



Ministry of External Affairs
Government Of India



ECONOMIC
DIPLOMACY
DIVISION

MONTHLY ECONOMIC REPORT

OCTOBER 2021



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EXECUTIVE SUMMARY

India's economic recovery has accelerated in the festive season, recording a decade-high Diwali sale of Rs. 1.3 lakh crore as per the Confederation of All India Traders. The World Trade Organization's October forecast also confirms favorable trade prospects underpinned by a resurgence in global economic activity and vaccine dissemination. This augurs well for India's export performance over the next few months, lending credibility to the IMF projecting India to become the fastest growing economy in the current and the following year.

The agricultural sector continues its strong presence in economic recovery with higher acreage of Rabi sowing, improved reservoir levels, and adequate availability of fertilizers and seeds ensured by the Government. Expansion of seasonally adjusted PMI Manufacturing to an eight-month high of 55.9 in October affirms the beginnings of a

prolonged demand recovery in the country. GST collections soaring in FY 2021-22 to reach its second-highest monthly collections ever of ₹1.3 lakh crore in October 2021 reflects the robustness of growth revival. India's foreign exchange reserves stood comfortably at US\$ 640.1 billion as of October 22, 2021, providing cover for around 14 months of imports projected for 2021-22.

With India's COVID-19 vaccination campaign hitting new milestones and renewed optimism towards India's ongoing economic recovery, increase in demand stimulation, fuller restoration of supply chains, narrowing of demand-supply mismatches and greater employment generation are in the offing.

The stage is set for India's investment cycle to kickstart and catalyze its recovery towards becoming the fastest growing economy in the world.



COVID-19

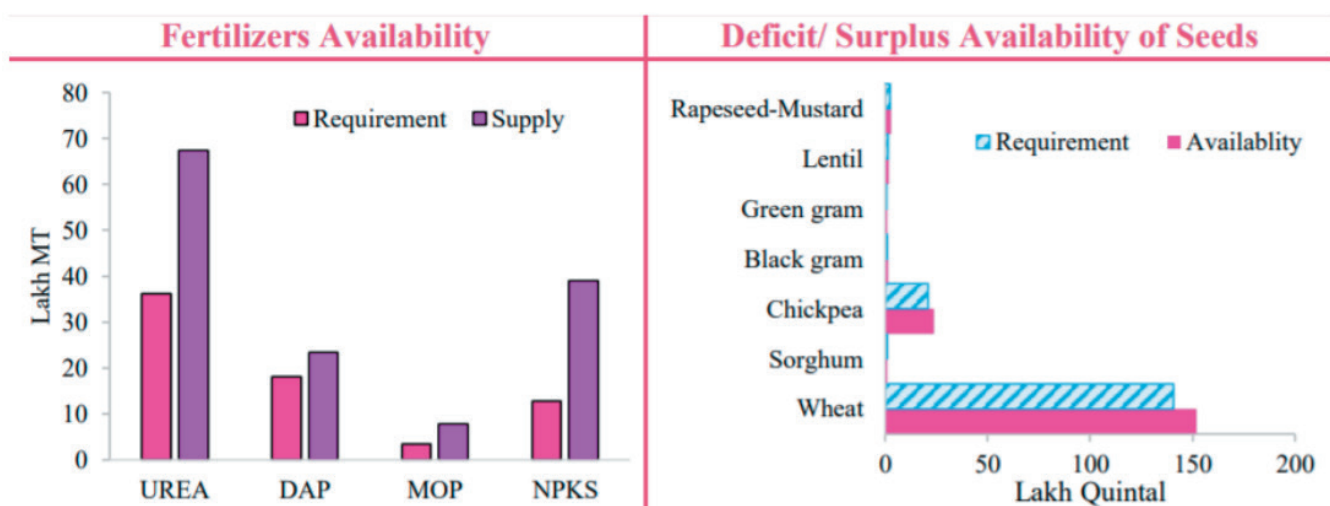
- In October, India accomplished 100 crore vaccinations in 10 months, becoming the second country to reach this milestone
- The first dose of the COVID-19 vaccine has been administered to more than 85% of the adult population, with all states covering more than 50% of their respective adult population
- The average number of daily cases has reduced significantly from 31,825 in September 2021 to less than 18,000 in October 2021. The recovery rate has further strengthened to reach 98.2%

Global Overview

- Global PMI composite expanded to 54.5 in October driven by stronger growth in the service sector. However, while output has been rising across much of the global economy, supply constraints and input cost inflation continue to impede the momentum of recovery.
- The global growth projection for 2021 has been revised down marginally to 5.9% but for 2022 remains unchanged at 4.9%.
- Prices of natural gas, coal, metals, and agricultural commodities are expected to decline in 2022, with slowing of demand growth and easing of supply constraints. At the same time, crude oil prices are forecast to average \$74/bbl in 2022, up from a projected \$70/bbl in 2021.
- While global economic rebound and policy support have succeeded in containing financial stability risks so far, recurrent outbreaks and uneven recovery coupled with inflation have given way to fading investor optimism

Agriculture Sector

- In October 2021, overall rabi acreage stood at 43.3 lakh hectares, 1.8% higher as compared to the previous year. The area under rabi oilseeds has increased by 26.6% – which bodes well for oilseeds production in 2021-22.
- The overall export of Agricultural and Processed Food Products Export Development Authority (APEDA) products witnessed 21.8% growth in terms of USD during April-August 2021 over the same period of the previous year.



Source: Department of Fertilizers, A&FW, PIB

Industry & Services

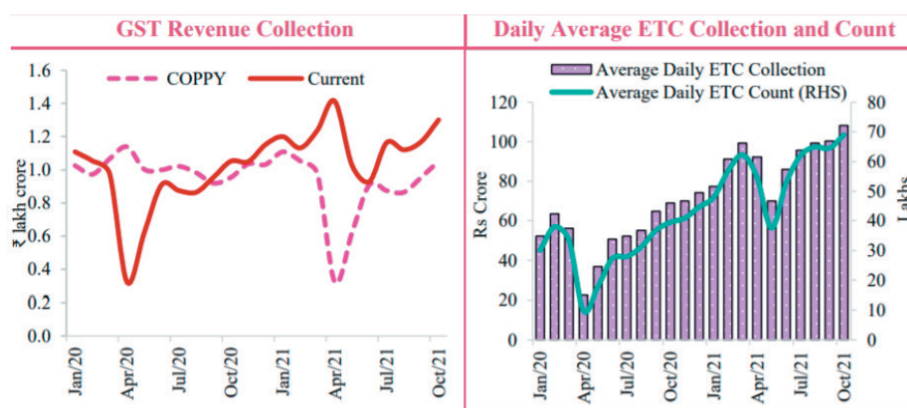
- PMI Manufacturing improved to an eight-month high of 55.9 in October 2021 from 53.7 in September on the back of a speedy rise in new work intakes and business optimism at a six-month high. While firms scaled up their input purchase in anticipation of improvements in demand, the rise in input costs accelerated further. Improvement in a seasonally adjusted PMI index is optimistic and affirms significant demand recovery rather than a festive season-induced one.
- PMI Services continued to expand in October reaching ten-and-a-half year high at 58.4. Robust services activity levels were driven by improved demand conditions, leading to more job creations in the sector. The rebound in service activity can be attributed to rapid coverage of vaccination.
- The Composite PMI Output Index rose to 58.7 in October from 55.3 in September, the strongest monthly expansion since January 2012. The expansion was supported by an increase in the new work order. Although input costs continued to rise showing in high core inflation, the overall inflationary pressures eased out further in October.

Power

- Power consumption in October 2021 picked up to grow at 3.1% YoY compared to 0.8% in September. This indicates resilience in the power sector braving coal supply disruptions at electricity generation plants (where supply disruptions have been caused by heavy rains in mining areas) and international coal price rise
- October also marked a month of growth in E-way bills with resurgent economic activity amplified by the festive season. Total e-way bills generated stood at 7.35 crore in October 2021, marking 14.5% YoY growth vis-à-vis October 2020 and 39% growth vis-à-vis the pre-pandemic month of October 2019.
- In terms of value, e-way bills generated reached ₹21.2 lakh crore in October 2021, 9.4% higher than the previous month, 26.3% higher than October 2020 level, and 49% higher than that in October 2019.

GST Collection

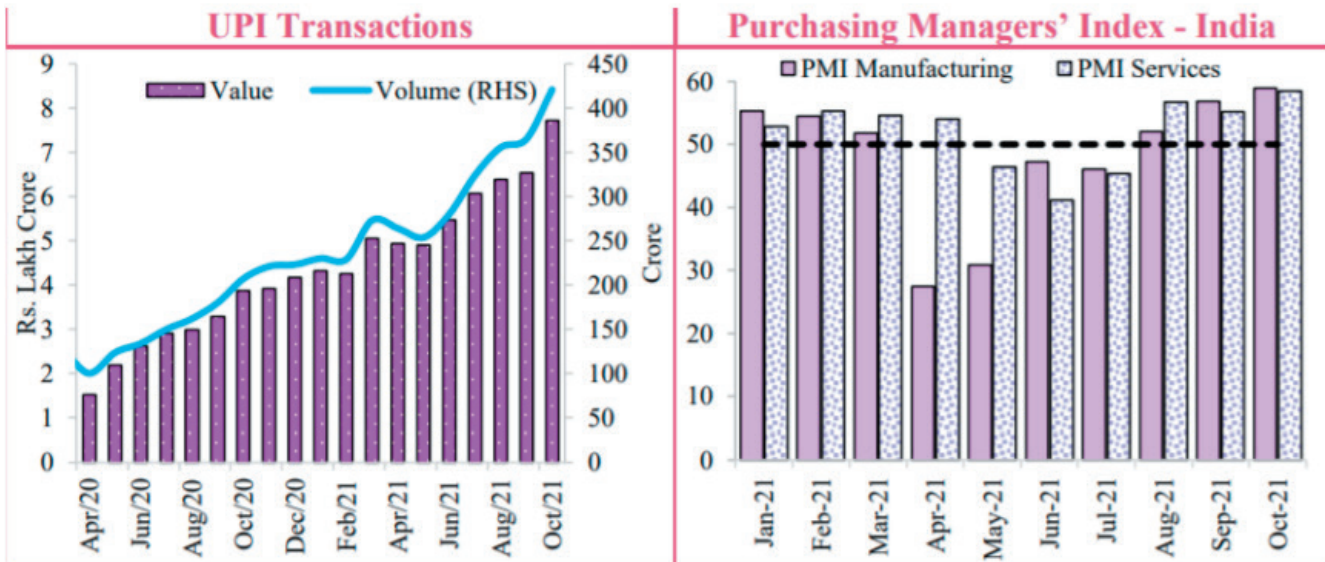
October 2021's GST collections rose to their second-highest level of ₹1.30 lakh crore, from ₹1.17 lakh crore in September. A steady uptick in GST collection (reflecting transactions done in September) indicates the momentum of economic activity ahead of months of Dussehra-Diwali festivities.



Source: GSTN, Ministry of Road, Transport and Highways
Note: COPPY: Corresponding Period of Previous Year

UPI & Fintech

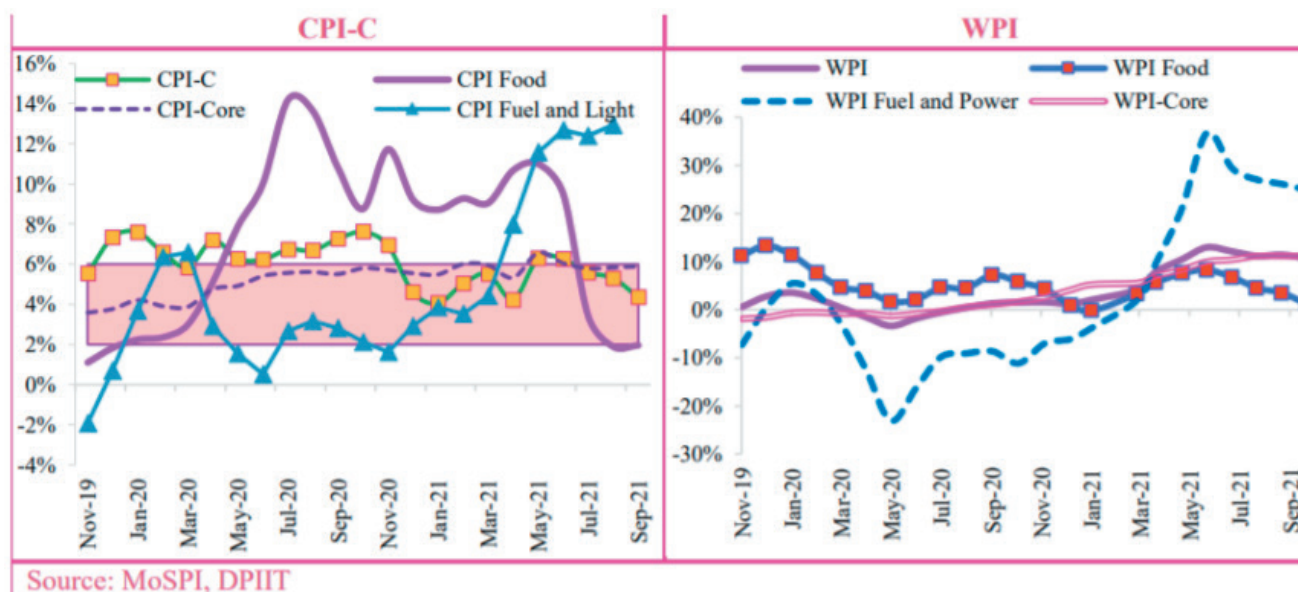
UPI transactions claimed another record high in October 2021 with a value of total transactions climbing to ₹7.71 lakh crore compared to ₹3.9 lakh crore in October 2020. The rise in digital payments is further bolstered by the festive season and added features in digital transactions, such as an increased limit for IMPS transactions.



Source: National Payments Corporation of India, IHS Markit
COPPY: Corresponding Period of previous Year

RBI Lending

- The consumer price index (CPI) dropped further to 4.4% in September 2021 driven by low food inflation and favorable base effect. Food inflation declined to a 30-month low of 0.7% in September as compared to 3.1% in August.
- Wholesale price index (WPI) inflation softened to a 6-month low of 10.7% in September from 11.4% in the previous month. While inflation in primary, fuel & power segments moderated during the month, sticky prices in the manufacturing segment kept wholesale inflation at an elevated level.
- Retail inflation, having declined to stay comfortably close to the median of RBI's monetary policy goal, bodes well for prioritizing growth.
- The average daily net absorption under Liquidity Adjustment Facility (LAF) reverse repo corridor framework stood at ₹7.7 lakh crore in October, reducing from ₹9.1 lakh crore in September 2021.
- The Weighted Average Call Rate (WACR), the operating target of monetary policy was closely aligned to the repo rate at 3.31% in October.
- Additionally, overnight money market rates in the collateralized segment such as tri-party repo and market repo inched closer to the lower bound of the LAF corridor at 3.28 and 3.33%, respectively, in October.
- Inter-bank trading activity expanded as the average daily volume in the call money market increased to ₹7,844 in October 2021 from ₹7,381 crores in September 2021.



Surplus Liquidity

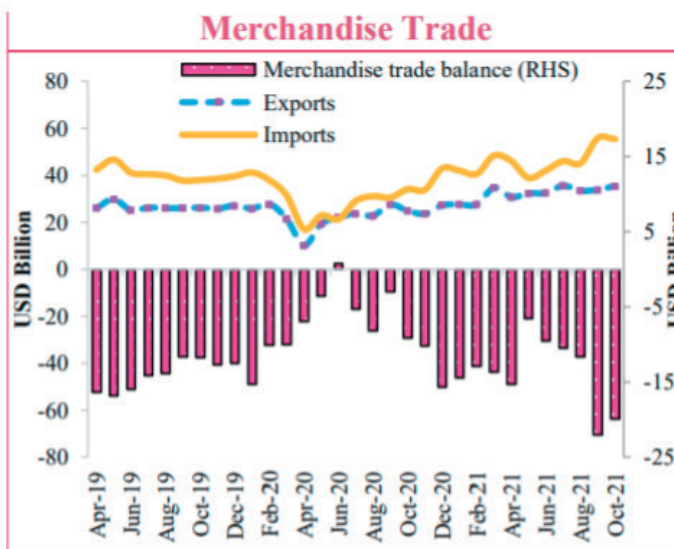
- Yields on short-term (less than one year) money market instruments like the 91-day, 182-day, 364-day Treasury Bills (T-Bills) traded below the policy rate in the primary market, on an average, by 56 bps, 37 bps, and 11 bps, respectively in October.
- Given surplus liquidity and improved growth in credit demand and bank deposits, fresh issuance of Certificate of Deposits (CDs) increased to ₹1,685 crores on October 8, 2021, from ₹877 crores in the corresponding period of the previous year.
- Reserve money (RM) growth on a YoY basis expanded to 14% as of October 22, 2021 (12.2% a year ago) compared to 14.2% in the previous fortnight, following the gradual restoration of the cash reserve ratio (CRR).
- Currency in circulation, the primary component of RM further moderated to 8.5% (YoY growth) as of October 22, 2021, compared to 20.3% a year ago and 9% on September 24, 2021.
- Money supply (M3) grew by 9.9% (YoY) as of October 8, 2021, compared to 9.3% in the previous fortnight and 12.1% in the corresponding period of the previous year.

Bank Credit

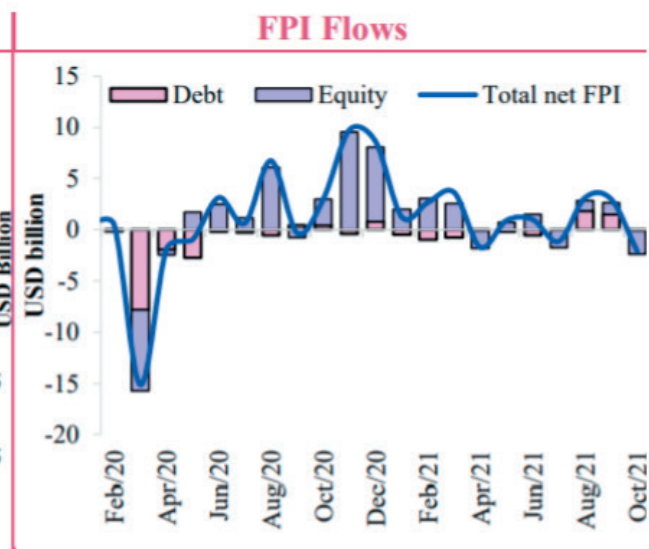
- Credit disbursement by banks and other institutional lenders remains moderate with bank credit YoY growth at 6.5% in the fortnight ending October 8, 2021, compared to 6.7% in the previous fortnight and 5.7% in the corresponding period of the previous year.
- Personal loans posted a 12.1% growth, with loans for consumer durables growing at 40% on a YoY basis, which tracks the uptick in consumer spending in the festive season. Industry-wide distribution of bank credit shows a healthy 5.8% growth in the flow of credit to infrastructure, fueling infrastructure spending.
- Moody's Investor Services recently upgraded the outlook on India's sovereign credit rating to stable from negative. In addition, loans worth ₹11,168 crores have been sanctioned by PSBs to 1,93,000 borrowers through 924 camps across 405 districts from October 16-20 – to cash in on the festive mood across the country.

Merchandise Exports

- India remained a net importer in October 2021, with a merchandise trade deficit rising to US\$ 19.9 billion, as against the trade deficit of US\$ 9.2 billion in October 2020 and US\$ 11.8 billion in October 2019
- At US\$ 35.5 billion, merchandise exports continued their turbo-charged trajectory by crossing the US\$ 30.0 billion mark in October 2021 for the seventh consecutive month in FY 2021-22 indicating a resurgence of global demand for Indian exports
- Exports in October 2021 registered a growth of 42.3% over October 2020 (US\$ 24.9 billion) and 35.2% over October 2019 (US\$ 26.2 billion)
- Merchandise imports also grew by 62.5% to US\$ 55.4 billion in October 2021, over October 2020 (US\$ 34.1 billion) and 45.8% over October 2019 (US\$ 38.0 billion) which is a pointer towards a pickup in domestic production activity and augurs well for growth pickup in the coming months.
- Registered net FPI outflows of (-) 1.7 billion in October 2021, as against the net FPI inflows of US\$ 3.8 billion in September 2021, reflected in the foreign exchange market where the Indian rupee (INR) depreciated against the US dollar in October 2021 by 1.9% (m-o-m).
- Foreign exchange reserves stood at US\$ 640.1 billion as of October 22, 2021, providing cover for around 14 months of imports projected for 2021-22 or equivalent to 112% of total external debt outstanding or 52% of total external liabilities at the end-June 2021



Source: Department of Commerce



Source: CDSL

Outlook

Atmanirbhar Bharat Mission continues to play a critical role in shaping India's economic recovery - both through the signaling of business opportunities and expansion of spending channels. It can be concluded that leveraging on necessary macro and micro growth drivers, India's investment cycle is ready to catalyze its recovery towards becoming the fastest growing economy in the world.



For more information:

Ministry of Finance, Department of Economic Affairs
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