MACROECONOMIC REPORT

JUNE 2020

ECONOMIC DIVISION

आर्थिक कार्य विभाग

DEPARTMENT OF ECONOMIC AFFAIRS

सत्यमेव जयते

Abstract

As on 30th June, 2020, COVID-19 has spread into more than 200 countries including India with total number of confirmed cases exceeding one crore and the virus claiming more than five lakh lives. Globally, lock-downs were most stringent from mid-March through mid-May with economies gradually reopening since then. India currently ranks fourth in terms of confirmed as well as active COVID-19 cases after US, Brazil and Russia. As on 30th June, COVID-19 in India has infected 5,82,147 people and claimed 17,322 lives. However, the graded, pre-emptive and pro-active steps taken by Government of India along with States/UTs for prevention, containment and management of COVID-19, have taken the recovery rate up to 59 per cent.

India imposed a strict lock-down from 25th March, 2020. April, 2020 was the month of economic standstill with restrictions on various activities eased in May, 2020 as Government of India made a courageous choice of supporting livelihoods that in turn made the containment of the pandemic more challenging. As restrictions were further eased, the country entered the unlock phase in June, 2020. The loss of economic output from more than two months of lock-down was first triggered from the supply side as labour stayed away from work. The demand side caused further loss of output as consumption of goods and services dependent on customer mobility fell. This twin supply-demand shock on output subsequently led to loss of income, which caused further decline in consumption resulting in further loss of output. Owing to these unprecedented COVID-19 induced supply-demand shocks, IMF's June, 2020 WEO update projects growth of India's output at (-)4.5 per cent in 2020-21 and that of world's at (-)4.9 per cent.

Readings of high frequency indicators in India, however, indicate emergence of green-shoots. Total digital retail financial transactions via NPCI platforms increased sharply from Rs. 6.71 lakh crore in April, 2020 to Rs. 9.65 lakh crore in May, 2020. Consumption of petroleum products increased by 47 per cent from 99.37 lakh metric tonnes in April to 146.46 lakh metric tonnes in May moderating its year-on-year (y-o-y) contraction from (-) 45.8 per cent to (-) 23.2 per cent across the two months. Latest data indicates Kharif sowing at a 104.3 per cent higher than previous year's acreage with Rabi procurement in full flow in respect of oilseeds, pulses and wheat, benefiting from the bumper harvest. Within a period of 2 months, India, starting from scratch, has become the world's second largest manufacturer of Personal Protective Equipment (PPE). Electricity consumption saw lower y-o-y contraction in growth rates from (-) 24 per cent in April to (-)15.2 per cent in May to (-)11.3 per cent in June (till 28th June). Total assessable value of

E-Way bills picked up by a massive 130 per cent in May compared to April 2020, tracking surge in inter and intra-state road-based movement of tradable goods. In June, it has further increased by 34 per cent over May 2020. Sustaining the momentum in economic activity, railway freight traffic improved by 26 per cent in May (8.26 crore tonnes) over April 2020 (6.54 crore tonnes). Average daily electronic toll collections, yet another indicator of freight movement by road, increased from Rs. 8.25 crore in April to Rs. 36.84 crore in May and further to Rs. 50.9 crore in June (till 28th June). Purchasing Managers Index (Manufacturing) has also consistently improved from 27.4 in April to 30.8 in May and further to 47.2 in June. In support, India's forex reserves at USD 505.6 billion as on 19th June, continue to provide a crucial cushion to external shocks on the back of higher FDI, portfolio flows and low oil prices. This recovery is also evident in the Goods & Services Tax (GST) collections for June 2020 that clocked Rs. 90,917 crore at gross levels, 46 per cent higher than May and 181 per cent over April.

These green shoots have a conducive policy environment to grow further and nudge the economy early on the path of economic recovery and growth. Policy environment was made conducive beginning March, 2020 when RBI and Government were able to correctly anticipate the economic downturn following the outbreak of the pandemic. RBI significantly reduced the repo rate by 75 basis points (bps) to 4.4 per cent and further to 4 per cent in May and injected huge amount of liquidity of approximately 3.9 per cent of GDP. With 100 bps cut in cash reserve ratio (CRR), 155 bps cut in reverse repo and increase in marginal standing facility to 3 per cent of net demand and time liabilities, attempts were afloat to enhance credit flow in the economy. The RBI also provided relief to borrowers allowing companies a three-month moratorium on loan repayments while SEBI protected the lenders by relaxing the norms related to debt default on rated instruments.

Government of India on its part executed a well laid out strategy wherein it imposed lock-down to allow states to ramp-up their health and testing infrastructure while implementing "Pradhan Mantri Garib Kalyan Yojana" to provide immediate cash support to the needy. More than 42 crore poor people have so far received financial assistance of Rs 65,454 crore under the scheme. Procurement of wheat increased touching an all-time record figure of 388.3 Lakh Metric Tonnes (LMT) on 29th June, 2020. Minimum Support Price (MSP) of Rs. 73,500 crore was paid, benefiting 42 Lakh farmers. The next step was to convert the pandemic situation into an opportunity of taking the economy to newer heights. Accordingly, in May, 2020, Government adding to its past measures and that of RBI announced a consolidated stimulus package of Rs. 20 lakh crore. The stimulus package was pivoted on "Atma Nirbhar Bharat", wherein MSMEs received a huge financial package in *terms of collateral free debt, guarantee for subordinate debt through Funds-of-Funds and interest subvention scheme. Besides, the definition of MSME was changed to remove the disincentive against their investment and expansion. Other components of the package included three landmark ordinances related to Essential Commodities Act, Farmers' Empowerment and Protection and Promotion & Facilitation of agricultural produce that will encourage people to invest in creating infrastructure and storage for agricultural produce, enable barrier-free trade in agriculture and also empower farmers to engage with various stakeholders. These reforms will create a more competitive and vibrant agricultural sector, bringing prosperity to majority of the population in rural areas and contributing to the growth of the Indian economy in the long term. Additionally, "Pradhan Mantri Garib Kalyan Rojgar Abhiyaan", a rural infrastructure and employment generation scheme was launched for the benefit of returnee migrants.*

The stimulus package is a set of reforms providing continuity to the initiative that commenced in 2014. It has accelerated the reforms at a time when the pandemic has constrained the fiscal envelope of the government and dampened the inclination of the people to spend, in view of economic uncertainty. Economic growth of pre-COVID times, as and when restored through fuller unlocking of the economy, will heavily lean on the reforms undertaken today to enhance its potential tomorrow.

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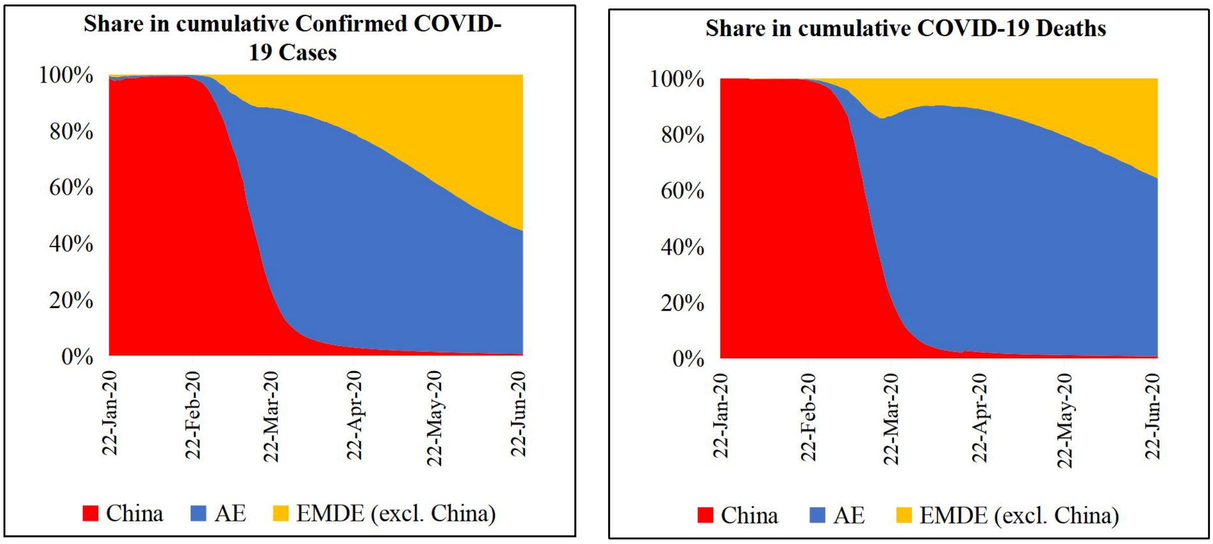
I. THE ONSET OF COVID-19: A GLOBAL HEALTH SHOCK

1. The world is witnessing an unprecedented crisis since January 2020 with the highly contagious COVID-19 hitting major economies of the world in rapid succession. Since its first outbreak in Wuhan, China, it has infected more than 200 countries with total number of confirmed cases exceeding one crore and the virus claiming more than five lakh lives. The health shock, though global, has transmitted through different trajectories across countries in terms of total infections, mortalities and recoveries. The Advanced Economies (AE) of North American and West European region have been disproportionately impacted with more than 70 per cent of the total cases and more than 50 per cent of total deaths due to COVID-19 (Figure 1). The pandemic also quickly intensified in number of Emerging Market and Developing Economies (EMDEs) like Brazil, India, Mexico, Russia and Turkey, necessitating strict lock-downs. Globally, lock-downs were most stringent from about mid-March through mid-May with economies gradually reopening since then.

Figure 1: Trend in world-wide spread of Confirmed Cases and Deaths due to COVID-19



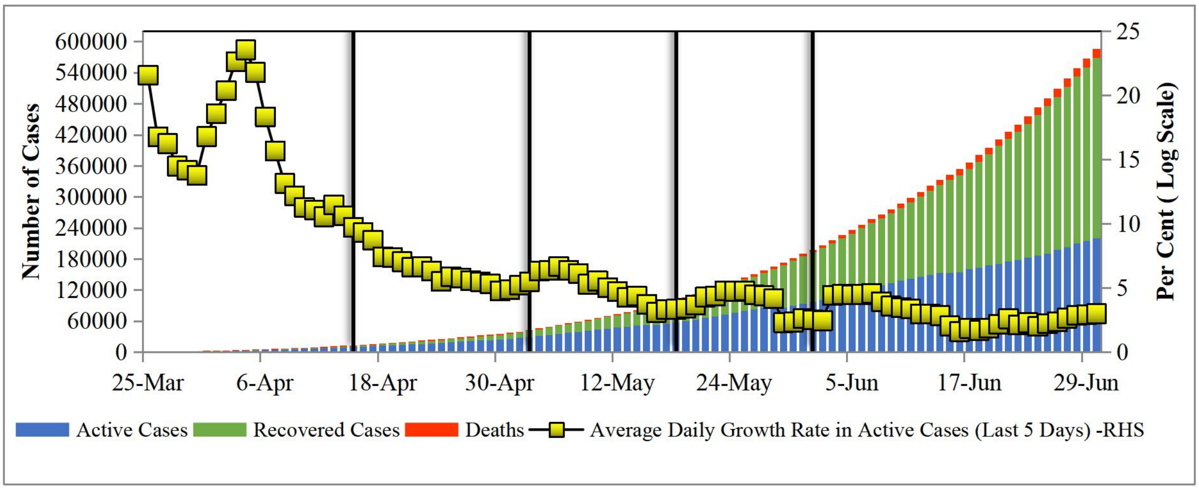
Source: 2019 Novel Coronavirus COVID-19 Data repository by John Hopkins CSSE

2. The detailed disaggregation of active cases, recovered cases and deaths across countries with more than 1.5 lakh cases may be seen at Annexure. Some countries like US, Spain and Italy have shown a high fatality rate while UK is showing a low recovery rate. There is a risk of a 'second wave of infections' as the economies unlock. The uncertainty associated with flattening of the COVID-19 curve, in the absence of a vaccine, poses a serious challenge.

II. COVID-19 IN INDIA

3. In India, the first case of COVID-19 was reported on 30th January 2020. As on 30th June, COVID-19 in India has infected 5,82,147 people and claimed 17,322 lives. India currently ranks fourth in terms of confirmed as well as active COVID-19 cases after US, Brazil and Russia. While the total number of cases has been rising since mid-May, the active cases, as on date, are only 38 per cent of the total cases in the country and the death rate has been contained at a low of 3 per cent as compared with countries across the world (Figure 3).

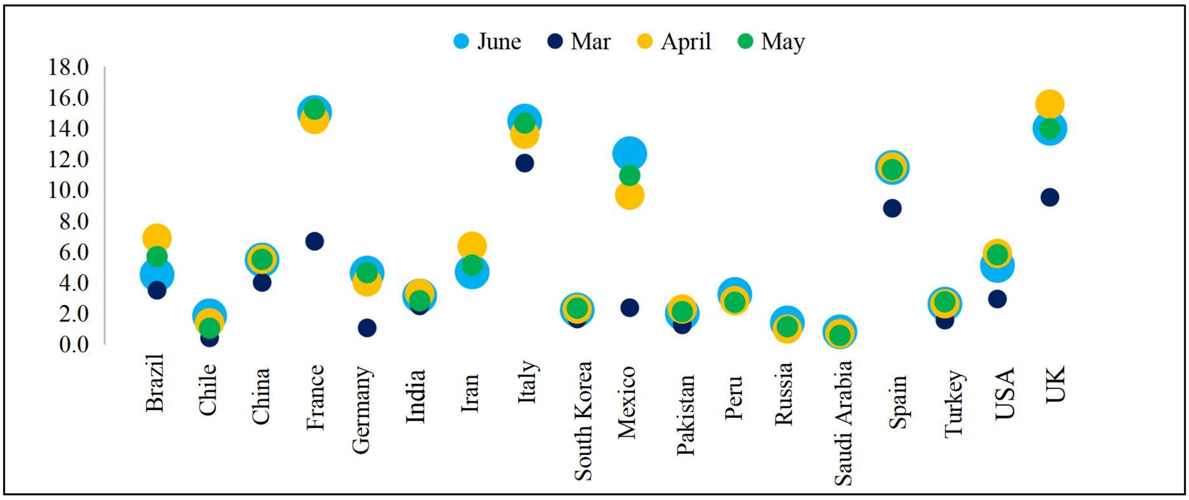
Figure 2: Trajectory of COVID-19 spread in India



Source: Based on data aggregated from MoHFW & State government health bulletins (India COVID-19 Tracker)

Note: Active Cases= Confirmed Cases - (Recovered Cases + Deaths), Average Daily Growth Rate in Active Cases (Last 5 Days) = Simple average of DoD growth rates of active cases in last 5 days

Figure 3: Death Rates due to COVID-19 in major countries

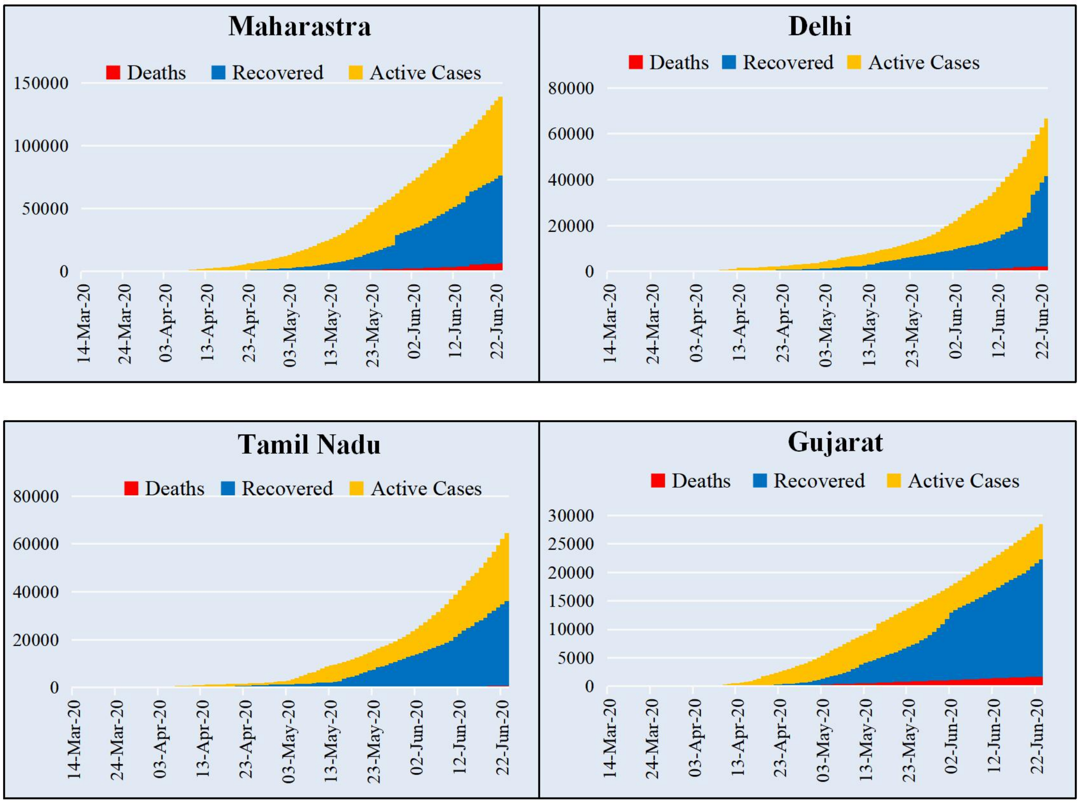


Source: 2019 Novel Coronavirus COVID-19 Data repository by John Hopkins CSSE

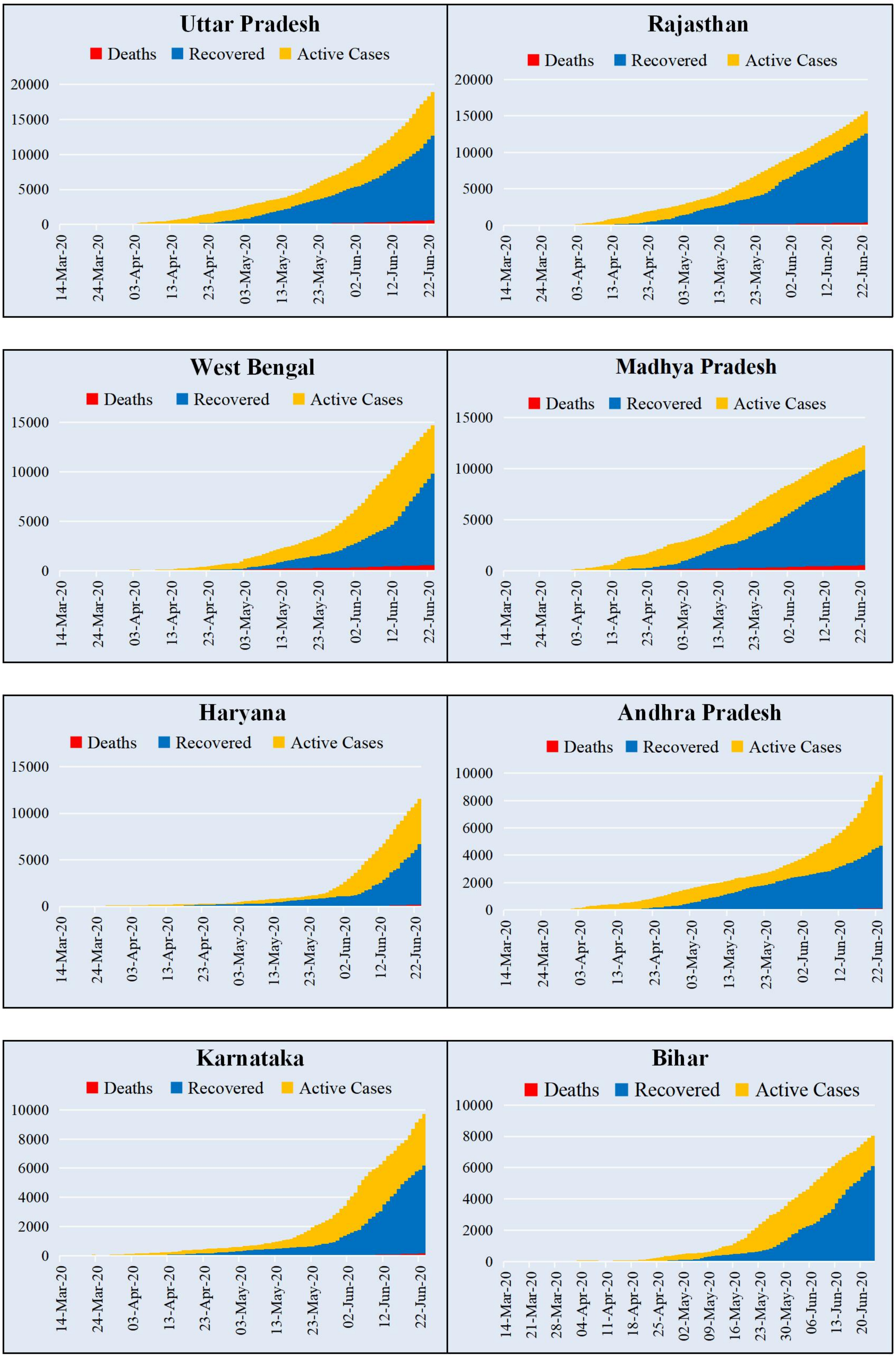
Note: Death rate = COVID-19 deaths/Confirmed cases

4. A state-wise perspective to COVID-19 is crucial for understanding the epidemiology of the pandemic and the necessary macroeconomic policy response (Figure 4). As on 30th June, eight states-Maharashtra, Delhi, Tamil Nadu, Gujarat, Telangana, Uttar Pradesh, Andhra Pradesh and West Bengal contributed to 85.5 per cent of active caseload and 87 per cent of all COVID-19 related deaths in India. With India relaxing lock-down restrictions through May and unlocking in June, growth in active cases in Maharashtra, Delhi and Tamil Nadu has sharply risen in June, albeit slowly in Gujarat. On the other hand, infection curves of Madhya Pradesh, Rajasthan and Bihar appear to have relatively plateaued since end of May. Since mid-June, Telangana, Andhra Pradesh and Karnataka are witnessing resurgence of cases. In terms of testing progress in hotspot states as on 29th June, Delhi reported the highest testing rate at 25,860 per million, followed by Andhra Pradesh (15,618), Tamil Nadu (14,265), Maharashtra (7527), Gujarat (5688), West Bengal (4707), Uttar Pradesh (2877), Telangana (2095). Bihar reported the lowest testing rate at 1649 per million.[1]

Figure 4: COVID-19 infection curve in States (8000+ confirmed cases)



[1] Population data is based on mid-year population projection for 2020 from UIDAI's State wise Aadhaar Saturation report.



Source: Based on data aggregated from MoHFW and state government health bulletins (India COVID-19 Tracker)

5. The Government of India, in participation with States and UTs, took graded, pre-emptive and pro-active steps for prevention, containment and management of

COVID-19 which are showing encouraging results in terms of consistently increasing recoveries. Guided by the urgent need to save lives -'Jaan hai toh Jahan hai', India resorted to a strict 21 days nationwide lock-down on 25th March, 2020 to contain the spread of COVID-19 in its early stages of infection in the country. With a gradual shift in strategy towards saving lives as well as livelihoods -'Jaan bhi Jahan bhi', India has entered the 'Unlock India' phase from June 1 with phased resumption of services and businesses.

CONTAINMENT MEASURES

Policy Tool

Nation-wide lock-down	Travel bans/restrictions	School closure	Closure of public places/cancellation of public events	Obligatory shut down of economic activities

Policy impact/progress (As on 27th June, 2020)

- **Flattening the curve**
  India has reduced its doubling rate of infections from the initial 4 days at the time of lock-down to 7 days in early April to 26 days as on June 27, flattening the curve to a great extent. Had there been no lock-down (assuming doubling every 7 days) the number of confirmed cases would have been 3000 per cent higher than the actual number as on 27th June.

- **Reducing growth rate of new cases and containing spread**
  Recoveries have outpaced active cases with difference nearing 1 lakh. The number of active cases stands at 1,97,387 while the number of cured cases is 2,95,880. Recovery rate now stands at 58.13 per cent. Growth rate of active cases also stands lower at 2.6 per cent (in last 5 days) as compared to previous months.

- **Improving COVID related health care capacity**
  1039 Hospitals (Beds-1,76,275 isolation, 22,940 ICU, 77,268 oxygen supported)
  2,398 Health Centres (Beds-1,39,483 isolation, 11,539 ICU, 51,321 oxygen supported)
  8,958 Care Centres (Beds-8,10,621)
  With the utilisation rate of hospital beds at less than 20 per cent (active cases/isolation beds), India has kept the number of cases below the capacity of the healthcare infrastructure in almost all districts.

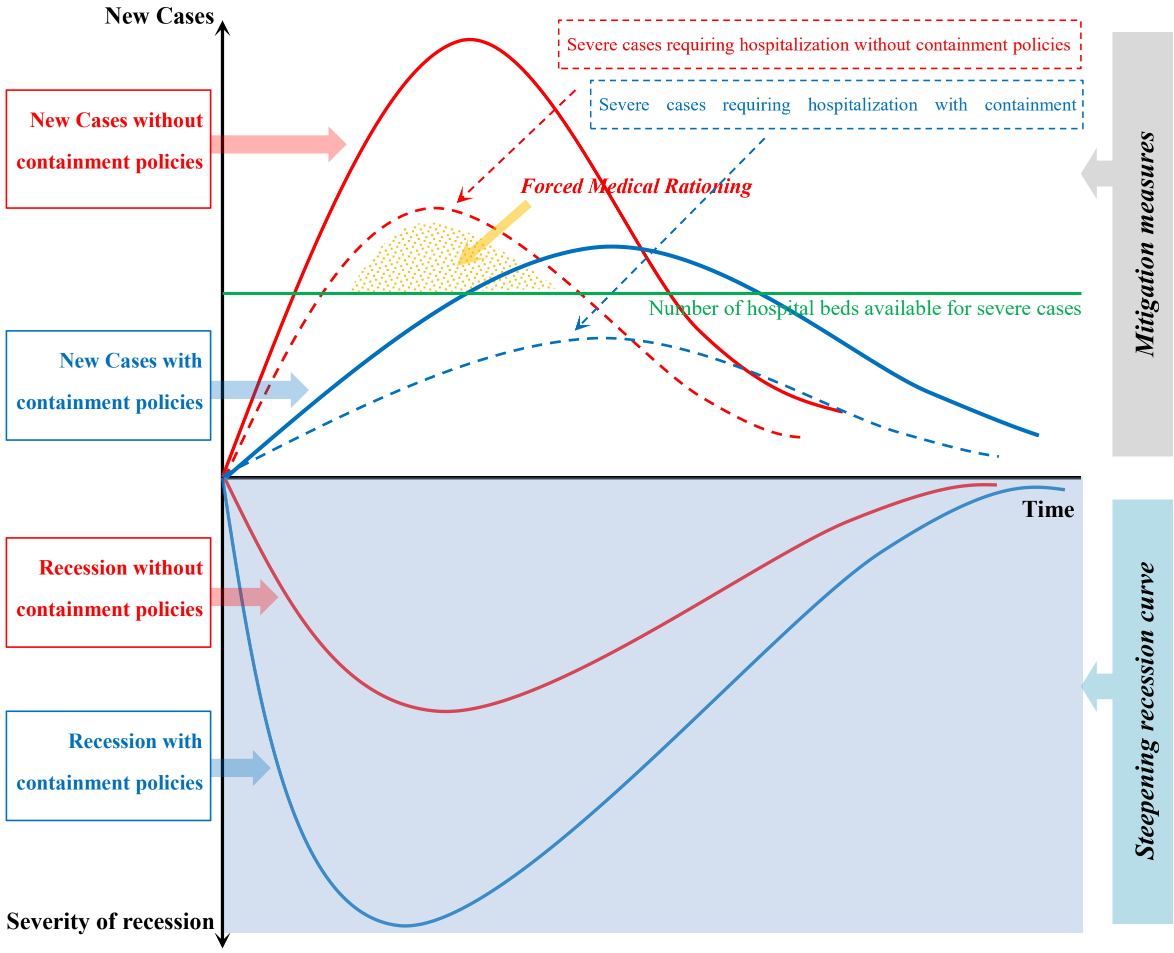
- **Increasing capacity for Testing**
  From limited COVID-19 tests in Jan 2020, total cumulative number of samples tested has risen to 79,96,707 with 1026 diagnostic labs dedicated to COVID-19.

- **Saving lives**
  The lock-down has prevented thousands of potential deaths. The WHO Situation Report 154 dated 22nd June, 2020 shows that India has one of the lowest deaths per lakh population. India's cases of death per lakh population is 1 as against the global average of 6.04.

III. POLICY DILEMMA UNDERLYING COVID-19 – 'Lives vs Livelihood'

6. The containment measures may have allowed ramping up of the health and testing infrastructure in the country and arresting the spread of the virus. However, the lock-down and social distancing measures have had an adverse effect on the economy as there is an unavoidable trade-off between flattening the infection curve and steepening of the recession curves (Figure 5).

Figure 5: Trade-off between flattening COVID-19 infection curve and steepening of recession curve

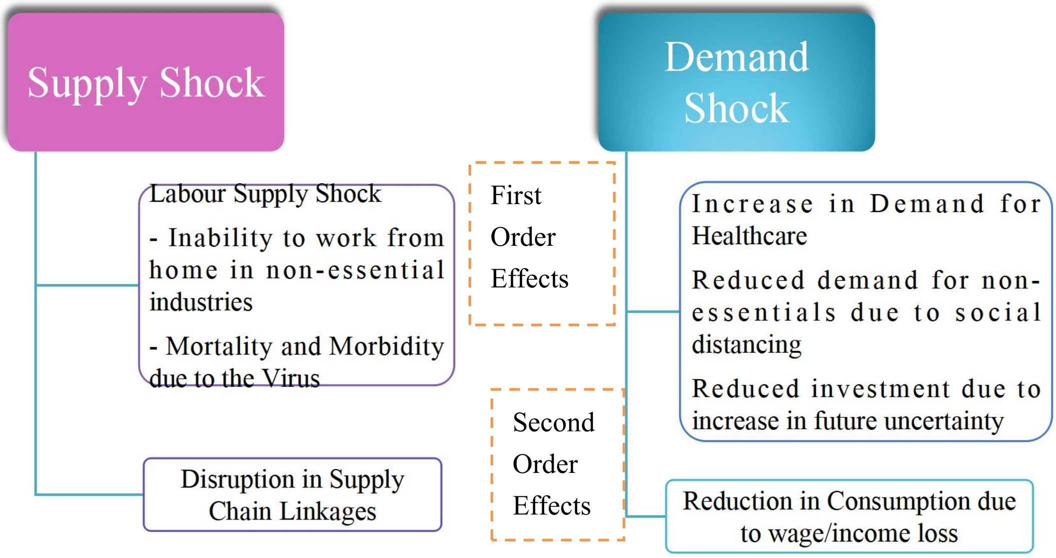


Source: Adapted from Gourinchas, P-O (2020), "Flattening the Pandemic and Recession Curves", online manuscript.

7. The magnitude and virulence of spread of COVID-19 has, therefore, led the world to deal with the 'lives vs livelihoods' debate. To flatten the epidemic curve, contain the virus outspread and save 'lives', measures like lock-down, travel restrictions and strict social

distancing norms were implemented. But these containment measures have had detrimental effect on the 'livelihoods of people' as it halts 'non-essential' economic activity. The pandemic has triggered both supply and demand side shocks across economies around the world (Figure 6).

Figure 6: Economic Implications of the Containment Measures taken to deal with the Pandemic

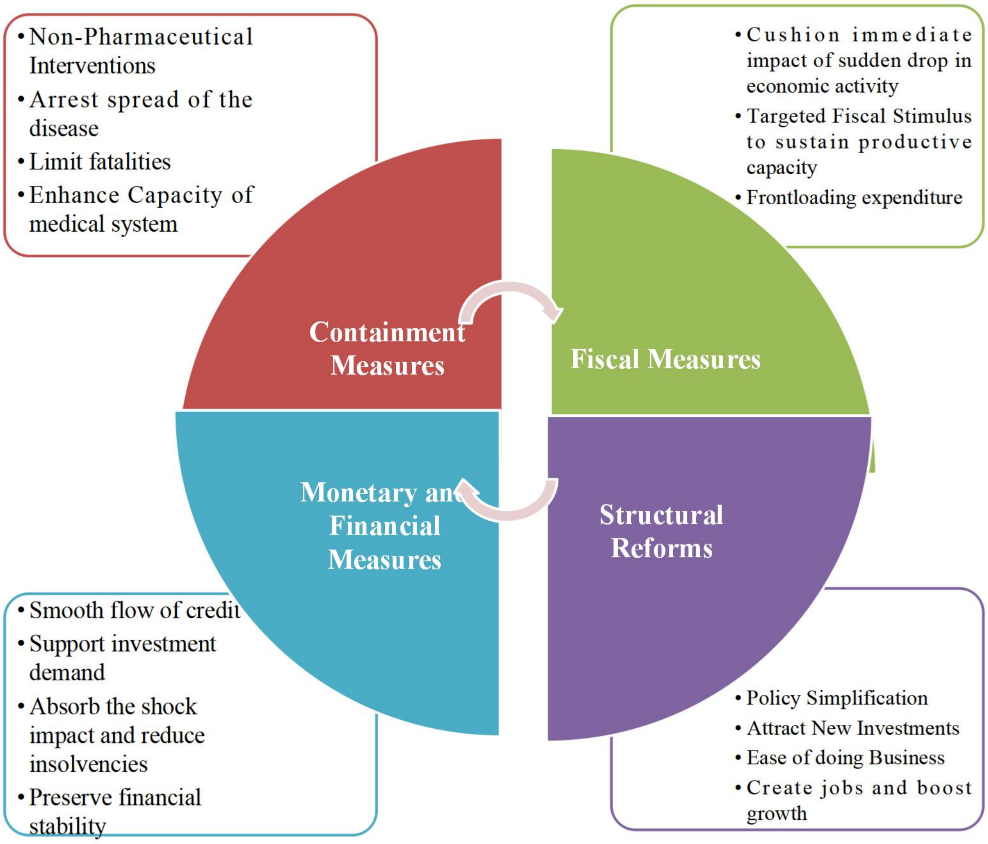


Source: Adapted from Estupinan, Xavier and Sharma, Mohit and Gupta, Sargam and Birla, Bharti, "Impact of COVID-19 Pandemic on Labor Supply and Gross Value Added in India (June 17, 2020)".

IV. POLICY IMPLICATIONS FOR MITIGATING COVID-19 SHOCK

8. Government of India and RBI have taken prompt policy measures - both short term and long term - in a calibrated manner to reinvigorate the economy at the earliest so as to provide immediate relief to vulnerable households and firms.

Figure 7: Four-pronged strategy to combat the COVID-19 challenge



FISCAL POLICY MEASURES							
Policy Tool							
Emergency health fund (INR 150 billion)	**Food security**	**Income support measures for individuals/ households**	**Migrant labourers**	**Tax & contribution policy changes**	**Govt loan guarantees, equity infusions for MSMEs**	**Quasi fiscal measures**	**Support to States, linking borrowings to Reforms**
Policy impact/progress so far (as on 26th June)							

❖ India has flattened the curve to a great extent with early containment measures supported by enhanced health infrastructure. One of the lowest death rates amongst affected countries Recoveries are increasingly outgrowing active cases. A testimony to graded, pre-emptive and pro-active approach of the Centre and States towards prevention, containment and management of COVID-19.

❖ Record food grain production at 295.67 million tonnes in 2019-20 (3.7 percent higher than last year). As on

26th June, 113 Lakh Metric Tonnes (LMT) of food grains lifted by 36 States/UTs, of which-

April: 37.01 LMT distributed to 74.03 crore beneficiaries

May: 36.42 LMT distributed to 72.83 crore beneficiaries

June: 13.59 LMT distributed to 27.18 crore beneficiaries

- Procurement of wheat from farmers touched an all-time record figure of 385.6 Lakh Metric Tonnes (LMT) on 23rd June, 2020 surpassing the earlier record of 381.48 LMT achieved during 2012-13.

Minimum Support Price (MSP)

- Rs. 73,500 crore to 42 Lakh farmers towards MSP for wheat, thereby alleviating the added rural distress due to reverse migration of people from cities amid the pandemic.

Pradhan Mantri Garib Kalyan Yojana

- Financial assistance of Rs. 65,454 crore to more than 42 crore poor people
- PM-KISAN: Rs.17,891 crore to 8.94 crore beneficiaries (first installment)
- Women Jan Dhan accounts: Rs. 13,952 crore to 20.65 crore women (3 installments)
- Old age persons, widows, disabled: Rs. 2814.5 crore to about 2.81 crore (2 installments)
- Building & Construction workers: Rs. 4312.82 crore to 8.52 crore workers
- PMUY cylinders: 2.3 crore delivered for April & May, 2.1 crore booked for June

MGNREGS

- Daily wage increased from Rs. 182 to Rs. 202 to benefit 136.2 million households
- In response to increasing work demand under MGNREGA since April 2020, more than 105 crore person days of work have been created in FY 2020-21 so far.
- M/o Railways has identified numbers of railway works to be executed through MGNREGS.

Garib Kalyan Rojgar Abhiyaan

- Rs. 50,000 crore for building durable rural infrastructure
- 116 districts identified in 6 states of Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan, Jharkhand and Odisha (large concentration of returnee migrant workers)
- 160 infrastructure works under 25 broad areas identified for employment in villages: rural housing for the poor, plantations, provision of drinking water through Jal Jeevan mission, Panchayat Bhavans, community toilets, rural mandis, rural roads, Cattle Sheds, Anganwadi Bhavans etc.
- Expected to create employment for thousands of workers and generate 8 lakh man-days of employment by the end of October 2020.
- Government to pay Employee Provident Fund (EPF) contributions on behalf of employees and employers (12% each) for March to August 2020, for formal sector with up to 100 employees, where 90% of them are earning less than Rs. 15,000 per month. Contribution rate cut from 12% to 10% for non eligible employees.Non refundable advance of Rs. 5767 crore from EPF accounts benefitted 20.22 lakh members. Scheme intended to benefit 48 million workers.

- 25% reduction in rates for tax collected or deducted at source on non-salaried specific payment until 31 March 2021.
- Due date for all income tax returns, tax audits and assessment for FY2019-20 extended to November 2020; immediate refunds to charitable trust, non-corporate businesses and professions.

- Pending income tax refunds up to Rs. 5,00,000 and GST/custom refunds to be cleared. From 1st April to 21st May, 2020, CBDT issued tax refunds of Rs. 26,242 crore to 16,84,298 assessees.
- Deadline for filing returns of Goods and Services Tax for March, April and May extended till June 30. No interest, penalty or late fee charges for companies with less than Rs. 50 million turnover, interest rate reduced to 9% for companies with turnover greater than Rs. 50 million.

Aatma Nirbhar Bharat Package - MSME

- Emergency Credit Line Guarantee Scheme (ECLGS): Rs. 79,000 crore loans sanctioned to MSMEs by Public & Private Sector Banks as on 23rd June, 2020, of which more than Rs 35,000 crore has already been disbursed.This has helped 19 lakh MSMEs & other businesses restart their businesses post the lock-down.
- Additional credit: Rs. 3 lakh crore
- Extended Partial Guarantee Scheme to help NBFCs & MFIs: Approvals have crossed Rs. 5500 crore, another Rs. 5000 crore under process of approval
- 2% Interest subvention scheme on prompt repayment of Shishu Loans under Pradhan Mantri MUDRA Yojana for a period of 12 months- to help small businesses maintain cash flows by reducing cost of credit (Estimated cost - Rs. 1,542 crore). Scheme expected to support revival of small businesses and generate employment.
- "Distressed Assets Fund–Sub-ordinate Debt for MSMEs": Guarantee cover worth Rs. 20,000 crores to promoters who can take debt from the banks to further invest in their stressed MSMEs as equity. This will support around 2 lakh MSMEs and protect livelihoods of millions who depend on them.
- Special lending programme for street vendors of up to INR 10000 to finance their working capital, targeting about 5 million street vendors.
- Rs. 900 billion equity infusion for DISCOM companies by State owned enterprises (Power Finance Corps and Rural Electrification Corps)
- Support to state governments: Devolution of Central taxes and duties (Rs. 92,077 cr) to states in April and May; Revenue Deficit Grants to states (Rs 12,390 cr) in April and May; Advance release of SDRF funds; Rs. 4,113 crores from Health Ministry for direct anti-Covid activities; Ways & Means Advance limits of States increased by 60%; Extension of number of days for continuous overdraft from 14 days to 21 days (32 to 50 days for overdraft in a quarter); 75% of States net borrowing ceiling for 2020-21 authorised in March 2020 (14% utilized so far); Borrowing limits of States increased from 3% to 5% of GSDP, for 2020-21 (extra resources of Rs. 4.28 lakh crores), with part of borrowing linked to specific reforms (including recommendations of Finance Commission; Reform linkage in 4 areas, universalisation of 'One Nation One Ration card', Ease of Doing Business, Power distribution and Urban local body revenues; Unconditional increase of 0.50% , 1% in 4 tranches of 0.25%, with each tranche linked to clearly specified, measurable and feasible reform actions, additional 0.50%, if milestones are achieved in at least three out of four reform areas.

MONETARY POLICY MEASURES								
Policy Tool								
Liquidity support in rupees and forex market		**Regulatory & Developmental Measures**						**Easing financial constraints for States**
LTROs/TLTROs, SLF, refinancing	**FX Buy/ Sell swaps**	**Working capital support- term loan moratorium, deferment of interest and easing of financing requirements**	**Easing of compliance to stressed asset classify cation norms**	**Deferment, easing of capital buffer & liquidity coverage requirements**	**Enhancing group exposure limits of banks**	**Deferring compliance requirements for FPIs under Voluntary Retention Route (VRR)**	**Export credit support**	**Enhanced WMA borrowing limits and relaxation of CSF withdrawal rules**

Policy impact/progress so far (As on 27th June)

- Repo rate cut by 115 basis points since 27th March 2020, amounting to a total cut of 250 basis points since the easing cycle began in February 2019.
- Reverse repo rate cut by 155 bps since 27th March 2020 to 22nd May with the asymmetric cuts aimed at using LAF corridor as an instrument of monetary policy.
- Amid heightened uncertainty and risk aversion exhibited by banks, credit growth remained muted with y-o-y non-food growth consistently declining from 7.02% as on 10th April to 6.15% as on 22nd May 2020. Marginal improvement beginning June with y-o-y growth of non-food credit at 6.21% as on 5th June.
- Under RBI's Special Liquidity Facility announced in March-April, 2020, SIDBI has sanctioned over Rs. 10,220 crore to NBFCs, Micro Finance Institutions & Banks for lending to MSME& small borrowers. National Housing Bank (NHB) has sanctioned its entire facility of Rs. 10,000 crore to Housing Finance Companies. This refinance by SIDBI & NHB is in addition to ongoing schemes through which over Rs. 30,000 crore has been sanctioned.
- Monetary policy transmission to banks' lending rates has improved. The 1 year median marginal cost of funds-based lending rate (MCLR) declined by 95 bps (February 2019-May 2020), of which 36 bps decline occurred from February 2020 to May 2020. The weighted average lending rate (WALR) on fresh rupee loans has cumulatively declined by 114 bps since February 2019 to 15th May 2020, of which 43 bps decline occurred in March 2020 alone. WALR on outstanding rupee loans declined by 40 bps during October 2019-April 2020, of which 22 bps decline occurred during March and April 2020.
- Domestic financial conditions have also eased as reflected in the narrowing of liquidity premia in various market segments. From March to May 2020, on average, interest rates on CPs, CDs, 10-year AAA corporate bonds, 91-day Treasury Bills, 5 year and benchmark 10-year government paper have softened by 150 bps, 121

bps, 43 bps, 122 bps, 74 bps and 92 bps respectively.

- ❖ Private placement of corporate bonds picked up sharply by 94.1 per cent (y-o-y growth) in May (Rs. 0.84 lakh crore) as compared to a contraction of 22 per cent in April (Rs. 0.54 lakh crore). June is likely to see a still larger placement as excess liquidity persists in the system.
- ❖ Outstanding gross mobilization by mutual funds, after falling from Rs. 13.1 lakh crore in March 2020 to Rs. 8.2 lakh crore in April has improved to Rs. 8.6 lakh crore in May 2020. Overall, Assets under management of mutual funds has improved from Rs. 23.9 lakh crore in April 2020 to Rs. 24.5 lakh crore in May 2020.
- ❖ Rupee, on average, after depreciating by 2.5 percent from March 2020 (INR/USD 74.3) to April (INR/USD 76.2) moderated to INR/USD 75.6 in May and continued at INR/USD 75.7(as on 26th June 2020).
- ❖ Foreign portfolio flows in Indian equity markets have consistently recovered in April and May after record outflows in March (USD 7.8 billion). May witnessed FPI equity inflow of USD 1.7 billion after an outflow of USD 0.5 billion in April. This recovery of net equity inflows has further improved in June (USD 3 billion as on 19th June) and debt outflows have also contracted (USD 0.3 billion as on 24th June).
- ❖ FDI in India recorded inflow of USD 73.45 billion in FY 2019-20, an increase of 18.5 per cent over the previous fiscal.
- ❖ India’s forex reserves at USD 505.6 billion as on 19th June, continue to provide a crucial cushion to external shocks on the back of higher FDI, portfolio flows and low oil prices.

STRUCTURAL REFORMS

Policy Reforms

APMC reforms (three ordinances)	Redefining of MSMEs	Commercialization of coal mining	Privatisation of PSUs	FDI policy	Land reforms	Power tariff policy

Medium & Long term impact

- ❖ Deregulation of the agricultural sector is expected to improve returns to farmers and help efficiently distribute food grains, thereby addressing market fragmentation challenges and making agriculture more competitive. These reforms will enable barrier-free trade in agriculture produce, and also empower the farmers to engage with various stakeholders.
- ❖ As the definition now stands, invested capital will determine the entry into one of the three categories (Micro, Small and Medium) while the turnover will determine the graduation to a higher category. Thus, merely increasing investment will not result in withdrawal of small unit benefits unless the turnover also becomes large, and by that time the unit will large enough in all senses of not needing the support from the government anymore. So a unit will freely expand not deterred by the fear of exiting from benefits with a small turnover.
- ❖ This will increase competition, transparency and adoption of state-of-art technologies while also reduce industry’s dependency on crude oil imports.
- ❖ Privatization of PSUs except for their presence in defined strategic sectors- may release resources for

deployment to priority sectors including retirement of public debt besides making them more productive and efficient.

- Increase in FDI limit in defence sector from 49% to 74%, boosting private participation in power distribution in UTs and in the space sector would also work in the same direction. Easing of restrictions on utilization of the Indian Air Space would enable efficient air space management.
- Upgradation of Industrial Infrastructure via availability of Industrial Land/ Land Bank and Industrial Information System (IIS) with GIS mapping along with a revamp of Viability Gap Funding Scheme for social infrastructure would help attract both domestic and foreign private investments in these areas
- Power tariff policy with objectives of safeguarding consumer interests, industry promotion and sector sustainability will be released.

V. INDIA's MACRO ECONOMIC PERFORMANCE: PRE & POST COVID

Index of Industrial Production (IIP)

9. Prior to COVID-19, Index of Industrial Production (IIP) rebounded from negative growth in Q3:2019-20 to 2.2 per cent in January 2020, and 4.6 per cent in February 2020, the highest level observed since July 2019. The sharpest supply shock was witnessed in April, the month of 'lock-down', with IIP declining by a record 55.5 per cent in April 2020[2]. The record contraction in April was more than three times as compared to a (-)18.3 per cent growth in March, with several firms reporting nil production.

10. While growth in industrial production in both the pre-COVID months of 2020 was concentrated only in primary and intermediate goods, post COVID de-growth was uniform across all use-based categories, demonstrating the severity of the lock-down induced supply shock (Table 1).

11. Contraction in industrial output in April 2020 can be attributed the most to basic metals, petroleum products, chemicals, motor vehicles and machinery production (Table 2). In the manufacturing sector, twelve sub-sectors contributed to approximately 40 per cent of contraction in industrial output. These are motor vehicles, furniture, machinery, electrical equipment, computers & electronics, fabricated metal products, wood, paper, leather, textiles, readymade garments, and beverages and tobacco. Sectors like motor vehicles, machinery and fabricated metal products are seen to be consistently negative contributors to industrial growth both in pre and post COVID months.

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[2] MoSPI did not release growth figure for IIP-General, April, 2020 given nil production by several responding industrial units owing to lock-down.

Table 1: Index of Industrial Production- Sector wise percentage contribution to Growth based on Use Based Category

INDEX OF INDUSTRIAL PRODUCTION	Weights	Percentage contribution to Growth			
		(Pre-Covid)		(Post-Covid)	
Use-based category		Jan-20	Feb-20	Mar-20	Apr-20
Primary goods	34.0	27.2	57.7	-7.4	-16.2
Intermediate goods	17.2	113.7	67.1	-18.6	-20.0
Consumer non-durables	15.3	-4.6	6.0	-18.4	-11.0
Consumer durables	12.8	-20.1	-15.7	-23.4	-22.2
Infrastructure/ construction goods	12.3	-2.1	-0.2	-18.3	-19.9
Capital goods	8.2	-12.9	-14.2	-14.1	-10.4

Percentage contribution to growth

-23.40% **113.60%**

Source: Calculations based on MoSPI data.

Table 2: Index of Industrial Production-Sector wise percentage contribution to Growth based on Use Based Category

INDEX OF INDUSTRIAL PRODUCTION		Weights	Percentage contribution to Growth			
			(Pre-Covid)		(Post-Covid)	
NIC 2008	Description		Jan-20	Feb-20	Mar-20	Apr-20
24	basic metals	12.80	96.9	56.0	-17.4	-17.7
19	coke and refined petroleum products	11.77	-1.2	14.4	-1.1	-5.8
20	chemicals and chemical products	7.87	3.1	1.3	-8.5	-7.3
10	food products	5.30	-2.7	-1.4	-3.9	-2.0
21	pharmaceuticals, medicinal chemical, botanical products	4.98	-2.0	5.7	-9.6	-4.3
29	motor vehicles, trailers and semi-trailers	4.86	-19.9	-15.1	-11.4	-8.0
28	machinery and equipment n.e.c.	4.77	0.3	-6.7	-9.2	-6.5
23	other non-metallic mineral products	4.09	7.4	6.9	-5.1	-6.3
13	textiles	3.29	4.4	1.8	-2.4	-5.4
27	electrical equipment	3.00	-2.1	-0.8	-4.0	-4.1
25	fabricated metal products, except machinery & equipment	2.65	-6.9	-4.7	-4.2	-3.3
22	rubber and plastics products	2.42	-3.5	0.4	-2.7	-2.4
30	other transport equipment	1.78	-7.5	-3.1	-0.9	-3.4
26	computer, electronic and optical products	1.57	-0.3	-3.8	-4.5	-3.6
14	wearing apparel	1.32	-4.2	1.1	-3.8	-3.0
11	beverages	1.04	-1.4	-0.3	-1.4	-1.7
32	Other manufacturing	0.94	-0.3	-1.1	-1.7	-1.1
17	paper and paper products	0.87	-2.6	-0.4	-1.0	-0.9
12	tobacco products	0.80	5.2	0.7	-0.5	-0.8

18	Printing and reproduction of recorded media	0.68	-2.0	0.4	-0.7	-0.7
15	leather and related products	0.50	0.6	0.8	-0.5	-0.9
16	wood, products of wood and cork, except furniture; articles of straw and plaiting materials	0.19	0.6	0.3	-0.3	-0.3
31	furniture	0.13	0.7	0.1	-0.2	-0.3
	Mining	14.37	24.9	26.6	-1.0	-6.0
	Manufacturing	77.63	62.1	52.6	-95.3	-89.7
	Electricity	7.99	12.5	21.5	-4.0	-4.2
	Overall Growth in IIP	100.00	2.2	4.6	-18.3	-55.4

Percentage contribution to growth

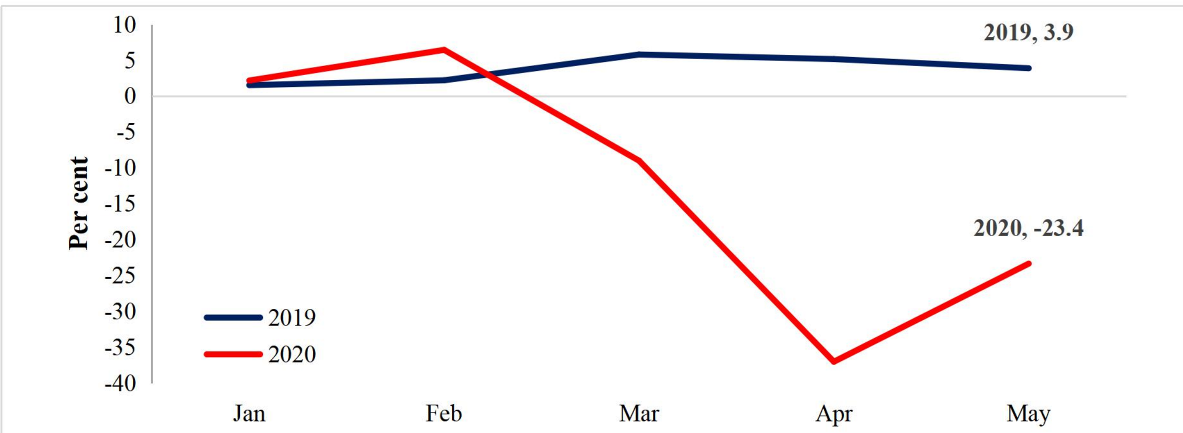
-95.3% **96.9%**

Source: Calculations based on MoSPI data.

12. Mining & quarrying activities, which account for 42.2 per cent of primary goods sector, were exempt during the lock-down, thereby entailing a relatively lower negative contribution. Falling production of capital goods and infrastructure & construction goods (20 per cent contribution to de-growth) also indicated a slump in investment demand.

13. The ubiquity of COVID-19 supply shock was witnessed in Eight Core Industries also registering sharply negative (-) 38.1 percent growth in April 2020 as compared to 5.2 percent in April 2019 (Figure 9). All eight industriesexperienced a broad-based decline with the sharpest contractions in cement ((-)86 per cent) and steel ((-)83.9 per cent). Contraction in eight core industries, however, moderated in May to (-)23.4 per cent with fertilizers production increasing by 7.5 per cent in May, 2020 over May, 2019.

Figure 8: Growth of Eight Core Industries (YoY)

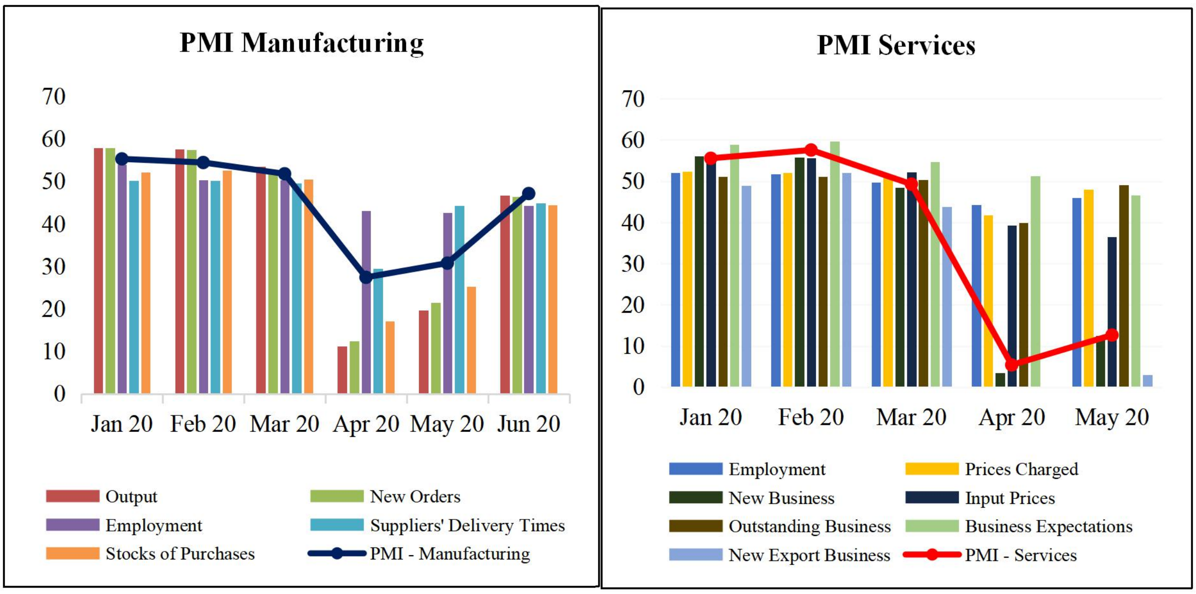


Source: MoSPI

14. Purchasing Managers Index (PMI) Manufacturing for April 2020 also recorded its

sharpest deterioration to 27.4, spread across all components. PMI services also plunged to an all-time low of 5.4. With gradual relaxation in lock-down restrictions May onwards, PMI Manufacturing and Services moderately recovered to 30.8 and 12.6 respectively in May (Figure 10). PMI Manufacturing further improved to 47.2 in June with both output and new orders contracting at much softer rates than seen in April and May. Contraction in industrial activity is also expected to similarly decline through May and June 2020 as India unlocks.

Figure 9: PMI Manufacturing and PMI Services

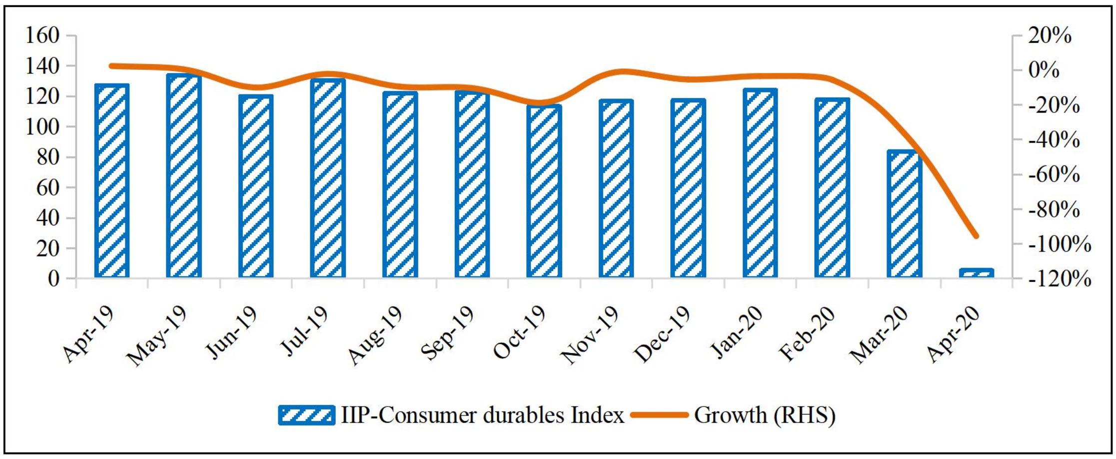


Source: IHS Markit

Private Consumption

15. Unlike previous recessions, the intertwined nature of COVID-19 supply and demand shocks is reflected in consumer durables sector contributing the most to March and April's industrial decline. The production of consumer durables fell by a sharp 95.7 per cent (y-o-y) in April 2020, after declining by 36.5 per cent in March.

Figure 10: IIP- Consumer Durables



Source: MOSPI

16. According to RBI's Consumer Confidence survey, consumer sentiment sank in May 2020, with the current situation index (CSI) touching historic low of 63.7 and the one year ahead future expectations index (FEI) also recording a sharp fall of 17.3 units to reach 97.9. Overall consumer spending remained afloat, mostly due to relative inelasticity in essential spending; consumers, however, reported sharp cuts in discretionary spending.

Figure 11: Consumer Confidence Index - Current Situation and Future Expectations

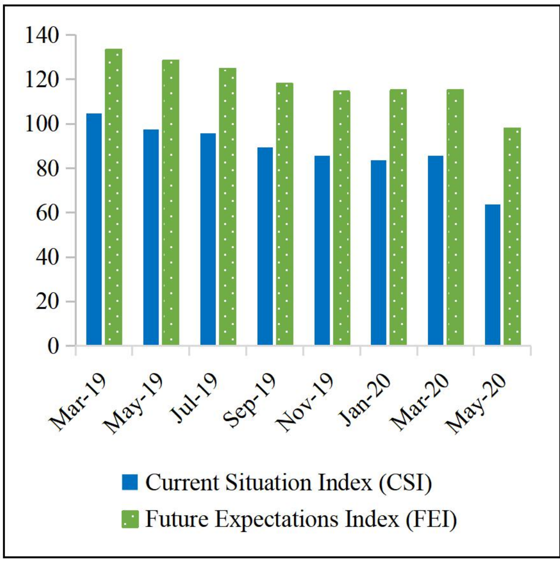
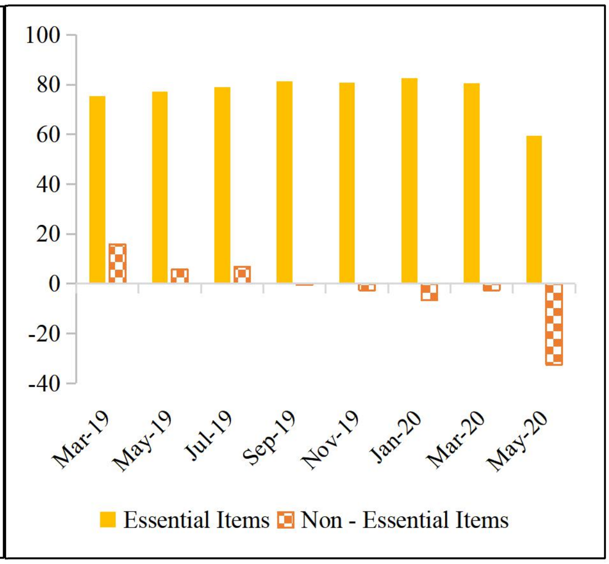


Figure 12: Current Perceptions on Spending (Index) (Essential & Non-Essential Items)



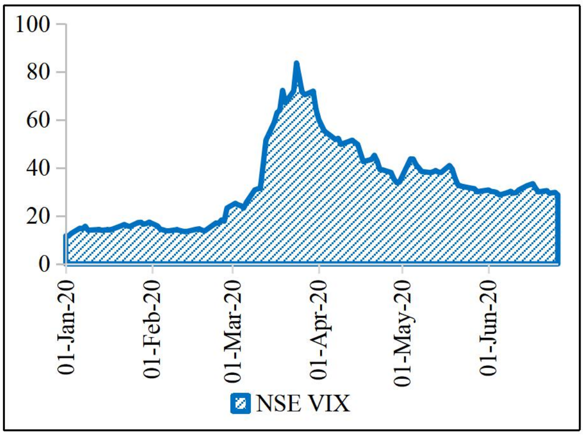
Data source: Reserve Bank of India (RBI)

17. With moderate easing of lock-down May onwards, some consumption indicators showed an uptick. Retail payments via digital NPCI platforms, after falling in April, increased sharply in May as compared to April, both in value terms (43.8 per cent) and volume terms (8.4 per cent). Additionally, record y-o-y declines in consumption of petroleum products in March (17.8 per cent) and April (45.8 per cent) moderated in May with a lower 23.2 per cent y-o-y contraction. After the month of April witnessed an unprecedented zero auto sales for the first time in history, subdued consumption demand in the auto sector continued in May. Vehicle registrations also sharply declined by 88.7 per cent year-on-year in May. However, signs of uptick as per auto companies data and vehicle registrations are visible in June.

Investment Outlook

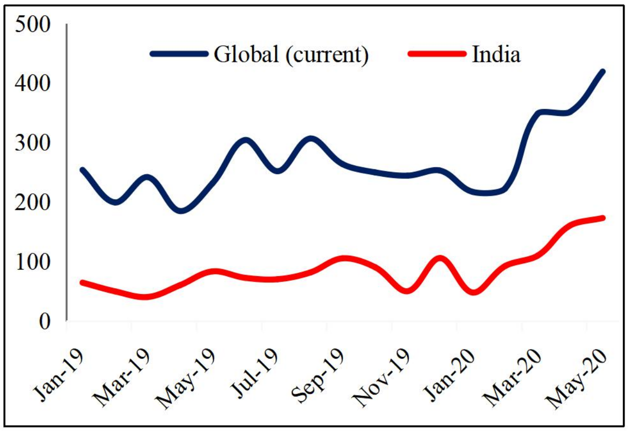
18. While COVID-19's impact on the economy is rapidly evolving, it is driving market volatility on a daily basis, as reflected in movements of volatility index of domestic equity market (VIX) and Economic policy uncertainty index (EPU) (Figure). With huge uncertainty around the pandemic stemming from the unknown, and the inability to plan for or know what's next, such uncertainty is expected to adversely affect business climate and make firm delay their investment plans.

Figure 13: Volatility index of domestic equity market (VIX)



Source: NSE

Figure 14: Economic Policy Uncertainty



Source:Economic Survey 2018-19(https://www.policyuncertainty.com)

Trade

19. Amid COVID-19 induced supply chain disruptions, weak external demand and persistent global trade tensions, an adverse impact on trade is expected. For highly import dependent countries like India, the overall effect on net exports may be positive on the back of relatively sharper decline in imports and lower oil prices. India's trade deficit stood at USD 3.1 billion in May 2020, the lowest recorded trade deficit since February 2009. Compared to April 2020, trade deficit narrowed during May with exports in May improving more than imports.

Exports

20. After recording an abysmal y-o-y fall of 60.2 per cent in April 2020, India's merchandise exports contracted by a lower 36.5 per cent in May. Iron ore, drugs and pharmaceuticals, chemicals, spices and rice were positive contributors to exports growth in May. Compared to April, major commodities which recorded a lower negative growth contribution included engineering goods, marine products, coffee, oilseeds and carpets amongst others. However, India's top exports in terms of overall share in exports i.e. petroleum products and gems & jewellery continued to be major negative contributors from March to May. While garment industry exports have suffered in both pre and post COVID-19 scenarios, exports of electronic goods have consistently deteriorated since February, possibly reflecting an additional trade impact of an earlier China outbreak.

Table 3: PERCENTAGE CONTRIBUTION TO EXPORT GROWTH BY PRINCIPAL COMMODITY

EXPORTS		% Share in Exports in 2018-19	Percentage contribution to Growth				
			(Pre-Covid)		(Post-Covid)		
Sl. No.	PRINCIPAL COMMODITY		Jan-20	Feb-20	Mar-20	Apr-20	May-20
1	Engineering goods	24.2	-5.5	41.3	-34.0	-25.3	-13.3
2	Petroleum products	14.1	-0.9	0.3	-10.6	-14.8	-30.5
3	Gems & jewellery	12.2	-1.8	-0.9	-12.4	-18.1	-21.9
4	Drugs, pharmaceuticals & fine chemicals	5.8	-0.1	0.8	-4.0	0.0	2.7
5	Readymade garments	4.9	-17.8	-5.8	-5.3	-8.2	-9.4
6	Inorganic/organic/agro chemicals	4.8	0.0	-0.3	-4.6	-1.2	5.6
7	Electronic goods	3.0	6.1	5.2	-2.1	-3.8	-4.7
8	Rice	2.3	-23.2	-4.4	-2.3	-0.3	0.4
9	Plastic & linoleum products	2.2	-2.0	2.0	-1.9	-0.2	1.0
10	Marine products	2.1	-2.3	-0.8	-1.2	-1.3	-0.9
11	Leather & leather manufactures	1.6	-2.7	-2.8	-1.4	-2.0	-3.1
12	Manmade yarn fabrics madeups	1.5	21.9	5.6	-1.0	-2.1	-2.2
13	Spices	1.0	-6.0	-0.4	-0.9	-0.6	0.3
14	Handicrafts excluding handmade carpets	0.6	33.9	15.5	-0.4	-0.8	-1.2
15	Oil meals	0.5	4.3	-47.1	-1.2	-0.2	-0.2
16	Carpets	0.4	-51.6	21.0	-0.4	-0.6	-0.5
17	Iron ore	0.4	44.6	49.7	0.8	0.2	2.1
18	Oilseeds	0.4	4.9	4.7	0.0	-0.4	-0.2
19	Tobacco	0.3	0.9	0.7	-0.2	-0.4	-0.1
20	Tea	0.3	-1.1	0.4	-0.2	-0.3	-0.2
21	Coffee	0.2	-13.1	-8.1	-0.2	-0.2	0.0
22	Cashew	0.2	-2.1	0.8	-0.1	-0.2	-0.1
23	Other cereals	0.1	-65.3	-88.3	-0.1	-0.1	-0.1
24	Jute manufacture including floor coverings	0.1	-24.9	-15.1	0.0	-0.1	-0.2
25	**GROWTH OF ALL EXPORTS**	100	-2.18	3.21	-34.66	-60.23	-36.17
	Percentage contribution to growth **-88.3%** **65.3%**						

Source: Calculations based on M/o Commerce data.

Imports

21. India's top five imports, namely Petroleum crude & products (POL), electronic goods, gold, pearls precious & semiprecious stones and coal were positive contributors to import growth prior to COVID-19 outbreak. After recording 59.6 per cent y-o-y decline in April, India's imports continued to contract by 51.1 per cent in May 2020. Sharply negative contribution of imports of crude oil & petroleum products accentuated from (-)27 per cent in

April to (-)37 per cent in May. The fall in imports came despite a rise in the average price of Indian basket of crude oil from USD 20.5 per barrel in April to USD 29.7 per barrel in May, reflecting weak domestic demand for petroleum products. Imports of gold and electronic goods showed a similar trend of contraction continuing in May. Iron and steel and wood product imports, however, moved into positive territory in May, with consistent improvement since January.

Table 4: PERCENTAGE CONTRIBUTION TO IMPORT GROWTH BY PRINCIPAL COMMODITY

IMPORTS		% Share in Imports in 2018-19	Percentage contribution to Growth				
			(Pre-Covid)		(Post-Covid)		
Sl. No.	PRINCIPAL COMMODITY		Jan-20	Feb-20	Mar-20	Apr-20	May-20
1	Petroleum crude & products (POL)	27.4	564.9	150.2	-14.0	-27.3	-37.2
2	Electronic goods	11.6	0.6	0.2	-11.6	-11.7	-9.0
3	Gold	6.4	-12.4	2.1	-16.4	-15.7	-19.2
4	Pearls precious & semiprecious stones	5.3	32.1	20.3	-12.8	-8.4	-5.3
5	Coal, coke & briquettes	5.1	25.4	-33.1	-3.9	-4.5	-4.4
6	Transport equipment	4.1	-3.7	-2.7	3.0	-4.0	-5.0
7	Artificial resins, plastic materials etc.	2.9	-176.6	-19.1	-2.9	-1.9	-1.4
8	Iron & steel	2.6	0.0	-0.1	-4.0	-1.3	0.6
9	Vegetable oils (edible)	1.9	10.5	10.3	-2.3	-0.3	-1.0
10	Chemical material & products	1.7	10.4	1.0	-1.1	-1.1	-1.2
11	Fertilisers	1.5	3.2	-2.3	-2.6	-0.3	-0.4
12	Medicinal & pharmaceutical products	1.2	-24.2	-8.8	-1.1	-0.5	-0.1
13	Metaliferrous ores & metal scrap	1.0	33.7	-23.0	-0.6	-0.2	-0.4
14	Machine tools including hand tools and cutting tools	0.9	-97.0	-78.7	-1.4	-1.0	-0.8
15	Silver	0.7	-22.2	-5.9	-0.1	-0.6	-0.2
16	Dyeing tanning & colouring materials	0.6	92.5	8.0	-0.7	-0.5	-0.3
17	Wood & wood products	0.6	-62.9	0.0	-0.9	0.2	1.1
18	Project goods	0.5	-234.6	-24.3	-2.0	-0.4	-0.1
19	Pulp & waste paper	0.3	-43.0	-8.4	-0.4	-0.2	-0.1
20	Pulses	0.2	-30.6	31.4	-0.4	0.0	0.0
21	Leather and leather products	0.2	-11.0	-33.4	-0.2	-0.2	-0.2
22	Newsprint	0.2	-0.5	-1.0	-0.3	-0.1	-0.1
23	Cotton raw including waste	0.1	-9.4	-1.1	-0.2	-0.1	-0.2
24	Sulphur & unroasted iron pyrites	0.0	-17.6	-8.5	-0.1	-0.1	0.0
25	**Overall Imports growth**	100	-0.75	2.49	-28.71	-59.61	-52.44
	Percentage contribution to Growth **-234.6%** **564.9%**						

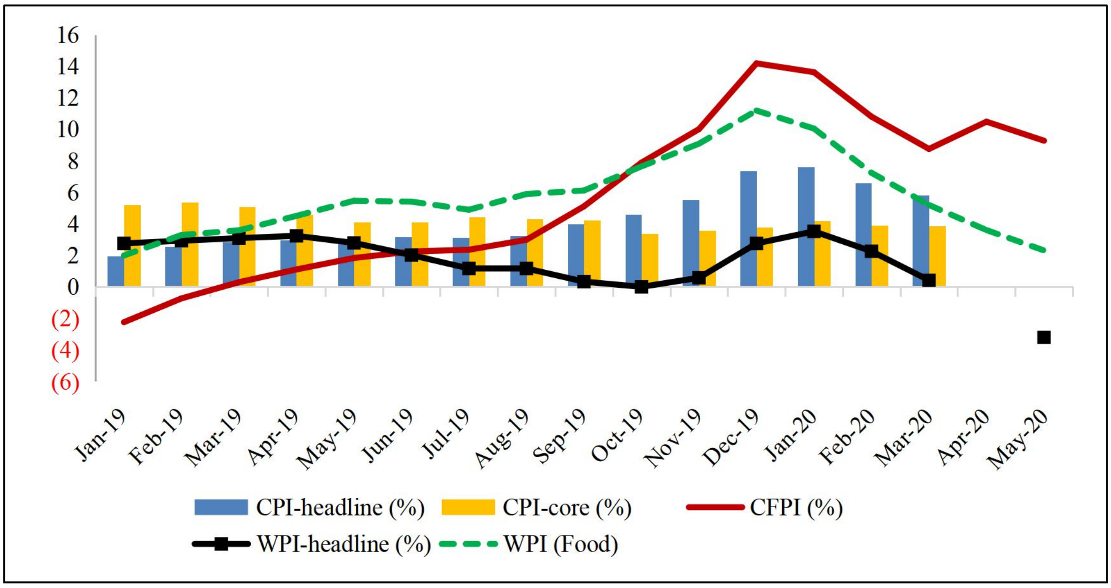
Source: Calculations based on M/o Commerce data.

Inflation

22. COVID-19 induced lock-down has caused a massive supply shock that may possibly drive inflation when demand re-emerges back after the crisis. However, with phased reopening of the economy, supply and demand are expected to rise gradually. However, as seen in previous sections, the intensity of supply and demand shocks strongly varies across sectors. Such mismatches are expected to cause variations in inflation for different goods.

23. Amid supply chain constraints in agricultural markets during lock-down, consumer food and beverages inflation excluding meat and fish increased by 0.8 percentage points from March 2020 (7.82 per cent) to 8.61 per cent in April 2020. However, it eased to 7.4 per cent in May 2020, declining both, in rural and urban areas by 94 bps and 172 bps respectively, mainly due to a high base effect. Average price level of food & beverages, measured by the CPI, at 151.3 in May 2020, was almost unchanged from April 2020.

Figure 15: Consumer and wholesale price inflation



Source: MoSPI and Office of Economic Adviser, DPIIT

24. Among the food items, vegetables inflation reduced by 10.7 per cent in May as compared to April 2020, possibly due to improving mandi arrivals and reductions in supply disruptions while sugar prices declined by 3.1 per cent. Prices of fish and meat, however, rose sharply by 21 per cent in May compared to April. Pulses and cereals inflation continued to remain elevated at above 20 per cent (y-o-y) and 7 per cent (y-o-y) respectively, both in April and May. Daily retail prices data of 22 essential commodities for 1st to 26th June 2020 suggested moderation in retail prices of these commodities as compared to May 2020 with onion, wheat, pulses, sugar, soya oil and sugar prices witnessing declines. Tomato, however, has shown 16 per cent rise in retail price in June as compared to May 2020.

25. On the other hand, weak demand pressures were reaffirmed with CPI inflation in fuel & light group softening to 1.4 per cent in May 2020 from 2.9 per cent in April 2020. Inflation in housing also moderated to 3.7 per cent in May from 3.9 per cent in the preceding month. However, inflation in health services rose to 4.3 per cent from 2.8 per cent in April 2020, as expected under the health shock.

26. COVID-19 induced demand shocks drove Wholesale Price Inflation (WPI) to negative territory in May 2020, from 1 per cent in March 2020 with sharpest y-o-y declines seen in crude petroleum and natural gas ((-)46 per cent), mineral oils ((-)37 per cent), basic metals ((-)5.8 per cent), chemicals((-)3.9 per cent) and textiles((-)2.7 per cent). Deflation in basic metals and petroleum & natural gas has been widening since February, showing the global impact of COVID-19 since its outbreak in China, a major global metals and energy consumer. Similarly, textiles sector has also witnessed persistent deflation since January 2020, partly corroborated by its subdued export performance in these months, as explained in the previous section. WPI inflation in motor vehicles, trailers and semi-trailers, though positive (1.8 per cent) in May 2020, has also declined since its January level of 2.4 per cent, while its production stays persistently weak in these months, reflecting the interlinkages of COVID-19 induced demand and supply shocks.

27. Amid gradual easing of global lock-downs, there has been some recovery in global oil prices (43 per cent), industrial raw materials (4.2 per cent) and base metals (5.6 per cent) in May 2020 as compared to April, after a sharp supply driven slump drove them to unprecedented lows in the previous months. With global prices recovering mid-May onwards, Indian Oil Corporation has hiked liquified petroleum gas (LPG) cylinder rates by Rs. 37 in metro cities beginning June after three consecutive months of cuts. Petrol and diesel rates have also witnessed consecutive rises across metro cities in June, driven by base price hikes by oil companies and excise duties raised by governments. While there has been moderate recovery in fuel prices, the overall inflation outlook continues to remains benign notwithstanding the supply shocks acting on food inflation. Future inflation trajectory will depend on the recovery rate from COVID-19 and the easing of associated supply and demand shocks.

Fiscal situation

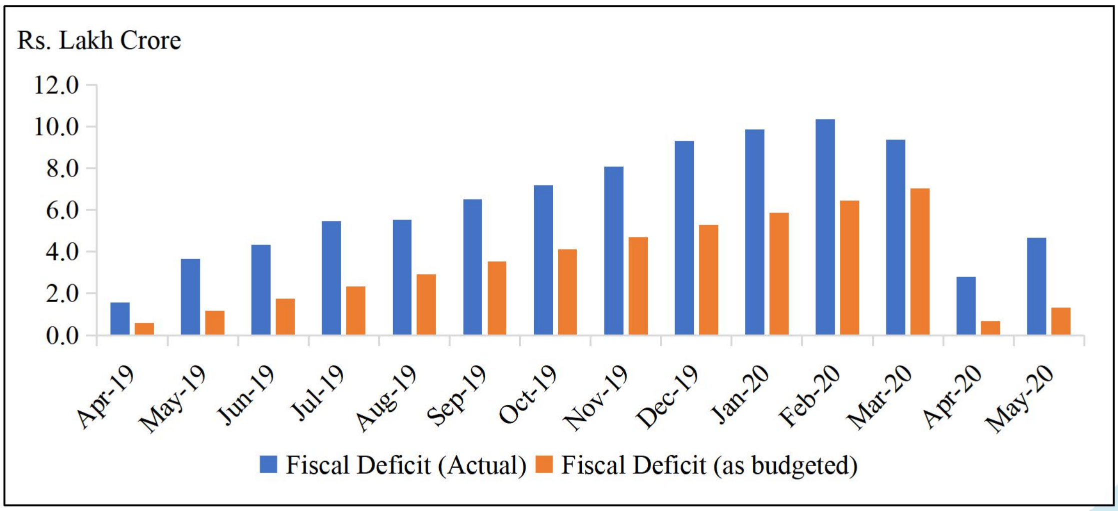
28. COVID-19 has also impacted government fiscal revenues via its detrimental impact on both the income and production side of national accounts. As per provisional accounts (PA) data of central government finances for 2019-20, the fiscal deficit for 2019-20 PA stood at

Rs 9.4 lakh crore which is 4.6 per cent of GDP, 0.8 percentage points higher than the Revised Estimates. This is attributable mainly to shortfall in revenue collection.

29. Net Tax receipts for 2019-20 PA stood at Rs. 13.56 lakh crore, 9.9 per cent lower than the amount envisaged in RE. The shortfall in direct tax collection contributed to 75 per cent of the shortfall in non-debt receipts. The shortfall in indirect taxes was of the tune of 0.14 per cent of GDP, which was largely led by shortfall in customs and GST collections (Centre). The fall in direct taxes collection in 2019-20 is on expected lines due to the tax reforms undertaken and higher refunds issued during FY 2019-20. Non-tax revenue also registered a shortfall of Rs. 19300 crore in 2019-20 (PA) relative to RE, largely led by shortfall in dividends. On the expenditure side, the revenue expenditure was maintained at the RE level but the capital expenditure registered a cut by Rs. 12000 crore.

30. The interruption in economic activity due to COVID-19 has led to shortfall in revenue collection during the first two months of the FY 2020-21. Fiscal deficit stood at Rs 4.7 lakh crore till May 2020, which is 58.6 per cent of BE compared to 52.0 per cent during May 2019. Revenue Receipts registered a negative growth of 68.9 per cent, led by negative growth in Personal Income Tax, all indirect taxes and non tax revenue. Corporation tax registered a massive growth of 1408.1 per cent over May 2019 and stood at 2.5 per cent of BE. Personal Income Tax stood at 5.6 per cent of BE compared to 10.6 per cent till May 2019. Non-Tax revenue upto May 2020 turned out to be less than 62 per cent of the level till May 2019. On the expenditure side, the capital expenditure increased by 15.7 per cent relative to May last year, whereas revenue expenditure fell by 1.9 per cent over May 2019 and stood at 17.4 per cent of BE.

Figure 16: Cumulative Centre's Fiscal Deficit



Source: Controller General of Accounts

31. In so far as actual borrowings in FY 2020-21 are concerned, Centre's gross market borrowings upto 19th June, 2020 stood at Rs. 2,82,000 crore, 51 per cent higher than corresponding last year levels. Net borrowings were 12.3 per cent higher than last year levels. States continued to be active borrowers in May and June 2020, raising more than 2 times both on gross and net basis compared to last year as on 19th June, 2020.

32. Yet, surplus liquidity in the banking system resulted in 10-year G-Sec market yields falling by 83 bps during May 2020. G-Sec yield as on 26th June stood at 5.93 per cent. With continuous selling in G-Secs by FPIs post emergence of COVID, general category FPI utilisation of investment limit in Central G-Secs has fallen to 39.7 per cent as on 26th June, 2020, compared to the peaks of over 75 per cent at the beginning of 2020.

Agriculture

33. Agriculture and allied activities activities' contribution to growth may be significant on the back of an increase of 3.7 per cent in foodgrains production to a new record (as per the third advance estimates of the Ministry of Agriculture released on May 15, 2020). Procurement of wheat from farmers by Government agencies has touched an all-time record figure of 388.3 Lakh Metric Tonnes (LMT) on 30th June, 2020 surpassing the earlier record of 381.48 LMT achieved during 2012-13. This has been accomplished during the trying times of Covid-19 pandemic under social distancing restrictions. 42 Lakh farmers have been benefitted with total amount of about Rs. 73,500 crore having been paid to them towards Minimum Support Price (MSP) for wheat. This would help alleviate rural distress at this time arising due to reverse migration of people from cities amid the pandemic.

34. 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. The progress of the monsoon during the month of June, 2020 has been very encouraging and the south-west monsoon has covered whole of India as on 26th June, 2020 – way ahead of the scheduled first week of July. As on 26th June, 2020 up to which latest information is available, kharif sowing was higher by 104.3 per cent over last year's acreage with a big jump in area coverage under Oil seeds, Pulses, Cotton and Coarse Cereals. The procurement of Minor Forest Produces (MFP) under the MSP for MFP Scheme in 16 states has hit a record-breaking high with the procurement touching Rs. 79.42 crore. This has proved to be a much needed panacea in these distressing times of Covid-19 pandemic, which has disrupted lives and livelihoods of tribals. Fertilizer sales have surged by almost 98 per cent year-on-year in May 2020 reflecting a robust agricultural sector.

VI. GROWTH OUTLOOK

35. India's real GDP growth rate was 4.2 per cent in 2019-20 as per the provisional estimates released by the National Statistical Office, compared to 6.1 per cent recorded in previous year. Nominal GDP for the year is estimated at Rs. 203.4 lakh crore, lower as compared to the Budget Estimates. This may be attributed to lower growth in Q4 of 2019-20 due to the global spread of COVID-19 since January 2020 and subsequent lock-down measures across countries including India. Real GDP growth rate in Q4 of 2019-20 was at 3.1 per cent, a 2.6 percentage point drop from growth rate in 2018-19. Overall inflation as measured by the GDP deflator for 2019-20 works out at 2.9 per cent, lower than 4.6 per cent in 2018-19. Growth of real Gross Value Added (GVA) at basic prices was at 3.9 per cent in 2019-20, as compared to 6.0 per cent in 2018-19. Real GVA growth has declined in almost all sectors except Agriculture & Allied; Mining & quarrying; and Public administration, defence and other services in 2019-20.

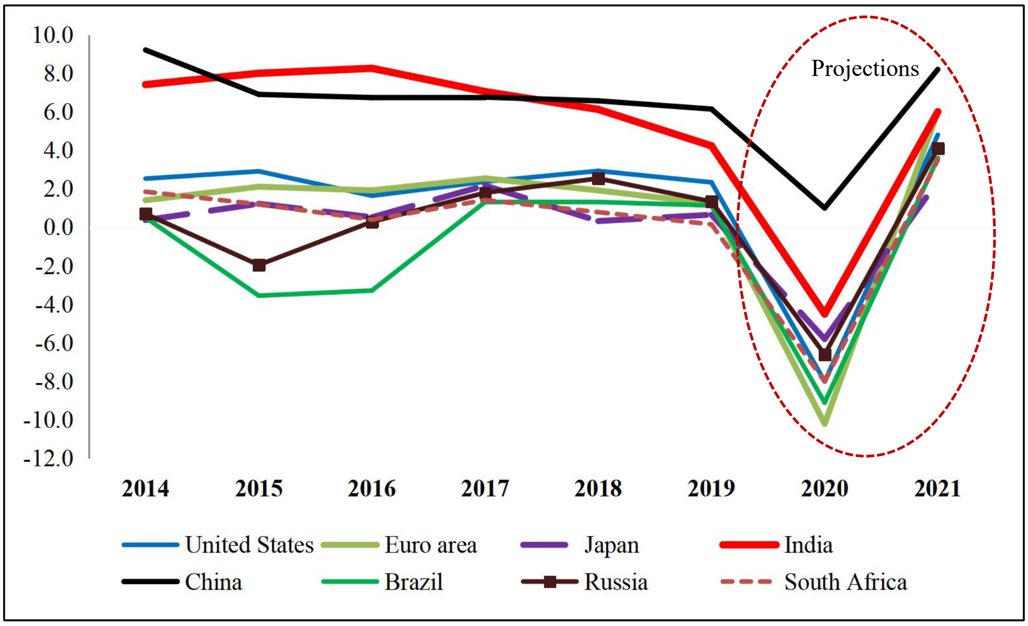
Table 5: India's GDP growth estimates (percent)

	2017-18	**2018-19**	**2019-20**
	2nd RE	1st RE	PE
Real	7.0	6.1	4.2
Nominal	11.1	11.0	7.2

RE: Revised Estimates, PE: Provisional Estimates

36. Given the immense uncertainty associated with infection and macroeconomic recession curves of countries across the world, IMF, in its World Economic Outlook (June 2020) report, has downward revised global growth to (–) 4.9 per cent in 2020, 1.9 percentage points lower than its April 2020 forecast. All regions across the world are projected to experience negative growth in 2020, the first time in history. While advanced economies are projected to contract by 8 per cent in 2020, 1.9 percentage points lower than the April forecast, growth in emerging market and developing economies has been forecast at -3.0 per cent, a downward revision of 2 percentage points. In line with downward revision of global growth, India's growth has been forecast at (-) 4.5 per cent in 2020, a 6.4 percentage point downward revision compared to the April 2020 forecast.

Figure 17: Real GDP growth across countries and country groups



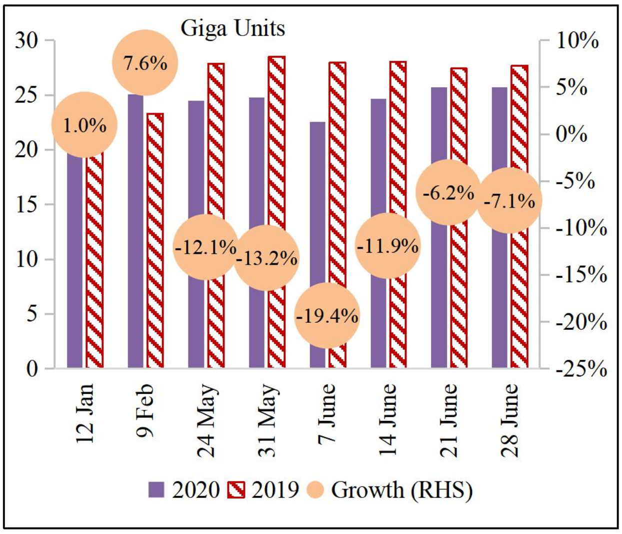
Source: WEO, April 2020 database and June 2020 Update

VII. GREEN SHOOTS OF ECONOMIC REVIVAL IN SELECT REAL ACTIVITY INDICATORS

37. Early green shoots of economic revival have emerged in May and June with real activity indicators like electricity and fuel consumption, inter and intra-state movement of goods, retail financial transactions witnessing pick up. Electricity consumption saw lower contraction in growth rates from (-) 24 per cent in April to (-) 15.2 per cent in May to (-)11.3 per cent in June (till 28th June). In June, electricity consumption has continuously improved with year on year contraction declining from from (-)15.6 per cent in the first half of June to (-)7 per cent in the second half of June (as on 28th June).

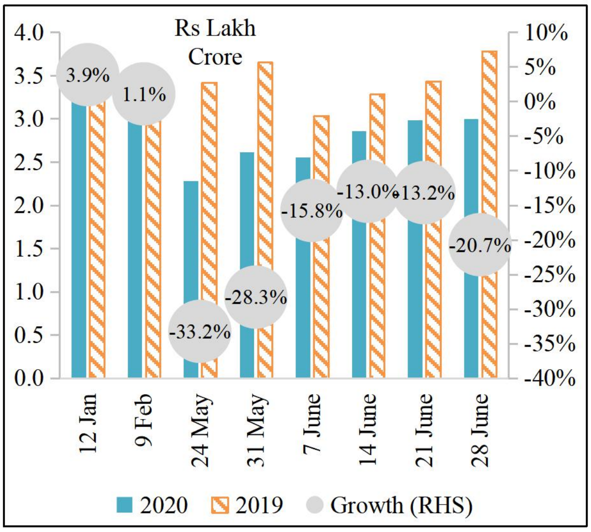
38. Total assessable value of E-Way bills picked up by a massive 130 per cent in May 2020 (Rs. 8.98 lakh crore) compared to April 2020 (Rs. 3.9 lakh crore), though lower than previous year and pre-lock-down levels. Value of E-Way bills generated between 1st and 28th June stood at Rs. 11.4 lakh crore.

Figure 18: Power consumption



Source: POSOCO

Figure 19: Total assessable value of E-Way bills

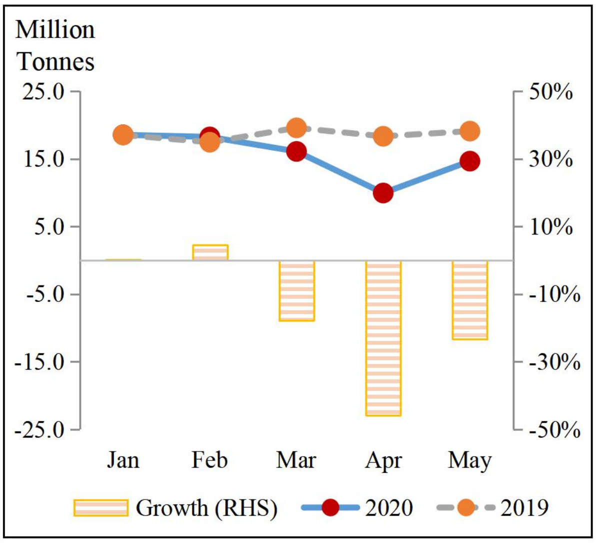


Source: GSTN

39. Consumption of petroleum products, a major indicator reflecting consumption and manufacturing activity in the country increased by 47 per cent from 99.37 lakh metric tonnes in April to 146.46 lakh metric tonnes in May. Consequently, year-on-year contraction in consumption growth of petroleum products was much smaller at (-)23.2 per cent in May as against (-)45.7 per cent in April. In June, growth in consumption of petroleum products is expected to be still higher after one month of Unlock 1.0.

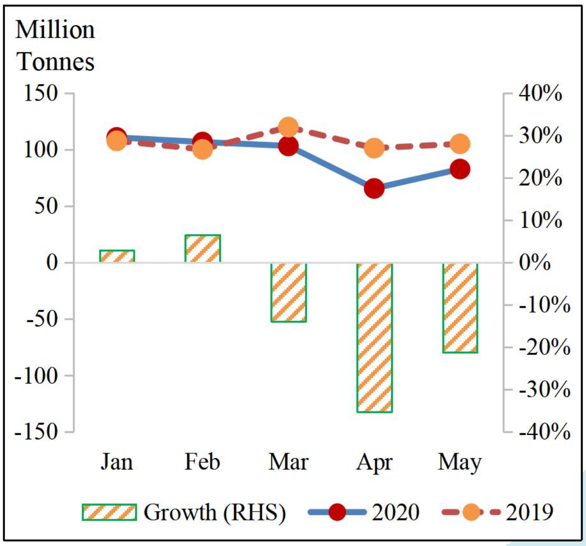
40. Railway freight traffic improved by 26 per cent in May (8.26 crore tonnes) over April (6.54 crore tonnes), though still lower than previous year levels. The improvement is likely to continue in June in sync with growth in movement of goods on National Highways.

Figure 20: Consumption of petroleum products



Source: PPAC

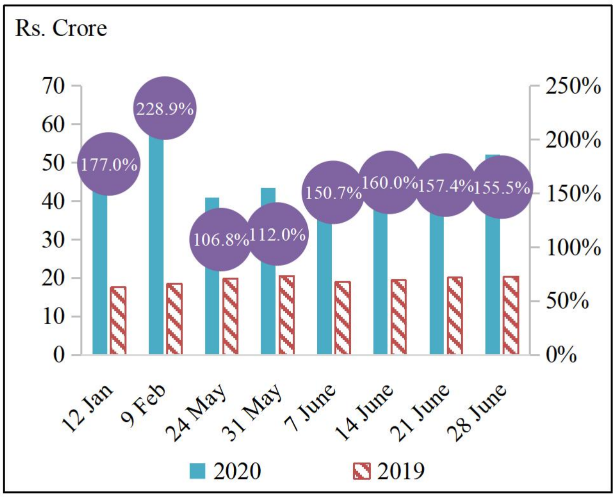
Figure 21: Revenue Earning Freight Traffic of Major Commodities



Source: M/o Railways

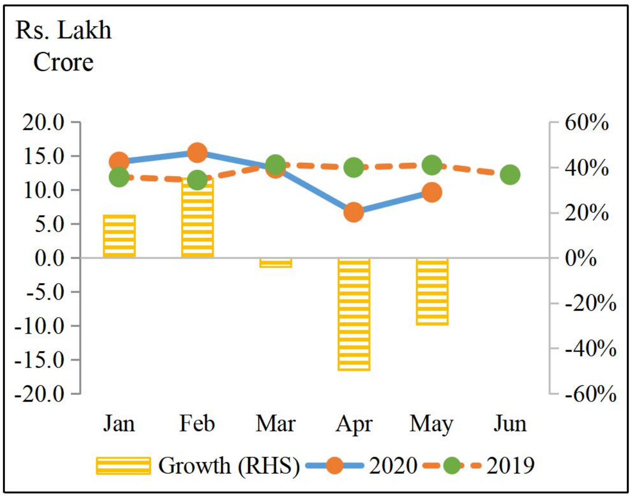
41. Average daily electronic toll collections increased from Rs. 8.25 crore in April, 2020 to Rs. 36.84 crore in May, rising more than 4 times. In the first four weeks of June, it has improved further to Rs. 50.9 crore. Total digital Retail financial transactions via NPCI platforms increased sharply from Rs. 6.71 lakh crore in April, 2020 to Rs. 9.65 lakh crore in May. The trend is expected to continue in June driven by a sustained pick-up in real activity.

Figure 23: Average daily electronic toll collection



Source: NHAI

Figure 24: Retail financial transactions through NPCI



Source: NPCI

42. The commitment of the Government towards both structural reforms and supportive social welfare measures will help build on these 'green shoots'. The resolve for 'Atmanirbhar Bharat' will be strengthened with the collective effort of all stakeholders and contribute to rebuilding a strong vibrant Indian economy.

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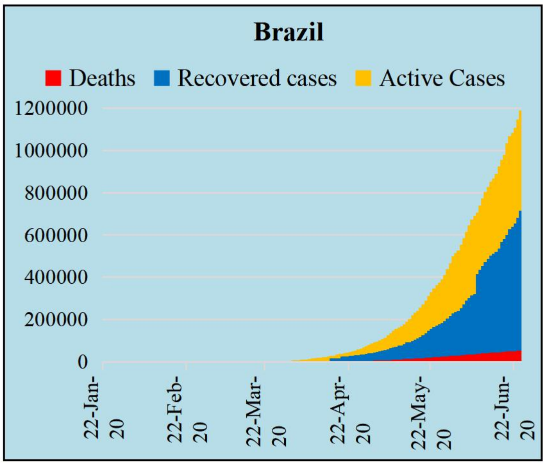
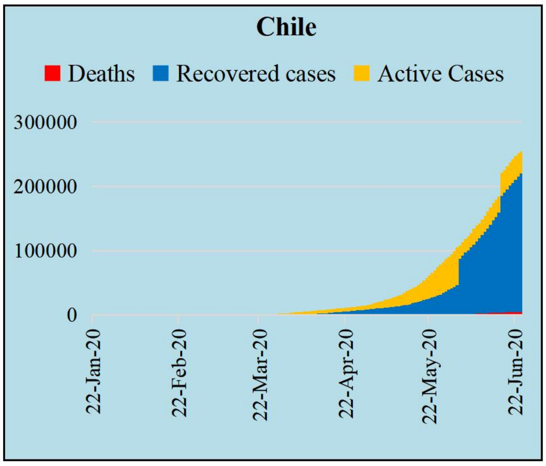
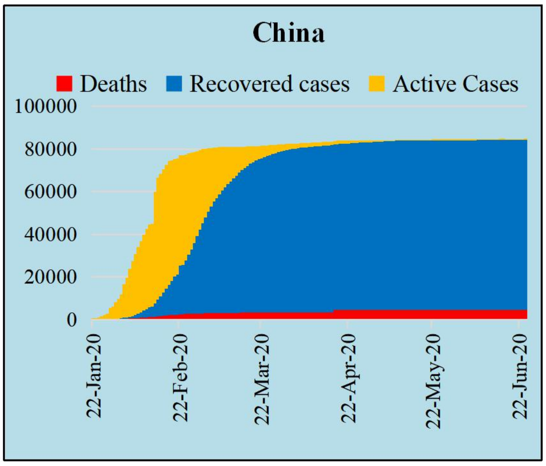
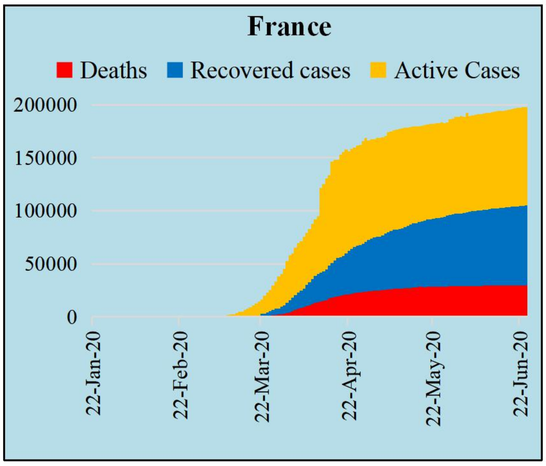
Annexure

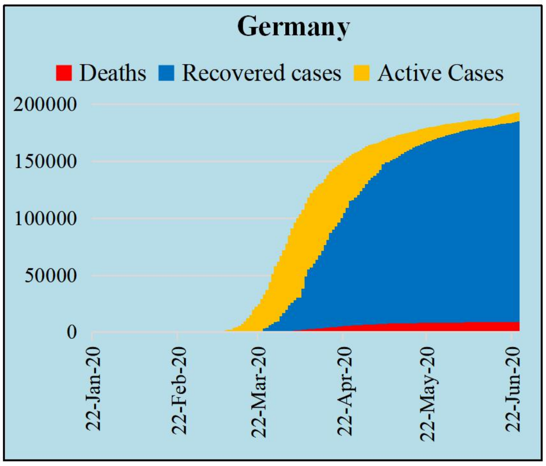
Active, Deaths, Recovered cases in countries with 150000+ confirmed cases and China & South Korea as of June 24, 2020

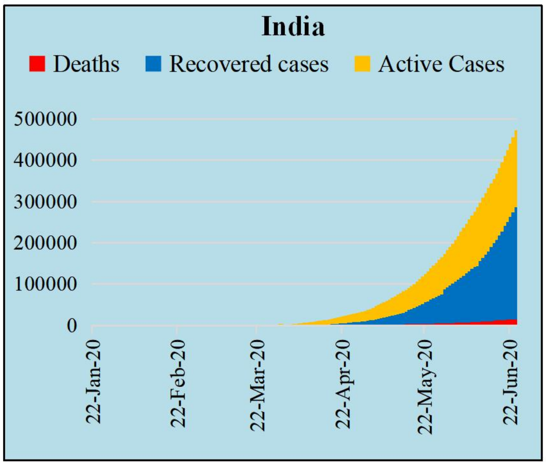


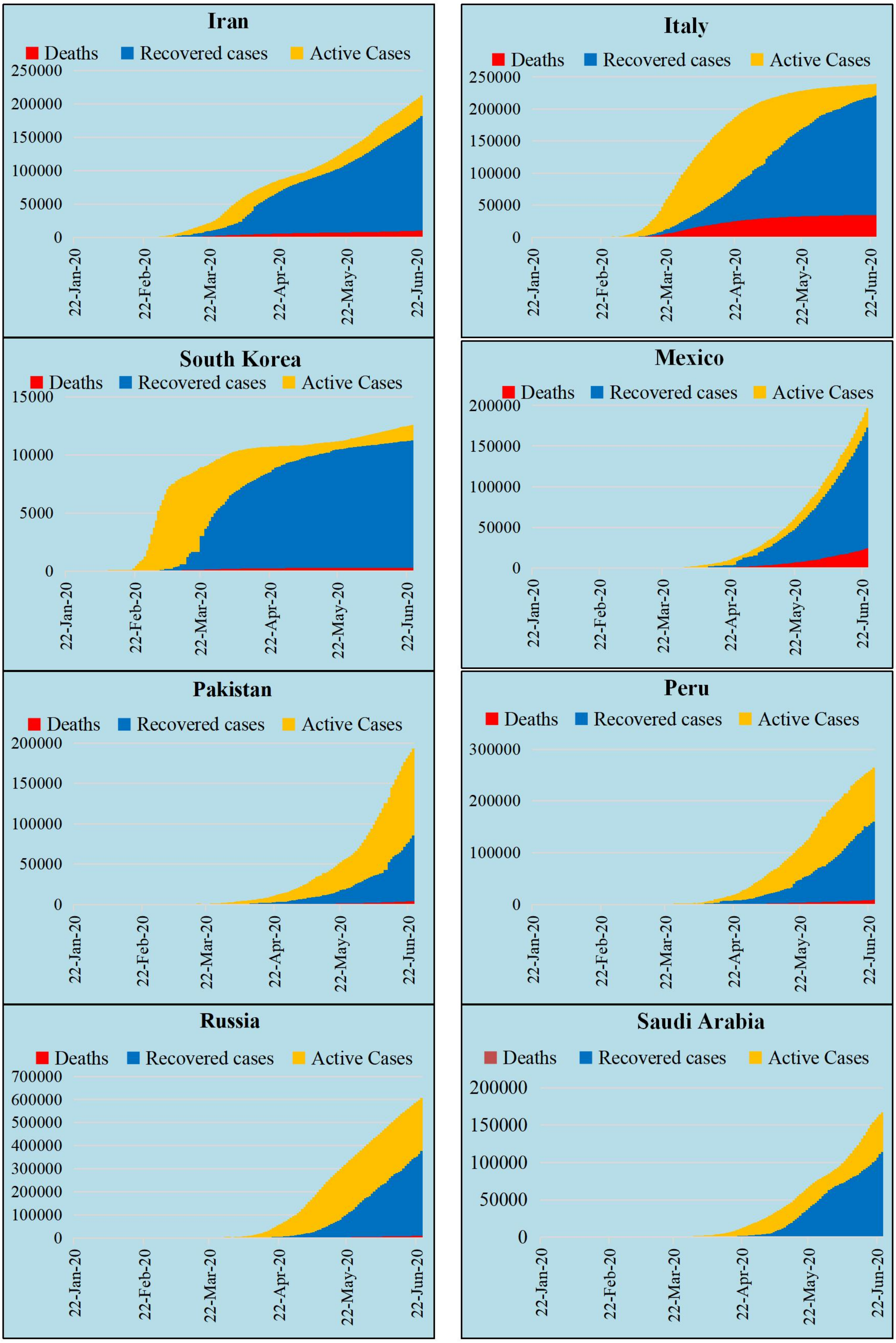


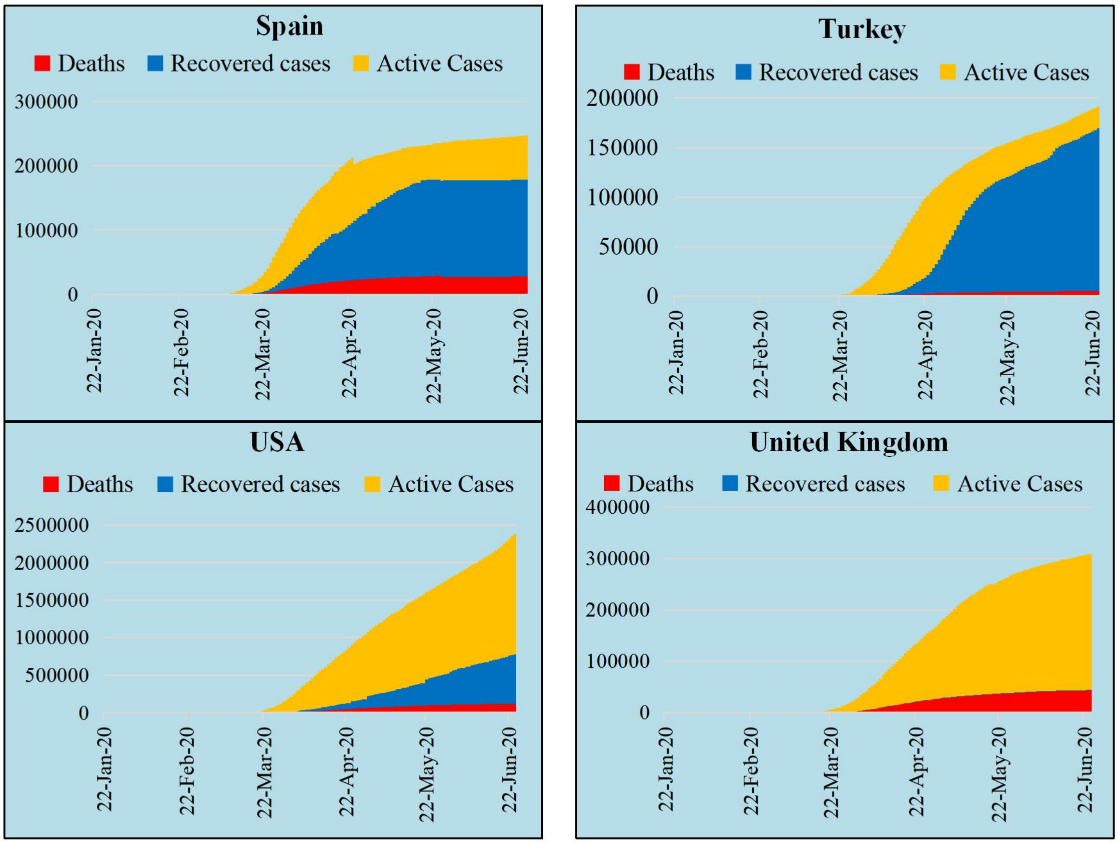









Iran
Deaths Recovered cases Active Cases
250000 200000 150000 100000 50000 0
22-Jan-20 22-Feb-20 22-Mar-20 22-Apr-20 22-May-20 22-Jun-20
Italy
Deaths Recovered cases Active Cases
250000 200000 150000 100000 50000 0
22-Jan-20 22-Feb-20 22-Mar-20 22-Apr-20 22-May-20 22-Jun-20
South Korea
Deaths Recovered cases Active Cases
15000 10000 5000 0
22-Jan-20 22-Feb-20 22-Mar-20 22-Apr-20 22-May-20 22-Jun-20
Mexico
Deaths Recovered cases Active Cases
200000 150000 100000 50000 0
22-Jan-20 22-Feb-20 22-Mar-20 22-Apr-20 22-May-20 22-Jun-20
Pakistan
Deaths Recovered cases Active Cases
200000 150000 100000 50000 0
22-Jan-20 22-Feb-20 22-Mar-20 22-Apr-20 22-May-20 22-Jun-20
Peru
Deaths Recovered cases Active Cases
300000 200000 100000 0
22-Jan-20 22-Feb-20 22-Mar-20 22-Apr-20 22-May-20 22-Jun-20
Russia
Deaths Recovered cases Active Cases
700000 600000 500000 400000 300000 200000 100000 0
22-Jan-20 22-Feb-20 22-Mar-20 22-Apr-20 22-May-20 22-Jun-20
Saudi Arabia
Deaths Recovered cases Active Cases
200000 150000 100000 50000 0
22-Jan-20 22-Feb-20 22-Mar-20 22-Apr-20 22-May-20 22-Jun-20



Source: 2019 Novel Coronavirus COVID-19 Data repository by John Hopkins CSSE

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