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CHAPTER: 1

Saving Lives And Livelihoods Amidst A Once-In-A-Century Crisis

Key Concepts & Terms

Great Depression

- Great Depression is a worldwide economic downturn that began in 1929 and lasted until about 1939.
- It was the longest and most severe depression ever experienced by the industrialized Western world, sparking fundamental changes in economic institutions, macroeconomic policy, and economic theory.

Non Pharmaceutical Interventions (NPIs)

- NPIs include both actions that individuals and households can take (e.g. frequent hand washing, covering coughs and sneezes, and keeping a distance from sick people) and social distancing policies that communities can enact (e.g. closing schools, working from home, restricting public gatherings) that are specifically geared to limiting the spread of a disease that is transmitted from person to person.
- Not only will they be available and accessible at the local level, but they are likely to be very effective in limiting the spread of the disease, and reducing the number of deaths.

Spanish Flu

- The Spanish flu, also known as the 1918 flu pandemic, was an unusually deadly influenza pandemic caused by the **H1N1 influenza A virus**.
- Spanish flu pandemic resulted in a higher-than-expected mortality rate for **young adults**.
- The 1918 Spanish flu was the first of two pandemics caused by H1N1 influenza A virus; the second was the 2009 **swine flu pandemic.**

Important Data

- Lockdown resulted in a 23.9% contraction in GDP in Q1, the recovery has been a V-shaped one as seen in the 7.5% decline in Q2 and the recovery across all key economic indicators.
- The response drew on epidemiological and economic research, especially those pertaining to the Spanish Flu, which highlighted that an early, intense lockdown provided a win-win strategy to save lives, and preserve livelihoods via economic recovery in the medium to long-term. This strategy was also tailored to India’s unique vulnerabilities to the pandemic.

- The strategy was also motivated by the Nobel-Prize winning research in Hansen & Sargent (2001) that recommends a policy focused on minimizing losses in a worst case scenario when uncertainty is very high.
- A public investment programme centred around the National Infrastructure Pipeline is likely to accelerate the demand push and further the recovery.

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CHAPTER: 2

Does Growth Lead To Debt Sustainability? Yes, But Not Vice-Versa

Key Concepts & Terms

Fiscal multipliers

- The fiscal multiplier measures the effect that increases in fiscal spending will have on a nation's economic output, or gross domestic product (GDP).

Counter-cyclical fiscal policy

- Counter-cyclical fiscal measures are policy measures which counteract the effects of the economic cycle.
  - For example, counter-cyclical fiscal policy actions when the economy is slowing would include increasing government spending or cutting taxes to help stimulate economic recovery.

Procyclical fiscal policy:

- A 'procyclical fiscal policy' can be summarised simply as governments choosing to increase government spending and reduce taxes during an economic expansion, but reduce spending and increase taxes during a recession.

Interest rate-growth differential:

- In general, an interest rate differential (IRD) weighs the contrast in interest rates between two similar interest-bearing assets.
- Traders in the foreign exchange market use IRDs when pricing forward exchange rates. Based on the interest rate parity, a trader can create an expectation of the future exchange rate between two currencies and set the premium, or discount, on the current market exchange rate futures contracts.
- Interest rate differentials simply measure the difference in interest rates of two different instruments.
- IRD is most often used in fixed income, forex, and lending markets.
- IRD plays a key role in calculating a carry trade.

Debt sustainability model

- The debt sustainability model, or debt sustainability analysis, is a form of structured examination on a developing country based on the Debt Sustainability Framework.
- It is utilized by the World Bank and the International Monetary Fund (IMF) and measures the lending and borrowing decisions surrounding low-income and developing countries.
- The model is essential for measuring a developing country's financing needs with its capacity to repay borrowed funds.

Debt-to-GDP ratios:

- The debt-to-GDP ratio is the metric comparing a country's public debt to its gross domestic product (GDP).
- By comparing what a country owes with what it produces, the debt-to-GDP ratio reliably indicates that particular country's ability to pay back its debts.
- Often expressed as a percentage, this ratio can also be interpreted as the number of years needed to pay back debt, if GDP is dedicated entirely to debt repayment.

Low wage-growth trap:

- The "Low Wage Trap" provides information on the financial consequences for an employed person when increasing his/her work effort and thus his/her wages.

Crowding out:

- The crowding out effect is an economic theory arguing that rising public sector spending drives down or even eliminates private sector spending.
- The crowding out effect suggests rising public sector spending drives down private sector spending.
- There are three main reasons for the crowding out effect to take place: economics, social welfare, and infrastructure.

Important Data

- India's public debt-to GDP has been significantly low compared to high global debt levels. A cross-country comparison of debt levels points out that for India, the government debt level as a proportion of GDP is equal to the median in the group of G-20 OECD countries and in the group of BRICS nations.
- India's overall debt levels as a per cent of GDP are the lowest amongst the group of G-20. OECD countries and also among the group of BRICS nations Moreover, public debt and overall debt level for India has declined since 2003 and has been stable since 2011.
- The Government's debt portfolio is characterized by very low foreign exchange risk as the external debt is only 2.7 per cent of GDP (5.9 per cent of total Central Government liabilities.
- Of the total public debt, 70 per cent is held by the Centre, as the central government is entrusted with the responsibility of macro-economic management, this distribution of debt between the centre and states is desirable because of the incentive compatibility that it generates.
- The long maturity profile of India's public debt (issuance of longer tenure bonds) along with a small share of floating rate debt (floating rate debt of Central Government is less than 5 per cent of public debt) tends to limit rollover risks, and insulates the debt portfolio from interest rate volatility.

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CHAPTER: 3

Does India's Sovereign Credit Rating Reflect Its Fundamentals? No!

Key Concepts & Terms

- **Sovereign credit rating:** A sovereign credit rating is an independent assessment of the creditworthiness of a country or sovereign entity.
- **Sovereign debt (government debt or public debt):** It is **debt issued by the national government in a foreign currency** in order to finance the issuing country's growth and development. Sovereign debt can either be:
  - **internal debt**- debt owed to lenders who are within the country, or
  - **external debt**- debt owed to lenders in foreign areas

The **stability** of the issuing government can be provided by the country's **sovereign credit ratings** which help investors weigh risks when assessing sovereign debt investments.

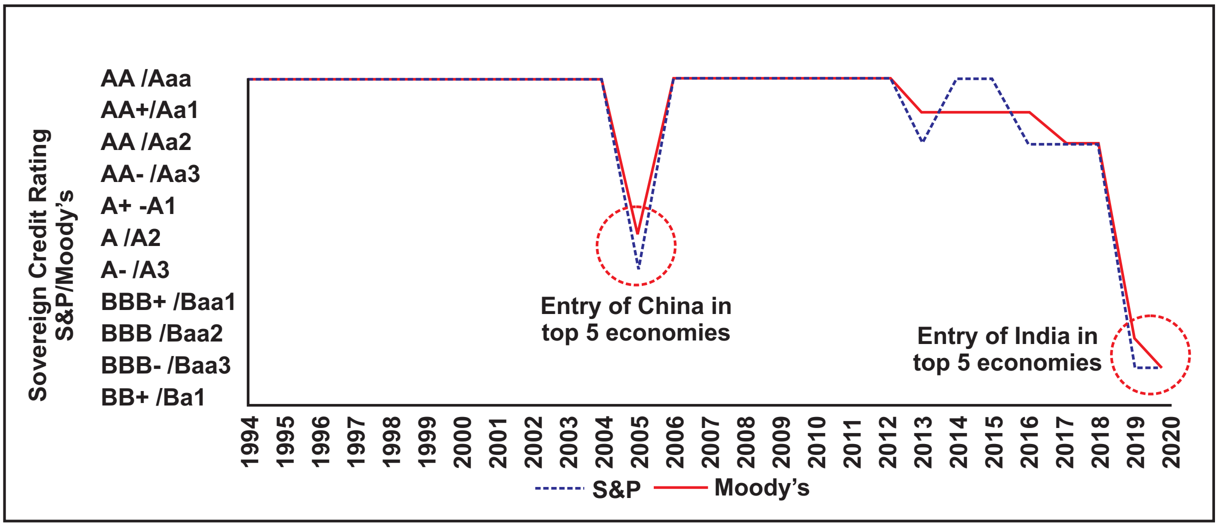
- **Stress test estimate:** Stress testing helps **gauge investment risk and the adequacy of assets**, as well as to help evaluate internal processes and controls.

$$\text{Stress Test estimate} = (-)\ \frac{\text{Forex Reserves Net of Short Term Debt}}{\text{Standard Deviation of Forex Reserves}}$$

- Countries with more comfortable forex reserves can withstand larger negative standard deviation shocks. Hence **larger negative value of stress test estimate suggests better forex reserve position**
- **Changes in ratings**: it can be classified as upgrade or downgrade. The **downgrade credit ratings reflect increasing risks** that economic growth of a country will remain materially lower than in the past. It can lead to **massive foreign fund outflows.**
- **Pro-cyclical nature of credit ratings:** The behaviour of CRAs has been **pro-cyclical**, that is often seen to aggravate crises and fuel bubbles.They are too **lenient when the times are good,** and **too harsh when economic conditions worsen,** making booms and busts that much more dramatic.

Important Data

- Never in the history of sovereign credit ratings has the fifth largest economy in the world been rated as the lowest rung of the investment grade (BBB-/Baa3)
- Reflecting the economic size and thereby the ability to repay debt, the fifth largest economy has been predominantly rated AAA.
- China and India are the only exceptions to this rule - China was rated A-/A2 in 2005 and now India is rated BBB-/Baa3.



- India's sovereign credit ratings do not reflect its fundamentals. For e.g. Credit ratings map the probability of default and therefore reflect the willingness and ability of borrower to meet its obligations. India's ability to pay can be gauged by low foreign currency denominated debt and forex reserves and its zero sovereign default history.
- Commercial banks downgraded to sub investment grade will find it costly to issue internationally recognized letters of credit for domestic exporters and importers, isolating the country from international capital markets.
- Developing economies must come together to address this bias.

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CHAPTER: 4

Inequality and Growth: Confilict or Convergence

Key Concepts & Terms

Gini coefficient:

- It was developed by Italian statistician CorradoGini in 1912.
- It is a measure of the distribution of income across a population.
- It is used as a gauge of economic inequality, measuring income distribution or, less commonly, wealth distribution among a population.
- The coefficient ranges from 0 (or 0%) to 1 (or 100%), with 0 representing perfect equality and 1 representing perfect inequality.

Multidimensional Poverty

- The Multidimensional Poverty Index (MPI) identifies multiple deprivations at the household and individual level in health, education and standard of living.
- It uses micro data from household surveys, and—unlike the Inequality-adjusted Human Development Index—all the indicators needed to construct the measure must come from the same survey.
- Each person in a given household is classified as poor or non-poor depending on the weighted number of deprivations his or her household, and thus, he or she experiences.
- It uses ten indicators viz; education attainment, year of education; nutrition and mortality; andelectricity, drinking water, sanitation, cooking gas, housing, and assets.

Important Data

- China has made exceptional strides in reducing its extreme poverty rates since 1970s. As per data from China National Bureau of Statistics, the head count ratio of poverty has reduced by 94 per cent from 1980 to 2015 in rural China.
- In contrast Gini coeffi cient of income distribution among rural residents in China rose from 0.241 in 1980 to 0.39 in 2011 or by 62 per cent according to the official estimation.
- World Bank (2000) found that India could achieve sustained decline in poverty during 1970s-1990s only when the GDP growth picked up from 3.5 per cent in the initial years. Also, rise in the growth of mean consumption was responsible for approximately 87 per cent of the cumulative decline in poverty, while redistribution contributed to only 13 per cent.
- “More recently in 2019 analysing six decades of data from 1957 to 2012 for India, find that the growth reduced poverty, and their association has acquired more strength after the 1991 reforms.

- " It was also found that pattern of growth has changed significantly after 1991.Poverty is concentrating more and more in urban areas, as now one-in-three poor is living in urban areas, which was about one-in-eight in the early 1950s.
- "In the post-liberalisation period urban growth and non-agricultural growth has emerged as a major driver of national poverty reduction including rural poverty.

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CHAPTER: 5

Healthcare takes Centre stage, Finally!

Key Concepts & Terms

The Quality and Outcomes Framework (QOF)

- QOF is a system designed to remunerate general practices for providing good quality care to their patients, and to help fund work to further improve the quality of health care delivered.
- It is a system for the performance management and payment of general practitioners (GPs) in the National Health Service (NHS) in England, Wales, Scotland and Northern Ireland.
- It is a fundamental part of the General Medical Services (GMS) Contract, introduced in 2004.

Oligopoly

- An oligopoly is a market form wherein a market or industry is dominated by a small group of large sellers.
- Oligopolies can result from various forms of collusion that reduce market competition which then leads to higher prices for consumers and lower wages for the employees of oligopolies.

Salience bias

- Salience bias refers to the fact that individuals are more likely to focus on items that are more prominent and ignore those that are less so.

Important Data

- Healthcare policy must not become beholden to "saliency bias", where policy overweights a recent phenomenon. To enable India to respond to pandemics, the health infrastructure must be agile.
- As health is a state subject in India, spending on healthcare by states matters the most when examining government healthcare spending. According to National Health Accounts, 2017, 66 per cent of spending on healthcare is done by the states. India ranks 179th out of 189 countries in prioritization accorded to health in its government budgets
- An increase in public spend from 1 per cent to 2.5-3 per cent of GDP – as envisaged in the National Health Policy 2017 – can decrease the Out-of-Pocket Expenditure (OOPE) from 65 per cent to 30 per cent of overall healthcare spend.
- 71 per cent of global deaths and about 65 per cent of deaths in India are caused by non-communicable diseases (NCDs). Between 1990 and 2016, the contribution of NCDs increased 37 per cent to 61 per cent of all deaths.

- At 3-4 per cent, the hospitalisation rates in India are among the lowest in the world; the average for middle income countries is 8-9 per cent and 13-17 per cent for OECD countries.
- However, in recent times, the percentage of the poorest utilising prenatal care through public facilities has increased from 19.9 per cent to 24.7 per cent from 2004 to 2018, and there is a similar increase in the percentage of the poor accessing institutional delivery as well as post-natal care.
- The poorest utilising inpatient care and outpatient care has increased from 12.7 per cent to 18.5 per cent and from 15.6 per cent to 18.3 per cent. Therefore in conjunction with Ayushman Bharat, the emphasis on NHM should continue.

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CHAPTER: 6

Process Reforms: Enabling Decision-making under uncertainty

Key Concepts & Terms

- **Liquidation** - It is the process of bringing a business to an end and distributing its assets to claimants. It is an event that usually occurs when a company is insolvent, meaning it cannot pay its obligations when they are due.

Important Data

- It is not possible to have complete regulations in a world which has uncertainty as it is not possible to account for all possible outcomes. The evidence, however, shows that India over-regulates the economy. This results in regulations being ineffective even with relatively good compliance with process.
- Root cause of the problem of overregulation is an approach that attempts to account for every possible outcome.
- The attempt to reduce discretion by having ever more complex regulations, however, results in even more non-transparent discretion. The solution is to simplify regulations and invest in greater supervision which, by definition, implies willingness to allow some discretion.
- Discretion, however, needs to be balanced with transparency, systems of ex-ante accountability and ex-post resolution mechanisms. The experience with GeM portal for public procurement illustrates how transparency not only reduces purchase prices but also provides the honest decision maker with a clean process

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CHAPTER: 7

Regulatory Forbearance: An Emergency Medicine, Not Staple Diet

Key Concepts & Terms

- **Asset Quality Review:** Special inspection, conducted in 2015-16, by RBI of selected banks' balance sheets in random to check the genuine nature of bank assets.
- **Interest Coverage Ratio:** It measures how many times a company can cover its current interest payment with its available earnings. The interest coverage ratio is used to determine how easily a company can pay its interest expenses on outstanding debt.
- **Capital Adequacy Ratio:** It is also known as Capital-to-Risk-weighted-Asset Ratio (CRAR). It is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. It is used to protect depositors and promote the stability and efficiency of financial systems around the world.

Important Data

- During the Global Financial Crisis, forbearance helped borrowers' tide over temporary hardship caused due to the crisis and helped prevent a large contagion.
- Forbearance represents emergency medicine that should be discontinued at the first opportunity.
- Given the problem of asymmetric information between the regulator and the banks, which gets accentuated during the forbearance regime, an Asset Quality Review exercise must be conducted immediately after the forbearance is withdrawn.
- The legal infrastructure for the recovery of loans needs to be strengthened de facto.

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CHAPTER: 8

Innovation: Trending Up but needs thrust, especially from the Private Sector

Key Concepts & Terms

- **Global Innovation Index:** The GII is co-published by Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO), a specialized agency of the United Nations.
- **Domestic market scale:** Sum of gross domestic product plus value of imports of goods and services, minus value of exports of goods and services, normalized on a 1-7 (best) scale.
- **Market capitalisation:** the value of a company that is traded on the stock market, calculated by multiplying the total number of shares by the present share price.
- **Gross domestic expenditure on R&D (GERD):** It is the total intramural expenditure on research and development performed on the national territory during a given period. It includes R&D performed within a country and funded from abroad but excludes payments for R&D performed abroad.
- **Solow model:** The Solow Growth Model is an exogenous model of economic growth that analyzes changes in the level of output in an economy over time as a result of changes in the population. With their target market's traits, companies can build a profile for their customer base.
- **Endogenous growth:** Endogenous growth theory is an economic theory which argues that economic growth is generated from within a system as a direct result of internal processes. More specifically, the theory notes that the enhancement of a nation's human capital will lead to economic growth by means of the development of new forms of technology and efficient and effective means of production.

Important Data

- India ranks 48th amongst 131 countries in terms of its innovation performance as measured using the Global Innovation Index (GII) 2020.
- GII, which is further sub-divided into the innovation output sub-index and innovation input sub-index. India ranks 45th and 57th on the output and input sub-indices respectively. India entered the top 50 innovating countries for the first time since the inception of the index in 2007. Along with three other economies – Vietnam, Republic of Moldova and Kenya, India has the rare distinction of being an innovation achiever for ten consecutive years.
- India's performance in innovation outputs is driven by its competencies. India ranks tenth in the Knowledge Diffusion sub-pillar of the KTO pillar. India's first rank in the Information and Communications Technology (ICT) services exports as per cent of total trade shows its leadership in the global ICT services industry.
- India ranks ninth in terms of productivity growth (growth rate of GDP PPP per worker). It is ranked 21st for citable documents as well as cultural and creative services exports. India has the distinction of ranking 31st in global brand value by producing many more valuable brands than expected for its income level.

- India has consistently improved on GII from rank 81 in 2015 to rank 48 in 2020. While India has performed impressively, there is scope for much more improvement. To put things into perspective, China has improved its rank from 29 to 14 during the same period. China embarked on an ambitious R&D roadmap to become an innovation-oriented economy.
- Indian residents' share in total patents filed in the country stands at 36 per cent. This lags behind the average of 62 per cent in other largest economies. Resident share in patent applications must rise for India to become an innovative nation.

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CHAPTER: 9

JAY Ho: Ayushman Bharat's Jan ArogyaYojana (JAY) and Health Outcomes

Key Concepts & Terms

- **Socio-Economic Caste Census-** SECC-2011 is a study of socio economic status of rural and urban households and allows ranking of households based on predefined parameters
- **Mortality rate: Mortality rate** or **death rate** is a measure of the number of deaths in a particular population, scaled to the size of that population, per unit of time.
- **Postnatal care:** *Postnatal care* (PNC) is the care given to the mother and her newborn baby.

Important Data

- PM-JAY enhanced health insurance coverage. The proportion of households that had health insurance increased in Bihar, Assam and Sikkim from 2015-16 to 2019-20 by 89 per cent while it decreased by 12 per cent over the same period in West Bengal. Across all the states, the proportion of households with health insurance increased by 54 per cent for the states that implemented PM-JAY while falling by 10 per cent in states that did not.
- From 2015-16 to 2019-20, infant mortality rates declined by 12 per cent for states that did not adopt PM-JAY and by 20 per cent for the states that adopted it. Similarly, while states that did not adopt PM-JAY saw a fall of 14 per cent in its Under-5 mortality rate, the states that adopted it witnessed a 19 per cent reduction.
- While states that did not adopt PM-JAY witness 15 per cent decline in unmet need for spacing between consecutive kids, the states that adopted it recorded a 31 per cent fall. Various metrics for mother and child care improved more in the states that adopted PM-JAY as compared to those who did not. Each of these health effects manifested similarly when we compare Bihar, Assam and Sikkim that implemented PM-JAY versus West Bengal that did not.
- While some of these effects stemmed directly from enhanced care enabled by insurance coverage, others represent spillover effects due to the same. Overall, the comparison reflects significant improvements in several health outcomes in states that implemented PM-JAY versus those that did not. As the difference-in-difference analysis controls for confounding factors, the Survey infers that PM-JAY has a positive impact on health outcomes.

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CHAPTER: 10

Bare Necessities Index

Key Concepts & Terms

- **Bare necessities:** It refers to "basic needs" approach to economic development which focuses on the minimum specified quantities of basic necessities such as food, clothing, shelter, water and sanitation that are necessary to prevent ill health, and undernourishment.
- **ODF+ and ODF++** are aimed towards proper maintenance of toilet facilities and safe collection, conveyance, treatment/disposal of all faecal sludge and sewage.
  - ODF+ focuses on toilets with water, maintenance and hygiene
  - ODF++ focuses on toilets with sludge and septage management.
- **Regional disparities:** Regional imbalances or disparities mean wide differences in per capita income, literacy. rates, health and education services, levels of industrialization, etc. between different regions. Regions may be either States or regions within a State.

Important Data

- Compared to 2012, access to "the bare necessities" has improved across all States in the country in 2018. Access to bare necessities is the highest in the States such as Kerala, Punjab, Haryana and Gujarat while it is the lowest in Odisha, Jharkhand, West Bengal and Tripura.
- Using data from the National Family Health Surveys, we correlate the BNI in 2012 and 2018 with infant mortality and under-5 mortality rate in 2015-16 and 2019-20 respectively and find that the improved access to "the bare necessities" has led to improvements in health indicators.
- Similarly, improved access to "the bare necessities" correlates with future improvements in education indicators

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Contents (Vol - 2)

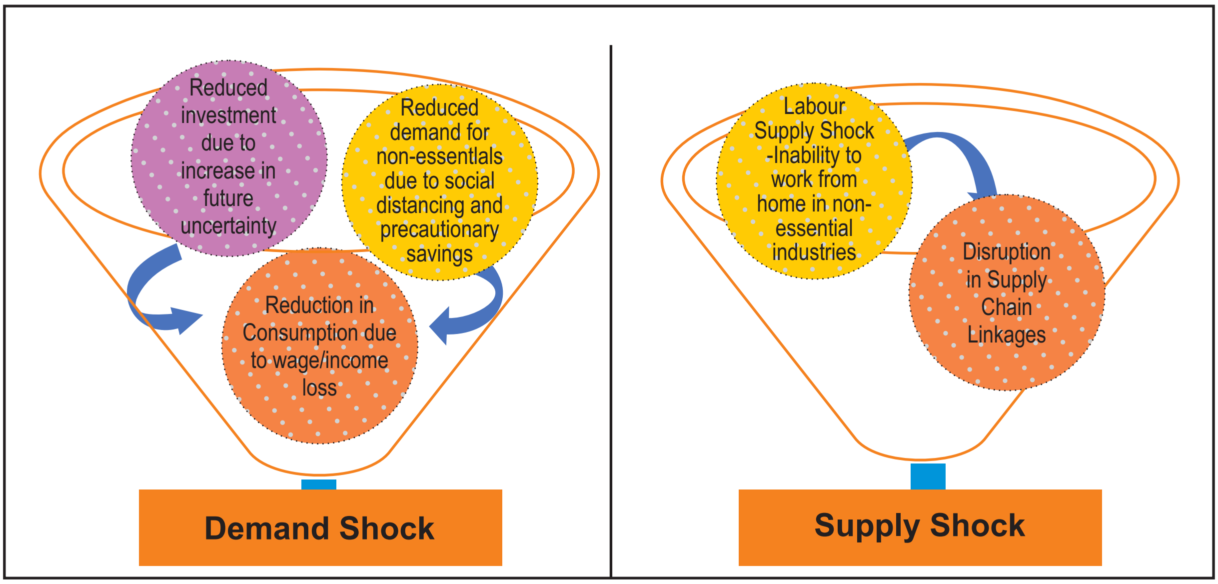
CHAPTER: 1

State of the Economy 2020-21 A Macro View

Key Concepts & Terms

- **E-WAY BILLS: EWay Bill** is an **Electronic Way bill** for movement of goods to be generated on the **eWay Bill** Portal.
- **Inflation**: **Inflation** is the decline of purchasing power of a given currency over time.
- **e-NAM:**National Agriculture Market (**eNAM**) is a pan-India electronic trading portal which networks the existing APMC mandis to create a unified national market.

Important Data



- The Indian economy, after subdued growth in 2019, had begun to regain momentum January 2020 onwards, only to be stalled by the once-in-a-century black swan COVID-19 outbreak. The economy witnessed a sharp contraction of 23.9 per cent in Q1: FY 2020-21 and 7.5 per cent in Q2: FY 2020-21 due to the stringent lockdown imposed during March-April, 2020.
- The year also saw manufacturing sector's resilience, rural demand cushioning overall economic activity and structural consumption shifts in booming digital transactions.

- COVID-19 put emergency brake on an economy that was gaining momentum at the start of the year 2020. India's GDP is estimated to grow by (-)7.7 per cent in FY2021, composed of a sharp 15.7 per cent decline in H1 and a modest (-)0.1 per cent fall in the second half.
- Inflation, mainly driven by food prices, remained above 6 per cent for much of the year, given supply disruptions. The softening of CPI inflation recently reflects easing of supply side constraints that affected food inflation.
- Sharp rise in commercial paper issuances, easing yields, and sturdy credit growth to MSMEs, portend a revamped credit flow mechanism for enterprises to survive and grow.

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CHAPTER: 2

Fiscal Developments

Key Concepts & Terms

- **Countercyclical Fiscal Policy:** Cyclicality of the fiscal policy simply refers to a change in direction of government expenditure and taxes based on economic conditions. These pertain to decisions by policymakers based on the fluctuations in economic growth.
- **Revenue Deficit:** If the balance of total revenue receipts and total revenue expenditures turns out to be negative it is known as revenue deficit.
- **Effective Revenue Deficit:** Effective revenue deficit (ERD) is a new term introduced in the Union Budget 2011–12. Revenue Expenditures includes all the grants which the Union Government gives to the state governments and the UTs—some of which create assets. ERD is the RD 'excluding' those revenue expenditures of the Government of India which were done in the form of GoCA (grants for creation of capital assets).
- **Fiscal Deficit:** Fiscal deficit is the difference between the government's total expenditure and its total receipts excluding borrowing.
- **Primary Deficit:** It is simply the fiscal deficit minus the interest payments.
- **Revenue Receipts:**These are those receipts which neither create any liability nor cause any reduction in the assets of the government.
- **Capital Receipts:** These are receipts that create liabilities or reduce financial assets.
- **Non-debt Capital Receipts:** Non-debt receipts are those which do not incur any future repayment burden for the government.
- **Non-Tax Revenue:** Non-Tax revenue comprises mainly of interest receipts on loans to States and Union Territories, dividends and profits from Public Sector Enterprises including surplus of Reserve Bank of India (RBI) transferred to Government of India, receipts from services provided by the Central Government and external grants.

Important Data

- India's GDP is estimated to contract by 7.7 % in FY2020-21, composed of a sharp 15.7 % decline in first half and a modest 0.1 per cent fall in the second half.
- Sector-wise, agriculture has remained the silver lining while contact-based services, manufacturing, construction were hit hardest, and have been recovering steadily.

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CHAPTER: 3

External Sector

Key Concepts & Terms

- **Balance of Payment -** The balance of payments (BOP) is a statement of all transactions made between entities in one country and the rest of the world over a defined period of time, such as a quarter or a year.
- **External debt -** External debt is the part of a country's total debt that was borrowed from foreign lenders, including commercial banks, governments or international financial institutions.
- **Foreign exchange reserve -** Foreign exchange reserves are the foreign currencies held by a country's central bank.
- **Current Account Deficit -** Current Account Deficit (or Surplus) measures the gap between the money received into and sent out of the country on the trade of goods and services.

Important Data

- COVID-19 pandemic led to a sharp decline in global trade, lower commodity prices and tighter external financing conditions with implications for current account balances and currencies of different countries
- India's forex reserves at an all-time high of US$ 586.1 billion as on January 08, 2021. Balance on the capital account, was buttressed by robust FDI and FPI inflows. Various initiatives undertaken to promote exports, including Production Linked Incentive (PLI) Scheme, Remission of Duties and Taxes on Exported Products (RoDTEP), improvement in logistics infrastructure and digital initiatives would go a long way in strengthening external sector in general and exports in particular
- Merchandise exports contracted by 15.7% from US$ 238.3 billion.
- Resilience of the services sector was primarily driven by software services, which accounted for 49% of total services exports.
- Trade balance with China and the US improved as imports slowed. Net private transfer receipts, mainly representing remittances by Indians employed overseas, declined by 6.7%.

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CHAPTER: 4

Monetary Management and Financial Intermediation

Key Concepts & Terms

- **Long Term Repo Operations (LTROs):** The LTRO is a tool under which the central bank provides one-year to three-year money to banks at the prevailing repo rate, accepting government securities with matching or higher tenure as the collateral.
- **G-sec yield:** Government bonds (referred to as Gsecs in India, Treasury in the US, and Gilts in the UK) come with the sovereign's guarantee and are considered one of the safest investments.
- **Capital to risk-weighted asset ratio (CRAR):** CRAR is decided by central banks and bank regulators to prevent commercial banks from taking excess leverage and becoming insolvent in the process. The higher the CRAR of a bank the better capitalized it is against the risk.
- **Monetary Policy Transmission:** It is essentially the process through which the policy action of the central bank is transmitted to the ultimate objective of stable inflation and growth.
- **Bilateral Netting:** A bilateral netting agreement enables two counterparties in a financial contract to offset claims against each other to determine a single net payment obligation due from one counterparty to the other.

Important Data

- Systemic liquidity in FY2020-21 has remained in surplus so far. RBI undertook various conventional and unconventional measures like Open Market Operations, Long Term
- Repo Operations, Targeted Long Term Repo Operations. Gross Non-Performing Assets ratio of Scheduled Commercial Banks (SCBs) decreased from 8.21% at end-March, 2020 to 7.49% at end-September, 2020.
- Recovery rate for SCBs through Insolvency Bankruptcy Code (since its inception) has been over 45%

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CHAPTER: 5

Prices and Inflation

Key Concepts & Terms

- **Consumer price index -** The CPI tracks the change in retail prices of goods and services, which households purchase for their daily consumption.To measure inflation, we estimate how much CPI has increased in terms of percentage change over the same period the previous year.
  - To calculate CPI, multiply 100 to the fraction of the cost price of the current period and the base period.
  - CPI formula: (Price of basket in current period / Price of basket in base period) x 100
- **Wholesale Price Index -** A wholesale price index (WPI) is an index that measures and tracks the changes in the price of goods in the stages before the retail level. This refers to goods that are sold in bulk and traded between entities or businesses (instead of between consumers).
- Inflation is the decline of purchasing power of a given currency over time. A quantitative estimate of the rate at which the decline in purchasing power occurs can be reflected in the increase of an average price level of a basket of selected goods and services in an economy over some period.
- **Deflation -** Deflation is a fall in the overall level of prices in an economy and an increase in the purchasing power of the currency. It can be driven by an increase in productivity and the abundance of goods and services, by a decrease in total or aggregate demand, or by a decrease in the supply of money and credit.

Important Data

- Rural-urban difference in CPI inflation saw a decline in 2020.
- Gold Prices saw a sharp spike as investors turned to gold as a safe haven investment amid COVID-19 induced economic uncertainties.

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CHAPTER: 6

Sustainable Development and Climate Change

Key Concepts & Terms

- **Energy Conservation Building Code**: ECBC was developed as per one of the mandates of Bureau of Energy Efficiency under the Energy Conservation Act, 2001; which empowers the Central Government to define norms and standards of energy consumption.
- **Warsaw International Mechanism**: The COP established the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts (Loss and Damage Mechanism), to address loss and damage associated with impacts of climate change.
- **Green Bonds:**A *green bond* is a fixed-income instrument designed specifically to support specific climate-related or environmental projects. The World Bank issued the first official green bond in 2009.
- **KUSUM:** Ministry of New and Renewable Energy (MNRE) has launched the Pradhan Mantri Kisan Urja Surakshaevem Utthan Mahabhiyan (PM KUSUM) Scheme for farmers for installation of solar pumps and grid connected solar and other renewable power plants in the country.

Important Data

- India has been taking several proactive climate actions to fulfil its obligations as per the principles of common but differentiated responsibilities and respective capabilities and equity. The NDC submitted by the country has been formulated keeping in mind the developmental imperatives of the country and is on a “best effort basis”. In its NDC, India has sought to reduce the emissions intensity of its GDP by 33 to 35 per cent below 2005 levels by the year 2030; achieve 40 per cent of cumulative electric power installed capacity from non-fossil fuel sources by 2030; and enhance forest and tree cover to create additional carbon sink equivalent to 2.5 to 3 billion tons of carbon dioxide by 2030.

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CHAPTER: 7

Agriculture and Food Management

Key Concepts & Terms

- **Minimum support price (MSP):** MSP is a "minimum price" for any crop that the government considers as remunerative for farmers and hence deserving of "support". The MSP is fixed twice a year on the recommendations of the Commission for Agricultural Costs and Prices (CACP), which is a statutory body and submits separate reports recommending prices for kharif and rabi seasons.
- **Public distribution system**: It is a government-sponsored chain of shops entrusted with the work of distributing basic food and non-food commodities to the needy sections of the society at very cheap prices.
  - Wheat, rice, kerosene, sugar, etc. are a few major commodities distributed by the public distribution system.
  - Food Corporation of India, a government entity, manages the public distribution system.

Important Data

- As per the provisional estimates of national income released by CSO on 29th May, 2020, the share of agriculture and allied sectors in Gross Value Added (GVA) of the country at current prices is 17.8 per cent for the year 2019-20.
- Consequent upon budget announcement on inclusion of livestock sector in Kisan Credit Card in February 2020, 1.5 crores dairy farmers of milk cooperatives and milk producer companies'were targeted to provide Kisan Credit Cards(KCC) as part of Prime Minister's Atma Nirbhar Bharat Package.
- The PMFBY covers over 5.5 crore farmer applications year on year. As on 12th January, 2021, claims worth ` 90,000 crores have already been paid out under the Scheme
- In the Agriculture year 2019-20 (as per Fourth Advance Estimates), total food grain production in the country is estimated at record 296.65 million tonnes which is higher by 11.44 million tonnes than the production of food grain of 285.21 million tonnes achieved during 2018-19.
- Under the Pradhan Mantri Garib Kalyan Anna Yojana, 80.96 crores beneficiaries were provided additional foodgrains.
- Pradhan Mantri Fasal Bima Yojana covers over 5.5 crore farmer applications year on year. Fish production reached an all-time high of 14.16 million metric tons during 2019-20.
- Agricultural (and Allied Activities) sector has shown its resilience amid COVID-19 with a growth of 3.4% at constant prices during 2020-21.

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CHAPTER: 8

Industry and Infrastructure

Key Concepts & Terms

- **Gross Value Added:** Gross value added, is defined as the value of output minus the value of intermediate consumption and is a measure of the contribution to GDP made by an individual producer, industry or sector. At its simplest it gives the rupee value of goods and services produced in the economy after deducting the cost of inputs and raw materials used.
- **Energy intensity:** Energy intensity is defined as the quantity of energy required to produce a unit of output. Therefore, lower the energy intensity better it is.
- **Eight core industries:** The eight core industries include coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity. These are called core industries because of their likely impact on general economic activity as well as other industrial activity.
- **Index of Industrial Production (IIP):** The Index of Industrial Production (IIP) is an index which shows the growth rates in different industry groups of the economy in a stipulated period of time. The IIP index is computed and published by the Central Statistical Organisation (CSO) on a monthly basis.

Important Data

- A strong V-shaped recovery of economic activity further confirmed in the Index of Industrial Production data or IIP.
- India's rank in the Ease of Doing Business (EoDB) Index for 2019 has moved upwards to the 63rd position in 2020 from 77th in 2018 as per the Doing Business Report (DBR)
- During FY20, total FDI equity inflows were US$49.98 billion as compared to US$44.37 billion during FY19.
- The bulk of FDI equity flow is in the non-manufacturing sector leading to a reduction in the share of manufacturing in the FDI flows.

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CHAPTER: 9

Services

Key Concepts & Terms

- **V-shaped recovery:** V-shaped recovery is a type of economic recession and recovery that resembles a "V" shape in charting.
  - Specifically, a V-shaped recovery represents the shape of a chart of economic measures economists create when examining recessions and recoveries.
  - A V-shaped recovery involves a sharp rise back to a previous peak after a sharp decline in these metrics.
- **Gross value added (GVA):** GVA is the output of the country less the intermediate consumption, which is the difference between gross output and net output. It is important because it is used to adjust GDP, which is a key indicator of the state of a nation's total economy.
- **Business Process Management (BPM):** BPM is the discipline in which people use various methods to discover, model, analyze, measure, improve, optimize, and automate business processes. Any combination of methods used to manage a company's business processes is BPM.

Important Data

- The services sector accounts for over 54 % of India's GVA and nearly four-fifths of total FDI inflow into India
- Services sector accounts for 48% of total exports, outperforming goods exports in the recent years
- India's space sector has grown exponentially in the past six decades.

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CHAPTER: 10

Social Infrastructure, Employment and Human Development

Key Concepts & Terms

- **Periodic Labour Force Survey:** PLFS is India's first computer-based survey which gives estimates of key employment and unemployment indicators like the labour force participation rate, worker population ratio, proportion unemployed and unemployment rate in rural households annually and on a quarterly basis for the urban households.
- **Labour Force participation Rate:** It is defined as the section of working population in the age group of 16-64 in the economy currently employed or seeking employment.

Important Data

- Expenditure on social services (education, health and other social sectors) by Centre and States combined as a proportion of GDP increased from 6.2 to 8.8 per cent during the period 2014-15 to 2020-21 (BE).
- NFHS-5 (Phase-I), results show improvement in immunization coverage for children, institutional birth, infant mortality rate and under-five mortality rate in most of the selected States.
- India's rank in HDI 2019 was recorded 131 compared to 129 in 2018, out of a total 189 countries. By looking at the sub-component wise performance of HDI indicators, India's "GNI per capita (2017 PPP $)" has increased from US$ 6,427 in 2018 to US$ 6,681 in 2019, and "life expectancy at birth" has improved from 69.4 to 69.7 year, respectively, mean and expected years of schooling remained unchanged.
- Females spending disproportionately more time on unpaid domestic and care giving services to household members as compared to their male counterparts (Time Use Survey, 2019)

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