Ministry Of External Affairs
Government Of India

ECONOMIC
DIPLOMACY
& STATES
DIVISION

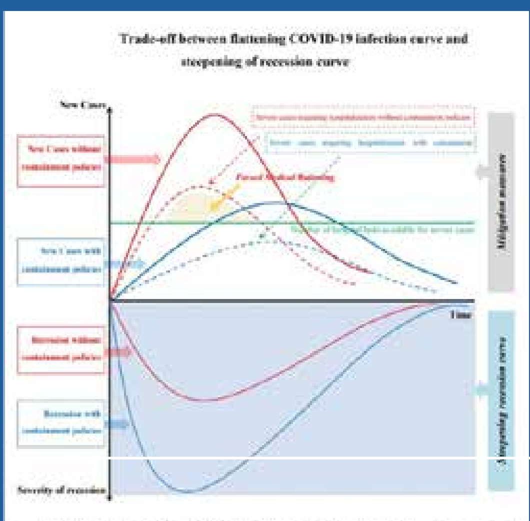
MONTHLY
ECONOMIC REPORT

JUNE 2020

CONTENTS

ECONOMIC PERFORMANCE

As of June 2020, COVID-19 has spread to over 200 countries, including India, with the total number of confirmed cases exceeding 10 million and the virus claiming over 500,000 lives. Globally, strict lockdowns were imposed from mid-March through mid-May with economies gradually reopening since then. India, which currently ranks fourth in terms of confirmed as well as active COVID-19 cases after the US, Brazil and Russia, had also imposed a strict lock-down from March 25. Following which, the month of April saw an economic standstill with restrictions on various activities easing in May as the Government took the decision of supporting livelihoods that in turn made the containment of the pandemic more challenging. Now, amid a steady rise in recovery rate, India is gradually moving towards an economic revival led by a Rs.21 trillion (+US$280.4 billion) stimulus package aimed at delivering socio-economic security amid the uncertainties of the global pandemic. The package includes policy amendments, regulatory reforms and improved liberalisation to offer new commercial opportunities while ensuring economic development.



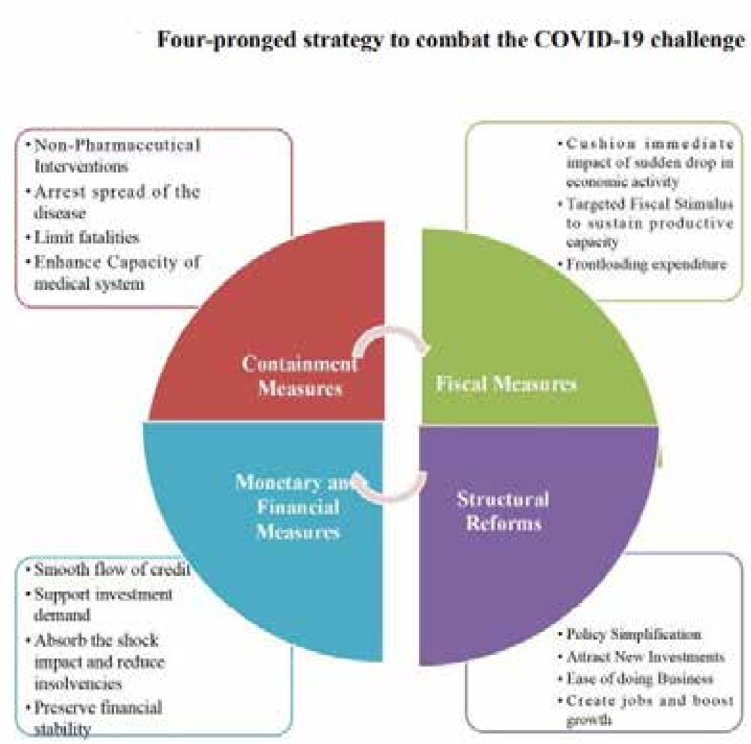
Source: Adapted from Gourinchas, P-O (2020), "Flattening the Pandemic and Recession Curves", online manuscript.

The country entered the unlock phase in June, 2020. The loss of economic output from more than two months of lock-down was first triggered from the supply side as labour stayed away from work. The demand side caused further loss of output as consumption of goods, services dependent on customer mobility fell. This twin supply-demand shock on output subsequently led to loss of income, which caused further drop in consumption, resulting in further loss of output. Owing to such COVID-19 supply-demand shocks, IMF's June 2020 WEO update projected India's output growth at (-) 4.5 per cent in 2020-21 and that of the world's at (-) 4.9 per cent. Readings of high frequency indicators in India, however, indicate emergence of green-shoots. Total digital retail financial transactions through NPCI platforms rose sharply from Rs.6.7 trillion in April, 2020 to Rs. 9.7 trillion in May, 2020. Consumption of petroleum products rose by 47 per cent from 9.9 million tonnes in April to over 14.6 million tonnes in May moderating its year-on-year contraction from (-) 45.8 per cent to (-) 23.2 per cent across the two months.

Meanwhile, FDI in India recorded an inflow of US$73.45 billion in FY 2019-20, an increase of 18.5 per cent over the previous fiscal. India's forex reserves stood at US$505.6 billion as on June 19. Economic growth of pre-COVID times, as and when restored through fuller unlocking of the economy, will heavily lean on the reforms being undertaken right now to enhance its future potential.

COVID-19 FISCAL POLICY MEASURES (END-JUNE)

- India has largely flattened the curve with early containment measures. One of the lowest death rates amongst large countries wherein recoveries are outgrowing active cases.
- Record food grain production at 295.67 million tonnes in 2019-20 (3.7 percent higher than last year). As on June26, 11.3 million tonnes of food grains were lifted by 36 States/UT.



- Rs.735 billion to 4.2 million farmers towards MSP for wheat, thereby alleviating the added rural distress due to reverse migration of people from cities amid the pandemic.
- Pradhan Mantri Garib Kalyan Yojana, provided assistance of Rs.654.5 billion to 42 million people; PM-KISAN provided Rs.178.9 billion to 89.4 million beneficiaries (first installment).
- Women Jan Dhan provided Rs.139.5 billion to 206.5 million (3 installments); Old age persons, widows, disabled received Rs.28.1 billion to 28.1 million (2 installments).
- Building and Construction workers provided Rs.43.1 billion benefitting 85.2 million workers; Daily wage rose from Rs.182 to Rs.202 to benefit 136.2 million households.
- 116 districts identified in 6 states of Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan, Jharkhand and Odisha for job creation (large concentration of returnee migrant workers).
- Rs.790 billion loans to MSMEs by Public and Private Sector Banks as on June 23, of which Rs.350 billion has been disbursed aiding 1.9 million businesses post-lockdown.
- Additional credit of Rs.3 trillion; Extended Partial Guarantee Scheme to help NBFCs & MFIs: Approvals have crossed Rs.550 billion, another Rs.500 billion under process.
- Devolution of Central taxes and duties (Rs.920 billion) to states in April and May; Revenue Deficit Grants to states (Rs.123.9 billion) in April and May; Advance release of SDRF funds.

COVID-19 STRUCTURAL REFORMS (END-JUNE)

- Agricultural sector deregulation is expected to enhance returns to and the outreach of farmers, making agriculture more competitive and enabling barrier-free trade in agriculture produce.
- Following amendment, invested capital will determine the entry into one of the three categories (Micro, Small, Medium) while the turnover will determine the graduation to a higher category.
- Privatization of PSUs except for those in strategic sectors may release resources for deployment to priority sectors including retirement of public debt besides making them more efficient.
- Increase in FDI limit in defence manufacturing from 49% to 74%, boost to private participation in the space, aviation, mining sectors, etc, is expected to raise efficiency and create opportunities.
- Upgradation of industrial infrastructure via provision of industrial land/ land bank and Industrial Information System (IIS) with GIS mapping and VGF scheme to help attract investments.

MACROECONOMY PRE-COVID-19 AND POST

Prior to COVID-19, Index of Industrial Production (IIP) rebounded from negative growth in Q3:2019-20 to 2.2 per cent in January 2020, and 4.6 per cent in February 2020, the highest level observed since July 2019. The sharpest supply shock was witnessed in April, the month of 'lock-down', with IIP declining by a record 55.5 per cent in April 2020. The record contraction in April was more than three times as compared to a (-)18.3 per cent growth in March, with several firms reporting nil production

Contraction in industrial output in April 2020 can be attributed the most to basic metals, petroleum products, chemicals, motor vehicles and machinery production (Table 2). In the manufacturing sector, 12 sub-sectors contributed to approximately 40 per cent of contraction in industrial output. These are motor vehicles, machinery, electrical equipment, computers & electronics, fabricated metal products, textiles, readymade garments. Sectors like motor vehicles, machinery and fabricated metal products are seen to be consistently negative contributors to industrial growth both in pre and post COVID months.

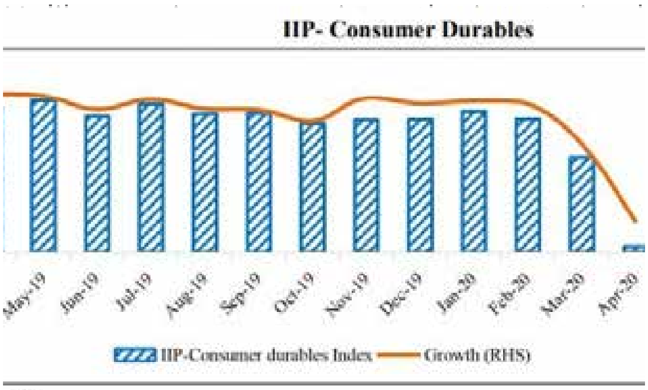
Mining & quarrying activities, which account for 42.2 per cent of the primary goods sector, were exempt during the lock-down, thereby entailing a relatively lower negative contribution. Falling production of capital goods and infrastructure & construction goods (20 per cent contribution to de-growth) also indicated a slump in investment demand.

Source: MoSPI

The ubiquity of COVID-19 supply shock was witnessed in **Eight Core Industries** also registering sharply negative (-)38.1 percent growth in April 2020 as compared to 5.2 percent in April 2019. All eight industries experienced a broad-based decline with the sharpest contractions in cement ((-)86 per cent) and steel ((-)83.9 per cent). Contraction in eight core industries, however, moderated in May to (-)23.4 per cent with fertilizers production increasing by 7.5 per cent in May, 2020 over May, 2019.

Purchasing Managers Index (PMI) Manufacturing for April 2020 also recorded its 20 sharpest deterioration to 27.4, spread across all components. PMI services also plunged to an all-time low of 5.4. With gradual relaxation in lock-down restrictions May onwards, PMI Manufacturing and Services moderately recovered to 30.8 and 12.6 respectively in May. PMI Manufacturing further improved to 47.2 in June with both output and new orders contracting at much softer rates than seen in April and May. Contraction in industrial activity is expected to decline through May and June 2020 as India unlocks.

COVID-19 IMPACT ON CONSUMPTION



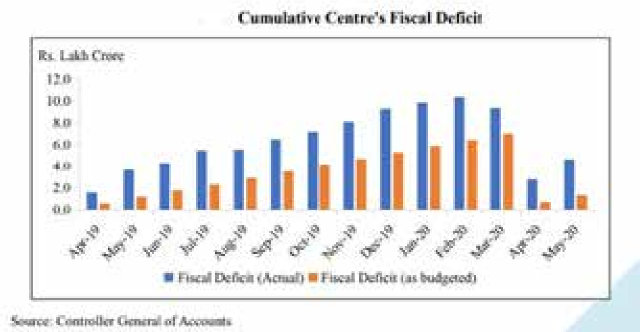
Unlike previous recessions, the intertwined nature of COVID-19 supply and demand shocks is reflected in the consumer durables sector contributing the most to March and April's industrial decline. The production of consumer durables fell by a sharp 95.7 per cent (y-o-y) in April 2020, after declining by 36.5 per cent in March.

According to RBI's Consumer Confidence survey, consumer sentiment sank in May 2020, with the current situation index (CSI) touching historic low of 63.7 and the one year ahead future expectations index (FEI) also recording a sharp fall of 17.3 units to reach 97.9. Overall consumer spending remained afloat, mostly due to relative inelasticity in essential spending; consumers, however, reported sharp cuts in discretionary spending.

With moderate easing of lockdown May onwards, some consumption indicators showed an uptick. Retail payments via digital NPCI platforms, after falling in April, increased sharply in May as compared to April, both in value terms (43.8 per cent) and volume terms (8.4 per cent). Additionally, record y-o-y declines in consumption of petroleum products in March (17.8 per cent) and April (45.8 per cent) moderated in May with a lower 23.2 per cent y-o-y contraction.

After the month of April witnessed an unprecedented zero auto sales for the first time in history, subdued consumption demand in the auto sector continued in May. Vehicle registrations also sharply declined by 88.7 per cent year-on-year in May. However, signs of uptick as per auto companies data and vehicle registrations are visible in June.

COVID-19 IMPACT ON FINANCE



COVID-19 has impacted government fiscal revenues via its detrimental impact on both the income and production side of national accounts. As per provisional accounts (PA) data of central government finances for 2019-20, the fiscal deficit for 2019-20 PA stood at Rs.9.4 trillion which is 4.6 per cent of GDP, 0.8 percentage points higher than the Revised Estimates. This is attributable mainly to a shortfall in revenue collection.

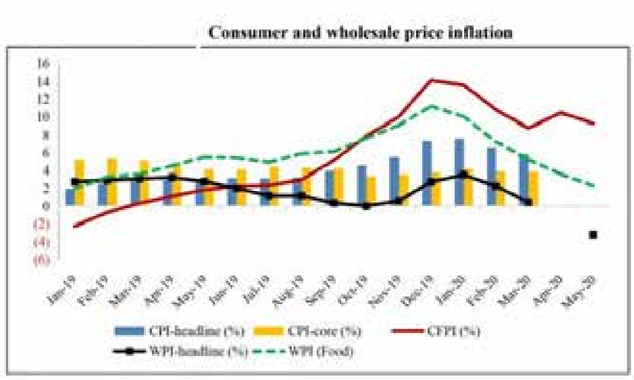
Net Tax receipts for 2019-20 PA stood at Rs.13.6 trillion, 9.9 per cent lower than the amount envisaged in RE (on expected lines). The shortfall in indirect taxes was of the tune of 0.14 per cent of GDP, or Rs.193 billion, which was largely led by a shortfall in customs and GST collections (Centre). On the expenditure side, the revenue expenditure was maintained at the RE level but the capital expenditure registered a cut by Rs.120 billion.

The interruption in economic activity due to COVID-19 has led to a shortfall in revenue collection during the first two months of the FY 2020-21. Fiscal deficit stood at Rs 4.7 trillion till May 2020, which is 58.6 per cent of BE compared to 52.0 per cent during May 2019. Revenue Receipts registered a negative growth of 68.9 per cent, led by negative growth in Personal Income Tax, all indirect taxes and non tax revenue.

Corporation tax registered a massive growth of 1408.1 per cent over May 2019 and stood at 2.5 per cent of BE. Personal Income Tax stood at 5.6 per cent of BE compared to 10.6 per cent till May 2019. Non-Tax revenue upto May 2020 turned out to be less than 62 per cent of the level till May 2019. On the expenditure side, the capital expenditure increased by 15.7 per cent relative to May last year, whereas revenue expenditure fell by 1.9 per cent over May 2019 and stood at 17.4 per cent of BE.

As far as actual borrowings in FY 2020-21 are concerned, the Centre's gross market borrowings upto June 19, 2020 stood at Rs.2.8 trillion, 51 per cent higher than corresponding last year levels. Net borrowings were 12.3 per cent higher than last year levels. States continued to be active borrowers in May and June 2020, raising more than 2 times both on gross and net basis compared to last year as on June 19, 2020.

COVID-19 IMPACT ON INFLATION



Source: MoSPI and Office of Economic Adviser, DPIIT

COVID-19 induced lock-down has caused a massive supply shock that may possibly drive inflation when demand re-emerges back after the crisis. However, with phased reopening of the economy, supply and demand are expected to rise gradually. However, as seen in previous sections, the intensity of supply and demand shocks strongly varies across sectors. Such mismatches are expected to cause variations in inflation for different goods.

Amid supply chain constraints in agricultural markets during lock-down, consumer food and beverages inflation excluding meat and fish increased by 0.8 percentage points from March 2020 (7.82 per cent) to 8.61 per cent in April 2020. However, it eased to 7.4 per cent in May 2020, declining both, in rural and urban areas by 94 bps and 172 bps, respectively, mainly due to a high base effect. Average price level of food & beverages, measured by the CPI, at 151.3 in May 2020, was almost unchanged from April 2020.

Among the food items, vegetables inflation reduced by 10.7 per cent in May as compared to April 2020, possibly due to improving mandi arrivals and reductions in supply disruptions while sugar prices declined by 3.1 per cent. Prices of fish and meat, however, rose sharply by 21 per cent in May compared to April.

On the other hand, weak demand pressures were reaffirmed with CPI inflation in fuel & light groups softening to 1.4 per cent in May 2020 from 2.9 per cent in April 2020. Inflation in housing also moderated to 3.7 per cent in May from 3.9 per cent in the preceding month. However, inflation in health services rose to 4.3 per cent from 2.8 per cent in April 2020, as expected under the health shock.

COVID-19 induced demand shocks drove Wholesale Price Inflation (WPI) to negative territory in May 2020, from 1 per cent in March 2020 with sharpest y-o-y declines seen in crude petroleum and natural gas ((-)46 per cent), mineral oils ((-)37 per cent), basic metals ((-)5.8 per cent), chemicals((-)3.9 per cent) and textiles((-)2.7 per cent).

WPI inflation in motor vehicles, trailers and semi-trailers, though positive (1.8 per cent) in May 2020, has also declined since its January level of 2.4 per cent, while its production stays persistently weak in these months, reflecting the interlinkages of COVID-19 induced demand and supply shocks.

COVID-19 OUTLOOK ON INVESTMENT

While COVID-19's impact on the economy is rapidly evolving, it is driving market volatility on a daily basis, as reflected in movements of volatility index of domestic equity market (VIX) and Economic policy uncertainty index (EPU). With huge uncertainty around the pandemic stemming from the unknown, and the inability to plan for or know what's next, such uncertainty is expected to adversely affect business climate and make firms delay their investment plans.

COVID-19 IMPACT ON TRADE

Amid COVID-19 induced supply chain disruptions, weak external demand and persistent global trade tensions, an adverse impact on trade is expected. For highly import dependent countries like India, the overall effect on net exports may be positive on the back of relatively sharper decline in imports and lower oil prices. India's trade deficit stood at US$3.1 billion in May 2020, the lowest recorded trade deficit since February 2009. Compared to April 2020, the trade deficit narrowed during May with exports in May improving more than imports.

COVID-19 IMPACT ON EXPORTS

After recording an abysmal y-o-y fall of 60.2 per cent in April 2020, India's merchandise exports contracted by a lower 36.5 per cent in May. Iron ore, drugs and pharmaceuticals, chemicals, spices and rice were positive contributors to exports growth in May. Compared to April, major commodities which recorded a lower negative growth contribution included engineering goods, marine products, coffee, oilseeds and carpets amongst others. However, India's top exports in terms of overall share in exports i.e. petroleum products and gems and jewellery continued to be major negative contributors from March to May. While garment industry exports have suffered in both pre and post COVID-19 scenarios, exports of electronic goods have consistently deteriorated since February, possibly reflecting an additional trade impact of an earlier China outbreak.

COVID-19 IMPACT ON IMPORTS

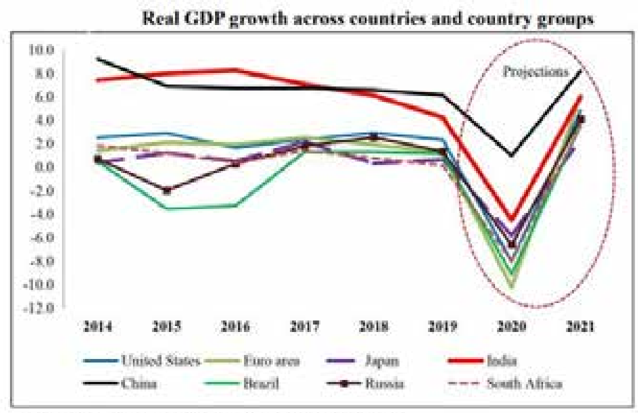
India's top five imports, namely Petroleum crude & products (POL), electronic goods, gold, pearls, precious and semiprecious stones and coal were positive contributors to import growth prior to COVID-19 outbreak. After recording 59.6 per cent y-o-y decline in April, India's imports continued to contract by 51.1 per cent in May 2020. Sharply negative contribution of imports of crude oil and petroleum products accentuated from (-)27 per cent in April to (-)37 per cent in May. The fall in imports came despite a rise in the average price of Indian basket of crude oil from US$20.5 per barrel in April to US$29.7 per barrel in May, reflecting weak domestic demand for petroleum products. Imports of gold and electronic goods showed a similar trend of contraction continuing in May. Iron and steel and wood product imports, however, moved into positive territory in May, with steady improvement since January.

INDIA'S GROWTH OUTLOOK

India's real GDP growth rate was 4.2 per cent in 2019-20 as per the provisional estimates released by the National Statistical Office, compared to 6.1 per cent recorded in previous year. Nominal GDP for the year is estimated at Rs.203.4 trillion, lower as compared to the Budget Estimates. This may be attributed to lower growth in Q4 of 2019-20 due to the global spread of COVID-19 since January 2020 and subsequent lock-down measures across countries including India.

Real GDP growth rate in Q4 of 2019-20 was at 3.1 per cent, a 2.6 percentage point drop from growth rate in 2018-19. Overall inflation as measured by the GDP deflator for 2019-20 works out at 2.9 per cent, lower than 4.6 per cent in 2018-19. Growth of real Gross Value Added (GVA) at basic prices was at 3.9 per cent in 2019-20, as compared to 6.0 per cent in 2018-19. Real GVA growth has declined in almost all sectors except Agriculture & Allied; Mining & quarrying; and Public administration, defence and other services in 2019-20.

EMERGENCE OF GREEN SHOOTS IN ECONOMY



Source: WEO, April 2020 database and June 2020 Update

Early green shoots of economic revival have emerged in May and June with real activity indicators like electricity and fuel consumption, inter and intra-state movement of goods, retail financial transactions witnessing pick up. Electricity consumption saw lower contraction in growth rates from (-) 24 per cent in April to (-) 15.2 per cent in May to (-)11.3 per cent in June (till 28 th June). In June, electricity consumption has continuously improved with year on year contraction declining from from (-)15.6 per cent in the first half of June to (-)7 per cent in the second half of June (as on 28 th June).

Total assessable value of E-Way bills picked up by a massive 130 per cent in May 2020 (Rs.8.98 trillion) compared to April 2020 (Rs.3.9 trillion), though lower than previous year and pre-lock-down levels. Value of E-Way bills generated between 1 st and 28 th June stood at Rs.11.4 trillion.

Consumption of petroleum products, a major indicator reflecting consumption and manufacturing activity in the country increased by 47 per cent from 9.9 million tonnes in April to 14.6 million tonnes in May. Consequently, year-on-year contraction in consumption growth of petroleum products was much smaller at (-)23.2 per cent in May as against (-)45.7 per cent in April. In June, growth in consumption of petroleum products is expected to be still higher after one month of Unlock 1.0.

Railway freight traffic improved by 26 per cent in May (82.6 million tonnes) over April (65.4 million tonnes), though still lower than previous year levels. The improvement is likely to continue in June in sync with growth in movement of goods on National Highways.

Average daily electronic toll collections increased from Rs.82.5 million in April, 2020 to Rs. 368.4 million in May, rising more than 4 times. In the first four weeks of June, it has improved further to Rs.509 million. Total digital Retail financial transactions via NPCI platforms increased sharply from Rs. 6.7 trillion in April, 2020 to Rs.9.7 trillion in May. The trend is expected to continue in June driven by a sustained pick-up in real activity.

The commitment of the Government of India towards both structural reforms and supportive social welfare measures will help build on these “green shoots.” The resolve for ‘Aatmanirbhar Bharat’ will be strengthened with the collective effort of all stakeholders and contribute to rebuilding a strong vibrant Indian economy.

For more information: Ministry of Finance, Department of Economic Affairs
MONTHLY ECONOMIC REPORT 2020

Ministry Of External Affairs
Government Of India

ECONOMIC DIPLOMACY & STATES DIVISION