. While stiffening pressures on corporate and G-Sec yields continued in first half of January, both of these witnessed moderation in the second half of the month. On the whole, corporate bond spreads declined in the month of January. Private placement of corporate bond increased to Rs. 0.88 lakh crore in December, 2020 compared to 0.45 lakh crore in November, 56.9 per cent higher than Rs. 0.56 lakh crore in the same period last year.

G sec yield, Corporate bond yield and spread



Source: FBIL, CMIE

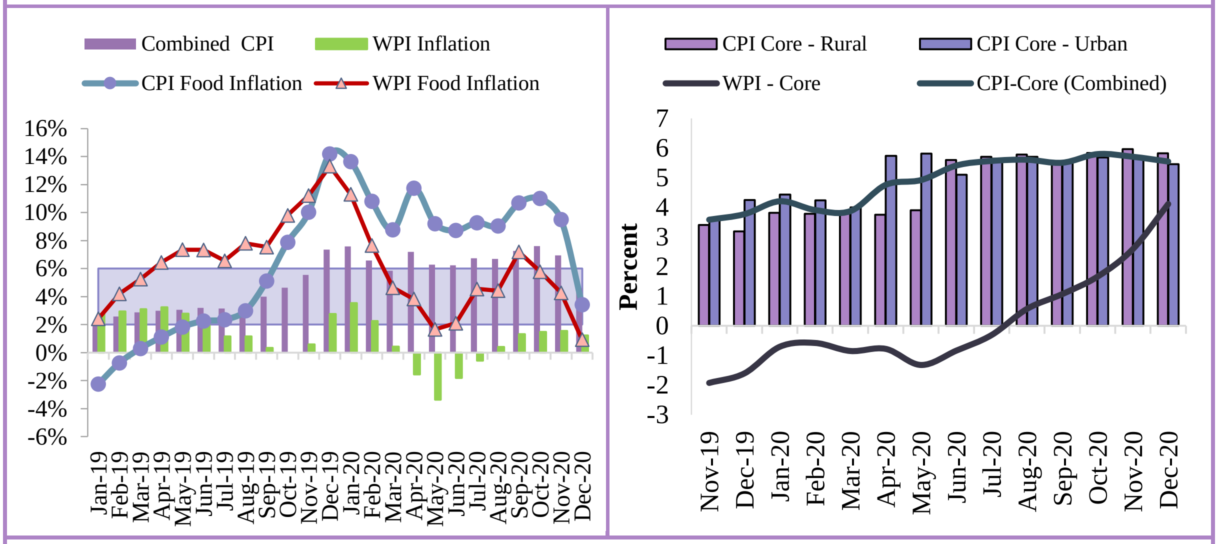
Monetary policy transmission continues to improve

24. The transmission of policy repo rate changes to deposit and lending rates of banks has improved since April 2020. Overnight MCLR has declined to 6.55/7.05 per cent as on 22nd January as compared to 7.40/7.90 per cent, as on 27th March. Consequently, savings and term deposit rates (>1 year), as on 22nd January, 2021, are 2.70/3.00 per cent and 4.90/5.50 per cent respectively, down from 3.00/3.50 per cent and 5.90/6.40 respectively, from 27th March.

Decline of food inflationary pressures

25. CPI Inflation moderated to 4.59 per cent in December, 2020 from 6.93 per cent in November 2020, mainly on account of significant decline in food inflation. Food inflation dropped from 9.50 per cent to 3.41 per cent while core inflation fell from 5.71 per cent to 5.55 per cent across the same period. Wholesale inflation dipped to 1.22 per cent in December 2020 after recording a 9-month high of 1.55 per cent in November 2020 although WPI core has continued to increase reflecting continued increase in demand pressure since September, 2020 soon after the pandemic curve had started to flatten.

Figure 39: Inflation Dynamics

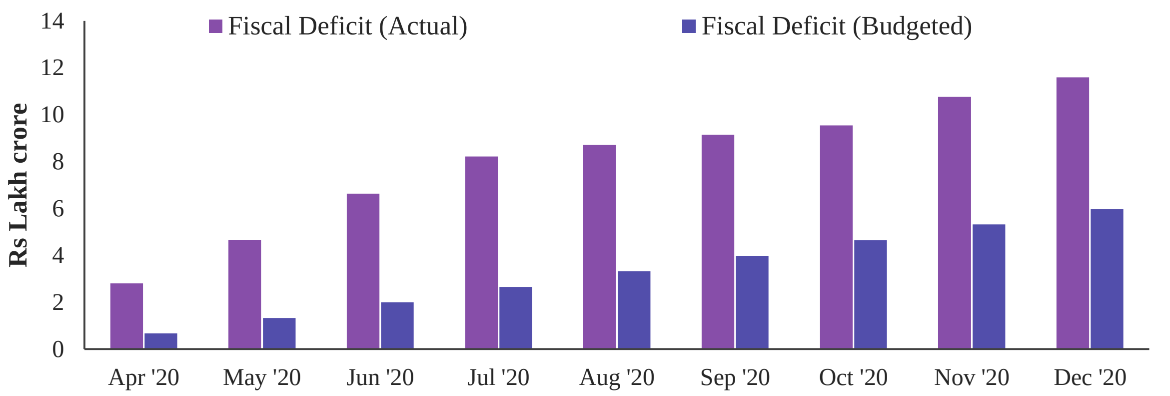


Source: MoSPI, Office of Economic Advisor, DPIIT

Fiscal Support during April to December 2020- A calibrated strategy to boost growth

26. The fiscal policy during the first 3 quarters of FY2020-21 has followed a calibrated strategy which transitioned from providing a cushion for the poor and vulnerable people/firms in the initial phase of lockdown to boosting the domestic demand as the economy gradually unlocked. The Centre's fiscal deficit during April to December 2020 was 145.5 per cent of BE. A key highlight of the first three quarters of FY 2020-21 has been the re-prioritisation of expenditure according to the evolving situation, with an increasing thrust on capital expenditure. The capital expenditure for April to December 2020 was 20.9 per cent higher than the corresponding period in 2019. The total expenditure also recorded a YoY growth of 8.1 per cent.

Trend in Fiscal Deficit



Source: Office of CGA

Economic recovery evident from Q2 onwards translates into a much lower contraction of output estimated by NSO for 2020-21 than earlier apprehended

27. As per the First advance estimates of GDP released by National Statistical Office, Ministry of Statistics & Program Implementation, India's GDP growth is estimated to contract by 7.7 percent in 2020-21. Agriculture and allied sector is estimated to grow at 3.4 percent in 2020-21 and is set to cushion the shock of the COVID-19 pandemic on the Indian economy. Industry and Services sector are estimated to contract by 9.6 per cent and 8.8 per cent respectively during the year 2020-21. Within Industry, mining is estimated to contract by 12.4 per cent, manufacturing by 9.4 percent and construction by 12.6 per cent. Within Services Sector, contact sensitive sectors like trade, hotels, transport & communication are estimated to contract by 21.4 per cent.

Union Budget 2021-22 pursues counter-cyclical fiscal policy to boost growth

28. On account of anticipated shortfall in revenues and higher expenditure requirements during the current year, Budget 2021-22 revised the fiscal deficit target for FY 2020-21 to 9.5 per cent of GDP, from budget estimate of 3.5 per cent of GDP. The YoY growth of total expenditure is placed at 28.4 per cent. The quality of expenditure has been maintained as capital expenditure rises to ₹4.39 lakh crore in 2020-2021 as against Budget estimate of ₹4.12 lakh crore. In order to give a sustained push to the economy, the capital expenditure for FY 2021-22 has been targeted to grow at 34.5 per cent over BE of FY 2020-21, and reach ₹5.5

lakh crore. The fiscal deficit in BE 2021-2022 is estimated to be 6.8% of GDP reflecting a counter cyclical fiscal policy carefully planned in times of crisis to boost the growth of GDP. Higher GDP growth would facilitate buoyant revenue collection in the medium term and enable a sustainable fiscal path. The Budget also elucidated a gradual fiscal consolidation glide path, aiming to achieve a fiscal deficit level below 4.5% of GDP by 2025-2026 with a fairly steady decline over the period.

29. The Union Budget 2021-22 has announced a number of measures to support broad-based and inclusive economic development under six pillars listed as under:

Health and Wellbeing

- Key measures include a holistic approach to strengthen healthcare with focus on three areas- Preventive, Curative, and Wellbeing; Rs. 35,000 crore for COVID-19 vaccine; roll out of Made-in-India Pneumococcal Vaccine across the country; launching of a new centrally sponsored scheme PM AatmaNirbhar Swasth Bharat Yojana in addition to National Health Mission; Mission Poshan 2.0; Universal Coverage of Water Supply; Urban Swachh Bharat Mission 2.0; Clean Air; and Vehicle Scrapping policy, among others.

Physical & Financial Capital, and Infrastructure

- Key measures include Production Linked Incentive scheme (PLI) in 13 Sectors; Mega Investment Textiles Parks (MITRA) scheme making 7 Textile Parks in 3 years; expansion of National Infrastructure Pipeline (NIP) to 7,400 projects; creation of institutional structures for Infrastructure Financing; National Monetization Pipeline; sharp increase in Capital Budget; economic corridors; flagship corridors/expressways; National Rail Plan for India (2030); future dedicated freight corridor projects; strengthening of urban infrastructure; launching of National Hydrogen Energy Mission 2021-22; extension of Ujjwala Scheme to cover 1 crore more beneficiaries; development of a world class Fin-Tech hub; competition among DISCOMs; increasing FDI limit in insurance sector from 49 percent to 74 percent; setting up of Asset Reconstruction Company Limited and Asset Management Company; recapitalization of PSBs easing compliance requirement of small companies; amendments to the Deposit Insurance and Credit Guarantee Corporation (DICGC) Act, 1961; decriminalization of the Limited Liability Partnership (LLP) Act, 2008; promoting start-ups and innovators by incentivizing the incorporation of one person companies; strengthening NCLT framework; new policy for Strategic Disinvestment; Government Financial Reforms such as universal application of Treasury Single Account (TSA) System; rationalization of Centrally Sponsored Schemes; development of Multi-State Cooperatives, among others.

Inclusive Development for Aspirational India

- Key measures include ensuring MSP at minimum 1.5 times the cost of production across all commodities; extension of SWAMITVA Scheme to all States/UTs;

enhancing agricultural credit and infrastructure funds; investments to develop modern fishing harbours and fish landing centres; One Nation One Ration Card; and Rs. 15,700 crore budget allocation to MSME Sector, among others.

Reinvigorating Human Capital

- Key measures include qualitative strengthening of 15000 schools under National Education Policy; setting up of 100 new Sainik Schools; Higher Education Commission of India; Central University in Leh; 750 Eklavya model residential schools in tribal areas; revamped Post Matric Scholarship Scheme for welfare of SCs and measures to enhance skilling like realignment of existing National Apprenticeship Training Scheme (NATS), etc.

Innovation and R&D

- Key measures include Rs. 50,000 crore outlay under National Research Foundation (NRF), Rs. 1,500 crore for financial incentives to promote digital modes of payment, PSLV-CS51 launch, Gaganyaan mission activities and launching of Deep Ocean Mission, among others.

Minimum Government and Maximum Governance

- Key measures include reforms to rationalize the functioning of Tribunals; National Commission for Allied Healthcare Professionals Bill in Parliament to ensure transparent and efficient regulation of the 56 allied healthcare professions; National Nursing and Midwifery Commission Bill to bring transparency; efficiency and governance reforms in the nursing profession; setting up of a Conciliation Mechanism for quick resolution of contractual disputes; Rs. 3768 crores for India's first digital census and Rs.1000 crores for the welfare of tea workers especially women and their children in Assam and West Bengal, etc.

30. Tax measures announced in Budget 2021-22 include the following:

Direct Taxes

- Exempting senior citizens above 75 years from filing returns; Reopening of IT assessments period reduced; introduction of faceless dispute resolution for small tax payers; A National Faceless ITAT (Income Tax Appellate Tribunal) to be established; reduce hardship to NRIs from double Taxation; Tax Audit limit increased from Rs. 5 crore to 10 crore for digital payments of more than 95%; TDS exemption on dividend paid to ReIT and InvIT; Advance Tax on dividend to arise only after declaration of dividend; Lower TDS to be deducted on dividend for FPIs as per the treaty rates; Infrastructure Development Funds to be permitted to issue tax efficient Zero coupon Bonds; Tax Exemption to Affordable housing and additional deduction extended up to 2023; Tax Holiday for affordable housing projects extended up to March 2022; Tax Exemption to Notified Affordable Rental Housing Projects; Tax exemption in GIFT city on capital gains to aircraft leasing companies, aircraft lease rentals, relocation to

IFSC and for investment division of foreign Banks in IFSC; pre-filled returns further provided for making tax compliance more convenient; Tax exemption limit for small charitable trusts running educational institutions and hospitals enhanced from Rs.1 crore to Rs. 5 crore; tax deduction on PF contribution disallowed for late payment; Tax holidays for Start-ups extended up to March 2022 and Capital gain exemption on investment in Start Ups extended up to March, 2022; and Scope of Tax exemption to Sovereign Wealth Fund/ Provident fund broadened, among others.

Indirect Taxes

- Customs duty structure rationalized by eliminating outdated exemptions; Rationalization of duties on raw material inputs to man-made textiles; Rationalisation of custom duty on gold and silver; Duty on solar invertors and lanterns increased; and Agriculture Infrastructure and Development Cess introduced on small number of items, among others.

The Monetary Policy Committee extends its accommodative stance to support growth

31. On the basis of an assessment of the current and evolving macroeconomic situation by the Monetary Policy Committee (MPC) during February 3-5, 2021, RBI kept the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent. Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent. The MPC also decided to continue with the accommodative stance till the prospects of a sustained recovery are well secured while closely monitoring the evolving outlook for inflation. As observed by MPC, these decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

32. The MPC has further observed that RBI will continue its efforts of reviving the economy with measures relating to (i) enhancing liquidity support to targeted sectors and liquidity management; (ii) regulation and supervision; (iii) deepening financial markets; (iv) upgrading payment and settlement systems; and (v) strengthening consumer protection. The MPC further noted that RBI continues to strengthen the operations and governance in the banking sector and flow of credit in the real economy.

33. Additional measures announced are listed as under:

- Expansion of bank credit from on tap TLTRO for stressed sectors to NBFCs engaged in the said sectors.
- Restoration of Cash Reserve Ratio (CRR) to 4% in two phases – 50 bps each on March 27 and May 22.
- Deduction of disbursal to new MSME borrowings from NDTL for computation of CRR.
- Deferment of Capital Conservation Buffer (CCB) of 0.62% and Net Stable Funding Ratio (NSFR) and defer NSFR by another six months to October 1.

- Extension of higher limit of 22% of SLR holding in HTM for market participants for borrowing in G-Sec to March 23 for securities purchased between 1st April 2021 to 31st March 2022.
- Extension to avail funds under the MSF by dipping in to SLR up to additional 1% of NDTL to September 30, 2021.
- Introduce a consultative document to harmonise the regulatory framework for institutions engaged in MFI
- Introduce a consultative framework for a medium-term road map to strengthen and enable faster rehabilitation/resolution of Urban Cooperative Banks (UCBs)
- Allowing retail investors to open GILT account with RBI for online access to G-Sec market – a positive to expand the depth of the market.
- FPI investment in defaulted bonds to be exempted from short term limit and minimum residual maturity requirement.
- Allow remittance by resident Indians for investment in NRI instruments in IFSCs.
- Helpline for separate helpline for customer query on digital products. This is to expand to redress customer grievance.
- Regulation for outsourcing of authorised payment system towards the operation risk and have a code of conduct.
- Cheque truncation to be expanded across all banks by September 2021.
- Establish an integrated ombudsmen scheme.

Growth and inflation outlook in 2021-22 portends more than full recovery

34. India has been able to avoid the second wave of COVID-19 pandemic while ably managing to flatten the epidemiological curve. As stated in Economic Survey, 2020-21, *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. 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 and a sustained resurgence in high frequency indicators. 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.*

35. The structural reforms and the policy push under the AatmaNirbhar Bharat Mission along with the slew of measures announced in the Union Budget 2021-22 towards achieving broad based inclusive growth are aimed at further strengthening the fundamentals of the economy and bringing back the economy on a strong and sustainable growth path once the economy recovers from the pandemic shock. These need to be sustained to bolster the Indian economy to reach its potential growth.

36. The Economic Survey 2020-21 projects India's real GDP growth for 2021-22 at 11 per cent. The WEO update of January, 2021 projects the growth in 2021-22 at 11.5 percent and 6.8 percent in 2022-23, closer to the economy's potential growth rate. India is also expected to emerge as the fastest growing economy in the next two years as per IMF. The

MPC in its February statement has projected the GDP growth at 10.5 percent in 2021-22 with the annual CPI inflation set to average below 5 per cent. With this India's economy will be back on to its pre-pandemic growth path.

***

For any queries, you may contact the team:

1. Mr. Rajiv Mishra, Economic Adviser (E-mail: r.mishra67@gov.in)
2. Ms. Surbhi Jain, Economic Adviser (E-mail: surbhi.jain@nic.in)
3. Ms. Tulsipriya Rajkumari, Deputy Director (E-mail: tulsipriya.rk@nic.in)
4. Ms. Sanjana Kadyan, Deputy Director (E-mail: sanjana.kadyan@gov.in)
5. Ms. Deeksha Supyaal Bisht, Assistant Director (E-mail: deeksha.bisht@gov.in)
6. Ms. Sonali Chowdhry, Consultant (E-mail: sonali.chowdhry@nic.in)
7. Shri Narendra Jena, Economic Officer (E-mail: jena.narendra@nic.in)