CURRENT EVENTS AND ANALYSIS

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INDIAN ECONOMY

Editor

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CURRENT EVENTS AND ANALYSIS

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NOVEMBER 2020 CURRENT AFFAIRS: Economy Section

ECONOMY

MACRO ECONOMIC VIEW:

GDP Growth:

Indian Economy Contracts by 7.5 Per cent in Second Quarter (July-September 2020)

- As per the data released by the National Statistical Office (NSO) on November 27, 2020,
- India's Gross Domestic Product (GDP) contracted by 7.5 per cent in second quarter of 2020-21 (July-September). Contraction was 23.9 per cent in first quarter April-June 2020-21.
- With two successive quarters of contraction in growth, India entered into a technical recession.

What is a technical recession?

- The term is used to indicate temporary disruption and contraction in economic activity for two consecutive quarters
- It is most often caused by a one-off event and is generally shorter in duration.
- In India, the present recession is due to COVID-19 pandemic and the lockdowns imposed to combat it. The lockdown restricted movement of people which led to shutdown of most economic activities.
- In a technical recession, economic activity recovers once restrictions are removed and there is normalisation of economic activities.

What is a Recession?

- A recession is also defined as contraction in economic activity for two successive quarters.
- But the following features differentiate recession from technical recession.
- Recession is caused due to economic cycles.
- It leads to significant **decline in economic activity spread across the sectors.** Apart from **growth, unemployment increases and consumption declines.**
- Thus, the in addition to contraction in growth and impact on economy is more broad based.
- Generally, this phenomenon lasts for more than a year.
- In simple words, depth, diffusion and duration of contraction in growth differentiates recession from technical recession.
- Recession sometimes prolongs and leads to depression.
- Example: USA went into depression from 1929 to 1939. The depression in USA impacted global economy as a whole.

(Details about economic depression has been given at the end of the article)

Positive Outcomes from Q2 Growth:

- The contraction in growth in Q2 (7.5%) was not as steep as Q1 (23.9 %)
- Three sectors registered positive growth i.e.

1. Agriculture (3.4%),
2. Manufacturing (0.6 %) and
3. Utilities Electricity, Gas, Water supply, and other Utilities (4.4%).

- In Q1 only Agriculture registered positive growth (3.4%)
- In three other sectors, the rate of decline in growth was not as massive as Q1.
- These are given below.

	Q1	Q2
1. Mining & Quarrying	: (-) 23.3	(-) 9.1
2. Construction	: (-) 50.3	(-) 8.6
3. Trade, Hotels, Transport, Communication & Services related to Broadcasting	: (-) 47.0	(-)15.6

Concerns over Q2 GDP growth:

- Private consumption which is the largest contributor the economic growth fell in the second quarter also.
- It was Rs. 17.96 lakh crore in Q2 of 2020-21 compared to 20.25 lakh crore in Q2 of 2019-20.
- It was Rs. 14.61 lakh crore in Q1 of 2020-21 compared to 19.92 lakh crore in Q1 of 2019-20.

Q2 Growth Rates at a Glance:

Industry	Growth in 2020-21	
	Q1	Q2
1. Agriculture, Forestry & Fishing	3.4	3.4
2. Mining & Quarrying	(-) 23.3	(-) 9.1
3. Manufacturing	(-) 39.3	0.6
4. Electricity, Gas, Water Supply & other Utility Services	(-) 7.0	4.4
5. Construction	(-) 50.3	(-) 8.6
6. Trade, Hotels, Transport, Communication and Services related to Broadcasting	(-) 47.0	(-) 15.6
7. Financial, Real Estate & Professional Services	(-) 5.3	(-) 8.1
8. Public Administration, Defence and Other Services	(-) 10.3	(-) 12.2
GVA at Constant Prices (2011-12)	(-) 22.8	(-) 7.0
GDP at Constant Prices (2011-12)	(-) 23.9	(-) 7.5

GDP and GVA in Absolute Numbers Q2 (July-September) of 2020-21 at constant prices (2011-12 prices):

Q2(July-September)	GDPGVA In Lakh crores	
Q2 of 2020-21	33.14	30.49
Q2 of 2019-20	35.84	32.78

GDP and GVA in the first half (April-September) of 2020-21:

Growth Rate	GDPGVA	
H1 of 2020-21	(-) 15.7	(-) 14.9
H1 of 2019-20	4.8	4.5

GDP and GVA in Absolute Numbers (April-September) of 2020-21 at constant prices (2011-12 prices):

April-September	GDPGVA In Lakh crores	
H1 of 2020-21	60.04	78.46
H1 of 2019-20	71.20	89.55

Additional Information:

Understanding Depression in an Economy:

- In economics, a depression is **a severe and prolonged downturn in economic activity.**
- Declining economic activity is characterised by **falling output** and **employment levels.**
- Depression in an economy is commonly defined as **an extreme recession** that **lasts three or more years or which leads to a decline in real gross domestic product (GDP) of at least 10%.**
- When a recession continues to take its toll on any economy, the built in process triggers further **cuts in investment as well as consumption** spending due to loss of confidence among investors and consumers.
- **Excessive fluctuations happen in relative value of currency.** Overall **trade and commerce get reduced.** The Great Depression of 1929 is considered to be the most classic example of a depression in economic history.

SELF RELIANT INDIA:

12 Measures Announced Under Atma Nirbar Bharat 3.0 (Self Reliant India)

- On November 12, 2020, the Union Government announced 12 measures under the Atma Nirbar Bharat 3.0 (Self Reliant India) with an estimated expenditure of Rs.2.65 lakh crore to stimulate demand in the economy and incentivise creation of new employment opportunities.

  (Atma Nirbar 3.0 means third set of measures announced under Atma Nirbar Bharat Abhiyan -Self Reliance India Campaign. Already 2 sets of measures have been announced under Atma Nirbar Bharat)

1. **AatmaNirbhar Bharat Rozgar Yojana:**

A new scheme to incentivise job creation during COVID-19 recovery has been launched.

Under the scheme, if Employee Provident Fund Organisation (EPFO)-registered establishments take in new employees or those who lost jobs earlier due to COVID-19 (those who lost jobs between March 01, 2020 to September 30, 2020), the Government will extend the following benefits.

For Establishments employing up to 1000 employees, the Government would pay Employee's contributions (12% of Wages) & Employer's contributions (12% of wages) totalling 24% of wages to the Employees Provident Fund (EPF) for the new employees recruited.

For establishments employing more than 1000 employees, the Government would pay Employee's Provident Fund (EPF) contributions (12% of wages).

The scheme will be effective from October 1, 2020 and operational till 30th June 2021.

New employees who got jobs in the above period would be provided the benefit EPF contribution by Government for a period of 2 years.

Any new employee joining employment in EPFO registered establishments on monthly wages less than Rs.15,000 is eligible for EPF contribution by Government.

2. **Emergency Credit Line Guarantee Scheme:**

Emergency Credit Line Guarantee Scheme (ECLGS) for MSMEs, businesses, MUDRA borrowers and individuals (loans for business purposes), has been extended till March 31, 2021.

Besides, a Credit guarantee support scheme ECLGS 2.0 will be launched for Healthcare sector and 26 stressed sectors for those with outstanding credit between Rs. 50 crores to Rs. 500 crores as on February 29, 2020 and stressed due to COVID-19.

Companies in the above 26 stressed sectors plus healthcare sector will get **additional credit up to 20% of outstanding credit** with a tenor of five years, including 1 year moratorium on principal repayment.

This scheme will be available till March 31, 2021.

3. **Production Linked Incentive Scheme to Be Expanded to 10 Champion Sectors:**

Government of India has already approved Production Linked Incentives (PLI) schemes for 3 sectors at a cost of Rs 51,355 crores for boosting domestic manufacturing, reducing import dependence and expanding employment opportunities within the country.

These are for

Mobile Manufacturing and specified electronics components at a cost of Rs 40,995 crore

Drug intermediates and Active Pharmaceuticals Ingredients (API) at a cost of Rs. 6,940 crore

Manufacturing of Medical Devices at a cost of Rs. 3,420 crore.

Under the Production Linked Incentives (PLI) schemes, the Union Government gives an incentive of 4 to 6 per cent on incremental sales of goods over the base year.

10 More Sectors to Be Included:

The Government announced that 10 more Champion Sectors will be covered under the Production Linked Incentives Scheme. Automobile sector will be the major beneficiary with an allocation of Rs. 57, 042 crores.

The ten sectors are - Advance Cell Chemistry Battery, Electronic/Technology Products, Automobiles & Auto Components, Pharmaceuticals Drugs, Telecom & Networking Products, Textile Products, Food Products, High Efficiency Solar PV Modules, White Goods (ACs & LED), and Specialty Steel.

Extension of PLI scheme to 10 new sectors will give a big boost to economy, investment, exports and job creation.

4. **Rs. 18,000 Crore Additional Outlay for PM Awaas Yojana - Urban**

A sum of Rs 18000 crore will be provided for Pradhan Mantri Awas Yojana - Urban (PMAY-Urban) over and above Rs. 8000 Crore already allocated this year (2020-21).

This will help ground 12 Lakh houses and complete 18 Lakh houses, create additional 78 Lakh jobs and improve production and sale of steel and cement, resulting in multiplier effect on economy.

5. **Support for Construction & Infrastructure:**

Contractors have to payperformance security on contracts ranging from 5 to 10 %.

This has been reduced to 3 % to provide ease of doing business and relief to contractors whose money otherwise remains locked up.

This facility will be extended to ongoing contracts and Public Sector Enterprises.

6. **Income Tax relief for Developers & Home Buyers**

The Government has increased the differential between circle rate and agreement value for levying income tax from 10% to 20% for primary sale of residential units up to Rs. 2 crore till June 30 2021.

The Income Tax relief provides incentive to middle class to buy homes and help builders to sell unsold inventory.

Due to price correction in real estate, prices of housing units have fallen below the circle rate.

Circle rate is the minimum price (stamp duty value) set by local governments to prevent evasion of taxes.

A real estate asset has to be registered at circle rate when it is being transferred. If transactions happen below the circle rate, it leads to taxation of both the buyer and seller.

For example, the circle rate of a property is Rs.100000 and the property transaction happens at Rs. 70,000. Here, Rs. 30,000 will be taxed in the hands of the developer as business income under Section 43CA, and Rs.30,000 will also be taxed in the hands of the property buyer as income from other sources under Section 56(2)(x). The objective of this tax is to check tax evasion by underreporting the value of the property.

Over the years, the government has provided some concessions on this tax - acknowledging that sometimes property transactions do happen below circle rates due to fall in market rates. So, in Budget 2018-19, a safe harbour threshold of 5 per cent was given. Then, in Budget 2020-21, the threshold was increased to 10 per cent. This has now been increased further to 20 per cent.

7. Platform for Infra Debt Financing

Government will make Rs. 6,000 crore equity investment in debt platform of National Investment and Infrastructure Fund (NIIF). This will help NIIF provide a debt of Rs. 1.1 Lakh Crore for infrastructure projects by 2025. The debt platform is NIIF Infrastructure Debt Financing Platform which is an Alternative Investment Fund set up by NIIF.

Alternative Investment Funds are set by investors, both public and private, who want to make specified investments in areas of their choice like private equity, debt funds, infrastructure funds, venture capital funds, etc.

Alternate Investment Funds are regulated by Securities and Exchange Board of India (SEBI).

8. Support for Agriculture: Rs. 65,000 Crore for subsidized fertilizers

As fertilizer consumption is going up significantly, Rs. 65,000 crore would be provided to ensure increased supply of fertilizers to farmers to enable timely availability of fertilisers in the upcoming crop season.

9. Boost for Rural Employment:

Additional outlay of Rs. 10,000 Crore would be provided under Pradhan Mantri Garib Kalyan Rozgar Yojana to provide rural employment. This money would be spent on Mahatma Gandhi Rural Employment Guarantee Act (MGNRGA) works or rural road connectivity projects.

10. Boost for Project Exports

Rs. 3,000 crore would be provided to EXIM Bank for promoting project exports under Indian Development and Economic Assistance Scheme (IDEAS Scheme).

Under the Indian Development Assistance Scheme (IDEAS), concessional financing is provided for companies undertaking infrastructure and other projects in the developing countries with assistance from India.

11. Capital and Industrial Stimulus

Rs.10,200 crore additional budget stimulus would be provided for capital and industrial expenditure on

Domestic defence equipment

Industrial incentives

Industrial infrastructure, and

Green energy

12. R&D grant for COVID Vaccine

Rs. 900 crore has been announced to Department of Biotechnology for Research and Development of Indian COVID.

Production Linked Incentive Scheme Announced for 10 More Industries

On November 11, 2020, the Union Government approves introduction of Production-Linked Incentive (PLI) Scheme in the following 10 key sectors under Atmanirbhar Bharat (Self Reliant India).

Under the Production Linked Incentives (PLI) schemes, the Union Government gives an incentive of 4 to 6 per cent on incremental sales of goods over the base year.

Sector	Estimated Expenditure on new PLIs (Rs. Crore)
1. Advance Cell Chemistry Battery	18,100
2. Electronic/Technology Products	5,000
3. Automobiles & Auto Components	57,042
4. Pharmaceuticals Drugs	15,000
5. Telecom & Networking Products	12,195
6. Textile Products	10,683
7. Food Products	10,900
8. High Efficiency Solar PV Modules	4,500
9. White Goods (ACs & LED)	6,238
10. Specialty Steel	6,322
Total	**1,45,980**

Objectives of PLI Scheme:

The PLI scheme in the above 10 key specific sectors is aimed at making

1. Indian manufacturers globally competitive,
2. attract investment in the areas of core competency and cutting-edge technology;
3. ensure efficiencies;
4. create economies of scale;
5. enhance exports, and
6. make India an integral part of the global supply chain.

Significance of Sectors Identified under Production Linked Incentive Scheme:

1. ACC Battery Manufacturing:

ACC battery manufacturing represents one of the largest economic opportunities of the twenty-first century for several global growth sectors, such as consumer electronics, electric vehicles, and renewable energy.

The PLI scheme for ACC battery will **incentivize large domestic and international players** in **establishing** a competitive ACC battery set-up in the country.

2. Electronic Products:

India is expected to have a **US $ 1 trillion digital economy by 2025.**

Additionally, the Government's push for data localization, Internet of Things market in India, projects such as Smart City and Digital India are expected to increase the demand for electronic products. The PLI scheme will boost the production of electronic products in India.

3. Automotive Industry:

The automotive industry is a major economic contributor in India. The PLI scheme will **make the Indian automotive Industry more competitive and will enhance globalization of the Indian automotive sector.**

4. Pharmaceutical Industry:

The Indian pharmaceutical industry is the third largest in the world by volume and 14th largest in terms of value. It contributes 3.5% of the total drugs and medicines exported globally. India possesses the complete ecosystem for development and manufacturing of pharmaceuticals and a robust ecosystem of allied industries. The PLI scheme will **incentivize the global and domestic players to engage in high value production.**

Biopharmaceuticals, complex generic drugs, patented drugs or drugs nearing patent expiry, auto-immune drugs, anti-cancer drugs, cardiovascular drugs, psychotropic drugs, anti-Retroviral drugs, etc have been identified for incentives under PLI scheme.

5. Telecom Products:

Telecom equipment forms a **critical and strategic element of building a secured telecom infrastructure** and **India aspires to become a major original equipment manufacturer of telecom and networking products.** The PLI scheme is expected to attract large investments from global players and help domestic companies seize the emerging opportunities and become big players in the export market.

6. Textile Industry:

The Indian textile industry is one of the largest in the world and has a share of around 5% of global exports in textiles and apparel. But India's share in the manmade fibre (MMF) segment is low in contrast to the global consumption pattern, which is majorly in this segment. The PLI scheme will attract large investment in the sector to further boost domestic manufacturing, especially in the MMF segment and technical textiles.

7. Food processing Industry:

The growth of the **processed food industry** leads to **better price for farmers and reduces high levels of wastage.** Specific product lines having high growth potential and capabilities to generate medium- to large-scale employment have been identified for providing support through PLI scheme. These are Marine products, fruits and vegetables, honey, poultry meat, etc.

8. Solar PV Modules:

Large imports of solar PV panels pose risks in supply-chain resilience and **have strategic security challenges** considering the electronic (hackable) nature of the value chain. A focused PLI scheme for solar PV modules will **incentivise domestic and global players to build large-scale solar PV capacity in India** and **help India leapfrog in capturing the global value chains for solar PV manufacturing.**

9. White Goods:

White goods (air conditioners and LEDs) have **very high potential of domestic value addition and making these products globally competitive.** A PLI scheme for the sector will lead to **more domestic manufacturing, generation of jobs and increased exports.**

10. Steel:

Steel is a **strategically important industry** and **India is the world's second largest steel producer in the world.** It is a net exporter of finished steel and has the potential to become a champion in certain grades of steel. A PLI scheme in Specialty Steel will help in enhancing manufacturing capabilities for value added steel leading to increase in total exports.

Why was the Production Linked Incentive Scheme Announced?

- The Prime Minister's clarion call for an 'AatmaNirbhar Bharat' envisages policies for the promotion of an **efficient, equitable and resilient manufacturing sector in the country.**
- **Growth in production** and **exports of industrial goods** will **greatly expose the Indian industry to foreign competition and ideas.**
- This will help in **improving its capabilities to innovate further.**
- Promotion of the manufacturing sector and creation of a conducive manufacturing ecosystem will **notonly enable integration with global supply chains but also establish backward linkages with the Micro Small and Medium Enterprises (MSME) sector in the country.**
- It will lead to **overall growth in the economy** and **create huge employment opportunities.**

BALANCE OF PAYMENTS:

FTA's:

Regional Comprehensive Economic Agreement (RCEP) Signed

- 15 Asia pacific countries - 10 ASEAN countries plus China, Japan, South Korea, Australia, and New Zealand signed the Regional Economic Comprehensive Agreement (RCEP).

Member Countries:

- RCEP includes **China, Japan, South Korea, Australia, New Zealand** and
- **10 members of the Association of South East Asian Nations (ASEAN):** Brunei, Vietnam, Laos, Cambodia, Thailand, Myanmar, Malaysia, Singapore, Indonesia and the Philippines.

RCEP aims at

a) progressively reducing tariffs,

b) boosting investment in member countries, and

c) allowing freer movement of goods within the region.

Once RCEP comes into force

- **Import duties on 80 to 90 % of goods** will be **reduced.**
- **Service trade** and **investment rules** will be simplified.

Significance of RCEP:

- RCEP countries account for
- 33 % of global population,
- 30 % of global Gross Domestic Product (GDP).

When will RCEP come into force?

- The 15 countries have formally signed the deal on November 15, 2020.
- This deal has to be ratified by the member countries. Ratification means giving consent to the treaty by member countries by following necessary domestic procedures like enacting laws to give effect to the treaty or getting approval of the Parliament and submitting the consent formally to the depository set up under agreement.
- The RCEP deal must be ratified by at least six ASEAN countries and three non-ASEAN signatory countries before it can come into effect.
- The complete details of the treaty which runs into 510 pages was not made official as it needs to ratified by member countries.

India Opts out of RCEP:

- Negotiations on RCEP are going on since 2012 between ASEAN and its 6 FTA partners - China, India, Japan, South Korea, Australia and New Zealand.
- Thus, India was one of the original negotiating partners but opted out of negations in 2019 due to the following concerns

Concerns of India:

1. **Threat of Cheap Imports from China:**

   Reduced tariffs will lead to flood of imports especially from China. This will harm the domestic industry as they cannot compete with cheap imports from China.

   A large number of sectors including, steel, plastics, copper, aluminium, machine tools, paper, automobiles, chemicals and others had expressed apprehensions on RCEP citing dominance of cheap foreign goods would hurt its businesses.

   India proposed **import cap for China** and a **mechanism to raise tariffs** on Chinese imports if it crossed certain threshold. China refused to this suggestion.

2. **Negative Impact on Agriculture and Dairy Industry:**

   There is threat to dairy industry due to cheaper imports from Australia and New Zealand which have huge surplus production. Particularly, New Zealand has huge surplus production in dairy products. More than 90 per cent of dairy products (milk powder, cheese, butter) are exported. So opening the markets by reducing tariffs would benefit these countries and harm the livelihoods of 5 crore farmers in rural areas dependent on dairy industry.

   Similarly, other **agricultural commodities** like pepper and cardamom will face competition which will lead to low prices due to dumping of these commodities by RCEP countries.

   At present, cheap imports of cardamom and black pepper from Sri Lanka and ASEAN countries have been hurting farmers in Kerala. The same has been the case with rubber farmers as rubber at cheaper rates from Vietnam and Indonesia are getting dumped into the country.

Coconut farmers too are distressed with coconut oil cakes imports from the Philippines and Indonesia.

3. **Lack of Greater Access in Services Trade:**

India hoped for greater trade in services, which would have allowed cross-border movement of Indian information technology, medical workers, and teachers. But this was opposed by ASEAN countries and developed economies such as Australia.

4. **Trade Deficits:**

India has trade deficits with 11 out of 15 RCEP countries.

The trade deficit is increasing over the years.

Overall trade deficit with RCEP countries was US $ 54 billion. It increased to **US $ 105 billion in 2018-19.**

Of the country's $105 billion trade deficit, $53 billion is only with China.

5. **Free Trade Agreements Not Favourable to India:**

So, India's experience with free trade was not favourable to the country. India's exports to FTA countries have not outperformed the overall export growth or exports to rest of the world.

India has free trade agreements with ASEAN, Japan, and South Korea. It has trade deficits with all these partners.

Does India Lose by Not Being Part of RCEP?

1. **Loss of Access to Large Market:**

Being part of RCEP would have opened preferential market access to a large market for Indian goods.

RCEP countries account for 2 billion population.

The countries in the RCEP accounted for nearly 26 per cent of global imports in 2019 which was increase from 22 per cent in 2009. **RCEP countries are the export destinations of the future,** and Indian exporters have been denied preferential access to them.

Some exports like **pharmaceuticals, cotton yarn and the services industry** would have gained due to the opening of RCEP markets.

2. **Loss of investments:**

India may lose investments by not being part of RCEP.

RCEP creates common rules of origin to qualify for tariff reduction among member countries. This means less procedures and easier movement of goods. This would encourage companies to invest more in RCEP countries and build supply chain and distribution hubs. India loses these investments as it has opted out of RCEP.

3. **Opportunity to be Part of Global Supply Chains:**

RCEP will become major trading area and will form a key part of global manufacturing supply chains.

India misses a chance to become part of global supply chains network.

4. **Protectionist Measure:**

The decision to not join RCEP is being criticised as a protectionist measure.

Overseas competition would have made the industry more competitive.

Remittances:

Migration and Development Brief Report 2020

- Migration and Development Brief which provides latest data on migration and remittance flows was released by the World Bank on October 30, 2020.
- In 2020, the **top remittance recipient countries** are expected to be **India, China, Mexico, the Philippines, and Egypt,** unchanged from 2019.
- **When remittances are calculated as a share of GDP,** the top five recipients in 2020 are smaller economies: **Tonga, Haiti, Lebanon, South Sudan, and Tajikistan.**
- Remittance flows to **low and middle-income countries (LMICs)** are projected to fall by 7 percent, to $508 billion in 2020, followed by a further decline of 7.5 percent, to $470 billion in 2021.
- The foremost **factors driving the decline in remittances** include weak economic growth and employment levels in migrant-hosting countries, weak oil prices; and depreciation of the currencies of remittance-source countries (especially Russia) against the US dollar.
- Even though remittance flows will decline in 2020, their relative importance as a source of external financing for **Low and Middle Income Countries (LMICs)** is expected to increase.
- Remittance flows to LMICs touched a record high of $548 billion in 2019, larger than foreign direct investment (FDI) flows ($534 billion) and overseas development assistance (about $166 billion).

Impact of COVID-19 on Migrants:

- The pandemic has left migrants deeply vulnerable to joblessness, abuse or breach of contract by employers, as well as risks of contagion.
- Beyond humanitarian considerations, providing migrants access to housing and health care is necessary to keep host communities safe from the pandemic.
- Migrants are on the frontline, saving people from COVID-19 in hospitals and science labs. They are on the frontline in stores and restaurants, farms and factories, keeping these businesses running.
- Origin countries must find ways of supporting returning migrants in resettling, finding jobs or opening businesses.

Total Global Remittances Estimated in 2020 at a Glance:

Year	Remittances (US $ Billion)
2018	695
2019 (e)	717
2020 (f)	666
2021(f)	619

Note: e: estimates; f: forecasts

Remittances to Low and Middle Income Countries:

Year	Remittances (US $ Billion)
2018	525
2019 (e)	548
2020 (f)	508
2021(f)	470

Note: e: estimates; f: forecasts

Top 10 Remittances Receiving Countries in 2020:

Country	Remittances (US $ Billions)
1. India	76
2. China	60
3. Mexico	41
4. Philippines	33
5. Egypt	24
6. Pakistan	24
7. Nigeria	21
8. Bangladesh	20
9. Vietnam	16
10. Ukraine	14

Top Recipients of Remittances by Share of GDP (%)

Country	Remittances (as % GDP)
1. Tonga	40
2. Haiti	38
3. Lebanon	36
4. South Sudan	35
5. Tajikistan	26
6. Kyrgyzstan	25
7. Nepal	23
8. El Salvador	22
9. Honduras	21
10. Lesotho	21

External Assistance:

US $ 500 Million Loan for Public Transport System in National Capital Region

- On November 19, 2020, the Government of India signed a loan agreement with the New Development Bank(NDB) for US $ 500 million for the 'Delhi-Ghaziabad-Meerut Regional Rapid Transit System Project'.
- The project aims to provide fast, reliable, safe and comfortable public transport system in the National Capital Region (NCR).

Details:

Present Status of Transportation in National Capital Region:

- The **National Capital Region (NCR)** is **among the world's largest urban agglomerations and a major economic centre of India.**
- Due to **lack of efficient public transport options,** the number of private vehicles in NCR has increased.
- **The daily passenger traffic along the Delhi-Ghaziabad-Meerut corridor** in National Capital Region (NCR) is estimated at **0.69 million,** of which **63% utilize private vehicles for commuting.**
- Due to traffic congestion, it can take about **3 to 4 hours to travel between Delhi and Meerut in** Uttar Pradesh by road during peak hours.
- **Rapid growth in vehicular traffic** has made NCR **one of the most polluted regions in the world.**
- **By 2030, NCR** is projected to become the **most populous urban agglomeration in the world,** which will **increase pressure on basic infrastructure such as housing, water supply, electricity and transport.**
- **Fast transit system will support in achieving the goal of sustainable urban development in NCR region** including National Capital Territory of Delhi.

How the Project helps?

- The environment friendly and very low emission Regional Rapid Transit System between Delhi-Ghaziabad-Meerut will **carry many times more people at high speed (average speed 100 kmph)** while occupying just 3 m space on land thus reducing congestion on the roads.
- Overall it will **significantly reduce the total emissions from the transport sector in NCR.**
- Seamless high speed connectivity will also **result in balanced economic development across the Region** leading to economic benefits to all strata of society and **many nodes of development rather than all economic activity happening at one place.**

How the NDB Funding Will Be Used ?

- NDB funding will be provided to finance rolling stock for modern design, energy efficient operations and interoperability across corridors.
- NDB funds will also be utilized for procuring signalling, telecommunication and train control system with advanced features such as automatic train operation, automatic train protection, automatic train supervision and integration with platform screen doors.

Total Project Cost:

- The total project cost is estimated at **USD 3,749 million,** which will be financed by the NDB (USD 500 million), Asian Infrastructure Investment Bank (USD 500 million), Asian Development Bank (USD 1,049 million), Japan Fund for Poverty Reduction (USD 3 million), and Government and Other sources (USD 1,707 million).
- The USD 500 million loan from the NDB has a tenor of 25 years withan8-year grace period.

US $ 120 Million Dollar World Bank Loan to Meghalaya

- On November 19, 2020, the Government of India, the Government of Meghalaya and the World Bank today signed a $120 million project to improve and modernise the transport sector of state of Meghalaya.

Details:

- Economic growth of any region is closely linked to its road infrastructure.
- Difficult hilly terrain and extreme climatic conditions make Meghalaya's transport challenges particularly complex.
- Today, about half of the 5,362 habitations in the state lack transport connectivity.
- Road network is crucial for the economic development of the Meghalaya State and its people.
- The 120 million dollars project will improve about 300 km of strategic road segments and stand-alone bridges by using innovative, and climate resilient, solutions.
- The road network will improve market access to agriculture produce in the State and also contribute to the growth of tourism.
- It will also position Meghalaya as a major connecting hub for international trade through the **Bangladesh, Bhutan, India, and the Nepal Corridor.**
- The $120 million loan from the International Bank for Reconstruction and Development (IBRD) has a maturity of 14 years including a grace period of 6 years.

AGRICULTURE:

PM-KUSUM:

PM-KUSUM Guidelines Amended

- In November 2020, the Ministry of New and Renewable Energy (MNRE) amended the guidelines of the Pradhan Mantri Kisan Urja Suraksha evam Utthaan Mahabhiyaan (PM-KUSUM) Scheme.

Background:

- As a part of Intended Nationally Determined Contributions (INDCs), India has committed to increase the share of installed capacity of electric power from non-fossil-fuel sources to 40% by 2030.
- In this regard, the Union Government had approved scaling-up of solar power target from 20,000 MW of Grid Connected Solar power Projects to 1,00,000 MW by 2022.
- While Large Scale Solar power generation projects are being installed to achieve the ambitious target of 100 GW of Solar Power generation by 2022, it has been planned **to simultaneously**

develop decentralised Solar energy and other renewable energy generation Plants of capacity up to 2 MW which could be connected directly to existing sub-stations of Distribution Company, thus saving in transmission system requirement apart from T&D losses.

- Such plants near these sub-stations may be developed, preferably by farmers, giving them an **opportunity to increase their income by utilising their barren and uncultivable land for solar or other renewable energy based power plants.**
- **Cultivable land may also be used if** the Solar plants are set up on stilts where crops can be grown below the stilts and sell RE power to DISCOMs.
- Besides, developing decentralised renewable power, it is planned to replace Agriculture Diesel **pumps** with Solar Water pumps and Solarise Grid connected Agriculture pumps.
- At present, over **30 million agricultural pumps are installed in India,** out of which nearly **10 million pumps are diesel based.**
- The Distribution Companies (DISCOMs) are not in a position to energize these pumps through grid connection and there is a long waiting lists with such Distribution Companies. Hence there is a need to provide energy to these pumps through solar energy.
- Also, over 20 million grid-connected agriculture water pumps installed in the country consume more than **17 percent of total annual electricity consumption of the country.**
- **Solarisation** diesel water pumps has the following benefits.

1. It **reduces dependence of these pumps on conventional sources of energy** supplied by DISCOMs and thus reducing their burden of subsidy on agriculture consumption of Electricity.
2. This will also provide **additional source of income to farmers** who will be in a position to sell the surplus power to DISCOMs.

- Hence, in February 2019, the Union Government approved Pradhan Mantric Kisan Urja Suraksha evam Utthaan Mahabhiyaan (PM-KUSUM) Scheme.
- The Scheme has following three components.
- **Component-A:** Setting up of 10,000 MW of Decentralised Ground/ Stilt Mounted Grid Connected Solar or other Renewable Energy based Power Plants;
- **Component-B:** Installation of 17.50 Lakh Stand-alone Solar Agriculture Pumps; and
- **Component-C:** Solarisation of 10 Lakh Grid Connected Agriculture Pumps.

- The Component-A and Component-C will be implemented initially on pilot mode for 1000 MW capacity and one lakh grid connected agriculture pumps respectively and Component-B will be implemented in full-fledged manner with total Central Government support of Rs. 19,036.5 Crore.
- After successful implementation of pilot project of Components A and C, the same shall be scaled up with necessary modifications based on the learning from the pilot phase with total Central Government support of Rs 15,385.5 Crores.
- All three components of the scheme aim to **add Solar capacity of 25,750 MW by 2022** with the total Central Financial Support of **Rs 34,422 crore**

Details of the Three Components of PM-KUSUM:

- **Component-A: Setting up of 10,000 MW of Decentralised Ground/ Stilt Mounted Grid Connected Solar or other Renewable Energy based Power Plants:**
- Under this component, solar or other renewable energy based power plants (REPP) of capacity 500 kW to 2 MW will be setup by individual farmers/ group of farmers/ cooperatives/ panchayats/ Farmer Producer Organisations (FPO)/Water User associations (WUA) who will be called Renewable Power Generator (RPG).
- However, States/DISCOMs may allow setting-up of solar or other renewable energy based power plants of capacity less than 500 kW in specific cases like in Hilly and remote States. The REPP will be preferably installed within five km radius of the sub-stations in order to avoid high cost of sub-transmission lines and to reduce transmission losses.
- The renewable power generated will be purchased by Distribution companies (DISCOMs) at a pre-fixed levelised tariff.
- Distribution companies (DISCOMs) should enter into power purchase agreements with Renewable Power Generator (RPG).
- The duration of PPA will be **25 years** from Commercial Operation Date (COD) of the project.

Procurement Based Incentive (PBI):

- Ministry of New and Renewable Energy (MNRE) will provide Procurement Based Incentive (PBI) to the DISCOMs @ 40 paise/kWh or Rs.6.60 lakhs/MW/year, whichever is lower, for buying solar/ other renewable power under this scheme.
- The PBI will be given to the DISCOMs for a period of five years from the Commercial Operation Date of the plant. Therefore, the total PBI that shall be payable to DISCOMs will be Rs. 33 Lakh per MW.

Component B: Installation of 17.50 Lakh Stand-alone Solar Pumps:

- Under this Component, **individual farmers will be supported to install standalone solar Agriculture pumps** of capacity up to 7.5 HP for replacement of existing diesel Agriculture pumps / irrigation systems in off-grid areas, where grid supply is not available.
- Installation of new pumps shall also be permitted under this scheme except in dark zone areas. Pumps of capacity higher than 7.5 HP may be allowed, however, the Central Financial Assistance (CFA) will be limited to the CFA applicable for pump of 7.5 HP.
- Water User Associations and community/cluster based irrigation system will also be covered under this component. However, **priority would be given to small and marginal farmers.**
- In order to minimise the water usage for irrigation purpose, preference will be given to the farmers using Micro irrigation systems or covered under Micro irrigation schemes or who opt for micro irrigation system. The size of pump would be selected on the basis of water table in the area, land covered and quantity of water required for irrigation.
- **Central Financial Assistance of 30%** of the stand-alone solar Agriculture pump will be provided. The **State Government will give a subsidy of 30%;** and the remaining 40% will be provided by the farmer. Bank finance may be made available for farmer's contribution, so that farmer has to initially pay only 10% of the cost and remaining up to 30% of the cost as loan.

- However, in North Eastern States, Sikkim, Jammu & Kashmir, Himachal Pradesh and Uttarakhand, Lakshadweep and A&N Islands, **Central Financial Assistance** of 50% would be provided. The State Government will give a subsidy of 30%; and the remaining 20% will be provided by the farmer. Bank finance may be made available for farmer's contribution, so that farmer has to initially pay only 10% of the cost and remaining up to 10% of the cost as loan.

Component C: Solarisation of 10 Lakh Grid Connected Agriculture Pumps:

- Under this Component, individual farmers having grid connected agriculture pump will be supported to solarise pumps.
- Solar PV capacity up to two times of pump capacity in kW is allowed under the scheme.
- The farmer will be able to use the generated solar power to meet the irrigation needs and the excess solar power will be sold to DISCOMs. Water User Associations and community/ cluster based irrigation system will also be covered under this component. However, priority would be given to small and marginal farmers. In order to minimise the water usage for irrigation purpose, preference will be given to the farmers using Micro irrigation systems or covered under Micro irrigation schemes or who opt for Micro irrigation systems.
- CFA of 30% of the benchmark cost or the tender cost, whichever is lower, of the solar PV component will be provided. The State Government will give a subsidy of 30%; and the remaining 40% will be provided by the farmer. Bank finance may be made available for farmer's contribution, so that farmer has to initially pay only 10% of the cost and remaining up to 30% of the cost as loan.
- North Eastern States, Sikkim, Jammu & Kashmir, Himachal Pradesh and Uttarakhand, Lakshadweep and A&N Islands, **Central Financial Assistance** of 50% would be provided.

Amendments to Guidelines:

- In November 2020, the Ministry of New and Renewable Energy (MNRE) amended the guidelines of the PM-KUSUM scheme. The major amendments are as follows.
- Besides barren, fallow and agricultural land, solar power plants can also be installed on pasture land and marshy land of farmers.
- To support small farmers, the solar power projects smaller than 500 kW may be allowed by States based on techno-commercial feasibility.

- The selected Renewable Power Generator (RPG) shall commission the solar power plant within twelve months from date of issuance of Letter of Award (LoA). Earlier this period was nine months from date of issuance of LoA.
- There shall be no penalty to RPG for shortfall in solar power generation from minimum prescribed capacity.
- For solar pumps to be set up and used by Water User Associations (WUA)/Farmer Producer Organisations (FPO)/Primary Agriculture Credit Societies (PACS) or for cluster based irrigation system, the **Central Financial Assistance** will be allowed for solar pump capacity of higher than 7.5 HP considering up to 5 HP capacity for each individual in the group.

BANKING:

Co-Lending Model:

Co-Lending Model Scheme Guidelines Released

- The Reserve Bank on Thursday released the guidelines for Co-Lending Model (CLM) scheme on November 5, 2020.

What is Co-Lending Model?

- Under the scheme, banks will be permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement.
- Co-lending banks will take their share of the individual loans in their books.
- The Co-Lending Model is an improvement over the Co-Origination of Loan Model scheme announced by the RBI in September 2018.
- Co-Lending Model seeks to provide greater flexibility to the lending institutions.

Objectives of Co-Lending Scheme are to

1. improve the flow of credit to the **unserved and underserved sectors of the economy** and
2. make available funds to the **ultimate beneficiary at an affordable** cost.

- Banks offer lower cost of funds while Non Banking Financial Companies (NBFCs) have greater reach to the underserved sectors.

Guidelines:

- NBFCs will be the single point of interface for the customers and shall enter into a loan agreement with the borrowers.
- The agreement should clearly contain the features of the arrangement and the roles and responsibilities of NBFCs and banks.

Interest Rate:

- The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both.

Escrow Account:

- All transactions (disbursements/ repayments) between the banks and NBFCs relating to CLM have to be routed through an escrow account maintained with the banks, in order to avoid inter-mingling of funds.

Grievance Redressal:

- Suitable arrangement must be put in place for grievance redressal by the co-lenders to resolve any complaint registered by a borrower with the NBFC within 30 days.
- If the complaint is not resolved, the borrower would have the option to escalate the same with the concerned Banking Ombudsman/Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

Coverage under Priority Sector for Banks:

- The banks can claim priority sector status in respect of their share of credit while engaging in the Co-Lending Model.

- Under priority sector norms, banks are mandated to lend a particular portion of their funds to specified sectors, like weaker section of the society, agriculture, MSME and social infrastructure.
- The Co-Lending Model shall not be applicable to foreign banks (including WOS) with less than 20 branches.

Moratorium on Bank:

Laksmi Vilas Bank Placed Under Moratorium

- In November 17 2020, the Reserve Bank of India (RBI) placed the Chennai-based Lakshmi Vilas Bank (LVB) under moratorium till 16 December, 2020.
- It superseded the board of directors of LVB for a period of 30 days owing to a serious deterioration in the financial position of the bank.
- T. N. Manoharan, former Non Executive Chairman of Canara Bank has been appointed as the Administrator of the Bank.
- The Reserve Bank assured the depositors of the bank that their interest will be fully protected and there is no need to panic

Reasons for Imposing Moratorium:

- The financial position of LVB has been deteriorating sharply over the past two to three years.
- The bank has been making losses over the last three years, owing to a sharp rise in bad loans and provisions.
- This has led to steep erosion in profit and capital.
- The bank has not been able to raise adequate capital to address these issues.
- It was also experiencing continuous withdrawal of deposits.
- The Bank also could not work out a credible revival plan as sought by RBI.

Rising Losses and Non Performing Assets:

- LVB posted a net loss of Rs 397 crore in the September quarter of financial year 2020-21, as against a loss of Rs 112 crore in the June quarter (April-June 2020).
- Almost **one fourth of the bank's advances have turned bad assets.**
- Its gross non-performing assets (NPAs) stood **25.4% of its advances as of June 2020,** as against 17.3% a year ago.

The RBI imposed moratorium to protect

- **depositors' interest,** and
- interest of **financial** and **banking stability.**
- Moratorium was imposed under the provisions of the **section 45 of the Banking Regulation Act, 1949.**

Restrictions:

- The central bank restricted the withdrawals of more than Rs. 25,000 during moratorium period.
- Borrowers can withdraw above Rs. 25,000 only for unforeseen expenses including medical treatment, education, etc.

Merger:

- RBI also announced the merger of Lakshmi Vilas Bank with the wholly-owned subsidiary of DBS Bank in India.
- DBS Bank India Ltd (DBIL) is a wholly owned subsidiary of DBS Bank Ltd, Singapore.
- Lakshmi Vilas Bank (LVB) has a network of 563 branches and deposits of Rs 20,973 crore.

INFRASTRUCTURE:

Viability Gap Funding:

Continuation of Viability Gap Funding for Infrastructure Scheme

- In November 2020, the Union Government approved continuation and revamp of 'Viability Gap Funding for Infrastructure Scheme'.

Background:

- There is significant deficit in the availability of physical infrastructure across different sectors. This is hindering economic development.
- At the same time development of infrastructure requires large investments that cannot be undertaken out of public financing alone.
- Hence, in order to attract private capital as well as the techno-managerial efficiencies associated with it, the Government is promoting Public Private Partnerships (PPPs) in infrastructure development.
- But infrastructure projects may not always be financially viable because of long gestation periods and limited financial returns.
- The financial viability of such projects can be improved through Government support.
- So, the Government of India, in 2006, started Viability Gap Funding Scheme to provide financial support to unviable infrastructure projects undertaken through Public Private Partnerships.
- (Viability Funding Scheme is also called as 'The Scheme for Financial Support to Public Private Partnerships (PPPs) in Infrastructure'. Since the objective is to fill the viability gap it is well known as Viability Gap Funding Scheme for infrastructure projets).
- Under the Scheme, the Union Government extends viability gap funding to the extent of 20 per cent of the total project. The amount is given as capital grant. State Governments or statutory organisations that owns the project may provide additional grant up to 20 per cent of the total project cost.

- Thus under the Viability Gap Funding Scheme, commercially unviable infrastructure projects get a maximum capital grant of 40 per cent of total project cost.
- The scheme is financed through Ministry of Finance through annual budgetary allocations.

Eligible Sectors:

The PPP Project should be from one of the following sectors:

1. Roads and bridges, railways, seaports, airports, inland waterways;
2. Power;
3. Urban transport, water supply, sewerage, solid waste management and other physical infrastructure in urban areas;

4. Infrastructure projects in Special Economic Zones; and
5. International convention centres and other tourism infrastructure projects;

The Government can add or delete sectors/sub-sectors from the aforesaid list.

Revamping and Continuation of the Scheme:

- In November 2020, the Union Government approved revamping and continuation of the Viability Gap Funding Scheme for Infrastructure.
- The scheme has been extended up to 2024-25 with an outlay of Rs. 8,100 crore.
- The scheme has been revamped to include the following two sub schemes.

Sub scheme -1

- This would cater to Social Sector.
- Waste Water Treatment, Water Supply, Solid Waste Management, Health and Education sectors etc. would be eligible.
- The projects in above areas face bankability issues and poor revenue streams to cater fully to capital costs.
- The Central Government will provide maximum of 30% of Total Project Cost (TPC) of the project as Viability Gap Fund (VGF).
- State Government/Sponsoring Central Ministry/Statutory Entity may provide additional support up to 30% of Total Project Cost (TPC).
- The projects eligible under this category should have at least 100% operational cost recovery.

Sub scheme -2

- This Sub scheme will support social sectors projects taken up as demonstration/pilot projects.
- The projects may be from Health and Education sectors where there is at least 50% operational cost recovery.
- In such projects, the Central Government and the State Governments together will provide up to 80% of total project cost and up to 50% of Operation & Maintenance (O&M) costs for the first five years.
- The Central Government will provide a maximum of 40% of the total project cost of the Project. In addition, it would provide a maximum of 25% of Operational Costs of the project in first five years of commercial operations. State can provide additional 25 % making it 50 % of operational costs.

Impact of Revamping the Scheme:

- Viability gap funding has been increased for social infrastructure projects.
- This will attract more participation from private sector in Public Private Partnership projects.
- Especially, projects in health and education sectors will get viability gap support up to 80 per cent (Centre and State) of the total project cost.
- This would help in setting up of new hospitals and educational institutions in economically backward areas where such projects are commercially not viable.

- The revise scheme also help in expanding waste water treatment, water supply, solid waste management infrastructure as the viability gap funding has been increased to 60 per cent of the total project cost (Centre and State contribution of 30 % each).

Progress under Viability Gap Scheme So Far:

- Since the inception of the Viability Gap scheme in 2006, 64 projects have been accorded 'final approval' with total project cost of Rs. 34,228 crore and Viability Gap Fund (VGF) of Rs. 5,639 crore. Till the end of Financial Year 2019-20, VGF of Rs. 4,375 crore has been disbursed.

Renewable Energy:

Prime Minister Invites Investments into Renewable Energy Sector

- Addressing the 3rd Global Renewable Energy Investment Meeting and Expo (RE-Invest 2020) through video conferencing on November 26, 2020, Prime Minister Narendra Modi invited investors, developers and businesses to join India's renewable energy journey as there are huge renewable energy deployment plans for the next decade.
- Renewable energy sector is expected to **generate business prospects of the order of around $ 20 billion (around Rs. 1.5 lakh crores) per year.**
- India's renewable power capacity is the **4th largest in the world** (after China, United States and Germany)and is growing at the fastest speed among all major countries.
- In the last 6 years, India has increased installed renewable energy capacity by two and half times.

The Prime Minister also highlighted the following other **facts to the investors.**

- The **renewable energy capacity in India is currently 136 Giga Watts (1,36,000 Megawatts).**
- At present, the share of renewable energy is about 36% of our total capacity.
- By 2022, the share of renewable capacity will increase to over 220 GW.
- India's annual renewable energy capacity addition has been **exceeding that of coal based thermal power since 2017.**
- In the last 6 years, nearly Rs 5 lakh crores (over 64 billion dollars) investment has been made in renewable energy sector in India.
- Government wants to make India a **global manufacturing hub in the renewable energy sector.**

Measures Taken and Being Taken:

1. Production Linked Incentives:

- The demand for domestically manufactured solar cells and modules is likely to be around 36 Gigawatt over next three years
- After the success of Performance Linked Incentives (PLI) in electronics manufacturing, Government has decided to give similar incentives to high efficiency solar modules.

2. Ensuring Ease of Doing Business:

- Ensuring "Ease of doing business" is Government's utmost priority and dedicated Project Development Cells have been established to facilitate investors.

3. **Liberal Foreign Investment Policy:**

- India has a very **liberal foreign investment policy for renewables.**
- Foreign investors can **invest on their own** or **collaborate** with an Indian partner to set up renewable energy-based power generation projects.

4. **Emphasis on Innovation:**

- India is progressively focusing on innovative bids for supplying 24 by 7 power from renewables. Solar-wind hybrid projects have been successfully explored.

Economics and Environment Can Go Hand in Hand:

- The Prime Minister stated that India's progress in the field of renewable energy is an outcome of its commitment and conviction in fighting climate change. Even when it was not affordable, India invested in renewable energy. **Now large scale investments and scales are bringing costs down.** Through this India is showing to the world that **sound environmental policies can also be sound economics** through renewable energy projects.

WORLD ECONOMY:

Reviving Global Economy:

World in a Liquidity Trap, Needs Fiscal Support: IMF Chief Economist

- In November 2020, Gita Gopinathan, International Monetary Fund (IMF) Chief Economist, stated that there is need to for synchronised fiscal measures across the world to revive the global economy which has been hit by COVID-19 pandemic.
- She stated that for the first time, in 60 per cent of the global economy - including 97 per cent of advanced economies - central banks have pushed policy interest rates below 1 per cent. In one-fifth of the world, they are negative.
- She stated that central banks' measures have been essential to meet the liquidity needs of businesses and households and to preserve jobs. Yet **such policies are limited in their ability to stimulate demand.** Solvency risks now predominate. Vulnerable but viable firms require support, a problem that is much better addressed by fiscal policy.

Liquidity Trap:

- She stated that the world is in a liquidity trap with policy interest rates staying below 1% in 60% of global economy.

- This calls for a synchronised fiscal push to lift up prospects for all.

What is a Liquidity Trap?

- Liquidity trap refers to a situation where the **interest rates in an economy are at extremely low** levels, and **individuals prefer to hold their money in cash form as they are uncertain about the performance** of a nation's economy.
- Liquidity traps occur when a country is trying to recover from a recession, and the government aims to boost the investment in the nation by reducing interest rates to facilitate borrowing.

Need for Fiscal Policy Support:

- Gopinath made a strong case in the article for fiscal policy to support firms and to boost consumption saying that **governments can counter the shortfall in aggregate demand** and that **credit facilities** installed by **central banks can only assure the power to lend, but not to spend.** Fiscal policy will need to be the main tool.

Suggestions:

- Gopinath suggested that fiscal authorities can actively support demand through **cash transfers to support consumption and large-scale investment in medical facilities, digital infrastructure and environment protection.**
- She stated that these expenditures create jobs, stimulate private investment and lay the foundation for a stronger and greener recovery.

Relevance to Indian Context:

- Gita Gopinath's **emphasis on fiscal measures resonates with calls from Indian businesses for greater support from the government for the recovery.** The government is now evaluating suggestions from industry bodies and ministries about the needs of specific sectors.
- India has had **one of the most stringent lockdown restrictions meant to fight back the pandemic.** The government's response to the economic impact has been **mostly focused on**
- **humanitarian support for the most vulnerable people,**
- **liquidity support** for micro, small and medium enterprises,
- long pending **reforms in agriculture** and
- **suspension of bankruptcy proceedings** against defaults during the pandemic.
- Businesses, however, are seeking more direct measures for badly affected sectors.
- But after a corporate tax rate cut in 2019 and several rounds of GST rate reductions since 2017, the headroom for further tax relief remains limited in the face of a spike in spending requirement.