



Ministry Of External Affairs
Government Of India



ECONOMIC
DIPLOMACY
& STATES
DIVISION

MONTHLY ECONOMIC REPORT

SEPTEMBER 2020





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STATE OF THE ECONOMY

With the economy slowly getting back on track, it seems that even the COVID-19 pandemic has passed its peak. During the two weeks from September 17-30, the number of daily cases fell from an average of 93,000 to 83,000 while the number of tests increased from 1,15,000 to 1,24,000. While the pandemic is far from over, the declining positivity rate at all-India level sets the stage to further push up the frontiers of economic recovery. More than social distancing, it is self-protection with due precaution, or as our Hon'ble PM quoted "jaan bhi aur jahan bhi". Concentrated efforts are being made to revive the Indian economy, especially with respect to MSMEs, which are the early drivers of economic recovery as they employ more than 110 million people. The tenacity of the MSME sector was apparent when this sector made India the second largest manufacturer of PPE kits in the world in just two months, since the start of the lockdown. The plethora of government reform initiatives, like those in agriculture markets, labour laws, redefining MSMEs etc. have provided an unprecedented opportunity to the MSME sector to grow and prosper, adding to employment in India, enhancing labour productivity and thereby wages in MSMEs.

Agricultural reforms have enabled the farmer to sell produce as per the best deals he gets, thereby enabling competition and creating welfare for smaller farmers. The food-processing units benefit the most from these reforms.

While MSME reforms facilitate expansion and provide credit and market support, agricultural reforms facilitate easier market access to crops, pre-harvest price contracts and expansion of warehousing capacity.

The implementation of Aatmanirbhar Bharat package and unlocking of the economy have ensured that economic recovery in India has gained momentum. This is seen in agriculture with production of kharif food grains in 2020-21 estimated to cross previous year's level. Other high-frequency indicators have also improved in accordance with global activity. Increase in global demand has led to the expansion of India's export at 5.3% in September on YoY basis. At an eight year high of 56.8 in September 2020, India's Manufacturing Purchasing Managers' Index acts as a harbinger well for economic expansion in the coming months.

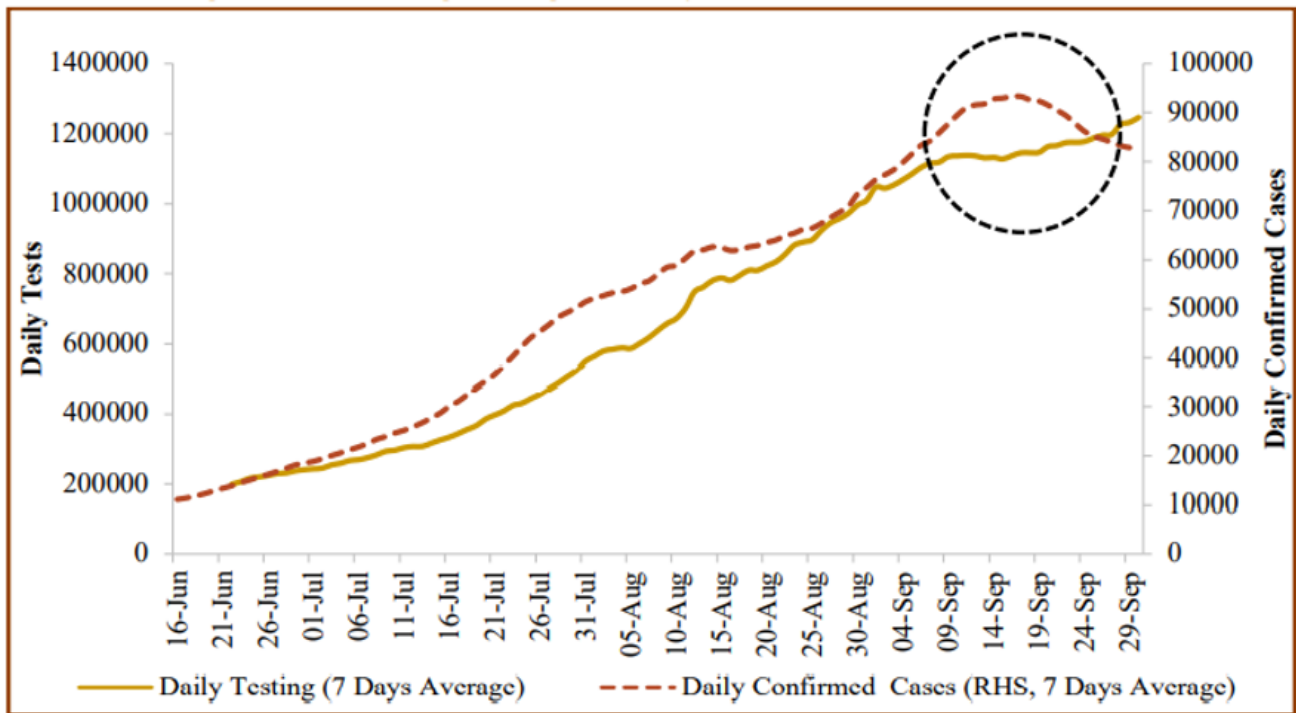
Conscious of the threat posed by the continued presence of the COVID-19 virus, to India's short-term and medium-term growth, the Government has undertaken various structural reforms in various sectors. These will strengthen the fundamentals of the economy, ensuring strong and sustainable long-term growth. The enabling policy environment and initiatives taken by all stakeholders to seize the available opportunities will actualise the growth potential of the Indian economy.



TREND IN COVID-19 CASES IN INDIA

Growth in active COVID 19 cases fell to -0.4% as on 30th September as compared to +1.65% as on 31st August with the recovery rate at 83.5% as on 30th September. During the 14-day period from September 17 to 30, it appears that India

may have crossed the peak of COVID-19 caseload. While the pandemic is however far from over, the declining positivity rate at all India levels sets the stage to further push up the frontiers of economic revival.



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



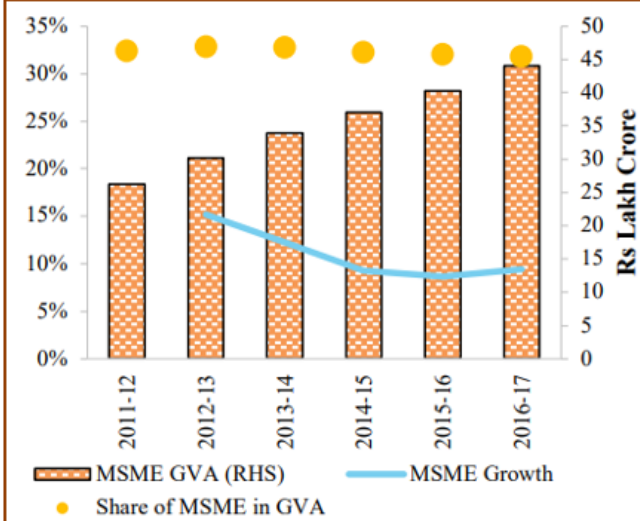


SUPPORT ENABLING GROWTH OF MSME ECOSYSTEM

The MSME sector has been the growth engine of the economy with a vast network of approximately 63 million enterprises. In the past ten years, the sector has made a significant contribution of more than

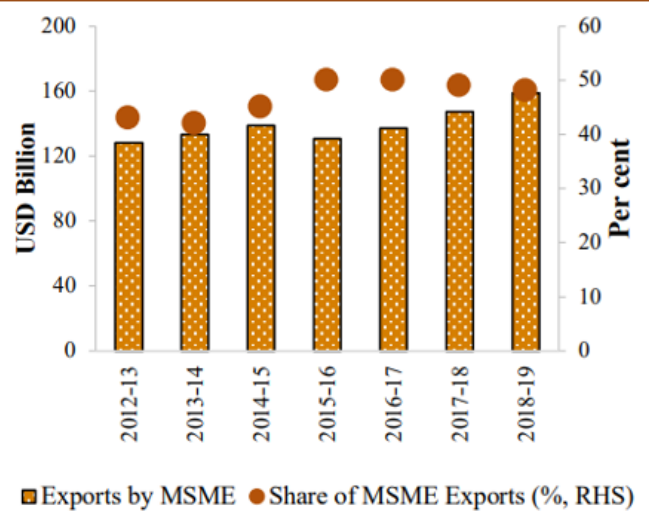
40% towards exports and over 30% to the GDP while creating employment for more than 110 million people, which in terms of volume is only next to the agricultural sector.

Figure 4: Contribution of MSMEs in GVA



Source: Ministry of Micro, Small and Medium Enterprises

Figure 5: Share (%) of MSMEs in Exports

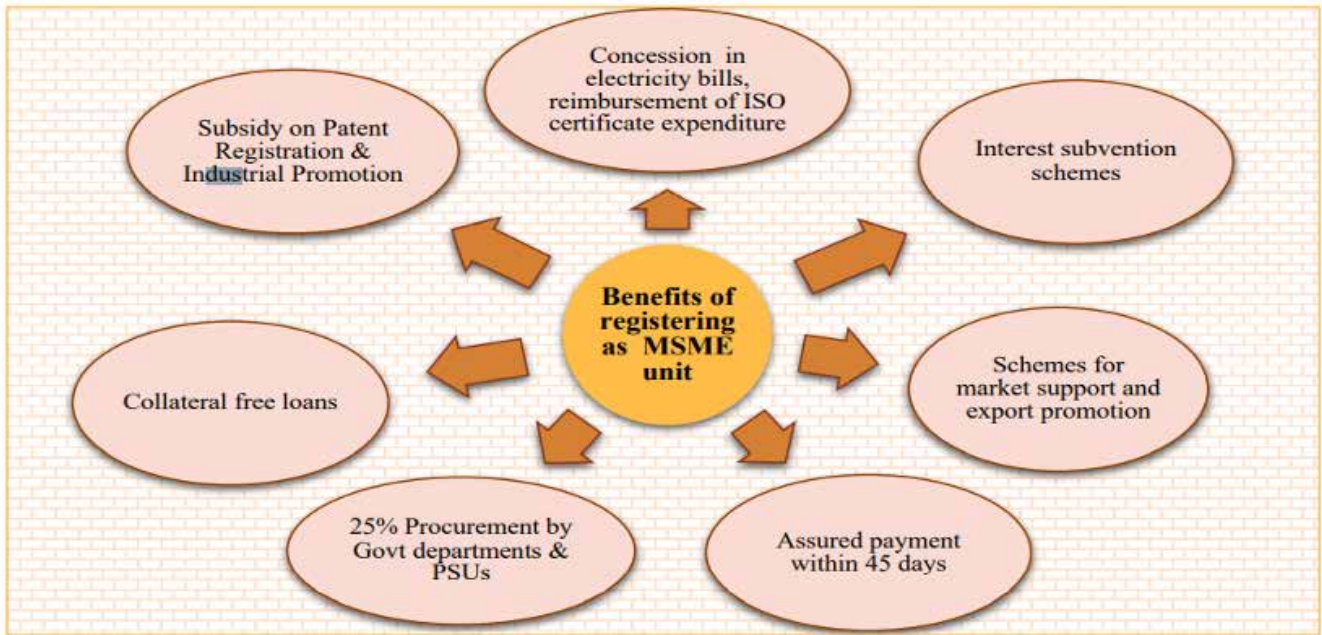


Source: RBI

MSMEs, which have a dominant presence in economic sectors like retail, trading, and services, have been immensely affected by the pandemic induced lockdown, transport disruptions, severance of supply chains, social distancing measures etc.. The government of India has introduced a slew of legislative, regulatory, and financial measures to support the MSME sector amidst this pandemic.

To facilitate growth in MSMEs, the government of India is aiming to create a policy environment to enable MSMEs to grow in size, partner in emerging global value chains and provide dynamism to economic growth. One such major initiative was undertaken

by the government by redefining MSMEs. Under the new definition, an enterprise qualifies as a micro, small or a medium enterprise depending upon the broadened thresholds of investment made with respect to (i) plant and machinery, if it undertakes manufacturing or (ii) equipment, if it provides services. Turnover criteria?? This expanded ambit of the MSME Act has now allowed the larger pool of enterprises, both manufacturing and service enterprises, to avail the benefits of the Act introduced by the government for the MSME sector during the pandemic, without any tax liability???. This shall hopefully, improve the ease of doing business and attract greater investments and thereby create more jobs.



During the lockdown period, a gargantuan number of PPE kits were manufactured by over 1100 companies, most of which were from the MSME sector. Within a period of 2 months, India became the world's second largest manufacturer of Personal Protective Equipment (PPE) starting from scratch – signifying the resilience and strength of MSMEs. With an array of

initiatives taken in various sectors, it is time to redeem the growth of MSMEs and to enable them to contribute effectively to 'Atmanirbhar Bharat' and 'Vocal for local'. The government also provided credit support of USD 40.55 billion Emergency Working Capital Facility for businesses including MSMEs.





GROWTH MOMENTUM IN GLOBAL ECONOMIC ACTIVITIES

In August, global economic activity expansion accelerated further with composite output index reaching a 17-month high. Growth was established by rising levels of incoming new work, as the pandemic induced lockdowns

and restrictions were relaxed in many countries. The output growth in both manufacturing and service sectors registered a 28 and 27 month high respectively.

MOMENTUM IN INDIAN ECONOMIC RECOVERY

With further unlocking of the Indian economy, a resurgence in demand is evident. Economic indicators allude to steady recovery in almost all sectors, with some sectors even shooting above their previous levels . Positive results from the

implementation of Aatmanirbhar Bharat package and unlocking of the economy are evident in India's high frequency indicators of September.



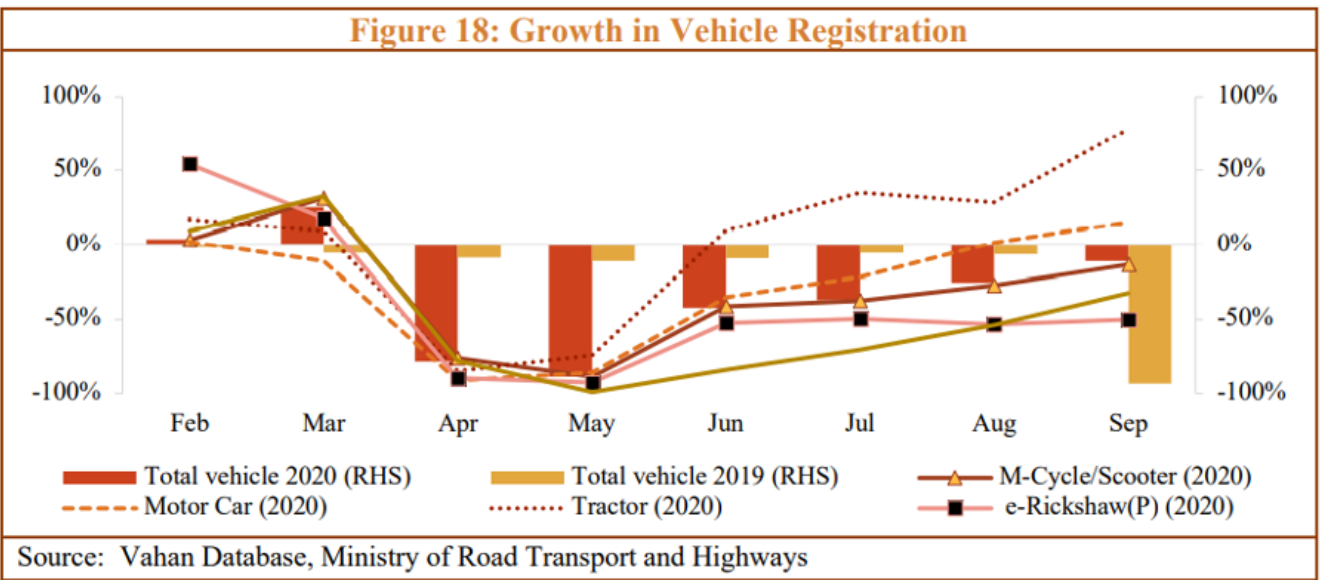
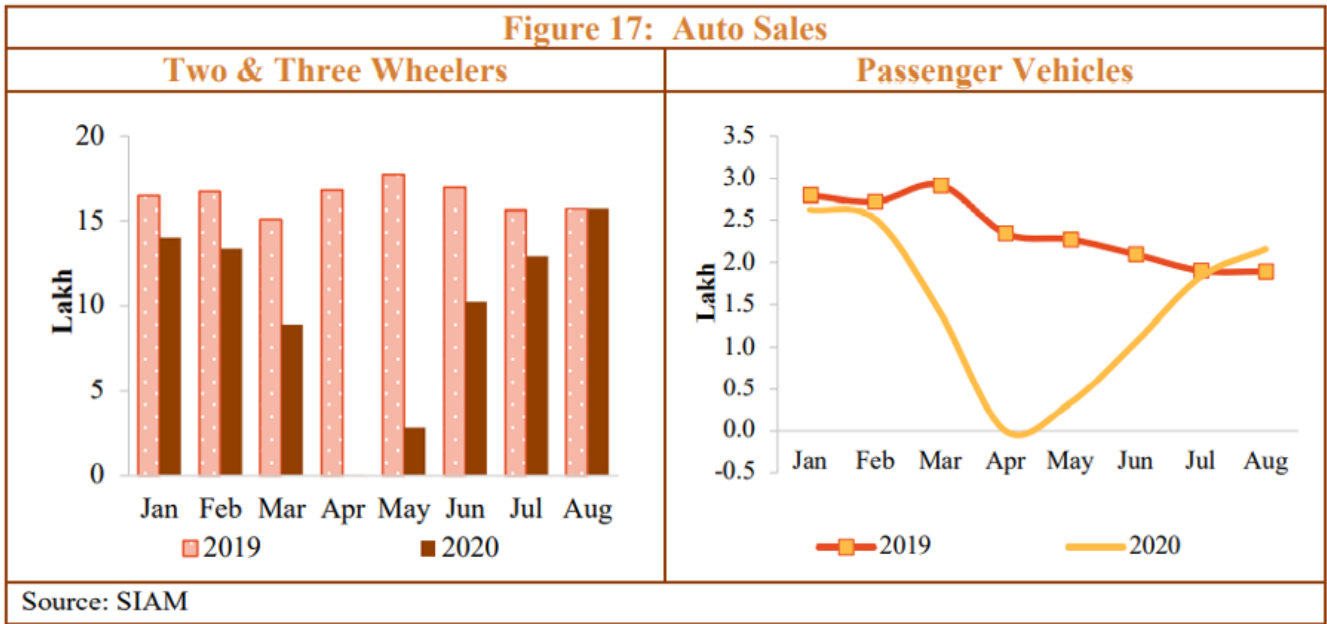


ECONOMIC INDICATORS:

Increase in Auto demand :

The indicators of demand are gaining momentum with sales of passenger vehicles, two and three wheelers are regaining previous year levels in

August. The increase in registrations for commercial and agricultural tractors from March to September is further indicative of strengthening rural demand.

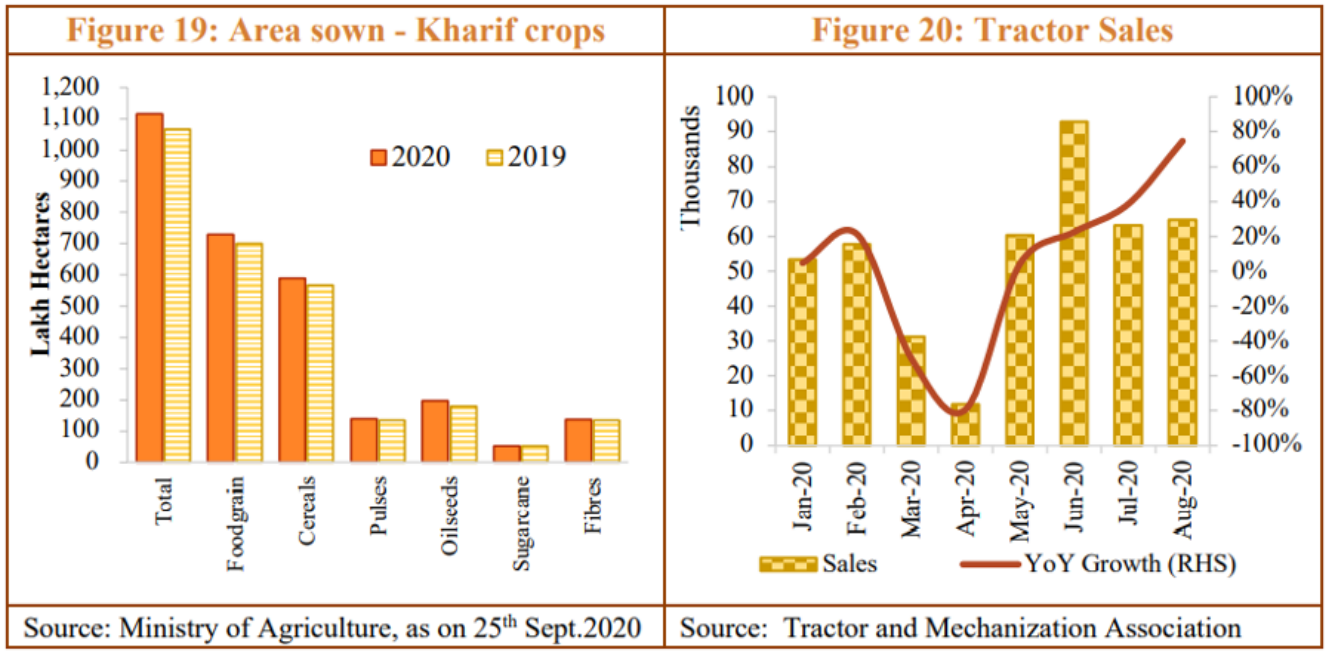




Strengthening prospects of rural demand:

This year, the country saw 109% of rainfall of the Long Period Average (LPA) during the monsoon. Kharif sowing has been supported by Government interventions

in response to COVID-19. The increase in sales of tractors is also indicative of a healthy kharif output and robust rural demand. Even the rise in current storage being higher than the average storage of the last 10 years augurs well for the upcoming Rabi sowing and rural demand.





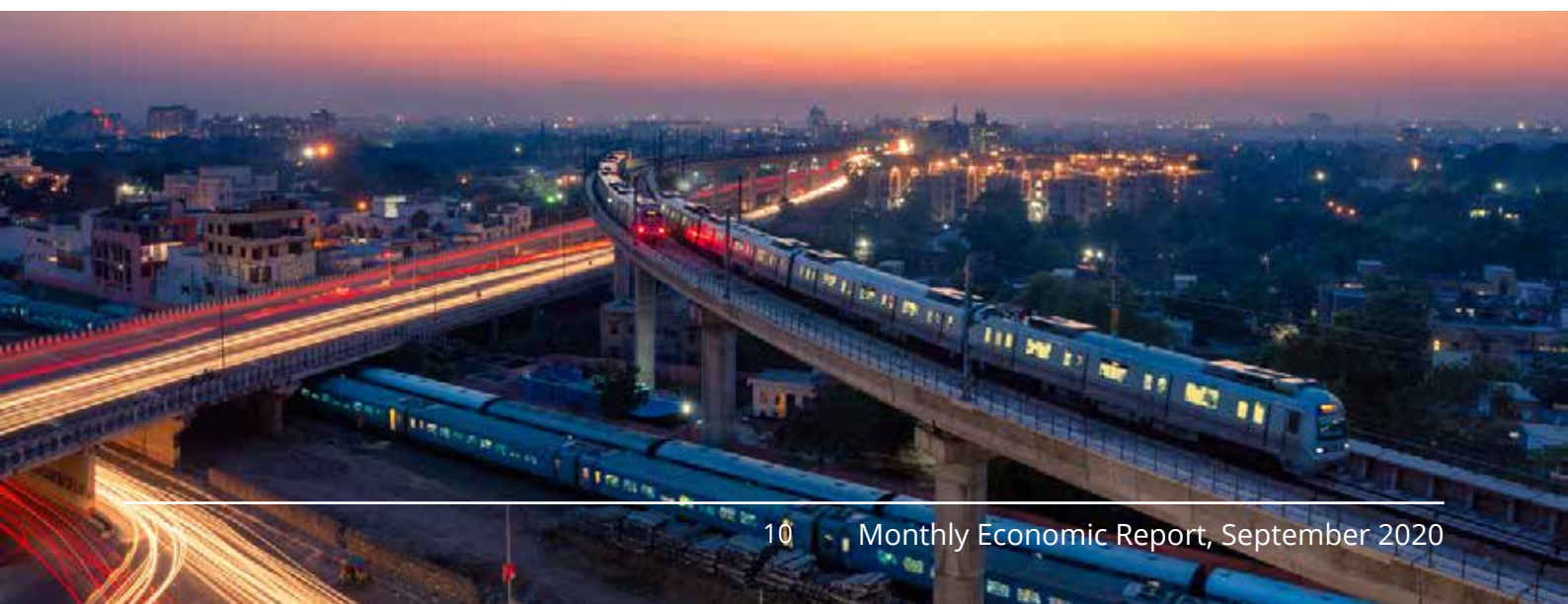
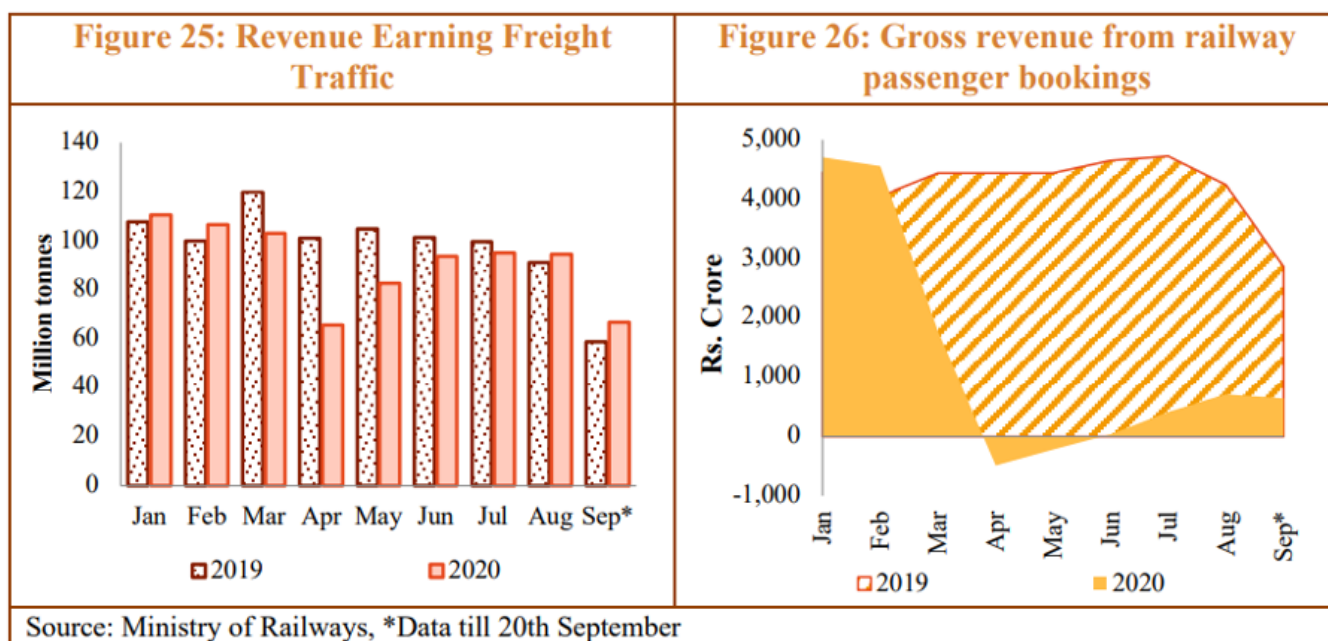
Agriculture remains the economy's sweet spot:

Total production of food-grains during 2019-20 was estimated at a record high of 296.7 million tonnes (4th Advance Estimate), as compared to 285.2 million tonnes in 2018-19. As per the First Advance Estimates, the production of kharif food grains in 2020-21 is estimated at 144.5 million tonnes, higher as compared to 143.4 million tonnes recorded (as per 4th Advance Estimate) in 2019-20. Major commercial crops of sugarcane and cotton are also estimated to have an increased production in 2020-

21 over the previous year. Amid COVID-19 induced supply chain disruptions, harvesting, procurement and off-take operations sustained their momentum in August with Food Corporation of India (FCI) and states playing an active part. The total rice procurement target has been fixed at 49.55 million tonnes for the entire country for the 2020-21 kharif season.

Railway freight booming:

September witnessed a strong YoY growth of 13.5% in rail freight earning in the first twenty days of the month. Gross revenue from railway passenger bookings stood at USD 86.64 million in the first 20 days of September, reaching 90% of august levels.

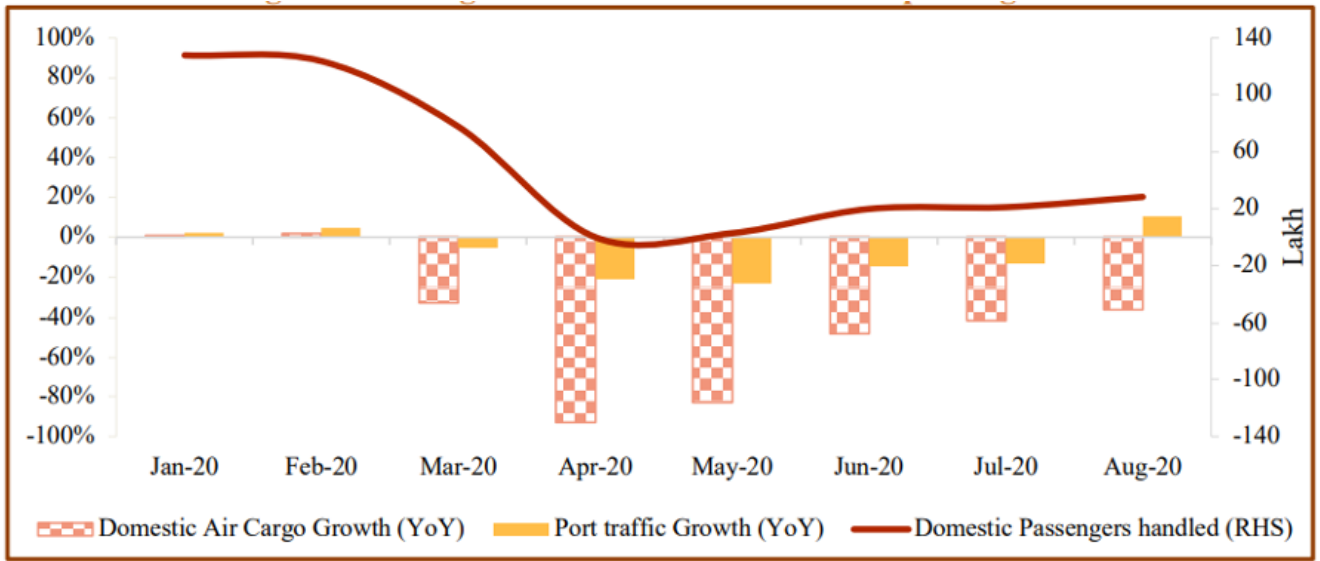




Upward growth in Port Cargo Traffic & aviation activity:

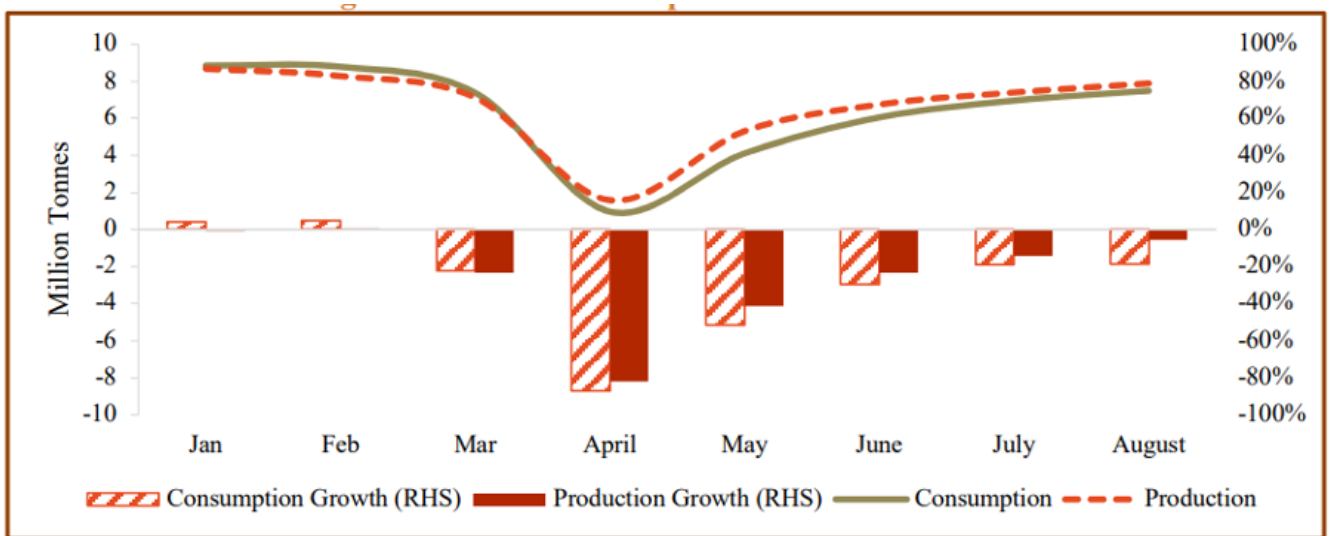
The port cargo traffic also continues its upward trajectory along with resumption in aviation activity. Cargo traffic volumes continued to inch up towards previous year levels reporting a lower YoY contraction of 10.4% as compared to a

contraction of 13.2% in July. Domestic aviation passengers have also increased from 280,000 in May to 2.83 million in August. The upcoming festive months are expected to further boost growth.



Recovery in Steel Sector:

The steel sector bounced back with faster recovery seen in domestic production relative to consumption.





Growth in Power Consumption, E-Way bills and Highway toll collections:

Power consumption almost reverted to last year's baseline in August 2020 reaching 97% of previous year's levels

and crossing the pre-COVID levels. The power consumption crossed the previous year levels in September, and grew at 4.6%, indicating a restoration of activity in Unlock 4.0.

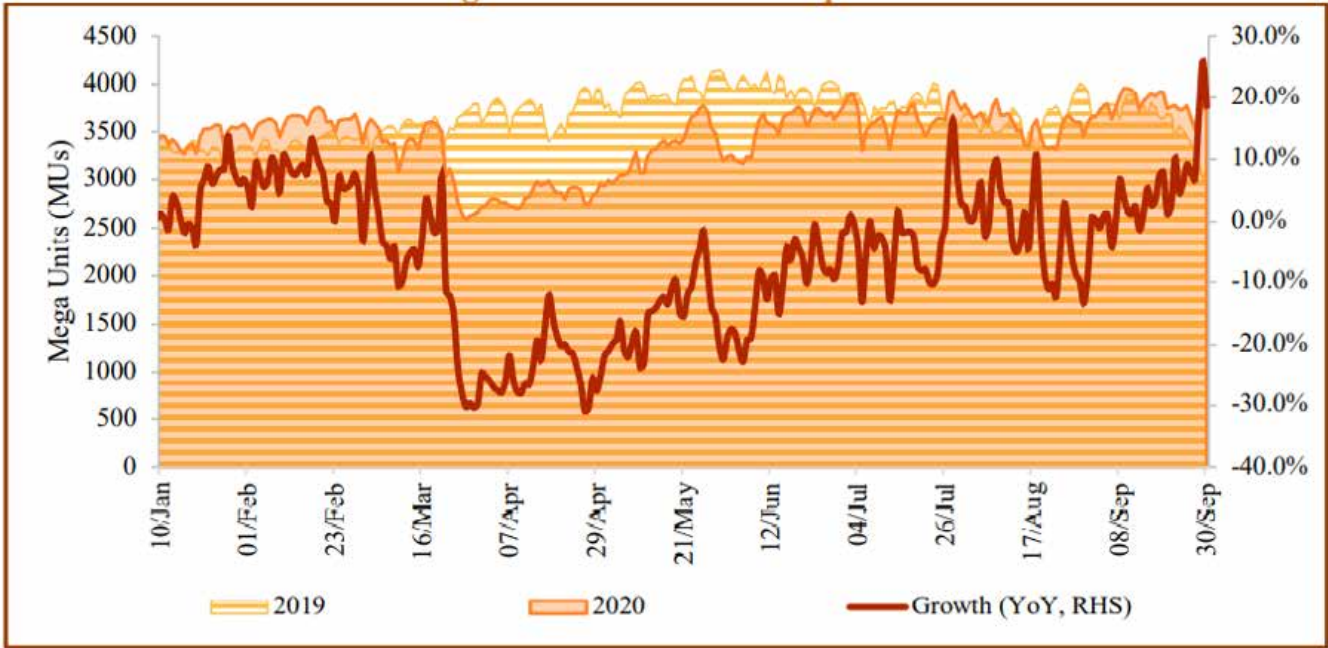
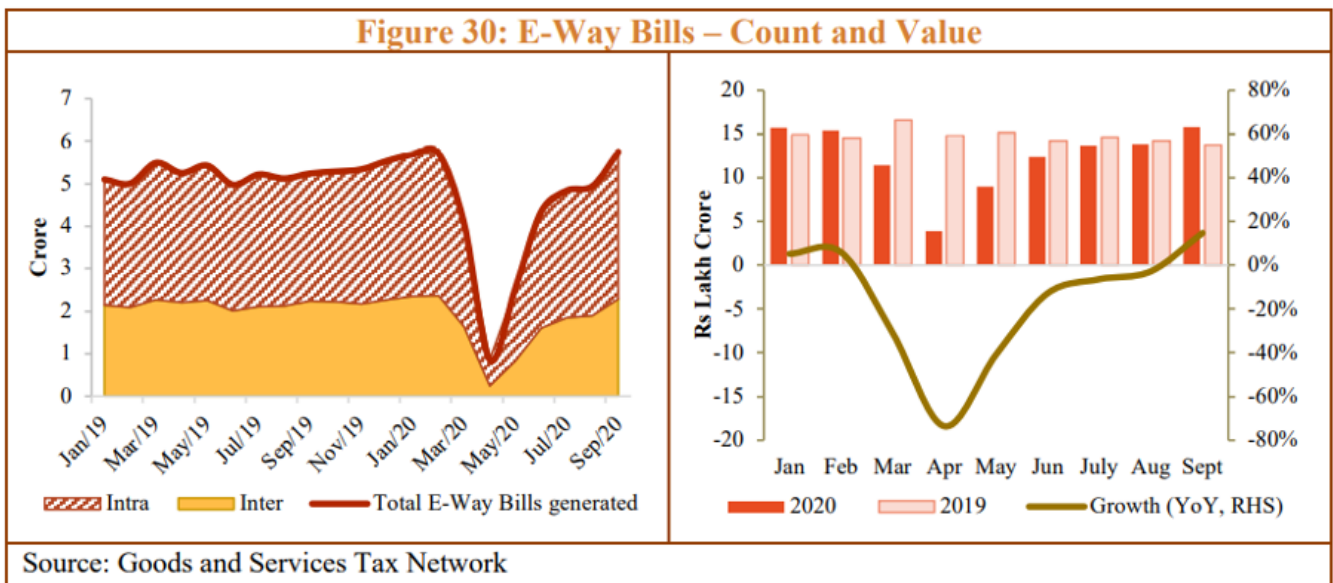


Fig. Power Consumption

Sustained impetus in E-Way bills generated, a strong leading indicator of revenue collections, supply chain corrections and logistics growth spans

out well for regaining economic normalcy. E-way bills generated, reached USD 213.5 billion in September, crossing last year's levels of USD 186.53 billion.



Source: Goods and Services Tax Network



The growth outlook has improved significantly in September with GST collections increasing to reach a six month

high at USD 12.9 billion, registering a positive YoY growth of 3.9%.

Figure 31: GST Collection

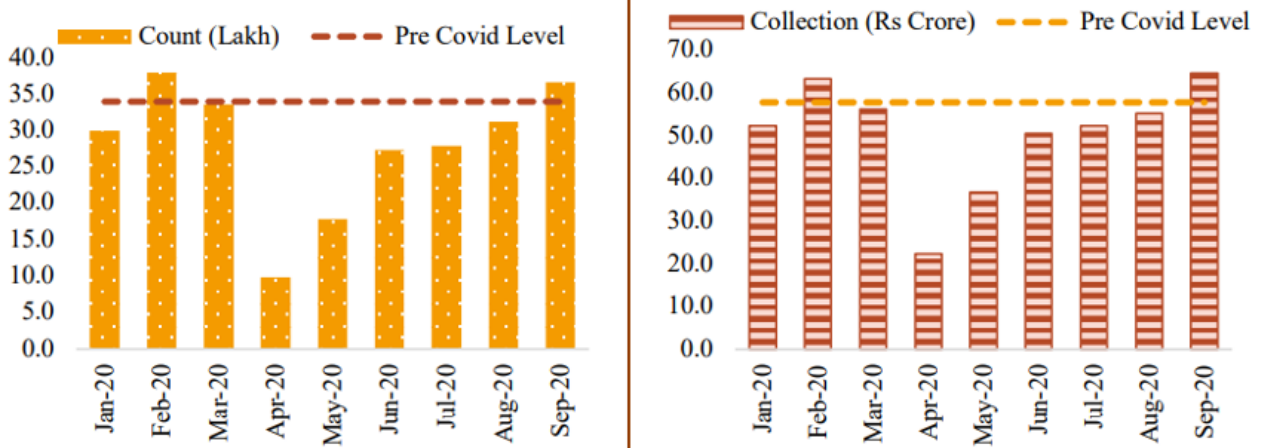


Source: GSTN

With an augmented traffic movement, the economy has witnessed an increase in toll count and collection, which like other

growth indicators have crossed pre-COVID levels in September.

Figure 32: Average Daily ETC Count and Collection



Source: Ministry of Road, Transport and Highways

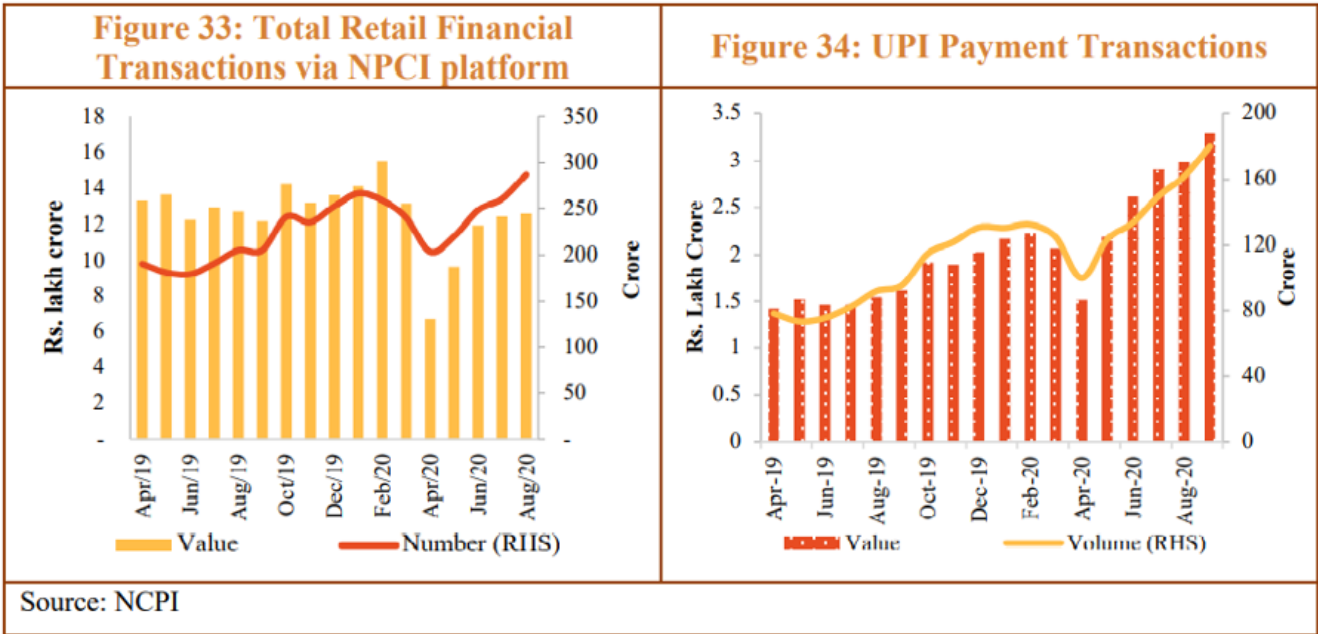




Growth in Digital transactions & UPI Payment transactions:

Resumption of economic activity and user shifts to digital payments have ushered optimistic growth prospects in retail

financial transactions via NPCI platform. In September, UPI payment transactions reached an all-time high of USD 44.47 billion in value and 1.8 billion in terms of volume.

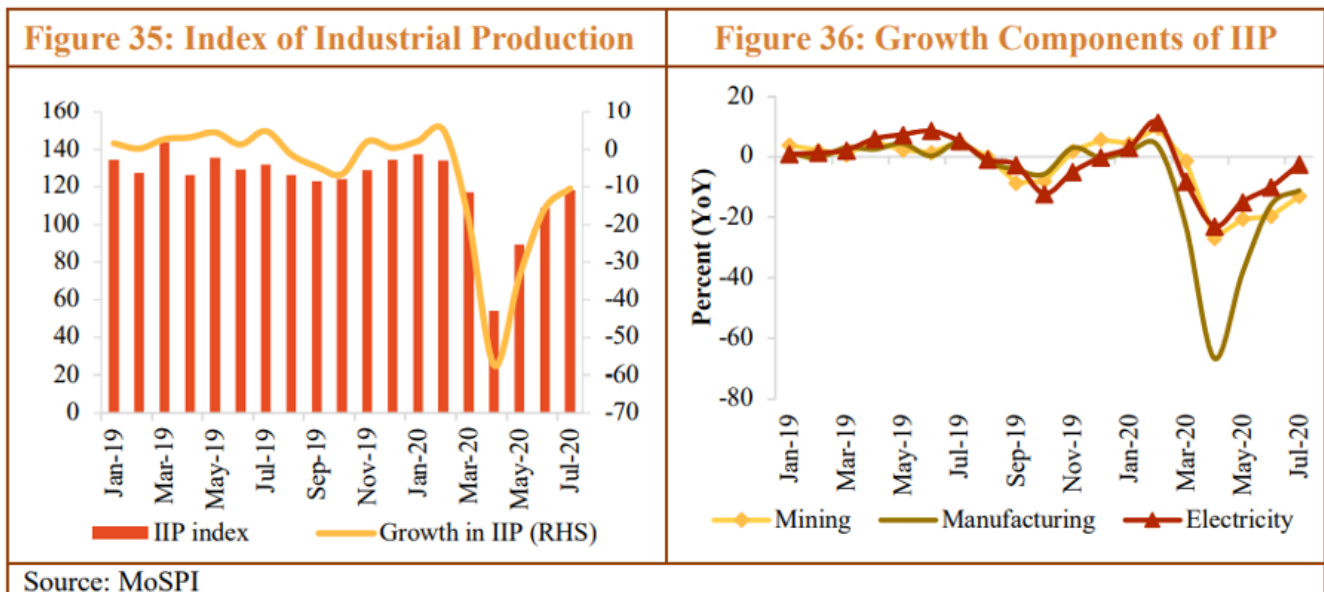




Recovery in Industrial Production:

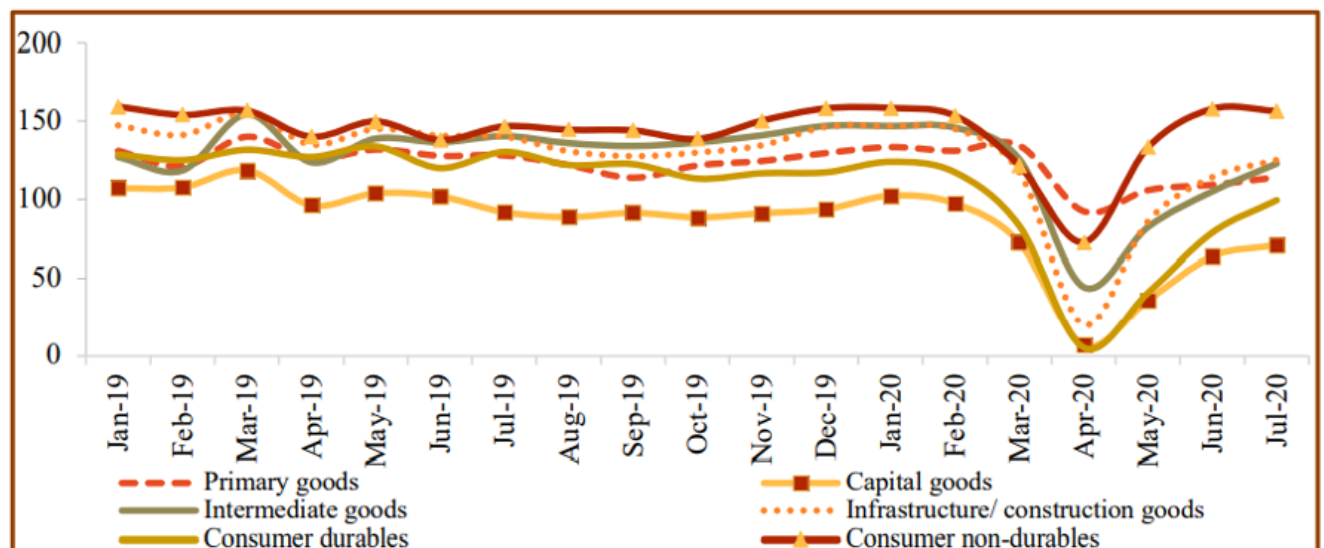
Industrial production is showing signs of recovery with YoY growth in IIP showing a smaller contraction in July at 10.4% as compared to 15.8% in June. Among the components of IIP, Electricity was the most resilient, as supported by the daily data

on power consumption. Manufacturing expansion in September according to PMI data is expected to further push industrial recovery. Mining sector is also moving towards the baseline with modest recovery, with the long-term outlook being optimistic.



Infrastructure and construction also show green shoots pointing to the economy's

unlocking and the government's increased spending in the sector.



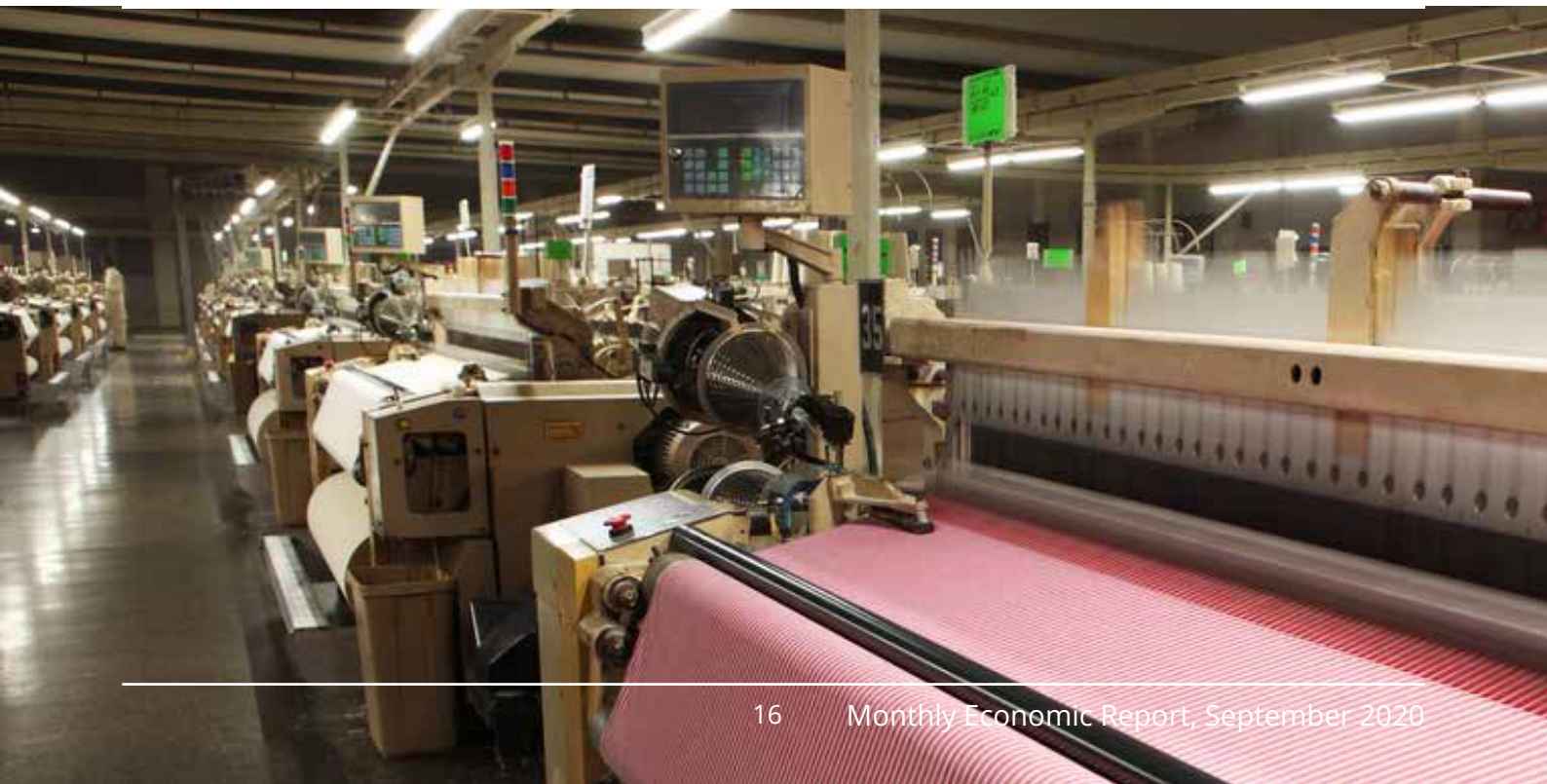
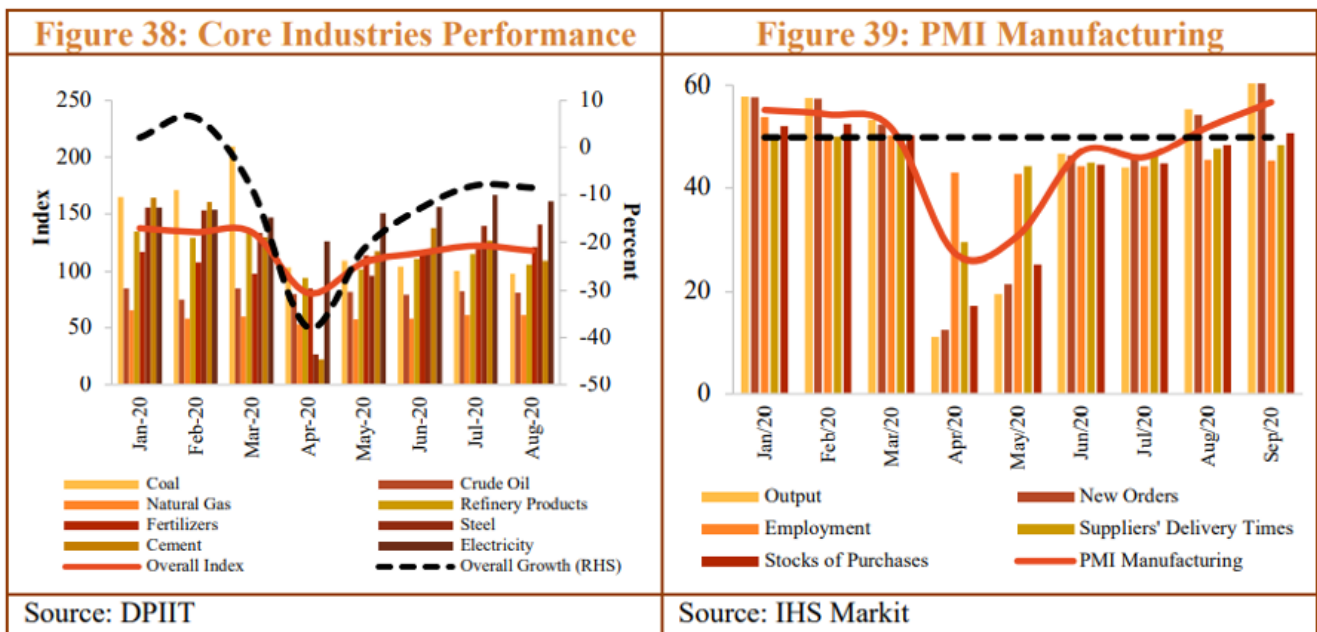


Manufacture of tobacco, wearing apparel, textiles, chemicals, computer, electronic and optical products, and basic metals bouncing back to pre-COVID levels are reassuring for labour-intensive manufacturing and Make in India initiative. With a record high since April 2012, it is evident that the pharmaceutical industry has benefitted the most from the crisis.

The resurgence of IIP matches that in eight core industries, which make up around 40% of the index. The Index on Eight Core Industries further reinforces data on

recovery of industrial production with YoY growth in July and August showing smaller contraction at 8% and 8.5% as compared to 12.9% in June.

India's manufacturing Purchasing Manager's Index (PMI), rose to 56.8, the highest since January 2012, owing to the rise in new orders and production, and renewed expansions in export sales and input stocks. These developments bolster the recovery prospects for the manufacturing sector.

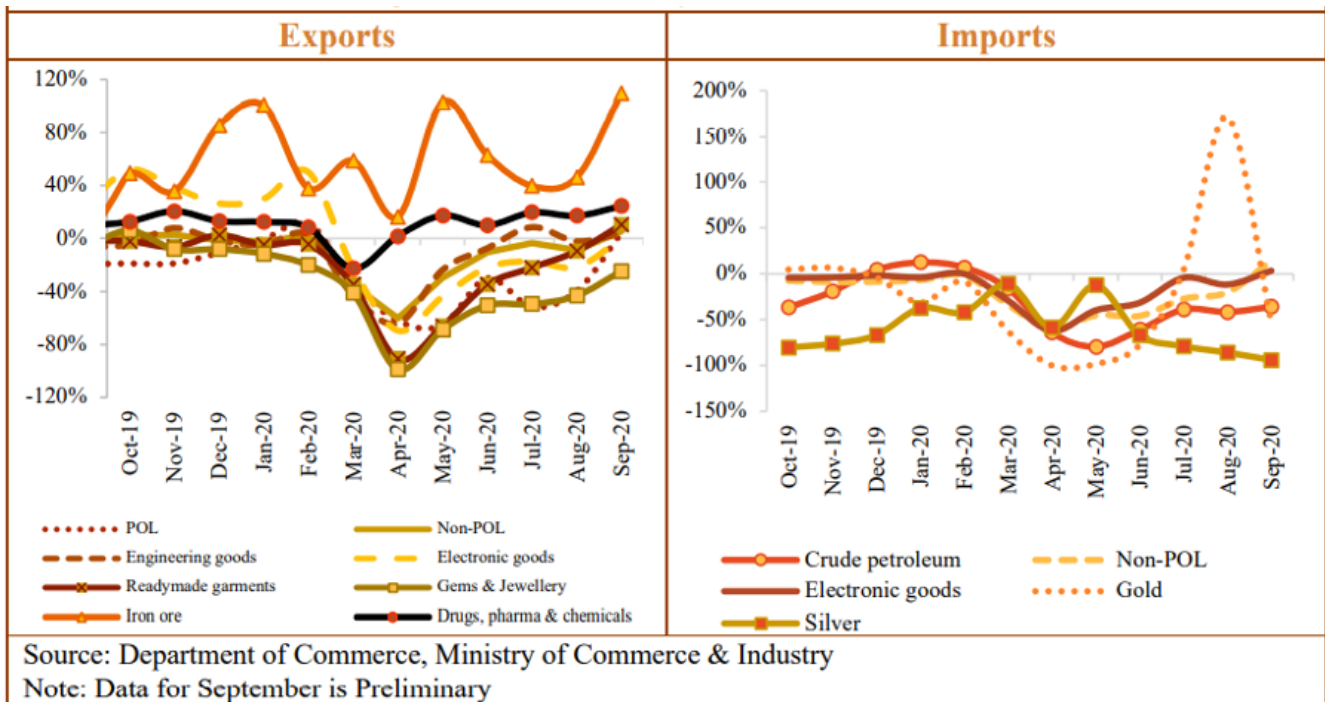




Exports & Imports:

With countries across the globe unlocking border restrictions, trading activity had begun to pick up momentum since April. India's total exports fell marginally to USD 22.7 billion in August compared to July led by decline in non-oil exports, continuing to contract by 12.7% in August. India's merchandise exports rebounded to reach USD 27.4 billion, growing at a positive YoY growth of 5.27%. Top 5 commodities of export which recorded positive growth were other cereals, iron ore, rice, oil meals, and carpets.

Imports marginally rose to USD 29.4 billion in August, driven by a surge in gold imports. In September, imports further rose to USD 30.31 billion. Oil imports declined to USD 6.4 billion in August and further declined to USD 5.82 billion in September. Economy witnessed a 3.46% (increase or decrease???) in import of electronic goods. As a result, the trade deficit, after widening in July (USD 4.8 billion) and August (USD 6.8 billion), narrowed down to USD 2.91 billion in September.



The central government continues to lend unflinching support to State Governments towards faster economic revival. Despite the pandemic and the fall in gross tax revenue to USD 68.13 billion in the April-August period from as much as USD 89.21 billion a year before, the tax devolution to states stood at USD 29.33 billion in the first five months of this fiscal, compared with USD 34.47 billion in the previous year.

FDI and FPI inflows:

Net foreign direct investment (FDI) recorded an inflow of USD 3.3 billion in July compared to an outflow of USD 0.8 billion in June. India garnered the highest foreign portfolio inflows in the first half of 2020 compared to its emerging market peers.



OUTLOOK

The continued spread of the virus poses a risk to short-term and medium-term growth in the economy. To combat these risks, the Government has strategically undertaken various important structural reforms encompassing various sectors. These are aimed at strengthening the basics of the economy towards a strong and sustainable long-term growth. The enabling policy environment and initiatives taken by all stakeholders to seize the available opportunities will

help in realising the growth potential of the Indian economy. In its latest review, S&P Global Ratings have retained India's investment grade (BBB-) credit rating with stable outlook as it expects the country's economy and fiscal position to stabilize and begin to recover from 2021 onwards. According to this assessment, an upward growth and rehabilitation in India's economy seems to be significantly plausible.



For more information: Ministry of Finance, Department of Economic Affairs
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