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INDUSTRY OUTLOOK

ECONOMIC DIGEST (August 2020)

10 September 2020

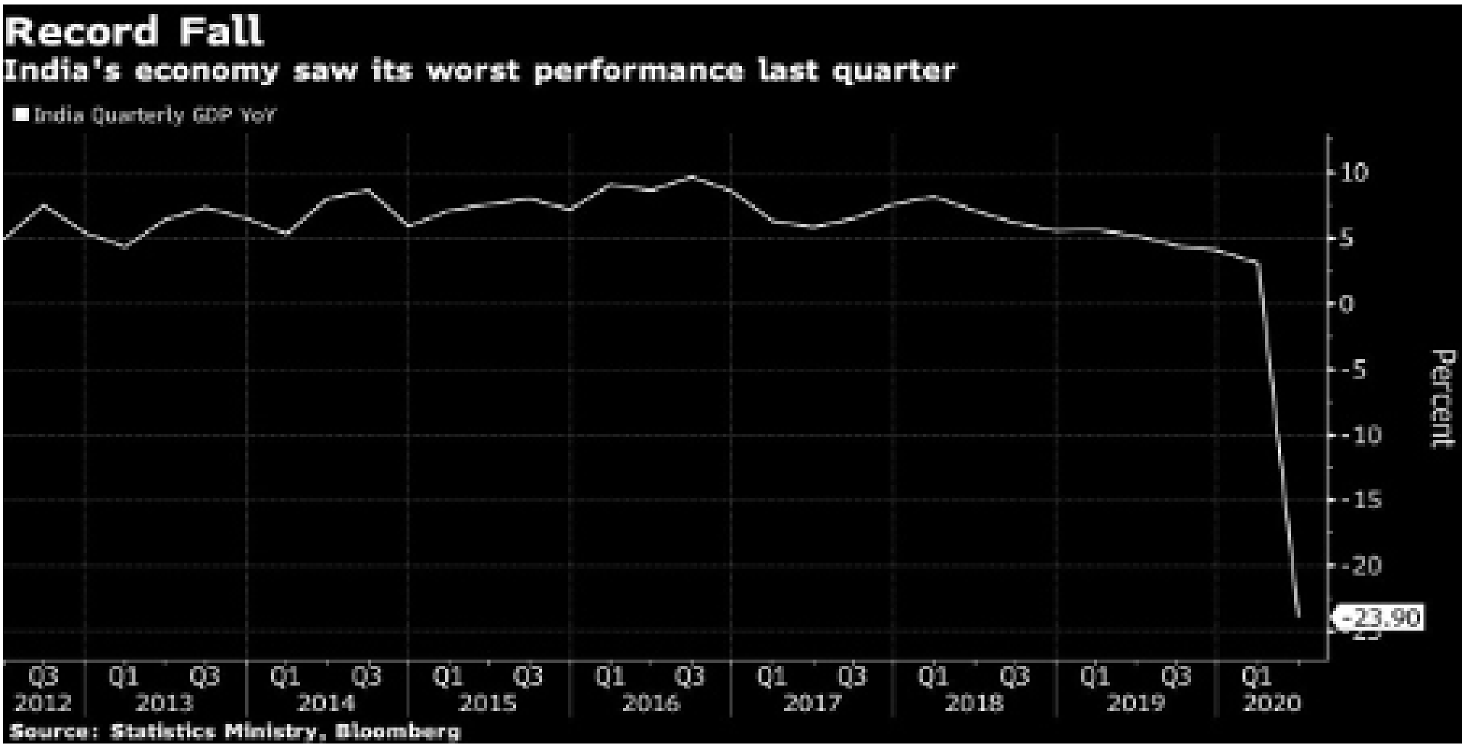
1. Virus surge makes US weak link in global conomic recovery-AP

The United States' fumbling response to the pandemic and its dithering over a new aid package is casting doubt on its economic prospects and making it one of the chief risks to a global rebound…America is still by far the biggest economy - accounting for 22% of total economic output, versus 14% for No. 2 China…The United States is unlikely to pull the world economy out of its rut as it did in past downturns such as after the Asian financial crisis of the late 1990s…The American economy shrank at an annual pace of 32.9% from April through June, by far the worst quarter on record. The numbers are expected to bounce back strongly in the second half but to leave the U.S. economy well short of where it stood at the beginning of 2020. Talks in Congress to pass another round of federal coronavirus aid have failed, piling pressure on state and local authorities to keep basic services running. U.S. stock markets are nevertheless near record highs, but analysts attribute that largely to the Federal Reserve's commitment to keep interest rates low.

The European Union, which has reduced the number of contagions more effectively than the U.S., saw its economy shrink at a similar pace but is forecast to grow more quickly next year. And government support for workers has contained the rise in unemployment for now. China, meanwhile, was the first major economy to resume growth since the pandemic struck, recording a 3.2% expansion during the April-June period from the quarter before…China's economy has consistently grown faster than America's and has steadily narrowed the gap between them. From 2009 through 2019, China accounted for almost 28% of global economic growth; the United States, just 17%...Economist Philipp Hauber at the Kiel Institute for the World Economy said that "in fact China has been the locomotive of the global economy in recent years. That does not mean that the development of the economy in the U.S. is inconsequential. Both economies are about the same size, depending on how one measures ... and the two of them are the biggest trading partners for the eurozone."

A weak U.S. economic rebound is the greatest risk to the eurozone and world economy, along with a second wave of coronavirus contagions.

2. India's Economy Plunges by Record 23.9% After Harsh Lockdown-Bloomberg



India's economy contracted by the most on record last quarter as the world's biggest lockdown to stem the coronavirus pandemic brought key industries to a halt and rendered millions of people jobless.

GDP shrank 23.9% in April-June from a year earlier. That's the sharpest decline since the nation started publishing quarterly figures in 1996, and was worse than any of the main Asian economies tracked by Bloomberg. The median estimate in a survey of economists was for an 18% contraction.

Financial services -- the biggest component of India's dominant services sector -- shrank 5.3% from a year ago. Data also showed:

- Trade, hotels, transport and communication declined 47%
- Manufacturing shrank 39.3%, while construction contracted 50.3%
- Mining output fell 23.3%, and electricity and gas dropped 7%
- Agriculture was the lone bright spot, growing at 3.4%

Once the world's fastest-growing major economy, India is now on track for its first full-year contraction in more than four decades. While there are early signs that activity began picking up this quarter as lockdown restrictions were eased, the recovery is uncertain as India is quickly becoming the global epicenter for virus infections…A mix of monetary and fiscal measures so far to prop up the economy won't prevent it from sliding into recession. The government has provided only limited fiscal support given constraints on revenue growth, while the central bank has cut interest rates by 115 basis points so far this year, boosted liquidity and transferred billions of rupees in dividends to the state.

3. World Bank sees higher GDP fall in India than 3.2% it projected for FY21-BS

The World Bank said a steeper contraction in India's economy was likely than the 3.2 per cent it had forecast for the current financial year, given the rising number of Covid-19 cases and the resultant regional lockdowns. It cautioned India against using its tariff policy to attract firms seeking a shift away from China. It also warned that credit risks could play out as firms and households find it more difficult to service interest and repayment obligations. It called for full privatisation of some public sector banks and private capital injection in others. Despite India making progress in poverty reduction in recent years, the deadly virus has made half of the population vulnerable to be pushed to poverty. "In our revised projections, which will be available in October 2020, we will likely project a steeper contraction in the economy," the Bank said. By then, new information would have been incorporated, especially given the rising infections resulting in several state and district lockdowns. Further, the available high frequency indicators show that the economy is yet to revert to baseline.

..The present crisis can open new opportunities for India. One expected impact of the crisis was that MNCs will seek greater diversification of activity away from China. "Whether India can seize this opportunity or not depends on its capacity to implement economic reforms, which may not include the use of tariffs as a recommended policy. On the contrary, trade policy must be "an enabler", World Bank prescribed. Collateral value could decline and NBFCs will be particularly vulnerable as they lend to sectors susceptible to economic and asset price cycles. Banks may need to make higher provisioning, with additional infusion of capital hard to mobilise under the situation of both fiscal stress and subdued valuations in financial markets. There are concerns over liquidity challenges turning into solvency challenges.

The Bank projected the Centre's fiscal deficit to increase to 6.6 per cent of the GDP during FY21 and remain at a high of 5.5 per cent the following year. "Assuming states' deficit is contained within 3.5-4.5 per cent of the GDP, the deficit of the Centre may rise to 11 per cent in FY21," it said. While there is a significant level of uncertainty around the projections, the general government debt-to-GDP ratio is projected to peak at 89 per cent in FY23 before gradually declining thereafter. In alternative scenarios, deficit and debt numbers may turn out to be even higher.

Though poverty has reduced from 21.6 per cent to 13.4 per cent between 2011-12 and 2015 (on a poverty line of $1.9 a person a day), half of India's population remains vulnerable to a higher exposure to the Covid-19 impact, with consumption levels precariously close to the poverty line. These households are at risk of slipping back into poverty on account of income and job losses, it said. Poorer households are more prone to getting infected since it is more difficult for them to implement social distancing.

Lockdowns have had an adverse economic impact on the informal sector, in which poorer households are employed. Any potential rise in prices could erode their purchasing power. Migrants and the urban poor were at risk of exclusion from receiving adequate social protection through the Prime Minister Garib Kalyan Yojana (PMGKY) and the general social protection architecture. "This is because none of the six national social assistance programs being leveraged to provide additional support are portable, as they only provide benefits to state residents". Moreover, the PMGKY package has lower coverage in urban areas. Programmes such as PM-KISAN and MGNREGS only operate in rural India, it said, adding that those like Pradhan Mantri Ujjwala Yojana (PMUY), NSAP, and PDS report a larger beneficiary base in rural India. Given that shocks in urban areas are transmitted to rural areas through a drop-in demand and remittances, PMGKY coverage in rural India remains critical.

4. How To Cure An Economy That Is Sick-India Today

When the Covid-19 pandemic hit India this summer, the government faced a tough choice: lives over livelihoods. It opted, apparently, for saving lives when it imposed a harsh, unprecedented, four-phase. Lockdown lasting till May 31, the benefits of which are still being debated. Surprisingly, the richer countries are paying more attention to their economies than developing ones. Unfortunately for us, the lockdown turned out to be a case of prevention being worse than the disease… The lockdown, however, has knocked the bottom out of the economy. By all indicators, the Indian economy has entered a recession—defined as two quarters, or six months, of sustained negative economic growth, in concert with a decline in income, sales and employment. What made matters worse was that the economy was already decelerating in seven out of eight quarters before the start of the current financial year—from 8.2 per cent in January-March 2018 to just 3.1 per cent in January-March 2020. On August 6, RBI governor Shaktikanta Das said that the real GDP growth of the country "is expected to remain in the contraction zone", and growth will be negative for fiscal 2020-21 as well. The RBI's annual report for 2019-20 released on August 26 predicts a severe shock to consumption from the pandemic and the imposition of strict lockdowns.

The triple whammy of a lockdown, the slowdown of global trade and a decline in investment means that we are now facing economic 'de-growth' for the first time in four decades. The last time this happened was when an oil shock-induced balance of payments crisis and consecutive years of bad monsoons led to a downturn in 1979-80. This year, in fact, could be our worst recession since Independence. The RBI's report doesn't give a figure, but the IMF's World Economic Outlook for June 2020 projected India's expected annual growth rate for the fiscal year 2020-21 to contract to -4.5 per cent. Among economists, the general consensus on the Indian economy is a predicted contraction of anywhere between -13 and -23 per cent in the April-June quarter of the current fiscal.

India's economy has been crippled primarily because its four engines of growth — domestic consumption, government expenditure, private investment and exports — are all sputtering. Domestic consumption has shrunk again after a brief uptick in May-June; government expenditure has suffered despite a boost in infrastructure allocation because of a cutback in spending by the states; private investment has contracted because industry sentiment is low and corporates are conserving cash instead of increasing production despite the government offering MSMEs the relief of loan moratoriums. Exports contracted for the fifth straight month in July, with the lockdown taking a toll on exports of gems and jewellery, leather, textiles, electronic goods and spices. The only glimmer of hope is the uptick in agriculture on the back of a good monsoon. But just this one engine is insufficient to pull the economy out of its deep rut because agriculture contributes only 15 per cent to the GDP.

Economic distress is being felt on multiple fronts — job losses, salary cuts and inflation caused by a significant dip in demand and lockdown disruptions in supply. Worse, the government's Rs 20 lakh crore relief package announced this May doesn't seem to have made much difference. The unrelenting march of Covid-19 has hit Tier 1 and 2 cities, forcing states to impose even more disruptive lockdowns. India now faces the formidable challenges of flattening the curve of the pandemic; restoring employment, especially to displaced migrants; rebuilding supply chains; repairing and reviving the stricken economy, and returning life to normalcy. Decoupling the Indian economy from a belligerent China, which moved its troops onto our borders in eastern Ladakh, is another challenge.

…The consensus is that the government's 'invisible hand' now needs to become more visible, and policy-making requires a radical rethink. Not only must the State significantly step up direct income transfers, including free rations, it also needs to announce a major fiscal stimulus, support MSMEs, stoke demand and create an enabling

atmosphere for private investment to come back vigorously. It needs to do this through reforms in sectors like power, telecom, infrastructure financing and by formulating a policy for coastal economic zones.
If the economy does not show an upswing, there is every danger that we will be staring at a debt bomb, with the present NPAs of banks (estimated at Rs 9-10 lakh crore) likely to nearly double. This will adversely affect the viability of banks and their capacity to extend loans and deepen the crisis. Since the government is hamstrung for funds, it must look at reducing its administrative expenditure. The spend on central government employees has gone up from Rs 67,463 crore in 2008-09 to Rs 1.94 lakh crore in 2017-18, a 187 per cent increase over nine years. This will also have the collateral benefit of reducing the red tape that stifles our many dynamic entrepreneurs. An aggressive disinvestment programme of public sector undertakings can also help shore up the government's finances.
Time is of the essence. If the government waits to conquer the pandemic and for the recession to bottom out, it may just be too late. That alone should inspire a call to action.

5. RBI's Annual Report highlights limits to its market interventions -BL

After the severe shock to consumption which has depressed consumer confidence to record lows, a recovery appears likely only if income improves. The RBI's Annual Report rounds off an annus horribilis that has not only seen Covid-19 wreak havoc on the economy, but also NBFC and bank defaults deliver jolts to the Indian financial system. The report acknowledges that the Indian economy was in none-too-great shape even prior to the pandemic, with macro indicators clearly signalling a cyclical downturn in FY19/20. Both gross fixed investment and exports were already on a weak wicket, with Government largesse on salaries and pensions managing to prop up growth. Post Covid however, the resilient private consumption engine has given way too. After the severe shock to consumption which has depressed consumer confidence to record lows, a recovery appears likely only if income improves. It is categorical in dismissing the talk of green shoots, saying that the tentative revival signalled by high frequency indicators in April/May have fizzled out by July/August.

6. Hard Road To Recovery- India Today

According to a recent report by the International Labour Office (ILO), 400 million people working in the informal economy are at the risk of falling deeper into poverty during the crisis. The weekly tracker survey of the CMIE shows that the unemployment rate shot up from 6.7 per cent mid-March to 23 per cent in the week ending April 5. The well-off countries don't have to worry so much about prolonged economic lockdowns because of their social security nets. India does not have that luxury. Rural India is also on the verge of harvesting its rabi crop.
Covid-19 is such an infectious disease that it can spread very fast if not contained and lead to a massive number of people requiring hospital care simultaneously, leading to a collapse of the medical infrastructure. This compression of the crisis can lead to a sudden spike in mortality which no government, especially a democratically elected one, can accept. The PM acted promptly and correctly in imposing a national lockdown to avoid this eventuality. It bought us time to contain the spread of the disease through measures such as social distancing, more testing and strengthening our medical infrastructure by enhancing quarantine facilities, procuring ventilators and vital personal protection equipment. India does have some factors in its favour such as the fact that 83 per cent of its population is under 50.

However, beyond all this is a looming financial emergency, the likes of which India has not seen post-Independence. This is because never before have the wheels of the economy ground to such a complete halt. When the wheels of the economy turn, vast numbers of Indians lift themselves out of poverty. When the economy shuts down, as it has now, millions of families could be staring at a fate far worse than death. The government hence needs to find ways to restore our economic health and fight its way out of this unique crisis. Unique because the pandemic struck when our third-quarter GDP growth was already decelerating to its lowest in over six years. The impact, as a recent KPMG report assessing the pandemic's economic effects noted, is a 'supply, demand and a market shock'. A manufacturing-only recession already underway has now spread to the services sector.

The clamour to spend our way out of the Covid-19 crisis, just as the rest of the world is doing, is immense. The US will throw a mammoth $2.2 trillion (10 per cent of its GDP) economic lifeline to its economy, the UK $430 billion (15 per cent of GDP) and Japan $1 trillion (20 per cent of GDP). India's only relief package so far has been Rs 1.7 lakh crore, which amounts to a paltry 0.8 per cent of GDP. By several estimates, India needs to spend Rs 10 lakh crore (5 per cent of GDP) to pull out of this crisis. This money needs to flow into the economy to spur demand and the productivity of industries, which employ 110 million people, or 28.9 per cent of our non-rural workforce.

The pandemic is the biggest of the three crises to have hit the Indian economy in the past three decades. The first was the balance of payments crisis in 1991, and the second, the world economic crisis of 2008. What we learned from those financial calamities was that nothing works better than a crisis to push governments towards landmark economic reforms. When we were hurtling downwards in those crucial years, the government had no way out but to revive the economy with a series of policy reforms, either by ending the Licence-permit Raj in 1991 or fiscal interventions in 2008. Just like all of us are re-setting our lives to deal with this pandemic and the economic disruption, so must the government rethink the way it works and makes itself leaner and more efficient. This is not the time for incrementalism. This is the time to make difficult choices and take swift and bold action in the national interest without worrying about political consequences. The economic emergency has to be dealt with the same urgency and audacity as the medical one. If we don't act now, we will have to pay a heavier price later. We need to seize the hour, and we will only emerge stronger on the other side of the pandemic.

7. How to Prevent a Breakdown - India Today

As the very articulate foreign affairs minister of Singapore, Dr Vivian Balakrishnan, put it, "In fact, this is an acid test of every country's quality of healthcare, the standard of governance and the social capital. And if anyone of this tripod is weak, it will be exposed quite unmercifully." Of course, India cannot be compared with Singapore, but the points remain valid. India is unique for several reasons. With 1.3 billion people, we are the second-most populous country in the world and, with 420 persons per square kilometre, the 31st most densely populated. We are a poor country with a per capita income of $8,378 at purchasing power parity compared to China's $19,503. India is 124th in per capita income among 191 countries, according to an October 2019 IMF report. This is reflected in the shabby state of our general infrastructure, and healthcare in particular. Every Indian is familiar with our slothful bureaucracy and self-serving politicians. Though there has been considerable improvement in recent years, we still have far to go for a responsive and efficient government. The social capital of a country refers to the trust its society has in government and its compliance with rules. This was dreadfully on display when hundreds of thousands of poor urban migrants defied lockdown orders and started to march to their villages. Rural India is troubled too. It is at a standstill, with the 205 million people engaged in agriculture waiting to harvest their crop and those who cannot access the markets.

Of course, India being a democracy with a free press cannot do many of the things autocratic China can to deal with this crisis. Besides, one cannot be sure what the actual numbers of infections and deaths in China are. We also cannot blindly follow developed countries because they have social security benefits for the unemployed and satisfactory healthcare. India has too many vulnerable people living on the margins of subsistence. It has 260 million workers in non-farm sectors such as services, manufacturing and non-manufacturing businesses. Of these, the lockdown has put an estimated 136 million at risk as many of these people are self-employed or work as casual labourers, in non-registered nano-businesses or registered small companies without written contracts.
The government was faced with a Hobson's choice: risk the infection spreading as it has in other countries, or impose a total lockdown causing tremendous socio-economic disruption.

8. PSU capital spending, funds leverage may boost India's GDP by 2-3%: PESB chief Rajiv Kumar-FE

Central public sector enterprises, which have a combined net worth of close to Rs 12 lakh crore, can boost India's GDP by 2-3 per cent by leveraging funds and stepping up capital expenditure, Public Enterprises Selection Board (PESB) chairman Rajiv Kumar said. For the last 5-6 years, CPSEs have been major investors in the economy as the private sector has been shying away from making fresh investment due to various reasons. Pinning hopes on public sector undertakings, FM Nirmala Sitharaman earlier this month asked large CPSEs to achieve by next month 50 per cent of their planned capital expenditure target for FY21 to support economic growth in the back-drop of challenges posed by COVID-19.
The FM encouraged the CPSEs to perform better to achieve targets and to ensure the capital outlay provided to them for the financial year 2020-21 is spent properly and within time.
…CPSEs annual gross turnover is around Rs 25.5 lakh crore, while net worth is pegged at Rs 11.8 lakh crore. They contributed about Rs 3.68 lakh crore to government exchequer in FY19. Balance sheet of PSUs permits additional leverage of around Rs 25 lakh crore on capex in the next four years, i.e., about one-fourth of the National Infra-structure Pipeline (NIP) of Rs 111 lakh crore.

9. Indian farmers face debt as banks turn risk-averse -Arab News

Amid India's worst economic slowdown in decades due to the pandemic, millions of farmers are being shunned by banks as lenders turn cautious due to rising bad loans forcing the farmers to turn to illegal moneylenders charging exorbitant rates. Agriculture accounts for near 15 percent of India's $2.8 trillion economy and is a source of livelihood for more than half of its 1.3 billion people. Higher interest rates will reduce farm earnings, hitting rural incomes that are key to reviving the economy... Till last year private moneylenders charged 24-36 percent interest, but now they ask for 48-60 percent as more farmers seek loans. Typically, banks charge anywhere between 4-10 percent for crop-related loans. PM Modi's government has instructed banks to increase lending, but bankers are choosing to be cautious... Lenders also complain that they are caught up by farm loan waiver schemes announced by several states to win over farmers ahead of elections. As of October 2019, 10 states that had announced farm loan waivers since 2014-15 had yet to complete the promised loan write-offs. The high level of bad loans in the agriculture sector is another deterrent to more lending. The share of soured loans in the segment has risen from 8.4 percent as of September 2018 to 10.1 percent as of March 2020. Between March and June, lending to the agriculture sector contracted 1.8 percent, the RBI said. During June 2019-2020, lending to the sector grew by 6.7 percent compared to 11 percent in the previous year.

10. Govt, RBI need to share cost of maintaining UPI infrastructure: Report-FE

The government and the RBI need to share the cost with banks associated with maintaining UPI infrastructure as it reduces the demand for cash and helps in curtailing expenditure on printing and managing currency notes. Since about Rs 5,000 crore is spent annually on printing cash alone and even more on managing it, IIT-Bombay's report said, "The expenditure towards maintaining Unified Payment Interface (UPI) may be much lower and could even curtail the expenditure on cash."UPI as a digital payments platform increases efficiency towards tax compliance, and provides overall convenience for public good. "With the government's vision of no direct or indirect charge on payments using UPI, an appropriate sharing of cost burden by the government and the RBI is called for (with UPI being the simplest alternative to cash in this era of mobile phones)".

Currently, banks are bearing the cost of UPI transactions. BHIM-UPI is powered by the NPCI. NPCI has not put any business restrictions onto the banks for P2P (peer-to-peer) payments using BHIM-UPI other than years of moral suasion to keep the charges zero…the UPI Steering Committee of NPCI concurred to limit free P2P fund transfer transactions to 20 per month… while banks have to contribute their bit for the payment system, it does not mean that the government and the RBI do not have to share the cost burden in endeavour towards furthering the digital payment system of the country. "With the new law prohibiting banks and system providers to charge users of the prescribed electronic modes of payment, we find a persistent debate on MDR (merchant discount rate), a fee that merchants pay for accepting payments through digital means," it said.

11. India's banking sector needs to grow for becoming $5 trillion economy: CEA-SME Futures

India's banking system is proportionately smaller than the size of the economy and it needs to grow for the country to become a $5 trillion economy, said the government's CEA K.V. Subramanian. Giving the Bandhan Bank's Anniversary Lecture, Subramanian said that the reason for the slowdown in the economy which started last year was due to problems in the banking sector, rather than the fallout of demonetisation and GST. "For the size of its economy, the banking sector in India is very small. In order for India to be a $5 trillion dollar economy, the banking sector needs to be proportionate, at least proportionate to the size of its economy if not bigger than the proportionality," he said. The major issues in the sector are bad loans, risk aversion and corporate lending. He also emphasised the use of technology by banks and said that the banks with low IT adoption were more prone to bad loans.

12. Banks prefer to park funds in G-secs than give out ‘risky’ loans Mint

Expecting the credit growth slowdown to continue, banks are increasingly choosing to park funds in safer government securities over riskier credit bets.
Considering the weak credit demand and the effect of the covid-19 pandemic yet to play out in full, bankers prefer to invest in safer G-secs. The cautious approach adopted by banks is despite the RBI’s and government’s push to increase lending across sectors. Moreover, the economic package announced by the government earlier in May depends heavily on bank credit flow to revive the economy. Between 27 March and 31 July, outstanding credit shrunk by ₹1.06 trillion, while banks’ investments in central and state G-secs rose by ₹5.9 trillion.
The liquidity surplus in the banking system has led lenders to increasingly buy G-secs and look for safe haven buying of these securities due to heightened economic concerns. There is plenty of liquidity, but not enough lending options as demand for funds is down because of surplus capacity and lack of investments…large infrastructure projects not being taken up by the private sector because of uncertainty… because once the moratorium ends bad loans are going to go up, although cushioned to an extent by debt recast, banks are reluctant to lend except to better-rated companies…Flush with liquidity, banks parked ₹6 trillion with the RBI under the reverse repo window at a meagre interest rate of 3.35% on 18 August.

13. Private banks slap fees on the use of UPI over 20x a month--News Today

All the large private banks have introduced charges, ranging from Rs 2.5 to Rs 5, on person-to-person payments using the UPI beyond 20 times a month… the charges have been introduced to prevent frivolous transactions from putting a load on the system. According to a report published by Ashish Das by the IIT, Bombay, banks are interpreting the law to suit them to conclude that, while ‘payments’ are free, transfers can be charged. The report highlights this as an anomaly as such an interpretation would mean that if a user decides to use UPI to split a restaurant bill, the transfers from friends would not count as among the free transactions. Part of the reason for the explosion in numbers is the push by fintechs Google Pay, PhonePe and Paytm, which account for the bulk of UPI handles.

14. Retail loans up for first litmus test post covid as banks look to recast debt-Mint

Ultra-low bad loan ratios and a fast-galloping consumption wheel had given banks enough confidence to binge on retail loans for a decade now. But retail borrowers could line up for renegotiating loan covenants and the portion of loans restructured won’t be comfortable. Not less than ₹1 trillion retail loans could get restructured by banks, i.e., 4% of the ₹25 trillion retail loans. This takes the total stressed loan portion to 6%, something unseen in the past. Also, this is the floor expected by analysts, but actual numbers could be higher.

Incipient signs of trouble are already visible. First, the RBI's FSR shows that bad loans in retail were climbing even before the pandemic. Retail bad loan ratio rose to 2.1% by the end of FY20, from 1.8% in end-September 2019. In the past three months, this ratio may have climbed further up. SBI's retail loans were the highest contributor to fresh slippages in the June quarter. Second, the most vulnerable section of retail borrowers are the self-employed. Self-employed businessmen availing home, vehicle and even unsecured personal loans are the first in line to restructure. Lenders having a large portion of self-employed borrowers are likely to see more stress. That leaves the safer salaried segment. Top banks, including SBI, have predominantly lent to salaried individuals. CMIE's data shows that 18 million salaried Indians lost their jobs between April and July. Anecdotal instances of salary reductions at various sectors are another sign of impending stress.

As banks restructure, they would have to be mindful of slippages, too. "Retail banks have lower moratorium loans and, hence quantitatively, provisioning buffers may seem higher, but risks might emanate from direct slippages," said Jefferies India Pvt. Ltd. As such, visibility on asset quality will be a challenge considering that moratorium on repayments will be a key factor in restructuring.

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