

D&B ECONOMY OBSERVE

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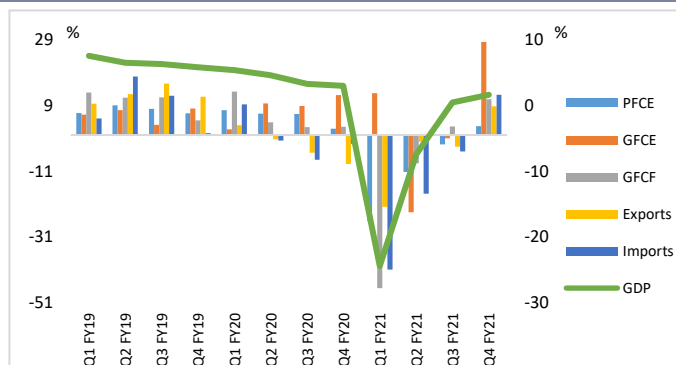
Supply chain disruptions are still felt across the globe. For example, the Drewry composite World Container Index comprising of freight rates of eight major trade routes increased by around 300% in the 1st week of June from its year ago level. With more than 80% of all goods trade transported by sea, rising freight cost will increase the imported price of goods, adding to the concerns of inflationary pressures globally.

Increase in freight cost will add to the inflationary pressures faced by India as well. Rising freight costs, demand-supply imbalances, increase in minimum support prices of food crops and expected volatility in the crude oil prices will keep the inflation rate high in the near term. Unlike other economies, India faced high inflationary pressures during the pandemic as disruptions in the domestic supply chain offset the subdued demand conditions. The concern is that the persistence of high inflation might lead to entrenchment of high prices in the economy, especially when demand picks up. The specter of inflation and its consequent impact on households and firms is expected to be a drag on the revival of growth of the economy. The concern is that there is very less that the RBI can do in terms of tweaking the policy rates as it needs to support growth. On the contrary its effort to increase the liquidity in the system and precautionary holding of cash by the public is partially responsible for increasing the currency in circulation adding to inflationary pressures. The ratio of currency in circulation to the GDP stood at 14.6% as of March 2021, highest in two decades. Alongside, the uncertainty posed by the 2nd wave will lead to gradual withdrawal of the restrictions even when the infected cases are rapidly declining. This will continue to pose disruptions to the supply chain and keep the inflationary pressures high.

Even as restrictions are eased, the pace of recovery of demand, especially in the rural sector, is likely to remain subdued. Adding to the growth concerns are the high healthcare expenses and depleted savings as well that would keep consumer confidence and demand weak. Data shows that the household net financial savings which rose to 21% of GDP in the first quarter of FY21 owing to precautionary saving has fallen to 10.4% in the subsequent quarter. The recent slowdown in bank deposits also indicates that household savings have been impacted by the second wave of the pandemic. The latest Consumer Confidence Survey by the RBI shows that the sentiment of the Indian consumer for the current situation has hit an all-time low in May 2021, as consumer perceptions on general economic situation and employment scenario lowered further. Consumers are also not upbeat about the future. The future expectations index (FEI) has moved to pessimistic territory for the second time in May 2021 since the onset of the pandemic. Uncertainty and cautiousness prevail over economic situation, employment and income levels amongst the consumers.

Thus, until a substantial section of the population is vaccinated, cautiousness would continue to prevail amongst both businesses and consumers. The shape of recovery has now shifted from a V to a U-shape curve, however, the length and shape of the U-curve would depend on how effectively India curbs the next wave when it arises.

Sharp increase in GFCE pulls up the GDP during Q4 FY21

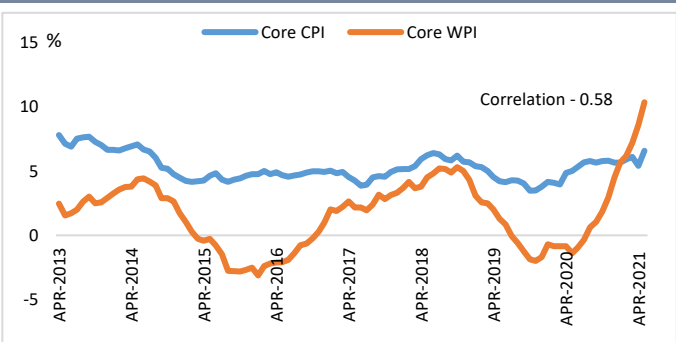


Source: PIB

Real Sector

- GVA contracted by 6.2% (y-o-y) in FY21. All the components of GVA contracted except for agriculture (3.6%) and Electricity, gas, water supply and other utility services (1.9%). Trade, hotels, transport, communication and other services related to broadcast saw the steepest contraction (-18.2%) amongst all the components.
- GDP contracted by 7.3% (y-o-y) in FY21. Only government final consumption expenditure grew by 2.9% (y-o-y) in FY21 and all other components contracted.
- Index of Industrial Production (IIP) grew by 111.3% (y-o-y) (seasonally adjusted) in Apr 21, due to extremely favorable base effect.
- Government has been achieving the monthly GST target since Oct 20. GST revenue collection during May 21 stands at Rs 1.03 tn.
- India's Economic Policy Uncertainty Index increased above 70 during Apr and May 21 from its 2-yr low print of 40.9 during Mar 21.
- Net Direct Tax Collections for FY22 as on 15th Jun stands at Rs 1.85 tn compared to Rs 927 bn over the corresponding period last year.

Core WPI remains above the core CPI inflation for 3 months

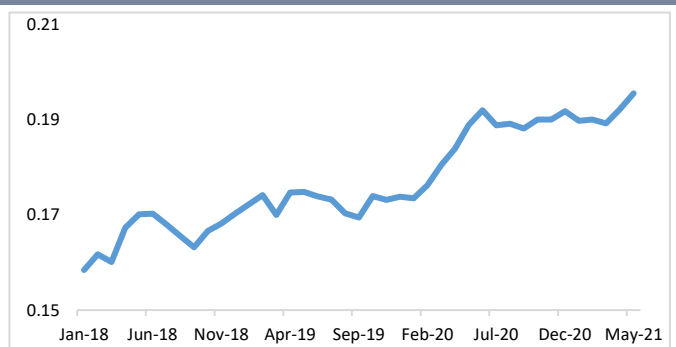


Source: MOSPI, Office of Economic Advisor

Price Scenario

- CPI inflation increased above the RBI's band of tolerance and stood at 6.3% (y-o-y) in May 21, highest in six months driven by inflation in food and services.
- Food and beverage inflation rose to 5.2% (y-o-y) in May 21 from 2.6% (y-o-y) in Apr 21. Inflation in oils and fats increased by 30.8% (y-o-y), highest in the series 2011-12. Inflation in fruits grew by 11.9% (y-o-y) in May 21, highest since Jun 18.
- Inflation in services grew by 7.5% (y-o-y) in May 21, highest since Jan 13 due to rise in transport and communication inflation to 12.4% (y-o-y) in May 21, from 10.8% (y-o-y) in Apr 21. Inflation in fuel and light surged to 11.6% (y-o-y) in May 21, highest since Mar 12.
- Wholesale inflation surged to 12.9% (y-o-y) in May 21, highest in the new series (2011-12). Inflation in manufactured products (6.9%) and fuel & power (4.9%) are the highest contributors to the increase in wholesale inflation.
- Spread between output and input inflation under WPI further widens by 13.9% (y-o-y) in May 21, highest ever.

Increasing currency to deposit ratio

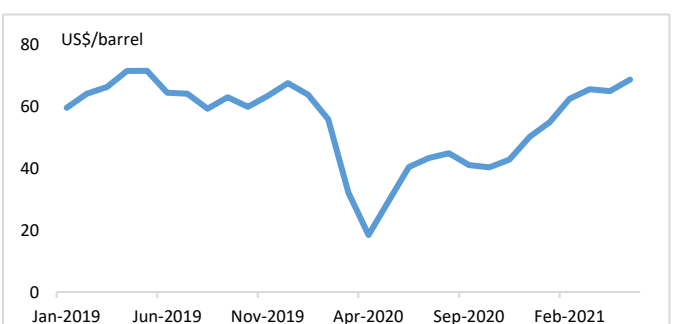


Source: RBI

Money & Finance

- Bank credit to industries continued to grow for two-straight months and stood at 0.4% (y-o-y) in Apr 21. Bank credit to food processing industry grew by 9% (y-o-y) in Apr 21, highest since Feb 18. Bank credit to textile industries grew by 7.7% (y-o-y) in Apr 21 compared to a contraction of 4.6% (y-o-y) in Apr 20.
- Bank credit to MSME sector grew by 21.5% (y-o-y) in Apr 21, highest since Aug 14. Bank credit to services sector grew by 0.7% (y-o-y) in Apr 21, lowest ever. Bank credit to retail sector declined for the first time since 2010 and stood at (-)1.2% (y-o-y) in Apr 21. Personal loans grew by 12.8% (y-o-y) in Apr 21, driven by increase in vehicle loans by 11.7% (y-o-y), highest since Sep 18.
- Currency in circulation to GDP ratio increased to 14% in Mar 21, highest in two decades. Money Multiplier reduced to 5.1 in May 21, lowest since Mar 12.
- 10-yr G-Sec yield decreased to 5.9% in May 21, seven basis points lower than the yields observed in Apr 21. 10-yr AAA Corporate bond yields have softened to 6.7% in May 21 compared to 7.1% in Mar 21.

Brent crude oil prices rose to the levels since June 2019



Source: EIA

External Sector

- Merchandise trade deficit narrowed to US\$ 6.3 bn in May 21 compared to US\$ 15.1 bn during Apr 21.
- Oil exports stood at US\$ 5.3 bn in May 21 from US\$ 3.6 bn in Apr 21. Oil imports stood at US\$ 9.4 bn in May 21 down from US\$ 10.9 bn in Apr 21.
- Gold and silver imports reduced to US\$ 0.7 bn in May 21 from US\$ 6.3 bn in Apr 21.
- Foreign exchange reserves crossed US\$ 600 bn as on 4th Jun 21 for the first time and stood at US\$ 605 bn. Import cover stood at 6.4 months in May 21 down from 7.8 months during Apr 21.
- Outflows in foreign investments stood at Rs 19.6 bn during May 21 compared to an inflow of Rs 146.3 bn in Jan 21.
- Rupee has appreciated by 3.2% at Rs 73.3 per US\$ in May 21 from Rs 75.7 per US\$ during May 20.

Dun & Bradstreet's Macro Economic Forecasts

Variables	Forecast	Latest Period	D&B's Comments
I.I.P Growth	10% May-21	134.4% Apr-21	Dun & Bradstreet expects the industrial production to have remained weak in the month of May 2021 as COVID-19 cases surged and restrictions were tightened across the states. Despite the fact that industrial production did not come to a halt unlike last year, the severity of the pandemic had heightened the level of uncertainty and cautiousness amongst businesses and consumers. Going ahead, the industrial activity is expected to pick up on a durable basis along with the pace of vaccination, control in the number of infected cases and ease of restrictions
Inflation W.P. I	12.4% Jun-21	12.94% May-21	Rising freight costs, demand-supply imbalances, increase in minimum support prices of food crops and expected volatility in the crude oil prices will keep the inflation rate high. Persistence of high inflation might lead to entrenchment of high prices especially when demand picks up
Inflation C.P.I (Combined)	6.5% Jun-21	6.3% May-21	
15-91 days T-Bills	3.3% Jun-21	3.36% May-21	Reserve Bank of India's (RBI) buying of bonds across maturities under the Government Security Acquisition Programme (G-SAP) is expected to keep yields low while surplus liquidity in the system is expected to further push down the short term yields. With the US Federal Reserve raising the country's economic growth forecast and hinting to hike interest rates sooner than expected, the long term yields are likely to face some downward pressure from Foreign Institutional Investment (FII) outflows
10-year G-Sec Yield	6.2% Jun-21	6.21% May-21	
Bank Credit	6.1% Jun-21	5.9% May-21	
Exchange Rate INR v/s US\$	73.0 Jun-21	73.27 May-21	Dun & Bradstreet expects that the rapid decline in daily infections and optimism around easing pandemic related restrictions coupled with FII inflows will support rupee to appreciate. Nonetheless, downward pressures from dollar strengthening as the US Federal Reserve hinted at interest rate hike is likely to curb the level of appreciation

All figures are monthly average

Enhancing India's Innovation Eco-system

India's business environment was known to have been characterized by poor enforcement of contracts/intellectual property rights (IPR), lack of credit information, bureaucratic hurdles, poor records of land titles and slow legal system making it difficult to do business. India is thus striving towards providing an enabling business regulatory environment, though it might take some years or an additional term by the ruling government to execute and streamline the various reforms required for India to be ranked with the developed nations as a favorable and competitive business destination.

In this context, India's attempt to reform its regime of Intellectual Property Rights (IPR) needs mention. India's weak IPR regime had provided limited opportunities for innovative start-up companies to raise funds. However, as the pandemic has quickened the progress towards Industry 4.0 across many economies and India is one of them, a strong IPR regime can only facilitate towards a faster adoption of the technologies.

During 2014-2016, only one Indian firm had made it to the list of the top 50 companies among the world that were responsible for the highest shares of AI-related publications. The OECD report findings showcased that despite the small number of Indian-based companies among the top corporate R&D investors worldwide, Indian inventors contributed to developing 2.5% of AI-related inventions, more than United Kingdom (2.4%), Chinese Taipei (1.8%), and France (1.5%).

A recent report released in 2020 by OECD talks about how countries in South East Asia, China and India are moving ahead with Industry 4.0 during the pandemic. The country level surveys quoted by the report showed how firms including MSMEs are facing challenges in adopting digitalization and adoption of Industry 4.0. Despite the challenges, small businesses are gradually understanding the need and benefit of adopting Industry 4.0. The survey conducted by Dun & Bradstreet on Indian MSMEs during Q4 2020 found that around 70% of Small Businesses in India are willing to leverage Next-Gen Technologies like Artificial Intelligence (AI), Machine Learning (ML), Industrial IoT etc. to conduct their business operations.

India has been carrying out changes to improve the eco-system of the IPR from infrastructure upgradation, manpower augmentation to regulatory reforms and IT enablement for speedy disposal of IP application. Business can now file for registration of copyrights online. Real time dissemination of information of IP applications has placed India's IP Offices at par with its global peers. In 2020, India took several other measures. The reduction in the compliance burden for applying patents or simplification of processes could be helpful, especially for small firms. Besides the timeline for examination of patent application has been reduced from 36-52 months in May 2019 to 10-26 months in Dec 2020.

To increase the registration of authorised users of a Geographical Indications product, geographical Indications of Goods (Registration and Protection) (Amendment) Rules, 2020 have been notified. 26 new Indian Geographical Indication (GI) have registered with GI Registry as on 24th Dec 2020 from 1st May 2019.

4 fold increase in patents granted and trademarks registered since 2016

Patents and Trademark - Overall				
Year	Patents		Trademarks	
	Filed	Granted	Filed	Registered
FY16	46,904	6,326	283,060	65,045
FY20	56,284	24,936	334,815	294,172
Increase		4 fold		4.5 fold

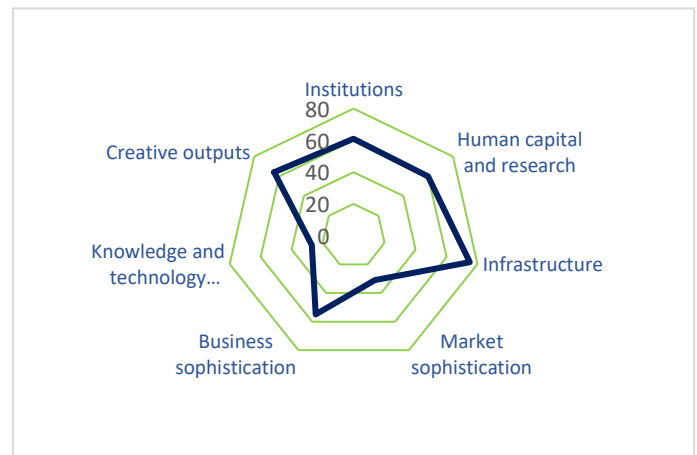
Patents and Trademark - Startups under Startups Intellectual Property Protection Scheme				
Year	Patents		Trademarks	
	Filed	Granted	Filed	Registered
FY20	1,841	106	4,130	2,248
FY21 (till Nov 2020)	1,262	9	4,104	89

Source: PIB, cipam.gov.in

The World Intellectual Property (WIPO) in its report highlighted that due to the pandemic, money to fund innovative ventures is drying up across countries. Venture Capture (VC) deals have declined across North America, Asia, and Europe. The shortage in innovation finance are felt more heavily by early-stage VCs, by R&D-intensive start-ups, and in countries that are not typically VC hotspots. The government's initiative to extend Startups Intellectual Property Protection (SIPP) scheme till March 2023 would support the small companies as they struggle to exist amidst the pandemic led slowdown. Processing fees for patent applications by small firms has been further reduced by 80% from 50% (2016) bringing it at par with the fees for individual applicants and start-ups. In 2020, 80% rebate has been granted to 4,905 patent applications & 50% rebate granted to 12,264 trademark applications on filing fee to start-ups. Besides, India also reached out for technical cooperation with US, Denmark and Portugal with the aim to strengthen the protection of intellectual property rights.

WIPO in its 2020 report highlighted that globally, there has been shift in the locus of innovation towards Asian economies. Notably China, India, the Philippines and Viet Nam have advanced considerably in the innovation ranking over the years. India has moved up four positions since 2019 and is the third most innovative lower middle-income economy in the world. Besides, India (48th) and Philippines (50th) entered the list of Top 50 for the first time in 2020. Given that, research has shown that R&D expenditure and per capita GDP growth rates have long-run associations for high-income and upper-middle-income groups along with countries such as India and Brazil etc, India's strive to improve its Intellectual Property Rights (IPR) regime is expected to help firms adopt Industry 4.0 and the country to enhance its per capita income.

India's overall innovation performance is above the average of the upper middle-income group in all innovation dimensions, with the exception of Infrastructure and Creative output



Source: WIPO