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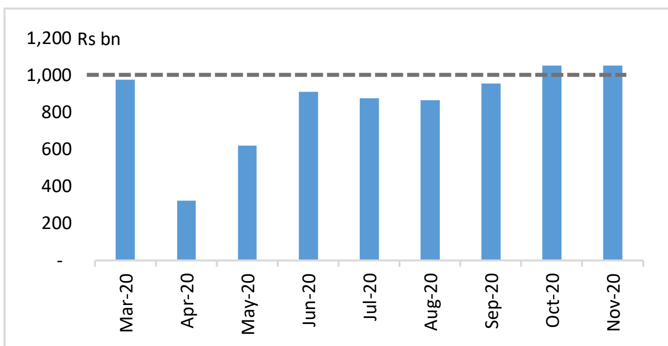
The Indian economy is now expected to witness a faster turnaround with the impending roll out of the vaccine, increased mobility and less disruptions in business operations with the opening up of the economy baring a few segments. However, the economy would need continuous support from the government till the growth momentum picks up effectively. Seven months into the fiscal year, total government expenditure is only at 55% of the budget estimates compared to 59% in the year ago period. Moreover, not only has Q2 FY21 government spending lower than Q1, it is around 38% lower than the comparable period last year. In fact, total government spending during April to Oct 2020 remains almost at the same level as the last year. Looking at the spending pattern Ministry-wise, the Ministry of Rural Development and Food and Public affairs have exhausted their budget allocation, while around seven ministries including Tourism, MSMEs, Shipping, Steel among others have spent less than 30% of the budget allocated to them during these seven months. This indicates that increased activity of the private sector that are established and operate in rural settings will have to be instrumental in driving the rural demand for the remaining months of the fiscal year. However, what is reassuring is that if the government spends the allocated budget amount it would push the growth rate higher for the second half of the fiscal year larger than expected. For this to happen revenue collection has to improve. From April to October 2020, revenue receipts have been only 34.2% of the budgeted estimates which has led the fiscal deficit to touch 120% of the budget estimates during this period. That the GST revenue collection remains above the target for two consecutive months of October and November, although is reassuring, might not suffice.

That the businesses are less disrupted, and both production and demand has picked up is reflected in the index of industrial production data, where only nine industry groups have witnessed decline in growth rates in October 2020 compared to 23 groups in March and April 2020 when nation-wide lockdown was imposed. The consumer durables sector was the highest contributor to the growth in the industrial production in October reflecting the festival demand and government cash payout and other measures to support the growing demand. However, total amount of credit given by banks to the non-food sector has contracted by Rs 649 billion between 27th March 2020 to October 23rd. For the industry the contraction in bank credit has been to the tune of around Rs 1,653 billion. In the month of October 2020 alone, credit growth to industries declined on y-o-y basis for the first time in the last 36 months owing to the decline in credit to large industries. This is the 2nd consecutive monthly decline in credit growth recorded for this segment. This does not bode well for the industry at a time when domestic demand has not yet stabilized, and external demand still remains weak. According to World Trade Organization, strong rebound in global trade during Q3 2020 might slow down in Q4 as some countries still struggle with a resurgence of the COVID-19 virus. A K-shaped recovery is largely being anticipated in 2021 globally, which implies an uneven economic recovery across different sectors, industries, and groups of people resulting in high income inequality, with low skilled people being impacted more than high skilled and high paid employees. What this implies for India is that inequality might increase with the recovery in the economy in the following year. Thus, the point that India in 2019 slipped two ranks to stand at 131 in the Human Development Index and is placed with countries with medium development as the recent released report stated has to be carefully considered.

GST Revenue collection remains above the target for two consecutive months

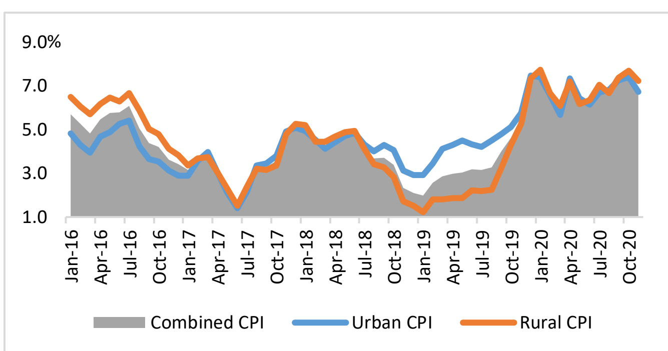


Source: PIB

Real Sector

- The Index of Industrial Production (IIP) increased by 3.6% (y-o-y) in Oct 20 after contracting by 57.3% (y-o-y) in Apr 20. Manufacturing grew by 3.5% (y-o-y) in Oct 20 after 7 months of contraction.
- Capital goods grew by 3.3% (y-o-y) in Oct 20, highest since Jan 19. Consumer durable grew by 17.6% (y-o-y) in Oct 20, highest since Nov 15.
- Only 9 out of 23 industries have witnessed decline in growth during Oct 20 compared to 23 industry groups in Mar and Apr 20. Production of motor vehicles, trailers and semi-trailers increased by 17.7% (y-o-y) in Oct 20, highest since Jul 18. Production of food products turn positive and grew by 2.5% (y-o-y) in Oct 20 after contracting for 12-months.
- Output of the Eight Core industries declined by 2.5% (y-o-y) in Oct 20, contracting since Mar 20.
- Fiscal deficit rises to 119.7% of the actuals of budget estimates during the period of Apr-Oct 20.

Converging urban and rural inflation in 2020 compared to 2019

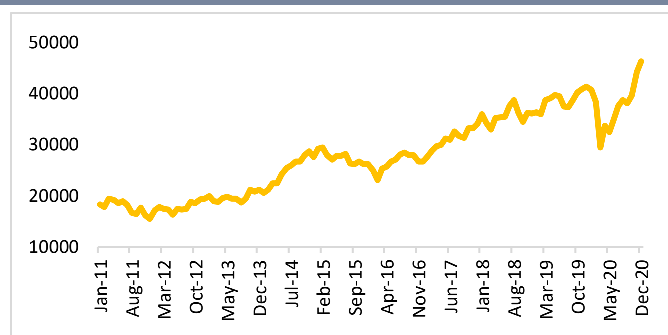


Source: MOSPI

Price Scenario

- Bank credit to industries contracted by 1.7% (y-o-y) in Oct 20, lowest since Jun 17. Bank credit to infrastructure industry decreased to 2% (y-o-y) in Oct 20, lowest since Feb 18.
- Growth in bank credit to medium enterprises grew by 16.7% (y-o-y) in Oct 20, highest since Jan 11. Growth in bank credit to agriculture and allied activities grew by 7.4% (y-o-y) in Oct 20, 16-month high.
- Weighted average call money rate stood at 3.1% in Nov 20 compared to 4.9% in Jan 20.
- Average 10-yr G-Sec yield stood at 5.9% during the period of Jul-Nov 20 compared to 6.34% during Feb-Jun 20. 15-91 days treasury yield stood at 2.9% in Nov 20, lowest ever.
- Credit to deposit ratio stood at 73 in Nov 20 compared to 76.09 during the same month last year. Incremental credit to deposit ratio increased to 8 highest since Apr 20.

BSE Sensex at an all-time high

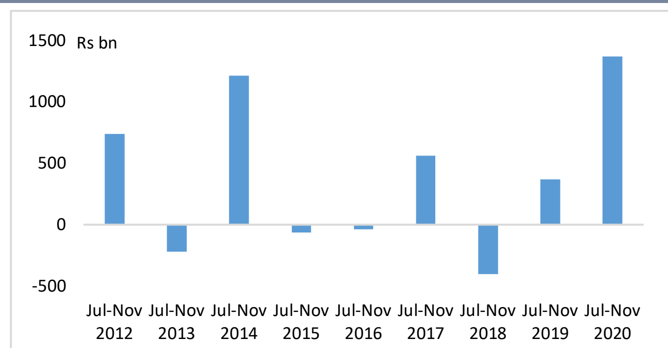


Source: BSE

Money & Finance

- Bank credit to industries remain constant in Sep 20, lowest since Nov 17. Bank credit to textile industry grew by 1.2% (y-o-y) in Sep 20, highest since Dec 18.
- Growth in bank credit to medium enterprises grew by 14.5% (y-o-y) in Sep 20, highest since Aug 12. Growth in personal loans grew by 9.2% (y-o-y) in Sep 20, lowest since Sep 10.
- Difference between policy rate and 10-yr G-Sec yield increased by 150 bps to 215 bps between the period Jul 19-Aug 20. Gap between the policy rate and repurchase rate stands at 191 bps during the same period.
- Credit to deposit ratio stood at 72.34 in Oct 20 compared to 75.82 during the same month last year. Pace of contraction in incremental credit to deposit ratio slowed to 4 after falling to -33.5 in Jul 20.
- Net inflow of mutual funds in debt-oriented schemes during Oct 20 stood at Rs 1,104.7 bn compared to an outflow of Rs 519.6 bn in Sep 20.

FII inflows in Jul-Nov 2020 period highest ever



Source: RBI

External Sector

- Merchandise trade deficit stood at US$ 9.87 bn in Nov 20, highest in 10 months. Merchandise exports contracted by 9.4% (y-o-y) to US$ 23.5 bn in Nov 20 after increasing by 5.7% (y-o-y) in Sep 20 and imports contracted by 12.4% (y-o-y) to US$ 33.4 bn.
- Oil imports contracted by 43.4% (y-o-y) to US$ 6.3 bn in Nov 20 from US$ 11.1 bn in Nov 19.
- Foreign Exchange Reserves stood at US$ 574.8 bn on 27th Nov 20 compared to US$ 451.1 bn on 29th Nov 19.
- External Commercial Borrowings (ECB) declined by 48.9% (y-o-y) during the period Apr-Oct 20 compared to 58.6% (y-o-y) during the same period last year.
- Average global Brent crude oil prices increased to US$ 42.7 per barrel in Nov 20, levels last seen in Mar 20.

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Dun & Bradstreet's Macro Economic Forecasts			
Variables	**Forecast**	**Latest Period**	**D&B's Comments**
I.I.P Growth	0.5% - 0.7% Nov-20	3.6% Oct-20	Dun & Bradstreet expects growth in the Index of Industrial Production (IIP) in November 2020 to have moderated from the levels seen in October 2020, primarily due to two factors: the high base of the previous year and the dip in demand after the festive period
Inflation W.P. I **Inflation C.P.I (Combined)**	1.8% - 1.9% Dec-20 6.6% - 6.7% Dec-20	1.55% Nov-20 6.93% Nov-20	Inflationary pressures are likely to prevail in December 2020, as core inflation remains high even as food prices abate slightly. We are maintaining our expectation that high non-food inflation will persist, driven by gold prices, surging healthcare costs and supply-side disruption. Further inflationary pressure will stem from the increase in international crude oil prices - these have risen to the levels last seen in March 2020
15-91 days T-Bills **10-year G-Sec Yield** **Bank Credit***	2.8% - 2.9% Dec-20 5.8% - 5.9% Dec-20 5.5% - 5.6% Dec-20	2.93% Nov-20 5.84% Nov-20 5.8% Nov-20	Dun & Bradstreet expects bond yields (both short term and long term) to remain range-bound in December 2020, with a downward bias. Persistent sticky inflation, high borrowing levels, and a rebound in growth are likely to exert upward pressure on yields. On the other hand, the central bank's decision to maintain an accommodative stance will anchor bond yields and help them to ease
Exchange Rate INR v/s US$	73.5 – 73.7 Dec-20	74.22 Nov-20	Dun & Bradstreet expects the rupee to appreciate during December 2020. Sustained buying momentum by foreign funds amid prospects of a faster economic recovery in India, record low global interest rates and easy monetary policy would help rupee to gain ground. The weakness of the US dollar is also likely to prop up the rupee. However, rising crude oil prices, along with a widening of the trade deficit, might cap some of the gains made by the rupee
All figures are monthly average			
*Monthly data for bank credit is till 22nd November 2020			

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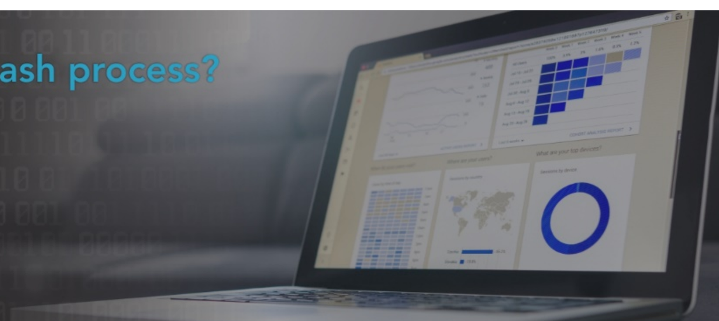
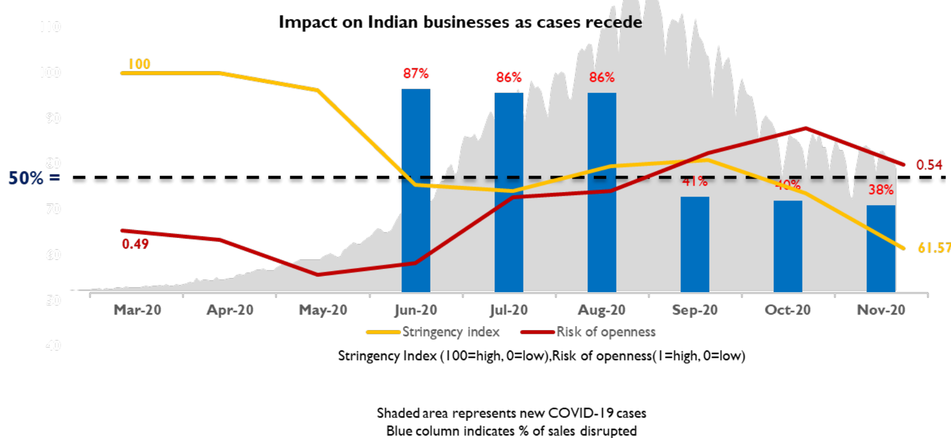


Impact on Indian Businesses and Risk Appetite as COVID-19 cases recede

The peak level of infected cases has come down as India has successfully contained the spread of the virus. As the number of infected cases have come down the risk of opening the economy has come down. The risk of opening up the Indian economy as measured by the Risk of Openness Index has also come down, although it still stays high as cases have surged in some pockets of the country. The Risk of Openness Index is based on whether countries follow the six WHO recommendations before easing restrictions further. The Indian government has opened up the economy,



Shaded area represents new COVID-19 cases
Blue column indicates % of sales disrupted

allowing most of the economic activities to operate. The government stringency index which is a composite measure based on nine response indicators including school, workplace, public event and gatherings closures, travel bans, stay at home rescaled to a value from 0 to 100 where 100 is equivalent to the strictest response has dropped from 100 in April to 62 at end Nov 2020. The number of businesses and their sales impacted due to the various lockdown and social distancing measures have thus reduced over the last three months. Dun & Bradstreet (D&B) has been tracking the impact of COVID-19 on business, employees and percentage of sales disrupted and this data shows that from June to August 2020 more than 80% of sales of active businesses remained impacted. The share of active businesses in D&B database impacted by COVID-19 also stood at 80% and above during this period. With the subsequent opening up of the economy, the percentage of sales disrupted has come down to 38% at end-November. This indicates that not only that supply chain disruptions have reduced but demand has picked up during the festive season. This has also reflected in the Q2 July -Sept GDP Data where the pace of contraction in growth has reduced significantly compared to the Q1 FY20 levels. The data for the subsequent months indicate that growth has picked up considerably and the economy is expected to register a positive yet modest growth rate during Q3 FY21. The sentiment echoed by the businesses paint a similar picture on the growth front. Survey conducted by Dun & Bradstreet on the CFOs reveal that they are optimistic about their profitability during Oct-Dec 2020. Fueled by the stimulus measures and fall in expenses of companies owing to layoff, salary and bonus cut-offs, work from home measures and mobilization of funds in the form of equity and liquidation of assets have added to the company's cash holdings thereby improving their liquidity position. Companies in the survey also remain quite optimistic of their liquidity scenario during the period. However, concerns of risk remain unabated. Only 18% of CFOs expect an increase in the risk appetite in the current scenario and this is the lowest reading since the index was instituted in Q2 2012. Further, only 17% of CFOs in the industrial sector surveyed expect the level of financial risk on their company's balance sheet to decrease in Q4 2020, lowest in seven quarters. Thus, need for funds amongst CFOs remain subdued, despite their belief that adequate funds will be available in the market at a lower cost. The survey also reveals that 42% of CFOs in the services sector and 55% of CFOs in the industrial sector expect the availability of funds in the market to increase in Q4 2020, highest in six quarters and 15 quarters, respectively, while 39% expect a decrease in the cost of raising funds which is highest in 14 quarters. Excluding the results for Q3, the percentage of CFOs stating need for long term funds for Q4 is the lowest since Q2 2012. This does not bode well for building up of the growth momentum as the capital expenditure of the government for the first six months i.e. April- Oct 2020 remains only at 48% of the budget estimates. A research note, by IMF states that only a synchronized public infrastructure investment could lift global GDP by close to 2% by 2025. If each country raises infrastructure spending on its own, without benefiting from higher spending abroad the global impact in that case would be limited to an average of about 1.2%. Given unprecedented rise in debt levels globally, it remains to be seen how government execute their infrastructure investment plans.