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D&B ECONOMY OBSERVER

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View from the top

The Indian economy is in the midst of faster than expected recovery, contrary to the estimates outlined a few months ago. Both consumer and business confidence levels have improved. Dun & Bradstreet Business Optimism Index which surveys the optimism level of all size of businesses and predicts the GDP growth three months ahead of the actual occurrence of the data, indicates upturn in GDP growth in the fourth quarter of the fiscal year.

Business remain optimistic as overall demand is expected to improve going ahead. Less disruption to business operations as the economy opens up, increased mobility, receding fears of the 2nd wave and moderation of the epidemic even before vaccines were deployed have provided traction to the organised and unorganized sector both in the urban and rural areas. The increase in optimism also emanates from the fact that profit level of firms has improved in Q2 FY21 and this is expected to have continued in Q3 as well. Though this has been primarily led through cost cutting measures such as reduction in wage bill and fall in input costs. As per RBI data, operating profits of more than 2,500 listed non-government non-financial companies jumped by 33% during Q3 FY21, as raw material cost and fuel cost plunged, and wage bill contracted.

However, until the recovery in demand gets deep-seated, sustainability in demand will pose risks to growth. Risk to sustainability in demand arises from two factors. One is increase in precautionary savings. People are still waiting for the worst to tide over. This phase of uncertainty will continue till the vaccination drive has covered almost 80-90% of the population. As per RBI's survey, consumer confidence has improved in November, albeit marginally, from the all-time low recorded in September 2020, although it remains low when compared to last year. The other risk to consumer demand emanates from the loss in employment, pay-cut, no bonus or no salary increment for the following year. The balance sheet of companies shows how wage bills have declined over the 1st two quarters of the fiscal year. There are two ways of looking at the employment loss. One is the permanent and the other is the temporary loss in employment opportunities. Underemployment has been surging as millions of workers have been asked to work reduced hours or no hours at all. Estimates by the International Labour Organisation for the working hours lost and equivalent value of fiscal stimulus packages given by lower-middle income countries relative to the labour market damage that has occurred show that there is a huge gap. The working hours lost (% of total, average over first three quarters of 2020) averaged at around 14% and fiscal stimulus measures equate to 2.4% of total working hours yielding a gap of 11.6%. For India, the gap can be lower, but it remains significant. With fewer paid hours of work, median incomes are falling. And if unemployment or underemployment becomes entrenched, we might witness demand fading away. This is because according to our estimates the economy will be able to recover the lost ground only during FY23. We estimate GDP to grow by just 4.9% in FY22 and by 6.5% in FY23. Thus, when compared to FY20, the economy will continue to decline by 3% in FY22 and will only grow by 3% in real terms in FY23. Thus, it is important to focus on structural reforms as this would not only help in lifting the potential growth rate but also ensure the negative output gap to close.

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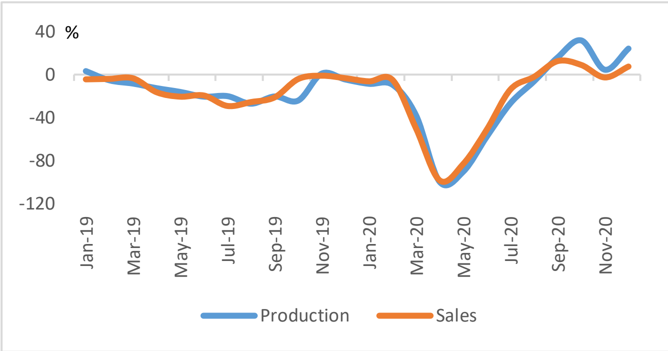
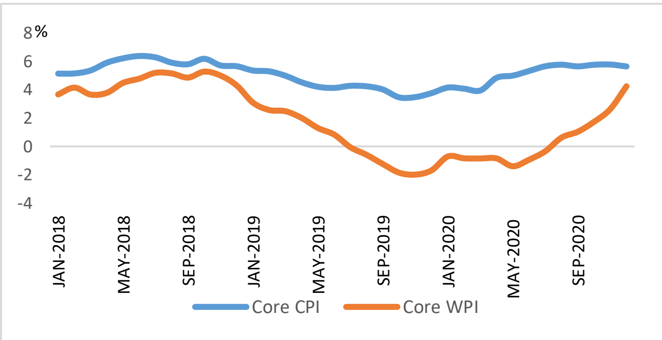


Source: PIB

Real Sector

- The Index of Industrial Production (IIP) declined by 1.9% (y-o-y) in Nov 20 compared to a growth of 4.2% (y-o-y) in Oct 20. Mining contracted by 7.3% (y-o-y) in Nov 20 compared to a growth of 1.4% (y-o-y) in Sep 20.
- 13 out of 23 industry groups in the manufacturing sector contracted during Nov 20. Among all industry groups manufacturing of furniture & paper and paper products industry registered the steepest decline of 26.1% (y-o-y) and 22.7% (y-o-y) respectively in Nov 20.
- GST revenue collections stood at around Rs 1.2 tn in Dec 20, highest ever since the launch of GST in 2017.
- 642 lakhs e-way bills got generated during the month of Dec 20 compared to 574 lakhs in Sep 20.
- Daily average power consumption increased by 4% (y-o-y) in Nov 20, compared to 10% (y-o-y) during Oct 20.

Core WPI and CPI inflation remains sticky and elevated

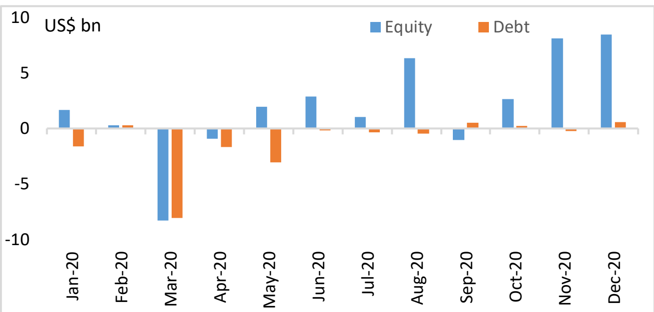


Source: MOSPI, Office of Economic Advisor

Price Scenario

- Retail inflation eased to 4.6% (y-o-y) in Dec 20, compared to 7.6% (y-o-y) in Oct 20. Inflation in food and beverages moderated to 3.9% (y-o-y) in Dec 20, lowest since Sep 19.
- Vegetable inflation contracted by 10.4% (y-o-y) in Dec 20, lowest since Feb 19. Inflation in cereal and products prices grew by 0.9% (y-o-y) in Dec 20, lowest since Feb 19.
- Wholesale price inflation (WPI) increased to 1.2% (y-o-y) in Dec 20, compared to 2.8% (y-o-y) in Dec 19. Inflation in food articles under WPI contracted by 1.1% (y-o-y) in Dec 20, lowest in 2 years.
- Wholesale manufacturing inflation increased to 4.2% (y-o-y) in Dec 20, highest since Nov 18.
- Wholesale inflation in non-food articles eased to 3.1% (y-o-y) in Dec 20 compared to 7.7% (y-o-y) in Dec 19. Inflation in fuel and & power prices contracted for 10-straight months and stood at 8.7% (y-o-y) in Dec 20.

Inflows in equity remain strong while debt witnessed net outflows in 2020

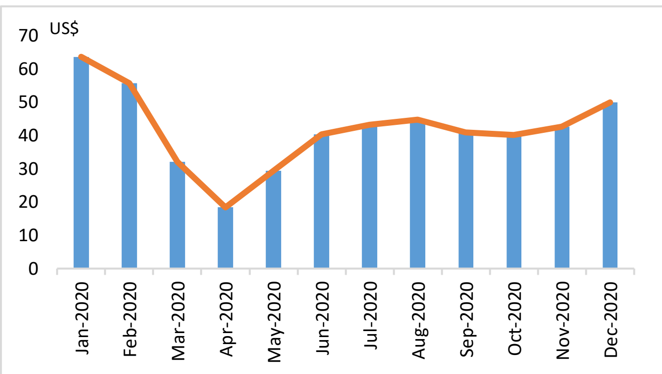


Source: BSE

Money & Finance

- Bank credit to industries contracted by 0.7% (y-o-y) in Nov 20, declining for two straight months. Bank credit to large industries declined for 3-consecutive month and stood at 1.8% (y-o-y) in Nov 20. Bank credit to medium enterprises rose to 20.9% (y-o-y) in Nov 20, highest since Jan 11.
- Growth in bank credit to agriculture and allied activities grew by 8.5% (y-o-y) in Nov 20, 17-month high.
- Commercial paper issuances increased by 56.4% (m-o-m) in Dec 20 and stood at Rs 1.9 tn compared to 1.2 tn in Nov 20.
- Net monthly liquidity absorption by the RBI increased to Rs 147.7 tn, highest ever.
- Incremental credit to deposit ratio increased to 19.5 in Dec 20 compared to a contraction of 29.5 in Aug 20.
- BSE Sensex touched a record high of 50,184 on Jan 21, 2021 compared to an average of 39,771 during the year 2020.

FII inflows in Jul-Nov 2020 period highest ever



Source: EIA

External Sector

- India's current account continued to remain in surplus for 3-straight months and stood at US$ 15.5 bn during Q2 2021. The surplus narrowed from US$ 19.2 bn in Q1 2021.
- External commercial borrowings recorded an outflow of US$ 4.1 bn in Q2 2021 compared to an inflow of US$ 3.1 bn a year ago.
- Merchandise trade deficit stood at US$ 15.4 bn in Dec 20, lowest in 18 months. Merchandise exports contracted by 0.8% (y-o-y) to US$ 27.1 bn in Dec 20 compared to a growth of 5.7% (y-o-y) in Sep 20 and imports grew by 10.3% (y-o-y) to US$ 42.6 bn after contracting for 9-straight months.
- Non-oil imports grew by 14.1% (y-o-y) to US$ 33 bn in Dec 20, highest since Jun 19, while oil imports declined by 10.4% (y-o-y), lowest in 10 months.
- Foreign Direct Investments in India grew by 13% in 2020 compared to a collapse of global FDI by 42%.
- Average rupee stood at Rs 73.2 per US$ during Jan 21, compared to an average of Rs 75.7 per US$ in Jun 20.

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Dun & Bradstreet's Macro Economic Forecasts

Variables	Forecast	Latest Period	D&B's Comments
I.I.P Growth	(-)1% - (-)0.5% Dec-20	-1.9% Nov-20	Index of Industrial Production (IIP) growth remained weak during December as manufacturers remained cautious over the broad-based recovery in demand post the festival season and weak external demand. High base of the previous year had also kept the growth muted
Inflation W.P. I	1.28% - 1.32% Jan-21	1.22% Dec-20	Due to the easing of supply chain disruptions, seasonal production, fall in price level of animal protein commodities because of the spread of bird flu, and high base of the previous year, we expect headline inflation to moderate during January 2021. However, broad-based inflationary pressures from the recent increase in global prices of energy and metals continue to persist. Furthermore, core inflation remains sticky, which might reverse the current fall in the inflation rate
Inflation C.P.I (Combined)	4.5% - 4.55% Jan-21	4.59% Dec-20	
15-91 days T-Bills	3.07% - 3.09% Jan-21	3.1% Dec-20	Dun & Bradstreet expects bond yields to remain elevated in the month of January 2021. Sticky core inflation, high borrowing needs of the government and the indication given by the Reserve bank of India (RBI) to withdraw the liquidity from the market is expected to keep yields elevated during the month
10-year G-Sec Yield	5.89% - 5.91% Jan-21	5.89% Dec-20	
Bank Credit*	6% - 6.3% Jan-21	6.1% Dec-20	
Exchange Rate INR v/s US$	73.1 – 73.3 Jan-21	73.59 Dec-20	Dun & Bradstreet expects rupee to continue to appreciate during the month of January 2021. A current account surplus, dollar inflows, signs of an economic recovery and a weakness in the US dollar is expected to lend support to rupee

All figures are monthly average

Union Budget Expectations

The Union Budget is expected to be different from the previous budget as the government will have to shoulder the responsibility of providing a traction to the growth momentum which has started building up with both conventional and unconventional measures. While the economy shows nascent signs of recovery, there are certain red flags. The global economic recovery seems to be will be long, complicated and varied by location with Q2 2021 is the earliest to expect near-normality.

We expect the Union Budget to lay the blue-print of what the government intends to deliver this year but also to take some structural initiatives as COVID-19 has dented not only the short term but also the long term growth prospects.

To start with we expect the government to set realistic revenue receipts and deficit targets, exclude off-budget borrowing and lay down a revised road map for fiscal consolidation. Monetization of deficit, borrowings from overseas market by the central government leaving room for the state governments and private sector to borrow from the domestic market, disinvestment and asset monetization could be the probable avenues for raising funds this fiscal year. This would assuage the concerns regarding the government's ability to maintain the macro-economic stability owing to excessive borrowing during the current and subsequent years and help in setting long term goals.

The Union Budget should try to boost consumer spending and focus on creating job opportunities with an emphasis on skill development. Digitization and automation will make many jobs redundant. Placing a thrust on the skilling initiatives with respect to Industry 4.0 and making digitization a mandatory skill development amongst MSMEs is the need of the hour.

Sectoral Expectation

Agriculture and rural

To revive the overall demand in the economy, the government will have to place considerable thrust to uplift the agriculture and rural economy

- Developing agriculture infrastructure like cold storage, supply chain and warehouses under Atmanirbhar Bharat
- Provide support to the small and marginal farmers by increasing the income support from Rs 6,000 to a higher amount
- Provide further impetus to the food processing industry
- Increase allocation for rural employment generation under MGNREGA
- Placing thrust on Rurbanisation
- One village one product (OVOP) should be further promoted

Infrastructure

Given the imperative to generate demand and employment opportunities to revive the economy, an increase in infrastructure spending should be the focus area in this budget

- Frontloading infrastructure spending
- Boosting expenditure to strengthen the digital infrastructure in the country
- Reinforcing the health infrastructure
- The government is also expected to earmark investments for setting up at least one e-charging kiosk in and around 69,000 petrol pumps across the country
- The Union Budget is expected to detail out the source for financing its infrastructure projects which will lay credibility to its intention of executing the big-ticket infrastructure projects.

BFSI

We expect the government to take more initiatives and streamlining operational guidelines to achieve a credit growth led economic revival.

- We expect the government to take measures to enhance liquidity in the NBFC sector
- As recommended by the Internal Working Group, constituted by the RBI, well-governed large NBFCs should be permitted for conversion into banks and large corporate/industrial houses should be allowed to promote banks
- A roadmap to reduce the government's stake in public sector banks over the coming years is expected.
- Measures to strengthen governance across the banking spectrum is also expected.
- We expect measures, including an increase in the 80C and 80D limits and a reduction in the GST rates on insurance premiums, to improve social protection.

MSMEs

The government has been taking a host of measures to help small businesses, however, given the severity of the impact of COVID-19 on the economy and the need to pull the economy back on track, we expect the Union Budget to take additional measures to support the micro, small and medium enterprises.

- Enhancing the collateral-free loan limit which currently stands up to Rs 2 crore
- Developing the Intellectual Property (IP) finance ecosystem
- Addressing the issue of delayed payments to MSMEs
- Simplification of GST
- Ease cost of doing business
- Strengthening the value chain of MSMEs
- Helping MSMEs access potential partners
- Inculcating digital skills amongst MSMEs
- Help MSMEs to sell their products online