Ministry Of External Affairs
Government Of India

ECONOMIC DIPLOMACY & STATES DIVISION

MONTHLY ECONOMIC REPORT

APRIL 2020

CONTENTS

ECONOMIC PERFORMANCE

The global growth momentum has been severely disrupted by the Coronavirus (COVID-19) pandemic. The International Monetary Fund's (IMF) World Economic Outlook for April 2020 projects global output in 2020 to contract by 3% with the output of advanced countries contracting more than emerging markets and developing economies. The month saw leading indices of manufacturing, services across countries declining to record lows on the back of supply-side disruptions. Global energy prices plunged, US unemployment rates surged to double digits, Eurozone consumer confidence, and UK retail spending fell, signaling the onset of a demand crisis as well. Governments and Central Banks around the world have responded by announcing stimulus packages and liquidity injections. On May 12, 2020, the Prime Minister of India, Shri Narendra Modi, announced a package of nearly Rs.21 trillion (over US$277 billion), 10% of GDP, inclusive of previous liquidity support by RBI and fiscal stimulus by the Government.

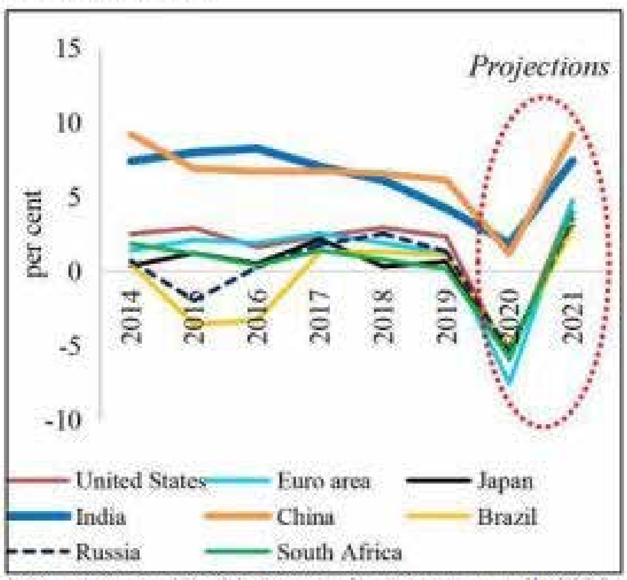
Following a cyclical downturn, the Indian economy had begun to regain momentum with clear signs of an uptick in consumption and investment towards the end of Q3 2019-20, only to be halted by the pandemic that made the Government enforce country-wide lockdown in late March 2020. Green shoots had appeared with the Index of Industrial Production (IIP), the Index of Core Industries (ICI), and merchandise exports rebounding with positive growth in February 2020 along with signs of revival in consumer sentiment. However, the sharp negative growth of merchandise exports and imports in March 2020 gave the first signs of distress that had already entered India's economic space. With the imposition of lockdown from March 24, FY 2019-20 closed with seven days of economic inactivity. As the lockdown continued, manufacturing/services activity came to a halt in April 2020 leading to supply-side disruptions and overall demand falling to unprecedented lows that fed into PMI indices going into a free fall.

Agriculture and allied activities, however, showed continued resilience on the back of all-time production highs and huge buffer stocks of rice and wheat. Amid severe COVID-19 induced supply chain disruptions, harvesting, and procurement operations gathered momentum with an active FCI and supportive railways increasing volumes of transferred food grains. The IMF has projected India's GDP growth in FY 2020-21 at 1.9%, and 7.4% a year later. The Government is aware of the severity of the nationwide lockdown on economic activity and is cautiously optimistic about the revival of growth later in the year. Herein, India's stimulus plan, which includes provisions ranging from policy and regulatory amendments to aid the economy to emergency relief and assistance for the worst-affected in the crisis, is expected to assist the country return to its growth trajectory and reclaim the fastest-growing major economy status.

GLOBAL GROWTH SEVERELY DISRUPTED AMIDST COVID-19:

- As per IMF's World Economic Outlook (WEO) (April 2020), 2020-21 is projected to experience the worst recession since the Great Depression, far worse than the 2008 Global Financial Crisis, with global growth contracting by 3%. The total loss to global GDP over 2020, 2021 is estimated at around US$9 trillion – greater than the economies of Japan and Germany, combined.

Real growth across countries and country groups



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

- Growth in advanced countries, experiencing widespread and intense virus spread, is projected to contract sharply by 6.1% in 2020. Emerging Market and Developing Economies (EMDE), facing multilayered health, external, commodity, and confidence shocks are projected to contract by 1% in 2020. Excluding China, the growth rate for the group is expected to be (–) 2.2%.

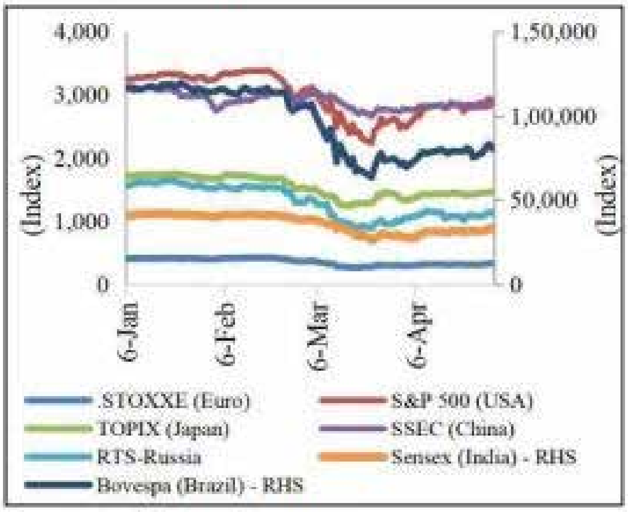
- April 2020 became the month of "Global Lockdown" with world economic activity coming to a standstill, as pointed by surveys of purchasing managers. JP Morgan Global Composite PMI plummeted to 26.5 in April 2020, down by a record 12.7 points from March 2020 and far below its record low of 36.8 during 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 the Manufacturing Output Index (12.3 points), Services Business Activity Index (12.8) has been the steepest so far.

LEADING ECONOMIES

- Real GDP in the US declined by 4.8% in Q1 2020. The unemployment rate surged sharply to 14.7% in April 2020 as against 4.4% in March 2020. While industrial output contracted by 15% (YoY) in April 2020, retail sales contracted even more by 21.6% (YoY).
- The Euro Area witnessed slower growth of 1.2% in 2019 vis-à-vis 2018 (1.9%) and is projected to contract sharply by 7.5% in 2020- 21 by WEO. The Euro Government estimated GDP growth for Q1:2020-21 at (-)3.2%.
- UK's industrial production declined by 2.8% in February 2020, a consecutive decline since December 2019 and its retail sales contracted sharply by 5.8% in March 2020.
- In Japan, the coronavirus impact was delayed compared to other Southeast Asian economies. While Japan's industrial production declined by 3.7% in February 2020, its exports, growing negatively in the previous months, crashed by 11.7% in March 2020.

Global Equity Indices in 2020



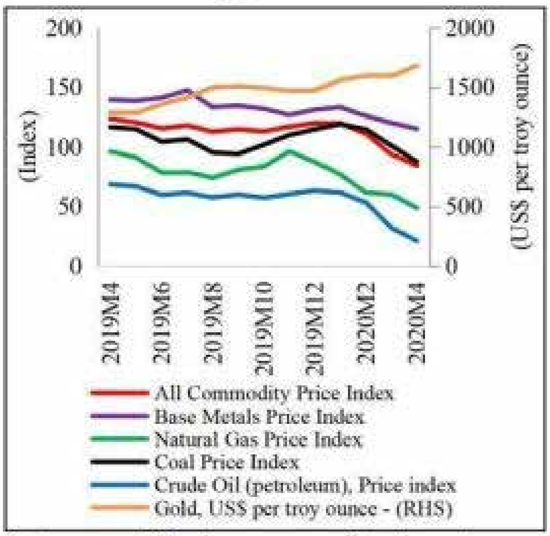
Data Source: Thomson Reuters.

- China, the initial epicenter of the outbreak, saw a record low output growth for the January-March quarter at (-)6.8%. Industrial production growth (YoY) picked up to 3.5% in April 2020 after declining by 1.1% in March and 13.5% in February 2020, respectively, although producer prices continued to be negative.

COMMODITY, FINANCE

- COVID-19 demand shock has adversely impacted consumption in energy and metals, as reflected in plunging global commodity prices. 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% with metals like copper falling about 16.1% and natural gas prices declining by 36.6%.
- Global oil demand dropped to its lowest since 1995, at 29 million barrels/day (b/d), in April 2020, according to the Energy Information Administration (EIA). Brent crude oil price, after nearly halving between January and March 2020, plunged to a two-decade low of US$18.7/bbl in April 2020. The Indian basket of crude oil averaged only a bit higher at US$19.9/bbl.
- Gold prices spiked by as much as 8.3% in the first 14 days of April 2020. Prices hovered around the US$1,700 per troy ounce mark in the second fortnight of April 2020, which was its highest valuation in the last seven years. The gold rally had started in May last year on fears of the global economy slowing down. This transformed into a more definite expectation of a global recession with COVID-19 pandemic hitting every corner of the world.
- Amidst COVID-19, financial markets are demonstrating their oldest rule, "fear begets more fear." Global financial conditions tightened in March 2020 with dramatic sell-offs in equity markets and widening of high-yield corporate and sovereign spreads with a modest recovery in April 2020.
- Currencies of commodity exporters amongst emerging markets and advanced nations have depreciated sharply since the beginning of 2020. The US$ and Yen have appreciated by about 3% in real effective terms at the end of March, and the Euro by some 2%.
- Governments and Central Banks around the world 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 eight stimulus plans are among the initiatives taken by Governments globally.

Commodity price movements

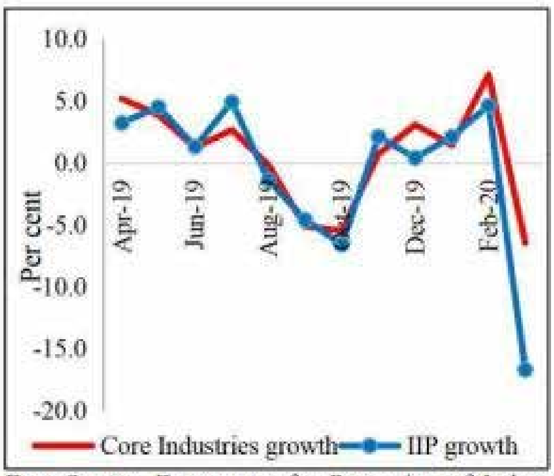


Data source: IMF primary commodity price system.

INDIA'S PRE-COVID RECOVERY

- IIP rebounded from negative growth in Q3 2019-20 to 2.1% in January 2020, and 4.5% in February 2020, the highest level observed since July 2019. Mining (10%) and electricity (8.1%) 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.
- The core index representing the eight core industries witnessed the highest growth at 5.6% in February 2020, after March 2019. Five of the eight core industries registered a positive growth in output led by electricity generation (11%), coal (10.3%), and cement production (8.6%).
- On the external front, merchandise exports showed robust positive growth in February 2020 at 2.9% after a gap of six months. Exports of services registered a positive growth of 6.9% in February 2020 while imports grew by 12.8%.
- Inflationary pressures eased with CPI inflation declining from 7.6% in January 2020 to 6.6% in February. Food inflation (13.6%) driven by onion prices in January 2020 also fell to 10.8% in February 2020.
- According to RBI's Consumer Confidence survey conducted in the last week of February 2020, consumer sentiment marginally improved to 85.6 in March 2020 from the all-time low of 83.7 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.

Growth Rate in Index of Industrial Production and Eight Core Industries



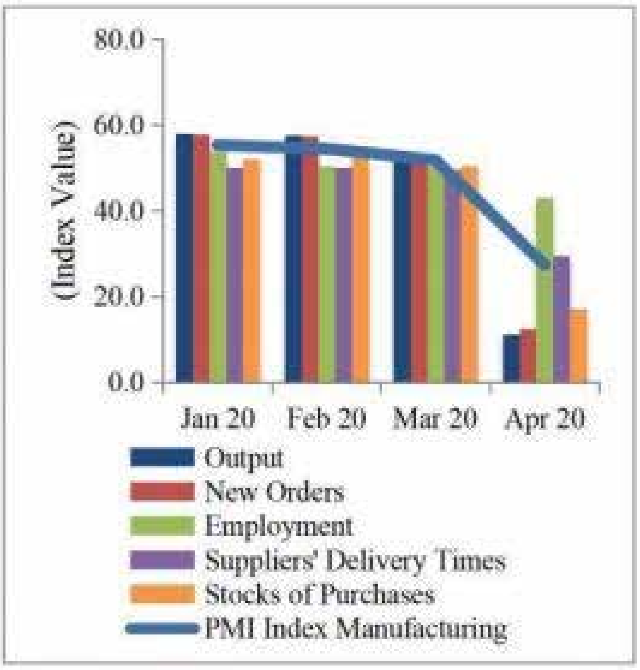
Data Source: Department for Promotion of Industry and Internal Trade, Ministry of Statistics and Programme Implementation.

COVID-LED SLOWDOWN IN INDIA

- RBI's survey on Industrial Outlook of the Manufacturing Sector in H2 March 2020 witnessed a very sharp deterioration in business sentiments across sectors for Q4 2019-20 and stark pessimism for Q1 2020-21 when compared to the assessment in the regular survey (Jan-Mar 2020).
- These sentiments got realized with export growth turning sharply negative at (-)34.6% (YoY) in March 2020. All commodity groups registered negative export growth except for iron ore which grew by 58.4%.
- Oil meals (-70%), meat, dairy & poultry (-45.5%) and engineering goods (-42.3%) experienced the largest downward movement.
- Cumulative exports for FY 2019-20 fell by 4.8% (YoY) to US$314.3 billion. Cumulative imports for FY 2019-20 fell by 9.1% (YoY) to US$467.2 billion. Imports grew negatively at (-)28.7% (YoY) in March 2020, reflecting a weakening of growth impulse in India and disruption of global supply chain feeding into the country's imports.
- Cumulative oil imports for FY 2019-20 fell to US$129.4 billion (-8.2%), while non-oil imports fell by 9.5% to US$337.8 billion. With these developments, the merchandise trade deficit for FY 2019-20 narrowed to US$152.9 billion as against a deficit of US$184.0 billion in the previous year.
- 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% (YoY) in March 2020 with manufacturing shrinking sharply by 20.6% (YoY).
- For FY 2019-20, industrial production declined by 0.7% compared to last year. Eight core sectors also declined by 6.5% (YoY) in March 2020, recording its steepest fall since 2012.
- Construction and manufacturing got disrupted with a 24.7% fall in cement production and a 13% decline in steel output.

- While production of petroleum refinery products fell by 0.4% during the month, consumption of petroleum products fell much more by 17.8%, the worst fall since 2004. Diesel consumption was lower by 24.2% and petrol sales fell by 16.4%.
- The revival in power output in January 2020 turned around with a sharp fall in power demand by 8.2% (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 the greatest decline in commercial vehicles (-88.1% (YoY)) and passenger cars (-53.3% (YoY)).
- Lockdown induced supply chain disruptions also negatively affected infrastructure industries with domestic air passenger volumes falling by 11.8% (YoY) in March 2020 with railways freight traffic (-13.9%) and port traffic (-5.2%) also declining sharply.

PMI Manufacturing India and its components

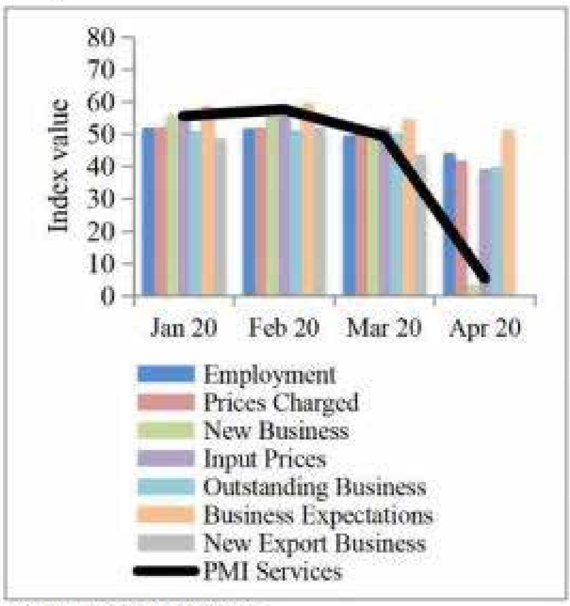


Data source: IHS Markit.

ECONOMIC ACTIVITY

- 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.
- There was evidence of unprecedented supply-side disruption with input delivery times lengthening to the greatest extent during the 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.
- Railways freight traffic declined by 35.5% (YoY) in April 2020, reflecting the laggard performance of other input industries like cement, iron, steel, power, and coal.
- Even after a partial easing of COVID-19 lockdown, power demand continued to decline for the 2nd month in April 2020, falling significantly by 29.9% (YoY). Negligible commercial and industrial activity, along with favourable weather during April this year weighed heavily on power demand.
- Coal India's (CIL) off-take of coal plunged by 25.5% (YoY) in April 2020 to 39.1 million tonnes while CIL's coal production fell by 10.9% (YoY) to 40.4 million tonnes.
- 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.
- 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).

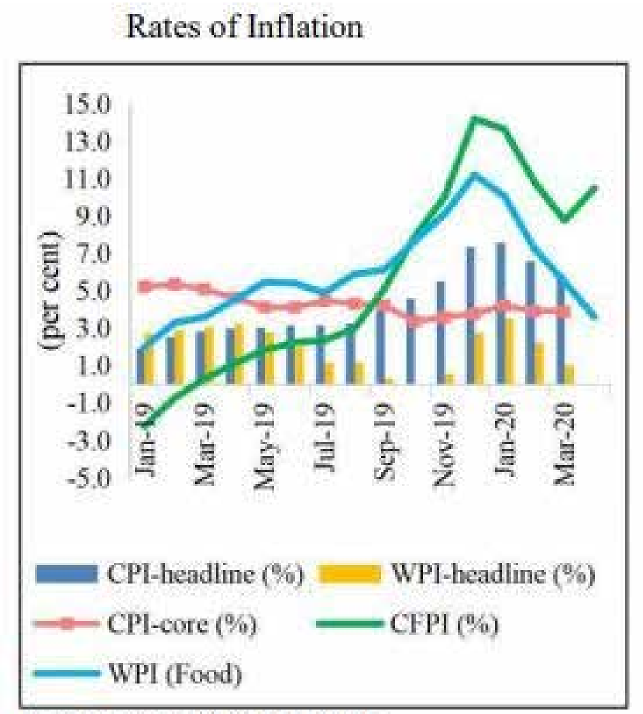
PMI Services India and its components



Data source: IHS Markit.

IMPACT ON INFLATION

- Based on data gathered up to March 19, 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% (YoY) in March 2020 as compared with 6.6% in February 2020. Food inflation declined to 8.8% in March 2020 (10.8% in February 2020).
- The decline of Wholesale price inflation (WPI) to 1% in March 2020 (2.26% in February 2020) reaffirmed weak demand pressure.
- Daily data on 22 essential food items covered by the Department of Consumer Affairs (DCA) suggests that average retail prices increased by 4.2% in April 2020 over March 2020.
- Price changes continued to remain volatile owing to supply-side constraints with the price of potato (15.1%), wheat (4.4%), and pulses (9.2%) having increased while onion (-10%) declining sharply in April 2020 over March 2020.
- These results are visible in April 2020 Consumer Food Price Inflation (CFPI) excluding meat and fish, rising by 1.7 percentage points from March 2020 to 10.5% in April 2020. Truncated data for WPI, however, suggested food inflation easing to 3.6% in April 2020 against 5.49% in March.
- Prices of non-subsidised LPG declined for three straight months with a record Rs.162.50 per cylinder cut in prices at the end of April 2020, in line with the slump in benchmark international rates.
- Oil prices (Indian basket) declined by 40% from US$33.36/bbl in March 2020 to US$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.

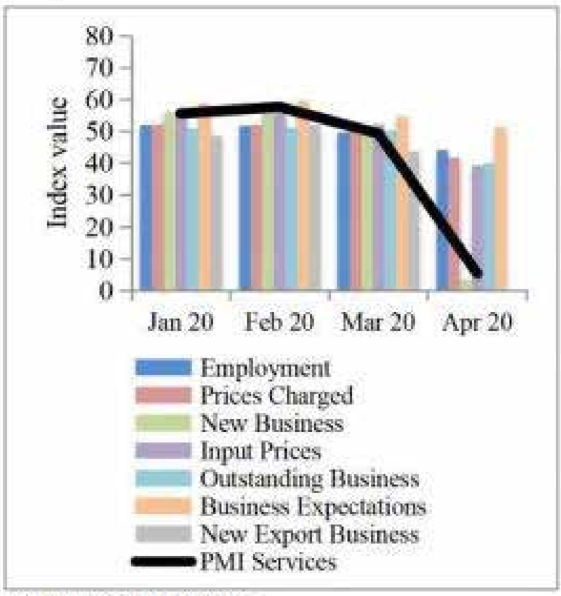


Data Source: MoSPI and DPIIT.

THE EXTERNAL SECTOR

- India's CAD narrowed to 0.2% of GDP in Q3 2019-20 from 2.7% a year earlier on the back of lower trade deficit and rise in net service receipts. The narrowing is also perceptible in the April-December period with CAD declining from 2.6% of GDP in 2018-19 to 1% in 2019-20.
- Private transfer receipts, mainly representing remittances by Indians employed overseas, increased to US$20.6 billion in Q3 2019-20, up by 9% from their level a year ago. Net external commercial borrowings (ECBs) stood at US$3.2 billion in Q3 2019-20, 2019, compared with US$2 billion a year earlier.
- Net Foreign Direct Investment (FDI) inflows rose from US$1.98 billion in February 2020 to US$ 2.87 billion in March 2020, resulting in cumulative net inflows of US$42.7 billion during 2019-20, up from US$30.7 billion a year ago.
- Net FPI, however, challenged the BoP as it witnessed a sharp outflow of US$16.16 billion in March 2020 from an inflow of US$1.02 billion in February 2020, resulting in a cumulative net outflow of US$140 million in FY 2019-20, compared to a net outflow of US$620 million last year.
- With FPIs exiting from Indian equities for consecutive three months, the rupee was bound to be under pressure. Most emerging market (EM) currencies depreciated including the Indian rupee which depreciated from Rs.74.30/US$ in March 2020 to Rs.76.20/US$ in April 2020. Further the US$ appreciated by about 3% 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.
- India's external debt to GDP ratio has remained low at about 20% during the last three years. India's external debt outstanding as of end-2019 stood at US$563.9 billion (20.1% of GDP).
- Despite facing massive sell-offs in the equity market amid fear surrounding COVID-19, India's foreign exchange reserves continued to stand strong at US$481.1 billion with an import cover of more than 11 months as of May 2020.

PMI Services India and its components



Data source: IHS Markit.

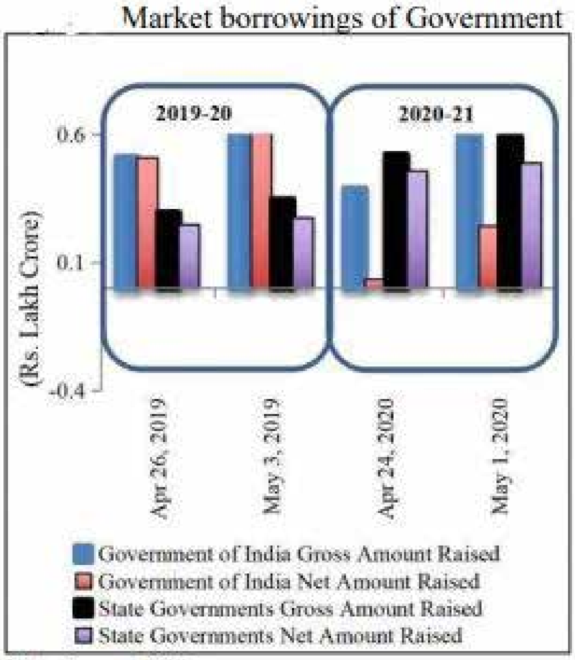
- India’s merchandise exports exhibited a sharper negative growth from (-)34.6% (YoY) in March 2020 to (-)60.3% in April 2020 to reach US$10.4 billion. Merchandise imports also registered a sharper negative growth in April 2020 at (-)58.7% (YoY), as compared to (-)28.7% in March 2020 to reach US$17.1 billion. This yielded a fall in the merchandise trade deficit from US$9.8 billion in March 2020 to US$6.8 billion in April 2020.
- 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 the current account balance is expected to emerge in Q4 2019-20.

AGRI & ALLIED INDUSTRY

- The total production of foodgrains during FY 2019-20 was estimated at 295.7 million tonnes compared with 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.
- FY 2020-21 is also appearing to be promising as pre-monsoon Kharif sowing had progressed strongly by the first week of May 2020, with acreage of paddy up by 37% and that of pulses, coarse cereals, and oilseeds higher by 61%, 66%, and 27%, respectively, as compared to the previous season.
- The Indian Meteorological Department (IMD) has forecasted a normal southwest monsoon for the 2020 season, with rainfall expected to be 100% of the long-period average. These developments bode well for agricultural production.

INDIA'S FISCAL POLICY

- For FY 2019-20, the fiscal deficit was budgeted at 3.3% of GDP, which was revised to 3.8%. This was consistent with the Centre's net revenue receipts growing by 8.9% during April-February of FY 2020-21 over the corresponding period of FY 2019-20, while total expenditure increased by 12.6% in this period to Rs.24.7 trillion.
- Revenue and capital expenditure grew by 12.8% and 11.4%, respectively, during this period. Growth in GST collections declined from 8.3% (YoY) in February 2020 to (-)8.4% in March 2020.
- The Central Government on March 31, 2020 announced that it will borrow Rs.4.88 trillion or 62.56% of the FY 2020-21 gross borrowing target in April-September, more than half the budgeted amount halfway into the year.



Data Source: RBI

- 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% of the limit as on April 24, 2020.

- State governments, however, only used up 2.1% of the limit available, relying more on market borrowings.
- The government of India in consultation with RBI has revised the issuance calendar for marketable dated securities for the remaining period of H1 2020-21 (May 11 to September 30, 2020). In this period, the Government plans to borrow Rs.6 trillion as against its original plan (Rs.4.88 trillion announced on March 31).
- The estimated gross market borrowings of the Centre in FY 2020-21 has been revised upwards by 53.8% to Rs. 12 trillion in place of Rs.7.8 trillion as per BE 2020-21, necessitated on account of COVID-19 pandemic.
- So far as actual borrowings in FY 2020-21 are concerned, the Centre's gross market borrowings picked up in the week ending May 1, 2020 to reach Rs.600 billion, 88% 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.
- 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% (March 27, 2020) and the reverse repo rate by 115 bps to 3.75% (April 17, 2020) to enable better credit flow to the financial market and eventually to small businesses.

MARKET ACTIVITY

- 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% and 14.4% (MoM) respectively in April 2020 after a sharp decline of 23% (MoM) in March 2020.
- 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.
- The Government of India permitted industries in green and orange zones to start operations from April 20, 2020, and gave its nod for the functioning of the neighbourhood and standalone shops from April 25, 2020.
- Sectoral indices also sustained the market gains in April 2020. Top gainers were drugs and pharmaceuticals, petroleum products, automobiles, and metals whose stocks yielded 20-30% returns during the month. The laggards were transport services, electricity, machinery, and gems & jewelry which posted single-digit returns.

- The 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, the National Statistical Office had estimated real GDP growth for FY 2019-20 at 5% 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% in its WEO statement of April 2020. For 2020-21, the Economic Survey in January 2020 projected India's GDP growth at 6-6.5%. However, WEO of April 2020, after factoring in COVID-19 impact, has projected India's GDP growth in 2020-21 at 1.9%.
- Amid the global downturn, India is among the handful of countries that is projected by the IMF to have positive growth in FY 2020-21. India's growth is the highest estimated growth by IMF for 2020-21 among G-20 economies, with the country expected to post a sharp turnaround and resume its pre-COVID trajectory by growing at 7.4% 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 the national territory. On the external front, downside risks to India's growth emerge from the high possibility of global slowdown deepening and supply chain disruptions worsening due to the spread of COVID-19 and lockdowns across countries.
- As India continues to tackle the health crisis, the focus has now shifted to revive the economy which has been debilitated by the lockdown. The Government of India and RBI are working towards implementing substantial targeted fiscal and monetary measures to support affected sectors of the economy.

For more information: Ministry of Finance, Department of Economic Affairs
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