CARE Ratings
Professional Risk Opinion

Macro Bulletin

December, 2020

GDP and Investment rate

Exhibit 1: Quarterly GDP growth (yoy%)

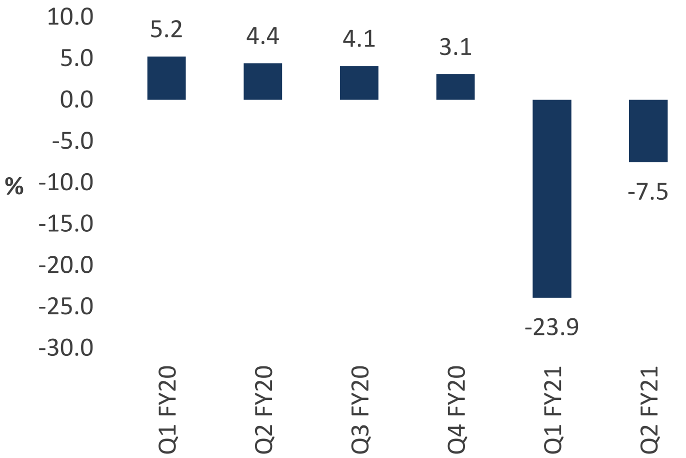
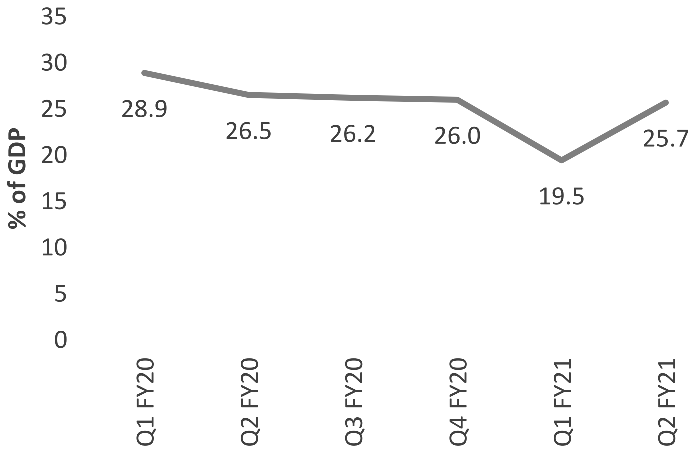


Exhibit 2: GFCF as a % of GDP (current)



Source: MOSPI

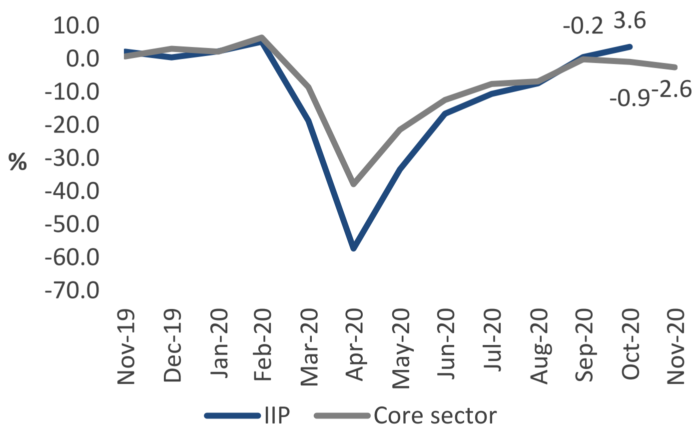
- Following the Unlock phases initiated by the government and resumption of economy activities, the Indian economy registered slower contraction by 7.5% in Q2 FY21 compared with the 24% fall depicted in the preceding quarter though was much lower than the 4.4% growth in Q2 FY20. Having contracted for two successive quarters the economy slipped into technical recession.
- The gains in the domestic economy in Q2 FY21 were powered by manufacturing (0.6%) in account of higher activity with the easing of the lockdown restrictions as well as favorable base effect. Agriculture sector witnessed near stable growth at 3.4%. The overall services sector registered a contraction of 11.4% in Q2 FY21 against the 6.5% growth in Q2 FY20.
- Consumption demand continued to be weak with private as well as government consumption registering negative growth. Private consumption which is driver of the economy (accounting for 58% of the GDP) witnessed a contraction in growth of (-) 11.32% in growth rates in Q2 FY21 from year ago (6.4%). Government consumption too witnessed a sharp decline in growth of (-) 22.2% in Q2 FY21.
- Investment growth continued to contract. Gross capital formation or investments was 7.5% lower in Q2 FY21 from year ago. As a percentage of GDP, investments (as measured by the Gross Fixed Capital Formation) at 25.7% in Q2 FY21 was an improvement from 19.5% in the previous quarter.

Output – Manufacturing and Services

- In October 2020, the **industrial production** based on Index of Industrial Production (IIP) rebounded to a 8 month high and grew by 3.6% yoy as against a contraction by 6.6% in the corresponding month of last year and the 0.2% growth in September 2020. The growth during the month has been supported by favorable base effect, which resulted in significant growth registered by the manufacturing and electricity segment. Based upon the use-based classification, 5 year high growth in consumer durables, capital goods and infrastructure/construction goods output growth at a near 2 year high has aided the overall output to expand suggestive of recovery in investment activities as well as consumer demand during festive season.

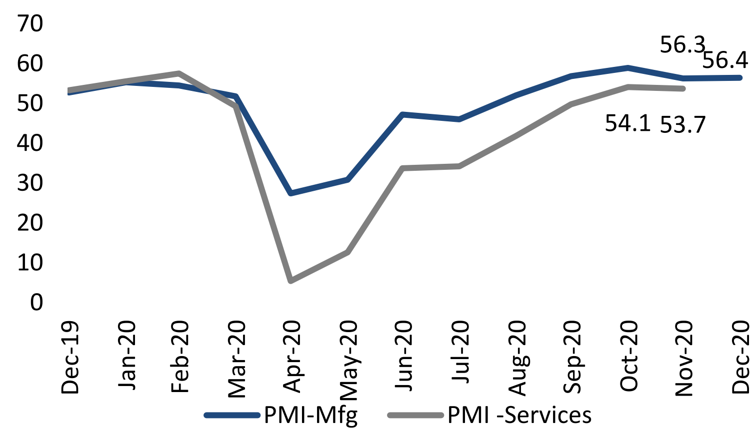
- In November 2020, the **eight core sectors output** growth remained in a negative trajectory for the 9th successive month. During the month, the eight core sectors output contracted by 2.6% year on year as against the 0.7% growth in the same month of last year. The output growth during the month was also lower than the 0.6% de-growth in October 2020. The decline in growth can be ascribed to persistent fall in crude oil, refineries, natural gas, cement and steel output.
- In December 2020, the **IHS Markit Manufacturing PMI** improved marginally at 56.4, a bit higher than 56.3 in November 2020 indicating persistent improvement in the manufacturing sector. Factory orders increased in December 2020 reflecting the loosening of COVID-19 restrictions, strengthening demand and improved market conditions. Manufacturers also stepped up production and input buying amid efforts to rebuild their inventories following business closures. Employment continued to disappoint while the export order grew at a slower pace.
- **IHS Markit India Services PMI** expanded for the second consecutive month at 53.7 in November 2020 though was lower than 54.1 in October 2020. It was supported by a further upturn in new work supporting business activity growth and the first rise in employment for nine months.

Exhibit 3: Industrial Production (% yoy change)



Source: MOSPI

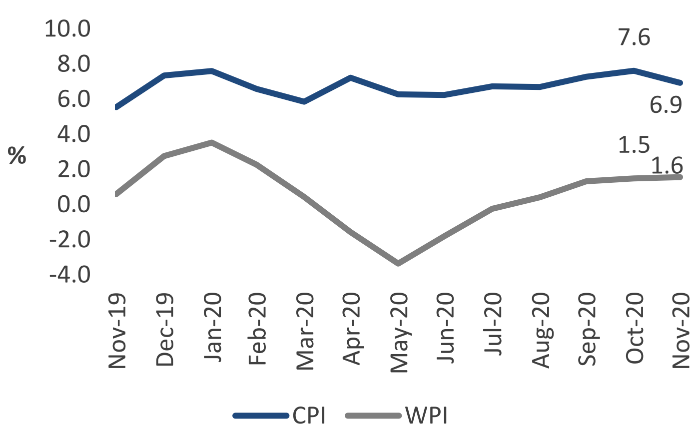
Exhibit 4 : Nikkei PMI



Source: IHS markit

Price Levels

Exhibit 5: Inflation (YoY%)

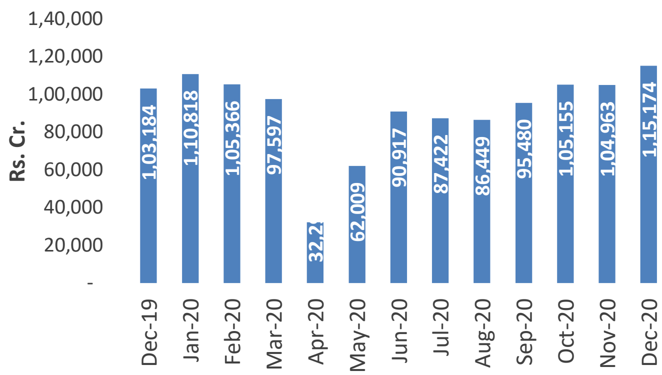


Source: MOSPI

- **Retail inflation** for November 2020 was at 6.9%. There has been an easing in retail inflation on month on month basis, aided by the moderation in food inflation. It however remained above 4% inflation target of the RBI for over a year while breaching upper tolerance level of 6% for 8 months in a row. Core inflation firmed up in November to the highest levels in over two year at 5.8%.
- **Wholesale inflation** firmed up to 9-months high of 1.6% in November 2020, driven by the price gains in the manufacturing segment which has risen to a 2 year high. At the same time, wholesale prices of food items moderated from a year ago and the fuel segment continued to be deflationary territory.

Fiscal situation

Exhibit 6: GST Collections (Rs. Cr)



Source: Ministry of Finance

Table 1: Fiscal Situation (Rs. Cr.)

Snapshot of Central Government Finances (Rs. Crores)						
	Budget Estimates FY21	FY20 (Apr-Nov)	FY21 (Apr-Nov)	% change	% of Budget Apr-Oct'20	% of Budget Apr-Oct'19
Revenue Receipts	20,20,926	9,83,214	8,12,710	-17.3	**40%**	**50%**
Capital Receipts	2,24,967	18,099	6,179	-65.9	3%	17%
Revenue Expenditure	26,30,221	16,06,215	16,65,200	3.7	63%	66%
Capital Expenditure	4,12,009	2,13,842	2,41,158	12.8	58%	63%
Fiscal Deficit	**7,96,337**	**8,07,834**	**10,75,507**	**33.1**	**135%**	**115%**

Source: CGA

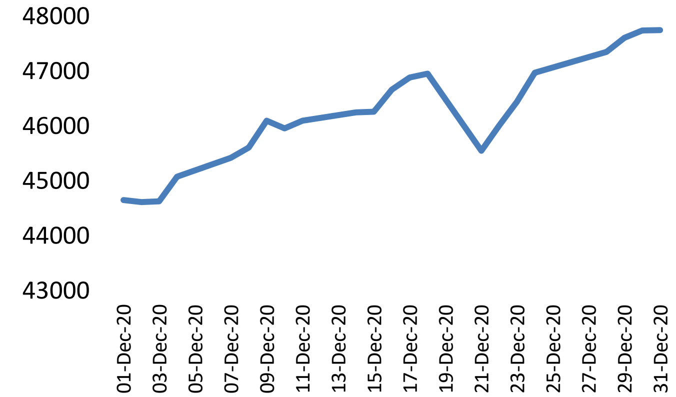
- **GST collections** for December rose to Rs 1.15 lakh crore, the highest ever since the implementation of the nationwide tax in July 2017. This is the fourth consecutive month this year that GST collections have outperformed comparable months from 2019 suggestive of possible recovery from the pandemic led disruptions. These were 11.6% higher than the same month of last year. However, During April-December'20, total GST collection amounted to Rs. 7.8 lakh crore, 14% lower than Rs. 9.1 lakh crore in the corresponding period of last year.
- During April – November 2020, the **fiscal deficit** stood at Rs.10.75 lakh crore which is 33% higher than the corresponding period of last year and is 135% of the budget estimate. This highlights the financial stress faced by the government with the decline in income and increase in expenditure which has led the significant widening of the fiscal deficit. Total receipts have been 18% lower during these eight months while the total expenditure has grown by 5% compared with the same months a year ago. Financing of the fiscal deficit is mainly by way of market borrowings.
- **Revenue receipts** have declined by nearly 17% and are only 40% of the budget estimate. Lower tax and non-tax revenues have dragged down the income of the central government in the current financial year. Barring receipts from excise duties and interest, the collections from all the other major heads of revenues during the first eight months of 2020-21 have been lower than year ago.
- **Capital expenditure** of the central government has been 13% higher than year ago and the outgo is nearly 58% of the budget estimate. It's mainly incurred on defence (30% share), roads (22% share), railways (16%) and food & public distribution (5%).

Capital Markets

- The Indian equity markets gained further in December 2020 reaching historic highs. Sensex closed higher by 8.2% while Nifty 50 gained by 7.8% by the month end. Broadly, the sentiments were driven by positive global cues following authorisation of emergency use and subsequent rollout of COVID-19 vaccine in the US and the UK, approval of US stimulus package, the post-Brexit trade deal, monetary support from the Federal Reserve and European Central Bank outweighing surge in infection cases in the US and the UK, a discovery of highly transmissible new mutant of COVID-19 virus in the UK resulting in travel bans from countries, re-imposition of restrictions in several European countries that kept the investors wary. Domestically, fall in daily infection cases, a status quo, faster than expected recovery in Q2 FY21, upward revision in the economic growth forecast for FY21 by the RBI, heightened expectations over vaccine rollout along with sustained FPI inflows drove the markets higher.

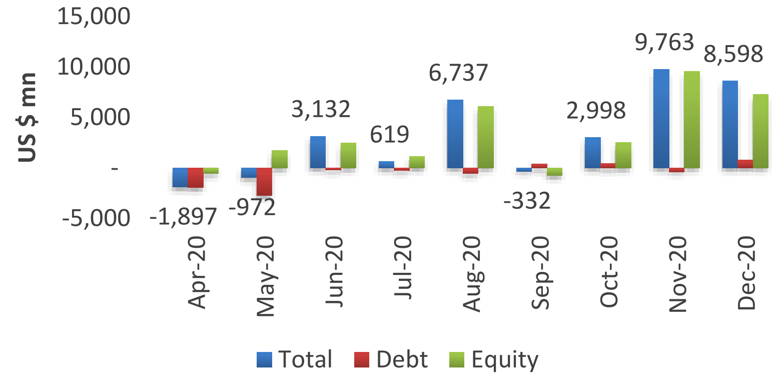
- In December 2020, the **Foreign Portfolio Investors (FPIs)** continued to pump in funds in the markets. The foreign investors remained net buyers during the month with inflows amounting to US $ 8.6 billion both in the equity as well as debt segment. The equity segment witnessed robust inflows aggregating US $ 7.3 billion while the inflows in debt segment were US $ 766 million. Ample liquidity in the global markets following monetary and fiscal stimulus announced by advanced economies, hopes over quick economic recovery with vaccine rollout, attractive valuations and weakness in the US dollar led to persistent inflows during the month.

Exhibit 7: Sensex daily



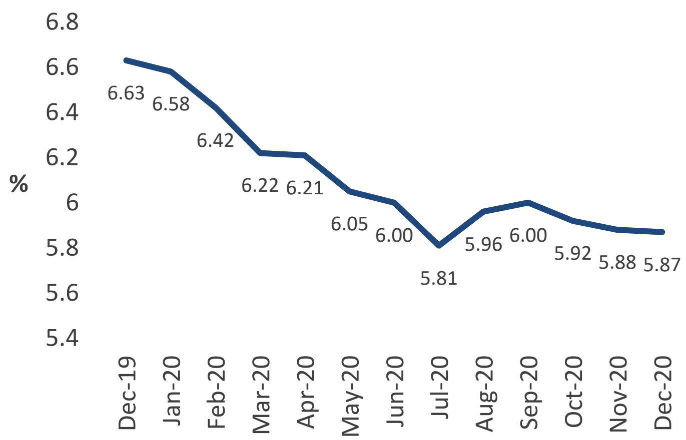
Source: BSE India

Exhibit 8: Net FPI flows



Source: NSDL

Exhibit 9: 10 year G-Sec Yield (%)



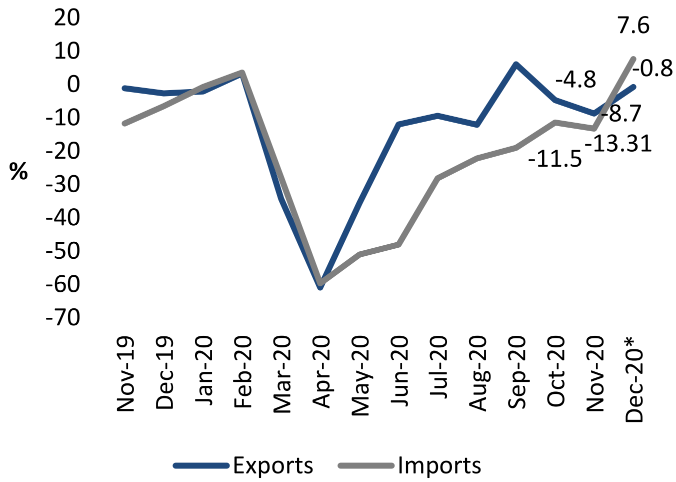
Source: FIMMDA; Average for December has been computed based on the new benchmark GSec 5.85%

- The average benchmark **10 year GSec yields** remained near steady from a month ago level at 5.87% in December 2020. A status quo maintained by the RBI in its monetary policy, moderation in inflationary pressure along with simultaneous OMO purchase and sale supported the yield. However, weak demand for dated securities, concerns over excess supply of government securities and elevated inflation level curtailed the downside to yields.

External Sector

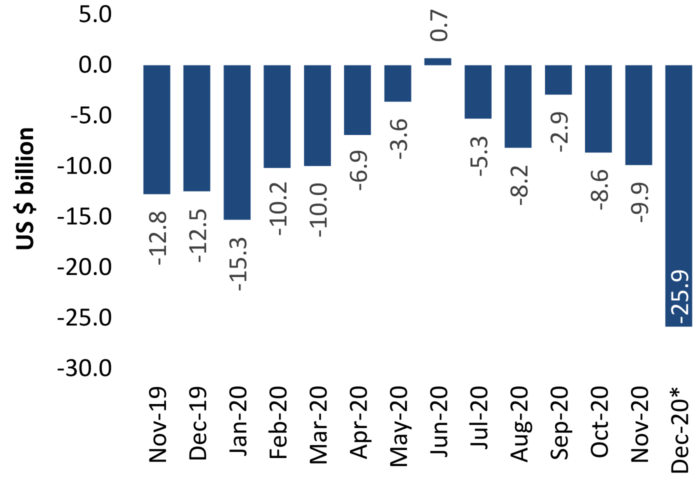
- As per the provisional data**, in December 2020**, the trade deficit widened by 25.78% at $15.71 billion, as compared to the trade deficit of $12.49 billion. The exports have declined by 0.8% due to contraction in sectors like petroleum, leather and marine product.
- In December 2020, imports grew by 7.6% (prov.) on year on year basis supported by increase in gold shipments, electronic good and vegetable oil imports.
- **Rupee** strengthened in December 2020 by 0.8% on account of sustained FPI inflows supported by ample liquidity in the global markets and vaccine rollout in the advanced economies that boosted optimism over quick economic recovery in 2021, raising the risk appetite amongst the investors.
- **Foreign exchange reserves** reached to historic–high of $ 581 billion with sustained foreign investment inflows in the country.

Exhibit 10: Trade Growth (yoy%)



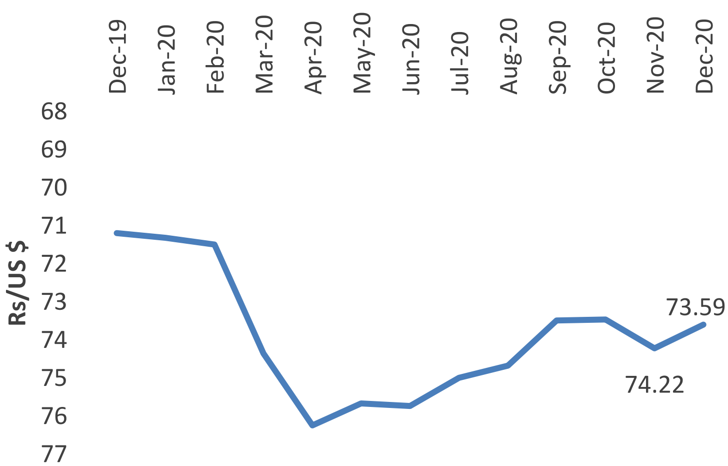
Note: * Provisional Data
Source: Ministry of Commerce and Industry

Exhibit 11: Trade Deficit ($ bn)



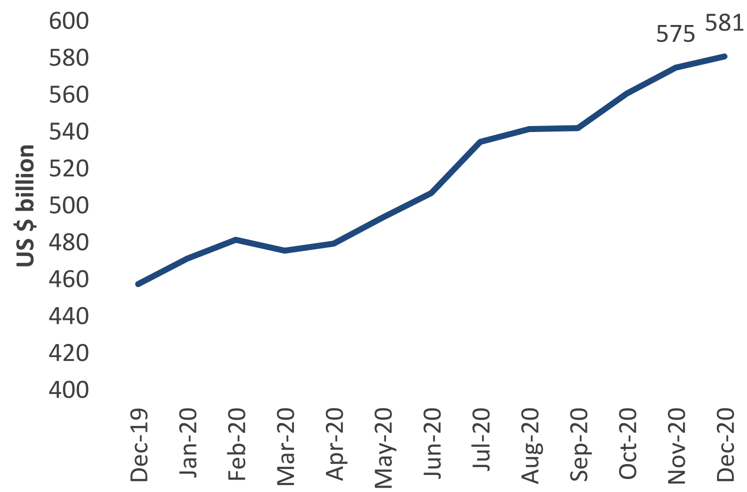
Note: * Provisional Data
Source: Ministry of Commerce and Industry

Exhibit 12: Rupee Exchange Rate



Source: CMIE

Exhibit 13: Forex Reserves



Source: RBI

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