



Ministry of External Affairs
Government Of India



ECONOMIC
DIPLOMACY
DIVISION

MONTHLY ECONOMIC REPORT

JANUARY 2021



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STATE OF THE ECONOMY

With the implementation of worldwide vaccination programmes, the International Monetary Fund has projected the global economic growth rate at 5.5 percent in 2021 and 4.2 percent in 2022. The projections take into account the extent of vaccine accessibility and the efficiency of policy structures to facilitate sectoral recovery. In line with the IMF's positioning of India's emergence as the Fastest Growing Economy by 2020, the Economic Survey 2020-21 projects a growth rate of 11 percent. The Monetary Policy Committee of India positions the average annual CPI inflation at 5 percent and GDP growth at 10.5 percent in 2021-22.

The economy has been on a V-shaped recovery since July 2020, buoyed by several high-frequency indicators including Agricultural growth, trade growth, power consumption, FDI and FPI inflows among others. The Union Budget 2021-22 presented an elaborate economic recovery and growth plan with six key pillars including : (i) Health and wellbeing, (ii) Physical & Financial Capital,

and Infrastructure, (iii) Inclusive Development for Aspirational India, (iv) Reinvigorating Human Capital, (v) Innovation and R&D, (vi) Minimum Government and Maximum Governance. The budget emphasized the implementation of a counter-cyclical fiscal policy through the use of disinvestment to fund the National Infrastructure Pipeline . Incentives were also included to improve the national healthcare and education systems.

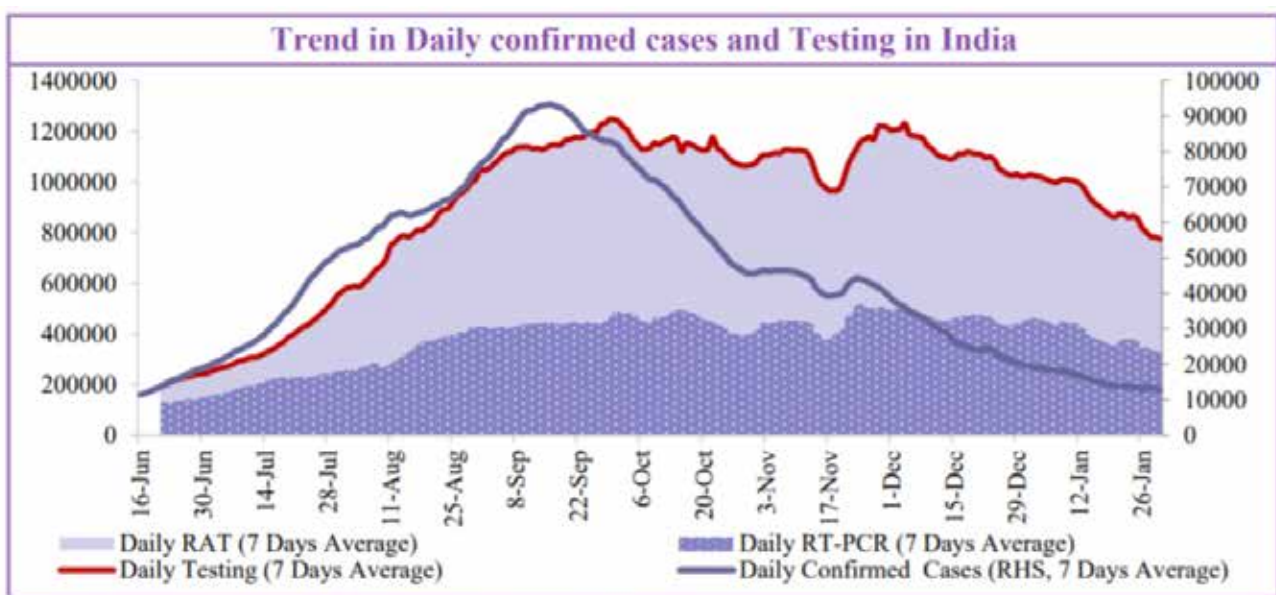
The First advance estimates of GDP released by the National Statistical Office position GDP growth contraction at 7.7 percent, agricultural growth at 3.4 percent, Industry growth contraction at 9.6 percent, Service sector growth contraction at 8.8 percent; hospitality, logistics and trade contraction to be at 21.4 percent. The rates of contraction in individual sectors of the economy have been projected at 9.4 percent in manufacturing, 12.4 percent in mining and 12.6 percent in construction. GST collections as of January 2021 have been at a record high, and indicators including private placement of corporate bonds, FDI and FPI



inflows and credit growth form the base of economic recovery. The provisions of the Atmanirbhar Bharat stimulus packages are also expected to contribute to this pattern of recovery.

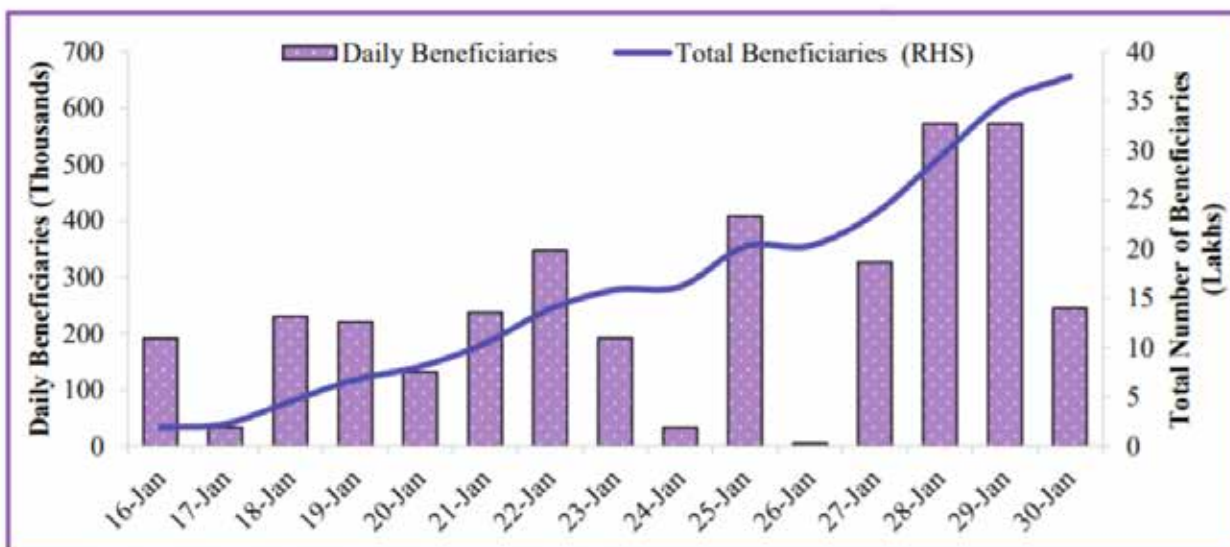
The arrival of the COVID-19 vaccines has been balanced by the spread of a new mutation of the virus across the nation and the world at large. As a result, the global case count has exceeded 102 million and lockdown measures have been reintroduced to curb the spread of the virus. India's recovery rate has grown to 97 percent and a testing count of 1,54,104 per million at the global level.

As of January 31, India has administered vaccine doses to 3.74 million beneficiaries, placing fifth in the global rank of vaccine administration. The total number of active cases has currently dropped to .17 million. Furthermore, India has extended support to 90 countries including her South-Asian neighbours, Middle Eastern allies, and a few Latin American nations to supply doses of the COVID-19 vaccine.



Source: India COVID-19 Tracker. <https://www.covid19india.org>

Fig. Trend in Daily confirmed cases and Testing in India



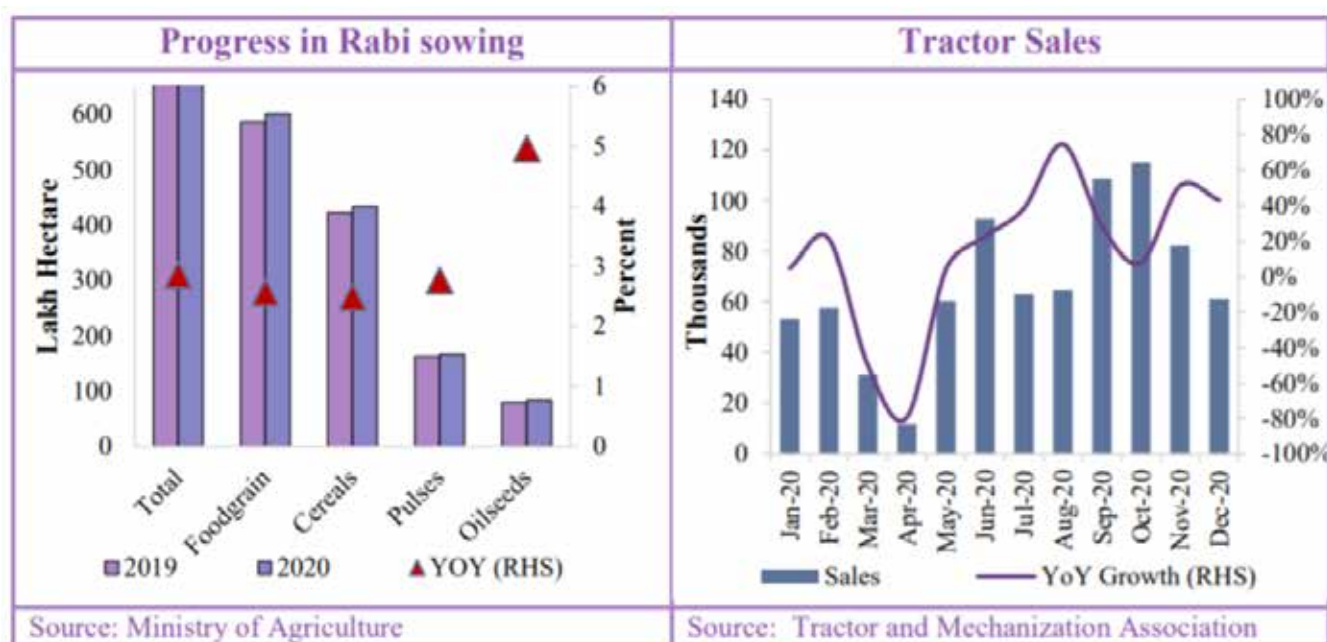
Source: Ministry of Health and Family Welfare, PIB

Fig. India Covid-19 Vaccination Progress

ECONOMIC INDICATORS

Growth of the Agricultural Sector

The agricultural sector remains unimpacted by the reintroduction of the lockdown with a record high volume of Kharif crop sowing at 111.7 million hectares, marking a 4.8 percent increase. This was further complemented by the year-on-year growth of tractor sales by 41.2 percent as of December 2020. The sowing of Rabi crop, as of January 29, 2021, has exhibited a 2.9 percent rise as against the previous years' quantum. With regard to procurement, paddy for the Kharif season is being procured at a 17.75 percent year-on-year increase as documented on February 4, 2021. The KMS procurement operations have benefited 8.9 million farmers.



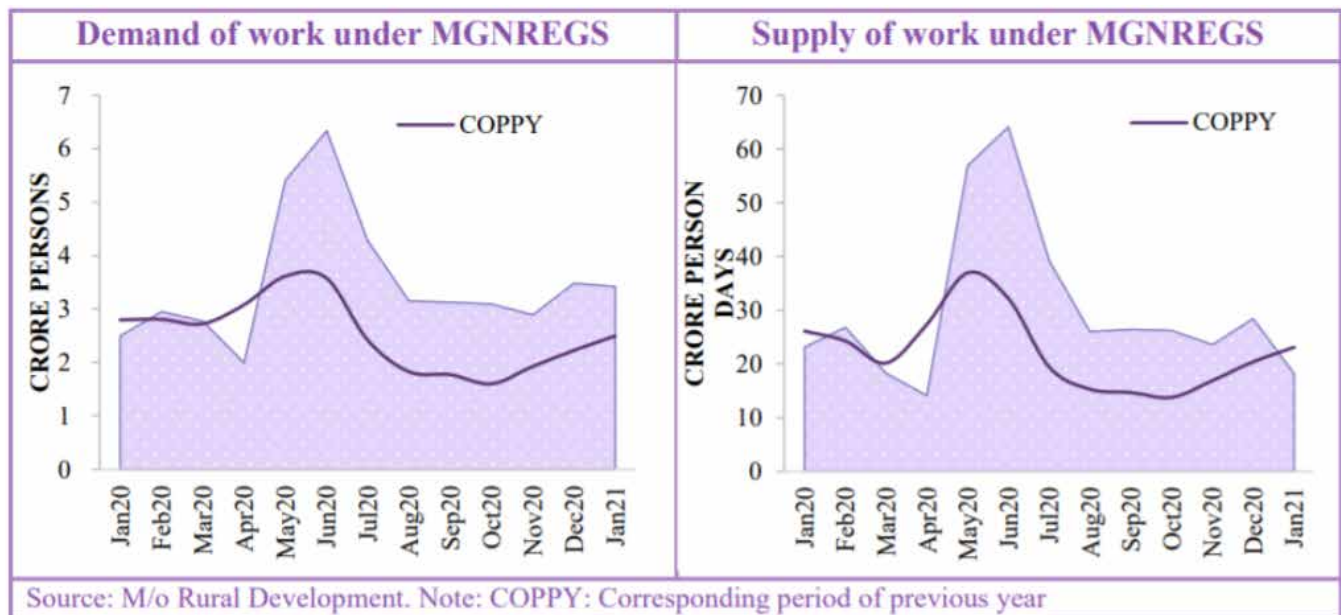
Reduction of Food Inflation

Core inflation dropped to 5.55 percent from 5.71 percent in December 2020 while food inflation fell to 3.42 percent from 9.50 percent. This in turn moderated CPI inflation to 4.49 in the same period from 6.93 percent in November 2020. The WPI Index factors in the rise in demand pressure as wholesale inflation exhibited a 0.33 percent decrease between November (1.55 percent) and December 2020 (1.22 percent).



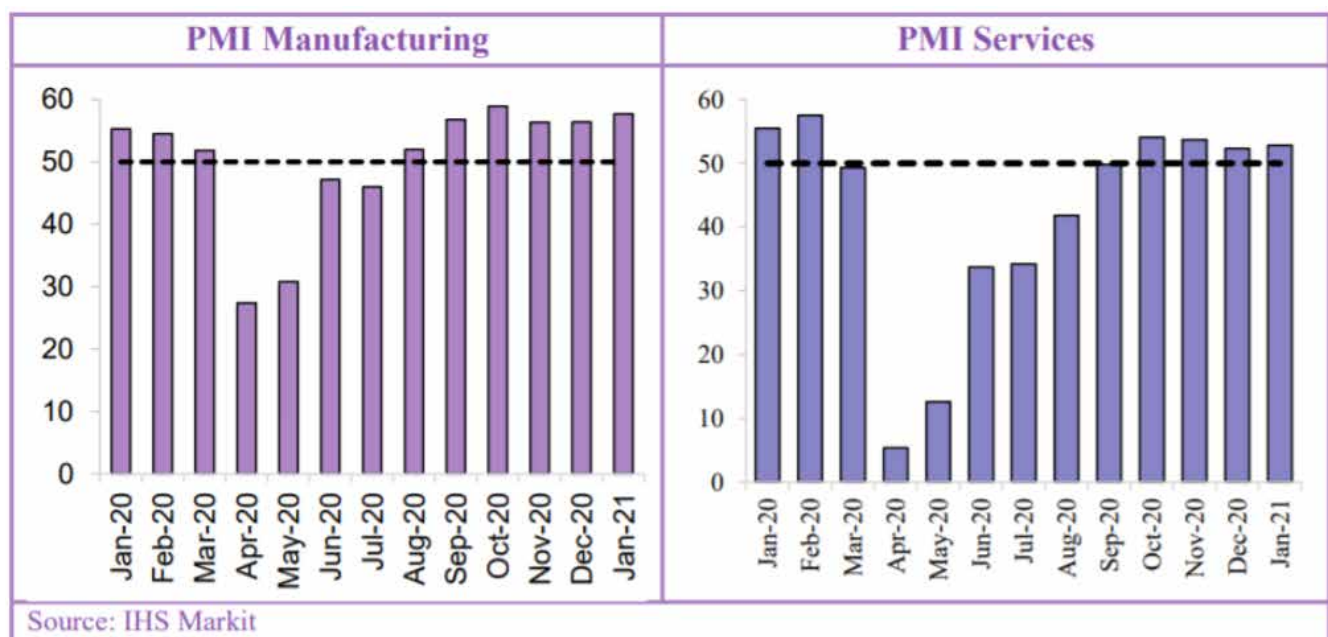
Mitigation of unemployment through MGNREGS

The uptake of employment opportunities through the MGNREGS (Mahatma Gandhi National Rural Employment Guarantee Scheme) has exhibited a year-on-year growth of 51.5 percent from April 2020 to January 2021. A 46.8 percent increase in the number of person-days has been facilitated until January 2021, marking the quantum at 323.2 days.



Improvement in the Purchasing Managers' Index

The Purchasing Managers' Index (PMI) increased to 57.7 in January 2021 from 56.4 in December 2020 indicating a growth in input stocks, orders, exports, and a decline in unemployment. The manufacturing sector and the services sector contributed greatly to the expansion of the index, contributing to the overall positive sentiment within the business fraternity on the event of the vaccination programme being launched.



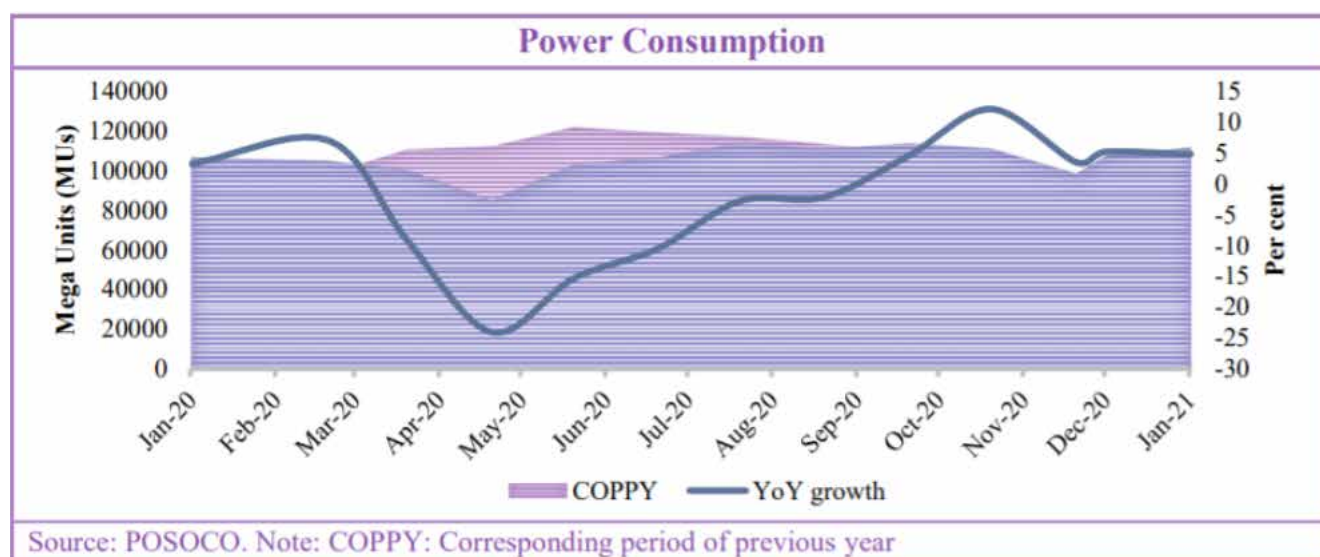


Aviation and Port Traffic

The RWI/ISL Container Throughput Index documents a 2.6 percent decrease in port traffic activity. The average number of international commercial flights has remained at a steady 56 percent, exhibiting neither rise nor fall. Exports of manufacturing and services have remained constant from September 2020.

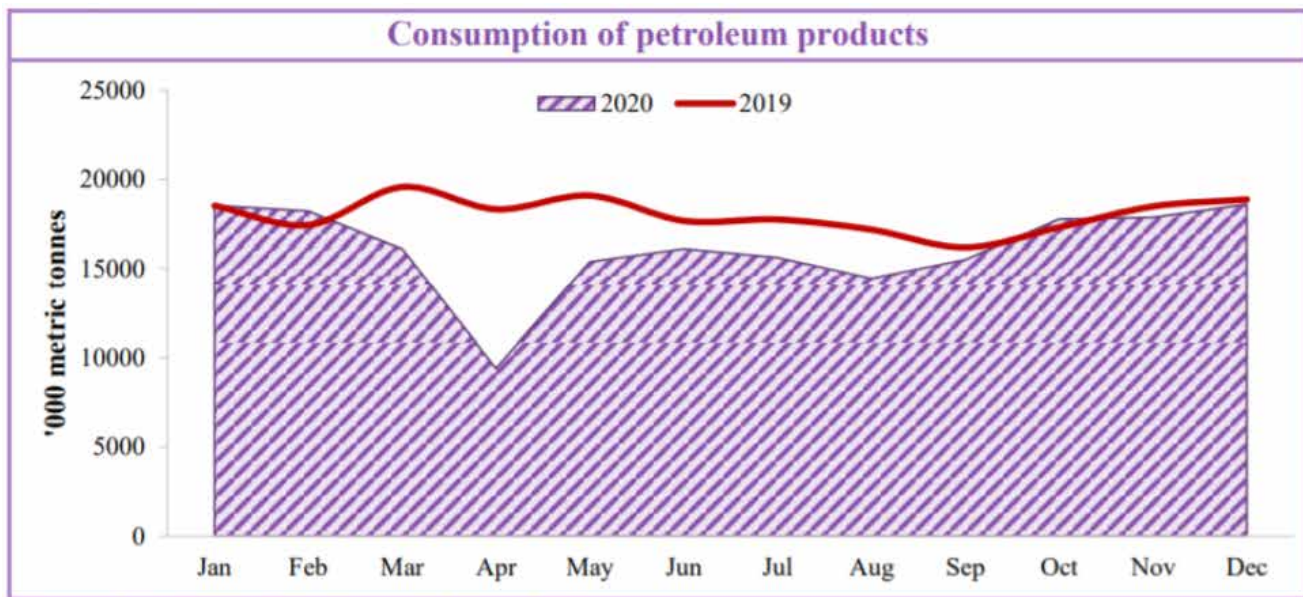
Power Consumption and Energy Commodity Prices

The increase in industrial growth has fueled a year-on-year rise in power consumption to 4.8 percent in January 2021 and 5.2 percent in December 2020. Coal prices have witnessed a stable increase since October, buoyed by economic activity. The moderation in gold prices led to a strengthening towards the end of the month while the prices of base metals increased by 7.2 percent owing to increased global manufacturing. A 15 percent increase was also documented in the prices of energy commodities in the month of December.



Increase in demand for petroleum products

The increasing demand for petroleum products has marked a rise in the value of Indian basket crude oil from US\$ 51 per barrel in December 2020 to US\$ 58.40 on February 04, 2021. The growth also accounts for a year-on-year increase in consumption as of January 2021.



Source: PPAC, M/o Petroleum & Natural Gas

Fiscal support from the Centre

The fiscal policy for FY 2020-21 focused extensively on increasing capital expenditure with a 20.9% year-on-year increase as of April-December 2020. Total expenditure also exhibited a year-on-year increase to 8.1 percent for the same period. The policy focus for the first three quarters of FY2020-21 has been aimed at facilitating gradual economic recovery and protecting the poor and vulnerable.

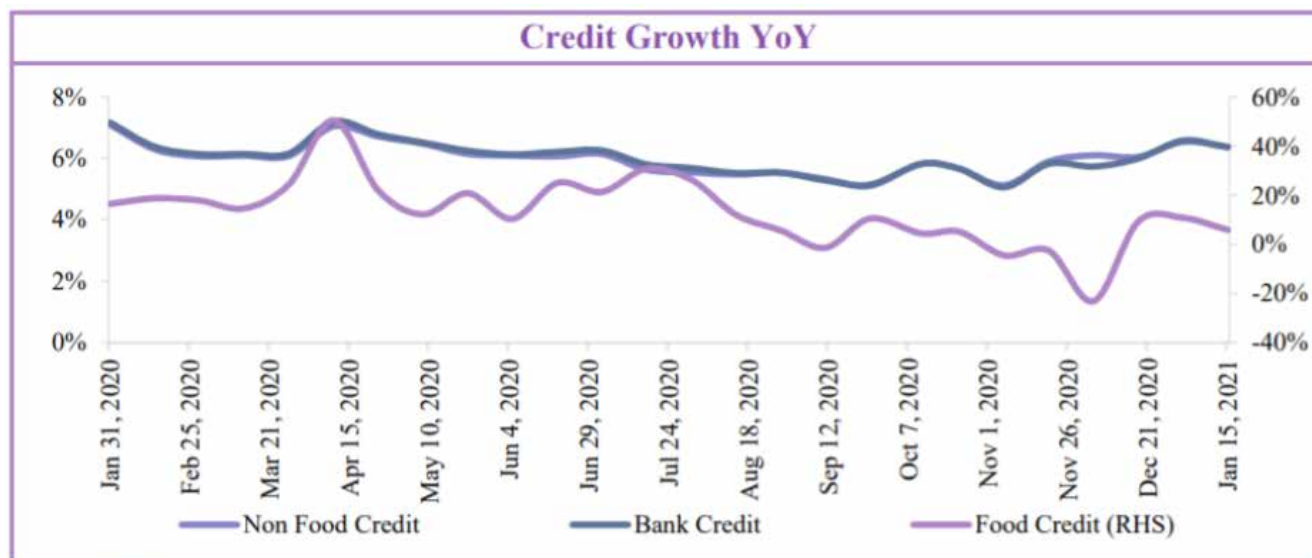
Recommendations of the Monetary Policy Committee (MPC)

As per the recommendations of the Monetary Policy Committee (MPC) earlier in February, the repo rate has remained at 4.0 percent under the liquidity adjustment facility (LAF), the reverse repo rate at 3.35 percent, and the marginal standing facility rate and Bank rate at 4.25 percent. These decisions are expected to keep the cap on Consumer Price Index (CPI) inflation at 4 percent with a +/-2 percent buffer. The twin objectives of maintaining quality credit flow and prioritizing banking sector governance are to be facilitated through the following measures:

- (i) Regulation and supervision
- (ii) Upgrading settlement and payment infrastructure
- (iii) Increasing consumer protection
- (iv) Enhancing sectoral liquidity and promoting liquidity management
- (v) Deepening financial markets.

Credit Growth

The Emergency Credit Line Guarantee Scheme (ECLGS) that covers the MSME sector has been expanded to cover MUDRA borrowers and 26 stressed sectors on the recommendation of the Kamath Committee. As of January 8, 2021 a sum of US\$ 22.49bn has been disbursed to 4.25 million borrowers. Concurrently, bank credit to the commercial sector exhibited a year-on-year growth of 5.9 percent, and non-food credit increased to 6.4 percent year-on-year. These measures are expected to continue serving as liquidity boosters for the economy.

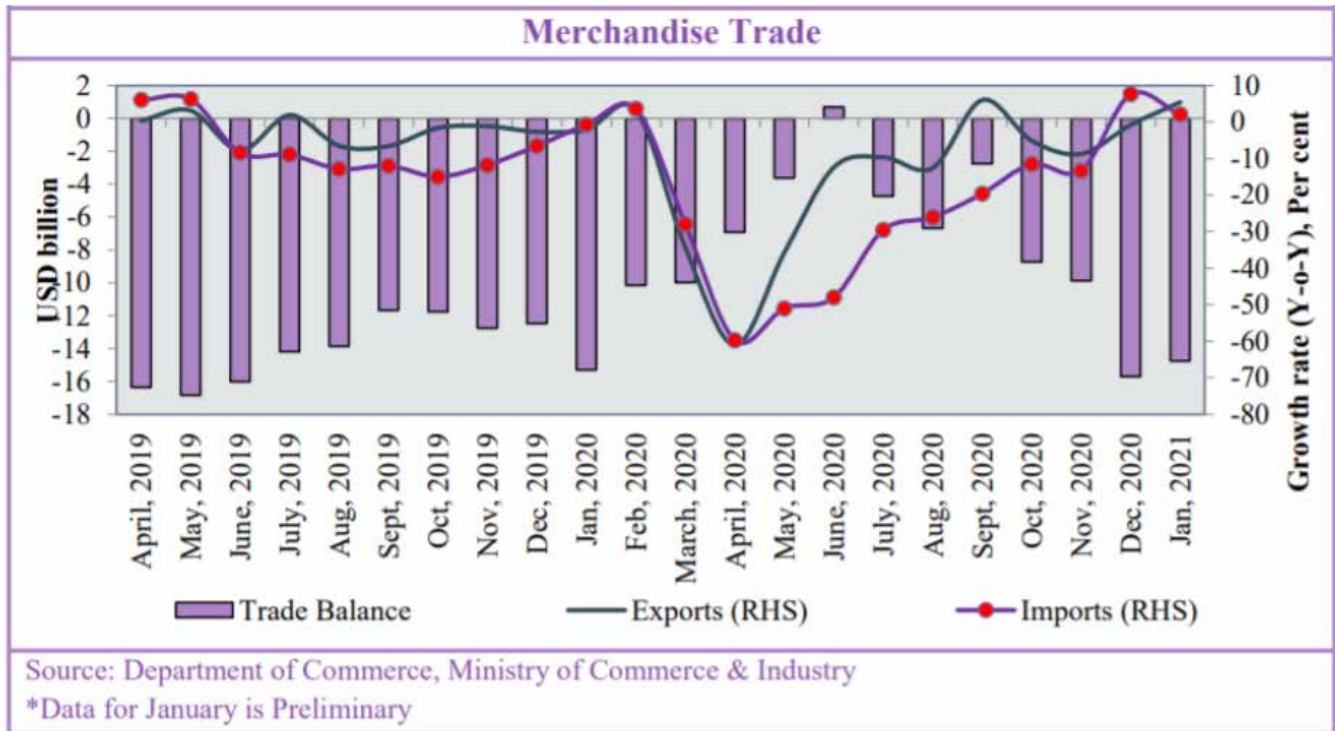


Source: RBI



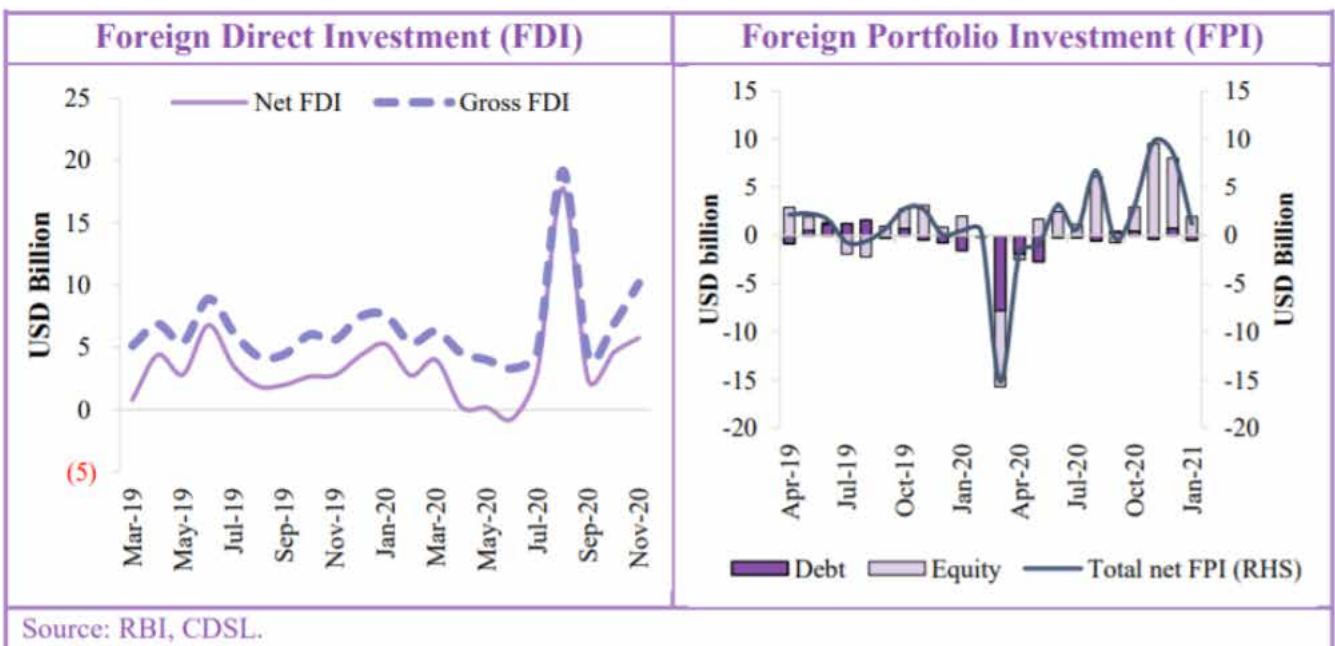
Growth of Merchandise Imports

Merchandise exports are seen to have registered a 2.0 percent year-on-year growth in January 2021 owing to an increase in domestic economic activity. Further growth of 5.4 percent was also facilitated this month thereby catalyzing India's movement towards economic recovery. The trade merchandise deficit also appears to have narrowed to US\$ 15.3 billion as against US\$ 15.7 billion in December.



FDI and FPI inflows

FDI inflows between April and December 2020 were recorded at US\$ 58.37 billion and net FPI inflows at US\$ 9.7 billion as of November 2020. However, net FPI inflows were recorded at US\$ 1.23 billion after a fall to US\$ 8.6bn in December 2020. These movements have positively impacted the equities markets with NIFTY volatilities being reduced in January. The purchase of dollars by the Reserve Bank of India maintains the Rupee range between 72.82-73.45 INR/USD this month.



Conclusion

The commencement of the vaccination drive across the country has provided much-needed optimism to the business fraternity. The rise in domestic economic activity has had a significant impact on sectors of the economy including Agriculture and FMCG. With a steady influx of FDI and FPI as well as a stable repo and reverse-repo rate, the economy can be expected to continue its current trajectory of recovery and subsequent growth. The Atmanirbhar Bharat stimulus packages and the provisions announced in the Union Budget FY 2021-22 can be expected to enhance the growth of the MSME ecosystem as well as the healthcare, transportation, infrastructure, education and BFSI sectors.



For more information:

Ministry of Finance, Department of Economic Affairs
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