



Ministry of External Affairs
Government Of India



ECONOMIC
DIPLOMACY
DIVISION

MONTHLY ECONOMIC REPORT

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STATE OF THE ECONOMY

Recent times have seen an emergence of a renewed COVID-19 wave with new variants. Despite the slow rise in the number of cases across the globe, economic activity in India has gathered pace with mild reinforcement of the COVID-19 curve failing to impede a steady uptick in consumer sentiment, which has been bolstered by the inoculation drive. For the first time since the start of the pandemic, the GDP has shown significant growth in the third quarter of FY21.

While the agriculture sector continues to show robust growth, along with MGNREGS it is instrumental in strengthening rural demand and has created 3.5 billion person-days-of-employment in 11 months of FY 21, 41.6 per cent higher than the corresponding period of FY 20. Supported by burgeoning rural incomes and rising preference for private transport, growth in automobile sales is showing signs of a strengthened demand resumption. This is also evident with imports continuously growing through December 2020 to February 2021. Sustained momentum in GST revenue collection with year-on-year growth of 7 per cent mobilising US\$ 15.6bn in February 2021 also shows growth in businesses and trading turnover.

Rapid production and deployment of COVID-19 vaccination will be critical in taking forward the health stimulus and India is well poised to do so, having become the largest producer of vaccine in the world and currently ranked 3rd only following the US and the UK in administering vaccine doses. To increase health stimulus, the COVID-19 vaccination capacity has been ramped up with 10,000 private hospitals under Ayushman Bharat PMJAY, more than 600 private hospitals under the Central Government Health Scheme and several other private hospitals empanelled with state governments ready for deployment. Development of 18-20 brands of vaccines in the country is also underway to provide further stimulus to the economy. While the vaccination drive remains the immediate

focus, the health stimulus for the economy is not only about the COVID-19 vaccination program.

The stimulus has in fact evolved into a comprehensive health care project in the country. Intensified Mission Indradhanush 3.0 launched in February 2021 for taking forward the Universal Immunisation Programme is an important pillar of the project. Budget 2021-22 has further expanded the health care project by doubling the health sector allocation over the previous year. The budget allocation focuses on strengthening holistic health covering prevention, cure and well-being as articulated under the newly launched Atmanirbhar Swasth Bharat Yojana. Ongoing health care programmes including Pradhan Mantri Jan Arogya Yojana and Ayushman Bharat Programme are also being strengthened. The renewed focus on Jal Jeevan Mission, the second phase of Swachh Bharat Abhiyan (Urban) and the Clean Air Initiative along Poshan Abhiyan further define the cutting edge of comprehensive health care project that has taken off in India.

While India continues to avoid the second wave of pandemic, there has been a surge in cases in eight states underscoring once again the inevitability of social distancing in keeping the pandemic at bay until a critical mass of inoculated population builds up immunity to control the growth of infection in the country. For a country that has continuously maintained one of the lowest fatality rates and highest recovery rates across the world through relentless testing, quick isolation and speedily delivered health care, the practice of social distancing is critical to preserving the successes so far achieved on the health front. Often overlooked in the deluge of COVID-19 vaccine development and ongoing inoculation drive, social distancing poses as a social vaccine that also needs to be continuously administered for health and economy to make a quick recovery in India as well as abroad.

COVID SCENARIO IN INDIA

The pace of recovery of global economic activity in the third quarter of 2020 on the back of pent-up consumption demand and a new norm of work-from-home petered out in the fourth quarter. Renewed virus waves, emerging variants of the virus and consequently tighter lockdowns in several Western economies dampened the activity rebound. While Asian economies seem to have gained further pace, they also continue to remain impacted by the pandemic and its global macro-financial implications. By the end of February 2021, COVID-19 confirmed cases reached 114 million across 192 countries. At the same, inoculation progress picked up with more than 50 million people having been fully vaccinated in 64 countries and roughly 6.17 million doses of COVID-19 vaccine a day being provided globally, auguring hope for a revival of economic fate across the world. However, the risk of vaccine makers needing to make mid-course adjustment to respond to new virus mutations looms large.



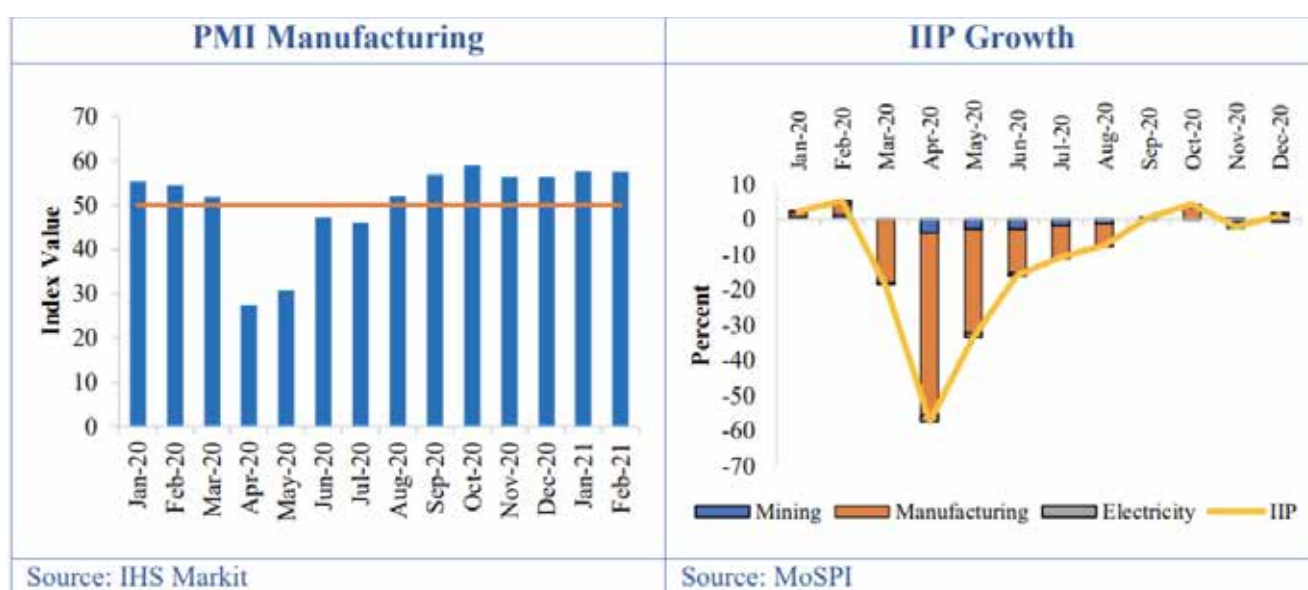
ECONOMIC INDICATORS

PMI Manufacturing

In India, economic activity is gathering momentum with a sustained flattening of the COVID-19 curve, prompt roll-out of Covid-19 vaccine and steady uptick in consumer sentiment. India's manufacturing sector remained in expansion zone for seventh straight month, with PMI Manufacturing dipping only slightly from 57.7 in January to 57.5 in February, as firms responded to rising demand by piling up input inventories.

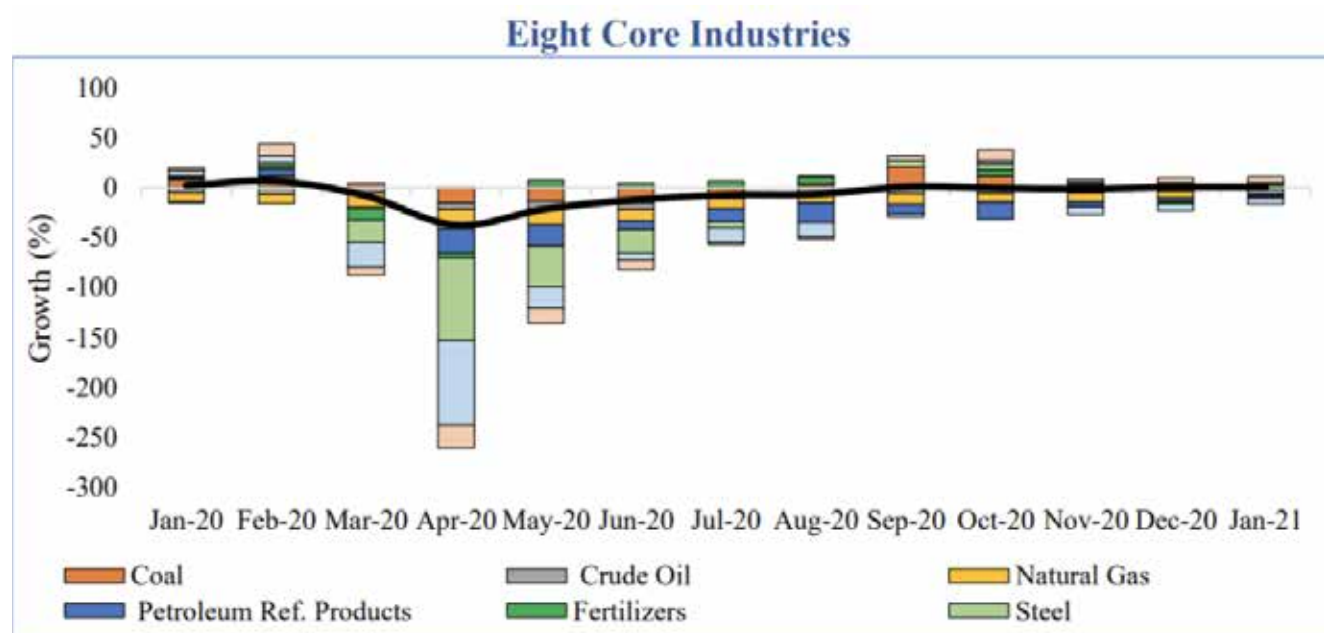
Industrial Production

Industrial production saw a broad-based resurgence in December, with Index of Industrial Production (IIP) moving upwards with a modest 1 per cent growth. Growth in manufacturing and electricity reaffirm a nascent industrial recovery, with all use-based categories going north, except primary goods. Growth in consumer durables and non-durables also augurs well for a rise in demand. The index of eight core industries continued to augment in the month of January, FY21 with a YoY increase of 0.1 per cent, supported by growth in electricity, fertilizers, and steel. Production of cement, crude oil, natural gas, and petroleum refinery products, however, remained subdued.



Index of 8 Core Industries

The index of eight core industries stayed in expansionary zone in January in FY21 with a YoY increase of 0.1 per cent, supported by growth in electricity, fertilizers, and steel. Production of cement, crude oil, natural gas, and petroleum refinery products, however, remained subdued.



Source: Office of Economic Advisor, DPIIT

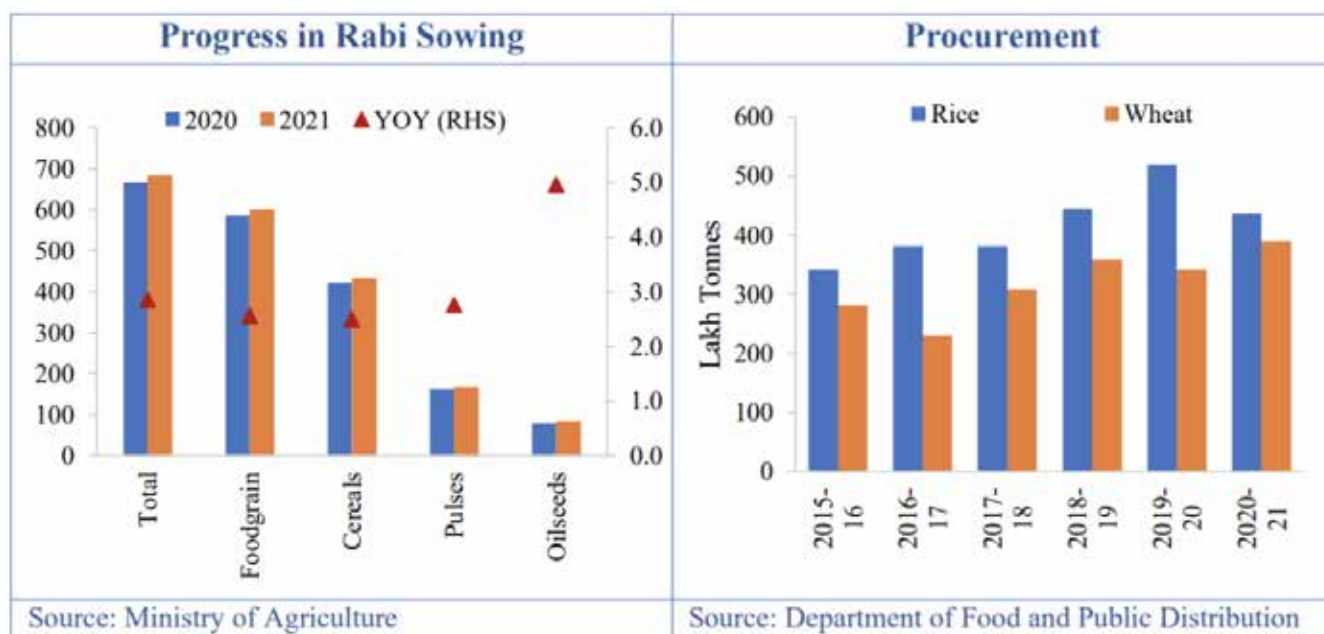
Construction Activity

Amongst other services, construction activity improved during FY21 with the Ministry of Road Transport and Highways constructing around 534 km of National Highways. Construction input demand picked up in January with steel consumption, as per Joint Plant Committee data, registering a growth of 5.8 per cent. There is hope that the speed of construction will increase during the fourth quarter of this financial year and cross the construction target of 11,000 km by 31st March 2021.

Agriculture

Agriculture continued its steady upward climb as the area sown under rabi crops remained at a record high of 68.5 million hectares, 2.9 per cent higher than last year.

Procurement of paddy, at 66.1 million metric tonnes (MMT), increased by 16.48 per cent for period up to 24th February 2021, of which Punjab alone has contributed 30.67 per cent of total procurement. A 14.7 per cent increase in land expanse under pulses over the normal area for oilseeds, mustard and rapeseed would also reduce dependence on imports. Wheat procurement for the forthcoming Rabi Marketing Season (RMS) 2021-22 is estimated at 42.7MMT, 9.56 per cent more than procurement during RMS 2020-21. This bodes well for another record production of 292 million tonnes and a healthy rural economy boost, manifested in the 46.7 per cent year-on-year rise in domestic tractor sales in January 2021 and a sustained growth in fertilizer sales.



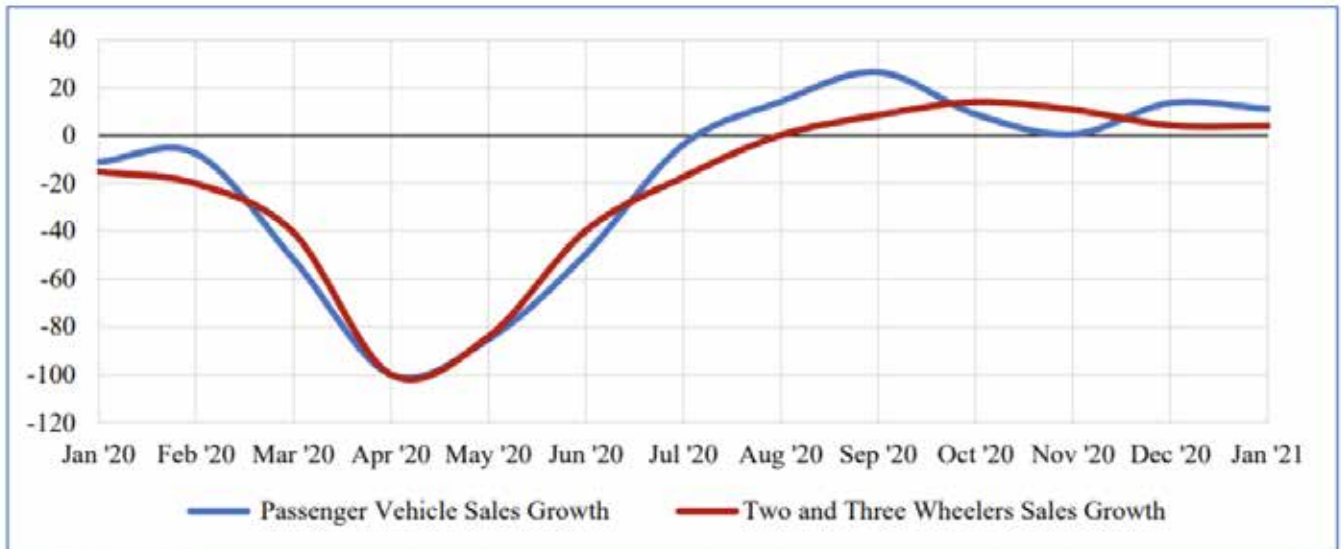
MGNREGS

A positive agriculture outlook continues to be the Indian economy's shining star, a vital advantage encouraging revival in rural demand and accelerated consumption. Till 28th February 2021, 3.5 billion person days of employment have been created under MGNREGS – a critical jump of 41.6 per cent as compared to FY20. Growth in agricultural sector would be mobilised by the Union Budget led to high investments in rural infrastructure, roads, and agriculture infrastructure, providing a significant impetus to fisheries and seaweed cultivation alongside enhancing credit flow to allied sectors.

Auto Sales

Automobile demand and sales have been steadily on the rise with passenger vehicle sales rising by 11 per cent year-on-year in January 2021, and two and three wheelers combined sales growing at 4 per cent. Despite the last financial year being an especially challenging, the auto mobile industry is well positioned to recover, riding on the back of factors such as robust rural demand, maturing of BS-VI norms, and preference for private transport.

Auto Sales

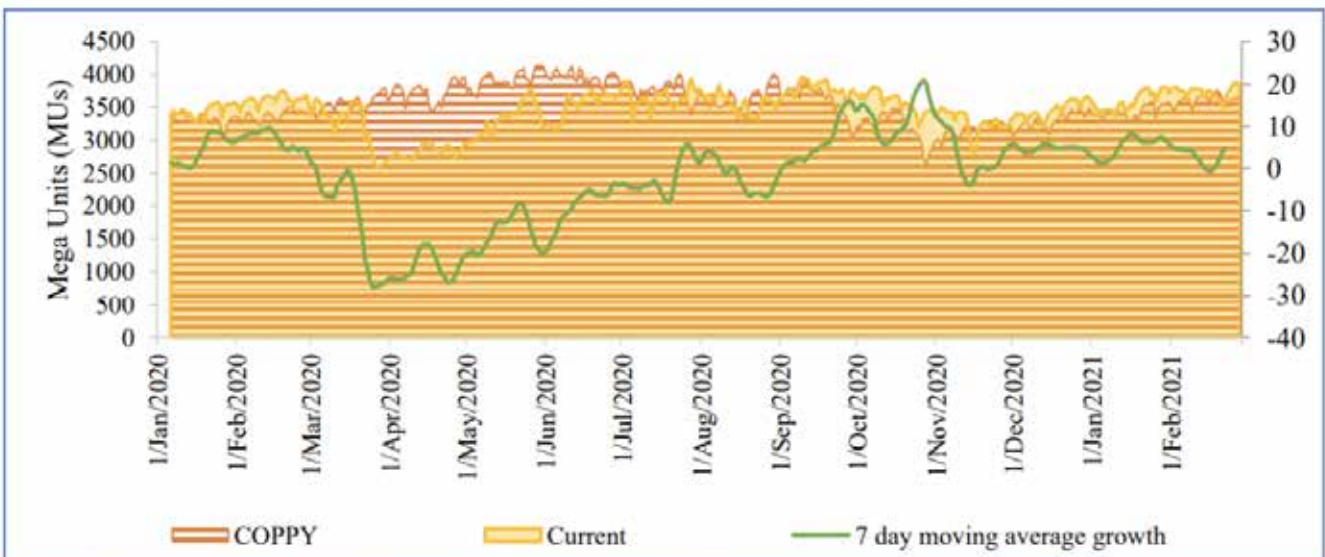


Source: SIAM

Power Consumption

Power consumption, growing at 4.8 per cent in January 2021 and 3 per cent in February, has been the one consistently encouraging indicator for the economic activity. With the current situation index continuing to improve to 55.5 from its all-time low registered in September 2020. The future expectations index (FEI) also increased for four successive quarters and stood at 117.1 in January 2021.

Power Consumption



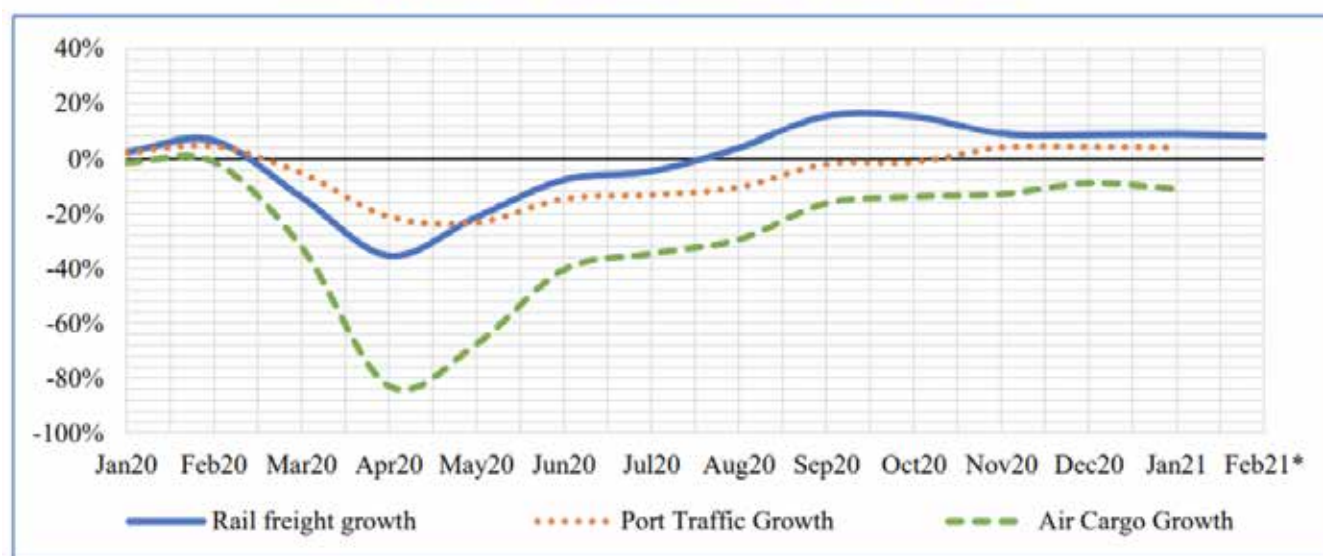
Source: POSOCO. Note: COPPY: Corresponding Period of Previous Year

Rail freight Activity & Port Traffic, Air Cargo

Evidence of rejuvenating economic activity can also be found in the revenue earning rail freight which grew at 8.1 per cent in first twenty days of February. Despite the disruptions caused by COVID-19, cumulative freight loading till 28th February was higher for FY21 than the previous year. The share of Railways is therefore, slated to rise significantly than its pre-COVID level.

Port traffic continued a growth journey for a third month, growing at 4 per cent in January. Air cargo growth (domestic plus international), however, continued to be in negative. There was a slight moderation in UPI transactions total value, from US\$ 59.53bn in January to US\$ 58.7bn in February 2021, yet miles ahead of February 2020 value of around US\$ 30.39bn.

Rail Freight, Port Traffic, and Air Cargo Growth



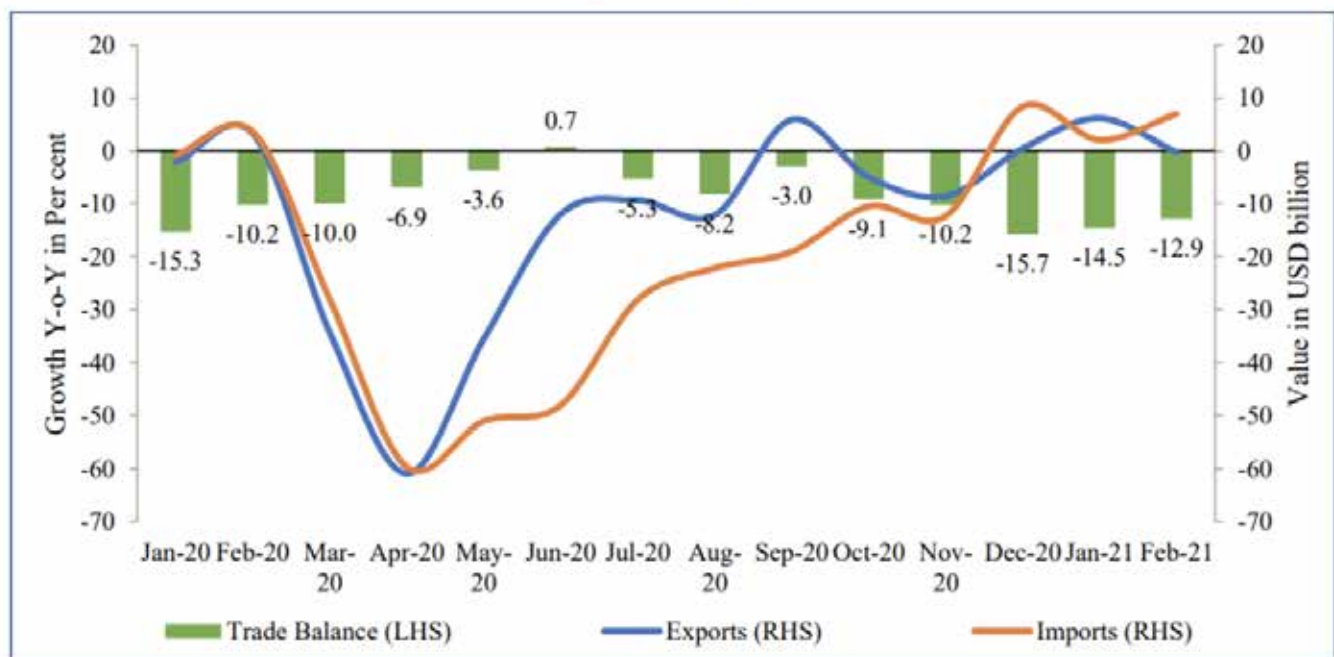
Source: Ministry of Railways, Indian Ports Association, Airports Authority of India



India's Merchandise Exports, Imports & Trade Balance

The second half of FY21 saw the World trade recover largely driven by rebound in trade of goods. Trade in services, however, continues to lag at substantially low values. In Q4 2020, global trade in goods grew by about 8 per cent on a quarter-over-quarter basis while trade in services stagnated at Q3 2020 levels. The projections for Q1 2021 indicate a slowdown in the recovery of trade in goods (a 1.5 per cent drop relative to Q4 2020) and a further decline for trade in services (a 7 per cent drop relative to Q4 2020), largely because of continued disruptions in the travel sector. However, projections may not be precise due to persisting concerns about COVID-19 and uncertainty about the magnitude and timing of stimulus packages in some major economies.

India's Merchandise Exports, Imports and Trade Balance



Source: Ministry of Commerce & Industry

Exports & Imports

Indian exports negated the trends of the slowing down global trade and regained further ground in January 2021 to reach their highest YoY growth levels of 6.2 per cent in FY21 bolstered by healthy sectoral gains for engineering goods, gems and jewellery, iron ore and textiles. External trade attained pre-COVID normalcy with exports reaching US\$ 27.4bn in January 2021 as compared to US\$ 10.1bn in April 2020. As per preliminary data, merchandise exports increased further to US\$ 27.67bn in February 2021, though, witnessing a YoY decline of 0.25 per cent. Non-petroleum and non-gems and jewellery exports in February grew at 5.65 per cent.

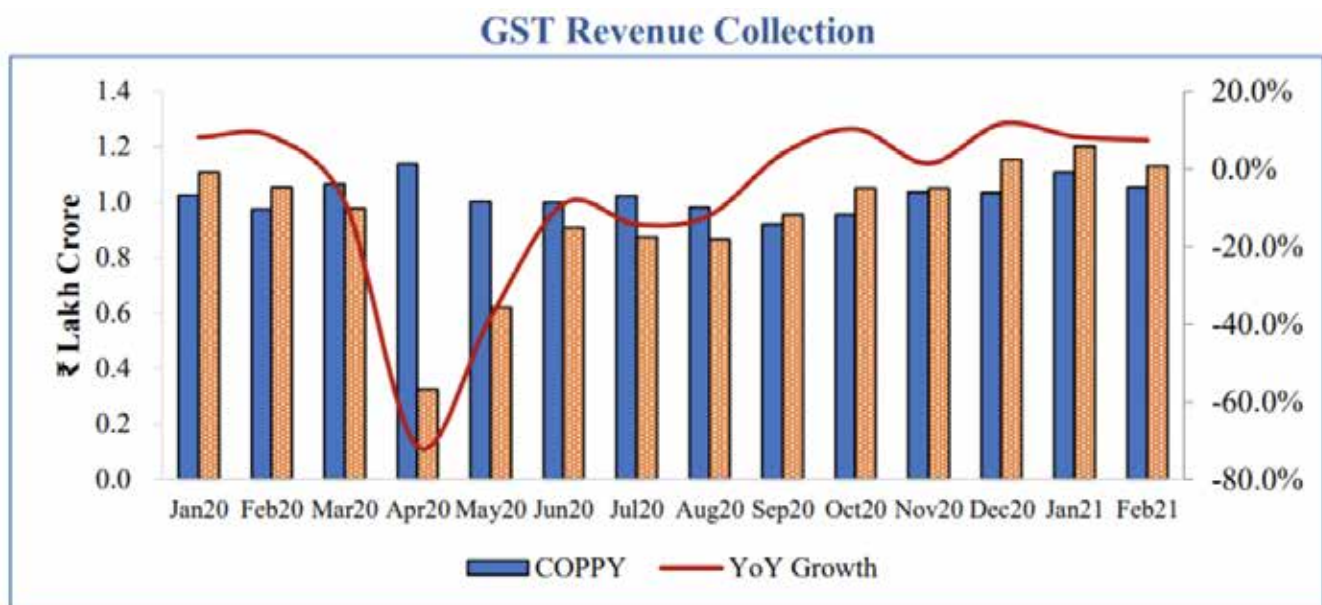
On the other hand, non-POL (petroleum, oil, and lubricants) imports witnessed double digit growth of 16.37 per cent for the third consecutive month in February to reach US\$ 31.5bn, demonstrating robust recovery in demand. India's overall merchandise imports in February stood at US\$ 40.55bn as compared to US\$ 37.9bn in February 2020, an increase of 6.98 per cent. India was, thus, a net importer in February 2021 with a trade deficit of US\$ 12.88bn as compared to trade deficit of US\$ 10.16bn in February 2020, an increase of 25.84 per cent.

FPI & FDI inflows

The first few weeks of February 2021 introduced the Union Budget which showcased positive economic growth projections by domestic and international firms, which encouraged Foreign portfolio investors' sentiment to continue with US\$ 4.22bn inflows coming into Indian capital markets. However, as Indian equities plummeted during the month-end, the rupee also declined 0.75 percent on 26th February, its sharpest drop since March, to reach INR/USD 73.04. Nevertheless, India received a total of US\$ 3.29bn net foreign inflows in the month.

GST Revenue Collection

Continuous momentum in GST revenue collection, at US\$ 15.61bn, growing at 7 per cent year on year in February 2021, foretold the growth of businesses going beyond the festival season and rising efficiency in tax collection powered with process reforms and use of technology.



Source: GSTN

Note: COPPY: Corresponding Period of Previous Year



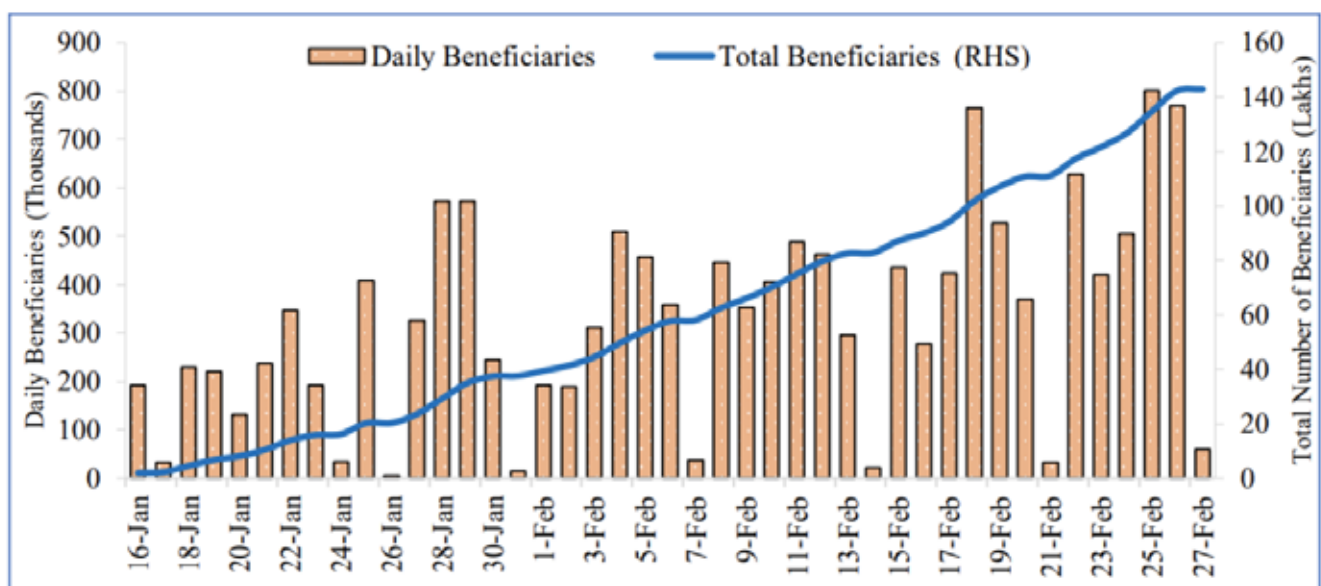
HEALTH STIMULUS

A Boost for India's Economic Recovery

The expeditious and smooth production and deployment of COVID-19 vaccination has emerged as a key macro-economic stimulus for global economic recovery in 2021. India's flow of income, which was stifled due to the pandemic induced lockdown, revived in the second and third quarter owing to the monetary stimulus provided earlier in the fiscal year. This will only be further bolstered with the swift implementation of COVID-19 vaccination policy.

India's circular flow of income choked by a lockdown in the first quarter of FY 2020 and revived in the second and third quarter by fiscal and monetary stimulus will be re-energised by swift implementation of COVID-19 vaccination policy this year. Owing to its rapid vaccine production and speed to vaccination, India has firmly positioned herself as a global leader in terms of COVID-19 vaccine. The world's largest vaccine drive is under way in the country and is moving forward at a rapid pace with a total of 1,43,01,266 vaccine doses have been administered till 27th Feb 2021 ranking India third globally in inoculation drive after US and UK. The second phase of COVID-19 vaccination drive has begun on 1st March 2021 for those who are over 60 years of age and for people aged 45 and above with specified co-morbid conditions.

India COVID-19 Vaccination Progress



Source: Ministry of Health and Family Welfare, PIB

India which is often referred to as the pharmacy of the world is now also emerging as the COVID-19 vaccine manufacturing hub of the world. After two indigenously manufactured COVID-19 vaccines have been produced and approved for emergency use in India, the country's scientists are working on at least 18 to 20 vaccines, which are at different stages right now, i.e., pre-clinical trial stage, clinical trial stage, phase I, phase II and phase III and can be used for public in next few months. India is exporting vaccines to many countries and has exported hydroxychloroquine to more than 150 countries.

India's pre-emptive, proactive, and graded approach has enabled a sustained improvement in COVID-19 parameters. India has continuously maintained one of the lowest fatality rates and highest recovery rates across the world.



While India continues to avoid the second wave of pandemic so far, there has been a surge in cases in eight states in February, i.e., Maharashtra, Kerala, Punjab, Tamil Nadu, Gujarat, Madhya Pradesh, Karnataka and Haryana. 7 days moving average of daily confirmed cases has increased from 12,000 in January to more than 15,000 in February. India's total active caseload has reached 1,64,511 as on 28th February 2021 with 6 States – Maharashtra, Kerala, Punjab, Karnataka, Tamil Nadu and Gujarat accounting for 86.4 per cent of the new cases. In light of this recent surge in cases, the vaccine of social distancing measures continues to be as crucial as the real COVID-19 vaccine. Government of India has demonstrated commitment to strengthen the fight against COVID-19 throughout the previous year through consistent allocation of funds.

Intensified Mission Indradhanush (IMI) 3.0 has also been launched in February 2021 with an aim to reach the unreached population with all the available vaccines under Universal Immunisation Programme (UIP) and thereby accelerate the full immunisation and complete immunisation coverage of children and pregnant women. Implementing large campaigns like IMI 3.0 even during the roll out of COVID-19 vaccine is a clear indication of India's health system getting stronger day by day. The present eighth campaign under Intensified Mission Indradhanush 3.0 (IMI 3.0) will target achieving 90 per cent Full Immunisation Coverage (FIC) in all districts of the country and sustain the coverage through immunisation system strengthening and foster India's march towards the Sustainable Development Goals.

Sturdy and resilient health systems built on strong health infrastructure of primary, secondary, and tertiary tiers and supported by equally strong institutions of diseases detection and surveillance and health R&D are key macro-economic levers for India's post-COVID growth trajectory. This year's budget has been formulated by the global public health crisis posed by COVID-19 and has prominently positioned health along with the holistic sector of wellness as the prime mover of India's growth and development. The total allocation to Health Sector has been increased to US\$ 30.9bn from US\$ 13.05bn in the previous year (BE 2020-21) a 137 percent increase with a focus on strengthening holistic health.

With a strong budgetary support, innovative schemes, strengthened systems of health research and healthcare delivery, India's economic destiny is entwined with the growth trajectory of its health systems. A rapid recovery from the fallout of COVID-19 will most likely set the stage for India to become the fastest growing economy of the world in FY 2021-22.

Outlook

With a significant dip in COVID-19 cases and fast roll out of vaccination, persistent stimulus measures under Atmanirbhar Bharat 1, 2 and 3 and special thrust of Union Budget on health and well-being among others, the economy is steadily moving towards normalcy, thereby reviving consumer confidence, and brightening business outlook of manufacturing, services, and infrastructure. In the second half of 2020-21, the GDP is expected to grow on the back of higher government expenditure and moderated contraction in private consumption. An imminent pickup in foreign investment flows is visible. On the supply side, agriculture and allied activities are clearly demonstrating resilience in the face of the pandemic with a normal monsoon, a bumper crop and government support in the form of MGNREGA and PM-KISAN allocations, along with record procurement in 2020 supporting rural incomes. Manufacturing activity continues its resurgent journey on the back of sales and output recovery and the Government's Atmanirbhar Package stimulus facilitating growth prospects and business sentiment.



For more information:

Ministry of Finance, Department of Economic Affairs
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