In, On and For Emerging Markets

A CEIC Insights Report

India Economy in a Snapshot Q2 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

India's real GDP increased by 1.6% y/y in Q1 2021, expanding further from Q4 2020 that registered a growth of 0.5% y/y, thereby registering a decline of 7.3% y/y for the whole fiscal year FY2021, ending in March 2021.

The industrial production index increased by 5.25% y/y in Q1 2021 after falling by 4.26% y/y in Q1 2020. Production also rose by 22.35% y/y in April due to a low base.

Inflation, measured by the wholesale price index, rose to an all-time high of 10.49% y/y in April 2021 from 7.39% y/y in March 2021. Core consumer price inflation eased to 5.4% after rising to 6% in March, while headline inflation fell to 4.3% from 5.5%. However, this might begin to reverse given the acceleration in wholesale price inflation.

The Reserve Bank of India (RBI, central bank) has maintained an accommodative monetary policy stance with its main policy interest rate held at 4% to support economic recovery from the pandemic, coupled with a quantitative easing programme of asset purchases known as G-SAP (Government Securities Acquisition Programme).

Merchandise (goods) exports grew by 60.3% y/y in March 2021 to USD 34.4bn after falling by 0.8% y/y in February 2021 and increasing by 6.6% y/y in January 2021. They then increased by a whopping 195.7% y/y (from a low base) to USD 30.6bn in April. At the same time merchandise imports grew by 53.7% y/y to USD 48.4bn in March, resulting in a trade deficit of USD 13.9bn in March 2021. Imports then increased by 167.1% y/y to USD 45.7bn in April, leading to a trade deficit of USD 15.1bn.

Inbound foreign direct investment (FDI) has weakened since totalling USD 72.12bn in the first 10 months of FY 2021 attracted by reforms and India's strong growth potential. FDI inflows have been more subdued in 2021.

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	03/2021
Real GDP; % y/y change	4.61	3.28	3.01	-24.43	-7.44	0.46	1.64
Fixed Investment; % y/y change	3.90	2.43	2.54	-46.60	-8.55	2.59	10.85
Industrial Production Index; % y/y change	-0.42	-1.40	-4.26	-35.56	-5.70	1.65	5.25
Consumer Price Index; % y/y change	3.47	5.83	6.67	6.57	6.90	6.36	4.87
Core CPI; % y/y change	4.18	3.57	4.06	5.06	5.70	5.75	5.85
Wholesale Price Index; % y/y change	0.89	1.10	2.06	-2.25	0.49	1.85	4.89
Policy Rate; % pa	5.40	5.15	4.40	4.00	4.00	4.00	4.00
10 Year Government Securities Yield; % pa	6.83	6.92	6.73	5.98	6.10	5.98	6.38
Exports; % y/y change	-3.92	-1.92	-12.68	-36.32	-5.27	-4.29	19.23
Imports; % y/y change	-11.25	-11.16	-9.21	-52.89	-25.19	-4.80	18.41
Trade Balance; USD mn	-39,744.24	-37,050.78	-35,438.15	-9,768.27	-14,149.42	-34,868.50	-41,353.17
Government Debt; % of GDP	46.40	47.11	46.50	52.69	56.28	56.64	
Current Account Balance; USD mn	-7,553.33	-2,604.62	584.38	19,022.34	15,123.73	-1,723.59	
Automobile Sales; % y/y change	-18.47	-9.75	-22.31	-74.11	-7.09	6.86	20.88

Economic Outlook

The CEIC smoothed leading indicator has continued on a rising trend so far this year that began in June 2020. The indicator rose to 118.83 in April from 117.14 in March, highlighting a sustained improvement in economic activity despite the devastating wave of COVID-19 which has seen daily new cases rise sharply into April and peak towards the end of that month. This appears to be reflected more in the non-smoothed leading indicator, which fell to 114.6 in April after rising consistently for several months to 121.1 in March.

The second wave of COVID-19 that hit India towards the end of March 2021, proving more lethal than the first, engulfed the country in a state of crisis, putting pressure on healthcare resources and dampening economic activity. The number of deaths had risen above 300,000 as of late-May 2021, but with this wave peaking the number of daily cases has now fallen back below the 300,000 mark. The country's inadequate health infrastructure and shortages of oxygen and medicines amplified the problem enough for some states to announce lockdowns that will severely impede economic growth prospects.

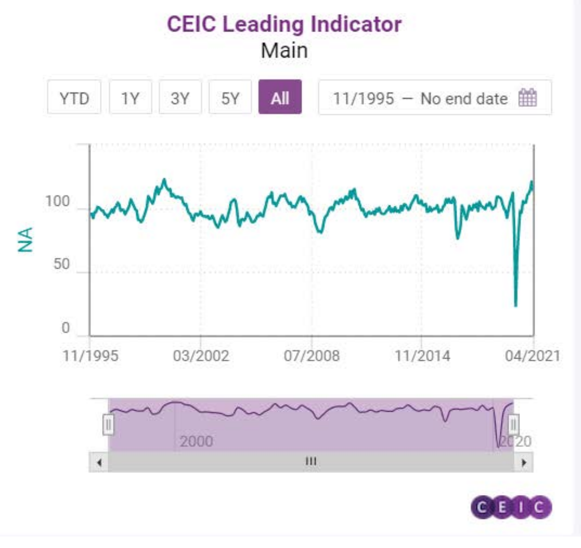
GDP growth in FY2022 (April to end-March 2022) was expected by economists to be unevenly distributed, with H1 of the fiscal year (i.e. April-September) showing robust growth numbers on the back of a weak base, the reopening of the economy and pent up demand, while H2 was expected to be more subdued. However, the recent wave of COVID-19 has changed this narrative. Increased infection rates and lockdowns in various states will act as a drag on GDP growth in Q2 2021. Moody's has lowered its real GDP growth forecast for FY22 to 9.3% from an earlier projection of 13.7%, which compares with an estimate for FY 2021 of -7%%. IHS Markit is predicting a similar growth rate of 9.2% for FY22.

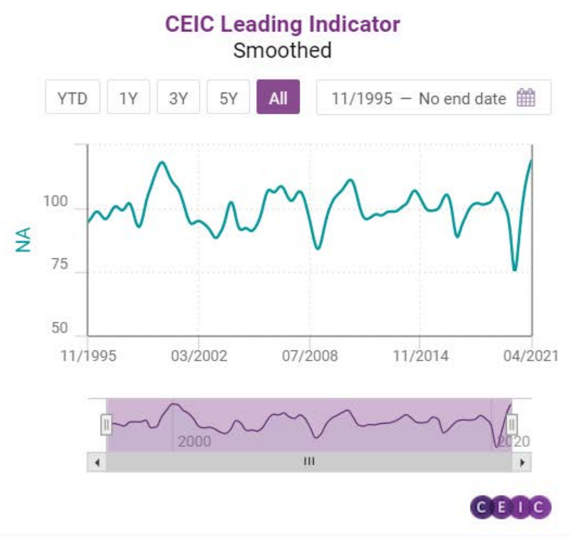
According to the quarterly "Services and Infrastructure Outlook Survey" by the Reserve Bank of India (RBI, central bank), input prices and salaries will continue to exert pressure on producers' costs and the recovery in these segments might be hampered by the second wave of COVID-19. A rise in selling prices is also expected for the rest of FY22. This is evident from the fact the wholesale price index has increased at a progressively stronger pace so far this year, from 2.5% y/y in January, to 4.8% y/y in February, 7.4% y/y in March and 10.5% y/y in April, reflecting the rise in crude oil prices and manufactured items, as well as base effects.

As a consequence, consumer price inflation is at risk of overshooting the 2-6% target band. This is likely to force the RBI to roll back on its accommodative monetary policy, although it faces a dilemma given the risk of dampening domestic economic growth already hit by the second wave of COVID-19. The RBI has projected inflation to be around 5.2% y/y in H1 FY22 (April-September 2021) and the estimate for Q4 2021 has been revised upwards to 4.4% y/y from 4.3% y/y with the estimate for Q1 2022 at 5.1% y/y.

Fitch Ratings has projected that India's medium-term real GDP growth will slow to around 6.5% as the pandemic leads to lasting damage to India's output potential due to a steep fall in private investment. Manufacturing capacity utilisation is only around 40-60%, which means that fresh capital expenditure by the private sector is unlikely to pick up in the coming quarters. Public sector investment has been raised by 34.5% y/y for FY22 in the government's budget, and it accounts for up to 25% of total investment. However, it remains to be seen how much of the capital expenditure the government has outlined is executed as this will have a bearing on medium-term growth prospects.

According to HSBC's chief economist Pranjul Bhandari, the pandemic has left some deep scars in the form of social inequality and deteriorating bank balance sheets, which will also have a negative impact on medium-term growth prospects. Further reforms, however, can unlock potential gains and bolster medium-term economic growth prospects.





Real Sector

Real Sector

India's real GDP increased by 1.6% y/y in Q1 2021, expanding further from Q4 2020 that registered a growth of 0.5% y/y, thereby registering a decline of 7.3% y/y for the whole fiscal year FY2021, ending in March 2021. The growth for Q1 2021 was powered by favourable base effects, continued economic policy support, and the vaccination drive. Even though the quarter witnessed a growth, many of the high-frequency indicators that had picked up momentum in Q4 2020 moderated in the first two months of 2021, such as industrial production. Many indicators only experienced an increase on account of low base. The worsening COVID-19 situation by end March 2021 dented the economic recovery process. However, since the second wave peaked in the month of April, the major economic impact is likely to moderate the high growth estimated for Q2 2021 due to low base effect.

Private consumption witnessed an increase, by 2.7% y/y, after three consecutive quarters of declines. Government consumption picked up pace as well, accelerating by 28.3% y/y after registering a decline in Q3 and Q4 2020. On the investment side, there has been an increase of 13.8% y/y in Q1 2021, primarily on the back of gross fixed capital formation that increased by 10.9% y/y. Both export and import volume of goods and services registered its first ever growth post six consecutive quarters of decline, by 8.8% y/y and 12.3% y/y, respectively.

In terms of Gross Value Added (GVA), manufacturing and construction were the main contributors under industry, while the share of agriculture declined in Q1 2021, in comparison with Q4 2020. Under services, the category trade, hotels, transport, communication, and services (related to broadcasting) increased its share in the overall GVA, back to pre-pandemic levels. While GVA pertaining to industry witnessed the second consecutive growth of 7.9% y/y, after growing at 2.9% y/y in the previous quarter, services sector registered an increase for the first time since March 2020, by 1.5% y/y.

Owing to a low base, industrial production rose by a massive 22.35% in March 2021, contrasting with the year-earlier contraction of 18.7% y/y when India imposed a nationwide lockdown to address the pandemic. This followed declines of 3.4% y/y in February 2021 and 0.9% y/y in January 2021, which can be attributed to base effects, as January 2020 and February 2020 were months that registered increases of 2.2% y/y and 5.2% y/y respectively.

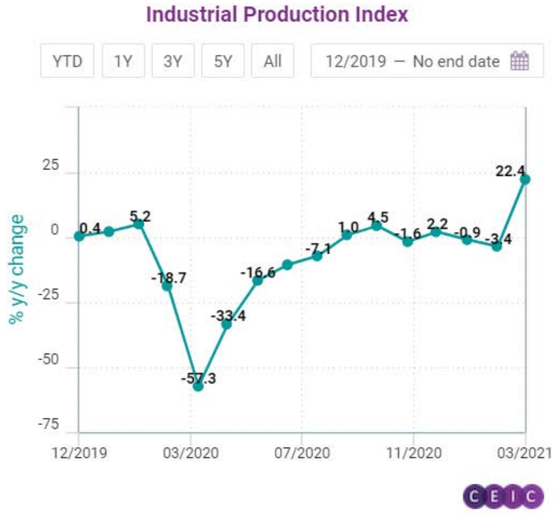
Manufacturing output, which accounts for 77% of the industrial production index, rose by 25.8% y/y in March 2021 after contracting by 22.8% y/y in March 2020. It declined by 3.7% y/y in February 2021 and by 1.3% y/y in January 2021 y/y. Mining output grew by 6.1% y/y in March 2021, after declining by 4.4% y/y in February 2021 and 2.5% y/y in January 2021. Electricity generation grew by 22.5% in March 2021 following a more modest increase of 0.1% y/y in February 2021 and 5.5% y/y in January 2021.

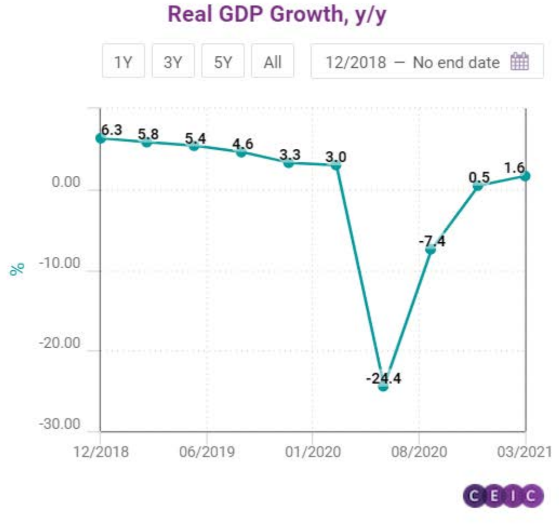
The output of capital goods, a barometer of investment spending, was up by 41.9% y/y in March 2021 after contracting by 38.8% in March 2020. This followed a decline in output of capital goods of 3.8% y/y in February 2021, despite a contraction of 9.6% y/y in February 2020. The production of consumer durables grew by 54.9% y/y in March 2021 after contracting by 36.8% in March 2020. Consumer durables also grew in February 2021 by 6.7% y/y on the back of a 6.2% y/y contraction in February 2020, but contracted by 0.2% y/y in January 2021.

The IHS Markit India manufacturing purchasing managers' index (PMI) remained fairly stable at a seasonally-adjusted 55.5 in April, up slightly on the 55.4 reading for March. It is comfortably above 50, dividing expansion from contraction, but lower in comparison with the 57.5 recorded for February 2021 and 57.7 in January.

As for services sector activity, the IHS Markit India services PMI business activity index declined to a seasonally-adjusted 54.6 in March 2021 from 55.3 in February and it eased further to 54.0 in April. However, it remained above 50, revealing a seventh straight month of expansion in the services sector.

The unemployment rate fell to 6.53% in March 2021 after touching 6.9% in February 2021. Urban areas continue to experience higher unemployment with a rate of 7.24% versus 6.19% for rural areas in March 2021. The unemployment rate increased to 8% in April 2021 as 7.35mn jobs were lost during the month and the labour force shrank by 1.1mn due to the second wave of COVID-19.





Monetary & Financial Sector

Monetary and Financial Sector

Consumer price inflation decelerated to an average of 4.9% in Q1 2021 from 6.4% in Q4 2020, but core inflation (excluding food and beverages, and fuel and light) remained resilient, rising slightly to 5.8% for Q1 2021 from 5.75% in Q4 2020. Core inflation has remained in the 5%-6% range since May 2020. In April, core inflation eased to 5.4% after rising to 6% in March, while headline inflation fell to 4.3% from 5.5%. However, this might begin to reverse given the upsurge in wholesale price inflation, which accelerated dramatically in Q1 2021 to 4.9% from 1.85% in Q4 2020 and rose to 10.5% in April from 7.4% in March.

The lower consumer price inflation rate in April is mainly due to food and beverage price inflation falling to 2.7% y/y in April from 5.2% y/y in March. Vegetable prices, in particular, decreased by 14.2% y/y. While there has been an easing of consumer price pressure, generally, it is likely that services price inflation might pick up as economic activity recovers and pent-up savings bolster demand. This, along with resilient core inflation and rapidly rising wholesale prices suggests that consumer price inflation could overshoot the Reserve Bank of India's (RBI's, central bank's) 2-6% target range.

Despite these inflation concerns, the RBI's monetary policy has remained unchanged in terms of the key policy rate, which still stands at 4%, and the reverse repurchase (repo) rate that was held at 3.35% at the Monetary Policy Committee's most recent meeting in April 2021, although the bond markets are pricing in high inflation and a rise in interest rates with the benchmark 10 year government securities (G-Secs) yield rising to 6.38% in Q1 2021 from 5.98% in Q4 2020.

The RBI also appears to have no qualms about boosting the economy using quantitative easing, known as GSAP 1.0 (Government Securities Acquisition Programme) under which the RBI has promised to buy INR 1tn worth of government securities in Q2 2021. If it continues at the same pace the total buying for FY22 will be around INR 4tn. This is equivalent to funding about one third of the government deficit, worth INR 12.05tn for the same period. The move is also expected to bridge the gap between short- and long-term yields.

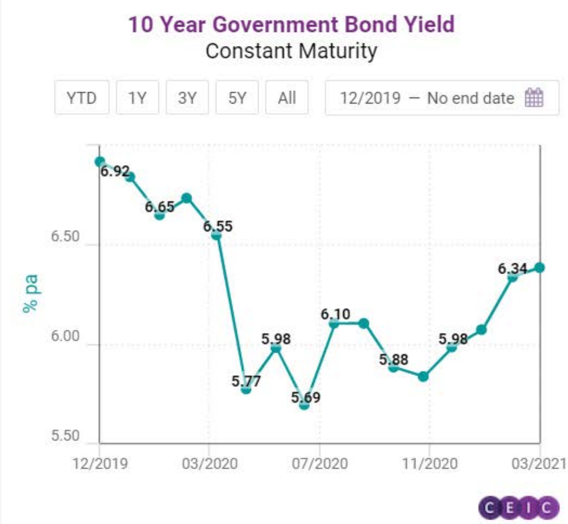
Substantial monetary policy expansion has inevitably had repercussions for the exchange rate, with the rupee's value slipping after the announcement as the move is expected to pump more liquidity into the market. Rupee depreciation has significant implications when considered alongside rising commodity prices as it makes India's imports bill more expensive, worsening the current-account and contributing to inflation.

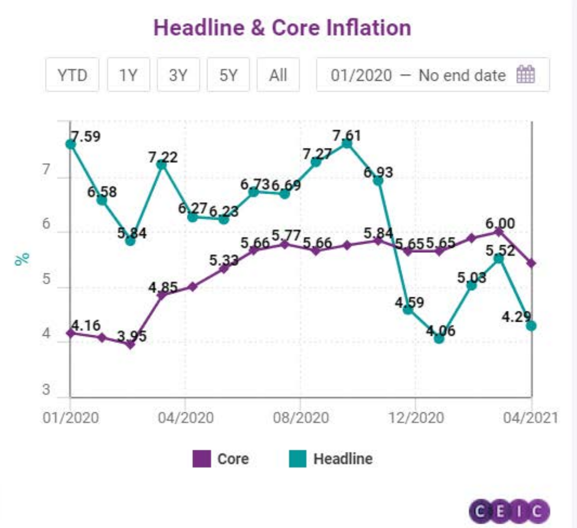
In addition, the RBI opened a special 'on-tap' liquidity window of INR 500bn with a tenor of three years to March 31, 2022, to ease access to healthcare services. Commercial banks are expected to create a COVID loan book under the scheme and can deposit surplus liquidity at 25 bps less than the repo rate. Furthermore, three-year special long term repo operations (SLTROs) of INR 100bn will be deployed at the repo rate for small financial banks, one auction of which will be conducted each month starting from May 17, 2021, with the SLTRO facility available up to October 31, 2021. Micro-, small- and medium-sized enterprises can also take advantage of a one-time restructuring of their loans through to September 30, 2021, which covers those that have an exposure of up to INR 250mn.

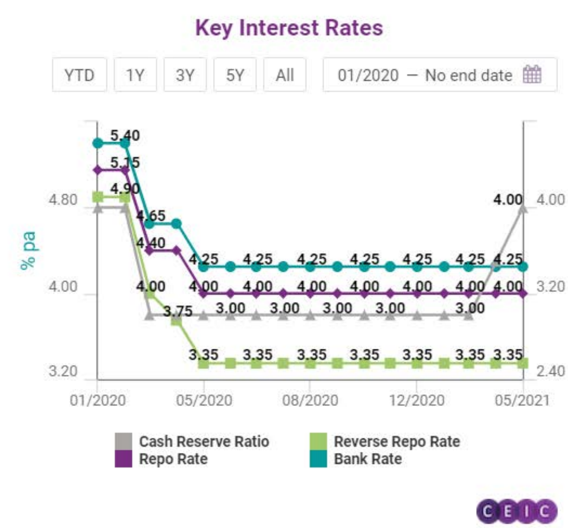
According to the bank lending survey by the RBI for Q1 2021, loan demand strengthened for the third successive quarter. There was higher demand, especially in segments such as manufacturing, infrastructure, services and personal loans.

Perceptions improved substantially for the infrastructure sector where loan demand went up from 19.6% in Q4 2020 to 42.6% in Q1 2021. Expectations of an easing of terms and conditions on loans signals upbeat sentiment that is likely to continue despite the current weakened economy.

The S&P BSE Sensex, S&P BSE Sensex 50 and S&P BSE Sensex Next 50 reached all-time highs in Q1 2021. The S&P BSE Sensex touched 77,091, the S&P BSE Sensex 50 reached 19,656 and the S&P BSE Sensex Next 50 climbed to 52,090. The three indices registered respective q/q increases of 3.85%, 5.21% and 8.35%. That said, the stock market saw the highest foreign portfolio outflows in April 2021, totalling USD 1.29bn during the month as Foreign Portfolio Investors (FPIs) sold stocks due to broad-based selling in emerging markets stemming from anticipation of an interest rate rise by the US Federal Reserve. The sudden rise of COVID-19 cases in India and the subsequent announcement of fresh lockdowns exacerbated investors' fears, weakening stock market sentiment.







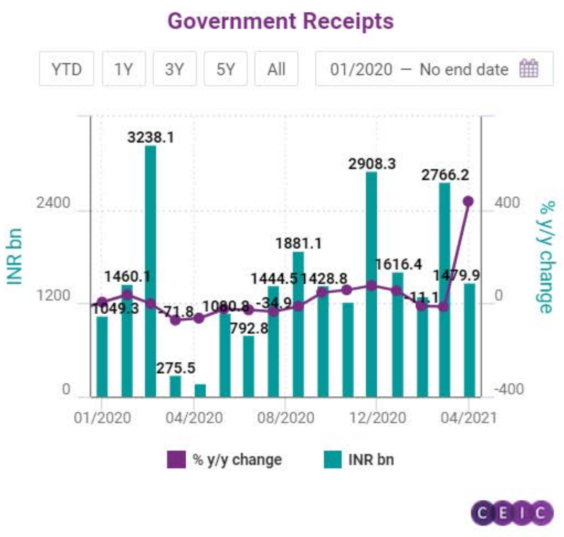
Fiscal Sector

Fiscal Sector

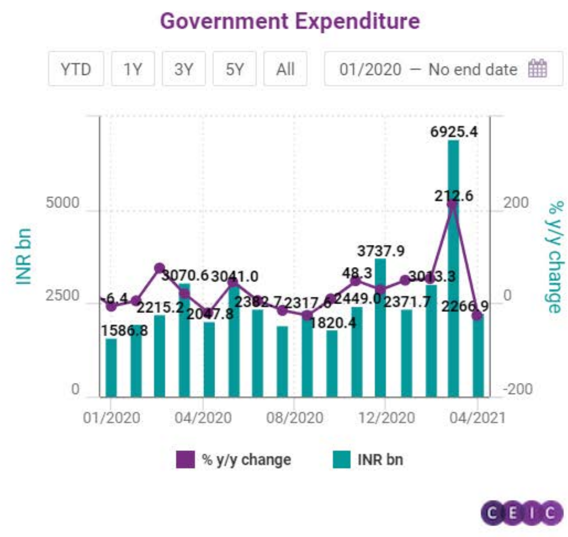
The fiscal deficit increased by 40.5% y/y in January 2021 to INR 755bn and by a whopping 236% y/y to INR 1.2tn in February 2021. Government receipts fell from INR 2.9tn in December 2020 to INR 1.6tn in January 2021 and INR 1.2tn in February 2021. At the same time, government expenditure increased from INR 2.3bn in January 2021 to INR 3bn in February 2021.

The yield on the benchmark 10-year government bond increased by 40 bps from 5.98% in Q4 2020 to 6.38% in Q1 2021, making it more costly for the government to borrow, with planned total borrowings of INR 12.05tn for FY 2022. The government's asset purchase scheme known as GSAP will absorb only one third of the total supply of bonds, while weaker-than-expected economic growth prospects due to the second wave of COVID-19 will have implications for the sustainability of government debt. Because of this Moody's has ruled out a sovereign credit rating upgrade. Fitch ratings agency expects the fiscal deficit to be 8.3% of GDP in FY2022, up from a previous forecast of 8%, which compares to a deficit of 9.5% of GDP for FY21. Consequently, the debt-to-GDP ratio is expected to reach 90% in FY2022 and 92% in FY2023, up from 89% in FY2021, according to forecasts by UBS.

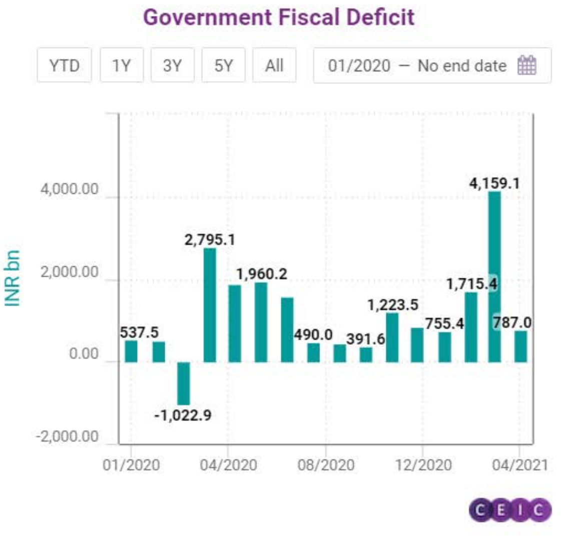
The sustainability of India's sovereign debt depends more on GDP growth than the cost of borrowing. The government has estimated growth in nominal GDP of 14.4% for FY2022 in the budget for FY2022 which is a rather conservative estimate given that the average real GDP growth rate predicted for FY2022 by most economists is 10%. Given this, the tax estimates for FY2021 and FY2022 are also conservative. The budgeted estimate of Centre's Gross Tax Revenue (GTR) for FY2021 was revised down to INR 19tn from INR 24tn, of which 80% had already been collected in the April 2020- January 2021 period, compared with 71% during the same period in FY2020. In fact, for March 2021, the Goods and Services Tax (GST) collections were the highest ever for a month since the introduction of the GST regime in July 2017, at INR 1.24tn on the heels of INR 1tn taxes collected in February 2021 and INR 1.2tn in January 2021. The budgeted estimate for GTR in FY2022 is INR 22.2tn, a rise of about 16.7% with the abovementioned nominal growth rate and tax buoyancy (measuring how much taxes will increase with growth) of 1.2 and Net Tax Revenue (NTR) of INR 15.4tn.



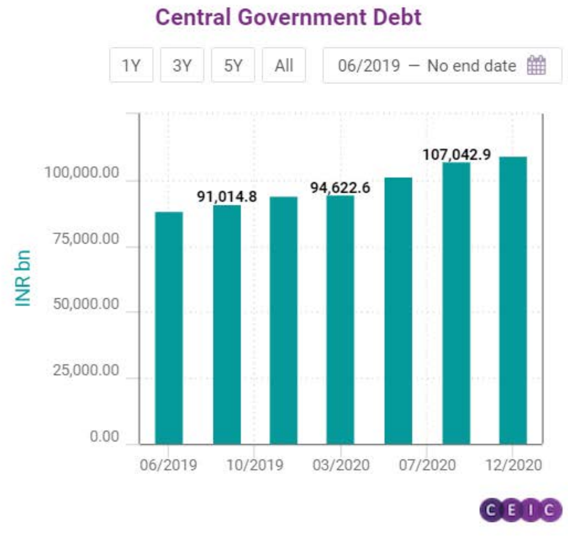
Government Receipts
YTD
1Y
3Y
5Y
All
01/2020 – No end date
INR bn
% y/y change
3238.1
2908.3
2766.2
1881.1
1616.4
1460.1
1444.5
1428.8
1479.9
1049.3
1080.8
792.8
275.5
-71.8
-34.9
-11.1
2400
1200
0
400
0
-400
01/2020
04/2020
08/2020
12/2020
04/2021
% y/y change
INR bn



Government Expenditure
YTD
1Y
3Y
5Y
All
01/2020 – No end date
INR bn
% y/y change
6925.4
212.6
3737.9
3070.6
3041.0
3013.3
48.3
2215.2
2047.8
2449.0
2371.7
2266.9
1820.4
1586.8
-6.4
5000
2500
0
200
0
-200
01/2020
04/2020
08/2020
12/2020
04/2021
% y/y change
INR bn



Government Fiscal Deficit
YTD
1Y
3Y
5Y
All
01/2020 – No end date
INR bn
4,159.1
2,795.1
1,960.2
1,715.4
1,223.5
787.0
755.4
537.5
490.0
391.6
-1,022.9
4,000.00
2,000.00
0.00
-2,000.00
01/2020
04/2020
08/2020
12/2020
04/2021



Central Government Debt
1Y
3Y
5Y
All
06/2019 – No end date
INR bn
107,042.9
94,622.6
91,014.8
100,000.00
75,000.00
50,000.00
25,000.00
0.00
06/2019
10/2019
03/2020
07/2020
12/2020

External Sector

External Sector

Merchandise (goods) exports rose sharply in March 2021 at their fastest pace in three years, as a result of an increase in global demand and more specifically due to the marked rise in Chinese demand for Japanese products, including plastics and raw materials, such as copper. Japanese exports to the EU also increased sharply in March 2021, while exports to the US rose more moderately. Imports rose for the second consecutive month in March 2021.

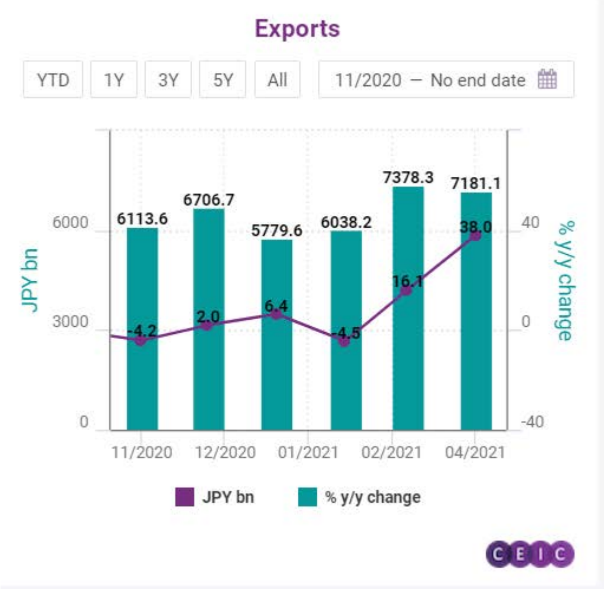
Merchandise exports surged by 16.1% y/y in March 2021 after contracting by 4.45% y/y in February but rose by 6.39% y/y in January. Prior to that, exports had risen on an annual basis for the first time in December 2020, by 1.98% y/y, as external demand picked up. Japanese exports to China, the EU and US rose by 37.2% y/y, 12.8% y/y and 4.9% y/y, respectively, in March 2021. Japan's exports to China rose for the ninth consecutive month in March 2021.

Merchandise imports rose by 5.7% y/y in March 2021 after increasing by 11.83% y/y in February, but contracting by 9.45% y/y in January. Imports had risen for the first time in 22 months in February 2021 and continued to rise in March due to the pick-up in domestic demand.

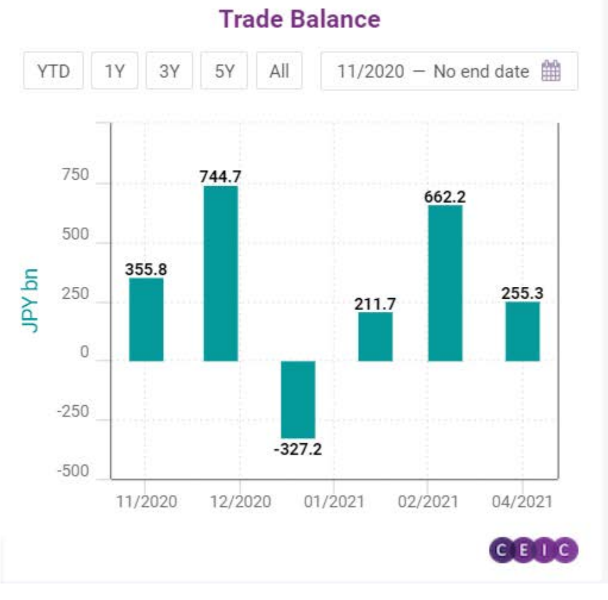
Japan's trade surplus rose to JPY 663.7bn in March 2021 from JPY 215.86bn in February 2021, while in January there was a trade deficit of JPY 327.16bn.

Foreign direct investment (FDI) as a percentage of nominal GDP increased to 1.31% in 2020 from 0.78% in 2019. FDI inflows into Japan remain low compared to other developed economies and relatively unstable. According to Santander Trade, the potential barriers to FDI in Japan are essentially demographic, cultural and linguistic, although Japan does remain a key investment destination. FDI in Japan is mainly directed into the finance and insurance, electric machinery, equipment related to transport production, pharmaceutical and chemicals industries.

According to JETRO's latest survey of overseas affiliates in Japan, more than 60% of overseas companies state that the current market size and growth of relevant industries is what makes Japan an attractive investment destination. Japan is a leader in advanced technology, and research & development, and it is actively opening its doors for foreign companies to invest and is aiming to create the best possible investor environment. In the World Bank's 2020 Doing Business Report, Japan's position at 29 out of 190 countries represented a rise of 10 places compared with 2019.


Exports
YTD 1Y 3Y 5Y All 11/2020 – No end date
JPY bn
% y/y change
6113.6
6706.7
5779.6
6038.2
7378.3
7181.1
-4.2
2.0
6.4
-4.5
16.1
38.0
6000
3000
0
40
0
-40
11/2020 12/2020 01/2021 02/2021 04/2021
JPY bn
% y/y change


Imports
YTD 1Y 3Y 5Y All 11/2020 – No end date
JPY bn
% y/y change
5757.8
5961.9
6106.7
5826.5
6716.1
6925.8
-11.0
-11.5
-9.5
11.9
5.8
12.8
5000
2500
0
20
0
-20
11/2020 12/2020 01/2021 02/2021 04/2021
% y/y change
JPY bn


Trade Balance
YTD 1Y 3Y 5Y All 11/2020 – No end date
JPY bn
355.8
744.7
-327.2
211.7
662.2
255.3
750
500
250
0
-250
-500
11/2020 12/2020 01/2021 02/2021 04/2021


Current Account Balance
YTD 1Y 3Y 5Y All 10/2020 – No end date
JPY bn
2,110.8
1,894.9
1,279.1
644.4
2,916.9
2,650.1
3000
2000
1000
0
10/2020 11/2020 12/2020 01/2021 03/2021

CEIC

In, On and For Emerging Markets

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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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