Ministry Of External Affairs
Government Of India

ECONOMIC DIPLOMACY & STATES DIVISION

MONTHLY ECONOMIC REPORT

JULY 2020

CONTENTS

STATE OF THE ECONOMY

With the forecast of a normal monsoon at 102% of the long-period average (LPA), agriculture, which contributes about 15% of total gross value added, is now set to cushion the shock of the COVID-19 pandemic on the Indian economy in fiscal 2020-21. Timely and proactive exemptions from COVID-induced lockdowns to the sector facilitated uninterrupted harvesting of rabi crops and enhanced the sowing of Kharif crops. A record procurement of wheat has enabled a flow of around Rs.750 billion to the farmers which will boost private consumption in rural areas. Since September 2019, the terms of trade have moved in favour of agriculture and have reinforced rural demand. This has manifested in an increase in rural core inflation between March and June 2020. As a result, the push for growth in the coming months appears to be pitched in rural India. Herein, the recent landmark reforms announced in the agricultural sector will help augment opportunities and productivity in the future.

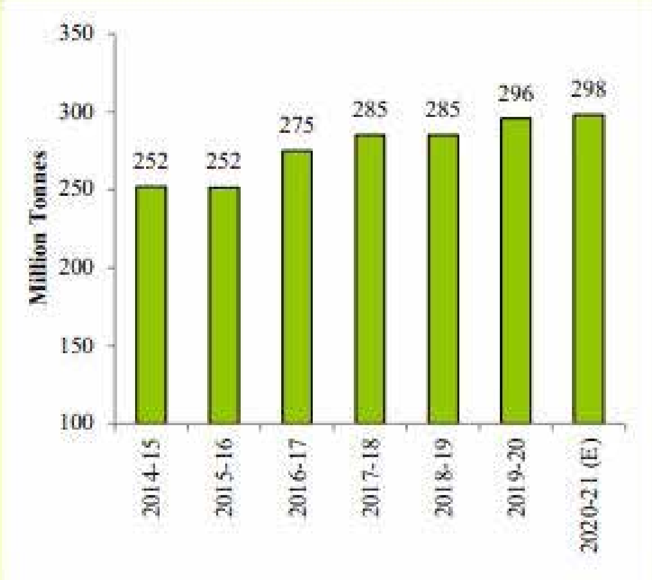
The reforms that have deregulated and liberalized the agricultural sector, further, empower the farmers to become a bigger and more stable participant in India's growth journey. The Farmers' Produce Trade and Commerce (Promotion & Facilitation) Ordinance, 2020 has allowed farmers the freedom to sell and traders to purchase from outside the markets notified under various State agricultural produce market legislations. This freedom to market products has been strengthened by the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Ordinance, 2020. This Act has secured the farmers' interests to engage in remunerative business with agri-business firms, processors, wholesalers, exporters, or large retailers for farm services and sale of future farming produce. Finally, to make the agricultural markets more responsive to demand and supply, the Essential Commodities Act (ECA), 1955 Amendment Ordinance has allowed for the stocking of agricultural produce by both sellers and buyers, by removing stock limits on cereals, pulses, oilseeds, onions, and potatoes. In doing so, the Act has encouraged investment in infrastructure and storage for improved inventory management of agricultural produce. These key ordinances give the freedom to farmers to decide when, where, to whom, and at what price to sell while making buyers of agricultural produce more willing customers at the farm gate.

Urban India and the world at large, however, continue to fight the impact of COVID-19, simultaneously on the health and economic front. The January-March quarter of 2020 saw broad-based reductions in year-on-year GDP growth in advanced economies, ranging from (-) 3.4% to (-) 14.2% and in emerging markets economies, between 2.9% and (-) 6.8%. India, which went into the lockdown mode only in the last week of March, grew at 3.1% in this quarter. Subsequently, in its June 2020 update, the International Monetary Fund (IMF) has projected global output to contract by 4.9% in 2020, while OECD's projections are harsher at 7.6%. GDP figures of April-June quarter of 2020, slated to be released towards the end of August, will throw some light on the expected recovery of the Indian economy. To fight output economic contraction, public authorities across the globe announced a huge fiscal stimulus estimated at US$11 trillion. Complementing it was a massive injection of liquidity by the central banks.

These measures appear to have arrested a free fall of global output as seen in the recent movement of high-frequency real activity indicators. Across the world, trade and related measures may have moderated a sharp contraction in merchandise 3 global trade. Global financial markets have also relatively stabilized with recovery in asset prices, a decline in credit spreads, and an increase in the issue of international bonds by emerging markets. Crude oil markets are re-balancing after an unprecedented demand-induced fall in prices in March and early April. However, downside risks to global recovery stem from an over-leverage in the non-financial sector including external debt financing risks, simmering trade and geopolitical tensions, and unprecedented COVID-19 induced unemployment losses, amid fears of a second major wave of infections. With India unlocking, the worst seems to be over as high-frequency indicators show an improvement from the extraordinary through the economy that hit in April 2020. These include the Index of Industrial Production (IIP), Purchasing Managers Index (PMI), power generation, production of steel and cement, railway freight, traffic at major ports, air cargo and passenger traffic, e-way bill generation capturing the inter-state movement of goods, consumption of petroleum products and motor vehicle registration, etc.

AGRICULTURE – ECONOMIC DRIVER FOR 2020-21

Foodgrain Production in India



Data Source: Ministry of Agriculture

Contribution of Sectors in Growth of GVA in India

Data Source: MOSPI

With the forecast of a normal monsoon at 102% of LPA, agriculture is set to cushion the shock of the COVID pandemic on the Indian economy in 2020-21. The Government has set the food grain production target at 298.3 million tonnes for the 2020-21 crop year, up by 1% from the record output achieved in the current year. India's foodgrain production is estimated at a record 295.7 million tonnes in the 2019-20 crop year (July-June), beating the target of 291.1 million tonnes and 3.7% higher than last year.

The absolute share of agriculture in overall Gross Value Added (GVA) was in the range of 14-15% during the last three years. It has been contributing around 20% in the growth of overall GVA. The growth rate of GVA in agriculture was 4.1% in 2019-20 as compared to the growth of overall GVA at 3.9%. Given the forecast of normal monsoons and estimated record foodgrain production in 2020-21, agriculture can be expected to bolster the growth of the Indian economy this year. Given its share, it would contribute positively to overall GVA growth to the extent of 0.5-1 percentage points– thus supporting the Indian economy.

The smooth flow of agricultural commodities was supported by record procurement of wheat from farmers by Government agencies in FY 2020-21 that touched an all-time high of 38.97 million tonnes – an increase of 12.6% over last year. Despite the labour availability restrictions and social distancing requirements due to lockdown, State governments and all government procuring agencies led by the Food Corporation of India (FCI) ensured that wheat is procured from farmers without any delay and in a safe manner. Technological solutions were deployed to regulate the daily inflows into mandis through token systems.

These measures, along with actions on the ground for regular sanitizing, earmarking of dumping areas for each farmer, etc, ensured that none of the food grain procurement centres became a COVID-19 hotspot anywhere in the country. This inflow of food grains into the Central pool affirms the ability of FCI to meet the additional requirements of food grains under the 'Pradhan Mantri Garib Kalyan Anna Yojana' for the people of the country, if any, in the coming months.

With the favorable spread of monsoon spurring sowing of Kharif crops, a bountiful production is expected in 2020-21. As of July 2020, farmers have sown 88.2 million hectares, 14% higher than the corresponding period of last year with a big jump in area coverage under Oilseeds, Coarse Cereals, Pulses, and Cotton. Fertilizer sales have surged by almost 98% year-on-year in May 2020 (4 million tonnes) and 79.3% in June 2020 (6.9 million metric tonnes), reflecting a robust agricultural sector. Tractor sales have turned around significantly from a YoY contraction of 79.4% in April 2020 to positive growth of 4% in May and 22.4% in June, suggesting a recovery in rural demand.

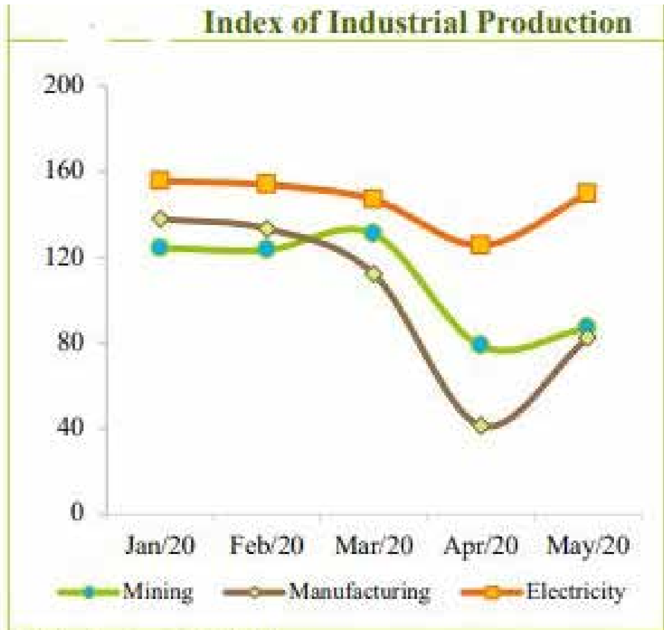
INDIAN ECONOMY

The future economic recovery of India is crucially linked to how the COVID-19 infection curve evolves across the States of India. The spread of COVID-19 to most States/UTs and the emergence of new hotspots has led the States/UTs to enforce intermittent lockdowns. India's top 12 growth driving states account for 85% of the COVID-19 caseload, with 40% of confirmed cases concentrated in the top two growth drivers i.e. Maharashtra and Tamil Nadu. As India unlocked, active cases reached 560,000 by July-end, growing (month end-on-month end (MoM)) at 166% as compared to June. The highest growth in active cases in July was seen in Karnataka, Andhra Pradesh, and Jharkhand, experiencing a second major wave of infections. Simultaneously, growth in recoveries was faster and broad-based across states, growing at 215% MoM to cross 1 million by end-July, thereby exceeding active cases by 530,000. The highest cumulative deaths by July-end were concentrated in Maharashtra, Tamil Nadu, Delhi, and Gujarat while the greatest rise in deaths was witnessed in Karnataka, Andhra Pradesh, and Assam as compared to June.

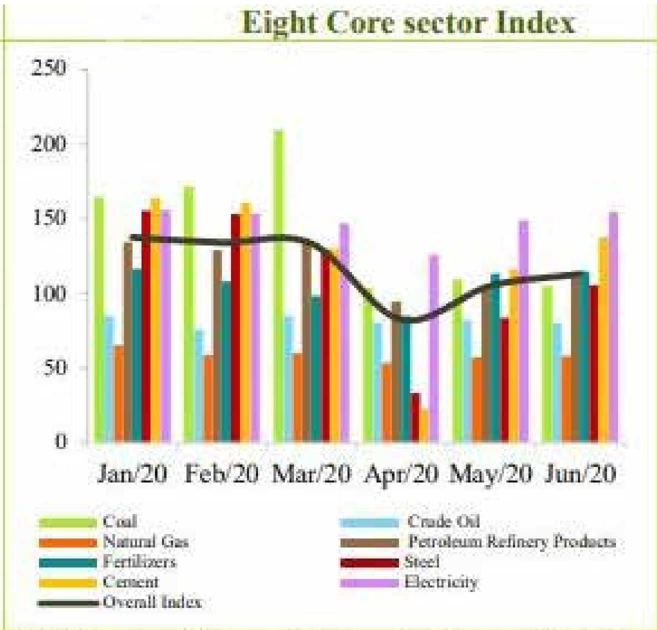
GST collections inched closer to the previous year and pre-COVID March levels recording (-)9% YoY growth in June. The greatest fall in GST collections in the month was witnessed in Haryana and Uttarakhand followed by Tamil Nadu. Electricity consumption recovered in June as compared to May with the strongest recoveries in Karnataka, Andhra Pradesh, Punjab, and Chhattisgarh. The value of

E-way bills, suggestive of intra and inter-state movements of goods, also picked up strongly in June over May, across all states. However, the June YoY growth of E-way bills continued to stay weak for hotspots like Maharashtra, Tamil Nadu, Delhi, and Haryana. Amid reverse migration from urban to rural areas, work created under MGNREGA almost doubled YoY in June to cross 640 million person-days. However, Maharashtra, the biggest COVID-19 hotspot and destination migration state, recorded a fall in MGNREGA employment in June both YoY and in relative to May as it witnessed out migration to other states. Some consumption demand recovery was witnessed in a strong 380% improvement in vehicle registrations in June over May, albeit still far from attaining previous-year levels. The strongest pickup in registrations in June over May was witnessed in Tamil Nadu, Karnataka, and Delhi.

INDUSTRIAL PRODUCTION



Data Source: MoSPI



Data Source: Office of Economic Advisor, DPIIT

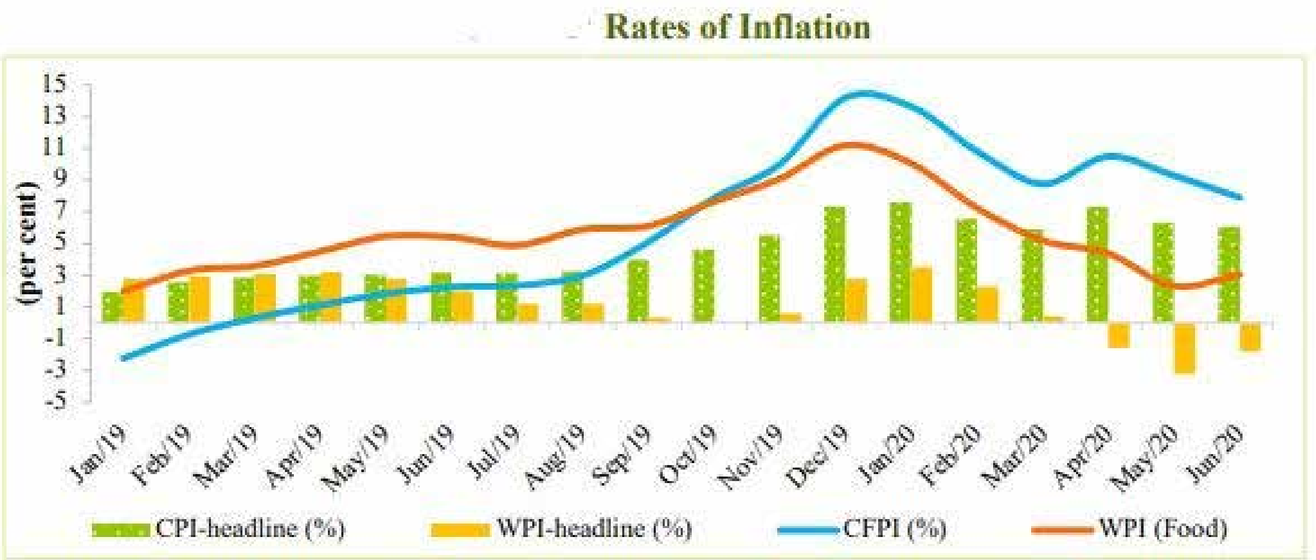
As the Indian economy stepped out of the nationwide lockdown in phases since May 2020 economic activity picked up. The contraction in industrial activity, measured by the Index of Industrial Production (IIP) and eight-core industries, has eased as compared to April. Industrial output increased across all sectors and sub-sectors within IIP in May vis-à-vis April. Among the eight core industries, fertilizers exhibited positive YoY growth (4.2%) while other sectors barring coal showed smaller contractions as compared to April.

IIP for manufacturing reported a lower YoY contraction of 39.3% in May 2020 compared to 67.1% in April, reaching 63% of its pre-lockdown (average of manufacturing index from April 2019 to February 2020) levels. Manufacture of pharmaceuticals, medicinal chemical, and botanical products which had declined by 53.9% in April, recovered and recorded 2.5% growth in May 2020. However, manufacturing of non-essentials like computer, electronic & optical products, and transport industry output (manufacture of motor vehicles and other transport equipment) recorded a YoY decline of more than 75% in April and May 2020.

The mining and quarrying sector, despite being exempt from lockdown, suffered a fall in output. Among mined products, off-take of coal shrank YoY by 24.2% in the April-June quarter of 2020. Production of crude oil declined YoY by 22.5% and that of natural gas dipped by 17.3% during April-May 2020. Capital goods production, witnessing negative YoY growth since January 2019, contracted to a lesser extent of (-)37.1% in May 2020 as compared (-) 92.1% in April. The consumer durables index also showed a similar trend, contracting 68.5% in May 2020 as compared with 95.7% in April. The contraction in infrastructure/construction goods eased 22 percentage points in May compared to April.

Signs of further recovery were witnessed in June with India's Manufacturing PMI improving from 30.8 in May 2020 to 47.2 in June 2020 with output and new orders contracting at much softer rates than seen in April and May. PMI services recovered from 12.6 in May 2020 to 33.7 in June 2020, owing to some stabilization in output levels with around 59% of firms reporting no change in output, 4% reporting growth, and 37% reporting reduction since May.

IMPACT ON INFLATION



Data Source: MoSPI and DPIIT.

CPI-Inflation eased from 7.22% in April 2020 to 6.27% in May and 6.09 in June. The fall in inflation in June vis-a-vis April was steeper in urban India, from 7.33% to 5.91%, as compared to a 100 basis points fall reported by rural India, from 7.20% to 6.20%. WPI inflation in June, while still in negative territory, picked up to reach (-)1.81% as compared to (-) 3.21% in May 2020. The sharp rise in CPI inflation in April and fall in the subsequent months was a reflection of food price changes amid supply chain recoveries.

Food & beverage inflation eased to 7.29% in June as compared to 8.37% in May and 10.47% on April 27. Food & beverages, however, continued to remain the single largest contributor to headline inflation in June. On the other hand, wholesale prices of food (WPI food inflation i.e. primary food + manufactured food) for June 2020 increased to 3.05% as compared to 2.31% in the previous month.

Fuel and light inflation for June 2020 increased to 2.69% as compared to 1.57% in May 2020, possibly suggesting energy demand recovery and a rise in retail selling prices of petrol and diesel. WPI inflation for Fuel & Power also increased to (-)13.60% in June 2020 as compared to (-)19.83% in May 2020. CPI Core inflation, which excludes volatile price items like food and fuel, reported a continuous rise from April to June 2020. While urban CPI Core inflation moderated from 5.8% in May to 5.0% in June, rural CPI Core picked up significantly from 3.9% in May to 5.3% in June, possibly suggesting relatively stronger rural demand recovery as compared to urban areas. WPI Core (Non-food manufactured products) also showed similar trends as CPI Core in June relative to May.

FISCAL DEFICIT

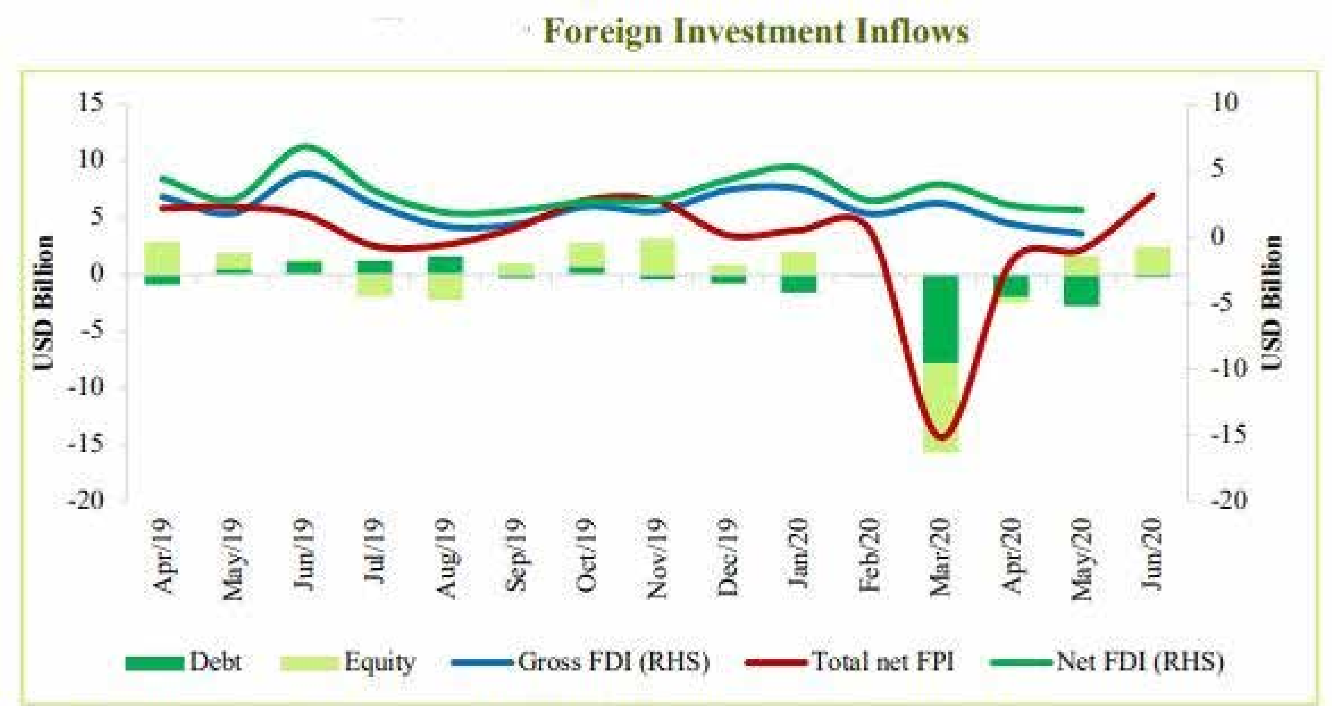
Gross market borrowings by the Centre rose to Rs.3.5 trillion up to July 3, 2020, i.e. 1.6 times the amount raised in the last year. State Governments borrowed Rs.1.7 trillion which is 1.8 times of last year's levels. Net bank credit to the Government increased by Rs.7.3 trillion from March 31 to July 3, 2020. At the end of June 2020, the fiscal deficit stood at Rs.6.6 trillion which is 83.2% of BE compared to 61.4% during the first three months of the fiscal year 2019. The interruption in economic activity due to COVID-19 has led to a shortfall in revenue collections during the first three months of the fiscal year. Revenue Receipts stood at Rs.1.5 trillion which is 7.4% of BE as compared to 14.5% in the corresponding period of the previous year. Tax revenue collections stood at 3.9% of BE compared to 10.7% in the corresponding period of the previous year. Personal Income Tax collections up to June-end amounted to Rs.621.2 billion, 9.9% of BE compared to 17.4% in the corresponding period of the previous year.

Non-debt capital receipts declined and stood at Rs.35.7 billion which is 1.6% of BE compared to 4% last year. On the expenditure side, capital expenditure stood at Rs.882.7 billion, 21.4% of BE as compared to 18.6 percent last year. The revenue expenditure was Rs.72.8 million, 27.7% of BE compared to 26.9% in the corresponding period of 2019-20. GST collections have provided some respite with YoY contraction falling from 38.2% in May 2020 to 9% in June and 14% in July 2020. GST collections stood at Rs.874.2 billion during July 2020, 86% of the figure for the same month last year. The revenues for June were higher than in July. However, it is important to note that during June, a large number of taxpayers also paid taxes pertaining to February, March, and April 2020 on account of the relief provided due to COVID-19. It may also be noted that the taxpayers with turnover less than Rs.50 million continue to enjoy relaxation in the filing of returns till September 2020.

During COVID-19 times, external debt and its repayment burden is often a major challenge in 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% during the last three years. India's external debt outstanding as of March, 2020 stood at US$558.5 billion (20.6% of GDP), compared to US$543.1 billion (19.8% of GDP) as of March, 2019. India's key external debt vulnerability indicators as at end March, 2020 remained low and range-bound compared to March, 2019, with debt service ratio at 6.5%, ratio of forex reserves to total external debt at 85.5% and ratio of short-term debt to forex reserves at a manageable 22.4%.

FOREIGN INVESTMENT & TRADE

With central banks across the globe pumping in massive liquidity and Governments providing substantial fiscal stimulus in response to fight COVID-19 disruptions, the massive surge in liquidity found its way in the Indian equity market as India started to unlock. India attracted net FDI of US$2 billion during April 2020 and US$2.4 billion and May. Net FPI inflows in June 2020 stood at US$3.1 billion, recording the highest inflow since March 2019. This also reflects the unshaken belief of foreign investors in India's macroeconomic fundamentals, government policies, and growth prospects despite credit rating agencies downgrading India's sovereign rating. Mutual funds' investment in the 33 Indian capital markets also rebounded in June 2020 to US$400 billion, recording the highest investment since January 2020. The overall inflow was primarily driven by large equity inflows on the back of block deals in June. FPIs continued their selling spree in the debt market in June too, albeit lower than the sales seen in the preceding three months.



Source: National Securities Depository Limited (NSDL), Reserve Bank of India (RBI).

Resurgence of FPI flows, large FDI, current account surplus and weakening US dollar strengthened the rupee from 75.53 INR/ US$ by June end as compared to 75.64 at May end. However, rupee depreciated against the Euro sharply to 85.25 INR/EUR in June 2020 from 82.48 INR/EUR in May 2020. This may be attributed to upbeat sentiments in favour of the Euro on the back of European Commission's proposed €750 billion stimulus package. Relative to peer EM currencies, rupee has depreciated less on a year to date basis and witnessed relatively less volatility.

With a current account in surplus in Q4 of 2019-20, implying no financing requirement, this quarter saw an accretion of US$18.7 billion to forex reserves. As on June 26, 2020, India's foreign exchange reserves crossed half US$500 billion dollars, the third highest in Asia after China and Japan. Foreign portfolio inflows, foreign direct investments and decline in import outflows on account of low crude oil prices and trade inactivity contributed to the rise in forex reserves, which stood at US$522.6 billion as on July 24, 2020. This is equivalent to almost a year of India's import, a critical external sector cushion.

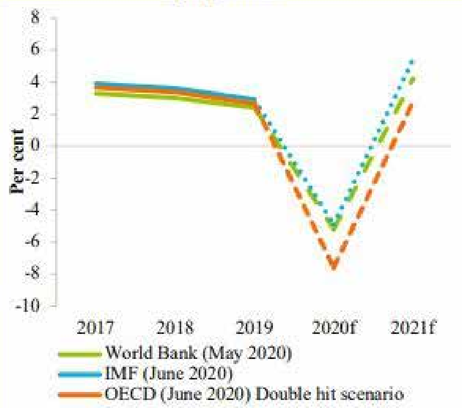
Data Source: Department of Commerce, Ministry of Commerce & Industry.

For the first time since January 2002, India became a net exporter, registering a trade surplus of US$800 million in June, 2020. After significant contraction in growth of exports and imports post lockdown in April and May, exports recovered at a much faster pace than imports as India started unlocking in June. The YoY contraction in exports in June was 12.4% compared to 47.6% contraction in imports. Out of 30 major commodities, exports of 12 commodities witnessed improvement in YoY growth during June, 2020, primarily driven by agricultural commodities, iron ore and drugs & pharmaceuticals. Labour intensive sectors also witnessed lower contraction in exports in June with exports of leather products and readymade garments declining by 40.5% and 34.8%, respectively. Contraction in POL exports declined from 66.9% in May to 29.2% in June.

With Indian refiners stocking up on crude oil by purchasing cheaper oil, selling to the government for strategic reserves, force majeure declared on crude imports and uptick in crude oil prices since May 2020, India's POL imports rose to US$4.9 billion in June 2020 with YoY contraction easing to 55.9% compared to 72.3% in May. Gold imports slightly recovered, recording a lower contraction of 77.4% (YoY) in June 2020, compared to the fall in April (99.9%) and May (98.4%). However, contraction in non-POL, non-gold and silver imports increased to 42.2% in June as compared to 36.7% in May.

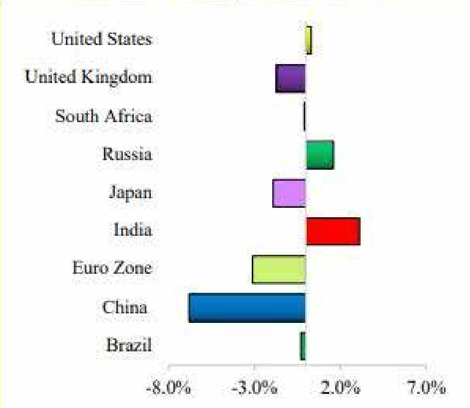
GLOBAL ECONOMY

World real GDP growth rates and projections



Data Source: Compiled using data from various agencies

Growth Rates of GDP of major countries during Jan-Mar 2020



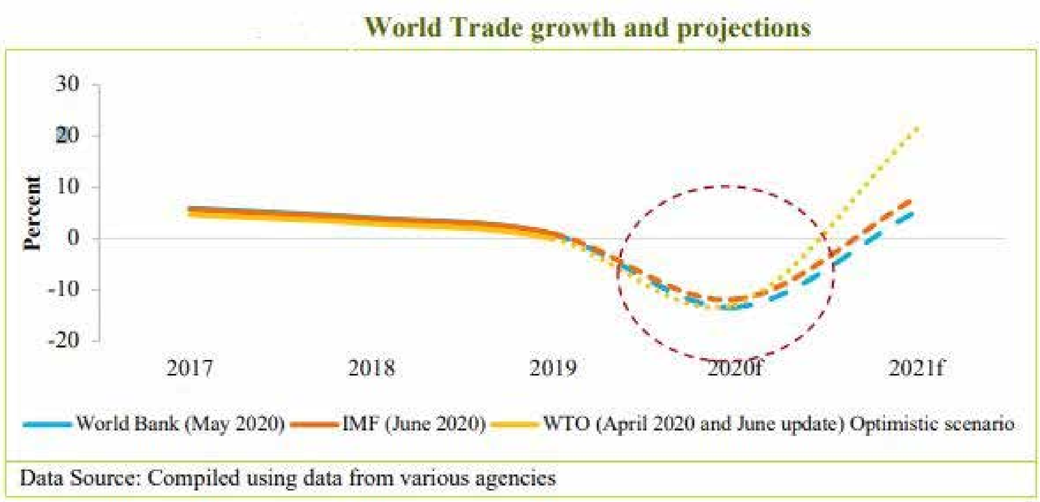
Data Source: Compiled using data from various agencies

In its June 2020 update, the IMF projected that global output would contract by 4.9% in 2020-21, under the baseline assumption of a gradual recovery in activity starting in the second half of 2020-21. As per a “double–hit” scenario projected by OECD in which the second wave of infections erupts in the later part of 2020; the global economy could contract by 7.6% in 2020. Leading up to these projections were the GDP growth estimates of most of the countries in January-March quarter of 2020, which witnessed broad-based reductions in advanced economies (AEs) ranging from (-)3.4% to (-)14.2% and in emerging markets economies (EMEs) between 2.9% and (-)6.8% (YoY basis).

Public authorities across the globe responded on a massive scale with US$11 trillion in fiscal measures committed to by G20 members and other countries (IMF estimates), as well as massive central bank liquidity injections to further support growth and financial stability measures to mitigate the adverse consequences of the pandemic. Real activity is, consequently, picking up - as reflected in the improvement in global Purchasing Managers Indices (PMI) with rates of contraction in output, new orders, and employment easing since April 2020. Global composite PMI, though still in the non-expansionary zone, improved from 36.3 in May 2020 to 47.7 in June 2020 with improvement seen across all advanced countries and expansion in China.

China’s quarterly growth is still at its lowest level since the 1990s though it has rebounded from a record contraction of 6.8% in the January-March quarter of 2020 to grow by 3.2% YoY in the April-June quarter post lifting of lockdown. US industrial production rose by 5.4% (YoY) in June, the second straight monthly gain after a 1.4% uptick in May, albeit below the pre-COVID-19 (February) level of 10.9%. The Eurozone also saw a moderate pick up in industrial production with YoY contraction falling from (-)28.7% in April to (-) 20.9% in May. Producer prices in the region, however, further moved into negative territory to (-)5.0% in May, suggesting weak demand pressure.

GLOBAL TRADE



On a global scale, unprecedented trade decline has been a severe outcome of the COVID-19 pandemic. After a 3% YoY decline in global merchandise trade in January-March quarter of 2020, World Trade Organization (WTO), as per its June 2020 Update, estimates an 18.5% YoY decline in merchandise trade in April-June quarter, on account of full-scale pandemic induced supply chain disruptions, fall in demand, loss of employment and shutdowns. Economic disruptions brought by COVID-19 have affected some sectors significantly more than others. As per UNCTAD estimates, textiles and apparel, office machinery and automotive sectors, energy and automotive products, chemicals, machinery and precision instruments have seen a sharp decrease in global trade while trade in agri-food products has been stable. The Trade of medical products related to COVID-19 has more than doubled the level of April 2020. The variance across sectors has been driven by decreases in demand and disruptions of supply capacity and disruption of global value chains in the wake of the pandemic.

Rapid government responses have, however, helped moderate the contraction in merchandise trade. As per WTO, OECD and UNCTAD Report on G20 Trade and Investment, June 2020, the G20 economies implemented 93 new trade and trade-related measures linked to the COVID-19 pandemic till mid-May 2020, with 65 measures facilitating trade while 28 restricting trade flows. However, 36% of the pandemic-related trade restrictions have been repealed by mid-May. These developments bode well for a conducive global trade environment.

It is evident that India is well on the path to a recovery from a trough in April, ably supported by proactive Government and Central Bank policies. However, the increase in the COVID cases and subsequent intermittent lockdowns make the recovery prospects fragile and call for constant and dynamic monitoring.

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

Ministry Of External Affairs
Government Of India

ECONOMIC DIPLOMACY & STATES DIVISION