



Ministry of External Affairs
Government Of India



ECONOMIC
DIPLOMACY
DIVISION

MONTHLY ECONOMIC REPORT

MAY 2021



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STATE OF THE ECONOMY



The unlocking of economic activity coupled with a growth in investment and consumption expenditure has bolstered economic recovery in 2020-21. The growth of Government Expenditure by 2.9 percent during the course of the year has also supported the upward growth trend. Bearing in mind the impact of the second wave of the pandemic, the RBI has projected a GDP growth rate of 8.5 percent in Q1, 7.9 percent in Q2, 7.2 percent in Q3, and 6.6 percent in Q4 of 2021-2.

The agriculture sector, employment under the MGNREGA scheme as well as indicators including e-way bills, power consumption, and FPI inflows exhibited positive growth in the month of May. Moderation was observed in manufacturing, petroleum consumption, UPI transactions, railway freight and GST collections, toll collections, services under the PMI index, steel consumption, and tractor sales. CPI Inflation fell from 7.2 percent in April to 4.3 percent in May owing to a favourable base effect and a decline in food inflation. WPI Inflation increased from 7.4 percent in March to 10.5 percent in April owing to an increase in inflation in the base effect, fuel and power, manufactured products, and primary articles.

A V-shaped recovery pattern has been observed in the fourth quarter of FY 2020-21, laying the foundation for improved economic performance in the second half of 2021. The Gross Fixed Capital Formation (GFCF) component of GDP grew to 34.3 percent in the latter half of FY2020-21 owing to spending on infrastructure and construction. Private consumption increased by 2.7 percent and contact-intensive sectors contributed to 2.3 percent in Q4 of FY 2020-21, emerging from a decline in the previous quarters. The fourth quarter of FY 2020-21 saw an increase in consumption as well as investment documented. Government consumption increased by 28.3 percent, private consumption with a 2.7 percent year-on-year growth and Gross Fixed Capital Formation

(GFCF) grew by 10.9 percent during this period.

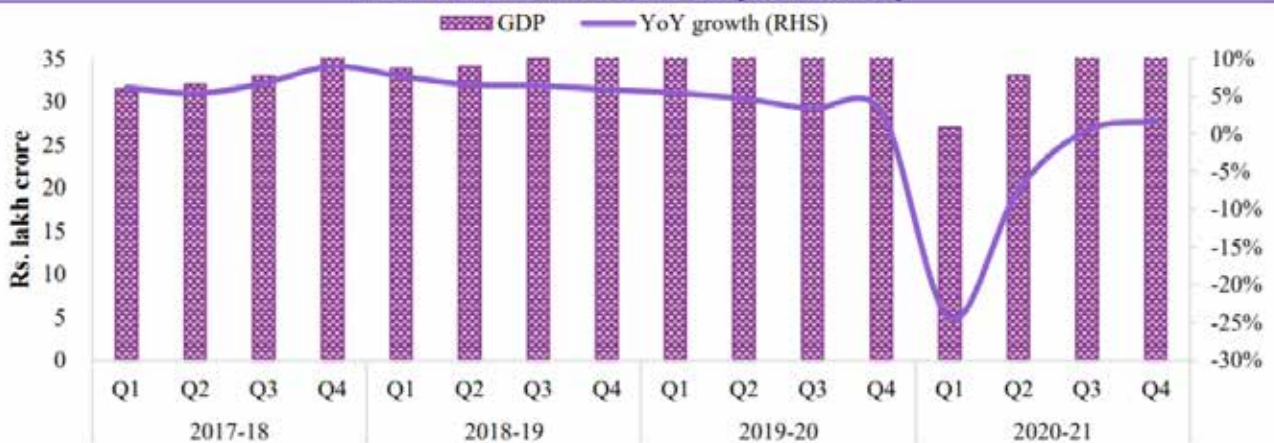
The growth in aggregate deposits contributed to a 9.9 percent year-on-year increase in money supply as of May 21, 2021. The moderation experienced by currency-in-circulation (CiC) during the second half of FY 2020-21 gathered momentum during the months of April and May. Bank credit remained stable at 6.0 percent whereas non-food credit grew by 12.4 percent. The liquidity accommodative stance of the Reserve Bank of India is expected to aid the resilience of the economy in the face of the second wave of the pandemic. Government borrowings have been undertaken at manageable amounts of risk and lower costs.

The month also saw the year-on-year increase of exports to 7.9 percent thereby facilitating gradual economic recovery. Imports, on the other hand, declined by 17.5 percent. The computer software and hardware industry served as a major investment magnet in FY2020-21, contributing greatly to the US\$ 81.7 billion worth of FDI inflows. The Indian Rupee reached an exchange value of INR/USD 72.8 owing to foreign inflows and the weakening of the US Dollar.

India's 'Test, Track, Treat, Vaccinate and COVID-appropriate behaviour' approach towards the mitigation of the impact of the pandemic has helped improve State response specifically in rural areas. The number of positive cases is seen to have decreased from the 7-day average since May 13, 2021, as has the rate of spread of the virus. As herd immunity is the need of the hour, accelerated vaccine administration is to be implemented through planned drives as well as efforts to bring down vaccine hesitancy. Gaps in the vaccine supply chain will require to be plugged in order to achieve herd immunity among 70-80 percent of the population.



India's GDP Growth: V-shaped recovery



Source: MOSPI

COVID-19

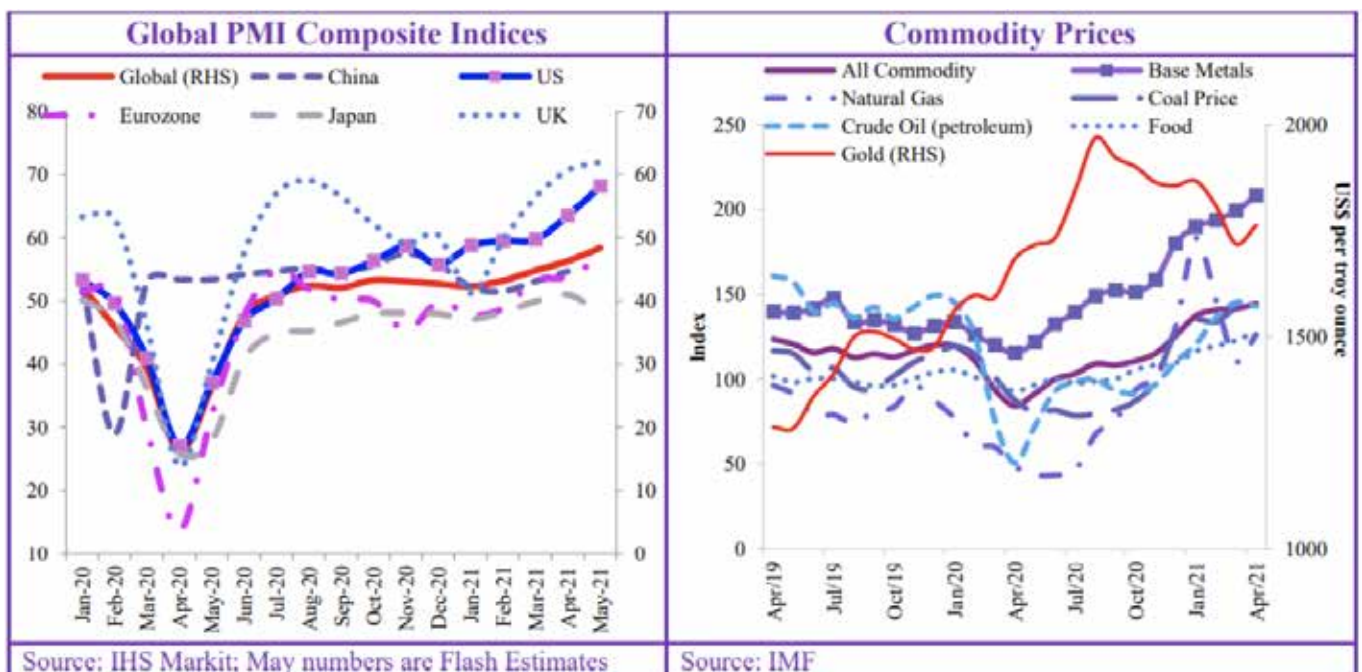
In the month of May, the second wave of COVID-19 reached a four-time peak in comparison to the first wave. As of May 9, a 24.9 percent drop in the number of positive cases was registered. The pace at which the virus has spread fell to 54 days in May from 46 days in April. Recovery rates have risen to 94.5 percent, outnumbering the daily number of cases. States including West Bengal, Andhra Pradesh, Karnataka, Tamil Nadu, Maharashtra and Kerala have historically had the highest case-load. However, a declining trend has been observed in a few Northeastern states and Tamil Nadu. The number of cases in rural districts has increased from 43 districts in April to 47 in May, 3.5 times greater than the cases registered in the first wave of the pandemic.

A new approach to the national vaccination programme has been concretized with the Centre's decision to route the vaccine through State channels. According to the Press Information Bureau, 40.3 million vaccine doses were made ready by the Government. Media sources report that a total of 55.3 million vaccine shots were administered to citizens in the month of May.

Global PMI Composite Indices Commodity Prices

The Composite Purchasing Managers Index registered a 2.2 percent increase in commodity prices bolstered by increasing input cost. Natural gas prices increased by 14 percent owing to the temperatures in Europe. Gold prices were bolstered by the weakening dollar, and base-metal prices were documented at a 12-month high. The IMF All Commodities Index registered a year-on-year growth by 71.6 percent in April, and CPI Inflation increased owing to supply chain disruptions, monetary and fiscal conditions, increase in commodity prices and increased interest rates. While food prices across the world increased to the highest level since September 2011, crude oil prices declined by 1.5 percent.

Although PMI services ventured into contraction after an eight-month period, growth was registered at a relatively higher level in comparison to the single-digit growth figure exhibited from March-September 2020. Transport and storage sectors experienced a growth while business services and real estate exhibited a slump in May.



Global Trade

As per the UNCTAD's Global Trade Update, global trade saw a pattern of steady recovery and resilience since the second quarter of 2020. During this period, East Asian Economies led the way for developing economies. While goods trade surpassed pre-pandemic performance in the first quarter of 2021, services trade growth was documented at levels lower than that of the first quarter of 2019 (46.4 percent). Sectors including minerals, agri-food, office equipment, communication and pharmaceuticals registered robust growth, placing projected trade growth at 16 percent for the rest of the year. Economic growth, however, remained unpredictable owing to multiple factors including nearshoring or reshoring trends, government and private sector borrowings as well as trade policy developments.

Financial markets

A combination in inflationary movement in the US, speculation about increase in bond yields and interest rates as well as a surge in commodity prices led to a fluctuation in global financial conditions. Yields in the US Dollar remained low, documented at 1.4 percent month-on-month in May while the Euro and Chinese Yuan exhibited growth. Asian stocks

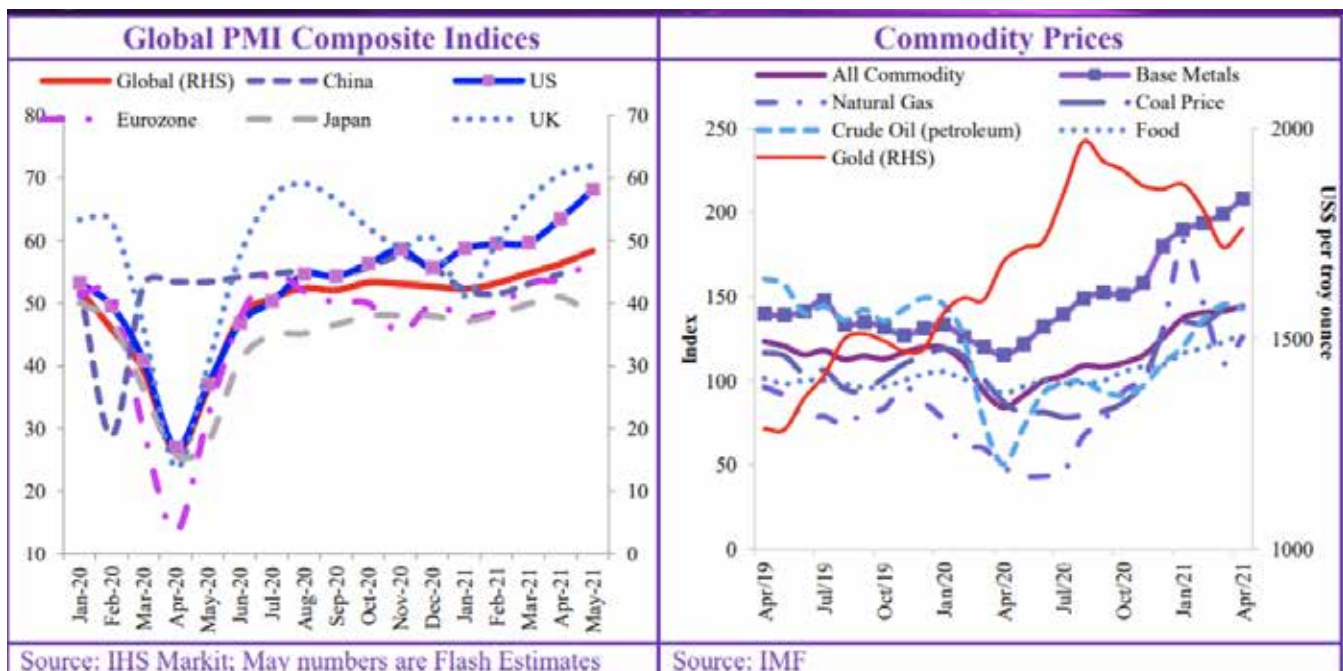
are witnessed to have dipped in the month of May whereas advanced economies performed at a relatively modest level.

Agricultural Sector

The Agricultural sector continued to be a sector of growth and promise in FY2021-21 with foodgrain production expected to grow to a record 305.43 million tonnes ow

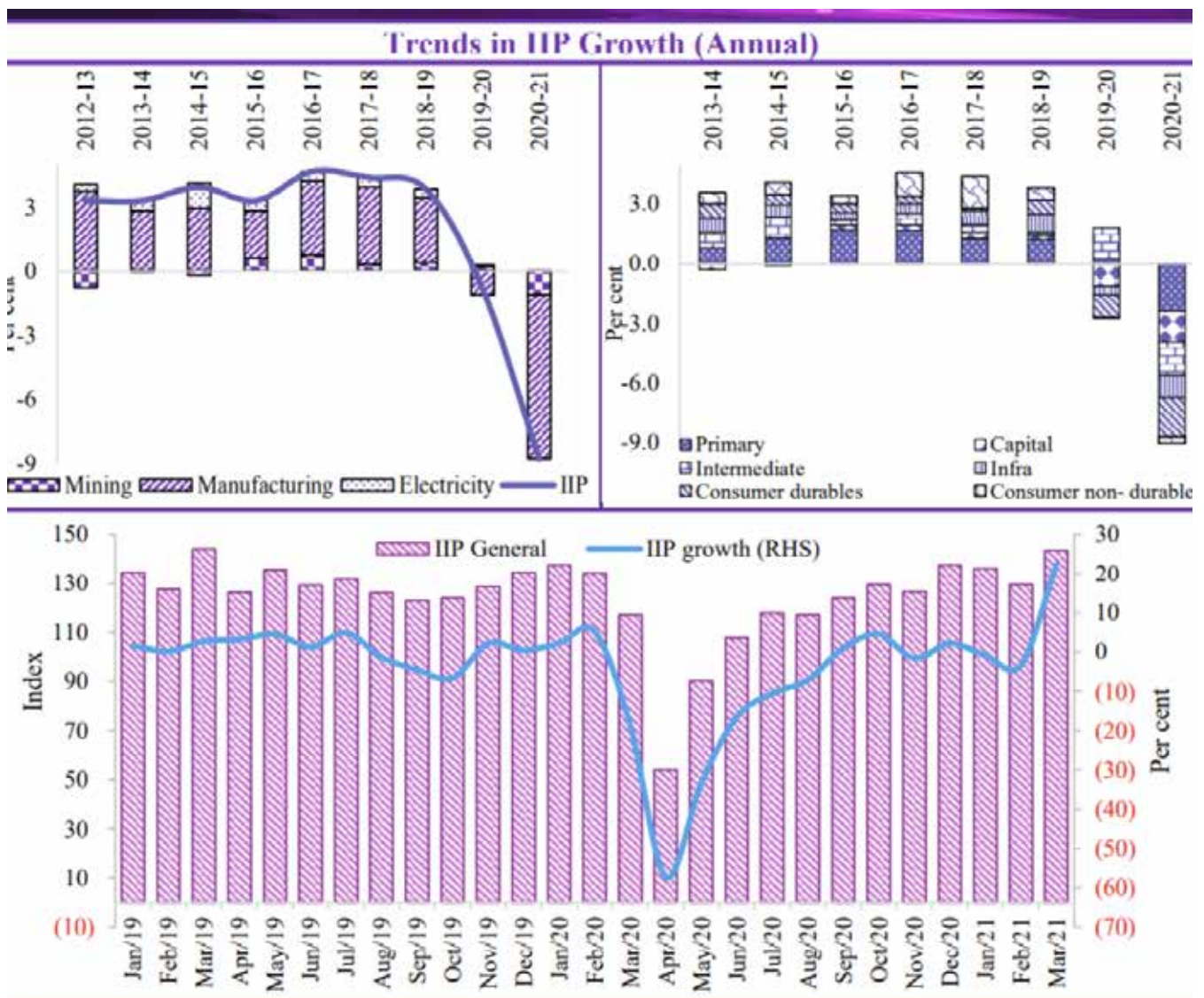
ing to maize, rice, wheat and gram outputs. The other agricultural products that registered increased outputs included pulses at 25.58 million tonnes (11.2 percent year-on-year increase) as well as groundnut and rapeseed at 36.57 million tonnes (10.1 percent year-on-year increase). Rice and wheat procurement for 2020-21 has already been documented at 411.12 LMT (lakh metric tonnes) as against the governmental target of 427.4 LMT. The prediction of a favourable monsoon season has cemented government foodgrain production targets to 307.31 million tonnes for the 2021-22 crop year.

The current procurement operations with an MSP of US\$ 10.9bn (Rs. 81,196.20 Crore) have come to the aid of 4.44 million farmers. US\$ 10.2bn (Rs 76,055.71 crore) of the MSP value has already been disbursed to farmers.



Index of Industrial Production (IIP)

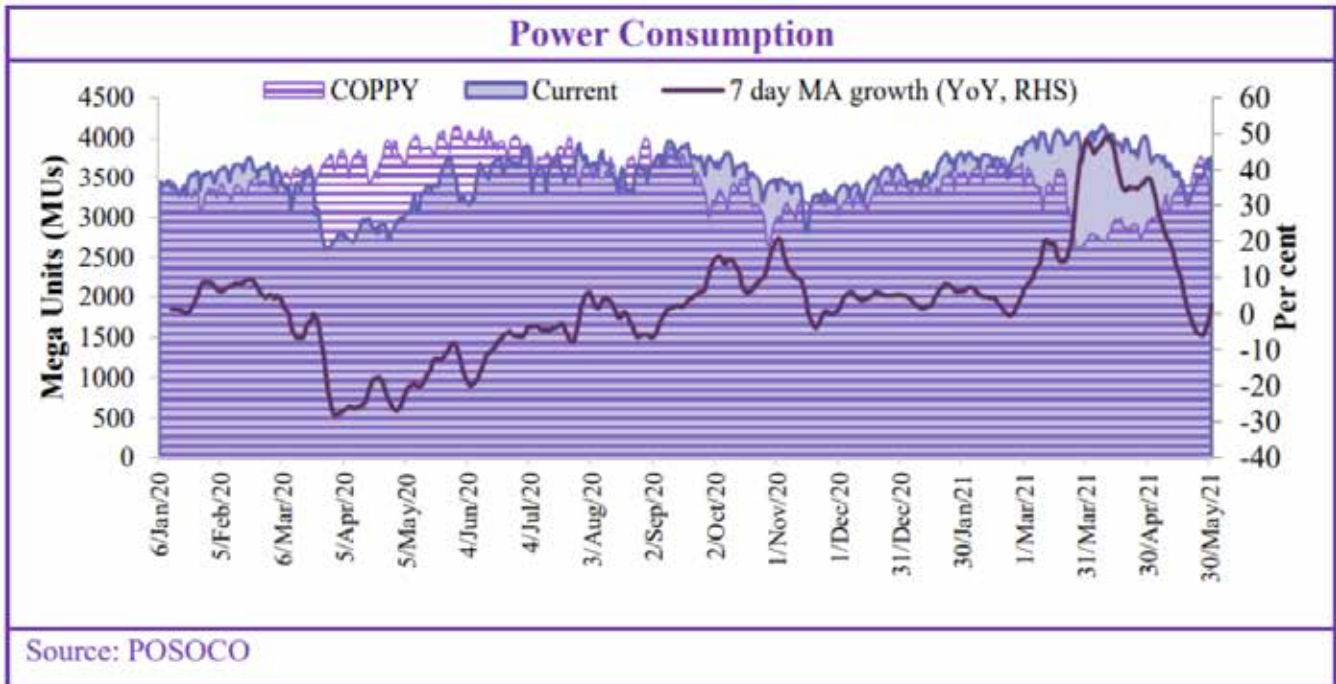
FY2020-21 saw an 8.6 percent dip in the Index of Industrial Production, moderating from the 0.8 percent growth as of FY 2019-20. As of March 2021, the Index registered a 22.4 percent year-on-year increase with reference to March 2020 and a 4.7 percent growth with reference to March 2019. Sectoral growth marked a decline with manufacturing dipping by 9.8 percent year-on-year and mining at 7.8 percent, electricity by 0.5 percent. The Eight core sectors exhibited 56.1 percent year-on-year growth whereas capital goods declined at 19.2 percent and consumer durables at 15.2 percent. Intermediate goods and infrastructure goods registered a negative growth of 9.7 percent and 9.1 percent respectively. The increase in output during the month of April has also fostered growth in the steel and cement sub-sectors.



Source: MoSPI

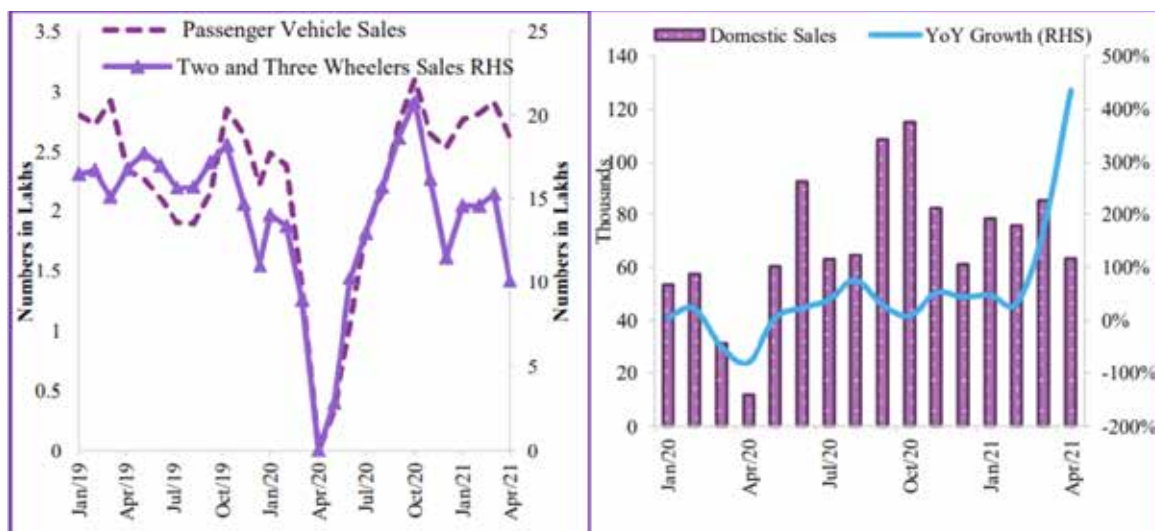
Power Consumption and e-way bills

A 31.2 percent month-on-month decline in e-way bills was observed in e-way bills owing to the loss of momentum in the sequential and year-on-year movement of interstate goods. The total bills generated for the month stood at US\$ 0.54mn (Rs.3.99 crore), marking a 56.5 percent year-on-year increase in comparison to May 2020 and a 26.5 percent contraction compared to May 2019. GST collections remained above US\$ 13.48bn (Rs 1 lakh crore), registering the lowest collection in eight months.



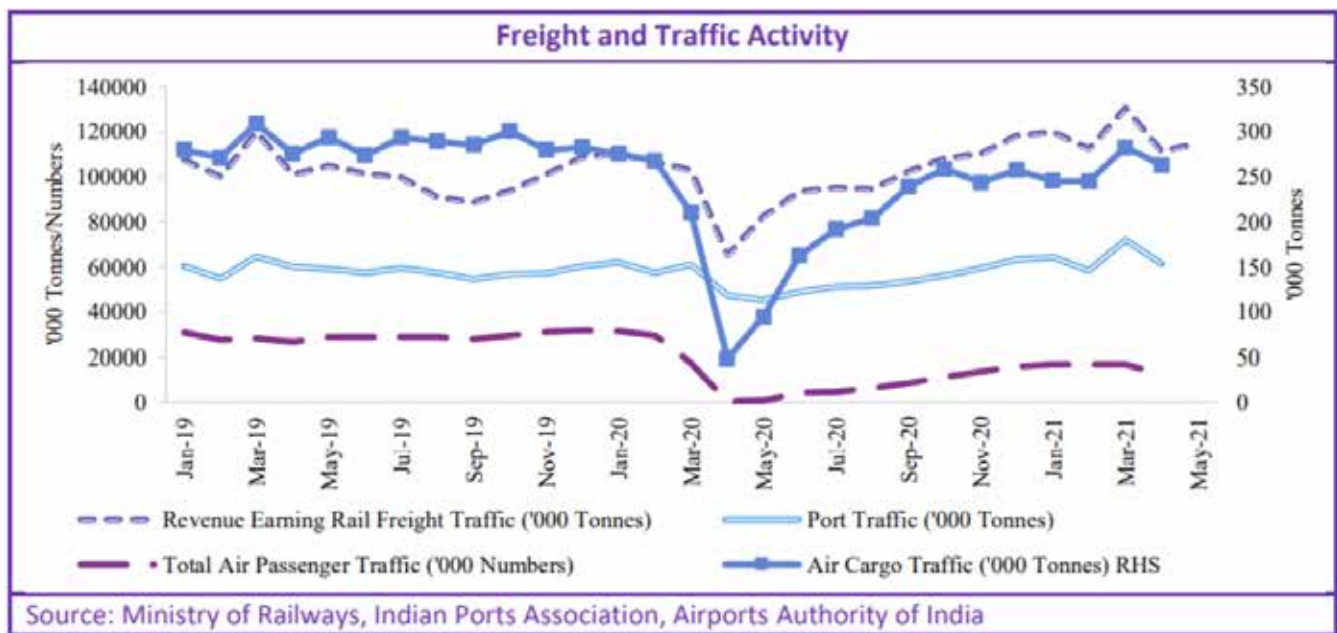
Automobile Sales

Two-wheeler sales exhibited a 34 percent month-on-month decline and three-wheeler sales fell by 10 percent month-on-month in April. Tractor sales fell by 25 percent in April owing to lockdown-based restrictions in rural areas. The lockdown and restrictions in movement are seen to have had a major impact on automobile sales in May.



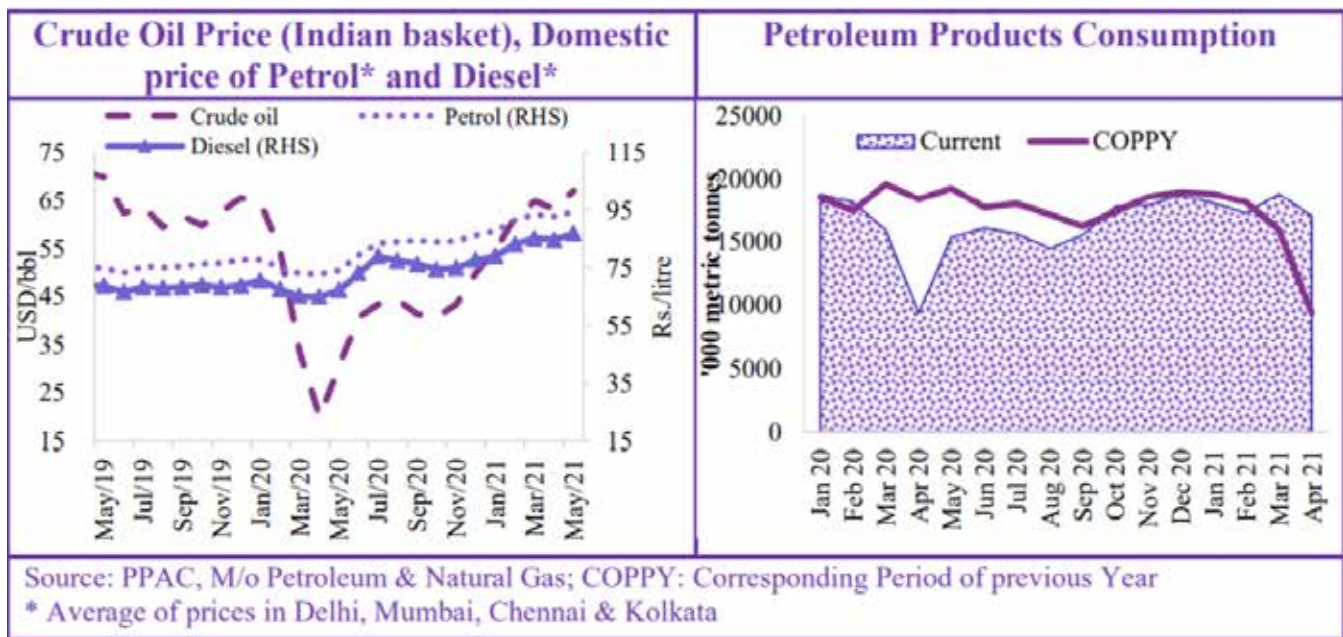
Freight and Port Traffic Activity

Given the ongoing lockdown, freight and traffic activity indicators exhibited a moderation with port traffic contracting by 14.5 percent month-on-month and 29.5 percent year-on-year. Railway freight exhibited a 14.4 percent month-on-month decline in April 2021 but exhibited a 9.7 percent growth in comparison to April 2019. Air cargo growth experienced a moderate degree of contraction at 6.9 percent and air passenger traffic was documented at US\$ 1,67,108(Rs 1.24 crore) in April 2021. Port activity rose by 4 percent month-on-month owing to lockdowns being opened in Europe.



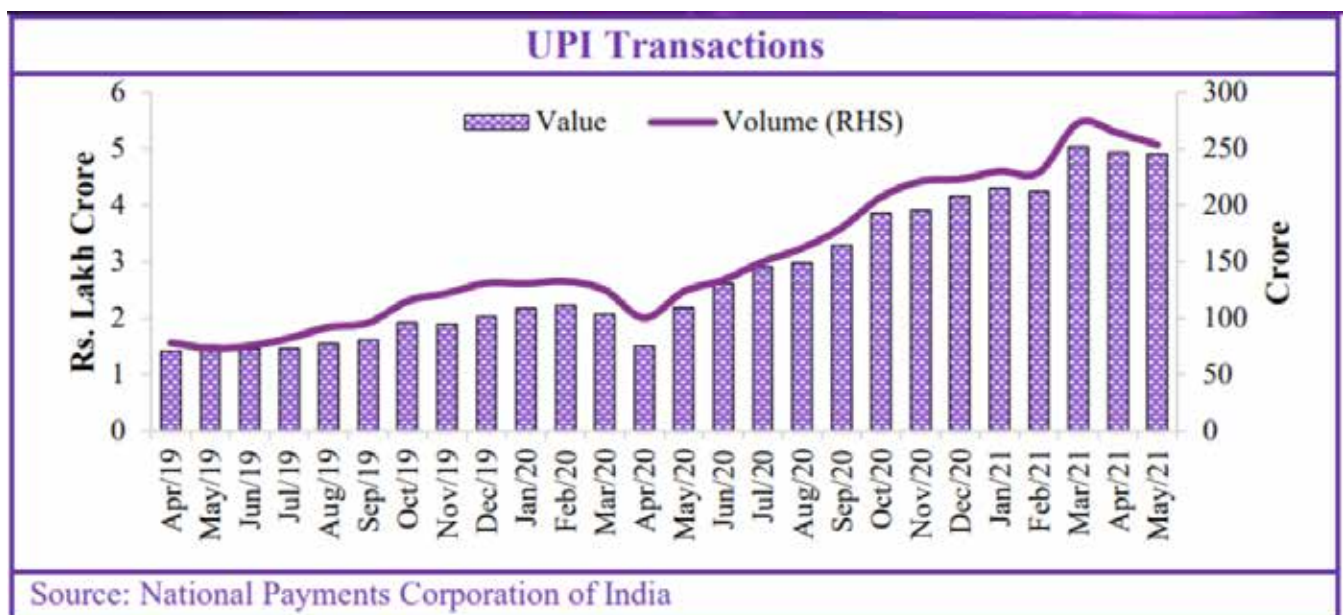
Petroleum Prices and Exports

Domestic prices of diesel and petrol rose by a small margin whereas consumption declined by 9.3 percent in April 2021 as against March. Crude oil prices were documented at US\$66.7/bbl in May 2021 in comparison to US\$63.1/bbl in April 2021 owing to the easing of OPEC plus production cuts and increase in global demand. Trade balance has been bolstered by resilience in export performance in advanced economies with iron ore, miscellaneous processed items, cereals, and handloom products showing growth.



UPI Payments

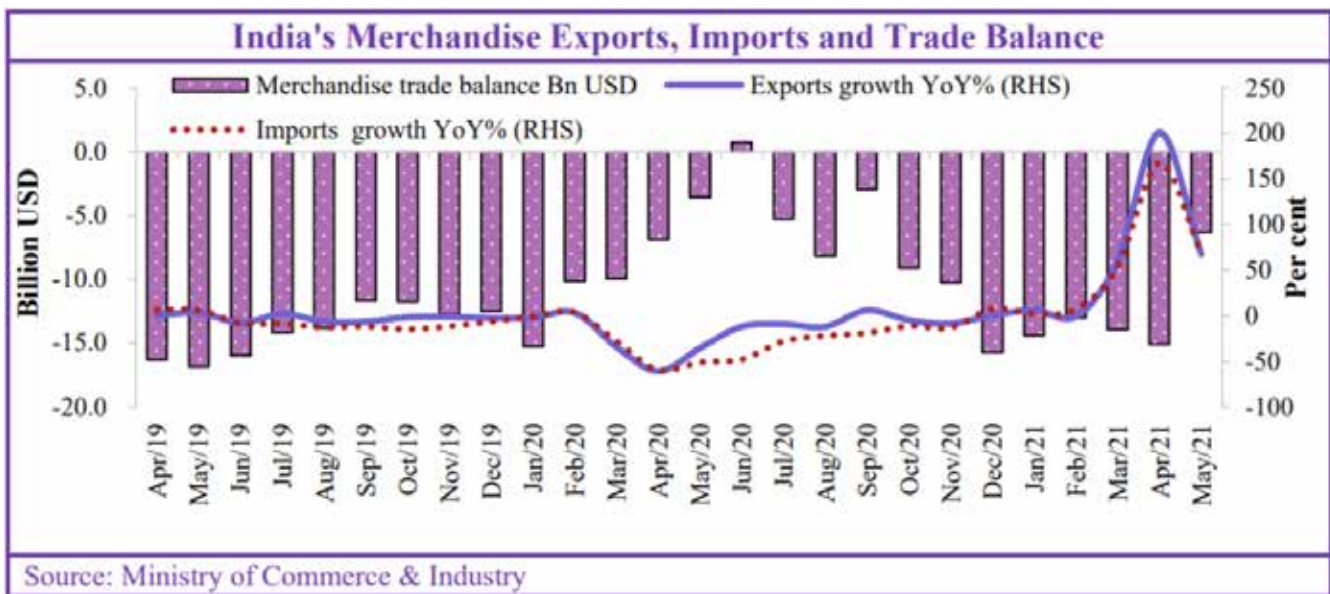
A moderation in UPI payments was documented in April and May while transactions rose to US\$ 552.54bn (Rs 41.lakh crore) in FY 2020-21 as against US\$ 287bn (Rs 21.3 lakh crore) in FY: 2019-20. The volume of transactions in May was documented at US\$ 35.2mn (Rs 253.7 crore) and US\$ 35.6mn (Rs.264 crore) in April.



Merchandise Exports, Imports and Trade Balance

The decline in food inflation and a favourable base effect contributed to the easing of CPI-C inflation to 4.29 percent in April 2021 as against 7.2 percent in April 2020. A decline in the inflation of pulses, sugar and spices, milk products and cereals. CPI Core Inflation dipped to 5.41 percent in

April 2021 as against 5.95 percent in March 2021 owing to a decline in inflation in tobacco products and clothing and footwear. WPI Inflation increased from 7.39 percent in March 2021 to 10.49 percent in April 2021 owing to inflation in base effect, fuel and power, and primary articles. An increase in inflation with regard to edible oils, fruit, meat and fish, cereals, sugar, and edible oils led to a 7.58 percent increase in WPI Food Inflation. As of March 2021, WPI inflation exceeded CPI inflation by 190 points in March 2021.

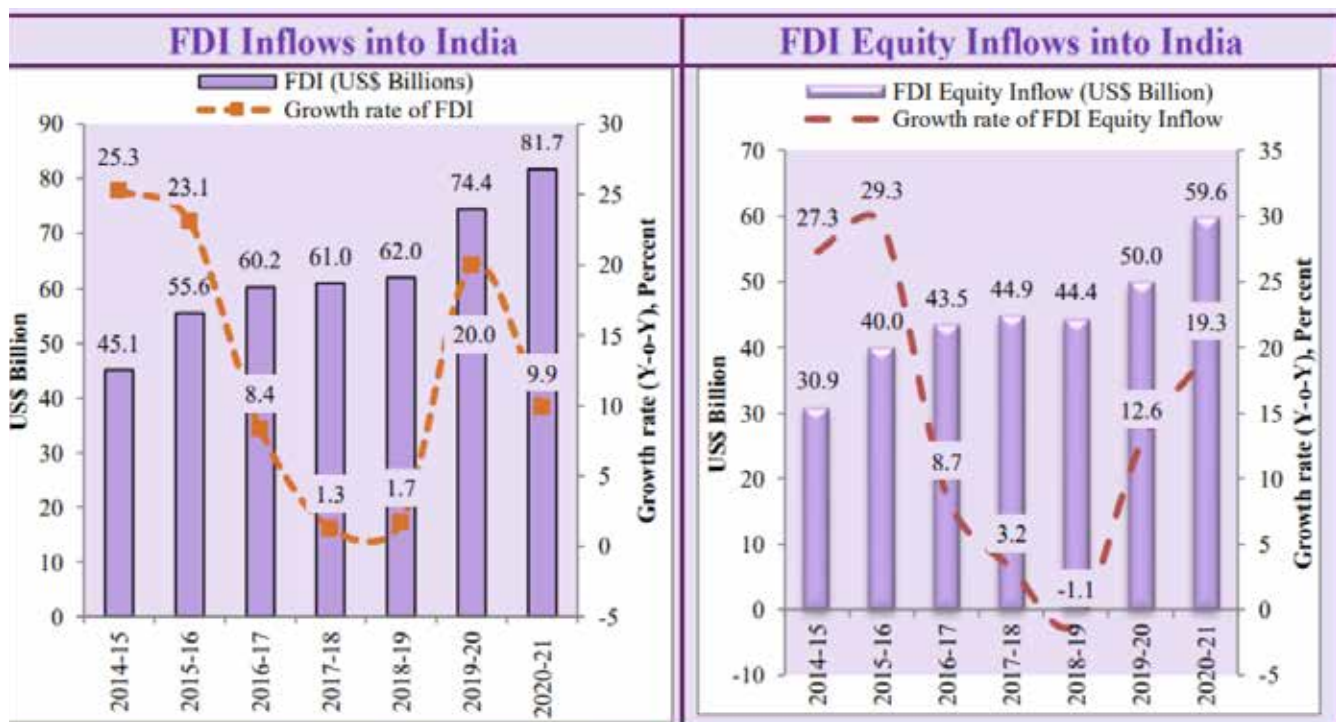


Monetary Policy

As of May 2021, systemic liquidity was registered at a surplus and the net Liquidity Adjustment Facility (LAF) remained in reverse repo mode with an average daily net absorption of US\$ 78bn (₹ 5.78 lakh crore) in April 2021 and US\$ 74.4 bn (₹5.52 lakh crore) in May 2021. The Reserve Bank of India extended up to US\$ 211.6bn (₹15.7 lakh crore) worth of total liquidity support, and additional liquidity of US\$ 4.9bn (₹ 365.45 bn) until May 31. Cash Reserve Ratio (CRR) was restored to 4.0 percent effective from 22 May 2021 and a plethora of inter-alia developmental and regulatory measures were announced as part of the June 4 Monetary Policy Statement. A liquidity facility of US\$ 2.16bn (₹16,000 crore) to SIDBI and a liquidity window of US\$ 2bn (₹15000 crore) was extended to contact-intensive sectors.

FDI Inflows

Global FDI trends, according to the UNCTAD Investment Trends Monitor 2020 documented a 13 percent rise in Indian FDI. Global FDI dipped by 42 percent from US\$ 1.5 tn in 2019 to S\$ 859 bn in 2020. India's FDI inflows increased by 9.9 percent and were documented at US\$ 81.7 billion in 2020-21. The computer software and hardware sector contributed to 43.8 percent of the FDI inflows owing to the pace of digitization as well as production-linked incentives. Construction activities as well as the drugs and pharmaceutical sectors also experienced significant growth in 2020-21. The trading and automobile sectors were observed to have been affected by the COVID-19 pandemic.



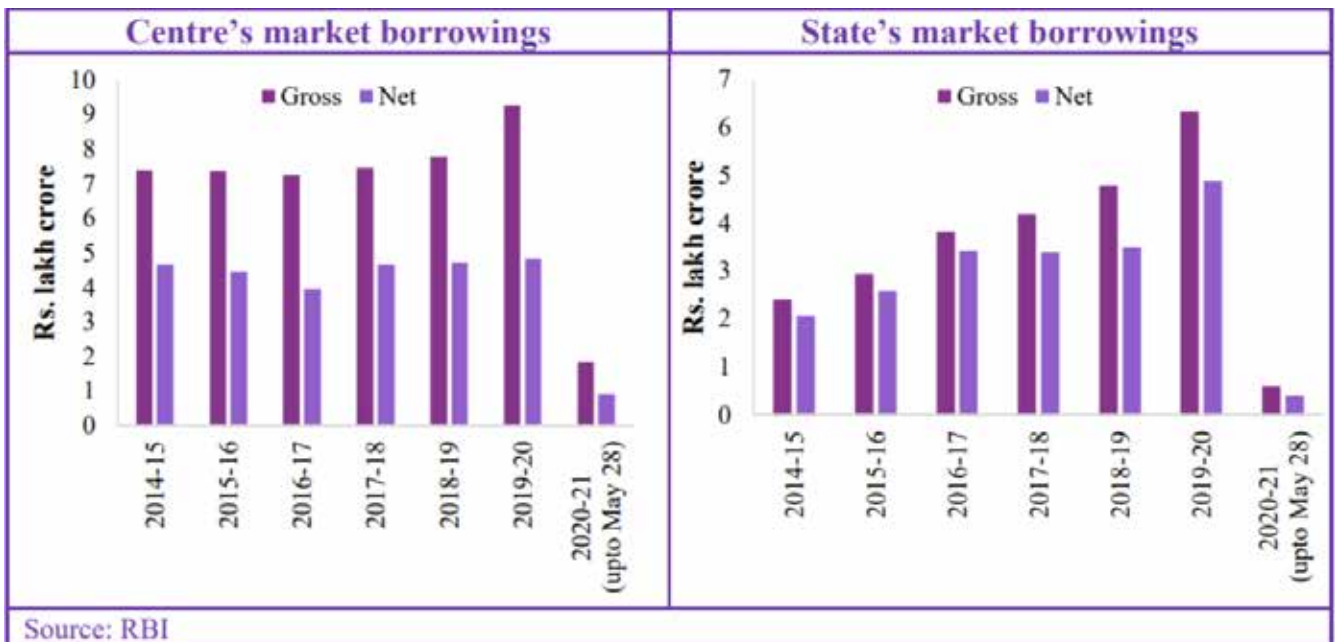
Source: Department for Promotion of Industry and Internal Trade (DPIIT)

Note: Total FDI inflows include equity, reinvested earnings and other capital.



Fiscal Deficit and Government borrowings

The Centre’s fiscal deficit was registered at US\$ 10.6bn (₹78,699 crore) as of April 2021. Net tax revenue was registered at ₹1.3 lakh crore in April 2021 as against US\$ 2.9bn (₹21,412 crore) in April 2020, reflecting higher tax and non-tax revenue. A 26 percent year-on-year contraction was observed in total expenditure in April 2021. The Government’s borrowing strategy during this period was guided by market development, risk mitigation and cost minimisation. The combined Gross Market Borrowings of the Central and State Governments was documented at US\$ 292.3bn (₹21,69,140 crore) during FY2020-21, marking a 39 percent increase as against the FY2019-20 borrowings of US\$ 210.5bn (₹15,62,191 crore).



Conclusion

As the second wave of the pandemic is in progress, accelerated vaccination drives and strong fiscal measures by the Government can be expected to ready the ground for greater investment in the forthcoming quarters. A growth in capex spending, increase in consumption patterns, and growth in contact-intensive sectors will aid the nation's emergence from the impact of the second wave.



For more information:

Ministry of Finance, Department of Economic Affairs
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