

LONG RUN ECONOMIC TREND CHANGES THE FACE OF INDIAN ECONOMY

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ABSTRACT

Global growth has hit unprecedented depths of despair amidst COVID-19 with great risks of even more severe results remaining. IMF's World Economic Outlook of April, 2020 aims global result in 2021 to contract by certain percent with output of advanced countries contracting more than emerging market and developing economies. Apart from it called the month of "Global Lockdown", from march 2020 saw major indices of manufacturing and services across countries declining to record lows on the back of supply-side declining. Global energy prices plunged, Indian unemployment rates surged to double digits, Euro zone consumer confidence and UK retail spending fell, resulting the change of a demand crisis as well. This demand shock weighed heavily on different products of different countries as their currencies depreciated relatively more sharply. World's financial markets dramatically sold-off equity and debt in March 2020 which led to crashing of target equity indices and tightening of bond yields before a modest recovery in May 2020. Governments and Central Banks have responded by announcing stimulus packages and liquidity injections. On 12th May, 2020, the Prime Minister of India announced a package of Rs. 20 lakh crore for the country [Atmanirbhar Bharat], amounting to 9 per cent of GDP, inclusive of all previous liquidity support by RBI and fiscal stimulus by the government.

Indian economy had begun to regain momentum with clear signs of uptick in consumption and investment towards the end of Q3:2019-20, only to be halted by COVID-19 that made government enforce country-wide lockdown in late March 2020. Green shoots had appeared with Index of Industrial Production (IIP), Index of Core Industries (ICI) and merchandize exports rebounding with positive growth in February 2020 along with signs of revival in consumer sentiment. However, sharp negative growth of merchandize exports and imports in April 2020 gave first signs of distress having already entered the country's economic space. With the imposition of lockdown from 24th April, FY 2019-20 closed with a 10days period of economic inactivity. Besides trade, negative growth in IIP and ICI indices and particularly the decline in electricity generation in March 2020, reflected the economic adversity of the lockdown.

As the lockdown continued, all sectors activities came to a standstill in April 2020 resulting in supply side disruptions and demand falling to various lows that change into core indices going into a free fall. A huge short in railways all traffic for May 2020 gave clear evidence that economic inactivity was indeed widespread both across regions and sectors. Cultivating and all activities, however, showed continued performance on the back of all-time production high and huge increase stocks of rice

and wheat. Above normal rains predicted for 2020-21 also boded well for different production. Amid severe COVID-19 induced supply chain disruptions, harvesting and different operations gathered change with an active FCI and supportive industries increasing volumes of transferred food grains. The overall inflation outcomes remains good with economic inactivity leading to a broad-based deceleration in price changes particularly energy.

On the external front, the rupee weakened against the dollar with sharp foreign Institutional investor (FII) outflows. Yet, rupee outperformed its emerging market competitors showing a new found bounce back in the forex market. Further, rupee decline did not reduce crude oil import bill as its price crashed in global markets. It

Fortunately, India's external sector has acquired different reports in showing the (BoP) position despite being challenged by net FII outflows for some time. A comfortable BoP rests on manageable (CAD), prudent external debt and robust availability of foreign exchange reserves sufficient to finance more than months of imports. As a considerable drop in domestic economic activity significantly curtails imports, India's current account balance may generate a small surplus in the first quarter of 2020-21. India's CAD is also supported by low levels of total debt servicing.

RBI responded to the economic lashes of the lock down by significantly cutting the repo and the reverse repo to a greater change to daunt banks from allocating funds with it. More over it, it flushed the Indian banking system with liquidity in March 2020. Banks responded by cutting their base lending rates and Marginal Cost of Lending Rate (MCLR) but credit to other sector continued to see least growth. Credit creation was possibly limited by public holding more cash for meeting emergencies and continued risk aversion of banks with their preference to invest in gilt bonds and park excess funds with RBI. Yet, excess liquidity in the banking system remained high, showing up in the steepening of yield curve in April 2020. However, towards the end of April, as RBI conducted special OMOs, the yield on 10-year gilt bonds softened.

Government of India has so far responded with two stimulus packages, first in late March 2020 and another on 12th May, 2020. The Central government's borrowing program for FY 2020-21 has been raised by more than half to Rs. 12 lakh crore. Subscription to market borrowings by FPIs is likely to be tepid if their present trend of selling-off India's equity and debt paper were to persist. Further, continued injection of liquidity or surplus liquidity situation will ensure that interest cost of government debt remains low with continuous softening of yields on G-secs.

Indian benchmark equity indices recorded largest gains in April 2020 after plummeting in March 2020, buoyed by optimism over lockdown easing in major global economies, stimulus packages by Central Banks and governments, expanding business activity in China and encouraging COVID-19 drug trial results in the US. IMF has projected India's GDP growth in FY 2020-21 at 1.9 per cent and 7.4 per cent a year later. Government is aware of the severity of lockdown on economic activity in the country and is cautiously optimistic about the revival of growth later in the year.

Introduction

Year on Year performance of Macroeconomic indicators:2021 vs 2019

Year-on-Year (YoY) improvement of the indicator.

Year-on-Year (YoY) deterioration of the indicator.

No change in Year-on-Year (YoY) performance.

All figures in percentage unless otherwise mentioned.

- Economic Activity (Domestic & global): Improvement indicates rise in production indices, foodgrain stock, exports growth, imports growth, sales growth, consumption growth & vice versa.
- Inflation (Global and domestic): Improvement indicates fall in price & vice versa.
- Fiscal: Improvement indicates increase in capex and fall in revenue expenditure, Govt's market borrowings, G-sec and Treasury bill yields & vice versa.
- Money & Finance: Improvement indicates rise in credit growth, broad money, ECB registrations, FPI utilisation, net purchase of forex, growth in equity indices and fall in policy and bank rates, bond yields, spot exchange rate & vice versa.
- External balance: Improvement indicates rise in forex reserves, net FDI, and FPI and fall in prices of crude, gold.

MACROECONOMIC INDICATORS 2020 vs 2019 (YoY Performance)		JAN_20	FEB_20	MAR_20	APR_20
Global economic activity	JP Morgan Global Composite PMI	51.2	44.1	38.2	26.5
	Global fuel prices growth	-4.3	-18.2	-46.7	-63.3
	Global base metal prices growth	6.8	-6.4	-11.9	-17.5
Domestic real economic activity	Food-grain stock (lakh tonnes)	845.2	842.4	872.3	
	IIP manufacturing growth	1.6	3.1	-20.6	
	Eight core industries growth	1.4	7.1	-6.5	
	PMI-manufacturing (index)	55.3	54.5	51.8	27.4
	PMI-services (index)	55.5	55.5	48.3	5.4
	Merchandise exports growth	-1.7	2.9	-34.6	-62.3
	Merchandise imports growth	-0.7	2.5	-27.7	-59.7
	Electricity generation growth	3.1	11.4	-8.2	-29.9
	Petroleum products consumption growth	0.1	4.5	-17.6	-45.8
	Domestic sales growth of passenger cars	-8.1	-8.8	-53.3	
	Domestic sales growth of commercial vehicles	-14.0	-32.9	-87.1	
	Domestic sales growth of tractors	4.8	21.3	-49.9	
	Fertilizer sales growth	28.7	28.8	-1.6	53.4
Inflation	Consumer Price Index (CPI)-headline	7.6	6.6	5.9	
	CPI-food	13.6	10.8	8.9	10.8
	CPI-core	4.3	3.9	4.0	
	Wholesale Price Index (WPI)	3.5	2.3	1.0	
Fiscal	Gross Fiscal Deficit (per cent of 2019-20BE)	143.0	144.3		
	Net tax revenue receipts (per cent of 2019-20BE)	60.5	67.6		
	Goods & Services Tax (GST) growth	8.1	8.3	-8.4	
	Revenue Expenditure (per cent of 2019-20 BE)	81.7	88.3		
	Capital Expenditure (per cent of 2019-20 BE)	79.1	90.0		
	Centre's gross market borrowings (Rs. lakh cr)	7.0	7.1	7.1	0.6
	State's gross market borrowings (Rs. lakh cr)	4.5	5.2	6.1	0.6
	Net Bank credit to Government (Rs. lakh cr)	50.1	49.7	49.1	54.2
	10 year G-Sec yield	6.8	6.7	6.4	6.7
Money & Banking	364 days-1B yield	5.3	5.2	5.2	4.4
	Non-food credit growth	8.0	6.9	6.7	6.7
	Growth in credit to MSMEs	1.0	0.6	1.1	
	Growth in credit to NBFCs	32.2	22.3	25.9	
	Broad money (M3) growth rate	11.3	10.2	8.9	10.7
	Demand deposits- Rs. lakh cr	14.5	15.8	17.4	15.9
Financial Markets	Currency with public - Rs. lakh cr	22.2	22.6	23.4	24.2
	Repo rate	5.2	5.2	4.4	4.4
	Reverse repo rate	4.9	4.9	4.0	3.75
	MCLR (1 Year) of SCBs	8.3	8.2	8.2	8.0
	Term Deposit Rate for one year above	6.3	6.2	8.0	5.9
	10 Year Corporate bond yield	7.7	7.4	7.5	7.3
	ECB registrations (USD billion)	8.4	4.2	7.4	
	FPI utilisation in G-Secs	71.3	72.9	53.8	55.7
	Net purchase/sale of Forex by RBI (USD billion)	10.3	9.1	-4.0	-0.3
	Spot exchange rate (INR/USD)	71.3	71.4	76.4	76.2
	Growth in Sensex	14.7	12.6	-14.3	-21.5
	Growth in NIFTY-50	12.7	10.2	-16.7	-23.4
	Brent Crude Oil price (USD per bbl)	63.6	55.0	33.0	23.3
	Crude oil - Indian basket (USD per bbl)	64.3	54.6	33.4	19.9

External balance	Gold price (USD per troy ounce)	1560.7	1597.1	1591.9	1683.2
	Real Effective Exchange Rate (REER) (index)	118.4	119.2	117.3	116.0
	Forex reserves (USD billion)	471.3	481.3	477.8	481.1
	Net FDI (USD billion)	5.8	2.0	2.9	
	Net FPI (USD billion)	-0.1	1.0	-16.2	

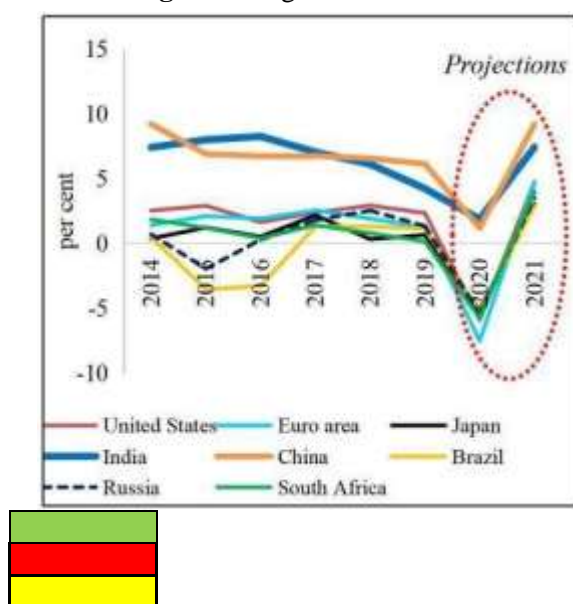
Global growth hits unprecedented depths of despair amidst COVID-19, substantial risks of even more severe outcomes remain.

Global macroeconomic and financial landscape is witnessing anger of corona which emerging as the biggest threat to economic growth since the 2007-08 financial crisis. The COVID-19 induced shock is extremely mundane in terms of its size and uncertainty, with its impact dependent on hard to predict factors like systemic efficiency and high of social distancing measures, fallout of supply chain and stock market disruptions along side societal responsiveness. While human mortality is rising continuously the world over, necessary measures to contain the pandemic are resulting in unparalleled economic costs as well, thereby making policy response to the crisis deeply challenging.

As per IMF's World Economic Outlook (WEO) (April 2020), the year 2020-21 is projected to experience the worst recession since the Great Depression, far worse than the Global Financial Crisis, with global growth contracting by 3.1 percent. Cumulative loss to global GDP over 2020 and 2021 is estimated at around USD 9.2 trillion – greater than the economies of Japan and Germany, combined.

Growth in advanced countries, experiencing widespread and intense virus spread, is projected to contract sharply by 6.1 per cent in 2020. Emerging Market and Developing Economies (EMDE), facing multi- layered health, external, commodity and confidence shocks are projected to contract by 1.0 per cent in 2020. Excluding China, the growth rate for the group is expected to be (–) 2.223 per cent.

Fig. 1: Real growth across countries and country groups



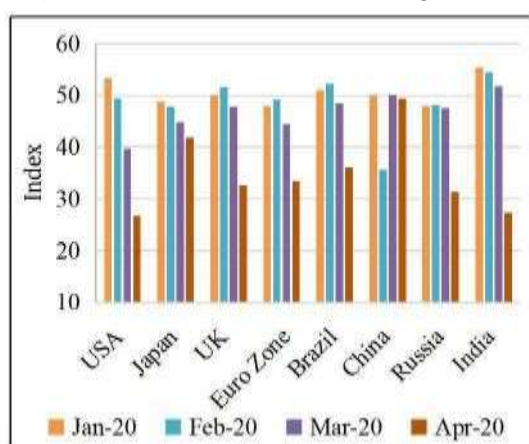
Data Source: World Economic Report, April 2020 Database (7th April).

April 2020 became the month of “Globally Lockdown” with world economic activity coming to a standstill, as pointed by surveys of purchasing managers. JP

Morgan Global Composite PMI plummeted to 26.8 in March 2020, down by a record 12.6 points from March 2021 and far below its record low of 34.8 during the global financial crisis. Rates of decline in output, new orders, new export business, employment and backlogs of work all registered new series records in April 2020. The month- on-month drop in both the Manufacturing Output Index (12.3 points) and Services Business Activity Index (12.8) has been the steepest so far.

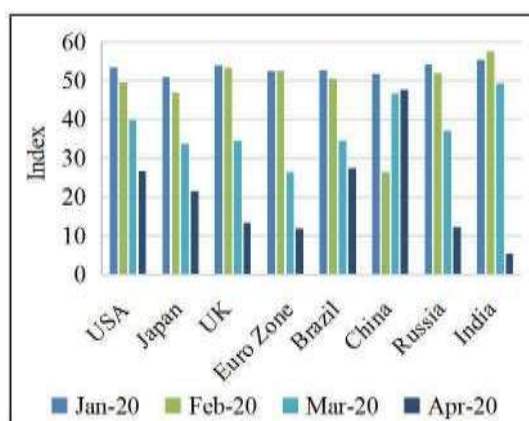
Real GDP in the US declined 4.8 per cent in the first quarter of 2020, due to contraction in consumer spending and stoppage of output. Unemployment rate surged sharply to 14.712 per cent in April 2020 as against 4.4 per cent in March 2020, shattering the post-World War II record of 10.853 per cent in 1982. While industrial output contracted by 15 per cent (YoY) in April 2020, retail sales contracted even more by 21.6 per cent (YoY).

Fig. 2.A: PMI Manufacturing across countries



Data Source: IHS Markit.

Fig. 2.B: PMI Services across countries



Data Source: IHS Markit.

The Euro Area witnessed slower growth of 1.2 per cent in 2019 vis-à-vis 2018 (1.9 per cent), and is projected to contract sharply by 7.5 per cent in 2020-21 by WEO. The Euro government estimated GDP growth for Q1:2020-21 at (-)3.2 per cent. Manufacturing and services PMIs in the Euro area hit record lows in April 2020. Decline in consumer confidence doubled while inflation came below the 0.5 per cent mark in April 2020. UK's industrial production declined by 3% per cent in February 2020, a consecutive decline since December 2019 and its retail sales contracted sharply by 5.8 percent in March 2020. Like in the Euro Area, PMI numbers of the UK also registered historical low numbers in April

2020, with its construction PMI moving to

single digit at 8.22 in April 2020 from 39.31 in March 2020.

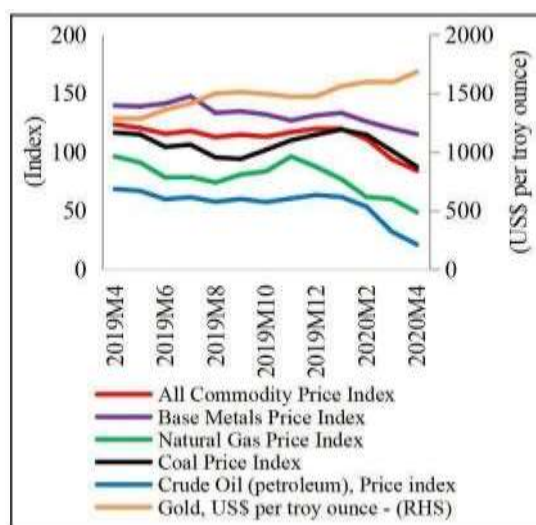
1.7 In Japan, the coronavirus impact was delayed compared to other South East Asian economies. While Japan's industrial production declined by 3.8 per cent in February 2020, its exports, growing negatively in the previous months, crashed by 11.7 per cent in March 2020. In April 2020, COVID impact continued with consumer confidence falling by 30 per cent and PMI Manufacturing declining, albeit moderately, from 45 %in March 2020 to 41.9 in April 2020.

1.8 China, the initial epicenter of the outbreak, saw a record low output growth for the January-March quarter at (-)6.83 per cent. Industrial production growth (YoY) picked up to 3.56 per cent in April 2020 after declining by 1.1 per cent in March and 13.52 per cent in February 2020 respectively although producer prices continued to be negative. Decline in retail sales has also fallen by half from (-)15.9 per cent (YoY) in March 2020 to (-)7.6per cent in April 2020. With exports growth turning significantly positive in April 2020 to

3.5 per cent after three months of sharp decline, China's trade balance moved from deficit position in March (USD (-)6.8 billion) to a strong surplus position (USD 46.34 billion). Importantly, the improvement in trade balance emerged from pick-up in activity and not a decline.

1.9 COVID-19 demand shock has adversely impacted consumption across metals and mining, as reflected in plunging global commodity prices. Energy sector which was already battling a price crisis before the outbreak has witnessed nose-diving of global crude oil prices and erratic natural gas prices over the prospects of large scale drop in demand, especially from emerging economies. Crude oil prices remained in a state of flux, with WTI (West Texas Intermediate) crude futures moving to unprecedented negative territory in the second half of April 2020. From January 2020 to April 2020, commodity prices fell by 29 per cent¹ with metals like copper falling about 16 percent and natural gas prices declining by 36.6³ per cent.

Fig. 3: Commodity price movements



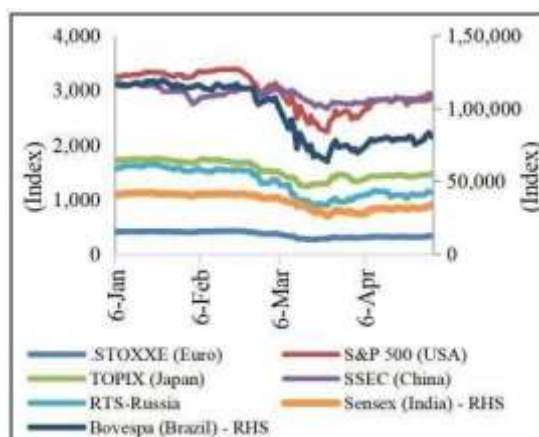
Data source: IMF primary commodity price system.

This global shock would weigh heavily on commodity exporters, particularly from

emerging market countries, exacerbating the multi-layered shocks of health costs and tighter global financial conditions in these countries. Lower oil prices, at the same time, will save resources for domestic absorption for oil-importing countries like India.

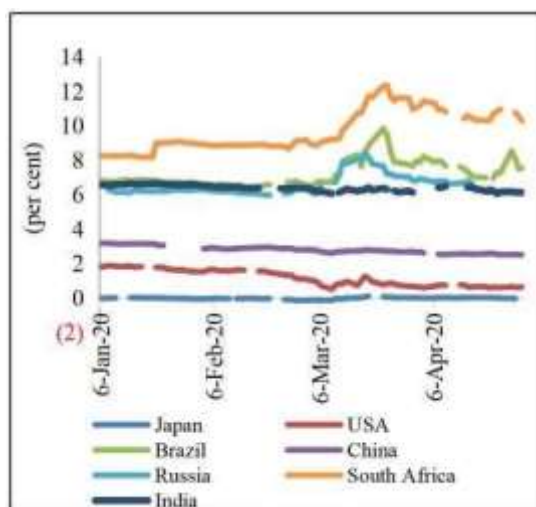
Amidst COVID-19, financial markets are demonstrating their oldest rule, “fear begets more fear”. Global financial conditions tightened in March 2020 with dramatic sell-offs in equity markets and widening of high-yield corporate and sovereign spreads with modest recovery in April 2020.

Fig. 4A: Global Equity Indices in 2020



Data Source: Thomson Reuters.

Fig. 4B: 10 yr G-Sec yields across countries



Data Source: Thomson Reuters.

Currencies of commodity exporters amongst emerging markets and advanced nations have depreciated sharply since the beginning of the year, while the US dollar and yen have appreciated by about 3 per cent in real effective terms as at end March, and the euro by some 2 per cent.

Governments and Central Banks the world over have deployed various measures to stimulate the economy through liquidity support and regulatory changes. Lowering of key policy rates and reserve requirements, quantitative easing measures, loan guarantees and

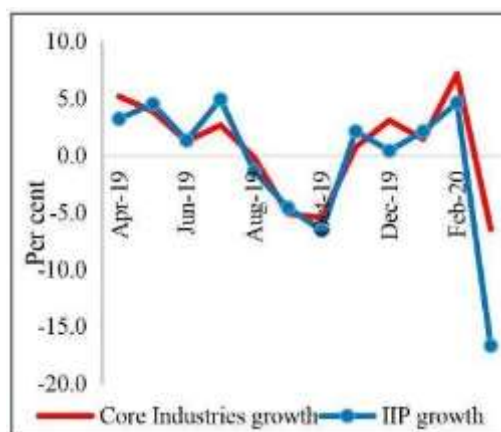
stimulus packages are among the initiatives taken by governments globally.

2. *Indian economy had begun to regain momentum with clear signs of uptick in consumption and investment towards the end of Q3:2019-20, only to be halted by COVID-19 that made government enforce country-wide lockdown in late March, 2020.*

Index of Industrial Production (IIP) rebounded from negative growth in Q3:2019-20 to 2.3 per cent in January 2020, and 4.6 per cent in February 2020, the highest level observed since July 2019. Mining (10 per cent) and electricity (8.3 percent) led the positive growth. Within the use based segment, primary goods and intermediate goods continued to exhibit strong growth, while movement in consumer goods remained tepid. Core index representing the eight core industries witnessed highest growth at 5.7 percent in February 2020, after March 2019. Five of the eight core industries registered a positive growth in output led by electricity generation (11 percent), coal (10.3 percent) and cement production (8.6 percent). On the external front, merchandize exports showed robust positive growth in February 2020 at 2.9 per cent after a gap of 8 months. Exports of services also registered a positive growth of 7 percent in February 2020 while imports grew by 13 percent. Inflationary pressures eased with CPI inflation declining from 7.6 per cent in January 2020 to 6.8 per cent in February. Food inflation (13.6 percent) driven by onion prices in January 2020 also fell to 10.8 per cent in February 2020. According to RBI's Consumer Confidence survey conducted in the last week of February 2020, consumer sentiment marginally improved to 86.6 in March 2020 from the all-time low of 85.7 in January 2020.

Business sentiment in Q4:2019-20 as part of RBI's Industrial Outlook Survey also saw improvement in production and order books as compared to the previous quarter with positive sentiments on external demand.

Fig. 5: Growth Rate in Index of Industrial Production and Eight Core Industries



Data Source: Department for Promotion of Industry and Internal Trade, Ministry of Statistics and Programme Implementation.

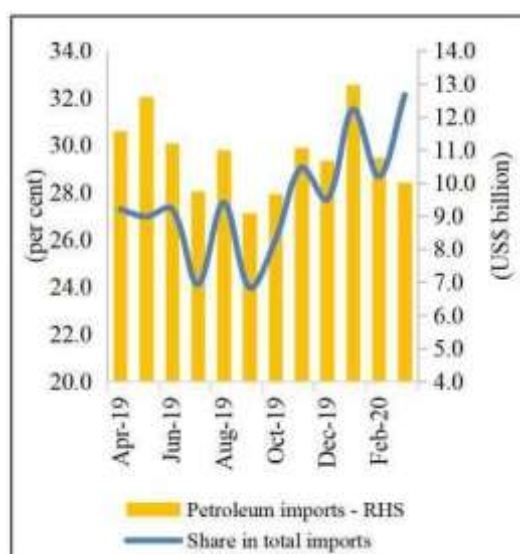
3. *COVID-19 impact started unfolding in India in March 2020: seven-day lockdown announced in response.*

With COVID-19 strengthening its global impact in March 2020, the month in which its strike on India had just begun, business sentiment started to plummet. RBI's quick survey on Industrial Outlook of the Manufacturing Sector conducted in second half of March 2020 witnessed very sharp deterioration in business sentiments across all sectors for Q4:2019-20; and stark pessimism for Q1:2020-21, when compared to their assessment given in the regular round of the survey (Jan-Mar 2020). These sentiments got realized with export growth turning

sharply negative at (-) 34.9 per cent (YoY) in March 2020. All commodity groups registered negative export growth except for iron ore which grew by 58.4 per cent. Oil meals (-73 per cent), meat, dairy & poultry (-45.5 per cent) and engineering goods (-42.3 per cent) experienced the largest downward movement. Cumulative exports for FY 2019-20 declined by 4.8 per cent (YoY) to USD

314.3 billion. Cumulative imports for FY 2019-20 declined by 9.1 per cent (YoY) to USD 467.2 billion. Imports grew negatively at (-)28.7 per cent (YoY) in March 2020, reflecting a weakening of growth impulse within the country and disruption of global supply chain feeding into the country's imports. Cumulative oil imports for FY 2019-20 fell to USD 129.4 billion (-8.2 per cent), while non-oil imports declined at (-)9.5 per cent to reach USD 337.8 billion. With these developments, merchandise trade deficit for FY 2019-20 narrowed to USD 152.9 billion as against a deficit of USD 184.0 billion in the previous year.

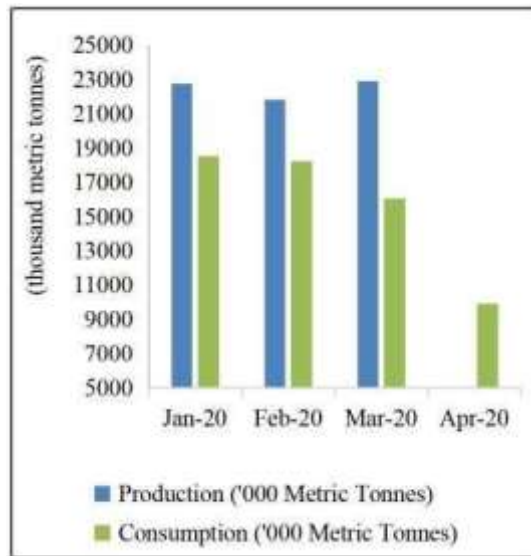
Fig. 6: Import of Petroleum crude & products and its share in total import



Data Source: Department of Commerce, Ministry of Commerce & Industry.

3.2 India witnessed sharp contractions in March 2020 both on the production and consumption side with a seven-day lockdown enforced in the last week of the month. Industrial production steeply contracted by 16.7 per cent (YoY) in March 2020 with manufacturing shrinking sharply by 20.6 per cent (YoY). For FY 2019-20, industrial production declined by 0.7 per cent compared to last year. Eight core industries also declined by 6.5 per cent (YoY) in March 2020, recording its steepest fall since 2012. Construction and manufacturing got disrupted with a 24.7 per cent fall in cement production and 13 per cent decline in steel output. Energy industries tracked domestic and global bearish trends. While production of petroleum refinery products fell by 0.4 per cent during the month, consumption of petroleum products fell much more by 17.8 per cent, the worst fall on record since 2004. Diesel consumption was lower by 24.2 per cent and petrol sales fell by 16.4 per cent.

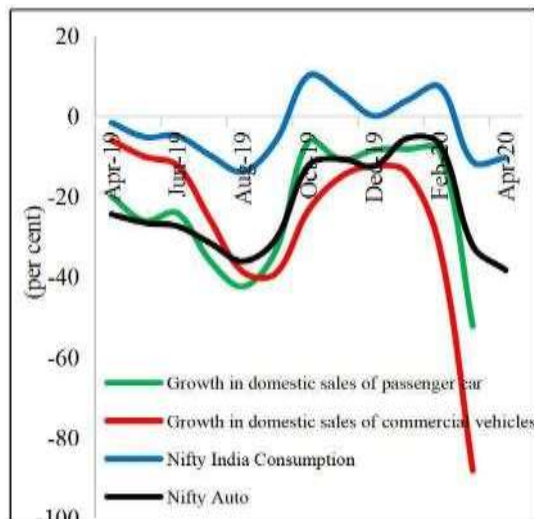
Fig. 7: Production and consumption of petroleum products



Data Source: PPAC.
Data on production for Apr-20 awaited.

The revival in electricity generation that had commenced from January 2020, turned around with a sharp fall in power demand by 8.2 per cent (YoY) in March 2020. COVID-19 brought further bad news for the auto sector, which was already battling a crisis before the outbreak. Sharp across-the-board contraction in automobile sales was seen in March 2020, with greatest decline in commercial vehicles (-88.1 per cent (YoY)) and passenger cars (-53.3 per cent (YoY)). These developments adversely impacted market confidence with growth in NIFTY-Consumption and Nifty-Auto moving into negative territory in March 2020.

Fig. 8: Growth of Auto sales, Nifty indices (YoY)



Data Source: Extracted from CMIE and NSE.

Lockdown induced supply chain disruptions also negatively affected infrastructure industries with domestic air passenger volumes falling by 11.8 per cent⁴ (YoY) in March 2020 with railways freight traffic (-13.9 per cent) and port traffic (-5.2 per cent) also declining sharply.

4. India's economic activity (Manufacturing and Services) came to standstill in April 2020 following the preventive nationwide lockdown and resulted in supply side disruptions

and demand falling to unprecedented lows.

India's Manufacturing PMI fell sharply from 51.8 in March 2020 to 27.4 in April 2020. Record contractions in output, new orders and employment reflected a severe deterioration in demand conditions. Meanwhile, there was evidence of unprecedented supply-side disruption with input delivery times lengthening to the greatest extent during lockdown.

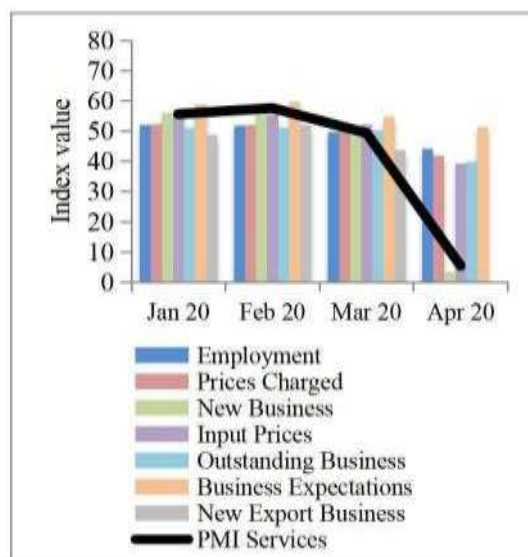
India's Services Business Activity Index gravitated to new lows from 49.3 in March 2020 to 5.4 in April 2020, with business activity falling at record lows, demand for services collapsing and excess capacity leading some firms to cut employment.

Fig. 9: PMI Manufacturing India and its components



Data source: IHS Markit.

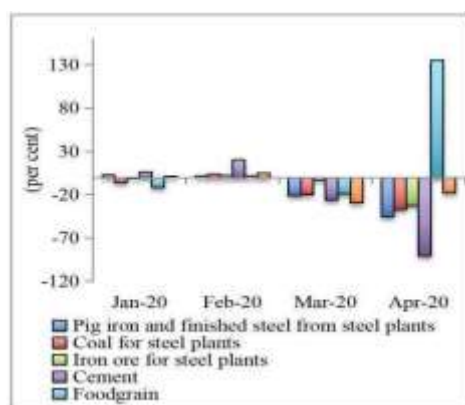
Fig. 10: PMI Services India and its components



Data source: IHS Markit.

Railways freight traffic declined by 35.5 per cent (YoY) in April 2020, reflecting the laggard performance of other input industries like cement, steel, power and coal. Cement traffic through railways fell drastically by 90.6 per cent in April 2020 after declining by 26.3 per cent in March 2020. While movement of output like pig iron and finished steel from steel plants was down by 45.3 per cent (YoY) in April 2020, movement of inputs like coal and iron ore to steel plants was down 37.2 per cent and 32.1 per cent respectively (YoY). Finished steel consumption also declined sharply for the second month with a (-) 90.9 per cent (YoY) growth in April 2020.

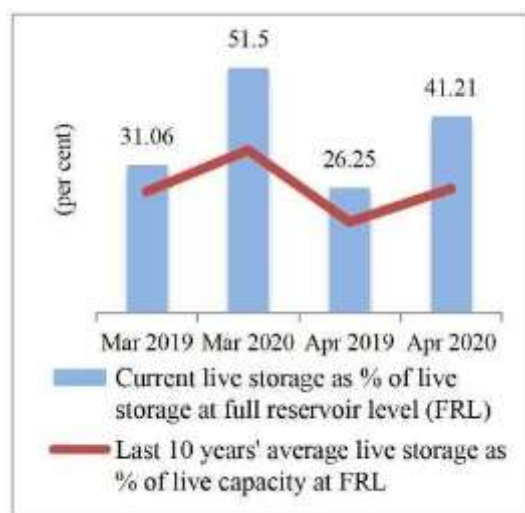
Fig. 11: Growth in railways freight traffic of major commodities (YoY)



Data Source: Directorate of Economics and Statistics, Ministry of Railways.

Even after partial easing of COVID-19 lockdown, power demand continued to decline for the second month in April 2020, falling significantly by 29.9 per cent⁵ (YoY). Negligible commercial and industrial activity, along with the relatively cool weather during April this year weighed heavily on power demand. Coal India Limited's (CIL) off-take of coal also plunged by 25.5 per cent (YoY) in April 2020 to 39.1 million tonnes while CIL's coal production declined by 10.9 per cent (YoY) to 40.4 million tonnes. Limited activity in the thermal power sector in April 2020 is also corroborated by a sharp 37.4 per cent fall in railway freight movement of coal for thermal plants. Incidentally, the capacity to generate hydel power increased with Central Water Commission's data showing doubling of water levels in large reservoirs in early May 2020 as compared to the same month of the previous year. This could possibly help fill the vacuum in thermal power generation in the coming months. With most industries seeing a fall of railway freight traffic movement, eight core industries data of April 2020 is expected to show a significant decline.

Fig. 12: Water reservoir levels



Data Source: Central Water Commission.

While railways freight movement remained subdued, there were indications of dry bulk trade improving with Baltic Cape Index, as reported by the Great Eastern Shipping Co. Ltd, India's largest private shipping company, recovering significantly to 674.0 in April 2020 after moving into negative territory (-243.0) for the first time in February 2020 and March 2020 (-222.0).

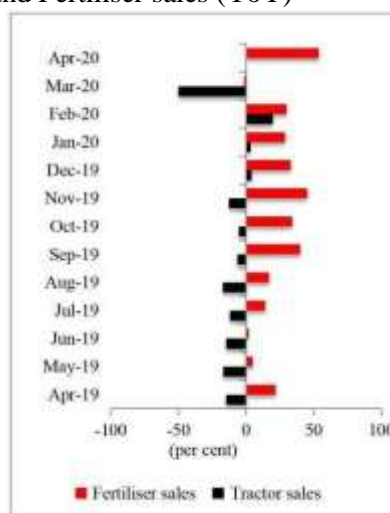
5. Agriculture and allied activities showed continued resilience on the back of all-time highs in the production of food grains and horticulture, with huge buffer stocks of rice and wheat despite facing COVID-19 induced supply chain disruptions.

The total production of food- grains during FY 2019-20 was estimated at 295.7 million tonnes⁶ compared to 285.2 million tonnes in FY 2018-19. Food-grain output in FY 2019-20 was 25.9 million tonnes higher than the average production of food-grains recorded during the previous five years.

5.2 FY 2020-21 is also appearing to be promising as pre-monsoon kharif sowing had progressed strongly by first week of May 2020, with acreage of paddy up by 37 per cent and that of pulses, coarse cereals and oilseeds higher by 61 per cent, 66 per cent and 27 per cent respectively, as compared to previous season. The Indian Meteorological Department (IMD) has forecasted a normal south west monsoon for the 2020 season, with rainfall expected to be 100 per cent of the long period average. The cumulative rainfall received for the country as a whole during the period 1st March, 2020 to 29th April, 2020 has been 26 per cent above normal. These developments bode well for agricultural production. However, subdued trends of rural demand emerged in March 2020 with tractor and fertilizer sales declining by 49.9 per cent and 1.58 per cent respectively. But a sharp pickup in fertiliser sales of 53.4 per cent was witnessed in April 2020, auguring some hopes of rural demand recovery.

5.3 Due to nationwide lockdown since last week of March 2020, uncertainty in agricultural sector regarding harvesting and procurement operations along with labour shortage kept commodity arrivals and prices in wholesale markets volatile. Wheat procurement under central pool, however, gathered momentum in April 2020 with 130 Lakh Metric Tonnes (LMT)

Fig. 13: Growth in Tractor sales and Fertiliser sales (YoY)



Data Source: Ministry of Chemicals and Fertilizers, Tractor Manufacturer association.

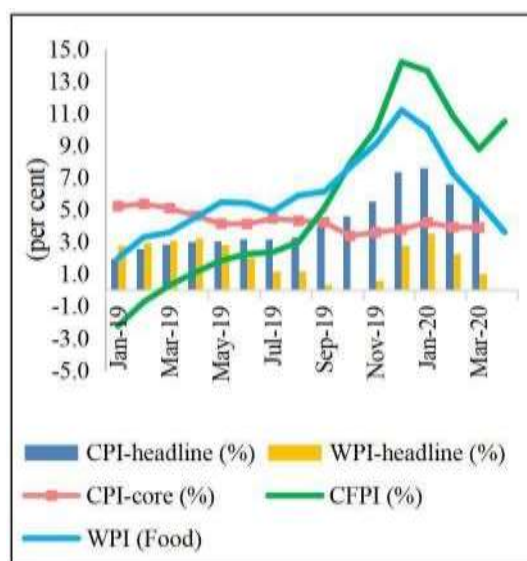
procured by the end of the month. Target of 400 LMT for the season is likely to be

achieved. 2.61 LMT of Pulses and 3.17 LMT of oilseeds was procured under Rabi 2020-21 season till 2nd May 2020. Amidst severe challenges of unloading of food grain stocks in COVID-19 affected areas and distribution of the same to states for supply under PDS, railways freight traffic movement of food-grains witnessed a staggering 135.5 per cent growth (YoY) in April 2020. Food Corporation of India (FCI) moved 60 LMT food grains in the month of April 2020 surpassing the highest ever single month movement of 38 LMT achieved during March 2014 by 57 per cent. With steady inflows of food grains through procurement, the overall central pool stocks position remains stable after release of about 122 LMT stocks (by end of April 2020) under various schemes including National Food Security Act and Pradhan Mantri Garib Kalyan Ann Yojana.

6. *Inflation was on declining trajectory reflecting weak demand pressures, and volatility in essential commodity prices remained due to supply chain disruptions.*

Based on data gathered only up to 19th March, 2020 due to lockdown, Consumer price inflation (CPI) showed signs of price levels abating in March 2020, decelerating for the third month in a row. Growth in aggregate CPI index was 70 bps lower at 5.9 per cent (YoY) in March 2020 as compared to 6.6 per cent in February 2020. Food inflation also declined to 8.8 per cent in March 2020 (10.8 per cent in February 2020).

Fig. 14: Rates of Inflation



Data Source: MoSPI and DPIIT.

Decline of Wholesale price inflation (WPI) to 1 per cent in March 2020 (2.26 per cent in February 2020) also reaffirmed weak demand pressure. Similar trend was also seen in CPI-AL (Agricultural Labour) and CPI-RL (Rural labour), which decreased from 10.14 per cent and 9.84 per cent respectively in February 2020 to 8.98 per cent and 8.69 per cent in February 2020.

6.3 Daily data on 22 essential food items covered by the Department of Consumer Affairs (DCA) suggests that average retail prices increased by 4.2 per cent in April 2020 over March 2020. Price changes continued to remain volatile owing to supply side constraints with price of potato (15.1 per cent), atta (wheat) (4.4 per cent) and pulses (9.2 per cent) having increased while onion (-10 per cent) prices declining sharply in

April 2020 over March 2020. These results are visible in April 2020 Consumer Food Price Inflation (CFPI) excluding meat and fish, increasing by 1.7 percentage points from March 2020 to 10.5 per cent in April 2020. Truncated data for WPI, however suggested food inflation easing to 3.6 per cent in April 2020 as against 5.49 per cent in March 2020.

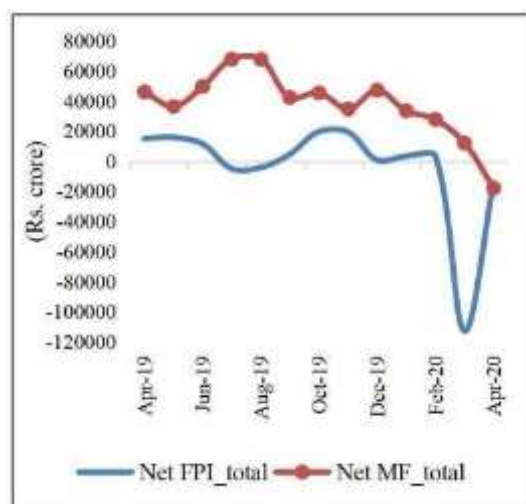
Prices of non-subsidised LPG declined for three straight months with a record Rs 162.50 per cylinder cut in prices at end of April 2020, in line with the slump in benchmark international rates. Oil prices (Indian basket) declined by 40 per cent from USD 33.36/bbl in March 2020 to USD 19.90/bbl in April 2020.

The overall inflation outlook remains benign with economic inactivity leading to a broad-based deceleration in price pressures, particularly energy. However, the supply chain constraints have possibly acted on driving higher food inflation in April 2020.

7. Foreign Portfolio Investors (FPIs) continued to pull out funds from capital markets in April 2020 amid COVID stress and the rupee depreciated further. However, rupee outperformed its emerging market peers, with a new found resilience in the forex market.

Consequent to COVID-19 outbreak, the surge in risk aversion of investors triggered large capital outflows from emerging markets including India. According to latest depositories data, March 2020 witnessed the largest-ever foreign portfolio outflow of USD 15.2 billion. Net FPI outflows declined in April 2020 and stood at USD 1.9 billion. Both equity and debt markets experienced net outflows. Usually, FPI outflows prompt domestic mutual funds to embrace financial stocks and become net buyers in the domestic equity market, which was the case in March. However, in April, mutual funds also witnessed withdrawals to the tune of Rs. 17,760 crore in both equity and debt markets combined. This may be attributed to the Franklin Templeton episode.

Fig. 15: Capital market flows (FPI, MF)

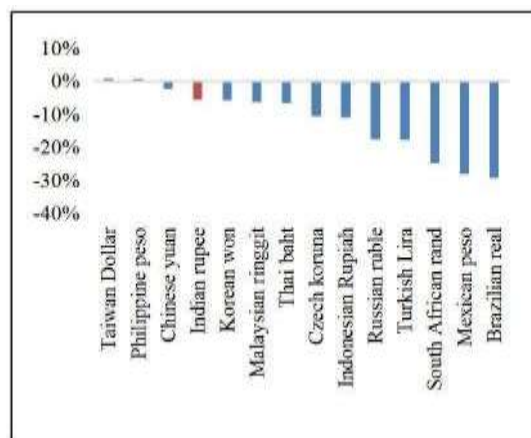


Data Source: Central Depository Services Limited (CDSL).

With FPIs exiting from Indian equities for consecutive three months, the rupee was bound to be under pressure. Most emerging market (EM) currencies depreciated including the Indian rupee which depreciated from 74.3 INR/USD in March 2020 to 76.2 INR/USD in April 2020. Further the USD, which is considered as the safest and most liquid currency in the world, appreciated by about 3 per cent from January 2020 to March 2020 against most currencies. However, the INR

outperformed most of the EM currencies. This may have been contributed by RBI's presence in the forex market and partly by improvement in external sector fundamentals from lower crude prices.

Fig. 16: EM currency movements* (Jan- Apr, 2020)



Data source: IMF, <https://www.exchangerates.org.uk/>
*appreciation (+)/depreciation (-)

7.3 Global oil demand dropped to its lowest since 1995, at 29 million barrels per day (mbpd), in April 2020, according to Energy Information Administration (EIA). Brent crude oil price, after nearly halving between January and March 2020, plunged to a two-decade low of USD 18.7 per bbl in April 2020. The Indian basket of crude oil averaged only a bit higher at USD 19.9 per bbl during the month.

7.4 Gold prices spiked by as much as 8.3 per cent in the first 14 days of April 2020, riding on the yellow metal's safe haven appeal. Prices hovered around the USD 1,700 per troy ounce mark in the second fortnight of April 2020, which was its highest valuation in the last seven years. The gold rally had started in May last year on fears of the global economy slowing down. This transformed into a more definite expectation of a global recession with Covid-19 pandemic hitting every corner of the world.

8. *India's external sector acquired resilience manifest in improvement in balance of payments position, manageable current account deficit (CAD) and prudent external debt. India's foreign exchange reserves continued to be robust and available to finance more than eleven months of imports. India's current account balance is expected to be near zero or even in small surplus in Q1:2020-21.*

India's CAD narrowed to 0.2 per cent of GDP in Q3:2019-20 from 2.7 per cent in the same period a year ago on the back of lower trade deficit and rise in net service receipts. The narrowing is also perceptible in April-December period with CAD declining from 2.6 percent of GDP in 2018-19 to 1 percent in 2019-20.

Private transfer receipts, mainly representing remittances by Indians employed overseas, increased to USD

20.6 billion in Q3:2019-20, up by 9.0 per cent from their level a year ago. Net external commercial borrowings (ECBs) stood at USD 3.2 billion in Q3:2019-20, 2019 compared with USD 2 billion a year earlier. Indian corporates turned to ECBs as bond investors and traditional lenders became risk averse following the collapse of the IL&FS group in September 2018. This was complemented by benign global financial conditions allowing cheap and easy dollar funding.

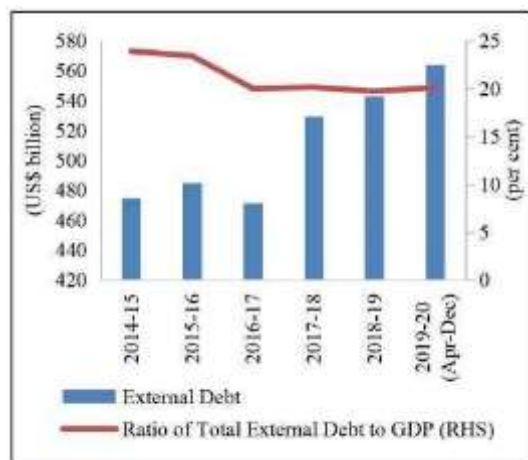
Net Foreign Direct Investment (FDI) inflows rose from USD 1.98 billion in February 2020 to USD 2.87 billion in March 2020, resulting in cumulative net inflows of USD 42.7 billion during FY 2019-20 (April- March), up from USD 30.7 billion a year ago.

Net FPI, however has challenged the BoP as it witnessed a sharp outflow of USD 16.16 billion in March 2020 from an inflow of USD 1.02 billion in February 2020, resulting in cumulative net outflow of USD 0.14 billion in FY 2019-20, compared to net outflow of USD 0.62 billion last year.

During COVID-19 times, the external debt and its repayment burden is a major challenge being faced by some emerging market economies. However, India is not vulnerable on this count as its external debt to GDP ratio has remained low at about 20 percent during the last three years. India's external debt outstanding as on 31st December, 2019 stood at USD

563.9 billion (20.1 percent of GDP), compared to USD 543.1 billion (19.8 percent of GDP) as on 31st March 2019. India's key external debt vulnerability indicators as at end December, 2019 have been low and range-bound compared to March, 2019, with debt service ratio at 6.4 per cent (35.3 per cent), ratio of forex reserves to total external debt at 81.5 per cent (7 per cent) and ratio of short-term debt to forex reserves at a manageable 23.2 per cent (146.5 per cent).

Fig. 18: India's External debt



Data Source: DEA, M/o Finance.

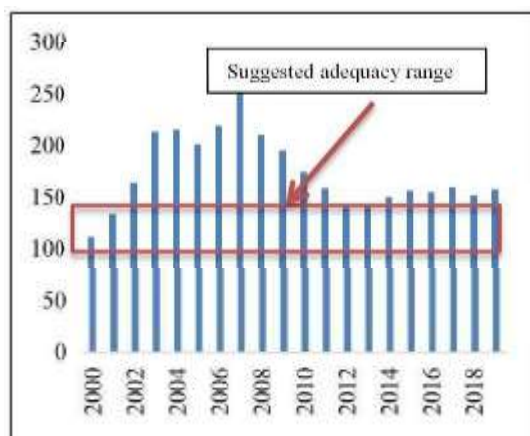
Going by the IMF's assessment of 'reserves adequacy' emerging markets metric (ARA EM)⁷, a measure that determines external debt servicing ability, India's ratio of reserves to ARA EM metric in 2019 stood at 157.9⁸ per cent, well above the safe range and much better than China (82.8 per cent), South Africa (73.2 per cent) and most of its emerging market peers. Despite facing massive sell offs in the equity market amid fear surrounding COVID- 19, India's foreign exchange reserves continued to stand strong at USD 481.1 billion with an import cover of more

⁷ The ARA EM metric comprises four components reflecting potential drains on the balance of payments: (i) export income to reflect the potential loss from a drop in external demand or a terms of trade shock; (ii) broad money to capture potential residents' capital flight through the liquidation of their highly liquid domestic assets; (iii) short- term debt to reflect debt rollover risks; and, (iv) other liabilities to reflect other portfolio outflows. The relative risk weights for each component are based on the 10th percentile of observed outflows from EMs during exchange market pressure episodes.

⁸ Reserves in the range of 100-150 percent of the composite ARA metric are considered broadly adequate for precautionary purposes.

than 11 months as on 1st May, 2020. Sharp decline in crude oil prices and depressed domestic demand for gold imports may have nullified the impact of FPI flight on reserves.

Fig. 19: India's Forex reserves as percent of IMF's ARA EM metric

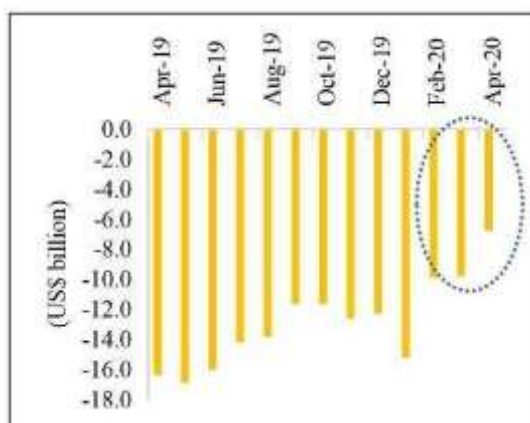


Data source: IMF.

India's merchandise exports exhibited a sharper negative growth from (-)34.6 per cent (YoY) in March 2020 to (-)60.3 per cent in April 2020 to reach USD 10.36 billion. Merchandise imports also registered a sharper negative growth in April 2020 at (-)58.7 per cent (YoY), as compared to (-)28.7 per cent in March 2020 to reach USD

17.12 billion. This yielded a fall in merchandise trade deficit from USD 9.8 billion in March 2020 to USD 6.8 billion in April 2020.

Fig. 20: India's merchandise trade balance



Data Source: Department of Commerce, Ministry of Commerce & Industry.

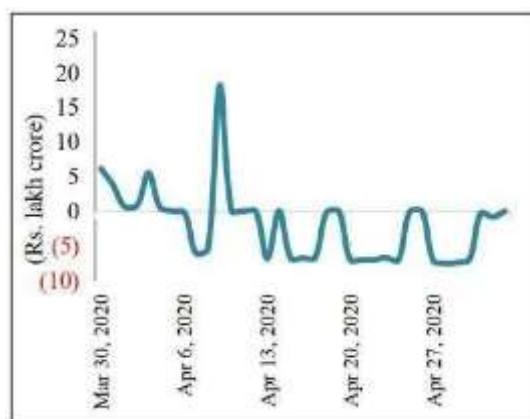
8.8 Coupled with a sharp decline in export growth due to global slowdown and an even sharper decline in import growth due to suppressed domestic activity, a surplus in current account balance is expected to emerge in Q4 of FY 2019-20.

9. RBI's sustained liquidity operations flushed the Indian banking system with liquidity in April 2020. However, banks' response remained lukewarm and credit to commercial sector continued to see muted growth.

Since the imposition of lockdown to fight COVID-19, the RBI has been intervening in a calibrated manner to ensure conducive financial conditions and normalcy in the functioning of the economy. RBI reduced the repo rate by 75 bps to 4.4 per cent (27th March, 2020) and the

reverse repo rate by 115 bps to 3.75 per cent (17th April, 2020) to enable better credit flow to the financial market and eventually to small businesses. Apart from these, RBI has also undertaken several unconventional measures to ensure adequate liquidity at the longer end of the yield curve. These include long term repo operations (LTRO) and targeted LTRO (TLTRO) to encourage flow of funds from banks to small and mid-sized corporates, Non-Banking Financial Corporations (NBFCs) and Micro Finance Institutions (MFIs). RBI also announced a special refinancing facility for the rural sector. Further, on 27th April, 2020, the RBI opened a special liquidity window of Rs. 500 billion for mutual funds to alleviate the redemption pressure in the aftermath of Franklin Templeton winding up six of its debt funds. Since 6th February, 2020, RBI has infused liquidity amounting to more than 3 per cent of GDP.

Fig. 21: Net liquidity injection (+)/ absorption (-) by RBI



Data Source: RBI.

In response to policy rate cuts, the base lending rate as on 1st May, 2020, stands reduced to 8.15/9.40 per cent from 8.95/9.40 per cent on the corresponding day of the previous year. Banks have also reduced Marginal Cost of Lending Rate (MCLR) to 7.10/7.50 per cent from 8.05/8.50 per cent a year ago. Term deposit rate for above one year also stands reduced to 5.7/6.0 per cent from 6.25/7.50 per cent.

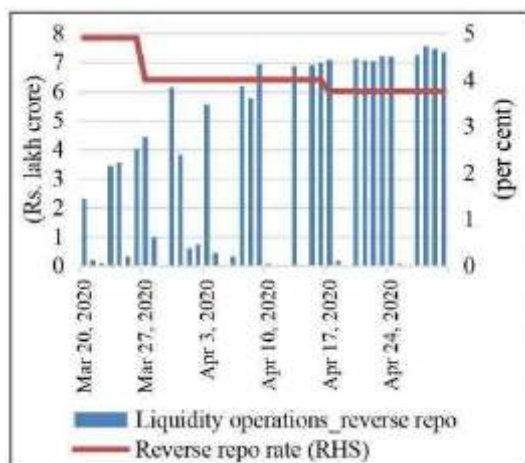
As on 24th April 2020, growth of M3 (Broad Money) increased to 10.7 per cent (YoY), as compared to 10.0 per cent a year ago with growth seen more in cash with the public and time deposits and a fall seen in demand deposits. These figures are suggestive of public increasingly accumulating cash in anticipation of emergencies.

On the credit front, banks showed tepid response to RBI's liquidity operations and remained risk averse to on-lending. Bank credit growth recorded a 0.7 per cent decline in the fortnight ending 24th April, 2020 compared to the previous fortnight. On a YoY basis, it decelerated sharply by almost half to 6.7 per cent this year compared to 13.0 per cent in the corresponding period last year. Bank credit to commercial sector also fell by 0.7 per cent in the fortnight ending 24th April, 2020 compared to the previous fortnight, registering a sharp decline in growth rate from 12.3 per cent (YoY) in 2019 to 6.8 per cent in 2020. Credit-deposit ratio eased to 74.9 as on 24th April, 2020 from 75.4 per cent a fortnight ago and 77.1 per cent a year ago, thereby further building liquidity surplus in the banking system. More liquidity implies lower liquidity premium and thereby lower cost of credit/yield and higher credit offtake. RBI's sustained liquidity operations augur well for increasing credit offtake via a lower liquidity premium for banks. However, risk premium by banks, which is harder to target continues to remain high.

Banks' investment in G-Secs accelerated sharply to 14.1 per cent (YoY) as on 24th April

2020 from 9.1 per cent a fortnight ago and 2.8 per cent a year ago, leading to an investment-deposit ratio of 29 percent, much higher than the Statutory Liquidity Ratio (SLR) of 18.0 per cent. The extent of risk aversion of banks was further reflected in banks parking a staggering Rs. 7.36 lakh crore under RBI's safe mode reverse repo window on 30th April, 2020, despite an unattractive rate of 3.5 per cent.

Fig. 22: Liquidity operations in RBI's Reverse Repo window



Data source: RBI.

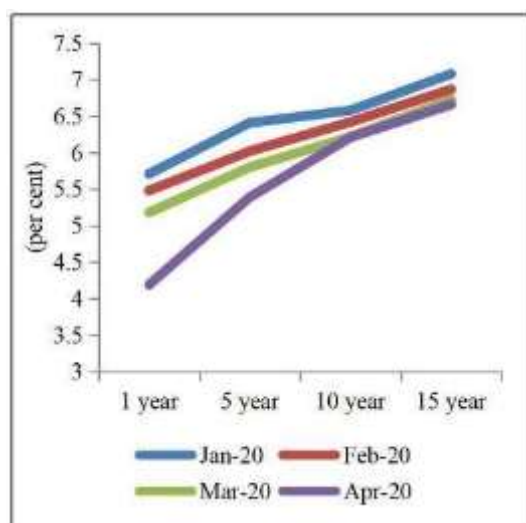
10. Excess liquidity in the banking system along with reverse repo cut weighed on bond markets leading to steepening of yield curves in April 2020.

Despite sustained liquidity surplus in the banking system, NBFCs and MFIs continued to face liquidity pressure as banks were reluctant to on-lend to them and considered it safer to park excess funds with RBI.

Surplus liquidity showed up in declining of average daily turnover in the call money market to Rs. 0.22 lakh crore in April 2020, less than half of the average turnover of Rs. 0.47 lakh crore in March 2020. Consequently, the weighted average call rate (WACR) averaged closer to the reverse repo, at 4.01 per cent in April 2020 when compared to 4.94 per cent in March 2020.

The steepening of yield curve followed with daily weighted average yield on G-secs with one-year residual maturity falling by 81 bps, 5-year residual maturity by 41 bps and 10 year residual maturity by 16 bps from 31st March, 2020 on 30th April, 2020. Subsequently, the RBI conducted special OMOs (buying long term papers and selling short term securities) as announced on 27th April, 2020 to ease the elevated term premia. Consequently, RBI's special OMO along with secondary market debt auctions softened 10-year G-Sec yields further to 5.73 per cent on 8th May, 2020, reaching their lowest since 2009. Typically, when the Central Bank's stance of monetary policy is accommodative, as the RBI's current stance is, the yield spread is expected to be much lesser. However, yield on the 10-year G-Sec yield is still 133 bps above the RBI's repo rate as on 8th May, 2020.

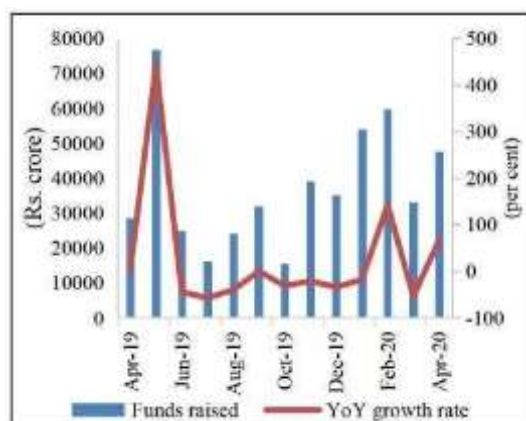
Fig. 23: Yield on Residual Maturity of Government of India Dated Securities in Secondary Market



Data source: Clearing Corporation of India (CCIL)

In the corporate bond market, RBI's TLTRO auctions combined with surplus system liquidity to result in 43 per cent increase in funds raised by Indian corporates from the primary market during April 2020 compared to March 2020. This may suggest that large corporates are accessing liquidity from the market at lower cost.

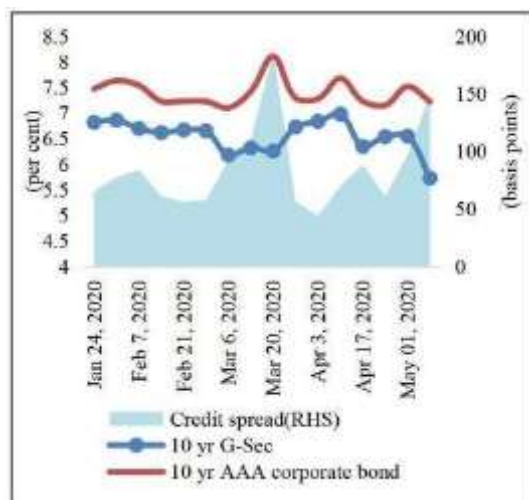
Fig. 24: Primary corporate bond market



Data source: CMIE Prowess.

Yet, 10 year AAA corporate bond yields rose from 7.15 per cent on 24th April, 2020 to 7.6 per cent on 30th April, 2020 after Franklin Templeton Mutual Fund voluntarily closed its six debt schemes citing redemption pressure. With RBI's timely intervention of opening a Rs 50,000 crore window for mutual funds and regulatory benefits to all banks under Statutory Liquidity Facility - Mutual Funds (SLF-MF), corporate bond yields have eased to 7.2 per cent as on 8th May, 2020.

Fig. 25: Benchmark bond yields



Data Source: FBIL, CMIE

The credit spread however continues to remain wide at more than 100 bps in first week of May, 2020. In times of unquantifiable uncertainty brought in by COVID pandemic, credit spreads may take a while to narrow.

11. Expansionary fiscal policy is on course in FY 2020-21 to mitigate the adverse economic impact of COVID-19, with increase in market borrowings by Central and State governments. As on May 1, 2020, while Centre raised 88 per cent of its gross borrowings in the corresponding period last year, States raised more than 1.75 times, both on gross and net basis.

For FY 2019-20, fiscal deficit was budgeted at 3.3 per cent of GDP, which was revised to 3.8 per cent. This was consistent with Centre's net revenue receipts growing by 8.9 per cent during April-February of FY 2020-21 over the corresponding period of FY 2019-20, while total expenditure increased by 25 lakh crore. Revenue and capital expenditure grew by 12.8 per cent and 11.4 per cent respectively during this period. Growth in GST collections declined from 8.4 per cent (YoY) in February 2020 to (-)8.4 per cent in March, 2020.

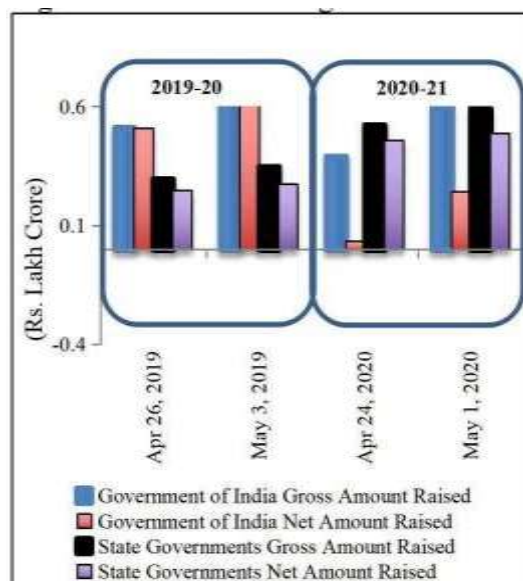
Central Government on 31st March, 2020 announced that it will borrow Rs. 4.88 trillion or 62.56 per cent of the FY 2020-21 gross borrowing target in April-September, more than half the budgeted amount half way into the year. With RBI raising limits of Ways and Means Advances (WMA) for Centre and states in April 2020, the Central government increased the utilization of this window to reach 56 per cent of the limit as on 24th April, 2020. State governments, however, only used up 2.2 percent of the limit available, relying more on market borrowings.

Government of India in consultation with RBI has revised issuance calendar for marketable dated securities for the remaining period of H1:2020-21 (11th May to 30th September, 2020). In this period, Government plans to borrow 6 lakh crore as against its original plan (Rs. 5 lakh crore announced on March 31). The estimated gross market borrowings of the Centre in FY 2020-21 has been revised upwards by 54.8 per cent to Rs. 12 lakh crore in place of Rs. 7.8 lakh crore as per BE 2020-21, necessitated on account of COVID-19 pandemic.

In so far as actual borrowings in FY 2020-21 are concerned, Centre's gross market borrowings picked up in the week ending 1st May, 2020 to reach Rs. 60,000 crore, 88 per cent of

the amount borrowed in the corresponding period of last year. States continued to be active borrowers in April 2020, raising more than 1.7 times both on gross and net basis compared to last year.

Fig. 26: Market borrowings of Government



Data Source: RBI

Yet, surplus liquidity in the banking system resulted in 10-year G- Sec market yields falling by 30 bps during April 2020, although, they started to rise in the second half of April 2020.

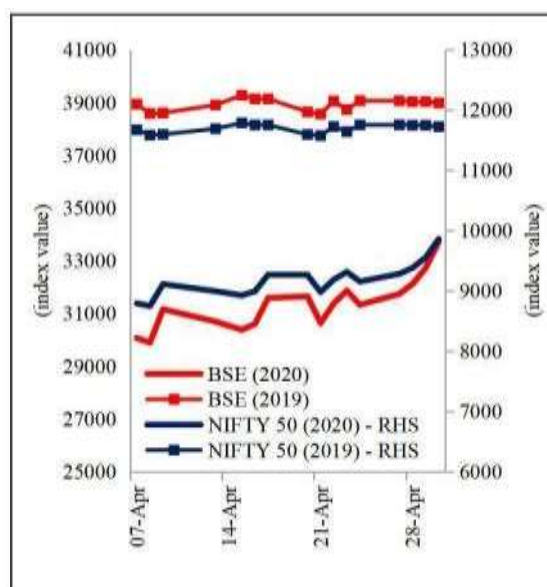
With RBI conducting special Open Market Operation (OMO) (purchase of long term and sale of short term G-Secs for Rs. 10,000 crore each) on 27th April, 2020 and secondary market debt auctions subsequently, yields eased by as much as 111 bps from 6.84 per cent on 3rd April, 2020 to 5.73 per cent as on 8 May, reaching their lowest since 2009.

11.7 In April 2020, RBI also introduced a separate Fully Accessible Route (FAR) for investment by non- residents in specified gilt securities with such securities attracting no foreign portfolio investor (FPI) limits until maturity. Overall FPI investment limit as percentage of outstanding government stocks for FY 2020-21 was kept unchanged. With continuous selling in G-Secs by FPIs post emergence of COVID, general category FPI utilisation of investment limit in Central G-Secs has fallen to 55 percent as on 30th April, 2020, compared to the peaks of over 75 per cent at the beginning of 2020.

12. Indian benchmark equity indices recorded largest gains in April 2020 after plummeting in March 2020, buoyed by optimism over lockdown easing in major global economies, stimulus packages by Central Banks and governments, expanding business activity in China and encouraging COVID-19 drug trial results in the US.

Nifty 50 and Sensex recorded large gains in April 2020, helping them recoup losses driven by the Covid-19 outbreak. Nifty 50 and BSE Sensex rose by 14.7 per cent and 14.4 per cent (MoM) respectively in April 2020 after a sharp decline of 23 per cent (MoM) in March 2020.

Fig. 27: Stock market movements



Data Source: RBI.

The surge in equity market indices in April 2020 happened as equity markets tracked gains in global peers on optimism about a COVID-19 drug to treat the pandemic that has brought the world to a standstill. Stimulus packages by Central Banks and governments across the globe and the US Federal Reserve's commitment to aggressive monetary policy to revive the economy also boosted global market sentiment. Government of India permitted industries in green and orange zones to start operations from 20th April, 2020 and gave its nod for functioning of neighbourhood and standalone shops from 25th April, 2020.

Sectoral indices also sustained the market gains in April 2020. Top gainers were drugs and pharmaceutical, petroleum products, automobile and metals whose stocks yielded 35% per cent returns during the month. The laggards were transport services, electricity, machinery and gems & other ornaments which posted single-digit returns.

13. IMF has projected India's GDP growth at 2 percent in FY 2020-21 but Government is cognizant of the relative severity of lockdown on economic activity in the country and is cautiously optimistic about the signals from Indian benchmark equity indices.

In February 2020, National Statistical Office had estimated real GDP growth for FY 2019-20 at 5.0 per cent and this was before COVID-19 made its presence felt in India. The last week of March 2020 was, however, clearly a COVID-19 impacted month as India closed FY 2019-20 with a lockdown of one week. This guided IMF's downward revision of India's GDP growth estimates of FY 2019-20 to 4.2 per cent in its WEO statement of April 2020.

13.2 For FY 2020-21, the Economic Survey in January, 2020 projected India's GDP growth at 7 percent. However, WEO of April, 2020, after factoring in the COVID-19 impact, has projected India's GDP in FY 2020-21 at 2 percent.

13.3 Within the global downturn, India is among the handful of countries that is projected by IMF to have positive growth in FY 2020-21. In fact, India's growth is the highest estimated growth by IMF for FY 2020-21 among G-20 economies, with the country assume to post a uncertainturnaround and resume its pre-COVID trajectory by growing at 7.5 per cent in FY 2021-22.

These are still early days in FY 2020-21 and COVID-19 is yet to abate in India. The country's actual GDP growth in FY 2020-21 will be contingent upon the intensity, spread and duration of the COVID-19 pandemic within national territory. On the external front, downside risks to India's growth emerge from the high possibility of global pacedown deepening and supply chain disruptions getting exacerbated due to prolonged spread of COVID-19 and lockdowns across all countries.

As India continues to tackle the health crisis unleashed by the COVID pandemic, the focus has now shifted to revive the economy which has been debilitated by the lockdown. Government of India and RBI are working towards implementing substantial targeted fiscal and monetary measures to support affected sectors of the economy.

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