



Ministry of External Affairs
Government Of India



ECONOMIC
DIPLOMACY
DIVISION

MONTHLY ECONOMIC REPORT

SEPTEMBER 2021



CONTENTS

Executive Summary_____	4
• COVID-19_____	5
• Global Overview_____	7
• Agricultural Sector_____	8
• Index of Industrial Production (IIP) and PMI-Manufacturing_____	9
• Power and E-way bills_____	10
• GST collection_____	11
• Freight and Traffic Activity_____	11
• UPI transactions_____	12
• Crude oil and Petroleum Prices_____	13
• Exponential growth in employment_____	13
• Movements in CPI and WPI inflation_____	13
• Liquidity Infusion by the RBI_____	14
• Growth of bank credit_____	15
• Increase in Merchandise Exports_____	15
• Increased FDI inflows_____	16
• Fiscal Developments_____	16
Outlook_____	17



EXECUTIVE SUMMARY

Supported by the decline of the second wave of the COVID-19 pandemic, along with the rapidly-paced vaccinations, and improved mobility, which has reached about 90 percent of the pre-pandemic levels, India's economic recovery has improved further in September 2021. Several reliable research studies backed the effectiveness of vaccinations which helped in significantly lowering the case fatality rate consequently allowing India to gain steady control over the fight against the pandemic. With all Indian states having successfully vaccinated more than 50 percent of their respective population with at least one dose of vaccine, the country's vaccination drive has also acquired considerable equity. Ahead of the festive season, India surpassed June 2021's ambitious projection of 670 million vaccine doses on September 2.

Backed by the increase in Kharif production, record-high procurement of wheat and paddy in the Rabi marketing season and the ongoing Kharif marketing season, rural demand in the agriculture sector has been solidifying. Activity in the industry has been resuming, with the Index of Industrial Production (IIP) showcasing a broad-based YoY growth of 11.5 percent in July 2021, led by growth in capital goods and consumer durables, amidst the relaxation of regional mobility curbs and the rise of growth impulses. While PMI services clocked at 55.2, PMI Manufacturing stood at 53.7. Various PLI schemes are being implemented at a rapid pace, boosting production levels and supporting the Make in India vision. According to the Labour Bureau's Quarterly Employment Survey (QES), April to June, 2021 have witnessed an increase in employment by 29 percent at US\$ 0.41 million in nine selected sectors.

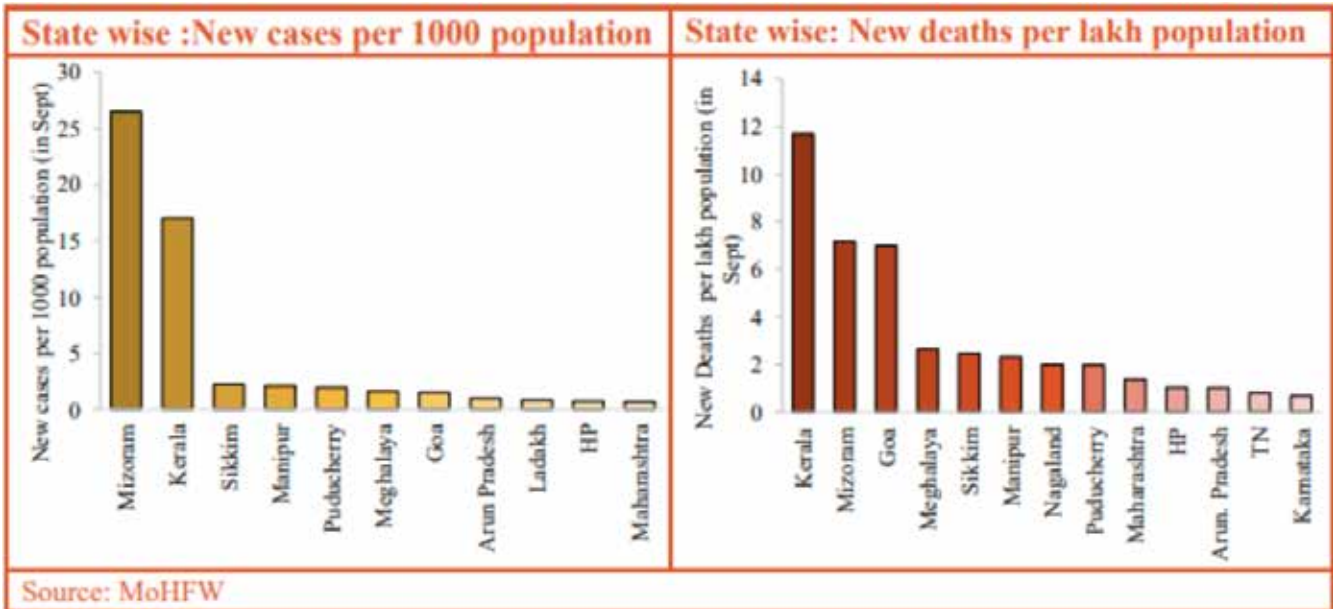
Digital transactions continue to exhibit a quantum leap, while power consumption, rail freight activity, e-way bills, robust GST collections and highway toll collections have registered a 21-month high, indicating a broad-based recovery. Consumer price index (CPI) inflation has reduced to a four-month low of 5.3 percent in August 2021, suggesting

that the inflationary tendencies were largely pandemic induced. September 2021 saw stable G-Sec yields due to adequate levels of systemic liquidity and decreased inflationary pressures. It further eased the 10-year AAA-rated corporate bond yields to 6.8 percent in September from 6.9 percent in August.

As an indicator of both global and domestic economic recovery, the Indian domestic equity market saw a highest inflow of US\$ 3 billion in September, suggesting that FPI flows into the country have been pretty robust. India stands second with regard to FPI flows in the current fiscal with a whopping US\$ 7.2 billion after Brazil's US\$ 9 billion. The Indian rupee's value strengthened further to 73.54 INR/USD, aided by the bullish equity markets. Supported by the total FDI inflow of US\$ 27.37 billion during the first four months of FY 2021-22, which is 62 percent higher than the corresponding period of the previous year, India continues to retain the global investor confidence. The month also saw India's foreign exchange stand comfortably at \$638.65 billion.

The bank credit growth rate stood at 6.7 percent YoY on the fortnight ending September 10, 2021. August saw agriculture and allied activities, and micro, small and medium industries perform well. India's merchandise exports exceeded the US\$ 30 billion mark for the sixth consecutive month in fiscal year 2021-22 and rose during the month of September, suggesting the picking up of consumption and investment.

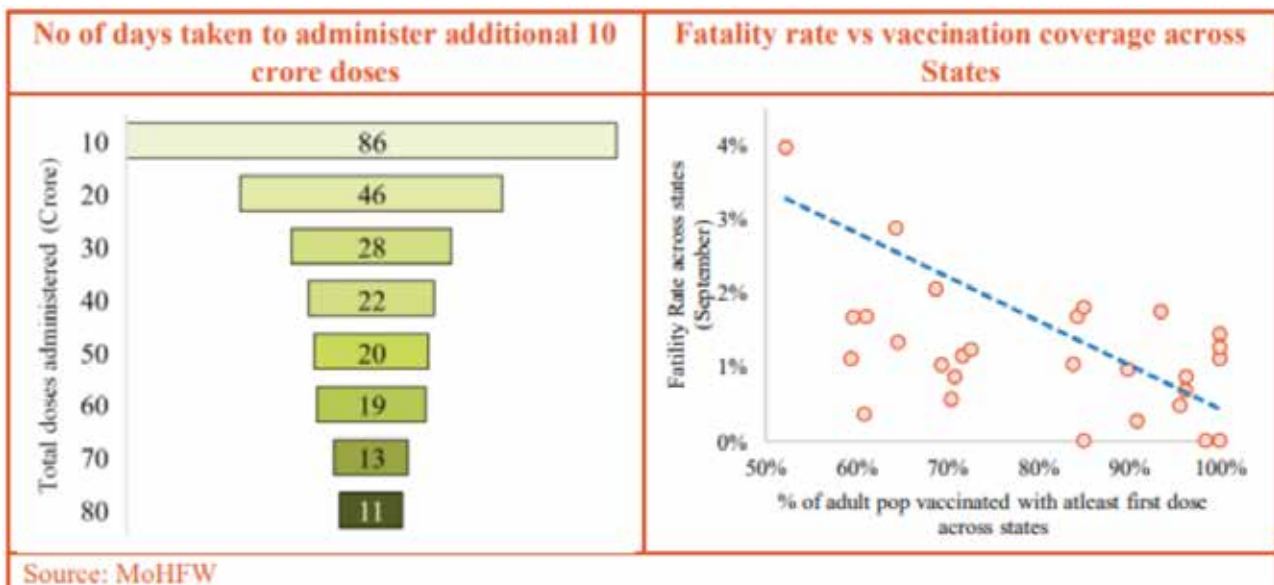
With the growth impulses visibly spreading to all sectors of the economy, India is on a trajectory of swift recovery. Based on a sustained growth in agriculture, rebound in manufacturing and industry, resumption of services activity, it can be observed that the economy is making good progress. The rapidly progressing vaccination drive, along with the strategic reforms undertaken by the government of India have facilitated the economy to steer clear of the challenges posed by the COVID-19 pandemic.

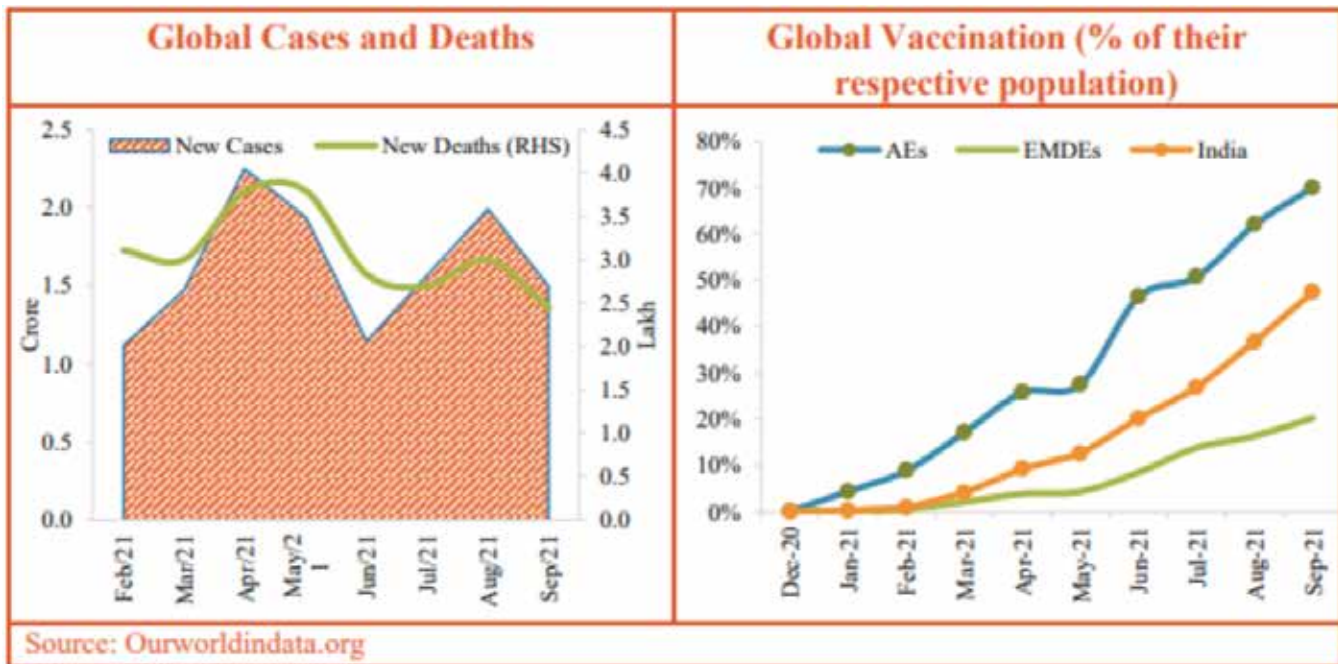
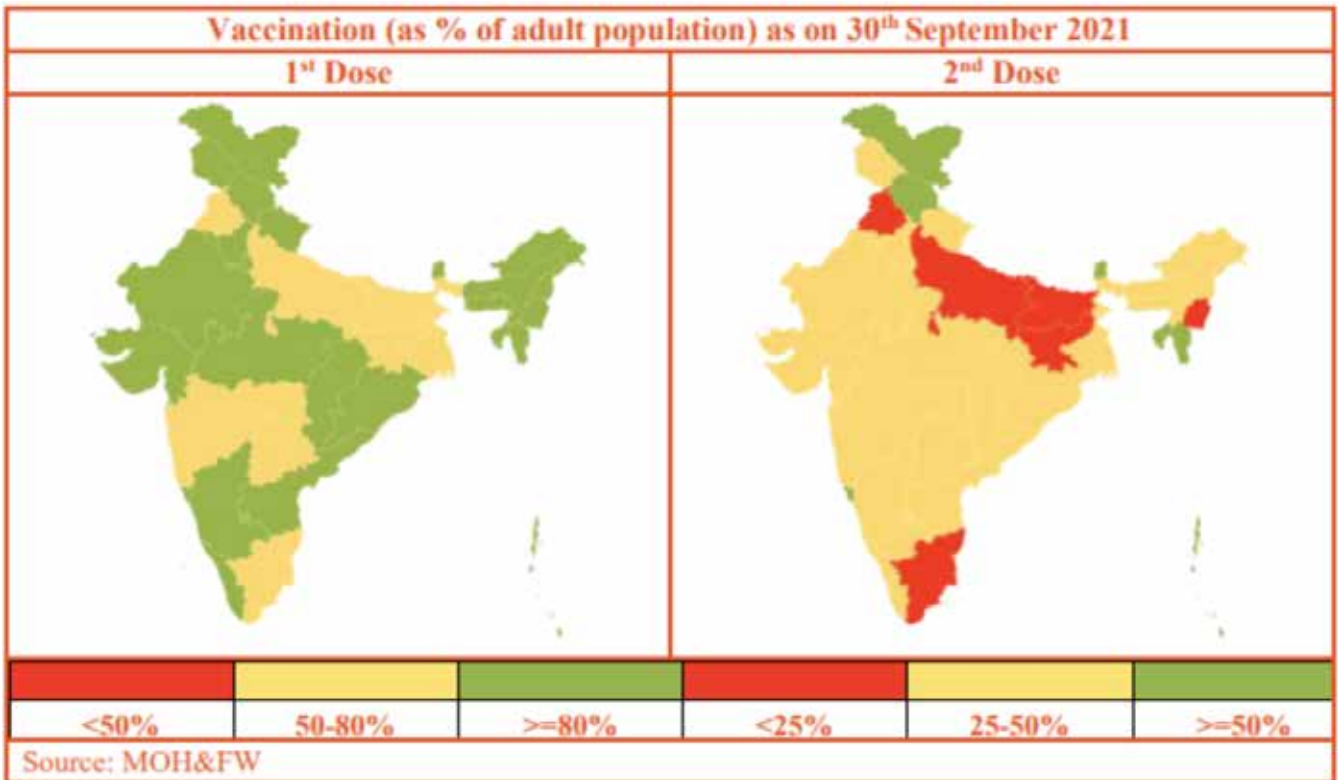


COVID-19

From 86 days in April, the duration to administer 100 million doses has gained momentum and narrowed down to 11 days in September 2021, with more than 670 million people (three fourth adult population) having received at least one dose of vaccine while around 250 million have received both doses . From 1.93 million in May, the average daily vaccination rate saw a fourfold increase to 7.87 million in September, with rural areas having a higher pace of expansion than urban areas since May 2021. An ICMR study backs the effectiveness of vaccinations in lowering the intensity by 100 percent and 57 percent in fully and partially vaccinated people, respectively.

In September, all states and union territories (UTs) successfully administered more than 50 percent of their adult population with the first dose and 10 states have covered 100 percent of their adult population with the first dose. Around 12 states have vaccinated over 80 percent of their population, while 24 states have covered over 60 percent. The administration of the second dose is anticipated to rise in the coming months. The GOI's prompt measures along with a sustained pace of vaccination, practicing COVIDh-19 appropriate behavior have led to a successful curbing of the rise in positive cases observed in a few states in August, while continuing the same practices is said to be vital ahead of the festive season.





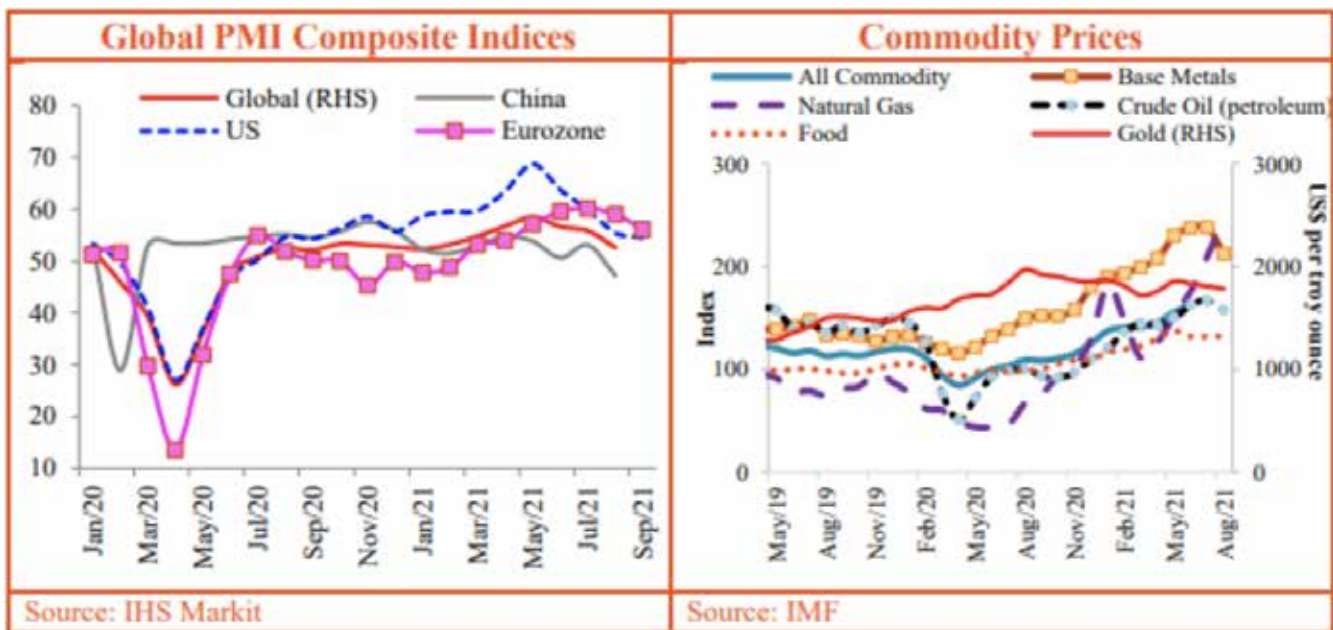
Global overview

Across the world, active COVID-19 cases reduced to 15 million after peaking at 20 million in August. On September 30, 2021, the cumulative number of cases and deaths registered globally were 230 million and 4.8 million. Vaccination progress, however, remains uneven with advanced economies having administered around 70 doses per 100 people and only 20 in EMDE till September 2021. Around 45 percent and 34 percent of the world's population has been partially and fully vaccinated, respectively.

Global PMI rose to 53.0 in September from August's seven-month low of 52.5, indicating growth for the fifteenth successive month. At 54.5, composite PMI reduced to a 12-month low during the same month, owing to supply chain constraints and capacity shortages. Input cost inflation hit a four-month high, with the concern over the Delta variant, which affected business activity. However, the private sector remained positive about the demand and clearing of supply snags.

In August, the IMF Commodity price index exhibited a 50.5 percent growth. Brent crude oil prices, which had fallen in August, picked up pace in September. Ahead of the winter in the northern hemisphere, the oil market is anticipated to tighten further with the rise in natural gas prices. While metal prices reduced sequentially, food prices increased with the rise in the costs of beverages and oils.

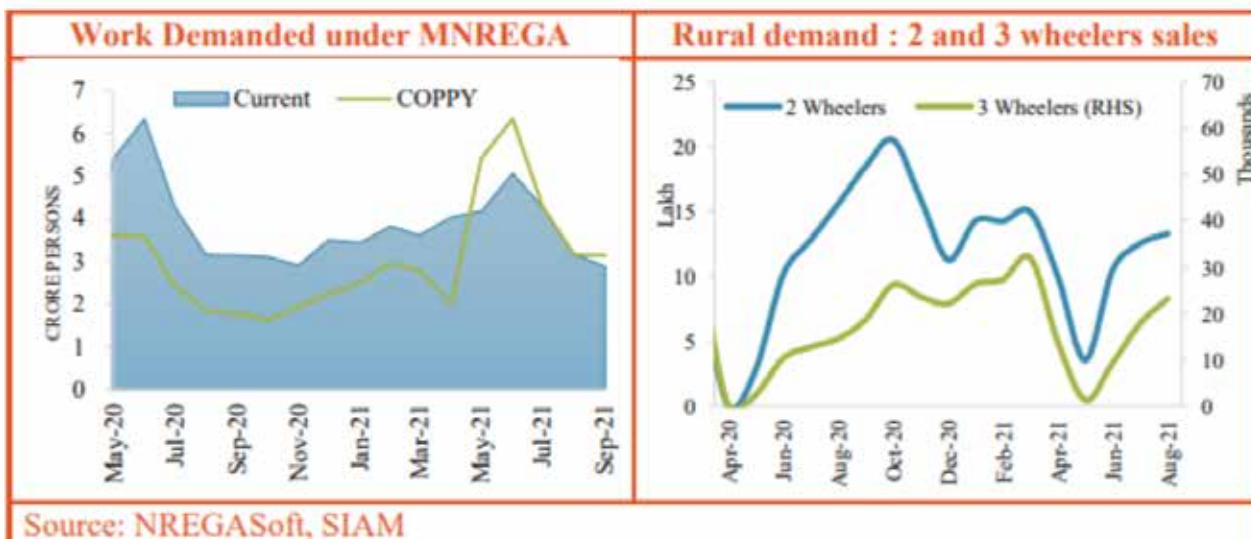
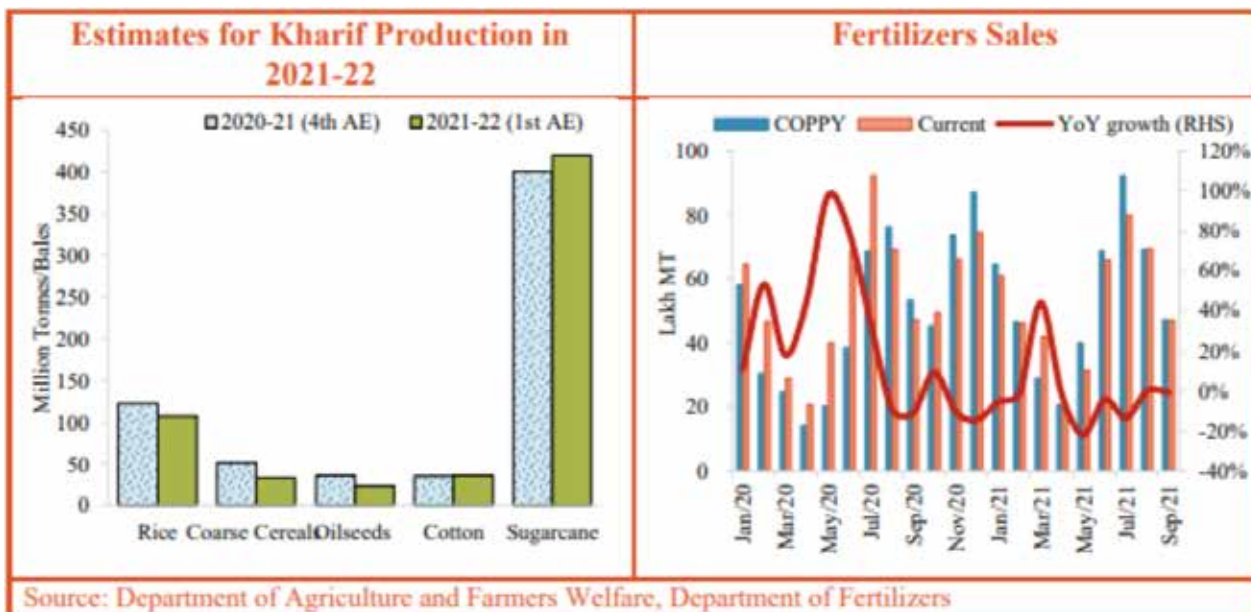
International trade in goods and services had recovered after an overall decline to 5.6 percent in 2020, according to the UNCTAD Report 2021. The modelling projections of the report point to an increase in the global trade in goods and services at the rate of 9.5 percent in 2021, with uneven recovery and long-term scarring to affect the future trade performance. OECD's Economic Outlook Report, September 2021 predicts the GDP to grow by 5.7 percent in 2021 and 4.5 percent in 2022, given the uncertainty regarding the vaccine roll-out and inflation. Anticipating stronger inflation and uneven growth, OECD has reduced its global growth forecast to 0.1 percent.



Agricultural Sector

Sowing of Kharif crops was 0.2 percent higher than the previous year and 4.6 percent higher than the last five-year average. First Advance Estimates estimated that Kharif crop production for 2021-22 is estimated at a record 150.5 million tonnes, higher by 12.71 million tonnes than the previous five-year average. The MSPs for different crops for both the Kharif and Rabi season increased between 0.1 to 8.6 percent. At 89.1 million metric tonnes, paddy procurement surpassed a previous high of 77.34 during the Kharif Marketing Season of 2019-20 million metric tonnes, on September 27. As on August 18, 2021, the Rabi Marketing sales saw the procurement of 43.34 MMT of wheat, reaching an all-time high.

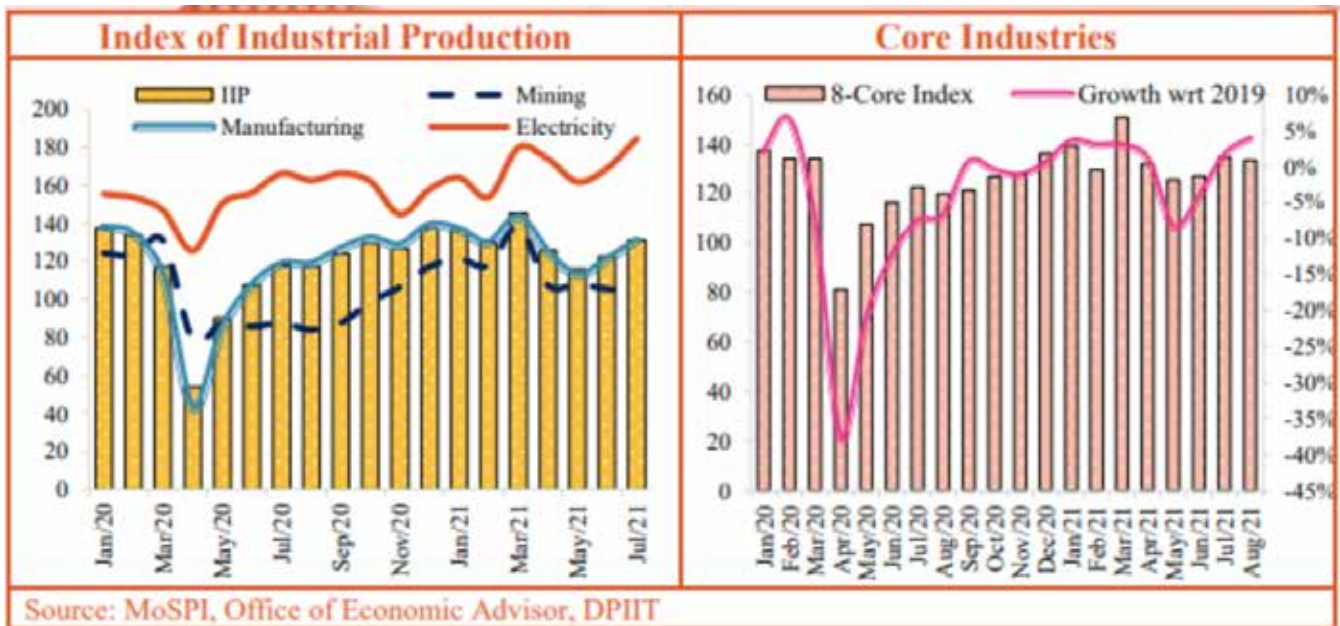
During the Long Period Average (LPA) in the monsoon season this year, India received 99 percent rainfall. Barring the East and Northeast regions of India, all the other regions received rainfall higher than the LPA last year. The total live storage in 130 important reservoirs touched almost 80.4 percent of the full reservoir level as on September 30, higher than the decadal average by 4.1 percent. Close to the previous year levels, fertilizer sales were 4.7 MMT in September. From a peak of 50 million workers in June 2021, the demand for MNREGA work decreased to 29 million workers in September 2021. Rural demand indicators are gaining traction with a sequential increase in the sales of two and three wheelers.



Index of Industrial Production (IIP) and PMI-Manufacturing

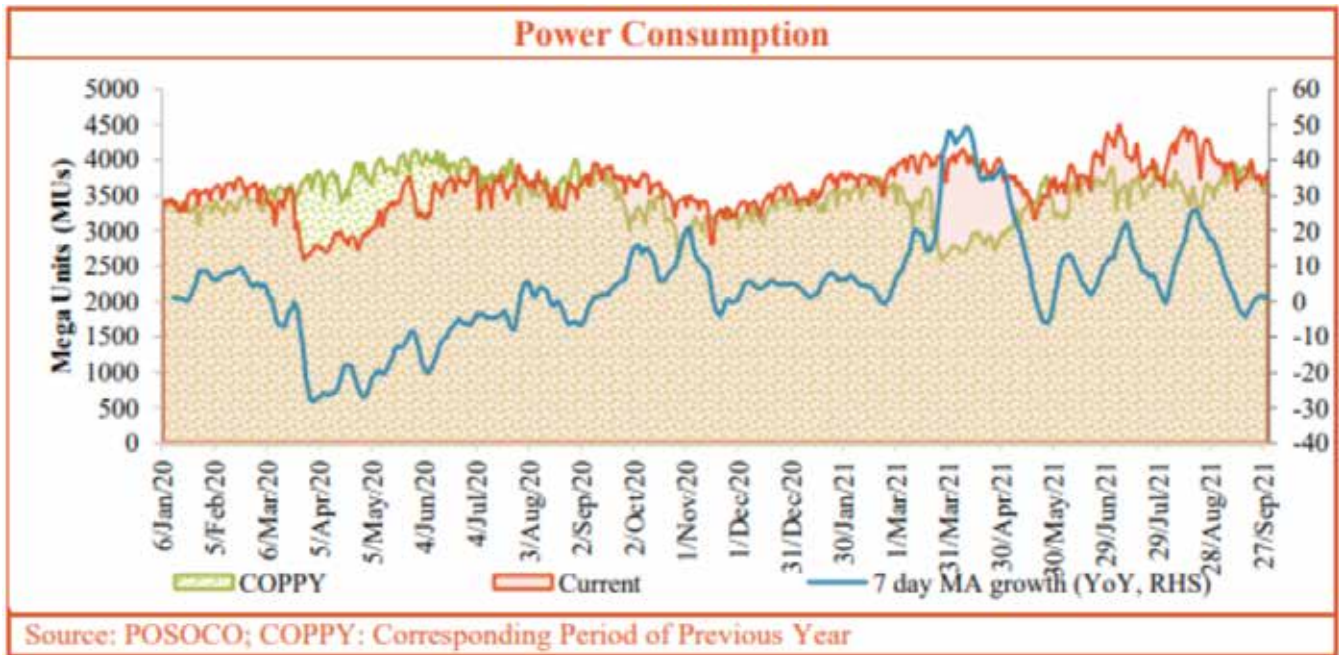
The industry is steadily reviving amidst the relaxation of mobility restrictions. The Index of Industrial Production (IIP) of July 2021 saw a broad-based YoY growth at 11.5 percent, with 29.5 percent in capital goods and 20.2 percent in consumer durables. July's industrial output rose sequentially by 7.2 percent over June 2021, while manufacturing grew by 8.2 percent, electricity by 9.2 percent, and mining

declined by 0.9 percent. The various PLI schemes announced by the GOI are aiding the industry's recovery and supporting both domestic and international investments. In September 2021, PMI manufacturing rose to 53.7 after moderating to 52.3 in August, backed by better consumer demand and business confidence, as firms amped up the inventories and scaled up production.



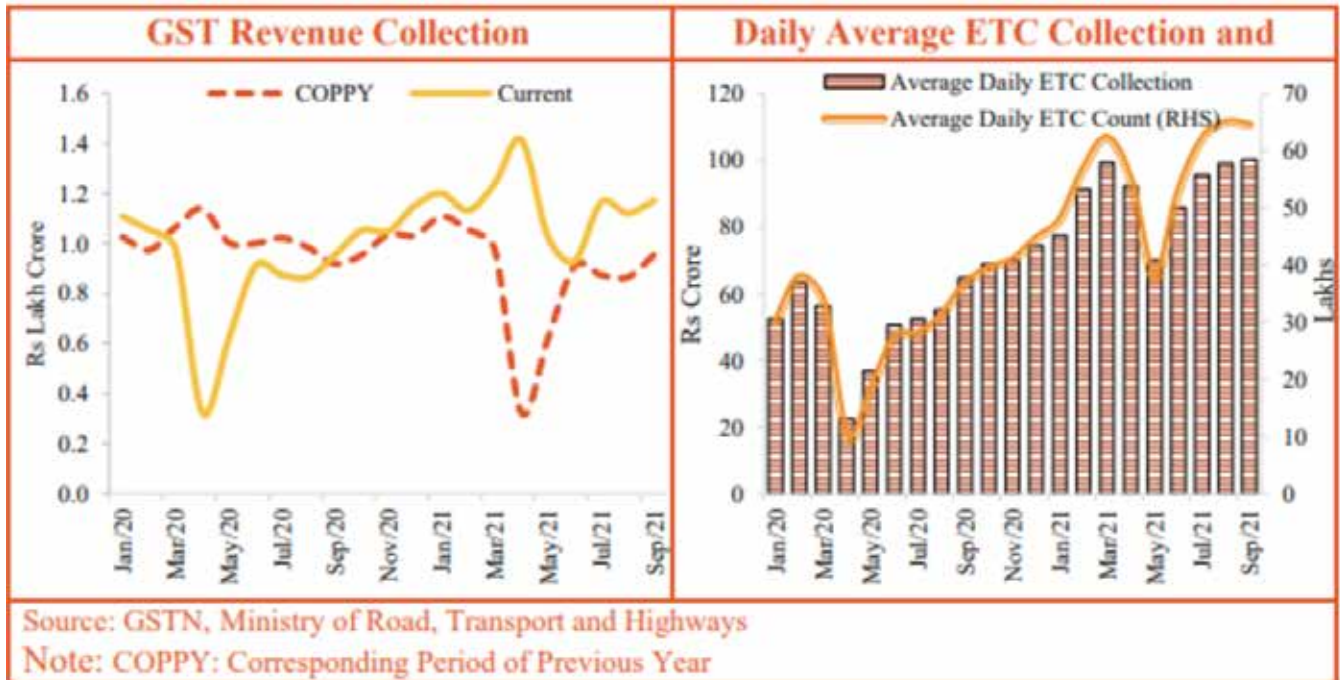
Power and E-way bills

Owing to the heavy monsoon rains, power consumption remained low in September 2021, moderating to 0.8 percent YoY, compared to the YoY growth of 17.1 percent in August 2021. At 18.2% growth since September 2020, the total e-way bills generated amounted to US\$ 0.9 million in September 2021. Sequentially, it grew by 3.0 percent over August 2021, indicating steady growth in activity levels with the decline of the second wave. The e-ways bills generated amounted to US\$257. 6 billion in terms of value, 1.9 percent higher than August 2021.



GST Collection

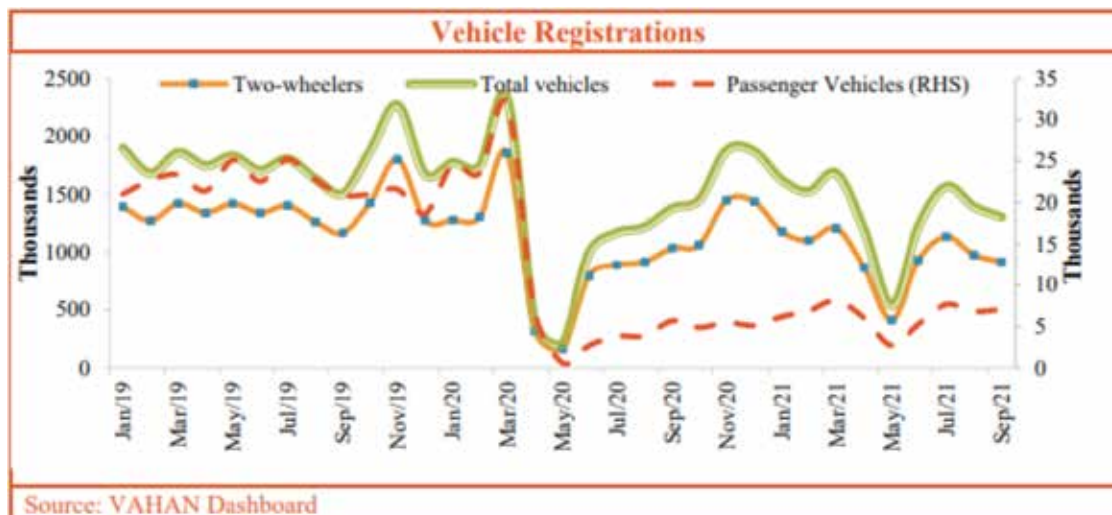
September 2021's GST collections amounted to a robust US\$ 15.54 billion, reflective of August 2021's transactions and in line with the e-way bill figures. It also indicates recovery from the reduced collections during the second wave. Combined with economic growth and anti-evasion activities contributed to the increased GST collections as well. This positive trend is expected to continue in the later half of the year as well.

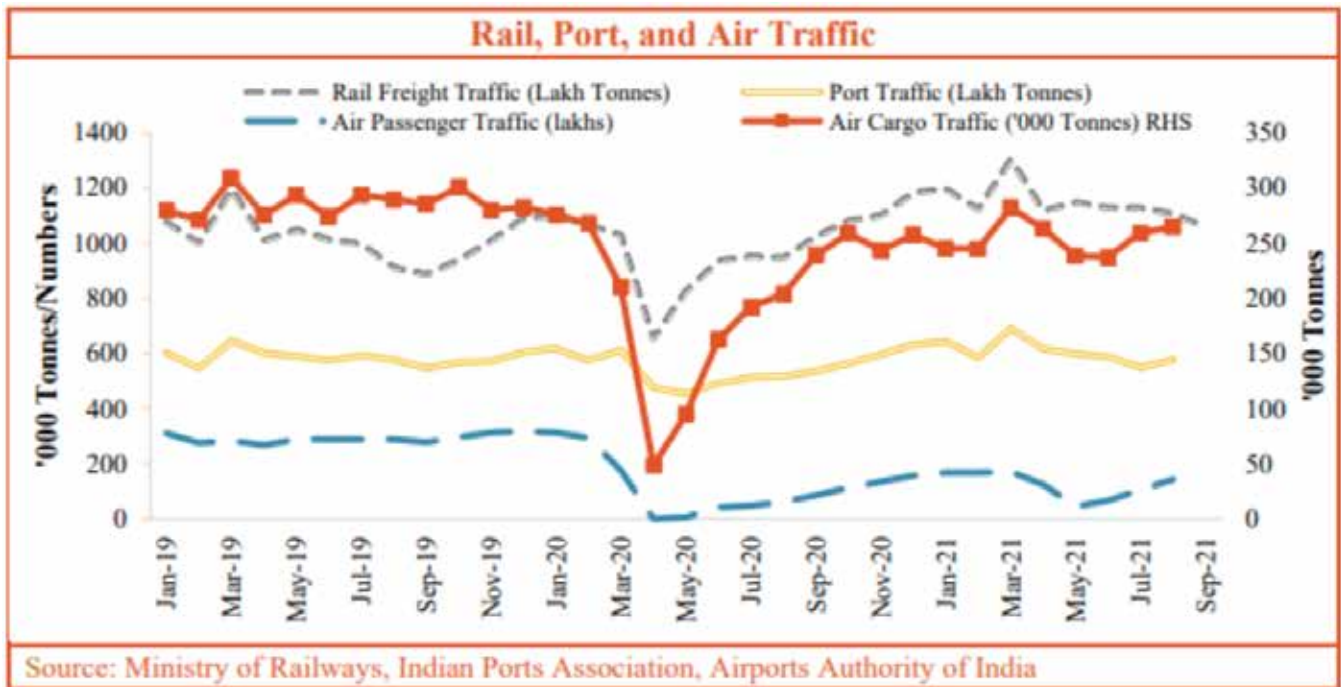


Freight and Traffic Activity

The average daily value of the highway electronic toll collection (ETC) in September 2021 stood at 75.8 percent in count and 55.1 percent in value, at its highest level in 21 months, suggesting rapid revival of commercial activity. At (-)5.4 percent YoY growth over September 2020, vehicle registrations continued to slide, mainly driven by two-wheelers, which fell by 12 percent, while passenger vehicles and three wheeler

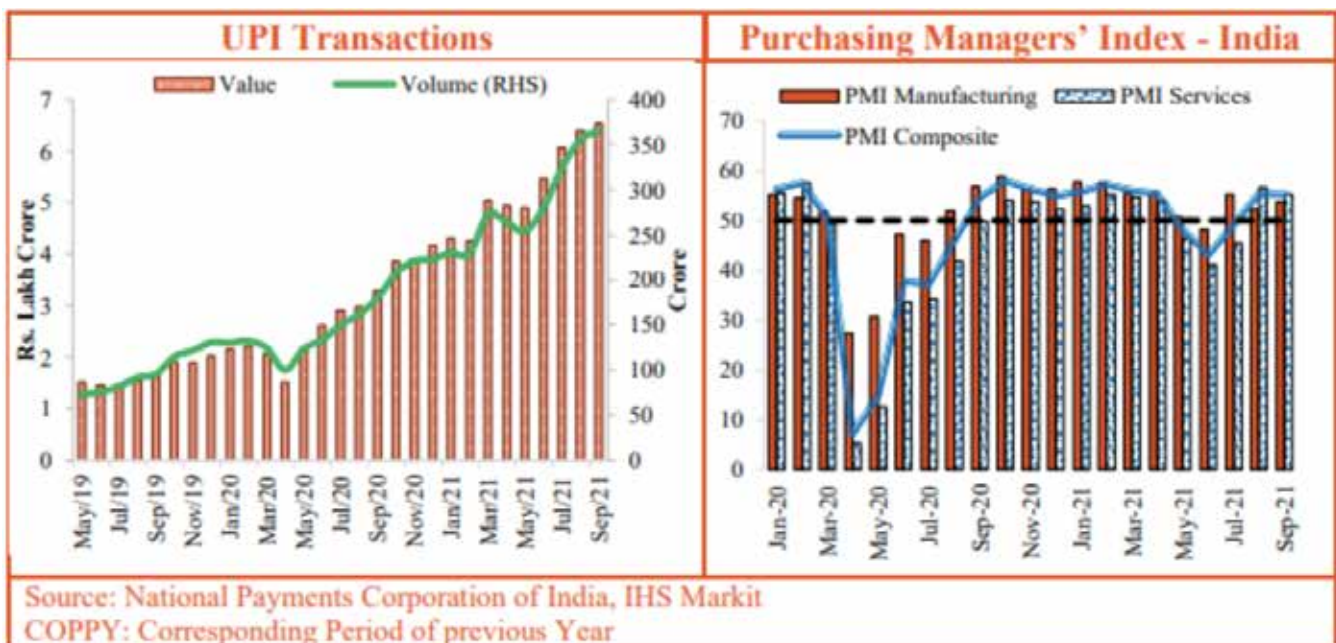
registrations grew by 24 percent and 51 percent, respectively. Gaining momentum and recording a 3.6 percent increase over the previous year, rail freight loading amounted to 106 million tonnes in September 2021. In August, air freight and traffic activity saw a sequential increase of 30 percent, higher than the previous year. The same month also saw a recovery in port traffic at 57.6 million tonnes, 11.6 percent higher than August 2020.





UPI transactions and PMI services

PMI services saw a mild decline, at 55.2 in September 2021 from 56.7 in August. The composite PMI Output Index stood at a robust 55.3 in September, indicating a marked expansion rate despite declining slightly from 55.4 in August 2021. While there continues to be a rise in input costs, inflation declined to an eight-month low in September 2021.



At a record high in September 2021, UPI transactions stood at US\$ 86.9 billion, having further increased from US\$ 84.9 billion in August 2021. The transaction volume rose to US\$ 48.5 million in September 2021 from US\$ 47.1 million in August 2021. This can be attributed to the sustained increase in digital transactions and popularity of digital modes of payment.

Crude oil and Petroleum Prices

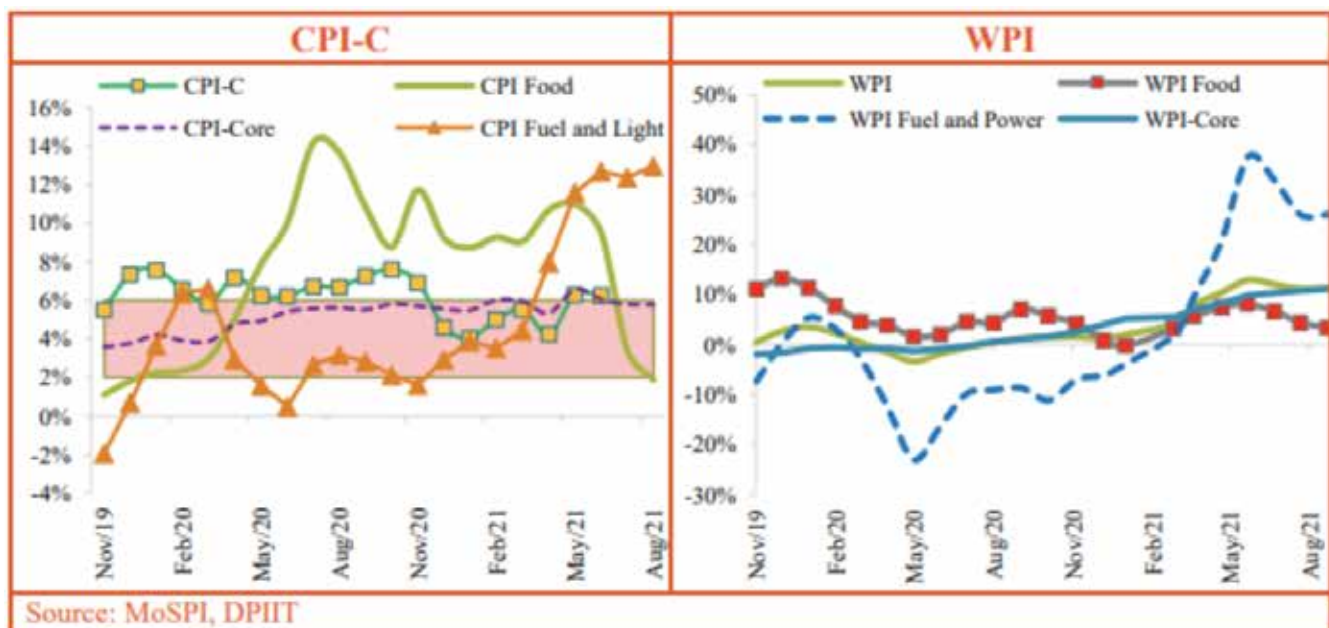
At 4.9 percent lower than July 2021, domestic consumption of petroleum products moderated to 16 million tonnes in August 2021. The price of crude oil increased to 72.7USD/bbl in September 2021 from 70.2 USD/bbl in August 2021, showing considerable growth since 41.4 USD/bbl in September 2020, amidst the building up of global demand and supply constraints.

Exponential growth in employment

The All India Quarterly Establishment-based Employment Survey (AQEES) by the Labour Bureau records that employment across nine key sectors grew by 29% in April-June 2021 as against the same period in 2013-14. The sectors that contributed the most towards the growth in employment include: Information Technology (152%), Healthcare at 77%, Transportation at 68%, Construction at 42%, Education at 39% and Manufacturing at 22%.

Movements in CPI and WPI inflation

The Consumer Price Index (CPI) fell to 5.3% in August 2021 as against 5.6% in July 2021, anchored by a favourable base effect and a decline in food inflation to 3.1%. The decline in inflation of food products including spices, pulses, vegetables, eggs, confectionaries and fruits has been attributed to the fall in food inflation. However, inflation remained high for oils & fats products. Core CPI inflation was recorded at a constant of 5.8% during August.

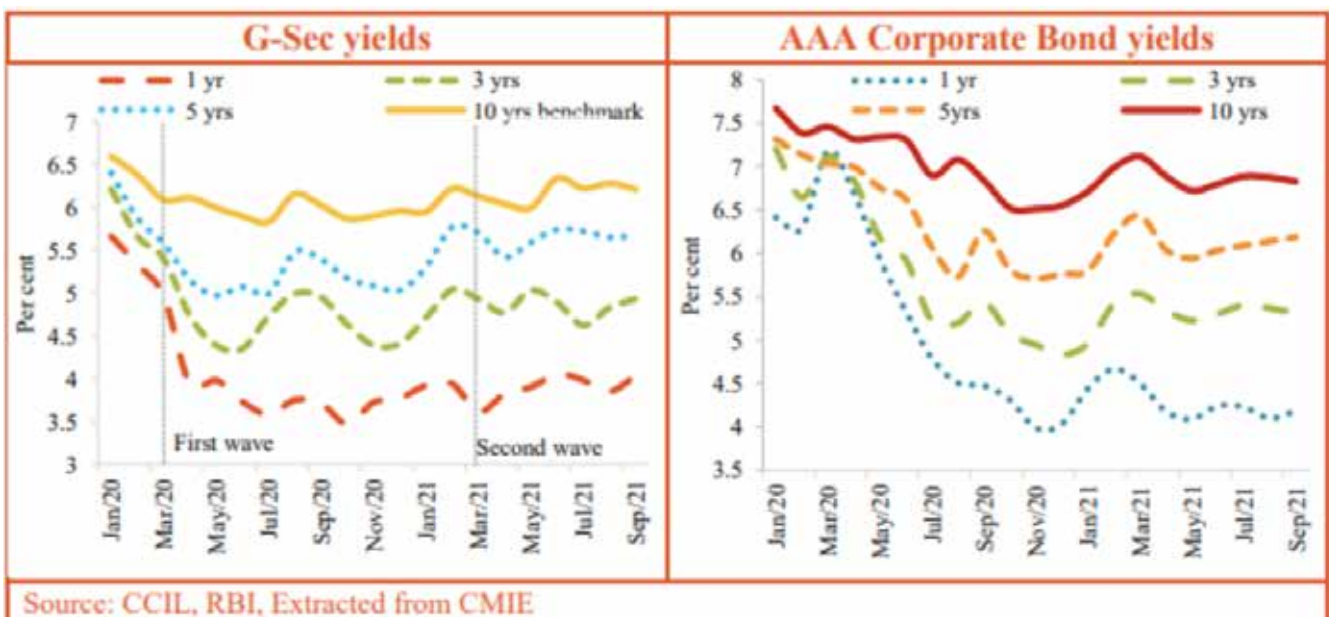
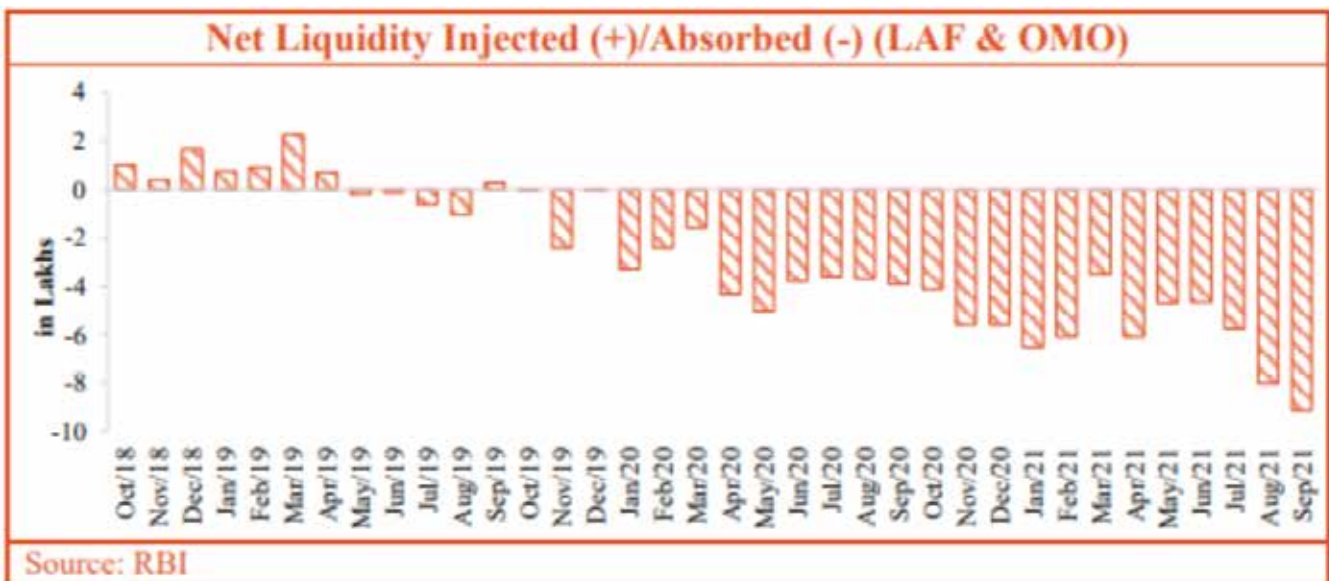


An increase in the prices of primary articles as well as rigid pricing in the manufacturing and fuel industries has facilitated an uptick in the Wholesale Price Inflation (WPI). As of August 2021, the Index rose to 11.4% from 11.2% in July 2021. Core WPI inflation rose to 11.1% in August from 10.8% in July, buoyed by inflation in the chemicals, metals, electrical equipment and automobile sectors. The pace of economic growth is expected to keep inflation at a decline. However, potential increase in the prices of metal commodities and edible oils as well as volatility in international crude oil prices could serve as deterrents.

Liquidity Infusion by the RBI

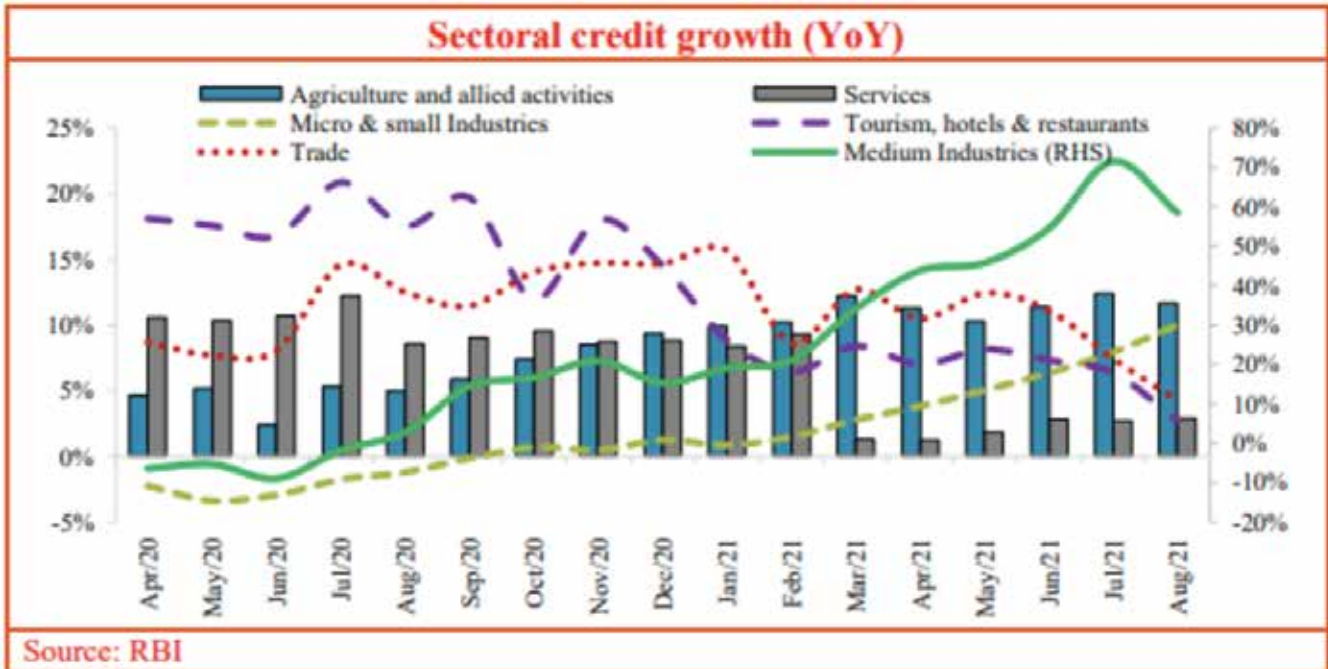
The average daily net absorption under the Liquidity Adjustment Facility (LAF) of the Reserve Bank of India has been documented at US\$ 124 billion (Rs. 9.4 lakh crore) in September as against US\$ 112 billion (Rs. 8.5 lakh crore) in August. The RBI injected liquidity amounting to US\$ 31 billion (₹2.4 lakh crore) through open market purchases and the G-sec acquisition programme (G-SAP) which contributed a significant US\$ 25 billion

(₹1.9 lakh crore). The reverse repo rate under the Liquidity Adjustment Facility has been adjusted to 3.35% and the policy repo rate has remained at 4% to boost the investment of surplus funds accumulated by banks into key sectors. Money supply is seen to have increased by 9.37% as of September 10 in comparison to 13.36 as of the same period in the previous year.



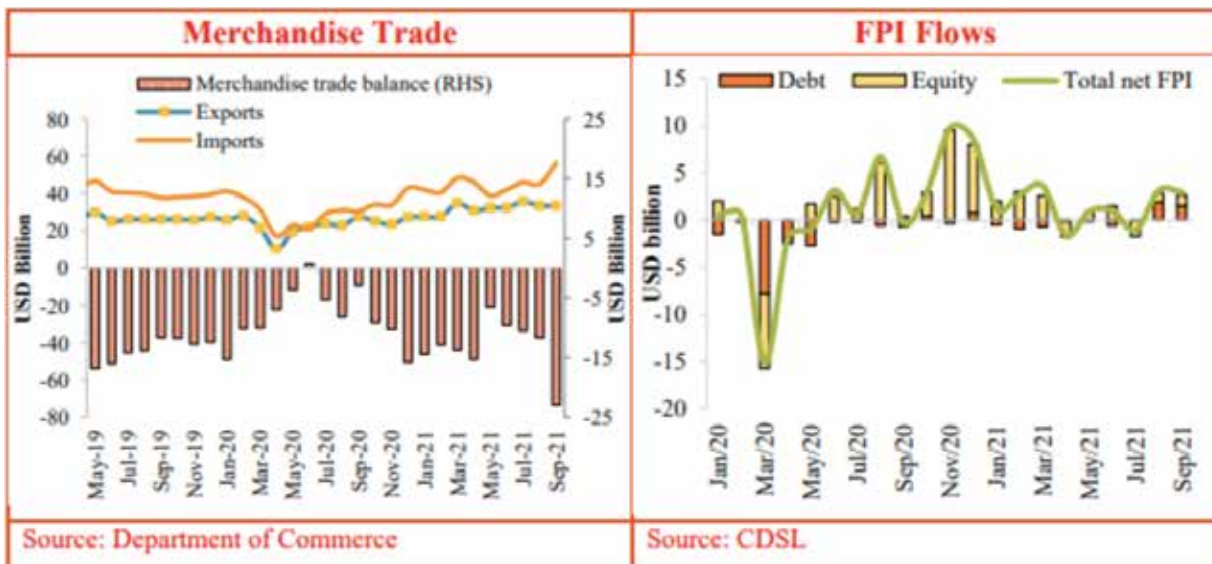
Growth of bank credit

As of the fortnight of September 10, bank credit grew by 6.7% as against 5.3% in September 2020. The sectoral breakup of credit flow is characterised by infrastructure spending at a 5.9% year-on-year growth and agriculture spending at 11.3% year-on-year growth. Credit flow to the micro and small industries sector grew to 10.1% in August from negative growth during the same period in 2020. Other sectors wherein credit growth improved include gems and jewellery and food processing.



Increase in Merchandise Exports

Merchandise exports crossed were documented at US\$ 33.4 billion, maintaining a six-month streak of exceeding the US\$ 30 billion mark. Exports increased by 21.4% to US\$ 27.4 billion in September 2021 as against the same period in 2020. Merchandise imports during the period rose to US\$ 56.4 billion in September 2021, marking an 84.8% increase in comparison to September 2020. The merchandise trade deficit grew to US\$ 22.9 billion in comparison to 3.0 billion in September 2020.

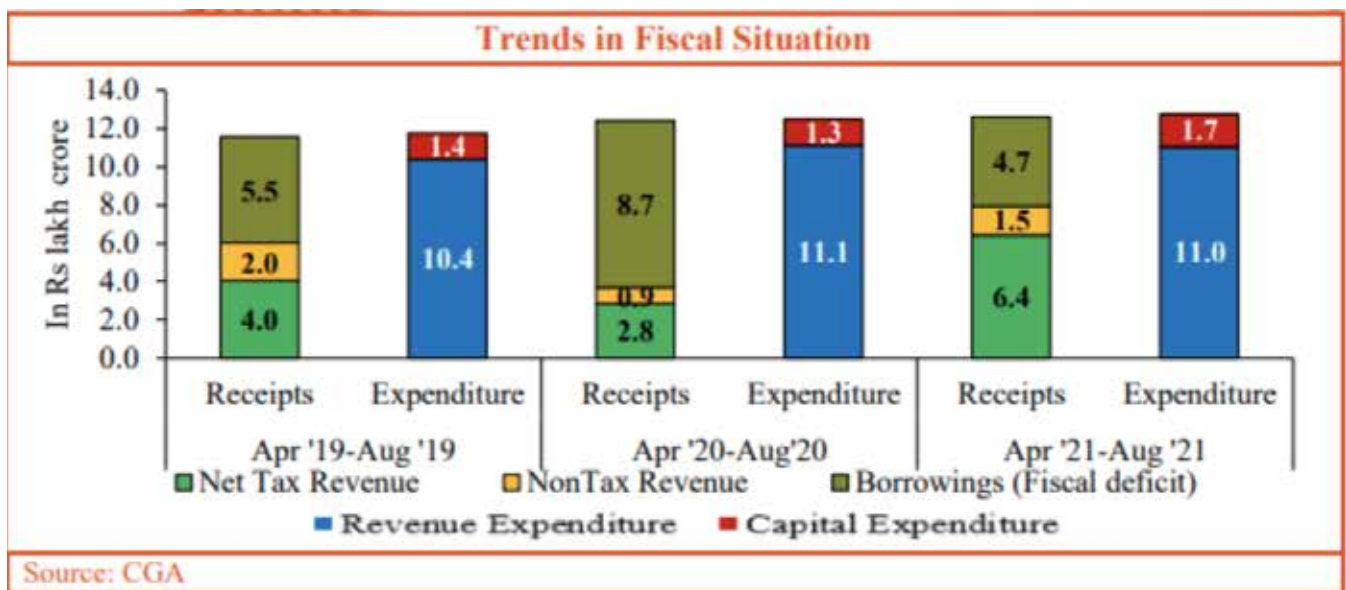


Increased FDI inflows

The January-April 2021 period saw a 62% increase in total FDI inflow, registering at US\$ 27.37 billion; equity inflows also exhibited an upward growth trajectory at US\$ 20.42 billion during the same period. The automobile industry contributed to 23% of the total FDI equity inflow, followed by the computer software & hardware industry with an 18% share and the services sector with a 10% share. At State level, Karnataka contributed to a 45% share of FDI inflow followed by Maharashtra at 23% and New Delhi at 12%.

Fiscal Developments

India's fiscal deficit was documented at US\$ 62 billion (₹4.68 lakh crore) in the April-August 2021 period, marking a decrease from the documented figure at the April-August period of 2020. Direct tax inflow has increased by 100% and indirect tax inflow increased by 50% during the January-May 2021 period. Non tax revenue grew by 72.5% during the same period. Total expenditure increased by 2.3% during the January-May 2021, revenue expenditure saw a year-on-year decline during the period.



Outlook

The current pace of growth coupled with improvements across fiscal parameters attest to the resilience of the Indian economy. The strong performance of multiple sectors including manufacturing, agriculture and industries as well as increased revenue collection and resumption of services are expected to sustain the nation's overall growth trajectory.



For more information:

Ministry of Finance, Department of Economic Affairs
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