*For the Year July 1, 2016 to June 30, 2017**

PART ONE: THE ECONOMY - REVIEW AND PROSPECTS

I ASSESSMENT AND PROSPECTS

I.1 Headwinds from the global slowdown and the transient impact of demonetisation notwithstanding, the Indian economy demonstrated resilience in 2016-17, marked by moderate expansion and macroeconomic stability - low inflation, and improvement in current account and fiscal deficits. Financial markets priced in global and domestic shocks and volatility ebbed, with excess liquidity conditions induced by demonetisation persisting through the second half of the year. In this *milieu*, the outlook for growth in 2017-18 has brightened, with the likelihood of another favourable monsoon and the implementation of major policy reforms – led by the introduction of the Goods and Services Tax (GST) from July 1, 2017 - that would help to unlock bottlenecks to growth. The likely normal southwest monsoon for the second successive year is expected to boost rural demand besides keeping a check on food inflation. Urban consumption too is expected to remain buoyant, following the upward revision in the house rent allowance (HRA) to central government employees as also the likely implementation of the 7th Central Pay Commission (CPC) award at the state level. With further progress in implementing policy reforms that ease doing business, India may continue to be a preferred destination for foreign direct investment (FDI). Improvement in external vulnerability indicators and fiscal credibility should boost business and investment sentiment. The sluggish growth of industry and fixed capital formation, however, remain areas which warrant priority in policy attention. The progress in resolving the highly indebted corporates and improving the financial health of public sector banks (PSBs) is critical for restarting credit flows to the productive sectors, apart from reviving the investment climate, in general. The attainment of the inflation target under the new monetary policy framework should strengthen the transparency, credibility and effectiveness of monetary policy, which would anchor the progress of reforms going forward.

ASSESSMENT: 2016-17

I.2 In 2016-17, Gross Domestic Product (GDP) growth moderated due to slowdown in gross capital formation as waning business confidence and flagging entrepreneurial energies took their toll on the appetite for new investment. On the other hand, both government and private consumption accelerated and held up aggregate demand. While the turnaround in the growth of agriculture paved the way for a pick-up in rural demand, urban demand remained resilient due to

* While the Reserve Bank of India's accounting year is July-June, data on a number of variables are available on a financial year basis, *i.e.*, April-March, and hence, the data are analysed on the basis of the financial year. Where available, the data have been updated beyond March 2017. For the purpose of analysis and for providing proper perspective on policies, reference to past years as also prospective periods, wherever necessary, has been made in this Report.

hikes in salary, wages and pensions of the central government employees. There has also been an improvement in households' financial savings, post demonetisation.

I.3 On the production side, agriculture and allied activities rebounded sharply in 2016-17. Record foodgrains and horticulture production, facilitated by the normal monsoon as well as considerable hike in pulses' Minimum Support Prices (MSPs), augmented the sector's growth during the year. On the other hand, deceleration in services Gross Value Added (GVA) across all sub-sectors barring public administration, defence and other services (PADO), moderated the overall GVA growth. The slowdown was pronounced in H2 as construction and real estate sectors, which relied to a large extent on cash transactions, were severely impacted following demonetisation. The growth in industrial GVA also decelerated from a year ago, dragged down by a slowdown in manufacturing and mining, even though electricity generation accelerated. On the use-based front, consumer non-durables posted the highest growth across sectors while consumer durables decelerated significantly. Industrial output seemed to have been impacted, *albeit* transiently, by demonetisation as IIP growth during November 2016 to March 2017 was 2.6 percentage points lower than in the pre-demonetisation period (April – October 2016).

I.4 As the infrastructure sector is widely perceived to hold the key to revival of growth, top priority was accorded to addressing environmental clearances, land acquisition issues and other structural bottlenecks associated with project implementation, which led to a reduction in the number of stalled projects and cost overruns in central sector infrastructure projects during 2016-17. During the year, there was the highest ever awarding and construction of national highway projects. The resolution of stalled projects, development of roads under *Bharat Mala* project, steps taken to streamline land acquisition, *inter alia,* helped to speed up road construction. Capacity addition in major ports was also the highest ever in a single year with improvement in total turn-around time[1] and average output per ship berth day[2]. In respect of the power sector, the shortfall in meeting total energy requirements bottomed out during the year. In addition, India turned around from a net importer to a net exporter of electricity for the first time. Concomitant to the impetus for cleaner energy, the renewable energy sector surpassed thermal power in annual capacity addition, also for the first time. This apart, increased capacity addition in solar energy and enhanced private sector interest, coupled with the availability of cheaper voltaic cells, resulted in historically low solar tariffs in recent reverse auctions. Moreover, almost all state governments joined the *Ujwal DISCOM Assurance Yojana* (UDAY) scheme during the year, strengthening prospects for financial turnaround of distribution companies (DISCOMs) on a macro scale, going forward. Amidst these positive developments, capacity utilisation in thermal power plants continued to decline for the seventh year in succession, weighed down by the stressed health of power DISCOMs and lower energy

[1] Turn-Around Time – Total time spent by a ship since its entry till its departure. It was 3.43 days on an average in 2016-17 as against 3.64 days during the previous year.

[2] Output per ship berth day – Total tonnage handled/distributed over total number of berth days. It was 14,576 tonnes in 2016-17 as against 13,748 tonnes during the previous year.

demand. Similarly, the pace of capital investment in railways slackened even as electrification of railway lines and commissioning of broad gauge lines moderated.

I.5 Inflation picked up during the first four months of 2016-17 driven by an upsurge in food prices, outweighing favourable base effects. With the monsoon gaining momentum, however, inflation reversed into a declining trajectory beginning August 2016, which got accentuated by falling food prices, especially those of vegetables, in the wake of demonetisation in November 2016. Rapid disinflation in the food group drove down headline inflation month after month - barring February and March - to a low of 1.5 per cent in June 2017. Eventually, the year 2016-17 ended up with a subdued inflation of 3.6 per cent in Q4, undershooting the Bank's projection of 5.0 per cent.

I.6 The asset quality of the banking sector continued to be a concern during 2016-17. In the aftermath of the asset quality review (AQR) undertaken by the Reserve Bank beginning July 2015 and concomitantly with better recognition of non-performing assets (NPAs), the asset quality of banks, particularly the PSBs, deteriorated sharply. As of end-March 2017, 12.1 per cent of the advances of the banking system were stressed (sum of gross NPAs and restructured standard advances). A sharp increase in provisioning for NPAs adversely impacted the profitability of banks, with the PSBs as a whole continuing to incur net losses during 2016-17. The capital position of many banks also witnessed erosion even though the capital to risk-weighted assets ratio (CRAR) for the banking system as a whole marginally increased and continued to be above the regulatory minimum under the Basel III framework. The large amount of bad loans circumscribed the ability of banks to lend, as reflected in the declining credit growth in recent years. Large NPAs also led to risk aversion on the part of banks as apprehensions of loans turning into NPAs intensified. Furthermore, banks engaged in diversifying their credit portfolios, reducing their exposure from large industries and shifting towards the relatively less stressed categories of housing, personal loans and services.

I.7 As the banking sector struggled with the sizeable volume of NPAs, the Reserve Bank continued its efforts to fortify the regulatory framework through significant policy interventions for improving the banking system's ability to deal with distress. Pursuant to the promulgation of the Banking Regulation (Amendment) Ordinance, 2017, the Reserve Bank constituted an Internal Advisory Committee (IAC) to recommend cases that might be considered for reference under the Insolvency and Bankruptcy Code (IBC), 2016. On the recommendation of the IAC, the Reserve Bank directed banks to file proceedings under the IBC in respect of 12 accounts comprising about 25 per cent of the current gross NPAs of the banking system. The Reserve Bank also brought the Overseeing Committee under its aegis and strengthened it by adding three more members and by expanding its mandate to review the resolution of cases other than those under the Scheme for Sustainable Structuring of Stressed Assets (S4A scheme). Final guidelines on large exposures framework and enhancing credit supply for large borrowers through market mechanism were also issued in order to align the exposure norms for Indian banks with the Basel Committee on Banking Supervision (BCBS) standards and to further diversify the lending base of banks.

I.8 Apart from slowdown in credit, one-off factors like demonetisation and the redemption of

Foreign Currency Non-Resident (Bank) (FCNR(B)) deposits impacted the behaviour of monetary aggregates during the year. Predominantly driven down by the compression in currency in circulation, reserve money contracted during the year while the growth of money supply moderated, despite the surge in deposits. Besides demonetisation, intra-year spikes in deposits growth were caused by mobilisation under the Income Declaration Scheme (IDS) and arrears of the 7th CPC to central government employees. The surge in deposits led to excess liquidity in the banking system which was absorbed through an array of liquidity management measures, *viz.,* reverse repo under the Liquidity Adjustment Facility (LAF), incremental Cash Reserve Ratio (CRR), and issuance of Cash Management Bills (CMBs) under the Market Stabilisation Scheme (MSS). Credit growth touched a low in more than two decades on account of factors such as subdued state of economic activity, risk aversion of the banking sector, capital adequacy requirements, loan write-offs, substitution of bank credit by UDAY bonds, loan repayment by use of specified bank notes (SBNs) and banks' pre-occupation with exchange of notes and deposits following demonetisation. As the pace of remonetisation gathered momentum, monetary aggregates started recovering with currency in circulation as of end-June 2017 reaching around 85 per cent of its pre-demonetisation peak.

I.9 The institutional architecture for the conduct of monetary policy underwent a fundamental shift, with the formal transition to a flexible inflation targeting framework and the constitution of a six member monetary policy committee (MPC) for setting the policy rate. These reforms marked the culmination of efforts made since early 2014 to strengthen the transparency, credibility and independence of monetary policy formulation. The conduct of monetary policy during 2016-17 was guided by an inflation objective of 5.0 per cent for Q4 of 2016-17. With inflation, then expected to be below its objective for Q4: 2016-17, the MPC in its resolution of February 8, 2017 emphasised its commitment to the medium-term inflation target of 4 per cent within a band of +/- 2 per cent while supporting growth. Keeping this in view, the stance of monetary policy was changed from accommodative to neutral in February 2017. The inflation objective for Q4: 2016-17 was met with a considerable undershoot on the back of strong disinflation in food items, driven partly by demonetisation.

I.10 Post demonetisation, the pace of monetary transmission from the policy repo rate to banks' lending rates accelerated significantly, aided by the increase in the share of low cost current account and saving account (CASA) deposits in bank funding. However, the transmission to actual lending rates was uneven across sectors, reflecting sector-specific credit risk dynamics. Asset quality concerns also appeared to have constrained the banks from passing on the full benefits of rate cuts. Also, the transmission of past cumulative cuts in the repo rate to lending rates has not propelled a revival in credit growth as banks, especially PSBs, appeared to have turned risk-averse and strapped by large provisioning requirements, as mentioned earlier. As such, private investment activity remained depressed. The recent experience suggests that monetary easing alone may not help in reviving the investment sentiment unless structural factors affecting it are addressed.

I.11 Notwithstanding a deferment of the target of 3.0 per cent gross fiscal deficit to gross domestic product (GFD/GDP) ratio to 2018-19 as announced in the Union Budget 2017-18, adherence of the central government to the fiscal consolidation path in 2016-17 enhanced fiscal credibility, thereby anchoring inflation expectations in the economy. Fiscal consolidation was achieved during 2016-17 through a strategy of revenue augmentation rather than expenditure compression, exemplifying improvement in the quality of public finances. Tax revenues were shored up by collections under the IDS, upward revision or imposition of cess, additional excise duty and pruning of the negative list for services tax. Capital expenditure exceeded the budget estimates even as revenue expenditure was broadly contained within the budgeted level. Consequently, the gross fiscal deficit remained at the budgeted level of 3.5 per cent. In contrast, state finances deteriorated on account of UDAY scheme and revenue shortfalls despite cutbacks in capital outlays.

I.12 During 2016-17, the benchmark Indian equity indices, *viz.*, BSE Sensex and Nifty 50 increased by 16.9 per cent and 18.5 per cent, respectively, as against some contraction in the previous year. The stock market gained on account of optimism over the Union Budget proposals, passage of the GST Bill, favourable monsoon, expectations of steady progress of economic reforms, better macroeconomic data, higher than expected Q3 earnings of companies and huge buying by institutional investors amid positive cues from global equity markets. The Indian equity market had eased temporarily in Q3 owing to several factors such as the US Presidential election outcome, increasing expectations of interest rate hike by the US Fed, withdrawal of legal tender status of SBNs, and foreign portfolio investment (FPI) selling, but recovered in the next quarter.

I.13 India's external sector strengthened during 2016-17 as reflected in a lower current account deficit (CAD), robust FDI inflows, build-up of forex reserves and improvement in other external vulnerability indicators. The trade deficit narrowed with stronger exports and subdued imports and offset the impact of lower net receipts from services exports and remittances, and higher outgo of investment income payments. Net capital flows were in excess of CAD, resulting in an increase in foreign exchange reserves during the year. Following the redemption of FCNR(B) deposits by banks without much disruption in the foreign exchange market, India's external debt turned much lower than its level a year ago. The reduction in the CAD and external debt, and build-up of foreign exchange buffers, fortified the resilience of the external sector in 2016-17.

PROSPECTS: 2017-18

I.14 Global growth is gaining traction in 2017-18 with the recovery, driven primarily by a cyclical upturn in investment, manufacturing and trade. Tailwinds are also expected from the improving performance of emerging markets and developing economies (EMDEs). However, the path and pace of global growth will likely be shaped by structural factors, *viz.*, the inward-looking protectionist policies in advanced economies, low productivity growth and high income inequality impinging on the cyclical upturn. Amid elevated asset prices, financial markets remain vulnerable to systemic factors, including geo-political risks and the pace of normalisation of monetary policy and balance sheets by major central banks. Consequently, external risks to the domestic economy remain.

I.15 Against the backdrop of these external developments, strengthening external demand will likely play a role in supporting the domestic economy. Favourable domestic conditions are mainly expected to enable a quicker pace of overall economic activity during the year. While growth is again expected to be consumption-led, continuing remonetisation should enable a pick-up in discretionary consumer spending, especially in cash-intensive segments of the economy. Government spending continues to be robust, cushioning the impact of a slowdown in other constituents. Furthermore, reductions in bank lending rates post-demonetisation should support investment demand of stress-free corporates. On the downside, global political risks remain elevated. Second, rising input costs may prove a drag on the profitability of firms, pulling down the overall GVA growth. Third, the twin balance sheet problem - over-leveraged corporate sector and stressed banking sector - may delay the revival in private investment demand.

I.16 The expected normal monsoon and the resultant replenishment of reservoirs, policy initiatives of the government such as hike in MSPs and increasing crop insurance coverage are likely to help in boosting crop production and supporting rural demand. The implementation of HRA as per the recommendation of the 7th CPC for central government employees from July 2017 and the possibility of its implementation at the state level should strengthen urban consumption demand. An offsetting impact on aggregate demand could, however, emerge if state governments restrain or scale down capital spending, keeping in view the objective of fiscal consolidation.

I.17 Early indicators for 2017-18 based on IIP and the performance of eight core industries point to subdued industrial activity. The prospects for the manufacturing sector remain uncertain in the short term in view of the implementation of GST. The services sector is, however, expected to perform better during the year. The majority of the high frequency services sector indicators, shows signs of improvement thus far, though some sectors such as commercial vehicles have been adversely affected by external factors like emission norms. Construction and real estate seem to be on the path of recovery as reflected in rebounding of new residential project launches to pre-demonetisation levels. Furthermore, government initiatives such as infrastructure status for affordable housing, improved customer protection and transparency through the real estate regulatory agencies, modified policy norms on real estate investment trusts to address funding issues, and the provision for 75 per cent upfront payment of the arbitral amount by Public Sector Undertakings (PSUs) to builders and contractors, should provide a boost to the housing sector. On the whole, real GVA growth is projected to rise from 6.6 per cent in 2016-17 to 7.3 per cent in 2017-18, with risks evenly balanced.

I.18 Headline inflation remained around 2.2 per cent in the first quarter of 2017-18. In June 2017, inflation declined to a historic low of 1.5 per cent, primarily driven by disinflation in food and large favourable base effects. Excluding food and fuel, inflation eased on account of subdued price pressures in services, particularly transport and communication, reflecting fall in global crude oil prices. With the likely progress of the south-west monsoon, food prices are likely to remain moderate over the ensuing months, consequent upon the dissipation of seasonal price pressures of select vegetables such as tomatoes. Furthermore, in view of the bumper production and record procurement of pulses during 2016-17, inflation in pulses – a major driver of food inflation during 2015-16 and early 2016-17 – is expected to remain muted. Notwithstanding these developments, some uptick in overall food inflation could be expected as unfavourable base effects set in from August 2017. In contrast, the implementation of the GST is not expected to have a material impact on headline inflation in the near term. However, the announcements of farm loan waivers and the implementation of the 7^{th} CPC with the likelihood of adoption at the state level have implications in terms of fiscal slippages with upside pressures to the future trajectory of headline inflation. On the whole, headline inflation is forecast in the range of 2.0-3.5 per cent in the first half of 2017-18 and 3.5-4.5 per cent in the second half.

I.19 The continuing increase in currency in circulation on the back of remonetisation is likely to reduce the magnitude of the liquidity overhang during the course of the year. In this scenario, the Reserve Bank will continue to manage liquidity to ensure that the operating target – weighted average call money rate (WACR) – remains aligned to the policy repo rate. Continuing government initiative towards a full implementation of the formula for adjustment in the interest rates on small savings schemes to changes in yields on government securities of corresponding maturities will further strengthen the transmission of policy rates to bank lending rates, which will help increase credit demand.

I.20 Notwithstanding the rapid remonetisation process, currency demand appears to have attained a new normal (currently around 87 per cent of the pre-demonetisation peak) in view of the sharp increase in electronic modes of payments since demonetisation. Indeed, year-on-year growth rates of the total volume of retail electronic payments, that had averaged around 37 per cent during April to October 2016, shot up to nearly 70 per cent in November and then further to as much as 123 per cent in December 2016; in subsequent months, the growth rates have moderated but remain high. There appears to be a structural break in the volume and value of retail electronic payments, coinciding with the onset of demonetisation and the special measures put in place to promote digital payments. Going forward, the Reserve Bank would continue its efforts towards migrating to a less-cash economy while ensuring safety and enhancing the efficiency of the payments system.

I.21 In the fiscal sphere, while the gains to growth, efficiency and tax buoyancy over the medium term from the recent implementation of GST are unequivocally recognised, near-term uncertainties with regard to revenue mobilisation therefrom – which could impact fiscal consolidation at both centre and state levels – cannot be ruled out as this fundamental reform gains pan-India traction. Additionally, state government finances are likely to face several challenges during 2017-18. First, the announcement of farm loan waivers by four state governments (so far in 2017-18) and the potential announcement by several others pose a major fiscal risk over the medium term. Besides impacting credit discipline, vitiating credit culture and dis-incentivising borrowers from repayment, they may have a destabilising impact on yields of state development loans (SDL), thereby posing a higher interest burden for the states in future. Concomitantly, ratchet effects can firm up the general level of interest rates and crowd out private borrowers. Second, the committed liabilities of states may increase in case they decide to implement the recommendations of their own pay commissions in 2017-18. Third, the existing high level of state government guarantees constitutes a major fiscal risk. Fourth, the interest liabilities of states that have participated in financial restructuring of DISCOMs (through UDAY) would increase in the years ahead. Fifth, many states (particularly the fiscally prudent ones), which were earlier refraining from seeking additional funds through market borrowing, may now borrow as per the flexibility provided by the Fourteenth Finance Commission.

I.22 Thus, even as the central government makes significant efforts toward fiscal consolidation, the higher debt burden of the states could push up general government debt. Keeping in view the recommendation of the FRBM Review Committee (Chairman: Shri N. K. Singh) that a sustainable debt path – consisting of a debt-GDP ratio of 40 per cent for the central government and 20 per cent for state governments by 2022-23 – must be the principal macro-economic anchor of fiscal policy, the states too will need to tread the fiscal path with caution to reach this benchmark.

I.23 In the external sector, a slump in export growth and an increase in imports widened the trade deficit to US$ 40 billion in Q1 of 2017-18, the highest since Q2 of 2013-14. The evolution of terms of trade is likely to be largely shaped by the outlook for oil production in the US and compliance with the extended production cuts announced by the Organisation of the Petroleum Exporting Countries (OPEC). Even though the outlook among major trade partner economies entails a modest expansion, increasing recourse to protectionist measures in advanced economies could impose a challenging business environment for exports. The global economic environment is prone to other downside risks such as high policy uncertainty in advanced economies and the possibility of financial market disruptions due to faster normalisation of monetary policy by advanced economies. Nevertheless, the CAD is expected to be comfortably financed by stable capital inflows as FDI may remain strong with further progress in the ease of doing business and simplification of procedures in recent years. Foreign portfolio flows, on the other hand, remain vulnerable to bouts of global risk aversion. However, an optimistic growth outlook, pro-reform measures and augmented level of reserves are expected to mitigate the negative spillovers of global market disruptions.

I.24 In the banking arena, the actions of the central government authorising the Reserve Bank to direct banking companies to resolve specific stressed assets by initiating insolvency resolution process are expected to significantly improve the resolution of stressed assets, particularly in consortium or multiple banking arrangements. The corporate insolvency resolution process, liquidation and cross-border insolvency under the IBC, 2016 and the establishment of the Insolvency and Bankruptcy Board of India (IBBI) will help in reorganisation and resolution of corporates and individuals in a time-bound manner. The proposal of the Union Budget 2017-18 to introduce a bill relating to resolution of financial firms is expected to improve the resilience and stability of the financial system through speedy and efficient resolution of financial firms in distress, and also help address the moral hazard problem associated with explicit and implicit government guarantees.

I.25 The prescription of stringent penalties by the Reserve Bank for breaching the risk thresholds under the revised Prompt Corrective Action (PCA) framework - restrictions on dividend payments, remittance of profits and branch expansion; higher provisions; and restriction on management compensation are expected to help restore the health of banks currently under PCA. The Reserve Bank's instructions to banks to put in place a Board-approved policy for making provisions for standard assets at rates higher than the regulatory minimum, based on evaluation of risk and stress in various sectors, will help control build-up of fresh stressed assets in a pre-emptive manner. The fine-tuning of macro-prudential measures in the form of reduction in risk weights and provisioning on standard assets on certain categories of individual housing loans will provide a boost to the flow of credit to the housing sector.

I.26 In pursuance of the regulatory stance in 2016-17, the Reserve Bank will continue to monitor and respond to banks' asset quality issues in 2017-18 as well. Implementation of Indian Accounting Standard (Ind-AS) and the Basel III framework will remain the areas of focus during 2017-18. The revised framework for securitisation, the minimum capital requirement for market risk, guidelines on net stable funding ratio (NSFR) and the guidelines on corporate governance as per Basel standards will be considered during the course of the year. The revised regulatory framework for the All India Financial Institutions (AIFIs), including extension of various elements of Basel III standards relevant to these institutions, will also be taken up. The banking sector has undergone significant transformation by digital innovations in the past few years and the Reserve Bank will work on framing an appropriate response to the regulatory challenges posed by developments in FinTech. Taking note of changes in the global and financial sector environment, the Reserve Bank formalised a framework for taking enforcement action against banks for non-compliance with guidelines and instructions issued by it. Accordingly, a separate Enforcement Department has been created within the Reserve Bank in April 2017.

I.27 Going forward, an important initiative under active consideration of the Reserve Bank is the setting up of a transparent and comprehensive public credit register (PCR) – an extensive database of credit information for India that is accessible to all stakeholders – that would help in enhancing efficiency of the credit market, increase financial inclusion, improve ease of doing business, and help control delinquencies, as corroborated by international evidence. To begin with, by incorporating unique identifiers for the borrowers (*Aadhaar* for individuals and Corporate Identification Number (CIN No.) for companies), the Reserve Bank's Basic Statistical Returns (BSR1) data set could be quickly transformed into a PCR covering customers of scheduled commercial banks, which could then be expanded to cover other financial institutions in India. In this regard, a High-level Task Force comprising experts as well as major stakeholders is being constituted to, *inter alia*, review the current availability of information on credit in India and suggest a roadmap, including priority areas, for developing a transparent, comprehensive and near-real-time PCR for India.

I.28 Infrastructural development of the economy would continue to play a critical role in shaping growth prospects, particularly over the medium to long run. Several initiatives – increased public infrastructure investment; innovative ways of infrastructure financing; the fast-track awarding and construction of national highway projects; effective streamlining of land acquisition issues; Regional Connectivity Scheme (RCS) to connect the unserved and under-served airports; the proposal to achieve 100 per cent rural electrification by May 2018; providing infrastructure status to affordable housing; and a new Metro Rail Policy and Metro Rail Act – are in the pipeline which would provide an enabling environment for growth path in the years to come. The recent policy measures for easing of norms for state PSUs to directly borrow from bilateral agencies, launching of Infrastructure Investment

Trust and full-fledged rolling out of National Investment and Infrastructure Fund are also expected to address the infrastructure financing constraints significantly. In the power sector, higher capacity addition in renewables may pose multiple challenges with regard to the integration of renewables into the electricity grid and the possible dampening effect on already worsened thermal Plant Load Factor (PLF). However, the new coal linkage policy and the impetus for more nuclear power plants would engender a positive outlook for the sector.

I.29 Finally, in the area of employment generation, spending on priority sectors (roads, railways, health and housing), MGNREGA (*i.e.*, Mahatma Gandhi National Rural Employment Guarantee Act) and the *Pradhan Mantri MUDRA Loan Scheme* are going to be the most important factors. As labour regulations get further simplified, more jobs are expected to be included and created in the formal sector. On labour reforms, the codification of labour laws into four codes, *viz.*, wages, industrial relations, social security and welfare, and safety and working conditions, will help avoid multiplicity of labour laws. At the same time, the job loss threat, particularly in Information Technology and Information Technology Enabled Services (IT and ITES) sector emanating from the emerging global protectionism cannot be overlooked.