

Insights: April-June quarter, 2021

# India Economic Update Report

**This Issue:**

India's Economic Performance in April-June quarter, 2021

Affected by COVID-19, India still set a record for FDI flows.

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## India's economy rebounded in the April-June quarter with 20.1% YoY growth.

Even as a second wave of COVID-19 struck the country, India's economy got back on track in the April-June quarter, with growth of over 20% YoY.

The economic growth of India accelerated in the April-June quarter of 2021, with GDP increasing 20.1% YoY. The great percentage, however, can primarily be explained by a low base effect: the GDP of the same period in 2020 was heavily affected by the first Covid-19 wave. In value terms, the GDP stood at nearly 442 billion USD in the April-June quarter of 2021. In the same period 2020, the GDP had shrunk to 367.92 billion USD. Consequently, India's GDP for the first quarter 2021 and 2020 was still lower than the corresponding period of the 2019 financial year, which was at 486.85 billion USD.

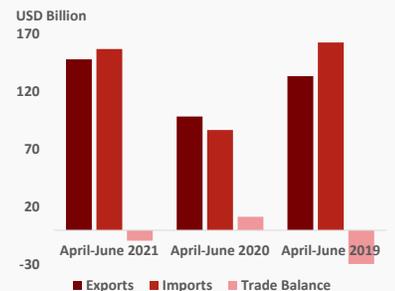
Construction is one of the sectors that has contributed to the growth, increasing 68.3% versus a contraction of 49.5% in the same period 2020. Manufacturing performed well with an expansion of 49.6%, against the negative growth of 36% in April-June of 2020. The agricultural sector also advanced 4.5% from a year ago. Services, especially contact-intensive sectors, however, continued to lag.

The period includes the second wave of the COVID 19 pandemic, which occurred in April-May, but due to less stringent lockdown curbs, the damage to the economy was less severe than during 2020; only localized lockdowns were applied to control the spread of the virus, instead of the nationwide shutdown as during the first wave.

India's exports grew by 85% to 95 billion USD in April-June, trade deficit reached 2.34 billion USD.

India recorded the highest-ever exports of 95 billion USD during April-June, 85% growth YoY. The merchandise exports grew 47% YoY to 32.46 billion USD in June 2021, driven by robust international demand for engineering goods, petroleum products, and gems and jewelry.

### India's overall trade (Merchandise and Service combined) in April-June 2021



Source: India Ministry of Commerce & Industry

On the imports side, the cumulative value of imports for the April-June quarter of 2021 was 126.15 billion USD, more than double the corresponding period of 2020.

Taking merchandise and services together, India experienced a trade deficit of 2.34 billion USD, as compared to 7.75 billion USD in June 2020, a decline of 130.13%.

# Despite COVID-19, India still set a record for FDI flows

Despite the effect of the COVID-19 pandemic, India recorded the highest ever FDI inflows for the previous fiscal year.

India has attracted the highest inflow of foreign direct investment (FDI), reaching 81.72 billion USD in the previous fiscal year (April 1, 2020, to March 31, 2021), an increase of 10% compared to the 74.39 billion USD in the fiscal year before (2019). According to a statement on May 24 by the Indian Ministry of Commerce and Industry, India's equity FDI inflows, a major component of total FDI, also increased by 19% to 59.64 billion USD in the same period. FDI equity inflow grew at an even faster pace during April -July 2021, increasing by 112% in the first four months of 2021 to 20.42 billion USD, comparable to the 9.61 billion USD from the year before.

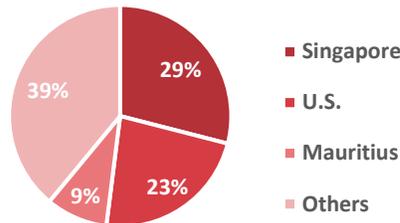


Investments in South Asia's second-largest economy kept increasing in the first seven months of 2021 as many foreign investors with strong financial capability poured new capital flows into Indian startups. As many as 828 venture capital deals in India were officially announced between January and July 2021, with a total disclosed value of 16.9 billion USD.

In 2020, the computer software and hardware industry attracted the most investment, accounting for about 44% of total equity FDI inflows, construction (infrastructure) came second at 13% and services accounted for 8%. However, during the first four months of the fiscal year 2021-2022, the automobile industry emerged as the top sector with a 23% share of the total FDI equity inflow, followed by computer software & hardware (18%) and the service sector (10%).

Among key investors in India, Singapore topped with 29% of total FDI, followed by the US at 23% and Mauritius at 9% in the last financial year.

FDI to India by country - FY 2020-21



Source: India Ministry of Commerce & Industry

India's Ministry of Commerce and Industry largely attribute the results to the government's reforms in FDI policy, that aims to facilitate investment and improving the business environment. India's prime minister, Narendra Modi's government slashed corporate tax rates to attract manufacturers, revived private investment, enacted new agricultural laws, and passed labor reforms to help hire workers. Moreover, in October 2021, Modi revealed that India would invest about 1.350 billion USD in infrastructure to boost economic growth and jobs. This investment is mainly attributed to the logistics sector to integrate the country's diverse modes of transport.



In general, the record high FDI amid pandemic has proved the appeal of India's market to foreign investors. The government's efforts of to improve India's business environment is predicted to boost the country's competitiveness and attract more investors into diverse industries. Automobile, computer software and hardware will continue to be the most attractive areas for investment in India in the upcoming years.

India Production linked Incentive (PLI) scheme to support domestic manufacturing of mobile phones.

A Production-Linked Incentive, or PLI scheme, was initiated by the Indian government to make domestic products more competitively priced, generate job opportunities, and reduce the dependency on imports.

The schemes aim to boost domestic manufacturing by offering incentives on incremental sales for products manufactured in India. The first three PLI schemes were approved in March 2020 followed by 10 new schemes, which were notified and approved later. The PLI scheme for Mobile Manufacturing and Specified Electronic Components was one of the first schemes announced.



India's PLI program has attracted the attention of professionals and businesses since its announcement in April 2020. The Indian Ministry of Information and Communications revealed that they would support 4% to 6% of sales to any phone maker that have factories located in India and who are producing phones worth more than Rs 15000 (approx. 200 USD) each. Similarly, domestic phone manufacturers will also receive subsidies equivalent to 27 million USD over the next four years. Thanks to the PLI, the export of mobile phones from India grew by a massive 250% YoY in the April-June quarter 2021.

Originally, the PLI scheme for mobile phone manufacturing was planned to last 4 years, from 2020 to 2024. However, in June 2021, the government decided to extend the scheme by a year, further sending the nation on the path to become a global electronics manufacturing hub to signaling a positive future for the industry.



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