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FY21 GDP AT 1.1%: FY20 DOWNWARDLY REVISED TO 4.1%, BOP SURPLUS AT $67 BN (2.5% OF GDP) IN FY21 WITH BRENT OIL MOVING DECISIVELY BELOW $20

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With the lockdown now being extended till May 3 and simultaneously Government providing some relaxations from April 20, we estimate the overall loss for FY21 around Rs 12.1 lakh crore / 6% of nominal GVA taking the nominal GVA growth for entire year to be around 4.2%. Nominal GDP for FY21 could be lower / closer to 4.2%, as there is a strong possibility of subsidies outstripping tax collections. **However, taking nominal GDP growth at 4.2%, the real GDP growth for FY21 would be around 1.1%. Interestingly, we are building in a downward revision in FY20 GDP growth from 5.0% to 4.1% that results in gain of 1.1% for FY21, which is exactly our estimate for FY21. Thus, if FY20 GDP is not revised down to 4.1% then growth for FY21 could be even lower than 1.1%. Q4FY20 GDP could now be at 1.1%, Q1FY21 GDP could witness a contraction of 6%, or even higher and Q2FY20 could witness no growth.**

The lockdown is going to have a significant impact on our macro parameters.

First, as per the PLFS report 2017-18, there are 37.3 crore workers engaged as self-employed, regular and casual workers, with share of self employed at 52%, casual worker at 25% and the rest engaged as regular wage earners and others. **We estimate the income loss per day of these 37.3 crore workers due to lockdown is around Rs 10,000 crore, which translates into a loss of Rs 4.05 lakh crore for the entire lockdown period. For causal labourers, this income loss it at least Rs 1 lakh crore. Thus any fiscal package should at least strive to more than make up for this Rs 4 lakh crore income loss.**

Second, as our GDP forecasts change, fiscal estimates will also change accordingly. Net Tax Revenue will have a shortfall of at least around Rs 4.12 lakh crores, and Revenue shortfall for states will be Rs 1.32 lakh crores. The revised fiscal deficit would be at 5.7% of GDP and after taking into account only the current EBR the deficit rises to 6.6% of GDP. The fiscal deficit of the States will rise to 3.5% of GDP from the budgeted 2% in FY21. We estimate that the EBR number will rise significantly as Government will try to mobilise resources more through unconventional means like COVID Bonds, monetisation of deficit and others. The consolidated fiscal deficit might rise to 10% of GDP on an unchanged EBR. **A 4% slippage in nominal GDP that we are factoring in is tantamount to Rs 8 lakh crore of fiscal support (Rs 2 lakh crores = 1% of GDP) and this should be recommended benchmark.**

Apart from monetization of deficit, the other option for financing fiscal deficit is to go for tax free bonds, these bonds are good for investors for earning regular, tax-free income and also gives tax deductions under Income tax Act. Considering the current market appetite, we suggest short maturity tax-free bonds that will be a good hit with markets.

Third, we expect India's nominal merchandise exports to decline by up to 16% in FY21. This translates into an output loss of $50 billion (Rs 1.86 lakh crore in Rupee terms). Looking at the granular data items like gems and jewellery and apparel which are our major exports to markets impacted by COVID are more discretionary in nature and hence can see major dip in demand. Also apparel exports, which is another major category, will bear the brunt of reduced discretionary expenditure. **However, we can do better on service exports as for ICT enabled services** as physical proximity is not needed to deliver products. If the pandemic gives more push towards digitization and enhanced use of software by businesses then ICT exports will see a recovery as the developed nations stabilise and businesses open. **On the other hand, taking oil and non-oil imports together, we can also see 25% dip in merchandise imports**. Overall we expect net services exports to be around $75 billion. The remittances are expected to be around $60 billion in FY21. **Taking all this into account, we expect a Current Account Surplus of 0.7% of GDP / $19 bn in FY21.** Overall we also expect a BoP surplus of $67 billion. Thus, the Rupee will get some cushion from the volatile portfolio outflows and Rupee can have a definitive appreciative bias in current fiscal.

Finally, a word of caution for policy makers. This era of lower term structure of interest rates **makes us ponder whether deposit rate cuts beyond a point is counterproductive as there could be an uneven deposit flow across liabilities across entities as we are currently witnessing. Already retail investors have gone searching for better returns and have burnt their fingers. We must avoid repetition of the same. To this extent, the time has now come at least for senior citizens to get complete tax exemption for their retail deposits.** The average deposits size per account for Senior Citizens is around Rs 3.3 lakh and interest income from such deposits formed 5.5% of Private Final Consumption Expenditure in FY19, that is crucial in sustaining their livelihood!

GDP LOSS FOR FY21

- COVID-19 cases in India have now crossed 12,000 mark with the coming of around 4,000 cases in the last 4 days. Subsequently the 21-days lockdown has now been extended till May 03, making the complete lockdown period of 40 days. Globally COVID-19 cases have crossed 21 lakh mark with deaths of around 1.35 lakh people.
- In a major relief to the industries, manufacturers, and service providers, Government has now allowed various economic activities to operate from 20 April to mitigate the hardship faced by the public and these activities will be operationalised by state / UTs. However, it has also clarified that the relaxation in operating such activities will not be applicable in the containment zones.
- With this continuous lockdown, we now revise our GDP estimates for FY21 from 2.6%to 1.1% in current fiscal. Our **revised estimates suggest that lockdown in April month may lead to loss of Rs 9.8 lakh crore in nominal GVA**. Economic activity in Mining and Construction is completely lost while 25% economic activity is still operating in manufacturing (production of medical, sanitization, dairy, etc.). Communication/Broadcasting related services and banking/insurance are also working. Sectors like 'Electricity, Gas, Water Supply & other utility services' and 'Public administration, Defence and Other Services' are completely working even during the lockdown. Overall we believe that only 40% economic activity is happening in April month and due to this, nominal GVA growth for Q1 FY21 would be around -14.1%. Even when we look at the inoperability loss due to COVID-19 lockdown using the input output tables, it comes to around Rs 9.5 lakh crore.

Nominal GDP Growth in Q1 FY21 (Rs Crore)

Sectors	Q1 FY19	Q1 FY20	Q1 FY21 (Normal)	Estimated GDP Loss in April		Q1 FY21 (Lockdown)	Q1 FY21 (% YoY)
				in %	in Rs Crore		
Agriculture, forestry & fishing	6,55,799	7,10,818	7,81,900	50%	1,30,317	6,51,583	-8.3
Mining & quarrying	98,202	1,04,931	1,07,554	100%	35,851	71,703	-31.7
Manufacturing	6,64,844	6,89,566	7,06,805	75%	1,76,701	5,30,104	-23.1
Electricity, gas, water supply & other utility services	1,13,836	1,24,693	1,30,928	0%	0	1,30,928	5.0
Construction	3,24,955	3,52,015	3,69,616	100%	1,23,205	2,46,411	-30.0
Trade, hotels, transport, communication & services related to broadcasting	7,58,987	8,25,019	8,82,770	75%	2,20,693	6,62,078	-19.8
Financing, insurance, real estate & bus. Services	9,74,229	10,63,622	11,69,984	75%	2,92,496	8,77,488	-17.5
Public administration, defence and Other Services	5,65,871	6,43,626	7,07,989	0%	0	7,07,989	10.0
Total GVA at Basic Price	**41,56,723**	**45,14,290**	**49,02,615**	**60%**	**9,79,263**	**38,78,283**	**-14.1**
Memo: Annual GDP with Global Impact of Rs 2.3 lakh crore							
Year	FY19	FY20	FY21 (Normal)	Estimated GDP Loss		FY21 (Lockdown)	% YoY
Annual Nominal GVA	**1,71,39,961**	**1,83,34,720**	**2,03,14,870**	**12,09,263**		**1,91,05,607**	**4.2**
Souce: SBI Research							

Consumption Loss								
		Total Workers			Average Wage Per Day	Consumption Loss per day (Rs crore)	Consumption Loss in 30 days (Rs crore)	Consumption Loss in 40 days (Rs crore)
		% Share	in Crore	% Affected				
A	Self-employed	52.1	19.4	-	-	5415	162437	216582
A1	Agriculture	37.8	14.1	50%	490	3454	103631	138174
A2	Non-agriculture	14.3	5.3	75%	490	1960	58806	78408
B	Regular wage	12.7	4.7	75%	580	2061	61819	82426
C	Casual labour	25.0	9.3	-	-	1584	47510	63347
C1	Agriculture	12.1	4.5	50%	270	609	18279	24372
C2	Non-agriculture	12.9	4.8	75%	270	974	29231	38975
D	Others	10.1	3.8	50%	580	1093	32776	43701
A+B+C+D	Total	100	37.3	-	-	10151	**304541**	**406055**

Source: SBI Research

- On the top of Rs 9.8 lakh crores, there will be an additional loss through trade channel. The IMF has projected global growth at -3.0% in 2020, an outcome far worse than during the 2009 global financial crisis. The growth forecast is marked down by more than 6 percentage points relative to the Oct'19 WEO and Jan'20 WEO update projections, an extraordinary revision over such a short period of time. Given India's share of 3.5% in global GDP, a decline of 3% in global growth translates into an output loss of Rs 6.2 lakh crore and through trade channel for India, additional output loss comes to around Rs 2.3 lakh crore.
- Thus overall loss for FY21 thus comes around Rs 12.1 lakh crore / 6% of nominal GVA taking the nominal GVA growth for entire year to around 4.2%. Interestingly, Nominal GDP for FY21 could be lower / closer to 4.2%, as there is a strong possibility of subsidies outstripping tax collections. **However, taking nominal GDP growth at 4.2% and an estimated GDP deflator of 3.1% the real GDP growth for FY21 would be around 1.1%. Interestingly, we are building in a downward revision in FY20 GDP growth from 5.0% to 4.1% that results in gain of 1.1% for FY21, which is exactly our estimate for FY21. Thus, if FY20 GDP is not revised down to 4.1% then growth for FY21 could be even lower than 1.1%.**

SIGNIFICANT LOSS IN INCOME FOR LABOUR

- As per the PLFS report 2017-18, there are 37.3 crore workers engaged as self-employed, regular and casual workers, with share of self employed at 52%, casual worker at 25% and the rest engaged as regular wage earners and others. Taking the average wage per day of each category of workers and factoring in the recent Government announcement of allowing certain activities including health, agriculture and allied activities, MNREGA works, public utilities among others, **we estimate the per day income loss of these 37.3 crore workers due to lockdown is around Rs 10,000 crore, which translates into a loss of Rs 4.05 lakh crore for the entire lockdown period. For causal labourers, this income loss it at least Rs 1 lakh crore. Thus any fiscal package should at least strive to more than make up for this Rs 4 lakh crore income loss.**

FISCAL ARITHMETIC

- As our GDP forecasts change, fiscal estimates will also change accordingly. Taking nominal GDP growth for FY20 at 6.7% and for FY21 assuming growth at 4.2%, Gross Tax Revenue for FY21 is estimated at Rs 21.09 lakh crore. The Net Tax Revenue will have a shortfall of around Rs 4.12 lakh crore and Revenue shortfall for states will be at Rs 1.32 lakh crore. **The revised fiscal deficit would be at 5.7% of GDP and after taking into account only the current EBR , the deficit rises to 6.6%.**

Arithmetic of GDP Growth: Based on Revisions			
FY20 GDP		FY21 GDP	
SBI	IMF WEO	SBI	IMF WEO
7.2(May 19)	7.5 (Jan 19)	5.7(Feb2020)	7.7(Jan 19)
6.1(Aug 2019)	7.3 (Apr19)	2.6(March 20)	7.5(Apr19)
5.0(Nov 2019)	6.1 (Oct19)	1.1(Apr 20)	7.0(Oct19)
4.7 (Feb 20)	4.8(Jan 20)	—	5.8(Jan 20)
4.1(Apr 20)	4.2(Apr 20)		1.9(Apr 20)

Source: SBI Research

Fiscal Estimates FY21 (Rs lakh crore)	
GDP FY20 (@6.7% nominal GDP growth)	202.42
GDP FY21 (assuming 4.2% nominal GDP growth)	210.92
Gross Tax Revenue for FY21	21.09
Net Tax Revenue for FY21 after adjusting for State's share	12.23
Net Tax Revenue FY21 BE	16.35
Shortfall in Net Tax Revenue	4.12
Revenue Shortfall to States	1.32
Fiscal Deficit FY21 BE	7.96
New Fiscal Deficit	12.08
New Fiscal Deficit (% of GDP)	5.7
Memo:	
Extra budgetary resources of Center mobilised through issue fully serviced bonds and NSSF in FY21	1.90
Fiscal Deficit + EBR of Center (% of GDP)	6.6

Source: SBI Research

- **However, as we have stated in our previous reports in the current context the Government should not worry about breaching its fiscal deficit target and can use the FRBM clause whereby it monetizes its deficit. This can be around Rs 2-3 lakh crore.**
- Apart from monetization of deficit, the other option for financing fiscal deficit is to go for tax free bonds, which is generally issued by Government to finance infrastructure and housing projects. These bonds are a long-term maturity of ten years or more. Except FY15, Government were issued tax-free bonds of Rs 1.45 lakh crore during FY12-16 to finance the infrastructure projects through PSEs. These bonds are good for investors for earning regular, tax-free income and also gives tax deductions under Income tax Act. It also carry lower credit risk as backed by the Government. Tax-free bonds have a lock-in-period but bondholders can redeem them before the maturity date as they are listed on stock exchanges. Considering the fiscal conditions of the Government and existing market appetite, we suggest short maturity tax-free bonds, which will benefit both the individuals and Government in financing deficits and will be a good hit with markets.
- Additionally, we assess that there are around 4.1 crore Senior Citizens term deposits accounts in the country with total deposit of Rs 14-lakh crore. The average deposits size per account is around Rs 3.3 lakh and interest income from such deposits forms 5.5% of Private Final Consumption Expenditure in FY19. **We suggest that in the present scenario, it is imperative that the Government should now exempt interest income from taxes particularly for Senior Citizen Savings Scheme (SCSS) for which Government has reduced interest rate from 8.6% to 7.4%, a whopping 120 bps decline, The interest income under SCSS is fully taxable (the interest amount for Rs 1 lakh deposit for 5 years is around Rs 40,000 which is taxable).**
- The small finance banks (SFBs) are the new generation banks and most of them were converted to banks from NBFC's. These banks are similar to commercial banks and licenced by RBI, mandated to lend 75% of their total lending to the priority sector, which helps in financial inclusion. However, within few years of their operations, the incremental credit share of the SFBs is estimated to increase to 5.5% in FY20, which indicates that these banks are performing aggressively. Further, CD ratio of these SFBs stands at 1.51 in Q3FY20, which indicates that these banks are lending more than their deposits and may be financed by borrowings. As of Mar-2019, SFBs borrowings is 26% of their total liabilities, as against 10% for ASCBs. **This makes us ponder whether deposit rate cuts beyond a point is counter-productive as there could be an uneven deposit flow across liabilities across entities. Already retail investors have gone searching for better returns and have burnt their fingers. We must avoid repetition of the same.**

BRENT CRUDE MIGHT GO BELOW 10

- Brent will fall to below 10 and it can't be saved by a 9.7 million barrels per day (mbpd) cut in OPEC+ supply, it might just delay the inevitable. Total global oil storage capacity is currently at 9 billion barrels out of which 7.2 billion barrels is utilised. Remaining 1.8 billion barrels is equivalent to 180 days of supply exceeding demand by 10 mbpd. Now even after the 9.7 mbpd cut from May, Q2,Q3,Q4 of CY20 will be globally oversupplied by 15 mbpd, 7 mbpd & 2 mbpd. (This is on assumption of global economies returning to work by early-mid-May). As a result fuel storage prices have already risen by 50-100% globally since mid-March. Even if producers are willing to pay increased costs, there are technical challenges such as quality of gasoline & jet oil deteriorates post storage/ light crude & heavy crude are to be stored separately etc. Land tanks are all taken & only on sea spare storage remains. In wholesale buyer list, US and India another 200 million barrels. So by Aug, at least 2 million barrels are looking for storage space, the current spare storage of 1.8 billion barrels will be almost fully utilized. By that point, Brent price could go closer to $10!

Insurance of Tax Free Bonds in India (Rs crore)

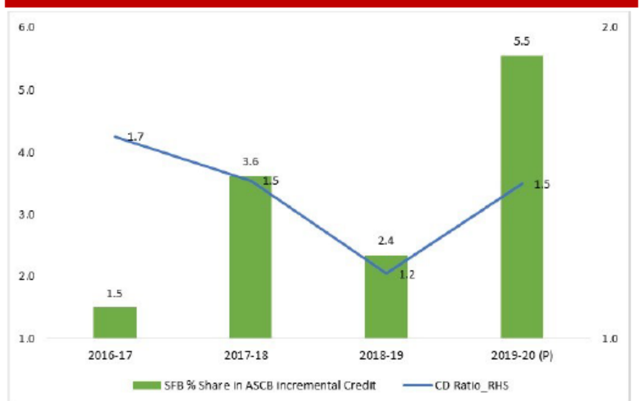
FY12	30,000
FY13	25,000
FY14	50,000
FY15	0
FY16	40,000
Total	**1,45,000**

Source: SBI Research

Estimated Term Deposits with Senior Citizens

Size of Term Deposits	Number of Accounts (in Million)	Amount (in Rs Billion)	Average Amount per Account (in Rs)
Less than 25,000	2	34	18916
25,000 to 1 Lakh	10	638	62088
1 Lakh to 15 Lakh	28	9153	3.3 lakhs
15 Lakh to 1 Crore	1	3495	29.5 lakhs
1 Crore and above	0.03	405	154.20 lakhs
Total	**41**	**13724**	**334243**

SFBs % Share in ASCBs Incremental Credit



Source: SBI Research

Output Targets for OPEC & Non-OPEC Countries ('000 barrels a day)

Country	Baseline	May-Jun 2020	Jul-Dec 2020	Jan 2021 - Apr 2022
OPEC				
Algeria	1,057	816	864	912
Angola	1,527	1,179	1,249	1,318
Congo	325	251	266	281
Eq. Guinea	127	98	104	110
Gabon	187	144	153	161
Iraq	4,653	3,592	3,804	4,016
Kuwait	2,809	2,168	2,296	2,424
Nigeria	1,829	1,412	1,495	1,579
Saudi Arabia	11,000	8,492	8,994	9,495
U.A.E.	3,168	2,446	2,590	2,735
OPEC 10	**26,682**	**20,598**	**21,815**	**23,032**
Non-OPEC				
Azerbaijan	718	554	587	620
Bahrain	205	158	167	177
Brunei	102	79	84	88
Kazakhstan	1,709	1,319	1,397	1,475
Malaysia	595	459	486	513
Mexico	1,781	1,681	-	-
Oman	883	682	722	762
Russia	11,000	8,492	8,994	9,495
Sudan	75	58	61	65
South Sudan	130	100	106	112
Non-OPEC	**17,198**	**13,582**	**12,604**	**13,307**
Total (20 Producers)	**43,880**	**34,180**	**34,419**	**36,339**

Source: OPEC; SBI Research

DISTRIBUTION OF INOPERABILITY LOSS DUE TO COVID-19 LOCKDOWN

- **The maximum loss in labour income** is envisaged in Trade, Hotels & Restaurants and Transport sector that comprises of about 70%.
- **The maximum loss in capital income is 55% in** Trade, Hotels & Restaurants and Transport sector. **An additional 15% is estimated in Agriculture, Mining, Financial Services.**

CORPORATE RESULTS

- Overall, we feel no sector is untouched with the impact of Covid-19 and subsequent lockdown, albeit some will be more affected than others. We expect, in listed space in Q4FY20, corporate to report de-growth in both revenue and operating profit in the range of 15% to 35%. Sectors such as Automobiles, Hotel, Aviation, Gems & Jewellery, NBFC, Power, Real Estate and Construction and Engineering, Textile etc. could be affected severely.
- Domestic Auto sale de-grew by more than 25% in Q4FY20 as compared to Q4FY19 (see table). What is more alarming is Commercial Vehicle sales, which directly co-relate with economic activity posted a de-growth of 48% in the last quarter.
- IT company, Wipro declared a gross revenue growth of 4.7% and income de-growth of 6.3% in the quarter ended March'2020 on a year on year basis.
- In NBFCs sector, companies which are depending more on money market or having maturing resources may face short term liquidity mismatches. With three months moratorium on cash flows (repayments), NBFC with less liquidity in hand, may face challenges in honouring their resource maturity and managing ALM. As per the latest number available as Feb'2020, more than Rs 1 lakh crore of papers of NBFCs held by mutual funds are going to mature within six months.
- In the banking space, we expect corporate will require more of working capital support over the medium-term as working capital cycle expands albeit with a higher proportion of risk. We see sectors such as NBFCs, Metal, Automobile, Power, Infrastructure, Gems and Jewellery, Tyre & Tubes, Petroleum etc. could be seeking more credit from Banks due to enhanced working capital cycle. While the forbearance on repayment of loans provides some cushion to banks on asset quality and provisioning, a prolonged slump would make it more vulnerable and may reflect in banks balance sheet in coming days.

EXTERNAL SECTOR IMPACT IS POSITIVE

- An UNCTAD study states that 1% decline in GDP growth of the world will lead to a 1.9% decline in Indian growth of exports to the world. Our estimates show that for merchandise exports a 1% decline in world nominal GDP growth will lead to 1.6% decline in India's nominal exports. However, a catch in this situation is that there is a major supply shock also happening along with the demand shock. The one week lockdown led to a loss of $11.31 billion or Rs 68,160 crore in Mar'20 as compared to Mar'19. However, Mar'19 witnessed a massive jump last year, and India's exports were already struggling this year, so the entire $11 billion cannot be attributed to one week shut down. However, going by the average monthly estimate for FY20, close to $5 billion can be attributed to shutdown. April month is witnessing a lockdown. Some critical pharma, chemical and medical goods might be getting exported. However, all other exports are halted. Also the extent to which manufacturing activity will open is unclear at this juncture. **Taking all these factors into account, we expect India's nominal merchandise exports to decline by up to 16% in FY21. This translates into an output loss of $50 billion (Rs 1.86 lakh crore in Rupee terms).**
- Another issue is that of change in export patterns owing to the upheaval in foreign markets. Looking at the region-wise export, the top three regions where close to 50% of our exports went in Apr-Jan'20 period are North America, EU Countries and West Asia- Gulf Cooperation Council. In North America, USA is our biggest importer and among European countries UK was our top importer, followed by Netherlands, Germany, Belgium, France, Italy and Spain. These economies have suffered greatly due to COVID. **Looking at the granular data items like gems and jewellery and apparel which are our major exports to these areas are more discretionary in nature and hence can see major dip in demand. Also apparel exports, which is another major category, will bear the brunt of reduced discretionary expenditure.**

Distribution of inoperability loss due to COVID-19 Lockdown (%)

Sectors	Output Loss	Labour Income Share in Output Loss	Capital Income Share in Outputloss
Agriculture,Hunting,Forestry and Fishing	5.7	10.1	8.4
Mining and Quarrying	1.3	0.9	2.5
Food Products,Beverages and Tobacco	3.0	0.9	1.3
Textiles, Textile Products, Leather and Footwear	1.0	0.6	0.8
Wood and Products of wood	0.2	0.1	0.2
Pulp, Paper,Paper products,Printing and Publishing	0.6	0.3	0.5
Coke, Refined Petroleum Products and Nuclear fuel	5.4	0.2	3.8
Chemicals and Chemical Products	1.3	0.4	1.6
Rubber and Plastic Products	1.0	0.4	0.9
Other Non-Metallic Mineral Products	0.2	0.1	0.2
Basic Metals and Fabricated Metal Products	0.7	0.2	0.4
Machinery, nec.	0.5	0.2	0.4
Electrical and Optical Equipment	0.5	0.2	0.5
Transport Equipment	1.0	0.3	1.0
Manufacturing, nec; recycling	0.9	0.4	0.5
Electricity, Gas and Water Supply	1.6	1.0	1.7
Construction	0.7	0.8	0.3
Trade	11.4	16.6	20.0
Hotels and Restaurants	16.3	13.1	10.5
Transport and Storage	39.4	41.8	34.2
Post and Telecommunication	0.5	0.4	0.7
Financial Services	2.0	2.0	4.0
Business Service	1.3	1.4	2.0
Public Administration and Defense etc	0.0	0.0	0.0
Education	3.1	7.0	3.1
Health and Social Work	0.1	0.1	0.1
Other services	0.3	0.5	0.6
Total Loss	**100.0**	**100.0**	**100.0**

Source: SBI Research

Automobile - Domestic Industry Q4FY19 vis-à-vis Q4FY20

Category	Q4Y20	Q4FY19	YoY %
Two Wheeler	3502645	4653062	-24.72%
Three Wheeler	129811	180192	-27.96%
Four Wheeler - PV	657244	844195	-22.15%
Commercial Vehicle	146986	284049	-48.25%
Total All Auto	4436674	5961947	-25.58%

Source: SIAM,CEIC; SBI Research

Revenue Growth (yoy) in Q3FY20 and Estimated growth in Q4FY20

Sector	Q3FY20	Q4FY20 E
Health Care/Pharma	15	5
IT Software	10	2
Alcohlic Beverages	5	-20
Non Ferrous Metal	-27	-35
Casting, Forging & Fastners	-24	-35
Auto Ancillaries	-15	-30
Capital Goods - Electrical Equipment	-13	-20
Automobile	-11	-30
Cement - Products	-11	-15
Paper	-10	-20
Plastic Products	-10	-30
Constructions	-8	-30
Steel	-6	-15

Source: Cline; listed entities; SBI Research; E - Estimated

Maturity Profile of NBFC papers with AMC - as on Feb'20 (Rs in crore)

Descriptions	Less than 90 days	90 days to 182 days	182 days to 1 year	1 year and above	Total
CP	56170	9462	14539	-	80171
Bond	25925	20897	18781	124703	190306
Total	**82095**	**30359**	**33320**	**124703**	**270477**
Share	**30.4**	**11.2**	**12.3**	**46.1**	**100.0**

Source: Market reports; SBI Research

- India's merchandise imports are driven majorly by crude oil prices. Pegging the value of oil at $35/bbl (the assumption taken by RBI in its latest monetary policy has taken the average crude oil price at $35/bbl for FY20-21 The PPAC data of Apr-Feb'20 207095 thousand metric tonnes import of crude , because of very low economic activity in April, then the oil import bill will be only $53 billion. If the oil demand dips even further then the oil import value will go down more. Also if oil moves below $20, then this bill will go down even further.
- Looking at the non-oil imports, it was already slowing down in FY20 as domestic demand was suffering. Our analysis shows that a 1% nominal change in India's nominal GDP leads to change in non-oil imports by 1.28%. With the restrictions in place globally, and disruptions in supply it is possible that imports will suffer even more. **Taking oil and non-oil imports together, we can see 25% dip in merchandise imports.**
- United States, United Kingdom and 'Other European Countries' consisting of France, Italy, Ireland, Spain, Luxemborg etc are the biggest importers of our services. Looking at India's BOP data for 2018-19 Telecommunications, Computer, and information services accounted for 41.5% of the total services export. With the pandemic epicenter getting shifted from China to Europe and then to USA, the economic outlook for these countries is uncertain. **Thus ICT enabled services exports will take a hit. However, the good thing about ICT enabled services is that physical proximity is not needed to deliver products. If the pandemic gives more push towards digitization and enhanced use of software by businesses then ICT exports will see a recovery as the developed nations stabilize and businesses open.**
- The segments of services exports, travel and transport, are going to see the biggest losses. Personal and Business travel will get restricted and with an increased sense of instability people might cut down on travel and other discretionary expenditure. **Thus although over net travel receipts might not see much change as both receipts and expenditure will come down, the travel receipts which were $6.47 billion in Q1 FY20 can be wiped out, by upto 90%, thus creating further loss of income of approximately Rs 0.45 lakh crore.**
- Overall we expect net services exports to be around $75 billion. The remittances are expected to be around $60 billion in FY21.
- **Taking all this into account, we expect a Current Account Surplus of 0.7% of GDP in FY21.**
- FDI Inflow to GDP ratio in the country has averaged around 1.90% between 2004-05 and 2018-19. In 2018 India's FDI performance is noteworthy in the context of global FDI which fell by 13 per cent to an estimated US$ 1.3 trillion from US$ 1.5 trillion in 2017 (UNCTAD, 2019). This was mainly due to large repatriations of retained earnings by the US-based multinational enterprises in the aftermath of corporate tax reforms in the preceding year. India was among the few major EMEs that received higher inward FDI during the period. **In FY21 too India can witness stable FDI inflows if it is able to handle to COVID outbreak efficiently and minimise the loss. However, as per a recent analysis by UN, it is estimated that COVID-19's economic impact and revisions of earnings of the largest multinational enterprises could lead to downward pressure on FDI flows that could range from -30% to -40% during 2020-2021. If the same translates in the Indian context, India can see Net FDI inflows of $25 billion for F21.**

India's Balance of Payments Projection

	FY20 ($ billion)(P)	FY21 ($ billion)(P)
Current Account	-29.00	19.00
Goods	-152.88	-85.00
Exports	314.31	265.00
Imports	467.19	350.00
Services	78.88	75.00
Primary Income	-29.00	-31.00
Secondary Income	74.00	60.00
Current Account Balance as % of GDP	**-1.06**	**0.70**
Capital Account and Financial Account	59	48
Overall BoP	30	67

Source: SBI Research

India's top Exports to top destinations 2019-2020 (Apr-Jan(P))

	Total ($ million)	Exports to top 4 regions* ($ million)	% share of 4 regions in total exports
Mineral oil and products	36642.7	15025.0	41.0
Gems and jewellery	31011.8	19192.4	61.9
Machinery and mechanical appliances	17357.5	9693.4	55.8
Organic Chemicals	14652.3	8198.0	56.0
Vehicles other than railway	14083.9	5315.0	37.7
Pharmaceutical Products	13696.5	7582.2	55.4
Electrical Machinery and Parts	12659.8	7590.8	60.0
Iron and Steel	7958.6	3863.1	48.5
Apparel and clothing(non knitted)	6504.8	5029.0	77.3
Apparel and clothing(knitted)	6405.6	5333.5	83.3
Iron and Steel Articles	5956.2	3773.4	63.4
Plastic and Articles thereof	5921.5	3079.0	52.0
Marine animals	5412.4	4109.0	75.9
Cereals	5250.1	1811.4	34.5
Cotton	4682.5	1184.2	25.3
Overall Exports	**263980.7**	**155181.03**	58.8

Source: SBI Research, * - USA, European Countires, West Asia- GCC, China, Hong Kong and Singapore

- The volatility in FII inflows has been extreme and it is hard to peg a number in these circumstances. However, we expect India can see some positive inflows this year. Overall we expect a BoP Surplus of $67 billion.
- For every $1 billion worsening of CAD the Rupee depreciates by around 30 paise. The Net Portfolio Investment of $1 billion shores up Rupee by 26 paise. **Thus, with overall Current Account Surplus of $19 billion, the Rupee will get some cushion from the volatile portfolio outflows and Rupee can have a definitive appreciative bias in current fiscal**. However, in the short-term the portfolio flows will impact the Rupee much more than the Current Account Surplus.

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