



Ministry of External Affairs
Government Of India



ECONOMIC
DIPLOMACY
DIVISION

MONTHLY ECONOMIC REPORT

DECEMBER 2020



The year 2020 was one of global chaos, with economies turning on their heads all across the world. The end of the year brought good tidings of the much-awaited COVID-19 vaccine, onset of which may further help in curbing the pandemic. India has been successful in bending the COVID-curve till date, with reducing weekly/daily infections, rising recovery rate (now at around 95 per cent) and one of world's lowest case fatality rates. The effective management of Covid-19 spread despite the festive season and onset of winter season, combined with sustained improvement in high frequency indicators and V-shaped recovery along with easing of lockdown restrictions distinguish Indian economy as one riding against the COVID-wave. The agricultural sector remains steady with an upward tick with a healthy year-on-year growth of 2.9% in rabi sowing and accelerating tractor sales. This, along with rise in minimum support prices accompanied by record procurement, and accelerated wage employment generation through MGNREGS, bodes well for rural incomes and bears testimony to PMGKY's success in alleviating rural distress. This rise in rural incomes is mirrored in the healthy, though moderated, sales in passenger vehicles, two and three wheelers and tractor, and a rebound in vehicle registrations for the first time after March 2020. Steel production showed growth with steel consumption recording high year-on-year growth, indicating an accelerating construction sector. Sustained spurts were seen in other economic indicators too including PMI

Manufacturing, commercial and industrial activity, power demand, E-way bills & highway toll collection, rail freight traffic, port cargo traffic and domestic aviation. The digital payment upsurge too continues unabated, powered by resumption of economic activity, financial inclusion through Aadhar enabled Payment Systems, and behavioural shift to digital payments.

With domestic activity picking pace, India's merchandise trade deficit rose, as imports saw positive y-o-y growth after nine months. India experienced a current account surplus for the third straight quarter in Q2:FY21 - \$15.5 billion or 2.4 percent of the GDP as compared to \$19.2 billion (3.8 percent of GDP) in Q1:FY21. Total FDI inflows in the first seven months of the financial year stood at a record high of US\$ 46.82 billion, 11.3 per cent higher as compared to first seven months of FY2019-20.

The Central Government has been providing continuous support to the state governments to rejuvenate their respective economies. As two vaccines- COVISHIELD and COVAXIN get emergency use approval in India, the government is well prepared to undertake a mega vaccination drive, with a blueprint ready with priority for health workers, among others. However, while the impending vaccination is drawing closer, continued observation of any COVID symptom is still crucial in light of incoming mutant strain. Quoting our Hon'ble PM's clarion call of "Dawai bhi Kadai bhi" (Caution along with medicine).

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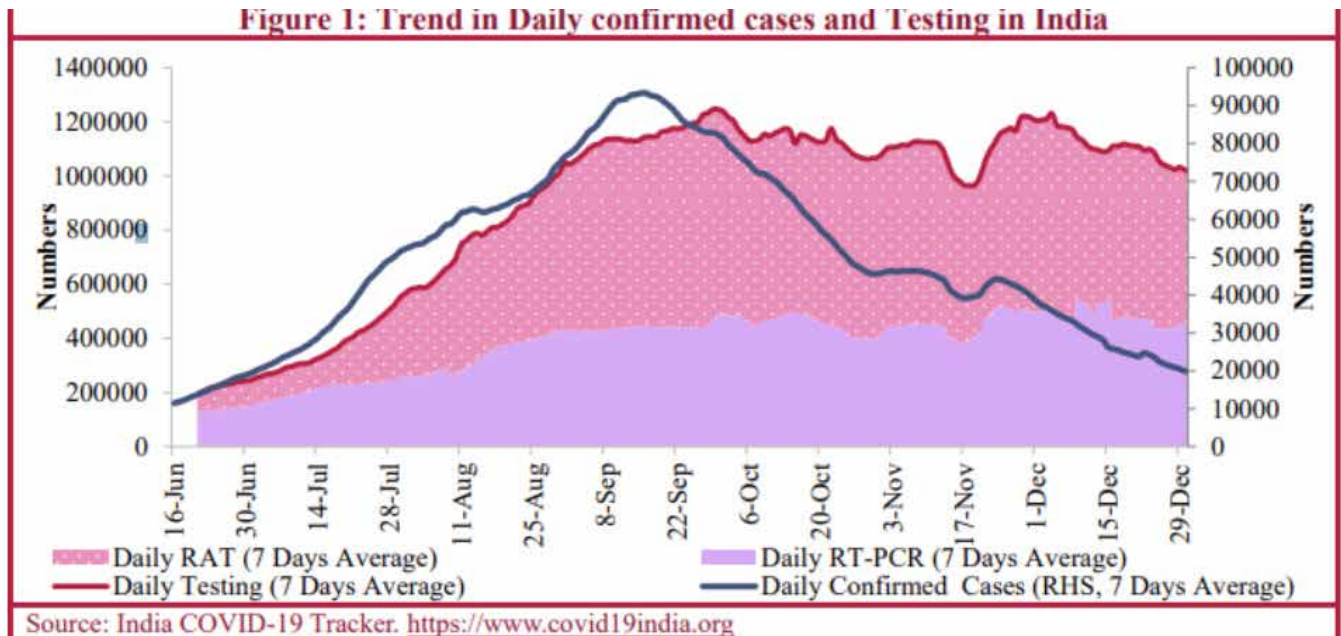
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INDIA RIDING AGAINST COVID-19 VACCINE

Despite having successfully bent the COVID infection curve till now India ushers in the new year with cautious optimism. The case fatality rate stands at one of the lowest globally at 1.45 per cent despite having the second largest confirmed cases at 10.3 million. The COVID-19 active caseload has fallen below 250,000 with India now at tenth position in number of active cases. While India still registers the highest number of daily infections in Asia, the daily rate

has come down significantly to a seven-day rolling average of less than 20,000 cases and 270 deaths in the last week of December, from the peak of close to 100,000 cases and more than 1,000 deaths a day in mid-September. The daily cases showed some spurt in November largely attributed to the festive season but has been rapidly brought under control (Figure 1).

Figure 1: Trend in Daily confirmed cases and Testing in India



India has tested nearly 2.56 million cumulative COVID-19 samples as on 31st December. The tests per million, now standing at around 138,737 are among the top countries in the world. The cumulative test positivity rate is now at 5.6 percent, lower than the WHO standard of 8 percent, which indicates that testing in India matches the global averages. The 7-day positivity rate has shown a decrease to 1.9 percent. Almost all States, barring Kerala have shown a decline in positivity rates in December.

Various vaccines have successfully hit trial status in India and two have been recently approved for emergency use, these being COVAXIN and COVISHIELD. The government is ready with the blueprint of the mega vaccination drive with plans to begin vaccinating 4.15 million health workers, frontline workers, and vulnerable population in the age group above 50 years and persons below 50 years with associated co-morbidities. The COVID Vaccine Intelligence Network (Co-WIN) system — a digital platform — will provide real-time information of vaccine stocks, their storage temperature and individualised tracking of beneficiaries of the vaccine on a real-time basis. India's cold chain infrastructure has been sufficiently upgraded to ensure last-mile delivery. Adequate supplies of syringes and other logistics have also been provided. A dry run of the vaccination drive spread across 125 districts covering all states and UTs has been conducted to test the efficacy of the system. Even with vaccination, wearing a facial mask, following hand and personal hygiene, and maintaining physical distance earnestly remain the principal ways to avoid getting infected. The emphasis to maintain surveillance, containment and caution cannot be diluted.



INDIA'S ECONOMIC INDICATORS

Agricultural Sector:

The agriculture sector remains on a positive growth path and the silver lining in the dark pandemic cloud. As of 31st December 2020, overall rabi expanse stood at 62.07 million hectares, 2.9 per cent higher as compared to the previous year (Figure 2). Minimum support prices (MSPs) announced for various crops for both kharif and rabi season for crop year 2020-21 are higher in the range of 2.1 per cent to 12.7 per cent. Higher YoY growth in tractor sales in November are an

indication of prospects of healthy rabi sowing (Figure 3). The total rice procurement target has been fixed at 495.37 lakh tonnes for the entire country for the 2020-21 kharif season out of which 316.51 lakh tonnes of rice has already been procured as on 30th December. Record procurement in recent years has led to burgeoning central pool stocks, which have enabled smooth distribution of foodgrains under the Pradhan Mantri Garib Kalyan Package.

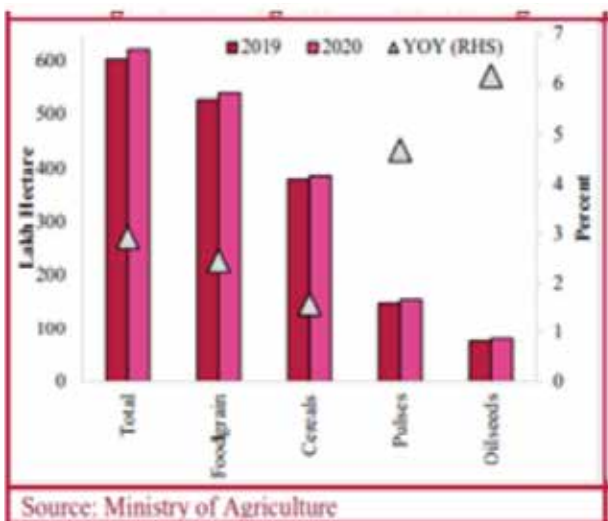


Fig.2: Progress in Rabi Sowing



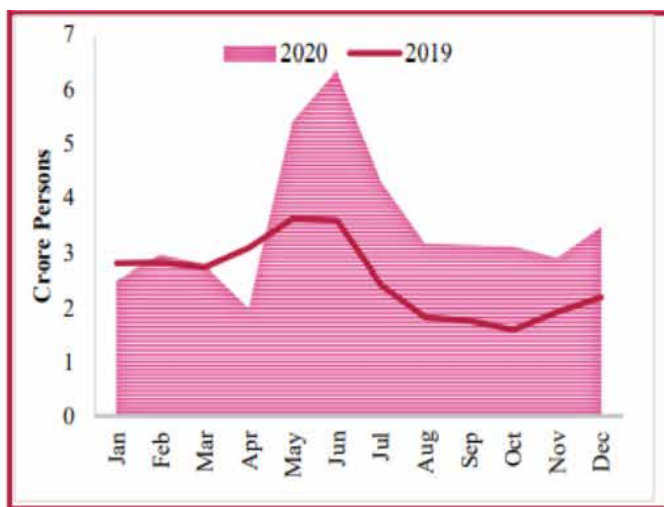
Fig.3: Tractor Sales





The demand for jobs under the Mahatma Gandhi National Rural Employment Guarantee scheme (MGNREGS) has surged, with a y-o-y growth of 56.8 per cent in December (Figure 4). Till December, 294.5 crore person days have been created under the scheme – a jump of 49.4 percent as compared to previous year (Figure 5). This proves that the

scheme has alleviated rural distress in the pandemic period especially for the migrants who returned to their villages. The additional allocation of US\$ 1.38bn in the latest package for Pradhan Mantri Garib Kalyan Rozgar Yojana would further give a boost to job creation in the rural sector and supplement rural incomes.



Source: M/o Rural Development

Fig.4: Demand of work under MNREGS

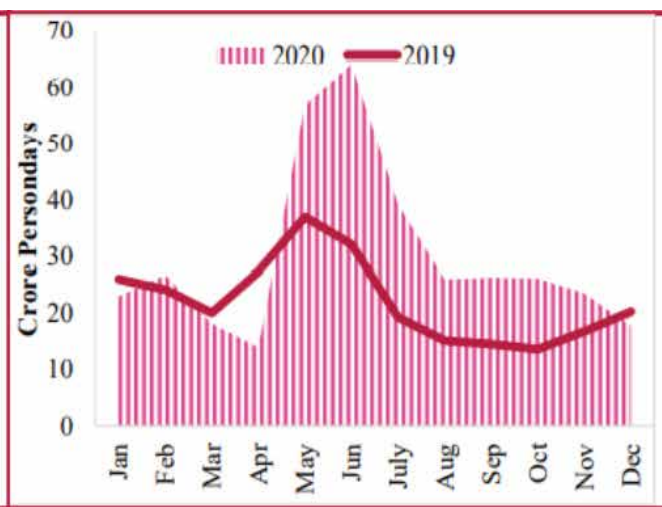


Fig.5: Supply of work under MNREGS

Auto Sales Sector

While indicators of auto demand reflect some moderation in growth momentum in November in the sales of 2 and 3 wheelers (Figure 6), even the number of total vehicle registrations in December rebounded to witness a positive YoY growth for the first time after March 2020. (Figure 7).

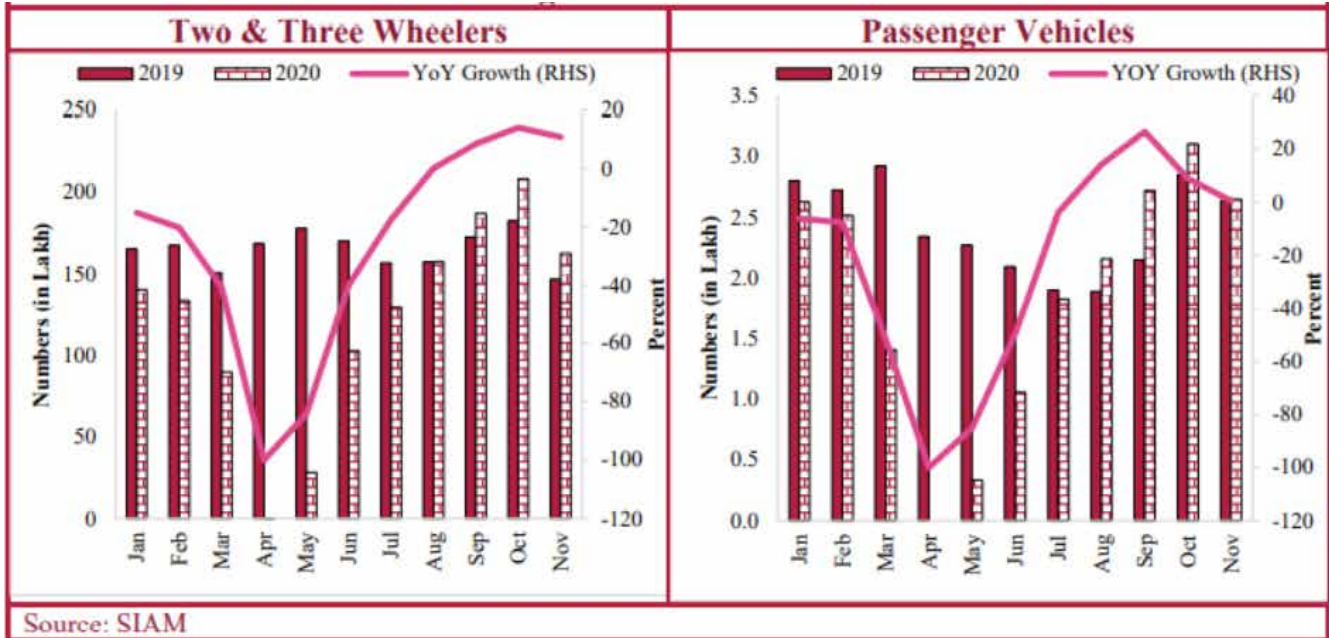


Fig.6 Auto Sales

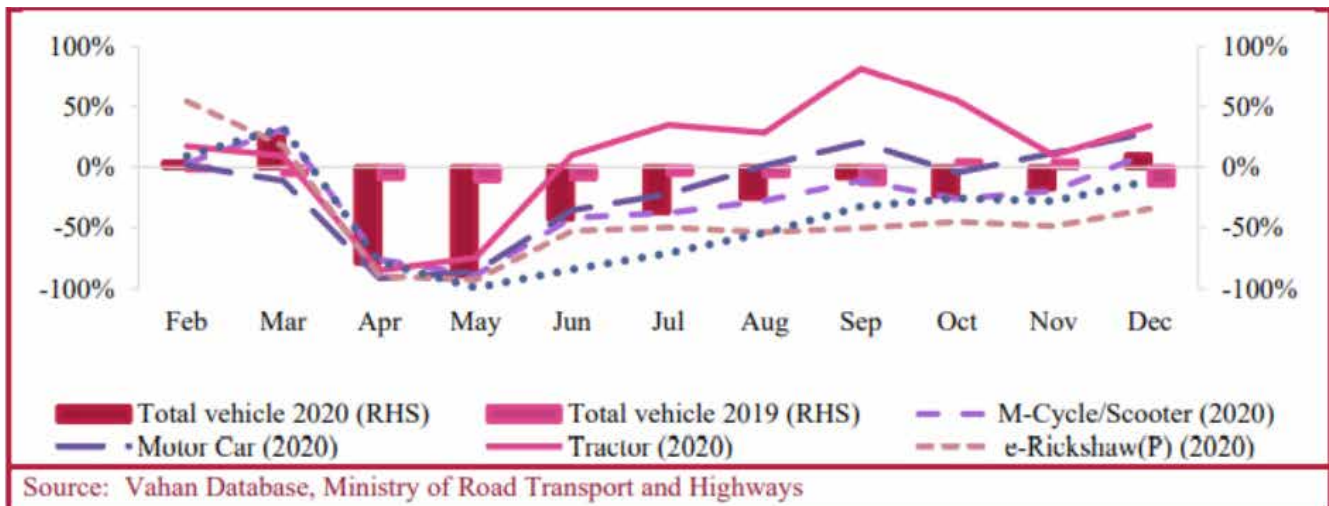


Fig.7: Growth in Vehicle Registration

Index of Industrial Production

Overall IIP attained an eight-month high with a growth of 3.6 percent in October 2020 as compared to a contraction of 6.6 percent in October 2019 amid the growing momentum of the festive season (Figure 8). The manufacturing sector recorded a growth of 3.5 percent in October 2020 as against a contraction of 5.7 percent in October 2019, and the electricity sector recorded a growth of 11.2 percent as against a contraction

of 12.2 percent during the same period in the previous year. The index of eight core industries, which make up around 40 per cent of the index, registered a growth of (-) 2.6 percent in November, 2020 as compared to a growth of 0.7 percent in November, 2019. Coal production, electricity and fertilizers attained positive YoY growth of 2.9 per cent, 2.2 per cent growth and 1.6 percent respectively in November 2020 (Figure 9).

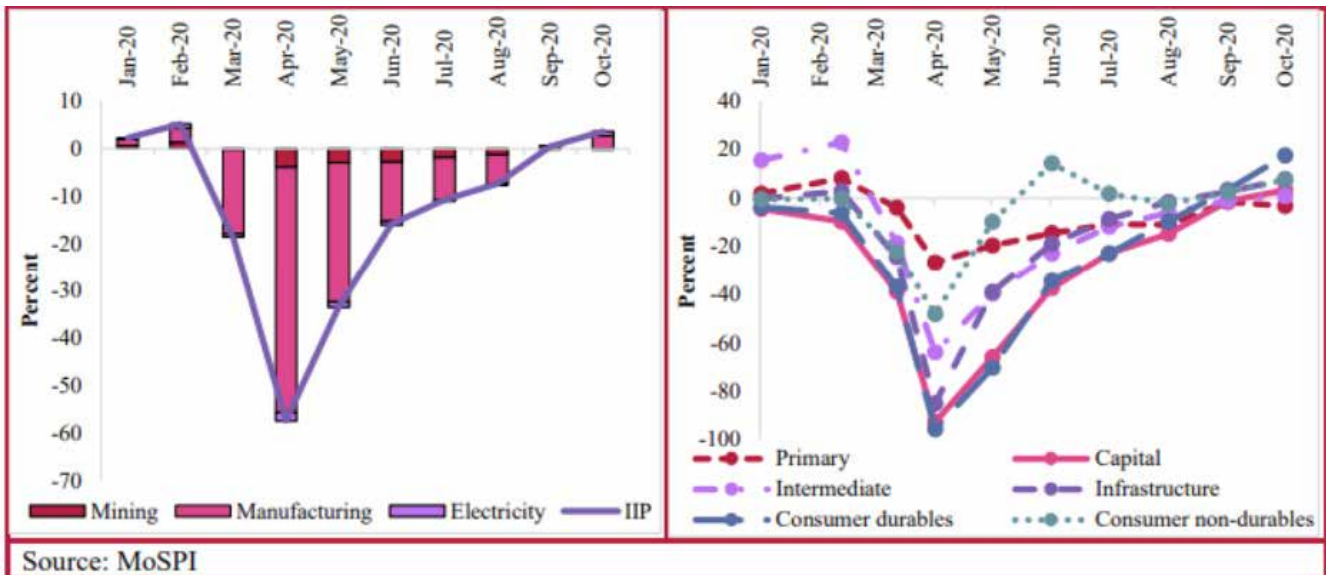


Fig.8: Growth in IIP

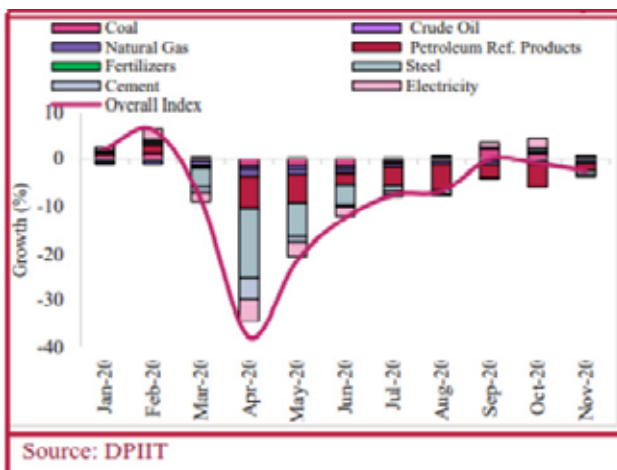
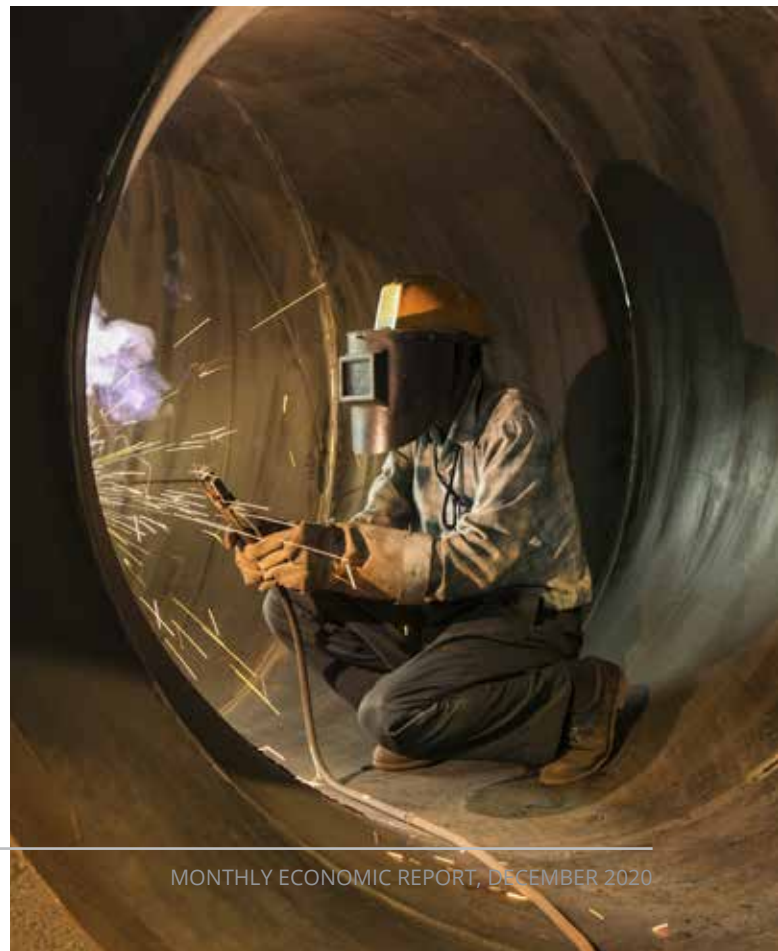


Fig. 9: Core Industries Performance



Purchasing Manager's Index

India's Manufacturing Purchasing Managers' Index (PMI) expansion remained steady at 56.4 in December compared to 56.3 in November (Figure 10). Manufacturers increased production and input buying whilst trying to rebuild their inventories. The relaxing of COVID-19 restrictions along with the improvement in market conditions and a hike in demand facilitated this increase in production.

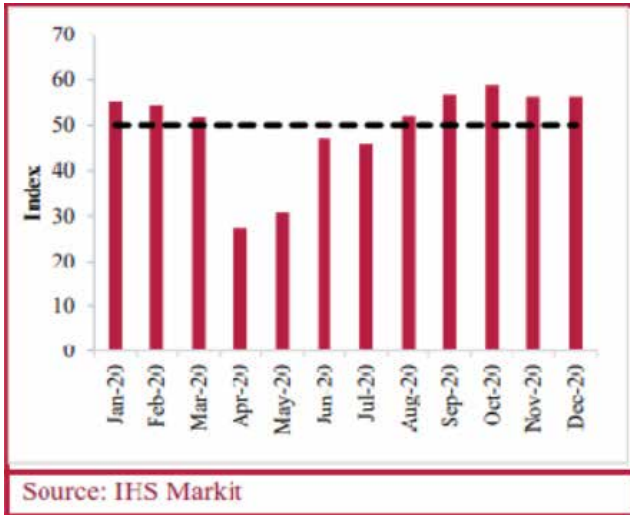


Fig.10: PMI Manufacturing

Steel Sector

This sector showed a constant growth of 1.2 percent in November over October, though it declined by (-)1.4 percent as compared to November last year. Steel consumption registered a healthy growth of 11.0 percent in November as compared to last year (Figure 11).

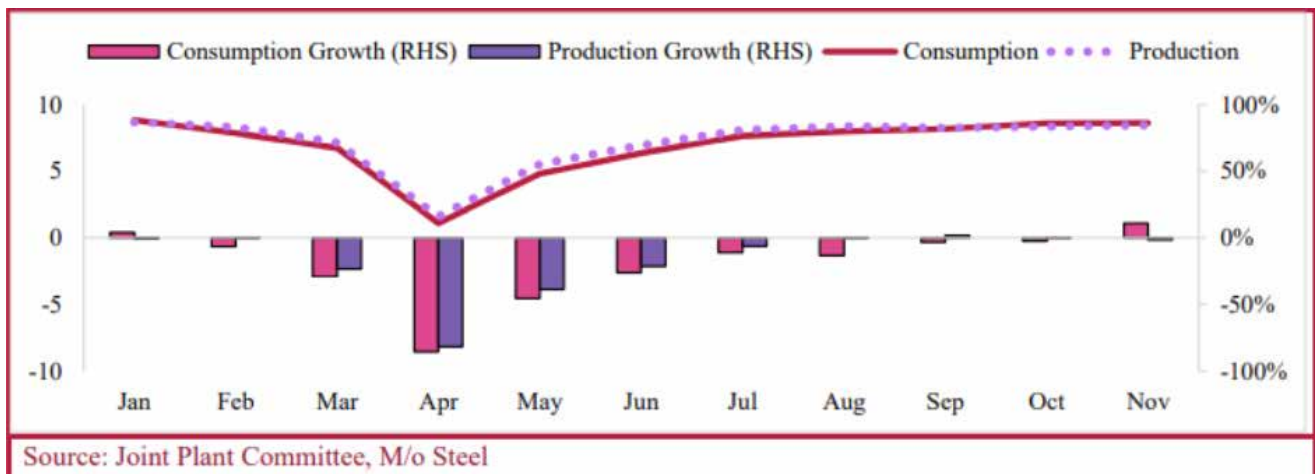


Fig.11: Steel Consumption & Production



Power Sector, E-way bills & GST Collections

Power consumption grew at 5.2 per cent in December, signalling sustained spurt in commercial and industrial activity (Figure 12). E-way bills generated have regained stronger momentum in December with a double digit growth of 17.5 per cent in December after witnessing moderation in November. The numbers of e-way bills generated in December have also been higher than the previous year. (Figure 13). This constant improvement in E-way bills, is a strong leading indicator of revenue collections, supply chain corrections and logistics growth, and augurs well for faster economic recovery. GST revenues at

US\$ 15.9bn during December 2020, recorded its highest level since the introduction of GST, and was 12 per cent higher than previous year level. (Figure 14). Highway toll count and collections have also surpassed their pre-COVID levels in December, similar to other growth indicators. Average daily electronic toll collection and number of transactions in December stood at US\$ 10.3mn and 4.46 million respectively as compared to pre-COVID daily averages of US\$8mn and 3.4 million (Figure 15).

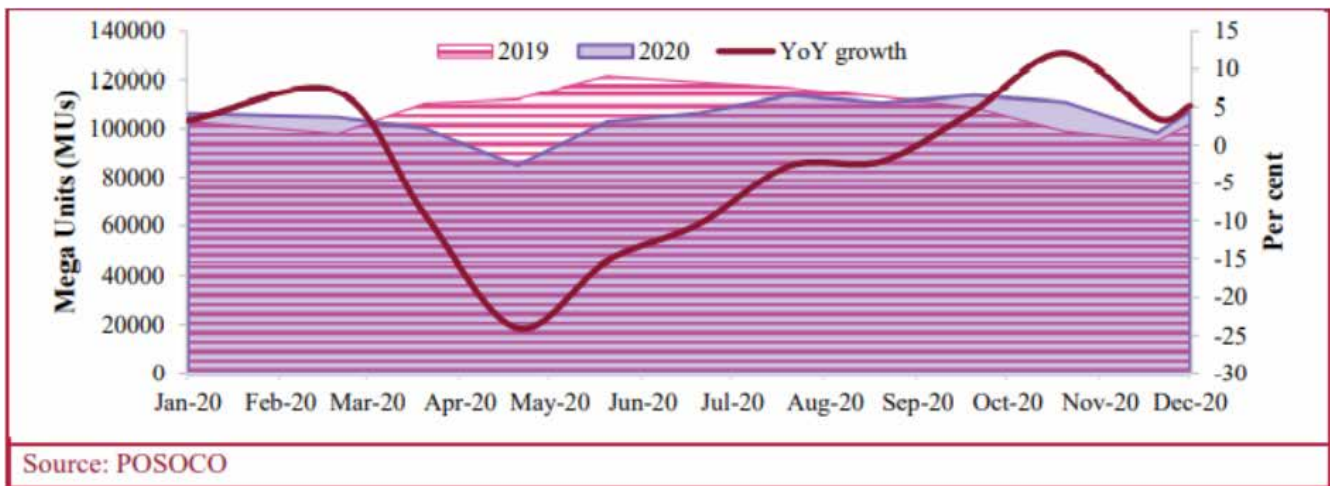


Fig.12: Power Consumption



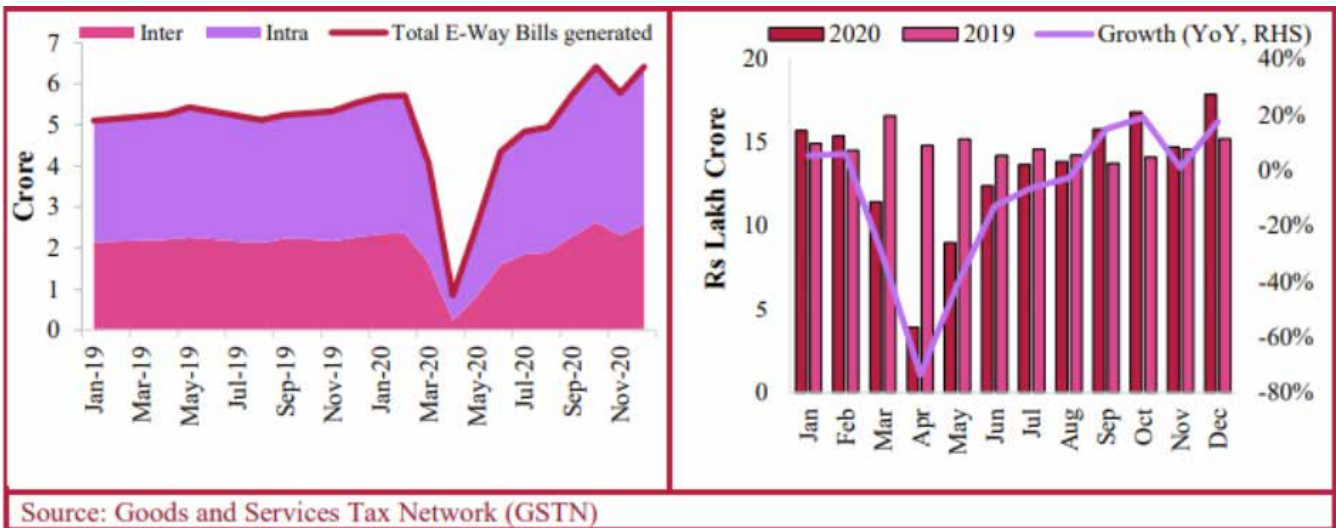


Fig.13: E-way Bills

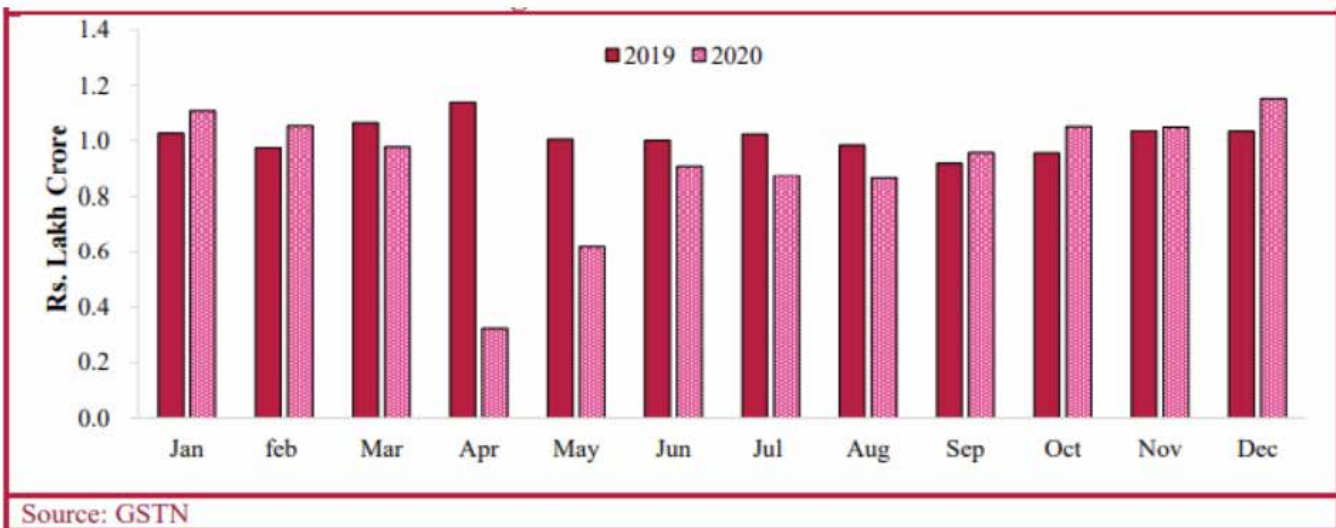


Fig.14: GST Collection

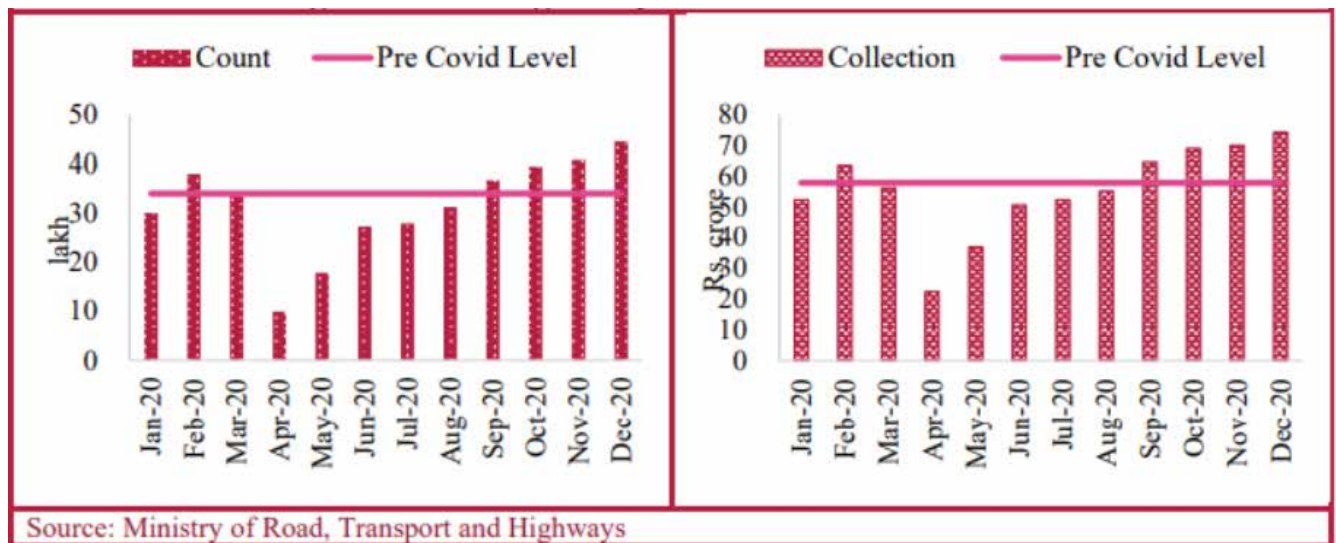


Fig.15: E-toll Collection

Rail Freight traffic

Railway freight traffic recorded a growth of 8.5 per cent in December with improvement seen across various categories of commodities (Figure 16). Gross revenue from railway passenger bookings continued its uptick to reach US\$198.13mn in the first twenty days of December, 51 per cent of corresponding previous year levels (Figure 17).

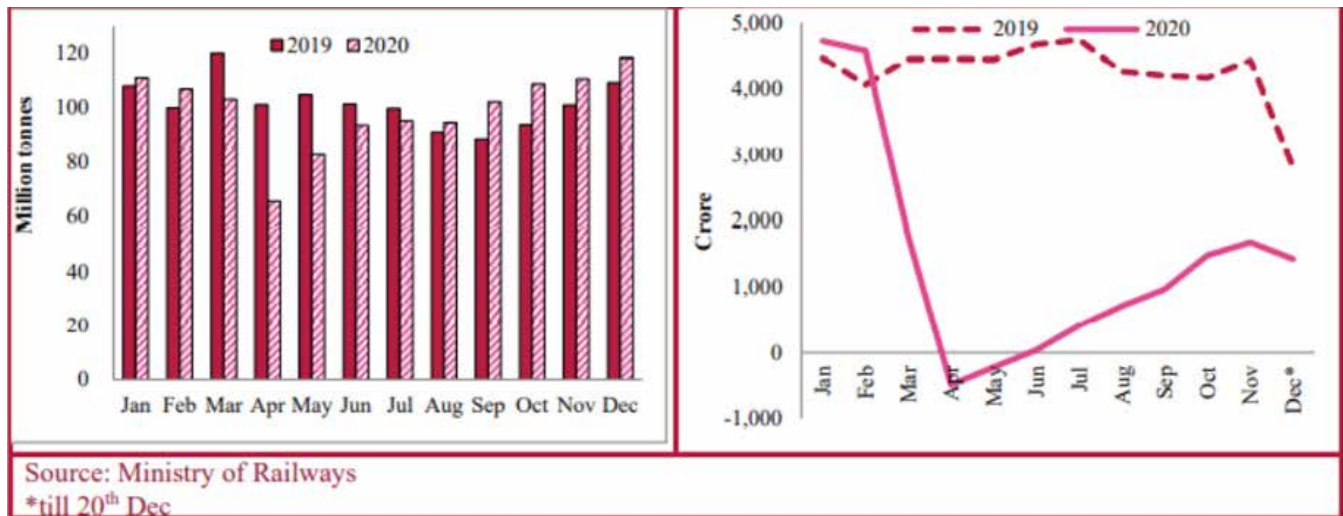


Fig.16: Revenue earning freight traffic

Fig.17: Gross revenue from Railway Bookings

Port Cargo

Cargo traffic volumes in November crossed previous year levels, registering a positive YoY growth of 2.8 per cent for the first time after February 2020 (Figure 18). Domestic aviation further picked up in November with number of passengers increasing from 0.28 million in May to 6.35 million in November (Figure 19) and contraction in air cargo growth easing to 12.92 per cent.

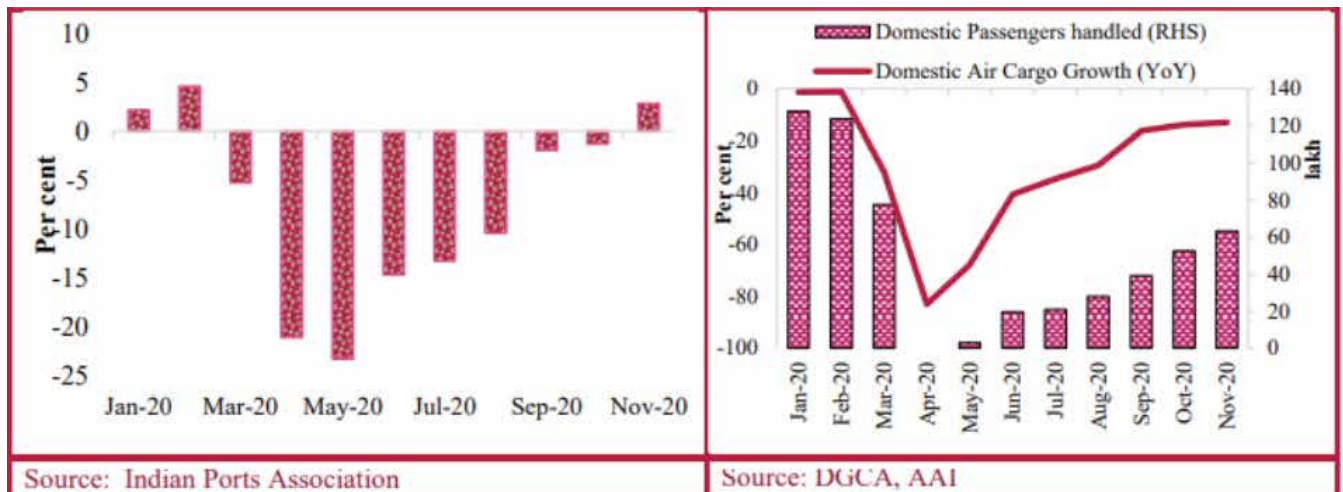


Fig.18: Port Cargo Traffic

Fig.19: Domestic Aviation Activity

Oil Market

The Indian basket crude oil increased to US\$ 51 a barrel on 31st December 2020 as against US\$47.05 a barrel on 30th November, indicating a buoyant oil market with increasing economic activity and Covid-19 vaccine prospects (Figure 20)

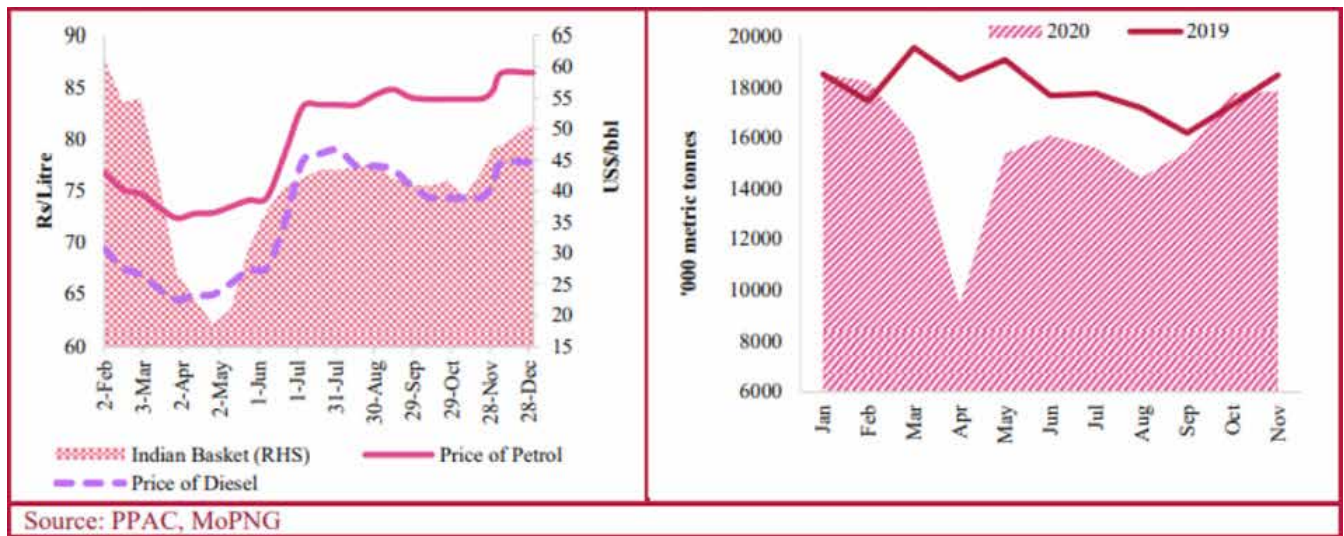


Fig.20: Crude Oil & Fuel Prices

Fig.21: Consumption of Petroleum Products



Digital Market with UPI transactions

Resumption of economic activity and user shifts to digital payments have ushered sanguine prospects of growth in retail financial transactions via NPCI platform. UPI payment transactions hit an all-time high of US\$ 57.55bn in value and 2.23 billion in volume terms in December (Figure 22). Round the clock availability of RTGS since December 14, 2020 will further provide extended flexibility for effecting digital payments. Aadhaar enabled payment system (AePS) has driven financial inclusion to the remotest parts of the country enabling the hinterland with digital payments. Cash withdrawal trends from ATMs/Micro ATMs and Banking Correspondents (BCs) suggest improving demand sentiment (Figure 23).

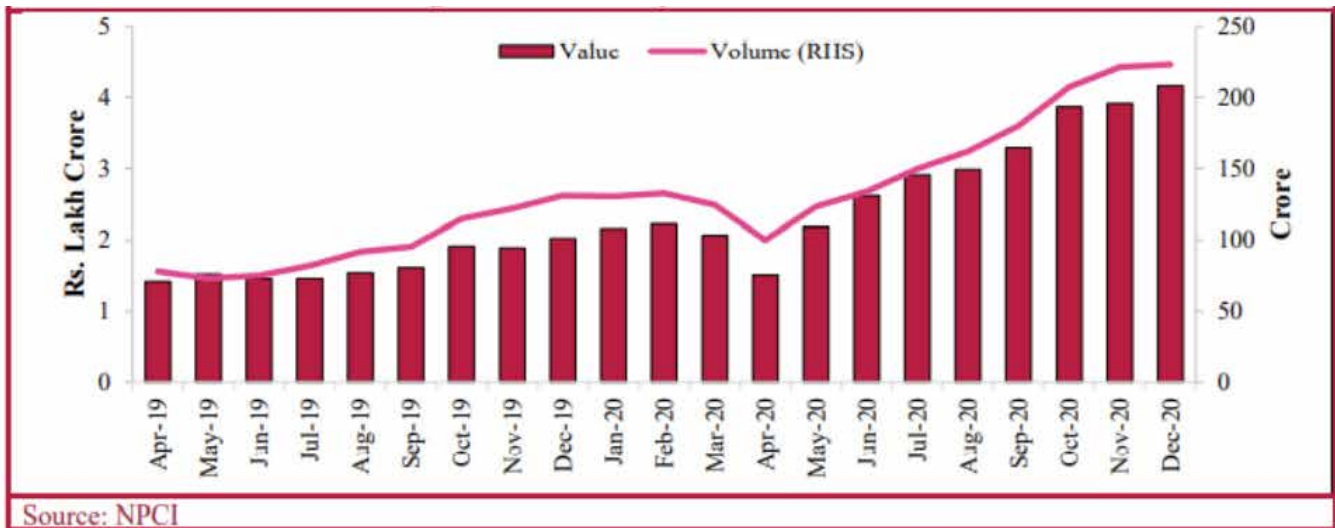


Fig. 22: UPI Payment Transaction

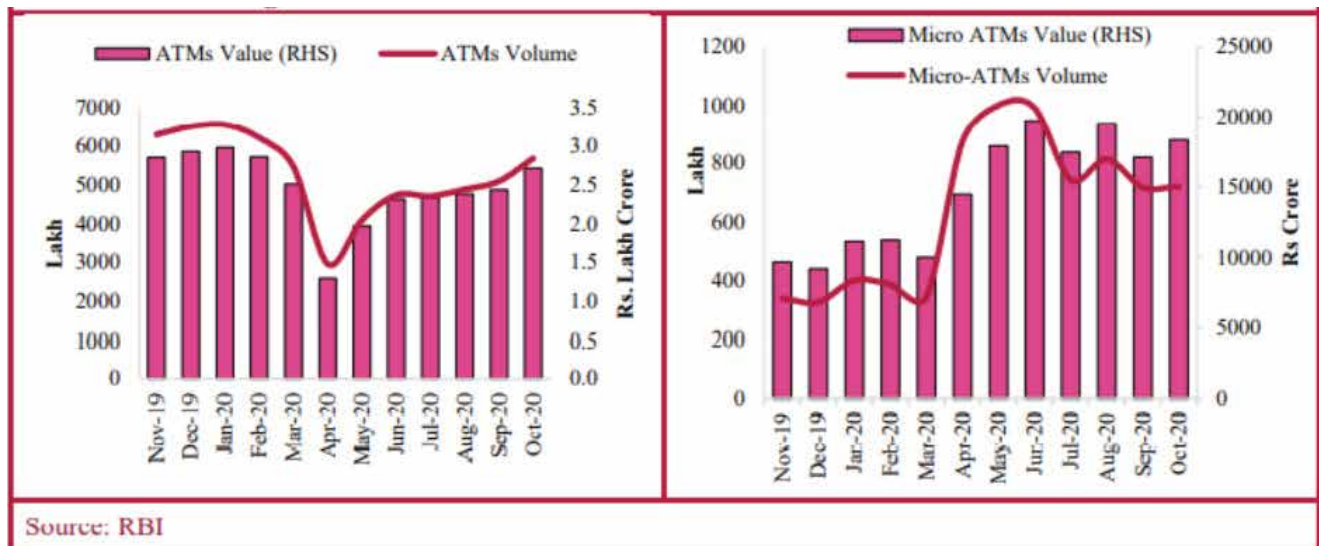


Fig.23: Cash Withdrawals from ATMs and Micro-ATMs

Merchandise Trade

In December 2020, India registered a higher merchandise trade deficit of US\$ 15.7bn, as against the deficit of US\$ 12.5bn in December 2019 and US\$ 9.9bn in November 2020 (Figure 24). The merchandise exports marginally declined by (-) 0.8 per cent in December 2020 at US\$ 26.9bn, as against US\$ 27.1bn in December 2019. After being in negative zone from last nine months, merchandise imports registered a growth of 7.6 per cent at US\$ 42.6bn in December 2020, as against US\$ 39.6 bn in December 2019 (Figure 24). This is a clear indication of acceleration in domestic activity.

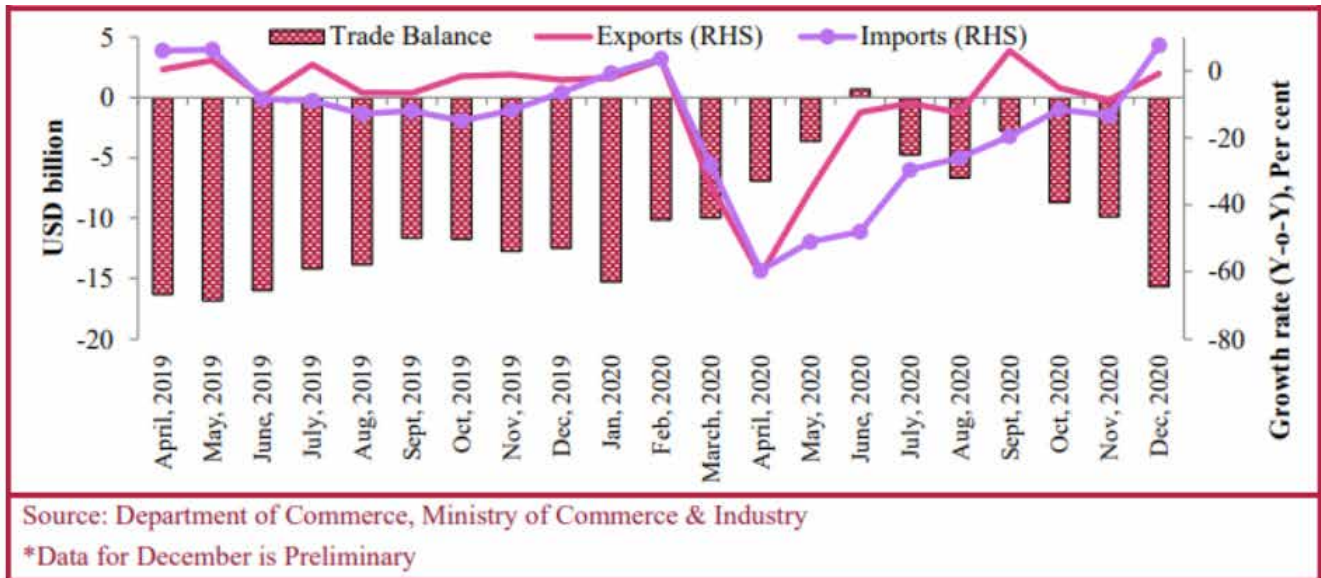


Fig.24: Merchandise Trade

India's overall Trade Balance

India's overall trade balance (Merchandise and Services combined) is estimated to be in surplus at US \$ 13.6bn in 2020-21 (April- November), with overall exports and imports at US\$ 304.3bn and US\$ 290.7bn respectively. India recorded a current account surplus of 3.1 per cent of GDP in H1 of 2020-21 as against a deficit of 1.6 per cent in H1 of 2019-20 on the back of a sharp contraction in the trade deficit.



FDI inflows and FPIs

FDI continues to remain a major driver of economic growth. During April-October 2020, total FDI inflow stood at a record high of US\$ 46.82bn, 11.3 per cent higher as compared to first seven months of 2019-20, an endorsement of India's status as a preferred investment destination amongst global investors (Figure 25). FPI inflows reached US\$ 9.7bn in November and 8.6bn in December (Figure 26) showcasing strong investor's sentiment. Prospects of faster recovery in emerging economies and potential growth prospects driven by vaccine availability have also bolstered market sentiment.

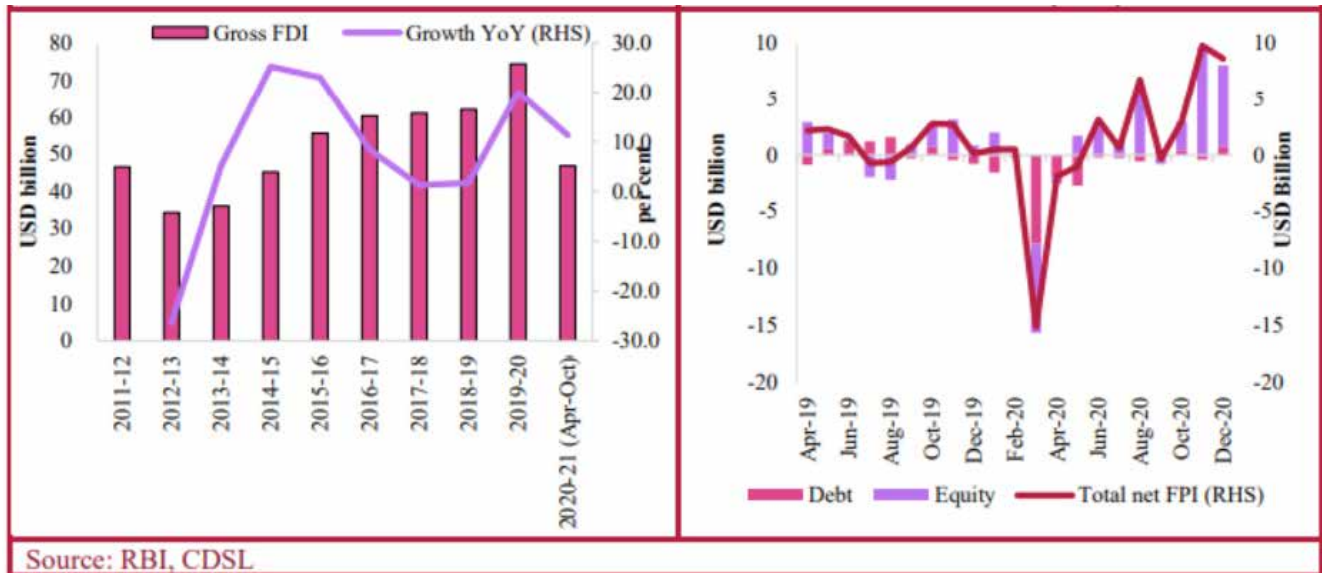


Fig.25: FDI

Fig.26: Trend in FPI

Fiscal Support during the pandemic

The fiscal policy during the first eight months of FY2020-21 comprised of various fiscal measures to support the vulnerable populace. The Centre's fiscal deficit stood at US\$ 148.84bn during April to November 2020, which is 135.1 per cent of BE compared to 114.8 per cent during the same period in 2019-20.

Support to State Governments

The Central Government has continuously supported the State Governments towards a faster economic recovery. As a part of Atmanirbhar Bharat Package, the Centre raised the borrowing limit for the States from 3% to 5% of GSDP for FY2020-21. As on 30th December 2020, 10 States have implemented the One Nation One Ration Card System, 7 States have completed the stipulated reforms in the Ease of Doing Business, and 2 States have done local body reforms.

Conclusion

The imminent vaccination is set to spark the momentum in economic activity globally. India has been experiencing a V-shaped recovery since June when the gradual easing of lockdown restrictions was initiated. The sustained improvement in high frequency indicators ignite optimism of an improved performance in second half of the year. The management of the COVID-19 spread has been effective despite the festive season and onset of winter season. The downside risk, however, remains the spread of the UK variant and fatigue from social distancing guidelines. The emphasis on continued observation of 'covid-appropriate' behaviour with due exercise of caution and surveillance needs to be sustained – “Dawai bhi Kadai bhi” (Caution Along with Medicine).



For more information:

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