ECONOMIC DIVISION

Monthly Economic Report

July, 2020

आर्थिक कार्य विभाग
DEPARTMENT OF
ECONOMIC AFFAIRS

सत्यमेव जयते

Executive Summary

With the forecast of a normal monsoon at 102 per cent of long-period average (LPA), agriculture, which contributes about 15 per cent of total gross value added, is set to cushion the shock of COVID pandemic on the Indian economy in 2020-21. Timely and proactive exemptions from COVID-induced lockdowns to the sector facilitated uninterrupted harvesting of rabi crops and enhanced sowing of kharif crops. A record procurement of wheat has enabled a flow of around Rs. 75,000 crore to the farmers which will boost private consumption in rural areas. Since September, 2019, the terms of trade has moved in favour of agriculture and has reinforced rural demand. This has manifested in an increase in rural core inflation between March and June 2020. As a result, the push for growth in coming months appears to be pitched in rural India. The recent landmark reforms announced in agricultural sector could not have been better timed. The reforms that have deregulated and liberalized the agricultural sector, further, empower the farmers to become a bigger and more stable participant in India's growth journey.

The Farmers' Produce Trade and Commerce (Promotion & Facilitation) Ordinance, 2020 *allows farmers the freedom to sell and traders to purchase from outside the markets notified under various State agricultural produce market legislations. This freedom to market their produce is strengthened by* ***The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Ordinance, 2020.*** *This Act secures the interests of farmers to engage in remunerative business with agri-business firms, processors, wholesalers, exporters or large retailers for farm services and sale of future farming produce. Finally, to make the agricultural markets more responsive to forces of demand and supply,* ***The Essential Commodities Act (ECA), 1955 Amendment Ordinance*** *allows for stocking of agricultural produce by both sellers and buyers, by removing stock limits on cereals, pulses, oilseeds, onions and potatoes. In doing so, the Act encourages investment in infrastructure and storage for improved inventory management of agricultural produce. These landmark ordinances give the freedom to farmers to decide when, where, to whom and at what price to sell while making buyers of agricultural produce more willing customers at the farm gate.*

Urban India and the world at large, however, continue to fight the growing menace of the pandemic, simultaneously on the health and economic front. The January-March quarter of 2020 witnessed broad-based reductions in year-on-year (YoY) GDP growth in advanced economies, ranging from (-) 3.4 per cent to (-) 14.2 per cent and in emerging markets economies, between 2.9 per cent and (-) 6.8 per cent. India, which went into the lockdown mode only in the last week of March, grew at 3.1 per cent in this quarter. Subsequently, in its June 2020 update, the International Monetary Fund (IMF) has projected global output to contract by 4.9 per cent in 2020, while OECD's projections are harsher at 7.6 per cent. GDP figures of April-June quarter of 2020, slated to be released towards end of August, will throw some light on the expected recovery of the Indian economy.

To fight output contraction, public authorities across the globe announced a huge fiscal stimulus estimated at USD 11 trillion. Complementing it was a massive injection of liquidity by the central banks. These measures appear to have arrested a free fall of global output as seen in the recent movement of high frequency real activity indicators. Across the world, trade and trade-related measures may have moderated a sharp contraction in merchandize *global trade. Global financial markets have also relatively stabilized with recovery in asset prices, decline in credit spreads and increase in issue of international bond by emerging markets. Crude oil markets are re-balancing after unprecedented demand-induced fall in prices in March and early April. However, downside risks to global recovery stem from an over-leverage in the non-financial sector including external debt financing risks, simmering trade and geo-political tensions, and unprecedented COVID-19 induced unemployment losses, amid fears of second major wave of infections.*

With India unlocking, the worst seems to be over as high-frequency indicators show an improvement from the unprecedented trough the economy had hit in April 2020. These include Index of Industrial Production (IIP), Purchasing Managers Index (PMI), power generation, production of steel and cement, railway freight, traffic at major ports, air cargo and passenger traffic, e-way bill generation capturing inter-state movement of goods, consumption of petroleum products and motor vehicle registration among others. However, risks on account of rising COVID-19 cases and intermittent state lockdowns remain.

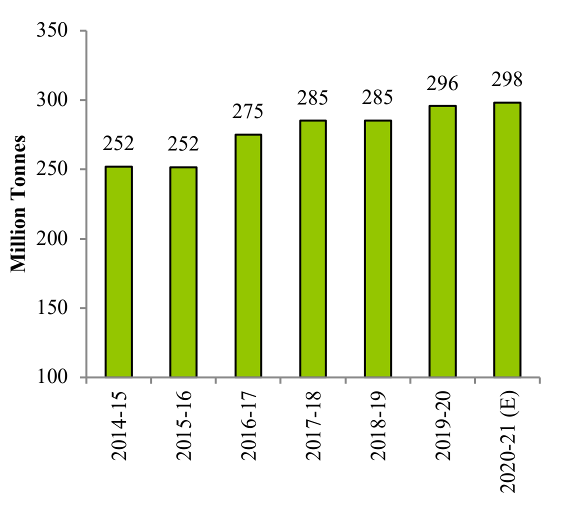
Inflation eased in June relative to previous two months indicating weak demand pressures and food supply chain recoveries. Volatility in most of the essential commodity prices stabilised reflecting their uninterrupted availability. Lower inflation, nonetheless, is supportive of lower interest rates and benchmark bond yields that further softened in June. Growth in money supply is commensurate with the potential demand for credit in the commercial sector although part of growth has been driven by a surge in net foreign exchange assets. Government has been deploying surplus liquidity available with banks to finance critical support to the economy damaged by the pandemic. Although this has challenged the fiscal position, government has been rationalizing expenditure to ease the fiscal burden. GST collections have also provided some respite with YoY contraction falling from 38.2 per cent in May 2020 to 14 per cent in July 2020.

On the external front, India continued to attract robust foreign direct investment (FDI). Foreign Portfolio Investment (FPI) inflows also rebounded to a 15-month high in June, 2020 This reflected the unshaken belief of foreign investors in India's macroeconomic fundamentals. As a result, the Indian rupee recovered to 75.53 INR/USD by June end as compared to the previous month end. Since the onset of the pandemic in India, stronger recovery of exports ensured that India registered a trade surplus of USD 0.8 billion in June 2020 despite rise in crude and gold prices. This follows a current account surplus in January-March quarter of 2020, for the first time in more than a decade. On the back of buoyant FDI, resurgence of FPI flows and current account surplus, foreign exchange reserves crossed half a trillion mark in June 2020. This safeguards a year of India's imports. Finally, India's persistently low external debt continues to add resilience to the external sector, a necessary safeguard in times of COVID-19.

Agriculture Sector – The Silver Lining in the Year 2020-21

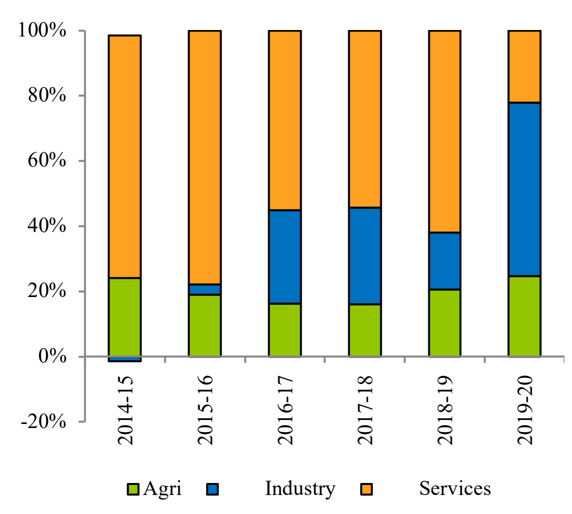
1. With the forecast of a normal monsoon at 102 per cent of long-period average (LPA), agriculture is set to cushion the shock of the COVID pandemic on the Indian economy in 2020-21. Government has set the food grain production target at 298.3 million tonnes for the 2020-21 crop year, up by 1 per cent from the record output achieved in the current year. India's food grains production is estimated at a record 295.67 million tonnes in the 2019-20 crop year (July-June), beating the target of 291.1 million tonnes and 3.7 per cent higher than last year (Figure 1).

Figure 1:Foodgrain Production in India



Data Source: Ministry of Agriculture

Figure 2 : Contribution of Sectors in Growth of GVA in India



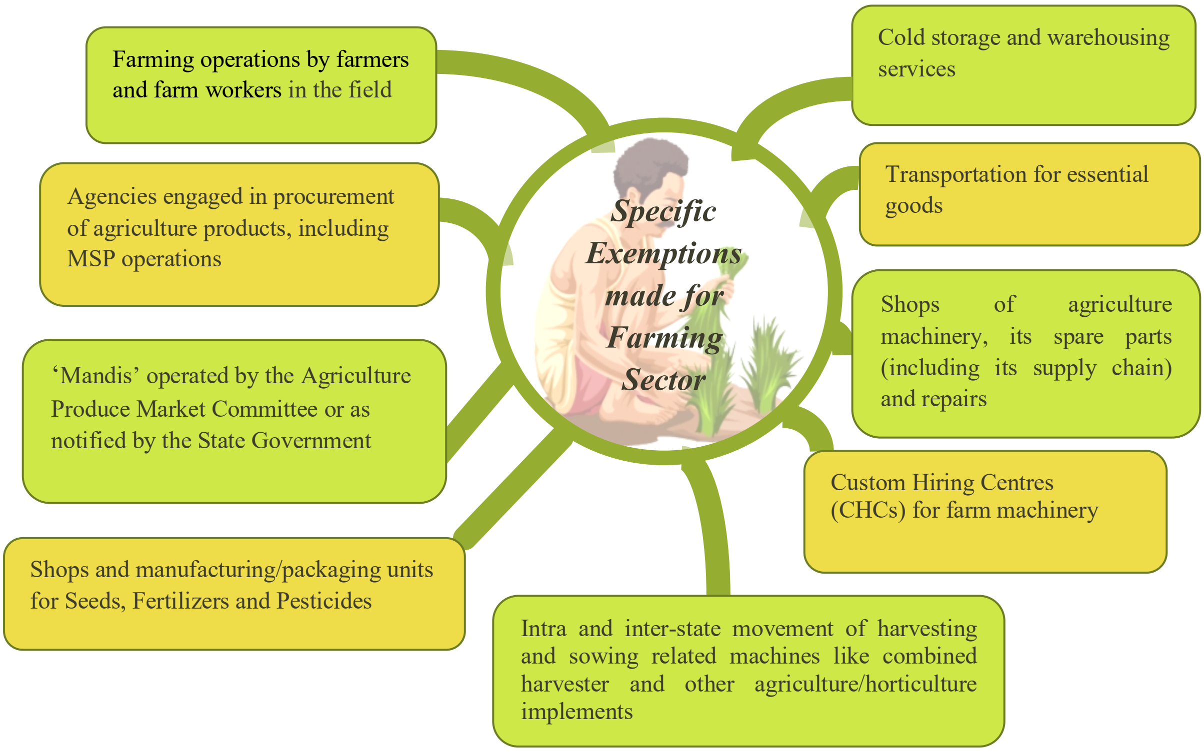
Data Source: MOSPI

2. The absolute share of agriculture in overall Gross Value Added (GVA) was in the range of 14-15 per cent during last three years. It has been contributing around 20 per cent in the growth of overall GVA (Figure 2). The growth rate of GVA in agriculture was 4.1 per cent in 2019-20 as compared to growth of overall GVA at 3.9 per cent. Given the forecast of normal monsoons and estimated record foodgrain production in 2020-21, agriculture can be expected to bolster the growth of the Indian economy this year. Given its share, it would contribute positively to overall GVA growth to the extent of 0.5-1 percentage points– thus supporting the Indian economy.

Agriculture largely exempted from Lockdown

3. While most economic activity was at a standstill due to the COVID-induced lockdown during the months of April-May, 2020, farming activities were exempted to facilitate uninterrupted harvesting of rabi crops and sowing of kharif crops (Figure 3). This was a major factor which enabled smooth flow of agricultural commodities throughout the lockdown period and across rural and urban areas of the country.

Figure 3: Exemptions from COVID-induced Lockdown made for Agriculture

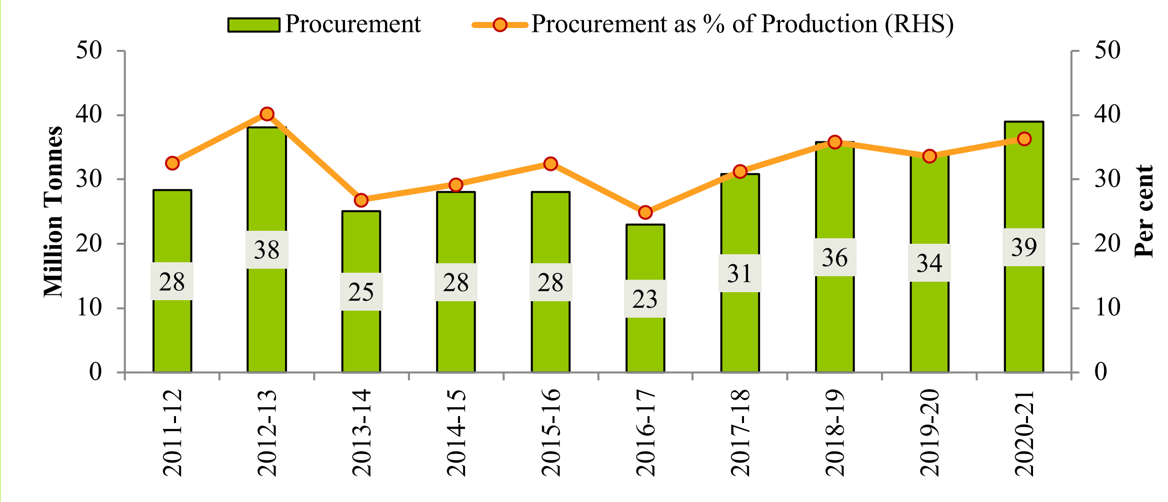


Source: Compiled from various Government of India press releases

Record Procurement of Wheat

4. The smooth flow of agricultural commodities was supported by record procurement of wheat from farmers by Government agencies in FY 2020-21 that touched an all-time high of 38.97 million tonnes – an increase of 12.6 per cent over last year (Figure 4). Despite the labour availability restrictions and social distancing requirements due to lockdown, State governments and all government procuring agencies led by Food Corporation of India (FCI) ensured that wheat is procured from farmers without any delay and in a safe manner. Technological solutions were deployed to regulate the daily inflows into mandis through token systems. These measures, along with actions on the ground for regular sanitizing, earmarking of dumping areas for each farmer etc, ensured that none of the food grain procurement centres became a COVID-19 hotspot anywhere in the country. This inflow of food grains into Central pool affirms the ability of FCI to meet additional requirement of food grains under the 'Pradhan Mantri Garib Kalyan Anna Yojana' for the people of the country, if any, in the coming months. This scale of procurement at a Minimum Support Price (MSP) of Rs. 1925 per quintal also enabled flow of around Rs. 75,000 crore to the farmers. This will give a much needed boost to private consumption in rural areas.

Figure 4: Procurement of Wheat



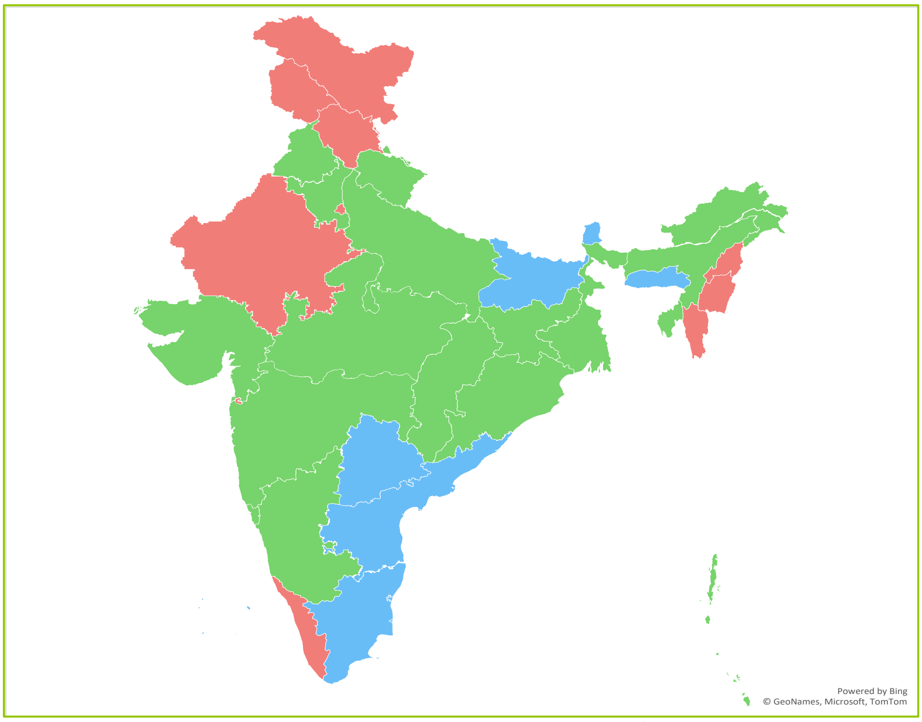
Source: Ministry of Agriculture and Department of Food and Public Distribution

Progress of Monsoon

5. The faster progress of monsoon in 2020 with the south-west monsoon covering whole of India on 26th June, 2020– 12 days prior to expected date of 8th July, spurred sowing of kharif crops. Earlier, such early coverage of Southwest Monsoon over the entire country occurred in 2013 – wherein the southwest monsoon had covered the entire country by 16th June. As on 2nd August, 2020, the whole of India received 466.5 mm rainfall with 26 States receiving normal or excess rainfall (Figure 5).

Figure 5: Distribution of South-West Monsoon across India, 2020

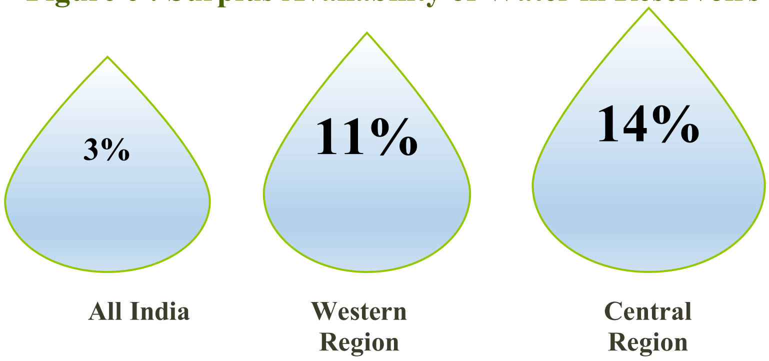
Deficient	Less than -19%	Normal	-19% to 19%	Excess	More than 19%



Source: Compiled from data available from IMD as on 2nd August, 2020

6. Ensuring water adequacy for irrigation during the course of the year, the storage availability in 123 reservoirs as on 31st July, 2020 was 141 per cent of corresponding period of last year and 102 per cent of average storage of last ten years. The availability of water in reservoirs is spread across the Central Region and Western Region (Figure 6), which augurs well for enhanced agricultural productivity in these areas.

Figure 6 : Surplus Availability of Water in Reservoirs

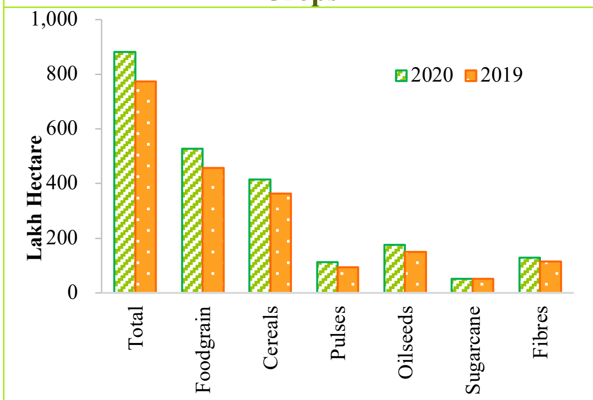


Source: Adapted from data available from Central Water Commission as on 31st July, 2020
Note: The surplus availability is as compared to average storage of last 10 years

Progress in Kharif sowing

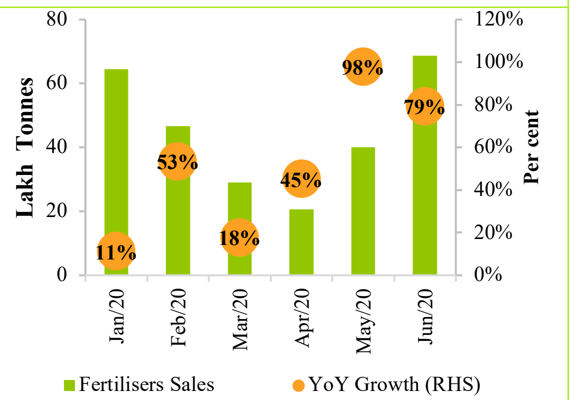
7. With the favourable spread of monsoon spurring sowing of kharif crops, a bountiful production is expected in 2020-21. As on 31st July, 2020, farmers have sown 88.21 million hectares, 14 per cent higher than corresponding period of last year with a big jump in area coverage under Oil seeds, Coarse Cereals, Pulses and Cotton (Figure 7). Fertilizer sales have surged by almost 98 per cent year-on-year in May 2020 (40.02 lakh metric tonnes) and 79.3 per cent in June 2020 (68.74 lakh metric tonnes), reflecting a robust agricultural sector (Figure 8). Tractor sales have turned around significantly from a YoY contraction of 79.4 per cent in April 2020 to a positive growth of 4 per cent in May and 22.4 per cent in June, suggesting a recovery in rural demand.

Figure 7: Progress in Sowing of Kharif Crops



Data Source: Ministry of Agriculture, Data is as on 31st July 2020

Figure 8: Fertilizer Sales



Data Source: Department of Fertilizers

Trends in Food Inflation

8. Even prior to the favourable developments in the agricultural sector during the lockdown period, the terms of trade of prices for agricultural commodities had been rising since September, 2019 (Figure 9). Food inflation has remained high during first quarter of 2020-21 as well, at 9.2 per cent compared to 1.7 per cent in the corresponding period of last year. This could be because of the sustained demand for food during the lockdown period. With increase in incomes of farmers, the rural core inflation in June, 2020 increased by 163 basis points as compared to March 2020, which is indicative of resurgence of demand in rural areas (Figure 10).

Figure 9: Terms of Trade for Agricultural Sector

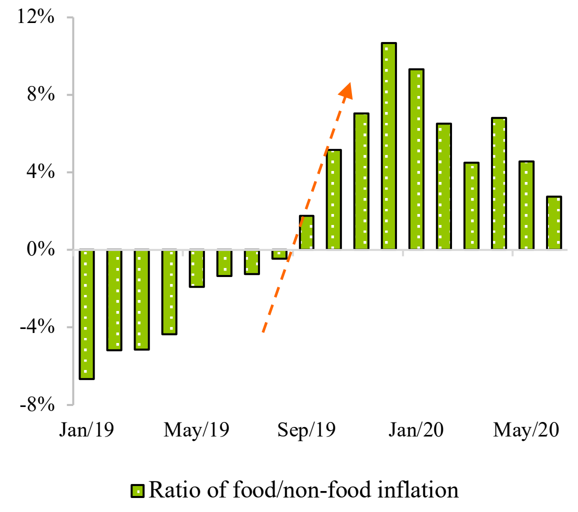
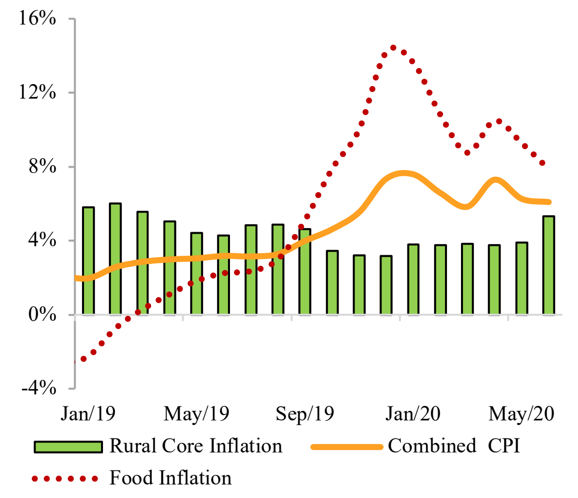


Figure 10: Inflation Dynamics



Data Source: Compiled using MoSPI data

Landmark reforms in Agriculture

9. With agricultural outlook improving, the recent landmark reforms announced in the sector, in effect, the deregulation and liberalization of agricultural sector in India, could not have been better timed. The reforms were extremely important given that agriculture, despite being the country's largest private sector enterprise in terms of employing more than half the workforce, is contributing only 15 per cent to Gross Value Added (GVA) of the country. These reforms will go a long way in building efficient value chains, providing remunerative prices to farmers and enabling creation of a dynamic and vibrant agricultural sector in India. The primary objective of these reforms is to unshackle the farmer and help him grow, through deregulation of the agricultural markets, fostering competition and attracting investments. *These reforms give the freedom to farmers to decide when, where, to whom and at what price to sell.*

Deregulation of Agricultural Markets – Freedom of farmer for sale of his produce

10. *The Farmers' Produce Trade and Commerce (Promotion & Facilitation) Ordinance, 2020"* promulgated on June 5, 2020 aims to provide for the creation of an ecosystem where farmers and traders enjoy freedom of choice relating to sale and purchase of farmers' produce and which would facilitate remunerative prices through competitive alternative trading channels (Figure 11). It envisages promotion of efficient, transparent and barrier-free inter–State and intra-State trade and commerce of farmers' produce, outside the physical premises of markets or deemed markets notified under various State agricultural produce market legislations. It is a landmark reform giving the freedom of choice of sale and purchase of agricultural produce, as against the erstwhile setup in which farmers could only sell to licensed traders in the APMC mandis situated in close proximity and notified under various state agricultural produce market laws (state APMC Acts).

Figure 11: Key provisions of the Ordinance

Trade of farmers' produce

- Allows intra-state and inter-state trade of farmers' produce outside:
- 1) Physical premises of market yards run by market committees formed under the state APMC Acts.
- 2) Other markets notified under the state APMC acts such as private market yards and market sub-yards, direct marketing collection centres, and private farmer-consumer market yards.

Dispute resolution mechanism

- The parties may apply to the Sub-Divisional Magistrate for relief through conciliation. If the dispute remains unresolved after 30 days, the parties may approach the Magistrate. The parties will have a right to appeal against the decisions of the Magistrate before an Appellate Authority (Collector or Additional Collector nominated by the Collector).

FARMERS COOPERATIVE

Trade in scheduled farmers' produce

- An entity must be either:
- (i) a farmer producer organisation or agricultural cooperative society,
- (ii) a person having permanent account number under the Income Tax Act or any other document notified by the central government.

Payment to farmers

- A person transacting with a farmer will be required to make payments to the farmer on the same day, or within three working days in certain conditions, for any transaction of scheduled farmers' produce.

No fees to be levied by states

- The Ordinance prohibits state governments from levying any market fee, cess or levy on farmers, traders, and electronic trading platforms for any trade under the Ordinance.

Electronic trading

- Permits electronic trading of farmers' produce in the specified trade area.

11. The Ordinance, thus, prevails over state APMC Acts. Legalising and facilitating sales in multiple platforms outside the physical premises of APMC markets will break the monopoly of licensed traders and foster more competition among potential buyers, reduce scope for middlemen and cartelisation, thereby increasing farmers' prospects of obtaining a better price for their produce through direct engagement with traders. It will also, ultimately, lead to lower mandi fees and commission for arhatiyas (commission agents) and reduce other cesses that many state governments have been imposing on APMC markets thereby reducing the transaction costs in sale of agri-produce, which will increase the share of farmer's realisation in overall price of the agri-produce. Given that both agriculture and markets are State subjects, translating this ordinance successfully into action will necessitate well-coordinated actions by all stakeholders, ranging from state governments, farmers, retail and wholesale traders to agro-based companies (Table 1).

Table 1: Interactions of various Stakeholders for effective implementation

Stakeholder	Intervention
State Government/State agency in partnership with private players	An electronic trading and transaction platform may be set up to facilitate direct and online buying and selling of farmers' produce through electronic devices and internet for physical delivery of the farmers' produce (along the lines of Centre's e-NAM or upgradation of the same)
State agency, agro- based industries, exporters, bulk Buyers	Introducing multiple purchasing options for farmers may mitigate risks in the event of price crashes during bumper harvests.
Farmers/ Farmer Producer organisations in association with local agencies, traders.	Provide farmers with user friendly and low cost market intelligence support to help them sell their crops at appropriate locations at the right time. This may include updated and reliable source of information such as govt. Policies, demand supply conditions, food standards, etc. Building partnerships with large traders, food processors and retailers
Private sector	Infuse modern knowledge and capital, provide attractive market for produce and promote diversification of crops, especially towards high value crops Investment in better storage facilities, cold chain and efficient transport/logistics network. Strengthen the supply chain infrastructure and minimise value losses Aligning supply chain with requirements of traders, exporters, setting up world class infrastructure with significant presence of exporters

Building Farm-firm Linkages towards a Robust Supply Chain- Freedom to farmer to engage with other stakeholders

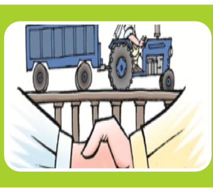
12. *The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Ordinance 2020"* provides for a national framework on farming agreements that protects and empowers farmers to engage with agri-business firms, processors, wholesalers,

exporters or large retailers for farm services and sale of prospective farming produce at mutually agreed remunerative prices. It provides a legal basis to the existing practice of contract farming in India's agriculture and allied sectors (Figure 12) by providing a national framework for contract farming through ensuring uniformity across state regulations enacted under APMC Acts and the laws passed by some states on the lines of the model Act circulated in 2018. This Ordinance recognizes the *freedom of farmers* by enabling them to directly engage with sponsors of their choice, be it processors, aggregators, large retailers or exporters.

Figure 12: Key provisions of the Ordinance

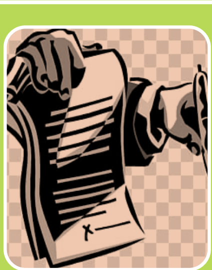
Provisions of the Ordinance will override all state APMC laws.

Exemptions from all State Acts regulating sale/ purchase of farming produce and provisions of stock limits under ECA



Provides for a farming agreement prior to the production of any farm produce with individuals, partnership firms, companies, limited liability groups and societies.

The agreement may provide for mutually agreed terms and conditions for supply, quality, standards and price of farming produce as well as terms related to supply of farm services.



Pricing of farming produce: The price to be paid for the purchase of a farming produce will be mentioned in the agreement. In case of prices subjected to variations, the agreement must include: (i) a *guaranteed price* to be paid for such produce, and (ii) a clear reference for any additional amount over and above the guaranteed price, including bonus or premium. The price references may be linked to the prevailing prices or any other suitable benchmark prices. The method of determining any prices including guaranteed prices and additional amount will be provided in the farming agreement.

Dispute Settlement: The Ordinance requires a farming agreement to provide for a conciliation board as well as a conciliation process for settlement of disputes. However, no action can be taken against the agricultural land of farmer for recovery of any dues.

Minimum period of an agreement will be one crop season, or one production cycle of livestock. The maximum period will be five years.

13. Contract Farming, by its very design establishes a direct linkage between the 'farm and firm/market.' The essence of such an arrangement lies in the commitment of the producer/seller to provide an agricultural commodity of a certain type, at a time and a price, and in the quantity required by a known and committed buyer. The farmers stand to gain from lower transaction costs, assured markets and better allocation of risks. On the other hand, contracting firms have the advantage of more assured supplies, and reasonable control over quality and other specifications. Moreover, in such an arrangement, the risk of market unpredictability gets transferred from the farmer to the buyer. The legal environment for contract farming, with assurance of a price to the farmer at the time of sowing will also help them to take cropping decision based on forward prices rather than last year prices – which usually leads to a typical cobweb problem of boom and bust. Several Indian and multinational companies like Pepsi Co. for potatoes, Appachi's Integrated Cotton Cultivation, Marico for safflower, Cargill, Hindustan Lever for wheat etc. have established successful contract farming initiatives and have demonstrated repeated success.

14. The potential of this Ordinance in transforming the agri-food chain is evident from one of the successful examples for contract farming in respect of wheat harvesting in Madhya Pradesh involving, besides the farmers, Hindustan Lever Ltd (HLL), Rallis and ICICI. Under the system, Rallis supplies agri-inputs and know-how, and ICICI provides farm credit to the farmers. HLL, the processing company, which requires the farm produce as raw material for its food processing industry, guarantees the buyback arrangement for the farm output at a pre-determined price. In this arrangement, farmers benefit through the assured market for their produce in addition to timely, adequate and quality input supply including free technical know-how from Rallis and easily available credit from ICICI; HLL benefits through supply-chain efficiency; while Rallis and ICICI benefit through assured clientele for their products and services. The effective implementation of this ordinance will, therefore, enable the farmers to benefit from a vibrant agri-food chain pillared on extension, processing and timely availability of credit. The agreement, therefore, needs to be holistic and facilitate efficient practices for sowing, harvesting, storage, processing and distribution infrastructure through collaborative effort of all stakeholders (Table 2).

Table 2: Interactions of various Stakeholders for effective implementation

Key elements of contract farming	Role of stakeholders
Establish a committed backward linkage with farmers.	State government/local agencies/sponsors may arrange innovative awareness initiatives like street plays, village level meetings, display and print materials, door-to-door campaigns, and press meets to attract farmers' attention and gain their confidence.

	Sponsors may conduct trials initially to evaluate quality of produce and enter into a contract with farmers with best produce. This will also encourage competition among farmers to produce the best.
A common platform for all members of the contract and associated stakeholders.	All stakeholders linked to the contract such as banks, insurance company, farm service providers, and consuming units to be brought together and ensure commitment to the programme.
Assured farm input and credit to contracted farmers	The contract should assure farmers easy availability of quality seeds, farm finance at reasonable rates of interest, timely supply of unadulterated fertilisers and pesticides, expert advice, etc.
Strong forward linkage with consuming units	Farmers to ensure prompt and timely delivery of produce to consuming units. Sponsors in partnership with local agencies and State Government to maintain sound logistics system and ensure global marketing standards.
Regular and timely payment to contracted farmers	Sponsors to honour payments to farmers regularly and timely. And bonuses for good performance to encourage more competition and improve efficiency. This will help build trust and commitment to the contract.
Focused R&D	Sponsors may undertake focused R&D on increasing yield levels- benefits farmers and company too by bringing down the cost of raw material
Transfer of technology/ know-how to farmers	Sponsors to facilitate easy transfer of resulting technologies to farmers through trained personnel.
Effective use of modern communication technology	All linked parties including the farmers may be integrated on a common platform through effective use of technology.
Field supervision	Field supervision may be undertaken regularly by sponsors or any relevant party/local agency.
Increase Competition in Favour of farmers	Attract more buyers for farm produce
Role of farmer producer organisations (FPOs)	Need to create a scale to liaison and bargain with big buyers like processors, exporters, and organised retailers. This will help ensure uniform quality, lower transaction costs, and also improve the bargaining power of farmers vis-à-vis large buyers.
Food safety standards with Quality grading and inspection services	Quality standards and grading that reflect the preferences of end users permit buyers to obtain what they want and growers to maximize returns - would potentially reduce private costs and reduce grower-buyer friction in contracting and other firm-farm linkages
Market information	Accurate, timely and widely accessible market information is a fundamental requirement of competitive and efficient markets – reduces information asymmetry

One nation, One market for Agricultural Goods – Freedom of farmer to hold, move, distribute and supply

15. "*The Essential Commodities Act (ECA), 1955 Amendment Ordinance"* has been enacted to remove stock limits on cereals, pulses, oilseeds, onions and potatoes and will encourage people to invest in creating infrastructure and storage of agricultural produce. It amends the Essential Commodities Act (ECA), 1955 and is aimed at increasing investments in cold storage, warehouses, processing and exports (Figure 13). The ECA Act empowered the central government to control the production, supply, distribution, trade, and commerce of any commodity deemed "essential". The underlying objective of the ECA Act had been to prevent hoarding and black marketing of "essential" commodities and, thereby, to secure the affordability and equitable distribution of these commodities to the population at large. However, as discussed in Economic Survey, 2019-20 (Chapter IV), ECA has been ineffective not only in controlling increase and volatility in agricultural prices but also efficient development of agricultural markets. The threat of frequent and unpredictable imposition of stock limits under the Act acts as a disincentive to large-scale investments in warehousing, storage, processing and distribution facilities. By restricting inter-state and intra-state movements, the Act also inhibits creation of a national competitive agricultural market of agri-products that smoothens the price fluctuations.

16. The 2020 Ordinance, thus, aims to remove the vestiges of inefficiencies associated with implementation of the ECA Act. The amendment provides for regulation only in situations such as war, famine, extraordinary price rise and natural calamity. It exempts the installed capacity of a value chain participant and an exporter so as to ensure that investments in agriculture are not discouraged. This will remove fears of private investors of excessive regulatory interference in their business operations. This ordinance complements the *'freedom of farmer to produce and sell'* with *'freedom of farmer to hold, move, distribute and supply'*. It will enable harnessing of economies of scale in agricultural sector and attract private sector/foreign direct investment in modernization of food supply chain. The effective participation of all stakeholders will integrate agricultural markets and drive the realization of remunerative prices for farmers, stable prices for consumers and value addition at all levels in the agricultural supply chain (Table 3).

Figure 13: Key provisions of the Ordinance

Regulation of food items: The Ordinance provides that the central government may regulate the supply of certain food items including cereals, pulses, potato, onions, edible oilseeds, and oils, only under extraordinary circumstances. These include: (i) war, (ii) famine, (iii) extraordinary price rise and (iv) natural calamity of grave nature.

Imposition of stock limit: The Ordinance requires that imposition of any stock limit on certain specified items must be based on extraordinary price rise. A stock limit may be imposed only if there is: (i) 100% increase in retail price of horticultural produce; and (ii) 50% increase in the retail price of non-perishable agricultural food items. The increase will be calculated over the price prevailing immediately preceding twelve months, or the average retail price of the last five years, whichever is lower.

The Ordinance provides that any stock limit will not apply to a processor or value chain participant of agricultural produce if stock held by such person is less than the: (i) overall ceiling of installed capacity of processing, or (ii) demand for export in case of an exporter.

Table 3: Interactions of various Stakeholders for effective implementation

Stakeholder	Intervention
State Government/State agency in partnership with private players	Improving state warehousing infrastructure
Farmers/ Farmer Producer organisations in association with local agencies, traders.	Encourage scientific warehousing of goods by farmers under Negotiable Warehousing Receipts scheme. This will enhance credit availability and liquidity to the farmers
Private Sector	Investment in better storage and cold-chain facilities
	Investments in food processing and organized retail
	Institutionalize market intelligence networks: develop strong and accessible databases, harmonized with international standards, for manufacturers, processors, traders, retailers and exporters to enable rational decision making in the agricultural production and marketing space.
Commodity Derivative Traders	Supporting development of commodity futures markets would help efficient discovery of market expected future prices, which can provide a better basis for private storage decisions and avoid 'peaks' and 'troughs' in prices

Central Government	Aggregated database of the stock holdings, storage capacities, trading and carry forward positions - enable policymakers to assess the impact of any production shocks on the prices
	Development of efficient forecasting and market intelligence systems
	Effective use of Price Stabilization Fund to maintain a strategic buffer of 'essential' commodities for subsequent calibrated release to moderate price volatility and discourage hoarding and unscrupulous speculation

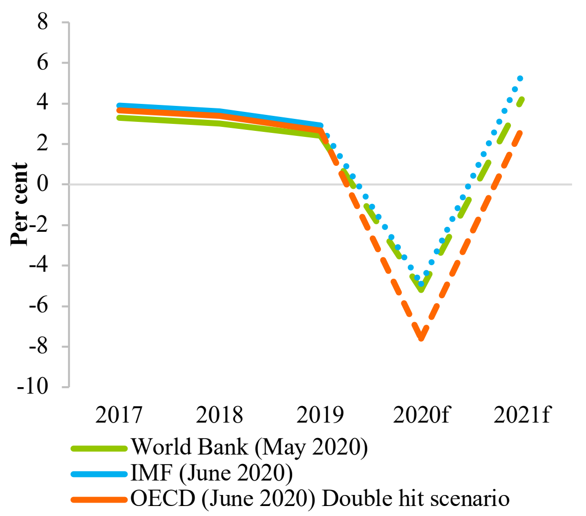
Global Macro-economic Outlook

Moderate improvement in global real activity as economies unlocked amid second wave of infections

Global Output

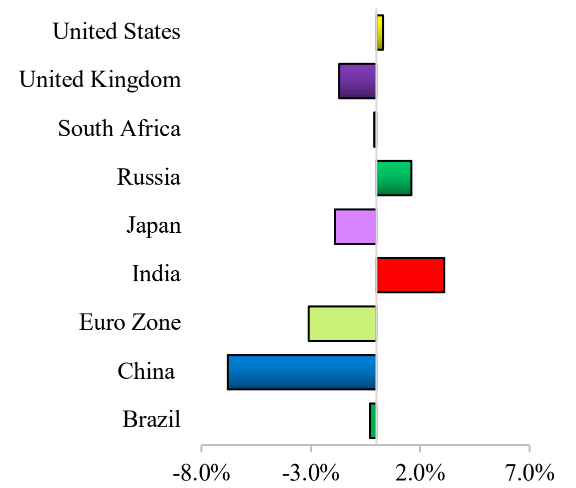
17. In its June 2020 update, the International Monetary Fund (IMF) has projected that global output would contract by 4.9 per cent in 2020-21, under the baseline assumption of gradual recovery in activity starting in the second half of 2020-21. As per a "double–hit" scenario projected by OECD in which a second wave of infections erupts in the later part of 2020; the global economy could contract by 7.6 per cent in 2020 (Figure 14). Leading up to these projections were the GDP growth estimates of most of the countries in January-March quarter of 2020, which witnessed broad-based reductions in advanced economies (AEs) ranging from (-)3.4 per cent to (-)14.2 per cent and in emerging markets economies (EMEs) between 2.9 per cent and (-)6.8 per cent (YoY basis) (Figure 15).

Figure 14: World real GDP growth rates and projections



Data Source: Compiled using data from various agencies

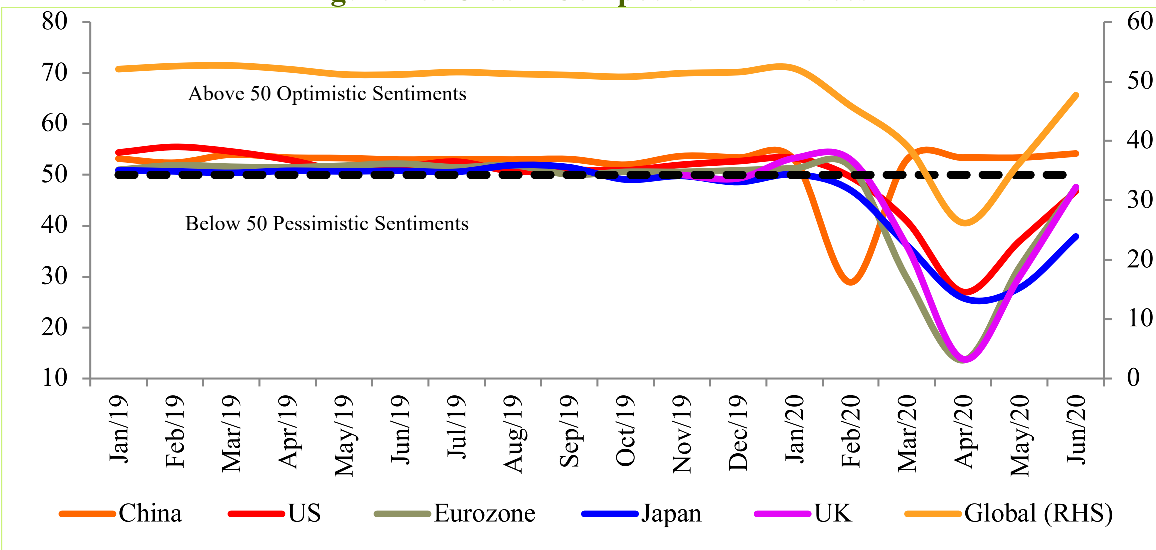
Figure 15: Growth Rates of GDP of major countries during Jan-Mar 2020



Data Source: Compiled using data from various agencies

18. Public authorities across the globe responded on a massive scale with USD 11 trillion in fiscal measures committed to by G20 members and other countries (IMF estimates), as well as massive central bank liquidity injections to further support growth and financial stability measures to mitigate the adverse consequences of the pandemic. Real activity is, consequently, picking up - as reflected in the improvement in global Purchasing Managers Indices (PMI) with rates of contraction in output, new orders and employment easing since April, 2020. Global composite PMI, though still in the non-expansionary zone, improved from 36.3 in May 2020 to 47.7 in June, 2020 with improvement seen across all advanced countries and expansion in China (Figure 16).

Figure 16: Global Composite PMI indices



Data Source: IHS Markit

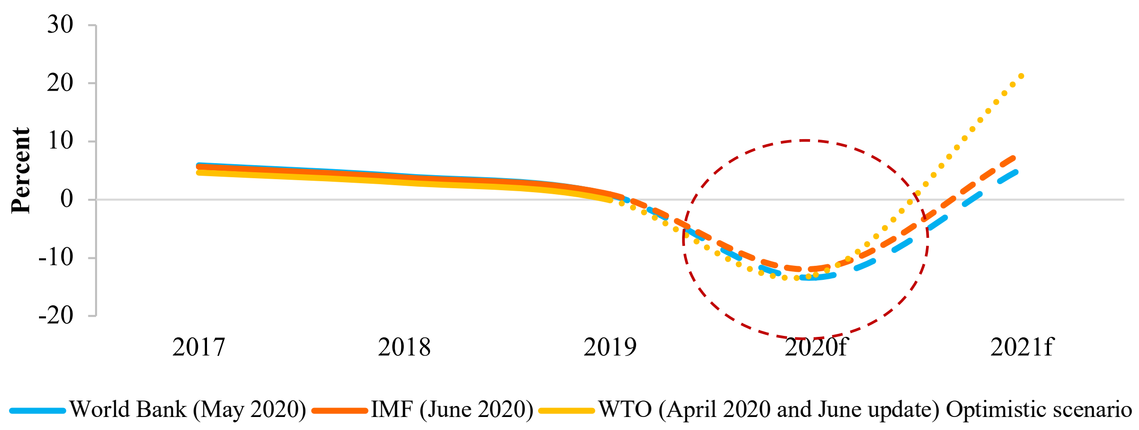
19. China's quarterly growth is still at its lowest level since 1990s though it has rebounded from a record contraction of 6.8 per cent in January-March quarter of 2020 to grow by 3.2 per cent YoY in April-June quarter post lifting of lockdown. US industrial production rose by 5.4 per cent (YoY) in June,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

Global Trade

20. On a global scale, unprecedented trade decline has been a severe consequence of the COVID-19 pandemic. After a 3 per cent YoY decline in global merchandise trade in January-March quarter of 2020, World Trade Organization (WTO), as per its June 2020 Update, estimates 18.5 per cent YoY decline in merchandise trade in April-June quarter, on account of full-scale pandemic induced supply chain disruptions, fall in demand, loss of employment

and shutdowns (Figure 17). Economic disruptions brought by COVID-19 have affected some sectors significantly more than others. As per UNCTAD estimates, textiles and apparel, office machinery and automotive sectors, energy and automotive products, chemicals, machineries and precision instruments have seen a sharp decrease in global trade while trade in agri-food products has been stable. Trade of medical products related to COVID-19 has more than doubled the level of April 2020. The variance across sectors has been driven by decreases in demand and disruptions of supply capacity and disruption of global value chains in the wake of the pandemic.

Figure 17: World Trade growth and projections

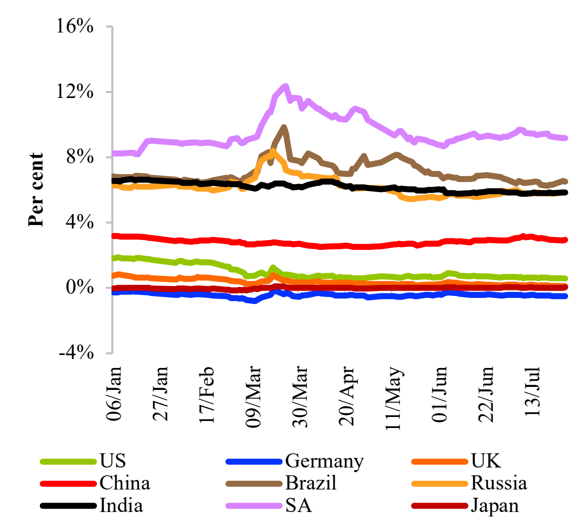
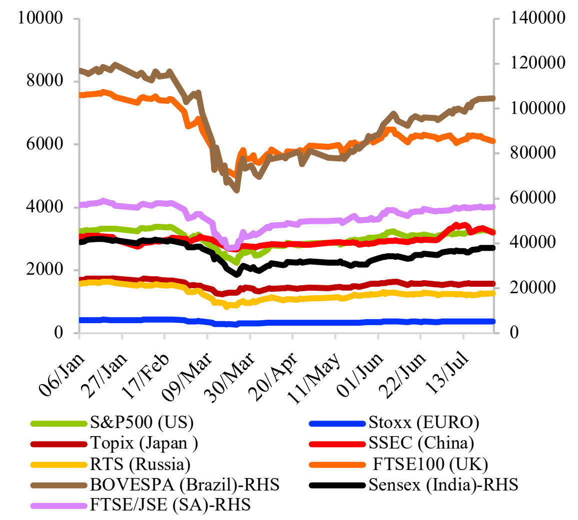


Data Source: Compiled using data from various agencies

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

Global Financial Markets

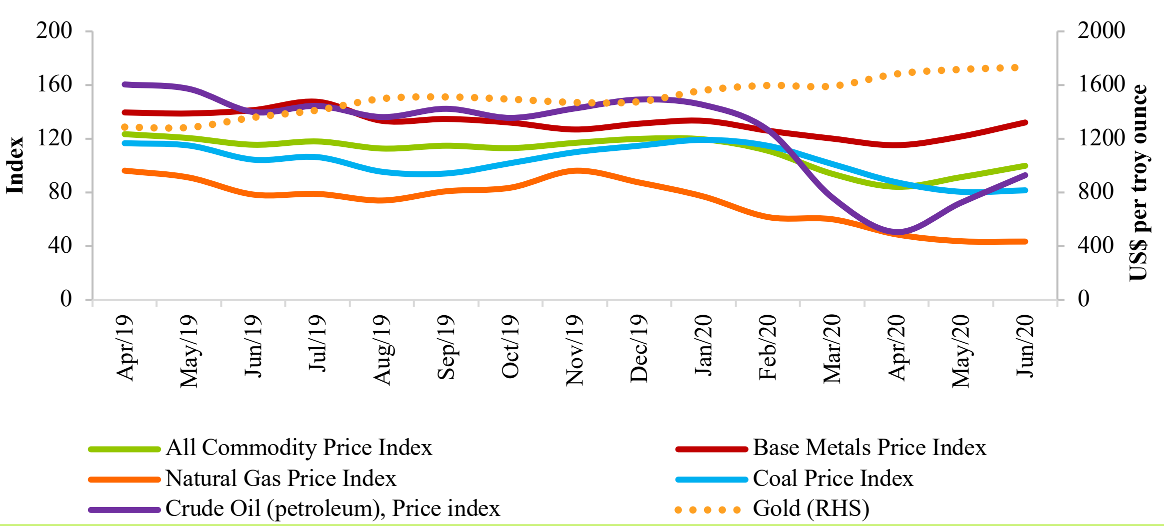
22. Global financial markets have relatively stabilized from June 2020 onwards amid swift and unprecedented central bank macro-financial measures. As per RBI's Financial Stability Report, July 2020, asset prices have recovered, and credit spreads have significantly narrowed from their earlier highs (Figures 18 and 19). Bond issuance in emerging markets has picked up substantially. Sovereign borrowers, offering higher yield than developed market debt and higher credit rating relative to most emerging debt have been accessing the market and their borrowing costs declining in comparison to the previous quarter.

Figure 18: Global 10 yr G-Sec yields	Figure 19:Global Equity Index
	
Data Source: Thomson Reuters.	

Global Commodity Markets

23. Crude oil markets recovered in June 2020 from their historic lows in March and April with gradual unlocking of economies and steep global supply decline by OPEC+ countries. Brent crude futures traded at USD 43.55 per barrel on 31st July, 2020, up by 5.8 per cent from June and 15.6 per cent from May 2020. International Energy Agency (IEA), in its June 2020 report, has projected a record decline in global oil demand of 8.1 mbpd YoY in 2020, with recovery to 5.7 mbpd in 2021. Fears of a second wave of cases of COVID-19 are keeping the oil price pick-up in check. Bearish demand for industrial metals in early part of 2020 has also witnessed moderate pick up as global economies and industries have unlocked and China, one of the largest consumers of base metals has begun to expand (Figure 20).

Figure 20: Commodity price movements



Data Source: IMF primary commodity price system

Risks to global economic recovery

24. While global economic activity is recovering from its unprecedented troughs, several downside risks remain amid fears of second major wave of infections, an over-leveraged non-financial sector and external debt financing risks, simmering trade and geo-political tensions and unprecedented COVID-19 induced unemployment losses.

25. The past decade has witnessed the largest, fastest and most broad-based increase in debt in the past half century, particularly for emerging market (EM) and developing economies as given in the World Bank Report: Global Waves of Debt. In an extended period of extremely low interest rates, leverage of 30 major EMs as a proportion to GDP increased from 147 per cent (USD 22 trillion) in Q42007 to 220 per cent (USD 71 trillion) in Q4 2019 (as estimated by Global Debt Monitor, International Institute of Finance). In Q1 2020-21, as per Institute for International Finance (IIF), global debt hit record high of 331 per cent of GDP (USD 258 trillion) and debt levels are continuing to rise. While increasing debt levels raise concerns about debt sustainability, over 92 per cent of government debt is investment-grade. Surge in EM debt to over 230 per cent of GDP is largely driven by non-financial corporate Chinese debt. By end-2020, global bonds and loans of over USD 20 trillion will fall due for repayment of which EMs' share stands at USD 4.3 trillion. Therefore, in the post COVID-19 world, the challenge will be to convert these financial claims on the real economy into equity, as highlighted by RBI's Financial Stability Report, July 2020 (Figure 21 and 22).

Figure 21: Global Leverage (As % of GDP)

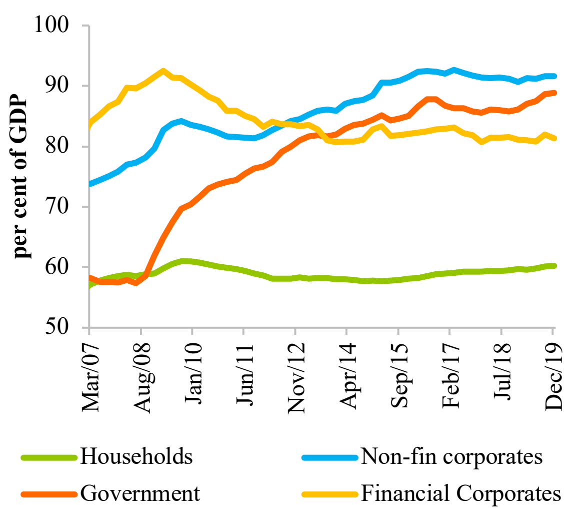
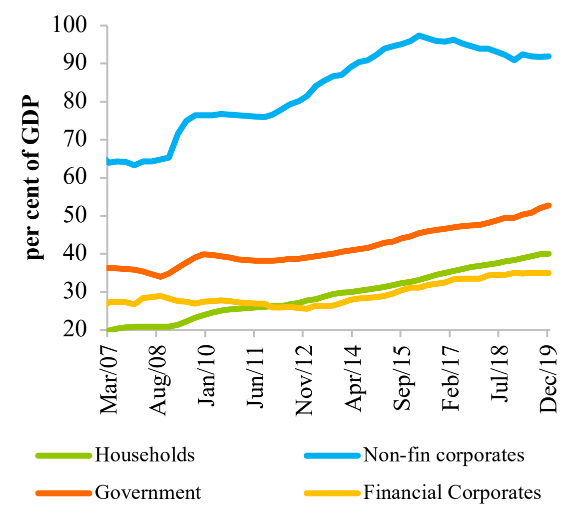


Figure 22: Emerging Markets (EMs) Leverage



Data Source: Financial Stability Report RBI, July 2020.

Outlook for India

With India unlocking, the worst seems to be over for the economy as high-frequency indicators recovered in June 2020 from unprecedented troughs in April; however, risks on account of rising COVID-19 cases and intermittent State lockdowns remain.

26. The future economic recovery of India is crucially linked to how the COVID-19 infection curve evolves across states of India. The spread of COVID-19 to most States/UTs and the emergence of new hotspots has led the States/UTs to enforce intermittent lockdowns. India's top 12 growth driving states account for 85 per cent of the COVID-19 case load, with 40 per cent of confirmed cases concentrated in the top two growth drivers i.e. Maharashtra and Tamil Nadu (Table 4). As India unlocked, active cases reached 5.6 lakh by July-end, growing (month end-on-month end (MoM)) at 166 percent as compared to June. Highest growth in active cases in July was seen in Karnataka, Andhra Pradesh and Jharkhand, experiencing a second major wave of infections. Simultaneously, growth in recoveries was faster and broad-based across states, growing at 215 per cent MoM to reach 10.9 lakh by end-July, thereby exceeding active cases by 5.3 lakh. Highest cumulative deaths by July-end were concentrated in Maharashtra, Tamil Nadu, Delhi and Gujarat while the greatest rise in deaths was witnessed in Karnataka, Andhra Pradesh and Assam as compared to June. GST collections inched closer to previous year and pre-COVID March levels recording (-)9 per cent YoY growth in June. Greatest fall in GST collections in the month was witnessed in Haryana and Uttarakhand followed by Tamil Nadu. Electricity consumption recovered in June as compared to May with strongest recoveries in Karnataka, Andhra Pradesh, Punjab and Chhattisgarh. Value of E-way bills, suggestive of intra and inter-state movements of goods, also picked up strongly in June over May, across all states. However, June YoY growth of E-way bills continued to stay weak for hotspots like Maharashtra, Tamil Nadu, Delhi and Haryana. Amid reverse migration from urban to rural areas, work created under MGNREGA almost doubled YoY in June to reach 6403 lakh person days. However, Maharashtra, the biggest COVID-19 hotspot and destination migration state, recorded a fall in MGNREGA employment in June both YoY and in relative to May as it witnessed out-migration to other states. Some consumption demand recovery was witnessed in a strong 380 per cent improvement in vehicle registrations in June over May, albeit still far from attaining previous-year levels. Strongest pickup in registrations in June over May was witnessed in Tamil Nadu, Karnataka and Delhi.

Table 4: State-wise performance of COVID-19 and macroeconomic indicators

COVID-19 Indicators (MoM growth in %)

13200% Deterioration — 12100% Improvement

Macroeconomic indicators (YoY growth in %)

-100% Deterioration — 2540% Improvement

States/UT (descending order of State GDP)	COVID Cases (Actual Values July end)			GST Collection (Rs. crore)		Electricity Consumption (Mega Units (MU))		Total Assessable Value E-Way Bill (Rs. Crore)		MGNREGA Work Created (Lakh Person days)		Vehicle Registrations	
	Active	Death	Recovered	Mar	Jun	May	Jun	May	Jun	May	Jun	May	Jun
ALL INDIA	564845	36564	1095541	97597	90917	102930	106490	898714	1240092	5683	6403	207626	995352
MH	150967	14993	256158	15002	14987	13294	11124	104450	161915	121	84	5742	60058
TN	57968	3935	183956	6178	4976	8988	9003	63308	92331	187	376	32844	110747
UP	34968	1630	48863	5294	5194	10204	11769	60663	98940	723	831	16789	161263
KA	71995	2321	49799	7144	6710	6046	5293	63698	86437	209	245	37831	92196
GJ	14091	2440	44907	6820	6025	9541	8959	98086	137473	132	128	5701	60193
WB	20233	1581	48374	3582	3128	3658	4549	30813	52799	449	661	1029	40669
RJ	11558	680	29845	2820	2774	6727	7185	35621	51402	686	1009	14517	63438
AP	75720	1349	63864	2548	2367	5565	5102	32882	42700	652	771		
TL	16796	519	45388	3563	3276	4819	4612	34595	45290	595	260		
MP	8667	868	22271	2407	2742	6193	5253	16986	22835	439	487		
KR	10518	74	13022	1475	1530	2197	1925	15571	20679	48	103	15644	47973
DL	10705	3963	120930	3273	3249	2457	3070	27958	44530			9074	33183
HR	6318	421	28226	4874	3697	3876	5167	44628	72398	19	24	3417	32180
BH	17039	298	33650	1056	1162	2754	2997	8036	10221	334	374	10832	96032
PU	4999	386	10734	1181	1323	4114	6745	30313	45201	22	30	6554	25142
OD	11145	214	20518	2633	2694	2407	2510	21815	26357	225	281	15193	43319
AS	9708	102	30358	932	966	721	876	9766	11443	56	75	11662	27256
CT	2908	54	6230	2093	2549	2372	2318	12396	14073	465	245	9964	33394
JH	6866	105	4343	2049	1643	725	763	9859	14530	92	140	889	34816
UT	2935	80	4168	1195	895	901	1151	13795	20045	26	31	889	9875
HP	1094	13	1460	596	619	654	795	9940	12995	29	47	711	7035
JK	7765	377	12217	276	325	1308	1263	3521	4990	18	26	101	1918
GOA	1657	45	4211	316	324	316	265	3712	4232	0	0	2399	2124
TR	1646	21	3327	67	65	122	135	297	511	45	43	1528	3481
CHN	369	15	667	153	159	117	163	977	1430			734	1897
PD	1325	49	2100	149	141	226	233	2738	3605	2	3	1518	2983
ME	603	5	215	133	116	145	161	580	601	15	37	147	1354
NG	1045	4	632	39	32	65	68	78	95	37	26	208	258
MN	927	5	1689	36	29	73	76	43	58	12	16	3	11
SK	419	1	232	189	346	37	38	2163	2260	2	7	158	469
AR	673	3	918	67	49	55	60	70	85	17	15	308	803
MZ	161	0	247	33	24	48	50	18	34	28	27	1189	1011
AND	333	5	202	39	54			25	59	0.2	0.3		
DNH	424	2	725	95	73	244.5	347	5728	8335			51	273
DD				169	119	128.1	149	2703	3788				
LAK	302	7	1095					0.12	0				

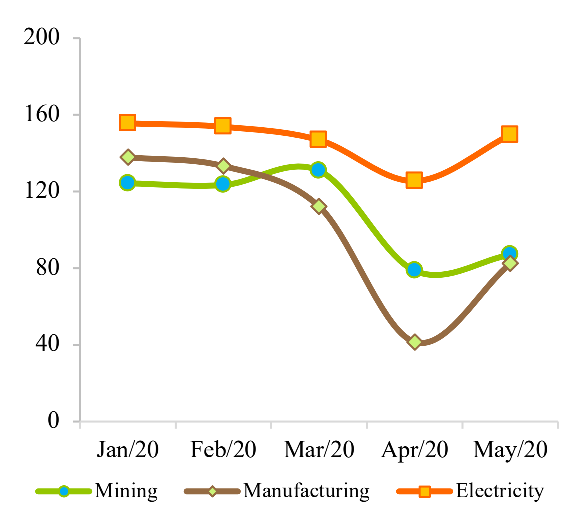
Source: Data aggregated from Government sources

Note: Empty cells imply data not available.

Industrial Production

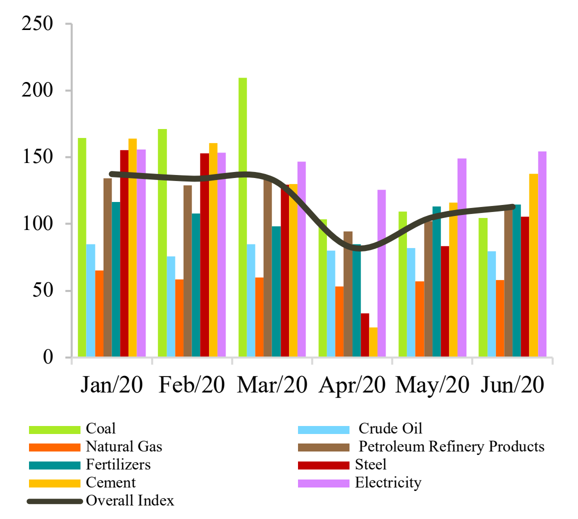
27. As the Indian economy stepped out of the nationwide lockdown in phases since May, 2020 economic activity picked up. Contraction in industrial activity, measured by Index of Industrial Production (IIP) and eight core industries, has eased as compared to April. Industrial output increased across all sectors and sub-sectors within IIP in May vis-à-vis April (Figures 23 and 24). Among the eight core industries, fertilizers exhibited positive YoY growth (4.2 per cent) while other sectors barring coal showed smaller contraction as compared to April.

Figure 23 : Index of Industrial Production



Data Source: MoSPI

Figure 24: Eight Core sector Index



Data Source: Office of Economic Advisor, DPIIT

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

29. Mining & quarrying sector, despite being exempt from lockdown, suffered a fall in output. Among mined products, off-take of coal shrank YoY by 24.2 per cent in the April-June quarter of 2020. Production of crude oil declined YoY by 22.5 per cent and that of natural gas dipped by 17.3 per cent during April-May 2020.

30. Capital goods production, witnessing negative YoY growth since January 2019, contracted to a lesser extent of (-)37.1 per cent in May 2020 as compared (-) 92.1 per cent in

April. Consumer durables index also showed a similar trend, contracting 68.5 per cent in May 2020 as compared to 95.7 per cent in April. Contraction in infrastructure/construction goods eased 22 percentage points in May compared to April.

PMI

31. Signs of further recovery were witnessed in June with India's Manufacturing PMI improving from 30.8 in May 2020 to 47.2 in June 2020 with output and new orders contracting at much softer rates than seen in April and May (Figure 25). PMI services recovered from 12.6 in May 2020 to 33.7 in June 2020, owing to some stabilization in output levels with around 59 per cent of firms reporting no change in output, 4 per cent reporting growth and 37 per cent reporting reduction since May (Figure 26).

Figure 25: PMI Manufacturing India and its components

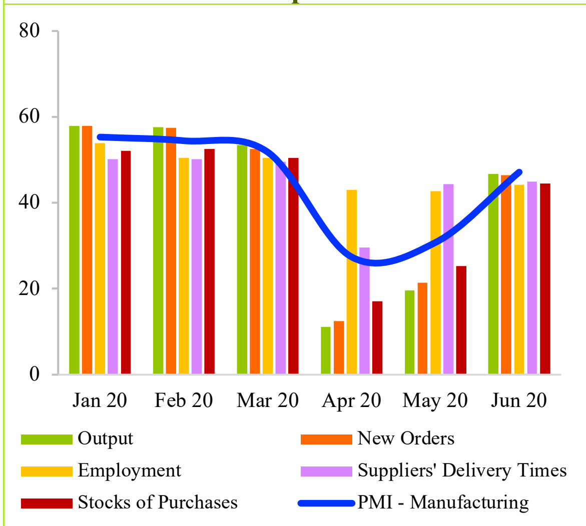
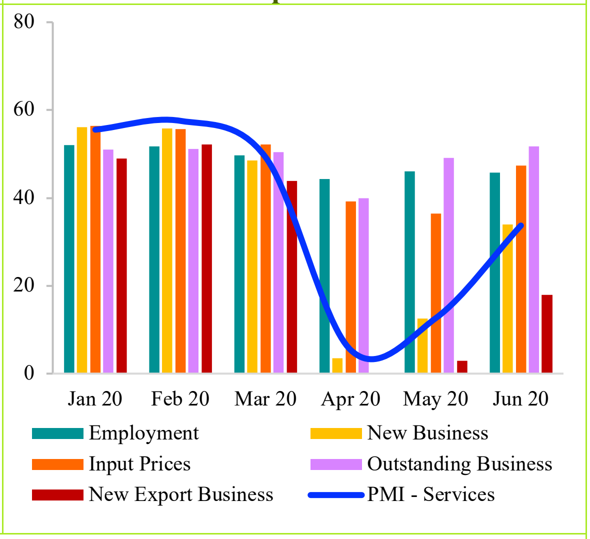


Figure 26: PMI Services India and its components



Data Source: IHS Markit

Energy

32. Coal production by Coal India Limited declined further from (-)11.3 per cent in May to (-)12.8 in June and coal transported to thermal power houses remained low. Thermal coal traffic at major ports also witnessed a 31 per cent YoY decline in June. Nevertheless, gross generation of electricity showed signs of an uptick in June and July. These trends suggest that power generators are using their own coal stocks. Coal stocks held by electricity generation companies, as per Central Electricity Authority (CEA), reduced from 31 days of stocks as on May 1, 2020 to 29 days as on June 1, 2020 and to 22 days as on July 30, 2020. Electricity generation has recovered fast and crossed March levels (107.1 billion KwH) in June 2020 (112.9 billion KwH). YoY contraction in electricity generation declined by 10.7 per cent in June as compared to 14.9 per cent in May. Between July 1 to July 31, the contraction has further eased to 3.8 per cent.

Infrastructure and construction

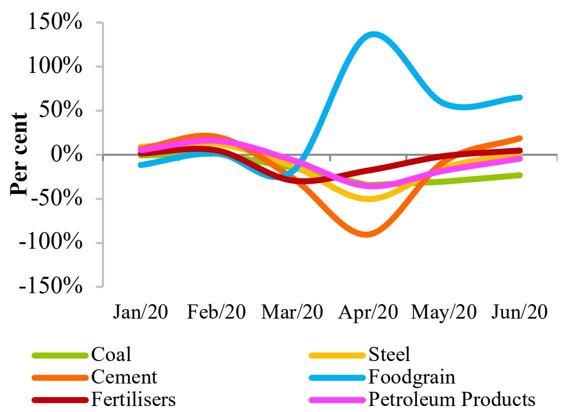
33. There was an uptick in infrastructure and construction activities in the unlocking phase. Contraction in production of finished domestic steel recovered from 41 per cent in May to 31.1 per cent in June 2020. This is also indicated in an uptick in freight traffic of raw materials like coking coal (excluding imports) into steel plants and finished steel out of steel plants in June compared to May. However, port traffic of coking coal declined further in June compared to May, suggesting greater use of domestic coking coal by steel companies as compared to imported coal. Cement traffic growth also picked up, suggesting improving in construction activity. Contraction in cement production significantly dropped from 85.2 per cent in April to 22.2 per cent in May. Further signs of recovery in June were witnessed in cement freight traffic growing sharply to 19 per cent in June as compared to (-) 8 per cent in May.

Transport

34. Railway freight traffic movement, a proxy for industrial activity, also inched closer to previous year levels in June, falling by 7.7 per cent compared to 21.3 per cent in May. While coal had remained the main-stay of railway freight traffic during lockdown, the recovery in June was driven by steel, cement, foodgrains, fertilisers and petroleum products (Figure 27). Foodgrains traffic recorded double digit YoY growth for the second straight month, indicative of the significant food procurement and distribution efforts of governments.

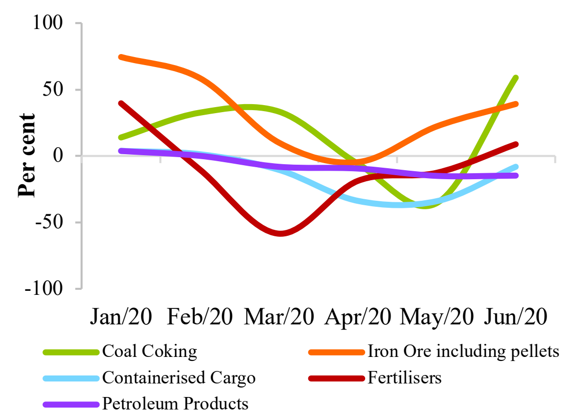
35. International trade activity is recovering, albeit gradually, with traffic at major ports declining by 14.8 per cent YoY in June 2020 as compared to 23.3 per cent in May and 21.1 per cent in April (Figure 28). While traffic of iron ore at major ports, a critical input in steel production, improved by 39 per cent YoY respectively in June, traffic of raw materials of fertilizers also picked up sharply, possibly suggesting increasing rural demand of fertilizers. Decline in traffic of petroleum products, however, continued at 15 per cent in June.

Figure 27: Growth in Railways freight traffic of major commodities (YoY)



Data Source: Ministry of Railways.

Figure 28: Growth in Port Traffic of Major Commodities (YoY)



Data Source: IPA and Ministry of Shipping

36. After a complete shutdown of airline activity in April and most of May, domestic airlines were allowed to resume operations in a staggered manner from May 25, 2020. As per data released by Airports Authority of India (AAI), air contraction in freight traffic moderated from 82.9 per cent in April to 67.7 per cent respectively in May 2020. Domestic passengers carried, as by DGCA data, were 83.5 per cent lower in June compared to previous year levels, an improvement compared to May's YoY decline of 97.7 per cent.

Inter State movement of goods

37. E-way bill generation improved significantly in June 2020, rising by 17.7 per cent (YoY), after sharp contraction of 83.6 per cent in April and 53 per cent in May.

Consumption of Petroleum products

38. Consumption of petroleum products crossed 16 million tonnes in June 2020, higher than the levels seen in previous three months. On a YoY basis, contraction in consumption declined to 7.8 per cent in June 2020 compared to 46 and 23 per cent fall seen in April and May respectively. Demand for petroleum products used as cooking fuel picked up more than demand for auto fuels in June. LPG consumption recorded double digit YoY growth throughout the April - June 2020 period. Distribution of free cylinders under Pradhan Mantri Ujjwala Yojana (PMUY) may have boosted LPG consumption. While yearly growth of motor spirit and aviation turbine fuel remained subdued in June, high speed diesel consumption inched closer to pre-COVID February levels.

Vehicle registrations

39. Vehicle registrations rose sharply by more than 350 per cent in June 2020 (9.9 lakh) over May (2.1 lakh), though still lower than previous year levels. YoY contraction also eased from 88.6 per cent in May to 41.6 per cent in June.

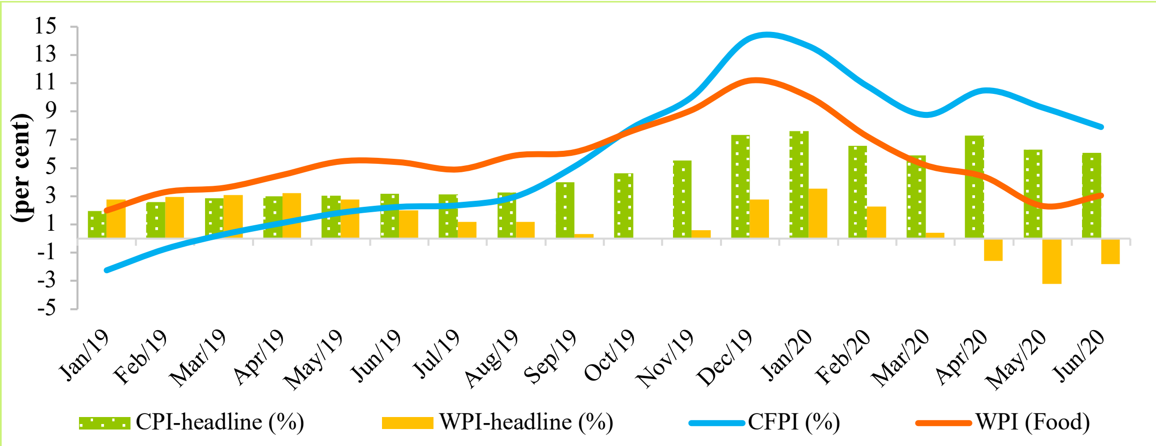
Inflation eased in June 2020 relative to previous two months reflecting weak demand and food supply chain recoveries, volatility in majority of essential commodity prices stabilised.

40. CPI-Inflation eased from 7.22 per cent in April 2020 to 6.27 per cent in May and 6.09 in June. The fall in inflation in June vis-a-vis April was steeper in urban India, from 7.33 per cent to 5.91 per cent, as compared to a 100 basis points fall reported by rural India, from 7.20 per cent to 6.20 per cent. WPI inflation in June, while still in negative territory picked up to reach (-)1.81 per cent as compared to (-) 3.21 per cent in May 2020.

41. The sharp rise in CPI inflation in April and fall in the subsequent months was largely a reflection of food price changes amid supply chain recoveries. Food & beverages inflation eased to 7.29 per cent in June as compared to 8.37 per cent in May and 10.47 per cent in

April. Food & beverages, however, continued to remain the single largest contributor to headline inflation in June. On the other hand, wholesale prices of food (WPI food inflation i.e. primary food + manufactured food) for June 2020 increased to 3.05 per cent as compared to 2.31 per cent in the previous month.

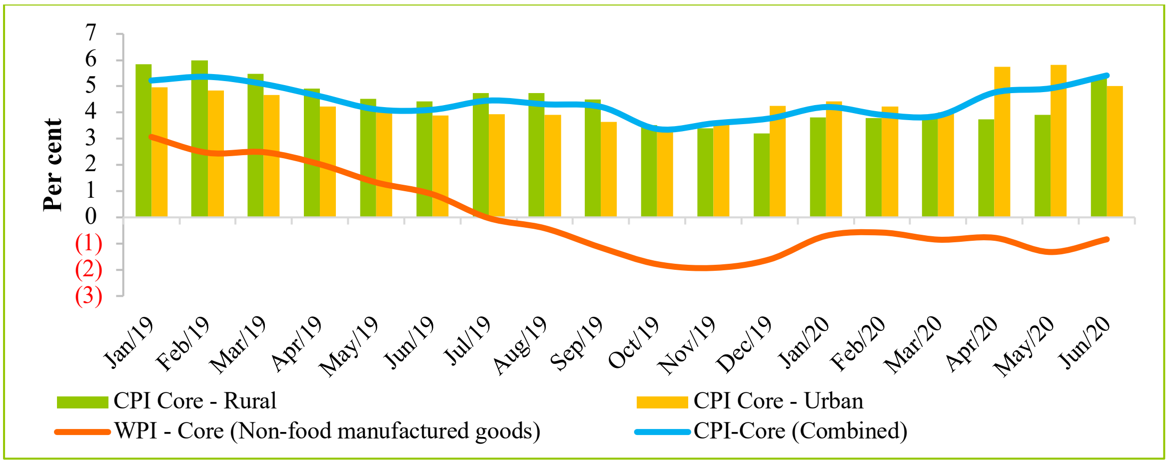
Figure 29: Rates of Inflation



Data Source: MoSPI and DPIIT.

42. Fuel and light inflation for June, 2020 increased to 2.69 per cent as compared to 1.57 per cent in May, 2020, possibly suggesting energy demand recovery and rise in retail selling prices of petrol and diesel. WPI inflation for Fuel & Power also increased to (-)13.60 per cent in June 2020 as compared to (-)19.83 per cent in May 2020. CPI Core inflation, which excludes volatile price items like food and fuel, reported a continuous rise from April to June 2020. While urban CPI Core inflation moderated from 5.8 per cent in May to 5.0 per cent in June, rural CPI Core picked up significantly from 3.9 per cent in May to 5.3 per cent in June, possibly suggesting relatively stronger rural demand recovery as compared to urban areas. WPI Core (Non-food manufactured products) also showed similar trends as CPI Core in June relative to May (Figure 30).

Figure 30: CPI Core- rural and urban and WPI Core



Data Source: MoSPI and DPIIT.

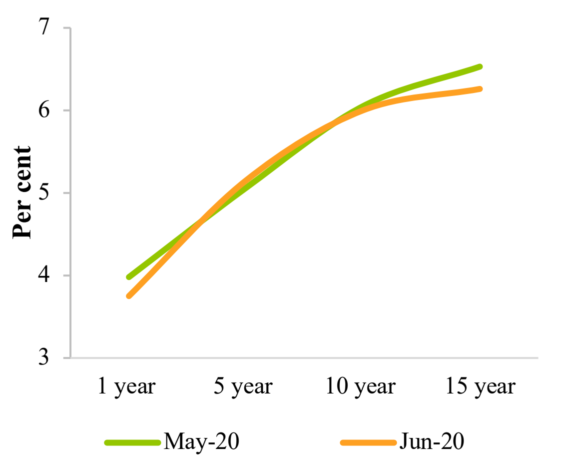
43. Daily data on 22 essential food items covered by the Department of Consumer Affairs (DCA) suggested that at the all-India level, the average prices of these commodities were higher in July-end (31st July) compared to the corresponding date of the previous year by more than 14 percent. Compared to June-end, the average prices of commodities were relatively stable for most commodities. However, potato and tomato prices were concerning, indicating 10.8 percent and 32.8 percent higher prices respectively compared to the corresponding date of the previous month.

Interest rates and benchmark bond yields softened in June with RBI's continuous efforts to ensure conducive financial conditions and help quicken the turnaround of the economy.

44. Interest rates in India softened in June 2020, primarily on account of RBI's sustained interventions to maintain surplus liquidity in the future. In June, the average daily systemic liquidity surplus stood at Rs.3.8 lakh crore. RBI also extended the relaxation in daily CRR balance maintenance from 90 per cent to 80 per cent up to September 25, 2020. It also extended the enhanced borrowing limit under marginal standing facility (MSF) for banks to September 30, 2020. In response to RBI's policy rate cuts, the base lending rate as on 3rd July, 2020, stood reduced to 7.40/9.0 per cent compared to 8.15/9.4 per cent a month ago and 8.95/9.4 per cent a year ago. Banks also reduced Marginal Cost of Lending Rate (MCLR) to 6.70/7.30 per cent compared to 6.95/7.5 a month ago and 8.00/8.40 per cent a year ago. Term deposit rate for above one year also stood reduced to 5.10/5.50 per cent from 5.14/5.9 per cent a month ago and 6.25/7.30 per cent a year ago.

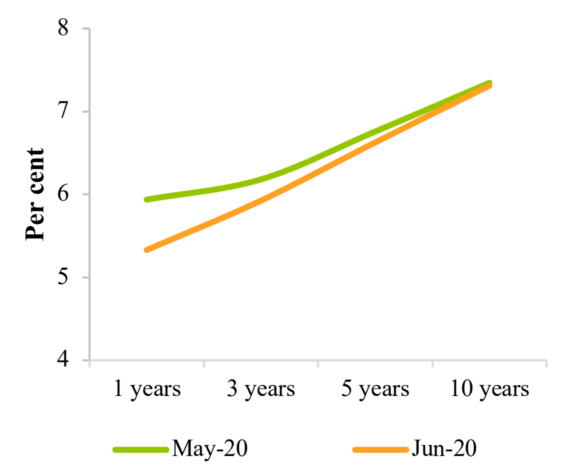
45. G-sec yields also softened in June 2020 over May with the fall mainly observed at the lower-end. While yield on G-Secs with 1 year residual maturity fell by 23 basis points, yield on G-Secs with 5 year residual maturity increased by 9 basis points, and 10 year residual maturity softened marginally by 5 basis points from May to June 2020 (Figure 31). Yields on AAA rated corporate bonds also showed similar trend in June 2020. While the yield declined by 60 basis points to 5.33 per cent at lower end i.e. 1-year residual maturity, the fall at the higher end was lower, i.e. 13 basis points in 5-year residual maturity and 3 basis points in 10-year residual maturity (Figure 32).

Figure 31: G-Sec Yields for different maturity period



Data Source: RBI, FBIL

Figure 32: AAA rated corporate bonds yields for different maturity period



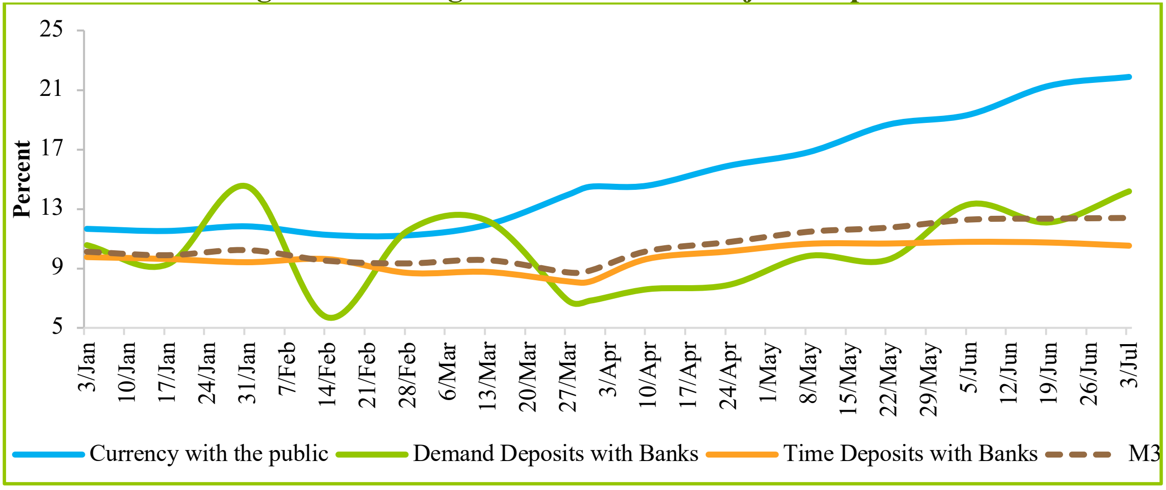
Data Source: Extracted from CMIE

Rapid increase in money supply growth commensurate with the potential demand for credit in the commercial sector

46. Money supply growth has been on the rise since the imposition of nation-wide lockdown in March 2020. As on 3rd July 2020, growth of M3 (Broad Money) increased to 12.4 per cent (YoY), as compared to 10.4 per cent a year ago. In absolute terms, expansion in M3 between March 27 and July 3, 2020 was almost thrice the average quarterly growth of Rs. 2.5 billion in M3 witnessed in the last five years. The rapid increase in money supply during this period was primarily on account of a surge in net foreign exchange assets of the banking sector. The RBI has also ensured that growth in money supply is commensurate with the potential demand for credit in the commercial sector.

47. Within M3, highest YoY growth was seen in cash with the public (21.9 per cent) followed by demand deposits (14.2 per cent) and time deposits (10.5 per cent), suggestive of increase in precautionary savings by households (Figure 33). The rapid increase in money supply growth will spur economic growth if velocity of money remains high. However, COVID-19 induced supply constraints, restrictions on movement, extreme uncertainty and continued weakness in consumer sentiments are risk factors that may dampen the velocity of money.

Figure 33: YoY growth of M3 and major components

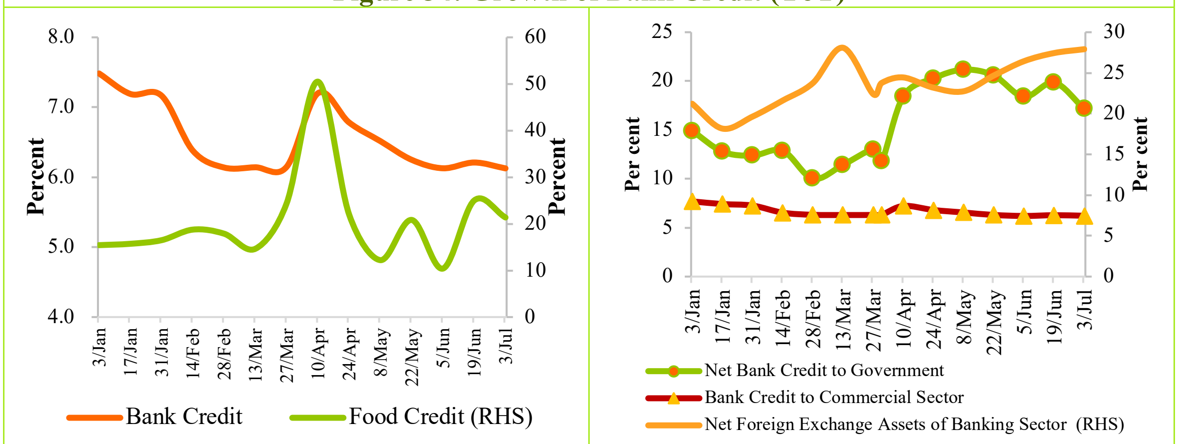


Data Source: RBI

Bank credit growth continued to remained tepid at 6.1 percent YoY.

48. Bank credit growth recorded a 0.4 per cent increase in the fortnight ending 3rd July, 2020 compared to the previous fortnight. However, on a YoY basis, the growth rate remained at 6.1 per cent, half of last year levels (Figure 34). Bank credit to the commercial sector increased by 0.4 per cent in the fortnight ending 3rd July compared to the previous fortnight. However, growth rate remained tepid at 6.2 per cent compared to 11.5 per cent a year ago despite efforts of government and RBI to boost credit and liquidity (Figure 35).

Figure 34: Growth of Bank Credit (YoY)

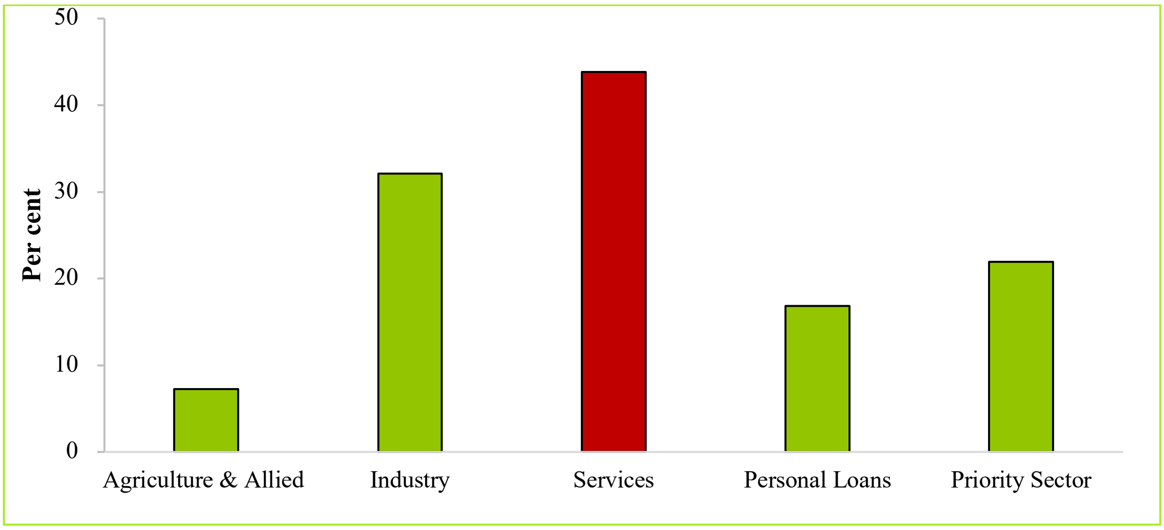


Data Source: RBI | Data Source: Extracted from CMIE

49. Amongst the four broad sectors to which non-food bank credit is disbursed, the greatest fall in outstanding credit during May 2020 was recorded in services followed by industry, followed by personal loans and agriculture & allied activities (Figure 35). The fall in credit to services sector in May 2020 accounted for 44 per cent of the decline in total outstanding credit in the month. Other services, retail trade and NBFCs were the main sources of decline

in non-food credit to services sectors during May 2020. However, credit to transport operators and wholesale trade expanded in May 2020 in contrast to other services sector industries.

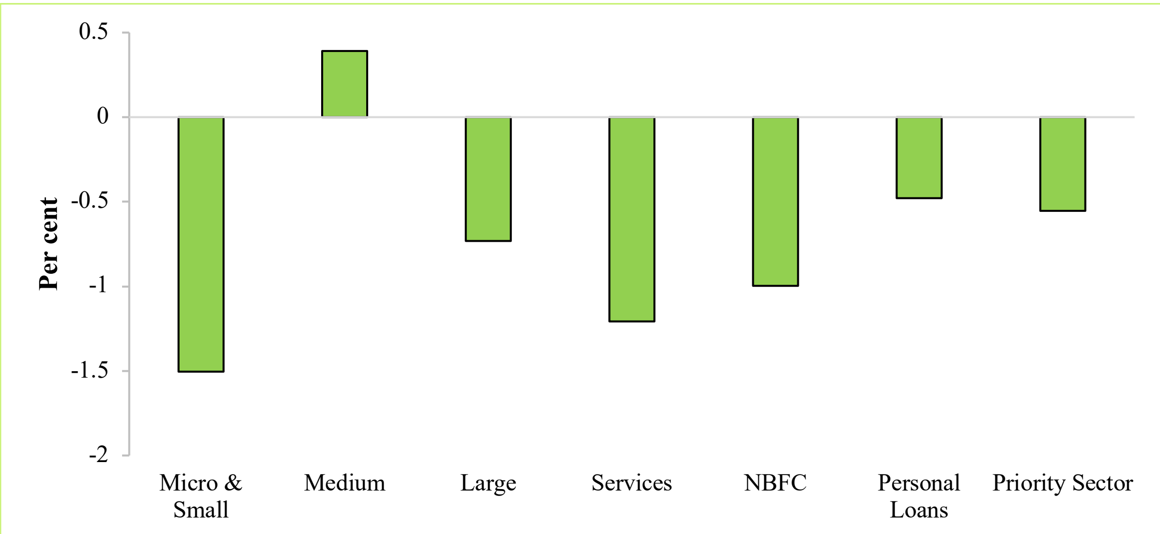
Figure 35: Decline in Outstanding Non-food credit by sectors (May over April)



Data Source: RBI

50. Credit to industry declined by Rs.227.7 billion in May, a steeper decline than in April (Rs.207.8 billion). Its sub-groups comprising micro & small, medium and large industries witnessed divergent trends (Figure 36). Improvement in credit flow to the micro & small and medium (MSME) industries in May can be attributed to the credit enhancement measures provided by the government.

Figure 36: Change in outstanding credit to sectors (May over April)



Data Source: RBI

Fiscal deficit reaches 83.2 per cent of Budget Estimates for FY 2020-21.

51. Gross market borrowings by the Centre rose to Rs. 3.46 lakh crore upto July 3, 2020, i.e. 1.6 times the amount raised in the last year. State governments borrowed Rs. 1.67 lakh crore which is 1.8 times of last year levels. Net bank credit to the government increased by Rs.7.28 lakh crore during March 31-July 3, 2020.

52. At the end of June 2020, fiscal deficit stood at Rs 6.6 lakh crore which is 83.2 per cent of BE compared to 61.4 per cent during the first three months of fiscal year 2019. The interruption in economic activity due to COVID-19 has led to shortfall in revenue collections during the first three months of the fiscal year. Revenue Receipts stood at 1.5 lakh crore which is 7.4 per cent of BE as compared to 14.5 per cent in the corresponding period of previous year. Tax revenue collections stood at 3.9 per cent of BE compared to 10.7 per cent in the corresponding period of previous year. Personal Income Tax collections upto June-end amounted to Rs. 62123 crore, 9.9 per cent of BE compared to 17.4 per cent in the corresponding period of previous year. Non-debt capital receipts declined and stood at Rs. 3573 crore which is 1.6 per cent of BE compared to 4 per cent last year. On the expenditure side, capital expenditure stood at Rs. 88273 crore, 21.4 per cent of BE as compared to 18.6 per cent last year. Revenue expenditure was Rs. 7.28 crore, 27.7 per cent of BE compared to 26.9 per cent in corresponding period of 2019-20.

53. GST collections have provided some respite with YoY contraction falling from 38.2 per cent in May 2020 to 9 per cent in June and 14 per cent in July 2020. GST collections stood at Rs 87,422 cr during July 2020, 86% of the figure of the same month last year. The revenues for June were higher than in July. However, it is important to note that during the June, a large number of taxpayers also paid taxes pertaining to February, March and April 2020 on account of the relief provided due to COVID-19. It may also be noted that the taxpayers with turnover less than ₹ 5 core continue to enjoy relaxation in filing of returns till September 2020.

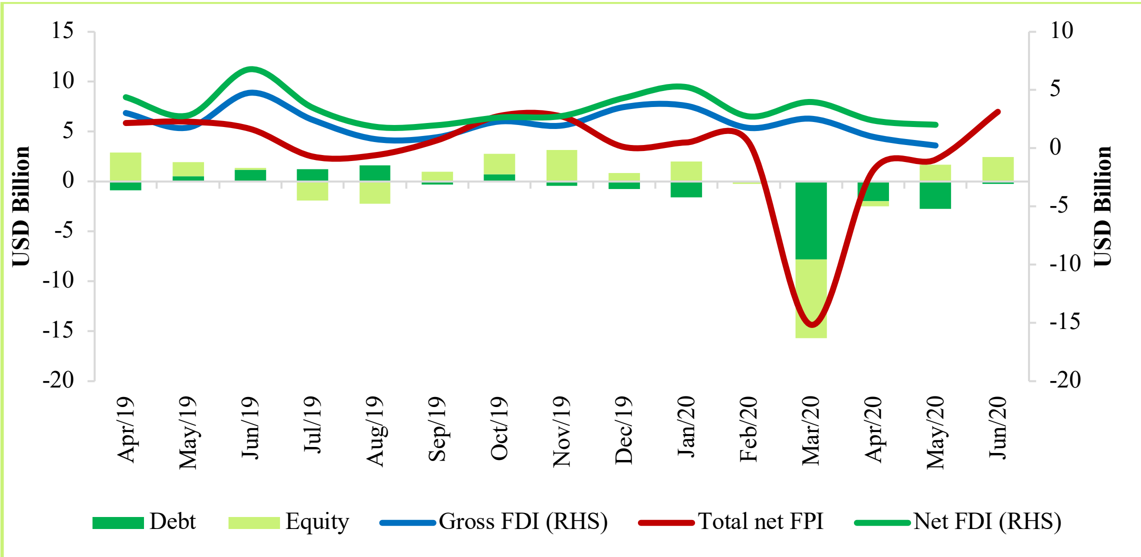
India continues to attract robust Foreign Direct Investment (FDI) during COVID times, Foreign Portfolio Investments (FPI) rebounded to record 15 month high inflows in June 2020 as India stepped out of the nationwide lockdown.

Foreign investment inflows

54. With central banks across the globe pumping in massive liquidity and Governments providing substantial fiscal stimulus in response to fight COVID-19 disruptions, the massive surge in liquidity found its way in the Indian equity market as India started to unlock. India attracted net FDI of USD 2.0 billion during April 2020 and USD 2.4 billion and May (Figure 37). Net FPI inflows in June 2020 stood at 3.1 USD billion, recording the highest inflow since March 2019. This also reflects the unshaken belief of foreign investors in India’s macroeconomic fundamentals, government policies and growth prospects despite credit rating agencies downgrading India’s sovereign rating. Mutual funds’ investment in the

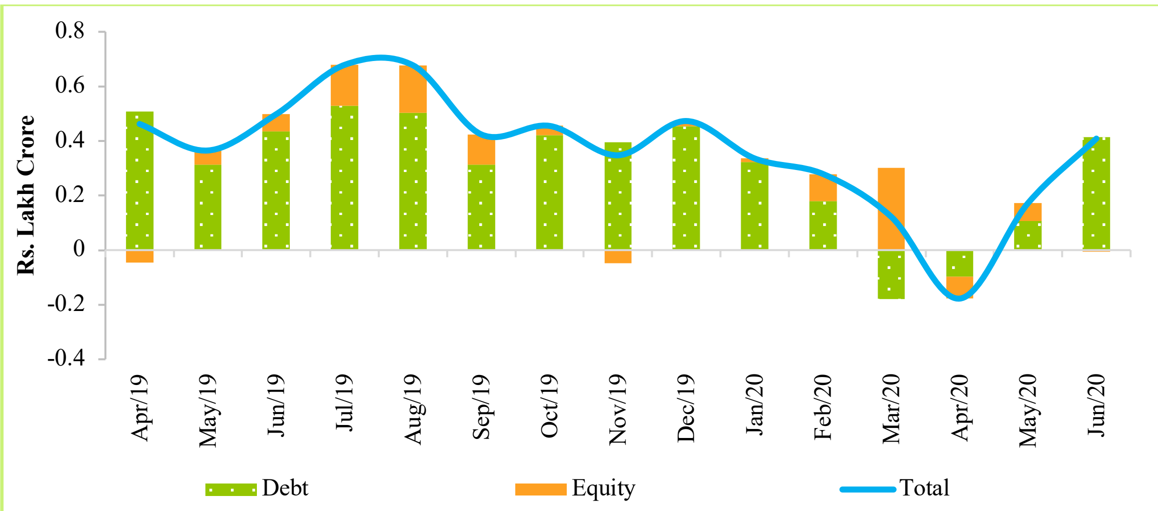
Indian capital market also rebounded in June 2020 to 0.4 lakh crore, recording the highest investment since January 2020 (Figure 38). The overall inflow was primarily driven by large equity inflows on the back of block deals in June. FPIs continued their selling spree debt market in June too, albeit lower than the sales seen in the preceding three months.

Figure 37: Foreign Investment Inflows



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

Figure 38: Investment by Mutual Funds

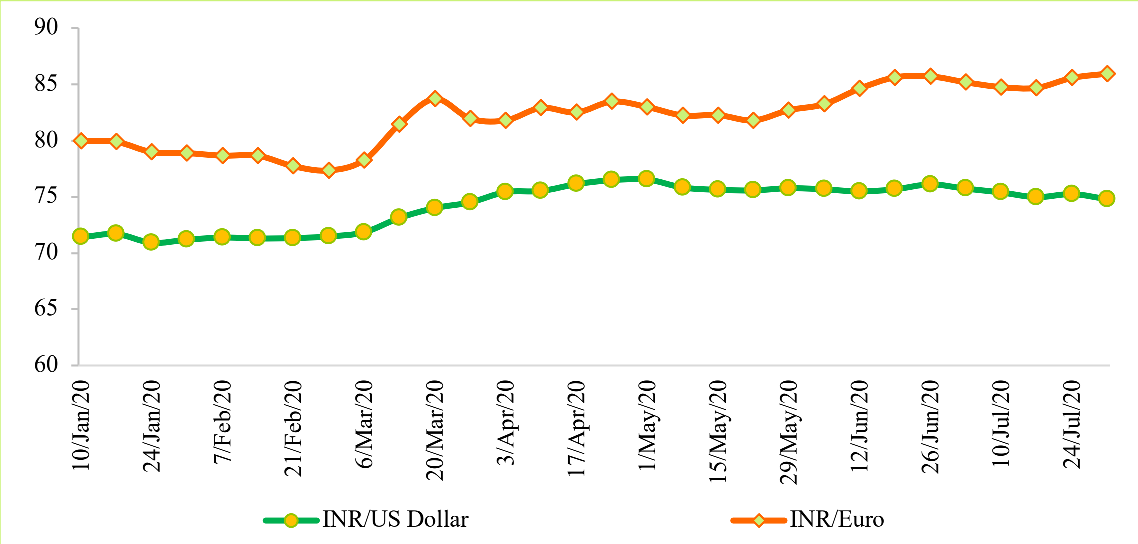


Data Source: Association of Mutual Funds in India.

Foreign Exchange market

56. Resurgence of FPI flows, large FDI, current account surplus and weakening US dollar strengthened the rupee from 75.53 INR/USD by June end as compared to 75.64 at May end. However, rupee depreciated against the Euro sharply to 85.25 INR/EUR in June 2020 from 82.48 INR/EUR in May 2020. This may be attributed to upbeat sentiments in favour of Euro on the back of European Commission's proposed 750 billion Euros stimulus package (Figure 39).Relative to peer EM currencies, rupee has depreciated less on a year to date basis and witnessed relatively less volatility (Figure 40 and 41).

Figure 39: Exchange rate movement



Data Source: RBI

Figure 40: EM Currencies depreciation against USD (1 Jan 2020 to 30 June 2020)

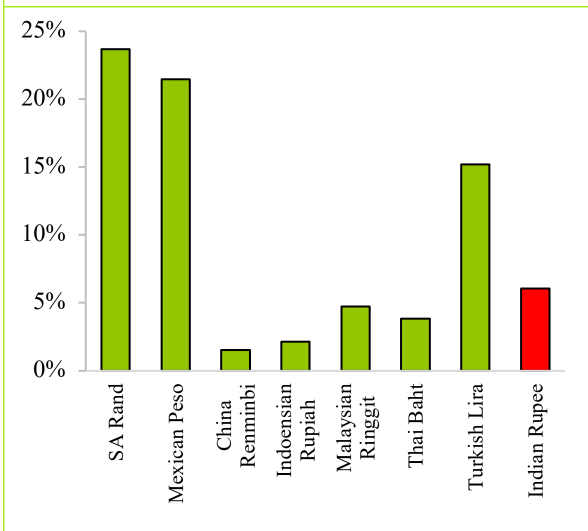
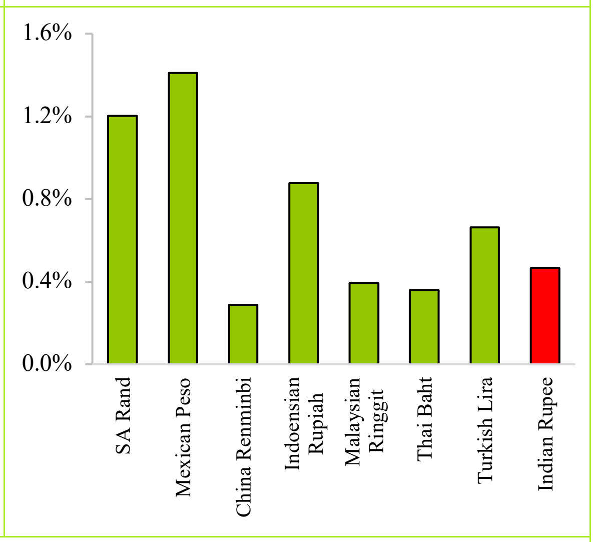


Figure 41: EM Currencies Volatility (1 Jan 2020 to 30 June 2020)



Data Source: Calculations based on data from Thomson Reuters, FBIL.
Note: Volatility derived by taking Std Deviation of daily percentage change in exchange rate for defined period.

Commodity markets

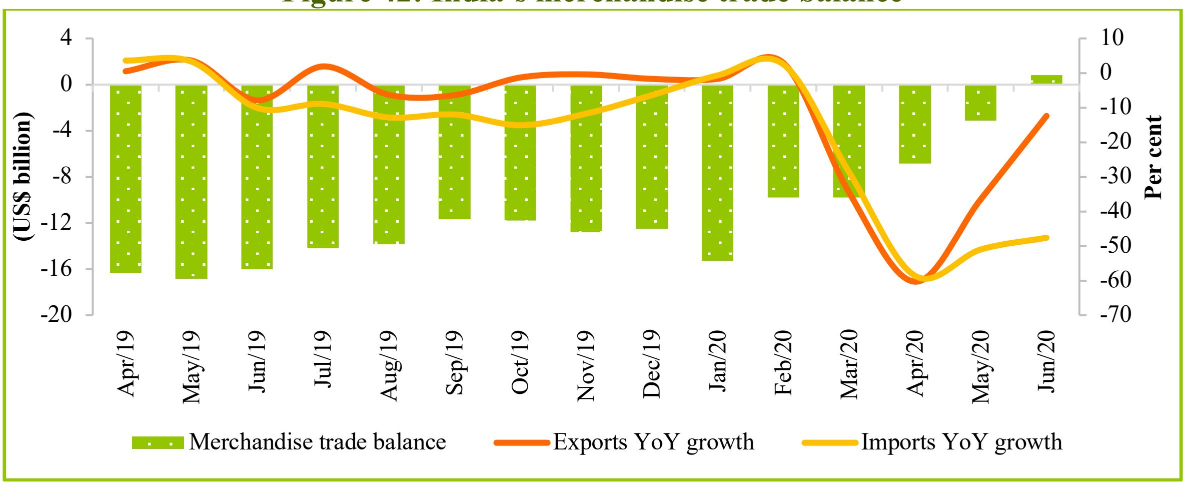
57. In line with global oil market re-balancing, the spot price of Indian basket of crude oil increased from USD 34.9 per barrel at the end of May 2020 to USD 42 per barrel by end June 2020. Gold spot prices continued to remain elevated in June 2020, recording a high of USD 1,732.2 per troy ounce, despite steep fall in consumption demand. This points to COVID-19 induced uncertainty leading to increased investment demand for gold.

Merchandize trade

58. For the first time since January 2002, India became a net exporter, registering a trade surplus of USD 0.8 billion in June, 2020. After significant contraction in growth of exports and imports post lockdown in April and May, exports recovered at a much faster pace than imports as India started unlocking in June. The YoY contraction in exports in June was 12.4 per cent compared to 47.6 per cent contraction in imports. Out of 30 major commodities, exports of 12 commodities witnessed improvement in YoY growth during June, 2020, primarily driven by agricultural commodities, iron ore and drugs & pharmaceuticals. Labour intensive sectors also witnessed lower contraction in exports in June with exports of leather products and readymade garments declining by 40.5 per cent and 34.8 per cent respectively. Contraction in POL exports declined from 66.9 per cent in May to 29.2 per cent in June.

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

Figure 42: India's merchandise trade balance



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

India had a current account surplus, albeit small, for the first time in more than a decade in Q4 of FY 2019-20

60. Current account surplus during the quarter amounted to USD 584.4 million or 0.1 per cent of GDP as against a deficit of USD 4.6 billion or 0.7 per cent of GDP a year ago. Rapid shrinkage in merchandise trade deficit and gradual increase in net services exports earnings contributed to the surplus. Merchandise trade deficit declined from USD 46.8 billion in Q1 of FY 2019-20 to USD 35 billion in Q4 of FY 2019-20, driven by soft global oil prices and weakening demand for gold in India. Net earnings from services trade increased from USD 20.1 billion to USD 22 billion during the same period. However, primary account balance, which mainly comprises of repatriation of earnings from India by multinational companies to their parent companies recorded an eight year low of (-) USD 4.8 billion in Q4 of FY 2019-20. Secondary account balance, majorly comprising of remittances by Indians staying abroad recorded USD 18.4 billion in Q4 of FY 2019-20, the lowest in the last three quarters.

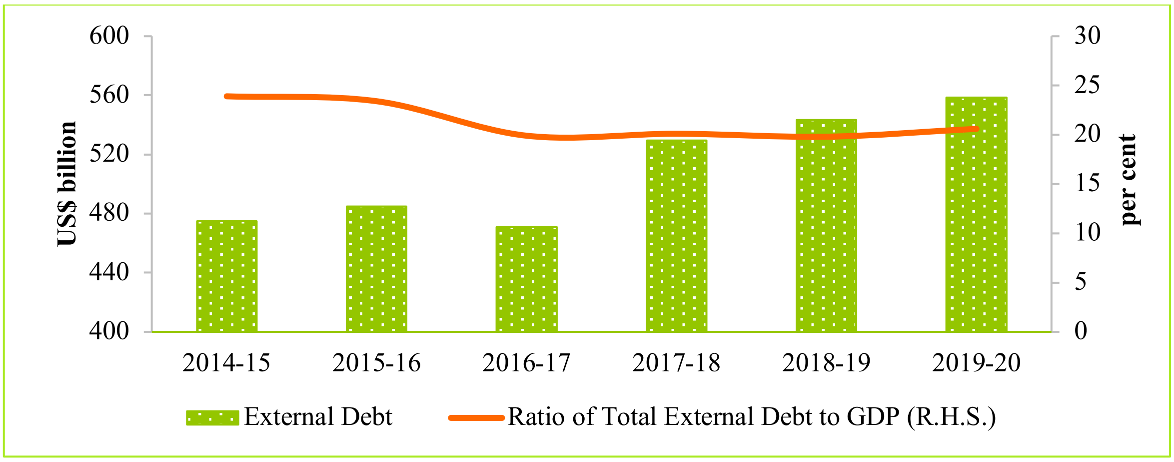
Foreign exchange reserves crossed half a trillion mark in June 2020 on the back of buoyant FDI, resurgence of FPI flows and a current account surplus.

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

India's persistent low external debt continues to add resilience to the external sector, a necessary safeguard in COVID-19 times.

62. During COVID-19 times, external debt and its repayment burden is often a major challenge in some emerging market economies. However, India is not vulnerable on this count as its external debt to GDP ratio has remained low at about 20 percent during the last three years. India's external debt outstanding as on 31st March, 2020 stood at USD 558.5 billion (20.6 percent of GDP), compared to USD 543.1 billion (19.8 percent of GDP) as on 31st March, 2019 (Figure 43). India's key external debt vulnerability indicators as at end March, 2020 remained low and range-bound compared to March, 2019, with debt service ratio at 6.5 per cent, ratio of forex reserves to total external debt at 85.5 per cent and ratio of short-term debt to forex reserves at a manageable 22.4 per cent.

Figure 43: India's External debt



Data Source: DEA, M/o Finance, RBI

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

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For any queries, you may contact the team:

1. Shri Rajiv Mishra, Economic Adviser (E-mail: r.mishra67@gov.in)
2. Ms. Surbhi Jain, Director (E-mail: surbhi.jain@nic.in)
3. Ms. Tulsipriya Rajkumari, Deputy Director (E-mail: tulsipriya.rk@nic.in)
4. Ms. Sanjana Kadyan, Assistant Director (E-mail: sanjana.kadyan@gov.in)
5. Shri Narendra Jena, Economic Officer (E-mail: jena.narendra@nic.in)
6. Shri Rajesh Sharma, Economic Officer (E-mail: rajesh.sharma69@nic.in)
7. Ms. Sonali Chowdhry, Consultant (E-mail: sonali.chowdhry@nic.in)