RESERVE BANK OF INDIA

ANNUAL REPORT

2020-21

Report of the Central Board of Directors on the working of the Reserve Bank of India for the year ended March 31, 2021 submitted to the Central Government in terms of Section 53(2) of the Reserve Bank of India Act, 1934

RESERVE BANK OF INDIA ANNUAL REPORT 2020-21

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

गवर्नर
GOVERNOR

LETTER OF TRANSMITTAL

Ref. No. SECD.BRDS. 60 / 02.16.001 / 2021-22

May 24, 2021
Jyeshtha 3, 1943 (Saka)

The Finance Secretary
Government of India
Ministry of Finance
New Delhi – 110 001

Dear Finance Secretary,

In pursuance of Section 53(2) of the Reserve Bank of India Act, 1934, I have the pleasure in transmitting the following documents:

(i) A copy of the Annual Accounts for the transition year July 01, 2020 to March 31, 2021 certified by the Bank's Auditors and signed by the Chief General Manager-in-Charge, the Deputy Governors and I; and

(ii) Two copies of the Annual Report of the Central Board on the working of the Bank during the transition year July 01, 2020 to March 31, 2021.

Sincerely,

Shaktikanta Das

केन्द्रीय कार्यालय भवन, शहीद भगतसिंह मार्ग, मुम्बई - 400 001, भारत
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CENTRAL BOARD / LOCAL BOARDS

GOVERNOR

Shaktikanta Das

DEPUTY GOVERNORS

Mahesh Kumar Jain

Michael Debabrata Patra

M. Rajeshwar Rao

T. Rabi Sankar

DIRECTORS NOMINATED UNDER SECTION 8 (1) (b) OF THE RBI ACT, 1934

Revathy Iyer

Sachin Chaturvedi

DIRECTORS NOMINATED UNDER SECTION 8 (1) (c) OF THE RBI ACT, 1934

Natarajan Chandrasekaran

Satish Kashinath Marathe

Swaminathan Gurumurthy

DIRECTORS NOMINATED UNDER SECTION 8 (1) (d) OF THE RBI ACT, 1934

Debasish Panda

Ajay Seth

MEMBERS OF LOCAL BOARDS

WESTERN AREA

EASTERN AREA

Sachin Chaturvedi

NORTHERN AREA

Revathy Iyer

Raghvendra Narayan Dubey

SOUTHERN AREA

(Position as on May 24, 2021)

PRINCIPAL OFFICERS

(As on May 24, 2021)

EXECUTIVE DIRECTORS	Anil K. Sharma
	S. C. Murmu
	P. Vijaya Kumar
	O. P. Mall
	Mridul K. Saggar
	Saurav Sinha
	Vivek Deep
	Jayant Kumar Dash
	R. Subramanian
	Rohit Jain
	R. S. Ratho
	Jose J. Kattoor
	Sudha Balakrishnan (Chief Financial Officer)
CENTRAL OFFICE	
Central Vigilance Cell	Sadhana Varma, Chief General Manager & CVO
Consumer Education and Protection Department	Ranjana Sahajwala, Chief General Manager
Corporate Strategy and Budget Department	Rajani Prasad, Chief General Manager
Department of Regulation	Neeraj Nigam, Chief General Manager-in-Charge
Department of Supervision	A. K. Choudhary, Chief General Manager-in-Charge
Department of Communication	Yogesh K. Dayal, Chief General Manager
Department of Currency Management	Subrata Das, Chief General Manager-in-Charge
Department of Economic and Policy Research	D. P. Rath, Officer-in-Charge
Department of External Investments and Operations	Aditya Gaiha, Chief General Manager-in-Charge
Department of Government and Bank Accounts	Charulatha S. Kar, Chief General Manager-in-Charge
Department of Information Technology	Deepak Kumar, Chief General Manager-in-Charge
Department of Payment and Settlement Systems	P. Vasudevan, Chief General Manager
Department of Statistics and Information Management	A. R. Joshi, Officer-in-Charge
Enforcement Department	H. N. Iyer, Chief General Manager-in-Charge
Financial Inclusion and Development Department	Sonali Sengupta, Chief General Manager-in-Charge
Financial Markets Operations Department	Seshsayee G., Chief General Manager
Financial Markets Regulation Department	Dimple Bhandia, Chief General Manager
Foreign Exchange Department	Ajay Kumar Misra, Chief General Manager-in-Charge
Financial Stability Unit	Nisha Nambiar, Chief General Manager
Human Resource Management Department	Vandana Khare, Chief General Manager
Inspection Department	G P Borah, Chief General Manager
Internal Debt Management Department	R Gurumurthy, Chief General Manager
International Department	Mohua Roy, Adviser-in-Charge
Legal Department	A. Unnikrishnan, Legal Adviser-in-Charge
Monetary Policy Department	Rajiv Ranjan, Adviser-in-Charge
Premises Department	Mala Sinha, Chief General Manager
Rajbhasha Department	Sadhana Varma, Chief General Manager
Risk Monitoring Department	Manoranjan Dash, Chief General Manager
Secretary's Department	Aviral Jain, Chief General Manager-in-Charge & Secretary

COLLEGES	**PRINCIPALS**
College of Agricultural Banking, Pune	V. G. Sekar
Reserve Bank Staff College, Chennai	R. Kesavan

OFFICES	**REGIONAL DIRECTORS**
Chennai	S. M. Narasimha Swamy
Kolkata	Susobhan Sinha
Mumbai	Ajay Michyari
New Delhi	Ajay Kumar

BRANCHES	
Ahmedabad	S. K. Panigrahy
Bengaluru	R. Karthikeyan, GM-in-Charge
Bhopal	Vivek Aggarwal
Bhubaneswar	H. N. Panda
Chandigarh	J. K. Pandey
Dehradun	Rajesh Kumar
Guwahati	Sanjeev Singha
Hyderabad	K. Nikhila
Jaipur	Arun Kumar Singh
Jammu	K. P. Patnaik
Kanpur	Tuli Roy
Lucknow	R. L. K. Rao
Nagpur	Sangeeta Lalwani
Patna	Brij Raj, GM-in-Charge
Raipur	A. Sivagami
Thiruvananthapuram	Reeny Ajith

	OFFICERS-IN-CHARGE
Agartala	Tamal Biswas, Chief General Manager
Aizawl	Mary Lianlunkim Deng, General Manager (O-i-C)
Belapur	Jaikish, Chief General Manager
Gangtok	R. V. Sangvai, Chief General Manager
Imphal	Mary Lawm Ngaih Ching Gwite, General Manager (O-i-C)
Kochi	V. K. Nayak, General Manager, (O-i-C)
Panaji	N. J. Nampoothiri, General Manager (O-i-C)
Ranchi	Sanjiv Sinha, General Manager (O-i-C)
Shillong	Paoboi Gangte, General Manager (O-i-C)
Shimla	K. C. Anand, General Manager (O-i-C)
Srinagar	Ashok Kumar, Manager

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With the change in its accounting year to April-March (earlier July-June), this Annual Report covers the working and functions of the Reserve Bank for the transition period of nine months (July 2020 - March 2021).

SELECT ABBREVIATIONS

AACS	-	As Applicable to Cooperative Societies
ABs	-	Autonomous Bodies
AD	-	Authorised Dealer
ADF	-	Asset Development Fund
AEs	-	Advanced Economies
AFA	-	Additional Factor of Authentication
AePS	-	Aadhar Enabled Payment System
AI	-	Artificial Intelligence
AID	-	All-Inclusive Directions
AIFIs	-	All India Financial Institutions
AML	-	Anti-Money Laundering
AMRMS	-	Audit Management and Risk Monitoring System
ANBC	-	Adjusted Net Bank Credit
ATBs	-	Auction Treasury Bills
ATM	-	Automatic Teller Machines
AQI	-	Asset Quality Index
AP	-	Authorised Persons
API	-	Application Programming Interface
APIs	-	Active Pharmaceutical Ingredients
APMCs	-	Agriculture Produce Market Committees
ARCs	-	Asset Reconstruction Companies
AREAER	-	Annual Report on Exchange Arrangements and Exchange Restrictions
ARMS	-	Audit and Risk Management Sub-Committee
ASISO	-	Automated Sweep in and Sweep Out
AUM	-	Assets Under Management
BBA	-	Bilateral Borrowing Agreements
BBPOUs	-	Bharat Bill Payment Operating Units
BBPS	-	Bharat Bill Payment System
BBF	-	BRICS Bond Fund
BCs	-	Business Correspondents
BCBS	-	Basel Committee on Banking Supervision
BCD	-	Basic Customs Duty
BCM	-	Business Continuity Management
BCP	-	Business Continuity Plan
BCSBI	-	Banking Codes and Standards Board of India
BD	-	Banking Department
BE	-	Budget Estimates
BFS	-	Board for Financial Supervision
BHIM	-	Bharat Interface for Money
BIA	-	Basic Indicator Approach
BIS	-	Bank for International Settlements
BLS	-	Bank Lending Survey
BOS	-	Banking Ombudsman Scheme
BoJ	-	Bank of Japan
BPS	-	Basis Points
BPSS	-	Board for Regulation and Supervision of Payment and Settlement Systems
BR	-	Banking Regulations
BRBNMPL	-	Bharatiya Reserve Bank Note Mudran Private Limited
BRICS	-	Brazil, Russia, India, China and South Africa
BSA	-	Bilateral Swap Arrangement
BSS	-	Betaar Sanchar Seva
BSC	-	Building Sub-Committee
BTFP	-	BRICS Task Force on Payments
CA	-	Concurrent Audit
CAD	-	Current Account Deficit
CAFRAL	-	Centre for Advanced Financial Research and Learning
CAMELS	-	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity
CBDC	-	Central Bank Digital Currency

SELECT ABBREVIATIONS

CBDT - Central Board of Direct Taxes
CBG - Compressed Bio Gas
CBIC - Central Board of Indirect Taxes and Customs
CBS - Core Banking Solution
CC - Currency Chests
CCB - Committee of the Central Board
CCIL - Clearing Corporation of India Limited
CCO - Chief Compliance Officer
CCS - Consumer Confidence Survey
CCyB - Countercyclical Capital Buffer
CDs - Certificates of Deposit
CD Ratio - Credit-to-Deposit Ratio
CDS - Credit Default Swaps
CDSL - Clearcorp Dealing System (India) Ltd
CEOs - Chief Executive Officers
CEOBE - Credit Equivalent of Off Balance Sheet Exposure
CEP - Consumer Education and Protection
CEPD - Consumer Education and Protection Department
CF - Contingency Fund
CFL - Centres for Financial Literacy
CFM - Capital Flow Management Measures
CFR - Central Fraud Registry
CFS - Consolidated Financial Statements
CGA - Controller General of Accounts
CGFS - Committee on the Global Financial System
CGRA - Currency and Gold Revaluation Account
CICs - Core Investment Companies
CiC - Currency in Circulation
CII - Confederation of Indian Industry
CIMS - Centralised Information Management System
CISO - Chief Information Security Officer
CLM - Co-Lending Model
CMBs - Cash Management Bills
CMS - Complaint Management System
CO - Central Office
CoA - Certificate of Authorisation
COB - Central Office Building
CODs - Central Office Departments
CoR - Certificate of Registration
CoS - College of Supervisors
COSMOS - Computerised Off-Site Monitoring and Surveillance System
CPC - Central Pay Commission
CPs - Commercial Papers
CPF - Contributory Provident Fund
CPI - Consumer Price Index
CPP - Comprehensive Pension Package
CPMI-IOSCO - Committee on Payments and Market Infrastructures-International Organisation of Securities Commissions
CPSEs - Central Public-Sector Enterprises
CPWD - Central Public Works Department
CRA - Contingent Reserve Arrangement
CRAR - Capital to Risk Weighted Assets Ratio
CRILC - Central Repository of Information on Large Credits
CRM - Credit Risk Mitigation
CRO - Chief Risk Officer
CRPC - Centralised Receipt and Processing Centre
CRR - Cash Reserve Ratio
CSAA - Control Self-Assessment Audit
CSBD - Corporate Strategy and Budget Department
CSF - Consolidated Sinking Fund
CSGL - Centralised Subsidiary General Ledger
CSII - Colour Shift Intaglio Inks

SELECT ABBREVIATIONS

CSPs	-	Critical Service Providers
CTS	-	Cheque Truncation System
CVPS	-	Currency Verification and Processing System
CwP	-	Currency with the Public
CyM	-	Currency Management Module
DBS	-	Development Bank of Singapore
DCCBs	-	District Central Cooperative Banks
DCGI	-	Drugs Controller General of India
DD	-	Demand Drafts
DEA	-	Depositors' Education and Awareness
DEIO	-	Department of External Investments and Operations
DEPR	-	Department of Economic Policy and Research
DFI	-	Development Finance Institution
DGBA	-	Department of Government and Bank Accounts
DHFL	-	Dewan Housing Finance Ltd.
DICGC	-	Deposit Insurance and Credit Guarantee Corporation
DIF	-	Deposit Insurance Fund
DIS	-	Deposit Insurance Systems
DIT	-	Department of Information and Technology
DoC	-	Department of Communication
DoR	-	Department of Regulation
DoS	-	Department of Supervision
DoT	-	Department of Telecommunications
DPI	-	Digital Payments Index
DPSS	-	Department of Payment and Settlement Systems
DSIM	-	Department of Statistics and Information Management
DSL	-	Data Science Lab
DSSI	-	Debt Service Suspension Initiative
DXP	-	Digital Experience Platform
e-BAAT	-	Electronic Banking Awareness and Training
EBIT	-	Earnings Before Interest and Taxes
ECA	-	Essential Commodities Act
ECB	-	External Commercial Borrowings
ECF	-	Economic Capital Framework
ECCS	-	Express Cheque Clearing System
ECL	-	Expected Credit Losses
ECS	-	Electronic Clearing Service
EDC	-	Executive Directors' Committee
EDMS	-	Electronic Document Management System
EDSP	-	Electronic Data Submission Portal
EFC	-	Economic and Financial Co-operation
EFD	-	Enforcement Department
EFI	-	External Funded Institutions
EKP	-	Enterprise Knowledge Portal
ELIs	-	Eligible Lending Institutions
EPFO	-	Employees' Provident Fund Organisation
EM	-	Emerging Market
EMC	-	Expenditure Management Commission
EMDEs	-	Emerging Market and Developing Economies
EMEs	-	Emerging Market Economies
EMV	-	Europay, MasterCard and Visa
EoI	-	Expression of Interest
ERM	-	Enterprise wide Risk Management
ETCD	-	Exchange Traded Currency Derivatives
EU	-	European Union
EVs	-	Electric Vehicles
EWS	-	Early Warning Signal
EXIM	-	Export Import Bank of India

SELECT ABBREVIATIONS

FAME	-	Financial Awareness Messages Booklet
FAR	-	Fully Accessible Route
FATF	-	Financial Action Task Force
FAQs	-	Frequently Asked Questions
FBIL	-	Financial Benchmark India Pvt. Ltd
FC	-	Finance Commission
FCA	-	Foreign Currency Asset
FCBs	-	Foreign Central Bank
FCI	-	Financial Conditions Index
FCNR(B)	-	Foreign Currency Non-Resident Account
FCVA	-	Foreign Exchange Forward Contracts Valuation Account
FDI	-	Foreign Direct Investment
FDIC	-	Federal Deposit Insurance Corporation
FED	-	Foreign Exchange Department
FEDAI	-	Foreign Exchange Dealers' Association of India
FEMA	-	Foreign Exchange Management Act
FFMCs	-	Full-Fledged Money Changers
FER	-	Foreign Exchange Reserves
FETERS	-	Foreign Exchange Transactions Electronic Reporting System
FI	-	Financial Institutions
FICNs	-	Fake Indian Currency Notes
FIMMDA	-	The Fixed Income Money Market and Derivatives Association of India
FinTech	-	Financial Technology
FIPs	-	Financial Inclusion Plans
FIRMS	-	Foreign Investment Reporting Management System
FLCs	-	Financial Literacy Centres
FLW	-	Financial Literacy Week
FMCG	-	Fast Moving Consumer Goods
FMOD	-	Financial Markets Operations Department
FMRD	-	Financial Markets Regulation Department
FPC	-	Farmers Producers Companies
FPI	-	Foreign Portfolio Investment
FPO	-	Farmer Producer Organisation
FRBM Act	-	Fiscal Responsibility and Budget Management Act
FPOs	-	Follow-on Public Offers
FRB	-	Floating Rate Bonds
FRL	-	Fiscal Responsibility Legislation
FSAP	-	Financial Sector Assessment Programme
FSB	-	Financial Stability Board
FSDC	-	Financial Stability and Development Council
FSDC-SC	-	Financial Stability and Development Council - Sub-Committee
FSR	-	Financial Stability Report
FSU	-	Financial Stability Unit
FTA	-	Free Trade Agreements
F-TRAC	-	FIMMDA Trade Reporting and Confirmation System
FWG	-	Framework Working Group
G-20	-	Group of Twenty
GC	-	Governing Council
GDAL	-	Granular Data Access Lab
GDP	-	Gross Domestic Product
GFC	-	Global Financial Crisis
GFCE	-	Government Final Consumption Expenditure
GFD	-	Gross Fiscal Deficit
GHOS	-	Group of Central Bank Governors and Heads of Supervision
GNDI	-	Gross National Disposable Income
GNPA	-	Gross Non-Performing Asset
GoI	-	Government of India

SELECT ABBREVIATIONS

GR	-	Government Report
GRC	-	Governance. Risk management and Compliance
GRF	-	Guarantee Redemption Fund
GRIHA	-	Green Rating for Integrated Habitat Assessment
GRMC	-	Group Risk Management Committee
GRQ	-	General Review of Quotas
G-SAP	-	G-sec Acquisition Programme
G-sec	-	Government Securities
GSLM	-	Government Security Lending Mechanism
GSLBM	-	Government Security Lending and Borrowing Mechanism
GST	-	Goods and Services Taxes
GVA	-	Gross Value Added
GVCs	-	Global Value Chains
HFCs	-	Housing Finance Companies
HLPs	-	High Level Principles
HRMD	-	Human Resource Management Department
HRM-SC	-	Human Resource Management Sub-Committee
HTM	-	Held to Maturity
IADI	-	International Association of Deposit Insurers
IBA	-	Indian Banks' Association
IBC	-	Insolvency and Bankruptcy Code
IBS	-	International Banking Statistics
ICAI	-	Institute of Chartered Accountants of India
ICEGATE	-	Indian Customs Electronic Gateway
ICMTS	-	Integrated Compliance Management and Tracking System
ICR	-	Interest Coverage Ratio
ICSDs	-	International Central Securities Depositories
ICT	-	Information and Communication Technology
ID	-	Issue Department
IDMD	-	Internal Debt Management Department
IESH	-	Inflation Expectations Survey of Households
IFA	-	International Financial Architecture
IFA WG	-	International Financial Architecture Working Group
IFSCA	-	International Financial Services Centres Authority
IFTAS	-	Indian Financial Technology & Allied Services
IGBC	-	Indian Green Building Council
IGIDR	-	Indira Gandhi Institute of Development Research
IGST	-	Integrated Goods and Service Tax
IIBM	-	Indian Institute of Bank Management
IIFC	-	India Infrastructure Finance Company
IIP	-	Index of Industrial Production
IL&FS	-	Infrastructure Leasing & Financial Services
IMF	-	International Monetary Fund
IMFC	-	International Monetary and Financial Committee
IMPS	-	Immediate Payment Service
IMSS	-	Integrated Market Surveillance System
IMU	-	Ink Manufacturing Unit
Indy AS	-	Indian Accounting Standards
INFE	-	International Network on Financial Education
InvITS	-	Infrastructure Investment Trusts

SELECT ABBREVIATIONS

IO	-	Internal Ombudsmen
IOs	-	International Organisations
IOS	-	Industrial Outlook Survey
IRACP	-	Income Recognition, Asset Classification and Provisioning
IRA-FS	-	Investment Revaluation Account-Foreign Securities
IRA-RS	-	Investment Revaluation Account-Rupee Securities
IRDAI	-	Insurance Regulatory and Development Authority of India
IRF	-	Interest Rate Futures
IRR	-	Interest-Rate Risk
IRRBB	-	Interest Rate Risk in Banking Book
IRRS	-	Integrated Rajbhasha Reporting System
ISS	-	Interest Subvention Scheme
ISWG-PS	-	Inter-Secretariat Working Group on Price Statistics
IT	-	Information Technology
IT-SC	-	Information Technology Sub-Committee
ITBs	-	Intermediate Treasury Bills
IWG	-	Internal Working Group
KLEMS	-	Capital(K), Labour(L), Energy(E), Material(M) and Services(S)
KMS	-	Kharif Marketing Season
KCC	-	Kisan Credit Card
KPI	-	Key Performance Indicators
KYC	-	Know Your Customer
LAB	-	Local Area Banks
LAF	-	Liquidity Adjustment Facility
LBMA	-	London Bullion Market Association
LCR	-	Liquidity Coverage Ratio
LEI	-	Legal Entity Identifier
LFAR	-	Long Form Audit Report
LIBOR	-	London Inter-Bank Offered Rate
LICs	-	Low Income Countries
LMS	-	Learning Management System
LO	-	Liason Office
LOLR	-	Lender of Last Resort
LPA	-	Long Period Average
LSF	-	Late Submission Fees
LTROs	-	Long Term Repo Operations
LTV	-	Loan-to-Value
MA-SAAR	-	Moving Average of Seasonally Adjusted Average Growth Rate
MAF	-	Medical Assistance Fund
MCLR	-	Marginal Cost of Funds-based Lending Rate
MD	-	Managing Director
MeitY	-	Ministry of Electronics and Information Technology
MFIs	-	Microfinance Institutions
MGNREGA	-	Mahatma Gandhi National Rural Employment Guarantee Act
MIS	-	Management Information System
ML	-	Machine Learning
MMLR	-	Market Maker of Last Resort
MMS	-	Mail Messaging System
MoE	-	Memorandum of Error
MoU	-	Memorandum of Understanding
MPC	-	Monetary Policy Committee
MSEs	-	Minimum Supervisory Expectations
MSMEs	-	Micro, Small and Medium Enterprises
MSF	-	Marginal Standing Facility
MSPs	-	Minimum Support Prices
MTF	-	Medium Term Framework
NAB	-	New Agreements to Borrow
NABARD	-	National Bank for Agriculture and Rural Development
NBFC	-	Non-Banking Financial Company

SELECT ABBREVIATIONS

NBFC-D	-	Deposit taking NBFCs
NBFC-ND	-	Non-Deposit taking NBFCs
NBFC-ND-SI	-	Systemically Important Non-Deposit taking NBFCs
NCCDs	-	Non-Centrally Cleared Derivatives
NCDs	-	Non-Convertible Debentures
NCFE	-	National Centre for Financial Education
NDF	-	Non-Deliverable Forward
NDI	-	Non-Debt Instrument
NDTL	-	Net Demand and Time Liabilities
NDS-OM	-	Negotiated Dealing System-Order Matching
NEER	-	Nominal Effective Exchange Rate
NEFT	-	National Electronic Funds Transfer
NFA	-	Net Foreign Assets
NFC	-	Non- Food Credit
NGOs	-	Non-Government Organisations
NGSFMS	-	Next Generation Structured Financial Messaging System
NHB	-	National Housing Bank
NIIF	-	National Investment and Infrastructure Fund
NIM	-	Net Interest Margin
NIP	-	National Infrastructure Pipeline
NOF	-	Net Owned Fund
NOFHC	-	Non-Operative Financial Holding Company
NPA	-	Non-Performing Assets
NPCI	-	National Payments Corporation of India
NSFE	-	National Strategy for Financial Education
NSFI	-	National Strategy for Financial Inclusion
NSSF	-	National Small Savings Fund
NSO	-	National Statistical Office
OBC	-	Other Backward Classes
OBICUS	-	Order Books, Inventories and Capacity Utilisation Survey
OD	-	Overdraft
ODR	-	Online Dispute Resolution
OECD	-	Organisation for Economic Co-operation and Development
OLTAS	-	Online Tax Accounting System
OMBs	-	Open Market Borrowings
OMOs	-	Open Market Operations
OMS	-	Open Market Sales
OPEC	-	Organisation of Petroleum Exporting Countries
OPEC+	-	Organisation of Petroleum Exporting Countries and allies
OSNBFC	-	Ombudsman Scheme for NBFCs
OTC	-	Over the Counter
PAs	-	Payment Aggregators
PAN	-	Permanent Account Number
PADO	-	Public Administration, Defence and Other Services
PBs	-	Payment Banks
PCR	-	Public Credit Registry
PDs	-	Primary Dealers
PDS	-	Public Distribution System
P/E	-	Price to Earnings Ratio
PE	-	Preliminary Estimates
PF	-	Provident Fund
PFCE	-	Private Final Consumption Expenditure
PFCVA	-	Provision for Forward Contracts Valuation Account
PFMIs	-	Principles for Financial Market Infrastructure

SELECT ABBREVIATIONS

PFMS	-	Public Financial Management System
PIDF	-	Payments Infrastructure Development Fund
PLFS	-	Periodic Labour Force Survey
PLI	-	Production- Linked Incentive
PMC	-	Punjab and Maharashtra Cooperative
PMGKP	-	Pradhan Mantri Garib Kalyan Package
PMGKY	-	Pradhan Mantri Garib Kalyan Yojana
PMGKAY	-	Pradhan Mantri Garib Kalyan Anna Yojana
PMI	-	Purchasing Managers' Index
PPAC	-	Petroleum Planning and Analysis Cell
PO	-	Project Office
POS	-	Point of Sale
POs	-	Payment Orders
PPIs	-	Prepaid Payment Instruments
PRAKALP	-	Pratayaksh Kar Lekhankan Pranali
PSBs	-	Public Sector Banks
PSL	-	Priority Sector Lending
PSLCs	-	Priority Sector Lending Certificates
PSOs	-	Payment System Operators
PSPs	-	Payment Service Providers
PSS	-	Payment and Settlement Systems
PVT	-	Private Sector Banks
PWD	-	Persons with Disabilities
QIP	-	Qualified Institutional Placement
QPM	-	Quarterly Projection Model
QR	-	Quick Response
RAM-OR	-	Risk Assessment Methodology for Operational Risk
RBA	-	Risk-Based Approach
RBIA	-	Reserve Bank of India Archives
RBIH	-	Reserve Bank Innovation Hub
RBP	-	Risk Based Premium
RBS	-	Risk Based Supervision
RCA	-	Root Cause Analysis
RE	-	Revised Estimates
ReBIT	-	Reserve Bank Information Technology Private Limited
REER	-	Real Effective Exchange Rate
RegTech	-	Regulatory Technology
RFCA	-	Revaluation of Forward Contracts Account
RFP	-	Request for Proposal
RFQ	-	Request for Quote
RIDF	-	Rural Infrastructure Development Fund
RM	-	Reserve Money
RMD	-	Risk Monitoring Department
RMS	-	Rabi Marketing Season
ROs	-	Regional Offices
RPOs	-	Renewable Purchase Obligations
RRBs	-	Regional Rural Banks
RS	-	Regulatory Sandbox
RSD	-	Risk Specialist Division
RTGS	-	Real Time Gross Settlement
RTI	-	Right to Information
RTP	-	Reserve Tranche Position
RTL	-	Risk Tolerance Limits
SA	-	Standardised Approach
SAs	-	Standards on Auditing
SAA	-	Swap Amortisation Account
SAARC	-	The South Asian Association of Regional Cooperation
SAF	-	Supervisory Action Framework
SARTTAC	-	South Asian Regional Training and Technical Assistance Centre
SBLA	-	Securities Borrowing and Lending Arrangement
SBN	-	Special Bank Notes
SCBs	-	Scheduled Commercial Banks
SCRA	-	Securities Contracts Regulation Act

SELECT ABBREVIATIONS

SDRs	-	Special Drawing Rights
SDF	-	Special Drawing Facility
SDLs	-	State Development Loans
SDMX	-	Statistical Data and Metadata Exchange
SEs	-	Supervised Entities
SEACEN	-	South East Asian Central Banks
SEBI	-	Securities and Exchange Board of India
SEDs	-	Supervisory Examination Divisions
SEMI	-	System of Exchange of Macroeconomic Information
SF	-	SAARCFINANCE
SFBs	-	Small Finance Banks
SFDB	-	Several Bilateral SF Database
SFMS	-	Structured Financial Messaging System
SGBs	-	Sovereign Gold Bonds
SGL	-	Subsidiary General Ledger
SIDBI	-	Small Industries Development Bank of India
SIOS	-	Services and Infrastructure Outlook Survey
SLBC	-	State Level Bankers Committees
SLCCs	-	State Level Coordination Committees
SLD	-	Senior Level Dialogue
SLF	-	Special Liquidity Facility
SLF-MF	-	Special Liquidity Facility for Mutual Funds
SLMA	-	Secondary Loan Market Association
SLS	-	Special Liquidity Scheme
SLR	-	Statutory Liquidity Ratio
SoC	-	Sectoral Security Operations Centre
SOFR	-	Secured Overnight Financing Rate
SOP	-	Standard Operating Procedure
SPARC	-	Supervisory Programme for Assessment of Risk and Capital
SPARSH	-	System of Pension Administration (Raksha)
SPDs	-	Standalone Primary Dealers
SPV	-	Special Purpose Vehicle
SPMCIL	-	Security Printing and Minting Corporation of India Limited
SR	-	Secretariat Report
SRO	-	Self-Regulatory Organisation
SSCI	-	Service Sector Composite Index
SSMs	-	Senior Supervisory Managers
ST	-	Service Tax
StCBs	-	State Cooperative Banks
STP	-	Straight Through Processing
STRIPS	-	Separate Trading of Registered Interest and Principal Securities
SupTech	-	Supervisory Technology
SVAMITVA	-	Survey of Villages and Mapping With Improvised Technology in Village Areas
SWIFT	-	Society for Worldwide Interbank Financial Telecommunication
SWM	-	South West Monsoon
TAT	-	Turn Around Time
TACS	-	Technical Advisory Committee in Surveys
T-Bills	-	Treasury Bills
TBTF	-	Too Big to Fail
TGFIFL	-	Technical Group on Financial Inclusion and Financial Literacy
TIN	-	Tax Information System
TLTROs	-	Targeted Long-Term Repo Operations
TOLIC	-	Town Official Language Implementation Committee

SELECT ABBREVIATIONS

TOT	-	Train the Trainer
TPR	-	Trade Policy Review
TRAI	-	Telecom Regulatory Authority of India
TReDS	-	Trade Receivables Discounting System
TSA	-	Treasury Single Account
UCBs	-	Urban Cooperative Banks
UK	-	United Kingdom
UPI	-	Unified Payments Interface
US	-	United States
USSD	-	Unstructured Supplementary Service Data
UAT	-	User Acceptance Testing
UTs	-	Union Territories
UTI	-	Unique Transaction Identifier
UTLBC	-	Union Territory Level Bankers Committees
URL	-	Uniform Resource Locators
URRBCH	-	Uniform Regulations and Rules for Bankers Clearing Houses
VaR/ES	-	Value at Risk/Expected Shortfall
VIX	-	Volatility Index
VRR	-	Voluntary Retention Route
VUCA	-	Vulnerable, Uncertain. Complex and Ambiguous
WACR	-	Weighted Average Call Rate
WADTDR	-	Weighted Average Domestic Term Deposit Rate
WALR	-	Weighted Average Lending Rate
WAM	-	Weighted Average Maturity
WAS	-	Weighted Average Spread
WAY	-	Weighted Average Yield
WEO	-	World Economic Outlook
WG	-	Working Group
WHO	-	World Health Organisation
WLA	-	White Label ATM
WMA	-	Ways and Means Advances
WPI	-	Wholesale Price Index
WSS	-	Weekly Statistical Supplement
WTO	-	World Trade Organisation
WOS	-	Wholly owned Subsidiary
XBRL	-	eXtensible Business Reporting Language
ZTCs	-	Zonal Training Centres

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*For the Year July 1, 2020 to March 31, 2021**

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[1] 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[2].

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[3] 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,

* With the change in its accounting year to April-March (earlier July-June), this Annual Report covers the working and functions of the Reserve Bank for the transition period of nine months (July 2020 - March 2021). Where available, the Report has been updated beyond March 2021.

1 The World Health Organisation declared the outbreak a 'Public Health Emergency of International Concern' on January 30, 2020, and a 'Pandemic' on March 11, 2020.

2 IMF (2021), 'World Economic Outlook- Managing Divergent Recoveries', *International Monetary Fund,* Washington D.C., April.

3 IMF (2021), 'Fiscal Monitor - A Fair Shot', *International Monetary Fund,* Washington D.C., April.

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 - instrument- 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[4].

[4] 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 average[5].

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

[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[6] 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.

[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[7].

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

[7] Gartner, April 2021.

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[8] came to the fore in extending unhindered financial

[8] 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.

II ECONOMIC REVIEW

India joined the global economy in an unprecedented contraction in 2020-21, dragged down by the COVID-19 pandemic. Headline inflation was elevated for most part of the year led by supply chain disruptions due to the pandemic and spikes in key food prices. Inflation, however, moderated subsequently due to seasonal easing in food prices since December 2020, albeit with an upside push from adverse base effects during February-March 2021. Monetary and credit conditions remained expansionary and financial market conditions eased considerably on the back of abundant liquidity. Public finances were impacted by a cyclical slowdown in revenues, which was exacerbated by COVID-19, while pandemic-induced fiscal measures pushed up expenditure. On the external front, the sizeable contraction in imports relative to exports, under deep recessionary conditions, led to a current account surplus; along with robust net capital inflows, this led to a large build-up of foreign exchange reserves.

II.1 THE REAL ECONOMY

II.1.1 In 2020, the global economic sky was overcast with COVID-19 - a virus of the size of 0.12 microns. By end-March 2021, the virus had resulted in over 128 million infections and over 2.8 million mortalities worldwide. The year 2021 has commenced with both hope and fear - several parts of the world are locking down and bracing against new waves of infections and speedily communicable mutations. At the same time, the approval of several vaccines has spurred vaccination drives worldwide, *albeit* at different speeds. Nearly 600 millions of vaccine doses have already been administered (March 31, 2021), even as vaccine producers struggle to tweak vaccines to keep pace with mutations. In the event, 2020 has gone down in human history as the year of the 'Great Lockdown'[1], with output losses dwarfing those suffered during the global financial crisis (GFC) of 2008-09. World trade declined by around 8.5 per cent, with the contraction in services trade outpacing the fall in merchandise trade.

II.1.2 The year 2020 will also be memorable for unprecedented policy responses which, although not coordinated, turned out to be synchronised. A slew of conventional and unconventional measures was unleashed across the world, with monetary authorities slashing policy rates to zero and below in real terms - and even in nominal terms in some countries - while executing massive asset purchase programmes, payment deferral schemes, provision of public guarantees, emergency funding avenues and provision of ample liquidity to financial markets. The stimulus provided by fiscal authorities was equally unprecedented in scale and scope, amounting to US$ 16 trillion[2] (15.3 per cent of the GDP). Of the total amount, US$ 10 trillion consisted of additional spending or foregone revenue, while US$ 6 trillion comprised liquidity support in the form of guarantees, loans, asset/debt purchases, and equity injections. This policy fightback led to a massive easing of financial conditions and imparted stability to the financial system, thereby containing downside risks to growth.

II.1.3 Equity markets, in particular, have recovered exuberantly from the panic that set in when COVID-19 was declared a pandemic in March

[1] IMF (2020), 'World Economic Outlook', *International Monetary Fund,* Washington D.C., April.

[2] IMF (2021), 'Fiscal Monitor- A Fair Shot', *International Monetary Fund,* Washington D.C., April.

2020. Cyclical stocks[3] have led the rally, driven by optimism surrounding the arrival of vaccines and fresh rounds of fiscal stimulus in major economies. Crude oil prices and other commodity prices are also firming up on the back of these positive developments, with production restraints by the organisation of the petroleum exporting countries (OPEC) providing added momentum in February and March 2021 and creating conditions for the forming of a new commodity super-cycle.

II.1.4 The agglutination of supply disruptions, the health crisis, an unparalleled mass migration and a hostile global environment took a heavy toll on the Indian economy. A cyclical slowdown had preceded the pandemic, causing real gross domestic product (GDP) growth to register a sequential deceleration since 2017-18, which slumped into contraction under the onslaught of COVID-19. Within two weeks of the World Health Organisation (WHO) declaring it a pandemic, India imposed a strict lockdown. The combination of demand compression and supply disruption that took hold in its wake caused severe debilitating effects on the economy in Q1:2020-21. By mid-September, the total number of COVID-19 cases crossed 50 lakh - the second highest caseload in the world, with over 0.8 lakh fatalities. It was a turning point, however; thereon, India bent the COVID-19 curve, with the seven-day rolling average of new confirmed cases dropping from 93,199 on September 16, 2020 to 11,145 on February 11, 2021 before rising sharply thereafter (62,019 on March 31, 2021). By the end of March 2021, the recovery rate was around 94 per cent and the number of active cases had surged to 5.8 lakh.

II.1.5 With gradual lifting of restrictions and reopening of the economy, the pace of contraction moderated in Q2 and GDP returned to positive terrain in Q3 of 2020-21. Sensing the recovery gaining traction, equity markets became ebullient, with the BSE Sensex staging a V-shaped recovery and rising over 91 per cent by end-March 2021 from the lows of March 2020, buoyed by strong corporate performance in Q2 and Q3 of 2020-21, the roll-out of a massive vaccine programme, fiscal and monetary stimulus in place and surges of capital inflows. The prospects for the Indian economy though impacted by the second wave, remain resilient backed by the prospects of another bumper *rabi* crop, the gathering momentum of activity in several sectors of the economy till March, especially housing, road construction and services activity in construction, freight transportation and information technology (IT). Meanwhile, the activation of the production-linked incentive (PLI) scheme, spectrum auctions and considerable easing of financial conditions are helping to shape the turnaround. On the other hand, large and medium-scale industry, mining and quarrying and several contact-intensive sectors remain subdued.

II.1.6 Against this backdrop, component-wise analysis of aggregate demand is set out in the following sub-section. Developments in aggregate supply conditions in terms of the performance of agriculture and allied sectors, value added in the industrial sector, and performance of services are sketched out in sub-section 3. The sub-section 4 presents analysis of employment based on high frequency indicators. The concluding sub-section offers some policy perspectives.

[3] Cyclical stocks are stocks of companies from sectors such as metals, energy and industries that fluctuate according to business cycles and performance of the economy.

2. Aggregate Demand

II.1.7 The second advance estimate (SAE) that were released by the National Statistical Office (NSO) in February 2021 revealed that aggregate demand, measured by real GDP, contracted by 8.0 per cent in 2020-21 (Table II.1.1 and Appendix Table 1). This is the first contraction experienced since 1980-81 and the severest ever. In fact, the contraction was of the order of 15.9 per cent in the first half of 2020-21 under the full brunt of the lockdown imposed to curb the transmission of COVID-19.

II.1.8 Progressive restoration in demand conditions was evident with a sharp rebound in seasonally adjusted annualised growth rate (SAAR) in Q2:2020-21, indicating a recovery in momentum. This was sustained in the next quarter as well, reflected in an uptick in the three-quarter moving average (MA-SAAR) of GDP in Q3:2020-21 (Chart II.1.1 and Appendix Table 2).

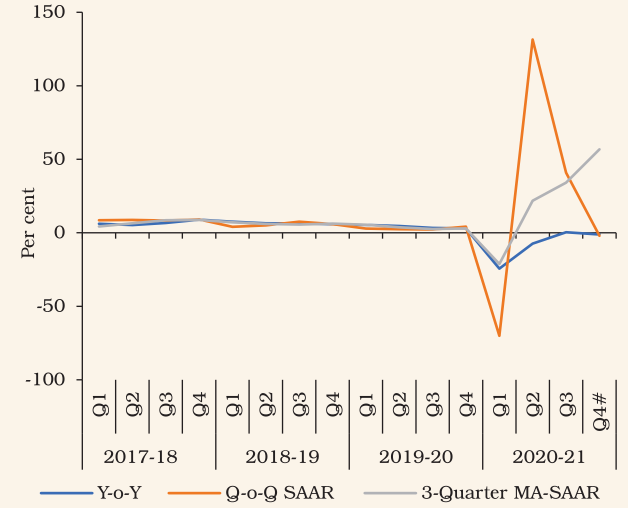
Table II.1.1: Real GDP Growth

(Per cent)

Component	2016-17	2017-18	2018-19	2019-20	2020-21
1	2	3	4	5	6
I. Total Consumption Expenditure	**7.8**	**7.1**	**7.4**	**5.9**	**-7.1**
Private	8.1	6.2	7.6	5.5	-9.0
Government	6.1	11.9	6.3	7.9	2.9
II. Gross Capital Formation	**3.7**	**10.8**	**9.7**	**2.3**	**-12.9**
Fixed Investment	8.5	7.8	9.9	5.4	-12.4
Change in Stocks	-48.8	68.3	27.2	-39.7	-3.5
Valuables	-18.6	40.2	-9.7	-14.2	-38.0
III. Net Exports					
Exports	5.0	4.6	12.3	-3.3	-8.1
Imports	4.4	17.4	8.6	-0.8	-17.6
IV. GDP	**8.3**	**6.8**	**6.5**	**4.0**	**-8.0**

Source: NSO.

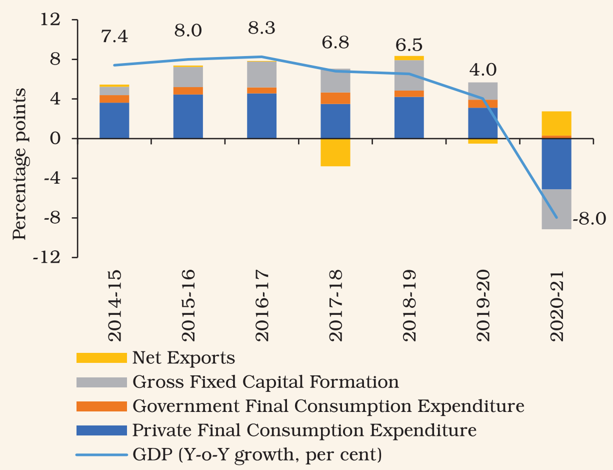
Chart II.1.1: GDP Growth: Y-o-Y and 3-Quarter MA-SAAR



#: Implicit growth.
Source: NSO and RBI staff estimates.

II.1.9 Underlying the vicissitudes in aggregate demand conditions in 2020-21 were compositional shifts among constituents. Private final consumption expenditure (PFCE) registered a contraction for the first time in the past four decades (Chart II.1.2). Government final consumption expenditure (GFCE) continued to provide support to aggregate demand; however,

Chart II.1.2: Weighted Contribution to GDP Growth



Note: Component-wise contributions do not add up to the growth rate as change in stocks, valuables and statistical discrepancies are not included.
Source: NSO.

its contribution waned in 2020-21 as stress mounted on government finances. Gross fixed capital formation (GFCF) recorded a contraction, primarily due to prevailing uncertainty and the imposition of lockdown. There was a marked contraction in the external sector too; however, with imports declining sharper than exports, overall net exports made a positive contribution to aggregate demand. The contraction in GDP outpaced the retrenchment in gross value added (GVA) at basic prices on account of Food Corporation of India (FCI) food subsidies being reflected on the Union Budget.

Consumption

II.1.10 Private consumption - the mainstay of aggregate demand - was severely affected by the pandemic. Wilting from its innate resilience, PFCE contracted by 9.0 per cent in 2020-21, reflecting cliff effects of the impact of the stringent nation-wide lockdown and social distancing norms, heightened uncertainty as a result of transitory and permanent job losses, closures of small, micro and unincorporated businesses and wage resets. Discretionary consumption, particularly on transport, hotel and restaurants, recreation and culture, with a combined share of around 20 per cent in PFCE, remained much below pre-COVID-19 levels. Reverse migration of workers contributed to losses in disposable income, thereby negatively affecting domestic remittances and consumption. Although the deleterious ramifications were faced in both rural and urban areas, contraction in private consumption has been more pronounced in case of the latter.

II.1.11 A sharp recovery in consumption has become evident from Q2. Passenger vehicle sales normalised since September 2020. In response to improving demand, production of consumer durables that remained sluggish during H1:2020-21, also witnessed a sharp revival in H2:2020-21. After a marked improvement in January, the March 2021 round of the Reserve Bank's consumer confidence survey (CCS) showed a worsening consumer sentiment on the back of deteriorating sentiments on general economic situation, income and prices. The future expectations index (FEI) also indicated lower optimism for the year ahead. Going forward, the recovery of the economy from the COVID-19 will critically depend on the robust revival of private demand that may be led by the consumption in the short-run but will require acceleration of investment to sustain the recovery (Box II.1.1).

II.1.12 Indicators of rural demand reveal a promising picture. The pandemic affected rural areas less than urban areas where population density is higher. Furthermore, agriculture and allied activities were generally exempted from the lockdown measures and exhibited resilience owing to a confluence of factors working in conjunction, *viz.,* a bountiful monsoon, adequate soil moisture, replenished reservoir levels, improved labour availability during pandemic and favourable terms of trade for agricultural products. The acceleration in fertilizers production and tractor sales supported rural demand and brightened the outlook. After remaining in contraction for 19 consecutive months, motorcycle sales entered expansion territory in August 2020 and have since been robust.

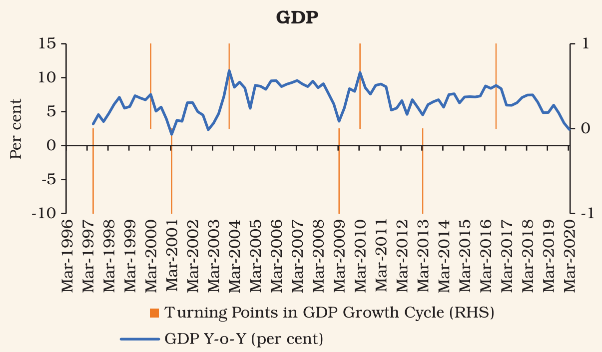
Investment and Saving

II.1.13 The rate of gross domestic investment in the Indian economy, measured by the ratio of gross capital formation (GCF) to GDP at current prices, reduced to 32.2 per cent in 2019-20 from 32.7 per cent in the preceding year. Although data on GCF are not yet available for 2020-21, movements in its constituents suggest that the slowdown would continue. The ratio of real gross fixed capital formation (GFCF) to GDP decreased to 30.9 per cent in 2020-21 from 32.5 per cent in

Box II.1.1
What Drives Recovery in Growth after a Crisis?

For a self-sustaining GDP growth trajectory post-COVID-19, a durable revival in private consumption and investment demand together would be critical as they account for around 85 per cent of GDP. In view of the limited share of government consumption demand in GDP (at around 13 per cent in 2020-21), a rebound in private demand is essential to sustain the recovery. Typically, post-crisis recoveries have been led more by consumption than investment; however, investment-led recoveries can be more sustainable and can also lift consumption in parts by better job creation. In either case, private demand plays a pivotal role. In this context, the turning points in the growth cycle, determined by identifying the local maxima and minima - using the first and fourth quartiles of GDP growth, *i.e.,* the lowest 25 per cent and the highest 25 per cent of the growth are examined. Additionally, a few censor rules are applied, such as eliminating back to back minima or maxima and ensuring that there is at least a one quarter gap between maxima and minima. These additional censor rules help to cleanly identify turning points in the GDP cycle (Chart 1).

Chart 1: Turning Points in the GDP Cycle for India



	Phase	Quarters
Cycle 1	Down-cycle	Jun-2000 to Mar-2001
	Up-cycle	Jun-2001 to Dec-2003
Cycle 2	Down-cycle	Mar-2004 to Mar-2009
	GFC	Dec-2008 to Sep-2009
	Up-cycle	Jun-2009 to Mar-2010
Cycle 3	Down-cycle	Jun-2010 to Mar-2013
	Up-cycle	Jun-2013 to Sep-2016
Cycle 4	Down-cycle	Dec-2016 to Jun-2020

Source: RBI staff estimates.

Table 1: Models of GDP Growth

Dependent Variable	GDP Growth	
	Consumption Growth	Investment Growth
1	2	3
Estimation Period	Q2:1998-99-Q1:2020-21	Q2:1998-99-Q1:2020-21
Consumption	0.63***	
Consumption*up-cycle	0.17*	
Consumption*down-cycle	0.42***	
Investment		0.32***
Investment*up-cycle		0.14*
Investment*down-cycle		0.26***

***: Significant at 1 per cent level.
*: Significant at 10 per cent level.
Source: RBI staff estimates.

A group of AR(1) models of GDP growth, augmented by current period (i) private final consumption expenditure (PFCE) and (ii) investment [gross fixed capital formation (GFCF)] is estimated (Table 1). The analysis uses the GDP cycle dating algorithm to create dummies that capture upcycles and downcycles.

The findings suggest that an increase in consumption and investment during a downcycle boosts GDP growth more than during an upcycle. The analysis also suggests that an increase in investment leads to higher consumption[4], suggesting that an investment-led recovery could boost both output and consumption.

A mix of policies may be needed, as very low capacity utilisation rates may leave little incentive for the private sector to start a strong investment cycle. Therefore, there will be a need for an increase in public investment spending that can crowd in private investment, while private consumption needs to be supported through improvement in consumer credit.

As a robustness check, high-frequency lead indicators of consumption and investment demand confirm that an increase in investment and consumption contribute more to GDP growth during a downcycle than in an upswing[5]. While an increase in investment leads to higher consumption demand through positive income and employment effects, an increase in consumption does not cause an increase in investment. Both results highlight the role of an investment-led recovery for sustaining the post COVID-19 rebound.

Reference:

Bhadury, S., S. Ghosh and P. Kumar (2020), 'Nowcasting Indian GDP Growth using a Dynamic Factor Model', Working Paper No.3, *Reserve Bank of India.*

[4] There is no statistically significant evidence of the reverse causality.

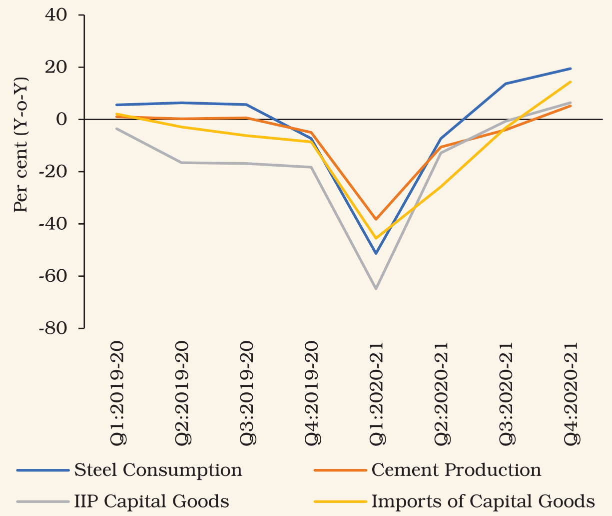
[5] For tracking the investment cycle, a single-index dynamic factor was constructed from high-frequency indicators such as IIP-core, cement production, electricity production, and manufacturing activity. Similarly, the dynamic factor for consumption activity was constructed using air passenger, rail passenger, IIP-consumer goods, and automobile sales.

2019-20, reflective of weak investment sentiment in the economy. GFCF registered a contraction of 12.4 per cent in 2020-21, in view of the prevailing uncertainty in the economy, waning business confidence and flagging entrepreneurial appetite for new investment. Fixed investment continues to be the Achilles' heel of the economy and rekindling of animal spirits remains a top priority for policymakers.

II.1.14 Among the components of GFCF, construction activity remained subdued in H1:2020-21. Apart from being affected by the pandemic, construction was throttled by a stringent lockdown, reverse migration of workers from the urban construction sites, a large inventory overhang, coupled with stressed liquidity conditions in the early part of the pandemic. This was also reflected in its proximate coincident indicators – steel consumption and cement production (Chart II.1.3). Infusion of liquidity helped arrest the deterioration, and housing and construction activity rebounded in the latter half of the year with a gradual revival in sales, primarily due to favourable interest rates, steep discounts by developers to liquidate inventory, and reduction in stamp duty by a few states. There was a collapse in investment in machinery and equipment, reflective of muted investment by the private sector. Both its proximate coincident indicators – imports and production of capital goods - registered a contraction in every month of H1:2020-21.

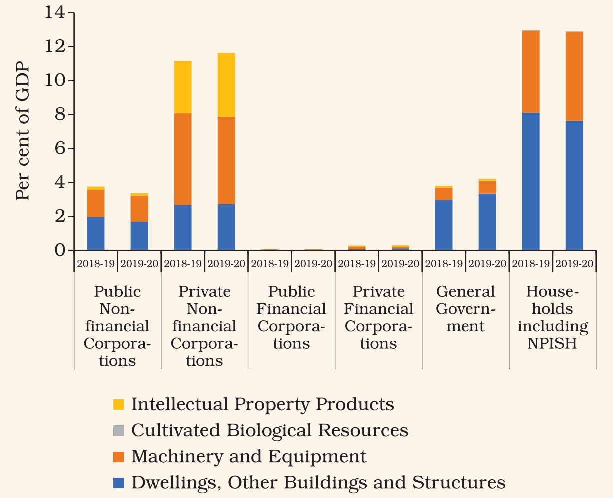
II.1.15 At a disaggregated level, fixed investment in dwellings, other buildings and structures decreased by 0.3 percentage points to 15.5 per cent of GDP in 2019-20, mainly due to public non-financial corporations and the household sector, which offset the gains made by the general government sector through its thrust on infrastructure and affordable housing (Chart II.1.4). There has been a steady growth in fixed investment in machinery and equipment from 10.5 per cent of GDP in 2014-15 to 12.8 per cent in 2019-20, primarily led by the household

Chart II.1.3: Indicators of Investment Demand



Source: Joint Plant Committee, Office of Economic Adviser, NSO and DGCI&S.

Chart II.1.4: Sectoral Composition of Gross Fixed Capital Formation



NPISH: Non-profit Institutions Serving Households.
Source: NSO.

sector. Investment in intellectual property products (IPP) - expenditure on research and development; mineral exploration; computer software; and other intellectual property products by private non-financial corporations picked up sharply in 2019-20.

II.1.16 As per the order books, inventories and capacity utilisation survey (OBICUS) of the Reserve Bank, seasonally adjusted capacity utilisation in manufacturing recovered from a sharp drop to 47.9 per cent in Q1:2020-21 to 66.6 per cent in Q3, though still below the long-term average of 73.8 per cent. The inventory-to-sales ratio fell sharply in Q2:2020-21 as sales exhibited an improvement with revival in economic activity while inventories remained close to their level in the preceding quarter. With an increase in both sales and inventories, inventory-to-sales ratio increased marginally in Q3:2020-21.

II.1.17 The 93rd round of the Reserve Bank's industrial outlook survey (IOS) conducted during Q4:2020-21 points to further strengthening of production, order books and employment. While respondents' sentiments on availability of finance through banks, internal accruals and overseas sources improved, they perceived higher cost pressures emanating from input purchases and salary outgoes. For the first three quarters of 2021-22, manufacturers are optimistic on improvement in production, capacity utilisation, employment conditions and the overall business situation.

II.1.18 The rate of gross domestic saving picked up to 30.9 per cent of gross national disposable income (GNDI) in 2019-20 from 30.1 per cent a year ago. This increase was led by financial corporations - more pronounced in the public sphere - coupled with an uptick in financial saving of the household sector - the most important source of funds - by 0.7 percentage points to 7.8 per cent of GNDI in 2019-20, the highest in the past four years (Table II.1.2 and Appendix Table 3). Preliminary estimates show an upsurge in household financial savings to 21.0 per cent of GDP in Q1:2020-21 *vis-à-vis* 4.0 per cent in Q1:2019-20, owing to the COVID-19 led reduction in discretionary expenditure and

Table II.1.2: Financial Saving of the Household Sector

(Per cent of GNDI)

Item	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
1	2	3	4	5	6	7	8	9	10
A. Gross Financial Saving	10.4	10.5	10.4	9.9	10.7	10.4	11.9	11.1	11.0
of which:									
1. Currency	1.2	1.1	0.9	1.0	1.4	-2.1	2.8	1.4	1.4
2. Deposits	6.0	6.0	5.8	4.8	4.6	6.3	3.0	4.2	4.2
3. Shares and Debentures	0.2	0.2	0.2	0.2	0.2	1.1	1.0	0.4	0.4
4. Claims on Government	-0.2	-0.1	0.2	0.0	0.5	0.7	0.9	1.1	1.3
5. Insurance Funds	2.2	1.8	1.8	2.4	1.9	2.3	2.0	1.9	1.5
6. Provident and Pension Funds	1.1	1.5	1.5	1.5	2.1	2.1	2.1	2.1	2.2
B. Financial Liabilities	3.2	3.2	3.1	3.0	2.7	3.0	4.3	4.1	3.2
C. Net Financial Saving (A-B)	7.2	7.2	7.2	6.9	7.9	7.3	7.5	7.1	7.8

GNDI: Gross National Disposable Income.
Note: Figures may not add up to the total due to rounding off.
Source: NSO.

the associated surge in precautionary saving despite stagnant/reduced income. The excess household financial savings, however, waned substantially and its rate dropped to 10.4 per cent of GDP in Q2:2020-21 as households switched from 'essential only' spending to discretionary spending with gradual reopening/unlocking of the economy.

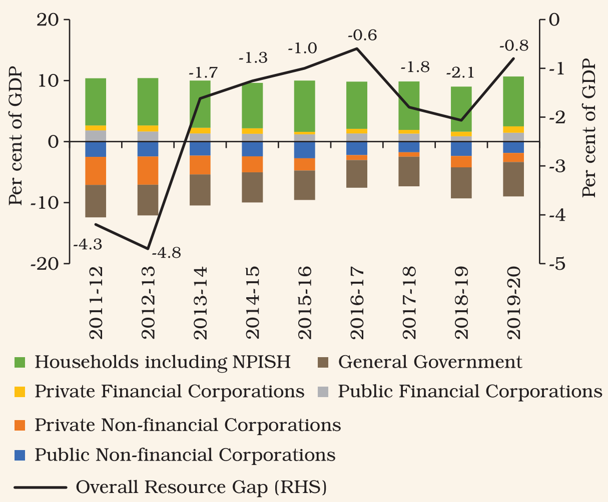
II.1.19 There has been a discernible narrowing in the saving-investment gap for the Indian economy since 2013-14, indicating that a larger part of investment funding requirement was being met through domestic resources (Chart II.1.5). The resource gap of non-financial corporations, both public and private, has registered a perceptible decline over the years, reflecting that their investment needs were increasingly being met through internal resources. The drawdown on saving by the general government sector remained at an elevated level and led to excessive draft on households' financial surplus.

3. Aggregate Supply

II.1.20 Aggregate supply, measured by gross value added (GVA) at basic prices, contracted by 6.5 per cent in 2020-21, after growing 4.1 per cent in the preceding year. Disentangling momentum from base effects, three-quarter moving average of seasonally adjusted annualised growth rate (MA-SAAR) of GVA exhibited an uptick in momentum in Q3:2020-21 with gradual easing of restrictions (Chart II.1.6).

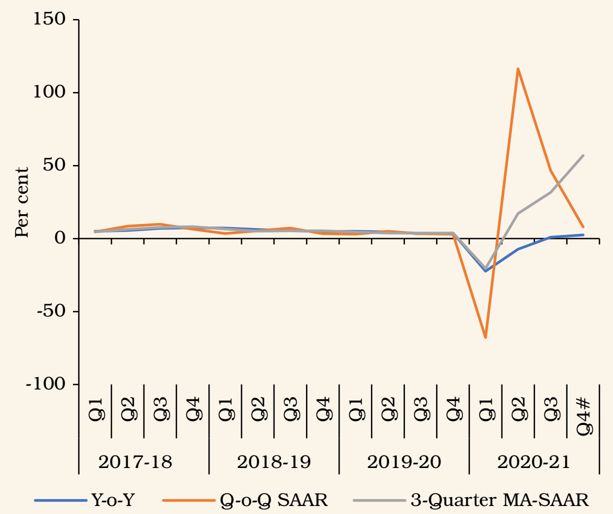
II.1.21 The deceleration in GVA growth was underpinned by a contraction in the industrial and the services sectors. While industrial GVA, driven by its largest constituent – manufacturing – moved out of contraction in Q3:2020-21, after having registered contraction in the preceding five quarters, the resilience of the agricultural sector provided a floor to the contraction in aggregate supply (Table II.1.3).

Chart II.1.5: Sectoral Resource Gap



NPISH: Non-profit Institutions Serving Households.
Source: NSO and RBI staff estimates.

Chart II.1.6: GVA Growth: Y-o-Y and 3-Quarter MA-SAAR



#: Implicit growth.
Source: NSO and RBI staff estimates.

Table II.1.3: Real GVA Growth

(Per cent)

Sector	2016-17	2017-18	2018-19	2019-20	2020-21
1	2	3	4	5	6
I. Agriculture, Forestry and Fishing	**6.8**	**6.6**	**2.6**	**4.3**	**3.0**
II. Industry	**8.4**	**6.1**	**5.0**	**-2.0**	**-7.4**
i. Mining and Quarrying	9.8	-5.6	0.3	-2.5	-9.2
ii. Manufacturing	7.9	7.5	5.3	-2.4	-8.4
iii. Electricity, Gas, Water Supply and Other Utility Services	10.0	10.6	8.0	2.1	1.8
III. Services	**8.1**	**6.2**	**7.1**	**6.4**	**-8.4**
i. Construction	5.9	5.2	6.3	1.0	-10.3
ii. Trade, Hotels, Transport, Communication and Services related to Broadcasting	7.7	10.3	7.1	6.4	-18.0
iii. Financial, Real Estate and Professional Services	8.6	1.8	7.2	7.3	-1.4
iv. Public Administration, Defence and Other Services	9.3	8.3	7.4	8.3	-4.1
IV. GVA at Basic Prices	**8.0**	**6.2**	**5.9**	**4.1**	**-6.5**

Source: NSO.

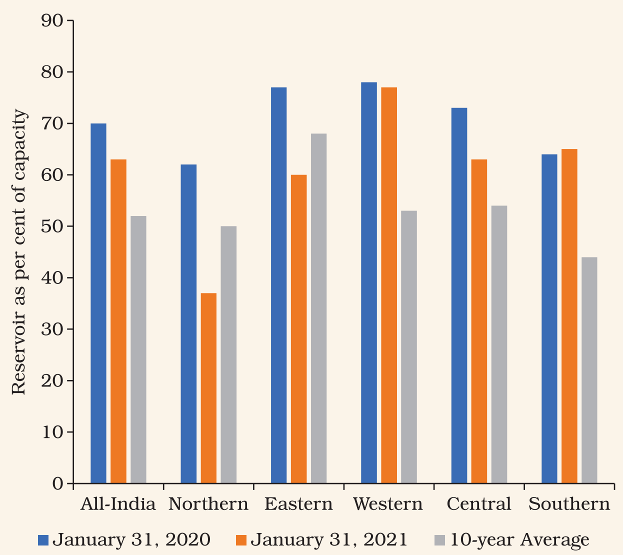
Agriculture and Allied Activities

II.1.22 GVA by agriculture and allied activities registered a growth of 3.0 per cent in 2020-21, with record production in foodgrains. This was the only sector which remained in expansion zone in 2020-21, resulting in an increase in the share of agriculture in overall GVA by 1.5 percentage points to 16.3 per cent.

II.1.23 The onset of the southwest monsoon (SWM) in 2020 was on time (June 1) and it progressed swiftly to cover the entire country by June 26, 2020, *i.e.*, 12 days prior to its normal date. Notwithstanding a loss of momentum in the month of July due to less rains in north, east and central India, the rainfall revived subsequently and the cumulative SWM rainfall at the end of the monsoon season stood at 9 per cent above the long period average (LPA). As regards the spatial distribution, while 85 per cent of the subdivisions received normal and above normal rainfall, the cumulative rainfall in north-west India was 16 per cent below LPA. Aided by the good spatial and temporal coverage of the monsoon, the area sown was higher by 4.8 per cent year-on-year for *kharif* crops.

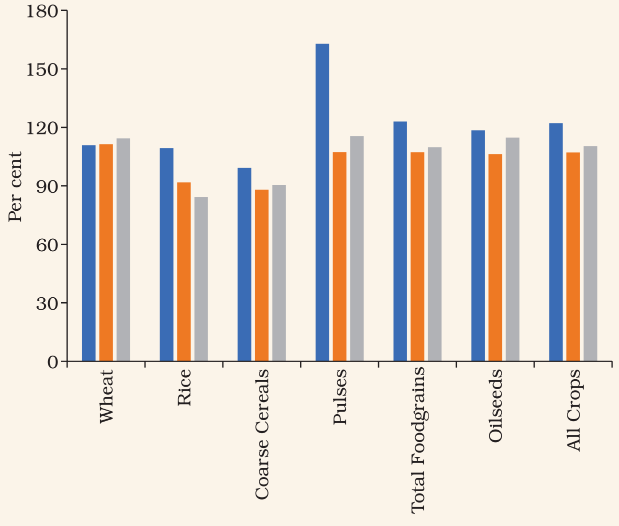
II.1.24 The delayed withdrawal of SWM and the simultaneous start of north-east monsoon (NEM) [by October 28, 2020] created adequate soil moisture and reservoir levels. As on January 31, 2021, water storage stood at 63 per cent of the full reservoir level (FRL) capacity, up from the decadal average of 52 per cent (Chart II.1.7). This augured well for *rabi* sowing which got completed to the extent of 110 per cent of the five-year average

Chart II.1.7. Reservoir Level



Source: Central Water Commission, GoI.

Chart II.1.8: *Rabi* Sowing as Percentage of Normal



Source: Ministry of Agriculture and Farmers Welfare, GoI.

(2013-14 to 2017-18) by January 31, 2021. The jump in *rabi* acreage this year is mainly driven by higher sowing under wheat, pulses and oilseeds (Chart II.1.8). Consequently, total foodgrain production in 2020-21 as per the second advance estimate (AE) is 3,033.4 lakh tonnes, 2.0 per cent higher than that in 2019-20 final estimate (FE) [Table II.1.4].

II.1.25 The production of horticulture crops during 2020-21 was a record at 3,266 lakh tonnes (1st AE), 1.8 per cent higher than the final estimate of 2019-20, surpassing the foodgrain production for the ninth consecutive year (Table II.1.5). The record production in horticulture crops was led by an increase in area under cultivation by 2.7 per cent in 2020-21 over 2019-20 even though

Table II.1.4: Agricultural Production 2020-21

(Lakh tonnes)

Crop	Season	2019-20		2020-21		2020-21		
						Variation (Per cent)		
		2nd AE	FE	Target	2nd AE	Over 2019-20 2nd AE	Over 2019-20 FE	Over Target
1	2	3	4	5	6	7	8	9
Foodgrains	*Kharif*	1,423.6	1,438.1	1,493.5	1,479.5	3.9	2.9	-0.9
	Rabi	1,496.0	1,536.9	1,516.5	1,554.0	3.9	1.1	2.5
	Total	**2,919.5**	**2,975.0**	**3,010.0**	**3,033.4**	**3.9**	**2.0**	**0.8**
Rice	*Kharif*	1,019.5	1,022.8	1,026.0	1,037.5	1.8	1.4	1.1
	Rabi	155.3	165.9	170.0	165.7	6.7	-0.1	-2.5
	Total	**1,174.7**	**1,188.7**	**1,196.0**	**1,203.2**	**2.4**	**1.2**	**0.6**
Wheat	*Rabi*	1,062.1	1,078.6	1,080.0	1,092.4	2.9	1.3	1.1
Coarse Cereals	*Kharif*	324.9	336.1	361.5	357.4	10.0	6.3	-1.1
	Rabi	127.5	141.3	116.5	136.3	6.9	-3.5	17.0
	Total	**452.4**	**477.5**	**478.0**	**493.6**	**9.1**	**3.4**	**3.3**
Pulses	*Kharif*	79.2	79.2	106.0	84.6	6.8	6.8	-20.2
	Rabi	151.1	151.0	150.0	159.6	5.6	5.7	6.4
	Total	**230.2**	**230.3**	**256.0**	**244.2**	**6.1**	**6.0**	**-4.6**
Oilseeds	*Kharif*	234.4	222.5	255.5	250.1	6.7	12.4	-2.1
	Rabi	107.5	109.7	114.5	123.0	14.4	12.1	7.4
	Total	**341.9**	**332.2**	**370.0**	**373.1**	**9.1**	**12.3**	**0.8**
Sugarcane	**Total**	**3,538.5**	**3,705.0**	**3,900.0**	**3,976.6**	**12.4**	**7.3**	**2.0**
Cotton #	**Total**	**348.9**	**360.7**	**360.0**	**365.4**	**4.7**	**1.3**	**1.5**
Jute & Mesta ##	**Total**	**98.1**	**98.8**	**105.0**	**97.8**	**-0.3**	**-1.0**	**-6.9**

#: Lakh bales of 170 kg each. ##: Lakh bales of 180 kg each. AE: Advance Estimate. FE: Final Estimate.
Source: Ministry of Agriculture and Farmers Welfare, GoI.

Table II.1.5: Horticulture Production

(Lakh tonnes)

Crop	2018-19	2019-20		2020-21	Variation (Per cent)		
	Final Estimate (FE)	1st AE	Final Estimate (FE)	1st AE	2019-20 FE over 2018-19 FE	2020-21 1st AE over 2019-20 1st AE	2020-21 1st AE over 2019-20 FE
1	2	3	4	5	6	7	8
Total Fruits	**979.7**	**957.4**	**1,020.3**	**1,032.3**	**4.1**	**7.8**	**1.2**
Banana	304.6	296.5	326.0	337.3	7.0	13.8	3.5
Citrus	134.0	131.8	145.7	142.4	8.7	8.0	-2.2
Mango	213.8	212.9	202.7	211.2	-5.2	-0.8	4.2
Total Vegetables	**1,831.7**	**1,880.1**	**1,889.1**	**1,936.1**	**3.1**	**3.0**	**2.5**
Onion	228.2	244.5	260.9	262.9	14.3	7.5	0.8
Potato	501.9	519.5	485.6	531.1	-3.2	2.2	9.4
Tomato	190.1	193.3	211.7	201.5	11.4	4.2	-4.8
Plantation Crops	**165.9**	**164.1**	**156.8**	**157.7**	**-5.5**	**-3.9**	**0.6**
Total Spices	**95.0**	**93.7**	**103.0**	**102.4**	**8.4**	**9.3**	**-0.5**
Aromatics and Medicinal	**8.0**	**8.2**	**7.3**	**8.1**	**-7.7**	**-1.2**	**10.6**
Total Flowers	**29.1**	**28.7**	**30.0**	**27.9**	**3.1**	**-2.8**	**-6.9**
Total Horticulture Production	**3,110.5**	**3,133.5**	**3,207.7**	**3,265.8**	**3.1**	**4.2**	**1.8**

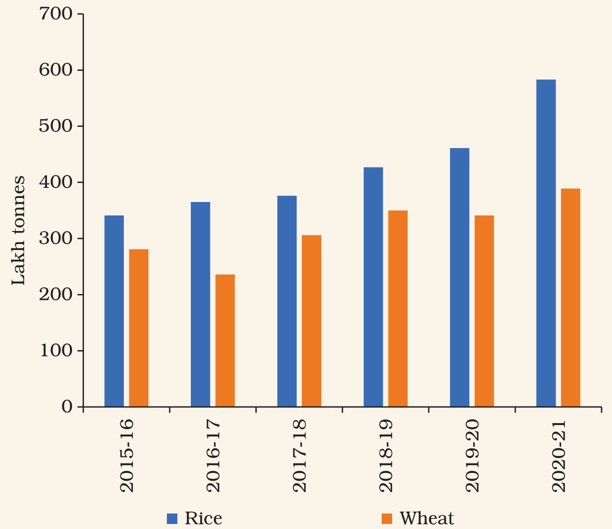
Source: Ministry of Agriculture and Farmers Welfare, GoI.

productivity declined by 0.9 per cent. Onion cultivation witnessed the highest area expansion at 11.5 per cent.

II.1.26 As in the previous three years, minimum support prices (MSPs) announced in 2020-21 for both *rabi* and *kharif* crops ensured a minimum return of 50 per cent over the cost of production. There has been an overall rise in the range of 2.1 to 12.7 per cent in MSPs announced during 2020-21 over the previous year. After record procurement of both rice and wheat in the *kharif* marketing season (KMS) 2019-20 (October 2019-September 2020) and *rabi* marketing season (RMS) 2020-21 (April-July 2020), respectively, the procurement of rice during 2020-21 is higher by 26 per cent over the previous year (Chart II.1.9). Despite a jump in offtake during March-November 2020 by 53 per cent over the corresponding period of the last year, the surge in foodstocks during 2020-21 has exacerbated the problem of plenty and brought to fore the inefficiencies in the food security system, with old stock not getting disposed due to inferior quality. As on March 31, 2021, the stocks of rice were 6.5 times the quarterly buffer norms and wheat at two times (Chart II.1.10).

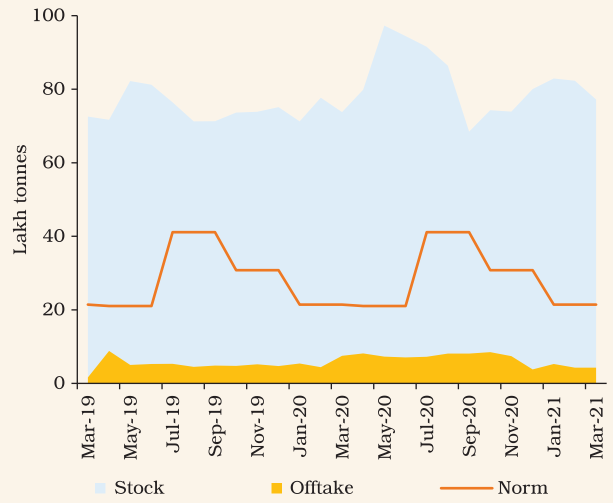
II.1.27 Concerted efforts were made so that harvesting and sowing cycles are not disrupted by the spread of COVID-19. Distribution of free foodgrains under the *Pradhan Mantri Garib Kalyan Anna Yojana* (PM-GKAY) and *AatmaNirbhar Bharat* Scheme (ANBS) helped budget constrained consumers maintain their consumption levels at a critical time when safety nets needed to be ramped up to mitigate COVID-19 related hardships. Around 8.7 crore farmers were paid the first instalment of ₹2,000 under *Pradhan*

Chart II.1.9: Annual Procurement of Rice and Wheat (April-March)



Source: Ministry of Agriculture and Farmers Welfare, GoI.

Chart II.1.10: Cereal- Monthly Position of Stock and Buffer Norm



Source: Ministry of Agriculture and Farmers Welfare, GoI.

Mantri Kisan Samman Nidhi Yojana in April 2020 itself. Additionally, the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) wage was increased by ₹20 per day, implying supplementary income of around ₹2,000 per annum for around 13.6 crore rural families with an increased budgetary allocation of ₹40,000 crore for 2020-21. Under *Pradhan Mantri Garib Kalyan Rojgar Abhiyaan* (PMGKRA), provision was made for additional employment to returnee migrant workers for 125 days in six states[6] facing high reverse migration. The dates for ongoing conversion of agricultural gold loan and other agricultural accounts into *Kisan* Credit Card (KCC) accounts were extended. The benefit of 2 per cent interest subvention to banks and 3 per cent prompt repayment incentive for all farmers was extended up to August 31, 2020 for all crop loans up to ₹3 lakh given by banks, due between March 1 and August 31, 2020.

II.1.28 To facilitate transportation of perishable agricultural products, provisions were made for the deployment of railways at fast speed along with launch of *Kisan Rath* mobile app and All India Agri Transport Call Centre. Also, a fund with a corpus of ₹1 lakh crore has been proposed for development of agriculture infrastructure projects at farm-gate and aggregation points [such as cooperative societies and Farmer Producer Organisations (FPOs)].

II.1.29 Apart from providing immediate succour, the government pressed ahead with far reaching structural reforms to address the built-in inefficiencies associated with public interventions in the farm sector. The Parliament passed three farm bills with the aim of giving a boost to rural India by increasing farmers' income. They covered delisting of various agricultural commodities from the Essential Commodities Act (ECA) to develop seamless marketing and promote storage infrastructure in agriculture; 'The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020' to ensure barrier free trade of agriculture produce; and the 'Farmers (Empowerment and

[6] Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan, Odisha and Jharkhand.

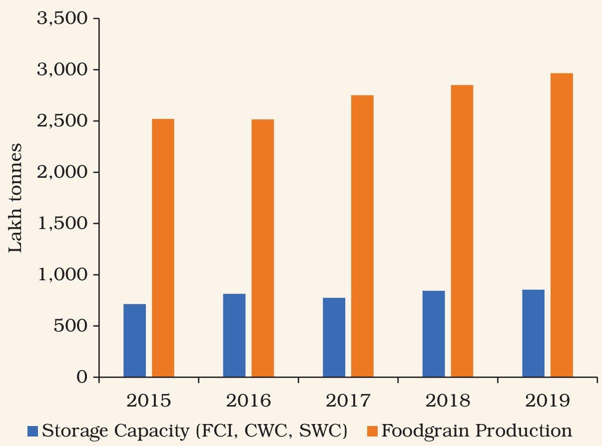
Protection) Agreement on Price Assurance and Farm Services Act, 2020' to empower the farmers to engage with processors, aggregators, wholesalers, large retailers, and exporters in a fair and transparent manner. The Farm Acts are currently suspended by the Supreme Court and a four-member expert panel is examining them.

II.1.30 Further reforms in the agriculture sector are needed. The current agriculture storage capacity in India in terms of warehouses and cold storages is substantially lower in relation to agriculture production (Charts II.1.11 and II.1.12). Moreover, many of the existing cold storage facilities are either sick or on the verge of getting closed due to lack of capital to upgrade plant and machinery as well as technology. The warehousing storage capacities available with government agencies are primarily used for keeping the central stock of foodgrain for the buffer stock, public distribution systems (PDS) are overstretched due to excessive foodstocks and also need modernisation. This suggests that there is a need for massive investments in storage and supply chain infrastructure in India.

II.1.31 A key role can be played by agricultural extension services to enhance farmers' awareness and market intelligence to help them make informed decisions, policy stability to give right market signals and incentivise private investments, building bargaining power of farmers through initiatives like development and skilling of FPOs, building a reliable system of recording data particularly related to trade happening outside the Agricultural Produce Market Committees (APMCs) to ensure transparency and effective evaluation in future.

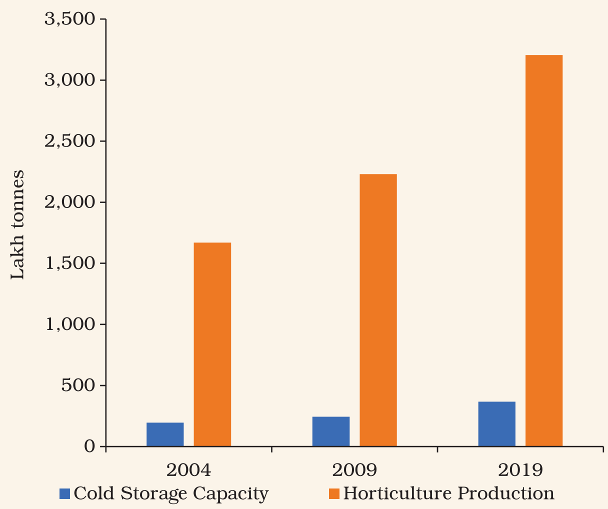
II.1.32 The Union Budget 2021-22 has emphasised on infrastructure development in rural areas and the agriculture sector, promotion of agricultural diversification along with enhancing credit flow to allied sectors and improvement in supply chains for perishables through extension of 'Operation Green' to 22 perishable commodities. Enhancement in the allocation to the Rural Infrastructure Development Fund (RIDF) from ₹30,000 crore in 2019-20 to ₹40,000 crore in 2021-22 along with doubling of micro-irrigation fund will have a favourable impact on the rural

Chart II.1.11: Agriculture Warehousing Capacity and Foodgrain Production



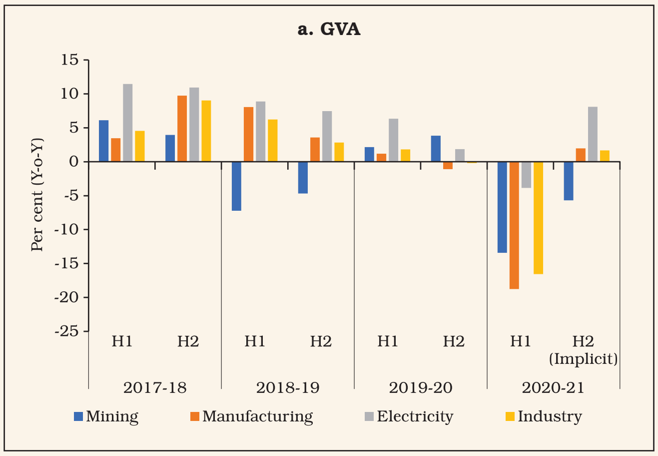
FCI: Food Corporation of India.
CWC: Central Warehousing Corporation.
SWC: State Warehousing Corporation.
Source: Ministry of Agriculture and Farmers Welfare, GoI.

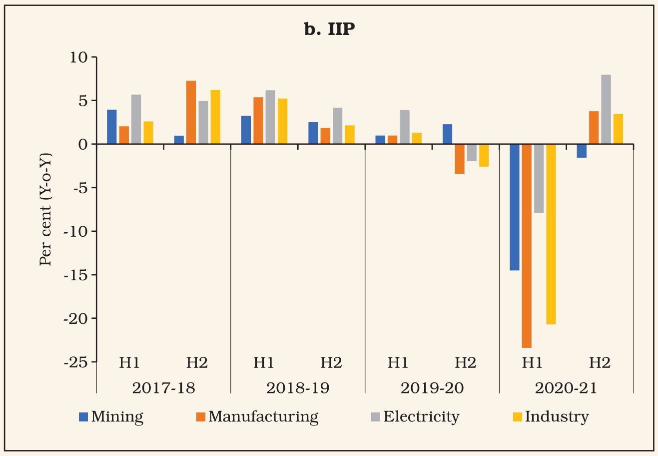
Chart II.1.12: Cold Storage Capacity and Horticulture Production



Source: Ministry of Agriculture and Farmers Welfare, GoI.

Chart II.1.13: Growth in Industrial Production





Source: NSO and RBI staff calculations.

economy and farm infrastructure. The Agriculture Infrastructure and Development Cess (AIDC) on several items (such as fuels, crude oilseeds, pulses and apple) has been imposed to generate funds for improving agriculture infrastructure. This increase in cost, however, has been offset by equivalent amounts of reduction in the basic custom duties to keep prices unaffected for farmers and consumers. On the other hand, custom duties on items such as cotton, raw silk, silk yarn has been increased to help farmers get better prices. The extension of agriculture infrastructure fund to APMCs and integration of additional 1,000 APMC *mandis* with the electronic national agriculture market (e-NAM) are expected to enhance marketing efficiency in the agriculture sector, thereby benefiting farmers through better access and higher transparency in *mandis* in years to come. The budget has also focused beyond the traditional activities to generate value addition for the farming community by enhancing credit flow to allied sectors and giving a boost to fisheries and seaweed cultivation.

Industrial Sector

II.1.33 GVA growth in industry contracted sharply on a y-o-y basis by 7.4 per cent in 2020-21. This is the fifth year of sequential deceleration, including two successive years of contraction in the industrial sector. During Q1:2020-21, industrial activity plummeted sharply, registering a contraction of 31.1 per cent. The turnaround in industrial activity since then has been volatile. IIP data show that the contraction was severe in case of consumer durables and capital goods, as consumers shunned discretionary expenditure while firms curbed investment. Cumulatively, the IIP declined by 8.6 per cent in 2020-21. At the sub-sectoral level, however, electricity, gas, water supply and other utility services recorded a growth of 1.8 per cent in GVA (Charts II.1.13a and II.1.13b) [Box II.1.2].

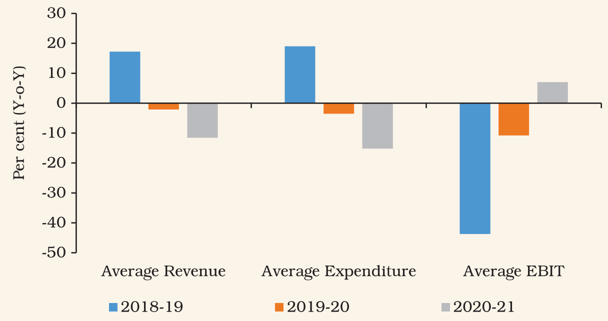
Box II.1.2
Impact of COVID-19 on Corporate Performance

Following the announcement of a nation-wide lockdown on March 25, 2020 and restrictions on mobility that continued even after the gradual opening up of the economy, the corporate sector witnessed a sudden and sharp contraction in demand and also clogged supply chains due to stalled movement of goods, both for inputs used in production processes as well as final products meant for wholesale and retail sale. Survival of businesses in this environment of collapsing sales, vanishing cash flows and sticky operating expenses emerged as a key challenge. In Q1:2020-21, average revenue from sales contracted by 32 per cent for a sample of 2,536 listed firms. Firms resorted to aggressive cost cutting measures, enabling them to lower their total expenditure by 34 per cent. Profits nosedived, endangering their debt servicing capacity.

Indian corporates, however, adjusted quickly to the altered business environment. As sales recovered in Q2:2020-21, cost cutting continued as the preferred path to regain efficiency and return to profitability. While revenue contraction moderated to 5.3 per cent, total expenditure (which includes costs) contracted by 12.5 per cent, enabling net operating profit to rise by 33.4 per cent in Q2. However, in Q3, revenue increased by 2.0 per cent and expenditure increased by 0.3 per cent that led to further increase in profits by 35.6 per cent. This in turn improved their capacity to service debt, as evident from the increase in interest coverage ratio (ICR) to 3.7 in Q2 and 4.5 in Q3 from 2.0 in Q1. As demand conditions in many segments normalised fully by the end of Q3:2020-21 to pre-COVID-19 levels, there was evidence of improvement in margins, on account of revenue recovery, cost saving and pass-through of increased costs to retail producer and retail prices. Therefore, profitability has improved further in Q3. In the three quarters of 2020-21 combined, revenues and expenditure declined by 11.6 per cent and 15.2 per cent, respectively, while operational profit (earnings before interest and taxes - EBIT) increased by 7 per cent year-on-year (Chart 1)[7].

The impact of COVID-19 has been varied for firms of different size/nature of operations. Evidence from both advanced and emerging economies show that smaller sized firms are relatively more vulnerable to extended periods of lockdown (Shen *et al.,* 2020; OECD, 2020; Cowling *et al.,* 2020). Larger firms may have found it easier to cut costs compared to smaller firms during the lockdown.

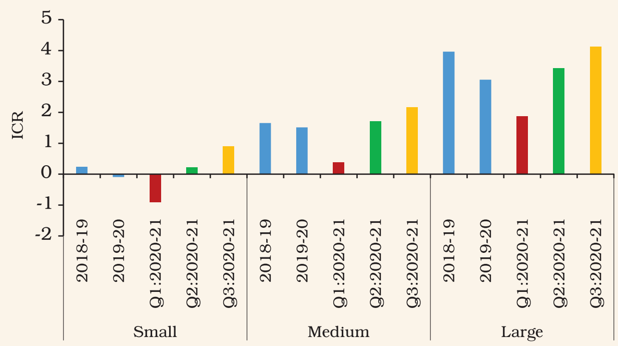
Chart 1: Revenue, Expenditure and Profits



Source: Database on Indian Economy (DBIE), RBI.

In India, although the interest coverage ratio (ICR) deteriorated for firms of all size categories in 2020-21, small firms appear to have been affected more by the lockdown in Q1:2020-21 (Chart 2)[8]. However, both small firms and large firms have improved their debt serviceability ratios in Q3 to levels which are higher than pre-pandemic period. Rise in profits and a sharp decline in borrowing costs contributed to the recovery in the interest coverage ratio. Industry-

Chart 2: Interest Coverage Ratio (ICR) by Firm Size



Source: RBI staff calculations and CMIE.

(Contd.)

[7] The chart compares the average revenue, cost, and profit of three quarters of 2020-21, 2019-20, and 2018-19 for a sample of around 2,700 non-financial non-government listed firms whose quarterly results are available in Database on Indian Economy (DBIE), RBI.

[8] The classification of size of the firms is based on the distribution of gross revenues, averaged over last ten quarters. Firms which fall below the 25th percentile in terms of gross revenue are classified as 'Small'. Firms which lie between the 25th and 75th percentiles are classified as 'Medium'. Finally, firms whose gross revenue lie above the 75th percentile are classified as 'Large'.

wise sectors which depend on discretionary spending by consumers were impacted more (such as hotels, recreation services, gems and jewellery), while sectors which were excluded from the lockdown (such as food and utilities) experienced relatively lower deterioration in ICR in Q1.

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1. Cowling, M., R. Brown and A. Rocha (2020), 'Did You Save Some Cash for a Rainy COVID-19 Day? The Crisis and SMEs' *International Small Business Journal,* Vol. 38, No.7, Pages 593-604.
2. Shen, H., M. Fu, H. Pan, Z. Yu, and Y. Chen (2020), 'The Impact of the COVID-19 Pandemic on Firm Performance' *Emerging Markets Finance and Trade,* Vol. 56, No.10, Pages 2213-2230.
3. OECD Policy Responses to Coronavirus (COVID-19), [2020]: SME Policy Responses.

II.1.34 The decline in industrial activity was witnessed across countries (Table II.1.6). India witnessed the severest downturn and it was also one of the first to revive from contraction in September 2020, along with South Korea and Brazil, though growth remained volatile.

II.1.35 The growth was supported by improvement in consumer durables and non-durables, especially consumer electronics and white goods, benefitting from pent-up demand (Charts II.1.14).

II.1.36 The industrial recovery has also gradually become broad-based (Chart II.1.15). The manufacture of basic metals and motor vehicle segment, which were the largest negative contributors to manufacturing IIP during the

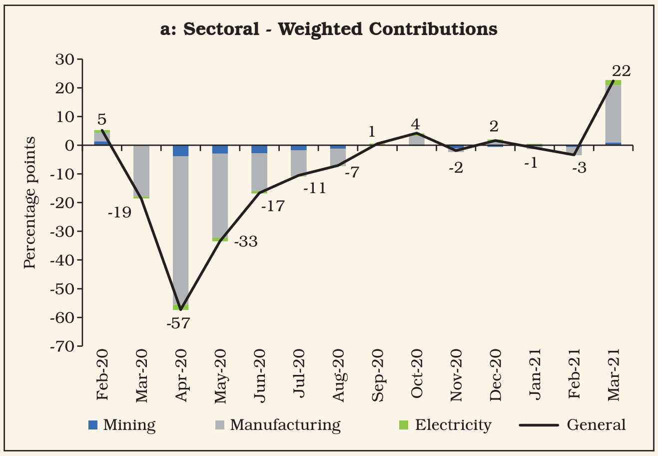
Table II.1.6: Index of Industrial Production: Growth (Y-o-Y)

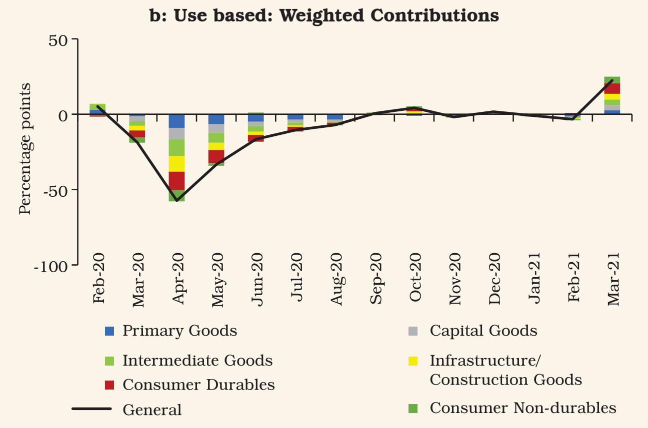
		Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
1	2	3	4	5	6	7	8	9	10	11	12	13	14
AEs	Japan	-15.0	-26.3	-18.2	-15.5	-13.8	-9.0	-3.0	-3.9	-2.6	-5.2	-2.0	4.0
	South Korea	-5.2	-5.6	0.7	-1.5	-3.4	3.4	-3.1	-0.7	-0.7	1.5	0.4	5.8
	Taiwan	4.2	1.7	7.2	2.8	3.6	11.6	6.4	7.6	10.3	19.0	2.5	16.8
	France	-35.1	-27.6	-6.7	-10.4	-7.3	-3.2	-6.9	-2.9	-0.9	-4.6	-6.1	16.0
	Germany	-24.4	-24.6	-4.2	-9.5	-11.2	-3.2	-2.0	0.0	4.9	-10.4	-5.7	8.8
	United Kingdom	-24.4	-20.5	-11.9	-6.7	-4.8	-4.8	-5.4	-2.6	-2.1	-8.8	-5.8	5.7
	US	-17.1	-15.9	-10.6	-6.8	-6.7	-7.0	-4.9	-4.9	-3.4	-1.7	-4.3	1.3
BRICS	Brazil	-27.6	-21.9	-8.7	-2.6	-2.5	3.7	0.3	2.6	8.3	2.3	0.3	10.4
	Russian Federation	-4.7	-8.0	-7.4	-6.1	-4.4	-4.0	-5.7	-1.5	2.1	-1.8	-3.7	1.1
	India	-57.3	-33.4	-16.6	-10.5	-7.1	1.0	4.2	-1.9	1.6	-0.9	-3.6	22.4
	China	3.9	4.4	4.8	4.8	5.6	6.9	6.9	7.0	7.3	-	-	14.1
	South Africa	-48.7	-32.3	-13.2	-9.6	-10.4	-2.0	-3.9	-4.2	2.4	-4.3	-2.5	4.6
EDA	Malaysia	-32.0	-21.6	-0.4	1.2	0.2	1.0	-0.5	-2.2	1.7	1.2	1.5	9.3
	Philippines	-63.2	-72.7	-80.4	-72.6	-82.0	-55.7	-22.6	-20.1	-12.0	-16.7	-46.5	-74.2
	Sri Lanka	-48.7	-25.5	-13.7	2.3	-9.0	1.1	-3.6	-1.7	1.7	0.2	1.7	42.2
	Thailand	-19.1	-24.1	-17.9	-13.6	-9.3	-2.6	-1.3	-0.6	-2.8	-2.0	-1.4	4.1
	Vietnam	-13.4	-5.8	4.5	4.0	2.1	5.9	5.3	6.9	10.5	25.0	-7.2	4.3

← Contraction Expansion →

-: Not available. AEs: Advanced Economies. BRICS: Brazil, Russia, India, China and South Africa. EDA: Emerging and Developing Asia.
Source: Census and Economic Information Center (CEIC).

Chart II.1.14: Index of Industrial Production





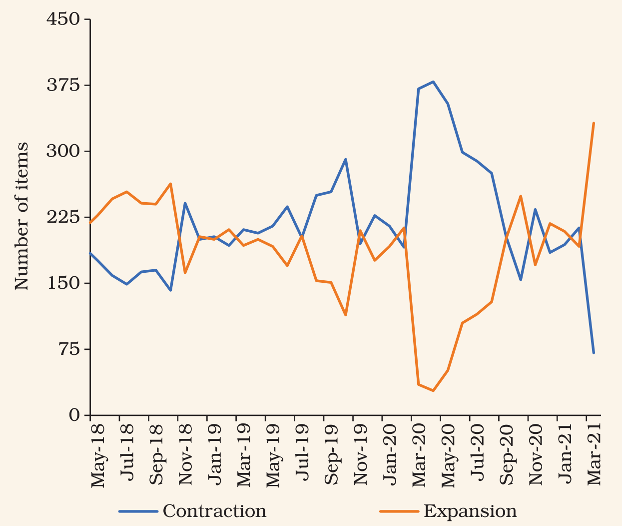
Source: Ministry of Statistics and Programme Implementation, GoI.

lockdown period, saw revival since September 2020. Passenger vehicles and two wheelers, which were facing contraction even before the onset of COVID-19, registered a pronounced uptick since September 2020.

II.1.37 The mining sector also contracted sharply due to restrictions imposed on movement, lack of demand and labour supply shortages in H1:2020-21. An exception was the coal sector that showed relative resilience as it was exempted from the lockdown. Electricity generation also contracted in H1:2020-21, particularly in Q1, with lockdown restrictions halting manufacturing. With IIP manufacturing improving in the latter half, electricity demand also picked up. Hydro electricity and thermal generation contracted in 2020-21; however, thermal generation grew at a rate of 12.4 per cent in Q4:2020-21.

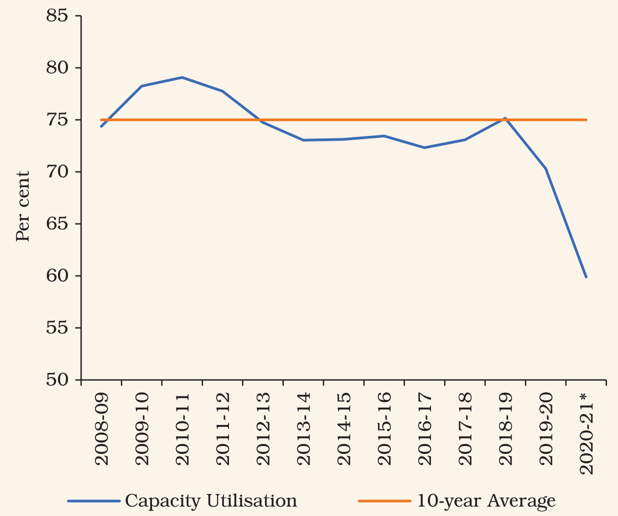
II.1.38 The manufacturing capacity utilisation also remains at low levels (Chart II.1.16).

Chart II.1.15: Expansion *versus* Contraction- IIP Item Level Indices



Source: Ministry of Statistics and Programme Implementation, GoI.

Chart II.1.16: Manufacturing Capacity Utilisation



*: Average of Q1, Q2 and Q3.

Source: RBI.

Services Sector

II.1.39 The contraction in the services sector in 2020-21 is unprecedented in independent India's history. Even during the GFC, the services sector remained resilient. In 2020-21, however, construction suffered in the aftermath of the pandemic due to an inventory overhang in residential housing, coupled with stressed liquidity conditions which restricted new launches. The situation was exacerbated by imposed social distancing norms which led to construction activity in Q1:2020-21 getting reduced by half year-on-year. However, the revival of housing sector in H2:2020-21 has been a sharp 'V', with sales almost doubling in Q3:2020-21 sequentially, supported by favourable interest rates, adequate liquidity and steep discounts by developers to clear inventory, besides reduction in stamp duty by a few states. With new launches also registering a sharp rebound, the inventory overhang has dropped sharply.

II.1.40 The contraction was severe in contact-intensive sectors as activities in hotels, restaurants, and passenger transport remained much below pre-COVID-19 levels. There has been a swift recovery in trading activities as evident in the collection of the goods and services tax (GST) and issuance of E-way bills. This has also imparted a boost to freight traffic. The performance of information technology (IT) companies has been better than their counterparts in the hospitality and the aviation segments.

II.1.41 Sector-wise GVA trend estimates for the services show that realised growth in 2019-20 was below trend growth for trade, hotels, transport, communications and services relating to broadcasting and financial, real estate and professional services. In 2020-21, COVID-19 brought major services activities to a near halt and the sector contracted in a broad-based manner by 24.8 per cent in Q1:2020-21 and 10.9 per cent in Q2:2020-21, but in Q3:2020-21, services sector output returned broadly to its level a year ago. Domestic trading activities, railway freight traffic, port cargo, construction activities, and automobiles sales indicators for Q4:2020-21 suggested improvement in services sector. However, with the onslaught of second wave, many indicators showed a moderation though it was not to the extent of last year (Table II.1.7).

II.1.42 The Reserve Bank's services sector composite index (SSCI)[9], which tracks activity in construction, trade, transport and financial services and is a coincident indicator of GVA growth in the services sector excluding public administration, defence and other services (PADO), witnessed a marginal decline in Q4:2020-21 after registering an uptick in the previous quarter (Chart II.1.17).

4. Employment

II.1.43 As per the annual Periodic Labour Force Survey (PLFS), the labour force participation rate (LFPR) was estimated at 37.5 per cent in 2018-19, which was an increase of 0.6 percentage points over 2017-18. In terms of gender divide, the annual PLFS report suggested that the LFPR for females continues to be lower at 18.6 per cent (rural: 19.7 per cent and urban: 16.1 per cent) in 2018-19, compared to the rate of 55.6 per cent for males (rural: 55.1 per cent and urban: 56.7 per cent).

[9] SSCI is constructed by suitably extracting and combining the information collated from high frequency indicators, namely, steel production, cement production, cargo handled at major ports, production of commercial vehicles, railway freight traffic, non-oil imports, tourist arrivals, real bank credit and insurance premium.

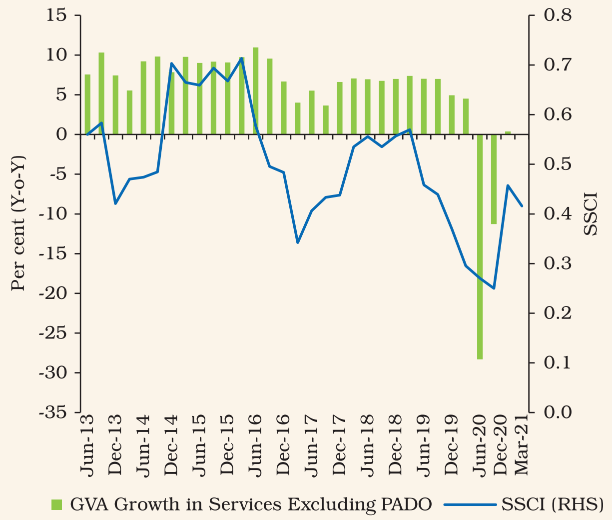
Table II.1.7: High Frequency Indicators: Growth Rates (Y-o-Y)

Indicator	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
1	2	3	4	5	6	7	8	9	10	11	12	13
Urban Demand												
Automobiles Sales	-	-84.8	-43.0	-18.6	-1.3	7.2	10.5	6.0	0.7	0.4	6.3	74.5
Passenger Vehicles	-	-85.2	-49.6	-3.9	14.2	26.5	14.2	4.6	13.6	11.1	17.9	115.2
Agriculture / Rural Demand												
Domestic Sales of Tractors	-79.4	4.0	22.4	38.5	74.7	28.3	7.7	51.3	43.1	46.7	31.1	172.4
Two Wheelers Sales	-	-83.8	-38.6	-15.2	3.0	11.6	16.9	13.4	7.4	6.6	10.2	72.7
Three Wheelers Sales	-	-95.3	-80.1	-77.2	-75.3	-71.9	-60.9	-57.6	-58.9	-56.8	-33.8	15.7
Transport												
Vahan Total Registration	-78.3	-88.6	-41.4	-35.2	-25.4	-8.4	-22.3	-17.5	11.7	-8.6	-12.6	-28.1
Domestic Air Passenger Traffic	-99.9	-97.4	-83.5	-82.6	-75.8	-65.1	-56.8	-50.2	-42.9	-38.7	-35.9	2.5
International Air Passenger Traffic	-99.1	-98.0	-93.0	-90.4	-89.7	-87.8	-85.2	-82.8	-79.5	-76.9	-73.6	-37.6
Domestic Air Cargo	-92.9	-82.9	-48.0	-41.4	-36.0	-20.0	-15.7	-9.8	-3.0	-9.3	-6.6	42.5
International Air Cargo	-77.0	-58.2	-35.7	-30.1	-24.9	-13.6	-12.4	-15.0	-12.7	-12.2	-9.9	29.4
Freight Traffic Net Tonne Kilometre	-40.1	-28.1	-11.6	-7.7	1.4	17.9	11.0	8.4	13.5	11.1	7.8	33.0
Freight Traffic Freight Originating	-35.3	-21.3	-7.7	-4.6	3.9	15.5	15.4	9.0	8.7	8.7	5.5	26.6
Port Cargo	-21.1	-23.3	-14.5	-13.2	-10.4	-1.9	-1.2	2.8	4.4	4.0	1.9	16.4
Domestic Trade												
GST E-Way Bill	-83.6	-53.0	-12.7	-7.3	-3.5	9.6	21.4	8.1	15.9	10.5	11.6	75.2
GST E-Way Bill Intra-state	-79.8	-46.1	-7.9	-3.9	1.4	15.1	23.3	9.6	17.3	13.0	14.5	76.3
GST E-Way Bill Inter-state	-88.9	-62.8	-19.9	-12.3	-10.4	2.2	18.8	6.0	13.8	6.8	7.6	73.5
GST Revenue	-71.7	-38.0	-9.0	-14.4	-12.0	3.9	10.2	1.4	11.6	8.1	7.4	27.0
Construction												
Steel Consumption	-85.8	-45.9	-26.0	-10.3	-11.3	0.1	6.2	18.0	17.5	9.3	11.3	45.7
Cement Production	-85.2	-21.4	-6.8	-13.5	-14.5	-3.4	3.2	-7.3	-7.2	-5.8	-5.6	32.5

← Contraction Expansion →

-: Not available.
Source: CEIC.

Chart II.1.17: Growth in Services Sector (excluding PADO) and Services Sector Composite Index

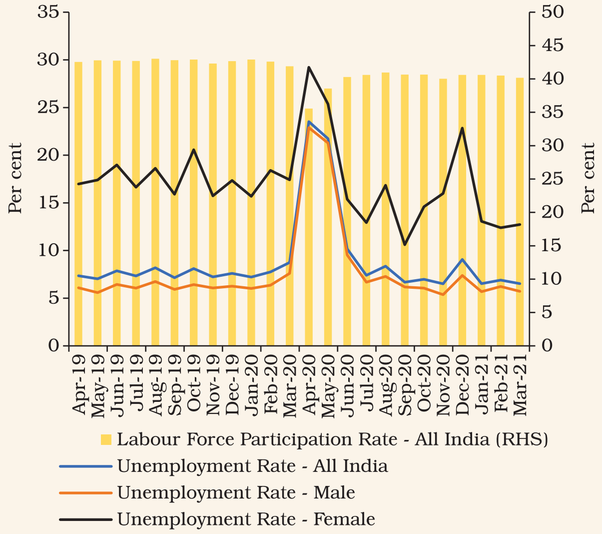


Source: NSO and RBI staff estimates.

Some of the reasons cited for low female labour force participation include higher educational enrolment, higher household income and absence of suitable employment opportunities. More recent information on LFPR, as available from the Centre for Monitoring Indian Economy (CMIE) database, shows that it increased to 40.2 per cent in March 2021 from 35.6 per cent in April 2020 (Chart II.1.18).

II.1.44 The majority of states recorded an improvement in employment conditions in the post-lockdown phase, supported by faster recovery in rural employment (Charts II.1.19a and II.1.19b). For the majority of states, LFPR has reached pre-lockdown period levels, with the exception of Delhi, Kerala, Tamil Nadu and Tripura.

Chart II.1.18: Unemployment and Labour Force Participation Rate



Source: CMIE Household Survey.

II.1.45 Updated data on organised sector employment measured by payroll data presents a mixed picture with regards to job creation in 2020-21 (Chart II.1.20). On a cumulative basis, the average of net subscribers added to Employees' Provident Fund Organisation (EPFO) per month decreased marginally to 6.42 lakh in April-March 2021 from 6.55 lakh in the previous year. On the other hand, the average number of members who paid their contribution to Employees' State Insurance Corporation (ESIC) expanded by 0.64 lakh in April-February 2021 as compared with a contraction of 0.93 lakh in the corresponding period of the previous year. New subscribers to the National Pension Scheme (NPS) also decreased during the same period.

Chart II.1.19a: State-wise Labour Force Participation Rate

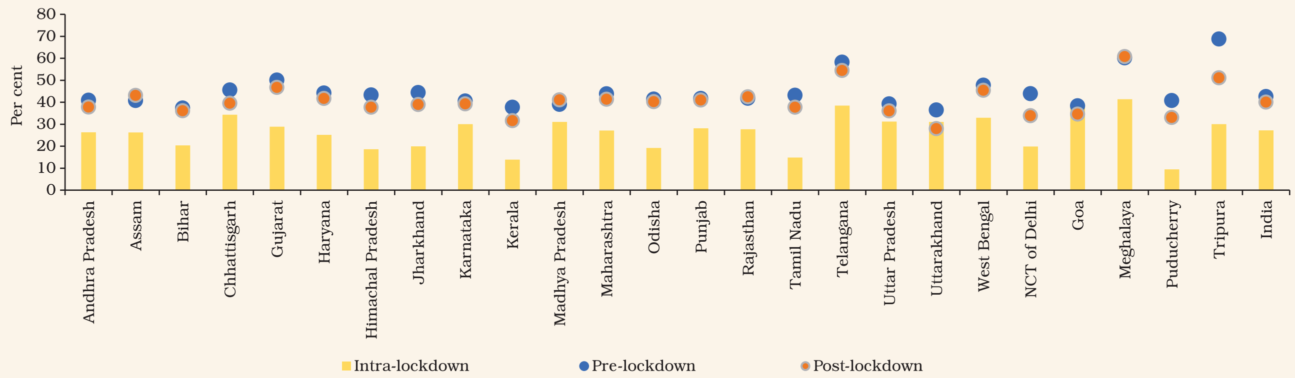
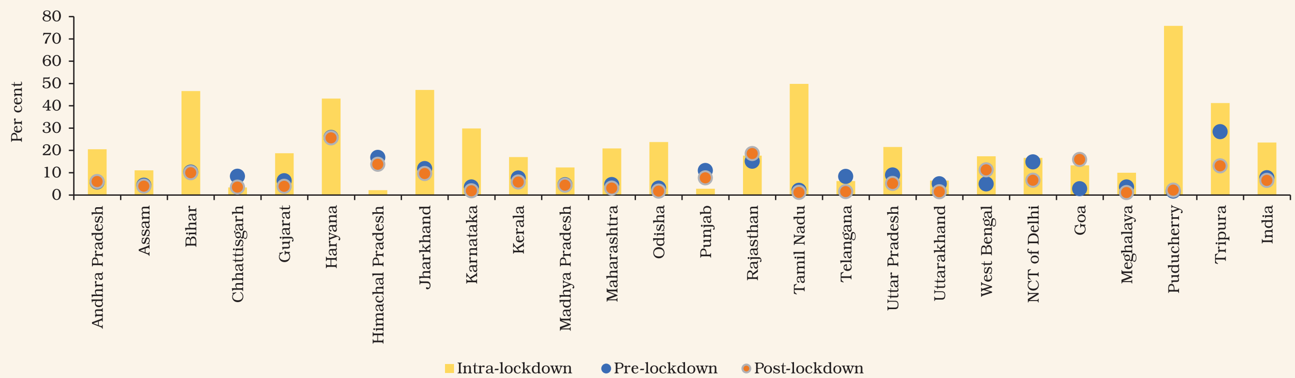
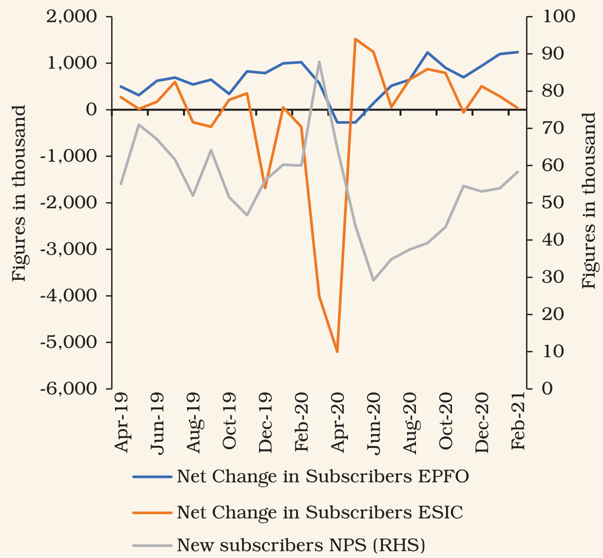


Chart II.1.19b: State-wise Unemployment Rate



Source: CMIE Household Survey.

Chart II.1.20: Jobs in Organised Sector



Source: Government of India.

II.1.46 Several policy initiatives are being taken by the government to promote industrial production and generate employment opportunities. Apart from the measures taken under *AatmaNirbhar Bharat Abhiyan,* the Government of India introduced PLI scheme worth ₹1.45 lakh crore for 10 key sectors with the objective to attract investments, drive domestic manufacturing, create economies of scale and facilitate their integration with the global supply chain.

5. Conclusion

II.1.47 Going forward, reform measures in various areas are likely to uplift India's growth potential on a sustainable basis. To bring in transparency and credibility in land records and also for facilitating use of property as a financial asset, the government in October 2020 launched the Survey of Villages and Mapping with Improvised Technology in Village Areas (SVAMITVA) scheme. The scheme aims to reduce property litigations and transaction costs and improve the ease of doing business by bringing clarity in land ownership. In September 2020, three labour codes - Industrial Relations Code Bill, 2020, Code on Social Security Bill, 2020 and Occupational Safety, Health and Working Conditions Code Bill, 2020 were passed which would promote harmonious industrial relations, higher productivity and more employment generation. These measures would benefit workers of both formal and informal sectors and positively contribute to mitigate the distress of labour market in India.

II.1.48 The launch of the proposed National Monetisation Pipeline will enhance the viability of potential brownfield infrastructure projects and is also likely to help real sectors significantly while freeing resources to finance further investment. The National Highways Authority of India (NHAI) and the Power Grid Corporation of India Limited (PGCIL) have already sponsored one Infrastructure Investment Trust (InvIT) each, with investment of ₹5,000 crore and ₹7,000 crore, respectively.

II.1.49 Moving forward, outturn predictability has turned a bit turbid. The growth prospects essentially depend on how fast India can arrest the second wave of COVID-19 pandemic. While the economy has not moderated to the extent during the first wave, the surrounding uncertainties can act as a deterrent in the immediate period. On the supply side, agriculture has proven its resilience, enduring the shock of the pandemic, thus providing support to rural demand and the economy at large. In case of services, recovery has been varied, with revival in construction, trade, freight transportation and information technology (IT) related activities. While performance of contact-intensive sectors is still sub-par, it is also improving. Going ahead, as the vaccination drive picks-up and cases of infections fall, a sharp turnaround in growth is likely, supported by strong favourable base effects.

II.2 PRICE SITUATION

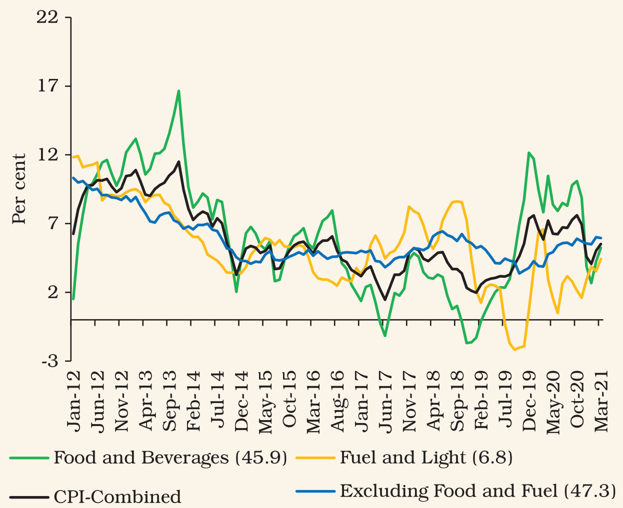
II.2.1 The global inflation environment remained benign during 2020, with weak aggregate demand outweighing the impact of supply disruptions on commodity prices caused by the pandemic. Inflation in advanced economies dipped in 2020, while in emerging markets it remained sticky at around the previous year's level. Producer prices softened through the year, but commodity prices rebounded since the second-half, raising concerns about a rise in global inflation on the back of cost push pressures. By March 2021, the World Bank energy price index was 2.7 times its April 2020 low, while 'metals and minerals' and agriculture commodity price indices were also up by 68.1 per cent and 26.6 per cent, respectively. Commodity prices have rallied on the back of the slush of global liquidity. Non-energy prices were up by 38.4 per cent, more than offsetting the pandemic-induced weakening of demand.

II.2.2 While prices of food and medical supplies rose during the early phase of the lockdown, crude oil and metals prices became the drivers of reflation as rising discretionary consumer spending was unleashed when economies reopened and activity normalised.

II.2.3 In India, headline inflation[10], breached the upper tolerance band of the inflation target during June-November 2020 due to a sharp spike in food inflation and elevated core (excluding food and fuel) inflation on a combination of adverse developments, *i.e.,* excess rains and supply disruptions; safe haven impelled increase in the prices of gold; and several rounds of hikes in pump prices of petrol and diesel on the back of firming crude oil prices and higher excise duties (Chart II.2.1)[11].

II.2.4 Although average inflation has remained high in 2020-21, its volatility measured by the standard deviation of the consumer price index (CPI) inflation was lower than a year ago (Table II.2.1). The intra-year distribution of inflation had a high negative skew, reflecting low food inflation prints during December 2020-February 2021, amidst persistently elevated inflation during the rest of the year. Furthermore, kurtosis turned less negative, suggesting few instances of large deviations from mean inflation, which was also reflected in the less wide gap between maximum and minimum inflation during the year.

Chart II.2.1: Inflation across Major Components



Note: Figures in parentheses indicate weight in CPI-Combined. April and May 2020 data were imputed by the NSO.
Source: NSO and RBI staff estimates.

[10] Headline inflation is measured by year-on-year changes in the all-India CPI-Combined (Rural + Urban) with base year: 2012=100 released by the National Statistical Office (NSO), Ministry of Statistics and Programme Implementation, Government of India.

[11] The initial spike in inflation during the lockdown period of April-May 2020 was in large part caused by the impact of imputation adopted by the NSO, to address non-availability of data, following the internationally accepted Business Continuity Guidelines, and was, therefore, looked through for policy purposes. The 'Business Continuity Guidelines', was brought out by the Inter-Secretariat Working Group on Price Statistics (ISWG-PS), a combined forum of International Labour Organisation (ILO), EuroStat, Organisation for Economic Co-operation and Development (OECD), UN Economic Commission for Europe (UNECE), World Bank and IMF in May 2020.

Table II.2.1: Headline Inflation – Key Summary Statistics

(Per cent)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21*
1	2	3	4	5	6	7	8	9	10
Mean	10.0	9.4	5.8	4.9	4.5	3.6	3.4	4.8	6.2
Standard Deviation	0.5	1.3	1.5	0.7	1.0	1.2	1.1	1.8	1.1
Skewness	0.2	-0.2	-0.1	-0.9	0.2	-0.2	0.1	0.5	-0.7
Kurtosis	-0.2	-0.5	-1.0	-0.1	-1.6	-1.0	-1.5	-1.4	-0.7
Median	10.1	9.5	5.5	5.0	4.3	3.4	3.5	4.3	6.5
Maximum	10.9	11.5	7.9	5.7	6.1	5.2	4.9	7.6	7.6
Minimum	9.3	7.3	3.3	3.7	3.2	1.5	2.0	3.0	4.1

*: Excluding the imputed data for April-May 2020, the mean works out to 6.1, standard deviation: 1.2, skewness: - 0.5, kurtosis: -1.1, median: 6.5, maximum: 7.6 and minimum: 4.1. Annual inflation is the average of the monthly inflation rates during the year and, therefore may vary from the annual inflation calculated from the average index for the year.

Note: Skewness and Kurtosis are unit-free.

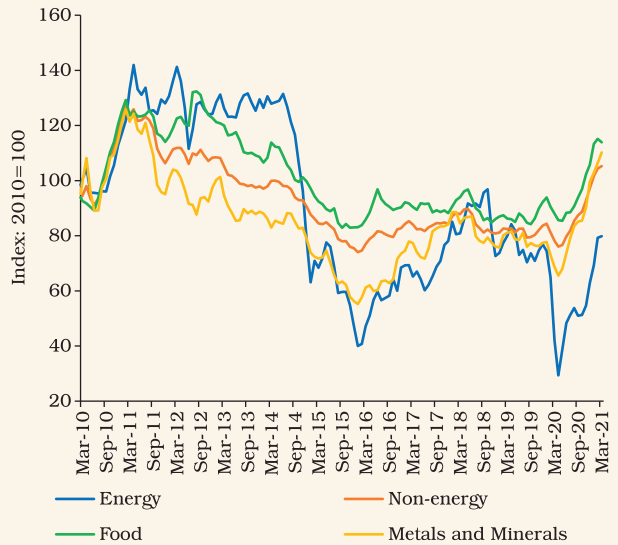
Source: NSO and RBI staff estimates.

II.2.5 Against this backdrop, sub-section 2 assesses developments in global commodity prices and inflation. Sub-section 3 discusses movements in headline inflation in India, followed by a detailed analysis of its major constituents in sub-section 4. Other indicators of prices and costs are analysed in sub-section 5, followed by concluding observations.

2. Global Inflation Developments

II.2.6 International food prices firmed up from June 2020, primarily led by edible oils (palm oil; sunflower oil; and soybean oil) prices, driven by supply shortfalls as well as depreciation of the US dollar (Chart II.2.2). Prices of wheat (tightening supplies among major exporters and a Russian export tax as well as export quota), rice (tight Thai and Vietnamese availability), maize (weaker than expected harvest in the US and South America), meat (protein demand) and sugar also witnessed noteworthy increases. In the non-food category, metal prices recouped losses experienced during the beginning of COVID-19 pandemic and firmed up in consonance with the recovery in the global economy. Supply disruptions in Latin America and pick-up in industrial demand in China and other advanced economies added further upsides. Prices of precious metals, which surged in the beginning of the pandemic, remained elevated on safe-haven demand amidst heightened global uncertainties. By September 2020, however, these prices stabilised as demand for safe haven assets declined due to improving economic conditions. Global crude oil prices, which were on an easing trajectory during January-April 2020 due to the pandemic, picked up significantly from May 2020 on sharp oil supply cuts by the organisation of the petroleum exporting countries (OPEC) and their allies (OPEC plus) by 9.7 million barrels per day

Chart II.2.2: International Commodity Prices



Source: World Bank Pink Sheet Database.

(bpd) [amounting to about 10 per cent of global oil supply] beginning May 2020 to be tapered gradually over a period of two years. Successful COVID-19 vaccine trials, and prospects of a faster than expected economic recovery lifted crude prices even further. Average Indian crude oil basket prices almost trebled, reaching US$ 65 per barrel in March 2021 from the low of US$ 20 per barrel in April 2020. Rising crude oil prices were supported by monetary policy easing by advanced economy central banks, supply restraints effected by OPEC plus and geopolitical events in March 2021 on account of attacks on Aramco oil facilities that sent oil prices soaring past US$ 70 per barrel. Demand for oil is expected to rise as global economic activity returns to pre-pandemic levels by 2022.

II.2.7 Reflecting these global commodity price developments, consumer price inflation in emerging market and developing economies (EMDEs) picked up after having declined sharply in the beginning of the pandemic, while inflation in advanced economies (AEs) remained below pre-pandemic levels as the effects of weak aggregate demand outweighed the impact of supply interruptions in these countries.

3. Inflation in India

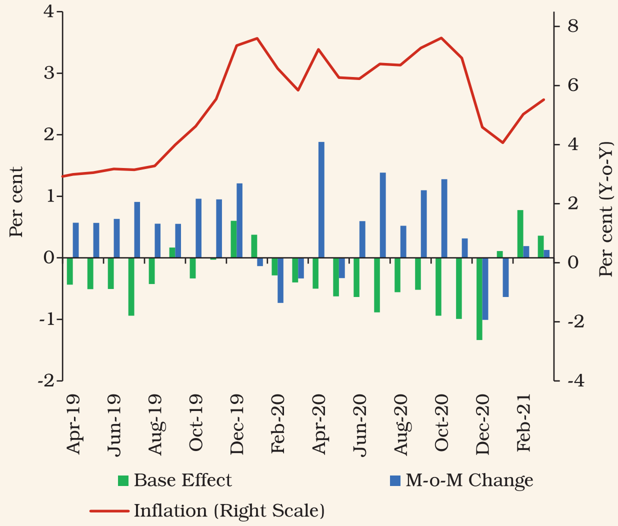
II.2.8 A nationwide lockdown was announced in India on March 24, 2020 to contain the spread of COVID-19. The initial lockdown was announced for 21 days effective from March 25, 2020 to April 14, 2020, but it was extended in phases till May 31, 2020, as the number of confirmed positive cases kept rising. Effective from June 1, 2020, announcements for relaxations in lockdown were made as part of "Unlock 1". Further relaxations were announced in phases to resume services, bringing the economy back to normal as the number of new confirmed positive cases started to decline. As a result of the restrictions imposed during the lockdown, NSO could collect partial data largely through telephonic enquiries from the designated outlets and supplemented it by information collected through personal purchases of field staff of the NSO. Following the principles of adequacy[12], indices for all sub-groups under food and beverages (barring meat and fish for April 2020, and prepared meals, snacks, sweets, *etc.* for April and May 2020), fuel and light, housing and health sub-group under the miscellaneous group were reported by the NSO during April-May 2020.

II.2.9 In order to address the non-availability of data for several sub-groups during April-May 2020, the NSO undertook a separate exercise, based on the imputation methodology recommended in 'Business Continuity Guidelines' of the Inter-Secretariat Working Group on Price Statistics (ISWG-PS) in May 2020. Broadly, this approach advocated imputing the missing (due to non-availability of data) sub-group index with the index computed at the next higher level of aggregation. This imputation methodology mostly involved the items in the core or non-food non-fuel category, as transactional data for these items were not available during the lockdown.

II.2.10 Headline inflation, which started picking up in H2:2019-20, remained elevated during 2020-21 and reached a multi-year peak of 7.6 per cent in October 2020 (highest in 77 months) [Chart II.2.3]. Supply disruptions during the nationwide lockdown, non-availability of labour at *mandis,* impediments to transportation, and

[12] The price of only those items were included which have been reported from at least 25 per cent of markets, separately for rural and urban sectors and constituted more than 70 per cent weight of the respective sub-groups/groups.

Chart II.2.3: Movements in Headline Inflation



Note: April and May 2020 data were imputed by the NSO.
Source: NSO and RBI staff estimates.

excess rains during the *kharif* harvest period led to crop damages and pushed up food prices, especially those of vegetables. Subsequently, with the ebbing of these pressures and encouraging prospects for the *rabi* crop, food inflation started easing from November 2020 and reached 2.7 per cent in January 2021 from 10.1 per cent in October 2020, before increasing to 5.2 per cent in March 2021 largely due to adverse base effects.

II.2.11 Fuel prices remained subdued during 2020-21 due to a fall in prices of liquefied petroleum gas (LPG) and non-PDS kerosene; however, LPG prices started increasing from December 2020 onwards.

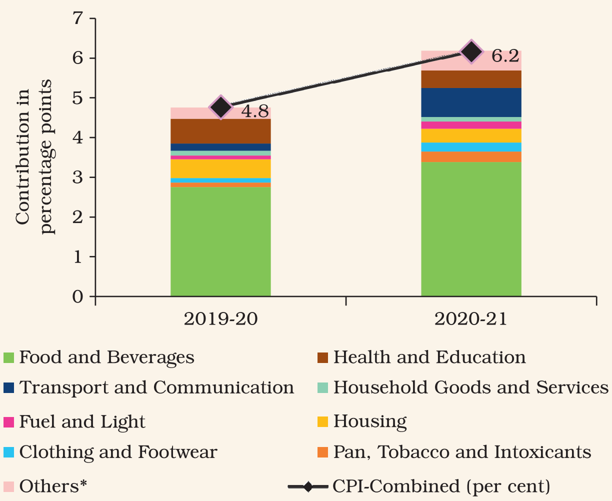
II.2.12 On the other hand, inflation excluding food and fuel, hardened during the year and reached a peak of 6.0 per cent in February 2021 from the historic low of 3.4 per cent in October 2019. This elevation was driven by near double-digit inflation in prices of transport and communication, personal care and effects, and pan, tobacco and intoxicants.

II.2.13 For the year 2020-21, inflation picked up to average 6.2 per cent, 140 basis points higher than the previous year (Appendix Table 4). Reflecting the uptick in headline inflation from October 2019, households' median inflation expectations hardened during 2020-21 by 159 basis points (bps) three months ahead and by 120 bps a year ahead as compared with March 2020 round readings. This upturn in expectations is also corroborated by more forward-looking assessments of professional forecasters.

4. Constituents of CPI Inflation

II.2.14 The drivers of CPI headline inflation exhibited distinct shifts during 2020-21 with food group remaining the major contributor along with an increase in the contribution of transport and communication group (Chart II.2.4). Food price inflation moderated during May-June 2020 with the gradual relaxation of lockdown conditions and easing supply constraints, but it picked up again during August-October 2020 as excess rains led to crop damage.

Chart II.2.4: Drivers of Inflation (Y-o-Y)



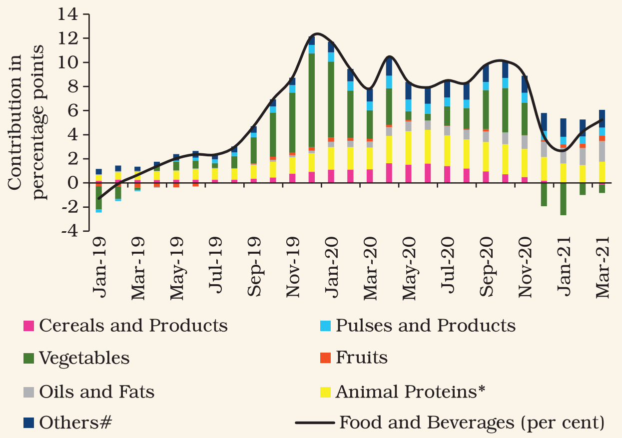
*: Includes recreation and amusement, and personal care and effects.
Note: April and May 2020 data were imputed by the NSO.
Source: NSO and RBI staff estimates.

Food inflation again eased sharply during November 2020-January 2021 on seasonal ebbs in key prices and as a result, food inflation which had hovered over headline inflation during April-November 2020, trended below it from December 2020. Inflation excluding food and fuel generally remained elevated. Inflation in fuel prices remained subdued and below headline inflation throughout the year.

Food

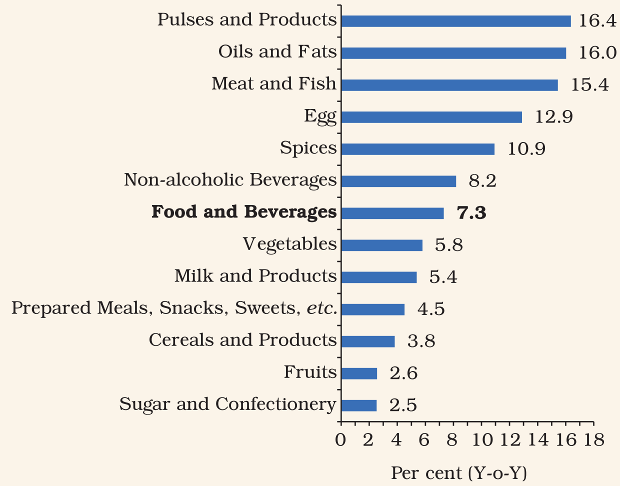
II.2.15 Inflation in prices of food and beverages (weight: 45.9 per cent in CPI) crossed 6 per cent in October 2019 and remained elevated till November 2020, contributing 54.8 per cent to overall inflation in 2020-21. This was primarily driven by animal protein items and vegetables because of adverse supply shocks from lockdowns and crop damage caused by excess rains during the monsoon season (Chart II.2.5). Consumers resorted to panic buying and stocking durable food items like cereals and pulses at the beginning of the lockdown. Initial difficulties in transportation, despite food items being exempted from the lockdown related restrictions, and limited availability of labour at the *mandis,* led to sharp spike in food prices in April 2020.

Chart II.2.5: Drivers of Food Inflation (Y-o-Y)



* : Includes meat and fish, egg, and milk and products.
#: Includes sugar and confectionery, spices, non-alcoholic beverages, and prepared meals, snacks, sweets, *etc.*.
Note: For April 2020, indices for meat and fish and prepared meals, snacks, sweets, *etc.* and for May 2020 index for prepared meals, snacks, sweets, *etc.* were imputed by NSO.
Source: NSO and RBI staff estimates.

Chart II.2.6: Inflation in 2020-21

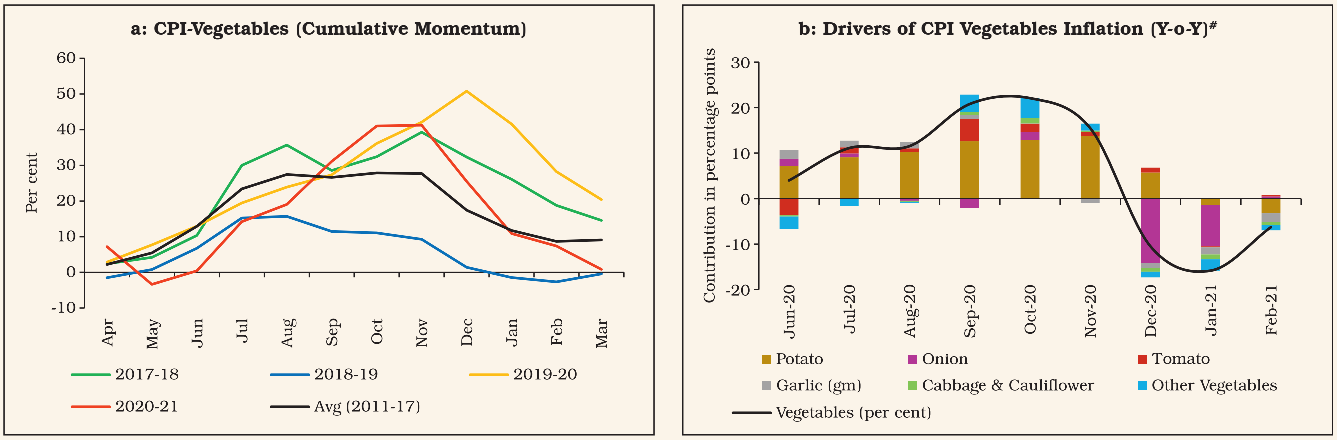


Note: For April 2020, indices for meat and fish and prepared meals, snacks, sweets, *etc.* and for May 2020, index for prepared meals, snacks, sweets, *etc.* were imputed by the NSO.
Source: NSO and RBI staff estimates.

II.2.16 Within food and beverages group, price pressures remained high and broad-based over the ensuing months, with five out of the twelve sub-groups witnessing double digit inflation (pulses, oils and fats, meat and fish, eggs, and spices) [Chart II.2.6]. However, vegetables' prices went into deflation from December 2020 as prices of onions, tomatoes and potatoes eased seasonally on the back of fresh crop arrivals, leading to a sharp softening in overall food inflation. Inflation increased again during February-March 2021 largely due to adverse base effects and sustained price pressures in oils and fats, pulses, prepared meals, snacks, sweets, *etc.,* and non-alcoholic beverages.

II.2.17 At the sub-group level, prices of vegetables (weight: 13 per cent in CPI-Food and beverages) remained the key pressure point during April-November 2020. Excluding vegetables, food inflation would have averaged 96 bps lower during this period. Supply chain disruptions, excess rains and production shortfalls (in the

Chart II.2.7: CPI-Vegetables: Seasonality in Prices and Drivers of Inflation



#: Item level CPI data were not released by the NSO during March-May 2020.
Source: NSO and RBI staff estimates.

case of potatoes) resulted in higher margins and similar build-up of momentum as in the previous year (Chart II.2.7a).

II.2.18 Onion prices underwent an uptick during September-November 2020, reflecting significant damages to *kharif* crops and late harvesting in major producing states due to excess rains. Higher exports during April-September 2020 by 35 per cent over the corresponding period of previous year also contributed to the ascent. As in the past, the government responded by banning the export of all varieties of onion on September 14, 2020 (lifted in January 2021); increasing imports of better quality (similar to the local variety); relaxing import norms [conditions for fumigation and additional declaration on the Phytosanitary Certificate (PSC) under the Plant Quarantine (PQ) Order, 2003] during October 21, 2020 to January 31, 2021; releasing buffer stocks; and imposing stock limits on wholesalers and retailers to curb market speculation and hoarding. These well-timed steps and fresh arrivals resulted in containing price pressures and onion prices moderated during December 2020-March 2021, barring February 2021 when prices increased due to lower arrivals.

II.2.19 In the case of tomatoes, prices picked up during the lean season, *i.e.,* June-July 2020, due to lower supplies on account of pre-monsoon rains related damages to crops and lower plantation than a year ago. Excess rains during the south-west monsoon again lifted prices in September 2020; thereafter tomato prices eased with fresh supplies entering the market.

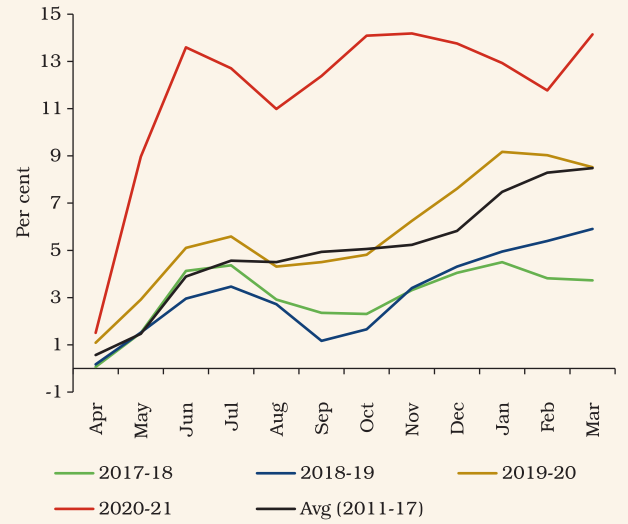
II.2.20 Inflation in potato prices surged from 2.3 per cent in November 2019 to 107.0 per cent in November 2020, which propelled vegetable group inflation to double digits during July-November 2020 (Chart II.2.7b). The two major potato producing states witnessed weather related disturbances - unseasonal rains in Uttar Pradesh in March 2020 and cyclone-related damage to the crop in West Bengal in May 2020 - leading to considerable supply disruptions and lower production [by 3.2 per cent as per final estimates (FE) 2019-20 over 2018-19 FE]. This was further aided by panic buying during the initial months of the lockdown, labour shortages at *mandis* and lower stock availability in cold storages. However, in October 2020, the government revised down the import duty on potato from 30 per cent to 10 per cent for a quota of 10 lakh tonnes until January

31, 2021 to improve the domestic availability along with relaxation of import norms similar to onions. Reflecting this and fresh arrivals, potato prices eased from December 2020.

II.2.21 Inflation in prices of cereals and products (weight: 21 per cent in CPI-Food and beverages) presented mixed dynamics - it remained above 6 per cent for the first four months, followed by moderation in the next eight months of 2020-21 even reaching into the deflation territory during February-March 2021, reflecting market distortions from a complex interplay of massive buffer stocks imparting downward pressure and higher procurement pushing up prices. At the item level, panic buying during lockdown, pick up in rice exports (81 per cent during April-February 2020-21), distribution of wheat and rice under *Pradhan Mantri Garib Kalyan Anna Yojana* (PMGKAY), record production of both rice and wheat [higher by 1.2 per cent for rice and 1.3 per cent for wheat as per 2nd Advance Estimates (AE) 2020-21 over 2019-20 (FE)], and moderate growth in minimum support prices (MSPs) [2.9 per cent and 2.6 per cent for rice and wheat, respectively] remained the major price drivers in this tangled development.

II.2.22 Among protein-rich items such as eggs, meat and fish (weight: 8.8 per cent in CPI-Food and beverages), historically high build-up of price momentum was observed, leading to double digit inflation of 12.9 per cent and 15.4 per cent in the case of eggs and, meat and fish, respectively (Chart II.2.8). Initial fears caused by pandemic resulted in lower consumption demand for eggs and chicken during February-March 2020 which resulted in distress sale by poultry farmers to avoid making losses. As rumours cleared and demand picked up fiercely because of the perception that protein rich items are immunity boosting, supply could not match demand. Supply constraints

Chart II.2.8: CPI-Egg, Meat and Fish (Cumulative Momentum)

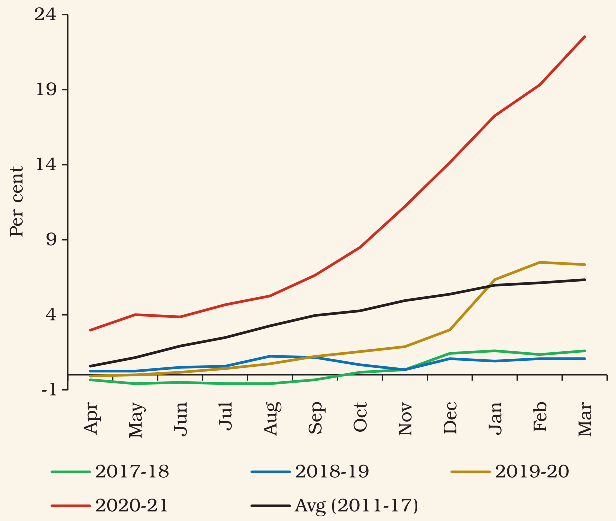


Source: NSO and RBI staff estimates.

caused by transport disruption and reverse migration also led to the price pick-up. Meat and fish prices, however, eased in December 2020 in contrast to the usual winter pick-up in prices, reflecting restoration of supplies in the poultry industry. The outbreak of bird flu in several states in January 2021 led to a fall in demand and further easing in prices of poultry items during January-February 2021. The price of chicken picked up sharply in March 2021 reflecting a recovery in demand amid short supply.

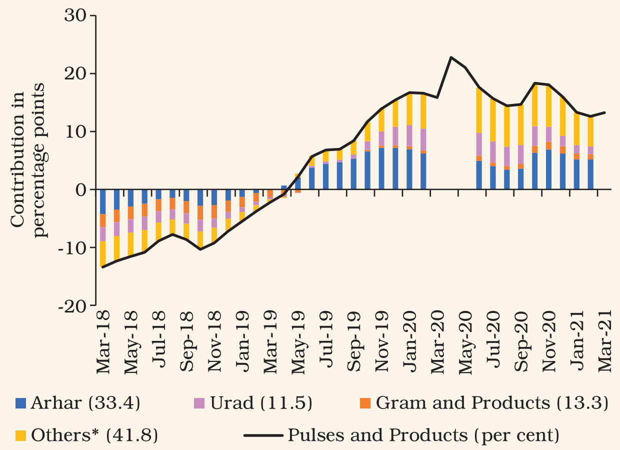
II.2.23 Oils and fats (weight: 7.8 per cent in CPI-Food and beverages) went through a sharp price build-up, leading to a historically high inflation of 24.9 per cent in March 2021 (Chart II.2.9). Precautionary buying on account of the pandemic and rise in international prices of edible oils led to this adverse development. In order to contain the price escalation, import duty in the form of Basic Customs Duty (BCD) on crude palm oil (CPO) was revised down to 27.5 per cent from 37.5 per cent with effect from November 27, 2020, and revised further to 32.5 per cent [including the Agricultural Infrastructure Development Cess

Chart II.2.9: CPI-Oils and Fats (Cumulative Momentum)



Source: NSO and RBI staff estimates.

Chart II.2.10: Drivers of CPI-Pulses Inflation (Y-o-Y)



*: Includes *moong*, *masur*, peas, *khesari*, *besan* and other pulses products.

Note: 1. Figures in parentheses indicate weight in CPI-pulses and products.
2. Item level CPI data were not released by the NSO during March-May 2020.

Source: NSO and RBI staff estimates.

(AIDC)] in the Union Budget 2021-22. However, increasing global prices, increase in export levy on crude palm oil by Indonesia from December 2020 and imposition of 8 per cent export tax on crude palm oil by Malaysia from January 2021 kept prices high.

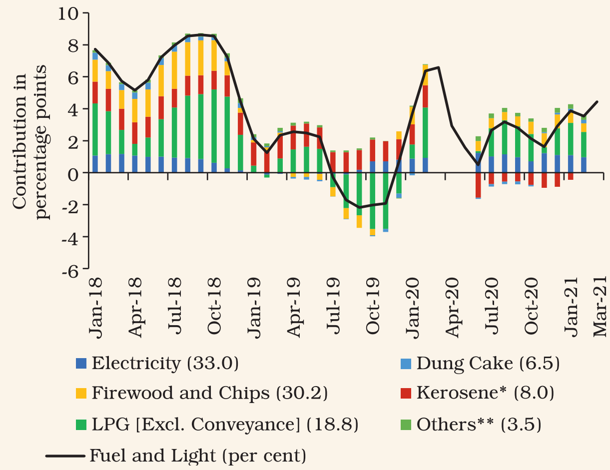
II.2.24 Prices of pulses (weight: 5.2 per cent in CPI-Food and beverages) recorded a 45 month-high inflation of 22.8 per cent in April 2020 primarily led by *tur (arhar)* and *urad* (Chart II.2.10). Prices witnessed robust growth during the months of April-May and September-November 2020, reflecting stockpiling by consumers, lockdown and rain related supply disruption and a decline in *kharif* pulses production (lower by 2.1 per cent as per 2019-20 FE over 2018-19 FE and especially *urad* production by 43.6 per cent), higher exports and lower imports during April-February 2020-21 [27.2 per cent and (-)14.8 per cent, respectively]. Consequently, the government responded with an array of supply side measures, such as releasing 2 lakh tonnes of *tur* from the buffer stock through open market sales (OMS), extending the time limit for import of *tur* under an import quota of 4 lakh tonnes for 2020-21 as on December 31, 2020, expediting imports of *urad* under the already issued import quota of 1.5 lakh tonnes and extending the memorandum of understanding (MoU) with Mozambique for import of 2 lakh tonnes of *tur* for another five years. With pulses production rising by 6 per cent for 2020-21 (2nd AE) over 2019-20 (FE), *tur, gram* and *masur* prices eased during December 2020-February 2021.

II.2.25 Inflation in fruits (weight: 6.3 per cent in CPI-Food and beverages) remained subdued during a large part of 2020-21, supported by robust production growth of 4.1 per cent in 2019-20 and 1.2 per cent in 2020-21 (as per 1st AE 2020-21 over 2019-20 FE). Inflation in sugar and confectionery (weight: 3.0 per cent in CPI-Food and beverages) also remained subdued and averaged 2.5 per cent in 2020-21 reflecting higher domestic production.

Fuel

II.2.26 The contribution of the fuel group (weight of 6.8 per cent in CPI) to headline inflation increased to 2.9 per cent in 2020-21 from 1.9 per cent in the previous year. Fuel inflation eased from 6.6

Chart II.2.11: Drivers of Fuel Inflation (Y-o-Y)



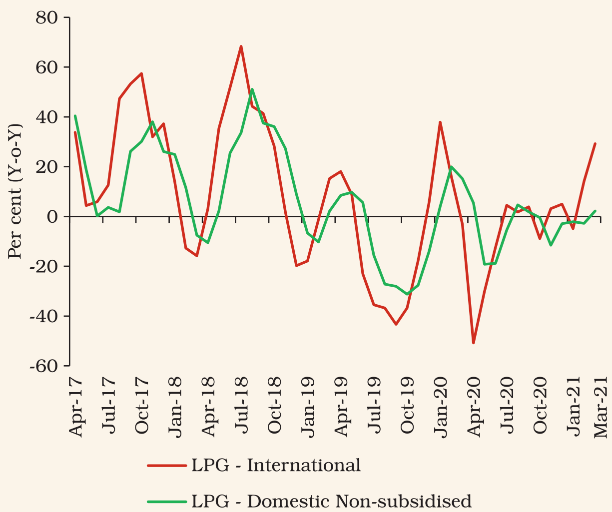
*: Includes kerosene PDS and kerosene other sources.
**: Includes diesel, coke, coal, charcoal, and other fuel.
Note: 1. Figures in parentheses indicate weight in CPI-fuel and light.
2. Item level CPI data were not released by NSO during March-May 2020.
Source: NSO and RBI staff estimates.

per cent in March 2020 to 0.5 per cent in June 2020 largely due to easing in domestic LPG - which tracked international price movements - and kerosene prices (Chart II.2.11 and Chart II.2.12). Fuel inflation eased again during September-November 2020 due to favourable base effects and continued deflation in kerosene PDS prices. Inflation in firewood and chips and electricity remained moderate during the year, reflecting favourable base effects and possibly subdued demand during the lockdown period. Reflecting these developments, fuel inflation moderated to 1.6 per cent in November 2020 before rising to 4.4 per cent in March 2021 on the back of increase in LPG and kerosene prices.

Inflation Excluding Food and Fuel

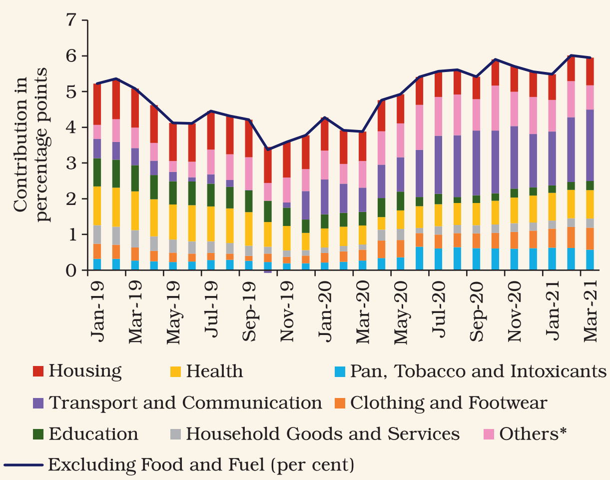
II.2.27 Inflation excluding food and fuel picked up over 2019-20 levels to an average of 5.5 per cent in 2020-21, with an intra-year peak of 6.0 per cent in February 2021 (Chart II.2.13). Inflation in this category continued to increase till October 2020 on the back of gold prices, hikes in taxes on liquor, and the hike in excise duties on petrol and diesel by the government in May 2020 (Chart II.2.14). It eased to 5.5 per cent by January 2021 due to favourable base effects, before picking up again to close the year at 5.9 per cent as favourable base effects waned and price pressures continued.

Chart II.2.12: Movements in LPG Retail Prices



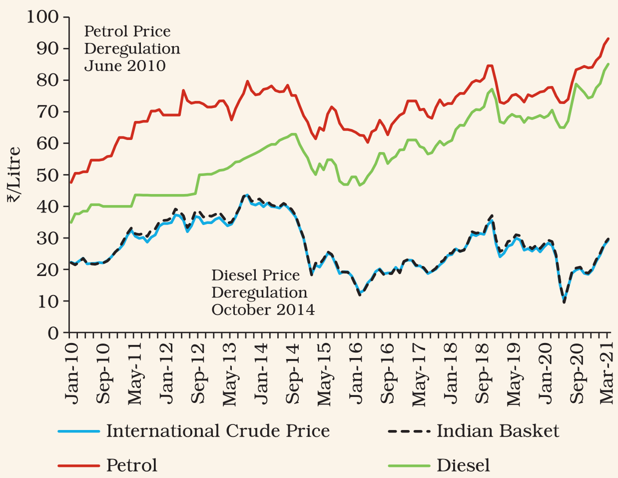
Note: Domestic Non-subsidised LPG prices are the average of prices in four metros.
Source: Petroleum Planning and Analysis Cell (PPAC), GoI and Bloomberg.

Chart II.2.13: Drivers of CPI Excluding Food and Fuel Inflation (Y-o-Y)



*: Includes recreation and amusement and personal care and effects.
Note: April and May 2020 data were imputed by the NSO.
Source: NSO and RBI staff estimates.

Chart II.2.14: Domestic Oil Price Trends



Note: International crude oil price represents the average price of WTI, Brent and Dubai Fateh.
Source: World Bank Pink Sheet Database, Indian Oil Corporation Limited, and PPAC.

II.2.28 Among the major constituents of this group, inflation in miscellaneous category increased to 7.0 per cent in August 2020 and broadly remained elevated thereafter.

II.2.29 Housing inflation moderated to 3.3 per cent in 2020-21 (4.5 per cent in 2019-20), reflecting the impact of favourable base effects and lower demand during the lockdown period. A historic low of 2.8 per cent was recorded in September 2020. Net of housing, inflation excluding food and fuel averaged 6.2 per cent in 2020-21, up from 3.9 per cent a year ago.

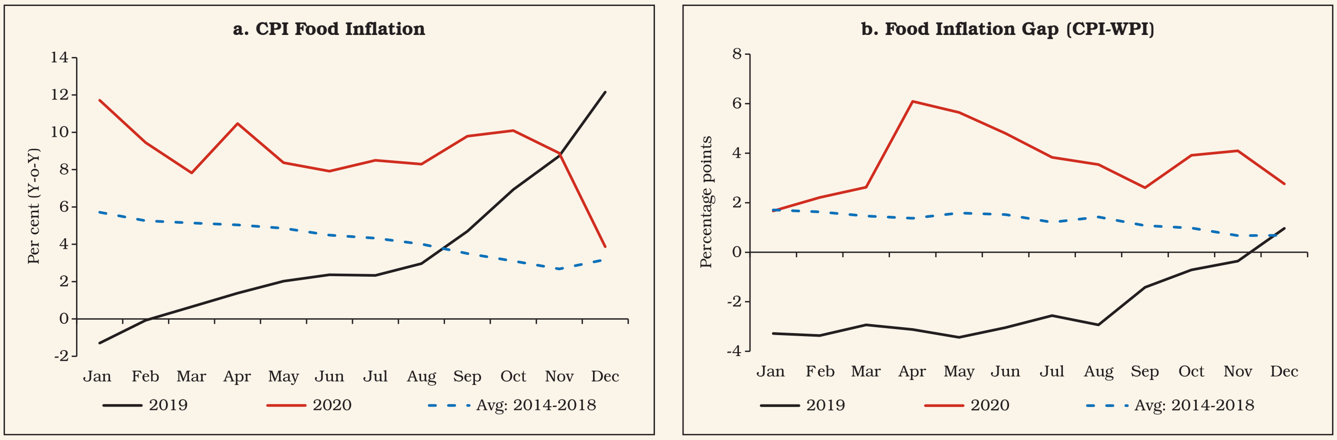
II.2.30 Inflation in clothing and footwear remained moderate averaging 3.4 per cent in 2020-21, largely reflecting muted input costs and weak demand conditions. International prices of cotton, a major input into clothing production, as measured by the Cotton A Index, were affected by the outbreak of COVID-19 and registered a fall during February-April 2020, before recovering gradually thereafter.

5. Other Indicators of Inflation

II.2.31 During 2020-21, sectoral CPI inflation, based on the consumer price index of industrial workers (CPI-IW), moderated to 5.1 per cent in May-June 2020 as the impact of the seventh central pay commission (CPC) on housing inflation dissipated and clothing inflation moderated. It increased during July-October 2020, reflecting increase in food prices. The Labour Bureau released CPI-IW with a new base (2016=100 from 2001=100) in October 2020 with data beginning from September 2020, reflecting the latest consumption pattern of industrial workers. It adopts a broadly similar classification of sub-groups/major groups as in CPI-C/CPI-Urban(U) (base: 2012=100) released by the NSO. Inflation based on the consumer price index for agricultural labourers (CPI-AL) and the consumer price index for rural labourers (CPI-RL), which do not have housing components, also eased to 6.3 per cent and 6.1 per cent in September 2020 from 8.8 per cent and 8.5 per cent in April 2020, respectively, due to favourable base effects, before increasing in October 2020 due to broad based price pressures especially in the case of food prices. All three measures witnessed easing in inflation in November 2020-January 2021 due to favourable base effects and easing in food prices before increasing again during February-March 2021 partly on the back of adverse base effects.

II.2.32 Inflation, measured by the wholesale price index (WPI), remained subdued during 2020-21. It went into deflation during April-July 2020 and reached an intra-year low of (-) 3.4 per cent in May 2020 (lowest in 54 months) as prices of non-food primary articles, minerals, crude petroleum and natural gas, mineral oils and manufactured products declined due to a fall in global commodity prices and decrease in demand during the lockdown. Softer WPI inflation, however, did not pass-through to CPI inflation as mark-ups increased amidst social distancing and frozen markets. WPI inflation picked up during August 2020-March 2021, barring December 2020, and reached 7.4 per cent in March 2021 driven by price pressures mainly in fuel and power and manufactured products groups along with adverse

Chart II.2.15: Food Price Inflation and Inflation Gap



Note: CPI data for April and May 2020 were imputed by the NSO.
Source: Office of the Economic Adviser (OEA), NSO and RBI staff estimates.

base effects. On an annual average basis, WPI inflation softened to 1.3 per cent in 2020-21 from 1.7 per cent in 2019-20. The GDP deflator inflation, however, hardened to 4.6 per cent in 2020-21 from 3.6 per cent in 2019-20.

II.2.33 The divergence between WPI and CPI inflation reflected the behaviour of food inflation. CPI food inflation surged, following the imposition of a nation-wide lockdown even as food price inflation captured in the WPI eased, reflecting the role of supply chain disruptions and opportunistic pricing in raising mark-ups. The extent of retail price increase in the post-lockdown period was also much higher than the usual summer uptick in food prices (Chart II.2.15a). The gap between retail and wholesale price inflation – a proxy for retail margins or mark-ups also remained unusually high (Chart II.2.15b). Since the expected easing of supply disruptions got delayed even after the gradual opening up of the economy due to excess rain induced crop damages, mark-ups played a dominant role in the evolution of the inflation trajectory during 2020-21 (Box II.2.1).

II.2.34 After the increases in MSPs during 2019-20 for *kharif* and *rabi* crops, there was another moderate hike in 2020-21. The extent of MSP increases varied across crops, ranging from 2.1 per cent in the case of *moong* and safflower to 12.7 per cent for nigerseed. MSPs of rice and wheat were increased by 2.9 per cent and 2.6 per cent, respectively.

II.2.35 Wage growth for agricultural and non-agricultural labourers witnessed a major spike during the year, averaging 7.8 per cent and 7.2 per cent, respectively, during May-March 2020-21, reflecting the shortage of labourers during the lockdown period, and the hike in wages under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) 2005 by ₹20 effective from April 1, 2020 announced by the central government. However, the growth rates moderated to 6.8 per cent and 5.6 per cent, respectively, in November 2020 from their peaks of 10.5 per cent and 9.9 per cent in June 2020 and July 2020, respectively, before increasing marginally during December 2020-March 2021.

Box II.2.1
Post-COVID-19 Surge in Mark-ups and Food Inflation Surprise

The Department of Consumer Affairs (DCA) collects, monitors and publishes daily prices of 22 essential food items for 135 centres spread across the country. The DCA data show an increase in retail margins for the 22 food items during the lockdown period (Chart 1a) which varied across centres depending to some extent on the degree of mobility (Chart 1b).

An empirical exercise to understand the causal impact of lockdown-induced supply disruptions on price margins of 22 food items across 80 centres[13] using a panel regression model[14] based on the difference in difference (DID) strategy (Varshney, Roy and Meenakshi, 2020) is evaluated for two sub-samples - centres which experienced comparatively stricter lockdowns *vis-à-vis* others. Variation in lockdown intensity across centres is measured using Google mobility indices. A high mobility centre (low intensity of lockdown) is defined as the one which witnessed a lower than median fall in the mobility index during the lockdown period.

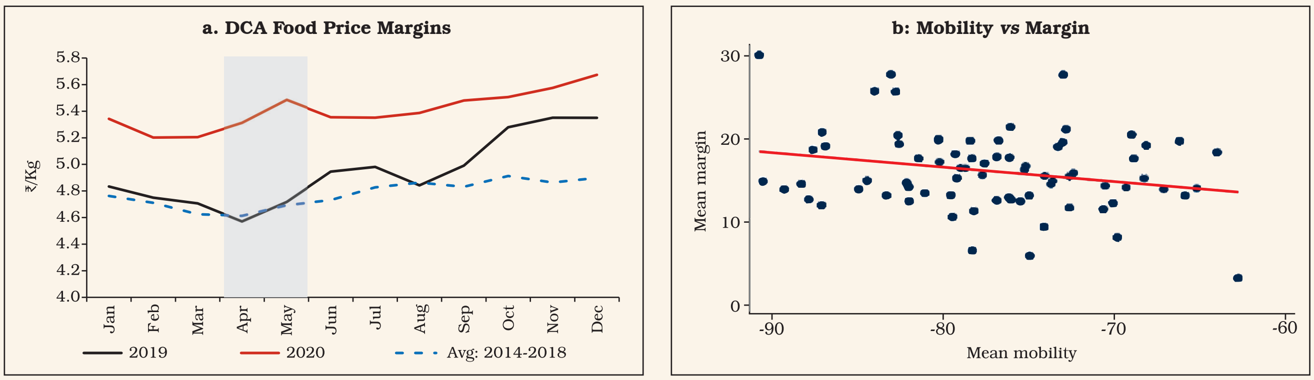
The results show that the interaction term corresponding to the lockdown phase is positive and significant, indicating that the lockdown led to an increase in margins (Table 1). The results also indicate that the increase in margins predominantly originated from low mobility (high lockdown intensity) centres.

Table 1: Price Margin Across Centres

	All Centres	High Intensity Lockdown Centres	Low Intensity Lockdown Centres
1	2	3	4
2020=1 × March 25-May 31=1	0.441***	0.602***	0.136
	(0.0914)	(0.116)	(0.142)
2020=1 × June-Nov=1	0.312**	0.372*	0.228
	(0.144)	(0.191)	(0.185)
Adjusted R^2	0.779	0.776	0.800
Observations	834133	573750	260383

Note: Centre × Commodity FE, State × Month FE, State × Year FE, Commodity × Month FE, and Commodity × Year FE are included in all the above specifications. Standard errors are clustered at the commodity-centre level. Standard errors in parentheses.
***: Significant at 1 per cent level. **: Significant at 5 per cent level.
*: Significant at 10 per cent level.
Source: RBI staff estimates.

Chart 1: Behaviour of Margins and Mobility



Note: 1. Food price margin is the difference between retail and wholesale prices across centres, weighted by CPI weights for the 22 food items.
2. Mean margin is the average of price margins for 22 commodities in a given centre during March 25 - May 31, 2020, while mean mobility is the average of google mobility indices for each centre during the same period. Mobility is defined in terms of deviations from a base line (January 3 - February 6, 2020) before COVID-19 in the retail category.

Source: DCA, Google Mobility Indices and RBI staff calculations.

Reference:

Varshney, D., D. Roy, and J. V. Meenakshi (2020), 'Impact of COVID-19 on Agricultural Markets: Assessing the Roles of Commodity Characteristics, Disease Caseload and Market Reforms', *Indian Economic Review*, Vol. 55, Pages S83-S103.

[13] Although daily prices data are released for 135 centres, 80 centres are selected for the empirical exercise for which google mobility indices are available, to assess the impact of lockdown and mobility on margins.

[14] The model is as follows: $Y_{ijt} = \sum_{t=1}^{2}\beta_1 \times Time\ Period_t + \sum_{t=1}^{2}\beta_2 \times (Time\ Period_t \times 2020) + \alpha_{ij} + \gamma_{1jm} + \gamma_{2jy} + \delta_{1im} + \delta_{2iy} + \varepsilon_{ijt}$; where Y_{ijt} is the price margin recorded at market centre *i* for commodity *j* at time *t*; $Time\ Period_1$ is a dummy variable which takes the value 1 for the lockdown phase (March 25 - May 31, 2020); $Time\ Period_2$ is a dummy variable which takes the value 1 for the unlocking period (June - November, 2020); 2020 is a dummy variable that takes the value 1 for the year 2020; α_{ij} is the centre-commodity fixed effect (FE); γ_{1jm} captures commodity-month FE; γ_{2jy} captures commodity-year FE; δ_{1im} controls for state-month FE; δ_{2iy} controls for state-year FE; and ε_{ijt} is the error term. Robust standard errors are clustered at the market centre-commodity level.

6. Conclusion

II.2.36 In sum, headline inflation remained elevated, having tested the upper tolerance level during June-November 2020. The substantial wedge between wholesale and retail price inflation during the year pointed to persistence of supply-side bottlenecks and higher retail margins, underscoring the importance of supply management. Pressures from food items like pulses and edible oils are likely to persist in view of supply-demand imbalances, while cereals' prices may continue to soften with the bumper foodgrains production in 2020-21. Crude oil prices have picked up on optimism of demand recovery and continuation of OPEC plus production cuts; and are expected to remain volatile in the near-term. Cost-push pressures have also emanated from non-energy commodity prices and could firm up further as economic activity normalises and demand picks up. As pandemics typically leave markets less competitive, the increase in number of active COVID-19 cases with the beginning of second wave from March 2021 along with the associated effects on supply chains amid containment measures could also affect inflation going forward.

II.3 MONEY AND CREDIT

II.3.1 Monetary conditions eased during the year with the sharp compression in aggregate demand imposed by the pandemic, especially during H1:2020-21 even as ample liquidity was engendered by the Reserve Bank's operations, both conventional and unconventional. Reserve money (RM) adjusted for first round effects of cash reserve ratio (CRR) expanded strongly, bolstered by a build-up of net foreign assets (NFA) of the Reserve Bank and its proactive liquidity management. The banking system experienced liquidity leakages on account of a substantial upsurge in precautionary currency demand in response to COVID-19 pandemic led uncertainties. Currency hoarding was accompanied by a sharp drop in the velocity of money reflecting pandemic-depressed demand and extreme uncertainty. Money supply (M3) was bolstered by a surge in aggregate deposits with the virtual drying up of spending. Bank credit growth remained subdued as demand languished and risk aversion continued to grip the banking system. Since November 2020, however, incipient signs of credit revival began to show up alongside green shoots of recovery in economic activity, facilitated by favourable liquidity conditions and a gradual unlocking of the economy. With the allaying of illiquidity fears in response to the measures taken by the Reserve Bank, interest rates and spreads eased across financial market instruments and rating categories and, along with expansionary monetary movements, supported congenial financial conditions to nurture the economic recovery.

II.3.2 Against this backdrop, sub-section 2 delves into the dynamics underlying movements in RM and, thereby, the shifts in the Reserve Bank's balance sheet as it went into a crisis management mode. Sub-section 3 examines developments in money supply in terms of its components and sources, throwing light on the movements in assets and liabilities of the banking sector in exceptional times. The underpinnings of bank credit are covered in sub-section 4, followed by concluding observations.

2. Reserve Money[15]

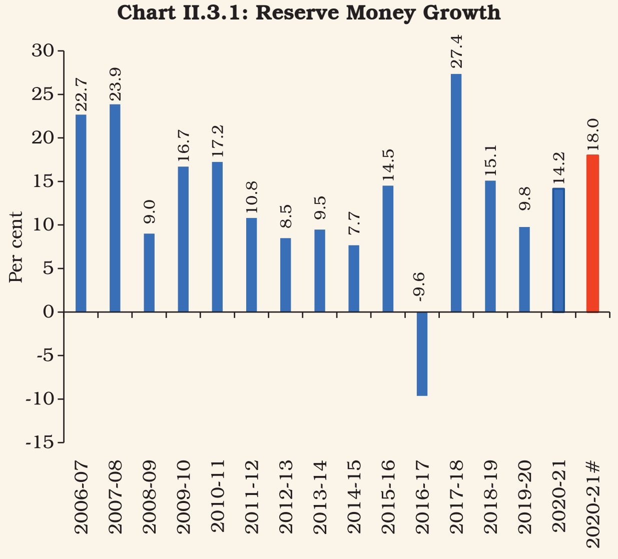
II.3.3 Reserve money - a stylised depiction of the Reserve Bank's balance sheet that focuses on its 'moneyness'[16] comprising currency in circulation, bankers' deposits and other deposits with the Reserve Bank - increased by 14.2 per cent in 2020-21, higher than 9.8 per cent a year ago as well as its decennial average (2011-20) of 10.6 per cent [Chart II.3.1]. Adjusted for the reduction in CRR by 100 basis points (bps) effective March 28, 2020 - which reduced RM statistically by around ₹1,37,000 crore - RM grew by 18.0 per cent during the year[17], as against 9.4 per cent a year ago.

II.3.4 Among its components, currency in circulation (CiC) constituted around 82 per cent of RM in 2020-21. Although the contribution of currency in determining the overall expansion in RM peaked in April 2020, CiC accounted for 97 per cent of the expansion in RM during the year (110 per cent a year ago), below the decennial average (2011-20) of 109 per cent.

II.3.5 The demand for CiC normally follows a predictable intra-month pattern – expansion during the first fortnight due to transactions by households, followed by a contraction in the second fortnight due to flow back of currency from households to the banking system (Chart II.3.2).

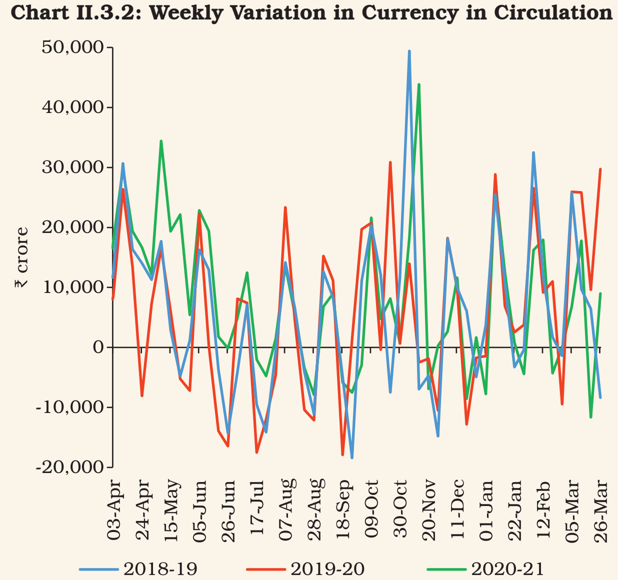
II.3.6 There was an unusual rise in month-over-month (M-o-M) CiC variation during April-June 2020 *vis-à-vis* the corresponding period of previous years due to the onset of the COVID-19 pandemic and a panic-driven surge in precautionary demand for cash as cushion in a health crisis (Chart II.3.3 & Chart II.3.4). Subsequently, with the epidemiological curve bending downwards from mid-September 2020 to February 2021 and in the light of the optimism

Chart II.3.1: Reserve Money Growth



#: RM adjusted for CRR reduction.
Source: RBI.

Chart II.3.2: Weekly Variation in Currency in Circulation



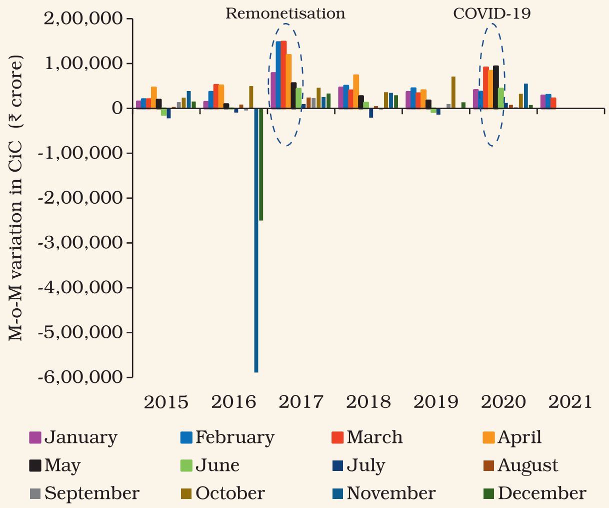
Source: RBI.

[15] In sub-section 2, growth and other ratios pertaining to end of financial year/quarter/month are based on data as on the last Friday of the respective financial year/quarter/month.

[16] 'Moneyness' refers to the characteristics of an asset to convert readily into liquidity at a low or zero transaction cost.

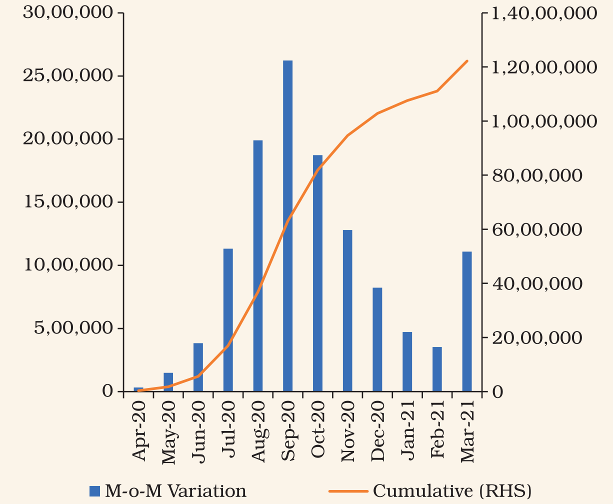
[17] The effect of increase in CRR from 3.0 per cent to 3.5 per cent, effective March 27, 2021, will be reflected in the financial year 2021-22.

Chart II.3.3: Impact of COVID-19 on CiC



Note: The unusual increase in CiC during January-June 2017 was on account of the remonetisation process, post-demonetisation.
Source: RBI.

Chart II.3.4: Number of Confirmed COVID-19 Cases in India

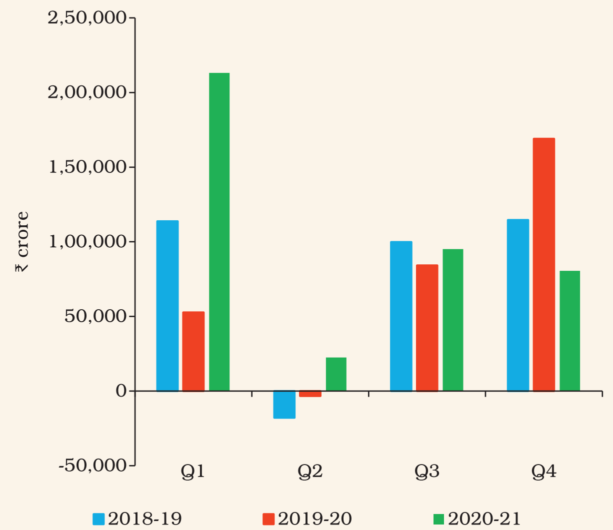


Source: Worldometer and Ministry of Health and Family Welfare, Government of India.

surrounding the mass vaccination programme, the variations in CiC were mostly determined by seasonal factors. Nonetheless, a sudden spurt in the number of confirmed cases of corona virus infection in its second wave from March 2021 onwards may impact variation in CiC for the next financial year.

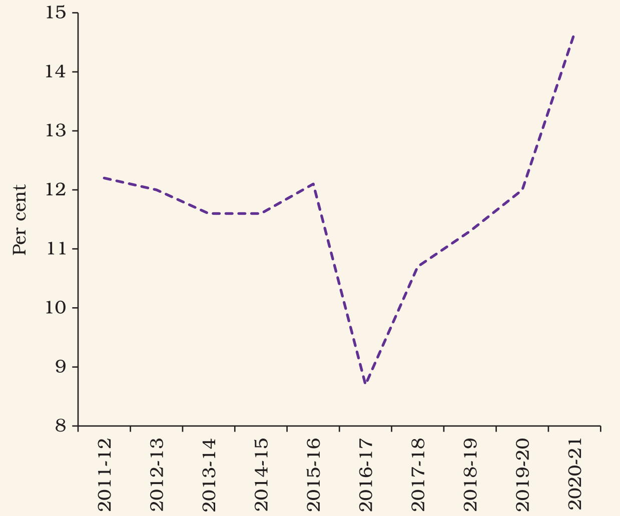
II.3.7 The pandemic-induced dash for cash was superimposed on the usual seasonal spurt in currency demand in Q1:2020-21 which is associated with *rabi* procurement and *kharif* sowing. In the following quarter, despite an overall slowdown in economic activity and the seasonal slack in demand from cash-intensive sectors such as construction and agriculture, the fear of virus kept CiC at an elevated level. In Q3:2020-21, CiC expanded, reflecting rise in currency demand for festivals, *kharif* harvest and the legislative assembly election in one state (Chart II.3.5). Further expansion in CiC was evident during Q4:2020-21 due to harvest of *rabi* crops, various festivals, run up to the legislative assembly elections in four states and one Union Territory and resumption in construction activities in the real estate sector. The higher CiC growth at 17.2 per cent in 2020-21 (14.0 per cent a year ago) resulted in the currency-GDP ratio increasing to 14.7 per cent (12.0 per cent last year) as cash-intensity in the economy increased in the wake of the pandemic (Chart II.3.6).

Chart II.3.5: Quarterly Variation in Currency in Circulation



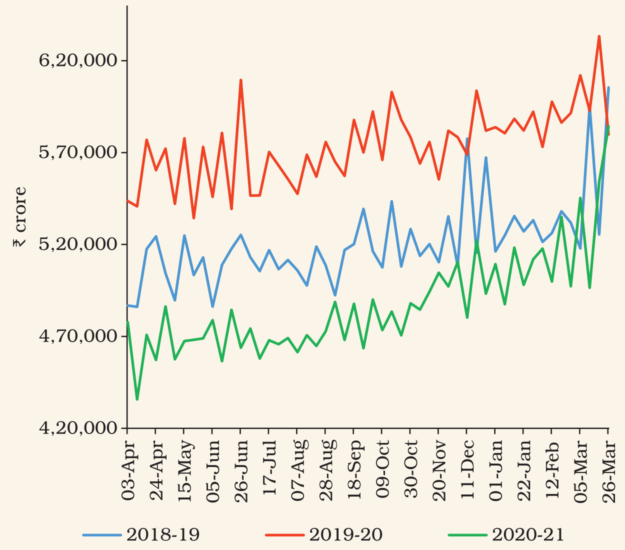
Source: RBI.

Chart II.3.6: India's Currency-GDP Ratio



Source: RBI, and Ministry of Statistics and Programme Implementation, Government of India.

Chart II.3.7: Bankers' Deposits with the Reserve Bank

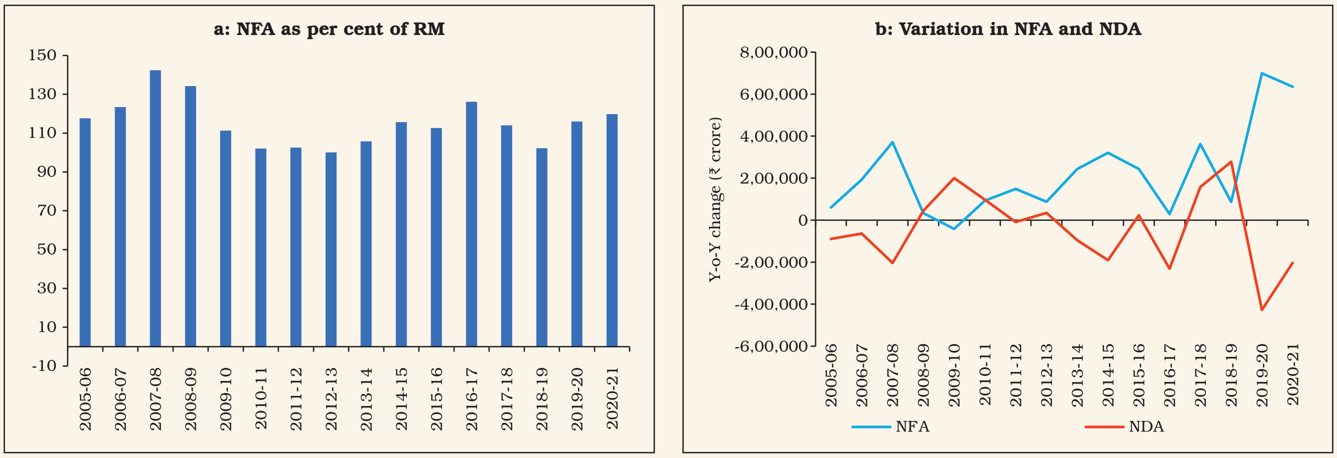


Source: RBI.

II.3.8 Growth in bankers' deposits with the Reserve Bank increased marginally by 0.8 per cent in 2020-21 as against a decrease of 4.2 per cent in the previous year, primarily due to the reduction in CRR by 100 bps to 3.0 per cent[18], effective March 28, 2020 (Chart II.3.7).

II.3.9 The liquidity drain due to expansion in CiC during the year was more than offset by the expansionary effects of accumulation of net foreign assets (NFA) [Chart II.3.8a]. During 2020-21, net purchases from authorised dealers stood at ₹5,16,389 crore *vis-à-vis* ₹2,96,943 crore in the previous year. Consistent with the accommodative stance of monetary policy, liquidity management operations boosted net domestic assets (NDA) of the Reserve Bank (Chart II.3.8b).

Chart II.3.8: NFA and NDA of the Reserve Bank



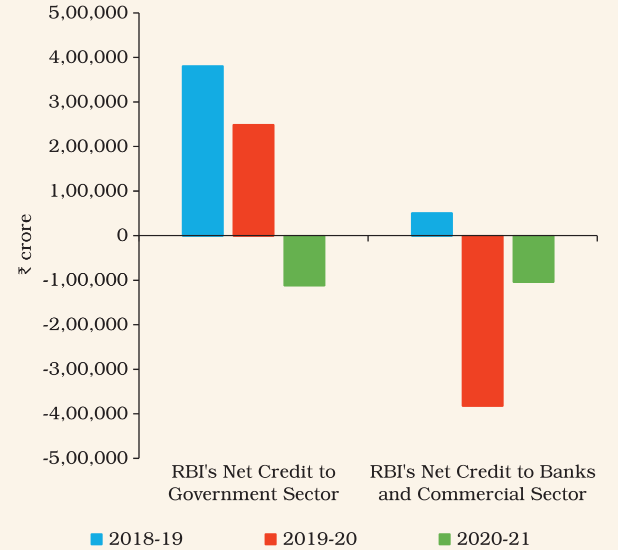
Source: RBI.

[18] Refer to the footnote 17 of Para II.3.3.

II.3.10 In particular, although net open market purchases (including auctions of special OMOs involving simultaneous purchase and sale of securities for liquidity distribution across the yield curve and OMOs in state development loans) amounted to ₹3.13 lakh crore, the net Reserve Bank credit to the government contracted by ₹1,12,071 crore during 2020-21 – mainly counterbalanced by accretion of massive government surplus balances. On the other hand, contraction in the Reserve Bank's net credit to banks and the commercial sector (mainly PDs) primarily reflected net liquidity adjustment facility (LAF) absorption aimed at sterilising forex operations and managing the large overhang of liquidity in the system[19] (Chart II.3.9).

II.3.11 The net LAF position remained in reverse repo mode throughout 2020-21, supplemented by repayment of long-term repo operations (LTROs) [availed during February-March 2020] as well as of targeted LTROs (TLTROs) worth ₹1,23,572 crore and ₹37,348 crore, respectively (Chart II.3.10a and Chart II.3.10b).

Chart II.3.9: NDA (Y-o-Y Variation)

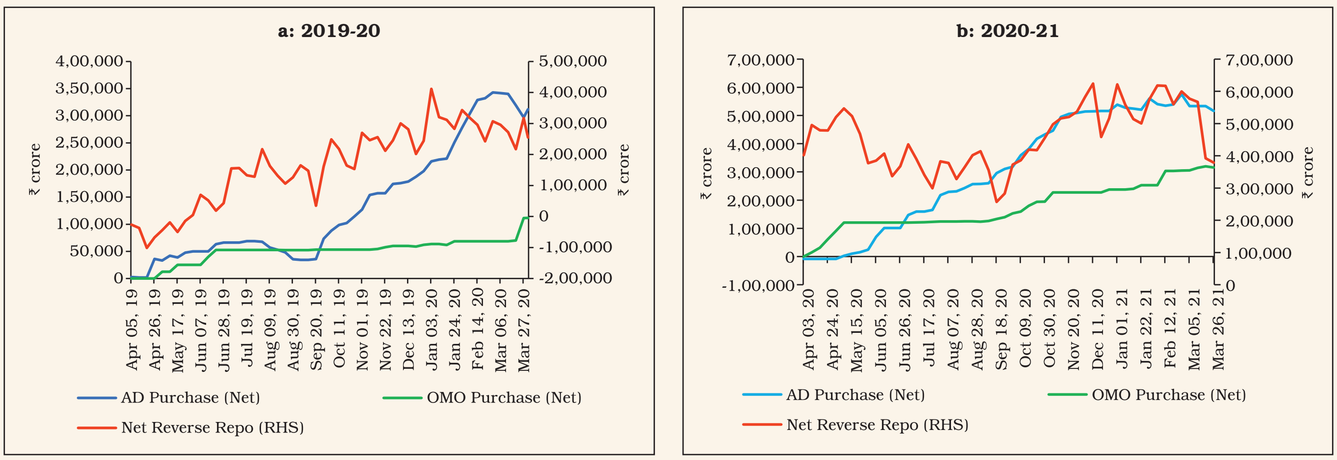


Source: RBI.

3. Money Supply[20]

II.3.12 Stabilising from a prolonged decline till 2016-17, M3 - comprising currency with the public (CwP), aggregate deposits (AD) and other deposits with the Reserve Bank - recorded a growth of 11.8 per cent during the year (8.7 per

Chart II.3.10: Liquidity Injection/Absorption

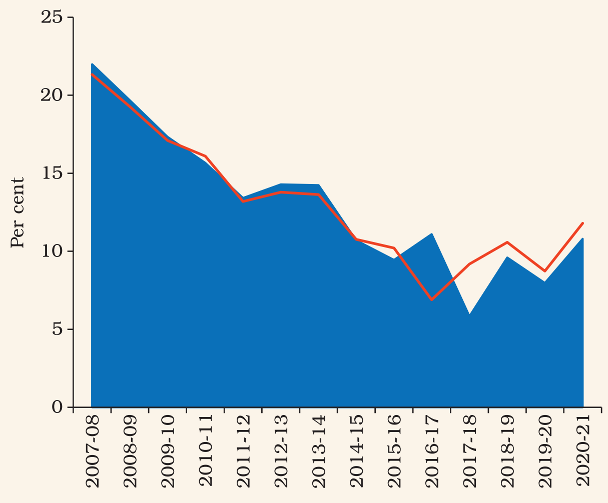


Source: RBI.

[19] Details of liquidity management operations are covered in chapters III and V.

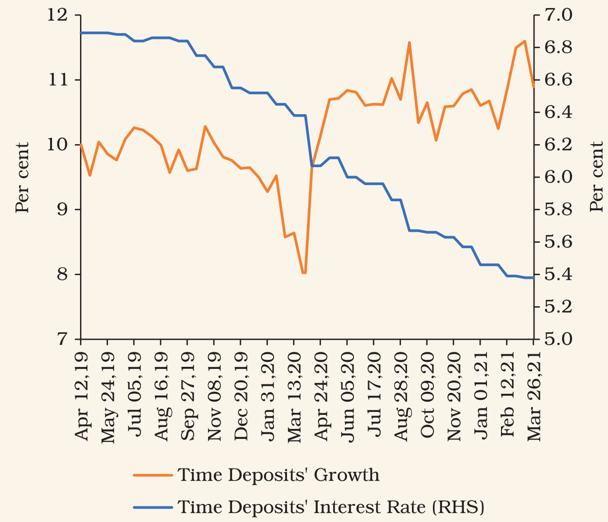
[20] In sub-sections 3 and 4, growth and other ratios pertaining to end of financial year/quarter/month are based on data as on the last reporting Friday of the respective financial year/quarter/month.

Chart II.3.11: Aggregate Deposits and M3



Source: RBI.

Chart II.3.12: SCBs' Time Deposits: Y-o-Y Growth and Interest Rate



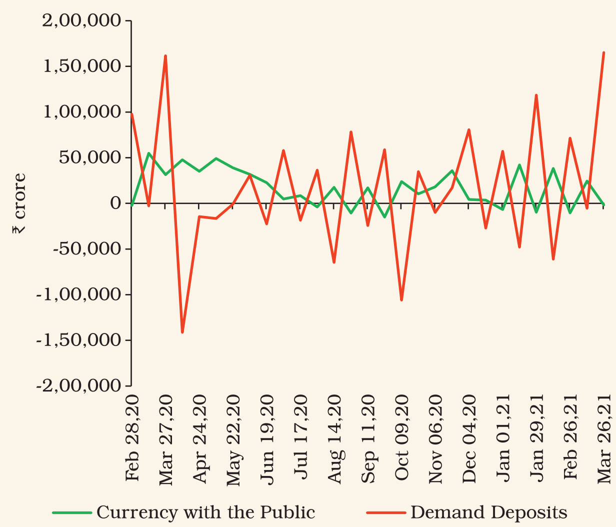
Source: RBI.

cent a year ago) driven by AD, especially time deposits (Chart II.3.11).

II.3.13 On the components side, M3 expansion was driven by AD, as stated earlier, its largest constituent (85 per cent share). In fact, AD accounted for 79 per cent of the increase in M3 during 2020-21, with time deposits growing at 10.3 per cent in spite of considerable moderation in interest rates, reflecting risk averse behaviour of depositors and lack of lucrative alternative investment avenues (Chart II.3.12). As usual, demand deposits remained volatile (especially during the fortnight ended April 10, 2020 which coincided with the 21 days nation-wide lockdown announced to contain the spread of COVID-19 pandemic) largely mirroring the variations in currency with the public which grew by 17.8 per cent in 2020-21 *vis-à-vis* 14.0 per cent in the previous year (Chart II.3.13).

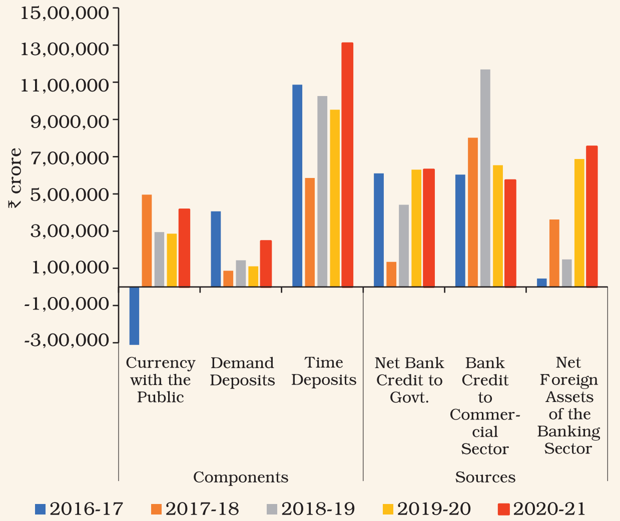
II.3.14 Net foreign exchange assets of the banking sector, net bank credit to the government and bank credit to the commercial sector led the expansion in M3 from the sources side during 2020-21 (Chart II.3.14). The net bank credit to the government grew, with commercial/cooperative banks augmenting their SLR portfolios in search of safe haven, and consequently, their investment in government securities increased by 18.7 per cent in 2020-21 as compared with 10.6 per cent a year ago. On the other hand, bank credit to the commercial sector - the largest constituent of M3

Chart II.3.13: Currency with the Public and Demand Deposits: Fortnightly Variation



Source: RBI.

Chart II.3.14: Expansion in M3: Components and Sources



Source: RBI.

from the sources side - grew at a rate lower than a year ago, reflecting passive liquidity surpluses (Table II.3.1). Growth of NFA of the banking sector mirrored NFA in RM.

Key Monetary Ratios

II.3.15 The money multiplier stood at 5.4 in 2020-21, which is marginally below its decennial average (2011-20) of 5.5. However, adjusted for the reverse repo - analytically more meaningful and akin to banks' deposits with the central bank - money multiplier turned out to be lower at 4.7 in 2020-21, explaining the slowdown in money creation under subdued credit demand conditions. As a result, a substantial expansion in RM (adjusted for the first-round effects of CRR changes) did not translate into a commensurate increase in M3 (Chart II.3.15 & Chart II.3.16).

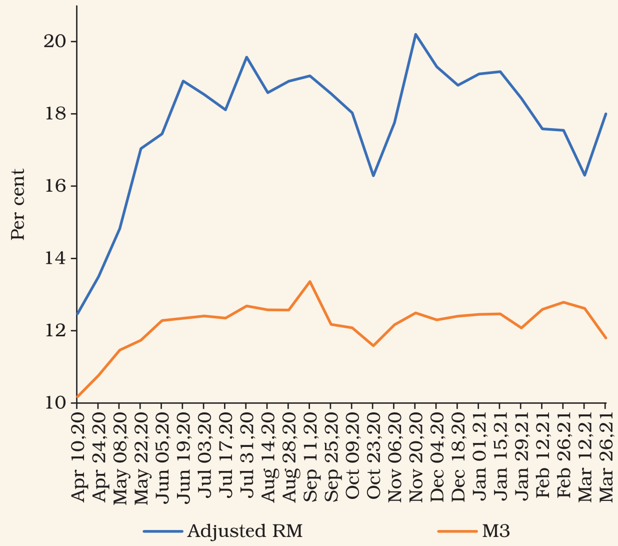
II.3.16 The currency-deposit ratio stood at 17.3 per cent in 2020-21, slightly above its decennial average (2011-20) of 15.1 per cent. The shift in the public's preference towards stashing cash, the most liquid asset, was in response to the uncertainties relating to the pandemic. The reserves-deposit ratio at 3.7 per cent (4.0 per cent

Table II.3.1: Monetary Aggregates

Item	Outstanding as on March 26, 2021 (₹ crore)	Year-on-Year Growth Rate (in per cent)		
		2018-19	2019-20	2020-21
1	2	3	4	5
I. Reserve Money (RM)	34,90,233	15.1	9.8	14.2
II. Money Supply (M3)	187,73,142	10.6	8.7	11.8
III. Major Components of M3				
III.1. Currency with the Public	27,57,847	16.7	14.0	17.8
III.2. Aggregate Deposits	159,67,947	9.6	8.0	10.8
IV. Major Sources of M3				
IV.1. Net Bank Credit to Government	56,92,569	11.1	14.2	12.5
IV.2. Bank Credit to Commercial Sector	116,10,050	12.7	6.3	5.2
IV.3. Net Foreign Assets of the Banking Sector	45,11,386	5.1	22.4	20.1
V. M3 net of FCNR(B)	186,24,899	10.6	8.7	12.1
VI. Money Multiplier	5.4			

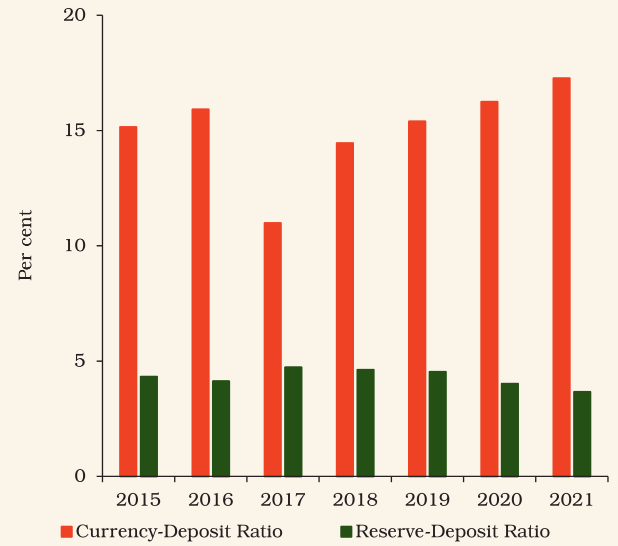
Note: Data are provisional.
Source: RBI.

Chart II.3.15: M3 Growth



Source: RBI.

Chart II.3.17: Monetary Ratios



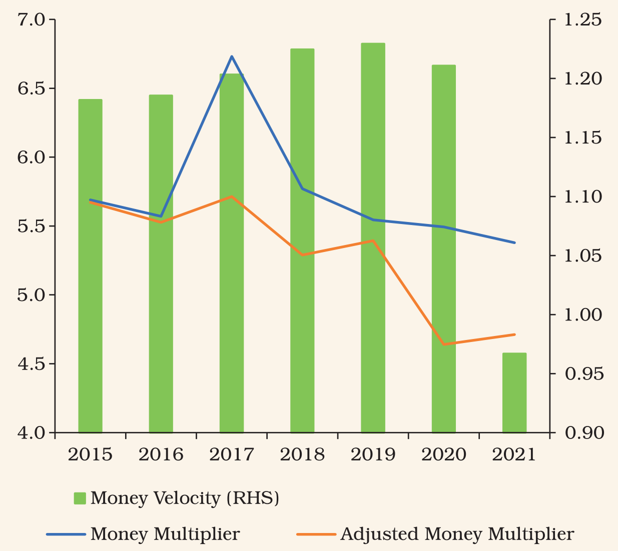
Source: RBI.

a year ago), reflected the impact of CRR reduction during 2019-20 (Chart II.3.17).

4. Credit

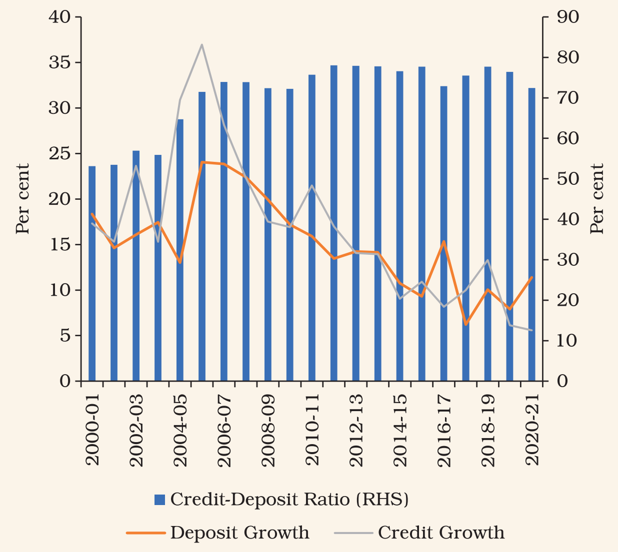
II.3.17 With the extant policy prescription of 3.5 per cent and 18 per cent for CRR and SLR, respectively, around 79 per cent of the deposits were available with the banking system for extending credit. However, SCBs' credit-deposit ratio moderated to 72.4 per cent in 2020-21 from 76.4 per cent a year ago, largely reflecting the subdued credit demand conditions in the economy even as deposit mobilisation remained robust (Chart II.3.18 & Chart II.3.19).

Chart II.3.16: Monetary Ratios



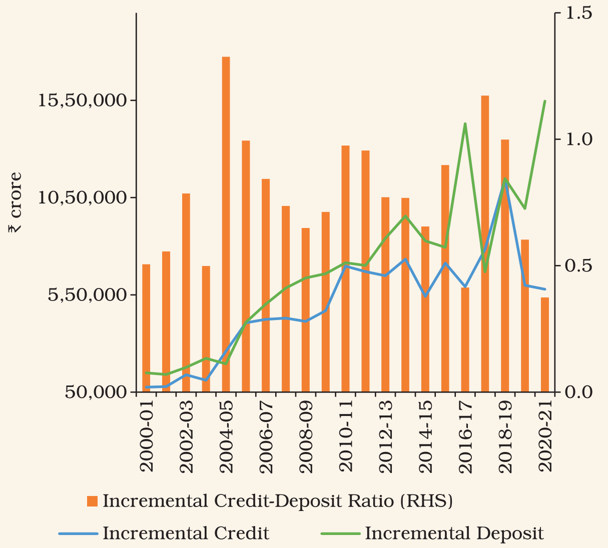
Source: RBI.

Chart II.3.18: SCBs' Credit-Deposit Ratio



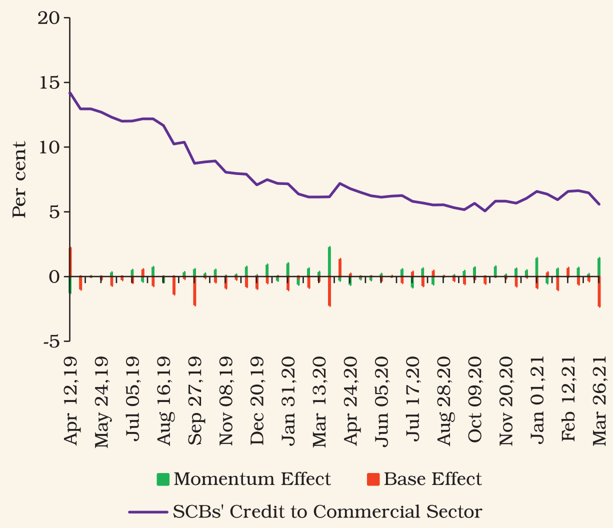
Source: RBI.

Chart II.3.19: Incremental Credit-Deposit Ratio



Source: RBI.

Chart II.3.20: SCBs' Credit Growth: Momentum and Base Effect



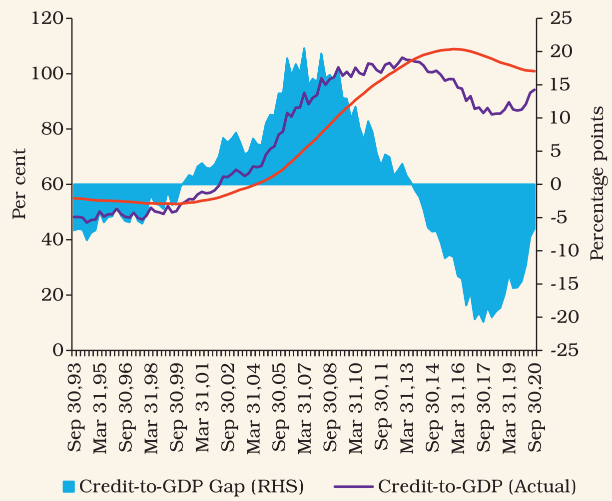
Source: RBI.

II.3.18 The y-o-y growth in SCBs' credit, which started slowing down in 2019-20, was further impacted during H1: 2020-21 in the wake of COVID-19 pandemic related restrictions and stood at 5.1 per cent for October 2020 (the lowest since May 2017). However, the worst seems to be over as it gradually recovered lost pace, backed by resumption in economic activity. During 2020-21, as per Section 42 returns, financial year variation in SCBs' credit turned positive for the first time in November 2020 and its growth stood at 5.6 per cent on a year-on-year basis for 2020-21 as compared with 6.1 per cent a year ago. A positive momentum in credit offtake since November 2020 reflects recovery in economic activity that has been supported by the cumulative reduction in the policy repo rate by 250 bps since February 2019, and 115 bps since March 2020, as well as various liquidity enhancing measures undertaken by the Reserve Bank, and supported by several sector specific measures announced by the government during the year (Chart II.3.20). The credit-to-GDP gap narrowed as at end-September 2020 (Chart II.3.21); however, the gap still continues to be large, reflecting the persisting slack in credit demand in the economy.

II.3.19 The slowdown in SCBs' credit growth during 2020-21 has been broad-based across all major sectors, except agriculture. According to data on the sectoral deployment of bank credit[21] for March 2021, credit growth to agriculture and allied activities accelerated to 12.3 per cent in March 2021 (4.2 per cent a year ago), the highest since April 2017. Credit growth to industry decelerated marginally to 0.4 per cent (0.7 per cent a year ago) mainly due to credit to large industries, which contracted by 0.8 per cent in March 2021 (as compared with a growth of 0.6 per cent a year ago). This is primarily on account

[21] Data on sectoral deployment of bank credit is collected on a monthly basis from select SCBs (33 banks) which account for about 90 per cent of the total non-food credit deployed by all SCBs.

Chart II.3.21: Credit-to-GDP Gap



Source: RBI and Bank for International Settlements (BIS) Credit-to-GDP Gap Statistics.

of large industries obtaining financial resources from non-bank sources, while the silver lining has been provided by the robust performance of credit to medium industries which registered a growth of 28.8 per cent in March 2021 (as compared to contraction of 0.7 per cent a year ago), reflecting the positive effects of various measures taken by the Government of India and the Reserve Bank for the micro, small and medium enterprises (MSME) sector. Credit growth to micro and small industries has witnessed marginal growth in the recent period (Table II.3.2).

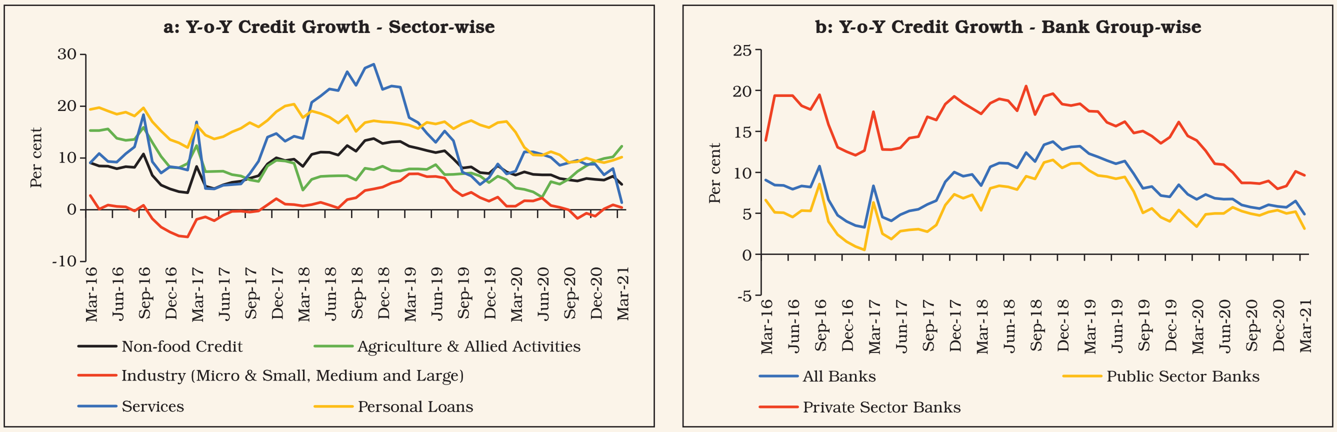
II.3.20 Insofar as credit to industrial sub-sectors is concerned, credit to food processing; textile; leather and leather products; wood and wood products; paper and paper products; glass and glassware; and gems and jewellery registered accelerated growth in 2020-21 on a year-on-year basis. However, credit growth to mining and quarrying; rubber, plastic and their products; as well as vehicles, vehicle parts and transport equipment decelerated. Industries such as beverages and tobacco; petroleum, coal products and nuclear

Table II.3.2: Credit Deployment to Select Sectors

Sectors	Outstanding as on March 26, 2021 (₹ crore)	Year-on-Year Growth (Per cent)		
		2018-19*	2019-20#	2020-21##
1	2	3	4	5
Non-food Credit (1 to 4)	**96,62,022**	**12.3**	**6.7**	**4.9**
1. Agriculture & Allied Activities	**12,99,914**	**7.9**	**4.2**	**12.3**
2. Industry (Micro & Small, Medium and Large)	**29,18,028**	**6.9**	**0.7**	**0.4**
2.1. Micro & Small	3,83,854	0.7	1.7	0.5
2.2. Medium	1,36,054	2.6	-0.7	28.8
2.3. Large	23,98,121	8.2	0.6	-0.8
(i) Infrastructure	10,91,624	18.5	-0.2	3.6
of which:				
(a) Power	5,66,455	9.5	-1.6	1.2
(b) Telecommunications	1,13,080	36.7	24.4	-21.3
(c) Roads	2,36,947	5.2	0.7	34.4
(ii) Chemicals & Chemical Products	1,86,911	17.5	6.0	-7.9
(iii) Basic Metals & Metal Products	3,28,663	-10.7	-5.7	-6.2
(iv) Food Processing	1,65,669	1.1	-1.9	7.5
3. Services	**26,30,566**	**17.8**	**7.4**	**1.4**
4. Personal Loans	**28,13,513**	**16.4**	**15.0**	**10.2**

*: March 2019 over March 2018. #: March 2020 over March 2019. ##: March 2021 over March 2020.
Note: Data are provisional.
Source: RBI.

Chart II.3.22: Sectoral Deployment of Non-Food Bank Credit Growth



Note: Data are provisional.
Source: RBI.

fuels; chemicals and chemical products; basic metal and metal products; cement and cement products; all engineering and construction witnessed contraction in credit offtake.

II.3.21 After witnessing a marginal contraction in 2019-20, credit growth to infrastructure, which accounts for around 37 per cent of industrial credit, showed some improvement during 2020-21, mainly due to significant acceleration in credit growth to roads, reflecting government's push for this segment. However, credit to telecommunications witnessed a significant contraction, while credit to power showed some recovery. Credit growth to the services sector decelerated to 1.4 per cent during 2020-21 from 7.4 per cent in the previous year, primarily driven down by sharp deceleration in credit growth to NBFCs after a spurt in the preceding year and contraction in credit to professional services. However, credit to wholesale trade bucked the downtrend, registering accelerated growth. Personal loans growth decelerated during the year but remained in double digits.

II.3.22 As per sectoral deployment of bank credit database[22], on March 26, 2021, non-food credit (NFC) growth decelerated to 4.9 per cent from 6.7 per cent a year ago. Among bank groups, public sector banks registered credit growth of 3.1 per cent in March 2021 (3.4 per cent a year ago), whereas, credit extended by private sector banks grew by 9.6 per cent (13.9 per cent a year ago) mainly due to deceleration in credit growth in the personal loans segment (Chart II.3.22.a and Chart II.3.22.b).

5. Conclusion

II.3.23 To sum up, despite a surge in currency demand with the onset of COVID-19 pandemic, monetary conditions eased on account of proactive liquidity management measures undertaken by the Reserve Bank through conventional and unconventional measures. A gradual pick up in economic activity during the second half of 2020-21 pulled up credit growth. Going forward, accommodative liquidity conditions and interest rates, several growth enhancing measures announced by the government and commencement of the mass vaccination drive are likely to nurture the recovery which, in turn, is expected to have a favourable bearing on credit demand and supply.

[22] Refer to the footnote of Para II.3.19.

II.4 FINANCIAL MARKETS

II.4.1 After the pandemic shock in H1:2020, global financial markets quickly regained normalcy over the ensuing period, drawing support from liquidity flushed in by global central banks and unprecedented fiscal support by governments. Financial conditions eased and the return of risk appetite enhanced the demand for financial assets across risk and rating categories with equity markets turning exuberant and scaling fresh heights in several countries. Emerging market economies (EMEs) like China and India received surges of portfolio flows. The US dollar weakened, paving the way for appreciation of other currencies in tandem with improvement in risk sentiment. Bond markets recorded sharp falls in yields, supported by liquidity infusion and policy rate cuts by central banks. However, global bond yields seemed to have bottomed out. The yield on US 10-year G-sec has risen by 123 basis points (bps) since its low in early-August (till March 31, 2021). Indian generic 10-year G-sec yield firmed up 39 bps over the same period.

II.4.2 In India, the equity market made a sharp V-shaped recovery in sync with global markets on the back of massive fiscal and monetary stimuli and gradual easing in COVID-induced restrictions. The Reserve Bank announced liquidity measures aggregating ₹13.6 lakh crore (6.9 per cent of nominal GDP for 2020-21) during February 6, 2020 - March 31, 2021. This shrank spreads and pushed market rates down. On the back of policy support, the Sensex gained 91 per cent from its post-pandemic lows during 2020-21, which was among the highest worldwide. The rally was, however, interrupted intermittently by the rise in COVID-19 cases and simmering India-China border tensions. Domestic equities scaled all-time peak in H2:2020-21 on record foreign portfolio investment (FPI) inflows, better than expected corporate earnings, pick-up in economic activity and roll-out of vaccines in the country and abroad. Indian Rupee depreciated to touch a historical low of 76.91 on an intra-day basis on April 22, 2020 due to unprecedented FPI outflows induced by the pandemic. The Indian rupee subsequently appreciated in line with other emerging market currencies, led by strong FPI inflows, as risk appetite returned for EME assets amidst pick-up in economic activity, progress on vaccine discovery and inoculation and easing of COVID-19 related restrictions. Moreover, India was the only major country among emerging markets (excluding China) that received equity FPI inflows in calendar year 2020[23].

II.4.3 Money market developments are detailed in sub-section 2. G-sec yields are discussed in sub-section 3. Sub-section 4 presents developments in the corporate bond market wherein yields eased significantly in 2020-21. Sub-section 5 profiles developments in the domestic equity market, followed by a discussion on movements in the Indian rupee in the foreign exchange market in sub-section 6, and finally followed by the concluding sub-section on some forward-looking perspectives.

2. Money Market

II.4.4 After the global market turmoil during March 2020 when financial spreads spiked and the money market rates firmed up, the money market stabilised through the rest of 2020-21 amidst proactive liquidity management by the Reserve Bank, using several instruments at its command.

II.4.5 To address any liquidity shortage during the pandemic and the unusual expansion in currency in circulation due to pandemic-stricken tendency to hold cash, the Reserve Bank conducted

[23] National Securities Depository Ltd. (NSDL) and Institute of International Finance (IIF).

liquidity management operations through a variety of conventional and unconventional instruments as set out in chapters III and V.

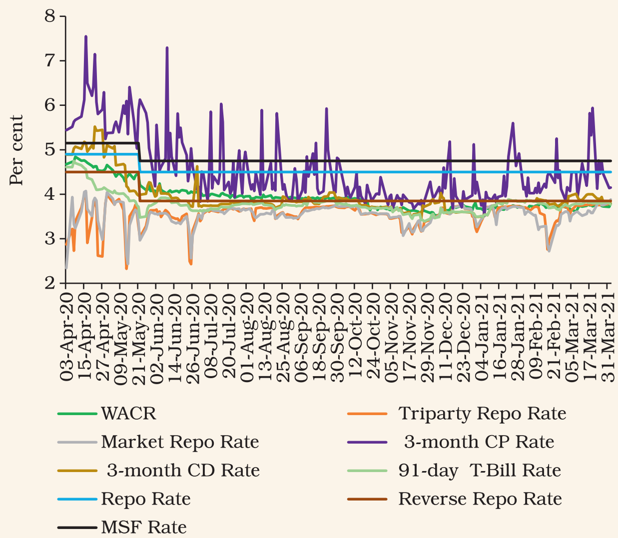
II.4.6 Furthermore, as part of the *AatmaNirbhar Bharat* programme announced by the Government of India (GoI) in May 2020, the Reserve Bank notified a special liquidity scheme at the repo rate to improve the liquidity position of Non-Banking Financial Companies/Housing Finance Companies (NBFCs/HFCs) to avoid any potential systemic risks to the financial sector on July 1, 2020. The aggregate principal amount invested by the Reserve Bank under the scheme stood at ₹7,126 crore.

II.4.7 The weighted average call rate (WACR) in the unsecured call money market – the operating target of monetary policy – remained within the policy corridor with a downward bias till mid-October 2020 before slipping below the reverse repo rate, reflecting surplus liquidity conditions (Chart II.4.1). The average spread of the WACR over the policy repo rate increased to (-) 63 bps in 2020-21 from (-) 9 bps in 2019-20 as surplus liquidity in the banking system prevailed during the entire year. In H2: 2020-21, overnight collateralised and uncollateralised rates, and at times 91-day treasury bills (T-Bills) and commercial paper (CP) rates, fell below the reverse repo rate.

II.4.8 During 2020-21, volatility in the call money market, measured by the coefficient of variation[24] of the WACR, increased to 8.34 from 7.55 in 2019-20, reflecting swings in liquidity conditions. The triparty repo as well as the market repo rates remained below the WACR by 37 bps and 38 bps, respectively, on an average.

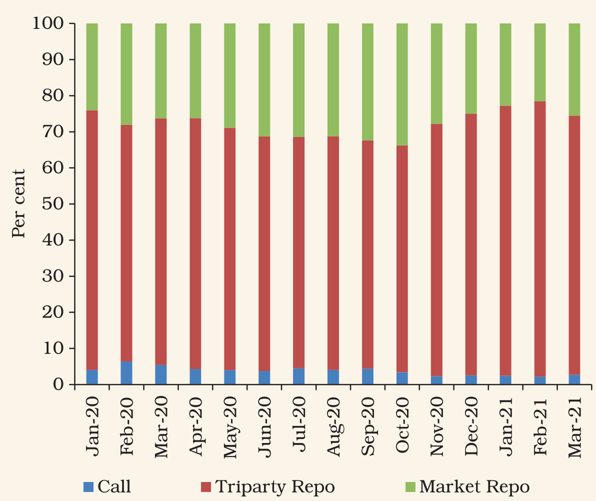
II.4.9 The average daily volume in the money market (call money, triparty repo and market repo taken together, excluding Saturdays) increased by 39 per cent to ₹3,36,371 crore during 2020-21 from ₹2,42,658 crore in 2019-20 (April-March). Volumes in the triparty repo and market repo segments increased and they accounted for 69 per cent and 28 per cent, respectively, of the total money market volume (call/triparty repo and market repo) during 2020-21 as compared with 68 per cent and 25 per cent, respectively, in 2019-20

Chart II.4.1: Money Market Rates and Policy Corridor



Source: RBI, CCIL, CCIL-Ftrac, FBIL and RBI staff calculations.

Chart II.4.2: Share of Major Segments in Money Market Volume



Source: CCIL and RBI staff calculations.

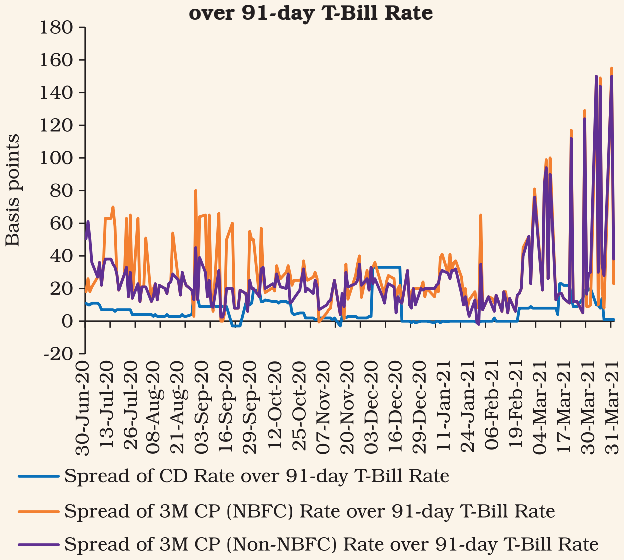
[24] Coefficient of variation is measured as a ratio of standard deviation to the mean.

(Chart II.4.2). In the call money segment, average daily volumes decreased by 34 per cent during the year to ₹10,993 crore (from ₹16,558 crore), reducing market share to 3 per cent from 7 per cent in the previous year.

II.4.10 Interest rates on other money market instruments, *viz.,* 91-day T-Bills, certificates of deposit (CDs) and CPs generally softened on account of surplus liquidity during 2020-21. With the decrease in the policy repo rate and proactive liquidity augmenting measures by the Reserve Bank, the spread of CD rates over T-bill rates narrowed significantly from 44 bps in Q1:2020-21 to 7 bps during Q2:2020-21, but widened marginally during Q3:2020-21 to 8 bps. Spreads of CD rates over T-bill rates, however, narrowed to 6 bps in Q4: 2020-21 (Chart II.4.3).

II.4.11 The average daily spread of 3-month CP(NBFC) rates over the 91-day T-bill rates decreased from 31 bps during Q2:2020-21 to 22 bps in Q3:2020-21, before increasing to 35 bps in Q4:2020-21. The weighted average discount rates in the primary CP market, which hardened in end-September 2020 to 4.6 per cent, softened

Chart II.4.3: Spread of 3-Month CP and CD Rate over 91-day T-Bill Rate



Source: Bloomberg, FBIL and RBI staff calculations.

thereafter by about 100 bps to 3.7 per cent as at end-December 2020, before inching up thereafter to 4.7 per cent by end-March 2021 (Chart II.4.3). Similarly, the 3-month CP rates for both NBFCs and non-NBFCs hardened as well. The 3-month CP (NBFC) rate increased from 3.4 per cent at end-December 2020 to 3.5 per cent by end-March 2021. Concomitantly, the 3-month CP (non-NBFC) rate increased from 3.3 per cent at end-December 2020 to 3.7 per cent at end-March 2021.

II.4.12 In the primary market, fresh issuance of CDs decreased to ₹1.3 lakh crore during 2020-21 as compared with ₹3.9 lakh crore in the previous year (April-March). New issuance of CPs in the primary market also decreased to ₹17.4 lakh crore in 2020-21 from ₹22.0 lakh crore in 2019-20 (April-March).

3. G-sec Market

II.4.13 In April 2020, the G-sec yields hardened initially due to selling pressure from FPIs, expectation of increase in government borrowing, rise in US treasury yields and adverse developments in mutual fund sector leading to redemption stress and intensified liquidity pressures. However, yields softened later tracking the Reserve Bank's announcement of special liquidity facility for mutual funds (SLF-MF), conduct of OMOs and decline in crude oil prices. In the month of May 2020, bond yields again rose due to upward revision of gross market borrowings of GoI for 2020-21 to ₹12 lakh crore from the budgeted level of ₹7.8 lakh crore but fell subsequently after the monetary policy committee (MPC) reduced the repo rate by 40 bps. In June 2020, G-sec yields hardened as market sentiment was dampened by the downgrade in India's sovereign rating to a negative outlook by Moody's Investor service from Baa2 to Baa3, escalation of Indo-China border tensions and selling pressure from FPIs. Movement in US treasury yields and crude oil prices also weighed on the yield movements. Overall, during Q1:2020-21, the 10-year generic G-sec yield softened by 25 bps to close lower at 5.89 per cent on June 30, 2020.

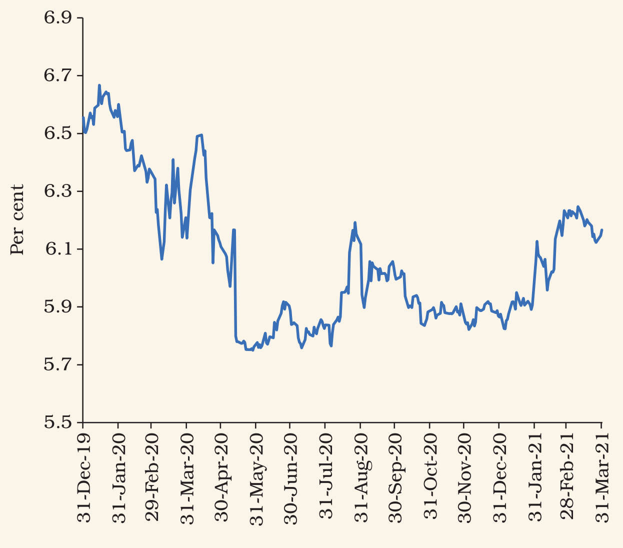
II.4.14 During Q2:2020-21, the 10-year generic G-sec yield hardened by 13 bps, tracking higher than expected CPI data prints for June 2020 and July 2020, *status quo* on the policy rate in the August 2020 meeting of the MPC and subsequent MPC minutes reflecting concerns on elevated inflation. Subsequently, a series of measures announced by the Reserve Bank to foster orderly market conditions on August 31, 2020 led to a sharp decline in bond yields. Furthermore, bond yields drew comfort from a series of OMOs carried out by the Reserve Bank. The release of lower-than-expected CPI data for August 2020 and reports that the GoI is unlikely to announce additional market borrowings in H2:2020-21 supported bond yields.

II.4.15 In Q3:2020-21, softening of G-sec yield continued, and it declined by 13 basis points in October 2020 in response to an unchanged borrowing calendar for the second half of 2020-21, announcement of conduct of OMO in State Development Loans (SDL), increase in size of OMO purchases, and extension of held-to-maturity (HTM) benefit by one more year up to March 31, 2022. During November 2020, G-sec yields moved in a narrow range and hardened marginally by 3 basis points. In December, yields declined marginally as upward pressure on yields due to increase in crude oil prices and profit booking was more than offset owing to reduced supply pressure as the Reserve Bank decided not to accept any bids for benchmark paper in primary auction in end-December. Overall, the 10-year generic G-sec yield declined by 15 bps in Q3:2020-21.

II.4.16 In Q4:2020-21, the G-sec yield initially softened on the back of buying support by mutual funds and foreign banks. It rebounded thereafter and remained elevated after the government announced additional borrowing of ₹80,000 crore for 2020-21 and indicated elevated borrowing of around ₹12 lakh crore for 2021-22. The increase in US Treasury yields and rebound in crude oil prices also contributed to the upward movement in bond yields. In Q4, the 10-year generic G-sec yield hardened by 30 bps to close at 6.17 per cent on March 31, 2021 (Chart II.4.4).

II.4.17 With the introduction of the fully accessible route (FAR)[25] with effect from April 1, 2020, FPIs have three routes to invest in G-secs, *viz.,* general route with investment limits set under the medium-term framework (MTF), voluntary

Chart II.4.4: 10 year G-sec Generic Yield



Source: Bloomberg.

[25] Under FAR, certain categories of central government securities were opened fully for non-resident investors without any restrictions, apart from being available to domestic investors as well.

retention route (VRR) and FAR. The limit for FPI investments in G-sec under MTF for the year 2020-21 was set at ₹3,38,062 crore. During April 2020 - March 2021, FPIs sold G-secs for ₹31,104 crore under the general route. However, FPIs invested ₹17,211 crore under the FAR route during the same period excluding ₹15,199 crore that was transferred from the general window to the FAR scheme at the commencement of the latter. Incidentally, the number of securities included under the FAR scheme increased from five (with outstanding stock of ₹4,34,224 crore as on April 1, 2020) to twelve securities (with outstanding stock of ₹11,79,423 crore as on March 31, 2021). FPIs also invested ₹789 crore in G-secs during April 2020 - March 2021 through the VRR which has a combined investment limit of ₹1,50,000 crore for G-secs and corporate bonds. The State Development Loans (SDLs) also witnessed FPIs buying for ₹99 crore during the same period.

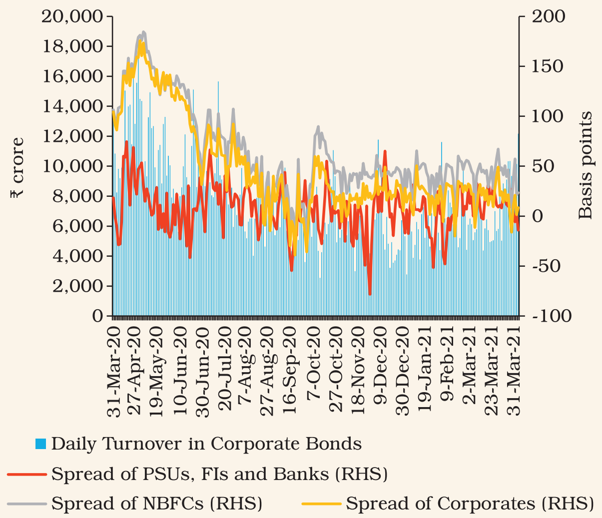
4. Corporate Debt Market

II.4.18 Corporate bond yields largely tracked G-sec yields. Financing conditions in the corporate bond market, which witnessed a brief period of stress during March-April 2020 triggered by the outbreak of COVID-19, eased significantly in the remainder of 2020-21, with the average yields on AAA-rated 5-year corporate bonds falling to its lowest level since 2004. During 2020-21, the AAA-rated 5-year bond yields of public sector undertakings (PSUs); financial institutions (FIs) & banks; NBFCs and corporates softened by 50 bps, 101 bps and 114 bps, respectively, reflecting the transmission of monetary policy rate cuts to the corporate bond yields, surplus liquidity conditions and the effect of targeted measures by the Reserve Bank and the government. Furthermore, encouraging reports on COVID-19 vaccine development and approvals for inoculations improved market sentiment. The yield on AAA-rated 5-year bonds closed at 5.92 per cent for PSUs, FIs and banks; 6.29 per cent for NBFCs; and 6.14 per cent for corporates at end-March 2021.

II.4.19 During 2020-21, the risk premium or spread on AAA-rated 5-year bonds (over 5-year G-sec) decreased from 18 bps to (-) 14 bps for PSUs, FIs and banks; 107 bps to 23 bps for NBFCs and 104 bps to 8 bps for corporates. The narrowing of spreads was also visible across the rating segments of corporate bonds. The deployment of several conventional and unconventional tools by the Reserve Bank such as Long-term Repo Operations (LTROs), Targeted LTROs (TLTROs) and Special Liquidity Facility for Mutual Funds (SLF-MF), supplemented with measures undertaken by the government such as special liquidity scheme and partial credit guarantee scheme for NBFCs, helped easing of liquidity premiums in the corporate bond market. The average daily secondary market turnover in the corporate bond market increased by 25.7 per cent y-o-y to ₹10,889 crore in Q1:2020-21, aided by the regulatory requirement of investing a part of TLTRO funds in the secondary market, but witnessed some moderation subsequently. Overall, the average daily turnover decreased to ₹7,671 crore during 2020-21 from ₹8,532 crore in the previous year (Chart II.4.5).

II.4.20 Liquidity infusion by the Reserve Bank played a key role in supporting primary corporate bond issuances, which increased by 13.4 per cent to a record ₹7.8 lakh crore during 2020-21 under easy liquidity conditions coupled with softening of yields. Corporates mobilised higher resources from the bond market to seize the benefit of lower costs. Private placements remained the preferred choice for corporates, accounting for 98.7 per cent of total resources mobilised through the bond

Chart II.4.5: Turnover and AAA-rated 5-Year Yield Spread in Corporate Bond Market



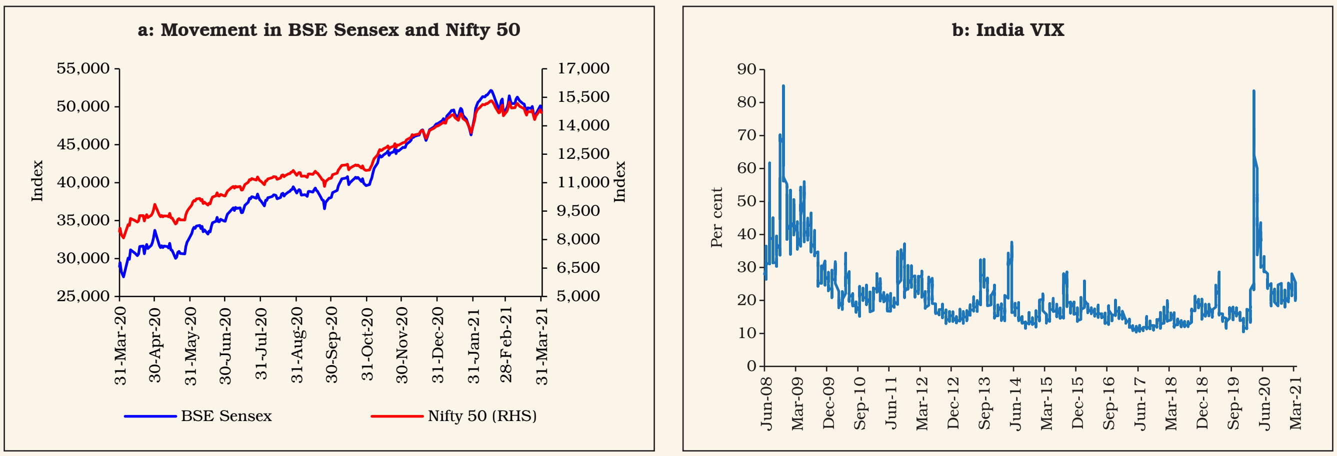
Source: SEBI and FIMMDA.

market. Outstanding corporate bonds increased by 11.8 per cent y-o-y to ₹35.1 lakh crore, *i.e.,* 18.2 per cent of GDP at end-December 2020. Investments by FPIs in corporate bonds decreased to ₹1.33 lakh crore at end-March 2021 from ₹1.73 lakh crore at end-March 2020. Consequently, utilisation of the approved limit by FPIs declined to 24.5 per cent at end-March 2021 from 54.5 per cent at end-March 2020.

5. Equity Market

II.4.21 After undergoing sharp corrections in Q4:2019-20 amidst the tragic outbreak of COVID-19, the Indian equity market made a strong V-shaped recovery in 2020-21 following decisive monetary and fiscal policy responses, gradual easing of COVID-19 induced lockdown measures and strong FPI inflows. Furthermore, the sharp rebound in global peers amid stimulus measures by governments and monetary authorities worldwide, coupled with encouraging reports on development of coronavirus vaccine supported the domestic equity market recovery from April 2020. Overall, during 2020-21, the BSE Sensex surged by 68.0 per cent to close at 49,509 while the Nifty 50 increased by 70.9 per cent to close at 14,691 on March 31, 2021. India VIX, which captures short-term volatility of Nifty 50, declined to 20.6 per cent at end-March 2021 after soaring to the unusually high level of 83.6 per cent on March 24, 2020 (Chart II.4.6).

Chart II.4.6: Equity Market



Source: BSE and NSE.

II.4.22 The Indian equity market commenced the year with a sharp rebound, posting its biggest monthly gain in 11 years during April 2020. The BSE Sensex surged by 14.4 per cent during the month on the hopes of a second round of stimulus measures by the government and announcement of various liquidity measures by the Reserve Bank. Encouraging reports of COVID-19 drug trials and easing of lockdown measures in major economies lifted market sentiment. However, the upside in equities was capped by dismal economic data, sharp decline in crude oil prices and closure of six debt schemes by a mutual fund. The Reserve Bank responded quickly, providing a special liquidity facility of ₹ 50,000 crore for mutual funds and stemming a run of redemptions under various mutual fund schemes. The downtrend deepened in May 2020 in sync with global peers amid escalation in the US-China diplomatic issues and fear of a second wave of coronavirus infections as economies started lifting lockdowns. The announcement of the *"AatmaNirbhar Bharat"* stimulus package and a large policy repo rate cut by the Reserve Bank on May 22 provided some breather to domestic equities.

II.4.23 The equity market rebounded in June 2020 with the BSE Sensex posting its best quarterly return (18.5 per cent) since 2009, driven by strong global cues amidst re-opening of economies and additional stimulus measures by the European Central Bank (ECB). However, the rally proved transient as bearish sentiment gripped markets following a persistent rise in COVID-19 cases, simmering India-China border tensions and a grim economic outlook for India projected by various agencies. The recovery resumed in July and August on the back of encouraging reports on coronavirus vaccine trials and more supportive measures from national authorities globally. On the domestic front, the rally was driven by the reports of dis-engagement between India and China over the border dispute, better than expected corporate earnings results for Q1: 2020-21, strong FPI inflows and announcement of a series of growth supportive measures by the Reserve Bank. However, the sentiment reversed towards the end of August due to fresh escalation in Indo-China border tensions. Trading turned cautious ahead of the implementation of new trading norms on margin requirements by the Securities and Exchange Board of India (SEBI).

II.4.24 The markets remained under pressure in September as the unabated rise in COVID-19 cases in Europe triggered fears of a second wave of infections and associated lockdown measures. The BSE Sensex plunged sharply by 1,115 points on September 24, its biggest intra-day fall in more than four months, tracking sharp sell-offs in global equities. However, bullish sentiments returned to markets in October following opening up of the economy under 'Unlock 5' guidelines, improvement in the manufacturing purchasing managers' index (PMI) for September 2020 and strong goods and services tax (GST) collection data for September 2020 - indicating resumption in domestic manufacturing activity. Furthermore, upbeat Q2:2020-21 earning results and the announcement of a slew of liquidity and regulatory measures by the Reserve Bank aided the upswing. However, domestic equities witnessed cautious trading towards the end of the month following uncertainty surrounding the US Presidential elections.

II.4.25 The Indian equity market rallied to record high levels in November 2020 on the back of sharp increase in global equities on positive developments around COVID-19 vaccines and expectations that trade wars might ease following US Presidential elections (Box II.4.1).

Box II.4.1
Is the Bubble in Stock Markets Rational?

Prices of risky assets surged across countries to record high levels during the year on the back of unparalleled levels of monetary and fiscal stimulus, and the turn in market sentiments following positive news on the development of and access to vaccines and the end of uncertainty surrounding US election results. The widening gap between stretched asset prices relative to prospects for recovery in real economic activity, however, emerged as a global policy concern (BIS, 2020; IMF, 2020).

India's equity prices also surged to record highs, with the benchmark index (Sensex) crossing 50,000 mark on January 21, 2021 to touch a peak of 52,154 on February 15, 2021, which represents a 100.7 per cent increase from the slump just before beginning of the nationwide lockdown (*i.e.*, since March 23, 2020) and a 68.0 per cent increase over the year 2020-21. This order of asset price inflation in the context of the estimated 8 per cent contraction in GDP in 2020-21 poses the risk of a bubble.

Literature on the subject highlights several fundamental determinants of equity prices, *viz.,* GDP growth, inflation, and money supply (Tiryaki *et al*., 2019; Khan and Khan, 2018). An autoregressive distributed lag (ARDL) model is estimated by regressing stock prices (Sensex) on money supply (M3, as a proxy of liquidity), the economic outlook (OECD composite lead indicator - CLI) and foreign portfolio investments in the secondary equity market for the period April 2005 to December 2020. The results suggest that the stock price index is mainly driven by money supply and FPI investments. Economic prospects also contribute to movement in the stock market, but the impact is relatively less compared to money supply and FPI. This assessment shows that liquidity injected to support economic recovery can lead to unintended consequences in the form of inflationary asset prices and providing a reason that liquidity support cannot be expected to be unrestrained and indefinite and may require calibrated unwinding once the pandemic waves are flattened and real economy is firmly on recovery path. Even considering the above expectations earning growth of the corporates, the stock prices cannot be explained by fundamentals alone. Present valuations, as in the past, are supported by improved corporate earnings. This part of Sensex increase can be seen as rational.

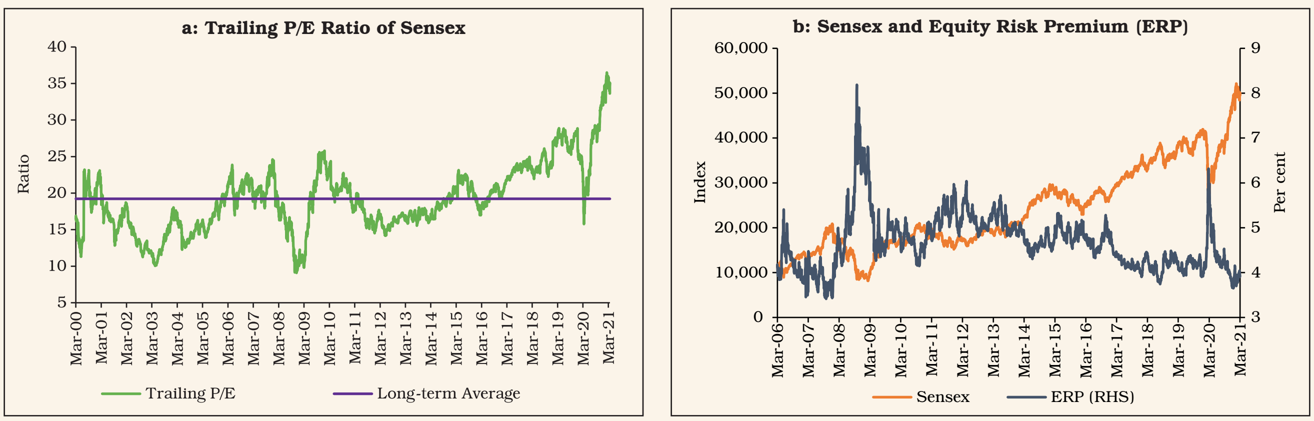
$$\text{LOG(SENSEX)} = -\ \underset{(-1.34)}{6.26} + \underset{(4.51)^{***}}{0.60^{***}}\ \text{LOG(M3)} + \underset{(1.66)^{*}}{1.46}\ \text{LOG(CLI)} + \underset{(1.81)^{*}}{0.0005^{*}}\ \text{FPI}$$

$$\text{ECM} = -0.05\ (-4.57)^{***}$$

Bounds Test:
F-statistic 4.09 [Critical value at 5 per cent - I(0): 2.79; I(1): 3.67]
Bounds test rejects the null hypothesis of no level relationship at 5 per cent level.
LM Test p-value = 0.30, ARCH test p-value = 0.39
*: Significant at 10 per cent level.
***: Significant at 1 per cent level.
Note: Figures in parentheses are t-statistics.

Another approach to assess stock market valuation is to compare the price-to-earnings (P/E) ratio with its historical

Chart 1: Sensex and P/E Ratio



Source: Bloomberg and RBI staff calculations.

(contd.)

trend. The deviation of the actual P/E from its long-run trend shows that the ratio is overvalued (Chart 1a). Measures of dividend yield also signal that markets are getting overpriced. A decomposition of changes in equity prices indicate that the rise in equity prices during 2016 to early 2020 was mainly supported by a decrease in interest rates and Equity Risk Premium (ERP), with increase in forward earnings expectations contributing to a lesser extent (Chart 1b). Thereafter, a spike in ERP on COVID-19 concerns initially contributed to equity prices declining sharply to compensate for increased risks. However, equity prices registered an impressive recovery, subsequently, aided by easing of ERP. Currently, dividend yields have fallen below their long-term trends. As such, two-way price movements are possible going forward.

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3. Bank for International Settlements (2020), *Annual Economic Report*, BIS.
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Furthermore, the run-up in domestic equities was sustained by the government's approval of the ₹1.5 lakh crore production-linked incentive (PLI) scheme for 10 manufacturing sectors and record high FPI inflows. Market sentiment remained exuberant during December 2020 on better than expected GDP data for Q2:2020-21 and upward revision in India's GDP forecast for 2020-21 by the Reserve Bank and various global agencies. The benchmark indices hit record high levels during the month on upbeat IIP data for October 2020 and hopes of a faster global economic recovery after the passage of the US stimulus package and the Brexit trade deal. Markets wilted, however, under reports of a new strain of coronavirus in several countries, leading to imposition of fresh lockdowns and travel restrictions.

II.4.26 Domestic markets remained largely volatile in January 2021 as investors weighed the roll-out of coronavirus vaccines in the country and upbeat corporate results for Q3:2020-21 against the persistent rise in COVID-19 cases across the globe. The benchmark hit 50,000 mark in intra-day trade for the first time in history on January 21, 2021 before paring all the gains on concerns over reports of a fresh face-off between India and China at the border, weak global cues over the stretched valuations in US equities and cautious trading ahead of the Union Budget. Reversing the weak momentum towards the end of January 2021, the benchmark achieved a fresh high of 52,154 on February 15, 2021 buoyed by budgetary proposals, optimistic outlook on revival of GDP growth by the Reserve Bank and positive cues from global markets. However, markets declined towards the end of the month following a surge in the US treasury yields, rise in crude oil prices and fresh spikes in COVID-19 cases in certain Indian states. Markets commenced on an optimistic note in March 2021 buoyed by release of positive Q3:2020-21 GDP data and encouraging reports for February 2021 on auto sales, GST collections, manufacturing and services PMI. Market ebullience, however, sobered reflecting concerns over inflation and imposition of fresh COVID-induced restrictions in some parts of the country.

II.4.27 The total market capitalisation of BSE listed companies scaled to record level of ₹204.3 lakh crore at end-March 2021 registering an increase of 80 per cent over that of ₹113.5 lakh crore at end-March 2020. The market capitalisation to

GDP ratio crossed 100 per cent in January 2021 for the first time in over a decade. There has been a surge in IPOs during 2020-21 as also the number currently in the pipeline (Box II.4.2).

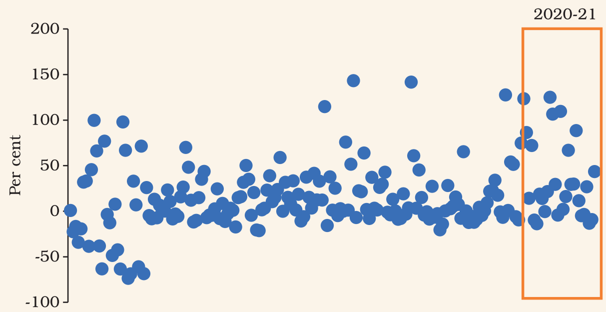
Box II.4.2
The Phenomena of Listing Returns in India: Some Exploration

Equity markets experienced a roller-coaster ride, rebounding steeply from their March 2020 downturn. The exuberance witnessed in the secondary market gripped the primary market, with the year 2020-21 turning out to be an extraordinary one for initial public offers (IPOs) by Indian companies, as 21 out of 29 IPOs have generated positive returns for investors on listing (Chart 1). A sector-wise analysis of 201 IPOs over the last 10 years (2011-12 to 2020-21) indicates that IPOs from consumer staples and healthcare sectors generated the highest listing gains in India (Chart 2).

The underpricing of IPO is one of the most commonly studied puzzles in the field of corporate finance. Underpricing of an IPO is said to have taken place when the stock generates higher prices on the first day of listing, called the listing returns. In the literature, information asymmetry is regarded as the root cause of underpricing (Rock, 1986) - a winner's curse model is at work wherein the issuer deliberately underprices its IPO to attract uninformed investors. Other reasons are providing compensation to investors by the issuers for undertaking *ex-ante* uncertainty risk.

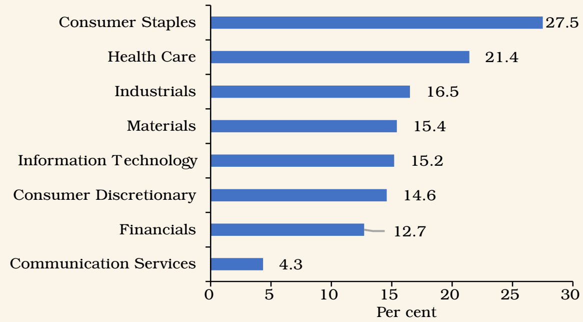
An attempt has been made to examine the factors underlying the underpricing in IPOs in the Indian context using three sets of variables: market specific variables such as oversubscription, lagged market return and lagged volatility; firm characteristics such as age, leverage, growth, profitability and valuation indicators; and IPO specific variables such as IPO size. The data relate to the mainboard

Chart 1: Main board IPO Listing Returns in Last 10 Years (Scrip-Wise)



Source: Bloomberg and RBI staff calculations.

Chart 2: Main board IPO Average Listing Returns in Last 10 Years (Sector-Wise)



Note: Only those sectors with at least five IPOs during last 10-year period are considered.
Source: Bloomberg and RBI staff calculations.

IPOs that were listed on the BSE and the NSE during 2011-12 to 2020-21. The following regression model has been estimated to determine the influence of each characteristic on the adjusted IPO returns, which are calculated as the raw IPO returns minus the BSE Sensex returns on the IPO listing day (adjusted returns are preferred over raw returns to control for the effect of general market on IPO performance).

$$\begin{aligned}\text{Adjusted\_Rtn}_i = {} & \beta_0 + \beta_1\text{Oversubscription}_i + \beta_2\text{Sensex\_lag2mreturn}_i \\ & + \beta_3\text{VIX\_lag2mavg}_i + \beta_4\text{ln\_Age}_i + \beta_5\text{DER}_i + \beta_6\text{ROE}_i \\ & + \beta_7\text{Pat2ygrowth}_i + \beta_8\text{PE}_i + \beta_9\text{ln\_IPOsize}_i \\ & + \text{Sector}_i\end{aligned}$$

Where,

Adjusted_Rtn = Adjusted IPO returns; Oversubscription = Number of application of shares/ number of shares issued by the company; Sensex_lag2mreturn = absolute Sensex returns in two months preceding the IPO; VIX_lag2mavg = average VIX in two months preceding the IPO; Ln_Age = log of the difference between date of incorporation and IPO listing date; DER = debt to equity ratio; ROE = return on equity; Pat2ygrowth = compounded annual growth rate of profit after tax in the last 2 years; PE = price-earnings ratio; and Ln_IPOsize = log of size of IPO proceeds. The model also controls for sector specific dummies.

The coefficient of oversubscription rate is found to be positive and highly significant in explaining the IPO's initial

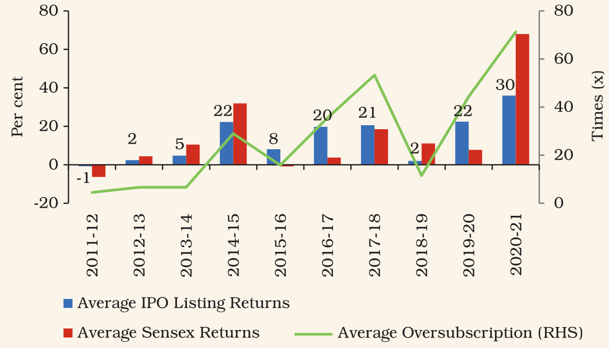
(Contd.)

Table 1: Determinants of IPO Returns
(Dependent variable: Adjusted_Rtn)

Explanatory Variables	Coefficient
1	2
Oversubscription	0.44**
Sensex_lag2mreturn	0.90*
VIX_lag2mavg	-0.85
ln_Age	-2.33
DER	1.7
ROE	0.17
Pat2ygrowth	0.02
PE	-0.09
ln_IPO size	6.2

*: Significant at 5 per cent level. **: Significant at 1 per cent level.
Source: RBI staff calculations.

Chart 3: Average Main board IPO Listing Returns, Sensex Returns and IPO Oversubscription



Note: Year-to-date Sensex returns have been used for 2020-21, while for previous years, average Sensex returns have been used.
Source: Bloomberg, BSE, NSE and RBI staff calculations.

returns (Table 1) and supports the findings of earlier studies (Leong, 2015). Intuitively, a higher oversubscription rate is a signal to the investors in the secondary market on the potential increase in share prices and expected returns (Chart 3). The results also show a positive and significant relationship between lagged Sensex returns and IPO returns, suggesting that IPOs issued during the boom period are relatively more underpriced, which is broadly in line with past studies (*e.g.,* Bhattacharya, 2017). However, the firm specific characteristics are found to be not statistically significant in explaining the price run-ups on the IPO listing day. Further, the negative coefficient of the average VIX is not statistically significant. Thus, the decadal high average IPO listing returns of 36 per cent realised during 2020-21 might have been fuelled by an average oversubscription rate of 71.3 times of IPO issue size.

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3. Bhattacharya, A. (2017), 'Innovations in New Venture Financing: Evidence from Indian SME IPOs', *Global Finance Journal*, Volume 34, November, Pages 72-88.

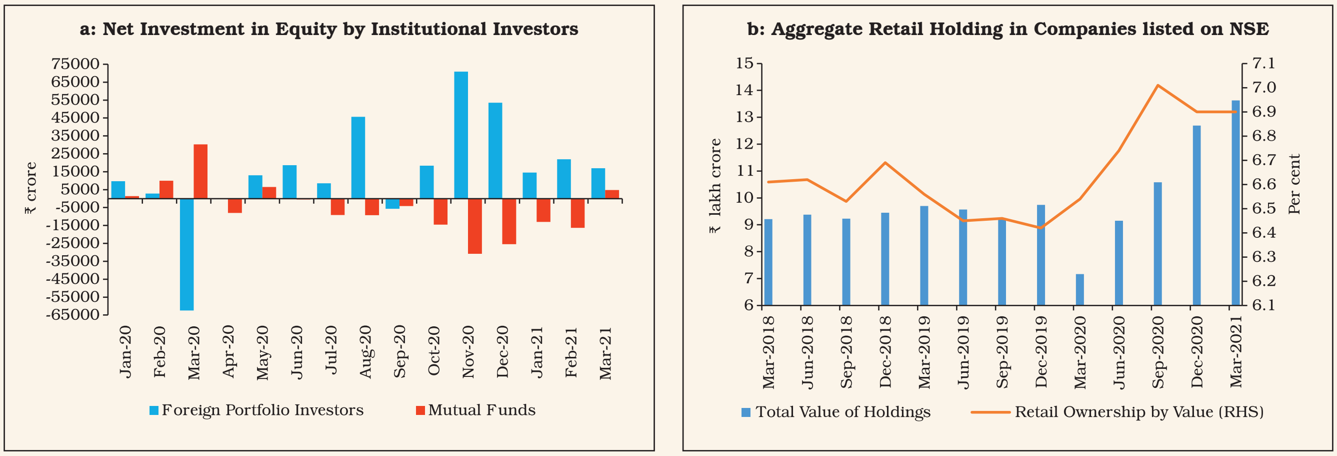
II.4.28 Barring April and September 2020, FPIs remained net buyers in the Indian equity market with November witnessing record inflows of ₹70,896 crore (Chart II.4.7a). The Indian equity market has received a net FPI inflow of ₹2.8 lakh crore in 2020-21, as against a net FPI outflow of ₹6,204 crore during the previous year. However, mutual funds were net sellers during 2020-21 to the tune of ₹1.2 lakh crore.

II.4.29 The direct participation of retail investors in equities witnessed an increase during the year, with the opening of 1.43 crore demat accounts during 2020-21, as against 50 lakh demat accounts opened during the previous year. Further, retail holdings in companies listed on NSE increased to 6.9 per cent as at end-March 2021 from 6.5 per cent as at end-March 2020. In value terms, the retail holdings in NSE listed companies increased to ₹13.6 lakh crore at end-March 2021 as against ₹7.2 lakh crore at end-March 2020 (Chart II.4.7b).

Primary Market Resource Mobilisation

II.4.30 The primary segment of the equity market witnessed increased activity during 2020-21. Resource mobilisation through initial public offers (IPOs), follow-on public offers (FPOs) and

Chart II.4.7: Investment in Equity



Source: Prime Database, NSDL and SEBI

rights issues increased by 43.1 per cent to ₹1.1 lakh crore during 2020-21 from ₹76,965 crore in the previous year (Appendix Table 5). Of these, ₹46,060 crore were mobilised through 57 IPO/ FPO issues, out of which 27 issues amounting to ₹246 crore were listed on the small and medium enterprises (SME) platform of the BSE and the NSE. Resource mobilisation through rights issues increased to ₹64,059 crore during 2020-21 from ₹55,642 crore in the previous year. Resource mobilisation through preferential allotment and qualified institutional placement (QIP) decreased to ₹1.2 lakh crore during 2020-21, as against ₹2.3 lakh crore during the previous year.

II.4.31 Net resources mobilised by mutual funds increased sharply by 146 per cent to ₹2.15 lakh crore during 2020-21 due to favourable base effect as mutual funds had witnessed sharp outflows, largely led by open-ended debt-oriented schemes, during March 2020 on concerns over the spread of COVID-19. Equity-oriented schemes witnessed net redemption of ₹39,327 crore in 2020-21 as against net mobilisation of ₹81,597 lakh crore in 2019-20. Assets under management (AUM) of equity-oriented mutual funds increased by 66.0 per cent to ₹10.0 lakh crore at end-March 2021 from ₹6.0 lakh crore at end-March 2020.

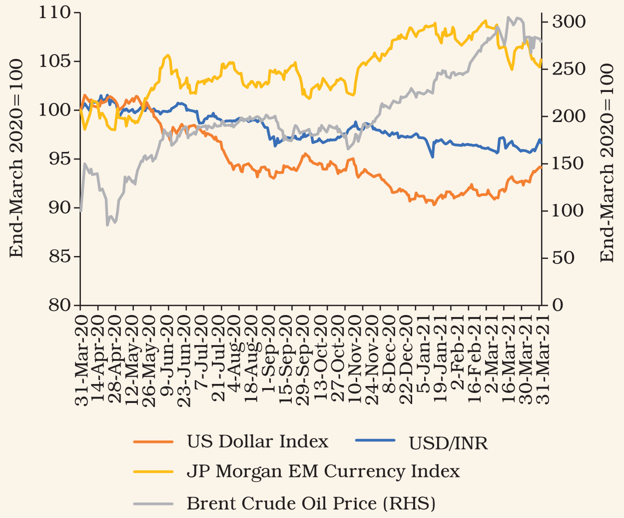
6. Foreign Exchange Market

II.4.32 In the foreign exchange market, turnover in both merchant and the inter-bank segments were lower than previous year's levels during the first half of the year on account of disruptions related to COVID-19. Turnover returned to previous year's levels during the latter part of the year with some segments (merchant spot and inter-bank swaps) exhibiting higher activity.

II.4.33 The Indian rupee touched an all-time intra-day low of ₹76.91/USD in April 2020, with moderate volatility in relation to its peers at the height of pandemic. It then traded with an appreciating bias during the rest of 2020-21. In the ensuing period, the rupee recovered with return of risk appetite for EME currencies following unlocking of economic activities but concerns over COVID-19 infections led the rupee to trade sideways in Q1:2020-21. Tracking gains in other EME currencies, the rupee strengthened in Q2:2020-21, led by robust FPI inflows following optimism over recovery in economic activity before registering some losses owing to escalation in border tensions in September 2020. The announcement of development of COVID-19 vaccines in November 2020 leading to flow of capital towards EMEs, coupled with improvement in sentiment due to uptick in the growth momentum, resulted in gains for the Indian rupee. In Q4: 2020-21, the Indian rupee remained supported by FPI and merchant-related inflows. However, during the last week of February, the rupee traded with a sharp depreciating bias tracking global risk-off sentiments post sell-offs in US bonds triggered by higher inflation expectations and poor auction demand. Overall, the Indian rupee gained by 3.5 per cent (based on USD/INR closing rates as at end-March 2021 over end-March 2020) but underperformed *vis-a-vis* its Asian peers during 2020-21 [Chart II.4.8].

II.4.34 On an average basis, in tandem with movements in the nominal exchange rates of the rupee, the 40-currency nominal effective exchange rate (NEER) depreciated in 2020-21 (y-o-y). The 40-currency NEER depreciated by 4.2 per cent, however, the 40-currency real effective exchange rate (REER) remained almost stable in 2020-21.

Chart II.4.8: Movement in Rupee, US Dollar, Crude Oil Price and EM Currency Index



Source: Bloomberg and RBI staff calculations.

II.4.35 Forward premia mostly remained anchored in short tenors on account of surplus liquidity in the system. However, hardening was witnessed towards the end of 2020-21 amid surplus dollars and paying interest ahead of the year-end. Longer tenors also saw some hardening, tracking the steepened G-sec curve.

7. Conclusion

II.4.36 In sum, the Reserve Bank undertook a slew of measures to instil confidence in the financial markets and the economy. These measures not only ensured orderly market conditions, but also accelerated the pace of recovery as reflected in high frequency economic indicators. The unwinding of some of the policy measures undertaken in the wake of pandemic warrants a calibrated and gradual approach. Going forward, financial market movements would be guided by progress in containing the COVID-19 pandemic, especially through administration of vaccines, the pace of recovery of the global and the domestic economies and developments in global liquidity and financial conditions.

II.5 GOVERNMENT FINANCES

II.5.1 In 2020-21, when general government finances recorded large deviations from budget estimates across the globe, India was no exception. In order to protect lives and livelihoods, and contain the spread of the pandemic, governments unleashed large scale fiscal stimuli of above the line as well as below the line liquidity support measures amounting to around US$ 16 trillion, including US$ 5.7 trillion in the form of quasi fiscal operations and guarantees (Chart II.5.1a). Consequently, fiscal deficits and debt levels shot up around the world in 2020 reflecting a large erosion in revenues due to the contraction in output, and increases in spending to bolster the safety nets. Average overall deficit as a share of GDP reached 11.7 per cent for advanced economies, 9.8 per cent for emerging market economies, and 5.5 per cent for low-income developing countries. Average public debt in the world surged to an unprecedented 97 per cent of GDP in 2020. In 2021, fiscal deficits are expected to remain elevated but to moderate from peak levels as revenues recover partly and temporary pandemic-related expenditures come down (IMF, 2021)[26] (Chart II.5.1b).

Chart II.5.1: Fiscal Support, Fiscal Balance and Gross Debt in G-20 Countries

Note: Fiscal balance and gross debt figures are not available for Argentina in 2021.
Source: World Economic Outlook, April 2021 and Fiscal Monitor, April 2021, IMF.

[26] IMF (2021), 'Fiscal Monitor - A Fair Shot', *International Monetary Fund*, Washington D.C., April.

II.5.2 India's gross debt in 2020-21 was higher than most of the developing countries (except Brazil and Argentina) in the G-20 group, but lower than the advanced countries (Chart II.5.1c). India's general government fiscal deficit and gross debt ratios are projected to shrink in 2021-22.

II.5.3 Against this backdrop, sub-sections 2 and 3 present the position of Central Government finances in 2020-21 and 2021-22, respectively. Similarly, sub-sections 4 and 5 outline the developments in state government finances during 2020-21 and 2021-22. General government finances are discussed in sub-section 6. The final section sets out concluding remarks and some policy perspectives.

2. Central Government Finances in 2020-21

II.5.4 In the wake of the pandemic, the Union Government announced a series of economic reform measures which cumulatively amounted to ₹17.2 lakh crore (Table II.5.1). Within a fortnight of COVID-19 being declared a pandemic, *i.e.,* on March 26, 2020, the government announced the *Pradhan Mantri Garib Kalyan* Package (PMGKP) which focused on protecting lives and livelihoods of vulnerable sections of the population through measures like free foodgrains to the poor; direct benefit transfers to women, senior citizens and poor disabled; and paying both employee and employer contribution to provident fund corpuses for organised sector workers. The second set of stimulus measures named *AatmaNirbhar Bharat Abhiyan* 1.0 (May 13-17) focused on providing liquidity support through government guarantees and low interest rate loans to micro, small and medium enterprises (MSMEs), non-banking financial companies (NBFCs), microfinance institutions (MFIs), housing finance companies (HFCs) and power distribution companies (DISCOMs) to help keep them afloat. Several structural reforms in sectors like coal, minerals, defence production and civil aviation were also part of this package, which were expected to have a salutary impact on growth in the long-term.

Table II.5.1: Fiscal Package Announced by the Union Government

(₹ crore)

S. No.	Scheme	Amount
1	2	3
1.	*Pradhan Mantri Garib Kalyan Package*	1,70,000
2.	PM's Health Package	15,000
3.	Revenue Loss due to Tax Relief Measures	7,800
4.	*AatmaNirbhar Bharat Abhiyan* 1.0	11,02,650
5.	PMGKP *Anna Yojana* Extension	82,911
6.	*AatmaNirbhar Bharat Abhiyan* 2.0	73,000
7.	*AatmaNirbhar Bharat Abhiyan* 3.0	2,65,080
8.	**Total**	**17,16,441**

Source: Press Information Bureau, GoI.

II.5.5 Once travel restrictions were eased and economic activity started to gain momentum, *AatmaNirbhar Bharat Abhiyan* 2.0 (October 12) was announced. It included both consumption-based measures in the form of leave travel concession (LTC) cash voucher scheme and interest free loans for government employees and investment measures in the form of increase in the capex budget of the Union Government and interest free loans to state governments for capital expenditure. The thrust on capital expenditure was continued in the *AatmaNirbhar Bharat Abhiyan* 3.0 (November 12), which included, *inter alia*, additional outlay for *Pradhan Mantri Awas Yojana* - Urban, further increase in the capex budget, equity infusion in the National Investment and Infrastructure Fund (NIIF) and a production-linked incentive (PLI) scheme for 10 identified sectors to boost domestic manufacturing, investment and employment at an estimated cost of ₹1.5 lakh crore to the exchequer over the next five years.

II.5.6 The total fiscal package does not reflect the true fiscal cost to the Union Government as it includes below the line items like liquidity support measures as well. Furthermore, the Union Government also undertook expenditure rationalisation measures in order to cut down avoidable outgoes during the year. Thus, the total expenditure of the Union Government increased from ₹30.4 lakh crore in BE to ₹34.5 lakh crore in RE. This also includes the increase in expenditure arising on account of on-budgeting of a large part of outstanding loans availed in lieu of subsidies by the Food Corporation of India (FCI) from the National Small Savings Fund (NSSF), a practice which was followed since 2016-17.

3. Central Government Finances in 2021-22

II.5.7 The Union Budget 2021-22 has set the stage for a strong revival. This is sought to be achieved by increasing the buoyancy of tax revenue through improved compliance, and by increased receipts from monetisation of assets (Table II.5.2). Efforts at improving tax buoyancy are not reliant on additional taxation. The budget also aims at better compliance through use of data analytics and artificial intelligence. At the same time, the scope of faceless assessment has been broadened by bringing all pending assessment cases within the purview of the scheme. There has also been a renewed push to disinvestment and asset monetisation in the budget through the new public sector enterprise policy, which aims to minimise the presence of central public sector enterprises (CPSEs) and create more space for the private sector. Asset monetisation aims at generating new sources of revenue by unlocking of value in unutilised or underutilised public assets. The government has indicated that it plans to set up a pipeline to monetise 100 government-owned assets over a period of time which may bring in investment opportunities of ₹2.5 lakh crore. It also has a strong disinvestment plan. Four broad strategic areas (atomic energy, space and

Table II.5.2: Central Government's Fiscal Performance

(Per cent of GDP)

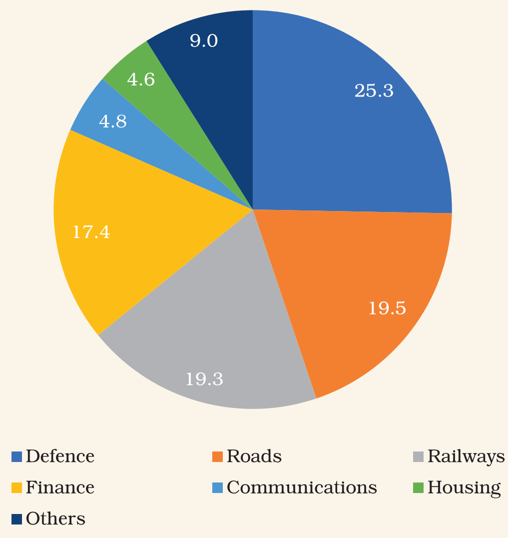
Item	2004-08	2008-10	2010-15	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 (RE)	2021-22 (BE)
1	2	3	4	5	6	7	8	9	10	11	12
Non-debt Receipts	11.0	9.7	9.5	9.2	9.1	9.4	9.1	8.8	8.6	8.2	8.9
Gross Tax Revenue (a+b)	10.7	10.4	10.2	10.0	10.6	11.1	11.2	11.0	9.9	9.7	9.9
a) Direct Tax	5.1	6.0	5.7	5.6	5.4	5.5	5.9	6.0	5.2	4.6	5.0
b) Indirect Tax	5.6	4.4	4.5	4.4	5.2	5.6	5.4	5.0	4.7	5.1	5.0
Net Tax Revenue	7.9	7.6	7.3	7.2	6.9	7.2	7.3	6.9	6.7	6.9	6.9
Non-tax Revenue	2.2	1.8	1.8	1.6	1.8	1.8	1.1	1.2	1.6	1.1	1.1
Non-debt Capital Receipts	0.9	0.3	0.4	0.4	0.5	0.4	0.7	0.6	0.3	0.2	0.8
Total Expenditure	14.5	16.1	14.4	13.3	13.0	12.8	12.5	12.2	13.2	17.6	15.6
Revenue Expenditure	12.1	14.4	12.6	11.8	11.2	11.0	11.0	10.6	11.6	15.4	13.1
Capital Expenditure	2.4	1.7	1.8	1.6	1.8	1.8	1.5	1.6	1.6	2.2	2.5
Revenue Deficit	2.0	5.0	3.5	2.9	2.5	2.1	2.6	2.4	3.3	7.4	5.1
Gross Fiscal Deficit	3.5	6.3	4.9	4.1	3.9	3.5	3.5	3.4	4.6	9.4	6.8

BE: Budget Estimates. RE: Revised Estimates.

Note: Going by the principle of using latest available GDP data for any year, GDP used for 2020-21 (RE) is the latest available Second Advance Estimates (released on February 26, 2021). In view of this, the fiscal indicators as per cent of GDP given in this table may at times marginally vary from those reported in the Union Budget Documents.

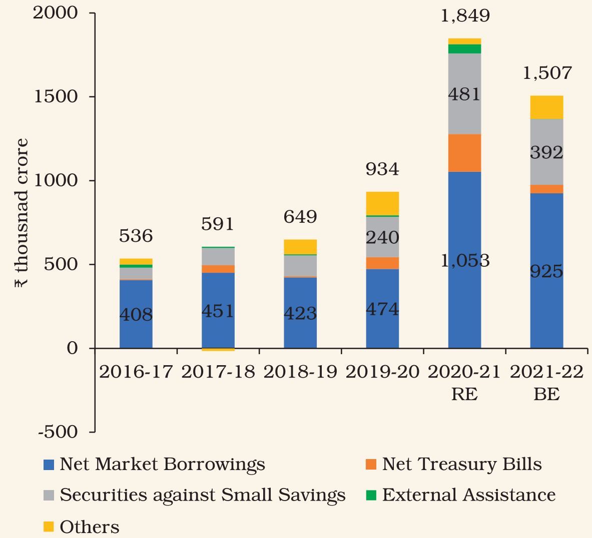
Source: Union Budget Documents.

Chart II.5.2: Ministry-wise Breakdown of Capital Expenditure - 2021-22 (Per cent of Total)



Source: Union Budget Documents.

Chart II.5.3: Sources of Financing Gross Fiscal Deficit



Source: Union Budget Documents.

defence; power, petroleum, coal and minerals; transport and telecommunications; and financial services) have been identified, where CPSEs will have a minimal presence. In all other non-strategic sectors, CPSEs will be either privatised or closed.

II.5.8 In 2021-22, the counter-cyclical fiscal support to the economy is to be maintained through capital expenditure, which is expected to increase to 2.5 per cent of GDP from an average of 1.7 per cent during 2010-20, even as revenue expenditure is set to see some contraction over 2020-21 (RE) (Chart II.5.2). The sizeable deviation in gross fiscal deficit in 2020-21 and 2021-22 has necessitated a quantum jump in market borrowings of the Union Government, which remain the primary source of financing the deficit, followed by access to the NSSF (Chart II.5.3).

4. State Finances in 2020-21[27]

II.5.9 State finances have, in general, shown consolidation *vis-à-vis* budgeted levels over the last three years - 2017-18 to 2019-20[28] - primarily driven by large cuts in capital expenditure. For 2020-21, states had budgeted a combined GFD of 2.8 per cent of GDP; more than half of them budgeted for revenue surpluses (Table II.5.3). COVID-19 undermined these fiscal targets and associated receipts for 2020-21 (BE). 'Scissor effects' - loss of revenues due to demand slowdown, coupled with higher expenditure associated with the pandemic - are likely to erode state finances in 2020-21, with the GFD-GDP ratio projected at 4.0 per cent, with an upside bias (RBI, 2020)[29]. The duration of stress on state finances is contingent upon factors like tenure of

[27] Based on the 2020-21 (BE) for all states, and provisional accounts (PA) data retrieved from the Comptroller and Auditor General of India (CAG) website for 23 states (excluding Arunachal Pradesh, Assam, Bihar, Goa and Maharashtra), for the period April 2020 to February 2021.

[28] Based on PA data retrieved from CAG website for 27 states, augmented with 2019-20 budget estimates for Delhi, Goa, Jammu and Kashmir and Puducherry. For the fiscal year 2019-20, the consolidated fiscal position of all states, in terms of the GFD-GDP ratio, is at 2.4 per cent in 2019-20 (PA), closer to (but lower than) the BE of 2.6 per cent for 2019-20.

[29] RBI (2020), 'State Finances: A Study of Budgets of 2020-21', *Reserve Bank of India*, Mumbai.

Table II.5.3: Fiscal Position of States

(₹ lakh crore)

	2017-18	2018-19	2019-20 (BE)	2019-20 (PA)	2020-21 (BE)
1	2	3	4	5	6
I. Revenue Receipts	23.21	26.21	31.54	26.86	33.27
	(13.6)	(13.8)	(14.9)	(12.4)	(14.8)
II. Capital Receipts	0.40	0.41	0.62	1.35	0.16
	(0.2)	(0.2)	(0.3)	(0.6)	(0.1)
III. Revenue Expenditure	23.40	26.38	31.46	27.89	33.27
	(13.7)	(13.9)	(14.9)	(12.9)	(14.8)
IV. Capital Expenditure	4.31	4.87	6.22	5.46	6.46
	(2.5)	(2.6)	(2.9)	(2.5)	(2.9)
a. Capital Outlay	3.94	4.40	5.81	4.25	5.98
	(2.3)	(2.3)	(2.8)	(2.0)	(2.7)
b. Loans and Advances by States	0.38	0.47	0.41	0.41	0.48
	(0.2)	(0.3)	(0.1)	(0.2)	(0.2)
V. Fiscal Deficit/ Surplus	4.10	4.63	5.54	5.25	6.26
	(2.4)	(2.4)	(2.6)	(2.4)	(2.8)
VI. Revenue Deficit/ Surplus	0.19	0.18	-0.08	1.41	0.00
	(0.1)	(0.1)	(-0.0)	(0.7)	(0.0)

Note: 1. Figures in parentheses are per cent of GDP.
2. Data for 2019-20 Provisional Accounts (PA) are accounts figures of all states available with CAG, augmented with 2019-20 BE estimates for Delhi, Goa, Jammu and Kashmir and Puducherry.

Source: Budget documents of state governments; CAG and MOSPI.

lockdown and risks of renewed waves of infections all of which make traditional backward-looking tax buoyancy forecasting models unreliable.

II.5.10 The provisional accounts (PA) for states for H1:2020-21 (April-September 2020) indicate that their GFD-GDP ratio stood at 3.8 per cent, substantially higher than the budget estimate of 2.8 per cent for the year as a whole. Extending the analysis further to include the data for October-February 2020-21, it is found that the revenue receipts of state governments, after witnessing a sharp contraction till September 2020 due to the pandemic-induced lockdown, have recovered partially with gradual resumption in economic activity. During April-February 2020-21, states' revenue expenditure growth remained muted as higher increase in revenue expenditure during the initial months to mitigate the impact of the pandemic was offset by subsequent re-prioritisation of some allocations, *viz.,* dearness allowance freeze; deferment of part or full salaries and wages; and deduction from salary. Typically, states' fiscal response to COVID-19 should have reflected in a larger increase in revenue expenditure in 2020-21 than budgeted. These spendings, coupled with revenue receipts' shortfall, are likely to convert revenue surpluses as budgeted in 2020-21 into deficits. On the capex side, states have a tendency to cut back their capital expenditure by almost 0.5 per cent of GDP, on an average, to meet fiscal responsibility legislation (FRL) - prescribed deficit targets. A similar tendency relative to PA is seen in 2020-21, particularly since states have not been able to start much capex in H1 because of the lockdown (Q1) and monsoons (Q2). Going forward, however, states are likely to increase capex through investment in healthcare, social housing, education and environmental protection to support a more resilient and inclusive recovery. Any significant cut in capex by states, driven by funding constraints, may counteract the growth impact of the capex push of the centre.

5. State Finances in 2021-22

II.5.11 As per the information available for 17 state governments, the GFD has been budgeted at 3.2 per cent of GSDP in 2021-22 as against 4.1 per cent in 2020-21 (RE). This is in line with the Fifteenth Finance Commission's (FC-XV) recommendation on the revised fiscal roadmap for states. The consolidation over the previous year has been sought to be achieved primarily through enhanced revenue receipts and cut in revenue expenditure while hiking capex (Table II.5.4; Appendix Table 6).

II.5.12 State finances, which have been under stress on the revenue front, are likely to get some support from the FC-XV's recommendations, particularly with respect to grants, which are slated to rise in the award period (Box II.5.1).

Table II.5.4: State Government Finances 2021-22*: Key Indicators

(Per cent of GSDP)

Item	2019-20	2020-21 (BE)	2020-21 (RE)	2021-22 (BE)
1	2	3	4	5
Revenue Deficit	0.0	-0.1	1.5	0.3
Gross Fiscal Deficit	2.1	2.4	4.1	3.2
Primary Deficit	0.6	1.0	2.4	1.5

***:** Data pertain to seventeen states that have presented their final budgets for 2021-22.
Source: Budget documents of state governments.

6. General Government Finances

II.5.13 As per the latest available information for 2020-21 - RE for centre and BE for states - the general government deficit and debt have soared to around 12.6 per cent and 90 per cent of GDP,

Box II.5.1
15th Finance Commission Recommendations: A Comparative Analysis

The full report of the FC-XV (Chairman: Shri N. K. Singh) covering the period 2021-26 was submitted on November 9, 2020 and was placed before the Parliament on February 1, 2021. There are three aspects to the recommendations in a historical context: tax devolution, grants and fiscal roadmap/rules.

Tax Devolution

The base of union taxes shareable with the states was considerably widened by the Eleventh Finance Commission (FC-XI) which recommended that all union taxes, excluding cesses and surcharges, should be shareable with states (earlier only excise duty and income tax collections were shareable). Since then, successive finance commissions have made increments in the devolution ratio, with the Fourteenth Finance Commission (FC-XIV) making a radical departure by recommending a significantly higher share in view of the abolition of the planning commission and cessation of plan grants, thus making tax devolution the primary vehicle for federal transfers. Nevertheless, the increase in devolution ratio did not translate into a commensurate rise in the devolved taxes due to the proliferation of cesses and surcharges that are excluded from the divisible pool of union taxes. FC-XV was guided by stability and continuity in tax transfers and has maintained the tax devolution ratio (adjusting for the share attributable to Jammu and Kashmir) recommended by its predecessor. As regards the *inter se* distribution of taxes among states (horizontal sharing), equity-based criteria have dominated in determining the share of individual states since the Eighth Finance Commission (FC-VIII), thus making the tax devolution progressive. In case of the FC-XV, the most significant change in the criteria for determining the share of individual states is to move the population census from 1971 to 2011. It has introduced a new criterion of demographic performance - the product of the inverse of the total fertility rate as per 2011 population census, and a state's population in 1971 - to reward states that have successfully brought down population growth. The other major change is the re-introduction of the criterion for tax effort that was used by the

(Contd.)

X[th], XI[th] and XII[th] Finance Commissions, but was done away with by the XIII[th] and XIV[th] Finance Commissions (Table 1).

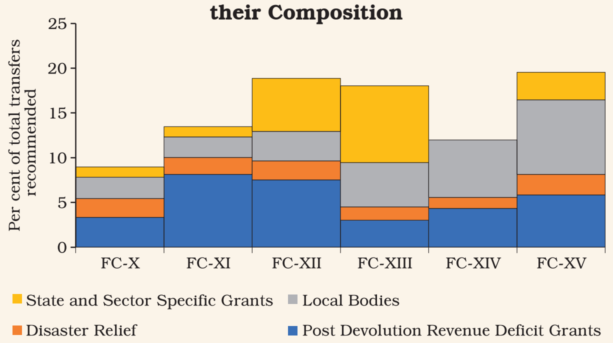
Grants-in-Aid

The FC-XV has made a significant departure from its predecessor in recommending a historically high share of grants in total transfers. Compositionally, grants to local bodies have the highest share in finance commission grants since the FC-XIII, followed by post devolution revenue deficit grants, both of which have seen their share in total transfers rise consecutively in the last two finance commission recommendations. The FC-XV has brought back sector- and state- specific grants that were a regular feature till the FC-XIII; the Union Government has, however, indicated that it will give due consideration to these grants while revisiting the centrally sponsored schemes (Chart 1).

Fiscal Roadmap/Rules

Successive finance commissions have recommended debt and deficit targets as well as institutional changes to make governments accountable and transparent in the conduct of fiscal policy. The FC-XII, the FC-XIII and the FC-XIV recommended elimination of revenue deficits and limiting the fiscal deficit to GDP ratio to 3 per cent at both levels of government. As regards institutional measures, FC-XII recommended the creation of a sinking fund for debt repayments and a guarantee redemption fund to safeguard states finances from invocation of guarantees, both of which have been implemented by the majority of states. The FC-XIV recommended exclusion of state governments from

Chart 1: Grants-in-aid Recommended and their Composition



Source: Finance Commission Reports.

NSSF operations from April 1, 2015 (existing obligations on servicing and repayments to be fulfilled). The FC-XV has made significant relaxations in the fiscal deficit and debt targets in view of the pandemic induced slowdown. The gross fiscal deficit (GFD) for the Union Government is recommended on an elevated path with the terminal year (2025-26) target in the range of 3.5 to 4.5 per cent of GDP and the normal net borrowing limit of state governments has been relaxed to 4 per cent of GSDP in 2021-22 and 3.5 per cent of GSDP in 2022-23, with an additional allowance of 0.5 per cent for the four year period of 2021-22 to 2024-25 conditioned upon improvement in operational and financial performance of power distribution companies (DISCOMs). It has also made a recommendation to appoint a high-powered inter-governmental committee to examine the issue of debt sustainability (Table 2).

Table 1: Tax Devolution: Vertical Devolution and Horizontal Sharing Criteria

FC Period	Vertical Devolution		Criteria for Horizontal Sharing Between States									
			Need and Cost Disability				Equity			Performance		
	Tax Devolution Ratio (All Central Taxes)	States' Share / Gross Tax Revenue	Population (1971)	Population (2011)	Area Adjusted	Forest Cover	Infrastructure Distance	Income Distance Per Capita	Fiscal Capacity Distance	Tax Effort	Fiscal Discipline	Demographic Performance
1	2	3	4	5	6	7	8	9	10	11	12	13
FC-XI (2000-2005)	29.5	26.6	10.0	-	7.5	-	7.5	62.5	-	5.0	7.5	-
FC-XII (2005-2010)	30.5	25.9	25.0	-	10.0	-	-	50.0	-	7.5	7.5	-
FC-XIII (2010-2015)	32.0	27.9	25.0	-	10.0	-	-	-	47.5	-	17.5	-
FC-XIV (2015-2020)	42.0	34.4	17.5	10.0	15.0	7.5	-	50.0	-	-	-	-
FC-XV (2020-2026)	41.0	-	-	15.0	15.0	10.0	-	45.0	-	2.5	-	12.5

Source: EPW Research Foundation; Union Budget 2020-21; Finance Commission Reports and Reddy *et al.*, (2019).

(Contd.)

Table 2: Fiscal Roadmap / Rules Recommended by Finance Commissions

Finance Commission and Tenure	General Government Finances		Central Government Finances		Finances of State Governments	
	Debt and Deficit Targets	Other Targets/ Measures	Debt and Deficit	Other Targets/ Measures	Debt and Deficit	Other Targets/ Measures
1	2	3	4	5	6	7
FC-XII (2005-10)	Debt-GDP ratio of 75 per cent by 2009-10.	Tax-GDP target of 17.6 per cent by 2009-10.	Long-term debt-GDP ratio to be 28 per cent; GFD-GDP ratio of 3 per cent; eliminate revenue deficit by 2008-09.	Achieve interest payments to revenue receipts ratio of 28 per cent by 2009-10.	Long-term debt-GDP ratio to be 28 per cent; GFD-GDP ratio of 3 per cent; eliminate revenue deficit by 2008-09.	Enactment of FRL legislation to define deficit targets; creation of sinking fund for future repayments of borrowings; creation of guarantee redemption fund to meet requirement of their invocation.
FC-XIII (2010-15)	Debt-GDP ratio of 68 per cent by 2014-15	Resource requirement of states in case of macroeconomic shocks to be managed through additional borrowings by the Centre to be devolved to the states as per the tax devolution formula.	Debt-GDP ratio of 44.8 per cent by 2014-15; eliminate revenue deficit by 2014-15.	Disinvestment receipts to be kept in a consolidated fund and not in the public account of the centre.	Debt-GDP ratio of 24.3 per cent by 2014-15; eliminate revenue deficit by 2014-15.	Amend/enact FRBM Acts to build in the fiscal reform path; state-specific grants to be conditional on compliance.
FC-XIV (2015-20)		Transparent accounting for the performance of public sector undertakings (guarantees, off-budget borrowings and accumulated losses) to be made available annually with the budget presentation.	GFD-GDP ratio of 3 per cent by 2016-17 and thereafter. Eliminate revenue deficit by 2019-20.	Amendment of the FRBM act to reflect the fiscal roadmap, omit the definition of effective revenue deficit and mandate the establishment of an independent fiscal council.	GFD-GDP ratio of 3 per cent; additional incentive based borrowing up to 0.5 per cent of GSDP based on achieving targets on revenue deficit, interest payments - revenue receipts ratio and debt-GSDP ratio.	Exclusion of state governments from NSSF operations from April 1, 2015 (existing obligations on servicing and repayments to be fulfilled).
FC-XV (2020-26)	GFD-GDP ratio glide path from 9.3 per cent in 2021-22 to 6.8 per cent in 2025-26; projected debt-GDP ratio of 85.7 per cent in 2025-26, after peaking at 89.6 per cent in 2022-23.	Restructuring of FRBM Act and time-table for defining and achieving debt sustainability to be examined by a high-powered inter-governmental group.	In the baseline scenario, GFD-GDP ratio glide path from 6 per cent in 2021-22 to 4 per cent in 2025-26[30]; projected debt-GDP ratio of 56.6 per cent in 2025-26, after peaking at 62.9 per cent in 2021-22.	-	Normal limit of net borrowings to be 4 per cent in 2021-22, 3.5 per cent in 2022-23 and 3 per cent of GSDP from 2023-24 to 2025-26; incentive based additional borrowings of 0.5 per cent of GSDP from 2021-22 to 2024-25.	-

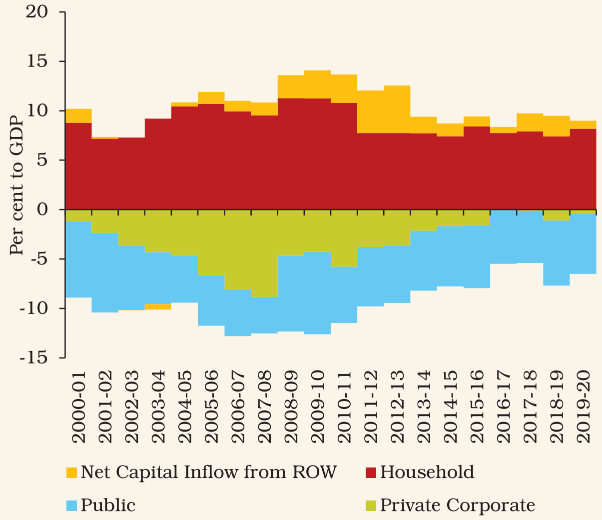
References:

1. Ministry of Finance (2020), 'Report of the Fifteenth Finance Commission', Ministry of Finance, *Government of India*, New Delhi.
2. Reddy, Y. V. and G. R. Reddy (2019), 'Indian Fiscal Federalism', *Oxford University Press*, New Delhi.

respectively. These figures are likely to go up further once the revised estimates of all states are available. Such high levels of deficit and debt are likely to pose challenges in financing, once private investment picks up (Chart II.5.4; Appendix Table 7).

[30] In the Union Budget 2021-22, the government has proposed to reach a fiscal deficit level below 4.5 per cent of GDP by 2025-26, with a fairly steady decline over the period.

Chart II.5.4: Resource Gap



ROW: Rest of the world.
Source: NSO, GoI.

7. Conclusion

II.5.14 In sum, the deterioration in major fiscal indicators in 2020-21 may be attributed to the pandemic superimposed on a cyclical slowdown in tax revenues and a counter-pandemic fiscal push through higher government expenditure. Going forward, as growth revives and economy gets back on track, it is important for the government to adhere to a clear exit strategy and build fiscal buffers, which can be tapped into in events of future shocks to growth.

II.6 EXTERNAL SECTOR

II.6.1 India's external sector was impacted by worsening of both external and domestic demand conditions amidst the COVID-19 pandemic during 2020-21. A recession-driven fall in imports and favourable terms of trade compressed the merchandise trade deficit during the year. Notwithstanding a fall in remittances driven by deterioration in the economies of source countries, the compressed trade deficit is likely to translate into a current account surplus for the first time on an annual basis after 2003-04. With inflows of foreign direct and portfolio investment remaining strong, these developments led to a large reserve accretion during the year.

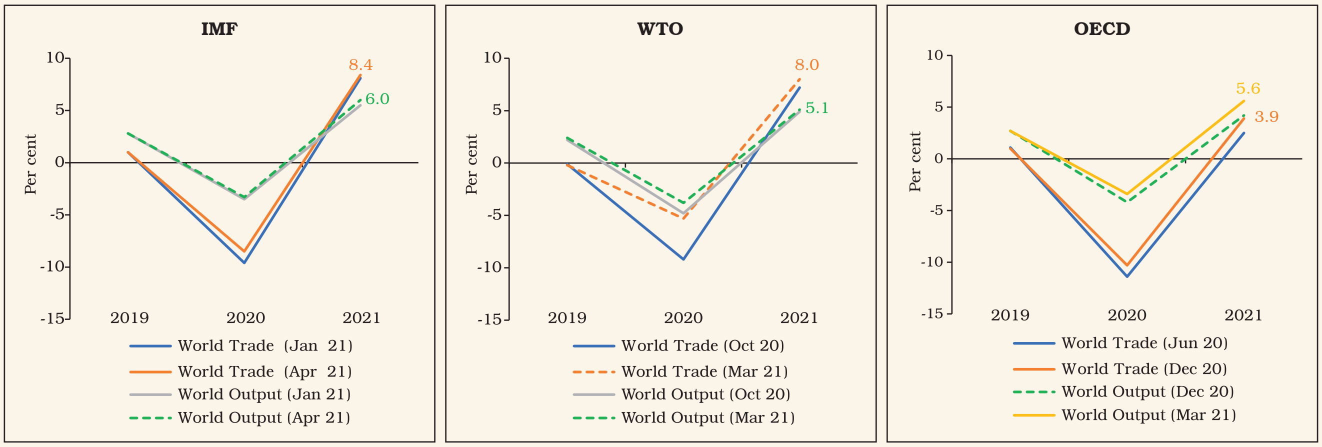
II.6.2 Against this backdrop, global economic and financial conditions in which these shifts in external balances occurred are outlined in sub-section 2, followed by a discussion on merchandise trade and invisibles in sub-sections 3 and 4, respectively. An analysis of capital flows is provided in sub-section 5, with an assessment of external sustainability in sub-section 6, followed by concluding observations.

2. Global Economic Conditions

II.6.3 The COVID-19 pandemic took a severe toll on global economic activity in H1:2020. Global demand plunged following a very sharp compression in consumption and a collapse in investment and international commodity prices. Propelled up by massive policy support by both governments and central banks, however, major economies recorded a sequential pick-up in Q3:2020. Even as intensification of containment measures in response to a strong resurgence of coronavirus infections across various countries posed downside risks, progress with vaccines and inoculation drives lifted expectations and reduced uncertainty on the global economic outlook as reflected in improvement in global economic projections for 2020 by the IMF in January 2021 and April 2021 (contraction of 3.5 per cent and 3.3 per cent, respectively) [Chart II.6.1]. With demand conditions normalising alongside easing of supply and mobility disruptions in an environment of sustained policy support, a faster economic recovery is expected in 2021.

II.6.4 World merchandise trade activity also appears to be gaining momentum from the contraction of 21 per cent in Q2 (Chart II.6.1).

Chart II.6.1: Real GDP and World Trade Volume Projections (Y-o-Y Growth)



Note: World trade in WTO projection relates to merchandise trade while that in IMF projection pertains to trade in goods and services.
Source: WTO, IMF, and OECD.

A contraction of 6 per cent in Q3:2020 and an expansion of 2 per cent in Q4:2020 has signalled the turnaround. Services trade that contracted 28 per cent in Q2 is taking longer to revive. The WTO's goods trade barometer recovered from 84.5 in August to 103.9 in December 2020[31] but components of trade are since showing some signs of deceleration. Since the pandemic, travel and tourism have been the most impacted sectors due to a sharp cutback in global migration and imposition of travel restrictions. The impact of COVID-19 on global remittances, already discernible in 2020, may extend to 2021, as demand for expatriate workers may not recover fully amongst source countries.

II.6.5 Lockdowns also impacted cross-border investment across greenfield projects as well as cross-border mergers and acquisitions, leading to a decline in global foreign direct investment flows by 38 per cent in 2020.[32] Europe faced a sudden stop, but developing economies, especially in Asia, fared better. After the COVID-19 pandemic triggered a massive portfolio outflow from EMEs in March 2020, the rapid and unprecedented response from governments and central banks, steps by the US Federal Reserve to support dollar liquidity, weakening of the US dollar, and the quick recovery in China helped rekindle portfolio flows in Q4:2020. Benefitting from reflation trade, EMEs hosted portfolio inflows to the tune of US$ 518 billion during 2020-21 (April-March), of which almost 77 per cent has been into debt markets. Boosted by resurgence in capital flows and fall in US dollar, EME currencies recovered during April-June 2020 and remained stable thereafter. Starting March 2020, massive purchases by central banks and reflation trade helped suppress bonds' yields globally and the revival in risk appetite gave a much-needed impetus to foreign portfolio investors in acquisitions of EME assets. From Q3:2020, a broad-based recovery also set in upon commodity markets.

[31] Launched in 2019, WTO's services trade barometer for December 2020 at 104.7 suggests recovery in services trade.

[32] 'FDI in Figures', OECD (April 2021); and Investment Trend Monitor, UNCTAD (January 2021).

3. Merchandise Trade

II.6.6 Against the backdrop of the collapse in world trade, India's merchandise exports and imports contracted by 7.3 per cent and 18.0 per cent, respectively, during 2020-21. A fall in prices[33], combined with a decline in volume by 3.5 per cent, pulled down exports. The stringent measures, which were imposed domestically to curb the spread of the pandemic disrupted export supply chains, especially in Q1:2020-21. Only pharmaceuticals, agricultural products and iron ore could withstand the onslaught of the pandemic (Table II.6.1). A revival gained strength in Q3, on the back of growth in non-oil exports (3.1 per cent) (Charts II.6.2a and II.6.2b).

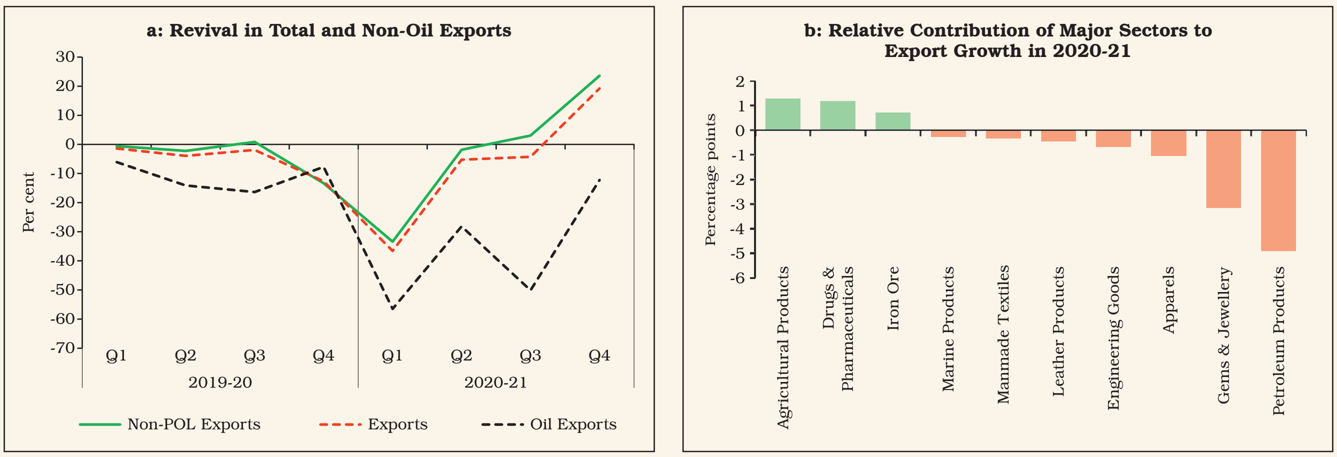
Table II.6.1: India's Merchandise Trade

	Value in US$ Billion			Growth Rate (Y-o-Y) in Per Cent		
	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21
1	2	3	4	5	6	7
Exports						
Q1	82.1	80.9	51.3	14.7	-1.4	-36.6
Q2	81.4	78.2	74.1	9.7	-3.9	-5.3
Q3	80.6	79.1	75.7	4.7	-1.9	-4.3
Q4	86.0	75.1	89.5	6.7	-12.7	19.2
Annual	330.1	313.4	290.6	8.8	-5.1	-7.3
Imports						
Q1	128.7	130.1	61.3	12.7	1.1	-52.9
Q2	132.9	118.0	88.3	22.8	-11.3	-25.2
Q3	130.7	116.1	110.5	8.1	-11.2	-4.8
Q4	121.7	110.5	130.9	0.3	-9.2	18.4
Annual	514.1	474.7	389.2	10.6	-7.7	-18.0
Trade Balance						
Q1	-46.6	-49.2	-9.9			
Q2	-51.5	-39.7	-14.1			
Q3	-50.1	-37.1	-34.9			
Q4	-35.7	-35.4	-41.4			
Annual	-184.0	-161.3	-98.6			

Note: Quarterly figures will not add up to annual figures.
Source: DGCI&S.

II.6.7 There was a decline in petroleum, oil and lubricant exports by 37.3 per cent during 2020-21, reflecting the effect of a drop in global crude oil prices. The decline in volume was smaller at 15 per cent. Production wars within OPEC plus and ensuing supply-demand mismatches triggered the steep fall in oil prices, with settlement prices for West Texas Intermediate futures closing in negative territory on April 20, 2020 while Brent crude prices dipped briefly below US$ 20 per

Chart II.6.2: Moderation in Contraction in Non-Oil Exports and Relative Contribution in Export Growth



Source: DGCI&S.

[33] The data on international prices for exports/imports are sourced from World Bank (pink sheet, Manufacturing UVI), IMF and other sector-specific websites providing trend in international prices (*e.g.*, spices, steel, petrochemicals, *etc.*) which are used as proxies to estimate weighted change in export volume.

barrel on April 27, 2020. However, oil price dynamics gradually changed during the year with supply restraints more rigorously observed by OPEC plus, supported by additional voluntary production cuts by the OPEC's largest producers in June 2020 and January 2021. Later in March 2021, the production cuts were extended till April 2021.

II.6.8 As pointed out earlier, drugs and pharmaceutical exports maintained positive growth during 2020-21, these exports grew by 18.1 per cent (US$ 24.4 billion) on a y-o-y basis. This resilient performance can be attributed to leveraging existing competencies in generic medicines production. India has a sizeable presence in the case of medicine exports, being the third largest exporter globally in volume terms. Moreover, Indian pharmaceutical companies supply around 50 per cent of vaccines globally. This expertise has been leveraged by Indian pharma companies to enter into partnerships with global pharma companies to produce COVID-19 vaccines. India has been highly dependent on China for Active Pharmaceutical Ingredients (APIs) imports; however, the recent Production-Linked Incentive (PLI) scheme addresses the API concentration risks and aims to make India's manufacturing process globally competitive with a focus on increasing exports. The pharmaceutical sector has received around one-tenth of the total financial outlay under the PLI scheme and this move is expected to create economies of scale and strengthen India's integration with global value chains (Box II.6.1).

Box II.6.1
COVID-19 Pandemic - Opportunities and Challenges for Indian Pharmaceutical Exports

The COVID-19 pandemic has placed the US$1 trillion global medical exports market at the centre stage of the global growth recovery. The World Health Organisation (WHO) suggested that a substantial portion of the world population needs to be vaccinated to develop herd immunity against COVID-19. On a conservative estimate of an average price of US$ 8 per vaccine[34], export opportunities to the tune of US$ 31 to US$ 36 billion are estimated to open up at the global level. By undertaking research and development (R&D) activity at an unprecedented speed, vaccines have been developed in a record nine months. New ground-breaking (mRNA) techniques have also been employed, which reportedly will have the potential to cure many incurable diseases like cancer and Parkinson's, opening up new revenue streams for the pharma sector.

India's pharma sector contributes around 2 per cent to GDP and 6.6 per cent to total merchandise exports. India is the 12th largest exporter of medical goods in the world and India's pharma exports grew faster than world exports during the last two decades. Furthermore, India is a major supplier to least developed and developing countries. According to data analytics company Airfinity, India would be the leading supplier of the COVID-19 vaccine after the US in coming years (Chart 1a to 1c). Indian pharmaceutical firms have already started rolling out COVID-19 vaccine by leveraging on existing infrastructure and a skilled labour force. As on March 15, 2021, India had supplied total 586.4 lakh COVID-19 vaccines to 71 countries comprising grants (81.3 lakh), commercial exports (339.7 lakh) and under the COVAX platform (165.5 lakh). However, following the second wave and the pressing need to upscale vaccination in India, some moderation in its exports is expected in the short-term.

In order to analyse the comparative advantage of Indian pharma companies, a panel fixed effect regression model for 67 pharmaceutical firms is estimated by using Prowess database, with exports to sales ratio as an explanatory variable and covering the sample period of 2010-11 to 2019-20, following the empirical specification (Rentala *et al.*, 2017):

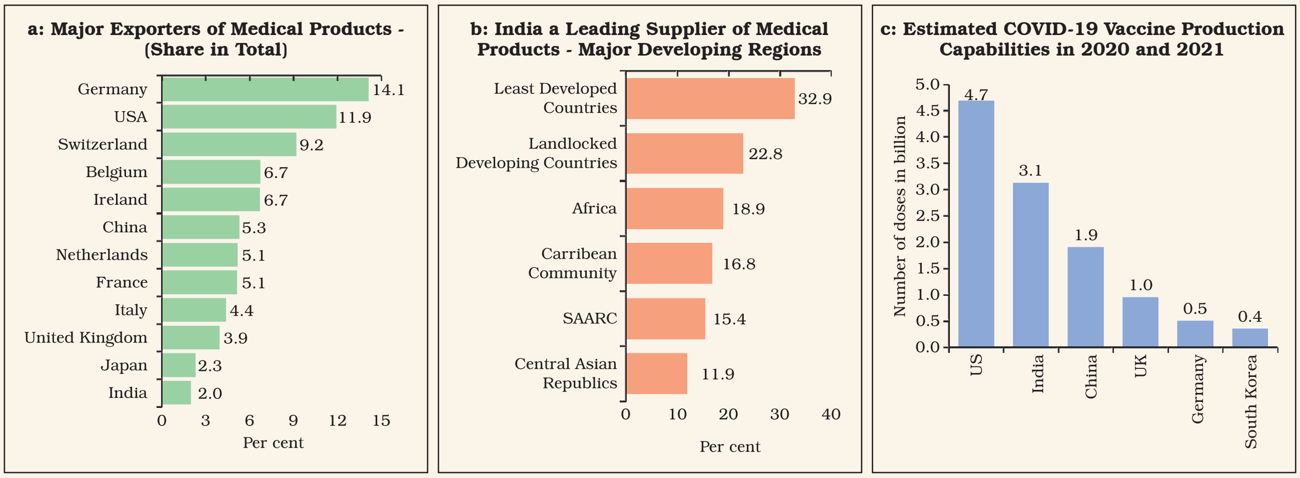
$$V_{it} = \alpha_0 + \alpha_i X_{it} + T_t + T_i + \varepsilon_{it}$$

where the dependent variable (V) is exports by 'i^{th}' firm as a proportion of its sales in the 't' year. X represents a vector of firm-specific explanatory variables, *viz.,* imports intensity, measured as the ratio of the imports of raw materials to

(Contd.)

[34] Average COVID-19 vaccine price of US$ 8 taken from UNICEF.

Chart 1: India – A Leading Exporter of Medical Products



Source: ITC TradeMap, Airfinity and Statista.

overall purchase of raw material of a firm; research and development intensity, measured by the ratio of research and development expenditure to sales; leverage ratio, measured as total debt as a percentage of total assets; capital intensity, which is measured as net fixed assets as a percentage of total sales in the given year; and profitability, measured by the ratio of profits after tax to sales. T_t and T_i are time fixed effects and firm fixed effects to control for conditions in different financial years and in different firms, respectively.

Empirical findings suggest that, R&D, import intensity, capital intensity and profit after tax are important factors that influence exports intensity (Table 1). Indian pharmaceutical companies spend only around 8-13 per cent of their turnover on R&D. Higher R&D expenditure improves product quality and enhances competitiveness in foreign markets (Grossman and Helpman, 1991). India's pharma export sector relies heavily on imports of Active Pharmaceutical Ingredients (APIs), especially in the case of bulk drugs and this is corroborated by the empirical findings which suggest that import intensity is statistically significant.

Table 1: Export Intensity of India's Pharmaceutical Industry

Explanatory Variables	Dependent Variable: Export Intensity
1	2
Profit after Tax	0.07* (2.87)
R&D Intensity	0.69* (3.97)
Capital Intensity	0.03* (3.38)
Leverage	-0.02 (1.2)
Import intensity	0.10* (2.93)
No. of Companies	67
Time Fixed Effects	YES
Company Fixed Effects	YES
R-squared	0.86

***:** Significant at 1 per cent level.
Source: Prowess (CMIE); and RBI staff estimates.

The government has already taken several initiatives to reduce import dependency in certain key drug intermediates and APIs. Priority has also been accorded to boost R&D and original design capabilities through the PLI scheme. These actions bode well for raising the export potential of domestic pharma companies.

References:

1. Grazzi, M., Mathew, N., & Moschella, D. (2017), 'Efficiency, Innovation, and Imported Inputs: Determinants of Export Performance among Indian Manufacturing Firms', *LEM Working Paper Series* (No. 2017/09).

2. Grossman, G.M. and Helpman, E. (1991), 'Trade, Knowledge Spillovers, and Growth', *European Economic Review*.

3. International Monetary Fund (2021), *'World Economic Outlook Update'*, January.

4. Rentala, S., Anand, B., & Shaban, M. (2017), 'Determinants of Export Performance: An Empirical Analysis of the Indian Pharmaceutical and Automobile Industries', International Business Strategy (pp. 241-257), *Palgrave Macmillan*, London.

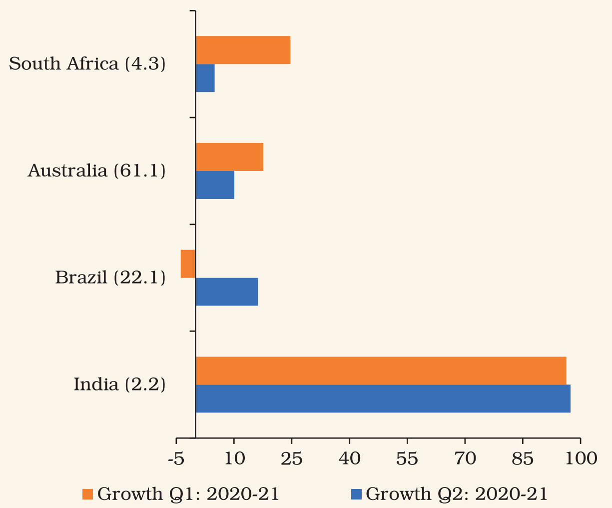
II.6.9 Iron ore exports have shown robust growth of 86.8 per cent on y-o-y basis (US$ 4.9 billion) during 2020-21, posting double-digit growth in all months. The growth in iron ore exports was due to higher export volumes, aided by rising iron ore prices. In recent years, China has been the major export destination, accounting for more than four-fifths of India's total iron ore exports. Concerns over Brazil's iron ore supply and ongoing trade tensions between Australia and China have vacated additional space for India (Chart II.6.3). As a result, the supply-demand mismatch led to a steep rise in iron ore prices since June 2020 to record levels.

II.6.10 Agricultural exports also showed resilience in COVID-19 times. According to the WTO, trade in agricultural products has been more resilient than overall trade. Initially, countries focused on ensuring food security by imposing exports restrictions and stockpiling food products; however, later on, there was a switch in policies towards supporting agricultural producers and mending supply chains by relaxing export restrictions.

II.6.11 In India as well, agricultural exports which contracted in Q1:2020-21 rebounded sharply in subsequent quarters. The recovery was aided by a bumper *kharif* harvest creating favourable supply conditions (Chart II.6.4).

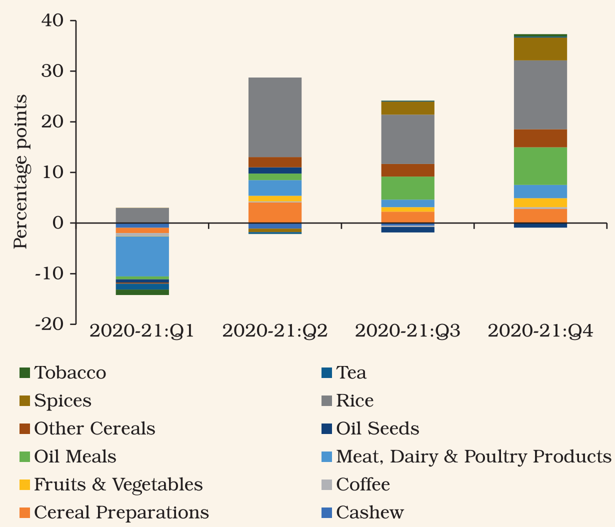
II.6.12 Engineering goods - accounting for around one-fourth of India's total merchandise export basket - contracted sharply in Q1:2020-21 as major export destinations imposed lockdowns. However, there has been a revival from Q2:2020-21 and a strong rebound in Q4:2020-21, especially in March 2021. Within this sector, exports of base metals including iron and steel, copper and products, zinc and products, and aluminium and products witnessed positive growth. The sharp industrial recovery in China and other East Asian economies, which emerged relatively unscathed from COVID-19, led to increased demand for base metal exports from India. On the other hand, exports of transport-related goods, including motor vehicles, ships, auto components have slumped, thereby pulling down the growth of overall engineering goods. The PLI scheme

Chart II.6.3: China's Iron Ore Imports Profile



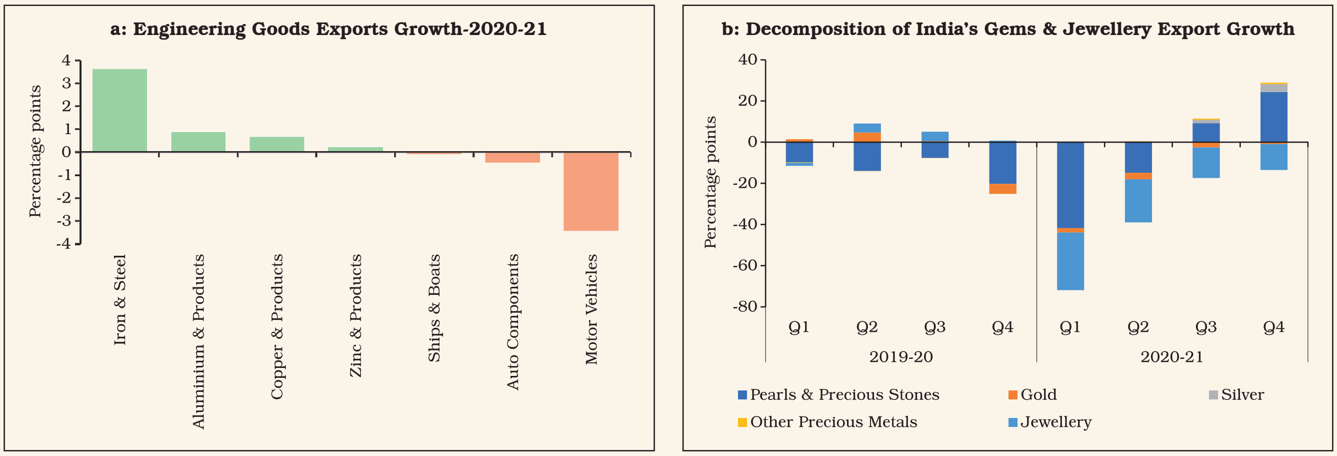
Note: Figures in parentheses indicate share in Chinese iron ore imports in 2019.
Source: International Trade Centre.

Chart II.6.4: Relative Contribution of Commodities in Agricultural Export Growth



Source: DGCI&S.

Chart II.6.5: Engineering Goods and Gems and Jewellery Exports



Source: DGCI&S.

has been introduced for many components of engineering goods, including automobile and auto components and speciality steel. Furthermore, PLI schemes for manufacturing of white goods (air conditioners and light emitting diodes), high-efficiency solar photovoltaic modules, telecom and networking goods and advance chemistry cell (ACC) battery are expected to boost electronic goods exports and also support engineering good exports through economies of scale (Chart II.6.5a).

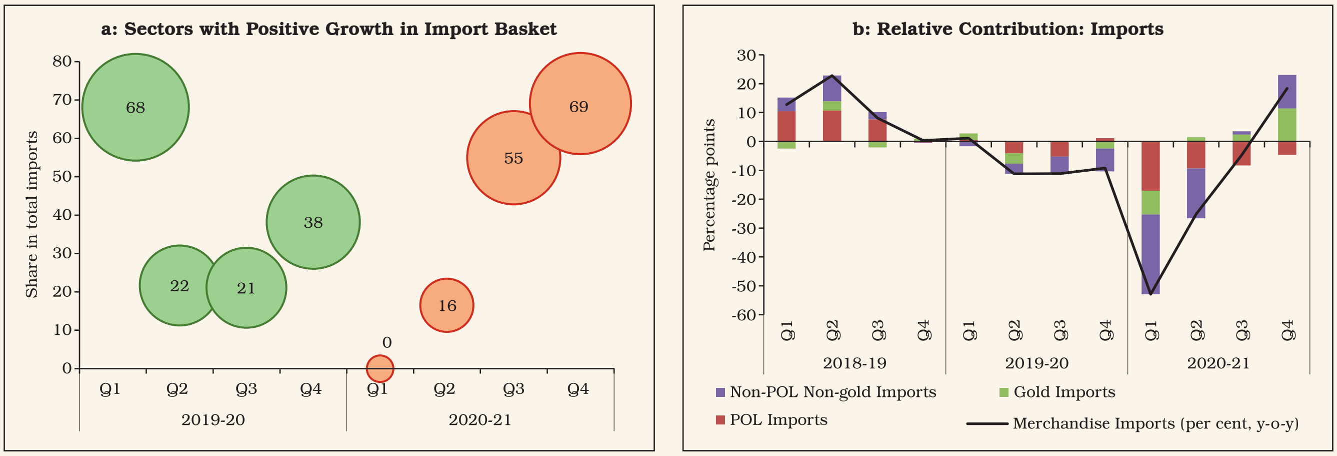
II.6.13 Gems and jewellery exports, which were contracting in 2019-20, slumped further in 2020-21 due to COVID-19 related demand and supply disruptions. The contraction was particularly severe in Q1:2020-21, but export growth finally returned into positive territory in November 2020 due to revival in demand for pearls and precious stones (Chart II.6.5b). Gold jewellery, which is the other major component, remains in a deep contractionary mode. The UAE used to be the largest destination of gold jewellery exports, accounting for more than 50 per cent of India's total gold jewellery exports. However, travel restrictions and the reluctance of Indian exporters to ship goods on credit owing to the uncertainty created by COVID-19 led to a massive slump in exports of gold jewellery to the UAE.

II.6.14 As stated earlier, the outbreak of COVID-19 resulted in severe supply and demand-side disruptions, India's merchandise imports, which witnessed a slowdown during 2019, started to recover in January and February 2020. However, with the spread of the pandemic, import growth registered the biggest contraction in 30 years in April 2020, contracting by 59.7 per cent as against a growth of 6.1 per cent in April 2019. The contraction was also reflected in volume terms. As per the latest available data, imports declined to US$ 389.2 billion in 2020-21 from US$ 474.7 billion in 2019-20, a decline of 18.0 per cent (Table II.6.1). The contraction in imports has been due to price and volume effects, with import volume estimated to have declined by 8.9 per cent[35].

II.6.15 The sectoral composition reveals that the contraction in imports was broad-based. The rolling out of stimulus packages, along with the

[35] Refer to footnote in Para II.6.6.

Chart II.6.6: Share of Sectors Showing Positive Growth in Import Basket and Relative Contribution in Import Growth



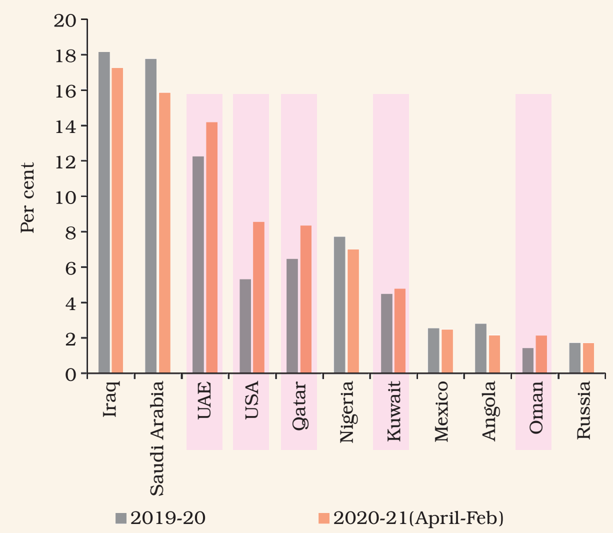
Source: DGCI&S.

gradual easing-up of lockdown measures during the festival season, resulted in a recovery in domestic demand (Chart II.6.6a). Commodity-wise, petroleum, oil and lubricants (POL), transport equipment, machinery, coal, pearl and precious stones and iron and steel are the major sectors which pulled down import growth during the year (Chart II.6.6b).

II.6.16 India is the world's third-largest crude oil consumer after the US and China, with an import dependency of nearly 85 per cent, POL plays a critical role in total import payments.[36] With the imposition of lockdown and travel curbs, the demand for POL collapsed, and POL import bill fell to US$ 82.4 billion (a decline of 36.9 per cent, y-o-y) during 2020-21 from US$ 130.6 billion in the corresponding period of the previous year. Lower POL imports reflected a fall in international crude oil prices (Indian basket) by 25.9 per cent (y-o-y) along with an estimated decline in volumes by 13.8 per cent.

II.6.17 Iraq and Saudi Arabia remained the largest crude oil suppliers for India, though their share declined during the period. Venezuela, which was amongst India's major crude oil suppliers, witnessed a steep decline in its share (0.9 per cent in April-February 2021 compared to 4.6 per cent in 2019-20) after the US imposed sanctions. By contrast, the UAE, Qatar and the US gained share in India's POL imports (Chart II.6.7).

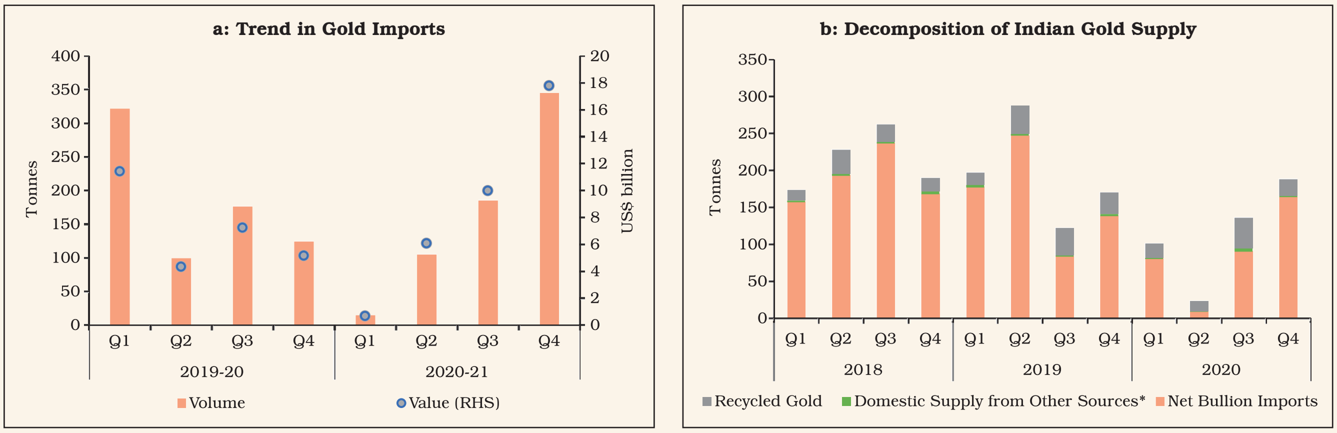
Chart II.6.7: Share of Trading Partner in India's Crude Oil Import Basket



Source: RBI staff calculations based on DGCI&S data.

[36] Snapshot of India's Oil & Gas Data (August 2020), Petroleum Planning & Analysis Cell (PPAC), Ministry of Petroleum & Natural Gas, Government of India.

Chart II.6.8: Gold Imports and Gold Recycling



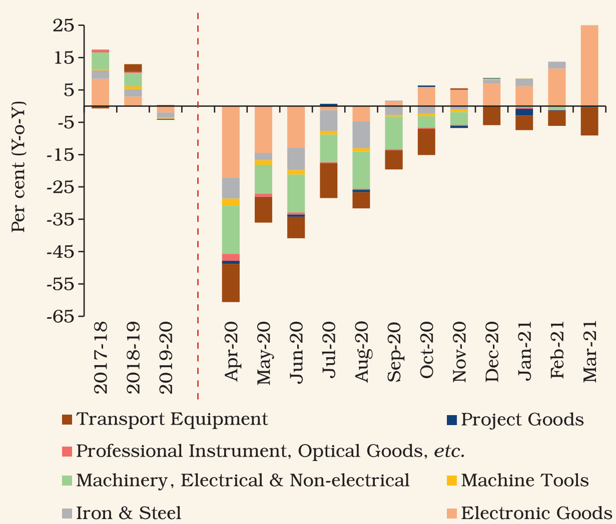
*: Domestic supply from local mine production, recovery from imported copper concentrates and disinvestment.
Source: RBI staff calculations based on DGCI&S and World Gold Council data.

II.6.18 India is one of the biggest consumer of gold, but it imported its lowest monthly volumes in April 2020, reflecting a significant fall in demand in the pandemic. However, gold imports, in value terms, picked up in Q2 and have continued to remain at an elevated level since then. The growth in gold imports has been essentially driven by steep rise in global gold prices, though even in volume terms they have recovered to levels seen last year (Chart II.6.8a). In particular during Q4:2020-21, several factors, ranging from base effect to pre-festival impact (*Akshaya Tritiya*), pent up wedding induced demand contributed to the sharp surge in gold imports. According to a recent report by the World Gold Council, high gold prices supported an increase in global recycling of gold, which spiked sharply in Q2 and Q3:2020 (Chart II.6.8b).

II.6.19 Non-oil non-gold imports, which started contracting from Q4:2018-19, witnessed a rebound in growth after seven quarters in Q3:2020-21, particularly in December 2020. Electronic goods, pearls and precious stones and chemicals were major contributors to the expansion during Q4:2020-21.

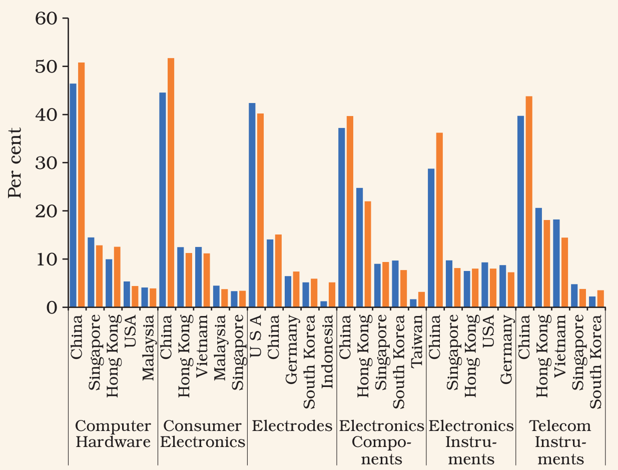
II.6.20 The pandemic deepened the slowdown in imports of capital goods - an indicator of investment demand in an economy – which contracted by 28.3 per cent in April-November 2020 *vis-à-vis* 2.2 per cent a year earlier. All major sub-sectors witnessed a sharp slump, *i.e.*, iron and steel, machine tools, machinery and transport equipment. Capital goods imports turned positive from December 2020 as recovery in the Indian economy gained traction (Chart II.6.9).

Chart II.6.9: Decomposition of Capital Goods Import Growth



Source: RBI staff calculations based on DGCI&S data.

Chart II.6.10: Top Import Sources for Electronic Goods: Sub-Sectors

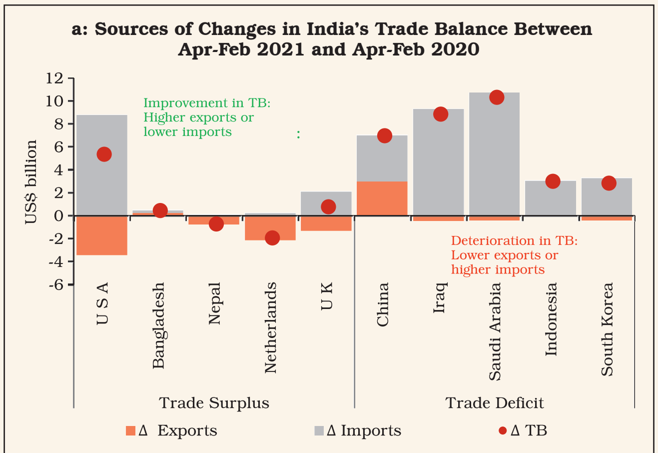


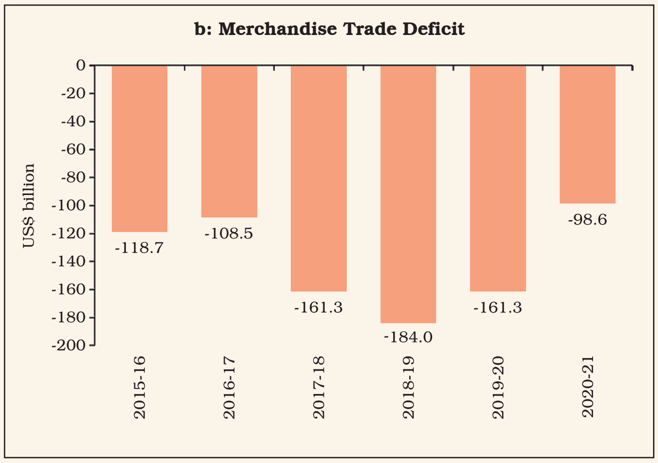
Note: Data for 2020-21 are till February.
Source: RBI staff calculations based on DGCI&S data.

II.6.21 India's electronic goods imports registered a marginal contraction of 0.1 per cent to US$ 54.3 billion in 2020-21 from US$ 54.4 billion in 2019-20. India is a net importer of electronic goods, the trade deficit of the electronic goods sector expanded to US$ 43.2 billion in 2020-21 from US$ 42.7 billion in the previous year[37] (Chart II.6.10). Destination-wise, China is the major source partner for almost all the product categories. COVID-19 induced global lockdown caused supply-side disruptions due to which the need to diversify source partners has gained utmost importance. Accordingly, the government recently took two major policy initiatives to attract large scale investment in the electronics sector by way of the PLI scheme for large scale electronics manufacturing and the Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS). Several global manufacturing companies are expected to expand their manufacturing base in India. As this sector has strong backward and forward linkages, this, in turn, will foster expansion of domestic production capacity and boost exports with induction of newer technologies under *AatmaNirbhar Bharat*.

II.6.22 During April-February 2020-21, the bilateral trade deficit with China declined, whereas the trade surplus with the US increased. Overall, as the decline in imports was larger than exports, the trade deficit narrowed to US$ 98.6 billion in 2020-21 from US$ 161.3 billion in the corresponding period of last year, reflecting the impact of both stringent lockdown measures and subdued economic activity due to COVID-19 (Charts II.6.11a and II.6.11b).

Chart II.6.11: Decomposition of Trade Balance





Note: A positive Δ imports implies lower imports and *vice versa*. T.B: Trade Balance.
Source: DGCI&S and RBI staff calculations.

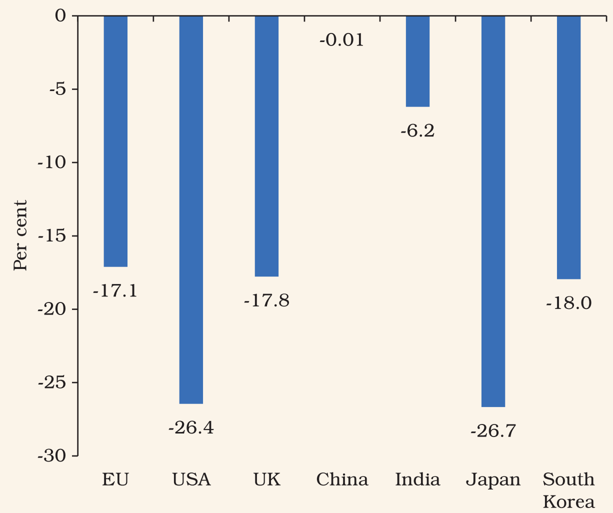
[37] India's dependency on electronic goods imports is high, with around 83 per cent of India's total trade in electronics goods comprising imports during 2020-21.

4. Invisibles

II.6.23 Net receipts from invisibles, reflecting cross-border transactions of services, income and transfers, remained relatively resilient to the global shock on the back of stable services earnings (Chart II.6.12). While demand for software services exports remained strong and remittances receipts improved sequentially in Q2 and Q3, the outgo from primary income account increased with rise in net income payments to overseas investors.

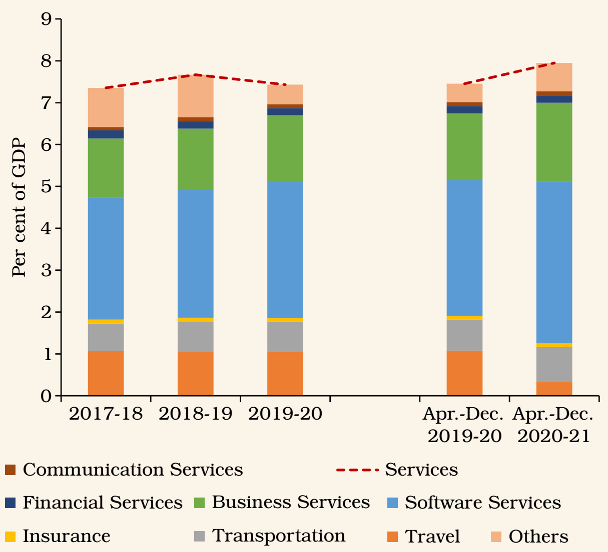
II.6.24 The ongoing pandemic and the resultant supply chain disruptions severely impacted world trade in commercial services in 2020 (Chart II.6.13). India's services exports remained relatively resilient and showed signs of gradual recovery, primarily on the back of robust software exports earnings. Despite global headwinds, software services, accounting for more than 40 per cent of India's total services exports, witnessed steady growth as major IT companies capitalised on growing global demand for business transformation initiatives to enhance digital presence and migrate to cloud services in the aftermath of the world-wide lockdown. Travel and transportation services were severely hit by the imposition of lockdown and travel restrictions world-wide (Chart II.6.14). Among other services, business and financial services, which mainly relates to off-site services, witnessed steady flows *albeit* at a moderated pace.

Chart II.6.13: Country-wise Export of Services (April-December 2020)



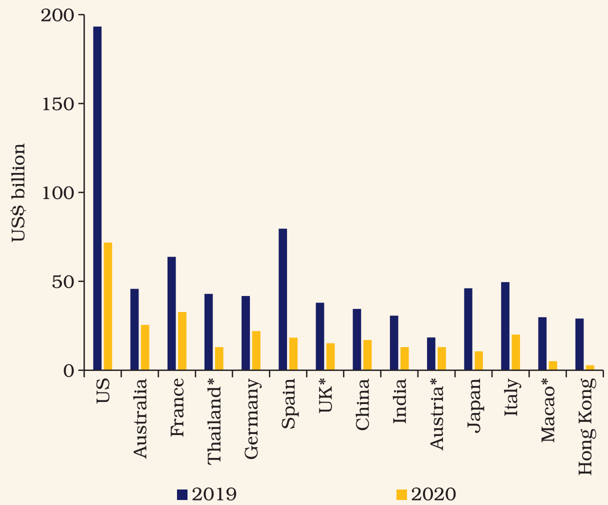
Source: WTO and RBI.

Chart II.6.12: Composition of India's Services Exports



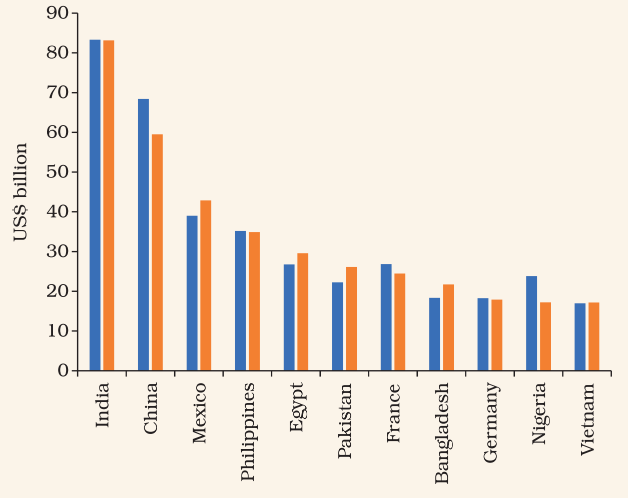
Source: RBI.

Chart II.6.14: Travel Receipts in Major Travel Destinations in 2020



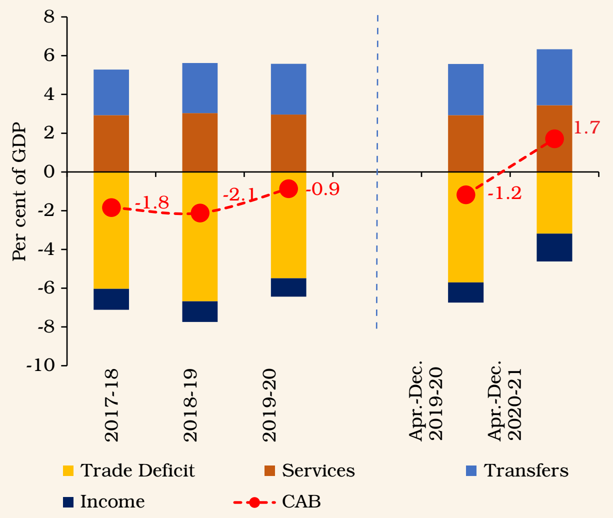
*: Data pertain to January-September 2020.
Source: WTO.

Chart II.6.15: Inward Remittances Across Major Recipient Countries



Source: World Bank.

Chart II.6.16: Composition of India's Current Account Balance



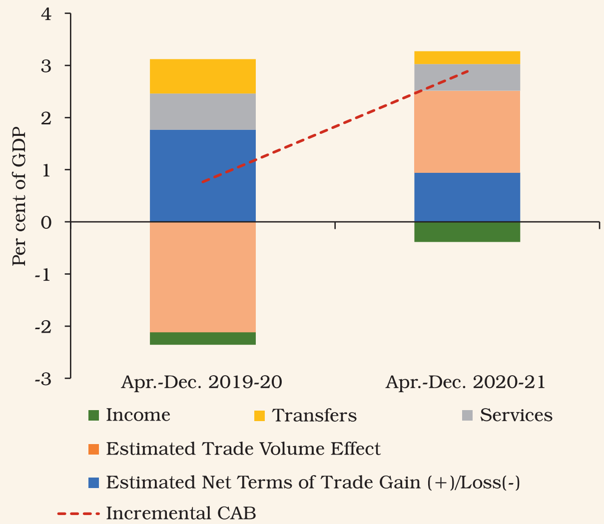
Source: RBI.

II.6.25 There was an exodus of migrant workers from host countries, resulting in a decline in global remittances flows in 2020 (Chart II.6.15). India, being the highest recipient of inbound remittances, recorded a decline of 5.4 per cent in remittances flows in April-December 2020-21. Although remittances rebounded gradually from this initial setback, flows remained below their pre-crisis levels. Nevertheless, India remained the largest recipient with a share of 11.8 per cent in global remittances in 2020 (World Bank, May 2021).

II.6.26 The income account, primarily reflecting net cross-border income payments associated with the production process and ownership of financial and other non-produced assets, recorded higher net outflows in April-December 2020-21 relative to the preceding year. On account of moderation in gross investment income receipts owing to lower interest earnings on foreign currency assets and higher income payments on debt and non-debt liabilities, the net outgo remained higher on a year-on-year basis.

II.6.27 In April-December 2020-21, the current account recorded a surplus of 1.7 per cent of GDP as against a deficit of 1.2 per cent a year ago (Chart II.6.16). After registering a record surplus in Q1:2020-21, the current account surplus narrowed in Q2 and turned negative in Q3 as the pace of contraction eased for both merchandise exports and imports and the trade deficit widened. Positive net terms of trade owing to modest crude oil prices and a decline in import volume contributed to the surplus in April-December 2020-21 (Chart II.6.17).

Chart II.6.17: Sources of Incremental Current Account Balance

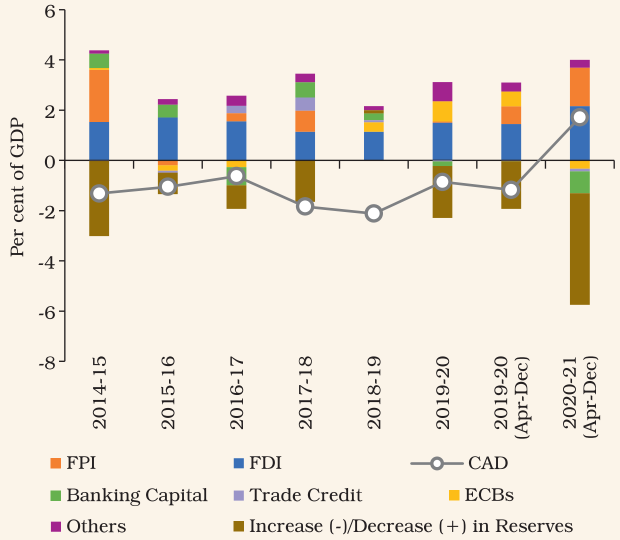


Source: RBI.

5. External Financing

II.6.28 Among the major components of financial flows, foreign direct and portfolio investment inflows were large; however, loans in the form of external commercial borrowings, trade credit and banking capital recorded net outflows. With the current account in surplus, the accretion to foreign exchange reserves on a BoP basis (excluding valuation changes) was of the order of US$ 83.9 billion in April-December 2020 (Chart II.6.18 and Appendix Table 8).

Chart II.6.18: Financing of Current Account Deficit



Source: RBI.

II.6.29 Capital flows were dominated by FDI which turned out to be higher than a year ago both in gross and net terms (Table II.6.2). FDI limits were enhanced in the areas of defence manufacturing to 74 per cent under the automatic route from 49 per cent earlier. There was a steady improvement in the OECD's FDI restrictiveness index – from 0.244 in 2015 to 0.207 in 2019. The expansion of the PLI scheme has the potential to attract foreign companies that are looking to diversify their presence in global supply chains. In 2020-21, India's FDI performance was in sharp contrast to the global FDI.[38] India crossed a milestone of cumulative FDI equity inflows of US$ 500 billion since April 2000 (Box II.6.2).

Table II.6.2: Foreign Direct Investment Inflows

(US$ billion)

	2017-18	2018-19	2019-20	2020-21
1	2	3	4	5
1. Net FDI (1.1 - 1.2)	30.3	30.7	43.0	43.4
1.1 Net Inward FDI (1.1.1 - 1.1.2)	39.4	43.3	56.0	54.7
1.1.1 Gross Inflows	61.0	62.0	74.4	81.7
1.1.2 Repatriation/ Disinvestment	21.5	18.7	18.4	27.1
1.2 Net Outward FDI	9.1	12.6	13.0	11.3

Source: RBI.

Box II.6.2
Is FDI COVID-Proof?

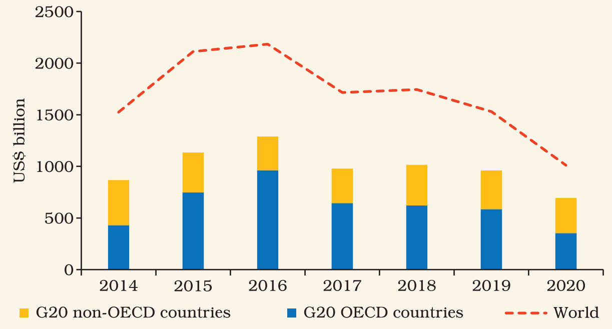
The unprecedented shock of the global pandemic impacted cross-border movement of capital flows, particularly in the form of foreign direct investment (FDI). Global FDI flows declined by 38 per cent in 2020 (OECD, 2021), to their lowest level since 2005 (Chart 1). Lockdowns around the world not only caused delay in existing investment projects but also forced global companies to reassess their new projects.

Among the major economies, India and China are the only economies that bucked the global trend in FDI inflows (Chart 2). In the case of India, the bulk of these investments went into e-commerce and digital platforms, with mega deals in Indian companies mirroring the growing business prospects for digital operations worldwide.

(Contd.)

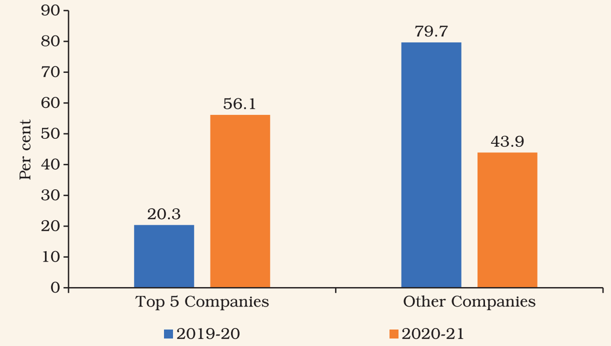
[38] OECD (2021), 'FDI in Figures' April.

Chart 1: Trend in Global FDI



Source: OECD.

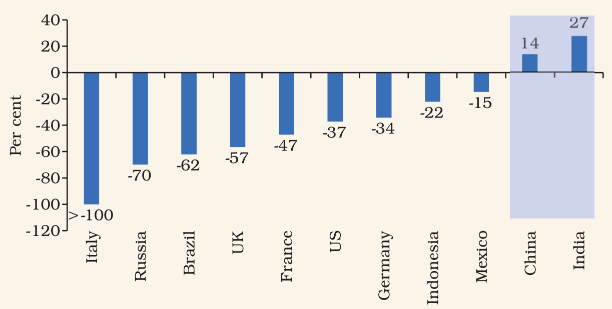
Chart 3: Distribution of FDI Equity (Share of Companies)



Source: RBI staff calculations.

Even though FDI inflows were stronger in 2020-21, their distribution was highly skewed (Chart 3). The coefficient of variation of FDI flows (based on transaction size) was larger during the pandemic period, implying concentration in distribution. The lower incidence of transactions points to the underlying weakness in FDI inflows during the year. Without the top five FDI deals, FDI inflows during 2020-21 would have declined by about third of their level a year ago. The number of FDI transactions declined by 31 per cent during the pandemic period, while their average size decreased marginally (Table 1).

Chart 2: FDI Inflows during the COVID Period (% change in 2020 over 2019)



Source: OECD.

Going forward, the pipeline of FDI for 2021-22 could be supported by the thrust given to PLI, and domestic growth prospects.

Table 1: Number and Size of FDI Transactions (Without Top 5 High Value Transactions)

Period	Number of Transactions	Average Size (US$ Million)
1	2	3
2019-20	19,330	1.8
2020-21	13,278	1.7

Source: RBI; and RBI staff calculations.

Reference:

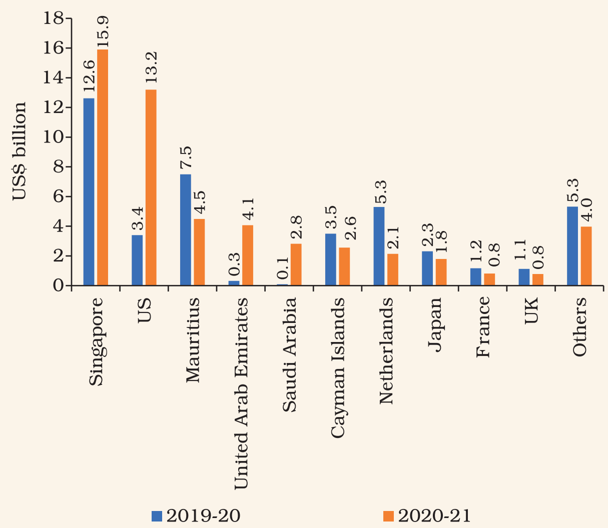
OECD (2021), 'FDI in Figures' April.

During 2020-21, computer services attracted the largest FDI inflows (accounting for 43.9 per cent), followed by transport, manufacturing, retail and wholesale trade, and financial services. Country-wise, Singapore and the USA remained major sources of FDI equity inflows (accounting for 55.4 per cent of total flows), followed by Mauritius, the United Arab Emirates, Saudi Arabia, the Cayman Islands, and the Netherlands (Chart II.6.19 and Appendix Table 9).

II.6.30 Besides equity investment, reinvested earnings (*i.e.*, profits deemed to be invested) of FDI companies and inter-corporate debt transactions between affiliated enterprises were also robust, amounting to US$ 15.7 billion during April-December 2020-21.

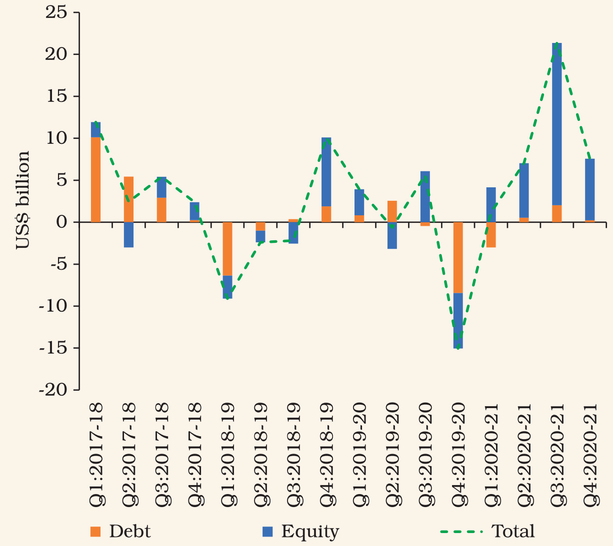
II.6.31 Outward FDI recorded a y-o-y decline by 13 per cent to US$ 11.3 billion during 2020-21, reflecting the broad-based decline in FDI flows across different regions of the world. Singapore, the USA, Mauritius, the Netherlands and the UK were the major destinations, together accounting for around 73 per cent of India's outward FDI. Business services; manufacturing; restaurants and

Chart II.6.19: Source Country-wise Inflow of FDI (Equity)



Source: RBI.

Chart II.6.20: Net Foreign Portfolio Flows to India



Source: NSDL and SEBI.

hotels; agriculture and mining; and construction were the top five sectors attracting India's overseas direct investment during the year.

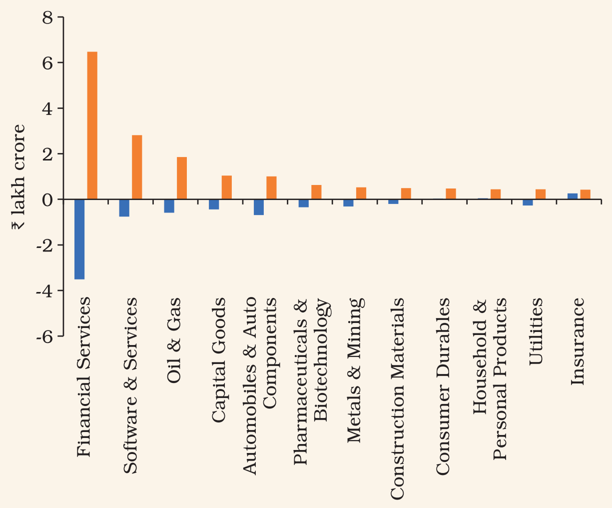
II.6.32 Portfolio flows recovered during the year from their March lows. Notwithstanding a sell-off in the debt segment in Q1:2020-21, large exposures of foreign portfolio investors in the equity segment in subsequent quarters took the total inflows to US$ 37.1 billion during 2020-21 (Chart II.6.20). Ample global liquidity driven by unprecedented monetary easing improved global financial conditions. Optimism on vaccines and fiscal stimulus in the US also triggered risk-on sentiments among foreign investors and caused surges in capital flows in EMEs, including India in November-December 2020. These flows, however, moderated in Q4:2020-21, in response to the high valuations in equities and increased supplies in bond markets. While the domestic equity segment hosted the largest ever net inflows in 2020 (calendar year), the debt segment witnessed a record sell-off during the same period.

II.6.33 Amid falling real yields and large government borrowings during the year, FPIs reduced their exposure in the debt segment, with a utilisation rate of about 28 per cent of the total investment limit of G-sec and state development loans as on March 31, 2021. While the utilisation rate of specified government securities available under the 'fully accessible route' introduced in March 2020 for FPIs was 2.7 per cent, the use of the investment limit available under the voluntary retention route was to the tune of 72 per cent, *albeit* mainly through corporate bonds. As on March 31, 2021, FPIs held 24.5 per cent of the general investment limit in corporate bonds (*i.e.*, 15 per cent of the outstanding stock), which was lower than 54.5 per cent of the limit a year ago.

II.6.34 Around 67 per cent of the FPI inflows were recorded in top three sectors, *viz.,* financial services (39 per cent), software and services (17 per cent) and oil and gas (11 per cent) (Chart II.6.21). Portfolio flows to the banking sector remained encouraging as banks raised capital in time to mitigate COVID-19 concerns[39],

[39] During 2020-21, FPI equity inflows into banking sector stood at ₹ 3.88 lakh crore *vis-à-vis* an outflow of ₹ 2.15 lakh crore a year ago.

Chart II.6.21: Change in FPIs' Exposure in Equity Market



Source: NSDL.

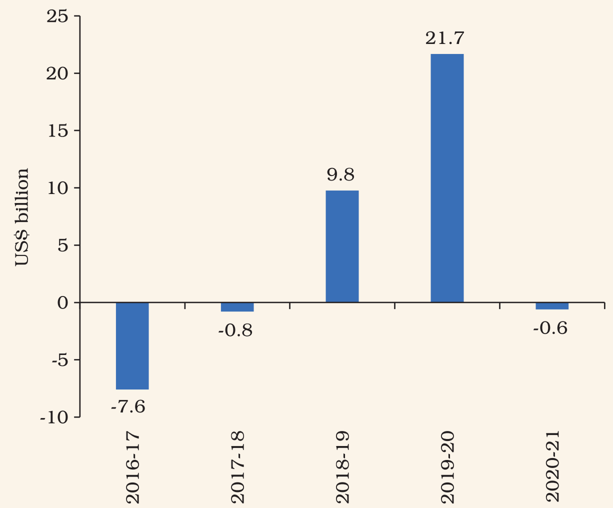
Chart II.6.22: Weighted Average Interest Margin on Cumulative ECBs

Note: Data for 2020-21 are provisional.
Source: RBI.

with added momentum from government's decision to privatise some state-owned banks. Lockdown-induced reliance on digital transactions in the payments system improved the outlook of IT and IT enabled services. Among other sectors, investor optimism was noteworthy in automobiles and auto components and pharmaceuticals and biotechnology sectors. As at end-March 2021, assets under custody were dominated by US-based portfolio investors followed by Mauritius, Luxembourg, Singapore, and the UK. The limit for FPIs under VRR was increased to ₹1,50,000 crore in January 2020, and in view of the disruptions caused by COVID-19, FPIs were subsequently allowed additional time of three months to invest 75 per cent of their committed portfolio size. Cumulative FPI investment under VRR (which was introduced in March 2019) was US$ 14.8 billion till March 31, 2021.

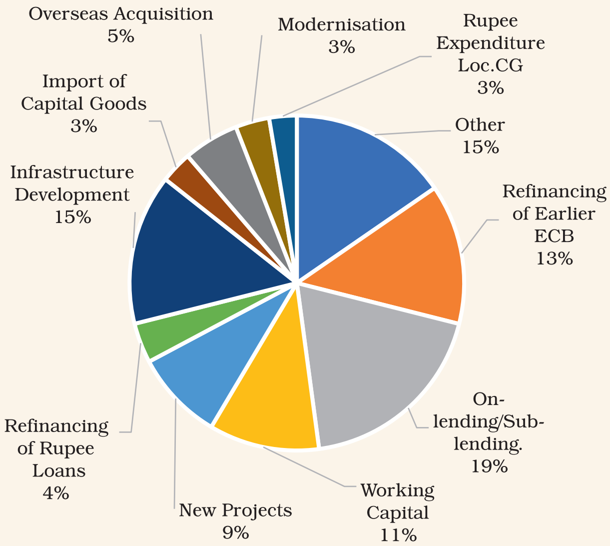
II.6.35 There was a decrease in external commercial borrowing agreements. Fresh disbursements of ECBs were lower in 2020-21, than their level a year ago and firms pre-paid ECBs. As repayments exceeded fresh disbursals in view of higher borrowing costs than a year ago (Chart II.6.22), ECBs recorded net outflow of US$ 0.6 billion during 2020-21 *vis-à-vis* inflows of US$ 21.7 billion a year ago (Chart II.6.23).

Chart II.6.23: External Commercial Borrowings to India (Net)



Note: Data for 2020-21 is provisional.
Source: RBI.

Chart II.6.24: End Use of ECB (2020-21)



Source: RBI.

II.6.36 ECBs raised during the year were mainly utilised for on-lending/sub-lending, followed by infrastructure development, refinancing of earlier borrowings, working capital, new projects, overseas acquisition and refinancing of rupee loans (Chart II.6.24). Within ECBs, rupee denominated loans and rupee denominated bonds (RDBs) accounted for 6.0 per cent of the total agreement amount as compared with 7.1 per cent a year ago. Furthermore, the share of hedged loans/bonds (other than rupee denominated borrowings) stood lower at 51.3 per cent as compared with 56.7 per cent a year ago. RDBs recorded net outflows of US$ 0.9 billion lower than the outflows of US$ 1.3 billion in the corresponding period last year.

II.6.37 External financing requirements for merchandise imports in the form of short-term credit also declined. As repayments exceeded fresh credit availed by importers, there was net outflow of US$ 1.8 billion in April-December 2020-21. Around 36 per cent of the trade credit was raised for imports of crude oil, gold, coal and copper.

Table II.6.3: Flows under Non-Resident Deposit Accounts

(US$ billion)

	2017-18	2018-19	2019-20	2020-21
1	2	3	4	5
1. Non-Resident External (Rupee) Account	7.1	7.3	5.6	8.8
2. Non-Resident Ordinary Account	1.5	1.9	2.0	2.3
3. Foreign Currency Non-Resident(B) Account	1.0	1.1	1.1	-3.8
Non-Resident Deposits (1+2+3)	**9.7**	**10.4**	**8.6**	**7.4**

Source: RBI.

II.6.38 With robust inflows in Non-Resident (External) Rupee (NRE) account, which constitutes around 72 per cent of total outstanding NRI deposits, net inflows into non-resident deposits accounts were US$ 7.4 billion during 2020-21, lower than their level a year ago (Table II.6.3). While NRE account and NRO account witnessed inflows of US$ 8.8 billion and US$ 2.3 billion, respectively, FCNR(B) deposits recorded outflows of US$ 3.8 billion, partly due to weakening of the US dollar.

6. Vulnerability Indicators

II.6.39 India's external debt at 21.4 per cent of GDP for end-December 2020 remained lower than that of emerging market peers. At end-December 2020, India's external debt increased by US$ 5.3 billion (*i.e.*, 1.0 per cent) from its level at end-March 2020, primarily on account of non-resident deposits. The increase was also contributed by valuation loss of US$ 11.4 billion resulting from the depreciation of the US dollar against the Indian rupee and major currencies (such as euro, yen, and SDR). Excluding the valuation effect, external debt would have decreased by US$ 6.1 billion instead of increasing by US$ 5.3 billion. Commercial borrowings remained the largest

Table II.6.4: External Vulnerability Indicators (End-March)

(Per cent, unless indicated otherwise)

Indicator	2013	2019	2020	End-Dec 2020
1	2	3	4	5
1. External Debt to GDP Ratio	22.4	19.9	20.6	21.4
2. Ratio of Short-term Debt (original maturity) to Total Debt	23.6	20.0	19.1	18.4
3. Ratio of Short-term Debt (residual maturity) to Total Debt	42.1	43.4	42.4	44.8
4. Ratio of Concessional Debt to Total Debt	11.1	8.7	8.8	9.1
5. Ratio of Reserves to Total Debt	71.3	76.0	85.6	104.0
6. Ratio of Short-term Debt (original maturity) to Reserves	33.1	26.3	22.4	17.7
7. Ratio of Short-term Debt (residual maturity) to Reserves	59.0	57.0	49.6	43.1
8. Reserve Cover of Imports (in months)	7.0	9.6	12.0	18.6
9. Debt Service Ratio (debt service to current receipts)	5.9	6.4	6.5	9.0
10. External Debt (US$ billion)	409.4	543.1	558.2	563.5
11. Net International Investment Position (NIIP) (US$ billion)	-326.7	-436.9	-375.2	-340.5
12. NIIP/GDP ratio	-17.8	-16.0	-13.9	-12.9
13. CAB/GDP ratio	-4.8	-2.1	-0.9	1.7

Note: CAB/GDP ratio in column 5 pertains to April-December 2020.
Source: RBI and Government of India.

component of external debt, with a share of 36.9 per cent, followed by non-resident deposits (24.9 per cent) and short-term trade credit (17.7 per cent). Total debt increased from 20.6 per cent of GDP at end-March 2020 to 21.4 per cent at end-December 2020. Similarly, short-term debt (on residual maturity basis) increased during the year. A sizeable accretion in reserves, however, led to an improvement in other vulnerability indicators such as reserve cover of short-term debt (on residual maturity basis) and imports. India's net international investment position (NIIP) improved by US$ 34.6 billion (*i.e.,* fall in net claims of non-residents on India) during the same period (Table II.6.4).

II.6.40 The accretion to the reserves, which reached a historic high of US$ 590.3 billion at end-January 2021 and were at US$ 577.0 billion at end-March 2021, was driven by robust foreign portfolio and direct investments, and the current account surplus in H1:2020-21. In 2020-21, India's reserves accumulation was to the tune of US$ 99.2 billion.

7. Conclusion

II.6.41 Going forward, the outlook for India's external sector will continue to be determined by pandemic's impact on demand and supply side dynamics, globally and in India. The thrust in the budget on easy access to certain raw materials augurs well for export recovery. Waning terms of trade gains in view of rising global crude oil prices and subdued flows of remittances may pose downside risks. However, the improvement in terms of external vulnerability indicators, adequate level of foreign exchange reserves and sound domestic macroeconomic fundamentals would help the economy withstand spillovers of global adverse macro-financial shocks. Global financial conditions remain easy but can alter rapidly. Various reform measures undertaken by the government have the potential to keep the external sector sustainable.

PART TWO: THE WORKING AND OPERATIONS OF THE RESERVE BANK OF INDIA

III MONETARY POLICY OPERATIONS

Monetary policy and liquidity operations during 2020-21 were geared towards mitigating the impact of COVID-19 pandemic. The monetary policy committee (MPC) cut the policy repo rate by 115 basis points (bps) during March-May 2020, on top of a cumulative reduction of 135 bps during February 2019 to February 2020. Backed by conventional and unconventional liquidity measures, these actions bolstered financial market sentiments while ensuring orderly market conditions. Interest rates and bond yields declined across market segments and spreads narrowed, with a distinct improvement in monetary transmission.

III.1 Monetary policy and liquidity operations during 2020-21 were geared towards mitigating the adverse impact of the unprecedented economic devastation brought by the COVID-19 pandemic on the Indian economy. Supply disruptions imposed persistent upside price pressures, with inflation ruling above the upper tolerance band for six consecutive months during June-November 2020. The monetary policy committee (MPC) maintained *status quo* on the policy repo rate during June 2020 to February 2021 after a sizeable cut of 115 basis points (bps) during March-May 2020. Given the growth-inflation dynamics, the MPC decided to continue with the accommodative stance as long as necessary to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward. These decisions were in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

III.2 During 2020-21, the Reserve Bank undertook several conventional and unconventional measures to address liquidity constraints in the face of COVID-19 related dislocations. This unprecedented response eased financial stress, unclogged monetary transmission and credit flows while ensuring financial stability. With fears of liquidity drying up being dispelled, financial market sentiments were bolstered while ensuring orderly market conditions. Interest rates and bond yields declined across market segments and spreads narrowed to pre-COVID levels. Corporate bond issuances benefitted from surplus liquidity conditions which enabled record number of issuances at reasonably low costs. Despite a significant jump in market borrowings, the government could raise funds at the lowest weighted average cost in 17 years along with the highest weighted average maturity of the stock of public debt on record.

III.3 Surplus liquidity conditions, coupled with the external benchmark-based pricing of floating rate loans, led to a considerable improvement in monetary transmission during 2020-21. Interest rates on outstanding loans declined for a majority of the sectors. The external benchmark-linked framework incentivised banks to adjust their term as well as saving deposit rates to protect their net interest margins, thereby improving monetary transmission.

III.4 Against the above backdrop, Section 2 presents the implementation status of the agenda set for 2020-21 along with major developments, while Section 3 sets out the agenda for 2021-22. Concluding observations are in the last section.

2. Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

III.5 In last year's Annual Report, the Department had set out the following goals:

- Strengthening nowcasting of inflation with wider information systems, including commodity price monitoring (*Utkarsh*) [Para III.6];
- Augmenting the external sector block of the quarterly projection model (QPM) by incorporating capital inflows dynamics for an improved analysis of external spillovers and feedback mechanisms, and recalibration of the QPM based on recent empirical estimates (*Utkarsh*) [Para III.6];
- Analysis of MPC voting patterns (*Utkarsh*) [Para III.6];
- Assessing the efficacy of the conventional [open market operation (OMO)] and unconventional [long-term repo operation (LTRO) and targeted LTRO (TLTRO)] monetary policy instruments (Para III.6); and
- Understanding the dynamics of banks' holdings of government securities and credit growth to assess the relative roles of crowding out and portfolio re-balancing (Para III.6).

Implementation Status of Goals

III.6 A number of studies were undertaken during 2020-21 to strengthen the analytical inputs for the conduct of monetary policy and liquidity management. They included: strengthening nowcasting of inflation with wider information system, including commodity price monitoring; augmenting the external sector block of QPM by incorporating capital inflows dynamics and recalibration of the QPM based on recent empirical estimates; analysis of MPC voting pattern; the impact of LTRO and TLTRO on bond markets; dynamics of banks' holdings of government securities and credit growth to assess the relative roles of crowding out and portfolio rebalancing; analysing and forecasting currency demand in India; evaluating the impact of asset quality of banks on credit channel of monetary policy; constructing an economic activity index for India; revisiting the determinants of term premium in India; examining the pass-through of global food prices to domestic prices in emerging market economies (EMEs); and assessing volatility spillover from US monetary policy on select EMEs, including India.

Major Developments

Monetary Policy

III.7 The COVID-19 pandemic triggered extreme risk aversion and elevated volatility in financial markets, necessitating an advancement in the MPC's first two meetings scheduled for March 31, April 1 and 3, 2020 and June 3-5, 2020 to March 24, 26 and 27, 2020 and May 20-22, 2020, respectively. In the March 2020 meeting, the MPC noted that macroeconomic risks brought on by the pandemic, both on the demand and supply sides, could be severe and there was a need to do whatever necessary to shield the domestic economy from the pandemic. The MPC, therefore, voted unanimously for a sizeable reduction in the policy repo rate. With a 4 to 2 majority, the repo rate was cut by 75 bps to 4.40 per cent, while 2 members voted for a reduction of 50 bps. All members voted unanimously to continue with the accommodative stance as long as necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remained within the target. In the May 2020 meeting, with the growth outlook remaining sombre, the MPC decided to reduce the policy repo rate by another 40 bps to 4.0 per cent to pre-emptively use available space to ease financial conditions further to mitigate the adverse impact of the pandemic on the economy. Five members voted for a reduction in policy repo rate by 40 bps and one member voted for a reduction of 25 bps. The MPC also voted unanimously to continue with the accommodative stance set out in its March meeting.[1]

III.8 By the time of the August 2020 bi-monthly review, there was greater clarity on the likely recovery of economic activity in Q2, led by the rural economy. However, for the year 2020-21, real GDP growth was expected to be negative. On inflation, though the release of June CPI was still not normalised in terms of data coverage, headline inflation ruled above the upper tolerance threshold of 6 per cent. Issues in data reliability, coupled with high retail mark-ups amidst the pandemic added uncertainty to the inflation outlook. Accordingly, the MPC decided to pause and remain watchful for a durable reduction in inflation to use the available space to support the revival of the economy.

III.9 The October 2020 policy[2] was held in a setting in which high frequency indicators suggested recovery of economic activity in Q2:2020-21, after a record contraction in real GDP in Q1:2020-21. Headline CPI inflation continued to remain above the upper tolerance threshold as price pressures accentuated across food, fuel, and core sub-groups due to supply disruptions, high retail margins, high indirect taxes on petroleum products and higher cost of doing business in the post-lockdown period. The rural economy was expected to strengthen further while the recovery in urban demand was seen as lagging due to social distancing norms. Moreover, private investment and exports were likely to remain subdued. Real GDP was projected to contract by 9.5 per cent during 2020-21, with GDP growth moving into the positive zone by Q4:2020-21 and placed at 20.6 per cent in Q1:2021-22. CPI headline inflation was projected to moderate to 5.4-4.5 per cent in H2:2020-21 and further to 4.3 per cent in Q1:2021-22, with risks broadly balanced. The MPC noted that the revival of the economy from the unprecedented COVID-19 pandemic assumed the highest priority in the conduct of monetary policy. On the elevated inflation, the MPC judged that the underlying factors were essentially supply shocks which were likely to dissipate over the

[1] For details, see chapter III (Paragraphs III.12 and III.13) of the Annual Report 2019-20, Reserve Bank of India (RBI).

[2] On October 5, 2020, the Government of India reconstituted the MPC, with the expiry of the term of earlier external members of the MPC, by onboarding Prof. Ashima Goyal, Professor, Indira Gandhi Institute of Development Research, Mumbai; Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad; and Dr. Shashanka Bhide, Senior Adviser, National Council of Applied Economic Research, Delhi. The October 2020 MPC meeting was the first meeting of these external MPC members. Earlier, *w.e.f.* the August MPC meeting, Dr. Mridul K. Saggar, Executive Director, Reserve Bank, joined the MPC on his nomination by the Central Board.

ensuing months as the economy unlocked, supply chains were restored, and activity normalised and as such these could be looked through in setting the monetary policy stance. Accordingly, the MPC voted unanimously to keep the policy repo rate unchanged. With a vote of 5 to 1, the MPC also decided to continue with the accommodative monetary policy stance as long as necessary – at least during the current financial year and into the next financial year – to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

III.10 By the time of the December 2020 meeting, the economic recovery had progressed further, but alongside the intensification of inflationary pressures. The contraction in real GDP in Q2:2020-21 was shallower than anticipated, and high frequency indicators suggested that recovery was gaining traction in Q3:2020-21. With a projected positive growth of (+) 0.1 per cent in Q3:2020-21 and (+) 0.7 per cent in Q4:2020-21, real GDP was expected to contract by 7.5 per cent in 2020-21, lower than the contraction of 9.5 per cent in the October 2020 assessment. In H1:2021-22, the expansion was projected to gather pace at (+) 21.9 per cent to (+) 6.5 per cent, with risks broadly balanced. Inflation pressures, however, turned out to be higher than anticipated, with CPI inflation inching up to 7.6 per cent in October 2020 on a broad-based surge in food and core inflation and outlook remaining adverse with continuing high retail price margins, rising crude oil prices and stickiness imparted on account of cost-push pressures. Reflecting these pressures, the inflation projections were revised upwards to 6.8-5.8 per cent in H2:2020-21 and 5.2-4.6 per cent in H1:2021-22, with risks broadly balanced. However, with the signs of recovery far from being broad-based and dependent on sustained policy support, the MPC voted unanimously to maintain *status quo* on the policy repo rate and continue with the accommodative stance as set out in its October resolution.

III.11 In the run up to the sixth bi-monthly policy in February 2021, inflation moderated sharply to 4.6 per cent in December 2020. Taking into account the significant correction in food inflation on the one hand and the persisting core inflation pressures on the other, the projection for CPI inflation was revised to 5.2 per cent in Q4:2020-21, 5.2 per cent to 5.0 per cent in H1:2021-22 and 4.3 per cent in Q3:2021-22, with risks broadly balanced. On the growth outlook, the MPC was of the view that rural demand was likely to remain resilient on good prospects of agriculture while urban demand and demand for contact-intensive services were expected to strengthen with the substantial fall in COVID-19 cases and the spread of vaccination. Consumer confidence was reviving and business expectations remained upbeat. Taking into account these considerations and the Union Budget 2021-22 proposals, real GDP growth was projected at 10.5 per cent in 2021-22 – in the range of 26.2 to 8.3 per cent in H1 and 6.0 per cent in Q3. Given the softening in inflation as also the need for continued policy support to rest the growth recovery on a firmer footing, the MPC unanimously voted for keeping the policy repo rate unchanged at 4 per cent and continue with the accommodative stance till the prospects of a sustained recovery are well secured while closely monitoring the evolving outlook for inflation.

The Operating Framework: Liquidity Management

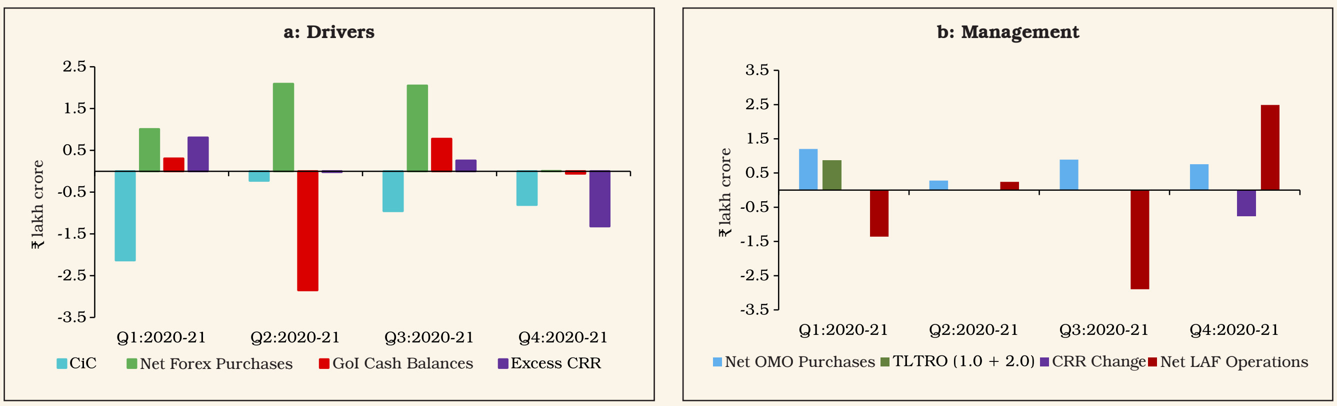
III.12 The operating framework of monetary policy aims at aligning the operating target – the weighted average call rate (WACR) – with the policy repo rate through proactive liquidity management, consistent with the stance of monetary policy. In the face of COVID-19 related stress and the large contraction in output, and in consonance with the monetary policy stance, the Reserve Bank undertook several monetary policy measures, both conventional and unconventional, during 2020-21, driven by the goals of (i) improving monetary transmission; (ii) facilitating and incentivising bank credit flows; (iii) addressing sector-specific liquidity constraints in the face of COVID-19 related dislocations; and (iv) reinvigorating markets by easing financial stress and ensuring financial stability.

Drivers and Management of Liquidity

III.13 The concatenation of heightened financial stress, widening spreads, and seizure of market liquidity exacerbated by highly volatile capital flows on account of the pandemic warranted proactive measures by the Reserve Bank starting Q4:2019-20. Total liquidity augmenting measures announced by the Reserve Bank (up to March 31, 2021) since February 2020 have aggregated to ₹13.6 lakh crore (6.9 per cent of nominal GDP for 2020-21). The main drivers of liquidity were the Reserve Bank's forex operations and expansion in currency in circulation (CiC) – liquidity injection through the former more than offset the leakage from the heightened precautionary currency demand during the pandemic (Chart III.1a). The conventional and unconventional monetary policy measures augmented system liquidity. The consequent large liquidity surplus was mopped up through overnight fixed rate reverse repos under the liquidity adjustment facility (LAF) (Chart III.1b).

III.14 In Q1:2020-21, the expansion in CiC drained system liquidity by ₹2.13 lakh crore which was more than offset by liquidity injections through (i) targeted long-term repo operations (TLTROs) (₹87,891 crore), (ii) OMO purchases (₹1.2 lakh crore) and (iii) the forex operations (₹1.0 lakh crore). Additionally, the Reserve Bank announced special liquidity facility for mutual funds (SLF-MF) worth ₹50,000 crore although its utilisation was confined to only ₹2,430 crore. Moreover, the Reserve Bank provided special refinance facilities for a total amount of ₹65,000 crore to All India Financial Institutions (AIFIs) comprising (i) ₹25,000 crore to National Bank for Agriculture and Rural Development (NABARD) for refinancing regional rural banks (RRBs), cooperative banks and micro finance institutions (MFIs); (ii) ₹15,000 crore to Small Industries Development Bank of India (SIDBI) for on-lending/refinancing; (iii) ₹10,000 crore to National Housing Bank (NHB) for supporting housing finance companies (HFCs); and (iv) ₹15,000 crore to Export Import Bank of India (EXIM Bank) to enable it to avail

Chart III.1: Drivers and Management of Liquidity



Source: RBI.

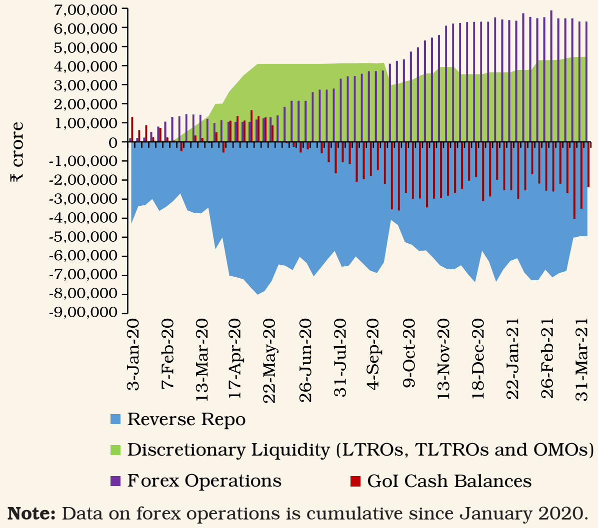
US dollar swap facility for its foreign exchange requirements.[3] Overall, the surplus liquidity resulted in average daily net absorption under the LAF amounting to ₹4.72 lakh crore during the quarter. During Q1:2020-21, the Reserve Bank also conducted one special OMO involving simultaneous purchase and sale of securities, which were liquidity neutral, to distribute liquidity more evenly across the yield curve and improve transmission.

III.15 In order to encourage banks to deploy surplus funds in investments and loans in productive sectors of the economy, the fixed rate reverse repo rate under the LAF was reduced by 25 bps (from 4.0 per cent to 3.75 per cent) without concomitant changes in the MSF and the repo rate on April 17, 2020, thereby widening the asymmetric corridor.

III.16 In Q2:2020-21, forex purchase operations augmented system liquidity by ₹2.1 lakh crore while the Reserve Bank injected ₹27,862 crores through OMOs, even as expansion in CiC remained muted (Chart III.2). As a result, surplus liquidity persisted, although the average daily net absorption moderated to ₹3.9 lakh crore during the quarter. As part of the *AatmaNirbhar Bharat* package, the Government of India (GoI) approved a scheme of ₹30,000 crore to improve liquidity position of NBFCs (including MFIs)/HFCs with a view to avoiding any potential systemic risks to the financial sector. Under the scheme introduced on July 1, 2020, the Reserve Bank provided liquidity by subscribing to government guaranteed special securities issued by a Special Purpose Vehicle (SPV).

III.17 To reduce the cost of funds, banks that had availed of funds under LTROs in February-March 2020 at the then prevailing repo rate (5.15 per cent) were given an option in September 2020 of reversing these transactions before maturity by availing fresh funds at the reduced repo rate of 4.0 per cent. Banks repaid ₹1,23,572 crore under this facility – nearly 98.8 per cent of ₹1,25,117 crore availed under the various LTROs. The Reserve Bank also conducted five special OMOs during Q2:2020-21. Furthermore, the Reserve Bank increased the limits under Held-to-Maturity (HTM) category from 19.5 per cent to 22 per cent of net demand and time liabilities (NDTL) in respect of statutory liquidity ratio (SLR) securities acquired on or after September 1, 2020 to engender orderly market conditions.

Chart III.2: Discretionary Liquidity, Autonomous Drivers and Reverse Repo



Note: Data on forex operations is cumulative since January 2020.
Source: RBI.

III.18 In Q3:2020-21, expansion in currency demand (₹95,181 crore) and the Reserve Bank's forex purchase operations (₹2.0 lakh crore) were the main drivers of liquidity. In addition, durable liquidity amounting to ₹89,140 crore was injected through OMOs; the Reserve Bank also

[3] Subsequently in August 2020, the Reserve Bank provided additional special liquidity facility of ₹5,000 crore each to the NHB and NABARD at the policy repo rate, taking the total refinance to AIFIs to ₹75,000 crore.

conducted six auctions of special OMOs during this period. Consequently, net absorptions under the LAF rose to ₹5.33 lakh crore during the quarter. Banks returned TLTRO funds amounting to ₹37,348 crore – about 33.1 per cent of the total amount of ₹1,12,900 crore availed – under a scheme similar to the return of LTRO funds. To nurture the revival of activity in specific sectors that have multiplier effects on growth through both forward and backward linkages, the Reserve Bank announced 'On tap TLTROs' with tenors of up to three years for a total amount of up to ₹1,00,000 crore at a floating rate linked to the policy repo rate. Liquidity availed by banks under the scheme is required to be deployed in corporate bonds, commercial papers, and non-convertible debentures issued by entities in specific sectors over and above the outstanding level of their investments in such instruments as on September 30, 2020. The liquidity availed under the scheme can also be used to extend bank loans to these sectors. Furthermore, as a special case, the Reserve Bank conducted three OMOs in State Development Loans (SDLs) to improve their liquidity and facilitate efficient pricing in Q3:2020-21. The Reserve Bank also stressed 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.

III.19 Following the COVID-19 outbreak, staff and IT resources were severely affected and the thinning out of activity impacted financial market liquidity and increased volatility in the prices of financial products. Accordingly, it was decided to shorten trading hours for various markets regulated by the Reserve Bank effective April 7, 2020. Subsequently, with the phased removal of lockdown and easing of restrictions on movement of people and resumption of normal functioning of offices, it was decided to restore the trading hours in a phased manner beginning November 9, 2020.

III.20 During Q4:2020-21, amidst very large surplus liquidity conditions, the Reserve Bank on January 8, 2021 announced steps to move towards normal liquidity management operations in a phased manner and accordingly it conducted five 14-day variable rate reverse repo (VRRR) auctions of ₹2 lakh crore each on January 15, January 29, February 12, February 26 and March 12, 2021. The liquidity absorbed through the fixed rate reverse repo increased from a fortnightly average of ₹4.3 lakh crore during January 16-29, 2021 to ₹4.9 lakh crore during January 30 - March 31, 2021. The Reserve Bank also reiterated its commitment to provide ample liquidity in the system. With the paramount objective of reviving the economy, the Reserve Bank announced additional measures on February 5, 2021 which included (i) allowing lending by banks to NBFCs under the TLTRO on Tap scheme for incremental lending to specified stressed sectors; (ii) gradual restoration of the CRR in two phases in a non-disruptive manner to 3.5 per cent effective from March 27, 2021 and 4.0 per cent effective from May 22, 2021; (iii) extension of relaxation in availing funds under MSF by dipping into SLR up to 3.0 per cent of NDTL until September 30, 2021; and (iv) exemption from CRR maintenance for credit flow to new micro, small, and medium enterprise (MSME) borrowers, for exposures up to ₹25 lakh per borrower for credit extended up to October 1, 2021. To meet any additional/ unforeseen demand for liquidity and to provide flexibility to the banking system in year-end liquidity management, the Reserve Bank decided to conduct two fine-tuning variable rate repo auctions of ₹ 25,000 crore each on March 26 and March 31, 2021 of 11-day and 5-day tenors, respectively. Furthermore, it was decided not to conduct the 14-day VRRR auction on March 26 to ensure the availability of ample liquidity for managing year-end requirements.

III.21 During 2020-21, nineteen auctions of operation twists (OTs) were conducted. In March, the scale of OTs was increased to ₹15,000 crore (on March 4) and subsequently an asymmetric OT having a liquidity impact (purchase ₹20,000 crore; sales ₹15,000 crore) was conducted on March 10, 2021 which elicited favourable market response. Overall, the liquidity injected through net OMO purchases amounted to ₹3.13 lakh crore during 2020-21. The central bank's traditional lender of last resort (LOLR) function has expanded with the growing importance of financial markets and the need to resolve institution specific liquidity problems from turning into wider systemic strains (Box III.1).

Box III.1
The Lender of Last Resort

Commercial banks undertake maturity transformations when they fund themselves with shorter-term liquid deposits and make loans and advances which are relatively less liquid and of longer duration. This exposes them, *inter alia*, to asset-liability mismatches. In the aftermath of the 2008 global financial crisis, therefore, regulators have mandated that banks have to hold high-quality liquid assets to deal with such stresses.

The central bank's regular liquidity operations address system-wide liquidity mismatches. In the case of bank-specific stress events that cannot be mitigated by own liquidity buffers and if in addition, access to system level liquidity is constrained or not available, recourse to the central bank's lender of last resort (LOLR) facility can be made for a solvent but illiquid bank against good collateral at a penal rate in line with the Bagehot (1873) principle. With the growing role of financial markets, the traditional LOLR function has widened to encompass supporting financial markets to prevent asset fire sales; central banks are thus also emerging as market maker of the last resort (MMLR) (Hauser, 2021). In the time of COVID-19, major central banks have expanded eligible counterparties and eased collateral requirements, and provided support at reduced penalty rates (BIS, 2020).

A survey of major central banks shows that in the US, the Federal Reserve retains the power to extend discount window loans to individual depository institutions facing funding pressures, or to banks more generally to address broader financial stresses (Fischer, 2016). In the euro area, the European Central Bank (ECB) norms for LOLR support require the credit institutions to meet the solvency criteria (minimum capital requirements or a credible prospect of recapitalisation). LOLR support is usually for less than 12 months at a penalty rate (ECB, 2020). The Bank of England has strengthened safeguards for its LOLR support through better supervisory and resolution frameworks, transparent terms for access, pricing and collateral and stronger accountability and governance norms (Hauser, 2016). The Bank of Japan agrees to LOLR support if, *inter alia*, there is no alternative to the provision of central bank funds, and financial soundness is not impaired (Hiroshi Nakaso, 2014).

In India, the Reserve Bank of India can provide emergency liquidity assistance to stressed but solvent individual banks to foster macroeconomic and financial stability. The troubled financial institution is expected to first exhaust all the resources it can obtain from the market and from the Reserve Bank's regular liquidity facilities (like LAF and MSF), before requesting for the LOLR support. The Reserve Bank can provide LOLR assistance under the Reserve Bank of India Act, 1934. It typically does so against specified collaterals, preferably the central or state governments' securities, and with appropriate haircuts. The LOLR support is typically provided for short periods of up to 90 days at a penalty rate above the repo rate.

In the case of weak commercial banks, the Reserve Bank's endeavour is to strengthen such banks through appropriate and timely restructuring or mergers and acquisitions, given the paramount objective of financial stability, and then provide LOLR support, as needed, to the restructured/amalgamated entity. Moreover, the Deposit Insurance and Credit Guarantee Corporation (DICGC), a wholly owned subsidiary of the Reserve Bank, insures bank deposits up to ₹5 lakh. As a result, 98.1 per cent of the deposit accounts are fully covered as on March 31, 2021, as against the international benchmark of 80 per cent. The combination of regular liquidity operations, the LOLR support, the pre-emptive restructuring/amalgamation of weak banks and a liberal deposit insurance cover has fostered financial stability, avoiding commercial bank failures.

Following the outbreak of the COVID-19 pandemic, the Reserve Bank of India took a number of conventional and

(Contd.)

unconventional measures to protect the financial system and support the real economy, guided by the age-old wisdom summarised in the Bagehot's dictum (Das, 2020). In its LOLR role, the Reserve Bank extended emergency support to a couple of commercial banks facing idiosyncratic stress and special liquidity facilities (SLF) to All India Financial Institutions (AIFIs)[4], while also providing and maintaining ample surplus systemic liquidity through open market operations, reduction in the cash reserve ratio, long-term repo operations (including targeted at stressed sectors and issuers) and special liquidity facility for mutual funds.

Overall, the Reserve Bank is empowered with a comprehensive, effective and independent mandate to perform its LOLR responsibilities in the interest of systemic stability, including resolutions in the form of restructuring/ reconstruction, amalgamation and liquidation while preserving the strength and soundness of its own balance sheet through a robust economic capital framework.

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III.22 Bearing testimony to the effectiveness of the liquidity operations undertaken and the forward guidance provided during 2020-21, interest rates declined and spreads narrowed across market segments (Table III.1). Abundance of liquidity in the system, coupled with reductions

Table III.1: Financial Markets - Rates and Spread

Instrument	Interest Rates (per cent)			Spread over Policy Rate (bps)		
	As on March 26, 2020	As on March 31, 2021	Variation (in bps)	As on March 26, 2020	As on March 31, 2021	Variation (in bps)
1	2	3	(4 = 3-2)	5	6	(7 = 6-5)
3-month CD	7.95	3.28	-467	280	-72	-352
3-month T-bill	5.04	3.27	-177	-11	-73	-62
CP (3-month)	6.74	3.65	-309	159	-35	-194
Corporate Bonds				Spread over G-sec yield of corresponding maturity (bps)		
(i) AAA (1-yr)	7.76	4.15	-361	246	29	-217
(ii) AAA (3-yr)	8.47	5.40	-307	276	22	-254
(iii) AAA (5-yr)	7.84	6.14	-170	141	8	-133
(iv) AA (3-yr)	9.15	6.17	-298	344	99	-245
(v) BBB- (3-yr)	12.29	10.05	-224	658	487	-171
10-yr G-sec	6.22	6.17	-5	-	-	-

Sources: CCIL (F-TRAC), FIMMDA, and Bloomberg.

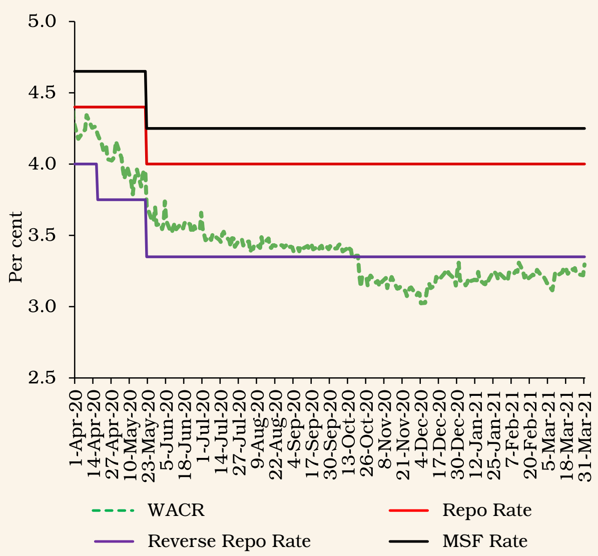
[4] AIFIs that received liquidity support were the National Bank for Agriculture and Rural Development (NABARD), the Small Industries Development Bank of India (SIDBI), the National Housing Bank (NHB) and the Export Import Bank of India (EXIM Bank). Such liquidity support was provided to bolster the liquidity position of these institutions under stressed financial market conditions in the wake of pandemic so that they can continue to support credit flow to the real economy.

in the policy rate, also induced record issuance of corporate bonds, even from entities with the lowest investment rating (BBB-). Overall, the Indian experience suggests that unconventional monetary policy measures can be effective even before conventional monetary policy has reached the zero lower bound.

Operating Target and Policy Rate

III.23 During 2020-21, the WACR – the operating target – remained within the corridor on all days with a downward bias up to October 2020. Since then, the WACR and other money market rates traded below the reverse repo rate with the persistence of surplus liquidity engendered by large capital inflows (Chart III.3).

Chart III.3: Policy Corridor and WACR



Source: RBI.

Monetary Policy Transmission

III.24 Monetary transmission – changes in banks' deposit and lending rates in response to the changes in the policy repo rate – improved considerably during 2020-21 aided by persistence of systemic surplus liquidity, sluggish credit demand and the mandated external benchmark-based pricing of floating rate loans to select sectors (Table III.2).[5]

III.25 The external benchmark-based pricing of loans effective October 1, 2019 has also imparted more flexibility in setting banks' deposit rates and MCLR-based loans. As the change in the lending rates in case of loans linked to an external benchmark is independent of the change in the deposit rate unlike MCLR-based loan pricing, banks need to cut their deposit rates – both savings and term deposits – to protect their net interest margins (NIMs). The reduction in term deposit rates applies only to fresh term deposits, while the reduction of rates in the case of saving deposits applies across the board. The saving deposit rates of five major banks, which ranged 3.25-3.50 per cent in September 2019, were placed at 2.70-3.00 per cent in March 2021.[6] Changes in banks' saving deposit rates bring about an instantaneous change in the banks' cost of funds, and in turn, in the MCLR and the lending rates on fresh rupee loans (provided the spread over the MCLR remains relatively stable). Thus, the impact of introduction of external benchmark-based pricing of loans on monetary transmission

[5] The Reserve Bank mandated all scheduled commercial banks (excluding regional rural banks) to link all new floating rate personal or retail loans and floating rate loans to micro and small enterprises (MSEs) to the policy repo rate or 3-month T-bill rate or 6-month T-bill rate or any other benchmark market interest rate published by Financial Benchmarks India Private Ltd. (FBIL), effective October 1, 2019. It was extended to medium enterprises, effective April 1, 2020.

[6] The median saving deposit rate was 3 per cent for domestic banks in March 2021.

Table III.2: Transmission to Deposit and Lending Interest Rates

(Basis points)

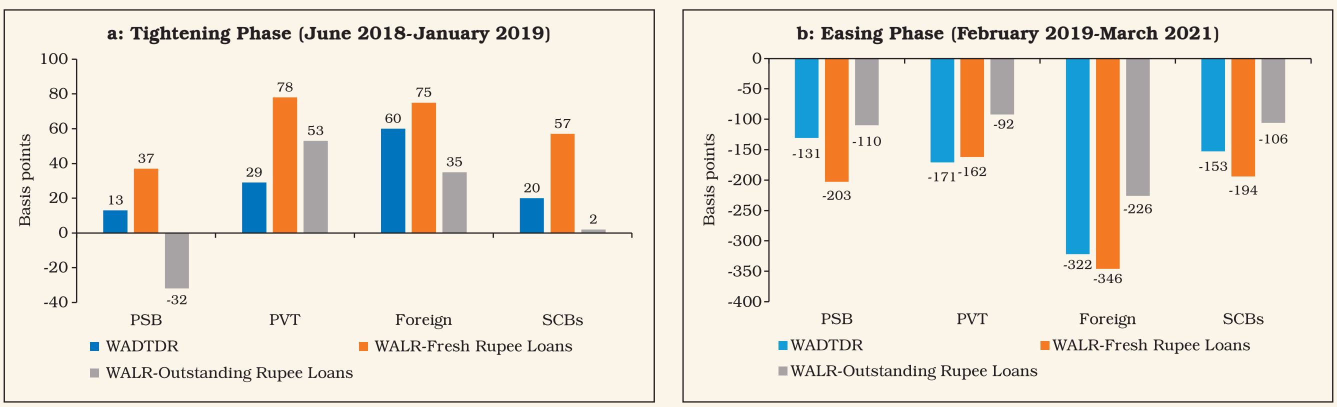
Period	Repo Rate	Term Deposit Rates		Lending Rates		
		Median Term Deposit Rate	WADTDR	1 - Year Median MCLR	WALR - Outstanding Rupee Loans	WALR - Fresh Rupee Loans
1	2	3	4	5	6	7
April 2018 to March 2019	25	5	22	45	0	39
April 2019 to March 2020	-185	-49	-51	-60	-25	-91
April 2020 to March 2021	-40	-137	-100	-90	-79	-79
Tightening Phase:						
June 2018 to January 2019	50	0	20	35	2	57
Easing Phase:						
February 2019 to September 2019 (Pre-External Benchmark Period)	-110	-9	-7	-30	2	-40
October 2019 to March 2021 (External Benchmark Period)	-140	-176	-146	-120	-108	-154
February 2019 to March 2021	-250	-205	-153	-150	-106	-194

WADTDR: Weighted Average Domestic Term Deposit Rate. WALR: Weighted Average Lending Rate.
MCLR: Marginal Cost of Funds-based Lending Rate.
Sources: Special Monthly Return VIAB, RBI; and banks' websites.

has encompassed even sectors that are not linked to external benchmark loan pricing. Unlike in the previous year when WALR on outstanding loans declined at a slower pace than that on fresh rupee loans, WALRs on both outstanding and fresh loans declined in tandem during 2020-21 as banks are required to reset interest rates on outstanding loans linked to the prevailing MCLR, which is typically of 1-year tenor or to the external benchmark, which has a maximum duration of 3-months.

III.26 Across bank groups, the transmission to deposit and lending interest rates has been uneven (Chart III.4). Foreign banks' low cost and

Chart III.4: Variation in Deposit and Lending Rates of SCBs



PSB: Public Sector Banks. PVT: Private Sector Banks. Foreign: Foreign Banks. SCBs: Scheduled Commercial Banks.
Source: RBI.

lower duration deposits enable them to make quick adjustments in response to policy rate changes. On the other hand, the public sector banks depend more on retail term deposits and face competition from alternative saving instruments like small savings, constraining them from lowering rates in sync with the policy rate. Following foreign banks, private sector banks exhibited greater transmission in terms of WADTDR. However, WALR on fresh rupee loans and outstanding loans declined more for public sector banks than their private counterparts.

Sectoral Lending Rates

III.27 During 2020-21, interest rates on outstanding loans declined for a majority of the sectors, with sharp declines observed for professional services and other personal loans (Table III.3).

External Benchmark

III.28 Among the available options for external benchmark, majority of banks, *i.e.,* 39 out of 65 banks, have adopted the Reserve Bank's policy repo rate as the external benchmark for floating rate loans to the retail and MSME sectors as at end-March 2021 (Table III.4). Four banks have adopted sector-specific benchmarks.

Table III.4: External Benchmarks of Commercial Banks - March 2021

Bank Group	Policy Repo Rate	CD	OIS	MIBOR	3-Month T Bill	Sector Specific Benchmark*	Total
1	2	3	4	5	6	7	8
PSB (11)	11	-	-	-	-	-	11
Private Banks (21)#	17	1	-	-	-	2	20
Foreign Banks (33)#	11	1	-	3	6	2	23
SCBs (65)#	39	2	-	3	6	4	54

*: Sector specific benchmarks include MIBOR, OIS, 10-year G-sec, and CD rates.
#: One private sector bank and 10 foreign banks reported nil.
Note: Figures in parentheses refer to the number of banks that responded to the survey.
Source: RBI.

III.29 In the case of loans linked to the policy repo rate, the median spread in respect of fresh rupee loans (*i.e.*, median WALR over the repo rate) was the highest for other personal loans, followed by MSME loans (Table III.5). Among the domestic bank-groups, private sector banks typically charged a higher spread *vis-à-vis* public sector banks.

Table III.3: Sector-wise WALR of SCBs (Excluding RRBs) - Outstanding Rupee Loans

(Per cent)

End-Month	Agriculture	Industry (Large)	MSMEs	Infrastructure	Trade	Professional Services	Personal Loans					Rupee Export Credit
							Housing	Vehicle	Education	Credit Card	Other$	
1	2	3	4	5	6	7	8	9	10	11	12	13
Mar-20	10.06	9.38	10.53	9.73	8.98	9.90	8.71	10.05	10.59	28.90	12.06	7.31
Jun-20	9.82	9.18	10.27	9.25	8.77	9.67	8.35	10.07	10.35	29.39	11.78	8.07
Sep-20	9.74	8.99	10.05	9.32	8.77	9.53	8.08	9.99	10.08	29.79	11.56	7.55
Dec-20	9.70	8.75	9.84	9.15	8.49	8.52	7.84	9.79	9.87	30.38	11.23	7.38
Mar-21	9.72	8.53	9.77	9.02	8.64	8.45	7.66	9.66	9.59	31.90	10.95	6.76
Variation (Percentage Points)												
2020-21	-0.34	-0.85	-0.76	-0.71	-0.34	-1.45	-1.05	-0.39	-1.00	3.00	-1.11	-0.55

$: Other than housing, vehicle, education and credit card loans.
Source: Special Monthly Return VIAB, RBI.

Table III.5: Loans linked to External Benchmark – Median Spread over Policy Repo Rate: March 2021

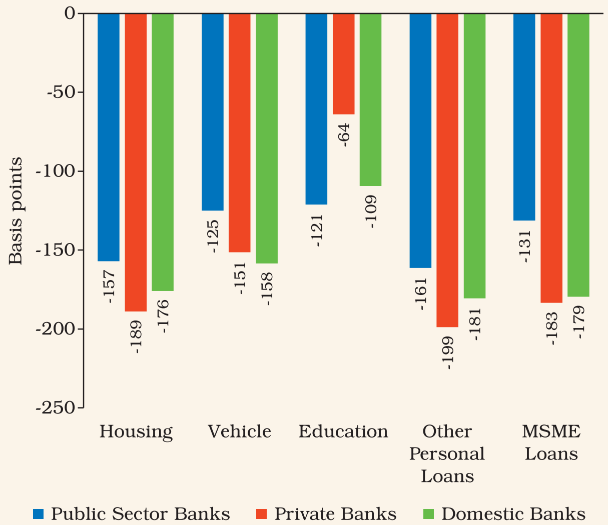
(Percentage points)

Bank Group	Personal Loans				Loans to MSME
	Housing	Vehicle	Education	Other Personal Loans	
1	2	3	4	5	6
Public Sector Banks	3.6	4.8	4.5	6.8	6.1
Private Sector Banks	6.3	7.1	7.4	7.8	7.6
Domestic Banks	**4.4**	**5.1**	**4.8**	**7.0**	**6.5**

Source: RBI.

III.30 A significant improvement has been observed in the transmission to all new loans sanctioned in respect of sectors where new floating rate loans have been linked to the external benchmark. The WALRs on housing, vehicle and other personal loans have declined significantly since the introduction of external benchmarks, *i.e.*, during October 2019-March 2021 (Chart III.5). The decline was the sharpest in the case of other personal loans (181 bps), followed by MSME loans (179 bps); during the same period, the decline in WALR on fresh rupee loans across all sectors was lower at 154 bps.

Chart III.5: WALR on Personal Loans and Loans to MSMEs : Variation (October 2019-March 2021)



Source: RBI.

3. Agenda for 2021-22

III.31 Section 45-ZA of the RBI Act, 1934 requires that the Central Government shall, in consultation with the Reserve Bank, determine the inflation target in terms of CPI once in every five years. The Department would support the operationalisation of the mandated inflation target for the 5-year period (2021-26) with high quality analysis/ outlook on inflation and growth, alternative policy scenarios and liquidity assessment. Against this backdrop, the Department would undertake the following:

- Strengthen nowcasts of food inflation using customised *Agmarknet* data sourced from Ministry of Agriculture and Farmers Welfare;
- Understand the common and idiosyncratic components of inflation for a better grasp of underlying inflation;
- Upgrade GDP nowcasting and forecasting framework using high-frequency data;
- Implement the augmented and recalibrated QPM to generate medium-term forecasts and risk assessment *(Utkarsh)*;
- Refine liquidity forecasting and explore additional tools for liquidity management during 2021-22 and evaluate the Reserve Bank's liquidity measures on financial markets using event study method;
- Examine the behaviour of credit cycles in India; and
- Improve data management by a complete migration of submission of returns on sectoral credit, CRR and SLR maintenance by SCBs, interest rates on bank deposits and loans to XBRL reporting format.

4. Conclusion

III.32 Monetary policy in 2020-21 had to deal with the twin challenge of reviving growth from the ravages of COVID-19 while also ensuring that inflation eased from above the upper tolerance band to align with the target. A range of conventional and unconventional monetary, and liquidity measures ensured adequate surplus systemic liquidity to address COVID-19 related stress in the financial markets and were successful in ensuring a significant softening of interest rates across the spectrum and narrowing of risk spreads to pre-COVID levels and facilitated large flows through the corporate bond market. Transmission to banks' deposit and lending rates improved significantly on the back of surplus liquidity conditions and the mandated external benchmark system of the pricing of loans for specified sectors.

III.33 The pace of economic recovery in 2020-21 turned out to be faster than earlier anticipations. Yet the outlook is weighed down by several uncertainties, and would depend upon the evolving trajectory of COVID-19 infections and vaccinations. A durable recovery will be dependent on continued policy support. Inflation remains a key concern and constrains monetary policy from using the space available to act in support of growth. Further efforts are necessary to mitigate supply-side driven inflation pressures. Monetary policy will monitor closely all threats to price stability to anchor broader macroeconomic and financial stability while continuing with the accommodative stance.

IV CREDIT DELIVERY AND FINANCIAL INCLUSION

In the face of challenges due to COVID-19 pandemic, ensuring effective credit delivery and expanding the reach of financial inclusion remained a priority for the Reserve Bank. The ongoing efforts under the financial inclusion plans were intensified, including review of priority sector lending guidelines and introduction of co-lending model. The implementation of the recommendations made by the Expert Committee on MSMEs and Internal Working Group to Review Agricultural Credit were the notable developments during the year. Efforts towards financial literacy are being sustained by expanding the reach of Centres for Financial Literacy (CFL) to all blocks in the country and also revising the Financial Awareness Messages Booklet.

IV. 1 The Reserve Bank continued its focus on strengthening the credit delivery mechanisms to ensure adequate and timely flow of credit to all productive sectors of the economy, especially agriculture and micro, small and medium enterprises (MSMEs), and also ensuring the availability of banking services to all sections of the society. The overarching philosophy of the Reserve Bank behind prescribing the priority sector lending (PSL) target for banks is to enable sections of society, which though creditworthy, are unable to access the formal banking system, for adequate and timely credit. The PSL guidelines were reviewed during the year with an objective to harmonise various instructions issued to commercial banks, small finance banks (SFBs), regional rural banks (RRBs), urban cooperative banks (UCBs) and local area banks (LABs); align these guidelines with emerging national priorities and bring sharper focus on inclusive development.

IV. 2 The Government of India notified new definition for classifying enterprises as MSMEs, using composite criteria of investment and turnover, effective July 1, 2020. As per the revised definition, an enterprise is micro where the investment in plant and machinery or equipment does not exceed ₹1 crore and turnover does not exceed ₹5 crore. An enterprise is now classified as small enterprise, where the investment in plant and machinery or equipment does not exceed ₹10 crore and turnover does not exceed ₹50 crore. For classification as a medium enterprise, the investment in plant and machinery or equipment should not exceed ₹50 crore and turnover should not exceed ₹250 crore.

IV. 3 In order to provide greater operational flexibility to banks and NBFCs for reaching out to priority sector, a revised scheme, renamed as co-lending model (CLM) was introduced, effective November 5, 2020. The primary focus of the revised scheme is to improve the flow of credit to the unserved and underserved sectors of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the comparative advantage of lower cost of funds of banks and greater reach of NBFCs.

IV. 4 In order to have a planned and structured approach to further financial inclusion, banks have been advised to prepare Financial Inclusion Plans (FIPs). The progress made by banks under FIPs is reported to the Reserve Bank on a monthly basis. It was also decided to expand the reach of the CFLs to the entire country by scaling up the pilot CFL project in a phased manner, in line with the recommendation of the National Strategy for Financial Inclusion (NSFI).

IV. 5 Against this backdrop, the rest of the chapter is organised into three sections. The implementation status of the agenda for 2020-21 is presented in section 2. It also covers the performance of credit flow to priority sectors and developments with respect to financial inclusion and financial literacy. The agenda for 2021-22 is provided in section 3. The chapter has been summarised at the end.

2. Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

IV. 6 Last year, the Department had set out the following goals:

- Review of Train the Trainer (TOT) programme for capacity building of business correspondents (BCs) and BC Registry (*Utkarsh*) [Para IV.7];
- Develop online financial literacy modules for specific target audience (*Utkarsh*) [Para IV.8];
- Complete the end-line impact assessment survey of the pilot project on CFL (*Utkarsh*) [Para IV.9];
- Monitor implementation of the recommendations of the "Expert Committee on MSMEs" and "Internal Working Group to Review Agricultural Credit" (*Utkarsh*) [Para IV.10 - IV.11];
- Monitor implementation of the National Strategy for Financial Education (NSFE) [Para IV.12]; and
- Review of guidelines of PSL (Para IV.13).

Implementation Status of Goals

IV. 7 During 2020-21, a pan-India survey was undertaken through regional offices of the Reserve Bank, among bank officials and BCs, in virtual mode to assess the efficacy of various initiatives taken to strengthen the BC model *viz.,* the BC Certification Programme, the two-tier ToT programme and BC Registry. Analysis of the findings of the survey will be used for necessary course of action, wherever required.

IV. 8 Based on financial literacy survey and inputs from financial sector regulators, the National Centre for Financial Education (NCFE) has developed online financial literacy modules for specific target groups, *viz.,* entrepreneurs, school children, self-help groups (SHGs), senior citizens and farmers.

IV. 9 The end-line impact assessment survey of the pilot project on CFL, which was scheduled to be undertaken in November 2020, could not be carried out due to the disruptions caused by the COVID-19 pandemic. The survey is now scheduled to be completed by September 2021.

IV. 10 The Expert Committee on MSMEs had made 37 broad recommendations. Out of 21 recommendations pertaining to the Reserve Bank, 11 have already been implemented and some are under consideration. The major recommendations, which were implemented, include (i) introduction of video-based Know Your Customer (KYC) norms; (ii) increase in the threshold limit for regulatory retail portfolio of banks from ₹5 crore to ₹7.5 crore; (iii) creation of Payment Infrastructure Development Fund (PIDF) to provide impetus to acceptance infrastructure to promote digital payments and commerce platforms for rural MSMEs; and (iv) co-lending model for all NBFCs.

IV. 11 The Internal Working Group (IWG) to review agricultural credit had made 29 recommendations. Out of 12 recommendations pertaining to the Reserve Bank, 10 have already been implemented. Some of the major recommendations, which were implemented during the year, are (i) enhancing the sub-target of small and marginal farmers under PSL from 8 per cent to 10 per cent of adjusted net bank credit (ANBC) in a phased manner over a period of three years till 2023-24; (ii) addressing regional disparity in credit by assigning a higher weights to the incremental priority sector credit in the identified districts where the credit flow is comparatively lower; (iii) classifying loans up to ₹2 lakh to individuals solely engaged in allied activities under sub-target of small and marginal farmers; (iv) study on priority sector lending certificate (PSLC) for identifying the lending strategies of banks and making it mandatory for RRBs to contribute to rural infrastructure development fund (RIDF) in the event of PSL shortfall; and (v) review of scale of finance for crop cultivation.

IV. 12 NCFE is entrusted with the responsibility to implement the recommendations laid down in the NSFE for the period 2020-25. The progress made towards implementation is monitored by the Technical Group on Financial Inclusion and Financial Literacy (TGFIFL) under the aegis of the Sub-Committee of the Financial Stability and Development Council (FSDC-SC).

IV. 13 The revised Master Directions on PSL were issued on September 4, 2020. These Master Directions, *inter alia*, encompass guidelines on PSL for all commercial banks, RRBs, SFBs, UCBs and LABs, with an objective to harmonise the various instructions.

CREDIT DELIVERY

Priority Sector

IV. 14 The priority sector lending for scheduled commercial banks stood at 40.54 per cent in 2020-21 (as at the end of December 2020). Among bank groups, while public sector banks continued to achieve the prescribed PSL target of 40 per cent, a marginal shortfall was observed for private sector banks and foreign banks (Table IV.1). As per the extant guidelines, in case of shortfall in achieving priority sector targets/sub-targets by SCBs, as decided by the Reserve Bank from time to time, they are advised to allocate amounts for contribution to RIDF established with NABARD and other funds with NABARD / NHB / SIDBI / Micro Units Development and Refinance Agency (MUDRA).

Table IV.1: Achievement of Priority Sector Lending Targets

(₹ Crore)

Year	Public Sector Banks	Private Sector Banks	Foreign Banks
1	2	3	4
2019-20	23,14,242 (41.05)	12,72,745 (40.32)	1,67,095 (40.80)
2020-21 (April-December)*	23,79,790 (40.98)	14,04,824 (39.89)	1,73,945 (39.85)

*: Provisional data.

Note: Figures in parentheses are percentage to ANBC or credit equivalent of off balance sheet exposure (CEOBE), whichever is higher.

Source: Priority sector returns submitted by SCBs.

IV. 15 The total trading volume of PSLCs recorded a growth of 25.9 per cent and stood at ₹5.89 lakh crore in 2020-21 as compared with 43.1 per cent growth a year ago. Among the four PSLC categories, the highest trading was observed in the case of PSLC-general and PSLC-small and marginal farmer with the transaction volumes being ₹2.26 lakh crore and ₹1.98 lakh crore, respectively, for the year ended March 31, 2021.

Review of Priority Sector Guidelines

IV. 16 A review of the PSL guidelines was undertaken during the year. As part of the review it was decided to implement an incentive and dis-incentive framework by ranking districts based on per capita PSL credit. A higher weightage (125 per cent) will be assigned for incremental priority sector credit in districts with comparatively lower flow of priority sector credit and a lower weightage of (90 per cent) will be assigned for incremental priority sector credit in districts with comparatively higher flow of priority sector credit (Box IV.1).

Box IV.1
Addressing Regional Disparities in the Flow of Priority Sector Credit

Priority Sector Lending (PSL) was formalised in 1972. The lending targets were first advised to the banks by the Reserve Bank in 1974. Since then, the underlying philosophy of priority sector guidelines has been to facilitate flow of credit to such sections of society, which though creditworthy, are unable to access credit from the formal financial institutions. The guidelines have remained purpose/ activity specific since their inception. In order to provide an easier access to credit to all such sections of society by affecting bank location and lending practices, banking sector in India was regulated between the bank nationalisation in 1969 and the onset of financial liberalisation in 1990. Findings suggest that regulation of the Indian banking sector played a key role in directing bank credit towards the poor, and that easier access to bank credit and saving opportunities was associated with a significant decline in rural poverty (Burgess, Pande, and Wong, 2005). However, flow of credit to different regions was uneven on account of various factors and there has been a demand for ensuring parity in the flow of credit across the different regions of the country. In this regard, the 'Internal Working Group to Review Agricultural Credit' (Chairman: Shri M. K. Jain), set up by the Reserve Bank in 2019, had flagged the issue of regional disparity in credit flow to agriculture.

The Committee recommended that PSL guidelines should be re-visited to explore the feasibility of introducing suitable measures for improving the credit offtake in underserved regions. Accordingly, PSL guidelines were reviewed and an incentive framework was put in place for banks, effective April 1, 2021, to address the regional disparities in the flow of priority sector credit. While higher weight (125 per cent) will be assigned for incremental priority sector credit in the identified districts where credit flow is comparatively lower (per capita PSL less than ₹6,000), a lower weight (90 per cent) would be assigned to incremental priority sector credit in identified districts where the credit flow is comparatively higher (per capita PSL greater than ₹25,000). RRBs, UCBs, LABs and foreign banks [including wholly owned subsidiary (WoS)] would be exempted from adjustments of weights in PSL achievement due to their currently limited area of operation/catering to a niche segment.

To operationalise the framework, all districts have been ranked based on per capita credit flow to priority sector and the same will remain valid for a period of three years, *i.e.,* up to year 2023-24 and will be reviewed thereafter. The incentive framework is aimed to encourage banks to channelise higher credit flow to the districts, which presently are faced with low credit penetration. With the above framework in place, it is expected that the issue of regional disparity shall be taken cognisance of by banks at their corporate strategy level and the banking system would be able to realise the commercial benefit through the incentive structure.

However, regional disparities in credit flow are on account of multiple factors and would need a multi-stakeholder approach for increasing the flow of credit in the underserved areas. The Reserve Bank's efforts of ensuring higher credit flow need to be effectively complimented by central and state governments in increasing the credit absorption capacity in underserved areas for a sustainable change.

Reference:

Burgess, R, Pande, R, and Wong, Grace (2005), 'Banking for the Poor: Evidence from India', *Journal of the European Economic Association*, Volume 3, Issue 2-3.

IV. 17 Some of the important changes brought out under the PSL guidelines after their review are set out below:

- The targets prescribed for "small and marginal farmers" and "weaker sections" are being increased in a phased manner.
- Bank finance to start-ups (up to ₹50 crore); loans to farmers for installation of solar power plants for solarisation of grid connected agriculture pumps; and loans for setting up compressed bio gas (CBG) plants were included as fresh categories eligible for finance under priority sector.
- Higher credit limit was specified for Farmers Producers Organisations (FPOs)/Farmers Producers Companies (FPCs) undertaking farming with assured marketing of their produce at a pre-determined price.

- In order to improve health infrastructure, credit limit for health infrastructure (including *Ayushman Bharat*) was doubled.
- The cap on credit was increased under renewable energy category from ₹15 crore to ₹30 crore to ensure unit level business sustainability.
- Loans to individuals up to ₹20 lakh for education purposes, will be considered as eligible for priority sector status.

Co-Lending by Banks and NBFCs to Priority Sector

IV. 18 The circular on co-lending model (CLM) was issued on November 5, 2020, with the objective to better leverage the comparative advantages of the banks and NBFCs in a collaborative effort in respect of all categories of PSL. The primary focus of the revised scheme is to improve the synergy between banks and NBFCs considering the lower cost of funds from banks and greater reach of the NBFCs. The scheme envisages improved flow of credit to the unserved and underserved sectors of the economy and make available funds to the ultimate beneficiary at an affordable cost. While the earlier scheme of co-origination allowed banks to partner with only non-deposit taking systemically important NBFCs (NBFCs-ND-SI), the revised scheme allows co-lending with all registered NBFCs [including housing finance companies (HFCs)] based on a prior agreement. While NBFCs are required to retain a minimum of 20 per cent share of the individual loans on their books, greater operational flexibility under the revised model allows banks to either mandatorily take their share of the individual loans originated by the NBFCs in their books as per the terms of the agreement, or to retain the discretion to reject certain loans after their due diligence prior to taking in their books. Banks may claim priority sector status in respect of their share of credit while adhering to the specified conditions. Banks and NBFCs are required to formulate board-approved policies for entering into the CLM with the objective to make funds available to the ultimate beneficiary at an affordable cost.

Flow of Credit to Agriculture

IV. 19 The Government of India (GoI) fixes the agricultural credit target every year for commercial banks, RRBs and rural co-operative banks. During 2020-21, against the target of ₹15 lakh crore, banks achieved 75.1 per cent of the target (₹11.27 lakh crore) as on December 31, 2020, of which commercial banks, RRBs and rural co-operative banks achieved 78.6 per cent, 74.2 per cent and 59.3 per cent, respectively, of their targets (Table IV.2).

IV. 20 The Kisan Credit Card (KCC) provides adequate and timely bank credit to farmers

Table IV.2: Targets and Achievements for Agricultural Credit

(₹ Crore)

Year	Commercial Banks		Rural Co-operative Banks		RRBs		Total	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
1	2	3	4	5	6	7	8	9
2019-2020	9,72,000	10,61,215	2,02,500	1,49,694	1,75,500	1,62,857	13,50,000	13,73,766
2020-2021 (April-December)*	10,81,978	8,50,543	2,25,946	1,33,976	1,92,076	1,42,603	15,00,000	11,27,121

*: Data are provisional. While the target for agricultural credit is set for the full year (April 2020 - March 2021), the achievement is given for April 2020 - December 2020.

Source: National Bank for Agriculture and Rural Development (NABARD).

Table IV.3: Kisan Credit Card (KCC) Scheme

(Number in Lakh, Amount in ₹ Crore)

Year	Number of Operative KCCs	Outstanding Crop Loan	Outstanding Term Loan
1	2	3	4
2019-20	241.50	4,23,587.80	46,555.80
2020-21 (April-December)*	275.95	4,12,749.23	47,644.70

*: Provisional data.
Source: Public sector banks and private sector banks.

under a single window for cultivation and other needs, including for consumption, investment and insurance (Table IV.3).

Relief Measures for Natural Calamities

IV. 21 Currently, the National Disaster Management Framework of the GoI covers 12 types of natural calamities under its ambit, *viz.,* cyclone; drought; earthquake; fire; floods; tsunami; hailstorm; landslide; avalanche; cloud burst; pest attack; and cold wave/frost. Accordingly, the Reserve Bank has mandated banks to provide relief where the crop loss assessed was 33 per cent or more in the areas affected by these natural calamities. The relief measures by banks, *inter alia*, include restructuring/rescheduling existing loans and sanctioning fresh loans as per the emerging requirement of the eligible borrowers. During 2020-21, natural calamity/riots or disturbances were declared by four states, *viz.,* Karnataka, Rajasthan, West Bengal and Maharashtra. Cyclone *Amphan* caused widespread devastation in West Bengal in May 2020. Rajasthan was affected by extreme locust attack in May 2020, while it saw hailstorms in the month of July 2020. Karnataka experienced crop losses due to flood in September 2020, while Maharashtra saw drought in Gadchiroli district in October 2020. Fresh loans were provided by banks to the calamity affected persons during 2020-21, while their past loans were also restructured/rescheduled by banks during the same period (Table IV.4).

Table IV.4: Relief Measures for Natural Calamities

(Number in Lakh, Amount in ₹ Crore)

Year	Loans Restructured/ Rescheduled		Fresh Finance/ Relending Provided	
	No. of Accounts	Amount	No. of Accounts	Amount
1	2	3	4	5
2019-20	9.04	13,296	10.06	32,639
2020-21 (April-December)*	1.40	2,164	10.20	8,560

*: Provisional data.
Source: State Level Bankers' Committees (SLBCs).

Bank Credit to the MSME Sector

IV. 22 Increasing credit flow to the MSMEs has been a policy priority for the Reserve Bank and Government. On a year-on-year basis, the outstanding credit to MSMEs by scheduled commercial banks increased by 8.9 per cent in December 2020 (6.2 per cent a year ago) [Table IV.5].

Table IV.5: Bank Credit to MSMEs

(Number in Lakh, Amount in ₹ Crore)

Year	Micro Enterprises		Small Enterprises		Medium Enterprises		MSMEs	
	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding
1	2	3	4	5	6	7	8	9
Dec-2019	328.93	7,04,278	23.81	6,35,933	3.07	2,08,134	355.82	15,48,344
Dec-2020	394.48	7,63,109	23.20	6,52,292	5.32	2,70,924	423.00	16,86,325

Source: Priority sector returns submitted by SCBs.

FINANCIAL INCLUSION

National Strategy for Financial Inclusion (NSFI): 2019-24

IV. 23 The NSFI: 2019-24 document lays down several milestones and action plans to be implemented during the period of strategy with two recommendations pertaining to financial literacy (development of financial literacy modules with specific target orientation) and consumer protection (development of a robust customer grievance portal) to be implemented during 2020-21. National Centre for Financial Education (NCFE) has developed relevant modules in the form of audio-visual content/booklets for the target groups. In order to have a robust grievance redressal portal, the Complaint Management System (CMS) launched by the Reserve Bank acts as a common electronic platform for lodging, tracking and redressal status of the grievances. Further, the Reserve Bank has also introduced Online Dispute Resolution (ODR) system for resolving customer disputes and grievances pertaining to digital payments.

Financial Inclusion Plan

IV. 24 In order to have a planned and structured approach to financial inclusion, banks have been advised to put in place Financial Inclusion Plans (FIPs). These FIPs capture banks' achievements on parameters such as the number of outlets (branches and BCs), Basic Savings Bank Deposit Accounts (BSBDAs), overdraft facilities availed in these accounts, transactions in KCCs and General Credit Cards (GCCs) and transactions through the Business Correspondents - Information and Communication Technology (BC-ICT) channel. The progress made on these parameters as at the end of December 2020 is set out in Table IV.6.

Table IV.6: Financial Inclusion Plan: A Progress Report

Particulars	Mar 2010	Dec 2019	Dec 2020$
1	2	3	4
Banking Outlets in Villages-Branches	33,378	54,481	55,073
Banking Outlets in Villages >2000*-BCs	8,390	1,28,980	8,51,272
Banking Outlets in Villages <2000*-BCs	25,784	3,83,864	3,85,537
Total Banking Outlets in Villages - BCs	34,174	5,12,844	12,36,809^
Banking Outlets in Villages - Other Modes	142	3,473	3,440
Banking Outlets in Villages -Total	**67,694**	**5,70,798**	**12,95,322**
Urban Locations Covered Through BCs	447	5,51,327	3,24,345
BSBDA - Through Branches (No. in Lakh)	600	2,558	2,891
BSBDA - Through Branches (Amount in Crore)	4,400	90,731	1,25,898
BSBDA - Through BCs (No. in Lakh)	130	3,409	3,601
BSBDA - Through BCs (Amount in Crore)	1,100	62,095	77,163
BSBDA - Total (No. in Lakh)	**735**	**5,967**	**6,492**
BSBDA - Total (Amount in Crore)	**5,500**	**1,52,826**	**2,03,061**
OD Facility Availed in BSBDAs (No. in Lakh)	2	62	59
OD Facility Availed in BSBDAs (Amount in Crore)	10	455	500
KCC - Total (No. in Lakh)	240	479	490
KCC - Total (Amount in Crore)	1,24,000	7,09,377	6,79,136
GCC - Total (No. in Lakh)	10	200	199
GCC - Total (Amount in Crore)	3,500	1,84,918	1,73,968
ICT-A/Cs-BC-Total Transactions (No. in Lakh)#	270	22,500	35,183
ICT-A/Cs-BC-Total Transactions (Amount in Crore)#	700	6,06,589	8,28,795

*: Village population. ^: Significant increase in numbers is due to reclassification done by a bank.
#: Transactions during the year. $: Provisional data.
Source: FIP returns submitted by banks.

Assignment of Lead Bank Responsibility

IV. 25 The assignment of lead bank responsibility to a designated bank in every district was undertaken by the Reserve Bank. As at end-March 2021, 12 public sector banks and one private sector bank were assigned lead bank responsibility, covering at present 730 districts across the country.

Universal Access to Financial Services in Every Village Within 5 Km Radius/Hamlet of 500 Households in Hilly Areas

IV. 26 Providing banking access to every village within a 5 km radius/hamlet of 500 households in hilly areas is one of the key objectives of the National Strategy for Financial Inclusion (NSFI) for the period 2019-24. As per the status reported by the concerned State/Union Territory Level Bankers' Committees' (SLBC/UTLBC) convenor banks, the milestone has been fully achieved in 22 states and 6 UTs as on March 31, 2021. The percentage of coverage of all identified villages/hamlets across the country is 99.87 per cent.

FINANCIAL LITERACY

IV. 27 Developing financial literacy content for school children is one of the strategic goals of NSFE: 2020-2025. So far 13 state educational boards have included modules on financial education in their school curriculum. NCFE is in dialogue with NCERT regarding integration of financial education in school curriculum for classes VI-X. NCERT is also developing e-Learning resources on financial literacy wherein NCFE would be contributing to content development on the basis of inputs received from various stakeholders.

IV. 28 Consequent upon implementation of the pilot CFL project in 100 blocks (including 20 CFLs in tribal blocks), steps were initiated during the year to expand the reach of CFLs to all blocks in the country in a phased manner.

IV. 29 As at the end of December 2020, there were 1,478 Financial Literacy Centres (FLCs) in the country. While 1,48,444 financial literacy activities were undertaken during 2019-20 (April-March), a total of 45,588 financial literacy activities were conducted by the FLCs during the period April-December 2020. The restrictions towards mass gathering of people at public places have hampered conduct of physical financial education programmes across the country. With a view to ensure continued dissemination of financial education programmes across the country, regional offices of the Reserve Bank undertook financial education programmes through virtual mode and also leveraged local cable TV and community radio to spread financial awareness messages.

Revision of Financial Awareness Messages Booklet (FAME)

IV. 30 Recognising the need to develop standardised content to meet the requirements of the general audience for financial awareness on important banking aspects, the Reserve Bank developed the FAME booklet in 2016. The contents of the booklet were disseminated through financial literacy programmes and camps organised by FLCs and rural branches of banks. Keeping in view the changes in the financial services landscape, the content of the booklet was revised to cover 20 important messages across the four themes of financial competencies, basic banking, digital financial literacy and consumer protection. The revised booklet has been made available in 11 regional languages and is placed on the Reserve Bank's Financial Education website for wider dissemination.

Observing Financial Literacy Week 2021

IV. 31 The Financial Literacy Week (FLW) is an initiative of the Reserve Bank to promote awareness among masses/various sections of the population on key topics through a focused campaign every year. During 2020-21, FLW was observed between February 8-12, 2021 on the theme of "Credit Discipline and Credit from Formal Institutions", with focus on responsible borrowing, borrowing from formal institutions and timely repayments. During this week banks were advised to disseminate the information and create awareness amongst its customers and general public. Further, the Reserve Bank also undertook a centralised mass media campaign during February 2021 to disseminate essential financial awareness messages on the theme to the general public.

3. Agenda for 2021-22

IV. 32 The Department would pursue the following goals under *Utkarsh* towards achieving greater financial inclusion and credit delivery:

- Implementation of the milestones under NSFI:2019-24;
- Monitor implementation of the remaining recommendations of the Expert Committee on MSMEs;
- Complete the end-line impact assessment survey of the pilot project on CFL; and
- Expansion of CFL project by setting up 1,199 CFLs covering 3,592 blocks across the country and increase financial education levels across the country.

4. Conclusion

IV. 33 In sum, during the year, the Reserve Bank implemented the recommendations of the Expert Committee on MSME and the Internal Working Group on Agricultural Credit to improve inclusiveness and also enhance flow of credit to these sectors. Further, revised Master Directions on PSL were issued to harmonise the various instructions. Co-lending was introduced to improve the flow of credit to the unserved and underserved sectors of the economy at an affordable cost and scale up of the pilot CFL project was initiated to cover the entire country in a phased manner. Going ahead, the implementation of the recommendations laid down under the NSFI document and strengthening financial literacy will be the key areas of focus for the Reserve Bank.

V FINANCIAL MARKETS AND FOREIGN EXCHANGE MANAGEMENT

The Reserve Bank continued its efforts to further develop and deepen various segments of the financial markets by broadening participation, easing access, improving financial market infrastructure and creating integrated surveillance systems for maintaining market integrity. In response to the pandemic, adequate liquidity in the system remained a dominant objective during the year. Concurrently, measures were undertaken to streamline regulations relating to foreign exchange to align them with the evolving business and economic environment, encompassing liberalisation of the capital account and rationalisation of reporting requirements.

V.1 During 2020-21, the Reserve Bank continued to develop financial markets in terms of easing access and broadening participation, creation of integrated market surveillance systems and improving financial market infrastructure. Liquidity management operations involved both conventional and unconventional measures for ensuring the availability of adequate liquidity in the system. Policy measures were also undertaken to facilitate external trade and investments, and to alleviate stress due to COVID-19.

V.2 Against this backdrop, the rest of the chapter is structured into four sections. Measures undertaken to develop financial markets are covered in Section 2. Liquidity management and foreign exchange market operations are the theme of Section 3. In Section 4, the focus is on measures undertaken to facilitate external trade and payments while promoting orderly development of the foreign exchange market. Concluding observations are set out in the last section.

2. FINANCIAL MARKETS REGULATION DEPARTMENT (FMRD)

V.3 The Financial Markets Regulation Department (FMRD) is entrusted with the development, regulation and surveillance of money, government securities (G-secs), interest rate derivatives, foreign exchange and credit derivative markets. The Department undertook several measures in pursuance of this mandate to fulfil the objectives set for 2020-21.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

V.4 The Department had set out the following goals for 2020-21:

- A framework for exchange of initial and variation margin for non-centrally cleared derivative contracts, facilitated by legislation for bilateral netting of qualified financial contracts as announced in the Union Budget 2020-21 (*Utkarsh*) [Para V.5];
- Review of directions on credit default swaps (CDS) with a view to broadening the base of CDS writers and simplifying operational guidelines in the light of the legislation on bilateral netting of qualified financial contracts (*Utkarsh*) [Para V.6]; and
- Review of the directions on interest rate derivatives with a view to easing access, removing segmentation between onshore and offshore markets and improving transparency (Para V.7).

Implementation Status of Goals

V.5 The Department issued draft directions on variation margin in September 2020 for public feedback. The passing of the Bilateral Netting of Qualified Financial Contracts Act in September 2020 is expected to facilitate the implementation of exchange of margin. In this regard, regulations under the Foreign Exchange Management Act (FEMA), 1999 and circular were issued in October 2020 and February 2021, respectively, to enable the exchange of margin between a resident and non-resident, for permitted derivative contracts.

V.6 Directions on credit derivatives were reviewed in consultation with the concerned stakeholders, and draft CDS directions were issued in February 2021.

V.7 Draft directions on rupee interest rate derivatives (IRD), proposing that all rupee IRD transactions of market makers and their related entities globally are to be accounted for in India, were issued in September 2020 for public feedback. This measure is aimed at encouraging higher non-resident participation, enhancing the role of domestic market makers in the offshore market, improving transparency, and achieving better regulatory oversight.

Major Initiatives

Easing Access and Broadening Participation in the Financial Market

V.8 Regional Rural Banks (RRBs) have been allowed to participate in the call/notice/term money market as both borrowers and lenders, subject to prudential limits and other guidelines as prescribed for scheduled commercial banks. This is expected to facilitate more efficient management of liquidity at competitive rates by the RRBs.

V.9 A well-functioning money market is a crucial link in the chain of monetary policy transmission by facilitating pricing and liquidity in other financial markets. Directions on call, notice and term money, certificates of deposit (CDs) and commercial papers (CPs), and non-convertible debentures (NCDs) with original maturity of less than one year were comprehensively reviewed and rationalised. The revised draft directions were released in early-December 2020 for public feedback. The aim is to bring in consistency across products in terms of issuers, investors and other participants.

V.10 The Department initiated the process of international settlement of Indian government securities (G-secs) through International Central Securities Depository (ICSD) in consultation with the Government of India, ICSDs and other stakeholders. Clients of ICSDs would be able to invest in Indian G-sec without registering themselves as foreign portfolio investors (FPIs).

Creation of Integrated Market Surveillance System

V.11 Considering the importance of surveillance systems for financial markets, the Department decided to implement an information technology (IT)-enabled integrated market surveillance system (IMSS). After obtaining expression of interest (EoI) from interested vendors, a request for proposal (RFP) was floated for which interest from two bidders was received, which are being examined from a technical point of view, including surveillance requirements. The IMSS would augment the analytics and surveillance capabilities of the Department.

Improving Financial Market Infrastructure

V.12 With a view to increasing the operational efficiency and trading volume in illiquid government securities as also to decrease the cost of transactions, Clearcorp Dealing Systems (India) Ltd. (CDSL) was authorised to introduce a request for quote (RFQ) dealing mode in the

Negotiated Dealing System-Order Matching (NDS-OM) platform for illiquid government securities. The RFQ mode is expected to enable market participants to directly and simultaneously seek/provide quotes from/to multiple counter parties through the NDS-OM platform.

V.13 The CDSL was authorised to introduce FX-Forward in the FX-Retail module of their FX-Clear platform to widen access of forex derivatives to retail players. The FX-Retail module was introduced in 2019, with FX-cash/tom/spot products, to promote retail access to forex market.

V.14 As part of efforts underway to increase access to government securities market for retail investors, the CDSL was granted in-principle approval to develop an IT-based solution for enabling retail investors to directly access the government securities market through their demat accounts.

Ensuring High Standards of Governance and Conduct in OTC Derivative Market

V.15 The comprehensive guidelines on derivatives were first issued in 2007 to focus on aspects of customer suitability and appropriateness, governance arrangements and risk management for OTC derivatives. The guidelines have been reviewed with a view to catering to the growing sophistication of financial markets, changes in regulations relating to interest rate and foreign exchange derivatives, increasing non-resident participation and in line with international best practices. The draft directions on market-makers in OTC derivatives were released in December 2020 for the public feedback. The revised directions seek to promote efficient access to derivative markets while ensuring high standards of governance and conduct in OTC derivative business by market-makers.

Agenda for 2021-22

V.16 For the year 2021-22, the Department proposes the following goals:

- Draft directions for implementing the exchange of initial margin for non-centrally cleared derivatives (NCCDs) in India shall be issued by the second quarter of 2021-22 (*Utkarsh*);
- A government securities lending and borrowing mechanism (GSLBM), which will augment the existing market for 'special repos', is expected to be launched by the Clearing Corporation of India Ltd. (CCIL) in the second quarter of 2021-22; and
- Continuing with its efforts towards better aggregation and transparency under the Legal Entity Identifier (LEI) requirements for reporting of derivative transactions, the Unique Transaction Identifier (UTI) framework shall be implemented in India in line with the international progress made in this regard.

3. FINANCIAL MARKETS OPERATIONS DEPARTMENT (FMOD)

V.17 The Financial Markets Operations Department (FMOD) is entrusted with two primary responsibilities: conduct of liquidity management operations for maintaining an appropriate level of liquidity in the financial system for monetary policy transmission; and ensuring orderly conditions in the forex market through both onshore and offshore operations.

Agenda 2020-21: Implementation Status

Goals Set for 2020-21

V.18 During the year, the Department had set out the following goals:

- To carry out liquidity management operations effectively, including through additional liquidity management tools, in line with the stance of monetary policy (*Utkarsh*) [Para V.19];
- To monitor and modulate evolving liquidity conditions to ensure alignment of the weighted average call money rate (WACR) with the policy repo rate (Para V.20-26);
- To conduct foreign exchange operations in an effective manner to curb undue volatility in the USD/INR exchange rate (Para V.30); and
- To continue policy-oriented research on financial markets (Para V.31).

Implementation Status of Goals

Money Market and Liquidity Management

V.19 System liquidity continued to be in surplus mode during 2020-21 on account of various liquidity augmenting measures undertaken by the Reserve Bank in the post-COVID-19 period, and large capital inflows. The Reserve Bank used several instruments, *viz.,* term repo, reverse repo, variable rate reverse repo and MSF under the liquidity adjustment facility (LAF), open market operations (OMOs), OMOs in state development loans (SDLs) and special OMOs of simultaneous sale and purchase of G-secs.

V.20 With regard to provision of durable liquidity, the Reserve Bank conducted 27 OMO auctions during 2020-21 (April-March), which included combination of outright purchase OMOs, special OMOs and OMO purchase auctions in SDLs (3 auctions conducted on October 22, November 5 and December 23, 2020 for aggregate amount of ₹30,000 crore). During 2020-21, the Reserve Bank made net purchase of ₹3,13,295 crore through OMOs.

V.21 Banks that had availed funds under Long-Term Repo Operation (LTRO) in 2019-20 (April-March), and Targeted LTRO (TLTRO) and TLTRO 2.0 in 2019-20 and 2020-21, were allowed to reverse these transactions before maturity and avail new funds at the prevailing lower repo rate. An aggregate amount of ₹1,23,572 crore and ₹37,348 crore was repaid by banks under the LTRO and TLTRO schemes, respectively.

V.22 Focusing on revival of activity in specific sectors by providing sufficient liquidity, on tap TLTROs with tenors of up to three years for a total amount of up to ₹1.0 lakh crore at a floating rate linked to the policy repo rate were introduced in October 2020, with the facility made available up to March 31, 2021 and further extended up to September 30, 2021. Effective December 4, 2020, it was decided to expand on tap TLTROs to other stressed sectors in synergy with the credit guarantee available under the Emergency Credit Line Guarantee Scheme (ECLGS 2.0) of the government. With effect from February 5, 2021, banks were permitted to provide funds under the on tap TLTRO scheme to Non-Banking Financial Companies (NBFCs) for incremental lending to specified stressed sectors.

V.23 To assuage liquidity pressures on account of advance tax outflows, two 56-day term repo auctions for a total amount of ₹1.0 lakh crore were conducted at the existing repo rate in mid-September, involving total liquidity injection to the tune of ₹1,000 crore. In order to manage year-end liquidity pressure, two fine-tuning variable rate repo operations of 11-day and 5-day tenors were conducted in end-March 2021, involving total liquidity injection to the tune of ₹500 crore.

V.24 As part of the *AatmaNirbhar Bharat* package announced by the Government of India (GoI) in May 2020, a scheme was introduced by the Reserve Bank through a special purpose vehicle (SPV) to improve the liquidity position of specific financial entities - non-banking financial companies (NBFCs); micro-finance institutions (MFIs); and housing finance companies (HFCs). An aggregate amount of ₹7,126 crore (principal amount) was invested by the Reserve Bank through this scheme.

V.25 The Reserve Bank introduced the automated sweep-in and sweep-out (ASISO) facility on its *e-Kuber* system on August 6, 2020 in order to provide eligible LAF/MSF participants greater flexibility in managing their end of the day cash reserve ratio (CRR) balances.

V.26 The Reserve Bank decided to allow select RRBs to access the LAF and MSF facilities with a view to facilitate better liquidity management.

G-sec Market

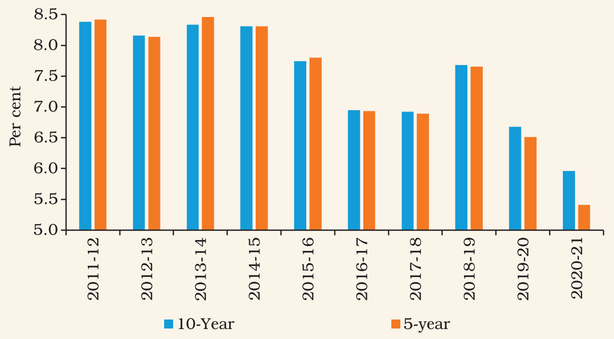
V.27 The limit under the held-to-maturity (HTM) category was increased from 19.5 per cent to 22.0 per cent of NDTL until March 31, 2023, in respect of SLR securities acquired between September 1, 2020 and March 31, 2022, to engender orderly market conditions and ensure congenial financing conditions with a clear glide path for restoration of HTM limits.

V.28 OMO operations undertaken during the year helped to keep the 10-year G-sec yield anchored, despite concerns arising from higher government debt supply, higher CPI inflation and continued foreign portfolio investment (FPI) outflows in the debt segment (Box V.1).

Box V.1
Mitigating COVID-19 Impact on Bond Market through Dynamic Approach in Open Market Operations

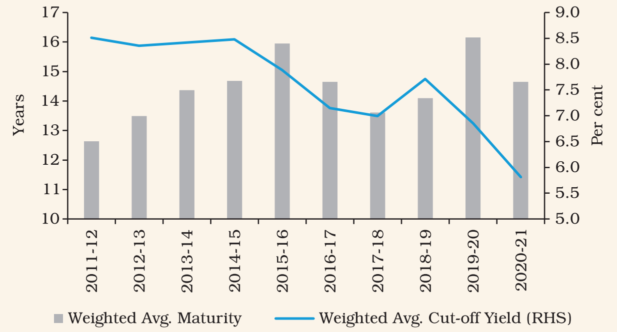
The Reserve Bank embarked upon a multi-pronged approach to ensure that financial conditions remain congenial while implementing the enlarged market borrowing programme of the Government of India (GoI) in a non-disruptive manner. The average generic G-sec yields for 5-year and 10-year were at decadal lows (Chart 1), which

Chart 1: Generic G-sec Yield (Average)



Source: Bloomberg and RBI.

Chart 2: Weighted Average Cut-off Yield and Maturity of Issues in Primary Auctions



Source: Bloomberg and RBI.

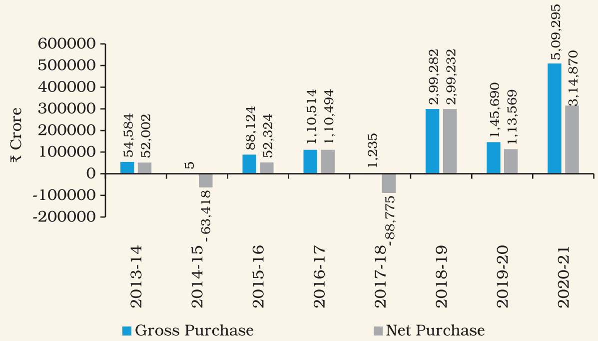
facilitated record GoI borrowing at the lowest weighted average yield[1] (Chart 2).

In the backdrop of surplus system liquidity, liquidity neutral special OMOs (19) were conducted in conjunction with

(Contd...)

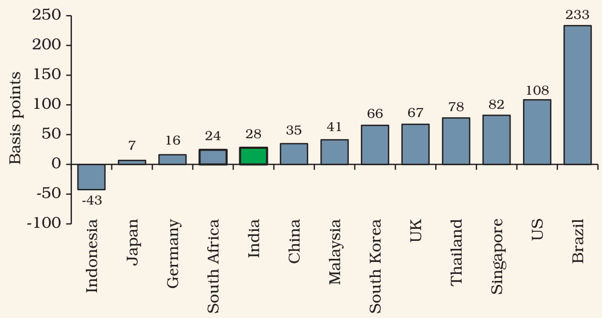
[1] Weighted average cut-off yield of primary auctions was considered.

Chart 3: OMO - Gross and Net Purchases[2]



Source: RBI.

Chart 4: Change in Generic 10-Year G-sec Yield - July 2020 to Mar 2021



Source: Bloomberg.

outright OMOs (5). The scope of OMOs was further extended to State Development Loans (3) to improve liquidity and facilitate efficient pricing therein. During April 2020 - March 2021, the Reserve Bank made a record gross purchase of securities amounting to ₹5,09,295 crore (₹3,02,132 crore through 27 auctions and ₹2,07,163 crore through other operations[2]) [Chart 3]. The gross and net purchase amount stood at ₹3,78,821 crore and ₹1,94,396 crore, respectively, during July 2020 - March 2021.

In order to provide effective support to the market, and to avoid disruptive effects on interest rates in the economy, OMOs by Reserve Bank were stepped up both in terms of frequency and quantum from September 2020 onwards. Consequently, the gross securities purchased through OMOs as a percentage of gross GoI issuances jumped from 8 per cent in July 2020 to 63 per cent in March 2021, while in case of the 10-year and above securities, the share jumped from 5 per cent in July 2020 to a high of 59 per cent in March 2021. This made a pivotal contribution toward keeping interest rates in alignment with the formulated monetary policy.

Purchase of a mix of liquid and illiquid securities in the OMOs smoothened the distribution of liquidity in specific tenors of the yield curve. Additionally, the Reserve Bank's support through dynamic usage of OMOs helped retain appetite of market participants amid continuous supply of government securities. This not only assured the market of the Reserve Bank's support leading to a resilient and stable government securities market, but also engendered congenial conditions for other segments of financial markets that price financial instruments off the government securities' yield curve. The active participation in various OMOs can be gauged from the fact that the average offer to cover ratio remained at 5.16 in July 2020-March 2021 as against 3.85 in July 2019 - June 2020 period.

A comparison of change in generic 10-year government bond yields of emerging market peers and specific developed markets during July 2020 to March 2021 reveals that Indian yields hardened by around 28 basis points (bps) as against hardening of 78 bps for Thailand, 66 bps for South Korea and 35 bps for China (Chart 4).

Foreign Exchange Market

V.29 During the year, the rupee traded with a generally appreciating bias amidst broad-based weakness in the US dollar on the back of reversal of risk sentiments, owing to the improvement in COVID-19 pandemic situation globally. A record amount of foreign investment inflows into Indian equity markets also supported the rupee.

V.30 The Reserve Bank intervened in the forex market through operations in the onshore/offshore OTC and exchange traded currency derivatives (ETCD) segments in order to maintain orderly market conditions by containing excessive volatility in the exchange rate.

[2] Both gross and net purchases on trade date basis.

Research/Analytical Studies

V.31 The Department carried out research/ analytical studies on issues such as the relationship between the Reserve Bank's liquidity operations and money market volumes; effects of the Reserve Bank's communication on financial markets; volatility in the Indian rupee (INR) market; the impact of the Reserve Bank's special open market operations on G-sec and corporate bond markets; and liquidity management in the time of COVID-19.

Agenda for 2021-22

V.32 During the year 2021-22, the Department plans to achieve the following goals:

- To carry out liquidity management operations effectively through all available liquidity management tools, in line with the stance of monetary policy (*Utkarsh*);
- To continue to conduct foreign exchange operations in an effective manner to curb undue volatility in the USD/INR exchange rate; and
- To continue policy-oriented research on financial markets.

4. FOREIGN EXCHANGE DEPARTMENT (FED)

V.33 During the year, the Department continued its endeavour to frame simple yet comprehensive, time consistent and principle-based policies to facilitate external trade and payments. Several steps were taken for enhancing ease of doing business, including aligning the regulatory framework to the needs of the evolving business practices and economic environment.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

V.34 The Department had set out the following goals for 2020-21:

- A complete review of the reporting requirements under various regulations in order to make reporting aligned with specific requirements, simple and efficient *(Utkarsh)* [Para V.36-40];
- Rationalisation of Overseas Direct Investment (ODI) regulations to make them simpler and more principles-based *(Utkarsh)* [Para V.41];
- Introduction of late submission fee for delayed reporting of ODI by Indian Parties/ Resident Indians *(Utkarsh)* [Para V.41];
- Rationalisation of various provisions on foreign exchange and currency under Foreign Exchange Management Regulations, 2015, such as export and import of currency; realisation, repatriation and surrender of foreign exchange; possession; and retention of foreign currency unified under a single regulation (Para V.42); and
- Conduct of awareness programmes and creation of digital content on an ongoing basis *(Utkarsh)* [Para V.43).

Implementation Status of Goals

Liberalisation and Rationalisation of Trade Guidelines

V.35 Automatic caution-listing of the exporters was discontinued from October 9, 2020 to make the system more exporter friendly. The revised system is expected to provide flexibility to exporters and to improve their negotiating power with overseas buyers. Under the revised norms, exporters will be caution-listed by the Reserve Bank on the recommendations made by the authorised dealer (AD) banks based on the track record of the exporter or in cases where the exporter had come to the adverse notice of a law enforcement agency or other serious grounds. Similarly, AD banks would make recommendations to the Reserve Bank for de-caution-listing an exporter as per a laid down procedure.

V.36 AD banks were allowed to regularise cases of dispatch of shipping documents by the exporter directly to the consignee or his agent resident in the country of final destination of goods, irrespective of the value of export shipment, but subject to certain conditions.

V.37 The procedure of write-off of unrealised export bills was revised whereby AD banks might, on the request of the exporter, write-off unrealised export bills without any limit, in addition to the existing delegated powers.

V.38 AD banks were permitted to set off outstanding export receivables against outstanding import payables of their exporters/importers with their overseas group/associate companies, either on net or gross basis, through an in-house or outsourced centralised settlement arrangement, in addition to bilateral settlement.

V.39 AD banks through whom export proceeds were originally realised were allowed to consider requests for refund of export proceeds of goods exported from India without insisting on the requirement of re-import of goods where the exported goods have been auctioned or destroyed by the port/customs/health authorities/any other accredited agency in the importing country, subject to submission of satisfactory documentary evidence.

Review of Reporting Requirements under FEMA

V.40 The Reserve Bank had earlier prescribed various reports and forms to be submitted by/ through Authorised Persons for the effective administration of FEMA and the rules and regulations framed thereunder. Considering the latest technological advancements as well as the recent changes in FEMA regulations on account of rationalisation of various notifications, it was decided to carry out a comprehensive review of the extant reporting requirements under FEMA. Accordingly, an Internal Committee was formed in January 2020 to review all returns/ reports prescribed under FEMA and recommend suggestions for rationalisation. A total number of 67 returns were reviewed by the Committee with respect to their relevance, mode of filing, format and frequency. Based on the recommendations made by the Committee, 17 returns/reports were discontinued with immediate effect *vide* circular dated November 13, 2020. The discontinuation of the above returns has decreased the total number of reports/returns to be submitted under FEMA, thereby reducing the cost of compliance for the reporting entities and improving thereby the ease of doing business.

Rationalisation of Overseas Investment Regulations

V.41 The review of overseas investment regulations, including a proposal to introduce late submission fee for delayed reporting of ODI by Indian Parties/Resident Indians, has been initiated in consultation with the government.

Authorised Persons and Remittances

V.42 The Foreign Exchange Management (Export and Import of Currency) Regulations, 2015 were amended and the changes were notified on August 18, 2020.

Conducting Awareness Programmes and Creation of Digital Content

V.43 The conduct of FEMA awareness programmes during the year was limited due to COVID-19 pandemic. Regional offices, however, conducted some workshops for Authorised Persons and FEMA exhibition-cum-townhall events during the year.

Major Initiatives

Skill Development and Necessary IT Systems Upgradation

V.44 The Software Platform for External Commercial Borrowings and Trade Credits Reporting and Approval (SPECTRA) encompassing the complete lifecycle from the receipt of application to communication of decision and reporting of transactions is under implementation, and is presently in the user acceptance test phase.

V.45 The online package for full-fledged money changers (FFMCs)/upgraded FFMCs (AD Category II) relating to licensing, renewal, reporting, cancellation and inspection is under implementation, and is presently in the user acceptance test phase.

Administration of Foreign Exchange Management (Non-Debt Instruments) Rules

V.46 Amendments were made to the FEMA 1999 through the Finance Act, 2015 enabling the central government to frame rules for any class or classes of capital account transactions not involving debt instruments, while the Reserve Bank would continue to regulate capital account transactions involving debt instruments. Furthermore, the government will make rules laying down the instruments to be determined as debt instruments. The amendments and the non-debt instrument (NDI) rules were notified in October 2019. An amendment notification dated July 27, 2020 was issued by the government whereby the Reserve Bank has been entrusted with the administration of the NDI rules.

Establishment of Branch Office (BO)/Liaison Office (LO)/Project Office (PO)

V.47 Consequent to the Hon'ble Supreme Court's judgement that advocates enrolled under the Advocates Act 1961 alone are entitled to practice law in India and that foreign law firms/ companies or foreign lawyers cannot practice the profession of law in India, AD Category - I banks have been directed not to grant any approval to any foreign legal firm for setting up an office or other place of business in India under FEMA for practicing the legal profession in India.

Measures Undertaken to Alleviate COVID-19 Related Stress

V.48 Due to the COVID-19 pandemic and considering the difficulties being faced in submitting returns, external commercial borrowing (ECB) returns were allowed to be submitted by borrowers through email without chartered accountant (CA)/company secretary (CS) certification, till resumption of normal operations. Similarly, considering the difficulties expressed by applicants in submitting payment instruments for paying compounding amount within 15 days of compounding order during the lockdown, payment of compounding amount beyond time limit was permitted.

Customer Service

V.49 The Department has strengthened its communication with stakeholders, especially AD banks, through frequent updation of frequently asked questions (FAQs) and taking feedback. The Foreign Investment Reporting and Management System (FIRMS) application for reporting of foreign inward investment has been made more robust and user friendly. Furthermore, the standard operating procedure (SOP) for dealing with requests relating to waiver of late submission fee (LSF) has been issued to the regional offices (ROs).

Agenda for 2021-22

V.50 The Department's strategy for 2021-22 is to focus on consolidating and carrying forward all the initiatives which were undertaken in the previous year. The emphasis will remain on ensuring that the FEMA operating framework is in conformity with the needs of the evolving macroeconomic environment. Accordingly, the Department has formulated the following strategic action plan for 2021-22:

- Continue rationalisation of the FEMA regulations by consolidating existing regulations of similar subjects, remove hard-coding to obviate frequent issuance of amendment notifications and aligning definitions across notifications/regulations;
- Take the exercise of rationalising the overseas investment regulations forward;
- Timely completion of ongoing software projects, *viz.,* SPECTRA and Authorised Person (AP) connect *(Utkarsh)*;
- A rationalised master direction for non-debt instruments will be issued as Foreign Exchange Management (Non-debt Instruments) Rules have been notified by the government; and
- Conduct awareness programmes and create digital content on an ongoing basis (*Utkarsh*).

5. CONCLUSION

V.51 In sum, the Reserve Bank undertook several conventional and unconventional measures for liquidity management in the wake of COVID-19. The Reserve Bank's asset purchases remained limited to purchases of risk-free sovereign bonds and, therefore, its unconventional measures did not dilute its balance sheet quality. Hence, it succeeded in infusing liquidity to unfreeze the markets without compromising on the core principles of central banking, that could otherwise have impaired market forces and discipline. Further, Reserve Bank's proactive communication strategy through forward guidance ensured cooperative outcomes. The Reserve Bank's response to the pandemic illustrated that central banks, ready to walk an extra mile, can aid the recovery process through the provision of ample liquidity in the system, while maintaining financial stability, dispelled illiquidity fears and thereby bolstered market sentiments. Going forward, unwinding of monetary stimulus through a well-calibrated and sequenced manner is needed to nurture green shoots until recovery gains traction.

VI REGULATION, SUPERVISION AND FINANCIAL STABILITY

Preserving financial stability while continuing to build a resilient and stable financial system took a centre stage in the year 2020-21, even as alleviating stress in various sectors of the economy and segments of the financial sector assumed importance as the year was marked with ravages of the COVID-19 pandemic. Accordingly, while several regulatory and supervisory measures were undertaken in response to the outbreak of the pandemic to address transient issues, in alignment with the long-term objective, the regulatory and supervisory framework was streamlined across regulated/supervised entities and strengthened, to maintain conformity with global best practices. Harnessing technology for customer services, strengthening fraud detection and consumer protection were also pursued as concurrent objectives. Capacity building of the personnel dealing with supervision, regulation, financial stability and enforcement functions was prioritised.

VI.1 The chapter discusses regulatory and supervisory measures undertaken during the year to strengthen the financial system and preserve financial stability. As part of the overall objective of aligning the regulatory/supervisory framework with global best practices, important strides in the areas of corporate governance, cyber security and compliance functions in banks were made. Steps towards developing a robust securitisation and secondary loan market in India were undertaken. Regional Rural Banks (RRBs) were provided additional avenues for liquidity management. The process of submitting statutory returns and supervisory disclosure by banks witnessed further automation.

VI.2 In other areas, consequent to transfer of regulation of housing finance companies (HFCs) from National Housing Bank (NHB) to the Reserve Bank with effect from August 9, 2019, the regulatory framework for the HFCs was comprehensively reviewed after a consultation process with the stakeholders and a revised regulatory framework was put in place in October 2020. As part of this, definition of housing finance business was introduced and principal business criteria were laid down with timelines for its phased introduction for entities to qualify as non-banking financial company-HFCs (NBFC-HFCs), failing which the entities were to be treated as NBFC-Investment and Credit Companies (NBFC-ICCs). Instructions were also provided for enhancing net owned fund (NOF) and for the phased introduction of Liquidity Risk Management Framework (LRM) and Liquidity Coverage Ratio (LCR). The guidelines also covered loan-to-value (LTV) requirements and levy of foreclosure charges. With these changes HFC regulations were harmonised with the regulations for other NBFCs to some extent. With the revised framework, the foundation has been provided for an orderly growth of the housing finance in pursuit of economic and social objectives, especially as the housing construction and housing markets have a multiplier effect on economic activity and job creation. Their sound regulation is, nevertheless, important as the sector is known to have caused booms and bust with ripple effects for the rest of the economy.

VI.3 The Reserve Bank had reviewed the guidelines for core investment companies (CICs) earlier in August 2020, taking into account the recommendations of the Working Group chaired by Shri Tapan Ray. Under the revised guidelines, in computing Adjusted Net Worth (ANW), the direct or indirect capital contribution made by one CIC in another CIC, in excess of 10 per cent of owned funds of the investing CIC, is to be deducted. Given the earlier experience with the opacities of the complex CIC structures evading regulation and supervision, the Reserve Bank also addressed the complexity in group structures and existence of multiple CICs within a group by restricting the number of layers of CICs within a Group (including the parent CIC) to two, irrespective of the extent of direct or indirect holding/control exercised by a CIC in the other CIC. Several other regulatory guidelines, including those on corporate governance and disclosures were also laid down.

VI.4 During the year, the Reserve Bank continued with its endeavour of strengthening the supervisory framework of the scheduled commercial banks (SCBs), urban cooperative banks (UCBs) and NBFCs. The Reserve Bank has strengthened its off-site supervisory framework for identifying risks early by using various tools. This has been complemented by creating a graded supervisory action framework, so as to enable early stage supervisory action, which is critical to prevent vulnerabilities from escalating or becoming acute. Accordingly, the supervisory approach of the Reserve Bank is now more forward looking, root-cause oriented, and incorporating both quantitative and qualitative elements into supervisory assessments. Significant initiatives were taken towards furthering specialisation and addressing the issue of asymmetry of information by way of: a) integration of supervisory functions meant for different supervised entities (SEs); b) specialisation and reinforcement of supervision through both vertical and horizontal risk assessments, and c) setting up a dedicated College of Supervisors (CoS) for capacity development. While continuing the efforts to strengthen the supervisory function, actions are also being taken to harness supervisory technology (SupTech).

VI.5 In the cooperative banking space, amendment in Banking Regulation (BR) Act, 1949 (as applicable to cooperative societies) not only improved Reserve Bank's regulatory powers over cooperative banks, but also paved the way for improving the governance and functioning of UCBs. Other major developments during the year included adoption of a calibrated supervisory approach for UCBs.

VI.6 The rest of this chapter is divided into five sections. Section 2 deals with the mandate and functions of the Financial Stability Unit (FSU). Section 3 addresses various regulatory measures undertaken by the Department of Regulation (DoR). Section 4 covers several supervisory measures undertaken by the Department of Supervision (DoS), and enforcement actions carried out by the Enforcement Department (EFD) during the year. Section 5 highlights the role played by the Consumer Education and Protection Department (CEPD) and the Deposit Insurance and Credit Guarantee Corporation (DICGC) in protecting consumer interests, spreading awareness and upholding consumer confidence. The departments have also set out agenda for 2021-22 in their respective sections. Concluding observations are set out in the last section.

2. FINANCIAL STABILITY UNIT (FSU)

VI.7 The mandate of the Financial Stability Unit (FSU) is to monitor the stability and soundness of the financial system by examining risks to financial stability, undertaking macro-prudential surveillance through systemic stress tests, undertaking financial network analysis and by disseminating early warning information through the Financial Stability Report (FSR). It also functions as a secretariat to the Sub-Committee of the Financial Stability and Development

Council (FSDC), an institutional mechanism of regulators for maintaining financial stability and monitoring macro-prudential regulation in the country.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

VI.8 The Department had set out the following goals for 2020-21:

- Strengthening the stress testing framework/methodology by incorporating evolving best practices (*Utkarsh)* [Para VI.9];
- Publishing the FSR on a timely basis with state of play analysis (Para VI.10);
- Conducting macro-prudential surveillance (Para VI.11); and
- Conducting meetings of the FSDC Sub-Committee (FSDC-SC) [Para VI.12 - VI.13].

Implementation Status of Goals

VI.9 As part of strengthening the stress testing framework, latest international practices were reviewed. Possible channels of feedback in the macro-stress environment were identified.

VI.10 The December 2020 issue of the FSR was published on January 11, 2021, rescheduled to incorporate the first advance estimates of national income for 2020-21, released by the National Statistical Office on January 7, 2021. The FSR reflected the collective assessment of the FSDC-SC on the balance of risks around financial stability. The FSR highlighted the active intervention of central banks and fiscal authorities across the world to stabilise financial markets, risks of spillovers and macro-financial implications, the disconnect between financial markets and real sector activity, profitability and capital adequacy of banks with some moderation in balance sheet stress and still subdued bank credit.

VI.11 Macro stress tests indicated a deterioration in scheduled commercial banks' (SCBs) asset quality and capital buffers under adverse scenarios. The regular macro-stress testing framework of the Department was augmented to capture the underlying state of banks' portfolios under the cover of regulatory forbearances.

VI.12 In its meeting held on August 31, 2020, the FSDC-SC reviewed major developments in global and domestic macroeconomic conditions and in financial markets impinging on financial stability; and undertook discussions related to inter-regulatory coordination and review of the initiatives and activities of National Centre for Financial Education (NCFE). In the meeting held on January 13, 2021, the Sub-Committee, *inter alia*, discussed scope for improvements in insolvency resolution under the Insolvency and Bankruptcy Code (IBC), 2016, utilisation of data with the Central Know Your Customer (KYC) Records Registry and changes in the regulatory framework relating to Alternative Investment Funds (AIFs) set up in the International Financial Services Centre (IFSC), among others. In these meetings, the Sub-Committee also reviewed the activities of various technical groups under its purview and the functioning of State Level Coordination Committees (SLCCs) in various states/union territories (UTs). The regulators reaffirmed their commitment to continue coordinating on various initiatives and measures to strengthen the financial sector in the extraordinarily challenging times.

Impact of COVID-19 Pandemic

VI.13 The FSU is primarily entrusted with macro-prudential surveillance and the smooth functioning of the FSDC-SC. The imposition of the lockdown and challenges in terms of restricted access to databases, information systems and software were overcome through remote access and virtual interactions, including in case of the FSDC-SC meetings.

Agenda for 2021-22

VI.14 In the year ahead, FSU will focus on the following:

- Strengthening the stress testing framework/methodology by incorporating evolving best practices (*Utkarsh);*
- Conducting macro-prudential surveillance;
- Publishing the FSR on a timely and updated basis; and
- Conducting meetings of the FSDC-SC.

3. REGULATION OF FINANCIAL INTERMEDIARIES

Department of Regulation (DoR)

Commercial Banks

VI.15 The Department of Regulation (DoR) is the nodal Department for regulation of commercial banks for ensuring a healthy and competitive banking system, which provides cost effective and inclusive banking services. The regulatory framework is fine-tuned as per the requirements of the Indian economy while adapting to international best practices.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

VI.16 The Department had set out the following goals under *Utkarsh* for regulation of commercial banks in 2020-21:

- *Convergence of the Reserve Bank's Regulations with Basel III Standards*: Draft guidelines on credit risk and market risk would be issued, in conformity with Basel III standards, along with the final guidelines on Interest Rate Risk in Banking Book (IRRBB); draft guidelines on minimum capital requirements for operational risk under Basel III standardised approach (SA) will also be issued. However, to free up banks and supervisors to respond to economic impact of COVID-19 pandemic, the Basel Committee on Banking Supervision (BCBS) has deferred the implementation of Basel III standards by one year to January 1, 2023 (Para VI.17-18).

Implementation Status of Goals

Convergence of the Reserve Bank's Regulations with Basel III Standards

VI.17 The Basel committee's oversight body - the Group of Central Bank Governors and Heads of Supervision (GHOS) - has endorsed a set of measures to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities resulting from the impact of COVID-19 pandemic on the global banking system. One of the measures already endorsed by the GHOS on March 27, 2020 was to defer the timeline for implementation of Basel III standards from January 1, 2022 to January 1, 2023.

VI.18 The target date for issuance of draft Basel III guidelines on credit, market and operational risk, as also final guidelines on interest rate risk in banking book has been deferred to September 2021.

Major Developments

Revised Guidelines on Securitisation and Sale of Loan Exposures

VI.19 Draft framework on securitisation, issued on June 8, 2020 for public comments, is being examined and the final guidelines will be issued shortly. Aimed at development of a strong and robust securitisation market in India, while incentivising simpler, transparent and comparable (STC) securitisation structures, the revised guidelines attempt to align the regulatory framework with the Basel guidelines on securitisation that have come into force effective January 1, 2018. The revisions also take into consideration the recommendations of the Committee on Development of Housing Finance Securitisation Market in India (Chair: Dr. Harsh Vardhan) and the Task Force on the Development of Secondary Market for Corporate Loans (Chair: Shri T. N. Manoharan), which were set up by the Reserve Bank in May 2019.

VI.20 Apart from reviewing the securitisation guidelines, it was also decided to comprehensively revisit the guidelines for sale of loan exposures, stressed as well as those not in default, which are currently spread across various circulars, and accordingly a draft comprehensive framework for sale of loan exposures was released on June 8, 2020. These guidelines on sale of loan exposures have been specific to the asset classification of the loan exposure being transferred and/or the nature of the entity to which such loan exposure is being transferred as well as the mode of transfer of the loan exposures. A review was also necessitated by the need to dovetail the guidelines on sale of loan exposures with the Insolvency and Bankruptcy Code (IBC), 2016 and the Prudential Framework for Resolution of Stressed Assets, which have been significant developments towards building a robust resolution paradigm in India in the recent past. Further, based on the recommendations of the above-mentioned task force, it was announced in the Statement on Developmental and Regulatory Policies of December 5, 2019 that the Reserve Bank will facilitate the setting up of a self-regulatory body - Secondary Loan Market Association (SLMA) - that was then registered on August 26, 2020. SLMA is currently examining the various measures for the development of the secondary loan market, including standardisation of loan documentation and loan sales platform.

Opening of Current Accounts by Banks

VI.21 With a view to ensuring credit discipline, instructions were issued on August 6, 2020 on the manner of opening of cash credit/overdraft (CC/OD) and collection/current accounts with banks depending upon the aggregate credit exposure of the banking system to a borrower. In case of customers who have not availed any credit facilities from the banking system, there are no restrictions on opening of such accounts. Further, banks have been permitted *vide* circular dated December 14, 2020, to open activity-specific accounts without restrictions, if mandated under various statutes/instructions issued by various regulators including the Reserve Bank.

Regulatory Retail Portfolio - Revised Limit for Risk Weight

VI.22 In order to reduce the cost of credit for the regulatory retail segment consisting of individuals and small businesses (*i.e.*, with turnover of up to ₹50 crore), as also in harmonisation with the Basel guidelines, the threshold qualifying exposure for inclusion in this segment was increased from ₹5 crore to ₹7.5 crore *vide* circular dated October 12, 2020. Thus, the risk weight of 75 per cent will apply to all fresh exposures and also to existing exposures where incremental exposure may be taken by the banks up to the revised limit of ₹7.5 crore. This measure is expected to increase the much-needed credit flow to the small business segment.

RRBs - Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF)

VI.23 In order to provide an additional avenue for liquidity management, LAF and MSF were extended to scheduled RRBs, subject to meeting certain conditions, on December 4, 2020.

Amalgamation of the Lakshmi Vilas Bank (LVB) Ltd. with DBS Bank India Ltd.

VI.24 The financial position of 'The Lakshmi Vilas Bank (LVB) Ltd.' had undergone a steady decline with the bank incurring continuous losses since 2018, eroding its net worth. Absence of any viable strategic plan, declining advances, mounting non-performing assets, failure to raise capital or bring a strategic investor, regular outflow of liquidity and serious governance issues necessitated the Reserve Bank to take immediate action in the public interest and particularly in the interest of the depositors. Accordingly, on November 17, 2020, the Central Government imposed moratorium on LVB Ltd. up to December 16, 2020 and the Reserve Bank superseded the Board of Directors and appointed an Administrator. The Central Government accorded its sanction to the scheme of amalgamation and notified the 'Lakshmi Vilas Bank Ltd. (Amalgamation with DBS Bank India Ltd.) Scheme 2020' on November 25, 2020, which came into effect on November 27, 2020.

Submission of Statutory Returns by SCBs in Electronic Form on eXtensible Business Reporting Language (XBRL) Live Site

VI.25 To improve efficiency of submission of statutory returns while doing away with the drudgery of physical submission and cost of logistics involved, thereby reducing carbon footprints, it has been decided to dispense with the practice of submission of hard copy of Form A (CRR) and Form VIII (SLR), with effect from reporting Friday August 28, 2020. The SCBs have been advised to submit these returns in electronic form on XBRL live site using digital signatures of two authorised officials.

Regulatory Response to COVID-19 Pandemic

VI.26 The regulatory measures initiated in response to the outbreak of pandemic are reviewed on an ongoing basis. Further, additional measures have been taken or existing measures have been fine-tuned depending upon the prevailing situation at the time of such reviews. These measures were broadly in line with the cross-country regulatory response to the pandemic (Box VI.1).

Box VI.1
COVID-19 Related Regulatory Measures - A Cross-country Perspective

During 2020-21, the global central banks and governments have taken extraordinary measures to mitigate the economic and financial spillover risks from the COVID-19 pandemic. Central banks in all geographies responded swiftly and deployed all options available in their toolkit, both conventional and unconventional, to support their economies. The universally used measures were policy rate reductions and provision of domestic and foreign exchange liquidity. Where the banking system is concerned, banks in general had higher capital before the onset of the COVID-19 pandemic than what they had before the global financial crisis (GFC), enabling the authorities to deploy an array of policies to support economic activity, ability of banks to lend and aid recovery. At the Bank for International Settlements (BIS), a group of central bank Governors and heads of supervision endorsed a gamut of measures to enhance the operational capacity of banks' supervisors to respond to the immediate financial stability priorities. The implementation dates of the Basel III standards, the revised Pillar 3 disclosure requirements and the revised market risk framework have been deferred by one year to January 1, 2023. Basel Committee on Banking Supervision (BCBS) amended its transitional arrangements for the regulatory capital treatment of expected credit losses (ECL) accounting to give countries more flexibility on the manner of phasing in ECL on regulatory capital. Some actions in the area of prudential regulation are summarised below:

Moratorium and Asset Classification Guidance: Many countries (such as Argentina, Brazil, China, India, France, Hong Kong, the United States - US, and the United Kingdom - UK) provided guidance on restructuring of existing loans stressed due to the pandemic and also indicated that

(Contd.)

loans that were granted a repayment deferral need not be regarded as restructured. Some authorities provided that a moratorium does not trigger automatic loan reclassification as 'default' for supervisory reporting purposes. In some countries like India, the payment moratorium period was to be excluded from the number of days past due for the purpose of asset classification.

Basel III Capital and Liquidity Buffers: Many authorities (such as Australia, Canada, Switzerland, Germany, Euro Area, Japan, Hong Kong, Korea, Mexico, Russia, Singapore, the UK, and the US) have encouraged or more forcefully recommended financial institutions to use their capital and liquidity buffers to support lending. The BCBS has also clarified that a measured drawdown of banks' Basel III buffers is anticipated and appropriate in the current period of stress. The liquidity buffers like the Liquidity Coverage Ratios (LCR) were temporarily eased in many countries (*e.g.,* India, Indonesia, the UK, Brazil and Sweden). A number of jurisdictions (such as Switzerland, Germany, France, Sweden, and the UK) decided to lower or reduce the countercyclical capital buffer (CCyB) to zero. The UK gave clear guidance that the buffer will remain at that level for at least 12 months. Some countries reduced the CCyB partially (Hong Kong). A few others temporarily reduced other types of capital buffers, such as for domestic systemically important banks or the capital conservation buffer (CCB). In India, the date of implementation of the last tranche of CCB (0.625 per cent) was deferred.

Leverage: A number of authorities (such as Canada, Switzerland, and the US) have temporarily modified the leverage ratio rule to exclude reserves or deposits at the central bank from calculation without commensurate recalibration of the minimum leverage ratio requirement. Some countries have also excluded government bond holdings from banks' leverage exposure on a temporary basis to facilitate large asset purchase programmes.

Restraining Dividend Pay-outs: Measures were taken to conserve the capital levels in banks through restrain on dividend distributions and on share buybacks either by regulation or strong administrative guidance, imposed in numerous countries (such as Argentina, Australia, Brazil, Canada, Switzerland, Germany, Euro Area, India, Mexico, Russia, Sweden, Singapore, the UK, and South Africa). Some prudential and regulatory authorities recommended that banks should suspend the payment of dividends and share buybacks until end 2020 or even cancel outstanding 2019 dividends (Prudential Regulatory Authority, the UK).

A summary of cross-country measures is provided in Table 1. It can be seen that the central banks in the emerging market economies have deployed almost all tools pertaining to prudential rules and regulations; and liquidity and lending that the advanced economies central banks employed. However, the advanced economies central banks have been more prolific in the use of asset purchases/sales and forex swaps. Besides these measures, in EU, UK and India, the regulatory authorities have allowed delay in submission of different regulatory reports/financial statements during COVID-19 outbreak.

Table 1: Measures Taken by Central Banks during COVID-19 Pandemic

Type of Tool		Prudential Rules and Regulations			Liquidity and Lending		Asset Purchases/Sales			FX Swap
Measures		Capital Requirements	Liquidity Requirements	Payout Restrictions	Liquidity Measures	Specialised Lending	Government Bonds	Commercial Paper	Corporate Bond	USD Swap Line
Advanced Economies	US	✓	✓		✓	✓	✓	✓	✓	
	EA	✓	✓	✓	✓	✓	✓	✓	✓	✓
	JP	✓	✓		✓	✓	✓	✓	✓	✓
	GB	✓	✓	✓	✓	✓	✓	✓	✓	✓
	CA	✓	✓	✓	✓		✓	✓	✓	✓
	AU	✓	✓	✓	✓	✓	✓			✓
	CH	✓	✓	✓		✓				✓
Emerging Market Economies	BR	✓	✓	✓	✓	✓				✓
	CN	✓	✓		✓	✓				
	ID	✓	✓	✓	✓		✓			
	IN	✓	✓	✓	✓	✓	✓			
	KR	✓	✓	✓	✓	✓	✓	✓	✓	✓
	MX	✓	✓	✓	✓	✓				✓
	ZA	✓	✓	✓	✓		✓			

US: United States EA/EU: Euro Area JP: Japan GB: Great Britain CA: Canada AU: Australia
CH: Switzerland BR: Brazil CN: China ID: Indonesia IN: India KR: Korea
MX: Mexico ZA: South Africa

Source: BIS, RBI and other Central Banks' websites.

VI.27 A list of the regulatory measures taken in response to the outbreak of the pandemic, are summarised below. Going forward, the regulatory response will continue to be calibrated in response to the evolving situation, based on an assessment of the likely economic impact, a review of the efficacy of previous measures and the objective to preserve soundness:

- *Distressed Assets Fund - Subordinate Debt for Stressed Micro, Small and Medium Enterprises (MSMEs)*: Banks were permitted *vide* circular dated July 1, 2020 to reckon the funds infused by the promoters in their MSME units through loans availed under the government's credit guarantee scheme for subordinate debt for stressed MSMEs as equity/quasi equity from the promoters for purpose of debt-equity computation.
- *Resolution Framework for COVID-19 Pandemic Related Stress:* Instructions were issued on August 6, 2020 through which a window under the Prudential Framework on Resolution of Stressed Assets, issued on June 7, 2019, was provided enabling the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership and personal loans, while classifying such exposures as standard, subject to specified conditions. The Resolution Framework was to be invoked till December 31, 2020 and the resolution plan had to be implemented within 90 days (personal loans) and 180 days (other eligible loans) from the date of invocation. Further, the recommendations of the expert committee constituted under the framework were issued on September 7, 2020. A list of frequently asked questions (FAQs) was also released based on the queries received on the resolution framework.
- *MSME Sector - Restructuring of Advances*: Existing loans to MSMEs where the banks, AIFIs and NBFCs have aggregate exposure of not more than ₹25 crore and are classified as 'standard' as on March 1, 2020, were permitted to be restructured without a downgrade in the asset classification. The restructuring has to be implemented by March 31, 2021. A circular to this effect was issued on August 6, 2020.
- *LTV Ratio for Loans against Gold Ornaments and Jewellery for Non-agricultural Purposes*: To mitigate the economic impact of the COVID-19 pandemic on households, entrepreneurs and small businesses, LTV for loans against pledge of gold ornaments and jewellery for non-agricultural purposes was increased from 75 per cent to 90 per cent. This enhanced LTV was applicable up to March 31, 2021.
- *Individual Housing Loans - Rationalisation of Risk Weights*: As per earlier regulations, claims secured by residential property falling under the category of individual housing loans were assigned differential risk weights based on the size of the loan as well as the LTV. Recognising the criticality of real estate sector in the economic recovery, it was decided as a countercyclical measure to rationalise the risk weights irrespective of the size of the loan amount and accordingly, instructions were issued to banks on October 16, 2020. The risk weights for all new housing loans to be sanctioned on or after October 16, 2020 and up to March 31, 2022 shall be as under (Table VI.1):

Table VI.1: LTV Ratio and Risk Weights

LTV Ratio (Per cent)	Risk Weight (Per cent)
1	2
≤ 80	35
> 80 and ≤ 90	50

- *Large Exposure Framework (LEF):* In terms of LEF guidelines dated June 3, 2019, exposures to Government of India and state governments which are eligible for zero per cent risk weight under the Basel III - capital regulation framework of the Reserve Bank are exempted from LEF limits. On a review and in line with the Basel guidelines, it was decided to exempt exposures to foreign sovereigns or their central banks from LEF that attract zero per cent risk weight, subject to certain conditions. Accordingly, instructions were issued to banks on February 24, 2021. Further, the date of applicability of the LEF guidelines to non-centrally cleared derivative exposures has been deferred to September 30, 2021 *vide* circular dated March 23, 2021.
- In the backdrop of the COVID-19 related challenges, the Reserve Bank took certain other regulatory measures. The implementation of net stable funding ratio (NSFR) guidelines, which were to come into effect from October 1, 2020 onwards, were deferred till October 1, 2021. In order to aid the recovery process in the backdrop of COVID-19 related stress, the implementation of the last tranche of 0.625 per cent of capital conservation buffer (CCB) was also deferred till October 1, 2021. Based on a review and empirical testing of the countercyclical capital buffer (CCyB) indicators, including the credit-to-GDP gap as a main indicator, activation of the buffer was not found to be necessary.
- After a review of earlier instruction, banks were advised to not make any dividend payment on equity shares from the profits pertaining to the financial year ended March 31, 2020.

Other Initiatives

VI.28 Some of the other initiatives during 2020-21 were as follows:

- A Discussion Paper on 'Governance in Commercial Banks in India' was issued by the Reserve Bank on June 11, 2020 to review the framework for governance in the commercial banks. Based on the feedback received, a comprehensive review of the framework has been done, and a Master Direction on governance will be issued in due course. In the interim, to address a few operative aspects received through such feedback, instructions with regard to the Chair and meetings of the board, composition of certain committees of the board, age, tenure and remuneration of directors, and appointment of the whole-time directors (WTDs) has been issued on April 26, 2021.
- An Internal Working Group (IWG) was constituted to review the extant guidelines on ownership and corporate structure for Indian private sector banks. The IWG has submitted its report with certain recommendations relating to promoters' stake, setting up of new banks by large corporate/industrial houses, conversion of large sized NBFCs into banks, conversion of payments banks (PBs) into small finance banks (SFBs), initial capital requirement for licensing of new banks, Non-Operative

Financial Holding Company (NOFHC) structure for banks and harmonisation in different licensing guidelines. The report was placed on the Reserve Bank's website on November 20, 2020 for comments of stakeholders and members of the public. The comments and suggestions received are under examination.

- The revised guidelines for compensation have come into play from April 1, 2020. Its impact on the compensation structure and practices as well as the performance of the banks shall be subject of enhanced regulatory and supervisory oversight going forward, even while executive compensation practices in banks will be evaluated in the context of differentiation within and between commercial banking segments.

Agenda for 2021-22

VI.29 For the year ending March 31, 2022, the Department will focus on the following key deliverables in respect of the commercial banks:

- Issuing draft guidelines on capital charge for credit risk (SA), market risk, operational risk and output floor, as part of convergence of the Reserve Bank's regulations with Basel III standards;
- Issue of final guidelines on securitisation of assets not in default; and
- Issue of final guidelines on transfer of loan exposures.

Cooperative Banks

VI.30 The Reserve Bank continues to play a key role in strengthening the cooperative banking sector by fortifying the regulatory and supervisory framework. In this context, the Department took several initiatives in 2020-21 in pursuance of the agenda set in the beginning of the year.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

VI.31 The Department had set out the following goals for cooperative banks in 2020-21:

- Refinement of the regulatory framework for cooperative banks with a view to strengthening the sector and protecting the interest of the depositors and borrowers (Para VI.32);
- Bringing out a discussion paper on strengthening the regulatory framework for capital adequacy in UCBs (Para VI.33);
- Putting in place a Supervisory Action Framework (SAF) for the state cooperative banks (StCBs) and district central cooperative banks (DCCBs) [Para VI.33]; and
- Faster resolution of weak UCBs which are under All-Inclusive Directions (AID) [Para VI.33].

Implementation Status of Goals

Discussion Paper on Policy Framework for Consolidation of UCB Sector

VI.32 Large number of UCBs are community/region-based which hinders the process of mergers among UCBs and consolidation in the sector. On a proposal made by the Reserve Bank, the BR Act, 1949 (as applicable to co-operative societies) has been amended. Among others, the functions of governance, capital, audit and amalgamation have now been brought under the ambit of the Reserve Bank. An expert committee to provide a road map for strengthening the UCB sector leveraging on the amendments, set up in February 2021, will be, *inter alia,* examining the prospects of consolidation in UCB sector as one of its terms of reference. Further action in the matter will be taken based on the recommendations of the committee.

Strengthening Regulatory Framework

VI.33 Initiatives in this regard during 2020-21 were as follows:

- The amendment in the BR Act, 1949 (as applicable to cooperative societies - AACS) has brought in significant changes in the statutory provisions applicable on cooperative banks. The Department is in the process of amending the extant instructions and issuing new guidelines wherever required.
- The aforesaid amendments in the BR Act would have implications on enhancing the ability of UCBs to raise capital. The expert committee on UCBs will be examining the related issues as one of its terms of reference.
- The draft SAF for StCBs and DCCBs is at the stage of consultation with National Bank for Agriculture and Rural Development (NABARD), being the supervisor of these banks.
- Speeding up the resolution of weak UCBs which are under AID is an ongoing process and the possibilities of using amended provisions of the BR Act are under examination.

Major Developments

System-Based Asset Classification – UCBs

VI.34 In order to improve the efficiency, transparency and integrity of the asset classification process, UCBs with total assets of ₹2,000 crore or above as on March 31, 2020, have been advised to implement the system-based asset classification with effect from June 30, 2021. Further, those UCBs with total assets of ₹1,000 crore or above but less than ₹2,000 crore as on March 31, 2020 and which have self-assessed themselves as being at Level III or Level IV based on their digital depth and interconnectedness to the payment systems landscape in terms of the circular dated December 31, 2019 on “Comprehensive Cyber Security Framework for UCBs” of the Reserve Bank, have been advised to implement the same with effect from September 30, 2021. Instructions to this effect were issued to UCBs on August 12, 2020.

Submission of Returns under Section 31 of the BR Act, 1949 (AACS) - Extension of time

VI.35 In view of the difficulties faced by cooperative banks in submission of the returns due to the COVID-19 pandemic, the timeline for furnishing the returns under section 31 (read with section 56) of the Act for the financial year ended on March 31, 2020 was initially extended by three months, *i.e.*, till September 30, 2020, and was subsequently further extended till December 31, 2020. Circulars to this effect were issued on August 26 and October 13, 2020, respectively.

Interest Subvention Scheme for MSMEs - Cooperative Banks

VI.36 All cooperative banks were included as Eligible Lending Institutions (ELIs) under the “Interest Subvention Scheme (ISS) for MSMEs 2018” of the Government of India with effect from March 3, 2020. The ISS for MSMEs 2018 (as amended) provides for an interest relief of two per cent per annum to eligible MSMEs on their outstanding fresh/incremental term loan/working capital and limited to the extent of ₹1 crore during the period of its validity, subject to the conditions prescribed in the Scheme.

Loans and Advances to Directors, Relatives, and Firms/Concerns

VI.37 UCBs were advised on February 5, 2021 not to make, provide or renew any loans and advances or extend any other financial accommodation to or on behalf of their directors or their relatives, or to the firms/companies/concerns in which the directors or their relatives are interested (collectively called as "director-related loans"). Further, the directors or their relatives or the firms/companies/concerns in which the directors or their relatives are interested shall also not stand as surety/guarantor to the loans and advances or any other financial accommodation sanctioned by UCBs.

Voluntary Amalgamation of UCBs

VI.38 On March 23, 2021, the Reserve Bank issued Master Direction on voluntary amalgamation of UCBs under the provisions of Section 44A, read with Section 56 of the Banking Regulation (BR) Act, 1949 as amended *vide* BR (Amendment) Act, 2020 (39 of 2020). The Master Direction lays down the process for the sanction of the Reserve Bank for voluntary amalgamation of two or more UCBs.

Agenda for 2021-22

VI.39 The agenda for cooperative banks in 2021-22 would include the following under *Utkarsh*:

- *Setting up of an Umbrella Organisation (UO) for UCBs:* National Co-operative Finance and Development Corporation Ltd. was incorporated on April 18, 2020 as a non-government public limited company under the Companies Act 2013, having its registered office in New Delhi. The process of enrolment of UCBs as shareholder members of the UO is in progress. The UO is required to apply to the Reserve Bank for obtaining certificate of registration as NBFC; and
- *Discussion Paper on Consolidation of UCB Sector:* An expert committee on UCBs set up in February 2021 is examining, *inter alia*, the prospects of consolidation in UCB sector as one of its terms of reference. Further action in the matter will be taken based on the recommendations of the committee.

Non-Banking Financial Companies (NBFCs)

VI.40 NBFCs play an important role in providing credit by complementing the efforts of commercial banks, providing last mile financial intermediation and catering to niche sectors. The Department is entrusted with the responsibility of regulating the NBFC sector.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

VI.41 The Department had set out the following goals in respect of NBFCs in 2020-21:

- *Review of Regulatory Arbitrage between Banks and NBFCs* - with a view to harmonise the regulations of NBFCs with those of banks (*Utkarsh*) [Para VI.42];
- *Scale-based Approach to Regulation of NBFCs* - with a view to identify a small set of 'systemically significant' NBFCs, which can potentially impact financial stability as also to adopt a graded regulatory framework for the NBFCs (Para VI.42);
- *Issuance of Master Directions for HFCs* - proposals for defining the term housing finance, introduction of principal business criteria, qualifying assets for HFCs and classification of HFCs as systemically important were placed on the Reserve Bank's website on June 17, 2020 for public comments and, the revised regulations were issued based on receipt of comments (Para VI.43 - VI.44); and

- *Comprehensive Review of CIC Guidelines* - in view of the failure of a CIC and its adverse impact on the non-banking financial sector, the Reserve Bank constituted a Working Group (WG) to review the regulatory and supervisory framework of CICs, whose recommendations are set to shape the overall policy approach to CICs (Para VI.45).

Implementation Status of Goals

Review of Regulatory Arbitrage between Banks and NBFCs; and Scale-based Approach to Regulation of NBFCs

VI.42 A discussion paper titled 'Revised Regulatory Framework for NBFCs - A Scale-based Approach' was issued for public comments on January 22, 2021 (Box VI.2). This discussion

Box VI.2
Revised Regulatory Framework for NBFCs - A Scale-Based Approach

Over the years, NBFC sector has undergone considerable evolution. Higher risk appetite of NBFCs has contributed to their size, complexity and interconnectedness making some of these entities systemically significant, posing potential threat to financial stability.

In this overall context, the Reserve Bank has released a discussion paper on *Revised Regulatory Framework for NBFCs - A Scale-Based Approach.* Aimed at development of a strong, well governed and resilient NBFC sector, the discussion paper proposes a scale-based regulatory framework, founded on the principle of proportionality. The degree of regulatory/supervisory interventions will depend on the risk inherent in the operation of an NBFC and the extent of spillover risks it is likely to pose to the financial system. The proposed regulatory framework would place NBFCs into various layers based on the need for differentiated regulations for NBFCs falling in each layer.

The **lowest layer** will comprise NBFCs currently classified as non-systemically important non-deposit taking NBFCs (NBFC-ND). The threshold for NBFCs falling in the layer will be raised to ₹1,000 crore. Additionally, certain NBFCs considered to be inherently less risky in their operations will fall in this layer, including peer-to-peer lending platforms, NBFC-account aggregators, non-operative financial holding companies and type I NBFCs. NBFCs in this layer will continue to be governed by extant regulations applicable for NBFC-ND. However, the regulatory framework would be supplemented by enhanced governance and disclosure standards.

The **middle layer** will consist of systemically important non-deposit taking NBFCs (NBFC-ND-SI) and deposit taking NBFCs (NBFC-D). In addition, a few other types of NBFCs, such as housing finance companies (HFCs), infrastructure finance companies, infrastructure debt funds, standalone primary dealers (SPDs) and core investment companies (CICs) will also feature in this layer on the basis of their activity. These NBFCs shall be subject to regulatory structure as applicable for NBFC-ND-SI and NBFC-D at present. However, adverse regulatory arbitrage *vis-à-vis* banks is proposed to be addressed in order to reduce systemic risk spillovers, where required. Though CICs and SPDs will fall in the middle layer of the regulatory pyramid, the existing regulations specifically applicable to them, will continue to prevail.

The **upper layer** will consist of only those NBFCs which are specifically identified as systemically significant among NBFCs, based on a set of parameters, *viz.,* size, interconnectedness, complexity and supervisory inputs. In addition to the regulations applicable to the previous layer, a set of additional regulations will apply to these NBFCs. In view of their large systemic significance and scale of operations, the regulation of these NBFCs will be tuned on similar lines as those for banks, while providing for the unique business model of the NBFCs as also preserving flexibility of their operations. Some of the proposed regulatory provisions for these NBFCs include mandatory listing, introduction of common equity tier 1 and certain aspects of large exposure framework.

It is possible that considered supervisory judgment might push some NBFCs out of the upper layer of the systemically significant NBFCs for higher regulation/supervision. These NBFCs will occupy the top layer as a distinct set. Ideally, this top layer of the pyramid will remain empty unless supervisors take a view on specific NBFCs.

Source: RBI.

paper debates the need of revisiting the broad principles underpinning the current regulatory framework of NBFCs and examines the necessity for developing a regulatory framework for scale-based regulation linked to systemic risk contribution of NBFCs. Besides recommending appropriate regulatory measures to create a strong and resilient non-banking financial sector, the extant regulatory areas of arbitrage between banks and NBFCs have also been examined in the paper with a view to harmonise the regulations of NBFCs with those of banks, wherever appropriate.

Issuance of Master Directions for HFCs

VI.43 On the basis of review of regulatory framework for HFCs and examination of public comments on the consultation document released on June 17, 2020, a revised regulatory framework for HFCs was issued on October 22, 2020. It, *inter alia*, includes definition of 'principal business' and 'housing finance'; increase in net owned fund (NOF) requirement to ₹20 crore; restrictions on exposures to group companies engaged in real estate business; extension of applicable regulations for NBFCs on liquidity risk management framework; and guidelines on liquidity coverage ratio (LCR), securitisation, outsourcing of financial services and lending against collateral of gold jewellery/ shares and foreclosure charges to HFCs. Further harmonisation between regulations of HFCs and NBFCs relating to capital requirement; income recognition, asset classification and provisioning (IRACP) norms; concentration and other exposure norms; and deposit acceptance would be undertaken in a phased manner over next two years to ensure that the transition is achieved with least disruption.

VI.44 Master Directions for HFCs covering all applicable regulations were issued on February 17, 2021.

Comprehensive Review of CIC Guidelines

VI.45 Based on the recommendations of the Working Group (WG) to review the Regulatory and Supervisory Framework for CICs (Chairman: Shri Tapan Ray) and inputs received from stakeholders, the revised guidelines for CICs were issued on August 13, 2020. The highlights of the major changes are as under:

- Adjusted net-worth to deduct amount representing any direct or indirect capital contribution made by one CIC into another CIC beyond a threshold of 10 per cent of own funds of investing in CIC.
- The number of layers of CICs within a group (including the parent CIC) shall be restricted to two, irrespective of the extent of direct or indirect holding/control exercised by a CIC.
- The parent CIC in the group or the CIC with the largest asset size, in case there is no identifiable parent CIC in the group, shall constitute a Group Risk Management Committee (GRMC).
- CICs with asset size of more than ₹5,000 crore, shall appoint a Chief Risk Officer (CRO).
- CICs shall prepare consolidated financial statements (CFS) as per provisions of the Companies Act, 2013. Suitable disclosures have been prescribed for the group entities, whose accounts are not eligible for such consolidation, among others.

Major Developments

Extension of Timeline for Finalisation of Audited Accounts

VI.46 In view of the operational difficulties posed by the ongoing pandemic situation, it was decided that every NBFC shall finalise its balance sheet within a period of three months from the date to which it pertains or any date as notified by Securities and Exchange Board of India (SEBI) for submission of financial results by the listed entities. A circular in this regard was issued on July 6, 2020.

Draft Guidelines on Declaration of Dividend by NBFCs

VI.47 Unlike banks, currently there are no guidelines in place with regard to distribution of dividend by NBFCs. Keeping in view the increasing significance of NBFCs in the financial system and their inter-linkages with other segments of the financial system, it has been decided to formulate guidelines on dividend distribution by NBFCs. Different categories of NBFCs would be allowed to declare dividend as per a matrix of parameters, subject to certain conditions. A draft circular in this regard was placed in the public domain on December 9, 2020, soliciting comments from stakeholders.

Notification of Alternative Investment Funds (AIFs) as Qualified Buyers

VI.48 To ensure uniform treatment for all AIFs, category I AIFs set up as trusts and registered with SEBI under SEBI (AIF) Regulations, 2012, have been notified as qualified buyers under section 2(1)(u) of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

Agenda for 2021-22

VI.49 During 2021-22, the Department will pursue the following goals in respect of NBFCs/ asset reconstruction companies (ARCs):

- Finalise Scale-based Regulatory Framework for NBFCs given the increasing significance of NBFCs in the financial system;
- Review of regulatory framework applicable to NBFC-MFIs and harmonising the regulatory frameworks for various regulated lenders in the microfinance space; and
- Comprehensive review of the regulatory and legal framework of ARCs so as to realise their potential in resolving stressed assets of the financial sector.

4. SUPERVISION OF FINANCIAL INTERMEDIARIES

Department of Supervision (DoS)

Commercial Banks

VI.50 The Department of Supervision (DoS) is entrusted with the responsibility of supervising all SCBs (excluding RRBs), Local Area Banks (LABs), PBs, SFBs, Credit Information Companies and all India financial institutions (AIFIs).

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

VI.51 The Department had set out the following goals for supervision of SCBs during 2020-21:

- A detailed prescriptive framework will be introduced, covering the roles and authority of the Chief Compliance Officer (CCO) of a bank, to bring uniformity in approach besides aligning the expectations on CCO with best practices (*Utkarsh)* [Para VI.52];
- Assessment of risk and compliance culture and business strategy of SCBs to strengthen the health of the financial system, with special attention to the unique risks posed by climate change and implications for the supervisory framework (*Utkarsh)* [Para VI.53 - VI.54]; and

- The Department will further strengthen the process of collecting supervisory data relating to KYC/anti money laundering (AML) which would facilitate better risk discovery, risk assessment and risk-based supervision (RBS) processes in respect of KYC/AML supervision, and the preparation of a model to risk profile the banks for carrying out risk-based KYC/AML inspection (Para VI.55).

Implementation Status of Goals

Compliance Function in Banks

VI.52 To bring uniformity in the compliance function/structure of banks as also to align the supervisory expectations on role of CCO with best practices, the guidelines on compliance function in banks have been amended *vide* circular dated September 11, 2020. The guidelines are aimed at enhancing the independence, authority, transparency and responsibility of the CCOs; and further provide that the CCO should meet the 'fit & proper' criteria and that the stature of the CCO should be such that the CCO has the ability to independently exercise judgement and ensure that business functions comply with relevant laws/regulations/policies.

Risk and Compliance Culture Assessment Framework

VI.53 Recognising the significance of sound risk and compliance culture in building a robust internal control framework and for enhancing overall effectiveness of the bank's operations, the Department has developed a detailed risk and compliance culture assessment framework for the guidance of senior supervisory managers (SSMs). The objective of this framework is to assist supervisors in identifying practices, behaviours and attitudes that may adversely influence the institution's risk culture.

Minimum Supervisory Expectations (MSEs)

VI.54 The Department has also prepared a guidance note for SSMs containing MSEs comprising best practices and standards on risk governance, compliance and internal audit which the banks are required to follow as a supervisory floor. The SSMs are using these MSEs as a benchmark to assess the adequacy of assurance functions in the banks as also to strengthen the assessment of assurance functions in terms of their robustness, efficacy and adequacy.

Risk-Based Approach (RBA) for KYC/AML

VI.55 As part of their internal governance structure, banks are required to have a sound risk-management strategy for addressing the KYC/AML risks. The Reserve Bank, on the lines of recommendations of Financial Action Task Force (FATF), has developed RBA for supervision from KYC/AML perspective. A model for generation of risk scores, based on the KYC/AML data submitted by the banks, has also been developed. A specialised on-site assessment is also being carried out for select banks based on their KYC/AML risk scores/rating. RBA will facilitate better risk-discovery and improved risk-assessment besides effectively addressing and mitigating the money-laundering and terrorist financing risks in the banking sector.

Major Developments

Root Cause Analysis (RCA)

VI.56 A special thrust is given from the current supervisory cycle towards carrying out RCA which, *inter alia*, includes a detailed assessment of governance, oversight and assurance function, business strategy and risk and compliance culture.

Supervision of Internationally Active Indian Banks through Supervisory Colleges

VI.57 The platform of supervisory colleges is being utilised to monitor internationally active Indian banks on an ongoing basis. Due to COVID-19 pandemic induced restrictions, supervisory college meetings were conducted in virtual mode during which overseas supervisors of these banks actively participated in deliberations.

Automation of Income Recognition, Asset Classification and Provisioning (IRACP) Processes in Banks

VI.58 Banks were advised, *vide* circular dated September 14, 2020, to automate their IRACP processes. In order to ensure the completeness and integrity of the automated asset classification [classification of advances/investments as non-performing asset (NPA)/non-performing investment (NPI) and their upgradation], provisioning calculation and income recognition processes, banks have been advised to put in place/upgrade their systems to conform to the prescribed guidelines latest by June 30, 2021.

Long Form Audit Report (LFAR) – Review

VI.59 Keeping in view the large-scale changes in the size, complexities, business model and risks in the banking operations, a review of the LFAR format, in consultation with the stakeholders, including the Institute of Chartered Accountants of India (ICAI), was undertaken and the format of LFAR was revised. The revised guidelines issued on September 5, 2020, *inter alia*, require the statutory auditors (SAs) to also report on special prudential supervisory requirements besides reporting on the financial statements.

Cyber Security Related Developments

VI.60 Appreciating that the environment of cyber security and technology risks facing banks is constantly evolving, the Department has instituted a system of periodic interactions with Chief Information Security Officers (CISOs) of banks. The objective of such meetings is to engage with stakeholders on the ground to get a sense of the challenges in a post-pandemic world characterised by shift in users' interface with information technology (IT) systems, the best practices employed by banks and new threats envisaged due to adoption of new technological and operating paradigms such as cloud computing and open banking. This new system is seen as one of the ways in which the dynamics of supervision are changing to a more adaptive approach to building a cyber-resilient banking system.

Frauds Analysis

VI.61 The number of frauds reported during 2020-21 decreased by 15 per cent in terms of number and 25 per cent in terms of value, *vis-à-vis* 2019-20 (Table VI.2). The share of PSBs in total frauds (both in terms of number and value) decreased while that of private sector banks increased during the corresponding period.

VI.62 In terms of area of operations, frauds have been occurring predominantly in the loan portfolio (advances category), both in terms of number and value (Table VI.3). Though the value of frauds reported in advances category for 2020-21, in percentage terms, remained almost same as compared to the last year, the incidence of frauds in advances category, in terms of number, has come down over the previous year. The share of off-balance sheet (in terms of value) has been decreasing since 2018-19.

VI.63 The average time lag between the date of occurrence of frauds and the date of detection was 23 months for the frauds reported in 2020-21.

Table VI.2: Fraud Cases - Bank Group-wise

(Amount in ₹ crore)

Bank Group/Institution	2018-19		2019-20		2020-21	
	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved
1	2	3	4	5	6	7
Public Sector Banks	3,704 *(54.5)*	64,207 *(89.8)*	4,410 *(50.7)*	1,48,224 *(79.9)*	2,903 *(39.4)*	81,901 *(59.2)*
Private Sector Banks	2,149 *(31.6)*	5,809 *(8.1)*	3,065 *(35.2)*	34,211 *(18.4)*	3,710 *(50.4)*	46,335 *(33.5)*
Foreign Banks	762 *(11.2)*	955 *(1.3)*	1026 *(11.8)*	972 *(0.5)*	521 *(7.1)*	3,315 *(2.4)*
Financial Institutions	28 *(0.4)*	553 *(0.8)*	15 *(0.2)*	2,048 *(1.1)*	25 *(0.3)*	6,839 *(4.9)*
Small Finance Banks	115 *(1.7)*	8 *(0.0)*	147 *(1.7)*	11 *(0.0)*	114 *(1.6)*	30 *(0.0)*
Payments Banks	39 *(0.6)*	2 *(0.0)*	38 *(0.4)*	2 *(0.0)*	88 *(1.2)*	2 *(0.0)*
Local Area Banks	1 *(0.0)*	0.02 *(0.0)*	2 *(0.0)*	0.43 *(0.0)*	2 *(0.0)*	0 *(0.0)*
Total	**6,798** ***(100.0)***	**71,534** ***(100.0)***	**8,703** ***(100.0)***	**1,85,468** ***(100.0)***	**7,363** ***(100.0)***	**138,422** ***(100.0)***

Note: 1. Figures in parentheses represent shares in total (in per cent).
2. Figures reported by banks & FIs are subject to change based on revisions filed by them.
3. Amounts involved reported do not reflect the amount of loss incurred. Depending on recoveries, the loss incurred gets reduced. Further, the entire amount involved is not necessarily diverted.
4. The dates of occurrence of these frauds are spread over several previous years.
5. The above data is in respect of frauds of ₹1 lakh and above reported during the period.

Source: RBI Supervisory Returns.

However, in respect of large frauds of ₹100 crore and above, the average lag was 57 months for the same period.

Agenda for 2021-22

VI.64 The Department has identified the following goals for supervision of SCBs in 2021-22:

- Strengthening the on-site assessment of oversight and assurance functions including risk and compliance culture as also business strategy/model (*Utkarsh*);
- Adoption of innovative and scalable SupTech to enhance the efficiency and efficacy of supervisory processes by modifying its capacity and capability (*Utkarsh*);
- Streamlining the process of data collection from all the banks and their off-site assessment and on-site supervision of select banks based on the outcome of risk-based model developed for KYC/AML supervision; and
- Enhancement of Fraud Risk Management System including improving efficacy of Early Warning Signal (EWS) framework, strengthening fraud governance and response system, augmenting the data analysis for monitoring of transactions, introduction of dedicated market intelligence (MI) unit for frauds and implementation of automated unique system generated number for each fraud.

Table VI.3: Fraud Cases – Area of Operations

(Amount in ₹ crore)

Area of Operation	2018-19		2019-20		2020-21	
	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved	Number of Frauds	Amount Involved
1	2	3	4	5	6	7
Advances	3,603 *(53.0)*	64,539 *(90.2)*	4,608 *(52.9)*	1,81,942 *(98.1)*	3,501 *(47.5)*	1,37,023 *(99.0)*
Off-balance Sheet	33 *(0.5)*	5538 *(7.7)*	34 *(0.4)*	2445 *(1.3)*	23 *(0.3)*	535 *(0.4)*
Foreign Exchange Transactions	13 *(0.2)*	695 *(1.0)*	8 *(0.1)*	54 *(0.0)*	4 *(0.1)*	129 *(0.1)*
Card/Internet	1,866 *(27.5)*	71 *(0.1)*	2,677 *(30.8)*	129 *(0.1)*	2,545 *(34.6)*	119 *(0.1)*
Deposits	593 *(8.7)*	148 *(0.2)*	530 *(6.1)*	616 *(0.3)*	504 *(6.8)*	434 *(0.3)*
Inter-Branch Accounts	3 *(0.0)*	0 *(0.0)*	2 *(0.0)*	0 *(0.0)*	2 *(0.0)*	0 *(0.0)*
Cash	274 *(4.0)*	56 *(0.1)*	371 *(4.3)*	63 *(0.0)*	329 *(4.5)*	39 *(0.0)*
Cheques/Demand Drafts, *etc.*	189 *(2.8)*	34 *(0.1)*	201 *(2.3)*	39 *(0.0)*	163 *(2.2)*	85 *(0.1)*
Clearing Accounts, *etc.*	24 *(0.4)*	209 *(0.3)*	22 *(0.2)*	7 *(0.0)*	14 *(0.2)*	4 *(0.0)*
Others	200 *(2.9)*	244 *(0.3)*	250 *(2.9)*	173 *(0.1)*	278 *(3.8)*	54 *(0.0)*
Total	**6,798** ***(100.0)***	**71,534** ***(100.0)***	**8,703** ***(100.0)***	**1,85,468** ***(100.0)***	**7,363** ***(100.0)***	**1,38,422** ***(100.0)***

Note: 1. Figures in parentheses represent the percentage share of the total.
2. Figures reported by banks & FIs are subject to change based on revisions filed by them.
3. The above data is in respect of frauds of ₹1 lakh and above reported during the period.
4. The dates of occurrence of these frauds are spread over several previous years.
5. Amounts involved reported do not reflect the amount of loss incurred. Depending on recoveries, the loss incurred gets reduced. Further, the entire amount involved in advances is not necessarily diverted.

Source: RBI Supervisory Returns.

Urban Cooperative Banks (UCBs)

VI.65 The Department also undertook periodic monitoring of the UCBs during the year to ensure the development of a safe and well-managed cooperative banking sector.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

VI.66 The Department had set out the following goals for supervision of UCBs in 2020-21:

- Introduction of differentiated supervision mechanism for select UCBs (*Utkarsh)* [Para VI.67];
- Integration of core banking solution (CBS) modules of UCBs for all core functions; modules to be automated for effective supervision *(Utkarsh)* [Para VI.68];
- Utilising Centralised Repository of Information on Large Credits (CRILC) reporting for the UCB sector for enhanced supervisory examination *(Utkarsh)* [Para VI.69]; and
- Adapting the inspection process of UCBs to the changing needs of the sector focusing on size and periodicity (Para VI. 67 - VI.69).

Implementation Status of Goals

Differentiated Supervision Mechanism for UCBs

VI.67 For UCBs, a calibrated supervisory approach has been adopted. The objectives are to strengthen the oversight on material institutions in these segments in a more risk-focused manner, improve proportionality and economic efficiency of supervision, and to deploy an appropriate range of tools and technology to achieve the supervisory objectives (Box VI.3).

Making UCBs - CBS Compliant

VI.68 1,531 out of 1,536 UCBs (99.67 per cent) have implemented CBS as on March 31, 2021. Three out of remaining five UCBs are under AID (negative net worth). Only 2 UCBs with positive net worth are yet to complete CBS implementation.

CRILC Reporting for UCBs

VI.69 UCBs with assets of ₹500 crore and above have been brought under CRILC reporting framework with the objective of strengthening off-site supervision and early recognition of financial distress. It has enabled more holistic view of large borrowers of the select large UCBs. Data from CRILC returns has been used for identification of supervisory concerns, *viz.,* delinquent borrowers and exposures of banks to sensitive sectors. This will also enable the Department to prepare appropriate analytical reports pertaining to UCB sector. Apart from review and analysis of CRILC

Box VI.3

Changing Paradigm of UCB Supervision – Way Forward

UCBs play a key role in furthering the financial inclusion agenda of the Reserve Bank and have obvious advantages in terms of servicing people of small means in semi-urban and urban areas. The UCB sector is unique in the sense that there is a significant degree of heterogeneity among banks in this sector in terms of size, geographical distribution, performance and financial soundness. The sector has unit UCBs, multi-branch UCBs operating within a state and multi-state UCBs with the area of operation in more than one state.

Cooperative banks with their better knowledge of customers and familiarity with the area of operation can attract new customers and retain the existing clientele with their unique selling proposition. This may require suitable changes in outlook, processes, business model and strategy.

However, cooperative banks are now functioning in a highly competitive environment. Entry of more players in the banking arena and technology have increased options to customers and banks have both opportunities to grow and challenges for survival. As banking business becomes more complex and competitive, the need for skilled workforce will increase, regular investments in IT infrastructure would be required and the cost of compliance would also go up.

The Reserve Bank has taken several measures to enhance supervision of UCB sector under the new unified Department of Supervision (DoS) such as implementation of core banking solution (CBS) in UCBs, revised CAMELS (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Systems and Control) rating model for UCBs, detailed data analytics and assessment of vulnerabilities, assessment of cyber risk, centralisation of off-site/eXtensible business reporting language (XBRL) reporting mechanism and meetings/interactive sessions with chief executive officers (CEOs)/directors of weak/vulnerable UCBs.

The Reserve Bank has announced in the Statement on Developmental and Regulatory Policies of February 5, 2021, about setting up of an expert committee on UCBs involving all stakeholders in order to provide a medium-term roadmap to strengthen the sector, enable faster rehabilitation/resolution of UCBs, as well as to examine other critical aspects relating to these entities. The committee will suggest effective measures for faster rehabilitation/resolution of UCBs, assess potential for consolidation in the sector, consider the need for differential regulations and examine prospects to allow more leeway in permissible activities for UCBs with a view to enhance their resilience and draw up a vision document for a vibrant and resilient urban cooperative banking sector having regards to the principles of cooperation as well as depositors' interest and systemic issues.

Source: RBI.

data, interactive dashboards have been developed and are shared with supervisory teams to help in identifying banks exhibiting signs of incipient stress.

Other Initiative

VI.70 The cyber security landscape continues to evolve with wider adoption of digital banking channels, thus necessitating UCBs to manage their associated risks effectively. Active collaboration within UCBs and their stakeholders was felt necessary for sharing and coordinating various measures taken on cyber security aspects. To this effect, a "Technology Vision Document for Cyber Security" for UCBs was published which envisages to achieve this objective over a period of three years through a five-pillared strategic approach 'GUARD' - Governance Oversight, Utile Technology Investment, Appropriate Regulation and Supervision, Robust Collaboration, and Developing Necessary IT & Cyber Security Skillset.

Agenda for 2021-22

VI.71 The Department has identified the following goals for supervision of UCBs in 2021-22:

- Conduct IT/cyber security examination of scheduled UCBs (*Utkarsh)*;
- Developing the risk-based approach for KYC/AML supervision of select UCBs;
- Strengthening Early Warning System and stress testing framework for UCBs; and
- Roll out of IT Examination for select UCBs.

Non-Banking Financial Companies (NBFCs)

VI.72 The Department continued to effectively monitor the NBFCs (excluding HFCs) and ARCs registered with the Reserve Bank with the objective to protect the interests of depositors and customers, while ensuring financial stability.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

VI.73 The Department had set out the following goals for supervision of NBFCs for 2020-21 under *Utkarsh*:

- Steps will be taken to improve effectiveness of the supervision and monitoring of NBFCs by (i) ascertaining the quality of implementation of Indian Accounting Standards (Ind-AS) and subsequent regulatory guidance/directions; (ii) strengthening MI on NBFCs to assess the movement of financial parameters/market outlook of NBFCs and related parties on an ongoing basis; (iii) promoting a strong compliance and risk culture amongst NBFCs, and (iv) weeding out NBFCs not compliant with the Reserve Bank's directions with respect to maintenance of adequate net owned funds (NOF) and returns filing (Para VI.74 - VI.79).

Implementation Status of Goals

Implementation of Ind-AS

VI.74 Regulatory guidance on implementation of Ind-AS was issued on March 13, 2020 which covered governance framework for Ind-AS implementation, prudential floors for expected credit loss along with guidance on computation of regulatory capital and regulatory ratios. Supervision of NBFCs also covered the quality of implementation of Ind-AS during the current supervisory cycle.

Supervision of NBFCs

VI.75 As part of the strengthened off-site surveillance mechanism for NBFCs, the structural liquidity position of deposit taking NBFCs (NBFC-D) and non-deposit taking systemically important NBFCs (NBFC-ND-SI) and CICs is being assessed every month to identify those NBFCs/CICs which present significant negative mismatch in any time bucket over subsequent six months period. Quarterly analytical reports on financial performance of NBFC sector are prepared indicating trends in asset growth, capital adequacy, asset quality, profitability, sectoral credit and liquidity.

VI.76 The early warning framework for banks and NBFCs has recently been introduced as part of the proactive off-site surveillance framework. This framework involved the identification of statistically significant variables that may provide early warning signs for banks/NBFCs and also a pool of indicators to cover macroeconomic variables, market indicators, and banking indicators.

VI.77 As part of the 5th pillar of supervision, the Department is having sustained engagement with the senior management of NBFCs, particularly the larger companies. Any sign of stress, excessive growth in assets, sudden increase in delinquency or liquidity mismatch and/or deterioration in the financials is taken up with the management of SEs.

VI.78 For ensuring firm implementation of regulations, enhanced interaction with the NBFCs, both at central office (CO) and regional office (RO) levels, is being conducted. This becomes all the more important in the light of structural changes in the business models of NBFCs that require a dynamic supervisory focus (Box VI.4).

VI.79 The Department has been identifying the NBFCs that do not comply with the minimum net owned funds (NOF) requirements and has been cancelling the certificate of registration (CoR) of such NBFCs.

Agenda for 2021-22

VI.80 The Department has identified the following goals for supervision of NBFCs in 2021-22*:*

- Designing supervisory reporting system under Ind-AS (*Utkarsh*);
- Implementation of central fraud registry (CFR) for NBFCs (*Utkarsh*);
- Strengthening MI and off-site supervisory assessment of NBFCs;

Box VI.4

Structural Changes in Business Models of Non-Banking Financial Companies (NBFCs) and Strengthened Supervision

NBFCs play a critical role in financial intermediation and promoting inclusive growth by providing last-mile access of financial services to meet the diversified financial needs of less-banked customers.

Globally, the sector is witnessing some transformative trends, such as rapid expansion in collective investment vehicles in the sector, increase in cross-border linkages of such entities, increased dependence on short-term funding and increased recourse to financial innovation such as peer-to-peer lending, crowdfunding, leveraged loans and collateralised loan obligations (CLOs), besides increased reliance on FinTech and digital technologies. Thus, the business models of NBFCs are changing world over.

In India, recent credit or market events at certain large NBFCs followed by liquidity strains and the related financial stability concerns have resulted in changes in the business model as well as enhancement in the supervisory focus for NBFCs. It would be contextual to take stock of the direction in which supervisory focus has moved and the changing landscape of the NBFC sector.

(Contd.)

Strengthening supervision over NBFCs: In the aftermath of liquidity stress post the Infrastructure Leasing & Financial Services (IL&FS) and Dewan Housing Finance Ltd. (DHFL) events, the market funding conditions turned difficult for NBFCs. While NBFCs with better governance standards, robust business models and efficient operating practices did well and could raise funds, others bore the brunt of the market forces. Smaller NBFCs and microfinance institutions (MFIs), which were contributing significantly to the last mile credit delivery, also got impacted as their funding sources got further squeezed.

In response, the Reserve Bank took several calibrated steps to channel credit flow into the NBFC sector and enhanced supervision to improve the sector's long-term resilience. Some of the specific measures initiated by the Reserve Bank to strengthen the supervision of NBFCs include - conducting scale-based supervision (including introduction of senior supervisory manager approach), inspection of government owned NBFCs and core investment companies (CICs); revision and rationalisation of returns and migration from computerised off-site monitoring and surveillance system (COSMOS) platform to more advanced eXtensible business reporting language (XBRL) platform; ensuring online submission of annual certificate by statutory auditors (SAs) of NBFCs on XBRL platform; introducing 11 regional languages on the *sachet* portal for information on *ponzi* schemes/unauthorised deposit collection and actively pursuing the fifth pillar of supervision - engagement with stakeholders.

Structural Changes in Business Models of NBFCs: NBFCs have come a long way in terms of their scale and diversity of operations. Over the years, the segment has grown rapidly with a few of the large NBFCs becoming comparable in size to some of the private sector banks. The sector has also seen advent of many non-traditional players leveraging technology to adopt tech-based innovative business models.

Liquidity problems, increased asset quality stress and COVID-19 fallout along with availability of innovative technology has induced NBFCs to reimagine their business models. During recent years, there has been a structural shift on the asset and liability side of NBFCs' balance sheets. As the Reserve Bank required NBFCs to adopt a liquidity risk management framework from December 2020, NBFCs have been gradually swapping their short-term liabilities with long-term borrowings with the aim of maintaining adequate liquidity. Similarly, there has been increasing shift towards retail loans and loans to service sector as well as micro, small and medium enterprises (MSMEs), from the earlier focus on corporate sector advances.

Financial technology (FinTech) based product delivery is another important development taking place in the NBFC landscape. The NBFC sector has been in the forefront of adopting innovative FinTech-led delivery of products and services which are transforming the way one can access and interact with these services. The scope of operations of FinTechs has also broadened, moving to payments, insurance, stocks, bonds, peer to peer lending, robo-advisers, regulatory technology (RegTech) and supervisory technology (SupTech). However, concerns relating to data confidentiality, robustness of information technology (IT) infrastructure and cyber security framework, as also conduct of business issues need to be evaluated and addressed.

Factoring Regulation (Amendment) Bill, 2020, *inter alia*, seeks to amend section 3 to widen the scope of financiers and to permit all NBFCs to undertake factoring business and participate on the trade receivables discounting system platform for discounting the invoices of MSMEs. The bill is expected to open up additional business opportunities for NBFCs and may realign the share of factoring business between banks and NBFCs with more number of NBFCs joining the fray. Going forward, a marketplace driven platform model has the potential to redefine the NBFCs by leveraging their strengths - customer base, distribution reach and collaboration with varied ecosystems. As a take-off point from being an underwriter for various types of loans, NBFCs can bank upon their strengths and move towards alternate business models hinged upon distribution.

In a nutshell, the NBFC segment has entered into a new business landscape wherein it needs to continuously strive to innovate and add new products to it's toolkit. Core strength of NBFCs include customer base; strong distribution and servicing reach; higher risk appetite; flexible business model; non-physical points of presence; and faster scale-up and scale-down capability. The NBFCs have also been fast in adopting newer technology led processes. Leveraging the above, product providers like NBFCs can consider expanding into marketplace driven platforms to serve a customer with multitude of products and services while ensuring customer protection. The Reserve Bank is carefully observing the changing trajectory of their business operations and associated risks and taking appropriate measures to sustain their resilience.

Source: RBI.

- Developing the risk-based approach for KYC/AML supervision of select NBFCs;
- Monitoring effectiveness of customer services provided by NBFCs; and
- Roll out of IT Examination for select NBFCs.

Supervisory Measures for All Supervised Entities (SEs)

VI.81 A unified DoS has been operationalised in which the supervision of banks, UCBs and NBFCs are now being undertaken in a holistic manner under one umbrella Department. This will address inter-institutional issues on regulatory/ supervisory arbitrage, information asymmetry and interconnectedness.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

VI.82 The Department had set out the following supervisory goals for 2020-21:

- Under the aegis of the standing committee on cyber security, a pro-active cyber immunity surveillance framework will be introduced for SEs to automate data flow from the SEs to the Reserve Bank for better analysis, cyber simulation/assessment exercises in collaboration with Reserve Bank Information Technology (ReBIT) and the industry, prompt supervisory/regulatory intervention, besides prescribing certain baseline requirements for various other critical service providers (CSPs), Master Directions on IT practices (governance and related) and digital banking security expectations for the banking sector (Para VI.83 - VI.85);
- A study on the large value frauds with the involvement of select banks, NBFCs, UCBs and domain experts will be undertaken for recognising the causes for delay in identifying frauds by SEs and suggest measures for early detection and timely mitigation of the risks arising out of frauds (Para VI.86);
- Implementation of Integrated Compliance Management and Tracking System (ICMTS) [Para VI.86]; and
- The Reserve Bank is engaged in interlinking various databases and information systems to improve fraud monitoring and detection. Online reporting of frauds by NBFCs and the CFR portal of SCBs, augmented with new features, will be made operational by January 2021 (Para VI.86).

Implementation Status of Goals

Cyber Security Related Developments

VI.83 The Department has conducted IT examinations (on-site as well as off-site modes) in 53 SEs during July 2020 to March 2021.This includes 44 SCBs, four Primary UCBs, two PBs, one NBFC, one CIC and one financial institution (FI).

VI.84 The standing committee on cyber security has set up a sub-group to discuss the feasibility of setting up “Sectoral Security Operations Centre (SoC)” for the REs of the Reserve Bank, which would, among other things, seamlessly pull logs/ events/alerts from the SoC of REs for further analysis. Web crawling/cyber recon exercises through external agencies was conducted on pilot basis with select REs. Currently, work on extending this to other REs is being undertaken.

VI.85 The Department collects risk indicator data from SEs through various returns, off-site submissions and compliance status. Based on the submissions of SEs, those that are found vulnerable or not compliant with extant instructions are advised to take necessary actions.

Strengthening Database and Information System

VI.86 Initiatives in this regard during 2020-21 were as follows:

- Keeping in view the delays observed in detection of large frauds by SEs, it was planned to undertake a study of large frauds with the involvement of a group comprising select banks, NBFCs, UCBs and experts to detect the causes and suggest measures to improve the systems. The group submitted its report on April 30, 2021.
- ICMTS is an end-to-end workflow automation application, envisaged to strengthen the compliance by the SEs and assist in the timely and continuous monitoring of compliance of the time bound circulars/instructions/advisories issued by various departments such as DoS and DoR. The application will also facilitate planning of inspection/scrutiny of SEs and subsequent compliance of observations with inbuilt facility to raise alerts for reminders and notifications. Phase-wise implementation of various modules of the application is in progress.
- The Department has proposed a unified fraud reporting format common to all commercial banks (including select FIs), UCBs and NBFCs, which will enable consolidation of reports pertaining to fraud data reported by all such reporting entities and facilitate interlinking of various databases and information systems. It is being developed and implemented as part of the ensuing centralised information management system (CIMS) project. Meanwhile, certain augmentations to optimise and accelerate search queries have been carried out in the current CFR portal of SCBs, which have been implemented *w.e.f.* April 1, 2021.
- Online fraud reporting system for NBFCs has been developed and the deployment and on boarding of NBFCs to the online system will be effected after the completion of ongoing infrastructure related transition, security testing and the issue of relevant guidelines/notifications.
- Reserve Bank had mandated risk based internal audit (RBIA) for commercial banks in 2002. Considering the importance of internal audit function as a third line of defence and in a move to harmonise the guidelines across all SEs, large UCBs and NBFCs were brought within the RBIA net during the year.
- Further, in order to strengthen the audit systems in SEs and to ensure that SAs are appointed in a timely, transparent and effective manner by all SEs, the Department issued harmonised guidelines on appointment of statutory central auditors (SCAs)/SAs of commercial banks (excluding RRBs), UCBs and NBFCs (including HFCs). These guidelines provide necessary instructions regarding the number of auditors, their eligibility criteria, tenure and rotation, while ensuring the independence of auditors.

Major Developments

Dedicated Risk Specialist Division

VI.87 A dedicated horizontal risk function, *viz.,* Risk Specialist Division (RSD) was created in the process of unification of supervision function. The RSD has been working towards developing specialisation in major risk areas, both financial and non-financial, and contributing towards risk discovery.

Strengthening Risk-Based Supervision

VI.88 The supervisory framework for commercial banks, NBFCs and UCBs has been harmonised with the broad supervisory architecture of the unified Department. This has been done while keeping in view the size of these entities in matters related to financial stability as also other non-financial parameters. For this purpose, a calibrated supervisory approach has been adopted. The objectives are to improve proportionality and economic efficiency of supervision by optimal use of supervisory resources, strengthen the oversight on material institutions in a more risk-focused manner, and to deploy an appropriate range of tools and technology to achieve the supervisory objectives.

Off-site Supervision

VI.89 The Department took several initiatives to further strengthen identification of vulnerable SEs and ensure immediate follow-up on the identified vulnerabilities. This was guided by proactive off-site supervision mechanisms, *viz.,* macro-stress tests; early warning mechanisms; and identification of vulnerable SEs through quarterly proactive off-site surveillance exercise for banks, NBFCs, SFBs and UCBs. The macro-stress testing exercise for banks follows a top-down approach and includes credit risk stress test (using three panel data econometric models linking the real and financial sectors), a reverse stress test to assess liquidity risk, a new stress test to analyse large exposures at the system level, and a new duration-based stress test for interest-rate risk (IRR) that incorporates stress to the loan book as well as the trading book. Stress testing analysis for NBFCs is based on single factor sensitivity analysis to assess the resilience of the sector to shocks in different types of risk. Resilience to shocks in credit risk, credit concentration risk, sectoral credit risk, liquidity risk and market risk are assessed. Stress testing methodology adopted for UCBs is also based on single factor sensitivity analysis. This framework covers models for assessing resilience against shocks to credit risk, concentration risk, interest rate risk that incorporates stress to the loan book as well as the trading book, in addition to liquidity stress test based on LCR method.

VI.90 Quarterly proactive off-site vulnerability assessment exercises are carried out for banks, NBFCs, SFBs and UCBs using the tool kits like data analytics, early warning systems, identification of vulnerable borrowers, stress testing, vulnerability on cyber security parameters and through different thematic analysis.

VI.91 Several thematic studies were conducted during the year to provide inputs to the Top Management for proactive policy interventions in the areas of concern.

VI.92 The scope of MI has widened with the inclusion of banks, NBFCs and UCBs under unified supervisory structure and the work further expands with the inclusion of entities in unregulated space. A dedicated MI section has been constituted under the unified DoS, as a tool for effective off-site supervision. A system of informal/unstructured meetings with various stakeholders has been put in place to get useful information on SEs. The MI unit complements the quarterly assessment reports prepared for banks, SFBs, UCBs and NBFCs.

VI.93 A standing committee on analytics has been constituted to guide the Department regarding adoption of industry standards and best practices in the fields of data intelligence/ business analytics and risk modelling so as to improve the quality of overall analytical inputs and to strengthen and scale up the predictive and prescriptive analytics.

Capacity Development and Skill Enhancement

VI.94 As part of the measures to further strengthen supervision over REs, the Reserve Bank had set up a CoS to augment and reinforce supervisory skills among its regulatory and supervisory staff both at entry level and on a continuous basis. This was done to facilitate the development of unified and focused supervision by providing training and other developmental inputs to the concerned staff. While the CoS was functioning in a limited way in virtual mode since May 2020, it has since been fully operationalised with a full-time Director supported by an Academic Advisory Council (AAC) since January 2021.The full-fledged operationalisation of the CoS in both virtual and physical mode will further enhance the quality of oversight of SEs by augmenting and ensuring a consistent pool of skilled resources.

Agenda for 2021-22

VI.95 The Department proposes to achieve the following goals for supervision of all SEs in 2021-22:

- Integrate supervisory data structure for the Reserve Bank's REs by reviewing and consolidating the present scattered framework of returns (*Utkarsh*);
- Strengthening cyber security monitoring mechanism for SEs (*Utkarsh*);
- Implementation of central fraud registry for NBFCs (*Utkarsh*);
- Issuing of guidelines on IT governance, risk, controls and assurance practices; and
- The CoS, under guidance of AAC, will plan and develop curricula of all programmes based on identified areas where skill building/up-skilling are required, benchmark the programmes with international standards/best practices and develop appropriate teaching methods.

Enforcement Department (EFD)

VI.96 The Enforcement Department (EFD) was set up in April 2017 to enforce regulations uniformly across banks, with the objective of engendering compliance by REs, within the overarching principles of ensuring financial stability, public interest and consumer protection. The enforcement policy and framework approved by the Board for Financial Supervision (BFS) emphasises the need to be objective, consistent and non-partisan in undertaking enforcement. Enforcement in respect of cooperative banks and NBFCs was also brought under the scope of operations of the Department with effect from October 3, 2018.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

VI.97 The Department had set out the following goals for 2020-21:

- A formal feedback process for DoS on areas most prone to violations to facilitate effective compliance testing would be put in place (*Utkarsh).* For this purpose, based on the experience gained since its inception, the Department would carry out an analysis of the violations and their *modus operandi* (Para VI.98);
- The enforcement policy and process would be reviewed in the wake of reorganisation of regulatory and supervisory departments, including work processes at ROs to ensure consistency in enforcement action (*Utkarsh)* [Para VI.99]; and
- The enforcement work pertaining to imposition of monetary penalties on HFCs by the Reserve Bank, to the extent provided for under the National Housing Bank (NHB) Act, 1987, would be brought under EFD in a phased manner (Para VI.100).

Implementation Status of Goals

VI.98 During the year, post resumption of near normal office functioning, the Department carried out analysis of the areas that are most prone to violations and the *modus operandi*. The results of the analysis have been shared with the DoS. A formal arrangement for sharing of feedback has also been put in place to facilitate effective compliance testing.

VI.99 In pursuance of the objective to ensure consistency in enforcement action, the Department had online interaction with the ROs to review work processes and with a view to understand challenges and constraints faced by them in undertaking enforcement. Necessary clarifications/guidance on issues have been provided. Further, training sessions were also organised to impart greater clarity on the enforcement process so as to move to consistency in enforcement action.

VI.100 As regards HFCs, while enforcement actions were sought to be undertaken by applying the existing policy *mutatis mutandis*, framing of a specific policy was contemplated as an addendum thereto, once Reserve Bank's regulatory framework for such institutions was fully devised and brought into force. DoR has since reviewed the regulations and issued revised regulatory framework for HFCs on October 22, 2020 and thereafter on February 17, 2021 issued the Master Directions for HFCs. Based on the clarity that has emerged on the role of the Reserve Bank under the NHB Act, and as the existing enforcement policy already provided for the principles and matrices to be applied and processes to be adopted for undertaking enforcement action against HFCs, the need for an addendum to the existing policy was not considered immediately necessary. The Department would be undertaking enforcement action against HFCs in accordance with the existing policy.

Other Initiative

VI.101 During July 2020-March 2021, the Department undertook enforcement action against 54 REs and imposed an aggregate penalty of ₹19.41 crore for non-compliance[1] with provisions/ contravention of certain directions issued by the Reserve Bank from time to time through various circulars (Table VI.4).

Agenda for 2021-22

VI.102 During the year ahead, the Department proposes to achieve the following goals:

- Implementation of the EFD's business process application and database of enforcement actions (*Utkarsh*);
- Review of enforcement policy and standard operating procedures (SOPs); and examining undertaking of enforcement

Table VI.4: Enforcement Actions (July 2020-March 2021)

Regulated Entity	No. of Penalties	Total Penalty (₹ crore)
1	2	3
Public Sector Banks	3	4.50
Private Sector Banks	2	4.72
Cooperative Banks	39	2.14
Foreign Banks	2	4.00
Payments Banks	1	1.00
Small Finance Banks	-	-
NBFCs	7	3.05
Total	**54**	**19.41**

-: Nil.
Source: RBI.

[1] Illustratively, some of them include marketing/distribution of mutual fund/insurance products by banks; exposure norms and IRAC norms; Reserve Bank of India (frauds classification and reporting by commercial banks and select FIs) Directions, 2016; NBFC-ND-SI and NBFC-D directions on fair practices code applicable to NBFCs; and Master Circular on Board of Directors-UCBs.

action against credit information companies (non-bank and non-NBFC);

- Review of existing practices and (business) processes to identify bottlenecks affecting timeliness in enforcement action and improving coordination with DoS and DoR, for ensuring undertaking of enforcement action within the fixed timelines;
- Increased interaction and trainings aimed at improving consistency in decisions across ROs and putting in place an arrangement for sharing of information across EFD, ROs as also with CO; and
- Improving coordination with NABARD and putting in place a coordination mechanism with NHB to facilitate effectual undertaking of enforcement action against HFCs.

5. CONSUMER EDUCATION AND PROTECTION

Consumer Education and Protection Department (CEPD)

VI.103 The Consumer Education and Protection Department (CEPD) frames policy guidelines to ensure protection of the interest of customers of REs in line with global best practices; undertakes oversight of the functioning of the ombudsman schemes of the Reserve Bank; and creates public awareness on safe banking practices, extant regulations on customer service and protection, and avenues for redress of customer complaints.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

VI.104 The Department had set out the following goals for 2020-21:

- Strengthening financial education and awareness for the public (*Utkarsh*) [Para VI.105];
- Implementing the Internal Ombudsman (IO) scheme for select NBFCs (*Utkarsh*) [Para VI.106];
- Examining, for implementation, the recommendations of the in-house committee on convergence of the ombudsman schemes, including the role of consumer education and protection (CEP) cells (*Utkarsh)* [Para VI.107];
- Using artificial intelligence (AI) to enhance the efficacy of the Complaint Management System (CMS) of the Reserve Bank (Para VI.108); and
- Instituting a disincentive cum incentive framework to encourage banks to improve their grievance redress mechanism (Para VI.109).

Implementation Status of Goals

Strengthening Financial Education and Awareness for the Public

VI.105 CEPD undertook intensive awareness through a series of multi-media campaigns on the ombudsman schemes of the Reserve Bank, safe digital banking (covering threats like phishing/vishing, dubious links/emails/QR codes and SMS spoofing) and regulations on limited liability of customers in fraudulent digital transactions in coordination with Department of Communication (DoC). Additionally, a series of messages were displayed through tickers/scrolls on the Reserve Bank's website and the CMS webpage on safe digital banking during the lockdown. The banking ombudsmen conducted 154 awareness programmes among the members of public during the year, mostly through the digital mode on account of pandemic related restrictions. Of these, 34 awareness programmes were conducted in educational institutions. Further, a framework for education from the perspective of consumer

Box VI.5
Framework for Education from a Consumer Protection Perspective

A framework for financial education with a specific focus on consumer protection has been developed, based on the guidance of the G-20 high level principles (HLP) on financial consumer protection (Principle 5: Financial Education and Awareness)[2]; the Organisation for Economic Cooperation and Development-International Network on Financial Education (OECD-INFE) HLP on national strategies for financial education; and the OECD-INFE guidelines on financial education in schools.

The framework lays down a strategy to empower consumers of regulated entities (REs), covering the following aspects, *viz.,* (i) target groups classified on the basis of their vulnerability and deficiency of information; (ii) content for financial education on consumer protection aligned to the needs of the target groups; (iii) multi-pronged delivery channels with maximum outreach to the intended people; (iv) coordination with various entities/departments/ stakeholders to facilitate financial awareness from the consumer protection perspective; and (vi) a multi-mode mapping of the impact of the initiatives for estimating their effectiveness, identifying areas for improvement and determining the extent to which the framework achieved its objectives.

Source: RBI.

protection was developed to extend awareness on consumer protection issues among various target groups (Box VI.5).

Implementing the IO Scheme for Select NBFCs

VI.106 The IO, at the apex of the internal grievance redress mechanism of an entity, independently reviews the resolution provided by the entity in the case of wholly or partially rejected complaints. The IO scheme is already in operation in the case of banks (2018) and non-bank system participants (2019). The proposal to extend the IO scheme to all NBFCs covered under the Ombudsman Scheme for NBFCs (OSNBFC), 2018, was examined and it was concluded that considering the diversity in the size and business profile of NBFCs and the number of complaints received by NBFCs, the IO scheme may be extended to NBFCs based on identified thresholds. The proposed IO scheme for NBFCs will improve the internal grievance redress mechanism of the NBFCs covered.

Examining, for Implementation, the Recommendations of the In-house Committee on Convergence of the Ombudsman Schemes, including the Role of CEP Cells

VI.107 The Banking Ombudsman Scheme (BOS), launched in 1995, has served as a flagship alternate grievance redress mechanism for the redress of customer complaints against banks received by the Reserve Bank. Subsequently, the ombudsman scheme for NBFCs and the ombudsman scheme for digital transactions were launched in 2018 and 2019, respectively. The three ombudsman schemes are administered by CEPD. The in-house committee, set up to review the ombudsman framework and suggest measures to improve its efficacy, submitted its report in May 2020. The committee made wide-ranging recommendations, which included: (i) convergence of the three ombudsman schemes into an integrated "Reserve Bank of India Ombudsman Scheme"; (ii) expanding the ambit of this scheme to all REs presently not covered under the existing schemes to provide a

[2] Principle 5 states, *inter alia*, that financial education and awareness should be promoted by all relevant stakeholders and clear information on consumer protection, rights and responsibilities should be easily accessible by consumers.

single window for grievance redress; (iii) covering all complaints except those in the 'negative list'; (iv) subsuming CEP Cells within the ombudsman framework; (v) setting up a Centralised Receipt and Processing Centre (CRPC) for receipt and initial processing of complaints under the 'One Nation - One Jurisdiction' approach; (vi) reducing the turnaround time (TAT) for the redress of complaints; and (vii) introducing delegation by appointing a deputy ombudsman. The following major recommendations have been accepted for implementation:

a. Convergence of the three ombudsman schemes (Banking Ombudsman Scheme, 2006; Ombudsman Scheme for NBFCs, 2018 and Ombudsman Scheme for Digital Transactions, 2019) into an integrated ombudsman scheme;

b. Setting up a Centralised Receipt and Processing Centre (CRPC) and moving towards a 'One Nation – One Ombudsman' approach;

c. Inclusion of REs not presently covered under the ombudsman schemes in a phased manner;

d. Doing away with the grounds of complaints, including a definition of 'deficiency in customer service' and incorporating a detailed 'negative' or 'exclusions' list for rejection of a complaint;

e. Delegation of power for the closure of complaints; and

f. Updating CMS for incorporating the recommendations accepted for implementation.

Using AI to Enhance the Efficacy of CMS of the Reserve Bank

VI.108 Work on implementing AI in CMS was initiated during the year to effectively address the quantitative and qualitative aspects of Reserve Bank's grievance redress mechanism and improve the efficiency of CMS. To start with, AI will equip CMS to filter out certain non-maintainable complaints at the time of lodgement. Going forward, AI will also serve as a decision support tool, apart from helping to refine data analytics and root cause analysis (RCA) of the complaints.

Instituting a Disincentive cum Incentive Framework to Encourage Banks to Improve their Grievance Redress Mechanism

VI.109 With a view to strengthen and improve the efficacy of the internal grievance redress mechanism of banks, and to provide better customer service, a comprehensive framework has been put in place comprising certain measures. The measures include, *inter alia*, enhanced disclosures on customer complaints by the banks and the Reserve Bank; recovering the cost of complaints' redress from banks when maintainable complaints are higher than their peer-group averages; intensive review of grievance redress mechanism; and supervisory/regulatory actions against banks that fail to improve their redress mechanism in a time bound manner.

Major Developments

Grievance Redress during the Pandemic

VI.110 The functioning of the ombudsman and CEP Cells continued uninterrupted and efficiently, even during the pandemic induced lockdown by leveraging the 24X7 availability of CMS and the end-to-end digitisation of the grievance redress mechanism.

Undertaking RCA of the Major Areas of Complaints

VI.111 The RCA of the major areas of complaints was conducted by the ombudsmen offices, CEP Cells and banks for the period ended June 2020 and the findings were consolidated and analysed.

Follow-up actions included advising banks to, (a) improve safety of the digital transactions through transaction pattern analysis and effective velocity checks; (b) ensure suitability in the issue of credit cards and independently assess the credit risk involved, especially in the case of students and those without independent financial means; (c) enhance customer protection through effective implementation of KYC norms as specified in the extant instructions; (d) implement regulations related to senior citizens and differently abled customers, as also limiting the liability of customers in unauthorised electronic banking transactions; and; (e) strengthen awareness efforts.

Agenda for 2021-22

VI.112 The Department proposes the following agenda under *Utkarsh* for 2021-22:

- Formulation of a policy/scheme for handling complaints not covered under the ombudsman schemes;
- Efforts for inclusion of safe banking practices in educational curriculum; and
- Extension of the IO scheme to NBFCs, financially sound and well managed UCBs and RRBs.

Deposit Insurance and Credit Guarantee Corporation (DICGC)

VI.113 Deposit insurance plays an important role in maintaining the stability of the financial system by assuring the protection of small depositors thereby ensuring public confidence in the financial system. The Deposit Insurance and Credit Guarantee Corporation (DICGC) is a wholly owned subsidiary of the Reserve Bank of India (RBI) constituted under the DICGC Act, 1961. Deposit insurance provided by the DICGC covers all insured commercial banks, including LABs, PBs, SFBs, RRBs and co-operative banks.

VI.114 The number of registered insured banks stood at 2,058 as on March 31, 2021, comprising 139 commercial banks (including 43 RRBs, 2 LABs, 6 PBs and 10 SFBs) and 1,919 co-operative banks (34 StCBs, 347 DCCBs and 1,538 UCBs). With deposit insurance in India covering all deposits up to ₹5 lakh, the number of fully protected accounts (247.8 crore) at end-March 2021 constituted 98.1 per cent of the total number of accounts (252.6 crore), as against the international benchmark of 80 per cent. In terms of amount, the total insured deposits of ₹76,21,258 crore as at end-March 2021 constituted 50.9 per cent of assessable deposits of ₹1,49,67,776 crore, as against the international benchmark of 20 - 30 per cent. At the current level, insurance cover is around 4.0 times of per capita income in 2020-21.

VI.115 The DICGC builds up its Deposit Insurance Fund (DIF) from premia received from insured banks, interest income from investments and cash recovery out of assets of failed banks adjusting for expenditure by way of payment of claims of depositors and related expenses, net of taxes. This fund is available for settlement of claims of depositors of banks taken into liquidation/amalgamation. As per the un-audited data, size of the DIF stood at ₹1,29,936 crore as on March 31, 2021, yielding a reserve ratio of 1.70 per cent.

VI.116 Five cooperative banks and one LAB were liquidated during the year 2020-21. As per the un-audited data, the Corporation has processed claims amounting to ₹993 crore during 2020-21 with a view to ensuring payment to insured depositors of liquidated banks under the prevailing pandemic situation. Of ₹993 crore, the Corporation has settled claims amounting to ₹564 crore in respect of nine co-operative banks during 2020-21. An amount of ₹330 crore has been settled in case of one cooperative bank in April 2021. However, the net outgo of funds towards settlement of claims from the Corporation was also lower as there was a recovery of ₹ 568 crore during 2020-21. There was an amalgamation of a private sector bank and a foreign bank during 2020-21.

VI.117 Deposit insurance constitutes an integral part of the financial safety net across the world. The positive impact of deposit insurance on financial stability and the moral hazard associated with pricing of deposit insurance have gained importance in recent times (Box VI.6). The risk arising from financial intermediation by banks is addressed through regulation and supervision, central bank emergency liquidity and deposit insurance, with the first element, *i.e.*, regulation and supervision acting as the first line of defence in safeguarding financial stability, emergency liquidity from the central bank to banks being an intermediate/transitional pillar and deposit insurance maintaining the confidence of the public in the banking system.

Box VI.6
Deposit Insurance Pricing - Mitigating Moral Hazard through Risk-based Premium (RBP)

In order to maintain an adequate level of deposit insurance, the DICGC collects premium from member financial institutions either at a flat rate or a differentiated rate on the basis of an individual bank's risk profile. Although flat rate premium systems have the advantage of being relatively easy to understand and administer, they do not take into account the level of risk that a bank poses to the deposit insurance system and can be perceived as unfair in that the same premium rate is charged to all banks regardless of their risk profile [International Association of Deposit Insurers (IADI), 2011]. The primary objective of a differential premium system is to provide incentives for banks to avoid excessive risk taking and introduce more fairness into premium assessment processes. Keeping this objective in view, many jurisdictions are transiting towards RBP, with the Federal Deposit Insurance Corporation (FDIC) being among the earliest to adopt the practice (1993). The IADI's Annual Survey conducted in 2020 reveals that 60 DIS use flat rate premium, 41 DIS use RBP, while 9 DIS use a combination of both the systems.

The literature on pricing of deposit insurance identifies different approaches for determining RBP, *viz.,* the option pricing model; expected loss pricing method; bucketing approach; and deposit insurance fund size estimation. In order to estimate bank risk and to set deposit insurance premiums, regulators in many jurisdictions use a combination of qualitative indicators along with CAMEL (Capital, Asset Quality, Management, Earnings, and Liquidity) indicators (IADI, 2020). In the case of FDIC for instance, an insured institution's assessment rate is based primarily on two measures of risk: capital levels and supervisory ratings. The capital measure assigns institutions to one of three capital groups: well capitalised; adequately capitalised; or less than adequately capitalised (Garnett *et al.*, 2020).

In India, several committees, including the Narasimham Committee on Banking Sector Reforms (1998) and the Capoor Committee on Reforms in Deposit Insurance in India (RBI, 1999) have recommended RBP. The Committee on Credit Risk Model (2006) constituted by the DICGC and the Committee on Differential Premium Systems (2015) also recommended RBP but could not operationalise it as the roll out was linked with hike in deposit insurance cover. With effect from February 4, 2020, deposit insurance cover was increased to ₹5 lakh from the earlier limit of ₹1 lakh. With a view to mitigating the impact of the hike in the cover in case of failure of banks, the premium rate was also increased to 12 paise per ₹100 of deposits from April 1, 2020 from 10 paise earlier. The introduction of RBP in order to address the issue of moral hazard inherent in flat rate premium is a natural corollary. The Internal Committee on RBP (Chairman: Shri V. G. Venkata Chalapathy) undertook the risk assessment of banks, primarily based on CAMEL parameters and recommended the introduction of RBP. Recommendations of the Internal Committee are currently under consideration for their implementation.

References:

1. Garnett, E., Henry L.V., Hoople, D.& Mihalik, A. (2020), 'A History of Risk-Based Premiums at the FDIC', *FDIC Staff Study*, January.
2. IADI (2011), 'General Guidance for Developing Differential Premium Systems', October.
3. IADI (2020), 'Evaluation of Differential Premium Systems for Deposit Insurance', August.

6. CONCLUSION

VI.118 In sum, additional regulatory measures were adopted, apart from extending the existing ones, in response to the disruptions in the financial system owing to COVID-19 pandemic. Steps were taken for increasing credit flow to corporates and small business segment. Measures were also undertaken to strengthen regulatory and supervisory framework of SCBs, cooperative banks and NBFCs in line with the global best practices, and also with an objective to bring them under uniform enforcement framework to minimise the policy arbitrage. Measures to harness technology for efficient customer services and effective fraud detection were also put in place. Implementing IO scheme in select NBFCs, moving towards 'One Nation - One Ombudsman' approach to improve the efficacy of ombudsman schemes and instituting a comprehensive framework to strengthen grievance redress mechanism reflected the resolve to ensure consumer protection. As such, strengthening regulation and supervision in several small and big steps continues to be in focus and this will contribute to bolstering the system stability.

VII PUBLIC DEBT MANAGEMENT

During the year, a major challenge in the aftermath of COVID-19 pandemic was the management of debt both for the central and state governments. In this milieu, the Reserve Bank took conventional and unconventional measures in order to maintain the orderly market conditions along with ensuring that the financial needs of the governments are met, while keeping in mind the major objectives of cost minimisation, risk mitigation and market development. Supported by these measures, the weighted average cost of government borrowings through primary issuances of central government dated securities during 2020-21 was at 17-year low of 5.79 per cent despite a 141.2 per cent jump in net market borrowings of the central government.

VII.1 The Internal Debt Management Department (IDMD) of the Reserve Bank is entrusted with the responsibility of managing the domestic debt of the central government by statute *vide* Sections 20 and 21 of the RBI Act, 1934, and of 28 state governments and two union territories (UTs) in accordance with bilateral agreements as provided in Section 21A of the said Act. Further, short-term credit is provided up to three months to both central and state governments/UTs in the form of Ways and Means Advances (WMA) to bridge temporary mismatch in their cash flows, as laid down in terms of Section 17(5) of the RBI Act, 1934.

VII.2 The remainder of the chapter is arranged in three sections. Section 2 presents the implementation status in respect of the agenda for 2020-21. Section 3 covers major initiatives to be undertaken in 2021-22, followed by a summary in last section.

2. Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

VII.3 The Department had set out the following goals for 2020-21:

- Consolidation of debt through calendar-driven, auction-based switches and buyback operations along with reissuances of securities to augment liquidity in Government of India (GoI) securities (G-sec) market and facilitate fresh issuance (Para VII.5 - VII.7);
- Ease of doing business in the G-sec market – hiving off servicing of compensation bonds issued in physical forms to state treasuries (*Utkarsh*) [Para VII.8];
- Complete the process of mirroring of gilt account in *e-Kuber*; examine the feasibility of marking lien by banks for loans against G-sec in the Reserve Bank's *e-Kuber* portal; and review guidelines on subsidiary general ledger (SGL)/constituent subsidiary general ledger account (CSGL) [Para VII.9];
- Introduction of Separate Trading of Registered Interest and Principal Securities (STRIPS) in State Development Loans (SDLs) (*Utkarsh*) [Para VII.10];
- Explore the possibilities for optimising the market borrowings; develop the methodology for building up of liquidity buffer for better cash management; and consolidation of public debt data (including data on market borrowings, valuations and

special securities) in the Reserve Bank's data warehouse (Para VII.11);

- Undertake best practices in data reporting to improve quality and veracity of data (Para VII.12); and
- Conduct capacity building programmes for sensitising the state governments about the prudent measures of cash and debt management (Para VII.13).

Implementation Status of Goals

VII.4 During 2020-21, the market borrowing programme was conducted following the debt management strategy of minimising cost, risk mitigation and market development. Amidst heightened uncertainty created by the COVID-19 pandemic and its effects on domestic and global economy and the financial markets, the Reserve Bank successfully managed the combined gross market borrowings of the central and the state governments, which increased by 61.3 per cent to ₹21,69,140 crore during the year.

VII.5 The Reserve Bank continued its policy of passive consolidation by way of reissuances and active consolidation through buyback/switches. During 2020-21, 162 out of 178 issuances of G-sec were re-issuances (91.0 per cent) as compared with 185 re-issuances out of 194 issuances (95.4 per cent) in the previous year.

VII.6 The active form of fiscal consolidation through switching of short-term G-sec with long-term is generally conducted on third Monday of every month. Accordingly, 95.9 per cent of the switches budgeted for the fiscal 2020-21, amounting to ₹1,53,418 crore, were completed during 2020-21, as against ₹1,64,803 crore in the previous year.

VII.7 During the year 2020-21, new securities ranging from 2 to 40 year tenors were issued with the objective of catering to different investor needs. Floating Rate Bonds (FRBs) were also issued during the year in order to broaden the investor base. The share of FRBs in total issuances during 2020-21 was 6.5[1] per cent as against 8.5 per cent a year ago.

VII.8 A review has been undertaken to hive off servicing of compensation bonds (CBs) to state treasuries.

VII.9 In continuation of efforts to facilitate interoperability of government securities depositories, the Reserve Bank had decided to modify its government securities registry (the PDO-NDS system) to include constituent details in the Constituent Subsidiary General Ledger (CSGL) accounts. Accordingly, an upgrade in *e-Kuber* system to capture the G-sec holding details of constituents (entities maintaining securities accounts with CSGL holders), facilitate settlement of G-sec transactions directly in the constituent accounts and also enable lien-marking for constituent accounts in *e-Kuber*, is under process.

VII.10 As announced in the Reserve Bank's Monetary Policy Statement on Developmental and Regulatory Policies on August 7, 2019 to introduce STRIPS/reconstitution facility in SDLs, Financial Benchmark India Pvt. Ltd. (FBIL) was advised to work on a methodology for constructing zero coupon yield curve for SDLs for implementing STRIPS in SDLs, for which the work is underway.

VII.11 The study on optimisation of market borrowings and developing methodology for building up of liquidity buffer for better cash management is completed. The consolidation

[1] Excludes issuance of FRBs of ₹19,953.68 crore made through switch auctions.

of public debt data is currently going on under the Reserve Bank's revamped data warehouse project.

VII.12 The reports relating to public debt are being linked to source data, and data inconsistency, if any, across various reports is being addressed.

VII.13 Capacity building programmes for sensitising state governments about the prudent measures of cash and debt management were conducted for five states, *viz.,* Chhattisgarh, Goa, Himachal Pradesh, Manipur, and Nagaland.

Other Initiative

VII.14 As announced in the Reserve Bank's Monetary Policy Statement on Developmental and Regulatory Policies on February 5, 2021, to increase retail participation in government securities market, it is planned to provide retail investors with the facility to open their gilt securities account directly with the Reserve Bank ('Retail Direct') and provide online access to the government securities market for managing their government securities portfolio. The user-friendly online 'Retail Direct' portal will have facilities for participation in primary auction under the non-competitive segment as well in the secondary market on NDS-OM. It is expected that the initiative will encourage greater retail participation in government securities market through improvement in ease of access to the market.

Debt Management of the Central Government

VII.15 During 2020-21, the gross market borrowing[2] through dated G-sec was higher by 93.0 per cent as compared with the previous year. The planned market borrowing of GoI increased initially by ₹4.20 lakh crore, which was further increased twice during the year, *i.e.,* first, ₹1.10 lakh crore under the special window given to states and UTs towards shortfall in goods and services tax (GST) compensation cess, and second, ₹80,000 crore during the announcement of the Union Budget for the year 2021-22. Net market borrowings through dated G-sec increased by 141.2 per cent as compared with previous year. Net market borrowings through dated G-sec financed 61.8 per cent of the centre's budgeted gross fiscal deficit (GFD) as against 50.8 per cent in the previous year. The net market borrowings through dated securities and Treasury Bills (T-Bills) taken together also increased in 2020-21 (Table VII.1).

Debt Management Operations

VII.16 Notwithstanding the volatility in the bond market, the weighted average yield (WAY) of G-sec issuances during the year declined by 106 basis points (bps) as compared to the WAY of the previous year, thus falling to its lowest since 2004-05. The weighted average coupon on the entire outstanding debt stock also decreased by 44 bps. The weighted average maturity (WAM) of primary

Table VII.1: Net Market Borrowings of the Central Government

(Amount in ₹ crore)

Item	2017-18	2018-19	2019-20	2020-21
1	2	3	4	5
Net Borrowings (i to iv)	4,98,891	4,58,337	5,11,500	13,75,654
(i) Dated Securities@	4,48,410	4,22,737	4,73,972	11,43,114
(ii) 91-day T-Bills	31,886	-46,542	-9,600	10,713
(iii) 182-day T-Bills	1,436	32,931	38,354	-18,743
(iv) 364-day T-Bills	17,159	49,211	8,774	2,40,570

@: Without adjusting for buyback and switches. After adjusting for buyback and switches, net borrowings during 2020-21 stood at ₹11,46,739 crore, ₹4,73,990 crore in 2019-20, ₹4,23,269 crore in 2018-19 and ₹4,10,260 crore in 2017-18.
Source: RBI.

[2] Includes ₹1.1 lakh crore borrowed by GoI for providing back-to-back loans to states and UTs towards GST compensation cess shortfall.

Table VII.2: Market Loans of Central Government - A Profile*

(Yield in Per cent/Maturity in Years)

Years	Range of Cut Off Yield in Primary Issues^			Issued during the Year^			Outstanding Stock#	
	Under 5 years	5-10 years	Over 10 years	Weighted Average Yield	Range of Maturities @	Weighted Average Maturity	Weighted Average Maturity	Weighted Average Coupon
1	2	3	4	5	6	7	8	9
2014-15	-	7.66-9.28	7.65-9.42	8.50	6-30	14.66	10.23	8.08
2015-16	-	7.54-8.10	7.59-8.27	7.88	6-40	16.03	10.50	8.08
2016-17	6.85-7.46	6.13-7.61	6.46-7.87	7.15	5-38	14.76	10.65	7.99
2017-18	7.23-7.27	6.42-7.48	6.68-7.67	6.97	5-38	14.13	10.62	7.76
2018-19	6.56-8.12	6.84-8.28	7.26-8.41	7.77	1-37	14.73	10.40	7.81
2019-20	5.56-7.38	6.18-7.44	5.96-7.77	6.85	1-40	16.15	10.72	7.71
2020-21	3.79-5.87	5.15-6.53	4.46-7.19	5.79	1-40	14.49	11.31	7.27

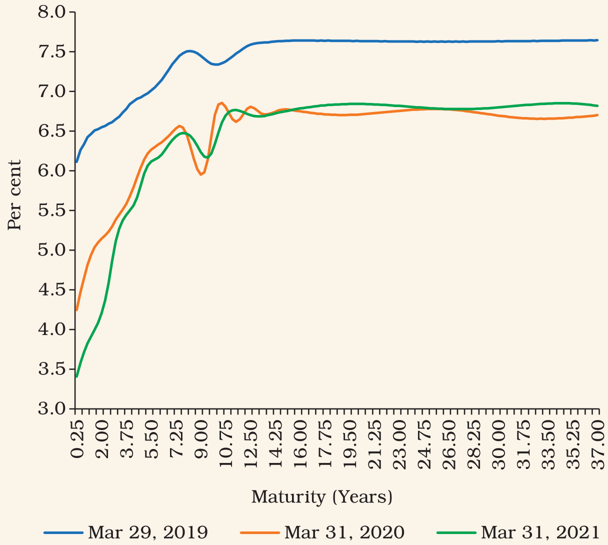
-: Not applicable. @: Residual maturity of issuances and figures are rounded off.
*: Excluding special securities. ^: Excluding switch auction. #: Including switch auction.
Source: RBI.

issuances (excludes issuances under switch auction) was 14.49 years as compared with 16.15 years in previous year. The weighted average maturity (WAM) of the outstanding debt increased from 10.72 years to 11.31 years primarily due to issuances of longer tenor security in the switch auctions in 2020-21 (Table VII.2).

VII.17 Partial devolvement on Primary Dealers (PDs) took place on fifteen instances amounting to ₹1,30,562 crore during 2020-21 as compared with two instances for ₹3,606 crore in 2019-20. No bid was accepted on four instances due to the market conditions prevailing then, for a total notified amount of ₹ 39,000 crore.

VII.18 The yields on G-sec declined during the year with the 10-year yield softening by 37 bps mainly due to the monetary and liquidity measures taken by the Reserve Bank to tackle the stress induced by the COVID-19 pandemic. Yields declined sharply in Q1:2020-21 as the Reserve Bank cut the policy repo rate by 40 bps and undertook various liquidity augmenting measures in the wake of the pandemic. Decline in US treasury yields and fall in crude oil prices also aided in easing of yields. The 10-year yield softened by 81 bps in Q1. In Q2:2020-21, the G-sec yields hardened mainly due to the rise in crude oil prices and higher CPI inflation figures for June and July. Certain policy measures announced by the Reserve Bank towards end of August, *viz.,* hike in held-to-maturity (HTM) limit for banks, term repo operations and special OMOs, helped in easing of the yields. The 10-year yield rose by 14 bps in Q2. The Q3:2020-21 saw softening of the yields with the 10-year yield easing by 15 bps aided by certain policy measures, *viz.,* introduction of on-tap TLTROs, extended dispensation of enhanced HTM limit for banks, OMOs, and MPC's forward guidance suggesting continuance of accommodative monetary policy stance. During Q4:2020-21, yields spiked following the Union Budget announcement of larger than expected government borrowings and tracking the sharp rise in US treasury yields and higher crude oil prices. However, the cancellation of the last scheduled G-sec auction for 2020-21 resulted in some easing of the yields towards the end of March 2021. The 10-year yield rose by 45 bps in Q4 to end the year at 6.34 per cent (Chart VII.1).

Chart VII.1: FBIL Semi Annualised Par Yield Curve



Source: FBIL.

VII.19 During 2020-21, about 49.0 per cent of the market borrowings were raised through issuance of dated securities with a residual maturity of 10 years and above, as compared with 54.2 per cent in the previous year. Further, the 30-year and 40-year tenor securities were issued/ reissued during the year with the objective of catering to the demand from long-term investors such as insurance companies and pension funds (Table VII.3).

Treasury Bills

VII.20 Short-term cash requirements of the central government are met through issuance of T-Bills. The net short-term market borrowing of the government through T-Bills (91, 182 and 364 days) increased to ₹2,32,540 crore during 2020-21 from ₹37,528 crore in the previous year.

Ownership of Securities

VII.21 Commercial banks remained the largest holders of government securities (including T-Bills and SDLs) accounting for 37.3 per cent as at end-March 2021, followed by insurance companies (25.7 per cent), the Reserve Bank (10.4 per cent) and provident funds (9.8 per cent). The share of the foreign portfolio investors (FPIs) was 1.2 per cent. The other holders of government securities (including T-Bills and SDLs) include mutual funds, state governments, financial institutions (FIs) and corporates.

Primary Dealers

VII.22 The number of primary dealers (PDs) stood at 21 [14 Bank-PDs and 7 Standalone PDs (SPDs)] at end-March 2021. The PDs have the mandate to underwrite primary auctions of dated G-sec while they have a target of achieving

Table VII.3: Issuance of Government of India Dated Securities – Maturity Pattern

(Amount in ₹ crore)

Residual Maturity	2018-19		2019-20		2020-21	
	Amount Raised	Percentage to Total	Amount Raised	Percentage to Total	Amount Raised	Percentage to Total
1	2	3	4	5	6	7
Less than 5 Years	1,08,899	19.1	1,46,000	20.6	3,91,990	28.6
5 -9.99 Years	1,57,000	27.5	1,79,000	25.2	3,07,405	22.4
10-14.99 Years	98,000	17.2	1,37,000	19.3	3,76,766	27.5
15 -19.99 Years	71,101	12.5	15,000	2.1	-	-
20 Years & Above	1,36,000	23.8	2,33,000	32.8	2,94,162	21.5
Total	**5,71,000**	**100.0**	**7,10,000**	**100.0**	**13,70,324**	**100.0**

-: Nil.
Note: Figures in the columns might not add up to the total due to rounding off of numbers.
Source: RBI.

bidding commitment and success ratio in respect of primary auctions of Treasury Bills (T-Bills)/cash management bills (CMBs). The PDs individually achieved the stipulated minimum success ratio of 40 per cent in primary auctions of T-Bills with an average success ratio of 57.10 per cent in H1: 2020-21(April-September 2020) and 60.13 per cent in H2:2020-21 (October 2020-March 2021). The share of PDs in auctions of T-Bills/CMBs was 68.89 per cent during 2020-21 as compared with 71.67 per cent in the previous year. The commission paid to PDs, excluding GST, for underwriting primary auctions of dated G-sec during 2020-21 was ₹454.64 crore as compared with ₹41.04 crore in the previous year.

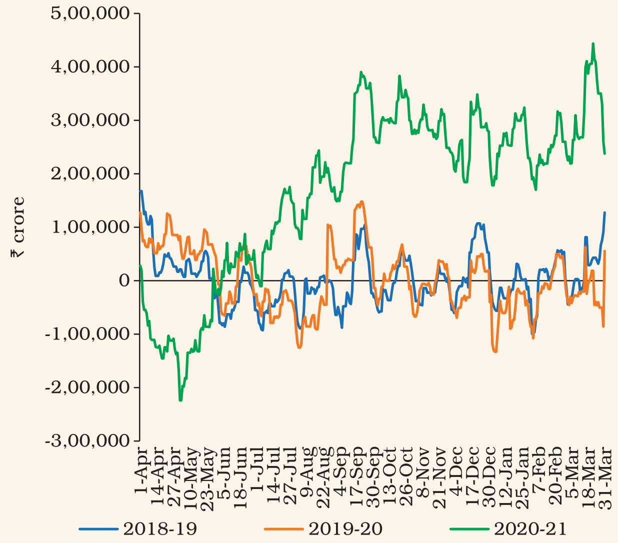
Sovereign Gold Bond (SGB) Scheme

VII.23 The Reserve Bank in consultation with the GoI issued twelve tranches of SGB for an aggregate amount of ₹16,049 crores (32.35 tonnes) during 2020-21. A total of ₹25,702 crore (63.32 tonnes) has been raised through the scheme since its inception in November 2015.

Cash Management of the Central Government

VII.24 The central government started the year 2020-21 with a cash balance of ₹55,573 crore. In the beginning of the financial year, the WMA limit of the centre was fixed at ₹1,25,000 crore for the first half of 2020-21. In the wake of the evolving macroeconomic conditions, and to tide over the stress situation arisen due to the outbreak of the COVID-19 pandemic, the Reserve Bank, in consultation with the GoI, increased the limit for WMA to ₹2,00,000 crore for the remaining part of the first half of the financial year. Further, the WMA limit for the second half was set at ₹1,25,000 crore. The central government resorted to WMA for 63 days during 2020-21 *vis-à-vis* 189 days in the previous year and went into overdraft (OD) for 9 days *vis-à-vis* 52 days during the same period previous year. The highest amount of WMA/OD resorted to by the central government was ₹2,24,078 crore on May 3, 2020. The central government issued CMBs of ₹80,000 crore of 84-days tenor to tide over short-term mismatches in cash flows during 2020-21. Despite COVID-19 pandemic situation, the cash balance of the centre was comfortable throughout the year (Chart VII.2).

Chart VII.2: GoI Cash Balance Position



Source: RBI.

Investments under Foreign Central Bank Scheme

VII.25 Under the Foreign Central Bank (FCB) scheme, the Department invests in Indian G-sec on behalf of select FCBs and multilateral development institutions in the secondary G-sec market. Total volumes transacted on behalf of these institutions stood at ₹3,120 crore (face value) during 2020-21 as compared with ₹4,500 crore in the previous year.

Debt Management of State Governments

VII.26 Following the recommendation of the 14th Finance Commission (FC) to exclude states from the National Small Savings Fund (NSSF) financing facility (barring Delhi, Madhya Pradesh, Kerala and Arunachal Pradesh), market borrowings of states have been increasing over the last few years. The share of market borrowings in financing gross fiscal deficit (GFD) of states consequently rose to 89.5 per cent in 2020-21 (BE) from 74.9 per cent in 2019-20 (RE).

VII.27 The gross and net market borrowings of states were higher than the previous year owing to the COVID-19 induced macroeconomic conditions. The gross market borrowings of states stood at 97.5 per cent of the amount indicated in the quarterly indicative calendar for market borrowings by the state governments. There were 742 issuances in 2020-21, of which 56 were re-issuances (636 issuances in 2019-20, of which 114 were re-issuances) [Table VII.4].

VII.28 The weighted average cut-off yield (WAY) of SDL issuances during 2020-21 was lower at 6.55 per cent than 7.24 per cent in the previous year. The weighted average spread (WAS) of SDL issuances over comparable central government securities was 52.72 bps in 2020-21 as compared with 55.02 bps in the previous year. In 2020-21, twenty one states and two union territories issued dated securities of tenors other than 10 year, ranging from 1.5 to 35 year. Eight states rejected all the bids in one or more of the auctions. Following the policy of passive consolidation, four states (*viz.,* Maharashtra, Tamil Nadu, Punjab and Madhya Pradesh) undertook re-issuances during 2020-21. The average inter-state yield spread on 10 year fresh issuances was 10 bps in 2020-21 as compared with 6 bps in the previous year.

Cash Management of State Governments

VII.29 The recommendations of the Advisory Committee on WMA scheme for state governments (Chairman: Shri Sumit Bose) set WMA limit at ₹32,225 crore for all states/UTs together until the next review in 2020-21. In order to provide greater comfort to state governments in undertaking COVID-19 containment and mitigation measures, and to enable states to plan their market borrowings, as an interim measure, the Reserve Bank had announced an increase in WMA limit of the states/UTs by 60 per cent over and above the level as on March 31, 2020, which remained valid till March 31, 2021. The Advisory Committee on WMA to state governments (Chairman: Shri Sudhir Shrivastava) has submitted its report in March 2021. Based on the recommendations of the Committee, the Reserve Bank has decided to retain the interim limit of WMA (at ₹51,560 crore for all States/UTs) till September 30,2021. Relaxation in the overdraft (OD) scheme has been given by the Reserve Bank to state

Table VII.4: Market Borrowings of States through SDLs

(Amount in ₹ crore)

Item	2017-18	2018-19	2019-20	2020-21
1	2	3	4	5
Maturities during the Year	78,819	1,29,680	1,47,067	1,47,039
Gross Sanction under Article 293(3)	4,82,475	5,50,071	7,12,744	9,69,525
Gross Amount Raised during the Year	4,19,100	4,78,323	6,34,521	7,98,816
Net Amount Raised during the Year	3,40,281	3,48,643	4,87,454	6,51,777
Amount Raised during the Year to Total Sanctions (per cent)	86.9	87.0	89.0	82.4
Outstanding Liabilities (at the end of period) #	24,29,892	27,78,536	32,65,989	39,25,555

#:Including Ujwal DISCOM Assurance Yojana (UDAY) and other special securities.
Source: RBI.

governments/UTs to tide over mismatches in cash flows by increasing the number of days for which a state/UT can be in OD continuously to 21 working days from 14 working days, and in a quarter to 50 working days from 36 working days, effective from April 7, 2020, till March 31, 2021. Eighteen states/UTs availed the Special Drawing Facility (SDF), fifteen states/UTs resorted to WMA and eight states/UTs availed OD in 2020-21.

VII.30 Over the years, states have been accumulating a sizeable cash surplus in the form of intermediate treasury bills (ITBs), which, however, entail a negative carry cost of 520 bps, difference between the average borrowing cost of states (6.55 per cent) and the average rate of return on ITBs (1.35 per cent), as on March 31, 2021. The outstanding investments of states in ITBs and auction treasury bills (ATBs) increased during the year 2020-21 (Table VII.5).

Investments in Consolidated Sinking Fund (CSF) / Guarantee Redemption Fund (GRF)

VII.31 The Reserve Bank manages two reserve fund schemes on behalf of state governments - the consolidated sinking fund (CSF) and the guarantee redemption fund (GRF). So far, twenty four states and one UT, *i.e.*, Puducherry have set up the CSF. Currently, eighteen states are members of the GRF. States are permitted to avail of a special drawing facility (SDF) at a discounted rate from the Reserve Bank against their incremental annual investment in CSF and GRF. Outstanding investment by states in the CSF and GRF as on March 31, 2021 was ₹1,27,208 crore and ₹8,405 crore, respectively, as against ₹1,30,431 crore and ₹7,486 crore at end-March 2020. Total investment and disinvestment in CSF/GRF during 2020-21 were ₹17,900 crore and ₹18,264 crore, respectively. A review of the CSF/GRF schemes is underway to make it more attractive for states.

Table VII.5: Investments in ITBs and ATBs by State Governments/UT

(Amount in ₹ crore)

Item	Outstanding as on March 31				
	2016-17	2017-18	2018-19	2019-20	2020-21
1	2	3	4	5	6
14-Day(ITBs)	1,56,050	1,50,871	1,22,084	1,54,757	2,05,230
ATBs	36,603	62,108	73,927	33,504	41,293
Total	**1,92,653**	**2,12,979**	**1,96,011**	**1,88,261**	**2,46,523**

Source: RBI.

3. Agenda for 2021-22

VII.32 In the Union Budget 2021-22, the gross market borrowings through dated securities for the year 2020-21 was revised upward from ₹7,80,000 crore (BE) to ₹12,80,000 crore (RE), however, actual gross borrowings for the year 2020-21 stood at ₹12,60,324 crore. This is in addition to ₹1.10 lakh crore borrowed under the special window for states and UTs towards GST compensation cess shortfall. Gross market borrowings for 2021-22 through dated securities are projected at ₹12,05,500 crore, about 12.0 per cent lower than ₹13,70,324 crore in 2020-21. Net market borrowings (including short-term debt and repayment of Post Office Life Insurance Fund) are budgeted at ₹9,67,708 crore, financing 64.2 per cent of GFD in 2021-22.

VII.33 During the year 2021-22, the market borrowing programme is proposed to be conducted with the following strategic milestones so as to achieve the overall goals of debt management:

- Consolidation of debt through calendar driven, auction-based switch operations along with reissuance of securities to augment liquidity in the G-sec market and facilitate fresh issuances;

- Improve overall liquidity in G-sec market by enhancing role of PDs in market making (*Utkarsh*);
- Permit retail investors to open gilt securities account directly with the Reserve Bank under the 'Retail Direct' scheme in order to encourage greater retail participation through improvement in ease of access to the government securities market;
- Developing a module in *e-Kuber* for capturing gilt level data to improve the existing market infrastructure for the government securities market besides enabling primary and secondary market settlement directly at the gilt account level for facilitating effective monitoring and surveillance of the market (*Utkarsh*);
- Review of the SGL/CGSL guidelines for gilt module development and gilt account settlement;
- Review of value free transfer guidelines;
- Review of operational guidelines on GoI savings bond in order to account for online subscriptions as well as incorporating better system of risk management;
- Continuing efforts to enhance quality of data and consolidating data on public debt;
- Automating monitoring of GoI's consent to states for open market borrowings (OMBs) – developing a centralised system in *e-Kuber* to record these consents for better control, monitoring and management information system (MIS) purposes;
- Implementation of STRIPS/reconstitution facility in SDLs (*Utkarsh*);
- Hiving-off of servicing of compensation bonds issued in physical forms to state treasuries (*Utkarsh*);
- Operationalisation of Society for Worldwide Interbank Financial Telecommunication (SWIFT) module for transactions with FCBs to smoothen the investment and disinvestment instructions from FCBs in a secured manner (*Utkarsh*); and
- Conduct capacity building programmes for sensitising the state governments about prudent practices in cash and debt management.

4. Conclusion

VII.34 Overall, during 2020-21, combined gross market borrowings of centre and states were conducted successfully in line with the guiding principles of debt management. The Reserve Bank also announced a number of measures to manage the stress on the finances of both central and state governments in the wake of the COVID-19 pandemic. Going ahead, smooth completion of the government borrowing programme for the year 2021-22 and consolidation of government debt will be the key areas of focus of the Reserve Bank.

VIII CURRENCY MANAGEMENT

The thrust of currency management during the year was to make available adequate quantity of clean notes in circulation. The year witnessed a higher than average increase in banknotes in circulation primarily due to precautionary holding of cash by the public induced by the COVID-19 pandemic, and its prolonged continuance. The Reserve Bank continued its efforts towards upgrading the infrastructure for currency management.

VIII.1 The Reserve Bank's currency management function is guided by the goal of ensuring adequate supply of clean banknotes of various denominations in the economy. During the year, when the precautionary demand for cash surged in the economy with the onset of the COVID-19 pandemic, the Reserve Bank endeavoured to meet the increased demand for banknotes. Concerted efforts were made to ensure that Currency Chests (CCs) remain adequately stocked with all denominations of banknotes in order to maintain timely supply of fresh banknotes across the country.

VIII.2 Against this backdrop, the rest of the chapter is organised into five sections. The next section presents the important developments in currency in circulation during the year. Section 3 covers the implementation status of agenda for 2020-21 and section 4 presents the work profile of Bharatiya Reserve Bank Note Mudran Private Ltd. (BRBNMPL), a wholly owned subsidiary of the Reserve Bank. Section 5 sets out the agenda for 2021-22, while concluding observations are set out in the last section.

2. Developments in Currency in Circulation

VIII.3 Currency in Circulation (CiC) includes banknotes and coins. Presently, the Reserve Bank issues notes in denominations of ₹2, ₹5, ₹10, ₹20, ₹50, ₹100, ₹200, ₹500 and ₹2,000. Coins in circulation comprise 50 paise and ₹1, ₹2, ₹5, ₹10 and ₹20 denominations.

Banknotes

VIII.4 The value and volume of banknotes in circulation increased by 16.8 per cent and 7.2 per cent, respectively, during 2020-21 as against an increase of 14.7 per cent and 6.6 per cent, respectively, witnessed during 2019-20. In value terms, the share of ₹500 and ₹2,000 banknotes together accounted for 85.7 per cent of the total value of banknotes in circulation as on March 31, 2021, as against 83.4 per cent as on March 31, 2020. In volume terms, ₹500 denomination constituted the highest share at 31.1 per cent followed by ₹10 denomination banknotes which constituted 23.6 per cent of the total banknotes in circulation as on March 31, 2021 (Table VIII.1). Whereas the share of ₹500 denomination banknotes in the total volume of banknotes showed an increasing trend from 19.8 per cent as on March 31, 2019 to 25.4 per cent as on March 31, 2020 and to 31.1 per cent as on March 31, 2021, the share of ₹10 denomination banknotes in the total volume showed a declining trend from 28.7 per cent as on March 31, 2019 to 26.2 per cent as on March 31, 2020 and to 23.6 per cent as on March, 31, 2021.

Table VIII.1: Banknotes in Circulation (end-March)

Denomination (₹)	Volume (pieces in lakh)			Value (₹ crore)		
	2019	2020	2021	2019	2020	2021
1	2	3	4	5	6	7
2 and 5	1,13,025 (10.4)	1,12,203 (9.7)	1,11,728 (9.0)	4,372 (0.2)	4,331 (0.2)	4,307 (0.2)
10	3,12,598 (28.7)	3,04,022 (26.2)	2,93,681 (23.6)	31,260 (1.5)	30,402 (1.3)	29,368 (1.0)
20	87,127 (8.0)	82,994 (7.2)	90,579 (7.3)	17,425 (0.8)	16,599 (0.7)	18,116 (0.6)
50	86,015 (7.9)	86,009 (7.4)	87,524 (7.0)	43,007 (2.0)	43,004 (1.8)	43,762 (1.5)
100	2,00,738 (18.5)	1,99,021 (17.2)	1,90,555 (15.3)	2,00,738 (9.5)	1,99,021 (8.2)	1,90,555 (6.7)
200	40,005 (3.7)	53,646 (4.6)	58,304 (4.7)	80,010 (3.8)	1,07,293 (4.4)	1,16,608 (4.1)
500	2,15,176 (19.8)	2,94,475 (25.4)	3,86,790 (31.1)	10,75,881 (51.0)	14,72,373 (60.8)	19,33,951 (68.4)
2,000	32,910 (3.0)	27,398 (2.4)	24,510 (2.0)	6,58,199 (31.2)	5,47,952 (22.6)	4,90,195 (17.3)
Total	**10,87,594**	**11,59,768**	**12,43,671**	**21,10,892**	**24,20,975**	**28,26,863**

Note: 1. Figures in parentheses represent the percentage share in total volume/value. They may not add up to 100 due to rounding-off of numbers.
2. Figures may not add up to total due to rounding-off of numbers.

Source: RBI.

Coins

VIII.5 The total value of coins in circulation increased by 2.1 per cent in 2020-21, while the total volume increased by only 1.0 per cent. As on March 31, 2021, coins of ₹1, ₹2 and ₹5 together constituted 83.8 per cent of the total volume of coins in circulation, while in value terms, these denominations accounted for 77.6 per cent (Table VIII.2).

Table VIII.2: Coins in Circulation (end-March)

Denomination (₹)	Volume (pieces in lakh)			Value (₹ crore)		
	2019	2020	2021	2019	2020	2021
1	2	3	4	5	6	7
Small coins	1,47,880 (12.3)	1,47,880 (12.1)	1,47,880 (12.0)	700 (2.7)	700 (2.7)	700 (2.6)
1	5,03,260 (41.8)	5,08,878 (41.8)	5,12,597 (41.7)	5,033 (19.5)	5,089 (19.3)	5,126 (19.1)
2	3,31,540 (27.6)	3,35,158 (27.5)	3,37,863 (27.5)	6,631 (25.6)	6,703 (25.5)	6,757 (25.1)
5	1,71,510 (14.2)	1,75,992 (14.4)	1,79,360 (14.6)	8,575 (33.2)	8,800 (33.5)	8,968 (33.4)
10	49,050 (4.1)	50,130 (4.1)	51,391 (4.2)	4,905 (19.0)	5,013 (19.1)	5,139 (19.1)
20	- -	- -	896 (0.1)	- -	- -	179 (0.7)
Total	**12,03,240**	**12,18,038**	**12,29,988**	**25,844**	**26,305**	**26,870**

-: Not Applicable.

Note: 1. Figures in parentheses represent the percentage share in total volume/value. They may not add up to 100 due to rounding-off of numbers.
2. Figures may not add up to total due to rounding-off of numbers.

Source: RBI.

Currency Management Infrastructure

VIII.6 The functions relating to issuance of currency (both banknotes and coins) and their management are performed by the Reserve Bank through its issue offices, currency chests and small coin depots spread across the country. As on March 31, 2021, the State Bank of India accounted for the highest share (55.0 per cent) in the currency chests network (Table VIII.3).

Indent and Supply of Currency

VIII.7 The indent of banknotes was lower by 9.7 per cent in 2020-21 than that of a year ago. The supply of banknotes was also marginally lower by 0.3 per cent during 2020-21 than in the previous year (Table VIII.4).

VIII. 8 During 2020-21, the indent and supply of coins were lower by 11.8 per cent and 4.7 per cent, respectively, from their levels in the previous year (Table VIII.5).

Table VIII.3: Currency Chests and Small Coin Depots (as at end-March 2021)

Category	No. of Currency Chests	No. of Small Coin Depots
1	2	3
State Bank of India	1,679	1,432
Nationalised Banks	1,151	886
Private Sector Banks	210	173
Cooperative Banks	5	5
Foreign Banks	4	3
Regional Rural Banks	4	4
Reserve Bank of India	1	1
Total	**3,054**	**2,504**

Source: RBI.

Disposal of Soiled Banknotes

VIII.9 The disposal of soiled banknotes was initially affected due to the COVID-19 pandemic and was expedited during the latter part of the year 2020-21. Despite efforts, the year as a whole still witnessed a 32 per cent decline in the disposal

Table VIII.4: Indent and Supply of Banknotes by BRBNMPL and SPMCIL (April to March)

(pieces in lakh)

Denomination (₹)	2018-19		2019-20		2020-21	
	Indent	Supply	Indent	Supply	Indent	Supply
1	2	3	4	5	6	7
5	-	-	-	60	-	-
10	39,200	42,892	14,700	14,702	2,840	2,846
20	460	2,096	12,500	13,390	48,750	38,520
50	42,330	40,401	24,000	23,431	14,000	13,887
100	63,300	64,075	33,000	32,708	40,000	37,270
200	26,150	27,301	20,500	19,588	15,000	15,106
500	1,16,920	1,14,679	1,46,300	1,19,996	1,06,000	1,15,672
2,000	470	467	-	-	-	-
Total	**2,88,830**	**2,91,911**	**2,51,000**	**2,23,875**	**2,26,590**	**2,23,301**

-: Not Applicable.
SPMCIL: Security Printing and Minting Corporation of India Ltd.
Note: Figures in the columns may not add up to the total due to rounding-off of the numbers.
Source: RBI.

Table VIII.5: Indent and Supply of Coins by Mints (April to March)

(pieces in lakh)

Denomination (₹)	2018-19		2019-20		2020-21	
	Indent	Supply	Indent	Supply	Indent	Supply
1	2	3	4	5	6	7
1	20,000	25,550	1,000	1,093	1,000	1,000
2	10,000	12,860	8,000	7,993	9,500	6,718
5	11,320	6,779	10,000	9,984	11,000	10,995
10	20,000	16,132	12,000	11,565	5,500	5,852
20	-	-	3,000	458	3,000	5,061
Total	**61,320**	**61,321**	**34,000**	**31,093**	**30,000**	**29,626**

-: Not Applicable.
Source: RBI.

of soiled banknotes as compared to the previous year (Table VIII.6).

Counterfeit Banknotes

VIII.10 During 2020-21, out of the total Fake Indian Currency Notes (FICNs) detected in the banking sector, 3.9 per cent were detected at the Reserve Bank and 96.1 per cent by other banks (Table VIII.7).

Table VIII.6: Disposal of Soiled Banknotes (April-March)

(pieces in lakh)

Denomination (₹)	2018-19	2019-20	2020-21
1	2	3	4
2000	6	1,768	4,548
1000	22	0	0
500	154	1,645	5,909
200	1	318	1,186
100	37,945	44,793	42,433
50	8,352	19,070	12,738
20	11,626	21,948	10,325
10	65,239	55,744	21,999
Up to 5	591	1,244	564
Total	**1,23,935**	**1,46,530**	**99,702**

Note: Figures in the columns may not add up to the total due to rounding-off of the numbers.
Source: RBI.

Table VIII.7: Number of Counterfeit Notes Detected (April-March)

(number of pieces)

Year	Detection at the Reserve Bank	Detected at Other Banks	Total
1	2	3	4
2018-19	17,781	2,99,603	3,17,384
	(5.6)	(94.4)	(100.0)
2019-20	13,530	2,83,165	2,96,695
	(4.6)	(95.4)	(100.0)
2020-21	8,107	2,00,518	2,08,625
	(3.9)	(96.1)	(100.0)

Note: 1. Figures in parentheses represent the percentage share in total.
2. Data do not include counterfeit notes seized by the police and other enforcement agencies.
Source: RBI.

VIII.11 Compared with the previous year, there was an increase of 31.3 per cent in counterfeit notes detected in the denomination of ₹500 [Mahatma Gandhi (New) Series]. However, there was a decline in counterfeit notes detected in other denominations (Table VIII.8).

Expenditure on Security Printing

VIII.12 The total expenditure incurred on security printing during July 1, 2020 to March 31, 2021 was ₹4,012.1 crore as against ₹4,377.8 crore in the previous year (July 2019 to June 2020).

Table VIII.8: Denomination-wise Counterfeit Notes Detected in the Banking System (April-March)

(number of pieces)

Denomination (₹)	2018-19	2019-20	2020-21
1	2	3	4
2 and 5	-	22	9
10	345	844	304
20	818	510	267
50	36,875	47,454	24,802
100	2,21,218	1,68,739	1,10,736
200	12,728	31,969	24,245
500 (MG Series)	971	11	9
500 [MG (New) Series]	21,865	30,054	39,453
1,000	717	72	2
2,000	21,847	17,020	8,798
Total	**3,17,384**	**2,96,695**	**2,08,625**

-: Nil.
Source: RBI.

3. Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

VIII.13 Last year, the Department had set out the following goals:

- Automation of banknote handling process *(Utkarsh)* [Para VIII.14]
    - o Upgrade the infrastructure and processes for currency management by inducting modern technology.
- Microsite for banknotes (Para VIII.15)
    - o Continue the process of designing and developing a microsite to host basic information on features of banknotes and information relating to currency management – information on banknotes will be presented through various multimedia with simple and efficient navigation;
    - o Displaying 360-degree view of the design and security features of banknotes through explanatory videos and animation;
    - o Informative material on exchanging banknotes/note refund rules; and
    - o Interactive games and posters.

Implementation Status of Goals

Automation of Banknote Handling Process

VIII.14 In order to upgrade the infrastructure and processes for currency management, the Reserve Bank is in the process of engaging a consultant to get the technical assistance required for inducting modern technology and automating the processes of banknote handling, in a green-field facility on a pilot basis. This is expected to automate receipt, storage, processing and destruction of banknotes; foster economies of scale; make the currency management function more efficient; and also fulfil the objective of clean note policy of the Reserve Bank (Box VIII.1).

Microsite for Banknotes

VIII.15 The development of the microsite, which will host basic information on features of banknotes and information relating to currency management is in progress. The microsite shall provide a platform to the public to access information on banknotes such as information on design and security features through 360-degree view of the banknotes, various multimedia (videos and animation) and interactive games, with simple and efficient navigation.

Other Major Activities

Procurement of New Security Features for Indian Banknotes

VIII.16 The Reserve Bank is actively involved in taking the process of procurement of security features for banknotes forward.

Box VIII.1
Automation of Banknote Handling Process

The issuance and management of currency is enshrined in the preamble of the Reserve Bank. In order to ensure the availability of clean and fit notes in adequate quantities in the system, the Reserve Bank manages the issuance and distribution of good quality genuine notes and retrieval of mutilated/soiled notes from the circulation thereof through around 3,054 Currency Chests (CCs) operated by the scheduled banks under an agency agreement with the Reserve Bank.

The banknotes in circulation have been growing along with the rise in digital payments. The volume of banknotes in circulation has doubled in the last decade, from 5,654.9 crore pieces in 2009-10 to 11,597.7 crore pieces in 2019-20 and reached 12,436.7 crore pieces as on March 31, 2021. Further, with the increase in banknotes in circulation commensurate increase in the requirement for soiled notes processing is anticipated.

This has necessitated a relook at the present system of cash management and a need is felt to automate the handling of banknotes by adopting modern technology, which is in line with the leading global practices.

Globally, many central banks/monetary authorities have proactively adopted suitable re-engineering of their currency management processes and have set up separate facilities to automate handling of banknotes. These countries have since reaped economic benefits due to automated handling and processing of banknotes, which brought about efficiency in operations, ensured process integrity and improved security. Such countries include France, Germany, Hungary, Japan, USA, to name a few.

In India, the Reserve Bank has initiated the process of automating banknote handling procedure, as a pilot project in a green-field facility, involving the following work:

- Receipt, storage, retrieval, processing of banknotes received from CCs and destruction of soiled banknotes in an automated manner;
- Identification of mutilated/ counterfeit/ defective/ imperfect notes during automated processing of the banknotes on Currency Verification and Processing Systems (CVPS), online and offline shredding and briquetting of soiled banknotes in a mechanised and secure manner and further disposal of the briquettes; and
- Automated receipt and storage of fresh banknotes received from the printing presses, retrieval and despatch of the fresh banknotes to the identified Issue Offices/CCs.

This automation can generate economies of scale, make the currency management function more efficient and enhance the objective of clean note policy of the Reserve Bank for the benefit of public.

Source: RBI.

Integration of Currency Management Functions with Core Banking Solution (e-Kuber)

VIII.17 With the implementation of phase I and phase II of the Currency Management Module (CyM) in *e-Kuber*; the accounting of currency transactions is reflected in the Reserve Bank's books in near real time basis. Some ancillary functionalities of Phase III of CyM module are under various stages of development/implementation.

Introduction of Varnished Banknotes - Field Trial

VIII.18 The Reserve Bank is in the process of introducing varnished banknotes in ₹100 denomination on a field trial basis with a view to elongate the life of the banknote.

4. Bharatiya Reserve Bank Note Mudran Private Ltd. (BRBNMPL)

VIII.19 BRBNMPL is a wholly owned subsidiary of the Reserve Bank, which is playing a crucial role in the indigenisation of banknote production processes. The captive Ink Manufacturing Unit (IMU), which was set up by BRBNMPL within its Mysuru press premises, has an installed capacity to manufacture 1,500 metric tonnes (MT) of Offset, Intaglio, Numbering and Colour Shift Intaglio Inks (CSII) per annum in two shift operations. While the production of Offset, Intaglio and Numbering inks commenced from August 2018 and that of CSII from March 2019, the entire requirement of

Offset, Intaglio, Numbering and CSII for the year 2019-20 onwards has been met by the in-house manufacturing unit of BRBNMPL. BRBNMPL is also supplying CSII to the two currency printing presses of Security Printing and Minting Corporation of India Ltd. (SPMCIL). During 2020, with the installation of in-house varnish making plant, the company has become self-sufficient in different type of varnishes required including varnish for CSII. This marks a significant step towards backward integration and achieving its ultimate goal of complete indigenisation of banknote production processes.

5. Agenda for 2021-22

VIII.20 During the year, the Department will focus on the following:

- Procurement of new Shredding and Briquetting Systems (SBS) [*Utkarsh*];
- Augmentation of disposal of soiled notes; and
- Establishment of a state-of-the-art facility for conducting cutting edge research to test robustness of security features of currency notes and introduction of new security features.

6. Conclusion

VIII.21 In sum, during the year 2020-21, the Reserve Bank remained focused on strengthening the currency management infrastructure, enhancing public awareness on different features of Indian banknotes and making adequate quantity of clean notes available to the public. Going ahead, the Reserve Bank's endeavour would be to enhance the lifespan of banknotes, automate the handling and processing of notes, and rationalise the available infrastructure for maximum utilisation.

IX PAYMENT AND SETTLEMENT SYSTEMS AND INFORMATION TECHNOLOGY

With rapid advancement of technology and advent of new developments and innovations in the payments ecosystem, the Reserve Bank enhanced its focus on safety and security of payment systems. In addition, the Reserve Bank continued its efforts to nurture efficiency, innovation, competition, customer protection and financial inclusion. Implementation of round-the-clock RTGS within a short timeline was a momentous milestone in this journey. Going ahead, the Reserve Bank's endeavour would be to promote innovation in the financial sector by leveraging on technology for a sustainable Information and Communication Technology (ICT) infrastructure designed for operational excellence with focus on resilience, reliability, security, integrity and cost efficiency.

IX.1 During the year, the Department of Payment and Settlement Systems (DPSS) continued to work towards the planned development of payment systems as guided by the Reserve Bank's Payment and Settlement Systems Vision 2019-2021 document. The Reserve Bank's primary focus was to (i) facilitate digital penetration; (ii) introduce innovative payment options; (iii) ensure smooth operations notwithstanding the disruptions caused by the COVID-19 pandemic; and (iv) organise consumer awareness campaigns on digital payments, which are the building blocks to achieve the objective of a "less-cash" society. The Department of Information Technology (DIT), in its swift response to unprecedented challenges due to COVID-19 pandemic and to keep pace with the fast-changing technology landscape, adopted a proactive approach by leveraging on technology. The Reserve Bank continued its efforts to graduate its ICT infrastructure to next generation applications with an inbuilt architecture for operational excellence, resilience, scalability and security.

IX.2 Against this backdrop, the following section covers developments in the sphere of payment and settlement systems during the year and also takes stock of the implementation status of the agenda for 2020-21. Section 3 provides various measures undertaken by the DIT during the year *vis-à-vis* the agenda set for 2020-21. These departments have also set out an agenda for 2021-22. The chapter has been summarised at the end.

2. DEPARTMENT OF PAYMENT AND SETTLEMENT SYSTEMS (DPSS)

IX.3 Guided by the Reserve Bank's Payment and Settlement Systems Vision 2019-2021 document, various initiatives were undertaken by the department during the year in the payments ecosystem with continued emphasis on safety, security, efficiency, innovation, competition, customer protection and financial inclusion. The focus was to facilitate digital penetration by enhancing acceptance infrastructure across the country and introducing innovative payment options to deepen the reach of payment systems. Efforts were also directed towards ensuring smooth functioning of all the payment systems notwithstanding disruptions in movement of resources and access to infrastructure caused by the COVID-19 lockdown with varying intensity and duration across various locations in the country. A few initiatives were customised keeping in view social distancing and minimal-contact requirements of the pandemic while making digital payments. The Reserve Bank undertook focused campaigns to improve consumer awareness on digital payments and put in place measures to ensure that the consumer grievances are addressed seamlessly in a timebound manner. The journey towards "less-cash" continued during the year with a rapid growth in digital payments observed with the gradual relaxation in lockdown imposed due to COVID-19.

Payment Systems

IX.4 The payment systems recorded a robust growth of 26.2 per cent in terms of volume during 2020-21 on top of the expansion of 44.2 per cent in the previous year. In terms of value, the contractionary trend which started in the previous year (-1.2 per cent) got further amplified and witnessed a drop of 13.4 per cent, mainly due to lower growth observed in the large value payment system, *viz.,* Real Time Gross Settlement (RTGS) system and decrease in transactions of paper-based instruments. The decline in value of transactions in RTGS is largely attributable to the subdued economic activity. The share of digital transactions in the total volume of non-cash retail payments increased to 98.5 per cent during 2020-21, up from 97.0 per cent in the previous year (Table IX.1).

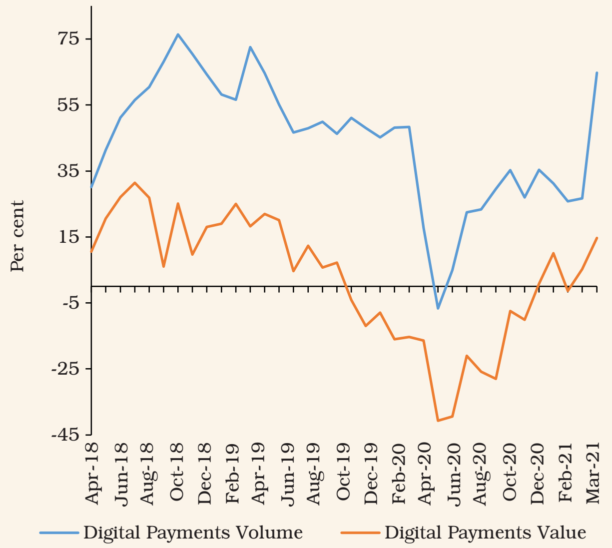
Table IX.1: Payment System Indicators – Annual Turnover (April-March)

Item	Volume (Lakh)			Value (₹ Crore)		
	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21
1	2	3	4	5	6	7
A. Settlement Systems						
CCIL Operated Systems	36	36	28	11,65,51,038	13,41,50,192	16,19,43,141
B. Payment Systems						
1. Large Value Credit Transfers – RTGS	**1,366**	**1,507**	**1,592**	**13,56,88,187**	**13,11,56,475**	**10,55,99,849**
Retail Segment						
2. Credit Transfers	**1,18,481**	**2,06,506**	**3,17,852**	**2,60,90,471**	**2,85,62,857**	**3,35,22,150**
2.1 AePS (Fund Transfers)	11	10	11	501	469	623
2.2 APBS	14,949	16,766	14,373	86,226	99,179	1,12,747
2.3 ECS Cr	54	18	0	13,235	5,145	0
2.4 IMPS	17,529	25,792	32,783	15,90,257	23,37,541	29,41,500
2.5 NACH Cr	8,834	11,290	16,450	7,29,673	10,43,212	12,32,714
2.6 NEFT	23,189	27,445	30,928	2,27,93,608	2,29,45,580	2,51,30,910
2.7 UPI	53,915	1,25,186	2,23,307	8,76,971	21,31,730	41,03,658
3. Debit Transfers and Direct Debits	**4,914**	**7,525**	**10,456**	**5,24,556**	**7,19,708**	**8,72,552**
3.1 BHIM Aadhaar Pay	68	91	161	815	1,303	2,580
3.2 ECS Dr	9	1	0	1,260	39	0
3.3 NACH Dr	4,830	7,340	9,630	5,22,461	7,18,166	8,68,906
3.4 NETC (Linked to Bank Account)	6	93	650	20	200	913
4. Card Payments	**61,769**	**72,384**	**57,841**	**11,96,888**	**14,34,814**	**12,93,822**
4.1 Credit Cards	17,626	21,773	17,641	6,03,413	7,30,895	6,30,414
4.2 Debit Cards	44,143	50,611	40,200	5,93,475	7,03,920	6,62,667
5. Prepaid Payment Instruments	**46,072**	**53,318**	**49,392**	**2,13,323**	**2,15,558**	**1,97,695**
6. Paper-based Instruments	**11,238**	**10,414**	**6,704**	**82,46,065**	**78,24,822**	**56,27,189**
Total – Retail Payments (2+3+4+5+6)	2,42,473	3,50,147	4,42,229	3,62,71,303	3,87,57,759	4,15,12,514
Total Payments (1+2+3+4+5+6)	2,43,839	3,51,654	4,43,821	17,19,59,490	16,99,14,234	1471,12,363
Total Digital Payments (1+2+3+4+5)	**2,32,602**	**3,41,240**	**4,37,118**	**16,37,13,425**	**16,20,89,413**	**14,14,85,173**

Note: 1. RTGS system includes customer and inter-bank transactions only.
2. Settlements of CBLO, government securities and forex transactions are through the Clearing Corporation of India Ltd. (CCIL). Government Securities include outright trades and both legs of repo transactions and triparty repo transactions. With effect from November 5, 2018, CCIL discontinued CBLO and operationalised triparty repo under securities segment.
3. The figures for cards are for payment transactions at point of sale (PoS) terminals and online.
4. Figures in the columns might not add up to the total due to rounding off of numbers.

Source: RBI.

Chart IX.1: Digital Payments Y-o-Y Growth



Source: RBI.

IX.5 The nationwide lockdown due to COVID-19 pandemic resulted in decline in payments during its initial phase. However, the value and volume of payments subsequently picked up with the gradual relaxations in lockdown (Chart IX.1).

Digital Payments

IX.6 Amongst the electronic modes of payments, the number of transactions undertaken using RTGS increased by 5.7 per cent during the year, with value amounting to ₹1,056 lakh crore, resulting in a decline in value by 19.5 per cent from the previous year, mainly on account of reduction in large value transactions of corporates in line with slowdown in economic activity. At the end of March 2021, the RTGS facility was available through 1,75,947 branches of 227 banks. Transactions through National Electronic Funds Transfer (NEFT) system rose by 12.7 per cent during the year. At the end of March 2021, the NEFT facility was available through 1,75,283 branches of 225 banks.

IX.7 During 2020-21, the number of card payment transactions carried out through credit cards and debit cards decreased by 19.0 per cent and 20.6 per cent, respectively. This resulted in a decrease in value of credit card transactions by 13.7 per cent and debit card transactions by 5.9 per cent during the same period. Prepaid Payment Instruments (PPIs) recorded contraction in volume by 7.4 per cent during the year as against a growth of 15.7 per cent a year ago, while the transaction value at 1.97 lakh crore was lower by 8.3 per cent *vis-à-vis* last year. The number of Points of Sale (PoS) terminals increased by 6.5 per cent to 47.20 lakh and the number of Bharat Quick Response (BQR) codes deployed increased by 76.0 per cent to 35.70 lakh as at end-March 2021. Further, the number of ATMs marginally increased by 2.0 per cent from 2.34 lakh at end-March 2020 to 2.38 lakh at end-March 2021.

Authorisation of Payment Systems

IX.8 Payments System Operators (PSOs) comprise PPI issuers, Cross-border Money Transfer Service Scheme operators, White Label ATM (WLA) operators, Trade Receivables Discounting System (TReDS) platform operators, ATM networks, Instant Money Transfer Service providers, Card Payment Networks and Bharat Bill Payment Operating Units (BBPOUs), besides Clearing Corporation of India Ltd. (CCIL) and National Payments Corporation of India (NPCI) [Table IX.2.]

Table IX.2: Authorisation of Payment System Operators (as at end-March)

(Number)

Entities	2020	2021
1	2	3
A. Non-Banks – Authorised		
PPI Issuers	43	36
WLA Operators	8	4
Instant Money Transfer Service Providers	1	1
BBPOUs	9	8
TReDS Platform Operators	3	3
Cross-border Money Transfer Service Scheme Operators	9	9
Card Networks	5	5
ATM Networks	2	2
B. Banks – Approved		
PPI Issuers	62	56
BBPOUs	39	42
Mobile Banking Providers	540	566
ATM Networks	3	3

Note: Validity period of Certificate of Authorisation (CoA) granted to three non-bank PPI issuers was not extended. One PPI issuer voluntarily surrendered while three non-bank PPI issuers are under the process of voluntarily surrendering their CoA. The CoAs of two WLAOs were revoked, one WLAO ceased operation and one WLAO is under the process of voluntarily surrendering the CoA along with one BBPOU. Consequent upon amalgamation of six public sector banks, the number of bank PPIs have reduced.
Source: RBI.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

IX.9 Last year, the Department had set out the following goals:

- ***Encouraging Healthy Competition***
  - o *Offline Payment Systems*: Offline payments through mobile devices and stored value component on cards will be made available to boost digital payment modes, and a pilot scheme will be tested to gain experience for a fuller roll-out of the scheme (Para IX.11).
- ***Improving Customer Convenience***
  - o *Online Dispute Resolution (ODR)*: A phased approach to implementing an ODR system across various payment systems is proposed to be undertaken, beginning with implementation for failed transactions for all authorised payment systems (*Utkarsh*) [Para IX.16];
  - o *Self-Regulatory Organisation*: A framework for creation of a Self-Regulatory Organisation (SRO) for engaging with the regulator/ supervisor and also responsible for setting and enforcing rules for the PSOs as announced in the Reserve Bank's Statement on Developmental and Regulatory Policies of February 6, 2020, will be formalised (Para IX.17); and
  - o *Pan-India Cheque Truncation System*: All Express Cheque Clearing System (ECCS) centres will be merged with the Cheque Truncation System (CTS) grids to facilitate cheque collection services by banks (Para IX.18).
- ***Ensuring Affordable Cost***
  - o *Legal Entity Identifier (LEI)*: The use of LEI to identify payment system participants, agents and distributors in respect of cross-border services, particularly for large value payments, including expanding the implementation across all the identified segments will be explored (Para IX.23).

- ***Increasing Confidence***
  - o *Digital Payments Index*: The Reserve Bank in its Statement on Developmental and Regulatory Policies of February 6, 2020 announced that the Reserve Bank would construct and periodically publish a composite "Digital Payments Index (DPI)" [Para IX.25].

Implementation Status of Goals

IX.10 In the 'Payment and Settlement Systems in India: Vision 2019-2021', DPSS had identifi ed four goal-posts, *viz.,* competition, cost, convenience, and confi dence, for achieving its vision.

Encouraging Healthy Competition

Offline Payment Systems

IX.11 The Reserve Bank allowed authorised PSOs – banks and non-banks – to conduct a pilot scheme for offl ine payment solutions using cards, wallets or mobile devices for remote or proximity payments to encourage technological innovations that enable offl ine digital transactions. The availability of such options to make offl ine payments is expected to boost the use of digital payments, which are constrained by the absence of, or erratic, internet connectivity, especially in remote areas. Post completion of the pilot scheme, the Reserve Bank shall decide on implementing offl ine payment systems based on the experience gained.

Framework for Authorisation of Pan-India Umbrella Entity for Retail Payments

IX.12 The Reserve Bank released a framework, stipulating eligibility criteria, scope and governance structure for entities interested in setting up a pan-India umbrella entity for retail payments. The applications for authorisation were required to be submitted till February 26, 2021, which was extended by a month till March 31, 2021.

Enabling Posting of Settlement Files of Payment Systems on All Days of the Week

IX.13 With the operationalisation of RTGS on 24x7 basis, the Reserve Bank permitted NPCI to post additional settlement files of payment systems operated by them for settlement on weekends as well as holidays with effect from January 3, 2021. This measure helped to reduce build-up of settlement and default risks in ancillary payment systems and enabled better management of funds by member banks, which in turn enhanced the overall efficiency of the payments ecosystem.

Maintenance of Escrow Account with Scheduled Commercial Banks

IX.14 The Reserve Bank permitted authorised non-bank PPI issuers and Payment Aggregators (PA) to maintain an additional escrow account in a different scheduled commercial bank. This measure has helped diversify risk and address business continuity concerns.

Inter-Regulatory and Intra-Regulatory Co-ordination

IX.15 The Reserve Bank set up two separate committees, *i.e.,* (i) Inter-Regulatory Committee comprising sectoral regulatory authorities, *viz.,* Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI), Telecom Regulatory Authority of India (TRAI), Ministry of Electronics and Information Technology (MeitY) and Department of Telecommunications (DoT); and (ii) Intra-Regulatory Committee comprising various regulatory and supervisory departments of the Reserve Bank. The committees are expected to ensure co-ordinated approach to regulation, remove frictions and ease system operator/ customer comfort.

Improving Customer's Convenience

Online Dispute Resolution (ODR)

IX.16 The Reserve Bank advised authorised PSOs to implement an ODR system for disputes and grievances related to failed transactions in their respective payment systems by January 1, 2021. The ODR system was conceptualised as a rule-based technology-driven customer-friendly mechanism for resolving customer grievances and disputes with zero or minimal manual intervention. This will provide a quick, affordable and accessible dispute resolution system for customers. With the possibility of customer grievances increasing in line with the manifold increase in digital transactions, the ODR system will eliminate the requirement of additional manpower at PSOs to handle disputes / grievances.

Self-Regulatory Organisation (SRO)

IX.17 The Reserve Bank released a framework for recognition of SRO for PSOs on October 22, 2020. SRO shall set and enforce rules and standards relating to the conduct of member entities in the industry, with the aim of protecting the customer and promoting ethical and professional standards, including addressing larger concerns, such as protecting customers, furthering training and education and striving for development of members, the industry and the ecosystem as a whole.

Pan-India Cheque Truncation System (CTS)

IX.18 In its Statement on Developmental and Regulatory Policies of February 6, 2020, the Reserve Bank announced that a pan-India CTS would be made operational. Accordingly, all 1,219 ECCS clearing houses across the country closed their cheque clearing operations voluntarily in terms of Regulation 25 of the Uniform Regulations and Rules for Bankers Clearing Houses (URRBCH) and migrated to CTS grids. Further, to leverage the availability of CTS and provide uniform customer experience irrespective of location of bank branch, banks were advised to ensure that all their branches participate in image-based CTS by September 30, 2021.

24x7 Availability of RTGS System

IX.19 The Reserve Bank made available the RTGS system 24x7 on all days of the year from 00:30 hours on December 14, 2020. India has become one of the few countries across the world where RTGS system operates round the clock throughout the year. Round the clock availability of RTGS has provided extended flexibility to businesses for effecting payments and enabled introduction of additional settlement cycles in ancillary payment systems.

Digital Payment Transactions – Streamlining QR Code Infrastructure

IX.20 The Reserve Bank mandated that existing proprietary QR codes shall migrate to interoperable QR codes by March 31, 2022 and there shall not be further issuance of proprietary QR codes. These measures are expected to strengthen the acceptance infrastructure and enhance customer convenience due to interoperability and augment system efficiency.

Card Transactions in Contactless Mode – Relaxation in Requirement of Additional Factor of Authentication (AFA)

IX.21 The Reserve Bank enhanced the per transaction limit permitted for contactless transactions (also known as tap and pay transactions) using Near Field Communication enabled EMV chip cards without the need for AFA from ₹2,000 to ₹5,000. The COVID-19 pandemic had underlined the benefits of contactless transactions and the limits were enhanced keeping in mind the sufficient protection available to consumers. The enhanced limits were effective from January 1, 2021.

Processing of e-Mandates for Recurring Transactions

IX.22 The Reserve Bank advised that processing of recurring transactions (domestic and cross-border) using cards/PPIs/UPI under arrangements/practices not compliant with the extant framework for such transactions shall not be continued beyond September 30, 2021.

Ensuring Affordable Costs

Legal Entity Identifier (LEI)

IX.23 LEI number facilitates unique identification of the parties involved in financial transactions worldwide, thereby, improving quality and accuracy of financial data systems and ensuring better risk management post the global financial crisis. In India, LEI is being rolled out in a phased manner for participants in the over the counter (OTC) derivative and non-derivative markets as also for large corporate borrowers. The Reserve Bank decided to introduce the LEI number for all payment transactions of value ₹50 crore and above, undertaken by entities (non-individuals) using centralised payment systems, *viz.,* RTGS and NEFT.

Operationalisation of PIDF

IX.24 The Reserve Bank operationalised PIDF in January 2021 to encourage acquirers to deploy payment acceptance infrastructure in tier-3 to tier-6 centres and north eastern states. The Reserve Bank contributed ₹250 crore to the initial corpus of PIDF and the card networks and card issuing banks have contributed around ₹200 crore. Further, recurring contribution on half yearly basis would be made by card networks and card issuing banks based on the outstanding cards. The scheme envisages creation of 30 lakh new touch points every year for digital payments across the country during 2021-23. An Advisory Council under the chairmanship of Deputy Governor-in-Charge of DPSS, consisting of representatives from card networks, card payment industry, IBA and NABARD, was set up to manage and govern the PIDF.

Increasing Customer Confidence

Digital Payments Index (DPI)

IX.25 The Reserve Bank constructed and published a composite DPI to effectively capture the extent of digitisation of payments across the country (Box IX.1).

Positive Pay System for CTS

IX.26 In order to augment customer safety in cheque payments and reduce instances of fraud occurring on account of tampering of cheque leaves, the Reserve Bank announced a concept of Positive Pay Mechanism for all cheques of value ₹50,000 and above. Under this mechanism, cheques are processed for payment by the drawee bank based on information passed on by its customer at the time of issuance of cheque. Positive Pay System was implemented from January 1, 2021.

Perpetual Validity for CoA Issued to PSO

IX.27 The Reserve Bank decided to grant authorisation for all PSOs (both new and existing) on a perpetual basis, subject to the usual conditions. For existing authorised PSOs, grant of perpetual validity shall be examined as and when the CoA becomes due for renewal subject to their adherence to specified conditions. While allowing the perpetual authorisation, the Reserve Bank has relied on the robust system for monitoring performance of regulated entities through onsite inspection and offsite surveillance and monitoring mechanism. The measure shall reduce licensing

Box IX.1
Reserve Bank of India – Digital Payments Index (RBI-DPI)

In the recent past, the payments ecosystem in India has witnessed many developments, resulting in a bouquet of payment systems and platforms, payment products and services, which are available for consumers for undertaking digital payments, be they individuals, firms, corporates, governments or other economic agents. To ensure continued progress and also understand the impediments and areas that require focused attention, the Reserve Bank delineates its Payment System Vision at triannual intervals, releases periodic data/statistics relating to payment systems performance and undertakes surveys, apart from participating in discussions/meetings of global standard setting bodies like Financial Stability Board (FSB) and Committee on Payments & Market Infrastructures (CPMI).

In this continuum, it is imperative to measure and track digital payments growth and impact over time by constructing a composite index covering the entire gamut of the payment ecosystem in the country. Accordingly, the DPI has been conceived, by adopting scientific tools based on statistical and empirical data for its construction. Theoretically, index score is a technique of measuring changes in a variable or group of related variables with respect to time, geographical location or other characteristics. It measures the relative changes in a variable or group of variables over a previous period known as the base period.

The DPI constructed by the Reserve Bank (RBI-DPI), is a first-of-its kind index and is envisaged as a score to measure the diffusion and deepening of digital payments across the country. To capture this, the RBI-DPI has five broad parameters, which, in turn have sub-parameters and indicators, with appropriate weights for each of them to signify their relative importance in the digital payments ecosystem as shown below (Table 1).

Table 1: Broad Parameters under RBI-DPI

Parameters	Weight (Per cent)	Indicators
1	2	3
1. Payment Enablers	25	Internet users, mobile users, Aadhaar numbers, bank accounts, digital payment facilitators, and payment system members.
2. Payment Infrastructure - Demand-side Factors	10	Payment and other instruments issued, customer registrations for mobile and internet banking, and FASTags.
3. Payment Infrastructure - Supply-side Factors	15	Physical and digital payment acceptance points, and payment intermediaries.
4. Payment Performance	45	Volume and value of various payment systems, unique users in such systems, cheque transactions, cash withdrawals using cards, and cash estimates.
5. Consumer Centricity	5	Consumer awareness and education initiatives, declines, complaints, frauds, and system downtime.

Source: RBI.

Keeping in mind the significant developments in the payments landscape in recent times (period post demonetisation and payment systems vision 2021), March 2018 has been taken as the base period (*i.e.,* RBI-DPI score for March 2018 is set as 100). The DPI for March 2019 and March 2020 worked out to 153.47 and 207.84, respectively, indicating appreciable growth. Going forward, the RBI-DPI shall be published on semi-annual basis from March 2021 onwards with a lag of 4 months.

uncertainties and enable PSOs to focus on their business as also to optimise utilisation of regulatory resources.

Authorisation of Entities for Operating a Payment System – Introduction of Cooling Period

IX.28 The Reserve Bank introduced the concept of cooling period in certain situations like revocation or non-renewal, voluntary surrender, and rejection of application submitted for grant of CoA. This concept will also be applicable to any new entity, which is set-up by promoters involved in any of the above categories. This measure shall inculcate discipline and encourage submission of applications by serious players as also ensure effective utilisation of regulatory resources. It was decided that the cooling period shall be for one year from the date of revocation/non-renewal/ acceptance of voluntary surrender/rejection of application, as applicable and during this period entities shall be prohibited from submission of applications for operating any payment system under the Payment and Settlement Systems (PSS) Act.

Guidelines on Regulation of Payment Aggregators (PAs) and Payment Gateways (PGs)

IX.29 In terms of extant instructions issued by the Reserve Bank on regulation of PAs and PGs, PAs cannot store customer card credentials within their database or the server [*i.e.* Card-on-File (COF)]. Similarly, their on-boarded merchants cannot store the payment data of their customers. As a one-time measure, the Reserve Bank extended the timeline by six months till December 31, 2021 for implementing the aforesaid instructions by non-bank PAs.

Other Developments

UPI/RuPay International Outreach Initiatives

IX.30 The Reserve Bank continued its efforts towards global outreach of its payment systems, including remittance services. In view of the potential of UPI to provide for stronger bilateral business and economic partnership with other jurisdictions, the Reserve Bank had written to other central banks highlighting the features of UPI as an efficient and secure system, which can be used to transform retail payment mechanisms globally and at the same time promote financial inclusion. The Reserve Bank also participated in regional outreach programmes organised by the Bank for International Settlements (BIS), where the possibility of leveraging UPI system to facilitate cross-border transactions was presented to participants.

Supervision of Payment Systems

IX.31 During 2020-21, onsite inspection/off-site assessments of 32 entities, *viz.,* CCIL, 26 PPI issuers, one ATM Network, one WLA operator, and three TReDS platform operators was carried out by the Reserve Bank under Section 16 of the PSS Act.

Inspection of CCIL

IX.32 The Reserve Bank conducted the onsite inspection of CCIL under Section 16 of the PSS Act. CCIL was assessed against the 24 Principles for Financial Market Infrastructures (PFMIs) formulated by the Committee on Payments and Market Infrastructures-International Organisation of Securities Commissions (CPMI-IOSCO). As Central Counterparty (CCP), CCIL was rated 'Observed' for 17 principles and 'Broadly Observed' for three, while four were 'Not Applicable' to it. As Trade Repository (TR), CCIL was rated 'Observed' for 10 principles, 'Broadly Observed' for one, while 13 were 'Not Applicable'.

Developments in CCIL

IX.33 During the year, despite facing challenges due to the COVID-19 pandemic, CCIL managed its operations smoothly. There was no disruption in operations even during the power outage in Mumbai on October 12, 2020. CCIL finalised implementation of extended clearing membership structure in rupee derivatives and forex forward segments and revised intra-month additional contribution to default fund when stress loss exceeds specific threshold of pre-funded resources. CCIL improved risk management further by fixing lower limits based on internal rating and stepping up haircut rates for weaker entities; and also extended the FX-Retail platform by introducing booking and cancelling facility for forward contracts for bank customers besides operationalising 'Request for Quote' (RFQ) module on negotiated dealing system (order matching).

e-Baat Programmes and Awareness Campaigns

IX.34 The Reserve Bank has been conducting electronic banking awareness and training (e-BAAT) programmes regularly for the benefit of cross-section of customers/bankers/students/public. The aim of these programmes was to educate the masses to move their focus of payments from physical presence of money to electronic money payments through various forms. During July 2020-March 2021, 178 e-BAAT programmes were conducted by the regional offices, in which financial literacy on electronic payment systems, their benefits and issues related to cyber security were explained to the participants consisting of bank staff, customers, students and the common man.

IX.35 The Reserve Bank advised all authorised PSOs and their participants to undertake targeted multilingual campaigns by way of SMSs and advertisements in print and visual media to educate their users on safe and secure use of digital payments.

IX.36 Aarogya Setu is a mobile application developed by the Government of India to connect essential health services with the people of India in the fight against COVID-19 pandemic. In order to spread awareness about the *Aarogya Setu* app to the general public, the Reserve Bank advised all authorised PSOs to display a banner on it on their website and app, to encourage maximum downloads.

Payment Systems Booklet

IX.37 The Reserve Bank released a Booklet on Payment Systems covering the journey of payment and settlement systems in India during the second decade of the millennium, *viz.,* from the beginning of 2010 till the end of 2020. The booklet captures the transformation of India in the sphere of payment and settlement systems and describes, *inter-alia*, the legal and regulatory environment underpinning the digital payments systems, various enablers, payment options available to consumers and extent of adoption.

FinTech-related Activities

IX.38 The Indian FinTech industry as it stands today is the result of unique concoction of India's technological enablers, regulatory interventions, business opportunities as well as certain other unique characteristics, which have led to the establishment of the third largest start-up ecosystem in the world[1]. As the COVID-19 pandemic continued to create uncertainty, stress has emerged for some FinTechs, while some others gained from new business opportunities the pandemic provided. However, as the broader economy shifts from "respond" to "recover", new employment opportunities may be created by some FinTechs (Box IX.2).

Reserve Bank Innovation Hub

IX.39 The Reserve Bank in its Statement on Developmental and Regulatory Policies of August 6, 2020, announced that Reserve Bank Innovation Hub (RBIH) will be set up to promote innovation across the financial sector by leveraging on technology and creating an environment which would facilitate and foster innovation. Accordingly, RBIH has been incorporated as a Section 8 company under the Companies Act, 2013, with registered office at Hyderabad. In order to guide and manage RBIH, the Reserve Bank had set up a Governing Council (GC) with Shri Senapathy (Kris) Gopalakrishnan, co-founder and former co-chairman of Infosys as the first Chairperson and other members comprising of industry stalwarts

[1] Start-up India portal, Government of India.

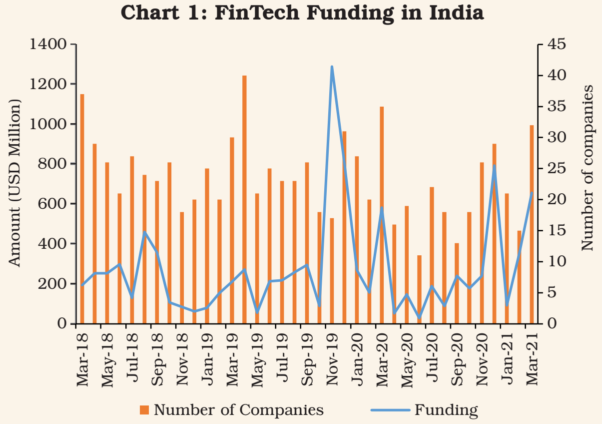
Box IX.2
FinTech Activity in India: Funding and Employment Trends during COVID-19

Over the past year, COVID-19 pandemic has brought to fore the crucial role of technology amidst widespread adoption of social distancing and work-from-home culture. While many economic and financial indicators continued to slide into negative territory throughout 2020, the enthusiasm towards start-ups did not wane drastically. Many in fact believe that this Black Swan event would lead to a creative disruption, with a reorientation of investment towards new ideas. Data from Tracxn show that despite the global economic slowdown, US$ 56.1 billion were invested into the FinTech sector globally during 2020-21 (April-March), as compared with US$ 84.8 billion in 2019 and US$ 77.8 billion in 2018. The US and Canada continued as the leading geographies for new companies, followed by Europe.

In 2020-21, nearly US$ 3 billion was invested in Indian FinTech (approximately US$ 4.5 billion last year), indicating a tempering of investor sentiment due to the economic slowdown [Chart 1, (Tracxn, 2021)]. Nevertheless, monthly trends indicate a revival of investor sentiment as the economic shock of the pandemic wears off.

Besides promoting financial inclusion, FinTech can also provide impetus to growth and employment (Phillippon, 2017, Sahay *et al.*, 2020). Empirical analysis of employment trends in Indian FinTech using random-effect panel data model provides some interesting perspectives (Table 1). With appropriate controls for company scale and funding stage, it is seen that the amount of funds raised is an important determinant of employee count. Also, more mature firms in later funding stages are more likely to have higher employment strength. An assessment of the operational domains indicates that online insurance providers are more probable to have higher employee count (due to the need for on-ground staff of surveyors), while highly specialised FinTechs such as those in the accounting technology domain are more likely to operate with very few highly skilled employees.

Chart 1: FinTech Funding in India



Source: Tracxn, 2021

Table 1: Panel Data Estimation Results

Dependent Variable: Employee Count	Model 1 Coefficient (Std. Error)	Model 2 Coefficient (Std. Error)
1	2	3
Funds Raised (Current Quarter)	0.00000741*** (0.00000124)	0.00000715*** (0.00000124)
Funding Round Stage		
Seed	-90.8 (131.2)	-90.7 (131.2)
Series A	-164.1 (140.3)	-149.7 (140.6)
Series B	-217.1 (154.4)	-199.5 (154.7)
Series C	-45.5 (174.6)	-36.7 (174.9)
Series D	-206.6 (217.9)	-198.4 (218.5)
Series E	596.5 (425.5)	857.2** (409.9)
Series F	6199.6 *** (506.3)	6277.2*** (501.4)
Series G	-3832.0*** (1354.5)	-3491.7*** (1343.7)
Annual Revenue	0.00000142 (0.000000917)	0.00000179* (0.000000924)
Sector - Insurance		200.0* (105.9)
Sector - Finance and Accounting	-251.8*** (122.7)	
Constant	433.2 (385.4)	166.9 (367.5)
No. of observations	158	158
Wald chisq. (p-value)	794.5 (0.000)	802.3 (0.000)

Note:
1. Sample Period: 2018Q4 - 2020Q3.
2. Both specifications control for the start-ups' highest stage of funding reached.
3. Hausman test and Breusch-Pagan LM test support the Random Effects specification.
4. *, **, ***: indicate the statistical significance at 1 per cent, 5 per cent and 10 per cent, respectively.
5. Start-ups tend to raise equity in successive pitches or rounds (Seed, Series A, B, C and so on), which broadly follow the growth/scale of the business, and serve the needs of the business in that stage. Early rounds may be used to establish a foothold in the market, while later rounds can be used for expansion.

Source: RBI staff estimates.

(Contd.)

With start-ups expected to create jobs for a burgeoning and aspirational youth segment, these results provide two policy takeaways. First, while it is important to freely channelise productive investment into the start-ups, preferential policies may help in the growth of sub-sectors that have potential for low and semi-skilled job creation. Second, it is important not only to have an ecosystem that promotes new entrepreneurial ventures, but also one that helps in capacity building of domestic start-ups and handholds/nudges them to scale up.

While FinTech firms initially suspended operations during the lockdown due to the uncertain impact of COVID-19 on their risk and business models, the stress started to diminish later in the year and considerable optimism remains about the sector. Their operations do not directly depend on movement of goods and people, and they are more suited for work-from-home culture. The pandemic has also presented an opportunity to expand operations, as the general public is expected to emerge out of the crisis more comfortable with using new technology (NPCI, 2021).

References:

1 NPCI (2021), 'Digital Payments Adoption in India, 2020', January 14.

2 Phillippon, T. (2017), 'The FinTech Opportunity', *BIS Working Paper No.* 655, August.

3 Sahay, R., von Allmen, U., Lahreche, A., Khera, P., Ogawa, S., Bazarbash, M., and Beaton, K. (2020), 'The Promise of Fintech: Financial Inclusion in the Post COVID-19 Era', *Monetary and Capital Markets Departmental Paper Series* No. 20/09, IMF.

4 Tracxn (2021), Database accessed on May 5, 2021.

and from academia. The setting up of the RBIH is a continuation of the efforts of the Reserve Bank to keep up with technological evolution in the finance space, with a more active involvement and intention of shaping an organised evolution rather than passively adapting to random changes. The RBIH is expected to create an eco-system for idea generation and development, through collaboration with tech innovators, as well as the academia.

Regulatory Sandbox (RS) – Cohorts – Test Phase

IX.40 The Enabling Framework for Regulatory Sandbox (RS) was placed on the website on August 13, 2019, followed by the announcement of 'Retail Payments' as the theme of the first cohort. The testing of the products of six entities selected under the first cohort commenced from November 16, 2020. Four of the entities have completed the 'Test Phase', and the final assessment of the results of the testing process is being undertaken quantitatively and qualitatively based on the mutually agreed test scenarios and expected outcomes and adherence to the conditions stipulated for testing. The remaining two entities are still testing their products. The delay in completion of the test phase for these entities was on account of technical glitches, operations issues, disruptions, and inconveniences due to COVID-19 pandemic.

IX.41 To encourage innovation and broaden the eligibility criteria for the applicants to participate in RS, the modified 'Enabling Framework' was published on December 16, 2020. The net worth requirement was reduced from the existing ₹25 lakh to ₹10 lakh. Partnership Firms and Limited Liability Partnerships were also permitted to participate in the RS.

IX.42 To foster innovations capable of recasting the cross-border payments landscape, the second cohort under the RS with 'Cross Border Payments' as its theme was announced on December 16, 2020. A total of 27 applications was received under the second cohort. These applications are being scrutinised as per the approved standard operating procedure. Further, it was also decided that the theme for next cohort shall be 'MSME Lending' in order to foster innovation in lending to MSMEs.

RegTech Solutions for Effective and Focused Regulations

IX.43 The Reserve Bank has entered into Cooperation Agreement (CoA) on FinTech with International Finance Corporation (IFC) — a member of the World Bank Group (WBG). Under the scope of CoA, among others, IFC will provide knowledge/advisory support on RegTech/ SupTech initiatives. Further, an exploratory survey was conducted among a few Regulated Entities (REs) in order to assess the level and extent of RegTech adoption as well as to understand existing/potential use of RegTech by REs, risks and challenges faced and the expectations of REs from the regulators. The survey has given fair insight into the level of adoption of RegTech in the country.

IX.44 The Reserve Bank has joined the Global Financial Innovation Network (GFIN), a network of over 50 organisations committed to support financial innovation. GFIN has three work streams, namely (i) "Collaboration", which focuses on how to help regulators in collaborating and sharing of experiences of innovation, (ii) "Cross-Border Testing", which focuses on running cross-border testing of innovative products and services, and (iii) "RegTech and Lessons Learned", which focuses on sharing RegTech knowledge, collaborating on areas of mutual interest such as potential cross jurisdictional efficiency. Participation in any of the above three work streams of GFIN will help in enhancing the FinTech related activities in India.

Inter - Regulatory Technical Group on FinTech

IX.45 An Inter-Regulatory Technical Group on FinTech (IRTG on FinTech) has been constituted under the aegis of Sub-Committee of the Financial Stability and Development Council (FSDC-SC). The Group is chaired by Chief General Manager (CGM) of DPSS with representatives at the level of the CGM from other financial sector regulators, *viz.,* SEBI, IRDAI, International Financial Services Centres Authority (IFSCA) and Pension Fund Regulatory and Development Authority (PFRDA) and one representative each from the Ministry of Finance and MeitY. During its first meeting held in March 2021, it was decided that financial sector regulators shall co-ordinate and share information among members on their innovation initiatives. Further, members also agreed to suggest models on Inter-Operable RS mechanism for hybrid products/services to facilitate framing of standard operating procedure (SOP).

Agenda for 2021-22

IX.46 The proposed action items under the goal-posts identified in the 'Payment and Settlement Systems in India: Vision 2019-21' are set out below:

Encouraging Healthy Competition

- *Review of Membership to Centralised Payment Systems*: The Reserve Bank shall initiate discussion to develop a framework for settlement risk management with increased participation of non-banks in centralised payment systems.

Improving Customer Convenience

- *On Offline Payment Solutions:* The Reserve Bank had announced that pilot schemes for offline payment solutions would be conducted till March 31, 2021. Based on the experience gained through these pilot schemes, the Reserve Bank shall decide on implementing offline payment solutions in the country;
- *National Settlement Services for Card Schemes:* The Reserve Bank shall explore the possibility of facilitating settlement of card transactions processed by various card payment networks through the accounts of card payment networks

maintained with the Reserve Bank. Settlement of card transactions in Reserve Bank books shall increase confidence in card transactions;

Ensuring Affordable Cost

- *Review of Corridors and Charges for Inbound Cross-Border Remittances*: The Reserve Bank will examine the role that the payment services providers (PSPs) can play to ensure friction free remittances at lower cost.

Increasing Confidence

- *Geo-tagging of Payment System Touch Points:* The Reserve Bank has established a framework to capture the location and business details of commercial bank branches, ATMs and business correspondents (BCs). It is envisaged to extend a similar framework to capture and maintain information about PoS terminals and other payment system touch points as well;
- *Third Party Risk Management and System-wide Security:* The Reserve Bank shall examine the need for a separate regulatory framework for outsourcing arrangements by non-bank payment service providers, given the current trend of outsourcing arrangements and the need for security control and clarity of roles and responsibilities of the regulated entities.

3. DEPARTMENT OF INFORMATION TECHNOLOGY (DIT)

IX.47 The Department of Information Technology (DIT), in its swift response to unprecedented challenges due to COVID-19 pandemic and to keep pace with the fast-changing technology landscape, adopted a proactive approach by leveraging on technology. Its effects were felt in business continuity under pandemic as well as in efficiency upgradation of normal business processes within as well outside the Reserve Bank. The Reserve Bank lined up a slew of measures and implemented environmentally sustainable products and practices, which make the workplaces paperless, collaborative and energy-efficient. A sustainable Information and Communication Technology (ICT) infrastructure, which is adaptive to changing technologies, was driven by the need for operational excellence through focus on resilience, reliability, security, integrity and cost efficiency.

IX.48 The Reserve Bank continued its efforts to graduate its ICT systems to next generation applications with an inbuilt architecture for high-availability, scalability, enhanced security and performance. The security and privacy, which are embedded into the design and architecture of IT systems and practices, are the guiding principles.

IX.49 The uninterrupted functioning of the ICT infrastructure of the Reserve Bank during the pandemic time including the critical payment applications NEFT and RTGS; core banking solution *e-Kuber*; treasury operations for money and forex market; and debt management for the governments (centre and states) indicates the resilience and buoyancy of the Department. The major milestones achieved during the year included support in rapid digitisation of financial services through facilitation of RTGS 24x365; disbursement of domestic defence pension payments through e-*Kuber*; and implementation of paperless office with recently launched "*Sarthi*" (*i.e.,* Electronic Document Management System) application.

Major Initiatives

RTGS 24x365

IX.50 The RTGS system operated by the Reserve Bank of India went live on 24x365 basis at the stroke of midnight of December 14, 2020 (Box IX.3). While India is already recognised as the leader in retail payment systems, the launch of 24x365 RTGS makes India a leader in the large value payment systems across the world. With this development, the country is now ready to be a part of the world, where financial systems are integrated and not dependent on time zones.

Treasury Single Account (TSA) system

IX.51 Following the recommendation of Expenditure Management Commission (EMC) for curtailing the cost of government borrowings and enhancing efficiency of fund flows to Autonomous Bodies (ABs)/Sub-Autonomous Bodies (Sub-ABs),

Box IX.3
RTGS 24x365, Including Lessons from the Country Experience

RTGS system, a large value electronic fund transfer system, enables transfer of funds between any two RTGS enabled bank accounts on real time basis. RTGS, which began its operations on March 26, 2004 with a soft launch involving four banks, now has membership of 242 participants. Since its inception in 2004, RTGS has undergone many changes with a significant one being adoption of ISO 20022 messaging standards in 2013. RTGS operational timings were increased at regular intervals with the last extension implemented on August 26, 2019 by making the RTGS system available between 7:00 AM and 7:45 PM. Before commencing round the clock operations, RTGS system was handling 6.35 lakh transactions daily for a value of ₹4.17 lakh crore.

After successful launch of NEFT on 24x365 basis in December 2019 and smooth operation since then, it was felt that, to support the ongoing efforts aimed at global integration of Indian financial markets, facilitate India's efforts to develop international financial centres and provide wider payment flexibility to domestic corporates and institutions, RTGS system should also be available round the clock. Accordingly, Reserve Bank announced in its Statement on Developmental and Regulatory Policies of October 9, 2020, that the RTGS will be available round the clock on all days of the year. All this culminated with the launch of RTGS 24x365 from December 14, 2020. After the launch, there was slight increase in average daily volume on week days. On March 30, 2021, RTGS system handled all time high of 11.40 lakh customer and inter-bank transactions. RTGS system is at present available on all days including Saturdays, Sundays and National Holidays and at all times except for the time taken to complete the end-of-day activity around midnight.

Lessons from the Country Experience

India is one of the very few countries offering RTGS on 24x365 basis. Two other countries having near 24x365 service are Mexico and South Africa. RTGS system of South Africa known as South African Multiple Option Settlement (SAMOS) system was designed for large-value interbank transactions, which was developed to bring domestic interbank settlement practices. The SAMOS system has been operating 24x365 since its inception on March 9, 1998. It moved to same-day settlement in August, 2004. The system closes at midnight and moves to the next business day, while instructions are received throughout the day. On public holidays and Sundays, the system allows for retail batch settlements. In order to enable banks to manage the final liquidity position for each day, a window of 25 minutes is allocated between 16:30 and 16:55.

Mexico operates Interbanking Electronic Payment System (SPEI), a large-value funds transfer system in which participants can make transfers among themselves or their customers. The system began operating on August 13, 2004. Participants are not allowed to incur overdrafts of their accounts. The central bank administers the accounts of Mexican financial agents through Account Holders Service System (SIAC), which is used to provide liquidity to participants. Only banks registered in Mexico can avail collateralised intraday overdrafts in the SIAC system. The SPEI system operates between 19:00 hours to 17:35 hours.

Source: RBI, BIS and Banco de México (Central Bank of Mexico).

Treasury Single Account (TSA) was implemented with phase wise expansion since August 1, 2020. The Reserve Bank functions as the primary banker in TSA. The assignment accounts of ABs and Sub-ABs are opened in *e-Kuber* to receive different categories of grants-in-aid and incurred expenditure against the assigned limit. TSA facilitates just-in-time fund release to ABs/Sub-ABs and operates on straight through process (STP) with integration between *e-Kuber* and Public Financial Management System (PFMS) of Controller General of Accounts (CGA).

Pension Disbursement for Defence Pensioners

IX.52 The Reserve Bank integrated Comprehensive Pension Package (CPP) of defence pensioners with *e-Kuber* from September 7, 2020 and facilitated automatic credit of monthly pension through the enhanced e-Payment module in *e-Kuber.*

Implementation of Advanced Mail Gateway and Exchange Scan Solutions

IX.53 An advanced mail gateway solution that provides protection for the Mail Messaging System (MMS) against traditional and targeted attacks from outside through correlated intelligence was implemented. Further, an exchange specific security solution to protect against targeted phishing and ransomware attacks by using predictive machine learning, document exploit detection, custom sandbox analysis of suspicious files and Uniform Resource Locators (URLs) was also implemented.

Sarthi - Electronic Document Management System (EDMS)

IX.54 During the year, the Reserve Bank introduced its Electronic Document Management System, named as *Sarthi,* to facilitate and automate the various facets of document processing and management in a safe and secure manner. The implementation is expected to bring enhanced productivity, efficient record management and a less-paper environment. The application is accessible from anywhere through a secure remote access tool, which facilitated remote working during the COVID-19 pandemic time.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

IX.55 Last year, the Department had set out the following goals:

- *Next Generation Structured Financial Messaging System* (NGSFMS): The proposed NGSFMS will revamp the existing Structured Financial Messaging System (SFMS) platform and simplify the architecture, bringing in scalability and flexibility and at the same time promoting enterprise framework of message communication among internal applications such as RTGS, core banking solution (CBS) of banks and NEFT (*Utkarsh*) [Para IX.56];
- *Augmentation and Modernisation of Infrastructure Security Layer*: Consolidation, augmentation and automation of security layers, comprising internal and perimeter firewalls and intrusion management solution [*i.e.,* governance, risk management and compliance (GRC)] will be undertaken to enhance cyber resilience and strengthen security of the Reserve Bank (Para IX.57);
- *Next Generation Wireless Technology Wifi-6 Across the Reserve Bank*: The adoption of new emerging technology Wifi-6 will be initiated across the Reserve Bank for upgradation of the Wi-fi infrastructure wherein new access points (available with next generation wireless technology, *i.e.,* Wifi-6) will be deployed (Para IX.58); and

- *Reserve Bank as Aggregator for Tax Information Network (TIN2.0)*: The Central Board of Direct Taxes (CBDT) is implementing a new payment system, *i.e.,* Tax Information Network (TIN2.0), while subsuming the erstwhile Online Tax Accounting System (OLTAS) in the new system. The new system in *e-Kuber* will facilitate the Reserve Bank's functions both as the collecting bank and as an aggregator for amounts received by the authorised agency banks (Para IX.59).

Implementation Status of Goals

Next Generation Structured Financial Messaging System (NGSFMS)

IX.56 The Reserve Bank of India upgraded the Structured Financial Messaging System (SFMS) in August 2020. SFMS is the messaging system used for both NEFT and RTGS managed by the Reserve Bank. The upgraded SFMS version offers simplified architecture, best industry practices in application framework, modular approach for much needed flexibility for any future changes, and enhanced security features, to name a few.

Augmentation and Modernisation of Infrastructure Security Layer

IX.57 Security Controls were augmented by implementing secure remote access capability to access the Reserve Bank's applications from outside of office premises. The solution offers security checks at multiple levels through user multifactor authentication, endpoint authentication and health check, and secure access tunnel through a secure network gateway. Further, next generation antivirus solution with predictive machine learning and behaviour analysis has also been implemented during the year to enhance endpoint and email security controls of the Reserve Bank.

Next Generation Wireless Technology Across the Reserve Bank

IX.58 The *Betaar Sanchar Seva* (BSS) *Sanchar* project was successfully implemented during the COVID-19 induced lockdown at Central Office Building (COB) and other selected office locations (including four metros) of the Reserve Bank. This has improved the overall operational efficiency, visibility and reliability of internet service across offices. The platform also provides an alternate channel to meet day-to-day business requirements and acts as a backup for the wired internet network in case of any exigencies.

Reserve Bank as Aggregator for Tax Information Network

IX.59 The Reserve Bank is in the process of integration of *e-Kuber* system with Tax Information Network (TIN 2.0) of Central Board of Direct Taxes (CBDT) and the Public Financial Management System (PFMS) of Controller General of Accounts (CGA) for implementation of *Pratayaksh Kar Lekhankan Pranali* (PRAKALP). The new system in *e-Kuber* will facilitate the Reserve Bank to function both as the collecting bank through over-the-counter (OTC) as well as NEFT/RTGS modes and as an aggregator for amounts received by the authorised agency banks.

Agenda for 2021-22

IX.60 The Department's goals for 2021-22 under *Utkarsh* are set out below:

- *Next Generation Data Centre*: Examination of the feasibility of next generation data centre and preparation of detailed prototype plan to cater to the Reserve Bank's ICT roadmap for coming years;
- *Upgradation of Non-IT Physical Infrastructure at Data Centres*: The

rejuvenating non-IT infrastructure of its existing data centres is underway. Optimal capacity planning and energy efficiency is a major driving factor for the project, which includes invigorating non-IT infrastructure at data centres; and

- *Implementation of Next-Generation e-Kuber*: *e-Kuber* is performing key financial services and operations of the Reserve Bank with/for various stakeholders such as government, banks and other market participants. The system is being refreshed to improve the functionalities by leveraging on technological developments and will facilitate enhanced automation of processes, flexibility of integration with external and internal systems, ease of change management, enhanced modularity, reporting with comprehensive real time dashboards, front end improvements for enhancing productivity and robust controls.

4. CONCLUSION

IX.61 In sum, the Reserve Bank continued its efforts to develop state-of-the-art payment and settlement systems in the country and enhance the digital payment experience of the consumers, while ensuring adequate security measures. These initiatives have facilitated smooth transition towards a less cash society with improved transaction efficiency and a delightful digital experience. Amidst difficulties arising from the COVID-19 pandemic, efforts were also made for the smooth functioning of the payment system. Further, the Reserve Bank focused on enhancements in the IT infrastructure for internal users also contributing to improved efficiency. It also helped expand coverage for government transactions using digital technologies. Going ahead, strengthening the payments ecosystem, enhancing awareness, and ensuring facilitation of digital payments across the length and breadth of the country will be the key areas of focus of the Reserve Bank.

X COMMUNICATION, INTERNATIONAL RELATIONS, RESEARCH AND STATISTICS

During the year, the Reserve Bank adopted innovative means of communication, virtual meetings, web-conferencing and social media in response to the logistical constraints imposed by the pandemic. Economic and statistical policy analysis and research were reoriented, and information management systems were fortified. In the international arena, India took over the Chair of the BRICS, completed the SAARCFINANCE Chair and co-chaired the G-20's Framework Working Group (FWG). Effective cash management and sound management of foreign exchange reserves in pandemic conditions were concurrent priorities. Several legislative initiatives/amendments were undertaken to ensure a sound and efficient financial system.

X.1 In the wake of the pandemic, the Reserve Bank took recourse to virtual platforms to broaden its reach to the public. In spite of logistical challenges, relations with international organisations and multilateral bodies were further strengthened. With heightened precautionary demand for currency, concerted efforts were made to provide effective cash management services to central and state governments by integrating their systems with that of *e-Kuber.* Risk management practices for foreign exchange management were strengthened to counter pandemic induced volatility in global financial markets and asset prices. Policy-oriented research was undertaken, and the timely release of the flagship publications was ensured. The information management system was further strengthened through establishment of the Data Science Lab (DSL) and initiation of processes leading up to building a Public Credit Registry (PCR). A number of amendments to/introduction of legislations pertaining to the Reserve Bank of India Act and Banking Regulation Act were undertaken during the year.

X.2 Against this backdrop, the rest of the chapter is structured into eight sections. The next section presents major initiatives of the Reserve Bank with regard to its communication strategy and processes. Section 3 discusses the Reserve Bank's international relations, including with international organisations and multilateral bodies. Section 4 dwells on the activities of the Reserve Bank as a banker to governments and banks. Section 5 reviews the conduct of foreign exchange reserves management. Section 6 sets out research activities, including statutory reports and frontline research publications. Section 7 profiles the activities of the Department of Statistics and Information Management (DSIM). Section 8 presents the activities of the Legal Department. Concluding observations are given in the last section.

2. COMMUNICATION PROCESSES

X.3 The functioning of the Department of Communication (DoC) is driven by two-way communication with the public, anchored by the objectives – transparency, clarity, precision, timeliness and credibility in the dissemination of the Reserve Bank policies. The strategic objectives of building the public confidence and anchoring their expectations, guided the dissemination of policy developments/initiatives and their rationale through multiple channels such as the Reserve Bank's website, media interface, informal workshops, and social media.

X.4 In the past, central banks around the world witnessed a significant shift in the nature and medium of their public communication. Since the 2008-09 global financial crisis (GFC), transparency, accountability and timely dissemination had become the hallmark of communication, which were put under test during the COVID-19 pandemic. Communications on financial stability are now an integral part of communications from the central banks both in normal and crisis time and they supplement monetary policy communications contributing to awareness of challenges that the central banks face and the strategy they adopt. Such communications bring in greater engagement of public and make it easier for central banks to achieve their goals. However, in times of crisis, such as the pandemic, these challenges became huge (Box X.1).

Box X.1
Central Bank Communication during Pandemic

Central banks use communication as an important tool to improve the effectiveness of their policies and regulations. The nature and channels of communication, which have been constantly evolving, underwent a major shift in the wake of the COVID-19 pandemic.

Focus Areas

As the successive shifts in economic condition were sudden, highly irregular and non-linear, the focus of central bank communication during the pandemic shifted to: (a) reinforcing the intent and rationale for multiple measures taken in the backdrop of pandemic; (b) providing some forward guidance on policy measures, especially when committed for an extended period; (c) giving reassurance on financial stability by providing real-time assessment to dispel any misgivings; (d) management of expectations of economic agents to contain any panic reaction, which may exacerbate the problem; (e) covering the range of markets and activities beyond the specified mandate to assure on coordinated approach by all public authorities; (f) sensitising the common citizens about the safeguards in digital banking as more people shifted to digital transactions; and (g) increased frequency of communication, in the face of heightened uncertainties.

Central bank governors generally led from the front during the pandemic in announcing the measures with rationale, giving their assessment of economic conditions and building confidence on financial stability conditions, and simultaneously ensuring that the regular work of improving the resilience of the financial system also continues. In view of the COVID-19 related restrictions, direct communique from the highest level on digital platforms with members of public, market participants and other stakeholders became the mainstay. Almost all central banks communicated their commitment to support the process of economic revival, avoid any premature withdrawal of liquidity and avoid premature tightening of monetary policy. Stakeholders read the actions of the central banks from their communication, action and signals (Shaktikanta Das, 2021)

Modes

The channels of communication also underwent a change in the pandemic when structured communication was supplemented by informal, unstructured communication using non-traditional modes like social media platforms, layering of messaging customised to specific target groups and use of multimedia to reach out directly to the masses. Transparency, simplicity and proactiveness in communication reinforced trust and paid off during the peak of the crisis. The Reserve Bank took out regular public awareness campaigns through Twitter and Facebook and monitored the feedback on these campaigns. It has also created a Social Media Command Centre (SMCC) for social media monitoring and listening.

Amidst the increasing reliance on work from home (WFH) environment, digital modes of communication got a fillip. Speaking engagements of central bank governors were seamlessly disseminated through livestreaming on social media. The trust in direct communication from major central banks on social media was reflected in an increase in their social media account followers. For example, the number of followers of Reserve Bank's Twitter handle surpassed one million mark during this period. Many central banks joined international organisations in creating focused portals on COVID-19 resources, sharing of experiences, especially about the production and dissemination of regular releases.

Checking Frauds and Disinformation

As information technology platforms served well for supporting business continuity and smooth functioning

(Contd.)

during the COVID-19 related social restrictions, central banks impressed upon fortifying public confidence in digital banking to support the financial landscape. Central banks used their social media handles extensively for educating people on safe digital banking practices. These efforts came handy for financial education as mischiefs by certain fraudulent entities engaged in phishing, financial frauds and other cybercrimes surged during the lockdown. Rising episodes of disinformation and rumours on social media platforms about financial entities as well as nature of transactions like the link between banknotes and coronavirus were quelled by central bank's campaigns. Some of them issued statements in March 2020 focusing on three messages: (i) banknotes do not pose a particular risk of infection, (ii) the cash supply is secure, and (iii) retailers should continue to accept cash.

Listening

As flow of detailed economic data suffered during the pandemic, a quick and realistic assessment of pressure points was warranted. Subsequently, central banks supplemented their regular information flow by seeking public perception and directly listening to representatives of the public. Direct communication from the central bank struck the right chord with people and helped in upholding trust and ensuring credibility during the pandemic. The Reserve Bank took out regular public awareness campaigns through Twitter and Facebook and monitored the feedback on these campaigns.

Key Takeaway

Thus, as central banks across countries responded unprecedently to mitigate the impact of the COVID-19 pandemic, direct and more frequent communication paid off and helped in supporting the measures to dampen the adverse impact and stabilise the markets in highly uncertain times.

Reference:

Shaktikanta Das, Governor, Reserve Bank of India in an interview with the Times of India, March 8, 2021.

X.5 Given the multiple equilibria that prevail in the market, it is not only important to make public aware of the facts but also to guard against any miscommunications that result in self-fulfilling prophecies that lead to inferior equilibriums. Confidence needs to be restored so that expectations stabilise. These considerations guided the overall communication policy of the Reserve Bank during 2020-21, which was characterised by vulnerable, uncertain, complex and ambiguous (VUCA) times. In pursuit of this objective, the Reserve Bank deployed technology and social media to the forefront in the communication strategy.

X.6 The Department, therefore, disseminated the Reserve Bank's policies through website and social media; enhanced awareness about the Reserve Bank's policies through need-based formal and informal virtual media workshops; and deepened its engagement with the multi-lingual and multi-cultural society. This was facilitated by widening the reach of the public awareness efforts through use of vernacular languages for the social media campaigns; and by remaining connected with the regional media to facilitate informed reporting, with the underlying objective of ensuring greater transparency and building accountability and credibility among the members of public for their better understanding. This in turn, helped in demystifying the rationale for central bank's mandate, governance, policies, operations and outcomes, thus reducing the uncertainty and facilitating a public dialogue that could anchor expectations and foster better policies.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

X.7 Last year, the Department had set out the following goals under *Utkarsh*:

- Conduct workshops/sessions for the media on important regulatory and banking related issues (Para X.8);

- Deepen its engagement with the society through public awareness programmes and social media presence (Para X.9 - X.12); and
- In line with international experience, efforts will be made to create a 'Social Media Command Centre' for social media monitoring and listening (Para X.13).

Implementation Status of Goals

Communication Policy

X.8 The Reserve Bank's communication policy was updated to embrace the technological advancements, changes in modes of communication and other developments. The updated policy includes the objectives, target audience, channels and tools of communication policy and operational practices, and subsumes the guidelines for regional level communication. Though the social distancing norms impacted some activities, the Department resorted to virtual and physical workshops for media during January-February 2021 and conducted informal briefings through the year.

Target-specific Communication

X.9 Tailored communication was initiated with an objective to reach out to different age / interest groups. For instance, separate tab was created on the home page of the Reserve Bank's website for ease of access to all COVID-19 related measures undertaken by the Reserve Bank. Tailored communication of public interest was released through social media and placed under the '*RBI Kehta Hai'* page of the Reserve Bank's website and YouTube channel.

RBI Website 2.0

X.10 During the year 2020-21, the work on development of a redesigned Reserve Bank's website for more effective and engaging communication with all stakeholders through best in class digital experience platform (DXP) was undertaken.

Dissemination through Social Media

X.11 As organisations moved towards digital communication and online work environment in a big way with the onset of the pandemic, social media became a major mode of communication. Accordingly, the number of followers of the Reserve Bank's Twitter handle @RBI surpassed the one million mark touching 1.15 million as on March 31, 2021, signifying the largest following among the central banks of the world. The Reserve Bank's YouTube channel, which was widely used for telecasting live monetary policy announcements, publishing speeches and interviews of the Reserve Bank's top management, and financial education, had over 76,100 subscribers as on March 31, 2021.

Enhancing Public Awareness Outreach using Social Media Platforms

X.12 As digital transactions increased manifold in the COVID-19 period, the need for increasing financial literacy and spreading awareness among people on various aspects like digital banking, nomination facility, facilities for senior citizens and cyber security was felt. During the year, the Reserve Bank actively used its second Twitter handle and Facebook page @RBIsays to ensure wider dissemination of public awareness messages in Hindi, English and eleven regional languages. New social media creatives on public awareness were put out at least once every month during 2020-21. The *'RBI Kehta Hai'* microsite is regularly updated with material on public awareness campaigns as and when they are released *via* television, newspapers, digital

Table X.1: List of Themes for Public Awareness Campaigns

Period	Campaign
October - November 2020	1. Nomination and settlement facility - newspapers, TV, radio, hoardings, websites, and SMS.
December 2020 - January 2021	2. Safe digital banking (cyber security) - newspapers, TV, radio, hoardings, and websites.
February 2021	3. Release of e-posters and audio-visual spots in TV and radio during the financial literacy week 2021, on three themes, *viz.,* (i) timely repayment and building credit history, (ii) borrowing from formal institutions only, and (iii) responsible borrowing.
March 2021	4. A multi-media campaign on convenience of digital banking - newspapers, TV, radio, hoardings, cinema theatres, websites, and SMS.
	5. A campaign on safe digital banking – cyber security during the digital payments awareness week, in print, digital, and hoarding.
	6. A campaign on setting limits on cards on TV and radio.

and social media platforms (Tables X.1 - X.3). Further, the microsite was revamped to give it an interesting look and structure the content in an easy to access manner.

Table X.2: Release on Social Media

Period	Messages/Posts
July 2020	1. Graphics Interchange Formats (GIFs) in 13 languages on safe digital transaction - *Identity theft.*
	2. GIFs in 13 languages on safe digital transaction - *Not to respond to unsolicited calls/links.*
	3. GIFs in 13 languages on safe digital transaction - *UPI based payment links.*
	4. GIFs in 13 languages on safe digital transaction – *Prevent Installation of malicious apps.*
August 2020	5. GIFs in 13 languages on safe digital transaction – *not to share personal details over phone/email/SMS.*
	6. Post on highlights of bi-monthly monetary policy announcement by the Reserve Bank Governor.
	7. Post on celebrating independence by transacting safely from home .
September 2020	8. Caution post regarding safe digital transactions - *not to share card credentials.*
	9. Caution post regarding safe digital transactions - *using secure websites for online transactions.*
	10. Post on customer's limited liability in case of fraudulent transaction in account.
	11. Awareness messages for public on various themes with Shri Amitabh Bachchan, Brand Ambassador .
October 2020	12. Awareness messages on various themes in 13 languages with Shri Amitabh Bachchan.
November 2020	13. Two posters on nomination and settlement facility.
December 2020	14. Social media post on highlights of monetary policy announcement by the Reserve Bank Governor.
	15. Social media caution post against unauthorised digital lending platforms/mobile apps.
	16. Twitter poll followed by Twitter and Facebook (FB) post in 13 languages on the theme - *timely repayment of loan instalments.*
January 2021	17. Twitter poll followed by Twitter and FB post in 13 languages on the themes - *nomination and settlement facility, fictitious offers, limited liability and setting limits.*
February 2021	18. Social media post on highlights of monetary policy announcement by the Reserve Bank Governor.
	19. Financial literacy week posters and video links on the themes – *credit from formal sources, responsible borrowing, and timely repayment.*
March 2021	20. Release of a video on cyber security on Twitter and FB.
	21. Twitter poll followed by Twitter and FB post in thirteen languages on each of the three themes - *risk vs returns, complaining on Sachet Portal, notifying the bank in case of card getting compromised/stolen, and registering mobile number and email with bank.*
	22. Post on Twitter and FB about the temporary exhibition on Indian banknotes at the RBI Museum, Kolkata.

Table X.3: List of High Impact Programmes

Channels	Duration
1. Doordarshan and All India Radio	October 2020 - March 2021
2. *Kaun Banega Crorepati* (KBC) 2020	September 2020 - December 2020
3. Indian Premier League 2020	September 2020 - November 2020
4. India-Australia Cricket Series 2020	November 2020 - January 2021
5. India-England Cricket Series 2021	March 2021

X.13 The Reserve Bank created a Social Media Command Centre (SMCC) for social media monitoring and listening.

Other Initiatives

X.14 Extensive efforts were made to collaborate with fact-checking portals, social media handles of the central government, among others, to highlight proper perspective and understanding of topical issues and to obviate any misinformation regarding banking, certain financial entities, the Reserve Bank's measures and other issues of interest.

The RBI Museum

X.15 The RBI Museum located at Kolkata tells the stories of money, gold and the genesis of the Reserve Bank through its artefacts, exhibits, technology and games. The Museum was reopened on January 18, 2021 after being closed for visitors during a major part of the year owing to COVID-19 pandemic. Efforts are underway to enable a virtual tour of the Reserve Bank Museum for those who are unable to visit the Museum in person. During the year, the Reserve Bank launched its second Facebook page under the title @therbimuseum to ensure wider dissemination of information related to the Reserve Bank, the Indian economy, the Reserve Bank Museum as well as financial literacy messages to the public.

Agenda for 2021-22

X.16 During 2021-22, the Reserve Bank's communication channels would be further strengthened, and efforts will be made towards the following goals under *Utkarsh*:

- To open for public a new section of the Reserve Bank Museum, which will be dedicated to the functions and working of the Reserve Bank;
- To revamp the Reserve Bank's website with improved information architecture;
- To continue to conduct virtual/physical workshops/ sessions for the regional media on important regulatory and banking related issues; and
- To use public awareness programmes, social media presence and other channels of communication to further deepen engagement with the society.

3. INTERNATIONAL RELATIONS

X.17 Despite challenges posed by the pandemic during 2020-21, the Reserve Bank further strengthened economic and financial relations, particularly with international organisations (IOs) and multilateral entities. The International Department (ID) engaged in steering several bilateral and multilateral dialogues through virtual means.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

X.18 The Department had set out the following goals for the year 2020-21:

- Follow up on issues relating to the international financial architecture (IFA), including the 16th General Review of Quotas (GRQ), Bilateral Borrowing Agreements (BBAs) and New Arrangements to Borrow

(NAB) of the IMF *(Utkarsh)* [Para X.19 - X.20];

- Article IV consultations with the IMF (*Utkarsh*) [Para X.21];
- Completion of its activities as the SAARCFINANCE Chair, including swap support, capacity building, and joint research (*Utkarsh*) [Para X.22 - X.24];
- Strengthening cooperation amongst the BRICS central banks through the BRICS Bond Fund (BBF), the Contingent Reserve Arrangement (CRA) and other initiatives, with India taking over the BRICS Chair in 2021 (*Utkarsh*) [Para X.25 - X.26];
- Intensification of engagement with the G20 in the run-up to taking over the Presidency in 2023 (Para X.27); and
- Providing inputs for activities relating to Governors' bi-monthly BIS Board and other meetings, meetings of the Committee on the Global Financial System (CGFS), and the Financial Stability Board (FSB) [Para X.28 - X.30];

Implementation Status of Goals

IMF and IFA Related Issues

X.19 The Department participated in the meetings of the G20 International Financial Architecture Working Group (IFA WG), and provided inputs on capital flows to the emerging markets and developing economies (EMDEs) and on the issues relating to the global financial safety net.

X.20 The Department provided inputs to Reserve Bank management during the Annual Fund-Bank meetings held virtually in October 2020 on the early warning exercise; global policy agenda; IMF governance reforms; doubling of NAB; extension of 2016 Note Purchase Agreement (NPA) by one year; and India's participation in the 2020 NPA.

X.21 In view of the pandemic, the Article IV engagement with the IMF was deferred. However, the Department hosted an IMF staff visit held in the virtual format. The IMF Article IV consultations, a surveillance exercise under the IMF's Articles of Agreement, is now likely to take place in July 2021. Other contributions of the Department included provision of inputs for the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER), and its participation in Macroprudential Policy Survey and other IMF and World Bank surveys.

BRICS, SAARC and Bilateral Cooperation

X.22 In its capacity as the SAARCFINANCE (SF) Chair, the Reserve Bank undertook various initiatives (Box X.2). The 40th and the 41st SAARCFINANCE Governors' Group Meetings (SFGGMs) were organised in November 2020 and March 2021, respectively, in a virtual format, with the inauguration of the *SAARCFINANCE Sync*, a closed user group secure communication portal amongst SAARC central banks.

X.23 The Reserve Bank organised two virtual webinars on 'Artificial Intelligence and Central Banking', and 'The Promise of FinTech: Financial Inclusion in the Post COVID-19 Era'. The annual SF database (SFDB) Working Group meeting in July 2020 focused on improving the quality of the database and supporting research. Efforts were made to identify and close data gaps in the SF database during its technical meetings.

X.24 Under the capacity building initiative, the SF scholarship for 2021 was offered to four officials, including officials from the Ministry of Finance, Afghanistan; the Bangladesh Bank; the Maldives Monetary Authority and the Nepal

Box X.2
SAARCFINANCE and RBI Initiatives

The SAARCFINANCE (SF) is a network of central bank Governors of the SAARC region, which was instituted on September 9, 1998, with a view to establishing dialogue on macroeconomic policies of the region and sharing mutual experiences and ideas. The Reserve Bank of India's SF Chair from October 2019 to October 2020 was extended till March 2021 because of the COVID-19 pandemic.

A key deliverable completed during the year was the development of the SAARCFINANCE Sync (SF Sync) with the following features:

- It will track the developments under the various SF initiatives;
- The logistics support, conduct of events, seminars, and meetings will be co-ordinated through this portal;
- The portal will enable researchers to share not only documents but also actively engage in real time dialogues on collaborative studies; and
- The data and document repository section will build the archives in the SF Sync.

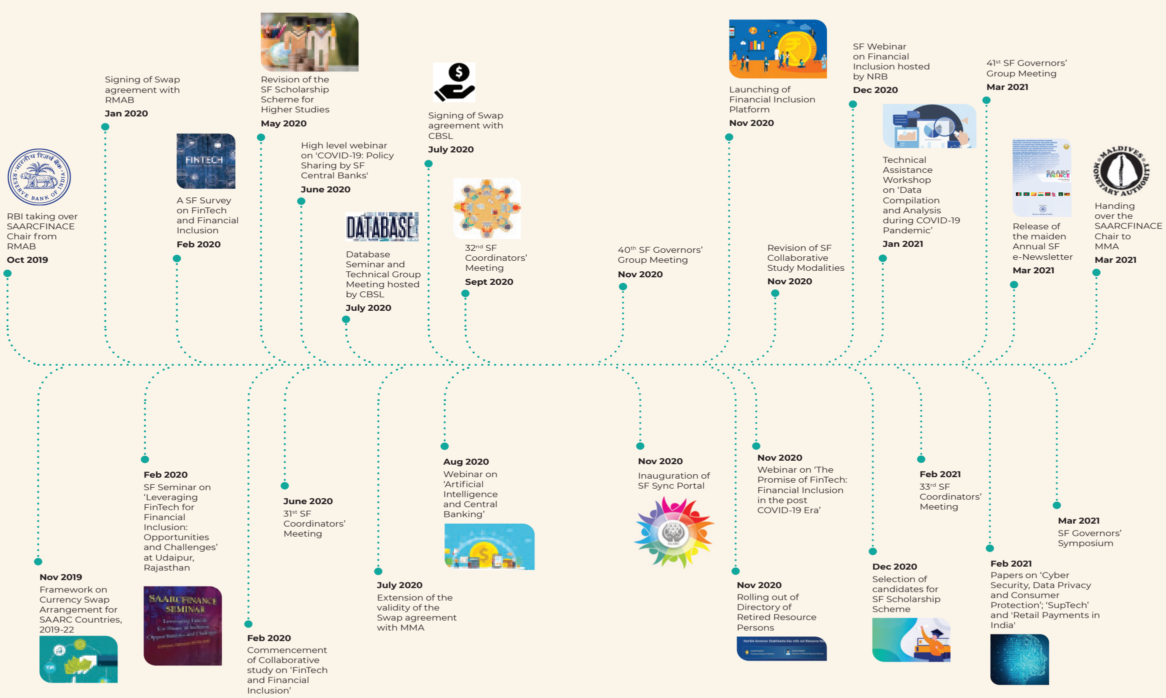
Two new initiatives were operationalised by the Reserve Bank. First, the 'Directory of the Retired Resource Persons' was launched, which offers a pool of experts on 14 central bank activities including monetary policy; macro-economic research; financial inclusion; and payment systems. Second, the financial inclusion platform was created as a repository of information on financial inclusion and literacy initiatives in the SAARC countries, which will develop a knowledge network in the area.

A revised Framework of Currency Swap Arrangement for SAARC countries 2019-22 was put in place. Swap support was provided to Bhutan, Maldives and Sri Lanka, amounting to an aggregate of USD 1 billion since February 2020.

The Reserve Bank is leading a joint SF collaborative study on FinTech and financial Inclusion. The maiden issue of the annual SF e-Newsletter was released in March 2021.

The focus area of the RBI Chair was the use of technology in central banking functions. The Reserve Bank's SF Chair culminated in the SF Governors' Symposium on March 2, 2021 with a keynote session on 'SupTech use in central banks' and a panel discussion on 'Cyber security in central banks' (Chart 1).

Chart 1: Timeline of Events under the Reserve Bank's SF Chair



Source: RBI.

Rastra Bank to pursue doctoral studies in India. The Reserve Bank shared technical know-how with officials from central banks of Sri Lanka, Nepal and Bhutan on 'data compilation and analysis during COVID-19 pandemic' in January 2021. Papers covering areas of SupTech, retail payments, cyber security, data and consumer protection, prepared by the Reserve Bank, were circulated to SAARC central banks in February 2021. The SF collaborative study on 'comparison of financial sector regulatory regimes', co-led by Sri Lanka and India, was presented at the 41st SFGGM in March 2021.

X.25 During the period under review, the BRICS central banks successfully conducted the third BRICS CRA test run. This has further enhanced the operational readiness of the CRA. To augment the analytical capacity under the CRA, the BRICS central banks produced the BRICS Economic Bulletin in 2020, an annual document. The operational and governance aspects of the BBF were mapped and efforts were made to take the initiative forward. Co-operation on information security and payment systems among the BRICS members was fostered by the BRICS Rapid Information Security Channel (BRISC) and BRICS Payments Task Force (BPTF), respectively.

X.26 India took over the BRICS Chair on January 1, 2021. Under the various BRICS workstreams, 16 meetings of the technical groups were held from January to March 2021. The first BRICS Deputies meeting and the BRICS CRA Standing Committee meeting were held in February and March 2021, respectively.

G20 and its Working Groups

X.27 Indian G20 Presidency has been postponed to 2023 in agreement with other G20 members. The Department provided inputs for the virtual G20 Finance Ministers and Central Banks' Governors (FMCBG), and Finance and Central Bank Deputies' (FCBD) meetings. The Reserve Bank also participated in the meetings of G20 Framework Working Group (FWG) and its other focus groups, Infrastructure Working Group (IWG), and Global Partnership on Financial Inclusion (GPFI). The G20 Italian Presidency has converted the earlier Sustainable Finance Study Group into Sustainable Finance Working Group (SFWG) as part of its focus on Green Agenda. The Government of India (GoI) and the Reserve Bank are both represented on the SFWG.

BIS Activities

X.28 The Department continued to provide support and analytical inputs to top management on a host of cross-cutting thematic issues discussed at the Bank for International Settlements (BIS) bi-monthly meetings, especially on COVID-19 induced policy responses and medium-term challenges for the EMDEs. The Department also made contributions and provided support to top management for various other meetings of BIS committees, especially the CGFS.

FSB Initiatives on Global Financial Regulation

X.29 The Financial Stability Board (FSB) is responsible for promoting international financial stability through assessment of vulnerabilities affecting the global financial system. The Department provided inputs for formulating India's stance in the FSB on issues relating to the global financial system and associated risks to financial stability.

X.30 The Department organised the second conference of the FSB's Regional Consultative Group (RCG) for Asia, with India as its co-chair. It acted as a nodal agency for the FSB for sharing of information on policy responses to the pandemic by India. The Department also contributed to the FSB's ongoing evaluation of the effects of 'too-big-to-fail' (TBTF) reforms and coordinated furnishing of data for the FSB's annual monitoring exercise to assess global trends and risks from non-bank financial intermediation and provided inputs in surveys steered by the FSB on LIBOR transition, crisis preparedness, and implementation of reforms in OTC derivatives.

Other Activities

X.31 The seventh review of the trade policies and practices of India under the aegis of the WTO was conducted in January 2021. The Department actively participated in the Trade Policy Review (TPR) mechanism of the WTO by providing timely responses to the questions raised by member countries on India's Secretariat Report (SR) and Government Report (GR). It also worked closely with the World Bank Finance, Competitiveness and Innovation (FCI) Global Practice team.

X.32 The Reserve Bank continued its active engagement with the IMF's South Asia Regional Training and Technical Assistance Centre (SARTTAC) and the South East Asian Central Banks (SEACEN) Centre. Several of its officers participated in the webinars/training courses organised by the SEACEN and the SARTTAC during July 2020 to March 2021. The Reserve Bank was also represented at the Mid-Year Steering Committee meeting of the SARTTAC held virtually on January 19, 2021. The Reserve Bank continued to extend support for the research initiatives of the G24 and G30.

X.33 Biannual consultation under the bilateral swap arrangement (BSA) between India and Japan was held in October 2020. The second annual Senior Level Dialogue (SLD) between the Bank of Japan (BoJ) and the Reserve Bank of India was held in November 2020, focusing on economic and financial market conditions as also retail payment services.

Agenda for 2021-22

X.34 In 2021-22, the Department will focus on the following:

- Follow up on issues relating to the IFA WG, including the 16th GRQ, Bilateral Borrowing Agreement (BBA) and New Arrangements to Borrow (NAB) of the IMF *(Utkarsh)*;
- Successful completion of the IMF Article IV surveillance by the IMF Mission to India *(Utkarsh)*;
- Continue to support the SAARC countries through the swap facility *(Utkarsh)*;
- Continue to deliver under various initiatives including BBF, CRA and BRISC under the BRICS Chair *(Utkarsh);* and
- Strengthen its engagement with the G20 in the run-up to taking over the Presidency in 2023.

4. GOVERNMENT AND BANK ACCOUNTS

X.35 The Department of Government and Bank Accounts (DGBA) oversees the functions of the Reserve Bank as banker to banks and banker to governments, besides formulating internal accounting policies of the Reserve Bank.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

X.36 Last year, the Department had set out the following goals under *Utkarsh:*

- Integrating the central government's systems with Reserve Bank's core banking solution – *e-Kuber* – for direct collection of their e-receipts and making e-payments (Para X.37 - X.38);
- Integrating remaining state governments' systems with *e-Kuber* (Para X.39);

- Putting in place an efficient reporting system for Non-GST transactions (Para X.40);
- Putting in place dashboard for government transactions (Para X.41); and
- Integrating remaining state governments for online memorandum of error (MoE) resolution process for reconciliation of GST transactions (Para X.42).

Implementation Status of Goals

Integrating the Central Government's Systems with e-Kuber for Direct Collection of their e-Receipts and Making e-Payments

X.37 Collection of central government taxes such as customs, integrated goods and services tax (IGST), and compensation cess directly into the government accounts with the Reserve Bank through NEFT/RTGS payment modes was enabled through integration of Indian Customs Electronic Gateway (ICEGATE) system of Central Board of Indirect Taxes and Customs (CBIC) with *e-Kuber*. This is in addition to the central excise and service tax, which are being collected through this mode since July 1, 2019.

X.38 The Treasury Single Account (TSA) system for e-payment by central government autonomous bodies was operationalised for a total of 16 autonomous bodies and their sub-autonomous bodies through leveraging on the existing integration of Public Financial Management System (PFMS) with *e-Kuber* (Box X.3). The Office of Controller General of Defence Accounts was on-boarded to *e-Kuber* for making pension payments of defence pensioners using NEFT/RTGS by way of integration of the SPARSH [System of Pension Administration (Raksha)] system with *e-Kuber*.

Box X.3

Treasury Single Account System for e-Payment by Central Government Autonomous Bodies

Based on the announcement made in the Union Budget 2014-15, the Government of India (GoI) had set up the Expenditure Management Commission (EMC) to look into various aspects of expenditure reforms to be undertaken by the government. The EMC, headed by Dr. Bimal Jalan, former Governor of the Reserve Bank, recommended *inter-alia*, that the GoI may gradually bring all autonomous bodies (ABs) under the TSA System in order to minimise the cost of government borrowings and to enhance efficiency in fund flows to ABs.

The TSA system for ABs is intended to avoid keeping government funds idle in the bank accounts and to manage the cash flow of the government efficiently. The 'just-in-time' principle for release of funds enhances the efficiency of fund flows to ABs under the TSA system, while ensuring better cash management as it facilitates drawdown of funds from government account as and when required, and also helps in avoiding accumulation of unutilised grants with ABs, thereby decreasing the cost on borrowed funds.

The TSA framework was operationalised by the GoI, in consultation with the Reserve Bank, leveraging on the integration of Public Financial Management System (PFMS) of Office of Controller General of Accounts and *e-Kuber* system of the Reserve Bank. The important features under the TSA system are as under:

i. The Reserve Bank functions as primary banker to the concerned Ministries/Departments without involvement of any agency bank;

ii. The ABs and sub-ABs are required to open 'assignment accounts' with the Reserve Bank and expenditure from these accounts is incurred subject to the availability of limits;

iii. These accounts of AB and sub-ABs are treated as government accounts by tagging them to the respective ministry/department of GoI and transactions (debits/credits) are automatically included in the calculation of GoI cash position;

iv. All transactions in the accounts of ABs and sub-ABs, including assignment of limits and processing of e-payments to the ultimate beneficiary, are processed through PFMS – *e-Kuber* integration;

(Contd.)

v. The limits assigned to ABs and sub-ABs can be changed (added or withdrawn) dynamically. Successful processing of e-payment instructions reduces the available assignment limit and returns, if any, add to the assignment limit to that extent in the books of the Reserve Bank;

vi. All assignment limits expire at the end of the financial year; and

vii. All the payments are made only through electronic modes and there are no physical payments from the account of the ABs maintained with the Reserve Bank. Necessary notifications at specified intervals are sent by *e-Kuber* to PFMS electronically.

The Department of Economic Affairs, Ministry of Finance, issued an Office Memorandum dated May 12, 2020 to expand the TSA system in two phases effective from August 1, 2020 and October 1, 2020 to bring more ABs and their sub-ABs under the ambit of TSA. Currently, a total of 16 ABs, along with nearly 900 sub-ABs are onboarded for TSA system. Since the implementation of phase I on August 1, 2020 till March 31, 2021, a net amount of ₹32,325 crore has been assigned as limit by the GoI and ₹31,351 crore has been spent by ABs/sub-ABs. Going forward, considering its benefits, the TSA system may expand in terms of number of entities as well as coverage of various types of payments, including payments from different ministries/departments to a particular AB/sub-AB and its accounting and processing thereof. A TSA Helpdesk has also been put in place by the Reserve Bank with a view to ensure timely redressal of technical and operational issues.

Source: RBI.

Integrating Remaining State Governments' Systems with e-Kuber

X.39 During the year, while one state government from the North East and one union territory were newly on-boarded for e-payments, two state governments have taken up testing and are expected to be soon on-boarded to *e-Kuber* for e-payments. Two other state governments have expressed willingness and are examining the technical requirements for integration.

Putting in Place an Efficient Reporting System for Non-GST Transactions

X.40 A system of automated dispatch of standardised system generated reports was put in place for the state governments that are already integrated with *e-Kuber*. Regional offices of the Reserve Bank were provided necessary facility to monitor the status of transactions of respective governments integrated with the Reserve Bank's *e-Kuber*.

Putting in Place Dashboard for Government Transactions

X.41 The process for putting in place a dashboard facility to governments, which are integrated with *e-Kuber,* was commenced but is yet to be completed due to COVID-19 related lockdown issues.

Integrating Remaining State Governments for Online Memorandum of Error (MoE) Resolution Process for Reconciliation of GST Transactions

X.42 During the year, the online MoE process was extended to seven state governments for reconciliation of GST transactions. While three state governments have completed the testing and are expected to go live shortly, eleven more state governments are in various stages of testing.

Other Initiatives

X.43 Several areas were identified to bring in improvements in processing, reconciliation and reporting of government transactions including Application Programming Interface (API) web-based reconciliation system, providing reports and management information system (MIS) in machine consumable formats and enabling reporting by agency banks of electronic receipt collection using new payment modes.

X.44 The work related to integration of all stakeholder systems with *e-Kuber* for facilitating collection of direct taxes through Tax Information Network 2.0; enabling payment of pension to defence pensioners residing in Nepal; provision of account validation; and *Aadhaar*-based payments were also taken up during the year.

X.45 Necessary arrangements were made in the case of newly formed union territory (UT) of Ladakh as well as the merged UTs of Dadra & Nagar Haveli and Daman & Diu to facilitate smooth transition of accounting ownership at government level.

Agenda for 2021-22

X.46 For 2021-22, the Department proposes the following agenda under *Utkarsh*:

- Pursuing the on-going agenda of integration of central and state government systems with *e-Kuber* for e-payments and e-receipts;
- Providing dashboard facility to governments for self-monitoring of e-receipts and e-payments transactions;
- Automation of daily position processing of government balances in *e-Kuber*, and
- Putting in place an automated process of agency commission calculation and payment to agency banks.

5. MANAGING FOREIGN EXCHANGE RESERVES

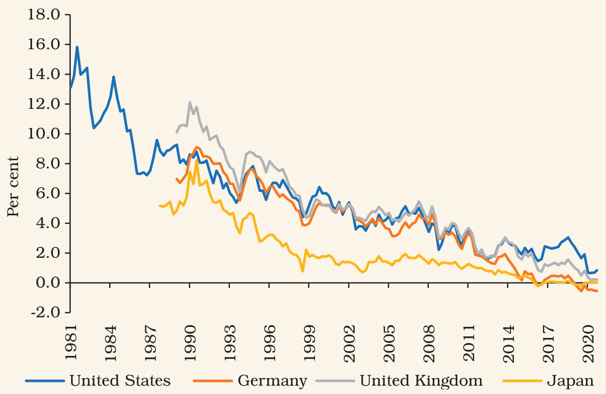
X.47 The Department of External Investments and Operations (DEIO) continued with the investment objectives of safety, liquidity and return in that order for managing foreign exchange reserves (FER). On a year-on-year basis FER increased by 20.8 per cent in March 2021 as against an increase of 15.7 per cent in the corresponding period of the previous year.

X.48 The negative/low interest rate environment, which is expected to persist in the times to come, is posing challenges to the central banks across the globe, for effectively managing FER without compromising the strategic objectives of deployment of FER (Box X.4).

Box X.4
Challenges to Forex Reserves Management in a Low Yield Environment

Interest rates in most advanced economies have been on a declining trend over the last four decades and reached their historic low in many countries in 2020 (Chart 1). The 10-year bond yields in USA have fallen from the high of 15.8 per cent in 1981 to below 1 per cent in 2020. Many advanced economies like Euro zone, Japan and Switzerland have had negative policy rates and sovereign bond yields for years now.

Chart 1: 10-Year Soverign Bond Yields (Nominal)



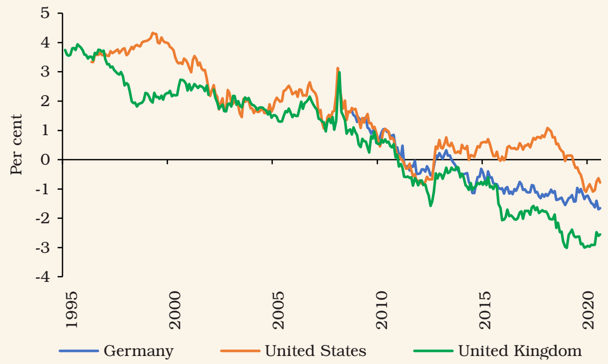
Source: Bloomberg.

This ultra-low for long interest rate environment is a reflection of structural changes in the global economy and financial markets, which can be better understood by decomposing nominal rates into two parts - real interest rates and inflation/expected inflation. While real rates have been declining for the last few decades, low inflation has become a norm over the last decade, despite the efforts of many advanced economies' central banks to lift inflation to their targets (Charts 2 and 3).

The declining trend in real rates can be attributed to factors relating to decline in potential growth rates, demographic

(Contd.)

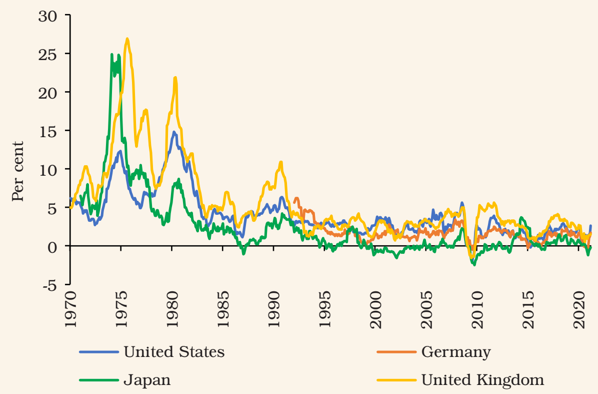
Chart 2: 10-Year Sovereign Inflation Indexed Bond Yields (Real)



Note: Yields of 10 year inflation indexed bonds

Source: Bloomberg.

Chart 3: Headline Inflation



Source: Bloomberg.

factors, income inequality, and demand for safer assets. The structural changes in these factors have led to decline in equilibrium real rates and they are expected to remain low in the medium to long term. Some of the reasons for the historically low inflation environment are: cross border supply-chain integrations, lower commodity prices, low wage growth, declining inflation expectations, and declining velocity of money.

This low yield environment makes it an arduous task for asset managers in general and reserve managers in particular, to generate reasonable returns from their portfolios given their risk appetite. The huge and increasing pile of negative yielding debt across the developed world has accentuated this problem and presented challenges for capital preservation. This situation has been further exacerbated by the COVID-19 pandemic, which has resulted in major losses to the real economies across the world and led to unprecedented expansionary monetary and fiscal policies.

The structural low yield environment is expected to persist for a considerable time in the future. Reserve managers, therefore, face the challenge of looking beyond the traditional approaches for the management of reserves to maintain and augment returns, but also evaluate if this could be accomplished by investment in safe assets as that is a necessary characteristic of reserve assets. Subject to safety, they can also explore increasing the duration of their portfolios, adopting asset diversification by investing in new asset classes, new currencies and markets, relaxation of credit quality requirements, and active management of their gold stocks. However, the optimum mix of reserve management strategies would have to consider the risk appetite, investment priorities, skill sets, and overall objectives of the reserve management.

References:

1. Kiley, M. T. (2019), 'The Global Equilibrium Real Interest Rate: Concepts, Estimates, and Challenges', *Finance and Economics Discussion Series*, Federal Reserve Board, Washington, D.C.

2. Lane, Philip R. (2019), 'Determinants of the Real Interest Rate', Speech at the *National Treasury Management Agency*, Dublin, November 28.

X.49 The Reserve Bank continued to purchase gold as a diversification strategy while scaling up the forex swap and repo operations and exploring the possibilities of new products. During the COVID-19 pandemic led lockdown, the Department continued its normal activities and also ensured timely implementation of all best practices for FER management and enhancement of systems security as well as furthering existing business continuity arrangements.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

X.50 Last year, the Department had set out the following goals:

- An enhanced risk management framework (*Utkarsh)* [Para X.51];
- Dedicated research inputs (*Utkarsh*) [Para X.52]; and
- Effective diversification of reserves through gainful deployment without compromising the safety of investments (Para X.53).

Implementation Status of Goals

X.51 During the year, the Department enhanced the quantitative approach for reviewing risk management framework for reserves management. Further, the existing risk management practices were constantly reviewed, especially in view of the evolving global macro-economic scenario overshadowed by the pandemic.

X.52 An internal market research unit was structured for dedicated research input in the Department.

X.53 Steps were taken for diversification of reserves by scaling up operations in forex swaps and repo markets, acquisition of gold and exploring new markets/products, while adhering to the safety and liquidity standards. Effective diversification of reserves through gainful deployment in existing currencies and products without compromising the safety of investments was ensured, especially in the low yielding interest environment.

Agenda for 2021-22

X.54 For 2021-22, the Department will focus on the following goals:

- Continue to explore new asset classes, new jurisdictions/ markets for deployment of foreign currency assets (FCA) for portfolio diversification and in the process tap advice from external experts, if required;
- Leverage IT in the form of contemporary treasury management solution for FER management (*Utkarsh*); and
- Roll-out system based daily computation of weighted average cost for assets.

6. ECONOMIC AND POLICY RESEARCH

X.55 As the knowledge centre and think-tank of the Reserve Bank, the Department of Economic and Policy Research (DEPR)[1] undertakes professional research with a view to providing analytical inputs and management information system (MIS) services for policy formulation. The Department generates primary data and is also the repository and disseminator of secondary data on the Indian economy. The Department is also responsible for the Reserve Bank's statutory reports, frontline research publications, collaborative research with external experts and technical support to various operational departments and technical groups/ committees constituted by the Reserve Bank from time to time.

[1] The Strategic Research Unit (SRU), which was set up on February 1, 2016 to undertake research and analysis of topics across various verticals of the Reserve Bank, has now been subsumed in DEPR with effect from October 1, 2020.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

X.56 Last year, the Department had set out the following goals:

- Alternative models for improving inflation and growth projections (*Utkarsh*) [Para X.57];
- A study on municipal finances (*Utkarsh*) [Para X.57];
- Release of data on bilateral trade in services (*Utkarsh*) [Para X.58];
- Studies on spillover effects of non-deliverable forward (NDF) market on onshore forex market in India; rural-urban inflation dynamics; determinants of discretionary spending of states; and relationship between volatility index (VIX) and stock index (Para X.59);
- Revival of the Report on Currency and Finance with the theme "Reviewing the Monetary Policy Framework" (Para X.60);
- Release of the History of the Reserve Bank, Volume-5 for the period spanning 1997 to 2008 (Para X.61);
- Enabling public access to the Central Library's digitised contents (Para X.62);
- Development of a document management software for management of digital records in the Archives (Para X.63);
- Tracking real time economic outlook/ sentiment based on machine learning tools (*Utkarsh*) [Para X.64];
- In-depth micro-analysis of the impact of policy reforms, *e.g.,* green finance in India (*Utkarsh*) [Para X.64]; and
- Deepening collaboration with other operational and research departments within the Reserve Bank as well as with outside scholars [Para X.64].

Implementation Status

X.57 New models for forecasting inflation were developed, with one of them titled "An Alternative Measure of Economic Slack to Forecast Core Inflation", being published in the RBI Occasional Papers. An extensive data collection exercise, based on budgetary data of more than 200 municipal corporations, is currently underway.

X.58 Data on India's bilateral trade in services on ultimate country basis (based on Foreign Exchange Transactions Electronics Reporting System) was shared with the Ministry of Commerce and Industry.

X.59 During 2020-21, the Department published 60 research papers/articles, of which 22 were published outside the Reserve Bank in international and domestic journals. In addition, 12 working papers were posted on the website during the year. The published studies covered a wide range of issues, including trend inflation; price discrimination in over-the-counter currency derivatives; bank capital and monetary policy transmission; public debt sustainability; financial stress measurement; and combination of inflation forecasts.

X.60 The Report on Currency and Finance with the theme of "Reviewing the Monetary Policy Framework" was released in February 2021. The Report addressed the issues of goals, processes, operating procedures and open economy dynamics under the flexible inflation targeting framework.

X.61 The work relating to publication of the History of the Reserve Bank, Volume-5 for the period spanning 1997 to 2008 is nearing completion for its release during 2021-22.

X.62 In order to ensure wider dissemination and easy access to the public, the Central Library uploaded digitised publications of the Reserve Bank, including Annual Reports, Bulletins and Staff Studies up to 1997 on the Reserve Bank's website (www.rbi.org.in).

X.63 The work of developing a document management software for storing, searching, retrieval and sharing of digitised documents available in the RBI Archives has been assigned to the Reserve Bank Information Technology Private Ltd. (ReBIT) and the work is in progress.

X.64 A nowcasting model for GDP growth using machine learning tools (*e.g.,* neural networks and random forest techniques) was presented in the monetary policy strategy (MPS) meetings of December 2020 and February 2021. An article on green finance in India was published in the Reserve Bank's monthly bulletin of January 2021. The Department also collaborated both within and outside the Reserve Bank on several research projects, including over-the-counter currency derivatives, fiscal austerity in emerging market economies, and structural transformation of jobs from manufacturing to services.

Other Initiatives

X.65 During the year, the Department continued compilation and dissemination of primary statistics on monetary aggregates; balance of payments; external debt; effective exchange rates; combined government finances; household financial savings; and flow of funds on established timelines and quality standards. To deal with the post-COVID data gaps, new high frequency indicators of economic activity were combined with conventional indicators to generate alternative aggregate measures that helped assess the impact of the pandemic on the economy and also the pace of normalisation.

X.66 The DEPR Study Circle, an in-house discussion forum, and the Central Library organised 44 online seminars / presentations / workshops during the year on diverse research themes. The Department also conducted online interviews for selecting candidates for the Scholarship Scheme for Faculty Members from academic institutions.

Agenda for 2021-22

X.67 The Department's agenda for 2021-22 will focus on the following goals:

- Increase in the number of research studies for publication in the Reserve Bank Occasional Papers and Working Papers (*Utkarsh*);
- Forward-looking agricultural commodity price sentiment analysis, based on newspaper coverage, through big data applications (*Utkarsh*);
- Development of an in-house expertise for data compilation under the KLEMS [capital (K), labour (L), energy (E), material (M) and services (S)] project; and
- Conduct of an Itinerant Exhibition on the first floor of the Reserve Bank Museum at Kolkata.

7. STATISTICS AND INFORMATION MANAGEMENT

X.68 The Department of Statistics and Information Management (DSIM) aims to compile, analyse and disseminate macro-financial statistics and to provide statistical support and analytical inputs through data management, applied statistical research and forward-looking surveys to the Reserve Bank. In pursuit of these objectives, the DSIM maintains a centralised database for the Reserve Bank at par with international standards, manages the centralised submission of returns through the eXtensible Business Reporting Language (XBRL) platform, undertakes structured surveys relating to enterprises and households as inputs for monetary policy formulation and actively engages in statistical and analytical research.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

X.69 Last year, the Department had set out the following goals:

- To make Centralised Information Management System (CIMS) fully operational (*Utkarsh*) [Para X.70- X.71];
- To set up advanced analytic environments in a Granular Data Access Lab (GDAL) and Data Science Lab (DSL) [*Utkarsh*] [Para X.70- X.71];
- To establish an element-based repository in a phased manner following Statistical Data and Metadata eXchange (SDMX) standards, leading to operationalisation of a metadata driven data maintenance and dissemination system (*Utkarsh*) [Para X.70- X.71];
- To develop an end-to-end system for a Public Credit Registry (PCR) (*Utkarsh*) [Para X.72];
- To operationalise the DSL (*Utkarsh*) [Para X.73];
- To undertake policy-related research in the areas of modelling, nowcasting and forecasting of macroeconomic indicators, including the use of web-crawling, artificial intelligence (AI), machine learning (ML), and big data analytics (*Utkarsh*) [Para X.73];
- To develop a state-of-the-art single searchable Central Fraud Registry (CFR) portal for SCBs, UCBs and NBFCs to assist them in taking informed decisions on providing credit (Para X.74); and
- To extend the Consumer Confidence Survey (CCS) to all urban centres, analogous to the Inflation Expectations Survey of Households (IESH) (Para X.75).

Implementation Status of Goals

X.70 Under the Centralised Information Management System (CIMS) project, installation of IT infrastructure at the Reserve Bank's data centres was completed with a delay due to COVID-19 related restrictions. The control and function specification documents were finalised and testing of system-to-system integration was successfully done with major banks.

X.71 Data migration from the existing exploratory Hadoop environment to CIMS Hadoop environment was completed.

X.72 Development of the Public Credit Registry (PCR) system was initiated. The draft PCR Bill was peer reviewed.

X.73 The Data Science Lab (DSL) started its operations in January 2020 and has commenced working on data analytics projects for the Central Office Departments of the Reserve Bank using statistical and machine learning algorithms. Big data analytical tools were employed to extract relevant information from online print media for research activities relevant to the Bank, *viz.,* media sentiment on macroeconomic parameters.

X.74 A state-of-the-art common wireframe (prototype) has been developed for liberalised remittance scheme (LRS), central repository of information on large credit (CRILIC) and central fraud registry (CFR) under CIMS and is being refined.

X.75 Pilot rounds of the Consumer Confidence Survey (CCS) are now being conducted in six cities (*viz.,* Bhubaneshwar, Chandigarh, Jammu, Nagpur, Raipur and Ranchi) where the Inflation Expectations Survey of Households (IESH) is conducted.

Other Initiatives

X.76 Electronic Data Submission Portal (EDSP) was modified with enhanced security features for facilitating International Banking Statistics (IBS) data submission since June 2020.

X.77 In view of COVID-19 related disruptions and risks involved in physical surveys, household surveys were conducted telephonically (Box X.5). The results of a forward looking quarterly 'Bank Lending Survey (BLS)' and 'Services and Infrastructure Outlook Survey (SIOS)' were disseminated under the guidance of the Bank's Technical Advisory Committee on Surveys (TACS).

X.78 Despite COVID-19 related disruptions, the Department brought out its regular publications, *viz.,* Handbook of Statistics on the Indian Economy, 2019-20; Statistical Tables Relating to Banks in India, 2019-20; Basic Statistical Returns of SCBs in India (BSR1, BSR2 and BSR7); Weekly Statistical Supplement (WSS); and the 'Current Statistics' portion of the Reserve Bank's Bulletin in a timely manner during the year.

Agenda for 2021-22

X.79 Going ahead, the Department will focus on the following goals:

- Work towards making CIMS an advanced analytic environment fully operational and migrate all databases to the new centralised system *(Utkarsh);*
- Follow SDMX standards for metadata driven maintenance and dissemination system *(Utkarsh);*

Box X.5
Surveys during COVID-19 Pandemic

According to a survey conducted by the United Nations Statistics Division (UNSD) and the World Bank, over 95 per cent of National Statistical Offices (NSOs) had partially or fully stopped face-to-face data collection in May 2020 (UN, 2021). Some national agencies witnessed major disruption in their regular surveys on household finance, travel and other domains. Many central banks grappled with these novel challenges by focusing on alternative data sources and tweaking of survey questionnaires during the lockdown period, however, many businesses could not be contacted, and the response rate of the Reserve Bank's forward-looking enterprise surveys came down drastically (US, 2020). Regular survey rounds were supplemented by follow-up surveys in mid-March 2020. Also, given the unprecedented situation, the survey questionnaires included an additional block to assess the outlook on critical parameters for two more quarters (in addition to the current and the ensuing quarter).

The Reserve Bank temporarily substituted its computer-aided personal interview (CAPI) based surveys of households with telephonic surveys to provide continuity and most of its training of reporting entities and investigators were also on online platforms (RBI, 2020). The proportion of interviews verified through audio and telephonic verification were increased to compensate for the inability to conduct on-spot verifications or field visits. After the lockdown related restrictions were eased, the reliance on telephonic channels in household surveys has been gradually reduced.

References:

1 UN (2021), 'Planning and Implementing Household Surveys under COVID-19', Technical Guidance Note by the Inter-Secretariat Working Group, December 2020.

2 US (2020), 'Monitoring the State of Statistical Operations under the COVID-19 Pandemic - Survey of National Statistical Offices', May, July and October.

3 RBI (2020), 'Results of Forward Looking Surveys' (Bi-monthly Press Releases).

- Implement a scalable end-to-end system for PCR in a phased manner starting with SCBs *(Utkarsh);*
- Revise the reporting systems for International Banking Statistics (IBS) as per the revised guidelines of the Bank for International Settlements (BIS);
- Expand the scope of data collection mechanism and analytical work in the domain of Big data for providing supplementary information relevant to the Reserve Bank; and
- Put in place a system to collect monthly data on economic classification of international credit/debit card transactions.

8. LEGAL ISSUES

X.80 The Legal Department is an advisory department established for examining and advising on legal issues, and for facilitating the management of litigation involving the Reserve Bank. The Department vets circulars, directions, regulations, and agreements for various departments of the Reserve Bank with a view to ensuring that the decisions of the Reserve Bank are legally sound. The Department provides the secretariat to the First Appellate Authority under the Right to Information Act and represents in the hearing of cases before the Central Information Commission, with the assistance of operational departments. The Department also extends legal support and advice to the Deposit Insurance and Credit Guarantee Corporation (DICGC), CAFRAL, and other RBI-owned institutions on legal issues, litigation and court matters.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

X.81 Last year, the Department had set out the following goals for 2020-21:

- Automate its workflow process and function, which in turn will enhance research, e-discovery and data analytics (*Utkarsh*) [Para X.82];
- Provide a guidance note for its Central Public Information Officers to discharge their functions more effectively and expeditiously, keeping in view the Department's responsibilities as a secretariat to the Appellate Authority under the Right to Information Act (RTI Act), 2005 (*Utkarsh*) [Para X.83];
- Proactively perform its functions in close coordination with the operational departments of the Reserve Bank [Para X.84 - X.86]; and
- Manage litigation on behalf of the Reserve Bank [Para X.87 - X.96].

Implementation Status of Goals

X.82 The work relating to the development of a software package for automating the activities of the Department has been entrusted to the Reserve Bank Information Technology Private Ltd. (ReBIT). The modalities for development of the proposed software package were finalised and the statement of work (SoW) was also signed with ReBIT. Development of the software in this regard is currently under progress.

X.83 The preparation of the guidance note for its central public information officers to discharge their functions under RTI Act, 2005 more effectively and expeditiously was completed during the year.

X.84 Several important legislations/regulations concerning the financial sector were brought in/ amended during the year. The Banking Regulation (Amendment) Act, 2020 received the assent of the President of India on September 29, 2020. The Amendment Act was deemed to have come into force on June 26, 2020, except section 4, which, in so far as it relates to primary cooperative banks, be deemed to have come into force on June 29, 2020. Further, *vide* notification dated December 23, 2020, central government has announced April 1, 2021 as the date on which the provisions of section 4 of the Banking Regulation (Amendment) Act, 2020 shall come into force for state cooperative banks and central cooperative banks.

X.85 The Bilateral Netting of Qualified Financial Contracts Act, 2020 received the assent of the President of India on September 28, 2020 and was brought into force with effect from October 1, 2020 with an objective to ensure financial stability and promote competitiveness in Indian financial markets, by providing enforceability of bilateral netting of qualified financial contracts and for matters connected therewith or incidental thereto.

X.86 International Financial Services Centres Authority Act, 2019 was notified by the Government of India (GoI) *vide* its notification dated September 29, 2020. The effective date for the provisions of section 13 and section 33 of the said Act was fixed as October 1, 2020. The International Financial Services Centres Authority (IFSCA) notified the International Financial Services Centres Authority (Banking) Regulations, 2020 on November 18, 2020 for banking and investment activities in the International Financial Services Centres and adopted the directions/ circulars/guidelines issued by the Reserve Bank under Banking Regulation (BR) Act,1949; Reserve of India (RBI) Act, 1934 and FEMA, 1999 to be applicable for the banking units concerned.

X.87 The Hon'ble Supreme Court *vide* order dated March 23, 2020 directed to take *suo motu* cognizance[2] of the situation arising out of the challenge faced by the country on account of COVID-19 and the resultant difficulties that are faced by litigants across the country in filing proceedings within the period of limitation prescribed under the general law of limitation or under special laws. The Court also examined the extension of the period of validity of negotiable instruments such as cheques and bank drafts. Subsequently, the Court *vide* order dated July 10, 2020, observed that the period in respect of such negotiable instruments is prescribed by the Reserve Bank under Section 35A of the Banking Regulation Act,1949 and hence it would not be appropriate to interfere with the period, particularly, since the entire banking system functions on the basis of that period.

X.88 A writ petition (Gajendra Sharma v. Union of India & Ors.) was filed under Article 32 of the Constitution of India before the Supreme Court against the Reserve Bank's circular dated March 27, 2020 stating that it is *ultra vires*, to the extent it charges interest on the loan amount during the moratorium period. During the pendency of the petition, the central government granted various reliefs for benefit of waiver of interest up to ₹2 crore in eight categories and the Reserve Bank also issued a circular dated October 26, 2020 to all commercial banks, all primary cooperative banks and all-India financial institutions and all non-banking financial companies advising them to follow the scheme dated October 23, 2020 announced by the Government of India. The apex court then disposed of the petition *vide* order dated November 27, 2020.

X.89 In a batch of petitions related to loan moratorium seeking extension of moratorium period and waiver of interest before the Hon'ble Supreme Court challenging the Reserve Bank's

[2] *Suo Motu* Writ (C) No. 3/2020 (Cognizance of Extension of Limitation).

circulars dated March 27, 2020 and August 6, 2020, the apex court *vide* interim order dated September 3, 2020 held that the accounts, which were not declared non-performing assets (NPA) till August 31, 2020, shall not be declared NPA till further orders. The apex court heard the matter on several dates and *vide* a final order dated March 23, 2021 disposed the matters stating that it cannot interfere with the economic policy decisions on the ground that either they are not sufficient or efficacious and/or some more reliefs should have been granted. However, with reference to the scheme for grant of ex-gratia payment of difference between compound interest and simple interest, the Court observed that there is no justification shown to restrict the relief of not charging interest on interest with respect to the loans up to ₹2 crore only and that too restricted to the categories specified therein. The Court granted relief in respect of charging of interest on interest/compound interest/penal interest for the period during the moratorium from any of the borrowers.

X.90 In the case of Piyush Bokaria v. RBI, a writ petition was filed before the Madras High Court challenging the master circular on Basel III capital regulations issued by the Reserve Bank *vide* circular dated July 1, 2015. After hearing the submissions of the Reserve Bank, the Court *vide* its order dated September 30, 2020 upheld the validity of the said circular.

X.91 In the matter of reconstruction of Yes Bank and write off of additional tier-1 bonds related cases, several writ petitions were filed before various High Courts challenging the decision of the Administrator of Yes Bank, to write down such bonds issued by the Yes Bank. As Yes Bank has already filed a Transfer Petition before the Supreme Court, the High Courts have adjourned the matters, pending the decision of the Supreme Court.

X.92 The 'Lakshmi Vilas Bank (LVB) Ltd. (Amalgamation with DBS Bank India Ltd.) Scheme, 2020' issued *vide* notification dated 25 November 2020, was challenged through several petitions filed across various High Courts by the shareholders. As the Reserve Bank and DBS India Ltd. have filed Transfer Petitions before the Supreme Court, the High Courts have adjourned the matters.

X.93 In the matter of Big Kanchipuram Cooperative Town Bank Ltd. v. Union of India & Another; and Vellur Cooperative Urban Bank Ltd. v. Union of India & Another, two writ petitions were filed before the Madras High Court challenging the constitutional validity of certain sections of the Banking Regulation Amendment Act, 2020. The Court *vide* interim order dated July 20, 2020 refused to stay the Act and the matter is pending for hearing.

X.94 The Telangana High Court in its decision dated December 10, 2020 on the matter of Rajesh Agarwal vs RBI & Others held that the compliance with principles of natural justice has to be read into clause 8.9.4 and 8.9.5 of the Master Directions on classification and reporting of fraud by banks and select Financial Institutions (FIs), 2016. The petition was filed, *inter alia*, challenging the Reserve Bank's Master Directions on fraud dated July 1, 2016 and also the action classifying the account as 'fraud' being violative of principles of natural justice.

X.95 In the matter of Jeewan Holdings Private Ltd. & Another v. Union of India & Another, a petition was filed before High Court of Delhi challenging the order of the Appellate Authority (Ministry of Finance, Government of India), which upheld the decision of the Reserve Bank cancelling the Certificate of Registration (CoR) granted to the petitioner company along with the Reserve Bank's order of cancellation. The Court in its judgement dated October 23, 2020 observed that the statutory framework does not mandate an opportunity of personal hearing. It was also held by the court that the respondents can claim no vested right to carry on business without complying with the condition of license or the directions issued by the Reserve Bank.

X.96 In the case of Shakun Holdings Private Ltd. v. Union of India & Others, the High Court of Shimla in its judgement dated July 22, 2020 observed that the cancellation of CoR for non-achievement of net owned fund (NoF) was proper and dismissed the petition of the applicant.

Agenda for 2021-22

X.97 In 2021-22, the Department will continue to focus on the following goals:

- Proactively perform its functions in close coordination with the operational departments of the Reserve Bank; and
- Take efforts to automate its workflow process and function, keeping in view the importance of use of technology in legal operations, particularly, in a situation like COVID-19 pandemic.

9. CONCLUSION

X.98 During the year gone by with the challenging macroeconomic environment along with severe threat to human lives and livelihood, the Reserve Bank undertook a host of conventional and unconventional policy measures to deal with the pandemic-induced situation, which fostered congenial financing conditions in the economy without jeopardising financial stability. Further, forward guidance gained prominence in the Reserve Bank's communication strategy to realise cooperative outcomes. Going ahead, the major focus of the Reserve Bank in the functional areas covered in the chapter will be as follows: further strengthening communication channels and economic and financial international relations; automating daily position processing of government balances in *e-Kuber;* continuing to explore portfolio diversification through new asset classes/markets for forex reserve management; sharpening economic and statistical policy analysis and research; making CIMS fully operational; rolling out PCR in a phased manner; and expanding the scope of data collection mechanism and analytical work in the domain of big data.

XI GOVERNANCE, HUMAN RESOURCES AND ORGANISATIONAL MANAGEMENT

The Reserve Bank continued its endeavour to enhance the human resources skillset even during the pandemic through various innovative in-house and external training programmes conducted via virtual mode using cloud-based video applications. Several measures were initiated during the year for strengthening the risk monitoring and internal audit mechanism in the Reserve Bank. In response to the COVID-19 pandemic, the critical business processes were secured to ensure business continuity and smooth functioning of the Reserve Bank's time-sensitive critical activities, while ensuring the safety and health of its human resources.

XI.1 This chapter discusses three critical aspects of the Reserve Bank - governance, human resources management and risk monitoring, apart from covering the activities of departments dealing with internal audit, corporate strategy and budgeting, Rajbhasha and Premises. The chapter reviews the major developments, evaluates their outcomes during 2020-21 *vis-a-vis* the goals set at the beginning of the year and sets out priorities for 2021-22.

XI.2 In pursuance of the goals set for 2020-21, human resources were strengthened through new recruitments, and in-house and external trainings. In response to the pandemic, online and e-Learning modes were relied upon extensively. The RBI Academy conducted a number of webinars during the year, some of them in collaboration with external agencies, *viz.,* IMF South Asia Regional Training and Technical Assistance Center (IMF SARTTAC) and World Bank, on themes ranging across the impact of COVID-19 on regulation and supervision to the emerging areas like the Big Data and FinTech. Further, workshops on Managing Extreme Business Uncertainty and Leadership Foundation and Crucial Conversations for the senior officers of the Reserve Bank were also organised.

XI.3 Under the enterprise-wide risk management (ERM) framework adopted in 2012, a structured process has been put in place during the year for formulation of risk tolerance limits (RTLs) and risk reporting framework as per the risk tolerance statement articulated by the Committee of the Central Board (CCB) of the Reserve Bank. On a pilot basis, the RTLs for departments overseeing currency management and payment and settlement systems have been formulated. Towards the phased implementation of the risk tolerance framework, the process of review of the existing risk tolerance limits in line with internally articulated risk tolerance stance is currently underway for some of the market departments.

XI.4 The targeted convergence of the risk-ratings assessed under risk-based internal audit (RBIA) and risk ratings determined as per risk assessment methodology for operational risk (RAM-OR) was accomplished by the Inspection Department during the year. With a view to enhance the effective internal control environment for managing the implementation of projects in the Reserve Bank in a timely and cost-effective manner, pilot project audit of an IT project was conducted successfully during the year. The outbreak of COVID-19 necessitated the invocation of the business continuity plan (BCP), prepared by the Corporate Strategy and Budget Department (CSBD) for all regional offices/business units. The premptive crisis management initiatives undertaken by the Reserve Bank ensured uninterrupted 24X7 services for the payment systems of the country in particular, and the banking system in general.

XI.5 Alongside, the Rajbhasha Department prepared department-specific terminologies for certain departments and constituted an inter-institution committee comprising bankers and eminent scholars to update the banking glossary to promote the use of Hindi. The Premises Department pursued its mandate of creating, maintaining and upgrading the Reserve Bank's infrastructure. Generation of renewable energy through solar power generation plants, rain water harvesting systems, sewage treatment and waste water treatment systems were installed at various offices and residential colonies under the Reserve Bank's 'Green Initiative'.

XI.6 The chapter is organised into nine sections. The developments relating to the governance structure of the Reserve Bank are set out in Section 2. Section 3 delineates the initiatives undertaken by the Human Resource Management Department (HRMD) during the year in the areas of human resources. Developments relating to enterprise-wide risk management framework are presented in section 4. The activities of the Inspection Department during the year are discussed in section 5. The functioning of the CSBD, which coordinates and develops strategies and annual action plans for the Reserve Bank, are covered in section 6. The activities and accomplishments of the Rajbhasha and Premises departments are presented in sections 7 and 8, respectively. The chapter has been summarised at the end.

2. GOVERNANCE STRUCTURE

XI.7 The Central Board of Directors is entrusted with the governance functions of the Reserve Bank in accordance with the Reserve Bank of India (RBI) Act, 1934. It comprises the Governor as the Chairperson, Deputy Governors and Directors nominated by the Central Government. There are four Local Boards, one each for the Northern, Southern, Eastern and Western areas, to advise the Central Board on matters referred to them and perform duties delegated by the Central Board. Members of the Local Boards are also appointed by the Central Government in accordance with the RBI Act, 1934.

XI.8 The Central Board is assisted by three Committees: the Committee of the Central Board (CCB); the Board for Financial Supervision (BFS); and the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS). These Committees are headed by the Governor. In addition, the Central Board also has five Sub-Committees: the Audit and Risk Management Sub-Committee (ARMS); the Human Resource Management Sub-Committee (HRM-SC); the Building Sub-Committee (B-SC); the Information Technology Sub-Committee (IT-SC) and the Strategy Sub-Committee (S-SC). These sub-committees are typically headed by an external Director.

Meetings of the Central Board and CCB

XI.9 The Central Board held five meetings during the transition year[1] July 2020 to March 2021.

[1] With change in the Reserve Bank's accounting year to April-March from 2020-21 onwards, the first year of Reserve Bank's transition year was of only nine months (July 2020 - March 2021).

XI.10 The CCB held 35 meetings during July 2020 to March 2021, 26 of which were held as e-meetings and nine through video conferencing. The CCB attended to the current business of the Reserve Bank, including approval of its Weekly Statements of Affairs.

XI.11 The Western and Eastern Area Local Boards held two meetings during July 2020 - March 2021. The Northern Area Local Board held three meetings during July 2020 - March 2021. The Standing Committee of the Central Board functioning in lieu of Southern Area Local Board (for want of quorum), held two meetings during July 2020 - March 2021. The details of participation of Directors/Members in meetings of the Central Board, its Committees and Sub-Committees, Local Boards and Standing Committee of the Central Board in lieu of Local Board/s are given in Annex Tables XI.1-5.

Central Board/Local Boards

XI.12 The Central Government appointed Shri M. Rajeshwar Rao as Deputy Governor, Reserve Bank of India for a period of three years with effect from the date of assumption of office or until further orders whichever is earlier. Shri Rao assumed office on October 9, 2020.

XI.13 The term of Shri B. P. Kanungo as Deputy Governor, Reserve Bank of India ended on April 2, 2021.

XI.14 The Central Government appointed Shri T. Rabi Sankar as Deputy Governor, Reserve Bank of India for a period of three years with effect from the date of joining the post or until further orders, whichever is earlier. Shri T. Rabi Sankar assumed office on May 3, 2021.

XI.15 The terms of three Central Board Directors Dr. Ashok Gulati, Shri Manish Sabharwal and Dr. Prasanna Kumar Mohanty ended on February 8, 2021. The term of Central Board Director Shri Dilip S. Sanghvi ended on March 10, 2021.

XI.16 The Central Government nominated Shri Ajay Seth, Secretary, Department of Economic Affairs, Ministry of Finance, Government of India, as Director on the Central Board of Reserve Bank of India with effect from April 24, 2021 and until further orders *vice* Shri Tarun Bajaj.

Executive Directors

XI.17 Executive Directors Dr. Rabi N. Mishra and Smt. Nanda S. Dave superannuated on August 31, 2020; Smt. Lily Vadera on October 29, 2020 and Smt. Indrani Banerjee on November 27, 2020. Shri M. Rajeshwar Rao sought voluntary retirement from the Reserve Bank's service *w.e.f.* October 8, 2020 to take up the position of Deputy Governor. Dr. Mridul K. Saggar was promoted as Executive Director on July 1, 2020; Shri Saurav Sinha and Shri Vivek Deep on September 1, 2020; Shri Jayant Kumar Dash on October 12, 2020 and Shri R. Subramanian, Shri Rohit Jain and Shri Radha Shyam Ratho on December 11, 2020. Shri T. Rabi Sankar sought voluntary retirement from the Reserve Bank's service *w.e.f.* May 3, 2021 to take up the position of Deputy Governor. Shri Jose J. Kattoor was promoted as Executive Director on May 4, 2021.

3. HUMAN RESOURCE DEVELOPMENT INITIATIVES

XI.18 The Reserve Bank has a wide canvas of operations, requiring a robust set of internal capabilities to fulfill its mandate. The Human Resource Management Department (HRMD) plays the role of an enabler and a facilitator, enhancing staff efficiency, and creating an atmosphere of teamwork by tapping potential capabilities of employees, necessary for their effectiveness at work. During the year, the Department continued to focus on the four pillars *viz.,* Training & Organisational Development, Performance Management, Organisational Structure & Operations plus Staff Engagement and carried out various activities pertaining to training, recruitment (including review of select recruitment related processes) and staff welfare, apart from taking up the challenge of maintaining business continuity amidst the pandemic. Major developments in these and other areas undertaken during the year are highlighted below, along with status of implementation of agenda set for 2020-21 as also agenda for 2021-22.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

XI.19 Last year, the Department had set out the following goals under *Utkarsh*:

- Reviewing the performance appraisal system and the current training policy (Para XI.20);
- Continuing the process of providing aid for setting up of specialised supervisory and regulatory cadre (Para XI.21); and
- Designing a competency mapping framework for select category of officers (Para XI.22).

Implementation Status of Goals

XI.20 Select aspects of performance appraisal system were proposed to be modified with a view to having in place a more holistic system covering soft skills apart from quantifiable aspects. Induction training for officers in Grade 'B', taken on board through the direct recruitment channel, was revamped and a more focused schedule was put in place. The Golden Jubilee Scholarship Scheme was modified to usher in greater focus and accountability.

XI.21 To ensure continued focus on building specialisation in regulatory and supervisory fields, due support was extended towards setting up of College of Supervisors (CoS) for officers attached to supervisory/regulatory departments.

XI.22 Design for a comprehensive competency management framework was worked out during the year (Box XI.1).

Major Developments

In-house Training

XI.23 The skill and knowledge development initiatives focused on strengthening technical and behavioural skills so as to facilitate personal growth and improve effectiveness at work. A number of

Box XI.1
Competency Management Framework for the Reserve Bank

The Competency Management Framework describes the desired knowledge, skills, aptitude, and personality traits that make up the profile of a successful central banker in his or her respective functional role. It provides an understanding of, and consistent approach to, measuring performance across various functions.

The framework, among other purposes, would primarily serve to optimise human resources by aiding in better person-job fit. The framework includes competencies and their description, behavioural indicators at different proficiency levels, assessment models for mapping competencies in officers, and processes for periodic review and updating of competencies.

The roll out of the framework across the Reserve Bank is envisaged to be completed in 2021.

Source: RBI.

Table XI.1: Programmes Conducted at Reserve Bank's Training Establishments

Training Establishment	2018-19 (July-June)		2019-20 (July-June)		2020-21 (July-March)	
	Number of Programmes	Number of Participants	Number of Programmes	Number of Participants	Number of Programmes	Number of Participants
1	2	3	4	5	6	7
RBI Academy	22	546 (38)	21	476 (2)	25	840
RBSC, Chennai	152	3,125 (499)	110	2,826 (85)	89	3,629 (72)
CAB, Pune	179	5,542 (51)	126	3,891 (37)	183	10,308 (45)
ZTCs (Class I)	116	2,271	92	1,667	135	3,682
ZTCs (Class III)	76	1,877	94	2,648	104	4,568
ZTCs (Class IV)	46	1,158	30	604	11	417

RBSC: Reserve Bank Staff College. CAB: College of Agricultural Banking.
Note: Figures in parentheses pertain to foreign participants and/or participants from external institutions.
Source: RBI.

programmes were conducted during the year by the Reserve Bank's Training Establishments (TEs) and Zonal Training Centres (ZTCs) towards achieving these objectives (Table XI.1). Several of these training programmes were conducted through online mode in the pandemic-induced environment during the year.

RBI Academy

XI.24 The Academy continued to work closely with the user departments to better understand their training needs and customise the training programmes accordingly to make them more effective. With the focus shifting to online mode due to pandemic, the Academy conducted a number of webinars during the year, including the impact of COVID-19 on regulation and supervision (in collaboration with IMF SARTTAC), and Big Data and FinTech (in collaboration with the World Bank). In addition, workshops on Managing Extreme Business Uncertainty and Leadership Foundation & Crucial Conversations for the senior officers of the Reserve Bank were also organised. Major initiatives undertaken during the year to make online programmes more effective included greater use of Learning Management System (LMS), conduct of live polls/quizzes and simulation exercises. To further enhance the e-Learning initiatives of the Reserve Bank, the Academy procured around 800 licenses for self-paced simulation modules and e-Learning modules related to behavioural skills. These modules will help in training employees in core competencies identified by the Reserve Bank.

Training at External Institutions

XI.25 The Reserve Bank deputes its officers to attend specific training programmes, seminars and conferences in India and abroad in order to tap expertise available in external institutes (Table XI.2). Class III and IV employees are also deputed for training in external institutions in India. It was, however, decided that, due to the pandemic, such deputations would only be made for attending online training programmes till the situation normalises.

Study Schemes

XI.26 Eight officers of the Reserve Bank availed of the schemes for pursuing higher studies overseas in addition to three officers deputed under the Reserve Bank's Golden Jubilee Scheme during the year.

Table XI.2: Number of Officers Trained in External Training Institutions in India and Abroad

Year	Trained in India (External Institutions)	Trained Abroad
1	2	3
2018 -19	952	378
2019 - 20	696	139
2020 - 21*	194	258

*: Online mode.
Note: Figures for 2020-21 relate to July 2020-March 2021, while those for previous years pertain to July-June.
Source: RBI.

Other Initiatives

Grants and Endowments

XI.27 As part of its mission to promote research, training and consultancy in the banking and financial sector, during July 2020-March 2021, the Reserve Bank provided financial support amounting to ₹18.0 crore to the Indira Gandhi Institute of Development Research (IGIDR), Mumbai; ₹2.8 crore to the Centre for Advanced Financial Research and Learning (CAFRAL), Mumbai, ₹0.8 crore to London School of Economics (LSE) India Observatory and IG Patel Chair, ₹0.5 crore to the Indian Institute of Bank Management (IIBM), Guwahati and ₹0.4 crore to National Institute of Bank Management (NIBM), Pune.

Industrial Relations

XI.28 Industrial relations in the Reserve Bank remained harmonious during the year. The pandemic necessitated adoption of the virtual mode to hold discussions with the recognised Associations/Federations of officers and employees/workmen on various matters related to service conditions and welfare measures for the employees. During July 2020-March 2021, HRMD, Central Office, held six meetings with central units of the recognised Associations/Federations, representing officers and workmen employees. Regional offices, too, kept their communication channels open with local units of these recognised Associations/ Federations.

Superannuation Benefits

XI.29 Based on successful conclusion of discussions with Government of India, it was decided to allow one last option to employees/ retired employees/eligible family members of deceased employees who had enrolled with contributory provident fund (CPF) scheme to switch over to the Reserve Bank's pension scheme, subject to certain conditions. Accordingly, 552 serving employees, 1,453 retired employees and 162 family members of deceased employees exercised the option to join the Reserve Bank's pension scheme.

Recruitments and Staff Strength

XI.30 During 2020 (January-December), the Reserve Bank recruited a total of 61 employees in various cadres (Table XI.3). The recruitment activities, which were held up on account of the pandemic, could restart in the second half of 2020. As such, most of the employees recruited as part of processes initiated during 2020 joined the Reserve Bank during January-March 2021. The Reserve Bank also reviewed select aspects of its processes pertaining to recruitment of officers in Grade 'B' (DRs) during the year. During the period

Table XI.3: Recruitments by the Reserve Bank in 2020*

Category	Total	*of which:* SC	ST	OBC
1	2	3	4	5
Class I	9	2	-	1
Class III	7	4	-	1
Class IV	45	-	-	32
Total	**61**	**6**	**-**	**34**

*January - December. -: Nil.
Source: RBI.

Table XI.4: Staff Strength of the Reserve Bank*

Category	Total Strength		Category-wise Strength						Per cent to Total Strength		
			SC		ST		OBC		SC	ST	OBC
	2019	2020	2019	2020	2019	2020	2019	2020	2020		
1	2	3	4	5	6	7	8	9	10	11	12
Class I	6,670	6,121	1,051	976	435	413	1,147	1,159	15.95	6.75	18.93
Class III	3,264	3,051	487	468	199	191	892	866	15.34	6.26	28.38
Class IV	3,522	3,104	877	724	291	249	682	672	23.32	8.02	21.65
Total	**13,456**	**12,276**	**2,415**	**2,168**	**925**	**853**	**2,721**	**2,697**	**17.66**	**6.95**	**21.97**

*: End December.
Source: RBI.

January to March 2021, a further 442 employees were recruited with 195 being in Class I and 247 in Class III.

XI.31 The total staff strength of the Reserve Bank as on December 31, 2020 was 12,276, a reduction of 8.8 per cent from a year ago (Table XI.4). As on March 31, 2021, total staff strength stood at 12,406.

XI.32 The total strength of ex-servicemen in the Reserve Bank stood at 940 as at end December 2020, while the total number of differently abled employees stood at 302 (Table XI.5). While no ex-servicemen and persons with benchmark disabilities (PWBD) were recruited during the year 2020, during January-March 2021, three PWBD were recruited in Class I.

XI.33 During 2020 (January-December), one meeting was held between the management and representatives of the All India Reserve Bank Scheduled Castes/Scheduled Tribes and the Buddhist Federation to discuss issues relating to the implementation of the Reserve Bank's reservation policy. A meeting was also held with the representatives of the Other Backward Class (OBC) Association.

Prevention of Sexual Harassment of Women at the Workplace

XI.34 A formal grievance redressal mechanism for prevention of sexual harassment of women at the workplace has been in place since 1998. It was strengthened with the issue of a new comprehensive set of guidelines in 2014-15

Table XI.5: Total Strength of Ex-Servicemen and PWBD*

Category	Ex-Servicemen (ESM)	PWBD (Persons with Benchmark Disabilities)			
		Visually Impaired (VI)	Hearing Impaired (HI)	Orthopedically Handicapped (OH)	Intellectual Disabilities**
1	2	3	4	5	6
Class I	230	34	-	108	-
Class III	171	35	7	60	4
Class IV	539	9	-	45	-

*: End December 2020. -: Nil.
**: As per Rights of Persons with Disability Act, 2016, intellectual disability is a condition characterised by significant limitation both in intellectual functioning (reasoning, learning and problem solving) and in adaptive behaviour, which covers a range of every day, social and practical skills, including 'specific learning disabilities' and 'autism spectrum disorder'.
Source: RBI.

in accordance with the Sexual Harassment of Women at Workplace (Prohibition, Prevention and Redressal) Act and Rules, 2013. During January-December 2020, two complaints were resolved, of which one was received during the half year ended December 2019. No complaint was received during January-March 2021. Several awareness programmes on the subject were organised at various Regional Offices for sensitising the staff, including the newly recruited and contractual employees and vendors. The Internal Committee members were also deputed for various workshops/training programmes organised by the Reserve Bank's training establishments as well as NGOs empaneled with Ministry of Women and Child Development, Government of India.

Right to Information (RTI)

XI.35 The Reserve Bank received 15,558 requests for information and 1,225 appeals under the RTI Act during July 1, 2020 - March 31, 2021. Two training programmes on the RTI Act were also conducted by the Zonal Training Centre, Chennai and Kolkata during the year.

Response to COVID-19 Pandemic

XI.36 Initiatives undertaken at the onset of pandemic in March 2020 were carried forward with suitable modifications based on evolving ground realities in order to ensure staff welfare and maintain business continuity. Responding to the call of Government of India to support people affected by any kind of emergency or distress situation, like the one posed by the COVID-19 pandemic, employees of the Reserve Bank contributed a total of ₹7.3 crore to the PM CARES Fund. In line with Government of India guidelines, contractual/outsourced personnel on duty during the period of lockdown were treated on duty irrespective of their presence in office and paid accordingly. Payment of minimum wages to workers directly employed on a regular basis by catering contractors in staff canteens/officers' lounges under the Service Contract Model was also facilitated. Following release of vaccination protocol by Government of India, arrangements were made with hospitals to vaccinate employees and their dependant family members. The situation continues to be closely monitored with proportion of employees of the Reserve Bank permitted to work from home, being suitably regulated in accordance with the government's guidelines and the prevailing situation.

Agenda for 2021-22

XI.37 The roadmap for the year would include the following milestones for the Department:

- To develop a pool of domain experts to represent Reserve Bank's (India's) views in international/multi-lateral meetings including having an appropriate succession plan in place for international meetings/ conferences to ensure continuity in knowledge of meetings (*Utkarsh)*;
- Review and reframe the organisational structure to effectively implement all strategies *(Utkarsh)*;
- To continue its efforts to lend sharper focus to its training and development related endeavours. A learning management system is envisaged to be introduced in the Reserve Bank, with e-Learning material procured from reputed vendors to facilitate implementation of the concept of blended learning; and
- To take steps to enhance efficiency of recruitment policies, particularly at officer level, with suitable changes carried out in consultation with the Reserve Bank Services Board.

4. ENTERPRISE-WIDE RISK MANAGEMENT

XI.38 The enterprise-wide risk management (ERM) framework was adopted by the Reserve Bank in February 2012 to develop an integrated assessment for the management of risk exposures, marking a move from a 'silo-based' approach to a 'whole-of-business' perspective on risk management. The Risk Monitoring Department (RMD) is the nodal Department for the formulation and operationalisation of ERM in the Reserve Bank.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

XI.39 Last year, the Department had set out the following goals:

- Review of the existing risk tolerance framework (*Utkarsh*) [Para XI.40];
- A portfolio-based credit value at risk/ expected shortfall (VaR/ES) model would be developed as an additional risk monitoring/ reporting tool, with the objective of facilitating effective oversight of credit risk (*Utkarsh*) [Para XI.41]; and
- A stress testing framework would be developed for robust assessment of the Reserve Bank's credit risk (Para XI.42).

Implementation Status of Goals

Review of the Existing Risk Tolerance Framework

XI.40 The risk tolerance statement articulated by the Committee of the Central Board (CCB) provides an overarching guidance for setting the risk tolerance limits (RTLs). A structured process has been put in place for formulation of RTLs and risk reporting framework. On a pilot basis, the RTLs for departments overseeing currency management and payment and settlement system have been formulated. As part of the phased implementation of the risk tolerance framework, the process of review of the existing risk tolerance limits, in line with internally articulated risk tolerance stance, is currently underway for some of the market departments.

Development of Portfolio-based Credit Value at Risk/Expected Shortfall (VaR/ES) Model

XI.41 A portfolio-based credit value at risk/ expected shortfall (VaR/ES) model was envisaged to be developed as an additional risk monitoring/ reporting tool. The background work has since been completed for the same. However, the final modelling and parameterisation would be done post completion of the review of the risk tolerance framework for the concerned business departments.

Development of Stress Testing Framework

XI.42 The development of a stress testing framework is serving as an additional tool for monitoring, and would be taken up post completion of the review of the risk tolerance framework for the concerned business departments.

Other Initiative

Chief Information Security Officer

XI.43 The Chief Information Security Officer (CISO) is responsible for: (a) defining information security risk management framework; (b) articulating and overseeing the adherence to the information security policy; (c) recommending suitable security technology solutions to address the identified risks; (d) providing necessary advice in support of implementation of the requirements; (e) managing detection, response and recovery operations to mitigate threats; and (f) coordinating the information security related issues within the organisation as well as with relevant external agencies.

XI.44 Information security function in the Reserve Bank follows three lines of defence adopted from the enterprise risk governance models accepted as a global best practice. The operational teams of business owner departments and DIT form the first line of defence, *viz.,* implementation. CISO plays a major role in the second line of defence which performs a pro-active role in the assessment and overseeing function of information security risk. The Inspection Department forms the third line of defence, *viz.,* assurance.

Agenda for 2021-22

XI.45 For the year, the following goals for the Department have been proposed:

- Roll-out of RTLs for other operational areas (*Utkarsh*);
- Quantification of IT and cyber risk (*Utkarsh*); and
- Review of the risk assessment methodology for operational risk.

5. INTERNAL AUDIT / INSPECTION

XI.46 The Inspection Department of the Reserve Bank examines, evaluates and reports on internal control and governance processes and provides risk assurance to the top management and the Central Board under risk-based internal audit (RBIA) framework. The Department also monitors the functioning of the concurrent audit (CA) system and control self-assessment audit (CSAA) in the Reserve Bank. The RBIA, CA and CSAA functions are performed through an automated system named audit management and risk monitoring system (AMRMS). The Department acts as secretariat to the Audit and Risk Management Sub-Committee (ARMS) of the Central Board and also to the Executive Directors' Committee (EDC) in overseeing the internal audit function.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

XI.47 Last Year, the Department had set out the following goals:

- Implementing project audit for all the identified high value IT and non-IT projects of the Reserve Bank (*Utkarsh*) [Para XI.48];
- Enhanced convergence with risk-rating as per risk assessment methodology for operational risk (RAM-OR) with respect to RBIA (*Utkarsh*) [Para XI.49];
- Leveraging on AMRMS data mining, analytics and management information system (MIS) reporting dashboards capabilities for effective risk assurance to the ARMS and top management (*Utkarsh*) [Para XI.50];
- Knowledge and capacity building through training programmes (*Utkarsh*) [Para XI.51]; and
- Implementing the revised risk rating and scoring methodology across the Reserve Bank (Para XI.52).

Implementation Status of Goals

XI.48 In pursuit of the goals set for the year, the Department conducted a pilot project audit of an IT project successfully with a view to promote an effective internal control environment for managing the implementation of projects in the Reserve Bank in a timely and cost-effective manner as per the project plan. The primary objective of the project audit is to assess, evaluate and provide an independent, objective assessment regarding execution of the project by evaluating the project plan, nature and extent of responsibilities, authority and accountability of the project management team, use of resources, timely completion and delivery of the project.

XI.49 The Department has also achieved the targeted convergence of the risk-ratings assessed under RBIA and risk ratings determined as per the RAM-OR during the year.

XI.50 While the automation of RBIA and CA functionality in AMRMS were achieved during previous year, the Department focused on automation of CSAA functionality and completed the same successfully during the year. Automation through AMRMS provides facilities like planning and conduct of audit; uniformity and standardisation in audit reporting; submission, processing and monitoring of compliances; data analytics and reporting dashboards on Key Performance Indicators (KPIs), documentation and record management, and alerts in an integrated manner. This has created synergy among the internal audit operations, risk management and risk assurance functions by bringing in enhanced internal audit efficacy, operational efficiency, confidentiality, spontaneous reporting, paper-less environment (reduced carbon foot print) and straight-through-processing (STP).

XI.51 The Department also endeavoured to enhance knowledge and capacity building by creating awareness among all the users through several trainings/workshops on automation in AMRMS covering all the Central Office departments, regional offices and training establishments of the Reserve Bank.

XI.52 The revised risk rating and scoring model has already been formulated and this will be implemented from January 2022 after making suitable changes in the AMRMS package. The model will be tested under parallel run mode during the second half of the year 2021.

Agenda for 2021-22

XI.53 During the year, the Department will focus on the following:

- Implementing full-fledged project audit for all the identified high value IT and non-IT projects of the Reserve Bank to assess effective management of cost, time and deliverables and to ensure that the management of projects are in-sync with the established project objectives (*Utkarsh*);
- Endeavour to achieve full convergence with risk-rating as per RAM-OR with risk-ratings assessed under RBIA (*Utkarsh*); and
- Implementing the revised risk rating and scoring methodology across the Reserve Bank from January 2022 after making suitable changes in the AMRMS package and testing it under parallel run mode during the second half of the year 2021.

6. CORPORATE STRATEGY AND BUDGET MANAGEMENT

XI.54 The Corporate Strategy and Budget Department (CSBD) coordinates and formulates the Reserve Bank's strategies, prepares its annual budget and monitors its expenditure with a view to ensuring budgetary discipline. The Department also formulates and executes the Reserve Bank's business continuity plan (BCP) for its critical operations and acts as the nodal Department for external institutions funded by the Reserve Bank.

XI.55 CSBD, being the nodal Department for business continuity management (BCM) framework of the Reserve Bank, played a key role in facilitating smooth functioning of its time-sensitive critical activities together with other essential activities during COVID-19 pandemic. The country-wide invocation of BCP for all regional offices/business units was handled with enhanced recourse to technology with dexterity. The Reserve Bank's proactive crisis management initiatives have borne ample dividend by ensuring uninterrupted 24X7 services for the payment system of the country in particular, and the banking system in general.

XI.56 With the alignment of the Reserve Bank's accounting year with the government's financial year (April-March), the budget estimate for the transition year 2020-21 was prepared for a period of nine months (July 2020 to March 2021). In order to improve the utilisation of the capital expenditure *vis-à-vis* the budgeted estimate, a capital expenditure buffer was set up with the approval of the Committee of the Central Board (CCB). The Expenditure Rules 2018 were amended to reinforce the internal financial controls under the expenditure framework of the Reserve Bank. The expenditure rules have also been mapped in bill payment module of *e-Kuber* to strengthen the financial discipline and improve management information system (MIS).

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

XI.57 Last Year, the Department had set out the following goals:

- Operationalising a dashboard to implement the key performance indicators-based (KPIs) framework for monitoring and assessing the implementation of strategic goals/milestones (*Utkarsh*) [Para XI.58];
- Strengthening of internal governance of external funded institutes (EFIs) [Para XI.59]; and
- Renewal of the memoranda of understanding (MoUs) with IGIDR and CAFRAL with the goal of enhancing the collaboration with these institutes (Para XI.60).

Implementation Status of Goals

XI.58 In compliance with the directions of the Strategy Sub-Committee of the Central Board, a key performance indicator (KPI) framework has been put in place to evaluate fulfilment of various milestones and goals under '*Utkarsh* 2022' (Box XI.2). The work on development of a dashboard for centralised monitoring of implementation of strategic goals/milestones has been taken up. The dashboard will also work as an early warning system for lagging milestones.

XI.59 In pursuance of the goals set for the year, steps were taken to strengthen the internal governance of external funded institutes through appointment of directors and timely filling up of vacancies arising on the boards and their sub-committees.

XI.60 A Memorandum of Understanding (MOU) was executed between the Reserve Bank and IGIDR, which requires IGIDR to move in the direction of financial self-sufficiency in the long-run.

Agenda for 2021-22

XI.61 The Department's agenda for the year includes the following:

- Operationalising *'Utkarsh'* dashboard with an inbuilt early warning system for potential non-achievement of strategic goals/milestones;
- Conducting a mid-term review of the strategy framework '*Utkarsh* 2022' by the Strategy Sub-Committee;

Box XI.2
The Strategic Framework of the Reserve Bank

The Reserve Bank articulated a formal strategic management framework in April 2015 and re-affirmed its core purpose, values and vision statements with a view to delineating its strategic objectives in contemporary terms and providing a framework and backdrop against which its policies could be formulated. Subsequently, a need was felt to have a medium-term dynamic strategy framework that could capture and respond to the rapidly emerging dynamics of the economic, social and technological ecosystem of the time. Responding to this need, *Utkarsh* 2022, the medium-term strategic framework of the Reserve Bank was launched in July 2019.

The implementation of *Utkarsh* 2022 is steered as a medium-term strategy by a high-level Strategy Sub-Committee of the Central Board of Directors of the Reserve Bank, comprising of three Central Board Directors, Deputy Governor and Executive Director-in-Charge of Corporate Strategy and Budget Department (CSBD) and CGM, CSBD. Though the unprecedented COVID-19 pandemic posed challenges in achieving the set milestones, 169 out of 226 milestones have been fully implemented as at end-March 2021, with over a year left for the goal implementation.

Fulfilment of strategic milestones under *Utkarsh* 2022 and their sustenance are monitored through a Key Performance Indicator (KPI) framework. The KPI framework is useful in capturing early warning signals for potential non-achievement of milestones. The milestones have further been grouped as input, process, output and outcome milestones to capture all dimensions of the Reserve Bank's working and function.

The sudden and rapid spread of the COVID-19 pandemic in March 2020, and the resultant country-wide lockdown put to test the resilience of *Utkarsh* 2022. The changes engendered by the lockdown in the modes of operation of most functions of the Reserve Bank, as also the banking system, changed the contours of banking in many ways. While some changes will be short-lived, there will be many which will permanently alter the way banking services are delivered and used. The shift to the digital mode of working and the growing competition from FinTech companies bring new challenges and opportunities for the banking system.

Under the guidance of the Strategy Sub-Committee, all departments have reviewed their strategies in the light of COVID-19 pandemic. Departments have pro-actively monitored the impact of COVID-19 pandemic on the banking services and have taken measures to counter disruptions and ensure business continuity, cyber security and uninterrupted operations of the payment system. The challenges arising out of COVID-19 have also been handled effectively by banks and other financial institutions.

Strategy plays a crucial role in shaping the future of an organisation, while also helping it in fulfilling its core mission and vision. Even as we are beginning to emerge from the shadows of COVID-19, the Reserve Bank's strategic framework recognises that new threats and opportunities can suddenly materialise. The Reserve Bank's strategic framework therefore strives to be dynamic, evolving and responsive to emerging threats and opportunities.

Since its launch in July 2019, *Utkarsh* 2022 has run half its course by March 2021. Having survived a global pandemic without the slightest interruption in delivery of banking and payments services across the country is no mean achievement. But complacency is the last thing one can afford in such testing times. The Strategy Sub-Committee, therefore, is set to have a mid-course review of *Utkarsh* 2022 in 2021. The exercise will provide much needed feedback on what worked well and what did not, and provide crucial inputs on where to turn the radar in looking out for the future.

Source: RBI.

- Putting in place a BCM framework for pandemic; and
- Rationalising additional budget sanction and automating the process.

7. RAJBHASHA

XI.62 The Rajbhasha Department has been entrusted with the responsibility to sensitise stakeholders for ensuring compliance to the provisions of the Official Language Policy of the Government of India. Accordingly, the Department has ensured compliance with the requirements of bilingualisation; imparting training of Hindi language to staff members to increase the use of Hindi in correspondence and internal work; and encouraging and motivating stakeholders to carry out their work in Hindi through various incentive schemes. The Department has performed on-site and off-site monitoring for compliance of the Official Language Policy to review the progress. The Department also ensures the compliance of the orders of the President of India on Official Language, targets of the annual programme as well as assurances given to the Committee of Parliament on Official Language during their visits and directions received from the Government of India from time to time.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

XI.63 Last Year, the Department had set out the following goals:

- Updating banking glossary (Para XI.64);
- Implementation of annual programme regarding use of Hindi and other guidelines issued by the Government of India from time to time (Para XI.65);
- Preparation of department-specific terminologies to promote the use of Hindi (Para XI.66);
- Commencing Hindi magazine competitions for the regional offices (ROs) in order to enhance creativity in Hindi among employees (Para XI.67);
- Conducting Hindi workshops for senior officers at ROs/CODs in order to update them with the latest instructions/guidelines regarding use of Hindi (Para XI.68); and
- Conducting a lecture series on banking topics in Hindi (Para XI.68).

Implementation Status of Goals

XI.64 Currently, banking glossary is being updated. Rajbhasha Department has constituted an inter-institution committee comprising bankers and eminent scholars to update the banking glossary. The first meeting of the committee was held on March 2, 2021. The work of updation is expected to be completed in next two years (by December 2022).

XI.65 Annual programme regarding use of Hindi issued by Department of Official Language, Ministry of Home Affairs was circulated to all regional offices (ROs) and Central Office departments (CODs) for implementation. CODs and ROs have achieved various targets set by the government.

XI.66 To promote the use of Hindi, preparation of department-specific terminologies was completed for some departments including Regulation, Foreign Exchange, Economic Research and Policy, Premises, Legal, Currency Management and Protocol & Security.

XI.67 With a view to enhance creativity in Hindi among staff members, a Hindi magazine competition has been introduced for ROs from 2020-21. Accordingly, magazine published by ROs during 2020-21 will be evaluated during 2021-22.

XI.68 A total number of 12 Hindi workshops were conducted during July 2020-March 2021 for senior officers at various ROs/CODs. Also, four lectures, *viz.,* 'Payments and Settlement Systems', 'Important Aspects of RBI Annual

Report 2019-20', 'An Overview of Regulation of NBFCs' and 'Financial Stability Report – Jan 2021' were organised in Hindi under "*Vyakhyan Manch*" for Rajbhasha officers.

Major Developments

XI.69 During July 2020-March 2021, 118 staff-members passed the *Pragya*[2] examination and 159 passed the *Parangat*[3] examination. Staff-members of CODs and ROs were trained to work in Hindi on computers. CODs and ROs observed 'Hindi Day' by organising Hindi *Samaroh* and seminars on diverse banking topics and conducted various competitions and programmes to create a conducive environment for the use of Hindi.

Training

XI.70 In pursuance of the Reserve Bank's vision statement "*Utkarsh* 2022" to enhance the skillset of human resources for current and emerging challenges, one batch of Rajbhasha officers was imparted training on general banking by Zonal Training Centre, Kolkata. Another training programme was organised by Rajbhasha Department on various aspects of 'Rajbhasha Inspections' for one batch of Rajbhasha officers in order to increase the efficacy of Rajbhasha inspections. Further, an online training programme for Rajbhasha officers on 'Latest Banking Concepts Useful in Translation' was organised by RBSC, Chennai.

Publications

XI.71 The statutory publications of the Reserve Bank, *viz.,* Annual Report, Report on Trend and Progress of Banking in India, Monetary Policy Report and other publications like the Financial Stability Report, Weekly Statistical Supplement and monthly Reserve Bank of India Bulletin were published in bilingual form and are available on the Reserve Bank's website. Apart from, *Rajbhasha Samachar,* covering the progressive use of Hindi in the Reserve Bank, the Hindi journal *'Banking Chintan Anuchintan'* was published by the Department.

Compliance of Assurances Given to the Committee of Parliament on Official Language

XI.72 The Committee of Parliament on Official Language regularly visits Reserve Bank's Central Office and ROs to review the progress made in the use of Hindi. The Reserve Bank's Central Official Language Implementation Committee monitors the compliance of the assurances given to the Committee. During the year, concerted efforts were made to focus on expenditure on advertisement in Hindi, training more staff for *Parangat,* filling up vacant posts in Rajbhasha cadre, and attending the meetings of Town Official Language Implementation Committee (TOLIC) by the Officers-in-Charge of the ROs.

XI.73 Draft and Evidence Sub-committee of Committee of Parliament on Official Language has reviewed the use of Hindi in Delhi Regional Office on November 17, 2020 under the aegis of TOLIC, Delhi and the progress was found satisfactory.

Integrated Rajbhasha Reporting System

XI.74 Integrated Rajbhasha Reporting System (IRRS), a package for collecting, processing, reporting and storing of data related to use of Hindi in the Reserve Bank, was inaugurated in September 2020 and made live. Various reports such as quarterly progress report, annual report, Hindi Advisory Committee report, annual assessment report, TOLIC report and roster of Hindi knowledge are being generated through this

[2] The examination is conducted for those who do not have working knowledge of Hindi.

[3] The highest examination to acquire proficiency in Hindi.

package. IRRS package has created a conducive environment for 'less paper' and automated workflows.

Agenda for 2021-22

XI.75 During the year, the Department plans to focus on the following:

- To publish a booklet on 'Rajbhasha Policy: An Introduction' and disseminate it to increase awareness among staff members;
- To prepare Annual Work Plan for implementation of Official Language Policy in accordance with the annual programme and other instructions issued by the Government of India and circulate it as a ready reckoner to all the ROs/CODs;
- To organise programmes on Rajbhasha Policy for senior officers of the Reserve Bank;
- To impart training to Rajbhasha officers on Rajbhasha inspection to increase the efficacy of Rajbhasha inspections;
- To organise region-wise review meeting for all the three regions (*i.e.,* A, B and C) with the Rajbhasha officers posted in ROs/ CODs to strengthen the monitoring system regarding use of Hindi;
- To monitor application softwares and materials uploaded on the Reserve Bank's website/EKP to ensure bilingualisation; and
- To strengthen the translation system by arranging training programmes on translation for Rajbhasha officers; and also organising meetings of Translation Review Committee at regular intervals.

8. PREMISES DEPARTMENT

XI.76 The vision of the Premises Department is to provide 'best in class' and environment-friendly physical infrastructure by integrating architectural excellence and aesthetic appeal with green ratings in the Reserve Bank's premises while ensuring the highest level of cleanliness.

Agenda for 2020-21: Implementation Status

Goals Set for 2020-21

XI.77 Last year, the Department had set out the following goals:

- Green rating certification from GRIHA/ IGBC[4] for at least one office and five existing residential buildings in addition to all the new building projects *(Utkarsh)* [Para XI.78]*;*
- Attaining 3.0 per cent of power consumption from renewable sources *(Utkarsh)* [Para XI.78];
- Attaining 2.5 per cent of energy savings *(Utkarsh)* [Para XI.78];
- Attaining 5.0 per cent of water conservation/savings *(Utkarsh)* [Para XI.78];
- Digitising inventory and assets tracking in association with Reserve Bank Information Technology Private Ltd. (ReBIT) [*Utkarsh]* (Para XI.78);
- Completion of the residential projects at Chennai, Mumbai and Delhi and construction of boundary walls at Agartala, Imphal and Ranchi (Para XI.79);
- Commencing construction of office premises at *Naya* Raipur and residential projects at Dehradun, Kharghar in Navi Mumbai and Jammu (Para XI.79); and

[4] Green Rating for Integrated Habitat Assessment (GRIHA)/Indian Green Building Council (IGBC).

- Reviewing and revising the contract architecture[5] and implementation of the project management tools[6] for monitoring of the projects (Para XI.80).

Implementation Status of Goals

XI.78 In 2020-21, developments were inspired by the vision, as the Department endeavoured to fulfill the goals set out in these areas. Several of the goals set under *Utkarsh* have been surpassed by the Department. As against the goal for obtaining relevant green rating from GRIHA/IGBC for at least one existing office building and five existing residential buildings, green rating from IGBC has been received for total of three office buildings and ten residential buildings during January 2020-January 2021. No new building has come up during the period under review. Against the target of achieving 3.0 per cent of base year (year ended June 2018) power consumption from renewable sources by all Reserve Bank's premises, aggregate energy generation from renewable sources was at 4.2 per cent in January 2021. Reserve Bank achieved energy saving of 30.1 per cent as against the target of 2.5 per cent by January 2021 over the annual consumption in the base year ended June 2018. Water conservation/ savings stood at 21.5 per cent in January 2021 (y-o-y) over the consumption in the base year ended June 2018 as against the target of 5.0 per cent. While improvement in the performance of central air-conditioning operation and other electrical equipment by implementing the recommendations of energy audit, replacement of conventional lights with LED lights in a phased manner, replacement of old equipment with energy efficient and Bureau of Energy Efficiency (BEE) star rated equipment, and replacement of conventional taps with sensor-based taps played a role in achieving the targets, the steep increase in energy savings and conservation of water was mainly due to the restricted office working hours on account of COVID-19 induced lockdowns / restrictions during April to December 2020.The process of digitising inventory and fixed asset tracking in association with ReBIT and thereby implementation of Fixed Asset Management System was completed in 72 per cent of ROs by end of March 2021. While the pace of work was hampered in some ROs due to the COVID-19 related lockdown, limited availability of vendors also played its part in non-completion of this work.

XI.79 Construction of residential projects at Chennai (Anna Nagar), Mumbai (Chembur) and Delhi (Hauz Khas) were affected by the COVID-19 related lockdown. However, Chennai and Delhi projects are in an advanced stage of completion. The construction of boundary walls for Reserve Bank's office plots at Imphal and Agartala has been completed as targeted. Expenditure sanction has been granted for construction of boundary wall on the Ranchi office plot and the work is scheduled to be executed in 2021-22. The Dehradun residential project is at an advanced stage of planning and approval, while tender documents are under examination for the Jammu residential project. All these projects are expected to take off in 2021-22.

XI.80 Reviewing and revising the contract architecture for projects on 'Deposit' work basis has been completed and implementation of the

[5] Refers to the framework covering planning to completion of construction projects.

[6] These are software solutions that help in monitoring and efficiently managing the projects.

project management software is presently under user acceptance test environment and is expected to go live in 2021-22.

Major Developments

Construction Activities

XI.81 The structure of the institutional building for Centre for Advanced Financial Research and Learning (CAFRAL) at Mumbai has been completed. The remaining structural work and finishing works are in progress. The construction of office building at Dehradun has started.

Preventive Measures against COVID-19

XI.82 The Department took a number of measures in Central Office building for the safety of the employees who attended office during the COVID-19 induced lockdown, including provision of Minimum Efficiency Reporting Value-13 (MERV-13) filters and ultra violet germicidal irradiation (UVGI) assemblies in all the air handling units (AHUs).

Green Initiatives (Other than Targeted under Utkarsh)

XI.83 The Reserve Bank has been generating renewable energy through solar power plants installed at various offices and residential colonies. During July 2020-March 2021, solar power plants have been installed at 18 residential colonies. Consequently, 26 office premises and 44 residential premises had such solar power plants by end of March 2021, with solar power generation capacity enhanced from 2,034 kWp (kilowatts Peak) [June 2020] to 2,504 kWp (March 2021). Rain water harvesting systems have been installed at 17 offices and 40 residential buildings and sewage treatment plants at 3 offices and 11 residential buildings for conservation and efficient management of water resources. Organic waste converters have also been installed at 11 offices and 43 residential premises.

Other Initiatives

XI.84 Additional office premises were taken on lease for Ahmedabad and Ranchi offices and land was acquired from the respective state governments for construction of office premises at Panaji, Goa, and for office and residential premises at Aizawl, Mizoram.

XI.85 The Department is having on its record around 23,000 drawings and tracings of plans of various offices. All the drawings and tracings have been digitised and e-indexed for easy access and efficient record management.

XI.86 A web-based platform named GREEN (**G**eneration of **R**enewable **E**nergy, **E**nergy Conservation and ***N****eer* Conservation) has been developed in consultation with ReBIT for consolidation and analysis of *Utkarsh* data and information on other green initiatives and energy/water audit received from the ROs with an aim to improve energy efficiency/conservation. User acceptance test (UAT) of the platform is under progress.

XI.87 Presently all the tenders beyond ₹5 lakh are being invited through e-tendering using the MSTC portal. During the year, 770 e-tenders were floated by the CODs, ROs and TEs. Further, in order to bring more transparency in sale of material (scrap and obsolete material), an agreement was entered into with MSTC Ltd. and guidelines were issued to all ROs/TEs for conducting sales of goods/scraps for ₹5 lakh and above in a single transaction by e-auction also on the MSTC portal.

Agenda for 2021-22

XI.88 For the year 2021-22, the Department has set the following goals:

- Achieve and improve upon the targets set under *Utkarsh* for January 2022;

- Takeover residential projects at Chennai (Anna Nagar) and Delhi (Hauz Khas) which are nearing completion;
- Commence construction of office premises at *Naya* Raipur, residential projects at Dehradun and Jammu and residential-cum-ZTC project at Mumbai (Kharghar);
- Construct boundary walls at Shillong and Ranchi Office plots;
- Shift from UAT to production environment for implementation of enterprise project management software for monitoring major projects;
- Implement GREEN data platform for online consolidation and analysis of *Utkarsh* data and information on other green initiatives and energy/water audit received from the ROs; and
- Continue with green initiatives.

9. CONCLUSION

XI.89 In sum, this chapter provides a snapshot of the developments in the areas of governance and human resources, and also the measures adopted during the year for strengthening the risk monitoring and internal audit mechanism in the Reserve Bank. HRMD conducted various skill enhancing programmes for the staff during the year in virtual mode using cloud-based video applications. Compliance with the statutory provisions of the Official Languages Act of the Government of India was ensured by the Rajbhasha Department, while the Premises Department continued with its efforts to provide environment friendly physical infrastructure. The departments have evaluated their goals set for the year and set out agenda for 2021-22. With the outbreak of COVID-19, the critical business processes were secured to ensure business continuity and smooth functioning of the Reserve Bank's time-sensitive critical activities, while ensuring the safety and health of its human resources.

Annex

Table XI.1: Attendance in the Meeting of the Central Board of Directors during July 1, 2020 – March 31, 2021

Name of the Member	Appointed/Nominated under RBI Act, 1934	No. of Meetings Held	No. of Meetings Attended
1	2	3	4
Shaktikanta Das	8(1)(a)	5	5
B. P. Kanungo^	8(1)(a)	5	5
Mahesh Kumar Jain	8(1)(a)	5	5
Michael Debabrata Patra	8(1)(a)	5	5
M. Rajeshwar Rao*	8(1)(a)	4	4
Prasanna Kumar Mohanty@	8(1)(b)	3	3
Dilip S. Shanghvi#	8(1)(b)	4	4
Revathy Iyer	8(1)(b)	5	5
Sachin Chaturvedi	8(1)(b)	5	4
Natarajan Chandrasekaran	8(1)(c)	5	5
Ashok Gulati@	8(1)(c)	3	3
Manish Sabharwal@	8(1)(c)	3	3
Satish Kashinath Marathe	8(1)(c)	5	5
Swaminathan Gurumurthy	8(1)(c)	5	5
Debasish Panda	8(1)(d)	5	5
Tarun Bajaj	8(1)(d)	5	5

^: Deputy Governor till April 2, 2021. *: Deputy Governor *w.e.f.* October 9, 2020.
@: Director till February 8, 2021. #: Director till March 10, 2021.

Table XI.2: Attendance in the Meeting of the Committees of the Central Board during July 1, 2020 - March 31, 2021

Name of the Member	Appointed /Nominated under RBI Act,1934	No. of Meetings Held	No. of Meetings Attended
1	2	3	4
I. Committee of the Central Board (CCB)			
Shaktikanta Das	8(1)(a)	35	33
B. P. Kanungo^	8(1)(a)	35	33
Mahesh Kumar Jain	8(1)(a)	35	33
Michael Debabrata Patra	8(1)(a)	35	35
M. Rajeshwar Rao*	8(1)(a)	21	21
Prasanna Kumar Mohanty@	8(1)(b)	11	11
Dilip S. Shanghvi#	8(1)(b)	13	13
Revathy Iyer	8(1)(b)	12	11
Sachin Chaturvedi	8(1)(b)	12	12
Natarajan Chandrasekaran	8(1)(c)	12	6
Ashok Gulati@	8(1)(c)	11	7
Manish Sabharwal@	8(1)(c)	10	9
Satish Kashinath Marathe	8(1)(c)	12	10
Swaminathan Gurumurthy	8(1)(c)	11	1
Tarun Bajaj	8(1)(d)	26	26

^: Deputy Governor till April 2, 2021. *: Deputy Governor *w.e.f.* October 9, 2020.
@: Director till February 8, 2021. #: Director till March 10, 2021.

II. Board for Financial Supervision (BFS)			
Shaktikanta Das	Chairman	9	9
Mahesh Kumar Jain	Vice-Chairman	9	9
B. P. Kanungo^	Member	9	9
Michael Debabrata Patra	Member	9	6
M. Rajeshwar Rao*	Member	6	6
Ashok Gulati#	Member	7	6
Satish Kashinath Marathe	Member	9	9
Sachin Chaturvedi	Member	9	9

^: Deputy Governor till April 2, 2021. *: Deputy Governor *w.e.f.* October 9, 2020. #: Member till February 8, 2021.

III. Board for Regulation and Supervision of Payment and Settlement Systems (BPSS)			
Shaktikanta Das	Chairman	2	2
B. P. Kanungo^	Vice-Chairman	2	2
Mahesh Kumar Jain	Member	2	2
Michael Debabrata Patra	Member	2	2
M. Rajeshwar Rao*	Member	1	1
Natarajan Chandrasekaran	Member	2	1
Manish Sabharwal#	Member	1	1

^: Deputy Governor till April 2, 2021. *: Deputy Governor *w.e.f.* October 9, 2020. #: Member till February 8, 2021.

Table XI.3: Attendance in the Meeting of the Sub-Committees of the Board
July 1, 2020 – March 31, 2021

Name of the Member	Appointed/Nominated under RBI Act, 1934	No. of Meetings Held	No. of Meetings Attended
1	2	3	4
I. Audit & Risk Management Sub-Committee (ARMS)			
Revathy Iyer	Chairperson	6	6
Ashok Gulati^	Member	4	3
M. Rajeshwar Rao*	Member	3	3
B. P. Kanungo@	Invitee	6	6
Mahesh Kumar Jain	Invitee	6	6
Michael Debabrata Patra	Invitee	6	6

^: Member till February 8, 2021. *: Member *w.e.f.* October 9, 2020. @: Invitee till April 2, 2021.

II. Building Sub-Committee (BSC)			
Dilip S. Shanghvi*	Chairman	2	2
Prasanna Kumar Mohanty^	Member	1	1
Mahesh Kumar Jain	Member	2	2

*: Chairman till March 10, 2021. ^: Member till February 8, 2021.

III. Human Resource Management Sub-Committee (HRM-SC)			
Manish Sabharwal*	Chairman	2	2
Dilip Shanghvi#	Member	2	2
Mahesh Kumar Jain	Member	2	2

*: Chairman till February 8, 2021. #: Member till March 10, 2021.

IV. Information Technology Sub-Committee (IT-SC)			
Manish Sabharwal^	Chairman	4	4
Sachin Chaturvedi	Member	4	3
B. P. Kanungo@	Member	4	3

^: Chairman till February 8, 2021. @: Member till April 2, 2021.

V. Strategy Sub-Committee			
Prasanna Kumar Mohanty^	Chairman	2	2
Manish Sabharwal#	Member	2	2
Revathy Iyer	Member	2	2
B. P. Kanungo@	Member	2	2
Mahesh Kumar Jain	Member	2	2
Michael Debabrata Patra	Member	2	2
M. Rajeshwar Rao*	Member	1	1

^: Chairman till February 8, 2021. #: Member till February 8, 2021.
@: Member till April 2, 2021. *: Member *w.e.f.* October 9, 2020.

Table XI.4: Attendance in the Meetings of Local Boards during July 1, 2020 to March 31, 2021

Name of the Member	Appointed/Nominated under RBI Act, 1934	No. of Meetings Held	No. of Meetings Attended
1	2	3	4
Sachin Chaturvedi, EALB	Section 9(1)	2	2
Sunil Mitra*, EALB	Section 9(1)	2	2
Dilip S. Shanghvi#, WALB	Section 9(1)	2	2
V. R. Bhanshali*, WALB	Section 9(1)	2	2
Revathy Iyer, NALB	Section 9(1)	3	3
R. N. Dubey, NALB	Section 9(1)	3	3
Prasanna Kumar Mohanty, SALB^	Section 9(1)	0	0

EALB: Eastern Area Local Board.
NALB: Northern Area Local Board.
^: SALB could not function due to lack of quorum.
*: Member till February 8, 2021.
WALB: Western Area Local Board.
SALB: Southern Area Local Board.
#: Director till March 10, 2021.

Table XI.5: Attendance in the Meeting of Standing Committee of the Central Board of Directors in lieu of Local Board/s during July 1, 2020 to March 31, 2021

Name of the Member	No. of Meetings Held	No. of Meetings Attended
1	2	3
Prasanna Kumar Mohanty@, Chairman	2	2
Satish Kashinath Marathe, Member	2	2

@: Chairman till February 8, 2021.
Note: Meetings held in *lieu* of Southern Area Local Board.

XII THE RESERVE BANK'S ACCOUNTS FOR 2020-21

The year 2020-21 is significant for the change in the accounting year of the Reserve Bank to April - March (earlier July - June). Due to this transition, the accounting year 2020-21 was of nine months only, i.e., July 2020 - March 2021. Thus, data presented in the chapter are for a period of nine months for 2020-21 as compared to twelve months for the previous year(s). The Balance Sheet size of the Reserve Bank, nevertheless, increased by 6.99 per cent for the year ended March 31, 2021, mainly reflecting its liquidity and foreign exchange operations. While income for the year decreased by 10.96 per cent, the expenditure decreased by 63.10 per cent. The year ended with an overall surplus of ₹99,122 crore as against ₹57,127.53 crore in the previous year, representing an increase of 73.51 per cent.

XII.1 The balance sheet of the Reserve Bank plays a critical role in the functioning of the country's economy, largely reflecting the activities carried out in pursuance of its currency issue function as well as monetary policy and reserve management objectives. The key financial results of the Reserve Bank's operations during the year 2020-21 (July - March) are set out in the following paragraphs.

XII.2 The size of the balance sheet increased by ₹3,72,876.43 crore, *i.e.,* 6.99 per cent from ₹53,34,792.70 crore as on June 30, 2020 to ₹57,07,669.13 crore as on March 31, 2021. The increase on the asset side was mainly due to increase in foreign and domestic investments by 11.48 per cent and 13.75 per cent, respectively. On the liability side, the increase was due to increase in Deposits, Notes Issued and Other Liabilities by 26.85 per cent, 7.26 per cent and 43.05 per cent, respectively. Domestic assets constituted 26.42 per cent while the foreign currency assets and gold (including gold deposit and gold held in India) constituted 73.58 per cent of total assets as on March 31, 2021 as against 28.75 per cent and 71.25 per cent, respectively, as on June 30, 2020.

XII.3 A provision of ₹20,710.12 crore was made and transferred to Contingency Fund (CF). No provision was made towards Asset Development Fund (ADF). The trends in income, expenditure, net disposable income and the surplus transferred to the Government are given in Table XII.1.

Table XII.1: Trends in Income, Expenditure and Net Income

(Amount in ₹ crore)

Item	2016-17	2017-18	2018-19	2019-20	2020-21
1	2	3	4	5	6
a) Income	61,818.05	78,280.66	1,93,035.88	1,49,672.46	1,33,272.75
b) Total Expenditure[1]	31,154.93[2]	28,276.66[3]	17,044.15[4]	92,540.93[5]	34,146.75[6]
c) Net Income (a-b)	30,663.12	50,004.00	1,75,991.73	57,131.53	99,126.00
d) Transfer to Funds[7]	4.00	4.00	4.00	4.00	4.00
e) Surplus Transferred to the Central Government (c-d)	30,659.12	50,000.00	1,75,987.73	57,127.53	99,122.00

Note: 1. Includes provision towards CF and ADF.
2. Includes a provision of ₹50 crore towards capital contribution in the Reserve Bank's subsidiary ReBIT and a provision of ₹13,140 crore towards transfer to CF.
3. Includes a provision of ₹14,189.27 crore towards transfer to CF.
4. Includes a provision of ₹63.60 crore towards transfer to ADF.
5. Includes a provision of ₹73,615 crore towards transfer to CF.
6. Includes a provision of ₹20,710.12 crore towards transfer to CF.
7. An amount of ₹1 crore each has been transferred to the National Industrial Credit (Long Term Operations) Fund, the National Rural Credit (Long Term Operations) Fund, the National Rural Credit (Stabilisation) Fund and the National Housing Credit (Long Term Operations) Fund during each of the five years.

XII.4 **Changes in the financial statements effective from 2020-21:**

XII.4.1 Based on the recommendations of Expert Committee to review the extant Economic Capital Framework (ECF) of the Reserve Bank (Chairman: Dr Bimal Jalan), formed in 2018, following changes have been effected from the current year 2020-21:

(a) **Accounting year**: The accounting year of the Reserve Bank has been changed from 'July - June' to 'April - March'. This year being the year of transition, is of nine months only (July 2020 - March 2021).

(b) **Presentation of Risk Provisions and Revaluation Accounts**: The Risk Provisions (CF and ADF) and the balances in the Revaluation Accounts which formed part of the balance sheet head 'Other Liabilities and Provisions', are now shown as distinct balance sheet heads.

(c) **Balance sheet head - 'Other Liabilities and Provisions':** The nomenclature has been changed to 'Other Liabilities'.

XII.4.2 In addition to the above, following changes have also been incorporated from 2020-21:

(a) **Unit of presentation** of the financial statements has been changed from 'Rupees billion' to 'Rupees crore'.

(b) **Gold coin and Bullion**: The nomenclature of 'Gold coin and Bullion' forming part of Assets of Banking Department (BD) and 'Gold Coin and Bullion (as backing for Note issue)' forming part of Assets of Issue Department (ID) has been changed to 'Gold - BD' and 'Gold - ID', respectively.

The above changes have been notified by Government of India *vide* its Gazette Notification dated November 11, 2020. Also, the numbering of schedules has changed due to the changes indicated in XII. 4.1(b) above.

XII.5 The Independent Auditors' Report, the Balance Sheet and the Income Statement for the year 2020-21 along with the schedules, statement of Significant Accounting Policies and supporting Notes to Accounts are as follows:

INDEPENDENT AUDITORS' REPORT

To,
The President of India

Report on Audit of Financial Statements of Reserve Bank of India

Opinion

We, the undersigned Auditors of the Reserve Bank of India (hereinafter referred to as the "Bank"), do hereby report to the Central Government upon the Balance Sheet of the Bank as on March 31, 2021 and the Income Statement for the year ended on that date (hereinafter referred to as "Financial Statements"), which have been audited by us. This year being year of transition is of nine months (from July 1, 2020 to March 31, 2021).

In our opinion and to the best of our information and according to explanations given to us and as shown by the books of accounts of the Bank, the Balance Sheet read with Significant Accounting Policies is a full and fair Balance Sheet containing all necessary particulars and is properly drawn up in accordance with the requirements of the provisions of the Reserve Bank of India Act, 1934 ("the RBI Act, 1934") and Regulations framed there under so as to exhibit true and correct view of the state of affairs of the Bank as on March 31, 2021 and its results of operations for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing ("SAs") issued by the Institute of Chartered Accountants of India ("ICAI"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the financial statements.

Information Other than the Financial Statements and Auditor's Report Thereon

The Management is responsible for the other information. The other information comprises the information included in the Notes to the Accounts but does not include the Financial Statements and our report thereon.

Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Bank's Management and those Charged with Governance for the Financial Statements are responsible for the preparation of the Financial Statements that give a true and correct view of the state of affairs and results of operations of the Bank in accordance with the requirements of the provisions of the RBI Act, 1934 and Regulations framed thereunder and the accounting policies and practices followed by the Bank. This responsibility also includes maintenance of adequate auditing records and preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent and the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Financial Statements that give a true and correct view and are free from material misstatement, whether due to fraud or error.

As per the RBI Act, 1934, the Bank can be liquidated only by the Central Government by order and in any other manner as it may direct. Also, while the fundamental basis of preparation of Financial Statements of the Bank are based on provisions of the RBI Act, 1934 and Regulations framed thereunder, the Management has adopted the accounting policies and practices which reflects its continuity as a Going concern.

Those charged with governance are also responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal financial control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the basis of accounting adopted by the Management and to see whether the accounting policies and information reflects it to be a going concern and based on the audit evidence obtained, whether a material uncertainty exists related to use of the basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other Matters

The audit of the financial statements of the Bank for the year ended June 30, 2020, was carried out and reported jointly by M/s Prakash Chandra Jain & Co. and M/s Haribhakti & Co., LLP, Chartered Accountants, vide their unmodified audit report dated August 14, 2020, whose report has been furnished to us by the Management and which has been relied upon by us for the purpose of our audit of the financial information. Our opinion is not modified in respect of this matter.

We report that we have called for information and explanations from the Bank considered necessary for the purpose of our audit and such information and explanations have been given to our satisfaction.

We also report that the Financial Statements include the accounts of twenty-two accounting units of the Bank which have been audited by Statutory Branch Auditors and we have relied on their report in this regard.

For Prakash Chandra Jain & Co.
Chartered Accountants
(ICAI Firm Registration No. 002438C)

Pratibha Sharma
Partner
Membership No. 400755
UDIN:21400755AAAABG4540

For G. M. Kapadia & Co.
Chartered Accountants
(ICAI Firm Registration No. 104767W)

Atul Shah
Partner
Membership No. 039569
UDIN:21039569AAAAHP8880

Place: Mumbai
Date: May 21, 2021

RESERVE BANK OF INDIA
BALANCE SHEET AS ON MARCH 31, 2021

(Amount in ₹ crore)

Liabilities	Schedule	2019-20	2020-21	Assets	Schedule	2019-20	2020-21
Capital		5.00	5.00	**Assets of Banking Department (BD)**			
Reserve Fund		6,500.00	6,500.00	Notes, Rupee Coin, Small Coin	6	12.59	12.02
Other Reserves	1	232.00	234.00	Gold - BD	7	1,42,874.67	1,43,582.87
Deposits	2	11,75,859.89	14,91,537.70	Investments-Foreign-BD	8	10,23,399.50	12,29,940.41
Risk Provisions				Investments-Domestic-BD	9	11,72,027.28	13,33,173.90
Contingency Fund		2,64,033.94	2,84,542.12	Bills Purchased and Discounted		0.00	0.00
Asset Development Fund		22,874.68	22,874.68	Loans and Advances	10	3,22,207.95	1,35,118.91
Revaluation Accounts	3	11,24,390.72	9,24,454.99	Investment in Subsidiaries	11	1,963.60	1,963.60
Other Liabilities	4	1,05,321.81	1,50,657.97	Other Assets	12	36,732.45	37,014.75
Liabilities of Issue Department				**Assets of Issue Department (ID) (As backing for Notes Issued)**			
Notes Issued	5	26,35,574.66	28,26,862.67	Gold - ID	7	1,13,145.92	1,04,140.13
				Rupee Coin		784.83	743.40
				Investments-Foreign-ID	8	25,21,643.91	27,21,979.14
				Investments-Domestic-ID	9	0.00	0.00
				Domestic Bills of Exchange and other Commercial Papers		0.00	0.00
						26,35,574.66	**28,26,862.67**
Total Liabilities		**53,34,792.70**	**57,07,669.13**	**Total Assets**		**53,34,792.70**	**57,07,669.13**

Charulatha S. Kar	T. Rabi Sankar	M. Rajeshwar Rao	M. D. Patra	M. K. Jain	Shaktikanta Das
Chief General Manager-in-Charge	Deputy Governor	Deputy Governor	Deputy Governor	Deputy Governor	Governor

RESERVE BANK OF INDIA
INCOME STATEMENT FOR THE YEAR ENDED MARCH 31, 2021

(Amount in ₹ crore)

INCOME	Schedule	2019-20	2020-21
Interest	13	1,09,333.40	69,057.09
Other Income	14	40,339.06	64,215.66
Total		**1,49,672.46**	**1,33,272.75**
EXPENDITURE			
Printing of Notes		4,377.84	4,012.09
Expenditure on Remittance of Currency		87.19	54.80
Agency Charges	15	3,876.08	3,280.06
Employee Cost		8,928.06	4,788.03
Interest		1.34	1.10
Postage and Telecommunication Charges		116.74	105.46
Printing and Stationery		20.03	17.00
Rent, Taxes, Insurance, Lighting, *etc.*		136.39	122.24
Repairs and Maintenance		87.72	76.49
Directors' and Local Board Members' Fees and Expenses		2.02	0.36
Auditors' Fees and Expenses		6.00	4.90
Law Charges		9.22	8.57
Depreciation		206.11	200.09
Miscellaneous Expenses		1,071.19	765.44
Provisions		73,615.00	20,710.12
Total		**92,540.93**	**34,146.75**
Available Balance		**57,131.53**	**99,126.00**
Less:			
(a) Contribution to:			
i) National Industrial Credit (Long Term Operations) Fund		1.00	1.00
ii) National Housing Credit (Long Term Operations) Fund		1.00	1.00
(b) Transferable to NABARD:			
i) National Rural Credit (Long Term Operations) Fund[1]		1.00	1.00
ii) National Rural Credit (Stabilisation) Fund[1]		1.00	1.00
(c) Others			
Surplus payable to the Central Government		**57,127.53**	**99,122.00**

1. *These funds are maintained by the National Bank for Agriculture and Rural Development (NABARD).*

Charulatha S. Kar	T. Rabi Sankar	M. Rajeshwar Rao	M. D. Patra	M. K. Jain	Shaktikanta Das
Chief General Manager-in-Charge	Deputy Governor	Deputy Governor	Deputy Governor	Deputy Governor	Governor

SCHEDULES FORMING PART OF BALANCE SHEET AND INCOME STATEMENT

(Amount in ₹ crore)

			2019-20	2020-21
Schedule 1:	**Other Reserves**			
	(i) National Industrial Credit (Long Term Operations) Fund		29.00	30.00
	(ii) National Housing Credit (Long Term Operations) Fund		203.00	204.00
		Total	**232.00**	**234.00**
Schedule 2:	**Deposits**			
	(a) Government			
	(i) Central Government		100.27	5,000.15
	(ii) State Governments		42.48	42.48
		Sub total	***142.75***	***5,042.63***
	(b) Banks			
	(i) Scheduled Commercial Banks		4,37,616.68	6,51,748.12
	(ii) Scheduled State Co-operative Banks		5,207.87	8,893.19
	(iii) Other Scheduled Co-operative Banks		7,138.21	9,848.31
	(iv) Non-Scheduled State Co-operative Banks		2,472.18	4,560.21
	(v) Other Banks		18,413.73	23,817.12
		Sub total	***4,70,848.67***	**6,98,866.95**
	(c) Financial Institutions outside India			
	(i) Repo borrowing - Foreign		0.00	9,038.44
	(ii) Reverse Repo Margin - Foreign		0.00	120.51
		Sub total	***0.00***	***9,158.95***
	(d) Others			
	(i) Administrators of RBI Employee PF A/c		4,549.26	4,302.70
	(ii) Depositors' Education and Awareness Fund		33,114.46	39,264.25
	(iii) Balances of Foreign Central Banks		1,680.01	1,226.67
	(iv) Balances of Indian Financial Institutions		2,347.06	1,439.68
	(v) Balances of International Financial Institutions		351.39	522.50
	(vi) Mutual Funds		1.35	1.35
	(vii) Others		6,62,824.94	7,31,712.02
		Sub total	***7,04,868.47***	***7,78,469.17***
		Total	**11,75,859.89**	**14,91,537.70**
Schedule 3:	**Revaluation accounts**			
	(i) Currency and Gold Revaluation Account (CGRA)		9,77,141.23	8,58,877.53
	(ii) Investment Revaluation Account-Foreign Securities (IRA-FS)		53,833.99	8,853.67
	(iii) Investment Revaluation Account-Rupee Securities (IRA-RS)		93,415.50	56,723.79
	(iv) Forward Exchange Forward Contracts Valuation Account (FCVA)		0.00	0.00
		Total	**11,24,390.72**	**9,24,454.99**
Schedule 4:	**Other Liabilities**			
	(i) Provision for Forward Contracts Valuation Account (PFCVA)		5,925.41	6,127.35
	(ii) Provision for payables		2,599.61	3,240.73
	(iii) Gratuity and Superannuation Fund		25,639.39	28,497.67
	(iv) Surplus Payable to the Central Government		57,127.53	99,122.00
	(v) Bills Payable		2.46	4.36
	(vi) Miscellaneous		14,027.41	13,665.86
		Total	**1,05,321.81**	**1,50,657.97**
Schedule 5:	**Notes Issued**			
	(i) Notes held in the Banking Department		12.52	11.98
	(ii) Notes in circulation		26,35,562.14	28,26,850.69
		Total	**26,35,574.66**	**28,26,862.67**

			2019-20	2020-21
Schedule 6:	**Notes, Rupee Coin, Small Coin**			
	(i) Notes		12.52	11.98
	(ii) Rupee Coin		0.06	0.03
	(iii) Small Coin		0.01	0.01
		Total	**12.59**	**12.02**
Schedule 7:	**Gold**			
	(a) Banking Department			
	(i) Gold		1,39,376.67	1,43,582.87
	(ii) Gold Deposit		3,498.00	0.00
		Sub Total	***1,42,874.67***	***1,43,582.87***
	(b) Issue Department		1,13,145.92	1,04,140.13
		Total	**2,56,020.59**	**2,47,723.00**
Schedule 8:	**Investments - Foreign**			
	(i) Investments - Foreign - BD		10,23,399.50	12,29,940.41
	(ii) Investments - Foreign - ID		25,21,643.91	27,21,979.14
		Total	**35,45,043.41**	**39,51,919.55**
Schedule 9:	**Investments - Domestic**			
	(i) Investments - Domestic - BD		11,72,027.28	13,33,173.90
	(ii) Investments - Domestic - ID		0.00	0.00
		Total	**11,72,027.28**	**13,33,173.90**
Schedule 10:	**Loans and Advances**			
	(a) Loans and Advances to :			
	(i) Central Government		0.00	0.00
	(ii) State Governments		4,624.47	3,382.79
		Sub total	***4,624.47***	***3,382.79***
	(b) Loans and Advances to:			
	(i) Scheduled Commercial Banks		2,85,576.86	90,252.18
	(ii) Scheduled State Co-operative Banks		0.00	0.00
	(iii) Other Scheduled Co-operative Banks		0.00	0.00
	(iv) Non-Scheduled State Co-operative Banks		0.00	0.00
	(v) NABARD		22,123.19	25,425.56
	(vi) Others		9,883.43	6,905.32
		Sub total	***3,17,583.48***	***1,22,583.06***
	(c) Loans and Advances to Financial Institutions outside India:			
	(i) Repo Lending - Foreign		0.00	9,129.72
	(ii) Repo Margin - Foreign		0.00	23.34
		Sub total	***0.00***	***9,153.06***
		Total	**3,22,207.95**	**1,35,118.91**
Schedule 11:	**Investment in Subsidiaries/ Associates**			
	(i) Deposit Insurance and Credit Guarantee Corporation (DICGC)		50.00	50.00
	(ii) Bharatiya Reserve Bank Note Mudran (P) Ltd. (BRBNMPL)		1,800.00	1,800.00
	(iii) Reserve Bank Information Technology (P) Ltd. (ReBIT)		50.00	50.00
	(iv) National Centre for Financial Education (NCFE)		30.00	30.00
	(v) Indian Financial Technology & Allied Services (IFTAS)		33.60	33.60
		Total	**1,963.60**	**1,963.60**

		2019-20	2020-21
Schedule 12:	**Other Assets**		
	(i) Fixed Assets (net of accumulated depreciation)	815.60	923.46
	(ii) **Accrued income (a + b)**	34,535.74	34,643.53
	a. on loans to employees	*347.32*	*355.37*
	b. on other items	*34,188.42*	*34,288.16*
	(iii) Swap Amortisation Account (SAA)	0.00	0.00
	(iv) Revaluation of Forward Contracts Account (RFCA)	0.00	0.00
	(v) Miscellaneous	1,381.11	1,447.76
	Total	**36,732.45**	**37,014.75**
Schedule 13:	**Interest**		
	(a) **Domestic Sources**		
	(i) Interest on holding of Rupee Securities	70,303.70	59,824.79
	(ii) Net Interest on LAF Operations	-13,052.75	-17,957.86
	(iii) Interest on MSF Operations	148.75	12.38
	(iv) Interest on Loans and Advances	3,557.17	1,709.00
	Sub total	***60,956.87***	***43,588.31***
	(b) Foreign Sources		
	(i) Interest Income from Foreign Securities	33,025.03	23,059.63
	(ii) Net Interest on Repo/ Reverse Repo Transactions	9.41	9.83
	(iii) Interest on Deposits	15,342.09	2,399.32
	Sub total	**48,376.53**	***25,468.78***
	Total	**1,09,333.40**	**69,057.09**
Schedule 14:	**Other Income**		
	(a) Domestic Sources		
	(i) Exchange	0.00	0.00
	(ii) Discount	734.57	964.16
	(iii) Commission	2,431.24	2,073.97
	(iv) Rent Realized	8.63	5.19
	(v) Profit/ Loss on sale and redemption of Rupee Securities	1,252.43	5,193.94
	(vi) Depreciation on Rupee Securities inter portfolio transfer	-9.38	-8.12
	(vii) Amortisation of premium/ discount of Rupee Securities	1,680.95	846.48
	(viii) Profit/ Loss on sale of Bank's property	1.39	1.38
	(ix) Provision no longer required and Miscellaneous Income	248.74	-108.38
	Sub total	***6,348.57***	***8,968.62***
	(b) Foreign Sources		
	(i) Amortisation of premium/ discount of Foreign Securities	-2,741.55	-6,715.95
	(ii) Profit/ Loss on sale and redemption of Foreign Securities	6,738.82	11,348.84
	(iii) Exchange gain/ loss from Foreign Exchange transactions	29,993.22	50,629.18
	(iv) Miscellaneous Income	0.00	-15.03
	Sub total	***33,990.49***	***55,247.04***
	Total	**40,339.06**	**64,215.66**
Schedule 15:	**Agency Charges**		
	(i) Agency Commission on Government Transactions	3,787.55	2,611.05
	(ii) Underwriting Commission paid to the Primary Dealers	60.90	642.95
	(iii) Sundries (Handling charges and turnover commission paid to banks for Relief/ Savings Bonds subscriptions; SBLA *etc.*)	6.26	6.30
	(iv) Fees paid to the External Asset Managers, Custodians, Brokers, *etc.*	21.37	19.76
	Total	**3,876.08**	**3,280.06**

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED MARCH 31, 2021

(a) **General**

1.1 Among other things, the Reserve Bank of India was established under the Reserve Bank of India Act, 1934 (the RBI Act, 1934) "to regulate the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage".

1.2 The main functions of the Reserve Bank are: -

a) Issue of Bank notes and circulation of coins;
b) Acts as monetary authority and formulates, implements and monitors the monetary policy;
c) Regulation and supervision of the financial system;
d) Regulation and supervision of the payment and settlement systems;
e) Acts as manager of foreign exchange;
f) Maintaining and managing the country's foreign exchange reserves;
g) Acting as the banker to banks and the governments;
h) Acting as the debt manager of the governments;
i) Developmental functions to support national objectives.

1.3 The RBI Act, 1934 requires that the issue of Bank notes should be conducted by the Reserve Bank in an Issue Department which shall be separated and kept wholly distinct from the Banking Department, and the assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department. The RBI Act, 1934 requires that the assets of the Issue Department shall consist of gold coins, gold bullion, foreign securities, rupee coins and rupee securities to such aggregate amount as is not less than the total of the liabilities of the Issue Department. The RBI Act, 1934 requires that the liabilities of the Issue Department shall be an amount equal to the total of the amount of the currency notes of the Government of India and Bank notes for the time being in circulation.

(b) **Significant Accounting Policies**

2.1 Convention

The financial statements are prepared in accordance with the RBI Act, 1934 and the notifications issued thereunder and, in the form, prescribed by the Reserve Bank of India General Regulations, 1949. These are based on historical cost except where it is modified to reflect revaluation and/ or amortisation. The accounting policies followed in preparing the financial statements are consistent with those followed in the previous year unless otherwise stated.

2.2 Revenue Recognition

a) Income and expenditure are recognised on accrual basis except penal interest charged from the banks which is accounted for only when there is certainty of realisation. Dividend income on shares is recognised on accrual basis when the right to receive the same is established.

b) Balances unclaimed and outstanding for more than three clear consecutive accounting years in certain transit accounts including Drafts Payable Account, Payment Orders Account, Sundry Deposits Account- Miscellaneous, Remittance Clearance Account, Earnest Money Deposit Account and Security Deposit Account are reviewed and written back to income. Claims, if any, are considered and charged against income in the year of payment.

c) Income and expenditure in foreign currency are recorded at the exchange rates prevailing on the last business day of the week/ month/ year, as applicable.

d) Exchange gains/ losses on sale of foreign currencies and gold are accounted for using the weighted average cost method for arriving at the cost.

2.3 Gold & Foreign Currency Assets and Liabilities

Transactions in gold and foreign currency assets and liabilities are accounted for on settlement date basis.

a) **Gold**

Gold (including gold deposits) is revalued on the last business day of each week and month at ninety (90) per cent of the London Bullion Market Association (LBMA) gold price in US dollar and Rupee-US dollar market exchange rate on the valuation days. Unrealised valuation gains/ losses are accounted for in the Currency and Gold Revaluation Account (CGRA).

b) **Foreign Currency Assets and Liabilities**

All foreign currency assets and liabilities (excluding foreign currency received under swaps that are in the nature of repos and contracts where the rates are fixed contractually) are translated at the market exchange rates on the last business day of each week and month. Unrealised gains and losses arising from such translation of foreign currency assets and liabilities are accounted for in the CGRA.

Foreign securities, other than Treasury Bills (T-Bills), Commercial Papers and certain 'Held to Maturity' securities (such as investments in notes issued by the International Monetary Fund and bonds issued by India Infrastructure Finance Company (IIFC), UK which are valued at cost) are marked-to-market as on the last business day of each week and month. Unrealised gains/ losses on revaluation are recorded in the 'Investment Revaluation Account - Foreign Securities' (IRA-FS). Credit balance in IRA-FS is carried forward to the subsequent year. Debit balance, if any, at the end of the year in IRA-FS is charged to the CF and the same is reversed on the first working day of the following accounting year.

Foreign T-Bills and Commercial Papers are carried at cost as adjusted by amortisation of discount/ premium. Premium or discount on foreign securities is amortised daily. Profit/ loss on sale of foreign securities is recognised with respect to the book value. On sale/ redemption of foreign dated securities, valuation gain/ loss in relation to the securities sold/ redeemed, lying in IRA-FS, is transferred to Income Account.

c) **Forward/ Swap Contracts**

Forward contracts entered into by the Reserve Bank are revalued on a half yearly basis. While mark-to-market net gain is credited to the 'Foreign Exchange Forward Contracts Valuation Account' (FCVA) with contra debit to 'Revaluation of Forward Contracts Account' (RFCA), mark-to-market net loss is debited to FCVA with contra credit to the 'Provision for Forward Contracts Valuation Account' (PFCVA). On maturity of the contract, the actual gain or loss is recognised in the Income Account and the unrealised gains/ losses previously recorded in the FCVA, RFCA and PFCVA are reversed. At the time of half yearly revaluation, the balance in FCVA and RFCA or PFCVA as on that day is reversed and fresh revaluation is done for all the outstanding forward contracts.

Debit balance in FCVA, if any, on the balance sheet date, is charged to the CF and reversed on the first working day of the following year. The balance in the RFCA and PFCVA represents the net unrealised gains and losses, respectively, on valuation of the forward contracts.

In the case of swaps at off-market rates that are in the nature of repo, the difference between the future contract rate and the rate at which the contract is entered into is amortised over the period of the contract and recorded in the Income Account with contra in 'Swap Amortisation Account' (SAA). The amounts recorded in the SAA are reversed on maturity of the underlying contracts. Further, the amounts received under these swaps are not subject to periodic revaluation.

While FCVA forms part of 'Revaluation Accounts', PFCVA forms part of 'Other Liabilities' and RFCA and SAA form part of 'Other Assets'.

d) **Repurchase Transactions**

The Reserve Bank participates in the foreign Repurchase transactions (Repo and Reverse Repo) as part of the Reserve Management operations. The Repo transactions are treated as borrowing of foreign currencies and are shown under 'Deposits', whereas Reverse Repo transactions are treated as lending of foreign currencies and are shown under 'Loans and Advances'.

e) **Transactions in Interest Rate Futures (IRF)**

The IRF transactions undertaken under Reserve Management operations are marked-to-market on daily basis and the resultant gain/ loss is booked in Income Account.

2.4 Transactions in Exchange Traded Currency Derivatives (ETCD)

The ETCD transactions undertaken by the Reserve Bank as part of its intervention operations are marked-to-market on daily basis and the resultant gain/ loss is booked in income account.

2.5 Domestic Investments

a) Rupee securities and oil bonds except those mentioned in (d) are marked-to-market as on the last business day of each month. The unrealised gains/ losses on revaluation is accounted for in 'Investment Revaluation Account-Rupee Securities' (IRA-RS). Credit balance in IRA-RS is carried forward to the following accounting year. Debit balance, if any, at the end of the year in IRA-RS is charged to the CF and the same is reversed on the first working day of the following accounting year. On sale/ redemption of rupee securities/ oil bonds, valuation gain/ loss in respect of rupee securities and oil bonds sold/ redeemed, lying in IRA-RS, is transferred to Income Account. Rupee securities and oil bonds are also subjected to daily amortisation.

b) Treasury Bills are valued at cost.

c) Investments in shares of subsidiaries are valued at cost.

d) Oil bonds and rupee securities earmarked for various staff funds (like Gratuity and Superannuation, Provident Fund, Leave Encashment, Medical Assistance Fund) and Depositors' Education and Awareness Fund (DEA Fund) are treated as 'Held to Maturity' and are held at amortised cost.

e) Transactions in domestic investment are accounted for on settlement date basis.

2.6 Liquidity Adjustment Facility (LAF) Repo/ Reverse Repo and Marginal Standing Facility (MSF)

Repo transactions under LAF and MSF are treated as lending and are accordingly being shown under ‘Loans and Advances’, whereas Reverse Repo transactions under LAF are being treated as deposits and shown under ‘Deposit-Others’.

2.7 Fixed Assets

a) Fixed Assets are stated at cost less depreciation except art and paintings and freehold land which are held at cost.

b) Depreciation on fixed assets, other than land and buildings, acquired and capitalised during the year (from July 01 to March 31) would be reckoned on a monthly pro-rata basis from the month of capitalisation and effected on a half yearly basis at prescribed rates depending upon the useful life of the assets applied.

c) Depreciation on the following fixed assets (costing more than ₹1 lakh) is provided on a straight-line basis depending on the useful life of an asset in the following manner:

Asset Category	Useful life (Rate of Depreciation)
Electrical Installations, UPS, Motor Vehicles, Furniture, Fixture, CVPS/ SBS Machines, *etc.*	5 years (20 per cent)
Computers, Servers, Micro-processors, Printers, Software, Laptops, e-book reader/ i-Pad, *etc.*	3 years (33.33 per cent)

d) Fixed Assets, costing up to ₹1 lakh (except easily portable electronic assets like laptop/ e-book reader) are charged to income in the year of acquisition. Easily portable electronic assets, such as laptops, *etc.* costing more than ₹10,000 are capitalised and depreciation is calculated on monthly pro-rata basis at the applicable rate.

e) Individual items of computer software costing ₹1 lakh and above are capitalised and depreciation is calculated on monthly pro-rata basis at applicable rates.

f) Depreciation is provided on half year-end balances of fixed assets on monthly pro-rata basis. In case of additions/ deletions of assets other than land and building, depreciation is provided on monthly pro-rata basis including the month of addition/ deletion of such assets.

(g) Depreciation on subsequent expenditure:

i. Subsequent expenditure incurred on an existing fixed asset which has not been fully depreciated in the books of accounts, is depreciated over the remaining useful life of the principal asset;

ii. Subsequent expenditure incurred on modernisation/ addition/ overhauling of an existing fixed asset, which has already been fully depreciated in the books of accounts, is first capitalised and thereafter depreciated fully in the year in which the expenditure is incurred.

(h) Land and building: The accounting treatment in respect of land and building is as follows:

Land

i. Land acquired on leasehold basis for a period of more than 99 years is treated as if it is on a perpetual lease basis. Such leases are considered as freehold properties and accordingly not subjected to amortisation.

ii. Land acquired on lease up to 99 years is amortised over the period of the lease.

iii. Land acquired on a freehold basis is not subject to any amortisation.

Buildings

i. The life of all buildings is assumed as thirty years and depreciation is charged on a 'straight-line' basis over a period of thirty years. In respect of buildings constructed on lease hold land (where the lease period is less than thirty years) depreciation is charged on a 'straight-line' basis over the lease period of the land.

ii. Impairment of buildings: For assessment of impairment, buildings are classified into two categories, as under:

   a. *Buildings which are in use but have been identified for demolition in future or will be discarded in future*: The value in use of such buildings is the aggregate of depreciation for the future period up to the date it is expected to be discarded/ demolished. The difference between the book value and aggregate of depreciation so arrived at is charged as depreciation.

   b. *Buildings which have been discarded/ vacated*: These buildings are shown at realisable value (net selling price-if the asset is likely to be sold in future) or scrap value less demolition cost (if it is to be demolished). If the resultant amount is negative, then the carrying value of such buildings is shown at ₹1. The difference between the book value and realisable value (net selling price)/ scrap value less demolition cost is charged as depreciation.

2.8 Employee Benefits

a) The Reserve Bank contributes monthly at a determined rate to Provident Fund for the eligible employees and these contributions are charged to Income Account in the year to which it relates.

b) Other liability on account of long-term employee benefits is provided based on an actuarial valuation under the 'Projected Unit Credit' method.

NOTES TO ACCOUNTS

XII.6 LIABILITIES OF THE RESERVE BANK

XII.6.1 Capital

The Reserve Bank was constituted as a private shareholders' bank in 1935 with an initial paid-up capital of ₹5 crore. The Reserve Bank was nationalised with effect from January 1, 1949 and its entire ownership remains vested with the Government of India. The paid-up capital continues to be ₹5 crore in terms of Section 4 of the RBI Act, 1934.

XII.6.2 Reserve Fund

The original Reserve Fund of ₹5 crore was created in terms of Section 46 of the RBI Act, 1934 as contribution from the Central Government for the currency liability of the then sovereign government taken over by the Reserve Bank. Thereafter, an amount of ₹6,495 crore was credited to this fund from out of gains on periodic revaluation of gold up to October 1990, taking it to ₹6,500 crore. The fund has been static since then as the unrealised gain/ loss on account of valuation of gold and foreign currency is since being booked in the Currency and Gold Revaluation Account (CGRA) which appears under 'Revaluation Accounts'.

XII.6.3 Other Reserves

This includes National Industrial Credit (Long Term Operations) Fund and National Housing Credit (Long Term Operations) Fund.

a) *National Industrial Credit (Long Term Operations) Fund*

This fund was created in July 1964, in terms of Section 46C of the RBI Act, 1934 with an initial corpus of ₹10 crore. The fund witnessed annual contributions from the Reserve Bank for financial assistance to eligible financial institutions. Since 1992-93, a token amount of ₹1 crore is being contributed each year to the Fund. The balance in the fund stood at ₹30 crore as on March 31, 2021.

b) *National Housing Credit (Long Term Operations) Fund*

This fund was set up in January 1989 in terms of Section 46D of the RBI Act, 1934 for extending financial accommodation to the National Housing Bank (NHB). The initial corpus of ₹50 crore has been enhanced by annual contributions from the Reserve Bank thereafter. From the year 1992-93, only a token amount of ₹1 crore is being contributed each year. The balance in the fund stood at ₹204 crore as on March 31, 2021.

Note: Contribution to other Funds

There are two other Funds constituted in terms of Section 46A of the RBI Act, 1934, *viz.,* National Rural Credit (Long Term Operations) Fund and National Rural Credit (Stabilisation) Fund which are maintained by National Bank for Agriculture and Rural Development (NABARD) for which a token amount of ₹1 crore each is set aside and transferred to NABARD every year.

XII.6.4 Deposits

These represent the balances maintained with the Reserve Bank, by the central and state governments, banks, All India Financial Institutions, such as Export Import Bank (EXIM Bank), NABARD, *etc.*, Foreign Central Banks, International Financial Institutions, balances in Administrator of RBI Employees' Provident Fund, Depositors' Education and Awareness Fund (DEA Fund), amount outstanding against Reverse Repo, Medical Assistance Fund (MAF), *etc.*

Total deposits increased by 26.85 per cent from ₹11,75,859.89 crore as on June 30, 2020 to ₹14,91,537.70 crore as on March 31, 2021.

a. Deposits – Government

The Reserve Bank acts as the banker to the central government in terms of Sections 20 and 21 and as banker to the state governments by mutual agreement in terms of Section 21A of the RBI Act, 1934. Accordingly, the central and the state governments maintain deposits with the Reserve Bank. The balances held by the central and state governments were ₹5,000.15 crore and ₹42.48 crore, respectively, as on March 31, 2021 as compared to ₹100.27 crore and ₹42.48 crore, respectively, as on June 30, 2020. The increase in the deposit of central government is due to requirement of maintenance of a higher minimum balance in their accounts as on March 31.

b. Deposits – Banks

Banks maintain balance in their current accounts with the Reserve Bank towards maintenance of the Cash Reserve Ratio (CRR) requirement and for keeping the working funds to meet payment and settlement obligations. The deposits held by banks increased by 48.43 per cent from ₹4,70,848.67 crore as on June 30, 2020 to ₹6,98,866.95 crore as on March 31, 2021. The increase in this head is on account of restoration of CRR in a phased manner, with the banks required to maintain CRR at 3.5 per cent of NDTL at end March 2021, as compared to CRR requirement of 3.0 per cent of NDTL as on June 30, 2020.

c. *Deposits – Financial Institutions Outside India*

The balance under the head was ₹9,158.95 crore as on March 31, 2021 as against Nil as on June 30, 2020.

d. *Deposits - Others*

'Deposits - Others' consists of balances of Administrator of RBI Employees Provident Fund, balance in Depositors' Education and Awareness Fund (DEA Fund), balances of Foreign Central Banks, Indian and International Financial Institutions, Medical Assistance Fund, amount outstanding under Reverse Repo, *etc.* The amount under 'Deposits - Others' increased by 10.44 per cent from ₹7,04,868.47 crore as on June 30, 2020 to ₹7,78,469.17 crore as on March 31, 2021 primarily due to increase in reverse repo deposits with the Reserve Bank.

XII.6.5 Risk Provisions

There are two risk provisions of the Reserve Bank *viz.,* Contingency Fund (CF) and Asset Development Fund (ADF). The provision made towards these funds are made in terms of section 47 of the RBI Act, 1934. The details are as under:

a. *Contingency Fund (CF)*

This is a specific provision meant for meeting unexpected and unforeseen contingencies, including depreciation in the value of securities, risks arising out of monetary/ exchange rate policy operations, systemic risks and any risk arising on account of the special responsibilities enjoined upon the Reserve Bank. As on March 31, 2021, an amount of ₹6,127.35 crore was charged to CF on account of debit balance of FCVA. The charge to CF is reversed on the first working day of the following year. Further, an amount of ₹20,710.12 crore was provided towards CF. Accordingly, the balance in CF as on March 31, 2021 was ₹2,84,542.12 crore as compared to ₹2,64,033.94 crore as on June 30, 2020.

b. *Asset Development Fund (ADF)*

ADF was created in 1997-98 and the balance therein represents provision specifically made till date towards investments in subsidiaries and associate institutions and meet internal capital expenditure. No provision was made towards ADF in the year 2020-21. The balance in ADF remains as ₹22,874.68 crore as on March 31, 2021 (Table XII.2).

Table XII.2: Balances in Risk Provisions

(₹ crore)

As on	Balance in CF	Balance in ADF	Total	CF and ADF as Percentage to Total Assets
1	2	3	4=(2+3)	5
June 30, 2017	2,28,206.53#	22,811.08	2,51,017.61	7.6
June 30, 2018	2,32,107.76@	22,811.08	2,54,918.84	7.05
June 30, 2019	1,96,344.35$	22,874.68	2,19,219.03	5.34
June 30, 2020	2,64,033.94*	22,874.68	2,86,908.62	5.38
March 31, 2021	2,84,542.12^	22,874.68	3,07,416.80	5.39

 # Increase in CF is the net impact of provision of ₹13,139.62 crore and charging of the debit balance of IRS and FCVA amounting to ₹6,585.55 crore as on June 30, 2017.

@ Increase in CF is the net impact of provision of ₹14,189.27 crore and charging of the debit balance of IRA-FS amounting to ₹16,873.59 crore as on June 30, 2018.

$ The decline in the CF is due to writing back of excess provision of ₹52,637 crore as on June 30, 2019.

** Increase in CF is the net impact of provision of ₹73,615 crore and charging of the debit balance in the FCVA amounting to ₹5,925.41 crore as on June 30, 2020.*

^ Increase in CF is the net impact of provision of ₹20,710.12 crore and charging of the debit balance in the FCVA amounting to ₹6,127.35 crore as on March 31, 2021.

XII.6.6 Revaluation Accounts

The unrealised marked-to-market gains/ losses are recorded in the revaluation heads,0 *viz.,* Currency and Gold Revaluation Account (CGRA), Investment Revaluation Accounts (IRA) and Foreign Exchange Forward Contracts Valuation Account (FCVA). The details are as under:

a. *Currency and Gold Revaluation Account (CGRA)*

The major sources of market risk faced by the Reserve Bank are currency risk, interest rate risk and movement in gold prices. Unrealised gains/ losses on valuation of Foreign Currency Assets (FCA) and Gold are not taken to the Income Account but instead accounted for in the CGRA. Net balance in CGRA, therefore, varies with the size of the asset base, its valuation and movement in the exchange rate and the price of gold. CGRA provides a buffer against exchange rate/ gold price fluctuations. It can come under pressure if there is an appreciation of the rupee *vis-à-vis* major currencies or a fall in the price of gold. When CGRA is not sufficient to fully meet exchange losses, it is replenished from the CF. During 2020-21, the balance in CGRA decreased from ₹9,77,141.23 crore as on June 30, 2020 to ₹8,58,877.53 crore as on March 31, 2021 mainly due to appreciation of rupee and the fall in the international price of gold.

b. *Investment Revaluation Account-Foreign securities (IRA-FS)*

The foreign dated securities are marked-to-market on the last business day of each week and month and the unrealised gains/ losses arising therefrom are transferred to the IRA-FS. The balance in IRA-FS decreased from ₹53,833.99 crore as on June 30, 2020 to ₹8,853.67 crore as on March 31, 2021.

c. *Investment Revaluation Account–Rupee Securities (IRA-RS)*

Rupee securities and oil bonds (with exception as mentioned under Significant Accounting Policy) held as assets of the Banking Department are marked-to-market as on the last business day of each month and the unrealised gains/ losses arising therefrom are booked in IRA-RS. The balance in IRA-RS decreased from ₹93,415.50 crore as on June 30, 2020 to ₹56,723.79 crore as on March 31, 2021 due to sale of rupee securities and hardening of yields at the longer end of the yield curve leading to MTM losses on few securities held by the Reserve Bank during the year.

d. *Foreign Exchange Forward Contracts Valuation Account (FCVA)*

Marking-to-market of outstanding forward contracts as on March 31, 2021 resulted in a net unrealised loss of ₹6,127.35 crore, which was debited to the FCVA with contra credit to PFCVA. As per the extant policy, the debit balance of ₹6,127.35 crore in FCVA was adjusted against the CF on March 31, 2021 and reversed on the first working day of the following year. Accordingly, the balance in FCVA was Nil on March 31, 2021.

XII.6.7 Other Liabilities

'Other Liabilities' increased by 43.05 per cent from ₹1,05,321.81 crore as on June 30, 2020 to ₹1,50,657.97 crore as on March 31, 2021, primarily due to increase in surplus payable to the Government of India.

i. Provision for Forward Contracts Valuation Account (PFCVA)

Marked-to-market net loss on outstanding forward contracts was credited to PFCVA as

Table XII.3: Balances in CGRA, FCVA, PFCVA, IRA-FS and IRA-RS

(₹ crore)

As on	CGRA	FCVA	PFCVA	IRA-FS	IRA-RS
1	2	3	4	5	6
June 30, 2017	5,29,944.69	0.00	2,963.11	0.00	57,089.90
June 30, 2018	6,91,640.97	3,261.92	0.00	0.00	13,285.22
June 30, 2019	6,64,479.74	1,303.96	0.00	15,734.96	49,476.26
June 30, 2020	9,77,141.23	0.00	5,925.41	53,833.99	93,415.50
March 31, 2021	8,58,877.53	0.00	6,127.35	8,853.67	56,723.79

explained above. The balance in PFCVA as on March 31, 2021 was ₹6,127.35 crore, as against ₹5,925.41 crore as on June 30, 2020.

The balances in Revaluation Accounts and Provision for Forward Contracts Valuation Account (PFCVA) for the last five years is given in Table XII.3.

ii. *Provision for Payables*

This represents the year end provisions made for expenditure incurred but not defrayed and income received in advance/ payable, if any. The balance under this head increased by 24.66 per cent from ₹2,599.61 crore as on June 30, 2020 to ₹3,240.73 crore as on March 31, 2021.

iii. *Surplus Transferable to the Government of India*

Under Section 47 of the RBI Act, 1934 after making provisions for bad and doubtful debts, depreciation in assets, contribution to staff and superannuation funds and for all matters for which provisions are to be made by or under the Act or that are usually provided by bankers, the balance of the profits of the Reserve Bank is required to be paid to the central government. Under Section 48 of the RBI Act, 1934 the Reserve Bank is not liable to pay income tax or super tax on any of its income, profits or gains. Accordingly, after adjusting the expenditure, provision for CF and contribution of ₹4 crore to four statutory funds, the surplus transferable to the Government of India for the year 2020-21 amounted to ₹99,122 crore (including ₹493.92 crore as against ₹632.17 crore in the previous year payable towards the difference in interest expenditure borne by the Government, consequent on conversion of special securities into marketable securities).

iv. *Bills Payable*

The Reserve Bank provides remittance facilities for its constituents through issue of Demand Drafts (DDs) and Payment Orders (POs) (besides electronic payment mechanism). The balance under this head represents the unclaimed DDs/ POs. The amount outstanding under this head increased from ₹2.46 crore as on June 30, 2020 to ₹4.36 crore as on March 31, 2021.

v. *Miscellaneous*

This is a residual head representing items such as interest earned on earmarked securities, amounts payable on account of leave encashment, medical provisions for employees, global provision, *etc.* The balance under this head decreased from ₹14,027.41 crore as on June 30, 2020 to ₹13,665.86 crore as on March 31, 2021.

XII.6.8 Liabilities of Issue Department - Notes Issued

The liabilities of Issue Department reflect the quantum of currency notes in circulation. Section 34 (1) of the RBI Act, 1934 requires that all bank notes issued by the Reserve Bank since April 1, 1935 and the currency notes issued by the Government of India before the commencement of operations of the Reserve Bank, be part of the liabilities of the Issue Department. The 'Notes Issued' increased by 7.26 per cent from ₹26,35,574.66 crore as on June 30, 2020 to ₹28,26,862.67 crore as on March 31, 2021. The increase is on account of the continued efforts of Reserve Bank to supply adequate quantity of banknotes to meet the transactional needs of the public. Also, an amount of ₹10,719.37 crore, representing the value of Specified Bank Notes (SBNs) not paid was transferred to 'Other Liabilities' as on June 30, 2018. In terms of Gazette Notification issued by Government of India on May 12, 2017, the Reserve Bank has made payments to the extent of ₹2.68 crore towards exchange value of SBNs to eligible tenderers during the year ended March 31, 2021.

XII.7 ASSETS OF THE RESERVE BANK

XII.7.1 ASSETS OF BANKING DEPARTMENT

i) **Notes, Rupee Coin and Small Coin**

This head represents the balances of bank notes, one-rupee notes, rupee coins of ₹1, 2, 5, 10 and 20 and small coins kept in the vaults of the Banking Department to meet the day to day requirements of the banking functions conducted by the Reserve Bank. The balance as on March 31, 2021 was ₹12.02 crore as against ₹12.59 crore as on June 30, 2020.

ii) **Gold - Banking Department (BD)**

As on March 31, 2021, the Reserve Bank held 695.31 metric tonnes of gold as compared to 661.41 metric tonnes as on June 30, 2020. The increase is on account of addition of 33.90 metric tonnes of Gold during the year.

Of 695.31 metric tonnes as on March 31, 2021, 292.30 metric tonnes is held as backing for notes issued and shown separately as an asset of Issue Department. The balance 403.01 metric tonnes as on March 31, 2021 as compared to 369.11 metric tonnes on June 30, 2020 is treated as an asset of Banking Department (Table XII.4). The value of gold held as asset of Banking Department increased by 0.50 per cent from ₹1,42,874.67 crore as on June 30, 2020 to ₹1,43,582.87 crore as on March 31, 2021, on account of addition of 33.90 metric tonnes of gold during the year.

iii) **Bills Purchased and Discounted**

Though the Reserve Bank can undertake purchase and discounting of commercial bills under the RBI Act, 1934, no such activity was undertaken in 2020-21. Consequently, there was no such asset in the books of the Reserve Bank as on March 31, 2021.

iv) **Investments - Foreign - Banking Department (BD)**

The Foreign Currency Assets (FCA) of the Reserve Bank include: (i) deposits with

Table XII.4: Physical Holding of Gold

	As on June 30, 2020	As on March 31, 2021
	Volume in metric tonnes	Volume in metric tonnes
1	2	3
Gold held for backing notes issued (held in India)	292.30	292.30
Gold held as asset of Banking Department (held abroad)	369.11	403.01
Total	**661.41**	**695.31**

other central banks (ii) deposits with the Bank for International Settlements (BIS) (iii) deposits with commercial banks overseas (iv) investments in foreign T-Bills and securities and (v) Special Drawing Rights (SDR) acquired from the Government of India.

The FCA is reflected under two heads in the Balance Sheet: (a) 'Investments-Foreign-BD' shown as an asset of Banking Department and (b) 'Investments-Foreign-ID' shown as an asset of Issue Department.

Investments - Foreign - ID are the FCA, eligible as per Section 33(6) of the RBI Act, 1934, used for backing of Notes Issued. The remaining of FCA constitutes 'Investments-Foreign-BD'.

The position of FCA for the last two years is given in Table XII.5.

v) **Investments - Domestic - Banking Department (BD)**

Investments comprise Dated Government Rupee Securities, State Development Loans, Treasury Bills and Special Oil Bonds. The Reserve Bank's holding of domestic securities increased by 13.75 per cent, from ₹11,72,027.28 crore as on June 30, 2020 to ₹13,33,173.90 crore as on March 31, 2021. The increase was mainly on account of liquidity management operations conducted by way of net purchase of government securities amounting to ₹1,92,821 crore (Face Value).

A part of Investments - Domestic - BD is also earmarked for various staff funds and DEA Fund as explained in para 2.5(d). As on March 31, 2021, ₹75,776 crore (Face Value) was earmarked for staff funds and DEA Fund taken together.

Table XII.5: Details of Foreign Currency Assets (FCA)

(₹ crore)

Particulars	June 30, 2020	March 31, 2021
1	2	3
I Investments - Foreign - BD*	10,23,399.50	12,29,940.41
II Investments - Foreign - ID	25,21,643.91	27,21,979.14
Total	**35,45,043.41**	**39,51,919.55**

*: includes Shares in BIS and SWIFT and SDRs transferred from GoI valued at ₹11,155.96 crore as on March 31, 2021 compared to ₹11,211.13 crore as on June 30, 2020.

Notes:

1. The Reserve Bank has agreed to make resources available under the IMF's New Arrangements to Borrow (NAB). Effective January 01, 2021, the size of IMF's NAB has been doubled. India's commitment under NAB stands at SDR 8.88 billion (₹92,015.21 crore/ US$12.58 billion). As on March 31, 2021, compared to SDR 4.44 billion (₹46,258.89 crore/ US$6.13 billion) as on June 30,2020. As on March 31,2021, investments amounting to SDR 0.13 billion (₹1,316.32 crore/ US$0.18 billion) have been made under the NAB.
2. The Reserve Bank has agreed to invest up to an amount, the aggregate of which shall not exceed US$5 billion (₹36,559 crore), in the bonds issued by India Infrastructure Finance Company (UK) Limited. As on March 31, 2021, the Reserve Bank has invested US$1.86 billion (₹13,621.79 crore) in such bonds.
3. During the year 2013-14, the Reserve Bank and Government of India (GoI) entered into a MoU for transfer of SDR holdings from GoI to the Reserve Bank in a phased manner. As on March 31, 2021, SDR 1.05 billion (₹10,847.81 crore/ US$1.48 billion) were held by the Reserve Bank.
4. With a view to strengthening regional financial and economic cooperation, the Reserve Bank has agreed to offer an amount of up to US$2 billion both in foreign currency and Indian rupee under the SAARC Swap Arrangement to SAARC member countries. As on March 31, 2021, Swap with Bhutan and Maldives, amounting to US$0.20 billion (₹1,454.19 crore) and US$0.25 billion (₹1,827.92 crore), respectively, is outstanding.
5. The nominal value of foreign securities posted as collateral and margin in repurchase and IRF transactions was ₹9,171.35 crore / US$ 1.25 billion and the nominal value of those received under reverse repurchase transactions was ₹8,688.75 crore / US$ 1.21 billion as on March 31, 2021.

vi) **Loans and Advances**

a) *Central and State Governments*

These loans are extended in the form of Ways and Means Advances (WMA) and Overdraft (OD) to the central government and in the form of WMA, OD and Special Drawing Facility (SDF) to the state governments in terms of Section 17(5) of the RBI Act, 1934. The WMA limit, in case of the central government, is fixed from time to time in consultation with the Government of India and in case of the state governments, the limits are fixed based on the recommendations of Advisory Committee/ Group constituted for this purpose. There were no loans and advances lying outstanding to the central government as on June 30, 2020 as well as on March 31, 2021 as the central government was in surplus on both the days whereas loans and advances to state governments decreased by 26.85 per cent from ₹4,624.47 crore as on June 30, 2020 to ₹3,382.79 crore as on March 31, 2021.

b) *Loans and Advances to Commercial, Co-operative Banks, NABARD and others*

- *Loans and Advances to Commercial and Co-operative Banks:* These include amounts outstanding against Repo under Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) and special liquidity facility to banks. The amount outstanding decreased from ₹2,85,576.86 crore as on June 30, 2020 to ₹90,252.18 crore as on March 31, 2021 primarily due to repayments of Long Term Repo Operations (LTRO), Targeted LTRO (TLTRO) 1.0 and TLTRO 2.0 by banks during the year (July 2020 - March 2021).

- *Loans and Advances to NABARD:*

  The Reserve Bank can extend loans to NABARD under Section 17 (4E) of the RBI Act, 1934. The balance under this head increased from ₹22,123.19 crore as on June 30, 2020 to ₹25,425.56 crore as on March 31, 2021.

- *Loans and Advances to others*

  The balance under this head represents loans and advances to National Housing Bank (NHB) and liquidity support provided to Primary Dealers (PDs). The balance under this head decreased by 30.13 per cent from ₹9,883.43 crore as on June 30, 2020 to ₹6,905.32 crore as on March 31, 2021 primarily due to decrease in loans and advances to NHB.

c) *Loans and Advances to Financial Institutions outside India*

The balance under the head was ₹9,153.06 crore as on March 31, 2021 as against Nil as on June 30, 2020.

vii) **Investment in Subsidiaries/ Associates**

Total holding of the Reserve Bank in its subsidiaries/ associate institutions amounted to ₹1,963.60 crore as on March 31, 2021, same as that in the previous year. The details are given in Table XII.6.

Table XII.6: Holdings in Subsidiaries/ Associates in 2020-21

Subsidiaries/ Associates		Amount (₹ crore)	Per cent Holding as on March 31, 2021
1		2	3
a)	Deposit Insurance and Credit Guarantee Corporation (DICGC)	50.00	100
b)	Bharatiya Reserve Bank Note Mudran (P) Ltd. (BRBNMPL)	1,800.00	100
c)	Reserve Bank Information Technology (P) Ltd. (ReBIT)	50.00	100
d)	National Centre for Financial Education (NCFE)	30.00	30
e)	Indian Financial Technology & Allied Services (IFTAS)	33.60	100
Total		**1,963.60**	

viii) **Other Assets**

'Other Assets' comprises fixed assets (net of depreciation), accrued income, balances held in (a) Swap Amortisation Account (SAA) (b) Revaluation of Forward Contracts Account (RFCA) and miscellaneous assets. Miscellaneous assets comprise mainly loans and advances to staff, amount spent on projects pending completion, security deposit paid, *etc.* The amount outstanding under 'Other Assets' increased by 0.77 per cent from ₹36,732.45 crore as on June 30, 2020 as compared to ₹37,014.75 crore as on March 31, 2021.

a. *Swap Amortisation Account (SAA)*

As on March 31, 2021, the balance in SAA is NIL as there were no outstanding contracts of swaps which were in nature of repo at off market rate.

b. *Revaluation of Forward Contracts Account (RFCA)*

RFCA had NIL balance as on March 31, 2021.

XII.7.2 ASSETS OF ISSUE DEPARTMENT

The eligible assets of the Issue Department held as backing for notes issued consist of Gold, Rupee Coin, Investments–Foreign ID, Government of India Rupee Securities and Domestic Bills of Exchange. The Reserve Bank holds 695.31 metric tonnes of gold, of which 292.30 metric tonnes are held as backing for notes issued as on March 31, 2021 (Table XII.4). The value of gold held as backing for notes issued decreased by 7.96 per cent from ₹1,13,145.92 crore as on June 30, 2020 to ₹1,04,140.13 crore as on March 31, 2021. Consequent upon the increase in notes issued, Investments-Foreign-ID held as its backing increased by 7.94 per cent from ₹25,21,643.91 crore as on June 30, 2020 to ₹27,21,979.14 crore as on March 31, 2021. The balance of Rupee Coins held by the Issue Department decreased by 5.28 per cent from ₹784.83 crore as on June 30, 2020 to ₹743.40 crore as on March 31, 2021.

XII.8 FOREIGN EXCHANGE RESERVES

XII.8.1 The Foreign Exchange Reserves (FER) comprises FCA, Gold, Special Drawing Rights (SDRs) holdings and Reserve Tranche Position (RTP). The SDR holdings acquired from Government of India (GoI) form part of Reserve Bank's balance sheet and is included under 'Investments-Foreign-BD'. The SDR holdings remaining with GoI and the RTP, which represents India's quota contribution to IMF in foreign currency, is not a part of Reserve Bank's balance sheet. The position of FER as on June 30, 2020 and March 31, 2021 in Indian Rupees and the US dollar, which is the numéraire currency for our FER, is furnished in Tables XII.7 (a) and (b).

Table XII.7(a): Foreign Exchange Reserves (Rupee)

(₹ crore)

Components	As on		Variation	
	June 30, 2020	March 31, 2021	Absolute	Per cent
1	2	3	4	5
Foreign Currency Assets (FCA)	35,17,514.26^	39,24,167.84#	4,06,653.58	11.56
Gold	2,56,020.59@	2,47,723.00*	-8,297.59	-3.24
Special Drawing Rights (SDR)	10,923.25	10,863.73	-59.52	-0.54
Reserve Tranche Position (RTP) in IMF	34,111.66	36,198.01	2,086.35	6.12
Foreign Exchange Reserves (FER)	**38,18,569.76**	**42,18,952.59**	**4,00,382.83**	**10.49**

^ : *Excludes (a) SDR Holdings of the Reserve Bank amounting to ₹10,901.23 crore, which is included under the SDR holdings, (b) Investment of ₹14,067.55 crore in bonds issued by IIFC (UK), and (c) ₹1,427.73 crore lent to Bhutan and ₹1,132.64 crore lent to Maldives under a Currency Swap arrangement made available for SAARC countries.*

: *Excludes (a) SDR Holdings of the Reserve Bank amounting to ₹10,847.81 crore, which is included under the SDR holdings, (b) Investment of ₹13,621.79 crore in bonds issued by IIFC (UK), and (c) ₹1,454.19 crore lent to Bhutan and ₹1,827.92 crore lent to Maldives under a Currency Swap arrangement made available for SAARC countries*

@: *Of this, Gold valued at ₹1,13,145.92 crore is held as an asset of Issue Department and Gold valued at ₹1,42,874.67 crore is held under asset of Banking Department.*

*: *Of this, Gold valued at ₹1,04,140.13 crore is held as an asset of Issue Department and Gold valued at ₹1,43,582.87 crore is held under asset of Banking Department.*

Table XII.7(b): Foreign Exchange Reserves (USD)

(US$ billion)

Components	As on		Variation	
	June 30, 2020	March 31, 2021	Absolute	Per cent
1	2	3	4	5
Foreign Currency Assets (FCA)	465.83*	536.69**	70.86	15.21
Gold	33.90	33.88	-0.02	-0.06
Special Drawing Rights (SDR)	1.45	1.49	0.04	2.76
Reserve Tranche Position (RTP) in IMF	4.52	4.92	0.40	8.85
Foreign Exchange Reserves (FER)	**505.70**	**576.98**	**71.28**	**14.10**

* : Excludes (a) SDR Holdings of the Reserve Bank amounting to US$1.44 billion, which is included under the SDR holdings, (b) US$1.86 billion invested in bonds of IIFC (UK) and (c) BTN equivalent to US$0.19 billion equivalent of INR currency lent to Bhutan and US$0.15 billion lent to Maldives under a Currency Swap arrangement made available for SAARC countries.

**: Excludes (a) SDR Holdings of the Reserve Bank amounting to US$1.48 billion, which is included under the SDR holdings, (b) US$1.86 billion invested in bonds of IIFC (UK) and (c) BTN equivalent to US$0.20 billion equivalent of INR currency lent to Bhutan and US$0.25 billion lent to Maldives under a Currency Swap arrangement made available for SAARC countries.

ANALYSIS OF INCOME AND EXPENDITURE

XII.9 INCOME

XII.9.1 The components of Reserve Bank's income are 'Interest', and 'Other Income' including (i) Discount (ii) Exchange (iii) Commission (iv) Amortisation of Premium/ Discount on Foreign and Rupee Securities (v) Profit/ Loss on Sale and Redemption of Foreign and Rupee Securities (vi) Depreciation on Rupee Securities inter portfolio transfer (vii) Rent Realised (viii) Profit or loss on sale of the Reserve Bank's property and (ix) Provisions no longer required and Miscellaneous Income. Certain items of income such as interest on LAF repo, Repo in foreign security and exchange gain/ loss from foreign exchange transactions are reported on net basis.

Table XII.8: Earnings from Foreign Sources

(₹ crore)

Item	2019-20	2020-21	Variation Absolute	Variation Per cent
1	2	3	4	5
Foreign Currency Assets (FCA)	35,45,043.41	39,51,919.55	4,06,876.14	11.48
Average FCA	31,10,365.72	38,49,940.15	7,39,574.43	23.78
Earnings from FCA (interest, discount, exchange gain/ loss, capital gain/ loss on securities)	82,367.02	80,715.82	(-) 1,651.20	(-) 2.00
Earnings from FCA as per cent of average FCA	2.65	2.10	(-) 0.55	(-) 20.75

Earnings from Foreign Sources

XII.9.2 The income from foreign sources decreased by 2.00 per cent from ₹82,367.02 crore in 2019-20 to ₹80,715.82 crore in 2020-21. The rate of earnings on foreign currency assets was at 2.10 per cent in 2020-21 as compared with 2.65 per cent in 2019-20 (Table XII.8).

Earnings from Domestic Sources

XII.9.3 The net income from domestic sources decreased by 21.91 per cent from ₹67,305.44 crore in 2019-20 to ₹52,556.93 crore in 2020-21 mainly on account of (a) decrease in interest income on holding of Rupee Securities and (b) increase in net interest outgo on interest under LAF/ MSF due to absorption of surplus liquidity in the banking system (Table XII.9).

Table XII.9: Earnings from Domestic Sources

(₹ crore)

Item	2019-20	2020-21	Variation Absolute	Variation Per cent
1	2	3	4	5
Earnings (I+II+III+IV)	**67,305.44**	**52,556.93**	**-14,748.51**	**-21.91**
I. Earnings from Rupee Securities and Discounted Instruments				
i) Interest on holding of Rupee Securities	70,303.70	59,824.79	-10,478.91	-14.91
ii) Profit on sale and redemption of Rupee Securities	1,252.43	5,193.94	3,941.51	314.71
iii) Depreciation on Rupee securities inter portfolio transfer	-9.38	-8.12	1.26	-13.43
iv) Amortisation of premium/ discount on Rupee securities and Oil Bonds	1,680.95	846.48	-834.47	-49.64
v) Discount	734.57	964.16	229.59	31.26
Sub total (i+ii+iii+iv+v)	**73,962.27**	**66,821.25**	**-7,141.02**	**-9.65**
II. Interest on LAF/ MSF				
i) Net Interest on LAF Operations	-13,052.75	-17,957.86	-4,905.11	-37.58
ii) Interest on MSF operations	148.75	12.38	-136.37	-91.68
Sub total (i+ii)	**-12,904.00**	**-17,945.48**	**-5,041.48**	**-39.07**
III. Interest on Other Loans and Advances				
i) Government (Central & States)	2,313.51	264.04	-2,049.47	-88.59
ii) Banks & Financial Institutions	1,174.83	1,400.63	225.80	19.22
iii) Employees	68.83	44.33	-24.50	-35.59
Sub total (i+ii+iii)	**3,557.17**	**1,709.00**	**-1,848.17**	**-51.96**
IV. Other Earnings				
i) Exchange	0.00	0.00	0.00	0.00
ii) Commission	2,431.24	2,073.97	-357.27	-14.69
iii) Rent realised, Profit or Loss on sale of Bank's Property, Provisions no longer required and miscellaneous	258.76	-101.81	-360.57	-139.35
Sub total (i+ii+iii)	**2,690.00**	**1,972.16**	**-717.84**	**-26.69**

XII.9.4 *Interest on holding of Rupee Securities* decreased by 14.91 per cent from ₹70,303.70 crore in 2019-20 to ₹59,824.79 crore in 2020-21 on account of the current accounting year being of nine months as compared to the twelve months period for 2019-20.

XII.9.5 The *net interest income from Liquidity Adjustment Facility (LAF)/ Marginal Standing Facility (MSF)* operations decreased from ₹(-)12,904 crore in 2019-20 to ₹(-)17,945.48 crore in 2020-21 due to absorption of surplus liquidity in the banking system leading to net interest outgo under LAF/ MSF. The higher banking system surplus was due to pro-active liquidity management operations carried out by the Reserve Bank to augment system-level liquidity and to channelise liquidity to specific sectors facing funding constraints on account of disruptions caused due to COVID-19 pandemic.

XII.9.6 *Profit on Sale and Redemption of Rupee Securities* increased from ₹1,252.43 crore in 2019-20 to ₹5,193.94 crore in 2020-21 primarily on account of higher sale operations amounting to ₹1,84,425 crore (Face Value) in 2020-21 as compared to ₹42,111 crore (Face Value) in 2019-20.

XII.9.7 *Amortisation of Premium/ Discount of Rupee Securities and Oil Bonds:* The premium/ discount on Rupee Securities and oil bonds held by the Reserve Bank, are amortised on daily basis during the period of residual maturity. The net income from premium/ discount on amortisation of Rupee Securities decreased by 49.64 per cent from ₹1,680.95 crore in 2019-20 to ₹846.48 crore in 2020-21.

XII.9.8 *Domestic- Discount:* The income from holding of discounted instruments [T-Bills and Cash Management Bills (CMBs)] increased from ₹734.57 crore in 2019-20 to ₹964.16 crore in 2020-21.

XII.9.9 *Interest on loans and advances*

a. *Central and State Government:*

Interest income on Ways and Means Advances (WMA)/ Overdraft (OD) extended to central and state governments decreased by 88.59 per cent from ₹2,313.51 crore during 2019-20 to ₹264.04 crore in 2020-21. Of the total, interest income received from the Centre on account of WMA/ OD decreased by 99.89 per cent from ₹2,130.51 crore in 2019-20 to ₹2.28 crore in 2020-21 and interest income received from the States on account of WMA/ OD/ Special Drawing Facility (SDF) increased by 43.04 per cent from ₹183 crore in 2019-20 to ₹261.76 crore in 2020-21. The net decreased earning was on account of significantly lower utilisation of WMA/ OD facility by the central government in 2020-21.

b. *Banks & Financial Institutions*: Interest on loans and advances to banks and financial institutions increased by 19.22 per cent from ₹1,174.83 crore in 2019-20 to ₹1,400.63 crore in 2020-21.

c. *Employees*: Interest on loans and advances to employees decreased by 35.59 per cent from ₹68.83 crore in 2019-20 to ₹44.33 crore in 2020-21.

XII.9.10 *Commission:* The commission income decreased by 14.69 per cent from ₹2,431.24 crore in 2019-20 to ₹2,073.97 crore in 2020-21. This is mainly due to the net effect of a) increase in management commission received for servicing outstanding central and state governments loans including savings bonds, Government Securities, T-Bills and CMBs and b) shortened period of accounting year (nine months in 2020-21 against twelve months in 2019-20).

XII.9.11 *Rent realised, Profit or Loss on sale of Bank's Property, Provisions no longer required and miscellaneous income*: Earnings from these income heads decreased from ₹258.76 crore in 2019-20 to ₹(-)101.81 crore in 2020-21.

XII.10 EXPENDITURE

XII.10.1 The Reserve Bank incurs expenditure in the course of performing its statutory functions by way of agency charges/ commission, printing of notes, expenditure on remittance of currency besides staff related and other expenses. The total expenditure of the Reserve Bank decreased by 63.10 per cent from ₹92,540.93 crore in 2019-20 to ₹34,146.75 crore in 2020-21 (Table XII.10).

i) ***Interest Payment***

During 2020-21, an amount of ₹1.10 crore was paid as interest to Dr. B. R. Ambedkar Fund (set up for giving scholarship to wards of staff) and Employees Benevolent Fund.

ii) ***Employee Cost***

The total employee cost for the year 2020-21 decreased by 46.37 per cent from ₹8,928.06 crore in 2019-20 to ₹4,788.03 crore in 2020-21. The decrease was due to net impact of decrease in Reserve Bank's expenditure towards accrued liabilities of various superannuation funds in 2020-21 and also the current accounting period being of nine months.

iii) ***Agency Charges/ Commission***

a. *Agency Commission on Government Transactions*

The Reserve Bank discharges the function of banker to the government through a large network of agency bank branches that serve as retail outlets for government receipts and payments. The Reserve Bank pays commission to these agency banks at prescribed rates. The agency commission paid on account of government business decreased by 31.06 per cent from ₹3,787.55 crore in 2019-20 to ₹2,611.05 crore in 2020-21. The decrease of ₹1,176.50 crore is primarily on account of the current year being of nine months compared to 2019-20. Further, some amount of reduction in agency commission paid could also be attributed to transactions being done directly by the governments through integration of government systems with the Reserve Bank's *e-Kuber* as well as some impact on number of government transactions on account of COVID-19 pandemic related situation.

b. *Underwriting Commission paid to Primary Dealers*

The Reserve Bank paid total underwriting commission of ₹60.90 crore to Primary

Table XII.10: Expenditure

(₹ crore)

Item		2016-17	2017-18	2018-19	2019-20	2020-21
1		2	3	4	5	6
i.	Interest Payment	0.92	0.97	1.16	1.34	1.10
ii.	Employee Cost	4,620.82	3,848.51	6,851.07	8,928.06	4,788.03
iii.	Agency Charges/ Commission	4,051.77	3,903.06	3,910.21	3,876.08	3,280.06
iv.	Printing of Notes	7,965.23	4,912.52	4,810.67	4,377.84	4,012.09
v.	Provisions	13,189.62	14,189.27	63.60	73,615.00	20,710.12
vi.	Others	1,326.57	1,422.33	1,407.44	1,742.61	1,355.35
Total (i+ii+iii+iv+v+vi)		**31,154.93**	**28,276.66**	**17,044.15**	**92,540.93**	**34,146.75**

Dealers during 2019-20 as compared to ₹642.95 crore during 2020-21. The underwriting commission increased significantly during the year, specially during September 2020–October 2020 and then steeply during February 2021–March 2021, mainly on account of market conditions and increased quantum of government borrowing, reflected in higher risk of devolvement at 9.53 per cent of the gross borrowings (0.51 per cent in 2019-20). The central government gross borrowing figure of ₹12,00,000 crore for the year 2020-21, announced on May 08, 2020, was further enhanced by ₹1,10,000 crore on October 15, 2020 to meet the GST Compensation Cess shortfall, and then again by ₹80,000 crore on February 01, 2021. The increased usage of devolvement resulted in sharp spikes in underwriting commissions during September 2020-October 2020 and during February 2021- March 2021.

The long-standing issue of payment of Service Tax (ST)/ Goods and Services Tax (GST) on underwriting commission to PDs was resolved during the year. Accordingly, the current year's expenditure also includes the legacy ST/ GST of ₹159.92 crore, reimbursed to PDs towards the underwriting commission paid to them for the period July 2012 to November 2020, while all underwriting commission paid to PDs with effect from December 2020 included GST component (the GST amount from December 2020-March 2021 was ₹56.72 crore).

c. *Sundries*

This includes the expenses incurred on handling charges, turnover commission paid to banks for Relief/ Savings Bonds subscriptions and Commission paid on Securities Borrowing and Lending Arrangement (SBLA), *etc.* The commission paid under this head increased from ₹6.26 crore in 2019-20 to ₹6.30 crore in 2020-21.

d. *Fees paid to the External Asset Managers, Custodians, Brokers, etc.*

Fees paid for custodial and broker services decreased from ₹21.37 crore in 2019-20 to ₹19.76 crore in 2020-21.

iv) ***Printing of Notes***

The supply of notes during the year 2020-21 at 2,23,301 lakh pieces was 0.26 per cent lower than that of the year 2019-20 (2,23,875 lakh pieces). The expenditure incurred on printing of banknotes decreased by 8.35 per cent from ₹4,377.84 crore in the year 2019-20 to ₹4,012.09 crore during the year 2020-21.

v) ***Provisions***

In 2020-21, a provision of ₹20,710.12 crore was made towards transfer to CF.

vi) ***Others***

Other expenses consisting of expenditure on remittance of currency, printing and stationery, audit fees and related expenses, miscellaneous expenses, *etc.,* decreased by 22.22 per cent from ₹1,742.61 crore in 2019-20 to ₹1,355.35 crore in 2020-21.

XII.11 CONTINGENT LIABILITIES

XII.11.1 Total contingent liabilities of the Reserve Bank amounted to ₹953.63 crore. The main component of it being partly paid shares, denominated in SDR, of Bank for International Settlements (BIS) held by the Reserve Bank. The uncalled liability on partly paid shares of the BIS as on March 31, 2021 was ₹924.43 crore. The balances are callable at three months' notice by a decision of the BIS Board of Directors.

XII.12 PRIOR PERIOD TRANSACTONS

XII.12.1 For the purpose of disclosure, prior period transactions of ₹1 lakh and above only have been considered. The prior period transactions under expenditure and income amounted to ₹145.98 crore and ₹0.31 crore, respectively.

XII.13 PREVIOUS YEAR'S FIGURES

XII.13.1 Figures for the previous year have been rearranged, wherever necessary, and converted in Rupees crores (from Rupees billion) to make them comparable with the current year.

XII.14 AUDITORS

XII.14.1 The statutory auditors of the Reserve Bank are appointed by the central government in terms of Section 50 of the RBI Act, 1934. The accounts of the Reserve Bank for the year 2020-21 were audited by M/s Prakash Chandra Jain & Co., Mumbai and M/s G. M. Kapadia & Co., Mumbai, as the Statutory Central Auditors and M/s Ray & Ray, Kolkata, M/s Subramanian & Co. LLP, Chennai and M/s S. K. Mittal & Co., New Delhi as Statutory Branch Auditors.

ANNEX I

CHRONOLOGY OF MAJOR POLICY ANNOUNCEMENTS: MARCH 2020 TO MARCH 2021[1]

Date of Announcement	Policy Initiative
Monetary Policy Department	
March 27, 2020	• The policy repo rate was reduced by 75 basis points (bps) to 4.4 per cent. The reverse repo rate was reduced by 90 bps to 4.0 per cent creating an asymmetrical corridor[2]. • CRR reduced[3] by 100 bps to 3.0 per cent of NDTL effective March 28, 2020 for a period of one year ending on March 26, 2021. • Effective March 28, 2020, requirement of minimum daily CRR balance maintenance reduced from 90 per cent to 80 per cent of the prescribed CRR. This dispensation, initially available up to June 26, was further extended up to September 25, 2020[4]. • Increase in marginal standing facility (MSF) borrowing from 2 per cent of statutory liquidity ratio (SLR) to 3 per cent effective March 28, 2020. This measure was initially available up to June 30, 2020 and later extended up to September 30, 2020.
April 17, 2020	• The reverse repo rate was reduced by 25 bps to 3.75 per cent. • Special refinance facilities for a total amount of ₹50,000 crore were provided to NABARD, SIDBI and NHB to enable them to meet sectoral credit needs[5].
May 22, 2020	• The policy repo rate was reduced by 40 bps to 4.0 per cent. • The reverse repo rate was reduced by 40 bps to 3.35 per cent. • A line of credit of ₹15,000 crore was extended to EXIM bank for a period of 90 days from the date of availment with rollover up to a maximum period of one year to enable it to avail a US dollar swap facility to meet its foreign exchange requirements.
August 6, 2020	• The policy repo rate kept unchanged at 4.0 per cent. • The Monetary Policy Committee (MPC) decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.
September 28, 2020	On March 27, 2020, banks were allowed to avail funds under the marginal standing facility (MSF) by dipping into the statutory liquidity ratio (SLR) by up to an additional one per cent of net demand and time liabilities (NDTL), *i.e.,* cumulatively up to 3 per cent of NDTL. This facility, initially available up to June 30, 2020, was extended on June 26, 2020, up to September 30, 2020. This relaxation was further extended on September 28, 2020, for a period of six months, *i.e.,* up to March 31, 2021, to provide comfort to banks on their liquidity requirements and to enable them to meet liquidity coverage ratio (LCR) requirements.

[1] The list is indicative in nature and details are available on the Reserve Bank's website.

[2] The purpose of this measure relating to reverse repo rate is to make it relatively unattractive for banks to passively deposit funds with the Reserve Bank and instead, to use these funds for on-lending to productive sectors of the economy.

[3] This reduction in the CRR released primary liquidity of about ₹1,37,000 crore uniformly across the banking system in proportion to liabilities of constituents rather than in relation to holdings of excess SLR.

[4] This measure was announced taking cognisance of hardships faced by banks in terms of social distancing of staff and consequent strains on reporting requirements.

[5] This comprised ₹25,000 crore to NABARD for refinancing regional rural banks (RRBs), cooperative banks and micro finance institutions (MFIs); ₹15,000 crore to SIDBI for on-lending/refinancing; and ₹10,000 crore to NHB for supporting housing finance companies (HFCs). Advances under this facility were provided at the Reserve Bank's policy repo rate.

Date of Announcement	Policy Initiative
October 9, 2020	The MPC decided to continue with the accommodative stance as long as necessary - at least during the current financial year and into the next financial year - to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.
February 5, 2021	The cash reserve ratio (CRR) of all banks was reduced by 100 basis points to 3 per cent of their NDTL, effective the reporting fortnight beginning March 28, 2020 for a period of one year ending March 26, 2021. It was decided to gradually restore the CRR in two phases in a non-disruptive manner on February 5, 2021. Accordingly, banks were required to maintain the CRR at 3.50 per cent of their NDTL, effective the reporting fortnight beginning March 27, 2021 and 4 per cent of their NDTL, effective the fortnight beginning May 22, 2021. The enhanced access of funds under the MSF by dipping into SLR up to 3 per cent of NDTL was extended for a further period of six months, *i.e.,* up to September 30, 2021, with a view to providing comfort to banks on their liquidity requirements.
Financial Inclusion and Development Department	
March 31, 2020	Circular on short-term crop loans eligible for interest subvention scheme (ISS) and prompt repayment incentive (PRI) extending timeline till June 30, 2020 in view of the COVID-19 pandemic, for converting all short-term crop loans into KCC loans.
June 4, 2020	Circular on ISS and PRI for short-term crop loans during the years 2018-19 and 2019-20 extending moratorium period till August 31, 2020 in view of the COVID-19 pandemic.
July 2, 2020	New criteria for classifying an enterprise under Micro, Small and Medium Enterprises (MSME) sector was announced to facilitate credit flow to such enterprises.
August 21, 2020	Clarification was issued regarding new definition of MSMEs.
September 4, 2020	Master Directions were issued for Priority Sector Lending (PSL) targets and their classification.
September 18, 2020	Modifications in guidelines announced regarding DAY-NRLM (*Deendayal Antyoday Yojana* - National Rural Livelihoods Mission).
November 5, 2020	Guidelines were issued on co-lending by banks and Non-Banking Financial Companies (NBFCs) to priority sector.
December 4, 2020	Measures were announced to expand the reach of the Centre for Financial Literacy (CFL) project from 100 blocks currently to every block in the country in a phased manner by March 2024.
Financial Markets Regulation Department	
March 27, 2020	• AD Category-I banks in India which operate international financial services centre (IFSC) banking units (BUs) were permitted to offer non-deliverable derivative contracts involving the rupee, or otherwise, to persons not resident in India, with effect from June 1, 2020. • The timeline for implementation of legal entity identifier (LEI) in non-derivative markets was extended till September 30, 2020, in view of the challenges posed by the outbreak of the COVID-19 pandemic.
March 30, 2020	A separate route, *viz.,* fully accessible route (FAR) for investment by non-residents in specified securities issued by the Government of India (GoI) was introduced.
April 3, 2020 followed by April 16 and April 30, 2020	The trading hours for various markets under the Reserve Bank's regulation were revised to ensure that market participants maintain adequate checks and controls while optimising their resources and ensuring safety of personnel amid COVID-19 pandemic.

Date of Announcement	Policy Initiative
April 7, 2020	The existing facilities for non-residents and residents to hedge foreign exchange risk have been reviewed to ease access to the domestic foreign exchange market, ensure protection for the retail customer and promote innovation for the sophisticated customers.
April 15, 2020	The investment limits for the FPIs in debt securities under medium term framework (MTF) for the financial year 2020-21 were announced.
May 18, 2020	• All non-deliverable derivative contracts involving the rupee, or otherwise, were mandated to be reported to the trade repository. All IFSC Banking Units were mandated to report all OTC foreign exchange, interest rate and credit derivative transactions (both inter-bank and client transactions) undertaken by them to the trade repository with effect from June 1, 2020. • The implementation date for the directions on hedging of foreign exchange risk (dated April 7, 2020) was deferred to September 1, 2020 from June 1, 2020 in view of the difficulties arising from the outbreak of COVID-19.
May 22, 2020	FPIs that were allotted investment limits under the VRR scheme between January 24, 2020 and April 30, 2020 were allowed an additional time of three months to invest 75 per cent of their committed portfolio size (CPS) in view of the COVID-19 pandemic.
December 4, 2020	With a view to widen the participant base in the money markets, Regional Rural Banks (RRBs) have been permitted to access call/notice and term money markets.
February 15, 2021	Directions were issued to give effect to the provisions in the regulations [Foreign Exchange Management (Margin for Derivative Contracts) Regulations, 2020] which enabled exchange of margin for Over the Counter (OTC) derivative contracts between a person resident in India and a person resident outside India.
February 26, 2021	With a view to further promoting investments in corporate bonds by foreign portfolio investors (FPIs), it was notified that FPI investments in non-convertible debentures (NCDs)/bonds which are under default, either fully or partly, in the repayment of principal on maturity or principal instalment in the case of amortising bond were exempted from minimum residual maturity requirement, short-term investments limit and investor limit under the medium-term framework.
March 31, 2021	Investment limit for FPIs in corporate bonds under the medium-term framework for 2021-22 was notified. Also, investment limits for FPIs in Government Securities (G-secs) and State Development Loans (SDLs) that were applicable for 2020-21 would be retained for 2021-22 until further advice.
Financial Markets Operations Department	
March 12, 2020	The Reserve Bank announced to undertake 6-month US Dollar sell/buy swap auctions to provide US Dollar liquidity to the foreign exchange market. The first such auction was conducted on March 16, 2020[6].
March 27, 2020	The Reserve Bank announced conducting targeted long-term repo operations (TLTROs) at a floating rate linked to the policy repo rate. Liquidity availed under the scheme by banks had to be deployed in investment grade corporate bonds, commercial paper, and non-convertible debentures. The first such TLTRO auction was conducted on March 27, 2020.

[6] This measure was announced as financial markets worldwide were facing intense selling pressures on extreme risk aversion due to the spread of COVID-19 infections.

Date of Announcement	Policy Initiative
March 30, 2020	Taking into account the impact of disruptions caused by COVID-19, it was decided to extend the window timings of fixed rate reverse repo and MSF operations as an interim measure so as to provide eligible market participants with greater flexibility in their liquidity management.
April 17, 2020	The Reserve Bank announced conducting targeted long-term repo operations (TLTROs) 2.0 at the policy repo rate. Liquidity availed under the scheme by banks is to be deployed in investment grade corporate bonds, commercial paper, and non-convertible debentures with at least 50 per cent of the total amount availed going to small and mid-sized NBFCs and MFIs. Investments made under this facility would be classified as held to maturity (HTM) even in excess of 25 per cent of total investment permitted to be included in the HTM portfolio. Exposures under this facility would also not be reckoned under the large exposure framework (LEF). The first such TLTRO 2.0 auction was conducted on April 23, 2020.
April 27, 2020	In order to ease the liquidity pressure on mutual funds, it was decided to open a special liquidity facility for mutual funds (SLF-MF). Liquidity availed under the scheme by banks is to be deployed exclusively for meeting needs of mutual funds. Liquidity availed under the facility would be classified as HTM even in excess of 25 per cent of total investment permitted to be included in the HTM portfolio. Exposures under this facility would also not be reckoned under the LEF. The first such SLF-MF auction was conducted on April 27, 2020.
April 30, 2020	It was decided to extend regulatory benefits announced under the SLF-MF scheme to all banks, irrespective of whether they avail funding from the Reserve Bank or deploy their own resources to meet liquidity requirements of mutual funds.
July 1, 2020	• To improve liquidity position of NBFCs (including Micro-Finance Institutions - MFIs)/Housing Finance Companies (HFCs), the Government of India approved scheme of ₹30,000 crore was notified. • NBFCs (including MFIs)/HFCs, meeting certain financial parameters, were given access to liquidity to avoid any potential systemic risks to the financial sector. • The Reserve Bank injected liquidity through back-to-back funding by subscribing to government guaranteed special securities issued by a special purpose vehicle (SPV) - a trust set up by SBI Capital Markets Ltd. (SBICAP), in the form of a special liquidity scheme (SLS).
August 6, 2020	In order to optimise human resource deployment in the context of disruptions caused by COVID-19 and to provide eligible Liquidity Adjustment Facility (LAF)/Marginal Standing Facility (MSF) participants greater flexibility in managing their end of the day cash reserve ratio (CRR) balances, the Reserve Bank introduced the Automated Sweep-in and Sweep-out (ASISO) facility in its *e-Kuber* system.
August 31, 2020	• Banks were given an option of repaying the funds availed under the Long-Term Repo Operations (LTROs) scheme before maturity. Subsequently, banks reversed LTRO funds amounting to ₹1,23,572 crore out of total of ₹1,25,117 crore. • Two 56-day term repo auctions for a total amount of ₹1,00,000 crore at floating rates (repo rate) were announced to be conducted on September 11 and September 14, 2020 to assuage liquidity pressures on account of advance tax outflows.
October 9, 2020	• With a view to increase the focus of liquidity measures on revival of activity in specific sectors, the Reserve Bank announced on tap Targeted LTRO (TLTRO) scheme. Accordingly, it was decided to conduct on tap TLTRO of up to three years tenor for a total amount of up to ₹1,00,000 crore at a floating rate (repo rate) with end-use guidance. Investments under on tap TLTRO qualified for held-to- maturity (HTM) portfolio and were exempted from large exposure framework. The scheme has been extended up to September 30, 2021.

Date of Announcement	Policy Initiative
	• As announced in the Statement on Developmental and Regulatory Policies, banks were given an option of repaying the funds availed under TLTRO and TLTRO 2.0 before maturity. The scheme was notified on October 21, 2020. Subsequently, TLTRO and TLTRO 2.0 funds amounting to ₹37,348 crore were repaid by banks. • The Reserve Bank decided to enhance the size of OMOs to ₹20,000 crore in order to assure the market of maintaining comfortable liquidity conditions in line with monetary policy stance. • In order to impart liquidity to SDLs and facilitate efficient pricing, it was decided to conduct OMOs in SDLs as a special case during 2020-21. Accordingly, three OMOs in SDLs amounting to ₹30,000 crore were conducted since October 2020.
December 4, 2020	The on tap TLTRO scheme announced on October 9, 2020 was expanded to cover 26 stressed sectors (as identified by the Kamath Committee and in sync with the credit guarantee available under the Emergency Credit Line Guarantee Scheme (ECLGS 2.0) of the Government), in addition to the five sectors identified on October 21, 2020.
January 8, 2021	It was decided to restore normal liquidity management operations in a phased manner. Accordingly, the Reserve Bank began conducting the 14-day variable rate reverse repo auction from January 15, 2021 onwards.
February 5, 2021	As announced in the Statement on Developmental and Regulatory Policies on February 5, 2021, banks were permitted to provide funds to NBFCs under the on tap TLTRO scheme.
March 25, 2021	• The Reserve Bank announced two fine tuning variable rate repo auctions of ₹25,000 crore each on March 26, 2021 and March 31, 2021 in order to meet any additional/unforeseen demand for liquidity and to provide flexibility to the banking system in year-end liquidity management. As a special case, standalone primary dealers were allowed to participate in these auctions, along with other eligible participants. • Furthermore, as a one-time measure, it was decided not to conduct 14-day variable rate reverse repo auction on March 26, 2021 in order to ensure the availability of ample liquidity to manage year-end requirements.
Foreign Exchange Department	
March 17, 2020	Japanese Yen was permitted as currency of settlement under Asian Clearing Union (ACU) mechanism. The Foreign Exchange Management (Manner of Receipt and Payment) Regulations, 2016 were amended accordingly.
April 1, 2020	Consequent to the COVID-19 pandemic, it was decided, in consultation with GoI, to increase the present period of realisation and repatriation to India of the amount representing the full export value of goods or software or services exported, from nine months to fifteen months from the date of export, for the exports made up to or on July 31, 2020.
April 3, 2020	It was decided, in consultation with the GoI, to permit receipt of foreign inward remittances from non-residents through the overseas exchange houses in favour of the 'Prime Minister's Citizen Assistance and Relief in Emergency Situations (PM-CARES) Fund', subject to the condition that AD Category-I banks shall directly credit the remittances to the 'PM-CARES Fund' and maintain the full details of the non-residents sending the donations/contributions under rupee drawing arrangement (RDA).

Date of Announcement	Policy Initiative
May 22, 2020	In view of the disruptions due to the COVID-19 pandemic, the time period for completion of remittances against normal imports, *i.e.*, excluding import of gold/diamonds and precious stones/jewellery, (except in cases where amounts are withheld towards guarantee of performance, *etc.*) was extended from six months to twelve months from the date of shipment for such imports made on or before July 31, 2020.
August 11, 2020	The Foreign Exchange Management (Export and Import of Currency) Regulations, 2015 were amended, and changes were notified.
October 9, 2020	In order to make the system more exporter friendly and equitable, it was decided to discontinue with automatic caution-listing of exporters. However, caution-listing based on case-specific recommendations of the authorised dealer (AD) bank, will continue to be done by the Reserve Bank.
November 13, 2020	With a view to improve the ease of doing business and reduce the cost of compliance, the existing forms and reports prescribed under Foreign Exchange Management Act (FEMA), 1999 were reviewed by the Reserve Bank, and consequently, 17 reports were discontinued.
November 17, 2020	The guidelines on compounding of contraventions under FEMA, 1999 were reviewed and revised.
November 23, 2020	AD category - I banks were directed not to grant approvals to any branch office, project office, liaison office or other place of business in India under FEMA for the purpose of practicing legal profession in India.
December 4, 2020	With a view to further enhance the ease of doing business and quicken the approval process, more powers have been delegated to the AD category - I banks (AD banks) with respect to export of goods and services.
February 16, 2021	In order to deepen the financial markets in International Financial Services Centres (IFSCs) and provide an opportunity to resident individuals to diversify their portfolio, on a review, resident individuals were permitted to make remittances under liberalised remittance scheme (LRS) to IFSCs established in India.
Department of Regulation: Commercial Banks	
March 17, 2020	• On account of inclusion of affordable housing under the harmonised master list (HML) for infrastructure sub-sectors by GoI, the definition of lending to affordable housing was re-aligned with that provided in the HML. Accordingly, for the purpose of issue of long terms bonds, the revised definition would include housing loans, eligible to be classified under priority sector lending (as updated from time to time) and to individuals for acquiring dwelling units within the prescribed threshold under the affordable housing definition in the HML. • Banks were permitted to treat investment fluctuation reserve (IFR), being at least 2 per cent built up out of profit on sale of securities under the held for trading (HFT) and available for sale (AFS) portfolios on a continuous basis, as part of Tier-II capital without the cap of 1.25 per cent of total credit risk weighted assets.
March 23, 2020	A clarification was issued to the banks that exposure can be shifted from the credit risk mitigation (CRM) provider to the original counterparty, even if the counterparty was a person resident outside India, if CRM benefits like shifting of exposure/risk weights are not derived by that bank. The exposures thus shifted to a person resident outside India, will attract a minimum risk weight of 150 per cent. The date of applicability of the LEF guidelines to non-centrally cleared derivatives exposures was also deferred by one year to April 1, 2021.

Date of Announcement	Policy Initiative
March 27, 2020	• The implementation of the last tranche of 0.625 per cent of capital conservation buffer (CCB) shall stand deferred from March 31, 2020 to September 30, 2020. Accordingly, minimum capital conservation ratios as applicable from March 31, 2018, will also apply for a further period of six months from March 31, 2020 till the CCB attains the level of 2.5 per cent on September 30, 2020. Further, the pre-specified trigger for loss absorption through conversion/write-down of additional tier 1 instruments (perpetual non-cumulative preference shares and perpetual debt instruments) shall remain at 5.5 per cent of risk-weighted assets (RWAs) and will rise to 6.125 per cent of RWAs on September 30, 2020. • The implementation of net stable funding ratio (NSFR), was deferred by six months from April 1, 2020 to October 1, 2020. • Certain regulatory measures were announced to mitigate the burden of debt servicing brought about by disruptions on account of COVID-19 pandemic and to ensure the continuity of viable businesses. The salient features included rescheduling of payments for term loans and working capital facilities, easing of working capital financing and exemption from classification of special mention account (SMA) and non-performing assets (NPA) on account of implementation of the above reliefs. • The bank rate was revised downwards by 75 bps from 5.40 per cent to 4.65 per cent with immediate effect. All penal interest rates on shortfall in reserve requirements, which are specifically linked to the bank rate, also stand revised, accordingly, depending on duration of shortfalls *i.e.*, bank rate plus 3.0 percentage points (7.65 per cent from the earlier 8.40 per cent) or bank rate plus 5.0 percentage points (9.65 per cent instead of the earlier rate of 10.40 per cent).
March 28, 2020	Guidelines for on-tap licensing of SFBs in private sector were modified to extend certain norms to existing SFBs like granting of general permission to open banking outlets subject to adherence to unbanked rural centre norms and exemption from seeking prior approval of the Reserve Bank for undertaking such non-risk sharing simple financial service activities, which do not require any commitment of own fund, after three years of commencement of business of SFBs. Some clarifications were also provided on promoters and paid up equity capital.
March 30, 2020	As announced in the scheme of amalgamation of certain public sector banks by GoI dated March 4, 2020, Oriental Bank of Commerce/United Bank of India/Andhra Bank/Corporation Bank/Syndicate Bank/Allahabad Bank (transferor banks) will be excluded from the Second Schedule to the RBI Act as they would cease to carry on banking business w.e.f., April 1, 2020. Consequently, all their branches will function as branches of their respective transferee bank (Punjab National Bank/Union Bank of India/Canara Bank/Indian Bank) from April 1, 2020 and their customers, including depositors, will be treated as customers of respective transferee banks with effect from April 1, 2020.
March 31, 2020	• Based on the review of certain instructions regarding appointment of managing director and chief executive officer (MD and CEO)/CEO/part-time chairperson (PTC) in private sector banks and foreign banks, the 'Declaration and Undertaking' to be obtained from candidate and specimen of 'Form A' (Application by bank for amendment in its appointment related provisions) as well as 'Form B' (Application for approval of appointment/re-appointment) were revised. Two other changes were also introduced, *viz.,* submission of application to the Reserve Bank by banks for re-appointment of MD and CEO at least six months (as against four months) before the expiry of the term of office and submission of proposals for appointment of a new MD and CEO with a panel of at least two names (as against three, currently) in the order of preference, at least four months before the expiry of the term of the present incumbent.

Date of Announcement	Policy Initiative
	• In order to make the doorstep banking services for senior citizens and differently abled persons effective, banks were advised to offer these services on pan India basis by developing a Board approved framework for determining the nature of branches where these services will be provided mandatorily and those where it will be provided on a best effort basis. Banks have to update the list of such branches on its website regularly, make the policy and charges in this regard public and give adequate publicity on the availability of such services in their public awareness campaigns. The progress made in this regard has to be reported to the Customer Service Committee of their Board every quarter and banks were advised to ensure compliance to the instructions by April 30, 2020.
April 1, 2020	• Based on the review and empirical analysis of counter cyclical capital buffer (CCyB) indicators, it was decided not to activate CCyB (framework for which was put in place in terms of guidelines issued on February 5, 2015, with pre-announcement of the decision to activate it as and when circumstances warranted) for a period of one year or earlier, as may be necessary. • Amendment to the Master Direction on KYC dated February 25, 2016 was made to align it with the amendment brought in the PML Rules by the GoI through a gazette notification dated March 31, 2020. The amendment pertains to small accounts, opened for customers unable to furnish officially valid documents (OVDs) to banks, for which the limitations and conditions have been provided in the PML rules itself. The amendment was carried out to enable the Government to transfer the direct benefit transfer (DBT) amounts to the beneficiaries' accounts and allow the beneficiaries to withdraw the amount for their needs in the current pandemic situation due to COVID-19, without causing any hardships due to the KYC requirements.
April 17, 2020	• It was decided that in respect of all accounts for which lending institutions decide to grant moratorium or deferment, and which were standard as on March 1, 2020, the 90-day NPA norm shall exclude the moratorium period, *i.e.*, there would be an asset classification standstill for all such accounts from March 1, 2020 to May 31, 2020. At the same time, with the objective of ensuring that banks maintain sufficient buffers and remain adequately provisioned to meet future challenges, they will have to maintain higher provision of 10 per cent on all such accounts under the standstill, spread over two quarters, *i.e.*, March, 2020 and June, 2020. These provisions can be adjusted later on against the provisioning requirements for actual slippages in such accounts. • Under Reserve Bank's prudential framework of resolution of stressed assets dated June 7, 2019, in the case of large accounts under default, SCBs are currently required to hold an additional provision of 20 per cent if a resolution plan has not been implemented within 210 days from the date of such default. Recognising the challenges to resolution of stressed assets in the current volatile environment, it has been decided that the period for resolution plan shall be extended by 90 days. • With a view to conserve capital of banks to retain their capacity to support the economy and absorb losses in an environment of heightened uncertainty, it was decided that in view of the COVID-19-related economic shock, SCBs shall not make any further dividend payouts from profits pertaining to the financial year ended March 31, 2020 until further instructions. This restriction shall be reviewed on the basis of the financial position of banks for the quarter ending September 30, 2020. • In order to ease the liquidity position at the level of individual institutions, the LCR requirement for SCBs is being brought down from 100 per cent to 80 per cent with immediate effect. The requirement shall be gradually restored back in two phases – 90 per cent by October 1, 2020 and 100 per cent by April 1, 2021.

Date of Announcement	Policy Initiative
April 20, 2020	Master Direction on KYC was updated regarding internal risk assessment by regulated entities (REs) relating to money laundering/terrorist financing to further align the Reserve Bank's instructions to the provisions of financial action task force (FATF) Recommendation 1. The internal risk assessment carried out by REs should be commensurate to their size, geographical presence, complexity of activities/structure, *etc.* REs shall have to apply a Risk Based Approach (RBA) for mitigation and management of the identified risk and should have Board approved policies, controls and procedures in this regard. The assessment will have to be properly documented and the outcome should be reported to the Board or any Committee of the Board.
April 23, 2020	Banks were permitted to issue electronic cards, with their Board approved policy, to natural persons having overdraft accounts that are in the nature of personal loan without any specific end-use restrictions, only for domestic online/non-cash transactions. However, restrictions on cash transaction shall not apply to *Pradhan Mantri Jan-Dhan Yojana* (PMJDY) overdraft facility. The card shall be issued for a period not exceeding the validity of the facility and instructions on terms and conditions, security aspects, *etc.*, as applicable for debit cards, will be applicable to these cards.
April 29, 2020	In order to mitigate the difficulties in timely submission of various regulatory returns, due to disruptions on account of COVID-19 pandemic, the timelines for the submission was extended for the regulated entities, permitting a delay of up to 30 days from the due date, which will be applicable to regulatory returns required to be submitted up to June 30, 2020. However, no extension is permitted for submission of statutory returns, *i.e.*, returns prescribed under the Banking Regulation Act, 1949, RBI Act, 1934 or any other Act (for instance, returns related to CRR/SLR).
May 13, 2020	Interest equalisation scheme on pre- and post-shipment rupee export credit was extended by GoI for one year, *i.e.*, up to March 31, 2021, with same scope and coverage, and all extant operational instructions issued by the Reserve Bank under the said scheme shall continue to remain in force up to March 31, 2021.
May 22, 2020	The bank rate was revised downwards by 40 bps from 4.65 per cent to 4.25 per cent with effect from May 22, 2020. Accordingly, all penal interest rates on shortfall in reserve requirements, which are specifically linked to the bank rate, also stand revised as bank rate plus 3.0 percentage points (7.25 per cent from the earlier 7.65 per cent) or bank rate plus 5.0 percentage points (9.25 per cent instead of the earlier rate of 9.65 per cent), depending on the duration of the shortfalls.
May 23, 2020	• With a view to facilitate greater flow of resources to corporates that faced difficulties in raising funds from the capital market and predominantly dependent on bank funding, caused by market uncertainties due to COVID-19 pandemic, a bank's exposure under the Large Exposure Framework, to a group of connected counterparties was increased from 25 per cent to 30 per cent of the eligible capital base of the bank. The increased limit will be applicable up to June 30, 2021. • Taking forward the COVID-19 regulatory package released in March and April 2020, additional measures were announced, providing relaxations in repayment pressures and improving access to working capital by mitigating the burden of debt servicing, for preventing the transmission of financial stress to the real economy, and ensuring the continuity of viable businesses and households on continuous economic disruption due to extension of lockdown. • Further extension of the resolution timelines, prescribed in the Prudential Framework for Resolution of Stressed Assets dated June 7, 2019, was provided after a review in continuation of the earlier instructions of April 2020, on account of continued challenges to resolution of stressed assets in a volatile environment. This was applicable in respect of accounts which were within and past the review period as on March 1, 2020, subject to conditions.

Date of Announcement	Policy Initiative
	• To alleviate genuine difficulties being faced by exporters in their production and realisation cycles, the maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks was increased from one year to 15 months, for disbursements made up to July 31, 2020. This was in line with the permission already granted for increase in the period of realisation and repatriation of the export proceeds to India from nine months to 15 months from the date of export in respect of exports made up to July 31, 2020.
June 21, 2020	As credit facilities to MSME borrowers, extended under the emergency credit line guarantee scheme of GoI guaranteed by National Credit Guarantee Trustee Company (NCGTC), are backed by an unconditional and irrevocable guarantee provided by the GoI, member lending institutions, *viz.,* SCBs (including scheduled RRBs), NBFCs (including HFCs as eligible under the scheme) and all India financial institutions (AIFIs), were permitted to assign zero per cent risk weight on the credit facilities extended under these schemes to the extent of guarantee coverage.
July 1, 2020	Banks were permitted to reckon the funds infused by the promoters in their MSME units through loans availed under the credit guarantee scheme for subordinate debt for stressed MSMEs scheme (where credit facilities are backed by a guarantee from credit guarantee fund trust for micro and small enterprises), as equity/quasi equity from the promoters for debt-equity computation.
August 6, 2020	• A window for resolution of COVID-19 related stress, applicable to all commercial banks (including small finance banks, local area banks and regional rural banks), all primary (urban) co-operative banks/state co-operative banks/district central co-operative banks, NBFCs (including housing finance companies) and All India Financial Institutions (AIFIs) was issued to facilitate revival of real sector activities which were under financial stress, due to economic fallout on account of the COVID-19 pandemic, subject to certain conditions. The resolution framework was to be invoked till December 31, 2020 and had to be implemented within 90 days of invocation in respect of personal loans and 180 days of invocation for other eligible loan exposures. Also, a one-time restructuring of loans to MSMEs without an asset classification downgrade, was extended to viable MSME entities, where the borrower's account was a 'standard asset' as on March 1, 2020 and the aggregate exposure of banks and NBFCs was not more than ₹25 crore. The restructuring had to be implemented by March 31, 2021, subject to certain conditions. • Detailed instructions were issued to banks for computation of capital charge for market risk for their investments in debt mutual fund/exchange traded fund, resulting in substantial capital savings for banks, under Basel III capital regulations. • Loan-to-value ratio (LTV) was temporarily increased from 75 per cent to 90 per cent till March 31, 2021 for loans against gold ornaments and jewellery for non-agricultural end-uses. Fresh gold loans sanctioned on and after April 1, 2021 shall attract LTV ratio of 75 per cent as hitherto. • With an aim to improve credit discipline, guidelines were issued that stipulated conditions on the opening and operation of current accounts, cash credit (CC) accounts and overdraft (OD) accounts by banks. In respect of existing current and CC/OD accounts, banks were to ensure compliance with the instructions by November 5, 2020. The timeline for ensuring such compliance was extended till December 15, 2020 *vide* circular dated November 2, 2020. On a review, banks were permitted to open specific accounts which are stipulated under various statutes and instructions of other regulators/regulatory departments, without any restrictions *vide* circular dated December 14, 2020. The circular also provided an indicative list of such permitted accounts and a set of frequently asked questions (FAQs) clarifying certain issues to ensure smooth and uniform implementation of these guidelines.

Date of Announcement	Policy Initiative
September 1, 2020	It was decided to allow banks to hold under HTM category, SLR securities acquired on or after September 1, 2020 up to an overall limit of 22 per cent of NDTL, up to March 31, 2021, which shall be reviewed thereafter.
September 3, 2020	• Exclusion of “Westpac Banking Corporation” from the Second Schedule to the Reserve Bank of India Act, 1934. • Cessation of “Westpac Banking Corporation” as a banking company within the meaning of sub-section (2) of Section 36A of Banking Regulation Act, 1949. • Cessation of “Aditya Birla Idea Payments Bank Limited” as a banking company within the meaning of sub-section (2) of Section 36A of Banking Regulation Act, 1949.
September 7, 2020	The five key ratios/parameters recommended by the Expert Committee constituted by the Reserve Bank (Chairperson: Shri K. V. Kamath) to be factored in by the lending institutions while finalising a resolution plan in respect of eligible borrowers under COVID-19 related stress, and the respective thresholds for 26 sectors were notified. In respect of other sectors, lending institutions were permitted to make their own internal assessment, subject to certain conditions.
September 29, 2020	• Considering the potential stress on account of COVID-19, banks were advised to defer the implementation of certain prudential norms. • Implementation of phase-in of the last tranche of capital conservation buffer (CCB) of 0.625 per cent was deferred from September 30, 2020 to April 1, 2021, which, subsequently (on February 5, 2021), was further deferred by six months to October 1, 2021. • Implementation of net stable funding ratio (NSFR) of Basel III framework on liquidity standards deferred from October 1, 2020 to April 1, 2021, which, subsequently was further deferred by six months to October 1, 2021.
September 30, 2020	Exclusion of “Allahabad Bank”, “Andhra Bank”, “Corporation Bank”, “Oriental Bank of Commerce”, “United Bank of India” and “Syndicate Bank” from the Second Schedule to the Reserve Bank of India Act, 1934, and cessation as banking companies, w.e.f. April 1, 2020.
October 12, 2020	• The dispensation of overall limit of SLR holding in HTM of 22 per cent (as against the earlier 19.5 per cent) in respect of SLR securities acquired between September 1, 2020 and March 31, 2021 was extended up to March 31, 2022 from March 31, 2021. It was also decided to restore the enhanced HTM limit to 19.5 per cent in a phased manner, beginning from the quarter ending June 30, 2022. • As per the extant Reserve Bank’s instructions, the exposures included in the regulatory retail portfolio of banks are assigned a risk weight of 75 per cent, with a prescribed maximum aggregated retail exposure of ₹5 crore to one counterparty. The threshold of ₹5 crore was increased to ₹7.5 crore in respect of all fresh as well as existing exposures where incremental exposure may be taken by the banks up to the revised limit of ₹7.5 crore. The instruction is applicable to all SCBs, including small finance banks (SFBs) and excluding local area banks (LABs) and RRBs.
October 16, 2020	As a countercyclical measure, it was decided to rationalise the risk weights for all new individual housing loans, irrespective of the amount, to be sanctioned on or after October 16, 2020 and up to March 31, 2022. Risk weight will be 35 per cent for LTV ratio less than or equal to 80 per cent and 50 per cent for LTV ratio above 80 per cent but less than or equal to 90 per cent.
October 20, 2020	Ten amalgamated RRBs were included, and 21 erstwhile RRBs were excluded from the Second Schedule to the Reserve Bank of India Act, 1934, respectively.

Date of Announcement	Policy Initiative
October 27, 2020	All lending institutions were advised to be guided by the provisions of the scheme announced by Government of India for grant of ex-gratia payment of difference between compound interest and simple interest for six months (March 1, 2020 to August 31, 2020) to borrowers in specified loan accounts.
December 4, 2020	• In order to provide an additional avenue for liquidity management to RRBs, LAF and MSF were extended to scheduled RRBs, subject to fulfilling certain criteria. • It was further decided that banks shall not make any dividend payment on equity shares from the profits pertaining to 2019-20.
December 18, 2020	Regulated Entities (REs) have been uploading the know your customer (KYC) data pertaining to all individual accounts opened on or after January 1, 2017 on the Centralised KYC Registry (CKYCR) in terms of the provisions of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005. As the CKYCR is now fully operational for individual customers, it was decided to extend the CKYCR to Legal Entities (LEs). Accordingly, REs shall upload the KYC data pertaining to accounts of LEs opened on or after April 1, 2021, on the CKYCR.
January 19, 2021	List of domestic systemically important banks (D-SIBs) was released. SBI, ICICI Bank, and HDFC Bank were identified as D-SIBs and they continue as D-SIB under the same bucketing structure as in the 2018 list of D-SIBs.
January 27, 2021	Pursuant to the rating business of CRISIL Ltd. being transferred to CRISIL Ratings Ltd., a wholly owned subsidiary of CRISIL Ltd., banks were advised that they may use the ratings of the CRISIL Ratings Ltd. for the purpose of risk weighting of their claims for capital adequacy purposes. The rating-risk weight mapping for the long-term and short-term ratings assigned by CRISIL Ratings Ltd. will be the same as was in the case of CRISIL Ltd. and there is no change in the rating symbols, earlier assigned by CRISIL Ltd.
February 5, 2021	• It was decided to gradually restore the CRR in two phases in a non-disruptive manner. Accordingly, banks were required to maintain the CRR at 3.50 per cent of their NDTL effective from the reporting fortnight beginning March 27, 2021 and 4.00 per cent of their NDTL effective from fortnight beginning May 22, 2021. • The facility of MSF relaxation which was initially available up to June 30, 2020 was extended in phases up to March 31, 2021, was extended for a further period of six months, *i.e.,* up to September 30, 2021. This facility, would provide comfort to banks on their liquidity requirements and also enable them meet their Liquidity Coverage Ratio (LCR) requirements. This facility allowed banks to avail of funds under the MSF by dipping into their SLR up to an additional one per cent of NDTL, *i.e.*, cumulatively up to 3 per cent of NDTL. • SCBs were allowed to deduct the amount equivalent to credit disbursed to 'New MSME borrowers' from their NDTL for calculation of the CRR. 'New MSME borrowers' were defined as those MSME borrowers who have not availed any credit facilities from the banking system as on January 1, 2021. This exemption will be available only up to ₹25 lakh per borrower disbursed up to the fortnight ending October 1, 2021, for a period of one year from the date of origination of the loan or the tenure of the loan, whichever is earlier.

Date of Announcement	Policy Initiative
	• It was decided to extend the dispensation of enhanced HTM ceiling of 22 per cent of NDTL in respect of SLR eligible securities until March 31, 2023 and to include securities acquired between April 1, 2021 and March 31, 2022. It was also decided that the enhanced HTM limit shall be restored to 19.5 per cent in a phased manner, beginning from the quarter ending June 30, 2023. Earlier, the Reserve Bank had increased the limits under HTM category from 19.5 per cent to 22 per cent of NDTL in respect of SLR eligible securities acquired between September 1, 2020 and March 31, 2021, available until March 31, 2022.
February 17, 2021	Banks are required to make additional provisions and maintain additional capital for borrowers who have unhedged foreign currency exposure (UFCE) depending upon the likely impact of the UFCE on the earnings before interest and depreciation (EBID) of such borrowers. The guidelines mandate that information on UFCE may be obtained by banks from entities on a quarterly basis, on self-certification basis, and preferably should be internally audited by the entity concerned. In respect of listed entities, due to restrictions in disclosure pending finalisation of accounts, banks were allowed to use the UFCE position of the immediate preceding quarter.
February 23, 2021	Inclusion of “Fino Payments Bank Limited" in the Second Schedule of the Reserve Bank of India Act, 1934.
February 24, 2021	In terms of large exposure framework (LEF) guidelines dated June 3, 2019, exposures to the Government of India and state governments are exempt from LEF limits. Exposures to foreign sovereigns/central banks were subject to single counterparty limit of 20 per cent of the bank’s available eligible capital base at all times. On a review, to bring it in line with Basel guidelines which permits exemption of all sovereign exposures from LEF, it was decided to exempt exposures to foreign sovereigns or their central banks from applicability of LEF that are subject to a zero per cent risk weight (foreign sovereigns/central banks with a rating of AA- or higher) and, denominated in the domestic currency of that sovereign and met out of resources of the same currency.
March 12, 2021	Certain changes were effected in the data format for furnishing of credit information by lenders to credit information companies (CICs) to capture the credit information on restructuring due to COVID-19. The same is in line with the Reserve Bank’s guidelines dated August 6, 2020, that provided lenders a window under the prudential framework to implement a resolution plan in respect of eligible borrowers impacted on account of the COVID-19 pandemic and also provided for credit reporting by the lending institutions to CICs in respect of such borrowers to reflect the “restructured” status of the account.
March 23, 2021	On a review of instructions issued on March 23, 2020 relating to LEF, it was decided that non-centrally cleared derivatives exposures will continue to be outside the purview of exposure limits till September 30, 2021.
March 30, 2021	In exercise of the powers conferred by section 4(a) of the Bilateral Netting of Qualified Financial Contracts Act, 2020, the Reserve Bank notified (a) “derivatives”; and (b) “repo” and “reverse repo” transactions as a qualified financial contract. Accordingly, select instructions contained in circulars issued on Basel III capital regulations, Basel III framework on liquidity standards - NSFR - final guidelines, prudential norms on income recognition, asset classification and provisioning (IRACP) pertaining to advances and prudential guidelines on capital adequacy and market discipline - new capital adequacy framework (NCAF) were modified/amended appropriately.

Date of Announcement	Policy Initiative
Department of Regulation: Cooperative Banks	
March 13, 2020	Guidelines on limits on exposure to single and group borrowers/parties and large exposures and revision in the target for priority sector lending were issued to UCBs.
April 20, 2020	Guidelines related to provisioning on inter-bank exposure of Primary UCBs under all inclusive directions were issued to UCBs.
April 24, 2020	Guidelines on non-achievement of priority sector lending targets by Primary UCBs - contribution to the rural infrastructure development fund (RIDF) and other funds were issued to UCBs.
June 8, 2020	'In-principle' approval was granted to Government of Punjab for the amalgamation of DCCBs in the state with the Punjab State Co-operative Bank, subject to fulfilment of conditions stipulated by the Reserve Bank and additional conditions, if any, imposed by NABARD.
August 12, 2020	To improve the efficiency, transparency and integrity of the asset classification process, UCBs depending on their asset size, were advised to implement the system-based asset classification with effect from June 30 or September 30, 2021, as the case may be.
August 26, 2020	In view of the difficulties faced by UCBs in submission of the returns under Section 31, read with Section 56, of the Banking Regulation Act, 1949 due to the ongoing COVID-19 pandemic, the timeline for the furnishing of the returns for the financial year ended on March 31, 2020 was extended by three months, *i.e.*, till September 30, 2020.
October 7, 2020	All co-operative banks were included as eligible lending institutions under the Interest Subvention Scheme for MSMEs (2018) with effect from March 3, 2020.
October 13, 2020	Further extension till December 31, 2020 was given to all co-operative banks for submission of the returns under Section 31, read with Section 56, of the Banking Regulation Act, 1949.
February 5, 2021	Urban cooperative banks (UCBs) were advised to refrain from extending loans and advances or any other financial accommodation to or on behalf of their directors or their relatives, or to the firms/ companies/concerns in which the directors or their relatives are interested. Loans to staff directors; loans to directors on the boards of salary earners' UCBs as extended usually to members; normal employee-related loans to Managing Directors/Chief Executive Officers of UCBs and loans against government securities, fixed deposits and life insurance policies standing in their own name have been excluded. Important terms such as 'advances', 'interested', 'substantial interest', 'control' and 'major shareholding' have been clearly defined in the revised instructions.
March 23, 2021	The Reserve Bank, in exercise of powers conferred by Section 35A and Section 44A read with Section 56 of the Banking Regulation Act, 1949, as amended *vide* Banking Regulation (Amendment) Act, 2020 (39 of 2020), issued the Master Direction on voluntary amalgamation of UCBs.
Department of Regulation: NBFCs	
March 13, 2020	Guidelines related to specific prudential aspects of Ind AS applicable on Ind AS implementing NBFCs and ARCs were issued.
April 17, 2020	Guidelines related to prudential norms on income recognition, asset classification and provisioning pertaining to advances - projects under implementation in commercial real estate (CRE) sectors as applicable to banks were extended, *mutatis mutandis*, to NBFCs.
May 19, 2020	Master Direction on KYC Direction, 2016 was extended to housing finance companies (HFCs).
June 17, 2020	A draft framework reviewing the extant regulations applicable to HFCs was released for public comments.

Date of Announcement	Policy Initiative
June 24, 2020	All SCBs (excluding RRBs) and NBFCs (including HFCs) were advised to adhere to Fair Practices Code and Outsourcing Guidelines for loans sourced over digital lending platforms either through their own or under an outsourcing arrangement.
July 1, 2020	Guidelines related to special liquidity scheme for NBFCs/HFCs were issued.
July 6, 2020	It was decided that every NBFC shall finalise its balance sheet within a period of three months from the date to which it pertains or any date as notified by Securities and Exchange Board of India (SEBI) for submission of financial results by listed entities.
July 10, 2020	Guidelines related to exemption from registration as NBFC for alternative investment fund (AIF) were issued.
July 16, 2020	Fair practices code for asset reconstruction companies (ARCs) was issued which provided a set of principles for ARCs to encourage them to follow fair practices while dealing with stakeholders.
July 24, 2020	It was decided that the unrealised gains/losses on a derivative transaction undertaken by Indian Accounting Standards (Ind AS) implementing NBFCs/ARCs for hedging may be offset against the unrealised losses/gains recognised in the capital (either through profit or loss or through other comprehensive income) on the corresponding underlying hedged instrument. If after such offset and netting with unrealised gains/losses on other financial instruments, there are still net unrealised gains, the same should be excluded from the regulatory capital.
August 13, 2020	To address complexity as also multiple leveraging in the group and to strengthen risk management, corporate governance practices and transparency through disclosures, the revised guidelines for core investment companies (CICs) were issued.
October 22, 2020	Revised regulatory framework for HFCs was issued wherein 'principal business' and 'housing finance' were defined; net owned fund (NOF) was increased to ₹20 crore; restrictions were prescribed for exposures of HFCs to group companies engaged in real estate business; regulations on liquidity risk management and LCR, securitisation, outsourcing, lending against gold and shares, foreclosure charges, *etc.*, as applicable to NBFCs, were extended to HFCs.
February 12, 2021	It was decided that while investors in existing NBFCs holding their investments prior to the classification of the source or intermediate jurisdiction/s as Financial Action Task Force (FATF) non-compliant, may continue with the investments or bring in additional investments as per extant regulations so as to support continuity of business in India, new investors from or through non-compliant FATF jurisdictions, whether in existing NBFCs or in companies seeking certification of registration (COR), will not be allowed to directly or indirectly acquire 'significant influence' in the investee, as defined in the applicable accounting standards. Fresh investment (directly or indirectly) from such jurisdictions in aggregate should be less than the threshold of 20 per cent of the voting power (including potential voting power) of the NBFC.
February 17, 2021	Master Directions for HFCs were issued which compile revised regulatory framework issued by the Reserve Bank for HFCs and instructions issued by National Housing Bank (NHB) to HFCs.

Date of Announcement	Policy Initiative
Department of Supervision	
March 16, 2020	In the context of COVID-19 outbreak, banks/financial institutions were advised regarding an indicative list of measures to be taken by them as part of their operational and business continuity plans.
August 21, 2020	Banks were advised to avoid frequent and repeated *ad-hoc*/short review/renewal of credit facilities without justifiable reasons. Banks were also advised to capture all the data relating to regular as well as *ad-hoc*/short review/renewal of credit facilities in their core banking systems/management information systems and make the same available for scrutiny as and when required by any audit or inspection by Auditors/Reserve Bank.
September 5, 2020	Keeping in view the large-scale changes in the size, complexities, business model and risks in the banking operations, a review of the Long Form Audit Report (LFAR) formats, in consultation with the stakeholders, including the Institute of Chartered Accountants of India (ICAI), was undertaken and the format of LFAR was revised. The revised guidelines, *inter alia*, require the statutory auditors to accord special emphasis on continuous monitoring of classification of accounts into standard, Special Mention Account (SMA), sub-standard, doubtful or loss as per Income Recognition and Asset Classification (IRAC) norms by the system, preferably without manual intervention, correct recognition of income, and adequacy of provision thereof.
September 11, 2020	To bring uniformity in approach besides aligning the expectations on chief compliance officer (CCO) with best practices, the guidelines on compliance function in banks were amended. The circular is expected to enhance the independence, authority, transparency and responsibility in the workings of CCOs with special focus on requirement of board approved compliance policy, ensuring independence of CCO by prescribing minimum tenure, guidelines for transfer, removal, eligibility criteria, along with selection process, among others.
September 14, 2020	Banks were advised to automate their income recognition, asset classification and provisioning processes. In order to ensure the completeness and integrity of the automated asset classification (classification of advances/investments as NPA/NPI and their upgradation), provisioning calculation and income recognition processes, banks have been advised to put in place/upgrade their systems to conform to the prescribed guidelines latest by June 30, 2021.
September 24, 2020	Document on 'Technology Vision for Cyber Security' for Urban Co-operative Banks-2020-2023 published which envisages to enhance the cyber security posture of the urban co-operative banking sector against evolving IT and cyber threat environment through a five-pillared strategic approach 'GUARD' - Governance Oversight, Utile Technology Investment, Appropriate Regulation and Supervision, Robust Collaboration, and Developing Necessary IT & Cyber Security Skillset.
January 7, 2021	• The introduction of risk-based internal audit (RBIA) system was mandated for all scheduled commercial banks (except regional rural banks) *vide* circular dated December 27, 2002. In order to bring uniformity in approach followed by the banks, as also to align the expectations on internal audit function with the best practices, the aforesaid circular was further supplemented *vide* circular dated January 7, 2021 on the subject. • Revised guidelines were issued on norms for eligibility, empanelment and appointment of statutory branch auditors in public sector banks (PSBs) from 2020-21 and onwards. As per the revised guidelines, banks were required to ensure a minimum coverage of 90 per cent of fund based and 90 per cent of non-fund-based credit related exposures under statutory audit. Earlier, PSBs were required to cover all branches above ₹20 crore and one fifth of the remaining branches under branch audit to cover 90 per cent of outstanding advances. The concept of compulsory rest for two years for audit firms located in specified centres, after completion of four years of continuous audit, was also done away with.

Date of Announcement	Policy Initiative
February 3, 2021	The Reserve Bank had mandated RBIA for commercial banks in 2002. Considering the importance of internal audit function as a third line of defence and in a move to harmonise the guidelines across all supervised entities (SEs), large UCBs and NBFCs were brought within the RBIA framework during the year. The entities have to implement the RBIA framework by March 31, 2022, and have been asked to constitute a committee of senior executives, to be entrusted with the responsibility of formulating a suitable action plan.
February 18, 2021	Master Direction on Digital Payment Security Controls was issued providing necessary guidelines for the regulated entities (scheduled commercial banks, small finance banks, payment banks and credit card issuing NBFCs) to set up a robust governance structure and implement common minimum standards of security controls for channels like internet, mobile banking, card payments, among others. While the guidelines will be technology and platform agnostic, it will create an enhanced and enabling environment for customers to use digital payment products in more safe and secure manner.
Consumer Education and Protection Department	
April 3, 2020	The Consumer Education and Protection cells at the Reserve Bank's regional offices and all subordinate offices under the centralised public grievance redress and monitoring system (CPGRAMS) were advised regarding the prompt handling of public grievances pertaining to COVID-19 in line with GoI guidelines.
January 27, 2021	Issuance of a comprehensive framework for strengthening and improving the efficacy of the internal grievance redress mechanism of the banks, comprising of (i) enhanced disclosures on customer complaints by the banks and the Reserve Bank, (ii) monetary disincentive in the form of recovery of cost of redress of complaints from banks when maintainable complaints are comparatively high, and (iii) intensive review of grievance redress mechanism of banks and supervisory action against banks that fail to improve their redress mechanism in a time bound manner.
Internal Debt Management Department	
April 1, 2020	The ways and means advances (WMA) limit of state governments/union territories (UT) were increased by 30 per cent from the limit existing on March 31, 2020, to enable the state governments to tide over the fiscal stress caused by the outbreak of COVID-19 pandemic. The revised limits came into effect from April 1, 2020 and will be valid till September 30, 2020.
April 7, 2020	In order to provide greater flexibility to state governments to tide over their cash-flow mismatches, the 'overdraft (OD) scheme for state governments' was reviewed and the number of days for which a State/UT can be in OD continuously, was increased from 14 working days to 21 working days. Further, the number of days for which a State/UT can be in OD in a quarter, was increased from 36 working days to 50 working days.
April 13, 2020	With a view to facilitate availability of all the current operative instructions on the sovereign gold bond (SGB) scheme of the GoI at one place, consolidated procedural guidelines on the SGB scheme were issued.
April 17, 2020	With a view to provide greater comfort to state governments in undertaking containment and mitigation efforts for COVID-19, and to enable them to plan their market borrowings, the WMA limit of states was increased further, by 60 per cent over and above the level existing on March 31, 2020. The increased limit will be valid till September 30, 2020.
April 20, 2020	To tide over the situation arising from the outbreak of COVID-19 pandemic, it was decided in consultation with the GoI, that the limit for WMA of GoI for the remaining part of first half of the financial year 2020-21 (April 2020 to September 2020) will be revised from ₹1,20,000 crore to ₹2,00,000 crore.

Date of Announcement	Policy Initiative
May 22, 2020	In the light of the COVID-19 pandemic and the consequent stress created on state government finances, the 'scheme for constitution and administration of consolidated sinking fund (CSF)' was reviewed and the rules governing withdrawal from CSF were relaxed, while ensuring that a sizeable corpus is retained in the fund.
June 26, 2020	A new Savings Bonds Scheme - Floating Rate Savings Bonds 2020 (Taxable) was announced to open for subscription from July 1, 2020.
September 29, 2020	• Measures were announced with a view to provide greater comfort to state governments/union territories (UTs) in undertaking COVID-19 containment and mitigation measures, to enable them to plan their market borrowings, and to provide greater flexibility to them to tide over their cash-flow mismatches. • Increase in ways and means advances (WMA) limit of the states/UTs by 60 per cent over and above the level as on March 31, 2020, that was made available till September 30, 2020, was extended further till March 31, 2021. • Relaxation in the overdraft (OD) regulations wherein, the number of days for which a state/UT can be in OD continuously was increased from 14 working days to 21 working days, and the number of days for which a state/UT can be in OD in a quarter was increased from 36 working days to 50 working days, that was made available till September 30, 2020, was extended further till March 31, 2021.
September 30, 2020	The WMA limit for the Government of India for the second half of 2020-21 was fixed at ₹1,25,000 crore, an increase of 257 per cent over the previous year, with a view to facilitate better cash management and planning the market borrowings to tide over the situation arising out of COVID-19.
February 5, 2021	In order to increase retail participation in government securities and to improve ease of access, the Reserve Bank announced to provide retail investors with the facility to open their gilt securities account directly with the Reserve Bank ('Retail Direct') and provide online access to the government securities market - both primary and secondary.
Department of Payment and Settlement Systems	
March 16, 2020	Press release informing the general public about round the clock availability of payment systems that could be used for making payments from comfort of their home by avoiding social contact.
March 17, 2020	Guidelines covering regulation of payment aggregators and payment gateways covering authorisation, capital requirements, governance, merchant on-boarding, settlement and escrow account management, dispute management framework, *etc.*, were issued.
March 24, 2020	Extension of timeline for compliance with various payment system requirements in view of the ongoing COVID-19 situation.
June 4, 2020	Further extension in timeline provided to payment system operators to comply with various payment system requirements in view of the ongoing COVID-19 situation.
June 22, 2020	Authorised payment system operators and participants were advised to undertake targeted multi-lingual campaigns to educate their users on safe and secure use of digital payments.
July 22, 2020	• Released the 'Report of the Committee for Analysis of QR (Quick Response) Code' (Chairman: Prof. D. B. Phatak, Professor Emeritus, IIT, Bombay) that was constituted to review the prevalent system of QR codes in India for facilitating digital payments and submit recommendations.

Date of Announcement	Policy Initiative
August 6, 2020	• Payment System Operators (PSOs) were mandated to introduce Online Dispute Resolution (ODR) systems for digital payments in a phased manner. • Pilot scheme was announced for authorised PSOs - banks and non-banks - to provide offline payment solutions using cards, wallets or mobile devices for remote or proximity payments, for a limited period.
August 18, 2020	Framework for authorisation of pan-India umbrella entity for retail payments was released.
September 25, 2020	Mechanism of positive pay for cheque truncation system (CTS) was announced for all cheques of value- ₹50,000 and above to further augment customer safety in cheque payments.
October 22, 2020	• Framework was prescribed for recognition of a Self-Regulatory Organisation (SRO) for PSOs. • Measures were prescribed for streamlining QR codes for digital payment transactions to reinforce the acceptance infrastructure, provide better user convenience, promote interoperability and enhance system efficiency.
November 17, 2020	• Non-bank prepaid payment instrument (PPI) issuers and payment aggregators (PAs) were provided the facility to maintain one additional escrow account with a different scheduled commercial bank (SCB) at the discretion of the PPI issuer/PA. • Establishment of Reserve Bank Innovation Hub (RBIH) to promote innovation across the financial sector, by leveraging on technology and creating an environment which would facilitate and foster innovation, was announced. • Testing phase of the shortlisted applicants of the regulatory sandbox (RS) for first cohort on retail payments commenced.
December 4, 2020	• In order to reduce build-up of settlement and default risks, enable better management of funds by member banks and to enhance overall efficiency of the payments ecosystem, it was decided to allow settlement files of payment systems [*viz.,* Aadhaar Enabled Payment System (AePS), Immediate Payment Service (IMPS), National Electronic Toll Collection (NETC), National Financial Switch (NFS), RuPay, Unified Payments Interface(UPI)] to be posted to the Reserve Bank on all days of the year. • Guidelines were announced in connection with making the real time gross settlement (RTGS) system available round the clock on all days from December 14, 2020. • The per transaction limit for relaxation of additional factor of authentication for contactless card transactions as well as e-mandate based transactions was enhanced from ₹2,000 to ₹5,000. • Guidelines were issued to grant authorisation for all PSOs (both new and existing) on a perpetual basis, subject to the usual conditions, under Payment and Settlement Systems Act (PSS Act), 2007. • The concept of cooling period was introduced in certain situations for authorisation of entities operating payment systems under the PSS Act, 2007.
December 16, 2020	• Opening of the second cohort under the RS with theme of ‘Cross Border Payments’ was announced. The theme for third cohort was also announced as ‘MSME Lending’. • Updated ‘Enabling Framework for the RS’ was announced wherein the net worth requirement was reduced from the existing ₹25 lakh to ₹10 lakh and partnership firms and limited liability partnerships (LLPs) were also permitted to participate therein.

Date of Announcement	Policy Initiative
December 24, 2020	Testing of four entities shortlisted for 'Test Phase' of first cohort on 'Retail Payments' under the RS commenced.
January 1, 2021	• A composite Digital Payments Index (DPI) was introduced to capture the extent of digitisation of payments across the country.
January 5, 2021	• Framework was introduced for operationalisation of payments infrastructure development fund **(**PIDF) scheme to enhance acceptance infrastructure across the country. • Use of legal entity identifier (LEI) system for all payment transactions of value ₹50 crore and above undertaken by entities (non-individuals) using centralised payment systems, effective April 1, 2021, was announced.
January 25, 2021	Booklet covering the journey of payment and settlement systems in India during the second decade of the millennium, *viz.,* from the beginning of 2010 till the end of 2020 was released.
February 5, 2021	• It was announced that the major payment system operators would be required to facilitate setting-up of a centralised industry-wide 24x7 helpline for addressing customer queries in respect of various digital payment products and give information on available grievance redress mechanisms by September 2021. Going forward, the facility of registering and resolving the customer complaints through the helpline shall be considered. • It was announced that guidelines to manage the attendant risks in outsourcing and ensure that a code of conduct is adhered to while outsourcing payment and settlement related services will be issued to operators and participants of authorised payment systems.
March 15, 2021	Guidelines were issued for extending cheque truncation system across all bank branches in the country.
March 31, 2021	• One-time extension was provided, till December 31, 2021 to PAs and merchants on-boarded by them to put in place necessary measures to ensure customer card credentials are not stored within their database or server. • Timeline was extended till September 30, 2021 for stakeholders to migrate to the new framework for processing and registering e-mandates for recurring online transactions using cards/wallets/ UPI.

ANNEX II

CHRONOLOGY OF MAJOR POLICY ANNOUNCEMENTS TO MITIGATE THE IMPACT OF COVID-19: MARCH 2020 TO MARCH 2021[1]

<table>
<tr><th>Date of Announcement</th><th>Policy Initiative</th></tr>
<tr><td colspan="2">A. Government of India (GoI)</td></tr>
<tr><td>March 3, 2020</td><td>Export restriction of certain active pharmaceutical ingredients (APIs) and formulations made from them such as paracetamol, acyclovir, vitamins B1, B6 and B12.</td></tr>
<tr><td>March 14, 2020</td><td>Norms for assistance from State Disaster Response Fund (SDRF) were issued.</td></tr>
<tr><td>March 19, 2020</td><td>Export prohibition of surgical masks/disposal masks (2/3 ply masks), ventilators (including any artificial respiratory apparatus or oxygen therapy or any other breathing appliances/devices), textile raw materials for masks and coveralls.</td></tr>
<tr><td>March 24, 2020</td><td>Relaxations in statutory and compliance matters were made such as extension of deadline for filing income tax/GST returns, payments under Vivad se Vishwas scheme and various corporate matters.
Bank charges for digital trade transactions for trade finance consumers were reduced.
Threshold of default under Section 4 of the Insolvency and Bankruptcy Code (IBC) was raised from ₹1 lakh to ₹1 crore to prevent triggering of insolvency proceedings against micro, small and medium enterprises (MSMEs) which are going through a phase of financial distress.
Waiver of charges for cash withdrawal from ATMs using debit cards for three months.
Export prohibition of sanitisers.</td></tr>
<tr><td>March 26, 2020
(Pradhan Mantri Garib Kalyan Yojana)</td><td>Union Finance Minister announced ₹1.70 lakh crore relief package under Pradhan Mantri Garib Kalyan Yojana for the poor to help them fight the battle against COVID-19. Support measures include the following:
5 kg wheat/rice per member and 1 kg of pulses per family per month would be provided free of cost for 3 months.
Jan Dhan women account-holders would be given an ex-gratia of ₹500 per month for three months.
Direct benefit transfers would be made to poor Divyang, widows and senior citizens.
Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) wages would be increased by ₹20.
Gas cylinders would be provided free of cost for 3 months to poor families.
Medical insurance would be provided to health workers fighting COVID-19.
The first instalment of ₹2,000 due in 2020-21 under the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) will be front-loaded in April 2020.
State governments will be directed to utilise funds available under District Mineral Fund for COVID-19 health response.
State governments will be directed to utilise the 'welfare fund for building and other construction workers' to provide support to construction workers.</td></tr>
</table>

[1] The list is indicative in nature and details for government related measures and those of Reserve Bank's are available on their respective websites.

Date of Announcement	Policy Initiative
	• Collateral free lending limit for women self-help groups (SHGs) would be increased from ₹10 lakh to ₹20 lakh. • Mandatory employee provident fund (EPF) contribution, on the part of both employee and employer, shall be borne by the government for three months for low wage earners in businesses with less than 100 workers. • EPF regulations will be amended to include pandemic as the reason to allow non-refundable advance of 75 per cent of the amount or three months of wages, whichever is lower, from accounts.
March 28, 2020	Ministry of Agriculture and Farmer's Welfare released a memorandum on extension of dates for conversion of agricultural gold loan and other agricultural accounts into KCC accounts in view of the health emergency due to COVID-19.
March 30, 2020	• Department of Administrative Reforms and Public Grievances advised all Nodal Public Grievance Officers and Government of India departments of the procedure to redress grievances pertaining to COVID-19 expeditiously. • Benefit of 2 per cent interest subvention to banks and 3 per cent prompt repayment incentive for all farmers was extended up to May 31, 2020 for all crop loans up to ₹3 lakh given by banks, due between March 1 and May 31, 2020.
March 31, 2020	• The Taxation and Other Laws (Relaxations of Certain Provisions) Ordinance 2020 provided relaxation in compliance and enforcement of a plethora of economic laws. • Foreign Trade Policy 2015-20 was extended for a year and other relaxations were granted in the field of exports and imports procedures.
April 2, 2020	New features of e-NAM platform introduced to help fight against COVID-19.
April 3, 2020	Advance release of central government's first instalment of State Disaster Risk Management Fund for the year 2020-21, amounting to ₹11,092 crore, with a view to augment funds available with the state governments.
April 4, 2020	• A slew of exemptions and relaxations were granted for agriculture and allied sectors with respect to the 21-day lockdown over the COVID-19 pandemic outbreak so as to ensure that the farmers do not suffer from any adverse fallout. Shops of agricultural machinery, its spare parts (including its supply chain) & repairs and shops for truck repairs on highways, preferably at fuel pumps, were allowed to remain open in order to facilitate transportation of farm produce. Besides, tea industry, including plantations were allowed to function with maximum of 50 per cent workers. • Under Ministry of Rural Development's National Rural Livelihood Mission, face mask production was initiated by SHG members in 24 states covering 399 districts of the country. • Export prohibition of hydroxychloroquine and formulations made from it.
April 8, 2020	• It was announced that all pending income-tax refunds up to ₹5 lakh, and all pending GST and customs refunds would be issued immediately, amounting to total refund of ₹18,000 crore. • Indian railways introduced unhindered services of time tabled parcel trains for nationwide transportation of essential commodities and other goods to boost the supply chain across the country. • NGOs permitted to buy foodgrains directly from food corporation of India (FCI) for relief operations at the open market scheme sale rates without going through the auction process.

Date of Announcement	Policy Initiative
April 9, 2020	• ₹15,000 crore was sanctioned for 'India COVID-19 Emergency Response and Health System Preparedness Package'. • Foodgrains to be provided to non-National Food Securities Act beneficiaries with ration cards issued by state governments.
April 15, 2020	To facilitate transportation of perishable agricultural products, provisions were made for deployment of railways at fast speed, *Kisan Rath* mobile app and All India Agri Transport Call Centre.
April 18, 2020	The extant Foreign Direct Investment (FDI) policy was amended for curbing opportunistic takeovers/ acquisitions of Indian companies due to COVID-19 pandemic.
May 13, 2020 (*AatmaNirbhar Bharat Abhiyan* - Part I)	• ₹3 lakh crore collateral free loans with 100 per cent credit guarantee cover would be extended to standard businesses/MSMEs. • ₹20,000 crore subordinate debt with partial credit guarantee support would be extended to non-performing asset (NPA)/stressed MSMEs. • Fund of funds with corpus of ₹10,000 crore would be created for equity funding of MSMEs with growth potential and viability. • Definition of MSMEs would be revised to extend benefits to larger number of firms. • Global tenders for government procurement would be disallowed up to ₹200 crore to support Make in India and e-market linkages for MSMEs will be promoted. • MSME receivables from government/central public sector enterprises (CPSEs) will be released in 45 days. • ₹2,500 crore EPF support for eligible businesses and workers will be extended for 3 more months (June to August, 2020). • For other businesses and workers, EPF contribution will be reduced to 10 per cent each, for 3 months - providing liquidity of ₹6,750 crore. • ₹30,000 crore special liquidity scheme will be launched for non-banking financial companies (NBFCs)/housing finance companies (HFCs)/microfinance institutions (MFIs). • The partial credit guarantee scheme will be extended to cover borrowings of lower rated NBFCs, HFCs and MFIs. • Electricity distribution companies (DISCOMs) will be infused with ₹90,000 crore liquidity. • Central public sector generation companies will give rebate to DISCOMS, which shall be passed on to the final consumers (industries). • Measures to de-stress real estate and construction will be taken, contracts will be extended up to 6 months by central government agencies. • Tax deducted at source (TDS)/Tax collected at source (TCS) rates will be reduced by 25 per cent for remaining period of 2020-21. • Dates for filing of income tax return and payment under *Vivad se Vishwas* scheme were further extended.

Date of Announcement	Policy Initiative
May 14, 2020 (*AatmaNirbhar Bharat Abhiyan* - Part II)	• Free foodgrains will be provided to migrants who are not beneficiaries of National Food Security Act (NFSA)/State Card, for 2 months. 83 per cent of public distribution system (PDS) population will be covered under 'One Nation One Ration Card' scheme by August 2020 for national portability of PDS benefits (100 per cent by March 2021). • Affordable rental housing complexes (ARHC) will be developed and incentivised for migrant workers/urban poor. • Interest subvention of 2 per cent will be provided for prompt payees of MUDRA-*Shishu* loans for a period of 12 months. • ₹5,000 crore special credit facility will be extended to street vendors. • Credit linked subsidy scheme for middle income group under *Pradhan Mantri Awas Yojana* (PMAY)-Urban will be extended up to March 2021 to provide ₹70,000 crore boost to housing sector. • Compensatory Afforestation Fund Management and Planning Authority (CAMPA) funds to be utilised for afforestation and plantation works to create job opportunities. • ₹30,000 crore additional emergency working capital funding will be provided to farmers through refinance support from NABARD. • ₹2 lakh crore concessional credit will be extended to 2.5 crore farmers through *Kisan* Credit Cards (KCCs).
May 15, 2020 (*AatmaNirbhar Bharat Abhiyan* - Part III)	• Financing facility of ₹1,00,000 crore will be provided for funding agriculture infrastructure projects at farm-gate and aggregation points. • ₹10,000 crore scheme will be launched for formalisation of micro food enterprises (MFE). • ₹20,000 crore will be allocated for development of fisheries through *Pradhan Mantri Matsya Sampada Yojana* (PMMSY). • Animal Husbandry Infrastructure Development Fund of ₹15,000 crore will be set-up to support private investment in dairy. • Herbal cultivation and beekeeping initiatives will be promoted. • Operation Greens will be extended from Tomatoes, Onions and Potatoes (TOP) to all fruits and vegetables. • Essential Commodities Act, 1955 will be amended to deregulate certain food items. • Central law will be formulated for barrier free inter-state trade. • Facilitative legal framework that includes risk mitigation, assured returns, and quality standardisation will be framed to enable farmers to engage with processors/aggregators/large retailers.
May 16, 2020 (*AatmaNirbhar Bharat Abhiyan* - Part IV)	• Private sector participation in commercial coal production and exploration will be permitted; coal gasification/liquefaction will be incentivised; ease of doing business measures will be undertaken; coal bed methane extraction rights will be auctioned from Coal India Limited's (CIL's) coal mines; concessions in commercial terms will be given to CIL's consumers. • Infrastructure development of ₹50,000 crore will be undertaken in coal sector.

Date of Announcement	Policy Initiative
	• Seamless composite exploration-cum-mining-cum-production regime will be introduced for enhancing private investments in the mineral sector; 500 mining blocks will be auctioned; bauxite and coal mineral blocks will be jointly auctioned; distinction between captive and non-captive mines will be removed; Mineral Index for different minerals is being developed; stamp duty payable for mining lease will be rationalised. • A list of weapons/platforms with ban on imports will be notified; imported spares will be indigenised; Ordnance Factory Board will be corporatised; foreign direct investment limit in defence manufacturing under automatic route will be raised to 74 per cent; time-bound defence procurement process will be ushered in. • Air-space will be managed efficiently leading to reduction in flying cost by ₹1,000 crore per year; world-class airports will be developed through public-private partnership (PPP). • PPP will be encouraged for establishment of research reactors for production of medical isotopes, irradiation technology for food preservation; and Technology Development cum Incubation Centres will be set up. • Quantum of viability gap funding for private sector investment in social infrastructure projects will be enhanced with outlay of ₹8,100 crore. • New tariff policy for power sector will be released and power utilities in union territories will be privatised. • Private sector will be allowed to use indian space research organisation (ISRO) facilities to improve their capacities; liberal geo-spatial data policy will provide remote-sensing data to tech-entrepreneurs; planetary exploration and outer space travel will be opened for private sector.
May 17, 2020 (*AatmaNirbhar Bharat Abhiyan* - Part V)	• Health and wellness centres in rural and urban areas will be ramped up; infectious diseases hospital blocks will be set up in all districts; lab and surveillance network will be strengthened; and National Digital Health Blueprint will be implemented under the National Digital Health Mission. • PM e-*VIDYA* programme, *Manodarpan* for psycho-social support, new National Curriculum and Pedagogical Framework, and National Foundational Literacy and Numeracy Mission will be launched. • Special insolvency resolution framework for MSMEs will be notified; fresh initiation of insolvency proceedings will be suspended up to one year; COVID-19 related debt will be excluded from the definition of "default" under IBC for the purpose of triggering insolvency proceedings; private companies which list non-convertible debentures (NCDs) on stock exchanges will not be regarded as listed; penalties for all defaults for small companies/one-person companies/producer companies/start-ups will be lowered. • Offences (involving minor technical and procedural defaults) under Companies Act will be decriminalised. • List of strategic sectors requiring presence of public sector enterprises (PSEs) in public interest would be notified; in strategic sectors, at least one enterprise will remain in the public sector but private sector will also be allowed; in other sectors, PSEs would be privatised; and to minimise wasteful administrative costs, number of enterprises in strategic sectors will be only one to four. • Borrowing limits of states will be increased from 3 per cent to 5 per cent of gross state domestic product (GSDP) for 2020-21, partly linked to specific reforms, leading to extra resources of ₹4.28 lakh crore. • MGNREGA allocation for 2020-21 will be increased by ₹40,000 crore.

Date of Announcement	Policy Initiative
May 23, 2020	Notification on emergency credit line guarantee scheme (ECLGS) for mitigating the economic distress being faced by MSMEs by providing them additional funding of up to ₹3 lakh crore in the form of a fully guaranteed emergency credit line (GECL). The entire funding provided under GECL shall be provided with a 100 per cent credit guarantee by National Credit Guarantee Trustee Company to member lending institutions. Business enterprises/MSMEs with outstanding loan of up to ₹25 crore would be eligible under the scheme for a limited period.
June 1, 2020	Ministry of Agriculture and Farmer's Welfare released a memorandum on extension of repayment date up to August 31, 2020 for short-term loans up to ₹3 lakh advanced for agriculture including animal husbandry, dairy & fisheries by banks, which have become due or shall become due between March 1, 2020 and August 31, 2020 with continued benefit of 2 per cent interest subvention (IS) to banks and 3 per cent prompt repayment incentive (PRI) to farmers.
June 12, 2020	GST relaxations will be provided to small taxpayers through reduction in late fee, and one time extension in period for seeking revocation of cancellation of registration.
June 20, 2020	Under *Garib Kalyan Rojgar Yojana,* provision has been made for additional employment to the returnee migrant workers for 125 days in six states facing high reverse migration.
June 24, 2020	Government of India introduced "Distressed Assets Fund – Subordinate Debt for Stressed MSMEs". A credit guarantee scheme for subordinate debt (CGSSD) was launched under which guarantee coverage would be provided to SCBs which are member lending institutions (MLIs) of CGTMSE for facilitating support to stressed MSMEs. The objective of the credit guarantee scheme is to facilitate loans through banks to the promoters of stressed MSMEs for infusion as equity/*quasi* equity in the business.
June 30, 2020	Free provision of foodgrains under *Pradhan Mantri Garib Kalyan Anna Yojana* was extended till November, 2020.
July 6, 2020	The World Bank and the Government of India signed US$ 750 million agreement for the micro, small, and medium enterprises (MSMEs) emergency response programme to support increased flow of finance into the hands of MSMEs, severely impacted by the COVID-19 crisis.
July 13, 2020	Export policy related to textile raw material for masks and coveralls was amended whereby non-woven fabric of 25-70 Grams per Square Metre (GSM) and melt blown fabric of any GSM exported against specific harmonised system (HS) codes were prohibited for export. All other non-woven fabrics with GSM other than 25-70 GSM were made freely allowed for export.
July 17, 2020	The Prime Minister's *AatmaNirbhar Bharat Abhiyan* stimulus package, *inter alia*, set up ₹1 lakh crore agriculture infrastructure fund to strengthen the farm-gate infrastructure. The guidelines for the implementation of the scheme were issued by the Department of Agriculture, Cooperation and Farmers Welfare (DAC&FW) to all states/union territories (UTs).
July 21, 2020	Notification on exports of personal protection equipment was amended whereby exports of surgical drapes, isolation aprons, surgical wraps and X-rays gowns were removed from the prohibition list.
July 28, 2020	Government amended the export policy of 2/3 ply surgical masks, medical goggles from prohibited to restricted category and exports of face shield were made free. Also, a monthly export quota of four crore units per month was fixed for 2/3 ply surgical masks and 20 lakh units per month for medical goggles for issuing export licenses to eligible applicants.
August 4, 2020	By amending notification dated March 24, 2020, all ventilators including any artificial respiratory apparatus, oxygen therapy apparatus or any other breathing appliance/device were made free for export.

Date of Announcement	Policy Initiative
August 6, 2020	The second instalment of the COVID-19 emergency response and health system preparedness package amounting to ₹890.3 crore was released to 22 states/UTs.
August 17, 2020	Partial Credit Guarantee Scheme (PCGS) 2.0 was extended with greater flexibility in response to emerging demands.
August 18, 2020	Amended notification dated July 13, 2020 whereby only melt blown fabric of any GSM exported against specific HS codes was prohibited for export. All other non-woven fabrics of any GSM (including 25-70 GSM) were made freely allowed for exports.
August 25, 2020	Exports of 2/3 ply surgical masks, medical coverall of all classes and categories were amended from restricted to free. Medical goggles continue to remain in a restricted category with a monthly quota of 20 lakhs units, and Nitrile/*Nitrile Butadiene Rubber* (NBR) gloves continue to remain prohibited. The export policy of N-95/Filtering Facepiece 2 (FFP 2) masks or its equivalent masks was revised from the prohibited to restricted category.
September 1, 2020	• The Prime Minister's *AatmaNirbhar Bharat Abhiyan* stimulus package, *inter alia*, set up ₹15,000 crore Animal Husbandry Infrastructure Development Fund (AHIDF). The guidelines for the implementation of the scheme were issued by the Department of Animal Husbandry and Dairying. • A limit was imposed on total rewards under the Merchandise Exports from India Scheme (MEIS). Total reward which may be granted to an Import Export Code (IEC) holder under the scheme shall not exceed ₹2 crore per IEC of exports made during September 1, 2020 to December 31, 2020. Any IEC holder who has not made any exports for a period of one-year preceding September 1, 2020 or any new IECs obtained on or after September 1 would not be eligible for submitting any claim under MEIS. In addition, MEIS scheme is withdrawn w.e.f. January 1, 2021. The above ceiling will be subject to further downward revision to ensure that the total claim under MEIS during September 1, 2020 to December 31, 2020 does not exceed the prescribed allocation by the government, which is ₹5,000 crore.
September 4, 2020	In light of the changing technology and new types of finished leather, the government revised finished leather norms to facilitate export of new types of leathers.
September 14, 2020	Prohibition of exports of all varieties of onions was announced.
September 23, 2020	Government of India enacted three labour codes on 'Industrial Relations', 'Social Security' and 'Occupational Safety, Health and Working Conditions'. Code on 'Wages' was enacted earlier thus merging 29 labour laws in to four codes.
September 30, 2020	Goods and services tax (GST) taxpayers were granted relief in implementation of e-invoice.
October 1, 2020	Extended the duty drawback scheme on supply of steel by steel manufacturers through their service centres/ distributors/dealers/stock yards.
October 6, 2020	Amended notification dated August 25, 2020 whereby exports of N-95/FFP-2 masks or its equivalent amended from restricted to free category making all types of masks freely exportable.
October 9, 2020	Allowed exports of Bangalore rose onions and Krishnapuram onions up to quantity of 10,000 metric tonnes (MTs) each up to March 31, 2021.

Date of Announcement	Policy Initiative
October 12, 2020 (*AatmaNirbhar Bharat Abhiyan 2.0)*	• Leave travel concession (LTC) cash voucher scheme was announced. • Special festival advance scheme was revived as a one-time measure to stimulate demand, for both gazetted and non-gazetted employees. • Special interest free 50-year loan of ₹12,000 crore to be issued to states for capital expenditure. • Additional budget of ₹25,000 crore, in addition to ₹4.13 lakh crore given in the Union Budget 2020-21, was provided for capital expenditure.
October 15, 2020	• A special window of borrowing was announced for states, under which the estimated GST compensation cess shortfall of ₹1.1 lakh crore would be borrowed by the GoI in appropriate tranches, and passed on to states as back-to-back loans in lieu of GST compensation cess release. • Exports of alcohol-based hand sanitiser in containers with dispenser pump allowed to be freely exportable making exports of alcohol-based hand sanitiser in any form/ packaging freely exportable.
October 22, 2020	Exports of Nitrile/NBR gloves revised from prohibited to restricted category.
October 23, 2020	Government of India has announced the scheme for grant of *ex-gratia* payment of difference between compound interest and simple interest for six months to borrowers in specified loan accounts (March 1, 2020 to August 31, 2020).
October 24, 2020	• The due dates for furnishing of income tax returns and audit reports were extended in view of the challenges faced by taxpayers due to the outbreak of COVID-19. • The due dates for filing GST annual return and reconciliation statement for 2018-19 was extended from October 31, 2020 to December 31, 2020.
October 27, 2020	The last date for making payment without additional amount under *Vivad Se Vishwas* scheme was extended from December 31, 2020 to March 31, 2021.
October 29, 2020	Exports of onion seeds were prohibited.
November 2, 2020	The Union Government extended the Emergency Credit Line Guarantee Scheme (ECLGS) by one month till November 30, 2020, or till such time that an amount of ₹3 lakh crore is sanctioned under the scheme, whichever is earlier.
November 12, 2020 *(AatmaNirbhar Bharat Abhiyan 3.0)*	• Production linked incentive (PLI) worth ₹1.46 lakh crore to 10 major sectors, which include **a**dvance cell chemistry battery, electronic/technology products, automobiles & auto components, pharmaceuticals drugs, telecom & networking products, textile products, food products, high efficiency solar photo-voltaic (PV) modules, white goods (air conditioners - A*Cs* and *LED* lights), and specialty steel. • To provide ease of doing business in construction sector and relief to contractors whose money otherwise remains locked up, performance security on contracts has been reduced from 5-10 per cent to 3 per cent. It will also extend to ongoing contracts and public sector enterprises. Earnest deposit money (EMD) for tenders will be replaced by bid security declaration. The relaxations in the general financial rules will be in force till December 31, 2021. • ₹10,200 crore additional budget stimulus was provided for capital and industrial expenditure on domestic defence equipment, industrial infrastructure and green energy. • *AatmaNirbhar Bharat Rozgar Yojana* scheme was launched to incentivise job creation during COVID-19 recovery.

Date of Announcement	Policy Initiative
	• ECLGS 2.0 was launched for healthcare sector and 26 stressed sectors with credit outstanding of above ₹50 crore and up to ₹500 crore as on February 29, 2020 stressed due to COVID-19, among other criteria. These entities/borrower accounts shall be eligible for additional funding up to 20 per cent of their total outstanding credit as a collateral free guaranteed emergency credit line (GECL), which would be fully guaranteed by National Credit Guarantee Trustee Company Ltd. (NCGTC). The loans provided under ECLGS 2.0 will have a five-year tenor, with a 12-month moratorium on repayment of principal. The scheme was extended till March 31, 2021. • ₹18,000 crore additional outlay was provided for *Pradhan Mantri Awaas Yojana* - Urban. • Income tax relief was announced for developers and home buyers. • ₹6,000 crore equity investment in debt platform of National Investment and Infrastructure Fund (NIIF) was announced, to help NIIF provide a debt of ₹1.1 lakh crore for infrastructure projects by 2025. • ₹65,000 crore was provided for subsidised fertilisers to support agriculture. • Additional outlay of ₹10,000 crore was provided for *Pradhan Mantri Garib Kalyan Rozgar Yojana* in order to boost rural employment. • ₹900 crore was provided to Department of Biotechnology for research activities related to COVID-19 vaccine development. • GoI announced ₹3,000 crore support to EXIM Bank for promoting project exports under Indian Development and Economic Assistance Scheme (IDEAS). This will help EXIM Bank facilitate lines of credit for development assistance activities and promote exports from India. • Export prohibition of specified personal protective equipment (PPE), including clothing and masks (NBR gloves and medical goggles), while exempting some items such as surgical blades, non-woven disposable shoe covers, breathing appliances used by airmen, firemen, divers and mountaineers, gas masks, tarpaulin, polyvinyl chloride (PVC) conveyer belt and biopsy punch.
November 26, 2020	The Government of India decided to extend ECLGS 1.0 to entities under ECLGS which had a total credit outstanding of up to ₹50 crore as on February 29, 2020, but were previously ineligible owing to their annual turnover exceeding ₹250 crore.
December 16, 2020	Extension of deadline for states to complete citizen centric reforms in various sectors to be eligible for reform linked benefits.
December 18, 2020	Government allocated 8,424 metric tonnes raw value to exports of raw sugar to the US under tariff-rate quota (TRQ) up to September 30, 2021.
December 22, 2020	Revised export policy for medical goggle and Nitrile/NBR gloves from restricted to free category.
December 28, 2020	Exports of all onion varieties, including Bangalore rose and Krishnapuram onions were allowed with effect from January 1, 2021.
December 30, 2020	The due dates for furnishing of income tax returns, tax audit reports, declaration under *Vivad Se Vishwas* scheme, completion of proceedings under various direct taxes and *Benami* Acts, payment of self-assessment tax by small and middle-class tax-payers, and furnishing of annual return under section 44 of the Central Goods and Services Tax Act, 2017 for 2019-20 were extended.

Date of Announcement	Policy Initiative
February 1, 2021 *(Union Budget 2021-22)*	• The Union Budget 2021-22 was presented with key focus on health and well-being. The key announcements include: • Launching a new centrally sponsored scheme *Pradhan Mantri AatmaNirbhar Swasth Bharat Yojana* with an outlay of about ₹64,180 crore over 6 years. • Mission *Poshan* 2.0, an integrated nutrition support programme, was launched. • ₹35,000 crore was provided for the development and manufacturing of the COVID-19 vaccine. • Roll out of Made-in-India pneumococcal vaccine across the country. • ₹2.87 lakh crore over five years towards the *Jal Jeevan Mission* (Urban). • *Urban Swachh Bharat Mission* 2.0 to be implemented with a total financial allocation of around ₹1.42 lakh crore over a period of five years during 2021-26. • Announcements relating to introduction of the National Nursing and Midwifery Commission Bill, clean air, vehicle scrapping policy, *etc.*, were made. • An outlay of ₹2.24 lakh crore was budgeted for health and wellbeing in 2021-22 (BE) as against 2020-21 (BE) of ₹94,452 crore (an increase of 137 per cent). • To create first ever national database of migrant labour to provide platform for workers and employers, and for the government to implement specific programmes for such labourers. • Ministry of Labour & Employment has envisaged development of a 'National Database of Unorganised Workers' (NDUW) seeded with *Aadhaar*. The project will enrol all unorganised workers, including migrant workers. • Social security benefits to be extended to gig and platform workers for the first time. ₹11,674.1 crore is earmarked for social security schemes for workers. This is an increase from the previous allocation of ₹8,725.1 crore and revised estimates of ₹11,670.1 crore. • 'One Nation One Ration Card' will benefit migrant workers, construction workers and textile workers. Beneficiaries can claim their ration anywhere in the country. • Minimum wages and coverage under the Employees State Insurance Corporation will be applicable for all categories of workers. Women workers allowed in all categories, including night-shifts with adequate protection. • Compliance burden on employers will be reduced with single registration and licensing, and online returns. • Proposed amendment to Apprenticeship Act to enhance opportunities for youth. ₹3,000 crore for realignment of existing national apprenticeship training scheme (NATS) towards post-education apprenticeship, training of graduates and diploma holders in engineering. • The proposal to create a permanent institutional body that would purchase investment grade debt securities both in stressed and normal times and help in the development of the bond market. This would instil confidence amongst the participants in the corporate bond market during times of stress and generally enhance secondary market liquidity. • Proposal to set up a development finance institution (DFI) with a corpus of ₹20,000 crore. • Proposal to set up a national asset monetization pipeline for monetizing public assets.

Date of Announcement	Policy Initiative
March 31, 2021	• The last date for the intimation of *Aadhaar* number and linking thereof with permanent account number (PAN) was extended to June 30, 2021. • The time-limits for passing of consequential order for direction issued by the dispute resolution panel (DRP) and processing of equalisation levy statements were extended to April 30, 2021. • The validity of ECLGS was extended up to June 30, 2021 or till guarantees for an amount of ₹3 lakh crore are issued. • ECLGS 3.0 was introduced to cover business enterprises in hospitality, travel and tourism, leisure and sporting sectors that meet specified criteria. Last date of disbursement under the ECLGS has been extended to September 30, 2021. • Foreign Trade Policy (FTP), 2015-20 was extended for 6 months till September 2021.
B. Reserve Bank of India	
Monetary Policy Department	
March 27, 2020	• Monetary Policy Committee (MPC) advanced its April 2020 meeting to March and reduced the policy repo rate by 75 bps to 4.4 per cent. The reverse repo rate was reduced by 90 bps to 4.0 per cent creating an asymmetrical corridor[2]. • CRR reduced[3] by 100 bps to 3.0 per cent of NDTL effective March 28, 2020 for a period of one year ending on March 26, 2021. • Effective March 28, 2020, requirement of minimum daily CRR balance maintenance was reduced from 90 per cent to 80 per cent of the prescribed CRR. This dispensation, initially available up to June 26, was further extended up to September 25, 2020[4]. • Increase in marginal standing facility (MSF) borrowing from 2 per cent of statutory liquidity ratio (SLR) to 3 per cent effective March 28, 2020[5]. This measure was initially available up to June 30, 2020 and later extended up to September 30, 2020.
April 17, 2020	• The reverse repo rate was reduced by 25 bps to 3.75 per cent. • Special refinance facilities for a total amount of ₹50,000 crore were provided to NABARD, SIDBI and NHB to enable them to meet sectoral credit needs[6].
May 22, 2020	• The June 2020 meeting of the MPC was brought forward and the policy repo rate was reduced by 40 bps to 4.0 per cent. • The reverse repo rate was reduced by 40 bps to 3.35 per cent.

[2] The purpose of this measure relating to reverse repo rate is to make it relatively unattractive for banks to passively deposit funds with the Reserve Bank and instead, to use these funds for on-lending to productive sectors of the economy.

[3] This reduction in the CRR released primary liquidity of about ₹1,37,000 crore uniformly across the banking system in proportion to liabilities of constituents rather than in relation to holdings of excess SLR.

[4] This measure was announced taking cognisance of hardships faced by banks in terms of social distancing of staff and consequent strains on reporting requirements.

[5] Announced in view of the exceptionally high volatility in domestic financial markets, to provide comfort to the banking system.

[6] This comprised ₹25,000 crore to NABARD for refinancing regional rural banks (RRBs), cooperative banks and micro finance institutions (MFIs); ₹15,000 crore to SIDBI for on-lending/refinancing; and ₹10,000 crore to NHB for supporting housing finance companies (HFCs). Advances under this facility were provided at the Reserve Bank's policy repo rate.

Date of Announcement	Policy Initiative
	• A line of credit of ₹15,000 crore was extended to EXIM bank for a period of 90 days from the date of availment with rollover up to a maximum period of one year to enable it to avail a US dollar swap facility to meet its foreign exchange requirements.
August 6, 2020	• The policy repo rate kept unchanged at 4.0 per cent. • The Monetary Policy Committee (MPC) decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.
September 28, 2020	On March 27, 2020 banks were allowed to avail funds under the marginal standing facility (MSF) by dipping into the statutory liquidity ratio (SLR) by up to an additional one per cent of net demand and time liabilities (NDTL), *i.e.*, cumulatively up to 3 per cent of NDTL. This facility, initially available up to June 30, 2020, was extended on June 26, 2020 up to September 30, 2020. This relaxation was extended on September 28, 2020 for a further period of six months, *i.e.*, up to March 31, 2021, to provide comfort to banks on their liquidity requirements and to enable them to meet liquidity coverage ratio (LCR) requirements.
October 9, 2020	The MPC decided to continue with the accommodative stance as long as necessary - at least during the current financial year and into the next financial year - to revive growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.
February 5, 2021	The cash reserve ratio (CRR) of all banks was reduced by 100 basis points to 3 per cent of their NDTL, effective the reporting fortnight beginning March 28, 2020 for a period of one year ending March 26, 2021. It was decided to gradually restore the CRR in two phases in a non-disruptive manner on February 5, 2021. Accordingly, banks were required to maintain the CRR at 3.50 per cent of their NDTL, effective the reporting fortnight beginning March 27, 2021 and 4 per cent of their NDTL, effective the fortnight beginning May 22, 2021. The enhanced access of funds under the MSF by dipping into SLR up to 3 per cent of NDTL was extended for a further period of six months, *i.e.,* up to September 30, 2021, with a view to providing comfort to banks on their liquidity requirements.
Financial Inclusion and Development Department	
March 31, 2020	Circular on short-term crop loans eligible for interest subvention scheme (ISS) and prompt repayment incentive (PRI) extending the timeline till June 30, 2020, for converting all short-term crop loans into KCC loans.
June 4, 2020	Circular on ISS and PRI for short-term crop loans during the years 2018-19 and 2019-20 extending moratorium period till August 31, 2020.
Financial Markets Regulation Department	
March 27, 2020	The timeline for implementation of legal entity identifier (LEI) in non-derivative markets was extended till September 30, 2020.
April 3, 2020 followed by April 16 and April 30, 2020	The trading hours for various markets under the Reserve Bank's regulation were revised to ensure that market participants maintain adequate checks and controls while optimising their resources and ensuring safety of personnel.
May 18, 2020	The implementation date for the directions on hedging of foreign exchange risk (dated April 7, 2020) was deferred to September 1, 2020 from June 1, 2020.

Date of Announcement	Policy Initiative
May 22, 2020	Foreign portfolio investors (FPIs) that were allotted investment limits under the voluntary retention route (VRR) scheme between January 24, 2020 and April 30, 2020 were allowed an additional time of three months to invest 75 per cent of their committed portfolio size (CPS).
November 2, 2020	Following the graded roll-back of the lockdown and easing of restrictions on movement of people and functioning of offices, the trading hours for Reserve Bank regulated financial markets were partially restored from 10 AM-2 PM to 10 AM-3.30 PM.
Financial Markets Operations Department	
March 12, 2020	It was decided to undertake 6-month US Dollar sell/buy swap auctions to provide US Dollar liquidity to the foreign exchange market[7]. The first such auction was conducted on March 16, 2020.
March 18, 2020	Net liquidity amounting to ₹1,63,444 crore was injected by the Reserve Bank from March 18, 2020 to June 2020 *via* open market operation (OMO) including the operations conducted on NDS-OM. The first OMO auction was conducted on March 18, 2020.
March 23, 2020	Announcement of two variable rate term repos amounting to ₹1,00,000 crore. Subsequently, additional variable rate repo operations amounting to ₹75,000 crore were conducted on March 26 and March 31, 2020.
March 24, 2020	The standing liquidity facility (SLF) available to standalone primary dealers (SPDs) was temporarily enhanced from ₹2,800 crore to ₹10,000 crore.
March 27, 2020	Introduced targeted long-term repo operations (TLTROs) under which liquidity availed by banks was to be deployed in investment grade corporate bonds, commercial paper, and non-convertible debentures over and above the outstanding level of their investments in these bonds. The first such TLTRO operation was conducted on March 27, 2020.
March 30, 2020	Extension of the window timings of fixed rate reverse repo and MSF operations as an interim measure so as to provide eligible market participants with greater flexibility in their liquidity management.
April 17, 2020	It was decided to conduct Targeted Long-Term Repo Operations (TLTROs) 2.0 at the policy repo rate. Liquidity availed under the scheme by banks is to be deployed in investment grade corporate bonds, commercial paper, and non-convertible debentures with at least 50 per cent of the total amount availed going to small and mid-sized NBFCs and MFIs. Investments made under this facility would be classified as held to maturity (HTM) even in excess of 25 per cent of total investment permitted to be included in the HTM portfolio. Exposures under this facility would also not be reckoned under the large exposure framework. The first such TLTRO 2.0 auction was conducted on April 23, 2020.
April 27, 2020	In order to ease the liquidity pressure on mutual funds, it was decided to open a special liquidity facility for mutual funds (SLF-MF). Liquidity availed under the scheme by banks is to be deployed exclusively for meeting needs of mutual funds. Liquidity availed under the facility would be classified as HTM even in excess of 25 per cent of total investment permitted to be included in the HTM portfolio. Exposures under this facility would also not be reckoned under the large exposure framework. The first such SLF-MF auction was conducted on April 27, 2020.
April 30, 2020	It was decided to extend regulatory benefits announced under the SLF-MF scheme to all banks, irrespective of whether they avail funding from the Reserve Bank or deploy their own resources to meet liquidity requirements of mutual funds.

[7] This measure was announced as financial markets worldwide were facing intense selling pressures on extreme risk aversion due to the spread of COVID-19 infections.

Date of Announcement	Policy Initiative
July 1, 2020	The Government of India approved scheme of ₹30,000 crore to improve liquidity position of non-banking financial companies (NBFCs) (including micro-finance institutions -MFIs)/housing finance companies (HFCs) was notified. NBFCs (including MFIs)/HFCs, meeting certain financial parameters, were given access to liquidity to avoid any potential systemic risks to the financial sector. Under the scheme, the Reserve Bank injected liquidity through back-to-back funding by subscribing to government - guaranteed special securities issued by a Special Purpose Vehicle (SPV) in the form of Special Liquidity Scheme (SLS), a trust set up by SBI Capital Markets Ltd. (SBICAP).
August 6, 2020	In order to optimise human resource deployment in the context of disruptions caused by COVID-19 and to provide eligible liquidity adjustment facility (LAF)/Marginal Standing Facility (MSF) participants greater flexibility in managing their end of the day CRR balances, the Reserve Bank introduced the Automated Sweep-In and Sweep-Out (ASISO) facility in its *e-Kuber* system.
August 31, 2020	• Banks were given an option of repaying the funds availed under the Long-Term Repo Operations (LTROs) scheme before maturity. Subsequently, banks reversed LTRO funds amounting to ₹1,23,572 crore out of total of ₹1,25,117 crore. • Two 56-day term repo auctions for a total amount of ₹1,00,000 crore at floating rates (repo rate) were announced to be conducted on September 11 and September 14, 2020 to assuage liquidity pressures on account of advance tax outflows.
October 9, 2020	• With a view to increase the focus of liquidity measures on revival of activity in specific sectors, the Reserve Bank announced the on tap Targeted LTRO (TLTRO) scheme. Accordingly, it was decided to conduct on tap TLTRO of up to three years tenor for a total amount of up to ₹1,00,000 crore at a floating rate (repo rate) with end-use guidance. Investments under on tap TLTRO qualified for held-to-maturity (HTM) portfolio and were exempted from large exposure framework. The scheme has been extended up to September 30, 2021.
	• As announced in the Statement on Developmental and Regulatory Policies, banks were given an option of repaying the funds availed under the TLTRO and TLTRO 2.0 before maturity. The scheme was notified on October 21, 2020. Subsequently, TLTRO and TLTRO 2.0 funds amounting to ₹37,348 crore were repaid by banks. • The Reserve Bank decided to enhance the size of OMOs to ₹20,000 crore in order to assure the market of maintaining comfortable liquidity conditions in line with monetary policy stance. • In order to impart liquidity to state development loans (SDLs) and facilitate efficient pricing, it was decided to conduct OMOs in SDLs as a special case during 2020-21. Accordingly, three OMOs in SDLs amounting to ₹30,000 crore were conducted since October 2020.
December 4, 2020	The on tap TLTRO scheme announced on October 9, 2020 was expanded to cover 26 stressed sectors (as identified by the Kamath Committee and in sync with the credit guarantee available under the Emergency Credit Line Guarantee Scheme (ECLGS 2.0) of the government), in addition to the five sectors identified on October 21, 2020.
February 5, 2021	As announced in the Statement on Developmental and Regulatory Policies on February 5, 2021, banks were permitted to provide funds to NBFCs under the on tap TLTRO scheme.
Foreign Exchange Department	
April 1, 2020	The period of realisation and repatriation to India of the amount representing the full export value of goods or software or services exported was increased from nine months to fifteen months from the date of export, for the exports made up to or on July 31, 2020.

Date of Announcement	Policy Initiative
April 3, 2020	It was decided, in consultation with the GoI, to permit receipt of foreign inward remittances from non-residents through the overseas exchange houses in favour of the 'Prime Minister's Citizen Assistance and Relief in Emergency Situations (PM-CARES) Fund', subject to the condition that Authorised Dealers (AD) Category-I banks shall directly credit the remittances to the 'PM-CARES Fund' and maintain the full details of the non-residents sending the donations/contributions under rupee drawee arrangement (RDA).
May 22, 2020	The time period for completion of remittances against normal imports, *i.e.*, excluding import of gold/ diamonds and precious stones/ jewellery (except in cases where amounts are withheld towards guarantee of performance) was extended from six months to twelve months from the date of shipment for such imports made on or before July 31, 2020.
Department of Regulation	
March 27, 2020	• Announcement of regulatory measures to mitigate the burden of debt servicing and to ensure the continuity of viable businesses. The salient features included rescheduling of payments for term loans and working capital facilities, easing of working capital financing and exemption from classification of special mention account (SMA) and NPA on account of implementation of the above measures. • The implementation of the last tranche of 0.625 per cent of capital conservation buffer (CCB) shall stand deferred from March 31, 2020 to September 30, 2020. Accordingly, minimum capital conservation ratios as applicable from March 31, 2018, will also apply for a further period of six months from March 31, 2020 till the CCB attains the level of 2.5 per cent on September 30, 2020. Further, the pre-specified trigger for loss absorption through conversion/write-down of additional tier 1 instruments (perpetual non-cumulative preference shares and perpetual debt instruments) shall remain at 5.5 per cent of risk weighted assets (RWAs) and will rise to 6.125 per cent of RWAs on September 30, 2020. • The implementation of net stable funding ratio (NSFR) was deferred by six months from April 1, 2020 to October 1, 2020.
April 1, 2020	Based on the review and empirical analysis of counter cyclical capital buffer (CCyB) indicators, it was decided not to activate CCyB (framework for which was put in place in terms of guidelines issued on February 5, 2015, with pre-announcement of the decision to activate it as and when circumstances warranted) for a period of one year or earlier, as may be necessary.
April 17, 2020	• It was decided that in respect of all accounts for which lending institutions decide to grant moratorium or deferment, and which were standard as on March 1, 2020, the 90-day NPA norm shall exclude the moratorium period, *i.e.*, there would be an asset classification standstill for all such accounts from March 1, 2020 to May 31, 2020. At the same time, with the objective of ensuring that banks maintain sufficient buffers and remain adequately provisioned to meet future challenges, they will have to maintain higher provision of 10 per cent on all such accounts under the standstill, spread over two quarters, *i.e.*, March, 2020 and June, 2020. These provisions can be adjusted later on against the provisioning requirements for actual slippages in such accounts. • Under the Reserve Bank's prudential framework of resolution of stressed assets dated June 7, 2019, in the case of large accounts under default, SCBs are currently required to hold an additional provision of 20 per cent if a resolution plan has not been implemented within 210 days from the date of such default. Recognising the challenges to resolution of stressed assets in the current volatile environment, it has been decided that the period for resolution plan shall be extended by 90 days.

Date of Announcement	Policy Initiative
	• With a view to conserve capital of banks to retain their capacity to support the economy and absorb losses in an environment of heightened uncertainty, it was decided that, SCBs shall not make any further dividend payouts from profits pertaining to the financial year ended March 31, 2020 until further instructions. This restriction shall be reviewed on the basis of the financial position of banks for the quarter ending September 30, 2020. • In order to ease the liquidity position at the level of individual institutions, the LCR requirement for SCBs was brought down from 100 per cent to 80 per cent with immediate effect. The requirement shall be gradually restored back in two phases – 90 per cent by October 1, 2020 and 100 per cent by April 1, 2021.
April 29, 2020	In order to mitigate the difficulties in timely submission of various regulatory returns, due to disruptions on account of COVID-19 pandemic, the timelines for the submission were extended for the regulated entities, permitting a delay of up to 30 days from the due date, which will be applicable to regulatory returns required to be submitted up to June 30, 2020. However, no extension is permitted for submission of statutory returns, *i.e.* returns prescribed under the Banking Regulation Act 1949, RBI Act 1934 or any other Act (for instance, returns related to CRR/SLR).
May 13, 2020	Interest equalisation scheme on pre and post shipment rupee export credit was extended by GoI for one year, *i.e.*, up to March 31, 2021, with same scope and coverage and all extant operational instructions issued by the Reserve Bank under the said captioned scheme shall continue to remain in force up to March 31, 2021.
May 22, 2020	The bank rate was revised downwards by 40 bps from 4.65 per cent to 4.25 per cent with effect from May 22, 2020. Accordingly, all penal interest rates on shortfall in reserve requirements, which are specifically linked to the bank rate, also stand revised as bank rate plus 3.0 percentage points (7.25 per cent from the earlier 7.65 per cent) or bank rate plus 5.0 percentage points (9.25 per cent instead of the earlier rate of 9.65 per cent), depending on the duration of the shortfalls.
May 23, 2020	• With a view to facilitate greater flow of resources to corporates that faced difficulties in raising funds from the capital market and predominantly dependent on bank funding, caused by sudden market uncertainties, a bank's exposure under the Large Exposure Framework, to a group of connected counterparties was increased from 25 per cent to 30 per cent of the eligible capital base of the bank. The increased limit will be applicable up to June 30, 2021. • Taking forward the COVID-19 regulatory package released in March and April 2020, additional measures were announced, providing relaxations in repayment pressures and improving access to working capital by mitigating the burden of debt servicing, for preventing the transmission of financial stress to the real economy, and ensuring the continuity of viable businesses and households on continuous economic disruption due to extension of lockdown. • Further extension of the resolution timelines, prescribed in the prudential framework for resolution of stressed assets dated June 7, 2019, was provided after a review in continuation of the earlier instructions of April 2020, on account of continued challenges to resolution of stressed assets in a volatile environment. This was applicable in respect of accounts which were within and past the review period as on March 1, 2020, subject to conditions. • To alleviate genuine difficulties being faced by exporters in their production and realisation cycles, the maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks was increased from one year to 15 months, for disbursements made up to July 31, 2020. This was in line with the permission already granted for increase in the period of realisation and repatriation of the export proceeds to India from nine months to 15 months from the date of export in respect of exports made up to July 31, 2020.

Date of Announcement	Policy Initiative
June 21, 2020	As credit facilities to MSME borrowers, extended under the emergency credit line guarantee scheme of GoI guaranteed by national credit guarantee trustee company (NCGTC), are backed by an unconditional and irrevocable guarantee provided by the GoI, member lending institutions, *viz.,* SCBs (including scheduled RRBs), NBFCs (including HFCs as eligible under the scheme) and AIFIs, were permitted to assign zero per cent risk weight on the credit facilities extended under the scheme to the extent of guarantee coverage.
August 6, 2020	• A window for resolution of COVID-19 related stress (applicable to all commercial banks (including small finance banks, local area banks and regional rural banks), all primary (Urban) co-operative banks/state co-operative banks/ district central co-operative banks, NBFCs (including housing finance companies) and all India financial institutions - AIFIs) was issued to facilitate revival of real sector activities which were under financial stress due to economic fallout on account of the COVID-19 pandemic, subject to certain conditions. The resolution framework was to be invoked till December 31, 2020 and had to be implemented within 90 days of invocation in respect of personal loans and 180 days of invocation for other eligible loan exposures. An Expert Committee (Chairperson: Shri K. V. Kamath) was constituted on August 7, 2020 to make recommendations to the Reserve Bank on the required financial parameters to be factored in the resolution plans, with sector specific benchmark ranges for such parameters. The committee submitted its report to the Reserve Bank on September 4, 2020. • In view of the need to support viable MSME entities on account of the fallout of COVID-19, the scheme of one-time restructuring of loans to MSMEs without an asset classification downgrade, was extended where the borrower's account was a 'standard asset' as on March 1, 2020 and the aggregate exposure of banks and NBFCs was not more than Rs.25 crore. The restructuring had to be implemented by March 31, 2021, subject to certain conditions.
September 7, 2020	The five key ratios/parameters recommended by the Expert Committee constituted by the Reserve Bank (Chairperson: Shri K. V. Kamath) to be factored in by the lending institutions while finalising a resolution plan in respect of eligible borrowers under COVID-19 related stress, and the respective thresholds for 26 sectors were notified. In respect of other sectors, lending institutions were permitted to make their own internal assessment, subject to certain conditions.
September 29, 2020	• Considering the potential stress on account of COVID-19, banks were advised about deferment of phase-in of the last tranche of capital conservation buffer (CCB) of 0.625 per cent from September 30, 2020 to April 1, 2021 which, subsequently, was further deferred by six months to October 1, 2021. CCB is not applicable to small finance banks (SFBs), payment banks (PBs), regional rural banks (RRBs) and local area banks (LABs). • On account of continuing stress in the light of COVID-19 pandemic, it was decided to further defer the implementation of NSFR of Basel III framework on liquidity standards from October 1, 2020 to April 1, 2021. Later, on February 5, 2021, in view of the continuing stress on account of COVID-19, the implementation of NSFR was further deferred by six months from April 1, 2021 to October 1, 2021.
October 12, 2020	The dispensation of overall limit of SLR holding in HTM of 22 per cent (as against the earlier 19.5 per cent) in respect of SLR securities acquired between September 1, 2020 and March 31, 2021 was extended up to March 31, 2022 from March 31, 2021. It was also decided to restore the enhanced HTM limit to 19.5 per cent in a phased manner, beginning from the quarter ending June 30, 2022.

Date of Announcement	Policy Initiative
October 27, 2020	All lending institutions were advised to be guided by the provisions of the scheme announced by Government of India for grant of *ex-gratia* payment of difference between compound interest and simple interest for six months (March 2020 to August 2020) to borrowers in specified loan accounts.
December 4, 2020	In view of the ongoing stress and heightened uncertainty on account of COVID-19, it was considered imperative that banks continue to conserve capital to support the economy and absorb losses. In order to further strengthen the banks' balance sheets, while at the same time support lending to the real economy, it was decided that banks shall not make any dividend payment on equity shares from the profits pertaining to 2019-20.
February 5, 2021	• On a review of monetary and liquidity conditions and as announced in the Statement on Developmental and Regulatory Policies of February 5, 2021, it was decided to gradually restore the CRR in two phases in a non-disruptive manner, which was earlier, reduced by 100 basis points to 3 per cent of NDTL effective from the reporting fortnight beginning March 28, 2020 and available for a period of one year ending March 26, 2021. Accordingly, banks are required to maintain the CRR at 3.50 per cent of their NDTL effective from the reporting fortnight beginning March 27, 2021 and 4 per cent of their NDTL effective from fortnight beginning May 22, 2021. • It was decided to extend the dispensation of enhanced HTM ceiling of 22 per cent of NDTL in respect of SLR eligible securities until March 31, 2023 and to include securities acquired between April 1, 2021 and March 31, 2022. It was also decided that the enhanced HTM limit shall be restored to 19.5 per cent in a phased manner, beginning from the quarter ending June 30, 2023.
March 12, 2021	Certain changes were effected in the data format for furnishing of credit information by lenders to Credit Information Companies (CICs) to capture the credit information on restructuring due to COVID-19. The same is in line with the Reserve Bank's guidelines dated August 6, 2020, that provided lenders a window under the prudential framework to implement a resolution plan in respect of eligible borrowers impacted on account of the COVID-19 pandemic and also provided for credit reporting by the lending institutions to CICs in respect of such borrowers to reflect the "restructured" status of the account.
Department of Supervision	
March 16, 2020	Banks and financial institutions were advised regarding an indicative list of measures to be taken by them as part of their operational and business continuity plans.
July 8, 2020	Time lines were extended for submission of various supervisory returns which became due during July 1, 2020 to July 31, 2020.
Consumer Education and Protection Department	
April 3, 2020	The consumer education and protection cells at the Reserve Bank's ROs and all subordinate offices under the centralised public grievance redress and monitoring system (CPGRAMS) were advised regarding the prompt handling of public grievances pertaining to COVID-19 in line with GoI guidelines.
Internal Debt Management Department	
April 1, 2020	The WMA limit of state governments/union territories (UTs) were increased by 30 per cent from the limit existing on March 31, 2020, to enable the state governments to tide over the fiscal stress. The revised limits came into effect from April 1, 2020 and will be valid till September 30, 2020.
April 7, 2020	In order to provide greater flexibility to state governments to tide over their cash-flow mismatches, the 'overdraft (OD) scheme for state governments' was reviewed and the number of days for which a State/UT can be in OD continuously, was increased from 14 working days to 21 working days. Further, the number of days for which a State/ UT can be in OD in a quarter, was increased from 36 working days to 50 working days.

Date of Announcement	Policy Initiative
April 17, 2020	With a view to provide greater comfort to state governments in undertaking containment and mitigation efforts, and to enable them to plan their market borrowings, the WMA limit of states was increased further, by 60 per cent over and above the level existing on March 31, 2020. The increased limit would be valid till September 30, 2020.
April 20, 2020	It was decided in consultation with the GoI, that the limit for WMA of GoI for the remaining part of first half of the financial year 2020-21 (April 2020 to September 2020) will be revised from ₹1,20,000 crore to ₹2,00,000 crore.
May 22, 2020	The 'scheme for constitution and administration of consolidated sinking fund (CSF)' was reviewed and the rules governing withdrawal from CSF were relaxed, while ensuring that a sizeable corpus is retained in the Fund.
September 29, 2020	• With a view to provide greater comfort to state governments in undertaking COVID-19 containment and mitigation measures, and to enable them to plan their market borrowings, the increase in WMA limit of the states/UTs by 60 per cent over and above the level as on March 31, 2020, that was made available till September 30, 2020, was extended further till March 31, 2021. • In order to provide greater flexibility to state governments to tide over their cash-flow mismatches, the relaxation provided in the overdraft (OD) regulations wherein the number of days for which a state/UT can be in OD continuously was increased from 14 working days to 21 working days, and the number of days for which a state/UT can be in OD in a quarter was increased from 36 working days to 50 working days, that was made available till September 30, 2020, was extended further till March 31, 2021.
September 30, 2020	The WMA limit for the Government of India for the second half of 2020-21 was fixed at ₹1,25,000 crore, an increase of 257 per cent over the previous year, with a view to facilitate better cash management and planning the market borrowings to tide over the situation arising out of COVID-19.
Department of Payment and Settlement Systems	
March 16, 2020	Press release informing the general public about round the clock availability of payment systems that could be used for making payments from comfort of their home by avoiding social contact.
March 24, 2020	Extension of timeline for compliance with various payment system requirements.
June 4, 2020	Further extension in timeline provided to payment system operators to comply with various payment system requirements.
June 22, 2020	Authorised payment system operators and participants were advised to undertake targeted multi-lingual campaigns to educate their users on safe and secure use of digital payments.
December 4, 2020	The per transaction limit for relaxation of additional factor of authentication for contactless card transactions was enhanced from ₹2,000 to ₹5,000.
February 26, 2021	Timeline was extended till March 31, 2021 for submission of application to set up pan-India umbrella entity for retail payments.
March 31, 2021	• One-time extension was provided, till December 31, 2021, to payment aggregators (PAs) and merchants on-boarded by them to put in place necessary measures to ensure customer card credentials are not stored within their database or server. • Timeline was extended till September 30, 2021 for stakeholders to migrate to the new framework for processing and registering e-mandates for recurring online transactions using cards/wallets/ Unified Payments Interface (UPI).

APPENDIX TABLE 1: MACROECONOMIC AND FINANCIAL INDICATORS

Item		Average 2003-04 to 2007-08 (5 years)	Average 2009-10 to 2013-14 (5 years)	2018-19	2019-20	2020-21
1		2	3	4	5	6
I. Real Economy						
I.1	Real GDP at market prices (% change)*	7.9	6.7	6.5	4.0	-8.0
I.2	Real GVA at basic prices (% change)*	7.7	6.3	5.9	4.1	-6.5
I.3	Foodgrains Production (Million tonnes)	213.6	246.4	285.2	297.5	303.3
I.4	a) Food Stocks (Million tonnes)	18.6	50.1	72.7	74.0	77.2
	b) Procurement (Million tonnes)	39.3	61.3	77.7	79.2	97.2
	c) Off-take (Million tonnes)	41.5	57.0	65.9	62.2	83.3
I.5	Index of Industrial Production (% change)**	11.2	4.6	3.8	-0.8	-8.6
I.6	Index of Eight Core Industries (% change)	5.9	4.9	4.4	0.4	-7.0
I.7	Gross Domestic Saving Rate (% of GNDI at current prices)*	33.6	33.9	30.1	30.9	-
I.8	Gross Domestic Investment Rate (% of GDP at current prices)*	35.2	38.0	32.7	32.2	-
II. Prices						
II.1	Consumer Price Index (CPI) Combined (average % change)	-	-	3.4	4.8	6.2
II.2	CPI-Industrial Workers (average % change) #	5.0	10.3	5.4	7.5	5.0
II.3	Wholesale Price Index (average % change) #	5.5	7.1	4.3	1.7	1.3
III. Money and Credit						
III.1	Reserve Money (% change)	20.4	12.1	14.5	9.4	14.2
III.2	Broad Money (M3) (% change)	18.6	14.7	10.5	8.9	11.8
III.3	a) Aggregate Deposits of Scheduled Commercial Banks (% change)	20.2	15.0	10.0	7.9	11.4
	b) Bank Credit of Scheduled Commercial Banks (% change)	26.7	16.7	13.3	6.1	5.6
IV. Financial Markets						
IV.1	Interest rates (%)					
	a) Call/Notice Money rate	5.6	7.2	6.3	5.4	3.4
	b) 10 year G-sec yield	7.0	8.0	7.7	6.7	6.0
	c) 91-Days T-bill yield	-	-	6.6	5.5	3.3
	d) Weighted Average cost of Central Government Borrowings	-	-	7.8	6.9	5.8
	e) Commercial Paper	7.7	8.4	7.6	6.6	4.2
	f) Certificate of Deposits##	8.9	8.2	7.3	5.9	4.3
IV.2	Liquidity (₹ lakh crore)					
	a) LAF Outstanding~	-	-	-1.5	2.6	4.1
	b) MSS Outstanding~~	-	-	0.0	0.0	0.0
	c) Average Daily Call Money Market Turnover	0.2	0.3	0.4	0.3	0.2
	d) Average Daily G-sec Market Turnover###	0.1	0.2	0.4	0.6	0.4
	e) Variable Rate Repo$	-	-	1.639	0.895	0.005
	f) Variable Rate Reverse Repo$	-	-	0.0	1.2	0.0
	g) MSF$	-	-	0.943	0.020	0.001
V. Government Finances						
V.1	Central Government Finances (% of GDP)&					
	a) Revenue Receipts	10.0	9.2	8.2	8.3	7.9
	b) Capital Outlay	1.6	1.6	1.5	1.5	1.7
	c) Total Expenditure	14.9	15.0	12.3	13.2	17.6
	d) Gross Fiscal Deficit	3.7	5.4	3.4	4.6	9.4
V.2	State Government Finances&&					
	a) Revenue Deficit (% of GDP)	0.3	-0.1	0.1	0.7	1.5
	b) Gross Fiscal Deficit (% of GDP)	2.7	2.3	2.4	2.4	4.1
	c) Primary Deficit (% of GDP)	0.3	0.6	0.8	0.9	2.4

APPENDIX TABLE 1: MACROECONOMIC AND FINANCIAL INDICATORS *(Concld.)*

Item	Average 2003-04 to 2007-08 (5 years)	Average 2009-10 to 2013-14 (5 years)	2018-19	2019-20	2020-21
1	2	3	4	5	6
VI. External Sector					
VI.1 Balance of Payments@					
a) Merchandise Exports (% change)	25.3	12.2	9.1	-5.0	-15.9
b) Merchandise Imports (% change)	32.3	9.7	10.3	-7.6	-27.6
c) Trade Balance/GDP (%)	-5.5	-9.1	-6.7	-5.5	-3.2
d) Invisible Balance/GDP (%)	5.2	5.8	4.6	4.6	4.9
e) Current Account Balance/GDP (%)	-0.3	-3.3	-2.1	-0.9	1.7
f) Net Capital Flows/GDP (%)	4.7	3.8	2.0	2.9	2.7
g) Reserve Changes [(BoP basis) (US $ billion) [(Increase (-)/Decrease (+)]	-40.3	-6.6	3.3	-59.5	-83.9
VI.2 External Debt Indicators&&&					
a) External Debt Stock (US$ billion)	156.5	359.0	543.1	558.2	563.5
b) Debt-GDP Ratio (%)	17.8	20.9	19.9	20.6	21.4
c) Import cover of Reserves (in Months)	14.0	8.5	9.6	12.0	18.6
d) Short-term Debt to Total Debt (%)	13.6	21.3	20.0	19.1	18.4
e) Debt Service Ratio (%)	8.3	5.6	6.4	6.5	9.0
f) Reserves to Debt (%)	113.7	84.8	76.0	85.6	104.0
VI.3 Openness Indicators (%)@					
a) Export plus Imports of Goods/GDP	30.7	41.0	31.6	27.8	24.9
b) Export plus Imports of Goods & Services/GDP	41.3	53.2	44.0	39.7	37.4
c) Current Receipts plus Current Payments/GDP	47.1	59.4	49.8	45.6	43.9
d) Gross Capital Inflows plus Outflows/GDP	37.3	50.4	38.2	39.6	46.1
e) Current Receipts & Payments plus Capital Re-ceipts & Payments/GDP	84.4	109.8	87.9	85.2	89.9
VI.4 Exchange Rate Indicators					
a) Exchange Rate (Rupee/US Dollar)					
End of Period	43.1	51.1	69.2	75.4	73.5
Average	44.1	51.2	69.9	70.9	74.2
b) 40-Currency REER (% change)	3.1^	0.8	-5.0	2.6	0.3
c) 40-Currency NEER (% change)	1.7^	-4.9	-5.6	0.6	-4.2
d) 6-Currency REER (% change)	5.7^	2.3	-5.9	3.3	-1.8
e) 6-Currency NEER (% change)	2.6^	-5.1	-7.2	0.8	-6.8

- : Not Available. P: Provisional.
* : Data are at 2011-12 base year series.
** : Data are at 2011-12 base year series for column 2 and 3.
# : Base year for WPI is 2011-12=100 for annual data and 2004-05=100 for average of 5 years inflation. Base for CPI-IW is 2001=100 till August 2020 and 2016=100 from September 2020 onwards.
: Data for column 2 pertains to April 13, 2007 to March 28, 2008.
: Outright trading turnover in central government dated securities (based on calendar days).
~ : LAF outstanding as on March 31 (negative means injection).
~~ : Outstanding as on last Friday of the financial year.
$: Outstanding as on March 31.
& : Data for 2020-21 are revised estimates.
&& : Upto 2019-20 data pertains to all States and Union Territories (UT) with legislatures, while for 2020-21 data are for 17 States/UTs. Data for 2019-20 are provisional accounts and for 2020-21 are revised estimates.
@ : Data in columns 6 are provisional and pertain to April-December 2020.
&&&: Data for 2020-21 are provisional and pertain to end-December 2020.
^ : Average of period 2005-06 to 2007-08.

Note : Base year for 6- and 40-currency NEER/REER indices is 2015-16=100. REER figures are based on Consumer Price Index.

Source : RBI, National Statistical Office, Ministry of Agriculture & Farmers Welfare, Ministry of Commerce and Industry, Food Corporation of India (FCI), Labour Bureau and Budget documents of the central and state governments.

APPENDIX TABLE 2: GROWTH RATES AND COMPOSITION OF REAL GROSS DOMESTIC PRODUCT

(At 2011-12 Prices)

(Per cent)

Sector	Growth Rate				Share		
	Average 2013-14 to 2020-21	2018-19	2019-20	2020-21*	2018-19	2019-20	2020-21*
1	2	3	4	5	6	7	8
Expenditure Side GDP							
1. Private Final Consumption Expenditure	5.0	7.6	5.5	-9.0	56.3	57.1	56.5
2. Government Final Consumption Expenditure	6.3	6.3	7.9	2.9	10.2	10.6	11.8
3. Gross Fixed Capital Formation	3.7	9.9	5.4	-12.4	32.0	32.5	30.9
4. Change in Stocks	8.4	27.2	-39.7	-3.5	1.9	1.1	1.1
5. Valuables	-7.2	-9.7	-14.2	-38.0	1.4	1.1	0.8
6. Net Exports	-11.7	11.8	-16.8	72.5	-3.0	-3.4	-1.0
a) Exports	1.8	12.3	-3.3	-8.1	20.9	19.4	19.4
b) Less Imports	-0.1	8.6	-0.8	-17.6	23.9	22.8	20.4
7. Discrepancies	-63.1	-61.8	-15.5	-112.5	1.2	1.0	-0.1
8. GDP	**4.9**	**6.5**	**4.0**	**-8.0**	**100.0**	**100.0**	**100.0**
GVA at Basic Prices (Supply Side)							
1. Agriculture, forestry and fishing	**3.7**	**2.6**	**4.3**	**3.0**	**14.8**	**14.8**	**16.3**
2. Industry	**4.3**	**5.0**	**-2.0**	**-7.4**	**23.2**	**21.8**	**21.6**
of which :							
a) Mining and quarrying	1.6	0.3	-2.5	-9.2	2.6	2.4	2.4
b) Manufacturing	4.5	5.3	-2.4	-8.4	18.3	17.1	16.8
c) Electricity, gas, water supply and other utility services	6.1	8.0	2.1	1.8	2.3	2.3	2.5
3. Services	**5.5**	**7.1**	**6.4**	**-8.4**	**62.0**	**63.4**	**62.1**
of which :							
a) Construction	2.3	6.3	1.0	-10.3	8.0	7.8	7.5
b) Trade, hotels, transport, communication and services related to broadcasting	5.0	7.1	6.4	-18.0	19.9	20.3	17.8
c) Financial, real estate and professional services	7.0	7.2	7.3	-1.4	21.3	22.0	23.2
d) Public Administration, defence and other services	5.9	7.4	8.3	-4.1	12.7	13.3	13.6
4. GVA at basic prices	**4.9**	**5.9**	**4.1**	**-6.5**	**100.0**	**100.0**	**100.0**

*: Second advance estimates of national income for 2020-21.
Source: National Statistical Office (NSO).

APPENDIX TABLE 3: GROSS SAVINGS

(Per cent of GNDI)

Item	2016-17	2017-18	2018-19	2019-20
1	2	3	4	5
I. Gross Savings	**30.9**	**31.7**	**30.1**	**30.9**
1.1 Non-financial corporations	**11.6**	**11.6**	**10.7**	**10.6**
1.1.1 Public non-financial corporations	1.1	1.4	1.3	1.4
1.1.2 Private non-financial corporations	10.5	10.2	9.4	9.2
1.2 Financial corporations	**2.2**	**2.2**	**1.9**	**2.8**
1.2.1 Public financial corporations	1.4	1.4	0.9	1.5
1.2.2 Private financial corporations	0.9	0.9	1.0	1.3
1.3 General Government	**-0.8**	**-1.2**	**-1.5**	**-1.8**
1.4 Household sector	**17.9**	**19.0**	**19.0**	**19.3**
1.4.1 Net financial saving	7.3	7.5	7.1	7.8
Memo: Gross financial saving	10.4	11.9	11.1	11.0
1.4.2 Saving in physical assets	10.2	11.2	11.7	11.2
1.4.3 Saving in the form of valuables	0.3	0.3	0.2	0.2

GNDI: Gross national disposable income.

Note: Net financial saving of the household sector is obtained as the difference between gross financial savings and financial liabilities during the year.

Source: NSO.

APPENDIX TABLE 4: INFLATION, MONEY AND CREDIT

(Per cent)

Inflation									
Consumer Price Index (All India)#	Rural			Urban			Combined		
	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21
1	2	3	4	5	6	7	8	9	10
General Index (All Groups)	**3.0**	**4.3**	**5.9**	**3.9**	**5.4**	**6.5**	**3.4**	**4.8**	**6.2**
Food and beverages	0.7	4.8	7.1	0.7	8.1	7.7	0.7	6.0	7.3
Housing	…	…	…	6.7	4.5	3.3	6.7	4.5	3.3
Fuel and light	6.0	1.1	0.3	5.2	1.7	7.1	5.7	1.3	2.7
Miscellaneous	6.3	5.1	5.7	5.4	3.7	7.5	5.8	4.4	6.6
Excluding Food and Fuel	5.7	4.1	5.5	5.9	4.0	5.6	5.8	4.0	5.5
Other Price Indices	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
1. Wholesale Price Index (2011-12=100)*									
All Commodities	**7.4**	**5.2**	**1.3**	**-3.7**	**1.7**	**2.9**	**4.3**	**1.7**	**1.3**
Primary Articles	9.8	9.8	2.2	-0.4	3.4	1.4	2.7	6.8	1.6
of which: Food Articles	9.9	12.3	5.6	2.6	4.0	2.1	0.3	8.4	3.1
Fuel and Power	10.3	7.1	-6.1	-19.7	-0.3	8.2	11.5	-1.8	- 8.0
Manufactured Products	5.4	3.0	2.6	-1.8	1.3	2.7	3.7	0.3	2.7
Non-Food Manufactured Products	4.9	2.7	2.7	-1.8	-0.1	3.0	4.2	-0.4	2.2
2. CPI- Industrial Workers (IW) (2001=100)**	**10.4**	**9.7**	**6.3**	**5.6**	**4.1**	**3.1**	**5.4**	**7.5**	**5.0**
of which: CPI- IW Food	11.9	12.3	6.5	6.1	4.4	1.5	0.6	7.4	5.8
3. CPI- Agricultural Labourers (1986-87=100)	**10.0**	**11.6**	**6.6**	**4.4**	**4.2**	**2.2**	**2.1**	**8.0**	**5.5**
4. CPI- Rural Labourers (1986-87=100)	**10.2**	**11.5**	**6.9**	**4.6**	**4.2**	**2.3**	**2.2**	**7.7**	**5.5**
Money and Credit									
	2012-13	**2013-14**	**2014-15**	**2015-16**	**201617^**	**2017-18**	**2018-19**	**2019-20**	**2020-21^^**
Reserve Money (RM)	**6.2**	**14.4**	**11.3**	**13.1**	**-12.9**	**27.3**	**14.5**	**9.4**	**14.2**
Currency in Circulation	11.6	9.2	11.3	14.9	-19.7	37.0	16.8	14.5	17.2
Bankers' Deposits with RBI	-10.0	34.0	8.3	7.8	8.4	3.9	6.4	-9.6	0.8
Currency-GDP Ratio$	12.0	11.6	11.6	12.1	8.7	10.7	11.3	12.0	14.7
Narrow Money (M1)	**9.2**	**8.5**	**11.3**	**13.5**	**-3.9**	**21.8**	**13.6**	**11.2**	**16.3**
Broad Money (M3)	**13.6**	**13.4**	**10.9**	**10.1**	**6.9**	**9.2**	**10.5**	**8.9**	**11.8**
Currency-Deposit Ratio	15.7	15.1	15.2	16.0	11.0	14.4	15.4	16.3	17.3
Money Multiplier (Ratio)##	5.5	5.5	5.5	5.3	6.7	5.8	5.6	5.5	5.4
GDP-M3 Ratio$##	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.0
Scheduled Commercial Banks									
Aggregate Deposits	14.2	14.1	10.7	9.3	11.3	6.2	10.0	7.9	11.4
Bank Credit	14.1	13.9	9.0	10.9	4.5	10.0	13.3	6.1	5.6
Non-food Credit	14.0	14.2	9.3	10.9	5.2	10.2	13.4	6.1	5.5
Credit-Deposit Ratio	77.9	77.8	76.6	77.7	72.9	75.5	77.7	76.4	72.7
Credit-GDP Ratio$	52.9	53.4	52.4	52.6	50.9	50.4	51.5	51.0	56.4

\# : Base for Consumer Price Index (All India) is 2012=100.
… : CPI Rural for Housing is not compiled.
* : Base for WPI is 2004-05=100 for 2012-13 and 2011-12=100 for the period 2013-14 to 2020-21.
** : Base for CPI-IW is 2001=100 till August 2020 and 2016=100 from September 2020 onwards.
\## : Not expressed in per cent.
^ : March 31, 2017 over April 1, 2016 barring RM and its components.
^^ : Data pertain to March 26, 2021.
$: GDP data from 2011-12 onwards are based on new series *i.e.*, base: 2011-12. GDP refers to GDP at Current Market Prices.
Note: Data refer to y-o-y change in per cent unless specified otherwise.
Source: RBI, NSO, Labour Bureau and Ministry of Commerce and Industry.

APPENDIX TABLE 5: CAPITAL MARKET - PRIMARY AND SECONDARY

(Amount in ₹ crore)

Item	2019-20		2020-21 (P)	
	Number	Amount	Number	Amount
1	2	3	4	5
I. PRIMARY MARKET				
A. Public and Rights Issues				
1. Private Sector (a+b)	**107**	**80,493.0**	**90**	**1,07,867.9**
a) Financial	38	17,335.8	26	31,395.9
b) Non-Financial	69	63,157.2	64	76,472.0
2. Public Sector (a+b+c)	**3**	**11,455.9**	**5**	**12,485.2**
a) Public Sector Undertakings	2	1,115.1	2	1,262.9
b) Government Companies	…	…	…	…
c) Banks/Financial Institutions	1	10,340.8	3	11,222.3
3. Total (1+2, i+ii, a+b)	**110**	**91,948.9**	**95**	**1,20,353.1**
Instrument Type				
(i) Equity	76	76,964.9	78	1,10,118.3
(ii) Debt	34	14,984.0	17	10,234.8
Issuer Type				
(a) IPOs	58	21,285.6	55	31,029.7
(b) Listed	52	70,663.28	40	89,323.4
B. Euro Issues (ADRs and GDRs)	**…**	**…**	**…**	**…**
C. Private Placement				
1. Private Sector (a+b)	**1,474**	**3,28,142.5**	**1,764**	**4,33,946.5**
a) Financial	1,286	2,29,298.6	1,480	2,82,355.3
b) Non-Financial	188	98,843.9	284	1,51,591.3
2. Public Sector (a+b)	**244**	**3,51,255.8**	**216**	**3,82,435.6**
a) Financial	156	2,13,037.3	138	2,55,149.9
b) Non-Financial	88	1,38,218.5	78	1,27,285.7
3. Total (1+2, i+ii)	**1,718**	**6,79,398.3**	**1,980**	**8,16,382.1**
(i) Equity	13	51,216.4	30	74,738.4
(ii) Debt	1,705	6,28,181.9	1,950	7,41,643.7
D. Qualified Institutional Placement	**13**	**51,216.4**	**30**	**74,738.4**
E. Mutual Funds Mobilisation (Net)#		**87,300.8**		**2,14,743.0**
1. Private Sector		24,059.4		1,42,377.9
2. Public Sector		63,241.4		72,365.1
II. SECONDARY MARKET				
BSE				
Sensex: End-Period	29,468.5		49,509.2	
Period Average	38,756.7		40,826.4	
Price Earnings Ratio@	17.8		34.4	
Market Capitalisation to GDP ratio (%)	55.8		104.3	
Turnover Cash Segment		6,60,896.0		10,45,089.6
Turnover Equity Derivatives Segment		2,62,268.6		3,50,60,169.1
NSE				
Nifty 50: End-Period	8,597.8		14,690.7	
Period Average	11,488.0		12,016.9	
Price Earnings Ratio@	19.4*		33.2*	
Market Capitalisation to GDP ratio (%)	55.2		103.6	
Turnover Cash Segment		89,98,811.1		1,53,97,910.0
Turnover Equity Derivatives Segment		34,45,32,891.8		64,36,18,108.3

…: Nil. P: Provisional (for 2020-21). #: Net of redemptions. @: As at end of the period.

*: Price Earnings Ratio of Nifty 50 for 2019-20 and 2020-21 are not comparable due to change in calculation methodology by NSE w.e.f. March 31, 2021.

Source: SEBI, NSE, BSE, CSO, various merchant bankers and RBI Staff Calculations.

APPENDIX TABLE 6: KEY FISCAL INDICATORS

(As per cent of GDP)

Year	Primary Deficit	Revenue Deficit	Primary Revenue Deficit	Gross Fiscal Deficit	Outstanding Liabilities@	Outstanding Liabilities$
1	2	3	4	5	6	7
Centre						
1990-91	4.0	3.2	-0.5	7.7	54.6	60.6
1995-96	0.8	2.5	-1.7	5.0	50.3	58.3
2000-01	0.9	4.0	-0.7	5.6	54.6	60.4
2009-10	3.2	5.3	2.0	6.6	55.4	57.3
2010-11	1.8	3.3	0.2	4.9	51.6	53.2
2011-12	2.8	4.5	1.4	5.9	51.7	53.5
2012-13	1.8	3.7	0.5	4.9	51.0	52.5
2013-14	1.1	3.2	-0.2	4.5	50.5	52.2
2014-15	0.9	2.9	-0.3	4.1	50.1	51.4
2015-16	0.7	2.5	-0.7	3.9	50.1	51.5
2016-17	0.4	2.1	-1.1	3.5	48.4	49.5
2017-18	0.4	2.6	-0.5	3.5	48.3	49.7
2018-19	0.4	2.4	-0.7	3.4	48.6	49.9
2019-20	1.6	3.3	0.3	4.6	50.9	52.3
2020-21 (RE)#	5.9	7.4	3.9	9.4	62.6	63.9
2021-22 (BE)	3.1	5.1	1.5	6.8	61.6	62.5
States*						
1990-91	1.8	0.9	-0.6	3.3	22.2	22.2
1995-96	0.8	0.7	-1.1	2.6	20.8	20.8
2000-01	1.8	2.5	0.1	4.2	28.1	28.1
2009-10	1.2	0.4	-1.4	3.0	26.4	26.4
2010-11	0.4	-0.2	-1.8	2.1	24.4	24.4
2011-12	0.4	-0.3	-1.9	2.0	23.2	23.2
2012-13	0.4	-0.3	-1.8	2.0	22.6	22.6
2013-14	0.7	0.0	-1.5	2.2	22.3	22.3
2014-15	1.1	0.3	-1.2	2.6	22.0	22.0
2015-16	1.5	0.0	-1.6	3.0	23.7	23.7
2016-17	1.8	0.2	-1.4	3.5	25.1	25.1
2017-18	0.7	0.1	-1.6	2.4	25.1	25.1
2018-19	0.8	0.1	-1.6	2.4	25.2	25.2
2019-20 (PA)	0.9	0.7	-1.1	2.4	…	…
2020-21 (RE)	2.4	1.5	-0.1	4.1	…	…
2021-22 (BE)	1.5	0.3	-1.4	3.2	…	…

… : Not Available. RE: Revised Estimates. BE: Budget Estimates. PA: Provisional Accounts.
@ : Includes external liabilities of the centre calculated at historical exchange rates.
$: Includes external liabilities of the centre calculated at current exchange rates.
Columns 6 and 7 are outstanding figures as at end-March of respective years.
: Going by the principle of using latest GDP data for any year, GDP used for 2020-21 is the latest available Second Advance Estimates. In view of this principle, the fiscal indicators as per cent of GDP given in this table may at times marginally vary from those published earlier.
* : Data for 2020-21 (RE) and 2021-22 (BE) are for 17 states only.

Note: 1. Negative sign (-) indicates surplus in deficit indicators.
2. GDP figures used in this table are on 2011-12 base, which are the latest available estimates.

Source: Budget documents of the central and state governments, Comptroller and Auditor General of India.

APPENDIX TABLE 7: COMBINED RECEIPTS AND DISBURSEMENTS OF THE CENTRAL AND STATE GOVERNMENTS

(Amount in ₹ thousand crore)

Item	2015-16	2016-17	2017-18	2018-19	2019-20 RE	2020-21 BE
1	2	3	4	5	6	7
1 Total Disbursements	3,760.6	4,266.0	4,515.9	5,040.7	5,875.9	6,470.3
1.1 Developmental	2,201.3	2,537.9	2,635.1	2,882.8	3,486.5	3,818.4
1.1.1 Revenue	1,668.3	1,878.4	2,029.0	2,224.4	2,708.2	2,920.5
1.1.2 Capital	412.1	501.2	519.4	596.8	694.3	794.6
1.1.3 Loans	121.0	158.3	86.7	61.6	84.0	103.3
1.2 Non-Developmental	1,510.8	1,672.6	1,812.5	2,078.3	2,295.1	2,556.5
1.2.1 Revenue	1,379.7	1,555.2	1,741.4	1,965.9	2,172.0	2,421.6
1.2.1.1 Interest Payments	648.1	724.4	814.8	894.5	969.3	1,091.6
1.2.2 Capital	127.3	115.8	69.4	111.0	121.2	133.0
1.2.3 Loans	3.8	1.6	1.7	1.3	2.0	2.0
1.3 Others	48.5	55.4	68.4	79.7	94.3	95.4
2 Total Receipts	3,778.0	4,288.4	4,528.4	5,023.4	5,779.4	6,524.5
2.1 Revenue Receipts	2,748.4	3,132.2	3,376.4	3,797.7	4,338.2	4,828.1
2.1.1 Tax Receipts	2,297.1	2,622.1	2,978.1	3,278.9	3,548.0	3,951.7
2.1.1.1 Taxes on commodities and services	1,441.0	1,652.4	1,853.9	2,030.1	2,157.1	2,436.9
2.1.1.2 Taxes on Income and Property	852.3	965.6	1,121.2	1,246.1	1,386.7	1,510.3
2.1.1.3 Taxes of Union Territories (Without Legislature)	3.9	4.1	3.1	2.8	4.2	4.5
2.1.2 Non-Tax Receipts	451.3	510.1	398.3	518.8	790.3	8,76.4
2.1.2.1 Interest Receipts	35.8	33.2	34.2	36.3	33.3	30.9
2.2 Non-debt Capital Receipts	59.8	69.1	142.4	140.3	129.5	232.2
2.2.1 Recovery of Loans & Advances	16.6	20.9	42.2	44.7	62.5	18.3
2.2.2 Disinvestment proceeds	43.3	48.1	100.2	95.6	67.0	213.9
3 Gross Fiscal Deficit [1 - (2.1 + 2.2)]	952.4	1,064.7	997.1	1,102.7	1,408.2	1,410.0
3A Sources of Financing: Institution-wise						
3A.1 Domestic Financing	939.7	1,046.7	989.2	1,097.2	1,403.3	1,405.4
3A.1.1 Net Bank Credit to Government	231.1	617.1	144.8	387.1	518.1	-----
3A.1.1.1 Net RBI Credit to Government	60.5	195.8	-144.8	326.0	190.2	-----
3A.1.2 Non-Bank Credit to Government	708.6	429.6	844.4	710.1	885.2	-----
3A.2 External Financing	12.7	18.0	7.9	5.5	4.9	4.6
3B Sources of Financing: Instrument-wise						
3B.1 Domestic Financing	939.7	1,046.7	989.2	1,097.2	1,403.3	1,405.4
3B.1.1 Market Borrowings (net)	673.3	689.8	794.9	795.8	962.4	1,105.6
3B.1.2 Small Savings (net)	80.0	35.0	71.2	89.0	213.4	213.4
3B.1.3 State Provident Funds (net)	35.3	45.7	42.4	51.0	42.9	42.5
3B.1.4 Reserve Funds	-3.3	-6.4	18.4	-18.3	-0.2	3.0
3B.1.5 Deposits and Advances	13.5	17.8	25.1	66.3	32.9	36.0
3B.1.6 Cash Balances	-17.4	-22.5	-12.5	17.4	96.5	-54.3
3B.1.7 Others	158.4	287.3	49.7	96.0	55.3	59.1
3B.2 External Financing	12.7	18.0	7.9	5.5	4.9	4.6
4 Total Disbursements as per cent of GDP	27.3	27.7	26.4	26.6	28.9	28.8
5 Total Receipts as per cent of GDP	27.4	27.9	26.5	26.5	28.4	29.0
6 Revenue Receipts as per cent of GDP	20.0	20.3	19.7	20.0	21.3	21.5
7 Tax Receipts as per cent of GDP	16.7	17.0	17.4	17.3	17.4	17.6
8 Gross Fiscal Deficit as per cent of GDP	6.9	6.9	5.8	5.8	6.9	6.3

…: Not Available. RE: Revised Estimates. BE: Budget Estimates.

Note :1. GDP data is based on 2011-12 base.

2. The revision of general government fiscal data will be undertaken in the month of October after all states present their final budget and they are tabulated, consolidated and disseminated by the Reserve Bank through its annual publication - 'State Finances: A Study of Budgets'. Accordingly, any revision of fiscal indicators as ratio to GDP due to revision in GDP will also be undertaken at that time.

Source : Budget Documents of the central and state governments.

APPENDIX TABLE 8: INDIA'S OVERALL BALANCE OF PAYMENTS

(US$ million)

				2016-17	2017-18	2018-19	2019-20	2020-21*
1				2	3	4	5	6
A.	**CURRENT ACCOUNT**							
	1	Exports, f.o.b.		2,80,138	3,08,970	3,37,237	3,20,431	2,05,174
	2	Imports, c.i.f.		3,92,580	4,69,006	5,17,519	4,77,937	2,65,378
	3	Trade Balance		-1,12,442	-1,60,036	-1,80,283	-1,57,506	-60,204
	4	Invisibles, Net		98,026	1,11,319	1,23,026	1,32,850	92,554
		a)	'Non-Factor' Services *of which :*	68,345	77,562	81,941	84,922	64,996
			Software Services	70,763	72,186	77,654	84,643	66,171
		b)	Income	-26,302	-28,681	-28,861	-27,281	-27,060
		c)	Private Transfers	56,573	62,949	70,601	76,217	55,331
	5	Current Account Balance		-14,417	-48,717	-57,256	-24,656	32,350
B.	**CAPITAL ACCOUNT**							
	1	Foreign Investment, Net (a+b)		43,224	52,401	30,094	44,417	69,676
		a)	Direct Investment	35,612	30,286	30,712	43,013	40,819
		b)	Portfolio Investment	7,612	22,115	-618	1,403	28,857
	2	External Assistance, Net		2,013	2,944	3,413	3,751	7,174
	3	Commercial Borrowings, Net		-6,102	-183	10416	22,960	-6,362
	4	Short Term Credit, Net		6,467	13,900	2,021	-1,026	-1,784
	5	Banking Capital of which :		-16,616	16,190	7,433	-5,315	-16,642
		NRI Deposits, Net		-12,367	9,676	10,387	8,627	7,903
	6	Rupee Debt Service		-99	-75	-31	-69	-57
	7	Other Capital, Net$		7,559	6,213	1,057	18,462	-1,151
	8	Total Capital Account		36,447	91,390	54,403	83,180	50,854
C.	**Errors & Omissions**			-480	902	-486	974	693
D.	**Overall Balance [A(5)+B(8)+C]**			21,550	43,574	-3,339	59,498	83,897
E.	**Monetary Movements (F+G)**			-21,550	-43,574	3,339	-59,498	-83,897
F.	**IMF, Net**			0	0	0	0	0
G.	**Reserves and Monetary Gold (Increase -, Decrease +)**			-21,550	-43,574	3,339	-59,498	-83,897
	***of which:* SDR allocation**			0	0	0	0	0
	Memo: As a ratio to GDP							
	1	Trade Balance		-4.9	-6.0	-6.7	-5.5	-3.2
	2	Net Services		3.0	2.9	3.0	3.0	3.4
	3	Net Income		-1.1	-1.1	-1.1	-1.0	-1.4
	4	Current Account Balance		-0.6	-1.8	-2.1	-0.9	1.7
	5	Capital Account, Net		1.6	3.4	2.0	2.9	2.7
	6	Foreign Investment, Net		1.9	2.0	1.1	1.5	3.7

* : Data in Column 6 are provisional and pertains to April-December 2020.
$: Includes delayed export receipts, advance payments against imports, net funds held abroad and advances received pending issue of shares under FDI.
Note: 1. Gold and silver brought by returning Indians have been included under imports, with a contra entry in private transfer receipts.
2. Data on exports and imports differ from those given by DGCI&S on account of differences in coverage, valuation and timing.
Source: RBI.

APPENDIX TABLE 9: FOREIGN DIRECT INVESTMENT FLOWS TO INDIA: COUNTRY-WISE AND INDUSTRY-WISE

(US$ million)

Source/Industry	2016-17	2017-18	2018-19	2019-20	2020-21 (P)
1	2	3	4	5	6
Total FDI	**36,317**	**37,366**	**38,744**	**42,629**	**52,545**
Country-wise Inflows					
Singapore	6,529	9,273	14,632	12,612	15,908
US	2,138	1,973	2,823	3,401	13,204
Mauritius	13,383	13,415	6,570	7,498	4,491
UAE	645	408	853	323	4,071
Saudi Arabia	12	125	27	89	2,815
Cayman Islands	49	1,140	863	3,496	2,558
Netherlands	3,234	2,677	2,519	5,295	2,138
Japan	4,237	1,313	2,745	2,308	1,794
France	487	403	375	1,167	810
UK	1,301	716	1,211	1,125	779
Germany	845	1,095	817	443	626
Spain	213	243	109	83	425
South Korea	466	293	982	777	400
Luxembourg	99	243	251	252	267
Belgium	172	213	56	388	246
Taiwan	12	112	24	44	219
Switzerland	502	506	280	140	188
Others	1,993	3,218	3,607	3,188	1,604
Sector-wise Inflows					
Computer Services	1,937	3,173	3,453	4,104	23,050
Transport	891	1,267	1,019	2,333	7,584
Manufacturing	11,972	7,066	7,919	8,153	6,739
Retail & Wholesale Trade	2,771	4,478	4,311	4,914	2,960
Financial Services	3,732	4,070	6,372	4,326	2,728
Communication Services	5,876	8,809	5,365	6,838	2,314
Business Services	2,684	3,005	2,597	3,684	1,750
Construction	1,564	1,281	2,009	1,937	1,746
Electricity and Other Energy Generation, Distribution & Transmission	1,722	1,870	2,427	1,906	989
Education, Research & Development	205	347	736	528	963
Miscellaneous Services	1,816	835	1,226	443	671
Real Estate Activities	105	405	213	564	401
Restaurants and Hotels	430	452	749	2,546	278
Mining	141	82	247	217	186
Trading	0	0	0	0	0
Others	470	226	102	137	187

P: Provisional.
Note: Includes FDI through approval and automatic routes only.
Source: RBI.

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