Recent Developments

India registered a fiscal deficit of ₹82962 crore during December 2020 as against ₹123891 crore in December 2019. The fiscal deficit was ₹1158469 crore in April-December 2020 as against ₹931725 crore for April-December 2019.
The eight core industries with a combined weight of 40.27% in the Index of Industrial Production (IIP) contracted 2.60% in December 2020 (provisional) compared to growth of 0.70% (provisional) in December 2019. The eight core industries contracted 11.40% during April-December FY21 as against a growth of 0.30% in April-December FY20.
The Ministry of Finance released the 13th weekly instalment of ₹6,000 crore to the States to meet the GST compensation shortfall. So far, an amount of ₹78,000 crore has been borrowed by the Central Government through the special borrowing window at an average interest rate of 4.7491%.
India's FDI inflows grew by 81% in November 2020 to $10.15 billion with equity inflows of $8.50 billion. Total FDI inflow of US$58.37 billion was received during April-November 2020.
Fund mobilization through corporate bonds via the private placement route hit an all-time high of ₹7,77,473 crore through 637 issuances in 2020, a rise of 10% year-on-year.

In its World Economic Outlook, IMF pegged contraction in India's economy at 8% in FY21. It expects a growth rate of 11.50% in FY22 and 6.80% in FY23.
As per CRISIL, aggregate gross fiscal deficit (GFD) of the States will expand to ₹8.70 trillion, or 4.70% of GSDP due to the pandemic.
India's GDP is expected to contract by 8% in FY21, as per the latest round of FICCI's Economic Outlook Survey.

The Federal Reserve left its policy unchanged highlighting that the pace of the recovery in economic activity and employment has moderated in recent months. Fed Chair Jerome Powell noted that the fate of the economy was tied to the success of the US vaccination program.
Real GDP in US increased at an annual rate of 4.0% in Q4-2020 as per advance estimates. Real GDP decreased 3.50% in 2020, compared with an increase of 2.20% in 2019.
UK’s GDP contracted 2.60% MoM in November 2020 after rising 0.60% MoM in October 2020.
Euro area annual inflation stood at (-) 0.30% YoY in December 2020.

IMF raised its forecast for global growth to 5.50% in 2021, betting the rollout of coronavirus vaccines and more fiscal stimulus will offset the immediate challenge posed by the resurgent pandemic.
As per IMF’s Fiscal Monitor global debt likely reached 98% of economic output at the end of 2020 as governments poured in nearly $14 trillion in fiscal support to battle the coronavirus pandemic.
A sense of complacency is permeating markets as investors, betting on continued accommodative monetary policy, are stretching asset prices, risking a sudden market correction, IMF warned in its Global Financial Stability Report.

Developments in FX

The Dollar traded higher against all of the major currencies despite a slightly weaker ISM manufacturing report.
Manufacturing activity growth slowed in the month of January as the ISM index dropped from 60.5 to 58.7. The rise in the prices paid component however, is a sign that inflation is creeping higher across the globe.
Despite the second virus wave, most US states did not reinstate restrictions and that helped limit the impact on the economy.
Nonfarm payrolls are expected to rebound in January after falling for the first time in 8 months.

Meanwhile despite upward revisions to Eurozone PMIs, euro fell the most yesterday. This is because, while manufacturing activity was healthier, consumer demand was much weaker. German retail sales dropped -9.6% in the month of December, which was worse than the -2.6% forecast. Chancellor Merkel closed most retail shops in mid December after a failed partial lockdown in November. Those restrictions lasted throughout January which means there was no recovery in consumer demand last month.
The Eurozone’s fourth quarter GDP report is due for release and while German GDP was better than expected, the overall report should be subdued.