# ECONOMIC DIVISION

# Monthly Economic Review

## October, 2020

आर्थिक कार्य विभाग
DEPARTMENT OF
ECONOMIC AFFAIRS

सत्यमेव जयते

## Abstract

*A steady contraction of active COVID-19 cases and a low case fatality rate has instilled measured optimism in India that the worst is behind us. At the same time, a second wave of the pandemic in advanced nations is a grim reminder of how reality hits back when caution is compromised. From a trickle in not so distant past to now a sea of humanity coming out on the streets, the people of India have embraced the new normal where self-protection is inseparable from economic activity.*

*The sustained surge of activity levels in India, itself, is a reflection of a relatively more manageable pandemic situation in the country as compared to advanced nations. Movement of high frequency indicators in October clearly point towards broad based resurgence of economic activity, notably in healthy Kharif output, power consumption, rail freight, auto sales, vehicle registrations, highway toll collections, e-way bills, rebound in GST collections and record digital transactions. Rural consumption has stayed strong, in part helped by sustained MSP procurement of food grains by government at higher prices. Manufacturing Purchasing Managers' Index rose from 56.8 in September to 58.9 in October, pointing to the strongest improvement in the health of the sector in over a decade. PMI Services index also rose to 54.1 in October, ending the seven-month sequence of contraction, signalling improved market conditions. With the onset of the festive season, overall consumption is expected to see further uptick in the coming months enhancing prospects of faster economic normalisation.*

*Prospect of economic normalization is also evident in the external sector indicators with consumption of petroleum products increasing in September and exports rebounding strongly with a year-on-year positive growth for the first time in last 7 months. October witnessed some moderation in exports growth, primarily driven by weak oil exports. Not surprisingly, cargo traffic volumes have almost reached previous year levels in September driven by healthy growth in traffic of iron-ore, finished fertilizers and containerized cargo. The expected current account surplus during the year is likely to provide a cushion to increased spending in the economy. Global investors continue to be upbeat about India's economic prospects as gross FDI inflows cross US$ 35 billion during April-August, 2020, the highest ever for first five months of a financial year. With net FPI inflows staying robust in October, INR stood strong at about 73 to a US$ on the back of forex reserves now comfortably settled in excess of half a trillion dollars.*

*Among the crucial growth drivers of the Indian economy, construction sector has the capacity of single-handedly pushing up growth. With a contribution of 15 per cent to GDP and a share of 12 per cent in the nation's working population, it triggers a multiplier effect on nearly 250 industries connected through backward and forward linkages. Atmanirbhar Bharat (AB) Mission has already recognized its critical role by extending registration/completion timelines of projects and concession period in PPP contracts besides partially releasing bank guarantees to meet working capital requirements. As a policy impetus to create the necessary traction for rental housing market expected to be a ₹1 lakh crore opportunity by 2023, operational guidelines on affordable rental housing complexes (ARHC) have been recently released. Concessional project finance under Affordable Housing Fund and Priority Sector Lending along with exemptions in income tax and GST besides technology innovation grants are intended to make ARHC a lucrative business opportunity in times to come.*

*Food prices have been under pressure but are likely to smoothen out with prospects of a good kharif harvest and reduced supply-side disruptions in inter-state movement of food products. A slight hardening of core WPI inflation in September is reflective of strengthening demand that appears to have caused a marginal uptick in the growth of bank credit as well in the fortnight ending 9th October. A decline in the growth in demand deposits is also reflective of strengthening demand and more pertinently of a smaller inclination towards precautionary savings that the pandemic had induced to weaken consumption and growth. The decline in growth of cash in circulation further reflects a shift away from precautionary savings.*

*Bond markets remained buoyant in October following RBI's announcement of doubled OMOs, first time OMOs of SDLs and on-tap TLTROs. The surplus systemic liquidity continues to ensure softening of 10-year G-sec yield and reduction of spread with AAA corporate bond yields. The corporate sector has seen growing success in mobilizing funds from the capital market, both through public issue and private placement, reflecting the development of an alternative to bank credit. However, cost of bank credit has also been declining as monetary transmission appears to have gathered pace passing-through the earlier cuts in the repo rate to lowering of the weighted average lending rate (WALR) on fresh loans. With overall cost of capital declining in the economy, it has taken a pandemic to ease one of the major binding constraints to economic growth in an emerging market economy.*

*India's fiscal space in the pandemic period has been characterized by additional spending directed towards ensuring basic means of sustenance and livelihoods for the vulnerable people, relief measures for MSME sector, accommodating additional health infrastructure and services to fight COVID-19 and measures to boost consumption demand. The fiscal space is also characterized by recent measures announced to lend to states for increasing capital expenditure, providing them assistance under SDRF and borrowing on their behalf to meet GST revenue shortfall. It is further characterized by a pandemic induced shortfall in revenue collection in the first of half of the current year following interruption in economic activity. The consequent constriction of fiscal space is neither unique to India nor does it make the country's public finances any more vulnerable than other nations. Given that there are indications of India's GDP growth in the current year being higher than currently projected by various agencies, fiscal space is set to widen to accommodate other priorities of the government. This is evident in the GST collections crossing ₹ 1 lakh crore in October – first time since February.*

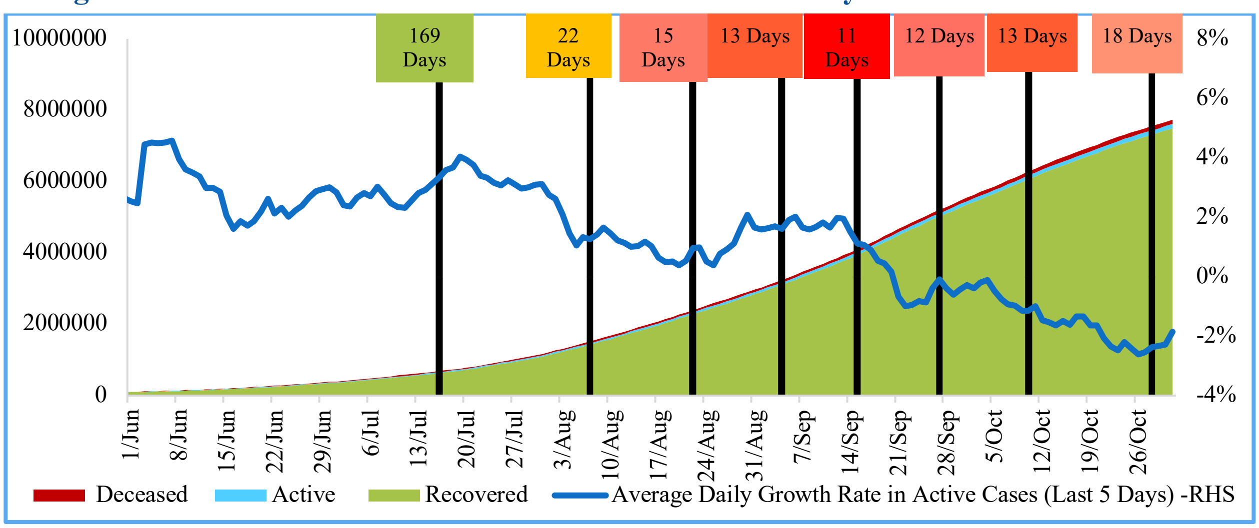
*India stands poised to recover at a fast pace and reach pre-COVID levels by the end of the year - barring the incidence of a second wave that may be triggered by the fatigue with social distancing. The continuous improvement in forward looking RBI indices of consumption and business sentiment for the next year augurs hope of a strong economic rebound. This is also corroborated by IMF's October 2020 projection of 8.8 per cent real GDP growth of India in FY 2021-22, highest globally.*

## India may be past its first ‘peak’ amongst second peaks across US and Europe

1. The number of confirmed cases of COVID-19 globally now exceeds 4.6 crore with more than 12 lakh deaths. There has been a resurgence of new cases with daily cases exceeding more than 4 lakh per day, with particular concentration in United States, India, France, UK, Italy and Spain. After having ‘flattened the curve’ in May, many European countries are witnessing a second wave of infections forcing re- imposition of public health measures.

2. With India reporting a continuous decline in daily COVID-19 cases in October, India’s global position in number of active COVID cases moved from second to fourth after US, France and Spain as on 31st October. Growth in active cases has consistently stayed in negative territory since 3rd October and falling at the rate of 1.4% as on 31st October. The total confirmed cases in India have crossed 80 lakh - India took 169 days to reach its first 10 lakh cases, and 21, 16, 13, 11, 12, 13 and 18 days to reach its subsequent 10 lakh cases (Figure 1). The recovery rate improved to above 90 per cent as on 31st October vis-à-vis 83.3% as on 30th September. Case fatality rate continued to decline to 1.48 per cent as on 31st October as compared to 1.57 per cent as on 30th September.

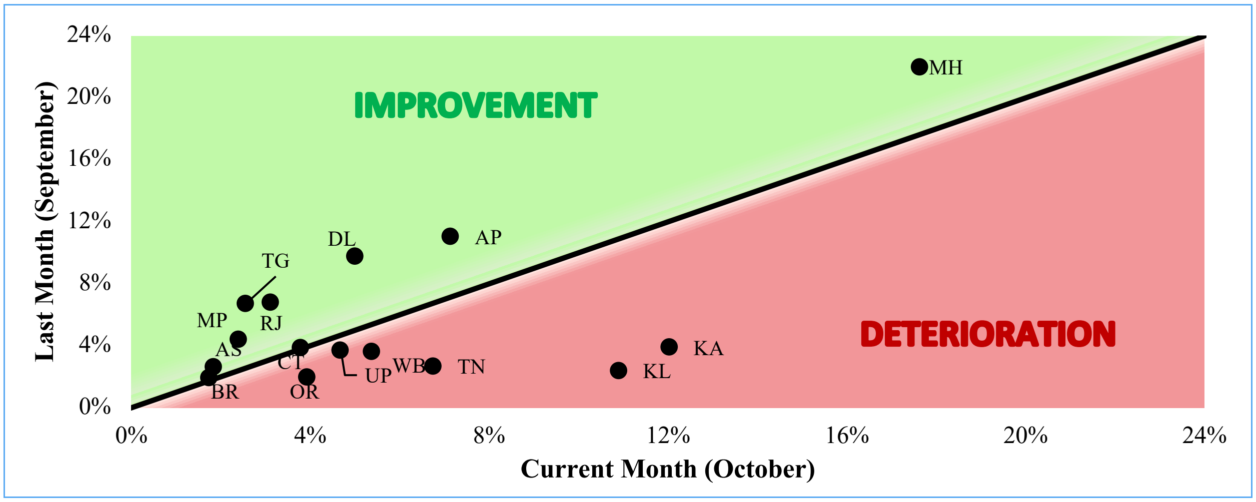
**Figure 1: Growth Rate in Active Cases with Increase in Days to add 10 lakh new cases**




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

3. Maharashtra, Karnataka, Kerala and West Bengal account for around half of the active COVID cases and daily new confirmed cases as on date. Figure 2 shows that when we compare the share of daily COVID cases in October with the share in last month, Andhra Pradesh, Maharashtra and Telangana have shown improvement while Karnataka, Kerala and Tamil Nadu need further focussed action.

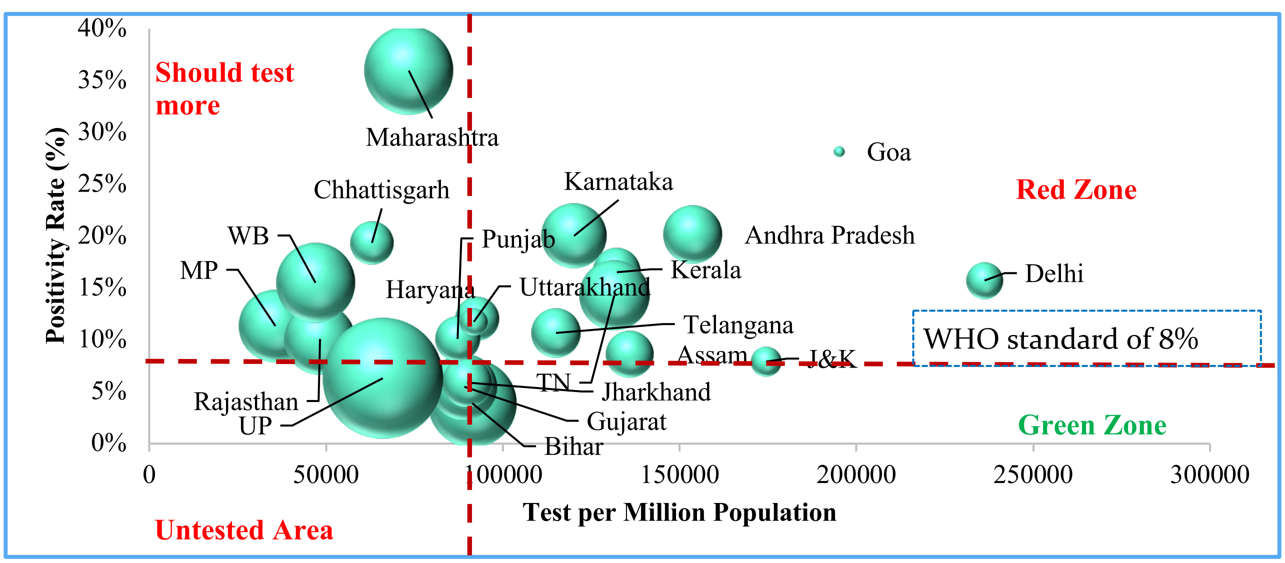
Figure 2: Share of States in new COVID -19 Cases (Current vs Last month)




Source: India COVID-19 Tracker. [https://www.covid19india.org](https://www.covid19india.org)

4. As the first step towards timely identification, prompt isolation & effective treatment, higher testing is an effective strategy to limit the spread of infection. Keeping the focus on "Test, Track and Treat" strategy, India has tested nearly 11.07 crore cumulative COVID-19 samples as on 31st October. The tests per million, now standing at around 80,000, are among the top 10 countries in the world. The cumulative test positivity rate is, now, below the WHO standard of 8% at 7.4% which indicates that testing in India matches the global averages. The test positivity rates across States, however, vary. As Figure 3 shows, Bihar, Jharkhand and Gujarat are in the green zone of testing while Maharashtra, West Bengal and Chhattisgarh require more testing.

Figure 3: State-wise Testing Positivity Rates



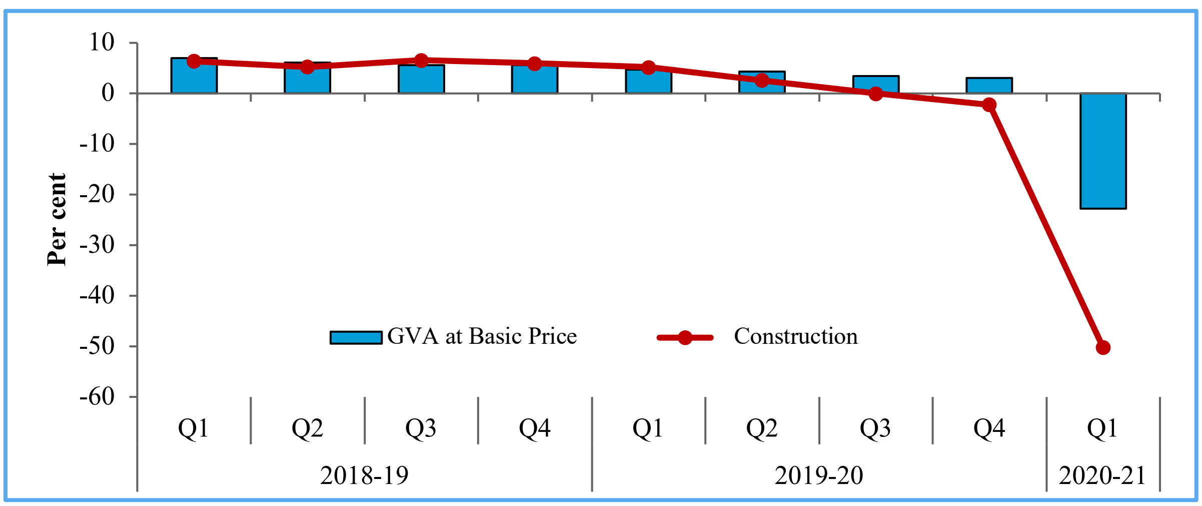

Source: https://www.covid19india.org Note: Size of the bubble represents population

5. The declining positivity rate at all India level reflects that the 'peak' in India may be retreating. Estimates by the expert Committee set up by the Department of Science and Technology also show that India has peaked in September. It has also noted that without the lockdown, active symptomatic cases would have peaked in June at 140 lakh overwhelming our hospitals and India could have seen 25 lakh COVID-19 deaths by August. It has, however, cautioned that before February of next year there could be a second wave of infections if due caution is not taken. Given the festive season ahead and experience of second waves across the world, the emphasis on taking due precautions of hand washing and social distancing cannot be diluted.

### Construction Sector: A crucial growth propellant

6. The construction sector, as a part of manufacturing, contributed an average of 8 percent to the overall Gross Value Added (GVA) in the last five years. The related services sector of 'real estate, ownership of dwelling & professional services', further, contributed 15.5 percent of the GVA during the same period. Thus, the sector contributes to more than one-fifth of the total GVA of the country. The critical role of the construction sector in the Indian economy can be further gauged by the fact that it is the biggest job generator next only to agriculture – employs close to 12 percent of the nation's working population i.e., over 51 million people (as per PLFS 2018-19). The sector has a multiplier effect on nearly 250 allied industries with backward and forward linkages – and acts both as a crucial 'push' and 'pull' peg in the growth story of India. With construction activities majorly constricted due to the lockdown, the sector contracted by a massive (-) 50.3 percent during Q1 of FY 2020-21 – contributing to around one-fifth of the contraction in total GVA during the quarter (Figure 4).

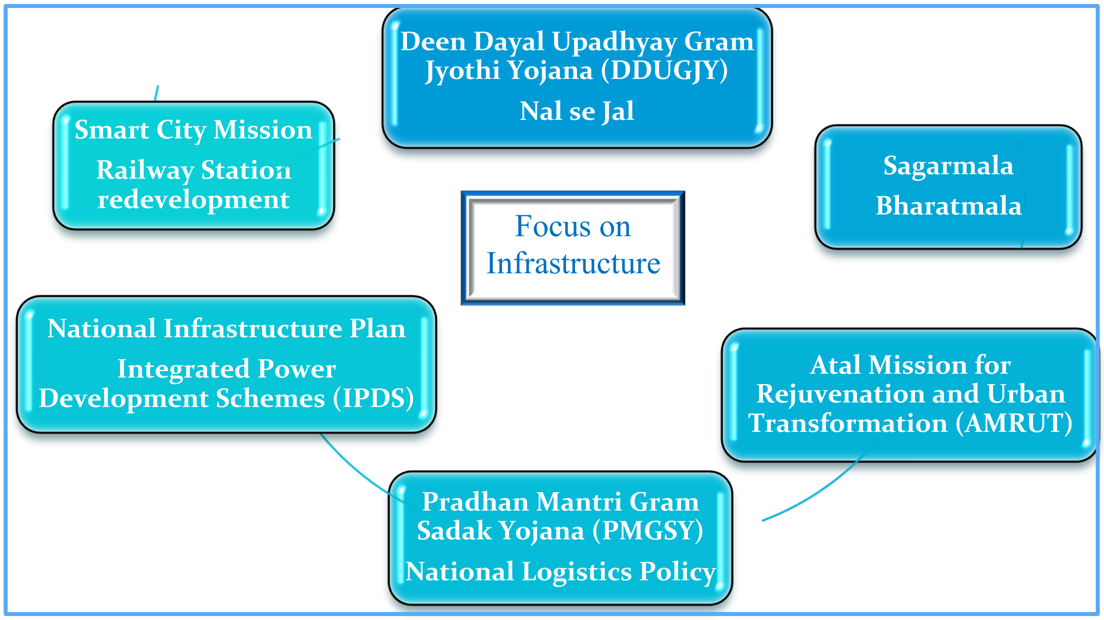
**Figure 4: Quarterly trend in growth of Construction Sector in India**




Source: NSO

7. While the current situation seems challenging, the construction sector needs to play a catalytic role in the recovery of the Indian economy in the post-lockdown world – given its sheer contribution to GVA and employment. The Government has had a prime focus on building infrastructure across various sectors and has launched various Schemes in the last few years (Figure 5).

**Figure 5: Focus of Government on Infrastructure through various Schemes**




8. The response of the Government to combat the impact of the pandemic has been pro-active. Various measures have been taken to alleviate the stress on the construction and housing sectors and augment the flow of funds to the sector (Table 1).

| **Table 1: Measures to support the Construction Sector under Atmanirbhar Bharat package** |
|---|
| ***Welfare Measures*** |
| ▪ Financial assistance to building & construction workers (BoCW) under Prime Minister Garib Kalyan Package (PMGKP)<br>▪ Welfare fund of State Governments with a corpus of Rs 31,000 crore |
| ***Support Measures*** |
| ▪ Extension of up to 6 months (without costs to contractor) to be provided by all Central Agencies to cover construction/ works and goods and services contracts<br>▪ Extension of Concession period in PPP contracts |

- Government agencies to partially release bank guarantees to ease cash flows
- COVID 19 treated as an event of "Force Majeure" under Real Estate Regulatory Authority (RERA)
- Extend timelines for various statuary compliances under RERA concurrently
- Extension of six months given on registration and completion dates of all registered projects expiring on or after March 25, 2020, with increase by three more months by Regulatory Authorities.
- Issue fresh 'Project Registration Certificates' automatically with revised timelines

**_Liquidity Measures_**

- Special liquidity scheme for Non-Banking Financial Companies (NBFCs), Housing Finance Companies (HFCs) and Micro Financial Institutions (MFIs) worth Rs 30,000 crore
- Emergency Credit Guarantee Line of ₹ 3 lakh crore
- Special refinancing facility of ₹ 10,000 crore with additional standing liquidity facility of Rs 5000 crore at Reserve Bank of India's Policy Repo Rate to National Housing Bank (NHB)
- Rs 45,000 crore Partial Credit Guarantee Scheme for NBFCs to cover borrowings such as primary issuance of Bonds/ CPs (liability side of balance sheets) of such entities.

**_Boost Demand_**

- *Credit Linked Subsidy Scheme for Middle Income Group (MIG)* extended by one year up to March 2021.
- ₹1 Lakh Crore Agri Infrastructure fund for farmgate infrastructure
- Setting up of an animal husbandry fund of ₹ 15,000 Crore, to support private investment in dairy processing, value addition, and cattle feed infrastructure
- ₹8,100 Crore for increasing Viability Gap Funding (VGF) support for social infrastructure projects in aspirational districts.

**_Affordable Rental Housing_**

- *Affordable Rental Housing Complexes (ARHC) for Migrant Workers / Urban Poor* under Pradhan Mantri Awas Yojana (PMAY) - (i) converting government funded housing in the cities into ARHCs through PPPs, and (ii) incentivising manufacturing units, industries, institutions, associations to develop ARHCs on their private land and operate them.

**_Structural Reforms in the Sector_**

- Survey of Villages and Mapping with Improvised Technology in Village Areas (SVAMITVA) scheme aims to create a geospatial database of all rural properties using drones and latest survey methods. Property cards or "*sampatti patrak*" will be made available on digital platforms or as hard copies to the village household owners. This will provide clarity over property rights in rural areas and open up avenues to use land as an asset for loans or leasing.

### *Window of Opportunity for Affordable Rental Housing*

9. This crisis, however, offers critical opportunities in the rental housing segment in the face of rapid urbanization and millenial migrant trends to cities in India. There are 40 cities with a population of more than 1 million and 50% in 15-44 age group[1]. Inter-state migration flows have accelerated from 5-6 million persons between 2001-11 to close to 9 million persons between 2011-16[2]. As of 2018, an estimated 4.7 million migrants were employed in the services sector across India's top seven cities and are expected to rise to grow at a steady CAGR of 8 per cent and touch nearly 7 million in 2023, further boosting demand for rental housing[3].

10. As per RBI's Residential Asset Price Monitoring Survey 2019, house price to income ratio rose from 56.1 in March 2015 to 61.5 in March 2019 for all cities. Housing loan to income ratio also picked up from 3.0 to 3.4 over the same period, signalling worsening housing affordability. As the pandemic subsides and lockdowns ease, migrations to urban areas will continue, thereby generating potential demand for rental housing. The shared rental market is expected to grow into a ₹ 1 lakh crore opportunity by 2023, with 5.7 million beds and a co-living penetration of 8.3 per cent as compared to 3.6 million beds in 2018 and a co-living penetration of 2.6 per cent in 2018[4].

11. Affordable housing, be it owned, or rental has been receiving significant policy push from the government with the rental segment clearly identified as the focus area (Figure 8). It is evident that the policies leading to the current Affordable Rental Housing Complexes (ARHCs) policy have taken shape from 2015 to 2020 through National Urban Rental Housing Policy (NUHRP) and Model Tenancy Act (MTA). While NURHP was focussed on promoting shelter facilities for the most vulnerable groups within the homeless population, MTA was focused on addressing the relationship between the lessor & lessee realistically and fairly, formation of a rental regulatory authority and capping of security deposit.

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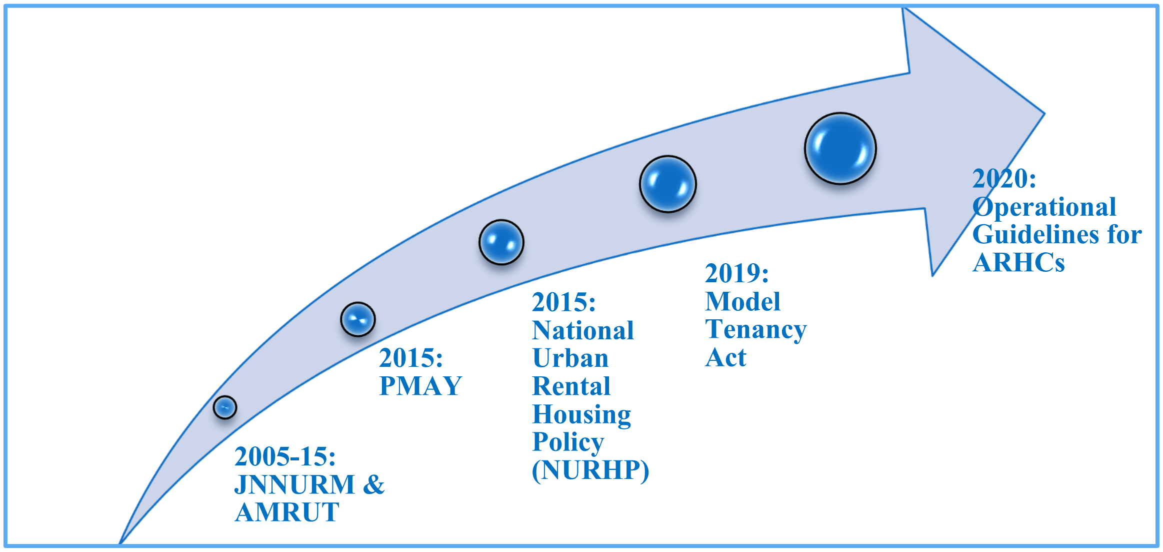
[1] FICCI & Savills, August 2020
[2] India Voluntary National Review, Niti Aayog, 2020
[3] FICCI & JLL, June 2019
[4] FICCI & JLL, June 2019

**Figure 8: Evolution of the Policy Landscape for Affordable Rental Housing**




Source: Compiled from Information available from MoHUA

12. Taking cognizance of the hardships faced by urban poor, especially the migrant labourers due to COVID-19 pandemic, the government has rightly focussed on the rental housing solution. The recently released Operational Guidelines on Affordable Rental Housing Complexes (ARHC) is a long-awaited giant leap in the right direction and has created the necessary traction for rental housing. Key strengths of the AHRC solution lie in its social objective of aiming to develop rental housing for poor migrants closer to workplaces, within the city suburbs. To make this a lucrative and viable business opportunity for Entities, Government has announced Concessional Project finance under Affordable Housing Fund (AHF) & Priority Sector Lending (PSL), exemption in Income Tax & GST and Technology Innovation Grant for promotion of innovative technologies in ARHCs. Further, State/UT Governments will provide Use Permission changes, 50% additional Floor area ratio (FAR)/ Floor Space Index (FSI) free of cost, single window approval within 30 days, Trunk Infrastructure facility and municipal charges at par with residential property. With a clear policy push of the government towards rental housing and an enabling policy environment in place, there is a tremendous upside potential for market participants to explore the game-changer rental housing segment.

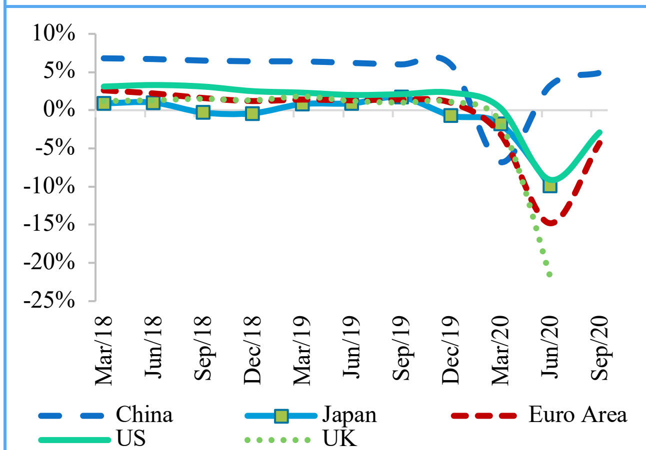
## Global Macro-economic scenario

### *Resurgence in infection rate weighing on the nascent recovery*

13. Recent data releases exhibit signs of rebound in global output growth during third quarter of 2020, albeit remaining lower than pre COVID levels. US economy witnessed lower contraction of 2.9 percent, boosted by increased business and residential investment along with improved demand conditions. In Euro area, output also revived, observing lower reduction of 4.3 percent. All member states saw rebound in activity with France, Spain and Italy having recorded marked improvement compared to Q2. GDP in China expanded by 4.9 percent with investment and exports being the major growth drivers (Figure 9).

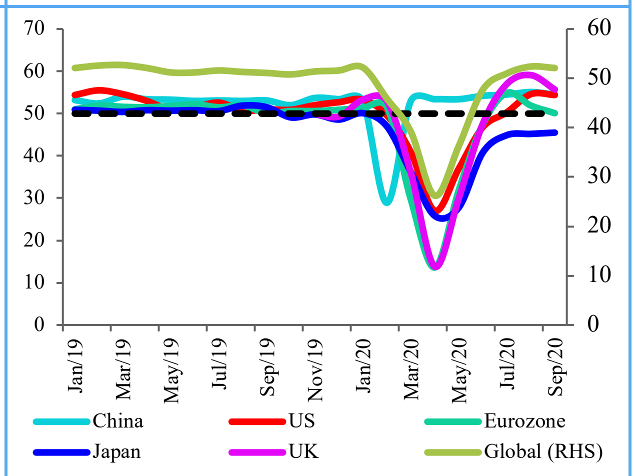
14. Accelerating spread of COVID-19 in some regions is weighing on the nascent recovery in activity with the pace of economic recovery moderating at the beginning of fourth quarter. Preliminary estimates of PMI Composite Index manifest mixed results for major economies (Figure 10). In US, increased rate of expansion in economic activity signalled the return of growth momentum, following a slight dip in the pace of expansion at the end of the third quarter. In Eurozone, diverging trend by sector has been evident. Manufacturing output growth accelerated with surge in inflows of new orders, amid rising global demand. Conversely, intensifying COVID-19 restrictions has led to fall in service sector output for a second successive month, deteriorating at the sharpest rate since May. Pace of UK economic output growth also moderated during the period, while business activity in Japan continued to shrink further in October, although at slower rate.

**Figure 9: Global Growth**




Source: Complied using various sources

**Figure 10: Global Composite Index**

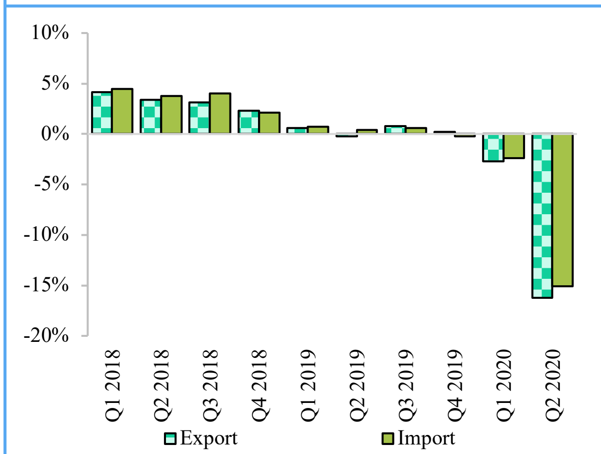



Source: IHS Markit

*International Trade: Uncertainty prevails over recovery*

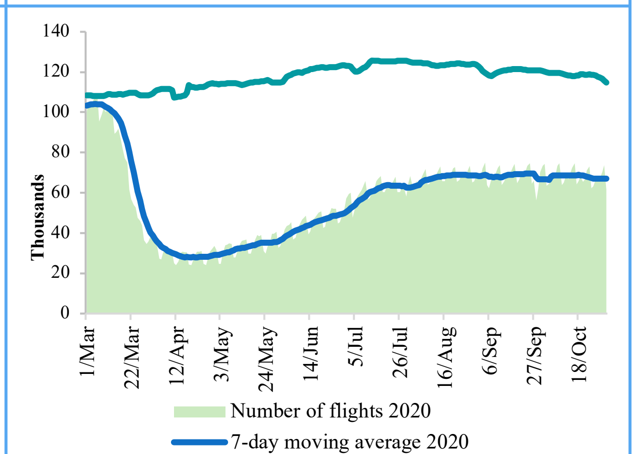
15. Global trade rebounded in Q3 of 2020 from historic low of second quarter as suggested by preliminary data available with UNCTAD. Growth in trade activity is estimated to have remained in negative territory at (-)4.5 per cent, although improving from (-)19 per cent of Q2 on a YoY basis (Figure 11). Trade in home office equipment and medical supplies increased during Q3, while automotive and energy sectors witnessed further weakening. Leading indicators, such as the Purchasing Manager Indices (PMIs) still signal substantial uncertainty for international trade in the coming months. Trade activity as tracked by number of commercial flights, witnessed stagnation in pace of recovery at the beginning of last quarter of 2020, stalling at 58 percent of previous year level (Figure 12).

**Figure 11: Trade Volume Growth (YoY)**




Source: UNCTAD

**Figure 12: Commercial Flight Activity**

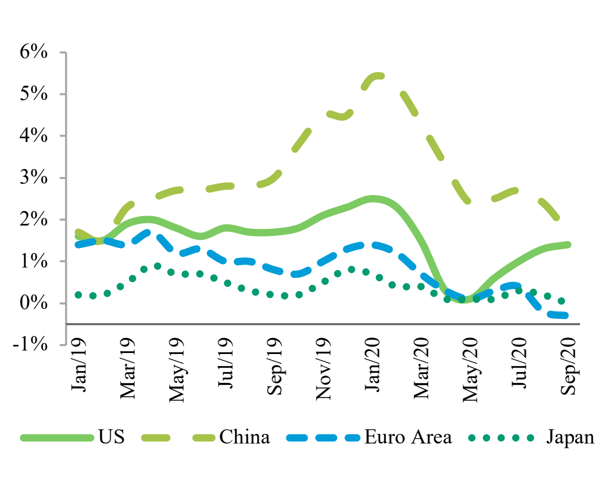



Source: Flightradar24

*Global Inflation presents mixed trend in September*

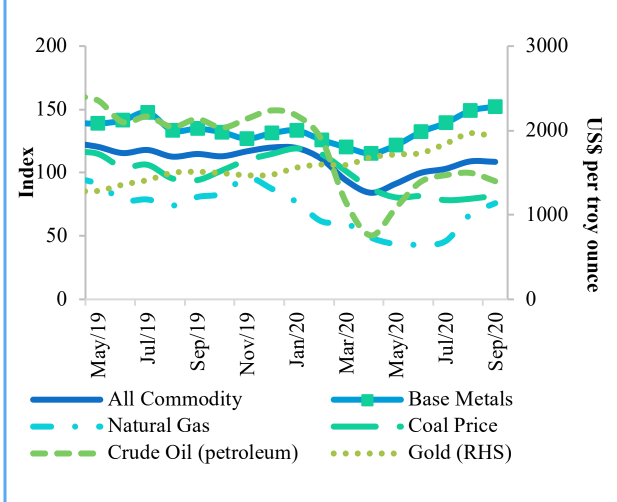
16. During September, consumer inflation remained low in major economies, largely due to decline in energy prices. US inflation increased further to 1.4 percent in September, while Euro zone continued to experience deflation for second consecutive month at 0.3 percent. Japan witnessed a no inflation situation i.e., zero percent during the month. Inflation in emerging economies like Brazil, Indonesia and South Africa inched up further in September while inflation eased down further in China driven by decline in food inflation (Figure 13).

**Figure 13: Inflation Trend**




Source: Compiled using various agencies

**Figure 14: Commodity Prices**




Source: IMF

### *Oil prices remained stagnant in October due to bearish sentiment*

17. Energy commodity prices witnessed a mixed result during September, with decline in crude oil market, mixed developments in natural gas, and increase in coal prices (Figure 14). Spot crude oil prices declined due to softening recovery of physical crude market fundamentals. Spot Brent prices remained stable at US$ 40.8 per barrel during October due to bearish sentiment in the crude oil futures market amid continuing increase of the COVID-19 new cases globally and raising concerns about the global oil demand outlook. Coal prices rebounded by 3 percent over improved demand in Asian markets and risk of supply disruption due to forecast of La Nina weather condition in Queensland and New South Wales production hub. Base metals prices rose by 2.2 percent supported by further strengthening of global manufacturing activity. In the group of precious metals, gold prices declined by 2.3 percent after nine months of advances as real interest increased in the US.

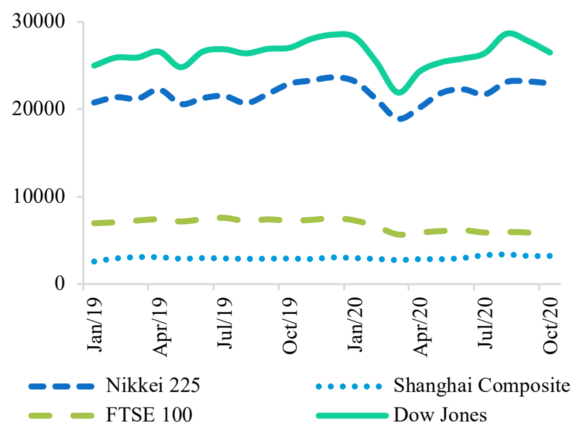
### *Financial market declined amid increased volatility and surge in infection rates*

18. Global equity markets broadly decreased during October amid rising coronavirus cases and elevated volatility ahead of the US Presidential election. US Dow Jones and S&P 500 indices shredded 4.7 and 2.7 percent gain respectively on account of surge in COVID infection rates and unsuccessful fiscal stimulus negotiations. Shares in Europe fell on sign of stalling economic recovery amid tighter restrictions to curb surging coronavirus infections, Germany's DAX and France CAC 40 indices fell by 9.4 percent and 4.3 percent respectively. UK's FTSE 100 Index lost 5.4 percent and Japan Nikkei 225 declined marginally by ~1 percent. China Shanghai Composite Index inched up marginally by 0.2 percent during October (Figure 15).

*Exchange rate*

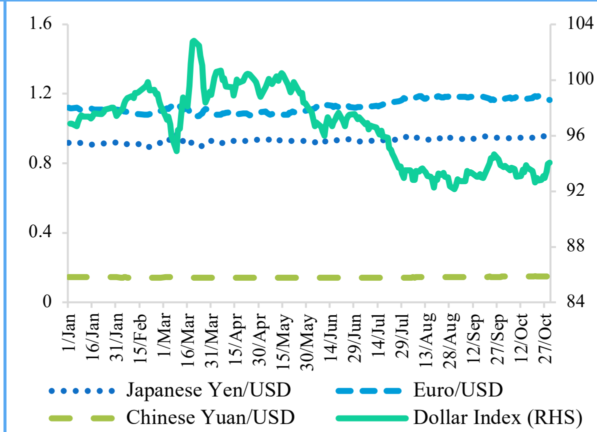
19. Dollar index remained stagnant at 94.04 marginally up by 0.16 percent in October after witnessing recovery in September. Major currencies such as the Japanese yen, Euro, British Pound, Chinese Yuan and Swedish Krona recorded gains during the month (Figure 16).

**Figure 15: Financial Market Performance**




Source: Compiled using various agencies

**Figure 16: Exchange Rates**




Source: Thomson Reuters

## Macro-economic Scenario in India

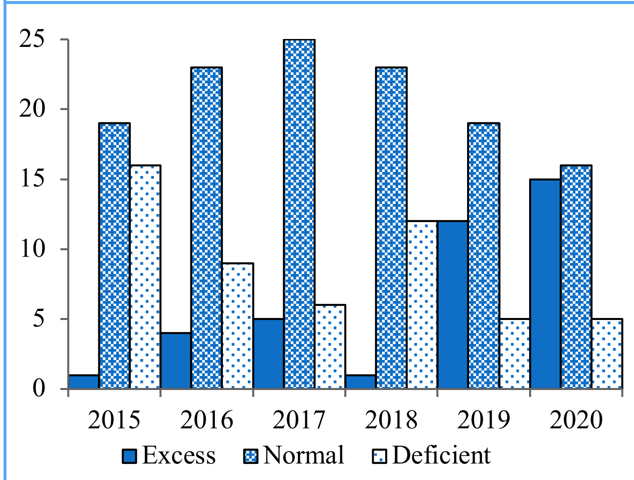
*Movement of high frequency indicators in October point towards broad based resurgence of economic activity*

20. October witnessed strengthened momentum of economic revival cutting across sectors, with encouraging trends visible in real activity indicators like healthy Kharif output, power consumption, rail freight, auto sales, vehicle registrations, highway toll collections, E-way bills, GST collections, PMI indices and digital transactions. With the onset of the festive season, overall consumption is expected to see further uptick in the coming months and enhance prospects of faster economic normalisation.

*Bountiful Monsoons strengthen prospects of rural demand*

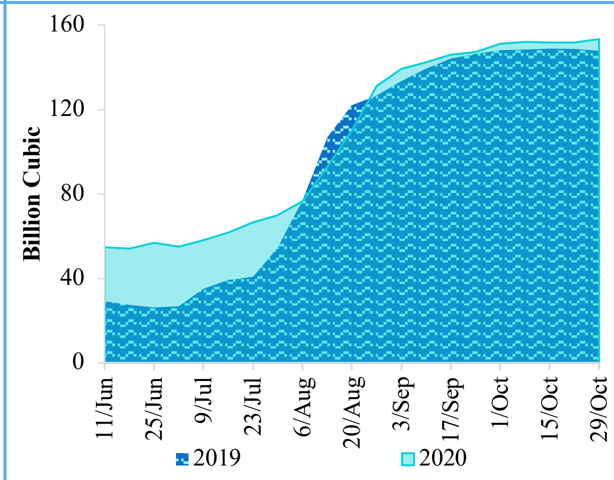
21. The country received 109 per cent rainfall of the Long Period Average (LPA) in the monsoon season this year. As regards spatial distribution, 86 per cent of the sub-divisions received normal and above normal rainfall. All regions received cumulative rainfall higher than the LPA except North-West India that received rainfall 16 per cent below LPA (Figure 17). As on 29th October, 2020, the live storage in major reservoirs was 86 per cent of the full reservoir level (FRL), marginally lower than previous year's level (by 4 per cent) but higher than decadal average by 17 per cent (Figure 18). This augurs well for upcoming Rabi sowing and rural demand.

**Figure 17: Spatial Distribution of Monsoon in 36 Meteorological Sub-Divisions**




Source: IMD

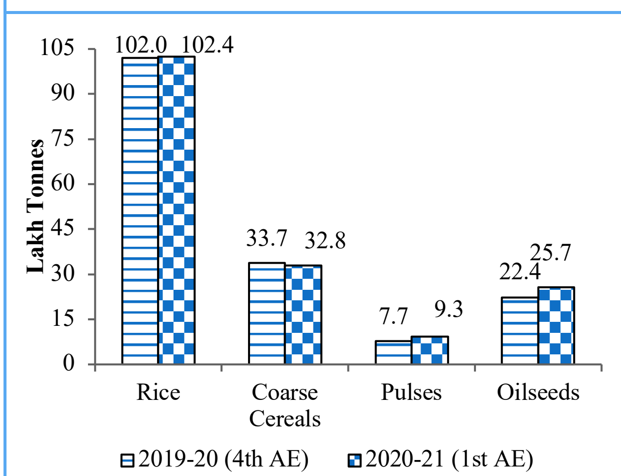
**Figure 18: Live Storage in Reservoirs**




Source: Central Water Commission

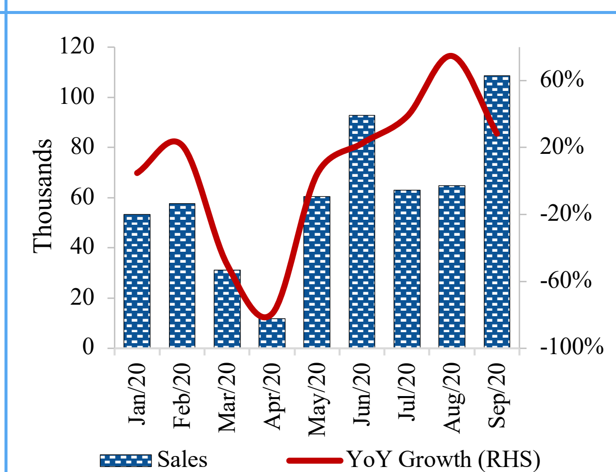
22. The bountiful monsoon enabled healthy sowing of Kharif crops at 4.8% higher than last year. The first advance estimates (AE) of production of major kharif crops for 2020-21 placed foodgrains production at 1,445.2 lakh tonnes, 0.8 per cent higher than last year. Production of total kharif pulses and oil seeds is estimated to be substantially higher than in the previous year with an increase of 20.6 percent and 15.1 respectively (Figure 19). Rising tractor sales are an indication of a healthy kharif output and prospect of a healthy rabi sowing (Figure 20).

**Figure 19: Estimates for Kharif Production in 2020-21**




Source: Ministry of Agriculture

**Figure 20: Tractor Sales**




Source: Tractor and Mechanization Association

23. Minimum support prices (MSPs) announced for various crops for both kharif and rabi season were 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 120. 48 lakh tonnes of rice has already been procured as on 29th October. The stock of cereals at the end of October 1, 2020 was 2.5 times the buffer norms for Q3:2020- 21(Figure 21). Under the Pradhan Mantri Garib Kalyan Package (PMKGY), against the allocation of 189.39 lakh tonnes for the period July-November, 134.1 lakh tonnes have been distributed as on 31st October (Figure 22).

**Figure 21: Stocks of Cereals in Central Pool**

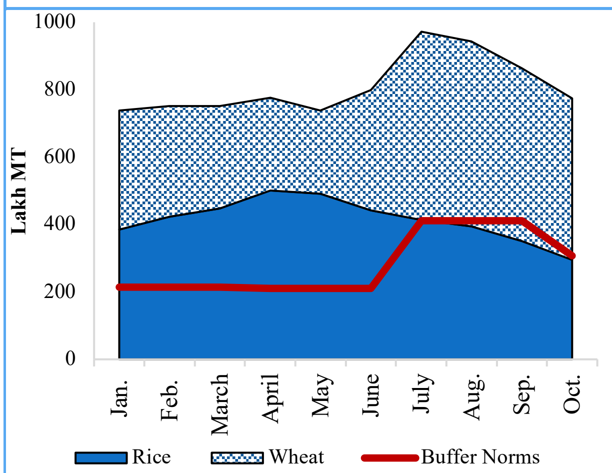
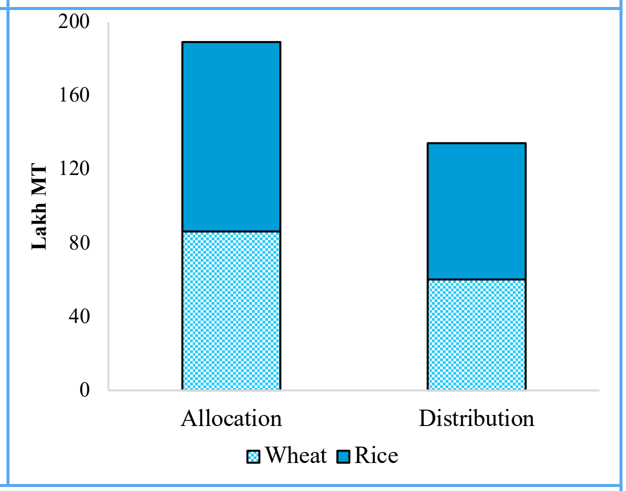



**Figure 22: Progress of Foodgrains Distribution under PMGKAY**



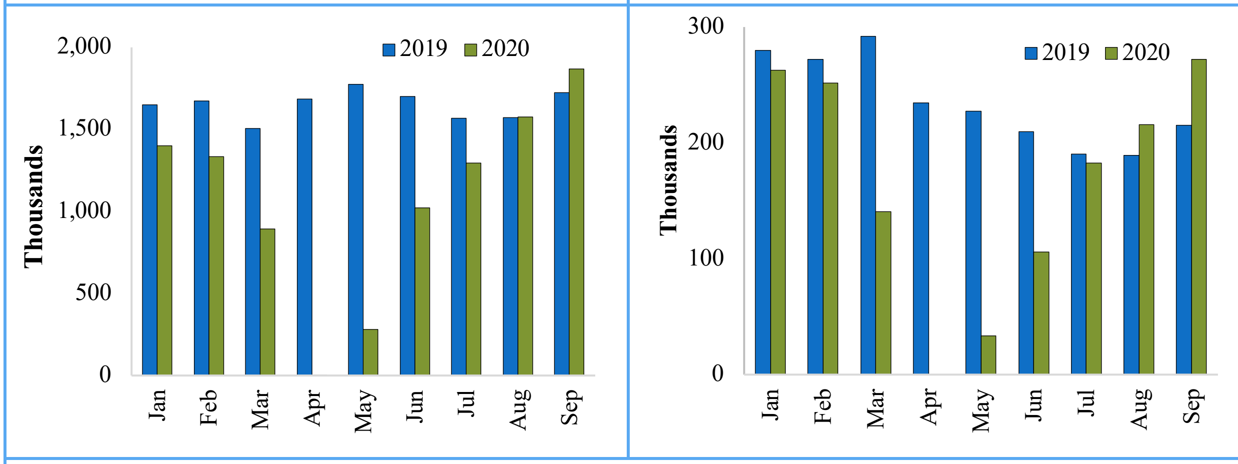

Source: Department of Food and Public Distribution

## Resurgent Auto demand in wake of festive season

24. The indicators of demand are gaining momentum with sales of passenger vehicles, two and three wheelers exceeding previous year levels in September by a good margin (Figure 23). Increase in registrations for commercial and agricultural tractors from March to October is further indicative of strengthening rural demand (Figure 24).

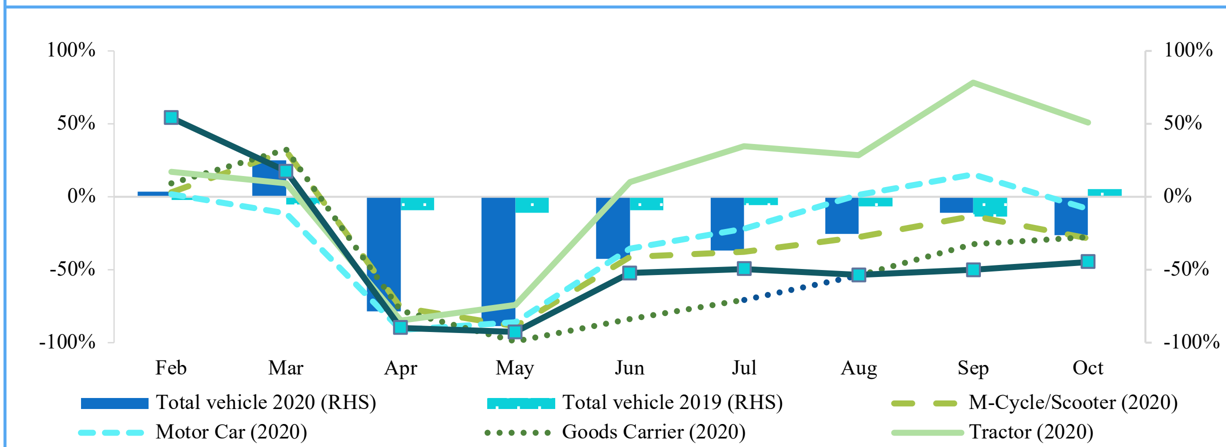
**Figure 23: Auto Sales**

**Two & Three Wheelers** | **Passenger Vehicles**




Source: SIAM

**Figure 24: Growth in Vehicle Registration**




Source: Vahan Database, Ministry of Road Transport and Highways

## Industrial production climbing up to recovery

25. Industrial production is showing signs of recovery with year-on-year (YoY) growth in IIP showing a smaller contraction in August at 8.0 percent as compared to 10.8 percent in July (Figure 25). It, however, contracted on a sequential basis by 1.3 percent as compared to July, 2020. Among the components of IIP, electricity was the most resilient with a contraction of 1.8 percent with manufacturing sector registering a decline of 8.6 per cent, while the output of mining fell by 9.8 per cent (Figure 26). Within manufacturing, tobacco products, transport equipment and basic metals have shown positive growth of 2.9 per cent, 1.7 per cent and 0.1 per cent respectively in August. In the case of chemicals and pharmaceutical products, there is marginal contraction on a

YoY basis but the momentum is favorable compared to July. Products like wood and paper products, apparel, recorded media, petroleum products and furniture have contracted more than 20 per cent on a YoY basis. With the PMI-Manufacturing recovering to record levels and PMI Services recording expansion in October and the festive season ahead, the outlook in coming months seems positive.

**Figure 25: Index of Industrial Production**

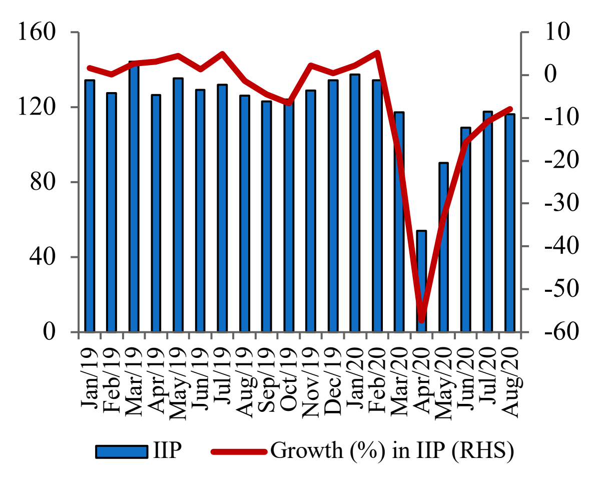
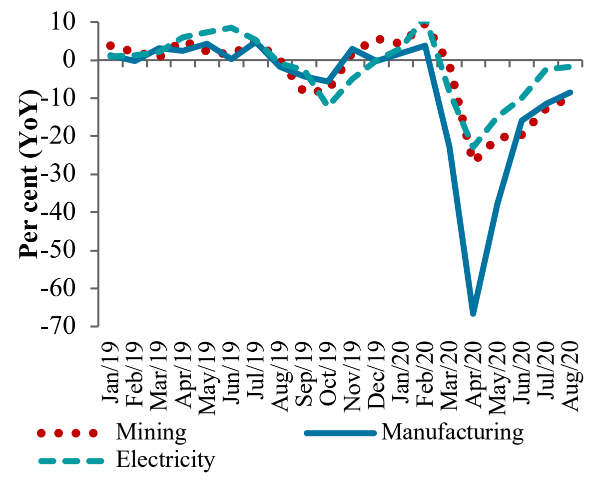


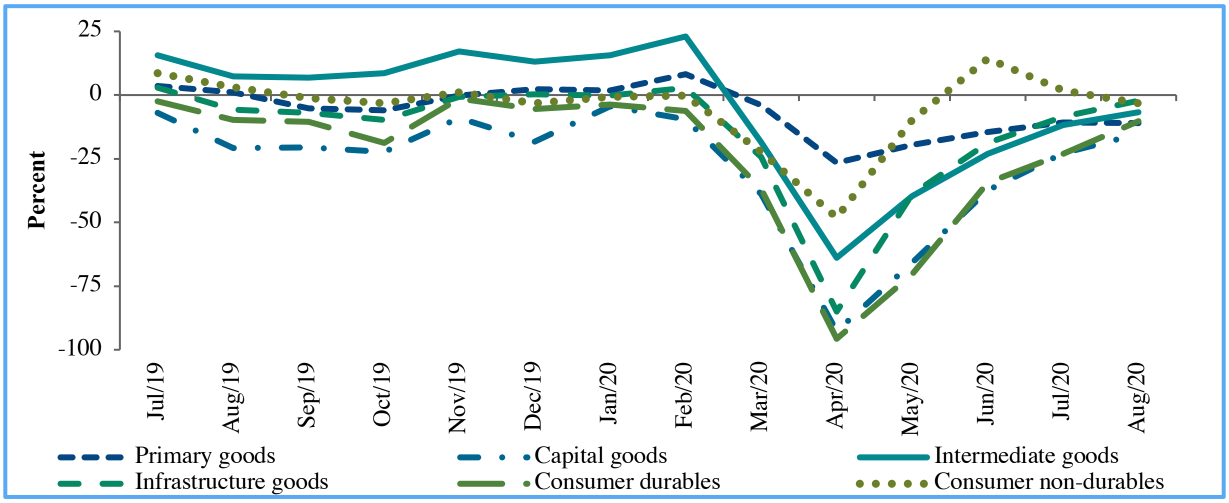

**Figure 26: Growth Components of IIP**




Source: MoSPI

26. Steady recovery is evident in all use-based categories of IIP, with varying intensity. The contraction in the user groups like capital goods, intermediate goods and infrastructure has mellowed. The production of Consumer Durable Goods attained (-)10.3 percent growth in August, 2020 as compared to (-)9.7 per cent in August, 2019. However, the fall in production of consumer non-durables, (-)3.3 per cent in August compared with 1.8 percent in July is a reversal in trend from the positive growth recorded in the previous two months (Figure 27). The IIP has 407 items (5-digit NIC classification), of which 131 items have recorded growth in August, 2020 which is significantly higher than 28 items in the month April-2020 and 117 items in July, 2020 – but still lower than 231 items in Feb 2020. Index for 99 items in August, 2020 was more than their pre-COVID levels in January, 2020.

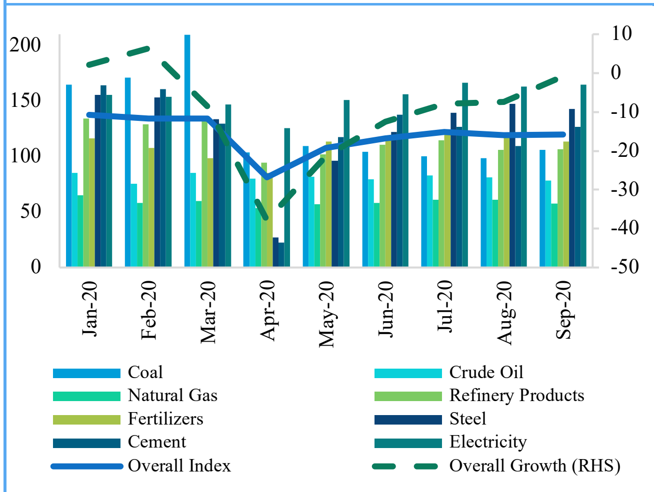
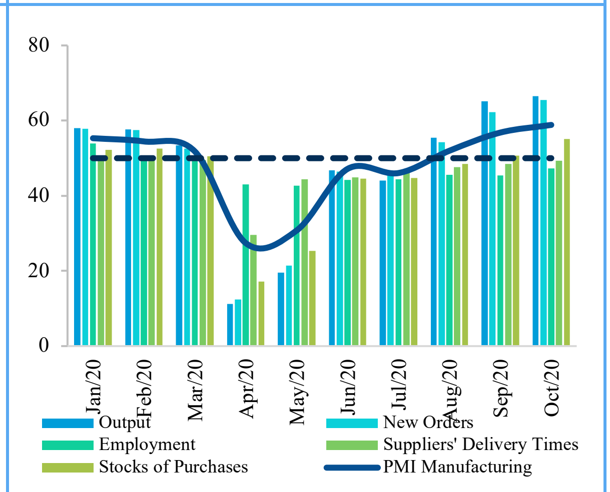
**Figure 27: Trend in Growth Rates of IIP -Use-based Category**




Source: MoSPI

27. The index of eight core industries, which make up around 40 per cent of the index, registered a growth of (-) 0.8 percent in September, 2020 as compared to a growth of (-) 5.1 percent in September-2019 and (-) 7.3 percent in August, 2020. Coal production increased by 21.2 per cent YoY, steel production increased by 0.9 per cent and electricity sector attained 3.7 per cent growth in September, 2020 (Figure 28). This portends well for IIP for the month of September.

28. India's manufacturing purchasing managers' index (PMI), rose to 58.9 in October - strongest improvement in over a decade. Growth was led by intermediate goods category with robust growth also on the consumer and investment goods sub-sectors. The up-turn in the sales was the strongest since mid-2008. In response to strong sales gains and softer containment measures related to the COVID-19 disease, firms lifted production at the strongest pace recorded since late-2007. 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.

| Figure 28: Core Industries Performance | Figure 29: PMI Manufacturing |
|---|---|
|  |  |
| Source: DPIIT | Source: IHS Markit |

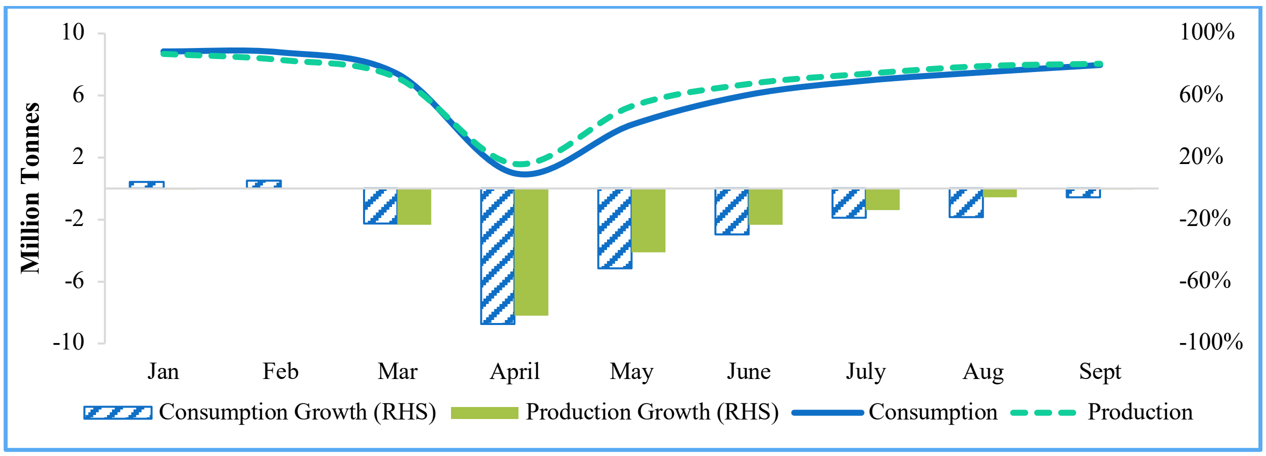




### Steel sector witnesses growing convergence with previous year levels

29. Positive trend in steel consumption and production continued in September with YoY contraction declining to 5.7 per cent and 0.7 per cent respectively and is expected to further strengthen with resumption of construction activity and adoption of digital technologies. (Figure 30).

**Figure 30: Steel Consumption and Production**

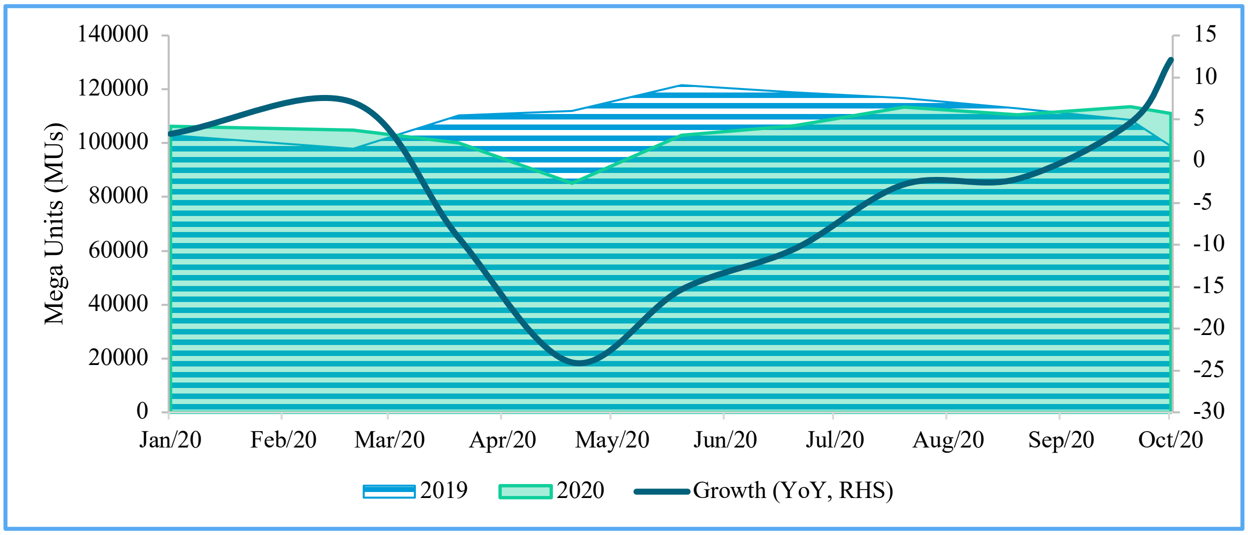



Source: Joint Plant Committee, M/o Steel

### Double digit growth in power consumption and E-Way bills

30. Power consumption clocked double digit YoY growth of 12.1 per cent in October, buoyed by recovery in commercial and industrial activity as compared to a growth of 4.6 per cent in September, 2020 (Figure 31).

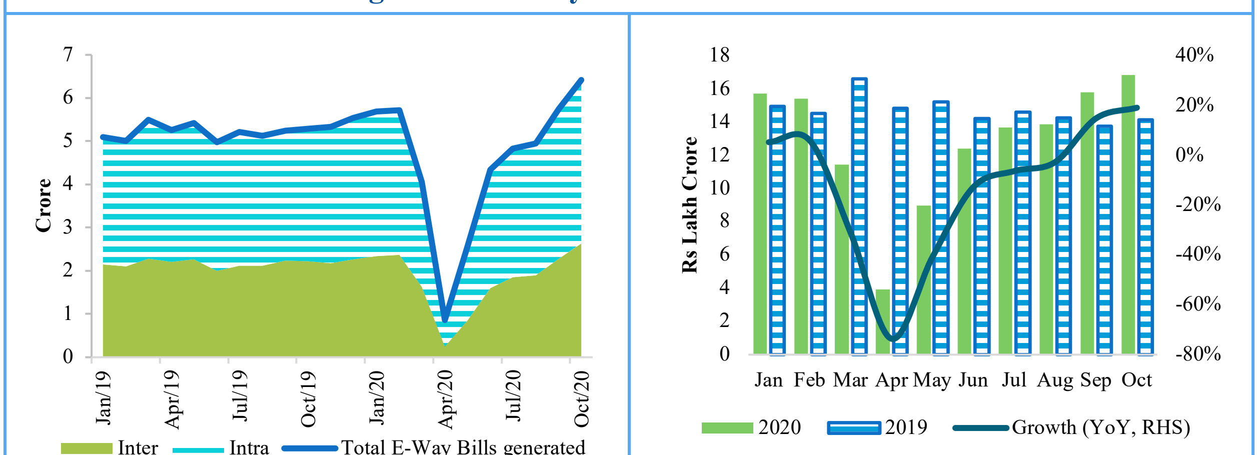
**Figure 31: Power Consumption**




Source: POSOCO

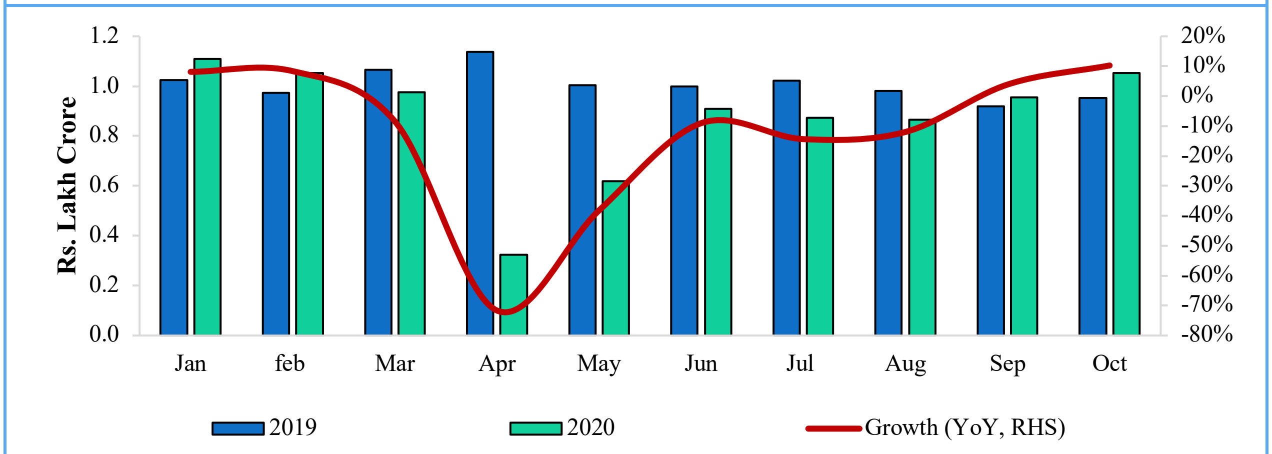
31. Marking strong economic revival, total value of E-way bills generated witnessed double digit YoY growth of 19 per cent in October. E-way bills generated have consistently improved since mid-August to reach ₹ 16.82 lakh crore in October, surpassing previous year corresponding levels of ₹ 14.12 lakh crore. Numbers of inter and intra-state e-way bills generated in October has also surpassed previous year levels (Figure 32). 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 swelling to eight month high at Rs 1.05 lakh crore in October, registering a positive year on year growth of 10 per cent (Figure 33).

**Figure 32: E-Way Bills – Count and Value**




Source: Goods and Services Tax Network

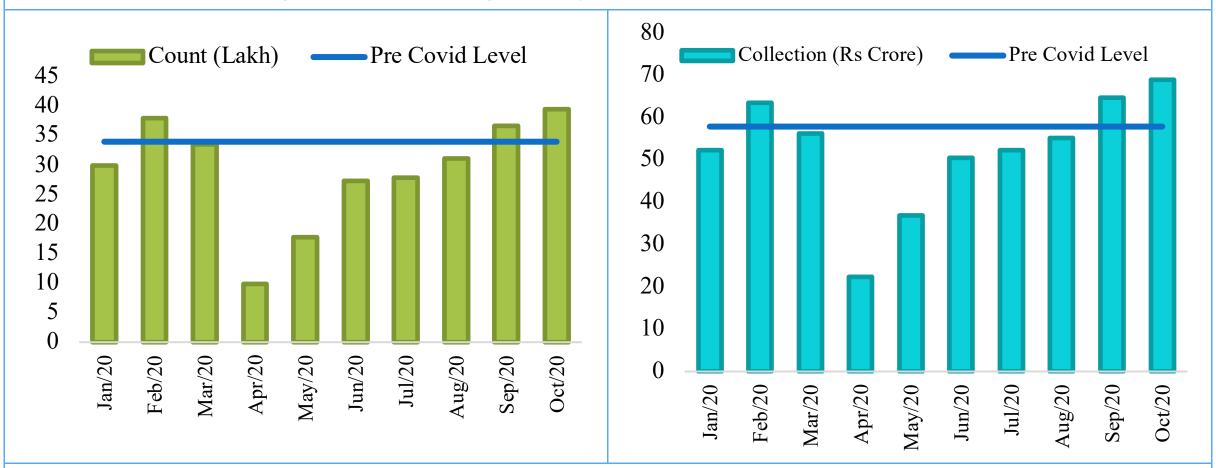
**Figure 33: GST Collection**




Source: GSTN

32. Highway toll count and collections have also surpassed their pre-COVID levels (average of January and February) levels in October, moving in tandem with other growth indicators (Figure 34). Average daily electronic toll collection and number of transactions in October stood at ₹ 68.9 crore and 39.5 lakh respectively as compared to pre-COVID daily averages of ₹ 55.4 crore and 32.6 lakh, with improvement seen in all states except Punjab and Delhi NCR, owing to farmer protest induced highway blockages.

**Figure 34: Average Daily ETC Count and Collection**




Source: Ministry of Road, Transport and Highways

### Sharp turnaround in Rail Freight

33. Railway freight traffic has turned around remarkably since August underscoring economic revival and rising demand. It grew at 15.5 per cent (YoY) in September and 15.4 per cent in October, driven by 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 35). Easing of inter-state movement restrictions, quarantine policy and unlocking were accompanied with recovery in Rail Passenger Earnings as well. Gross revenue from railway passenger bookings stood at ₹ 927.55 crore in the first twenty days of October, reaching 95 per cent of September levels (Figure 36).

**Figure 35: Revenue Earning Freight Traffic**

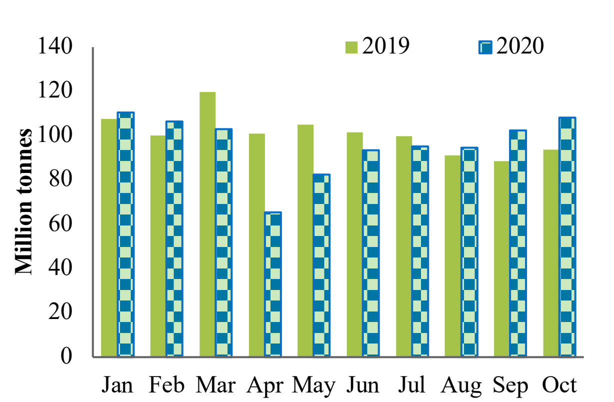
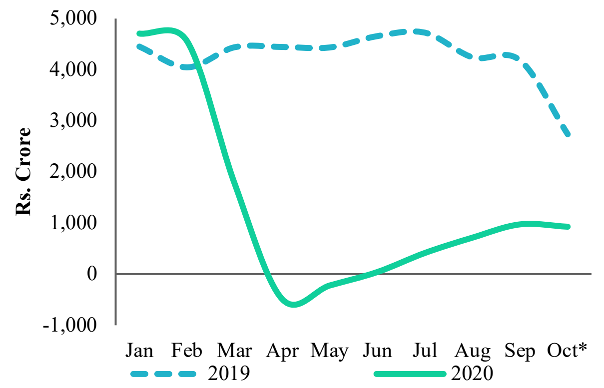



**Figure 36: Gross revenue from railway passenger bookings**

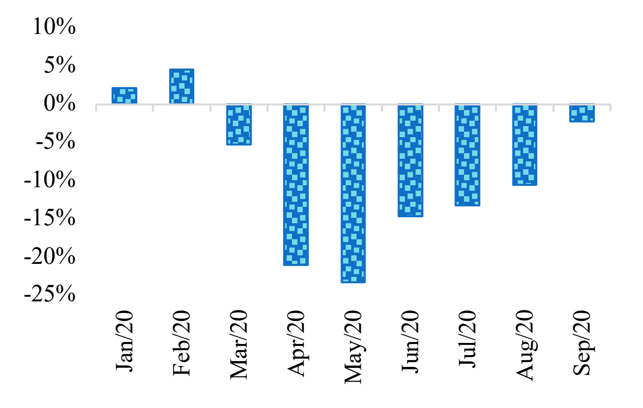
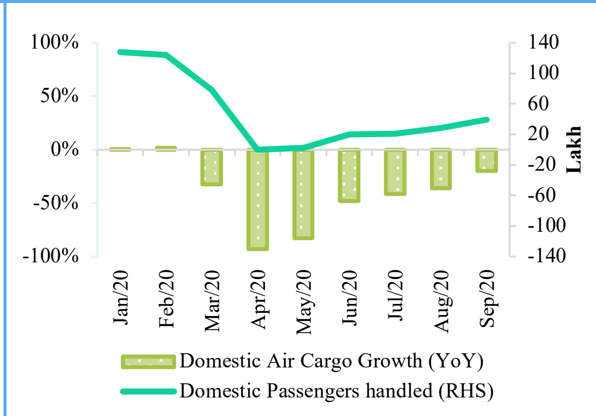



Source: Ministry of Railways
* till 20th Oct

### Port Cargo traffic closes year on year gap, domestic aviation picks up

34. Cargo traffic volumes have almost reached previous year levels in September reporting a lower YoY contraction shrinking to 1.9 per cent as compared to a contraction of 10.4 per cent in August, driven by healthy growth in traffic of iron-ore, finished fertilizers and containerised cargo (Figure 37).

35. Domestic aviation is picking up gradually in October and is expected to recover further with the onset of festive season as domestic airlines are soon to be allowed to operate upto 75 per cent of pre-COVID capacity, up from the existing 65 per cent. Domestic aviation passengers have also increased from 2.8 lakh in May to 28.32 lakh in August and 39.43 lakh in September (Figure 38).

| Figure 37: Port Cargo Traffic | Figure 38: Domestic Aviation Activity |
|---|---|
|  |  |
| Source: Indian Ports Association | Source: DGCA, AAI |





### Upbeat digital retail transactions with UPI payments at new highs

36. Resumption of economic activity and user shifts to digital payments have ushered sanguine prospects of growth in retail financial transactions via NPCI platform (Figure 39). UPI payment transactions hit an all-time high of ₹ 3.86 lakh crore in value and 207 crore in volume terms in October (Figure 40). Cash withdrawal trends from ATMs/Micro ATMs and Banking Correspondents (BCs) also suggest improving demand sentiment (Figure 41).

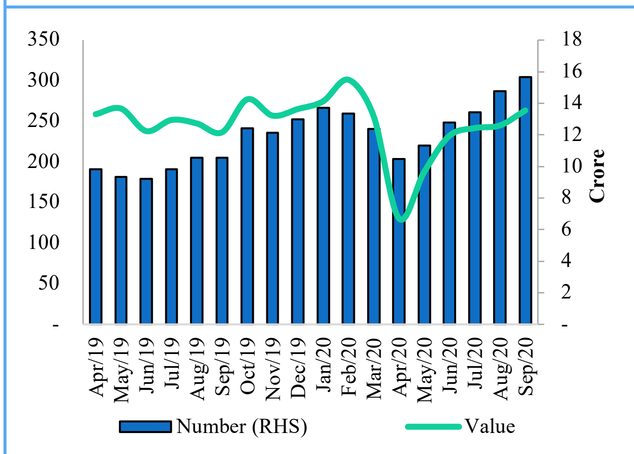
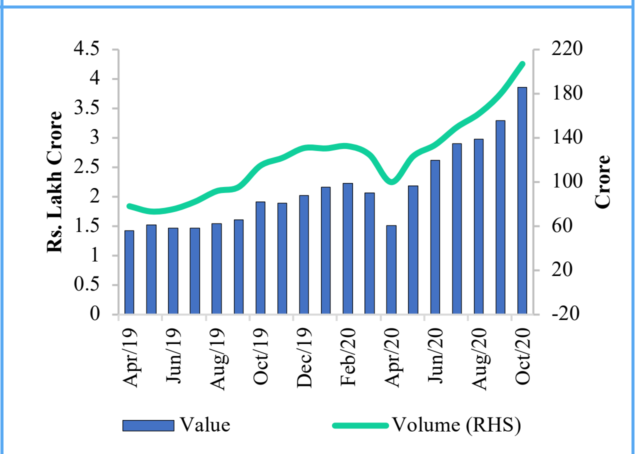
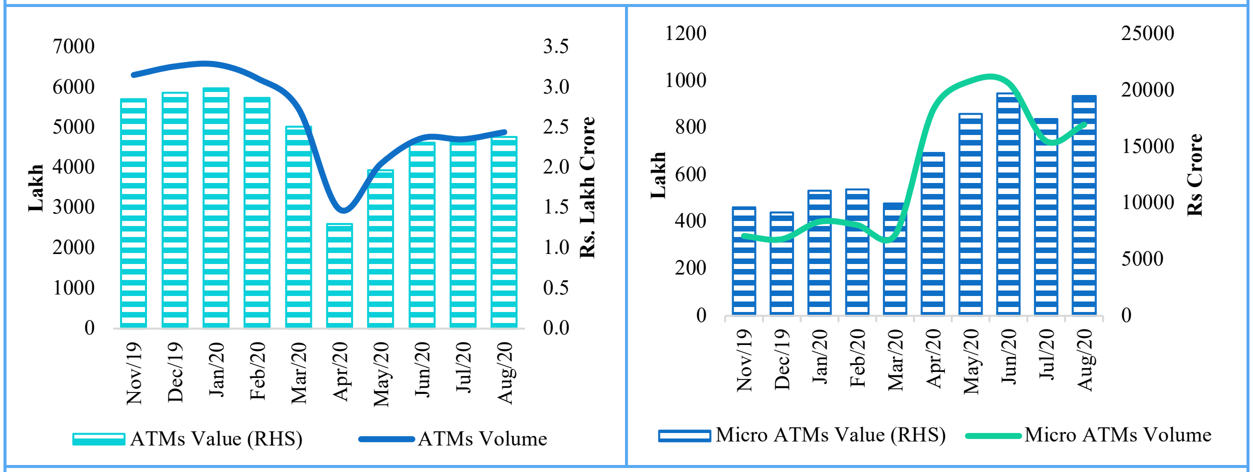
| Figure 39: Total Retail Financial Transactions via NPCI platform | Figure 40: UPI Payment Transactions |
|---|---|
|  |  |
| Source: NPCI | |

**Figure 41: Cash withdrawals from ATMs and Micro ATMs**




Source: RBI

## Subdued oil market sentiment with global surge in COVID cases

37. Crude oil price (Indian basket) movements remained subdued in October at USD/bbl 39.07 as on 29th October with prospects for crude demand affected by global resurgence of COVID cases. (Figure 42). Consumption of petroleum products improved in September over August with YoY contraction easing to 4.4 per cent in September. Diesel and petrol prices, however, have declined marginally, on average across the four metros, in October over September suggesting possibilities of easing fuel inflation (Figure 43).

**Figure 42: Crude oil & Fuel Prices**

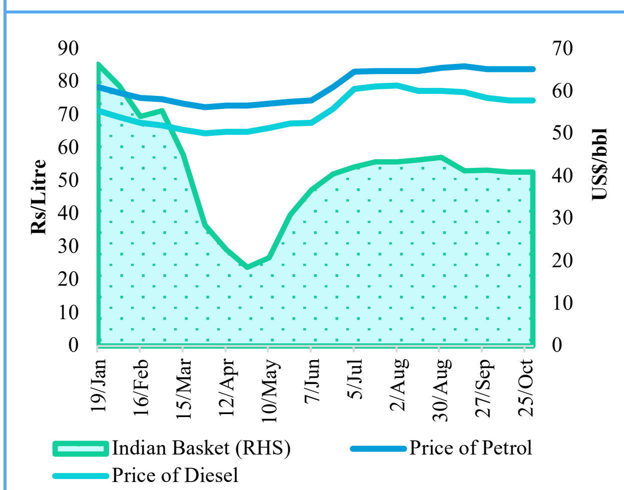
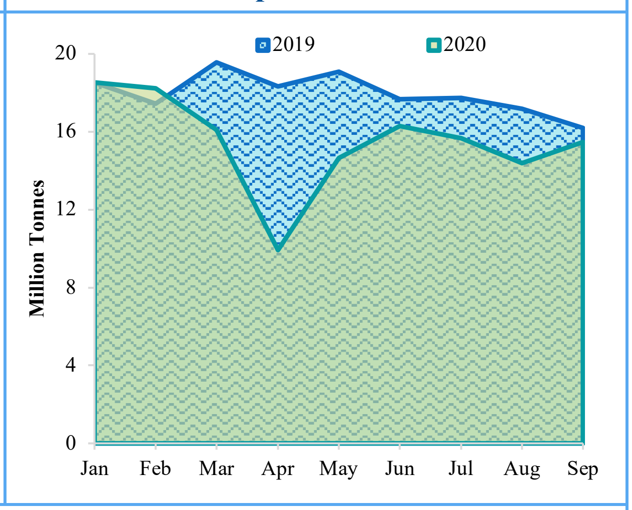



**Figure 43: Consumption of petroleum products**

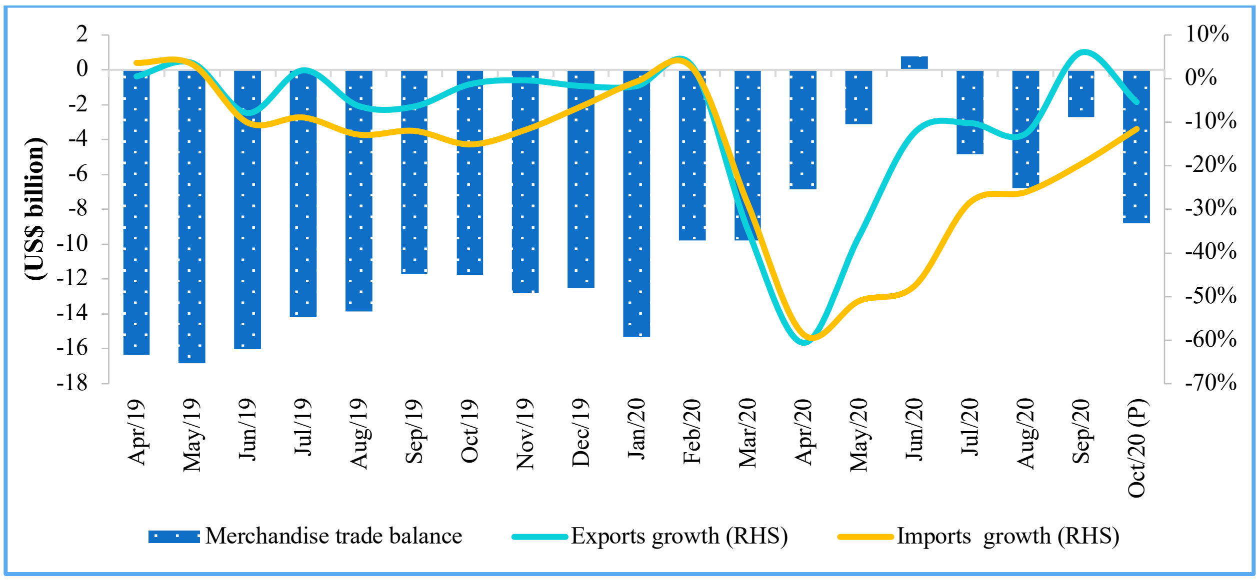



Source: PPAC, MoPNG

## Exports soften in October due to weak oil exports after a strong rebound in September

38. After a strong rebound in September, India's merchandise exports at USD 24.8 billion contracted by 5.4 per cent in October 2020 as against USD 26.2 billion in October 2019, primarily driven by weak oil exports. India's merchandise imports in October 2020 stood at USD 33.6 billion as against USD 38.0 billion in October 2019, with YoY contraction easing to 11.6 per cent from 19.6 per cent in September 2020. This resulted in a higher merchandise trade deficit of USD 8.8 billion, as against the deficit of USD 11.8 billion in October 2019.

### Figure 44: Merchandise Trade




Source: Department of Commerce, Ministry of Commerce & Industry

39. While POL exports contracted sharply by 53.3 per cent in October, 2020, non-POL exports continued to record a positive growth of 1.8 per cent. POL imports, that constitute about a quarter of total merchandise imports, declined by 38.5 per cent in October 2020 *vis-à-vis* October 2019, greater than the contraction registered in September. The export and import commodities that have registered highest increase/ decline in absolute value in October 2020 as against October 2019 are placed at Table 2**.**

**Table 2: 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 | 372.1 | 21.8 | Petroleum Products | -1835.6 | -53.3 |
| | Rice | 359.8 | 112.2 | Gems & Jewellery | -790.4 | -21.3 |
| | Organic and Inorganic Chemicals | 143.9 | 73.9 | Leather and Leather manufacturers | -248.1 | -3.8 |
| **Imports** | Electronic goods | 768.7 | 16.1 | Petroleum, crude and products | -3747.7 | -38.5 |
| | Pearl, Precious and Semi-Precious Stones | 768.5 | 50.5 | Transport equipment | -1459.4 | -56.3 |
| | Gold | 660.2 | 35.9 | Machinery, electrical & non-electrical | -462.6 | -15.6 |

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

40. With exports and imports of services at US$ 16.4 billion and US$ 9.6 billion respectively, in August 2020, the trade balance in Services (i.e. Net Services export) is USD 6.8 billion in August 2020, as against US$ 6.2 billion in August, 2019. India's overall trade balance (Merchandise and Services combined) is estimated to be in surplus at US $ 17.7 billion in 2020-21 (April-September), with overall exports and imports estimated to be US$ 221.9 billion and US$ 204.1 billion respectively.

41. India's current account balance recorded a surplus of $19.8 billion in the April- June 2020 quarter at 3.9% of GDP, compared to a surplus of $0.6 billion (0.1% of GDP) in the preceding quarter. With a surplus trade balance in April-September 2020 and resilient remittances, the current account surplus is likely to be sustained in subsequent quarters. The probable current account surplus in this year, thereby, provides a cushion to increased spending in the economy.

## Foreign Direct Investment (FDI) inflow hits record high in first five months of FY 2020-21

42. FDI continues to remain a major driver of economic growth and an important source of non-debt finance for India (Figure 45). During April-August, 2020, total FDI inflow stood at US$ 35.73 billion, the highest ever for first 5 months of a financial year and 13 per cent higher as compared to first five months of 2019-20 (US$ 31.60 billion). Net FDI inflow during April-August 2020 stood at US$ 20.56 billion compared to US$ 19.33 billion during the corresponding period of 2019-20. 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. Total FDI inflow grew by 55 per cent, i.e. from US$ 231.37 billion in 2008-14 to US$ 358.29 billion in 2014-20. These trends are an endorsement of India's status as a preferred investment destination amongst global investors.

**Figure 45: Foreign Direct Investment (FDI)**

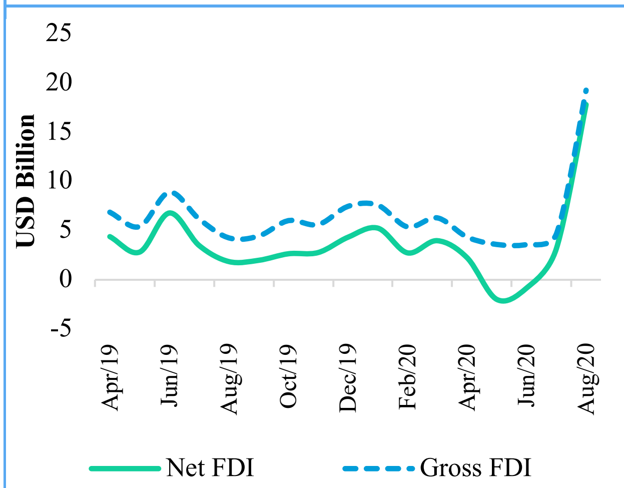
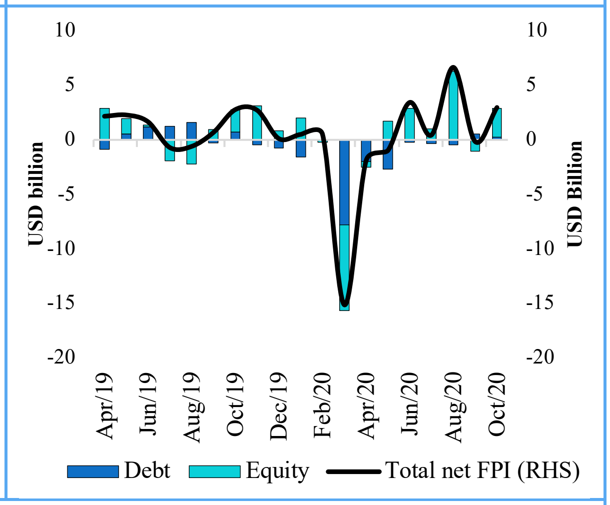



**Figure 46: Trend in Foreign Portfolio Investment (FPI)**




Source: RBI, CDSL

## Robust Foreign Portfolio Investment (FPI) inflows in October, buoyed by resumption of economic activity and surplus liquidity in global markets

43. FPI inflows remained robust in October supported by increasing pace of economic normalisation and surplus liquidity in global markets. FPI witnessed net inflow of US$ 3.2 billion in October 2020 compared to an outflow of US$ 0.16 billion in September. Net inflows in equities and debt stood at US$ 2.70 billion and US$ 0.39 billion respectively in October. (Figure 46).

44. The Indian rupee strengthened in October over September on the back of resurgent FPI inflows. However, RBI's dollar purchases in the foreign exchange market kept the rupee range bound at 73.1-73.9 INR/USD in October. Accumulation of dollars is enhancing liquidity in the banking system, keeping bond yields in check and supporting effective transmission (Figure 47). On the back of purposeful dollar buying by RBI, rise in gold reserves and foreign currency assets, India's foreign exchange reserves stood high at US$ 560.53 billion as on 23rd October, 2020, covering more than 13 months of imports (Figure 48).

**Figure 47: Net purchase (+)/sale (-) of US dollar**

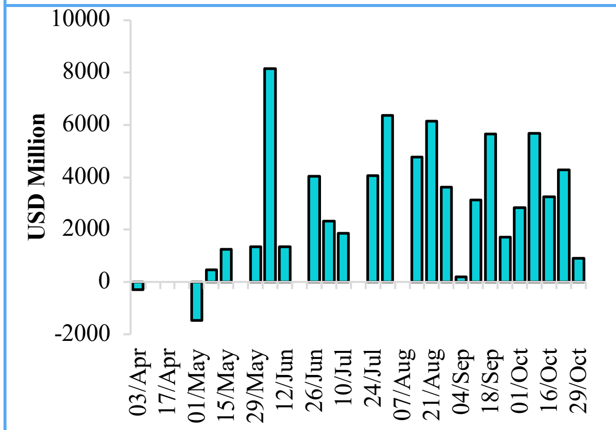
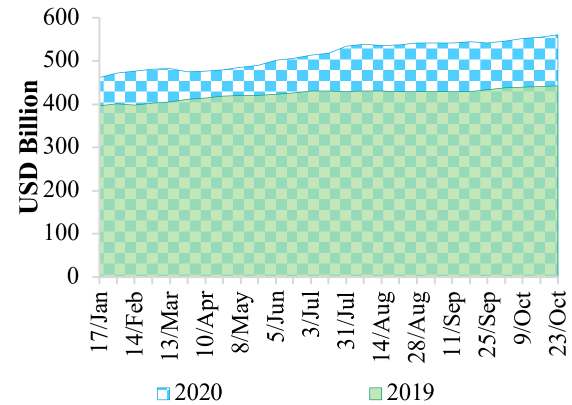



**Figure 48: Foreign exchange reserves**



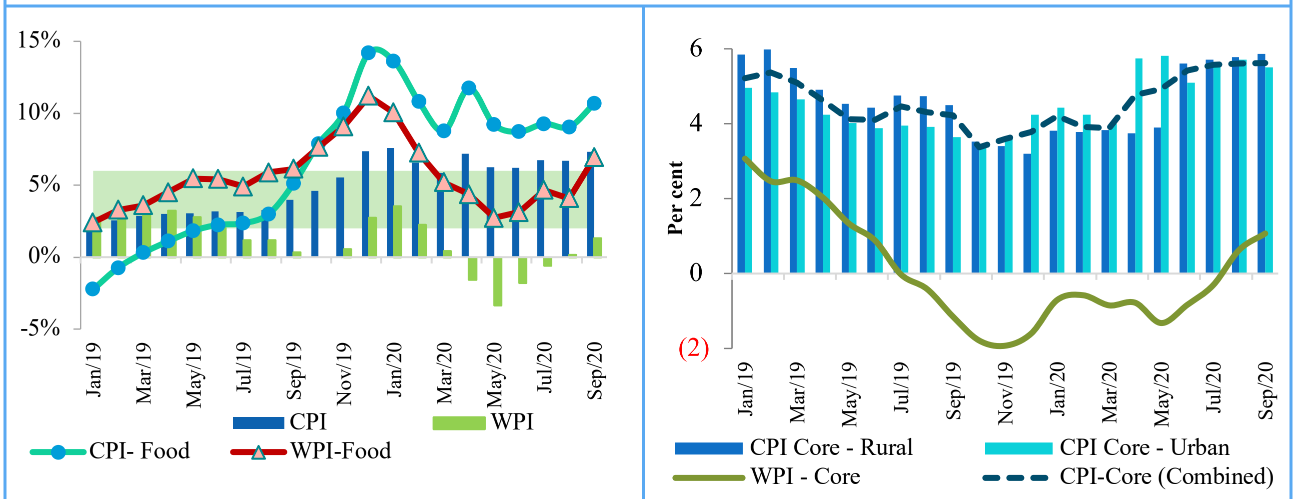

Source: RBI

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

45. Inflation based on all India CPI-Combined increased to 7.3 per cent in September, 2020 as compared to 6.7 per cent in August 2020 and 3.99 per cent in September, 2019. Inflation in rural areas (7.43 per cent) is marginally higher than urban areas (7.26 per cent) in September 2020. Food inflation increased to 10.7 per cent in September, 2020 as compared to 9.05 per cent in August 2020, mainly due to increase in inflation of meat & fish (17.60 per cent), egg (15.47 percent), oils & fats (13.44 per cent), fruits (3.21 per cent), vegetables (20.73 per cent) and pulses & products (14.67 percent). During the month of September 2020, WPI inflation increased to 1.32 per cent as compared to 0.16 per cent in August 2020 and 0.33 per cent in September 2019 (Figure 49). The driver was mainly food inflation that increased to 6.9 per cent in September 2020 as compared to 4.07 per cent in the previous month. This was, in turn, largely on account of increase in inflation of pulses (12.53 per cent), vegetables (36.54 per cent) especially potato (107.63 per cent) and tomato (99.27 per cent), milk (5.56 per cent) and edible oils (18.15 per cent). CPI Core

inflation stood at 5.62 per cent in September, 2020 as compared to 5.61 per cent in August, 2020 and was marginally higher in rural areas. WPI-core also increased from 0.63 per cent in August, 2020 to 1.07 percent in September, 2020.

**Figure 49: Inflation Dynamics**




Source: MoSPI, Office of Economic Advisor, DPIIT

46. Turning to the outlook for inflation, the pressures on prices of key vegetables like tomatoes, onions and potatoes should also ebb by Q3 with kharif arrivals. The favourable monsoon rains support the prospects of good harvest and its moderating impact on food inflation. COVID-19-related supply disruptions, including labour shortages and high transportation costs, could continue to impose cost-push pressures, but these risks are getting mitigated by progressive easing of lockdowns and removal of restrictions on inter-state movements. In the September 2020 round of the RBI's survey, households expect inflation to decline modestly over the next three months, indicative of hope that supply chains are mending.

### Marginal uptick in credit growth in early October but banks still remain risk averse

47. Bank credit in the fortnight ending October 9, 2020 stood at Rs 103 lakh crore, compared to Rs 102.7 lakh crore at the end of September 25, 2020. While bank credit growth picked up marginally to reach 5.7 per cent (YoY) as on 9th October compared to 5.1 per cent as on 25th September, it remained much lower than previous year levels of 8.9 per cent (Figure 50). Bank credit to commercial sector recorded a growth of 5.8 per cent as on 9th October compared to 5.3 per cent on 25th September. Despite the slow credit growth, disbursements for MSMEs continued to be strong under the Emergency Credit Line Guarantee Scheme (ECLGS). Under ECLGS, an

amount of ₹ 2.03 lakh crore has been sanctioned under the Scheme to 60.67 lakh borrowers so far, while an amount of ₹ 1.48 lakh crore has been disbursed.

48. Incremental credit deposit ratio as on 9th October was (-) 3.66 per cent as compared to (-)14.29 per cent as on 25th September. Incremental investment deposit ratio stood at 97.56 per cent as on 9th October as against 99.54 per cent as on 25th September (Figure 51). These trends point to a narrowing deposit-credit gap. YoY growth of bank investments in Government Securities, after declining moderately to 20.2 per cent on 25th September from 22.1 per cent as on 11th September, 2020 picked up to 20.5 per cent as on 9th October. Banks continued to hold excess SLR portfolio, standing at 11.5 per cent in the fortnight ending 25th September (Figure 51). This is expected to further increase with RBI increasing the investments permitted to be classified as Held to Maturity (HTM) from 19.5 per cent to 22 per cent of NDTL in respect of SLR securities acquired on or after September 1, 2020 up to March 31, 2021.

**Figure 50: Credit Growth YoY**

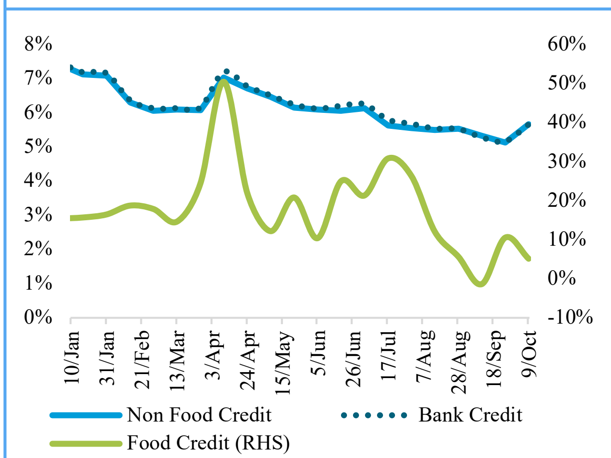
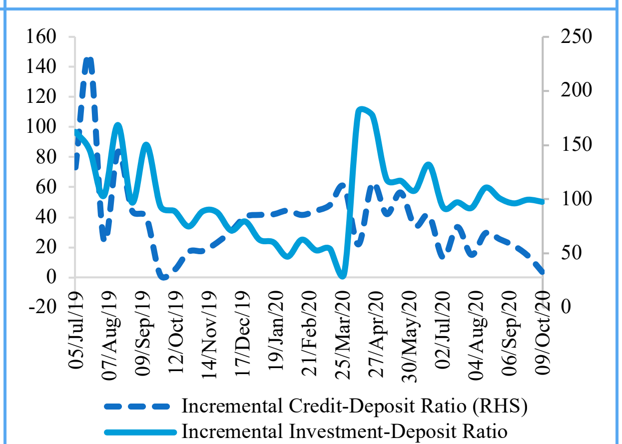



**Figure 51: Incremental credit deposit and investment deposit ratio**




Source: RBI

## RBI continues to ensure comfortable liquidity

49. With conventional and unconventional measures adopted by RBI, domestic financial conditions have eased substantially and systemic liquidity remains in large surplus (Figure 52). Cumulatively, these measures injected liquidity of the order of ₹ 9.57 lakh crore or 4.7 per cent of GDP. Reserve money growth, after remaining steady at 14.4 per cent as on September 25, 2020, declined to 12.9 per cent on a YoY basis (as on October 16, 2020). This was driven by decline in YoY growth of currency in circulation from 22.7 per cent on September 25 to 21.6 per cent as on

October 16. Growth in money supply (M3) fell to 12.1 per cent as on October 9 from 13.4 per cent a month ago (as on September 11, 2020) - driven by a fall in growth of currency with the public from 23.7 per cent as on September 25 to 22.5 per cent on October 9, possibly signalling a drop in precautionary demand. Growth of demand deposits, too, fell to 9.2 per cent as on October 9, 2020 as compared to 11.3 per cent year-on-year (as on September 25, 2020). Time deposits growth remained steady at 10.6 per cent on October 9 compared to 10.3 per cent as on September 25. (Figure 53).

**Figure 52: Liquidity Injection (+)/Absorption (-)**

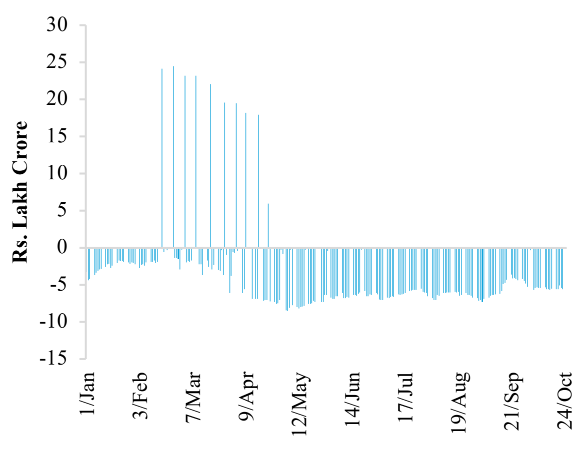
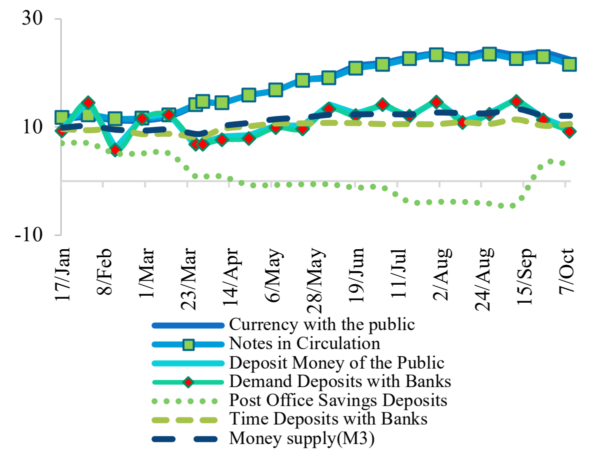



**Figure 53: Money Stock and its Components (Percent)**



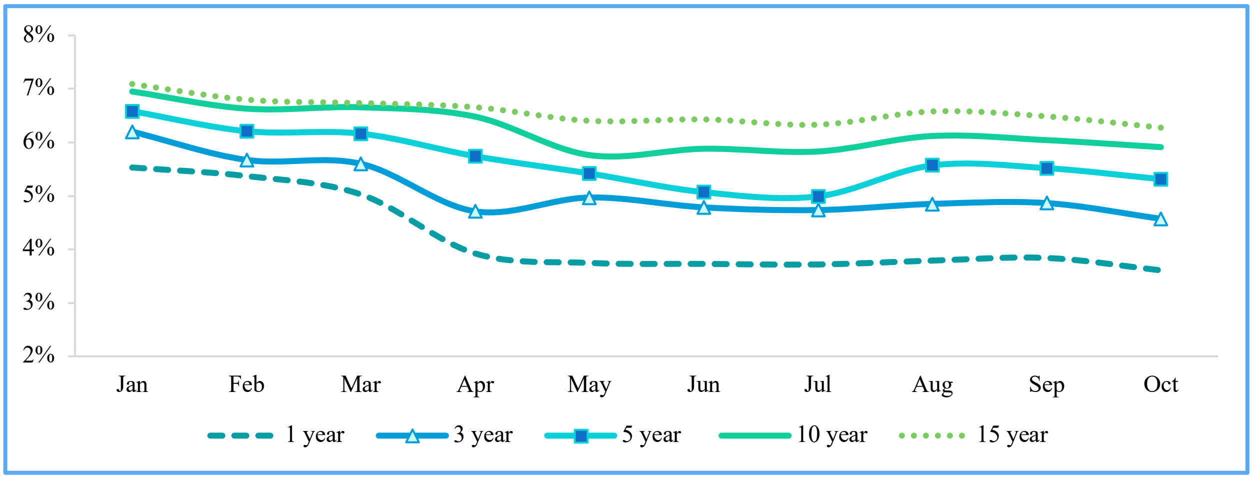

Source: RBI

50. The focus of recent liquidity measures by the RBI is directed towards specific sectors that have both backward and forward linkages, and multiplier effects on growth. Accordingly, RBI has decided to conduct on tap TLTRO with tenors of up to three years for a total amount of up to ₹ 1,00,000 crore at a floating rate linked to the policy repo rate. Liquidity availed by banks under the scheme has to be deployed in corporate bonds, commercial papers, and non-convertible debentures issued by entities in specific sectors over and above the outstanding level of their investments in such instruments as on September 30, 2020. The liquidity availed under the scheme can also be used to extend bank loans to these sectors. Moreover, banks that had availed of funds earlier under targeted long-term repo operations (TLTRO and TLTRO 2.0) will be given the option of reversing these transactions before maturity. In view of the borrowing requirements of the centre and states in the second half of 2020-21 and the likely pick-up in demand for credit as the recovery gathers strength, on tap TLTROs are intended to enable banks to conduct their operations smoothly and seamlessly without being hindered by illiquidity frictions.

### Bond markets buoyant in October post RBI's unprecedented measures

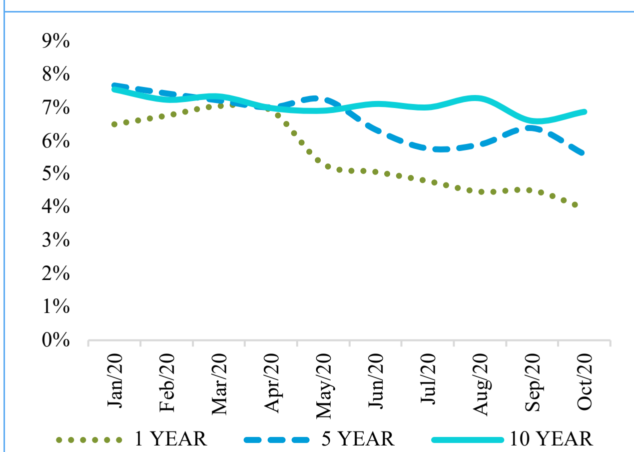
51. Bond markets remained buoyant post RBI's announcement of doubled OMOs of ₹ 20,000 crore, first time OMOs of state development loans (SDLs) and On-Tap TLTROs. These measures, along with the extension of HTM till March 2022, should ease concerns about illiquidity and absorptive capacity for the total government borrowing in the current year. Stiffening pressures on bond markets eased with 10 year G-sec yields softening to 5.91 per cent as on 29th October compared to 6.04 per cent as on 30th September (Figure 54). While 10 year AAA rated bond yields stood at 6.89 per cent on 29th October as compared to 6.61 per cent as on 30th September, 10 year AA rated bond yields declined to reach 7.04 per cent on 27th October (Figure 55).

**Figure 54: G-sec Yields across tenors**



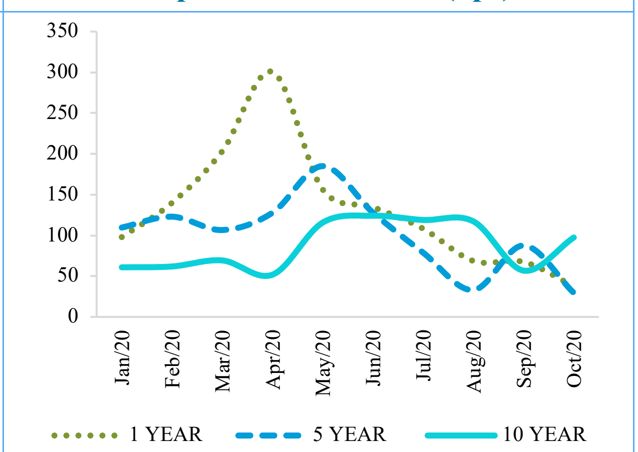

Source: FBIL & CCIL

**Figure 55: Corporate Bond Yields(AAA)**




Source: Extracted from CMIE

**Figure 56: Spread between G sec and Corporate bond Yields (bps)**




Source: RBI, CMIE

52. Fund mobilization by corporates in capital market through public issues and private placements increased by around 65 per cent in August 2020 to Rs 1,09,998 crore as compared to Rs 66,915 crore in July 2020. With respect to private placement of corporate bonds listed on both BSE and NSE, amount issued sharply increased in August 2020 to reach ₹ 58,419 crore as compared to ₹ 47,961 crore in July and ₹ 40,309 crore in August 2019. Number of issues also picked up from a low of 70 in April to 243 in July and 213 in August.

### Monetary policy transmission continues to improve

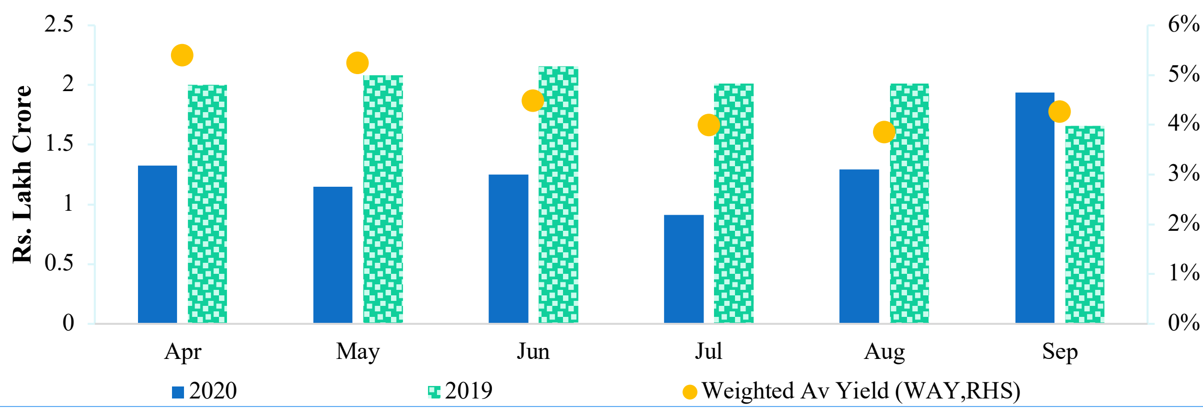
53. The transmission of policy repo rate changes to deposit and lending rates of banks has improved since April 2020. The weighted average lending rate (WALR) on fresh rupee loans declined by 91 bps between March 2020 to August 2020 in response to the reduction of 115 bps in the policy repo rate and comfortable liquidity conditions. Comparing monetary transmission of banks and markets, the pass-through to WALR on fresh rupee loans was higher than the softening of yield on 5-year corporate bonds (79 bps) and yield on 10-year G-Secs during March to August 2020. The WALR on outstanding rupee loans declined by 46 bps during this period, but this transmission is an improvement over the earlier period. Of the 105 bps reduction in the weighted average domestic term deposit rate (WADTDR) on outstanding rupee deposits during the ongoing easing cycle (February 2019 to August 2020), a little more than half of the decline, i.e. 59 bps occurred since March 2020. The median term deposit rate, which reflects the prevailing card rates, has registered a sizable decline of 125 bps between March 2020 to September 2020, reflecting the combined impact of surplus liquidity, the introduction of external benchmark-based pricing of loans and weak credit demand conditions.

54. Apart from the reduction in term deposit rates, many banks also lowered their saving deposit rates during the current easing cycle. The saving deposit rates of five major banks, which ranged 3.50-4.00 per cent at the beginning of the easing cycle in early February 2019 and 3.25-3.50 per cent immediately prior to the introduction of the external benchmark, were placed at 2.70-3.00 per cent in September 2020. This bodes well for monetary transmission to lending rates in comparison to the rigidity characterizing saving deposit rates in earlier years.

55. Interest rates on money market instruments such as certificates of deposit (CDs), commercial papers (CPs) and Treasury Bills (T-bills) of 3-month maturity softened by 156 bps, 155 bps and 97 bps, respectively, during April to September 2020, reflecting the policy rate cuts and liquidity augmenting measures. Fresh issuance of CDs by banks moderated to ₹ 45,165 crore during April to September (up to September 11, 2020) from around ₹ 1.75 lakh crore in the

corresponding period of FY 2019-20 in view of surplus liquidity and muted credit demand. Rates of CDs in the fortnight ending 9th October 2020 stood at 3.53-5.75 per cent as compared to 3.51-5.75 per cent in the previous fortnight. CP issuances increased by 48 per cent in September 2020 to Rs 1.93 lakh crore as compared to Rs 1.30 lakh crore in August 2020 with effective weighted average yield increasing by 42 bps to 4.26 per cent in September 20. However, aggregate CP issuances declined to ₹ 7.9 lakh crore during April to September, 2020 from ₹ 11.9 lakh crore during H1:2019-20, although corporates took advantage of lower interest rates and increased their share. CP yields increased to 3.25-11.94 per cent in the fortnight ending 15th October as compared to 3.32-11.86 per cent in the fortnight ending 30th September. Overnight Marginal Cost of Lending Rate (MCLR) stood at 6.65/7.10 per cent as on 23rd October 2020 as compared to 6.65/7.15 per cent as on 25 September 2020.

**Figure 57: Monthly issuance of Commercial Paper (CP)/CDs**




Source: CCIL, RBI

56. The share of non-banking financial companies (NBFCs) in CP issuances, which was low at the beginning of FY 20120-21, increased sharply in September 2020 in response to the measures taken by the Government to provide liquidity support to the non-bank lenders through the special liquidity scheme and partial credit guarantee scheme. The share of government owned NBFCs, however, declined in September 2020 as they preferred longer-term borrowings.

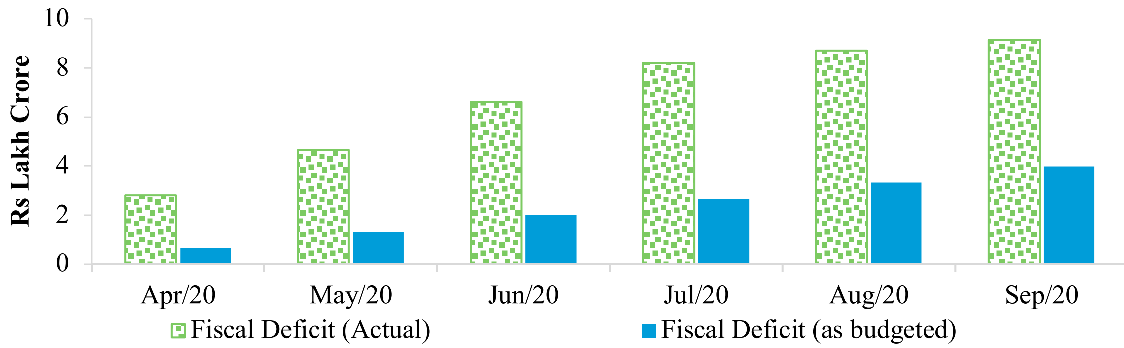
## Provision of adequate Fiscal Support during the Pandemic

57. India's fiscal space in the pandemic period, has been characterized by additional spending measures directed towards ensuring basic means of sustenance and livelihoods for the vulnerable people, relief measures for MSME sector, accommodating additional health infrastructure and services to fight Covid19, measures to boost the consumption demand. This was accompanied by

a shortfall in revenue collection during the first half of FY2020-21 owing to the interruption in economic activity due to COVID-19.

58. The Centre's fiscal deficit stood at ₹ 9.14 lakh crore during 2020-21 H1, which is 114.8 per cent of BE compared to 92.6 per cent during the 2019-20 H1 (Figure 58). On the revenue side, the Gross Tax Revenue registered a negative growth of 21.6 per cent, due to the negative growth in all direct taxes and major indirect taxes, except for excise duties. The excise duties collection rose by 34.2 per cent during 2020-21 H1. The Non-Tax revenue collections fell down by 55.9 percent during April to September 2020 relative to the same period last year.

**Figure 58: Trend in Fiscal Deficit**




Source: O/o CGA

Note: Cumulative budgeted Fiscal Deficit for each month is the Annual Budget Estimate of Fiscal Deficit (Rs 7.96 lakh crore) divided by the number of months.

59. On the expenditure side, Centre's total expenditure for the first six months of FY2020-21 was 48.6 per cent of BE vis-à-vis 53.4 per cent of BE in 2019-20 H1. The revenue expenditure witnessed a growth of 1 per cent and the capital expenditure fell by 11.6 per cent during 2020-21 H1 compared to the same period last year. To support the creation of long term assets and infrastructure, the Central Government enhanced the budget provision for Capital Expenditure on. roads, defence, water supply, urban development and domestically produced capital equipment by ₹ 25,000 crore for FY 2020-21. This is in addition to ₹ 4.12 lakh crore Capital Expenditure estimated in Budget 2020-21.

60. As on 23 October 2020, the Central Government's gross market borrowings during FY2020-21 reached around two third of the annual target i.e. ₹8.2 lakh crore, 1.67 times higher than gross market borrowings during the corresponding period of the previous year. This is against the revised target of ₹12 lakh crore for FY 2020-21.

## Continued fiscal support to State Governments

61. The Central Government has continued to persistently support the State Governments towards a faster economic recovery. As on 23 October 2020, the State Governments had raised ₹ 4.1 lakh crore as gross market borrowings during the current fiscal, which is 49.4 per cent higher than the states' gross borrowings during the corresponding period in 2019-20. In order to compensate the states for the loss of GST revenue during FY 2020-21, Central Government had given the states an option to either borrow the shortfall arising out of GST implementation through issue of debt under a Special Window coordinated by the Ministry of Finance (Option 1), or raise the entire shortfall through the issue of market debt (Option 2).

62. As on date, 21 States and 2 UTs have opted for Option 1 which involves back-to-back borrowing coordinated by the Ministry of Finance, and would ensure steady flow of resources similar to the flow under GST compensation on a bi-monthly basis. On 23rd October 2020, the Central Government borrowed at an interest rate of 5.19 percent and transferred ₹6,000 crores as first tranche under Option 1 borrowing window to the 16 states and 2 UTs which had a shortfall on account of GST compensation. On 2nd November, Government released ₹ 6000 crore as second tranche to 16 States and 3 Union Territories, raised at a weighted average yield of 4.42 per cent. On selection of Option 1, the states have also been granted the permission to mobilize the final instalment of enhanced borrowing in current year i.e. 0.5 per cent of GSDP, without meeting the pre-conditions. This allows the 21 states an additional mobilization of ₹ 78452 crore, over and above the ₹ 1.1 lakh crore special window to meet the revenue shortfall arising out of GST implementation. In addition to this, the States on selecting Option 1 will also be able to carry forward unutilised extra borrowing ceilings allowed for FY 2020-21 to the next financial year, whereby the first and the final instalments of 0.5 per cent each can be carried forward unconditionally; and the reform-linked portions can be carried forward if the States meet the reform criteria within the dates already prescribed for this year.

63. In order to give a new thrust to the capital expenditure by the States, the Central Government announced a special interest-free 50-year loan to States for ₹ 12,000 crore Capital Expenditure. The Scheme comprises of ₹ 1600 crore loan for the eight North East states (200 crore each), ₹ 900 crore loan for the states of Uttarakhand and Himachal Pradesh (₹ 450 crore each), ₹ 7,500 crore for remaining states (as per 15th Finance Commission devolution), and ₹ 2,000 crore for those states which fulfil at least 3 out of 4 reforms mentioned under enhanced borrowing provision in Aatma Nirbhar Bharat Package. The loan amount can be used for new or ongoing capital projects needing funds and / or settling contractors'/ suppliers' bills on such projects.

64. The Central Government by way of a special one-time dispensation had decided to treat COVID-19 as a notified disaster for the purpose of providing assistance under SDRF. To strengthen the States to deal with the pandemic, the Centre had released the 1st instalment of SDRF amounting to ₹ 11,092 crore to State Governments in April 2020. In September 2020, the states' limit for spending the SDRF during FY 2020-21 was raised to 50%, in order to support them in containment measures of COVID-19 including measures for quarantine, sample collection and screening; and procurement of essential equipment/ labs for response to COVID-19.

### Outlook

65. Given the trends detailed above, India stands poised to recover at a fast pace and reach pre-COVID levels by the end of the year - barring the incidence of a second wave that may be triggered by the fatigue with social distancing. The continuous improvement in forward looking RBI indices of consumption and business sentiment for the next year augurs hope of a strong economic rebound. This is also corroborated by IMF's October 2020 projection of 8.8 per cent real GDP growth of India in FY 2021-22, highest globally.

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