ECONOMIC DIVISION

Monthly Economic Review

September, 2020

आर्थिक कार्य विभाग
DEPARTMENT OF ECONOMIC AFFAIRS

सत्यमेव जयते

Executive Summary

Data for the 14-day period from September 17 to 30 suggests that India may have crossed the peak of Covid-19 case-load. During this period, the seven-day moving average of daily positive cases has steadily declined from about 93,000 to 83,000 while the seven-day moving average of daily tests have risen from about 1,15,000 to 1,24,000. The pandemic however is far from over. Yet, the declining positivity rate at all-India level sets the stage to further push up the frontiers of economic recovery. For this, all stakeholders need to get into the act as remaining restrictions on access and mobility are further eased. More than "social distancing" it is "self-protection with due precautions" that better fits into the context of "Jaan Bhi Aur Jahaan Bhi".

With more than 11 crore people employed with MSMEs, the small enterprise sector needs to be among the early drivers of economic recovery. The strength and the resilience of the MSME sector became evident when this sector made India the second largest manufacturer of PPE in the world; this manifested in a matter of just two months despite starting from scratch during the lock-down.

Major structural reforms launched by the Government – in agriculture markets, labour laws and definition of MSMEs – provide unparalleled opportunity for this resilient sector to grow and prosper now and thereby contribute to job creation in the primary and secondary sectors. The modified definition of MSMEs facilitates expansion and growth of these enterprises without them fearing the loss of government incentives, thereby avoiding the phenomenon of dwarfs among MSMEs. The resulting economies of scale can enhance productivity without the MSMEs losing out on several government incentives including interest subvention, collateral-free loans, market support, export promotion, preferential procurement in the public sector and enabling of IT ecosystems.

The historic labour reforms – discussed for three decades after the conditionality in the 1991 loan from IMF but never implemented thus far – will benefit MSMEs to increase employment, enhance labour productivity and thereby wages in MSMEs. The use of full-time equivalents provides flexibility to MSMEs to tailor their labour strength to market conditions and thereby enhance employment. The increase in the size thresholds from 10 to 20 employees to be called a factory, 20 to 50 for contract worker laws to apply, and 100 to 300 for standing orders enable economies of scale and unleash growth. The drastic reductions in compliance stem from (i) 41 central labour laws being reduced to four, (ii) the number of sections falling by 60% from about 1200 to 480, (iii) the maze due to the number of minimum wages being reducing from about 2000 to 40, (iv) one registration instead of six, (v) one license instead of four, and (vi) de-criminalisation of several offences.

The reforms in the agricultural sector were more overdue than even the labour reforms as the existing laws kept the Indian farmer enslaved to the local Mandi and their rent-seeking intermediaries. While every other category of producer in India had the freedom to decide where to sell his/her produce, the Indian farmer did not. The local monopolists created by this legal infrastructure enabled the intermediaries to prosper at the cost of the farmer, especially the poor ones without the wherewithal to store their produce. The agricultural reforms enable the farmer to sell where he gets the best deal and thereby enable competition that is sine qua non to create welfare for the small farmer.

Food-processing units benefit the most from all these reforms. While MSME reforms facilitate expansion and provide credit and market support, agricultural reforms facilitate easier market access to crops, pre-harvest price contracts and expansion of warehousing capacity. With Mega Food Parks providing infrastructure support, new food-processing units can be set up or existing units expanded in one or several areas of food-supply chain, particularly logistic services. New units can be also formed by farmers as they collaborate within the farm gates to reduce costs by shortening the upstream segment of the supply chain. On the downstream segment, farmers will find assured markets to sell their wares as retail customers, in a post-COVID mind-set, perceive processed food as a guarantor of safety and hygiene.

The implementation of Aatmanirbhar Bharat (AB) package and unlocking of the economy have ensured that economic recovery in India has gained momentum. This is seen in agriculture with production of kharif foodgrains in 2020-21 estimated to go past the previous year's level. The growth of demand in the rural sector is reflected in registration of two wheelers/three wheelers/passenger vehicles along with tractor sales reaching/surpassing previous year levels in August.

Other high-frequency indicators have also improved in sync with global activity. Increase in global demand has led to expansion of India's export at 5.3 per cent in September on YoY basis. The recovery in rail freight enabled revenue earnings clocking positive year-on-year growth for the first time since March in the months of August and early September. Easing of inter-state movement restrictions, quarantine policy and unlocking were accompanied with recovery in Rail Passenger Earnings as well. Cargo traffic volumes continued to inch up towards previous year levels reporting a still lower YoY contraction in August. With domestic aviation traffic also increasing, the upcoming festive months are expected to further boost growth.

Steel sector continued to rebound in August, power consumption in September has now crossed previous year levels having grown at an encouraging rate of 4.6 percent, YoY. E-way bills, in terms of value have surged past the previous year levels in September reflecting a positive YoY growth of logistics. With average daily Electronic Toll Count also increasing to pre-COVID February levels in September, further evidence becomes available on the economy regaining normalcy. The evidence is confirmed from the payments side as well with UPI *transactions hitting an all-time high in September moving ahead of the February level. At an eight year high of 56.8 in September 2020, India's manufacturing purchasing managers' index augurs well for economic expansion in the coming months. GST collections, also reached Rs. 95,480 crore in September, going past the previous year level by 3.9 percent for the first time this fiscal year.*

As on September 25, India's foreign exchange reserves stood at US$ 542.02 billion, equivalent to more than 13 months of imports and offer a comfortable buffer to provide for surge in imports following acceleration in the pace of economic activity. High accumulation of reserves in part is explained by robust net FPI inflows with flushed global liquidity. Exports have rebounded and clocked positive growth in September for the first time since March and trade deficit narrowed with exports recovering faster than imports.

The availability of domestic liquidity matches that in the external sector although at this stage it is resulting in higher growth of demand deposits. This highlights the issue of rising precautionary savings which are, in turn, limiting growth in personal consumption and acceleration in activity levels. As intermittent lockdowns cease, containment zones become fewer and smooth operation of supply chains resumes, a fall in retail inflation may boost personal consumption expenditure. Growth in overall credit to non-agricultural sector is expected to be higher in the coming months driving on the uptick in the credit growth to MSMEs and trade services.

Centre continues to lend unflinching support to State Governments towards faster economic revival. Despite the pandemic and the consequent fall in gross tax revenue, the tax devolution to states has happened without disruption to stand at Rs 2.17 lakh crore in the first five months of this fiscal, less by only Rs. 37,629 lakh crore than the previous year. In addition, the Centre has already allowed additional borrowing limit of up to 2 percent of GSDP to states for FY 2020-21 to cope with pandemic induced requirement of higher expenditure..

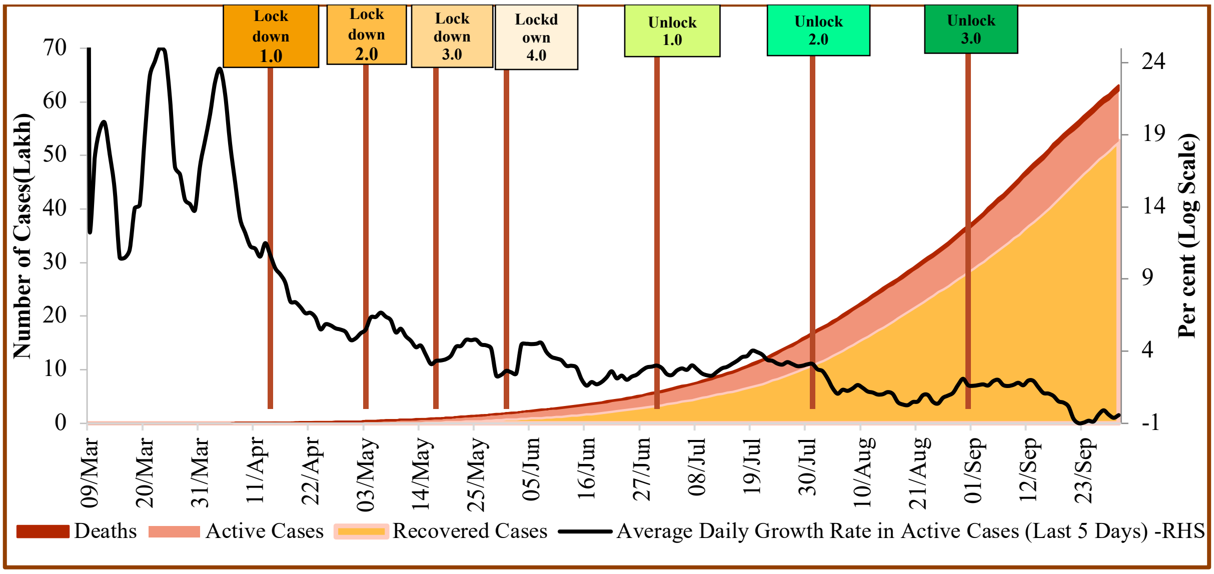
The sustained spread of the virus poses a downside risk to short-term and medium-term growth rate. To combat these risks, the Government has strategically undertaken various important structural reforms encompassing various sectors. These will strengthen the fundamentals of the economy towards a strong and sustainable long-term growth. The enabling policy environment and initiatives taken by all stakeholders to seize the available opportunities will actualise the growth potential of the Indian economy. In line with this, S&P Global Ratings have retained India's investment grade (BBB-) credit rating with stable outlook as it expects the country's economy and fiscal position to stabilize and begin to recover from 2021 onwards.

Probable 'peaking' of COVID-19

1. The number of confirmed cases of COVID-19 globally now exceeds 3.2 crore with more than 9.7 lakh deaths. New cases are accumulating at a pace of more than 2.9 lakh per day, with particular concentration in India, United States, Brazil, Argentina, Spain, France, Columbia and Peru.

2. India reports the highest number of active COVID cases as on date. Growth in active cases fell to -0.4 per cent as on 30th September as compared to 1.65 per cent as on 31st August with the recovery rate at 83.5 per cent as on 30th September (Figure 1).

Figure 1: Trend in COVID-19 cases in India

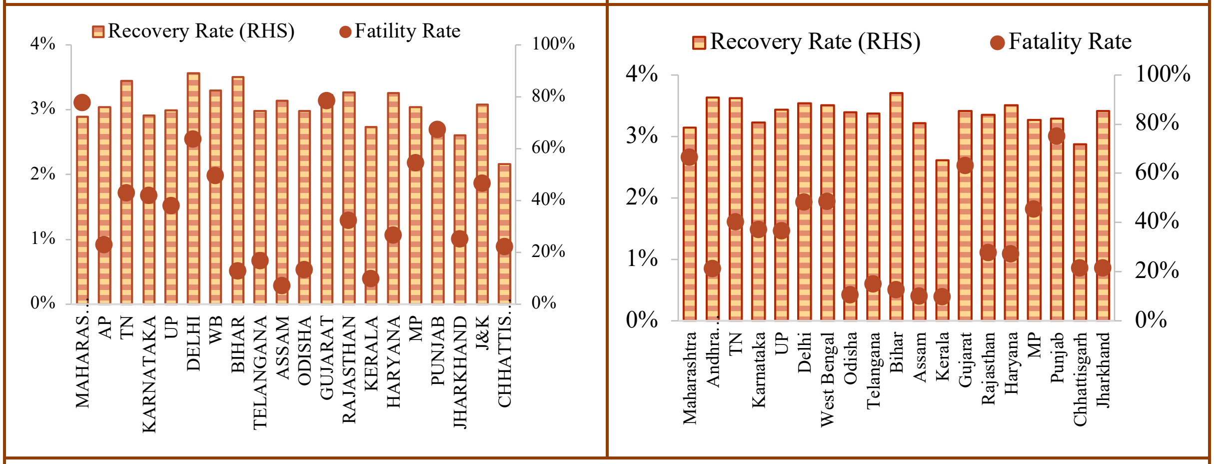


Source: India COVID-19 Tracker. https://www.covid19india.org

3. As on 30th September, Bihar, Andhra Pradesh and Tamil Nadu reported a recovery rate of more than 90 per cent; West Bengal, Delhi, Uttar Pradesh Gujarat, Rajasthan and reported recovery rates greater than 80 per cent. Case fatality rate continued to decline to 1.6 per cent, with major hotspot states witnessing declining trend. COVID-19 testing has been scaled up significantly since June with Andhra Pradesh, Arunachal Pradesh, Goa, Delhi, Assam, J&K, Tripura and Tamil Nadu showing good progress (Figure 2).

Figure 2: Case fatality rates and Recovery Rates across States

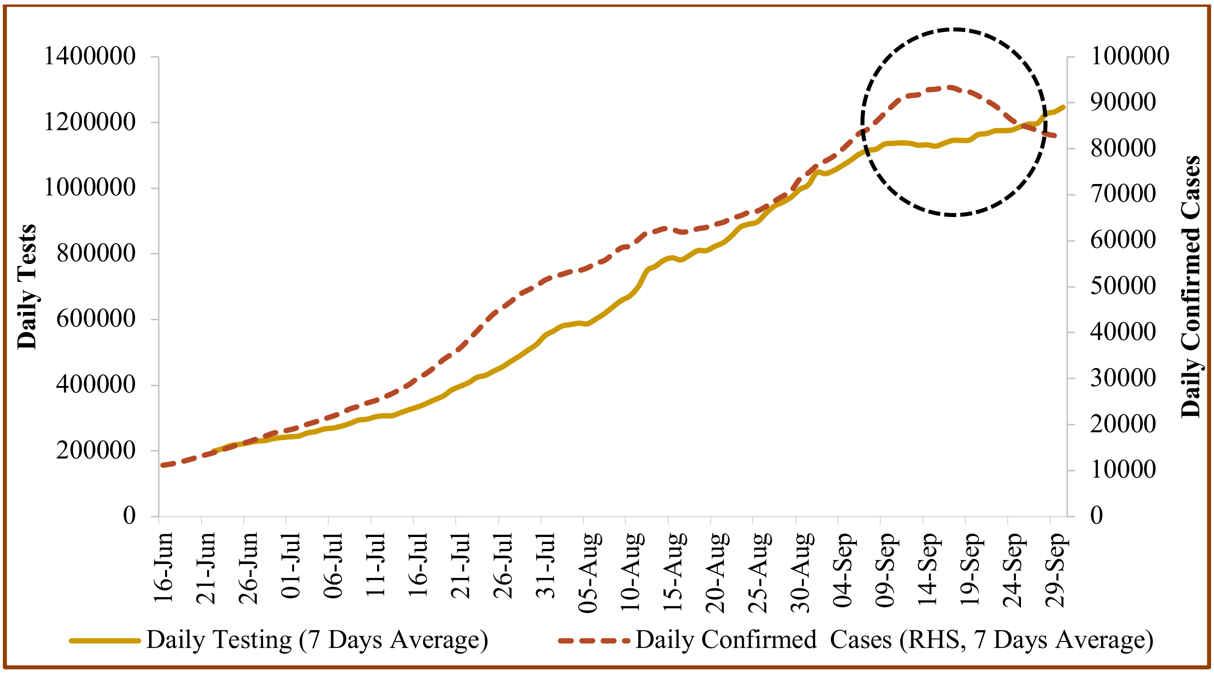
As on 31st August	As on 30th September



Source: India COVID-19 Tracker

4. Data for the 14-day period from September 17 to 30 suggests that India may have crossed the peak of Covid-19 case-load. During this period, the seven-day moving average of daily positive cases has steadily declined from about 93,000 to 83,000 while the seven-day moving average of daily tests have risen from about 1,15,000 to 1,24,000 (Figure 3). The pandemic however is far from over. Yet, the declining positivity rate at the all India level sets the stage to further push up the frontiers of economic recovery.

Figure 3: Declining average of Daily Confirmed COVID-19 Cases

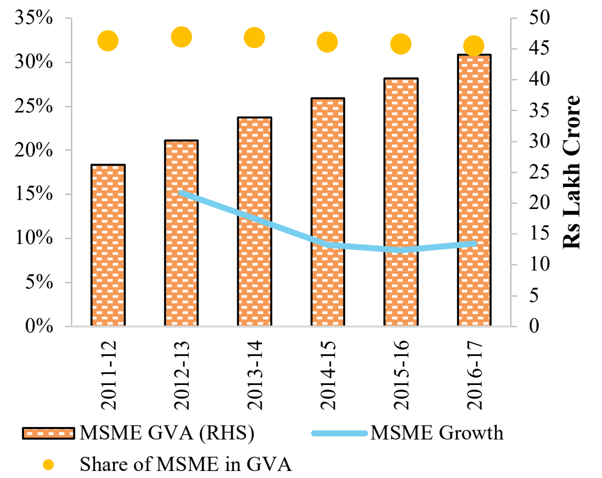


Source: Source: India COVID-19 Tracker. https://www.covid19india.org

Supportive Ecosystem for MSMEs to grow

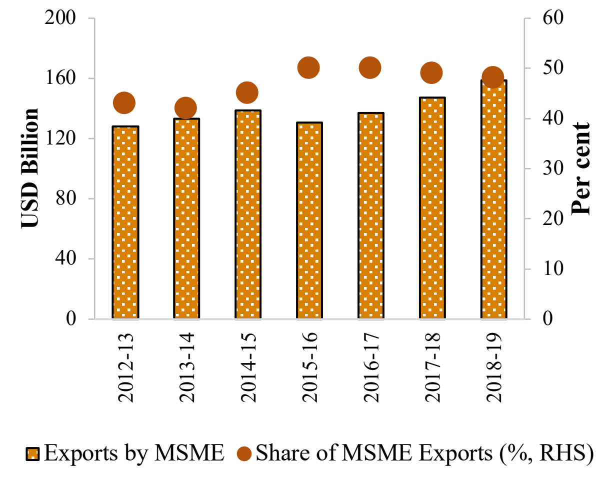
5. Medium, Small and Micro Enterprises (MSMEs) sector have been the growth engine of the economy with a vast network of about 6.3 crore enterprises. During the past decade, the sector has made a significant contribution of more than 40 per cent towards exports and over 30 per cent to the GDP while creating employment for more than 11 crore people, which in terms of volume stands only next to agricultural sector (Figures 4 & 5).

Figure 4: Contribution of MSMEs in GVA



Source: Ministry of Micro, Small and Medium Enterprises

Figure 5: Share (%) of MSMEs in Exports



Source: RBI

6. MSMEs have been inordinately affected by the COVID induced lockdown, transport disruptions, severance of supply chains, social distancing measures owing to their dominant presence in economic sectors like retail, trading and services. This disruptive effect has been compounded due to their limited financial resources and borrowing capacity. The Government of India has introduced a slew of legislative, regulatory and financial measures to support the MSME sector amidst this unprecedented crisis unleashed by the pandemic.

7. The endeavour of the Government is to create a policy environment to enable the MSMEs to grow in size, partner in emerging global value chains and provide dynamism to economic growth. A major structural reform, in this direction, has been undertaken by the Government of India by adopting a new composite formula of classification for manufacturing and service units in MSME sector with effect from 1st July, 2020.

Redefining MSMEs

8. The definition of MSMEs differs widely across countries and reflects the specific business environment and socio-cultural aspects in which they operate. In 1955, India defined Small Scale Industry (SSI), as an industry with investment of up to ₹5 lakh in fixed assets and

employment of 50/100 people with or without power. By the 1960s, the employment criterion was dropped due to the difficulty in obtaining reliable data and the investment ceiling thereafter was constantly increased. The MSMED Act in 2006, last laid down the definitions based on investment limits for 'micro and small' and added a definition of 'medium'. A static investment limit for a period of 13 years failed to reflect the current increase in price index of plant and machinery/equipment and led to an increasing demand for change from many sectors where MSMEs have substantial share such as pharmaceuticals, auto-component, food processing, among others.

9. Under the new definition, an enterprise qualifies as a micro, small or a medium enterprise depending upon the broadened thresholds of amount of investment made with respect to (i) plant and machinery in case it undertakes manufacturing; or (ii) equipment in case it provides services. In addition to this existing investment conditionality, a new criterion for turnover has been introduced (Figure 6). The turnover details of enterprises are being captured and verified by Goods and Services Tax Network (GSTN) and enables MSMEs to reduce the burden of record keeping for compliance or for availing benefits.

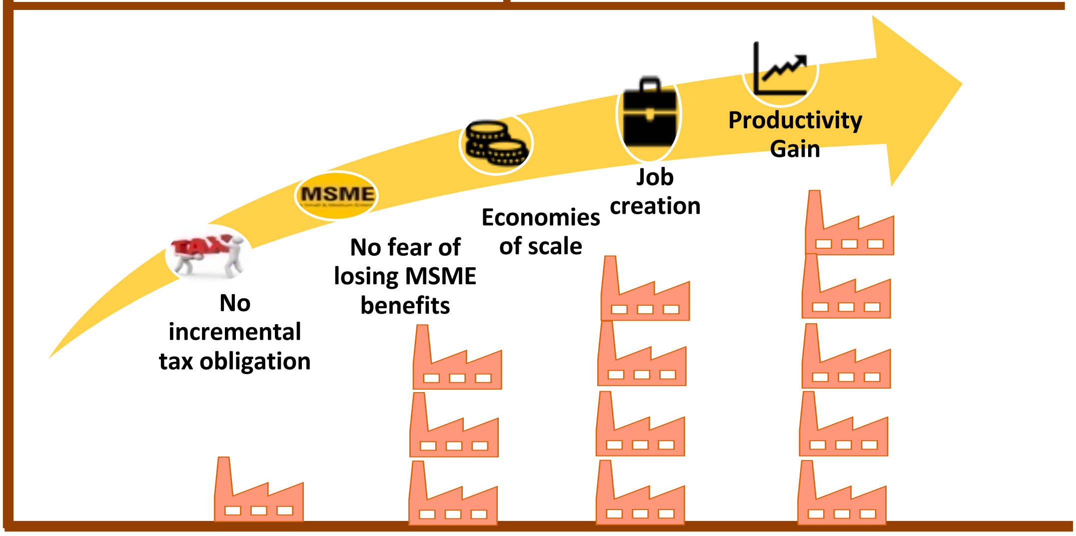
Figure 6: Classification of MSMEs - effective from 1st July 2020

Investment Criteria

	Manufacturing	Service
MICRO ₹	25 LAKH	10 LAKH
SMALL ₹	5 CR	2 CR
MEDIUM ₹	10 CR	5 CR

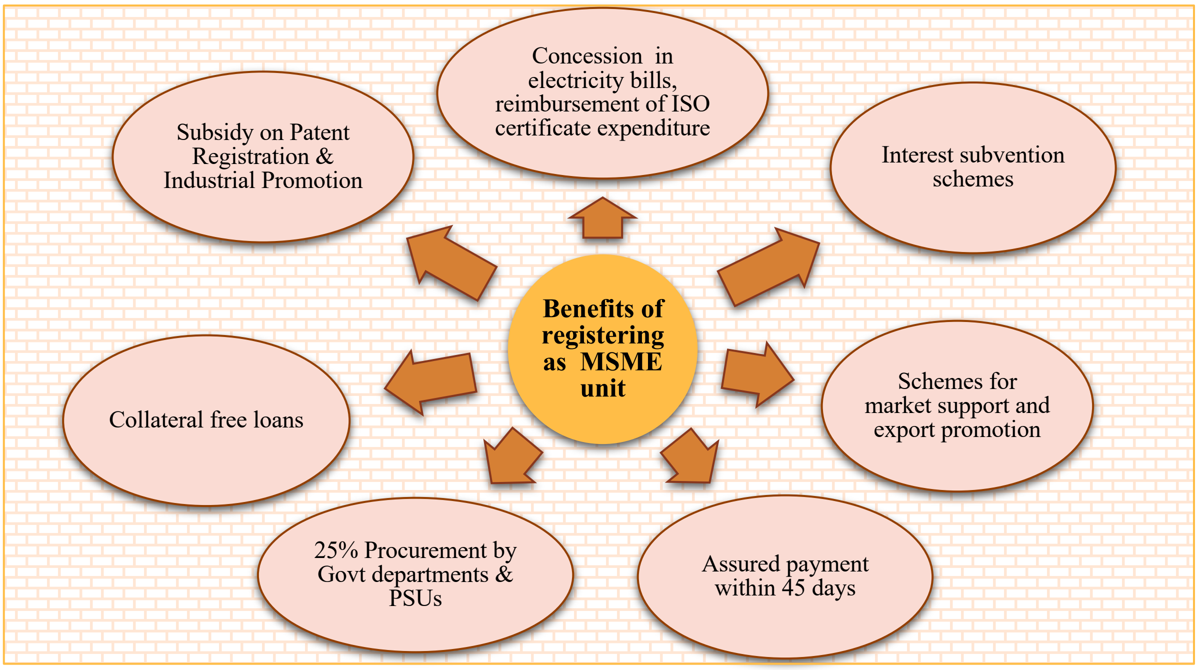
Investment & Turnover Criteria

	Investment	Turnover
MICRO ₹	1 CR	5 CR
SMALL ₹	10 CR	50 CR
MEDIUM ₹	50 CR	250 CR



10. The change in the definition of MSME is one of the most significant enabling changes made to the legal regime governing MSMEs - since the enactment of the MSMED Act 2006. The expanded ambit of the MSME Act has now allowed the larger pool of enterprises, both manufacturing and service enterprises, to avail the benefits of the Act as well as of the reforms introduced by the Government for the MSME sector during the pandemic, without any additional tax liability (Figure 7). It is likely to improve the ease of doing business in operation for MSMEs, and in the process, make it easier for them to attract investments and create more jobs.

Figure 7: Major benefits of registering as an MSME unit



11. Economic Survey, 2018-19 clearly established that MSMEs that grow not only creates greater profits for their promoters but also contribute to job creation and productivity in the economy. The new definition of MSMEs interprets growth in terms of either an increase in investment or increase in turnover while ensuring, for the sake of improved targeting, that slippages in both the criterion qualifies an enterprise for a smaller category. Implicit in the definition is the concept of "net" investment that further ensures that investment made for replacement capital consequent to depreciation is not counted in the ceilings set for various categories. Thus, consumption of capital and replacement thereof does not penalize an enterprise by pushing it up into a higher category. Similarly, with a view to promoting exports, products sold overseas are excluded from the turnover criterion to ensure that enterprises, because of their export initiation, are again not pushed into a higher category. Further, the enhancement of 'net investment" limits themselves are growth supportive. With definitional constraint to expansion removed, the newly defined MSMEs will contribute more to job creation and productivity.

12. During the lockdown period, 1100 indigenous manufacturers of PPE kits were developed by the Government, most of which were from MSME sector. The capacity and production of PPE Coveralls for COVID-19 touched a peak of 5 lakh PPE Coveralls per day in mid May 2020. Within a period of 2 months, India became the world's second largest manufacturer of Personal Protective Equipment (PPE) starting from scratch – signifying the resilience and strength of MSMEs. With an array of initiatives taken in various sectors, it is time to unshackle the growth of MSMEs and to enable them to contribute effectively to 'Atmanirbhar Bharat' and 'Vocal for local' (Table 1).

Table 1: Enabling a Favourable Ecosystem for MSMEs

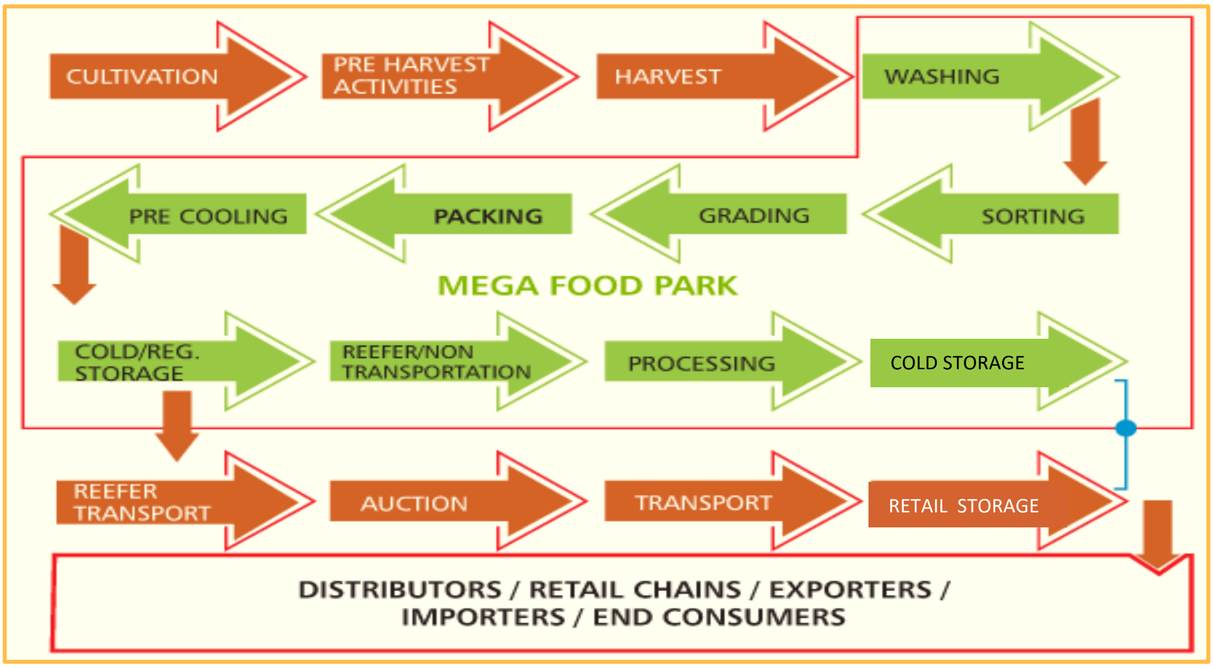
Segments/sectors	Initiatives and Associated Opportunities
Ease of Doing Business for MSMEs	New Registration of MSMEs through 'Udyam Registration' with link to (i) GeM portal for ensuring their participation in Government procurements, (ii) TReDS platform for helping the MSMEs in realizing their delayed payments Based on self-declaration with no requirement to upload documents, papers, certificates or proof. Hassle free transition from old system of Udyog Aadhaar Memorandum to Udyam Registration till 31.03.2021. Launch of CHAMPIONS portal to help the MSMEs in terms of finance, raw materials, labour, permissions, etc. The portal also seeks to help MSMEs to tap into new opportunities with a long-term view to identify the MSMEs with growth potential. SAMADHAAN portal to enable Micro & Small Enterprises (MSEs) to directly register their cases on the portal relating to delayed payments by Central Ministries / Departments/ CPSEs/ State Government & other buyers. PSUs directed to clear payment within 45 days of acceptance of goods/services. SAMBANDH Portal for monitoring the implementation of Public Procurement Policy for micro and small enterprises in the country. Global tenders in Government procurement schemes up to Rs 200 crore will no longer be allowed.

Labour Market	Government has simplified, amalgamated and rationalised 44 central labour laws into broad four codes namely codes on wages, industrial relations, social security and operational safety, health and working conditions. These codes are set to promote ease of doing business and instigate investor confidence in MSME sector as it intends to reduce the burden of compliance of labour regulations. The drastic reductions in compliance stem from (i) 44 central labour laws being reduced to four, (ii) the number of sections falling by 60% from about 1200 to 480, (iii) the maze due to the number of minimum wages being reducing from about 2000 to 40, (iv) one registration instead of six, (v) one license instead of four, and (vi) de-criminalisation of several offences.
Credit Support	Rs. 3 lakh crore Emergency Working Capital Facility for Businesses including MSMEs. Loans worth Rs 1.86 lakh crore have been sanctioned under 100% Emergency Credit Line Guarantee Scheme, of which Rs 1.32 lakh crore has already been disbursed to 27.09 lakh borrowers, as on 29th September 2020.
	Distressed Assets Fund–Sub-ordinate Debt for MSMEs: Guarantee cover worth Rs. 20,000 crores to promoters who can take debt from the banks to further invest in their stressed MSMEs as equity - support around 2 lakh MSMEs and protect livelihoods of millions who depend on them.
	Funds of Funds for MSMEs: Infusion of Rs. 50,000 crore into equity benefiting around 25 lakh MSMEs.
Insolvency Framework	Minimum threshold to initiate insolvency proceedings raised to Rs. 1 crore from Rs. 1 lakh, which largely insulates MSMEs Suspension of fresh initiation of insolvency proceedings up to one year depending upon the pandemic situation Special insolvency resolution framework for MSMEs under section 240A of the Code to be notified soon.
Agriculture	The landmark reforms in Agriculture viz., The Farmers Produce Trade and Commerce (Promotion and Facilitation) Act, 2020, The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Service Act, 2020 and The Essential Commodities (Amendment) Act, 2020 open the window of opportunity for MSMEs in the form of processors, aggregators, large retailers and exporters who can now build long-term mutually rewarding relations with farmers. MSMEs can be leveraged towards establishing all essential linkages between the farmgate to the consumer, by way of creating food chains. An agro-MSME policy is under progress, with a focus on entrepreneurship development in rural, tribal agriculture and forest areas for manufacturing products using local raw materials.

	Establishment of an efficient farm to fork supply chain by way of bolstering the MSMEs working in the food processing sector
	The "Centrally Sponsored PM Formalisation of Micro food processing Enterprises (PM FME) scheme" to be implemented over a period of five years from 2020-21 to 2024-25 adopts 'One District One Product (ODOP)' approach to reap benefits of scale in terms of procurement of inputs, availing common services and marketing of products.
Food Processing	Scheme provides micro food enterprises with modern technology & equipment, training, institutional credit, lack of awareness on quality control of products, and branding & marketing skills
	Providing plug and play infrastructure on lease for agro-MSMEs (manufacturers and retailers) with all the included Basic Enabling Infrastructure by leveraging Mega Food Park Scheme
	Entrepreneurial venture incubation centre- processing, testing and other related activities for entrepreneurs in incubation stage along with expert advice.

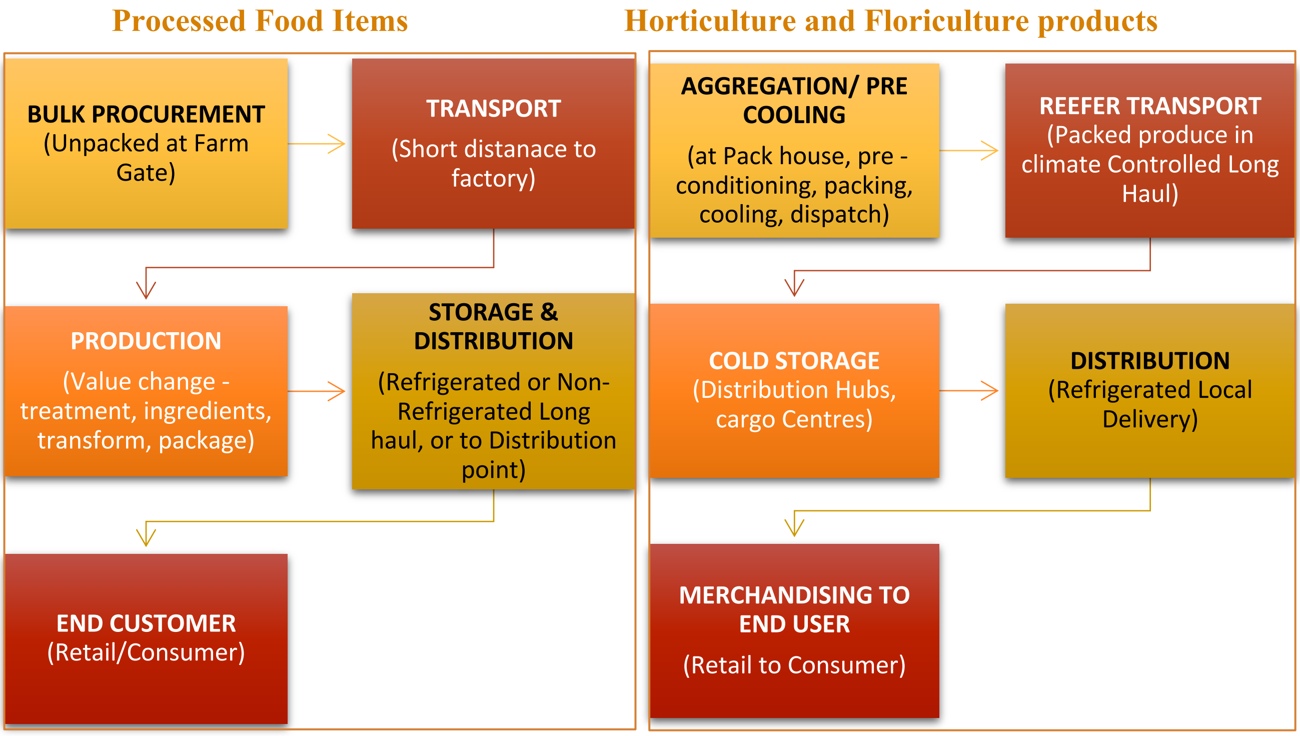
13. MSMEs in the agro sector or the smaller agro-processing units are beneficiaries of reforms in both MSME and the agricultural sector. MSME reforms benefit the small agro-processing units through encouraging expansion, easing of doing business, labour reforms and credit support. Agricultural reforms benefit the small agro processing units through facilitating easier market access to crops, pre-harvest price contracts and expansion of warehousing capacity. With Mega Food Parks providing infrastructure support, new agro-processing units can be set up or existing units expanded in one or several areas of food supply chain (Figure 8).

Figure 8: FARM TO FORK



14. Apart from agro-processing *per se*, there are ample opportunities in related logistic services for MSMEs, particularly in transporting of agro-produce to factories and thereafter in storage and distribution of processed food items to end customer. Provision of logistic services is more challenging for horticulture and floriculture products as several touch points in the supply chain, such as Reefer Transport, Cold Storage, and refrigerated local delivery, protect and preserve easily perishable products (Figure 9).

Figure 9: Logistics flow



Adapted from National Centre for Cold-chain Development (2015), "Report on All India Cold-chain Infrastructure Capacity".

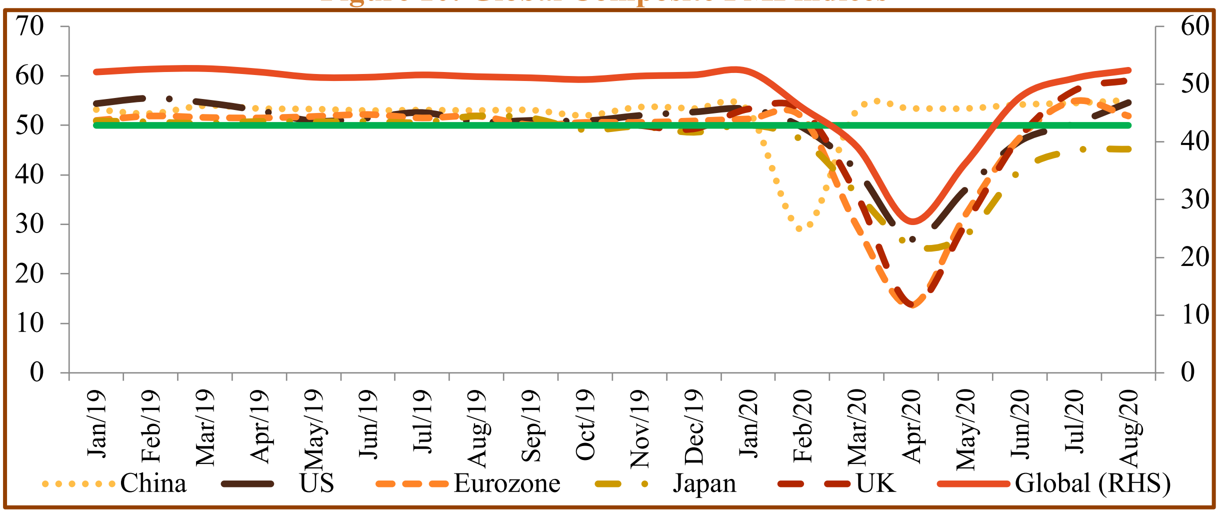
15. With MSME and agricultural reforms building the right environment, the time is appropriate for farmers themselves to embrace food processing activities and diversify their sources of income. There is sufficient scope for doing so as there are several advantages of processing agro-produce and producing finished products *within* the farm gate encompassing one or several villages. First, the farmers themselves can set up joint ventures converting physical proximity with each other into business partnerships. Second, the upstream supply chain from cultivation to processing factories is considerably shortened resulting in cost savings. Third, all government schemes for promoting agro-processing units can effectively reach out to easily identifiable beneficiaries resulting in larger volume of state support.

16. In the post Covid world, the importance of processed foods in the consumer basket will increase manifold with change in consumer perceptions regarding quality and safety. The concept of 'fresh' agri-produce as understood today from their glossy appearance by the dusty road-side will be replaced by the same vendors selling scientifically cleaned, preserved and refrigerated food-stuff from hygienically maintained kiosks. Food stuff itself will undergo a higher degree of processing with nutrient reinforcements and made available in convenience packaging for increasing customer satisfaction. The farmer at the farm-end will finally get his due supported by the recently implemented agricultural reforms.

Growth Momentum in global economic activities continues in August

17. In August, global economic activity expansion accelerated further with composite output index reaching 17-month high at 52.4 (Figure 10). Growth was underpinned by rising levels of incoming new work, as lockdowns and restrictions in response to the COVID-19 eased in many countries. Output growth in both the manufacturing and service sectors registered 28th and 27th month highs respectively. Growth momentum in indicators like industrial production and retail sales continued in US and China during the period. However, recovery in the eurozone's private sector economy lost momentum in August with resurgence in COVID infection rates.

Figure 10: Global Composite PMI indices

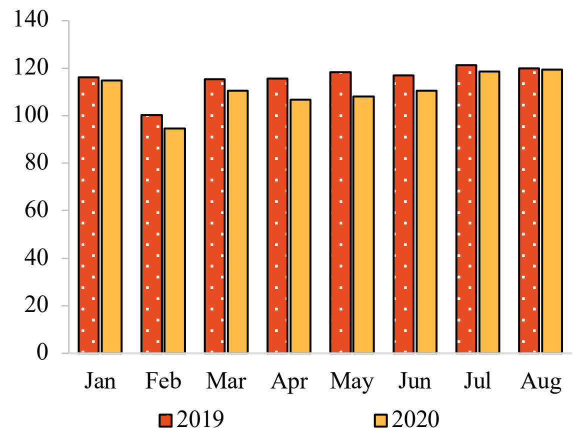


Source: IHS Markit

Steady improvement in international trade activity

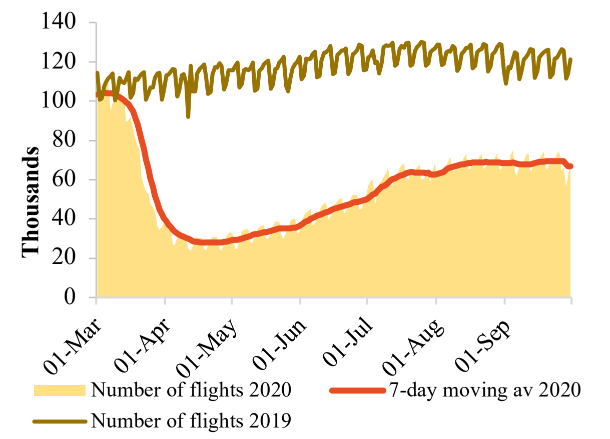
18. Trade activity sustained its modest recovery with new export orders experiencing lower contraction in August at 49.2 compared to 46.6 in July. Port traffic activity tracked by the RWI/ISL container throughput index improved further in August, nearly reaching previous year levels as handling capacity at ports broadened across globe (Figure 11). Commercial flights activity rose by 84 per cent during Q3 of 2020 signalling significant uptick in trade activity compared to Q2 of 2020, while attaining 57 percent of previous year levels (Figure 12).

Figure 11: Container Throughput Index



Source: Institute of Shipping Economics & Logistics

Figure 12: Commercial Flight Activity

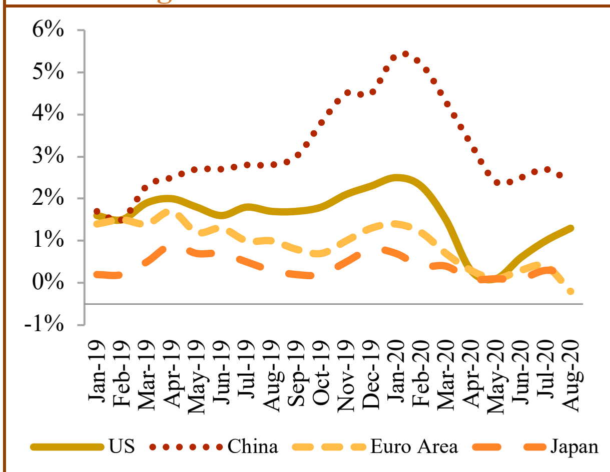


Source: Flightradar24

Inflation Dynamics: Global inflation manifest mixed trend in August

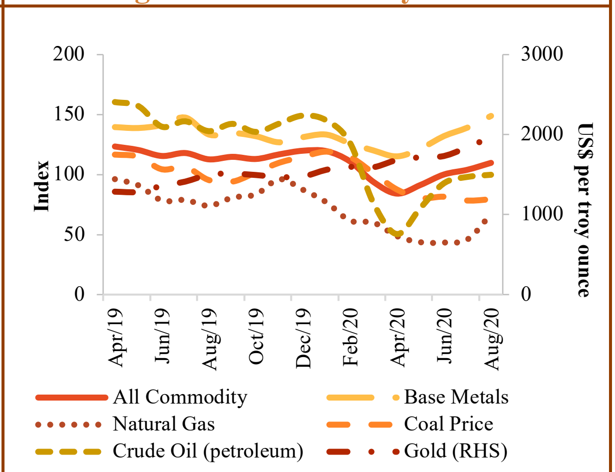
19. According to PMI composite survey, input cost inflation accelerated to a 16-month high in August leading to the rise in output charges since June 2019. Consumer inflation picked up further in the US to 1.3 per cent during August but remained subdued in the eurozone deflating to 4 year low of -0.2 per cent; in emerging economies, inflation has been gradually accelerating for consumers. Food prices firmed up further in August, on stronger demand and weaker US dollar (Figure 13).

Figure 13: Inflation Trend



Source: Compiled using various agencies

Figure 14: Commodity Prices



Source: IMF

Oil prices moderated in September while base metal prices signalled rebound in industrial activity

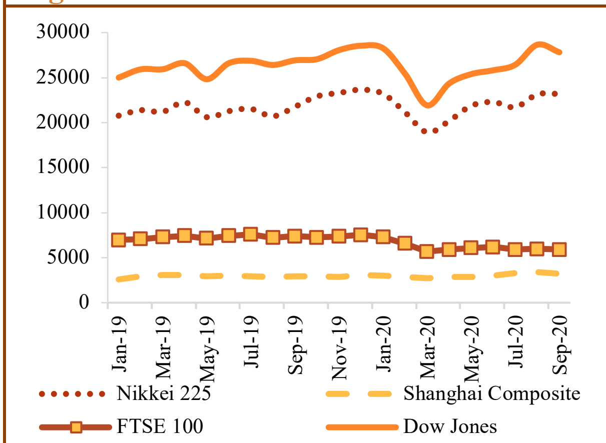
20. Crude oil prices weakened during September amid worries regarding global demand along with recovery in supply. The action of Saudi Arabia to sell its output at discounted rate to Asian economies in order to support demand recovery in major consumers, such as China

and India also influenced the market. Europe Brent prices declined by 8.5 percent during September to US$ 40.9 per barrel from US$ 44.7 per barrel in August. Coal price index rose by 1.4 percent in August driven by rise in South African coal export prices while Australian thermal coal prices declined marginally by 0.6 per cent compared to previous month to average $51.4 per metric ton, as pace of Chinese coal imports continued to decline. The base metal price index rose further by ~7.0% in August, as manufacturing prospects continued to improve further (Figure 14).

Financial markets witnessed sharp corrections during September after rallying in August

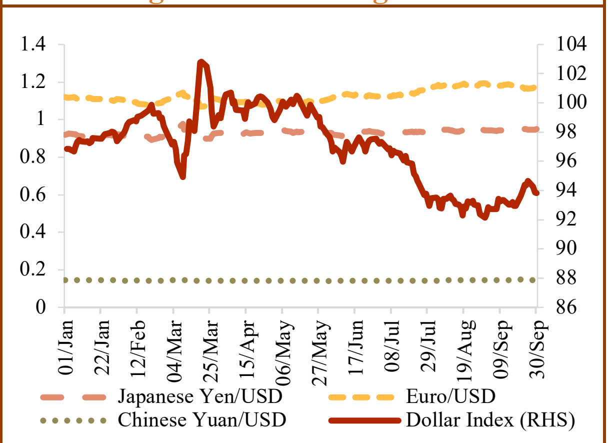
21. Global stock market witnessed sharp correction during September after rallying in August, triggered by marked gap between bullish investor sentiment and uncertainty about the recovery’s strength. In US, S&P 500 index and Dow Jones declined by 5.7 per cent and 4.4 per cent respectively. Stocks in Eurozone also tumbled with a surge in coronavirus infections and re-imposition of containment measures. Germany Dax index fell by 6.2 per cent during September. Stocks in China fell in tandem with the global correction, with the benchmark Shanghai Composite Index and CSI 300 Index dropping by 5.2 per cent and 4.8 per cent respectively (Figure 15).

Figure 15: Financial Market Performance



Source: Compiled using various agencies

Figure 16: Exchange Rates



Source: Thomson Reuters

Exchange rate: US dollar index gained after 5 months on improved macro indicators

22. US dollar index strengthened during September by recording a gain of 2.33 percent for the first time since April supported by improved macro - economic indicators. Major currencies such as the Euro, British Pound, Canadian Dollar and Swedish Krona performed relatively weaker (Figure 16).

Momentum in Indian economic recovery amid headwinds

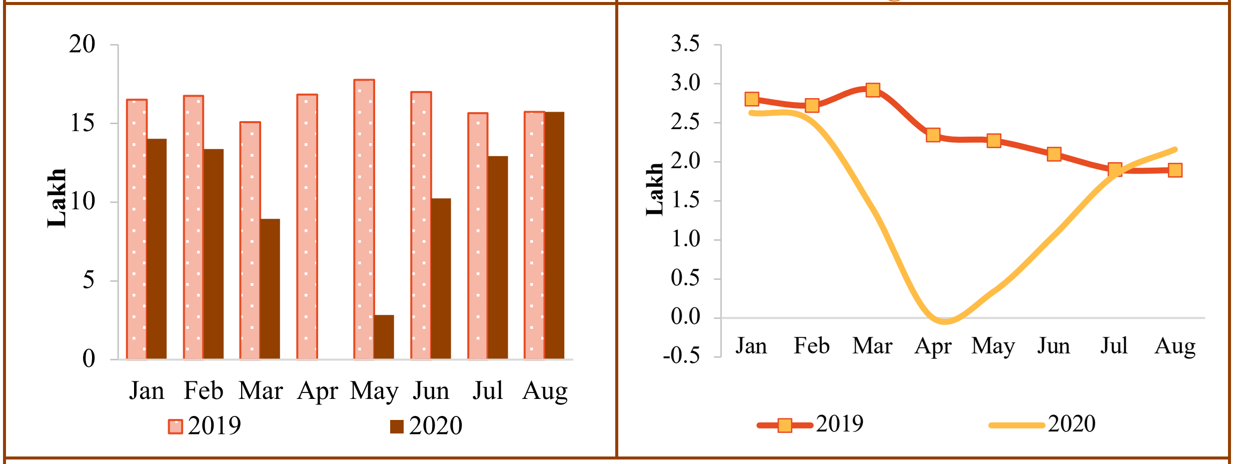
23. With India unlocking by the day, consequent demand resurgence is palpable in many sectors. Economic indicators allude to a steady recovery in almost all sectors, with some sectors shooting above their previous-year levels as well. This is despite headwinds of increasing COVID cases in non-metro cities and rural areas and rising food prices. Positive results from the implementation of AatmaNirbhar Bharat (AB) package and unlocking of the economy are evident in India's high-frequency real sector indicators of September.

Auto demand picks up further

24. The indicators of demand are gaining momentum with sales of passenger vehicles, two and three wheelers regaining previous year levels in August, signaling pent-up demand as well as rise in private mode of transportation due to Covid-19 (Figure 17). Increase in registrations for commercial and agricultural tractors from March to September is further indicative of strengthening rural demand (Figure 18).

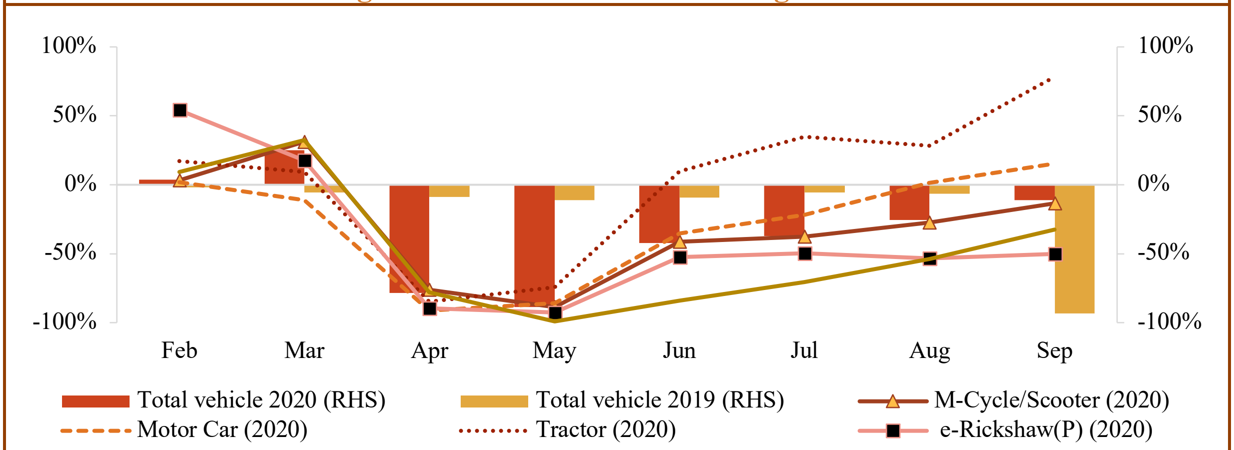
Figure 17: Auto Sales

Two & Three Wheelers | **Passenger Vehicles**



Source: SIAM

Figure 18: Growth in Vehicle Registration

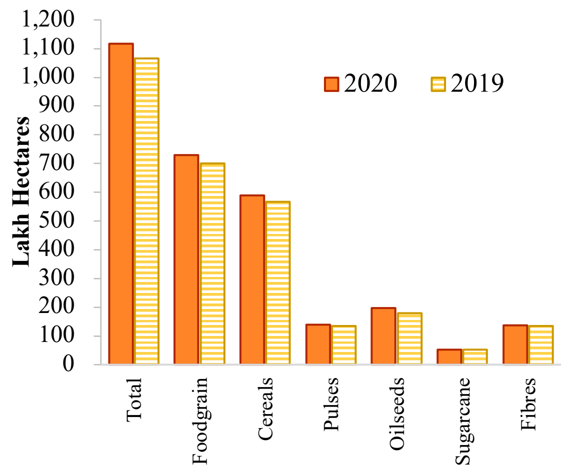


Source: Vahan Database, Ministry of Road Transport and Highways

Strengthening prospects of rural demand

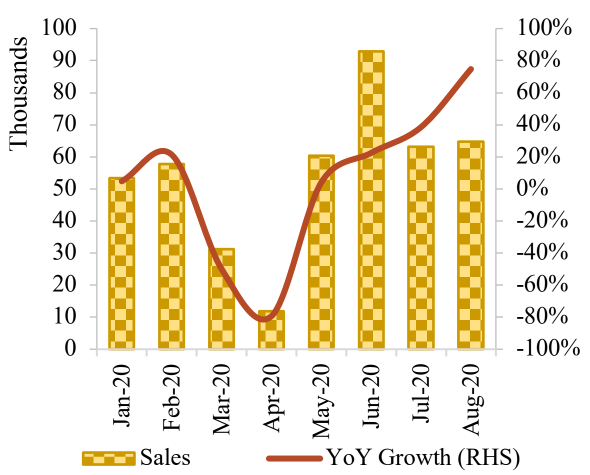
25. The country received 109 per cent rainfall of the Long Period Average (LPA) in the monsoon season this year and recorded two consecutive years of 'above normal' rain after a period of 61 years. Kharif sowing has, therefore, benefitted ably supported by Government's interventions in response to COVID-19 in 2020 (Figure 19). Rising tractor sales are an indication for a healthy kharif output and robust rural demand in near future as well (Figure 20). As sowing season comes to a close, fertilizer sales tapered off after peaking in July (Figure 21). With current live storage in water reservoirs higher than the average storage of last ten years in all regions, it augurs well for upcoming Rabi sowing and rural demand (Figure 22).

Figure 19: Area sown - Kharif crops



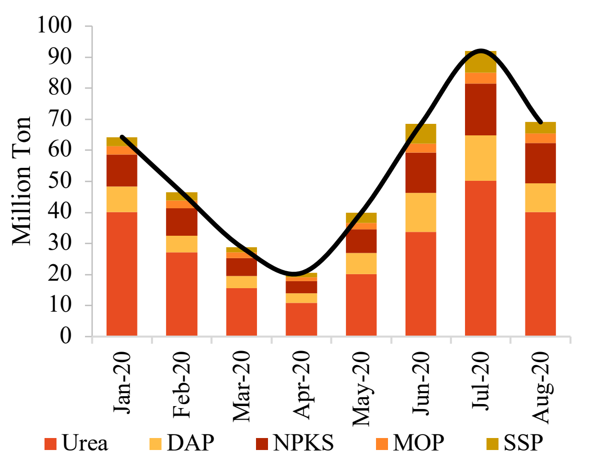
Source: Ministry of Agriculture, as on 25th Sept.2020

Figure 20: Tractor Sales



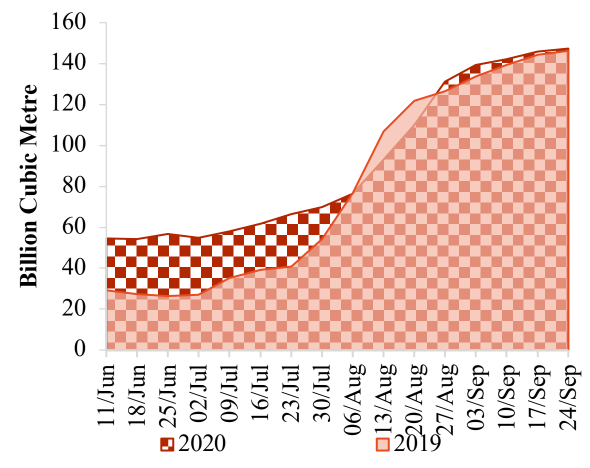
Source: Tractor and Mechanization Association

Figure 21: Fertilizer Sales



Source: Department of Fertilizers

Figure 22: Current live storage



Source: CWC

Agriculture remains the economy's sweet spot

26. Total production of food-grains during 2019-20 was estimated at a record high of 296.7 million tonnes (4th Advance Estimate), as compared to 285.2 million tonnes in 2018-19. As per the First Advance Estimates, the production of kharif foodgrains in 2020-21 is estimated at 144.5 million tonnes, higher as compared to 143.4 million tonnes recorded (as per 4th Advance Estimate) in 2019-20. Major commercial crops of sugarcane and cotton are also estimated to have an increased production in 2020-21 over the previous year. Amid COVID-19 induced supply chain disruptions, harvesting, procurement and off-take operations sustained their momentum in August with Food Corporation of India (FCI) and states playing an active part (Figure 23). The total rice procurement target has been fixed at 495.37 lakh tonnes for the entire country for the 2020-21 kharif season (Figure 23).

Figure 23: Procurement of Rice and Wheat (million tonnes)

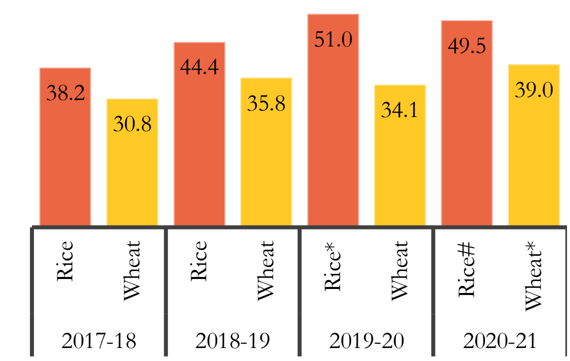
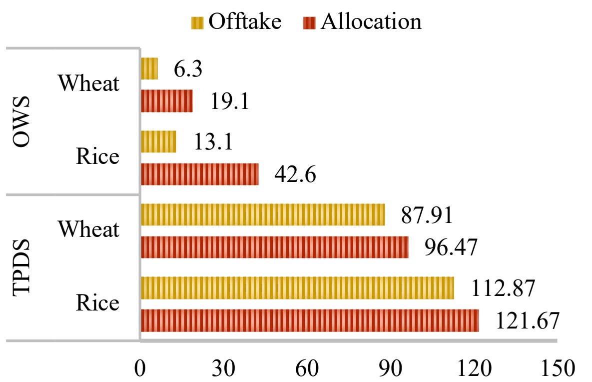


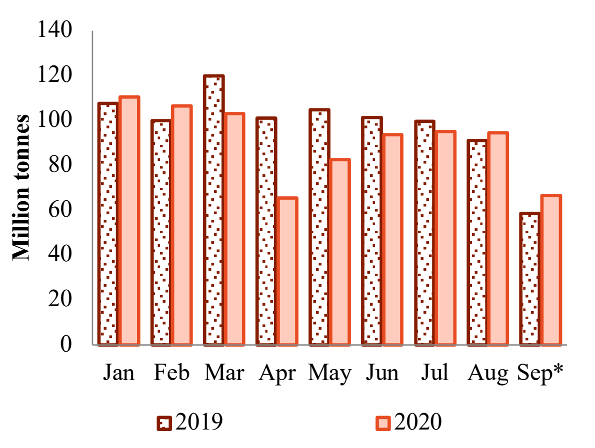
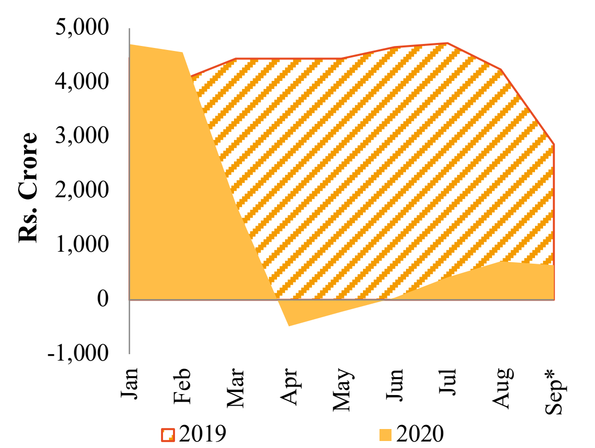
Figure 24: Allocation & Offtake of Rice and Wheat under NFSA (Upto July 2020) (lakh tonnes)



Source: Department of Food and Public Distribution.
Notes:
1. * - As on 31.08.2020
2. # - Targeted Procurement of Rice
3. Kharif Marketing Season (Oct-Sep) for Rice and Rabi Marketing Season (Apr-Mar) for Wheat
4. TPDS – Targeted Public Distribution System
OWS – Other Welfare Schemes including NFSA tide over.
4. Offtake under Other Welfare Schemes is upto July 2020 and TPDS is upto August 2020.

Rail freight bouncing back and thriving

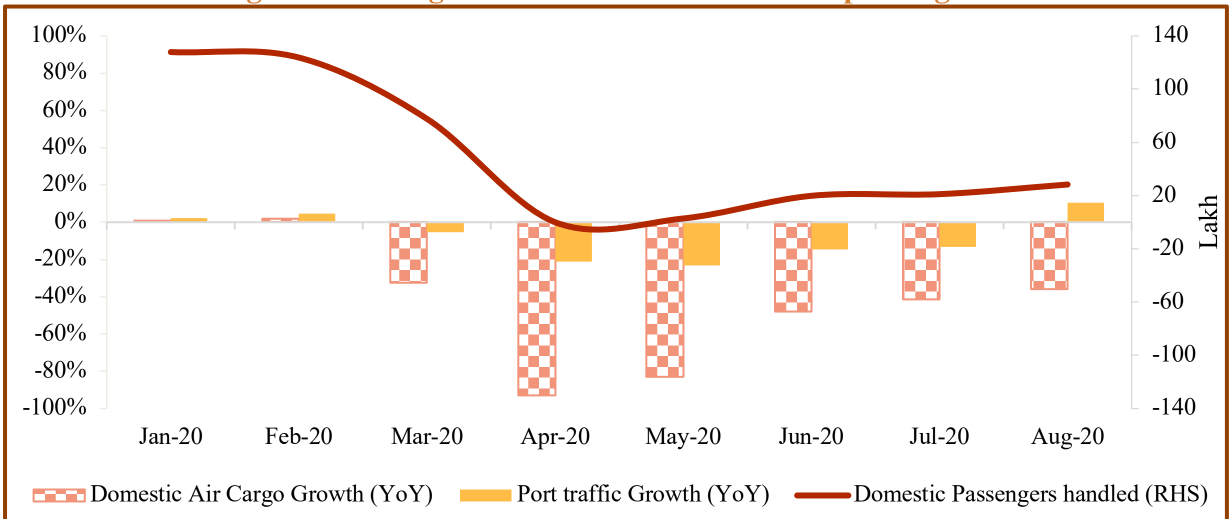
27. Railway revenue earnings clocked a positive YoY growth for the first time in August since March. September witnessed a strong YoY growth of 13.5 per cent in rail freight earning in the first twenty days of the month (Figure 25). Easing of inter-state movement restrictions, quarantine policy and unlocking were accompanied with recovery in Rail Passenger Earnings as well. Gross revenue from railway passenger bookings stood at Rs. 640.96 crore in the first twenty days of September, reaching 90 per cent of August levels (Figure 26).

Figure 25: Revenue Earning Freight Traffic	Figure 26: Gross revenue from railway passenger bookings
	
Source: Ministry of Railways, *Data till 20th September	

Port Cargo traffic continues its upward trajectory, aviation activity catching up

28. Cargo traffic volumes continued to inch up towards previous year levels reporting a lower YoY contraction of 10.4 per cent in August as compared to a contraction of 13.2 per cent in July. Domestic aviation passengers have also increased from 2.8 lakh in May to 28.32 lakh in August (Figure 27). The upcoming festive months are expected to further boost growth.

Figure 27: Cargo traffic & domestic aviation passengers

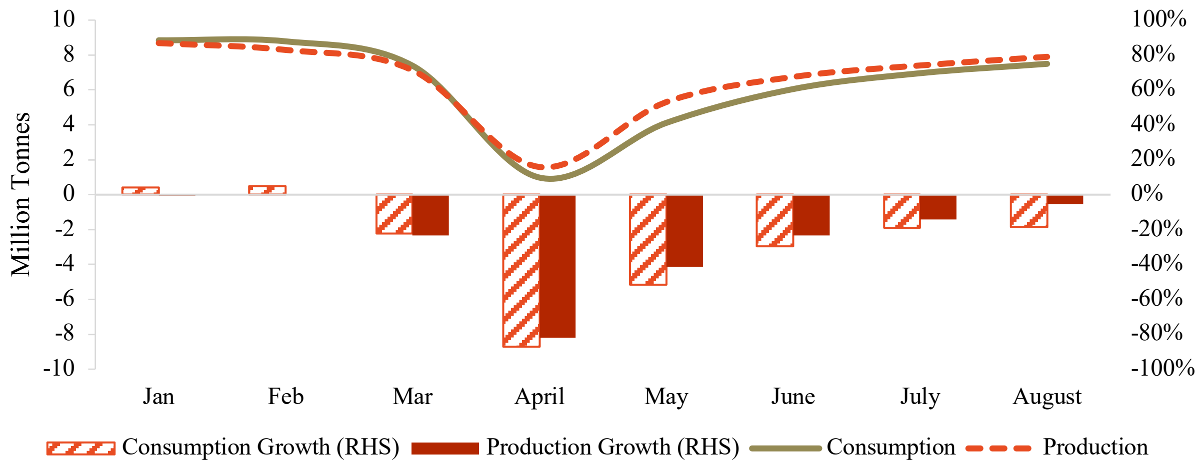


Source: Indian Ports Association, DGCA, AAI

Further uptick in Steel sector: inching up to Baseline

29. Steel sector continued to rebound in August, with faster recovery seen in domestic production relative to consumption (Figure 28).

Figure 28: Steel Consumption and Production

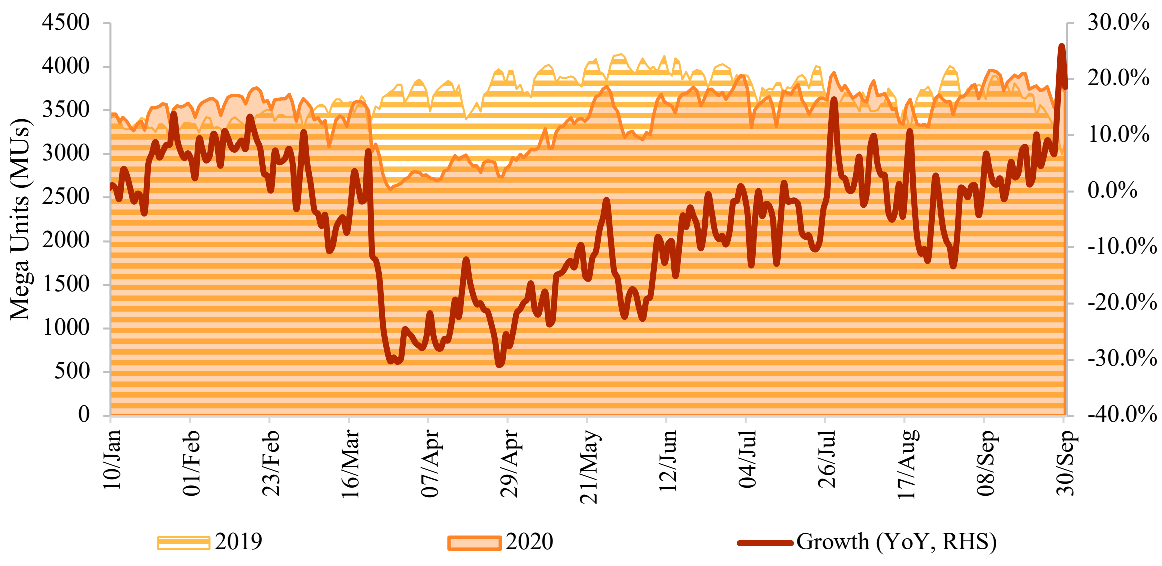


Source: Joint Plant Committee, M/o Steel

Beyond the baseline: Growth in Power Consumption, E-Way bills and Highway toll Collections

30. Power consumption almost reverted to the last year's baseline in August, 2020 reaching 97 per cent of previous year August levels and crossing pre-COVID (February) levels (Figure 29). It has crossed previous year levels in September and grew at a healthy 4.6 per cent, signifying resurgence of activity in Unlock 4.0.

Figure 29: Power Consumption

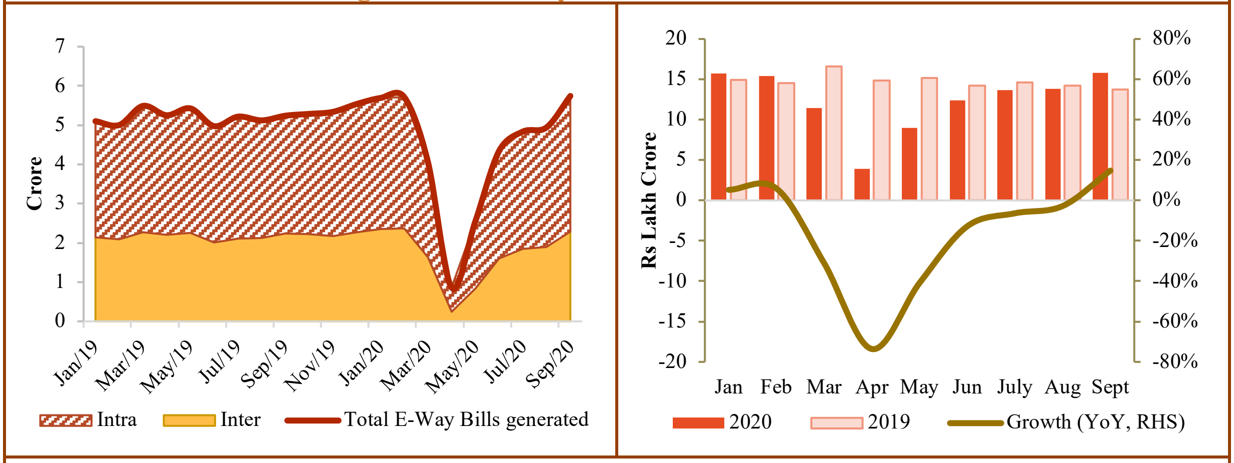


Source: POSOCO

31. Sustained impetus in E-way bills generated, a strong leading indicator of revenue collections, supply chain corrections and logistics growth, augurs well for regaining economic normalcy. In terms of value, e-way bills generated reached Rs. 15.8 lakh crore in September,

crossing previous year September levels of Rs. 13.8 lakh crore. Numbers of e-way bills generated in September also reached previous year levels with inter and intra-state e-way bills crossing last year's count (Figure 30).

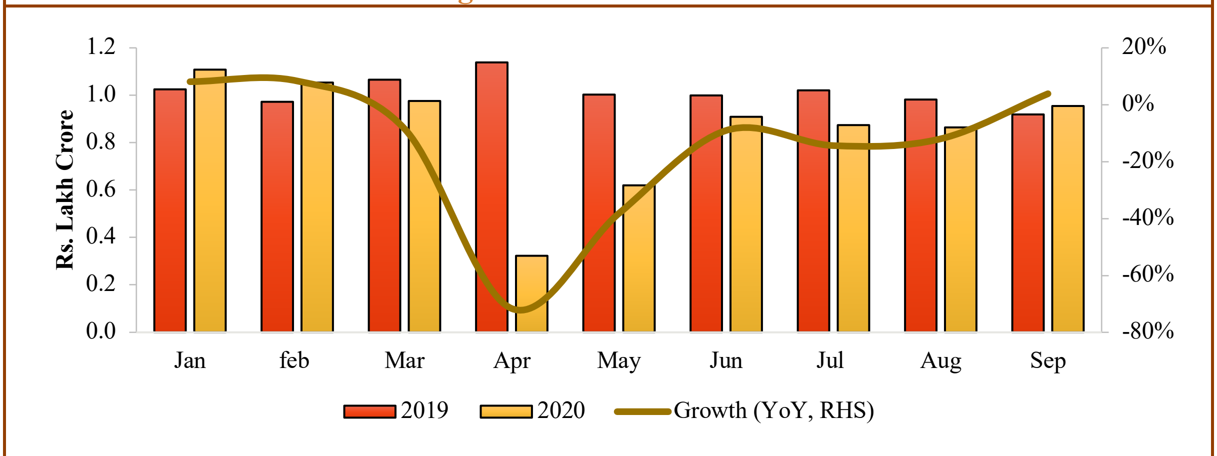
Figure 30: E-Way Bills – Count and Value



Source: Goods and Services Tax Network

32. The growth outlook has improved significantly in September with GST collections swelling to six month high at Rs 95,480 crore, registering a positive year on year growth of 3.9 percent (Figure 31).

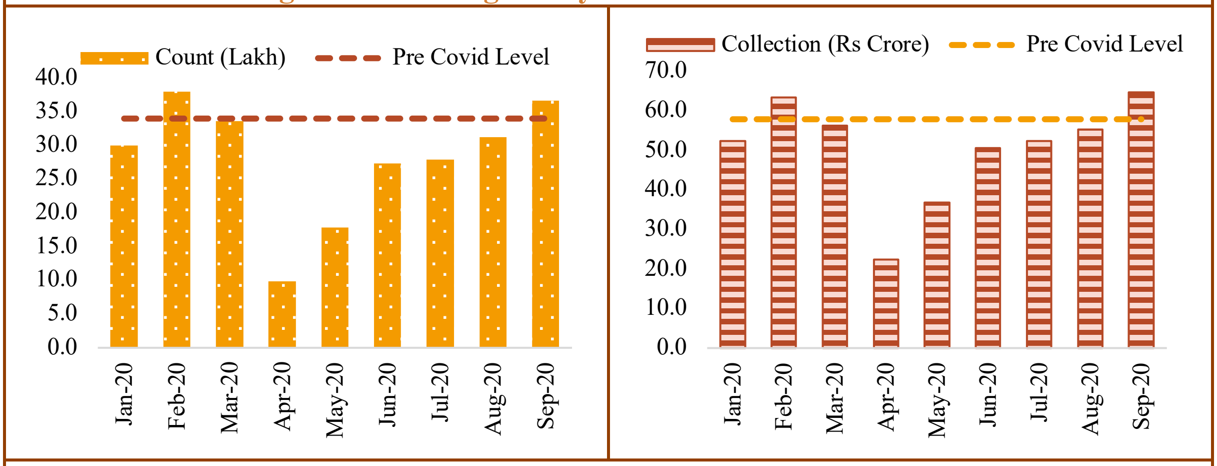
Figure 31: GST Collection



Source: GSTN

33. As highway traffic movement rises owing to bustling activity and pent-up demand, toll count and collections have also surpassed their pre-Covid levels (average of January and February) levels in September, moving in tandem with other growth indicators (Figure 32).

Figure 32: Average Daily ETC Count and Collection



Source: Ministry of Road, Transport and Highways

Digital transactions burgeoning, UPI beating August record

34. Resumption of economic activity and user shifts to digital payments have ushered sanguine prospects of growth in retail financial transactions via NPCI platform (Figure 33). UPI payment transactions hit an all-time high of Rs. 3.29 lakh crore in value and 180.0 crore in volume terms in September (Figure 34).

Figure 33: Total Retail Financial Transactions via NPCI platform

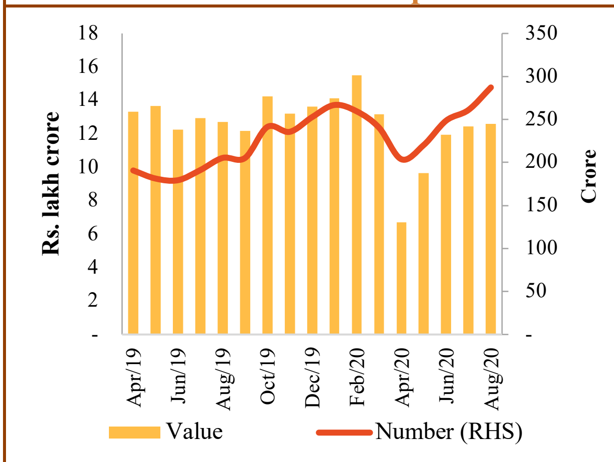
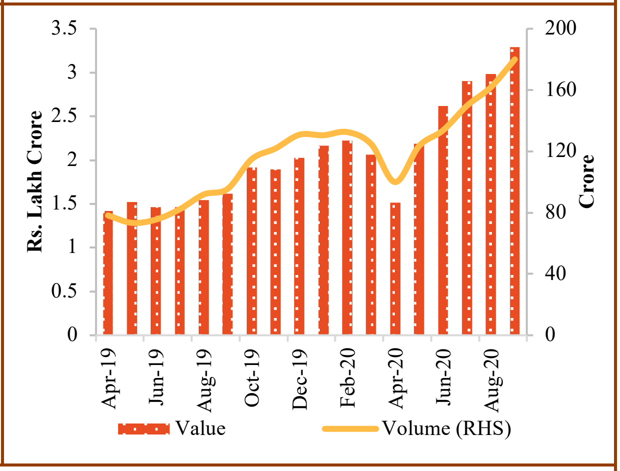


Figure 34: UPI Payment Transactions



Source: NCPI

Industrial production, the engine of growth, climbing up to recovery

35. Industrial production is showing signs of recovery with year-on-year (YoY) growth in IIP showing a smaller contraction in July at 10.4 percent as compared to 15.8 percent in June (Figure 35). Among the components of IIP, Electricity was the most resilient, as supported by the daily data on power consumption (Figure 36). Manufacturing was most affected in short run, pulling the whole index down as it has 77.6 per cent weight. Manufacturing expansion in September according to PMI data is expected to further push industrial recovery. Mining sector

is inching up to baseline with modest recovery. However, long term outlook for mining remains optimistic given reforms undertaken in the sector.

Figure 35: Index of Industrial Production

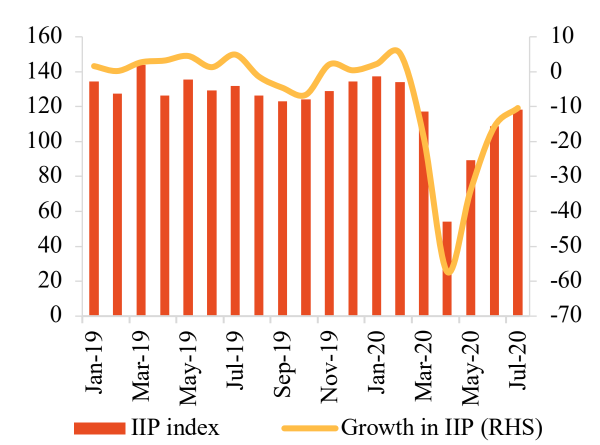
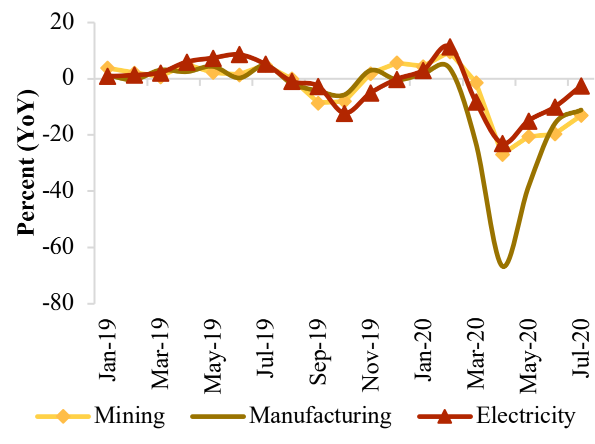


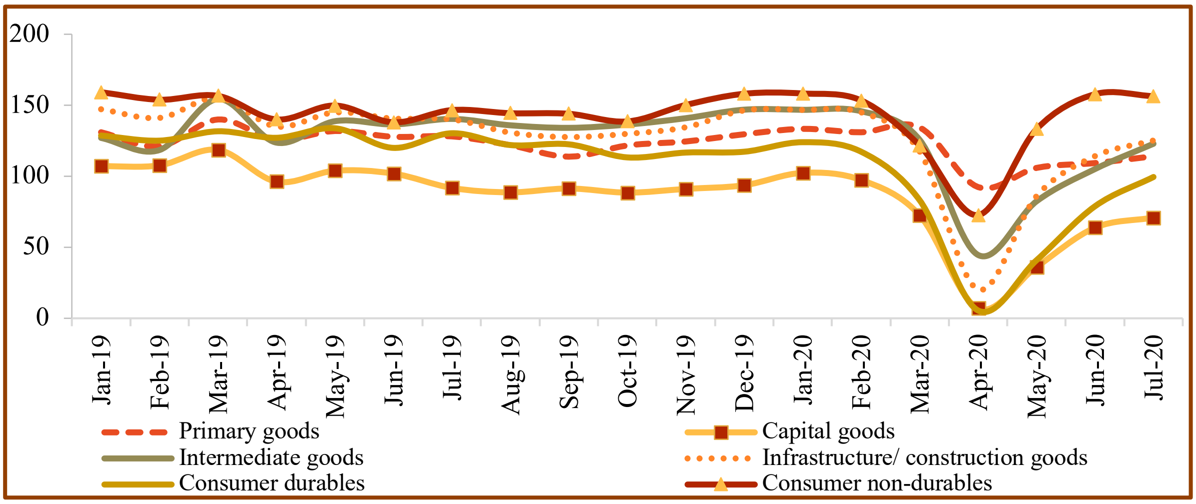
Figure 36: Growth Components of IIP



Source: MoSPI

36. Steady recovery is evident in all use-based categories of IIP, with varying intensity. Consumer non-durables have recorded strongest recovery, surpassing pre-Covid levels. The moderate recovery in consumer durables indicates gradual resurgence in urban demand. Infrastructure and construction also show green shoots alluding to economy's unlocking and government's rising spending in the sector. However, sluggish recovery in capital goods cautions against low private investment (Figure 37). The IIP has 407 items (5-digit NIC classification), of which 115 items have recorded growth in July 2020 which is significantly higher than 28 items in the month April-2020 – but still lower than 231 items in Feb 2020. Manufacture of tobacco, wearing apparel, textiles, chemicals, computer, electronic and optical products, and basic metals bouncing back to near pre-Covid levels are reassuring for labour-intensive manufacturing, and 'Make in India'. Pharma industry has benefitted the most from the crisis, attaining record high since April 2012.

Figure 37: Trend in IIP -Use-based Category

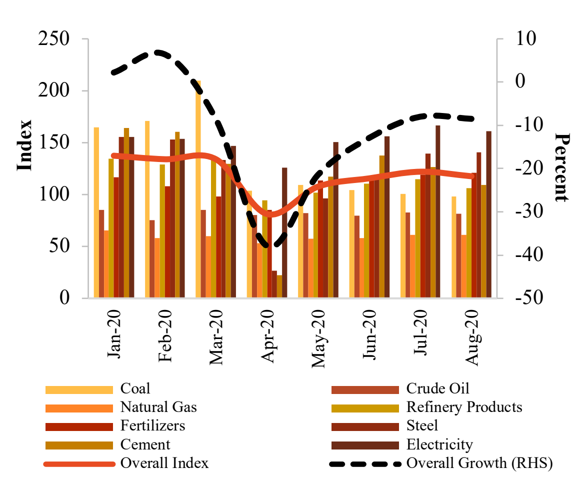


Source: MoSPI

37. The resurging of IIP matches that in eight core industries, which make up around 40% of the index. The Index on Eight Core Industries Index further reinforces data on recovery of industrial production with year-on-year (YoY) growth in July and August showing a smaller contraction at 8.0 per cent and 8.5 per cent respectively as compared to 12.9 per cent in June (Figure 38).

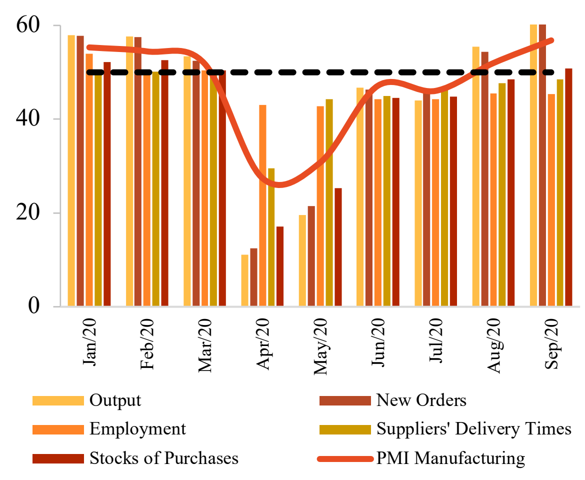
38. India's manufacturing purchasing managers' index (PMI), rose to 56.8, the highest mark since January 2012, supported by accelerated increases in new orders and production, renewed expansions in export sales and input stocks as well as an improvement in business confidence. Output prices rose for the first time in six months, reflecting an uptick in input costs. These developments reinforce the recovery prospects for the manufacturing sector (Figure 39). PMI Services index also improved in August to 41.8 over 34.2 in July though it is still in the contractionary zone.

Figure 38: Core Industries Performance



Source: DPIIT

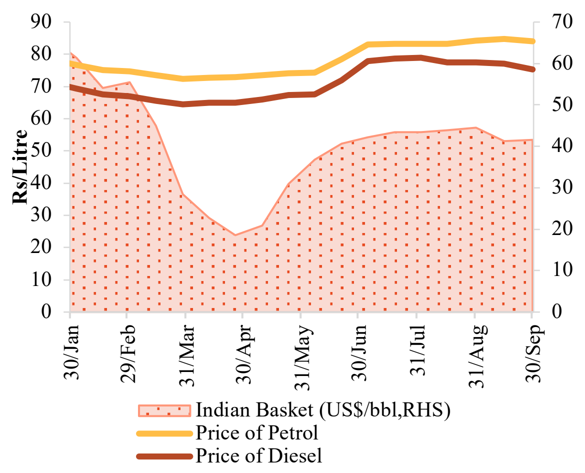
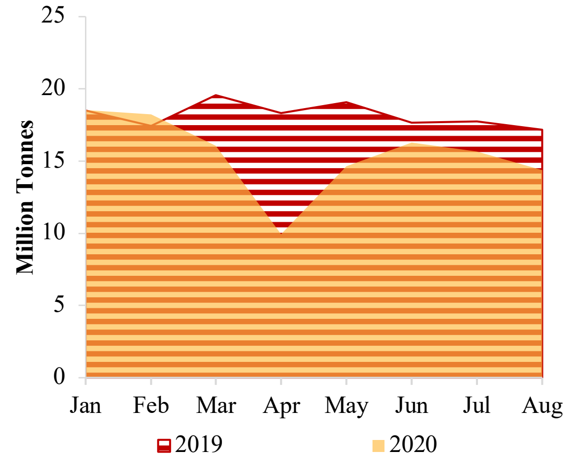
Figure 39: PMI Manufacturing



Source: IHS Markit

Oscillating recovery in oil markets

39. Global oil markets continued to remain vulnerable to a resurgence of Covid-19 cases in many countries, imposition of local lockdowns, continued work-from-home patterns and an anemic aviation sector. Crude futures prices rose until late August. However, weak financial markets and a growing supply overhang triggered a steady price fall into September. In line with these global trends, India's crude oil price also fell from USD 44.19 per barrel in August to USD 40.53 per barrel as on 30th September with consequent declines both in petrol and diesel prices (Figure 40). India's consumption of petroleum products reported growing YoY contraction in July and August 2020 compared to positive growth in June (Figure 41).

Figure 40: Crude oil & Fuel Prices	Figure 41: Consumption of petroleum products
	

Source: PPAC, MoPNG

Current account surplus in Q1 of 2020-21 due to sharp contraction in trade deficit

40. India's current account balance (CAB) recorded a surplus of USD 19.8 billion (3.9 per cent of GDP) in Q1 of 2020-21 compared to a surplus of USD 0.6 billion (0.1 per cent of GDP) in the preceding quarter and a deficit of USD 15.0 billion (2.1 per cent of GDP) in the corresponding quarter of previous year. The surplus was on account of a sharp contraction in the trade deficit driven by steeper decline in merchandise imports relative to exports on a YoY basis. Net services receipts remained stable, primarily on the back of net earnings from computer services. However, private transfer receipts, mainly representing remittances by Indians employed overseas, stood at USD 18.2 billion, a decline of 8.7 per cent from previous year level. Net outgo from the primary income account, primarily reflecting net overseas investment income payments, increased to USD 7.7 billion from USD 6.3 billion a year ago. In the financial account, net foreign direct investment (FDI) recorded outflow of USD 0.4 billion against inflows of USD 14.0 billion in Q1 of 2019-20. Net foreign portfolio investment (FPI) was USD 0.6 billion as compared with USD 4.8 billion in Q1 of 2019-20 as net purchases in the equity market were offset by net sales in the debt segment. With repayments exceeding fresh disbursals, external commercial borrowings to India recorded net outflow of USD 1.1 billion in Q1 of 2020-21 as against an inflow of USD 6.0 billion a year ago. Net inflow on account of non-resident deposits increased to USD 3.0 billion from USD 2.8 billion in Q1 of 2019-20.

Exports rebound and clock positive growth in September for the first time since March, trade deficit narrows with exports recovering faster than imports

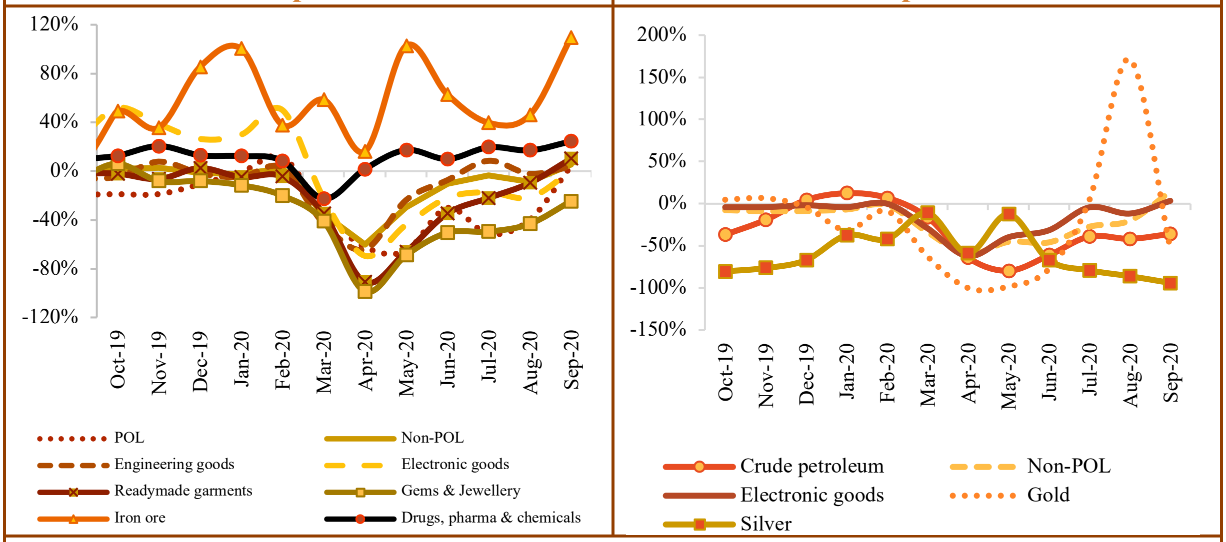
41. With countries across the globe unlocking border restrictions, trading activity had begun to pick up momentum since April. However, global trade activity moderated in August,

indicated by slowdown in Baltic dry index and global new export orders as per global manufacturing PMI.

42. India’s total exports fell marginally to USD 22.7 billion in August compared to July led by decline in non-oil exports, continuing to contract by 12.7 per cent (YoY) in August. However, as per preliminary data in September, India’s merchandise exports rebounded to reach USD 27.40 billion , growing at a positive year-on-year growth of 5.27 per cent. Top five commodities of export which recorded positive growth during September 2020 vis-à-vis September 2019 were Other cereals (304.71%), Iron ore (109.52%), Rice (92.44%), Oil meals (43.90%) and Carpet (42.89%). Value of non-petroleum and non-gems and jewellery exports in September was USD 21.11 billion, a positive y-o-y growth of 11.12 per cent.

Figure 42: Commodity Wise YoY Growth

Exports | **Imports**

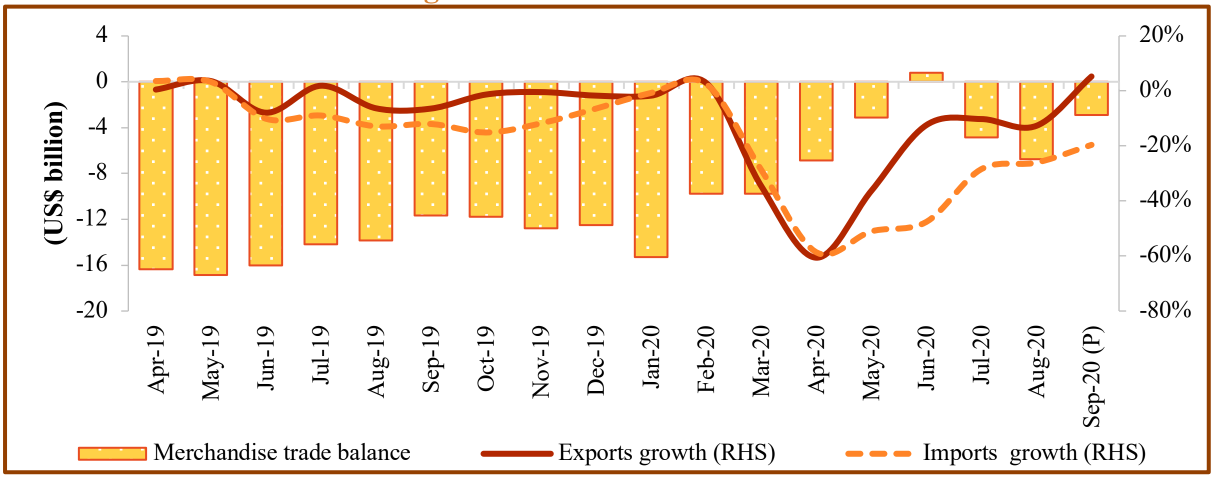


Source: Department of Commerce, Ministry of Commerce & Industry
Note: Data for September is Preliminary

43. Imports rose marginally to USD 29.4 billion in August compared to July, though YoY contraction remained at 26.04 per cent. The recovery in August imports was driven by surge in gold imports, which more than offset a decline in non-oil and non-gold and oil imports. In September, imports further inched up sequentially to reach USD 30.31 billion, a lower year-on-year decline of 19.60 per cent. Oil imports declined marginally to USD 6.4 billion in August compared to July and further to USD 5.82 billion in September. Gold imports after surging in August declined by 52.85 per cent year-on-year in September. Imports of electronic goods gained traction in September and grew by 3.46 per cent. Demand for gold and gems & jewellery is likely to pick up over the upcoming festive season.

44. Consequently, trade deficit after widening from USD 4.8 billion in July to USD 6.8 billion in August narrowed to USD 2.91 billion in September (Figure 43).

Figure 43: Merchandise Trade

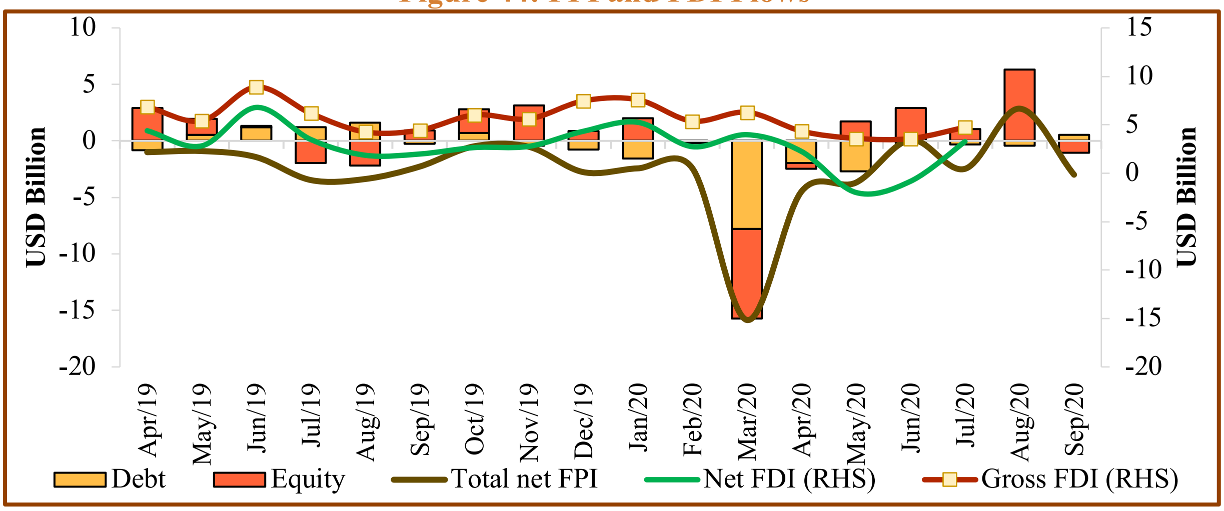


Source: Department of Commerce, Ministry of Commerce & Industry
Note: P stands for Preliminary

Robust FDI inflows in July and resurgence in portfolio debt appetite in September

45. On the financing side, net foreign direct investment (FDI) recorded an inflow of USD 3.3 billion in July compared to an outflow of USD 0.8 billion in June. Gross inflows increased from USD 3.6 billion in June to USD 4.7 billion in July. India garnered the highest foreign portfolio inflows in the first half of 2020 compared to its emerging market peers. While July and August witnessed record capital raising by leading domestic firms and low global interest rates, net FPI flows moderated to record an outflow of USD 0.33 billion in September owing to uncertainty around the pace of economic recovery and rising COVID cases in Europe and other countries including India. Recent outflows in equities signal heightened volatility in global markets. However, reversal of selling spree in debt markets in September is a welcome change possibly triggered by low global bond yields (Figure 44).

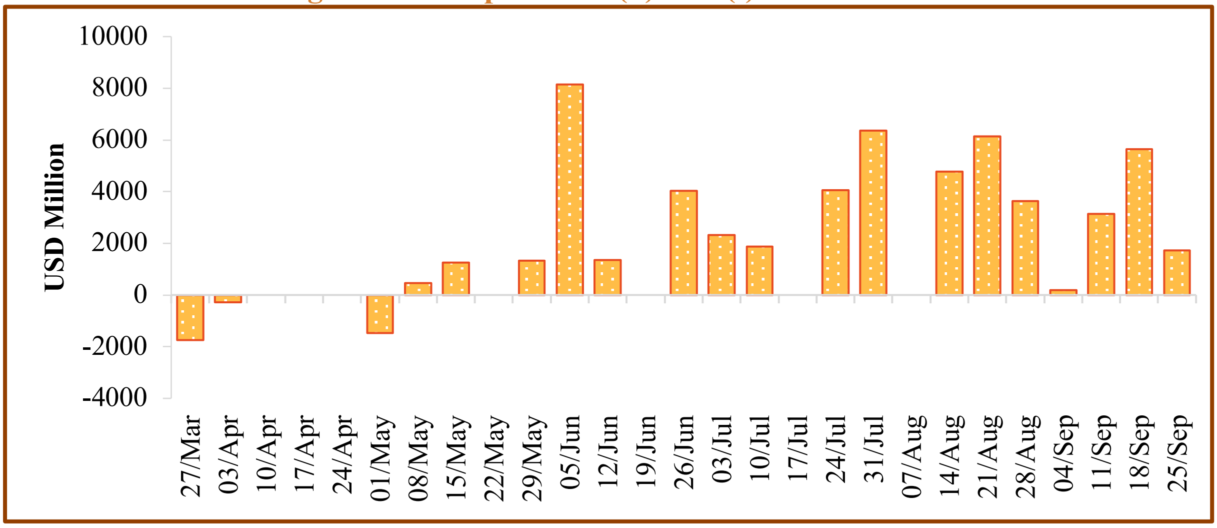
Figure 44: FPI and FDI Flows



Source: CSDL & RBI

46. RBI continues to intervene in forex market to prevent excess rupee appreciation and market volatility (Figure 45). Rupee depreciated in late September to reach 73.79 INR/USD as on 30th September after having witnessed appreciation in the last week of August. This may be explained by heightened uncertainty to economic outlook from the second wave of COVID, US presidential elections and the US stimulus package attracting investors towards US dollar. India's foreign exchange reserves continued to climb up suggesting RBI's concerted efforts towards jointly maintaining financial openness along with financial stability. India's foreign exchange reserves reached US$ 542.02 billion (as on September 25, 2020) – equivalent to more than 13 months of imports.

Figure 45: Net purchase (+)/sale (-) of US dollar



Source: RBI

47. India's external debt stood at USD 554.5 billion at end-June 2020, recording a decrease of USD 3.9 billion over its level at end-March 2020. The external debt to GDP ratio increased to 21.8 per cent at end-June 2020 from 20.6 per cent at end-March 2020. Commercial borrowings remained the largest component of external debt, with a share of 38.1 per cent, followed by non-resident deposits (23.9 per cent) and short-term trade credit (18.2 per cent). Long-term debt (with original maturity of above one year) declined by USD 2.0 billion over its level at end-March 2020 to reach USD 449.5 billion at end-June 2020. The share of short-term debt (with original maturity of up to one year) in total external debt declined to 18.9 per cent at end-June 2020 from 19.1 per cent at end-March 2020. The ratio of short-term debt (original maturity) to foreign exchange reserves declined to 20.8 per cent at end-June 2020 (22.4 per cent at end-March 2020). US dollar denominated debt remained the largest component of India's external debt, with a share of 53.9 per cent at end-June 2020, followed by the Indian rupee (31.6 per cent), yen (5.7 per cent), SDR (4.5 per cent) and the euro (3.5 per cent).

Systemic liquidity continues to be in surplus

48. With conventional and unconventional measures adopted by RBI, domestic financial conditions have eased substantially and systemic liquidity remains in large surplus (Figure 46). Cumulatively, these measures injected liquidity of the order of Rs. 9.57 lakh crore or 4.7 per cent of GDP. Reflecting these developments, reserve money growth remained steady at 14.4 per cent on a year-on-year basis (as on September 25, 2020) as compared to 14.7 per cent as on August 28, 2020. Growth in money supply (M3) rose to 13.4 per cent (as on September 11, 2020) as compared to 12.6 per cent a month ago (as on August 14, 2020), driven by a precautionary demand led surge in currency with the public (23.4 per cent). The liquidity surge and risk-aversion was also reflected in deposits growth picking up. While demand deposits rose sharply to 14.7 per cent year-on-year (as on September 11, 2020) as compared to 10.8 per cent a month ago (as on August 14, 2020), time deposits growth also rose to 11.4 per cent vis-à-vis 10.9 per cent growth in the corresponding period of previous month(Figure 47).

Figure 46: Liquidity Injection (+)/Absorption (-)

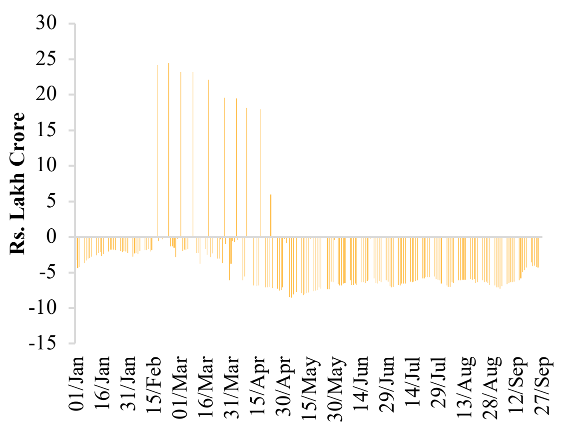
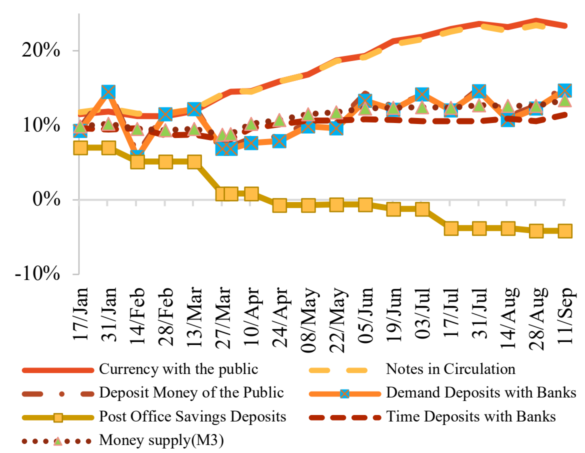


Figure 47: Money Stock and its Components

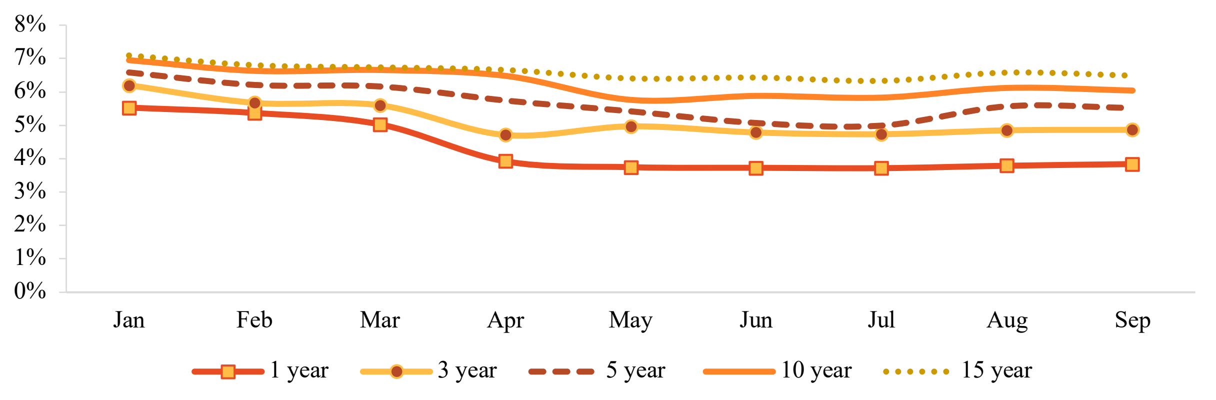


Source: RBI

Bond yields remain in check, stiffening pressures in end-September

49. Despite rise in borrowings of Central and State governments, bond yields have remained in check owing to multiple measures of RBI such as Operation Twist, repurchase and OMO operations and relaxation in rules on HTM limits for banks. With illiquidity premia dissipating under the impact of these measures, spreads of 3-year AAA-rated corporate bonds over similar tenor government securities have also declined from 246 basis points at end-April to 70 basis points in end-September. Notwithstanding these measures, 10-year benchmark bond yields moved back to above 6 percent territory in late September, reflecting continued volatility in bond markets (Figure 48).

Figure 48: G-sec Yields across tenors

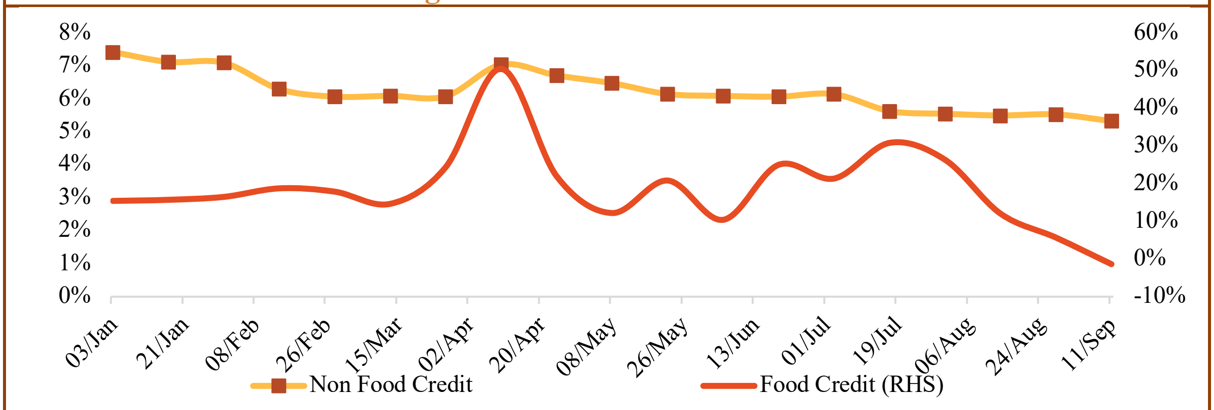


Source: FBIL & CCIL

Overall credit growth continues to remain muted, uptick in credit growth to medium enterprises and trade services

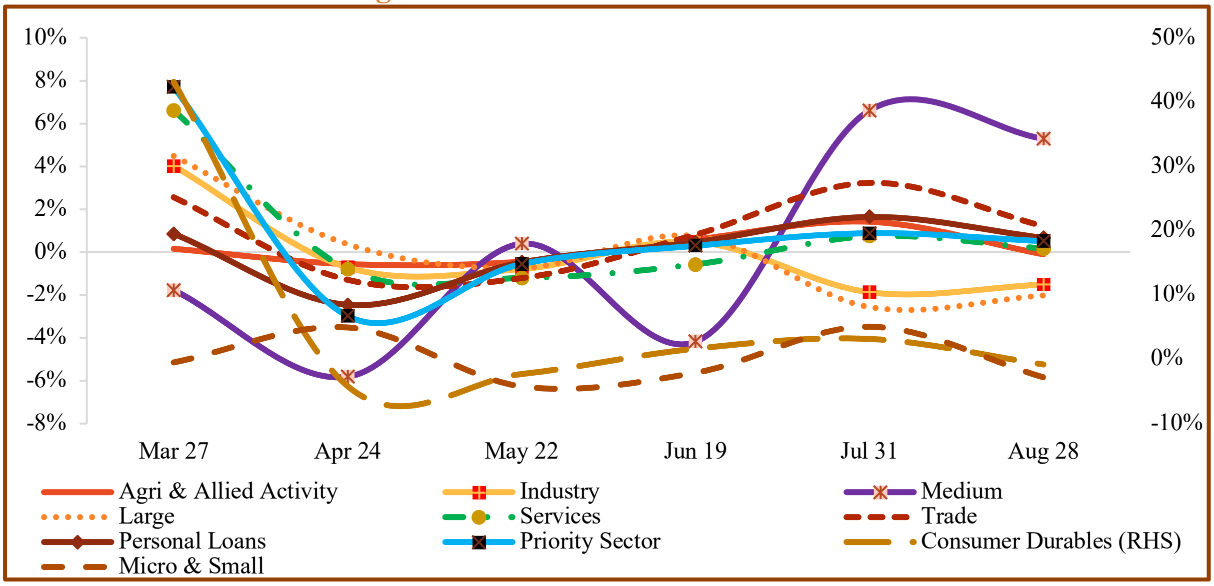
50. Bank credit growth continued to moderate in the first six months of this year to reach 5.3 per cent as on 11th September 2020 (Figure 49). Bank credit to commercial sector recorded a growth of 5.4 per cent mirroring weak credit demand and increased risk aversion in the banking system. However, credit growth to medium enterprises picked up to 2.8 per cent as on 28th August as compared to (-)3.1 per cent as on 31st July. While credit growth to services sector from 10.1 per cent YoY in July to 8.6 per cent in August, credit to trade services picked up significantly to record 12.5 per cent YoY growth. Growth in personal loans moderated in August, albeit consumer durables and vehicle loans (Figure 50). The overall credit to medium enterprises and credit to micro and small enterprises under priority sector lending in August may be attributed to the Emergency Credit Line Guarantee Scheme announced in May under the 20 lakh crore Atma-Nirbhar package of the Government and RBI's liquidity support measures. As on 29 September 2020, the total amount sanctioned under the Scheme by Public Sector Banks (PSBs) and private banks to MSMEs and individuals stands at Rs 1.86 lakh crore, of which Rs 1.32 lakh crore has already been disbursed.

Figure 49: Credit Growth YoY



Source: RBI

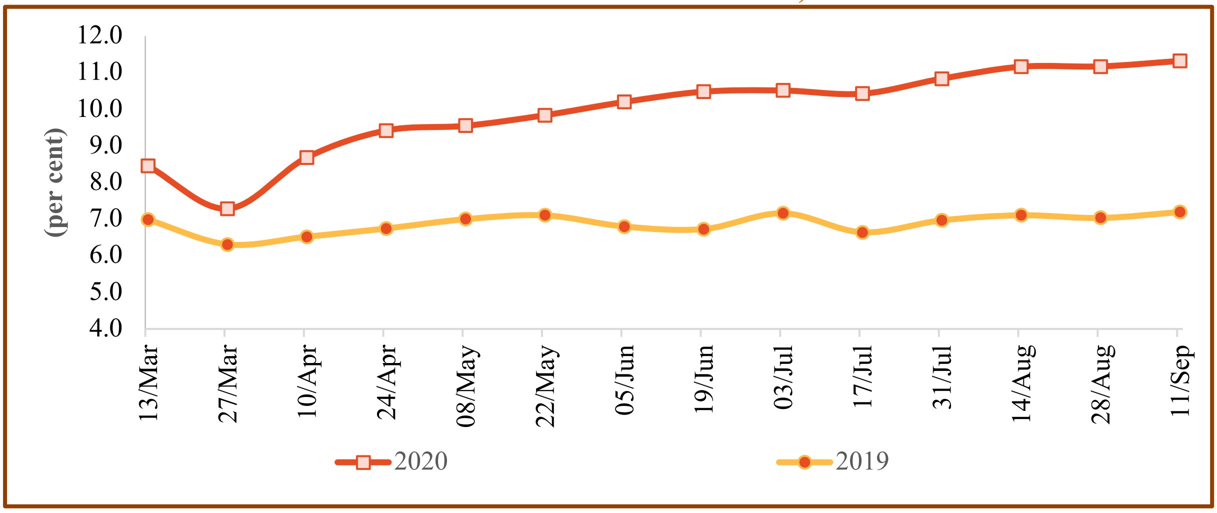
Figure 50: Sector wise Credit Growth



Source: RBI

51. The widening deposit-credit gap is being filled by rising bank investments in Government Securities, year-on-year growth in which stood at 22.1 per cent as on Sep 11 2020 as compared to 3.3 per cent for the corresponding period of 2019-20. Banks continued to hold excess SLR portfolio, standing at 11.3 per cent in the fortnight ending 11th September (Figure 51).

Figure 51: Excess Statutory Liquidity Ratio of Banks (as percentage of their Net Demand and Time Liabilities)



Source: RBI

Improving monetary policy transmission

52. Strong liquidity interventions via LAF route by RBI have enabled improved monetary policy transmission. Interest rates on instruments like the 3-month Treasury bill, Commercial Papers (CPs) and certificates of deposit (CD) have fully priced in the reduction in the policy

rate and are, in fact, trading below it in the secondary market. Rates of CDs in the fortnight ending 11 September 2020 stood at 4.07-4.40 per cent as compared to 3.44 - 6.37 per cent in the previous fortnight. CP yields declined sharply on the higher end from 3.17-13.14 per cent in the fortnight ending 31 August to reach 3.10-8.87 per cent in the fortnight ending 15 September. Overnight Marginal Cost of Lending Rate (MCLR) stood at 6.65/7.15 per cent as on 25 September 2020 as compared to 6.65-7.20 per cent as on 28 August 2020 and 7.80/8.30 per cent as on September 27 2019.

Increase in fiscal deficit-an outcome of inevitable increase in government spending to arrest contraction in growth momentum

53. The Central Government has retained its target of borrowing of Rs. 12 lakh crore for FY 2020-21 and the second half borrowing programme is expected to be completed by January 2021 to help generate sufficient space to manage the borrowing programme of the State Governments smoothly. Gross market borrowings by the Centre rose to Rs. 7.36 lakh crore upto 25th September, 2020, i.e. 1.73 times the amount raised in the last year. Gross borrowing of States stood at 1.44 times the amount raised in 2019-20 (Figure 52). At the end of August 2020, fiscal deficit stood at Rs. 8.70 lakh crore which is 109.3 per cent of BE compared to 78.7 per cent during the first five months of fiscal year 2019 (Figure 53). The interruption in economic activity due to COVID-19 has led to shortfall in revenue collections. Net tax revenue collections stood at 17.4 per cent of BE compared to 24.5 per cent in the corresponding period of previous year. Personal Income Tax collections upto August end amounted to Rs. 1.17 lakh crore, compared to Rs. 1.65 lakh crore in the corresponding period of previous year. Non-debt capital receipts stood at Rs. 6663.80 crore which is 3.0 per cent of BE compared to 15.0 per cent last year. On the expenditure side, capital expenditure stood at Rs. 1.34 lakh crore, 32.6 per cent of BE as compared to 40.3 per cent last year. Revenue expenditure was Rs. 11.13 lakh crore, 42.3 per cent of BE compared to 42.4 per cent in corresponding period of 2019-20.

Figure 52: Gross Market Borrowings-Centre & States

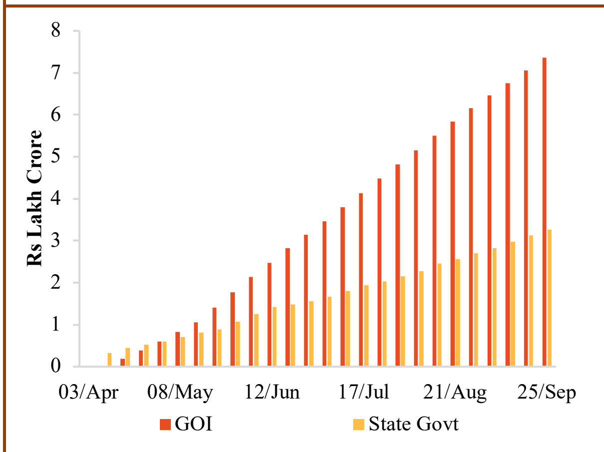
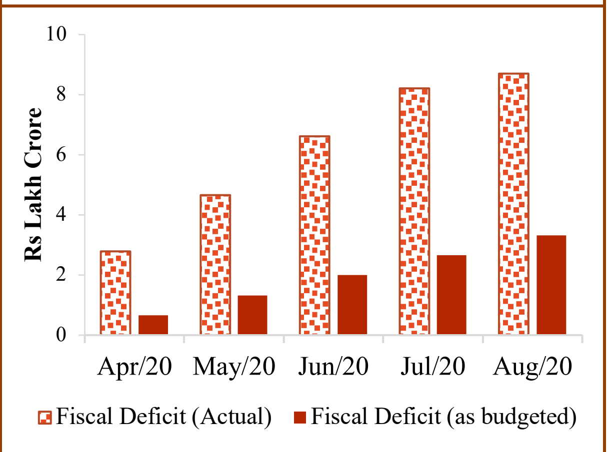


Figure 53: Cumulative Centre's Fiscal Deficit



Source: RBI

54. First batch of Supplementary Demand for Grants was passed in the Monsoon session of Parliament involving a gross additional expenditure of Rs 2.35 lakh crore and net cash outgo of Rs 1.66 lakh crore. Key expenditure areas included for supplementary demand for grants FY 2020-21 are agricultural subsidies, MGNREGS, Post-Devolution Revenue Deficit Grant, States Disaster Relief Fund and Pradhan Mantri Garib Kalyan Yojana. Despite the resource constraints, gross expenditure of another Rs. 68,868 crore will be borne out of savings of the Ministries/Departments or by enhanced receipts/recoveries, signaling expansion of the budget size for FY 2020-21. The supplementary demand also includes Rs 20,000 crore for infusion into state-run banks to facilitate further lending.

Centre continues to lend unflinching support to State Governments towards faster economic revival

55. Despite the pandemic and the fall in gross tax revenue to Rs 5.04 lakh crore in the April-August period from as much as Rs 6.6 lakh crore a year before, the tax devolution to states stood at Rs 2.17 lakh crore in the first five months of this fiscal, compared with Rs 2.55 lakh crore in the previous year.

56. In view of the unprecedented COVID-19 pandemic the Central Government had in May, 2020 allowed additional borrowing limit of up to 2 percent of Gross State Domestic Product (GSDP) to the States for the year 2020-21. This amounted to Rs. 4.27 lakh crore available to the States, 1 per cent of which is subject to implementation of four specific State level reforms. The remaining additional borrowing limit of 1 per cent was to be released in two instalments of 0.50 percent each - first immediately to all the States as untied, and the second on undertaking at least 3 out of the 4 specified reforms. The Government of India has already granted permission to States to raise the first 0.50 percent as OMB in June, 2020. This made an additional amount of Rs.1,06,830 crore available to the States. As on 24th September, Ministry of Finance has granted permission to raise additional financial resources of Rs. 9,913 crore to five States through Open Market Borrowings (OMBs) i.e. Andhra Pradesh, Telangana, Goa, Karnataka and Tripura after these States successfully met the reform condition of implementation of One Nation One Ration Card System. As on 2nd October, additional borrowing permission of Rs. 7,376 crore has been granted to two more States, Uttar Pradesh & Andhra Pradesh for successfully undertaking reforms in the Public Distribution System (PDS) and Ease of Doing Business, respectively.

Tax relief measures under a transparent taxation ecosytem

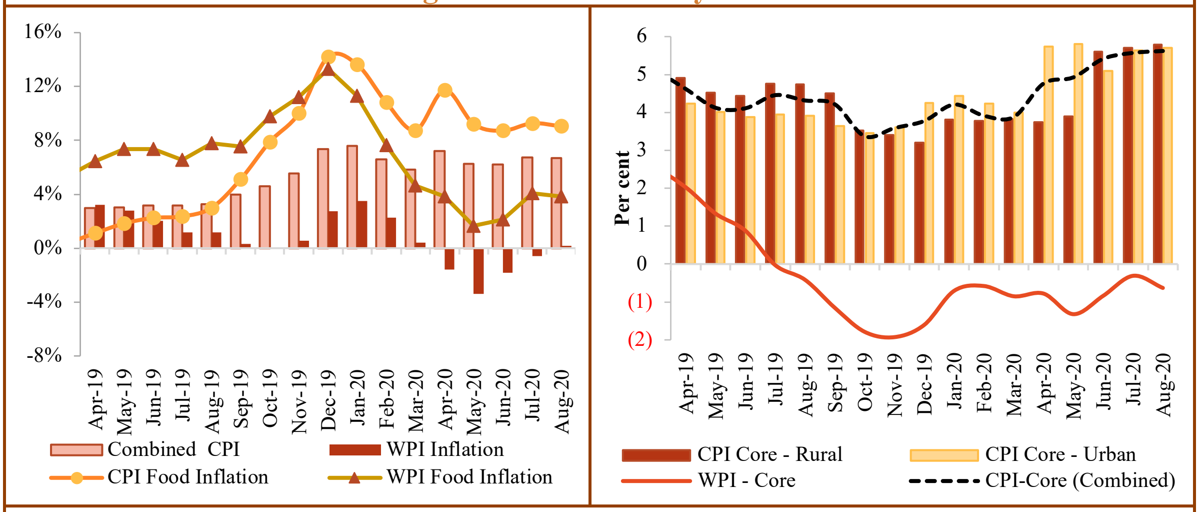
57. Between 1st April, 2020 to 29th September, 2020, CBDT has issued refunds of over Rs. 1,18,324 crore to more than 33.54 lakh taxpayers, with income tax refunds of Rs. 32,230 crore issued in 31,75,358 cases and corporate tax refunds of Rs. 86,094 crore in 1,78,540 cases. Government on 13th August, 2020 launched the Faceless Assessment and Taxpayers' Charter

as part of "Transparent Taxation - Honoring the Honest" platform. Subsequently, the Income Tax Department launched Faceless Income Tax Appeals on September 25, 2020. Under this system, all Income Tax appeals will be finalised in a faceless ecosystem with the exception of appeals relating to serious frauds, major tax evasion, sensitive & search matters, International tax and Black Money Act. The new system will be instrumental in imparting greater efficiency, transparency and accountability in the functioning of the Income Tax Department.

Prices under pressure amid local lockdown induced supply disruptions, likely to smoothen out as the economy opens up further

58. India's retail inflation climbed up from 6.23 percent in June to 6.73 per cent in July but has moderated to 6.69 per cent in August. The high inflation is sustained by food prices accounting for half of the CPI basket although food inflation also declined from 9.27 percent in July to 9.05 percent in August (Figure 54). The price pressures have arisen from persistent supply chain disruptions more than offsetting weak demand. Disruption in food supply was caused by re-imposition of lockdowns in many cities that restricted food cargo movement. Heavy rains in agrarian states also affected supply of food grains. However, as per RBI's latest MPC statement, headline (CPI) inflation is expected to remain elevated in the first half of 2020-21 but likely to ease in the second half. A more favorable food inflation outlook may emerge in the coming months with bumper Rabi harvest and improving management of food surplus that may ease prices of cereals. Price stabilization in crude and retail fuels in August and September is also likely to ease incremental pressures on headline inflation. With WPI inflation entering the positive territory in August at 0.16 percent as compared to (-) 0.58 in July and (-) 1.81 per cent in June, the build-up of demand pressure in the economy has been continuous since the April-June quarter of 2020.

Figure 54: Inflation Dynamics



Source: MoSPI, Office of Economic Advisor

Outlook

59. The sustained spread of the virus poses a downside risk to short-term and medium-term growth rate. To combat these risks, the Government has strategically undertaken various important structural reforms encompassing various sectors. These will strengthen the fundamentals of the economy towards a strong and sustainable long-term growth. The enabling policy environment and initiatives taken by all stakeholders to seize the available opportunities will actualise the growth potential of the Indian economy. In its latest review, S&P Global Ratings have retained India's investment grade (BBB-) credit rating with stable outlook as it expects the country's economy and fiscal position to stabilize and begin to recover from 2021 onwards. India's probable growth path is visible in this assessment.

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