In, On and For Emerging Markets

A CEIC Insights Report

India Economy in a Snapshot Q3 2020

Executive Summary

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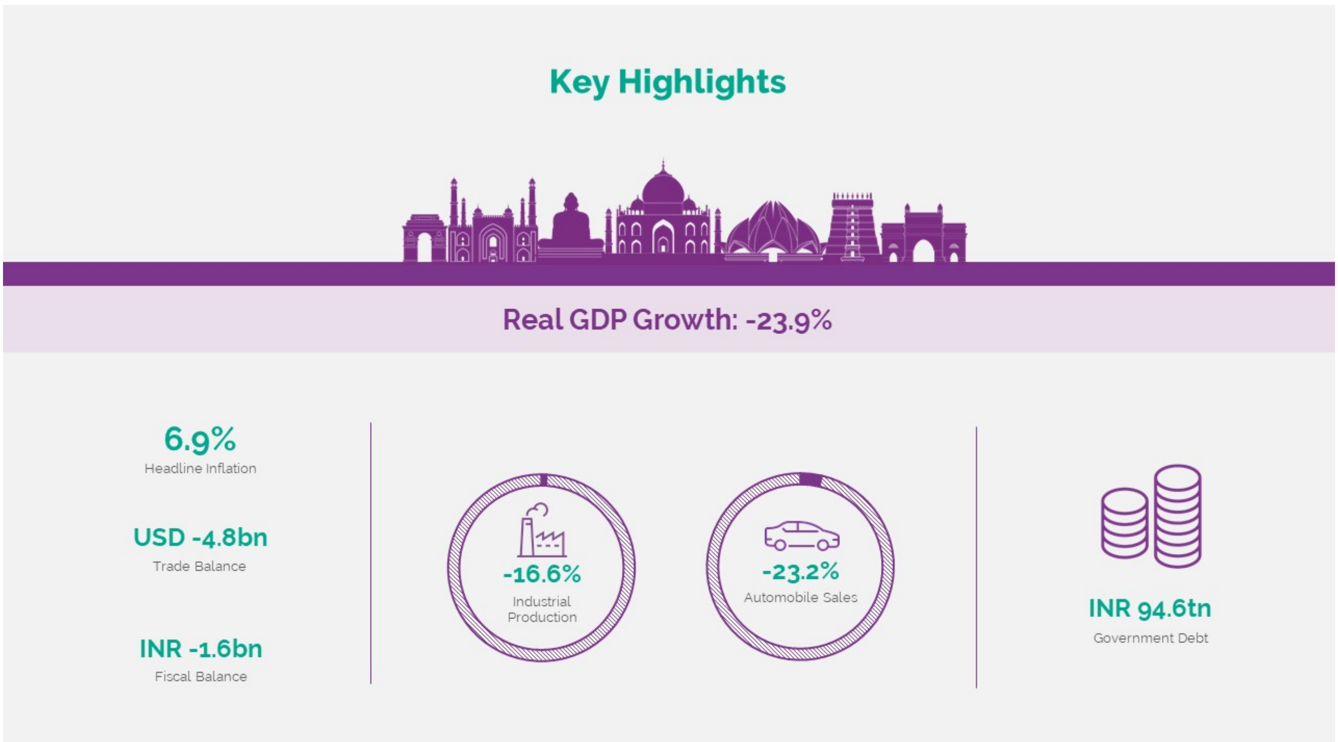
India Economy in a Snapshot is a quarterly publication produced by the CEIC Macroeconomic Research Team. The report is designed to provide a comprehensive, albeit concise overview of the current economic and financial developments. The India Economy in a Snapshot report is produced using data from CEIC's India Premium Database.



In, On and For Emerging Markets

Summary

India's growth collapsed in Q2 2020 by 23.9% y/y, as a result of the corona virus induced demand and supply shocks and marked contraction in exports, after it grew by its slowest pace in more than six years in Q1 2020, by 3.1 %.

In July 2020, inflation, according to the CPI measure, was 6.9% y/y and it remained above the Reserve Bank of India's (RBI's, central bank's) tolerance band of 4% +/-2% for a fourth consecutive month. Regarding core inflation, which excludes food and fuel, it rose in July 2020 to 5.9%.

Despite the continuing economic slump, the RBI has maintained an unchanged monetary policy with its key policy interest rate, the repurchase or repo rate, remaining at 4% since it was last lowered in May 2020. Since the outbreak of the pandemic, the RBI has reduced its repo rate by 115 basis points.

India's Prime Minister, Narendra Modi, announced a fiscal stimulus package of INR 20tn in five tranches, equivalent to 10% of India's GDP on May 12, 2020 to revive the economy.

As a result of imports plunging more sharply than exports, India's trade balance registered a surplus of USD 0.8bn in June 2020, compared with deficits of USD 3.2bn and USD 6.8bn in May and April 2020, respectively. This is the first time in 18 years that India's trade balance has moved into surplus.

Despite the government's efforts to attract more foreign direct investment (FDI), according to the United Nations Conference on Trade and Development (UNCTAD) FDI is likely to fall sharply in 2020 due to the various effects of the coronavirus pandemic, which include the lockdown measures, supply chain disruptions and economic slowdown.

India Economy: Statistics at a Glance

Name	12/2018	03/2019	06/2019	09/2019	12/2019	03/2020	06/2020
Real GDP; % y/y change	5.59	5.67	5.24	4.42	4.08	3.09	-23.92
Fixed Investment; % y/y change	11.43	4.40	4.57	-3.92	-5.16	-6.48	-47.08
Industrial Production Index; % y/y change	3.67	1.52	2.97	-0.42	-1.40	-4.26	-35.86
Consumer Price Index; % y/y change	2.60	2.46	3.07	3.47	5.83	6.67	6.57
Core CPI; % y/y change	5.86	5.22	4.29	4.18	3.57	4.06	5.06
Wholesale Price Index; % y/y change	4.49	2.93	2.68	0.89	1.10	2.06	-2.25
Policy Rate; % pa	6.50	6.25	5.75	5.40	5.15	4.40	4.00
10 Year Government Securities Yield; % pa	7.44	7.37	6.93	6.83	6.92	6.73	5.98
Exports; % y/y change	4.66	6.69	-1.41	-3.80	-1.92	-12.86	-36.57
Imports; % y/y change	8.07	0.30	0.52	-11.76	-11.16	-9.80	-53.28
Trade Balance; USD mn	-50,080.28	-35,742.16	-48,461.22	-38,975.24	-37,050.78	-34,873.27	-9,118.98
Government Debt; % of GDP	44.82	44.64	45.60	46.41	47.02	46.52	
Current Account Balance; USD mn	-17,737.55	-4,628.37	-14,976.55	-7,553.33	-2,604.62	584.38	
Automobile Sales; % y/y change	6.73	-6.10	-10.89	-18.28	-9.23	-21.60	-74.90

Source: CEIC Data, RBI, Central Statistics Office, Ministry of Finance, Ministry of Commerce and Industry

Economic Outlook

The smoothed CEIC Leading Indicator was at 79.8 in July, showing a slight uptick after remaining at the same value for two consecutive months. In comparison, the actual indicator stood at 100.1 in July 2019. Whilethe fall in the actual indicator was reflective of the lockdown, the sustained fall in the smoothed indicator was reflective of the overall slowdown in the economy that started prior to the pandemic. The turnaround in the smoothed indicator suggests a recovery of the Indian economy. Atthe surface, it seems that the government stimulus and other reforms have provided a positive momentum, which have aided the revival of the various sectors.

India's continued inability to control the pandemic, amid weak fiscal support, is posing a significant challenge to put growth back on track in any sustainable manner. Worryingly,the scope for further fiscal stimulus is limited, as Moody's and Fitch have already lowered India's credit rating and are maintaining a negative outlook for India. Afurther downgrade could adversely impact foreign investment flows to India, raise the cost of borrowing abroad for domestic firms and worsen the public finances due to the possibility of the government's borrowing costs rising.

To make matters worse, the ability of the Reserve Bank of India (RBI, the central bank) to boost economic growth is limited given that there is a lack of sufficient demand for credit and a banking sector that is saddled with USD 123bn of bad debts.

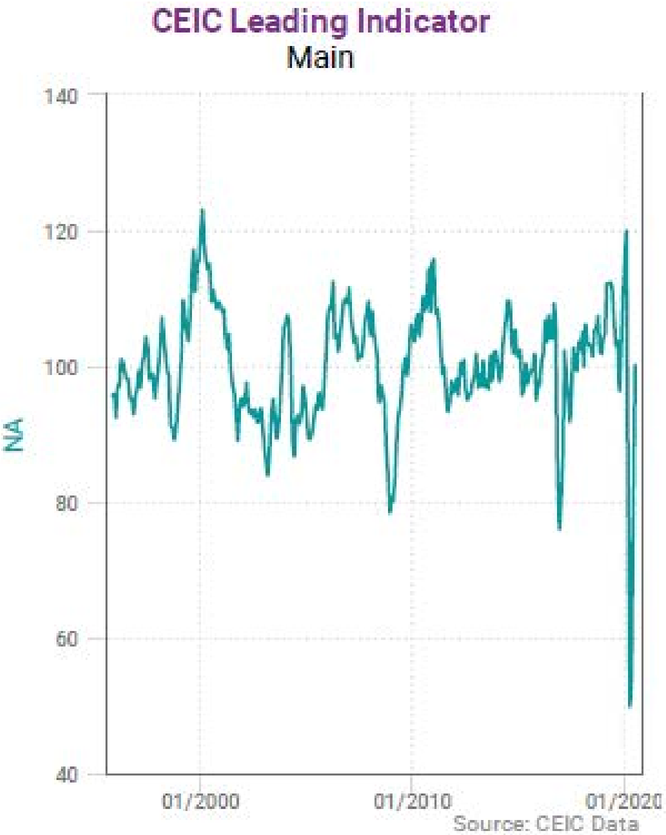
Accordingto Oxford Economics, the pace of recovery is expected to falter from late Q3 2020, as the boost from the reopening of the economy fades and the weakness of domestic and global demand reasserts itself.

Accordingto ICRALimited (formerly known as the Investment Information and Credit Rating Agencyof India), India's real GDP is projected to shrink by as much as 9.5% y/y in FY2021 (to the end of March 2021) and contract by 12.4%and 2.3% in Q3 2020 and Q4 2020, respectively. By Q1 2021, the economy is forecast to grow by a meager 1.3%, according to ICRAbut the likelihood of this is contingent upon the availability of a vaccine for COVID-19.

Given the growing incidence of coronavirus in India, the widespread and high unemployment rate, and pessimism regarding jobs prospects and incomes, the outlook for private consumption in FY 2021 is shrouded in uncertainty. Similarly, with investment, according to Oxford Economics, a sustainable recovery path seems challenging during the pandemic as financial conditions tighten. The consultancy expects investment will contract by 12.7% y/y in 2020. India's export outlook too is uncertain, given subdued global demand, worsening India-China relations and disruption to supply chains.

Due to the subdued nature of domestic demand, consumer price inflation is likely to remain well within the RBI's target range in FY 2021. Accordingto ICRA,it is expected to average 4.4% in FY2021, with inflation averaging 6.1% and 2.7%in the first and second half of FY2021, respectively.

Asa result of the downturn in the economy and additional public spending, the fiscal deficit is expected to soar to over 6.8% of GDP in FY 2021 from 4.6% in FY2020, according to Emkay Global Financial Services.


CEIC Leading Indicator
Main
140
120
100
80
60
40
NA
01/2000
01/2010
01/2020
Source: CEIC Data


CEIC Leading Indicator
Smoothed
130
120
110
100
90
80
70
NA
01/2000
01/2010
01/2020
Source: CEIC Data

Real Sector

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Real Sector

Asa result of ongoing global slowdown and one of the world's most stringent and logistically complex pandemic related lockdowns, involving more than a billion people, the Indian economy contracted by a massive 23.9% y/y in Q2 2020, after it grew by only 3.1% y/y in the previous quarter. Consumption plummeted, private investment collapsed and exports plunged in Q2 2020. The Indian economy was subject to unprecedented demand and supply shocks in this quarter.

Gross fixed capital formation (investment) contracted by 47.1% y/y in Q2 2020, compared to a decline of 6.5% and 5.2% in Q1 2020 and Q4 2019 respectively. Private consumption growth contracted sharply by 26.7% y/y in Q2 2020, after decelerating by 2.7% in Q1 2020, and remained substantially lower than in previous quarters.

Government expenditure has been propping up the Indian economy over the past four quarters, and it is bound to see an increasing trend in wake of the massive fiscal stimulus (10% of GDP). Government expenditure grew by 16.5% y/y in Q2 2020, after growing by 13.6% y/y in Q1 2020.

In terms of gross valued added (GVA), the agriculture, forestry and fishing sector slowed down, and yet grew by 3.4%y/y in Q2 2020, after growing by 5.9% y/y and 3.6% y/y in Q1 2020 and Q4 2019 respectively. This growth could be a result of the agricultural sector being exempt from the hard lockdown that lasted from end March to early May. Mining sector GVA contracted by 23.3% y/y in Q2 2020, after growing by 5.2% y/y and 2.2% y/y in Q1 2020 and Q4 2019 respectively. Utilities contracted by 7.1% y/y in Q2 2020, after growing by 4.5% in Q1 2020 and declining by 0.7%in Q4 2019. The GVA of the construction sector declined by 50.3% y/y in Q2 2020, after contracting by 2.2% y/y and 0.02% y/y in Q1 2020 and Q4 2019 respectively and manufacturing contracted by 39.3% y/y in Q2 2020, after declining by 1.4% y/y and 0.8% y/y in Q1 2020 and Q4 2019 respectively. Construction and manufacturing have both been adversely impacted due to the stringent lockdown.

Core sector output, which accounts for around 40% of the industrial production index and constitutes eight core industries, contracted by 15% y/y in June after declining by 22% y/y and 37% y/y in May and April 2020, respectively. Barring fertilizers, the other seven core industries witnessed a decline in output on a y/y basis in June 2020.

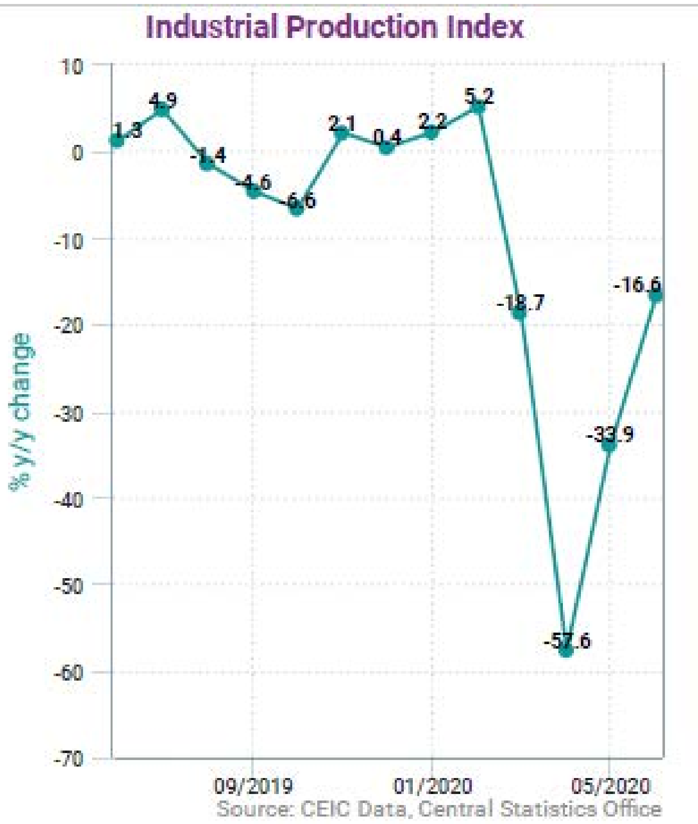
Industrial production contracted by 16.6% y/y in June 2020, after declining by 33.9% and 57.6% in May and April, respectively, indicating the effects of the pandemic continued throughout Q2 2020.

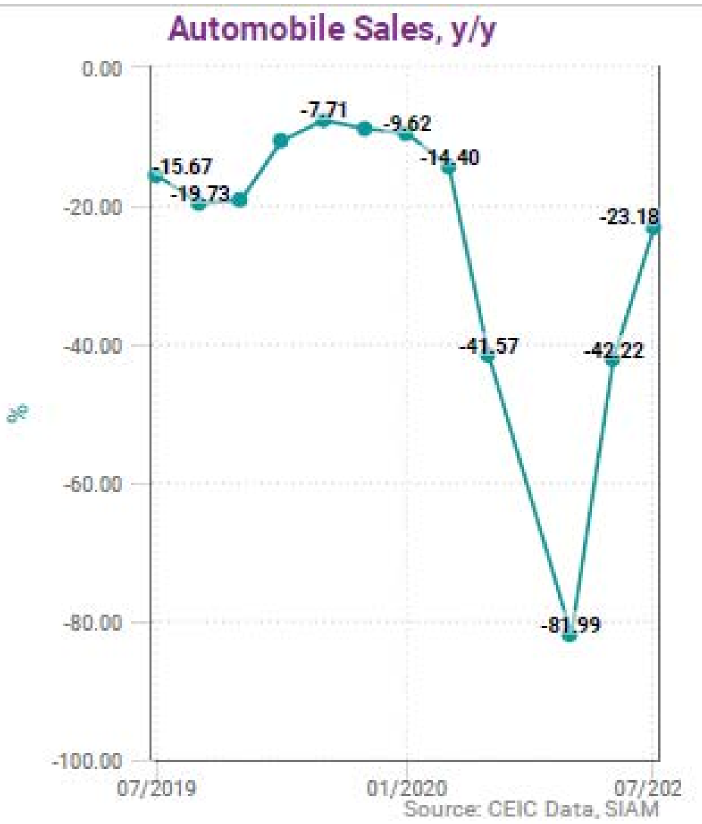
The downturn in manufacturing activity was particularly significant in Q2 2020 and the slump deepened in July as renewed lockdown measures weighed on demand and output. The Nikkei Manufacturing Purchasing Managers' Index (PMI), compiled by IHS Markit, fell to 46 in July from 47.2 in June, chalking-up a fourth consecutive month in which manufacturing activity has contracted. The July survey also shows declines worsening for output and new orders.

Services sector activity demand conditions remained extremely weak in Q2 2020 with the IHS Markit India Services PMI languishing at 33.7 in June 2020, despite improving from 12.6 and 5.4 in May and April, respectively. The improving trend continued in July, but the services PMI only increased slightly to 34.2, highlighting negative conditions in the services sector which has been particularly hard hit by the COVID-19 lockdowns.

Although urban demand remains extremely subdued, rural demand has started to pick up and the outlook seems bright. Domestic tractor sales, a proxy for gauging the health of the rural economy, grew by 22% y/y in June, compared with only a 4% y/y rise in the previous month. However, passenger, commercial and two-wheeler sales continued to register contractions of 53% y/y, 80% y/y and 41% y/y respectively in June, highlighting the particularly weak urban demand conditions in the economy.

According to BloombergQuint, fresh investment proposals fell markedly in Q2 2020 as the pandemic disrupted economic activity and weakened corporate sentiment. New projects worth only INR560bn were proposed in Q2 2020, according to first estimates published by the Centre For Monitoring Indian Economy (CMIE). According to CMIE, it is possible that this estimate of new investment proposals will be revised upwards in the coming quarters.


Industrial Production Index
% y/y change
10
0
-10
-20
-30
-40
-50
-60
-70
1.3
4.9
-1.4
-4.6
-6.6
2.1
0.4
2.2
5.2
-18.7
-57.6
-33.9
-16.6
09/2019
01/2020
05/2020
Source: CEIC Data, Central Statistics Office


Automobile Sales, y/y
%
0.00
-20.00
-40.00
-60.00
-80.00
-100.00
-15.67
-19.73
-7.71
-9.62
-14.40
-41.57
-81.99
-42.22
-23.18
07/2019
01/2020
07/202
Source: CEIC Data, SIAM

Monetary & Financial Sector

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Monetary and Financial Sector

In July 2020, annual inflation according to the consumer price index (CPI) rose to 6.9% y/y from 6.2% in June. The rise in headline inflation was more than expected, pushing it further above the RBI's tolerance band of 4% +/-2% which was primarily due to food prices rising at the faster pace of 9.6% y/y from 8.7% in the previous month. The core inflation measure, which excludes food and fuel, rose to 5.9% y/y in July 2020 from 5.3% in June.

Since the Reserve Bank of India (RBI, the central bank) lowered its main policy interest rate, the repurchase or repo rate by 40 basis points to 4% in May 2020, to provide more stimulus, it has refrained from announcing any further cuts, including at its monetary policy meeting in early August 2020.

Since the outbreak of the pandemic, the RBI has reduced its repo rate by 115 basis points to a historic low of 4% in May 2020, but the interest rate reductions have seemingly had little impact on borrowing behaviour aimed at stimulating economic growth.

According to Centrum Economic Research, although since February 2019 the RBI has reduced its repo rate on seven occasions leading to a cumulative reduction of 250 bps, the monetary policy transmission leaves much to be desired due to increased risk aversion by scheduled commercial banks (SCB's).

The transmission of these rate reductions in terms of a fall in the SCB's marginal cost of funds-based lending rate (MCLR) has been 110bps. The risk aversion on behalf of the banks is evident in the excess liquidity deposited in the reverse repo window of the RBI at a paltry rate of 3.35%, which is in excess of INR 6.5tn on a daily basis since April 2020.

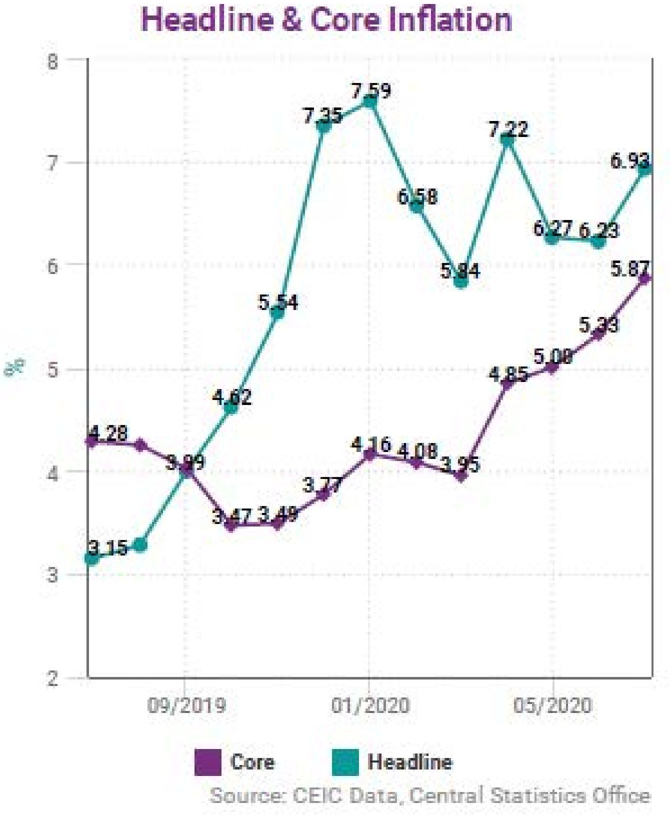
The 115 basis points reduction to the repo rate and 155 basis points reduction in the reverse repo rate since March 2020 have hardly had any impact on credit growth. According to India Macro Advisory, the banking sector's non-food credit increased by only 6.7% y/y in June 2020, compared to 6.8% in May. In comparison, in June 2019 non-food credit increased by 11.1% y/y.

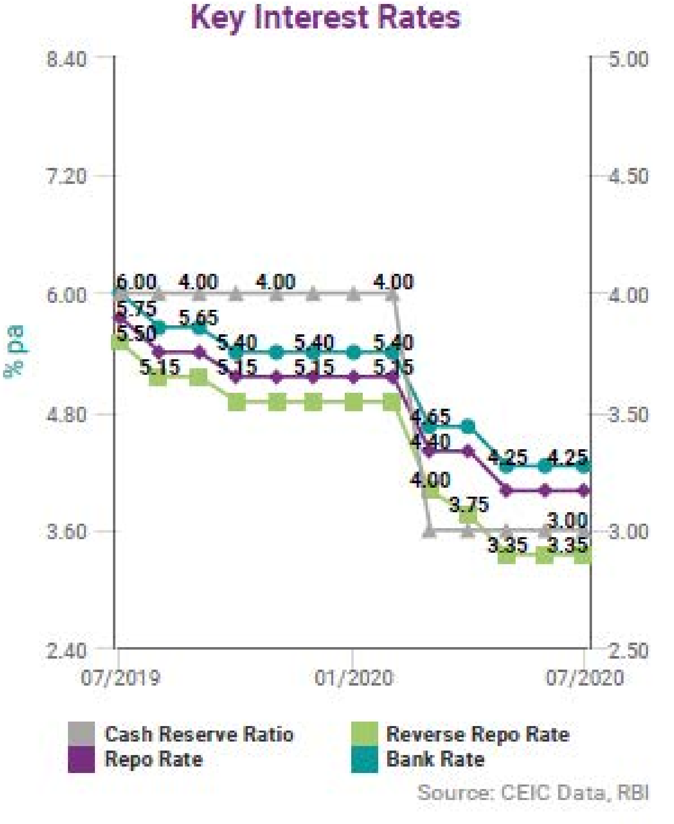
According to the Financial Express, despite maintaining its key policy interest rates at its August monetary policy meeting, the RBI announced several measures to support stressed sectors. This included additional liquidity of INR 0.1tn at the repo rate to the National Bank for Agriculture and Rural Development (NABARD) and National Housing Bank (NHB) to alleviate the stress of smaller non-bank finance companies (NBFCs) and micro-finance organisations obtaining access to liquidity, and support liquidity-starved housing finance companies.

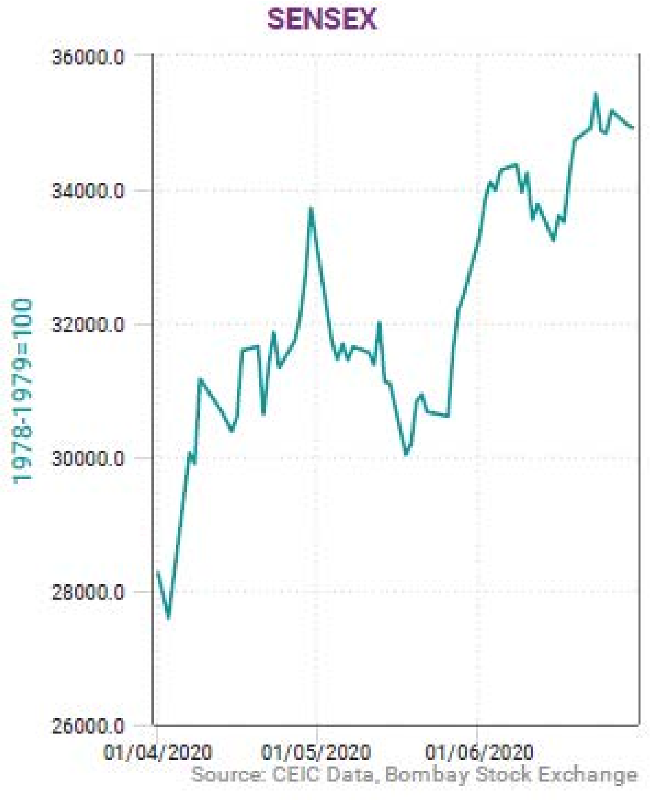
In view of the substantial financial stress that the micro, small and medium sized enterprises (MSMEs) are undergoing as a result of the pandemic, the RBI has extended the existing debt restructuring scheme for such enterprises by three months to March 31, 2021, if their loans were classified as 'standard' on March 1, 2020. Given how adversely the MSME sector has been affected due to the pandemic, such support is imperative. The RBI also enhanced the permissible loan-to-value (LTV) ratio for loans sanctioned against the pledge of gold ornaments and jewelry for non-agricultural purposes from 75% to 90% until March 31, 2021, to lessen the harsh impact of the pandemic on households.

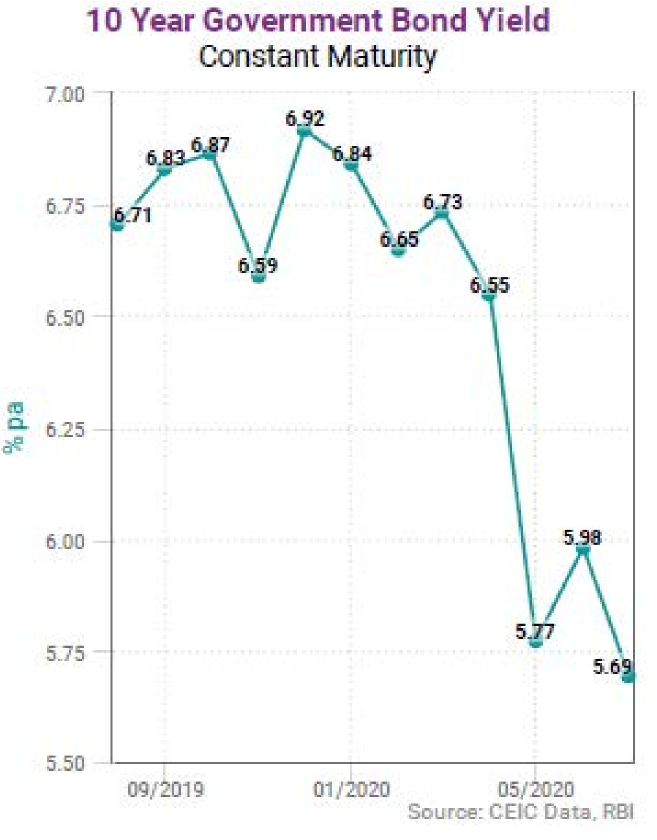
According to the Financial Express, the COVID-19 pandemic has dealt a sharp blow to the banking sector with non-performing assets (the loans or advances that are in default or in arrears) expected to register a sharp rise in FY2020. According to its latest Financial Stability Report, the RBI expresses concern that NPA's may surge to 12.5% by March 2021 from 8.5% in March 2018 but could rise to 14.7% under a scenario of severe stress.

S&P Global in its base-case scenario views banks in India dealing with a 13%-14% rise in non-performing loans to total loans in FY 2021, with non-performing loans possibly rising to a new high amid rising credit costs.






SENSEX
36000.0
34000.0
32000.0
30000.0
28000.0
26000.0
1978-1979=100
01/04/2020
01/05/2020
01/06/2020
Source: CEIC Data, Bombay Stock Exchange


10 Year Government Bond Yield
Constant Maturity
7.00
6.75
6.50
6.25
6.00
5.75
5.50
% pa
6.71
6.83
6.87
6.59
6.92
6.84
6.65
6.73
6.55
5.77
5.98
5.69
09/2019
01/2020
05/2020
Source: CEIC Data, RBI

Fiscal Sector

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Fiscal Sector

India's Prime Minister, Narendra Modi, announced an economic stimulus package of INR20tn, equivalent to 10% of India's GDP, on May 12, 2020, to revive the Indian economy with a call for a "Self-Reliant India". The stimulus package comprises five tranches. The first tranche of INR5.94tn provides credit lines to small businesses and support to electricity distribution companies and shadow banks. The second tranche, totalling INR3.1tn, includes free food grain to stranded migrant workers for two months and credit to farmers. The third tranche, totalling INR 1.5tn, includes expenditure on agri-infrastructure and other measures for agriculture and allied sectors. The fourth and fifth tranches deal mostly with structural reforms, including the relaxation of the foreign direct investment (FDI) limit on the defence sector, privatisation of six more airports and complete opening up of coal mining to the private sector.

The public finances had already deteriorated and will worsen even more in FY2021 (to end March 2021) as a result of increasing government borrowing and falling nominal GDP growth. According to a report by the State Bank of India (the largest public sector bank) released in July 2020, the debt-to-GDP ratio rose sharply to 72.2% in FY2020 from 67.4% in FY2012 and was therefore worsening before the pandemic struck. It is expected to rise sharply to 87.6% of GDP in FY2021.

The already high debt-GDP ratio and the fear of further credit rating downgrades is limiting the government's fiscal stimulus options to counter the downside impact of the coronavirus on the Indian economy. According to Soumya Kanti Ghosh, Group Chief Economic Advisor of the State Bank of India, the country's high debt burden will lead to an extension of the Fiscal Responsibility and Budget Management (FRBM) target of achieving a debt-to-GDP ratio of 60% by FY2023 (combining the debts of central government and the states) by seven years to FY2030. This implies that India needs to put its GDP growth back on target rapidly and devise a credible medium-term fiscal plan to ensure the public finances are back on track.

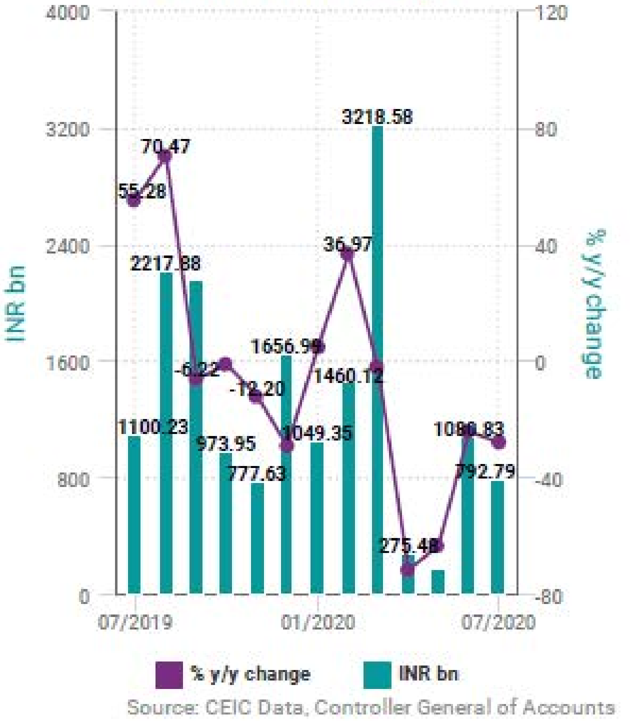
The fiscal deficit has soared amid plummeting tax revenues and rising spending during the pandemic. According to the Economic Times, India's fiscal deficit in Q2 2020 already reached 83.2% of the annual fiscal deficit estimate of INR7.96tn for FY2021.

The fiscal deficit increased rapidly in June to 83.2% by the end of Q2 2020 from 58.6% of GDP in April-May. On a y/y basis, the fiscal deficit increased sharply by 53.3% in Q2 2020.

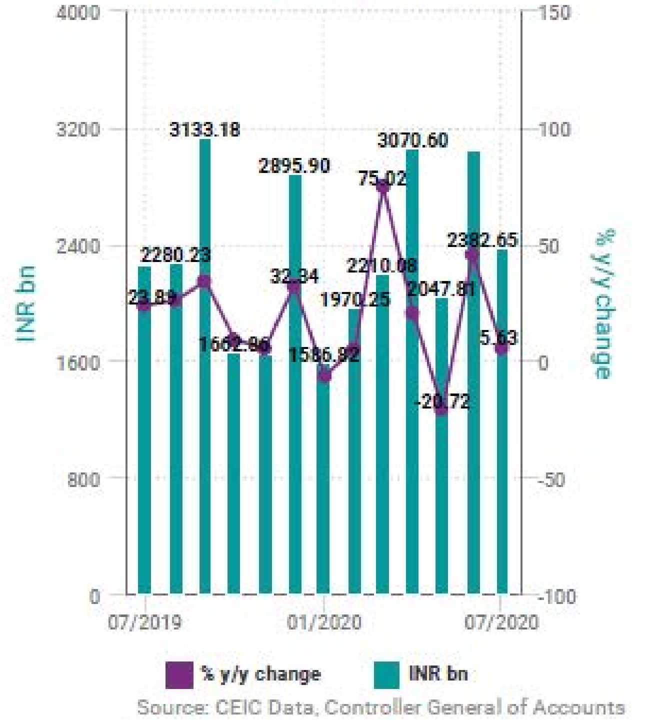
The federal fiscal deficit was already high at 4.6% of GDP in FY 2020, overshooting the government's revised target of 3.8% of GDP but because of plummeting tax revenues the government has been compelled to raise the amount of borrowing to INR 12tn in FY2021, from INR 7.8tn in the budget estimate. These data reinforce the lack of adequate fiscal space to boost the Indian economy at a time when the economy has contracted sharply in Q2 2020 and coronavirus cases are on the ascendancy.

According to official data, goods and services tax (GST) collections in India declined by 3.8% m/m to INR 874.2bn in July 2020 from INR909.2bn in the previous month, and by 14.4% y/y from July 2019 when GST collections totalled INR 1.02tn.

Government Receipts

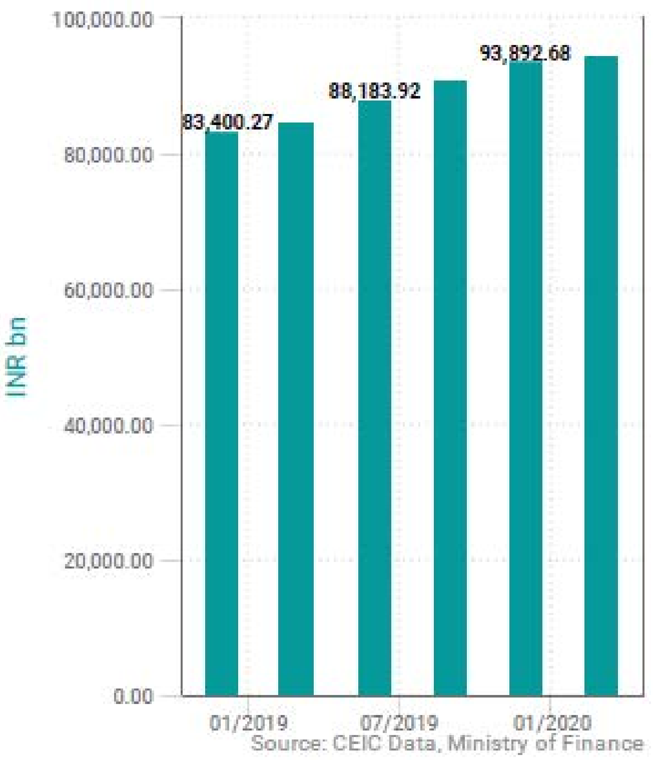


Government Expenditure



Government Fiscal Deficit

Central Government Debt



External Sector

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External Sector

The coronavirus pandemic has had a very substantial impact on India's merchandise exports, which contracted by 12.4% y/y to USD 12.9bn in June 2020 following declines of 36.5% y/y and 60.3% y/y in May and April 2020, respectively. During Q2 2020, exports fell by 36.7% y/y to USD 51.3bn.

Imports plunged 47.6% y/y to USD 21.1bn in June 2020, after contracting by 51% y/y and 58.7% y/y in May and April, respectively. Overall, in Q2 2020, imports plunged by 52.4% y/y to USD 60.4bn with the massive drop indicative of the deep slide in domestic demand.

As a result of imports plunging more sharply than exports, India's trade balance registered a surplus of USD 0.8bn in June 2020, which compares to deficits of USD 3.2bn and USD 6.8bn in May and April 2020, respectively. This is the first time in 18 years that India's trade balance has turned to surplus. For Q2 2020 as the whole the trade deficit stood at USD 9.1bn.

As of June 2020, the latest month for which data is available, India's five leading export destinations were the US, China, UAE, Singapore and Hong Kong. The main drivers of the slump in exports in June 2020 were declines to the US, UAE and Hong Kong, which fell by 11.2% y/y, 53.2% y/y and 32.3% y/y, respectively.

As for imports, China, the US, UAE, Iraq and Saudi Arabia were respectively the five leading sources in June 2020 and imports from all of these, except Iraq, contracted substantially on a y/y basis by 43.7%, 46.4%, 55.3% and 57.7% respectively in June 2020.

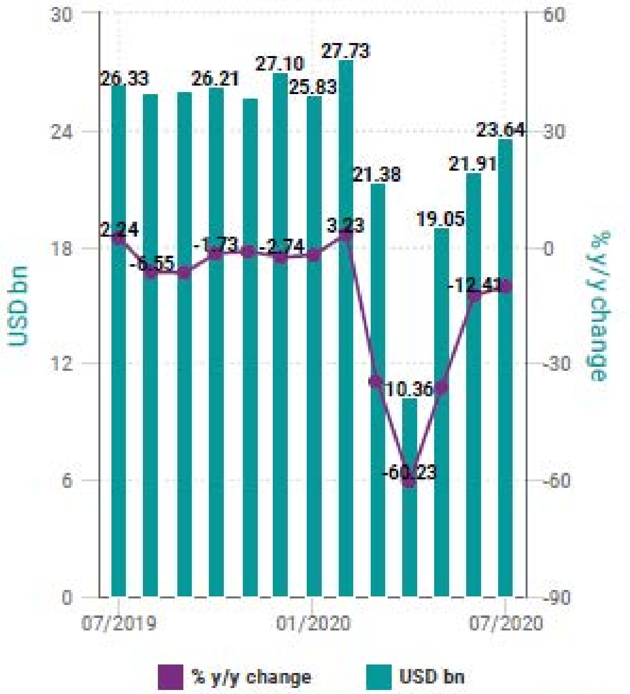
The decline in India's merchandise exports in terms of categories was widespread in June 2020. The export sectors that witnessed a contraction in June 2020 included gems and jewelry, leather, petroleum products, engineering goods, ready-made garments (RMGs) of all textiles, and cashews.

As for imports, the categories that recorded a contraction in June 2020 included gold, silver, transport equipment, coal, fertiliser, machinery and machine tools. However, imports of oil seeds, coffee, rice, tobacco, spices, pharmaceuticals and chemicals increased.

India registered a current account surplus in Q1 2020 (latest available) of USD 558mn or 0.1% of GDP, which compares with deficits of 0.2% and 0.9% in Q4 2019 and Q3 2019, respectively. This is the first quarterly surplus since 2007. Having a current account surplus for India is more a sign of weakness in domestic demand, as the economy has witnessed continued decelerating growth adversely affecting the demand for imports. The current account will probably remain in surplus in FY2021, as domestic demand is likely to remain considerably subdued due to the coronavirus pandemic.

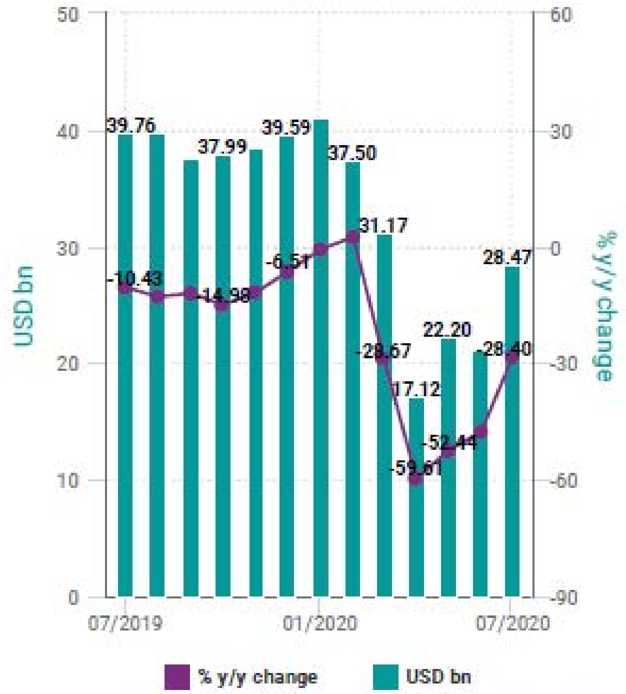
Turning to FDI, according to the latest World Investment Report 2020 from the United Nations Conference on Trade and Development (UNCTAD), among the countries that received maximum FDI inflows, India improved its position to 9th in 2019 from 12th in 2018. Despite the incumbent government's efforts to attract more FDI, according to UNCTAD it is likely to fall sharply in 2020 due to impact of the coronavirus pandemic, resulting in lockdown measures, supply chain disruptions and economic slowdown. In contrast, India received FDI inflows of USD 51bn in 2019, rising by 20% y/y.

Exports



Source: CEIC Data, Ministry of Commerce and Industry

Imports

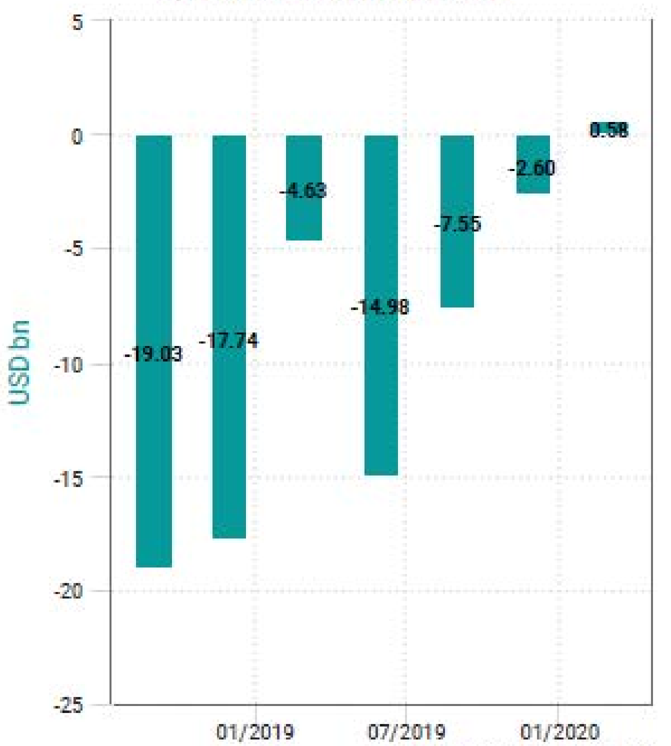


Source: CEIC Data, Ministry of Commerce and Industry

Trade Balance

Source: CEIC Data, Ministry of Commerce and Industry

Current Account Balance



Source: CEIC Data, RBI

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