ECONOMIC
DIVISION

Monthly Economic Review

February, 2021

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DEPARTMENT OF ECONOMIC AFFAIRS

सत्यमेव जयते

Abstract

The recovery of global output has slowed following re-imposition of lockdowns in advanced countries amid renewed COVID-19 waves and its emerging variants. However, economic activity in India has gathered pace with mild stiffening of the COVID-19 curve failing to deter a steady uptick in consumer sentiment, which has been bolstered by the inoculation drive. Positive GDP growth in Q3 of FY 21 – for the first time since the onset of the pandemic – adds to the positive sentiment as the economy is set to close the year with activity levels higher than measured in the second advance estimates of GDP. Reserve Bank's industrial outlook survey (IOS) conducted in Q3 of FY 21 has also re-affirmed this optimism with respondents indicating strengthening of production, order books and employment during the third quarter, driven by easing of lockdowns, re-opening of businesses and improvement in availability of finance from banks and internal sources.

The expansion of services activity since the beginning of 2021 is particularly noteworthy as people overcoming the fear of the pandemic have shown preference for enhanced mobility, albeit at the risk of increasing the infection rate. The pick-up in construction activity, with its wide array of backward and forward linkages, is slowly developing into a critical growth lever of the economy. Agriculture continues to show robust growth and is instrumental in strengthening rural demand along with MGNREGS that has created 350 crore person days of employment in 11 months of FY 21, 41.6 per cent higher than the corresponding period of FY 20. Supported by increasing rural incomes and rising preference for private transport, growth in automobile sales is reassuring of a demand resumption further strengthened by softening of inflation to a 16-month low of 4.1 per cent in January 2021. Strengthening of demand is further in evidence 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 mobilizing Rs.1.13 lakh crore in February 2021 also bespeak growing business and trading turnover going beyond the festival season. To help nurture this recovery, systemic liquidity continues to be in surplus mode. Yet, growth of outstanding credit of scheduled commercial banks is only just beginning to pick up, mainly directed at MSMEs on the back of Emergency Credit Line Guarantee Scheme of Government. Credit growth to large industries, however, continues to be negative as alternate funding sourced from bonds, debentures and other market-based instruments are beginning to look increasingly attractive amidst low interest rates to retire past high-cost debt. In Q3 of FY 21, debt issuances by Indian corporates was Rs. 1.3 lakh crore, 29 per cent higher than in the previous quarter.

A major downside risk to growth continues to be the pandemic induced morbidity and fatality that has elevated health stimulus as a key macroeconomic lever for India's continued economic recovery. Rapid production and deployment of COVID-19 vaccination will be critical to taking forward the health stimulus deep into FY 22 and India is well in position to do so having become the largest producer of vaccine in the world and currently ranked third behind the US and the UK in administering vaccine doses. To increase the 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 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 more than 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 spate 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.

The 2nd advance estimates of National Income for FY 2020-21 recently released by NSO indicate real GDP contraction at 8 per cent, larger than real GVA contraction of 6.5 per cent. This is not a normal occurrence. Real GDP growth has been higher than real GVA growth since 2011-12 when estimation of National Income in India moved to a new base year. Recalling that GDP is GVA plus indirect taxes net of subsidies, GDP growth is higher than GVA growth when growth of indirect taxes is higher than growth of subsidies. Annual growth of indirect taxes between 2012-13 to 2019-20 has been higher than annual growth of subsidies. The year 2019-20 is an exception as data is yet to reach the finalization stage.

The food and fertilizer subsidy from BE to RE of 2020-21 increased by Rs.3.7 lakh crore. After making adjustments for pre-payment of loans of Rs. 2.0 lakh crore taken for paying subsidy of previous years, the balance Rs.1.7 lakh crore emerged as the additional subsidy paid in the pandemic year. This enhancement between BE and RE caused the growth of subsidies to be significantly higher than the growth of indirect taxes. Consequently, GVA growth became higher or in other words GVA contraction became smaller than that of GDP. In FY 2021-22, the annual growth of subsidy estimated over the unusually large base of the previous year, will again become lower than the growth of indirect taxes. Real GDP growth will then exceed real GVA growth in FY 2021-22. Since GDP growth (or contraction) has been distorted in FY 2020-21 on account of significant growth of subsidies, GVA growth is a more appropriate measure to follow in the current year.

Scale			
YoY growth	(-) 109	0	881

Movement in India's high frequency indicators

Indicator	Jan20	Feb20	Mar20	Apr20	May20	Jun20	Jul20	Aug20	Sep20	Oct20	Nov20	Dec20	Jan21	Feb21
8-Core Industries	137.4	134	134	81.2	107.7	116.3	122.5	119.7	121.4	126.7	127.4	135.9	137.6	
IIP-Consumer Durable goods	124.0	117.3	83.2	5.5	39.7	78.2	99.4	109.5	129.0	133.7	112.7	123.0		
IIP-Consumer Non-Durable goods	158.3	153.4	121.7	72.7	135.3	147.5	149.3	140.0	147.4	148.5	148.2	161.2		
Domestic Auto sales (minus commercial)	16.5	15.9	10.4	0.0	3.2	11.3	14.8	17.9	21.4	23.9	18.9	14.0	17.3	
Domestic Passenger vehicles sales	2.5	2.5	1.4	0.0	0.3	1.1	1.8	2.2	2.7	3.1	2.6	2.5	2.8	
Non oil exports	22.7	24.3	19.0	8.9	17.5	20.1	22.0	20.9	24.0	23.3	22.0	24.8	25.3	25.16
Non oil non gold imports	26.6	24.8	20.2	12.4	19.2	15.7	20.7	20.9	24.1	25.1	24.1	28.5	28.5	23.85
PMI Manufacturing	55.3	54.5	51.8	27.4	30.8	47.2	46.0	52.0	56.8	58.9	56.3	56.4	57.7	57.5
Power supply	113.7	112.2	107.4	91.7	110.1	114.2	121.5	118.9	121.6	118.5	105.9	115.4	111.4	104.7
Tractor sales	53387	57710	31232	11827	60441	92888	63137	64729	108585	115155	82330	61249	78345	
Natural gas production	2608.3	2340.5	2411.2	2161.3	2300.0	2323.8	2443.3	2431.7	2293.5	2418.9	2331.3	2424.9	2550.6	
Domestic air passenger traffic	248.3	240.7	149.6	0.1	6.0	38.6	40.4	55.8	77.9	103.3	125.2	144.4	152.3	
Port cargo traffic	61577	57233	61120	47432	45398	49052	51454	51611	53511	56258	59491	63175		
Rail freight traffic	110190	106490	103070	65400	82580	93580	95180	94630	102300	108260	110110	118290	119790	
PMI Services	55.5	57.5	49.3	5.4	12.6	33.7	34.2	41.8	49.8	54.1	53.7	52.3	52.8	55.8

Fuel consumption	18746	18105	15931	9403	15374	16093	15604	14434	15477	17768	17867	18618	18010	
Cement production	31391.0	30728.0	24818.0	4305.0	22443.0	26358.0	24247.0	20871.0	24244.0	27030.0	25256.0	27492.0		
Steel consumption	9168.0	7833.0	6742.0	1091.0	4789.0	6350.0	7634.0	7963.0	8179.0	9192.0	9076.0	10163.0	9696.0	
Merch Exports	25.9	27.7	21.5	10.2	19.2	22.0	23.8	22.8	27.6	24.9	23.6	27.1	27.4	27.7
Baltic Dry Index	487.0	535.0	626.0	635.0	504.0	1799.0	1350.0	1488.0	1725.0	1283.0	1227.0	1366.0	1452.0	
Exchange Rate	71.3	71.5	74.4	76.2	75.7	75.7	75.0	74.7	73.5	73.5	74.2	73.6	73.1	72.7
NEER	72.4	72.9	71.2	70.4	70.6	69.6	70.0	69.8	70.8	70.7	69.4	69.1		
Net FDI	5.3	2.7	4.0	0.2	-0.2	-0.8	3.5	18.2	2.9	4.6	5.7	6.5		
Gross tax revenue	1.48	1.47	3.32	0.68	0.59	1.44	1.10	1.24	2.17	1.55	1.50	3.12	1.77	
Nonfood credit	100.26	100.39	103.20	102.21	101.43	101.56	102.03	101.50	102.05	103.05	103.64	104.95	106.18	
M3	164.19	164.59	168.00	170.34	172.31	173.19	176.26	176.48	177.40	178.04	179.38	180.55	184.01	
CPI Nonfood	147.4	147.9	148.3	149.2	149.4	149.9	151.3	151.9	152.2	153.1	153.4	154.2	155.2	
Crude price Brent Dubai WTI	61.6	53.3	32.2	21.0	30.4	39.5	42.1	43.4	40.6	39.9	42.3	48.7	53.6	59.7*
Crude oil Indian basket	64.1	54.9	33.3	20.5	29.7	40.6	43.3	44.2	41.4	40.8	43.5	49.9	54.6	61.4*
Sensex	40723.5	38297.3	29468.5	33717.6	32424.1	34915.8	37606.9	38628.3	38067.9	39614.1	44149.7	47751.3	46285.8	49100.0

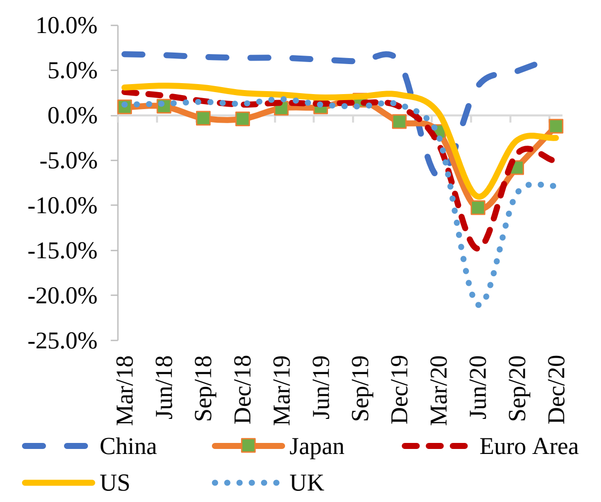
**** green colour here indicates year-on-year increase in international and domestic oil prices owing to trends of recovery in global economic demand***

While the global COVID-19 situation and economic recovery remains precarious, Indian economy continues to pick up pace with broad-based resilience

1. 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 normal 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.

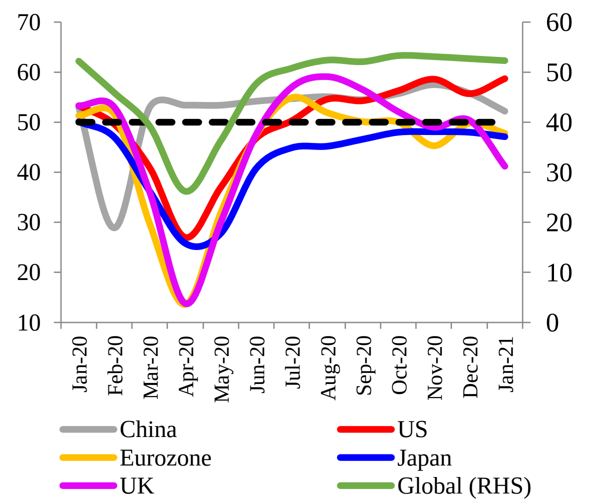
2. The rate of global economic expansion moderated for the third month in a row during January as indicated by global PMI composite index value. Output rose at the slowest pace since last July, as new business growth slipped to a five-month low. Manufacturing production continued to rise at a faster pace than service sector business activity at the start of the year, as has been the case since the current upturn started in July 2020.

Global GDP



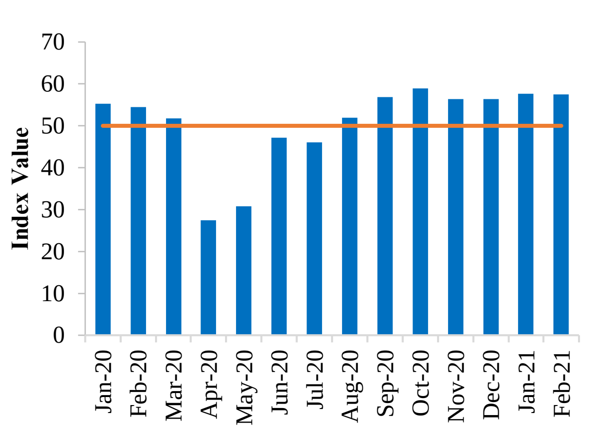
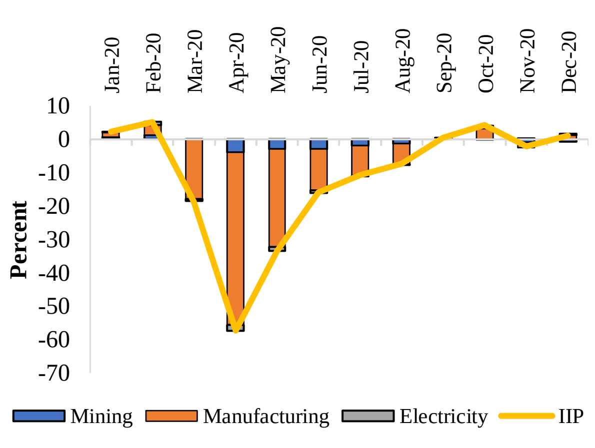
Source: Collated using various sources

Global PMI Composite Indices



Source: IHS Markit

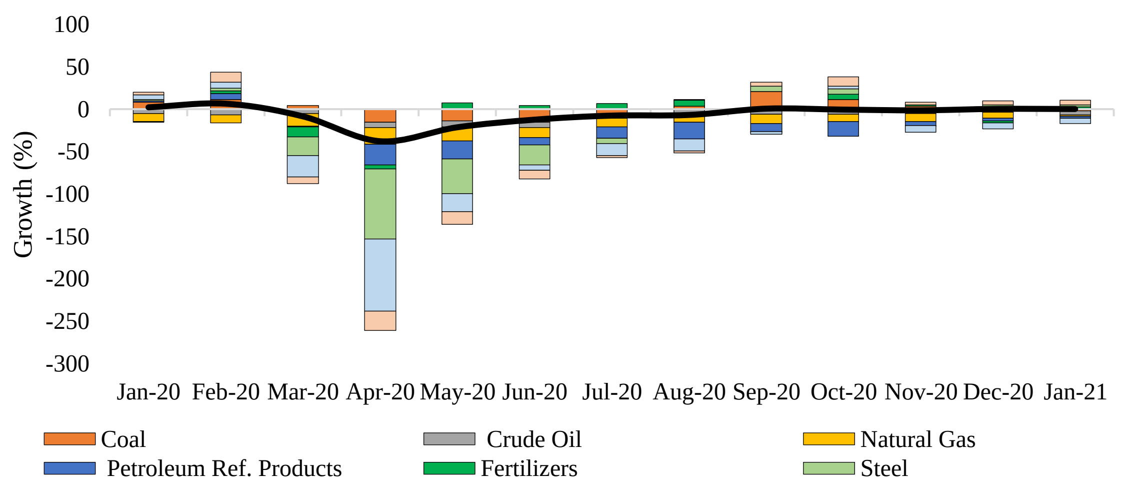
3. In India, economic activity is gathering healthy pace with a sustained flattening of COVID-19 curve, prompt roll-out of Covid-19 vaccine and steady uptick in consumer sentiment. India's manufacturing sector remained in expansion zone for seventh straight month, with PMI Manufacturing dipping only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

PMI Manufacturing	IIP Growth
	
Source: IHS Markit	Source: MoSPI

4. Industrial production saw a broad-based resuscitation in December, with IIP re-entering the positive territory with a modest 1 per cent growth. While mining sector continues to be in contractionary zone, 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 bears good news for a revival in demand.

5. 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.

Eight Core Industries

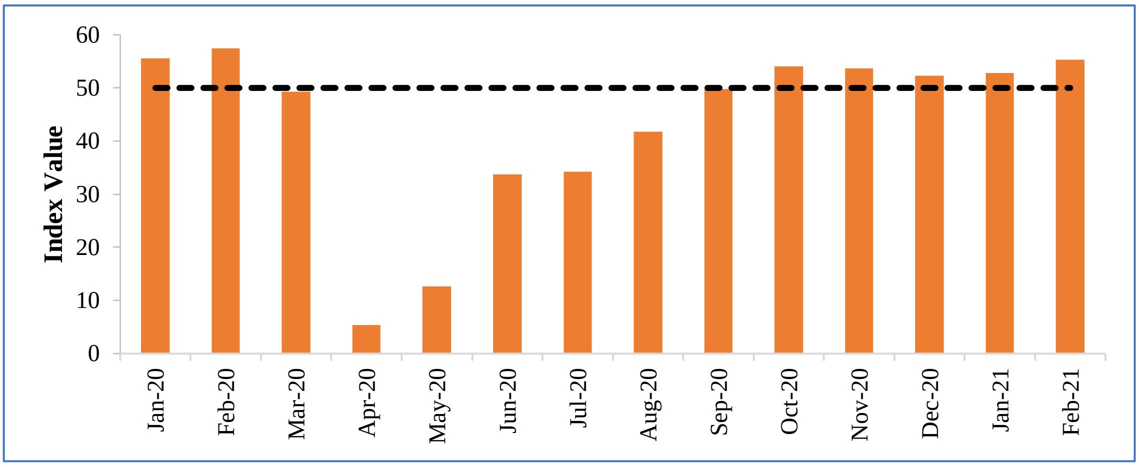


Source: Office of Economic Advisor, DPIIT

6. The 92nd round of the Reserve Bank's Industrial Outlook survey (IOS) conducted in Q3:2020-21 also re-affirmed this optimism in the manufacturing sector with respondents expressing strengthening of production, order books and employment during the third quarter, driven by easing of lockdowns and re-opening of businesses and improved availability of finance from banks and internal sources. The business assessment index entered expansion zone after two consecutive quarters of contraction and stood at 108.6

in Q3:2020- 21 from 96.2 in Q2:2020-21. This positive sentiment persists as the business expectations index (BEI) increased further to 114.1 in Q4:2020-21 from 111.4 in Q3:2020-21 with firms being upbeat about the demand and employment situation in the coming three quarters. While selling prices are expected to increase in the fourth quarter Q4:2020-21, higher input cost pressures keep possibilities of profit margins subdued.

PMI Services



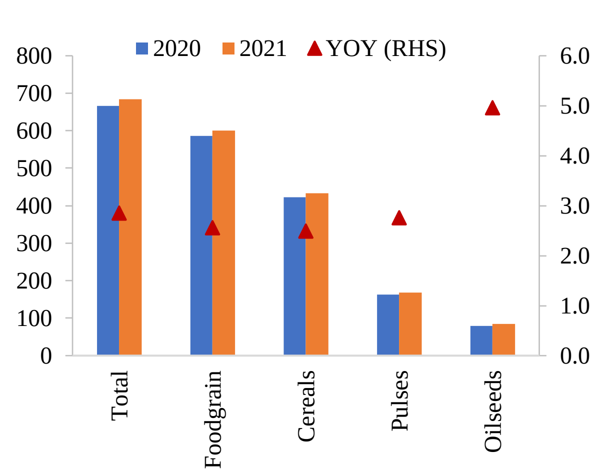
Source: IHS Markit

7. Services activity continued to remain in expansion, as PMI Services rose to 55.3 in February (from 52.8 in January), the sharpest expansion in a year, and stayed in positive territory for 5 months straight. Services firms witnessed fastest pace in new work intakes, healthy pickup in sales and output and weaker declines in new export orders while input costs also rose strongly. Improved demand and more favourable market conditions as per PMI survey respondents were corroborated by results of the 27th round of the Reserve Bank's services and infrastructure outlook survey (SIOS) conducted in Q3:2020-21 where firms expected further pickup in turnover and profit margins in Q4:2020-21 with rise in selling prices offsetting input cost pressures.

8. Amongst services, construction activity has been gathering steam in 2021 with Ministry of Road Transport and Highways constructing a record 534 km of National Highways in one week from 8th to 15th January. 8,169 km of NHs have been constructed in the current financial year 2020-21 (till 15th Jan) with a speed of about 28.16 km per day, up from 26.11 km a year ago with the pace of award of NH projects also doubling during this period. Construction input demand picked up in January with steel consumption, as per Joint Plant Committee data, registering a growth of 5.8 per cent. The pace of construction is expected to increase further in the remaining months of the current financial year to be able to cross the construction target of 11,000 km by 31 March, which is conducive for construction services in Q4:2020-21. The Knight Frank-Ficci-Naredco Real Estate Sentiment Index survey released on January 27 also showed current sentiment score entering optimistic zone at 54 points, marking a significant jump of 14 points over the previous quarter. The future real estate sentiment score also witnessed a robust surge to 65 points in Q4 from 52 points in Q3 across both developers and non-developers including banks, non-banking finance companies and private equity funds with the western India region seeing the sharpest jump in future sentiment.

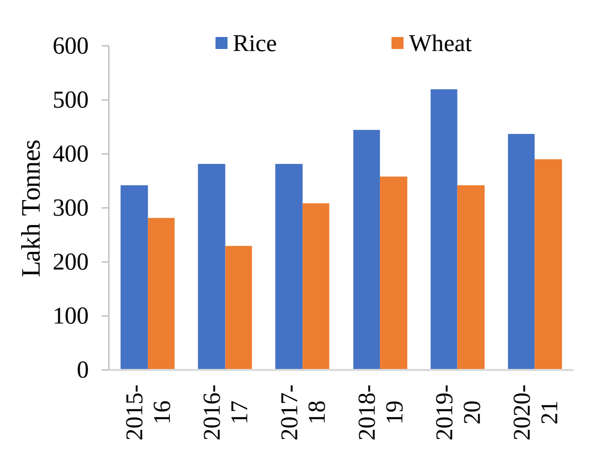
9. Agriculture continued its resilient march as area sown under rabi crops remains record-high at 685 lakh hectares, 2.9 per cent higher than last year and 10.4 per cent over the full season normal acreage (5-year average). While record wheat coverage stands at 14.1 per cent above the normal acreage, the stock of cereals has gone up to 3.9 times the buffer norms, demonstrating the continued support of MSP, procurement and distribution operations of Government of India. About 95.81 lakh farmers have already been benefitted from the ongoing KMS procurement Operations with MSP value of Rs. 1,24,826.44 Crore, as on 25th February 2021. Procurement of paddy, at 661.15 LMT, 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. An increase in acreage under pulses-a 14.7 per cent record increase over the normal area for oilseeds, mustard and rapeseed-would also reduce dependence on imports. Wheat procurement for the forthcoming RMS 2021-22 is estimated at 427.363 LMT, 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 spurt in fertilizer sales.

Progress in Rabi Sowing



Source: Ministry of Agriculture

Procurement

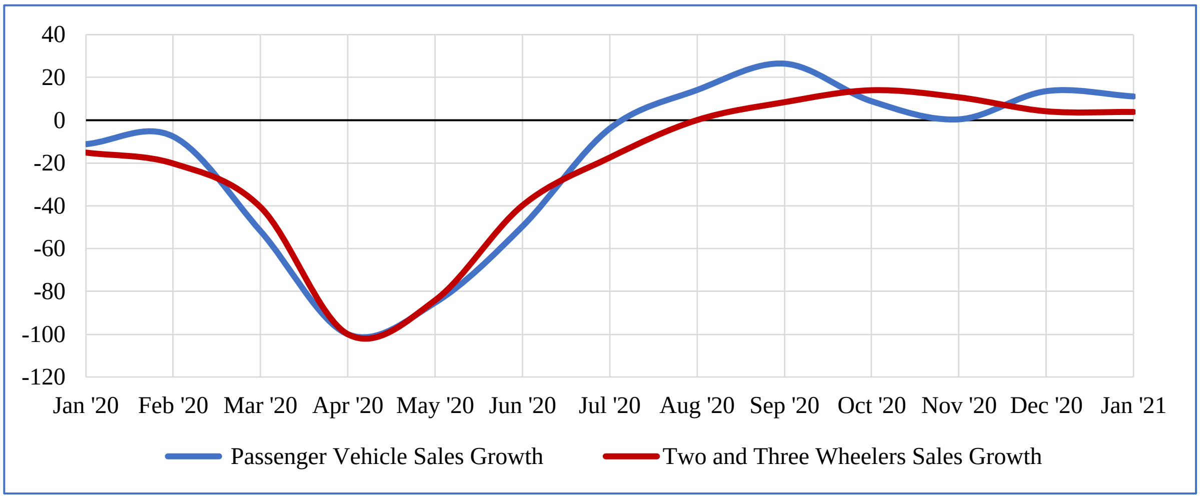


Source: Department of Food and Public Distribution

10. A positive agriculture outlook continues to be a key lever of rural demand revival and consumption acceleration. Till 28th February 2021, 350 crore 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 further catalyzed by Union Budget led high investments in rural infrastructure, roads, and agriculture infrastructure, a big push to fisheries and seaweed cultivation alongside enhancing credit flow to allied sectors.

11. Demand resumption, as indicated by automobile sales, is steady, 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 one for the automobile industry, factors such as robust rural demand, maturing of BS-VI norms, and preference for private transport are well positioned to bring this industry with high interlinkages back in the pink of health.

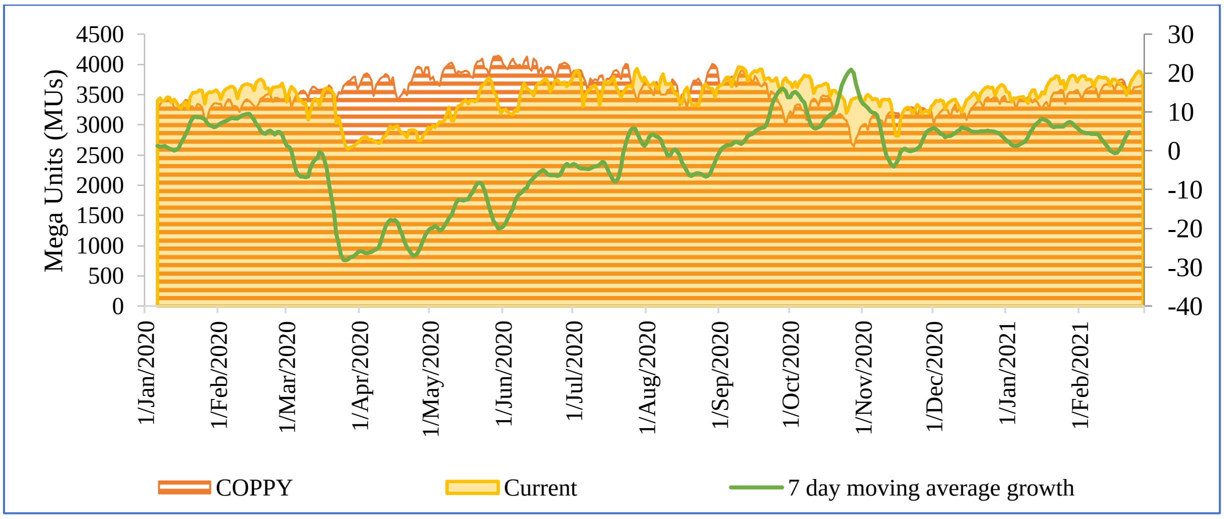
Auto Sales



Source: SIAM

12. Power consumption, growing at 4.8 per cent in January 2021 and 3 per cent in February, has been one consistently encouraging indicator for economic activity. RBI's January 2021 round of Consumer Confidence Survey Perceptions also suggested improved consumer sentiment over the November round of the Survey 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



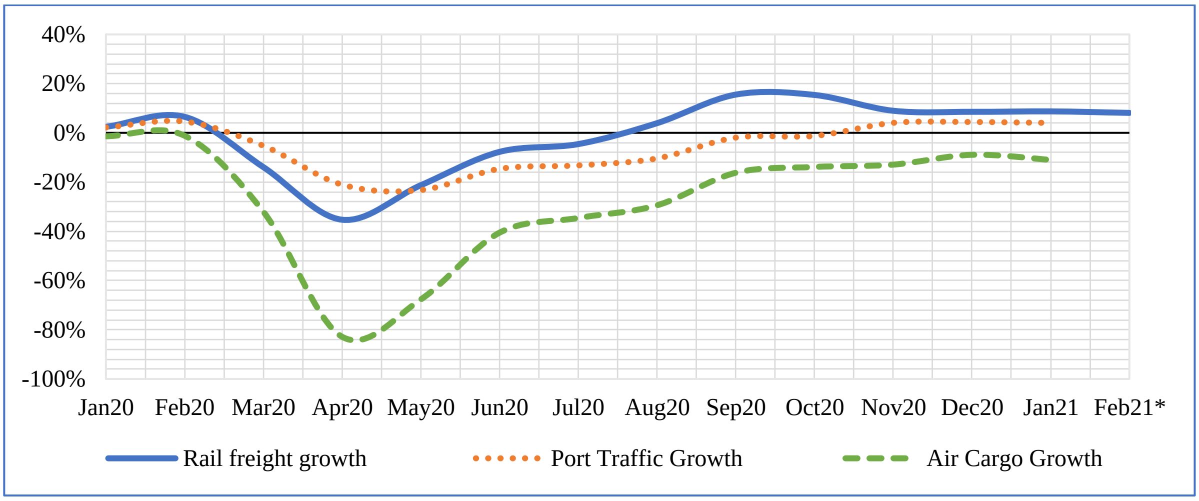
Source: POSOCO. Note: COPPY: Corresponding Period of Previous Year

13. Robust pick-up in economic activity is also mirrored in the revenue earning rail freight growing at 8.1 per cent in first twenty days of February. In spite of disruptions due to COVID-19, cumulative freight loading till 28th February is higher for FY21 than last year. The share of Railways, the more efficient and environment-friendly mode of freight transport, is, therefore, slated to rise significantly than its pre-COVID level.

14. Port traffic continued a growth journey for third month, growing at 4 per cent in January. Air cargo growth (domestic plus international), however, continues to be in negative

zone. There was a slight moderation in UPI transactions total value, from 4.31 lakh crores in January to 4.25 lakh crores in February 2021, yet miles ahead of February 2020 value of around 2.2 lakh crores.

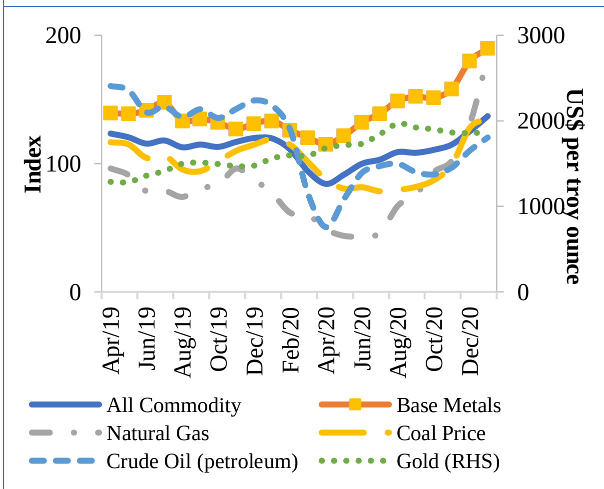
Rail Freight, Port Traffic, and Air Cargo Growth



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

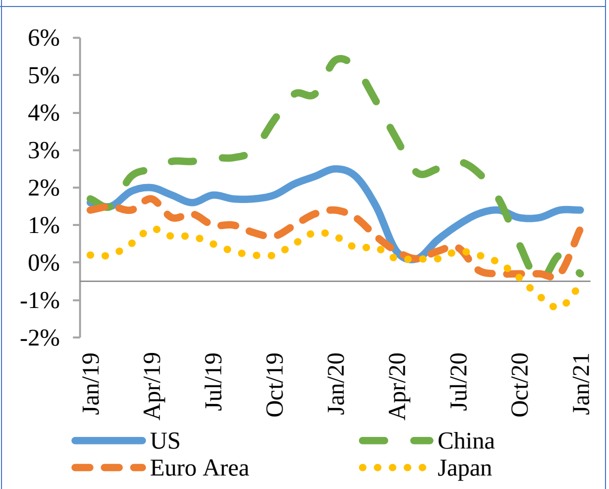
15. Global energy commodity prices started the year on a positive note, rising across the board led by an increase in oil prices for the third consecutive month. Colder than average weather generally supported both natural gas and coal prices in Asia and Europe, with price gains in the US smaller in comparison due to milder January weather there. Base metals continued to rise supported by overall financial market bullishness on expectations of additional government led stimulus. However, it rose at a slower pace than the previous month as the expansion in global manufacturing slowed slightly, especially in China. Within precious metals, gold prices showed a marginal increase. CPI inflation in China moved into negative territory again. After remaining muted last year on account of subdued activity, inflation firmed up in US and Euro area in January driven by rise in food prices. Nevertheless, global inflation continued to remain benign on the back of subdued aggregate demand.

Commodity Prices



Source: World Bank

Global Inflation Trend

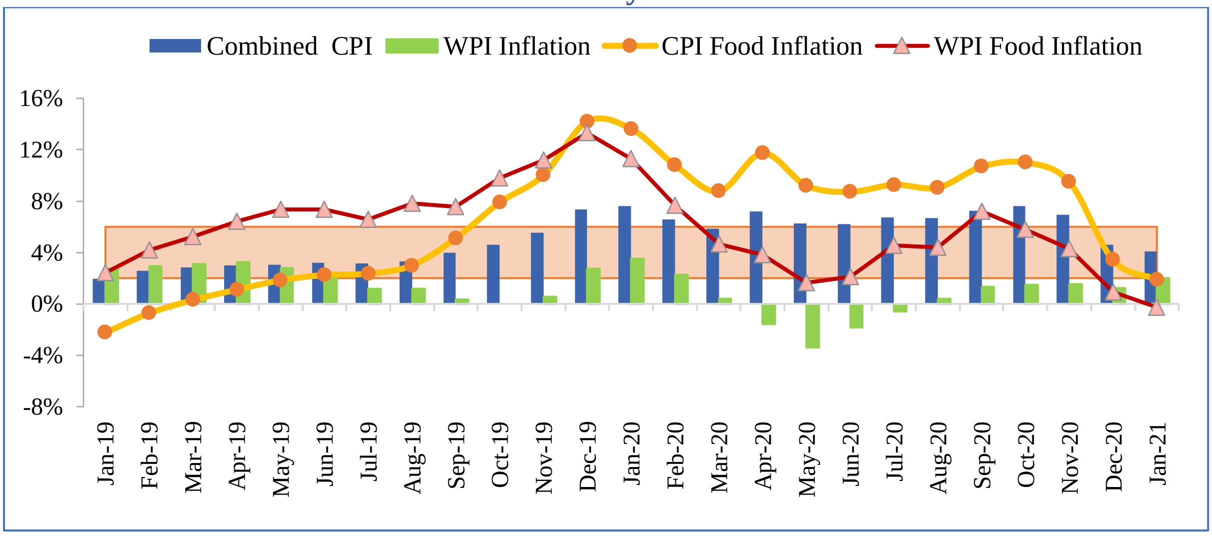


Source: Compiled using various agencies

16. India's Consumer price index (CPI) inflation continued to soften in January 2021, easing to 4.1 per cent from 4.6 per cent a month ago, reaching a 16 month low. A sharp decline in food inflation – by 120 basis points (bps) from 3.9 per cent in December drove this positive development with deflation seen in prices of vegetables and sugar, alongside a decline in the rate of inflation of cereals, eggs, meat, fish, milk, pulses and spices. Department of Consumer Affairs' high frequency price data of essential commodities for February so far (February 1-12) also indicate month-on-month softening of price pressures in respect of cereals and vegetables. This validates RBI's accommodative monetary policy stance adopted in the February 5 meeting to provide possibilities of a growth push in face of moderating inflation.

17. Fuel inflation picked up, however, to 3.9 per cent from 2.9 per cent in December, majorly due to a pickup in LPG inflation. Core inflation at 5.5 per cent remained elevated, displaying persistence on account of price pressures in health, petrol, diesel, motor vehicles, transportation fares and recreation services. Double-digit inflation continued in prices of personal care services. Wholesale inflation also saw a rising trend, at 2 per cent in January compared to 1.2 per cent in December 2020, mainly driven by inflation in non-food manufactured products (core-WPI) with rising commodity and metal prices.

Inflation Dynamics

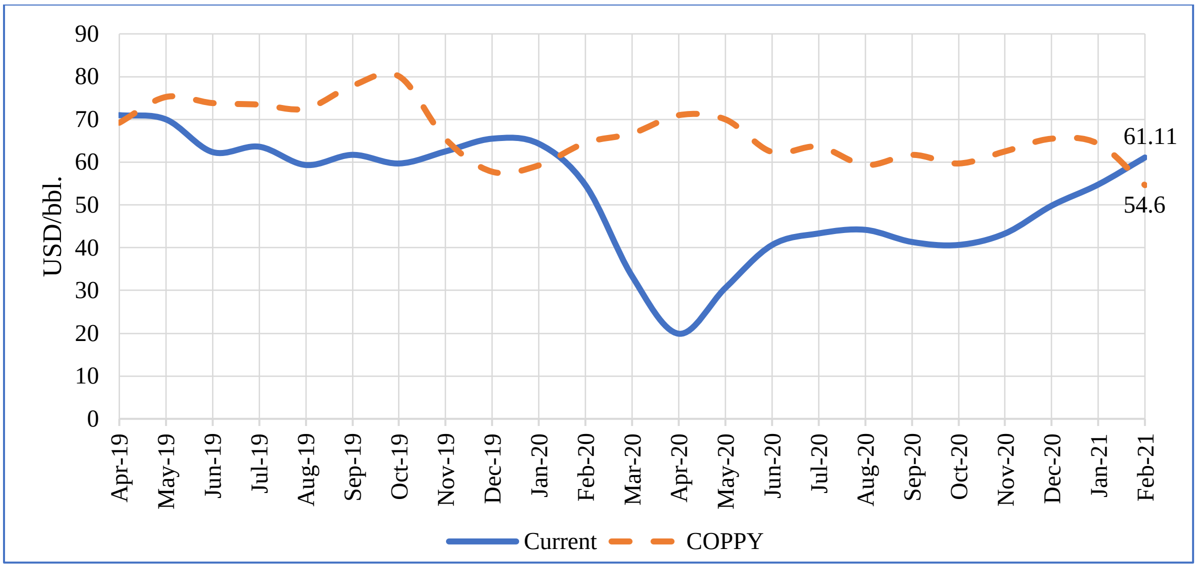


Source: MoSPI, Office of Economic Advisor, DPIIT

18. Indian basket crude oil prices picked up, averaging 61.1 USD/bbl in February from USD/bbl 54.6 per barrel in January driven by international crude oil price movements boosted by vaccination optimism and demand recovery, and reduction in output by key suppliers. Retail prices for petrol and diesel increased from Rs. 87.6 per litre and Rs. 79 per litre respectively in January to Rs. 91.3 per litre and Rs. 83 per litre, respectively in February, a historic high arising from indirect tax hikes.

19. Looking forward, a buoyant rabi harvest and crop arrivals would keep cereal and onion inflation in check while edible oil inflation movements depend on moderation of global price pressures. While intensification of fuel prices and broad based domestic cost pass-through pressures is a downside risk, core inflation is expected to strengthen further as demand recovers to pre-COVID levels.

Crude Oil Prices

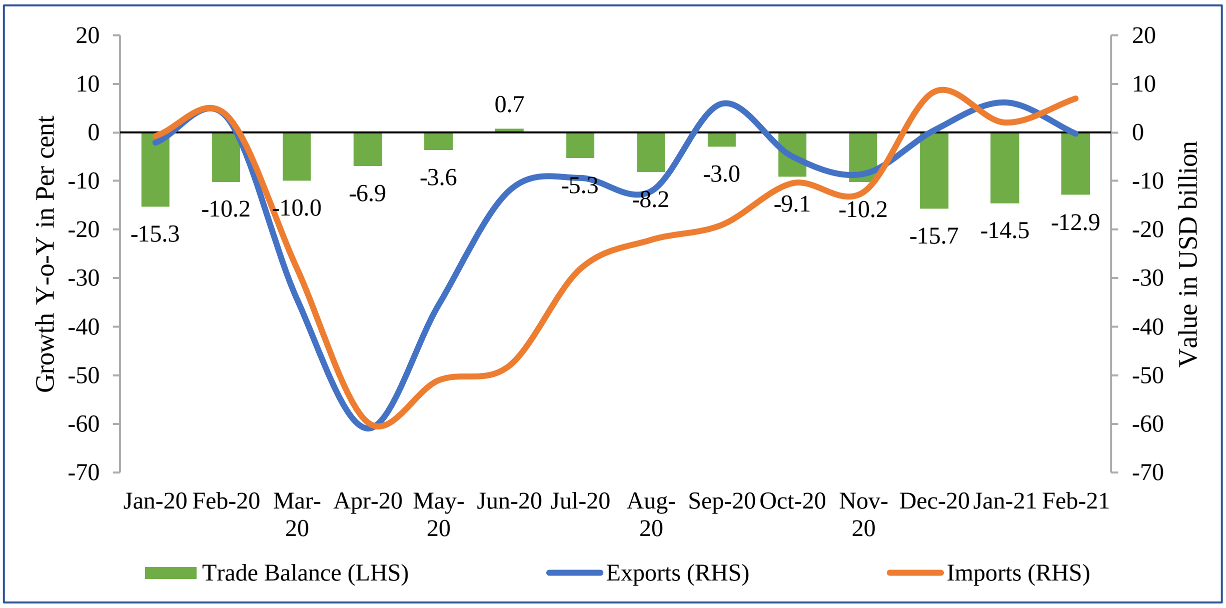


Source: PPAC

20. World trade recovered in the second half of 2020 largely driven by rebound in trade of goods. Trade in services, however, continues to lag substantially below averages. 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.

21. Indian exports belied the trends of subdued global trade and regained further ground in January 2021 to reach their highest YoY growth levels of 6.2 per cent in FY21 buoyed by healthy sectoral gains for engineering goods, gems and jewelry, iron ore and textiles. External trade attained pre-COVID normalcy with exports reaching USD 27.4 billion in January 2021 as compared to USD 10.1 billion in April 2020. As per preliminary data, merchandise exports increased further to USD 27.67 billion 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 imports witnessed double digit growth of 16.37 per cent for the third consecutive month in February to reach USD 31.5 billion, demonstrating robust recovery in demand. India's overall merchandise imports in February stood at USD 40.55 billion as compared to USD 37.90 billion in February 2020, an increase of 6.98 per cent. India was, thus, a net importer in February 2021 with a trade deficit of USD 12.88 billion as compared to trade deficit of USD 10.16 billion in February 2020, an increase of 25.84 per cent.

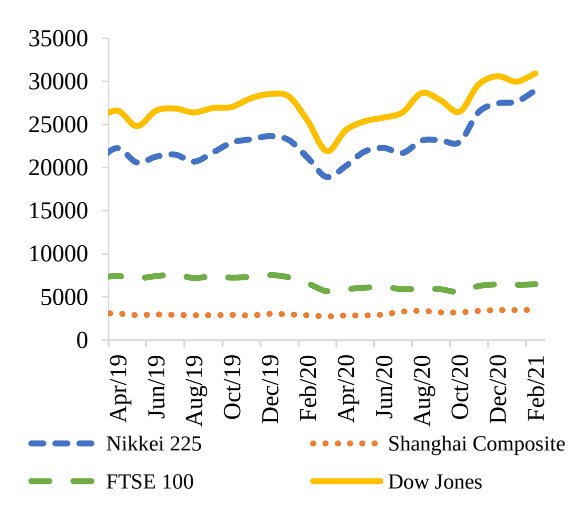
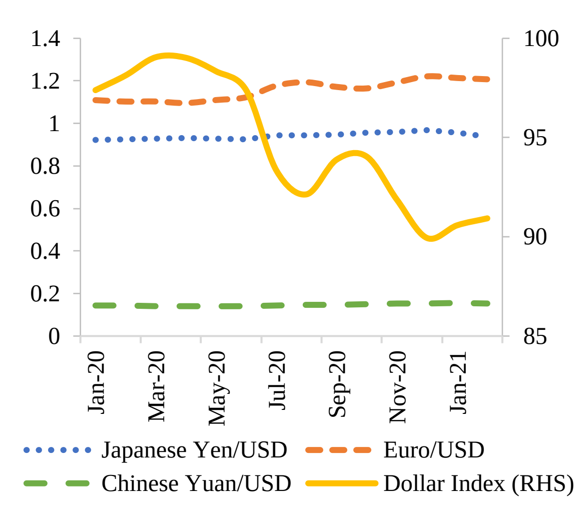
India's Merchandise Exports, Imports and Trade Balance



Source: Ministry of Commerce & Industry

22. In terms of India's top export destinations in 2020, India's exports to China increased by 16.6 per cent YoY in the first ten months of FY21 as compared to a contraction of 8.1 per cent and 46.8 per cent in exports to US and UAE respectively. On the other hand, there was a broad-based decline in India's imports from its top three trading partners over this period with a contraction of 10.37 percent, 24.15 per cent and 28.89 percent in imports from China, UAE and US respectively.

23. Global equity markets recouped on hopes of further stimulus package from the US and optimism led by early roll out of COVID-19 vaccine supporting global economic recovery. However, global debt markets and Asian equity markets, in particular, shook up in the last week of the month owing to a rise of US bond yields to its one-year high, driven by expectations of faster economic growth and concerns of large fiscal and monetary policy stimulus driven revival of US inflation. Shares in Europe, Japan and China fell in tandem with the global sell-off of risky assets. The US dollar index, which measures the greenback's value against a basket of six major trading partners' currencies, rose by about 0.4 per cent compared to previous month majorly supported by weakness in Euro as slower vaccine rollout dented their growth outlook.

Financial Market Performance	Exchange Rates
	
Source: Compiled using various agencies	Source: Thomson Reuters

24. Foreign portfolio investors' optimistic sentiment of India's growth story continued with USD 4.22 billion inflows coming into Indian capital markets in the first three weeks of February on the back of Union-Budget led positive economic growth projections by domestic and international organizations and healthy Q3 corporate earnings data. However, with the rise in US yields causing financial market spillovers to emerging markets in the last week of February, sharp FPI sell-offs of USD 0.8 billion occurred in Indian debt markets in the month in total, exacerbating the trend of debt outflows seen in previous months. As Indian equities plunged amid this global selloff of risky assets in the month-end, the rupee also declined 0.75 percent on 26th February, its sharpest drop since March, to reach INR/USD 73.04. Market volatility rose sharply with India VIX touching an over seven-month high of 29.64 points during the day.

25. Notwithstanding this, India received a strong total of USD 3.29 billion net foreign inflows in the month. In contrast, other emerging markets barring Taiwan experienced muted capital flows in the month. Foreign investors have pumped in a whopping USD 33.1 billion into Indian equities and debt in this fiscal year (Apr'20-Feb 2021), 2.8 times the inflows of USD 12.1 billion received during the corresponding period last year with sectors like financial services, software and oil & gas being the maximum beneficiaries. India may continue to receive healthy capital inflows in the coming months as long as global central banks maintain an accommodative stance to push their economies on the post-COVID recovery path. However, risks of a revival of global inflation reducing the relative appeal of these risk assets remains as forward-looking financial markets internalize the risks of potential economic overheating. While US recovery led rising US bond yields bring good news for global economic outlook, the possibilities of consequently rising global borrowing costs may add some external financing challenges for emerging markets in the near term.

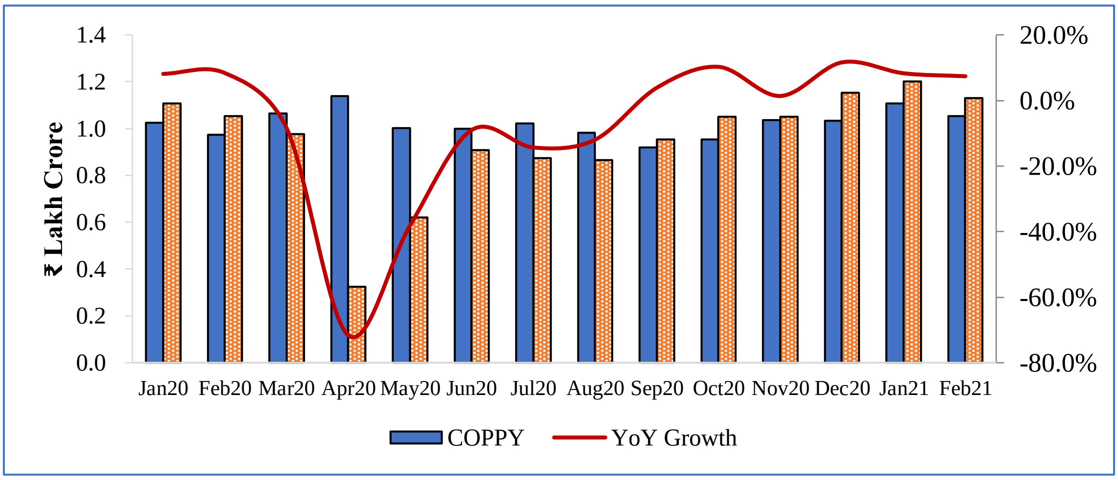
26. Attractiveness of safe-haven gold also waned in February on the back of a stronger dollar and expectations for improving economies. Gold ETFs have witnessed major outflows since November as investors focus on a COVID-19 recovery and higher bond yields. Crude prices, on the other hand, managed to post a nearly 20 per cent month-on-month

and year-on-year gain in February to reach USD/bbl 65.7 on 26th February as global economic demand recovery ensued and inventories worldwide tightened.

27. Budget 2021-22 has adopted an expansionary fiscal policy with an emphasis on capital expenditure to boost economic growth. The fiscal deficit target for FY 2020-21 has been revised to 9.5 per cent of GDP. During April 2020 to January 2021, the Centre's fiscal deficit stood at ₹12.34 lakh crore, which is 66.8 per cent of RE. On the revenue side, the Net Tax Revenue to the Centre registered a growth of 10.4 per cent, which was led by 57.8 per cent YoY growth in excise duty collection and 1.8 per cent YoY growth in customs. The major direct taxes registered a negative YoY growth. The expenditure profile for April 2020 to January 2021 is characterised by an increased thrust on capital expenditure. The capital expenditure during this period registered a 35.2 per cent YoY growth and the total expenditure recorded a YoY growth of 11 per cent. This will be pivotal in bringing back the economy on a high growth trajectory, thereby facilitating buoyant revenues and a sustainable fiscal path in the medium term. Market borrowings of Government of India and state governments have reached Rs. 12.29 lakh crore and Rs. 6.67 lakh crore respectively till 19th February 2021.

28. Sustained momentum in GST revenue collection, at ₹ 1.13 lakh crores, growing at 7 per cent year on year in February 2021, bespeak growing business and trading turnover going beyond the festival season and rising efficiency in tax collection powered with process reforms and use of technology.

GST Revenue Collection



Source: GSTN

Note: COPPY: Corresponding Period of Previous Year

29. To ensure the smooth conduct of the massive Centre and State Governments' borrowing plans, RBI continues to provide support through outright OMO purchases of both G-secs as well as SDLs along with special OMOs where it purchases long-term bonds while selling an equal amount of short-term securities. Reserve Bank conducted one open market operation (OMO) purchase auction on January 21, 2021 thereby injecting durable liquidity of Rs. 10,000 crore and conducted two special OMOs (Operation Twist) involving simultaneous purchase and sale of securities on January 7 and 14, 2021. In

February, the Reserve Bank conducted an OMO purchase auction for a higher amount of Rs. 20,000 crore on February 10, and a special OMO (Operation Twist) on February 25, 2021 to enable comfortable financial conditions.

30. However, the continued pressures of massive gilt issuances to sustain India's counter-cyclical fiscal expansion as well as rising global bond yields in the last week posed upward pressure on India's longer end rates in February with India's 10-year G-Sec yield reaching 6.34 per cent as on 26th February as compared to 5.96 per cent as on 29th January. Tracking gilts, 10-year AAA corporate bond spreads also widened from 74 bps in January 2021 on average to 83 bps in February amid subdued domestic market participation and moderate flows from foreign portfolio investors.

31. Domestic financial conditions continued to remain accommodative to help nurture the recovery, engendering easy financial conditions. The liquidity provision of Rs. 12.9 lakh crore (comprising 6.3 per cent of nominal GDP of 2019-20) since February 6, 2020 has kept systemic liquidity in surplus mode with average daily net absorptions under liquidity adjustment facility (LAF) by RBI ranging around Rs. 5.95 lakh crore in January 2021 and Rs. 6.40 lakh crore in February 2021 (up to February 25).

32. To sustain ample liquidity in the system, the Reserve Bank has conducted open market purchases to the tune of Rs. 3.0 lakh crore up to February 19, 2021, while forex interventions have increased domestic liquidity by Rs. 5.4 lakh crore in 2020-21. India's foreign exchange reserves were at US$ 583.86 billion on February 19, 2021 – an increase of US$ 106.65 billion over end-March 2020. The Central Bank undertook additional liquidity measures on February 5, 2021, which included (i) allowing lending by banks to NBFCs non-banking financial companies (NBFCs) under the targeted long term repo operations (TLTRO) on Tap scheme for incremental lending to specified stressed sectors; (ii) gradual restoration of the cash reserve ratio (CRR) in two phases in a non-disruptive manner to 3.5 per cent effective from March 27, 2021 and 4.0 per cent effective from May 22, 2021; and (iii) extension of the facility for availing funds under the marginal standing facility (MSF) by dipping into the statutory liquidity ratio (SLR) up to 3.0 per cent of net demand and time liabilities (NDTL) until September 30, 2021.

33. Reserve money rose by 14.7 per cent y-o-y (on February 19, 2021) led by currency demand. Money supply (M3) grew by only 12.6 per cent as on February 12, 2021 but with non-food credit growth of scheduled commercial banks picking up to 6.5 per cent. Y-o-y growth in currency held by public fell by 1 percentage points from January 15, 2021 to reach 21.6 per cent as on February 12, 2021 while growth in demand deposits picked up by 1.7 percentage points over the same period.

34. Notwithstanding the strong improvement in real sector indicators since the mid-September flattening of the pandemic curve in September, the macro-financial linkages of economic recovery are picking up only gradually. Y-o-y growth in outstanding credit of scheduled commercial banks (SCBs) slowed down from 7.2 per cent as on 27th April 2020 to 5.7 per cent as on 23rd October before breaking into 6 per cent plus territory in December and has been hovering around this range since then. In the first fortnight of February, bank credit growth to moved a tad to reach back to December growth levels of 6.6 per cent as compared to 5.9 per cent by end January 2021.

35. The gradual yet steady recovery in overall credit growth show encouraging signs at the sectoral level. In December 2020, credit to agriculture and services sectors like transport services, wholesale trade, retail trade and other services, and personal loans for purchase of vehicles, grew at a faster pace. Other personal loans, the second largest component in the personal loan segment, witnessed robust growth of 15 per cent auguring well for consumption sentiment. While growth in bank credit to non-bank finance companies (NBFC) slumped to 8 per cent in December 2020 as against a robust growth of 28 per cent a year ago, RBI's recent liquidity enhancing measures on February 5, 2021 of allowing lending by banks to NBFCs under the targeted long term repo operations (TLTRO) on Tap scheme for incremental lending to specified stressed sectors is expected to boost this credit growth. Credit growth to MSMEs picked up in December with Government of India's Emergency Credit line Guarantee Scheme bolstering business sentiment in FY:2020-21.

36. Large industries credit growth remained in negative territory in the month possibly explained by high rating borrowers raising resources from alternative routes like bonds, debentures and other market-based instruments to take advantage of the prevailing low interest rate regime and also to retire past high-cost debt. Corporate bond issuances at ₹6.3 lakh crore during April 2021-January 2021 were 21.6 per cent higher than those in the same period of last year.

37. Net profit of listed companies after tax continued their ascent in the third quarter of FY21 to reach Rs. 1,533 billion, marginally exceeding the record profits of second quarter September 2020 of Rs.1,527 billion, as per CMIE Prowess data. Firm sales continue to improve as they emerge out of contraction territory. With raw material costs declining and lower interest expenditure; operating profits of firms have jumped up.

38. Corporate sector incomes grew by 0.37 per cent year-on-year in the quarter of December 2020 compared to its level in the quarter of December 2019 led by financial services companies and banks, securities broking companies and asset management in particular. On the other hand, total income of non-financial firms contracted by 1.03 per cent year-on-year in the quarter ended December 2020, a sixth consecutive quarter decline. While salaries and wages of financial companies grew by a healthy 22.2 per cent with the banking sector recording a growth of 26.6 per cent, the non-finance firms witnessed wage bill growth of 3.4 per cent in the third quarter.

39. Recovery in manufacturing companies was resilient with a marginal year-on-year contraction of 0.4 per cent in total incomes growth in Q3:FY21. This corroborates with the manufacturing sector led improvement in GDP growth estimates of the third quarter. However, mining and utilities witnessed sharp income growth declines of 16 per cent and 5.7 per cent respectively. Digital services have remained pandemic-proof with the Information technology (IT) sector, notching up among its strongest quarterly sales in Q3 in several years.

40. Debt issuances by Indian corporates, as per CCIL data, grew to Rs. 1,31,116 crore in Q3-FY21, an increase of 29 per cent over Q2-FY21. Issuances were largely dominated by AAA rated finance companies. The top three issuers during the quarter were - National Highways Authority of India, Rural Electrification Corporation Limited and R.K. M Power Gen Private Limited. Certificate of Deposit (CD) issuances regained their buoyancy, as average issuances almost doubled compared to the previous quarter, from around Rs. 6,600 crores in Q2-FY21 to Rs. 13,400 crores in Q3-FY21. Commercial Paper (CP) issuances maintained their uptrend, indicating an improvement in economic activity in the third quarter.

India back in positive growth territory in Q3-2020

41. As per NSO's Second Advance Estimates, a real GDP growth of 0.4 per cent in Q3 of 2020-21 has returned the economy to the pre-pandemic times of positive growth rates. It is also a reflection of a further strengthening of V-shaped recovery that began in Q2 of 2020-21, after a large GDP contraction in Q1 followed one of the most stringent lock-down imposed by Government relative to other countries. The 2nd Advance Estimates limits the contraction of GDP to 8.0 per cent in 2020-21.

42. The initial policy choice of "lives over livelihoods" succeeded by "lives as well as livelihoods" is now bearing positive results converging with the foresight Government had about an imminent V-shaped recovery when it entered the war with the Pandemic on health and economic fronts. The sharp V- shaped recovery has been driven by rebounds in both Private Final Consumption Expenditure (PFCE) and Gross Fixed Capital Formation (GFCF) as a combination of astute handling of the lockdown and a calibrated fiscal stimulus has allowed strong economic fundamentals to trigger quick resumption of high activity levels in the economy. While GFCF has improved from a contraction of 46.4 per cent in Q1 to a positive growth of 2.6 per cent in Q3, PFCE has recovered from a contraction of 26.2 per cent in Q1 to a much smaller contraction of 2.4 per cent in Q3.

43. Besides the overall uptick in the economy, the resurgence of GFCF in Q3 was also triggered by Capex in Central Government that increased year-on-year by 129 per cent in October, 249 per cent in November and 62 per cent in December, 2020. The fiscal multipliers associated with Capex are at least 3-4 times larger than Government Final Consumption Expenditure (GFCE) as Capex induces much higher consumption spending than normal income transfers. However, GFCE has played a critical role since April, 2020 as apart from supporting lives and livelihoods it provided the initial stimulus to the economy.

44. Significant recovery in manufacturing and construction augurs well for the support these sectors are expected to provide to growth in FY 2021-22. Real GVA in manufacturing has improved from a contraction of 35.9 per cent in Q1 to a positive growth of 1.6 per cent in Q3 while in construction the recovery has been from a contraction of 49.4 per cent in Q1 to a positive growth of 6.2 per cent in Q3. These sectors are vital to the economy to achieve a growth of 11 per cent or more in 2021-22 as they will be impacted most by the counter cyclical fiscal policy that budgets fiscal deficit at 6.8 per cent of GDP.

45. Real GVA in Services has also improved from a contraction of 21.4 in Q1 to a negligible contraction of 1.0 percent in Q3 of 2020-21. The much lower contraction of GVA in Services sector is welcome as activity levels in contact-based services appears to have risen with the decline in the pandemic curve. A continuous decline in the pandemic curve and a step-up in vaccination drive, as recently announced will support further revival of contact-based services. Given that services constitute more than 50 per cent of total GVA in the country, it becomes the most important source for increasing consumption in the economy. Real GVA in Agriculture continues to provide vital support to the economy having grown from 3.3 per cent in Q1 to 3.9 per cent in Q3.

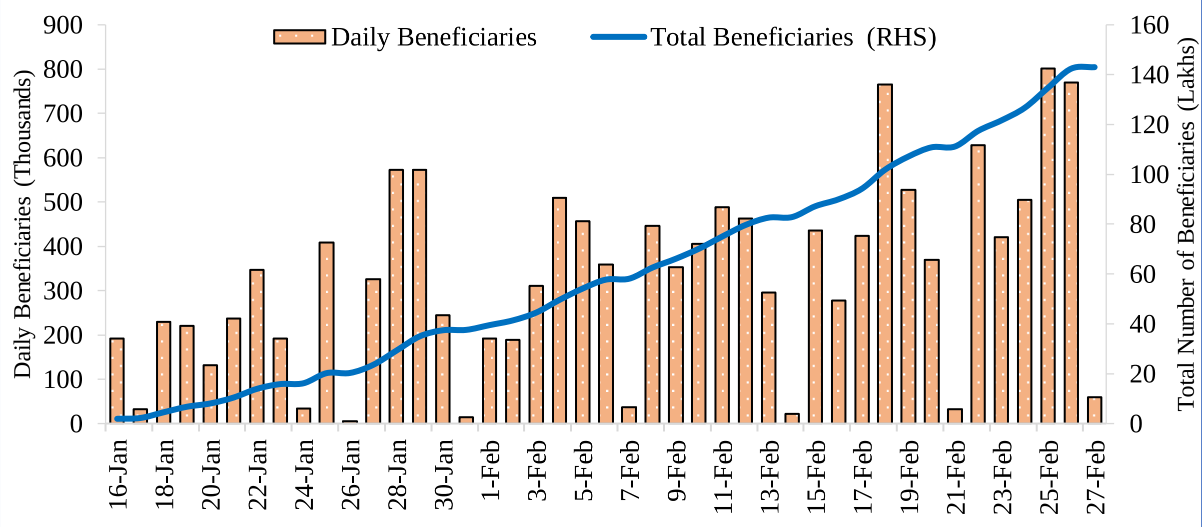
46. India is not yet out of the danger of the pandemic. Social distancing continues to be the most effective tool to combat the pandemic as activity levels continue to rise in the economy boosted by the rapidly escalating inoculation drive in the country. As demand contraction wears off, as evidenced in the 2nd Advanced Estimates of PFCE, and government investment in infrastructure crowds-in its private counterpart besides inducing a multiplier effect on consumption, push to process simplification and structural reforms such as labour codes gain traction, private investment too is expected to rebound. The nascent industrial recovery is thus slated to come of age.

Health stimulus- a key macroeconomic lever for India's economic recovery

47. Rapid production and deployment of COVID-19 vaccination has emerged as a key macro-economic stimulus for global economic recovery in 2021 with an expected beneficial impact on the risk appetite of households and businesses. 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.

48. India is firmly positioning itself as a global leader in terms of COVID-19 vaccine, visible in its vaccine production capacity and also in the speed of vaccination. 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. Behavioural responses to the vaccination programme have significant macro-implications in terms of curbing uncertainty and boosting the Keynesian "animal spirits" crucial for reviving private investment and discretionary consumption.

India COVID-19 Vaccination Progress



Source: Ministry of Health and Family Welfare, PIB

State wise Status of COVID-19 Vaccination Drive

MoM growth	8293%	133%	
States and UTs		**31st Jan 21**	**27th Feb 2021**
India		**3758843**	**14301266**
Andhra Pradesh		187252	668944
Arunachal Pradesh		9651	32120
Assam		38106	223581
Bihar		148293	639370
Chhattisgarh		72704	429625
Goa		4117	20794
Gujarat		247891	1001170
Haryana		125977	293824
Himachal Pradesh		27734	122428
Jharkhand		40860	308208
Karnataka		315370	818722
Kerala		165171	587311
Madhya Pradesh		298376	811316
Maharashtra		269064	1202180
Manipur		3987	54965
Meghalaya		4324	32191
Mizoram		9346	27656

Nagaland	3993	35303
Odisha	206424	618821
Punjab	57499	190800
Rajasthan	330797	1023207
Sikkim	2020	18312
Tamil Nadu	105821	445328
Telangana	168606	419791
Tripura	29796	110978
Uttar Pradesh	463793	1480983
Uttarakhand	31228	161786
West Bengal	243143	1106181
Andaman and Nicobar Islands	2727	8556
Chandigarh	3447	22602
Dadra and Nagar Haveli and Daman and Diu	1083	8442
Delhi	56818	409959
Jammu and Kashmir	26634	257072
Ladakh	1128	10055
Lakshadweep	807	3078
Puducherry	2736	11144

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

49. Second phase of COVID-19 vaccination drive has begun on March 1st, 2021 for those who are over 60 years of age and for people aged 45 and above with specified co-morbid conditions. To ramp up the COVID-19 vaccination capacity, around 10,000 private hospitals have been empanelled under Ayushman Bharat PMJAY, more than 600 hospitals under CGHS and other private hospitals empanelled under State Govts.

50. 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 atleast 18 to 20 vaccines, which are at different stages right now, i.e., pre-clinical trial stage, clinical trial stage, phase 1, phase 2 and phase 3 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.

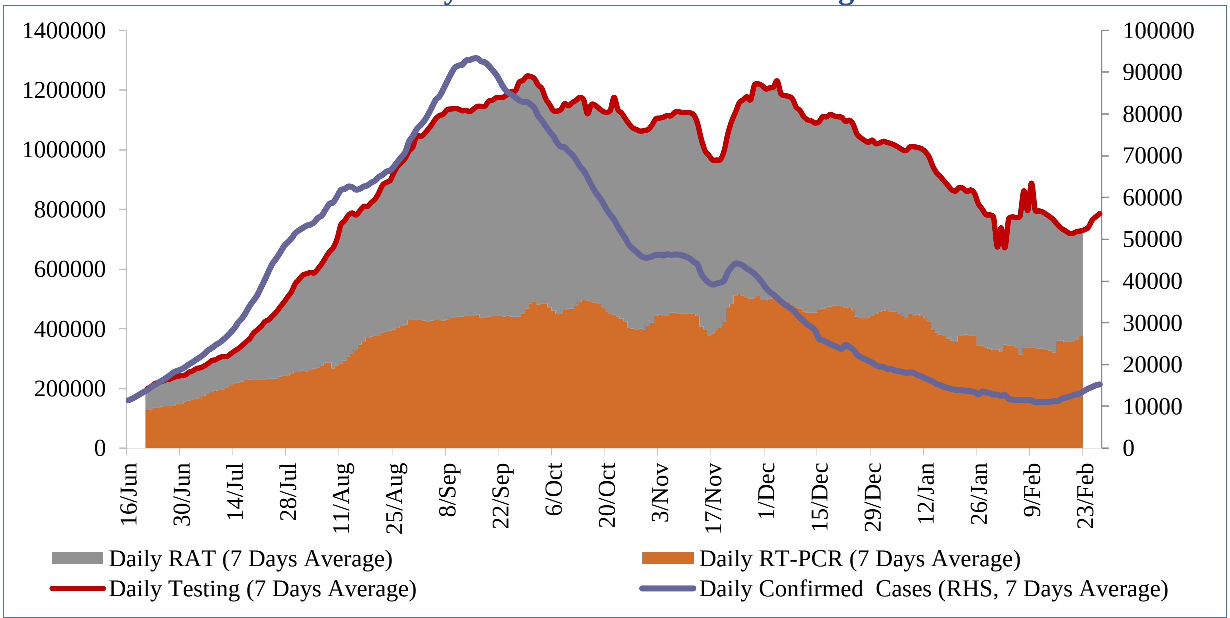
Social vaccine is as important as the real vaccine, recent surge in COVID-19 cases in six states

51. 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. The case fatality rate

stands at one of the lowest globally at 1.4 per cent despite having the second largest confirmed cases at 1.11 crore. India has tested nearly 23.4 crore cumulative COVID-19 samples as on 28th February 2021. The tests per million, now standing at around 1,69,662 is among the top countries in the world. The cumulative test positivity rate at 4.7 per cent is almost equal to the WHO standard of 5 per cent.

52. While India continues to avoid the second wave of pandemic so far, there has been a surge in 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.

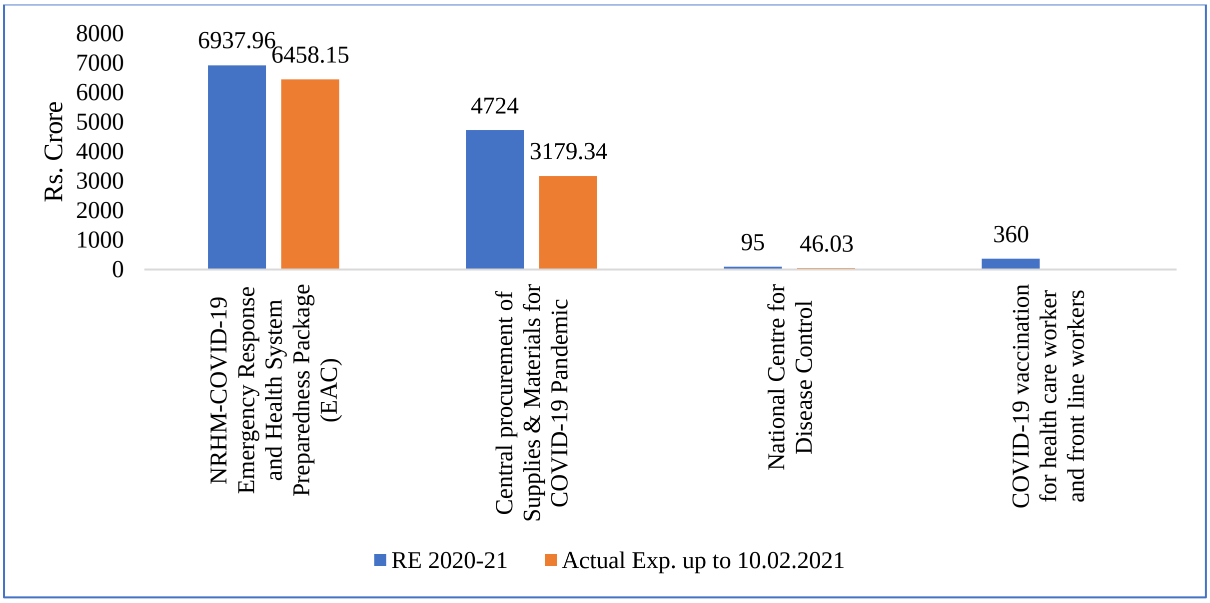
Trend in Daily confirmed cases and Testing in India



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

53. Government of India has demonstrated commitment to strengthen the fight against COVID-19 throughout the previous year through consistent allocation of funds.

Consistent allocation of funds to battle COVID-19 in FY 2020-21



Source: Ministry of Health and Family Welfare

54. 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 immunization and complete immunization 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. Mission Indradhanush & Intensified Mission Indradhanush has enabled the immunization system in reaching hard to reach and high-risk areas including brick kilns, construction sites and nomadic population. The previous campaigns also helped in improving the micro-planning, generating demand for immunization services and strengthening the supporting systems. Since the first phase of Mission Indradhanush launched in 2014, the Mission has covered 690 districts and vaccinated 37.64 million children and 9.46 million pregnant women. The present eighth campaign under Intensified Mission Indradhanush 3.0 (IMI 3.0) will target achieving 90per cent Full Immunization Coverage (FIC) in all districts of the country and sustain the coverage through immunization system strengthening and foster India's march towards the Sustainable Development Goals.

55. 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. Union Budget 2021 has been critically shaped 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 Rs. 2,23,846 crores from Rs. 94,452 crores in the previous year (BE 2020-21), a2.37 times or 137 percent increase with a focus on strengthening holistic health under three areas-Preventive health, curative health and well-being.

56. Government of India is working towards further augmenting India's healthcare systems through a paradigm shift of policies and overarching programs like the Pradhan Mantri Jan Arogya Yojana and the recently launched Aatmanirbhar Swasth Bharat Yojana. Under Ayushman Bharat (AB) which was launched in 2018 with twin components of providing health insurance cover under Pradhan Mantri Jan Arogya Yojana (PM-JAY) and setting up of AB-Health and Wellness Centres (HWCs), Urban Primary Health Centres (UPHCs) are being made operational as HWCs with expanded range of services. As many as 57,017 HWCs have become functional as on 9th February 2021, taking primary healthcare services to the community. The Ayushman Bharat programme has, as on 22nd February 2021, screened 838.39 lakh people for hypertension, 683.34 lakh for diabetes and 806.4 lakh for the three common forms of cancer through the HWCs. They have so far organised 6.91 lakh yoga and wellness sessions at the community level. Apart from treating the poorest of the poor, they are also mandated to inculcate healthy living at the grassroots among the community. As on 4th February 2021, approx. 1.59 crore hospital admissions worth Rs. 19,714 crores have been authorized through a network of 24,321 Empanelled Health Care Providers under Ayushman Bharat Pradhan Mantri – Jan Arogya Yojana (AB-PMJAY). Along with the focus of 'Eat Right India' and 'Fit India Movement', the entire vision of the government is to move from Diagnostic Cure to Preventive Health.

57. The newly announced centrally sponsored Scheme PM Atmanirbhar Swasth Bharat Yojana, with an outlay of Rs. 64,180 crores over 6 years, will develop capacities of primary, secondary and tertiary care, strengthen delivery health care systems, develop institutions for detection & cure of new and emerging diseases and strengthen the existing National Health Mission independent of it. The scheme will strengthen 17000 rural and 11000 urban health and wellness centres, set up integrated public health labs in all districts and 3,382 block public health units in 11 States and establish critical care hospital blocks in 602 districts and 12 central institutions.

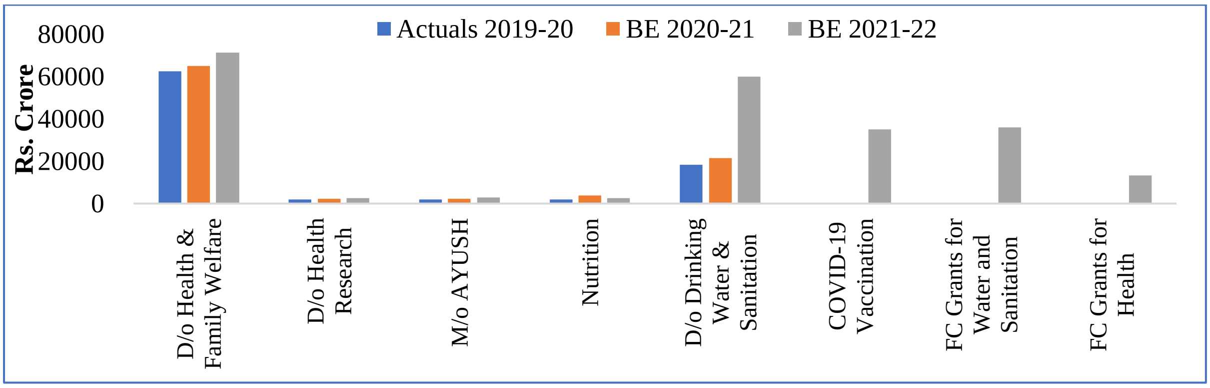
58. The Pradhan Mantri Atma Nirbhar Swasthya Bharat Yojana will give a tremendous boost to India's public health infrastructure- the National Centre for Disease Control will now have 5 regional branches and 20 metropolitan health surveillance units. Along with expansion of integrated health information portal to all States/UTs to connect all public health labs, 17 new public health units will be operationalised and 33 existing public health units at points of entry, i.e., 32 airports, 11 seaports and 7 land crossings will be strengthened. The scheme will also support setting up of 15 health emergency operation centers and two mobile hospitals; a National Institution for 1 health regional research platform for WHO South East Asia region office; and 9 biosafety Level-III laboratories and 4 regional national institutes for virology.

59. Holistic health care focus of the Budget is seen in its renewed focus on Jal Jeevan Mission, the second phase of Swachh Bharat Abhiyan (Urban) and the Clean Air Initiative as these schemes are designed to reduce the disease burden of communicable diseases by curbing their transmission and prevent those caused by pollution. Mission Poshan 2.0 which will merge supplementary nutritional programmes and Poshan Abhiyan will strengthen nutritional content, delivery, outreach and outcomes. The

Mission is proposed to adopt and intensify strategy to improve nutritional outcomes across 112 aspirational districts.

60. A new thinking is taking shape with the establishment of the National Medical Commission, Nursing Commission Bill and National Commission for Allied Healthcare Professions Bills.

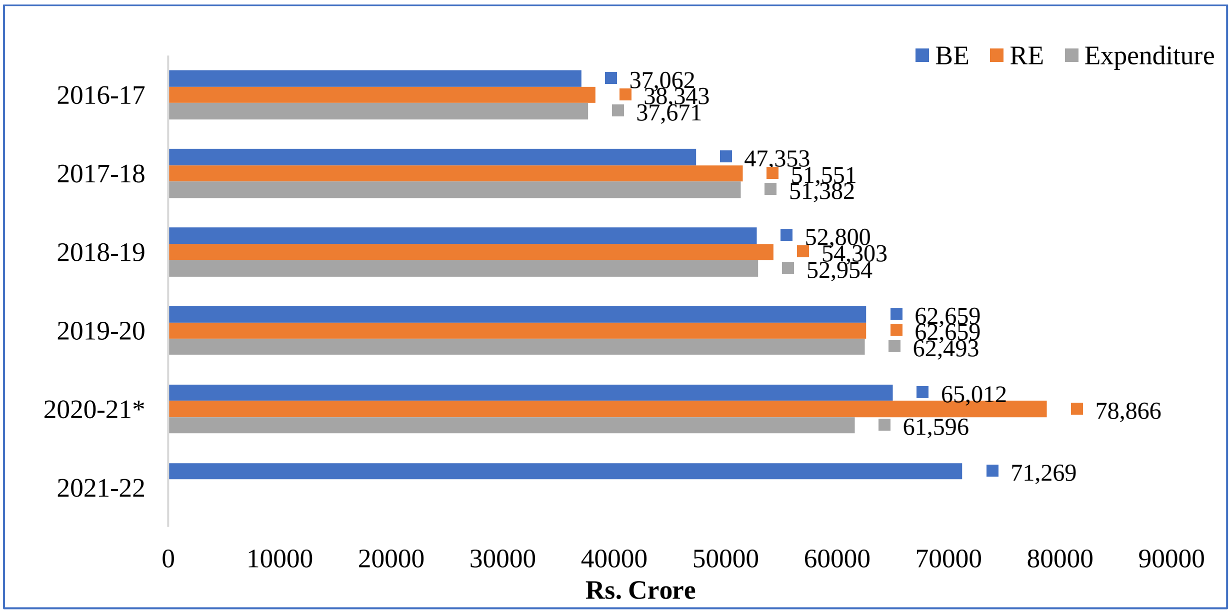
Union Budget 2021: Big expenditure push towards Health and Well Being



Source: Union Budget 2021-22

61. The huge escalation in the budget allocation for health and wellbeing firmly depicts the consistently increasing trend in the budgetary allocation and expenditure in the health sector in recent years.

Trends in Budgetary Allocation and Expenditure: D/o Health and Family Welfare



Source: Ministry of Health and Family Welfare

62. 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 shackles of COVID-19 will set the stage for India to become the fastest growing economy of the world in FY 2021-22.

Outlook

63. With significant dip in COVID-19 cases and fast roll out of vaccination, persistent stimulus measures under AtmaNirbar Bharat 1, 2 and 3 and special thrust of Union Budget on health and well-being among others, macroeconomic configurations have been undergoing the necessary reorientation towards normalcy, thereby reviving consumer confidence and brightening business outlook of manufacturing, services and infrastructure.

64. GDP growth is expected to be in positive territory in the second half of 2020-21, on the back of higher government expenditure, moderated contraction in private consumption and net exports emerging out of dismal retrenchment. 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.

65. 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. The beneficial wealth effect of booming equity markets are enabling consumption abilities of households with exposure to them. With rising capacity utilization, stronger demand conditions and relatively moderate costs, operating profits are rising across the board. Some services sectors like information technology, construction, real estate, finance, domestic trade and transport are gradually emerging from the shackles of the pandemic with government capital spending on roads, highways and metros, lower housing loan rates and reduced stamp duty rates benefitting the labour-intensive construction and real estate segment. Other categories of contact-sensitive services are expected to bounce back once the vaccination drive reaches a critical mass and infusing widespread macro-economy certainty to boost consumption. In light of the recent surge in COVID-19 cases, a strong control over the pandemic spread continues to be a necessary for broad-based economic recovery.

66. While global and domestic inflation pose some downside risks in the near term, continued policy support to bolster private investment and discretionary consumption, the key levers of India's growth story, continues to be an absolute policy priority of Government of India. Ramped up government investment spending as witnessed in Q3 FY20200-21 and bolstered further under Union Budget 2021-22, with higher multipliers, is expected to crowd in private investments with Government of India's key Production Linked Incentive Scheme providing critical support. Consistently pro-active, graded and calibrated policy support is expected to help Indian economy build back better and stronger.

67. The 2nd advance estimates of National Income for FY 2020-21 recently released by NSO indicate real GDP contraction at 8 per cent, larger than real GVA contraction of 6.5 per cent. This is not a normal occurrence. Real GDP growth has been higher than real GVA growth since 2011-12 when estimation of National Income in India moved to a new base year. Recalling that GDP is GVA plus indirect taxes net of subsidies, GDP growth is higher than GVA growth when growth of indirect taxes is higher than growth of subsidies. Annual growth of indirect taxes between 2012-13 to 2019-20 has been higher

than annual growth of subsidies. The year 2019-20 is an exception as data is yet to reach the finalization stage.

68. The food and fertilizer subsidy from BE to RE of 2020-21 increased by Rs.3.7 lakh crore. After making adjustments for pre-payment of loans of Rs. 2.0 lakh crore taken for paying subsidy of previous years, the balance Rs.1.7 lakh crore emerged as the additional subsidy paid in the pandemic year. This enhancement between BE and RE caused the growth of subsidies to be significantly higher than the growth of indirect taxes. Consequently, GVA growth became higher or in other words GVA contraction became smaller than that of GDP. In FY 2021-22, the annual growth of subsidy estimated over the unusually large base of the previous year, will again become lower than the growth of indirect taxes. Real GDP growth will then exceed real GVA growth in FY 2021-22. Since GDP growth (or contraction) has been distorted in FY 2020-21 on account of significant growth of subsidies, GVA growth is a more appropriate measure to follow in the current year.

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