

**Economic  
Division**

**May  
2021**

**Monthly  
Economic  
Review**



सत्यमेव जयते

**आर्थिक कार्य विभाग**  
**DEPARTMENT OF**  
**ECONOMIC AFFAIRS**



## Abstract

*Provisional GDP estimates now available for January-March quarter (Q4) of FY 2020-21 confirm a V-shaped recovery in India's economic prospects in the second half of the year after an unprecedented COVID-19 induced contraction. India's real GDP is estimated to grow at 0.5 per cent in Q3 and 1.6 per cent in Q4 of FY 2020-21 leading to an upward revision in annual real GDP growth from (-)8.0 per cent (2<sup>nd</sup> Advance Estimates) to (-)7.3 per cent in FY 2020-21. Gross value added (GVA) at basic prices for FY 2020-21 is estimated to grow at (-)6.2 per cent with agriculture & allied activities lending its unwavering support for economic recovery throughout the year. Given the large contribution of subsidies in Q3 and Q4, estimated GVA growth of 1.6 per cent in Q3 and 3.7 per cent in Q4 is more representative of economic performance in the second half of FY 2020-21. India is one of the select few economies that have witnessed positive YoY growth in the last two consecutive quarters.*

*With a strong policy focus on infrastructure spending and construction in latter half of FY 2020-21, the ratio of Gross Fixed Capital Formation (GFCF) to GDP reached 34.3 per cent, among the highest in over twenty-six quarters. Also, construction rebounded to grow at 14.5 per cent in Q4. As economic activity resumed following gradual unlocking and policy support, private consumption grew at 2.7 per cent after falling for three consecutive quarters. Moreover, contact-intensive hotels, trade and transport sectors contracted by only 2.3 per cent in Q4 after large declines in previous quarters.*

*This momentum of economic recovery has, however, been moderated by the ravaging second wave of COVID-19. Unlike the first wave, the effect of the second wave has been asynchronous in its onset across states and wider in its spread as the second wave also entered the rural hinterland. This necessitated a differentiated, state-level policy response in close coordination with the Central Government for rapid rebooting of health infrastructure and effective implementation of 'Test, Track, Treat, Vaccinate and COVID-appropriate behaviour'. A continuous decline in the 7-day average of active cases since 13<sup>th</sup> May 2021 and the 7-day average of daily new cases after 8<sup>th</sup> May marked the declining phase of the second wave.*

*Simultaneously, the world's largest vaccination drive is underway in India with 23.9 crore doses administered as on date. To avoid or lower the ferocity of subsequent waves, an accelerated vaccination drive is imperative. Vaccinating to achieve herd immunity (75-80 per cent of the population) will boost consumer and producer confidence and reinvigorate the engines of economic growth. For this purpose, challenges pertaining to vaccine supply, vaccine hesitancy, operational aspects to achieve high daily throughput, and widespread reach must be anticipated and planned for in advance.*

*After declining during the second wave, high frequency indicators such as power consumption, E-way bills and foreign portfolio investment (FPI) flows witnessed uptick in the second half of May 2021. Agriculture sector continues to offer comfortable prospects amidst a normal monsoon forecast, smooth food procurement and distribution, and MGNREGA employment. However, sequential slackening was observed in eight core industrial output, PMI manufacturing, steel consumption, auto sales, tractor sales, petroleum products consumption, rail freight, port and air traffic, PMI services, highway toll collections, GST collections and UPI transactions.*

*CPI inflation eased to 4.3 per cent in April 2021 (as against 7.2 per cent in April 2020) from 5.5 per cent in March 2021 driven by decline in food inflation and a favorable base effect. Going forward, the trajectory for CPI inflation may derive comfort from the forecast of a normal south-west monsoon but remains vulnerable to pressures arising from high international commodity prices and logistics costs across manufacturing and services. WPI inflation, however, increased to 10.5 per cent in April 2021 as compared to 7.4 per cent in March 2021 on account of increase in inflation of all major groups, viz, Primary articles, Fuel & power and Manufactured products and base effect.*

*On the external front, exports grew at 7.9 per cent in May 2021 over pre-COVID May 2019 levels, thereby reflecting export resilience amidst global economic recovery. However, domestic demand prospects remained tentative with imports declining by 17.5 per cent. India emerged as the preferred investment destination, attracting highest ever FDI inflow of USD 81.7 billion during the pandemic year FY 2020-21, particularly in computer software & hardware and infrastructure sectors. Bolstered by resurgent net foreign inflows, easing of the second wave and weakening dollar, the Indian Rupee made a strong comeback in May 2021 to reach INR/USD 72.8 and became the best performing Asian currency in the month.*

*On the monetary side, money supply continued to rise by 9.9 per cent (YoY) as on 21<sup>st</sup> May 2021 driven by growth in aggregate deposits. Monthly growth in currency-in-circulation (CiC) which had begun to moderate in the second half of FY 20-21 picked up again in April and May 2021, suggestive of rise in precautionary demand for cash during the second wave, albeit lower than first wave levels. Bank credit YoY growth continued to remain muted at 6.0 per cent as on 21<sup>st</sup> May 2021. Growth of non-food credit at over 12.4 per cent over the corresponding period in FY 2019-20 is noteworthy given the policy-driven focus on private investment.*

*Financial conditions in May 2021 have remained conducive for economic recovery with systemic liquidity in surplus, continued accommodative monetary policy stance – as outlined in June 4 Monetary Policy statement - and unhindered efforts towards smooth policy transmission. To mitigate challenges of the second wave, RBI has further unveiled developmental and regulatory measures to ensure equitable liquidity support for affected sectors and financial stability.*

*India's dynamic public debt management strategy and RBI's artillery of conventional and unconventional instruments like G-SAP 1.0 has enabled Central and State governments to meet their increasing financial needs amid the pandemic at low costs of borrowing and manageable levels of risk. The 10-year G-Sec yield stayed below 6 per cent despite the uncertainty engendered by the second wave. Corporate bond yields largely tracked G-sec market movements, reflecting policy rate transmission to corporate bond market and surplus liquidity conditions. Primary corporate bond market issuances increased by 13.4 per cent to a record Rs. 7.8 lakh crore during FY 2020-21.*

*Driven by buoyant and broad-based growth in Centre's net revenue collections of 5.9 per cent for 2020-21 Provisional Actuals (PA) over 2020-21 Revised Estimates (RE) and nearly 5 per cent growth over 2019-20, Centre's fiscal deficit for FY 2020-21 stood at 9.2 per cent of GDP for 2020-21 (PA), 0.3 percentage points lower than RE. Quality of expenditure crucially improved with capex in FY 2020-21(PA) registering a growth of 26 per cent over 2019-20 and 66.5 per cent in April 2021 over April 2020.*

*As we cautiously recuperate from the second wave, rapid vaccination and frontloading of the fiscal measures planned in the Union Budget hold key to invigorating the investment, and thereby consumption, cycle in the coming quarters. As seen in Q4: FY 2020-21, where growth in capex generated positive spillovers for consumption, including in the contact-sensitive sectors, these steps would facilitate recovery post the second wave. Healthy monsoon forecasts bode well for continued momentum in agricultural growth. With state-level lockdown restrictions being more adaptive to learnings from the first wave, manufacturing and construction are expected to experience a softer economic shock in the current quarter. Quickening the pace and coverage of vaccination is critical to help India heal and regain the momentum of economic recovery.*

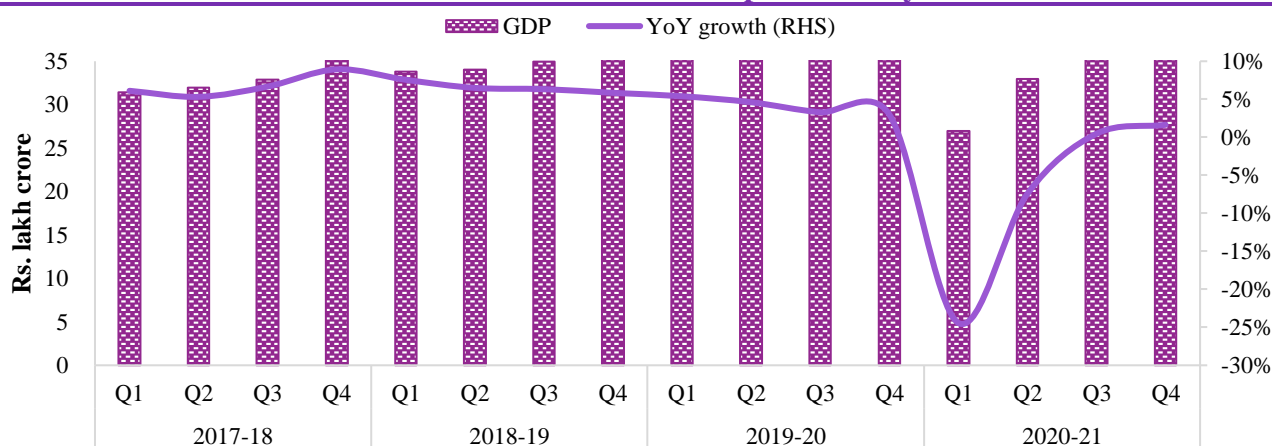
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## India staged a V-shaped recovery in FY 2020-21

1. As per the Provisional Estimates released by NSO, India's GDP contracted at 7.3 per cent, which was an improvement over the Second Advance Estimate of a contraction of 8 per cent growth released in February 2021. This was largely due to the steady V-shaped recovery in India's economy in the second half of FY: 2020-21. Monthly Economic Review, November 2020, had stated that *"This V-shaped recovery, evident at the half-way stage of 2020-21, reflects the resilience and robustness of the Indian economy"*. This recovery is evident from the movement in various high-frequency indicators over the last year.

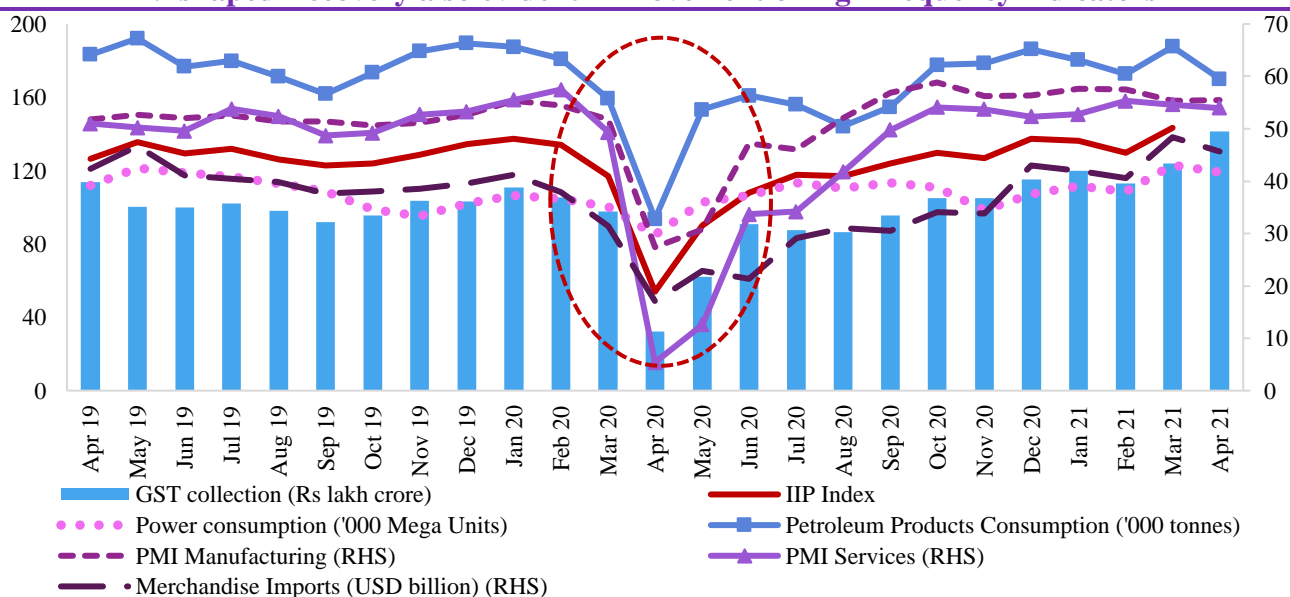
2. The economy registered a YoY growth of 1.1 per cent in H2: FY 2020-21 as compared to (-) 15.9 per cent in H1: FY 2020-21 – implying a growth of 25.5 per cent in H2 over H1. In terms of Real GVA, the economy registered a contraction of 6.2 per cent in FY: 2020-21 with a contraction of 14.9 per cent in H1: FY 2020-21 and growth of 2.4 per cent in H2: FY 2020-21. The divergence in GDP and GVA growth in FY: 2020-21 reflects a sharp fall of 18.4 per cent in net taxes that can be attributed to adjustment of food subsidy arrears in the last quarter of the fiscal.

### India's GDP Growth: V-shaped recovery



Source: MOSPI

### V-shaped Recovery also evident in movement of high frequency indicators



Source: Compiled from various sources

3. The country's GDP grew by 1.6 per cent in Q4: FY 2020-21, an improvement over the 0.5 per cent growth in Q3: FY 2020-21 and the negative growth of 24.4 per cent and 7.4 per cent in the first two quarters of FY 2020-21. In terms of GVA, the economy grew at 3.7 per cent in Q4: FY 2020-21, an improvement over the 1.0 per cent growth in Q3: FY 2020-21 and the negative growth of 22.4 per cent and 7.3 per cent in the first two quarters of FY 2020-21. Given the large contribution of subsidies in Q3 and Q4, estimated GVA growth of 1.6 per cent in Q3 and 3.7 per cent in Q4 is more representative of economic performance in the second half of FY 2020-21. The higher economic growth during the fourth quarter can be linked to the unlocking of the economy and revival in business and consumer confidence that was underway during the period. India is one of the select few economies that have witnessed positive year-on-year growth in the last two consecutive quarters.

**GDP Growth (YoY) in FY 2020-21 for Major Economies**

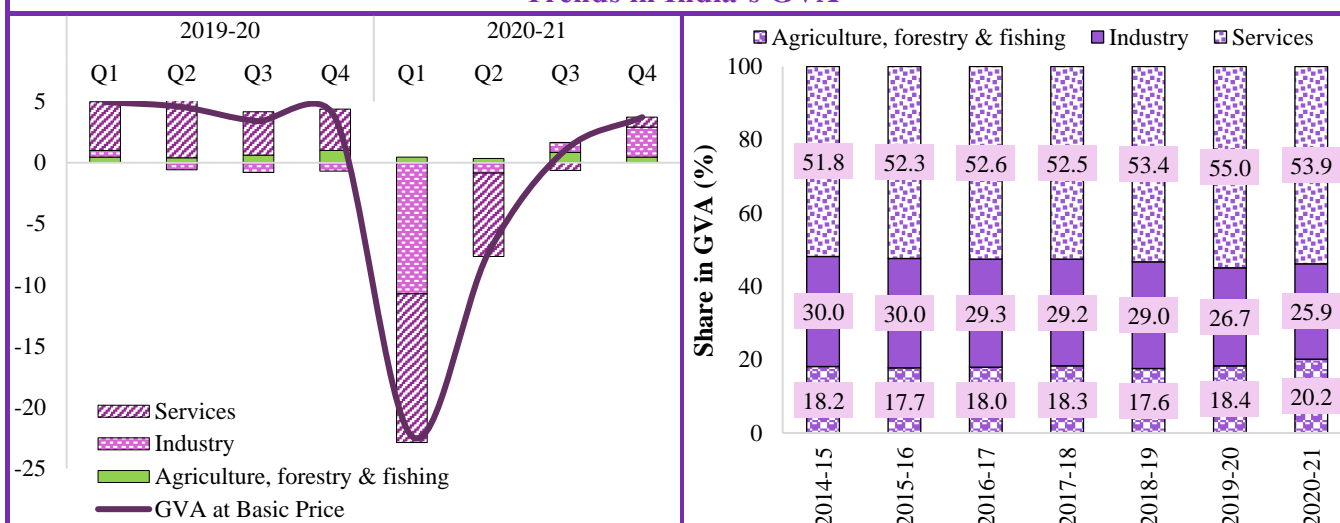
	Q1	Q2	Q3	Q4
<b>G-20 Advanced Economies</b>				
Canada	-12.7	-5.3	-3.2	0.3
France	-18.4	-3.5	-4.6	1.2
Germany	-11.2	-3.8	-3.3	-3.1
Italy	-18.1	-5.2	-6.5	-0.8
Japan	-10.2	-5.5	-1.0	-1.8
Spain	-21.6	-8.6	-8.9	-4.3
UK	-21.4	-8.5	-7.3	-6.1
US	-9.0	-2.8	-2.4	0.4
<b>G-20 Emerging Markets</b>				
Brazil	-10.9	-3.9	-1.2	
China	3.2	4.9	6.5	18.3
India	-24.4	-7.3	0.5	1.6
Indonesia	-5.4	-3.5	-2.3	-0.5
Mexico	-18.7	-8.6	-4.6	-2.8
Russia	-4.6	-3.0	-2.8	
South Africa	-17.5	-5.9	-4.2	
Turkey	-8.7	5.4	5.0	6.7

Source: OECD, MOSPI (for India)

4. The growth in output in Q4 FY:2020-21 was broad-based across sectors. Agriculture, industry and services sector witnessed positive YoY growth during the quarter. The industrial sector grew at a 11-quarter high of 7.9 per cent aided by the higher output in manufacturing (6.9 per cent), electricity, gas, water & utility services (9.1 per cent) and construction (14.5 per cent). Only the mining and quarrying sector recorded negative growth during the quarter (-5.7 per cent). Agriculture sector grew by a strong 3.1 per cent in Q4 FY: 2020-21 which was over a high base of 6.8 per cent growth in the same period last year. The services sector returned to growth after a gap of three quarters in Q4 FY: 2020-21, recording a YoY growth of 1.5 per cent. This improvement was led by finance, real estate & professional service (5.4 per cent growth) along with public administration (2.3 per cent growth). Contact-intensive hotels, trade and transport sectors contracted by only 2.3 per cent in Q4 after large declines in previous quarters. Agriculture was the only sector which registered growth in FY: 2020-21 raising its share in overall GVA.



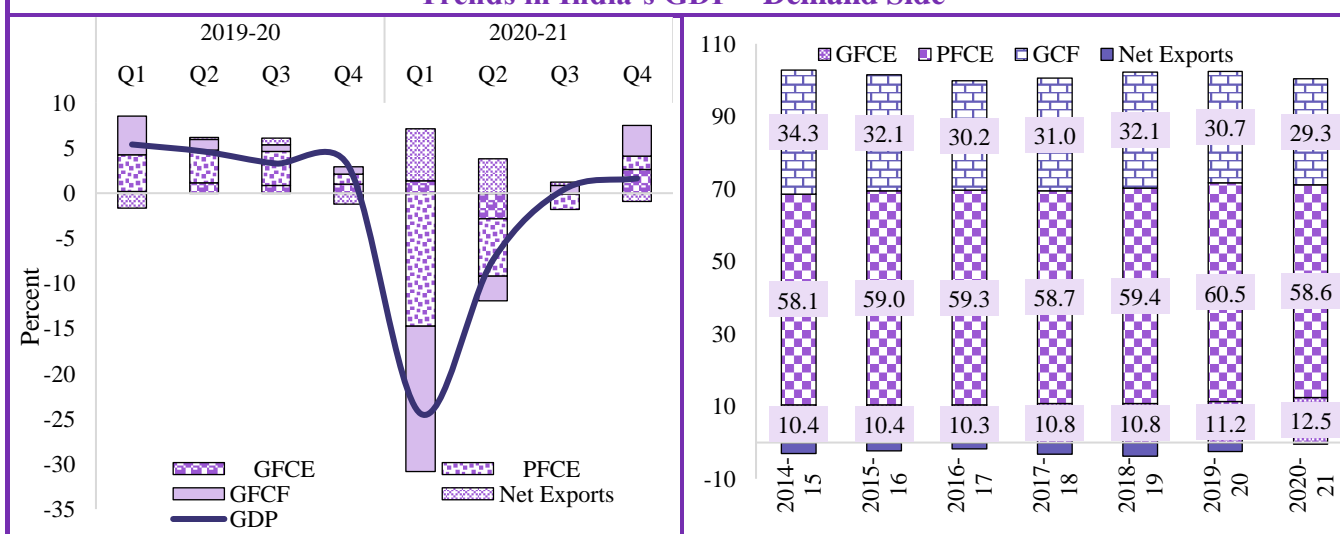
### Trends in India's GVA



Source: MOSPI

5. There has been a notable pick-up in investment and consumption (both government and private consumption) in Q4: FY 2020-21 when compared with the preceding three quarters. Private consumption which is the main driver of the economy (accounting for 60 per cent of the GDP) witnessed a YoY growth of 2.7 per cent in Q4: FY 2020-21 as compared to (-)26.2 per cent in Q1, (-)11.2 per cent in Q2 and (-)2.8 per cent in Q3: FY 2020-21. Government consumption witnessed a sharp increase, growing by 28.3 per cent in Q4: FY 2020-21 over the 12.1 per cent growth in Q4: FY 2019-20. Investments measured as Gross Fixed Capital Formation (GFCF) grew at a 7-quarter high of 10.9 per cent in Q4: FY 2020-21. With a strong policy focus on infrastructure spending and construction in latter half of FY 2020-21, Gross Fixed Capital Formation (GFCF) to GDP ratio reached one of its highest at 34.3 per cent in over twenty-six quarters and construction rebounded to grow at 14.5 per cent in Q4.

### Trends in India's GDP – Demand Side



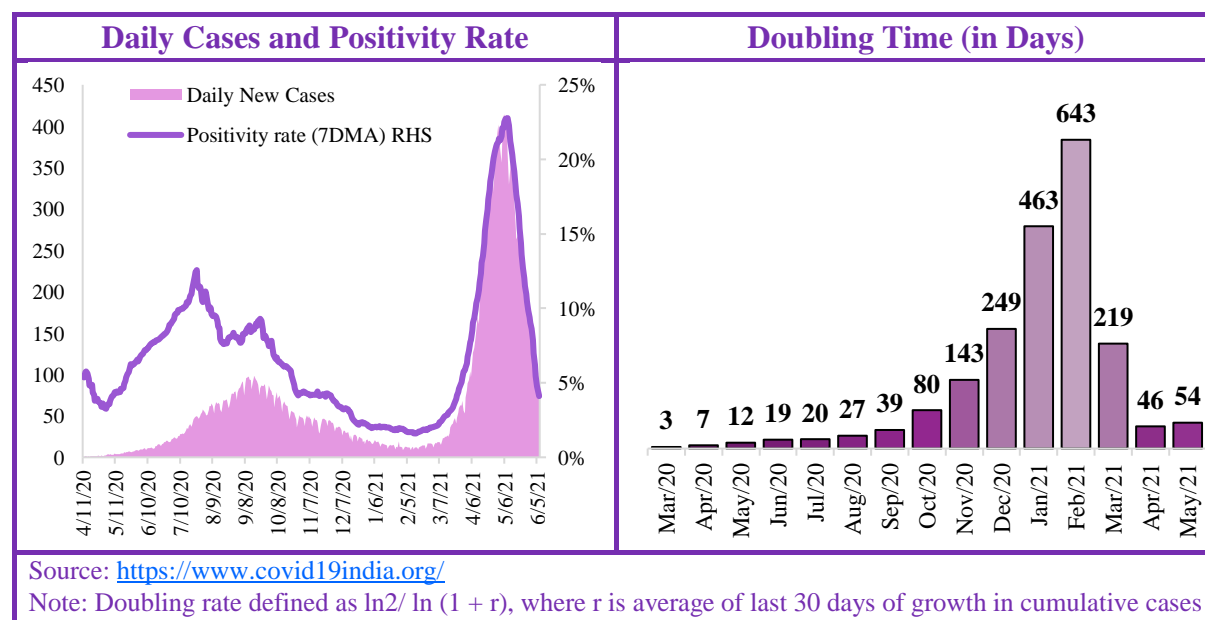
Source: MOSPI

6. The GDP estimates for the year 2020-21 corroborate that the Indian economy was steadily recovering in the second half of the year. The recovery was supported by gradual unlocking and normalization of economic activity manifested in growth of private consumption

expenditure and investment returning to positive territory. Government Expenditure has served as the cushion for the year growing at a rate of 28.3 per cent in Q4 and 2.9 percent in the whole year. The onset of the second wave of COVID-19, however, has posed a downside risk to this momentum in India's economic recovery. With the peaking of the second wave in first half of May 2021 and the localised restrictions adopted to combat its spread, its economic impact is expected to be restricted to the first quarter of FY: 2021-22. Taking all these factors into consideration, RBI has projected real GDP growth at 9.5 per cent in 2021-22 consisting of 18.5 per cent in Q1; 7.9 per cent in Q2; 7.2 per cent in Q3; and 6.6 per cent in Q4 of 2021-22.

### India past its Peak of Second wave – need to maintain the guard

7. In India, the pace of contagion in the second wave has been alarming, stretching the health infrastructure in terms of the capacity to handle a surge of this size and speed. A decline in seven days moving average of new cases since 8<sup>th</sup> May 2021 and seven days moving average of active cases since 13<sup>th</sup> May 2021 marked the attainment of the peak of the second wave – almost 4 times the peak in the first wave. India also attained the peak faster during the second wave - in 79 days compared to 220 days in first wave – signifying how swiftly the second wave enveloped the nation. Daily new cases have now trickled down from 4.1 lakh on 5<sup>th</sup> May 2021 to less than 1 lakh as on date. The daily positivity rate has dropped from a peak of 24.9 percent (on 9<sup>th</sup> May) to 4.6 percent as on date. The pace of spread has slowed down with increase in doubling time to 54 days in May from 46 days in April. The daily recoveries continue to outnumber daily new cases with recovery rate rising to 94.5 percent. As on date, India has 12.3 lakh active cases – down from a peak of 37.3 lakh cases on 13<sup>th</sup> May 2021 with cumulative fatality rate at 1.2 percent.



8. The peak in infection rate has been asynchronous among states as evident from the table below. High weekly case load is evident in states like Andhra Pradesh, Karnataka, Kerala, Maharashtra, Tamil Nadu and West Bengal. Given the improvement in recovery rate, active cases exhibited a declining trend across states barring Tamil Nadu and few north-eastern states.

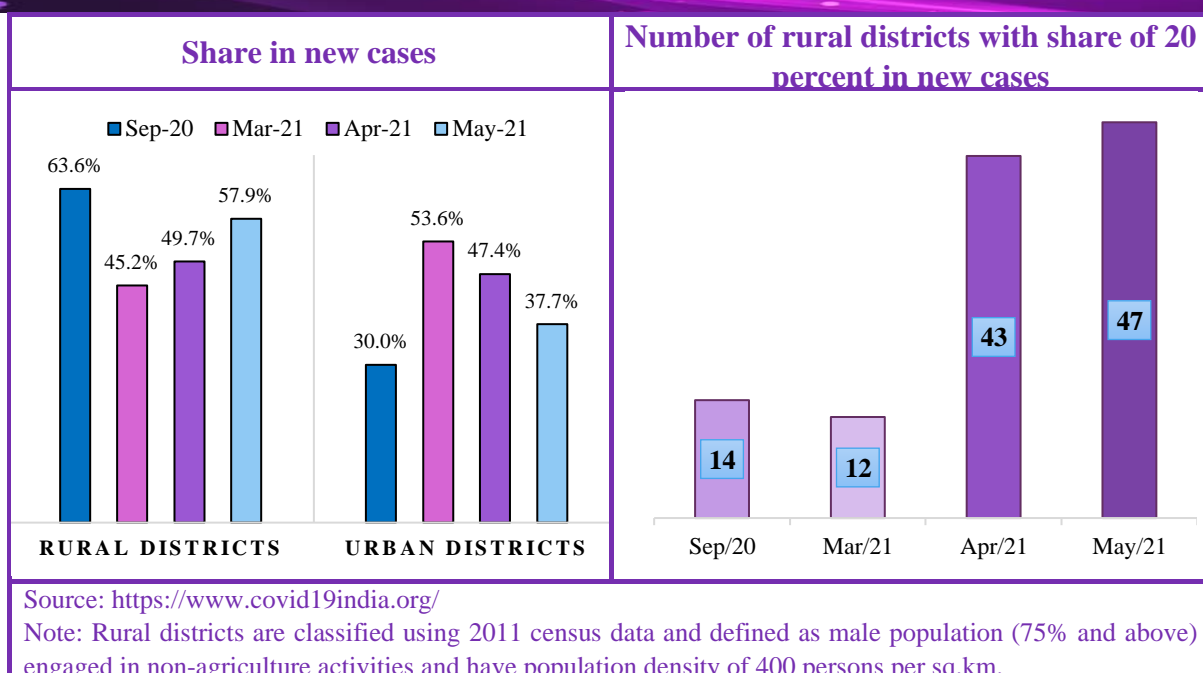
### State-Wise COVID-19 Weekly Trend

States/UTs	Weekly Cases					Active Cases as on				
	26 Apr-2 May	3-9 May	10-16 May	17-23 May	24-30 May	02-May	09-May	16-May	23-May	30-May
A & N Islands	419	283	236	241	140	222	208	237	273	192
Andhra Pradesh	111462	142581	147888	145336	104315	143178	190632	210436	209237	165795
Arunachal P.	1132	1427	1637	2291	2857	1407	1934	2261	2900	3784
Assam	21428	33407	36261	40554	37685	25791	37245	44617	53004	53688
Bihar	94044	93836	60433	37667	16072	109946	110805	75090	40692	18378
Chandigarh	5614	5901	5160	3122	1433	7592	8511	7644	4874	2134
Chhattisgarh	104065	95049	61001	36523	20300	120367	126547	103593	65774	39261
Delhi	167231	128621	70300	23001	8724	92290	86232	62783	27610	12100
Goa	17908	23461	17010	10604	8604	24607	31875	28252	17277	14010
Gujarat	98569	86410	71607	35851	19018	146817	139613	104907	75133	35402
Haryana	90569	101009	78530	43601	17361	105271	116868	90067	42817	21088
HP	16990	26932	28817	18794	10431	20786	32505	36938	26003	14960
J&K	22731	33446	27676	26013	18319	32421	49248	51623	47437	37677
Jharkhand	42725	41871	29159	14915	6526	58493	58779	36513	19472	9878
Karnataka	262664	332513	269084	221442	162923	421448	564497	600160	472999	342023
Kerala	233123	263850	245339	199999	166313	339788	423868	441016	277978	224125
Lakshadweep	884	871	886	1844	1317	1260	1032	1138	2075	2163
MP	89064	83395	59622	32953	14487	87188	108912	94651	57765	27255
Maharashtra	427374	379336	276715	201445	151918	670460	618071	470596	351006	274602
Manipur	1740	3193	4375	4360	5793	1816	4273	6470	6527	8475
Meghalaya	1435	2291	3612	6349	5509	1912	2990	4625	7773	7587
Mizoram	896	1266	1129	1541	1768	1232	1786	1978	2358	3001
Nagaland	1167	1800	1926	1992	1495	1915	3292	4641	5252	5646
Odisha	55165	72220	77382	80158	64302	62926	84746	95326	100235	83385
Puducherry	8082	10348	12797	11554	7766	10622	14036	17668	16853	12169
Punjab	46180	56855	55580	41289	26421	60108	74343	75478	57505	39263
Rajasthan	119514	122756	102962	56373	22418	189178	200189	194382	112218	49224
Tamil Nadu	125124	173147	217957	244128	226236	120444	144547	219342	294143	305546
Telangana	55558	46571	31462	24454	22550	80221	65283	50495	40015	34568
Tripura	1060	1970	3257	5283	4640	1528	2809	4921	8071	7102
Uttar Pradesh	226736	190129	116155	50246	20125	295752	233981	163003	84880	41214
Uttarakhand	39819	52653	43013	26233	14819	57674	78911	83945	60111	36048
West Bengal	119443	129766	140271	133660	99150	118495	126027	131805	130525	94898

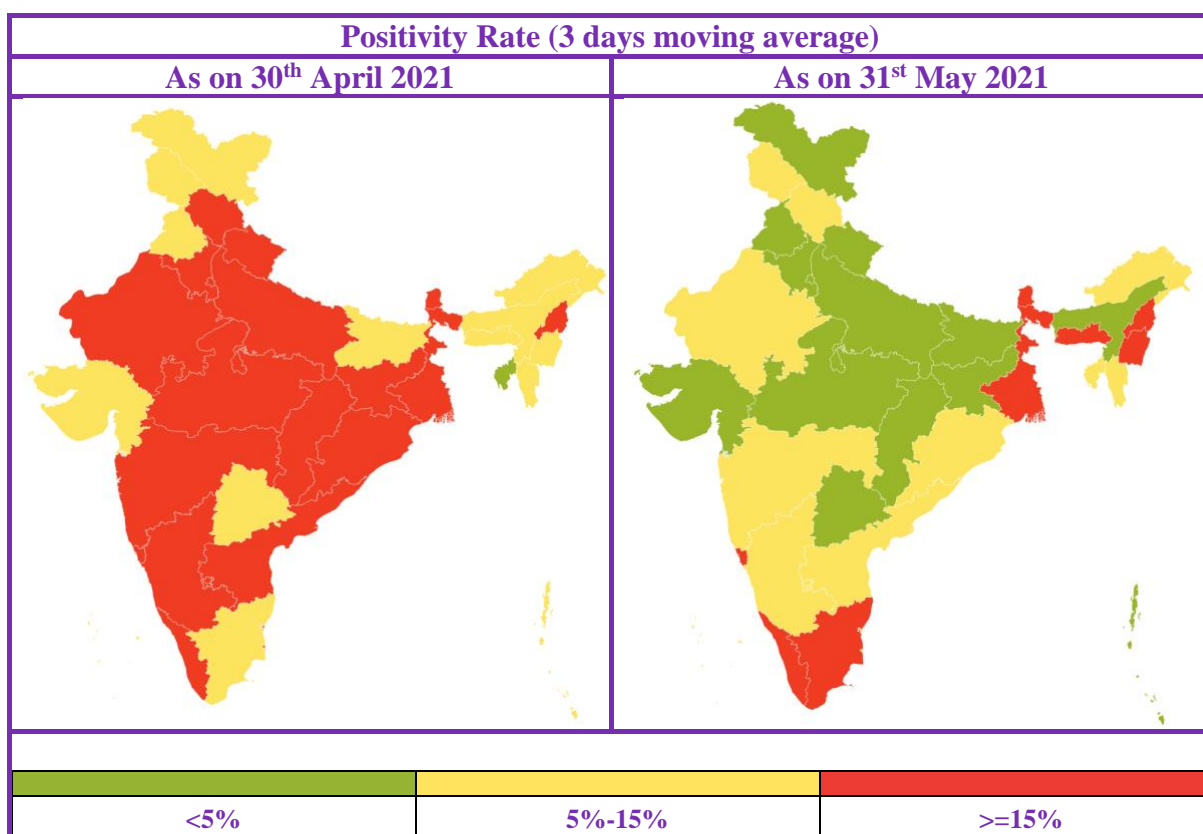
Source: <https://www.covid19india.org/>

9. Given the ferocity of the second wave, the spread of infection in rural areas has also been rapid. The share of rural districts in new cases rose rapidly from 49.7 percent in April to 57.9 percent in May though lower than the first wave peak of 63.6 percent observed during September 2020. The number of rural districts bearing 20 percent of new cases increased sharply from 12 in March to 43 districts in April that rose further to 47 in May, which in turn is 3.4 times greater than their share during the peak of the first wave.





10. Keeping the focus on “Test, Track, Treat, Vaccinate and COVID-appropriate Behaviour” strategy, India ramped up its average daily testing capacity from 15 lakh in April to 19 lakh during May. 3-day moving average positivity rate has fallen from 20.8 per cent in April 2021 to 7.9 per cent as on 31<sup>st</sup> May, though wide variation across states is noted. On the positive side, by May end, around 50 percent of the states have managed to bring the positivity rate below WHO recommended threshold of 5 percent. This is an enabling factor for a calibrated and gradual relaxation of state-wide restrictions.



Source: <https://www.covid19india.org/>

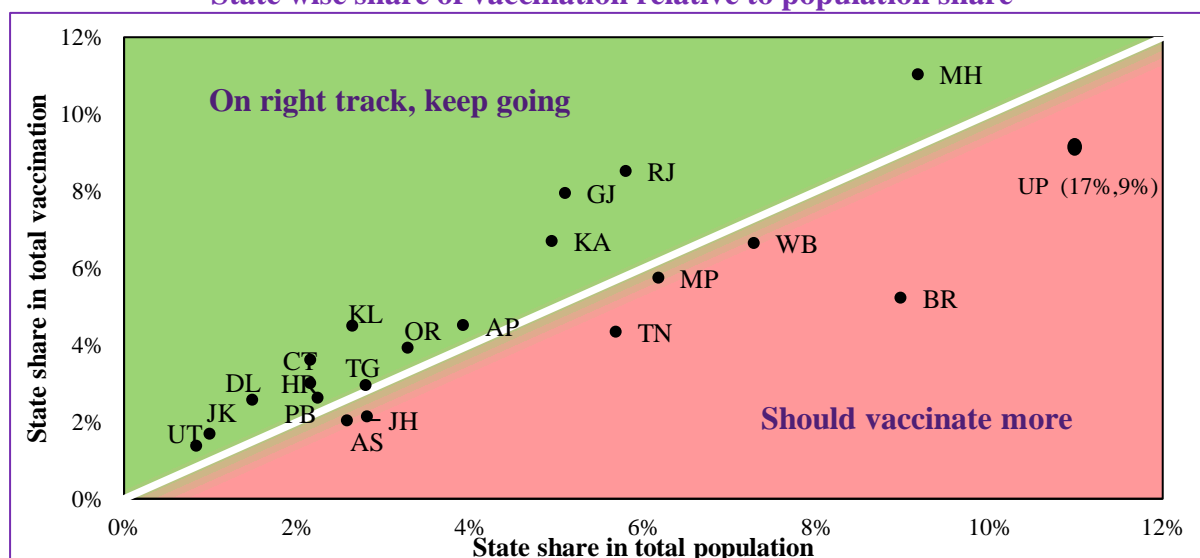
### Vaccination on a Mission mode: Key to save both lives and livelihoods

11. Vaccination is an integral pillar of the comprehensive strategy of Government of India for containment and management of the pandemic. The vaccination drive has been sequentially expanded to cover the prioritized groups starting with Health Care Workers (HCWs) followed by Front Line Workers (FLWs), then the persons aged 60 years and above and those aged 45-59 years with identified 20 co-morbidities. Subsequently, from 1<sup>st</sup> April 2021, all persons aged 45 years and above were eligible for vaccination. Such an approach has yielded positive results by achieving more than 81 per cent 1<sup>st</sup> dose coverage amongst registered HCWs and around 84 per cent coverage of 1<sup>st</sup> dose amongst registered FLWs thereby protecting these cohorts who are involved in providing Health Care Services, Surveillance and Containment activities amidst the second wave of COVID-19 pandemic.

12. As part of the nationwide vaccination drive, the 'Liberalized Pricing and Accelerated National COVID-19 Vaccination Strategy' was implemented from 1<sup>st</sup> May 2021 wherein all above the age of 18 became eligible for vaccination. 50 per cent of the available doses were earmarked for supply to States/UTs, as free of cost supply from the Central Government, while 25 per cent each was available for direct procurement from the vaccine manufacturers by States/UTs and private hospitals. To streamline the process further, it has now been decided that the 25 per cent vaccination that was with states will also now be undertaken by the Central Government and provided free of cost to the State Government for rolling out wef 21<sup>st</sup> June. 25 per cent vaccines being procured directly by the private hospitals will continue with only ₹150 service charge is levied by the private hospitals over the decided price of the vaccines.

13. India has crossed the 23.9 crore mark in its cumulative COVID vaccination coverage. Around 14 percent of beneficiaries receiving the first dose are healthcare and frontline workers, 33 percent are senior citizens, 38 percent belong to 45 to 60 years age group and 15 percent beneficiaries are of the age group 18-44 years. An analysis of the state wise proportion of population vaccinated relative to its share in total population indicates that Bihar, Uttar Pradesh, Tamil Nadu, West Bengal, Madhya Pradesh and Jharkhand need to ramp up their vaccination drive. Vaccination remains the key guard against subsequent waves and the coverage of the population needs to be enhanced across all States.

State wise share of vaccination relative to population share



Source: Ministry of Health and Family Welfare



14. Global research on high efficacy of first dose of vaccine, non-depletion of the impact of the first dose despite a longer gap<sup>1</sup>, reduction of both symptomatic and asymptomatic infections after the first dose<sup>2</sup> and higher benefits accruing from first-dose-vaccination of a larger population to render community protection can help design an effective inoculation strategy. Canada's approach of prioritising 'first dose for all' has been a successful one with only 0.15 per cent of Canadians getting infected after getting vaccinated<sup>3</sup>.

#### **Need to achieve herd immunity at the earliest for economic recovery**

Herd immunity is accomplished when 80 percent of the population is immune or less susceptible to infection. The key to regain the momentum of economic recovery is attainment of herd immunity at the earliest possible. As per India's demographic distribution, 86.5 crore people or 63.1 per cent of the population is above 18 years of age. Assuming herd immunity at 80 per cent, the target population to be vaccinated is 70 crore. As on date, 19.2 crore people have got the first dose while 4.7 crore have been fully vaccinated. If 70 crore people must be vaccinated by September 2021, it is estimated that around 113 crore doses are needed (19 crore for the second dose + 47 crore for two doses).

With around 120 days to 31<sup>st</sup> September 2021, around 93 lakh vaccinations are required per day to achieve the herd immunity. The peak daily vaccination rate attained till date is 42.65 lakh. This peak was achieved using one shift of 8-9 hours of vaccination. So, doubling the shifts and possibly vaccinating 24x7 for a couple of months – particularly in August and September when supply is expected to increase significantly – can enable the ambitious, but possible, throughput of 1 crore shots a day.

The challenges of the 'push' factors of ensuring adequate and timely supplies for the target population size and efficient and equitable distribution of sourced vaccines; 'pull' factors of overcoming vaccine hesitancy and streamlining of 'operational issues' in administering the vaccine at scale with the right guidelines and technology as the enabler, are required to be handled upfront.

Vaccine manufacturers have been ramping up capacity and over 216 crore of doses are estimated to be manufactured in India during August-December 2021. Attempts are being made to fast-track procurement efforts of vaccines from the international market. The supply can be aligned with the target of September 2021 with people already having antibodies vaccinated later while people who have not been exposed given priority.

Communication efforts ought to be ramped up to minimise vaccination hesitancy especially in rural areas. Using the principles of behavioural economics via tailored messaging to spur vaccination demand, outreach campaigns to show how only vaccination can help India get out of the current crisis, mass mobilisation to address concerns around vaccination and improved ease of access to availability of vaccine can go a long way in 'pulling' vaccination demand. A process may be created to send alerts for instant appointments for leftovers/ no-shows will enable reduced wastages and efficient usage of the supply available.

<sup>1</sup> [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3777268](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3777268)

<sup>2</sup> <https://www.bmj.com/content/373/bmj.n1068>

<sup>3</sup> <https://globalnews.ca/news/7902177/covid-canada-infection-vaccination-effectiveness/>

The operational challenges can be met by careful planning and upscaling of transportation, storage and vaccine administration capacity. Use of technology to ease the administration of the vaccine, increased shifts at vaccination centres and integration of mass vaccination sites e.g., shopping areas, drive-ins, with schools and primary health care centres will enhance faster coverage under vaccination.

Expansion of vaccination to achieve herd immunity (75-80 per cent of the population) will boost consumer and producer confidence and reinvigorate the engines of economic growth. Vaccination of the target population (70 crore) with atleast the first dose till September 2021, therefore, becomes paramount and must be taken up on a mission mode.

15. Globally, the increased coverage of population under vaccination has been effective both in controlling the spread of covid and boosting mobility. It was emphasized in the Monthly Economic Review, March 2021, that '*Vaccines are a key macro lever for domestic and global economic growth*'. The second wave enveloped India with its severity and swiftness of spread signifying that quickening the pace and coverage of vaccination is critical. With a focus to avoid or lower the ferocity of any subsequent third wave, an accelerated vaccination drive is imperative.

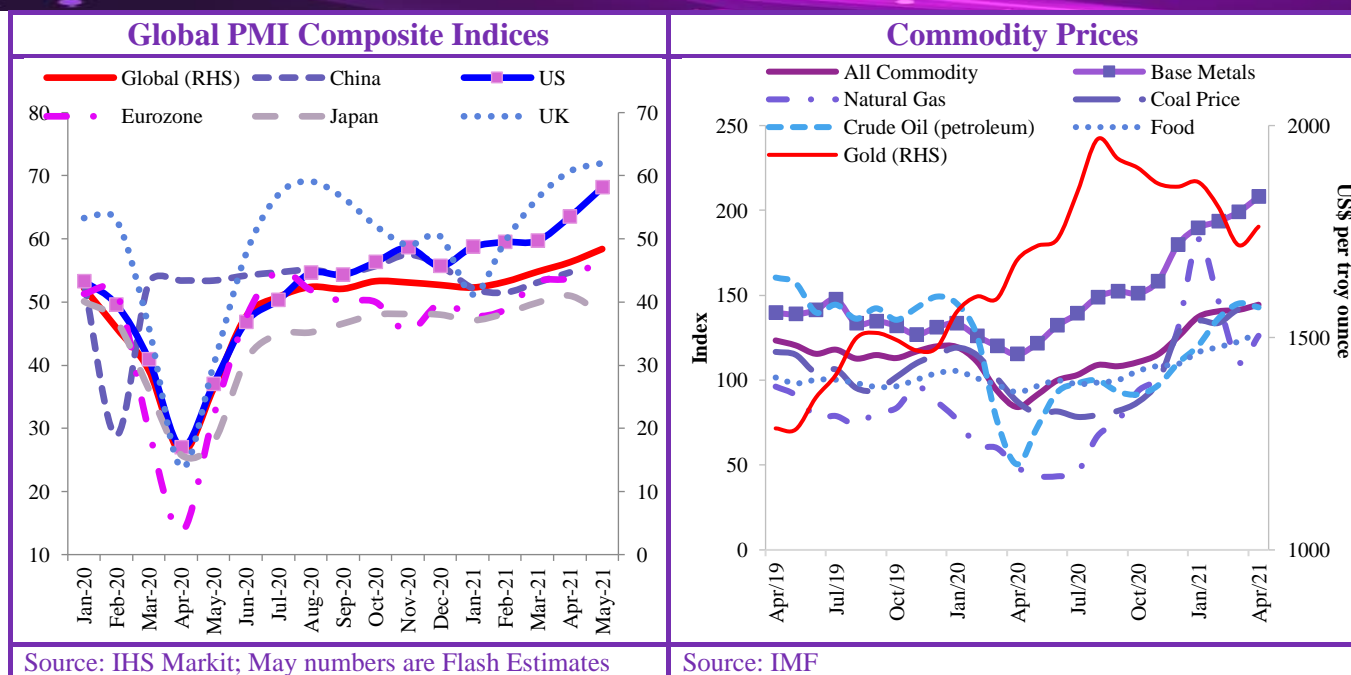
#### **Global Overview – mixed trends giving reasons to both cheer and fear**

16. The waning of the second wave in India mirrored the trend across the globe. In May, COVID-19 new cases declined both in advanced economies (AEs) and emerging and developing economies (EMDEs). Vaccination progress remains highly uneven and as of now, around 11 percent and 6 percent of total world's population have been partially and fully inoculated respectively. Advanced economies have administered more than 36 doses per hundred people, compared to only 6 in EMDEs till May 2021.

17. Global economic recovery accelerated further in May with European economies opening, vaccinations soaring, and US and China leading the recovery. Strong demand for goods and rebound in services, buttressed by fiscal support by few large economies and easy monetary conditions, have kept investors optimistic and eased job markets. That said, the divergence in recovery and vaccinations, with Latin America, Africa, and some Asian countries lagging behind threatens an across-the-board recovery. Moreover, continued rise in prices (both for producers and consumers) signal need to avert overheating of economies.

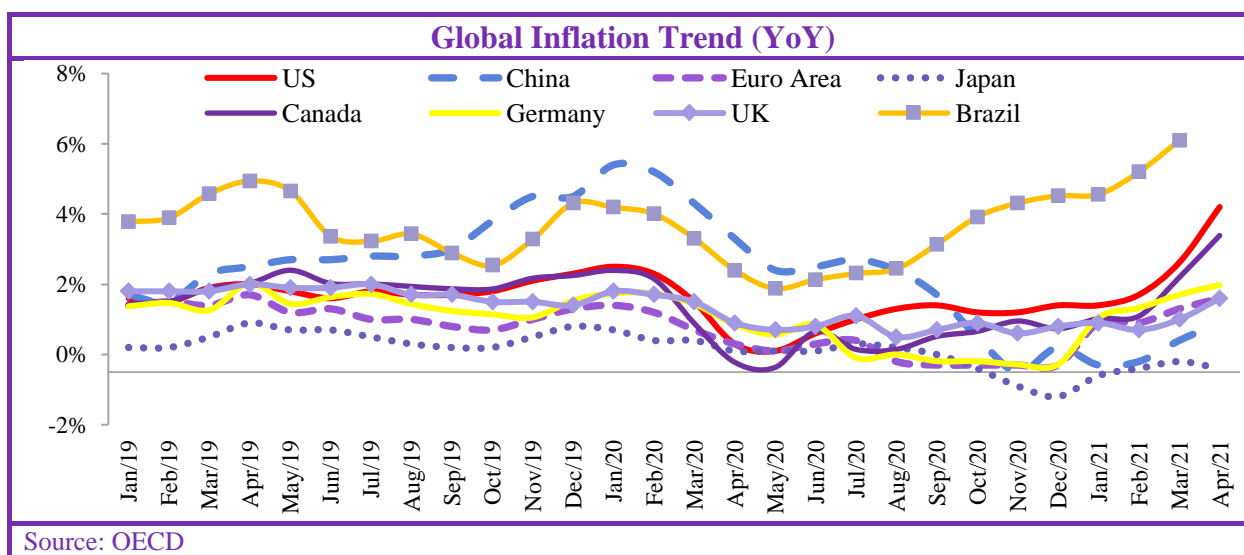
18. Global PMI continued its broad-based rise in May and accelerated to 15-year high at 58.4, as new orders and international trade rose at stronger rates. US and UK led output growth rankings and output prices rose at series-record pace, offsetting the subdued activity in Asia region. The rate of increase in services activity outpaced that of manufacturing production for the second month in May since the current revival in global activity began last July. UK PMI saw the fastest private sector growth since 1998, with pent-up demand and labour market easing with loosening of movement restrictions. Eurozone PMI rose to a 39-months high, to 56.9, as economies mobility restrictions and demand surged to fastest in 15 years. Japanese PMI returned to contractionary zone as resurgence in COVID Cases and reimposition of restrictions led to deterioration in business conditions, the decline being led by contraction in services sector.





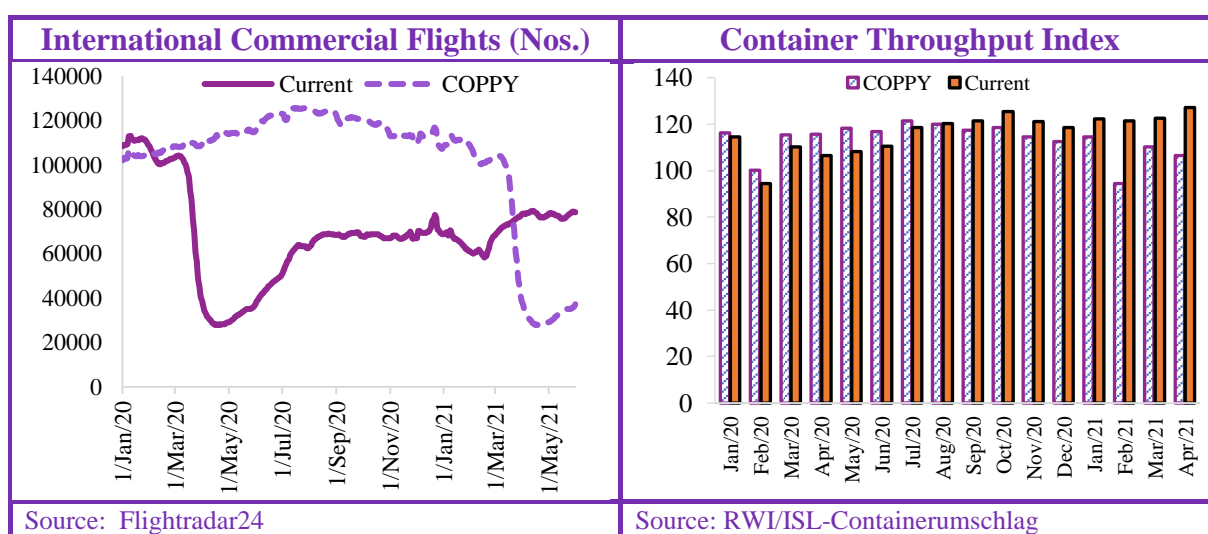
### Commodity and Inflation

19. Commodity prices rose further due to rising demand and supply chain disruptions, with increasing signs of high input costs being passed to consumers. The IMF All Commodities index grew by 71.6 per cent YoY in April, led by rise in crude oil and natural gas prices. On a sequential basis, all commodities rose by 2.2 per cent, crude oil prices declined by a slight 1.5 per cent, while natural gas rose by 14 per cent, backed by lower than average temperatures in Europe. World food prices rose in May at their fastest monthly rate in more than a decade to hit their highest level since September 2011. Gold prices started rising on back of weakening dollar and lowering yields. Base metals prices rose consecutively for the twelfth month, with global manufacturing activity steadily expanding, dollar weakening, and concerns over resurging COVID-19 cases in South America (affecting copper prices). Rise in consumer price inflation in major economies occurred with the background of recovery in advanced economies, commodity price rise, supply disruptions, and easy fiscal and monetary conditions, fuelling concerns of overheating and future increase in interest rates. A prolonged rise in inflation poses threat to investor sentiment and thereby to global financial stability.



## Global Trade

20. Global trade remained resilient, with global commercial flight activity moderating slightly in May remaining broadly stable, and port activity improving further into April. The average daily number of international commercial flights in May was 132 per cent of previous year level. Global port activity in April rose by 4 per cent MoM and 19 per cent YoY, led by upturn in Europe as lockdowns opened up. However, high freight rates and container shortages continue to be supply-side challenges. WTO's Goods Trade Barometer also points to an acceleration in trade recovery in March 2021, with export orders, electronic components, and air freight booking major gains, as indicated by commercial flight and port activity numbers earlier.



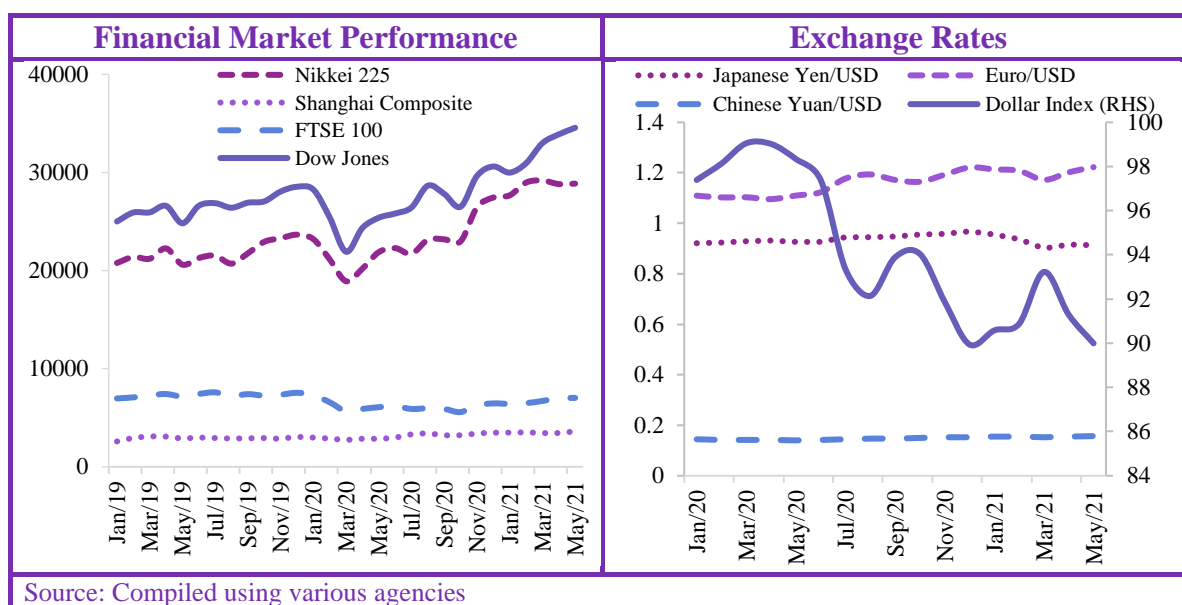
21. UNCTAD's Global Trade Update, May 2021 underscores the resilience of international trade, recovering steadily after a steep fall in Q2 2020, further rebounding in Q1 of 2021. Trade has rebounded more quickly for developing countries compared to developed countries. However, East Asian economies strong export performance constitute a large chunk of this growth, driving much of the trade recovery for developing countries. Trade in goods surpassed its pre-pandemic levels in Q1 2021, however, trade in services remains below Q1 2019 levels. During Q1 2021, trade continued to rebound not only in sectors related to COVID-19 (e.g. pharmaceuticals, communication and office equipment) but also increased for most other sectors, such as minerals and agri-food. For 2021, global trade is projected to grow by 16 per cent, but the outlook remains uncertain in view of uneven economic recovery, COVID induced additional borrowings by government and private parties, trade policy developments, reshoring and nearshoring trends, among others.

## Financial markets

22. Global financial conditions fluctuated in May and stabilised around the last week. This was mainly due to inflationary pressures in the US and surging commodity prices, stoking anxieties of upcoming rise in interest rates and bond yields. Advanced economies recorded modest gains at May end, as US job data uplifted investors' spirit, with Dow Jones closing 2 per cent higher. Asian stocks, as measured with MSCI Asia Pacific Index, dipped around mid-May, with inflationary pressures and resurgence in COVID-19 cases taking a toll on investor sentiment, wiping off the year's gains so far.



23. In the currency markets, US dollar index weakened by 1.4 per cent MoM in May against defined basket of currencies, as yields continued to be low. Euro appreciated on back of weakened dollar, economic recovery and reopening of economies, while Japanese Yen, dampened by resurge in COVID-19 cases, ended up a tad weaker on end of May. The Chinese Yuan climbed to a 3-year high against the USD, with Chinese economy's strong performance, and high interest rates.



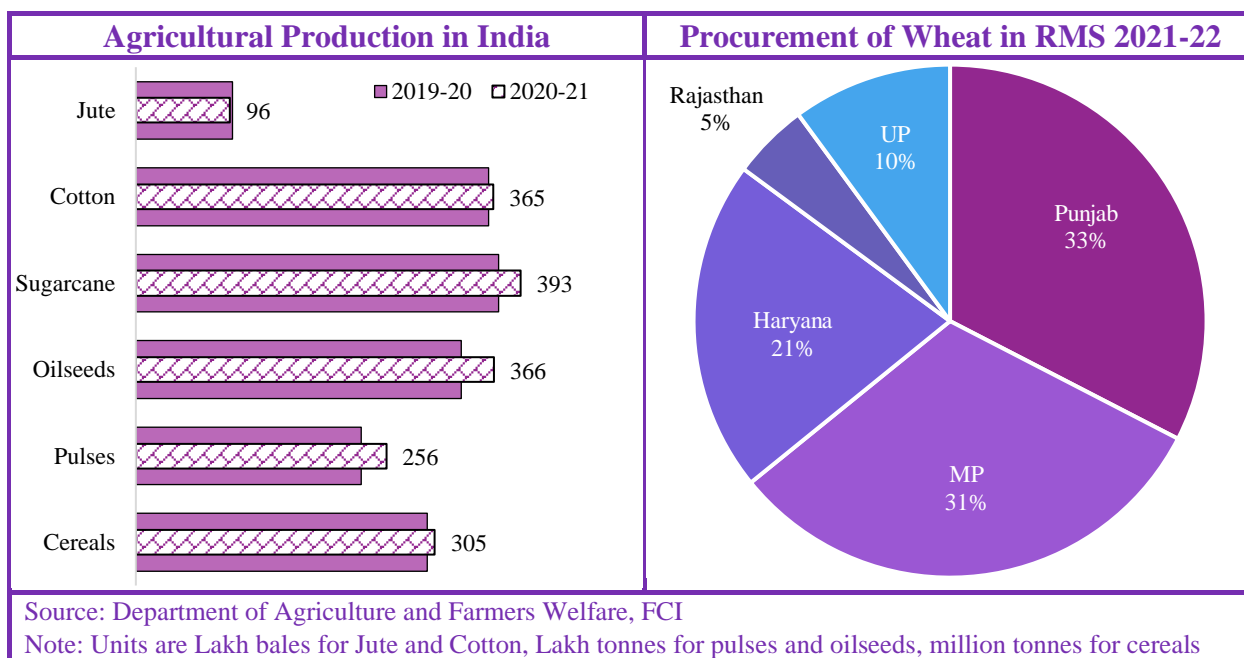
## Domestic Macro-economic overview: Moderation in the momentum of recovery in the face of the impact of the second wave

### Agricultural Sector

24. Emerging as the silver lining among the pandemic-hit economy, agricultural sector has cushioned the economic impact being the only sector posting growth in FY 2020-21. India's foodgrain production is estimated to rise 2.7 per cent to a new record of 305.43 million tonnes in the current crop year 2020-21, on record output of rice, wheat, maize and gram. Total pulses production has also posted a record at 25.58 million tonnes – a rise of 11.2 per cent over last year. In the non-foodgrain category, based on record production of groundnut and Rapeseed & Mustard, total oilseeds production touched a record of 36.57 million tonnes – 10.1 per cent rise over last year. With the prediction of a 'normal' monsoons this year, the government has set a record target to raise foodgrain production further to 307.31 million tonnes during 2021-22 crop year, starting July. The south-west monsoon knocked on the doors of India by hitting the coast of Kerala on June 3.

25. Public procurement of rice and wheat during the year 2020-21 has been going smoothly. Against the target to buy 427.4 LMT of wheat for the central pool during 2021, a record procurement of 411.12 LMT has already been done with Punjab accounting for 33 per cent of the same. All States, including Punjab and Haryana, have switched from the system of indirect payment of MSP to direct online transfers of benefit to farmers bank accounts against sale of their crops – enabling the proceeds of public procurement of foodgrains directly into the bank accounts of the farmers under "One Nation, One MSP, One DBT". About 44.43 Lakh farmers have been benefitted from the ongoing procurement operations with MSP value of Rs.

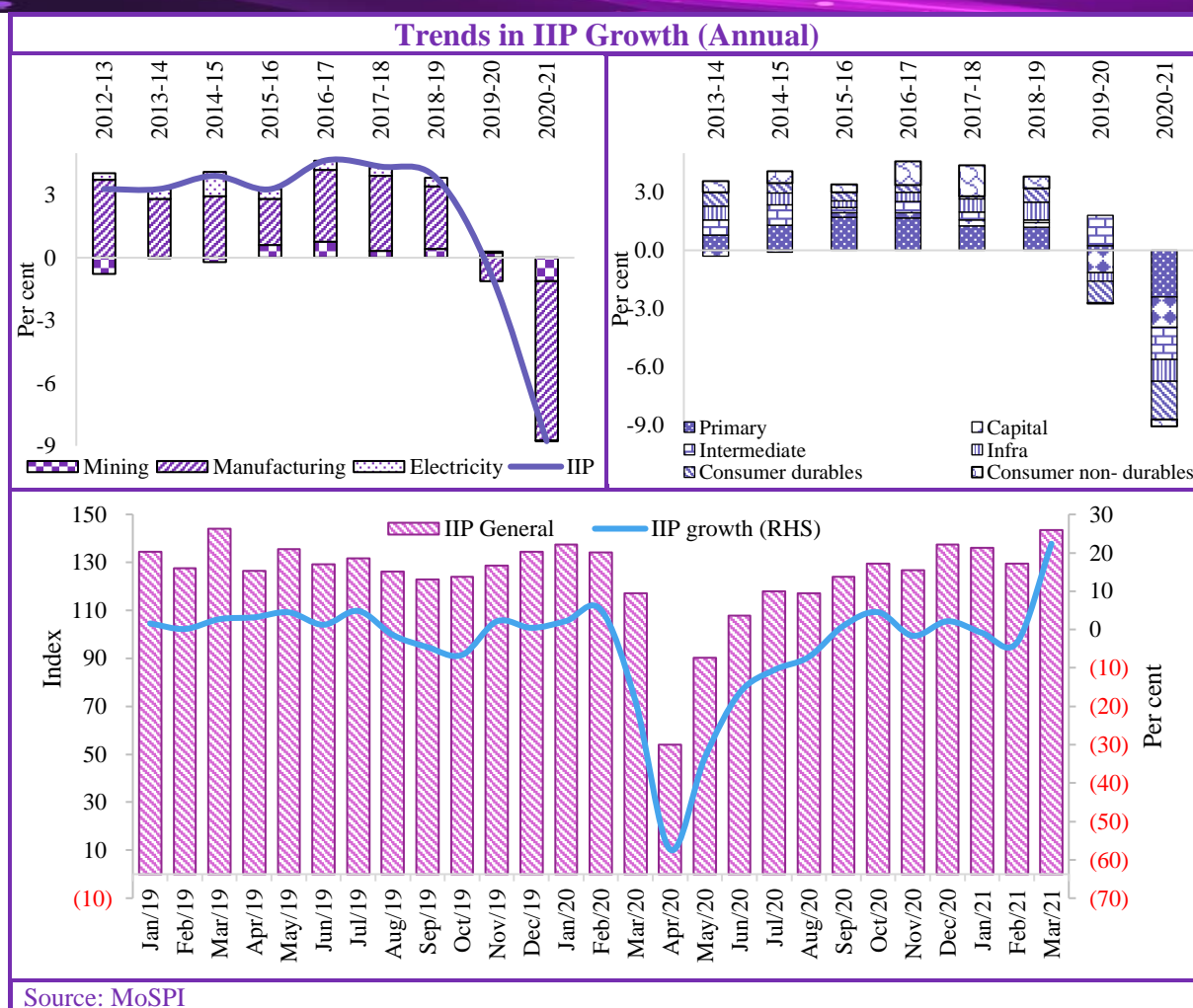
81,196.20 Crore, out of which an amount of Rs 76,055.71 crore has already been transferred to farmers across the country.



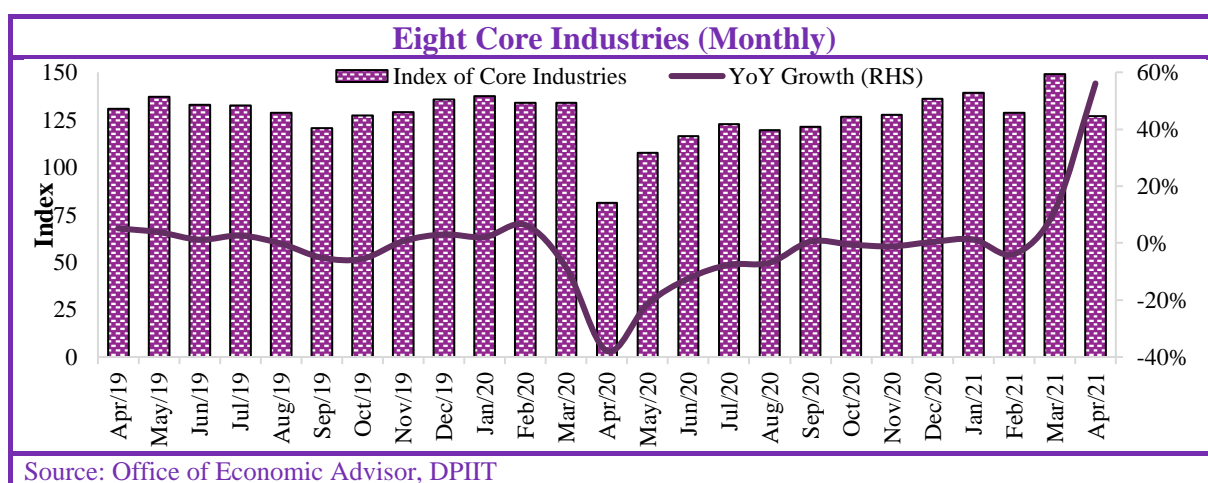
26. Under the Pradhan Mantri Garib Kalyan Anna Yojana (PM-GKAY - III) scheme, additional food grains, @ 5 kg per person per month, free of cost to around 79.39 crore beneficiaries covered under National Food Security Act (NFSA) which was provided initially for a period of two months i.e., May-June 2021 and has been extended till November 2021. All 36 States/UTs have lifted 63.67 LMT of food grains from FCI depots. FCI currently has adequate availability of stocks of food grain with more than 100 million tonnes of food grain, 4.8 times the mandatory stock requirement for May. 'One Nation One Ration Card' (ONORC), 14445 toll-free number and 'Mera Ration' Mobile application has been seamlessly enabled in 32 States/UTs, covering about 69 Crore beneficiaries (86 per cent NFSA population) in these States/UTs. MGNREGS has been a critical support in providing rural employment during the last year and in the wake of the second wave of the pandemic. The demand for work continues to be high with 4.14 crore persons demanding work in May 2021 and the number of person days generated at 24.2 crore person days in the same month.

### Industry

27. The Index of Industrial Production (IIP) posted a robust double-digit expansion of 22.4 per cent YoY in March 2021 against a decline of 18.7 per cent in March 2020 and registering a growth of 4.7 per cent over March 2019 - largely due to the lockdown induced favourable base from last year. During FY 2020-21, IIP has de-grown by 8.6 per cent compared with negative growth of 0.8 per cent in FY 2019-20. Industrial output in first half fell by 20.8 per cent while in the second half the growth has been steady at 3.5 per cent. All sectoral and use-based components manifested a de-growth in FY 2020-21. Manufacturing sector fell by 9.8 per cent in FY 2020-21 as compared to a decline of 1.4 per cent in FY 2019-20; followed by significant decline in Mining at 7.8 per cent (against a growth of 1.6 per cent in FY 2019-20) and a decline of 0.5 percent in Electricity (against a growth of 1.0 per cent in FY 2019-20). Under the use-based classification, capital goods and consumer-durables showed a sharp double digit decline at 19.2 per cent and 15.2 percent respectively followed by de-growth of 9.7 percent in intermediate and 9.1 per cent in infrastructure goods.



28. In April 2021, the eight core sectors registered a double-digit output growth of 56.1 per cent over last year and (-)3.0 per cent as compared to April 2019 compared with 11.4 per cent growth in March 2021. The high growth in output can be attributed to a low base effect (-37.9 per cent in April 2020) as the nation-wide lockdown was imposed last year during this month. The expansion in April has been led by an exponential growth in output of steel and cement.

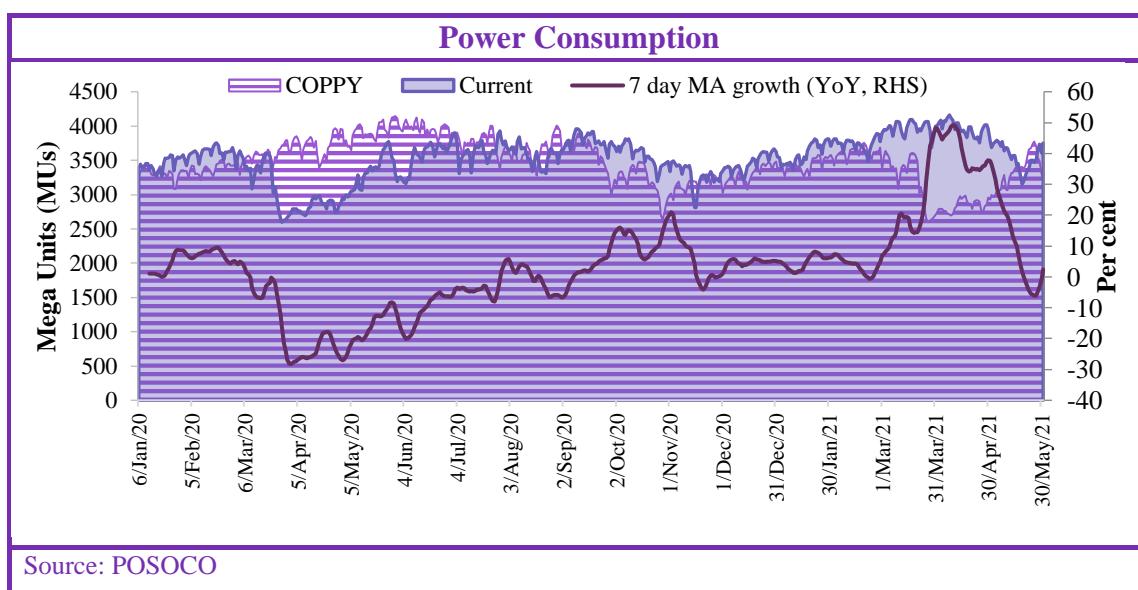


29. Manufacturing Purchasing Managers' Index (PMI) declined to 50.8 in May 2021 from 55.5 in April 2021. The concerns surrounding the pandemic restricted business confidence

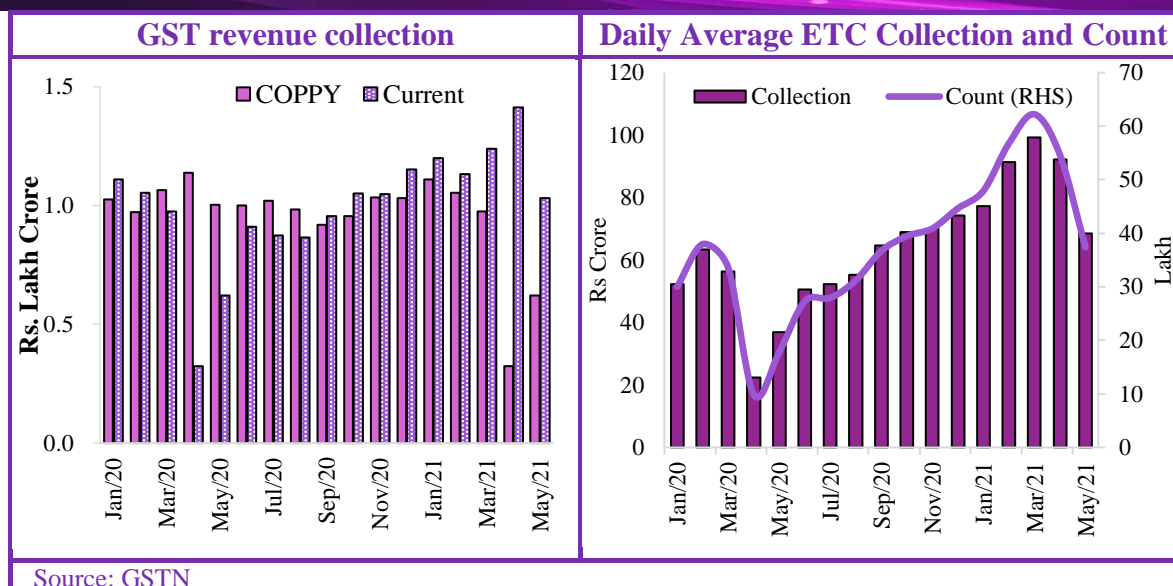


towards the year-ahead outlook for production. Firms scaled up production volumes during May, but the pace of expansion was modest. New export orders increased at a softer rate and outpaced the long-run series trend.

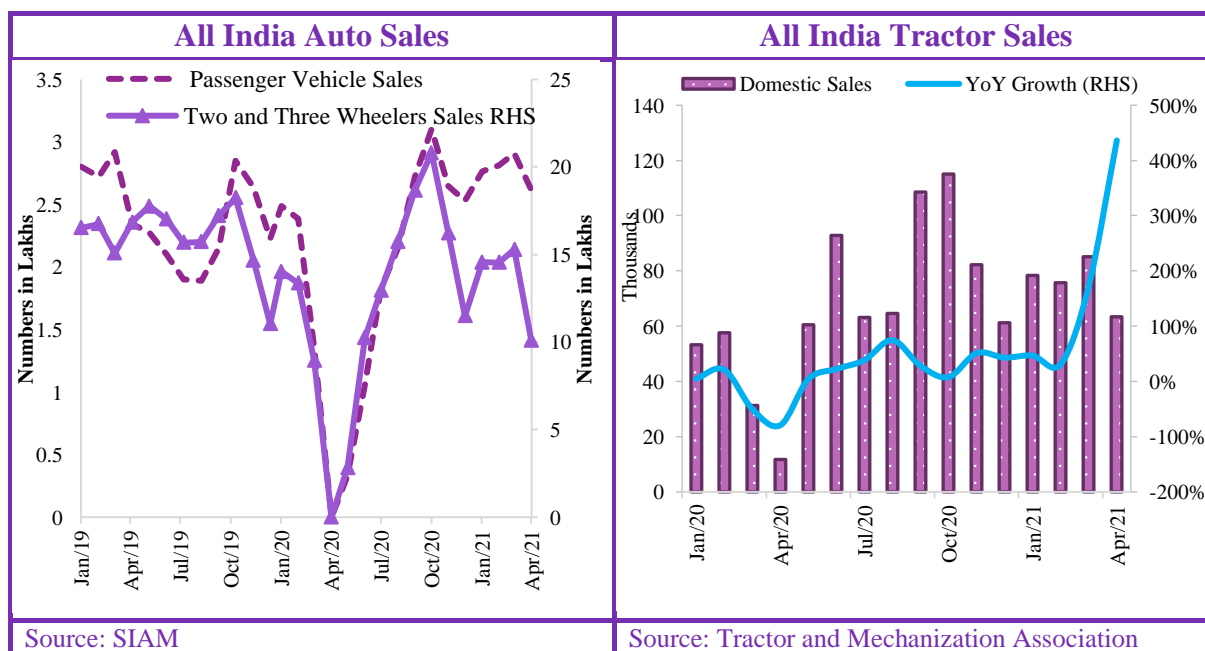
30. India's power consumption, one of the bright spots of the economic recovery since September 2020, registered a growth rate of 7.3 per cent in May 2021 over May 2020. Local lockdown restrictions imposed by state governments, impact of cyclones Tauktae and Yaas hitting the West and East coasts respectively, and rains over North Indian regions, led to the moderation in power consumption in the month of May. It dimmed in the first half of May followed by an uptick in the second half. With COVID-19 cases on the downhill, unlocking of mobility restrictions is expected to refuel industrial activity and power demand.



31. E-way bills for May echoed the localized movement restrictions affecting inter and intra state goods movement, through channels of supply and demand. The sustained recovery in interstate movement of goods since May 2020, both in terms of YoY and sequential movement, underwent a loss of momentum, with 31.2 per cent MoM decline in the number of E-way bills in May 2021. Total e-way bills generated stood at 3.99 crore in May 2021, 56.5 per cent YoY growth over May 2020, and 26.5 per cent contraction compared to May 2019. In terms of value, e-way bills generated reached ₹14.16 lakh crore in May 2021 compared to ₹ 9 lakh crore in May 2020 and ₹15 lakh crore in May 2019. Gross GST revenue collection for May 2021, not untouched by the May-moderation, declined to ₹1,02,709 crore after attaining record high of ₹1.41 lakh crore in April 2021. Albeit being the lowest in eight months, the collections remained above 1 lakh crore despite lockdowns in several states. The moderation in sequential momentum of highway traffic movement as captured in average daily electronic toll collection (ETC) both in terms of value and volume continued into May, owing to localised lockdowns imposed to contain second wave of the pandemic.

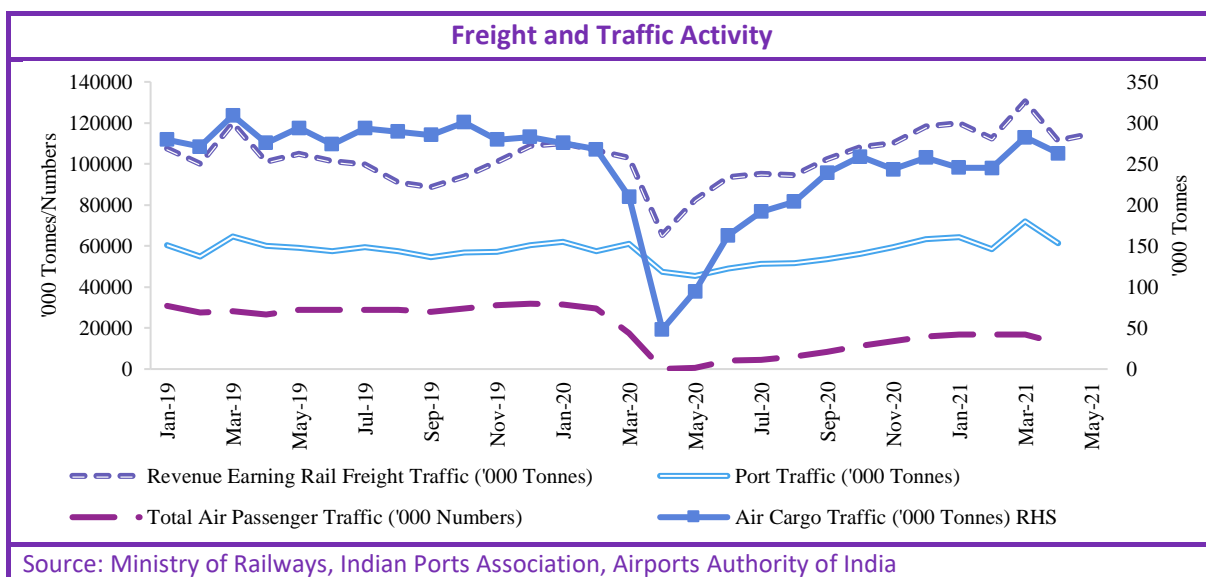


32. The localized lockdowns and mobility restrictions had an especially detrimental impact on automobile sales, a key indicator of economy's performance. April data underscore a sharp fall of 34 per cent MoM in two and three-wheelers sales along with a 10 per cent MoM decline in passenger vehicles, albeit tremendous growth in YoY terms, with April 2020 having registered near-zero sales. Tractor sales, reflective of resilient rural demand since June 2020, contracted by 25 per cent MoM in April, mainly attributable to localized restrictions and rural spread of second wave.



33. Freight and Traffic Activity indicators moderated sequentially in April 2021 representative of localized nature of lockdowns and resilience of industrial activity. Port traffic registered a contraction of 14.5 per cent MoM and a 29.5 per cent YoY growth, softening a sequential momentum of preceding 5 months. Railway freight also underwent sequential decline (14.4 per cent MoM) in April, while registering 70.7 per cent YoY growth compared to April 2020. However, rail freight in May 2021 stood at 114.8 MT, registering a growth of 9.7 per cent compared to May 2019 despite second wave challenges. Air cargo growth also

witnessed modest sequential contraction of 6.9 per cent coupled, at more than four-fold of April 2020 level. Air passenger traffic for domestic airlines was 1.24 crore in April 2021, compared to only 60 thousand in April 2020.

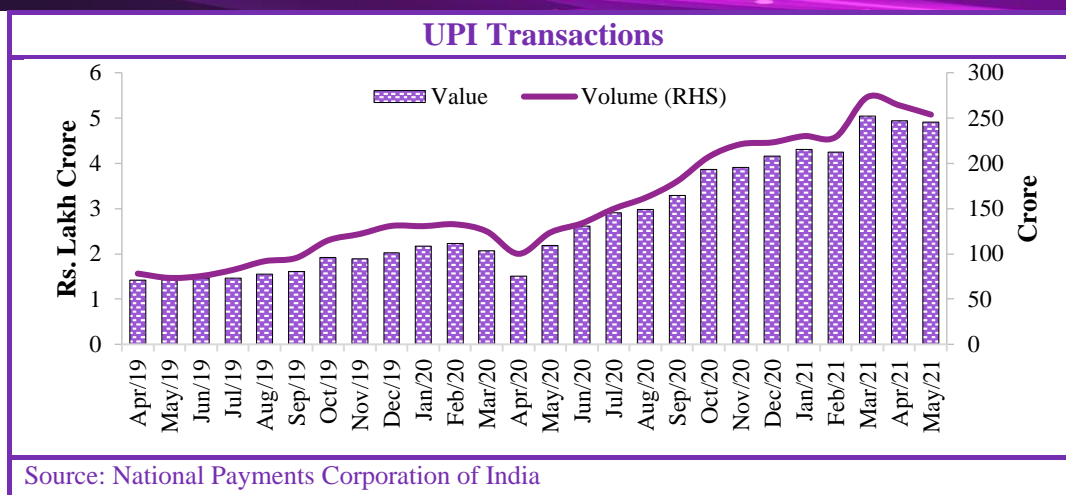


### Services

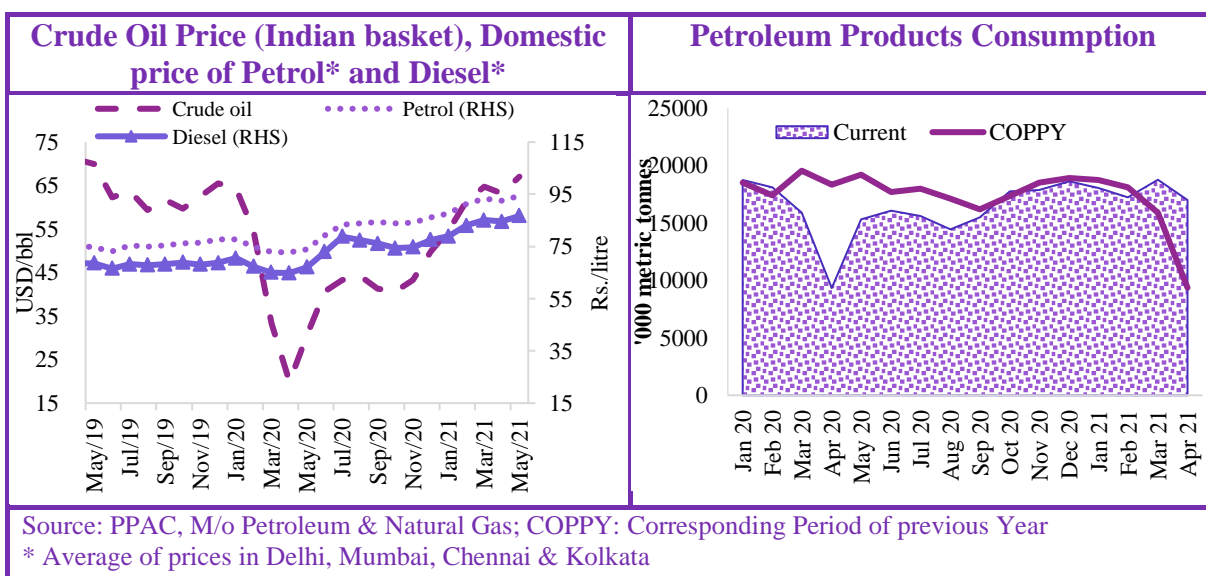
34. PMI Services dipped to 46.4 in May from 54 in April, entering the contraction territory after eight months. The lingering localized restrictions and high case count in May dampened business sentiments, aggravated by a lower demand for India's service exports due to international travel restrictions and business closures. The decline, nevertheless, was far muted compared to its plunge between March and September last year, when PMI services touched single digits in April 2020, rising only moderately to 12.4 in May 2020. While real estate and business services were the worst affected this May, services such as transport and storage witnessed substantial uptick in activity.

35. During FY: 2020-21, the value of UPI digital transactions was almost double at Rs 41.0 lakh crore as compared to Rs 21.3 lakh crore in FY: 2019-20. However, digital payments' momentum moderated in April and May. UPI transactions, in terms of value, stood at Rs 4.90 lakh crore in May 2021, more than twice compared to the same month in the previous year. UPI transaction volume moderated to 253.7 crore in May 2021 from 264 crore in April 2021, while more than double the volume in May 2020. Sequentially, however, UPI payment volumes decreased by 3.9 per cent and transaction value declined by 0.7 per cent in May 2021 over April 2021.





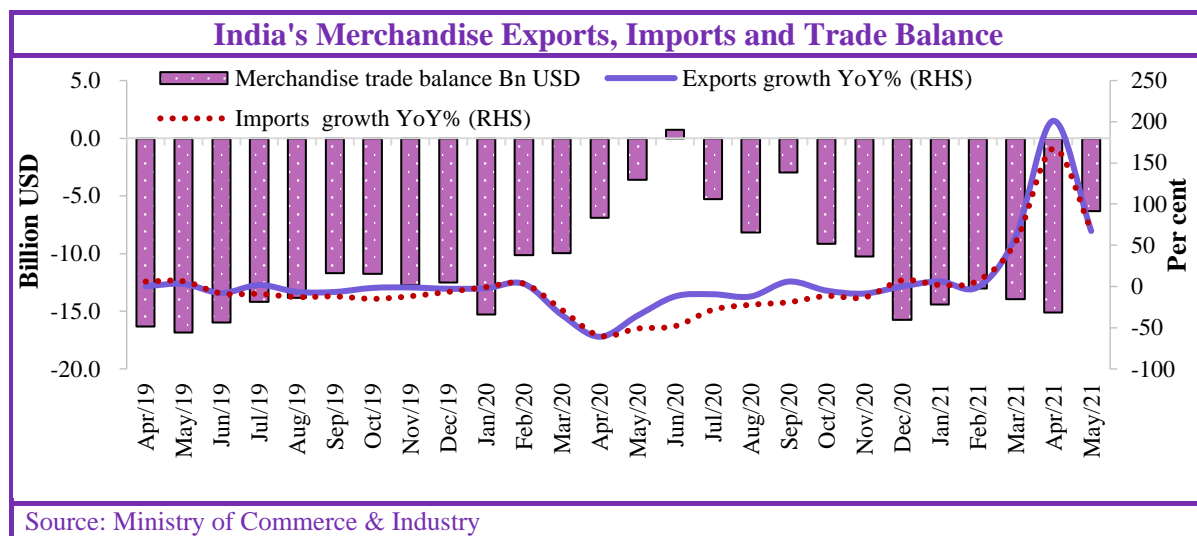
36. Indian basket of crude oil prices stood at 66.7 USD/bbl in May 2021 compared to an average of 63.1 USD/bbl in April 2021 and 64.8 USD/bbl in March 2021 - driven by global demand build up with slight easing of production cuts by OPEC plus. Domestic prices of petrol and diesel rose slightly in May 2021 on the back of rising international crude oil prices. Domestic consumption of petroleum products declined by 9.3 per cent in April 2021 compared to March 2021.



#### *Merchandise Trade resilient and gaining from global recovery*

37. According to preliminary data, during May 2021, India's merchandise exports was valued at US\$ 32.2 billion, an increase of 67.4 per cent over US\$ 19.2 billion in May 2020 and an increase of 7.9 per cent over US\$ 29.8 billion in May 2019. India's merchandise imports in May 2021 were US\$ 38.5 billion, an increase of 68.5 per cent over May 2020 and a contraction of 17.5 per cent over May 2019. India is thus a net importer in May with a trade deficit of US\$ 6.3 billion, as compared to US\$ 3.6 billion in May 2020 and US\$ 16.8 billion in May 2019. The resilience in export performance due to strong recovery in advanced economies has cushioned the trade balance. Major export commodities which have recorded growth in May include other Cereals, Iron Ore, Cereal Preparations and Miscellaneous Processed Item, Cotton yarn, handloom products etc. Overall, the trade data corroborates moderation in recovery in demand, while export possibilities abound with expectations of a strong global economic

performance. A strong elasticity of India's exports to global growth should drive a strong export rebound in India this year.

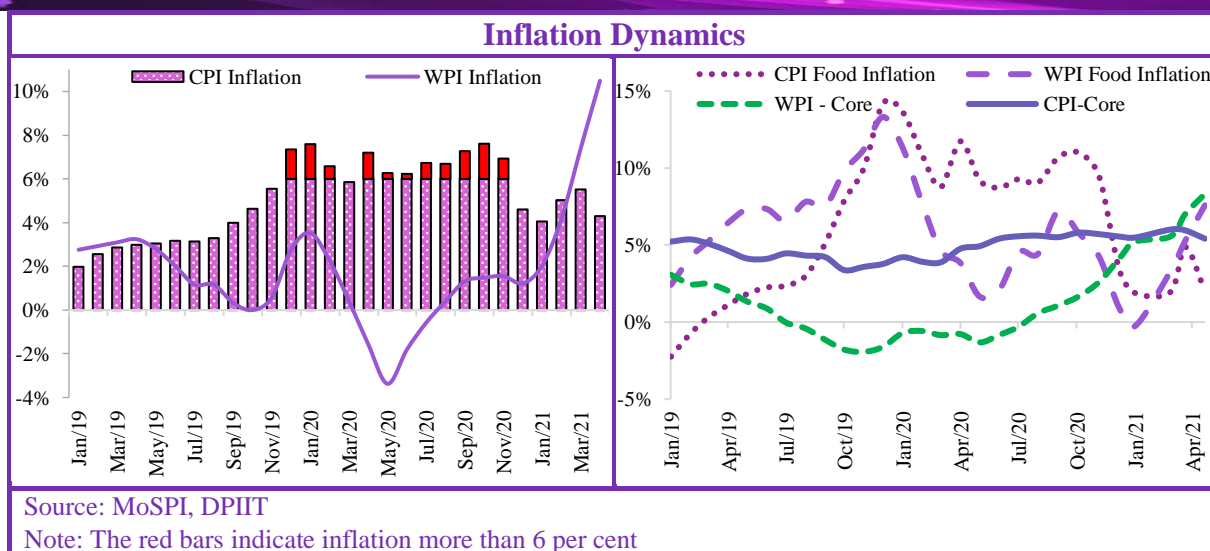


#### *Mixed trends on inflation*

38. Overall CPI-C inflation eased to 4.29 per cent in April 2021 (as against 7.2 per cent in April 2020) from 5.52 per cent in March 2021 mainly on account of decline in food inflation and a favorable base effect. Food inflation based on Consumer Food Price Index (CFPI) dropped to 2.02 per cent in April 2021 as compared to 4.87 per cent in March 2021, mainly on account of decline in inflation of 'cereals & products', 'milk & products', 'vegetables', 'pulses & products', sugar and spices. CPI Core inflation declined to a 10-month low 5.41 per cent in April 2021 as compared to 5.95 per cent in March 2021, on account of decline in inflation of 'clothing & footwear', 'pan, tobacco & intoxicants' and Miscellaneous group.

39. WPI inflation increased to 10.49 per cent in April 2021 as compared to 7.39 per cent in March 2021 on account of increase in inflation of all major groups, viz, Primary articles, Fuel & power and Manufactured products and base effect. WPI food inflation increased to 7.58 per cent in April 2021 as compared to 5.28 per cent in the previous month, on account of increase in inflation of cereals, fruits, 'egg, meat & fish', 'other food articles', edible oils and sugar. Inflation in cereals although increased, it remained negative since August 2020. After a gap of 22-months, the WPI inflation exceeded the CPI inflation by 190 basis points in March 2021.

40. Going forward, forecast of a normal south-west monsoon may soften food inflationary pressures respectively. However, a combination of high international commodity prices and logistics costs may push up input price pressures across manufacturing and services. The outlook for core inflation is likely to be impacted by the disruptions in supply chains due to localised restrictions across States.



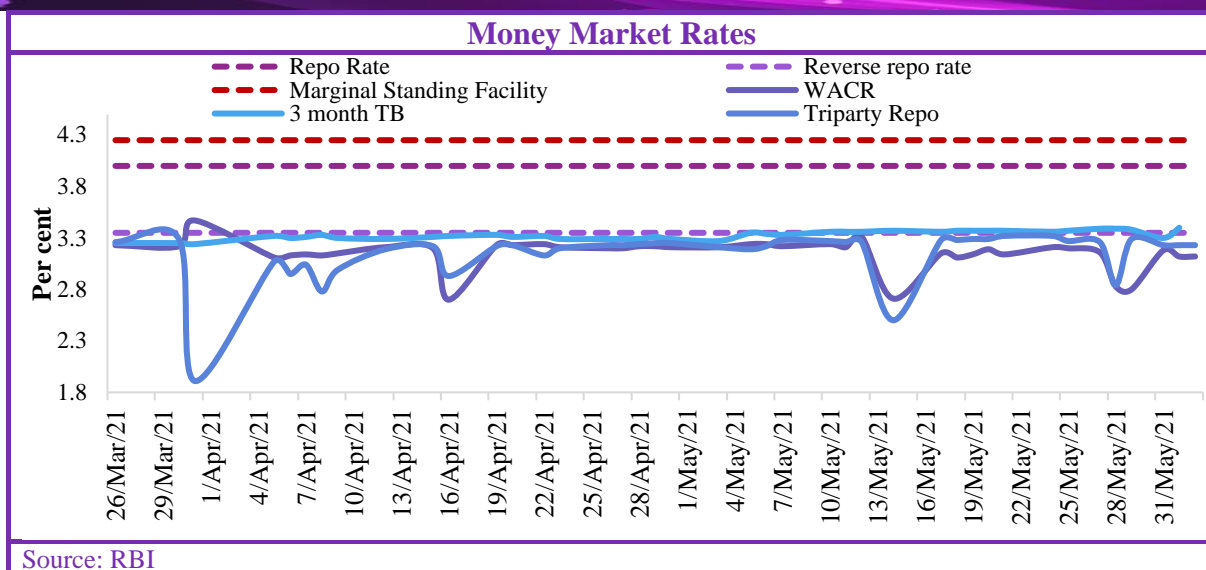
*Financial conditions remain conducive for economic recovery with accommodative monetary policy stance and unhindered efforts towards smooth policy transmission.*

41. Since the adoption of a new liquidity management framework by RBI in February 2020 with requirement based interventions and no fixed daily liquidity injection operations, the weighted average call rate (WACR) has remained the operating target of monetary policy with RBI's efforts aimed at providing adequate liquidity to anchor the call rate at around the repo rate. After remaining within the policy corridor till mid-October 2020, WACR slipped below the reverse repo rate of 3.35 per cent, reflecting surplus liquidity conditions. The average spread of the WACR over the policy repo rate increased to (-)63 bps in 2020-21 from (-)9 bps in 2019-20. During April and May 2021, WACR traded below the reverse repo rate by 22 bps on average. Among other key money market instruments, interest rates on 3 month T-Bills, certificates of deposit (CDs) and commercial papers (CPs) generally softened on account of surplus liquidity during 2020-21. In May 2021, the 3-month T-bill rate and 3-month CD rate traded below or close to the reverse repo rate, while the interest rate on 3-month CP rates inched above the reverse repo rate.

42. The average daily volume in the money market, i.e., call money, triparty repo and market repo taken together, excluding Saturdays, increased by 39 per cent to ₹3,36,371 crore during FY 2020-21 from ₹2,42,658 crore in FY 2019-20. Triparty repo and market repo segments accounted for 69 per cent and 28 per cent of the total money market volume respectively as compared with 68 per cent and 25 per cent in 2019-20. In May 2021, average daily volume in the money market stood at ₹2,20,415 crore compared to ₹2,74,676 in April 2021.

43. In the primary market, fresh issuance of CDs decreased to ₹1.3 lakh crore during 2020-21 as compared with ₹3.9 lakh crore in the previous year. New issuance of CPs in the primary market also decreased to ₹17.4 lakh crore in 2020-21 from ₹22.0 lakh crore in 2019-20. In May 2021, fresh issuances of CDs and CPs stood at Rs 0.05 lakh crore (as on 7<sup>th</sup> May 2021) and Rs. 1.30 lakh crore (as on 31<sup>st</sup> May 2021) respectively, compared to Rs. 0.08 lakh crore and Rs. 0.89 lakh crore in April 2021 (corresponding periods).





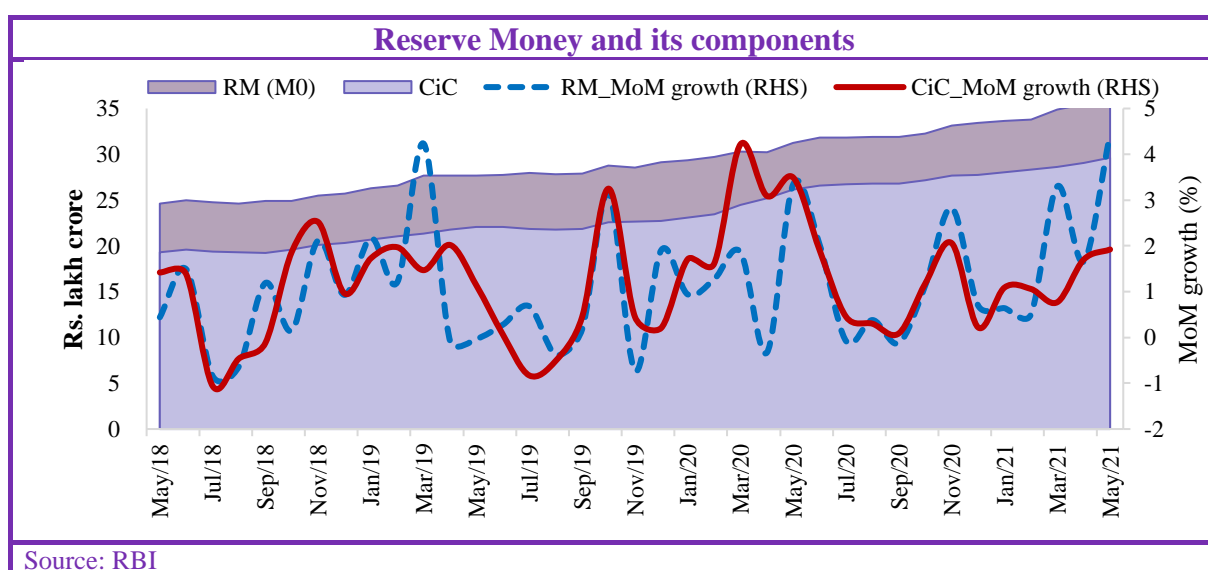
*Systemic liquidity remains in surplus, additional measures announced for equitable liquidity support and financial stability*

44. During FY 2020-21, net liquidity adjustment facility (LAF) position remained in reverse repo mode supplemented by repayment of LTROs (availed during February-March 2020) and TLTROs amounting ₹1,23,572 crore and ₹37,348 crore, respectively. System liquidity continues to remain in surplus in the first two months of FY 2021-22 with average daily net absorption under LAF at ₹5.78 lakh crore in April 2021 and ₹5.52 lakh crore in May 2021. Total liquidity support provided by the RBI for the economy since February 6, 2020 (up to May 5, 2021) stood at ₹15.7 lakh crore (equivalent to 8.0 per cent of 2020-21 nominal GDP). During FY 2021-22, in addition to ₹60,000 crore under G-SAP 1.0, RBI has undertaken regular Open Market Operations (OMO) and injected additional liquidity of ₹36,545 crore (up to May 31).

45. In its effort to continue lending liquidity comfort to banks, RBI further extended the facility for availing funds by banks under MSF of up to 3 per cent of net demand and time liabilities (NDTL) up to 30 September 2021. The cash reserve ratio (CRR) would be restored in two phases to 3.5 per cent effective from 27 March 2021 and 4.0 per cent effective from 22 May 2021, thereby creating room for various market operations of the RBI to provide additional liquidity. However, G-SAP enabled redemption of government securities worth around ₹52,000 crore during the last week of May, neutralising the CRR restoration.

46. In its latest June 4 Monetary Policy Statement, RBI has unveiled additional developmental and regulatory measures to mitigate the second wave's impact which, inter-alia, include on-tap liquidity window of ₹15,000 crore for contact-intensive sectors, special liquidity facility of ₹16,000 crore to SIDBI, enhancement of the exposure thresholds under Resolution Framework 2.0 from ₹25 crore to ₹50 crore for MSMEs, non-MSME small businesses and loans to individuals for business purposes, placement of margins for government securities transactions on behalf of FPIs to encourage FPI investment in debt markets, facilitating flexibility in liquidity management by issuers of CDs and permitting Regional Rural Banks to issue CDs and ensuring availability of National Automated Clearing House (NACH) on all days of the week.

47. The banking system saw a rise in precautionary demand for currency led by COVID-19 pandemic induced uncertainty. Demand for Currency in circulation (CiC), which constitutes about 82 per cent of Reserve Money (RM), normally expands during the first fortnight owing to transactions by households, followed by contraction in the second fortnight due to flow back of currency from households to the banking system. However, the unusual rise in month-over-month CiC variation during April-June 2020 compared to the corresponding period of previous years clearly signalled an uncertainty-driven surge in precautionary demand for cash during a crisis situation. Subsequently, with the continuous decline in COVID-19 cases from mid-September to February 2021, relaxation of COVID-19 related restrictions and optimism surrounding vaccination, movements in CiC were primarily due to seasonal factors like agricultural sowing and harvesting, festivals, state elections, etc. In May 21, CiC increased by 1.92 per cent over April 21 compared to an increase of 1.1 per cent during the same period in pre-COVID year FY 2019-20, reflecting increase in demand for cash.



#### Money supply growth bolstered by aggregate deposits, bank credit growth remains muted

48. Broad money(M3) rose by 11.8 per cent in FY 2020-21 as compared to 8.7 per cent in FY 2019-20, driven by aggregate deposits (11.4 per cent YoY) and time deposits (10.9 per cent YoY) in particular, suggestive of depositor risk-aversion. Trends in demand deposits (15.1 per cent YoY) tracked changes in currency with the public with the latter rising by 17.8 per cent in the pandemic year of FY 2020-21 compared to 14 per cent in FY 2019-20. Owing to shifting preferences towards precautionary cash savings in the uncertain pandemic year, currency-deposit ratio stood at 17.3 per cent in FY 2020-21 as compared to 16.3 per cent in FY 2019-20 and slightly above its decennial average (2011-20) of 15.2 per cent. On the sources side of M3, net bank credit to government grew by 14.8 per cent in FY 2020-21 as compared to 13.0 per cent in FY 2019-20 owing to increase in growth of bank SLR investments by 8 percentage points during the year. As on 21<sup>st</sup> May 2021, money supply growth stood at 9.9 per cent as compared to 10.2 per cent as on 7<sup>th</sup> May 2021. Growth in currency with public, demand deposits and time deposits fell in May to reach 13.9 per cent, 16.3 per cent and 8.3 per cent respectively as on 21<sup>st</sup> May 2021 as compared to respective component growths of 14.8 per cent, 17.8 per cent and 8.4 per cent as on 7<sup>th</sup> May 2021.

49. FY 2020-21 was characterised by mellow credit conditions with bank credit to commercial sector, the biggest component of M3 from the sources side, growing at a lower rate

of 5.18 per cent compared to 6.32 per cent in FY 2019-20. SCBs' credit-deposit ratio declined to 72.4 per cent in FY 2020-21 compared to 76.4 per cent a year ago. Bank credit growth started picking pace gradually in the second half of the year as the economy unlocked and the RBI and Government led stimulus measures started demonstrating positive effects. Bank credit stood at 5.6 per cent on a YoY basis for FY 2020-21 as compared with 6.1 per cent a year ago. While decline in credit growth in the year was broad-based on a sectoral basis, credit growth to agriculture (12.3 per cent), medium industries (28.8 per cent) and wholesale trade services (21.2 per cent) remained healthy. Credit to infrastructure also improved marginally (3.6 per cent) while personal loans growth remained in double digits (10.2 per cent). As on 21<sup>st</sup> May 2021, bank credit growth stood at ₹108.34 lakh crore, declining by 0.3 per cent over the previous fortnight and growing at 6.0 per cent over the previous year.

### **Bond yields softened across market segments and spreads narrowed**

#### *Government Securities Market*

50. Tracking the continuum of unprecedented measures announced by RBI during FY 2020-21 towards ensuring smooth monetary transmission, credit flows and fostering orderly market conditions, bond yields softened across market segments and spreads narrowed to pre-COVID levels by end of January 2021. The benchmark 10-year yield, which had averaged 5.97 per cent from April 2020 to January 2021, surged to 6.22 per cent at end February 2021 and remained elevated at 6.13 per cent at end March 2021. This was driven by Central government's announcement of additional borrowing of ₹80,000 crore for FY 2020-21 and elevated borrowing of ₹12.06 lakh crore for FY 2021-22. Additionally, increase in US Treasury yields and hardening of crude oil prices also contributed to the elevated bond yields.

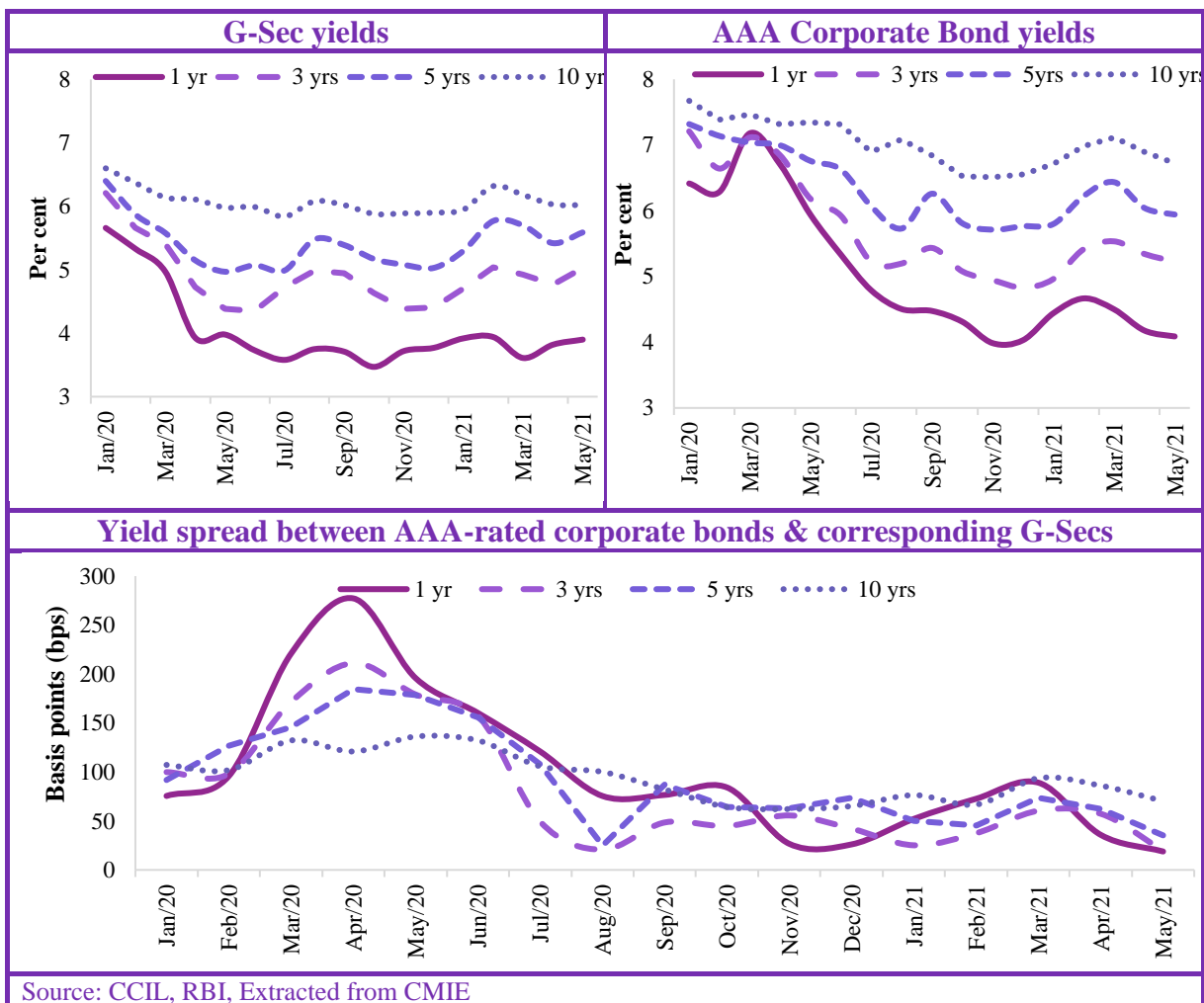
51. Introduction of the secondary market G-sec acquisition programme (G-SAP) in FY 2021-22 with an upfront commitment to a specific amount for open market purchases of G-secs exemplifies RBI's continued efforts at ensuring a stable and orderly evolution of the yield curve under supportive financial conditions. Under G-SAP 1.0, RBI conducted the first tranche on 15 April 2021 in which it bought the entire notified amount of ₹25,000 crore. RBI conducted the second purchase for an aggregate amount of ₹35,000 crore on 20 May 2021. Enabled by G-SAP, India's benchmark 10-year G-Sec yield eased to 5.99 per cent at end-May 2021. RBI has announced another G-SAP 1.0 auction for purchase of G-Secs of ₹40,000 crore to be conducted on June 17, 2021 of which ₹10,000 crore would constitute purchase of state development loans (SDLs). Under G-SAP 2.0, secondary market purchase operations of ₹1.2 lakh crore will be conducted in Q2 of FY 2021-22. Apart from G-SAP, the RBI also introduced several regulatory measures to promote financial inclusion and enable payments banks to reach a wider subscriber base by enhancing the operational and liquidity limits allotted to them.

#### *Corporate bond market*

52. Triggered by COVID-19 outbreak, corporate bond yields stiffened in March-April 2020 with AAA rated 10-year bond yield reaching 7.3 per cent in April 2020. However, corporate bond yields significantly eased during FY 2020-21 to reach 6.7 per cent in January 2021 and closed at 7.1 per cent in March 2021. Movements in corporate bond markets largely mirrored G-sec market movements, reflecting the transmission of policy rate cuts to the corporate bond yields, surplus liquidity conditions and the effect of Government and RBI's targeted measures. Tracking the movement in 10 year G-sec yield, 10 year AAA rated corporate bond yields too eased to reach 6.7 per cent in May 2021. The spread between corporate bond yields and



corresponding G-sec yields also witnessed moderation across all periods of residual maturity. On the back of softening yields and easy financing conditions, primary corporate bond market issuances increased by 13.4 per cent to a record ₹7.8 lakh crore during FY 2020-21. Private placements constituted 98.7 per cent of the total resources mobilised by corporates.



Source: CCIL, RBI, Extracted from CMIE

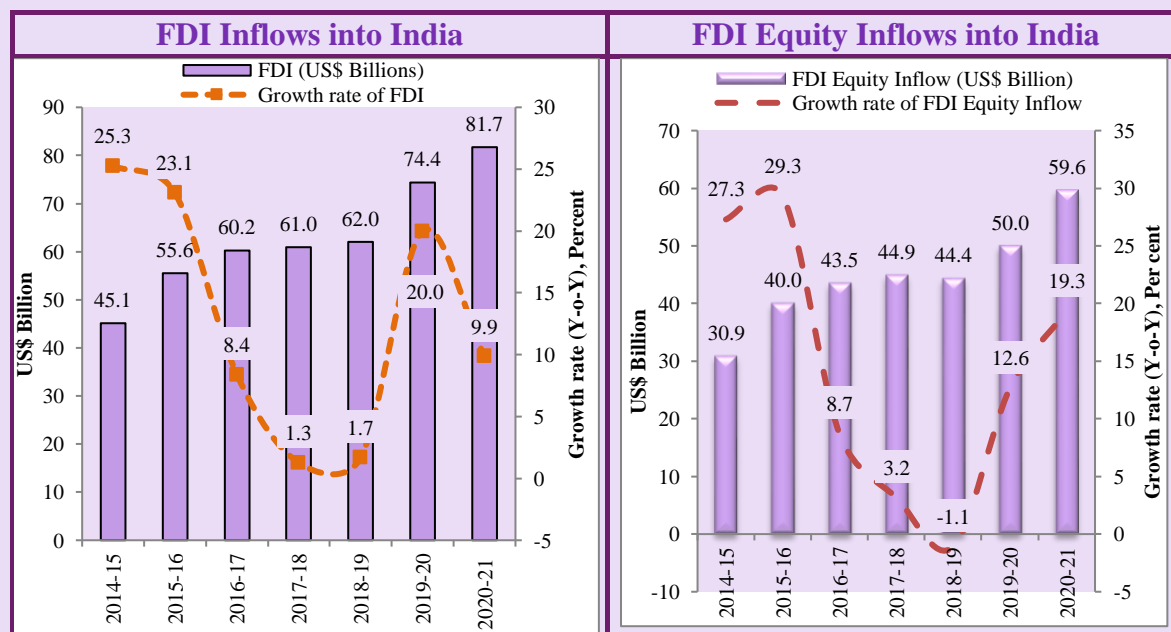
### External Sector

53. India emerged as the preferred investment destination in the year, attracting highest ever FDI inflow of USD 81.72 billion during FY 2020-21 as compared to USD 74.39 billion in FY 2019-20. This reflected the confidence of the foreign investors in India's fundamentals.

Record FDI Flows in India in 2020-21
<p><b>Global Trends</b></p> <p>As per UNCTAD Investment Trends Monitor, in 2020, global FDI collapsed by 42 per cent to an estimated US\$ 859 billion, as against US\$ 1.5 trillion in 2019. The decline is largely concentrated in developed countries, where FDI fell by 69 per cent raising the share of developing countries in global FDI to 72 per cent – the highest share on record. In 2020, China was the largest recipient of FDI, with FDI inflow of US\$ 163 billion, with an increase of 4 per cent. United States recorded 49 per cent fall in FDI, though it was the second largest recipient of FDI at US\$ 134 billion. With zero FDI to UK, FDI in EU fell by two third. ASEAN region which was the engine of FDI growth throughout the last decade recorded 31 per cent fall in the FDI. FDI in India rose the highest by 13 per cent in 2020.</p>

### FDI Inflows into India

FDI inflows into India grew at the rate of 9.9 percent to reach a record US\$ 81.7 billion in 2020-21, as against US\$ 74.4 billion in 2019-20. FDI equity inflows formed 70 per cent of the total FDI inflows in India. FDI equity inflows grew at an impressive rate of 19.3 per cent in 2020-21 at US\$ 59.6 billion, as against a growth rate of 12.6 percent in 2019-20 at US\$ 50.0 billion.

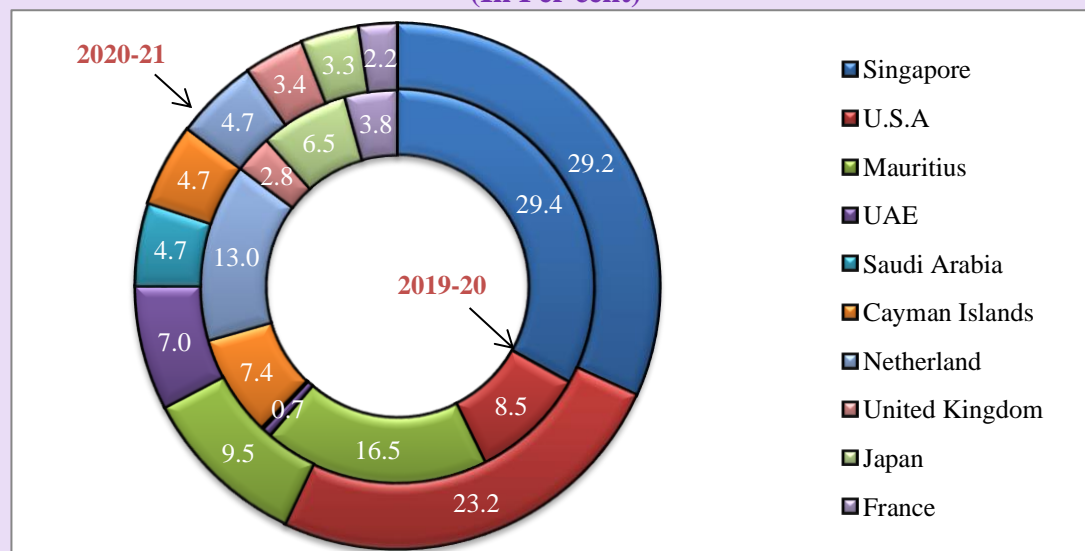


Source: Department for Promotion of Industry and Internal Trade (DPIIT)

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

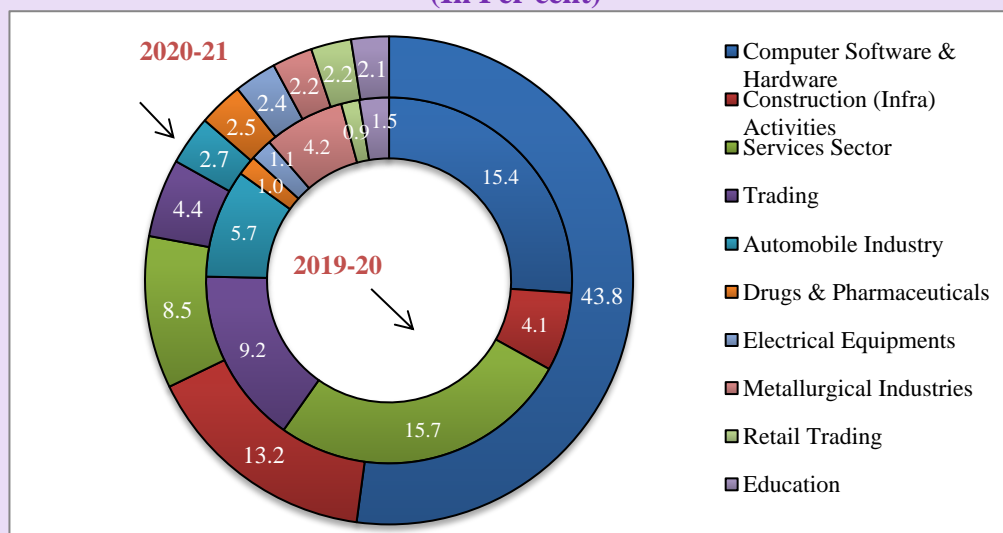
Singapore and USA were the two top investing countries in India in 2020-21, jointly accounting for more than 52 per cent of total FDI equity inflows. Besides these two, there is significantly higher FDI equity flows from UAE and Saudi Arabia in 2020-21 compared to 2019-20.

### Share of Top 10 Investing countries in FDI Equity Inflows in 2019-20 and 2020-21 (In Per cent)



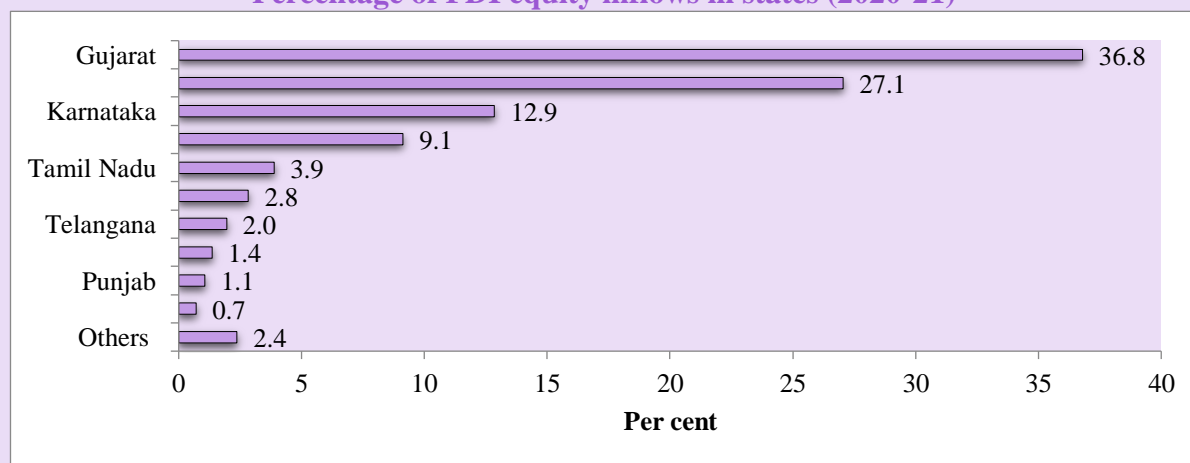
Computer software and hardware sector recorded robust FDI equity inflows in 2020-21, accounting for 43.8 per cent share alone in total FDI equity inflows, as against 15.4 per cent in 2019-20. Several factors such as production linked incentive scheme, increased demand for digitization due to working from home and India's aggressive efforts to attract foreign investments have led to this sector gaining importance over others in terms of FDI equity inflows. The share of construction activities also rose to 13.2 per cent in 2020-21, *vis-a-vis* 4.1 per cent a year ago. Drugs and Pharmaceuticals sector witnessed a high FDI inflow in 2020-21 *vis-a-vis* a year ago, due to high demand of pharmaceutical products owing to pandemic. Services sector slipped to the third place in 2020-21 from being the sector attracting the highest inflows last year. Trading and automobile industry are other sectors that were adversely hit due to COVID-19 pandemic, resulting into lower FDI into these sectors. The top 10 sectors together constitute 84.1 per cent in 2020-21, compared to 58.8 per cent in 2019-20.

**Share of Top 10 Sectors in total FDI Equity Inflows in 2019-20 and 2020-21  
(In Per cent)**



Gujarat has the highest share of FDI inflows (36.8 per cent), followed by Maharashtra (27.1 per cent) and Karnataka (12.9 per cent) among all states in 2020-21. These three states together account for about 77 per cent of total FDI equity inflows, which reflect the skewed distribution of FDI equity inflows among the states.

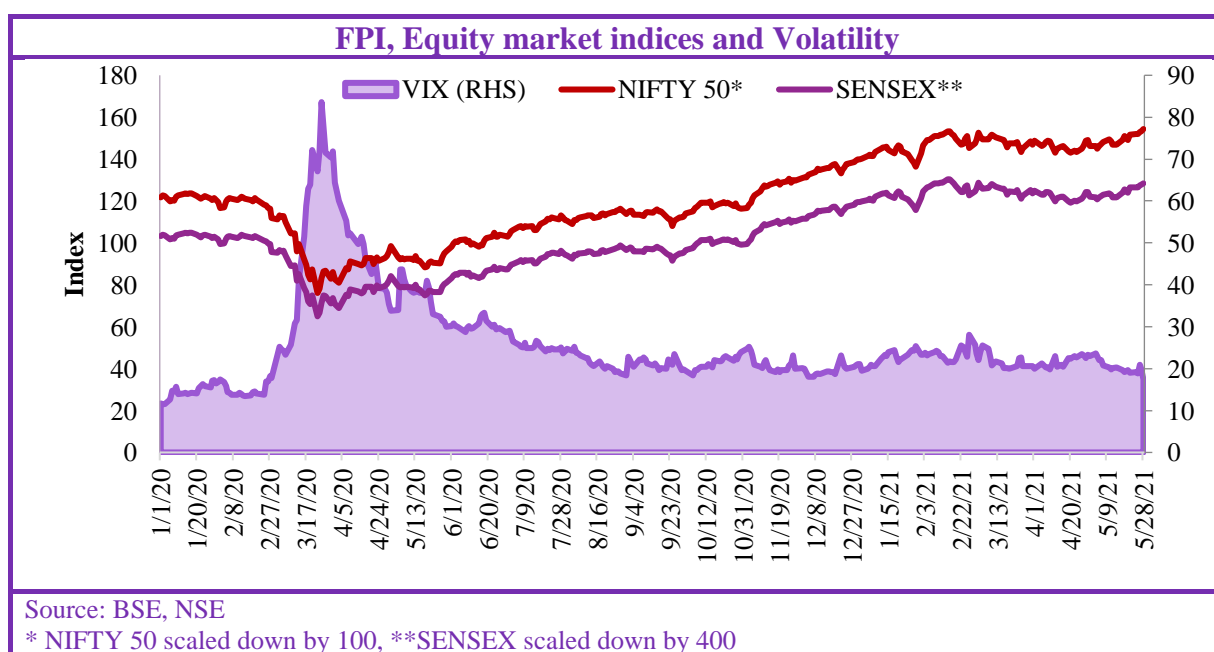
**Percentage of FDI equity inflows in states (2020-21)**



Risks related to the latest wave of the pandemic, emergence of mutant strains, the pace of the roll-out of vaccination programmes and economic support packages, fragile macroeconomic situations in major emerging markets, and the uncertainty about the global policy environment for investment will continue to affect FDI in 2021. The key reforms undertaken in this regard such as change in MSME definition, Production Linked Incentive scheme (PLI), investor-friendly FDI policy, higher emphasis on capital expenditure, reforms in the factor markets – labour through the labour reforms and capital through the measures announced for the financial sector in this budget – were all well-received by the domestic and overseas investors.

#### *Indian Rupee's strong comeback in May 2021 driven by easing of second wave, weakening dollar and resurgent net foreign inflows*

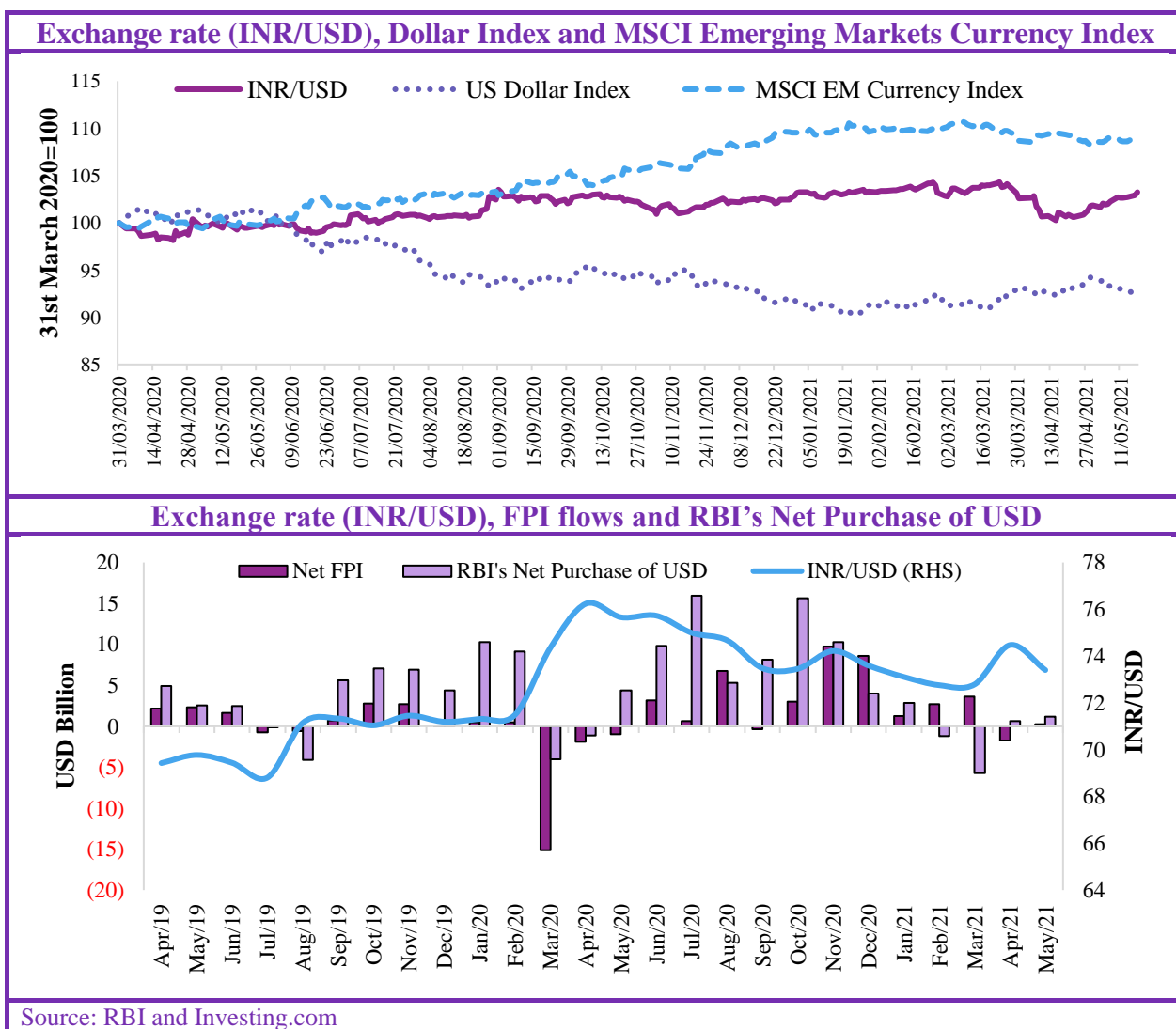
54. Post an unprecedented decline in March 2020, Indian equity markets made a quick come-back in FY 2020-21 owing to global monetary and fiscal stimulus measures, healthy FPI flows, vaccine optimism and risk-on emerging market sentiment. BSE Sensex and Nifty 50 closed at decade record highs of 49509 and 14691 respectively and grew by 68.01 per cent and 70.87 per cent YoY respectively in FY 2020-21. India received record net FPI inflows of USD 36.18 billion and net FPI equity inflows of USD 103.72 billion in FY 2020-21 over FY 2019-20. RBI's net purchase of dollars increased to USD 68.31 billion in FY 2020-21 as compared to outflows of USD 6.44 billion in FY 2019-20. The markets have sustained their rally in April and May, despite the second wave – the volatility index has remained low as compared to the first wave. India's market capitalization to gross domestic product (GDP) surged to a 13-year high of 115 per cent as of May end - signalling the hopes of a recovery in near future.



55. Owing to robust foreign inflows, current account surplus in second half of FY 2020-21 and prudent exchange rate stability measures pursued by RBI, India's foreign exchange reserves increased by USD 63.32 billion in FY 2020-21 over FY 2019-20. RBI's net purchase of dollars increased to USD 103.72 billion in FY 2020-21 as compared to USD 45.10 billion in FY 2019-20. Rupee's appreciating momentum was dented in April 2021 with the surge in COVID-19 second wave and consequent FPI outflows of USD 1.7 billion in the month. Rupee depreciated from USD/INR 72.8 in March 2021 to USD/INR 74.5 in April 2021, its lowest

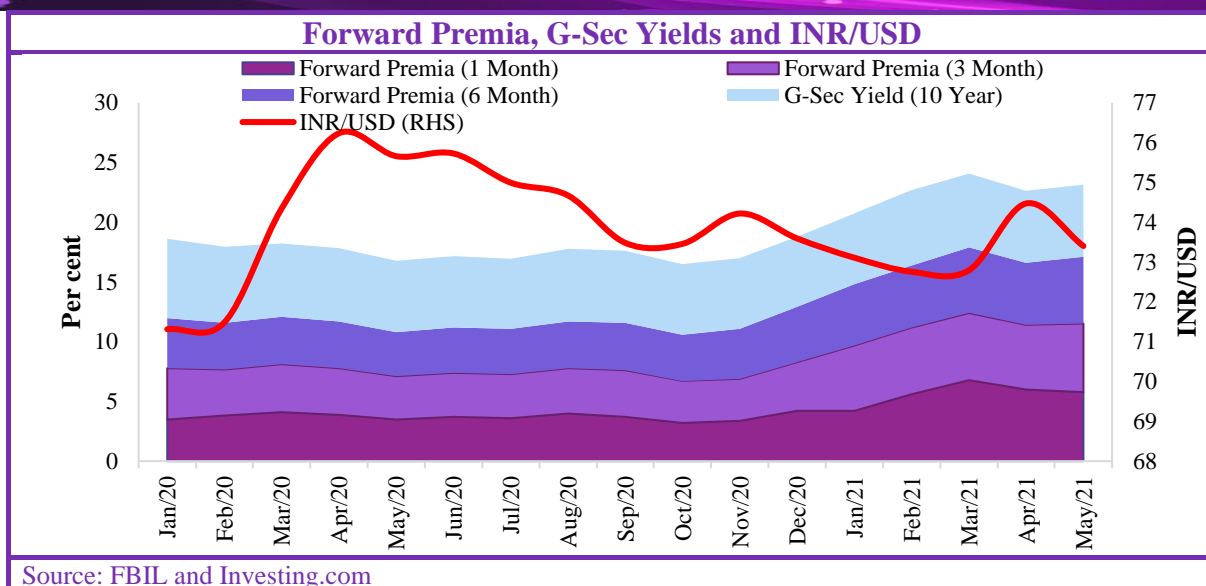


level since August 2020. In terms of the 40-currency real effective exchange rate, (REER) index, rupee depreciated by 2.6 per cent in April over its level a month ago.



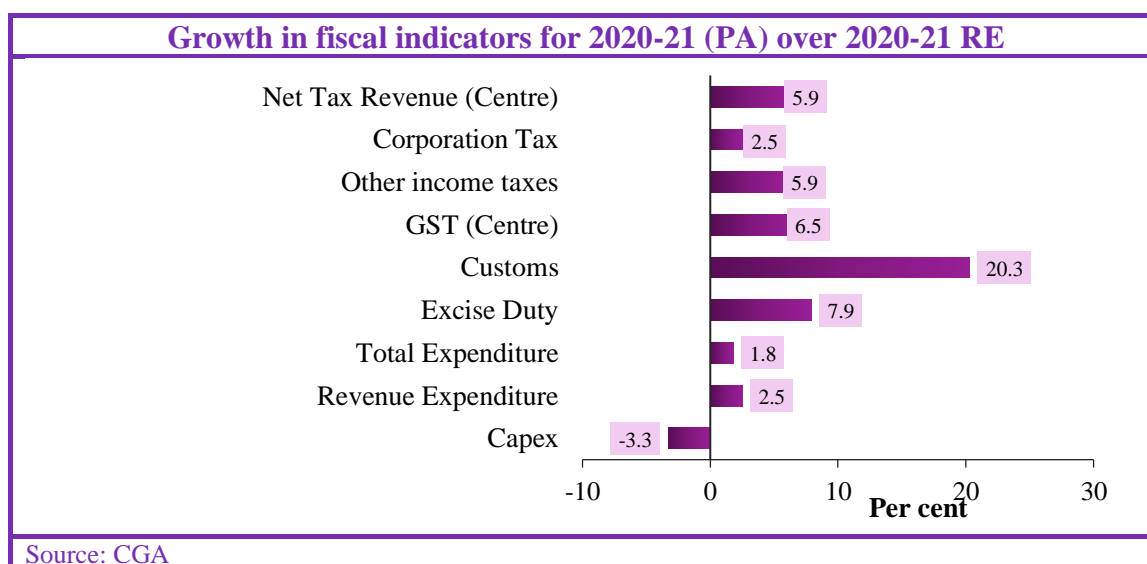
56. After underperforming against Asian and emerging market peers in FY 2020-21 and April 2021, rupee made a strong comeback in May 2021 on signs of easing of the second wave, weakening dollar, IPO related inflows and highest carry trade returns on rupee in Asia. Compared to April, rupee appreciated by 2.09 per cent against the dollar in May to reach USD/INR 72.47 as on 28<sup>th</sup> May, 2021 and emerged as Asia's best performing currency in the month. The month witnessed net FPI inflow of USD 0.27 billion. RBI made net purchase of USD 1.2 billion dollars in May 2021 as compared to 0.6 billion dollars in April 2021.

57. While forward premia on dollar mostly remained stable in H1: FY 2020-21 owing to surplus systemic liquidity, there was some hardening in second half of the year, and particularly in Q4: FY 2020-21 owing to stiffening of government bond yields. The forward premia curve witnessed mixed trends during the month of May 2021 with the 1-month rate falling by 20 bps compared to April 2021 and the 3-month and 6-month rate rising by 30 bps and 40 bps respectively.



### Fiscal Outlook based on the 2019-20 Provisional Actuals

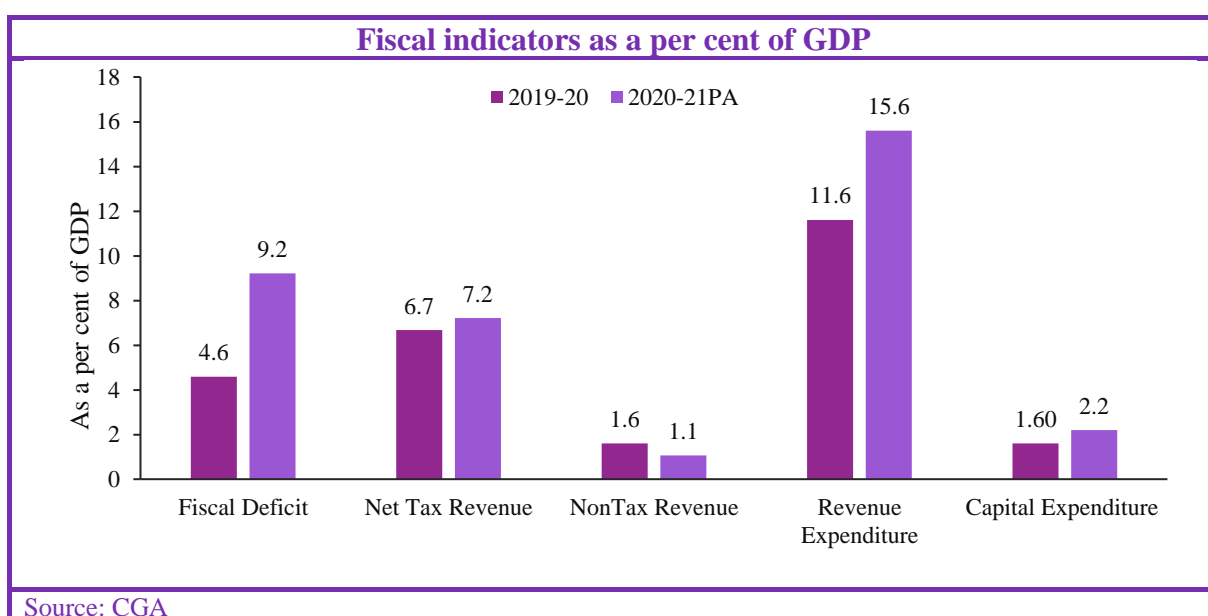
58. The Provisional Actuals (PA) data for the year 2020-21 released by the O/o of CGA highlights that the fiscal deficit for 2020-21 stood at ₹18.2 lakh crore which is 9.2 per cent of GDP – 0.3 points lower than estimated at RE stage. This lower Fiscal deficit is clearly due to buoyant revenue collections. The Net tax Revenue to the Centre showed an increase of 5.9 per cent in 2020-21 PA over RE. This was due to an improved collection observed under all the major tax revenue heads compared to the Revised estimates. Among the direct taxes, Corporation tax registered a growth of 2.5 per cent over RE and other taxes on income registered a growth of 5.9 per cent over RE. The improvement in indirect taxes (PA) over the Revised estimates, was also broad-based, as Customs, Excise duties and GST collections (Centre) turned out to be 120.3 per cent, 107.9 per cent and 106.5 per cent of RE respectively.



59. The YoY comparison of the fiscal data shows that Net tax Revenue to the Centre during 2020-21(PA) increased by nearly 5 per cent over 2019-20 – largely due to buoyant indirect tax collections during the year, primarily Excise Duties and Customs. The share of indirect taxes in GDP grew to a four-year high of 5.5 per cent in 2020-21 with the share of direct taxes falling to a 15-year low at 4.8 per cent. The direct taxes registered a shortfall during 2020-21 (PA) vis-

à-vis 2019-20. Income tax collections for 2020-21 surpassed corporate tax collections by a marginal amount. The non-tax revenue also displayed a negative growth of 36.4 per cent in 2020-21(PA) over 2019-20, largely led by dividends and profits which were 48 per cent lower than previous year. The disinvestment receipts during 2020-21(PA), which stood at nearly three-fourth of its corresponding collection during 2019-20, showed a marginal improvement of around ₹6000 crore over the target envisaged in the RE.

60. On the expenditure side, the 2.5 per cent growth in revenue expenditure in 2020-21(PA) over the RE level, was largely driven by growth in expenditure on Food subsidy. The subsidy bill for the Centre went up by 202 per cent during 2020-21 PA over the previous year, on account of higher requirements of food and fertilizer subsidy due to the pandemic. Further, the emphasis on improving the quality of expenditure during the pandemic year can be seen as the capex in 2020-21(PA) registered a growth of 26 per cent over 2019-20 and reached 2.2 per cent of GDP. On comparing the accounts of 2020-21(PA) with 2019-20, it may be seen that the Fiscal deficit has doubled from 4.6 per cent of GDP in 2019-20 to 9.2 per cent of GDP in 2020-21 PA. In terms of per cent of GDP, this entire increase in Fiscal deficit is equal to the increase in total expenditure in 2020-21(PA) over 2019-20. The higher expenditure requirements in FY 2020-21 can be attributed towards various support/relief measures to mitigate the impact of pandemic and to the steps taken for enhancing the transparency in fiscal accounts.



61. During April 2021, the Centre's fiscal deficit stood at ₹78,699 crore, which is 5.2 per cent of BE and is lower than 5 year -moving average of 29 per cent of BE. Both the tax and non-tax revenue collection during April 2021 was much higher than April 2020 due to resumption of economic activities, and a lower base effect. The Net Tax Revenue to the Centre stood at ₹1.3 lakh crore in April 2021, relative to ₹21,412 crore in April 2020. Moreover, on the expenditure side, the total expenditure in April 2021 contracted by 26 percent relative to April last year. However, the focus on capital expenditure continued as it registered a 66.5 per cent YoY growth during April 2021. 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.

## India's dynamic public debt management strategy enabled Central and State governments to meet their increasing financial needs

62. Underpinning Government's market borrowing program amid the COVID-19 pandemic induced heightened uncertainty is a carefully designed strategy based on cost minimisation, risk mitigation and market development. The combined gross market borrowings of the Central and State governments during FY 2020-21 increased by 39 per cent to ₹21,69,140 crore compared to ₹15,62,191 in FY 2019-20. In FY 2021-22 (up to May 28, 2021), combined gross market borrowings stood at ₹2,43,735 crore compared to ₹2,85,205 in the corresponding period of previous year.

### *Central Government*

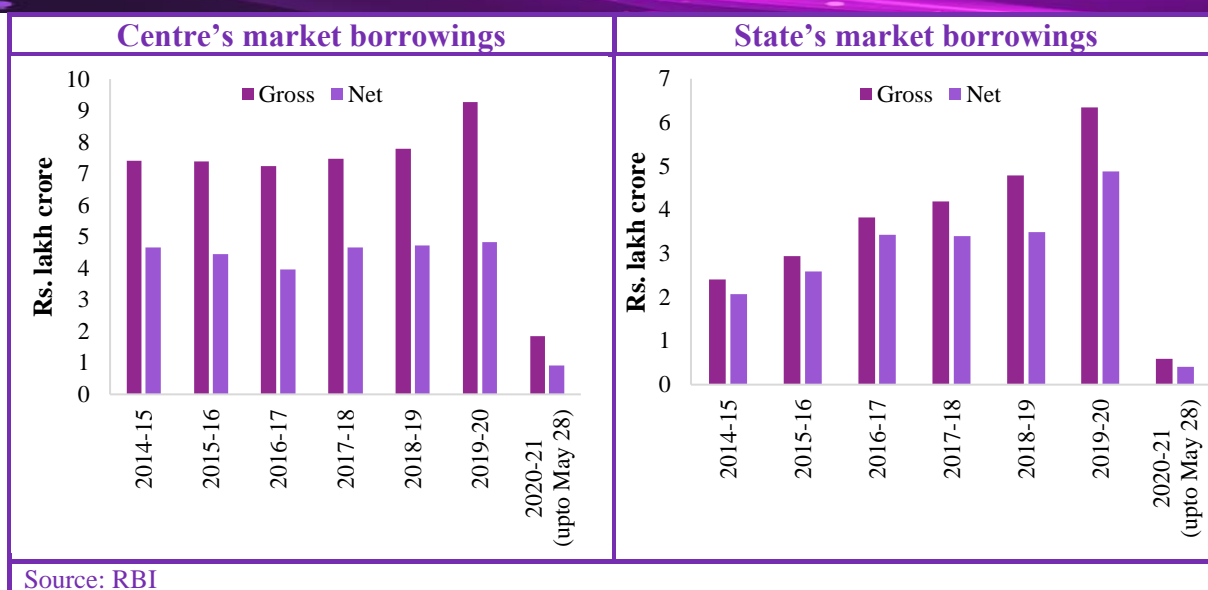
63. As per RBI, the planned market borrowings of Central government increased initially by ₹4.20 lakh crore, which was further increased twice during the year, first, by ₹1.10 lakh crore under the special window given to States/UTs towards shortfall in GST compensation cess, and second, by ₹80,000 crore during the announcement of the Union Budget for FY 2021-22. About 49.0 per cent of the market borrowings were raised through issuance of dated securities with a residual maturity of 10 years and above in the year, as compared with 54.2 per cent in the previous year. The weighted average yield (WAY) of G-sec issuances during the year declined by 106 basis points (bps) to 5.79 per cent as compared to 6.85 per cent in the previous year, its lowest since 2004-05.

64. Further, government in consultation with RBI ensured that the cash balance of the Centre was comfortable throughout FY 2020-21 by increasing WMA limit from ₹1,25,000 crore to ₹2,00,000 crore for H1 of FY 2020-21 and issuing cash management bills of ₹80,000 crore of 84-days tenor to resolve short term mismatches in cash flows during the whole year. WMA limit was reset at ₹1,25,000 crore for the second half of the year. During the first six months of the year 2021-22, the Centre has planned to borrow 60 per cent of the annual target of net market borrowings of ₹12.05 lakh crore. Gross borrowings by the Central government stood at ₹1.84 lakh crore till 28<sup>th</sup> May 2021 - 25.4 per cent of gross borrowings of ₹7.24 lakh crore slated for the first half of the year. Net amount raised during the same period stood at ₹92,062 crore compared to ₹92,429 crore in the corresponding period of previous year.

### *State Government*

65. Gross and net market borrowings of states were also higher in FY 2020-21 than the previous year owing to COVID-19 induced vulnerabilities. Gross market borrowings of states stood at 97.5 per cent of the amount indicated in the quarterly indicative calendar for market borrowings by the state governments. WAY of State Development Loan (SDL) issuances during FY 2020-21 was lower at 6.55 per cent than 7.24 per cent in the previous year. In FY 2021-22 (up to May 28, 2021), gross borrowings by States stood at ₹59,700 crore compared to ₹107,205 in the corresponding period of previous year. Net amount raised by States stood at ₹40,777 crore compared to ₹89,098 crore in the corresponding period of previous year.





### Outlook

66. As per fourth quarterly GDP estimates released by NSO, it is clearly evident that growth recovered steadily in H2: FY 2020-21, on the back of higher government expenditure, revival in private consumption and investment in the fourth quarter. The service sector too re-entered the positive territory of growth in the fourth quarter. The onset of the second wave of COVID-19 since mid-February 2021 and localized or state-wide restrictions adopted to combat its spread, have posed a probable downside risk to the momentum in India's economic recovery in the first quarter of 2021-22. With state-level lockdown restrictions being more adaptive to learnings from the first wave, manufacturing and construction activities are expected to experience a softer economic shock in the current quarter. However, the speed and scale of the second wave has created some downside risk as economy was still recovering from last year's supply and demand shocks.

67. India's COVID-19 second wave situation has been improving lately with a continuous decline in 7-day average of active cases since 13<sup>th</sup> May 2021. Data shows that the second wave reached its peak of 7-day average of daily new cases around 8<sup>th</sup> May, with the pace of decline being as fast as the rise. The daily case positivity rate has plummeted sharply from 24.9 per cent in early May to reach 3.6 per cent as on 2<sup>nd</sup> June 2021 – below the WHO standard of 5 per cent. Concomitantly, high frequency indicators in real and financial sectors like power consumption, E-way bills and foreign portfolio investment (FPI) flows witnessed slight uptick in the second half of May 2021 after enduring the second wave driven contraction during April and first half of May.

68. Economic activity is inextricably linked to the path of the pandemic. The intensity of the second wave could not be predicted by epidemiologists, which lends uncertainty to the trajectory of the pandemic in the subsequent part of the year. The continuous upscaling of India's vaccination drive, meticulous observation of COVID-appropriate behaviour and proactive application of India's successful first-wave pandemic management policies raises hopes that the impact of the second wave on the economy may not be very large. As we cautiously recuperate from the second wave, rapidly improving vaccination delivery and frontloading the fiscal measures planned in the Union Budget hold key to invigorating the investment cycle in the coming quarters. As seen in Q4: FY 2020-21, where growth in capex generated positive


spillovers for consumption, including in the contact-sensitive sectors, these steps would facilitate recovery post the second wave. Healthy monsoon forecasts bode well for continued momentum in agricultural growth.

69. A ramp up in the pace and spread of vaccination on a war footing is critical to help India restrain the impact of the pandemic. Continued vigilance in terms of pandemic preparedness, upscaling health spending and health infrastructure, faster rollout of vaccines and vaccination; investing in research and development to guard against possible mutants of the virus, prudent and pre-emptive restrictions, and strict observance of COVID-appropriate behaviour are essential to maintain the delicate balance of lives and livelihoods.

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**For any queries, you may contact the team:**

1. Ms. Surbhi Jain, Economic Adviser (E-mail: [surbhi.jain@nic.in](mailto:surbhi.jain@nic.in))
2. Ms. Tulsipriya Rajkumari, Deputy Director (E-mail: [tulsipriya.rk@nic.in](mailto:tulsipriya.rk@nic.in))
3. Ms. Sanjana Kadyan, Deputy Director (E-mail: [sanjana.kadyan@gov.in](mailto:sanjana.kadyan@gov.in))
4. Ms. Deeksha Supyaal Bisht, Assistant Director (E-mail: [deeksha.bisht@gov.in](mailto:deeksha.bisht@gov.in))
5. Ms. Sonali Chowdhry, Consultant (E-mail: [sonali.chowdhry@nic.in](mailto:sonali.chowdhry@nic.in))
6. Shri Narendra Jena, Economic Officer (E-mail: [jena.narendra@nic.in](mailto:jena.narendra@nic.in))

Scale			
YoY growth	-305	0	7759

Movement in India's high frequency indicators									
Indicator	Mar-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21	Mar-21*	Apr-21*	May-21*
Agriculture									
Tractor sales (Numbers)	31232	92888	108585	61249	78345	75645	85076	63422	
Fertilisers sales (Lakh MT)	29	69	47	74	61	46	42	20	31
Industry									
8-Core Industries (Index)	134	116	121	136	139	128	149.2	126.7	
IIP-Consumer Durable goods	83	78	129	124	124	125	128.9		
IIP-Consumer Non-Durable goods	122	148	147	159	148	147	155.2		
Domestic Auto sales <sup>#</sup> (Lakh)	10	11	21	14	17	17	18	12.7	
Passenger vehicles sales (Lakh)	1.4	1.1	2.7	2.5	2.8	2.8	2.9	2.6	
PMI Manufacturing (Index)	51.8	47.2	56.8	56.4	57.7	57.5	55.4	55.5	50.8
Power supply (Mega Units)	107	114	122	115	111	105	123	119	110
Natural gas production (Mn. Cu. Mt)	2327	2250	2228	2355	2478	2235	2612	2583	
Cement production ('000 Tonnes)	24818	26358	24244	28266	29563	29038	32874	27932	
Steel consumption ('000 Tonnes)	6742	6350	8179	10163	10025	9515	9354	7341	7280
Services									
Domestic air passenger traffic (Lakh)	150	39	78	144	152	154	153	111	
Port cargo traffic (Million Tonnes)	61	49	54	63	64	59	72	62	
Rail freight traffic (Tonnes)	103070	93580	102300	118290	119790	112330	122190	111470	114800
PMI Services (Index)	49.3	33.7	49.8	52.3	52.8	55.3	54.6	54.0	46.4
Fuel consumption (Thousand MT)	15931	16093	15477	18618	18010	17212	18775	17013	
UPI Digital Payments (Rs Lakh Crore)	2.1	2.6	3.3	4.2	4.3	4.3	5	4.9	4.9
UPI Digital Payments (Crore)	125	134	180	223	230	229	273	264	254

Indicator	Mar-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21	Mar-21*	Apr-21*	May-21*
<b>Inflation</b>									
WPI (Base 2012=100)	120.4	119.3	122.9	125.4	126.5	127.3	129.3	131.7	
CPI (Base 2012=100)	148.6	151.8	156.4	157.3	156.3	156.6	156.8	157.9	
CPI food (Base 2012=100)	147.8	153.4	161.6	160.6	156.4	155.5	155.1	156.5	
Crude price Brent Dubai WTI (USD/ Barrel)	32.2	39.5	40.6	48.7	53.6	60.5	63.8	63.0	66.4
Crude oil Indian basket (USD/ Barrel)	33.3	40.6	41.4	49.9	54.6	61.2	64.7	63.3	67.0
<b>External Sector</b>									
Merch Exports (USD Billion)	21.5	22	27.6	27.1	27.4	27.9	34.5	30.2	32.2
Non-oil exports (USD Billion)	19	20.1	24	24.8	25.3	25.2	30.8	26.9	26.9
Non-oil non gold imports (USD Bn)	20.2	15.7	24.1	28.5	28.5	26.3	29.6	26.1	26.1
Baltic Dry Index	601	1146	1399	1244	1658	1500	2018	2475	2965
Exchange Rate (INR/USD)	74.4	75.7	73.5	73.6	73.1	72.7	72.8	74.5	73.4
NEER (40 currency, trade based, 2015-16=100)	95.2	93.1	94.8	93	93.7	94.2	95.0	92.6	
Net FDI (USD Billion)	4	-0.8	2.9	6.5	3.5	-2.9	2.0		
Net FPI (USD Billion)	-15.2	3.1	-0.3	8.6	1.2	2.7	3.6	-1.7	-0.3
<b>Fiscal</b>									
Gross tax revenue (Rs. Lakh crore)	-14.5	-22.7	-16.2	49.4	4.4	-13.3	2.6	1.5	
Capital Expenditure (Rs. Crore)	32091	33067	31389	67816	53134	43160	19552	47126	
GST collection (Rs. Lakh Crore)	0.98	0.91	0.95	1.15	1.20	1.13	1.24	1.41	1.03
<b>Monetary and Financial Markets</b>									
M3 (Rs. Lakh crore)	168	173	177	181	184	186	188	188	
Non-food credit (Rs. Lakh crore)	103	102	102	105	106	107	107	108	
Sensex (Index)	29468	34916	38068	47751	46286	49100	49509	48782	51937
Nifty 50 (Index)	8598	10302	11248	13982	13635	14529	14691	14631	15583

Note: \* Growth calculated over 2019 value.