

CRISIL India Insights

Jul – Aug 2020

Optimism pours

In the two months since the April lockdown brought large parts of the Indian economy to a grinding halt, recovery has, at best, been wobbly. Economic activity is sub-normal and is likely to remain so this quarter. Reintroduction of containment measures in several regions will once again put the brakes on economic activity. In short, the downside risks to our gross domestic product (GDP) growth outlook of -5% for the current fiscal are rising.

Amid the doom and gloom, one sector that is likely to emerge as a beacon of hope is agriculture. With only 15% share in GDP, agriculture does not have the heft to offset the deep hit to non-agricultural sectors. But, it still supports over 40% of the working population in India. Satisfactory progress of monsoons and sowing trends in kharif (summer crops) offer hope that agriculture growth would be normal this year.

Big part of this optimism springs from the monsoons' performance this year so far. July and August are the two most critical months, accounting for ~63% of overall monsoon precipitation. Rainfall distribution across states has been relatively even, compared to previous years. Till July 16, rains have been 10% above normal at the all-India level, with central, eastern, northeastern and south peninsular regions benefitting the most. Timely arrival has sped up sowing activity across crops.

Increase in minimum support prices and abundant rains seem to have driven higher sowing of pulses and coarse cereals. Sowing activity covered 55% of total all-India acreage for the season as of July 10. This is 44% higher on-year. Sowing is higher for all crops (except jute and mesta), but especially high in pulses, which is ~2.6 times more on-year.

Against the backdrop of the pandemic, agriculture-dependent states could do somewhat better than others this fiscal. Then, there are states with a huge number of Covid-19 cases, like Maharashtra and Haryana, where good monsoons bring hope. Maharashtra has high dependence on agricultural employment, while Haryana has relatively high dependence on agricultural output. Concerns remain, however, about those with lower share of agriculture in state output and employment, and hit hard by the pandemic's impact on non-agriculture sectors.

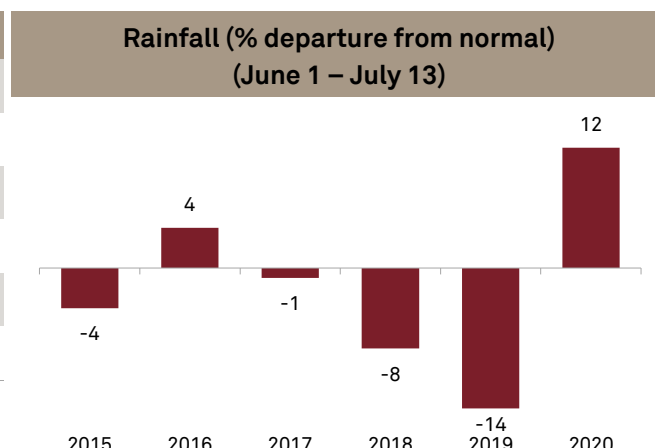
Good performance of agriculture augurs well for rural demand, too. Additional support to the rural economy comes from policy thrust via PM Kisan and topping up of the Mahatma Gandhi Rural Employment Guarantee Scheme by ~Rs 40,000 crore for this fiscal.

All this seeds hope that agriculture can lift the overall economy from sinking too low this fiscal.

	FY19	FY20	FY21F
GDP (% y-o-y)	6.1	4.2	-5
CPI inflation (% average)	3.4	4.8	4.0
Fiscal deficit (% of GDP)	3.4	3.8*	3.5^
10-year G-sec yield (% March)	7.5	6.2	6.5
CAD (% of GDP)	2.1	0.9	-0.8
Rs per \$ (March)	69.5	74.4	74

*Revised estimate, ^Budget estimate

Source: National Statistical Office (NSO), RBI, budget documents, Ministry of Finance, CRISIL Research

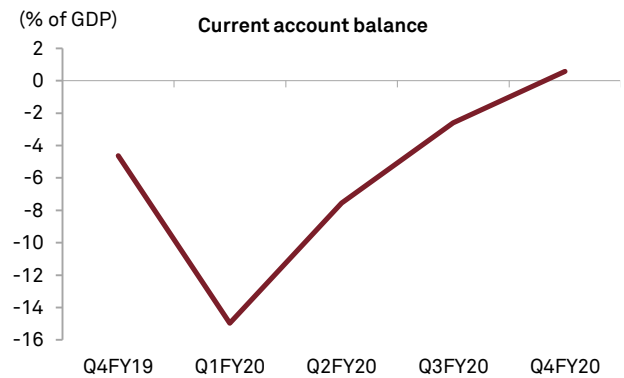


Source: India Meteorological Department, CRISIL

CAD

Current account may be in surplus this fiscal

- India's current account balance came in at a small surplus of \$0.6 billion (0.1% of GDP) in Q4 of fiscal 2020 – first time since 2007. Reduction in goods trade deficit and increase in services trade surplus and income receipts from abroad drove the improvement
- Current account deficit (CAD) for fiscal 2020 stood at 0.9% of GDP, sharply lower than 2.1% of GDP in fiscal 2019
- CRISIL expects India's current account balance to average a surplus 0.8% of GDP in fiscal 2021 against a deficit 0.9% of GDP in fiscal 2020

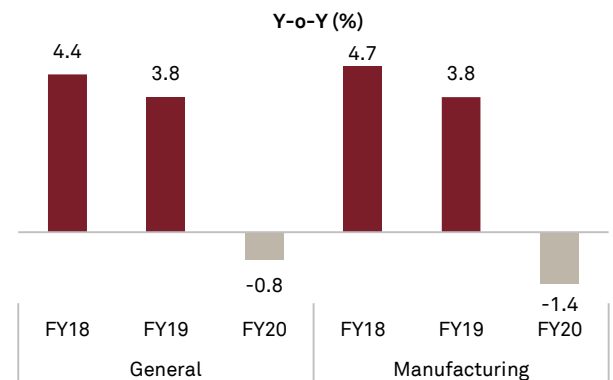


Source: RBI, CRISIL

Industrial Production

Clambering up, but downside risks abound

- May's estimates of the Industrial Production (IIP) at 88.4, mining at 87, manufacturing at 82.4, and electricity at 149.6, are higher than that for April. But, the data does not give much insight into the industrial sector's performance in the month
- Other high-frequency indicators though suggest industrial activity bounced back in May with restrictions easing
- Yet, continued surge in pandemic cases and social distancing measures, early indicators for June suggest the revival may not have retained its pace

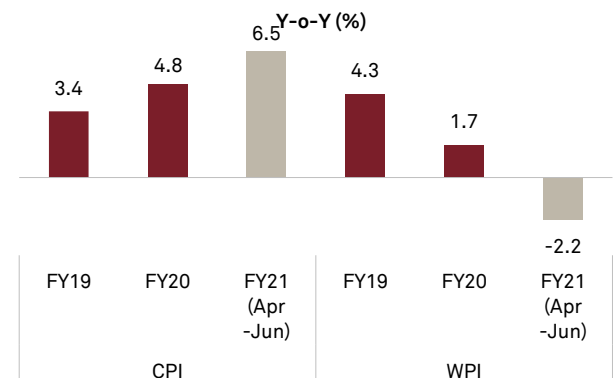


Source: NSO, CRISIL

Inflation

CPI inflation inches towards the RBI's target band

- Consumer Price Index (CPI)-linked inflation softened to 6.1% in June, almost touching the upper end of the Reserve Bank of India's (RBI) target band of 2-6%, from 7.2% in April on lower food inflation
- Core inflation continues to remain elevated on account of high petrol and diesel and gold prices, besides rising health inflation
- CPI inflation averaged 4.8% in fiscal 2020, compared with 3.4% in fiscal 2019
- CRISIL estimates inflation to soften to 4.0% in fiscal 2021 from 4.8% in fiscal 2020

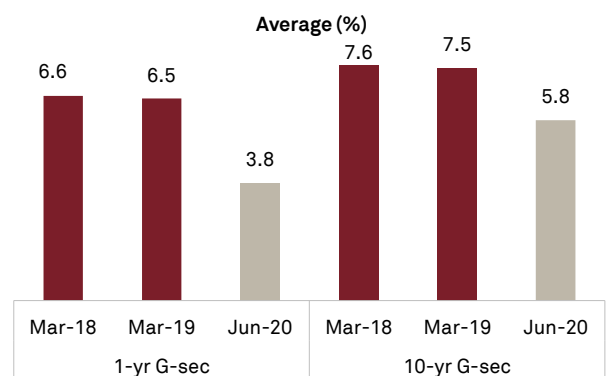


Source: NSO, CRISIL

Interest Rate

Upward pressure

- Yield on the 10-year government security (G-sec) increased 8 basis points on-month to an average 5.84% in June
- Rising crude oil prices and foreign portfolio investor outflows, coupled with high government borrowing, put pressure on yields
- However, the Operation Twist announcement, surplus liquidity conditions and low interest rates kept yields at benign levels
- CRISIL expects the 10-year G-sec yield to rise and average 6.5% in March 2021 compared with 6.2% in March 2020

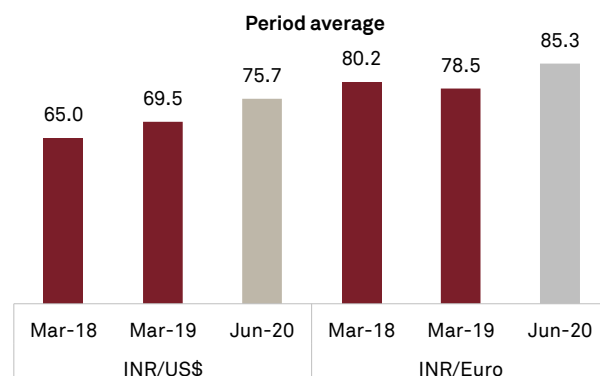


Source: Clearing Corporation of India Ltd, CRISIL

Rupee

In calm waters

- Rupee depreciated 0.1% on-month in June, averaging 75.7/\$. Concerns over the pace of domestic economic recovery after the spike in Covid-19 cases persisted, putting downward pressure on the currency
- The return of foreign investor inflows supported the rupee. Trade surplus following steep fall in imports cushioned the impact of rising crude prices
- CRISIL expects the rupee to average 74/\$ dollar this fiscal-end

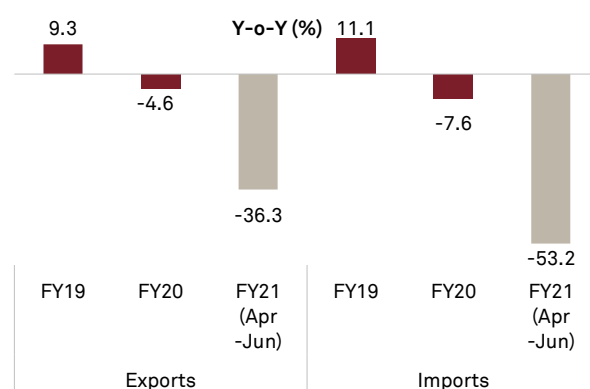


Source: RBI, CRISIL

Trade

The exports rebound

- Merchandise exports declined at a slower rate of -12.4% on-year in June compared with -36.2% previous month. Import decline remained steep at -47.6%, almost similar to -52.4% in May
- Trade balance turned surplus for the first time since 2002, at \$0.8 billion compared with a deficit of \$3.2 in May and \$15.3 billion in June last year. The surplus is a result of weak domestic demand
- Services trade surplus printed at \$6.8 billion in May, \$0.3 billion lower on-month but \$0.6 billion higher on-year



Source: Ministry of Commerce, CRISIL

Global developments

Parameters		US	UK	EA	Japan	China
GDP (q-o-q, annualised %)	Q1-2020	-5.0	-2.2*	-3.6*	-2.2	-6.8 [^]
CPI inflation (y-o-y %)	May'20	0.1	0.5	0.1	0.1	2.4
Trade balance (national currency, billion)	May'20	-54.6	4.3	9.4	-838.2	64.3 [#]
Policy rate (%)	Jun'20	0-0.25	0.10	0.0	-0.1	3.85

Note: *Not annualised, [^]y-o-y, [#]\$ billion

Source: Statistical bureau, respective countries

- With the United States (US) economy reopening, jobs data improved in June. Unemployment declined further to 11.1% (vs 13.3% in May). CPI inflation rose to 0.6% from 0.1%. Trade deficit increased to \$54.6 billion in May, from \$49.8 billion in April. The US Fed maintained its policy rate near zero, committing to keep it at low levels until deemed necessary. The Fed also increased the pace of its bond-buying programme, including purchase of both Treasury and mortgage-backed securities
- After double digit de-growth in April, United Kingdom's (UK) GDP grew 1.8% in May. CPI inflation was 0.5% in May, down from 0.8% in April. Trade surplus widened to £4.3 billion in May compared with £2.3 billion surplus in previous month. In its June meeting, the Bank of England kept bank rate steady and increased its asset purchase programme by £100 billion
- Inflation in the euro area (EA) rose moderately in June to 0.3% from 0.1% in May. Seasonally adjusted unemployment rate continued to climb in May, albeit mildly, to 7.4% from 7.3% in April
- Japan's trade deficit stood at ¥0.8 trillion in May, with exports falling more than imports and pace of decline much sharper than the previous month, indicating trade continues to be severely affected by the pandemic. CPI inflation in May remained flat
- In China, trade has bounced back, with growth in both exports and imports, indicating revival in demand. The Purchasing Managers' Index was 50.9 in June, up 0.3 percentage points from May. The central bank stated it does not see the need for any more emergency stimulus for the rest of the year, signalling the economy is possibly out of the woods.

Data Summary

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Industrial Production* (% y-o-y)						
General	2.2	5.2	-18.3	-57.6	-34.7	-
Mining	4.4	9.6	-1.4	-27.0	-21.0	-
Manufacturing	1.8	3.8	-22.4	-67.1	-39.3	-
Electricity	3.1	11.5	-8.2	-23.0	-15.4	-
Primary Goods	1.8	8.2	-4.1	-26.6	-20.0	-
Capital Goods	-4.4	-9.6	-38.3	-92.6	-64.3	-
Intermediate Goods	15.6	23.0	-18.5	-65.4	-44.1	-
Infrastructure and Construction Goods	-0.3	2.8	-25.2	-84.7	-42.0	-
Consumer Durables	-3.7	-6.2	-36.5	-96.0	-68.5	-
Consumer Non-Durables	-0.6	-0.3	-20.2	-48.7	-11.7	-
Inflation (% y-o-y)						
WPI-All Commodities	3.5	2.3	0.4	-1.6	-3.2	-1.8
WPI-Primary Articles	10.0	6.5	2.2	-1.1	-2.9	-1.2
WPI-Manufactured Products	0.6	0.5	0.3	0.2	-0.4	0.1
WPI-Fuel & Power	5.4	3.1	-2.9	-12.6	-19.8	-13.6
CRISIL Core Inflation Indicator (CCII)	1.2	1.2	1.0	0.7	0.5	0.8
CPI (General)	7.6	6.6	5.8	7.2	6.3	6.1
Merchandise trade (% y-o-y)						
Exports	-2.2	3.2	-34.7	-60.2	-36.2	-12.4
Imports	-0.8	2.5	-28.7	-59.6	-52.4	-47.6
FOREX Reserves (\$ billion)**	457.5	471.3	481.2	477.8	481.0	506.8
Markets**						
BSE SENSEX	40723	38297	29468	33718	32424	34916
NIFTY 50	11962	11202	8598	9860	9580	10302
SENSEX P/E	24	23	18	21	20	23
Exchange Rate*						
INR/\$	71.3	71.5	74.4	76.2	75.7	75.7
INR/GBP	93.3	92.7	92.0	94.6	93.0	94.9
INR/EURO	79.2	78.1	82.3	82.7	82.5	85.3
INR/ 100 YEN	65.3	65.0	69.3	70.8	70.6	70.4
INR/Chinese Yuan	10.30	10.22	10.62	10.77	10.65	10.69
Interest Rates (%)**						
Base rate [§]	8.45-9.40	8.45-9.40	8.15-9.40	8.15-9.40	8.15-9.40	7.40-9.00
1-Year Gol Paper [@]	5.48	5.34	5.04	4.23	3.81	3.75
10-Year Gol Paper [@]	6.58	6.42	6.24	6.27	5.75	5.84

Note: *Data for April and May 2020 are not comparable with those of preceding months, #Monthly averages, ##Month-end, @Semi-annualised, §10 banks, **As on June 26, 2020

Source: RBI, Government of India (Gol), Bombay Stock Exchange, NSO, CRISIL Research

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