



Ministry of External Affairs
Government Of India



ECONOMIC
DIPLOMACY
DIVISION

MONTHLY ECONOMIC REPORT

JUNE 2021



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OVERVIEW



With a decline in the number of active Covid-19 infections and the rapid vaccination drive which consequently lead to the easing of lockdown restrictions across the world, a continued growth since the previous month could be witnessed in the global economy in June 2021. The Indian economy is on the revival path from the impact of the second wave of Covid-19, with targeted fiscal relief, monetary policy measures and accelerated vaccinations across the country. A fall in the daily Covid cases has been observed since the latter half of May 2021, along with the doubling of the daily vaccination rate from 1.93 million to 4.13 million in June, at the end of which around 78 percent of districts reached a Covid positivity rate below 5 percent.

Stability in global trade with a mild increase in commercial flights are an added advantage to Indian exports. The volume of e-way bills rose to 37.1 percent in June over May 2021 and at 26 percent year on year, which led to a rise in the GST collection. The sale of groceries and provision returned to the pre-COVID levels while other retail and recreational activities are also on the same trajectory. Power consumption rose by 4.5 percent sequentially in June over and by 8.4 percent year on year.

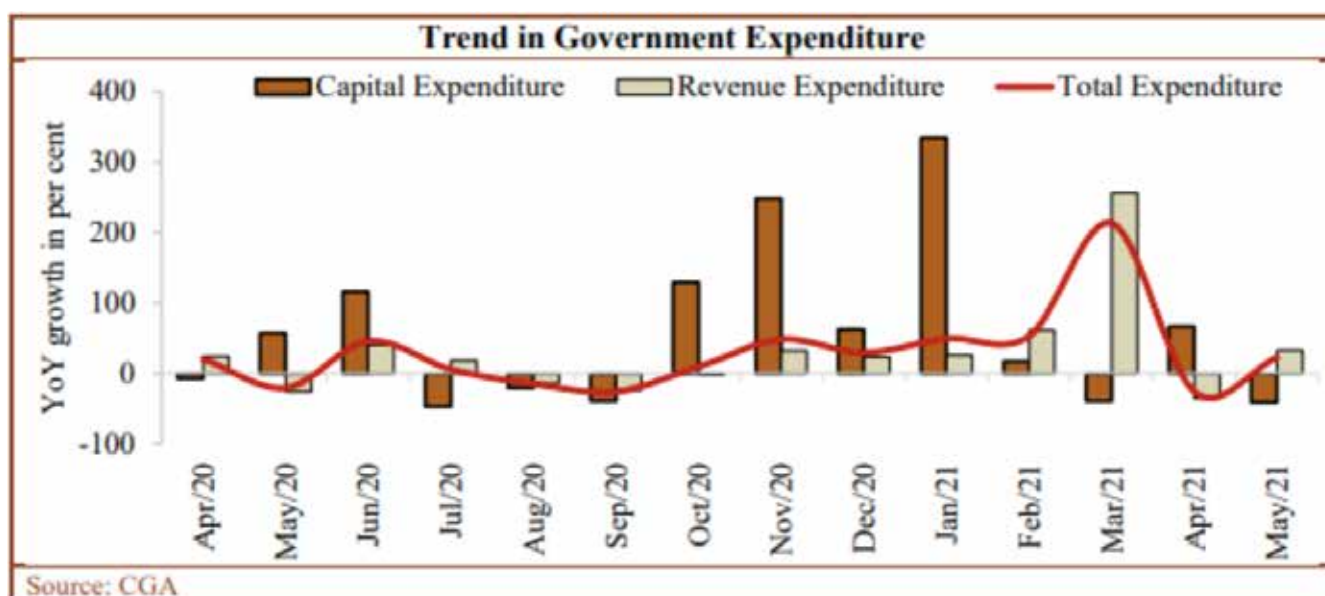
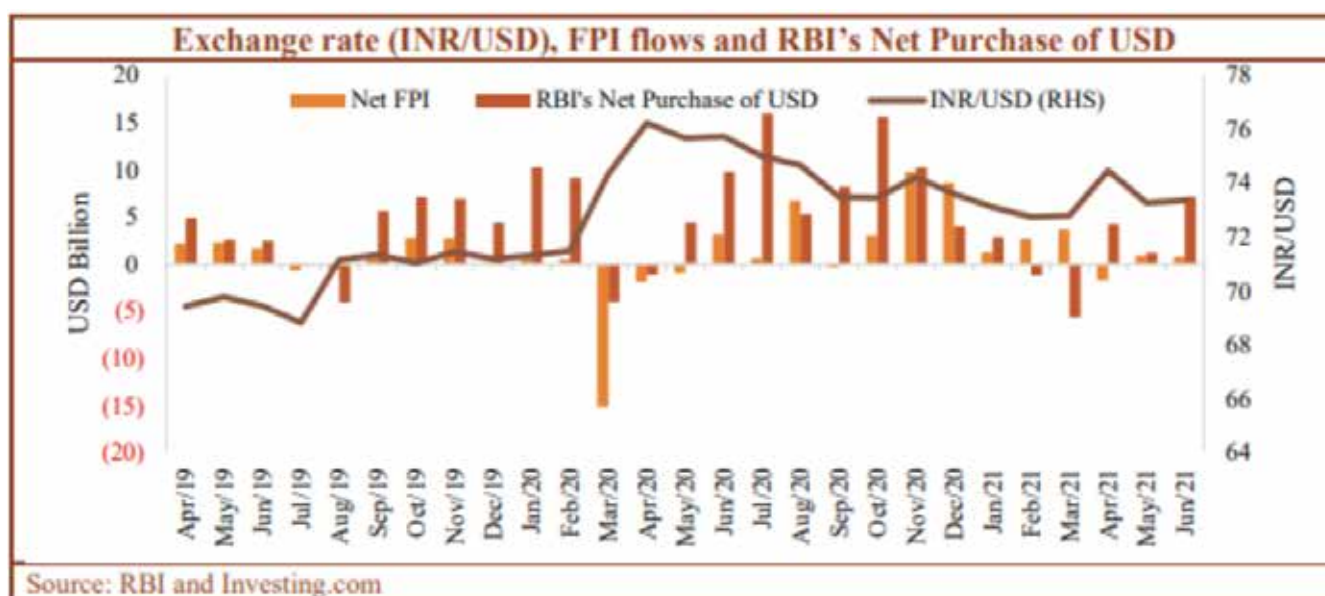
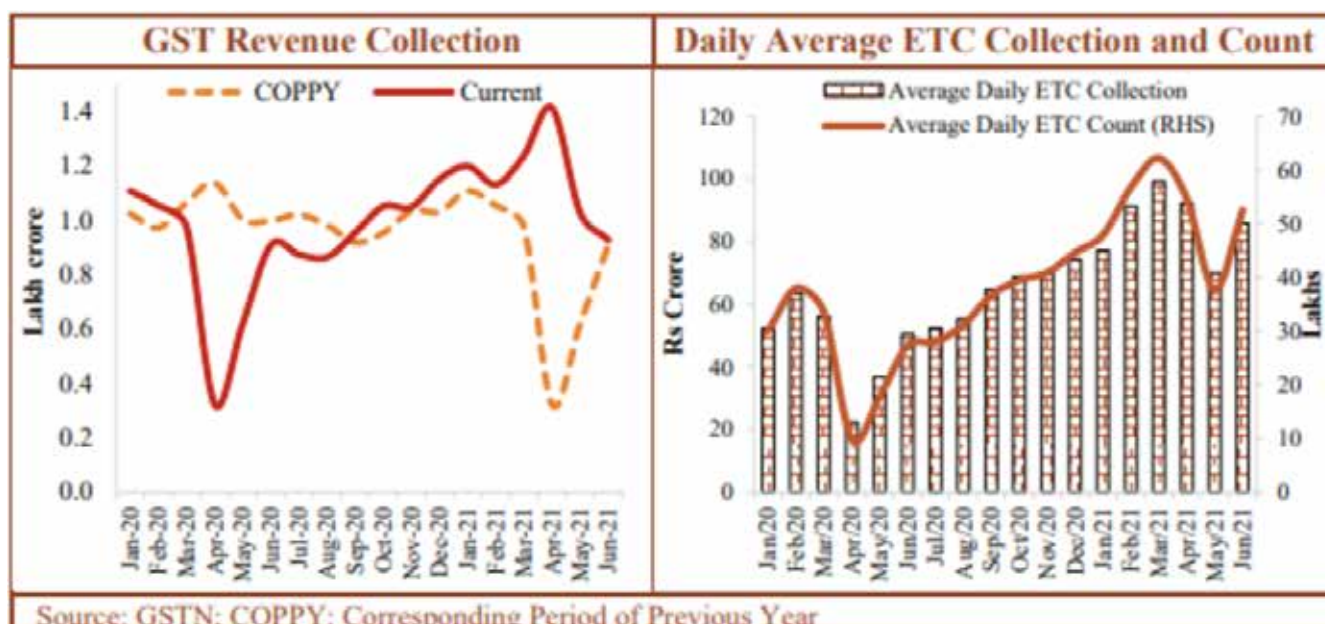
An amount of \$USD 84.4 billion was announced as the broad-based economic relief package to mitigate the second wave of COVID-19. While automobile sales faced a slight decline in May due to the lockdowns, a revival could be observed in June with the unlocking of the states. The same could be observed in highway traffic movement as well. Rail freight has maintained its position with an increase of 11 percent in June, higher than that of the same quarter in 2020 and 2019.

Inflation saw a rise in May 2021, with headline (CPI-C) and WPI inflation reaching 6.3 percent and 12.94 percent respectively. The broad-based momentum was also met with retail inflation across food, fuel and core categories owing to supply side disruptions and

unfavorable base effects. Inflation in electricity and manufacturing products led to an increase in wholesale inflation. The anticipation of a heavy monsoon coverage, rise in water reservoir levels, gradually rising Kharif sowing is expected to benefit the rural sector, aided by the MGNREGA employment and the easing of lockdown restrictions.

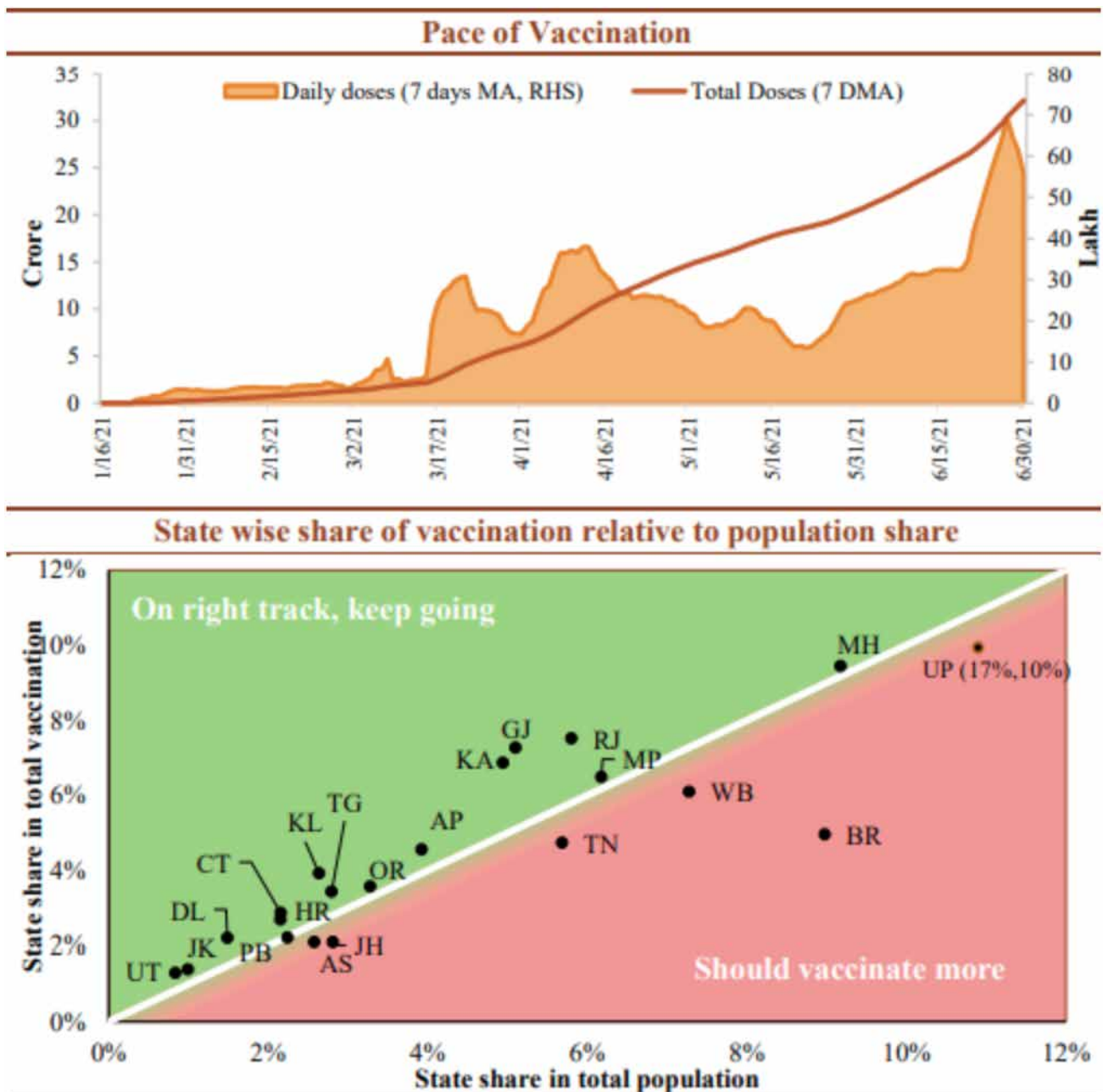
The value of the Indian rupee marginally declined by 0.2 percent in June over May, at 1 USD = INR 73.36. The country's forex reserves entered the \$USD 600 billion plus territory, cushioning the possible US stimulus exit driven by hot money outflows. India's external sector, which is witnessing rising exports and a relatively low external debt burden, is finding assistance in the form of policy support for export insurance under the current economic relief package. The central government's continued efforts at tax collections in the beginning of FY 2020-21 along with sustained growth in capex, especially the road and rail sector, suggests continued economic recovery. The economic relief package is expected to further the capex cycle by implementing the recently-announced PLI schemes and streamlining the processes of PPP Projects and Asset Monetization. Additionally, it also offers free food-grain and enhanced fertilizer subsidies, along with MGNREGA implementation, which would cushion rural demand in the near future. With the furthering of employment support under the Atmanirbhar Bharat Rozgar Yojana (ANBRY), and the credit guarantee scheme which aims to provide targeted support to the urban poor for on-lending by micro-finance institutions, and wider Bharat-Net digitisation coverage, consumption sentiment is expected to resume as well.

Accelerating vaccination drives and furthering the health care infrastructure across the country would further the rapid recovery of the Indian economy. Additionally, the strict adherence to social distancing and other COVID-appropriate behavior would subdue the emergence of a possible third wave.



COVID-19

In the month of May, the second wave A significant fall in the number of Covid infections could be witnessed in June 2021, with active cases lowering to 0.45 million from 3.7 million at the peak of the second wave in May. Close to 27 states and UTs saw below 1000 daily cases by the end of the month, and the doubling rate rose to 272 days in June from 46 days as seen in April, along with almost 97 percent recovery rate. The daily average testing remained high in June at 2.17 million. The ongoing vaccination programme has been actively working to protect individuals, especially those who are frontline professionals or belong to vulnerable population groups. The month saw the doubling of the daily average vaccination rate to 4.13 million doses from 1.93 million in May, while the government announced the revised vaccination policy beginning from the 21st of June. The cumulative vaccine coverage across the country crossed the 35 crore mark. Continued observation of social distancing measures, along with the scaling up of vaccinations can thwart the estimated third wave of the disease to a considerable extent

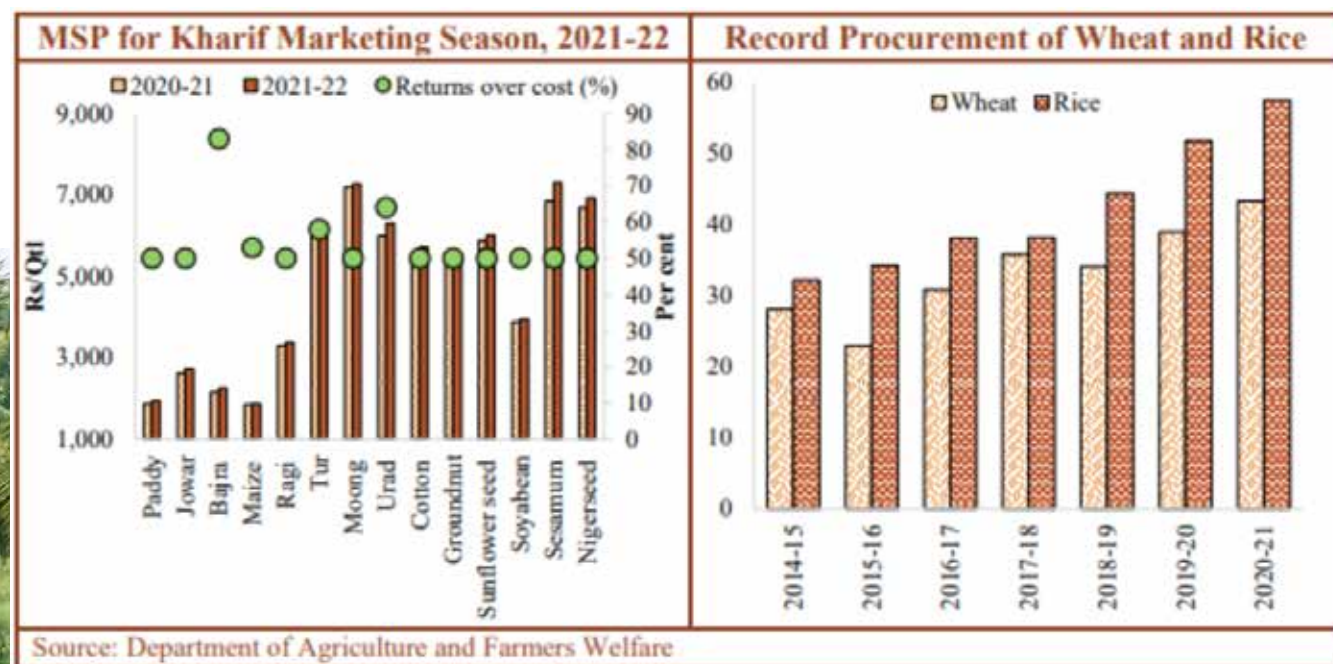


Source: <https://www.covid19india.org/>, MOHF&W

Agriculture

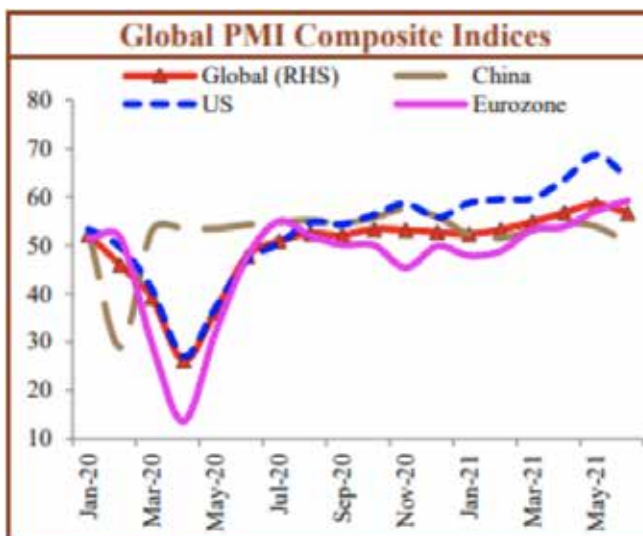
The country witnessed a rise by 10 percent above Long Period Average (LPA) with regard to the cumulative rainfall across most of the country during the Southwest monsoon till 30th June. Combined with the increase in the Minimum Selling Price (MSP) for Kharif crops, the bountiful kharif output as a result of the rainfall proved to be greatly beneficial to farmers and the agricultural sector by large. The hike in the MSP follows the pattern of a fixed MSP at a minimum of 1.5 times of the all-India weighted average Cost of Production (CoP) according to the Union Budget 2018-19. The wheat procurement of the year was at a record high of 433.08 LMT while the ongoing wheat procurement operations at an MSP value of \$USD 11.44 billion profited around 4.96 million farmers.

The Pradhan Mantri Garib Kalyan Anna Yojana (PM-GKAY) (May – June 2021) made an estimate to distribute over 79 LMT of foodgrains worth approximately \$USD 3.56 billion, out of which over 98 percent was dedicated to states/UTs. The scheme was extended till November 2021 to enable around 204 LMT foodgrains to be provided, free of cost, to around 800 million NSFA beneficiaries at an estimated \$USD 9.01 billion.

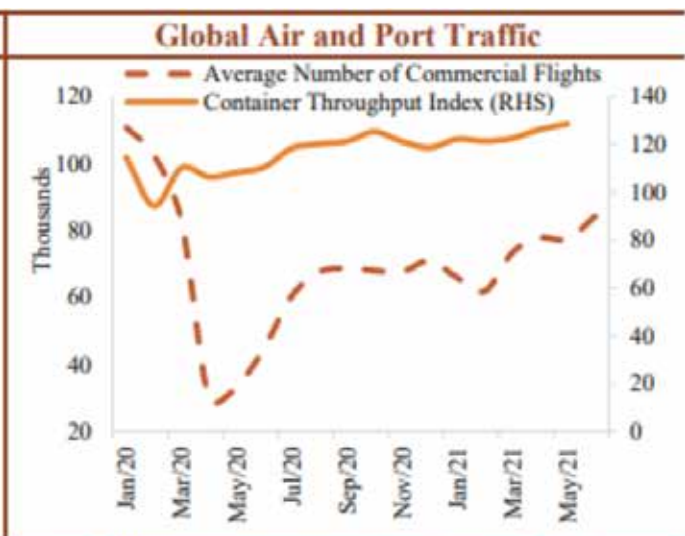


Global PMI Composite Indices Commodity Prices

The second wave of the pandemic and the subsequent containment measures brought a setback to India's PMI-Manufacturing, through the reduced factory orders, production and exports in June 2021. Power consumption levels grew in June after a minimal decline in May, at a rate of 8.4 percent since the previous year, owing to the easing of lockdown restrictions which enabled mobility and allowed commercial activities to resume. In the same line, the PMI services, which fell to 41.2 in June from 46.4 in May, is expected to rise in the near future with services sector activity expected to resume. On the other hand, global PMI stood at 56.6 percent. The revival in global demand, with the ease on Covid restrictions, and the policy support announced recently suggest a bright future for Indian exports, for particularly the MSME sector.



Source: IHS Markit

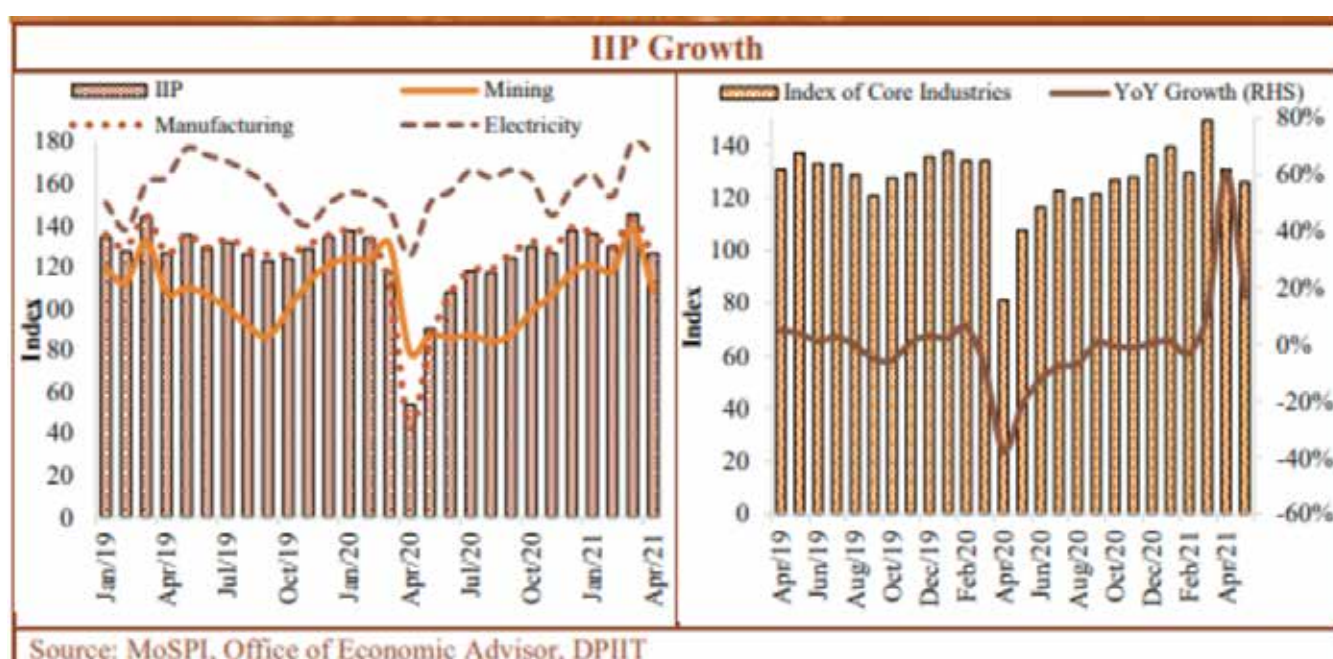


Source: RWI/ISL-Containerumschlag, Flightradar24



Index of Industrial Production

A positive base effect resulted in a growth of 13.4 percent for the IIP in April 2021 from the sharp fall of 57.3 percent during the previous year. The overall index is at 94.1 percent at its pre-lockdown level. Mining and manufacturing have partially recovered from the impact of the second wave while the electricity sector has returned to the pre lockdown levels. Core sector output rose by 16.8 percent in May 2021 from the 21.4 percent reduction during the previous year. The impact of the second wave of Covid-19 and the subsequent lockdown led to a slight drop in the monthly index on a month on month level at 3.7 percent. Month on month improvement was observed in fertilisers (ahead of kharif season), natural gas and coal production. The push for capex from the government would benefit steel and cement industries while the kharif season is expected to boost fertilizer production in the near future.

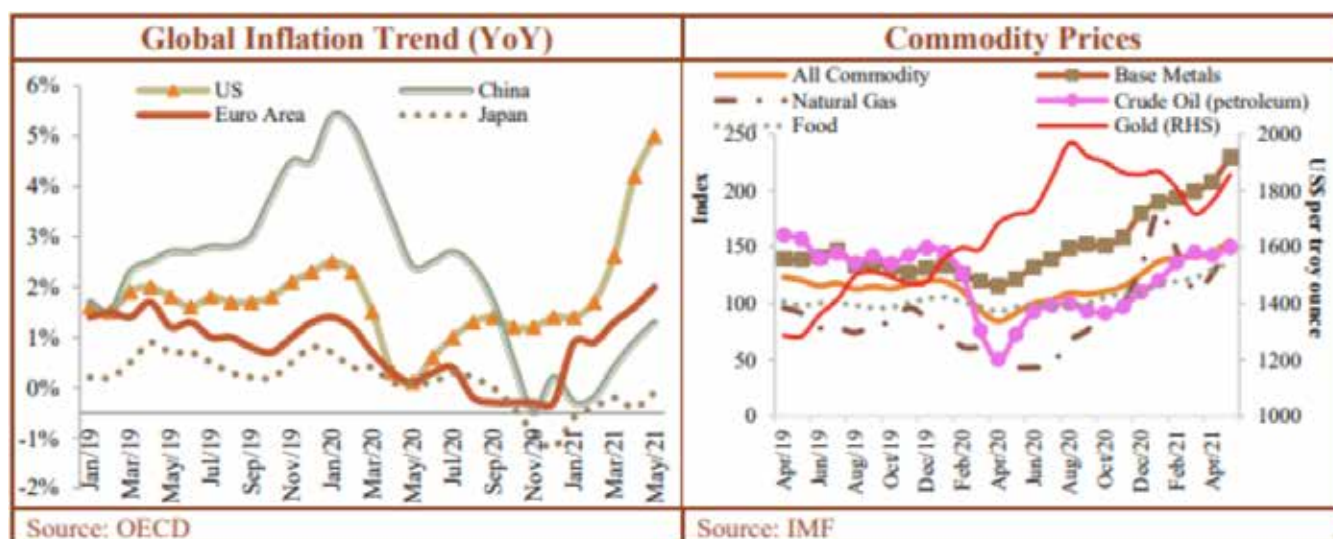


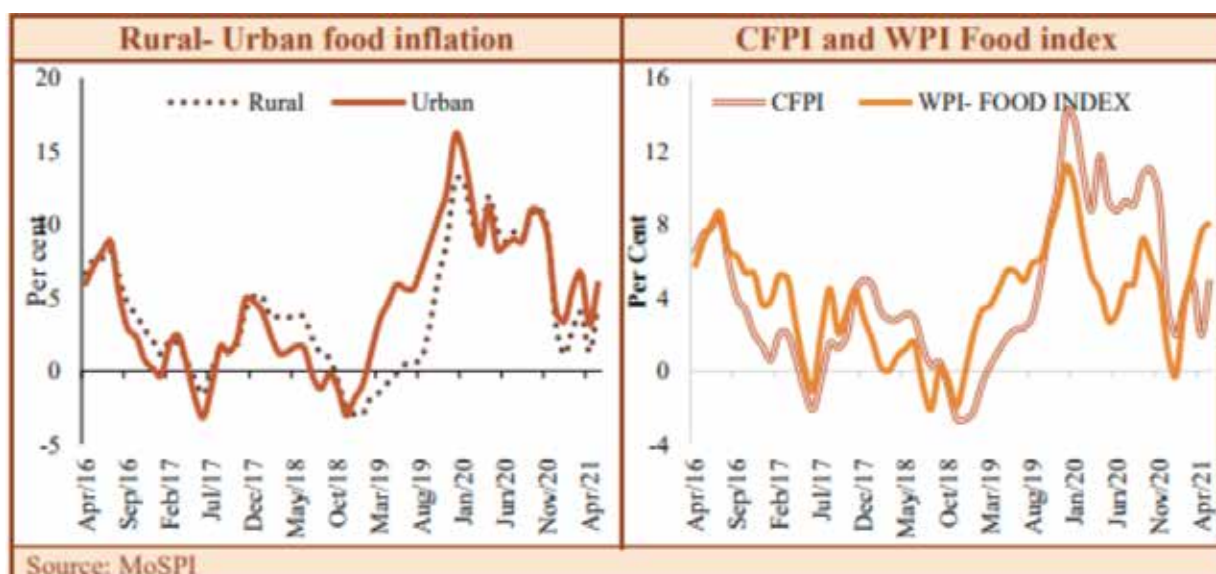
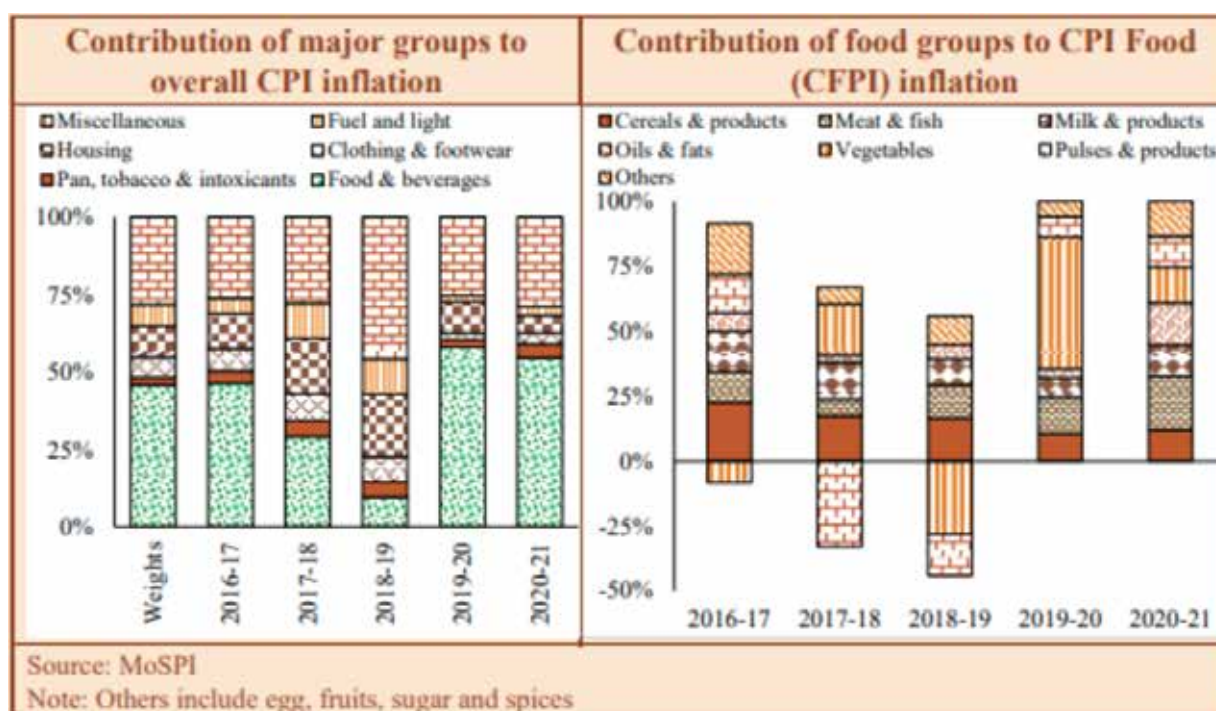
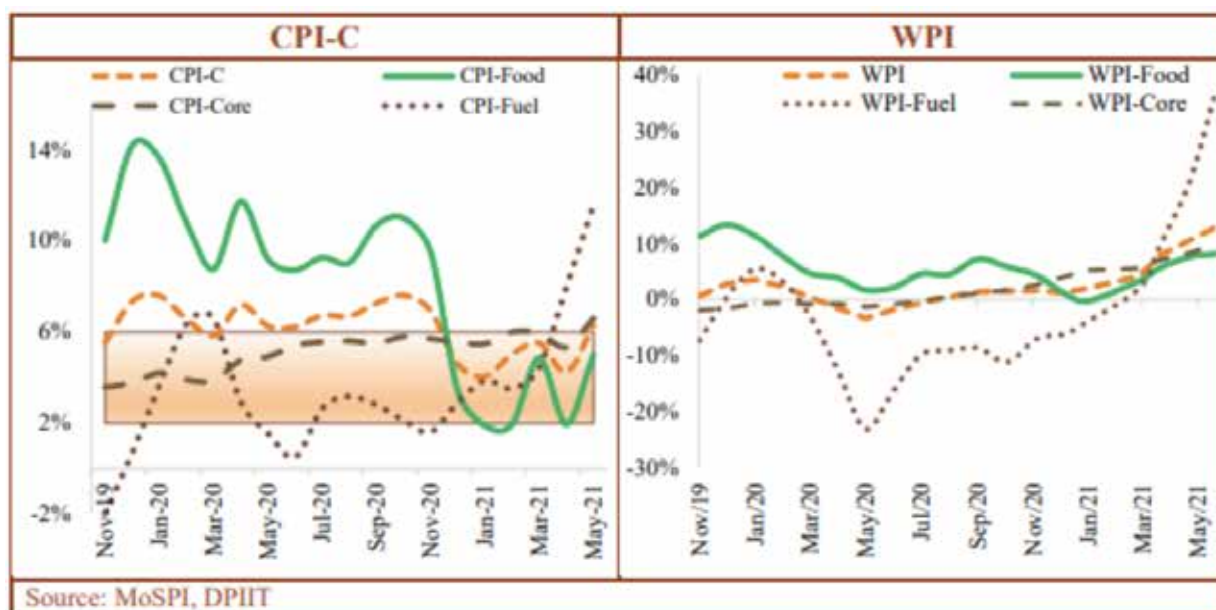
Commodity and Inflation

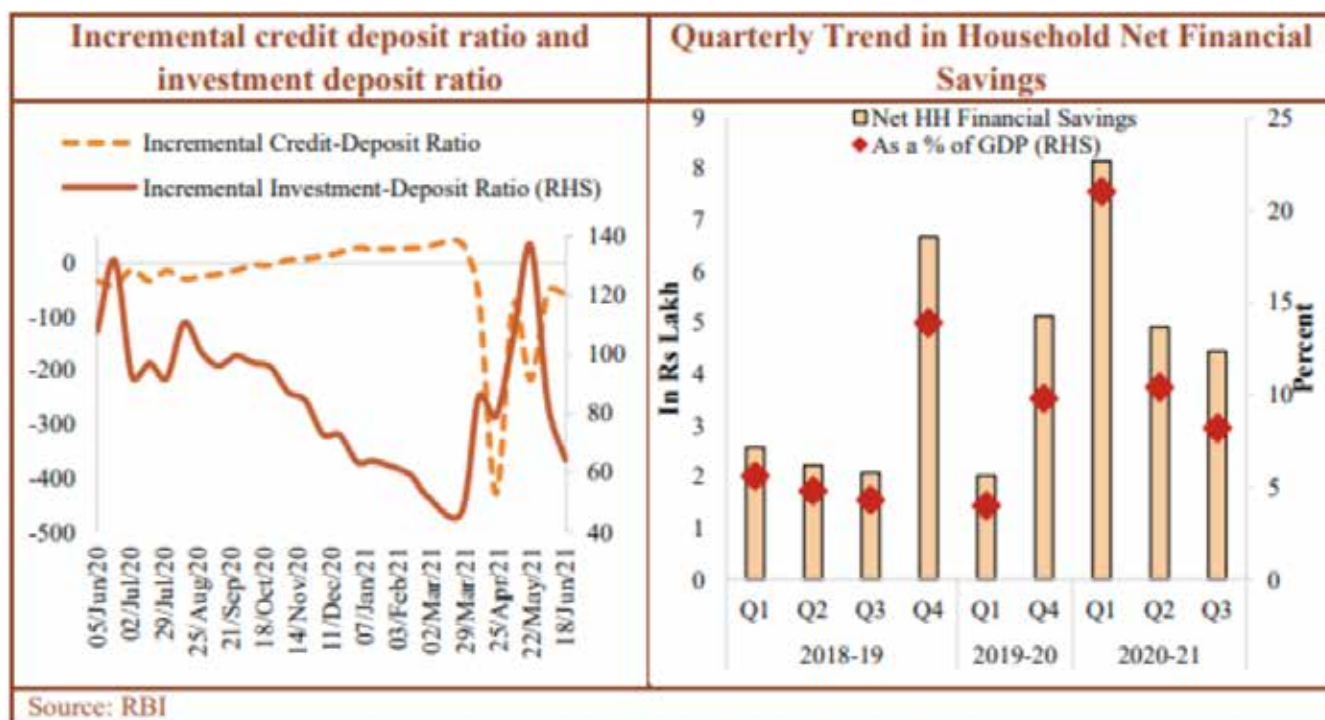
A 70 percent year on year growth was observed in the IMF All Commodities index in May, with almost 250 percent year on year rise in natural gas prices and an ample growth in crude oil, coal and base metal prices. Gold prices found their way back to normal levels with weakening dollar and lowering yields while base metal prices grew for the thirteenth consecutive month with the steady resumption of global manufacturing activity and falling dollar value.

Headline inflation (CPI-C) touched 6.3 percent in May, growing by 2.1 percent since April. The food, fuel and core categories experienced a positive price momentum. Along with an unfavorable base effect, this contributed to a rise in headline inflation. Rural areas had a slightly higher rate of inflation 6.48 percent than that of urban areas (6.04 percent). Consumer Food Price Index based food inflation rose to 5.01 percent in May, owing to the rise in the inflation of cereals, egg, dairy products, oils & fats, fruits, vegetables, pulses, sugar, spices etc. The rise in global crude oil prices and a low base effect contributed to the inflation in fuel to 11.58 percent in May from 7.98 percent in April. CPI-core inflation (excluding food and fuel) rose to 6.6 percent in May, the highest since 2014. Core sub groups such as clothing, footwear, personal care, other household appliances, transport, recreation also registered a rise in inflation.

The increase in the inflation in fuel & power and manufactured products and a low base effect led to WPI inflation of 12.94 in May from 10.49 percent in April. The increase in the inflation pulses, milk, edible oils and sugar led to a rise in WPI food inflation to 8.11 percent in May from 7.58 percent in April. WPI core inflation surged to 9.97 percent in May from 8.31 percent in April.

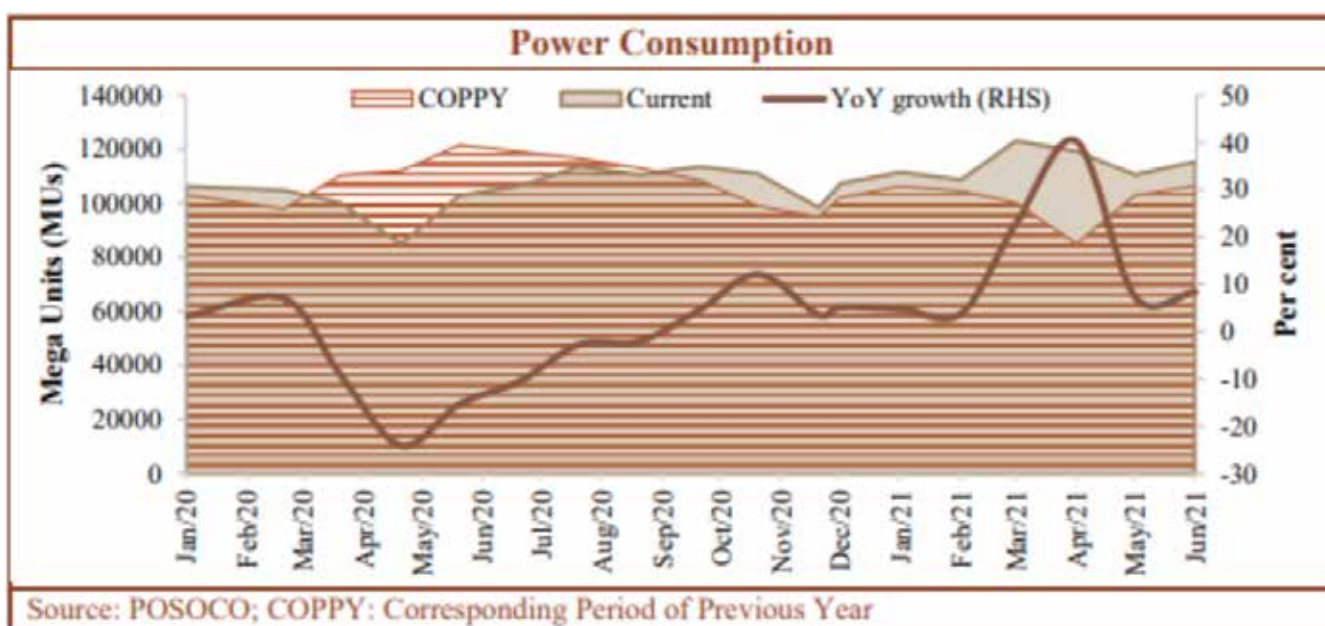






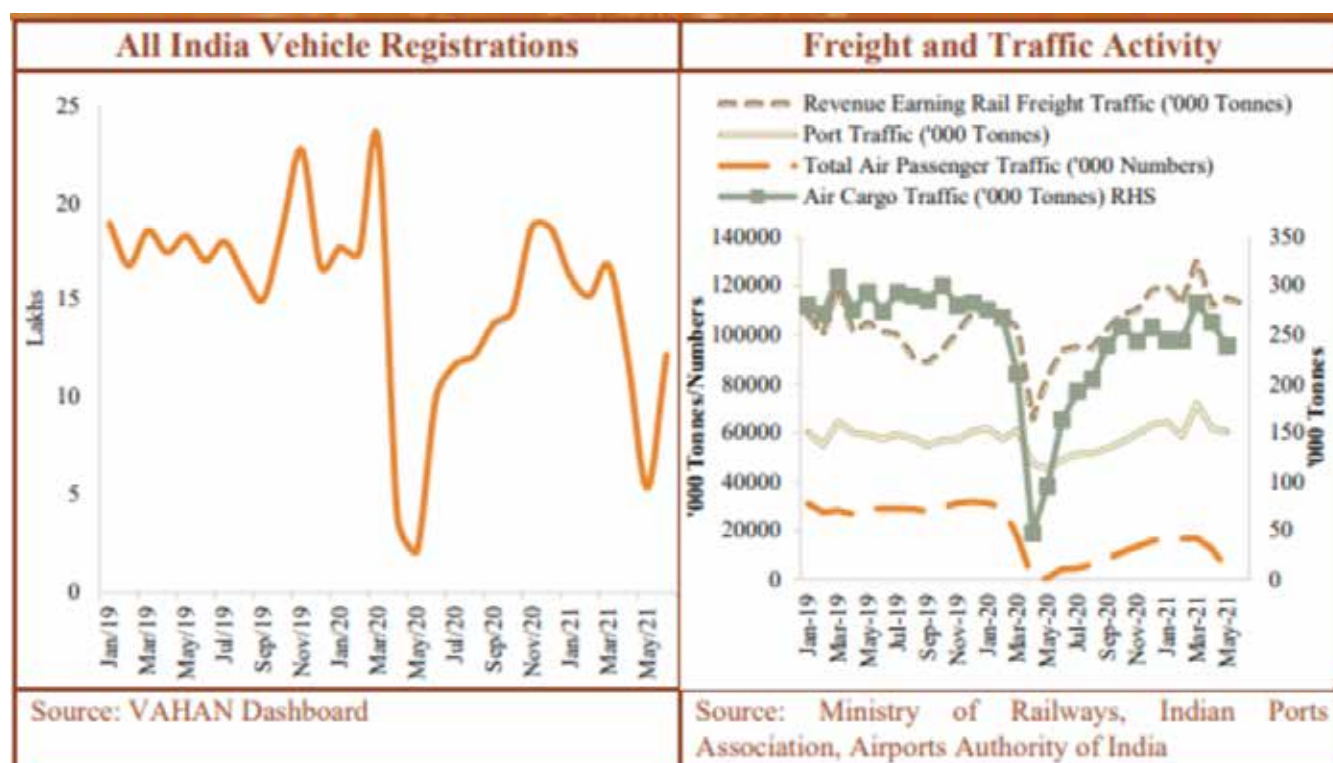
Power and E-way bills

The pace of E-way bills data, a major indicator of economic and commercial activity revealed a steady “upturn with unlock” in June 2021, regaining the lost momentum in May, after the easing of localised lockdown restrictions which was impacting the movement of inter and intra state goods. The total e-way bills amounted to \$USD 0.734 mn in June 2021, at a 26 percent year on year growth since the previous year. E-way bills reached \$USD 230.5 billion in terms of value in June, at a 38 percent rise over the previous month, which portends well for GST collections in subsequent months.



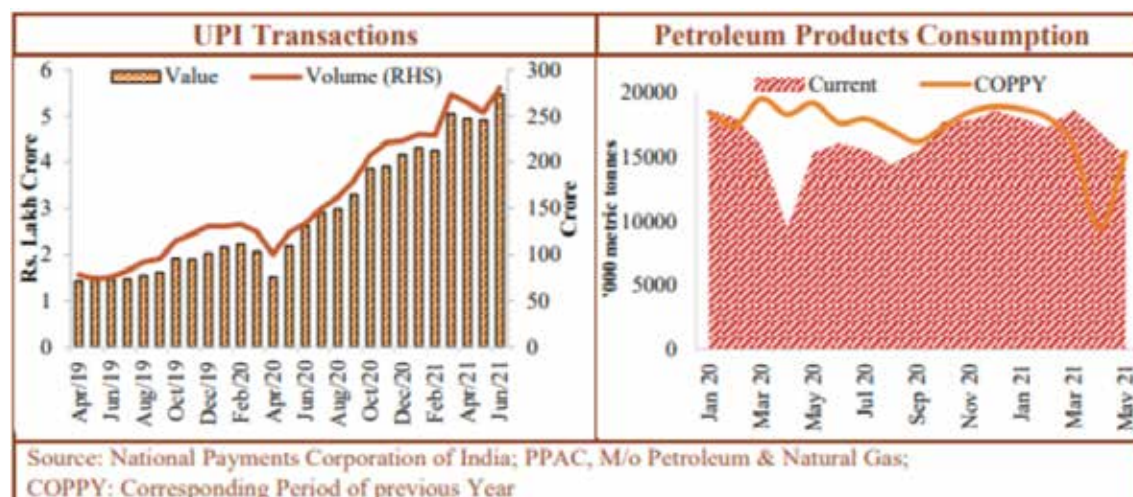
Freight and Traffic Activity

The relaxation of localised lockdowns and the commencement of commercial activity aided the rise in the average daily electronic toll collection (ETC) with both value and volume of highway traffic movement in June 2021. The unlocking of the economy has brought a resumption in automobile sales in June, from the steep fall MoM of two and three-wheeler sales, and passenger vehicles and port traffic. Stability was observed in the railways, with regard to freight loading and earnings with rail freight loading at 112.65 tonnes, at 20.37 percent higher than June 2021



UPI

Reaching an all time high of \$USD 73.31 billion in June 2021, UPI transactions grew by 11.6 percent through May 2021 and the transaction volume rose to \$USD 3.75 million in June 2021 from \$USD3. 40 million in May. The overall rise in the total UPI transactions reveals a resumption in the economic activity and the increasing acceptance of digital payments in the country.

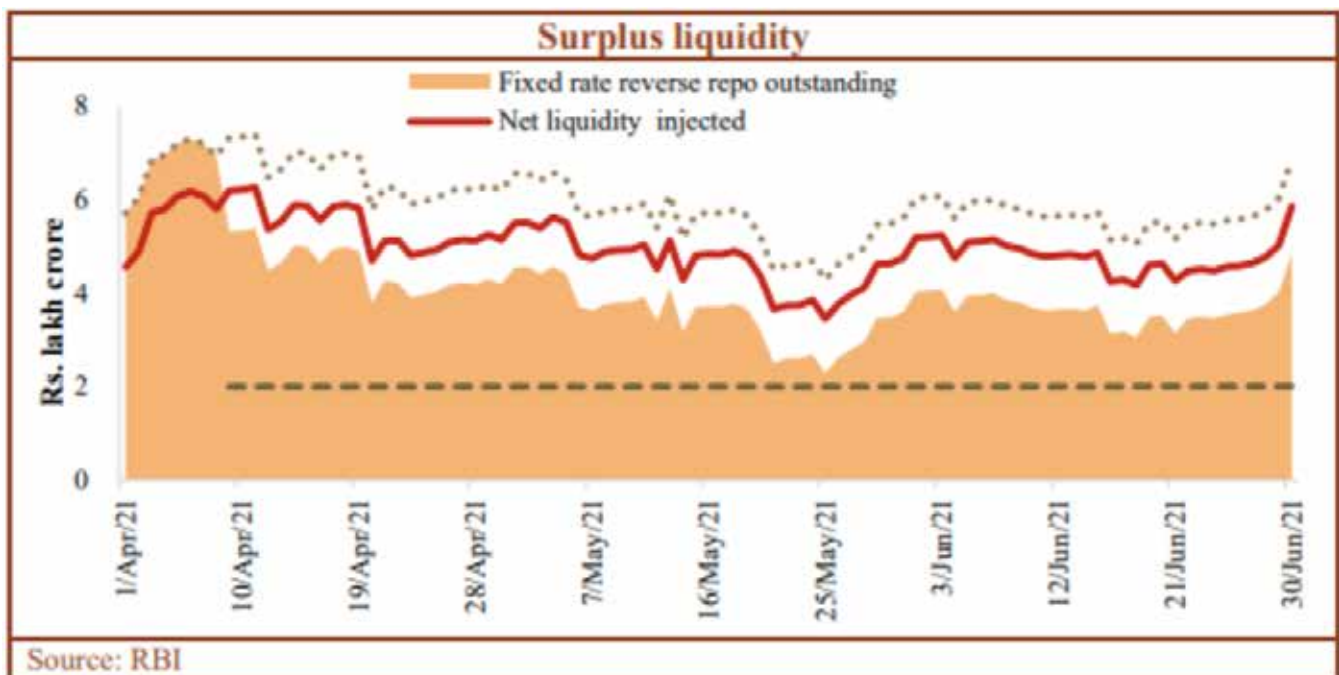


Crude Oil and Petroleum Prices

Indian crude oil prices rose to \$USD 71.63 /bbl in June 2021 from an average of \$USD 66.7/bbl through the steady rise in the demand through the ongoing global recovery. Amid the rising international crude oil prices, the prices of petrol and diesel rose further in the domestic market. A decline of 11.3 percent in the domestic consumption of petroleum products was observed in May.

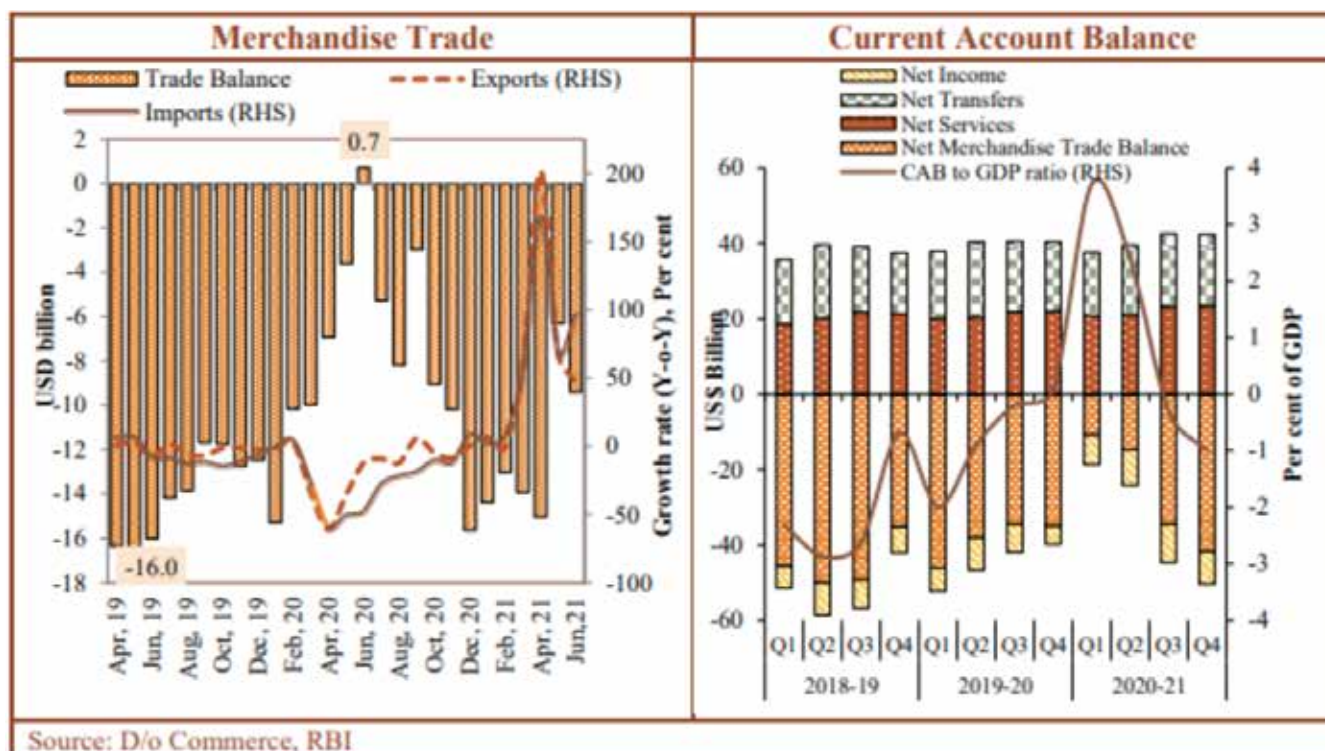
Monetary Policy

With an average daily absorption under LAF having been expanded to \$USD 76.2 billion from \$USD 73.98 billion in May, the system saw a continued liquidity surplus in June, accompanied by reduced bank borrowings by nearly 87 percent on a daily average. The liquidity management measures announced by the RBI amounted to \$USD 48.38 billion. The money market rates falling below repo rate levels from May (by 91 bps of weighted average call rate and 89 bps tri-party repo rate in June 2021) also reflects the surplus liquidity. By the last week of June, \$USD 16.61 (20 percent lower than the corresponding quarter in FY 2020-21) billion was raised by State governments as gross market borrowings, while the net market borrowings accounted for \$USD 1.2 billion (28.8 percent lower than the corresponding quarter in FY 2020-21). Thus, the money supply growth was driven by the aggregate deposits growth, while bank credit remained muted.



Global Trade

With a resumption in global commercial flight activity after a pause in May, global trade remained steady in June 2021. The daily average of international commercial flights in June rose to 87 percent on a year-on-year basis and 9 percent sequentially since May, which also saw a rise in global port activity with upward trajectory in Euro Area ports and fresh upswing in Chinese ports. An increase in freight rates and a shortage of containers, however, stood in the way of a complete recovery, heightened by disruptions in supply chains with the blockage of the Suez canal and a COVID outbreak in the Yantian port.



Exports, Imports and Trade Balance

The April-June quarter in 2021 saw India's exports rise to a record of \$USD 95 billion, increasing by 85 percent over the corresponding quarter during the previous year, owing to the flourishing rise in the engineering, rice, oil and marine sectors. The merchandise exports were \$USD 32.5 billion, while the merchandise imports were \$USD 41.9 billion in the month of June. The value of non-petroleum exports was \$USD 28.5 billion while the value of non-gems and jewellery exports was \$USD 25.7 billion. Oil imports amounted to \$USD 10.7 billion while non-oil, non-GJ (Gold, Silver & Precious Metals) imports were \$USD 27.6 billion during the month. The sharp dip in the trade deficit to \$USD 102.2 billion in 2019-20 resulted in a surplus of 0.9 percent of GDP in the current account balance for FY 2020-21.

FDI Inflows

At \$USD 44 billion, the net FDI inflows for 2020-21 were higher than the previous year's \$USD 43 billion. The net FPI increased by several times to \$USD 36.1 billion from 2019-20's \$USD 1.4 billion. A sharp drop was observed in the external commercial borrowings at \$USD 0.2 billion from the previous year's \$USD 21.7 billion. Foreign exchange reserves grew from \$USD 59.5 billion the previous year to 87.3 billion in 2020-21.

Conclusion

Apart from the economic relief package of \$USD 84.4 billion, a number of measures to aid and provide relief to various sectors affected by the impact of the second wave of COVID-19 were announced on 28 June, 2021. The economic relief package covered a total of 17 measures, mainly to augment the healthcare systems to deal with emergencies and provide opportunities for the various sectors to bounce back to the pre-COVID performances and increase the employment levels.



For more information:

Ministry of Finance, Department of Economic Affairs
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