



Ministry of External Affairs  
Government Of India



ECONOMIC  
DIPLOMACY  
DIVISION

# MONTHLY ECONOMIC REPORT

AUGUST 2021



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# OVERVIEW

India's robust V-shaped recovery from the aftermath of the brutal second wave of the COVID-19 pandemic is reflected through the provisional GDP estimates for the April-June (Q1) quarter of FY 2021-22. This is also evidenced by the sharp growth in the agriculture, manufacturing & construction sectors, the gradual revival of the services sector after the relaxation of lockdown restrictions, and the sharp rise in the country's services PMI (Purchasing Managers Index) at an 18-month high of 56.7. Vaccination coverage is expanding at a rapid pace, with around 60 percent of India's adult population being vaccinated with at least first dose, as on September 8, 2021.

The current recovery of the economy is broad-based and fast, in terms of both supply and demand, indicative of the country's strong macroeconomic fundamentals. The figures of 2020-21 are placed much better, when compared with the 2008-09 figures, post the Global Financial Crisis. Particulars such as lower rate of inflation, fiscal deficit at par with other developing economies, doubled forex reserves and a tenfold increase in FPI inflows, compared to 2008-09 figures are a testimony to the same.

The agricultural sector has witnessed steady growth with a robust Kharif sowing season, record-high paddy procurement and increased tractor sales. July's Index of Industrial Promotion (IIP) for eight core industries rose by 9.4 percent (YoY) and surpassed the pre-pandemic levels. Fast-paced growth was also witnessed in power consumption, rail freight, highway toll collections, e-way bills, digital transactions, air passenger traffic and vigorous GST collections. Economic expansion is evident through the PMI Composite index at 55.4 for both manufacturing and services. While the financial sector showed a surplus systemic liquidity, currency circulation saw a low growth pace. BSE Sensex and NIFTY 50 reached record highs at the end of August 2021, and G-sec yields remained stable at 6.22 percent in the backdrop of reduced crude oil prices and lower inflation points for July. Bank credit

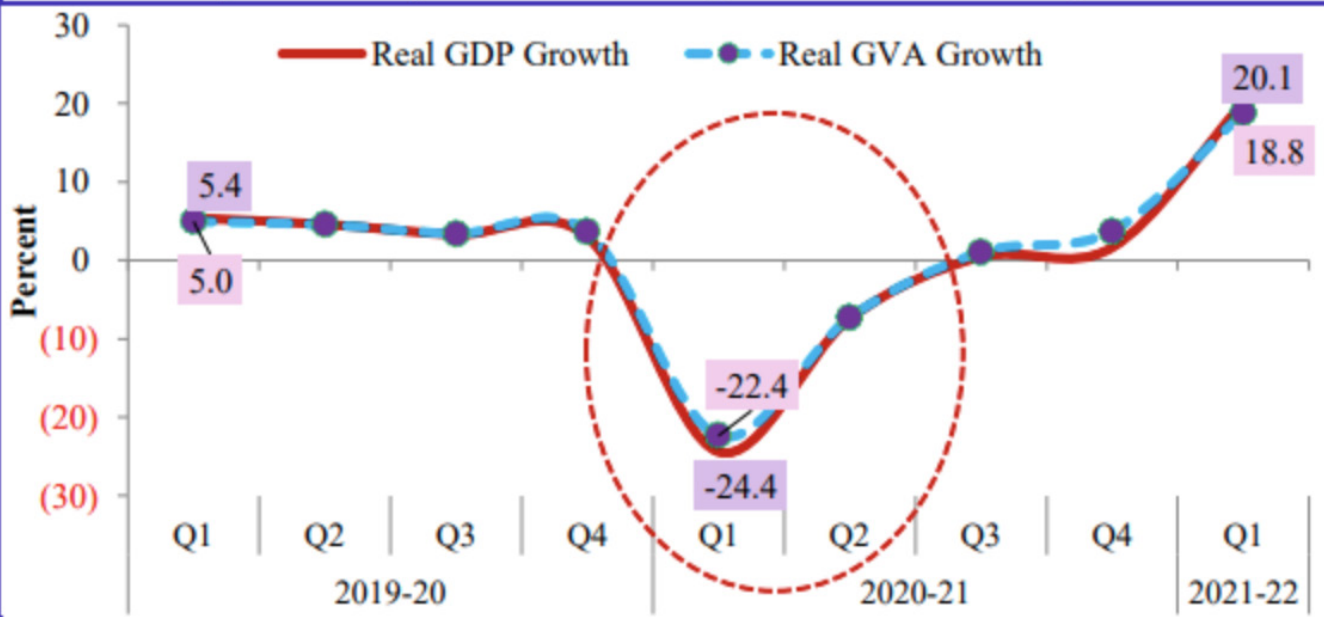
growth also showed a positive trend, reaching 6.55 percent (YoY) on August 13, 2021.

CPI-Combined inflation lowered to 5.59 percent in July 2021 after two consecutive months of exceeding 6 percent, while WPI inflation remained moderate at 11.16 percent in July 2021, as a sign of supply chains reviving. This also works well with respect to consumer and business sentiments in the economy. The month also saw continued upward trajectory of UPI, NEFT and RTGS transactions, since June 2021, signalling the increasing popularity of digital payments. The resumption in global demand led to an upsurge in merchandise exports and a positive sentiment among global investors, along with a boost in the FDI and FPI inflows. On August 27, 2021, India's forex reserves reached a record high of USD 633.56 billion.

A noteworthy YoY growth has been observed in both direct and indirect taxes, leading to noticeable improvement in central government finances during April-July 2021. The quarter also saw a 14.8 percent growth in capital expenditure, specifically with regard to road transport, highways, railways and housing. The government's commitment to providing the stakeholders with a stable tax regime was further underlined by the repealing of the retrospective tax law of 2012.

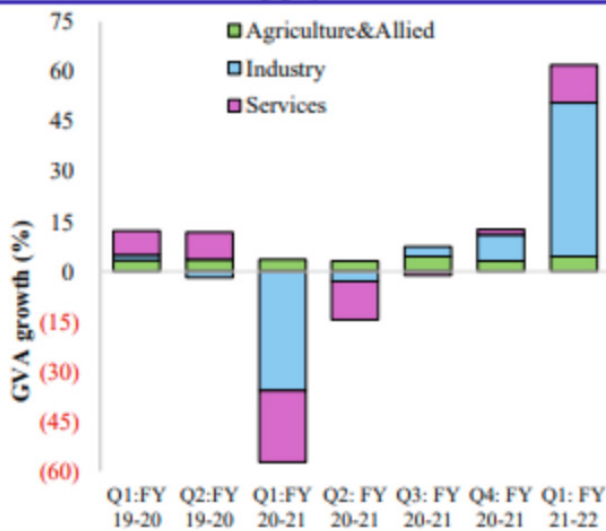
While the average daily vaccination rate increased from 4.2 million in July to 5.66 million in August, with more than 60 percent of the population having received at least one dose and 19 percent having received both doses, the Delta variant of COVID-19 has raised valid concerns and created a necessity for continued precautions to be taken to prevent a potential third wave, with a greater focus on testing, tracking and following COVID-appropriate behavior. The emerging new cases and deaths in Kerala and Maharashtra have remained a continued concern, with experts cautioning the public against a spread of the virus during the upcoming festive season and calling for greater management and pandemic control efforts by both the government and the citizens.

### V-shaped recovery from -24.4% in Q1-FY21 to 20.1% in Q1-FY22

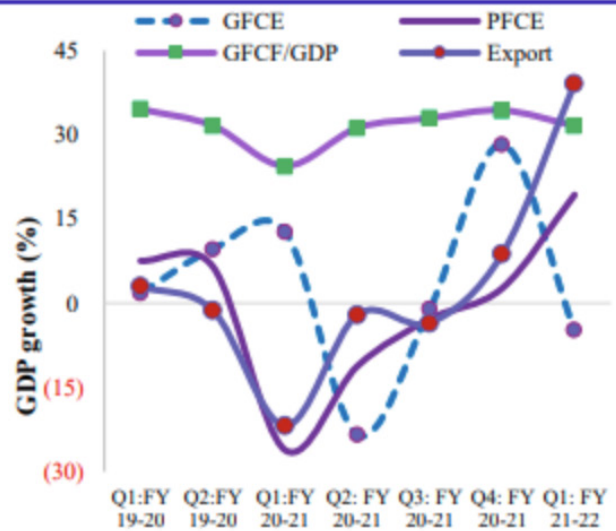


Source: MoSPI

#### Supply side

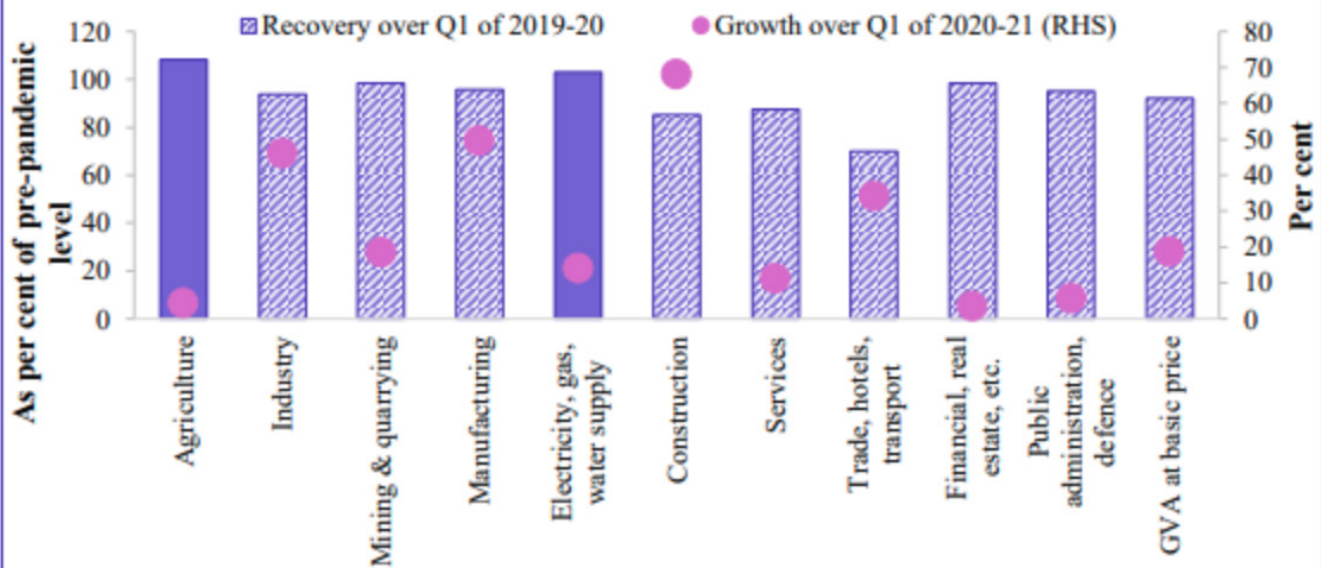


#### Demand side



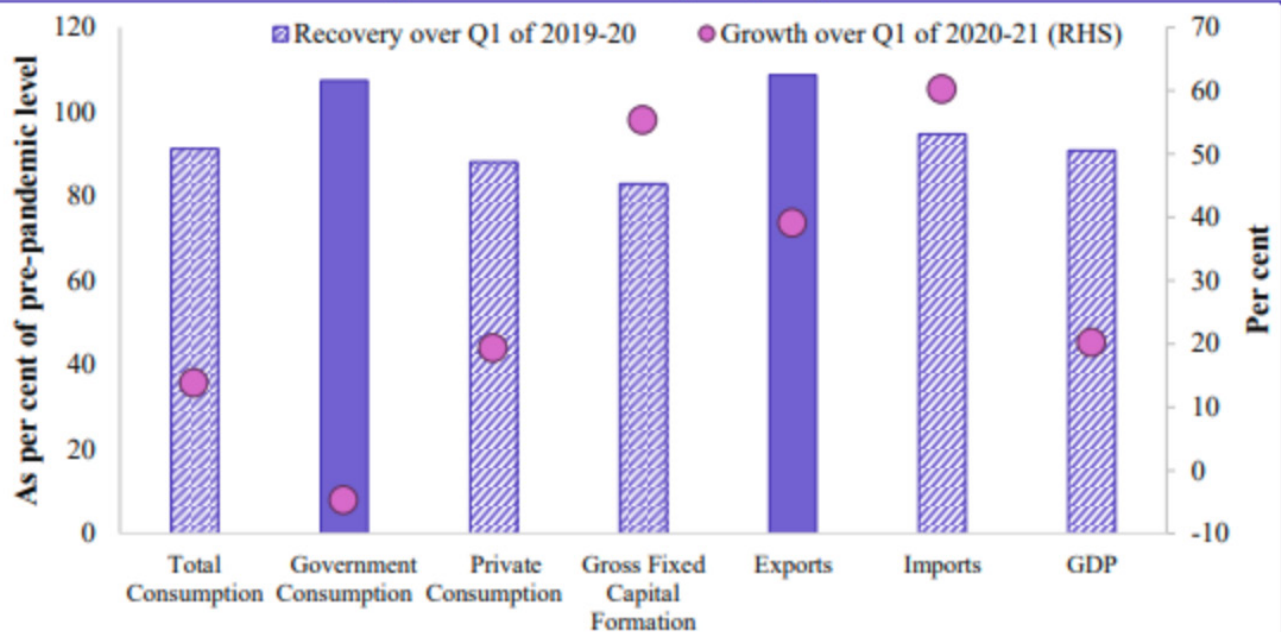
Source: NSO, MoSPI

### Supply side growth & recovery of pre-pandemic levels



Source: NSO, MoSPI

### Demand side growth & recovery of pre-pandemic levels



Source: NSO, MoSPI

## COVID-19

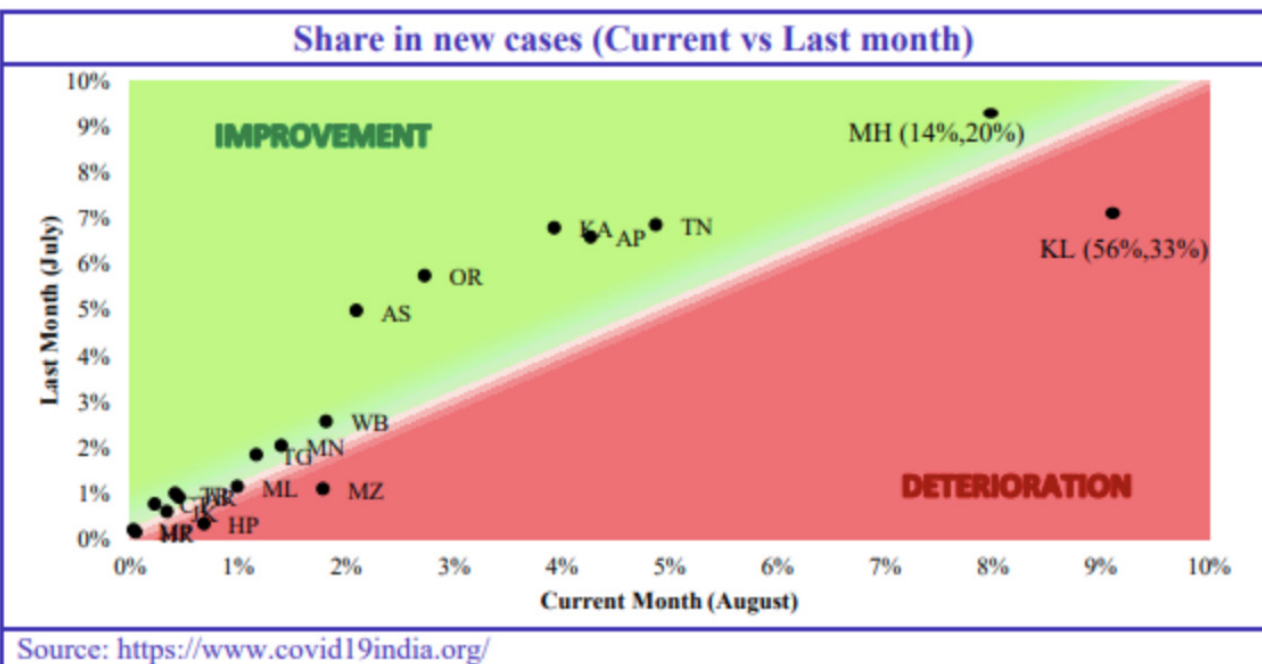
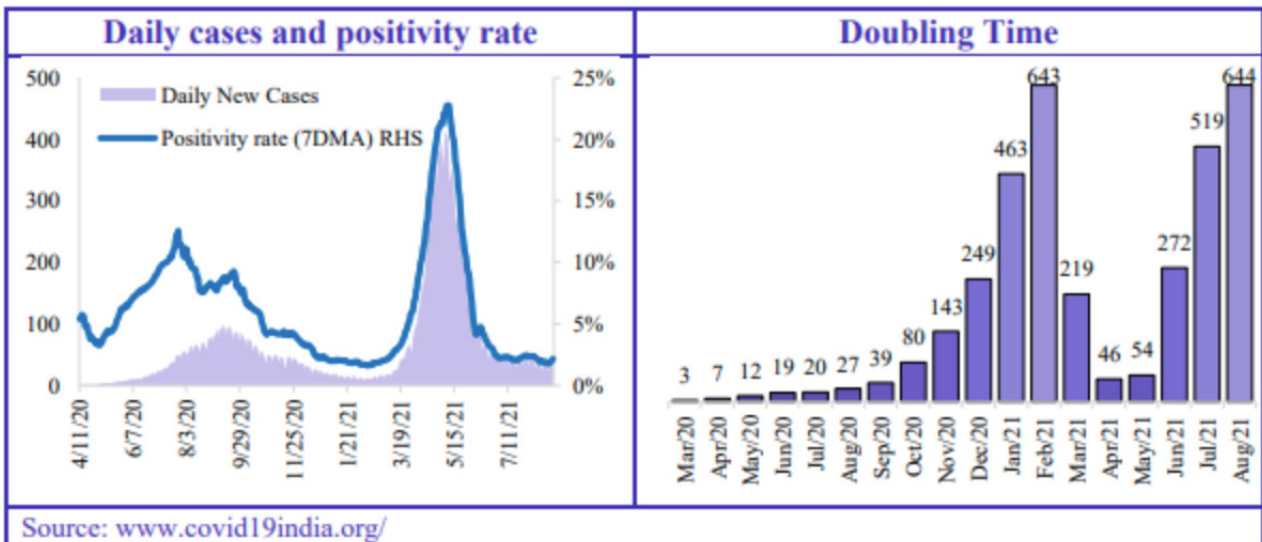
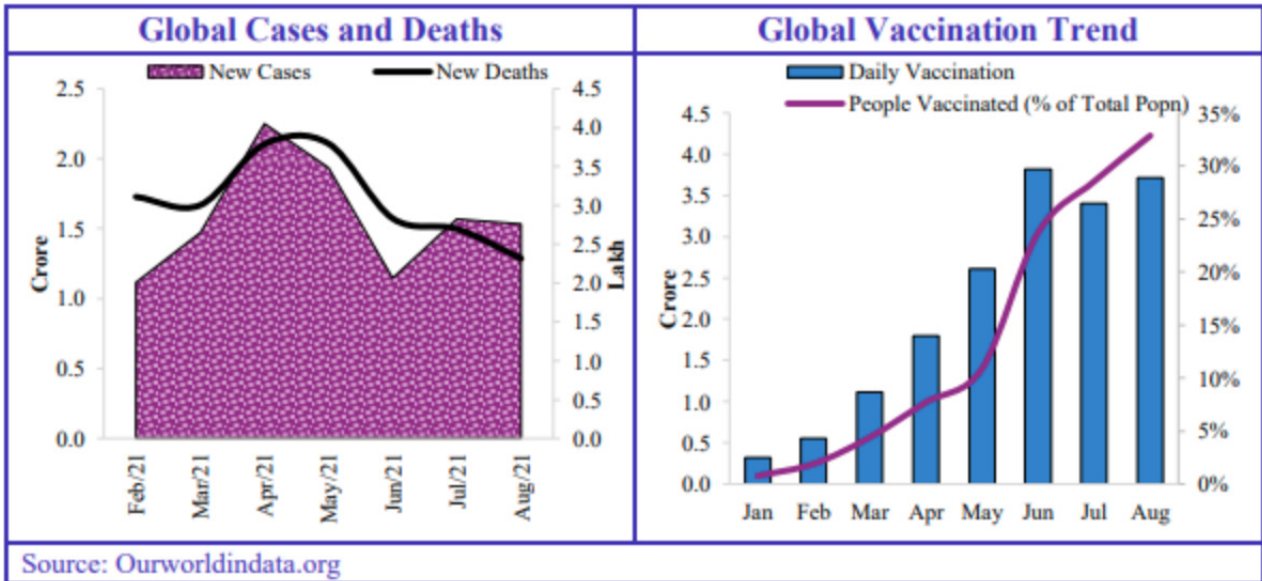
Globally, the number of new cases increased to over 15 million in August, especially in Asia, North America and Europe. Although the global daily vaccination has witnessed a threefold rise at 37 million since March, with around 25 percent of the total population having been vaccinated by the end of August 2021, there is a continued fear of the emergence of the Alpha and Delta variant of the virus.

India's 7 days moving average of daily new cases increased from 40.5 thousand on July 31 to 42.8 thousand on August 31, with a mild improvement in the recovery rate from 97.3 percent in July to 97.5 percent in August. The states of Maharashtra and Kerala contributed to more than 70 percent of the emerging case load. Out of the 41 districts surveyed for the

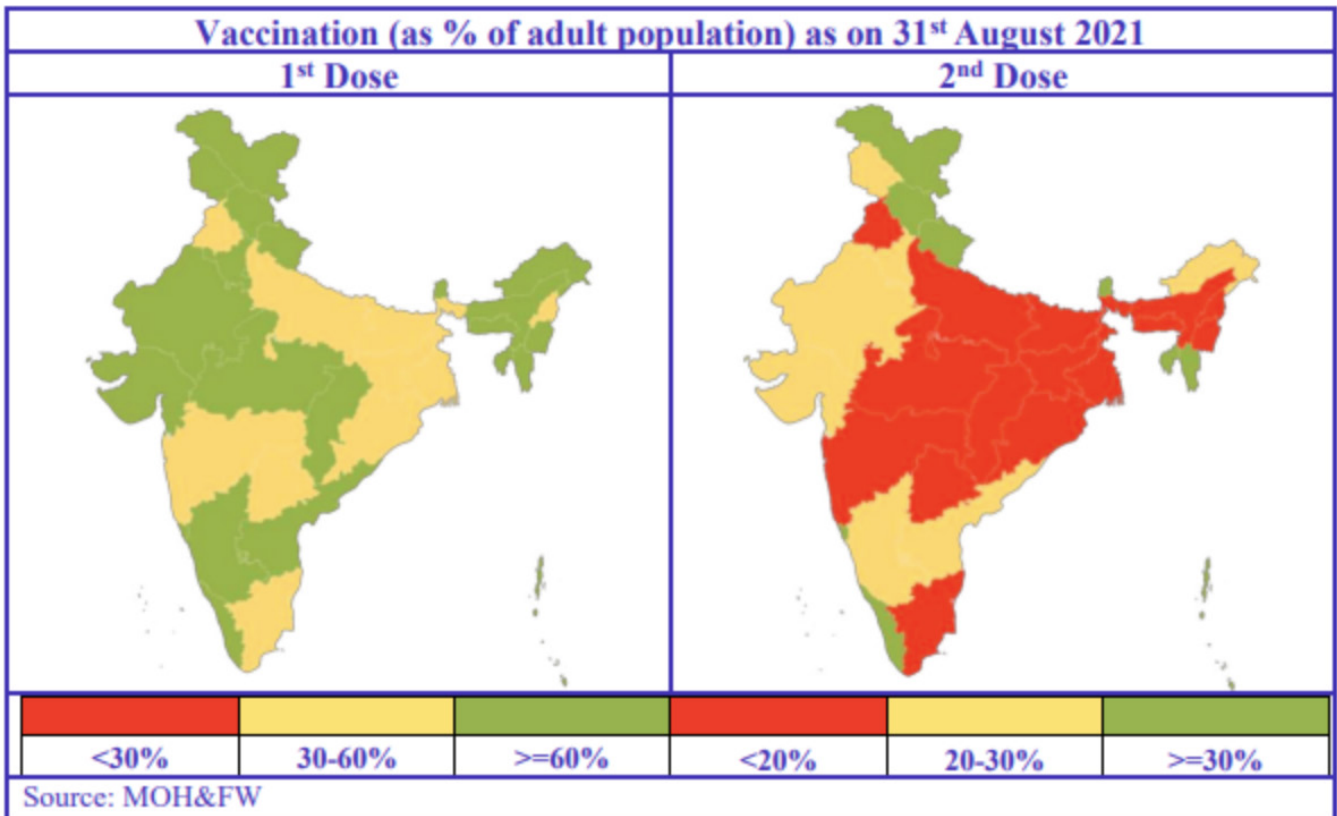
All India District Level analysis, 21 districts from Kerala have a positivity rate above 10 percent since July, calling for stricter measures from the respective states to curb the rise of cases.

The cumulative vaccination rate was 707.5 million doses administered, with around 541 million people (approx 62.5 percent of adult population) having received at least one dose and 167 million being fully vaccinated with both doses. The average daily vaccination rate increased from 4.2 million in July to 5.66 million doses in August, with a higher pace in rural areas. The relaxation in the lockdown restrictions, aided by the rapid vaccination progress led to the improvement in retail activity mobility from (-) 24.6 percent of baseline estimates, in July 2021, to -16.3 percent in August 2021..



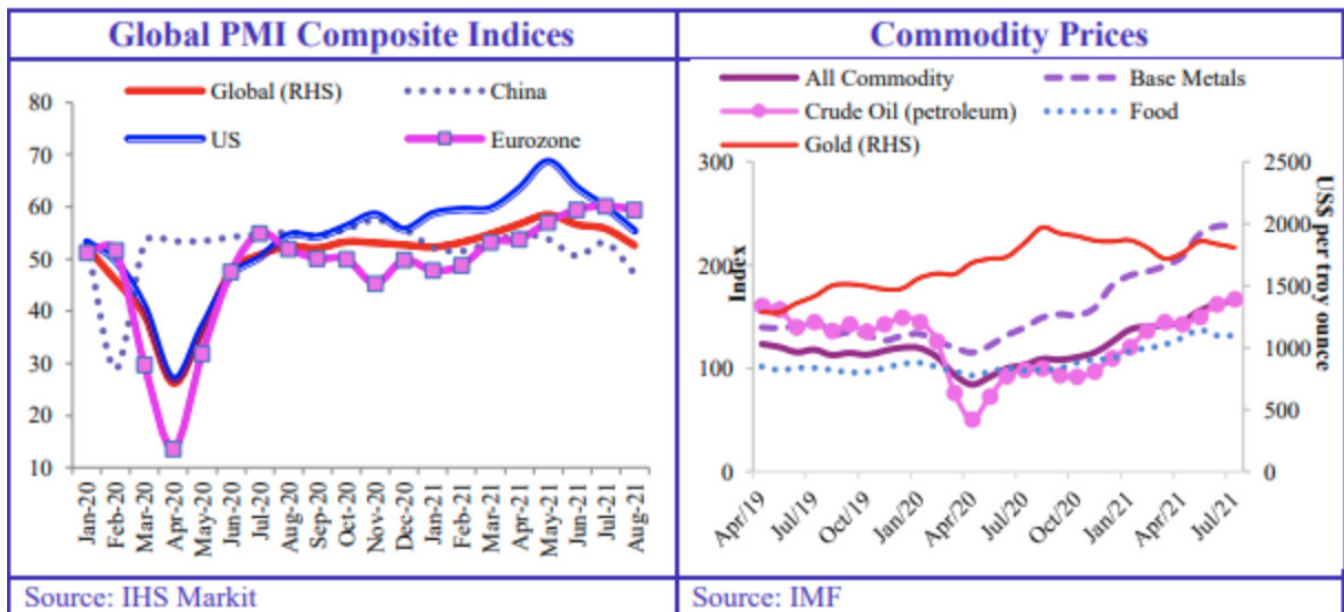






## Global Overview

At 52.6, global PMI stood at a 7-month low, with growth easing across manufacturing and service industries in August 2021. The US Composite PMI also reduced to an 8-month low of 55.4 in August owing to capacity constraints, material shortages and the possible emergence of the Delta variant. While binding supply constraints made economic recovery slightly tepid, Eurozone’s business activity grew at a two-decade high rate. The US Senate passed a \$1 trillion infrastructure bill on 10th August 2021 and approved a budget resolution for US\$3.5 trillion spending plan.



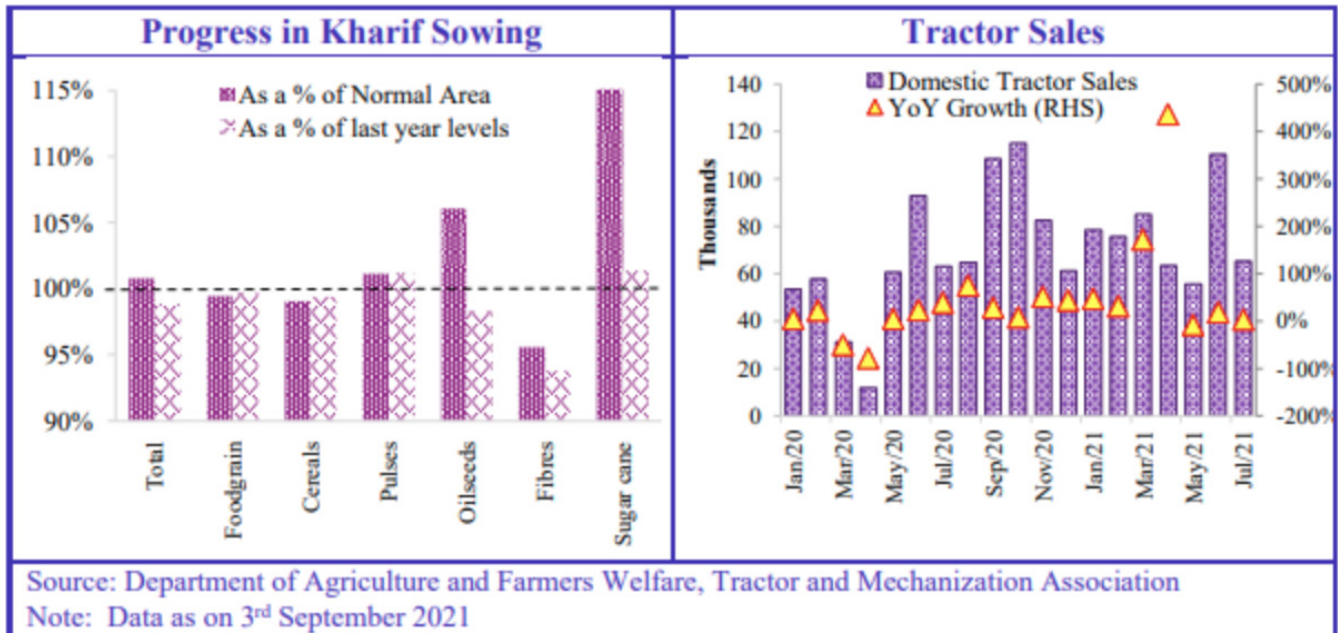


Advanced economies saw a high consumer price inflation, while a surge in commodity prices were captured by the IMF. A 61.2 percent (YoY) growth was observed in July in the All Commodities Index. Strong and firm demand growth was witnessed in natural gas, coal, crude oil prices, energy demand in the midst of localized heatwaves, robust industrial activity and supply restrictions, which led to a sharp rise in natural gas and coal prices. An anticipated rate hike by the US Fed led to a slight reduction in gold prices. With regard to trade, strong merchandise trade recovery was evidenced by high scores on WTO's Goods Trade Barometer's June reading, with positive prospects for exporting nations, including India.

## Agricultural Sector

With the gap in Kharif sowing reducing to 1.1 percent on September 3, 2021, as compared to 21.6 percent on June 25, 2021, the agriculture sector continues to be in a comfortable place. The total area sown is 0.8 percent above normal, as on 3 September 2021.. The total live storage in 130 important reservoirs stood at 80 percent of the previous year's storage and 94 percent of the average of the last 10 years, on September 2, 2021. Fertilizer sales reduced slightly to 69.4 LMT in August 2021 from 79.8 LMT in July 2021. With the improvement in domestic tractor sales by 3.3 percent in July 2021, rural demand also remained pliant. The production of pulses and seeds reached a

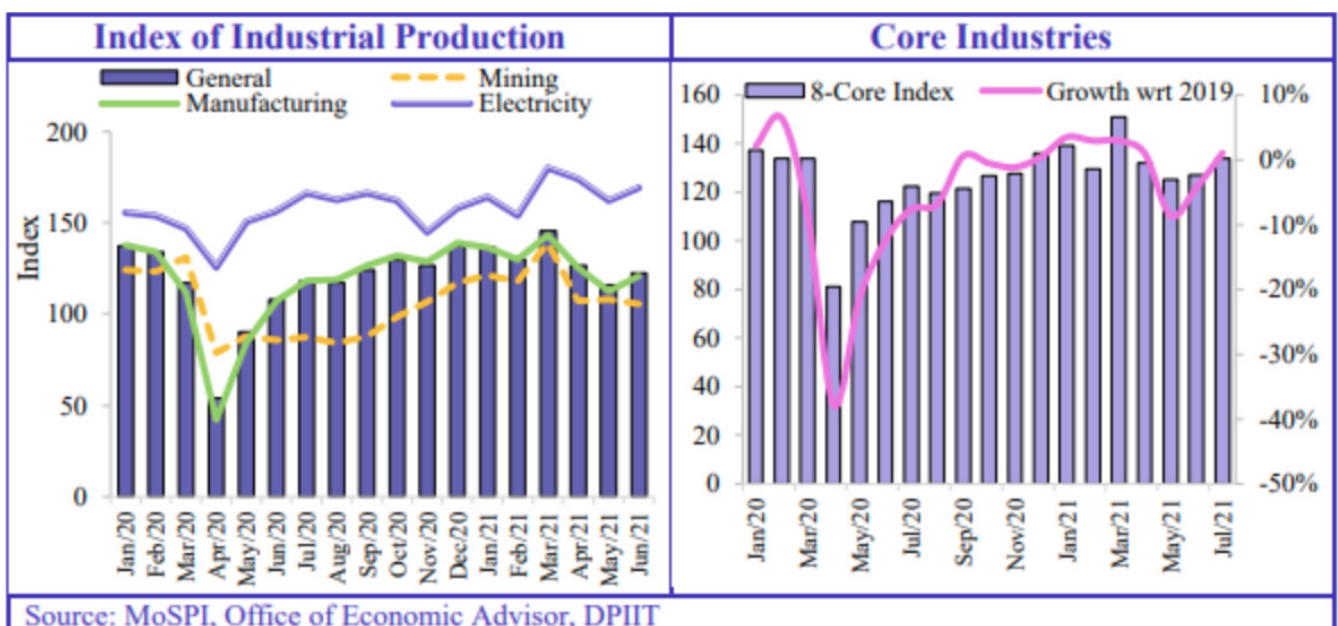
record 25.72 million tonnes and 36.10 million tonnes, respectively. Paddy procurement touched an all-time high, exceeding a previous record of 773.45 LMT in the Kharif Marketing Season (KMS). The ongoing KMS procurement operations has benefitted around 12.03 million farmers with an MSP value of US\$ 22.31 billion.



## Index of Industrial Production (IIP) and PMI-Manufacturing

Driven by a low base-effect, the Index of Industrial Production (IIP) grew by 13.6 percent (YoY) in June 2021 and also recovered to 94.8 percent of June 2019 levels with consumer durables and 99.8 percent in the mining sector. With further relaxation of lockdown

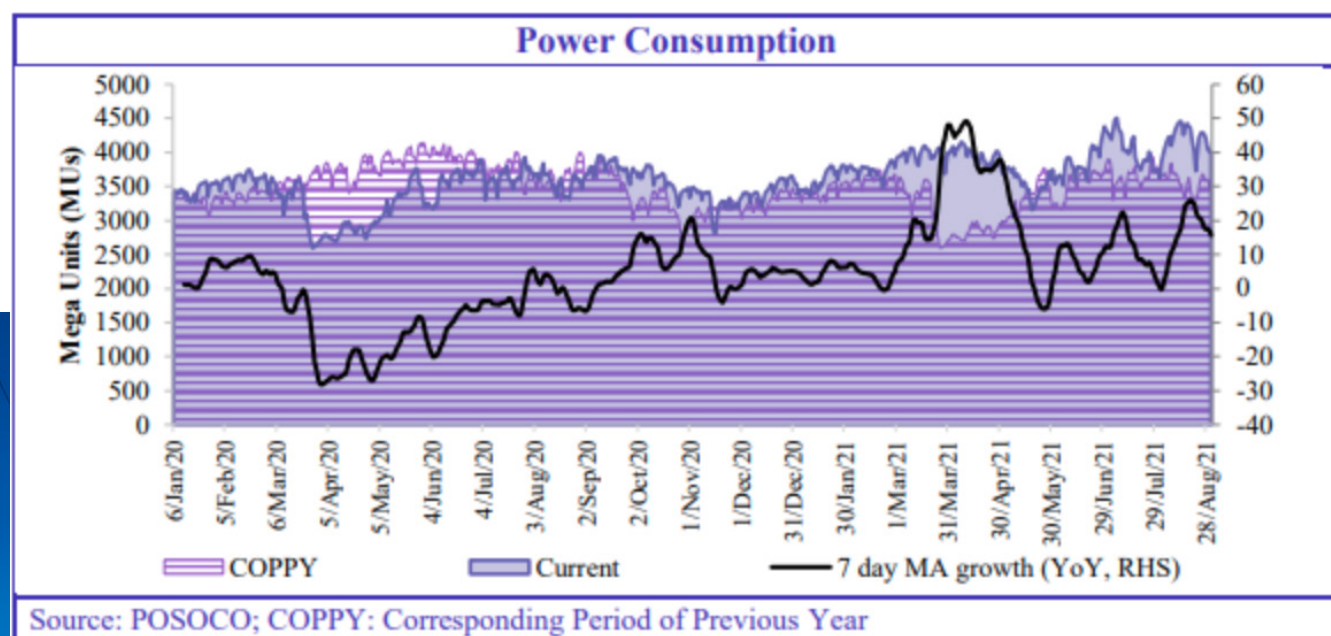
restrictions and strong macroeconomic fundamentals, better investor sentiment is expected to be reflected in the coming months. The output index for July 2021 increased for eight core industries by 9.4 percent over July 2021 and 5.4 percent sequentially over June 2021, led by refinery products (8 percent growth) and electricity (7.2 percent growth).



PMI Manufacturing stood at 52.3 percent in August 2021, rebounding to an expansionary zone in July 2021 to 55.3, mainly due to the effects of the pandemic on demand, firms' finances and rising input costs. Stock-building and purchase of materials by businesses, however, continued to expand.

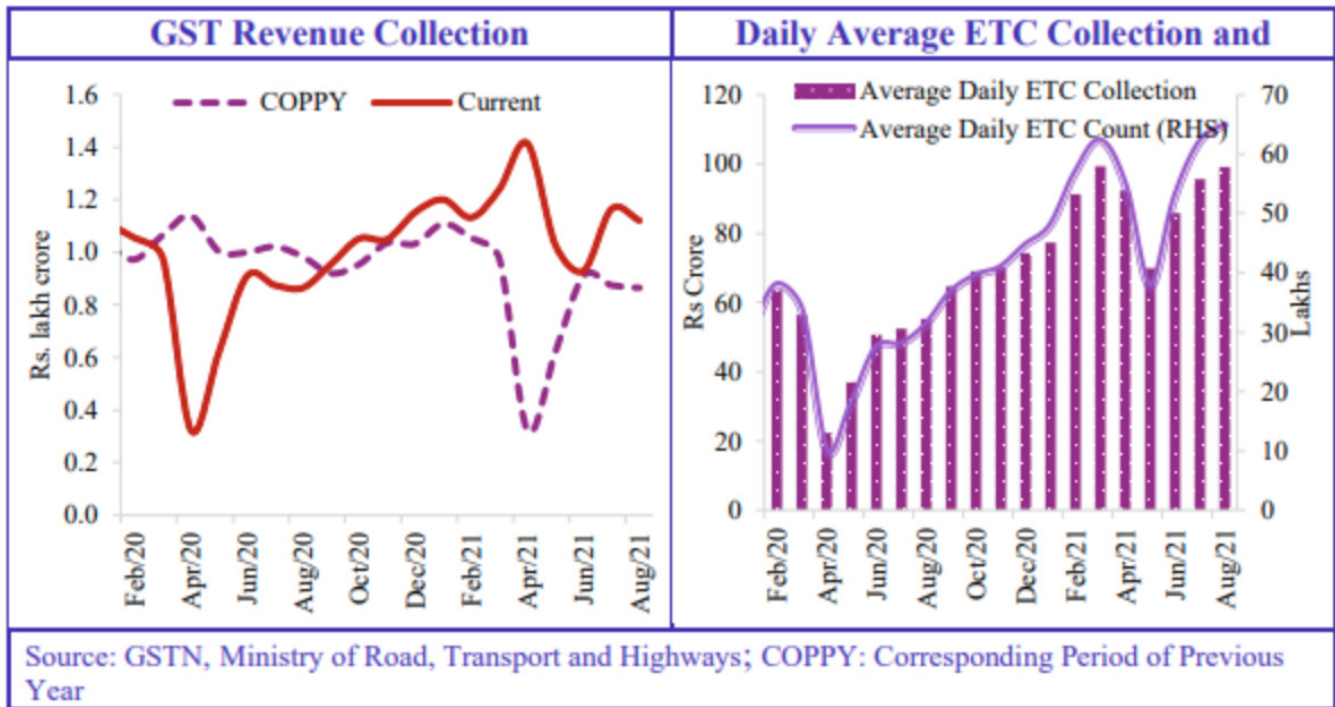
## Power and E-way bills

With over 17.1 percent growth in August 2021, compared to 14.6 percent in previous year, power consumption has remained in a good position as a bright spot of India's economic recovery since September 2020. The generated E-way bills continue to show sustained growth since the peak of the second wave, indicating healthy revenue collections and increased mobility of citizens and goods. August 2021 generated e-way bills amounting to US\$ 8, 97, 920 in total, registering 33 percent growth since August 2020 and 28.6 percent since August 2019. They reached US\$ 259 billion during the same month, in terms of value, 37.4 percent higher than August 2020 and 33.9 percent higher than August 2019.



## GST Collection

At US\$ 15.23 billion, August 2021's GST collections mirrored that of July 2021, suggesting a fast-paced recovery since the second wave of COVID-19. After falling to US\$ 12.65 billion in June 2021, GST collections have also managed to return to their US\$ 13.60 billion plus territory in July 2021.

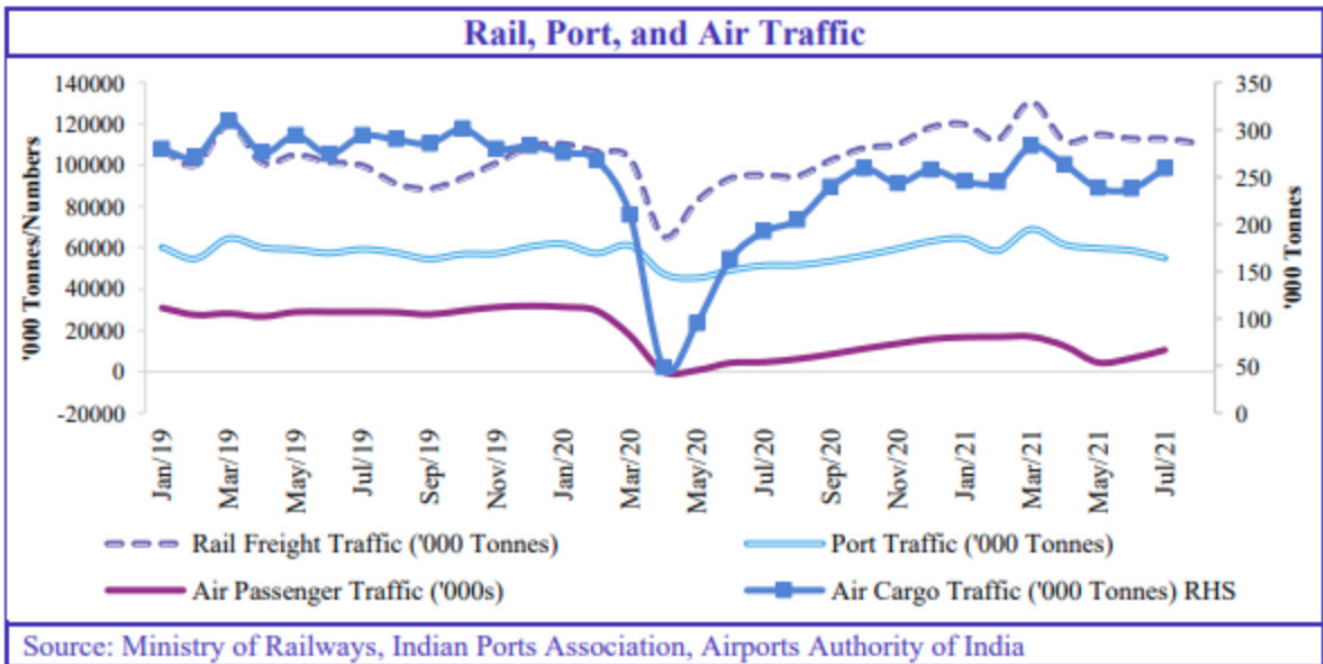


## Automobile Sales

The average daily count of Electronic Toll Collection (ETC) in highways and the daily collections exceeded the March 2021 record. Automobile sales remained stable in July 2021, backed by increased vehicle registrations, at US\$ 35.92 billion vehicle sales, from US\$ 31.57 billion in June and US\$ 11.97 billion in May 2021. Passenger vehicle sales recorded 44.7 percent YoY growth in July 2021. A decline in vehicle registrations and global shortage of electronic components brought a slight concern with regard to vehicle sales in August.

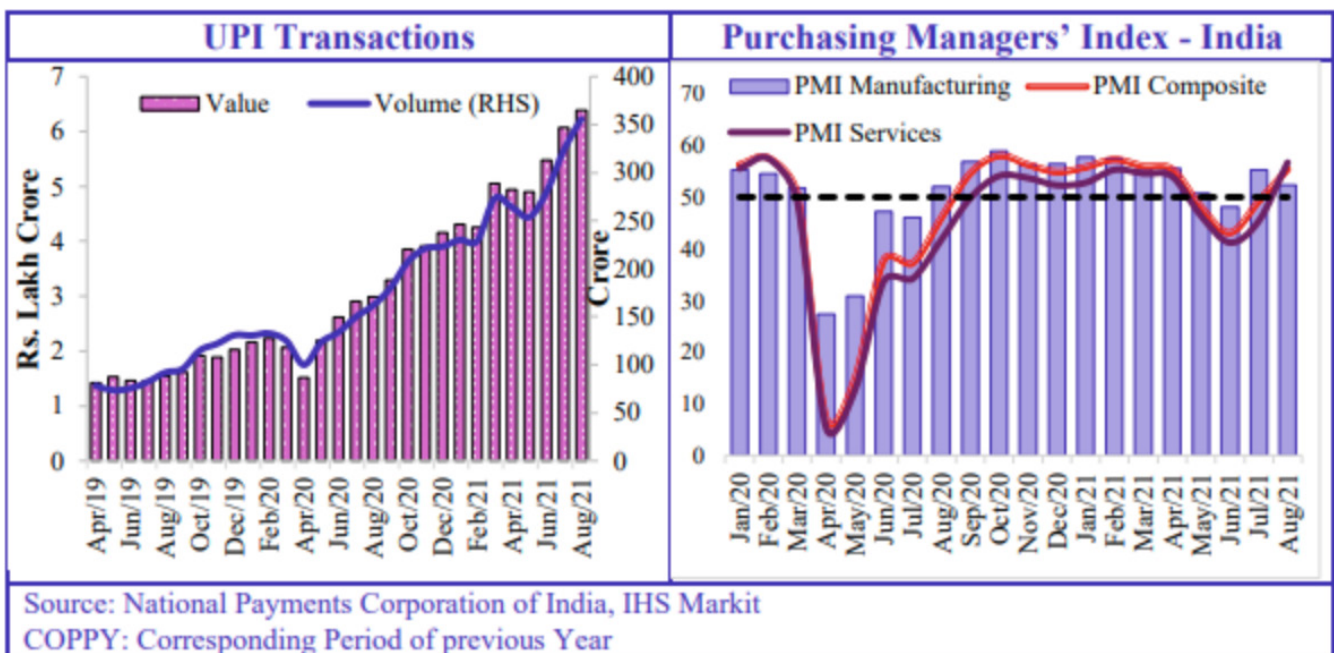
## Freight and Traffic Activity

August 2021 saw a sustained strong growth trajectory in rail freight, with freight loading 110.55 million tonnes, with 16.9 percent growth over August 2020. An upward trend was also observed in air freight and traffic activity with an increase in air cargo traffic by 9.2 percent over July 2021 and 35 percent over August 2020. July 2021 saw an increase in air passenger traffic numbers with the easing of inter-state travel restrictions. Port traffic at major ports slightly declined to 55.04 million tonnes in July 2021 from 58.65 million tonnes in June 2021 and remained 7 percent higher than July 2020.



## UPI transactions and PMI services

UPI transactions achieved another record high in August 2021 with the total transaction value amounting to US\$ 86.96 billion from July's US\$ 82.47 billion. The transaction volume reached US\$ 48.3 million in August 2021 from US\$ 44 million in July. This is reflected through an optimistic consumer sentiment with regard to digital payments, the recovery of NEFT and RTGS transactions, since June 2021 and the recently launched RBI's Digital Payments Index, which increased from a base value of 100 in March 2018 to 270.6 in March 2021. After 3 months, PMI services entered the expansionary zone with the recovery reaching an 18-month high of 56.7 in August, owing to an increase in demand from rapid vaccination coverage and declining COVID-19 cases. As a result, the composite PMI was pushed to 55.4.

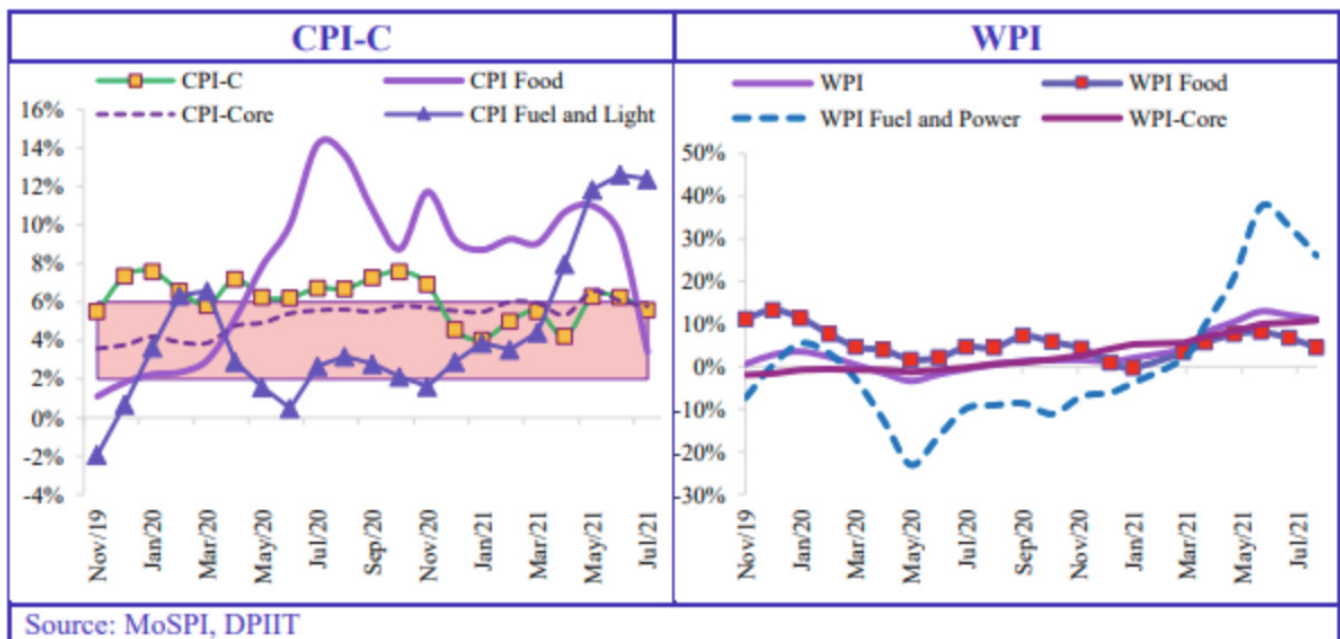


## Crude oil and Petroleum Prices

Crude oil prices mildly declined to 70.2 USD/bbl in August 2021 from 73.5 USD/bbl in July 2021, while remaining higher than 44.2 USD/bbl in August 2020, reflective of the demand build-up in the background of global recovery. A 7.8 percent growth was observed in the domestic consumption of petroleum products in July 2021 compared to 2.9 percent in June 2021.

## Commodity and Inflation

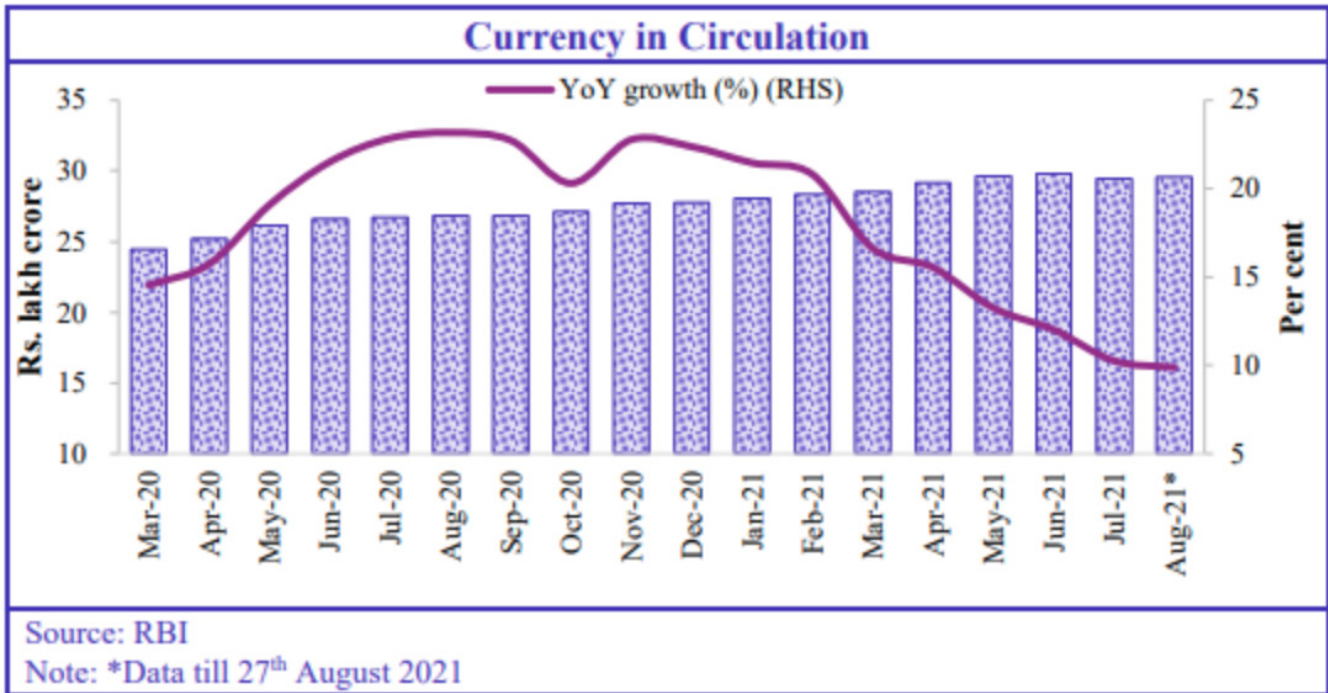
CPI-C based inflation relaxed to a three-month low of 5.59 percent in July 2021, within the monetary policy goal from 6.26 percent in June 2021. This is due to the reduction in food inflation and a favorable base effect. July 2021 saw food inflation reduce to 3.96 percent based on the Consumer Food Price Index (CPFPI), owing to the decline in the prices inflation of commodities such as oils & fats, fruits, vegetables, pulses & products, sugar, confectionery and spices. July 2021 also saw the decline of CPI Core inflation to 5.79 percent as compared to 6.06 percent the previous month. The decrease in the inflation of primary articles and fuel & power led to a slight decrease in WPI inflation to 11.16 percent in July 2021. While food inflation remained stable in July 2021, the inflation for manufactured products rose to 11.20 percent during the same month, along with WPI core inflation, which rose to 10.82 percent from 10.38 percent in June 2021. RBI's quarterly House Price Index (HPI) reduced to 2.0 percent (YoY) in Q1: 2021-22 from 2.7 percent growth in the previous quarter. Sequentially (QoQ), a growth of 0.5 percent was registered in Q1: 2021-22.



## Surplus liquidity

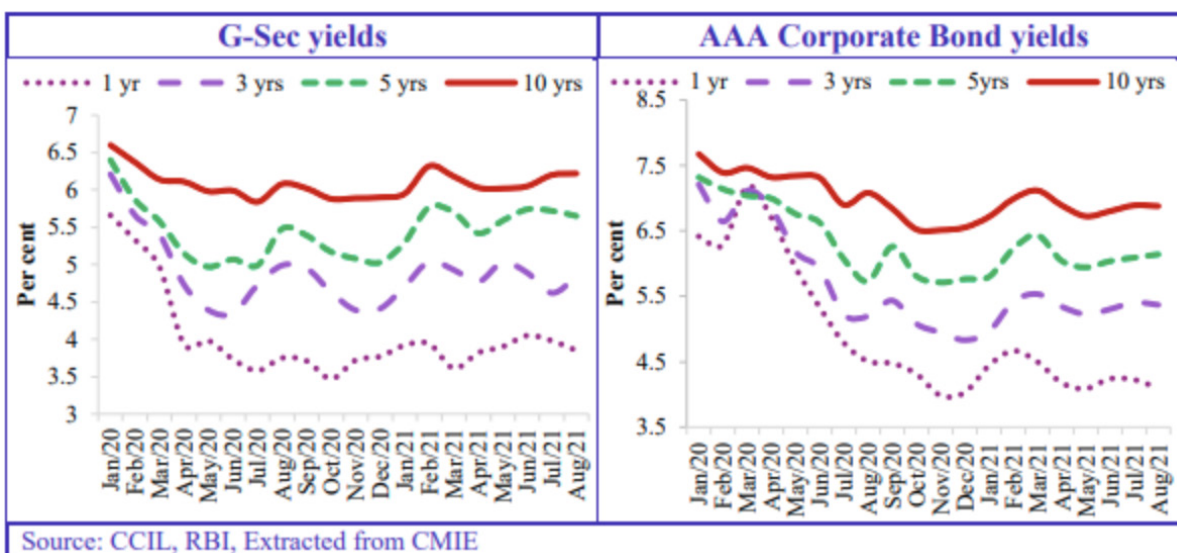
Liquidity continues to remain in surplus owing to RBI's liquidity enhancing measures. Under the LAF, the average daily net absorption rose to US\$ 115 billion in August 2021 from US\$ 92.56 billion in July 2021. The weighted average call rate (WACR0, tri-party repo and market repo rate traded below the reverse repo rate at an average of 15 bps, 18 bps and 14 bps respectively during August. Commercial Paper (CP) issuances slightly reduced to US\$ 20.14 billion from US\$ 36.20 billion in July 2021. The cumulative CP issuances for FY 2021-22 (upto August) rose to US\$ 109.4 billion from US\$ 80.70 billion during the same period the previous year. On August 27, 2021, the reserve money expanded by 15.21 percent on a YoY basis, while the currency in

circulation witnessed the slowing down of its YoY growth at 9.82 percent from 14.74 percent in August 2020. In the fortnight ending August 13, 2021, broad money (M3) grew by 10.49 percent, compared to 9.91 percent during the previous fortnight. The same fortnight saw a growth at 10.05 percent, 21.80 percent and 9.22 percent in public currency, demand deposits and time deposits, respectively, from 10.21 percent, 19.44 percent and 8.65 percent during the previous fortnight.



## Monetary Policy

RBI conducted two G-SAP auctions worth US\$ 3.4 billion on August 12 and August 26 towards the orderly evolution of the yield curve, as announced during the third bi-monthly monetary policy announcement. At 6.22 percent, G-sec yields stayed stable in August 2021 amid relaxed crude oil prices during the month end and lower inflation prints for July. On 7-year, 10-year and 15-year tenors by 8 bps, 8 bps and 2 bps, respectively, the yield curve softened with weighted average yields in August. They sharpened on the weighted average yields MoM by 16 bps for 3 year G-Secs and remained the same for 5-year G-Secs.

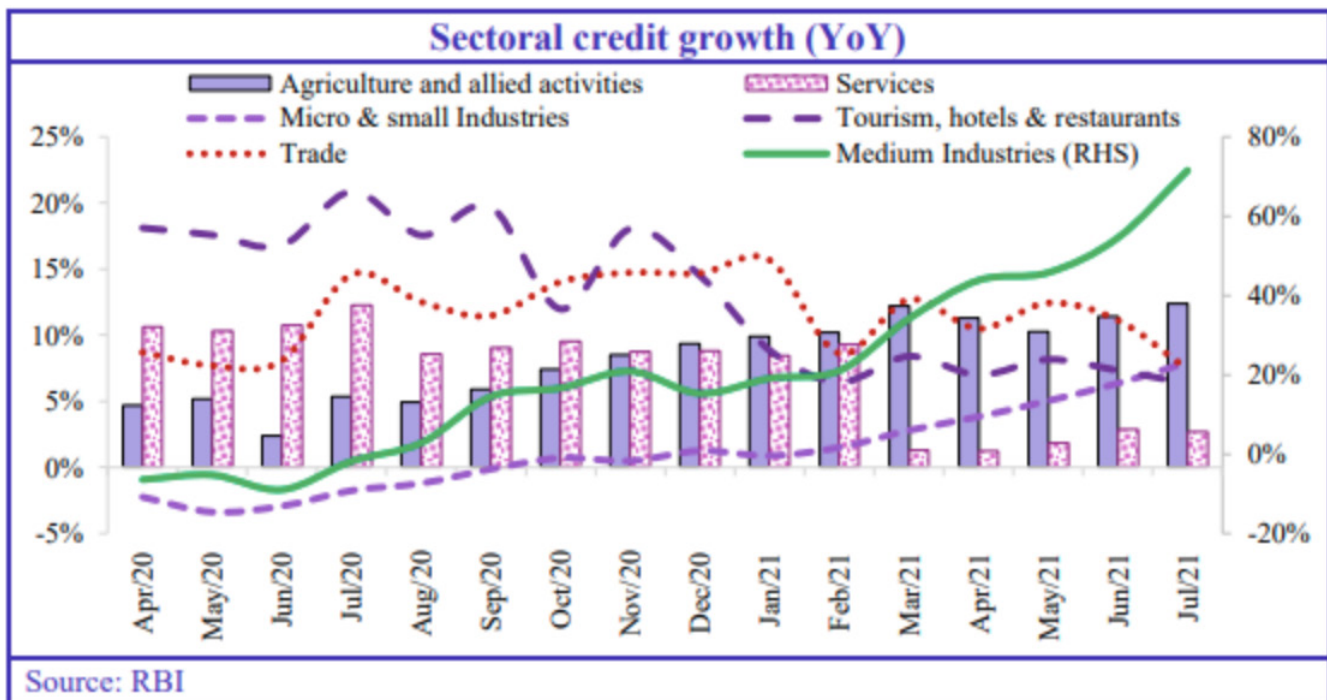




Domestic equity markets remained afloat with the BSE Sensex at 57,552.39 and Nifty 50 at 17132.20, setting record high in August at 9.4 percent and 8.7 percent higher levels over July 2021. A net record inflow of US\$ 3.07 billion was observed in equity-oriented mutual funds in July 2021 over an inflow of US\$ 8.15 billion in June, leading to all-time high of US\$ 480.7 billion in July compared to US\$ 458.2 billion in June with assets under management (AUM) of the Indian mutual fund industry.

## Bank credit growth

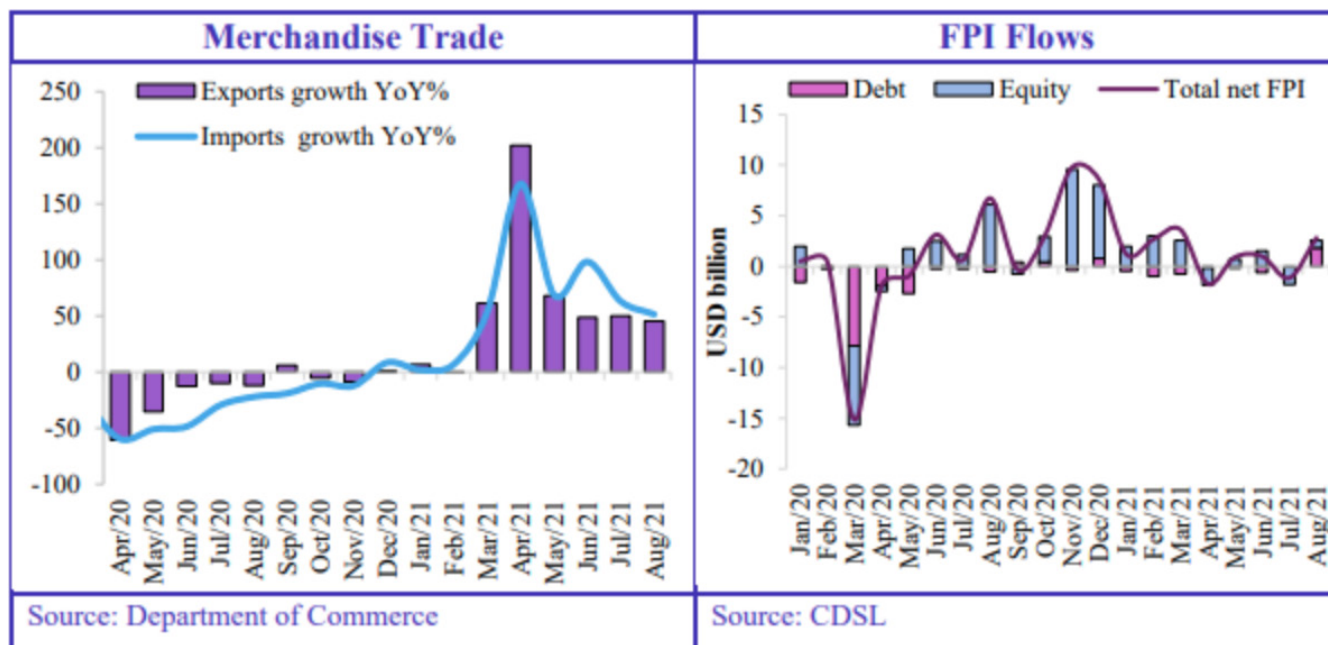
Reaching 6.55 percent (YoY) in the fortnight ending on August 13, 2021, the overall bank credit growth was higher than the previous fortnight's 6.11 percent and 5.52 percent during the previous year's corresponding period. At 69.9 percent during the same fortnight, stability was maintained in the credit deposit ratio compared to 70.2 percent a fortnight ago and 72.58 percent in the corresponding period the previous year. Incremental credit-deposit ratio stood at 33.11 percent in the fortnight ending August 13, 2021 compared to 41.71 percent a fortnight ago and 110.68 percent in the corresponding period of previous year, when investments in government securities and other approved securities are compared with respect to total deposits. Non-food credit growth rose to 6.61 percent (YoY) in the fortnight ending on August 13, 2021. Agriculture, MSME and credit industry growth were accelerated, moderate and subdued respectively.



## Exports and Imports

With the merchandise trade deficit increasing to US\$ 13.9 billion YoY, India continued to be a net importer in August 2021. Merchandise exports crossed US\$ 30 billion for the fifth consecutive month in FY 2021-22. The month's exports recorded a 45.2 percent growth over that of August 2020, while the imports grew at 51.5 percent over that of the corresponding period the previous year. The month also saw POL exports rise to US\$ 4.6 billion at 140 percent over the same period the previous year, while the value of non-petroleum imports rose by 36.6 percent and 25.4 percent to US\$ 28.6 billion. At a growth of 31.7 percent over that of the corresponding period the previous year, Non-petroleum and non-gems and jewellery exports of August 2021 was US\$ 25.2 billion. The month saw POL imports grow by 80.5 percent and 5.8 percent to US\$ 11.6 billion over

August 2020, while non-oil imports grew by 43.9 percent and 22.6 percent to US\$ 35.4 billion over the same period. Non-oil, non-GJ (Gold, Silver & Precious Metals) imports stood at US\$ 26.4 billion in August 2021, at a growth rate of 34.0 percent over the corresponding period the previous year.



## FDI Inflows

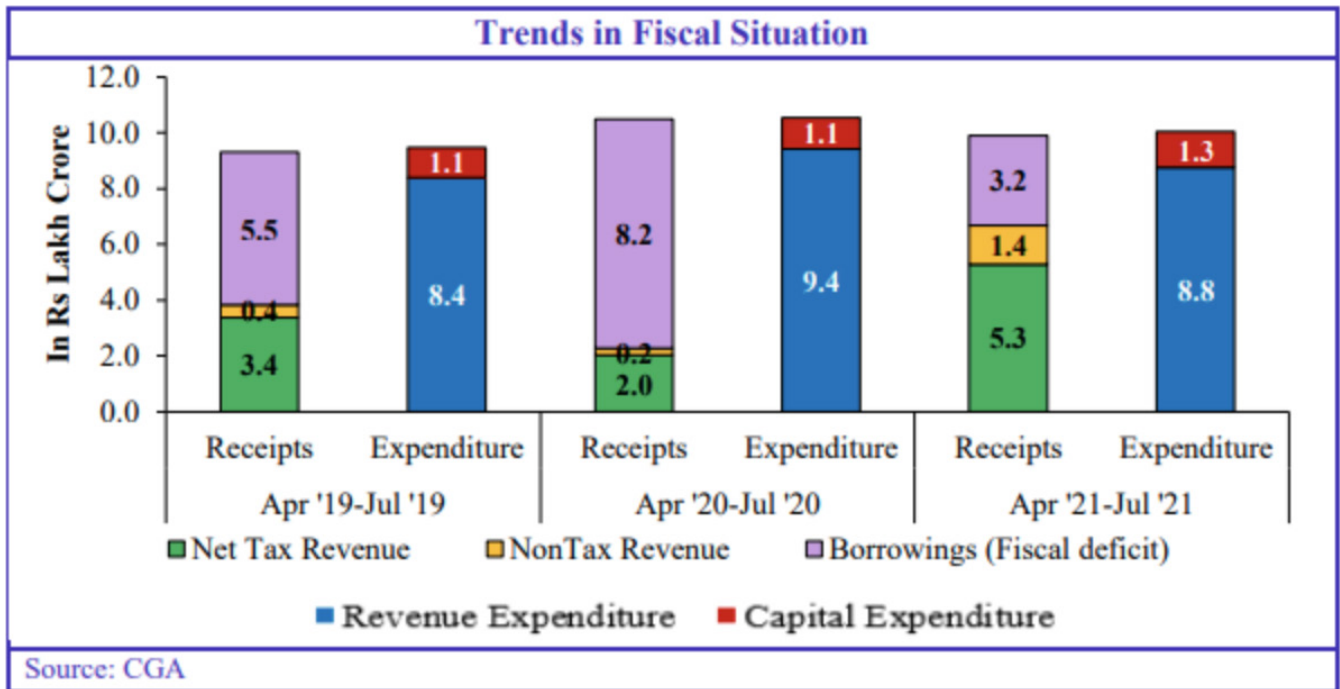
India's robust FDI and FPI inflows were reflective of the positive attitude of global investors over India's growth, as evidenced by USD 22.5 billion inflow of FDI during Q1:FY 2021-22, while the net FDI amounted to USD 11.38 billion during the quarter. FPI inflows amounted to USD 2.5 billion in August 2021, in a testament to the economic indicators showing better outcomes post the decline of the second wave of the pandemic. The Indian rupee reached its highest value in two-and-a-half months at 73.01 INR/USD on August 31, 2021. On August 27, 2021, India's forex reserves amounted to US \$ 633.5 billion, which were equivalent to 18 months of the imports of 2020-21, bolstering against possible monetary constraints in advanced economies.

	2008-09	2020-21
Macroeconomic Indicators	Global Financial Crisis	COVID-19 Crisis
CPI inflation	9.1	6.2
Fiscal Deficit as % of GDP	6.1	9.4
Fiscal Deficit of Emerging Markets & Developing Economies (Asia) as % of GDP	2.5	10.8
Current Account Balance as % of GDP	-2.3	0.9
Capex as % of GDP	1.6	2.2
External Debt as % of GDP	20.7	21.1
Forex Reserves (USD billion)	252	579
Govt Bond Yields 10-year	7.3	5.9
Total FDI inflows (USD billion)	8.3	80.1
Net FPI inflows (USD billion)	-9.9	36.2

Source: NSO, MoSPI, RBI, CGA, CDSL, Ministry of Finance, IMF.

## Fiscal Developments for 2021-22 (April 2021- July 2021)

During the April 2021 to July 2021 quarter, an improvement over the previous year was seen in central government finances, with a fiscal deficit at US\$ 43.6 billion. A significant YoY growth was observed in the four four months of 2021-22 with both direct and indirect taxes. A YoY growth of 171.5 percent was recorded with corporation tax, while the Personal Income Tax witnessed a YoY growth of 76.7 percent. The centre's GST collection rose by 60 percent over the previous year, while revenue collection from customs rose by 144 percent during April-July 2021. Consequently, the Net Tax Revenue to the centre during the same quarter rose by 2.5 times over the corresponding period the previous year at US\$ 71.9 billion. The same quarter saw an increase by 468.6 percent in the non-tax revenue, mainly due to RBI's surplus transfer of US\$13.42 billion to the Government.



The government's commitment in providing a stable tax regime to the stakeholders was evidenced by the repealing of the retrospective tax amendment of the year 2012. A YoY decline by 4.7 percent during the first four months of 2021-22 was registered in the total expenditure, while the revenue expenditure witnessed a YoY decline of 7 percent in spite of a 14.7 percent YoY increase in major subsidies, suggesting re-prioritisation of revenue expenditure to meet fiscal targets. Capital expenditure recorded a 14.8 percent growth during the quarter with road transport, highways, railways and housing being the key areas where it increased. US\$ 71.5 billion was raised by the central government as gross market borrowings, while state governments raised US\$ 30.8 billion as gross market borrowings, at 9.8 percent and 11.6 percent lower than the corresponding period in 2020-21.

# Conclusion

India exhibits steady economic recovery as evidenced by a broad based rebound in several leading macroeconomic indicators in the months of July and August 2021. The remaining three quarters of the year are anticipated to have a more rapid recovery through sustained commitment of the government and the RBI towards economic revival. This is backed by rapid vaccination coverage and a greater experience with pandemic management after the second wave, which provides the confidence that India can hold itself together even in the event of a possible third wave of the pandemic.



## For more information:

Ministry of Finance, Department of Economic Affairs  
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