

**Economic
Division**

Monthly Economic Review

August 2021



सत्यमेव जयते

**आर्थिक कार्य विभाग
DEPARTMENT OF
ECONOMIC AFFAIRS**

Synopsis

Provisional GDP estimates, now available for April-June quarter (Q1) of FY 2021-22, reaffirm India's resilient V-shaped recovery despite a more brutal second wave. Having posted an almost 180 degree turn around from a sharp contraction in Q1 of FY 2020-21, to recover more than 90 per cent of the pre-pandemic Q1 output of 2019-20, the V-shaped economic recovery remains intact! The momentum of India's economic recovery witnessed since second half of FY 2020-21 did get disrupted by the second wave. However, the rapid surge in vaccination coverage from 6.4 per cent of the adult population with at least first dose in Q4 of 2020-21 to 31.9 per cent in Q1 of 2021-22 contained the sequential decline in output. Vaccination coverage now stands at more than 60 per cent of the adult population as on 8th September 2021.

Agriculture sector continues to grow strong. The sharp rebound in manufacturing and construction sectors places them firmly as growth drivers demonstrating the structural strengthening of the Indian economy. While revival in contact-intensive services sector remains gradual, it is poised to gain pace on the back of rapid inoculation and Government's targeted relief measures for the stressed sectors. The sharp rise in India's PMI Services in August to reach 18-month high of 56.7 shows the revival gaining momentum. Government's policy thrust on quickening virtuous cycle of growth via capex and infrastructure spending has increased capital formation in the economy lifting the investment to GDP ratio to about 32 per cent in Q4: FY 2020-21.

The broad-based and swift recovery of both demand and supply side components bears testimony to India's strong macroeconomic fundamentals, far stronger amid a once-in-a-century crisis than in 2008-09, when Global Financial Crisis (GFC) had triggered the great global recession. Inflation in 2008-09 was 9.1 per cent whereas in 2020-21, it was 6.2 per cent as government took timely and effective supply-side measures to address supply disruptions caused by lockdowns. Centre's fiscal deficit in 2008-09 was two and a half times that of Emerging Market and Developing Economies in Asia whereas in 2020-21, careful targeting and calibration has ensured that India's fiscal deficit is comparable to its peers. Current Account Deficit at 2.3 per cent of GDP in 2008-09 made external debt sustainability vulnerable whereas in 2020-21, India had a current account surplus of 0.9 per cent of GDP. With forex reserves more than twice the level in 2020-21 than in 2008-09, aided by a ten-fold increase in FDI from US\$ 8.3 billion to US\$ 80.1 billion and large net FPI inflows unlike the outflows earlier, a much greater conviction about India's high potential growth is evident among global investors.

Going forward, agriculture sector continues to offer comfortable prospects with Kharif sowing at 101 per cent of normal levels as on 3rd September, despite a 9 per cent deficient monsoon so far in the year. Record-high paddy procurement and increasing tractor sales augur well for strengthened rural demand in the coming months. Industry is steadily gaining lost ground with June's IIP witnessing a broad-based growth, having recovered close to 95 per cent of pre-pandemic levels of June 2019. More recently, eight-core industries index for July 2021 rose by 9.4 per cent YoY with all sectors except crude oil and refinery products surpassing pre-pandemic levels. The fast-paced recovery is further evident in growth of power consumption, rail freight, highway toll collections, e-way bills, digital transactions, air passenger traffic and robust GST collections. India's PMI Composite index including both manufacturing and services is comfortably placed at 55.4, signalling commencement of economic expansion.

Financial sector remained accommodative in August with systemic liquidity in surplus. Currency in circulation grew at the lowest pace of growth since November 2017, signalling a visible departure from the pandemic-induced increase in demand for precautionary savings. Exuberant domestic equity markets reflected confidence in India's fundamentals, with BSE Sensex and Nifty 50 scaling record highs near month-end further aided by buoyant growth in profitability of listed companies, global fund inflows and enhanced participation of retail investors. Guided by two G-SAP auctions in August, G-sec yields stabilized at 6.22 per cent at end-August amid easing of crude oil prices and lower inflation prints for July.

Bank credit growth reflected encouraging trends this August, ascending to 6.55 per cent (YoY) in the fortnight ending August 13, 2021 compared to 5.52 per cent in the corresponding period of previous year. Credit offtake by agriculture and allied activities, micro, small and medium industries continued to perform well in July, demonstrating positive effects of the implementation of AatmaNirbhar Bharat (AB) package.

Marking restoration of supply chains, CPI-Combined inflation retreated to target band in July 2021 at 5.59 per cent after two months of staying north of 6 per cent. WPI inflation moderated to 11.16 per cent in July 2021 with sequential decline in primary articles and fuel & power inflation. Softening of inflationary pressures to within the envisaged trajectory and encouraging trends in credit growth bode well for revival of consumer and business sentiments in the economy. Sustained uptick in UPI transactions corroborates an upbeat consumer sentiment with resumption of activity levels and rising popularity of digital modes of payment, also reflected in NEFT and RTGS transactions since June 2021.

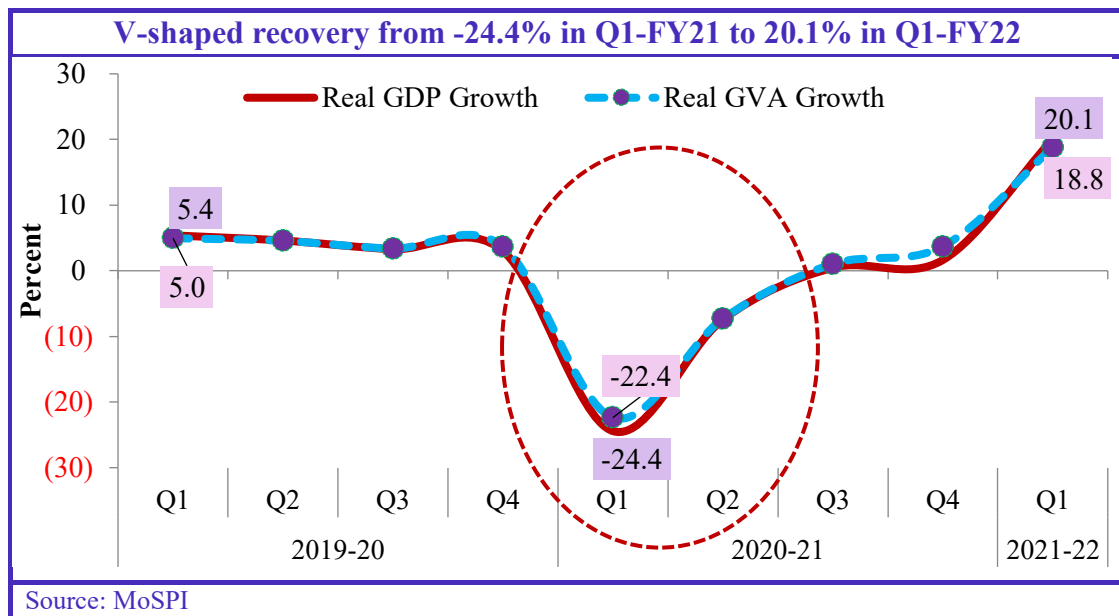
Sanguine economic prospects continue to be catalysed by effervescent external sector indicators. Boosted by resurgent global demand, India's merchandise exports is exhibiting accelerating YoY growth vis-à-vis 2020 and 2019 levels. Buoyed by improvement in economic indicators post ebbing of the second wave, global investors remain upbeat about India's growth story contributing further to FDI and FPI inflows. India's foreign exchange reserves surged to a record high of USD 633.56 billion as on August 27, 2021.

Central Government finances improved during April 2021 to July 2021 over the corresponding period of previous year, with both direct and indirect taxes showing a significant YoY growth. Robust recovery in tax collections augurs well for Government to provide the required budgeted support to the economy. Capital expenditure registered a 14.8 per cent YoY growth during April-July 2021, mainly focussed on road transport, highways, railways and housing. Recent decision to repeal the retrospective tax law introduced in 2012 further reflects the commitment of Government towards providing a stable and predictable tax regime for all stakeholders.

With steady rise in average daily vaccination doses from 42.0 lakh in July to 56.6 lakh in August, more than 60 per cent of adult population have received at least one dose, while more than 19 per cent have received both doses. However, the looming fear around Delta variant of COVID-19 has once again cast a shadow necessitating sustained precautions against COVID-19 with greater focus on testing, tracking and adopting COVID-19 appropriate behaviour. Kerala remains a concern accounting for around 60 per cent of daily new cases in the country and reporting the highest daily deaths across all states. While experts have cautioned against a potential third wave in the oncoming festive months, pandemic control and management needs to be strengthened with Maharashtra and Kerala presently accounting for 70 per cent of the active cases in the country.

Q1:FY 2021-22 data reasserts India's V-shaped recovery amid a more intense second wave

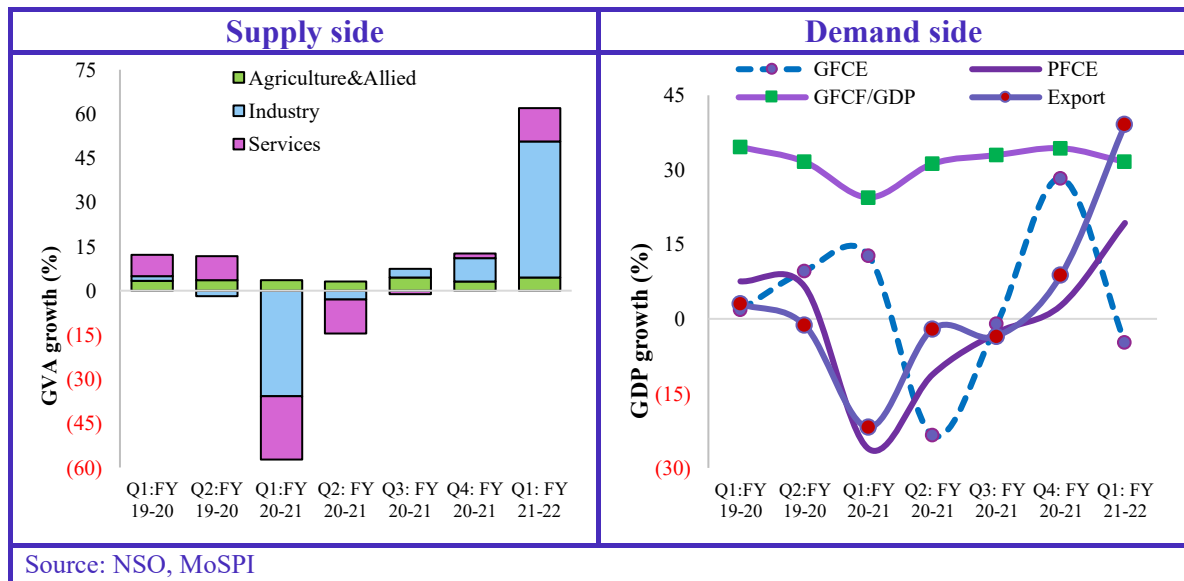
1. The second wave impacted Q1 output of FY 2021-22. Nonetheless, the output has been large enough to post a YoY growth of 20.1 per cent recovering more than 90 per cent of the pre-pandemic Q1 output of 2019-20. India's real GVA has also grown to a similar extent YoY at 18.8 per cent posting a recovery of more than 92 per cent of its corresponding pre-pandemic level. These estimates reaffirm India's resilient V-shaped recovery despite an intense second wave!



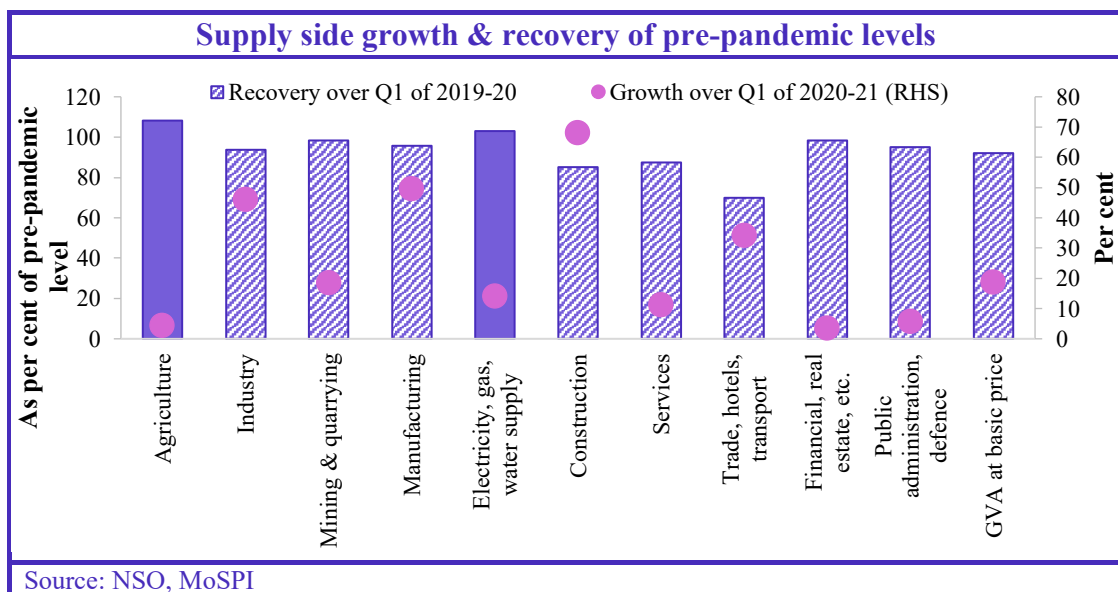
2. The devastating second wave of COVID-19 in the first quarter of FY 2021-22 moderated the economic recovery momentum that India has been witnessing since the second half of FY 2020-21. The asynchronous onset of the second wave across states and its greater intensity necessitated localised lockdowns and mobility restrictions resulting in sequential slackening of economic activity in the first quarter of FY 2021-22 as reflected in eight core industrial output, PMI manufacturing, steel consumption, auto sales, tractor sales, petroleum products consumption, port and air traffic, PMI services, highway toll collections, GST collections and UPI transactions. Consequently, as per the latest NSO estimates, real output of Q1:2021-22 declined by 16.9 per cent over the preceding quarter. This decline would have been more but for the rapid surge in vaccination coverage from 4.7 per cent of the total population in Q4 of 2020-21 to 24.5 per cent in Q1 of 2021-22.

3. On the supply side, growth in output in Q1 FY:2021-22 was broad-based across sectors albeit on a lower base. Agriculture sector's real GVA posted a robust 4.5 per cent YoY growth. The industrial sector's real GVA grew at 46.1 per cent aided by strong rebound in construction (real GVA growth at 68.3 per cent), manufacturing (real GVA growth at 49.6 per cent), mining and quarrying sector (real GVA growth at 18.6 per cent) and electricity, gas, water & utility services (real GVA growth at 14.3 per cent). The services sector real GVA recorded a YoY growth of 11.4 per cent as managed unlocking benefited contact-intensive hotels, trade and transport sectors (real GVA growth at 34.3 per cent), public

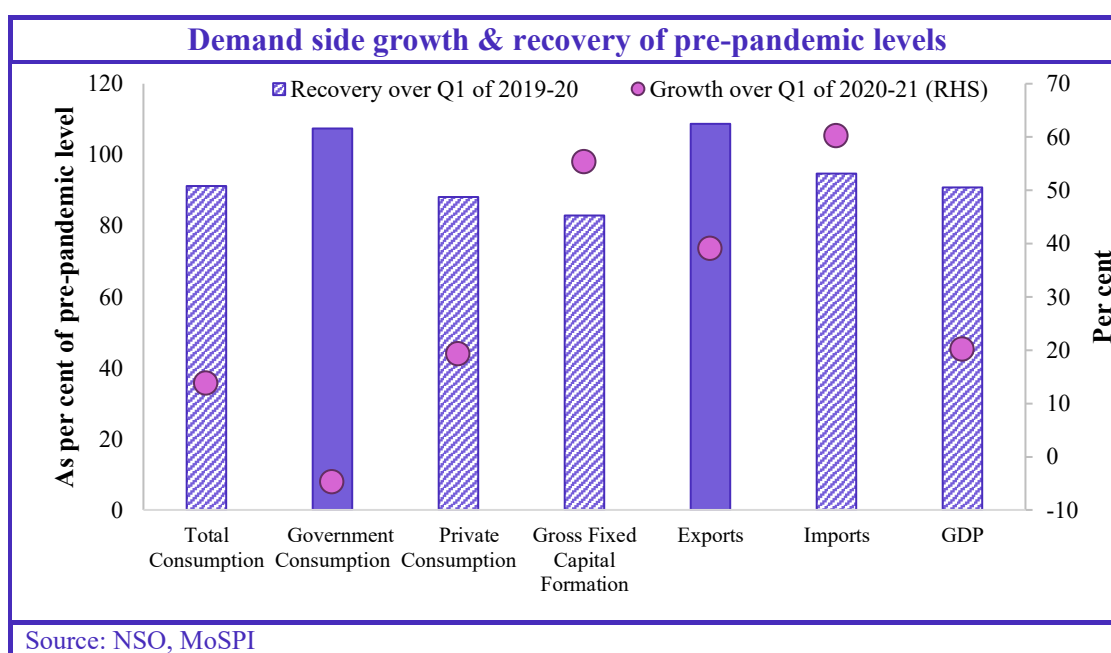
administration (real GVA growth at 5.8 per cent) and finance, real estate & professional service (real GVA growth at 3.7 per cent).



4. Real GVA growth in Q1 of 2021-22 has not made a uniform recovery across various sectors as compared to the pre-pandemic levels of Q1:FY 2019-20. While real GVA growth in agriculture & allied sectors never contracted, real GVA in electricity, gas, water supply & other utility services have shown the largest extent of recovery, being able to cross the corresponding pre-pandemic levels. Financial, real estate & professional services have recovered 98.5 per cent of the pre-pandemic real GVA followed by mining & quarrying at 98.2 per cent, manufacturing at 95.8 per cent, and public administration, defence & other services at 95 per cent. While construction rebounded sharply to recover 85.1 per cent of corresponding 2019-20 level, the most impacted contact intensive services sector showed gradual revival to reach 70 per cent of its pre-pandemic levels. India's rapid inoculation progress aided by Government's targeted relief measures for the stressed sectors bode well for faster revival of the contact-intensive service sectors in the coming months.



5. On the demand side, consumption, investment, exports and imports in Q1:FY 2021-22 grew at 13.8 per cent, 55.3 per cent, 39.1 per cent and 60.2 per cent respectively, albeit from lower bases of FY 2020-21. When compared to Q1:FY 2019-20 levels, recovery is most significant in exports and government consumption, which crossed the corresponding pre-pandemic levels. Recovery in key drivers of economic growth at 88.1 per cent for private consumption and 82.9 per cent for investment augur well for faster revival of demand and growth. Government's policy thrust on quickening virtuous cycle of growth via capex and infrastructure spending has increased capital formation in the economy lifting the investment to GDP ratio to about 32 per cent in Q4: FY 2020-21 despite the second wave disruptions.



6. The broad based swift recovery of both demand and supply side components to pre-pandemic levels as reflected in Q1:FY 2021-22 estimates bear testimony to India's strong macroeconomic fundamentals, barely shaken in FY 2020-21 amid the worst pandemic of the century. In fact the macroeconomic fundamentals are stronger in FY 2020-21 amid a ravaging COVID-19 pandemic as compared to 2008-09 when the Global Financial Crisis (GFC) had pulled down the world economy into recession. This is evident in various macroeconomic metrics compared across the two periods.

7. Inflation in 2008-09 was 9.1 per cent whereas in 2020-21, it was 6.2 per cent as government took timely and effective supply-side measures to address supply disruptions caused by lockdowns. Centre's fiscal deficit in 2008-09 was two and a half times that of Emerging Market and Developing Economies in Asia whereas in 2020-21, careful targeting and calibration has ensured that India's fiscal deficit is comparable to its peers. Current Account Deficit at 2.3 per cent of GDP in 2008-09 made external debt sustainability vulnerable whereas in 2020-21, India had a current account surplus of 0.9 per cent of GDP. With forex reserves more than twice the level in 2020-21 than in 2008-09, aided by a ten-fold increase in FDI from US\$ 8.3 billion to US\$ 80.1 billion and large net FPI inflows unlike

the outflows earlier, a much greater conviction about India's high potential growth is evident among global investors.

	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.

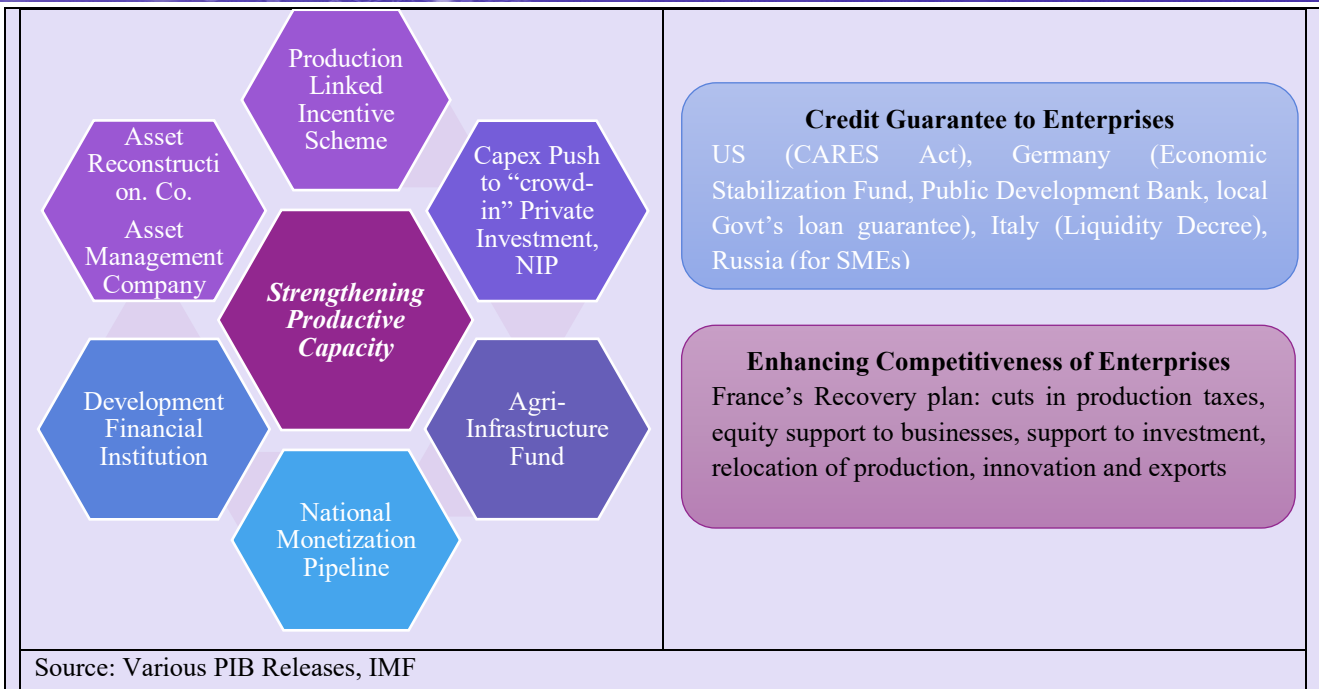
8. Thus, India is poised for an even faster recovery and stronger growth, both in the short and long term on the back of stronger macro-economic fundamentals supported by structural reforms that enable enhanced efficiency and productivity. In addition Government's capex push to crowd-in private investment and financial sector clean-up will further support growth. In particular, the contact-intensive services sector prepares for revival as rapid progress in India's vaccination drive aided by targeted relief measures for stressed sectors strengthens demand.

India's sui generis Policy Response Crisis as an Opportunity to Catalyse Long-term Growth

Besides immediate relief measures to saving lives and livelihoods, India is the only country to have undertaken supply-side structural reforms, lending flexibility and resilience to supply chains at the initial stages of the pandemic itself. These reforms are intended to bolster the productive capacity of the economy, create wealth and jobs especially at the bottom of the pyramid and place India on a sustainable high-growth path in the medium to long run. Below is a qualitative comparison of policy measures taken by India and other major economies.

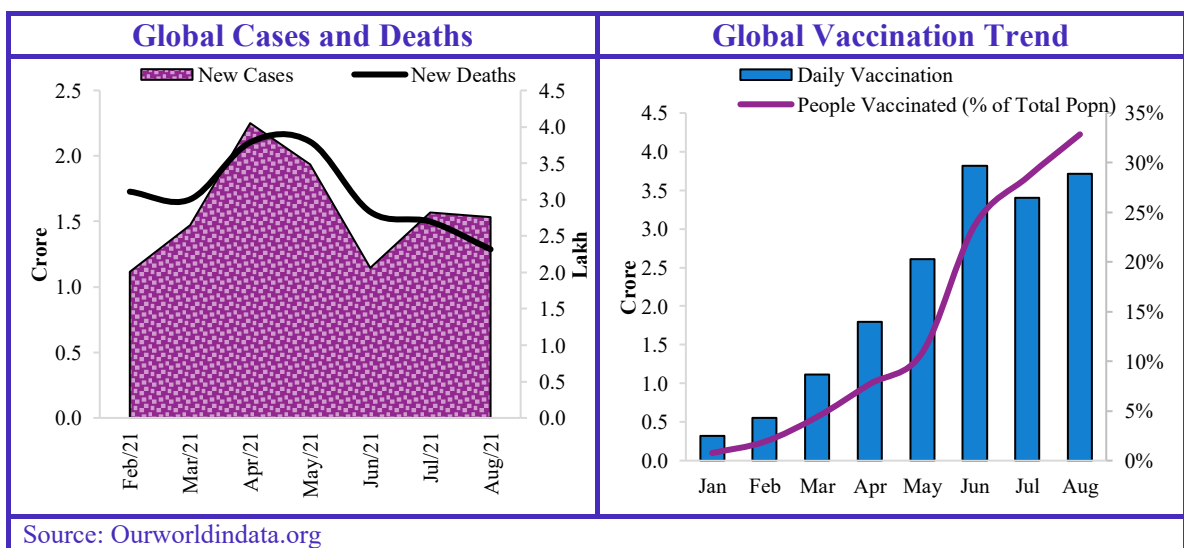
... continued in next page

India	Other Major Economies (Advanced Economies & Emerging Market Economies)
<p><u>IMMEDIATE RELIEF MEASURES</u></p> <div data-bbox="167 432 467 622"> <p>PM Garib Kalyan Anna Yojana Cash transfer to vulnerable sections, PM-KISAN</p> </div> <div data-bbox="499 432 794 622"> <p>PM Rozgar Yojana Record high MGNREGS allocation NRLM: Support to SHGs</p> </div> <div data-bbox="167 656 467 857"> <p>Health 137% increase in Budget Expenditure Developing Paediatric Care units Free Vaccination for All</p> </div> <div data-bbox="499 656 794 857"> <p>Loan Moratorium for Industry ECLGS for MSMEs and COVID-stressed sectors PM-SVANidhi Credit Gurantee for MFIs</p> </div>	<div data-bbox="815 331 1430 539"> <p>Additional Health Funding UK (NHS funding), US (Health Care Enhancement Act, CARES Act), Germany, Italy (Cura Italia), France, Brazil (Federal Govt transfers to States), China, Indonesia</p> </div> <div data-bbox="815 555 1430 1003"> <p>Employment Relief UK (Furlough Scheme, minimum wage for youth, reskilling), US (Unemployment benefits under Consolidated Appropriations Act, Paycheck Protection programme, CARES Act), Germany (Kurzarbeit, unemployment insurance), Italy (Cura Italia, firing ban), France (Short time work scheme), Russia (Tripling of unemployment benefits, minimum wage grant, sick leave benefits), Mexico (Subsidized Unemployment Insurance, employee retention payment to SMEs)</p> </div>
<p><u>SUPPLY-SIDE STRUCTURAL REFORMS</u></p> 	<div data-bbox="815 1043 1430 1328"> <p>SME Measures UK (Deferred tax payments, cash transfers), Germany (Grants, Tax-deferrals), Italy (Debt moratorium), Brazil (Extended Credit Line), China (Debt moratorium, Credit quota at lower rates, tax exemptions), Indonesia (Financing, Debt moratorium), Russia (Tax holiday, rent</p> </div> <div data-bbox="815 1361 1430 1854"> <p>Social Safety Net and Cash Transfers UK (Universal Credit Scheme), US (American Rescue Plan, Consolidated Appropriations Act), Germany (income support to families, young workers), Italy (Cura Italia, Relaunch package), France (Health insurance), Brazil (Emergency Aid Programme and extension of Bolsa Familia), China (Unemployment insurance acceleration), Indonesia (Social Protection Budget, cash transfer), Russia (lumpsum benefits for families), Mexico (Advance pensions, lending to workers, Subsidized unemployment insurance)</p> </div>



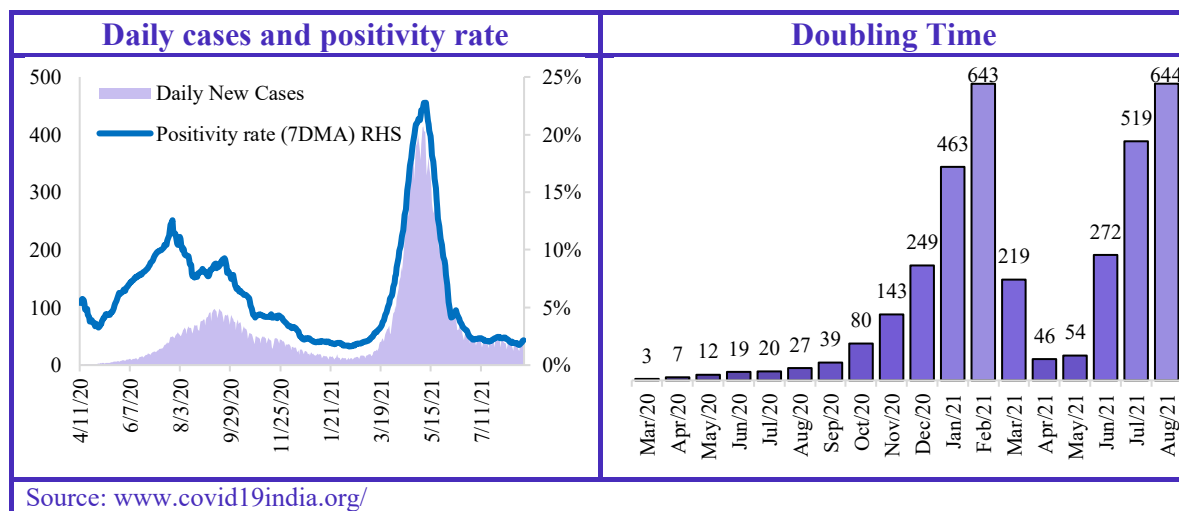
Plateauing of new cases globally in August, cautious of Alpha and Delta variant

9. The number of new cases at over 1.5 crore reported globally in August signals plateauing of cases after rising for nearly two months (since mid-June). The regions of Asia, North America and Europe contributed to about 87 percent of new cases reported. Globally, number of new deaths has narrowed by 11 percent to 2.3 lakh in August revealing implicit effectiveness of the vaccine. While 192 countries and territories have reported Alpha variant cases, 141 countries have reported cases of the Beta variant; 86 countries have reported cases of the Gamma variant; and 163 countries have reported cases of the Delta variant. On the vaccination front, global daily vaccination after slightly moderating in July picked up to 3.7 crore in August witnessing a threefold rise compared to March level. By August end, around 25 percent of the total population has been vaccinated, though wide variation among advanced and emerging economies still persist.

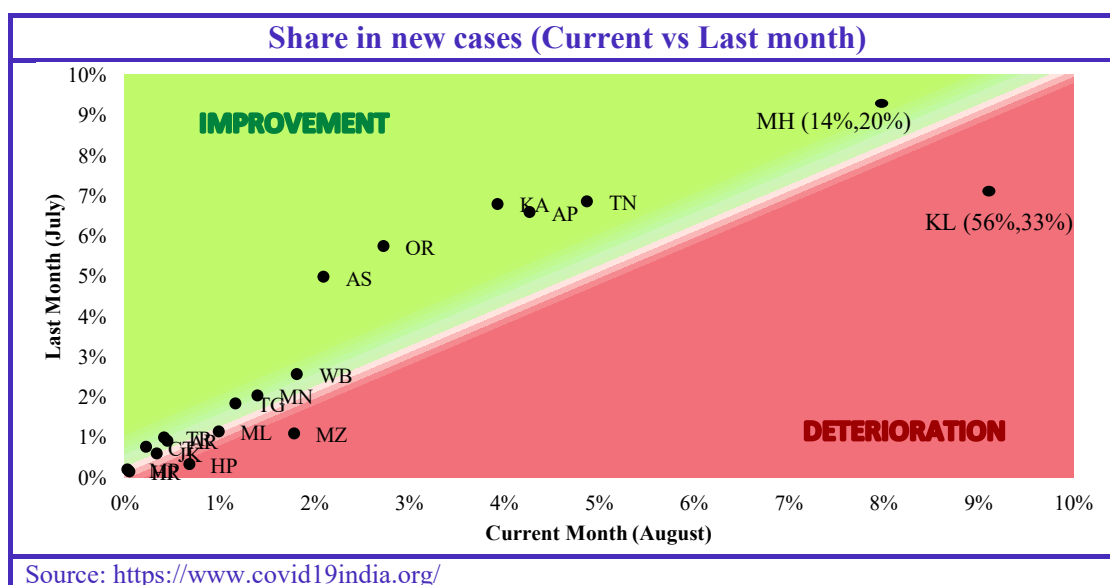


COVID-19 in India: Daily cases rising gradually, strict adherence to COVID appropriate behaviour mandated

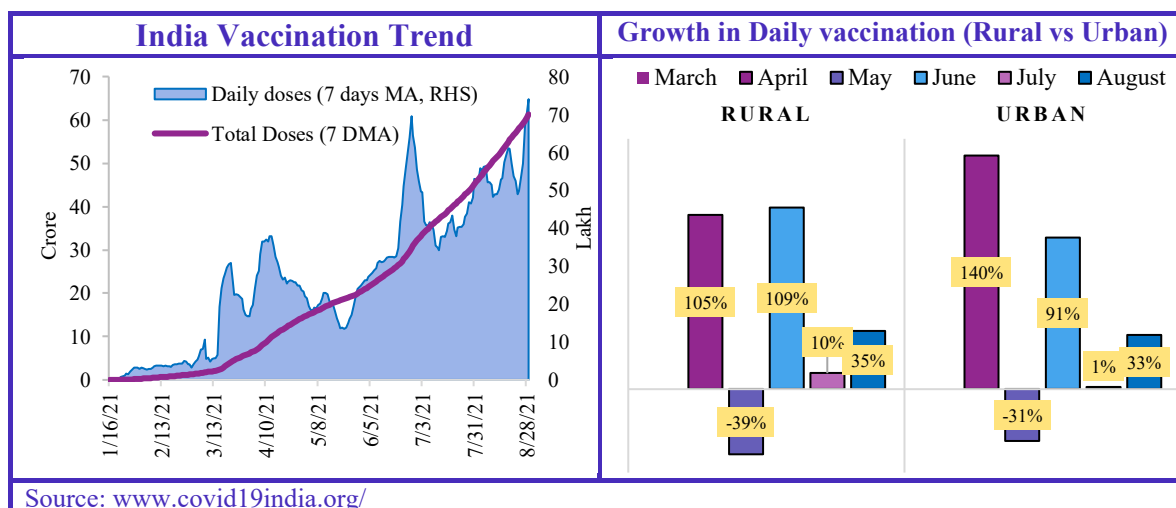
10. India's 7 days moving average of daily new cases gradually rose from 40.5 thousand on 31st July to 42.8 thousand on 31st August. Weekly positivity rate climbed up further from 2.4 percent to 2.5 percent during this period. Average daily testing contracted further from 18.13 lakh in July to 17.7 lakh in August. Recovery rate improved slightly from 97.3 per cent in July to 97.5 per cent in August.



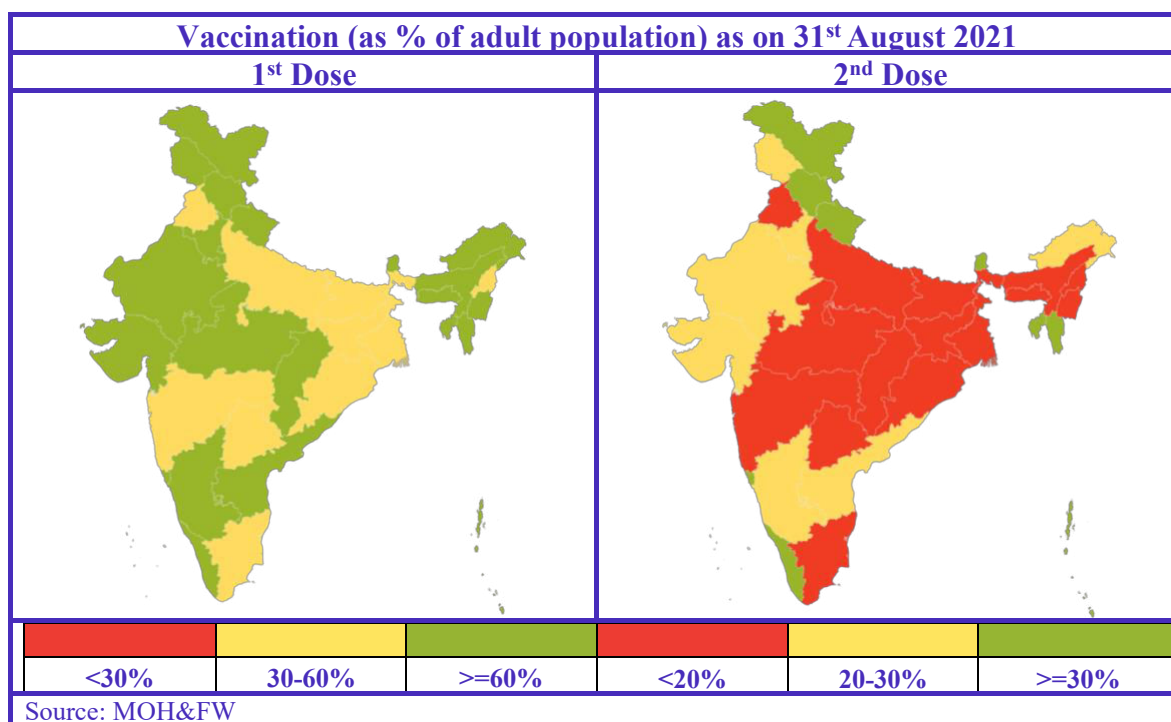
11. As on date, active cases stood at 3.7 lakh with Kerala and Maharashtra combined contributing to more than 70 percent of the case load. Kerala continues to be the major state of concern contributing around 58 percent of the daily new cases and reporting highest daily deaths across states in the country. Daily cases in Kerala stood at 827 per million of population compared to national average of 31 cases per million of population. All India District level analysis shows that around 41 districts have positivity rate above 10 percent by August end. Of these 41 districts, 21 districts belonging to Kerala and north eastern states continue to have positivity rate above 10 percent since July, thereby requiring prompt measures from the respective states to restrict the spread.



12. As on date, cumulative vaccination doses administered stood at 70.75 crore doses with 54.1 crore people (almost 62.5 per cent of adult population) having received at least one dose of vaccination of which 16.7 crore (19.3 per cent of adult population) got two doses. 99 percent of the healthcare workers, 100 percent of the front line workers and more than 60 per cent of population above 60 years of age have been covered by first dose of the vaccine. Average daily vaccination rate has further increased from 42.0 lakh in July to 56.6 lakh doses in August with a higher pace of expansion in rural areas compared to urban areas since May. Growth in daily vaccination picked up during August to reach 35 and 33 percent in rural and urban areas respectively.



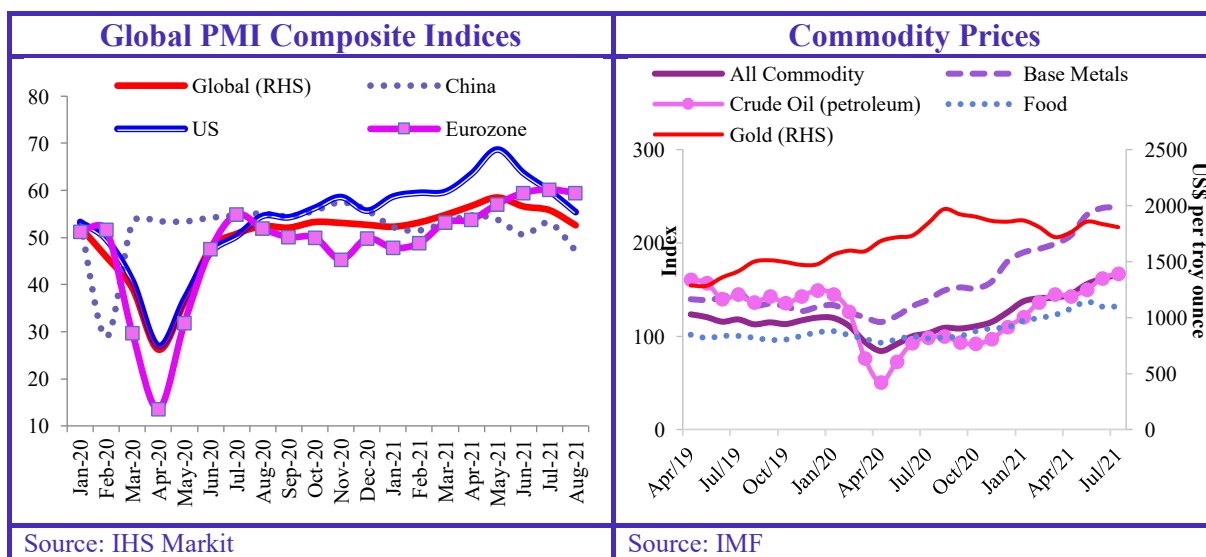
13. Himachal Pradesh has become the first state in the country to vaccinate its 100 percent of its adult population. Sikkim and Goa has vaccinated more than 95 percent of their adult population. However, major states like Uttar Pradesh, Bihar, Maharashtra, West Bengal and Tamil Nadu have vaccinated less than 50 per cent of their population with single dose, thus necessitating swift actions to increase pace of their vaccination drive.



14. With the ebbing of second wave and easing of local restrictions along with rapid progress in vaccination, retail activity mobility has improved from (-) 24.6 per cent of baseline estimates, in July, to -16.3 per cent in August. However, experts have expressed caution against potential third wave with the festive season starting in September. While studies show that vaccines are effective in reducing disease severity, possibility of hospitalisation, and also avoiding death to tune of 98-99 per cent, they do not prevent the infection. Therefore, India needs to continue to hold its strong guard against COVID -19 and retain its focus on testing, tracking, adopting Covid appropriate behaviour and vaccinating to contain a possible new surge.

Global Economy – biting supply constraints

15. Global PMI for August further moderated to a 7-month low of 52.6, as growth eased across manufacturing and service industries. US Composite PMI slowed down to 8-month low of 55.4 in August, affected by capacity constraints, material shortages and spread of Delta variant. Recovery in UK turned tepid due to binding supply constraints, while Eurozone business activity continued to grow at two-decade high rates, alongside a growing job market, despite supply bottlenecks. As a further boost to long-term growth, US Senate passed a \$1 trillion infrastructure bill on 10th August and approved a budget resolution for a \$3.5 trillion spending plan, including climate and welfare initiatives. Major stock markets were buoyed with dovish comments of Federal Reserve’s Chair, hinting at monetary tightening by year end, while interest rate hikes may take some time.



16. High consumer price inflation in Advanced Economies continued with demand heating and supply bottlenecks persisting. Upswing in commodity prices persisted as captured by the IMF. All Commodities index grew by 61.2 per cent year-on-year in July. While firm growth in natural gas, coal, and crude oil prices was fuelled by optimism on strong demand growth, steep rise in natural gas and coal prices was led by energy demand amid localized heatwaves, thriving industrial activity and supply restrictions. Gold prices softened slightly due to expectation of an impending rate hike by the US Fed. On the trade front, WTO’s Goods Trade Barometer June reading scored the highest on record since July 2016 confirming strength of merchandise trade recovery, offering bright prospects for

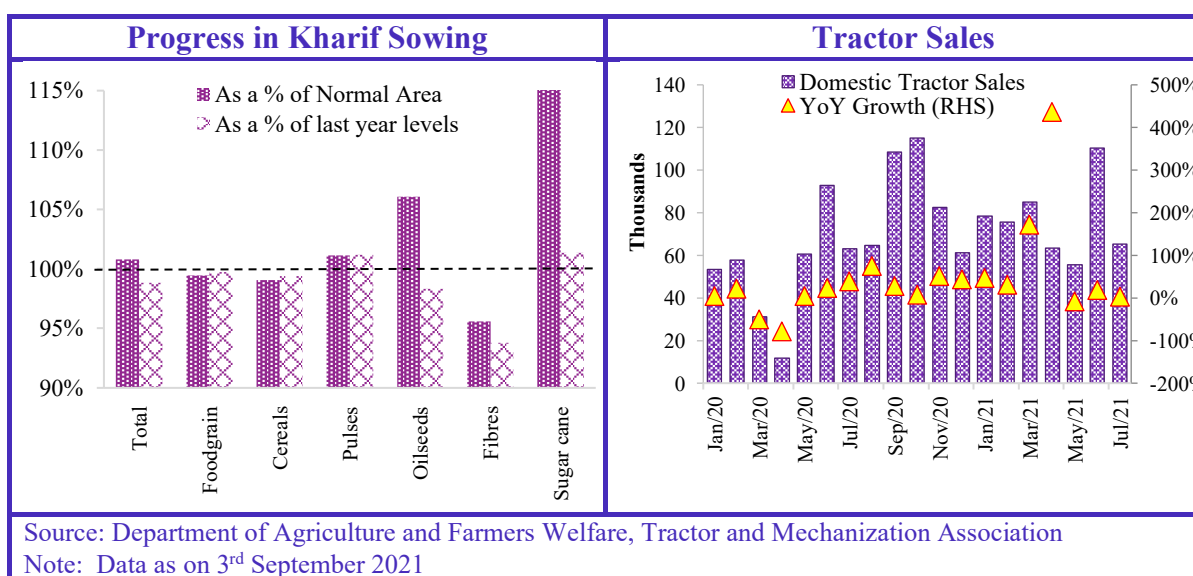
exporting countries including India. Global commercial flight activity in August suffered a dip due to rise in contagion of delta variant.

Domestic Economy

Agriculture

17. Agriculture sector continues to offer comfortable prospects, with gap in Kharif sowing (vis-à-vis last year) narrowing to 1.1 per cent as on 3rd September 2021 compared to gap of 21.6 per cent on 25th June 2021, despite a 9 per cent deficient monsoon this year (Jun-Sep). However, total sown area is 0.8 per cent above the normal area sown, i.e., last 5 years' average, as on 3rd September 2021. As on 2nd September 2021, total live storage in 130 important reservoirs is nearly 80 per cent of the last year's storage and 94 per cent of the average of last ten years. Fertilizer sales underwent some easing of momentum, from 79.8 LMT in July 2021 to 69.4 LMT in August, though nearly equal to previous year levels. Rural demand remains resilient with domestic tractor sales improving by 3.3 per cent in July 2021 as compared to the corresponding month last year.

18. According to Fourth Advance Estimate of principal crops, total food grain production in 2020-21 is estimated at record 308.65 million tonnes, higher by 11.14 million tonnes compared to 2019-20, and higher by 29.77 million tonnes compared to previous five years' (2015-16 to 2019-20) average. Record production was also observed in pulses and oilseeds at 25.72 million tonnes and 36.10 million tonnes respectively. As on 23rd August, paddy procurement reached an all-time high level, surpassing previous high of 773.45 LMT in Kharif Marketing Season (KMS) 2019-20. About 129.03 lakh farmers have already been benefitted from the ongoing KMS procurement operations with MSP value of Rs. 1,64,951.77 crore. This augurs well for adding strength to rural demand in the coming months.



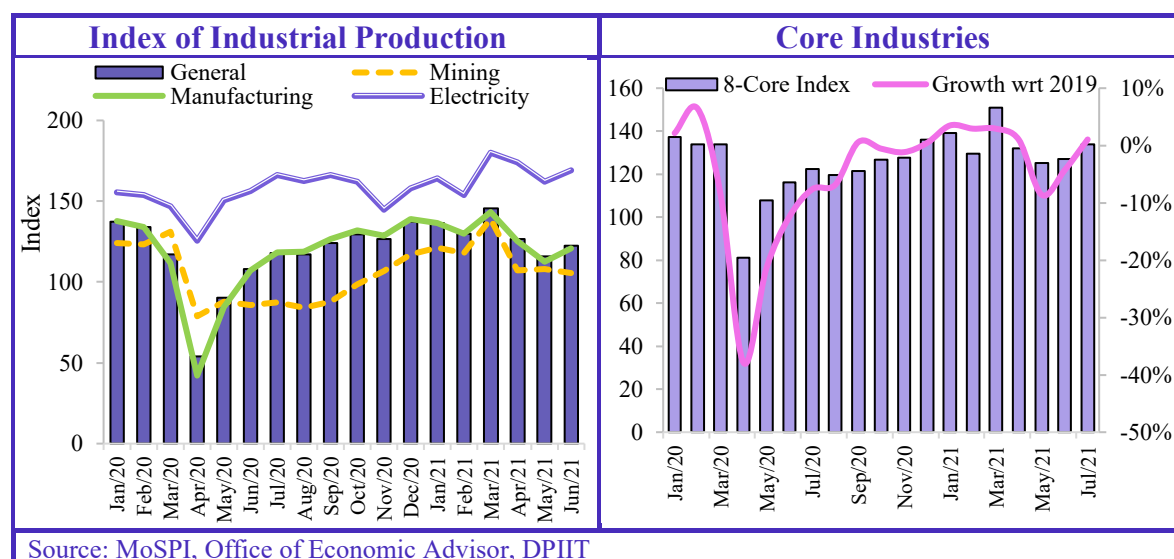
Industry

19. Industry output as captured by Index of Industrial Production (IIP) grew on a YoY basis by 13.6 per cent in June 2021 primarily driven by a low base-effect. The output growth is broad-based across all sectors and use-based categories except for consumer non-durables on the back of falling COVID-19 cases and resumption of economic activity. Sequentially, industrial output rose by 5.7 per cent over May 2021 with manufacturing growing by 7.4 per

cent, electricity growing at 4.4 per cent and mining declining by 2.3 per cent. The output of all the six use-based categories (except primary goods) witnessed recovery in June over May with consumer durables registering the sharpest rise of 33.5 per cent followed by capital goods at 27.1 per cent after enduring steepest decline in May on account of second wave disruptions.

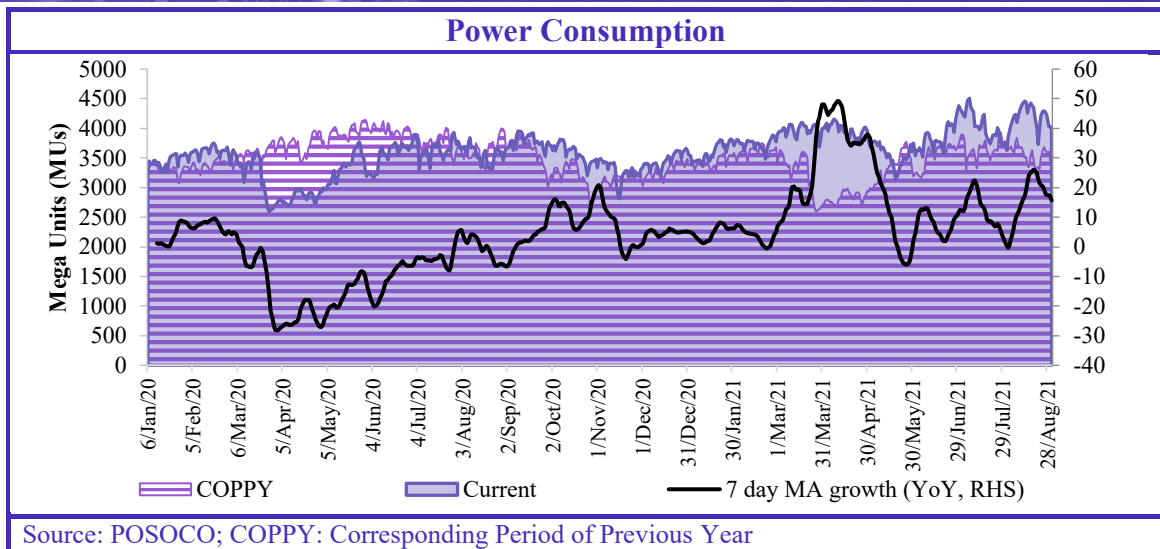
20. With respect to pre-pandemic levels, IIP for June 2021 recovered 94.8 per cent of June 2019 levels, with consumer non-durables, despite a moderate YoY growth, surpassing 2019 levels at 102 per cent and mining sector recovering 99.8 per cent. Consumer durables and capital goods are gradually picking up with recovery at 85 and 79 per cent of 2019 levels respectively. Further easing of mobility restrictions and improving investor sentiment buttressed by strong macroeconomic fundamentals are expected to reflect on IIP estimates in the coming months.

21. Eight-core industries output index for July 2021 rose YoY by 9.4 per cent over July 2020 and 5.4 per cent sequentially over June 2021, fuelled by ebbing of second wave infections and resumption of economic activity. Sequential growth in July over June is broad based led by refinery products (8 per cent growth) and electricity (7.2 per cent growth). With respect to pre-Covid July 2019 levels, 8-core index for July 2021 has grown by 1.1 percent driven by growth in all sectors except crude oil and refinery products, offering bright prospects for industrial sector's all-round recovery.

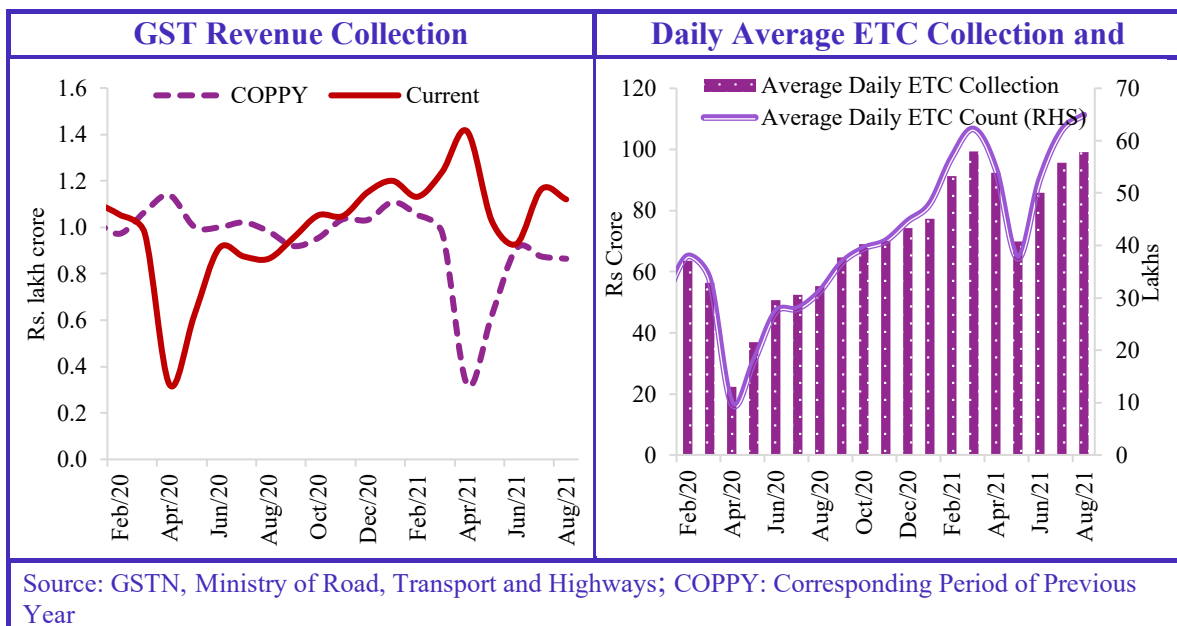


22. After sharply rebounding to expansionary zone in July 2021 to 55.3, PMI Manufacturing moderated to 52.3 in August 2021, primarily owing to concerns over pandemic's impact on demand and firms' finances and rise in input costs. Nevertheless, stock-building and material-purchasing by businesses continued with expansion in order books and growth optimism.

23. Power consumption continued to remain one of the bright spots of India's economic recovery since September 2020, clocking 17.1 per cent growth in August 2021 over previous year and 14.6 per cent growth over pre-Covid 2019.



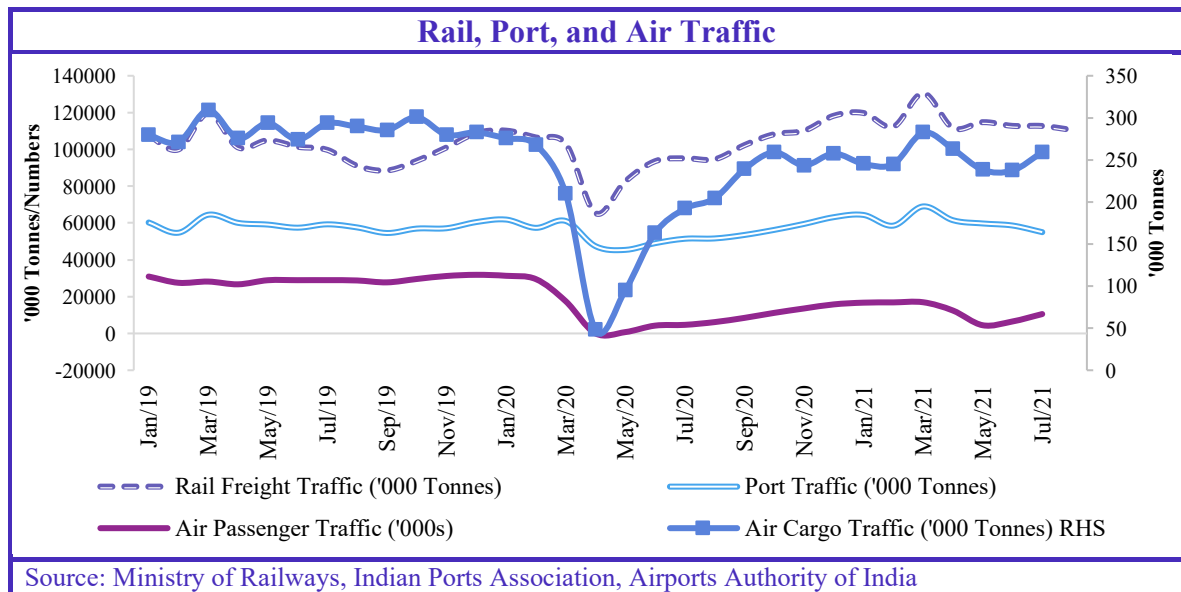
24. Sustained robust growth in E-way bills generated since the peaking of second wave signals healthy revenue collections and restoration of supply chains throughout the country aided by removal of local restrictions on movement of people and goods. Total e-way bills generated stood at 6.6 crore in August 2021, marking 33 per cent YoY growth vis-à-vis Aug 2020 and 28.6 per cent growth vis-à-vis the pre-pandemic Aug month of 2019. Sequentially, it has grown by 2.6 per cent over July 2021 reflecting a sustained growth in activity levels post second wave. In terms of value, e-way bills generated reached ₹19.04 lakh crore in August 2021, 18.2 per cent higher than previous month, 37.4 per cent higher than August 2020, and 33.9 per cent higher than August 2019. August 2021's GST collections, reflecting transactions done in July 2021, stood at a robust Rs. 1.12 lakh crore, indicating a fast-paced recovery from lower levels obtained during the months of second wave. In fact, GST collections had reclaimed their ₹1 lakh plus territory in July after falling to ₹ 0.93 lakh crore in June 2021.



Services

25. With fast-paced resumption of commercial activity, average daily count of Electronic Toll Collection (ETC) in highways surpassed record March, 2021 levels in August 2021, while average daily collection nearly touched the March levels. Growth over last month amounted to 4.7 per cent in count and 3.7 per cent in value, and growth over August of 2020 was at 108 per cent in count and 79.6 per cent in value. In tandem with increase in vehicle registrations, automobile sales remained buoyant in July with an upward trend in passenger vehicles sales fetching 2.64 lakh sales, compared to 2.32 lakh in June, and 0.88 lakh in May 2021. With this, passenger vehicle sales in July, 2021 recorded 44.7 per cent YoY growth over July 2020 and 39 per cent growth over pre-pandemic July 2019. However, more recent data on vehicle registrations pointing towards a decline in vehicle registrations and global shortage of electronic input components may weigh upon vehicle sales in August.

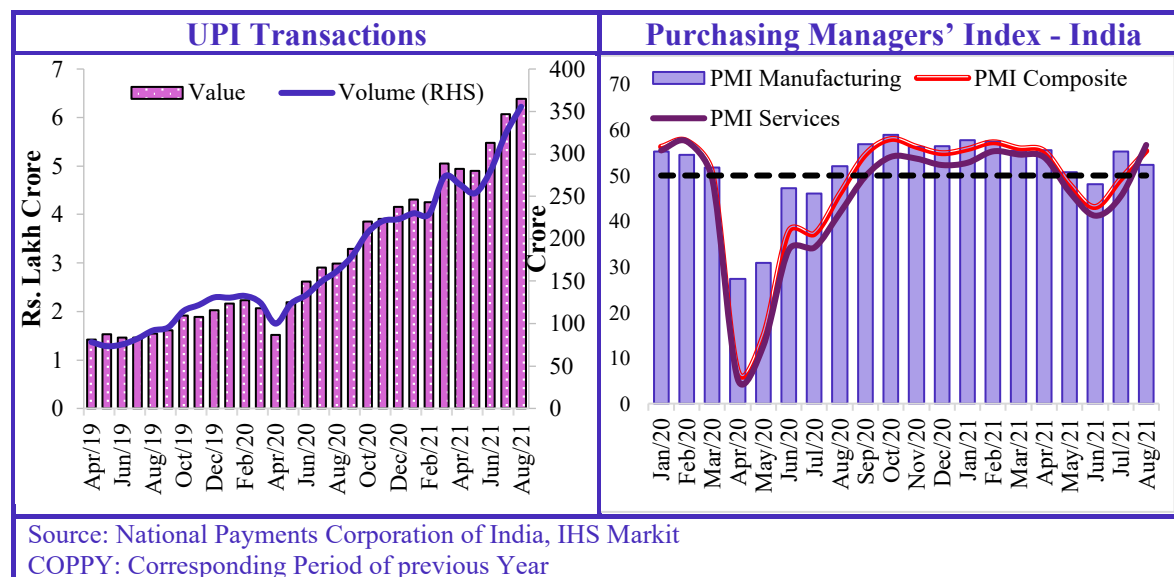
26. Despite COVID-19 challenges, strong growth momentum in rail freight continued into August with freight loading of 110.55 million tonnes, registering a growth of 16.9 per cent over August 2020 and of 21.4 per cent over pre-pandemic August 2019. Air Freight and Traffic Activity also witnessed uptick in July with air cargo traffic higher by 9.2 per cent than last month, 35 per cent higher than last year and 11.7 per cent higher than 2019 levels in the corresponding months of July. Air passenger traffic numbers also gained height in July with easing of inter-state travel restrictions. However, recovery in port traffic at major ports softened to 55.04 million tonnes in July 2021 compared to 58.65 million tonnes in June 2021, although remaining 7 per cent higher than the pandemic month of July 2020 levels .



27. PMI Services marked a resounding recovery in August rising to 18-month high of 56.7 and entering expansionary zone after 3 months. The significant rebound over July is attributed to rapid coverage of vaccination coupled with upturn in demand following from a decline in the case load of COVID-19. The jump in PMI Services also pushed PMI Composite to 55.4, arriving comfortably in the expansionary zone.

28. UPI transactions continued to attain another record high in August 2021 with value of total transactions climbing to ₹6.39 lakh crore, up from previous record high of ₹6.06 lakh

crore in July 2021. Transactions volume further firmed up to 355.5 crore in August 2021 from 324 crore in July 2021. The steady uptick in UPI transactions corroborates an upbeat consumer sentiment with resumption of activity levels and rising popularity of digital modes of payment, also reflected in the recovery in NEFT and RTGS transactions since June 2021. Upbeat consumer sentiment and growing preference for digital modes of payment is further captured in the recently launched RBI's Digital Payments Index, which has risen steadily from base value of 100 in March 2018 to 270.6 in March 2021.



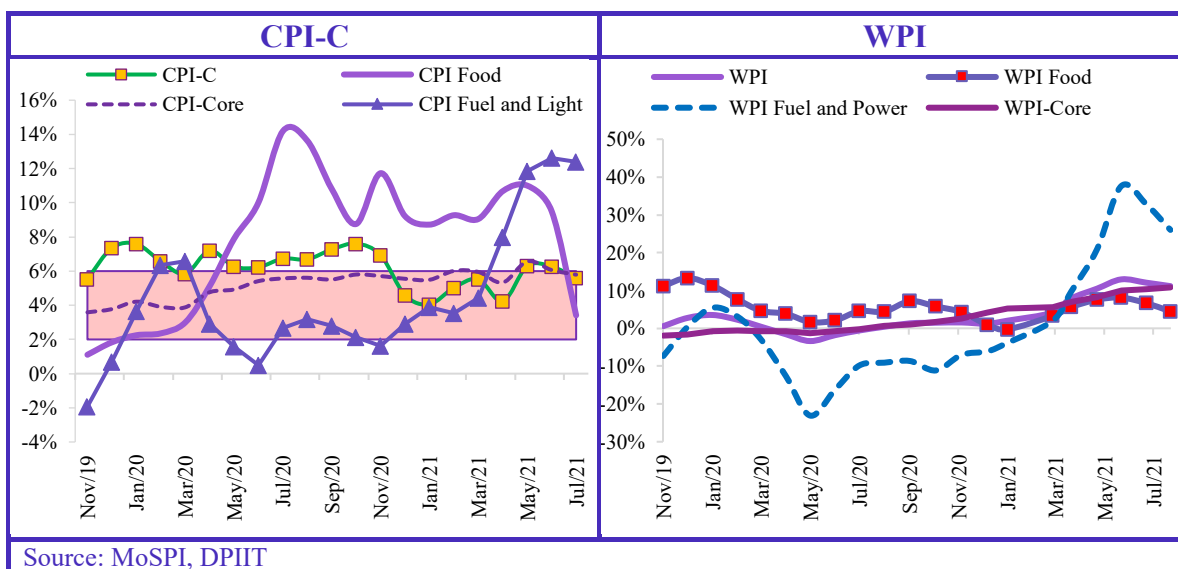
29. Domestic consumption of petroleum products grew at 7.8 per cent in July 2021 compared to last year and at 2.9 per cent compared to June 2021, albeit lower than the June levels of 2019. While crude oil price of Indian basket softened to 70.2 USD/bbl in August 2021 from 73.5 USD/bbl in July 2021, it remains significantly higher than 44.2 USD/bbl in August 2020, signalling continued optimism and demand build-up amid global recovery.

Inflation eases to a three-month low

30. CPI-C based inflation eased to a three-month low at 5.59 per cent in July 2021, well within the monetary policy goal as compared to 6.26 per cent in June 2021 and 6.73 per cent in July, 2020. The decline in inflation is mainly on account of decline in food inflation and a favourable base effect. The easing of supply chain disruptions and improved mobility led to the moderation in retail prices. Food inflation based on Consumer Food Price Index (CFPI) declined to 3.96 per cent in July, 2021 as compared to 5.15 per cent in June, 2021, mainly on account of decline in inflation of oils & fats, fruits, vegetables, pulses & products, sugar & confectionery and spices. CPI Core inflation also declined to 5.79 per cent in July, 2021 as compared to 6.06 per cent in the previous month.

31. WPI inflation moderated to 11.16 per cent in July 2021 as compared to 12.07 per cent in June 2021 on account of decrease in inflation of primary articles and fuel & power. The elevated WPI inflation level is due to the low base (-0.3 per cent in July 2020) recorded last year coupled with the hardening of crude oil and manufacturing input prices. Food Inflation remained stable in July 21 registering zero growth against 3.1 per cent in June 21 and 4.5 per cent in July 20 supported by lower prices of cereals, paddy, and wheat. However, prices of

onions and milk remained elevated due to supply-demand mismatch. WPI inflation for Manufactured Products has been continuously rising since June 2020, and recorded 11.20 in July 2021. WPI Core inflation also remained elevated at 10.82 per cent in July 2021 compared to 10.38 per cent in the previous month.



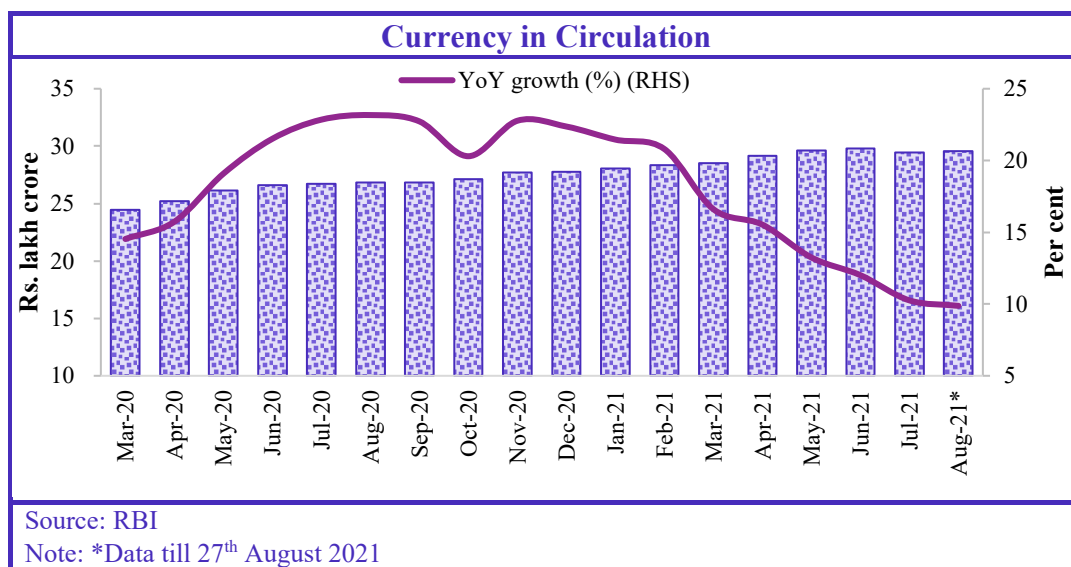
32. Based on RBI’s quarterly House Price Index (HPI) built using transaction level data received from housing registration authorities in 10 major cities, growth in all-India HPI slowed to 2.0 per cent (YoY) in Q1:2021-22 as compared with 2.7 per cent growth in the previous quarter and 2.8 per cent a year ago. HPI growth varied widely across the cities ranging from an expansion of 8.8 per cent (Ahmedabad) to a contraction of (-) 5.1 per cent (Chennai). On a sequential (q-o-q) basis, the all-India HPI registered a 0.5 per cent growth in Q1:2021-22; Mumbai, Delhi, Chennai, Kanpur and Lucknow recorded a sequential decline in HPI, whereas it increased in other five cities.

Surplus liquidity continues , sharp fall in currency in circulation

33. RBI’s liquidity enhancing measures continue to keep system liquidity in surplus with average daily net absorption under the LAF increasing to Rs. 8.5 lakh crore in August compared to ₹6.8 lakh crore in July. Comfortable liquidity conditions kept overnight money market rates in check with the weighted average call rate (WACR), tri-party repo and market repo rate trading below the reverse repo rate by an average 15 bps, 18 bps and 14 bps respectively during August. Term money market rates, including 3-month certificates of deposit (CD) rates, 3-month commercial paper (Non-Banking Financial companies rates) and the 3-month T-bill rate traded marginally above the reverse repo rate. While surplus liquidity conditions drove Commercial Paper (CP) issuances to reach a high of Rs. 2.66 lakh crore in July 2021, it moderated to Rs.1.48 lakh crore in August. Cumulatively, CP issuances for FY 2021-22 (upto August) increased by 35.6 per cent to Rs. 8.04 lakh crore compared to Rs. 5.93 lakh crore in the corresponding period of previous year.

34. Reserve money expanded by 15.21 per cent on a YoY basis as on August 27, 2021 compared to 16.8 per cent in July 2021 with moderation seen in deposits with RBI. Currency in circulation, the largest component of reserve money witnessed further easing of YoY

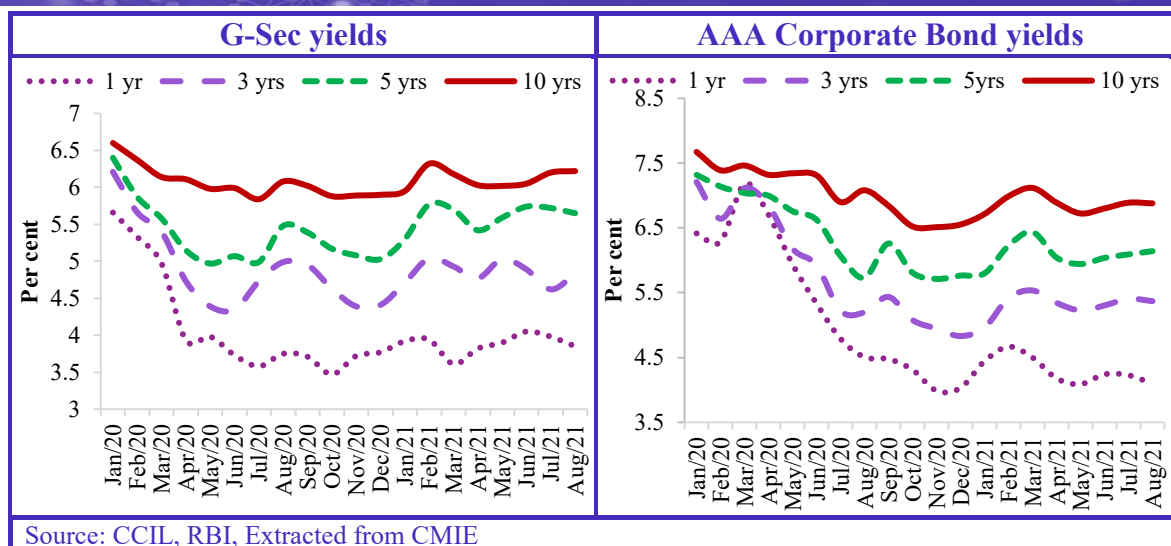
growth at 9.82 per cent as on 27 August compared to 10.25 per cent as on July 30, 2021 and 14.74 per cent in August 2020. This is the slowest pace of growth in currency demand recorded since November 2017 and signals a visible departure from the pandemic induced increase in demand for precautionary savings witnessed in recent months.



35. Broad money (M3) grew by 10.49 per cent in the fortnight ending August 13, 2021 compared to 9.91 per cent in the previous fortnight and 12.58 per cent in the corresponding period of previous year. Growth in currency with public, demand deposits and time deposits stood at 10.05 per cent, 21.80 per cent and 9.22 per cent respectively in the fortnight ending August 13 compared to respective component growths of 10.21 per cent, 19.44 per cent and 8.65 per cent in the previous fortnight and 23.15 per cent, 10.76 per cent and 10.90 per cent in the corresponding period of previous year.

Financial markets remained stable

36. As announced during the third bi-monthly monetary policy announcement, RBI conducted two G-SAP auctions worth Rs 25,000 crore on August 12 and August 26 to enable an orderly evolution of the yield curve. G-sec yields remained stable at 6.22 per cent at end-August 2021 compared to 6.2 at end-July 2021 amid easing of crude oil prices during the month end and lower inflation prints for July. The yield curve softened with weighted average yields on 7 year, 10 year softening by 8 bps each and 15 year tenors by 2 bps in August as compared to July. On the short end, weighted average yields steepened month-on-month in August by 16 bps for 3 year G-Secs and remained unchanged for 5 year G-Secs. Tracking the movement in 10 year G-secs, 10 year AAA rated corporate bond yields also remained stable at 6.87 in August compared to 6.88 in July while 3-year AAA yields softened by 4 bps and 5-year AAA yields hardened by 5 bps.



37. Confidence in India's fundamentals is further reflected in buoyant domestic equity markets with BSE Sensex and Nifty 50 scaling record highs in August to close the month at 57,552.39 (9.4 per cent higher) and 17132.20 (8.7 per cent higher) respectively over July-end levels. The strong performance of the equity market is a reflection of the buoyant growth in profitability of listed companies aided by global fund inflows as well as by active and enhanced participation of retail investors.

38. This exuberance also drove new fund launches which in turn have driven flows into equity mutual funds. Equity oriented mutual funds showed a net record inflow of Rs. 22583.5 crore in July compared to an inflow of Rs. 5988.2 crore in June. Resultantly, assets under management (AUM) of the Indian mutual fund industry stood at an all-time high of Rs. 35.32 lakh crore in July compared to Rs. 33.67 lakh crore in June.

39. Total outstanding corporate debt at the end of Q1:2021-22 stood at ₹36.28 lakh crore with corporate bond issues worth ₹1.43 lakh crore in the quarter as compared to issues worth ₹2.50 lakh crore in the previous quarter, ₹2.39 lakh crore in Q1: 2020-21 and ₹1.51 lakh crore in Q1: 2019-20. Primary corporate bond market issuances on NSE and BSE stood at ₹0.3 lakh crore in July 2021 compared to ₹0.42 lakh crore in June 2021 and ₹0.47 lakh crore in July 2020.

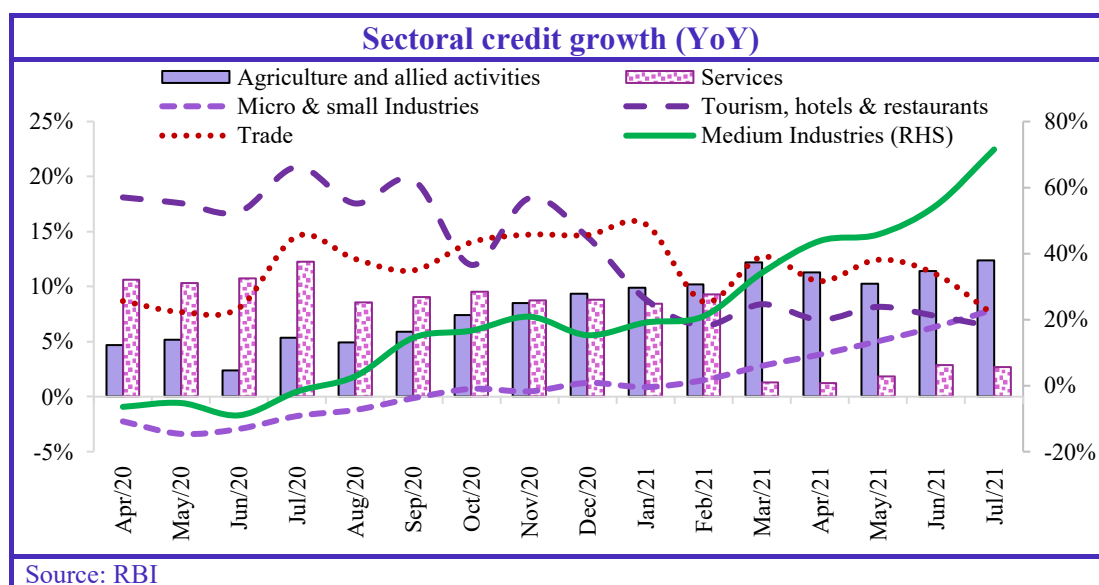
Encouraging Trends in Bank credit growth

40. Overall bank credit growth inched up to 6.55 per cent (YoY) in the fortnight ending August 13, 2021 compared to 6.11 per cent in the previous fortnight and 5.52 per cent in the corresponding period of previous year. Non-food credit growth stood increased to 6.61 per cent (YoY) in the fortnight ending August 13, 2021 compared to 6.18 per cent in the previous fortnight and 5.48 per cent in the corresponding period of previous year.

41. The credit deposit ratio remained stable at 69.9 per cent in the fortnight ending August 13, 2021 compared to 70.2 per cent a fortnight ago and 72.58 per cent in the corresponding period of previous year. Incremental credit-deposit ratio, the portion of deposits used to extend loans stood at (-)13.29 compared to (-)8.94 per cent a fortnight ago and (-)29.50 per cent in the corresponding period of previous year. Comparing investments

in government securities and other approved securities with respect to total deposits, the incremental investment deposit ratio stood at 33.11 per cent in the fortnight ending August 13, 2021 compared to 41.71 per cent a fortnight ago and 110.68 per cent in the corresponding period of previous year.

42. On the sectoral front, advances to agriculture and allied activities continued to perform well, registering an accelerated growth of 12.4 per cent in July 2021 against 5.4 per cent in July 2020. Growth in credit to industry remained subdued at 1 per cent in July 2021 compared to 0.9 per cent a year ago. Size-wise, credit to medium industries registered a robust growth of 71.6 per cent in July 2021, as compared to a contraction of 1.8 per cent a year ago. Credit to micro and small industries accelerated to 7.9 per cent in July 2021 against a contraction of 1.8 per cent a year ago, while credit to large industries contracted by 2.9 per cent from 1.4 per cent growth a year ago. Within industry, credit growth to all engineering, beverages & tobacco, chemicals & chemical products, gems & jewellery, infrastructure, paper & paper products, petroleum coal products & nuclear fuels, rubber, plastic & their products and textiles accelerated in July 2021 as compared to the corresponding period last year. Growth in credit to services sector slowed to 2.7 per cent in July 2021 from 12.2 per cent in July 2020, on account of deceleration in credit growth to NBFCs and commercial real estate. Personal loans registered an accelerated growth of 11.2 per cent in July 2021, compared to 9 per cent a year ago possibly due to higher growth in loans against gold jewellery and vehicles.



43. Unprecedented policy support has contained the impairment of balance sheets of banks in India despite the dent in economic activity brought on by waves of the pandemic. Banks' performance and balance sheet quality have turned out to be better than anticipated at the beginning of the pandemic in terms of deposit growth, decline in gross non-performing assets (GNPAs), capital adequacy and improved profitability. Scheduled Commercial Banks' (SCBs) GNPA and net NPA (NNPA) as ratios of gross advances has decreased from 11.2 percent and 5.9 per cent at the end of March 2018 to 7.5 per cent and 2.4 per cent, respectively at the end of March 2021. The provisioning coverage ratio (PCR) - the proportion of provisions (without write-offs) held for NPAs to GNPA - increased from 62.7 per cent in

March 2018 to 68.9 per cent in March 2021, indicating higher resilience in terms of risk absorption capacity. The capital to risk-weighted assets ratio (CRAR) of SCBs increased to all time high level of 16.0 per cent in March 2021, with Public Sector Banks (PSBs) improving their ratios to 13.8 per cent by the end of March 2021. Net profits of PSBs increased to Rs. 31,816 crore in FY2020-21. PSBs were able to raise capital funds amounting to Rs. 58,697 crore during FY 2020-21, which is the highest amount mobilised in a financial year.

India's merchandise exports growth soars with resurgent global demand

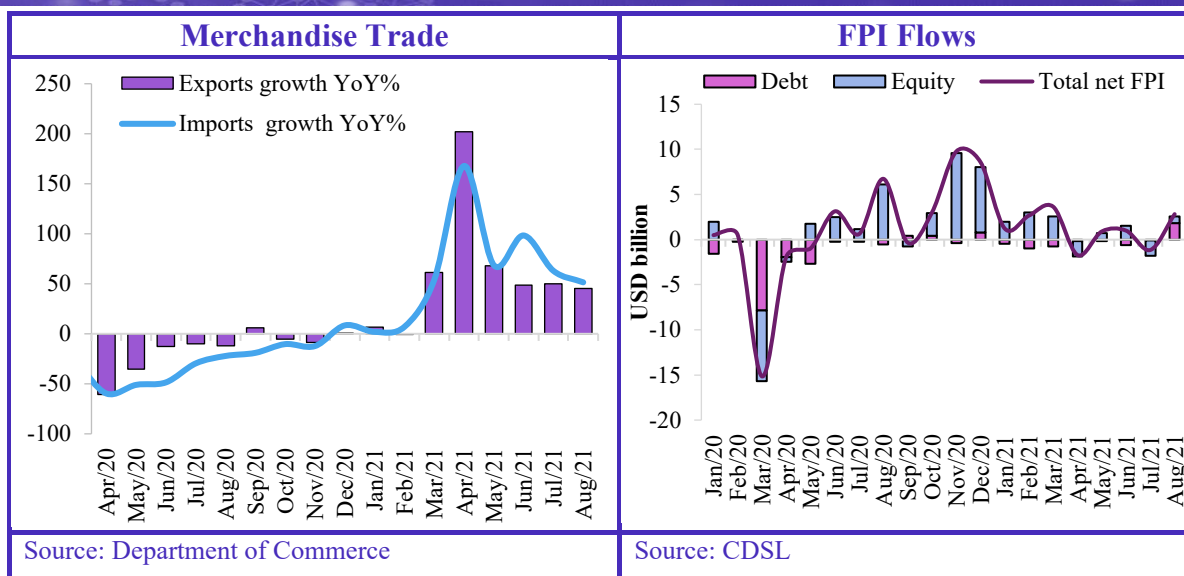
44. India remained a net importer in August 2021, with a merchandise trade deficit rising to US\$ 13.9 billion, compared to trade deficit of US\$ 8.2 billion in August 2020, but equal to trade deficit of US\$ 13.9 billion recorded in August 2019. At US\$ 33.1 billion, India's merchandise exports crossed US\$ 30 billion mark for the fifth consecutive month in FY 2021-22. Exports in August 2021 registered a growth of 45.2 per cent over US\$ 22.8 billion in August 2020 and 27.5 per cent over US\$ 26.0 billion in August 2019. India's merchandise imports also grew at 51.5 per cent to US\$ 47.0 billion in August 2021, over US\$ 31.0 billion in August 2020 and 18.0 per cent over US\$ 40.0 billion in August 2019.

45. In August 2021, POL exports witnessed a growth of 140.0 per cent to US\$ 4.6 billion, vis-à-vis US\$ 1.9 billion in August 2020 and 42.1 per cent compared to US\$ 3.2 billion in August 2019. Further, the value of non-petroleum exports increased by 36.6 per cent and 25.4 per cent to US\$ 28.6 billion, as against US\$ 20.9 billion in August 2020 and US\$ 22.8 billion in August 2019 respectively. The value of non-petroleum and non-gems and jewellery exports in August 2021 was US\$ 25.2 billion, after registering a growth of 31.7 per cent over US\$ 19.1 billion in August 2020 and 28.5 per cent over US\$ 19.6 billion in August 2019.

46. In August 2021, POL imports registered a growth of 80.5 per cent and 5.8 per cent to US\$ 11.6 billion as compared to US\$ 6.5 billion in August 2020 and US\$ 11.0 billion in August 2019 respectively. Non-oil imports in August 2021 grew by 43.9 per cent and 22.6 per cent to US\$ 35.4 billion, compared to US\$ 24.6 billion in August 2020 and US\$ 28.9 billion in August 2019 respectively. Non-oil, non-GJ (Gold, Silver & Precious Metals) imports were US\$ 26.4 billion in August 2021, after recording a positive growth of 34.0 per cent over US\$ 19.7 billion in August 2020 and 2.6 per cent over US\$ 25.7 billion in August 2019.

Global investors upbeat about India's economic prospects

47. Global investors' confidence in India's growth story is manifested in robust FDI and FPI inflows. Gross FDI stood at USD 22.5 billion in Q1:FY 2021-22 compared to USD 11.8 billion during Q1:FY 2020-21. Net FDI stood at USD 11.38 billion during the quarter compared to outflow of USD 0.4 billion during the corresponding period last year. FPI investors poured USD 2.5 billion in August compared to an outflow of USD 0.49 billion in July buoyed by improvement in economic indicators post ebbing of second wave.

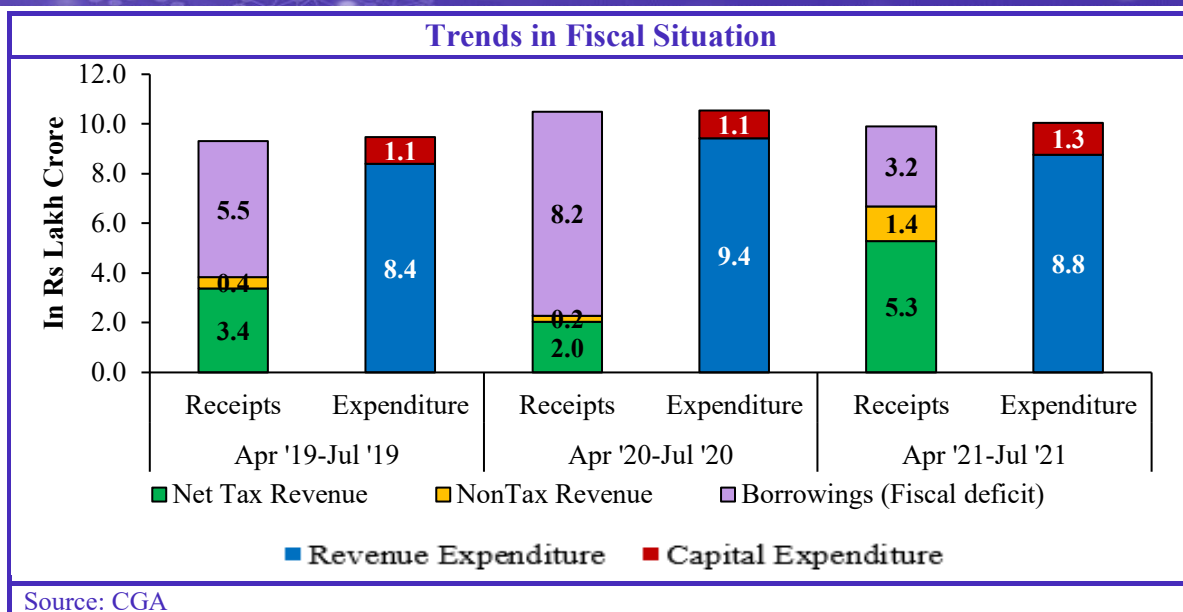


48. Garnering support from bullish equity markets, the Indian rupee continued to strengthen to reach 73.01 INR/USD on August 31, 2021, its highest in two-and-a-half months. RBI has been intervening in the foreign exchange market by absorbing foreign capital flows and preventing undue appreciation of the rupee. India's foreign exchange reserves stood at US \$ 633.5 billion as on August 27, 2021, equivalent to more than 18 months of 2020-21 imports, acting as a critical cushion against possible monetary tightening in advanced economies and resulting hot money outflows.

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

49. The Central Government finances showed an improved performance during April 2021 to July 2021 over the previous year. During April-July 2021, the Centre's fiscal deficit stood at ₹3.21 lakh crore, which is 21.3 per cent of BE, much lower than the 5 years moving average of 86.7 percent of BE. Both the direct and indirect taxes have shown a significant YoY growth during the first four months of 2021-22. The corporation tax registered a YoY growth of 171.5 per cent and the Personal Income Tax showed a YoY growth of 76.7 per cent. With the revival of economic activities, during Apr-July 2021 revenue collection from Customs has increased by 144 percent, and the GST collection to the Centre has gone up by 60 percent, over the previous year. As a result, the Net Tax Revenue to the Centre during April 2021 to July 2021 has shown an increase of 2.5 times over the same period in FY2020-21, and it stood at ₹5.29 lakh crore. The Non tax Revenue during Q1 of 2021-22 increased by 468.6 per cent over the same period last year primarily due to the RBI's surplus transfer of Rs 0.99 lakh crore to the Government.

50. Robust recovery in tax collections prospectively augurs well for Government to provide the required budgeted support to the economy. The recent decision in the monsoon session to repeal the retrospective tax amendment of year 2012 reflects the commitment of Government towards providing a stable and predictable tax regime for all stakeholders.



51. On the expenditure side, the total expenditure registered a YoY decline by 4.7 percent during the first four months of 2021-22 and stood at 28.8 per cent of BE. The revenue expenditure during this period saw a YoY decline of 7 per cent despite a 14.7 percent YoY increase in major subsidies, indicating re-prioritisation of revenue expenditure to meet the fiscal targets. The emphasis on capital expenditure continued as it registered a 14.8 per cent YoY growth during April-July 2021. The key sectors where capex has increased during these months are road transport, highways, railways and housing.

52. During the first six months of the year 2021-22, the Centre has planned to borrow 60 per cent of the annual target of net market borrowings of Rs. 12.05 lakh crore. As on 21 August 2021, the Central Government has raised Rs. 5.26 lakh crore as gross market borrowings which is 9.8 percent lower than the corresponding period in 2020-21, and the State governments have raised Rs. 2.27 lakh crore as gross market borrowings, which is roughly 11.6 per cent lower than the corresponding period in 2020-21.

Outlook

A broad based rebound in several leading macroeconomic indicators in July and August offer bright prospects for India's continued economic recovery. With Government and RBI's unflinching commitment to put the economy back on track, India is poised for an even faster recovery in the next three quarters of 2021-22. Rapidly increasing vaccination coverage and richer experience with pandemic management provide the confidence that the recovery can be continued even in the event of a third wave.

For any queries, you may contact the team:

1. Mr. Rajiv Mishra, Economic Adviser (r.mishra67@nic.in)
2. Ms. Tulsipriya Rajkumari, Deputy Director (tulsipriya.rk@nic.in)
3. Ms. Deeksha Supyaal Bisht, Assistant Director (deeksha.bisht@gov.in)
4. Ms. Sonali Chowdhry, Consultant (sonali.chowdhry@nic.in)
5. Shri Narendra Jena, Economic Officer (jena.narendra@nic.in)

Scale (Monthly Indicators)			
YoY growth	-62	0	570

Movement in India's high frequency indicators						
Indicator	Q1 FY20 [#]	Q1 FY21 [#]	Q4FY21 [#]	Q1 FY22 [#]	Jul-21*	Aug-21*
Agriculture						
Tractor sales (Numbers)	191305	165156	239066	229430	65216	
Fertilisers sales (Lakh MT)	73	129	149	117	80	69
Industry						
8-Core Industries (Index)	133.5	101.7	139.3	127.7	134	
IIP-Consumer Durable goods	127.0	41.1	126.0	95.6		
IIP-Consumer Non-Durable goods	142.6	118.5	152.4	139.9		
Domestic Auto sales [#] (Lakh)	58.3	14.5	52.9	30.1	15.4	
Passenger vehicles sales (Lakh)	6.7	1.4	8.5	5.8	2.6	
PMI Manufacturing (Index)	52.2	35.1	56.9	51.5	55.3	52.3
Power supply (Mega Units)	352.5	315.9	339.2	345.2	125.5	129.519
Natural gas production (Mn. Cu. Mt)	7876.2	6605.1	7325.3	8100.3	2892.0	
Cement production (Index)	149.9	92.6	166.0	143.0	154.4	
Steel consumption ('000 Tonnes)	25130	12230	28894	24878	8240	
Services						
Domestic air passenger traffic (Lakh)	676.7	44.7	460.1	210.3	97.4	
Port cargo traffic (Million Tonnes)	176.7	141.9	194.9	179.8	55.038	
Rail freight traffic (Tonnes)	3,07,420	2,41,560	3,62,610	3,39,050	1,12,720	1,10,550
PMI Services (Index)	50.3	17.2	54.2	47.2	45.4	56.7
Fuel consumption (Thousand MT)	55236	40798	54089	48479	16825	
UPI Digital Payments (Rs Lakh Crore)	4.4	6.3	13.6	15.3	6.1	6.4
UPI Digital Payments (Crore)	227.0	357.1	732.2	797.7	324.0	355.6

Indicator	Q1 FY20#	Q1 FY21#	Q4FY21#	Q1 FY22#	Jul-21*	Aug-21*
Inflation						
WPI (Base 2012=100)	121.4	118.7	127.7	132.7	134.5	
CPI (Base 2012=100)	142.0	151.4	156.6	159.8	162.5	
CPI food (Base 2012=100)	152.9	152.9	155.6	159.0	162.9	
Crude price Brent Dubai WTI (USD/ Barrel)	65.1	37.3	59.3	67.1	73.3	68.9
Crude oil Indian basket (USD/ Barrel)	67.5	30.3	60.2	67.3	73.5	70.1
External Sector						
Merch Exports (USD Billion)	80.9	51.4	89.8	94.9	35.2	33.1
Non-oil exports (USD Billion)	69.8	46.5	81.3	82.5	29.6	28.6
Non-oil non gold imports (USD Bn)	82.2	47.4	84.4	84.6	26.7	26.4
Baltic Dry Index	994.3	766.3	1,725.3	2,790.7	3,257.0	
Exchange Rate (INR/USD)	69.6	75.9	72.9	73.8	74.4	74.3
NEER (40 currency, trade based, 2015-16=100)	99.2	93.8	94.3	93.4	93.2	
Net FDI (USD Billion)	14.0	-0.8	2.6	11.4		
Net FPI (USD Billion)	6.1	0.3	7.5	0.2	-1.1	2.8
Fiscal						
Gross tax revenue (Rs. Lakh crore)	4.0	2.7	6.9	5.3	1.6	
Capital Expenditure (Rs. Crore)	63000	88273	115847	111496	16932	
GST collection (Rs. Lakh Crore)	3.1	1.9	3.6	3.4	1.2	1.1
Monetary and Financial Markets						
M3 (Rs. Lakh crore)	154.2	168.0	187.7	191.7	193.1	
Non-food credit (Rs. Lakh crore)	96.4	103.2	107.3	107.5	108.3	
Sensex (Index)	39394.6	29468.5	49509.2	52482.7	52586.8	57552.4
Nifty 50 (Index)	11788.9	8597.8	14690.7	15721.5	15763.0	17132.2

Note: # Colouring scheme for quarterly data is based on absolute values of respective indicators.

* Year-on-Year Growth over 2019.