Ministry of External Affairs
Government Of India

ECONOMIC
DIPLOMACY
DIVISION

MONTHLY ECONOMIC REPORT

MARCH 2021

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STATE OF THE ECONOMY

The emergence of the second wave of the COVID-19 pandemic continues to test the resilience of the economy with multiple sectors exhibiting improved recovery. In March, the agriculture sector resumed its growth trajectory with a record-breaking production quantum of 303.3mn tonnes for the fifth consecutive year. The MGNREGS programme registered the quantum of job creation at 3.84 bn person days, marking a 44.7 percent increase as against FY 2019-20. Liquidity absorption, and credit growth also exhibited signs of improvement with daily new liquidity absorption being recorded at an average of US$ 73.14bn (₹5.5 lakh crore) in March 2021. The Flexible inflation targeting regime (FIT) will be effective starting April 1, 2021 for a period of five years. During this period,WPI inflation increased by 4.2 percent owing to an increase in manufacturing, and CPI inflation was recorded to have increased to 5.0% owing to the rise in core and food inflation.

The resumption of economic activity has ushered in an improvement in the nation's fiscal standing with the fiscal deficit being registered at US$ 186.85bn (₹14.05 lakh crore) (76 percent of Revised Estimate for 2020-21)and an additional allocation ofUS$ 5.98bn (₹45,000 crore) towards State spending, marking an 8.2 percent over the Revised Estimate. Capital expenditure by the Central Government has grown year-on-year by 104.4 percent during the October-February 2021 period. The manufacturing sector has also seen a growth in production and sales although the PMI Manufacturing Index positioned India at 55.4 points in March. Auto sales and power consumption saw a year-on-year increase given the revival of demand, as did air, cargo, and railway freight activity. Monthly GST collections were also documented at a record high during the month of March.

Trade data reveals that imports and exports continue to recover with the former growing by 52.9% and the latter being recorded at a monthly high of US$ 34bn. At US$ 14.bn, the trade deficit has widened given the increase in imports. However, India's FPI inflow was recorded at US$ 36.2 bn, the highest post 2014-15. The Union Budget for FY2021-22 mandated provisions to increase capital expenditure towards infrastructure funding, and the subsequent budget session of the Lok Sabha facilitated the institution of the National Bank for Financing Infrastructure and Development (NaBFID): a source of long-term funding for infrastructure projects. The FDI cap has been extended to 74 percent from 49 percent and will help increase capital inflows, insurance penetration and elevate processes to international hallmarks.

With regard to the COVID-19 status quo, the second peak in cases was recorded mid- February along the lines of the second wave of the pandemic. In the second year of the pandemic, the global number of cases exceeded 132 million and 2.86 million deaths. However, the ongoing vaccination programme has facilitated the successful administration of 650mn doses across 141 countries. India is implementing a five-phase plan of action to counter the virus : (i) effective contact tracing, (ii) concerted efforts at nationwide testing, (iii) re-invigoration of healthcare resources in the public and private sectors, (iv) strategic vaccination programmes in districts with the highest caseload, (v) ensuring the practice of COVID appropriate safety practices nationwide. The vaccination drive has hitherto been implemented in three phases with the first phase targeting healthcare workers, the second phase targeting senior citizens who are 60 years of age and above and the third phase being catered to the citizenry that is about 45 years of age. India continues to pioneer in vaccine diplomacy and multilateral amity through the supply of close to 64 million vaccine doses to 84 countries as of April 2, 2021.

ECONOMIC INDICATORS

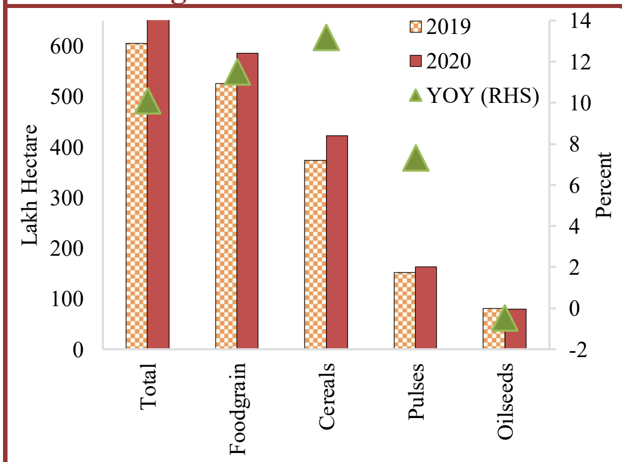
i. Agriculture Sector

The month of March has seen food grain growth in the kharif and rabi cropping seasons at 303.3 million tonnes which is 2% higher that the estimates for 2019-20. The 2nd Advance Estimates (AE) documents that the crop output has been high for the fifth consecutive year. In addition to the growth in foodgrain production, other items including oilseeds (+12.3%), potatoes (+9.4%), sugarcane (+7.3%) and onions (+0.8%) have seen an increase in production. Tomato production, on the other hand, has reduced by 4.8 percent. Horticulture output has grown to 326.6 million tonnes in 2020-21, marking a - 1.8 percent growth as against the estimates for 2019-20.

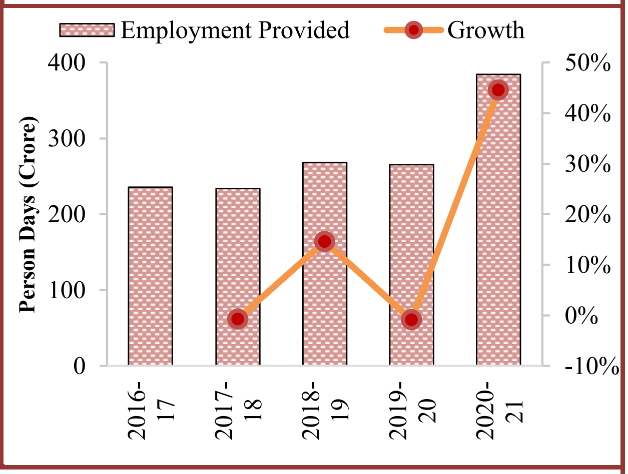
ii. Employment opportunities through MGNREGS

MGNREGS has received a budget allocation of US$ 1,482.8 (₹ 1,11,500)in 2021, 55.5 percent higher than the sum allocated in 2019. The programme helped create 3.83 billion person days in 2020-21, higher by 44.7 percent in comparison to the previous year. The programme is playing a role in sustaining the growth in agriculture through the providing of relevant employment opportunities. The average daily wage is also seen to have increased year-on-year by 5.8 percent in the May 2020-January 2021 period.

Agriculture Production



MGNREGS



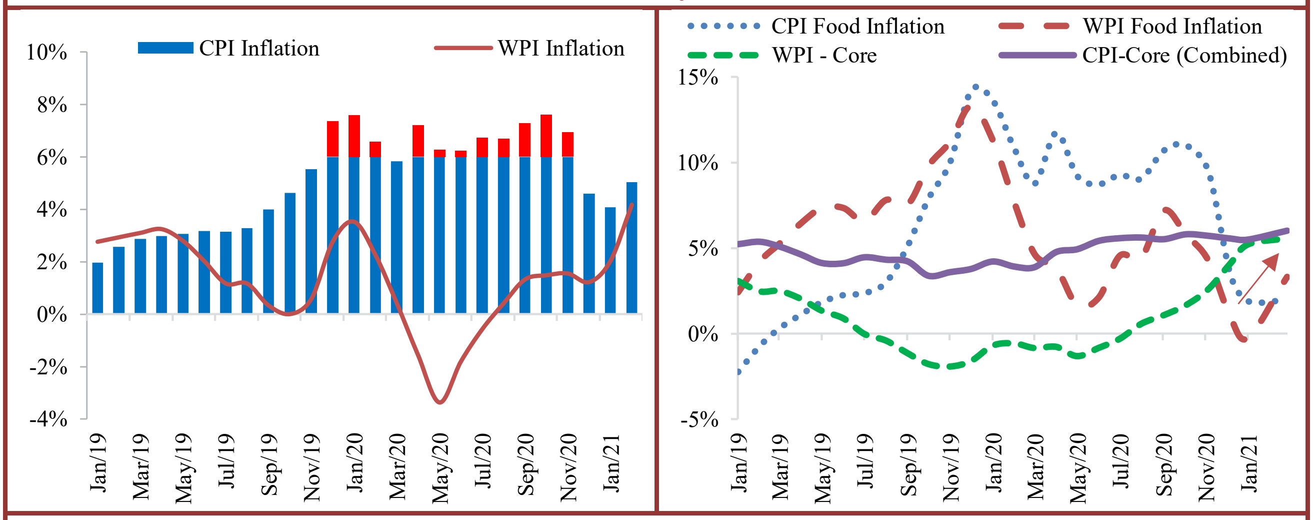
Source: Department of Agriculture and Farmers Welfare, MGNREGA website

iii. Commodity Prices and Inflation

Commodity prices remained high in February and oil prices surged in March owing to multiple factors including the blockage of the Suez canal and low temperatures in the northern hemisphere. Metals prices were documented at a high since 2011, fuelled by the prices of electronics productions and tin. Base metal prices are documented to have risen at a higher price albeit at a slower pace. Developing economies with the exclusion of China experienced a moderation in CPI inflation. Inflation in the USA was further increased owing to an increase in gasoline prices whereas Europe experienced stabilized inflation owing to the increase in foods and services that balanced out energy prices.

CPI Inflation increased by 5.0 percent month-on-month and 97 basis points excluding food and fuel inflation. WPI inflation rose to a 27 month high to 4.2 percent in comparison to January 2021's figure of 2.0% owing to the rise in manufacturing. Food inflation rose by 1.6% in comparison to the 2.7% exhibited in January 2021.

Inflation Dynamics



Source: MoSPI
Note: Red portion signifies magnitude of breach of 6 per cent band set by MPC

iv. PMI Manufacturing Index

The manufacturing sector continues to exhibit growth with an increase in production rates and vibrant sales. The inflow of bulk orders and an increase in export potential in March, can be attributed to these developments. However, the PMI Manufacturing Index was recorded at 55.4 in March 2021 with the strongest rate of input cost inflation in three years. The output from eight core industries are seen to have reduced by 4.6 per cent in February as did the capital goods (-9.6 per cent), consumer non-durables goods (-6.8 per cent), manufacturing (2.0 per cent) and mining (-3.7 per cent). Industrial production is also seen to have contracted by 1.6 percent in January 2021 post negative growth in December 2020.

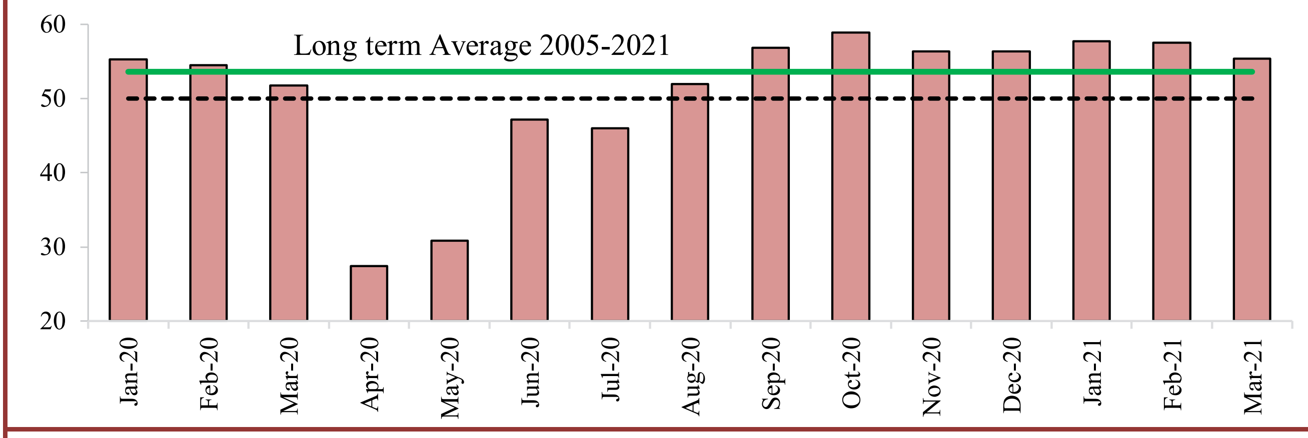
v. Port Traffic and Railway Freight Activity

Port traffic is seen to have increased by 1.9 percent in February and railway freight exhibited double-digit growth in March, documented at 23.7 per cent. Air cargo growth is seen to have recovered from the January contraction of 11.0 to 8.5 percent. Automobile sales also exhibited an increase with two-wheeler sales growing by 17.9 percent and three-wheeler sales by 8.8 percent in February 2021.

vi. Power consumption

Power consumption exhibited a pattern of recovery with a 22.8 percent in March 2021, buoyed by electricity supply for commercial and industrial purposes as well as higher levels of mercury. Petroleum consumption was documented to have declined by 5.5 percent in February given the rise in petroleum and diesel prices in February 2021. Crude oil prices are seen to have increased to US$/bbl 64.7 per barrel in March from US$/bbl 61.2 per barrel in February.

PMI Manufacturing

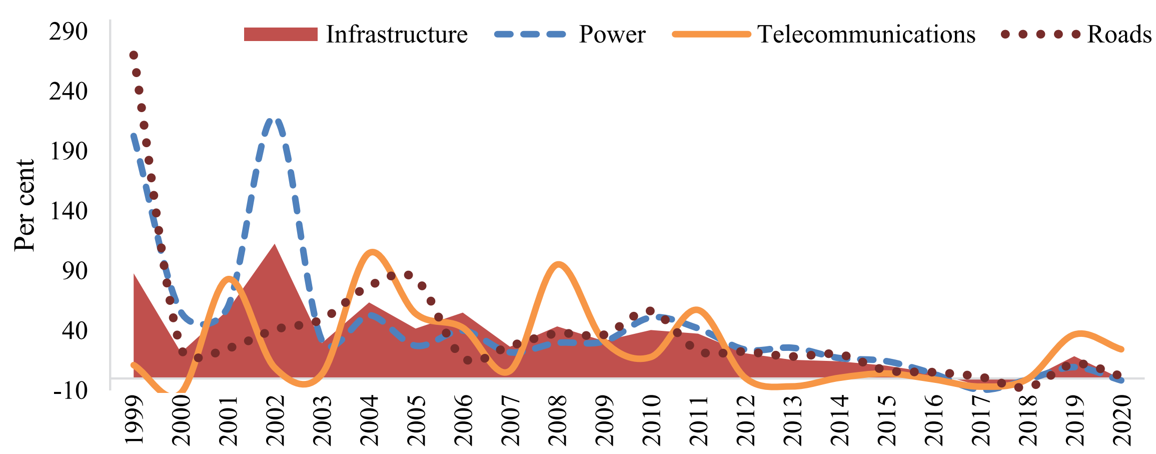


Source: IHS Markit

vii. Recovery in overall credit growth

Bank credit growth is seen to have remained at 6.4 percent on March 12 and money supply exhibited a steady rate of growth at 12.6 percent on March 19, 2021. With regard to sectoral disbursal of credit, agriculture exhibited a doubling of growth, retail lending grew by 9.1 percent, personal loans at 12.1 per cent, consumer durables loans at 14.6 percent, and lending for the logistics and transportation sectors grew at 8.4 percent. Credit growth in larger industries remained negative while the MSME sector saw a 19.1 percent credit growth increase in January. Money supply growth was recorded at 12.6 percent and non-food credit growth affiliated with scheduled commercial banks experienced a 0.2% reduction in comparison to the 6.4 percent growth as of February 26, 2021. Corporate bond issuances were recorded at a 13 percent higher rate than in 2019-20 with private placements worth US$ 89.1bn (₹ 6.7 lakh crore) being issued during the April 2020-February 2021 period.

Bank credit growth to infrastructure (YoY growth)



Source: RBI

viii. Rate of Liquidity

Systematic liquidity continued to remain accommodative with the daily net liquidity absorption through the Liquidity Adjustment Facility (LAF) remaining at US$ 73.14bn (₹5.5 lakh crore) in March and US$ 85.11bn (₹6.4 lakh crore) in February. This can be attributed to the open market purchases up to US$ 42.16bn (₹3.17 lakh crore) encouraged by the Reserve Bank of India. The nation's foreign exchange reserves were documented at US$ 582.27bn on March 19, 2021.

ix. Cooperative Fiscal federalism

The fourth quarter of FY 2020-21 saw the allocation of US$ 5.98bn (₹45,000 crore) towards States in accordance with fiscal federalism. The additional devolution marked an 8.2 percent increase as against the Revised Estimate for FY 2020-21. In accordance with the recommendation of the Fifteenth Finance Commission, a total of US$ 9.89bn (₹ 74,340 crore) has been provided as Post Devolution Revenue Deficit Grant. The gross market borrowings by the Central Government have been recorded at US$ 182.19bn (₹13.7 lakh crore) , making a 93.0 per cent increase as against the previous year. The Central Government has announced plans to borrow close to 60 percent of US$ 160.25bn (₹12.05 lakh crore), the annual target amount during the April-September 2021 period.

Under the aegis of Atmanirbhar Bharat, a sum of US$ 1.57bn (₹11,830 crores) has been allocated towards capital expenditure for 27 States. The State Government's gross market borrowings for the period of 2020-21 was recorded at US$ 103.73bn (₹7.8 lakh crore), 27.9 percent higher than the estimate in 2019-20.

x. Increased Capital Expenditure

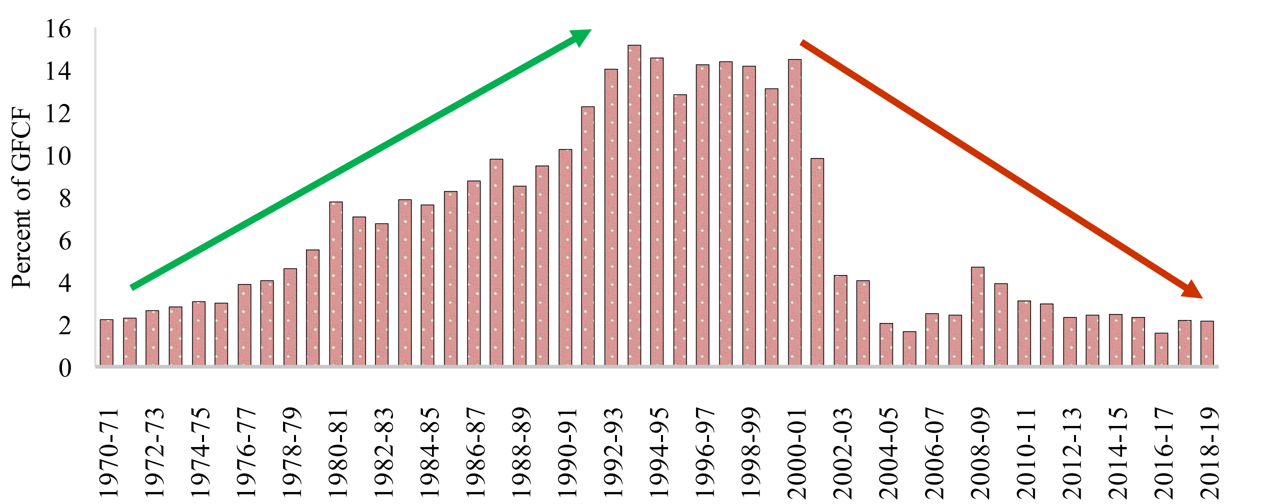
Data from the office of the Comptroller and Auditor General (CAG) reveals a 104.4 percent year-on-year increase in the Central Government's capex spending during the October-February 2021 period. A 7.29 percent increase in State capex spending was recorded in the third quarter of FY 2020-21, fuelling a 0.4 percent GDP growth from a 24.4 percent contraction in the first quarter. In terms of sectoral growth, the real estate sector exhibited a 6.2 percent rebound from the 49.4 percent contraction in the first quarter of FY 2020 -21. The Infrastructure sector exhibited a 5.0 percent increase in production in the third quarter as against the 46.8 percent contraction as against the first quarter. Capital inflow into the capital goods sector is also seen to have risen to US$ 1.6 bn till March 15 as against the FY 2019-20 outflow of US$ 0.03 bn.

xi. Setting up of the National Bank for Financing Infrastructure and Development

The National Bank for Financing Infrastructure and Development Act, 2021 passed during the Budget Session of the Lok Sabha in March 2021 will allow for the creation of a national bank by the same name in order to help finance infrastructure projects.

- The National Bank for Financing Infrastructure and Development (NaBFID) will look to raise US$ 66.49bn (Rs 5 lakh crore) in a period of three years for developmental and financial projects.
- The Bank will make the case for the operation of a well oiled DFI ecosystem with the necessary safeguards given the infrastructure sector's forward and backward linkages. An initial capital ofUS$ 2.66bn (₹ 20,000 crore)will be allocated through government equity.
- The NaBFID will look to create a long-term non-recourse infrastructure financing in coordination with all relevant federal and private sector stakeholders, and explore funding options including derivatives and domestic bonds.
- The NaBFID will also serve as a financing body if not as an intermediary that elicits investments from private and public investors for important long-term infrastructure projects within India and to a certain extent, outside the country.
- Pension funds, Central Government, Sovereign Wealth Funds, Multilateral Institutions, Insurers, Banks and other institutions authorized by the Central Government are eligible to hold shares in the NaBFID.
- The Central Government is expected to sanction grants up to US$ 0.66bn (Rs 5,000 crore) at the end of the first FY since the operation of the NaBFID and a guarantee at a concessional rate of upto 0.1 percent on borrowings from approved agencies.

Financing by DFIs as per cent of Gross Fixed Capital Formation (GFCF)



Source: RBI

- The Central Government will look to guarantee NaBFID issues loans, debentures and bonds upon request, and reimburse the entity on any costs arising from the status quo of foreign exchange valuations.
- The Reserve Bank is given the discretion to grant licenses and prescribe regulations to any parties applying for DFI creation, in consultation with the Central Government.

The NaBFID will help streamline the process of gathering and maintaining funds for infrastructure development, and bring in transparency in governance procedures, as well as increasing technology infusion in processes.

xii. Global Trade

The RWI/ISL Container Throughput Index documented a 6.1 percent year-on-year and a 2.5 percent month-on-month increase in port traffic activity in January. The 6-day blockage of the Suez canal cost global trade US$9.6 bn and 12% of trade volumes daily owing to the delayed passage of other ships, threatening the resilience of supply chains and value chains around the world. International commercial flight traffic, on the other hand, increased by 19 percent month-on-month in March.

The nation's exports have rebounded with a growth of 58.2 percent courtesy pharmaceuticals, engineering and gems and jewellery. A 52.9 percent increase was documented in imports with non- gold and non-going imports joining gold imports in contributing to the development. The increase in imports led to an increase in the trade deficit to US$ 14.1 bn from US$ 13 bn in February. Merchandising trade deficit rose to US$ 34.5 bn in the current quarter and remittances were recorded at US$ 20.7 bn, registering a 1.5 percent growth as against the previous quarter.

CONCLUSION

Bolstered by the vaccination programme, the budgetary boost for capital expenditure, the Atmanirbhar Bharat Mission and the pace of economic activity, India can expect to continue her promising journey towards economic recovery. The second wave of the COVID-19 pandemic can expect to be managed strategically, cautiously and in an inclusive manner. With green shoots showing in multiple sectors of the economy, the nation can look towards a brighter FY 2022.

For more information: Ministry of Finance, Department of Economic Affairs
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