Economic Division

Monthly Economic Review

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DEPARTMENT OF ECONOMIC AFFAIRS

सत्यमेव जयते

Abstract

The new year has dawned with the approval of long-awaited Covid-19 vaccine and initiation of vaccination drives in various countries. This gives strength to the optimism on both health and economic fronts despite continuing surge in global cases and the potential challenge of a mutant strain.

In the global economy, rise in lockdown stringency following second waves has slowed down recovery, as seen in tapering Purchasing Managers' Index estimates, decline in port traffic activity, and stagnating commercial flight activity. However, commodity prices strengthened further driven by recovering oil prices riding on increased activity and expectations of vaccine arrival. Base metal price rose on the back of strong global manufacturing, improved investor sentiment, and weaker US dollar, while gold prices eased further due to lowering demand, and coal prices were held hostage to bad weather limiting export capacity. Consumer inflation remained low in advanced economies, given moderated energy prices, while being elevated in emerging economies. Amid vaccine optimism and bolstered risk appetite of investors, global equity markets rallied further.

India has been successful in bending the Covid-curve till now, with reducing weekly/daily infections, rising recovery rate (now at around 95 per cent) and one of world's lowest case fatality rates. The COVID-19 active caseload has fallen below 2.5 lakh with India now at tenth position in number of active cases. This is coupled by sustained numbers of tests-per-million, with cumulative test positivity rate below WHO's norm of 8%.

The effective management of Covid-19 spread despite the festive season and onset of winter season, combined with sustained improvement in high frequency indicators and V-shaped recovery along with easing of lockdown restrictions distinguish Indian economy as one riding against the Covid-wave. The agricultural sector remains the bright spot of Indian economy, with healthy year-on-year growth of 2.9% in rabi sowing, accelerating tractor sales, and reservoirs' live storage at 122% of decadal average. This, along with rise in minimum support prices accompanied by record procurement, and accelerated wage employment generation through MGNREGS, bodes well for rural incomes and bears testimony to PMGKY's success in alleviating rural distress. This rise in rural incomes is mirrored in the healthy, though moderated, sales in passenger vehicles, two and three wheelers and tractor, and a rebound in vehicle registrations for the first time after March 2020.

At the same time, the industrial production growth ran parallel to the festive fervour of October and rose to an eight-month high, led by manufacturing and electricity sector. The core industries registered slight decline in November driven by natural gas and cement, while coal production, electricity and fertilizers' production registered growth. Steel production showed sequential growth with steel consumption recording high year-on-year growth, indicating an accelerating construction sector.

Sustained spurt in commercial and industrial activity was further corroborated by continued growth in PMI manufacturing, power demand, persistent improvement in E-way bills generated and highway toll collection rising above pre-Covid levels. Monthly GST collections attained their record levels in December. The growth momentum in rail freight traffic remains upbeat, as passenger earnings begin to recover, port cargo traffic grows y-o-y, and domestic aviation picks up further. The digital payment upsurge too continues unabatedly, powered by resumption of economic activity, financial inclusion through Aadhar enabled Payment Systems, and behavioural shift to digital payments.

With domestic activity picking pace, India's merchandise trade deficit rose, as imports saw positive y-o-y growth after nine months. India experienced a current account surplus for the third straight quarter in Q2:FY21 - $15.5 billion or 2.4 percent of the GDP as compared to $19.2 billion (3.8 percent of GDP) in Q1:FY21. Total FDI inflows in the first seven months of the financial year stood at a record high of US$ 46.82 billion, 11.3 per cent higher as compared to first seven months of FY2019-20. Similar sentiments are reflected by FPI inflows, touching historic highs in November and December, with global asset shifts towards equities and prospects of faster recovery in emerging economies. India's market capitalisation hit $2.5 trillion on last day of the year pushing it to the eighth position globally. India's foreign exchange reserves climbed to a new high of US$ 580.8 billion as on 25th December, 2020, covering more than 16 months of imports. RBI's dollar purchases in the foreign exchange market kept the rupee in the 73.1-73.9 INR/USD range in December.

The liquidity situation remains comfortable as accumulation of dollars along with growth of currency in circulation is enhancing liquidity in the banking system despite the average daily net absorptions by RBI having risen from November to December. Corporate bond yields eased further, Benchmark G-secs yields faced stiffening pressures after easing for several months, with the spread between the two narrowing, signalling improved risk perception of corporate bonds. The credit growth improved sharply as reflected in strong non-food credit rise and overall credit growth, thanks to the Emergency Credit Line Guarantee Scheme (ECLGS) which continues to support robust credit disbursements to MSMEs, with Rs 2.05 lakh crore sanctioned to 80.93 lakh borrowers under ECLGS 1.0. Extension of ECLGS to 26 stressed sectors is a further boost to MSME credit growth. Credit growth is further corroborated by a sharp rise in incremental credit deposit ratio of banks.

Food inflation pressures moderated in November, due to decline in inflation of all major sub-groups of food except 'oils & fats' and fruits, easing CPI inflation to below 7 percent in November. WPI inflation saw a marginal rise, while staying well below 2 percent, mainly due to rise in inflation of manufactured products.

Central Government's persistent support to State Governments to enable economic recovery can be seen in the sustained fiscal support despite decline in revenues, special window to borrow for States' GST shortfall, and additional borrowing limits for adopting State-level reforms. The Centre's fiscal deficit stood at 135.1 per cent of BE from April to November. As on 25th December 2020, the Central Government gross market borrowing during FY2020-21 reached ₹10.27 lakh crore (compared to State Governments' ₹5.37 lakh crore), witnessing a 66.2 per cent y-o-y growth (compared to State Governments' 42.1 per cent).

*As two vaccines get emergency use approval in India, the government is well prepared to undertake a mega vaccination drive, with a blueprint ready with priority for health workers among others, real-time Intelligence Network Co-WIN in place, upgradation of cold-chain infrastructure for last-mile delivery, and ongoing dry runs. However, while the impending vaccination is drawing closer, continued observation of "covid-appropriate" behaviour is still crucial in light of incoming mutant strain and possible precaution fatigue – "*दवाई भी कड़ाई भी*" (Caution Along with Medicine).*

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Dawn of the COVID-19 vaccine

1. Coronavirus is continuing its spread across the world with the number of confirmed cases of COVID-19 globally now exceeding 8.5 crore with more than 18.5 lakh deaths. US continues to have more than 1 lakh daily new cases with 3.6 lakh deaths till now. Since November 2020, UK has reported a rapid increase in COVID-19 cases in London and southeast England. This rapid increase in cases has been linked to a different variant of the virus that causes COVID-19. The new variant is considerably more transmissible than previous strains but there is not enough evidence of its severity. Many countries have responded to suspension of international flights and enhanced surveillance at airports.

2. Though concerns over the pandemic remain, the world's endeavour to create a safe and effective COVID-19 vaccine has borne fruit. Around 7 vaccines now have been authorized around the globe and many more remain in development. The vaccines are claimed to be effective even against the new UK variant. US has already vaccinated around 42 lakh citizens primarily front-line medical workers. Europe has launched a large-scale vaccination drive, with elderly patients and medical personnel given the first priority. UK itself has vaccinated more than 1.5 lakh citizens since approval. The challenge, however, remains to design a coordinated and swift strategy to inoculate the vulnerable and medical community world-wide on priority.

3. Reducing exposure to the virus by wearing masks, observing social distancing and frequently washing hands will remain the mainstay of social behaviour in 2021 and beyond, till everyone has been vaccinated against the disease. The caveat remains that vaccines have only been tested for their ability to prevent infection and not for prevention of transmission. The vaccination would, therefore, need to be accompanied by the observation of all precautionary measures of SMS - social distancing, masks and sanitisation.

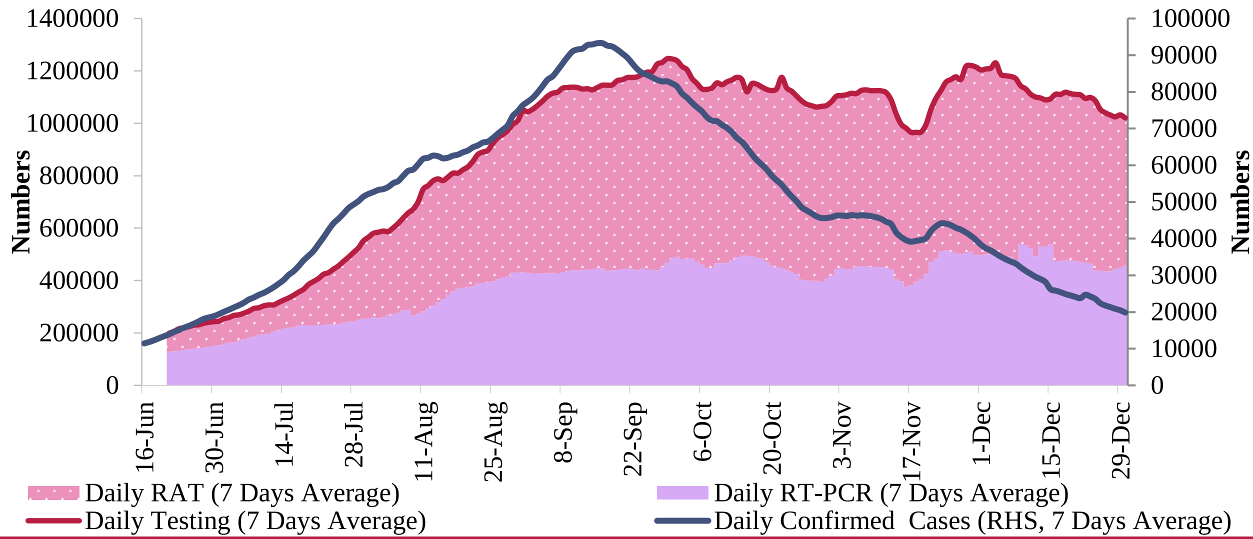
India riding against the COVID-19 wave

4. India has been successful in bending the COVID infection curve till now and enters the new year with cautious optimism. Since the crossing of the first peak in mid-September, barring localised surges, infections are on a reducing trend and the recovery rate is nudging 95 per cent. The case fatality rate stands at one of the lowest globally at 1.45 per cent despite having the second largest confirmed cases at 1.03 crore. The COVID-19 active caseload has fallen below 2.5 lakh with India now at tenth position in number of active cases.

5. While India still registers the highest number of daily infections in Asia, the daily rate has come down significantly to a seven-day rolling average of less than 20,000 cases and 270 deaths in the last week of December, from the peak of close to a lakh and more than 1,000 deaths a day in mid-September. The 7-day average of daily change in active cases continued to be in the

negative territory at -1.8 per cent as on 31st December. The daily cases showed some spurt in November largely attributed to the festive season but has been rapidly brought under control (Figure 1).

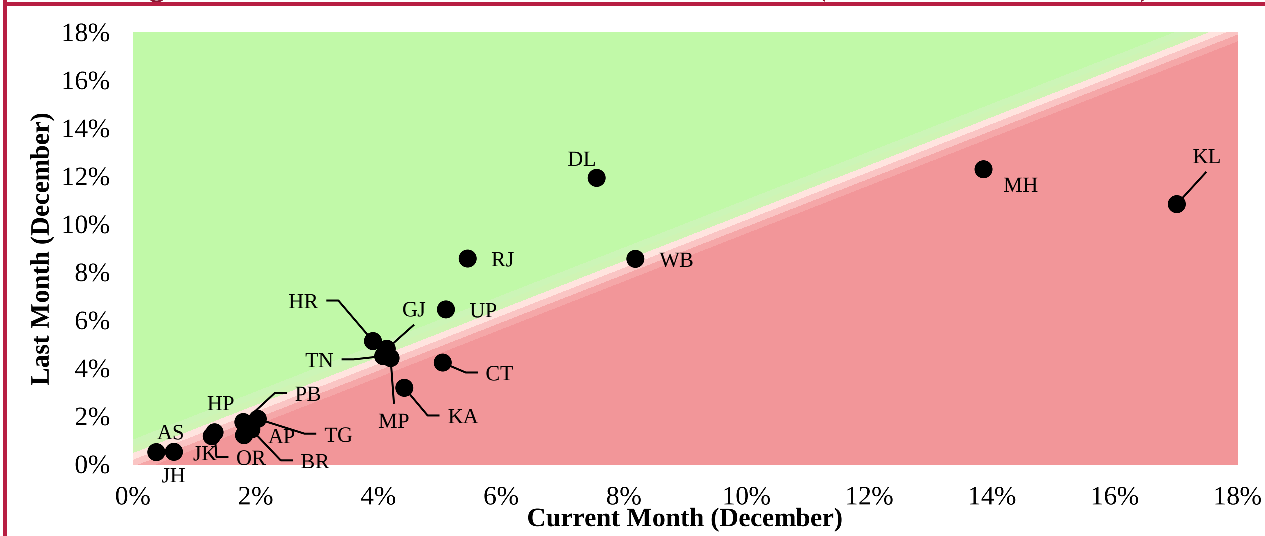
Figure 1: Trend in Daily confirmed cases and Testing in India



Source: India COVID-19 Tracker. https://www.covid19india.org

6. All States have shown a decline in number of daily COVID-19 cases. If we compare the share of daily COVID cases in December with the share in last month, it is evident that Rajasthan, Delhi, Haryana, Tamil Nadu, West Bengal, Gujarat and Uttar Pradesh have shown improvement while Kerala, Maharashtra, Bihar, Andhra Pradesh and Chhattisgarh are probably facing their second/third waves (Figure 2).

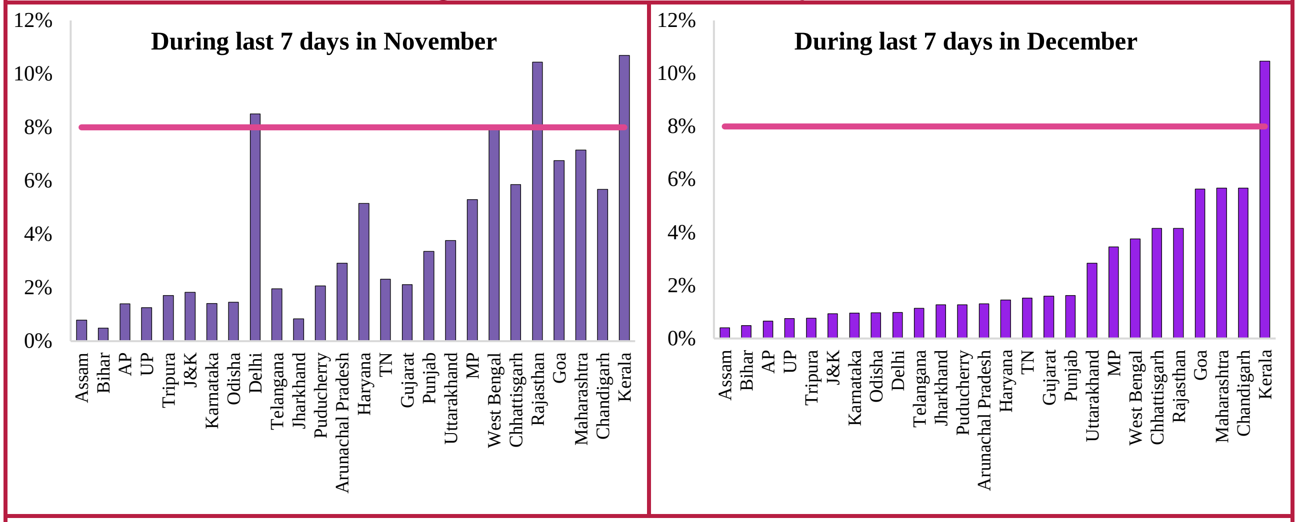
Figure 2: Share of States in new COVID -19 Cases (Current vs Last month)



Source: India COVID-19 Tracker. https://www.covid19india.org

7. India has tested nearly 18.5 crore cumulative COVID-19 samples as on 31st December. The tests per million, now standing at around 1,38,737 are among the top countries in the world. The cumulative test positivity rate is, now, below the WHO standard of 8 percent at 5.6 percent which indicates that testing in India matches the global averages. The 7-day positivity rate has shown a decrease to 1.9 percent. Almost all States have shown a decline in positivity rates in December (Figure 3). Kerala is the only state in the country where the Covid-19 positivity rate is still above 8 percent – which is a matter of concern.

Figure 3: State-wise Positivity rates



Source: India COVID-19 Tracker. https://www.covid19india.org

8. Various vaccines have successfully hit trial status in India and two have been recently approved for the emergency use. The government has readied the blueprint of the mega vaccination drive with plans to begin vaccinating 30 crore health workers, frontline workers and vulnerable population in the age group above 50 years and persons below 50 years with associated co-morbidities. The COVID Vaccine Intelligence Network (Co-WIN) system — a digitalised platform — will provide real-time information of vaccine stocks, their storage temperature and individualised tracking of beneficiaries of the vaccine on a real-time basis. India's cold chain infrastructure has been sufficiently upgraded to ensure last-mile delivery. Adequate supplies of syringes and other logistics have also been provided. A dry run of the vaccination drive spread across 125 districts covering all states and UTs has been conducted to test the efficacy of the system.

9. Even with vaccination, wearing a facial mask, following hand and personal hygiene, and maintaining physical distance earnestly remain the principal ways to avoid getting infected. The emphasis to maintain surveillance, containment and caution cannot be diluted.

Macro-economic Scenario

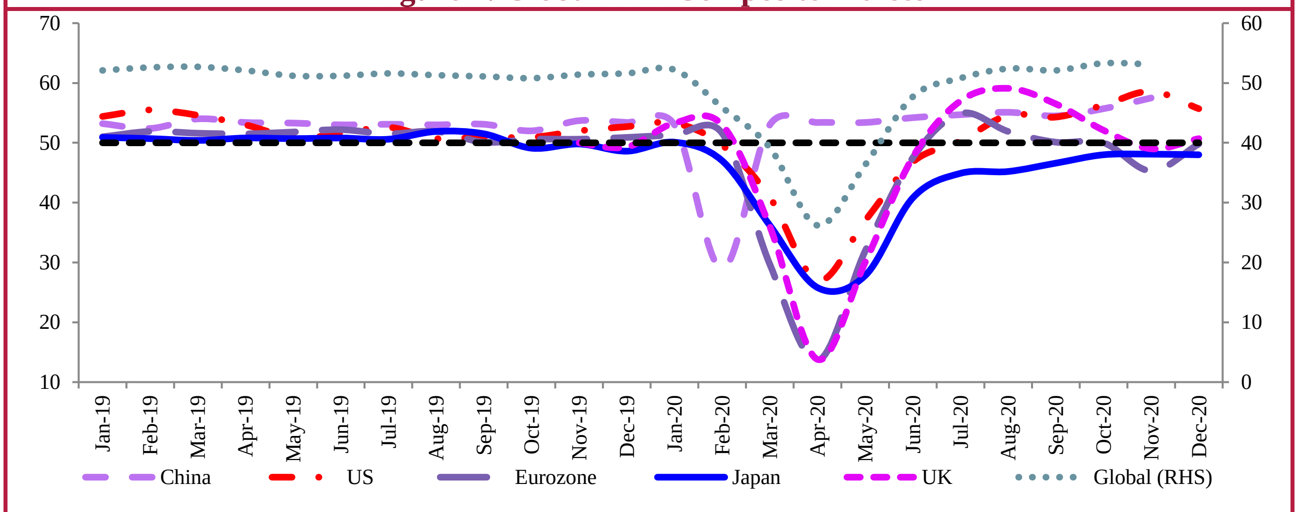
10. The approval of the vaccines across the world has ignited optimism for economic recovery in the new year. Post-vaccination, the resumption in economic activity and increased mobility are expected to lead towards a path of economic recovery in the aftermath of the Covid-19 pandemic.

Global

Rise in new cases weighing down the economy recovery

11. Due to rise in infection rates, lockdown stringency has increased in many regions as a result, leading to slowdown in activity. Global composite Purchasing Managers Index (PMI) expanded at a slower rate of 53.1 in November from 53.3 in October (Figure 4). Preliminary estimates for December of PMI Composite Index continued to manifest mixed results for major economies. U.S. private sector businesses witnessed loss in growth momentum with service sector affected the most, followed by rise in virus case numbers and re-imposed restrictions in many states, as the post-election uptick and vaccine confidence waned. Eurozone business activity came close to stabilising in December as stronger manufacturing output growth helped to counter fall in services activity. UK witnessed marginal expansion of private sector output, driven by robust increase in manufacturing production. However, Japan continued its struggle to gain recovery momentum with data indicating further decline in business activity during December.

Figure 4: Global PMI Composite Indices



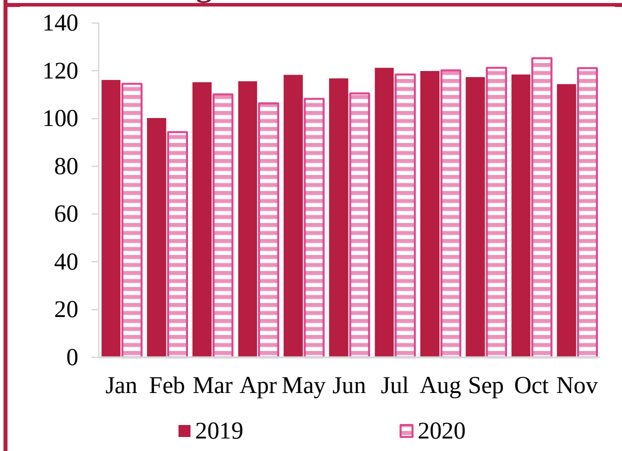
Source: IHS Markit, *Data for December 2020 represents preliminary estimates

Revival in goods and services trade remained stagnant

12. New export orders component of Global PMI manufacturing and services have remained stagnant since September and August respectively. Port traffic activity tracked by the RWI/ISL

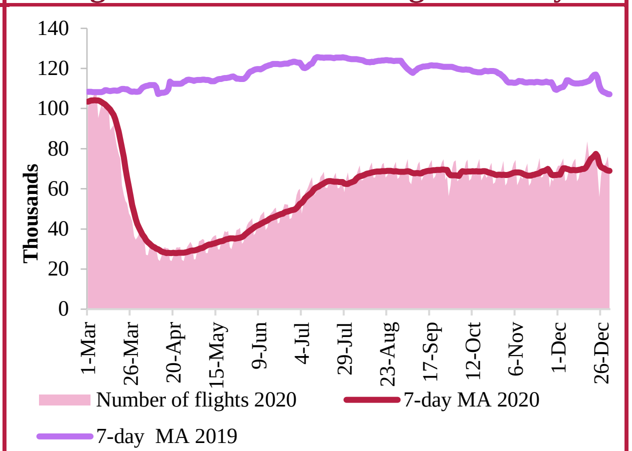
container throughput index declined by 3.3 percent compared to previous month, as handling capacity decreased particularly at Chinese port while remaining flat at other ports (Figure 5). On the other hand, average daily number of international commercial flights in December remained steady at 64 per cent of previous year level (Figure 6).

Figure 5: Port Traffic



Source: Institute of Shipping Economics & Logistics

Figure 6: Commercial Flight Activity



Source: Flightradar24

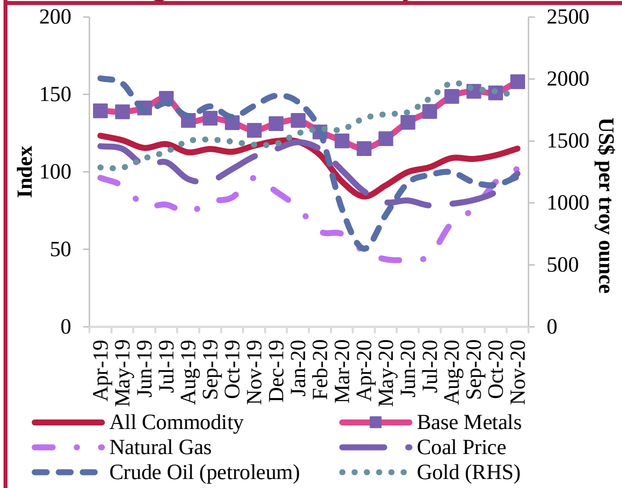
Commodity prices rose in November, signalling revival in economic activity

13. Commodity price index strengthened further in November though remaining below pre-pandemic level (Figure 7). Energy commodity prices advanced further including sharp increase in coal and natural gas prices. Crude oil prices recovered in November and strengthened further in December by 16.8 percent to 49.9 dollar per barrel, reflecting stronger expectations for oil demand due to positive development related to vaccine. Base metal prices rose by 4.7 percent supported by the strong performance of global manufacturing, improvement in investor sentiment along with weaker US dollar. Gold prices eased further by 1.9 percent on weakened demand. Coal prices surged further supported by the severe weather conditions that restricted export capacity.

Global inflation stood low in AEs, remaining elevated in EMs

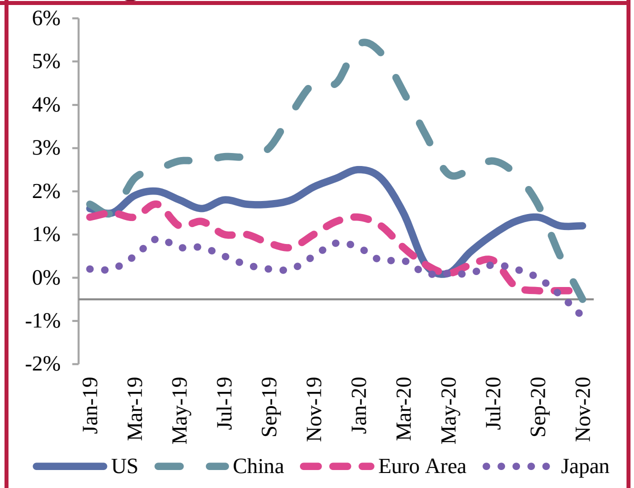
14. Consumer inflation remained stable and low in most part of the World supported by moderated energy prices. In US, consumer inflation was constant at 1.2 percent, likewise Euro zone continued to experience deflationary conditions stable at 0.3 percent (Figure 8). Deflation deepened further in Japan to 0.9 percent majorly driven by decline in fuel, recreation and education inflation. Inflation in emerging economies (EMs) like Brazil, Indonesia and Russia inched up further in November while China's inflation moved into negative territory for the first time since 2009, due to fall in food prices.

Figure 7: Commodity Prices



Source: IMF

Figure 8: Global Inflation Trend

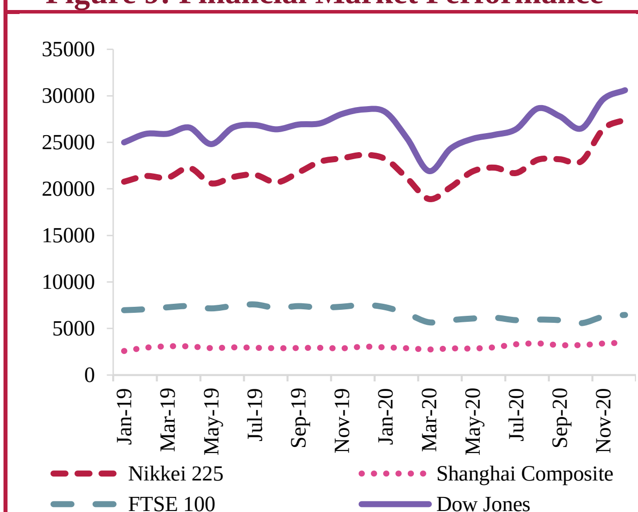


Source: Compiled using various agencies

Global investors weigh in positive development on vaccine front

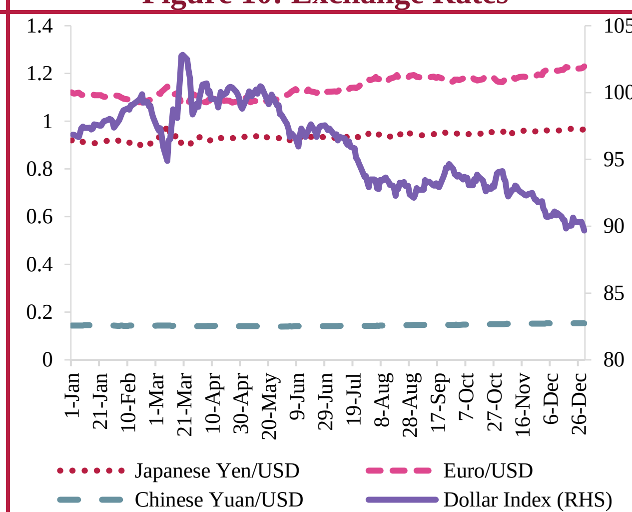
15. Global equity markets rallied further in December amid optimism regarding positive developments related to COVID-19 vaccine. US's S&P 500 index and Dow Jones rose by 3.7 per cent and 3.3 percent respectively (Figure 9). Stocks in Eurozone lifted up by the UK-European Union (EU) trade accord and the approval of a U.S. fiscal stimulus package. Germany's DAX and France CAC 40 index climbed up by 3.2 percent and 0.6 percent respectively during December. UK's FTSE 100 gained 3.1 percent and Japan's Nikkei 225 rose further by 3.8 percent. Chinese stocks rose by 2.4 percent as investor anticipated stronger growth in 2021. In the currency markets, US dollar weakened by 2.4 percent in December and 7.4 per cent on cumulative year-to-date basis (Figure 10).

Figure 9: Financial Market Performance



Source: Compiled using various agencies

Figure 10: Exchange Rates



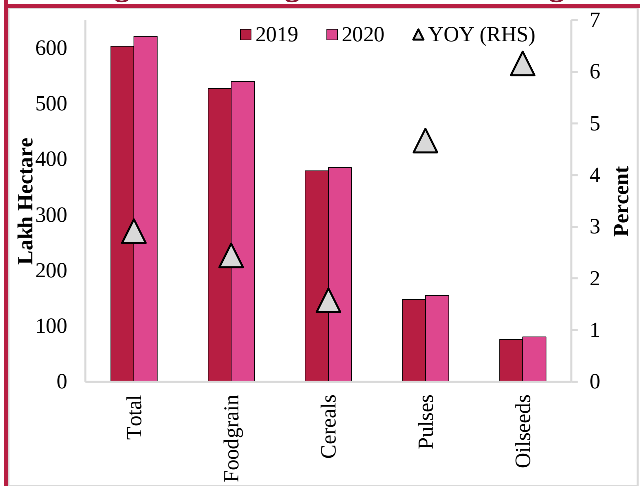
Source: Thomson Reuters

India

Agricultural Sector remains the silver lining

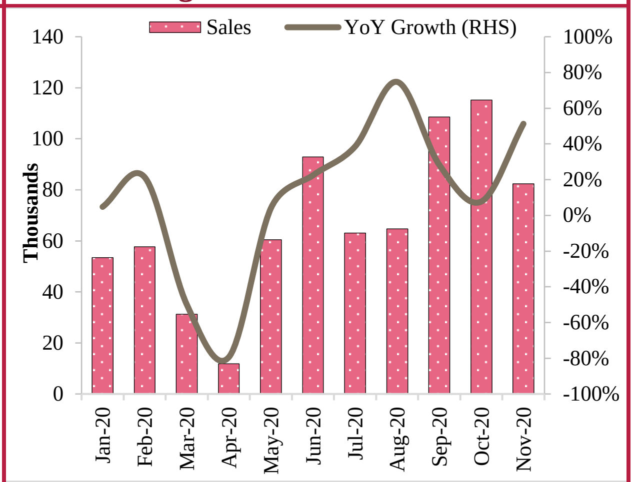
16. Agriculture has remained resilient and robust in the face of the COVID pandemic. The bright prospects of the agricultural sector are also evident in healthy progress of rabi sowing. As on 31st December, 2020, overall rabi acreage stood at 620.71 lakh hectares, 2.9 per cent higher as compared to the previous year (Figure 11). The area under rabi pulses and oilseeds have increased by 4.7 percent and 6.2 percent respectively – that bodes well for their production. The live storage in major reservoirs used for irrigation benefits was 80 per cent of the full reservoir level (FRL), 92 percent of the last year's storage but higher by 122 percent than decadal average. Higher YoY growth in tractor sales in November are an indication of prospects of healthy rabi sowing (Figure 12).

Figure 11: Progress in Rabi sowing



Source: Ministry of Agriculture

Figure 12: Tractor Sales



Source: Tractor and Mechanization Association

17. Minimum support prices (MSPs) announced for various crops for both kharif and rabi season for crop year 2020-21 are higher in the range of 2.1 per cent to 12.7 per cent. The total rice procurement target has been fixed at 495.37 lakh tonnes for the entire country for the 2020-21 kharif season out of which 316.51 lakh tonnes of rice has already been procured as on 30th December (Figure 13). Record procurement in recent years has led to burgeoning central pool stocks, which are 2.5 times the current buffer norms (Figure 14). These have enabled smooth distribution of foodgrains under the Pradhan Mantri Garib Kalyan Package.

Figure 13: Procurement of Rice and Wheat

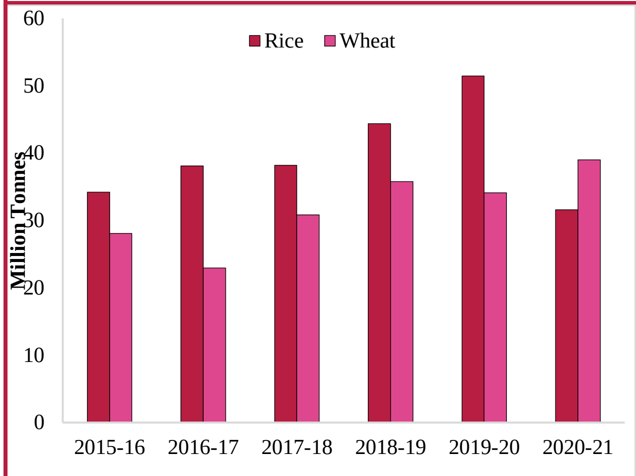
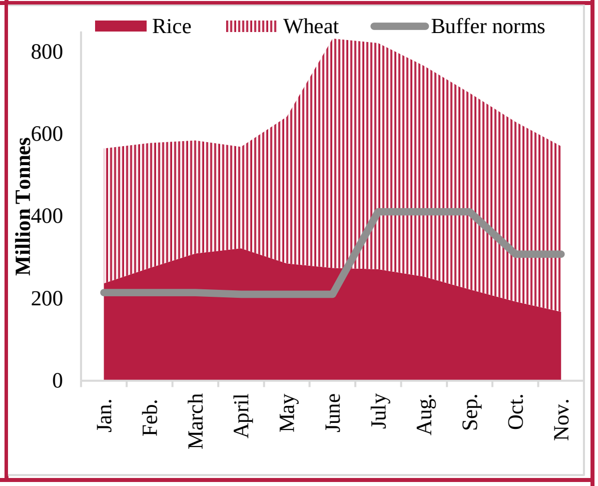


Figure 14: Central Pool Stocks in 2020



Source: Department of Food and Public Distribution
Note: The target for procurement of rice for 2020-21 is 495.37 lakh tonnes

18. The demand for jobs under the Mahatma Gandhi National Rural Employment Guarantee scheme (MGNREGS) has surged, with a y-o-y growth of 56.8 per cent in December (Figure 15). Till December, 294.5 crore person days have been created under the scheme – a jump of 49.4 percent as compared to previous year (Figure 16). This proves that the scheme has been effective in alleviating rural distress in the pandemic period especially to the migrants who returned to their villages. The additional allocation of Rs 10,000 crore in the latest package for Pradhan Mantri Garib Kalyan Rozgar Yojana would further give a boost to job creation in the rural sector and supplement rural incomes.

Figure 15: Demand of work under MGNREGS

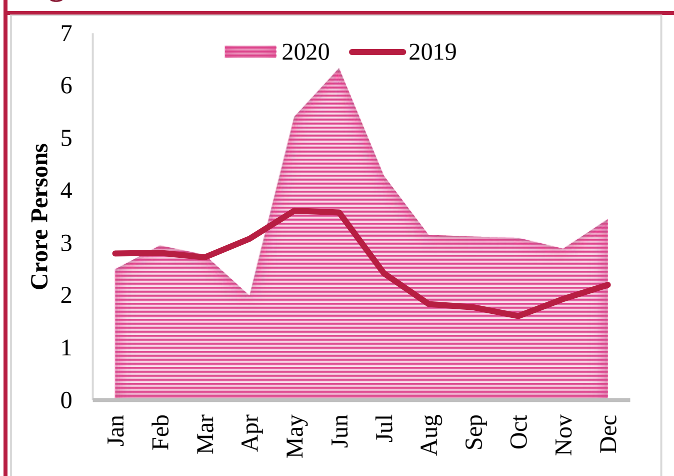
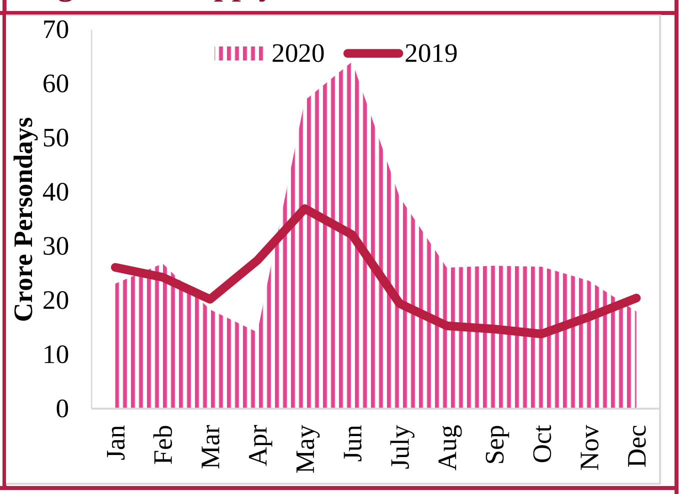


Figure 16: Supply of work under MGNREGS

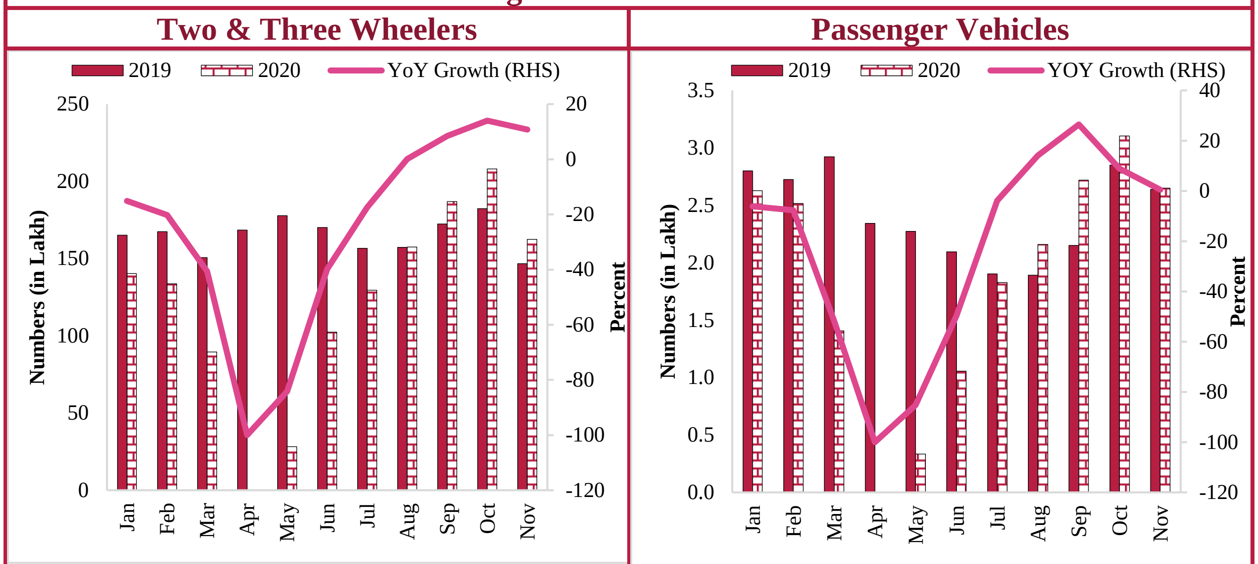


Source: M/o Rural Development

While auto sales momentum moderated in November, vehicle registrations emerges out of eight months contraction in December.

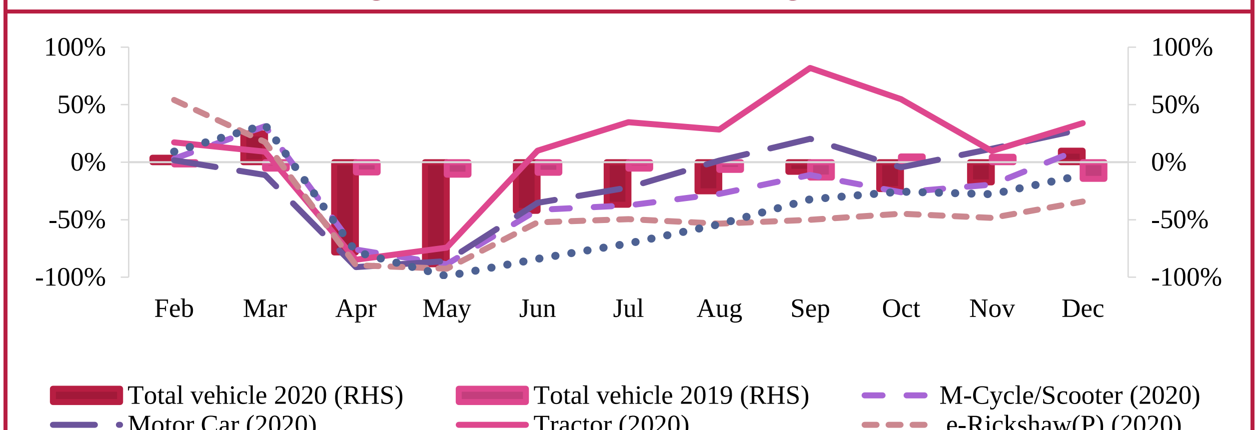
19. While indicators of auto demand reflect some moderation in growth momentum in November as seen in sales of passenger vehicles and two and three wheelers (Figure 17), total vehicle registrations in December rebounded to witness a positive YoY growth for the first time after March 2020 with registration for motor cars, tractors exceeding previous year levels. (Figure 18).

Figure 17: Auto Sales



Source: SIAM

Figure 18: Growth in Vehicle Registration



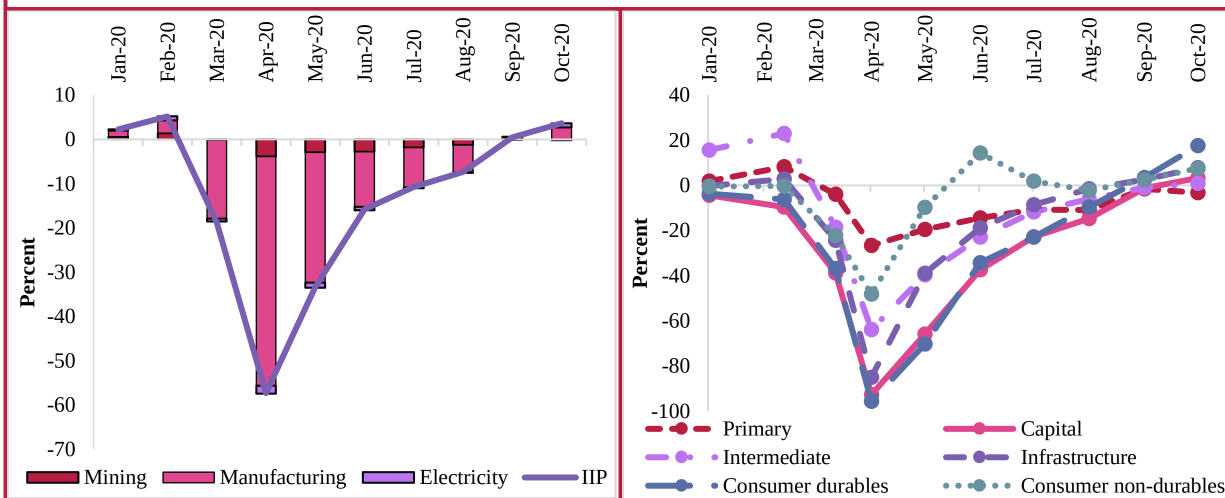
Source: Vahan Database, Ministry of Road Transport and Highways

Encouraging pick-up in Index of Industrial Production

20. Overall IIP attained an eight-month high with a growth of 3.6 percent in October-2020 as compared to a contraction of 6.6 percent in October-2019 and growth of 0.5 percent in

September-2020 amid growing momentum of the festive season (Figure 19). The manufacturing sector recorded a growth of 3.5 percent in October-2020 as against a contraction of 5.7 percent in October-2019, and the electricity sector recorded a growth of 11.2 percent as against a contraction of 12.2 percent during the same period. Mining remains the laggard with a contraction of 1.5 percent in October-2020 as against a contraction of 8.0 percent in October-2019. Some of the major segments that saw an increase in production in October are transport equipment, electrical equipment, motor vehicles, trailers and semitrailers, computer, electronic and optical products, fabricated metal products, pharmaceuticals, medicinal chemical and botanical products, chemicals and chemical products, and rubber and plastics products. Basic metals which have the highest weightage within the manufacturing sector recorded growth of 5.6 percent in October 2020. Some of the segments that registered a fall are coke and refined petroleum products, wearing apparel, textiles, beverages and paper and paper products.

Figure 19: Growth in IIP



Source: MoSPI

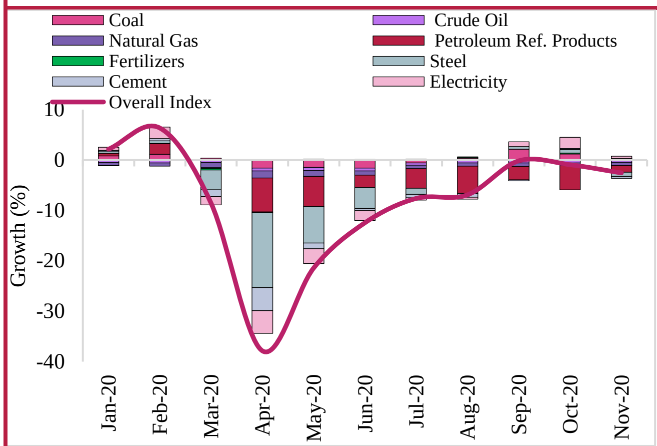
21. IIP registered a growth in October despite a contraction of 2.5 percent in core industries with a weight of 40 percent. A 5-year high growth in consumer durables and a 2-year high growth in capital goods and infrastructure/construction goods output contributed to this growth of IIP (Figure 19). Capital goods production increased by 3.3 percent after contraction for consecutive 21 months and Infrastructure/construction goods by 7.8 percent in October 2020. At 17.6 percent, consumer durables output growth was at a 5 year high supported by festive demand pickup and favorable base. Consumer – non durables too grew by 7.5 percent during the month higher than the 4.1 percent growth a month ago and -3.4 percent in October last year. Primary goods registered sustained contraction in their output for 8 months in a row while the contraction expanded to 3.3 percent, when compared to (-)1.5 percent in September 2020. The IIP has 407 items (5-digit NIC classification), of which 243 items have recorded growth in October, 2020

which is significantly higher than 28 items in the month April-2020 and 231 items in Feb 2020.

22. The index of eight core industries, which make up around 40 per cent of the index, registered a growth of (-) 2.6 percent in November, 2020 as compared to a growth of 0.7 percent in November, 2019 and (-) 0.9 percent in October, 2020. The contraction has largely been due to a (-)9.3 percent contraction and (-)7.1 percent contraction in production of natural gas and cement respectively. Coal production, electricity and fertilizers attained positive YoY growth of 2.9 per cent, 2.2 per cent growth and 1.6 percent respectively in November, 2020 (Figure 20).

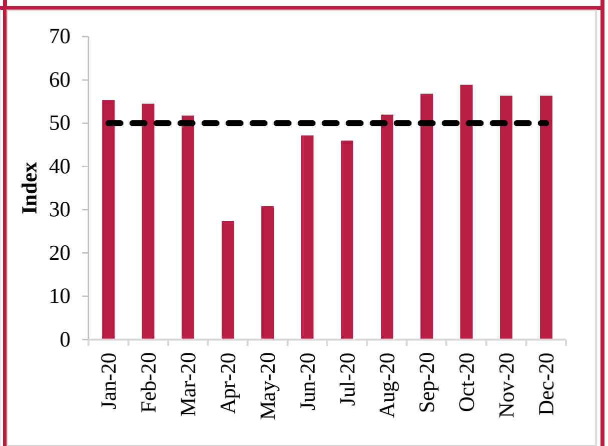
23. India's manufacturing purchasing managers' index (PMI) expansion remained steady at 56.4 in December compared to 56.3 in November (Figure 21). Manufacturers stepped up production and input buying amid efforts to rebuild their inventories following business closures earlier in the year. The loosening of COVID-19 restrictions combined with an improvement in market conditions and a pick-up in demand supported increase in production.

Figure 20: Core Industries Performance



Source: DPIIT

Figure 21: PMI Manufacturing

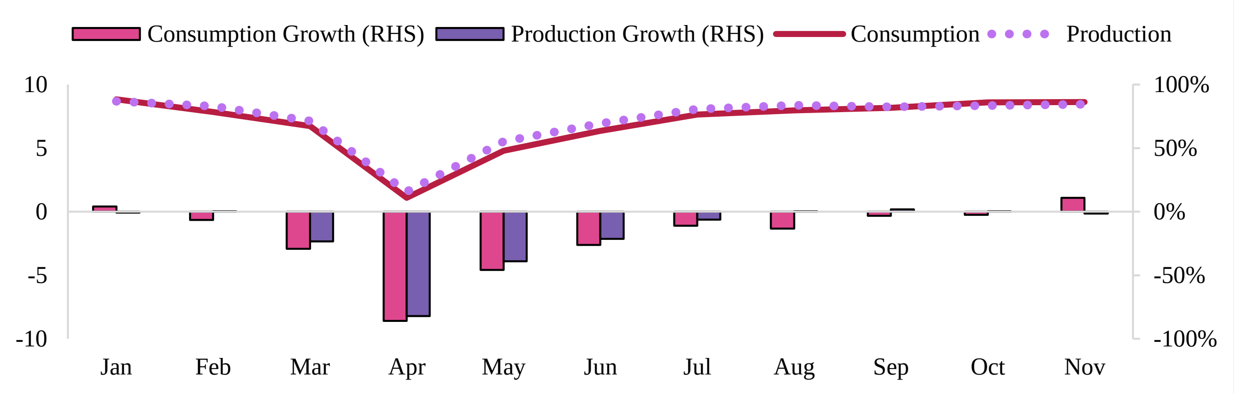


Source: IHS Markit

Steel sector sees sequential growth, construction activity gathers momentum

24. Steel production showed a sequential growth of 1.2 percent in November over October, it declined by (-)1.4 percent as compared to November last year. Steel consumption registered a healthy growth of 11.0 percent in November as compared to last year (Figure 22).

Figure 22: Steel Consumption and Production

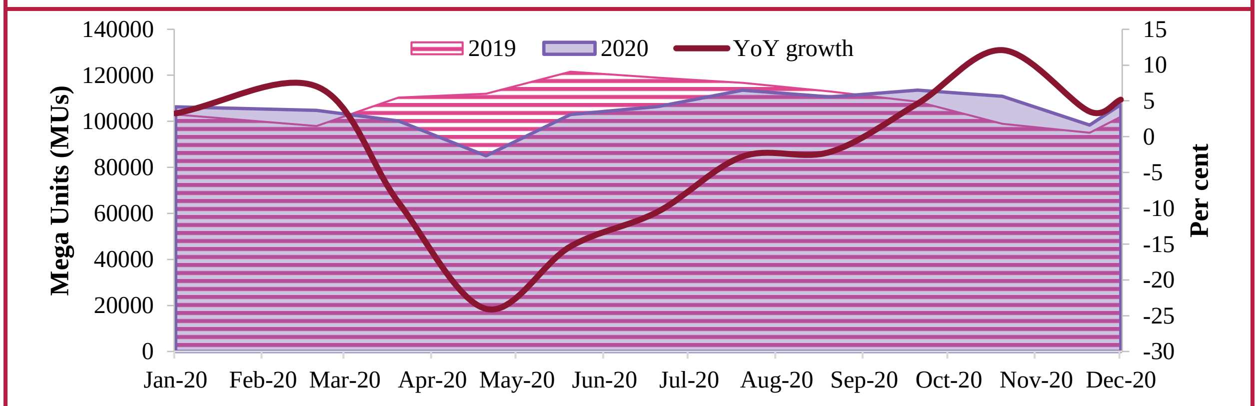


Source: Joint Plant Committee, M/o Steel

Power demand gains further pace in December, E-Way bills and GST Collections return to double digit growth

25. While power consumption moderated from its double-digit YoY growth in October, it grew at 3.5 per cent in November and 5.2 per cent in December, signalling sustained spurt in commercial and industrial activity (Figure 23).

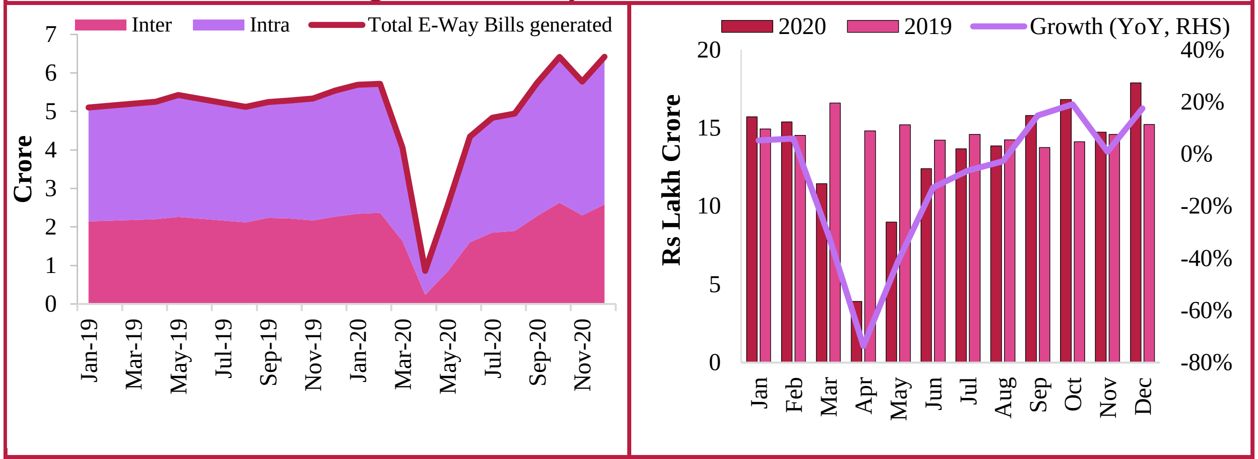
Figure 23: Power Consumption



Source: POSOCO

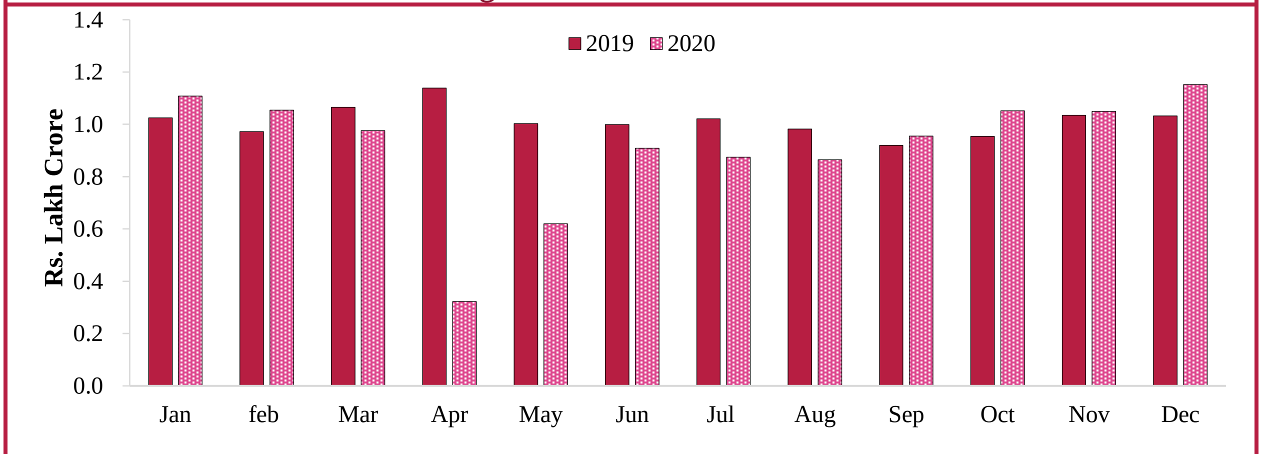
26. E-way bills generated have regained stronger momentum in December with a double-digit growth of 17.5 per cent in December after witnessing moderation in November. Numbers of inter and intra-state e-way bills generated in December have also surpassed corresponding previous year levels (Figure 24). Persistent improvement in E-way bills generated, a strong leading indicator of revenue collections, supply chain corrections and logistics growth, bodes well for faster economic recovery. GST revenues at Rs. 1.15 lakh crore recorded its highest level since the introduction of GST during December 2020, 12 per cent higher than previous year level. (Figure 25).

Figure 24: E-Way Bills – Count and Value



Source: Goods and Services Tax Network (GSTN)

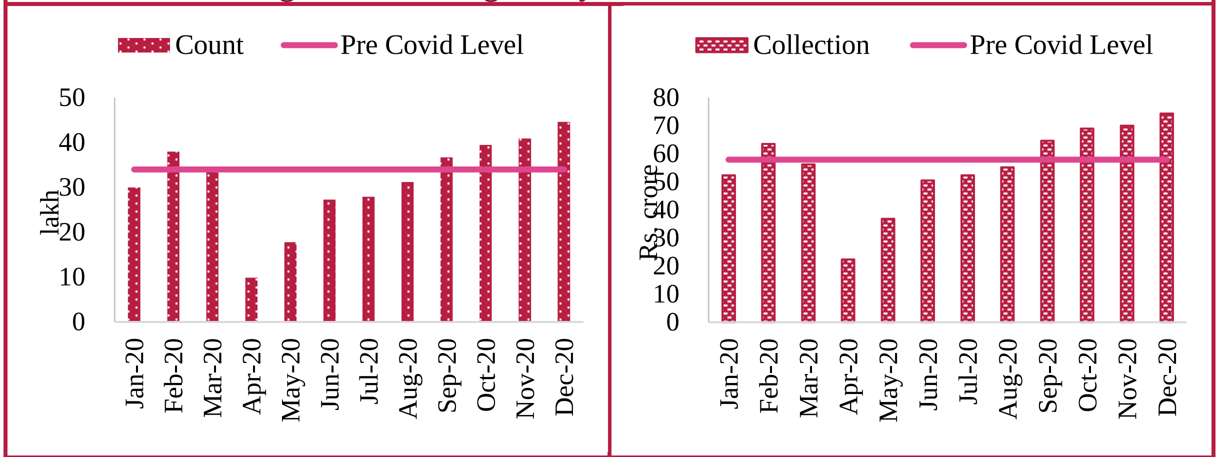
Figure 25: GST Collection



Source: GSTN

27. Highway toll count and collections have also surpassed their pre-COVID levels (average of January and February) levels in December, moving in tandem with other growth indicators. Average daily electronic toll collection and number of transactions in December stood at ₹74.31 crore and 44.65 lakh respectively as compared to pre-COVID daily averages of ₹57.9 crore and 34.0 lakh (Figure 26).

Figure 26: Average Daily ETC Count and Collection



Source: Ministry of Road, Transport and Highways

Growth momentum in rail freight traffic upbeat, gradual recovery in passenger earnings

28. Railway freight traffic recorded a growth of 8.5% in December over corresponding previous year levels with broad based improvement seen across various categories of commodities (Figure 27). Gross revenue from railway passenger bookings continued its uptick to reach ₹ 1432.32 crore in the first twenty days of December, 51 per cent of corresponding previous year levels (Figure 28).

Figure 27: Revenue Earning Freight Traffic

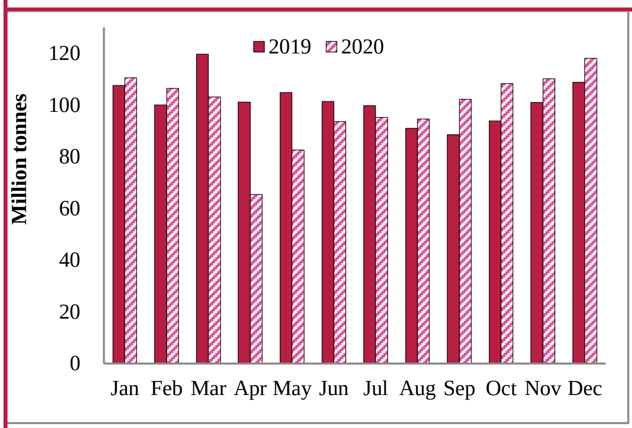
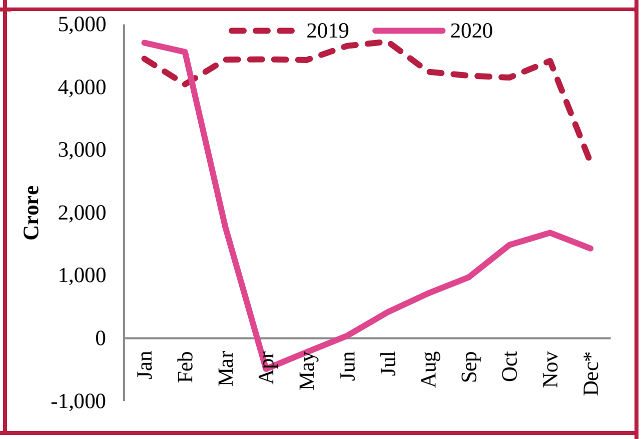


Figure 28: Gross revenue from railway passenger bookings



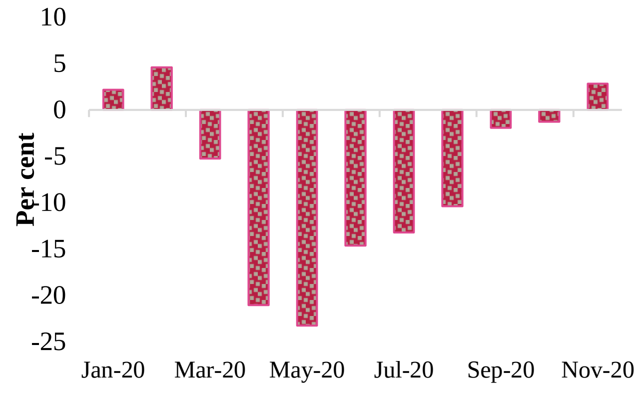
Source: Ministry of Railways

*till 20th Dec

Port Cargo traffic crosses previous year levels in November, domestic aviation gains pace

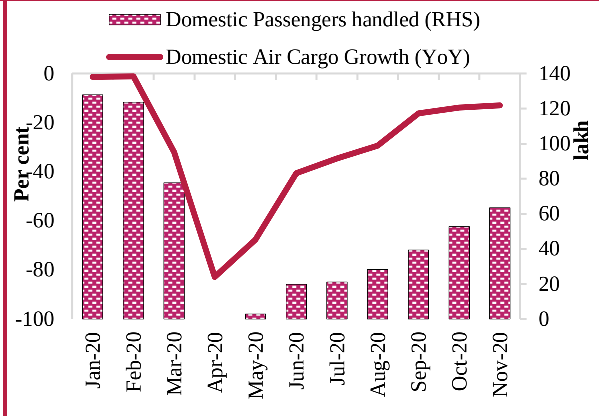
29. Cargo traffic volumes in November crossed previous year levels, registering a positive YoY growth of 2.8 per cent for the first time after February 2020 (Figure 29). Domestic aviation further picked up in November with passengers handled increasing from 2.8 lakh in May to 63.54 lakh in November (Figure 30) and contraction in air cargo growth easing to 12.92 per cent.

Figure 29: Port Cargo Traffic (YoY growth)



Source: Indian Ports Association

Figure 30: Domestic Aviation Activity



Source: DGCA, AAI

Oil market sentiment uplifted with increased mobility and Covid-19 vaccine prospects expected to boost oil demand

30. The Indian basket crude oil increased to USD 51.00 a barrel on 31st December, 2020 as against 47.05 a barrel on 30th November, signalling upbeat oil market sentiment with increasing economic activity and Covid-19 vaccine prospects (Figure 31). The consumption of petroleum products slipped into negative territory in November after emerging out of its seven-month contraction in October (Figure 32). The firming up of international crude prices in the second fortnight of November has started to push up domestic oil prices with upward revision seen in petrol and diesel prices in the first week of December, 2020.

Figure 31: Crude oil & Fuel Prices

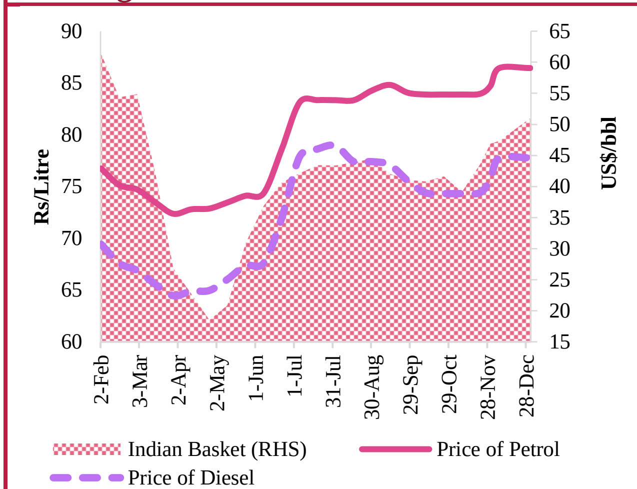
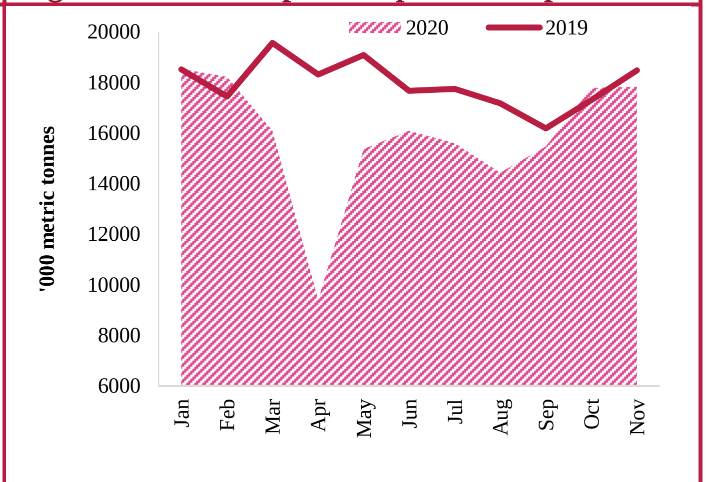


Figure 32: Consumption of petroleum products

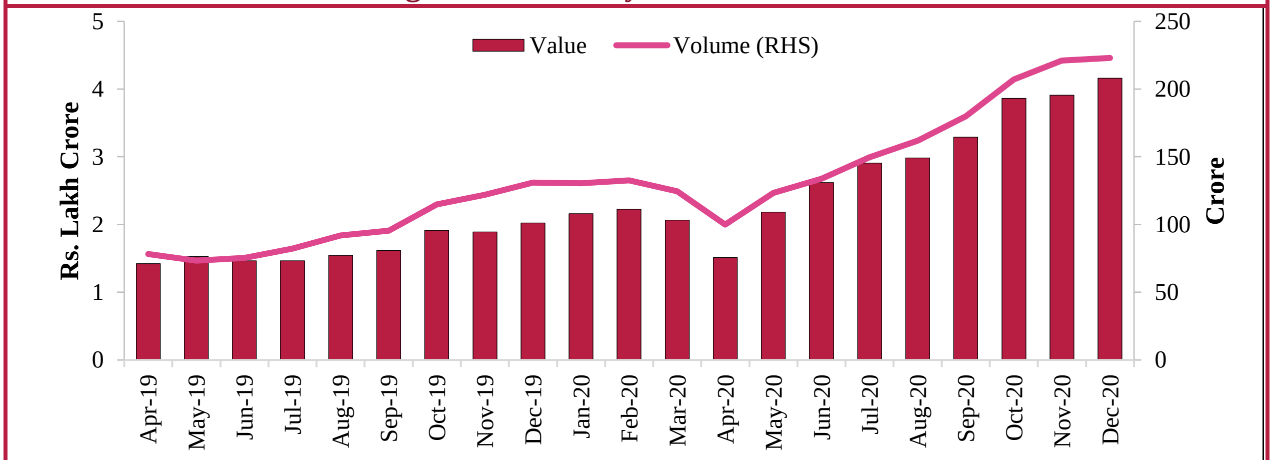


Source: PPAC, MoPNG

Upbeat digital market with record UPI transactions

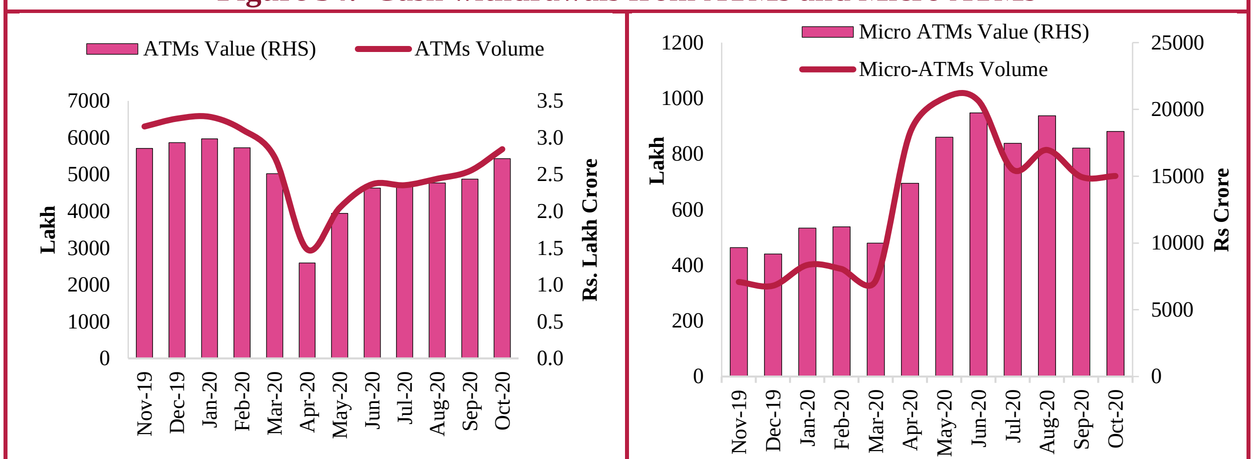
31. Resumption of economic activity and user shifts to digital payments have ushered sanguine prospects of growth in retail financial transactions via NPCI platform. UPI payment transactions hit an all-time high of ₹ 4.16 lakh crore in value and 223 crore in volume terms in December (Figure 33). Round the clock availability of RTGS since December 14, 2020 will further provide extended flexibility for effecting digital payments. Aadhaar enabled payment system (AePS) has driven financial inclusion to the remotest parts of the country enabling the hinterland with digital payments. Cash withdrawal trends from ATMs/Micro ATMs and Banking Correspondents (BCs) suggest improving demand sentiment (Figure 34).

Figure 33: UPI Payment Transactions



Source: NPCI

Figure 34: Cash withdrawals from ATMs and Micro ATMs



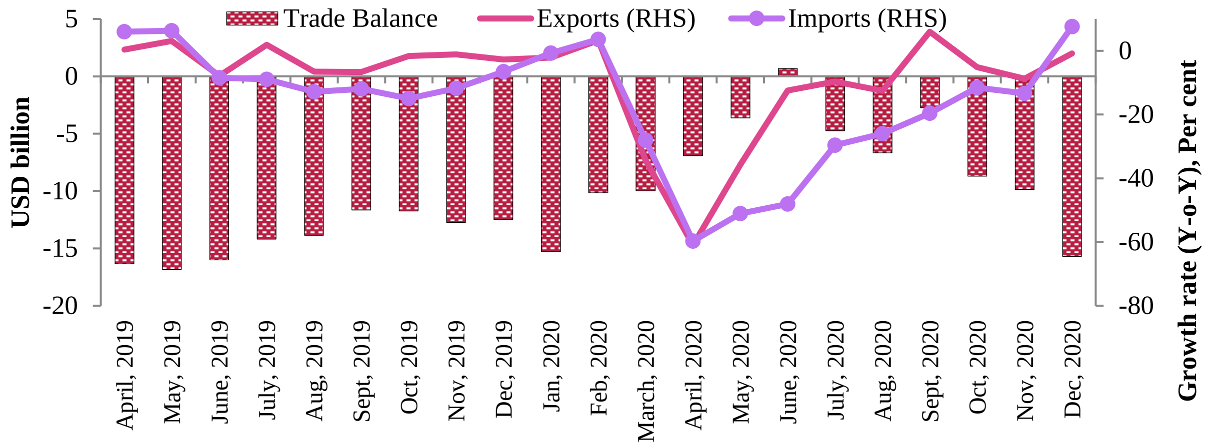
Source: RBI

Merchandise trade on a recovery path

32. In December 2020, India registered a higher merchandise trade deficit of USD 15.7 billion, as against the deficit of USD 12.5 billion in December 2019 and USD 9.9 billion in

November 2020 (Figure 35). The merchandise exports marginally declined by (-) 0.8 per cent in December 2020 at USD 26.9 billion, as against USD 27.1 billion in December 2019. After being in negative zone from last nine months, merchandise imports registered a growth of 7.6 per cent at USD 42.6 billion in December 2020, as against USD 39.6 billion in December 2019 (Figure 35). This is an indication of acceleration in domestic activity.

Figure 35: Merchandise Trade



Source: Department of Commerce, Ministry of Commerce & Industry
*Data for December is Preliminary

33. Non-petroleum exports and non-petroleum & non-gems & jewellery exports registered a growth of 5.3 percent and 5.2 percent respectively over December 2019. Non-oil, non-GJ (gold, silver &Precious metals) imports also registered a growth of 8.4 percent in December 2020 over December 2019. The export and import commodities that have registered highest increase/ decline in absolute value in December 2020 as against December 2019 are placed at Table 1**.**

Table 1: Major Export and Import Commodities shown highest Increase/ Decrease

	Top Increase in December 2020 as compared to December 2019			Top Decline in December 2020 as compared to December 2019		
	Commodity group	**Change in value**	**% change**	**Commodity group**	**Change in value**	**% change**
Export	Drugs and Pharmaceuticals	327.3	17.4	Petroleum Products	-1469.9	-40.5
	Organic & Inorganic Chemicals	202.3	10.7	RMG of all textiles	-212.1	-15.1
	Electronic Goods	176.8	16.4	Marine Products	-93.7	-14.3
Import	Gold	2018.6	81.8	Petroleum, Crude & Products	-1111.3	-10.4
	Electronic Goods	871.0	20.9	Transport Equipment	-1029.5	-32.1
	Vegetable Oil	367.0	43.5	Metaliferrous ores & other minerals	-137.1	-24.4

India experiences Current account surplus in H1: FY 2020-21

34. India's overall trade balance (Merchandise and Services combined) is estimated to be in surplus at US $ 13.6 billion in 2020-21 (April- November), with overall exports and imports are estimated to be US$ 304.3 billion and US$ 290.7 billion respectively. India recorded a current account surplus of 3.1 per cent of GDP in H1 of 2020-21 as against a deficit of 1.6 per cent in H1 of 2019-20 on the back of a sharp contraction in the trade deficit. India experienced a current account surplus for the third straight quarter in Q2FY21, but the surplus moderated to $15.5 billion or 2.4% of the gross domestic product (GDP) in the quarter from $19.2 billion (3.8%) in Q1: FY2021. The narrowing of the current account surplus in Q2 of 2020-21 was on account of a rise in the merchandise trade deficit to US$ 14.8 billion from US$ 10.8 billion in the preceding quarter. Net invisible receipts remained steady on a QoQ basis at ~US$30bn in Q2FY21 but fell by a modest 5.5% YoY.

Robust Foreign Direct Investment (FDI) inflow and FPIs

35. FDI continues to remain a major driver of economic growth and an important source of non-debt finance for India. During April-October, 2020, total FDI inflow stood at a record high of US$ 46.82 billion, 11.3 per cent higher as compared to first seven months of 2019-20, an endorsement of India's status as a preferred investment destination amongst global investors (Figure 36).

Figure 36: Foreign Direct Investment (FDI)

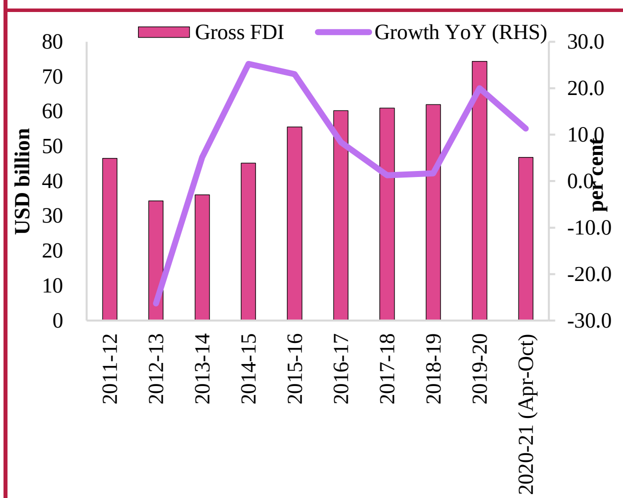
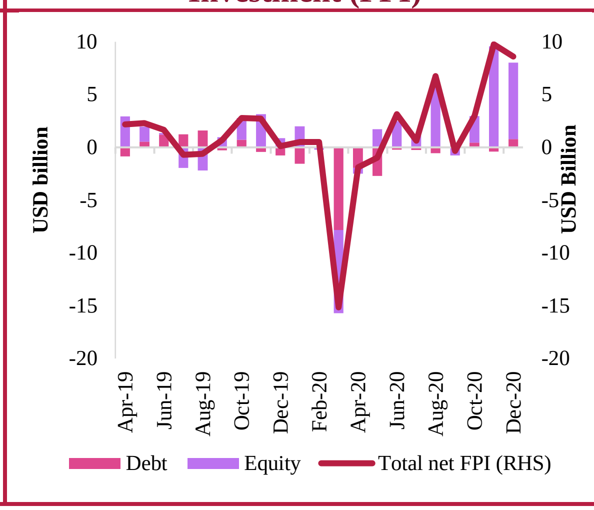


Figure 37: Trend in Foreign Portfolio Investment (FPI)

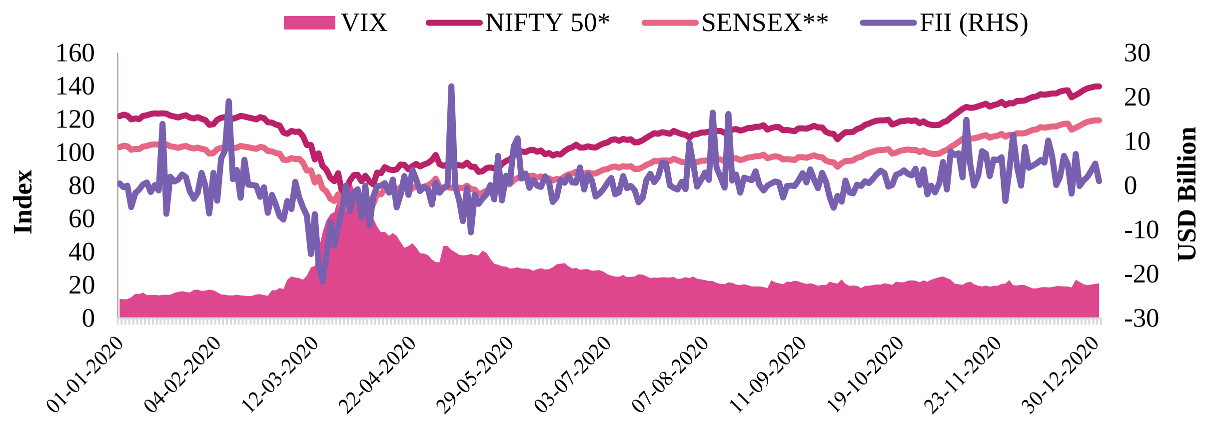


Source: RBI, CDSL

36. Indian equity market has exhibited strong investors' sentiment with FPI inflows reaching a historic high of USD 9.7 billion in November and 8.6 billion in December (Figure 37). NIFTY and Sensex also reached record levels in November and December while Nifty volatility continued its steady trend (Figure 38). India's stock market capitalisation surged past record US$

2.5 trillion, making India home to the eighth largest stock market in the world. Primary factors at play possibly include markets currently witnessing a macro shift of assets into equities globally, more so in the case of Emerging Market equities. Prospects of faster recovery in emerging economies and potential growth prospects driven by vaccine availability have also bolstered market sentiment.

Figure 38: Movements in NIFTY50, SENSEX, VIX and FII



Source: NSE, BSE and CDSL
Note: NIFTY 50*- scaled down by 100
SENSEX**- scaled down by 400

37. RBI's dollar purchases in the foreign exchange market continue to keep the rupee largely range bound at 73.1-73.9 INR/USD in December. Accumulation of dollars is enhancing liquidity in the banking system, keeping bond yields in check and supporting effective transmission (Figure 39). On the back of purposeful dollar buying by RBI, rise in gold reserves and foreign currency assets, India's foreign exchange reserves climbed to a new high of US$ 580.8 billion as on 25th December, 2020, covering more than 16 months of imports (Figure 40).

Figure 39: Net purchase (+)/sale (-) of US dollar

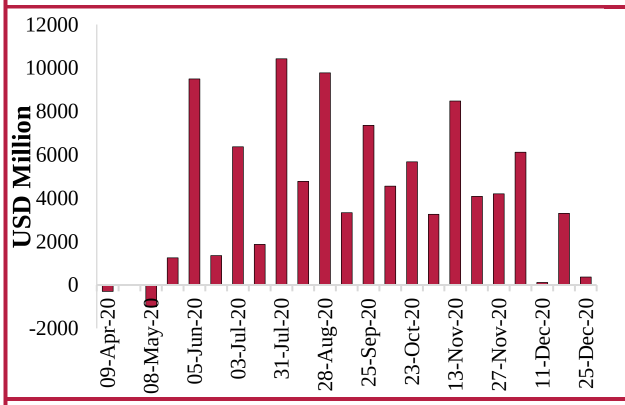
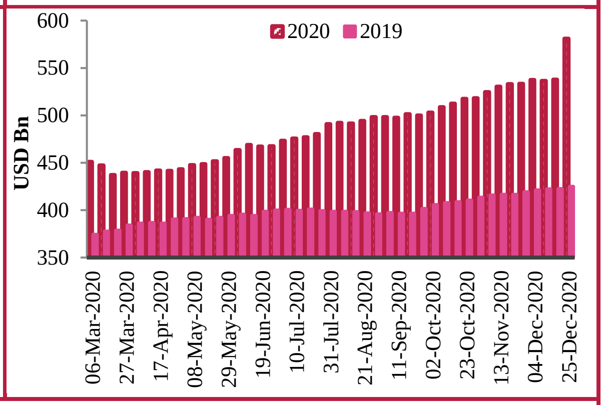


Figure 40: Foreign exchange reserves



Source: RBI

Non-food credit picks up, ECLGS supports robust credit growth to industries

38. Non-food credit growth picked up strongly to reach 9.4 per cent as on 18th December compared to 5.9 per cent as on 20th November 2020 (Figure 41). Bank credit to commercial sector also improved from Rs. 104.7 lakh crore as on 20th November to reach Rs. 106.0 lakh crore as on 18th December, a 5.76 per cent growth year-on-year. The overall incremental credit growth is attributable to the liquidity booster, Emergency Credit Line Guarantee Scheme (ECLGS) which continues to support robust credit disbursements to MSMEs. ECLGS has seen significant progress, with Rs 2.05 lakh crore sanctioned to 80.93 lakh borrowers under ECLGS 1.0, of which Rs 1.58 lakh crore has been disbursed to 40.49 lakh borrowers as on 12th December, 2020. Additionally, extension of ECLGS to 26 stressed sectors identified by the Kamath Committee and the healthcare sector till March, 2021 with operational guidelines issued on 26th November bodes well for maintaining the momentum of credit disbursements to close to 45 lakh business units.

39. Incremental credit deposit ratio rose strongly and incremental investment deposit ratio dipped to reach 19.53 per cent and 72.66 per cent respectively as on 18th December as compared to 7.97 and 84.44 per cent as on 20th Nov (Figure 42). These trends point to a narrowing deposit-credit gap. YoY growth of bank investments in Government Securities declined moderately to 18.5 per cent on 18th December from 19.0 per cent as on 20th November, 2020. Banks excess SLR portfolio also dipped from 11.55 per cent in the fortnight ending 6th November to reach 11.38 per cent in the fortnight ending 4th December (Figure 43).

Figure 41: Credit Growth YoY

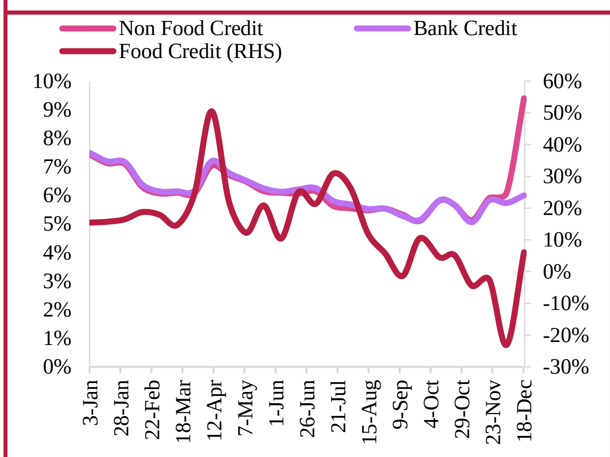
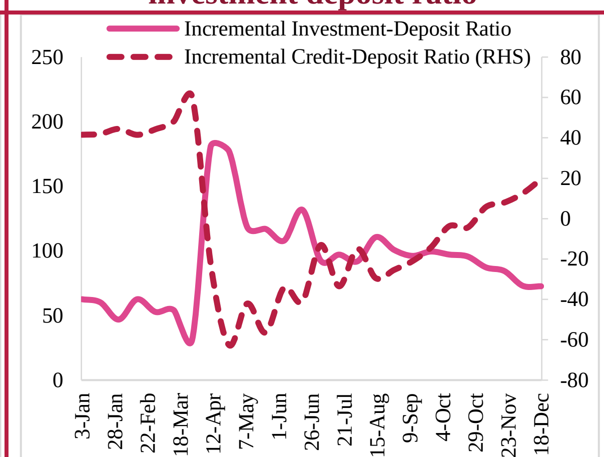
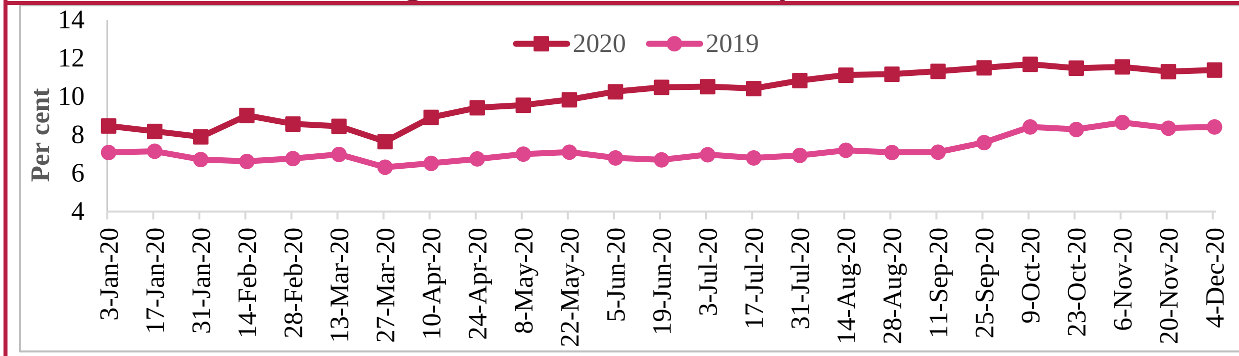


Figure 42: Incremental credit deposit and investment deposit ratio



Source: RBI

Figure 43: Excess SLR held by banks



Source: RBI

RBI continues to ensure comfortable liquidity

40. System liquidity expanded in November 2020 as average daily net absorptions under the liquidity adjustment facility (LAF) increased to Rs. 4.5 lakh crore (as on 27th December) as compared to Rs. 4.3 lakh crore by end of November 2020. Reserve money growth decreased moderately to 14.9 per cent as on 25th December as compared to 15.3 per cent on 27th November driven by a decline in growth of currency in circulation on the components side and net foreign exchange assets on the sources side (Figure 44). Growth of currency in circulation fell to 22.4 per cent as on 25th December as compared to 22.8 per cent on 27th November. This pushed growth in money supply (M3) to decline moderately to 12.4 per cent as on 18th December compared to 12.5 per cent as on 20th November. Currency with the public declined at 23.0 per cent as on 18th December while time deposits growth also fell to reach 10.2 per cent as compared to 10.5 per cent as on 20th November (Figure 45). Growth of demand deposits, however, picked up strongly to reached 14.6 per cent as on 18th December, as compared to 12.8 per cent as on 20th November.

Figure 44: Net Liquidity Injection (+)/Absorption (-)

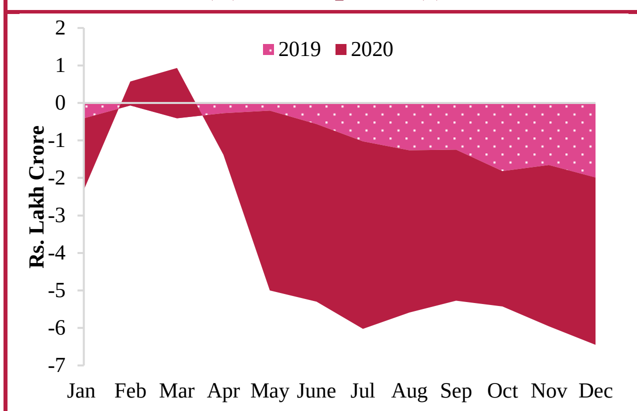
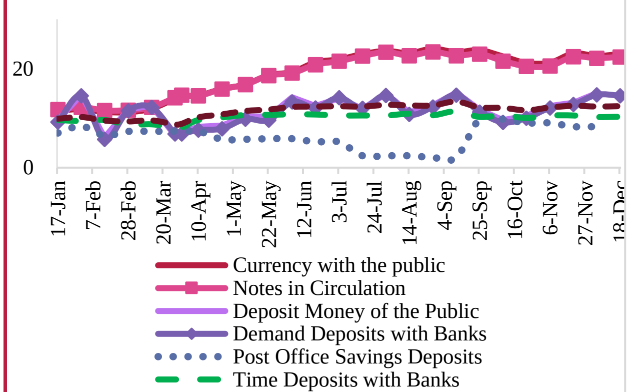


Figure 45: Money Stock and its Components (Percent)

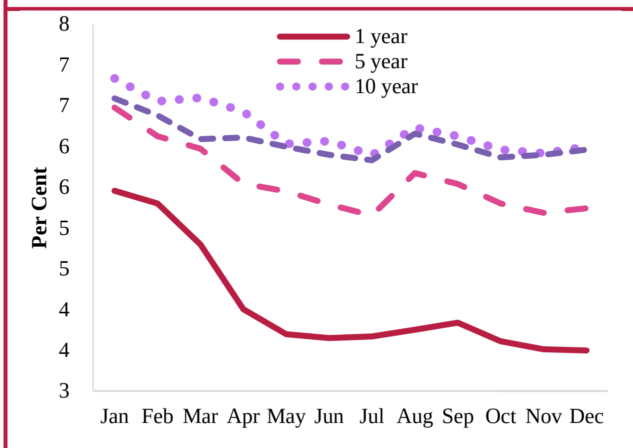


Source: RBI

Easing of corporate yields continues in November, benchmark G-Sec yield faces some stiffening pressure in December

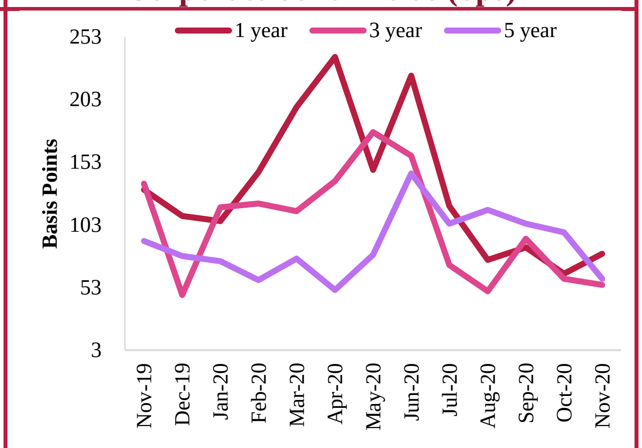
41. Private placement of corporate bond continued to remain healthy in October and amounted to Rs. 0.62 lakh crore, 32% higher than Rs. 0.47 lakh crore in the same period last year**.** The narrowing spread with GSecs stands testimony to the improved risk perception of corporate bonds. Further, the cost of funds also moderated for both the Government and the corporates, on the back of RBI's monetary easing and liquidity infusion, thereby bringing down yields in the various segments of the debt markets. Government securities markets after easing till November experienced some stiffening pressures in December. 10-year benchmark yield reached 5.96 per cent as on 25th Dec compared to 5.89 per cent as on 27th November (Figure 46). AAA rated corporate bond yields continued to witness moderation in November and December. 5 year and 10-year AAA bond spreads also eased by 5 bps and 37 bps in November as compared to October (Figure 47). However, AA Rated bond yields at the shorter end (1 year and 3 year) stiffened in the last two months of 2020.

Figure 46: G-sec Yields across tenors



Source: FBIL & CCIL
Note:- Figures correspond to month-end figures

Figure 47: Spread between G sec and AAA Corporate bond Yields (bps)



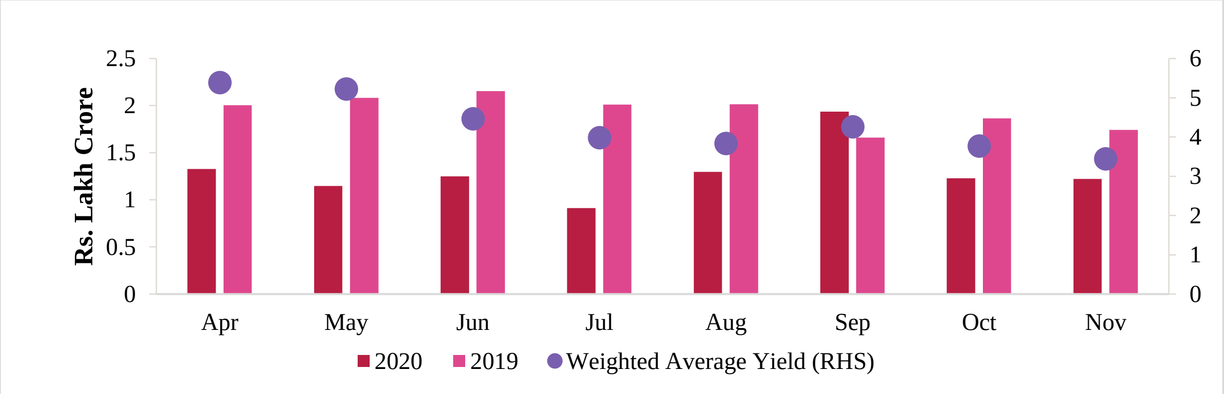
Source: RBI, CMIE
Note:-Figures correspond to month-end figures

Monetary policy transmission continues to improve

42. The transmission of policy repo rate changes to deposit and lending rates of banks has improved since April 2020, a reflection of abundant liquidity, central bank's accommodative monetary policy stance, muted credit appetite and lagged impact of policy rate cuts. Overnight MCLR has declined to 6.55/7.10 per cent as on 25th December as compared to 6.60/7.10 per cent as on 27th November and 7.40/7.90 per cent as on 27th March. Consequently, savings and term deposit rates (>1 year), remaining steady over the month at 2.70/3.00 per cent and 4.90/5.50 per cent respectively as on 25th December, have declined from 3.00/3.50 per cent and 5.90/6.40 as on 27th March.

43. Commercial paper (CP) issuances remained flat in the month of November 2020 as compared to the previous month to reach Rs 1.22 lakh crore (Figure 48). Effective Weighted Average Yield of CPs continued to decrease by 32 bps to 3.45 per cent in November 2020. Rates of Certificates of Deposits (CDs) in the fortnight ending 4th December 2020 stood at 3.08-4.63 per cent as compared to 3.35 - 4.54 per cent in the previous fortnight.

Figure 48: Monthly issuance of Commercial Paper and weighted average yield



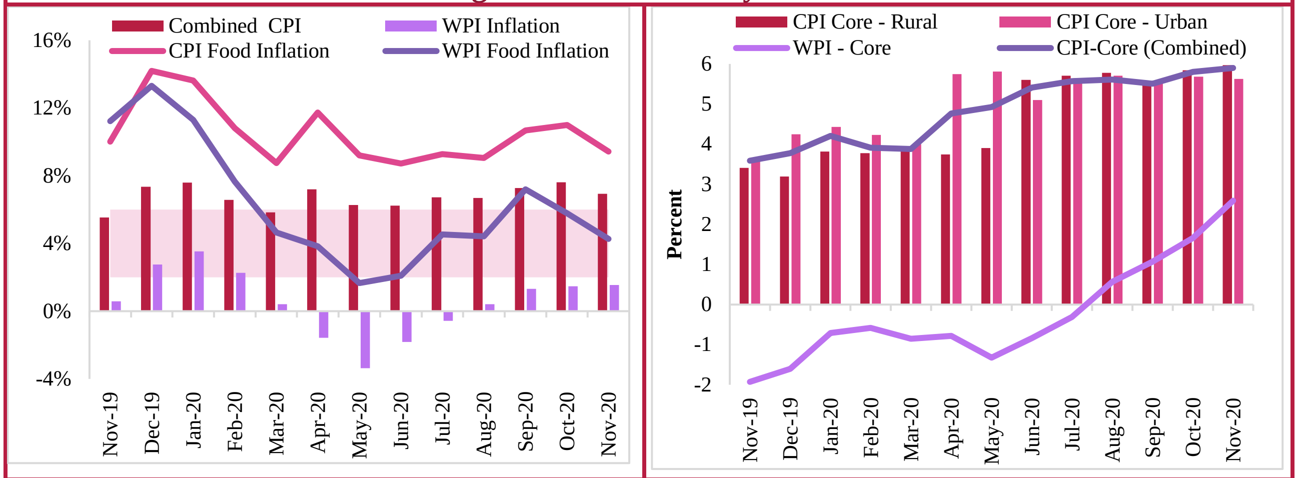
Source: CCIL, RBI

Moderation of food Inflationary pressures

44. CPI based inflation eased to 6.9 percent y-o-y in November from 7.6 percent in October, primarily due to lower food price inflation (Figure 49). Inflation in rural areas (7.20 percent) is higher than urban areas (6.73 percent) in November 2020. Food inflation based on Consumer Food Price Index (CFPI) declined to 9.43 per cent in November, 2020 as compared to 11.00 per cent in October, 2020 due to decline in inflation of all major sub-groups of food except 'oils & fats' and fruits. Inflation in vegetables declined to 15.63 per cent in November 2020 as compared to 22.08 per cent in the previous month. Core inflation remained sticky but moderated to 5.8 per cent y-o-y in November from 5.9 per cent in October.

45. During the month of November 2020, WPI inflation increased marginally to 1.55 per cent as compared to 1.48 per cent in October 2020 and 0.58 per cent in November 2019 - mainly on account of rise in inflation of manufactured products. WPI food inflation (primary food + manufactured food) declined to a five-months low of 4.27 per cent in November 2020 as compared to 5.78 per cent in the previous month, on account of decline in inflation of all major sub-groups of food articles. WPI inflation for Manufactured Products increased to 2.97 per cent in November 2020 (highest since Jan 2019) as compared to 2.12 per cent in the previous month, mainly on account of increase in inflation of manufactured food products (4.95 percent) and manufacture of basic metals (7.16 percent). Inflation in fuel and power registered deflation for 9th consecutive month at -9.9 percent, marginally higher than a month ago.

Figure 49: Inflation Dynamics

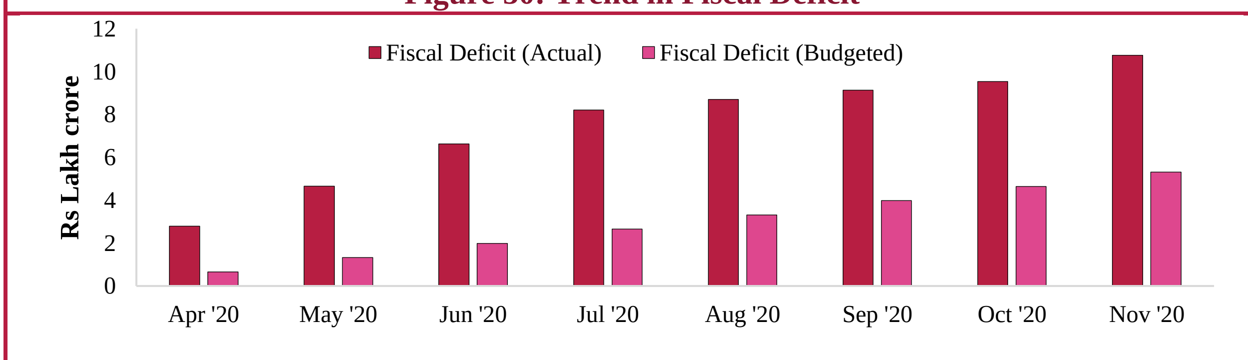


Source: MoSPI, Office of Economic Advisor, DPIIT

Provision of adequate Fiscal Support during the Pandemic

46. The fiscal policy during the first eight months of FY2020-21 comprised of a myriad of fiscal stimulus measures to support the vulnerable people and firms, and prudent restructuring and re-prioritisation of expenditure with an emphasis on capital expenditure component. The Centre's fiscal deficit stood at ₹10.76 lakh crore during April to November 2020, which is 135.1 per cent of BE compared to 114.8 per cent during the same period in 2019-20 (Figure 50). On the revenue side, the Gross Tax Revenue registered a negative growth of 12.6 per cent, due to the negative growth in all direct taxes and major indirect taxes, except for excise duties. The excise duties collection rose by 47.7 per cent during the first eight months of the fiscal. The Non-Tax revenue collections fell down by 46.6 percent during April to November 2020 relative to the same period last year.

Figure 50: Trend in Fiscal Deficit



Source: Office of CGA

47. On the expenditure side, Centre's total expenditure for the first eight months of FY2020-21 registered an y-o-y growth of 4.7 per cent and stood at 62.7 per cent of BE vis-à-vis 65.3 per

cent of BE during the corresponding period in FY2019-20. The revenue and capital expenditure witnessed a growth of 3.7 per cent and 12.8 per cent during April to November 2020 compared to the same period last year. As on 25th December 2020, the Central Government gross market borrowing during FY2020-21 reached ₹10.27 lakh crore, 66.2 per cent higher than gross market borrowings during the corresponding period of the previous year. This is against the revised target of ₹12 lakh crore for FY 2020-21.

Continued fiscal support to State Governments

48. The Central Government has continued to persistently support the State Governments towards a faster economic recovery. As a part of Aatma Nirbhar Bharat Package, Centre had enhanced the borrowing limit for the States from 3% to 5% of GSDP for FY2020-21. Linking the grant of additional borrowing permission to implementation of State level reforms has motivated the States to undertake reforms in various citizen centric sectors. As on 30th December 2020, 10 States have implemented the One Nation One Ration Card System, 7 States have completed the stipulated reforms in the Ease of Doing Business, and 2 States have done local body reforms. Total additional borrowing permission issued so far to the States who have done the refoms stands at Rs. 51,682 crore.

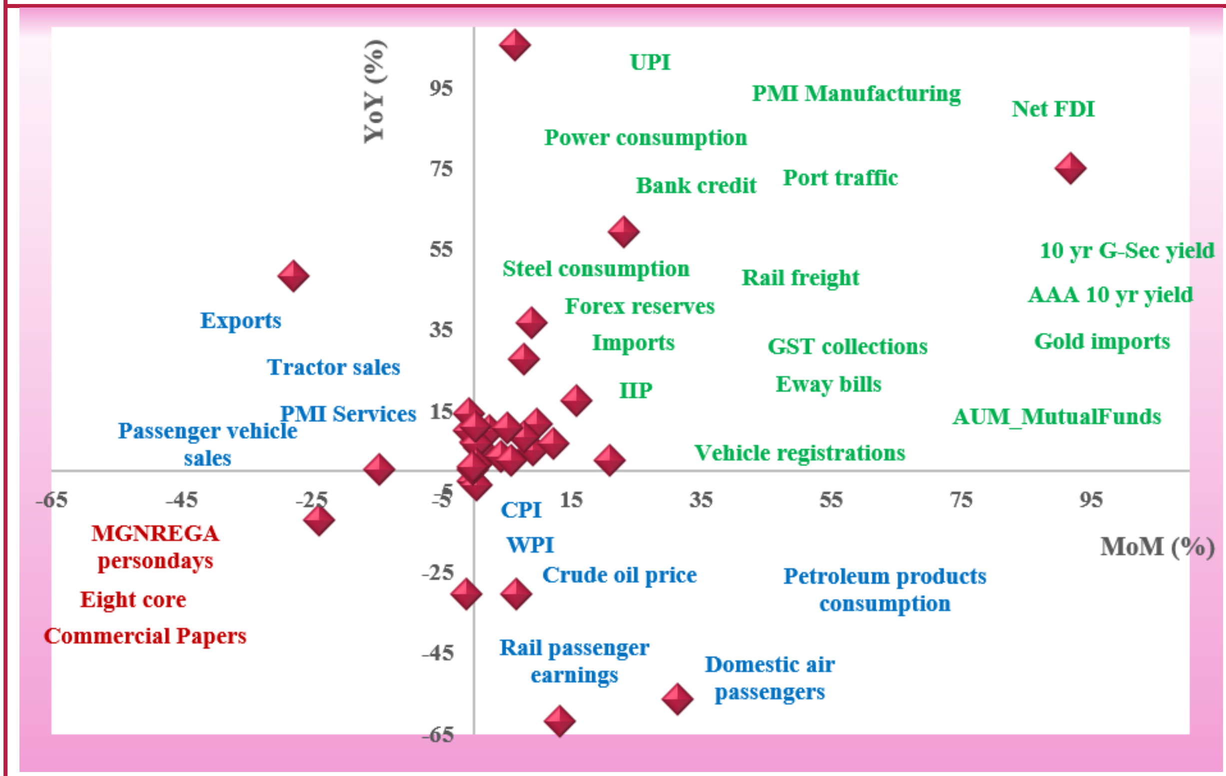
49. Up to 25 December 2020, the State Governments had raised ₹5.37 lakh crore as gross market borrowings during the current fiscal, which is 42.1 per cent higher than the states' gross borrowings during the corresponding period in 2019-20.

50. In order to compensate the states for the loss of GST revenue during FY 2020-21, Central Government had operationalised a Special Window, coordinated by the Ministry of Finance, to borrow the shortfall arising out of GST implementation through issue of debt and pass it on to the States and UTs. All the 28 States and 3 Union Territories with legislature have given their preference for this option. So far, the Government of India has borrowed an amount of Rs.54,000 crores on behalf of the States in nine instalments, at an average interest rate of 4.75 per cent, and passed it on to the States and UTs.

Outlook

51. The impending vaccination is set to spur the momentum in economic activity globally. India has been experiencing a V-shaped recovery since June when the gradual easing of lockdown restrictions was initiated. The sustained improvement in high frequency indicators ignite optimism of an improved performance in second half of the year (Figure 51).

Figure 51: Trend in High Frequency Indicators



Source: Compiled from various Sources

52. The management of the COVID-19 spread has been effective despite the festive season and onset of winter season. The downside risk, however, remains the spread of the UK variant and fatigue from social distancing guidelines. The emphasis on continued observation of 'covid-appropriate' behaviour with due exercise of caution and surveillance needs to be sustained – "दवाई भी कड़ाई भी" (Caution Along with Medicine).

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