Indian Economy
Insights

KPMG in India

April 2021

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Foreword - (1/2)

The onset of the COVID-19 pandemic marked a major shift for global economies impacting every individual. Nations came to a near standstill, with the implementation of lockdowns and movement restrictions to rein in the virus. India followed suit and imposed nation-wide lockdowns over months, gradually opening in phases. However, restrictions on the movement of people and goods weighed on industrial production activity, government earnings, and commodity sales, inducing high unemployment and loss of consumer confidence. Triggered by this, the GDP fell by more than 20 percent in 1Q21, while annual GDP is expected to decline by more than 7 percent in FY21.

In an attempt to revive the economy and mitigate impact of the economic fallout, the government announced financial stimulus packages worth up to 10 percent of the national GDP. Additionally, the government, along with regulatory bodies such as the RBI, strategised measures such as loan moratoriums, unsecured loans for MSMEs, and lower interest rates on new loans to ensure adequate liquidity and curb the rise of nonperforming loans.

Signs of recovery amidst efforts to stay afloat

With adequate government support and the gradual opening of the market, India registered 0.4 percent GDP growth in 3Q21, indicating at a 'V' shaped recovery. In addition, the high frequency indicators such as GST collections, Index of Industrial Production (IIP), Purchasing Manager's Index (PMI), automotive sales, steel production, power demand etc. witnessed an upward trend to attain the pre-COVID-19 level. While few sectors registered increase in output driven by pent up demand, high contact services sectors such as transportation, hospitality, and entertainment continue to witness a sluggish recovery, given the weak public confidence and persisting restrictions by the government. Meanwhile, agriculture sector continue to witness growth backed by a normal monsoon in the pandemic year.

To further stimulate growth, policy reforms in the recent past have been directed towards economic growth. For example, the recently announced Union Budget 2021–22 was also structured to provide an impetus to the economy by improving infrastructure, healthcare facilities, boosting foreign investment and ensuring liquidity in the market. Some salient features include extending tax holidays for start-ups, allocating funds for the COVID-19 vaccination program, removing double taxation obligations for foreign investors, announcing new infrastructure projects such as highways, and boosting PPP projects in the public sector domain.

Key focus areas

- **Fiscal consolidation**

  As India continues to recover from the impact of the pandemic, the government has been seeking alternative sources of income by divesting PSUs, engaging in PPP businesses and increasing taxes. These strategies are aimed to reduce the deficit and enhance focus on critical areas such as the COVID-19 vaccination program, healthcare and infrastructure.

- **Focus on domestic manufacturing**

  With deep focus on the 'Atma Nirbhar Bharat' initiative, the government has taken steps such as extension of the PLI scheme to 13 sectors and increased taxation on imports of certain raw materials and finished goods. The initiative will gain momentum with growth in domestic manufacturing and boost export

Foreword - (2/2)

earnings, while improving the industrial output and employment situation of the country. Further, this could solidify India's position as a preferred manufacturing and global supply chain hub.

- **Improving ease of doing business**

  Favourable FDI norms, change in investor regulations, tax incentives, single window clearance systems, improved infrastructure and new employment policies will bolster India's ease of doing business index. This, in turn, will attract foreign investments, enhance employment opportunities, reduce trade deficit and boost GDP to help India evolve into a US$5 trillion economy.

- **Sectoral growth**

  To promote economic activity in prominent sectors, the government announced initiatives such as the vehicle scrappage policy, allocation of new coal blocks, tariffs on the export of select raw materials, such as iron ore, with focus on the 'vocal for local' campaign.

- **Developing alternative sources of energy**

  Taking a cue from the global focus on environmental initiatives, the Indian government is also looking to reduce the use of renewable fuels to lower power costs and pollution for minimising environmental impact. It has been proactively driving renewable energy projects by providing incentives and easing regulatory procedures. The strategic focus on procuring alternative energy sources will not only bode well for the industrial sector but bolster India's standing as a low-cost manufacturing hub.

Looking ahead

Having weathered the lows effectively, India has garnered positive sentiment in the global market, owing to government stimulus measures, infrastructural investments and large-scale public vaccination plans. This is expected to drive FDI investments from companies that aim to diversify supply chain risks, invest in a stable market and cut manufacturing costs. In addition, the collective synergies from higher infrastructure investments and the recently announced PLI scheme, are expected to drive investments and consequently auger well for India's GDP.

Major financial institutions are predicting India's GDP growth in the range of 7.7–13.7 percent in FY22, strengthening its position as a preferred market and the fastest-growing economy in the world. However, the country is dealing presently with the second wave of the COVID-19 pandemic. Localised lockdowns, as opposed to a national lockdown and rapid progress on vaccinating the population at scale, coupled with, growth in the services sector and increase in discretionary spending (likely to be impacted due to rising fuel prices) are pertinent for complete economic recovery.

Executive Summary

Executive summary (1/3)

Economic overview

Parameter/indicator	Description	Source
Gross Value Added (GVA)	• Post witnessing decline in the first two quarters of FY21, overall GVA grew by 1.0 percent in the third quarter, indicating a 'V' shaped recovery	Link
Agricultural	• Despite COVID-19, the agriculture sector witnessed growth in the last three quarters. It grew by 3.9 percent in 3Q21, as compared to 3Q20	
Industry	• Manufacturing, construction and utilities sector registered growth during 3Q21, however, mining continues to be in the negative zone	Link
Services	• Apart from financial services (which grew by 6.6 percent in 3Q21), other two sectors i.e., trade, hotels and transportation, and public administration and defence, witnessed negative growth in the last three quarters of FY21	
Index of Industrial Production (IIP) and employment	• After a huge decline in April 2020, IIP has continuously improved owing to pent up demand and increase in manufacturing output. However, it witnessed a decline in January 2021, owing to fall in output of mining, manufacturing and capital goods sectors • Unemployment rate stands at 6.5 percent (as of March 2021), lower than pre-COVID-19 level	Link
Inflation	• WPI and CPI inflation were highly volatile during 2020 and reached 4.2 percent and 5.1 percent, respectively by February 2021	Link
Government's revenue and expenditure	• As of February 2021, the government's expenditure reached INR28.2 trillion as compared to total receipts of INR14.1 trillion, thereby creating a fiscal deficit of INR14.1 trillion	Link
Trade, FDI and foreign exchange reserves	• In FY21 (till February 2021), India had a trade deficit of US$7.8 billion • While the country's foreign exchange reserves dipped a little to US$579.3 billion (as of 2 April 2021), it became the fourth largest country during March 2021. In terms of FDI, the country reached US$500 billion mark in September 2020 (from April 2000)	Link
Business activity	• Increased government support has led to a rise in the new company registration by 37 percent in February 2021, as compared to previous year. In addition, there has been an upward movement in Nomura India Business Resumption Index indicating improved business activity	Link

Executive summary (2/3)

Sectoral analysis

Parameter/indicator	Description	Source
Services	• The services Purchasing Managers Index (PMI) reached to pre-COVID-19 levels during Jan-Feb 2021. The sector also achieved an estimated trade surplus of US$76.8 billion in FY21 (April 2020 – February 2021)	Link
Financial services	• Total volume of UPI transactions increased by 116.5 percent in March 2021, as compared to previous year, while retail payments on NPCI platform increased by 78.9 percent during the same period. In addition, the country attracted a total of US$36.3 billion PE investments in the first 11 months of FY21 (April 2020 – February 2021), with 1,189 deals	Link
Transport	• Passenger movement through railways and air are way behind the pre-COVID-19 levels. However, freight transport through air is closer to reaching the pre-COVID-19 level, while freight movement through railways has already surpassed it	Link
Telecom and entertainment	• Total wireless subscribers increased from 1,153.8 million in December 2020 to 1,163.4 million in January 2021, while the consumption of OTT video witnessed a y-o-y growth of 12.7 percent in January 2021, reaching 204 billion minutes	Link
Energy	• Electricity demand decreased by 0.3 percent in February 2021, as compared to previous year, while demand for petroleum products and natural gas went down by 4.9 percent and 12.4 percent, respectively, during the same period	Link
Manufacturing	• Manufacturing PMI and IIP have reached pre-COVID-19 levels indicating recovery in the sector. Though the exports of commodities have increased, India continues to be a net importer with trade deficit of US$84.6 billion in FY21 (April 2020–February 2021)	Link
Automobile	• Although the passenger vehicle and two-wheeler segment achieved the pre-COVID-19 levels during November 2020, both the segments witnessed a m-o-m decline of 9.8 percent and 6.2 percent, respectively, in February 2021 • Commercial vehicle and three-wheeler segment are showing slow recovery and are way behind the pre-COVID-19 levels	Link
Cement and steel	• Crude steel production has attained pre-COVID-19 level. The production grew by 5.0 percent in January 2021 as compared to previous year • While, cement industry has shown recovery, it is expected to witness a downfall of 18-20 percent in FY21	Link

Executive summary (3/3)

Sectoral analysis

Parameter/indicator	Description	Source
Agriculture	• Agricultural sector witnessed growth, which was evident due to an increase in tractor and fertilizer sales. Tractor sales witnessed a y-o-y growth of 30.4 percent in February 2021, while fertilizer sales registered a y-o-y growth of 22.6 percent in January 2021	Link
Mining and Quarrying	• Mining sector is on a comparatively slower recovery path and is yet to achieve the pre-COVID-19 level. Coal production increased by 11.6 percent in February 2021, as compared to previous year	Link

Government initiatives and outlook

Parameter/indicator	Description	Source
Government regulations and initiatives	• Some of the recent government initiatives include financial stimulus, credit arrangements for businesses along with amendments in various bills and acts	Link
Budget announcements	• Key announcements from the Union Budget 2021–22 around fiscal and sector specific reforms such as divestments of CPSEs, vehicle scrappage policy, amongst others	Link
Outlook	• Major financial institutions expect strong growth in the Indian economy in 2021. However, the forecast varies from 7.7–13.7 percent • IMF predicts India to be the fastest growing economy in the world at 12.5 percent	Link

Key indicators - A snapshot

Key indicators - A snapshot (1/2)

Economic overview

Macroeconomic Indicator	4Q20	1Q21	2Q21	3Q21
Gross Value Added (GVA)	3.0	-22.4	-7.3	1.0
Agricultural	5.9	3.3	3.0	3.9
Mining and Quarrying	5.2	-18.0	-7.6	-5.9
Manufacturing	-1.4	-35.9	-1.5	1.6
Construction	-2.2	-49.4	-7.2	6.2
Electricity, Gas, water supply and utility services	4.5	-9.9	2.3	7.3
Trade, Hotels, Transport and Communication	2.6	-47.6	-15.3	-7.7
Financial, Real Estate and Professional Services	2.4	-5.4	-9.5	6.6
Public Administration, Defense and Other services	10.1	-9.7	-9.3	-1.5

Numbers are y-o-y percent change

- Though India's economy has witnessed recovery post the impact of pandemic, it's yet to reach the pre-COVID-19 levels
- The country's economy could rebound to 5.4 percent–13.7 percent growth in 2021, owing to improvement in business activities backed by COVID-19 vaccinations, government support, increased infrastructure spending and an improvement in consumption

Macroeconomic Indicator	Unit	1Q21	2Q21	3Q21
Employment under MGNREGS	Million	62.7	-18.1	-13.2
Total GST collections	INR billion	-40.9	45.3	20.8
Foreign exchange reserves	US$ million	4.3	9.3	6.1
Total receipts	INR trillion	-73.8	174.6	35.1
Total expenditure	INR trillion	42.2	-19.1	20.7
Foreign Direct Investment (FDI)	INR billion	-47.9	251.2	-9.37

Numbers are q-o-q percent change

Macroeconomic Indicator	Unit	1Q21	2Q21	3Q21
Unemployment Rate	Percent	18.5	7.5	7.5
WPI inflation percent (all commodities)	Percent	-2.3	0.5	1.4
CPI inflation percent (Combined)	Percent	6.2	6.9	6.4

Numbers are average of three months

Legend: Huge decline ← → High growth

Note: 1Q21 refers to Apr 2020 to Jun 2020; Percent change is calculated in comparison to figures from previous quarters; Quarterly WPI and CPI are calculated as an average of the three months; WPI and CPI inflation targets are considered as 5 percent and 4 percent respectively, with an allowed variance of 2 percent on either side

Key indicators - A snapshot (2/2)

Sectoral analysis

Sector	Indicator	Unit	1Q21	2Q21	3Q21
Services	PMI	Index	17.2	41.9	53.4
	Imports	US$ billion	-14.6	1.7	4.7
	Exports		-8.4	0.8	3.4
Manufacturing	PMI	Index	35.1	51.6	57.2
	Imports	US$ billion	-44.5	47.8	20.9
	Exports		-31.6	44.4	2.0

Index is average of three months; Import-export are in q-o-q percent change

- Services sector is witnessing recovery supported by securing of new work and growth in outstanding business
- Export business continues to be impacted owing to global COVID-19 restrictions, especially travel bans

- Manufacturing is getting back to normal owing to easing of COVID-19 restrictions, increased domestic as well as exports demand, and improved market conditions
- The sector is expected to grow in the near term, driven by favorable government reforms such as PLI scheme for 13 sectors, changes in FDI norms, and infrastructure development policies

Note: 1Q21 refers to period from April 2020 to June 2020; Quarterly PMI calculations have been done by taking average of the values from the constituting months; PMI index above 50 has been considered positive and below 20 has been considered high negative

Sector	Indicator	Unit	1Q21	2Q21	3Q21
Financial Services	UPI transactions	INR trillion	-8.5	45.4	30.0
	PE investments	US$ million	194.3	-19.6	-9.6
Transport	Railway passengers booked	Million	-100.4	1,050.0	392.1
	Air passengers booked	Million	-93.6	282.3	111.1
	Air Freight Volume	'000 tonnes	-59.5	108.1	19.6
	Rail Freight Volume	Million tonnes	-24.4	20.7	15.1
	Fast tag collections	INR billion	-40.6	81.8	24.0
	E-way bills generated	Million	-51.3	106.6	18.5
Telecom and entertainment	Net wireless subscriber additions	Million	NA	NA	-35.0
	Monthly consumption of OTT Video	Billion minutes	15.4	4.3	5.3
Energy	Consumption of petroleum products	'000 tonnes	-22.6	11.4	19.2
	Consumption of natural gas	Million cubic meter	-17.5	16.5	0.5
	Electricity demand	Billion units	-4.8	14.9	-6.2
Automotive	Two-wheeler registrations	Thousand	-72.2	194.1	39.0
	Three-Wheeler Registration	Thousand	-91.1	300.0	32.1
	Commercial vehicle registration	Thousand	-92.6	514.3	68.6
	Passenger vehicle registration	Thousand	-76.2	238.9	52.6
Steel	Crude steel production	Million tonnes	-35.4	53.8	7.1
Cement	Cement production	Million tonnes	-39.1	30.5	15.1
Agriculture	Tractor sales	Thousand	10.3	47.4	9.9
	Fertilizer sales	Million tonnes	-11.3	33.6	-1.2
Mining and quarrying	Value of mineral production	INR billion	-44.3	-6.4	75.3
	Coal production	Million tonnes	-40.5	-5.3	38.6

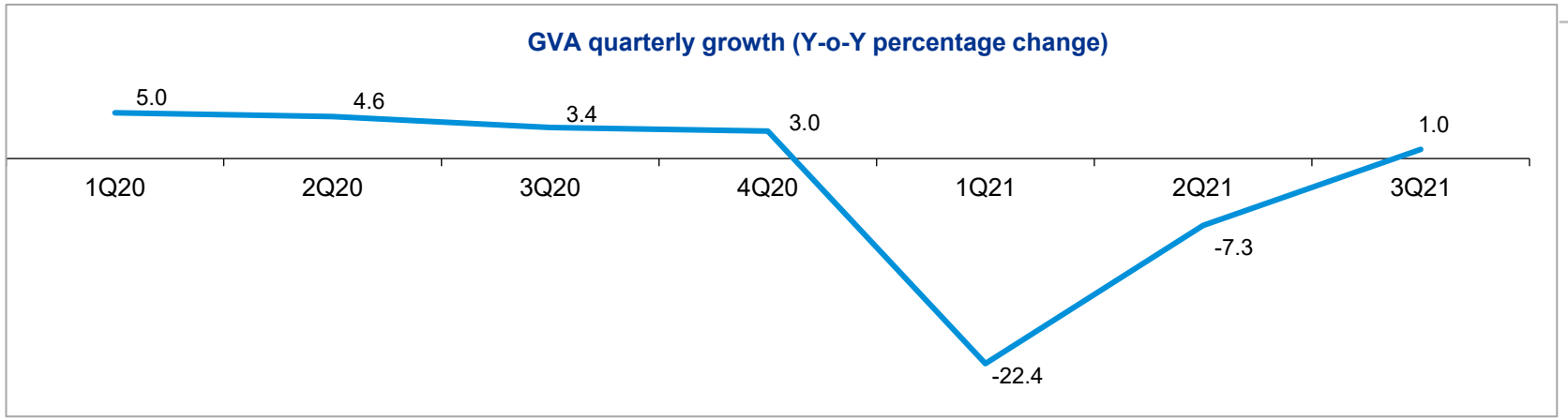
Numbers are q-o-q percent change

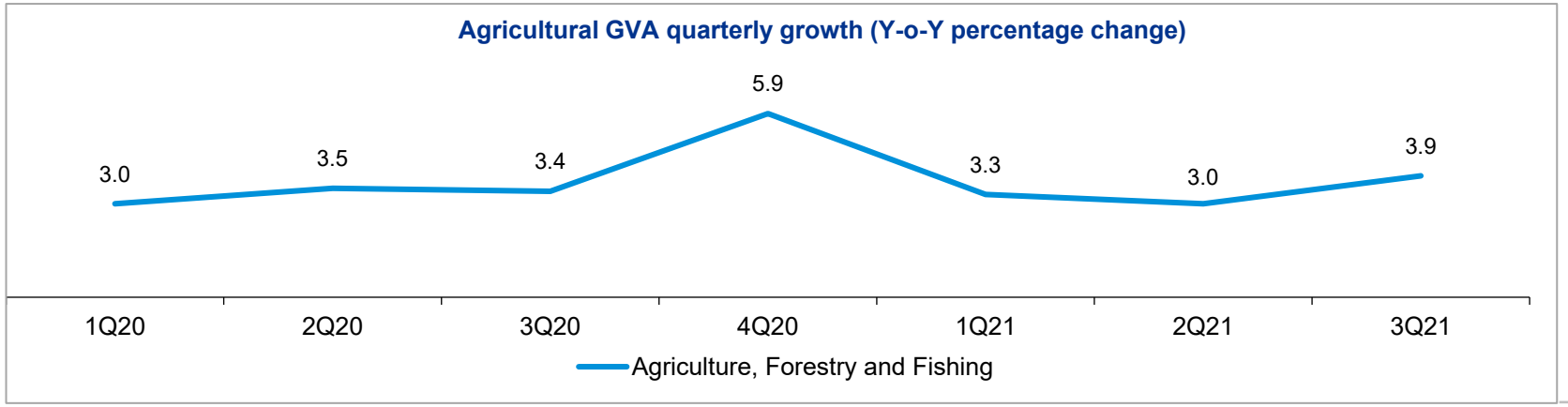
Legend: Huge decline ← → High growth

Economic performance

Economic overview (1/2)

The GVA witnessed growth of 1.0 percent in 3Q21, as compared to a huge decline of 22.4 percent in 1Q21, which is expected to improve further by FY22. Agriculture sector continued its growth from the previous quarter owing to increased sowing of rabi crops





Key highlights

- The Gross Value Added (GVA) in 3Q21 saw a y-o-y growth of 1.0 percent, an improvement over the previous quarter, as five out of eight sectors recorded growth compared to just one sector in 1Q21
- The International Monetary Fund (IMF) projects that India will contract by 8.0 percent in FY21 and grow by 12.5 percent in FY22
- Agriculture sector witnessed a growth in 3Q21 on the back of growing production of crops, legumes and livestock products
  - Y-o-Y increase of 2.6 percent in sowing of rabi crops was seen till 8 January 2021, owing to increased planting of pulses, oilseeds and wheat
  - Production of food grains is expected to grow by 2.0 percent in FY21 to 303 million tonnes

Note: FY21 represents time period of April 2020 to Mar 2021; 1Q21 represents period of April 2020 to June 2020

Source(s): "Estimates of Gross Domestic Product for the third Quarter", Ministry of Statistics & Programme Implementation, "Provisional Estimates of Annual National Income, 2019-20 and Quarterly Estimates (q4) of Gross Domestic Product", Ministry of Statistics & Programme Implementation, Farm sector maintains robust growth in Q2, GVA up 7.7% at current prices, Business Standard, 28 November 2020; India's food grain production to be an all-time high at 303 million tonnes, Times of India, 25 February 2021; Rabi sowing rises by 2.61%: Agriculture ministry, Economic Times, 8 January 2021; IMF projects India's growth rate to jump to impressive 12.5 per cent in 2021, The Indian Express, 7 April 2021; all accessed on 8 April 2021

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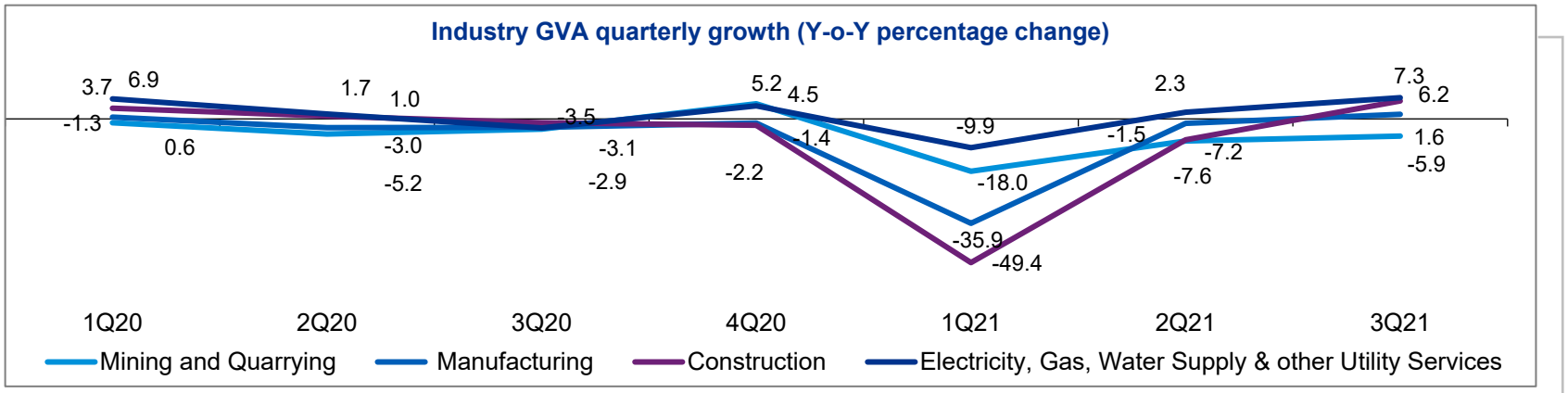
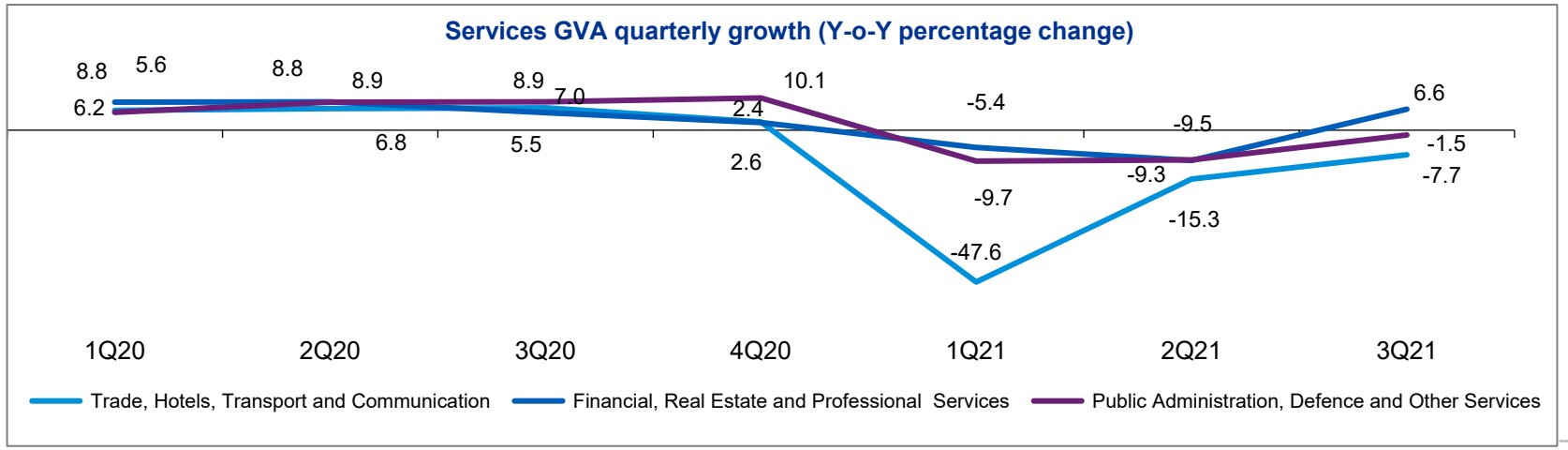
Economic overview (2/2)

Manufacturing, construction, utilities and financial services sector witnessed growth in 3Q21, as economy started opening after the lockdown. However, other sectors including mining, hotel and transportation, and other services, continues to contract although at a slower rate





Key highlights

- Manufacturing sector showed a major recovery in 2Q21 and witnessed a y-o-y growth in 3Q21, after contracting by 35.9 percent in 1Q21
  - Corporates added highly to the manufacturing GVA owing to cost cutting measures and favourable raw material costs
  - In the recent Union Budget, the government approved INR1.97 lakh crore production-linked incentive (PLI) scheme for 13 major manufacturing sectors, to boost employment and production
- As per Economic Survey, services sector is likely to contract by 8.8 percent, in FY21 mainly due to an expected contraction of 21.4 percent in the 'Trade, hotels, transport, communication & broadcasting' sector, as it is still dealing with the after-effects of lockdown

Note: FY21 represents time period of April 2020 to Mar 2021; 1Q21 represents period of April 2020 to June 2020

Source(s): "Estimates of Gross Domestic Product for the Second Quarter", Ministry of Statistics & Programme Implementation, "Provisional Estimates of Annual National Income, 2019-20 and Quarterly Estimates (q4) of Gross Domestic Product", Ministry of Statistics & Programme Implementation; "Manufacturing GVA growth in Q2 'surprising': SBI Report", The Statesman, 30 November 2020; "GDP contraction for FY21 at 7.7% could still have an upward bias's, SBI, 7 January 2021; all accessed on 3 March 2021

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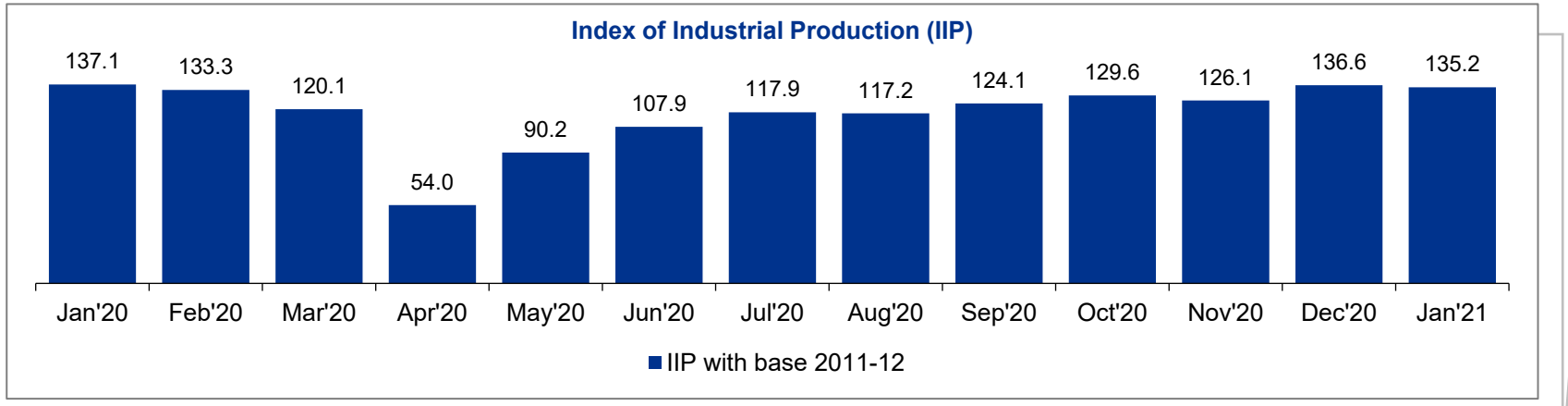
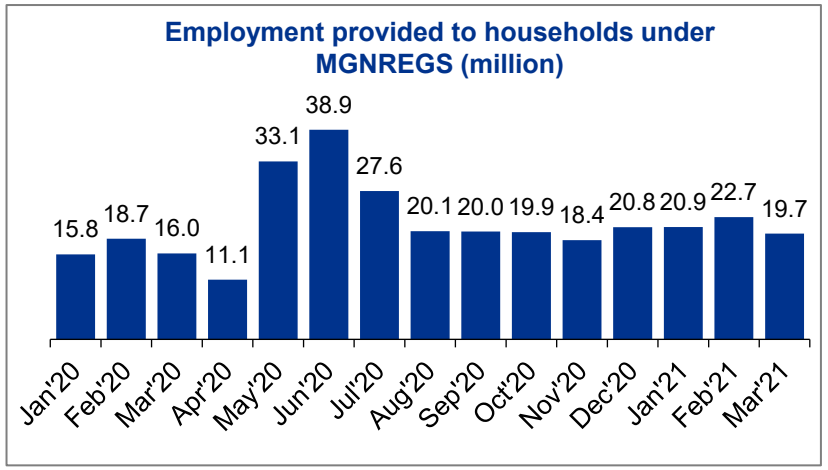
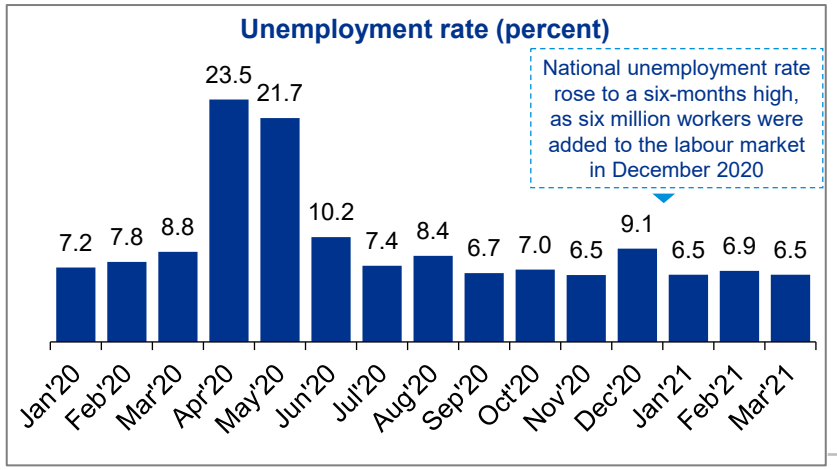
IIP and employment

The Index of Industrial Production has seen an overall contraction in FY21 till January 2021. The unemployment rate has remained highly volatile in FY21, indicating towards high proportion of informal employment in the country







Key highlights

- IIP witnessed a contraction of over 12 percent in the first ten months of FY21
  - IIP grew in December 2020 owing to growth in manufacturing output and electricity generation, while contracted by 1.6 percent in January 2021 due to decline in output of capital goods, manufacturing and mining sectors
- As per an update on 16 March 2021, the government has created 366 crore person days of work (the highest ever) and spent over INR1 lakh crore, under the Mahatma Gandhi National Rural Employment Guarantee scheme (MGNREGS)
  - The announcement of an additional INR10,000 crore under the Pradhan Mantri Garib Kalyan Rozgar Yojna is expected to boost rural employment
  - In December 2020, the government approved EPF subsidy scheme for job creation, which is likely to add more jobs
- To frame schemes for the unorganised workers, the government has announced to launch a portal to collect information on gig and construction workers

Note: IIP figures from Oct – Dec are provisional
Source(s): "Employment Provided Pattern During Financial Year : 2020-2021", Ministry of Rural Development; IIP Press release, Ministry of Statistics & Programme Implementation; MGNREGS: Spend on rural jobs schemes crosses Rs 1 lakh crore; Rajasthan top gainer, Financial Express, 16 March 2021; all accessed on 16 March 2021

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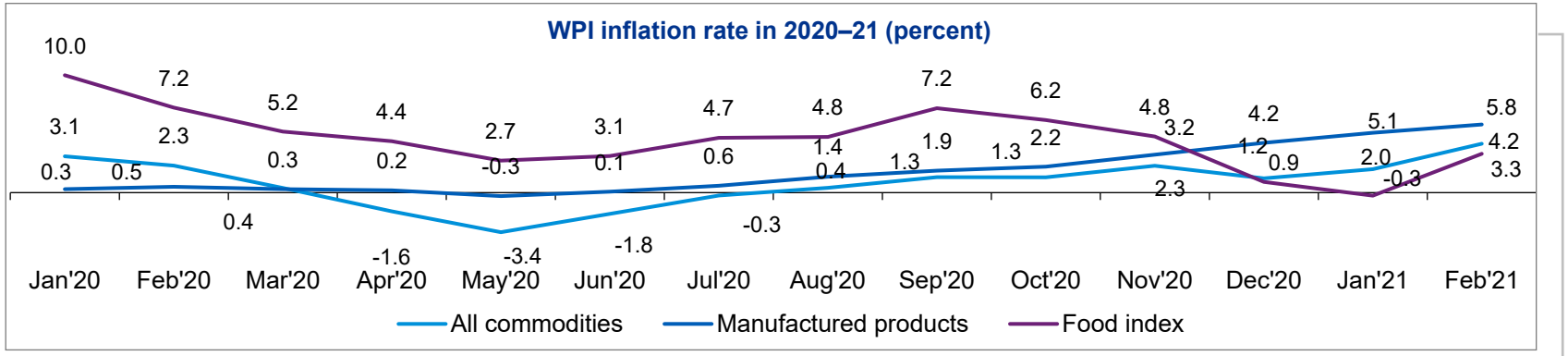
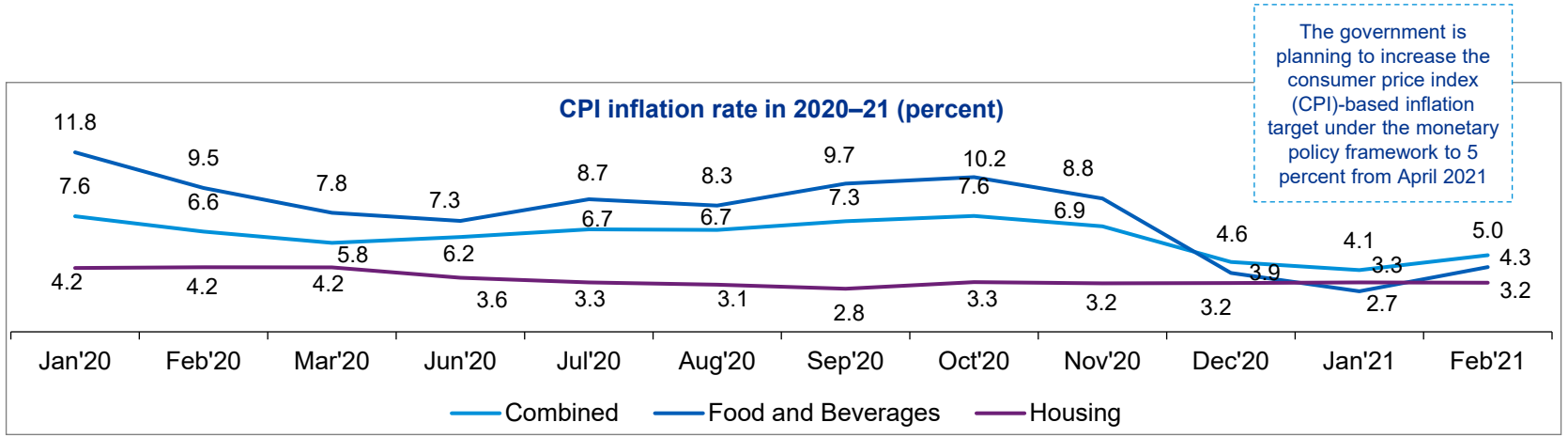
Inflation

Both WPI and CPI inflation eased in December driven by lower food inflation levels, although core industries are showing signs of recovery which is leading to rise in core inflation





The government is planning to increase the consumer price index (CPI)-based inflation target under the monetary policy framework to 5 percent from April 2021

Key highlights

- Wholesale Price Index inflation eased to a four-month low of 1.2 percent in December 2020, as food inflation fell to 0.9 percent. However, it witnessed an increase towards February 2021
  - Core inflation rose to 4.2 percent in February 2021, rising to a 27-month high driven by increase in prices of manufactured products, food items, fuel and power items
- Consumer Price Index inflation stood at 5.0 percent in February 2021, reaching a three-month high owing to elevated fuel and transportation prices
  - The inflation is now within the Monetary Policy Committee's target range of 4 (+/-2) percent since March 2020
  - RBI projects CPI inflation at 5.8 percent for March quarter of FY21

Note: Government of India did not release the CPI numbers for April and May 2020

Source(s): WPI Press Release Archive, DPIIT; Press Release, MoSPI; "India's CPI inflation falls to lowest in 16 months", Bloomberg Quint, 12 February 2021; "WPI in the month of January", DPIIT; India's WPI Inflation Rises To 11-Month High In January, Bloomberg Quint, 15 February 2021; all accessed on 3 March 2021

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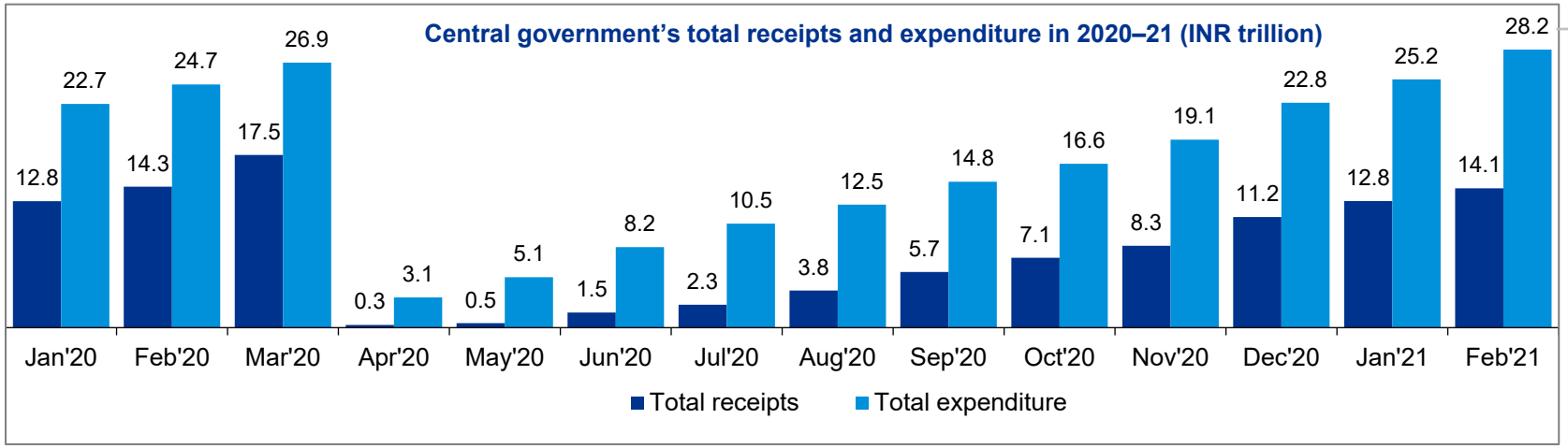
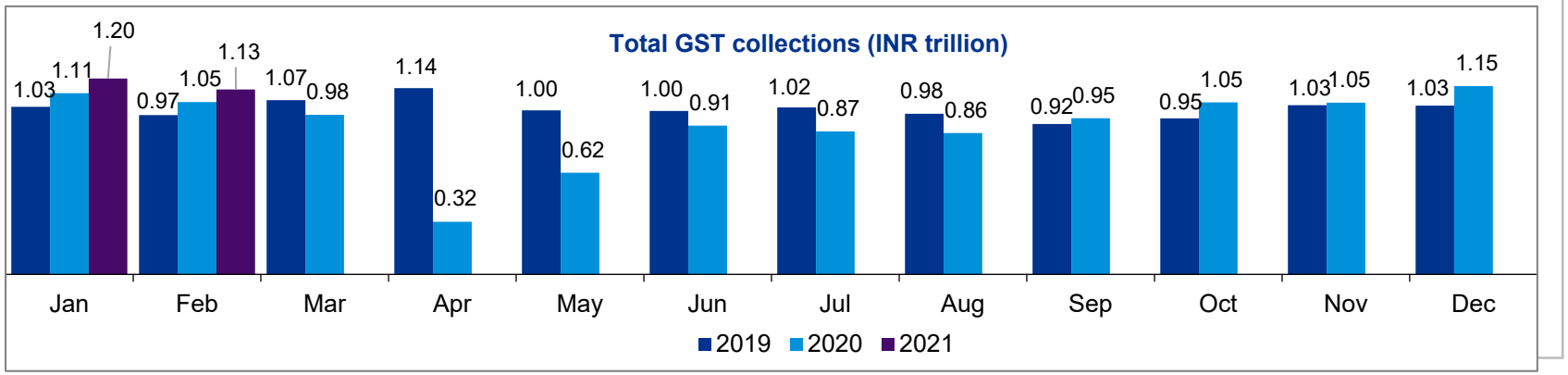
Government's revenue and expenditure

Though the tax revenue, including GST, has grown in the past few months, the government's fiscal deficit is on the rise owing to increasing capital expenditure aimed at improving country's economic performance



Revenue and expenditure numbers are cumulative



Key highlights

- The difference between the Centre's revenue receipts and expenditure reached INR14.1 lakh crores between April 2020 and February 2021, due to high capital expenditure to boost the economy
  - The gap between Centre's revenue and expenditure is likely to reach 9.5 percent of the GDP in FY21
- GST collections increased by 7.3 percent in February 2021 as compared to previous year, to cross INR1.1 lakh crore mark for the third straight month, indicating economic recovery
- In Union Budget 2021-22, fiscal deficit is targeted at 6.8 percent of GDP
  - The government's target is to reduce the fiscal deficit to 4.5 percent by 2025–26

Source(s): Accounting Information, Monthly accounts, Controller general of accounts; GST Revenue, GST Council; Accounting report January 2021, CGA; Understanding the Anatomy of India's High Fiscal Deficit, The Wire, 1 February 2021; GST collection rises 7% to Rs 1.13 lakh crore in February, Business Today, 1 March 2021; all accessed on 3 March 2021

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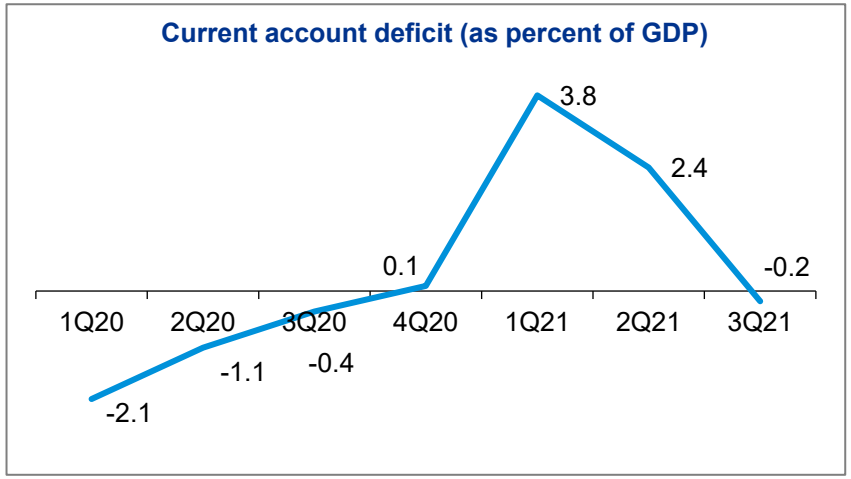
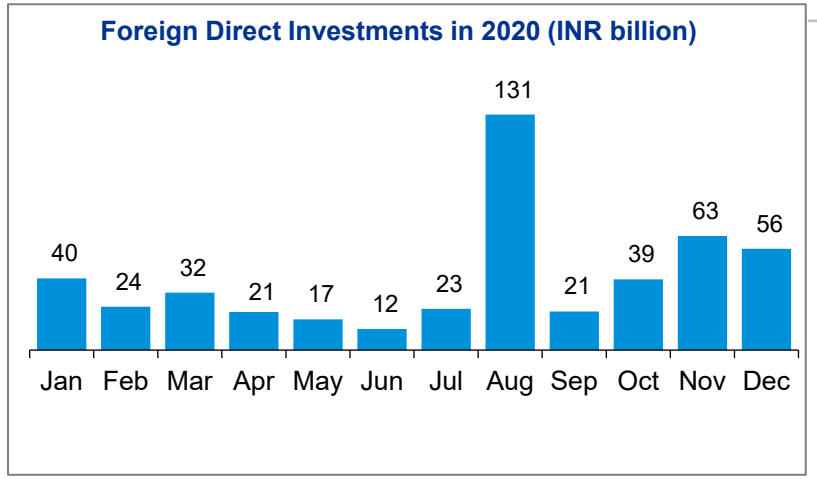
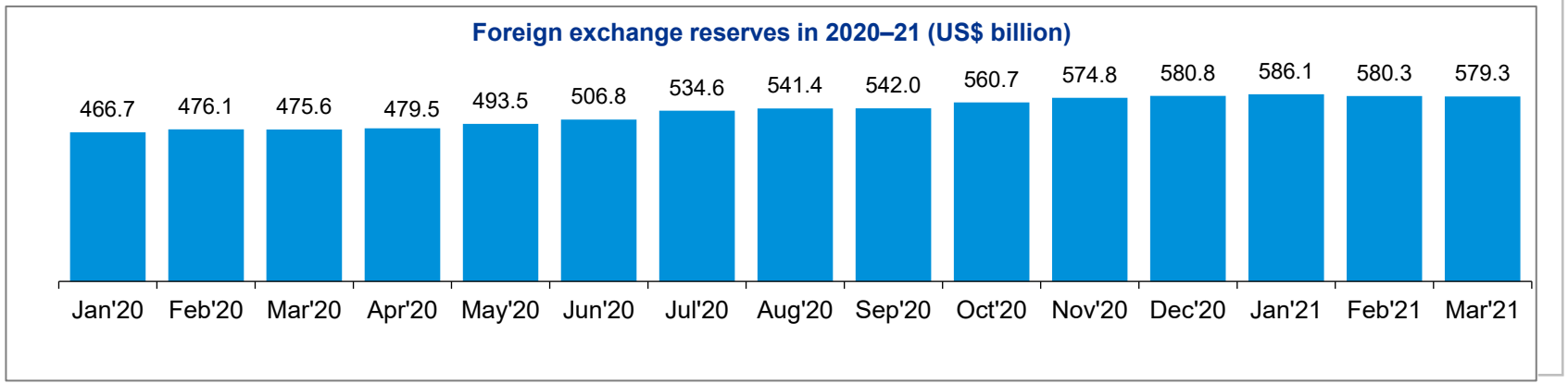
Trade, FDI and Foreign exchange reserves

Post witnessing current account surplus in the first two quarters of FY21, India recorded a current account deficit of US$1.7 billion in 3Q21. In March 2021 foreign exchange reserves dipped to US$579.3 billion after reaching an all time high in January 2021







Foreign exchange reserves for Mar'21 are up to 2 April 2021;

Key highlights

- India witnessed a current account surplus for three consecutive quarters till 2Q21 as trade improved. However, since October 2020, the country started witnessing a trade deficit
  - India has a trade deficit of US$7.8 billion in FY21 (till February 2021), with overall exports and imports estimated at US$439.6 billion and US$447.4 billion, respectively
- FDI inflow in the country grew during the September quarter and crossed US$500 billion milestone, since April 2000
  - In the Union Budget 2021-22, FDI limits in insurance companies have been increased to 74 percent, from 49 percent
- In the week ended April 2, 2021, India's foreign exchange reserves dipped to US$579.3 billion owing to decrease in Foreign Currency Assets (FCA)
  - Forex reserves of India reached to an all time high in Jan 2021, and stood as fourth largest reserve in the world as on March 5, 2021

Source(s): Developments in India's Balance of Payments during the Fourth Quarter of 2019-20, RBI; Developments in India's Balance of Payments during the Second Quarter (July-September) of 2020-21, RBI; "Weekly statistical supplement", Foreign exchange reserves, RBI; FDI Statistics, DIPP; India forex reserves surpass Russia's to become world's 4th biggest, Times of India, 14 March 2021; Does trade deficit signal trouble for India's economy?, Live Mint, 9 March 2021; Feb-21 trade deficit narrows to $12.6 billion on lower imports, IIFL Securities, 17 March 2021;all accessed on 15 March 2021; "After a rise, forex reserves decline to $579.2 billion", Indian Express, 4 April 2021;

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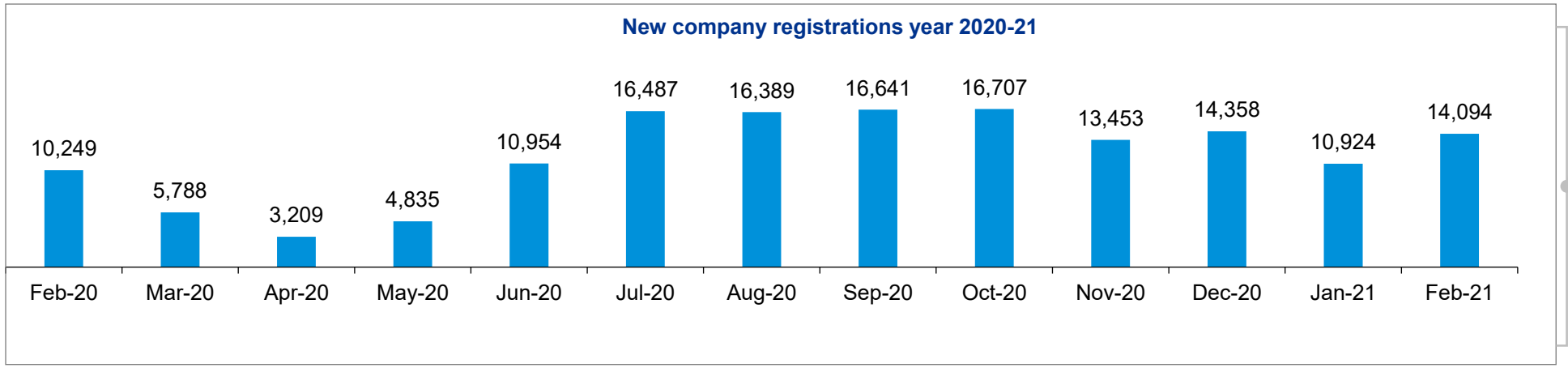
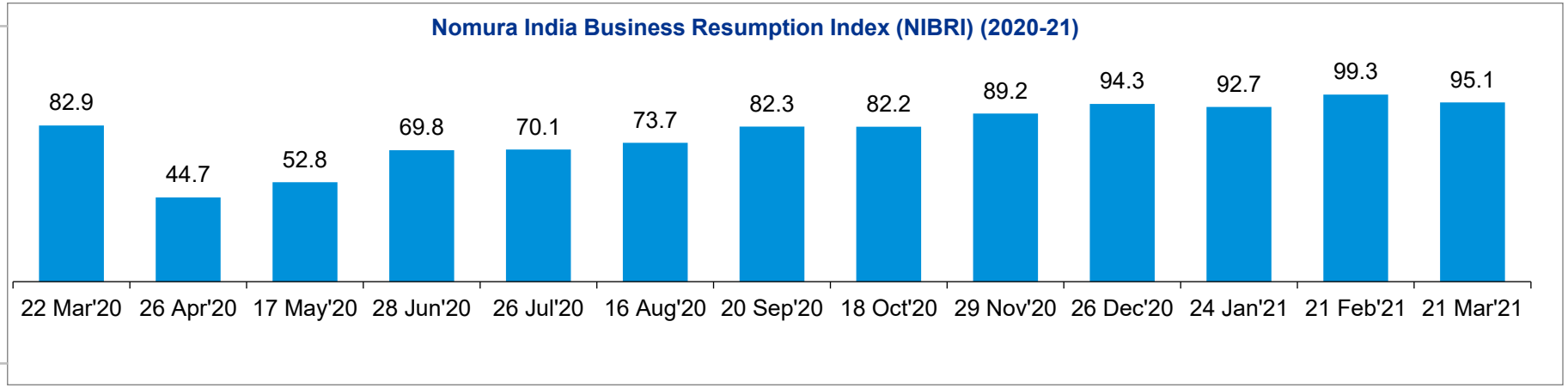
Business activity

Business activity has witnessed positive movement, which is evident by an increase in the new company registrations and upward trend in Nomura India Business Resumption Index



- Policy and liquidity measures introduced by the government attracted new investments in the market, resulting in a y-o-y increase in new company registrations by more than 37 percent on February 21
- New manufacturing company registrations witnessing the highest growth of 50 percent, during the same period

- Government induced lockdown pushed the business activity and people movement to an all time low of 44.7 percent in April 20, which achieved pre-COVID-19 level by February 2021.
- A slight dip in March 2021 NIBRI is due to recent surge in COVID-19 cases. However, the impact is likely to be transient in nature, owing to negligible effect on factory operations.



Sources: "Monthly Information Bulletin", MCA; "NIBRI", Economic Times; Nomura business resumption index dips marginally, CMIE, 22 March 2021; all accessed on 23 March 2021

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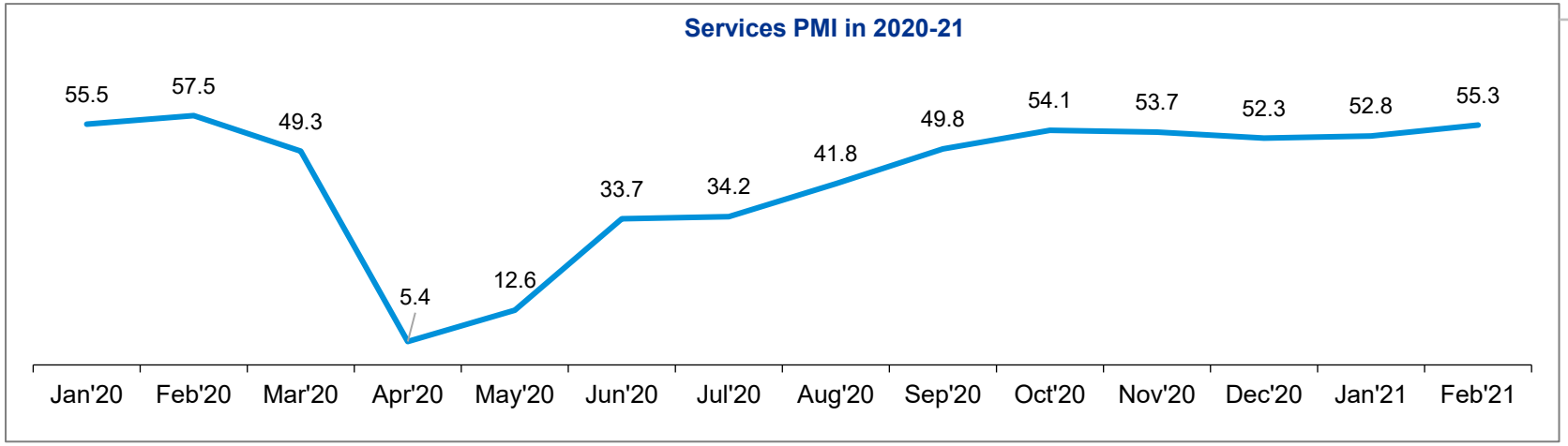
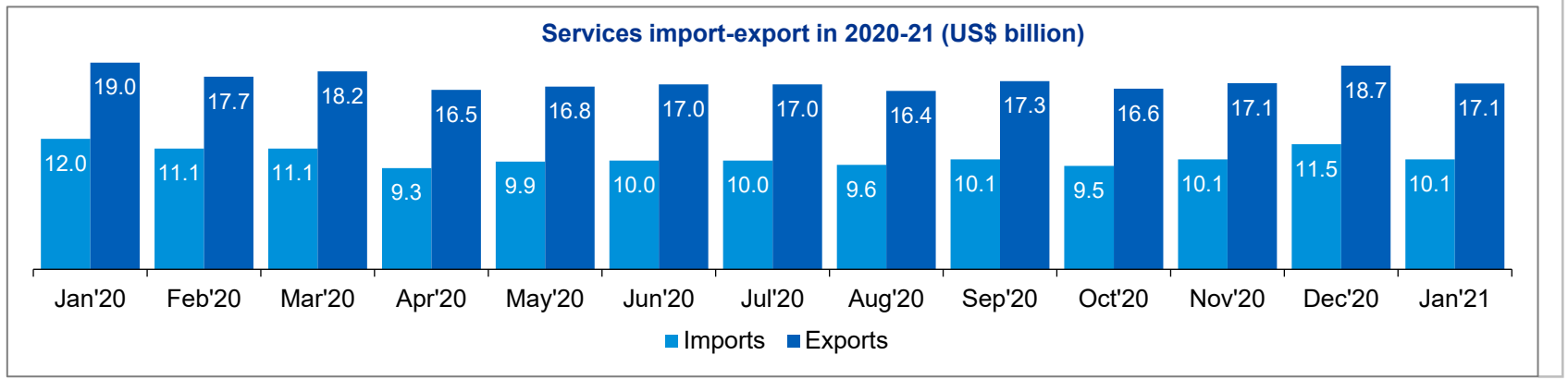
Sectoral analysis

Services

The Purchasing Managers' Index (PMI) of the services industry recovered to pre COVID-19 levels in October 2020, while exports achieved it during December 2020 indicating improved business confidence





Key highlights

- Services sector activity was at a three-month low in December 2020, as job shedding resumed
- However, the services activity expanded at the fastest rate in February 2021 owing to improved business confidence due to roll-out of COVID-19 vaccines
  - Though the industry is experiencing a rise in overall expenses and low employment levels
- As per Directorate General of Foreign Trade (DGFT) estimates, total services export reached US$183.6 billion till February* in FY21, leading to a trade surplus of US$76.8 billion

*Note: Actual numbers of services exports is available till January 2021; DGFT provided an estimate for February 2021

Source(s): PMITM by IHS Markit, IHS Markit; India's international trade in services, RBI, "International trade in services – December 2020", RBI; "India services PMI", Trading economics; "India's service sector expands at the fasted rate in past one year", Financial Express, 3 March 2021; Feb-21 trade deficit narrows to $12.6 billion on lower imports, IIFL Securities, 17 March 2021; all accessed on 17 March 2021

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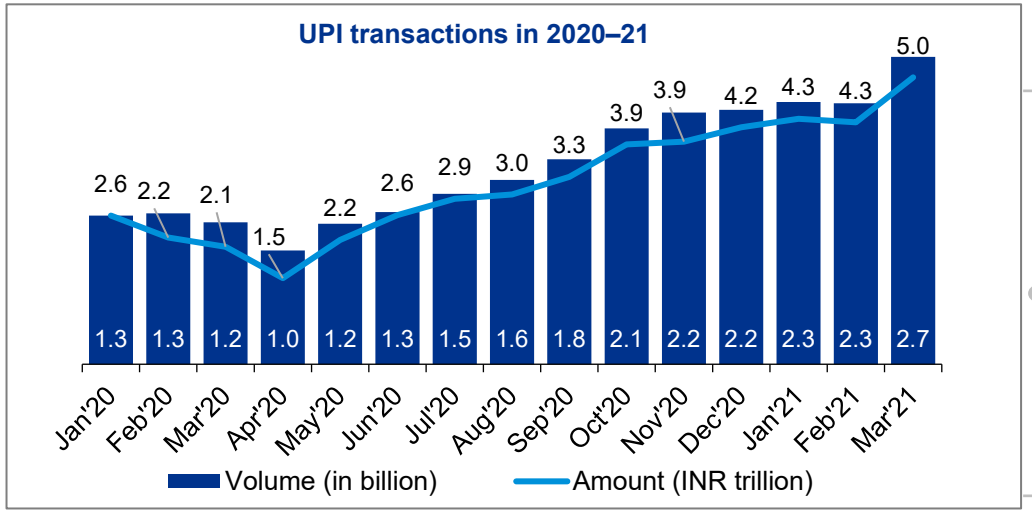
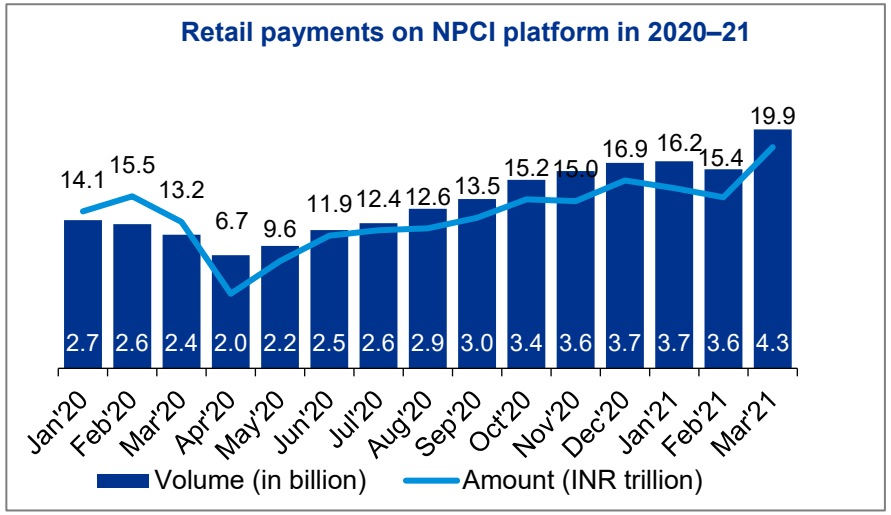
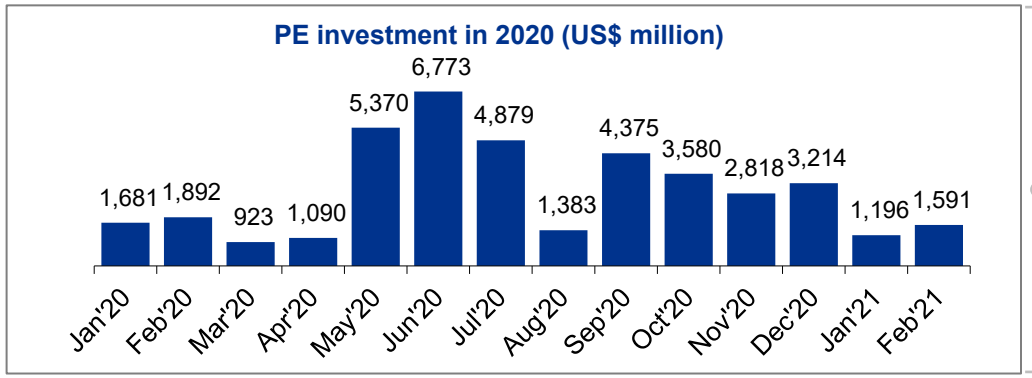
Financial services

Digital payments via UPI experienced significant growth in volume and value and are expected to continue the growth trajectory in near future as well. Government's increasing focus on infrastructural development is likely to increase PE investment in the sector



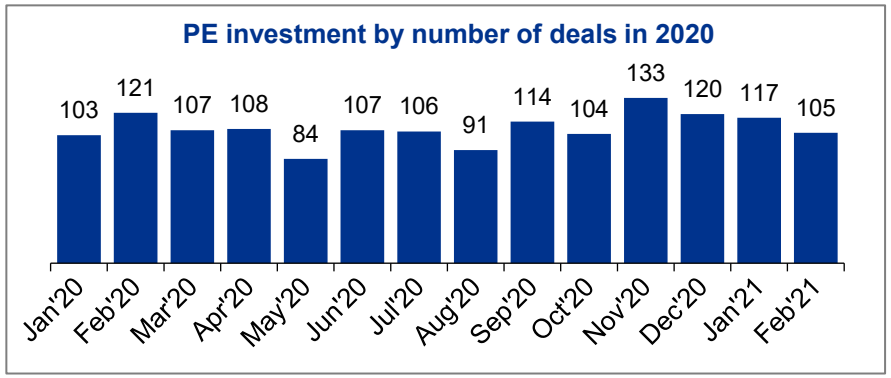
— In March 2021, volume and value of UPI transactions registered a y-o-y growth of 116.5 and 144.1 percent respectively, owing to change in consumer preference for contactless payments and new use cases such as autopay, IPO transactions etc.





— Total PE investments in India during FY21 (April 2020-February 2021) reached US$36.3 billion with 1,189 deals. IT and Consumer discretionary witnessed the largest deals with 44.6 and 23.5 percent, share, respectively, in the deal value

— In 2021, PE investments in real estate sector is expected to grow by 30 percent y-o-y, to US$6 billion, owing to favorable policy reforms and government push for infrastructure development



PE investments include PE, VC, Pre-IPO, Public equity and Angel/Seed funding

Source(s): "RBI- data release", RBI; "NPCI"; PE-VC deal cracker, IVCA; UPI transactions rise 6.7% to 2.2 billion in November, Live mint, 1 December 2020; Private equity in realty will bounce back by 60% in 2021: Report, Indian Express, 24 December 2020; UPI volume, value contract for first time in 10 months even as YoY growth nearly doubles, Financial Express, 2 March 2021; VCC edge, all accessed on 16 March 2021; "India's digital payments soar – UPI crosses ₹5 lakh crore in transaction value in March", Business Insider, 1 April 2021;

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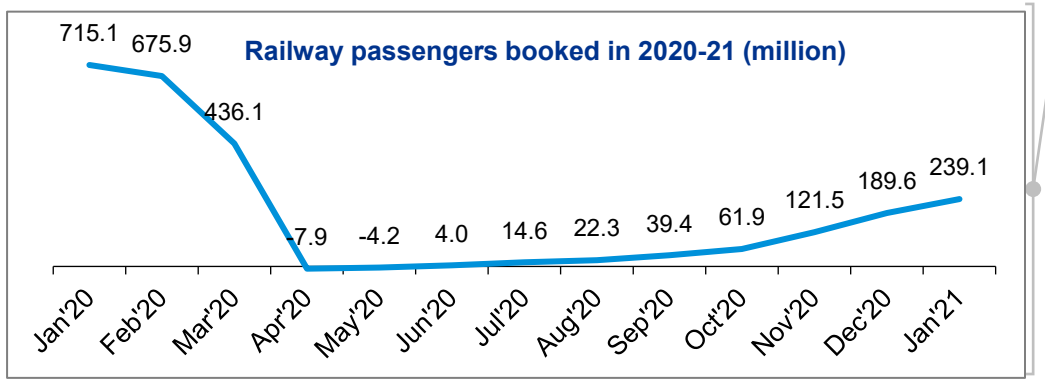
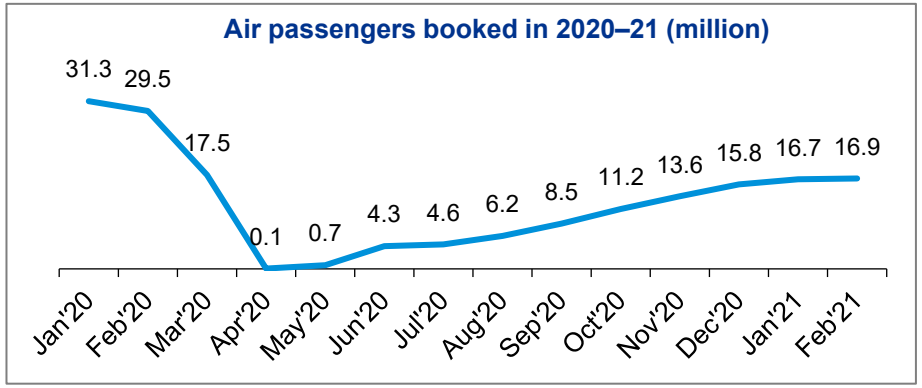
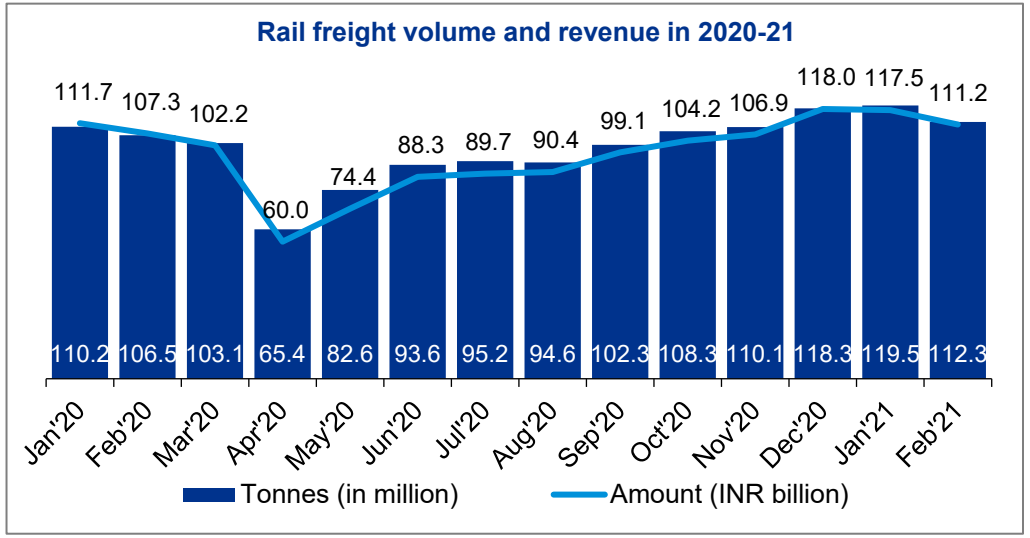
Transport (1/2)

Though freight transport in both air and railways have recovered to pre-COVID-19 levels, passenger movement is yet to achieve that

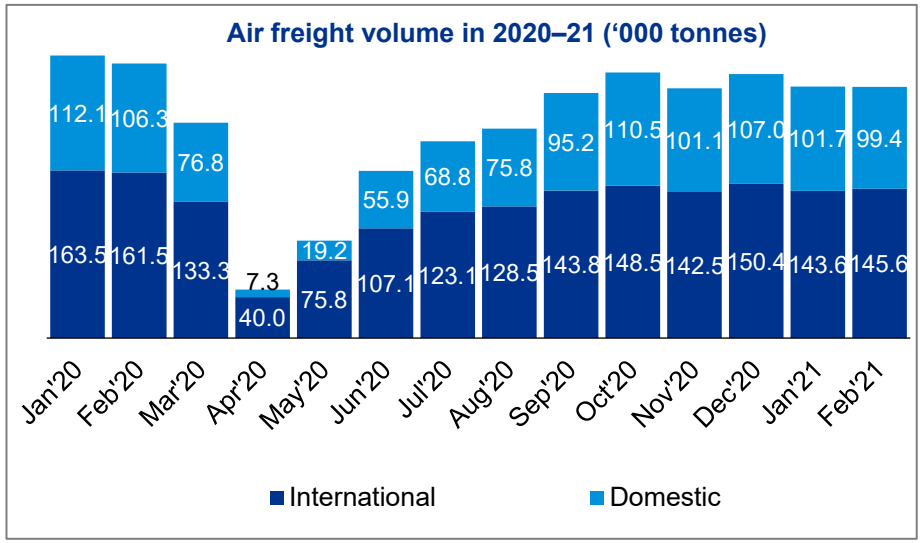


- During April 2020 to February 2021, passenger revenues of the railways declined by more than 70 percent owing to lockdown and limited operations
- In FY21, Indian Railways is likely to register a revenue dip of over INR38,000 crore in the passenger segment





- As of 11 March 2021, cumulative freight loading by Indian Railways increased by 0.01 percent y-o-y, despite COVID-19
- Airfreight is expected to grow in coming months as several airlines prepare to transport COVID-19 vaccines from India, as it accounts for around 50 percent of the global vaccine manufacturing market



Source(s): "Monthly evaluation report up to January' 2021, Indian Railways; "Air freight status", AAI; "Rail passenger status", Indian Railways; Silver lining on Covid cloud: Amid fewer passenger flights, cargo ops boost airline revenues, Indian Express, 16 November 2020; "Airline preparing for vaccine transportation, The Load Star, 22 September 2020; Reduced passenger earnings, Money Control, 18 December 2020; COVID-19 impact | Indian Railways expects to earn Rs 38,000 crore less in FY21 passenger revenue, Money Control, 18 December 2020; Indian Railway surpasses last year cumulative freight loading, Live Mint, 13 March 2021 all accessed on 28 March 2021; "Corona conundrum: Railways registers 70 per cent loss in passenger earnings; sees profit in freight", New Indian Express, 25 March 2021;

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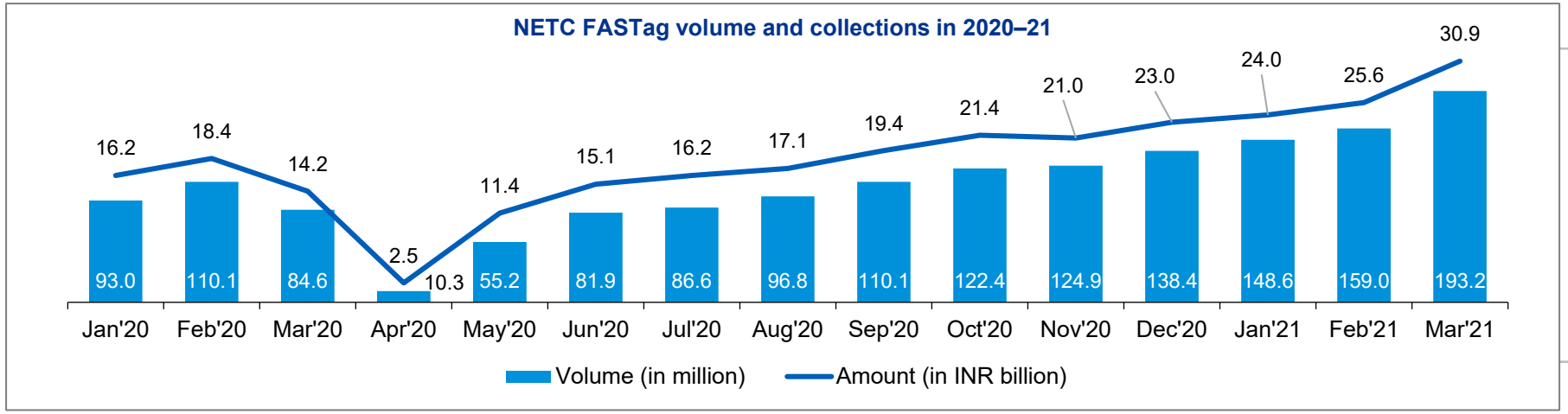
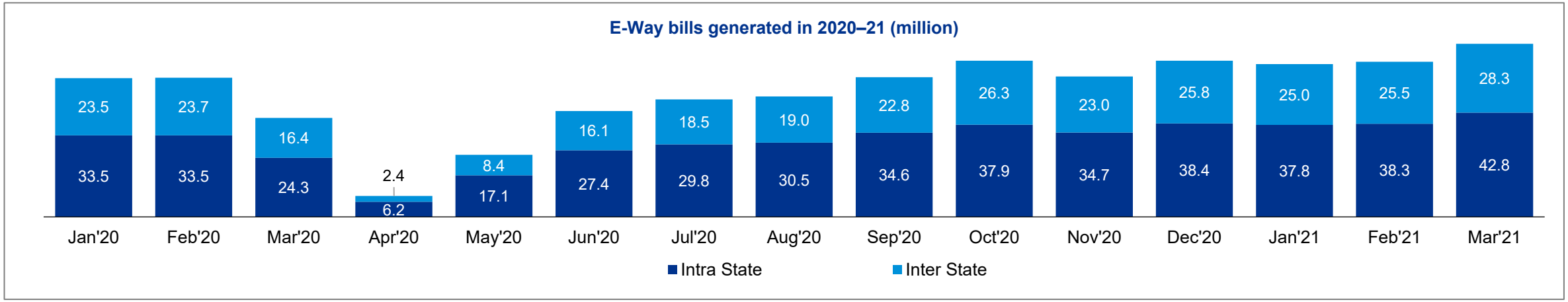
Transport (2/2)

Transport indicators such as FASTag collections, E-Way bills have shown signs of recovery and reached pre COVID-19 levels in October-December quarter



- Collection from FASTag has witnessed growth and achieved higher penetration, with 93 percent of the vehicles using FASTag to pay tolls, since it has been made mandatory from 15th February 2021



Source(s): "Rail freight status", Indian Railways; "Air freight status", AAI; "Rail passenger status", Indian Railways; Silver lining on Covid cloud: Amid fewer passenger flights, cargo ops boost airline revenues, Indian Express, 16 November 2020; "Airline preparing for vaccine transportation, The Load Star, 22 September 2020; Reduced passenger earnings, Money Control, 18 December 2020; COVID-19 impact | Indian Railways expects to earn Rs 38,000 crore less in FY21 passenger revenue, Money Control, 18 December 2020; Physical toll booths to be removed, GPS-based collection within 1 year: Nitin Gadkari, The Times of India, 18 March 2021; all accessed on 28 January 2021

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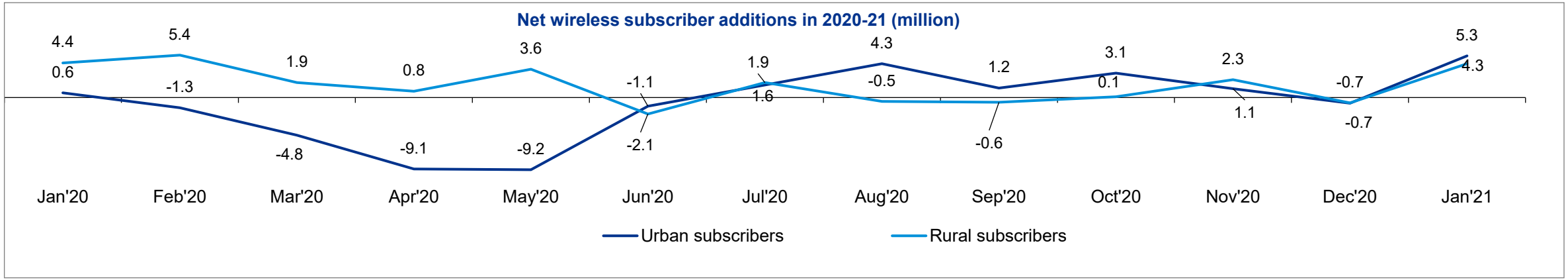
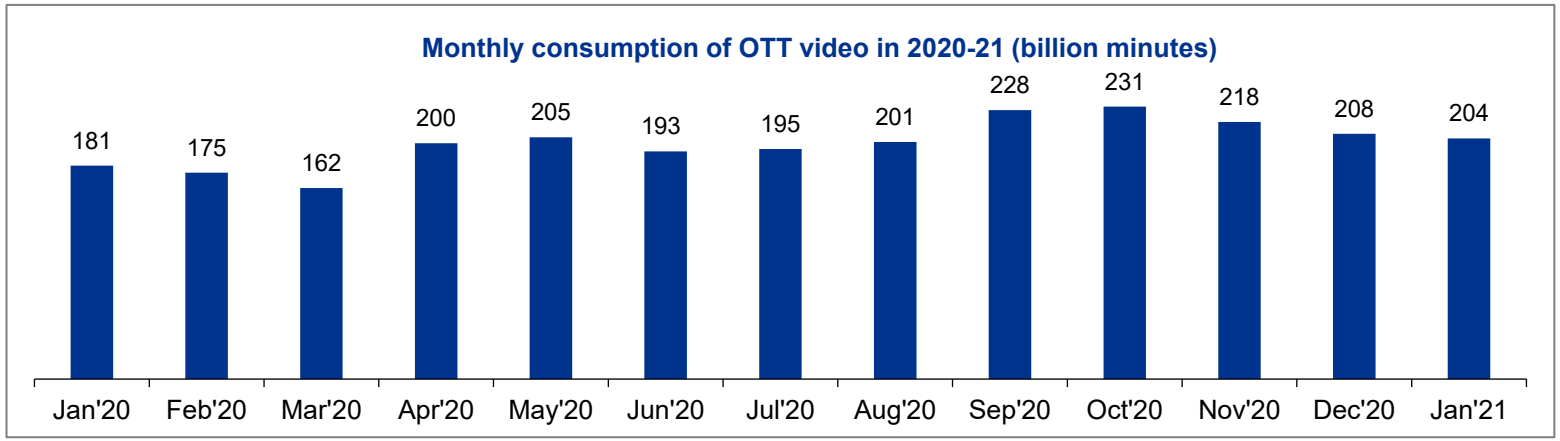
Telecom and entertainment

Net wireless subscriber additions witnessed an all-time high growth in the last 10 months, during January 2021. The OTT industry also witnessed growth in FY21 mainly due to lack of access to retail and recreational outlets across the nation, due to COVID-19 led restrictions





OTT = Over-the-top

- The consumption of OTT video witnessed a y-o-y growth of 12.7 percent in January 2021, owing to changed consumer behaviour during pandemic
- In addition, there has been an increase in the number of subscribers, which reached 29.0 million in July 2020 as compared to 21.4 million in January 2020
  - The subscriber base majorly consisted of users from metros constituting to 43 percent with 35 percent from tier-1 cities and 22 percent from tier-2 cities
  - OTT players are expected to invest INR2,824 crore to develop local content to attract Indian audiences

Source(s): It's showtime for OTT players in 2021, Fortune India, 16 December 2020; Telecom subscriptions report, TRAI; All telcos, except Reliance Jio, lost users in April, Financial Express, 25 July 2020; India's OTT market: Witnessing a rise in number of paid subscribers, IBEF, 15 October 2020; India registers 60% growth in paid OTT subscribers during pandemic, Live mint, 16 December 2020; How 2020 Changed OTT Video Consumption, Redseer Consulting, February 2021; all accessed on 18 March 2021

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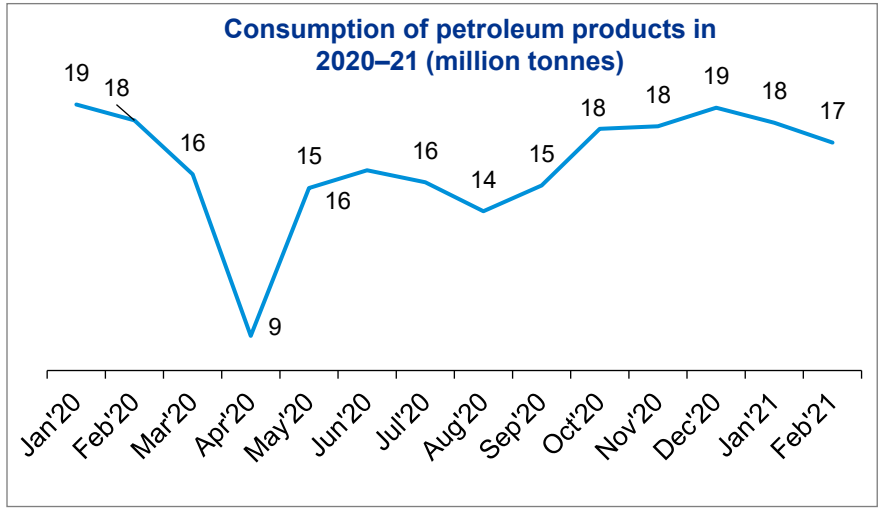
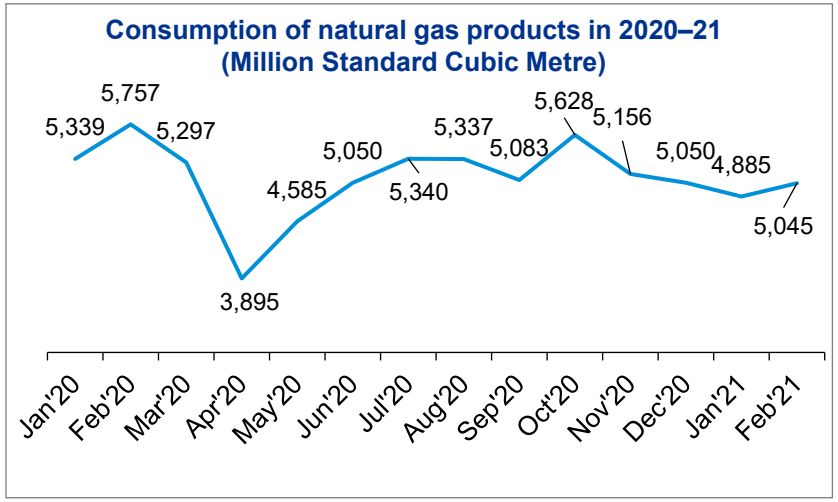
Energy

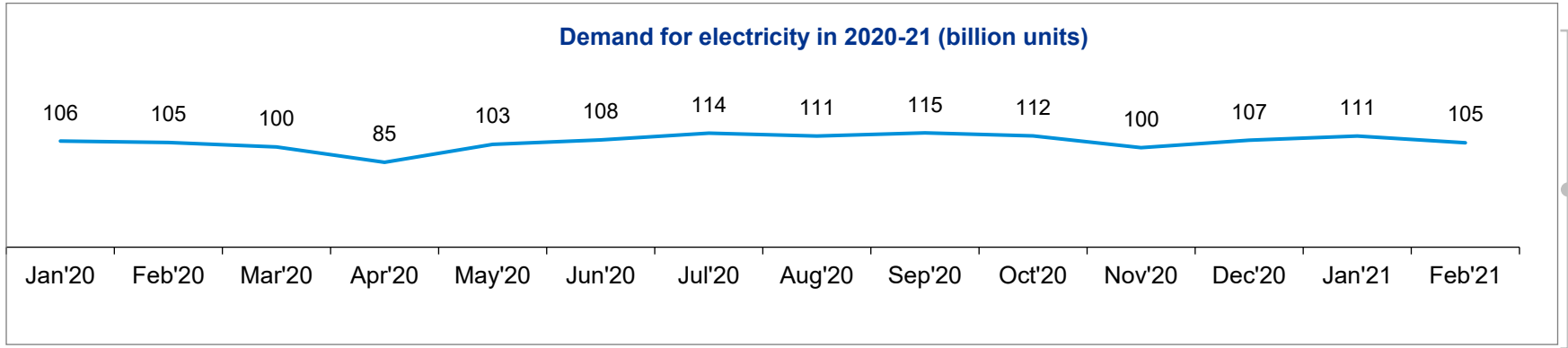
Energy consumption across categories declined in April following contraction in industrial and commercial activities, however the sector has witnessed recovery since May 2020



- The Petroleum Planning and Analysis Cell estimates demand for petroleum products at 232.6 million MT for FY21 and 244.9 million MT for FY22
- However, rising fuel prices and resultant increase in inflation may hamper consumer demand and economic recovery

- In Union Budget 2021-22, the government announced setting up of an independent gas transport system operator to manage gas distribution, aiming to induce transparency in pipeline usage





- As of 2020, installed renewable energy capacity of India is 91 GW and is expected to rise to 220 GW by 2022 owing to low solar tariffs, fast track auctions and 'must run' status provided by the government
- In the Union Budget 2021-22, the government announced 'Hydrogen Energy Mission' to generate hydrogen from green power sources to increase domestic production of hydrogen and develop fuel cell technologies

Note: 1 Does not include hydropower energy, GW= Gigawatts
Source(s): How India's Renewable Energy Sector Survived and Thrived in a Turbulent 2020, Green tech media, 6 January 2021; Consumption of petroleum products/natural gas", PPAC; "Monthly report", POSOCO; "Consumption of petroleum products/natural gas forecast and analysis", PPAC; "India's power consumption grew 6.1 percent in December", Economic times, 2 January 2021; all accessed on 28 January 2021

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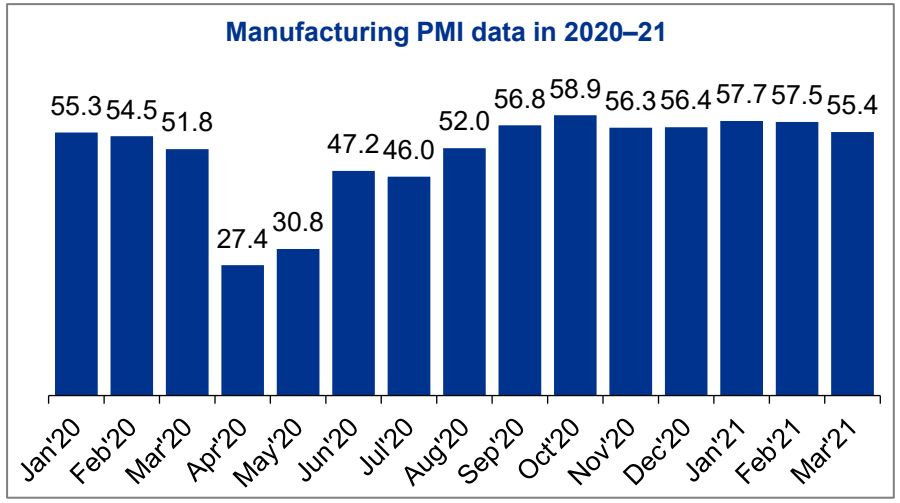
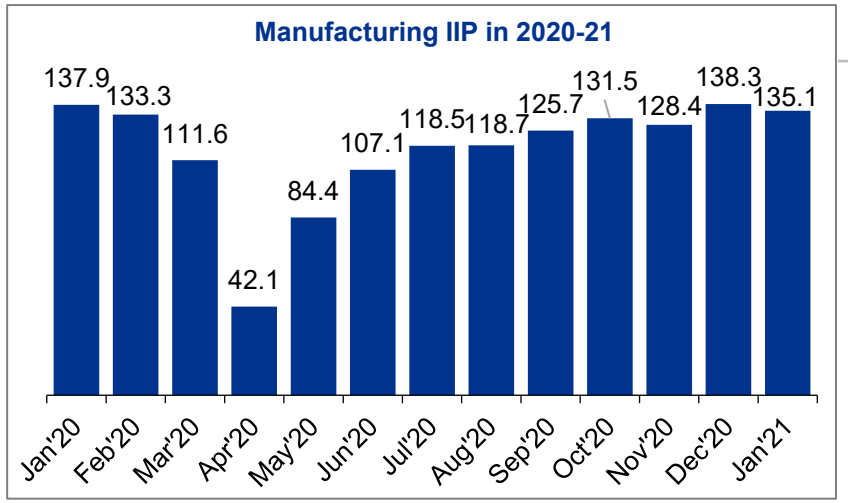
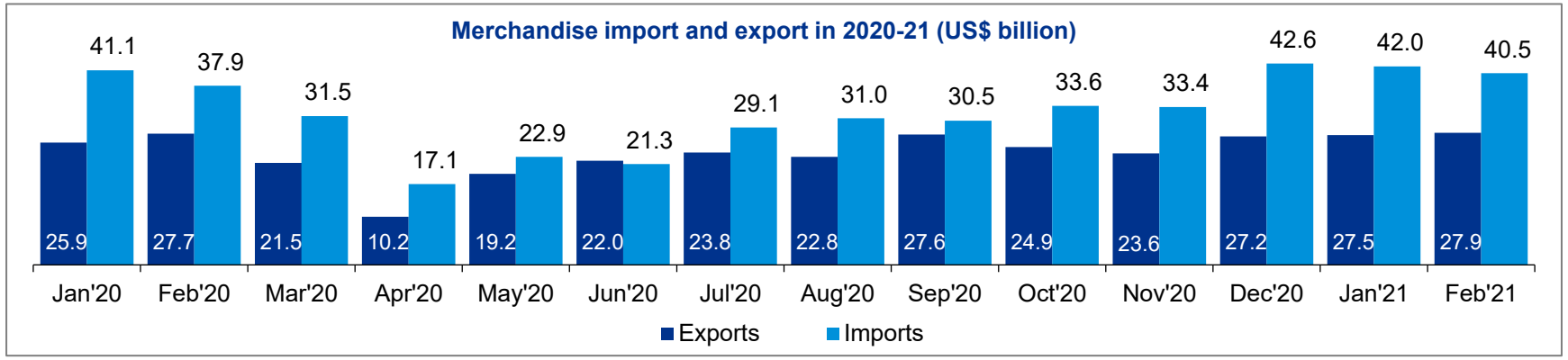
Manufacturing

Manufacturing activities have shown signs of recovery and the outlook for the next 12 months remains positive, owing to improved demand







Key highlights

- The manufacturing PMI fell to a seven-month low of 55.4 in March 2021 suggesting challenging business conditions for the sector
  - Reduced demand growth due to rise of second wave of COVID-19 and rising input costs due to inflation remain primary concern for the Indian manufacturers
- The merchandise export is expected to get a boost in FY22, as a new foreign trade policy for the next five years will be implemented by the government from 1 October 2021, aimed to make India a US$5 trillion economy
- In the Union Budget 2021-22, the government increased import duty on items such as electronics and auto components, toys, fabrics, etc. to safeguard domestic players

*Note: In PMI parlance, a print above 50 means expansion while a score below 50 denotes contraction

Source(s): "PMITM by IHS Markit", IHS Markit; "Trade Data & Statistics", Directorate General of Foreign Trade; "India's Manufacturing PMI at 57.5 in Feb 2021, against 57.7 in Jan", Business Standard, 1 March 2021; Feb-21 trade deficit narrows to $12.6 billion on lower imports, IIFL Securities, 17 March 2021; Current Foreign Trade Policy gets second extension, to run till September 30, Money Control, 31 March 2021; accessed on 18 March 2021

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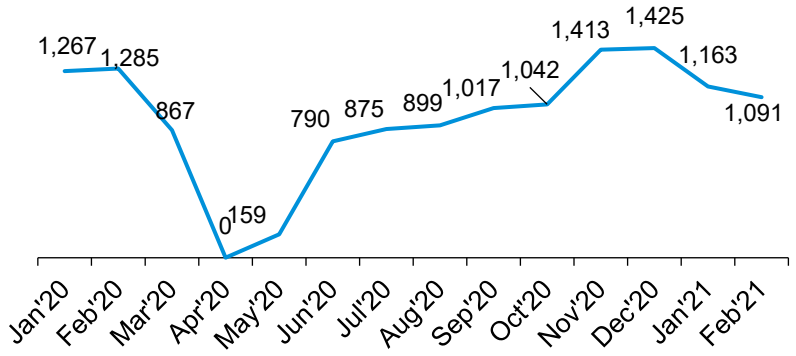
Automobile

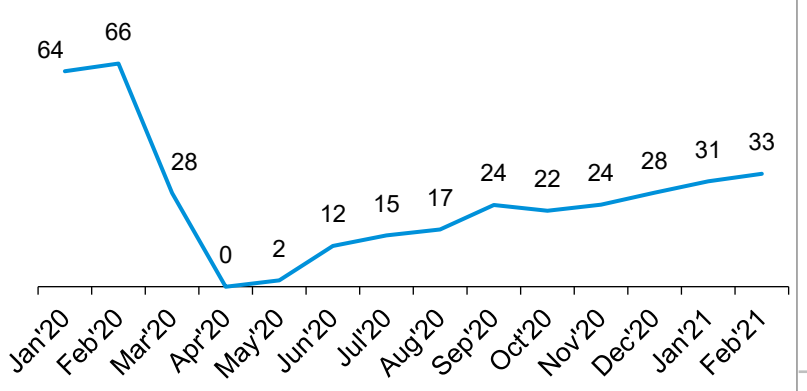
In FY22, automobile sector is expected to register a double-digit growth owing to change in consumer preferences, vaccine roll-out and improvement in economic conditions

Two-wheeler registrations in 2020-21 ('000 units)



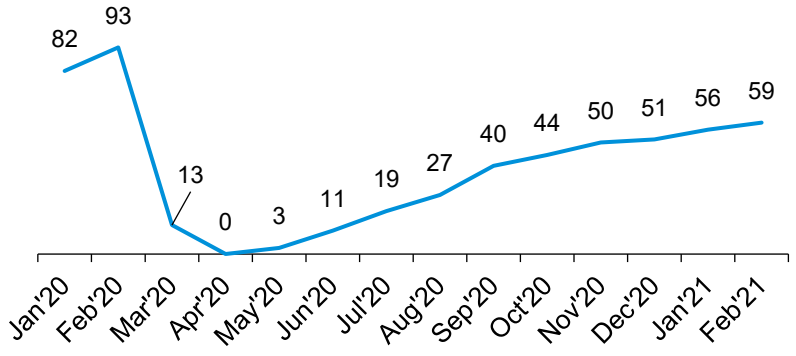
— In February 2021, two-wheeler registrations registered a y-o-y decline of 16.1 percent, owing to the fading pent-up demand, increasing fuel prices and restrictions imposed by several state governments to contain the second wave of COVID-19

Three-wheeler registrations in 2020-21 ('000 units)



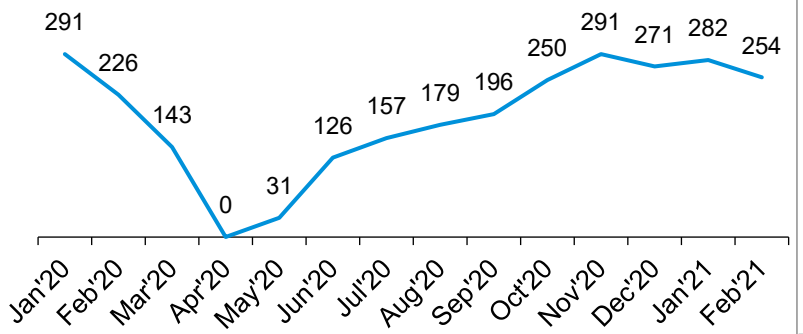
— Three-Wheeler sales registered more than 50 percent y-o-y decline in Feb 2021, owing to fall in demand for last mile connectivity, and changing traveling preferences

Commercial vehicle registrations in 2020-21 ('000 units)



— Although the commercial vehicle sales is way behind the pre-CVID-19 level, it is expected to grow by 25 percent to 0.65 million units in FY22, compared to an estimated sale of 0.52 million units in FY21

Passenger vehicle registrations in 2020-21 ('000 units)



— In FY22, passenger vehicle sales are expected to grow by over 15 percent to reach 2.5 million units, from an estimated base of 2.1 million units in FY21

Source(s): "FADA monthly Journal", FADA; "Auto sales to register a double-digit growth in FY22 on a historically low base: ICRA", Economic times, 14 October 2020; "Three-wheeler/rickshaw sales in Jan 2021- Bajaj, Piagio, Mahindra in top 3", Rushlane, 11 February 2021; "Passenger vehicle sales up 11%", Financial express, 12 February 2021; Vehicle registrations slip back into red; fall 9.66% in Jan 2021, ET Auto, 9 February 2021; "Rising petrol prices hits two-wheeler sales, registration fell 16% in February", The New Indian Express, 09 March 2021; all accessed on 7 April 2021

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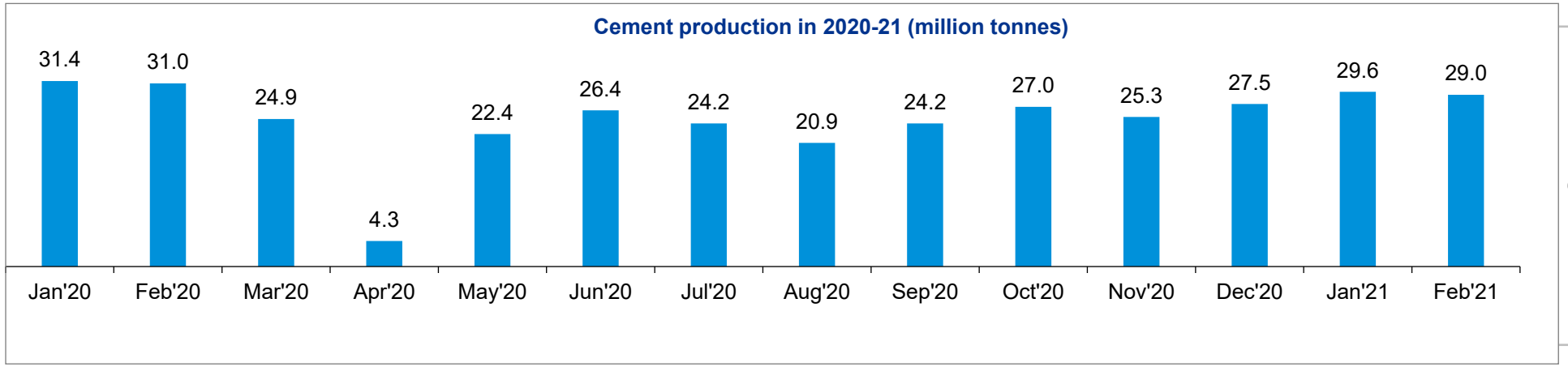
Cement and steel

Steel and cement industries are expected to decline by around 10-17 percent in FY21, compared to the previous year, owing to which the capacity utilisation across both the industries is expected to take a hit

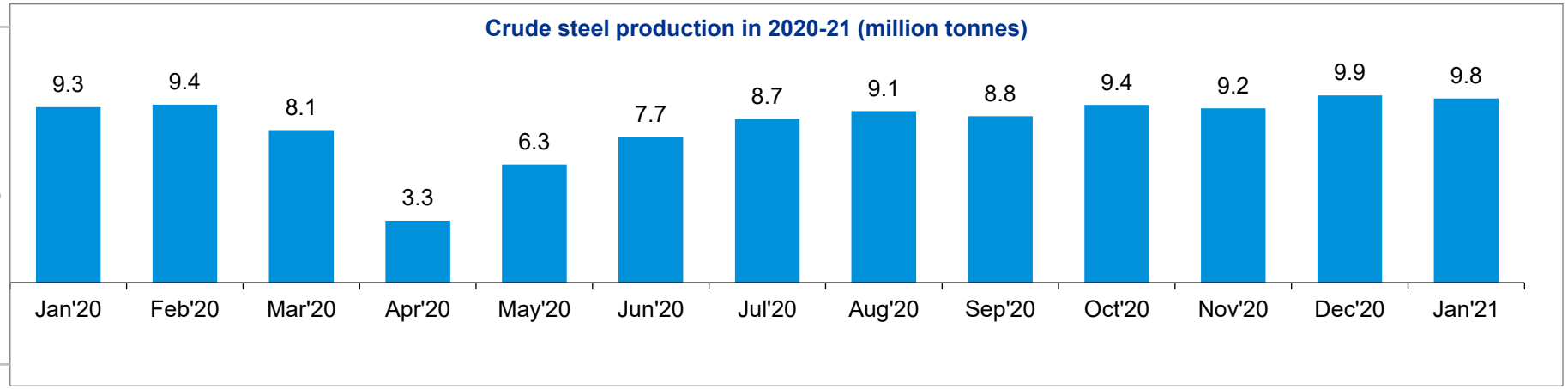


As per the reports of Investment Information and Credit Rating Agency (ICRA)

— Indian cement industry is expected to contract by 14 to 17 percent in FY21. However, it is expected to grow by up to 20 percent in FY22 to reach pre-COVID-19 levels

Steel demand is expected to decline by 7-10 percent in FY21. However, it is expected to grow by up to 10 percent in FY22

— In FY22, push towards infrastructure development by the government and demand from real estate and manufacturing sectors are expected to drive growth in the steel sector



Source(s): "Crude steel production ", World steel association, "Press Release", MOSPI; "Domestic steel demand seen down by 10-12% in FY21: Brickwork Ratings", Business Standard", 27 November 2020; "Cement sales expected to decline by 20% in FY21", Economic Times, 18 May 2020; "Eight core industries" output contracts 1.3 pc in Dec 2020", Outlook India, 29 January 2021; "India Cement Production", Trading Economics; "Cement Production Likely To Be Up By 20 Pc In FY22: ICRA", Business World; all accessed on 16 March 2021

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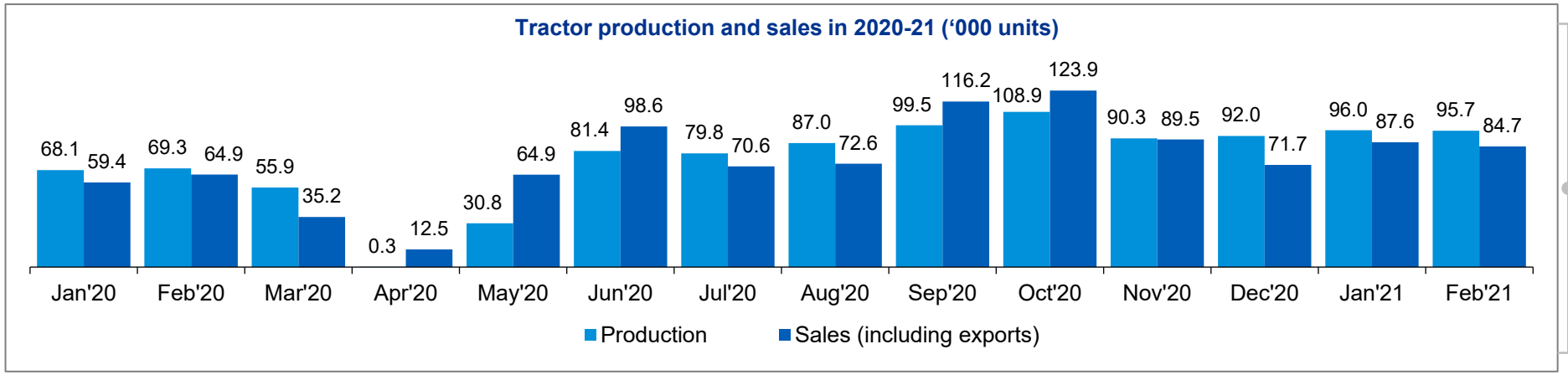
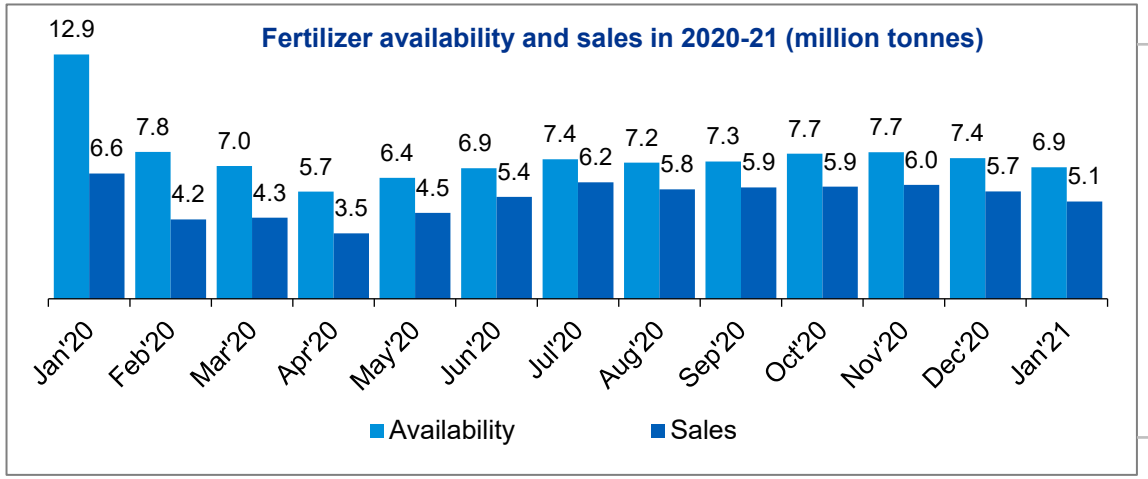
Agriculture

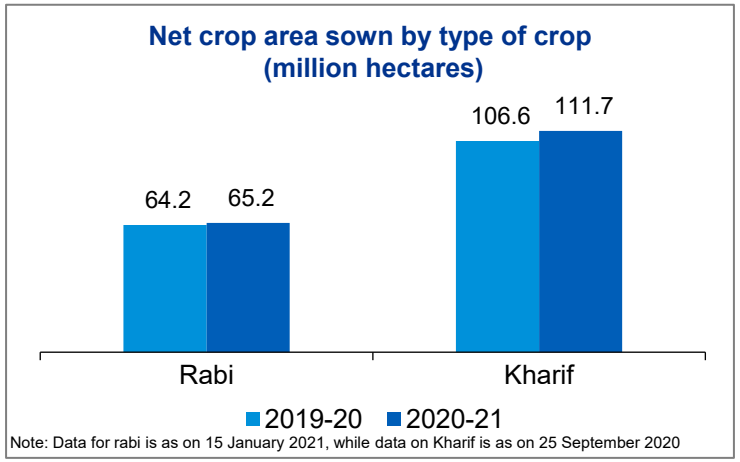
Growth in agricultural sector, owing to stable input costs and adequate rains, led to an increase in demand of tractor and fertilizer



- Domestic sales for the period April 2020-February 2021 were more than 814,000 units with over 78,000 tractors exported to other markets
- After two months of downfall, m-o-m sales increased in January 2021, owing to expansion in rabi acreage and higher liquidity in the hands of farmers
- Overall, for the complete financial year, the tractor sales is expected to grow by 10-12 percent



- Fertilizer sales in FY21 for the rabi (winter) crops is expected to be about 10 percent higher than FY20
- This increase is mainly driven by stable input costs, increase in net crop sown area and adequate rainfall expected in the season



Note: Data for rabi is as on 15 January 2021, while data on Kharif is as on 25 September 2020

Source(s): "Tractor sales", TMA India; Rabi sown area nears last season's all-time high level, CMIE, 18 January 2021; Net Cropped Area for Kharif Season Crops reaches 1116.88 Lakh Hectares, Krishi Jagaran, 26 September 2020; "It's a field day for tractor industry as domestic sales surge in April-Nov period", The Hindu Business Line, 10 December 2020; "Tractor sales expected to post 9% growth this fiscal on demand pick-up: Report", Financial express", 11 September 2020; "Fertilizer sales likely to rise as crop area expected to expand", Economic Times, 3 November 2020; Tractor makers sell 71,740 units in December; up 41 per cent year on year, Business Standard, 12 January 2021; Tractor sales rise 48% in January, demand expected to remain robust, Business Standard, 12 February 2021; Tractor sales may grow 10-12 % in FY21 due to strong rural income: Ind-Ra, Economic Times, 30 October 2020; all accessed on 28 January 2021

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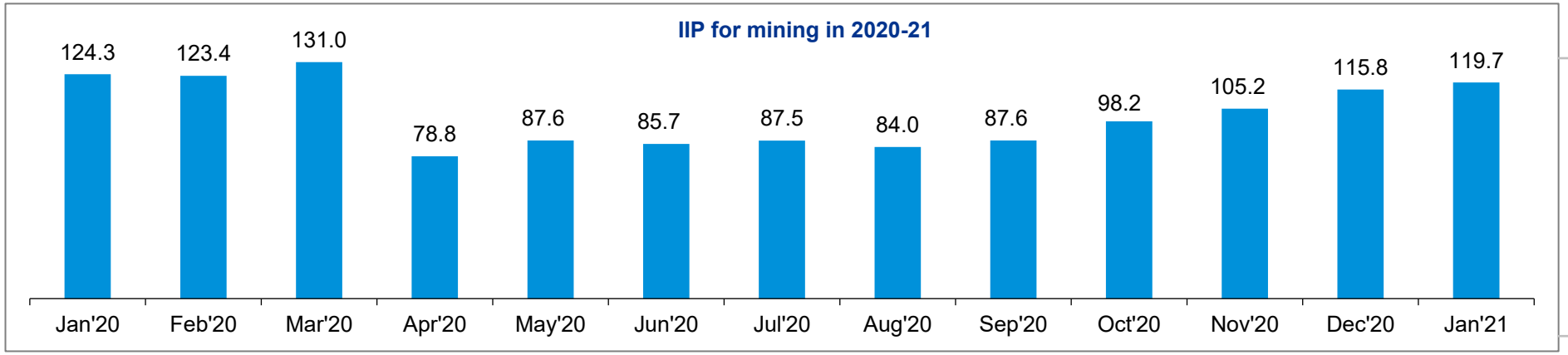
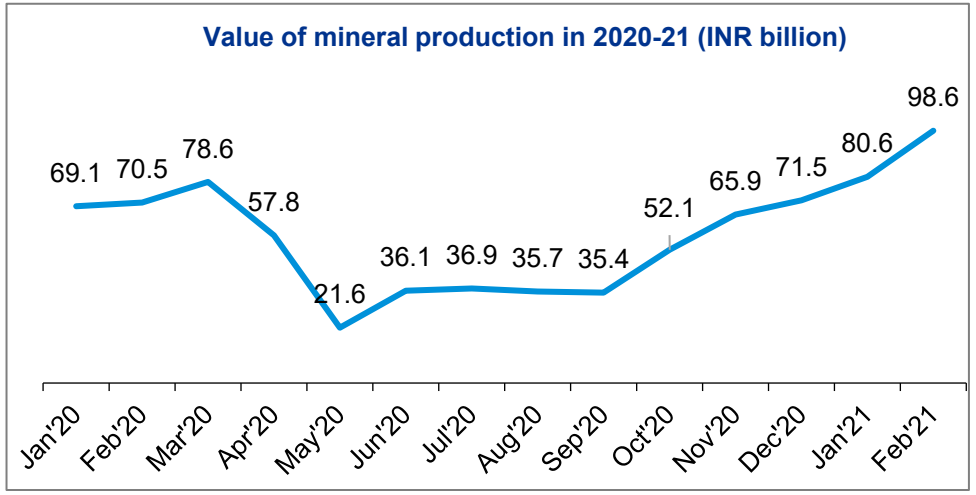
Mining and Quarrying

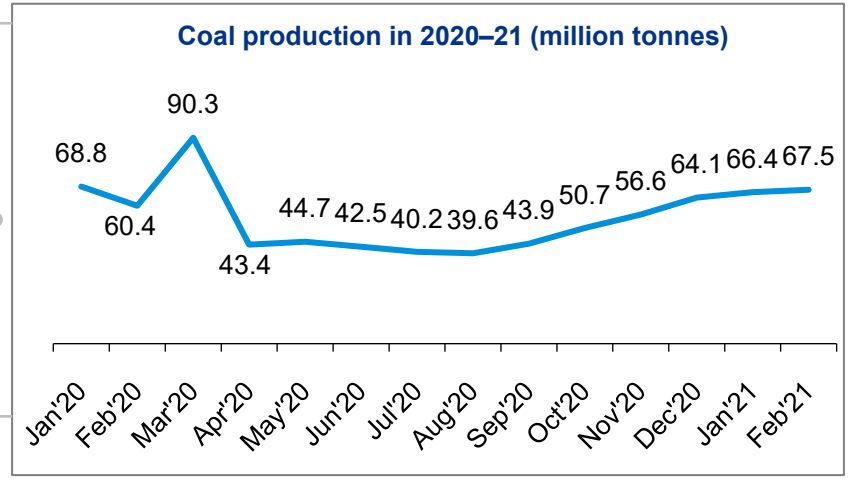
Growth in mining sector is driven by increase in demand from non-power sectors and positive government reforms to boost production and trade of minerals



- Government is planning amendments in Mines and Mineral Act 1957, including:
  - Reallocation of non-producing blocks of state-owned mines
- It plans to auction up to 500 mineral blocks in 2021, to increase mineral output in the country



- During FY21 (April 2020 – February 2021), coal production from government operated mines reached 559.3 million tonnes, witnessing a y-o-y decline of 2.9 percent
- In March 2021, the government passed Mines and Minerals bill (2021) allowing trade of coal mined from private commercial mines. It also approved 15 new projects with a capacity to produce 160 million tonnes per annum, to increase production



Note(s): 1. Covers metallic-ferrous and industrial minerals, but excluding fuel minerals, minor minerals and atomic minerals, 2. Combined coal production of CIL and SCCL
Source(s): "Monthly summary on minerals and metals", Ministry of Mines; "Monthly Summary for Cabinet, Ministry of Coal; "IIP for mining", MOSPI; "Coal exchange likely to start later this year, move aimed at setting up a mature coal trading market", Economic times, 12 January 2021; "Coal India output grows 6.3% during Oct-Dec 2020", Economic times, 1 January 2021; "India's mining sector to witness reforms, flurry of activities in 2021", Financial express, 28 December 2020; To enhance coal output govt identifies 15 new projs with 160 mtpa capacity: Joshi, Economic Times, 10 March 2021; all accessed on 18 March 2021

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Government initiatives

Government regulations and initiatives (1/4)

The government and central bank of India announced financial reforms for specialised sectors such as real-estate, public enterprises, mutual funds, banking, and exports

Policy area	Description	Implication
Measures by the central bank (RBI)	Key measures announced by Reserve Bank of India (RBI) during March and April 2020 includes • Reduction of repo rate to 4.40 percent from the previous level of 5.15 percent. This was further reduced to 4.00 percent in May 2020 and remains unchanged as of March 2021 • Stimulation of banking sector by reducing Cash Reserve Ratio (CRR) to 3.35 percent and Liquidity Coverage Ratio (LCR) to 80 percent. • Introduction of provisions of moratorium on term loan EMIs for a period of six months from March 2020 to August 2020. In October 2020, the government announced interest (incurred during moratorium period) waivers on loans of up to two crores. • Extension of the realisation period for export proceeds to 15 months from a previous of nine months. • Operation of a Special Liquidity Facility (SLF) for Mutual Funds (MFs) worth INR50,000 crore.	• Reduction in repo rates, CRR, and LCR is expected to release liquidity in banking sector by adding more than US$63 billion to the system. • Moratorium on term loan EMIs and easing of income repatriation rules helped individuals, private players and agencies in coping up with business disruption due to the pandemic. • The SLF is expected to help high-risk debt MFs to overcome liquidity stress.
Sector specific policies and reforms	**Real-estate sector:** • The finance ministry along with a leading insurance company and bank launched Alternate Investment Fund (AIF) with a capitalisation of INR25,000 crore (US$3.4 billion) for real-estate sector. **Central Public Sector Enterprise (CPSE):** • Announced plans to divest/privatise CPSEs and gather funds by floating IPOs, and other Public Private Partnership (PPP) investment models. **Coal Mining:** • Removed restrictions on end use of coal, providing composite license for prospecting and mining.	• The AIF aims to aid stalled housing/real-estate projects in the country, boost sector growth and stimulate consumption. • The funding raised through divestment of CPSEs will be used to spur growth and finance other initiatives such as infrastructural development etc. • Reforms in the coal mining sector will reduce dependency of indigenous industries on imported minerals and increase efficiency and output of mining operations in the country.

Note: 1INR=0.01368 US$ as on 21 January 2021

Source: "Year in Review: 12 policy decisions that affected Indian economy in 2019", Business Standard, 31 December 2109; "India delivers surprise corporate tax cuts to boost economy", BBC, 20 September 2019; "Budget 2019: Government removes the sting of angel tax, entrepreneurs & investors rejoice", Economic Times, 2 July 2019; all accessed on 20 January 2021

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Government regulations and initiatives (2/4)

The Government of India (GOI) announced several relief packages, and credit arrangements to help sectors such as cottage industries, manufacturing, MSMEs, and agriculture to overcome disruptions caused by the COVID-19 pandemic

Policy area	Description	Implication
Financial stimulus	• In March 2020, relief package worth INR1.7 lakh crore (US$23.2 billion) was announced. – It was focused on ensuring food security, providing insurance covers, direct fund transfer to farmers, daily wage workers and Jan Dhan Women account holders • In May 2020, a financial stimulus package worth INR20 lakh crore (US$273.5 billion) was announced – It was focused on land, labor, liquidity and laws for cottage industries, Micro, Small and Medium Enterprises (MSMEs), and industries • In November 2020, announcement of stimulus package worth INR26,500 crore (US$3.6 billion) including measures such as: – Announcement of 'Atmanirbhar Bharat Rozgar Yojna' – Allocation of INR1.5 lakh crore (US$20.5 billion) for production linked incentive for manufacturing sectors such as mobile, electronics, pharmaceuticals and seven other sectors – Reduced Earnest Money Deposit (EMD) on government tenders to three percent	• The GOI had announced financial packages measuring up to 15 percent of national GDP, to kickstart and support stressed sectors such as manufacturing, real-estate, construction and MSME • Financial relief packages by the government aimed at providing credit facilities, food security, and job creation in the country to boost economy
Credit arrangements	The GOI implemented following credit arrangements for individuals and businesses in the country — Extension of Emergency Credit Liquidity Guarantee Scheme (ECLGS) till 31 March 2021 — Allocation of funds worth INR3,000 crore (US$410 million) to EXIM Bank for promotion of export activities through credit arrangements — Allocation of credit worth INR1.4 lakh crore (US$19.1 billion) to farmers holding 'Kisan Credit Card'	• GOI is providing credit guarantee schemes to ensure availability of funds for businesses, MSMEs and industries to overcome the losses caused by successive lockdowns in the country — As of 28 February 2021, banks and NBFCs have disbursed loans worth INR2.46 lakh crores to the MSMEs eligible under the ECLGS scheme

Note: 1INR=0.01368 US$ as on 21 January 2021
Source: "Year in Review: 12 policy decisions that affected Indian economy in 2019", Business Standard, 31 December 2019; "India delivers surprise corporate tax cuts to boost economy", BBC, 20 September 2019; "Budget 2019: Government removes the sting of angel tax, entrepreneurs and investors rejoice", Economic Times, 5 July 2019; all accessed on 20 January 2021

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Government regulations and initiatives (3/4)

The Government of India formulated new codes and enacted new bills/laws to improve workers' security, improve health of banking sector, and provide new banking instruments

Policy area	Description	Implication
Major bills and acts	**The Occupational Safety, Health and Working Conditions Code, 2020:** • The code defines employer's responsibility towards workers, employment conditions for women workers, and safety guidelines to avoid accidents/health issues	• The bill aims to regulate the working conditions and provide benefits to workers employed on hazardous jobs and other sectors
	The Industrial Relations Code Bill, 2020: • Introduction of restrictions related to workers' right to strike and increased threshold for layoffs without government permission to 300 workers from a previous of 100 workers	• Increment of threshold for layoffs will enable establishments to adjust temporary ups and downs in demand by easy hiring and retrenching
	The Code on Social Security, 2020: • Mandated Employee Provident Fund (EPF) provisions for establishments with more than 20 employees, and emphasised on maintenance of records and register related to wages paid etc.	• Social security bill aims at ensuring that EPF, wages, and overtime charges are paid to the workers
	The Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Bill, 2020: • Amendments in surcharge levied on dividends of foreign investors (FPIs) and introduction of faceless assessments for eight processes including collection and recovery of tax	• Relaxation in tax provisions and new assessment processes are likely to increase investment by FPIs and reduce dispute settlement time
	The Bilateral Netting of Qualified Financial Contracts Bill, 2020: • Provides a legal framework for enforcement of netting for qualified financial contracts	• Bilateral Netting bill ensures enforceability of netting contracts where at least one party is regulated by RBI, SEBI, IRDAI, or IFSCA
	The Banking Regulation (Amendment) Bill, 2020: • Brings co-operative banks under supervision of Reserve Bank of India (RBI) and permitted RBI to draft turnaround schemes for stressed banks without imposing moratorium	• Changes in banking regulation will ensure timely revival of stressed banks and enhance consumer confidence in Co-operative banks

Source: "Bills List", Ministry of Parliamentary Affairs; "occupational safety, health, and working conditions code, 2020", Law Justify; "Explained: In the three new labour codes, what changes for workers & hirers?", Indian Express, 27 September 2020; "Latest Highlights on the Industrial Relations Code Bill, 2020", Corp Biz, 6 October 2020; "Taxation bill passed to provide relief to taxpayers. Key changes to know", Live Mint, 24 September 2020; "Explained: What is Bilateral Netting of Qualified Financial Contracts Bill, 2020?", One India, 24 September 2020; "Here's all you need to know about the Banking Regulation Amendment Bill", Money Control, 16 September 2020; all accessed on 22 January 2021

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Government regulations and initiatives (4/4)

The GOI introduced new laws to reduce regulations on usage/mining of coal, enhance income tax compliance, regulate civil aviation sector and promote ease of doing business for private sector

Policy area	Description	Implication
Major bills and acts	**The Minerals Laws (Amendment) Bill, 2020:** • Introduced new regulations on licensing, auctioning, statutory clearances, reallocation/termination, and end use of coal and coal mines.	• The bill removes restrictions on end use of coal, reallocation of mines, and advance auction for coal mines to reduce dependency of industries on imported coal
	The Companies (Amendment) Bill, 2020: • Decriminalisation of minor procedural or technical lapses and reduction in penalty, fine and imprisonments clauses	• The updated companies act will improve ease of doing business for law abiding corporates
	The Direct Tax Vivad Se Vishwas Bill, 2020: • Introduction of provisions for refund of excess tax paid under the Income Tax Act (ITA) and expansion of scope in which a taxpayer can avail benefits of VSV scheme	• The DTVSV scheme provides provisions for taxation dispute settlement and allows the taxpayer to pay disputed tax without paying interest and penalty
	The Aircraft (Amendment) Bill, 2020: • Regulation for manufacturing, possession, operation, sale, and import/export of civil aircrafts and licensing of aerodromes	• The aircraft bill will enable government to form regulatory bodies to monitor competition, policies and improve air safety

Source: "What is The Mineral Laws (Amendment) Bill, 2020?", India Today, 28 March 2020; "Aircraft amendment bill, 2020", Drishti IAS, 24 March 2020; "Key Takeaways from Companies (Amendment) Bill, 2020", Tax Guru, 30 October 2020; " all accessed on 22 January 2021

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Budget announcements

Highlights from Union Budget 2021-22 (1/2)

The FY22 budget involved numerous tax reforms and regulatory changes, primarily aimed towards boosting the economy and expedite GDP growth

Policy area	Description	Implication
Taxation reforms	• Proposed capping tax exemption at INR2.5 lakh on the interest income on employee contributions to the Provident Fund (PF) • Extended tax incentives on house loans, affordable housing projects, investment of capital gains and profits of startups • Increase in customs duty on import of items such as mobile parts, some auto components, cotton, and silk • Exempted businesses having annual turnover of up to INR10 crore and processing at least 95 percent transactions digitally from statutory audit requirements	• Limits on availing tax exemption on employee PF investments is aimed at promoting investments in other instruments and enhance tax earnings • Tax incentives are aimed at providing support to stressed sectors and promote investments • Increase in custom duty is likely to enable the Indian companies to compete with global/Chinese products • Exemption of certain businesses from audit requirements is likely to improve ease of doing business in MSME sector
Finance and institutional reforms	• Proposed formulation of an Asset Reconstruction Company and Asset Management Company to manage stressed debts and disposal of assets • Announced incorporation of new methods for debt resolutions and special insolvency frameworks for the MSME sector • Announced a scheme worth INR1,500 crore to offer financial incentives for popularising digital payment options • Reduction in minimum loan size for NBFCs, from INR50 lakh to INR20 lakh, to become eligible for debt recovery under SARFAESI Act, 2002 • Launched electricity distribution reform program aiming to provide monetary support for infrastructure creation such as pre-paid smart metering and upgradation of distribution systems • Removed restrictions on paid up capital, turnover and ownership of one-person companies	• Formulation of new asset management units is likely to expedite asset disposal and help address liquidity concerns • New frameworks will strengthen the dispute resolution mechanism and e-courts will save time and money for the applicants • Promotion of digital payments will increase transparency and tax compliance by the businesses • Reduction in loan size will enable NBFCs to avail bankruptcy and other benefits to stay operational and avail of remedies • The electricity distribution program is likely to help reduce losses and improve the efficiency of electricity distribution companies • Changes in regulatory requirements for one-person companies is aimed at promoting entrepreneurship and ensure job creation

Source: ""Union Budget 2021- Analysis", PRS India, 1 February 2021; "Budget 2021-2022: Bad bank for large corporates and a new framework for MSMEs", Economic times, 1 February 2021; "Union budget 2021: ₹1,500 crore scheme to boost digital payments", the Hindu, 2 February 2021; "India gets INR3.05 trillion power discom reform scheme", the Mint, 2 February 2021; "Union Budget: Sitharaman announces voluntary vehicle scrappage policy", Times of India, 1 February 2021; all accessed on 10 Feb 2021

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Highlights from Union Budget 2021-22 (2/2)

The finance minister announced incorporation of new institutions for debt resolution and fund generation, and infrastructure reforms to ensure better trade opportunities for the country

Policy area	Description	Implication
Sector specific policies and reforms	**Real-estate sector:** • Allowed Foreign Portfolio Investors (FPIs) to debt finance real-estate and infrastructure investment trusts **Central Public Sector Enterprise (CPSE):** • Approved strategic disinvestment policy under which minimum CPSEs will be maintained in the following sectors i.e., Atomic energy, Space and Defence; Transport and Telecommunications; Power, Petroleum, Coal and other minerals; and Banking, Insurance and financial services **Manufacturing:** • Announced incorporation of seven textile parks in the next three years to create infrastructure and enhance textile exports • Increased coverage of PLI scheme to 13 sectors with an increased outlay of INR1.97 lakh crore **Automotive:** • Launched voluntary vehicle scrappage policy to phase out old and polluting vehicles older than 20 years (for personal vehicles) and 15 years (for commercial vehicles) **Transport and Infrastructure:** • Road infrastructure and economic corridors are announced for states such as Tamil Nadu, Kerala, West Bengal and Assam • Announced seven port development projects and enhancing public sector transport facilities such as bus operation to be completed via PPP model • Development of new metro rail systems in Tier-1 and Tier-2 cities using new technologies such as MetroLite and MetroNeo	• Availability of debt financing by FPIs is likely to improve liquidity in the real-estate sector • The disinvestment policy and deals are aimed at increasing government earnings by asset monetisation. — The government has set the divestment target at INR1.75 lakh crores for FY22. • Incorporation of new textile parks is aimed at promoting indigenous textile industry and improving export/global business opportunities • Increasing the coverage of PLI scheme can boost domestic manufacturing and increase employment opportunities • New vehicle scrappage policy may provide a boost to domestic automotive sector and ensure lower emissions • Investments in road and port infrastructure along with introduction of new PPP models in public sector is aimed at improving mobility, employment generation, and promoting ease of doing business — In March 2021, the government passed the bill to setup National Bank for Financing Infrastructure and Development (NaBFID) to ease infrastructure financing in the country

Source: ""Union Budget 2021- Analysis", PRS India; ""Budget 2021-2022: Bad bank for large corporates and a new framework for MSMEs", Economic times, 1 February 2021; "Union budget 2021: ₹1,500 crore scheme to boost digital payments", the Hindu, 2 February 2021; "India gets INR3.05 trillion power discom reform scheme", the Mint, 2 February 2021; "Union Budget: Sitharaman announces voluntary vehicle scrappage policy", Times of India, 1 February 2021; 'Parliament passes bill to setup NaBFID", Economic Times, 25 March 2021;

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Outlook

Global CEO outlook

Economic growth

The onset of the COVID-19 pandemic and the ensuing shutdowns effectively plunged the global economy into a severe contraction, dealing a massive blow to the confidence of business leaders. As per KPMG 2020 CEO Outlook, about **32 percent** of the global CEOs are less confident now about the prospects of global growth. Alongside, only **33 percent** of CEOs in India are confident of the growth in the domestic economy, a stark drop from 79 percent in 2019.

Reinvention of supply chains

COVID-19 has exposed the vulnerability of global supply chains for companies' worldwide, thus driving business leaders to amend their supply chains and stress upon local sourcing. Globally, about **67 percent** of the CEOs stated that they are rejigging their supply chains, while **64 percent** of CEOs in India stressed upon the pertinence of reinventing existing supply chains, largely propelled by the pandemic.

Accelerated digital transformation

With the pandemic compelling business and commerce to shift online owing to lockdowns and social distancing, companies across the globe are eager to revisit and augment their digital business models to meet evolving customer needs. About **75 percent** of the global CEOs and **78 percent** of the CEOs in India agreed that the pandemic has accelerated digitisation of customer experiences. In addition, **80 percent** of domestic CEOs stated that they have fast-tracked the development of next generation digitised operating models.

Establishing new work realities

Organisations swiftly migrated their employees to work-from-home arrangements, to tackle the pandemic while ensuring productivity. With the complete transformation of the world of work, **77 percent** of the global CEOs and **89 percent** of the CEOs in India, stated that they will continue focusing on sharpening digital collaboration and communication tools. Furthermore, **69 percent** of the global CEOs, while **48 percent** of the CEOs in India stated that they will trim their office space.

Sources: KPMG 2020 CEO Outlook: Covid-19 Special Edition, KPMG International; KPMG in India 2020 CEO Outlook: COVID-19 Special Edition, KPMG in India; all sources accessed on 29 March 2021

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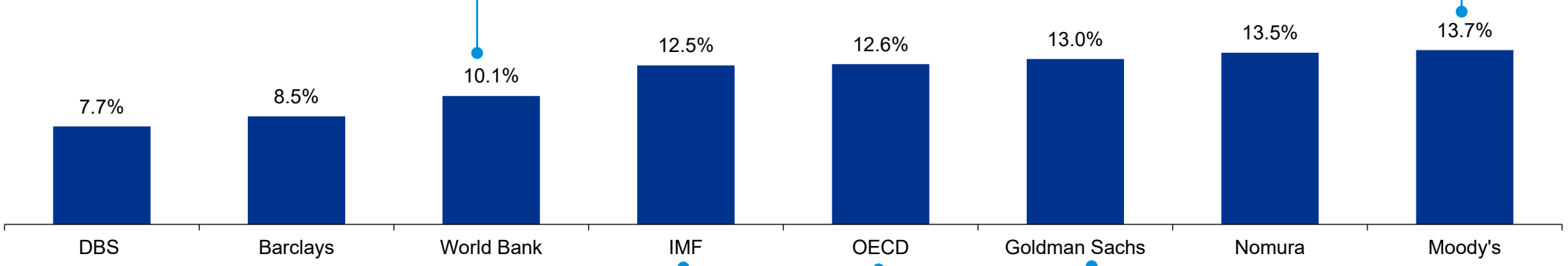
GDP forecasts for India

Analysts across all major financial institutions expect strong growth in the Indian economy during FY22. However, the projected growth rate varies considerably from 7.7–13.7 percent

Forecasted GDP growth in FY22 (percent)

— Strong pace of economic recovery and ongoing vaccination drive are likely to improve consumer spending and investments in the country

— Decline in new infection numbers, coupled with high recovery rates, is bending the pandemic curve, leading to further easing of restrictions on mobility
— Economic activity is expected to gradually gather momentum in the coming quarters
— However, slow credit intermediation is expected to impede recovery, owing to the already weakened financial sector



— IMF predicts strong economic recovery for the emerging and developing Asia economies driven by the removal of lockdowns and demand revival in the region

— Government stimulus measures/policies and increased expenditure on infrastructure development are likely to aid employment generation, and improve consumption
— Improvement in domestic and international demand since easing of lockdown restrictions and ongoing vaccination drive are likely to support economic recovery of the country

— GDP growth is projected to remain in the red in FY21, registering a net contraction of 10.3 percent and is expected to increase by 13.0 percent in FY22
— Availability of vaccines may help in faster recovery of consumer facing service sectors such as tourism and hospitality

Sources: "India 2021 Outlook", Goldman Sachs, 15 December 2020; "Moody's forecasts 7% GDP contraction for India in FY21; revises estimate to 13.7% growth in FY22", Business Today, 25 February 2021; "India may reclaim 'fastest-growing economy' tag in 2021-22: Report", India Today, 9 March 2021; "India's GDP to expand 0.8% in Q3, FY22 growth seen at 8.5%: Barclays", Business Today, 18 February 2021; "India's GDP growth estimated at 13.5% in FY22: Nomura", Hellnic Shipping news, 9 March 2021; "World Bank ups FY22 GDP growth projection for India by 4.7 percentage pts", Business Standard, 1 April 2021; "India 2021 Outlook: Normalisation underway, then recovery", DBS, 14 December 2020; all accessed on 6 April 2021;

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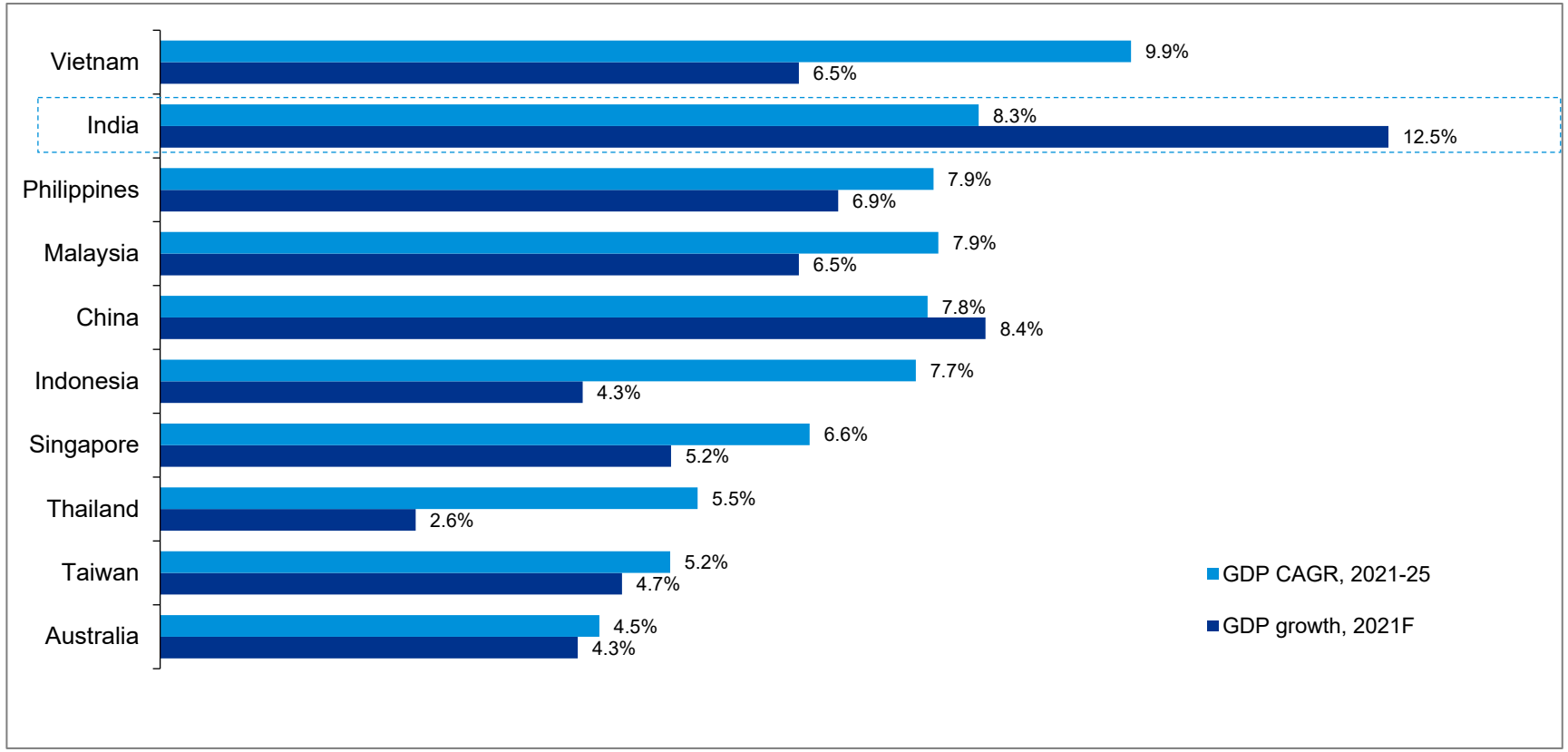
India compared to peers – GDP growth

With a growth rate of about 12.5 percent in 2021, the International Monetary Fund projects India as the fastest growing economy in 2021. The country is expected to sustain a growth rate of 8.3 percent till 2025

Forecasted GDP growth in 2021 and CAGR of GDP growth to 2025 (percent)



Vietnam is expected to grow at more than 9.0 percent till 2025, growing at a faster rate as compared to India and other peers

IMF forecasts India to be the fastest growing economy in 2021, with an estimated GDP growth rate of 12.5 percent, and 6.9 percent in 2022

Note: The average developing nation is expected to grow by about 5.0 percent in this calendar year while the world average will be close to 5.5 percent

F indicates forecast

Sources: "Real GDP Growth", International Monetary Fund; "World Economic outlook update", IMF; accessed on 6 April 2021

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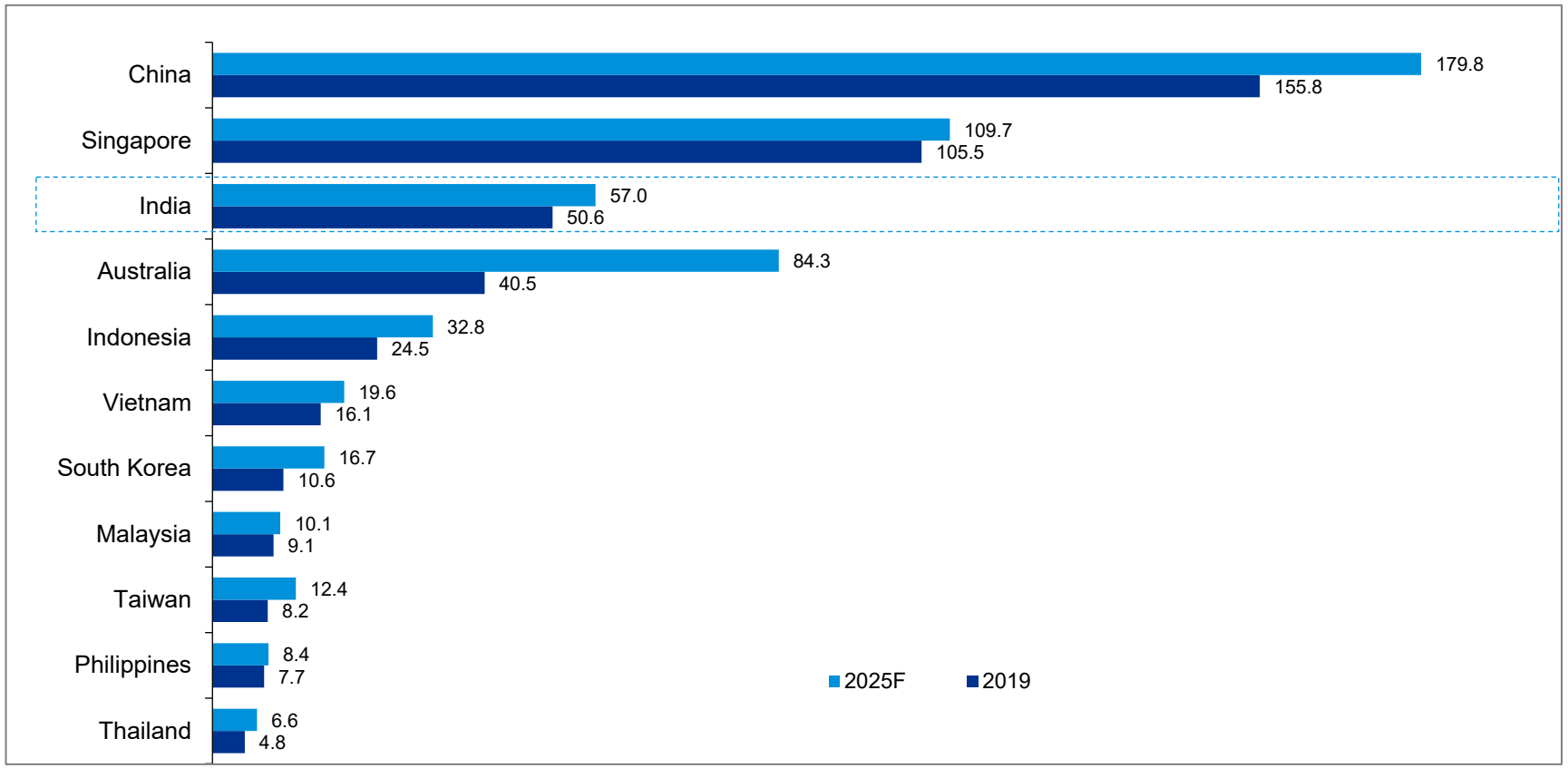
India compared to peers – FDI inflows

In India, FDI through M&A and equity transactions in digital sectors and electronics manufacturing is expected to grow significantly in the near future

FDI inflows (US$ billion)



As per a report by United Nations:

- In India, digital sectors such as IT, business process management, digital communication services and electronics manufacturing may register increase in FDI through acquisitions and equity transactions, and is expected to double by 2025
- Investment in pharmaceutical sector is forecasted to decline owing to local sourcing policies opted by European and the US pharmaceutical companies

F indicates forecast

Sources: "India's economy could prove to be most resilient in subregion over long term: UN", Money control, 29 December 2020; "FDI inflow data", EIU database; all accessed on 12 February 2021,

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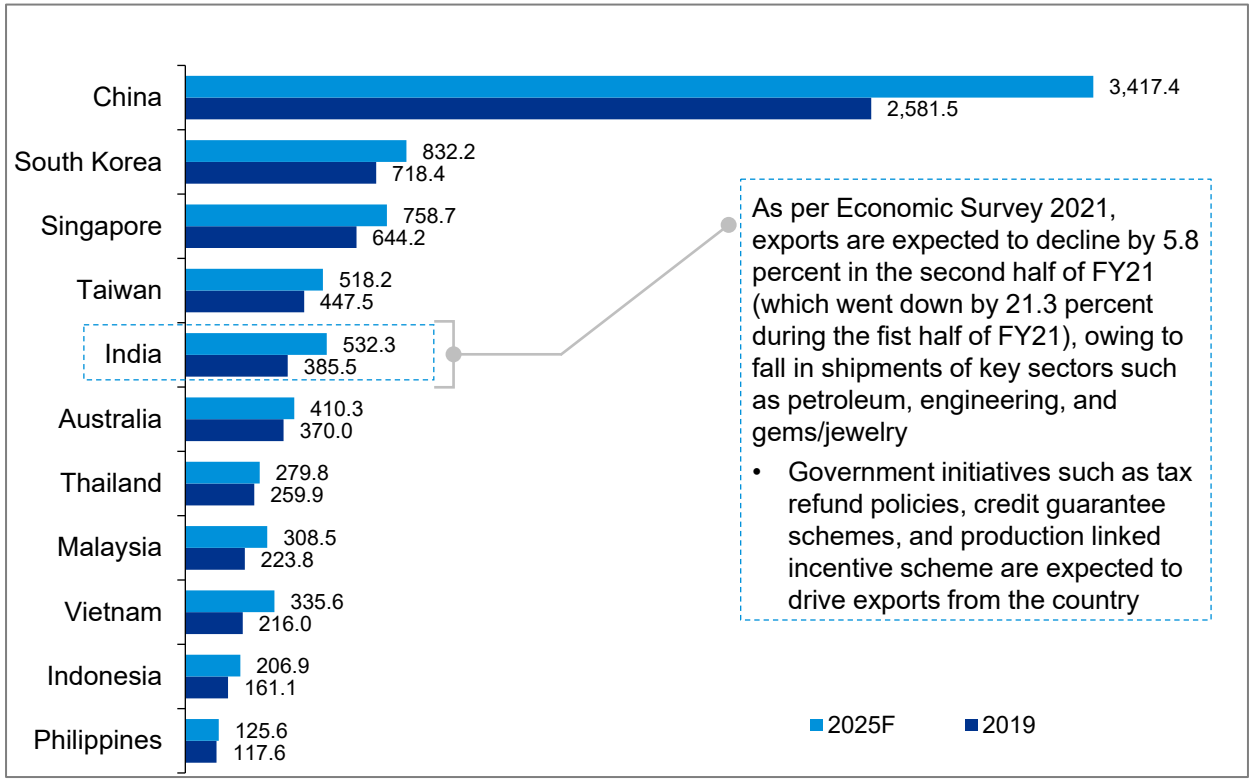
India compared to peers – Trade of goods and services

In 2H2021, exports from India is expected to decline by 5.8 percent owing to fall in trade volume of sectors such as petroleum, engineering and jewelry

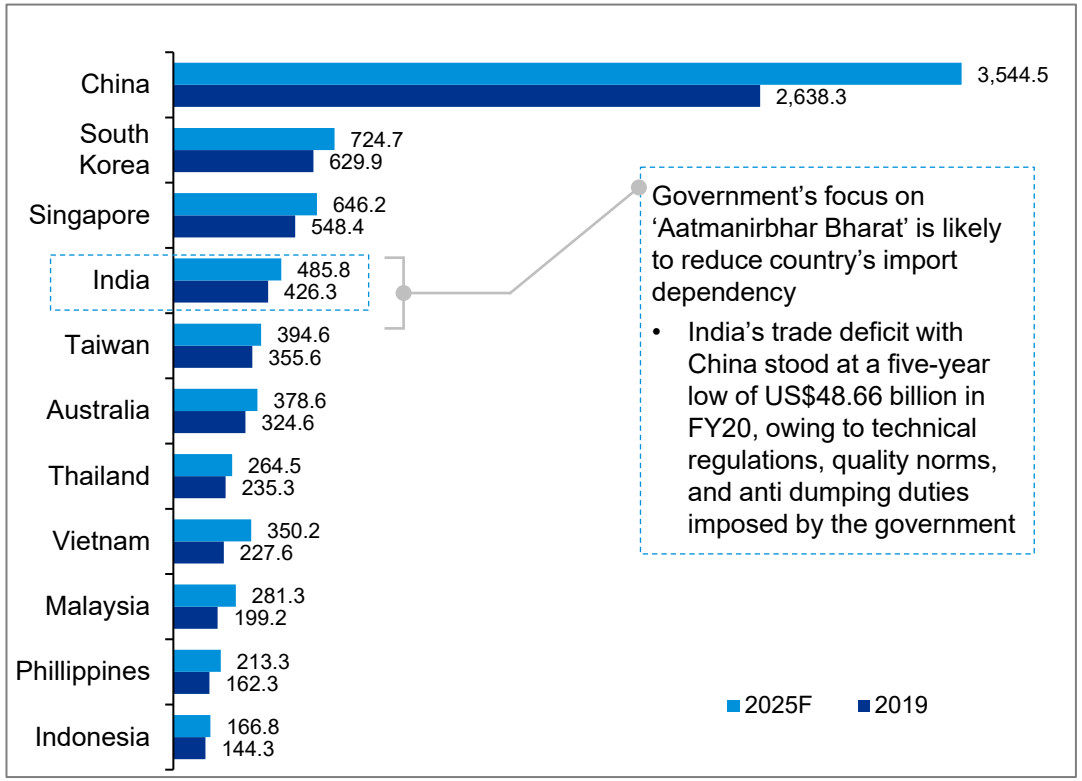
Real export of goods and services (US$ billion)



As per Economic Survey 2021, exports are expected to decline by 5.8 percent in the second half of FY21 (which went down by 21.3 percent during the fist half of FY21), owing to fall in shipments of key sectors such as petroleum, engineering, and gems/jewelry

- Government initiatives such as tax refund policies, credit guarantee schemes, and production linked incentive scheme are expected to drive exports from the country

Real import of goods and services (US$ billion)



Government's focus on 'Aatmanirbhar Bharat' is likely to reduce country's import dependency

- India's trade deficit with China stood at a five-year low of US$48.66 billion in FY20, owing to technical regulations, quality norms, and anti dumping duties imposed by the government

F indicates forecast

Sources: "Both exports and imports record growth in December; first time since Feb", Business Standard, 16 January 2021; "Exports may dip 5.8%, imports by 11.3% in second half of 2020-21: Economic Survey", Economic times, 29 January 2021; "Budget 2021: Customs duty hike to make electronics items more expensive", Business Standard, 2 February 2021; "India's trade deficit with China falls to $48.66 bn as imports decline", Business Standard, 2 July 2020; "Import/Export figure", Economic Intelligence Unit (EIU) database, all accessed on 10 February 2021

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Upcoming policies/initiatives

The government plans to implement multiple policies aimed at boosting local industries, introducing stricter guidelines for FDI backed enterprises and easing compliance

Introduction of Compliance burden portal

- **Department for Promotion of Industry and Internal Trade** launched a **compliance portal** which will serve as a central repository of all state and central compliances, and capture action plans to:
  - rationalise and simplify processes
  - remove burdensome compliances
  - decriminalise laws, and
  - repeal redundant acts
- Over **7,000 compliances have been identified** and the government plans to take coercive action in the near future

Improvement of logistics infrastructure

- **Ministry of Commerce and Industry** announced to work with the **Ministry of Housing and Urban Affairs** to focus on **50 Indian cities** for their logistics planning and develop plan to reduce enforcement burden on truck drivers
- The Ministry has proposed 18-point agenda to the state departments of target cities to improve the logistics infrastructure including:
  - simplification of approvals for warehouses,
  - facilitation for warehousing development,
  - reducing burden on truck movement, and
  - addressing shortage of truck drivers

Stricter e-Commerce guidelines

- **Department for Promotion of Industry and Internal Trade** is expected to release a clarification prohibiting foreign direct investment (FDI)-funded e-commerce marketplaces from holding a direct or indirect stake on any of its sellers
- Expected changes include the prohibition of selling goods on an e-commerce platform for any seller that buys goods from related entities of the same e-commerce platform (present guidelines allow for re-selling if the seller procures up to 25 percent of his goods from the marketplace's wholesale unit)

Sources: "India plans foreign investment rule changes that could hit Amazon", Economic Times, 19 January 2021; "Government nod to vehicle scrappage policy likely soon: Nitin Gadkari", Economic Times, 15 January 2021; "Ease of doing business: Government launches regulatory compliance burden portal", Economic Times, 20 January 2021; "Government planning tighter FDI rules for ecommerce sector", Economic Times, 19 January 2021; "Government to develop plan to improve city logistics, reduce enforcement burden on truck drivers", Economic Times, 20 January 2021; "Centre, states to take corrective action to reduce compliance burden by March 31", Economic Times, 20 January 2021;

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