In, On and For Emerging Markets

A CEIC Insights Report

India Economy in a Snapshot Q1 2021

Executive Summary

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.

Summary

The Indian economy returned to modest growth in Q4 2020 (corresponding to the third quarter of FY2021 to end-March 2021), with real GDP rising by 0.41% y/y after declining by 7.35% y/y in Q3 2020 and 24.4% y/y in Q2 2020.

The Indian economy is now estimated to have contracted by 8% in FY2021, according to India's National Statistics Office (NSO), but it will rebound strongly and grow by 11.5% in FY2022, according to the IMF.

The government has projected a fiscal deficit of 9.5% of GDP in FY2021, virtually double the shortfall of 4.6% of GDP in FY2020. Finance minister Nirmala Sitharaman also unveiled the Union Budget for FY2022 on February 1, 2021, which aims to boost the pandemic-hit Indian economy.

The RBI, at its bi-monthly monetary policy meeting on February 5, 2021, kept its key lending rate, the repo rate, unchanged at 4% and key borrowing rate, the reverse repo rate, unchanged at 3.35%.

In January 2021, inflation, according to the consumer price index (CPI), decelerated to a sixteen-month low of 4.06% y/y, from 4.59% y/y and 6.93% y/y in December and November respectively. It was within the Reserve Bank of India's (RBI's, central bank's) inflation tolerance band of 4% +/-2% for the second consecutive month.

India's merchandise (goods) exports rose by 5.38% y/y to USD 27.24bn in January 2021, and imports by 2.04% y/y to USD 41.99bn. This led to the trade deficit narrowing to USD 14.75bn in January 2021 from USD 15.3bn in the corresponding period of the previous year.

In November 2020, foreign direct investment (FDI) rose to USD 8.63bn from USD 5.55bn and USD 3.08bn in October and September respectively.

India Economy: Statistics at a Glance

1Y 3Y 5Y All 09/2019 – No end date

Name	09/2019	12/2019	03/2020	06/2020	09/2020	12/2020
Real GDP; % y/y change	4.61	3.28	3.01	-24.38	-7.35	0.41
Fixed Investment; % y/y change	3.90	2.43	2.54	-46.44	-6.77	2.56
Industrial Production Index; % y/y change	-0.42	-1.40	-4.26	-35.56	-5.70	1.01
Consumer Price Index; % y/y change	3.47	5.83	6.67	6.57	6.90	6.36
Core CPI; % y/y change	4.18	3.57	4.06	5.06	5.70	5.75
Wholesale Price Index; % y/y change	0.89	1.10	2.06	-2.25	0.49	1.61
Policy Rate; % pa	5.40	5.15	4.40	4.00	4.00	4.00
10 Year Government Securities Yield; % pa	6.83	6.92	6.73	5.98	6.10	5.98
Exports; % y/y change	-3.92	-1.91	-12.69	-36.57	-5.27	-4.32
Imports; % y/y change	-11.25	-11.16	-9.21	-52.92	-25.19	-5.59
Trade Balance; USD mn	-39,744.24	-37,039.47	-35,440.25	-9,931.84	-14,149.42	-33,963.58
Government Debt; % of GDP	46.40	47.11	46.50	52.68	56.24	
Current Account Balance; USD mn	-7,553.33	-2,604.62	584.38	19,234.40	15,530.87	
Automobile Sales; % y/y change	-18.47	-9.75	-21.89	-74.90	-7.09	6.86

Economic Outlook

Economic activity gained some momentum in Q3 2020 through into Q4. The smoothed CEIC Leading Indicator rose for the eighth consecutive month in January 2021 to 119.30 from 115.00 in December 2020 and 110.47 in November, after having fallen to an all-time low of 77.10 in May 2020. The improvement is indicative of increasing momentum in the economy, with GDP growth gaining traction in the short term, backed-up by other high frequency indicators pointing to the return of growth in Q1 2021. Furthermore, if the expansionary, growth-inducing Union Budget FY2022 (to end-March 2022) is implemented, and inflation is kept under control, then GDP growth should gain traction over the coming quarters. Even so, GDP is not expected to return to its pre-COVID-19 levels for at least two years.

The economy is expected to rebound strongly in FY2022, with the IMF projecting real GDP growth of 11.5% following an estimated decline of 8% in FY2021, according to India's National Statistics Office (NSO). The government has projected a fiscal deficit for FY2021 of 9.5% of GDP, which is virtually a doubling compared with the 4.6% of GDP deficit estimated for FY2020. This is the result of a marked shortfall in government revenues, from both tax and non-tax sources, and a rise in government expenditure to counter the pandemic-related economic downturn. The fiscal deficit target for FY2022 is projected to be 6.8% of GDP.

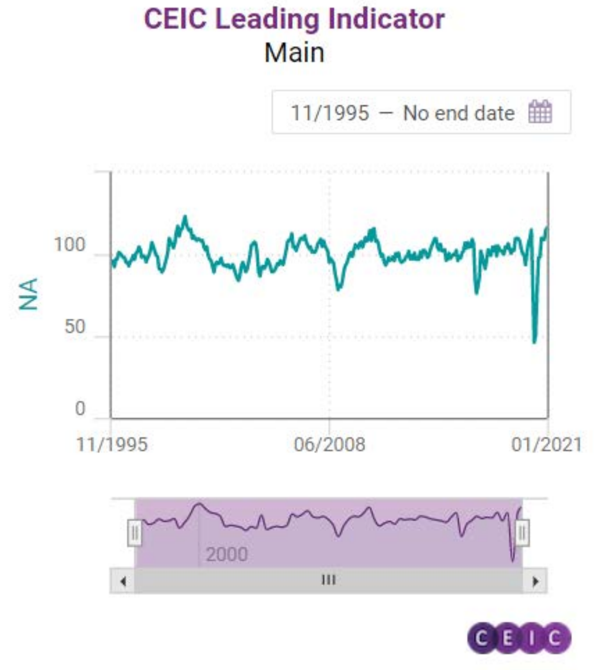
The Union Budget 2021 aims to significantly increase spending in Q1 2021, which should help to support economic recovery. Nomura economists Sonal Varma and Aurodeep Nandi state that the already strong support to economic activity provided by loose financial conditions, faster global economic growth and positive developments regarding the COVID-19 vaccine roll-out would be amplified by the promise of continued fiscal activism in the Union Budget for FY2022.

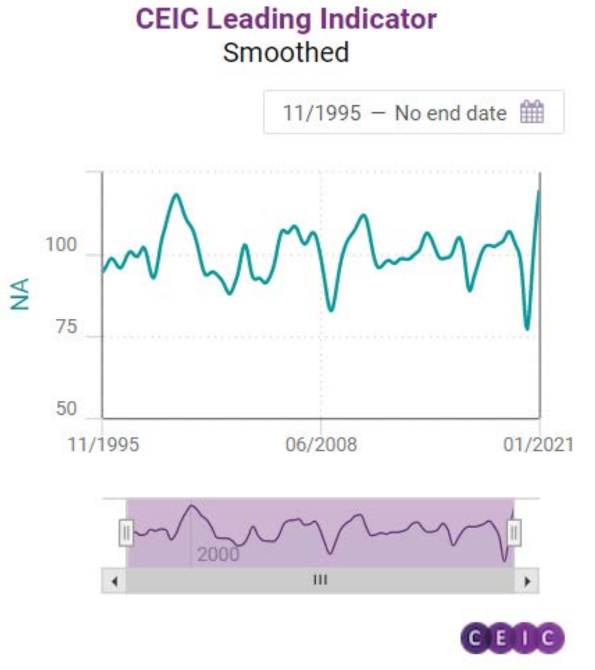
According to Nirvikar Singh, Professor of Economics at the University of California, quoted in the Financial Express, there are increased allocations for public health and infrastructure in the Union Budget FY2022, an expansion of privatisation and state shareholding disinvestments, liberalisation of foreign direct investment (FDI) in insurance and a renewed focus on cleaning up the balance sheets of the commercial banks in India. If the incumbent government is able to implement the above successfully, the Indian economy is likely to witness a strong rebound in FY2022.

Having stated this, elevated inflation could pose a risk to economic growth over the coming quarters. According to the Reserve Bank of India (central bank, RBI), headline consumer price inflation is projected to grow by 6.4% in FY2021 and 4.6% in FY2022. With energy prices and domestic demand expected to rise in the near future, ample domestic and global liquidity, fiscal expansion, supply chain bottlenecks and the prospect of the return of global inflation, India might find it challenging to keep inflation in check and prevent overshooting the target. The present medium-term inflation target is 4% with a 2% tolerance band in either direction, although a five-year review is due in March 2021.

Another concern for economic growth is private investment. It is expected to remain rather weak for at least two years, as a result of surplus capacity and deficiency in demand. Consequently, while there are prospects of a cyclical recovery, a strong structural and sustained recovery is believed to be some way off.

The government's massive borrowing programme for FY2022 totalling INR 12.8tn is a cause for concern. Although the government is confident of keeping its borrowing costs below 6% in FY2022, the benchmark 10-year government bond yield has recently surged to 6.06% as of February 1, 2020.


CEIC Leading Indicator
Main
11/1995 — No end date
100
50
0
NA
11/1995
06/2008
01/2021
2000


CEIC Leading Indicator
Smoothed
11/1995 — No end date
100
75
50
NA
11/1995
06/2008
01/2021
2000

Real Sector

Real Sector

Several high-frequency indicators reflected a pickup in economic momentum in Q4 2020, corresponding to the third quarter of FY2021 (to end-March 2021), spurred by pent-up and seasonal demand, and underpinned by economic policy support. Consequently, the Indian economy returned to modest growth, with GDP rising by 0.4% y/y after declining by 7.35% y/y in Q3 2020 and 24.4% y/y in Q2 2020.

Private consumption growth contracted at the softer pace of 2.4% y/y in Q4 2020, after declining by 11.3% y/y and a 26.3% y/y in Q3 2020 and Q2 2020, respectively. Government consumption also declined at a reduced pace of 1.1% y/y after declining sharply by 24% y/y in Q3. However, after contracting for three successive months, most recently by 6.8% y/y in Q3 2020, gross fixed capital formation (i.e., investment spending) increased by 2.6% y/y in Q4 2020. Export volume of goods and services, meanwhile, declined for a sixth successive quarter, by 4.6% y/y, while imports volume fell by an almost identical amount.

In terms of gross valued added (GVA), the agriculture, forestry and fishing sector grew by 3.9% y/y in Q4 2020, after increasing by 3.0% y/y in Q3 2020. Mining and quarrying sector GVA contracted by 5.9% y/y in Q4 2020 after declining by 7.6% y/y in Q3 2020. Utilities increased by 7.3% in Q4 2020, after growing by 2.3% y/y in Q3 2020, the GVA of the construction sector increased by 6.2% in Q4 2020, after contracting by 7.2% in Q3 2020, and manufacturing increased by 1.65% y/y in Q4 2020 after declining by 1.5% y/y in Q3 2020.

The fragility of the economic recovery can be gauged by the fact that India's core sector output, which accounts for around 40% of the industrial production index, and constitutes eight core industries, contracted by 1.29% y/y in December 2020 after declining by 1.39% y/y and 0.93% y/y in November and October, respectively. On a positive note, the rate of decline in December was the slowest since March 2020.

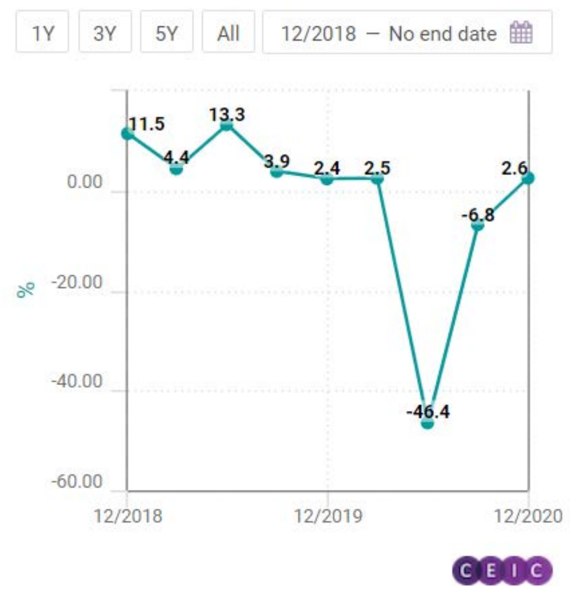
Industrial production grew by 1.04% y/y in December 2020 after declining by 2.1% y/y in November, mainly due to an improved performance in the manufacturing sector which constitutes 77.6% of the index of industrial production (IIP). It had earlier grown by 4.19% y/y in October 2020 and returned to positive territory in September after having contracted for six consecutive months. In April-December 2020, industrial production contracted by 13.5% y/y, compared to growth of 0.3% y/y in the corresponding period of 2019. Encouragingly, the output of capital goods, a barometer of investment spending, rose by 0.64% y/y in December 2020, after contracting by 18.3% y/y in November, but also growing by 3.5% y/y in October.

Activity in India's manufacturing sector continued to strengthen as the Indian economy gained momentum amid the loosening of pandemic-related restrictions. The IHS Markit manufacturing purchasing managers' index (PMI) rose to a seasonally adjusted 57.7 in January 2021 (where above 50 indicates expansion), from 56.4 and 56.3 in December and November respectively, According to IHS Markit, the Indian manufacturing sector began 2021 on a strong note with total sales and new export orders recording more rapid expansions.

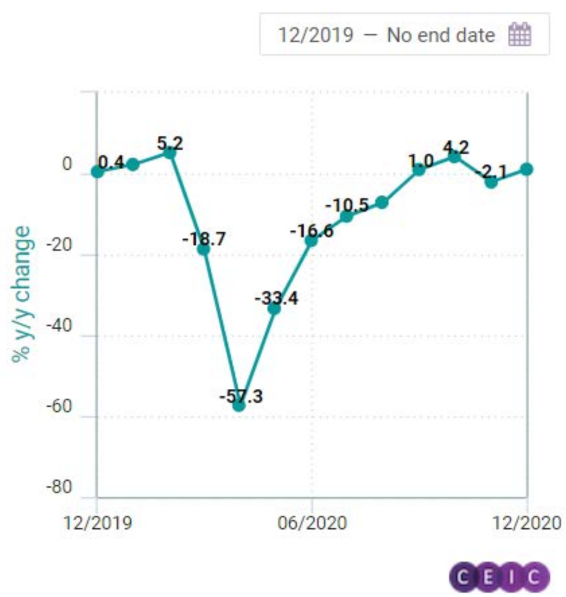
Services sector activity expanded for the fourth consecutive month in January 2021. The IHS Markit services business activity PMI rose to a seasonally adjusted 52.8 in January 2021, from 52.3 and 53.7 in December and November, respectively. However, the headline figure was below its long-run average of 53.3 and is consistent with a moderate pace of growth. Furthermore, while new business rose in January, employment declined further, and exports contracted sharply.

Real GDP Growth, y/y

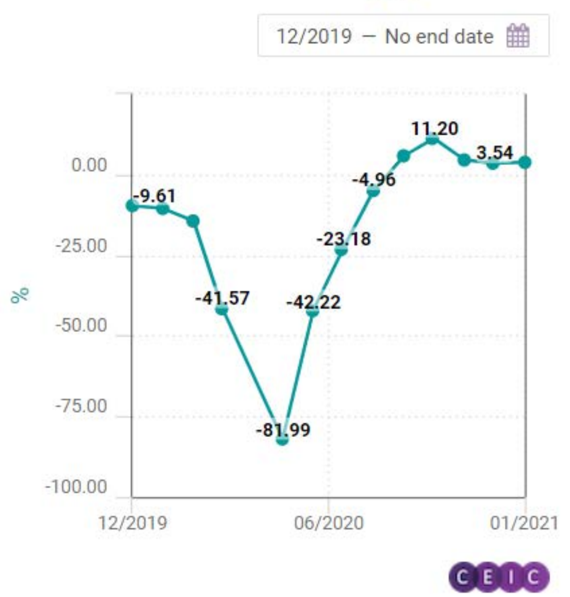
Fixed Investment



Industrial Production Index



Automobile Sales, y/y



Monetary & Financial Sector

Monetary and Financial Sector

Even though headline consumer price inflation decelerated in Q4 2020 compared with Q3 2020, it remained elevated, averaging 6.38%, compared with 6.9% in the previous quarter. However, it decelerated further to a 16-month low of 4.06% y/y in January 2021 from 4.59%, 6.93% y/y and 7.61% y/y in December, November, and October 2020, respectively, as food price inflation fell markedly. In January 2021, inflation was within the Reserve Bank of India's (RBI's, central bank's) inflation tolerance band of 4% +/-2% for the second consecutive month.

The core consumer price inflation measure, which excludes food and beverages as well as fuel and light prices, decelerated marginally to 5.65% y/y in December 2020 from 5.84% y/y and 5.76% y/y in November and October 2020, respectively. Core inflation remained elevated and was marginally higher on average in Q4 2020, compared to the previous quarter, largely due to cost push pressures emanating from rising commodity prices.

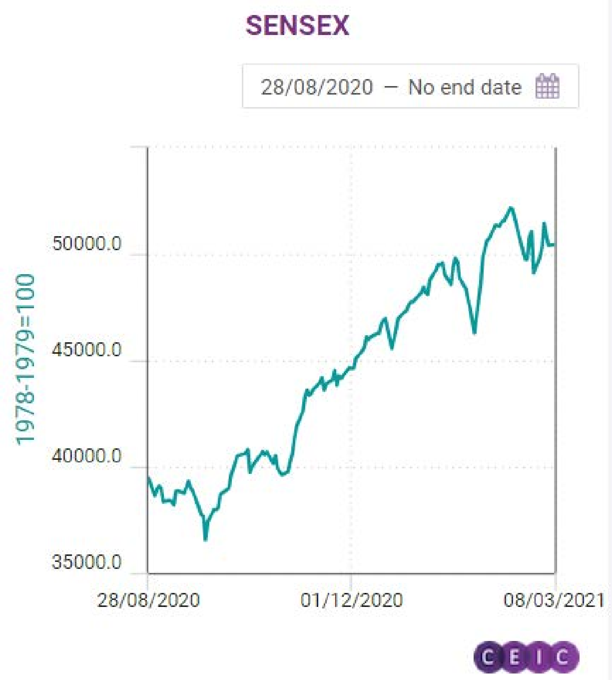
The RBI, in its bi-monthly policy meeting on February 5, 2021, opted to leave its policy interest rates unchanged from October 2020 but also promised to retain an accommodative monetary policy, critically to boost liquidity. It has kept the key lending rate, the repo rate, unchanged at 4% and key borrowing rate, the reverse repo rate, unchanged at 3.35%. According to the Economic Times, it was expected that the RBI would keep the repo rate unchanged in February to keep a cap on government bond yields which are likely to witness upward pressure as a result of higher borrowing planned by the government in FY2022 to support the economic recovery. The RBI, at its policy meeting in February, stated that it is committed to ensuring the availability of ample liquidity in the system and orderly completion of the government's market borrowing programme in a non-disruptive manner.

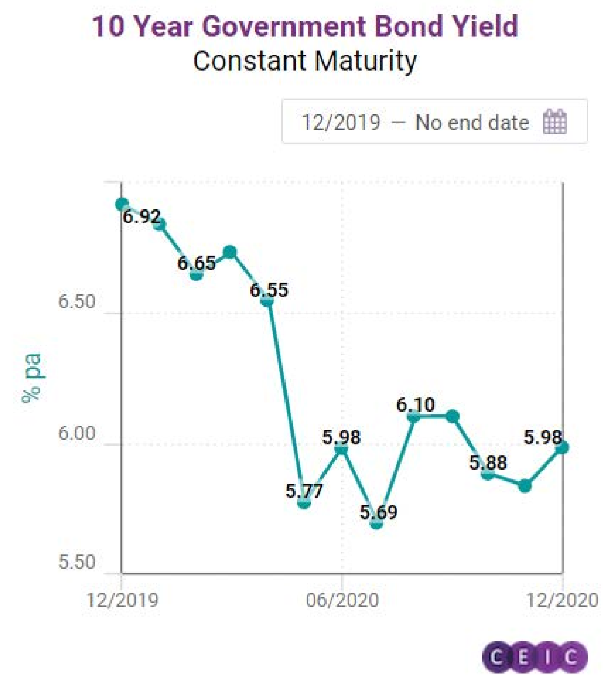
In December 2020, the RBI unveiled several measures to reduce or check borrowing costs, such as new Targeted Long Term Repo Operations (TLTRO) of INR 1tn that will enable banks to borrow at low costs and lend to corporates in specific sectors to revive the Indian economy. It is doubling the size of its open-market bond purchases to USD 2.7bn and offering to buy the debt of state governments.

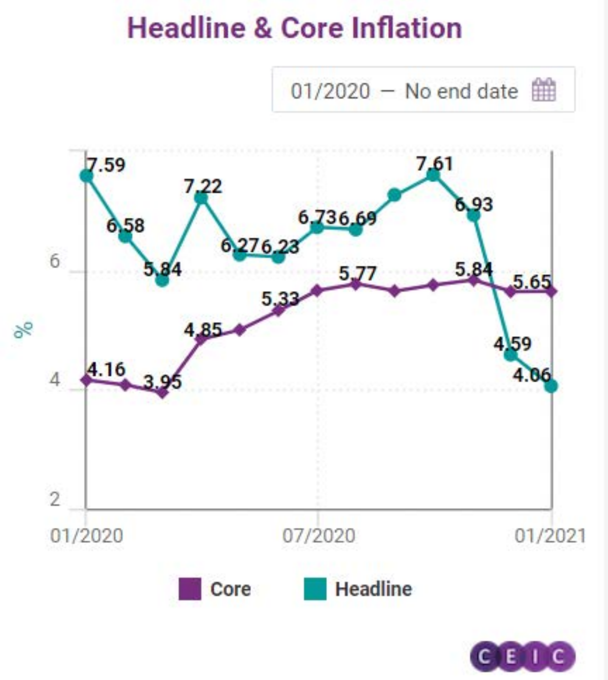
Despite keeping its interest rates unchanged at its meeting in February 2021, the RBI made two key policy announcements. The first one was to extend the TLTRO liquidity facility to non-bank finance companies, which is an acknowledgement of their role in providing incremental lending to the specified stressed sectors of the Indian economy. The second key policy announcement was that retail investors will soon be able to buy and sell government securities directly (the roadmap of which is awaited), which is likely to encourage banks and other financial intermediaries to take credit risks.

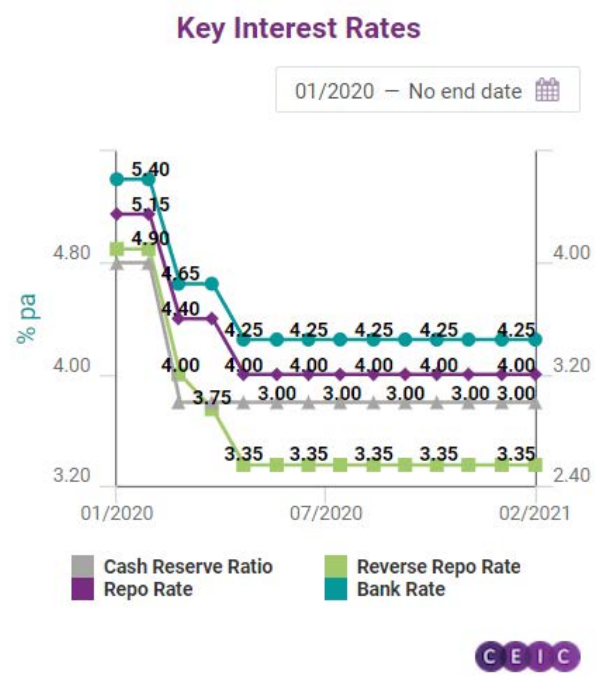
Regarding financial stability, the RBI's Financial Stability Report of December 2020 stated that Indian banks' gross non-performing assets (GNPAs) may rise markedly to 13.5% of total assets by September 2021, or under a severe stress scenario it could rise further to 14.8%. This is nearly double the GNPA of 7.5% in the corresponding period of FY2020. India's public sector banks, which account for around 70% of banking assets, are expected to be the worst hit, with their GNPA ratio expected to rise to 16.2% by September 2021, under the baseline scenario, from 9.7% in September 2020. In a severe stress scenario, it may rise to 17.6% by September 2021.

India's 30-share benchmark share index, the BSE SENSEX, rose for the first time above the 50,000 mark to close at 50,255.75 on February 3, 2020, following the passage of India's Union Budget on February 1, 2020. Earlier it had reached 47,751.33 at the end of Q4 2020, rising from 38,067.93 at the end of Q3 2020. Exuberance over India's Union Budget growth orientation, some signs of positivity globally, strong FDI inflows and a better-than-expected economic recovery and prospects for 2021 coalesced to boost the stock market..


SENSEX
28/08/2020 — No end date
1978-1979=100
50000.0
45000.0
40000.0
35000.0
28/08/2020
01/12/2020
08/03/2021
CEIC


10 Year Government Bond Yield
Constant Maturity
12/2019 — No end date
% pa
6.50
6.00
5.50
6.92
6.65
6.55
5.77
5.98
5.69
6.10
5.88
5.98
12/2019
06/2020
12/2020
CEIC


Headline & Core Inflation
01/2020 — No end date
%
6
4
2
7.59
6.58
5.84
7.22
6.27
6.23
6.73
6.69
7.61
6.93
4.59
4.06
4.16
3.95
4.85
5.33
5.77
5.84
5.65
01/2020
07/2020
01/2021
Core
Headline
CEIC


Key Interest Rates
01/2020 — No end date
% pa
4.80
4.00
3.20
4.00
3.20
2.40
5.40
5.15
4.90
4.65
4.40
4.25
4.25
4.25
4.25
4.25
4.00
4.00
4.00
4.00
4.00
4.00
3.75
3.00
3.00
3.00
3.00
3.00
3.35
3.35
3.35
3.35
3.35
01/2020
07/2020
02/2021
Cash Reserve Ratio
Reverse Repo Rate
Repo Rate
Bank Rate
CEIC

Fiscal Sector

Fiscal Sector

Finance minister Nirmala Sitharaman unveiled the Union Budget for FY2022 (to end-March 2022) on February 1, 2021, with the aim of boosting the pandemic-hit economy by focusing on infrastructure, manufacturing, healthcare, education, agriculture, and digital services. The government will provide more targeted economic stimulus through higher spending on these sectors, rather than relying on substantial cash transfers to revive demand.

According to Motilal Oswal Financial Services, headquartered in Mumbai, one of the most appreciated features of the Union Budget FY2022 is the focus on improving the quality of government expenditure, by raising capital expenditure from INR3.4tn in FY2020 to INR4.4tn in FY2021 (a revised estimate) and further to INR5.5tn in FY2022 (according to the budget estimate). This is much higher than expected and implies substantial growth of 65% y/y over two years, boosting capital expenditure to 16% of total expenditure in FY2022 from 12.5% before COVID-19 struck.

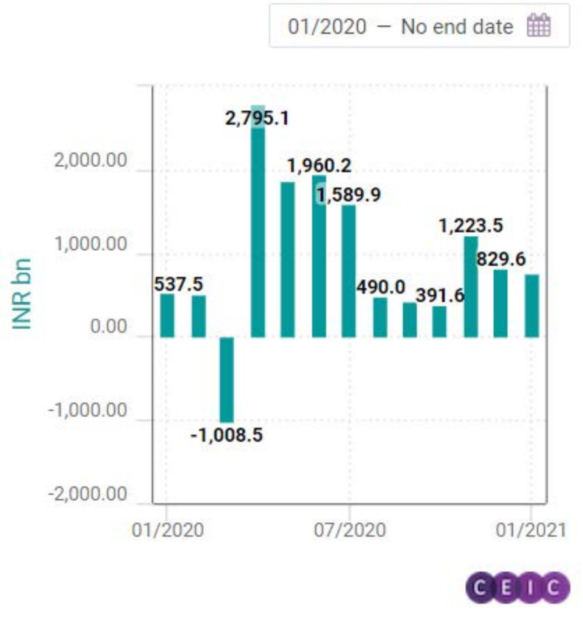
India's fiscal deficit surged to 6.30% of GDP in Q3 2020, from 6.06% in the previous quarter. ICRA, the Indian credit rating agency owned by Moody's Investor Service, projects a fiscal deficit of 7.5% of GDP or INR 14.5tn for FY2021 which compares with a deficit of 3.6% of GDP in Q3 2019. The fiscal deficit rose to 145.5% of the fiscal year target in the first nine months of FY2021, mainly as a result of poor revenue realisation. However, the government has stuck to its INR 12tn borrowing plan for the current fiscal year.

India's debt as a percentage of GDP has risen sharply as government expenditure has surged while revenues have plummeted. It rose to 56.25% of GDP in Q3 2020 from 52.71% of GDP in Q2 2020, which also compares with 46.41% of GDP in Q3 2019.

Goods and Services Tax (GST) revenues increased in December 2020 to an all-time high of INR 1.15tn, an 11.6% y/y rise, after increasing to INR 1.04tn and INR 1.05tn in November and October respectively, reflecting a pick-up in domestic demand. The marked rise in GST collections in December 2020 led to positive growth overall in Q4 2020 after contracting by 41% y/y and 8.2% y/y in Q2 2020 and Q3 2020, respectively. Gross tax collections rose by 49.39% y/y in December 2020, after growing by 22.99% y/y and 16.9% in November and October respectively. However, on an annual basis, gross tax revenue totalled INR 19.65tn in 2020, falling by 3.63% y/y from INR 20.39tn in 2019. Corporate taxes rose on a y/y basis for the first time since May 2020 by 56.72% y/y in December 2020, after having contracted by 18.19% y/y and 4.94% y/y in November and October 2020, respectively. Income tax revenues rose by 26.24% y/y, 35.7% y/y and 16.64% y/y in December, November, and October 2020, respectively.

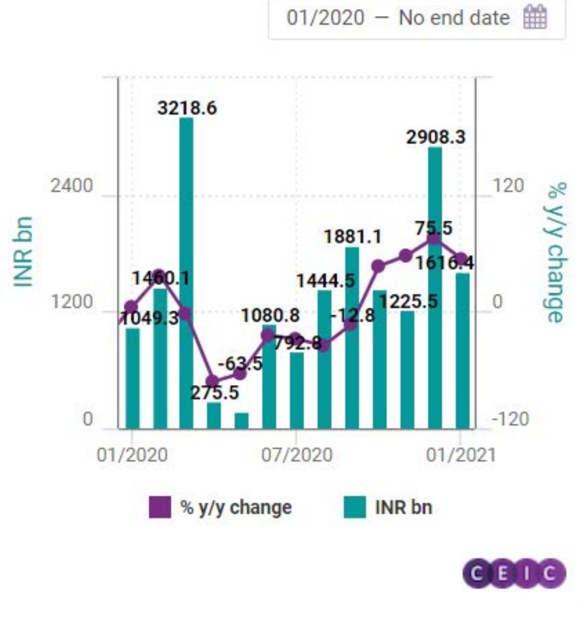
With reference to disinvestments i.e., the asset sales programme (forming part of non-tax revenues), the government had targeted disinvestments of INR 2.1tn for FY2021. As of February 1, 2020, according to Reuters, the total sold was only INR 180bn. As a result of the pandemic, progress on disinvestment has been slow, but the momentum is expected to pick up in the near future. It is crucial for disinvestments to rise significantly, given that they will generate the much-needed resources to fund government spending on infrastructure and healthcare, at a time when the pandemic has led to a slump in government tax revenues.

Government Fiscal Deficit



Central Government Debt

Government Receipts



Government Expenditure

External Sector

External Sector

India's external trade seems to be on a recovery path as global demand is picking up with merchandise exports rising for the second consecutive month in January 2021, by 5.38% y/y to USD 27.24bn, after increasing marginally by 0.14% y/y in December 2020. Exports previously contracted by 8.64% y/y and 4.68% y/y in November and October 2020, respectively. In the first ten months of FY 2021 (from April 2020 to January 2021), exports totalled USD 228.04bn, compared to USD 264.13bn during the same period in FY2020, a fall of 13.66% y/y.

In a sign of revival of domestic demand, merchandise imports rose for the second consecutive month in January 2021, by 2.04% y/y to USD 41.99bn, after growing by 7.56% y/y in December 2020 and by 13.31% y/y and 11.46% y/y in November and October 2020, respectively. Imports during the first ten months of FY2021 totalled USD 300.26bn, compared to USD 405.33bn during the same period in FY2020, a fall of 25.92% y/y.

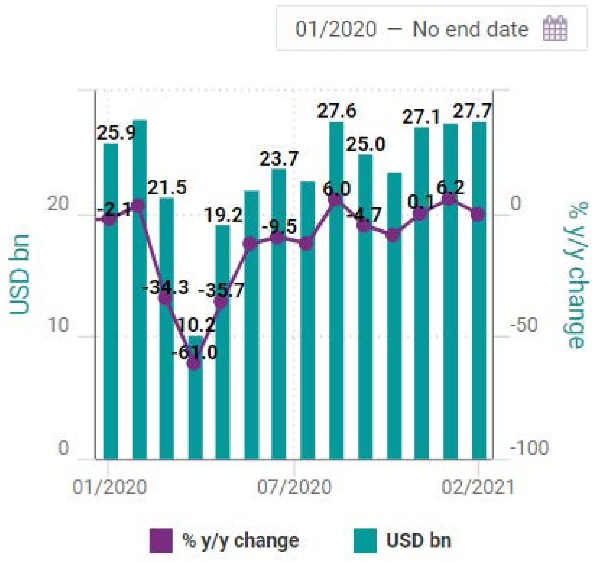
The trade deficit declined in January 2021 to USD 14.75bn after having risen for three consecutive months to USD 15.44bn, USD 9.88bn and USD 8.65bn in December, November, and October 2020 respectively. In comparison, in January 2020 India's trade deficit stood at USD 15.3bn. The current account surplus narrowed to USD 15.5bn in Q3 2020 from USD 19.24bn in Q2 2020 and USD 5.83bn in Q1 2020. The current account was in surplus for three consecutive quarters, largely as a result of the decline in the trade deficit caused by the pandemic and its impact on economic activity.

In an effort to expedite trade deals and support economic growth in the post-COVID period, India has revived trade-related dialogues with the EU and UK. The EU, including the UK, was India's largest export destination in FY2020, with a 17% share. On February 5, 2020, India pitched for a quick "early-harvest" deal with the EU, to include a significant reduction or elimination of customs duties on a specified limited number of goods to foster trade, followed by a balanced and time bound Free Trade Agreement (FTA). Formal negotiations with reference to the FTA with the EU have been on hold since 2013.

Foreign Direct Investment (FDI) inflows into India have remained strong, highlighting India's credentials as an investment destination. In November 2020, FDI rose to USD 8.63bn, from USD 5.55bn and USD 3.08bn in October and September, respectively. Between April and November 2020, India received a whopping USD 43.85bn in FDI inflows, which was 37% more than the corresponding period of the previous year.

Since 2015-16, FDI inflows into India have recorded significant growth. According to Bloomberg Quint, the key sectors that have attracted the most include services, computer software and hardware, telecommunications, trading, construction development, automobiles, chemicals, and pharmaceuticals. According to Rajat Wahi, partner at Deloitte India, in December 2020, FDI inflows rose above USD 500bn in just over 20 years, from April 2000 to September 2020, reflecting the market potential of India, along with its steady market reforms since 2000 that have included opening various sectors of the Indian economy to allow 100% FDI over the past five years. He goes on to state that while India has improved significantly across many areas such as the ease of doing business, and in terms of land and labour laws, tax rates, the availability of talent, logistics and political stability, which all play an important role in attracting FDI to any country, it still has a long way to go to compete with countries such as China and other Asian emerging markets such as Vietnam, Thailand and Malaysia..

Exports



Imports

Trade Balance

Current Account Balance

CEIC

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About CEIC Data

CEIC is an ISI Emerging Markets Group Company specialized in high quality macroeconomic databases. CEIC's databases have earned a world-class reputation among financial institutions, government agencies, universities, and corporations due to accuracy and comprehensiveness. Today, we are the service of choice for economic research on emerging and developed markets by economists around the globe.

CEIC Insights

CEIC Insights is a unit of CEIC Data that produces proprietary research and analysis. The service features data templates with dynamic visuals for Emerging and Developed markets, providing instant insight from macro overviews to individual sector analysis.

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