India Economic Pulse

Economic indicators and policy measures

November 2020

ENTER

Building a better working world

Contents

Executive summary

Dear Reader,

We are pleased to bring to you the first issue of **'India Economic Pulse'**. Prepared by the EY Tax and Economic Policy Group, 'India Economic Pulse' decodes high frequency monthly economic indicators and the direction of Government thinking to make them more relevant for your business.

This issue highlights that large parts of the economy have recovered to levels in the same period of the previous year. Rural economy, manufacturing, energy consumption, rail and road freight transportation, merchandise imports and exports and consumption of some services have almost fully recovered.

Businesses in sectors like real estate, hospitality and travel industries continue to be pandemic impacted. Data on home loans, auto loans, credit card debt and other personal loans suggests cautious consumer behaviour. Despite measures taken by the RBI, there is no increase in net credit from scheduled commercial banks suggesting a stalled investment cycle. Further, the production of capital goods have been significantly lower than in previous years.

Emerging economic scenario

- **Change in capital mix -** While there is no credit growth, funds are flowing into India i.e., through FDI and in domestic capital markets.
- **Pressure on public finance –** While tax revenues have now picked up, due to the slowdown in economic activity in previous months, revenue collection is still about 17% lower for the Centre for the period April-October 2020 as against the same period last year. Similarly, the States' revenues are lower by 10 to 30% during April to September 2020 as against the previous year. Given likely expenditure commitments, for instance, recapitalization of public sector banks, the fiscal stimulus by Government may be limited to avoid the risk of a downgrade.
- **Forex reserves are comfortable.** It is reassuring that forex reserves have been increasing and are at comfortable levels.
- **Food inflation is high.** Food inflation is at 10% currently. Future inflation is likely to impact RBI's present accommodative stance on interest rates.
- **Government focus is on attracting investments.** The Government has focussed on structural reforms and has been addressing supply side issues across sectors. It is actively seeking foreign and private investment. The outcome would probably be seen in the medium to long term.

Multiple agencies currently estimate a contraction in the Indian economy by around 7.5% to 10%. These estimates are likely to be revisited in view of the recently released economic numbers for second quarter of the current fiscal year.

Economic recovery will be contingent on how India and the world is able to manage the pandemic impact in terms of health infrastructure and distribution of vaccine.

Best regards,

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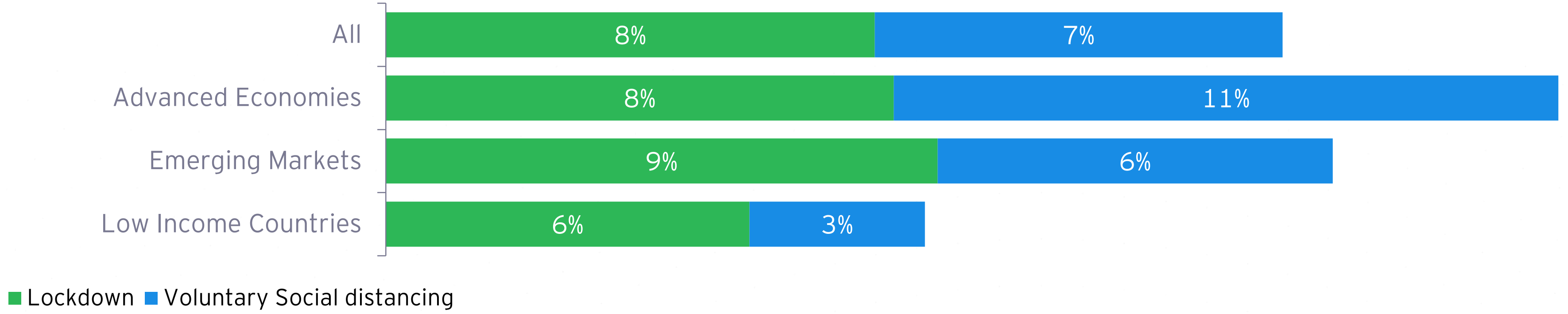
EY India

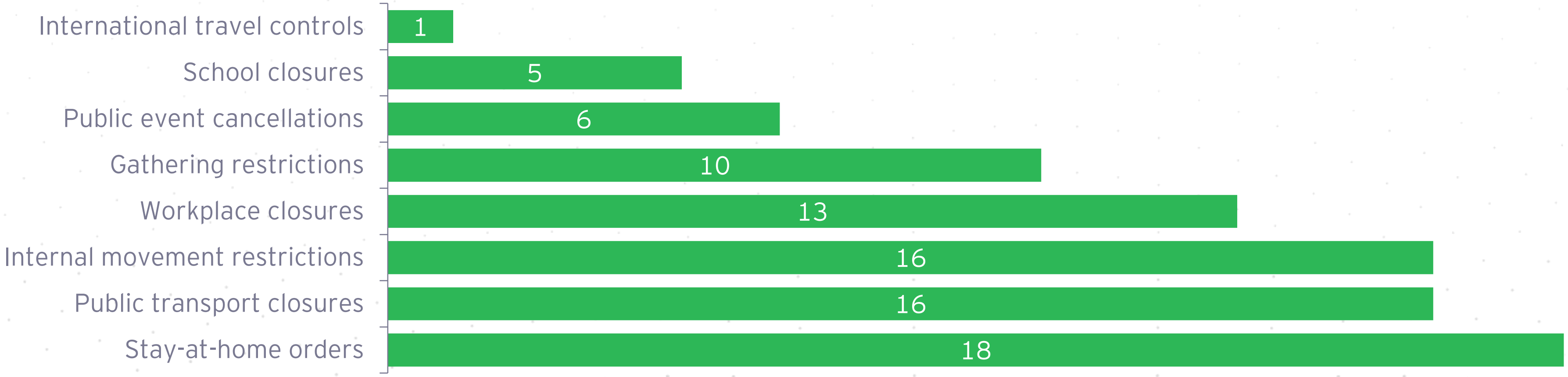
Rajnish Gupta
Associate Partner
EY India

Lockdown vs voluntary social distancing— impact

Relative economic impact on mobility and jobs during the first 3 months of a country's epidemic



Sequencing of lockdown measures (globally) -- number of days after the first COVID case



Note: Based on a study published by IMF in the World Economic Outlook, October 2020.
Economic effects of lockdowns and voluntary social distancing has been estimated by using two high-frequency indicators (mobility data and job openings) as proxies for economic activity for 128 countries
Source: Google Mobility Data, Oxford's COVID-19 Response Tracker and IMF Staff calculations

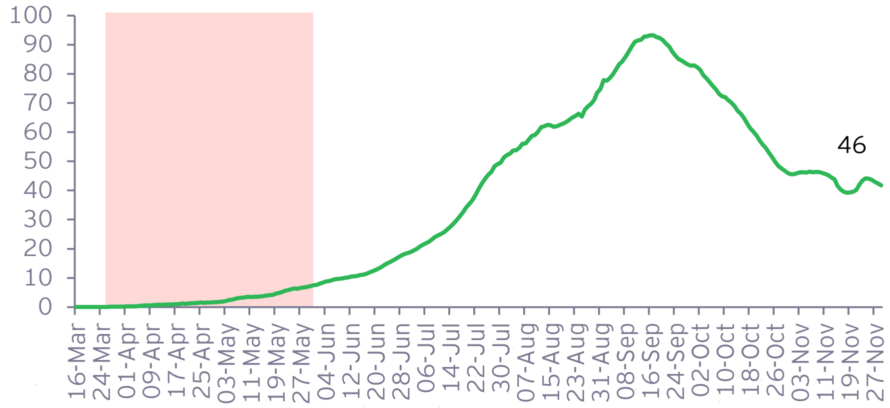
Key findings

- Economic activity has been impacted by voluntary social distancing and Government lockdowns.
- Lifting of lockdowns may not result in economic normalcy. If infections continue, people may still follow voluntary social distancing.
- The difference in the impact of social distancing between countries by income reflects inability of the poor to sustain temporary income loss from financial savings.

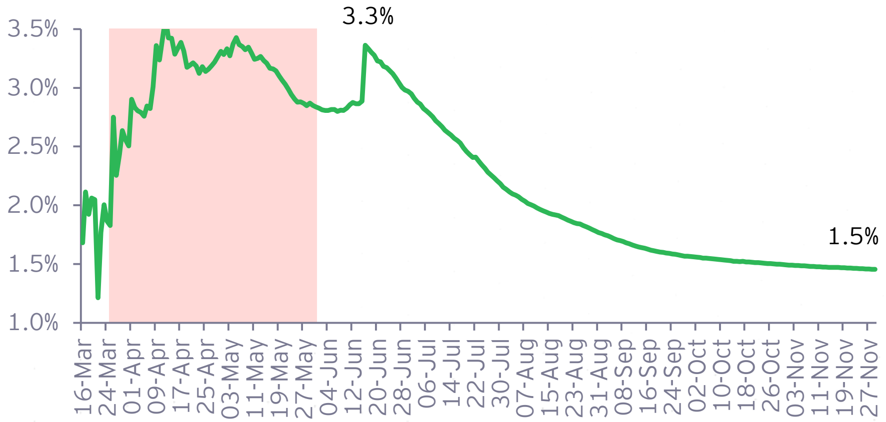
Tracking the spread of COVID-19 cases in India

COVID impact

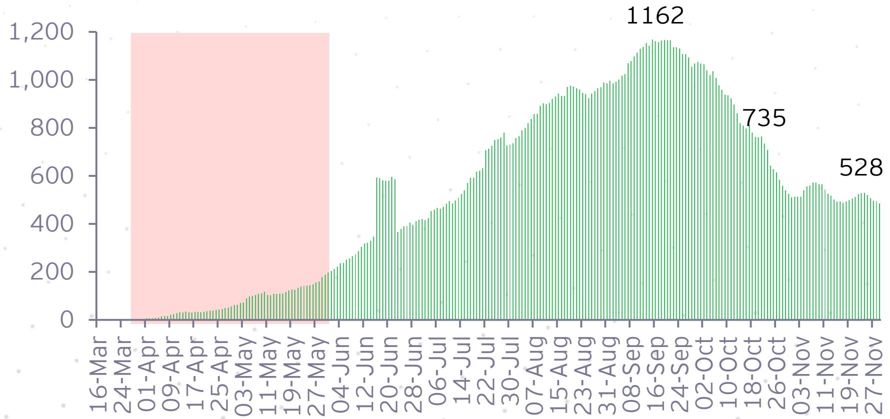
Daily new confirmed COVID-19 cases (7-day rolling average) (in '000s)



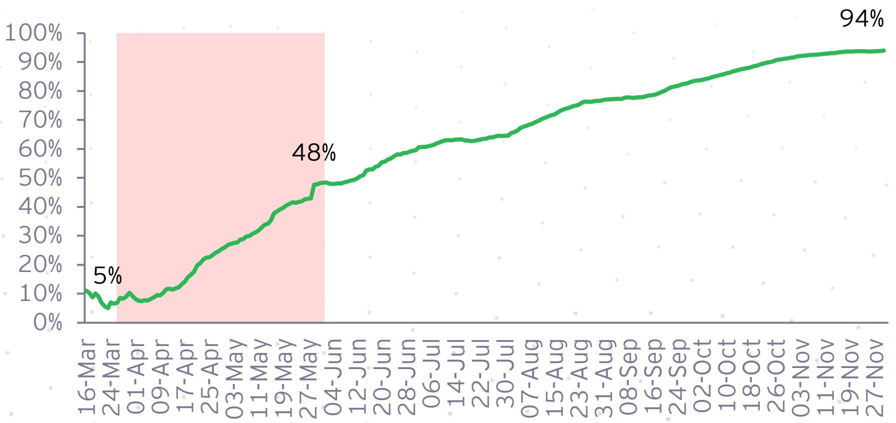
Fatality rate (%)



Daily new confirmed COVID-19 deaths (7-day rolling average)



Recovery rate



Source: Our World in Data, COVID19 India, Data available as on 30th November 2020

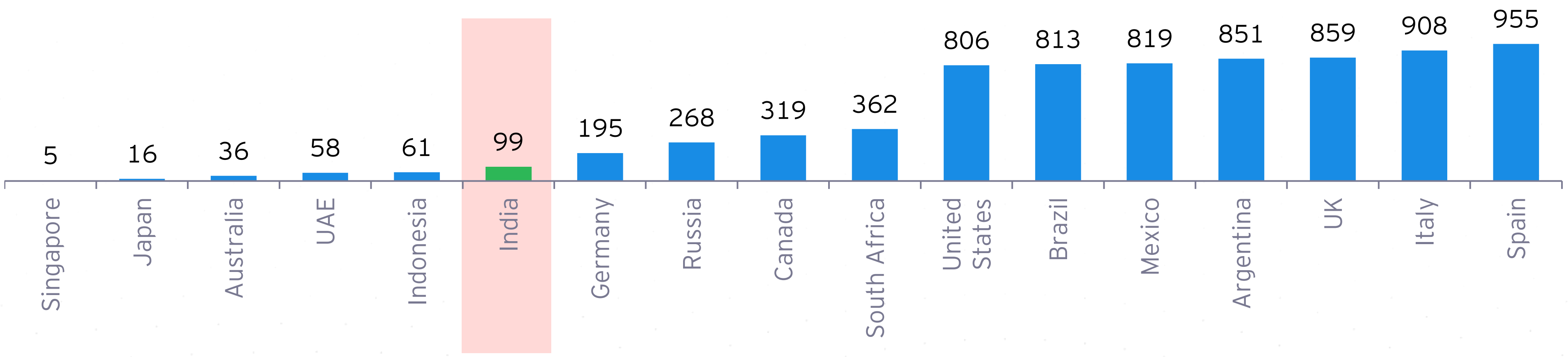
Key findings

- Economic recovery would depend, first and foremost, on COVID-19 spread.
- All parameters suggest that India has moved past the peak for COVID cases and peak fatality rate. However, there continues to be a significant number of new cases and deaths on account of COVID.
- Both Government-mandated and voluntary social distancing are likely to continue, although in a milder way.

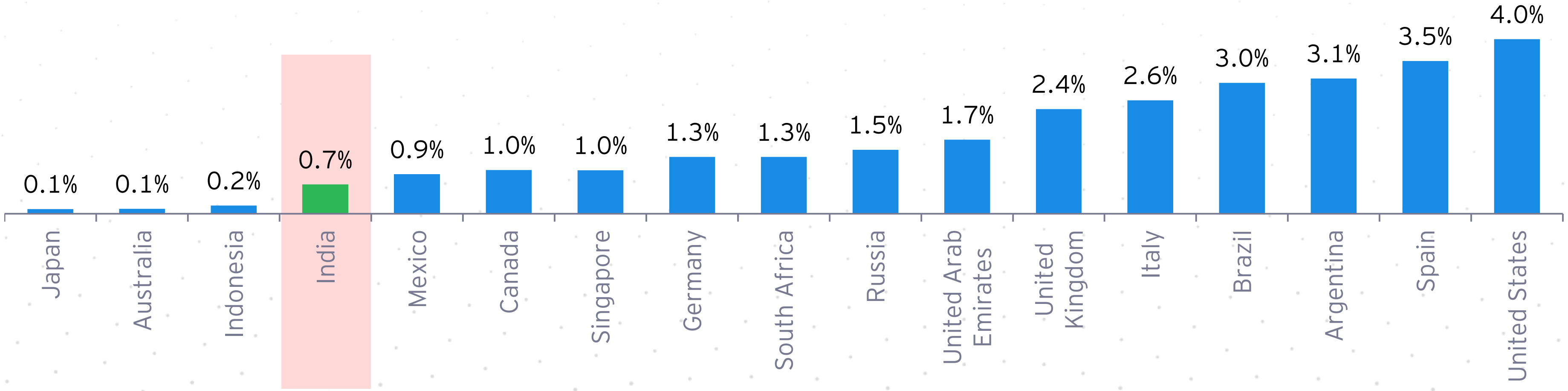
COVID-19: comparing India to the world

COVID impact

Total deaths per million



Total cases per capita



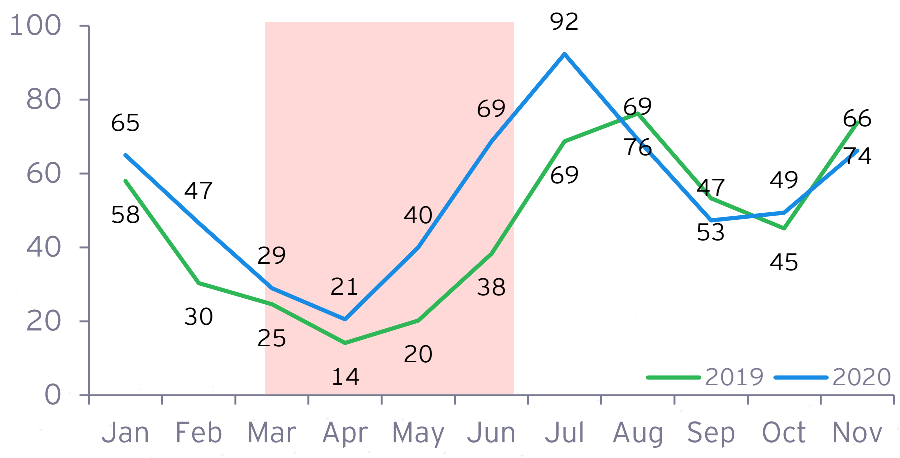
Source: Our World in Data. Data available as on 30th November 2020

Key findings

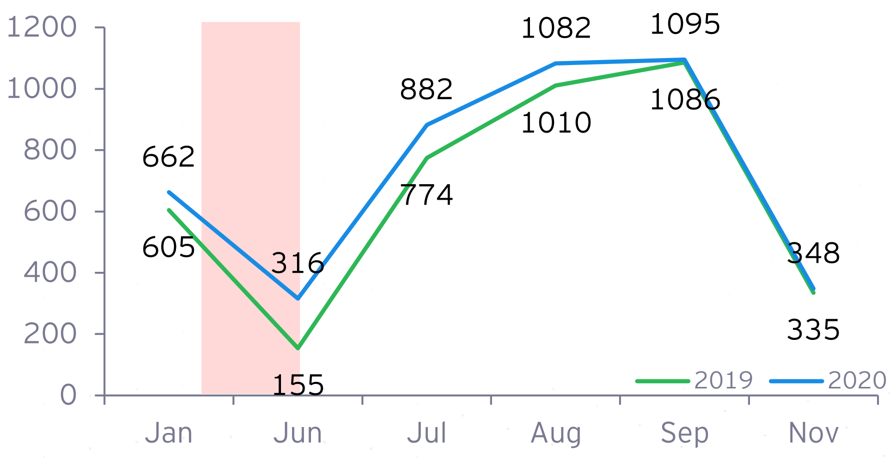
- On a per capita basis, India has done better than most other countries, both in number of fresh COVID cases as well as deaths.
- The actual infections, however, could be much higher than the official count for India and other countries, as some of the cases may not have been reported.
- Various European countries like France and Spain are undergoing a second wave of COVID-19 cases which serves as a warning for India.

Rural economy indicators

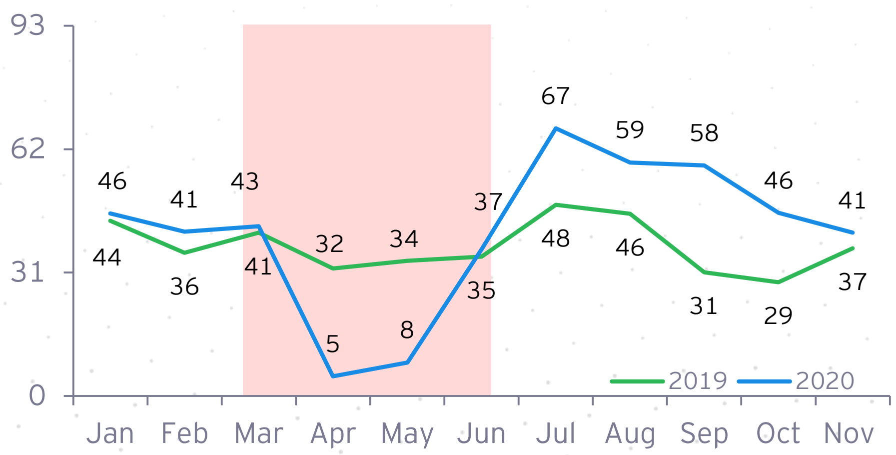
Fertilizer sales (lacs MT)



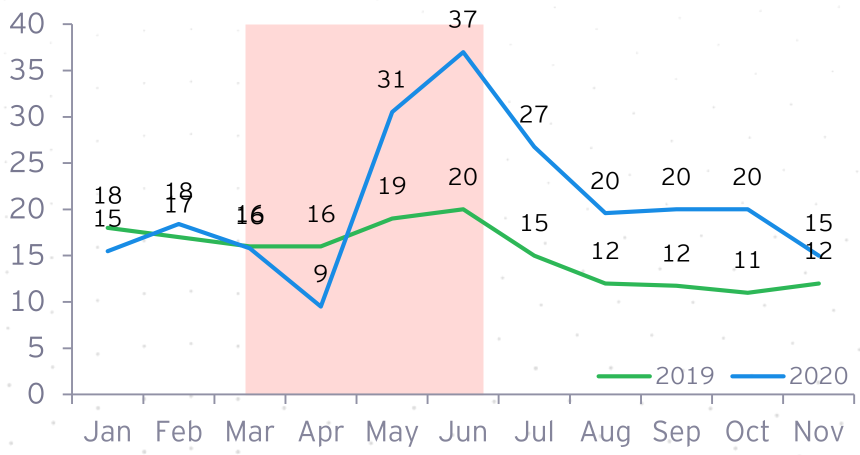
Net Crop Sown Area (lac hectares)



Tractor sales (No. of units in ‘000)



Households worked under MNREGA (in millions)



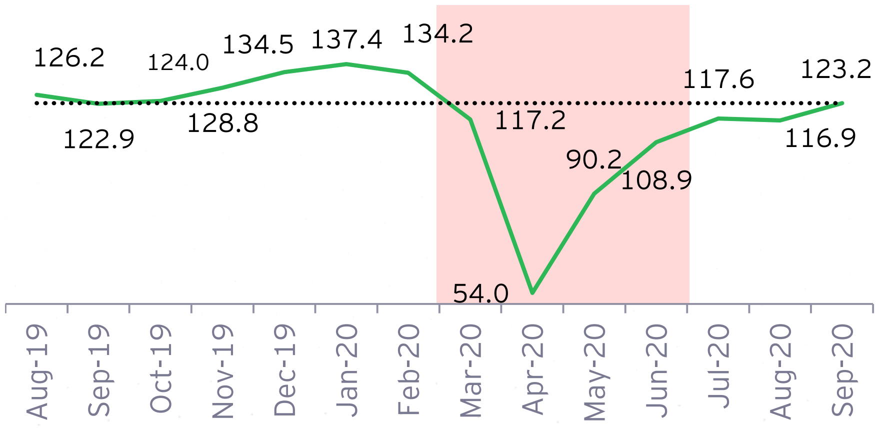
Source: Ministry of Road Transport and Highways, Ministry of Agriculture & Department of Fertilizers, MNREGA
Data for Net Crop Sown Area available as on 30th November 2020

Key findings

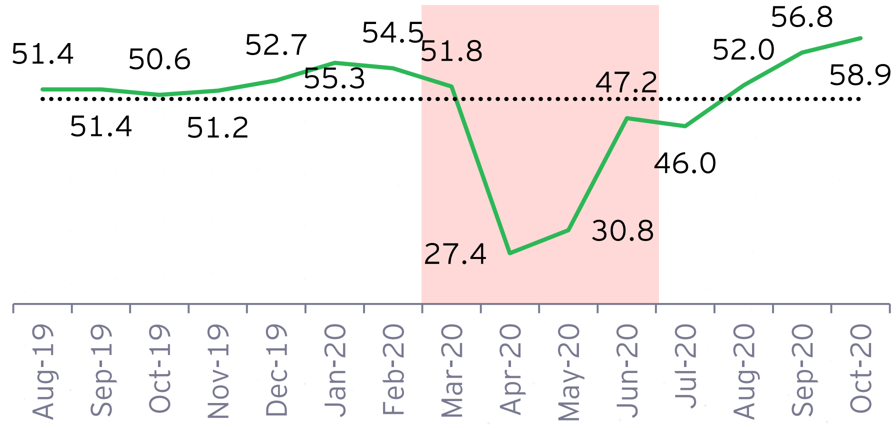
- Rural economy is showing signs of recovery and possibly positive economic growth, led by agriculture.
- Recent growth in tractor sales has compensated for the lull in the lockdown period. Combined tractor sales during April-October 2020 have grown by 8% over last year. This shows increasing confidence of farmers.
- Growth in fertilizer sales and net crop sown area suggests that agriculture sector is likely to show positive growth this year.
- After an initial push in rural works programme (MNREGA) from May onwards, the demand is going down as people are going back to their original jobs.

Overall manufacturing indicators

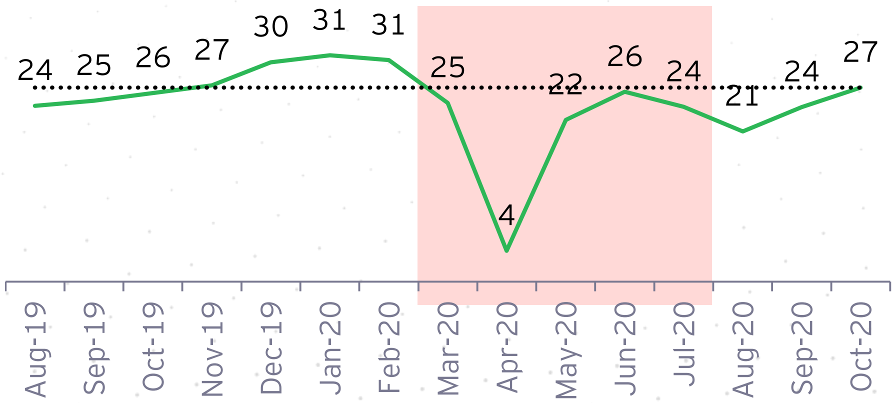
General index of industrial production



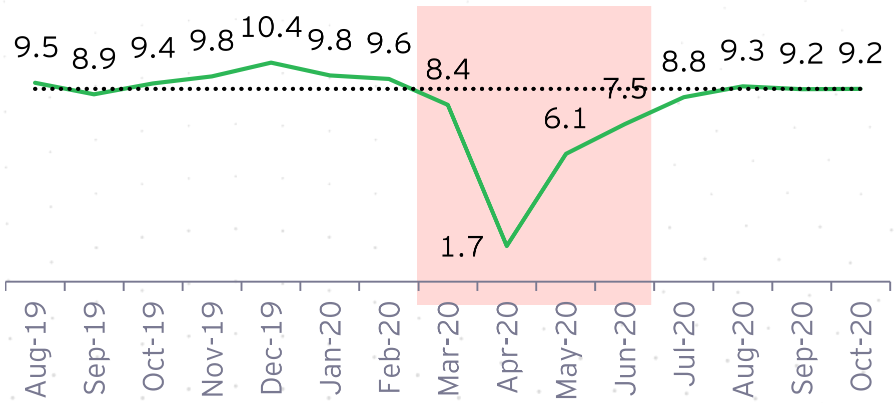
PMI manufacturing



Cement production (in million tonnes)



Crude steel production (in million tonnes)



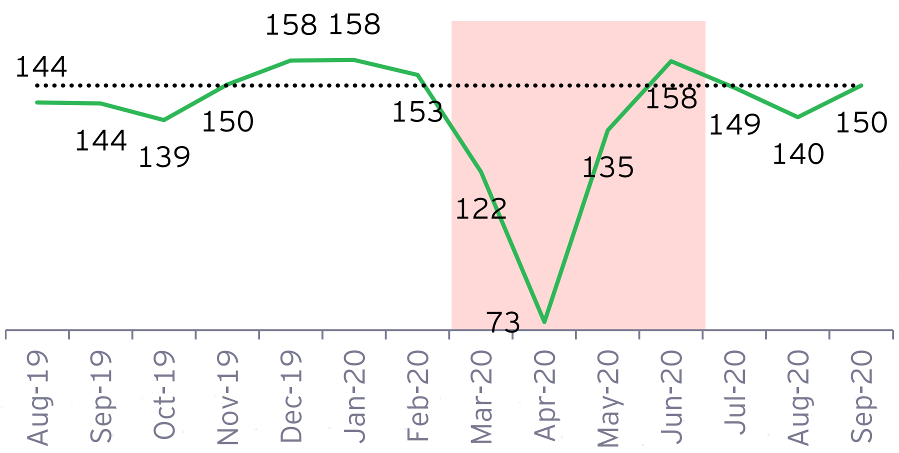
Note: PMI >50 indicates expansion, <50 indicates contraction
Source: IHS Markit, DPIIT, RBI
IIP Base: 2011-12=100

Key findings

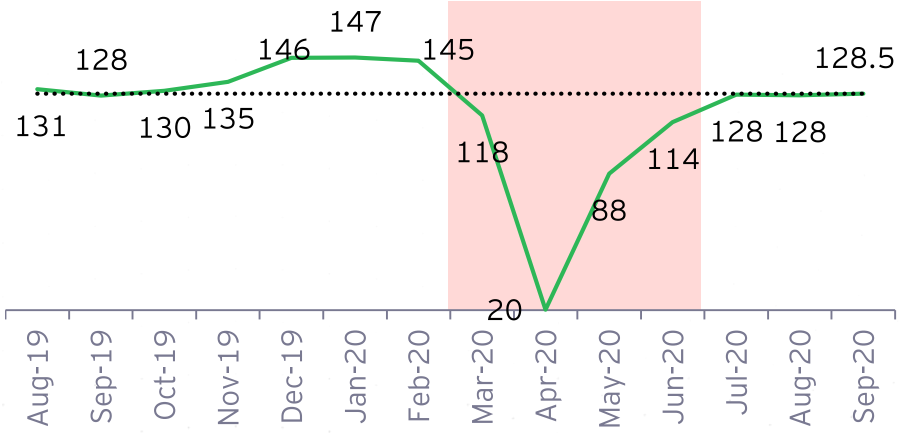
- Manufacturing sector has touched the levels of the corresponding period of the last year with y-o-y growth in overall industrial production index of 0.2% in September 2020.
- The latest reading of the purchasing manufacturers Index (PMI) also suggests a recovery.
- The key question is whether the growth is sustainable, or, temporary due to pent-up demand and inventory build-up.

Manufacturing indices for consumer non-durables, consumer durables, intermediate goods and capital goods

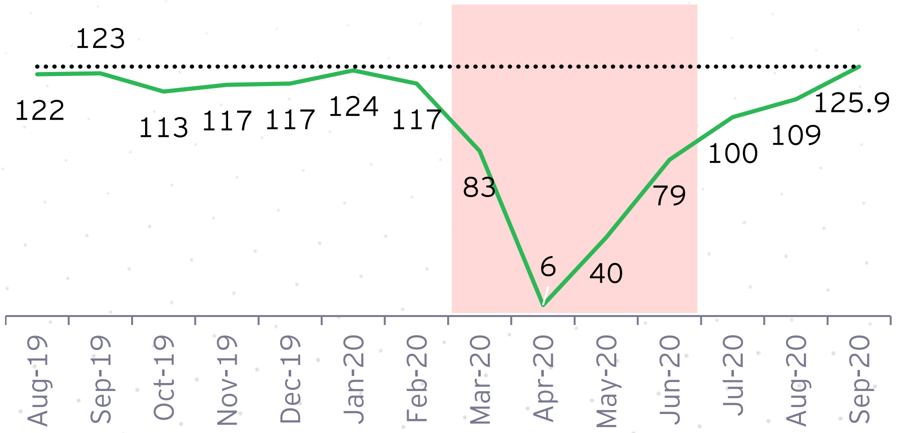
Consumer non-durables



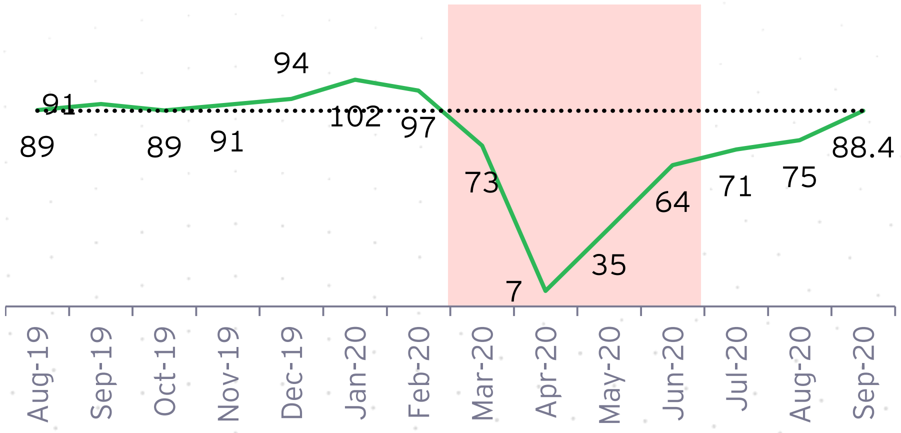
Infrastructure/ Construction Goods



Consumer Durables



Capital Goods



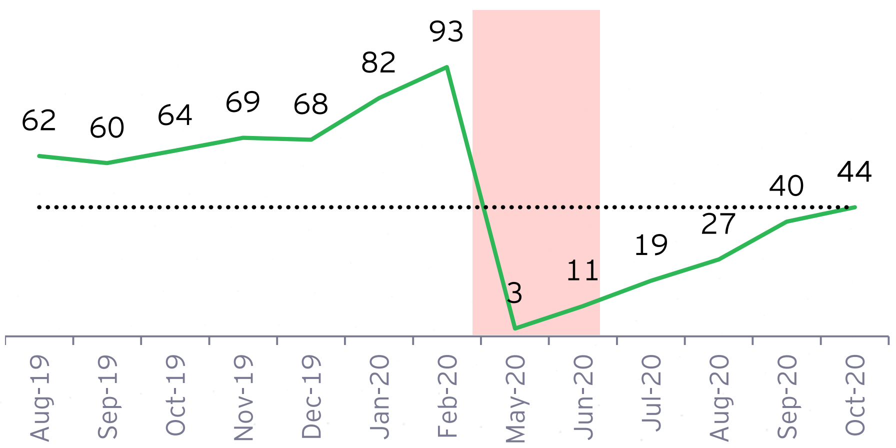
Source: RBI
IIP Base: 2011-12=100

Key findings

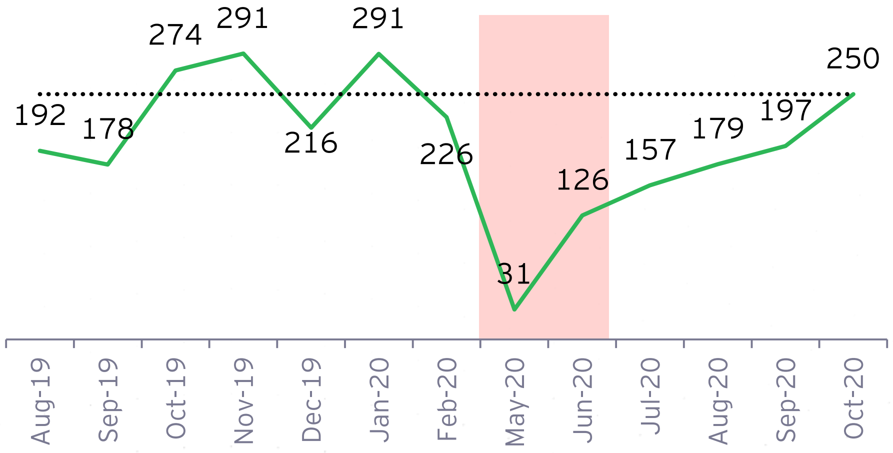
- Overall, non-durable consumer goods were the first to recover from the pandemic shock. However, recovery is becoming more broad based.
- Consumer non-durables growth was 4% in September 2020 (y-o-y) whereas consumer durables production has increased by 2%. This indicates recovery of consumer confidence.
- Capital goods production is down by -3% indicating weakness in capex investments by businesses and possible squeeze in credit (see slide 21).
- On the other hand, in September 2020, production of infrastructure/construction goods reached the last year's levels.

Vehicle registration trends

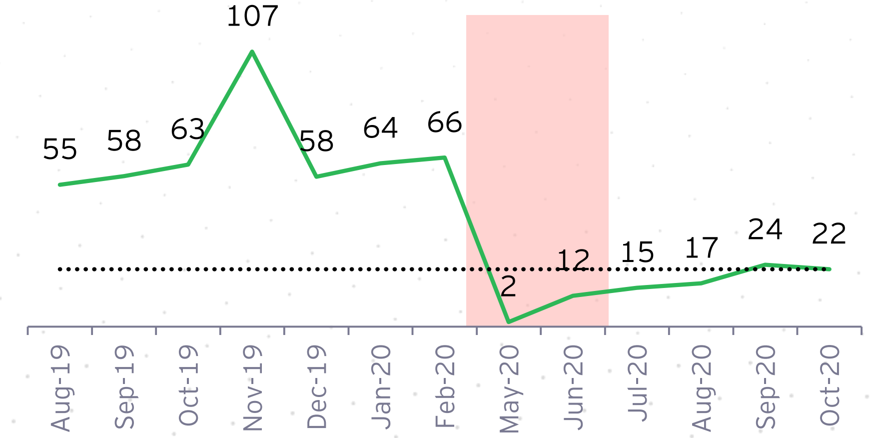
Commercial vehicles (in '000s)



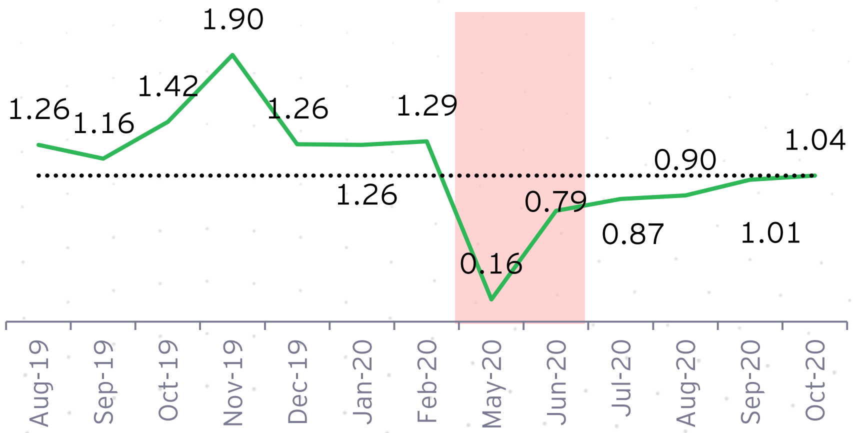
Passenger vehicles (in '000s)



3 wheelers (in '000s)



2 wheelers (in million)



Key findings

- 2-wheelers and passenger vehicles have shown the fastest recovery among the four segments, though October 2020 sales for both these categories are lower than that in October 2019.
- Despite near zero sales during lockdown, the demand for other automobile categories has not yet recovered to pre-lockdown period.

Note: FADA has not released sales data for March and April 2020
Source: FADA. (The vehicles data has been compiled by FADA in collaboration with Ministry of Road Transport and Highways (excludes data for MP, AP, LD and TS))

Policy initiatives to push manufacturing in India

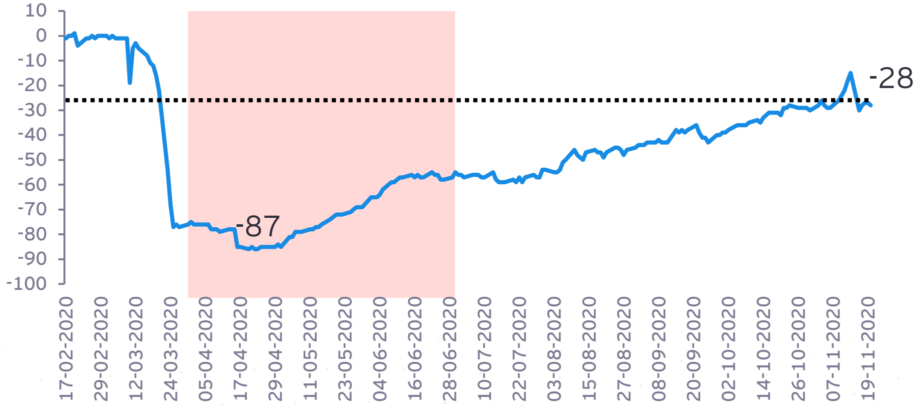
Pre-COVID Initiatives	Description and Intent
Corporate tax cut	Rate for new manufacturing facilities at 15% to make it competitive vis-à-vis ASEAN countries
Customs duty increase	Increased duty for number of products in 2020 budget e.g., footwear, toys, automobiles, etc
Phased manufacturing plans	Phased and graded duty structure to incentivize indigenous manufacturing e.g., Electric Vehicles
Production linked incentive scheme (PLI)	Monetary incentives on incremental sales (over the base year) for a period of five years to offset disability (read inefficiencies) of manufacturing in India. Initial sectors covered were high import items (cell phones) and healthcare related products (medical equipment and pharmaceutical). Recently, Government has announced its intent to increase coverage to 10 new sectors such as textiles, PV modules, telecom products, autos, etc.
Quality standards	Quality standards being notified by Bureau of Indian Standards (BIS) for products to be sold in India e.g., footwear, toys, automobile tyres, etc
Post-COVID Initiatives	**Description and Intent**
Change in definition of MSMEs	Expanding the definition (turnover and investment thresh holds) to encourage MSMEs to grow
Labour reforms	Consolidation of over 100 laws into 4 codes with higher exemptions for retrenchment and fewer registrations and is subject to ratification by State Governments
Preference for domestic manufacture	Preference for domestic manufacture in Government purchases, especially Defence
Agricultural reforms	Enactment of 2 new laws and amendment of one statute - will likely facilitate larger scale food processing
Land	Implementing a GIS system to provide information on industrial land include plot level information

Key findings

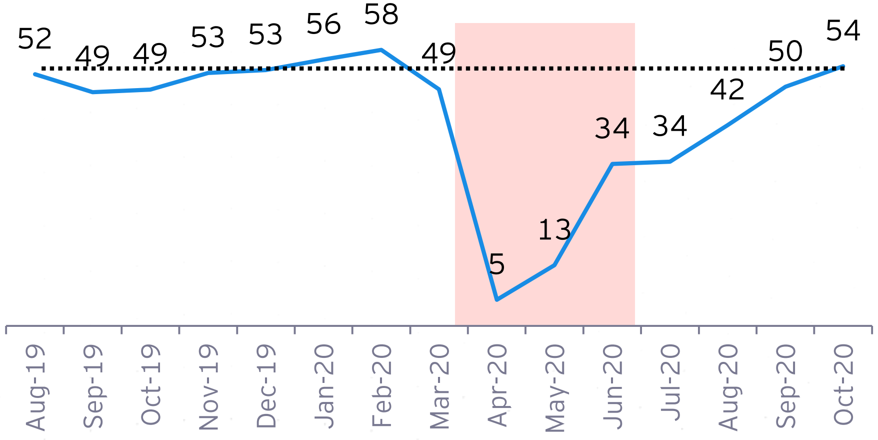
- Government's structural reforms are aimed towards improving manufacturing competitiveness and providing medium-term growth opportunities.
- Pre-COVID initiatives focussed around fiscal measures.
- Post-COVID initiatives seek to address structural weaknesses along with continuing fiscal measures.
- Manufacturing push will create more investment opportunities.
- Indian market access strategy would need to be carefully calibrated i.e., sourcing and local manufacturing in India.

Service sector indicators based on movement of people

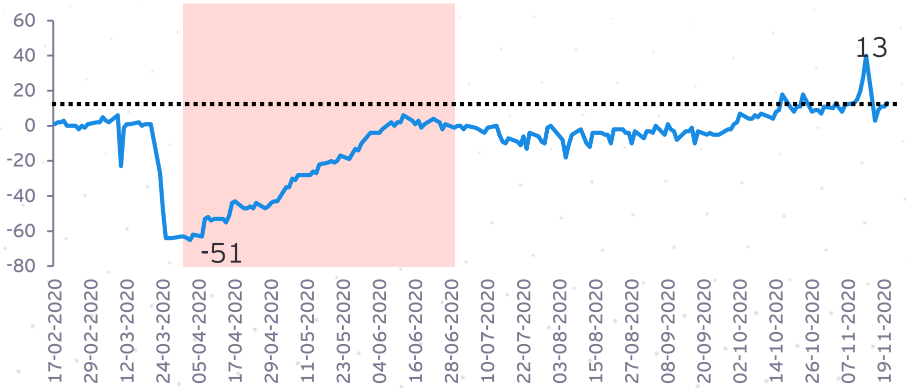
Mobility change from baseline of Feb,20 for retail and recreation



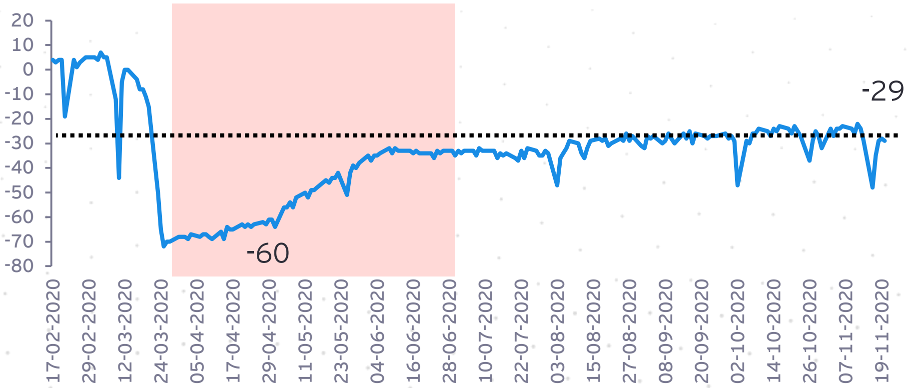
PMI services



Mobility change from baseline of Feb,20 for groceries and pharmacies



Mobility change from baseline of Feb,20 for workplace



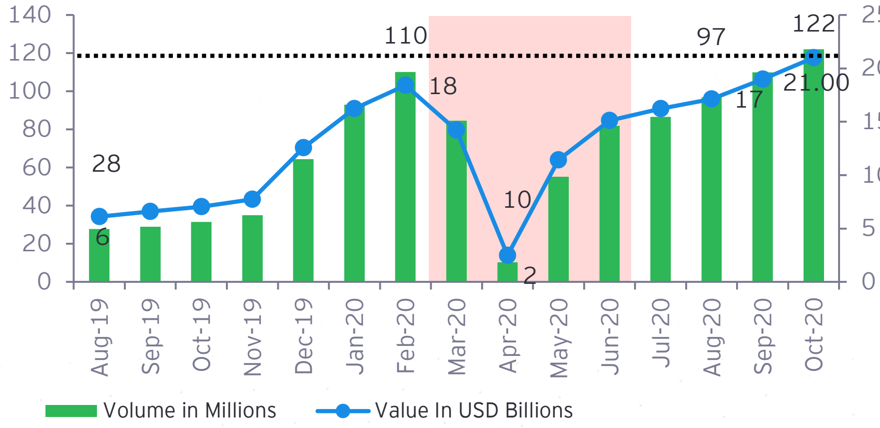
Note: PMI >50 indicates expansion, <50 indicates contraction
Source: IHS Markit, Google Mobility (not representing movement during weekends)

Key findings

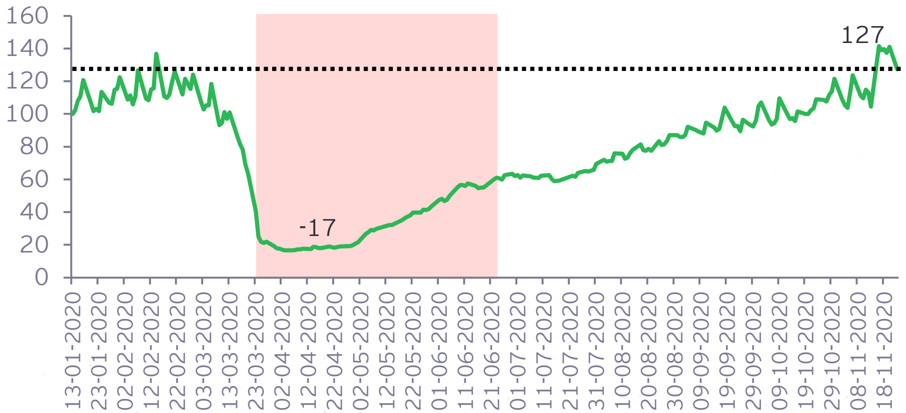
- PMI numbers reflect recovery in confidence of services sector.
- Visits to grocery stores and pharmacies are back to pre-COVID levels. This is in line with the trends for consumer non-durables (See slide 9).
- Visits to recreation, shopping centres and offices is lower by about 30%, though recovering.
- Low mobility for retail and recreation will affect trade, repair services, hotels and restaurants sectors accounting for approximately 12% of the economy.
- Low mobility to offices has implications for commercial real estate sector.

Transport: passenger transportation

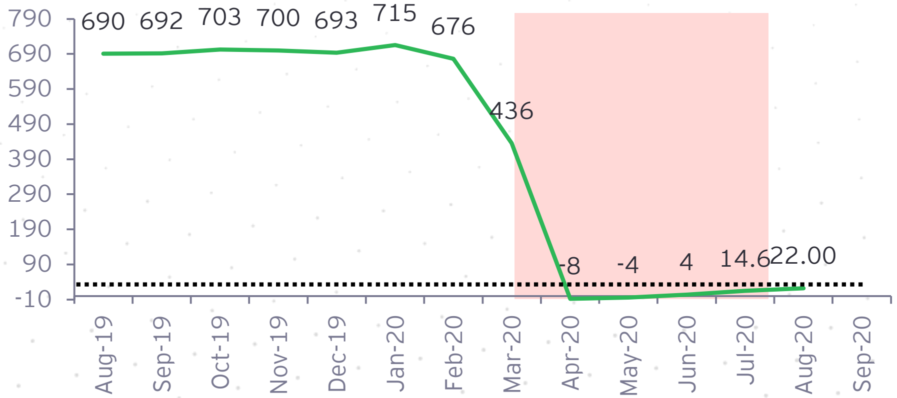
FASTag transactions



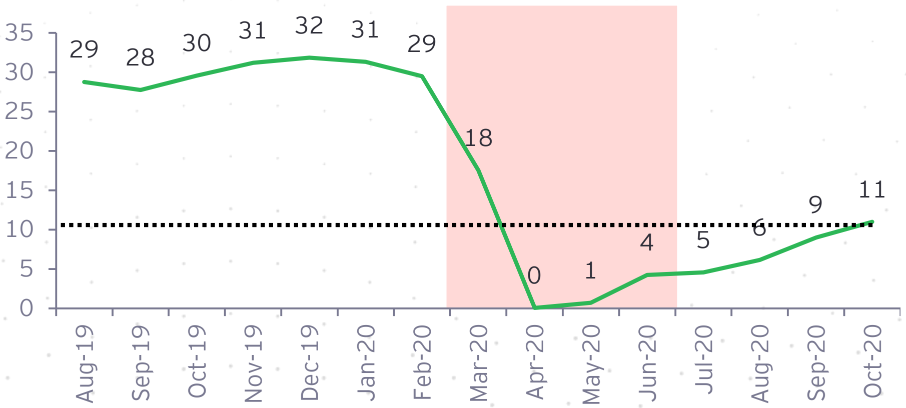
Mobility/Driving trends for India from baseline of Jan, 20 (apple)



Railway passengers traffic*(millions)



Air passengers traffic (intn'l + domestic in millions)



Source: NPCI , Ministry of Railways, Ministry of Civil Aviation, Apple Mobility Data (excluding all the movements during weekends and May 11 & 12, 2020)

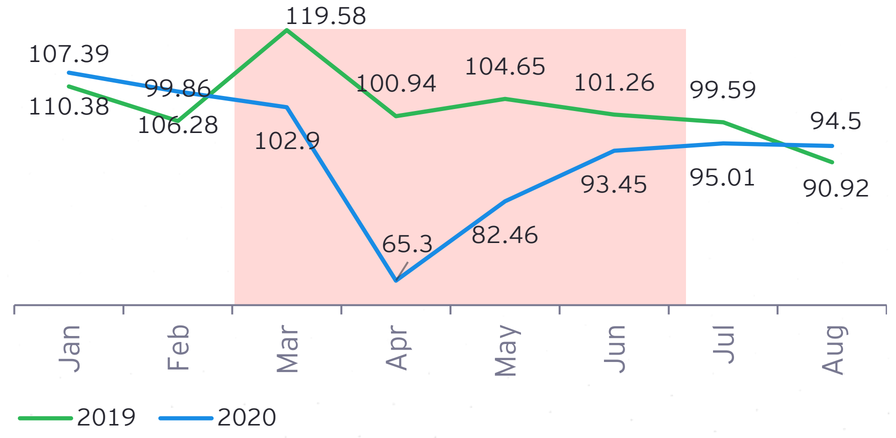
- *The negative railway passenger traffic for April & May 2020 is a result of refunds provided by the Railways*
- *FASTag transaction numbers and values are taken from National Electronic Toll Collection (NETC).*

Key findings

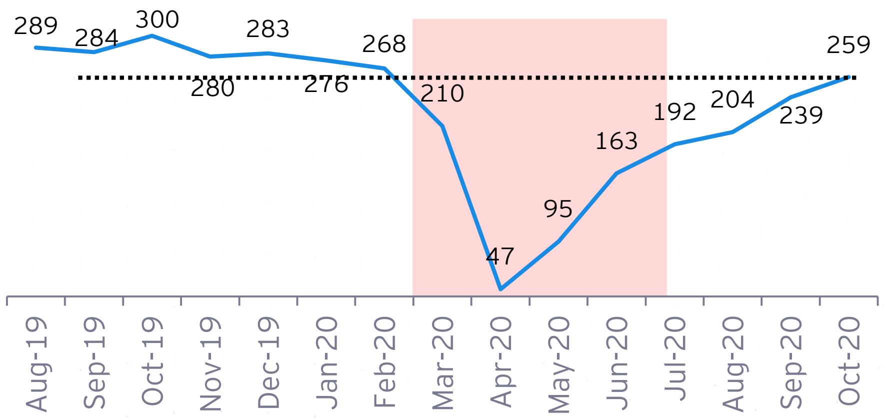
- Personal travel is still severely affected – particularly for mass transport systems as compared to individual driving.
- Both Apple mobility data and FASTag transactions show that driving trends have recovered, indicating an upsurge in the road transportation sector. However, partial lockdowns and restrictions in key states could affect this nascent recovery.
- Passenger travel through rail and air is still severely affected with a very slow recovery.

Transport: freight transportation

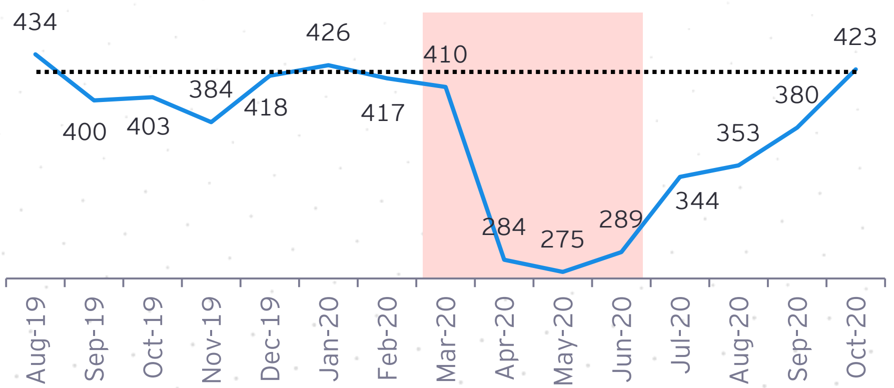
Railways freight (Million tonnes)



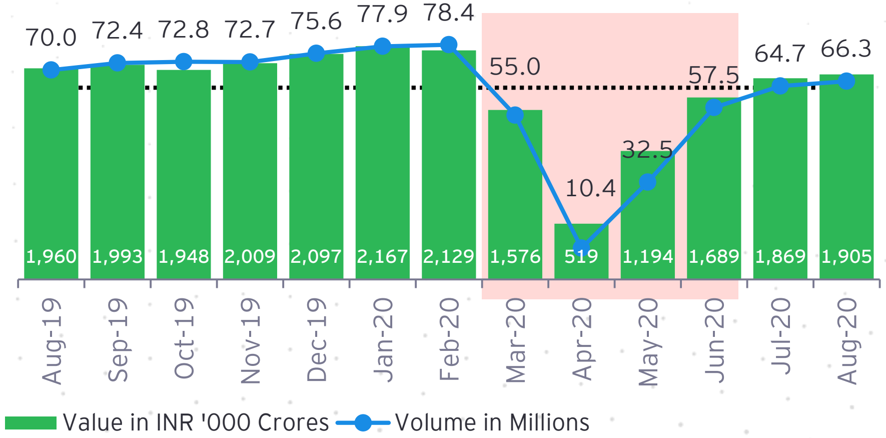
Air freight ('000 tonnes)



JNPT container traffic ('000 TEU's)



E- way bills generated

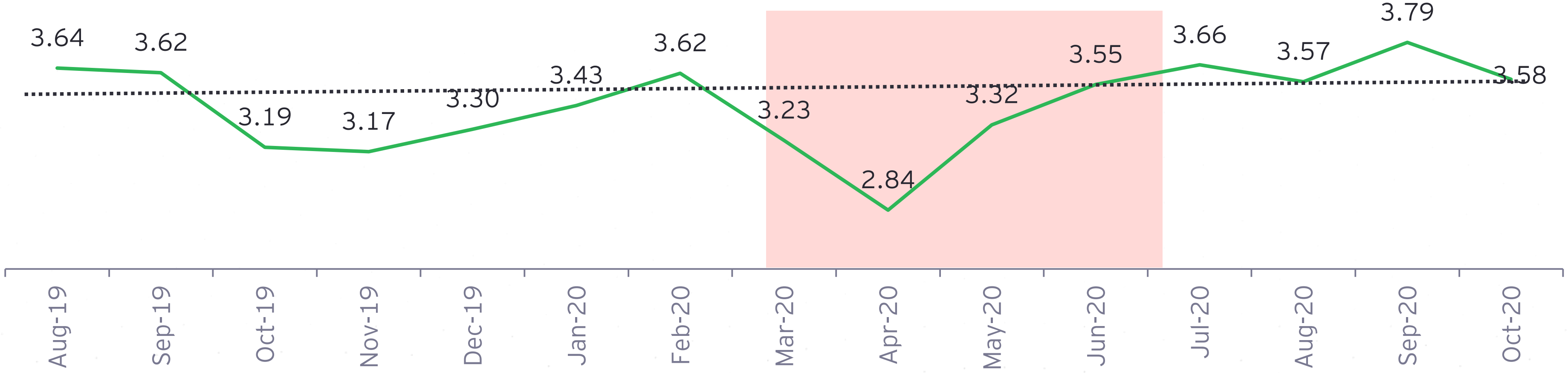


Source: Ministry of Civil Aviation, Railways, JNPT Terminal, GSTIN Network

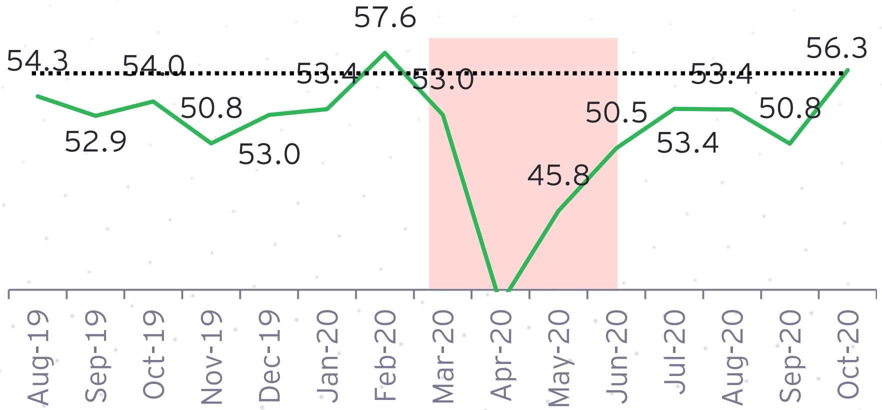
Key findings

- Rail freight in August 2020 was higher than the levels in August 2019.
- However, road freight (as reflected in E-Way Bills) continues to be lower than that in the corresponding period last year by approximately 5% in volume terms.
- Air freight is lower by about 15% vis-a-vis the corresponding period last year.

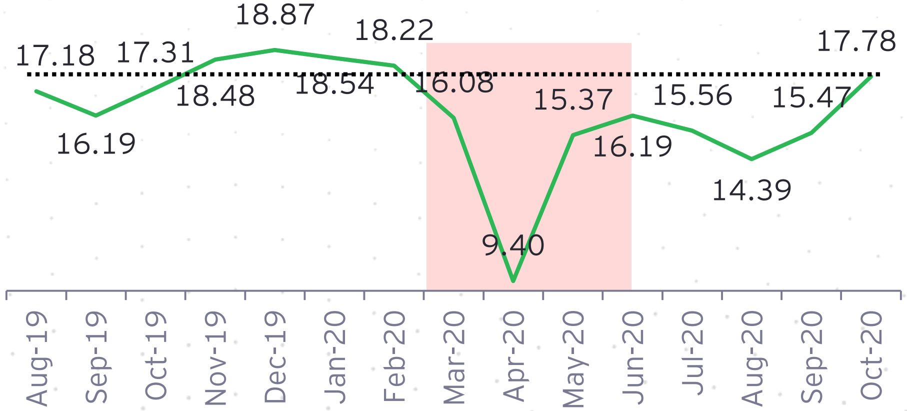
Power consumption (billion units)



Consumption of natural gas ('00 MMSCM)



Consumption of petroleum products (million metric tonnes)

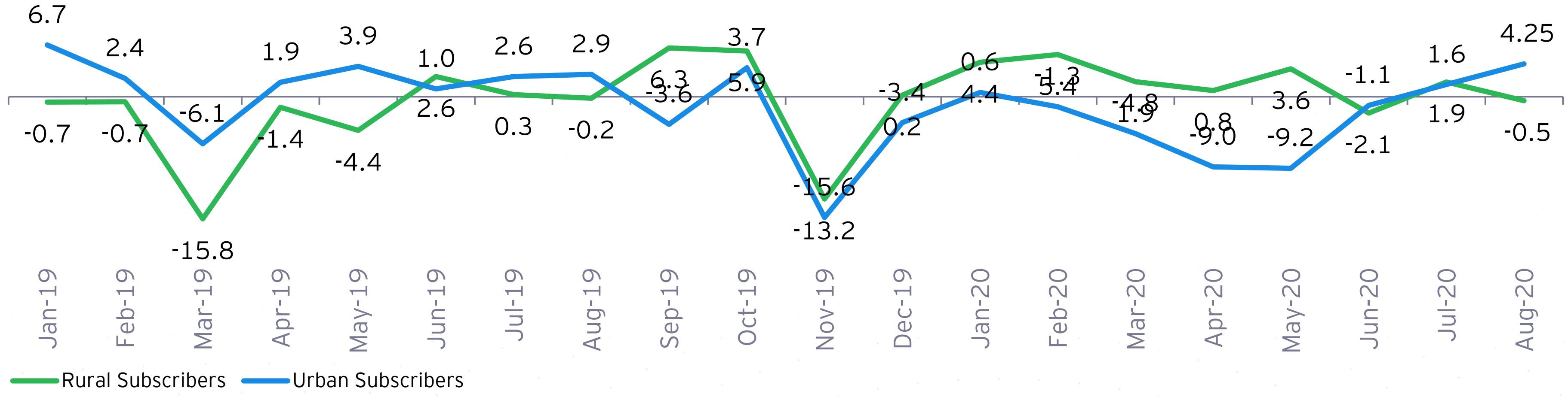


Source: Ministry of Petroleum, Coal & Power. POSOCO,
MMSCM stand for Million Standard Cubic Metre

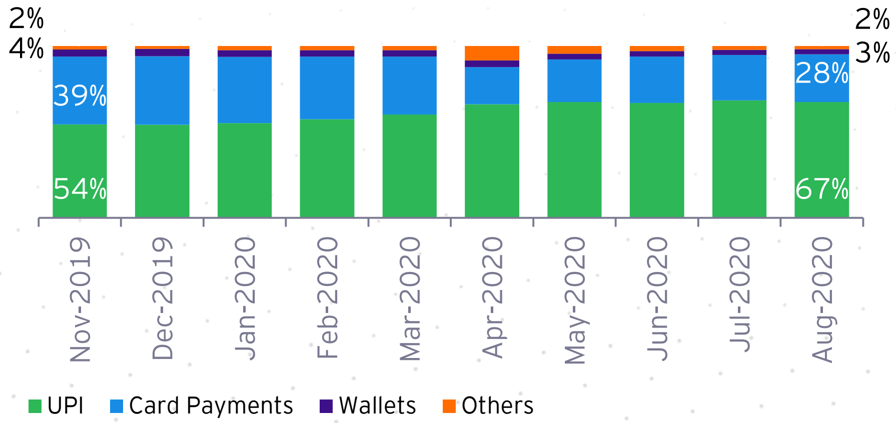
Key findings

- Power consumption has recovered with a y-o-y growth of 12%.
- Consumption of petroleum products also has reached the levels of the corresponding period last year.

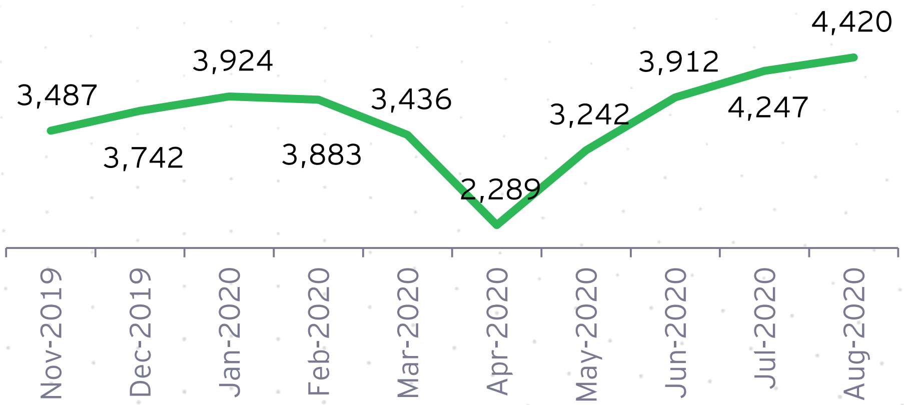
Wireless subscribers addition (in millions)



Share of different segments in total digital retail payments



Total digital retail payments (in INR billions)



Note: Others include ECS, AEPS, APBS and BHIM
Source: TRAI, RBI

Key findings

- Telecom market is relatively saturated in the urban areas while the rural areas continue to offer growth.
- Wireless subscriptions have continued to grow rapidly in the rural areas but have shown significant reduction in urban areas in recent months.
- Total retail digital payments are again growing rapidly and have crossed the levels achieved in the same period last year.
- UPI transactions are driving the overall growth in digital retail payments at the expense of debit and credit cards.

Policy direction: IT and digitization

Digitization

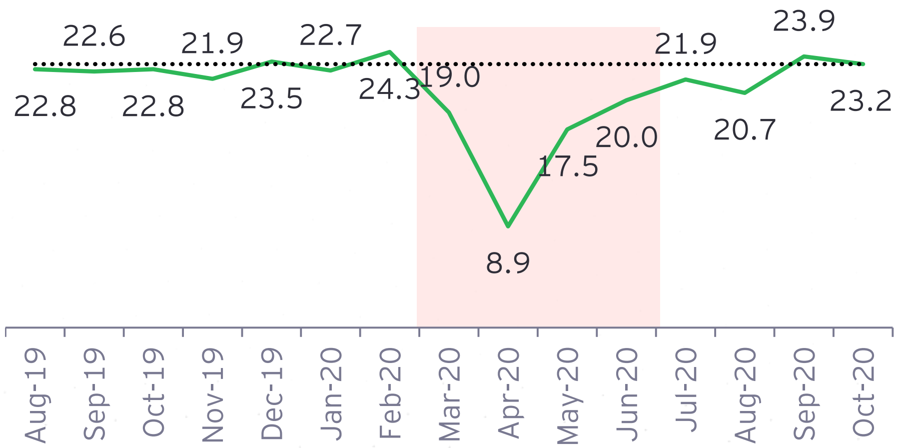
Develop technologies indigenously	▶ Technology sector seen as strategic by the Government ▶ Push towards indigenous driven technology as reflected in repeated statements by the Government e.g., Artificial Intelligence, 5G, etc. ▶ Continuing push towards start-ups
Digitize the processes and leverage IT in delivery of public services	▶ Several initiatives during COVID such as new Faceless Assessment Scheme of Income Tax returns, One Nation One Ration Card, Unique Health IDs for all citizens of India, etc ▶ Continuous push on digital connecting India through a broadband network
Use the data generated in India for use by Indian businesses/ agencies	▶ Government is studying Non Personal Data (NPD) (public, private and community) and evaluating making more and more non-personal data to Indian companies for development of technologies. ▶ Ownership of certain public data with Government and organizations representing the community ▶ Restrictions on transfer on sensitive and critical NPD outside India
Manufacture of IT equipment in India	▶ As part of the production linked incentive scheme, the Government has set budget of USD 6.5B for manufacturing of cell phones, specified electronic components and telecom products in India
National security and law and order considerations	▶ Government recognizes the role of IT on law and order and national security e.g., banning over 100 applications to protect privacy and data of Indian citizens has been taken ▶ Proposal to regulate social media in the future

Key findings

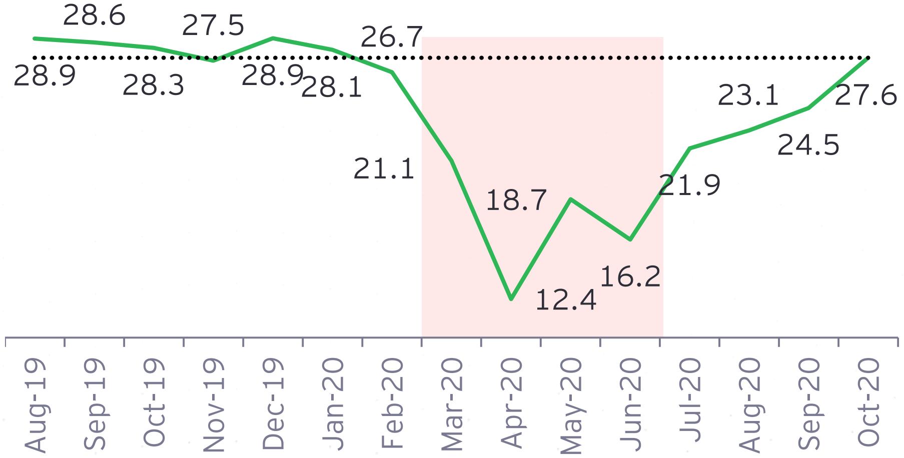
- With the onset of COVID, digitization and maintenance of digital infrastructure has become more strategic for the Government.
- Government's strong focus on self-reliance is reflected in multiple policy actions e.g., manufacture of products in India, usage of non-personal data and urging businesses and Government agencies to develop new solutions.

Foreign trade trends

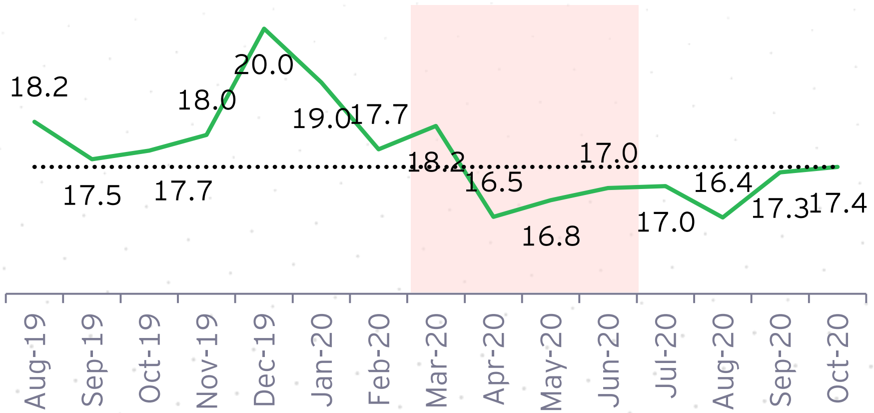
Non- oil merchandise exports (in USD billion)



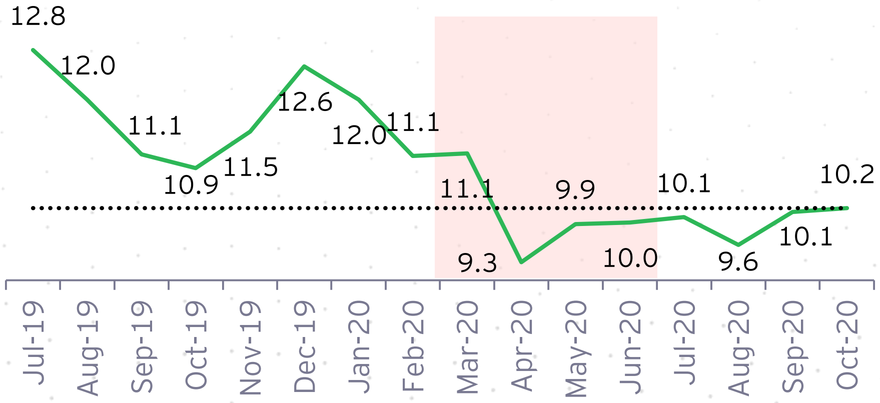
Non- oil merchandise imports (in USD billion)



Services exports (in USD billion)



Services imports (in USD billion)



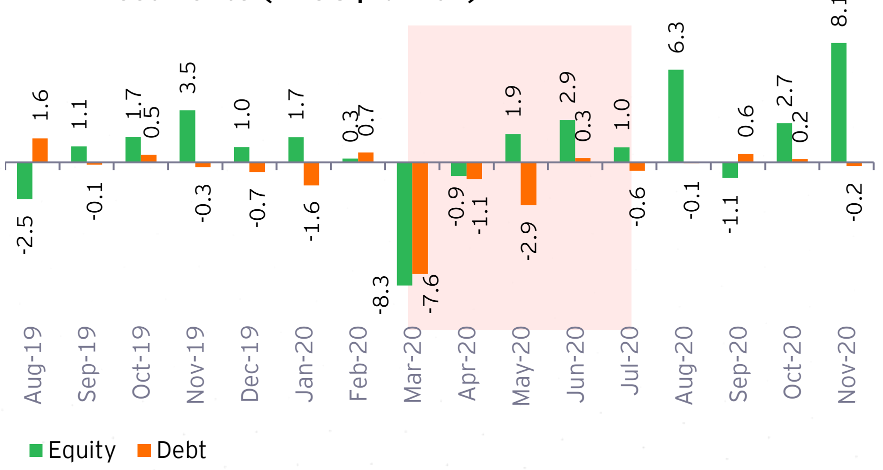
Note: Oct 2020 data is provisional
Source: RBI, Ministry of Commerce & Industry

Key findings

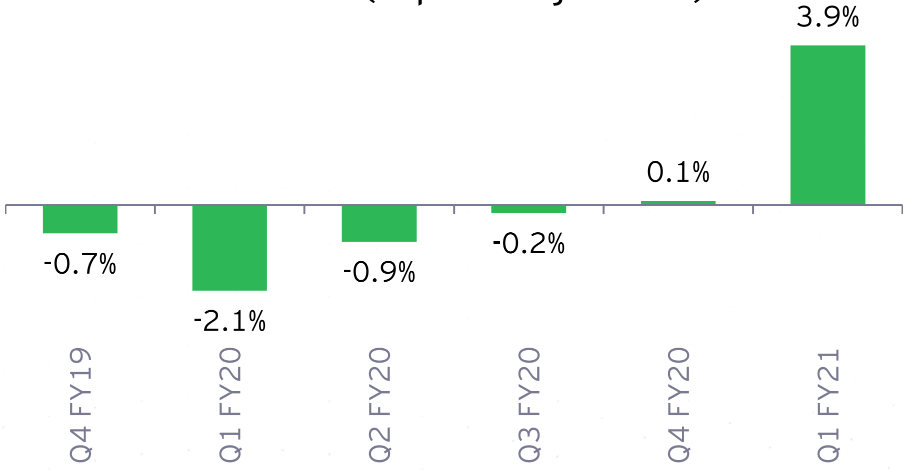
- In terms of goods exports, India has already recovered and is now showing positive growth. According to Government, non-oil growth in October 2020 over last year was 2%.
- However, services exports are still about 2% lower than the last year.
- Imports of both goods and services have recovered nearly to the pre-COVID levels indicating uptick in domestic demand.
- Non-oil imports in October 2020 are lower by 2% while services imports are lower by 6% in October 2020.

Foreign capital flows and exchange rate position

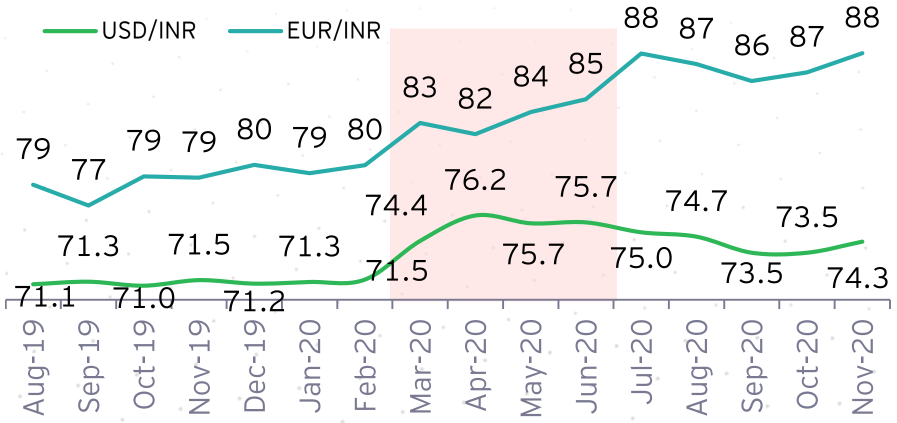
FPI investments (in US$ billion)



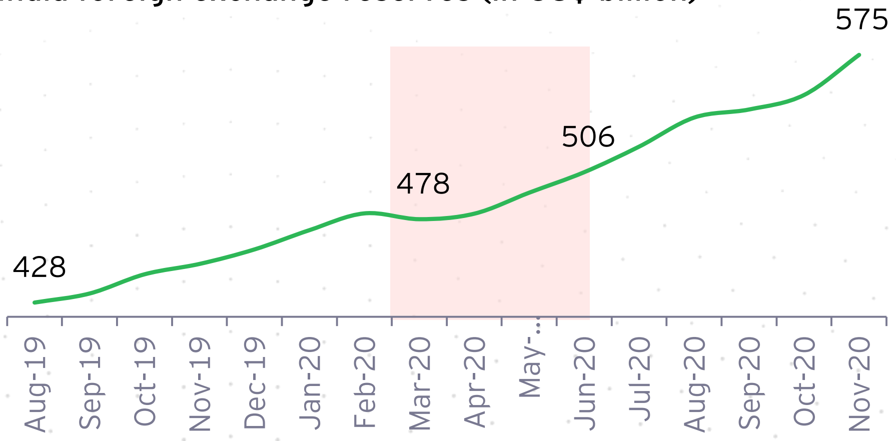
Current account deficit (as percentage of GDP)



Exchange rates



India foreign exchange reserves (in US$ billion)

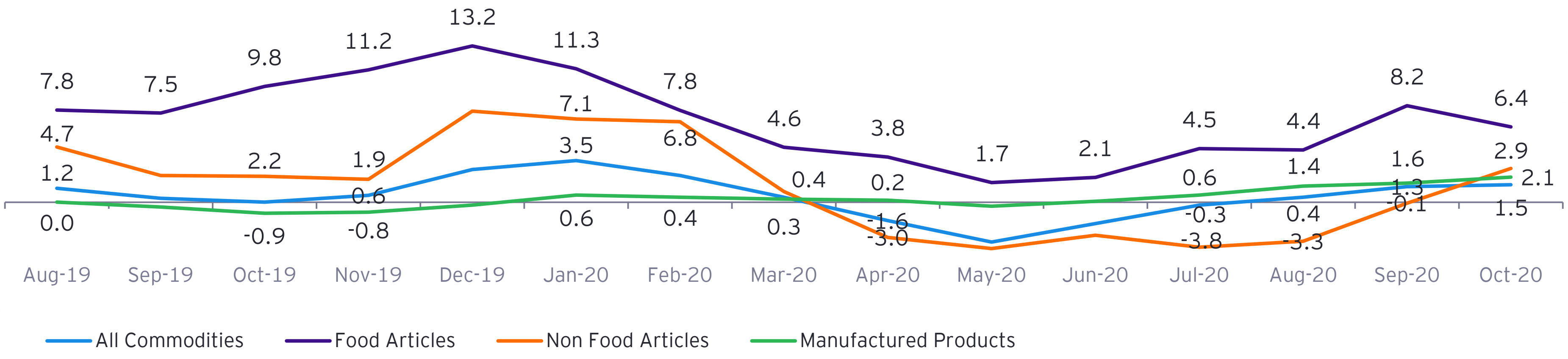


Source: DBIE, RBI, FBIL, NSDL
All date available as on 30th November 2020

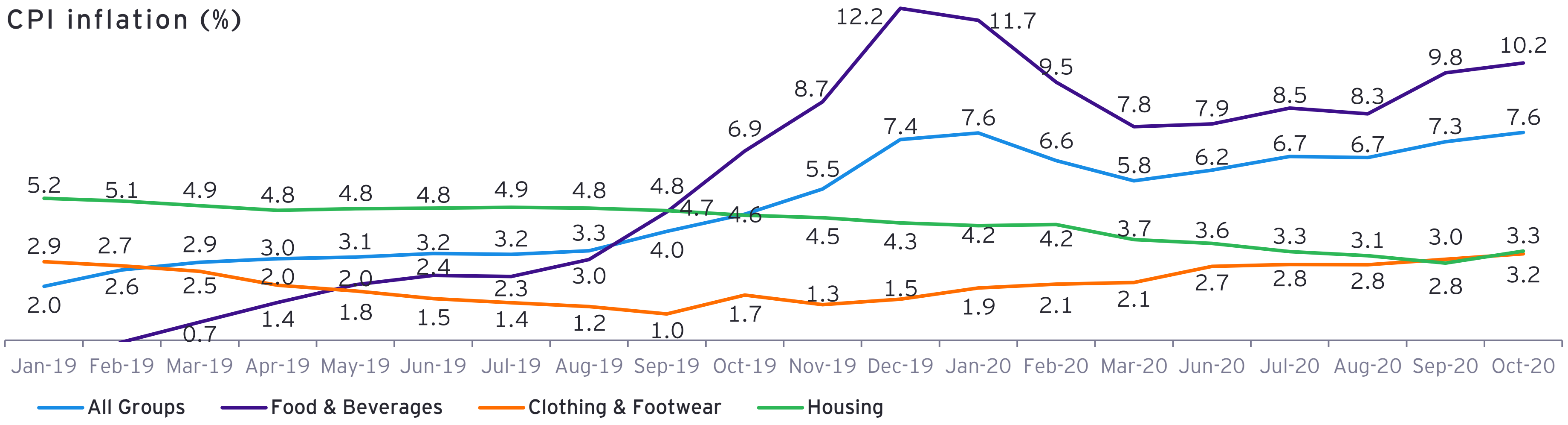
Key findings

- Due to falling imports and recovering exports, India's current account position has turned from deficit to surplus. However, with the increase in imports, the current account may turn to deficit again.
- India has been receiving large foreign portfolio inflows. In November 2020, India received much higher equity inflows than last year's corresponding period.
- Due to both capital account surplus and incoming capital inflows, India's foreign exchange reserves have been growing rapidly.
- Due to dollar depreciation, INR has appreciated vis-à-vis USD but it has depreciated vis-à-vis Euro and pound during this year.

WPI inflation (%)



CPI inflation (%)



Note: Data not available for April and May 2020
Source: MoSPI, Ministry of Commerce and Industry, Office of Economic Advisor

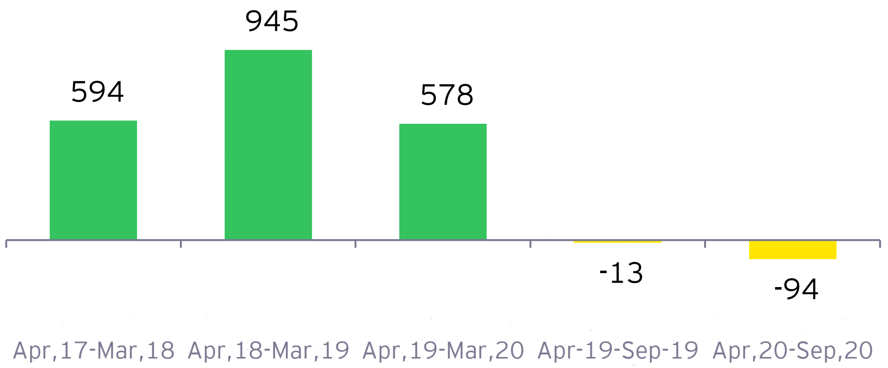
Key findings

- The inflation scenario shows overall dichotomy between high transitionary inflation in food items and overall deflation in rest of the economy.
- While the overall consumer inflation is at 7.6%, the wholesale price index showing prices for the producers is much lower at 1.6%.

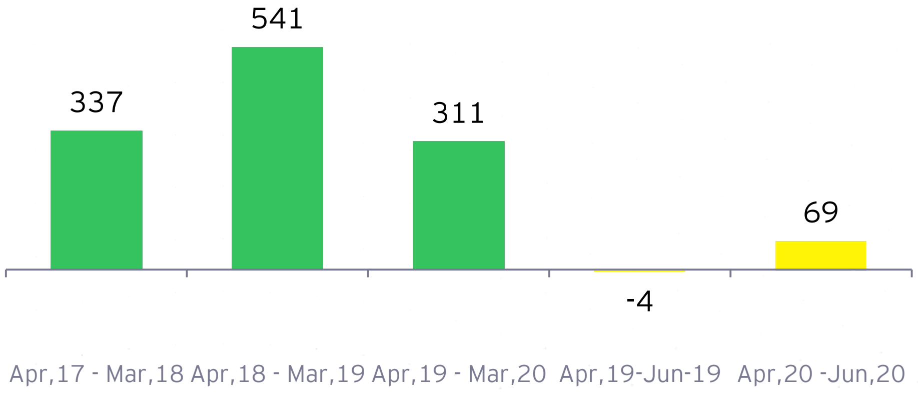
Credit flow trends

Financial markets

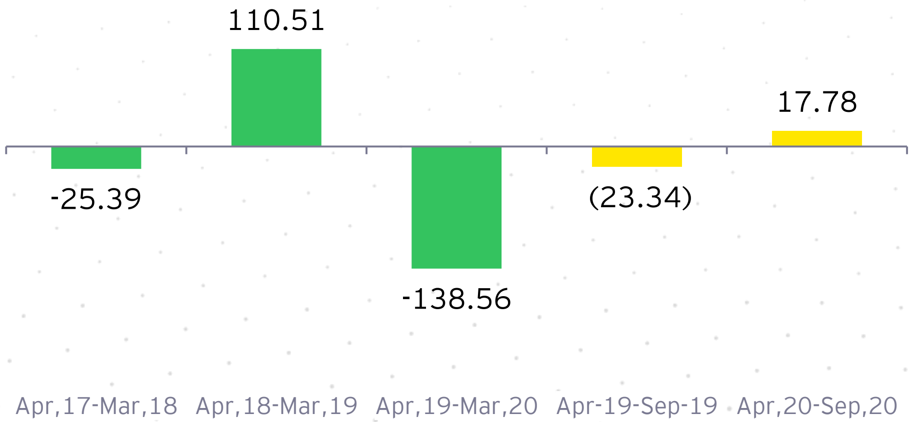
Flow of gross non food credit of scheduled commercial banks (Rs ‘000 Crores)



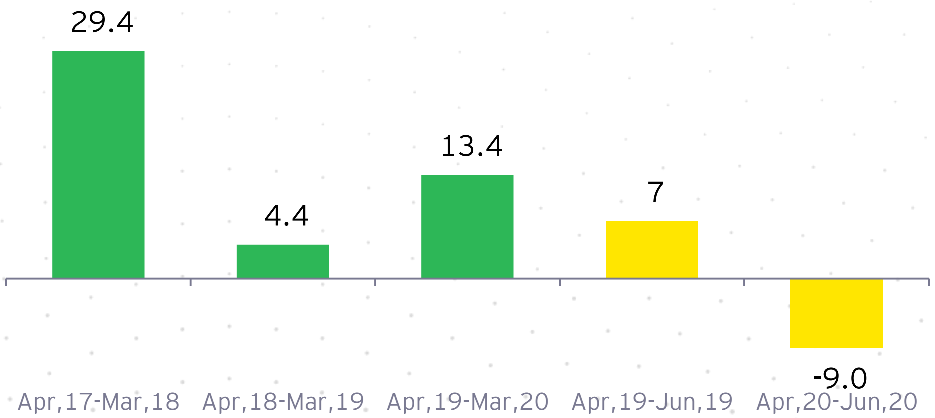
Change in outstanding corporate bonds listed on NSE and BSE (Rs ‘000 Crores)



Change in outstanding commercial paper (Rs ‘000 Crores)



Change in outstanding external commercial borrowings (US$ billions)



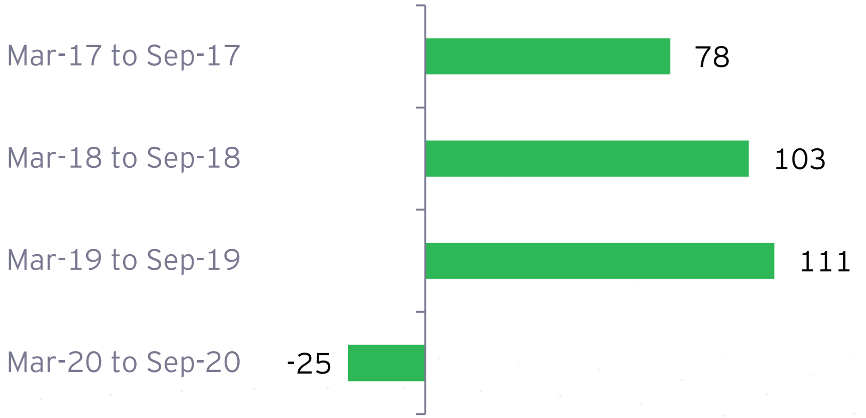
Source: RBI,

Key findings

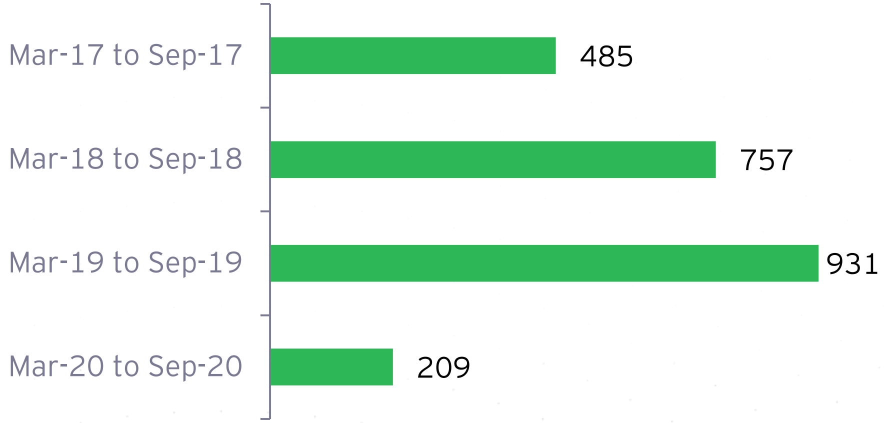
- There is practically no credit growth since the commencement of the pandemic, despite the efforts made by the government and the RBI.
- Total debt inflow, after accounting for other sources like corporate bonds and external commercial borrowings has remained negative during the current fiscal year.

Change in gross personal loans advanced by banks

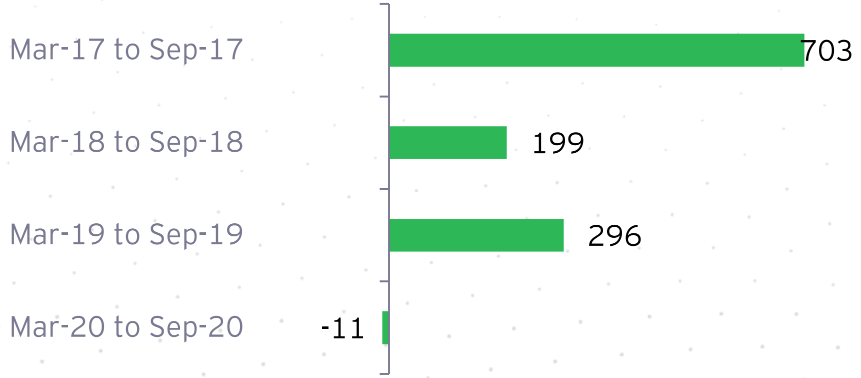
Credit card debt (in INR billions)



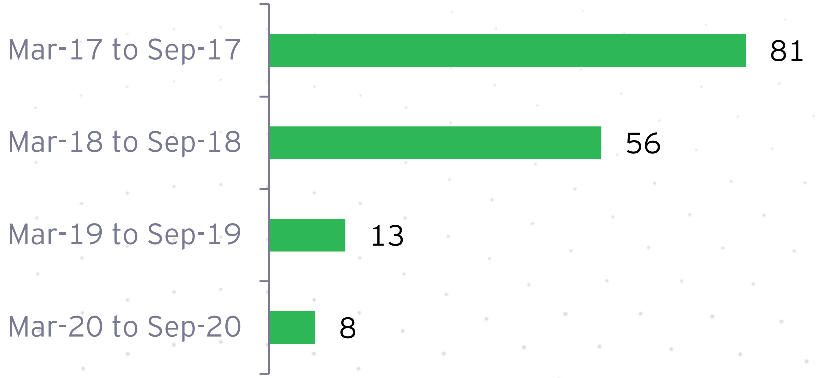
Housing loans (in INR billions)



Other personal loans (in INR billions)



Auto loans (in INR billions)



Key findings

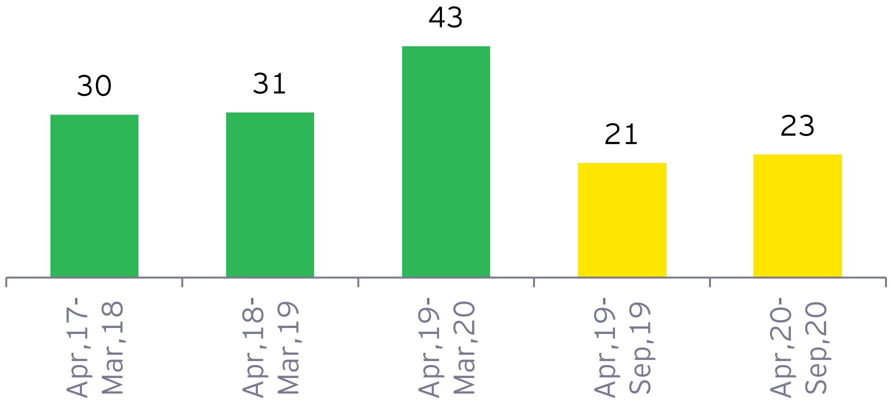
- Credit driven consumption has fallen significantly compared to corresponding period in the previous years.
- Unless credit expansion takes place, the recovery in consumer durables may not be sustainable.

Source: RBI

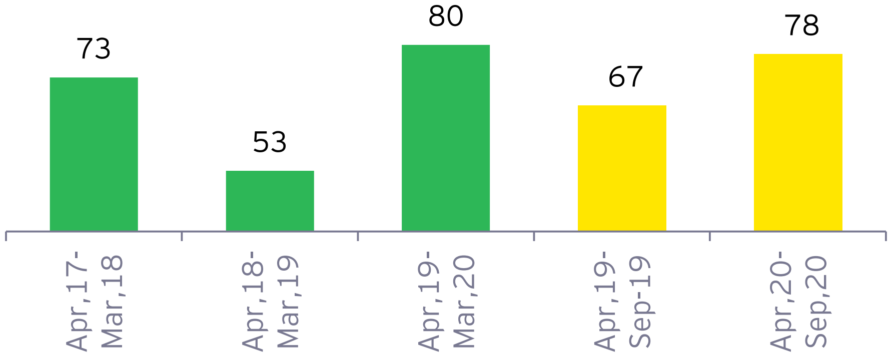
Other personal loans include consumer durables, advances to individuals and FDs, education, other personal loans

Fund raising trends

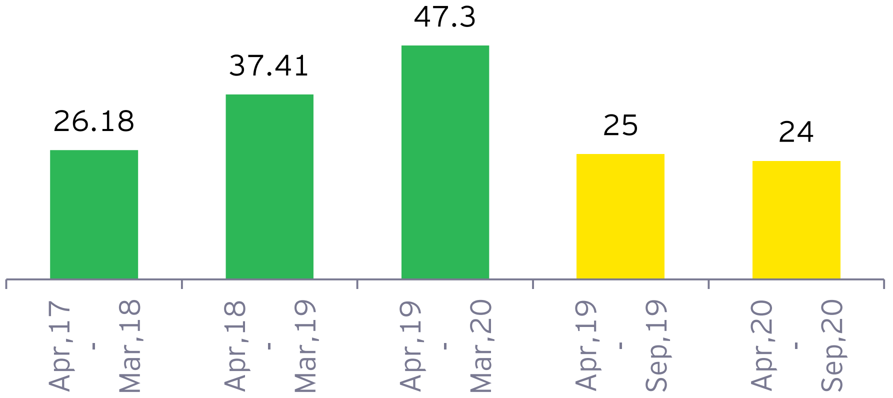
Net FDI inflows in India (US$ billions)



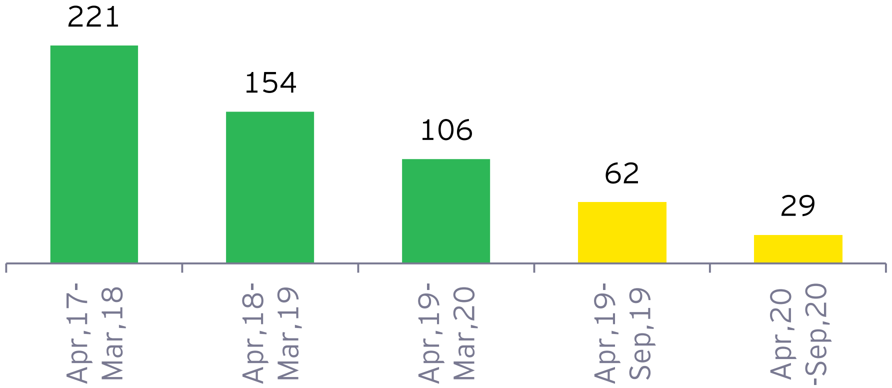
Money raised by non Governmental companies (‘000 crores)



PE/VC Investments (US$ billions)



No. of issues to raise money by non Governmental companies

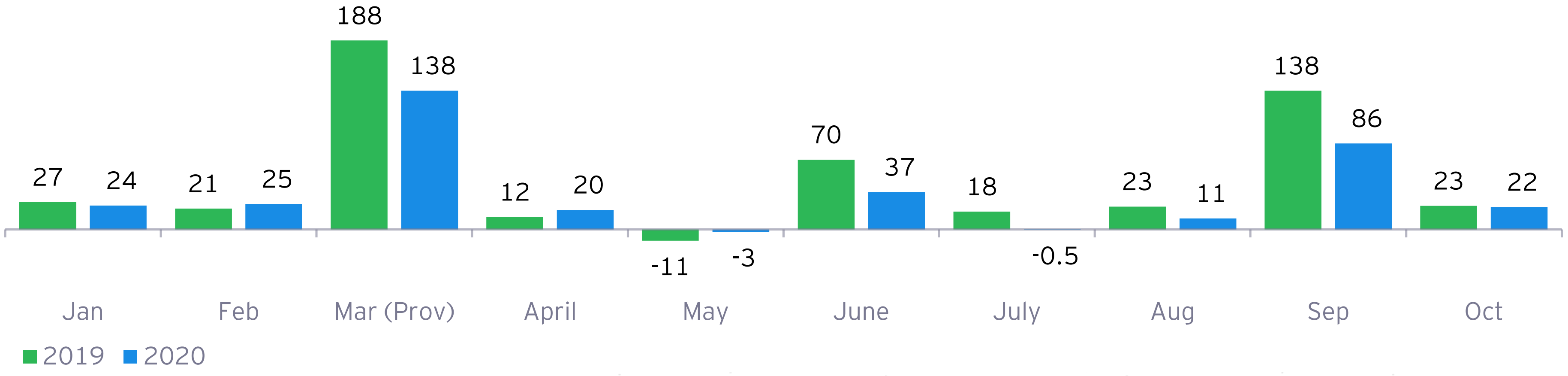


Source: RBI, EY Analysis

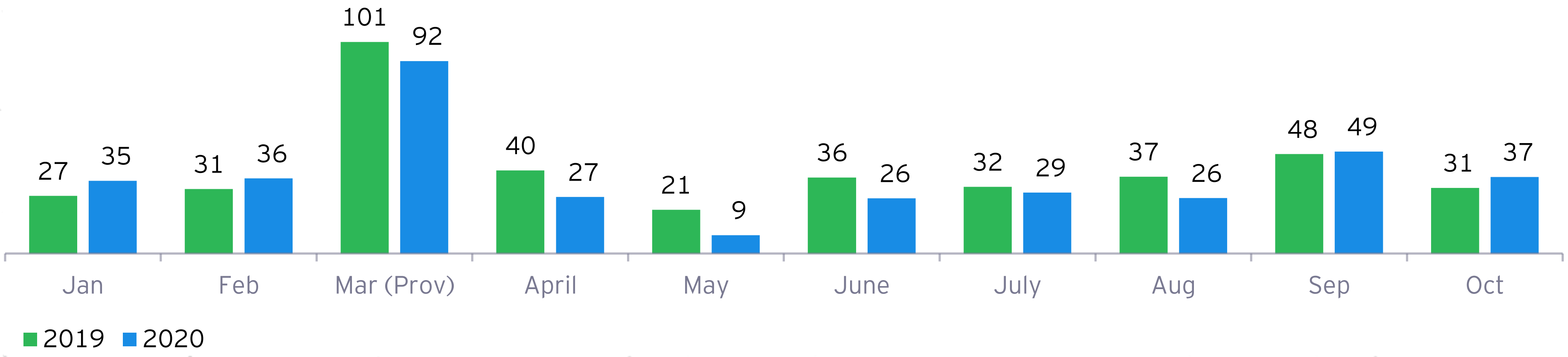
Key findings

- While credit growth has not picked up, fund raising has continued.
- The decline in the number of public issues of equity (new and rights issues) reflects that access to this route to raise resources is available to fewer players. It also indicates a few, but large, issues.

Net corporate tax collection (INR '000 crores)



Net personal tax collection (INR '000 crores)



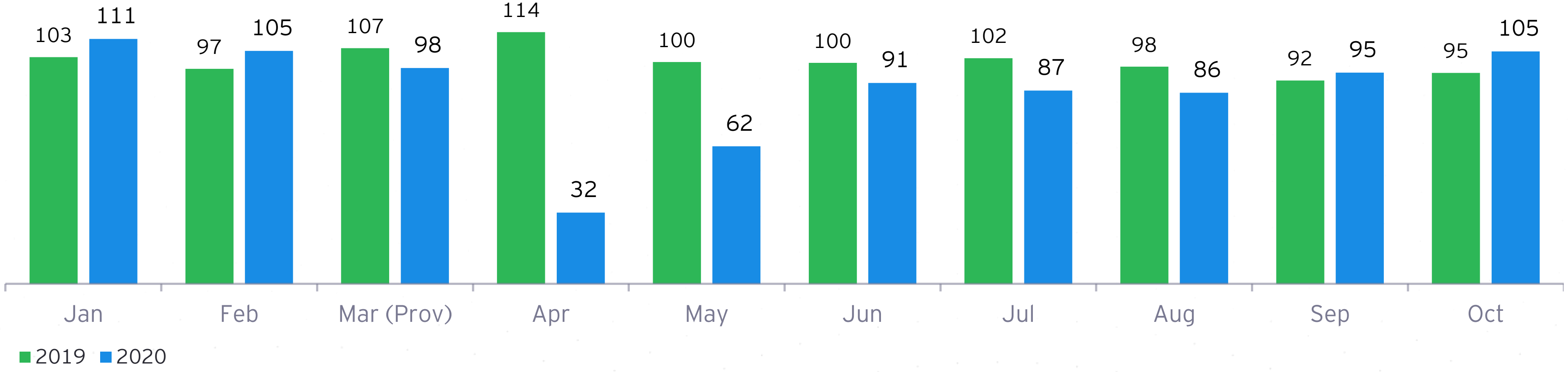
Source: Controller General of Accounts; GST Council/ PIB

Key findings

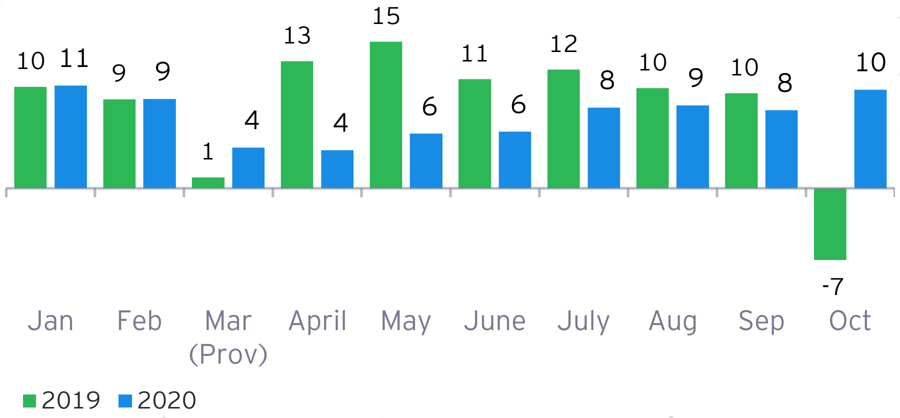
- Corporate tax collections show a declining trend vis-à-vis the previous year both due to rate cuts and the cessation of economic activity.

Trends in Centre's tax collections

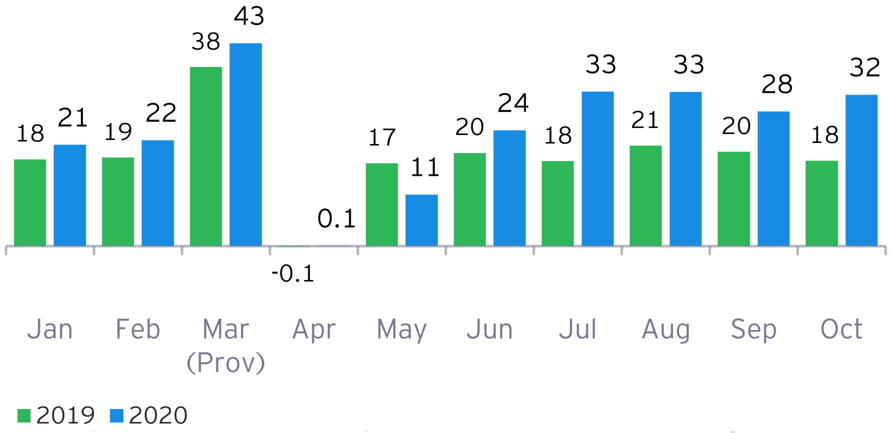
GST collections (Centre + States) (INR ‘000 crores)



Customs (INR ‘000 crores)



Union excise duty (INR ‘000 crores)



Source: Controller General of Accounts; GST Council/ PIB

Key findings

- GST collections in October 2020 crossed the INR 1 lakh crore mark. The rise in collections is indicative of pick up in economic activity and demand.
- Customs duty collections, after being consistently lower by a significant margin till September 2020 (vis-à-vis corresponding period in 2019), have recovered in October 2020 and are close to levels in October 2019.
- Increase in taxes on petrol and diesel have led to increase in excise revenues. Further, as noted previously, rail freight and road driving has recovered.

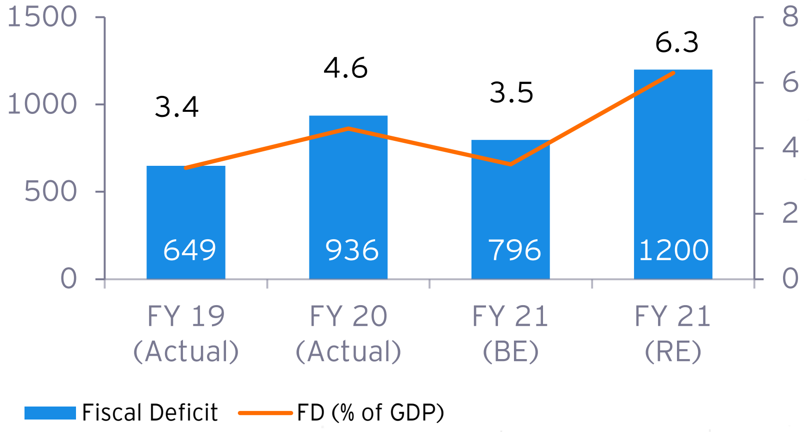
Centre's finances are impacted by increased borrowings and lower tax revenues

Particulars	Budget estimate (2020-21) (INR crores)	Actuals (Apr to Oct FY21) (INR crores)	% of BE
Tax revenues (net)	16,35,909	5,75,697	35.2%
Non tax revenues	3,85,017	1,16,206	30.2%
Revenue receipts	20,20,926	6,91,903	34.2%
Other receipts*	2,24,967	16,397	7.3%
Total receipts	**22,45,893**	**7,08,300**	**31.5%**
Revenue expenditure other than interest	19,22,018	11,30,643	58.8%
Interest	7,08,203	3,33,456	47.1%
Capital expenditure	4,12,009	1,97,355	47.9%
Total expenditure	**30,42,230**	**16,61,454**	**54.6%**
Fiscal deficit (9-5)	7,96,337	9,53,154	119.7%
Revenue deficit (6-3)	6,09,295	7,72,196	126.7%

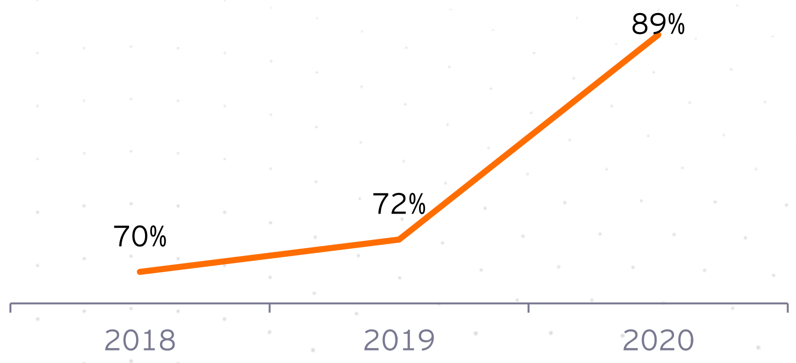
Source: IMF, Ministry of Finance, Controller General of Accounts, RBI Annual Report 2020
**Other receipts include non-debt capital receipts and Recovery of loans*

Fiscal deficit

(INR '000 crores)



Debt to GDP (%)

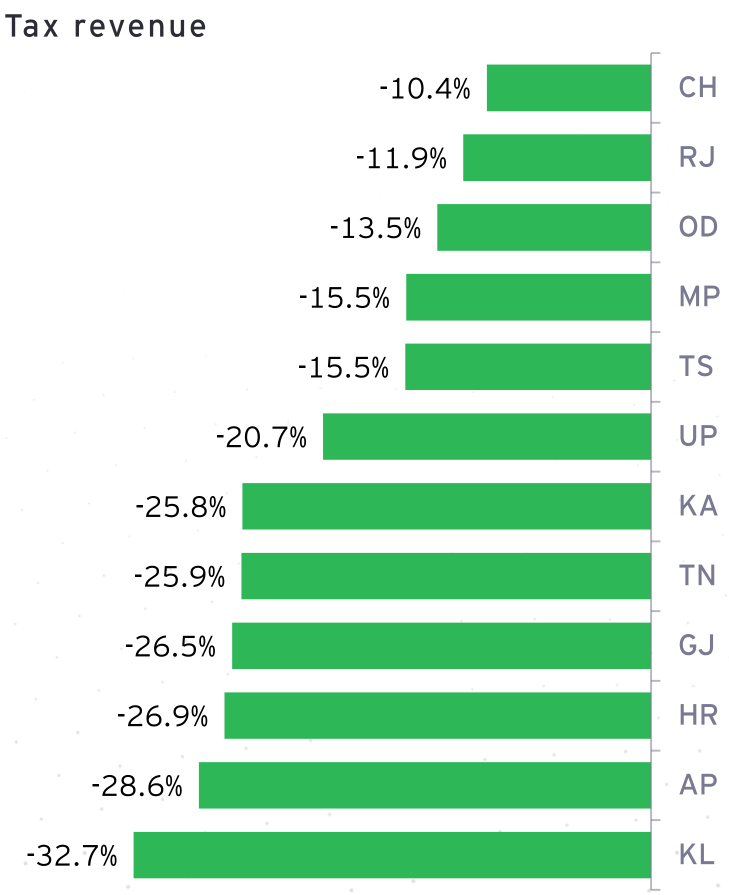


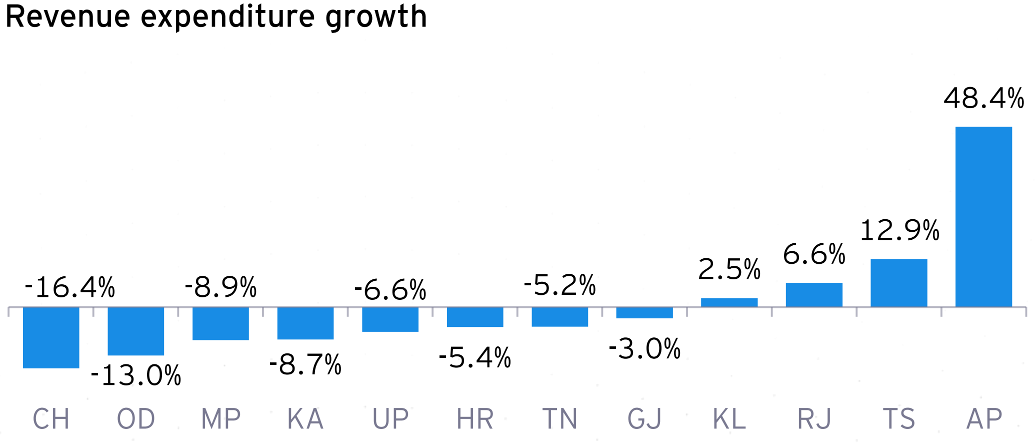
Key findings

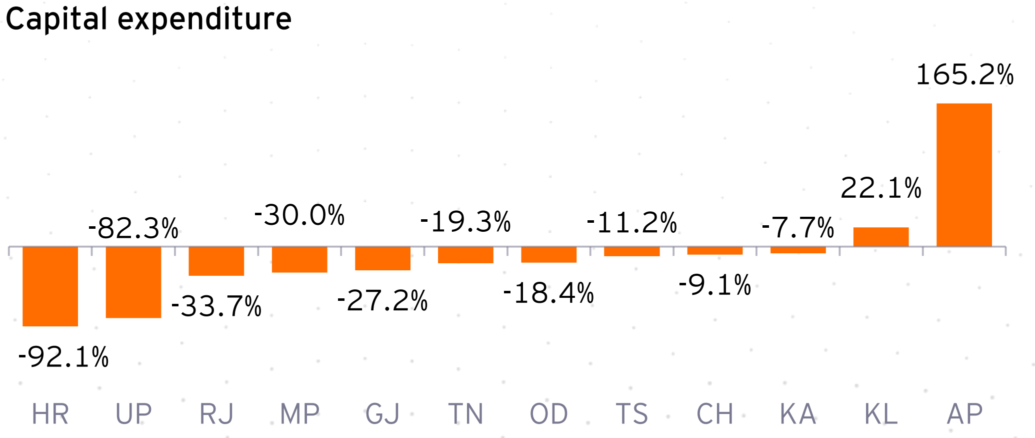
- COVID-induced additional expenditure and borrowings, coupled with falling revenues, have impacted the fiscal deficit and has already breached the Budget Estimate.
- Actual fiscal deficit may be much higher than the budgeted estimate of 3.5% of GDP. As per IMF's estimate for India's GDP for FY21, and the increased borrowing plan of the Government, the deficit could be more than 6.3% of the GDP.
- The Government's debt is also likely to increase significantly in the coming years, which could impact the financial markets.
- The state of public finance could impact future stimulus measures and probably explains the Government's fiscal thinking (see Slide 35).

The States' tax revenues have been affected by the pandemic

States' tax revenue and expenditure growth (%) in FY 21 as compared to same period last year







AP: Andhra Pradesh; CH: Chhattisgarh; GJ: Gujarat: HR: Haryana; KA: Karnataka; KL: Kerala; MP: Madhya Pradesh; OR: Odisha; RJ: Rajasthan; TN: Tamil Nadu; TS: Telangana; UP: Uttar Pradesh;
Source: Controller and Auditor General; State Accounts

Key findings

- Like the Centre, the States' fiscal position is also stressed on account of COVID related economic activity shutdown and the already contracting economic growth before COVID.
- Growth in tax revenues of top States is down by -15% to -40% compared to last year.
- On the expenditure front, while many States show a negative growth in both revenue and capital expenditures, some states like AP and Kerala show a higher spend on Capex.

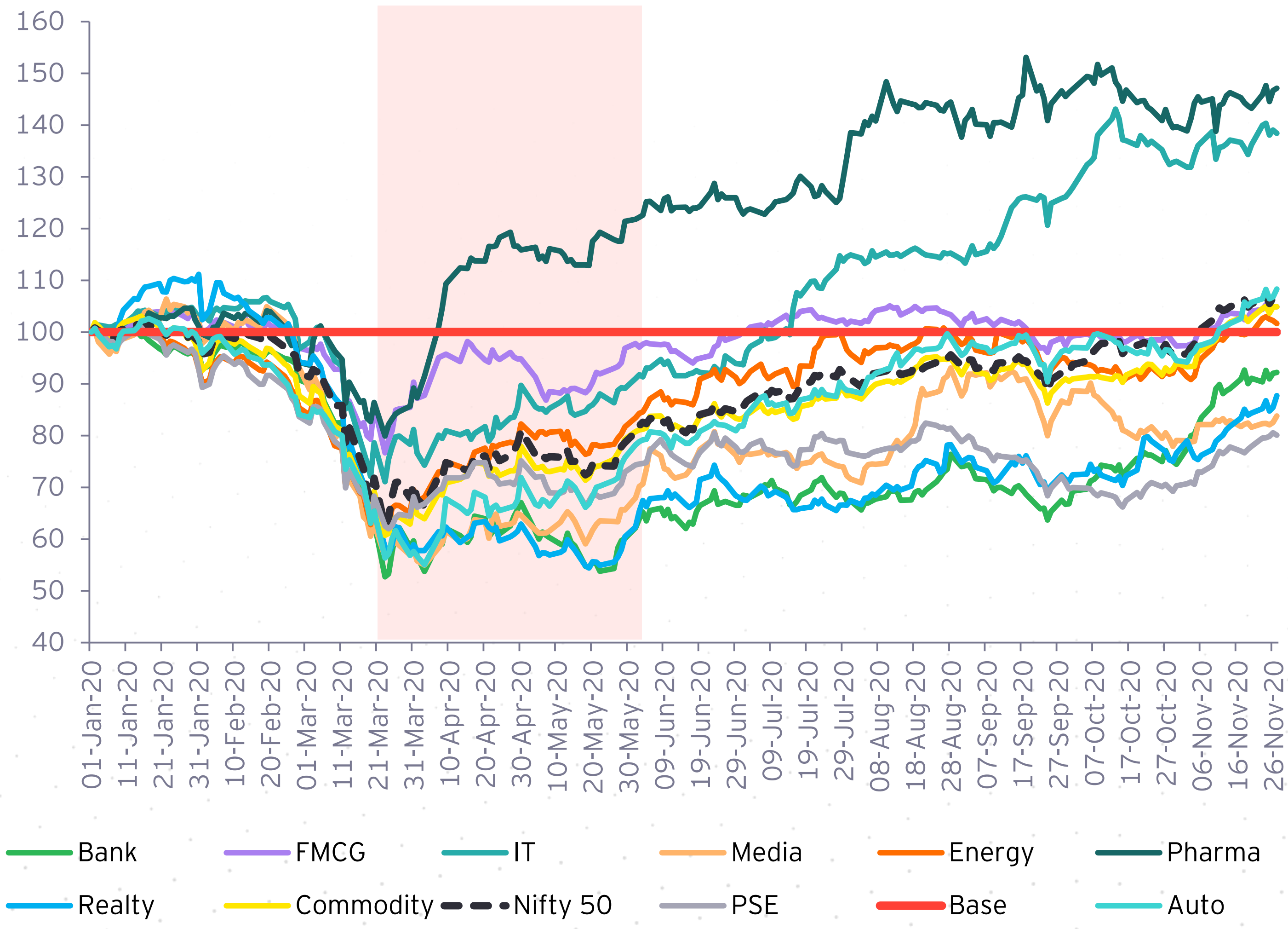
Countries globally are thinking of ways to restore public finances to enable economic reconstruction, post COVID

- Comprehensive fiscal packages given by countries to support businesses and households have led to increased pressure on public finances.
- Governments are considering various measures to raise resources for economic reconstruction.
- Divestments / privatization could be an important revenue raising measure.
- Increased borrowings at very low interest rates and financial repression could also supplement public finances.
- Tax policy will be an important part of the strategy to garner resources.

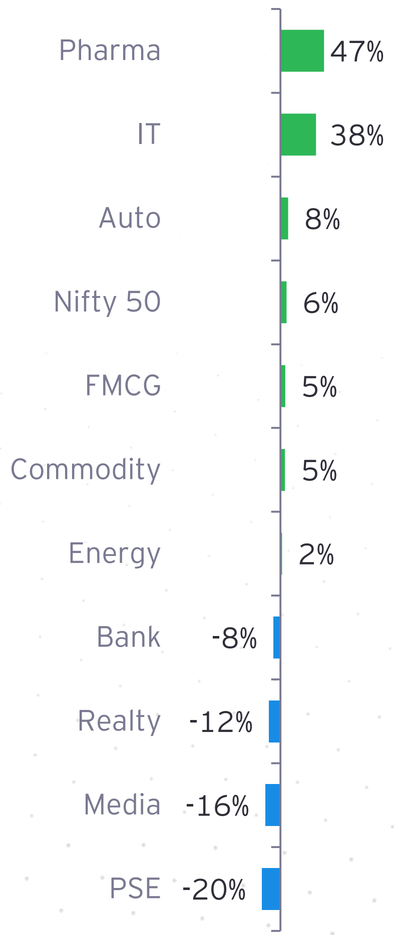
Key tax policy considerations

1. Increasing public pressure on profitable MNEs to pay their fair share of taxes. This may lead to the push for minimum taxation of MNEs Some economies are exploring hike in CIT rate.
2. Taxation of property and personal capital income (taxing the High Net-worth Individuals) is likely to become an important focus area.
3. Move to incentivize domestic manufacture / activity while focusing on rebuilding domestic supply chains rather than global supply chains.
4. Possibility of more unilateral measures for taxing the digital economy, with increased use of digital services and the need to expand revenue.
5. Simplification of tax laws, rates and procedures are likely to enable small enterprises in the informal sector to come into the formal set-up.
6. Increased emphasis on Smart tax administrations through use of new technologies/ digitalization. Focus on greater tax transparency and international cooperation to minimize tax disputes and trade wars.
7. Environment / carbon taxes and specific taxes or cesses could be explored to raise additional revenues.
8. Favourable tax treatment may be limited to investments with positive social spill-over effects, e.g. health, R&D, employment, low carbon technologies.

NSE indices (% change YTD)



NSE indices
(% change YTD)



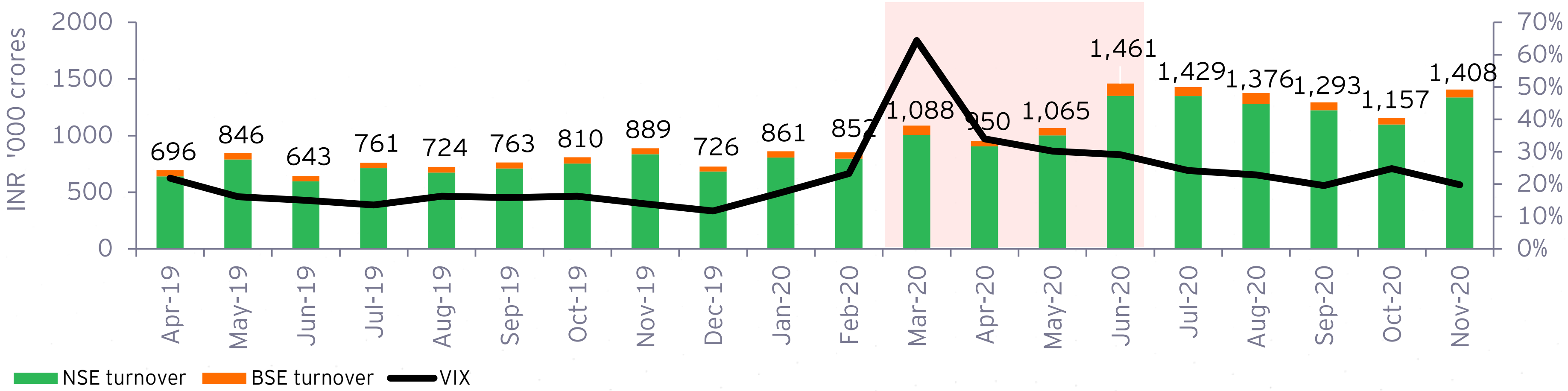
Source: NSE, Bloomberg Quint
Data available as on 30th November 2020

Key findings

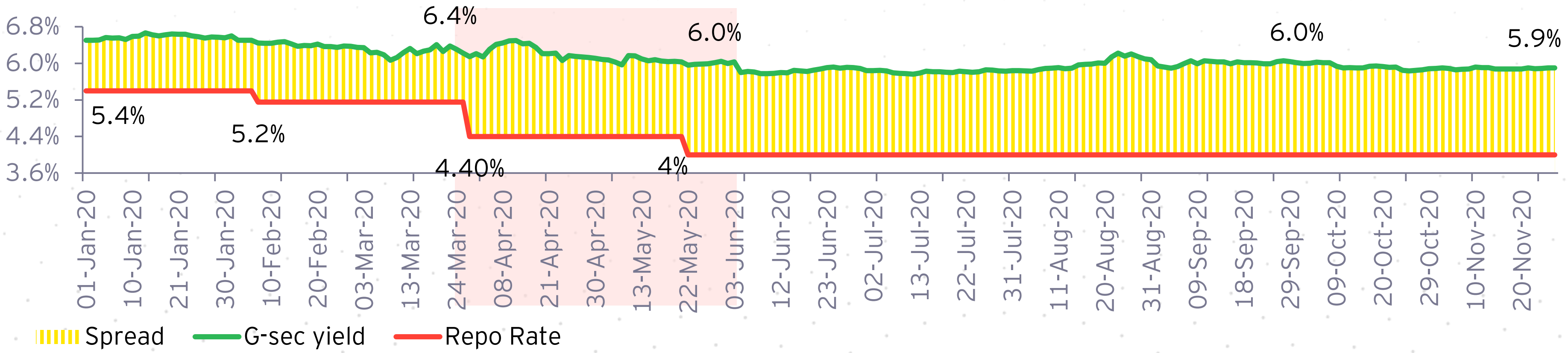
- With the exception of Bank, Realty, Media and PSE sectors, the stock markets are in positive territory in 2020.
- Overall NIFTY 50 is up by 6% with Pharma and IT recording highest increases YTD.

Stock market turnover and interest yields

Stock market turnover and volatility



G-Sec yield, policy rate and spread



Source: NSE, BSE. Data available as on 30th November 2020
VIX is a volatility index based on the NIFTY Index Option prices. It indicates the expected market volatility over the next 30 calendar day

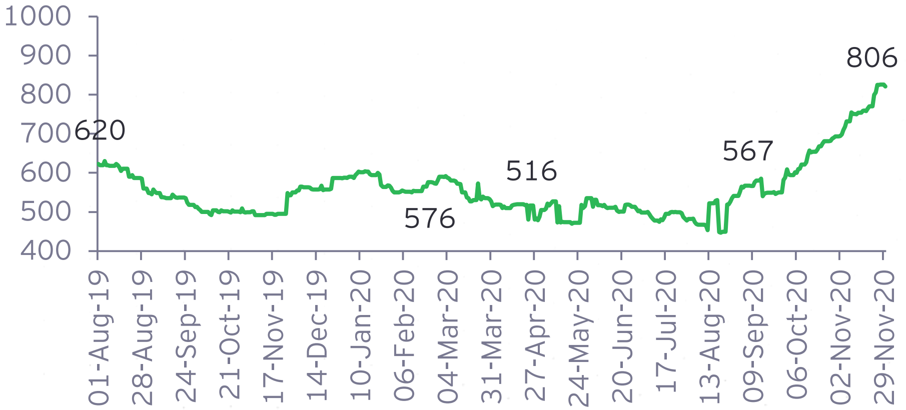
Key findings

- Stock market turnover has not been much impacted by COVID. Even though there was a marked decline in March 2020, the market picked up from April 2020 onwards.
- Bond yields have been steady, though the spread between bond yield and Repo rate has widened.
- Government can continue to raise more money. Government bond yields have not fallen as much as the repo rate due to higher government borrowings and lower investments by the FPIs.

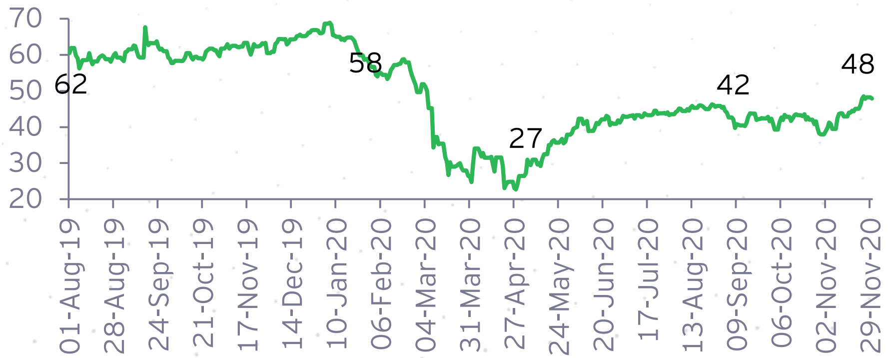
Trends in commodity prices

High grade Copper prices (US$ per lb)

Hot Rolled Coil Steel prices (US$ per tonne)



Crude Oil - Brent Price (US$ per bbl)



Rice - Rough (CBOT) Price (US$ per cwt)

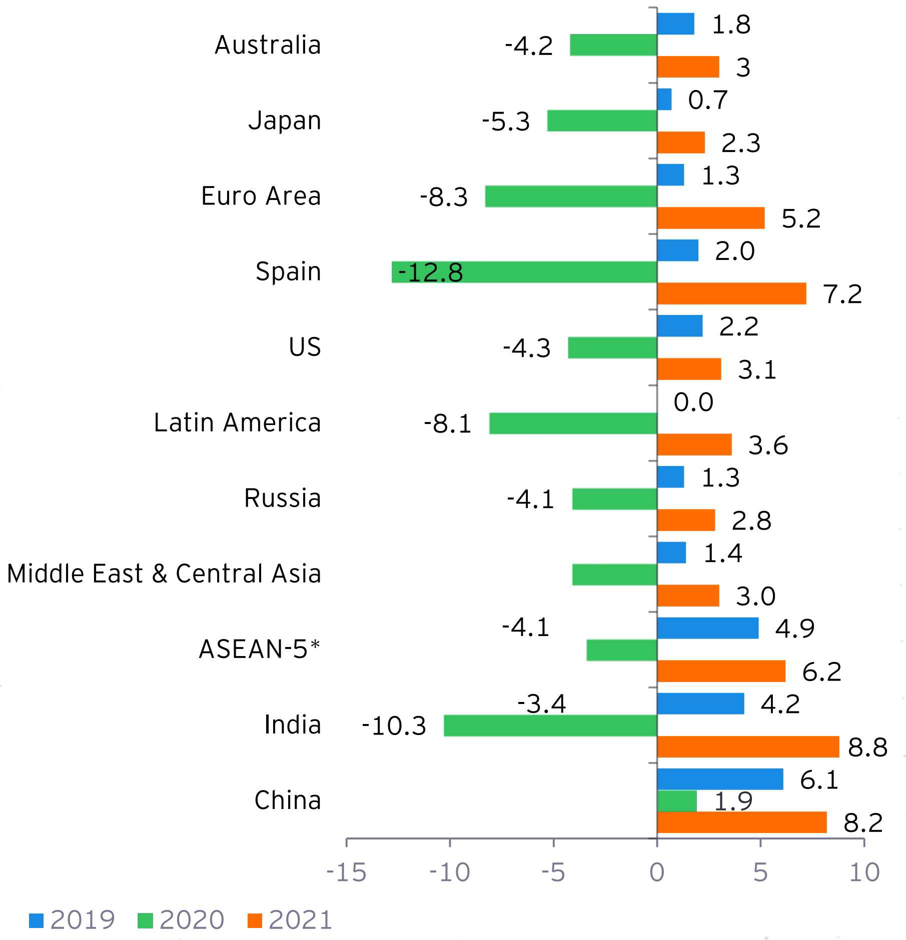
Key findings

- Steel and Copper prices are well above the levels at the same time last year, reflecting the confidence in global manufacturing volumes.
- Steel price increase is also due to an increase in iron ore prices. The latter is a result of temporary supply constraints from key supplier i.e., Brazil.
- Crude oil still trades well below the same period last year. Prices have been steady since June, 2020.

Note: 1. All data as on 30th November 2020; 2. Copper Prices- High Grade, Chicago Mercantile Exchange , Steel Prices- Domestic Hot Rolled Coil, Source: CapitalIQ, MCX

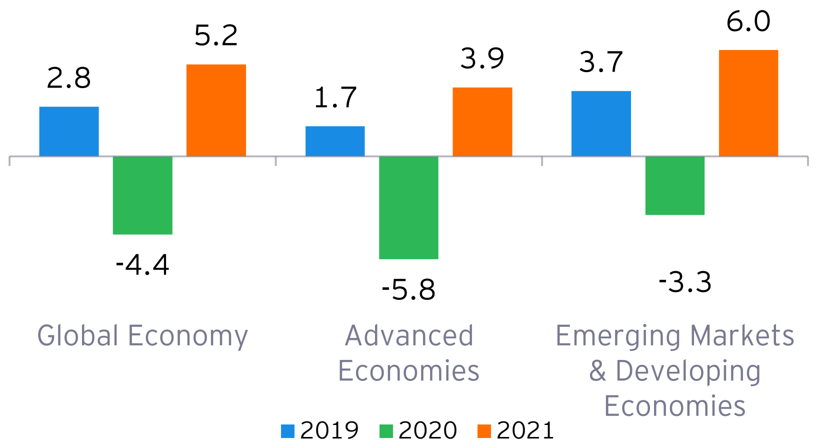
IMF's world economic outlook for 2021 predicts an uneven and uncertain growth

India and other regions



Source: International Monetary Fund, World Economic Outlook, October 2020
**Indonesia, Malaysia, Philippines, Thailand and Vietnam*

Global growth projections (%)



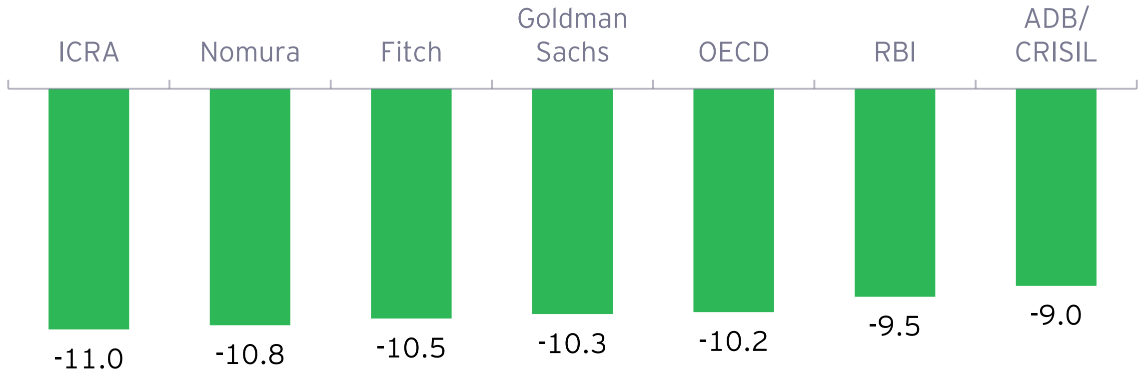
"After the rebound in 2021, global growth is expected to slow to about **3.5%** in the medium term"

Key findings

- The global growth projection for 2020 at (-)4.4 is an upward revision by 0.8 compared to forecast in June due to improved Q2-GDP numbers for advanced economies.
- Except China, output in both advanced economies and EMDEs is projected to remain below 2019 levels for 2020 and 2021.
- The cumulative loss in output relative to the pre-pandemic projections is projected to grow from US$11 trillion over 2020-21 to US$ 28 trillion over 2020-25.
- Sovereign debt levels are set to increase significantly. Lower output also implies a smaller tax base over the medium term, which will further compound difficulties in servicing debt.
- Governments may raise the progressivity of taxes and ensure that corporations pay their fair share of taxes, alongside eliminating inefficient spending.

India's GDP for FY'21 projected in the range of (-)9 to (-)11.0%

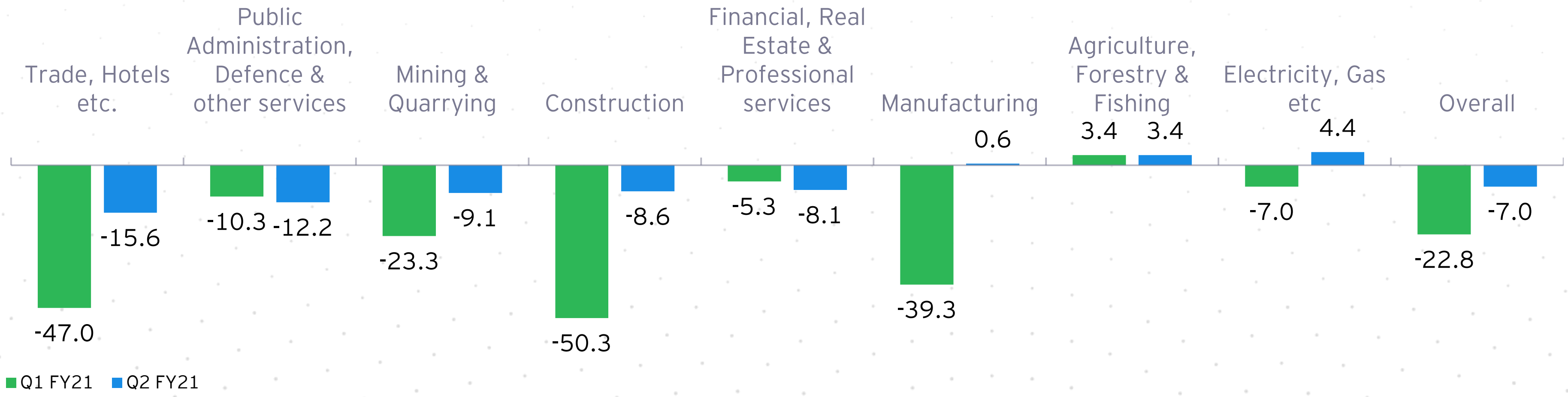
Forecast for India's GDP for FY21



-23.9%
Actual GDP growth for Q1 FY 21

-7.5%
Actual GDP growth for Q2 FY21

Gross Value Added Growth (%): major sectors



Source: EY analysis, MoSPI, GoI, RBI, OECD

Key findings

- GDP growth Q2 of the current fiscal at -7.5% is an improvement over -23.9% in Q1. This indicates that economy is gradually normalizing after the severe COVID shock.
- Construction, financial, real estate and professional services and trade had witnessed the sharpest fall in growth in Q1 FY21. In Q2, construction has shown greater recovery compared to trade and hotels. Together, these sectors represent about 40% of the GDP.
- Manufacturing along with electricity, gas and other utilities now show positive growth – a sign of pick up in economic activity.

Government direction on key policy issues

Monetary Policy	Description and Intent
Interest rate reduction	▶ Since March 2020, the RBI has reduced the repo and reverse repo rates by 115 and 155 basis points (bps) to 4.0% and 3.35% respectively. ▶ Continue to target inflation. ▶ Future inflation is likely to impact any changes in interest rates.
Provide liquidity to the economy and stabilize the financial markets	▶ Liquidity to banks through Long Term Repo Operations (LTROs) of INR 1.12 lakh crore, targeted at corporate bonds. NBFCs, Commercial paper, MSMEs and Housing Finance Companies. ▶ Additional liquidity to banks through 100 basis point cut in CRR and allowing banks to borrow through increase in marginal standing facility.
Liquidity to businesses	▶ Liquidity to be provided to by banks to businesses by banks on a case to case basis ▶ Central Government has not provided any direct liquidity to businesses. ▶ Forbearance on asset classification and bankruptcy by putting a moratorium on new cases. ▶ One time loan restructuring allowed for 26 sectors on a case by case basis by banks.
Aid Central and State governments in their debt management and market borrowings	▶ Increase short term borrowing (ways and means advances) limits for Central and State Governments. ▶ RBI decreasing the interest cost for Government by purchasing Government securities and issuing new debt at lower interest rates .
Supporting Indian Rupee by intervening in forex markets	▶ Regular intervention in the forex markets by purchasing dollars to arrest the appreciation of Rupee as reflected in increased foreign exchange reserves.
Supporting the real estate market	▶ Changes in the risk weights for the real estate sector to support credit expansion to the sector.

Comments

- RBI is actively engaged in ensuring that the banking and financial sector is stable and facilitates credit flow.
- Despite injection of liquidity in the banks, there is very little flow of net credit.
- Relief to businesses has been routed through banks and debt restructuring.

Government direction on key policy issues

Fiscal Policy	Description and Intent
Help the vulnerable sections of the society	▶ Through direct bank transfers, increased outlay for MNREGA and supply of food
Indirect fiscal support to businesses	▶ Fiscal support through banks to businesses in form of loan -- Agriculture, MSMEs, Electricity distribution and NBFCs ▶ Central Government supporting banks through guarantees (contingent liabilities) and not through any direct spending ▶ Possibly not changing the GST or Direct tax rates – reiterated repeatedly by the Government ▶ Signalled towards providing fiscal stimulus through infrastructure spending in the future but limited stimulus on this till date
Shoring up Government finances	▶ Increased the excise duty on petroleum products to shore up revenue ▶ Besides digital tax, no proposal in the public domain to increase taxes or introduce new taxes ▶ Been negotiating with state governments to find solution to the GST revenue shortfall issue and replenishing the compensation cess fund ▶ Aggressive privatization of PSUs ▶ Monetization of government land
Funding of fiscal stimulus	▶ Unlike in advanced economies, limited increase in fiscal deficit and market borrowing ▶ Avoiding deficit financing by RBI ▶ Avoiding a sovereign rating downgrade

Comments

- OECD economies, in general, have relied upon large fiscal stimulus to minimize the fall in economic activity.
- Cost of borrowing for OECD Governments is extremely low and even negative, at times. This aids OECD countries in raising more debt.
- While the yield on Government bonds has come down (See slide 30), the ability to borrow more money may be limited for emerging markets due to credit rating issues, cost of debt and threat of inflation.
- Governments might continue to face demands for fiscal stimulus in the next few months.

Government direction on key policy issues

Reforms with a medium term outlook	Description and Intent
Structural reforms (that can transform a sector) with a medium term outlook	▶ Position India for long term economic growth through further reforms ▶ Create investment opportunities in the agricultural sector through introduction of two new laws and amendment of an existing law ▶ Push on manufacturing (discussed on slide 11) ▶ Proposed reforms in the electricity sector – rationalize tariffs, reduce disputes and implement open access
Measures to attract private capital including foreign capital	▶ Given the shortfall in Government revenues and to get the investment cycle going ▶ Allowing commercial mining of coal ▶ Attracting foreign capital and private capital into infrastructure by modifying and implementing new PPP models e.g., development of railway stations, running on trains, monetization of completed roads, award of new concessions for airports, etc ▶ Marketing of India to foreign investors ▶ Potential opportunities from privatisation and monetization of Government land ▶ Increasing foreign investment in Government securities
Ease of doing business and improving efficiency	▶ Faceless tax assessments ▶ Allowing net settlements of financial contracts ▶ Proposals to decriminalise economic laws

Comments

- Government has responded to the COVID crisis by undertaking difficult reforms, addressing supply side issues and facilitating flow of greater capital into the economy to get the investment cycle going.

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