# Minus nine now

## GDP growth in fiscal 2021 will dive deeper as risks coalesce

September 2020

**Research**

CRISIL
An S&P Global Company

## Analytical contacts

**Dharmakirti Joshi**
Chief Economist
dharmakirti.joshi@crisil.com

**Dipti Deshpande**
Senior Economist
dipti.deshpande@crisil.com

**Adhish Verma**
Senior Economist
adhish.verma@crisil.com

**Pankhuri Tandon**
Economist
pankhuri.tandon@crisil.com

**Amruta Ghare**
Junior Economist
amruta.ghare@crisil.com

# Contents

# Executive summary

# The fall from the worst

In our May 26, 2020, GDP outlook, we said India's worst recession in decades was at hand. Come September, and we foresee it contracting further by a rate not seen since the 1950s.

- **Growth outlook for fiscal 2021:** CRISIL revises its real GDP growth forecast for India in fiscal 2021 to -9% from -5% projected in May. With the pandemic's peak not yet in sight and the government not providing adequate direct fiscal support, the downside risks to our earlier forecast have materialised. If the pandemic were to peak out in September-October, GDP growth could move into mildly positive territory towards the end of this fiscal. Even in that event, manufacturing is expected to revive faster compared with services. But the risks to our outlook remain tilted to the downside till such time a vaccine is found and mass produced

- **Permanent scars:** We expect a permanent loss of 13% of real GDP over the medium term. In nominal terms, this amounts to Rs 30 lakh crore*. This is much higher than a 3.0% permanent hit to GDP in Asia-Pacific economies (ex-China and India) over the medium run estimated by S&P Global in June[1]. Catch-up with the pre-pandemic trend value of real GDP would require average real GDP growth to surge to 13% annually for the next three fiscals – a feat never before accomplished by India

- **The viral drag:** The number of confirmed Covid-19 cases have crossed 42 lakh as on September 7 and India continues to be the largest contributor to the daily global tally.

    - The overall caseload still remains concentrated in states which have a major share in India's GDP: Maharashtra, Tamil Nadu, Karnataka and Andhra Pradesh together account for ~54% of India's total confirmed cases as on September 7, and ~36% of India's GDP

    - The pandemic is now rapidly spreading from metropolitan to smaller cities and rural areas. Of all the districts with 1,000+ cases, almost half were rural as on August 31, up from 20% in June

    - The stringency of lockdown (as per the Oxford Stringency Index) has reduced from its April-May level as the Indian government started opening up economic activities. But the index has broadly plateaued since June as there has been back and forth on containment measures, with regions facing faster spread reintroducing restrictions and others relaxing them

- **Second-quarter GDP growth expectation:** High-frequency indicators, both conventional and unconventional (such as Google's Community Mobility Reports), correlate reasonably well with GDP estimates. In the April-June quarter, GDP contracted 23.9% (against our forecast of 25%), but that did not come as a surprise as these indicators were indicating a deep hit. But thereafter, till August end, they showed recovery from April levels, yet remained below pre-pandemic levels, implying the economic contraction continued, albeit less severely than in the first quarter. Hence, we expect GDP to contract 12% on-year in the second quarter of fiscal 2021

- **How robust is the rural economy?**
    - We expect agricultural GDP to grow 2.5% on-year this fiscal, given normal and a largely well-distributed monsoon, and healthy sowing and ground water situation. While agriculture does not have the heft to offset the sharp contraction in non-agricultural sector (accounting for 85% of GDP), it punches more than its weight in GDP – its share in employment remains the highest at 44% and is a critical supplier of much-needed nutrition during the pandemic

    - The non-agriculture economy represents two-thirds of the rural economy, and though affected by the pandemic, appears to have held up better

---

[1] *June 25, 2020, S&P Global Ratings, "Asia-Pacific Losses Near $3 Trillion As Balance Sheet Recession Looms"*

**1 lakh crore = 1 trillion, 1 lakh = 100,000, 1 crore = 10 million* than its urban counterpart. This is reflected in demand for products with rural footprint such as tractors, motorcycles and fast moving consumer goods. But rural wages remain depressed and remittances are likely to have been hit due to reverse-migration. Moreover, the pandemic's rapid spread to rural areas could mean an increase in restrictions on activity there, which could challenge the rural story

- **Investments on a weaker wicket than consumption:** Despite some support from the rural economy, consumption is expected to sink this fiscal. Consumption of some services, especially contact-based ones such as travel, sports and entertainment, will remain muted till a vaccine is widely available. The coterminous rise in retail inflation would further reduce disposable incomes of people. Low consumer confidence and rise in precautionary savings of households too will keep consumption suppressed. An uncertain environment, low capacity utilisation (expected to fall further) and deleveraging by corporates will pull down private corporate investment. To boot, the axe of fiscal stress seems to be falling on public investments – more for states than the Centre. In short, investment recovery looks distant

- **Financial conditions:** Pre-existing tightness in financial conditions magnified quickly when the pandemic struck – as a result of both, a spillover of global conditions and rising risks to domestic economy. Since June, financial conditions have eased due to favourable actions by central banks both at home and abroad.

    - However, easing has not been uniform and bank credit will remain weak this fiscal. The spreads of lower-rated corporate bonds (such as AA paper) remain much higher than long-term averages. This constrains the ability of the financial sector to lubricate the real economy

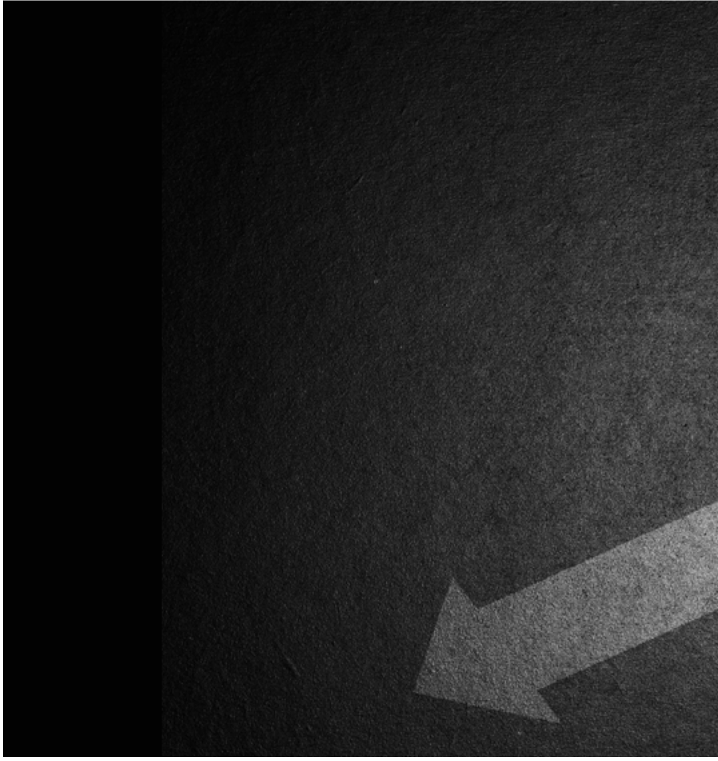
    - G-sec yields are fundamentally under pressure on account of high government borrowing needs (of Centre and states) this year. While the Reserve Bank of India's (RBI's) policy easing and 'Operation Twist' have capped the rise in yields, the pressures are likely to resurface once RBI support wanes

## The medium-term outlook

- The medium term growth path for India is likely to trend down. In the base case, we see growth shooting to 10% in fiscal 2022, on the back of a very weak base and some benefit from the rising-global-tide-lifting-all-boats effect. Even with that, real GDP will only merely catch up to fiscal 2020 level by fiscal 2022. Beyond that, we see growth averaging ~6.2% annually over the next three years (that is, between fiscals 2023 and 2025)

- With capital and labour constrained by their own set of challenges, the push will have to come from efficiency improvements. For this, economic reforms are critical. These need to be relentlessly pursued to create an upside to medium-term growth, and over time

- The truth with reforms is that you bite the bullet first and reap the benefits later. The government needs to take more steps to address the current pain in the economy. It should stretch itself fiscally to support vulnerable households and small business that have been hit hard by pandemic. This will also help preserve productive capacity in the economy and together with reforms can create a sustainable push to growth over the medium run



# Changes since our May forecast

Official data has confirmed our worst fears: a 61-day complete nationwide lockdown, followed by an 'unlock' phase with off-again, on-again regional lockdowns and curbs, and a convulsing global economy, sent India's real GDP on its worst-ever recorded contraction of 23.9% for the quarter.

Worse still, India fell hardest among peers.

That said, the extent of contraction was not entirely unexpected – CRISIL had predicted the economy would slump 25% in the first quarter, the stringency of the lockdown and high-frequency data also pointing to a deep hit.

Moreover, other factors in the making since May lead us to believe that revival has been pushed further. We forecast a further downward revision in GDP growth outlook for fiscal 2021 to -9% from -5% forecast in May, based on the following:

## Adverse factors

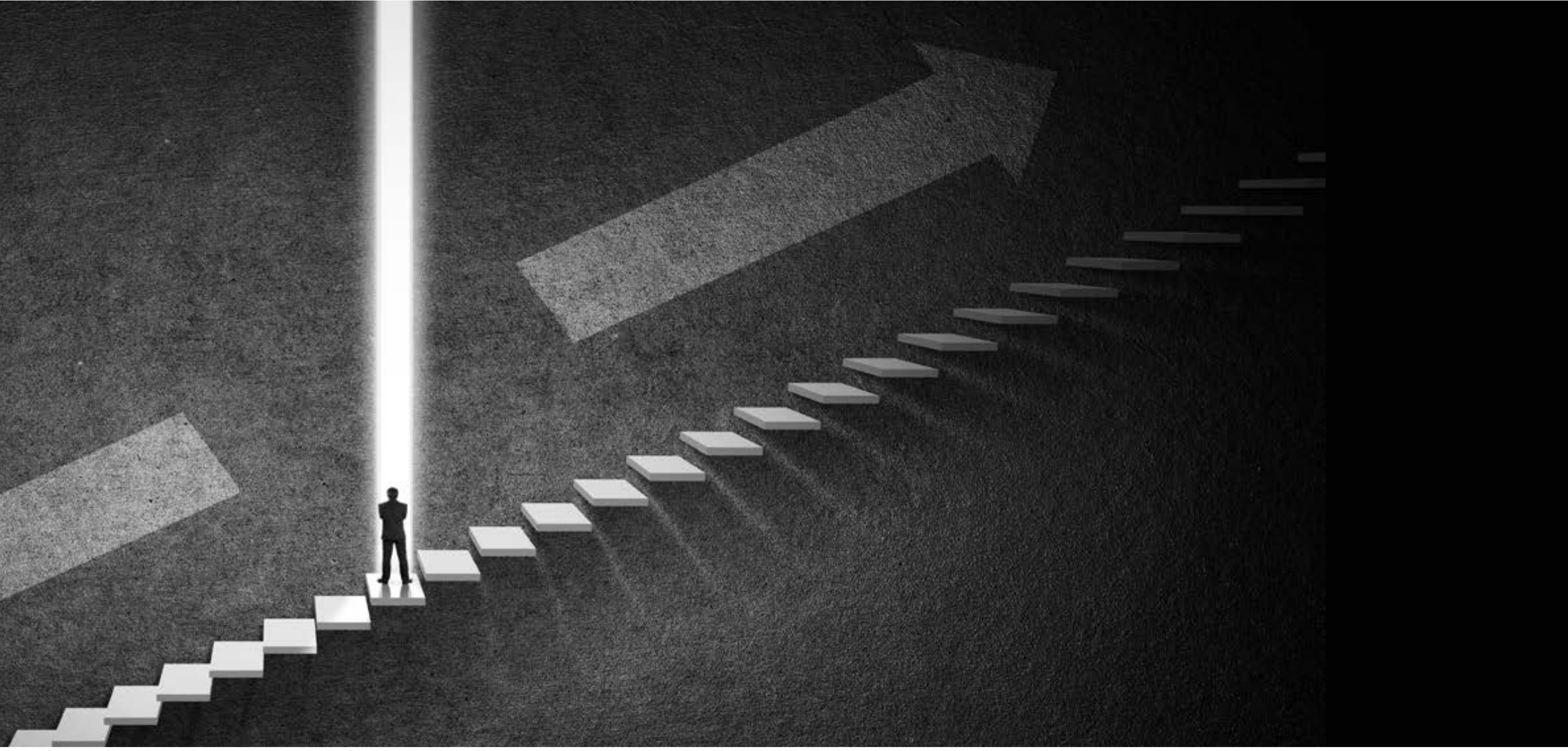
- **Unfettered spread of pandemic:** The number of confirmed Covid-19 cases in India had crossed 42 lakh as on September 7. In the last week of August, India reported ~5 lakh new cases and the highest numbers of new cases globally. India is now the top contributor to daily increment in new cases. The caseload remains concentrated in states which have a major share in India's GDP: Maharashtra, Tamil Nadu, Karnataka and Andhra Pradesh together account for ~54% of India's total confirmed cases and ~36% of India's GDP. An additional worry is the locus of the pandemic shifting from metropolitans to smaller cities. With a steep rise in cases, localised lockdowns and restrictions have continued, hampering economic activity even in the second quarter. High-frequency data shows a wobbly recovery and economic activity at subnormal levels in July and August

- **No further fiscal stimulus:** A stretched fiscal position has constrained the government from spending more to support the economy. While the government did announce a series of measures in the wake of pandemic that provided some support to the rural economy, the overall direct fiscal stimulus was low at about 1.2% of GDP[2]. Till date, the policy push to growth remains muted, except in pockets. Our May forecast had assumed additional direct fiscal support of 1% of GDP, which has not come through

- **Inflation constrains monetary policy:** With retail inflation refusing to climb down below the acceptable upper limit of 6% for two quarters, the

---

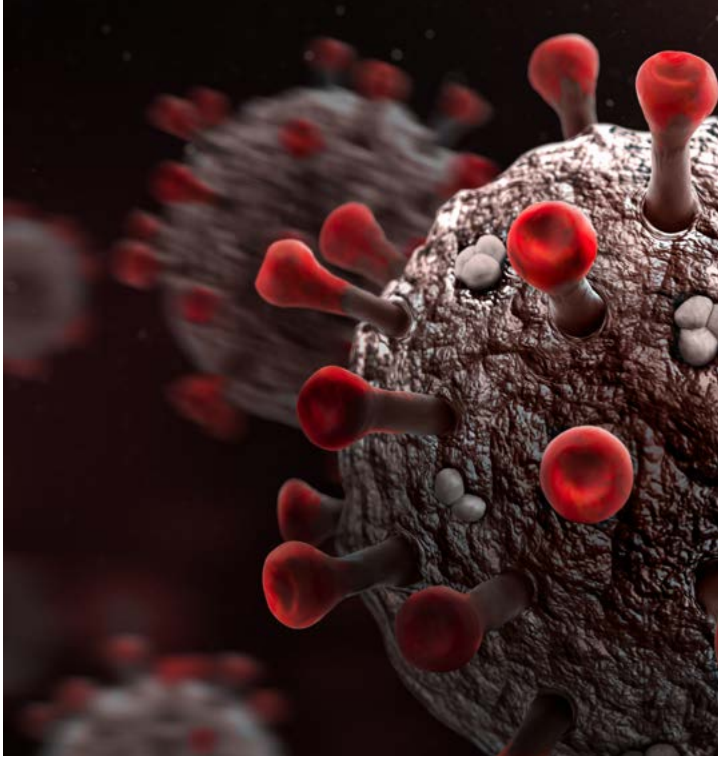
[2] *See our May 2020 report 'Minus five' for assessment of the fiscal stimulus package*



RBI had little choice but to pause its rate-cutting spree in the August monetary policy meet. The central bank is likely to hold policy rates till there are signs of inflation cooling – limiting the use of policy rate cuts to support growth for now

## Swing factor

- **Favourable monsoon, but harvest on watch:** Normal rains, in line with the Indian Meteorological Department's (IMD) forecast, have been a supportive factor this year. Rains have not only been timely, but also well-spread, hastening sowing activity in large parts of the country. CRISIL Research estimates that kharif output could be 5-6% higher on year, on the heels of a bumper rabi harvest. But the recent spread of Covid-19 cases to rural areas and the possibility of a rising curve, hovers like a dark cloud over the harvest and marketing period (starting in October)



# The viral drag

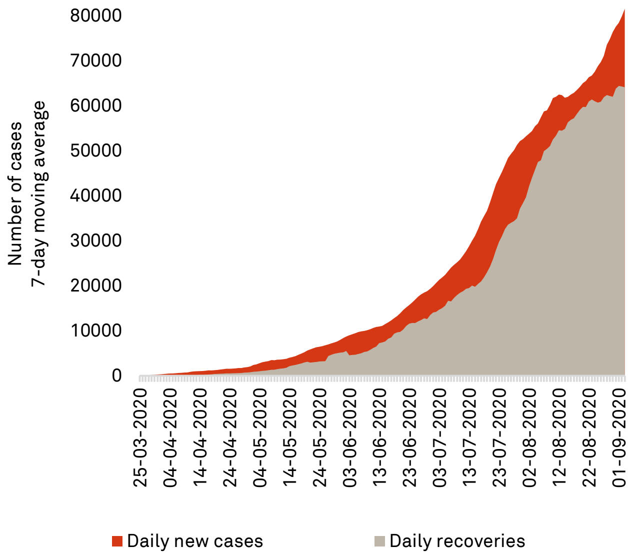
CRISIL cut through the clutter to analyse four important metrics related to the pandemic – the number of daily cases reported, the rate of recoveries, the state-wise patterns, and the rate of growth in new cases (India and state-wise).

The number of confirmed Covid-19 cases in India crossed 42 lakh as on September 7. In the last week of August, India reported ~5 lakh new cases and the highest numbers of new cases globally. Early predictions by various agencies of the number of cases in India peaking in the early part of the July-September quarter have come to a naught. Even if recoveries have risen to 77.3% as on September 7, the daily rise in cases continues to surpass the daily number of recoveries. Globally, too, the virus is rearing its head again, with Japan, South Korea, Europe and Hong Kong, seeing new cases lately.

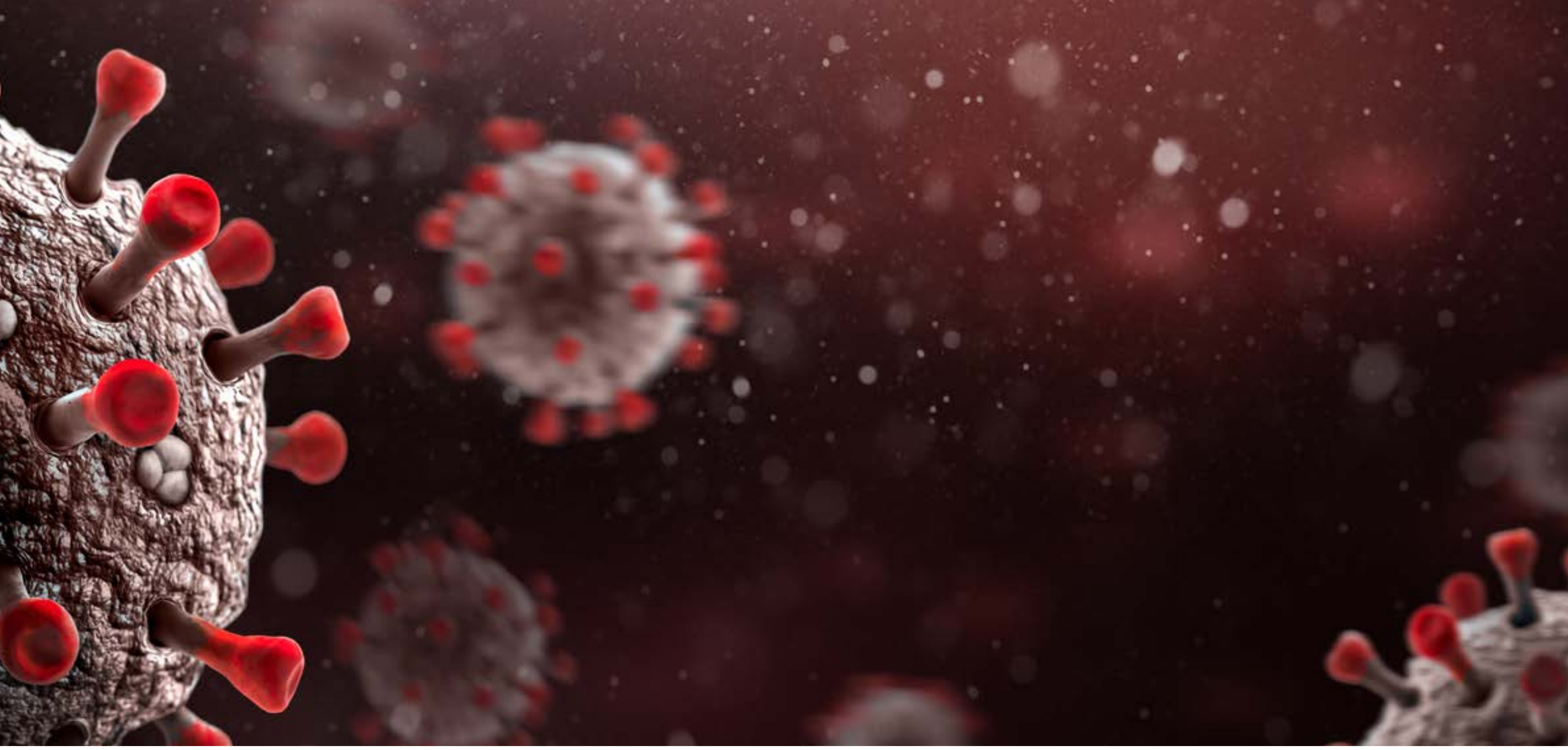
Within India, the caseload remains concentrated in states which have a major share in India's GDP: Maharashtra, Tamil Nadu, Karnataka and Andhra Pradesh together account for ~54% of India's total confirmed cases and ~36% of India's GDP.

Then, there is the growth rate in the number of daily new cases to consider. To be sure, it slowed to an average daily growth rate of 1.7% in the last week of August compared with 2.1% in the last week of July. Among the states, the growth rate of cases in Andhra Pradesh (0.8%) and Tamil Nadu (0.3%) was way below the national average, while that in Assam (2.5%), Chhattisgarh (2.5%), Jharkhand (4.2%), which together account for 5.1% of GDP, was higher. Given the disparity in growth rates, a uniform peak in cases for the country as a whole cannot be expected, as per the Indian Institute of Public Health.

**7-day moving average of daily new Covid-19 cases and recoveries**

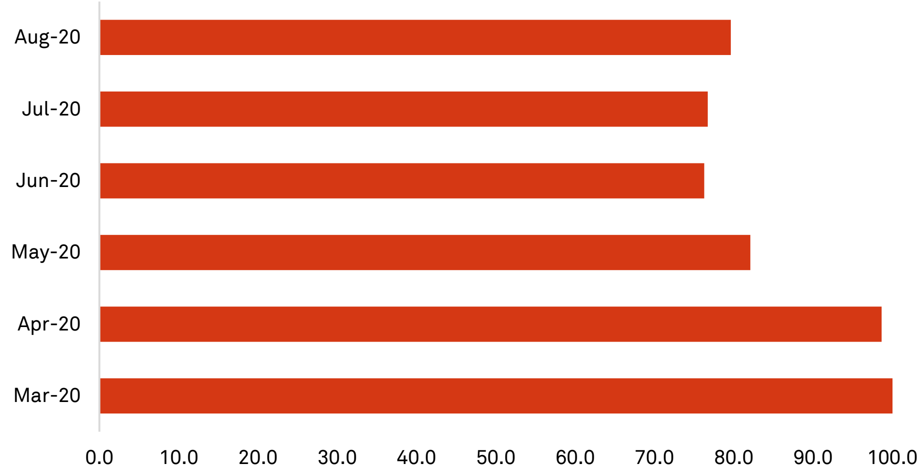


*Source: CEIC, Ministry of Health and Family Welfare (MoHFW), CRISIL*



Despite the rising number of cases, another nationwide lockdown, and hence, another shock to economic activity as experienced in April-May, is unlikely. Oxford Stringency Index shows that the stringency of lockdown in India has reduced from 100 to about 80, where it stays. With 'unlock' already in its fourth phase, majority of the sectors have been allowed to operate.

**Covid-19 Stringency Index**

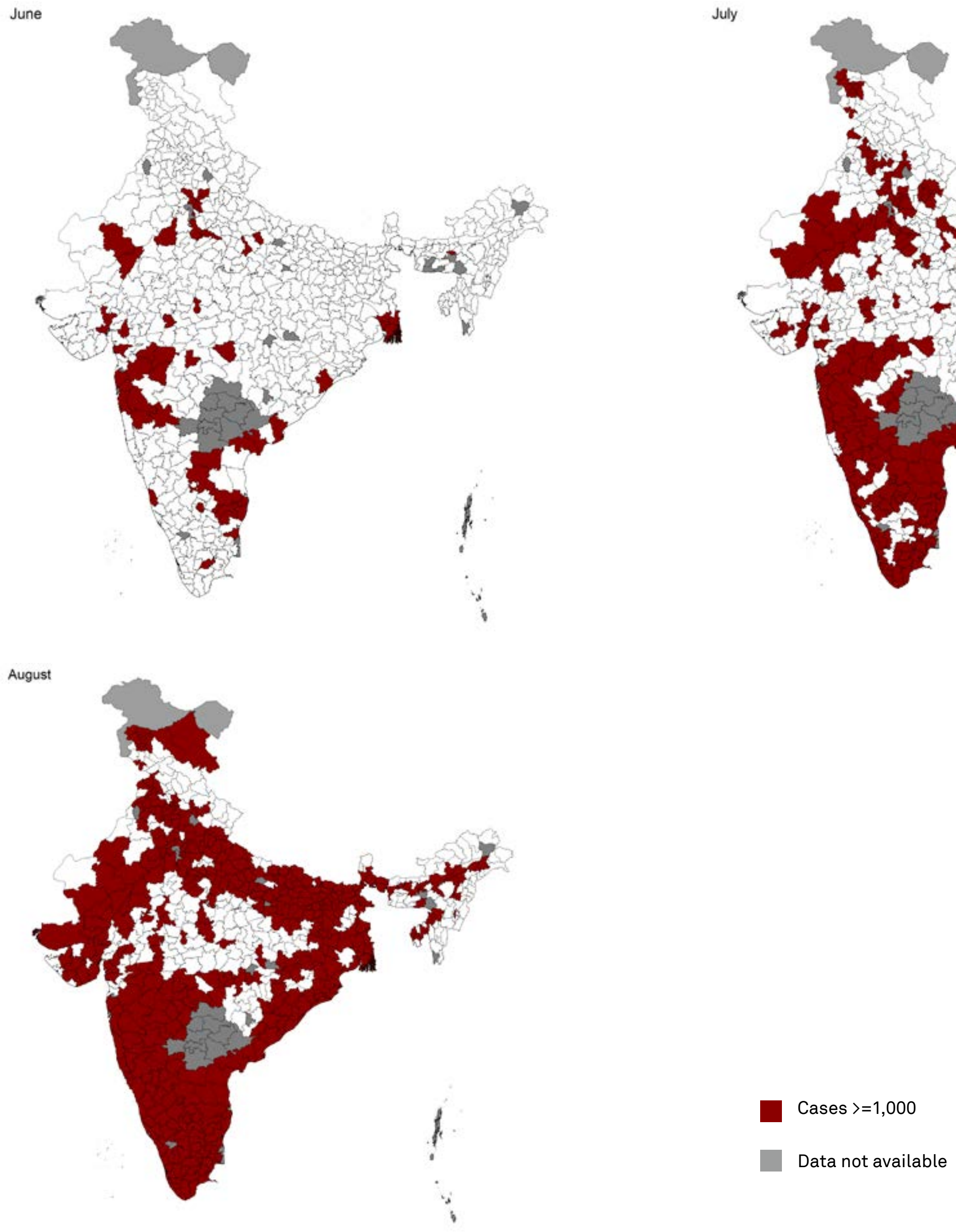


*Note: Daily data averaged for the month*
*Source: Oxford Covid-19 Government Response Tracker, Blavatnik School of Government*

## The granular prognosis

A district-wise trajectory of cases shows that at the start of unlock 1.0 (in June), cases were concentrated in Tier 1 metro cities such as Mumbai, Delhi and Bengaluru. But the pandemic has spread rapidly since then, as the figure below brings out.

**Number of districts with 1,000+ confirmed cases* has surged**



*Note: *Data corresponds to total confirmed cases as on the end of each month: June, July, and August*
*Source: covidindia19.org, CRISIL*

## The hinterland headache

The slowdown of cases in urban hotspots amid continued increase in daily cases indicates cases are dispersed within states, beyond metro cities. The reverse migration of workers in May likely fuelled transmission of the virus from urban areas to their hometowns/ villages. An increasing number of districts with predominantly rural population now account for over 1,000 cases, indicating the virus is spreading in rural areas.

**Percentage of rural districts with 1,000+ cases**

June 30 **20%**

July 31 **40%**

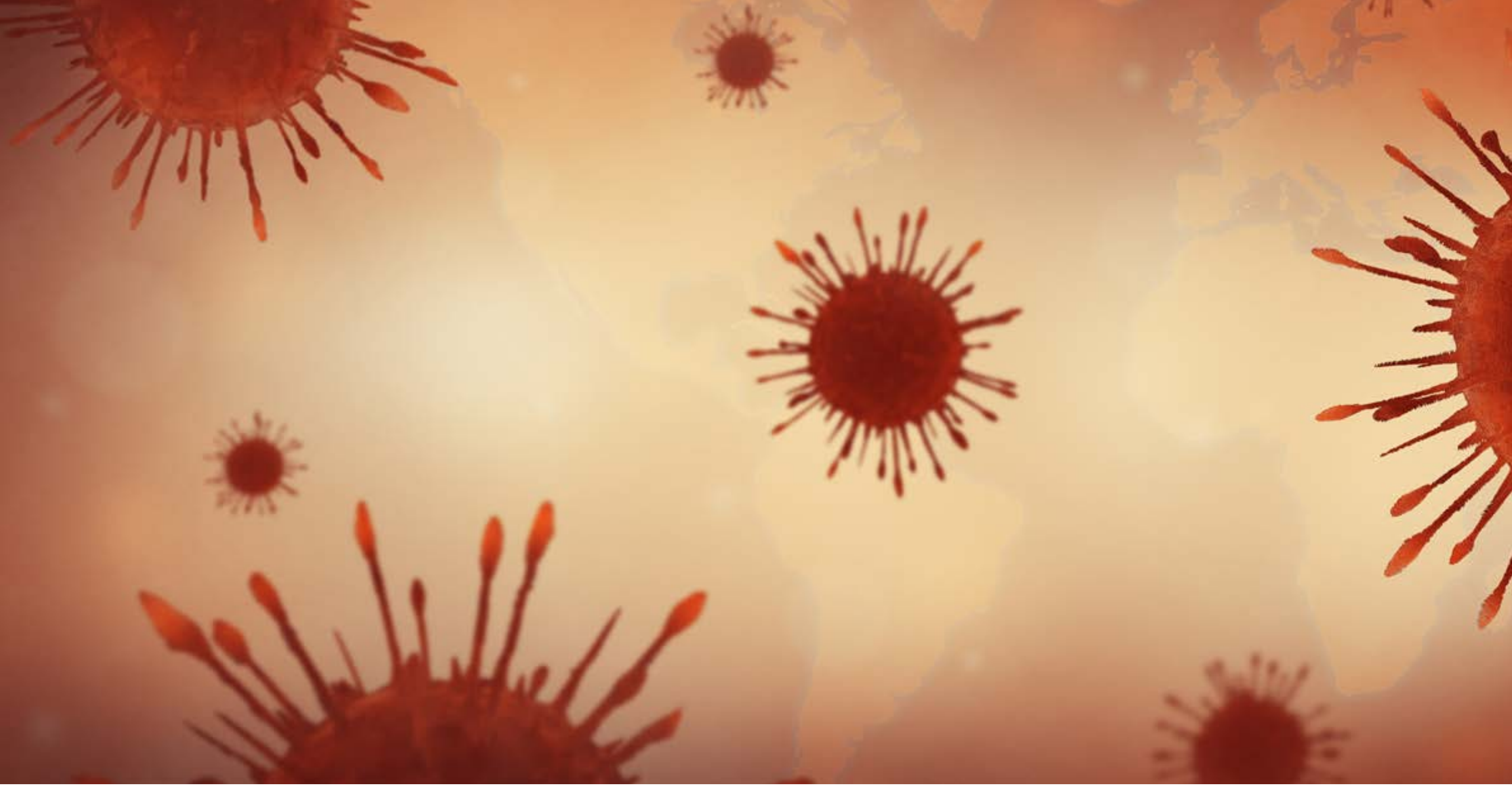
August 31 **50.1%**

Of all the districts that had more than 1,000 cases as on August 31, 50.1% were rural districts*. The proportion doubled from 20% as on June 30 to 40% as on July 31

**We define rural districts as those with more than 70% rural population (as per Census 2011 data)*

## Covid-19 infections and serosurveys

Presence of asymptomatic infections suggests the numbers of Covid-infected patients in India is higher than reported. Serosurveys help to understand the proportion of population exposed to coronavirus, including asymptomatic individuals. Serosurveys conducted by Indian Council of Medical Research in 60 districts in May estimated the exposure to the virus at 0.73%. Results of surveys by state governments later in July suggest wide spatial variation in the exposure to the virus, with higher infection rates in urban areas than rural: while Delhi showed sero-positivity of ~23%, and Mumbai of ~40%, surveyed districts in Chhattisgarh, Bihar, Jharkhand showed positivity rate of less than 1%. Depending upon the level of prevalence of infection, appropriate public health interventions can be planned to control further spread of the virus. This is particularly required when some areas are showing a resurgence in cases, reasons for which vary from increased testing to ‘Covid-19 behaviour fatigue’, as per the Director, All India Institute of Medical Sciences (AIIMS).



## GDP syncs with high-frequency data

Industrial and service sectors, accounting for ~85% of GDP, suffered the most because of the nationwide lockdown, as shown in the first quarter GDP data. Both conventional and non-conventional high-frequency indicators pointed towards a deep downturn in these sectors (see table below):

- Index of Industrial Production (IIP) and core infrastructure indices correlated with a sharp contraction in gross value added (GVA) from industry in the first quarter. Consumption of major inputs such as petroleum and steel were in the red. Auto sales and exports growth, which were declining even prior to the pandemic-shock, reached their troughs during the period
- A steep slide in services sector was reflected in de-growth in airline passenger traffic, number of telecom subscribers and contraction in PMI-services
- Other ultra-high frequency indicators showed a similar decline: mobility took a sharp hit post imposition of lockdown in March and April, and began recovering slowly from May, only to plateau in June-July as localised restrictions took effect. Electricity consumption was volatile, with deep troughs through April-June. Goods and Services Tax (GST) e-way bill collections declined drastically by ~50% on-year, hampered by restrictions on movement
- Data shows GVA from industry contracted at a faster pace (38.1%) than services (20.6%), partly due to the sharp contraction in construction (~-50%) included under industry (for details, see Annexure). Within services, those involving face to face contact suffered the most and will take longer to revive
  - Trade, tourism, transport under services GDP was down 47% on-year
  - Surprisingly, growth in even ‘public administration, defence and other services’. This is likely to be due to a sharp decline in ‘other services’ category, which includes education, recreation and cultural activities, beauty treatment, etc.

## High frequency indicators correlate with GDP trends

| Sector | Growth (y-o-y %) | Q1 FY19 | Q2 FY19 | Q3 FY19 | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 | Q1 FY21 | July 2020 | Aug 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Industry** | **GDP** | **7.1** | **6.2** | **5.6** | **5.7** | **5.2** | **4.4** | **4.1** | **3.1** | **-23.9** | | |
| | **Industry GVA** | **7.5** | **4.8** | **5.0** | **2.6** | **4.2** | **0.5** | **-0.3** | **-0.6** | **-38.1** | | |
| | IIP | 5.1 | 5.3 | 3.7 | 1.5 | 3.0 | -0.4 | -1.3 | -3.8 | -36.1 | | |
| | Manufacturing IIP | 5.1 | 5.7 | 3.5 | 1.4 | 2.4 | -0.4 | -1.0 | -5.8 | -40.9 | | |
| | Capital goods IIP | 8.6 | 6.5 | 5.7 | -7.4 | -3.5 | -16.2 | -16.5 | -17.6 | -64.9 | | |
| | Consumer durables IIP | 8.1 | 8.3 | 6.2 | 0.0 | -2.6 | -7.5 | -8.6 | -15.6 | -67.0 | | |
| | Cement production | 16.4 | 12.5 | 13.0 | 11.6 | 1.1 | 0.2 | 0.7 | -4.1 | -37.8 | -13.4 | |
| | Coal production | 12.9 | 6.2 | 5.3 | 6.2 | 2.6 | -10.2 | -5.0 | 7.7 | -15.0 | -5.7 | |
| | Electricity production | 4.9 | 7.5 | 6.8 | 1.4 | 7.3 | 0.6 | -5.7 | 2.2 | -15.9 | -2.3 | |
| | Consumption of petroleum products (transport and Industry) | 2.0 | -3.0 | -2.5 | 2.6 | -0.4 | 2.0 | 1.2 | -4.9 | -26.6 | -12.3 | |
| | Steel consumption | 9.7 | 10.6 | 9.3 | 9.2 | 3.2 | 5.8 | 1.1 | -7.2 | -57.1 | -18.8 | |
| | PMI - manufacturing | 52.0 | 52.1 | 53.4 | 53.6 | 52.2 | 51.8 | 51.5 | 53.9 | 35.1 | 46.0 | 52.0 |
| | Tractor sales | 22.9 | 2.9 | 17.7 | -6.3 | -14.4 | -11.5 | -5.3 | -5.8 | -17.7 | 38.5 | |
| | Two-wheeler sales | 16.2 | 5.1 | 7.4 | -8.9 | -11.6 | -20.4 | -15.1 | -25.2 | -61.2 | -15.2 | |
| | Car sales | 19.6 | -2.3 | -0.8 | -4.6 | -25.4 | -37.9 | -8.5 | -23.0 | -74.0 | -12.0 | |
| **Services** | Services GVA | 7.4 | 7.4 | 7.4 | 8.7 | 5.5 | 6.5 | 5.7 | 4.4 | -20.6 | | |
| | PMI - services | 51.2 | 52.2 | 53.0 | 52.2 | 50.3 | 51.6 | 51.7 | 54.1 | 17.2 | 34.2 | 41.8 |
| | Domestic airline passenger traffic | 19.6 | 18.8 | 11.9 | 3.9 | -0.7 | 1.6 | 5.0 | -7.2 | -93.6 | -82.6 | |
| | Railway freight cargo | 6.4 | 4.4 | 6.0 | 4.5 | 2.7 | -3.7 | -1.0 | -1.5 | -21.4 | -4.6 | |
| | Consumption of petroleum products (services) | 4.6 | 3.7 | 2.7 | 3.7 | 1.6 | -0.4 | 0.6 | -6.8 | -36.9 | -23.0 | |
| | Credit card transactions | 22.8 | 26.2 | 28.1 | 24.4 | 23.8 | 25.7 | 26.7 | 20.7 | -39.3 | | |
| | Debit card transactions | 15.2 | 13.1 | 18.9 | 17.1 | 9.8 | 5.3 | -10.9 | -20.7 | -48.7 | | |
| **Unconventional high frequency indicators** | GST e-way bill | | | | | | 10.5 | 9.4 | 0.0 | -49.8 | -7.3 | -7.4 |
| | - Intra state | | | | | | 12.5 | 10.6 | 1.3 | -44.6 | -3.9 | -2.9 |
| | -Inter state | | | | | | 7.9 | 7.8 | -1.9 | -57.2 | -12.3 | -13.9 |
| | Electricity consumption | | | | | | 1.2 | -6.5 | 0.4 | -16.6 | -2.0 | -2.3 |
| | Retail mobility* | | | | | | | | -17.2 | -72.7 | -59.6 | -49.2 |
| | Grocery mobility* | | | | | | | | -11.6 | -25.8 | -10.4 | -9.3 |
| | Workplaces mobility* | | | | | | | | -12.6 | -45.0 | -32.1 | -30.2 |
| | Transit stations mobility* | | | | | | | | -14.9 | -52.6 | -41.9 | -38.3 |
| | Traffic congestion (3-city average) | | | | | | | | -11.6 | -76.7 | -60.6 | -46.8 |

*Note: Monthly and daily data averaged to quarterly data; green cells indicate highest value for the time period presented, red cells represent lowest values; * indicates percentage change from baseline of Jan-Feb 2020*
*Source: National Statistical Office (NSO), Society for Indian Automobile Manufacturers (SIAM), IHS Markit, Office of Economic Advisor, RBI, Ministry of Commerce and Industry, Railway Board, GST Network, Google Mobility reports, TomTom Traffic Index, CEIC, CRISIL*

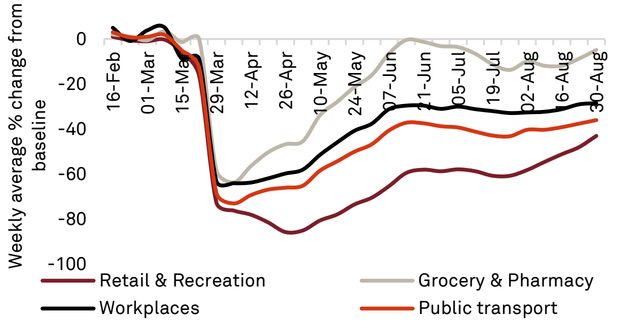
## What can we expect in the second quarter?

High-frequency economic indicators till August-end show recovery vis-à-vis the first quarter, however, they remain in de-growth phase, indicating economic contraction will continue in the second quarter, but not as severe. We expect GDP contraction in the second quarter at 12% on-year.

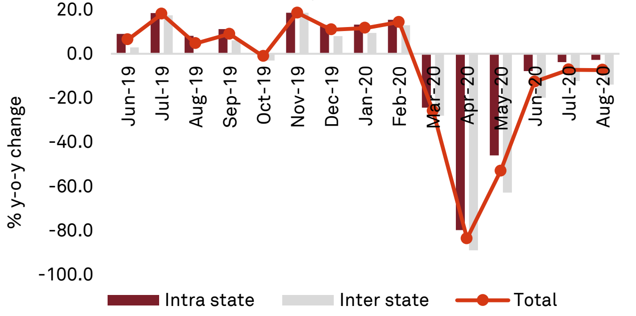
- **Google Mobility** shows commute to workplaces and public transport stations is slowly trending upwards from the plateaus of June-July. Movement to retail spaces in August remains ~40% below the pre-pandemic levels (Jan-Feb 2020), despite considerable easing of restrictions.
- **Traffic congestion** correlates with mobility trends. Data from select metro cities reveals traffic congestion in August was 20-40% below the levels of August 2019
- **GST collection on movement of goods,** levied through e-way bills have picked up from April lows, indicating a slow return to normalcy. However, inter-state collections proved to be a drag on overall collections, owing to intermittent restrictions on inter-state movement. This is expected to ease with unlock 4.0 directives
- **Energy consumption** continues to be volatile; in August, consumption growth turned positive on-year for few weeks, before declining again
- Industrial activity is likely to recover faster than services with face-to-face contact in the second quarter, as these type of services continue to be restrained by regulatory restrictions and a likely persistence of risk-averse behaviour of consumers. This, to some extent, is reflected in PMI manufacturing rising faster than services in August

### High-frequency indicators show improvement in August over first quarter

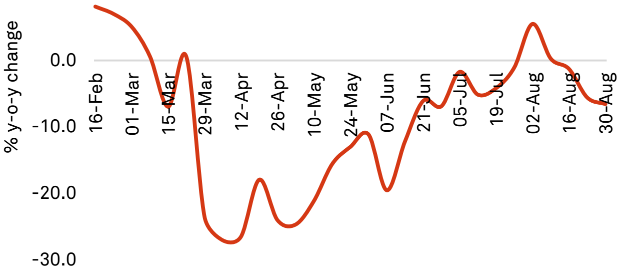
**Google Mobility Trends**



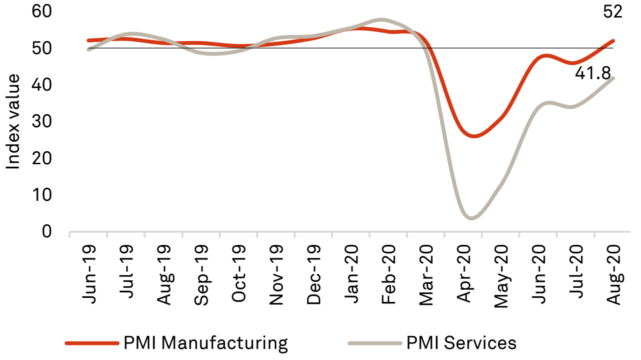
**GST e-way bill collection**



**Energy consumption**



**Purchasing Managers' Index**



*Source: Google Mobility reports, GST Network, Power System Operation Corporation Limited (POSOCO), IHS Markit, CEIC, CRISIL*

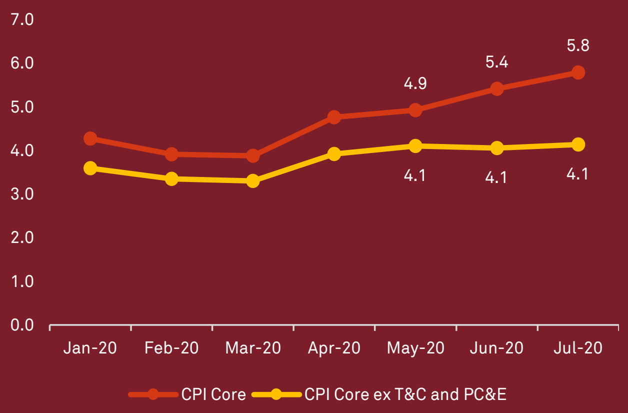
# Listening to the price signals

Even as real economic activity indicators reveal an uneven pace of economic recovery, inflation has been accelerating in India: Consumer Price index (CPI)-based inflation has been above the RBI's target band of 2-6% for April-July, coincident with the lockdown and unlock periods. Supply-side disruptions in food (primarily, vegetables and meat & fish and egg products) are largely contributing to a rise in headline inflation. But the pandemic has brought forth a demand shock as well: arising from higher economic uncertainty, reduced incomes and consumption, owing to risk aversion.

To assess whether prices are at all signalling recovery in demand or economic activity, we turn to core inflation (headline inflation, excluding food & beverages and fuel). Core inflation too, has been snaking up, from 4.8% in April to 5.8% in July, but that has not been due to demand pressures. Rise in core is largely led by transport and communication, and personal care and effects. Inflation in the former category was on account of higher petrol (11.2% in July on-year) and diesel prices (13.1%) and mobile charges (15.3%). Inflation in the latter was driven by a sharp increase in gold (45%) and silver (37.6%) prices, demand for which surged amid a rush for safe haven investments globally.

Stripping the core inflation of the price effects of these two categories, we find that this measure of inflation is almost flat since April, indicative of persistent weak demand. Our expectation is that with shrinking GDP, price pressures from idiosyncratic factors such as food and fuel are unlikely to morph into sustained generalised inflation.

**CPI-based core inflation measure**



*Note: T&C – transport and communication, PC&E – personal care and effects*
*Source: NSO, CRISIL*

# Reading rural demand

Agriculture was the only major sector that registered positive growth in the first quarter of fiscal 2021 – a sole bright spot. But that is only part of the rural story, as non-farm activities contribute a much larger chunk. As per NITI Aayog[3], agriculture's share in the rural economy was only 39.2%. Hence, what happens to the non-farm sector is equally or more important.

## Agriculture punches above its weight

Healthy contribution from agriculture backed by good rains has been the only propitious factor in pandemic-hit India this calendar year. Rainfall has been abundant in July and August, critical months for the kharif crop. They have also been well-spread, hastening sowing. Agriculture was also the only sector that grew – as much as 3.4% -- in the first quarter, reflecting a healthy rabi crop and rapid progress in kharif sowing. Government data shows that as on August 28, 100% of the normal kharif area had been sown and sowing was ~7.2% higher on-year. CRISIL Research projects kharif season output to be 5-6% higher on year.

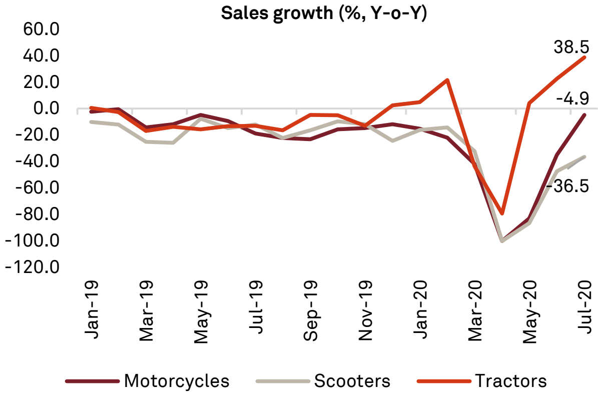
Though agriculture's share in overall GVA is only 14-15%, its share in employment remains a high 44%. It is also a critical supplier of much-needed nutrition during the pandemic. Plus, reverse migration trends this year suggest a much larger population would be dependent on farm sector jobs. Good agricultural production this year could especially help cushion the impact in those states/regions with high Covid-19 caseload, forced lockdowns and restrictions. Agriculture was/is a permitted activity during lockdowns and its unhindered performance is a ray of hope for these states.

Healthy agricultural performance buttressed with rural-focussed policy and support measures such as increased spending under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), extension of concessional credit to farmers through Kisan Credit cards and front loading of payment to farmers under the Pradhan Mantri Kisan Samman Nidhi, have aided rural demand growth. Some key rural demand indicators capture this well.

---

[3] *2017, "Changing Structure of Rural Economy of India - Implications for Employment and Growth"*

**Recovery in auto sales better in rural areas**



*Source: CRISIL Research*

The chart above shows annual tractor (mostly rural centric) sales growth turned positive in May, even as the nationwide lockdown was underway, and has since gone up. Decline in motorcycle sales (~60% rural share) too has slowed, from -83.0% in May to -4.9% in July. On the other hand, scooter sales (~30-35% rural share), which is more urban centric, remains weak. Fast moving consumer goods sales too saw a bigger contribution from rural areas, which in part, was on account of less stringent lockdowns there compared with urban pockets.

Other than healthy agricultural growth, front loading of government expenditure under its various rural focussed schemes in the wake of the pandemic likely led to the above trends. It remains to be seen however, if the momentum sustains going ahead.

## But there are factors that can spoil the rural demand story

### The pandemic is spreading in rural India

The contribution of rural areas to the pandemic tally has been rising as the virus spreads from tier-1 (metropolitan) cities to small towns and rural areas which have a much weaker health infrastructure. (refer to the Covid section on Page11). This could necessitate stricter lockdowns going ahead, affecting rural growth.

### Good agricultural output does not always mean higher farm income

Agricultural output growth is expected to be healthy this year. But while retail food inflation is rising, the farmer is not benefitting proportionately as wholesale inflation – a better indicator of what farmers' incomes would be - remains soft. CPI-food and WPI-food inflation averaged 9.8% and 2.9% during April-July 2020. Simply put, terms of trade needs to improve at a faster pace for farm incomes to move up notably.

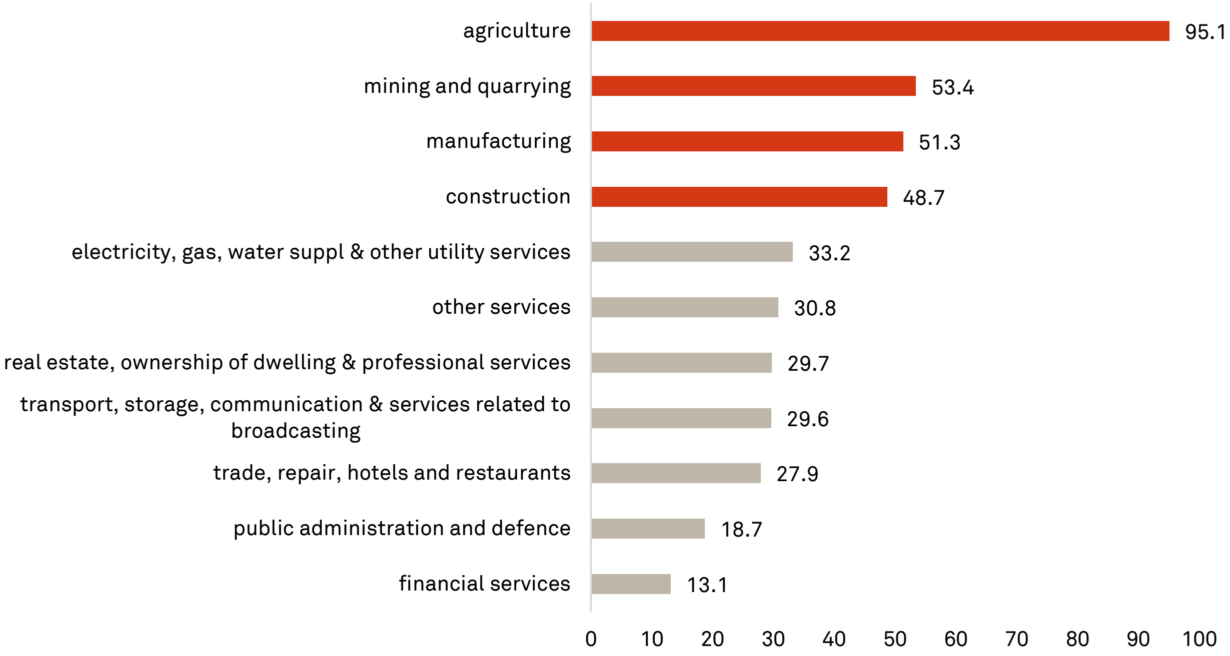
Moreover, if the pandemic's spread to rural areas is not contained, any disruption during the harvesting and marketing period could take away some gains.

### Non-farm sector growth in rural India is hit

Given non-farm is a bigger contributor than the farm sector to the rural economy, we assess how the former is performing to predict rural demand. And here's where the good news seems to end.

## Large employment generating non-farm sectors have performed poorly

Rural share in NDP, 2011-12 (%)



*Note: NDP – net domestic product*
*Source: NITI Aayog, CRISIL*

The chart above shows, besides agriculture, other key sectors of the economy too have a large rural focus. Share of rural areas in mining and quarrying, manufacturing and construction is predominant. These sectors declined 23.3%, 39.3% and 50.3%, respectively (on-year), in the first quarter of fiscal 2021. This is worrisome, as manufacturing and construction are not only the second- and third-highest employment generating sectors at the national level after agriculture, but also have large rural employment shares at 47.4% and 74.6%, respectively. Poor performance of these sectors, therefore, means a drag on rural employment, and therefore, rural demand.

Given that construction has a large rural employment share of 74.6%, its performance remains a critical factor for rural demand prospects. Here, too, signs are not encouraging. Although government's fiscal stimulus remains rural focussed, it may need further support. For instance, under the Pradhan Mantri Gram Sadak Yojana, or PMGSY (a good proxy for rural construction activity), only 2,198 km of road was constructed till June this fiscal, down a massive 40% on-year (national highway construction, in comparison, was down only 13% on-year during April-July 2020). Rural road spends have been on a declining trend since last fiscal due to lower construction targets. CRISIL[4] expects a further ~9% decline this fiscal as funds may be diverted away from the PMGSY scheme.

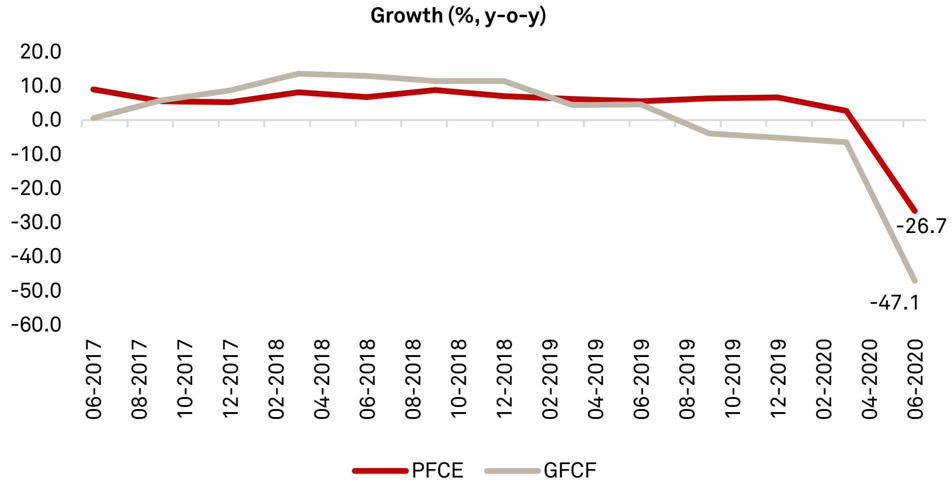
---

[4] *CRISIL Research note:NHAI's focus shift to execution pays off, but COVID-19 to hinder the sector's growth in FY21, August 31, 2020*

# The slack in consumption and investments

Private final consumption expenditure (PFCE), or consumption expenditure of households, and gross fixed capital formation (GFCF), or investments, are the largest and second largest demand side components of the Indian economy, respectively. Their shares in GDP in fiscal 2020 were 57.2% and 29.8%. The pandemic only magnified the pre-existing weakness in private consumption and investments. While GFCF was falling even before the pandemic, PFCE growth turned negative for the first time, in the new (2011-12) GDP series. The fall in GFCF has been much steeper than that in PFCE (see chart below).

**Both consumption and investment demand have fallen off the cliff**



*Source: NSO, CRISIL*

## Consumption may be slow to revive

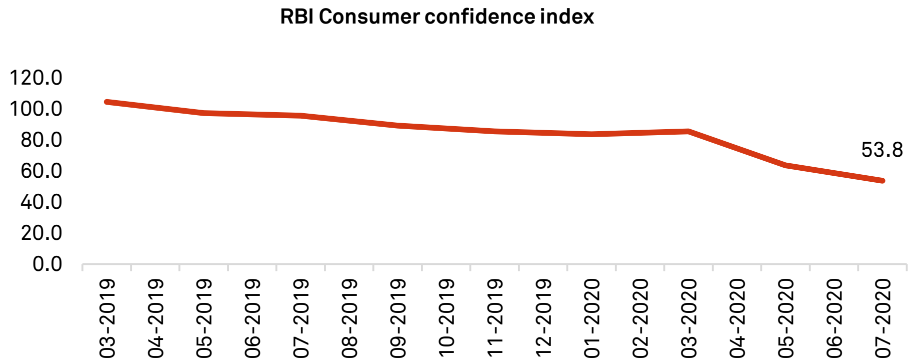
Despite some support from the rural economy (refer to the ‘rural demand’ section on Page 16), private consumption is expected to sink this fiscal. A rising number of cases in rural areas could complicate and delay return to normalcy. This means continued uncertainty about employment prospects and incomes.

Consumption of some services, especially contact-based such as travel, sports and entertainment will also remain muted till such time a Covid-19 vaccine is mass produced. High retail inflation at a time when incomes are falling, is a double whammy to disposable incomes.

All this suggests private consumption is expected to remain weak for longer. With job losses and income uncertainty, people will tend to reduce discretionary spending and increased focus towards saving. This is partly getting reflected in the rise in bank deposits despite the reduction in deposit rates. From 6.1% in March this year, the average deposit rate of 10 key scheduled commercial banks for 1-2 year tenure was down to 5.1% in August. Yet, deposit growth rose from 7.9% on-year as on March 20 to 11.0% as on August 14.

This is also mirrored in a decline in consumer confidence even after the nationwide lockdown was lifted: RBI consumer confidence index fell to its lowest level of 53.8 in July, down from 63.7 in May. Consumer’s future expectation index rose a few points from 97.9 in May to 105.4 in July, but still remains much below fiscal 2020’s average of 120. Given that the past fiscal had recorded the lowest economic growth in a decade, the latest future consumer confidence index suggests just how muted sentiments are.

**Consumer confidence is at a historical low**

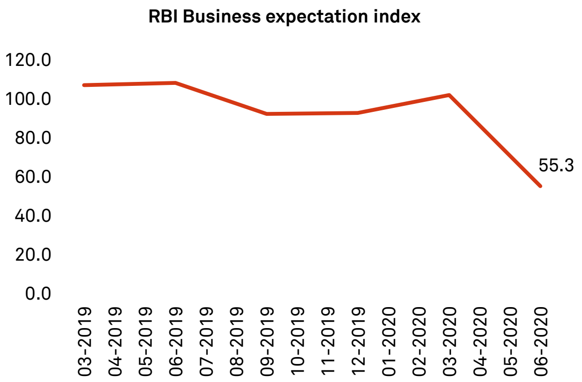


*Source: RBI*

## The funk in investments

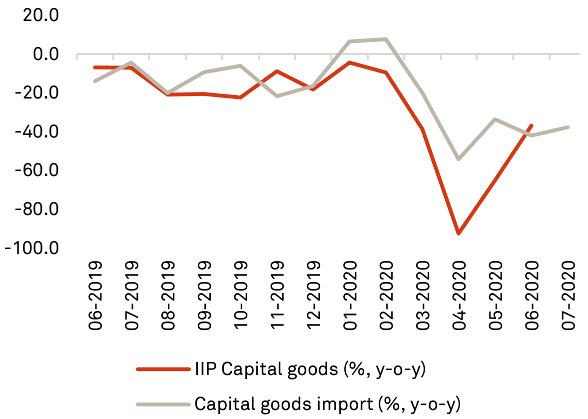
Investments in the economy were falling since fiscal 2020 and the pandemic shock has further weakened prospects of revival. While the private corporate sector – an important investment player in the economy – was already in deleveraging mode which will continue this fiscal, the hit to revenue due to lockdown and an uncertain / weak growth environment means they will continue focussing on utilising existing capacity rather than indulge in fresh investments. The sharp fall in business confidence attests to this (see charts below).

**Business confidence abysmally low**



*Source: RBI*

**Investment indicators deep in red**

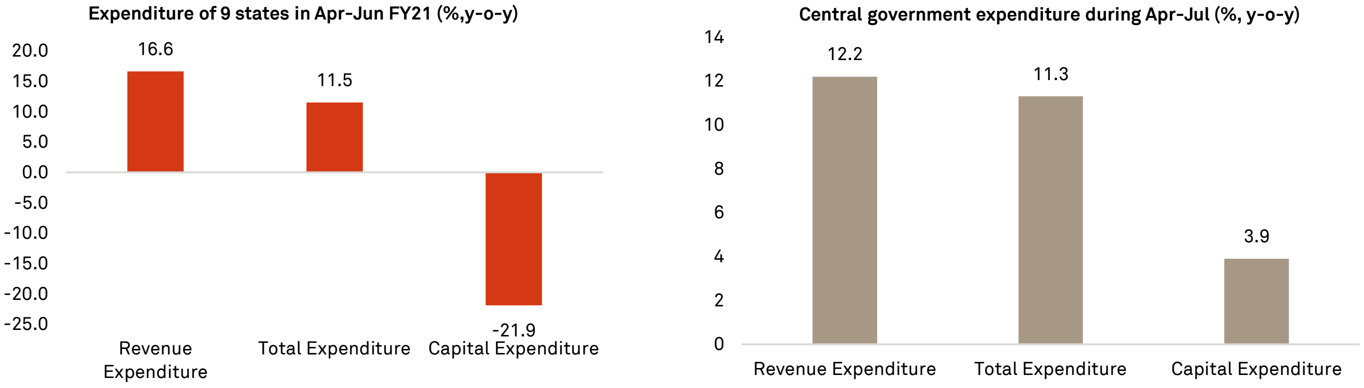


*Source: Commerce ministry, NSO, CRISIL*

Capacity utilisation has been below 70% since the September 2019 quarter (the latest print was 69.9% for March 2020). This has likely fallen further, given the large-scale demand destruction in the economy. It is clear that private sector investment will remain inert for some time to come.

The other channel of government investments too remains constrained by fiscal stress. While the central government has maintained a low positive capex growth so far this fiscal, state governments – which play a much bigger role, with about two-thirds share in total government capex – have seen decline in their capex. Nine states for which monthly data is available corroborate this (see chart below).

**Nine states have whittled down capex this fiscal**



*Source: CEIC*

# Financial conditions ease, but ailments linger

Monetary policy has done most of the heavy-lifting so far in supporting the economy. This was needed since financial conditions had seen a severe tightening in India and via spillovers from rest of the world. Recent months have shown that RBI's monetary easing, coupled with improving global sentiment, helped ease financial conditions. However, some segments of the financial sector are facing growing stress fundamentally, which could bite back once the excessively easy monetary policy normalises.

## Why financial conditions matter

Weak financial sector contributed to falling GDP growth last year. The need for conducive financing rose further as the pandemic sharply hit cash flows, especially for small and medium enterprises. Restricted access or costly financing could aggravate their liquidity crunch, possibly pushing many firms into bankruptcies. Financial conditions also reflect transmission of monetary policy to the broader market. Further, the efficacy of fiscal stimulus depends on functioning of the financial sector, given that ~65% of the stimulus was oriented to boost liquidity for businesses.

## How have financial conditions fared so far?

- **The pandemic amplified the pre-existing weakness in financial conditions.** As shown in the following heatmap, the tightening was broad based across financial markets, with maximum severity in March and April. It started with a sudden tightening of global financial conditions, which led to record high foreign portfolio investor (FPI) outflows and sharp rupee depreciation. Equities tanked, with their volatility at a record high. Corporates faced an acute liquidity crunch, as reflected in sharp rise in spreads for commercial paper and corporate bonds. Term premium for 10-year government securities (G-sec), which was already above historical average, spiked further.

- **Come June, some easing is apparent.** FPI flows have returned and exchange rate has stabilised, even appreciating in the past 2 months. Equities have almost erased the losses suffered post February. Interest rates eased across most segments - including for lending rates and bond yields. Overall money supply has recovered as well.

- **However, the extent of easing has not been uniform.** Short-term money market rates have fallen more than long-term bond yields. Among bonds, safe-haven G-secs and AAA-rated public sector benchmarks have eased more than lower-rated corporate bonds. The spreads of lower-rated corporate bonds (such as AA paper given below) over government benchmark remain much higher than long-term averages. Bank credit growth remains weak.

**Covid-19 becomes a pandemic**

| | | Jan-20 | Feb-20 | Mar-20 | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 |
|---|---|---|---|---|---|---|---|---|---|
| Policy rate | Repo rate (%) | 🟨 5.15 | 🟨 5.15 | 🟩 4.4 | 🟩 4.4 | 🟩 4 | 🟩 4 | 🟩 4 | 🟩 4 |
| | Repo rate, inflation-adjusted (%) | 🟩 -2.4 | 🟩 -1.4 | 🟩 -1.4 | 🟩 -2.8 | 🟩 -2.3 | 🟩 -2.2 | 🟩 -2.9 | NA |
| Liquidity conditions | Net absorption(-)/injection(+) under LAF (Rs bn) | 🟩 -3178 | 🟩 -3162 | 🟩 -3902 | 🟩 -6852 | 🟩 -7504 | 🟩 -6175 | 🟩 -6012 | 🟩 -6071 |
| Money market | Call money rate (%) | 🟩 4.9 | 🟩 5.0 | 🟩 4.9 | 🟩 4.0 | 🟩 3.6 | 🟩 3.5 | 🟩 3.4 | 🟩 3.4 |
| | CP 6month spread^ (%) | 🟩 1.0 | 🟩 0.8 | 🟥 2.3 | 🟥 1.9 | 🟨 1.5 | 🟩 0.6 | 🟩 0.0 | 🟩 0.0 |
| Debt market | 10 year G-Sec (%) | 🟨 6.6 | 🟩 6.4 | 🟩 6.2 | 🟩 6.3 | 🟩 5.8 | 🟩 5.8 | 🟩 5.8 | 🟩 6.0 |
| | Term premium^ (%) | 🟥 1.4 | 🟥 1.3 | 🟥 1.8 | 🟥 1.9 | 🟥 1.8 | 🟥 1.8 | 🟥 1.8 | 🟥 2.0 |
| | AAA bond spread' (%) | 🟥 0.8 | 🟨 0.7 | 🟥 1.0 | 🟥 0.9 | 🟥 1.0 | 🟥 0.8 | 🟩 0.5 | 🟩 0.5 |
| | AA bond spread" (%) | 🟥 3.7 | 🟥 3.7 | 🟥 4.6 | 🟥 4.9 | 🟥 4.9 | 🟥 4.5 | 🟥 3.1 | 🟥 2.7 |
| Lending rates | MCLR (6 month) (%) | 🟨 8.1 | 🟨 8.1 | 🟨 8.0 | 🟨 8.0 | 🟩 7.8 | 🟩 7.6 | 🟩 7.5 | 🟩 7.4 |
| | Housing loan rate (%) | 🟨 8.4 | 🟨 8.4 | 🟨 8.4 | 🟩 7.9 | 🟩 7.8 | 🟩 7.6 | 🟩 7.5 | 🟩 7.5 |
| | Auto loan rate (%) | 🟨 8.9 | 🟨 8.9 | 🟨 8.8 | 🟩 8.4 | 🟩 8.4 | 🟩 8.2 | 🟩 8.2 | 🟩 8.2 |
| Credit availability | Bank credit growth (y-o-y,%) | 🟩 8.5 | 🟥 7.3 | 🟥 6.8 | 🟥 7.4 | 🟥 7.0 | 🟥 6.9 | 🟥 6.9 | 🟥 5.5^ |
| Money supply | M3 growth (y-o-y %) | 🟨 11.2 | 🟨 10.2 | 🟥 8.9 | 🟨 10.8 | 🟩 11.7 | 🟩 12.3 | 🟩 13.2 | 🟩 12.6^ |
| Equity market | Sensex (%*) | 🟩 18.6 | 🟩 11.6 | 🟥 -12.1 | 🟥 -28.2 | 🟥 -12.5 | 🟥 -2.4 | 🟩 6.4 | 🟩 7.2 |
| | NSE VIX | 🟩 14.9 | 🟩 15.4 | 🟥 53.1 | 🟥 45.0 | 🟥 37.0 | 🟥 30.3 | 🟥 25.2 | 🟥 21.2 |
| Forex market | Rs/USD (m-o-m %) | 🟨 0.2 | 🟨 0.2 | 🟥 4.0 | 🟥 2.5 | 🟨 -0.8 | 🟨 0.1 | 🟨 -1.0 | 🟨 -0.4 |
| Foreign capital | Net FPI (USD bn) | 🟨 0.1 | 🟩 1.3 | 🟥 -15.9 | 🟥 -2.0 | 🟥 -1.0 | 🟩 3.4 | 🟩 0.5 | 🟩 6.7 |
| Global conditions | S&P500 (%*) | 🟩 13.0 | 🟩 17.0 | 🟥 -4.2 | 🟥 -5.6 | 🟥 -1.9 | 🟩 10.2 | 🟩 9.5 | 🟩 16.8 |
| | US 10Y Treasury yield (%) | 🟩 1.8 | 🟩 1.5 | 🟩 0.9 | 🟩 0.7 | 🟩 0.7 | 🟩 0.7 | 🟩 0.6 | 🟩 0.7 |
| | Brent ($/barrel) | 🟨 63.6 | 🟩 55.0 | 🟩 33.0 | 🟩 23.3 | 🟩 31.0 | 🟩 39.9 | 🟩 42.8 | 🟩 44.3 |

🟩 Favourable 🟥 Adverse 🟨 Neutral

*Note: LAF is liquidity adjustment facility, ^10 year G-sec's spread over repo rate; 'spread over 10-year G-sec; "spread over 5-year G-sec; *% change with respect to 2-year moving average, a positive % rupee change implies depreciation against US $ and vice-versa*
*Source: RBI, National Securities Depository Ltd (NSDL), US Treasury department, CEIC, CRISIL*

## How the RBI tempered market tantrums during the pandemic

- Even before the pandemic hit, RBI's monetary policy was in an accommodative stance with several conventional and unconventional measures (such as Operation Twist and long-term repo operations, or LTROs) implemented

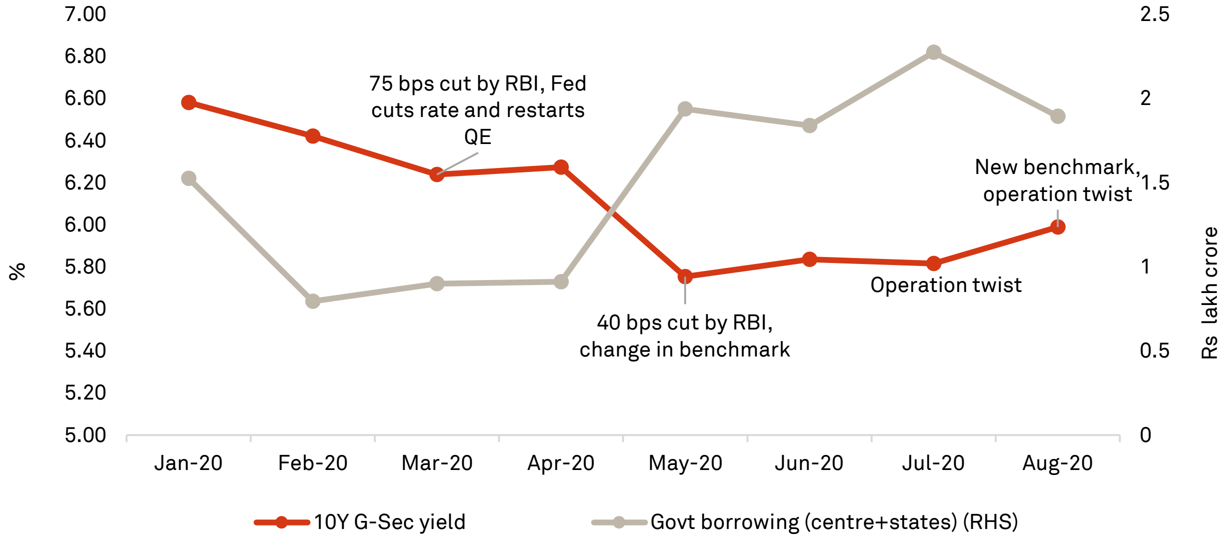
- With Covid-19 becoming a global pandemic in March, the RBI accelerated the easing measures with sharp rate cuts and a raft of unconventional measures. Many measures on regulatory relaxation were also undertaken to ease pain in the financial sector, including permitting moratoriums and restructuring of debt by banks

- **Swift policy action helped calm financial markets.** The sharp rate cuts – totalling 115 bps since March 2020 – coupled with regulatory relief for corporates contributed to a rally in stock markets. There is also evidence of rate cuts getting transmitted to the markets, with some easing seen in lending rates, money market rates and bond yields

- **Moratoriums threw a lifeline to most vulnerable companies to tide over liquidity crisis.** According to a recent analysis by CRISIL Ratings[5], 2,300 companies out of CRISIL'S total rated universe of about 8,000 corporates availed of moratoriums. 75% of these 2,300 corporates have sub-investment grade ratings (rated BB+ or lower by CRISIL). These were the very companies worst impacted by lockdowns. At a sectoral level too, moratoriums helped those worst impacted. In highly impacted sectors such as gems and jewellery, hotels, automobile dealers, power companies, packaging, and capital goods, every fifth CRISIL-rated company availed of moratorium

- **Pressure in government bond markets also eased, but that might build again.** Bond markets are facing huge supply pressure from the central and state governments due to fiscal stress. But despite higher supply, 10-year G-sec yields have eased significantly this year, helped by RBI's rate cuts and measures such as Operation Twist (i.e. selling short-term G-secs and buying long-term G-secs to flatten the yield curve)

**The Mint Road twist to tame benchmark yield**



*Note: Government borrowing refers to monthly gross market borrowing; 10 year G-sec yields are monthly averages; QE – quantitative easing*
*Source: RBI, CCIL, CRISIL*

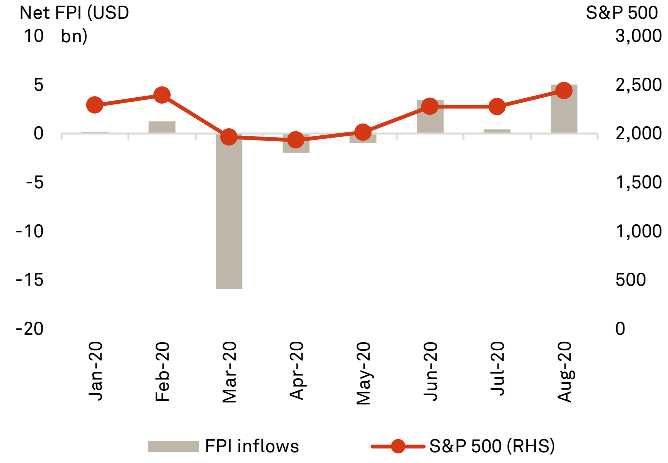
---

[5] *Refer to "75% of companies availing of moratorium are sub-investment grade"" on CRISIL website. Link: https://crisil.com/en/home/newsroom/press-releases/2020/08/75percent-of-companies-availing-of-moratorium-are-sub-investment-grade.html*

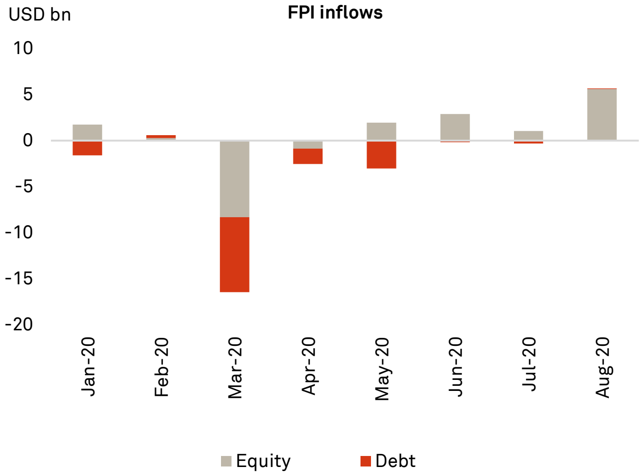
## Global monetary easing has also helped

- Like the RBI, central banks across the world have swiftly eased monetary policy, with the US Federal Reserve cutting rates to the zero lower bound and restarting quantitative easing. This has significantly boosted global sentiment, leading to rallying equity markets and easing bond yields across the globe
- For India, this has meant a return of FPI inflows, after record outflows in March
- FPI inflows have mostly gone to the equity market, with inflows to debt market much weaker
- Capital inflows, along with weak dollar and low trade deficit, has led to appreciation of the rupee

**Improving global sentiment has helped revive FPI inflows**



**Equities have benefitted from FPI return**



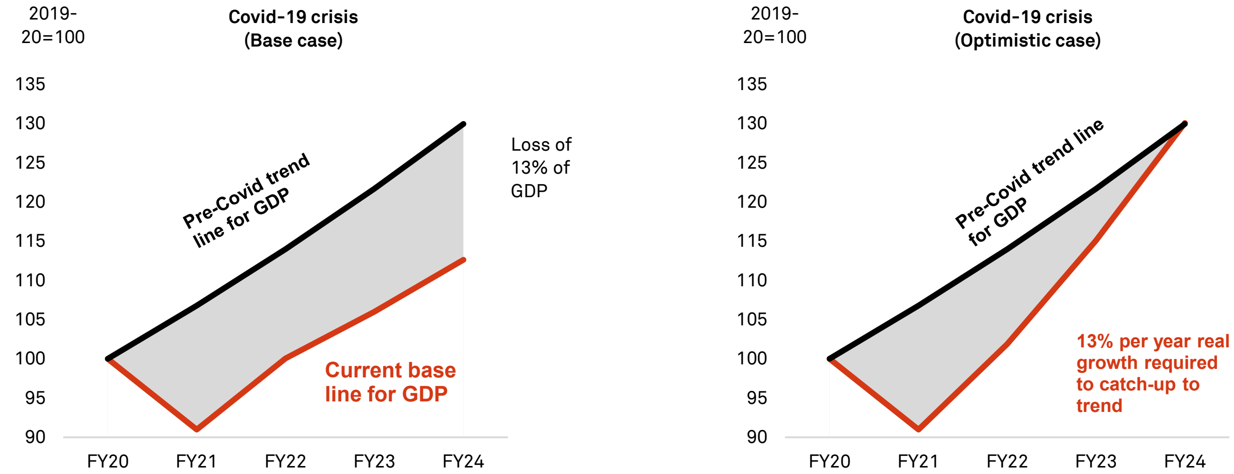
*Source: CEIC, CRISIL*

## But stress points remain

- **Weak credit growth:** Bank credit growth, which was already weakening before the pandemic, has fallen even further in the recent months. Credit growth will largely be concentrated in working capital requirement of corporates and MSMEs
- **High government borrowing:** G-sec yields are under pressure on account of high government borrowing. While RBI's policy easing so far has capped the rise in yields, the pressures are likely to resurface once RBI support wanes off. Despite 10-year G-sec yields easing, their term premium over repo rate remains stubbornly above 100 bps, reflecting the fiscal risks factored in by investors
- **Risk aversion for lower rated papers in corporate bond market:** While the RBI's measures has helped lower corporate bond yields in general, spreads of lower rated corporate bonds (from AA+ to A-rated) over government benchmarks remain higher than long-term averages, reflecting risk aversion among investors. Any rise in benchmark G-sec yields and tightening bond market conditions would push corporate yields up further, significantly raising costs of borrowing for vulnerable enterprises

# The scars and the way to heal

About 13% of real GDP will be permanently lost over the medium term



*Source: NSO, CRISIL estimates*

S&P Global foresees, on average, a 3% permanent hit to GDP in Asia-Pacific economies (ex-China and India) over the medium run[6]. For India, however, we estimate the permanent loss at 13% of real GDP

To catch up, India would require average real GDP growth to surge to 13% annually over the next three fiscals, a feat that has never been achieved
In the base case, a deep hit from the pandemic, pre-existing weakness in the economy and limited fiscal policy push to growth is likely to impair India's ability to haul itself over to the pre-pandemic trend of real GDP in the coming years. The medium term growth path for India is likely to trend down in the business-as-usual scenario. In the base case, we see growth shooting to 10% in fiscal 2022, on the back of a very weak base and some benefit from the rising-global-tide-lifting-all-boats effect. Even with that, real GDP will only merely

---

[6] *June 25, 2020, S&P Global Ratings, "Asia-Pacific Losses Near $3 Trillion As Balance Sheet Recession Looms"*

catch up to fiscal 2020 level by fiscal 2022. Beyond that, we see growth averaging ~6.2% annually over the next three years (that is, between fiscals 2023 and 2025)

Over the medium term, growth may have to lean more on technology and efficiency improvements. In this, reforms undertaken over the past few years, such as digitalisation, push to financial penetration and connectivity, and GST could yield gains.

## What can check the erosion of medium run term growth potential?

De-globalisation, which started with the global financial crisis of 2008, and further fed by the US-China trade wars, is all set to accelerate with the pandemic. The received wisdom is that in the post pandemic order, the relentless pursuit of efficiency could take a back seat as other considerations such as resilience and reliability take precedence. And this could reduce reliance on supply chains in the current form. For developing countries like India, the hit to global supply chains may limit chances of industrialising through this route as happened with China and many other East Asian nations. India will have to swim against the tide to capture the falling share of trade in global GDP. This requires fast-tracking of reforms to attract investments relocating away from China.

Looks like India's growth trajectory will be largely influenced by domestic factors as the global environment will be less favourable. So in the time to come, India must:

- **Keep the pedal on reforms to remove impediments to investment**
    - Attracting investments in manufacturing could be one of the pillars on which India's recovery from fiscal 2022 onward could be scripted. But this is not an opportunity without competition from other Asian economies. Manufacturing sector has been in recession even before the pandemic struck since second quarter of fiscal 2020. Consequently share of manufacturing in GVA fell from 18.1% in fiscal 2019 to 17.4% in fiscal 2020. Land and labour markets, availability of physical infrastructure (power, water, roads, logistics and transport), and ease of doing business, in particular, policy certainty on regulation, taxation, licence acquisition and clearances, need a big jolt and sustained implementation.
    - Streamlining process of key reforms initiated in recent past such as the GST and implementation of the Insolvency and

Bankruptcy Code should be fast tracked so that benefits accrue over the next few years. GST was introduced in 2017 and is still getting streamlined. The tax is helping create a common national market, and improving logistics efficiencies and formalisation of the economy. The IBC is helping in resolution of bad loans, and should improve the corporate credit culture in the medium run

- **Make labour count**

  – The next five years will see about 30 million young Indians enter the workforce seeking employment. Labour absorption we understand, could be a challenge. However, if sectors with higher labour absorptive capacity are given a bigger policy push, these could expand and create jobs. For instance focus on education and healthcare, where India lacks adequate spread and supply of quality educational institutions and healthcare facilities, could be labour absorptive as well. Similarly, sectors such as trade, hotels and restaurants, community services, and some sub-sectors in manufacturing could potentially create employment if given the right policy support to grow

  – Reforms such as amending existing laws to provide greater flexibility in hiring of workers to enable large-scale production bases, is a prerequisite. Investing in human capital and strengthening social security for workers is another crucial area for making labour reforms more palatable. And these can also help set off a desirable cycle of higher domestic and foreign investments, and employment generation over time

- **Push ahead with agriculture reforms**
  Recent reforms announced – liberalising farm trade, removing stocking limits under Essential Commodities Act, enabling better price discovery for farmers, and strengthening allied activities - augur well for the sector. These could lead to the much-needed improvement in productivity of this sector and farm incomes. There is more ground to cover on agriculture reforms, one of which is ensuring a reliable and indicative price signalling system for farmers to rely on at the time of sowing. For instance, a study by Raghunathan and Gulati[7] suggests linking farmers to futures markets could be one way to ensure better price discovery and hedge the price risk as farmers base their decisions on future prices rather than the previous season's prices.

**The truth with reforms is that you bite the bullet first and reap the benefits later. To balance the near and medium term growth concerns, the government needs to take more steps to address the current pain in the economy. It should take stretch itself fiscally to support vulnerable households and small business which have been hit hard by pandemic. This will also help preserve productive capacity in the economy and together with reforms, can create a medium term upside to growth.**

---

[7] *August 2019, Raghav Raghunathan and Ashok Gulati "Linking farmers to futures market in India"*

# Macroeconomic outlook for fiscal 2021

| Macro variable | FY19 | FY20 | FY21 F | Rationale for outlook |
|---|---|---|---|---|
| GDP (%, y-o-y) | 6.1 | 4.2 | -9.0 | GDP outlook revised down as Covid-19 cases continue to rise and there is no additional fiscal stimulus spending support.<br>If the pandemic were to peak out in September-October, GDP growth could move into mildly positive territory towards the end of current fiscal.<br>Manufacturing is expected to revive faster, while services will lag.<br>Amid this, good monsoon is a silver lining, seeding hope that agriculture can help the pandemic-stricken economy from sinking lower this fiscal. |
| CPI inflation (%, y-o-y) | 3.4 | 4.8 | 4.7 | Inflation is expected to soften in the second half of fiscal 2021, as demand destruction should keep core inflation contained and base effect would put downward pressure.<br>Food inflation may limit the downside to inflation. |
| 10-year G-sec yield (%, March-end) | 7.5 | 6.2 | 6.5 | Uncertainty regarding the duration, intensity and impact of the pandemic will keep yields volatile.<br>But overall, despite lower inflation and softer policy rates, higher market borrowings on account of fiscal slippage is likely to push yields up. |
| Current account deficit/ GDP (%) | 2.1 | 0.9 | -0.8 | While exports face risks from declining global growth, imports are likely to decline evenmore sharply on account of the crash in oil prices, besides the weak domestic demand. |
| Rs/$ (March average) | 69.5 | 74.4 | 74 | |

*Source: CRISIL*

# Annexure

## GDP and GVA growth in recent quarters

| **Demand side** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **At 2011-12 prices (y-o-y %)** | **Q1 FY19** | **Q2 FY19** | **Q3 FY19** | **Q4 FY19** | **Q1 FY20** | **Q2 FY20** | **Q3 FY20** | **Q4 FY20** | **Q1 FY21** |
| **GDP** | 7.1 | 6.2 | 5.6 | 5.7 | 5.2 | 4.4 | 4.1 | 3.1 | -23.9 |
| **Net taxes on products** | 9.4 | 7.8 | 5.2 | 6.7 | 12.8 | 5.4 | 10.7 | 3.5 | -40.1 |
| **Final consumption expenditure** | 7.0 | 9.1 | 7.0 | 7.3 | 5.6 | 7.8 | 7.6 | 4.2 | -19.2 |
| • Private final consumption expenditure | 6.7 | 8.8 | 7.0 | 6.2 | 5.5 | 6.4 | 6.6 | 2.7 | -26.7 |
| • Government final consumption expenditure | 8.5 | 10.8 | 7.0 | 14.4 | 6.2 | 14.2 | 13.4 | 13.6 | 16.4 |
| **Gross fixed capital formation** | 12.9 | 11.5 | 11.4 | 4.4 | 4.6 | -3.9 | -5.2 | -6.5 | -47.1 |
| **Exports of goods and services** | 9.5 | 12.5 | 15.8 | 11.6 | 3.2 | -2.2 | -6.1 | -8.5 | -19.8 |
| **Import of goods and services** | 5.9 | 18.7 | 10.0 | 0.8 | 2.1 | -9.4 | -12.4 | -7.0 | -40.4 |
| **Supply side** | | | | | | | | | |
| At 2011-12 prices (y-o-y %) | Q1 FY19 | Q2 FY19 | Q3 FY19 | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 | Q1 FY21 |
| **GVA** | 6.9 | 6.1 | 5.6 | 5.6 | 4.8 | 4.3 | 3.5 | 3.0 | -22.8 |
| **Agriculture, forestry and fishing** | 3.8 | 2.5 | 2.0 | 1.6 | 3.0 | 3.5 | 3.6 | 5.9 | 3.4 |
| **Industry** | 7.5 | 4.8 | 5.0 | 2.6 | 4.2 | 0.5 | -0.3 | -0.6 | -38.1 |
| • Mining and quarrying | -7.3 | -7.0 | -4.4 | -4.8 | 4.7 | -1.1 | 2.2 | 5.2 | -23.3 |
| • Manufacturing | 10.7 | 5.6 | 5.2 | 2.1 | 3.0 | -0.6 | -0.8 | -1.4 | -39.3 |
| • Electricity, gas, water supply and other utilities | 7.9 | 9.9 | 9.5 | 5.5 | 8.8 | 3.9 | -0.7 | 4.5 | -7.0 |
| • Construction | 6.4 | 5.2 | 6.6 | 6.0 | 5.2 | 2.6 | 0.0 | -2.2 | -50.3 |
| **Services** | 7.4 | 7.4 | 7.4 | 8.7 | 5.5 | 6.5 | 5.7 | 4.4 | -20.6 |
| • Trade, hotels, transport, communication, broadcasting | 8.5 | 7.8 | 7.8 | 6.9 | 3.5 | 4.1 | 4.3 | 2.6 | -47.0 |
| • Financial, real estate and professional services | 6.0 | 6.5 | 6.5 | 8.7 | 6.0 | 6.0 | 3.3 | 2.4 | -5.3 |
| • Public administration, defence and other services | 8.8 | 8.9 | 8.1 | 11.6 | 7.7 | 10.9 | 10.9 | 10.1 | -10.3 |

*Source: NSO, CEIC*

# Fiscal policy responses in times of pandemic

The Aatmanirbhar package announced by the government in May was a mix of short-term measures, liquidity enhancing measures and long-term reforms. The implementation and outcome of some of the major components of the package are discussed below:

### 1. MGNREGS

- This scheme formed the largest part of fiscal spending this year. According to CRISIL Research, of the Rs 101,500 crore allocated to it in fiscal 2021, Rs 11,500 crore has to be spent on clearing pending dues of fiscal 2020, thus leaving Rs 90,000 crore for the current fiscal. Even after considering the revised allocation, more than 50% of the funds have been spent in first four months of the fiscal
- Average income per person per month under the MGNREGS doubled to ~Rs 1,000 in the first four months of this fiscal compared with Rs ~509 in fiscal 2020

### 2. Support to MSMEs

- Implementation of credit guarantee scheme to MSMEs: This collateral-free, credit guarantee scheme constituted the largest allocation by government in the package, although not bearing any direct fiscal cost. Out of Rs 3 lakh crore targeted as credit disbursal for MSMEs, Rs 1.1 lakh crore has been disbursed until August, according to government data

### 3. Support to NBFCs/HFCs/MFIs

- Partial credit guarantee scheme: This scheme aimed to provide portfolio guarantee for purchase of bonds or CPs with a rating of AA and below issued by NBFCs/HFCs/ MFIs by public sector banks. About Rs 45,000 liquidity was to be available under this scheme, with purchase of AA/ AA- bonds capped at 25% of total portfolio, i.e. Rs 11,250 crore. Out of this, Rs 25,055 crore (56%) has been purchased by public sector banks. Out of this Rs 13,319 crore (53%) has been allocated to lower rated institutions

### 4. Food for migrant poor

The government had announced provision of 5 kg foodgrain per month for May-June free to migrants who were covered neither under National Food Security Act nor state public distribution schemes. As against government's initial estimate of 8 crore migrants, states were able to identify 2.8 crore migrants. Out of this, 2.66 crore migrants received foodgrains every month on average until August, according to government estimates. A total of 2.67 lakh metric tonnes foodgrains were distributed to these migrants until August.

# The miles-wide rain god smile

The monsoon season this year began with copious rainfall in June (at an all-India level, 15% above normal as on June 30). July also saw heavy downpour with some moderation towards the last two weeks. But rains caught up soon after, recording an above-normal reading of 10% over the long period average as on August 31.

Region-wise, rains were 20% and 21% above normal, respectively, in peninsular and central India, as on August 31. In the east, it was 2% above normal, while in the northwest it was 9% deficient, (considered normal). This was on account of mild weakness in rains in Uttar Pradesh, Punjab and Haryana.

None of the major kharif crop-growing states are staring at a rainfall deficiency. In fact, this time, the story is one of excess. Since mid-August, rains have inundated Gujarat, which recorded 68% above normal rains by month-end. What comes as a solace is that most of the heavy downpour has been in the less-kharif growing areas. There have been excess rains in Telangana, Andhra Pradesh, Tamil Nadu, and Bihar too, almost through this season.

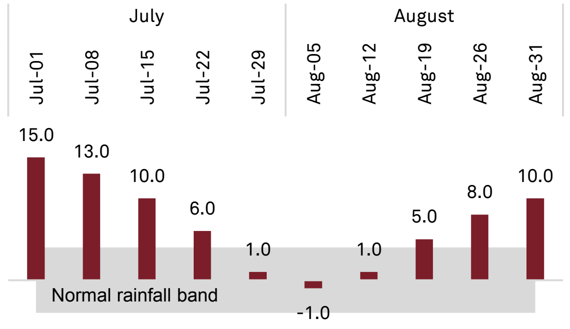
Overall, rains so far score well on three counts:

- Not only did they arrive on time, but also covered the entire country at least 12 days ahead of the normal date
- Its spread has been healthy across regions. About 49% of all rainfall districts have received normal rains. This is the highest record in the past six years
- Good spatial and temporal distribution in the early part of the season hastened sowing across crops in most states

But there is a caveat. Rainfall needs constant monitoring. Rains were already 10% above normal till August 31, with flooding in some parts (9% of districts have reported 'large excess' in rainfall). Excess rainfall in some regions could also damage crop and will remain a close monitorable for the rest of the monsoons. International weather forecasters are seeing a 60% chance of a La Niña weather condition this year. This could trigger excess rains, similar to 2010 and 2011, when rainfall was 6-13% above the long period average in August and September.

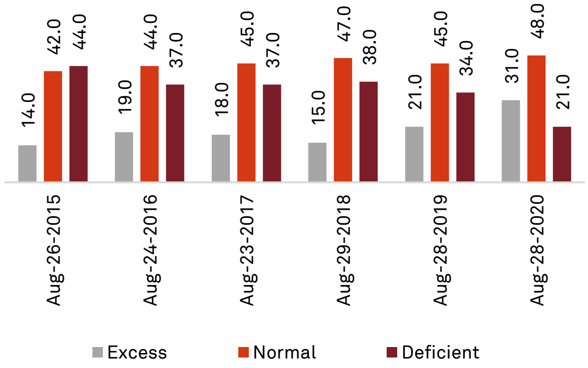
**Rains have been abundant in 2020...**

**All India rainfall**
**(% deviation from normal) 2020**



**...and well-spread, too**

**Categorywise percentage distribution of districts**
**since June 1st**



*Source: IMD, CRISIL*

## About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

## About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

## CRISIL Privacy

Argentina | China | Hong Kong | **India** | Poland | Singapore | UK | USA | UAE
**CRISIL Limited:** CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India
Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com
/company/crisil @CRISILLimited /CRISILLimited /user/CRISILLimited /lifeatcrisil

CRISIL
An S&P Global Company