

**Economic
Division**

Monthly Economic Review

November, 2020



**आर्थिक कार्य विभाग
DEPARTMENT OF
ECONOMIC AFFAIRS**

Abstract

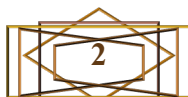
The year-on-year GDP contraction of 7.5 per cent in Q2 of 2020-21 underlies a quarter-on-quarter surge in GDP growth of 23 per cent. This V-shaped recovery, evident at the half-way stage of 2020-21, reflects the resilience and robustness of the Indian economy. The fundamentals of the economy remain strong as gradual scaling back of lockdowns, along with the astute support of Atmanirbhar Bharat Mission has placed the economy firmly on the path of recovery. This is in alignment with economic recovery across the globe reflecting a world-wide pick-up in business and consumer confidence.

Growth in fixed investment along with a gradual increase in private consumption and sizeable contribution from net exports has led the recovery of the Indian economy in Q2. The growth drivers have obtained largest support from agriculture followed by construction and manufacturing. The contact-sensitive services sector has also contributed although mainly through logistics and communication. Services dependent on human mobility and contact will bide their time to reach pre-pandemic levels before the fear of contagion declines to manageable levels, addressed among others, by the emergence of a vaccine.

The recently celebrated festive season contributed to a rise in fresh COVID-19 positive cases in India, although numbers have started to decline again, a trend seen in many other countries. Consequently, world-wide, the months of October and November, 2020 have been of economic uncertainty with global composite PMI and goods trade activity showing a tepid increase. Energy and metal prices around the world have moved in different directions further adding to the uncertainty. In general, global inflation has softened in advanced economies while climbing up further in emerging market economies reflecting a relatively larger impact of supply-side disruptions on economically more challenged countries in the world. High optimism among investors however continues unabated as seen in equity markets the world over. With further weakening of US dollar in November, prospects of growth in rest of the world have become stronger.

Moving deeper into Q3, there is a cautious optimism that global economic uncertainty does not mirror itself in India notwithstanding moderation of a few high frequency indicators late in the month of November. Overall increase in rabi coverage with adequately filled irrigation reservoirs bodes well for growth of agricultural output in 2020-21. The sustained demand for labour arising from increase in rabi sowing has also contributed to growth in rural wages additionally propped up by increase in wages and employment generation under MGNREGS. The additional allocation of Rs 10,000 crore in the latest package for Pradhan Mantri Garib Kalyan Rozgar Yojana would give a further boost to job creation in the rural sector and supplement rural incomes. Increase in minimum support prices for both kharif and rabi crops in 2020-21 and progress in rice procurement, have already been supplementing rural incomes in the country. Higher incomes, among others have led to increase in sales of passenger vehicles, two and three wheelers and tractors by a good year-on-year margin in October.

The index of eight core industries contracted slightly more in October than in the previous month due to a large contraction in production of petroleum refinery products. This has also led to a contraction of petroleum exports. Manufacturing PMI moderated to 56.3 in November against the decade high level of 58.9 in October. With PMI Services index also ending the seven-month sequence of contraction to rise to 54.1 in October, growth of output in the second half of 2020-21 is poised to replicate the performance of Q2. Power consumption and E-Way bills are seen to sustain the growth momentum in November along with continuous increase in average daily electronic toll collection, double digit growth in rail freight traffic and gradual recovery in passenger earnings. Port cargo



traffic has almost converged to the previous year level in October with domestic aviation steadily adding passengers, month after month. With consumption of petroleum products also emerging out of its seven-month contraction in October, a domestic impetus to growth is more visible.

Foreign Direct Investment (FDI) continues to endorse India's status as a preferred investment destination among global investors as FDI inflow rise more than 10 per cent year-on-year to reach US\$ 40 billion in the first six months of 2020-21. FPI inflows also reflect the same sentiment reaching a historic high of US\$ 8.5 billion in November. Consequently, and on the back of continued contraction in imports, forex reserves continue to scale new highs to reach US\$ 575 billion on 20th November, 2020, extending import coverage to now more than 16 months. The accumulation of reserves keeps the rupee strong in the range of 73.8-74.7 INR/US\$ in November with RBI guiding it to its market-determined level. The investment of reserves continues to be guided by concerns of safety, liquidity and returns in that order, as per the Reserve Management Policy of RBI.

Accumulation of dollars along with growth of currency in circulation is enhancing liquidity in the banking system despite the average daily net absorptions by RBI having risen from October to November. High liquidity continues to ease G-sec yields although corporate bond yields have experienced some stiffening resulting in a decline in the number of privately placed issues between August and October. Enhanced liquidity has improved monetary policy transmission with continuous decline in MCLR, savings and term deposit rates. Effective Weighted Average Yield of commercial papers and rates of certificates of deposits have fallen below the repo rate and now closing on to the reverse repo rate as well. Yet overall growth in bank credit remains sluggish although the Emergency Credit Line Guarantee Scheme (ECLGS) continues to support robust credit disbursement to MSMEs. The extension of ECLGS to 26 stressed sectors identified by the Kamath Committee and the health sector may eventually go on to drive the overall growth of bank credit. Presently, excess liquidity is finding its way into commercial paper, bonds/debenture and shares of corporate bodies.

As on 20 November 2020, the Central Government gross market borrowing for FY2020-21 has reached Rs. 9.05 lakh crore, while State Governments have raised Rs.4.73 crore. While centre's borrowings is 68 per cent higher than the amount raised in the corresponding period of the previous year, state governments have seen a step up of 50 percent. During almost nine months of pandemic depressed growth and revenues, a significant scale up of borrowings is an ample demonstration of government's commitment to provide sustained fiscal stimulus through maintaining high public expenditure levels in the economy. The timely announcement of the third tranche of the Atmanirbhar Bharat package on the eve of Diwali is the most recent demonstration of the commitment.

The downside risk, however, remains the spread of a second wave of COVID-19. However, there is a growing cautious optimism that the steep plunges of April-June quarter of 2020 may not resurface with significant progress in vaccines and contact intensive sectors increasingly adapting to a virtual normal. The need of the hour is to follow covid-appropriate behaviour and earnest observation of laid down standard operating guidelines (SOPs) till a vaccine is approved and a large section is inoculated.



V-shaped recovery evident from the GDP growth figures of Q2: 2020-21

1. India's GDP staged a resilient V-shaped recovery in Q2:2020-21 suggesting that the resumption of economic activity has been gathering pace. India's GDP growth rose to (-)7.5 percent YoY in Q2, a sharp rebound from the lockdown-induced decline of (-)23.9 percent in Q1. This is in line with the experience of various economies globally. With the scaling back of lockdowns in May and June, which helped to break the chain of the spread, most economies rebounded from their troughs, posting sharp narrowing in contractions of quarterly growth amid lifting of the containment measures and pick up in business and consumer confidence (Table 1).

Table 1: GDP Growth (YoY) in Q2 and Q3 of FY 2020-21

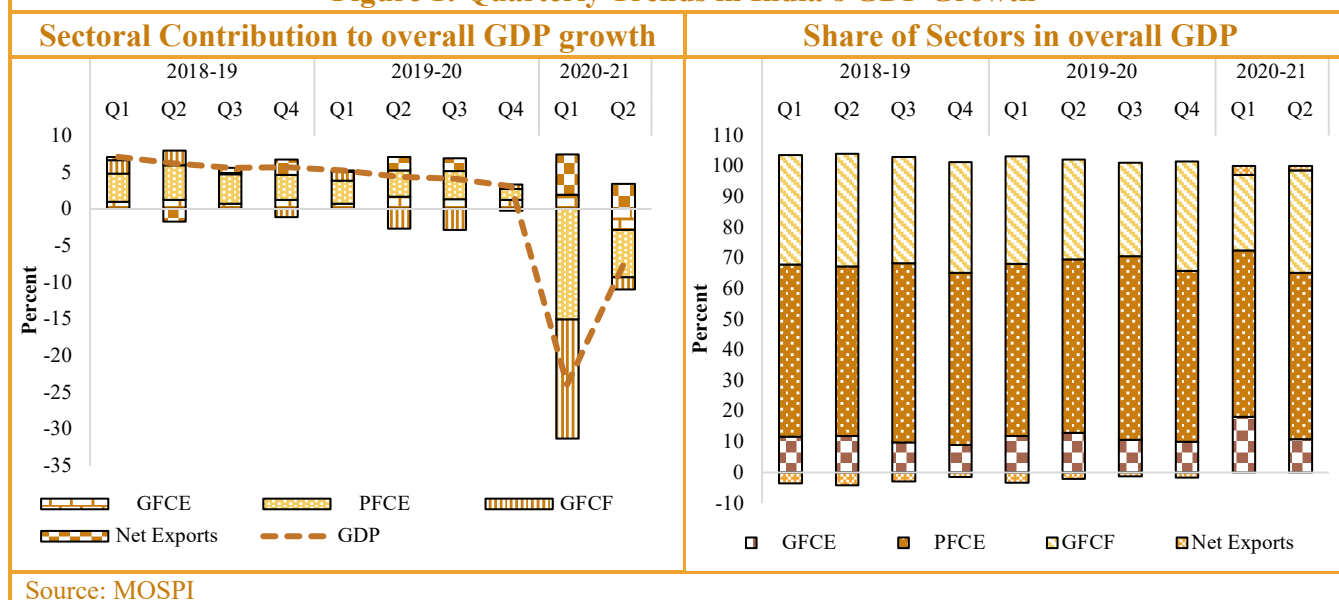
G-20 Advanced Economies		
Canada	-12.5	-5.2
France	-18.9	-3.9
Germany	-11.2	-4
Italy	-18	-5
Japan	-10.3	-5.9
Spain	-21.5	-8.7
United Kingdom	-21.5	-9.6
United States	-9	-2.9
G-20 Emerging Markets		
Brazil	-11.4	-
China	3.2	4.9
India	-23.9	-7.5
Indonesia	-5.4	-3.6
Mexico	-18.7	-8.6
Russia	-5.6	-
South Africa	-17.2	-
Turkey	-8.5	5.4

Source: OECD, MOSPI (for India)

2. On the demand side, consumption and investment accounting for more than 90 percent of overall GDP have staged recoveries. The fixed investment growth sharply rebounded to (-)7.3 percent YoY in Q2 from (-)47.1 percent in Q1 – indicating a pickup of construction projects (Figure 1). Change in stocks has turned positive – probably due to stocking of higher inventories due to anticipated festive season after Q2. Private consumption recovered to (-)11.3 percent in Q2 YoY vs (-)26.7 percent in Q1. Government spending contracted by a (-)22.2 percent YoY in Q2 vs +16.4 percent in Q1 – reflecting the effort to consolidate the fiscal situation given fall in revenues. The enhanced Government spending in Q1, was imperative at that time, given the uncertainty of the lockdown and has supported the recovery in various segments in Q2. Net

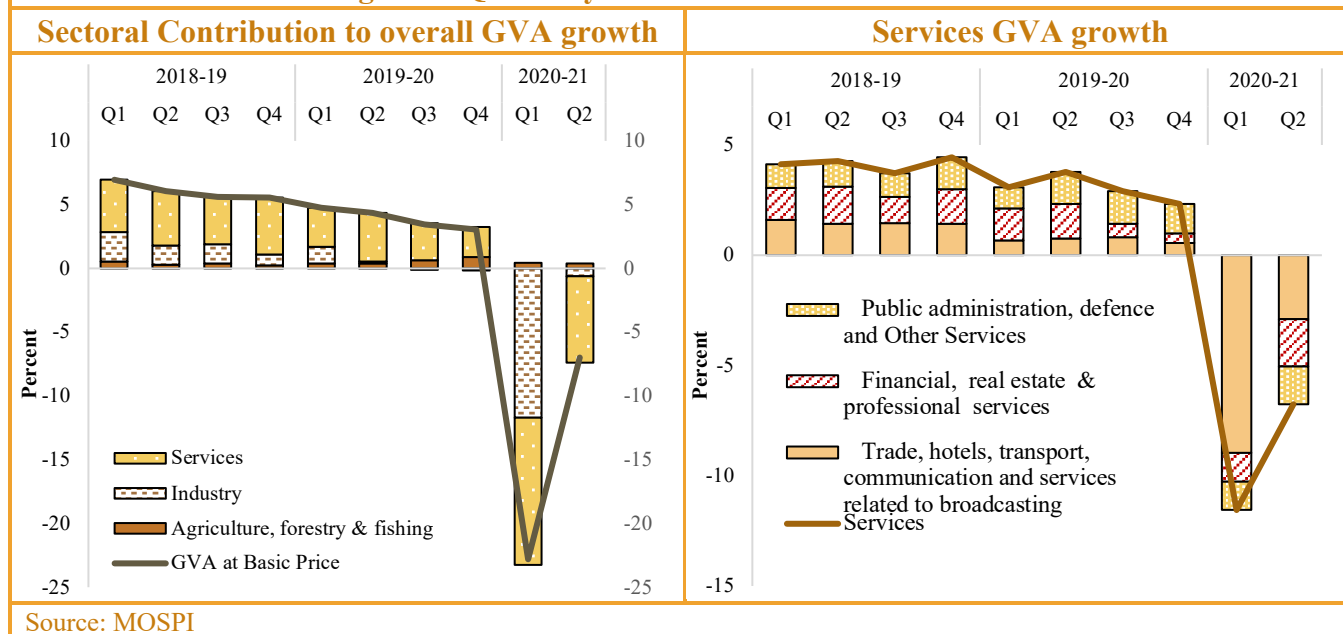
exports contributed a sizeable 3.4 percentage points (pp) contribution to GDP growth, compared with 5.5 pp in Q1 due to muted growth in imports and lower oil prices.

Figure 1: Quarterly Trends in India's GDP Growth



3. On the supply side, Gross Value Added (GVA) growth picked up to (-)7.0 percent YoY in Q2 vs (-)22.8 percent in Q1 with the gains powered by the manufacturing, electricity and agriculture sector. Agricultural GVA rose a robust 3.4 percent YoY in Q2, similar to Q1, providing a stable foundation for growth this year. Industrial GVA growth rebounded sharply to (-)2.1 percent YoY in Q2 from (-)38.1 percent in Q1, with manufacturing showing a strong pickup of 0.6 percent in Q2 from (-)39.3 percent in Q1. As was evident from the trends in power consumption, the electricity sector has rebounded into positive territory in Q2. The trends in steel and cement production too indicated a recovery in construction sector which grew by (-)8.6 percent in Q2 as compared to (-)50.3 percent despite monsoons. The contact-sensitive services sector continues to be most affected though it has recovered to (-)11.4 percent in Q2 against (-)20.6 percent in Q1. Within services, “trade, hotels, transport and communication” sector posted a sharp recovery of (-)15.6 percent in Q2 vs (-)47 percent in Q1 – largely due to resumption of movement of goods and enhanced use of communication services by people working from home. The financial and real estate services sector and Public administration services, however, have contracted more sharply.

Figure 2: Quarterly Trends in India's GVA Growth

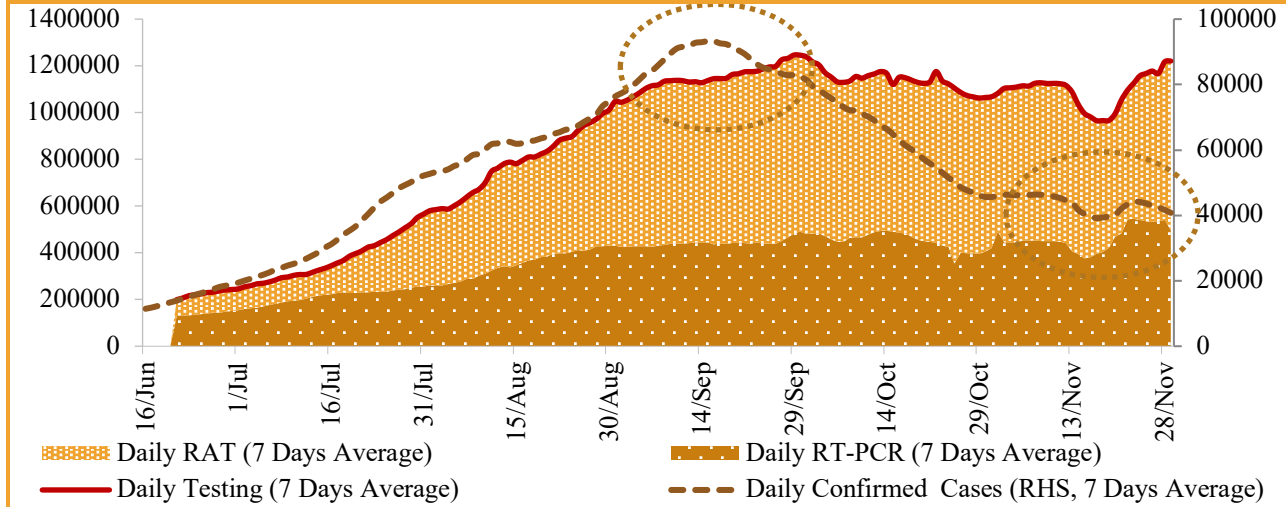


Spread of COVID relatively manageable though some States show a sharp increase

4. The number of confirmed cases of COVID-19 globally now exceeds 6.4 crore with more than 14.9 lakh deaths. There has been a resurgence of new cases with daily cases varying between 5- 6 lakh per day, with concentration in United States, Brazil and India. Many European countries responded to the resurgence of fresh cases by imposing partial, shifting and focussed lockdowns of 'hot-spots'. Though concerns over the pandemic remain, the positive news on the vaccine front has raised hopes of a global economic recovery.

5. With India reporting a relative decline in daily COVID-19 cases and improved recoveries, India's global position in number of active COVID cases moved from second to seventh after US, France, Italy, Belgium, Brazil and Russia as on 30th November. The festive season led rebound in mobility and consumption contributed to a rise in fresh cases in November. The 7-day average of daily growth in active cases increased in November to -0.7 per cent as on 30th November as compared to -1.8 per cent as on 31st October (Figure 3). The trend in the daily new cases in India first rose to a peak, then decreased and is now flat — this is similar to the trends seen in the US (witnessing its third wave), the United Kingdom (seems to be near the peak of its second wave), Russia and Italy (both are seeing much stronger second waves). The encouraging parameters, however, were that the recovery rate continues to improve to ~94 per cent as on 30th November vis-à-vis 83.3 percent as on 31st October. Case fatality rate continues to decline to 1.48 per cent as on 31st October as compared to 1.57 per cent as on 30th September.

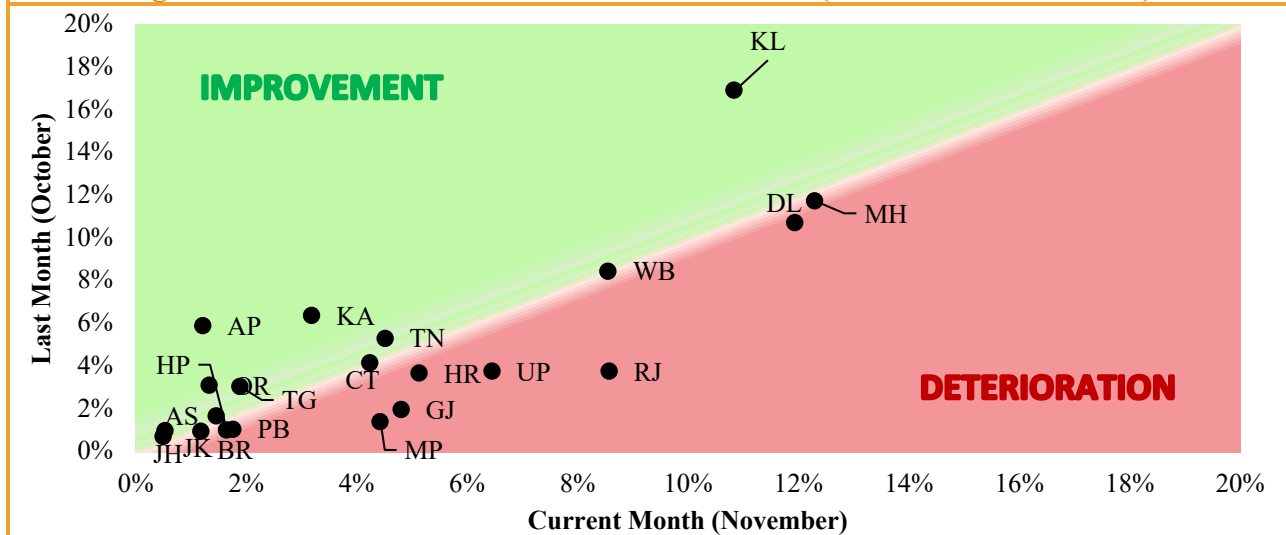
Figure 3: Trend in Daily confirmed cases and Testing in India



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

6. If we compare the share of daily COVID cases in November with the share in last month, it is evident that Andhra Pradesh, Karnataka, Kerala, Bihar, Telangana and Orrisa have shown improvement while Gujarat, Madhya Pradesh, Rajasthan, Uttar Pradesh and Delhi are probably facing their second/third waves (Figure 4).

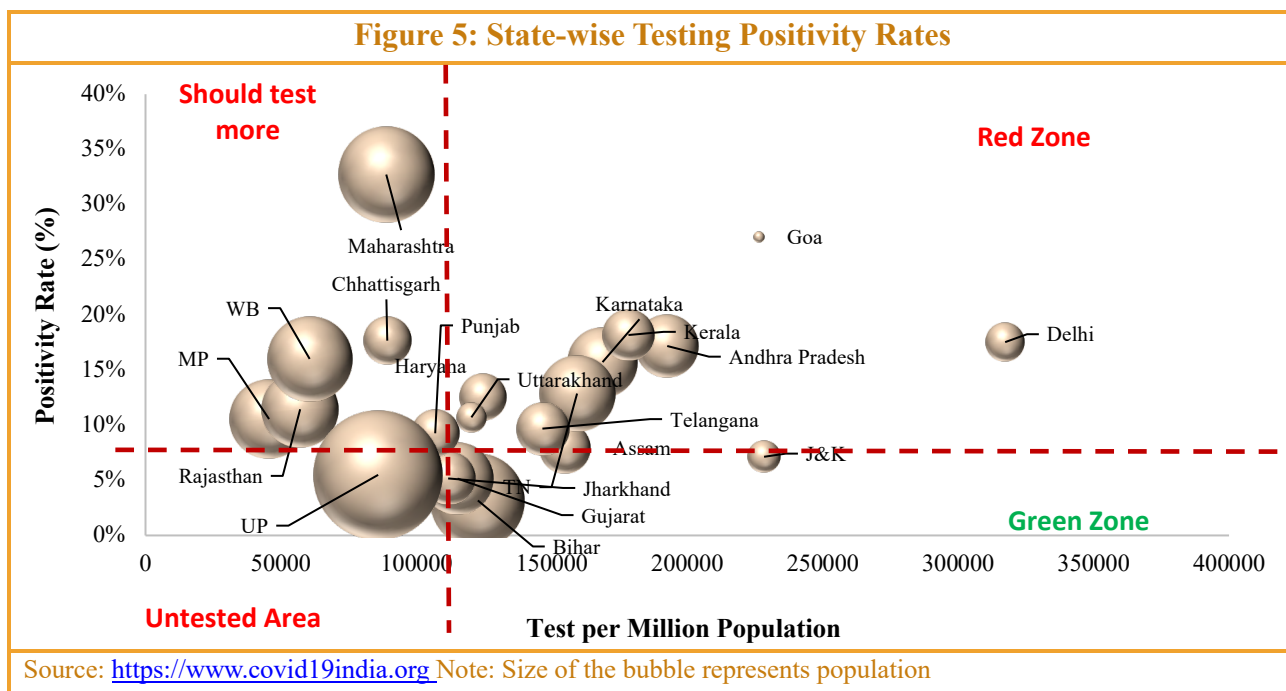
Figure 4: Share of States in new COVID -19 Cases (Current vs Last month)



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

7. Given the resurgence in spread, the significance of continuous testing and rigorous contact tracing, therefore, cannot be diluted. India has tested nearly 15.05 crore cumulative COVID-19 samples as on 30th November. The tests per million, now standing at around 1,13,021, are among the top 10 countries in the world. The cumulative test positivity rate is, now, below the WHO standard of 8 percent at 6.3 percent which indicates that testing in India matches

the global averages. The 7-day positivity rate has shown a decrease to 3.4 percent. Some States like Maharashtra, Madhya Pradesh, Chhattisgarh, Punjab and Rajasthan have a test positivity rate much higher than the WHO average (Figure 5). This manifests an increased and continuous emphasis to be laid on increasing testing capacity.



8. The trends in the spread of the pandemic clearly shows that India is at a critical juncture now after crossing its first peak in mid-September. It is imperative to keep a guard against the resurgence of a second wave in India especially with the onset of the winter season.

Macro-economic Scenario

9. The GDP growth estimates for Q2: 2020-21 reflect a faster recovery of the Indian economy subsequent to unlocking and supportive policy. The sustained increase in major economic activity indicators beyond September, raises hopes of a better performance in Q3 in alignment with the global scenario.

Global

10. According to the latest IMF World Economic Outlook, global growth is projected at (-)4.4 percent in 2020, less severe contraction than forecasted in summer. Revision reflected better-than anticipated second quarter GDP outturns, mostly in advanced economies as well as stronger recovery in the third quarter. Economic output is expected to expand by 5.2 percent in 2021, though large uncertainty related to pandemic path and associated economic activity disruption pose downside risk to the growth trajectory (Table 2).

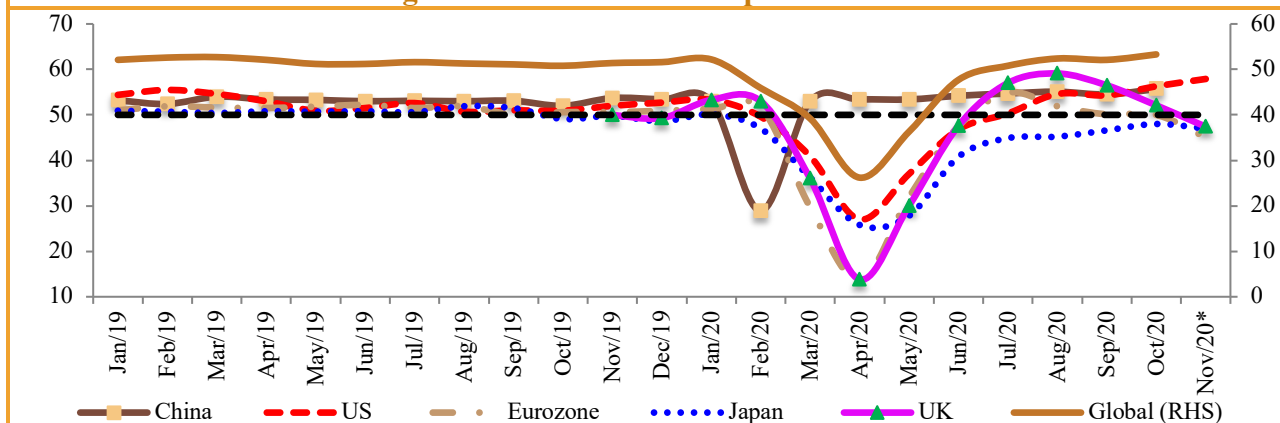
Table 2: Growth projections by IMF, World Economic Outlook- October, 2020

Regions/Countries	2020	2021
World	-4.4	5.2
Advanced Economies	-5.8	3.9
United States	-4.3	3.1
Euro Area	-8.3	5.2
Japan	-5.3	2.3
Emerging Market and Developing Economies	-3.3	6.0
India	-10.3	8.8

Pace of output recovery surrounded by uncertainty due to resurgence of infections

11. Global composite Purchasing Managers Index (PMI) increased to 53.3 in October from 52.5 a month ago (Figure 6). Preliminary estimates for November of PMI Composite Index continued to manifest mixed results for major economies. US composite index rose sharply as growth momentum picked up further with steep upturn in service sector activity accompanied by an accelerated rise in manufacturing production. Eurozone business activity fell sharply in November as countries introduced more aggressive measures to counter rising infection rates. Business activity across the UK private sector decreased in November driven by reduction in service sector output since May amid temporary business closures among leisure and hospitality companies. Japan continued its struggle to gain recovery momentum with data indicating further decline in business activity during November.

Figure 6: Global PMI Composite Indices

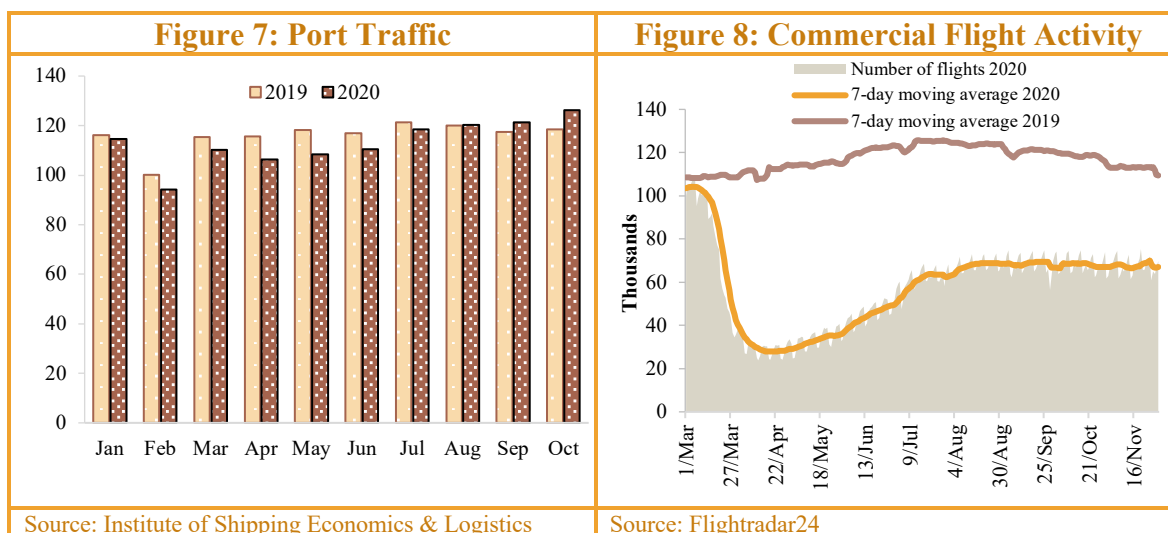


Source: IHS Markit, *Data for November 2020 represents preliminary estimates

Revival in goods trade continues

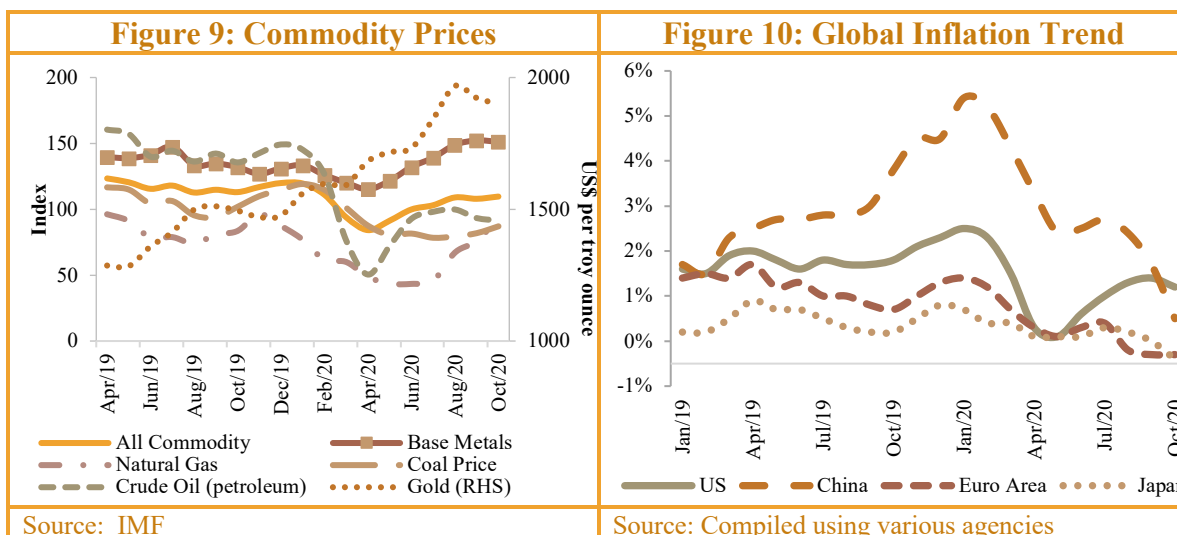
12. PMIs still signal substantial uncertainty for international trade in the coming months. Port traffic activity tracked by the RWI/ISL container throughput index grew by 6.6 percent on YoY basis, as handling capacity broadened across globe (Figure 7). On other hand, average daily number of commercial flights in November indicated stalling of trade activity at 60 per cent of previous year level (Figure 8). Consequently, the upward revision of the projection of world

merchandise trade volume for 2020 by the World Trade Organisation (WTO) from (-) 12.9 per cent made in April to (-) 9.2 per cent in October may face uncertainty.



Energy and metal prices signalled uncertainty on recovery path

13. Commodity price index bounced back in October after moderating in September (Figure 9). Energy commodity prices continued to manifest mixed trends during October with decline in crude oil market, sharp increase in natural gas, and recovery in coal prices. Crude oil prices moderated to US\$ 40.2 per barrel in October, 1.8 per cent below their level a month ago, however recovering slightly in November to US\$ 40.5 per dollar on account of positive development related to vaccine paving way for sustained oil demand recovery. Base metal prices moderated in October by 0.7 percent amid slowdown in China's import and gold prices eased further marginally on a strong dollar. Coal prices continued to rebound for second consecutive month in October supported by the expectation of colder than average winter temperatures in North East Asia and higher natural gas prices. These developments accentuate the significant downside risks to the recent upward revisions to IMF's global output forecasts in its October 2020 World Economic Outlook.

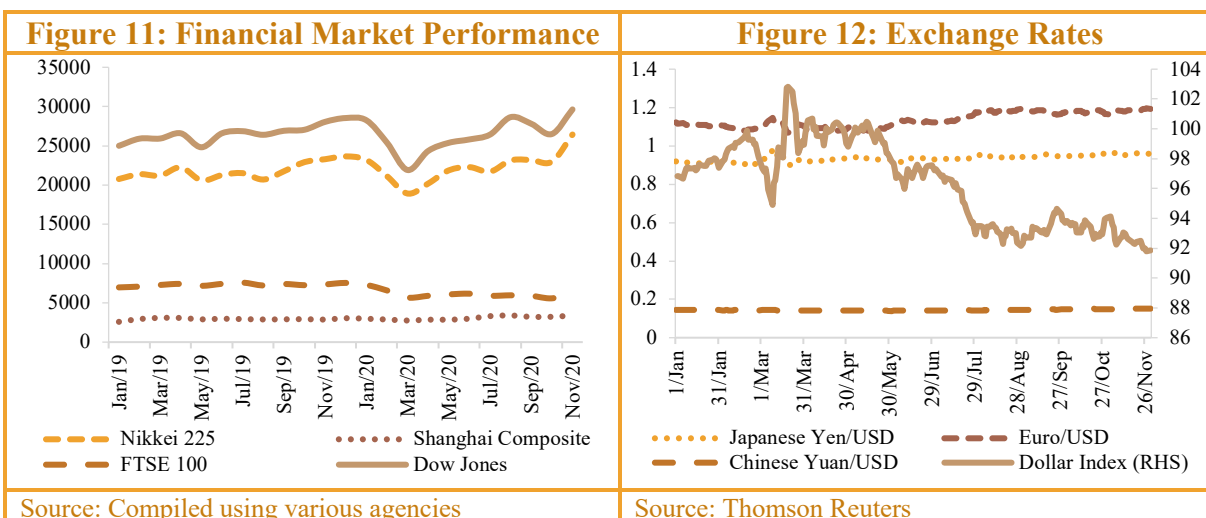


Global inflation softened in AEs, while climbing up further in EMs

14. Consumer inflation continued to remain low in Advanced economies (AEs), reinforced by moderated energy prices. In US, consumer inflation softened to 1.2 percent, while Euro zone continued to experience deflationary conditions for third consecutive month at 0.3 percent (Figure 10). Japan also moved into deflationary zone in October with consumer prices tumbling to lowest level since 2016 to 0.4 percent. Inflation in emerging economies (EMs) like Brazil, Indonesia and Russia inched up further in October while it eased down further in China driven by fall in food prices.

Global investors weigh in positive development on vaccine front

15. Global equity markets recouped in November amid optimism among investors regarding positive developments related to COVID-19 vaccine and better than anticipated economic data releases, outweighing soaring infection rates associated economic activity disruptions. US's S&P 500 index and Dow Jones rally by 10.7 per cent and 11.8 percent respectively (Figure 11). Stocks in Eurozone also gained despite rising infection rates, Germany's DAX and France CAC 40 index climbed up by 15.0 percent and 20.1 percent respectively during November. UK's FTSE 100 recovered strongly by 12.4 percent and Japan's Nikkei 225 posted gains around 15.0 percent. Chinese stocks rose by 5.2 percent on account of solid economic data lifting investors' risk appetite. In the currency markets, the US dollar weakened by 2.31 percent in November, on cumulative year-to-date basis it depreciated by 5.1 per cent up to the month under review (Figure 12).



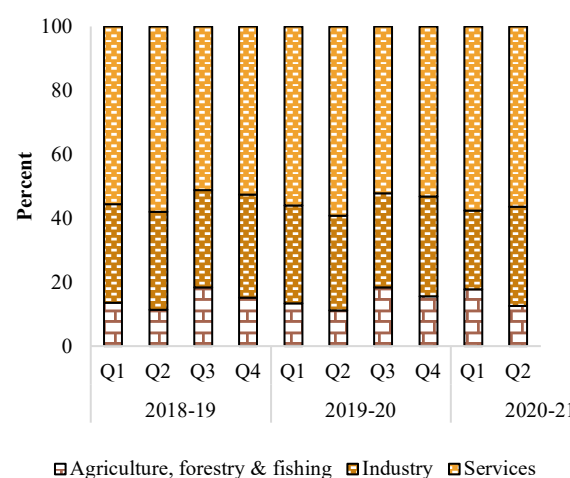
16. The IMF's October Global Financial Stability Report pointed out that financial vulnerabilities from stretched valuations in equity markets, growing corporate debt, and visceral fragilities in banks and the nonbank financial sector are rising, putting medium term macro-financial stability and growth at risk. The IMF's Fiscal Monitor also indicated that sovereign debt is at historically high levels, necessitating prompt and decisive policy action for many low-income countries and some emerging market economies.

India

Agricultural Sector remains the silver lining

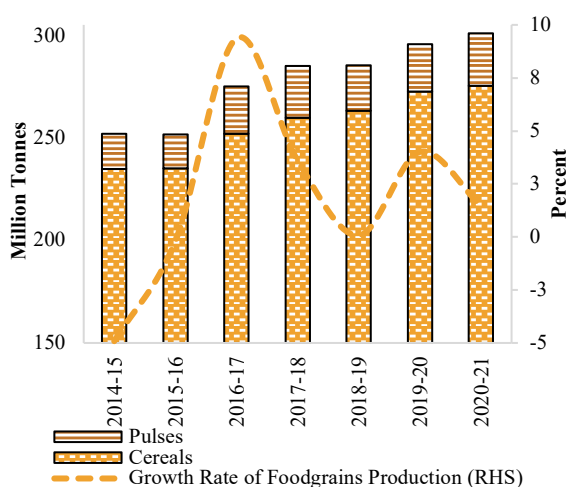
17. Agriculture is set to cushion the shock of the COVID pandemic on the Indian economy in 2020-21 with a growth of 3.4 percent in both Q1 and Q2. It is the only sector that has contributed positively to the overall Gross Value Added (GVA) in both the quarters of 2020-21 (Figure 13). This indicates that agricultural activities for rabi harvesting and kharif sowing were largely unaffected by the covid-induced lockdown. Given the expectation of a bountiful kharif harvest, the food grain production target has been set at 301 million tonnes for the 2020-21 crop year, up by 1.5 per cent from the record output achieved in 2019-20. India's food grains production is estimated at a record 296.65 million tonnes in the 2019-20 crop year (July-June), beating the target of 291.1 million tonnes and 4.0 per cent higher than last year (Figure 14).

Figure 13: Share of Agriculture in GVA in India



Data Source: MOSPI

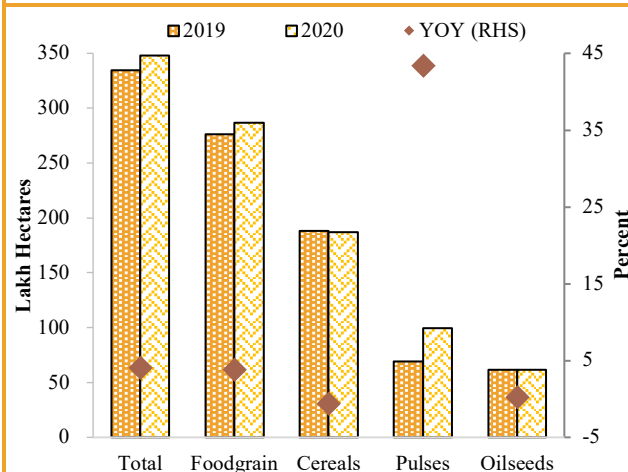
Figure 14: Foodgrain Production in India



Data Source: Ministry of Agriculture.
Data for 2020-21 are targets and for 2019-20 are as per 4th Advance Estimates

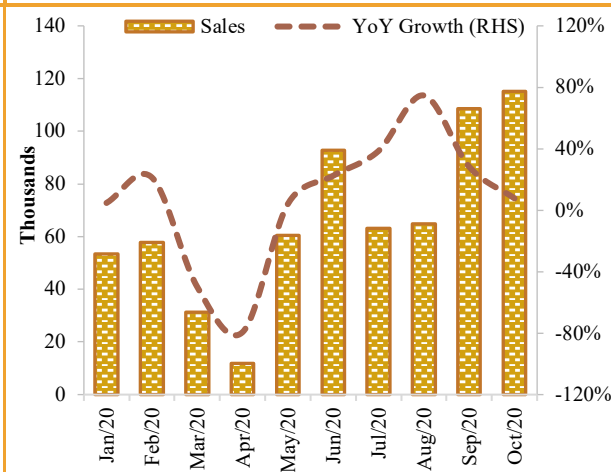
18. The bright prospects of the agricultural sector are also evident in healthy progress of rabi sowing. As on 27th November, 2020, overall rabi acreage stood at 348.24 lakh hectares, 4.02 per cent higher as compared to the previous year (Figure 15). The area under rabi pulses has increased by 43.3 percent – which bodes well for pulses production in 2020-21. The live storage in major reservoirs used for irrigation benefits was 90 per cent of the full reservoir level (FRL), lower than previous year's level (97 per cent) but higher than decadal average of 76 per cent. Rising tractor sales are an indication of a healthy kharif output and prospect of a healthy rabi sowing (Figure 16).

Figure 15: Progress in Rabi sowing



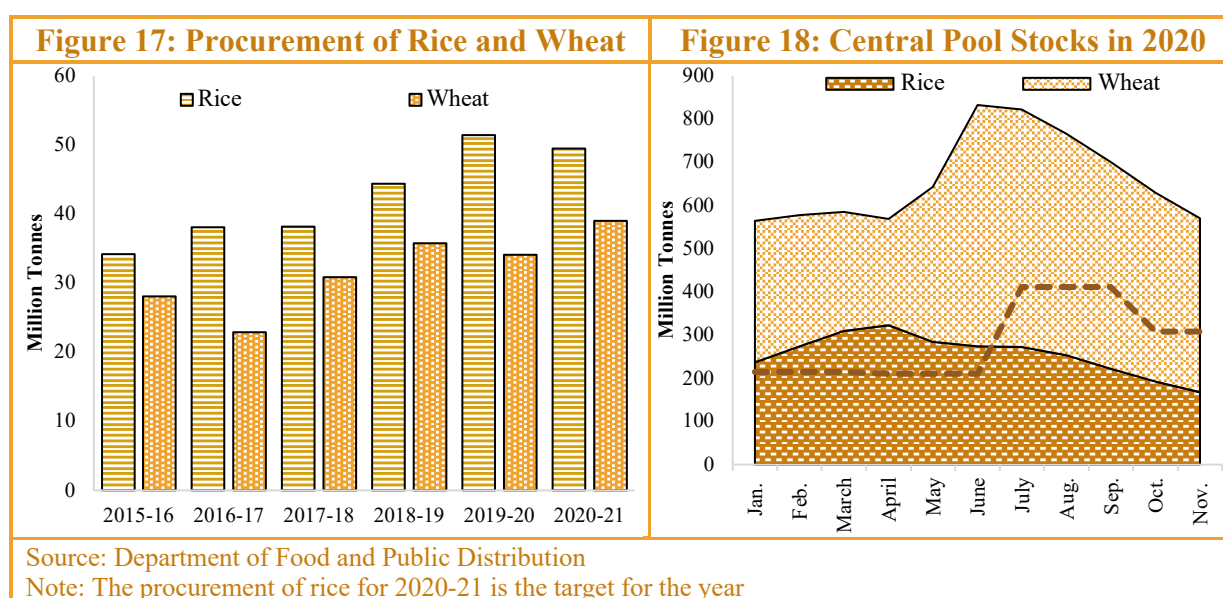
Source: Ministry of Agriculture

Figure 16: Tractor Sales

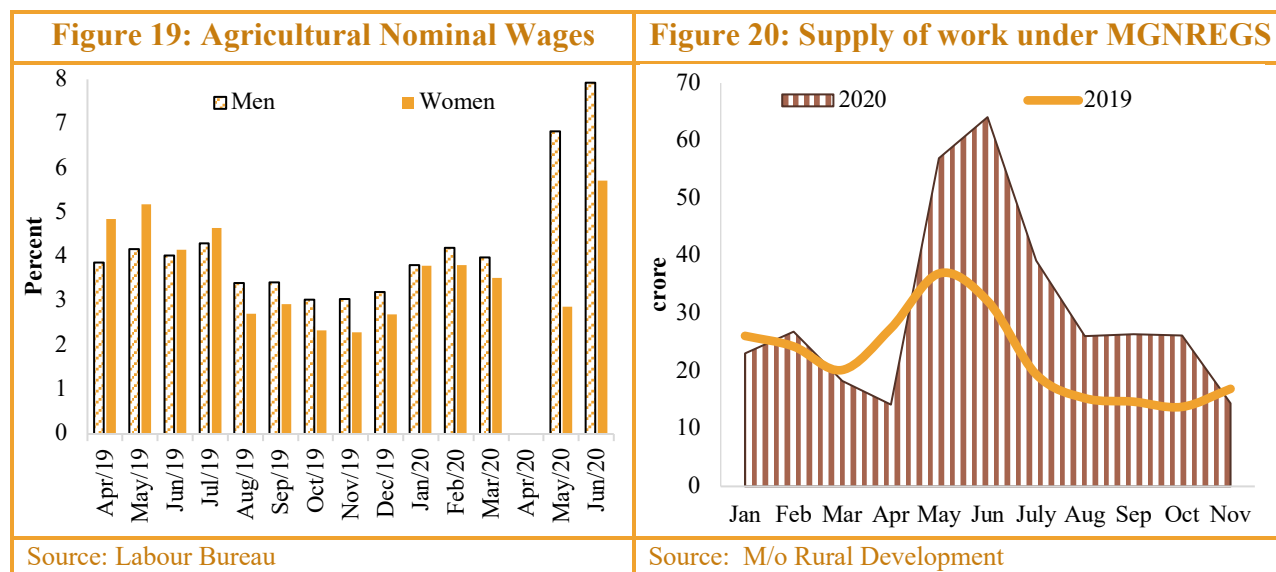


Source: Tractor and Mechanization Association

19. Minimum support prices (MSPs) announced for various crops for both kharif and rabi season for crop year 2020-21 are higher in the range of 2.1 per cent to 12.7 per cent. The total rice procurement target has been fixed at 495.37 lakh tonnes for the entire country for the 2020-21 kharif season out of which 208.81 lakh tonnes of rice has already been procured as on 27th November (Figure 17). Record procurement in recent years has led to burgeoning central pool stocks, which are 2.5 times the current buffer norms (Figure 18). These have enabled smooth distribution of foodgrains under the Pradhan Mantri Garib Kalyan Package.



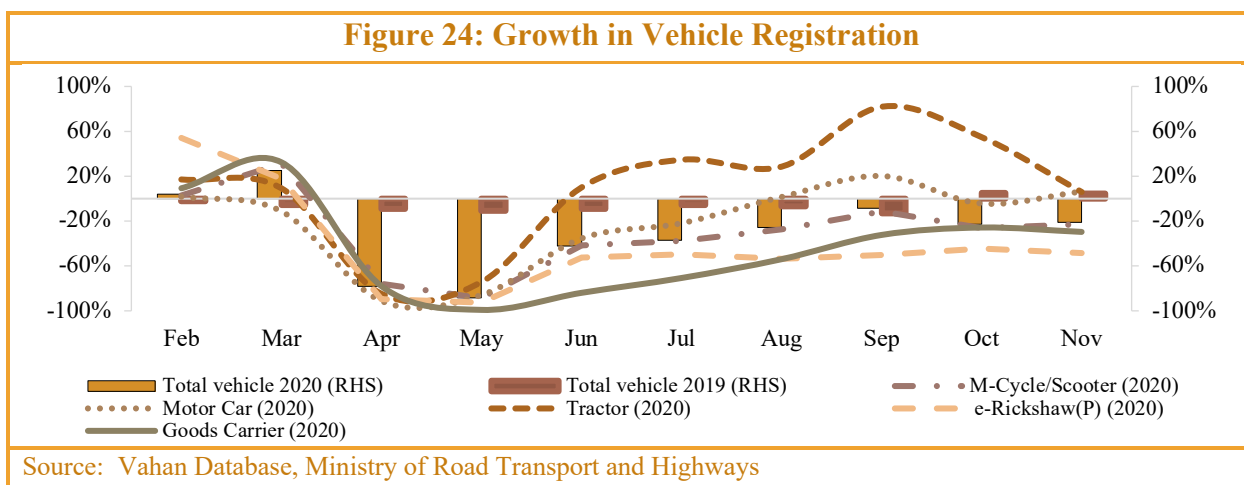
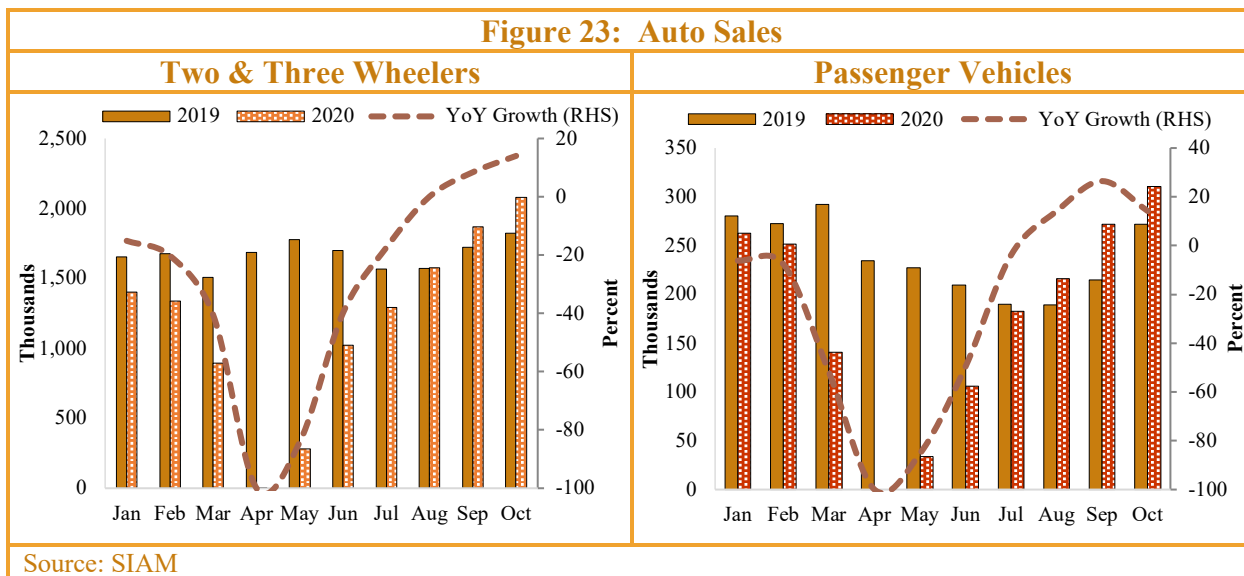
20. Recently released wage data shows that in nominal terms, rural wages for men rose by a buoyant 7.9 percent y-o-y in June (versus 6.8 percent in May, and well above the 3.7 percent average growth in FY20) (Figure 19). The rural wages for women also showed a similar trend, though a little lower increase in magnitude. The increase in wages was higher for both agricultural activities and non-agricultural activities, though more for non-agricultural activity, particularly sectors associated with handicraft, weaving and construction. However, it has shown moderation in growth in June as compared to May. The rise in wages could be attributed to sustained demand for harvesting of the rabi crop, sowing of the kharif crop and increase in wages under MGNREGS.



21. The demand for jobs under the Mahatma Gandhi National Rural Employment Guarantee scheme (MGNREGS) has surged, with a y-o-y growth of 47.2 per cent in November. Till November, 266.67 crore person days have been created under the scheme – a jump of 51.3 percent as compared to previous year (Figure 20). This proves that the scheme has been effective in alleviating rural distress in the pandemic period especially to the migrants who returned to their villages. The additional allocation of Rs 10,000 crore in the latest package for Pradhan Mantri Garib Kalyan Rozgar Yojana would further give a boost to job creation in the rural sector and supplement rural incomes.

Resurgent Auto demand in wake of festive season

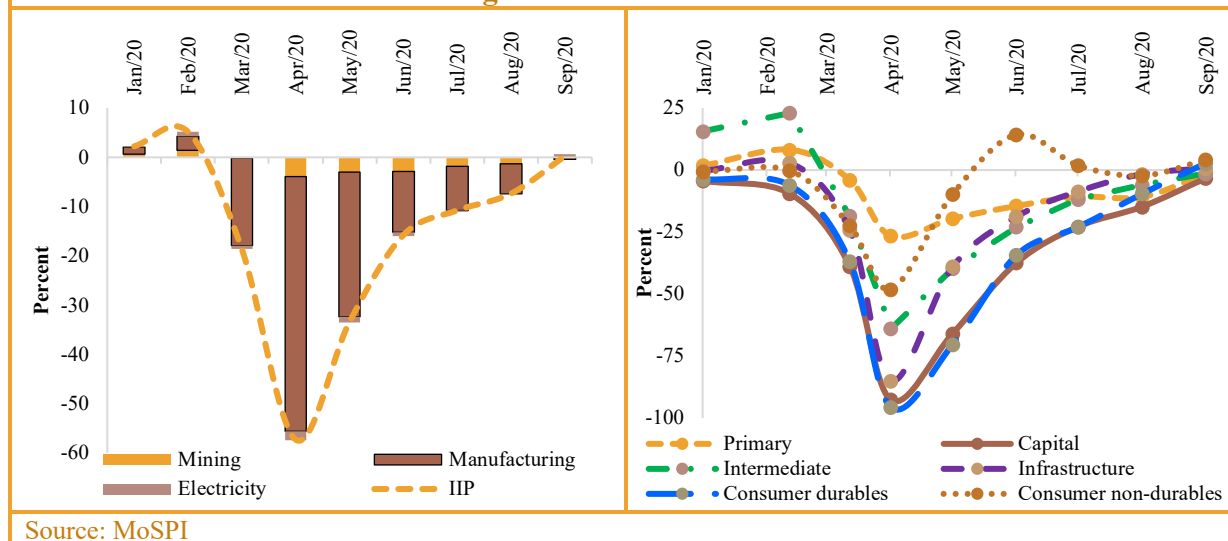
22. The indicators of demand are gaining momentum with sales of passenger vehicles, two and three wheelers exceeding previous year levels in October by a good margin (Figure 23). The trend in registrations in November over previous months remains encouraging with lower contraction. The registrations of motor cars have shown a marginal positive y-o-y growth (Figure 24).



Index of Industrial Production rebounds to positive territory

23. After six consecutive months of sharp negative growth in industrial production, IIP growth for September was in the positive territory with a growth of 0.2 percent compared with (-)7.4 percent in the previous month and (-)4.6 percent contraction in the corresponding period last year (Figure 25). The positive growth in IIP reflects resumption of business activities in the industrial sector with both mining and electricity recording positive growth while manufacturing registered a contraction, albeit with a sharp improvement at (-)0.6 percent from the previous month of (-)7.8 percent. Electrical equipment (10 percent), rubber and plastic products (9.1 percent), other transport equipment (7.7 percent), pharmaceuticals (7 percent) are sectors which have seen the highest growth in September.

Figure 25: Growth in IIP

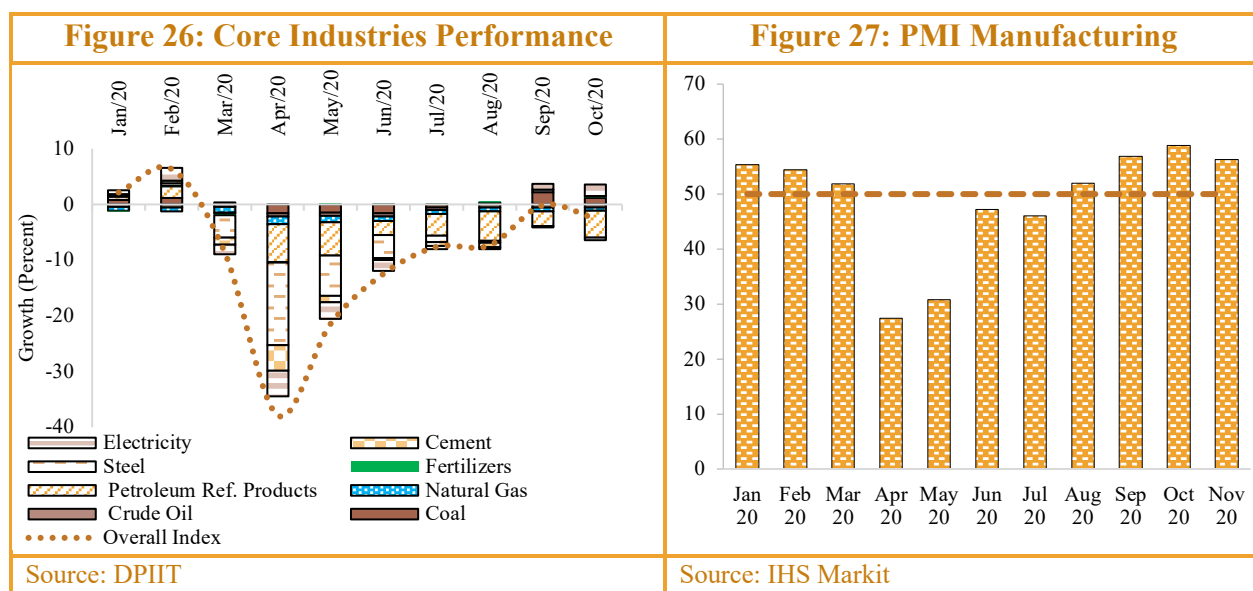


24. Based upon the use-based classification, the growth in consumer durables (2.8 percent) and consumer non-durables (4.1 percent) reflects improvement in consumer demand in the economy and reflects additional production by companies ahead of the festive season. Although growth in industrial production of capital goods (-3.3 percent in September, 2020 is negative, the sharp improvement seen in this segment from (-)14.8 percent in August, 2020 is reflective of investment activity picking up in the economy. Infrastructure goods have barely moved in the positive territory with a growth of 0.7 percent in September after 6 consecutive months of negative growth (Figure 25). The IIP has 407 items (5-digit NIC classification), of which 188 items have recorded growth in September, 2020 which is significantly higher than 28 items in the month April-2020 and 131 items in August, 2020 – but still lower than 231 items in Feb 2020.

25. The index of eight core industries, which make up around 40 per cent of the index, registered a growth of (-) 2.5 percent in October, 2020 as compared to a growth of (-) 5.5 percent in October, 2019 and (-) 0.1 percent in September, 2020. The contraction has largely been due to a (-)17.1 percent contraction in production of petroleum refinery products. Coal production, electricity, fertilizers and cement attained positive YoY growth of 11.6 per cent, 10.5 per cent growth, 6.3 percent and 2.8 percent respectively in September, 2020 (Figure 26).

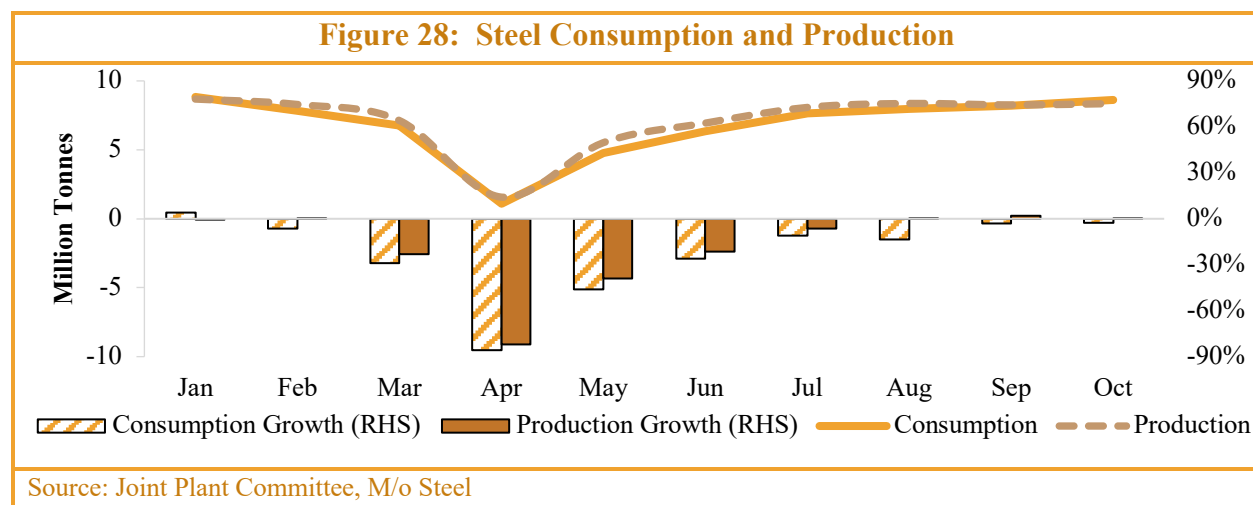
26. India's manufacturing purchasing managers' index (PMI), moderated to 56.3 in November from a decade high of 58.9 in October. It, however, remains consistently in the expansionary phase. All three broad areas of the manufacturing industry recorded expansion, with growth led by consumer goods which was the only sector to see a stronger rate of increase. The loosening of COVID-19 restrictions combined with an improvement in market conditions and a pick-up in demand supported increase in production. PMI Services index also rose to 54.1

in October, ending the seven-month sequence of contraction. The upturn is supported by improved market conditions amid relaxation of COVID-19 restrictions and increase in new work intakes.



Steel sector sees revival, construction activity gathers momentum

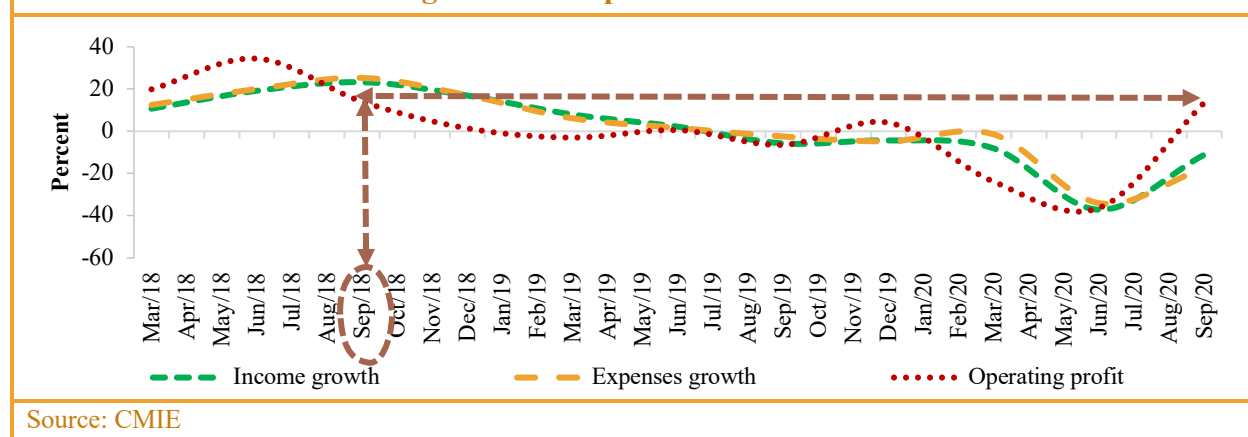
27. While steel production has crossed previous year levels in the last three months with 1.9 per cent and 0.4 per cent YoY growth in September and October respectively, steel consumption has also been converging to previous levels with YoY contraction easing to 3.2 per cent in September and 2.6 per cent in October compared to a contraction of 13.4 per cent in August. The trend is expected to further strengthen with resumption of construction activity and adoption of digital technologies (Figure 28). Construction activity gathers momentum with cement production emerging out of contraction to grow at 2.84 per cent in October.



Corporate sector back on track in Q2 2020-21 after two quarters of contraction

28. Corporate earnings results of 225 listed banking and financial sector companies in India (representing around four-fifth of all the listed banking and financial sector companies in terms of market capitalisation) reflected a robust rise in operating profits by 23.2 per cent in Q2 of FY 2020-21 similar to profit levels in September 2018. Furthermore, provisioning on loans and advances grew only marginally, resulting in a sharp jump in net profits at 90.2 per cent.

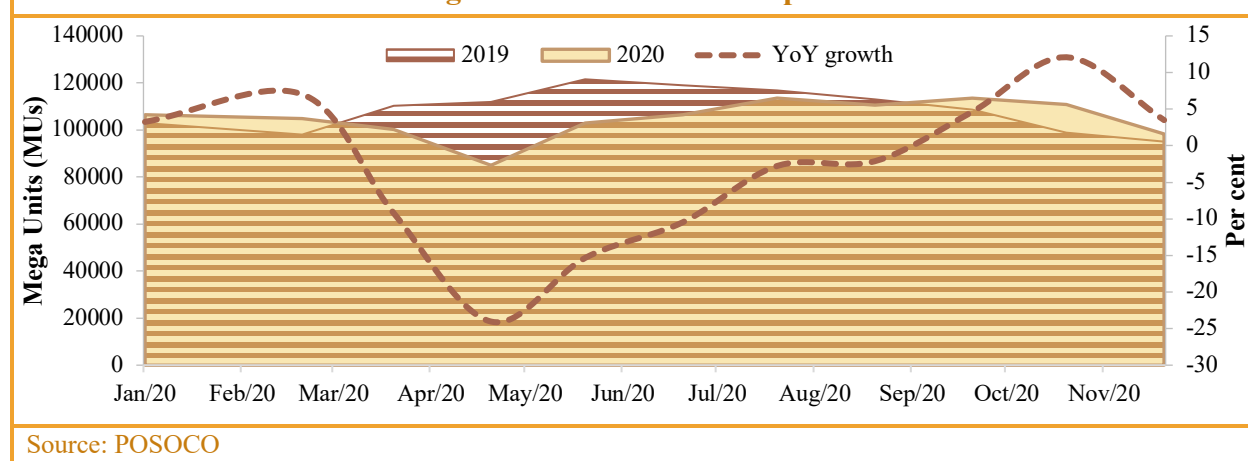
Figure 29: Corporate Performance



Power consumption and E-Way bills sustain growth momentum in November

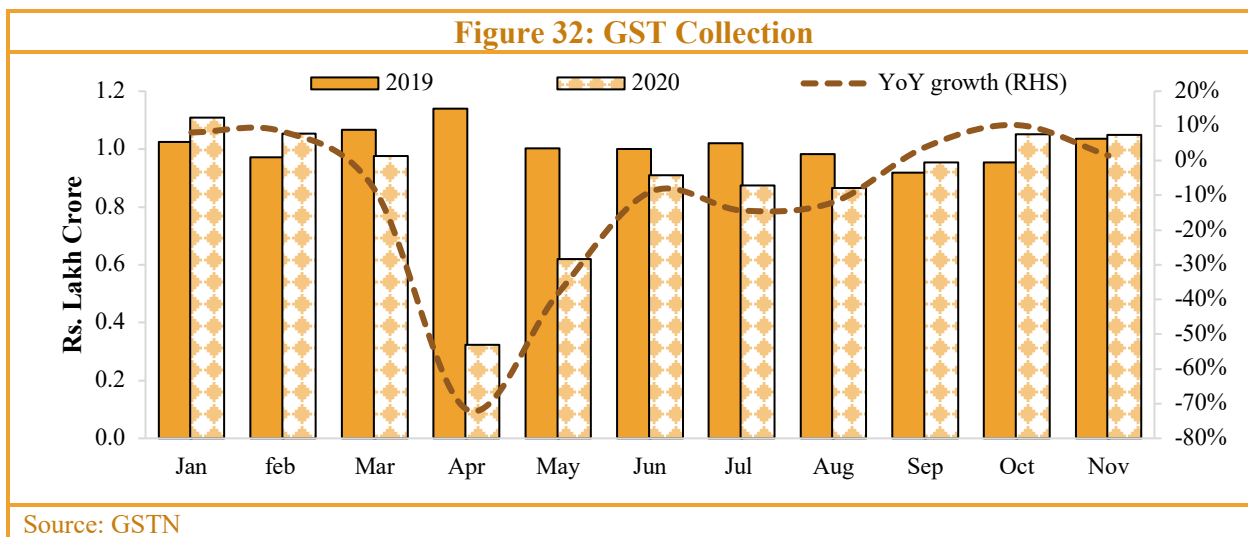
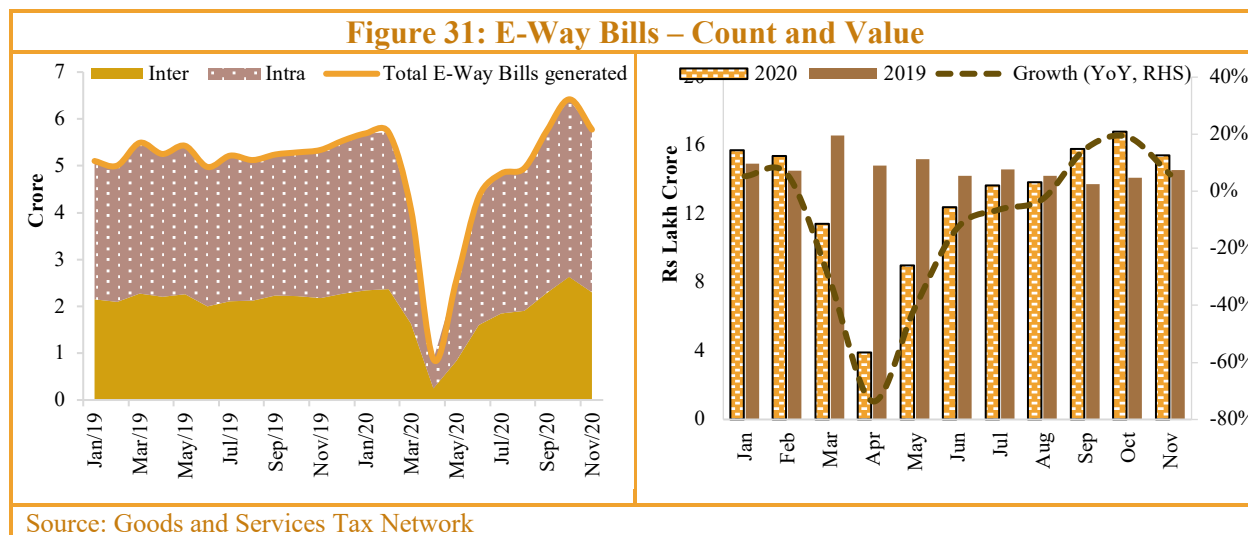
29. While power consumption moderated from its double-digit YoY growth in October, it grew at 3.5 per cent in November, signalling sustained recovery in commercial and industrial activity as compared to a growth of 4.6 per cent in September, 2020 (Figure 30).

Figure 30: Power Consumption

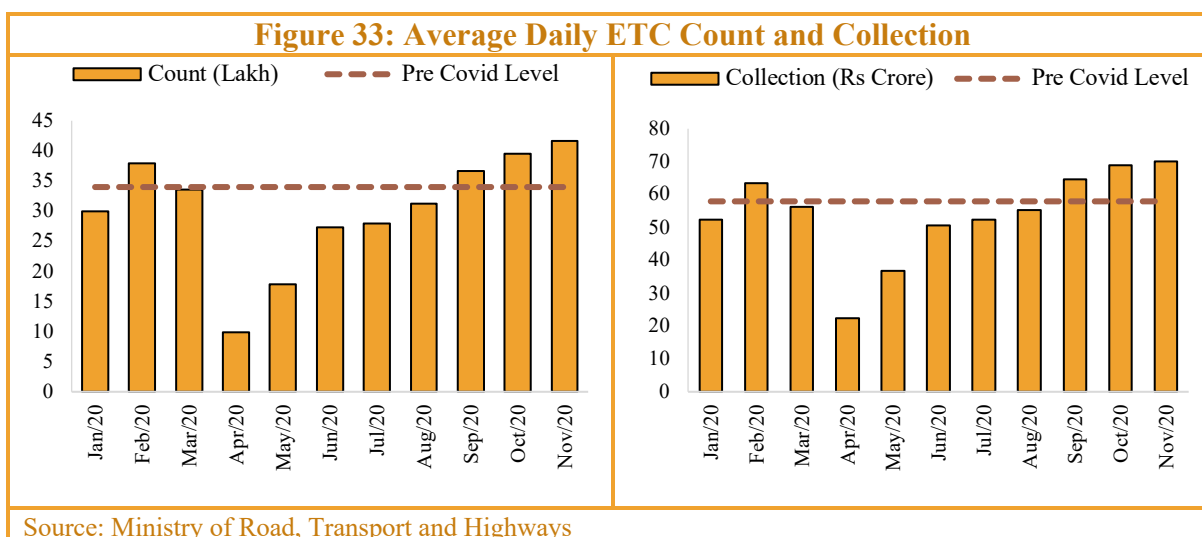


30. While E-way bills generated have consistently improved since mid-August, it witnessed a moderation in YoY growth from 21.4 per cent in October to 5.9 per cent in November. Numbers of inter and intra-state e-way bills generated in October and November have also surpassed

corresponding previous year levels (Figure 31). Persistent improvement in E-way bills generated, a strong leading indicator of revenue collections, supply chain corrections and logistics growth, bodes well for faster economic recovery. This is evident from GST collections recording Rs 1.05 lakh crore in both October and November, registering a positive YoY growth of 10 per cent and 1.4 per cent respectively (Figure 32).

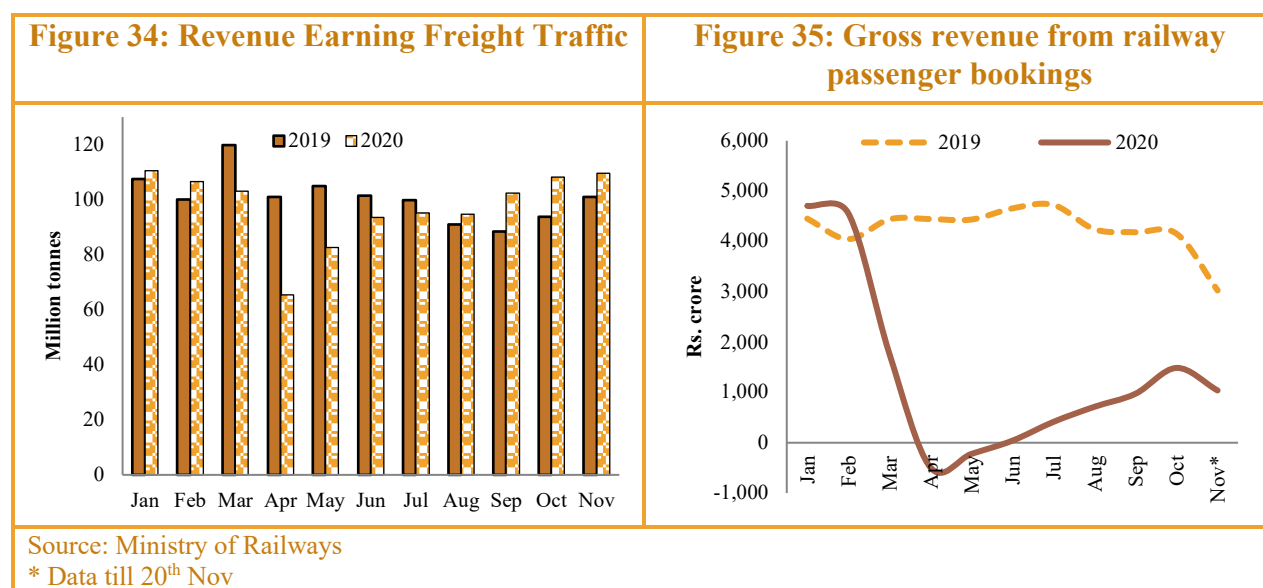


31. Highway toll count and collections have also surpassed their pre-COVID levels (average of January and February) levels in November, moving in tandem with other growth indicators (Figure 32). Average daily electronic toll collection and number of transactions in November stood at ₹ 70.1 crore and 41.6 lakh respectively as compared to pre-COVID daily averages of ₹ 57.9 crore and 34.0 lakh (Figure 33).



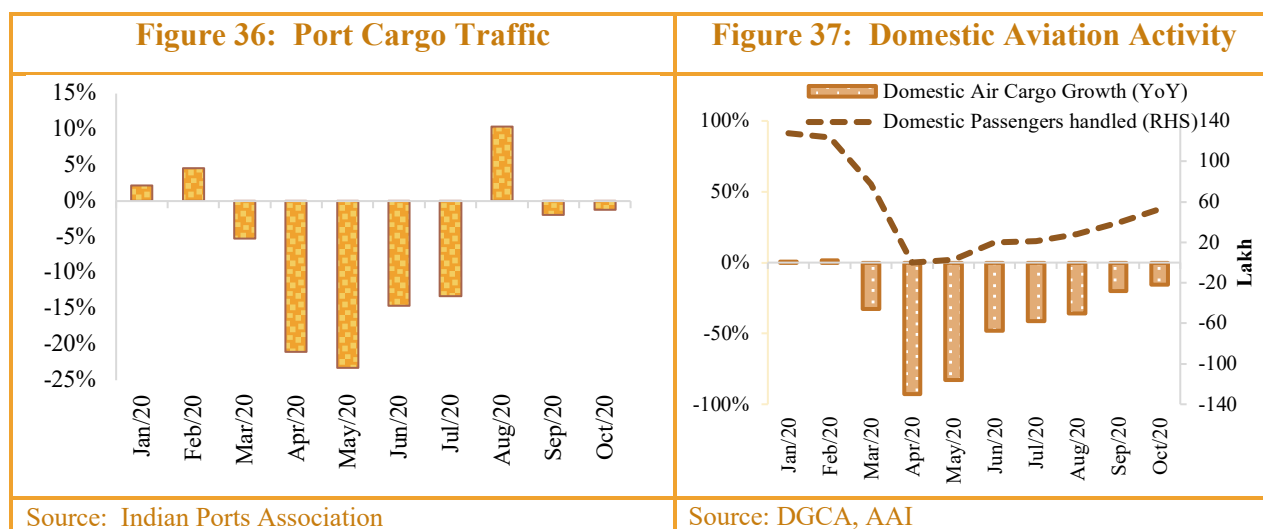
Double digit growth in rail freight traffic, gradual recovery in passenger earnings

32. Railway freight traffic recorded highest loading in 2020 with an increase of 9.0 percent in November over corresponding previous year levels with improvement seen across various categories of commodities, namely, food grains, domestic coal for steel plants and thermal power houses, pig iron and finished steel, iron-ore for exports, clinker cement and domestic containers (Figure 34). With easing of inter-state movement restrictions, gross revenue from railway passenger bookings are gradually picking up to reach ₹ 1038.68 crore in the first twenty days of November, 34 per cent of corresponding previous year levels (Figure 35). With the removal of impasse in train services to and from Punjab after months of disruption, both freight and passenger traffic are expected to see stronger recovery.



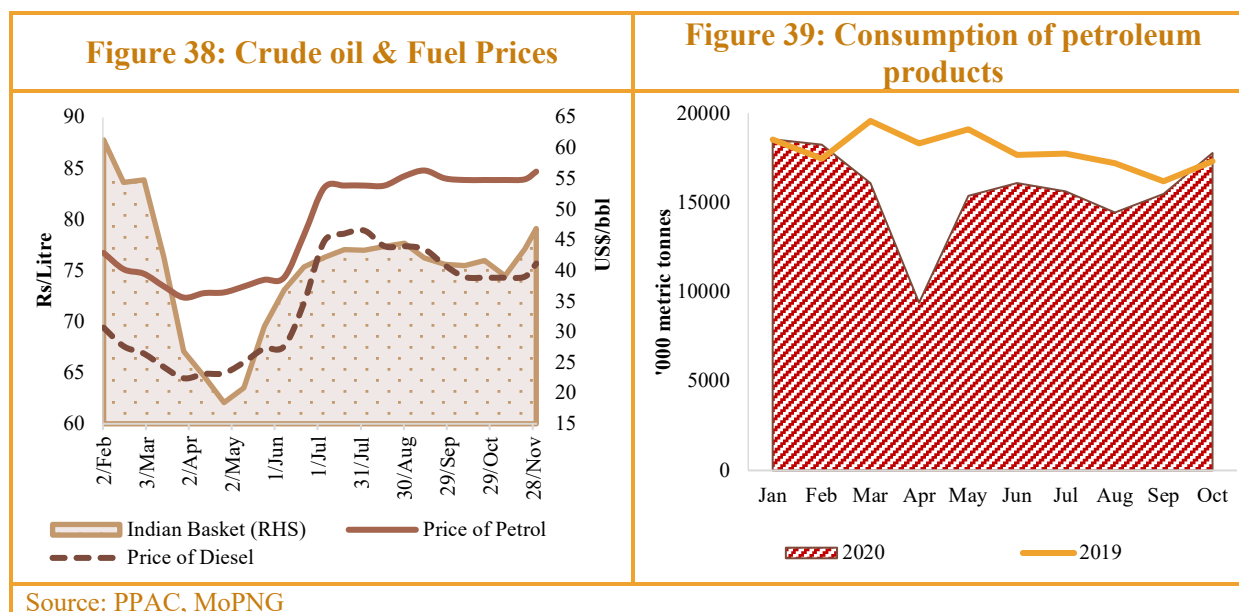
Port Cargo traffic converges to previous year levels, domestic aviation gains pace

33. Cargo traffic volumes in October have reached 98.7 per cent of previous year levels (1.23 per cent YoY growth), driven by healthy growth in traffic of all major commodities except petroleum, oil and lubricants (Figure 36). Domestic aviation further picked up in October with passengers handled increasing from 2.8 lakh in May to 28.32 lakh in August and 39.43 lakh in September and 52.71 lakh in October (Figure 37). Aviation activity is expected to gain pace as the festive season gathers intensity.



Petroleum consumption posted first YoY increase after February 2020, increased mobility and Covid-19 vaccine prospects expected to boost oil demand

34. The Indian basket crude oil touched USD 47.05 a barrel on 30th November as against average crude oil prices of USD 40.8 a barrel in October, signalling upbeat oil market sentiment with increasing economic activity and Covid-19 vaccine prospects (Figure 38). Consumption of petroleum products emerged out of its seven-month contraction to grow at 2.7 per cent YoY in October (Figure 39). While there was no price revision in petrol and diesel in October and till 19th of November due to relatively stable crude oil prices, prices are being revised upwards in all the four metro cities since 20th of November in line with the recent increase in crude oil prices.



Upbeat digital retail transactions with UPI payments at new highs

35. Resumption of economic activity and user shifts to digital payments have ushered sanguine prospects of growth in retail financial transactions via NPCI platform (Figure 40). UPI payment transactions hit an all-time high of ₹ 3.91 lakh crore in value and 221 crore in volume terms in November (Figure 41). Aadhaar enabled payment system (AePS) has driven financial inclusion to the remotest parts of the country enabling the hinterland with digital payments. Cash withdrawal trends from ATMs/Micro ATMs and Banking Correspondents (BCs) suggest improving demand sentiment (Figure 42).

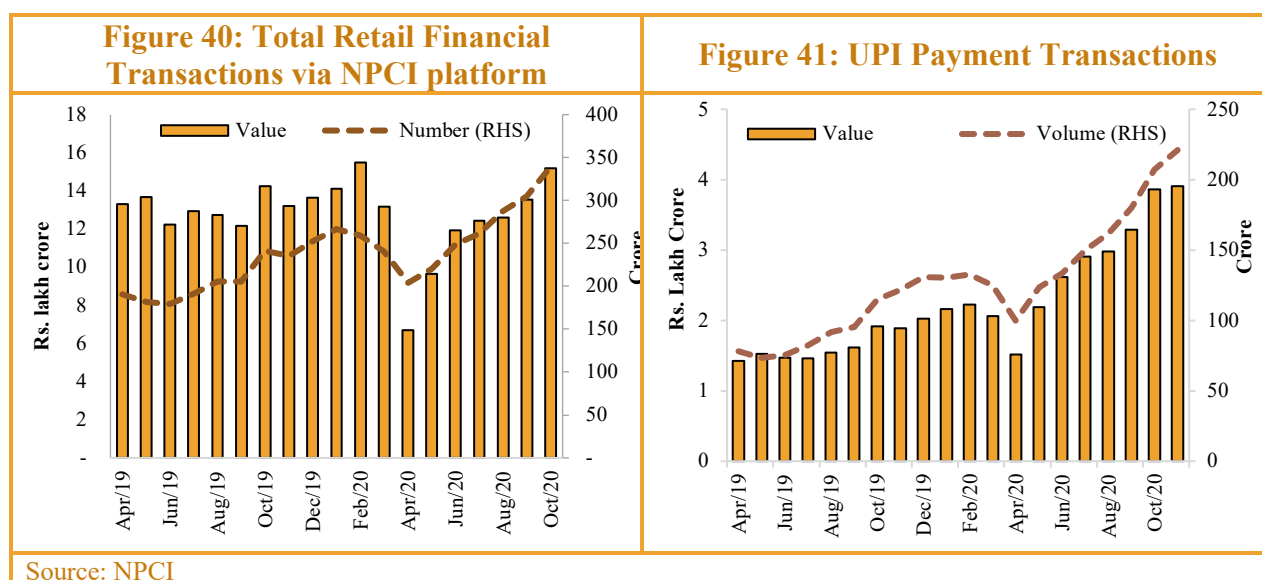
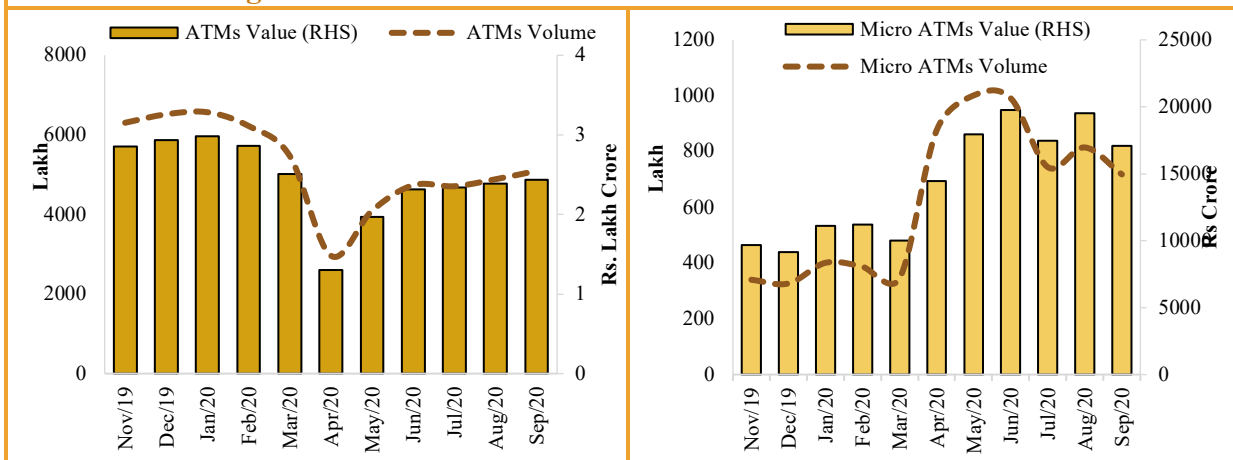


Figure 42: Cash withdrawals from ATMs and Micro ATMs



Source: RBI

Robust Foreign Direct Investment (FDI) inflow and FPIs at historic high in November

36. FDI continues to remain a major driver of economic growth and an important source of non-debt finance for India. It has been the endeavour of the Government to put in place an enabling and investor friendly FDI policy and remove the policy bottlenecks that have been hindering the investment inflows into the country. During April-September, 2020, total FDI inflow stood at a record high of US\$ 39.93 billion, 10.8 per cent higher as compared to first six months of 2019-20 (US\$ 36.05 billion), an endorsement of India's status as a preferred investment destination amongst global investors (Figure 43).

Figure 43: Foreign Direct Investment (FDI)

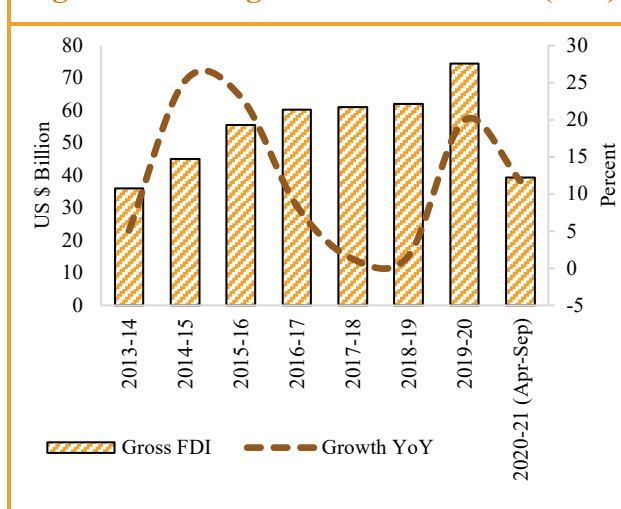
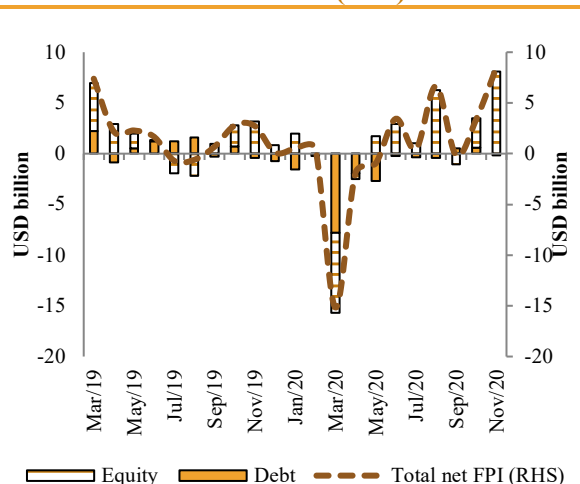


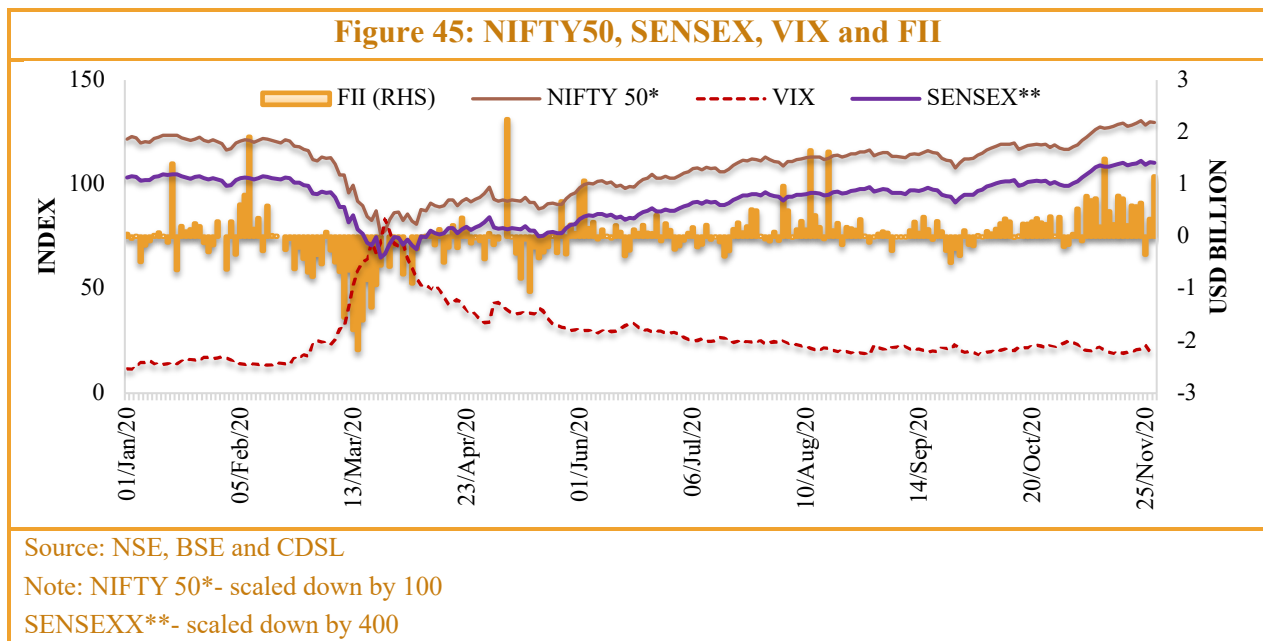
Figure 44: Trend in Foreign Portfolio Investment (FPI)



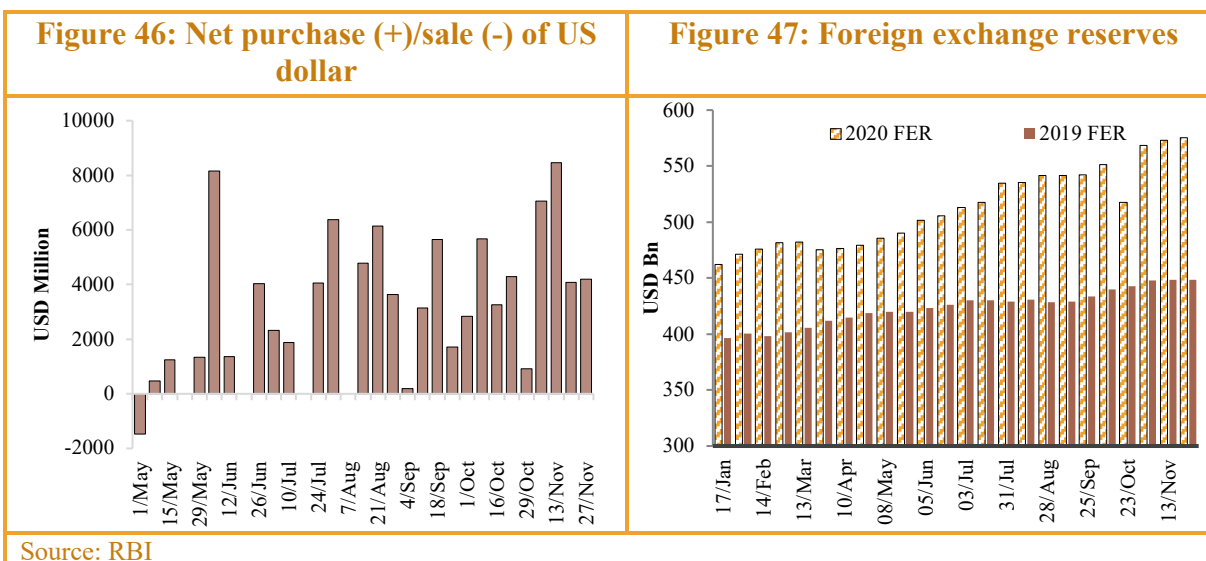
Source: RBI, CDSL, Note: *Data till 23rd Nov

37. Indian equity market has exhibited strong investors' sentiment with FPI inflows reaching a historic high of USD 8.5 billion in November (Figure 44). NIFTY and Sensex have reached

record levels in November with sharp fall in the volatility index of NIFTY (Figure 45). Primary factors at play possibly include markets currently witnessing a macro shift of assets into equities globally, more so in the case of Emerging Market equities. Prospects of faster recovery in emerging economies and potential growth prospects driven by vaccine availability have also bolstered market sentiment. Further, the second wave of COVID-19 in Europe and the US is leading to low expectations of economic activity among advanced economies.



38. RBI's dollar purchases in the foreign exchange market continue to keep the rupee largely range bound at 73.8-74.7 INR/USD in November. Accumulation of dollars is enhancing liquidity in the banking system, keeping bond yields in check and supporting effective transmission (Figure 46). On the back of purposeful dollar buying by RBI, rise in gold reserves and foreign currency assets, India's foreign exchange reserves climbed to a new high of US\$ 575.29 billion as on 20th November, 2020, covering around 16 months of imports (Figure 47).



Bank credit still sluggish, ECLGS supports robust credit growth to medium industries

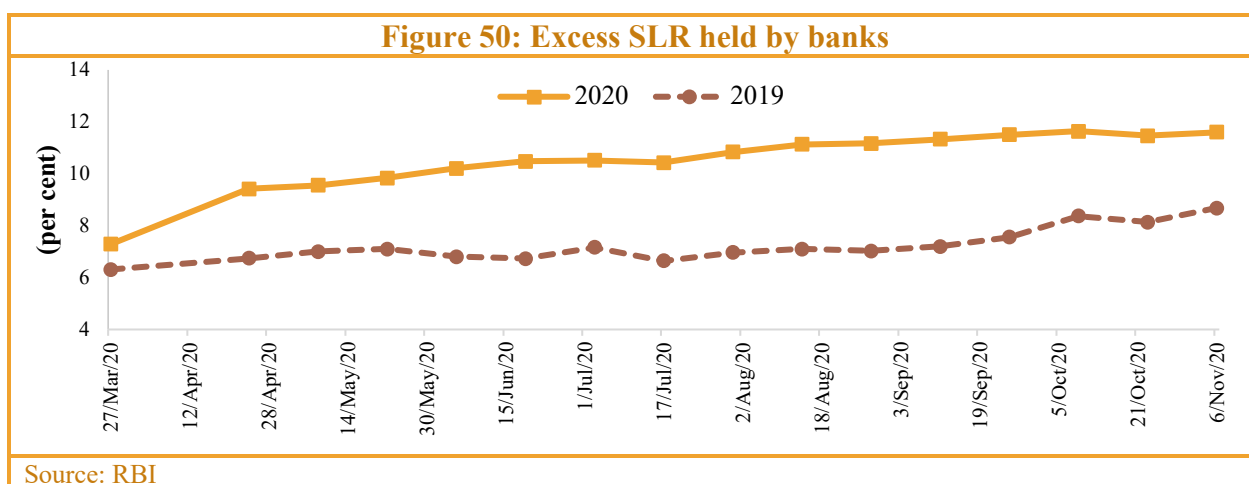
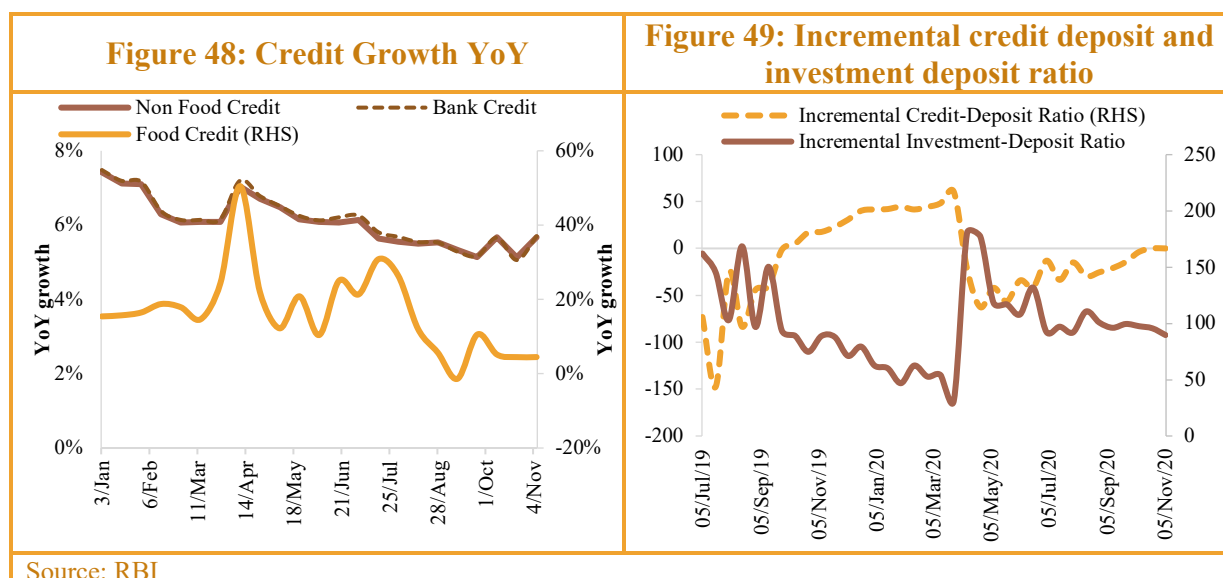
39. While overall bank credit growth increased marginally to 5.7 per cent (YoY) as on 6th November compared to previous fortnight, it remained sluggish compared to previous year levels (Figure 48). Bank credit to commercial sector also continued its muted growth at 5.8 per cent as on 6th November. The overall incremental credit growth is attributable to the liquidity booster, Emergency Credit Line Guarantee Scheme (ECLGS) which continues to support robust credit disbursements to MSMEs. ECLGS has seen significant progress, with Rs 2.03 lakh crore sanctioned to 55.69 lakh borrowers under ECLGS 1.0, of which Rs 1.51 lakh crore has been disbursed as on 21st November, 2020. Additionally, extension of ECLGS to 26 stressed sectors identified by the Kamath Committee and the healthcare sector till March, 2021 bodes well for maintaining the momentum of credit disbursements to industries.

40. Regarding sectoral deployment of credit, credit growth to agriculture and allied activities accelerated to 7.4 per cent in October 2020 from 7.1 per cent in October 2019. Credit to industry contracted by 1.7 per cent in October 2020 as compared with 3.4 per cent growth in October 2019 mainly on the back of contraction in credit to large industries by 2.9 per cent in October 2020 compared to 4.2 per cent growth a year ago. However, credit to medium industries registered a robust growth of 16.7 per cent in October 2020 compared to 1.2 per cent a year ago. Within industry, credit to ‘food processing’, ‘petroleum, coal products & nuclear fuels’, ‘leather & leather products’, ‘paper & paper products’ and ‘vehicles, vehicle parts & transport equipment’ registered accelerated growth compared to corresponding previous year levels.

41. Credit growth to the services sector accelerated to 9.5 per cent in October 2020 from 6.5 per cent in October 2019. Within this sector, credit to ‘professional services’, ‘computer software’ and ‘trade’ registered accelerated growth vis-à-vis previous year levels. While personal

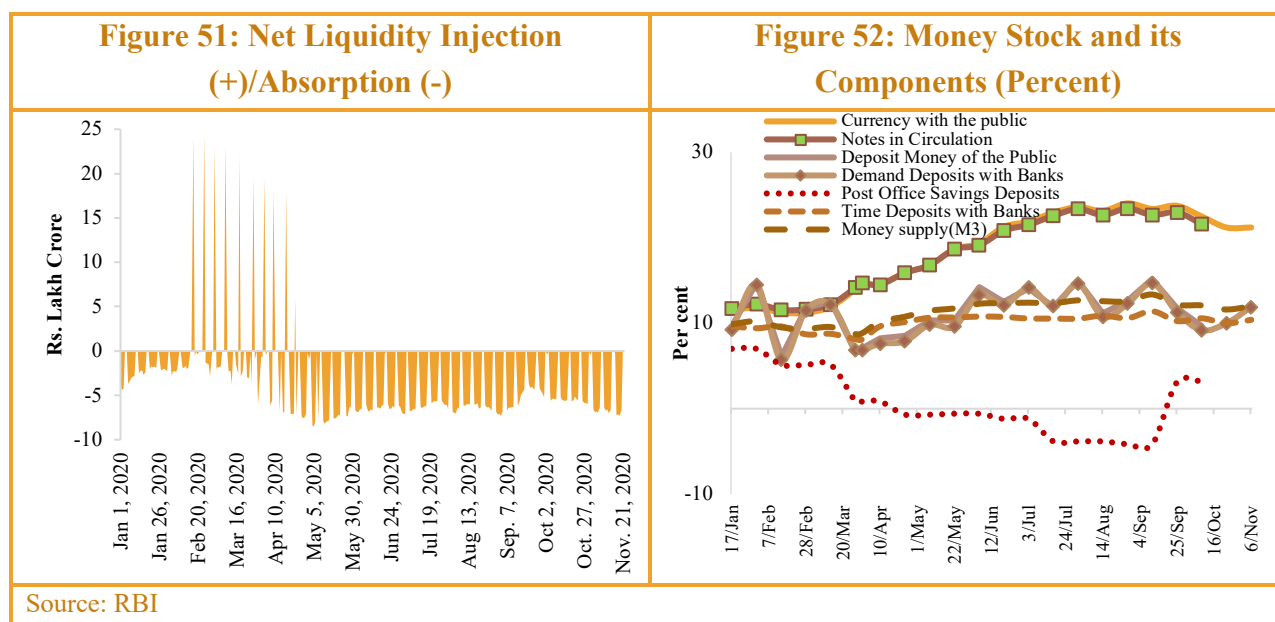
loans registered a decelerated growth of 9.3 per cent in October 2020 as compared with 17.2 per cent growth a year ago, vehicle loans continued to perform well, registering accelerated growth of 8.4 per cent in October 2020 vis-a-vis a growth of 5.0 per cent in October 2019.

42. Incremental credit deposit ratio was 4.19 per cent and Incremental investment deposit ratio stood at 89.68 per cent as on 6th November as compared to (-)4.42 and 95.70 per cent respectively as on 23rd Oct (Figure 49). These trends point to a narrowing deposit-credit gap. YoY growth of bank investments in Government Securities declined moderately to 19.1 per cent on 6th November from 20.6 per cent as on 23rd October, 2020. Banks continued to hold excess SLR portfolio, standing at 11.69 per cent in the fortnight ending 6th November (Figure 50).



RBI continues to ensure comfortable liquidity

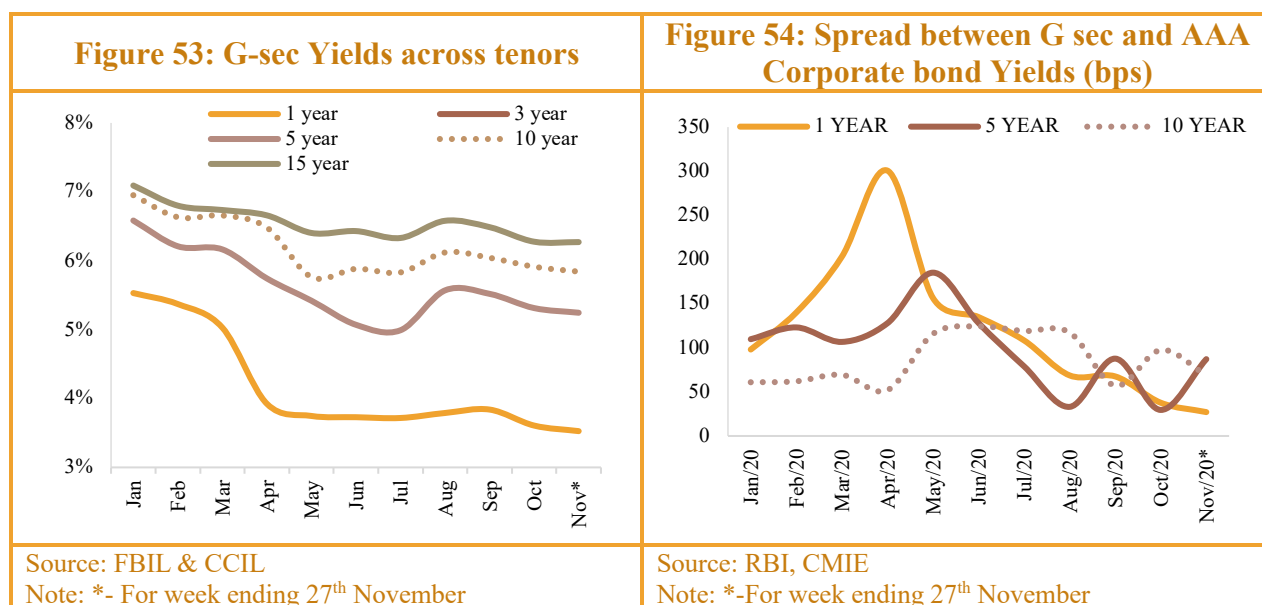
43. System liquidity expanded in November 2020 as average daily net absorptions under the liquidity adjustment facility (LAF) increased to Rs. 4.4 lakh crore (as on 22nd November) as compared to Rs. 3.6 lakh crore in October 2020. Reserve money growth increased to 16.2 per cent as on 20th November as compared to 13.1 per cent on 30th October driven by a pick-up in growth of currency in circulation on the components side and net foreign exchange assets on the sources side (Figure 51). Growth of currency in circulation rose to 22.2 per cent as on 20th November as compared to 20.3 per cent on 30th October, possibly driven by festive sentiment. This pushed growth in money supply (M3) to increase to 12.0 per cent as on 6th November compared to 11.6 per cent as on 23rd Oct. Growth of demand deposits reached 11.9 per cent as on 6th November, as compared to 10.0 per cent as on 23rd October. Currency with the public remained steady at 21.2 per cent as on 6th November while time deposits growth picked up marginally to reach 10.4 per cent as compared to 10.0 per cent as on 23rd October (Figure 52).



G-Sec yields ease further in November

44. In H1 FY21, the total corporate bond issuances amounted to Rs. 4.43 lakh crore, 25 per cent higher than Rs. 3.54 lakh crore in the same period last year. The narrowing spread with GSecs stands testimony to the improved risk perception of corporate bonds. Further, the cost of funds also moderated for both the Government and the corporate, on the back of RBI's monetary easing and liquidity infusion, thereby bringing down yields in the various segments of the debt markets. Bond markets eased further with 10-year G-sec yields declining to 5.84 as on 27th Nov compared to 5.91 per cent as on 29th October (Figure 53). Corporate bond markets, however, experienced stiffening pressures with 10 year AAA and AA rated bond yields picking up to 6.76 per cent and 7.15 per cent, respectively, as on 27th November compared to 6.59 per cent and 7.04

per cent, respectively as on 29th October (Figure 54). AAA bond spreads, however, have eased, on average, in November (until 27th November) on both short end and long end.



45. With respect to private placement of corporate bonds listed on both BSE and NSE, amount issued sharply increased to Rs. 62330.81 crore in October 2020 and Rs. 64388.65 crore in September 2020 compared to Rs 47317.97 in October 2019 and Rs. 48628.74 in September 2019. Number of issues however dropped from 213 in August to 189 (123) in September and 147 (126) in October.

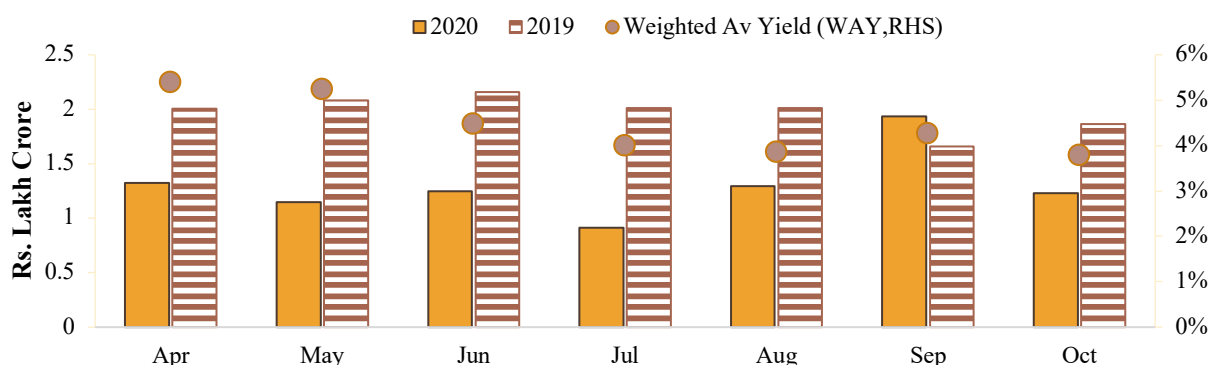
Monetary policy transmission continues to improve

46. The transmission of policy repo rate changes to deposit and lending rates of banks has improved since April 2020, a reflection of abundant liquidity, central bank's accommodative monetary policy stance, muted credit appetite and lagged impact of policy rate cuts. Overnight MCLR has declined to 6.60/7.10 per cent as on 22nd November as compared to 6.65/7.10 per cent as on 30th October and 7.40/7.90 per cent as on 27th March. Consequently, savings and term deposit rates (>1 year), remaining steady over the month at 2.70/3.00 and 4.90/5.50 per cent respectively as on 22nd November, have declined from 3.00/3.50 per cent and 5.90/6.40 as on 27th March.

46. Commercial paper issuances decreased by 48% in Oct'20 to Rs 1.02 lakh crore as compared to Rs 1.93 lakh crore in Sep'20 With Effective Weighted Average Yield decreasing by 49 bps to 3.74% (Figure 55). In the fortnight ending 15th November, commercial Paper yields stood at 3.09 - 11.32 per cent as compared to 3.19-14.19 in the previous fortnight. Rates of

Certificates of Deposits (CDs) in the fortnight ending 6th November 2020 stood at 3.83-3.84 per cent as compared to 3.65 - 4.25 per cent in the previous fortnight.

Figure 55: Monthly issuance of Commercial Paper (CP)/CDs

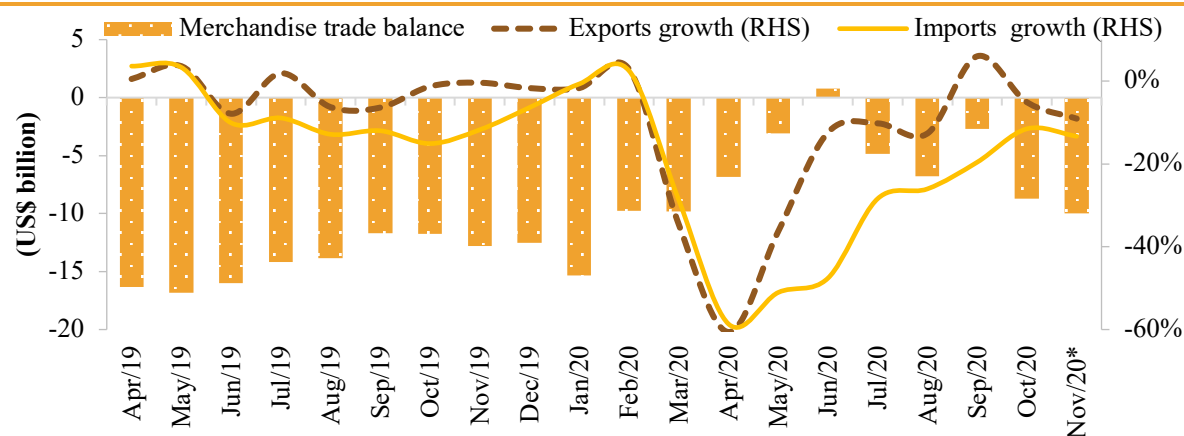


Source: CCIL, RBI

Trade deficit improves in November as compared to last year

47. India's merchandise exports at USD 23.43 billion contracted by 9.1 percent in November, 2020 as against USD 25.77 billion in November 2019, primarily driven by weak petroleum products exports. India's merchandise imports in November, 2020 stood at USD 33.39 billion as against USD 38.52 billion in November 2019, with YoY contraction at 13.3 percent. This resulted in a merchandise trade deficit of USD 9.96 billion, as against the deficit of USD 12.75 billion in November 2019 (Figure 56).

Figure 56: Merchandise Trade



Source: Department of Commerce, Ministry of Commerce & Industry

*Data for November is Preliminary

48. Non-petroleum exports registered a marginal negative growth of 0.03% over November 2019 and non-petroleum and non-gems and jewellery exports in November 2020 was USD 19.26 billion as compared to USD 19.37 billion in November 2019, registering a negative growth of 0.59%. Non-oil, non-GJ (gold, silver & Precious metals) imports were USD 22.25 billion in November 2020, recording a negative growth of 0.84%, as compared to non-oil and non-GJ imports of USD 22.44 billion in November 2019. The export and import commodities that have registered highest increase/ decline in absolute value in November 2020 as against November 2019 are placed at Table 3.

Table 3: Major Export and Import Commodities shown highest Increase/ Decrease

	Top Increase			Top Decline		
	Commodity group	Change in value (USD Million)	% Change	Commodity group	Change in value (USD Million)	% Change
Exports	Drugs and pharmaceuticals	199.15	11.13	Petroleum Products	-2330.61	-61.05
	Iron Ore	133.12	68.15	Engineering Goods	-529.56	-8.27
	Rice	108.47	24.41	Plastic and Linoleum	-154.23	-23.34
Imports	Electronic goods	512.58	12.25	Petroleum, crude and products	-4799.93	-43.36
	Vegetable Oil	249.17	34.02	Machinery, electrical & non-electrical	-395.88	-13.37
	Chemical Material and Products	208.24	36.08	Transport equipment	-321.04	-19.62

Source: Quick Estimates (QE) for November, 2020, Department of Commerce.

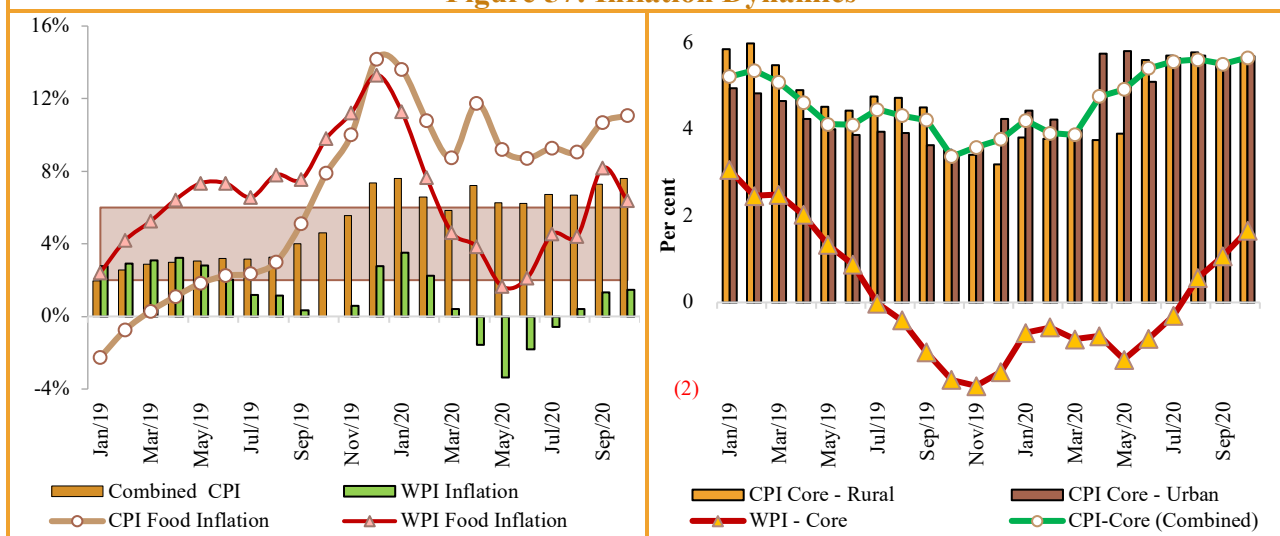
49. India's overall trade balance (Merchandise and Services combined) is estimated to be in surplus at US \$ 16.5 billion in 2020-21 (April-October) with overall exports and imports are estimated to be US\$ 265.1 billion and US\$ 248.6 billion respectively.

Food Prices under pressure though likely to smoothen out with the prospects of a good kharif harvest

50. CPI based Inflation increased to 7.61 per cent in October, 2020 as compared to 7.27 per cent in September 2020 and 4.62 per cent in October, 2019 (Figure 49). Inflation in rural areas (7.69 percent) is higher than urban areas (7.40 percent) in October 2020. It reflects the unseasonal rain-led spike in vegetable and pulses prices, pressure on the broader protein and oil categories, and an uptick in core inflation to 5.8 percent y-o-y vs 5.4 percent in September. Food inflation based on Consumer Food Price Index (CFPI) increased to 11.07 per cent in October,

2020 as compared to 10.68 per cent in September, 2020, mainly due to increase in inflation of meat & fish (18.7 percent), egg (21.8 percent), oils & fats (15.2 percent), vegetables (22.5 percent) especially potato (104.6 percent) and pulses & products (18.3 percent). During the month of October 2020, WPI inflation increased to 1.48 percent as compared to 1.32 percent in September 2020 and 0.00 percent in October 2019 (Figure 57). The prospects of a good kharif harvest and its moderating impact on food inflation is reflected in moderation of increase in WPI food inflation at 6.37 per cent in October 2020 as compared to 8.17 per cent in the previous month. The inflation rates are expected to have peaked and decelerate gradually from here, helped by lower food inflation and base effects.

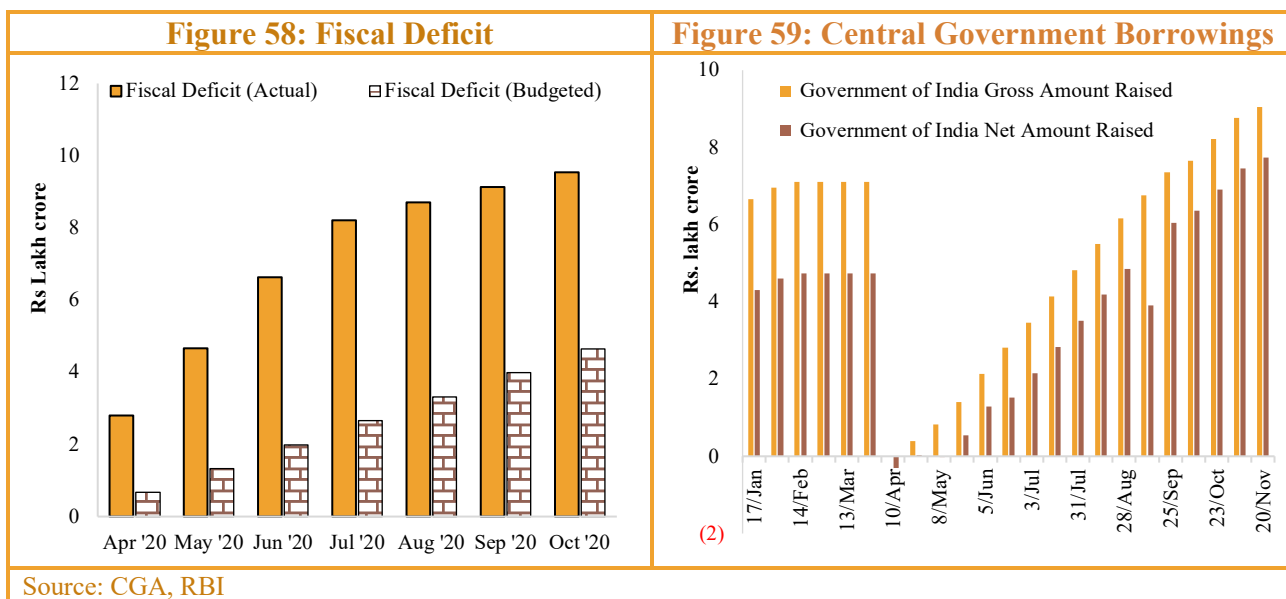
Figure 57: Inflation Dynamics



Source: MoSPI, Office of Economic Advisor, DPIIT

Provision of adequate Fiscal Support during the Pandemic

51. The current year 2020-21 has so far entailed fiscal challenges for the Indian economy, which were characterised by additional expenditure requirements to revive the economy and to provide relief to those affected by the pandemic on one hand, and a shortfall in revenue collection owing to the interruption in economic activity due to COVID-19 on the other hand. The Centre's fiscal deficit stood at ₹ 9.53 lakh crore during April to October 2020, which is 119.7 per cent of BE compared to 102.4 per cent during the same period in 2019-20 (Figure 58). On the revenue side, the Gross Tax Revenue registered a negative growth of 16.8 per cent, due to the negative growth in all direct taxes and major indirect taxes, except for excise duties. The excise duties collection rose by 41 per cent during the first seven months of the fiscal. The Non-Tax revenue collections fell by 48.2 percent during April to October 2020 relative to the same period last year.



52. On the expenditure side, Centre's total expenditure for the first seven months of FY2020-21 registered an y-o-y growth of 0.4 per cent, and stood at 54.6 per cent of BE vis-à-vis 59.4 per cent of BE during the corresponding period in FY 2019-20. The revenue expenditure witnessed a growth of 0.7 per cent and the capital expenditure fell by 1.9 per cent during April to October 2020 compared to the same period last year. As on 22nd November 2020, the Central Government gross market borrowing during FY2020-21 reached ₹ 9.05 lakh crore, 68 per cent higher than gross market borrowings during the corresponding period of the previous year (Figure 59). This is against the revised target of ₹12 lakh crore for FY 2020-21.

Continued fiscal support to State Governments

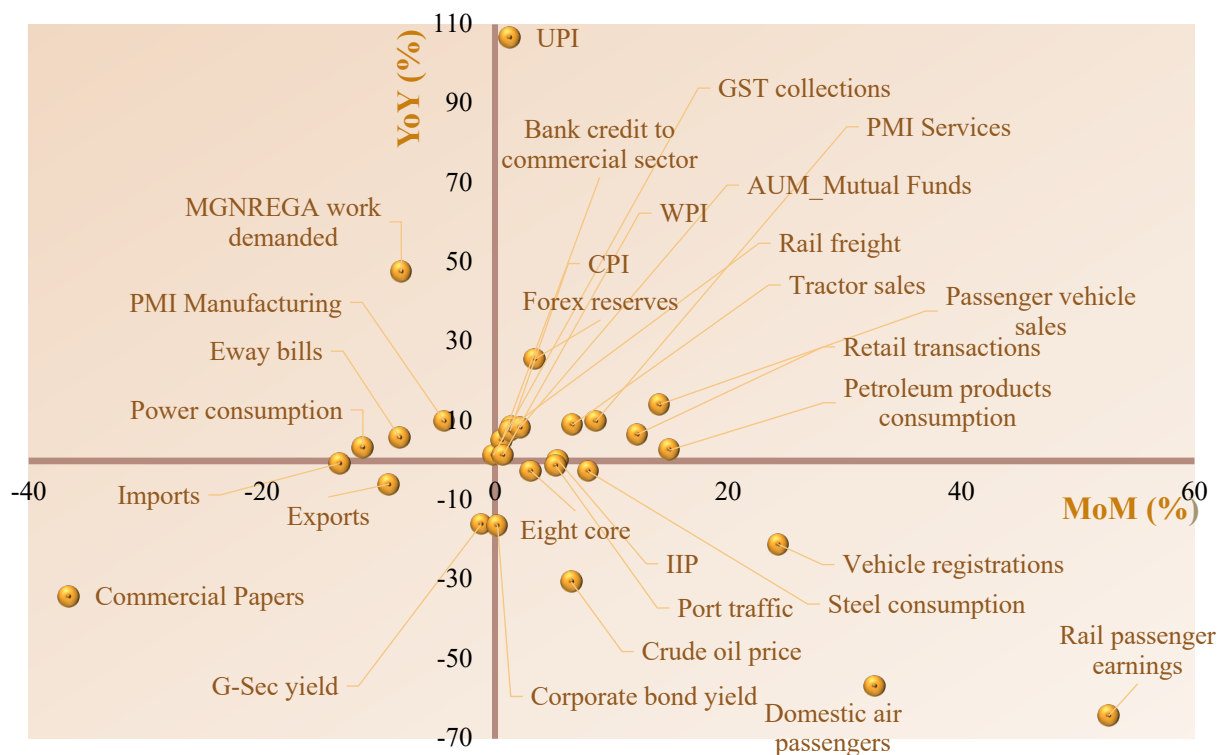
53. The Central Government has continued to persistently support the State Governments towards a faster economic recovery. As a part of Aatma Nirbhar Bharat Package, Centre had enhanced the borrowing limit for the States from 3% to 5% of GSDP for FY2020-21. Up to 22nd November 2020, the State Governments had raised ₹ 4.73 lakh crore as gross market borrowings during the current fiscal, which is 50 per cent higher than the states' gross borrowings during the corresponding period in 2019-20.

54. In order to compensate the states for the loss of GST revenue during FY 2020-21, Central Government has operationalised a Special Window, coordinated by the Ministry of Finance, to borrow the shortfall arising out of GST implementation through issue of debt and pass it on to the States and UTs. So far 26 States and all 3 UTs with Legislative Assembly have chosen this option. The window has been operationalised since 23rd October, 2020 and the Government of India has already borrowed an amount of Rs.24,000 crores on behalf of the States in four instalments and passed it on to the States and UTs, who chose this Option.

Outlook

55. The GDP contraction in India by 23.9 percent in Q1:2020-21 can be attributed to the stringent lockdown - in alignment with the predictions of global growth in the event of an exogenous unprecedented shock. There were no fundamental or structural factors responsible for the contraction. A V-shaped recovery in Q2: 2020-21 was, therefore, expected once unlocking started. The sustained improvement in high frequency indicators in October and November ignite optimism of an improved performance in Q3:2020-21 (Figure 60). The timely announcement of the third tranche of the Atmanirbhar Bharat package on the eve of Diwali with a multi-sector focus across the labour market, stressed sectors, social welfare, manufacturing, housing, infrastructure, exports and agriculture, is also a significant step towards faster revival of the economy, restoration of lost jobs and creation of new ones.

Figure 60: Trend in High Frequency Indicators



Source: Compiled from various sources (based on latest data available)

56. The downside risk, however, remains the spread of a second wave of COVID-19. However, there is a growing cautious optimism that the steep plunges of April-June quarter of 2020 may not resurface with significant progress in vaccines and contact intensive sectors increasingly adapting to a virtual normal. The need of the hour, as stressed by fresh guidelines of Ministry of Home Affairs, is to follow covid-appropriate behaviour and earnest observation of

laid down standard operating guidelines (SOPs). The prospects of a vaccine are encouraging but we need to remain on guard till it is approved and permeates to a large section of the population.

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