PART ONE: THE ECONOMY - REVIEW AND PROSPECTS

I

ASSESSMENT AND PROSPECTS

I.1 Embattled by new waves of infections and mutant strains of COVID-19, the slow pace of inoculation in several parts of the world and visceral vaccine protectionism, the global and domestic outlook has once again turned grim and overcast with extreme uncertainty and downside risks. By May 23, 2021 there were more than 167 million confirmed infections and over 3.4 million fatalities worldwide, with over 26 million infections and 3,03,720 mortalities in India. Increasingly, country experiences underscore the paramount need for speedy and universal vaccination on a war footing - the virus will mutate as long as it stays with humans; nobody is safe until everyone is safe.

I.2 Just a year ago when the World Health Organisation (WHO) declared COVID-19 a pandemic and India imposed a strict lockdown in March, a deep despondency and risk psychosis became pervasive. Since then, lives have been lost, surviving life has been disrupted and lifestyles have been fundamentally altered. In India, some areas of activity, especially contact-intensive ones, have been deeply scarred while others such as agriculture and allied activities, information technology, highway infrastructure, tractor sales, railway freight, electricity demand and domestic trade have shown a rare resilience to the pandemic. In factory-based manufacturing and institutionalised services, there has been considerable adaptation to pandemic protocols, enabling normalisation of work processes quicker than in other sectors. Besides the toll on life and living, the year 2020 was ravaged by output and employment losses unprecedented in history, globally and in India. The pandemic also turned out to be highly inequitable – it is estimated that around 95 million additional people around the world have been forced into extreme poverty during the year, with 80 million more undernourished, mostly in low-income countries.

I.3 While the pandemic was sudden and devastatingly swift, the policy response was unprecedented and expansive in its reach. Governments and central banks across the globe fashioned measures in the form of additional fiscal spending, foregone revenues, capital and debt injections, contingent liabilities, and liquidity/funding for lending adding up to US$ 16 trillion or 15.3 per cent of world GDP. In India, a calibrated policy stimulus began with direct assistance in cash and kind to the poor and progressively broadened into a comprehensive package (AatmaNirbhar Bharat) to provide support to the various sectors of the economy. In 2020-21, it cumulated to 15.7 per cent of GDP,
including liquidity and other measures taken by the Reserve Bank of India (RBI).

I.4 Once again, central banks became the first line of defence as they proactively designed and implemented various conventional and unconventional interventions, based on their experience from past crises. They also stepped into uncharted terrain, lowering policy rates to new lows, launching asset purchase programmes, widening the range of eligible counterparties and easing collateral norms, increasing the scale and tenor of repo operations, and providing relief in the form of regulatory forbearances. These measures were complemented by implicit and explicit forward guidance on the stance of monetary and macro-prudential policies. The Reserve Bank too undertook several measures, system-wide as well as institution- and sector-specific, to arrest the precipitous downturn in domestic economic activity, to ease financial conditions and in particular, to ensure the normal functioning of financial markets and intermediaries while preserving and maintaining financial stability and the soundness and integrity of payment and settlement systems. Overall, the total support announced by the Reserve Bank for the economy since February 6, 2020 (up to May 5, 2021) amounted to ₹15.7 lakh crore (8.0 per cent of 2020-21 nominal GDP).

I.5 By and large, pandemic policies have worked. Global and domestic financial conditions that froze up at the onset of the crisis responded to central bank actions. Government and corporate bond yields eased to historic lows and spreads got compressed. Capital flows turned mobile as risk appetite returned and emerging markets as an asset class became the flavour of the season. Overall, the easing of financial conditions helped limit the amplification of the pandemic shock. In hindsight, it is evident that without the extraordinary policy support, the impact of the pandemic could have been far worse.

I.6 Economies across the world fell off a cliff in the second quarter of 2020, plunging to depths of contraction not fathomed before, but in the second half of the year, a robust recovery materialised faster than anticipated. Financial markets caught the winds of reflation trade and risk-on sentiment, with equity market scaling new highs, bond yields softening and most currencies appreciating against a weakening US dollar.

I.7 In India too, a quick turnaround lifted the economy from an unprecedented contraction in Q1 of 2020-21 (Q2 of 2020) to positive territory by Q3 (Q4 of 2020), aided by supportive financial conditions engendered by the Reserve Bank’s liquidity measures. Sensing the recovery gaining traction, equity markets became ebullient, with the BSE Sensex rising 95 per cent above the lows of March 2020 (till May 24, 2021). Corporate performance in Q2 and Q3 of 2020-21 turned out to be strong, with the contraction in sales offset by expenditure compression so that profitability improved robustly. Financial markets regained verve, equity valuations surged, bond yields eased and remained range-bound, and the Indian rupee traded with an appreciating bias as India became a preferred habitat for capital flows. As fresh infections began to fall away and plateaued in February 2021, even as countries around the world started experiencing second waves and lockdowns, the worst of the pandemic seemed to be behind India.

I.8 All this has changed abruptly and deleteriously so since March 2021. Staring at among the highest caseloads in the world and the highest daily new infections, India has stepped on the accelerator of its vaccination drive. Efforts are also underway on a war footing to build up gaps in medical supplies and raw materials as well as hospital infrastructure. The regulators - National Pharmaceutical Pricing Authority (NPPA) and Central Drugs Standard Control Organisation (CDSO) - are monitoring demand, movement,
costing and pricing of COVID-19 treatment drugs and the central government is taking various steps to augment production and smoothen the medicine supply chains, including by way of mapping producers to states. With the surge in demand of Remdesivir injection, a key life-saving drug being used in the treatment, it engaged with manufacturers to double its production over a month to about 3 lakh vials per day in May 2021. The production and supply of medical oxygen was similarly ramped up, including temporarily prohibiting its use in several industries, by way of imports of oxygen concentrators, removal of basic customs duty and health cess on oxygen and oxygen related equipment, besides plans to boost capacity further by setting up new oxygen plants. Policy authorities are bracing up to deal with adverse fallouts on the economy from region-centric restrictions. The near-term outlook is clouded, with an accentuation of downside risks and potential externalities of global spillovers, but over the course of the tumultuous year gone by, there have been learnings and adaptations. Drawing on these lessons gleaned, India can prepare for the year ahead with confidence and fortitude. Faster vaccination holds the key to an escape from the pandemic. Around this centrepiece, public policies must design and implement strategies that put us back on a secure path of strong and sustainable growth with macroeconomic and financial stability so that India is once again engaged in achieving its developmental aspirations.

Lessons from the 2020-21 Experience

I.9  Looking back, COVID-19 unleashed a once-in-a-lifetime crisis on the global economy, defying all prognoses and producing downturns in a wide swathe of countries that were deeper than the most pessimistic projections. From the time it was declared a public health emergency of international concern by WHO in January 2020, contagion rapidly flared across the globe, necessitating stringent lockdowns that resulted in even larger disruptions to activity, even as the sheer scale of infections challenged testing and hospital intensive care capacity. Globally, GDP outcomes in the first quarter of 2020 were worse than expected, but there were notable exceptions of which India was one. In the second quarter, however, the pandemic took down all economies in its path, producing a deep, synchronised plunge which was unprecedented. Unlike in other recessions, private consumption demand, services output and the labour market, especially for low-skilled workers who do not have the option of working from home, went into a marked retrenchment, reflecting the combination of social distancing, activity and mobility restrictions, steep income losses, and severely dented consumer confidence. Businesses cut back on investment in the face of the evaporation of demand, supply chain disruptions and pessimism about future earnings. Thus, the pandemic produced a fusion of a broad-based aggregate demand shock and a lockdown-induced supply shock. Trade contracted precipitously, reflecting weak demand, the collapse in cross-border tourism, supply dislocations and trade restrictions.

I.10  Towards the close of the second quarter and into the third quarter, infections abated in many countries. As economies re-opened and there was a pick-up in mobility, the global economy began climbing out of the recession. Overall activity normalised faster than anticipated, with private consumption rebounding the most vigorously. In some economies, GDP outturns surprised on the upside, supported by public transfers and investment. Global trade began recovering with the restart of activity and a strong pickup in external demand.

I.11  By late September, however, the pandemic began to spread again, with the number of confirmed infections worldwide touching 34 million,
with over a million deaths. Moreover, there were renewed surges even where the infection curve had flattened. Consequently, countries had to slow down re-opening and reinstate lockdowns, which eventually caused GDP to decelerate globally again in the fourth quarter. By end December, multiple vaccine approvals and the launch of vaccination in some countries brought hope. Together with a progressive adaptation to pandemic protocols and additional policy measures by some countries, conditions moved into place for a strong start to the year 2021.

I.12 For the year 2020, global output sank into its steepest contraction since the Great Depression at (-) 3.3 per cent, with advanced countries’ GDP down by 4.7 per cent and that of emerging and developing countries (EMDEs) by 2.2 per cent. World trade volume of goods and services shrank by 8.5 per cent. Consumer price inflation halved in advanced economies but remained broadly unchanged year-on-year in EMDEs, reflecting the firming up of non-fuel commodity prices. Crude prices, on the other hand, declined by close to 33 per cent during the year.

I.13 Turning to domestic developments in 2020-21, the Reserve Bank swung into pandemic mode in March 2020. As a part of its Business Continuity Plan (BCP), a team of over 200 officers, staff and service providers was quarantined to work 24x7 in isolation in order to keep essential financial market and payment services available to the nation. Multiple teams of trained personnel were set up for the smooth functioning of time-sensitive critical activities (TSCAs) from an Alternative Work Area Site (AWAS). The country-wide invocation of BCP by all regional offices/business units was handled with enhanced recourse to technology. These crisis management initiatives ensured uninterrupted 24x7 functioning of financial markets and institutions, adequate currency in circulation, seamless and secure payment and settlement systems, both wholesale and retail, and all functions that Reserve Bank performs in the national interest, including foreign exchange transactions and external investments.

I.14 In its first wave, the pandemic’s fury was at its height in Q1:2020-21. The Indian economy contracted 24.4 per cent y-o-y, the deepest downturn amongst G20 countries. In Q2, however, the contraction started to ease, reflecting vigorous efforts to revive the economy, gradual relaxation of mobility restrictions, monetary and liquidity easing, and fiscal support. By Q3, India had pulled out of a technical recession. In its February 2021 estimates, the National Statistical Office (NSO) estimated that real GDP for the full year would have shrunk by 8.0 per cent, the first contraction since 1980-81 and the severest since national accounts have been compiled in India.

I.15 Private consumption contributes about 56 per cent of GDP, the stable bedrock of domestic demand. During the pandemic, however, private consumption sank unprecedentedly into contraction. Urban demand remained in retrenchment and lagged its rural counterpart. Government final consumption expenditure (GFCE) played a counter-crisis cushioning role and smoothed aggregate demand. Excluding GFCE, GDP would have fallen by 29 per cent in Q1 and by 9.3 per cent in the full year 2020-21. Moreover, growth in capital expenditure of the Centre created conducive conditions for a modest upturn in gross capital formation after a hiatus of two quarters, pivoting overall economic activity from contraction to growth in Q3. The level of capital formation for the year as a whole, however, remains below pre-pandemic. When plans to revive the capex cycle come to fruition, it can be the crucial lever of growth in 2021-22. Net exports contributed positively to aggregate demand in 2020-21, but mainly on account of the higher contraction in imports relative to exports.
The current account balance is expected to have recorded a modest surplus for the year as a whole for the first time after 2003-04. During April-December 2020, net capital flows amounted to 2.7 per cent of GDP and in the absence of a financing requirement from the current account, there was a large accretion to foreign exchange reserves.

I.16 These developments have sobering lessons. First, the health crisis has shown us how globalised we are, not only in our vulnerability to viral infections but also in the manner in which vaccines are produced and shared. Excoriating COVID-19 from the earth will need a global effort so that everyone is vaccinated. Second, compared to financial crises, a health crisis can be more pervasive, persistent and debilitating in its impact on the real economy. Letting down the guard is perilous; it is best to prepare for future waves. Third, private investment is the missing piece in the story of the Indian economy in 2020-21; reviving it awaits an environment in which ‘animal spirits’ are rekindled and entrepreneurial energies are released so that backward and forward linkages and multipliers prepare the ground for a durable investment-driven recovery. Fiscal policy, with the largest capex budget ever and emphasis on doing business better, has swung into a crowding-in role. It is apposite now for Indian industry to pick up the gauntlet. The share of GFCF in aggregate GDP inched up to a six-quarter high at 33.0 per cent in Q3:2020-21, but in relation to its peak in 36.1 per cent in Q2:2008-09 there is some catch-up still. Within saving too, there is a compositional shift underway among institutional sectors, reflecting the normalisation of economic activity. Preliminary estimates indicate that household financial saving plateaued to 8.1 per cent in Q3:2020-21 from a high of 21.0 per cent in Q1 – precautionary and forced saving in response to the pandemic was being unwound. At the same time, a surge in retained earnings is boosting saving by the non-financial corporate sector, which registered a sharp increase in Q3. At this juncture, therefore, the Indian economy is at a cusp. A virtuous combination of public and private investment can ignite a shift towards investment and thereby to a trajectory of sustained growth by exploiting the unique point at which the economy is poised – at the crossroads of regaining its place as the fastest growing economy in the world, the third largest in terms of purchasing power parity, with late dividends of demographic transition still accruing, and a strong external position.

I.17 Aggregate supply conditions were underpinned by the robust performance of the farm sector amidst the encircling gloom. Agriculture and allied activities emerged as the bright spot in the Indian economy in 2020-21. With adequate monsoon rainfall for the third successive year, new records were scaled in foodgrains and horticulture production, propelling an above-trend expansion in the output of the sector as a whole. Foodgrains stocks rose to 6.5 times the buffer norms for rice and 2 times for wheat, entrenching food security in these challenging times, but also posing difficulties for stock management. The prudent decision to keep the farm sector outside the ambit of the lockdown ensured that sowing and harvesting cycles were not disrupted. Unlike other countries, India had to confront the problem of large-scale reverse migration of labour as in the initial phase, COVID-19 was widely perceived to be an urban disease. The Pradhan Mantri Garib Kalyan Yojana (PMGKY), under which provision has been made for additional employment to returnee migrant workers for 125 days, played a safety net role in managing the labour displacement, complemented by employment offered under the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA). A direct boost to the agricultural sector was also provided through various initiatives under the AatmaNirbhar Bharat Abhiyan, viz., an Agriculture Infrastructure Fund,
an Animal Husbandry Infrastructure Development Fund, Kisan Rail, and the Pradhan Mantri Matsya Sampada Yojana (PMMSY).

I.18 Indian industry’s passage through pandemic times has been one of both deep losses and windows of opportunity. Manufacturing suffered the worst contraction, with the brunt of the loss of output concentrated in Q1. The mining sector continued to languish, throttled by supply bottlenecks, with the steepest contraction in 2020-21 after 2011-12. Crude oil and natural gas production dropped due to lack of critical infrastructure and equipment and operational difficulties amidst the pandemic. At the same time, the pandemic opened up vistas of expansion for pharmaceuticals. The production-linked incentive (PLI) scheme introduced for bulk drugs and medical devices has been received well by the industry and it is expected to support domestic pharmaceutical production and medical exports. Automobiles also posted strong growth. The passenger car and two wheelers’ segments benefited from the change in consumer preferences induced by social distancing towards personal vehicles over public transport. Another heartening feature of industrial activity has been the early revival of electricity generation and its robust growth profile in the second half of the year. In Q4:2020-21, however, the industrial sector relapsed, with contraction in overall output of 0.9 per cent in January 2021 and 3.4 per cent in February. Since August 2020, the manufacturing purchasing managers’ index has been in expansion, indicating a brighter outlook, but current conditions remain fragile and volatile.

I.19 The services sector suffered heavily as activity in contact intensive services came to a near standstill in the initial period of the pandemic. Even as contact intensive sectors like aviation, tourism and hospitality suffered grievously, high frequency indicators pointed to a swifter than expected recovery in other sectors. The steady improvement in e-way bills in the second half of the year, along with strong GST collections, indicated that a recovery is underway in domestic trading activity. Just like the primary sector, the ultra-tertiary industries such as IT displayed remarkable resilience in the face of the pandemic. Another area of strength turned out to be construction, boosted by the emphasis on sustaining the pace of expansion of the physical infrastructure - the construction of national highways reached a new record of 13,000 kilometres in 2020-21, with around 37 kilometres of construction a day. This also had positive effects in reviving the demand for housing. FASTags, a step towards cashless tolling made mandatory in February 2021, resulted in a strong growth of National Electronic Toll Collection (NETC), both in value and volume. E-commerce platforms thrived through the pandemic, supported by a wave of start-ups and the rising tide of digitisation. Even brick and mortar enterprises made their presence online to hold on to market shares.

I.20 The services sector is still wounded. The outlook was brightening in Q4 of 2020-21 with multi-speed paths out of the pandemic among different sub-sectors. The services PMI witnessed its deepest contraction in April 2020, but it recovered slowly thereafter, entering into expansion zone since October and staying there for seven consecutive months. The pandemic ravaged the labour market, with self-employed and casual labourers suffering the biggest hits. With the easing of lockdowns and the return of migrant labour to cities, employment had started edging towards normalcy, as portrayed by data emanating from households’ surveys, pay roll numbers and new openings in the corporate sector before the second wave.

I.21 The nation-wide lockdown and excessive rains in some parts of the country caused supply disruptions, keeping food inflation elevated during
the major part of the year. Rising global edible oils prices exacerbated price pressures in view of India’s large dependence on palm oil imports. Ratchet effects of a hike in excise duties on petrol and diesel in May 2020, the increase in global gold prices in the first half of the year, shortage of labour due to reverse migration and additional safety measures added to cost push, firming up core (excluding food and fuel) inflation. Furthermore, margins were increased in order to recoup lost incomes; in general, retail markets become less competitive under epidemics as consumers are unable to scout for lower prices due to the need for social distancing. As a consequence of all these factors, headline inflation remained above 6 per cent for the first eight months of the year, including in April and May when data were imputed in absence of satisfactory data collection. After a brief moderation during November 2020 - January 2021 on account of the seasonal winter easing in food prices, inflation resumed its uptrend during February-March 2021 as core inflation maintained an unrelenting elevation. Reflecting these influences and the firming up of global commodity prices into what is widely believed to be the onset of another commodities supercycle, CPI headline inflation rose to an average of 6.2 per cent during 2020-21 from 4.8 per cent in 2019-20. Year-on-year, in March 2021, the prices of global energy (World Bank Pink Sheet Data) increased by 89.7 per cent, food prices by 29.4 per cent, metals and minerals prices by 60.4 per cent and precious metals prices by 16.3 per cent. Thus, India was confronted with a trade-off between depressed economic activity in relation to potential and inflation ruling above the target, each imposing conflicting pulls and challenging the conduct of monetary policy.

I.22 Against this backdrop, the monetary policy committee (MPC) reduced the policy repo rate by 115 basis points (bps) during March-May 2020 to 4.0 per cent. Taking into account the cuts of 135 bps in the policy rate during February 2019-February 2020, the cumulative reduction in the policy rate in the current easing cycle has been 250 bps. Monetary transmission improved notably during 2020-21 on the back of surplus liquidity conditions and mandated external benchmark-based pricing of floating rate loans to select sectors. The weighted average lending rate (WALR) on fresh rupee loans declined by 79 bps during the year. The MPC gave time-contingent forward guidance, stating that monetary policy would remain accommodative through the financial year 2020-21 and into 2021-22 to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

I.23 The Reserve Bank undertook several conventional and unconventional measures to ensure ample system-level liquidity as well as targeted liquidity to support vulnerable sectors, institutions and financial instruments. As a consequence, interest rates eased across the spectrum, spreads were compressed and conducive financial conditions prevailed. This enabled the normal functioning of financial markets and institutions, an orderly completion of the enhanced government borrowing programme at a 17-year low weighted average cost of borrowings, and a record volume of corporate bond issuances.

I.24 As stated in the foregoing, explicit forward guidance became an innovative feature of the conduct of monetary policy during 2020-21. The Reserve Bank emphasised that financial market stability and the orderly evolution of the yield curve are public goods, the benefits of which accrue to all stakeholders in the economy. In this scenario, the Reserve Bank conducted market operations through a variety of instruments, including long term repo operations (LTROs), targeted long term repo operations (TLTROs), on-tap TLTROs aimed at specific sectors, a liquidity window for
mutual funds, a special liquidity scheme (SLS) operationalised through a special purpose vehicle to improve the liquidity position of non-banking financial companies (NBFCs) and housing finance companies (HFCs), open market operations - including in state development loans (SDLs) - and twist operations. These operations dispelled illiquidity fears and avoided any potential systemic risks to the financial sector. As normalcy returned, banks were enabled to benefit from the benign interest rate environment by prematurely returning the funds availed earlier under LTRO/TLTROs. Additionally, Cash Reserve Ratio (CRR) was reduced by 100 bps (from 4.0 per cent to 3.0 per cent). Further, the borrowing limit for banks under the Marginal Standing Facility (MSF), by dipping into their Statutory Liquidity Ratio (SLR), was enhanced to 3 per cent of NDTL from 2 per cent earlier. Pre-emptive regulatory measures were announced to provide relief to the borrowers in the form of moratorium on loan repayments, followed by a comprehensive Resolution Framework 1.0 to enable resolution of viable accounts impacted by the COVID-19.

I.25 India also mounted a large fiscal stimulus that was referred to earlier, in a calibrated rollout to mitigate the impact of COVID-19 on the economy. As a consequence, capital expenditure grew by a robust 104.4 per cent during October 2020 - February 2021, reversing the contraction of 11.6 per cent in H1:2020-21. This improvement in the quality of expenditure was also mirrored at the sub-national level, with states’ capital expenditure (net of loans and advances disbursed) recovering to pre-pandemic levels during H2:2020-21. Government revenues, on the other hand, plummeted in 2020-21, with the cyclical and pandemic-induced shortfalls in tax revenue exacerbated by the absence of cushions from disinvestment. In the event, the expenditure push led to the fiscal deficit expanding to 9.4 per cent of GDP, significantly above the budget estimate of 3.5 per cent.

I.26 On the external front, India’s merchandise trade deteriorated sharply in Q1:2020-21 under the onslaught of the first wave of the COVID-19 pandemic. With the gradual resumption of cross-border trading activity and unlocking of the domestic economy as infections abated from mid-September, merchandise trade started to show signs of recovery. A revival in exports was backed by the strong performance of drugs and pharmaceuticals and agriculture. India emerged as a key pharmaceutical supplier to the world on the basis of its generic drug manufacturing capacity – India has the largest number of pharmaceutical plants approved by international regulatory bodies (US Food and Drug Administration; World Health Organisation - Good Manufacturing Practice or WHO-GMP; and European Directorate of Quality Medicines or EDQM). Merchandise imports also picked up towards the second half of the year as domestic demand began to recover. For the year as a whole, the merchandise trade deficit shrank y-o-y from US$ 161.3 billion to US$ 98.6 billion. The collapse in overseas demand amidst travel and transportation restrictions suppressed both exports and import of services, with only IT-related services exhibiting resilience and providing critical support to overall net exports. Worsening income levels and losses of job opportunities in host countries, coupled with reverse migration from the Gulf region, impinged upon the flow of inbound remittances. Given the underlying developments in merchandise and invisibles, the current account surplus of 3.0 per cent of GDP in H1:2020-21 flipped into a deficit of about 0.5 per cent of GDP in H2.

*Based on projections for Q4:2020-21.*
I.27 India remained an attractive investment destination as net foreign direct investment (FDI) flows crossed a high during the year, even though there was a collapse in global FDI flows, and especially those going to advanced economies. The digital sector turned out to be a large recipient of FDI into India with a few big-ticket deals. Foreign portfolio investment (FPI) flows also surged as investors’ risk appetite returned, with ultra-accommodative monetary policy stances of advanced economies’ central banks acting as the main push factor.

I.28 The health of the banking sector emerged as a priority for the Reserve Bank as it sought to cushion the former from the pandemic. A number of measures were put in place to mitigate its impact, which included inter alia easier access to working capital; moratorium; asset classification standstill; restriction on dividend pay-outs; permitting restructuring of viable accounts; and also postponement of planned roll-outs of prudential norms such as the capital conservation buffer (CCB) and the net stable funding ratio (NSFR), along with easing of the dispensation for the liquidity coverage ratio (LCR) requirement (details of major policy measures announced by the Reserve Bank during the year are covered in Annex I and II of the Report).

I.29 The gross non-performing assets (GNPA) ratio of scheduled commercial banks (SCBs) decreased to 6.8 per cent by end-December 2020 from 8.2 per cent in March 2020. Prudent provisioning by banks, even over and above regulatory prescriptions for accounts availing moratorium and undergoing restructuring, resulted in an improvement in the provision coverage ratio of SCBs to 75.5 per cent at end-December 2020 from 66.6 per cent in March 2020. Adjusting for write offs, the PCR was 88.0 per cent, up from 81.3 per cent in March 2020. The capital to risk-weighted assets ratio (CRAR) of SCBs rose to 15.9 per cent by end-December 2020 from 14.8 per cent at end-March 2020, aided by capital raising from the market by public and private sector banks, and retention of profits. Scheduled commercial banks’ (SCBs) credit to the commercial sector rose by 5.6 per cent (y-o-y as on March 26, 2021), lower than 6.1 per cent a year ago. Their investments in government securities accelerated, rising by 19.3 per cent as against 10.6 per cent a year ago. After reporting net losses in the March 2020 quarter, public sector banks (PSBs) reported a positive return on assets (RoA) in subsequent quarters. The true position of their balance sheets and capital positions can be gauged only with the roll back of regulatory reliefs.

I.30 The Reserve Bank also took several steps during the year to strengthen the regulatory framework for NBFCs and HFCs. For NBFCs, it commenced a move towards a scale-based regulatory framework. A revised framework for HFCs was put in place in October 2020 to promote a regulatory level-playing field. There has been a phased introduction of a liquidity risk management framework for NBFCs, including a liquidity coverage ratio (LCR). Guidelines for core investment companies (CICs) were also comprehensively reviewed. The gross NPA ratio for NBFCs improved to 5.7 per cent in December 2020 from 6.8 per cent in March 2020, though largely on account of relaxation in asset classification norms pursuant to the Supreme Court’s decision on standstill. The CRAR for NBFCs also marginally improved to 24.8 per cent from 23.7 per cent during the same period.

I.31 During the year, the Reserve Bank implemented the recommendations of the Expert Committee on MSMEs and the Internal Working Group on Agricultural Credit to improve inclusiveness and to enhance flow of credit to these sectors. Revised Master Directions on priority sector lending (PSL) were issued to align it with emerging national priorities. Co-lending was introduced to improve the flow of credit to the
unserved and underserved sectors of the economy at an affordable cost. The scaling up of pilot centres for financial literacy (CFL) was initiated to cover the entire country in a phased manner.

I.32 The Reserve Bank has been working towards strengthening the supervisory framework for both banking and non-banking sectors. The supervisory approach is now more forward-looking and root-cause oriented than before, incorporating both quantitative and qualitative elements into assessment processes. During the year, initiatives were taken towards (a) integration of supervisory functions meant for different supervised entities; (b) specialisation and reinforcement of supervision through both vertical and horizontal risk assessments; (c) setting up a dedicated College of Supervisors for capacity development; and (d) harnessing SupTech.

I.33 The COVID-19 pandemic has fast-tracked digital transformation of the payments ecosystem in India. Besides augmenting the broad-based use of technology, the pandemic has fuelled the proliferation of digital modes of payment, propelling the country towards ‘less-cash’ alternatives. Digital transactions recovered from their lows in the months of the lockdown and gained traction over the rest of the year with a growing preference for contactless transactions and tailored financial offerings by FinTech players to adapt to the needs of end-users. Driving the continued policy support by the Reserve Bank and the government is an emphasis on balancing the objectives of fashioning an appropriate regulatory policy, while ensuring an orderly growth of the digital lending ecosystem.

I.34 The introduction of 24x7 RTGS in December 2020 created an enabling environment for the speedy and secure growth of digital transactions. India has become one of the very few countries across the world where RTGS system operates round the clock throughout the year. In March 2021, transactions through RTGS swelled by 70 per cent (y-o-y). In the retail segment, the Unified Payments Interface (UPI) recorded 273 crore transactions, with values crossing the ₹5 lakh crore mark for the first time. Transactions through other retail payment systems, like the National Electronic Funds Transfer (NEFT), the National Electronic Toll Collection (NETC), the Bharat Bill Payment System (BBPS), the Immediate Payment Service (IMPS) and the National Automated Clearing House (NACH), also grew strongly. Overall, the total digital transaction volume in 2020-21 stood at 4,371 crore, as against 3,412 crore in 2019-20, attesting to the resilience of the digital payment system in the face of the pandemic.

I.35 2020-21 will go down in history as the year of the COVID-19 pandemic break in the life and ethos of humanity. It altered economic activity, finance and, more generally, life and livelihoods in a drastic and deep way that may take several years to heal. The pandemic also exposed the fragility of health care infrastructure and the inadequacy of health spending over the years. The year 2020 will also be notable for unprecedented policy responses which, although not coordinated, turned out to be synchronised globally. Admirably, the scientific community mobilised on a scale and speed never seen before and the rollout of vaccines by December 2020 is a testimony to its versatility and brilliance. The selfless and committed work of healthcare professionals and frontline workers in helping the system to control the pandemic, even by risking their lives, deserves accolades in these uncertain times. From this point in time, the global recovery and its outlook, including for India, will be contingent on the pace and coverage of vaccination and its efficacy against emerging variants of the virus.

Looking Ahead to 2021-22 and Beyond

I.36 Historically, outbreaks of influenza pandemics occur in waves. Several countries across the world have already experienced
two or more waves of COVID-19. Each of these visitations present painful trade-offs between protecting lives through restrictive measures and protecting livelihoods by not resorting to them. This is the dilemma confronting all as the recent virulent waves surge through various parts of the world. India is not immune to this razor’s edge dilemma. In line with the mathematical models built around epidemiological regularities predicting that India’s second wave may broadly peak by mid-May 2021, the daily new infections have started to drop recently, though the incidence and replication factor still remain high for comfort. Under this outcome, the macro-economic costs of this wave can be limited to Q1:2021-22 with possible spillovers into July. This is the most optimistic scenario that can be envisaged at this juncture – it provides a limited window to establish strict pandemic protocols and logistics, ramp up vaccines production and medical supplies, fill gaps in the health infrastructure and build up stocks, especially of vaccines, in preparation for the next wave of infections. In all other outcomes, losses in terms of lives, employment and output are likely to be adverse and long lasting. Given the size and sophistication of India’s pharmaceutical industry, there is certainly hope that India can leverage on its strength and contain future waves.

I.37 An uneven global recovery haltingly ekes its way through new infections and mutations, struggling to gain traction. Countries that are vaccinating rapidly and widely are flattening the infections curve. They will likely exit the current waves of the pandemic sooner than others and lead the global recovery, although they will remain at risk until vaccination is equal and universal. Forces rooting for the recovery are the ongoing vaccination drives, and additional policy support wherever headroom is available. Under these conditions, the global economy is projected to grow at 6.0 per cent in 2021 by the IMF in its April 2021 World Economic Outlook. Downside risks tilt the balance: pandemic resurgence; tighter financial conditions; extended scarring; intensified social unrest; and geopolitical and trade frictions. Hearteningly in October 2020, the G20 has reaffirmed its determination to continue to use all available policy tools as long as required to safeguard people’s lives, jobs and income, support the global economic recovery, and enhance the resilience of the financial system, while safeguarding against downside risks.

I.38 As the recovery strengthens in 2021, global trade is expected to accelerate. The IMF projects an expansion of 8.4 per cent in trade volumes of goods and services (the WTO's projection of merchandise trade volume is 8.0 per cent), although they will remain below the pre-pandemic trend. Cross-border services trade (tourism and transportation) is likely to remain subdued until the pandemic recedes globally, pandemic-related restrictions on international travel ease and confidence returns.

I.39 Inflation is expected to remain low in advanced economies (AEs) and in most of the emerging market economies (EMEs) due to considerable slack in economic activity; in the nearer-term, though, large fiscal and monetary stimuli and elevated commodity prices pose upside risks as market-based indicators of inflation expectations are revealing. By April 2021, energy prices had risen by 170 per cent and non-energy commodity prices (agriculture, fertilisers, minerals, metals and precious metals) by 42 per cent from pandemic lows a year ago.

I.40 In India, the pace of contagion in the second wave has been alarming, stretching the health infrastructure in terms of the capacity to handle a surge of this size and speed. Daily new confirmed infections surpassed the peak of the first wave and crossed 1 lakh in early April, before vaulting above 4 lakh by the end of the month and then dipping to 2.2 lakh as on May 23, 2021. Recoveries have
lagged behind infections, resulting in the recovery rate dropping to 88.7 per cent as on May 23, 2021 even as the confirmed death rate hovered around 1.1 per cent amidst reports of higher fatalities that were not confirmed medically. While in the initial stages, Maharashtra appeared to be its epicentre, the second wave engulfed other parts of the country over the next few weeks, with a total tally of confirmed cases crossing 2.6 crore, with over 27 lakh active cases and 3.03 lakh fatalities as on May 23, 2021. As of May 23, 2021, total confirmed COVID-19 cumulative death rate per capita in India has been 50 per cent below global average. With the recent second wave, the marginal death rate - 7-day average of new deaths per million of population - in India at 3.04 per cent moved ahead of global total of 1.55 per cent; though the new deaths as percentage of new infections on a 7-day average basis still remains 20 per cent below global average5.

I.41 Yet, the extent of misery and the loss of human lives has left indelible fissures and several lessons for the future: eternal vigilance in terms of pandemic preparedness – it is not going away for some time; priority for upscaling health spending and health infrastructure; faster rollout of vaccines and vaccination while building up stocks; investing in research and development as vaccine developers/producers are challenged by new variants of the virus; prudent and pre-emptive pandemic protocols, including local lockdowns, restrictions on mobility and other COVID-appropriate behaviour. In order to speed up the vaccination drive, the Drugs Controller General of India (DCGI) has approved the use of Russia’s Sputnik V in India on April 13, 2021. Furthermore, in order to expand inoculation coverage, all Indians above the age of 18 are eligible for vaccination from May 1, 2021. Vaccine manufacturers have been provided flexibility to release up to 50 per cent of their supplies to states and the open market at a pre-declared price. The pricing of vaccine has been liberalised to incentivise scaling up of production and to attract new players into vaccine production. To augment the basket of vaccines available for fighting the pandemic, the government has permitted vaccines approved in the United States (US), the United Kingdom (UK), the European Union (EU), Japan and/or listed by the World Health Organisation (WHO) for emergency use in India. Furthermore, the government has approved an advance of ₹4,500 crore to vaccine manufacturers to ramp up production of vaccines.

I.42 The onset of the second wave has triggered a raft of revisions to growth projections, with the consensus gravitating towards the Reserve Bank’s projection of 10.5 per cent for the year 2021-22 - 26.2 per cent in Q1, 8.3 per cent in Q2, 5.4 per cent in Q3 and 6.2 per cent in Q4. The pandemic itself, especially the impact and duration of the second wave, is the biggest risk to this outlook. Yet, upsides also stem from the capex push by the government, rising capacity utilisation and the turnaround in capital goods imports.

I.43 For April and early May 2021, available high frequency indicators present a mixed picture. While mobility and sentiment indicators have moderated, several activity indicators have held their own and shown resilience in the face of the second wave. GST collections crossed the ₹1 lakh crore mark for the seventh consecutive month in April and notched up the highest level on record, suggesting that manufacturing and services production has been maintained. On the other hand, e-way bills moderated, pointing to mobility restrictions and possible slackening of GST collections in ensuing months. Slowing down of mobility is also reflected in toll collection

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5 Our World in Data.
volumes during April. In the agricultural sector, work demanded under the MGNREGA has tapered during the month, indicative of increased demand for farm labour. As regards industrial activity, electricity demand is stable. Transportation remains resilient as reflected in rising freight traffic supported by the pandemic-related surge in demand for essential medical supplies. On the external front, merchandise exports and imports have recorded growth rates of 195.7 per cent and 167.1 per cent in April, partly reflecting low base effect but also pointing to the revival of both external and domestic demand. The value of total digital transactions has been maintained in April. Financial conditions have generally remained congenial and supportive of the recovery.

I.44 Looking ahead, the evolving CPI inflation trajectory is likely to be subjected to both upside and downside pressures. The food inflation path will critically depend on the temporal and spatial progress of the south-west monsoon in 2021. Second, some respite from the incidence of domestic taxes on petroleum products through coordinated action by the centre and states could provide relief, although international crude oil prices continued to be volatile. Third, a combination of high international commodity prices and logistic costs may push up input price pressures across manufacturing and services. Taking into consideration all these factors, CPI inflation is expected to average 5 per cent during 2021-22 - 5.2 per cent in Q1:2021-22; 5.2 per cent in Q2; 4.4 per cent in Q3; and 5.1 per cent in Q4, with risks broadly balanced. During April 2021, inflation moderated on favourable base effects.

I.45 Global developments and their spillovers are likely to shape India’s external sector in 2021-22. Even though India’s merchandise exports and imports show nascent signs of recovery, the worsening global trade environment due to resurgence in COVID-19 infections may impinge upon external demand. Seizing the opportunities opened up in the wake of the pandemic, domestic firms must prepare for greater participation in technology and capital-intensive sectors of global value chains (GVCs) through upgradation of requisite skills and focus on research and development capabilities. The government’s push under the production-linked incentive (PLI) scheme is aimed at incentivising value addition, production and exports and to boost the integration of domestic industries in GVCs. In preparation, the inverted duty structure under which inputs are taxed at a higher rate than finished goods in PLI sectors needs to be corrected to incentivise large firms to shift their production bases to India and also to reap economies of scale. The integration of the ‘One District One Product (ODOP)’ scheme in export promotion initiatives under the states’ industrial policy/export policy should also boost exports. The ongoing policy dialogue on trade facilitation with various nations and multilateral institutions, new trade agreements and fine-tuning of existing Free Trade Agreements (FTAs) to leverage competitiveness is also a priority for enhancing export growth and GVC participation. In the pharmaceutical sector, India should leverage its global competitive advantage in COVID-19 vaccine production to further boost domestic pharmaceutical exports, with a strong emphasis on domestic production of Active Pharmaceutical Ingredients (APIs). The indigenous production of containers should also be prioritised to ensure a robust cross-border supply chain network.

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6 It is an initiative under the Ministry of Commerce and Industry, Government of India, envisaged as a transformational step towards realising the true potential of a district, fuelling economic growth and generating employment and rural entrepreneurship. The objective is to convert each district of the country into an export hub by identifying products with export potential, addressing bottlenecks for exports, supporting local exporters/manufacturers, and find potential buyers outside India with the aim of promoting exports/manufacturing/services industry in the district and generate employment.
I.46 IT services exports are likely to maintain their resilience amidst growing demand for digital operations and cloud services. Major IT exporter companies have secured new client strategic partnerships with leading global companies. In anticipation of the global recovery, spending on IT services is set to increase and exports of Indian IT companies are also likely to gain from the planned increase of 9.0 per cent in global IT services spend in 2021.

I.47 An important factor that brightens the prospects of the recovery is the fiscal policy stance. The thrust on infrastructure can create conditions for broadening the revival in activity by exploiting forward and backward linkages and multiplier effects. The Union Budget 2021-22 announcement for setting up a Development Financial Institution (DFI) with a capital base of ₹20,000 crore to finance projects under the National Infrastructure Pipeline (NIP) aims to address the problem of long-term project financing. Measures are also on the anvil for easing the doing of business in the economy. In particular, enforcing contracts and trading across borders (i.e., logistical process of exporting and importing goods) need policy attention to further improve India’s ranking in the World Bank’s index. Recognising the risks to the recovery from a premature fiscal tightening, the central government has opted for a gradual fiscal consolidation by budgeting the gross fiscal deficit (GFD) at 6.8 per cent of GDP in 2021-22 – down from 9.4 per cent in the preceding year – and bringing it down gradually to below 4.5 per cent of GDP by 2025-26. Increased buoyancy of tax revenue on the back of improved compliance, and receipts from asset monetisation and disinvestment are expected to support capital outlay (capital expenditure less loans and advances) that is budgeted to increase by 54.7 per cent. States have budgeted a consolidation in the GFD at around 3.2 per cent in 2021-22 (based on budgets of 17 states), keeping in view the 15th Finance Commission’s target of 4.0 per cent. The pandemic may induce states to borrow more to provide counter-cyclical support in order to deal with the second wave.

I.48 Given the adverse impact of COVID-19 on state finances, the Reserve Bank increased ways and means advances (WMA) limit in April 2020 by 60 per cent over and above the level as on March 31, 2020. This was extended for a further period of 6 months till March 31, 2021, and then, based on the recommendations of the Advisory Committee on WMA to State Governments (2021) [Chairman: Shri Sudhir Shrivastava], the existing interim limit was extended for further six months, i.e., up to September 30, 2021. The number of days for overdraft (OD) was increased till March 31, 2021 and then extended till September 2021 in May 2021. Furthermore, the Reserve Bank relaxed the rules governing withdrawal from the consolidated sinking fund (CSF) to enable states to meet a larger proportion of their redemption of market borrowings. The Centre has allocated ₹15,000 crore under the scheme of ‘Special Assistance to States for Capital Expenditure’ for 2021-22 as interest-free 50-year loans, which is in addition to ₹11,830 crore released to states in 2020-21 as part of the AatmaNirbhar Bharat package to carry out capital expenditure during the pandemic. Based on the 15th Finance Commission’s recommendation, the Centre has allowed states a net market borrowing of up to 4 per cent of GSDP for the year 2021-22, with a flexibility to go beyond 4 per cent on fulfillment of power sector reforms.

I.49 The conduct of monetary policy in 2021-22 would be guided by evolving macroeconomic conditions, with a bias to remain...
supportive of growth till it gains traction on a durable basis while ensuring inflation remains within the target. The government has retained the inflation target at 4 per cent with the lower and the upper tolerance band of 2 per cent and 6 per cent, respectively, for the next five years (April 2021 - March 2026), reflecting not just the credibility of the current framework, but also its role in preserving macro-economic stability. In its April 2021 resolution, the MPC voted unanimously to keep the policy repo rate unchanged and continue with the accommodative stance as long as necessary to sustain growth on a durable basis, while ensuring that inflation remains within the target going forward.

I.50 The Reserve Bank will ensure that system level liquidity remains comfortable during 2021-22 in alignment with the stance of monetary policy, and monetary transmission continues unimpeded while maintaining financial stability. This is exemplified by the introduction of the secondary market G-sec acquisition programme (G-SAP) in 2021-22 under which the Reserve Bank has committed upfront to a specific amount for open market purchases of G-secs with a view to enabling a stable and orderly evolution of the yield curve under congenial financial conditions. The positive externalities of G-SAP 1.0 operations need to be seen in the context of those segments of the financial markets that rely on the G-sec yield curve as a pricing benchmark. The first tranche of the G-SAP of ₹1 lakh crore has been received well and it has had a salutary effect on the evolution of G-sec yields. At the same time, efforts are underway to further deepen the G-sec market with increased retail participation. In a major structural reform that places India in a select league of countries, the Reserve Bank announced online retail participation in government securities market - both primary and secondary - along with the facility to open gilt securities accounts (‘Retail Direct’) with the Reserve Bank.

I.51 With the second wave intensifying, the Reserve Bank announced on May 5, 2021 an array of measures as the first set of a calibrated strategy to fight the pandemic, with its focus being on the smallest and most vulnerable. Recognising that the second wave could pose difficulties in loan servicing, it announced Resolution Framework 2.0 which allows restructuring of loans taken by individuals, small businesses and MSMEs with an exposure cap of ₹25 crore. Fresh lending to MSMEs was allowed equivalent exemption from the Cash Reserve Ratio (CRR). Lending by small finance banks (SFBs), micro finance institutions (MFIs) – NBFC-MFIs and others – with gross loan portfolios of up to ₹25 crore by end-March 2021 – was made eligible for reckoning as priority sector lending (PSL) and such loans can be deducted from net demand and time liabilities (NDTL) for cash reserve ratio requirements up to end-December 2021. Banks were also allowed to utilise 100 per cent of floating provisions/ countercyclical provisioning buffer held by them as at end of 2020 for making specific provisions for NPAs. In view of mobility restrictions posed by the second wave, regulated entities (REs) were asked not to restrict till end-December 2021 operations of those accounts for which periodic KYC updation is pending.

I.52 In an effort to boost provision of immediate liquidity for ramping up COVID related healthcare infrastructure and services in the country, an on-tap liquidity window of ₹50,000 crore with tenors of up to three years at the repo rate was opened till the end of 2021-22. It was also decided to conduct special three-year long-term repo operations (SLTRO) of ₹10,000 crore at the repo rate for the SFBs to be deployed for fresh lending of up to ₹10 lakh per borrower. In order to expand system-level liquidity further and enable the orderly evolution of the yield curve the second purchase of government securities of ₹35,000 crore under G-SAP 1.0 was also announced.
I.53 With the lifting of the interim stay on asset classification standstill by the Hon’ble Supreme Court on March 23, 2021 banks’ asset quality will need to be closely monitored in coming quarters, with preparedness for higher provisioning. The waiving of interest on interest charged on loans during moratorium period (March 1, 2020 to August 31, 2020) may also impinge on lending institutions’ finances. They are, however, better positioned than before in managing stress in balance sheets in view of higher capital buffers, improvement in recoveries and a return to profitability. Stress tests indicate that Indian banks have sufficient capital at the aggregate level even in a severe stress scenario. Bank-wise as well as system-wide supervisory stress testing provide clues for a forward-looking identification of vulnerable areas.

I.54 In the regulatory and supervisory domain, several measures are expected to be put in place during 2021-22, including a review of the regulations applicable to all the regulated entities engaged in microfinance; guidelines on dividend distribution by non-banking financial companies (NBFCs) and scale-based regulation for them. Resumption of the insolvency processes under the Insolvency and Bankruptcy Code (IBC), and the introduction of a pre-packaged insolvency mechanism for MSMEs to provide an easier resolution channel are expected to bring back the focus on meaningful resolution of stressed assets by the lenders, even as necessary regulatory measures are taken to respond to the fallout of resurgent pandemic. The envisaged bad bank, the regulatory measures aimed at developing market-based mechanisms for credit risk transfer, such as securitisation, transfer of loan exposures and development of secondary loan market may help in reducing the stressed assets on the bank balance sheets.

I.55 Steps would be taken to further strengthen the on-site assessment of oversight and assurance functions, including risk and compliance culture as also business strategy/models. Efforts will be made to smoothen the supervisory return system by integrating the supervisory data structure for all supervised entities (SEs) by reviewing and consolidating the extant framework of returns. The efficiency and efficacy of supervisory processes will be further enhanced with the adoption of innovative and scalable supervisory technology (SupTech). The fraud risk management system would be fine-tuned by improving the early warning signal (EWS) framework, strengthening fraud governance and response systems, augmenting data analysis for monitoring of transactions, introducing dedicated market intelligence unit for frauds and implementation of automated unique system generated number for each fraud. With a view to strengthening the audit systems in SEs, harmonised guidelines on appointment of Statutory Auditors of commercial banks (excluding RRBs), primary (urban) co-operative banks (UCBs) and NBFCs have been issued. Similarly, in the area of cyber security, specific regulations have been planned: Master Direction on Information Technology Governance, Risk, Controls and Assurance Practices 2020; and Master Direction on IT Outsourcing. A web-based application portal, i.e., the Integrated Compliance Management and Tracking System (ICMTS) will be implemented to further enhance the efficiency and consistency of compliance monitoring across all the SEs.

I.56 The Business Correspondent (BC) model eight came to the fore in extending unhindered financial

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eight The BC model was initiated by the Reserve Bank in 2006 to promote financial inclusion.
services to the last mile during the pandemic. The impact of COVID-19 has triggered a paradigm shift in the way banking business is undertaken across the globe, with an increasing role of the digital medium in deepening financial inclusion. Drawing on these advances, the BC model will be further strengthened to adapt to the evolving needs and demands of the sector. To measure the extent of financial inclusion in the country, the Reserve Bank proposes to construct a Financial Inclusion Index (FI Index), based on multiple parameters. It will be published in July for every financial year.

I.57 Through the pandemic, the grievance redressal mechanism will remain available 24x7, ensuring that complaints against REs receive timely and adequate attention even during the lockdown and the phased unlock. The Reserve Bank will focus on further improving customer services for which internal grievance redressal mechanism of banks will be assessed under the framework for strengthening grievance redressal mechanisms by banks. Education and awareness efforts on consumer protection will also be sustained in the ensuing year.

I.58 In the area of digital payments, various initiatives such as an innovation hub, a regulatory sandbox and offline payment solutions are underway to ensure that in the digital ecosystem, India maintains its position as a leader. The Reserve Bank is in the process of extending the geo-tagging framework put in place to capture location of bank branches, ATMs and BCs to cover payment system touch points, enabling accurate capture of their location across the country. In line with the G-20 mandate of enhancing cross-border payment arrangements, the possibility of leveraging India’s domestic payment systems to facilitate cross-border transactions is being explored, and corridors and charges for inward remittances will be reviewed. Keeping in mind the increasing trend of outsourcing arrangements, a regulatory framework for management of attendant risks in outsourcing arrangements by non-bank payment system operators will be operationalised.

I.59 The prospects for FinTech in India’s financial system in 2021-22 will depend upon the degree of entrenchment of digital usage, which is, in turn, contingent upon the resilience of the underlying acceptance infrastructure, financial literacy and awareness of the users (both merchants and consumers) and strengthening of the customer protection and cyber security protocols in place. All these factors will help in cementing the trust of users in digital modes. The Reserve Bank’s initiative to set up a pan-India new Umbrella Entity will intensify competition in the digital space and bring out the best for end-users and other participants in terms of efficiency gains and convenience. Collaborations between card issuing banks, FinTech players and other stakeholders of the payments ecosystem are likely to give rise to a new hybrid model of finance that will help address credit gaps and ramp up last mile outreach by leveraging on the geographical footprint of banks and technological know-how of FinTech companies.

I.60 To sum up, the year gone by has left a scar on the economy. In the midst of the second wave as 2021-22 commences, pervasive despair is being lifted by cautious optimism built up by vaccination drives. Intense national efforts to beat back the virus are coalescing at least to some synchronicity across the world. Countries are stepping away from vaccine nationalism as the world adapts by learning to survive. A collective global effort to fight the pandemic will surely bring better results than individual countries fighting on their own. The G20 goal of strong, sustainable and inclusive growth may yet be in sight and within reach.