Economic Division

March 2021

Monthly Economic Review

आर्थिक कार्य विभाग
DEPARTMENT OF ECONOMIC AFFAIRS

सत्यमेव जयते

Abstract

The rise in daily new cases since mid of February marks the onset of second wave of COVID infection in India. India has, however, been able to delay the onset of the second wave – the gap between the first peak to start of second wave has been 151 days in India while it was much lower in other countries. At this juncture of onset of second wave, India is well prepared to combat the scourge of the virus. It is well-equipped with adequate testing and health infrastructure and economic activity has adapted to the pandemic. This prospect is, further, bolstered by the fast roll-out of vaccination. India is emphasising on a five-fold strategy to curb the tide of new COVID cases - exponential increase in testing, effective isolation and contact tracing of those infected, re-invigoration of public and private healthcare resources, ensuring of covid appropriate behaviour (CAB) and targeted approach to vaccination in districts reporting large numbers.

More than 6.5 crore first doses (4.8 per cent of current population), and 1 crore second doses (0.7 per cent of current population) have been administered – third highest after US and China. Comparing vaccinations with new cases, India vaccinated 41 persons for every 1 person getting infected in March. With vaccination opened for all individuals above 45 years, India achieved a milestone in its vaccination drive with the highest ever single day figure of more than 36.7 lakh vaccination coverage recorded in 24 hours on 1st April 2021.

Despite the surge in cases, the recovery in economy is resilient with sustained improvement in majority of high frequency indicators. The agricultural sector remains the bright spot of Indian economy with foodgrains production touching 303.3 million tonnes in 2020-21 beating record production levels for the fifth consecutive year in a row. MGNREGS has acted as a strong pillar to insulate the rural economy by generating all time high employment of 383.8 crore person days during 2020-21, 44.7 per cent higher compared to previous year.

India's PMI Manufacturing Index of 55.4 in March indicated some loss of momentum compared to February. However, manufacturing sector conditions continue to improve sharply, outpacing the long-run series average with firms scaling up production and witnessing upturn in sales. After rising in December, output of industrial production declined by 1.6 per cent in January on YoY basis with major decline in capital goods (-9.6 per cent) and consumer non-durables goods (-6.8 per cent). Further, after expanding in January, output of eight core industries witnessed broad based fall of 4.6 per cent in YoY terms during February.

On the positive side, further strengthening in demand conditions could be clearly seen in auto sales and power consumption. Monthly GST collections attained all-time record levels since its inception during March. The growth momentum in rail freight traffic remains upbeat, port cargo traffic grows YoY, and domestic aviation picks up further. The digital payment upsurge too continues unabatedly, powered by resumption of economic activity, financial inclusion through Aadhar enabled Payment Systems, and behavioural shift to digital payments.

Preliminary estimates of trade data for March propagates the strong recovery in demand despite several challenges. Exports climbed up to highest ever monthly level at USD 34 billion by registering a growth of 58.2 per cent and imports also expanded by 52.9 per cent, widening

the trade deficit to USD 14.1 billion. India's current account balance recorded a deficit of USD 1.7 billion (0.2 per cent of GDP) in Q3:2020-21, after recording surplus in preceding three quarters. FY 2020-21 witnessed a record FPI inflow of USD 36.2 billion, the highest in a decade after 2014-15.

Systemic liquidity continued to remain accommodative with daily net liquidity absorption under the liquidity adjustment facility (LAF) averaging ₹6.4 lakh crore in February and ₹5.5 lakh crore in March 2021. Money supply (M3) growth remained steady at 12.6 per cent as on March 19, 2021. Sectoral credit growth showed encouraging signs in both December 2020 and January 2021. Inflation pressure mounts up in February driving CPI inflation to 5.0 per cent due to sharp rise in food and core inflation. WPI inflation also rose by 4.2 per cent compared with 2.0 per cent in January 2021 jumped to 27 months high on account of a considerable rise in manufacturing segment. Flexible inflation targeting regime (FIT), as a 'tried and tested' model, has been extended for next five years starting from 1st April 2021.

The fiscal position of the Central Government has witnessed improvement in the recent months due to a revival in the economic activities. During April 2020 to February 2021, the Centre's fiscal deficit stood at ₹14.05 lakh crore, which is 76 per cent of RE 2020-21. Net Tax Revenue of the Central Government for FY 2020-21 is set to overshoot the RE despite 41 per cent higher income tax refunds this year. To share the revenue buoyancy seen in Q4 2020-21 and in the true spirit of fiscal federalism, an amount of ₹45,000 crore has been released as additional devolution to States in FY 2020-21, an increase of 8.2 per cent over RE. Central Government has raised ₹13.7 lakh crore as gross market borrowings during FY 2020-21 at a weighted average borrowing cost of 5.79 per cent - the lowest in 17 years. Central Government's capital expenditure sharply turned around to grow at 104.4 per cent during October 2020 to February 2021 (YoY), recovering from a decline of 11.6 per cent in the first half of 2020-21(YoY).

Union Budget 2021 has further provided a strong fillip to the capex momentum with clear emphasis on infrastructure investment as a key sector to revive demand and overall growth. Setting up the National Bank for Financing Infrastructure and Development (NaBFID)- a special Development Financing Institution (DFI)- and aiming to achieve lending of ₹5 lakh crore in 3 years to infrastructure projects is a prime measure. It will also dovetail with the on-going efforts of the government to enhance capital for implementing infrastructure projects under National Infrastructure Pipeline (NIP). The enhancement of FDI limits in insurance from existing 49 per cent to 74 per cent will enable greater inflow of long-term capital, global processes and international best practices, and increased insurance penetration.

As the vaccination drive continuously upscales in India and guided by the learnings of India's successful management of pandemic during its first wave, India is well armed to combat any downside risk posed by the recent surge in COVID-19 cases. Instrumental in this resilience, will be a strong revival in investment growth supported by the AtmaNirbharBharat Mission and a massive boost to infrastructure and capital expenditure provided for in the Union Budget 2021-22. The wheels of India's capex cycle have been set into motion, signs of which were imminent in the second half of the year. With the end of a challenging FY 2020-21, the crest of a brighter and self-reliant FY 2021-22 awaits India!

Behold the waves… COVID hasn't been waived off!

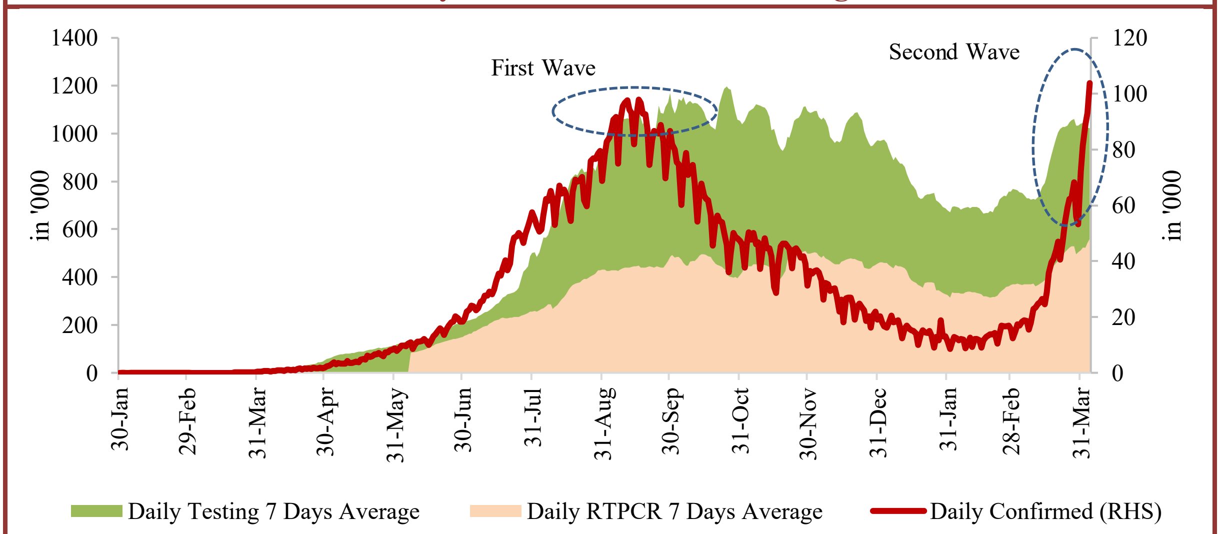
1. Entering the second year of declaration of COVID-19 as a pandemic, the virus continues to maintain its upper hand with confirmed cases globally exceeding 13.1 crore with more than 28.6 lakh deaths. Many countries have been reporting a spurt in daily new COVID-19 cases in recent weeks with Europe witnessing its third wave. Brazil and India are now the new pandemic epicentres with Brazil reporting new peaks in daily cases and India's cases touching five-month highs. This may be attributed to new strains of the virus, the 'fatigue' with social distancing and other precautionary measures, and 'dropping of the guard' with the emergence of vaccines.

2. In the battle against the pandemic, the biggest vaccination campaign in history is underway. More than 65 crore doses have been administered (almost 5 the number of total confirmed cases of COVID-19) across 141 countries at roughly 1.5 crore doses a day. Israel has led the world in the vaccination drive with 50.07 per cent of the population having received both doses of the vaccine. The successful vaccination campaign in the country is credited with a sharp improvement in infection figures. Experts acknowledge that even with the new variants, the current vaccines seem to prevent deaths and hospitalizations. Besides, companies will come out with updated vaccines to fight the new variants. At the current pace, however, it would take years to achieve a significant level of global immunity. It is, therefore, important that the vaccination drive is stepped up, especially in the developing countries, which have been lagging so far.

India: Cometh the Second Wave!

3. India had been experiencing a steady decline in new COVID-19 cases after experiencing its first peak in mid-September 2020. However, there has been a resurgence in fresh cases since mid-February 2021, marking the onset of a second wave. India is now fifth in number of active cases in the world and has been experiencing the largest number of daily new cases. India scaled a new peak of daily cases of more than 1 lakh on 4th April, 2021. Daily tests per lakh have also started rising again after declining moderately at the beginning of this year. With rising positivity rate during March, the low and declining Case Fatality Ratio (CFR) is reassuring.

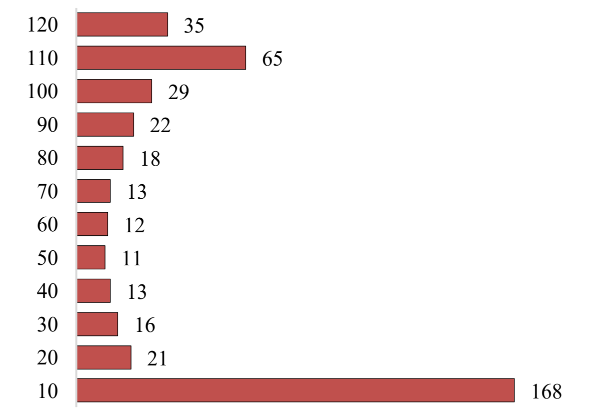
Trend in Daily confirmed cases and Testing in India



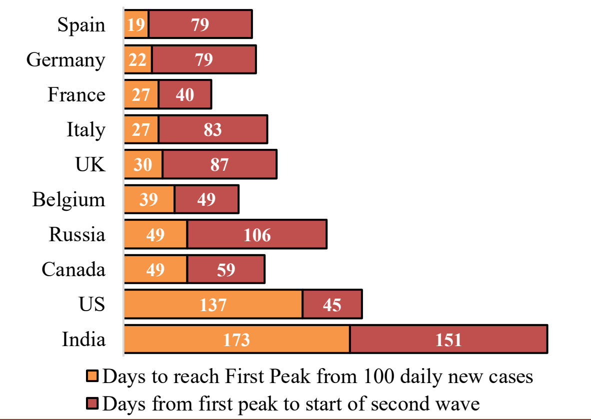
Source: https://www.covid19india.org

4. The second wave is manifested in the fall in days to reach the next 10 lakh confirmed cases – it took 65 days to reach from 1 crore confirmed cases to 1.1 crore while it has taken only 35 days to add the next 10 lakh cases. The active cases have increased at a faster pace with 1 lakh cases added in just 3 days – compared to 6 days during the peak of the first wave. India has, however, been able to delay the onset of the second wave as is evident from figure below – the gap between the first peak to start of second wave has been 151 days in India while it was much lower in other countries. This implies the readiness of the health infrastructure and awareness of the standard operating protocols at this time.

Days to Reach Next 10 lakh Confirmed Cases in India



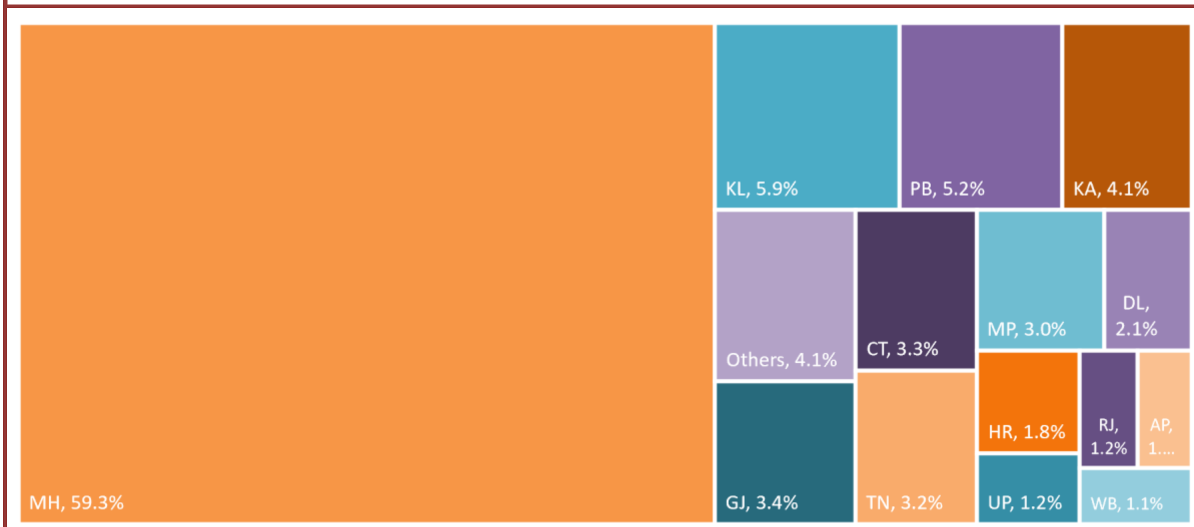
Peaking time of COVID-19 in Top Countries



Source: https://www.covid19india.org

5. In absolute numbers, Maharashtra remains the Achilles' heel of India's fight against COVID with the State accounting for more than 60 per cent of the new cases in March. Kerala, Punjab, Karnataka, and Gujarat are the other top states in contributing to the case rise. The concentration of COVID spread in few states and districts poses the challenge of overwhelming regional health infrastructure. Punjab has a significantly higher CFR (at 2.89 per cent) compared to national average of 1.34 per cent – an issue of major concern. Kerala, despite having the second highest cases, has a CFR of 0.49 per cent, signifying better management of health practices and infrastructure.

Share of States in New Cases in March 2021

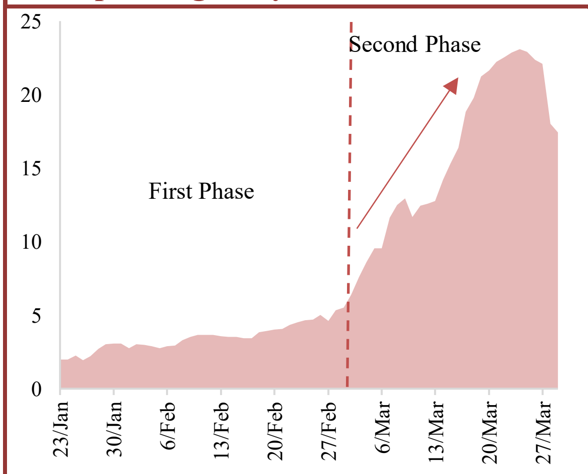


Source: https://www.covid19india.org

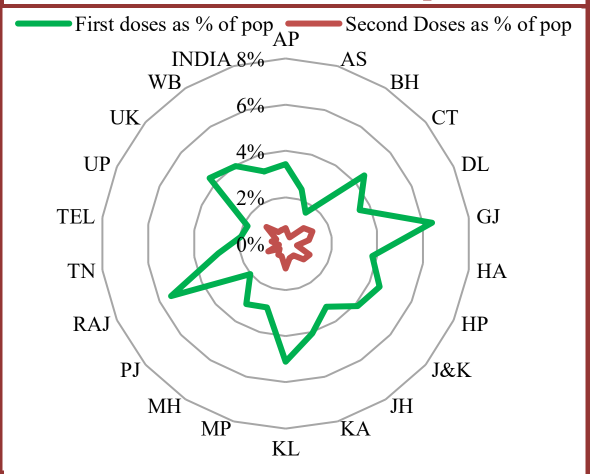
Vaccination plus Precaution: Twin Armour to Stop COVID-19 in its tracks

6. The second phase of COVID-19 vaccination drive began on 1st March 2021 for all the individuals above 60 years of age and for people aged 45 and above with specified co-morbid conditions. The vaccine has been made available free of charge at Government hospitals and capped at Rs 250 at private hospitals. More than 6.5 crore first doses (4.8 per cent of current population), and 1 crore second doses (0.7 per cent of current population) have been administered – third highest after US and China. During the second phase, the daily vaccines administered has expanded at a fast pace as evident from the figure below. In the month of March, on an average, 41 persons were vaccinated in India for every 1 person getting infected. This is expected to expand further with the third phase of vaccinations from 1st April 2021 where all 45+ individuals are to be vaccinated. India achieved a milestone in its vaccination drive with the highest ever single day figure of more than 36.7 lakh vaccination coverage recorded in 24 hours on 1st April, 2021. The roll-out of vaccination relative to population has, however, been non-uniform across the States. Gujarat, Rajasthan and Kerala have been the frontrunners, while Bihar, Punjab, Uttar Pradesh and Maharashtra have been the laggards.

Expanding Daily Vaccinations



State-wise Vaccination Spread



Source: https://www.covid19india.org, MOHF&W

7. At the onset of the pandemic last year, India followed the strategy of imposition of a strict lockdown to control the spread and focus on ramping up testing infrastructure and health facilities. The lockdown was a critical instrument in "flattening the curve" and saving lives as elucidated in Economic Survey, 2020-21 (Chapter 1, Volume I). At this juncture of onset of second wave, India is equipped with adequate testing infrastructure and is well prepared to combat the scourge of the virus. This prospect is bolstered by the fast roll-out of vaccination. India is emphasising on a five-fold strategy to curb the tide of new COVID cases - exponential increase in testing, effective isolation and contact tracing of those infected, re-invigoration of public and private healthcare resources, ensuring of covid appropriate behaviour (CAB) and targeted approach to vaccination in districts reporting large numbers.

8. As of 2nd April 2021, India has supplied 6.4 crore vaccine doses to 84 countries through different modalities including grants in aid, gifts, commercially and through WHO – GAVI's COVAX alliance. India's vaccine diplomacy comes at a time when the international community is raising concerns over 'vaccine nationalism' and the growing inequity about vaccine supply. The QUAD Vaccine initiative, launched in its recent meeting, validates India's reputation as a reliable manufacturer of high-quality vaccines and pharmaceutical products.

Vaccines are a key macro lever for domestic and global economic growth and India is expected to be a key player in bolstering global recovery.

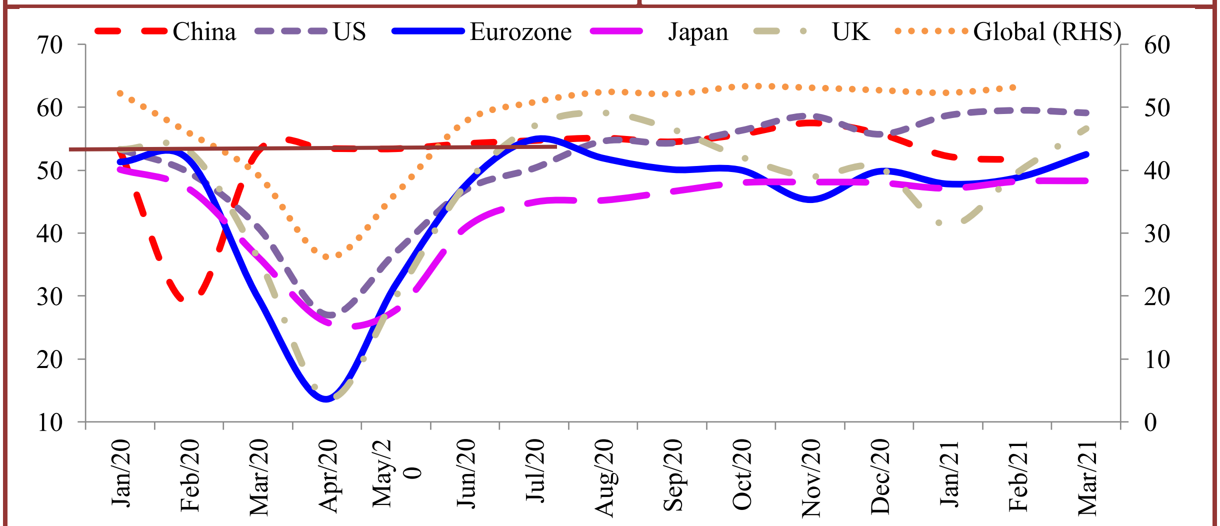
Global Overview: Cramping Back to Recovery

9. The global economic recovery in Feb-March 2021 was faster than expected, with encouraging developments on the vaccination front, revival of demand and return of oil and commodity prices pre-pandemic levels. That said, there exist notable divergences across sectors and economies, with large emerging market economies and industrial activity faring better than advanced economies and services sectors.

10. The US American Rescue Plan of USD 1.9 trillion, constituting direct payments to citizens, aid to state and local governments, expansion of child tax credit, and propping up of vaccination programme, was signed into law in March 2021. Besides buttressing domestic demand, it is likely to spill-over to the global economy, rejuvenating export demand and quickening global recovery. Consequently, OECD in March 2021 has revised its projections for global growth in 2021 by 1.4 percentage points to 5.6 per cent, compared to December 2020 forecast. The biggest gainers would be the major exporters to US, i.e., China, Mexico, and Canada. Inflationary pressures might push US bond yields upwards, leading to capital outflows from emerging economies, besides costlier imports and raw materials.

11. The Global composite PMI index reached a second-highest level of 53.2 in two and a half years in February, led by the US while India, China, Germany, Italy, Russia and Australia also saw output rise. The global upturn was led by manufacturing, with rising production across investment, intermediate and consumer goods industries. Business services witnessed expansion, led by surging financial services sector, whereas consumer service providers contracted for thirteenth successive month. Business activity in US remained buoyant, while Eurozone's PMI returned to expansion, at 52.5, highest since July last year. Japanese business activity remained subdued as the economy grappled under third wave of infections. With China's pace of industrial recovery continuing to soften amid supply disruptions and low demand in February, its manufacturing sector rebounded in March as global demand revitalized export orders and domestic consumption rose.

Global PMI Composite Indices



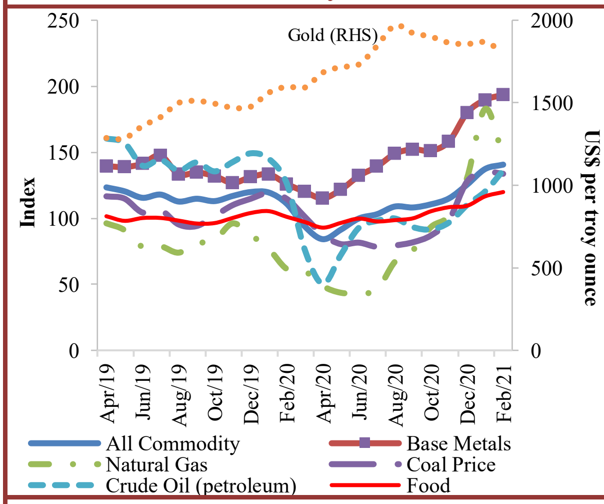
Source: IHS Markit
Note: Flash data for March '21

Commodity Prices and Inflation

12. Overall commodity prices continued to surge in February, on the back of rising oil prices (rising for the fourth consecutive month and reaching year-high) and base metals, among others. Oil prices rose further in March due to rising demand, supply disruptions (Suez Canal blockage), and low temperatures in the northern hemisphere. With OPEC+ deciding to roll-over the supply cuts up to April 2021, and demand nurtured by global recovery, oil price rally is slated to continue. Base metals continued to rise in February, albeit at a slower pace, given slowing industrial production in the largest consumer China. Metal prices reached their highest level since 2011, driven by tin prices, driven by rising demand in electronics production and supply disruptions. In the group of precious metals, gold prices further declined, with waning global uncertainty, strengthened US dollar and upturn in equity market. The steady rise in food prices since September last year could challenge global food security in future.

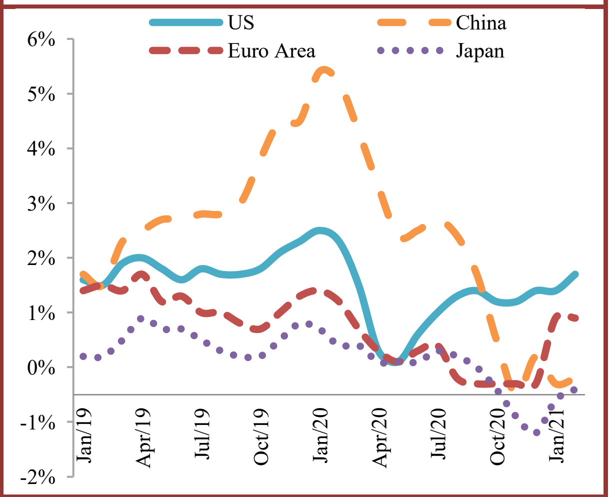
13. After being muted last year on account of subdued activity, inflation firmed further in US, mainly on account of higher gasoline prices, pushed up by freezing pipelines in a major crude-producing state. Euro area inflation was stable, with food and services rises offsetting cheaper energy prices. Whereas emerging economies witnessed softening of inflation, CPI inflation in China rose slightly on the back of Spring Festival season, remaining in negative territory nevertheless.

Commodity Prices



Source: IMF

Global Inflation Trend



Source: Compiled using various agencies

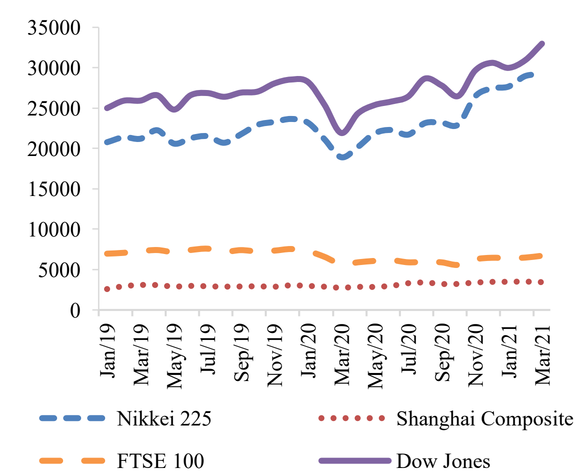
Global Trade

14. The global commercial flight activity and port activity began rising in March, with recovery gaining ground amid localized movement restrictions. Port traffic activity tracked by the RWI/ISL container throughput index began rising with 2.5 per cent MoM growth and 6.1 per cent YoY growth in January. In a one-off event, the Suez Canal, a trade artery connecting Europe with Asia and facilitating 12 per cent of global trade including 1 billion barrels of crude oil and 8 per cent of LNG, was blocked for 6 days, disrupting the global supply chains and holding up around 9.6 USD billion of trade per day. This is likely to have ripple effects on supply chains, calling for more resilience in global value chains compared to just-in-time management. Average daily number of international commercial flights in March rose 19 per cent MoM, being at 89 per cent of previous year level.

Financial markets

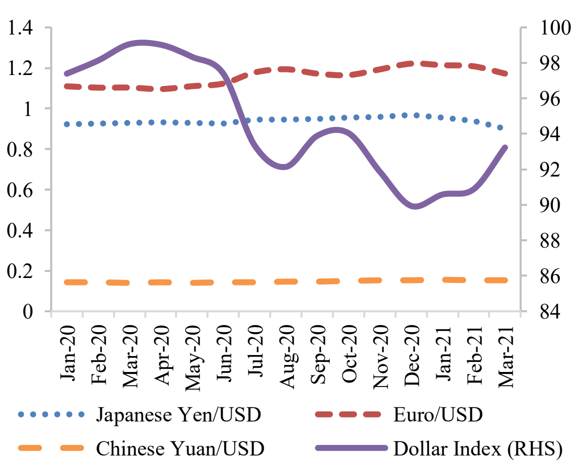
15. Global equity markets bore contrary forces in March - bullishness driven by American Rescue Plan and gains in vaccination, besides localized lockdowns, inflationary concerns and rising bond yields across advanced economies. US's Dow Jones recorded gains of 6.6 per cent, as Federal Reserve's assurance of monetary accommodation till 2023 and fiscal push of USD 1.9 trillion package stimulated investor sentiments. European shares rose amid hopes of an economic recovery reinforced by ongoing inoculations fostered by sustained monetary and fiscal efforts, with UK'S FTSE 100 climbing up by 3.6 per cent. Overall, advanced economies stock markets posted gains in March. Japan's Nikkei 225 rose modestly by 0.7 per cent, with the government's record budget announcements, moderated by renewed lockdown restrictions. Chinese stocks witnessed losses of 1.9 per cent in March, amid policy tightening, elevated US bond yields, asset price corrections in housing market, and rising COVID-19 cases. Rising bond yields and concerns over monetary tightening in the US reined in capital flows to emerging market developing economies. With inflationary expectations firming up in the US, and 10-year US treasury yields hitting the highest level since January 2020, emerging markets face serious vulnerabilities of capital flows reversals and ensuing currency volatility. In the currency markets, US dollar index climbed by 2.6 per cent MoM in March against defined basket of currencies, with stiffened yields and improving economic prospects. Euro remained weak amid uncertainty surrounding the pandemic and a strengthening USD.

Financial Market Performance



Source: Compiled using various agencies

Exchange Rates



Source: Investing.com

16. Divergent recoveries and available policy spaces among regions and countries suggests a challenging path ahead for the global economy. Effective and sustained policy support until the recovery is firmly under way is imperative. Multilateral cooperation on vaccines to ensure adequate production and timely universal distribution is crucial as 'no one is safe till everyone is safe'.

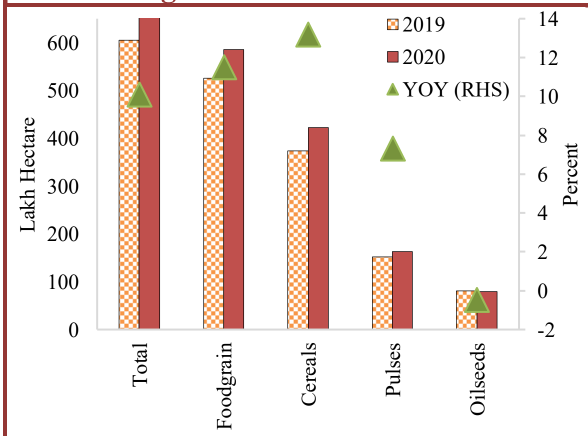
Domestic Macro-economic overview: Steady path to Recovery

Agricultural Sector

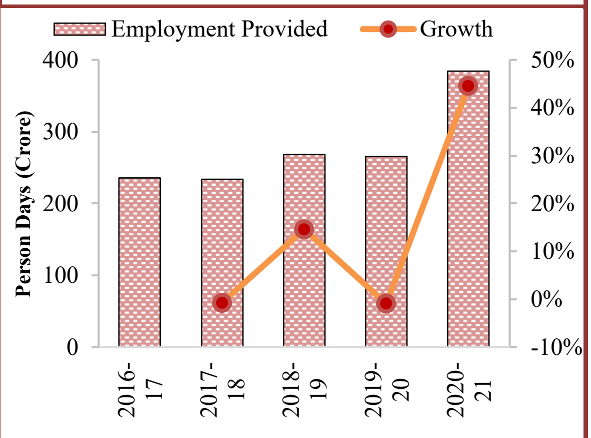
17. Agricultural sector is set to harvest a bumper crop as per the 2nd Advance Estimates (AE) for 2020-21. Blessed by normal monsoons, foodgrains production has touched 303.3 million tonnes - 2 per cent higher than the final estimates of a year ago and have beaten record

production levels for the fifth consecutive year in a row. The growth in foodgrains is spread across all the principal crops in both rabi and kharif seasons. Besides foodgrains, oilseeds production has also registered a double-digit growth of 12.3 per cent and sugarcane production rose by 7.3 per cent. Horticulture has registered a sharp rebound in production and acreage with the production of horticultural crops pegged at a record 326.6 million tonnes in 2020-21 as per the first AE - 1.8 per cent higher than the final estimates of 2019-20. Among the three key vegetables (TOP), – production of potatoes and onions has jumped by 9.4 per cent and 0.8 per cent, respectively, spurred by increased acreage. However, tomato production has fallen by 4.8 per cent. These trends along with policy push to streamline food supply-chains portend well for reining in food inflation.

Agriculture Production



MGNREGS



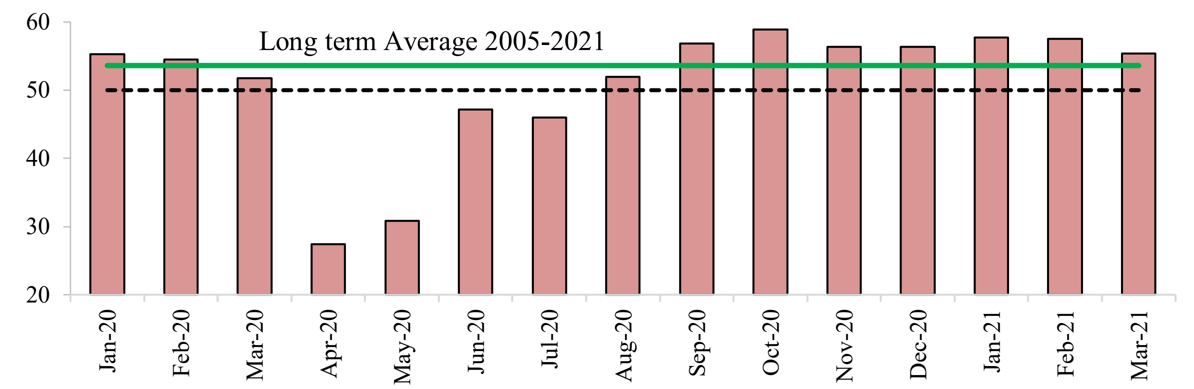
Source: Department of Agriculture and Farmers Welfare, MGNREGA website

18. MGNREGS has acted as a strong pillar to insulate the rural economy from the COVID impact by generating all time high employment of 383.8 crore person days during 2020-21, 44.7 per cent higher compared to previous year. The Budget allocation for the Scheme has been the highest in 2020-21 since inception at ₹ 1,11,500, a jump of 55.5 per cent compared to 2019-20. Average daily wage rate in rural India climbed up by 5.8 per cent during May 2020 - January 2021 compared to previous year. This signifies sustained rural demand given vibrant agricultural growth ably supported by MGNREGS.

Industry

19. India's PMI Manufacturing Index of 55.4 in March indicated some loss of momentum compared to February. However, manufacturing sector conditions continue to improve sharply, outpacing the long-run series average with firms scaling up production and witnessing upturn in sales. Goods producers indicated that strengthening demand and the receipt of orders in bulk underpinned a further rise in overall sales. New export orders increased further in March, stretching the current sequence of growth to seven months. On the price front, the rate of input cost inflation was among the strongest seen over the past three years. However, selling prices increased only moderately as companies limited their adjustments to retain a competitive edge and boost sales.

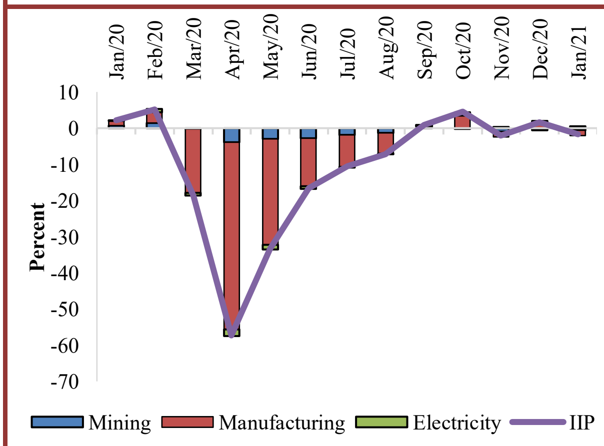
PMI Manufacturing



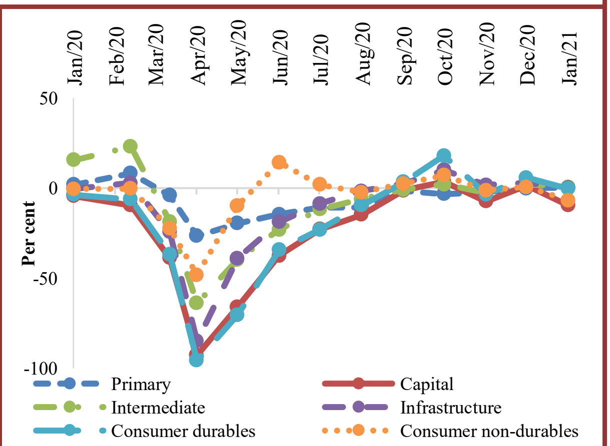
Source: IHS Markit

20. After registering a growth of 1.6 per cent in December 2020, industrial production moved into the negative territory by contracting 1.6 per cent in January 2021. The fall in the growth rate has been on account of contraction in mining (-3.7 per cent) and manufacturing (2.0 per cent) segment, in case of the sectoral classification. While use-based classification portrayed weakness in investment and consumption activity with prominent decline in capital goods (-9.6 per cent) and consumer non-durables goods (-6.8 per cent). After expanding in January, output of eight core industries declined in February 2021 by 4.6 per cent with decline in production of all the 8 sectors owing to weaker demand conditions.

IIP Growth

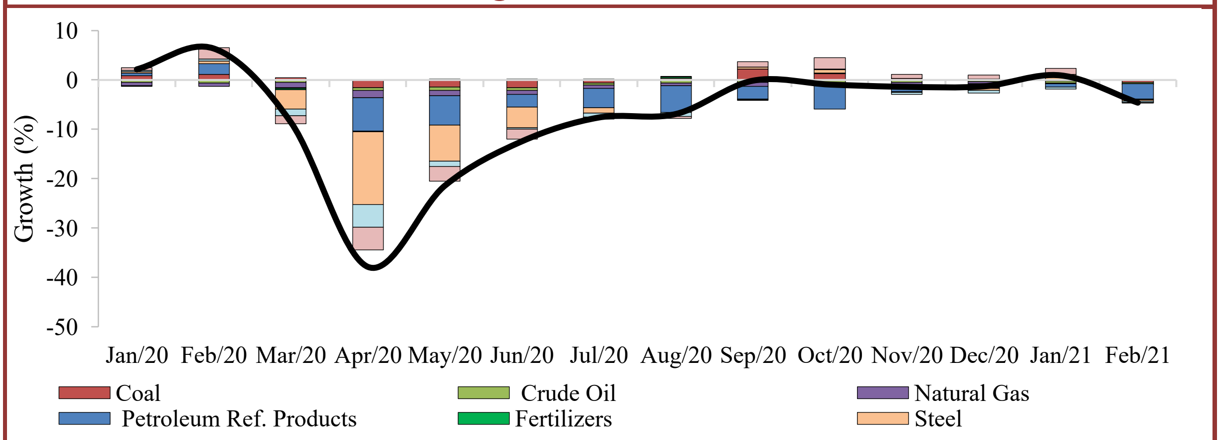


Source: IHS Markit



Source: MoSPI

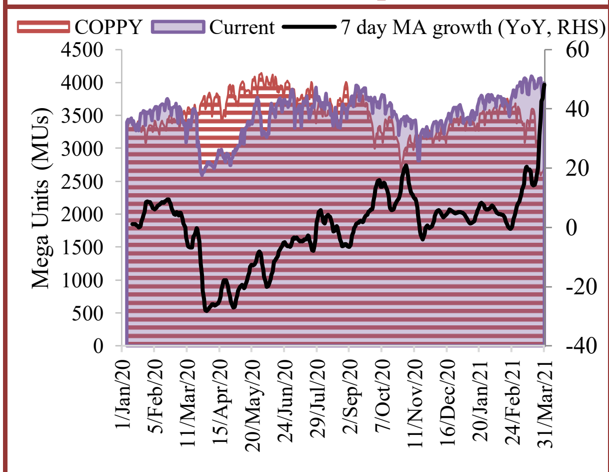
Eight Core Industries



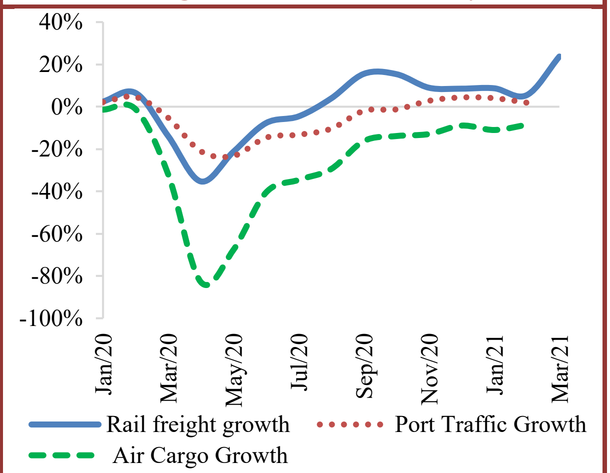
Source: Office of Economic Advisor, DPIIT

21. Power consumption continued to show a strong and consistent recovery, registering a double-digit growth of 22.8 per cent in March 2021 aided by rising mercury level and improvement in commercial and industrial requirement of electricity. Strong demand renewal continues with sturdy increase in passenger vehicle and two & three wheelers combined sales growing at 17.9 per cent and 8.8 per cent respectively during February 2021. Boost in industrial activity can also be witnessed with uptick in port traffic and railway freight. Port traffic registered a growth of 1.9 per cent in February for fourth consecutive month indicating a sustained expansion of economic activities. Railway freight continued to expand and achieved a double-digit growth of 23.7 per cent during March. Air cargo growth also witnessed modest improvement with lowering of contraction from 11.0 per cent in January 2021 to 8.5 per cent in February.

Power Consumption



Freight and traffic activity



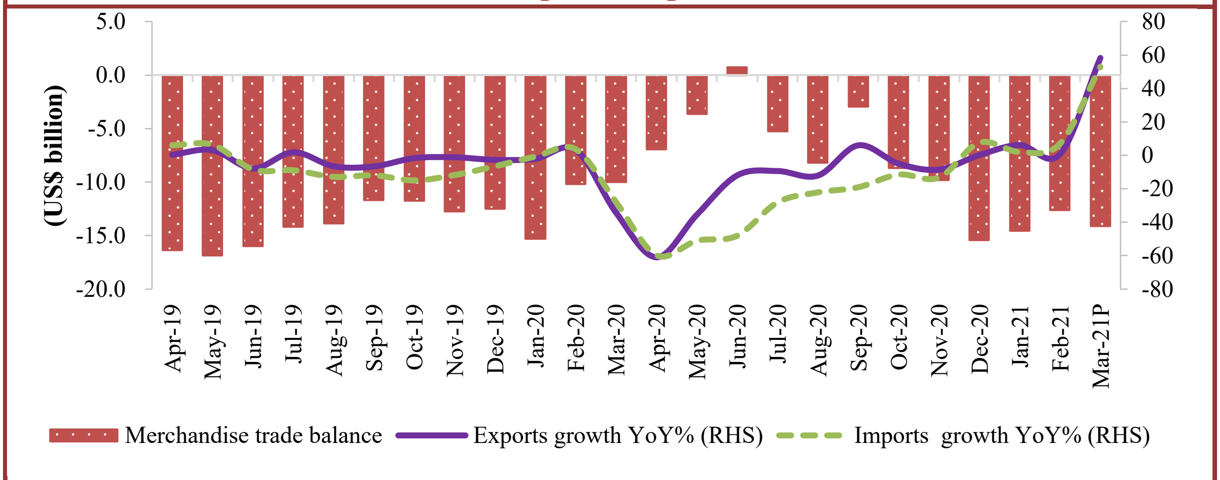
Source: POSOCO, Ministry of Railways, Indian Ports Association, Airports Authority of India

22. Further, corporate earnings results of Q3:2020-21 signal brightened prospects of revenue realisation for the manufacturing sector. Manufacturing firms witnessed sharp increase in profit after tax from 16.31 per cent in Q2:2020-21 to 47.94 per cent in Q3:2020-21 and easing of contraction in gross revenue from (-)15.50 per cent in Q2:2020-21 to (-) 2.8 per cent in Q3:2020-21.

External Sector

23. India's exports as well imports have rebounded since April-May, 2020-21 when the pandemic led disruptions had adversely impacted foreign trade. As per preliminary estimates of March, export climbed up to the highest ever monthly level at USD 34 billion by registering a growth of 58.2 per cent driven by healthy growth in key sectors such as engineering, gems and jewellery and pharmaceuticals. Import also expanded by 52.9 per cent, attributed to a sharp surge in gold and core (nonoil, non-gold) imports. Trade deficit widened to USD 14.1 billion from USD 13.0 billion in February, primarily led by sequential increase in imports accompanied by exports. Overall, the trade data corroborates the strong recovery in demand despite shortage of containers and hike in freight.

India's Merchandise Exports, Imports and Trade Balance



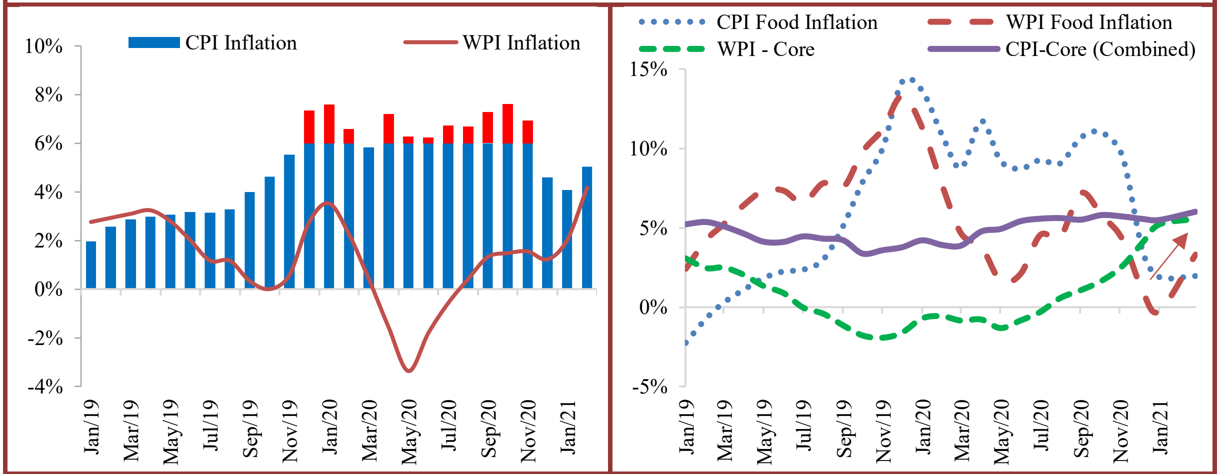
Source: Ministry of Commerce & Industry

24. During April-December, 2020, India recorded a current account surplus of US$ 32.4 billion (1.7 per cent of GDP), as against a deficit of US$ 25.1 billion ((-)1.2 per cent of GDP) during the same period of previous year, on the back of a sharp contraction in the trade deficit. India's current account balance recorded a deficit of US$ 1.7 billion (0.2 per cent of GDP) in Q3:2020-21, after recording surplus in preceding three quarters. Underlying the current account deficit in Q3:2020-21 was a rise in the merchandise trade deficit to US$ 34.5 billion from US$ 14.8 billion in the preceding quarter, and an increase in net investment income payments. Net services receipts increased, both sequentially and on a year-on-year basis, primarily on the back of higher net export earnings from computer services. Private transfer receipts, mainly representing remittances by Indians employed overseas, declined marginally on a y-o-y basis but improved sequentially by 1.5 per cent to US$ 20.7 billion in Q3:2020-21.

Inflation witnessing upside pressures

25. CPI inflation inched up to 5.0 per cent in February 2021 registering a month-on-month increase of 97 basis points (bps). A sharp increase in food and core inflation were the key drivers of the surge in headline inflation in February. Food inflation increased to 4.3 per cent in February from 2.7 per cent in January on account of an adverse base effect of around 200 bps even as food prices registered a month-on-month decline of around 40 bps. CPI excluding food and fuel inflation, which was already at an elevated level of 5.5 per cent in January, surged by an additional 50 bps to touch 6.0 per cent in February, the highest level since November 2018. This was propelled by a pick-up in inflation in transport and communication, health, clothing and footwear, recreation and amusement and household goods and services. WPI inflation also rose by 4.2 per cent compared with 2.0 per cent in January 2021 jumped to 27 months high on account of a considerable rise in manufacturing segment.

Inflation Dynamics

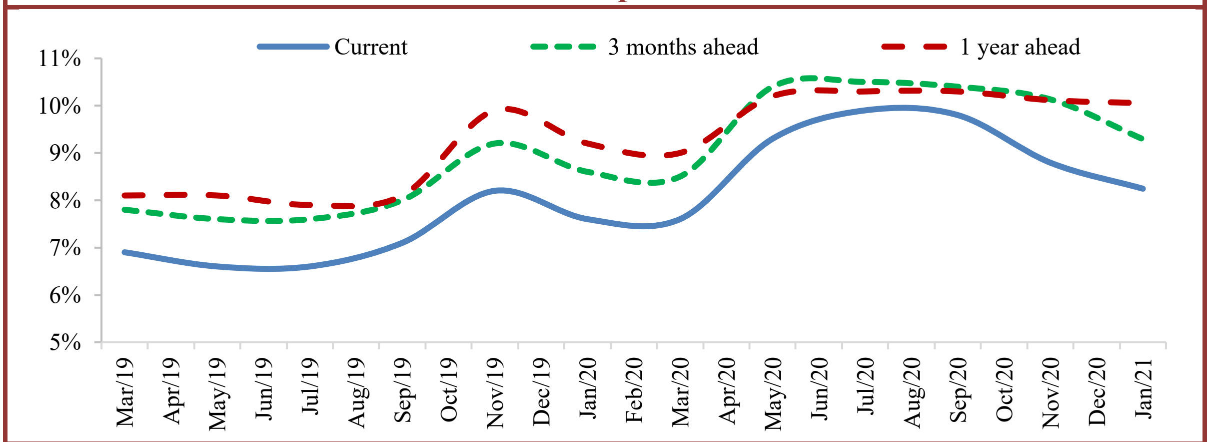


Source: MoSPI

Note: Red portion signifies magnitude of breach of 6 per cent band set by MPC

26. Inflation expectations of households measured by RBI's survey during January 2021 round, softened further over a three month ahead horizon in tandem with the moderation in food inflation; one year ahead inflation expectations, however, remained unchanged. Going forward, food inflation trajectory would largely depend on the impact of favourable kharif and rabi seasons on cereal prices and the seasonal winter arrivals on vegetable prices on one hand, and the adverse impact of rising international prices on edible oil prices and the persisting demand-supply mismatches for protein-based food prices, on the other. The outlook for core inflation is likely to be impacted by further easing in supply chains; however, broad-based escalation in cost-push pressures in services and manufacturing prices due to increase in industrial raw material prices could impart upward pressure.

Inflation Expectations



Source: RBI

27. Indian basket crude oil prices inched up further, averaging 64.7 USD/bbl in March 2021 from USD/bbl 61.2 per barrel in February driven by demand build up on optimism from vaccination and continuing production cuts by OPEC plus. As per PPAC, petroleum consumption continues to remain in negative territory declining by 5.5 per cent in February amid elevated prices of petrol and diesel, while market estimates for March suggests a rebound in petroleum products demand.

Flexible Inflation Targeting: Tried and Tested

India adopted a flexible inflation targeting (FIT) monetary policy regime in September 2016 with the primary objective "to maintain price stability while keeping in mind the objective of growth". Government set CPI- Headline inflation target of four per cent with upper and lower tolerance levels of six per cent and two per cent, respectively, for a period of five years up to March 31, 2021.

Monetary policy committee (MPC) met for 27 times during the tenure. The repo rate has dipped from 6.5 per cent in October 2016 to 4.0 per cent as on March 2021. Over the period October 2016 to March 2020 headline inflation averaged 3.9 per cent along compared to 7.5 per cent during 2013-16. Price fluctuations, as measured by standard deviation, declined to 1.4 during October 2016-March 2020 from 2.4 in 2012-16. The volatility of core inflation more than halved during the FIT period. Also, median inflation expectations of urban households over a one-year ahead horizon moderated to an average of 8.7 per cent during the FIT period from 12.5 per cent during the pre-FIT period.

Since the adoption of FIT, until the pre-COVID period, there was only one occasion (i.e., Q4: 2019-20) when inflation exceeded the upper tolerance level. The breach was due to a sharp spike in food inflation (9.7 per cent in Q4:2019-20) on a combination of adverse developments, i.e., the late withdrawal of the monsoon, unseasonal rains and associated supply disruptions.

CPI-C Inflation Components, Agricultural Growth and International Crude Oil Prices – Level and Volatility (per cent)

	Average					Volatility				
	Food and Beverages (45.9)	Fuel and Light (6.8)	Ex-Food and Fuel (Core) (47.3)	Agricultural GVA Growth	International Crude Oil Prices (USD/Barrel)	Food and Beverages	Fuel and Light	Ex-Food and Fuel (Core)	Agricultural GVA Growth	International Crude Oil Prices (USD/Barrel)
Pre-FIT										
2012-13	11.2	9.7	9.0	1.5	103.2	1.2	1.0	0.4	0.4	5.7
2013-14	11.9	7.7	7.2	5.6	103.7	2.5	1.2	0.4	1.1	3.3
2014-15	6.5	4.2	5.4	-0.2	83.3	2.2	0.7	1.1	3.1	23.6
2015-16	5.1	5.3	4.6	0.6	46.1	1.2	0.7	0.3	2.2	11.1
Period Average	8.7	6.7	6.5	1.9	84.0	3.4	2.3	1.8	2.7	27.0
FIT										
2016-17	4.4	3.3	4.8	6.8	47.9	2.4	0.8	0.2	1.4	4.3
2017-18	2.2	6.2	4.6	6.6	55.7	1.9	1.3	0.5	0.9	7.0
2018-19	0.7	5.7	5.8	2.6	67.3	1.8	2.7	0.4	1.0	7.6
2019-20	6.0	1.3	4.0	4.3	58.6	3.9	3.1	0.4	1.3	9.3
Period Average	3.3	4.1	4.8	5.1	57.4	3.3	2.9	0.7	2.0	9.9

Source: Report on Currency and Finance 2020-21, RBI

Macroeconomic performance under FIT showed that average real GDP grew by 6.0 per cent during the FIT period (Q3:2016-17 to Q4:2019-20) was lower by 1.1 percentage points than in the pre-FIT period (Q1:2012-13 to Q2:2016- 17). Period was also marked by an increase in the volatility of growth on account of a combination of domestic and global factors. While volatility in interest rate and exchange rate decreased during 2017-20 compared to pre-FIT period. In level terms, both interest rate measured by WACR and combined gross fiscal deficit to GDP decreased during FIT period compared to pre- FIT level.

Key Macroeconomic Indicators under FIT - Level and Volatility (per cent)

	Level					Volatility				
	CPI-C Inflation	Real GDP Growth	Interest Rate (WACR)	App(+)/ Dep(-) of Exchange Rate (REER-36)	Combined GFD/GDP	CPI-C Inflation	Real GDP Growth	Interest Rate (WACR)	Exch Rate (REER-36)	Fiscal Slippage (Deviation from Centre's Budgeted GFD/GDP)
Pre-FIT										
2012-13	10.0	5.5	8.1	-4.3	6.9	0.5	1.4	0.2	2.0	-0.2
2013-14	9.4	6.4	8.3	-2.2	6.7	1.3	0.8	0.9	2.2	-0.3
2014-15	5.8	7.4	8.0	5.5	6.7	1.5	1.2	0.2	0.9	0.0
2015-16	4.9	8.0	7.0	2.9	6.9	0.7	0.8	0.3	1.3	0.0
Average	7.5	6.8	7.8	0.5	6.8	2.4	1.4	0.7	1.6	-0.1
FIT										
2016-17	4.5	8.3	6.2	2.2	6.9	1.0	1.4	0.2	0.7	0.0
2017-18	3.6	6.8	5.9	4.5	5.8	1.2	1.1	0.1	1.3	0.3
2018-19	3.4	6.5	6.3	-4.8	5.8	1.1	0.7	0.2	1.9	0.1
2019-20	4.8	4.0	5.4	2.4	6.9	1.8	0.9	0.4	1.2	1.3
Average	4.1	6.4	6.0	1.1	6.4	1.4	1.8	0.4	1.3	0.4

Source: Report on Currency and Finance 2020-21, RBI

Transmission to deposit and lending interest rates remained muted during the initial months of FIT, but it gained traction post-demonetisation. The pass through to WALR on fresh rupee loans improved in the FIT period vis-à-vis pre-FIT in response to the policy rate tightening. A reduction in the policy repo rate, however, had noticeable impact on lending rates during both regimes.

Transmission from Repo Rate to Banks' Deposit and Lending Interest Rates (Basis Points)

		Repo rate	Median Term Deposit Rate	WADTDR	WALR - Outstanding Rupee Loans	WALR - Fresh Rupee Loans
Pre- FIT	Apr 2004 – Sep 2008	300	229	253	-23	-
	Oct 2008 – Feb 2010	-425	-227	-174	-181	-
	Mar 2010 -June 2010	50	0	-	-	-
	July 2010 - Mar 2012	325	226	222	203	-
	Apr 2012 – June 2013	-125	-4	-46	-44	-
	July 2013 - Dec 2014	75	7	-9	-28	5
	Jan 2015 – Sep 2016	-150	-96	-123	-67	-110
FIT	Oct 2016- May 2018	-50	-62	-70	-92	-95
	June 2018 – Jan 2019	50	16	20	2	57
	Feb 2019 – Mar 2020	-135*	-48	-53	-27	-115

Source: Report on Currency and Finance 2020-21, RBI
Note: *: The 75-bps policy rate cut on March 27, 2020 is not included. WALR: Weighted Average Lending Rate; WADTDR: Weighted Average Domestic Term Deposit Rate.

There is evidence of asymmetry in passthrough of policy repo rate changes to banks' lending and term deposit rates. Transmission is uneven across bank groups as well as across monetary policy cycles, and usually higher for weighted average outstanding domestic term deposit rates (DR) and weighted average lending rates (WALRs) on fresh rupee loans (LR-F) visà-vis WALRs on outstanding rupee loans (LR-O) over different policy cycles.

Transmission across Bank Groups – Tightening and Easing Policy Cycles (Basis Points)

Policy Cycle	Repo Rate	Public Sector Banks			Private Sector Banks			Foreign Banks			SCBs		
		DR	LR-O	LR-F	DR	LR-O	LR-F	DR	LR-O	LR-F	DR	LR-O	LR-F
Oct 16 - May 18	-50	-77	-95	-107	-54	-91	-108	-58	-74	-59	-70	-92	-95
June 18 – Jan 19	50	13	-32	37	29	53	78	60	35	75	20	2	57
Feb 19 – Mar 20	-135	-42	-35	-83	-70	-11	-140	-139	-89	-135	-53	-27	-115

Source: Report on Currency and Finance 2020-21, RBI

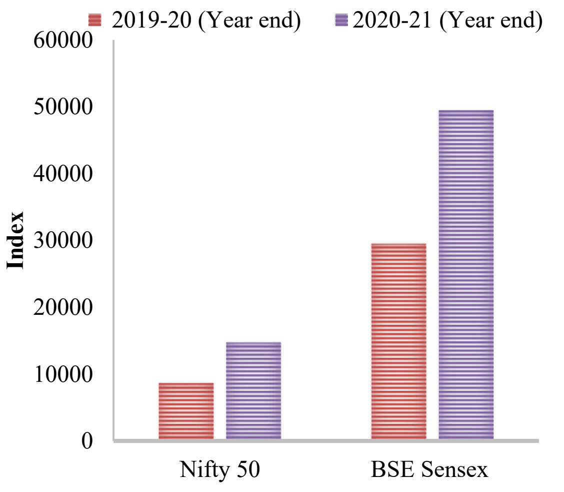
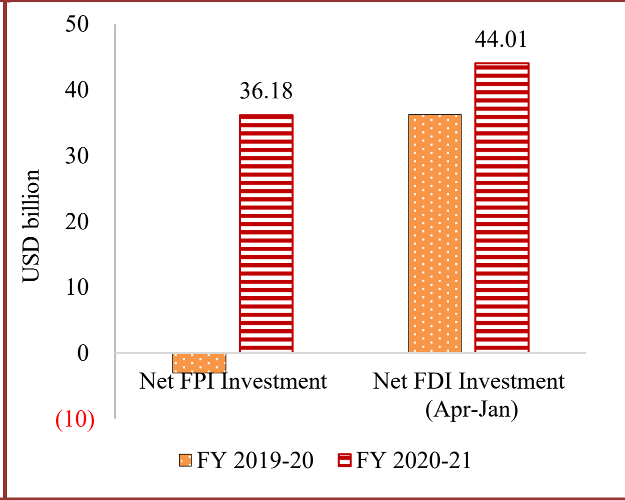
FIT regime has, therefore, been successful in leashing the inflation rate within a range along with providing a favourable environment for economic growth. As a 'tried and tested' model, it has been decided to follow the same inflation target for next five years starting from 1st April 2021.

Gradual yet steady recovery in overall credit growth

28. Money supply (M3) growth remained steady at 12.6 per cent as on March 19, 2021. Non-food credit growth of scheduled commercial banks stood at 6.4 per cent as on March 12, 2021 as compared to 6.6 per cent as on February 26, 2021. Bank credit growth also stood at 6.5 per cent as compared to 6.6 per cent in the previous fortnight. Sectoral credit growth showed encouraging signs in both December 2020 and January 2021. Credit to agriculture grew at near double digits y-o-y in January. Credit to services sectors like trade, tourism and transport sectors grew at a healthy 8.4 per cent and other services at 17.5 per cent. Retail lending for personal consumption witnessed robust growth of 9.1 per cent auguring well for consumption sentiment. Within the personal loan segment, loans for consumer durables grew healthily at 14.6 per cent while other personal loans grew at 12.1 per cent. While overall industrial bank credit remained in contraction, credit growth to medium industries and micro and small enterprises remained strong at 19.1 per cent and 1 per cent respectively in January 2021. Large industries credit growth remained in negative territory possibly explained by high rating borrowers raising resources from alternative routes like bonds, debentures and other market-based instruments to take advantage of the prevailing low interest rate regime and also to retire past high-cost debt. Corporate bond private placements issuances at ₹ 6.7 lakh crore during April 2020-February 2021 were 13 per cent higher than those in the same period of last year.

FY 2020-21- a bullish year for stock markets, supported by stimulus measures, surplus liquidity and record FPI flows

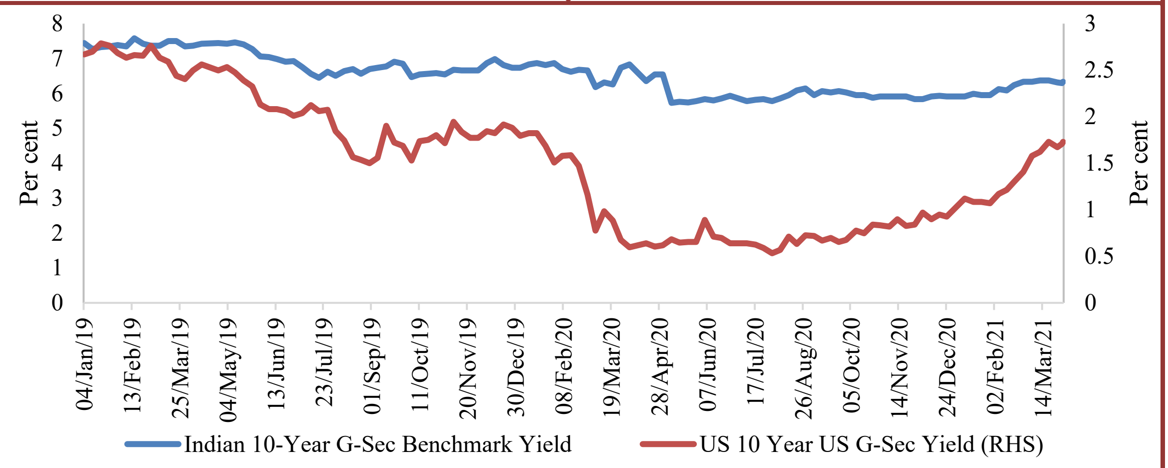
29. Domestic equity markets recovered in FY 2020-21 to register a jump of 71 per cent and 68 per cent in Nifty-50 and Sensex respectively over last fiscal. The recovery was supported by stimulus measures announced by the Government, RBI's liquidity measures and record investments by FPIs. FY 2020-21 witnessed a record FPI inflow of USD 36.2 billion (till 30th March), the highest in a decade after 2014-15.

Domestic equity markets	Foreign investment flows
	
Source: NSE. BSE	Source: CDSL, RBI

30. To sustain ample liquidity in the system, the RBI has conducted open market purchases to the tune of ₹ 3.17 lakh crore in FY 2020-21 up to March 21. Systemic liquidity continued to remain accommodative with daily net liquidity absorption under the liquidity adjustment facility (LAF) averaging ₹6.4 lakh crore in February and ₹5.5 lakh crore in March 2021. India's foreign exchange reserves were at US$ 582.27 billion on March 19, 2021 – an increase of US$ 142.6 billion over end-March 2020.

Global bond market spillovers on G-Sec yields, RBI's yield curve management efforts continue

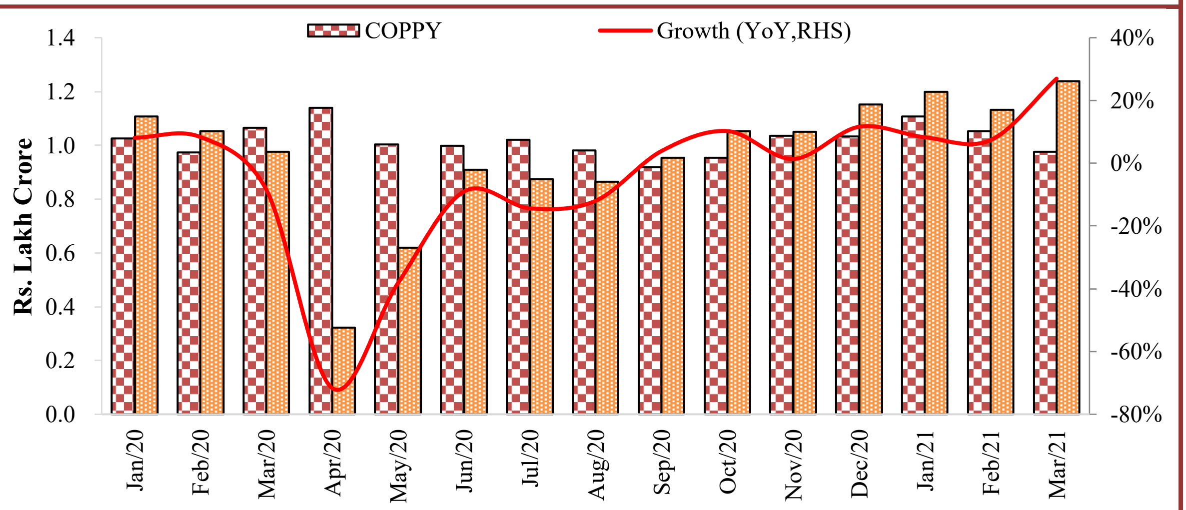
31. US bond yields have been on an upward trajectory since February 2021, rising by 56.4 bps from 5th February to reach 1.73 per cent as on 31st March 2021. Rising crude prices and US stimulus driven expectations of inflation and possibilities of reversal in its central bank stance stirred the US and global debt markets. Spillovers of the same were also seen in Indian domestic bond markets already facing supply side pressures of massive gilt issuances to sustain India's countercyclical fiscal expansion. India's 10-year G-Sec yield rose from 6.12 per cent as on 5th February to reach 6.38 per cent as on 12th March. Second half of March witnessed some softening of pressures with a 4 bps decline in yield post RBI measures of open market operations (OMOs), simultaneous purchase and sale of securities (Operation Twist) and critical forward guidance. RBI undertook simultaneous OMO purchase and sale of G-Secs for an aggregate amount of ₹ 15,000 crore each on March 4, for ₹ 20,000 crore and ₹ 10,895 crore respectively on March 10, ₹ 10,000 crore and ₹ 4750 crore respectively on March 18 and for ₹ 10,000 crore each on March 25, 2021. Tracking gilts, 10-year AAA corporate bond yields also rose from 6.98 per cent in February 2021 on average to 7.11 per cent in March 2021.



Source: FBIL, Investing.com

GST collections touched all-time high in March, improvement in fiscal position due to revival in economic activity

32. GST collections peaked during March, posting a double-digit growth of 27 per cent on YoY basis to ₹ 1,23,902 crore substantiating continued economic recovery and effectiveness of anti-evasion drive undertaken by the tax administration to improve compliance. Tightening of compliances, increased rigours in audit /investigation and leveraging technology has widened the tax base supporting higher collection for past six months without any increase in GST rates. The issuance of e-way bills touched 7.12 crore in March – the highest in three years.



Source: Ministry of Finance

33. The fiscal position of the Central Government has witnessed improvement in the recent months due to a revival in the economic activities. During April 2020 to February 2021, the Centre's fiscal deficit stood at ₹14.05 lakh crore, which is 76 per cent of RE. On the revenue side, the Net Tax Revenue to the Centre registered a growth of 9.1 per cent, which was led by almost 60 per cent YoY growth in excise duty collection and 7.4 per cent YoY growth in customs. Based on provisional estimates for the full year, Net Tax Revenues for FY 2020-21 are set to overshoot the revised estimates that are based on (-) 0.9 per cent projected for the full year. This would be in spite of the fact despite higher income tax refunds at ₹2.62 crore this

year, ~41 per cent higher than ₹ 1.86 lakh crore last year. The expenditure profile for April 2020 to February 2021 is characterised by an increased thrust on capital expenditure. The capital expenditure during this period registered a 33 per cent YoY growth and the total expenditure recorded a YoY growth of 14.3 per cent. This will be pivotal in bringing back the economy on a high growth trajectory, thereby facilitating buoyant revenues and a sustainable fiscal path in the medium term.

Financing of Fiscal deficit – Borrowing cost lowest in last 17 years

34. As on 26 March 2021, the Central Government had raised ₹13.7 lakh crore as gross market borrowings during FY 2020-21, which is 93.0 per cent higher than the corresponding period in 2019-20. The weighted average borrowing cost for FY 2020-21 was the lowest in 17 years at 5.79 per cent, and the weighted average maturity was 14.49 years. Moreover, on review of the cash balance position, the Central Government decided to borrow Rs 20,000 crore less than the estimated net borrowings of ₹12.8 lakh crore (RE 2020-21). For the year 2021-22, the Centre has planned to borrow 60 per cent of the annual target of net market borrowings of ₹12.05 lakh crore, during the first 6 months-April to September 2021.

Cooperative Fiscal federalism

35. In order to share the revenue buoyancy seen in Q4 2020-21 and in the true spirit of fiscal federalism, Government of India has released an amount of ₹45,000 crore as additional devolution to States in FY 2020-21, which is an increase of 8.2 per cent over RE 2020-21. As per RE 2020-21, ₹5,49,959 crore, 41 per cent of the shareable pool of taxes and duties, were estimated to be released to the States. The Post Devolution Revenue Deficit Grants are provided to the States under Article 275 of the Constitution. A total amount of ₹ 74,340 crore has been released to 14 eligible States as Post Devolution Revenue Deficit Grant in 2020-21, as per the recommendations of the Fifteenth Finance Commission.

36. During 2020-21, the State Governments have raised ₹7.8 lakh crore as gross market borrowings, up to 26 March 2021, which is 27.9 per cent higher than the states' gross borrowings during the corresponding period in 2019-20. In order to compensate the states for the loss of GST revenue during FY 2020-21, Central Government has borrowed a total amount of ₹ 1,10,208 crore at a weighted average interest rate of 4.8473 per cent and passed it on to the States (₹101,329 crore) and UTs with Legislative Assembly (₹8,879 crore). Under the scheme 'Special Assistance to States for Capital Expenditure' announced as a part of Atma-Nirbhar Bharat Abhiyan, an amount of ₹11,830 crore has been released for capital expenditure proposals of 27 States under the scheme.

Capex cycle gathers momentum - a harbinger of growth!

37. Central Government's capital expenditure sharply turned around to grow at 104.4 per cent during October 2020 to February 2021 (YoY), recovering from a decline of 11.6 per cent (YoY). As per information available with Comptroller and Auditor General (CAG), total capital expenditure of 25 States increased by 7.29 per cent in Q3:2020-21 over the corresponding period of last year. Growth in real gross fixed capital formation of overall economy increased from a contraction of 46.4 per cent in Q1:2020-21 to growth of 2.6 per cent in Q3:2020-21. The effect on overall economy of the country is reflected in increase in real GDP growth from a contraction of 24.4 per cent in Q1:2020-21 to growth of 0.4 per cent in Q3:2020-21.

38. Looking at sectoral developments, real estate sector signalled revival with growth in construction activity witnessing a healthy rebound to 6.2 per cent in Q3:2020-21 from the sharpest contraction of 49.4 per cent in Q1:2020-21 and contraction of 7.2 per cent in Q2:2020-21. This is also manifested in steel consumption which clocked growth of 13.7 per cent in Q3 compared to (-)51.3 per cent in Q1 and (-)7.3 per cent in Q2. Growth in production of infrastructure/construction goods increased to 5.0 per cent in Q3 compared to (-)46.8 per cent in Q1 and (-)1.6 per cent in Q2. Contraction in production of capital goods significantly eased to (-)9.1 per cent in Q3 compared to (-)64.8 per cent in Q1 and (-)12.8 in Q2. Similarly, contraction in imports of engineering goods also eased to (-)11.9 per cent in Q3 compared to (-) 46.3 per cent in Q1 and (-) 32.7 per cent in Q2. Further, FPI inflow into the capital goods sector rose to a record high of USD 1.6 billion in FY 2020-21 (till 15th March) compared to an outflow of USD 0.03 billion in FY 2019-20.

39. Union Budget 2021 has further provided a strong fillip to the capex momentum with clear emphasis on infrastructure investment as a key sector to revive demand and overall growth. Capital Expenditure budgeted outlay for FY22 has been raised by 34.5 per cent over 2020-21 (BE) – with a special focus on railways, roads, urban transport, power, telecom, textiles and affordable housing amid continued emphasis on the National Infrastructure Pipeline. Cognizant of the need for States to pick up speed on capital expenditure, the Centre has also announced provision of an additional ₹2 lakh crore to assist States in ramping up their capital spending.

40. As announced in the Union Budget, the limit of foreign investment in Indian insurance companies has been raised from the existing 49 per cent to 74 per cent. This brings the insurance sector at par with the private banking sector. The act will enable global insurance companies to take more strategic and long-term view on the Insurance sector in India, thereby bringing in greater inflow of long-term capital, global technology, processes, international best practices. Further, it is set to boost competition, enable consolidation and increase insurance penetration, leading to more innovative and affordable products for the end-consumer. The scaling up of insurance operations would lead to significant multiplier effect in terms of employment of semi-skilled insurance agents and sales force. Going forward, the strong and vibrant insurance sector will also support long-term investments in infrastructure projects which have long-gestation period.

Infrastructure financing - Development Financing Institution (DFI) in a new avatar!

41. To fund the infrastructure spending, various innovative measures have been envisaged – setting up a special Development Financing Institution (DFI) to provide credit enhancement for infrastructure projects is a prime measure. Given the large multiplier effect that infrastructure has on economic growth and development, the DFI model is sine qua non for achieving an AtmaNirbhar Bharat and putting the country on a high growth trajectory. Looking back into history will make it clear why a new DFI is a much-needed welcome step.

History of DFIs in India

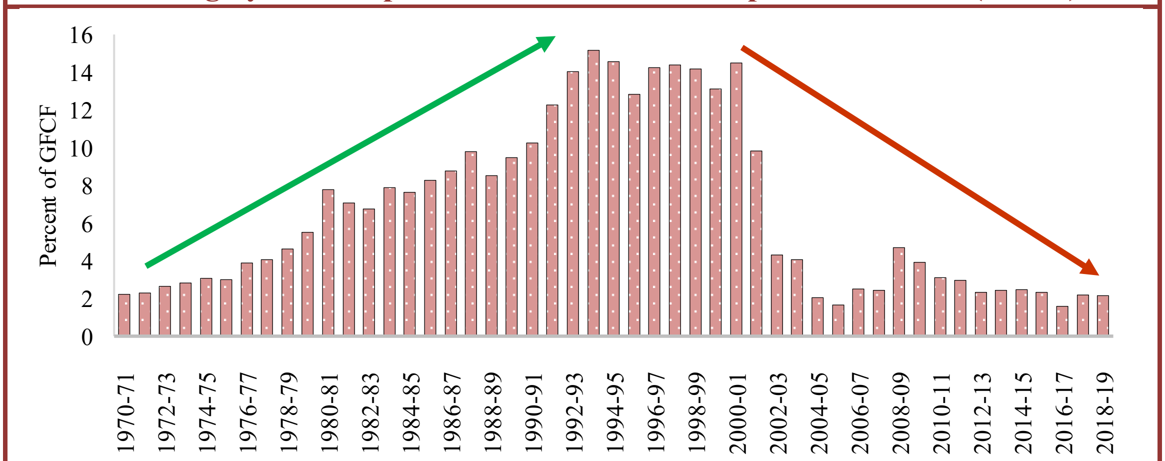
42. As per RBI's report of the Working Group on DFIs (2004), DFI is defined as an institution promoted or assisted by government to provide development finance to one or more sectors or sub-sectors of the economy where the risks may be higher than the ordinary financial system is willing to bear. The uniqueness of DFI lies in its judicious balance between commercial norms of operation and developmental obligations. Role of DFI extends beyond

that of a mere "financier" of the project to that of a "partner" with its clientele throughout the life cycle of the project. Unlike a typical commercial bank, a DFI's collateral lies in a professionally managed board, commercial and technical viability of the projects and their speedy implementation.

43. India's experience with development banking began with the establishment of the Industrial Finance Corporation of India (IFCI) and State Financial Corporations (SFCs) in 1948 followed by Industrial Credit and Investment Corporation of India (ICICI) in 1955 and the Industrial Development Bank of India (IDBI) in 1964. Broadly, three phases may be identified in the evolution of India's development banking with the first phase marking the creation and consolidation of a large infrastructure (1948-1964). The second phase marked the period from 1964 to mid-1990s wherein DFIs gained in scope and importance. These DFIs initially had access to the long-term operation funds from RBI at concessional rates. Funding was also provided by multilateral and bilateral agencies, guaranteed by the government. DFI bonds were eligible under banks' statutory liquidity ratio (SLR) requirement, providing access to a steady stream of low-cost funding.

44. The third phase kicked in after 1993-94 when role of DFIs started diminishing with the decline being particularly sharp after 2000-01. The 1991 liberalization reforms resulted in increased participation of domestic and foreign firms in the financial sector, and offering all financial institutions greater flexibility in mobilising, lending and investing resources. At this point, the ability of DFIs to obtain concessional finance was contested and resulted in the pressure to create a 'level playing field' for all players. Prompted by recommendations of the Narasimham Committee reports of the 1990s, the SLR status accorded to DFI bonds was withdrawn restricting their easy access to low-cost funds. DFIs were exposed to higher cost of funds, which when passed on to the borrowers in the form of high interest rates led to the assisted infrastructure projects becoming commercially unviable and consequently spiralling of non-performing assets (NPAs). Consequently, leading DFIs were converted into commercial banks, starting with ICICI in 2002 and IDBI in 2004. IFCI was converted from a statutory corporation to a company in 1993. The only capital infrastructure-focused DFI still in existence is India Infrastructure Finance Co Ltd (IIFCL), which started in January 2006. The change in role of DFIs can be clearly gauged in terms of financing assistance provided by DFIs as per cent of Gross Fixed Capital Formation (GFCF), which rose to 15.2 in 1993-94 and fell to just 2.4 per cent by 2013-14!

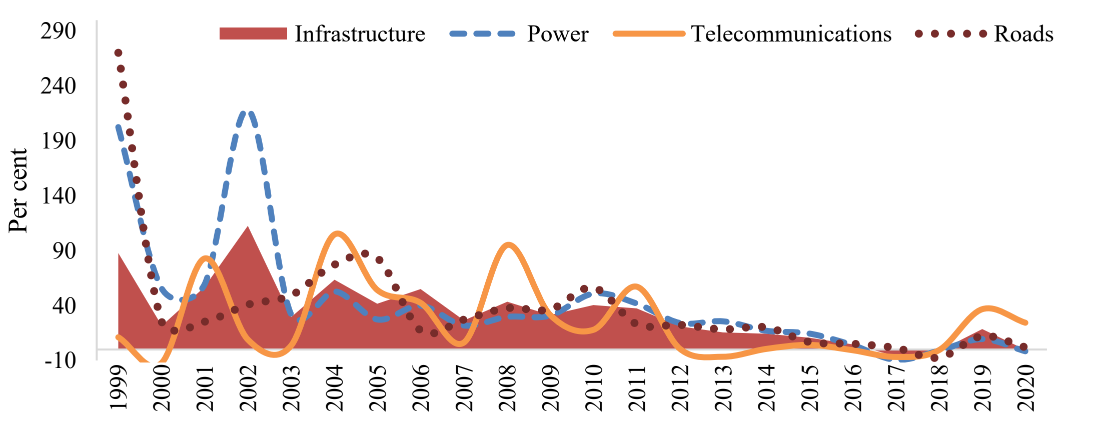
Financing by DFIs as per cent of Gross Fixed Capital Formation (GFCF)



Source: RBI

45. However, even with banks and financial institutions other than DFIs also providing term loans and project finance for infrastructure projects, there still seems to exist a gap in adequacy of long-term funding. This is evident in the trend of growth in bank credit to infrastructure over the years as in the figure below. Moreover, with COVID-19 having depressed consumer and business confidence, banks, both public and private are likely to remain cautious of risking their capital by committing to new infrastructure projects – that entail long-term financing.

Bank credit growth to infrastructure (YoY growth)



Source: RBI

National Bank for Financing Infrastructure and Development (NaBFID) – an opportune step to fill the vacuum in long term infrastructure financing

46. India's experience with development banking offers a rich repository of knowledge to inform on the crucial role that DFIs can play in the development process. Given that infrastructure sector has strong backward and forward linkages, investment in infrastructure assumes paramount importance in driving economic growth and makes a strong case for nurturing the right type of DFI to facilitate the same. Given that the journey of DFIs in India has not been a smooth one, it is all the more necessary to ensure that the new DFI has learnt the right lessons from the past and has the necessary features and safeguards to deliver real public value. This is exactly what the proposed National Bank for Financing Infrastructure and Development stands to deliver.

47. The National Bank for Financing Infrastructure and Development Act, 2021 has been passed by both the Lok Sabha and Rajya Sabha on 25th March, 2021. The National Bank for Financing Infrastructure and Development (NaBFID) is being set up as a DFI aiming to achieve lending portfolio of ₹ 5 lakh crore in 3 years with developmental and financial objectives listed as under.

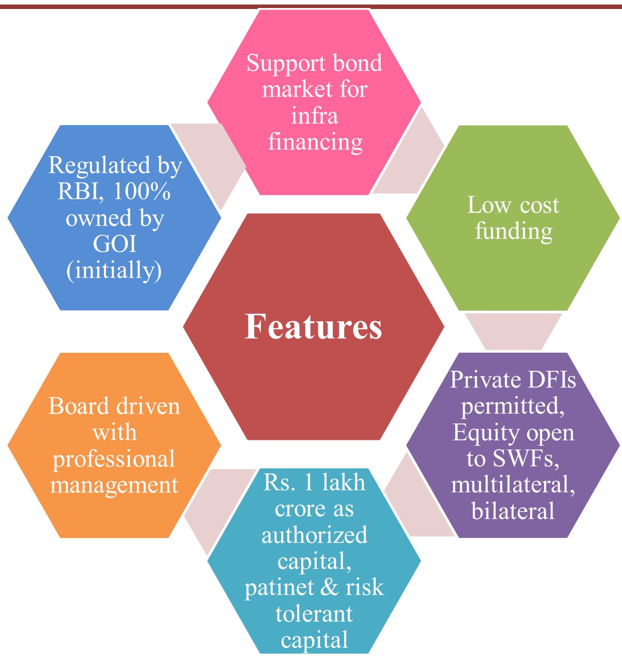
- *Developmental:* To coordinate with the Central and State Governments, regulators, financial institutions, institutional investors and such other relevant stakeholders, in India or outside India, to facilitate building and improving the relevant institutions to support the development of long-term non-recourse infrastructure financing in India including the domestic bonds and derivatives markets.
- *Financial:* To lend or invest, directly or indirectly, and seek to attract investment from private sector investors and institutional investors, in infrastructure projects located in

India, or partly in India and partly outside India, with a view to foster sustainable economic development in India.

Key features of NaBFID

48. NaBFID will be set up as a corporate body with authorised share capital of Rs 1 lakh crore. This DFI will initially be capitalized with ₹ 20,000 crore of government equity allowing it to achieve a lending portfolio of ₹ 5 lakh crore in 3 years. Shares of NBFID may be held by: (i) central government, (ii) multilateral institutions, (iii) sovereign wealth funds, (iv) pension funds, (v) insurers, (vi) financial institutions, (vii) banks, and (viii) any other institution prescribed by the central government. Initially, the central government will own 100 per cent shares of the institution which may subsequently be reduced up to 26 per cent.

Features of NaBFID



49. *Source of funds:* NaBFID may raise money in the form of loans or otherwise both in Indian rupees and foreign currencies, or secure money by the issue and sale of various financial instruments including bonds and debentures. NBFID may borrow money from: (i) central government, (ii) Reserve Bank of India (RBI), (iii) scheduled commercial banks, (iii) mutual funds, and (iv) multilateral institutions such as World Bank and Asian Development Bank.

50. *Management of NaBFID:* NaBFID will be governed by a Board of Directors whose members include: (i) the Chairperson appointed by the central government in consultation with RBI, (ii) a Managing Director, (iii) up to three Deputy Managing Directors, (iv) two directors nominated by the central government, (v) up to three directors elected by shareholders, and (vi) a few independent directors (as specified). A body constituted by the central government will recommend candidates for the post of the Managing Director and Deputy Managing Directors. The Board will appoint independent directors based on the recommendation of an internal committee.

51. *Support from the central government:* The central government will provide grants worth Rs 5,000 crore to NaBFID by the end of the first financial year. The government will

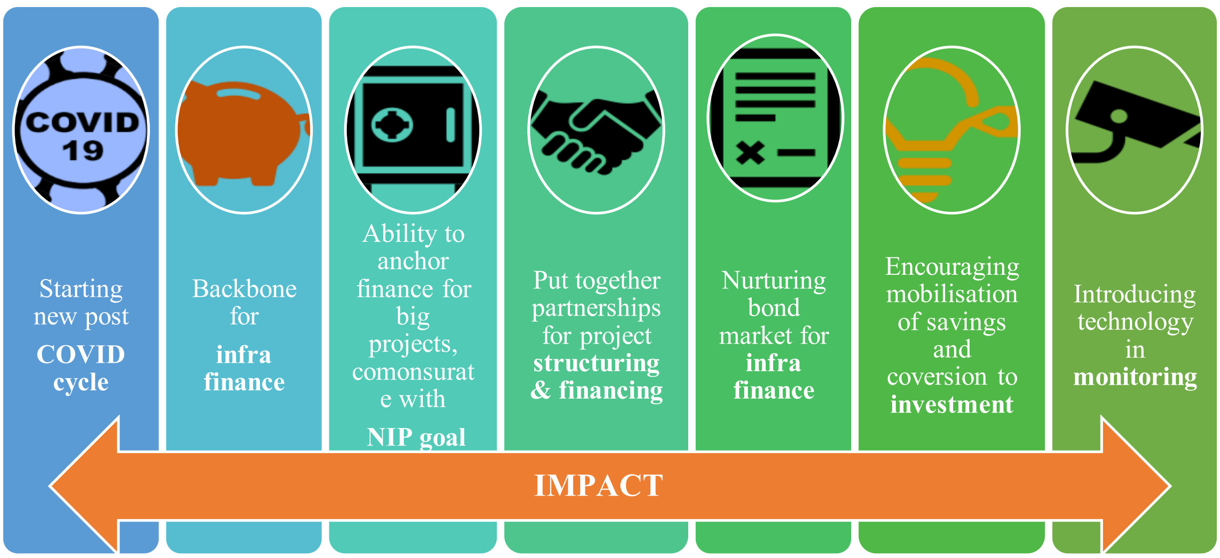
also provide guarantee at a concessional rate of up to 0.1 per cent for borrowing from multilateral institutions, sovereign wealth funds, and other foreign funds. Costs towards insulation from fluctuations in foreign exchange (in connection with borrowing in foreign currency) may be reimbursed by the government in part or full. Upon request by NaBFID, the government may guarantee the bonds, debentures, and loans issued by NaBFID.

52. *Prior sanction for investigation and prosecution:* No investigation can be initiated against employees of NaBFID without the prior sanction of: (i) the central government in case of the chairperson or other directors, and (ii) the managing director in case of other employees. Courts will also require prior sanction for taking cognisance of offences in matters involving employees of NBFID.

53. *Other DFIs:* The Bill also provides for any person to set up a DFI by applying to RBI. RBI may grant a licence for DFI in consultation with the central government. RBI will also prescribe regulations for these DFIs.

54. With these unique features and aspiration to build lending portfolio of ₹ 5 lakh crore in 3 years, NBFID is committed to the vision of building an AtmaNirbhar Bharat by providing the necessary backbone for infrastructure financing, encouraging mobilization of savings and conversion to investment, nurturing bond market for infrastructure financing as well as bringing in transparency, good governance and technology in monitoring the progress, thereby assisting the post COVID recovery of the economy in a big way.

Potential benefits of NaBFID



55. NaBFID will also dovetail with the on-going efforts of the government to enhance capital for implementing infrastructure projects worth 111 lakh crore by 2024 under National Infrastructure Pipeline (NIP), details of which are listed as under:

	Reform	Description
1	Enhancing foreign and private capital in infrastructure	To attract long-term patient investors, Finance Act 2020 provided tax exemption to notified sovereign wealth funds (SWFs) and pension funds (PFs) for specified income earned on investments in specified infrastructure sectors, subject to conditions. Scope of

		tax exemptions granted to SWF and PF extended to additional infra sub sectors in line with harmonized list for infrastructure sub-sectors.
2	Capitalization of IIFCL	Additional equity support of ₹5,300 Crore to IIFCL has been made which would further create head room for debt financing of ₹30,000 Crore to ₹35,000 Crore to infrastructure projects.
3	Infrastructure support under Atma-Nirbhar Bharat	₹1 Lakh Crore Agri Infrastructure fund for farmgate infrastructure to eliminate food wastage and enable marketing flexibility to farmer has been approved by the Cabinet. The Agri Infrastructure Fund would be made available to APMCs for augmenting their infrastructure facilities. As of now, ₹2991 crore has been in-principle sanctioned under the scheme to 3055 PACS by NABARD. Setting up of an animal husbandry fund of ₹15,000 crore, with the aim of supporting private investment in dairy processing, value addition, and cattle feed infrastructure has been approved by the Cabinet. As on 18th March, 2021, total amount applied for loan is ₹900.32 crore, total amount sanctioned by banks is ₹630.488 crore and total amount interest subvention approved is ₹23.8 crore. The proposal of Continuation and Revamping of the Scheme for Financial Support to Public Private Partnerships (PPPs) in Infrastructure Viability Gap Funding (VGF) Scheme till 2024-25 with a total outlay of ₹8,100 cr has also been approved by the Cabinet.
4	Asset Monetization to raise capital by freeing up idle resources and redirecting the proceeds into new projects	A National Monetisation Pipeline of potential brown-field infrastructure assets is being launched. CCEA on 08.09.2020 approved monetization of Tariff Based Competitive Bidding assets of POWERGRID held in SPVs through InvIT. National Highways Authority of India (NHAI) and PGCIL each have sponsored one InvIT that will attract international and domestic institutional investors. Five operational roads with an estimated enterprise value of ₹5000 crore are being transferred to the NHAI invIT and transmission assets of a value of ₹7000 crore will be transferred to PGCIL InvIT. An Asset Monetization Dashboard is also being created for tracking the progress and to provide visibility to investors.
5	To enable debt financing of Infrastructure through Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs) by Foreign Portfolio Investors	Finance Act, 2021 amended the Securities Contract (Regulation) Act, 1992 along with consequential amendments in the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and the Recovery of Debts and Bankruptcy Act, 1993.

Outlook

56. After battling a historic pandemic in FY 2020-21, the Indian economy is poised to build back better and stronger as is reflected in the movement of several high-frequency indicators displayed in Annexure I. Instrumental in this resilient comeback will be a strong revival in investment growth supported by the AtmaNirbharBharat Mission and a massive boost to infrastructure and capital expenditure provided for in the Union Budget 2021-22. The wheels of India's capex cycle have been set into motion, signs of which are imminent in the second half of the year. As the vaccination drive continuously upscales in India and guided by the learnings of India's successful management of pandemic during its first wave, India is now well armed to combat any downside risk posed by the recent surge in COVID-19 cases. With the end of a challenging FY 2020-21, the crest of a brighter and self-reliant FY 2021-22 awaits India!

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Scale			
YoY growth	(-) 109	0	881

Movement in India's high frequency indicators

Indicator	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
8-Core Industries (Index)	137	134	134	81	108	116	123	120	121	127	127	136	139	128	
IIP-Consumer Durable goods (Index)	124	117	83	6	40	78	99	110	129	134	113	124	124		
IIP-Consumer Non-Durable goods (Index)	158	153	122	73	135	148	149	140	147	149	148	159	148		
Domestic Auto sales# (Lakhs)	17	16	10	0	3	11	15	18	21	24	19	14	17	17	
Domestic Passenger vehicles sales (Lakhs)	2	3	1	0	0	1	2	2	3	3	3	3	3	3	
Non-oil exports (USD Billion)	23	24	19	9	17	20	22	21	24	23	22	25	25	25	31
Non-oil non gold imports (USD Billion)	27	25	20	12	19	16	21	21	24	25	24	29	29	26	27
PMI Manufacturing (Index)	55	55	52	27	31	47	46	52	57	59	56	56	58	58	55
Power supply (Mega Units)	114	112	107	92	110	114	122	119	122	119	106	115	111	105	123
Tractor sales (Numbers)	53387	57710	31232	11827	60441	92888	63137	64729	108585	115155	82330	61249	78345	75645	
Natural gas production (Mn. Cu. Metres)	2530	2257	2327	2066	2215	2250	2369	2363	2228	2348	2263	2355	2478	2235	
Domestic air passenger traffic (Lakhs)	248	241	150	0	6	39	40	56	78	103	125	144	152	154	
Port cargo traffic (Million Tonnes)	62	57	61	47	45	49	51	52	54	56	59	63	64	59	
Rail freight traffic (Tonnes)	110190	106490	103070	65400	82580	93580	95180	94630	102300	108260	110110	118290	119790	112330	
PMI Services (Index)	56	58	49	5	13	34	34	42	50	54	54	52	53		
Fuel consumption (Thousand MT)	18746	18105	15931	9403	15374	16093	15604	14434	15477	17768	17867	18618	18010	17212	
Cement production (Thousand Tonnes)	31391	30728	24818	4305	22443	26358	24247	20871	24244	27030	25256	28266	29563	29038	

Indicator	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
Steel consumption (Thousand Tonnes)	9168	7833	6742	1091	4789	6350	7634	7963	8179	9192	9076	10163	10025	9266	
Merch Exports (USD Billion)	26	28	21	10	19	22	24	23	28	25	24	27	27	28	34
Baltic Dry Index	701	461	601	664	489	1146	1633	1517	1399	1631	1180	1244	1658	1431	
Exchange Rate (INR/USD)	71	71	74	76	76	76	75	75	73	73	74	74	73	73	73
NEER (40 currency, trade based, 2015-16=100)	97	98	95	94	94	93	94	93	95	95	93	93	94	94	
Net FDI (USD Billion)	5	3	4	0	0	-1	4	18	3	5	6	7	4		
Gross tax revenue (Rs. Lakh)	1	1	3	1	1	1	1	1	2	2	2	3	2	2	
Non-food credit (Rs. Lakh)	100	100	103	102	101	102	102	102	102	103	104	105	106	107	107
M3 (Rs. Lakh)	164	165	168	170	172	173	176	176	177	178	179	181	184	186	186
CPI food (Base 2012=100)	153	150	148	153	152	153	157	158	162	166	166	161	156	156	
Crude price Brent Dubai WTI (USD/ Barrel)	62	53	32	21	30	39	42	43	41	40	42	49	54	60*	64*
Crude oil Indian basket (USD/ Barrel)	64	55	33	21	30	41	43	44	41	41	44	50	55	61*	65*
Sensex (Index)	40723	38297	29468	33718	32424	34916	37607	38628	38068	39614	44150	47751	46286	49100	49509

* green colour here indicates year-on-year increase in international and domestic oil prices owing to trends of recovery in global economic demand.

Note: #Domestic Auto sales (Excluding Commercial vehicles)

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