Economic Division

Monthly Economic Review

October 2021

आर्थिक कार्य विभाग
DEPARTMENT OF
ECONOMIC AFFAIRS

सत्यमेव जयते

Executive Summary

India's economic recovery gathered steam in the festive season, recording a decade high Diwali sales of Rs. 1.3 lakh crore as per Confederation of All India Traders. Improving COVID-19 situation amid high business and consumer spirits has delivered sustained economic recovery in October, 2021 as well. The global economic recovery however continues to be impacted by prolonged supply constraints and input cost inflation. Yet IMF in its October, 2021 update foresees improved global growth prospects at 5.8 per cent in 2021 and 4.9 per cent in 2022 triggering a coterminous global trade growth, by volume, at 9.7 per cent and 6.7 per cent respectively. World Trade Organization's October forecast also confirms favourable trade prospects underpinned by resurgence in global economic activity and vaccine dissemination. This augurs well for India's export performance in the near future lending credence to IMF projecting India to become the fastest growing economy, among major countries, in the current and the following year.

India has administered 100 crore vaccinations in a span of ten months to already become the second country in the world to reach this milestone. By October end, more than 85 per cent of adult population has received at least one dose of the vaccine, with 38 per cent fully vaccinated. Besides, daily COVID-19 cases on average has slid from 32,000 in September to 18,000 in October. However, even as active cases ebb to 20-month low and daily deaths drop to less than 200, the lowering of guard, especially amid the ongoing festivities, would be fraught with peril.

Agricultural sector continues its strong presence in economic recovery with higher acreage of Rabi sowing, improved reservoir levels, and adequate availability of fertilisers and seeds ensured by the Government. Sustained rise in agri-exports, growing year-on-year (YoY) by 22 per cent in Apr-Aug 2021, bespeaks government's commitment to increasing farmers' income. Rural demand remains upbeat with month-on-month (m-o-m) improvement in tractor and two and three-wheeler sales in September, 2021.

Industrial production expanded in August to reach 103 per cent of its pre-pandemic August 2019 level with manufacturing witnessing full recovery in most of the use-based categories. On an encouraging note, capital goods category saw the sharpest rise portending a surge in investment. The eight-core industry output has now also crossed its pre-Covid level of September 2019 led by coal, natural gas, steel, cement and electricity. The recovery would have been greater but for heavy rains impacting construction, mining and electricity demand.

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. Complemented by improved manufacturing outlook, PMI Services has accelerated to a decadal high of 58.4 in October, 2021, on the back of sustained uptick in rail freight activity, resplendent growth in E-way bills and highway toll collections and m-o-m uptick in air freight and passenger traffic, among others. Decline in currency in circulation since June, 2021 along with continuous growth of digital payments index of RBI re-affirm a consumption-led demand recovery in the economy. 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.

Retail inflation has now moderated to 4.4 per cent in September, 2021. However, core inflation remains sticky at 5.9 per cent driven mostly by continuous increase in international oil price. In the meantime, food inflation, which dropped to 30-month low in September, is set to further *drive down retail inflation on the expectation of good Kharif production. On the other hand, core inflation, which reflects hardening of input costs and ripple effects of escalating global crude oil prices, poses concerns. Yet, these concerns have not embedded themselves in self-fulfilling inflationary expectations as seen in RBI's inflation survey. Further, the recent cut in central excise duty on petrol and diesel prices is expected to soften inflationary pressures exerted by rising crude oil prices.*

Softening retail inflation and adequate liquidity in the market are also reflected in largely stable G-Sec and corporate bond yields since July, 2021. A more deliberate effort to reduce cost of borrowing is seen in complete pass-through of policy repo cuts as weighted average lending rate (WALR) on fresh rupee loans decline by 130 basis points between February, 2020 and September, 2021. Understandably, RBI's Monetary Policy Committee in its 33rd meeting during October 6-8 resolved to continue with the extant configuration on the policy rates and its accommodative stance, while deciding to prioritise growth.

Declining borrowing costs have resulted in buoyant growth of bank credit in September. Healthy credit penetration in labor- intensive sectors bodes well for employment generation in the economy. In addition, high growth in personal loans and loans for consumer durables track an uptick in consumer spending in the festive season. With improving debt resolution and recovery, as evidenced in declining gross NPAs turning PSBs profitable, an acceleration in credit growth is a strong possibility. However, even as overall growth of bank credit looks set to surge, diversification of funding sources away from conventional bank credit towards commercial paper route and equity market is very much underway. India's equity market is much in focus as an attractive source of funding as its market capitalization soared to US $3.5 trillion in September, 2021, making it surpass France to become the sixth most valuable stock market in the world.

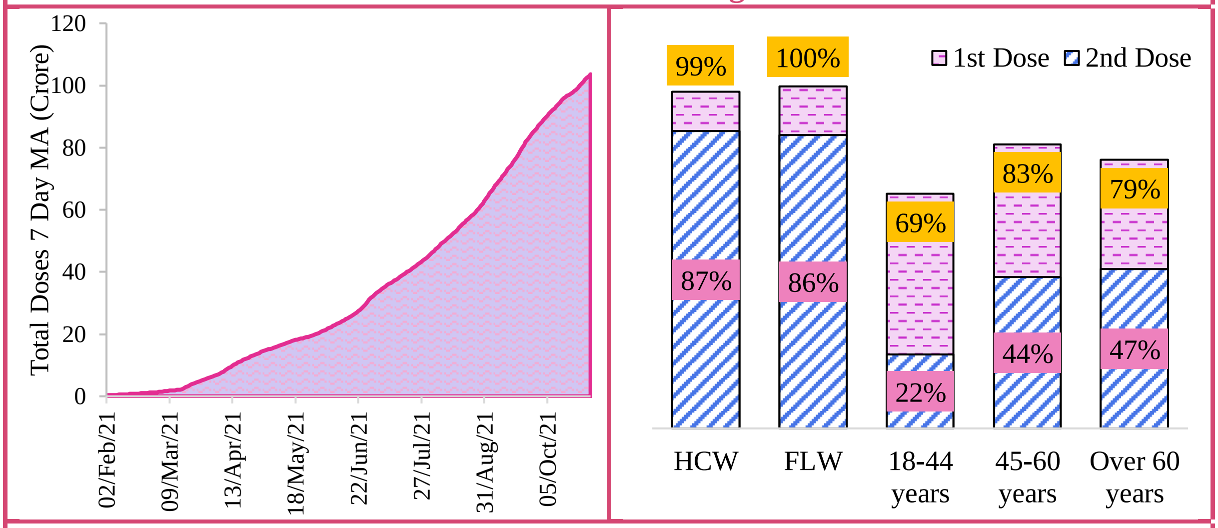
The external sector continues to be a critical part of India's economic revival with exports visibly emerging as an engine of growth. India's merchandise exports in October, 2021 have now crossed the US$ 30 billion mark for the seventh consecutive month. With merchandize imports in FY 2021-22 until October, 2021 also crossing their pre-pandemic 2019 levels, rapid recovery of domestic output is evident. FDI achieved the US$ 20 billion mark in the first five months of FY 22 as it did in FY 21. India's foreign exchange reserves stood comfortably at US$ 640.1 billion as on October 22, 2021, providing cover for around 14 months of imports projected for 2021-22.

With India's COVID-19 vaccination campaign crossing new milestones in rapid succession and teeming festivities lending renewed optimism to India's ongoing economic recovery, further demand stimulation, fuller restoration of supply chains, narrowing of demand-supply mismatches and greater employment generation, are in the offing. Atmanirbhar Bharat Mission encapsulating major structural reforms continues to play a critical role in shaping India's economic recovery, both through the signalling of business opportunities and expansion of spending channels. Armed with necessary macro and micro growth drivers, the stage is set for India's investment cycle to kickstart and catalyse its recovery towards becoming the fastest growing economy in the world!

COVID -19: India crosses 100 crore vaccination mark

1. In October, India accomplished 100 crore vaccinations in a span of ten months, becoming the second country to reach this milestone. While it took 85 days to administer the first 10 crore doses, the last 10 crore doses to reach the century mark took 20 days. More than 73 crore people have received at least one vaccine dose while more than 32 crore people have been fully vaccinated. At this pace, India will achieve its target of inoculating the entire adult population with at least one dose well before December 2021. Around 99 per cent of registered Health Care Workers (HCWs), 100 per cent of registered Front Line Workers (FLWs), 69 per cent of the population aged between 18-44 years, 83 per cent of the population aged between 45-60 years and 79 per cent of the population above 60 years have been covered under the first dose.

Vaccination Coverage



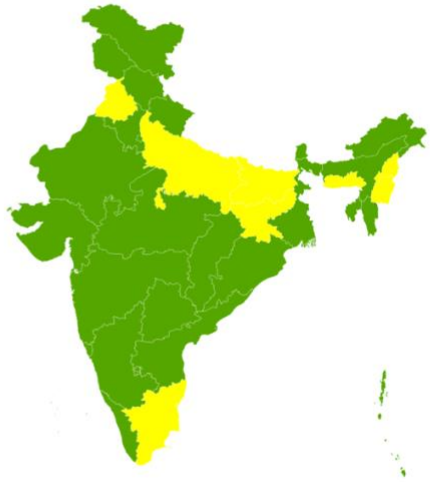
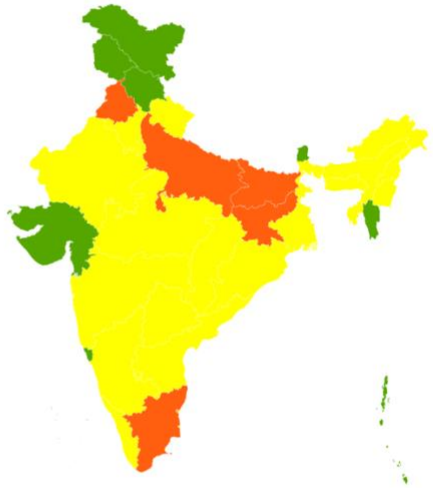
Source: MoHFW

Note: HCW stands for Health Care Worker, FLW stands for Front Line Worker

2. As on date, the first dose of COVID-19 vaccine has been administered to more than 85 per cent of the adult population, with all states covering more than 50 per cent of their respective adult population. 11 states and union territories have vaccinated the entire adult population with at least one dose. While Kerala still has the highest number of active and new cases, it has inoculated the entire adult population with at least one dose.

3. While, more than 38 per cent of adults in India have been fully vaccinated. Sikkim is leading the vaccination drive and has fully vaccinated almost the entire adult population. Ladakh and Goa have fully vaccinated more than three-fourths of their respective adult population. The other states that have fully vaccinated around 25 per cent of adults are Uttar Pradesh, Bihar, Jharkhand and Punjab. 16 states and union territories have fully vaccinated more than 50 per cent of the adults.

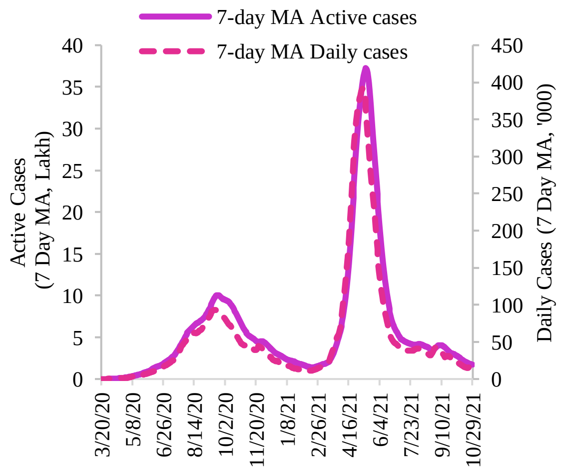
Vaccination (as % of adult population) as on 31st October 2021

1st Dose			2nd Dose		
					
<50%	50-80%	>=80%	<25%	25-50%	>=50%

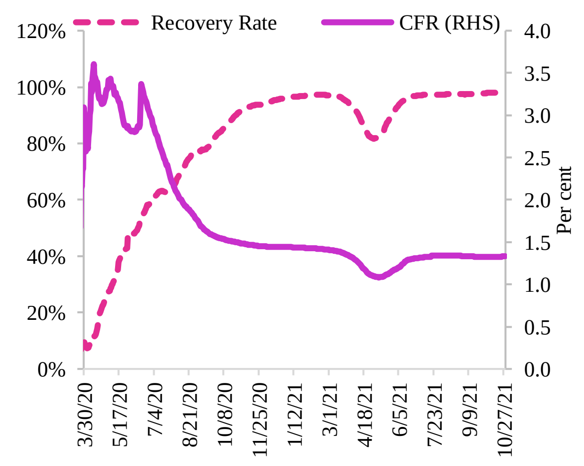
Source: MOHFW

4. Along with the speedy vaccination drive in the country, October has witnessed a continuous fall in the number of daily cases in the country. 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 per cent. As on 31st October, active cases continued to ebb to 20-month low of less than two lakhs. Despite the falling number of cases, the number of tests conducted remains high. Weekly positivity rate has reduced from more than 2 per cent in September to less than 1.5 per cent this month. The improving pace of vaccination in the country and the availability of required medical facilities has helped in reducing the death rate. The number of daily deaths dropped to less than 200 after a gap of more than six months.

COVID-19 Active and Daily cases



Recovery and Fatality Rate

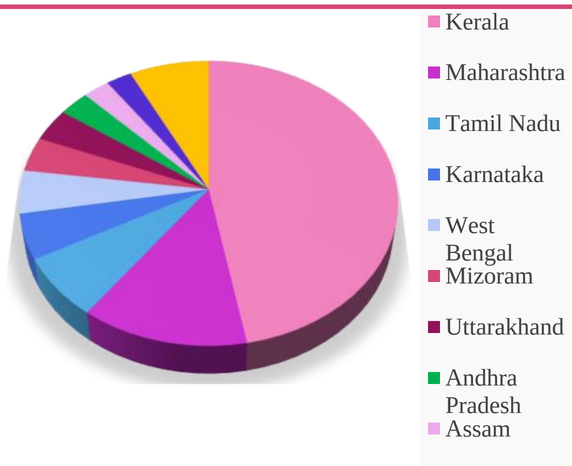


Source: MoHFW

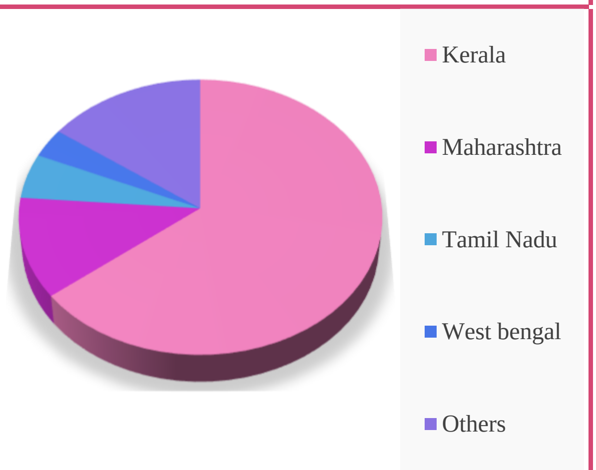
Note: CFR stands for cumulative Fatality Rate

5. The number of active cases largely remains concentrated in Kerala accounting for 47 per cent of the total active cases. Overall, 80 per cent of the active cases are in Kerala, Maharashtra, Tamil Nadu, Mizoram and Karnataka. 20 states and union territories account for only 1 per cent of the active cases. A similar pattern can be seen in the average number of deaths in the month of October with Kerala accounting for 65 per cent of the total deaths in the country followed by Maharashtra, Tamil Nadu and West Bengal. Mizoram has the maximum number of daily deaths when compared in terms of per lakh population. However, 25 states and union territories account for less than 3 per cent of deaths in the month.

Share of States in active Cases as on 31st October 2021



Average Daily Deaths



Source: MoHFW

6. Majority of the states have now eased restrictions on economic activity. The Oxford Stringency Index has improved from 66.5 in September to 58.1 in October. Google mobility retail and recreation index improved further to (-) 4.9 per cent in October from (-) 13.0 per cent in September. However, it remains critical to follow Covid-19 appropriate behaviour scrupulously during these festive months.

Global economic recovery reined in by inflation

7. After peaking in the first half of August, global COVID-19 case counts have declined, led by falling cases in the United States and a broad-based decline across East Asia and the Pacific (EAP). By October end, around 38 per cent of the total population has been fully vaccinated, though wide variation among advanced and emerging economies still persist.

8. 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 global economy, supply constraints and input cost inflation continue to impede the momentum of recovery. US Composite PMI rose to 3-month high of 57.3 in October on the back of reviving service sector after the surge in the Delta variant. However, manufacturing sector has been slowing down since July 2021, due to record lengthening of supplier delivery times and input cost inflation. Renewal in service activity was also mirrored in UK Composite PMI reaching a 3-month high of 54.9 in October, while the manufacturing sector remained plagued by supply bottlenecks.

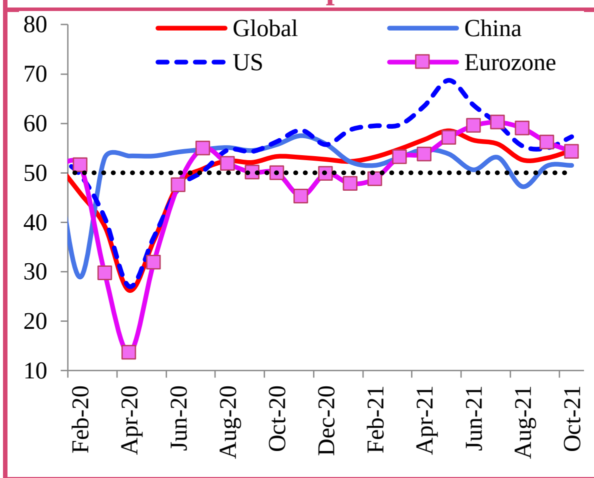
However, in the Eurozone area, Composite PMI plunged to a 6-month low of 54.3 with both manufacturing and services cooling down.

9. As per IMF World Economic Outlook October 2021 Update, global growth projection for 2021 has been revised down marginally to 5.9 per cent but for 2022 remains unchanged at 4.9 per cent. Low-income developing countries have been experiencing worsening pandemic dynamics as 96 per cent of their population are still unvaccinated and food prices are at elevated levels. Even the advanced economy group too face difficult near-term prospects due to prolonged supply disruptions. Partially offsetting these changes, projections for some commodity exporters have been upgraded on the back of rising commodity prices.

10. Globally, inflationary pressure continues to be an area of concern. In September, while US inflation plateaued at an elevated 5.4 per cent, Euro Area inflation continued to rise to reach 3.4 per cent. However, inflation in China softened to 0.7 per cent. IMF Commodity price index saw a 59.5 per cent growth in September compared to last year and 5.4 per cent compared to last month, driven by rise in prices of natural gas (rising 40 per cent over previous month and 355 per cent over last year) and coal (rising 13 per cent sequentially and 218 per cent YoY). This rise may be partly attributable to weather-related supply shocks in exporting countries, and strong demand for power generation amid higher-than-average temperatures, and expectation of strong winters. Crude oil prices in September 2021 were 78 per cent higher than last year, pulled-up by economic recovery in Asia and pushed up supply disruptions following hurricane Ida in Gulf of Mexico.

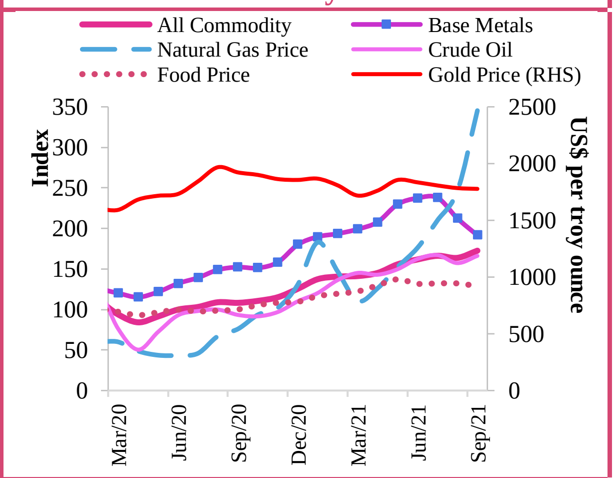
11. According to World Bank Quarterly Commodity Markets Outlook, October 2021, prices of natural gas, coal, metals and agricultural commodities are expected to decline in 2022, with slowing of demand growth and easing of supply constraints. At the same time, crude oil prices are forecast to average $74/bbl in 2022, up from a projected $70/bbl in 2021.

Global PMI Composite Indices



Source: IHS Markit

Commodity Prices



Source: IMF

12. Global financial markets were a mixed bag in October, driven by growth projections for the third quarter in US and Eurozone, prolonged input cost inflation, tightening of monetary policy in EMDEs, and an ailing real-estate sector in China. Financial markets ended the month

with significant gains in US, UK, and Europe, while China and Asia-Pacific zone saw dampened investor sentiment. According to IMF's Global Financial Stability Report, October 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. While financial conditions have eased further in advanced economies (compared to last report in April 2021), they have remained largely stable in emerging markets. Financial stability risks remain elevated amid rising long-term yields, persistent inflation, high equity misalignments relative to fundamental-based values, and increasing instances of monetary tightening in Emerging Markets. While corporate balance sheets have strengthened and a substantial pick-up in bankruptcies has been averted on the back of solid fiscal and monetary support, solvency risks continue to be elevated in sectors hit hardest by the pandemic like transportation and services and in small firms.

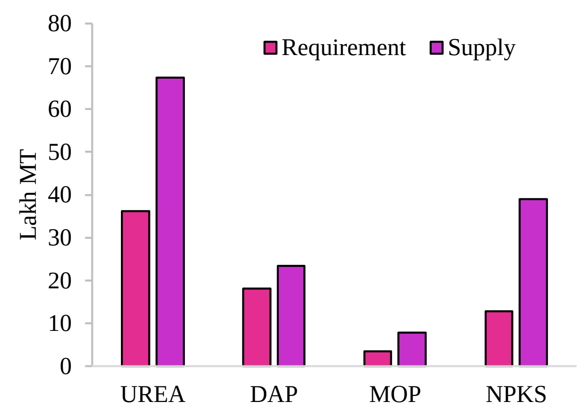
13. Global trade continued to strengthen in October seen in the growth of commercial air and container traffic. Container Throughput Index by ISL (covering 91 sea-ports accounting for 60 per cent of global container traffic) increased to 124.8 points in September from 123.7 points in August. The north range index for northern Euro area and Germany strengthened significantly while activity in Chinese ports weakened. Average number of international commercial flights per day increased further in October 2021, 39 per cent higher than in Oct 2020 but 20 per cent lower than in Oct 2019. According to World Trade Organization's October forecast, global merchandise trade volume is expected to grow 10.8 per cent in 2021, revised up from 8.0 per cent forecast in March in light of strong resurgence in global economic activity and vaccine dissemination. However, there remains significant divergence across countries, with some developing regions lagging behind global average. Risks to the forecast include rise in inflation, longer port delays, higher shipping rates, and extended shortages of semiconductors.

Domestic economy

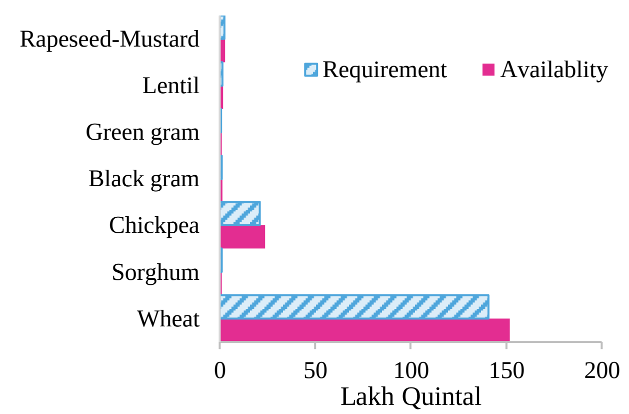
Favourable conditions for Rabi sowing, rural demand revives; MNREGA demand for work 17 month low

14. Agricultural sector continues to offer bright prospects as evident in healthy progress of Rabi sowing and strong revival in rainfall bringing cheer to the farming community. As on 29th October 2021, overall rabi acreage stood at 43.3 lakh hectares, 1.8 per cent higher as compared to the previous year. The area under rabi oilseeds has increased by 26.6 per cent – which bodes well for oilseeds production in 2021-22. Live storage in major reservoirs used for irrigation was 82 per cent of the total live storage capacity, lower than last year's level (94 per cent) but higher than decadal average of 76 per cent. Government hiked the subsidy on Diammonium Phosphate (DAP), critical for growing vegetable crops, as a special onetime package to offset rise in international prices and ensure that farmers get these fertilizers at affordable prices. Improved reservoir levels, adequate rainfall and availability of fertilisers and seeds in surplus offer good prospects for healthy Rabi prospects.

Fertilizers Availability



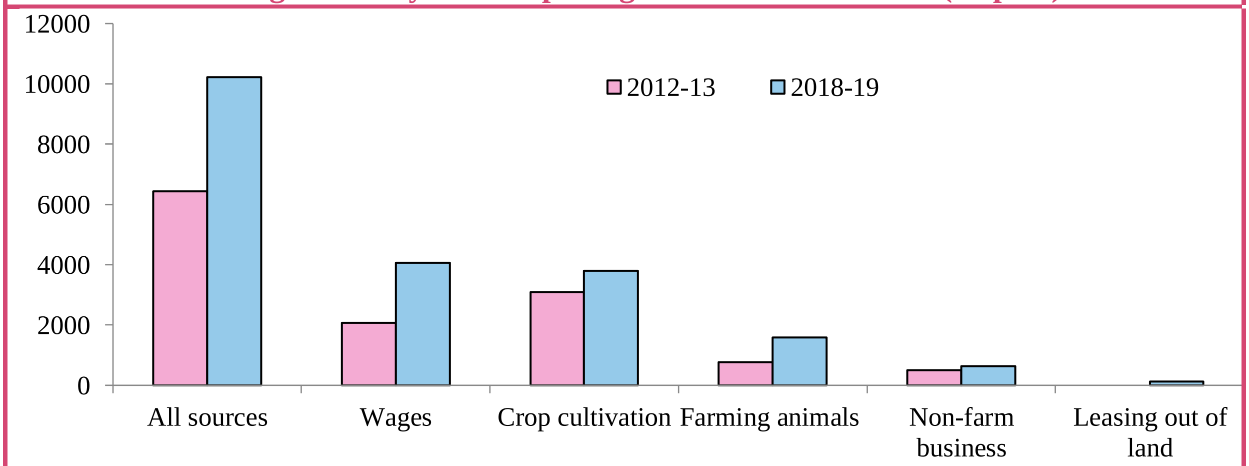
Deficit/ Surplus Availability of Seeds



Source: Department of Fertilizers, A&FW, PIB

15. According to the Quick Estimates released by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), the overall export of Agricultural and Processed Food Products Export Development Authority (APEDA) products witnessed 21.8 per cent growth in terms of USD during April-August 2021 over the same period of the previous year. This rise in exports was achieved notwithstanding Covid-19 restrictions and is in continuation of growth in exports witnessed in the financial year 2020-21. The significant spike in agri-exports bears testimony to government's commitment to increase farmers' income through giving thrust on boosting exports of agricultural and processed food products produced in the country. Situation Assessment Survey (SAS) of Agricultural Households, Land and Livestock Holdings of Households of Rural India, 2019 revealed that farmers' incomes increased by 59 per cent on a nominal basis between 2012-13 and 2018-19. The percentage of agricultural households indebted has come down from 52 per cent in 2013 to 50 per cent in 2019. The percentage of crop-producing households insuring their crops has substantially increased, which indicates more farmers are adopting risk mitigation measures.

Average Monthly Income per Agricultural Households (Rupees)

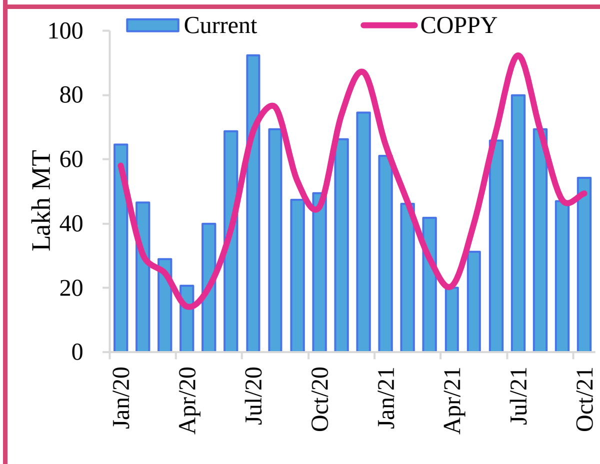


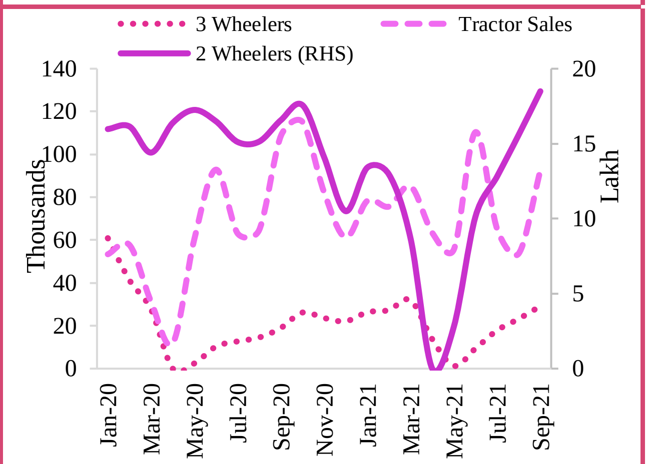
Source: MoSPI

16. Rural demand drivers continue to remain favourable with sequential rise in domestic tractor sales (72.1 per cent) and exports at historic high in September, increase in fertiliser sales

(9.8 per cent) in October compared to corresponding period last year and increasing two-wheeler and three-wheeler sales amid festive season. Sequential decline in demand for MNREGA work reached 17-month low in October reflects decline in rural stress post second-wave.

Fertilizers Sales	Auto and Tractor Sales



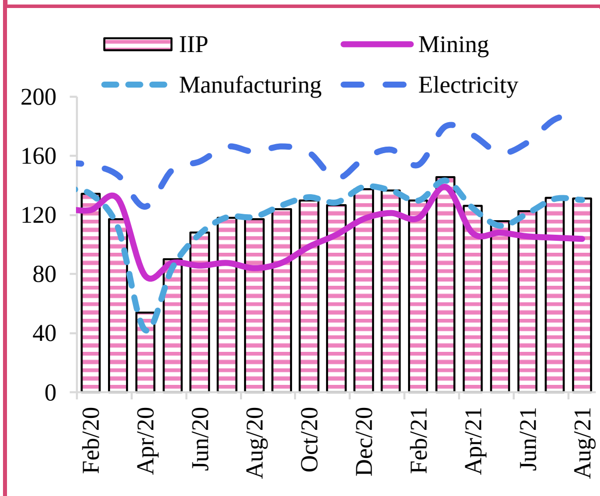


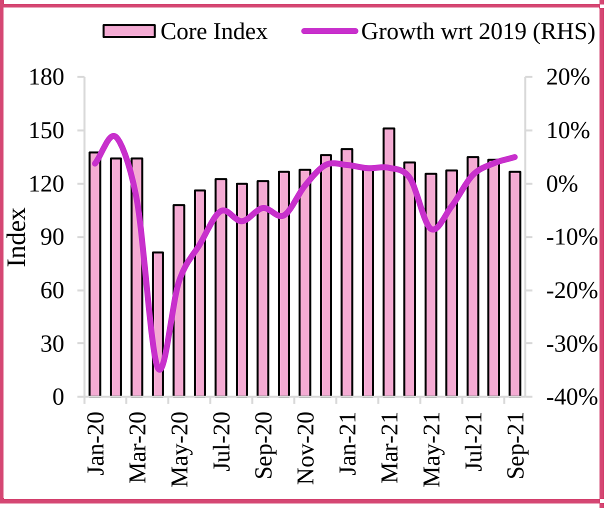
Source: Department of Fertilizers, SIAM, TMA
Note: COPPY: Corresponding Period of Previous Year

Clear indicators of meaningful recovery in India's real sector

17. Industrial production expanded in August 2021 to recover 103 per cent of its pre-pandemic August 2019 level with manufacturing and all use-based categories witnessing full recovery or more except for consumer durables which stood at 97 per cent of August 2019 level. Capital goods registered the sharpest YoY rise, followed by primary goods, infrastructure goods and intermediate goods. These trends indicate recovery of intra-industry sector demand and a growing confidence of meaningful recovery of the industrial sector. The increase in capital goods production could reflect revival in investment.

Index of Industrial Production	Core Industries



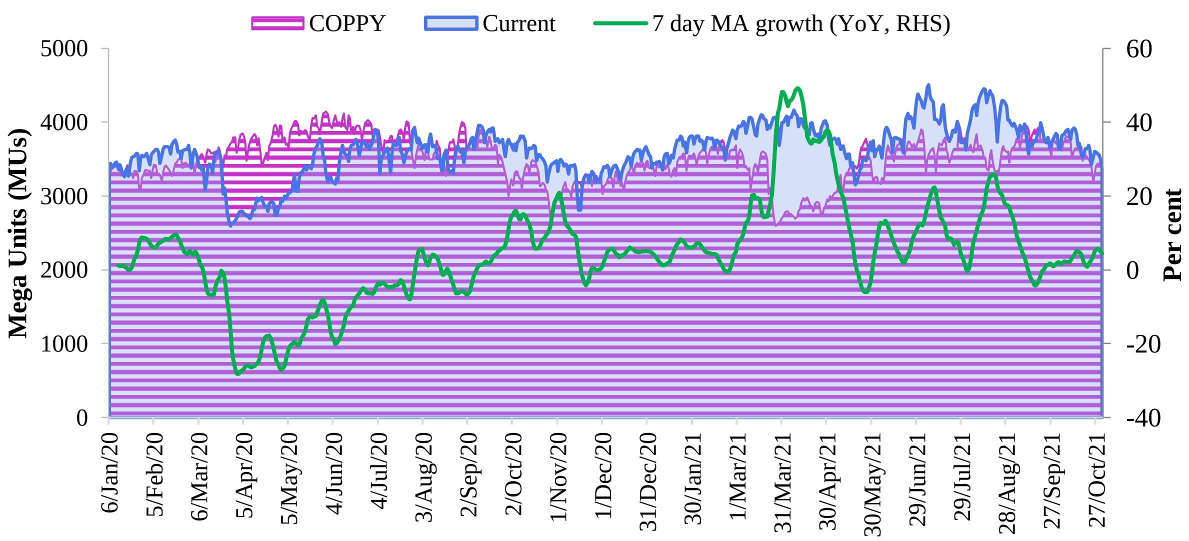


Source: MoSPI, Office of Economic Advisor, DPIIT

18. While the index of eight core industries stood at 105 per cent of its September 2019 level, YoY growth declined to 4.4 per cent in September compared to 11.5 per cent in August, largely due to decline in crude oil output and slowdown in expansion of electricity generation. The decline in output may also be attributable to heavy rainfall dampening mining and construction activities along with electricity demand.

19. PMI Manufacturing augmented to an eight-month high of 55.9 in October 2021 from 53.7 in September on the back of 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, rise in input costs accelerated further. Improvement in a seasonally adjusted PMI index is heartening and clearly affirms significant demand recovery rather than a festive season induced one.

Power Consumption



Source: POSOCO; COPPY: Corresponding Period of Previous Year

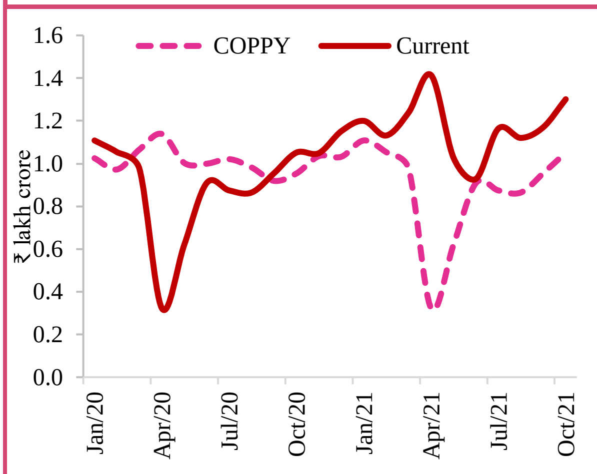
20. Power consumption in October 2021 picked up to grow at 3.1 per cent YoY compared to 0.8 per cent in September. Compared to pre-COVID October 2019 level, YoY growth stood at 15.6 per cent. This indicates resilience in power sector braving coal supply disruptions at electricity generation plants (where supply disruptions have been caused by heavy rains in mining areas) and international coal price rise. The recovery in power demand and consumption is expected to gain further momentum on the back of government's recent efforts to ramp up supplies and continuous easing of mobility restrictions across states. Further, the steady rise over 2019 levels reflects widening electricity coverage with more than 2.8 crore homes electrified under the SAUBHAGYA Programme since its launch in September 2017.

21. October also marked a month of resplendent 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 per cent YoY growth vis-à-vis October 2020 and 39 per cent growth vis-à-vis the pre-pandemic month of October 2019. Sequentially, it has grown by 8.2 per cent over September 2021 reflecting a sustained growth in activity levels with ebbing

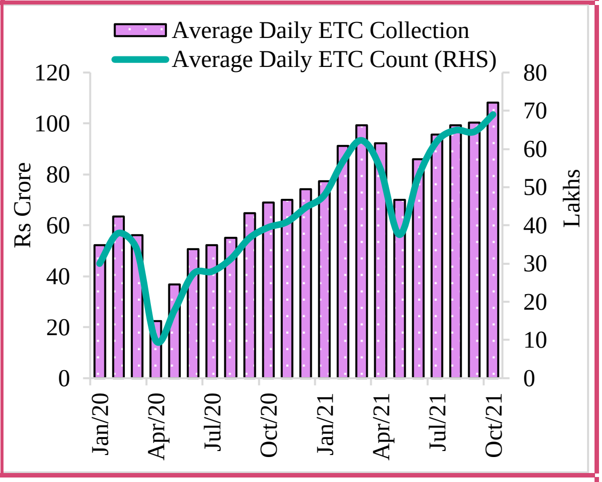
of second wave. In terms of value, e-way bills generated reached ₹21.2 lakh crore in October 2021, 9.4 per cent higher than previous month, 26.3 per cent higher than October 2020 level, and 49 per cent higher than that in October 2019.

22. In tandem with previous E-way bill figures, October 2021's GST collections rose to their second-highest level of ₹1.30 lakh crore, from ₹1.17 lakh crore in September. Steady uptick in GST collection (reflecting transactions done in September) indicates hearty momentum of economic activity ahead of months of Dussehra-Diwali festivities. The uptrend in revenue collection is expected to remain robust post festive season driven by uptick in economic activity and strengthened tax administration.

GST Revenue Collection



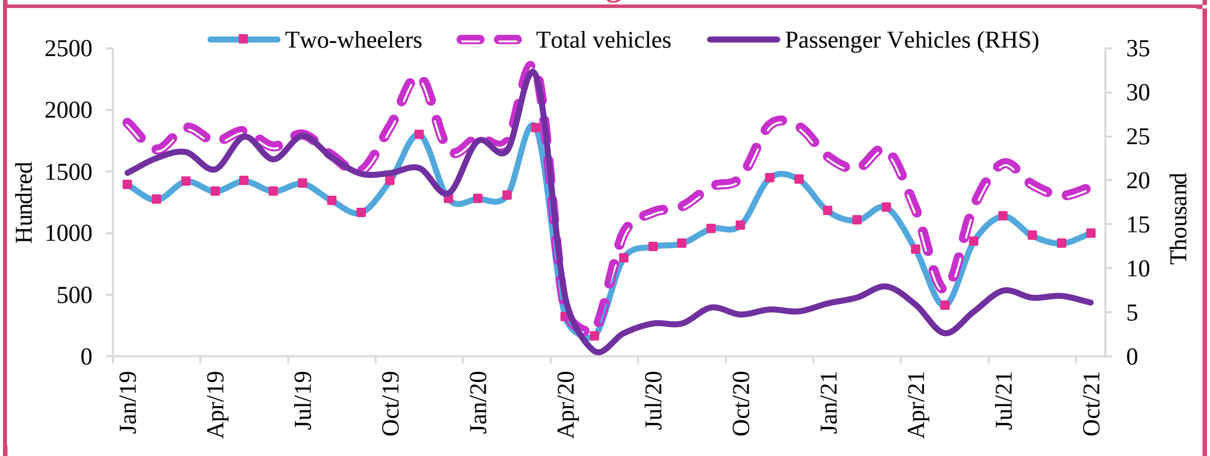
Daily Average ETC Collection and Count



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

23. Indicative of fast-paced resumption of commercial activity, average daily value of highway electronic toll collection (ETC) in October 2021 attained its highest level since January 2020. YoY growth in average daily toll collections in October stood at 74.8 per cent in count and 57 per cent in value.

Vehicle Registrations

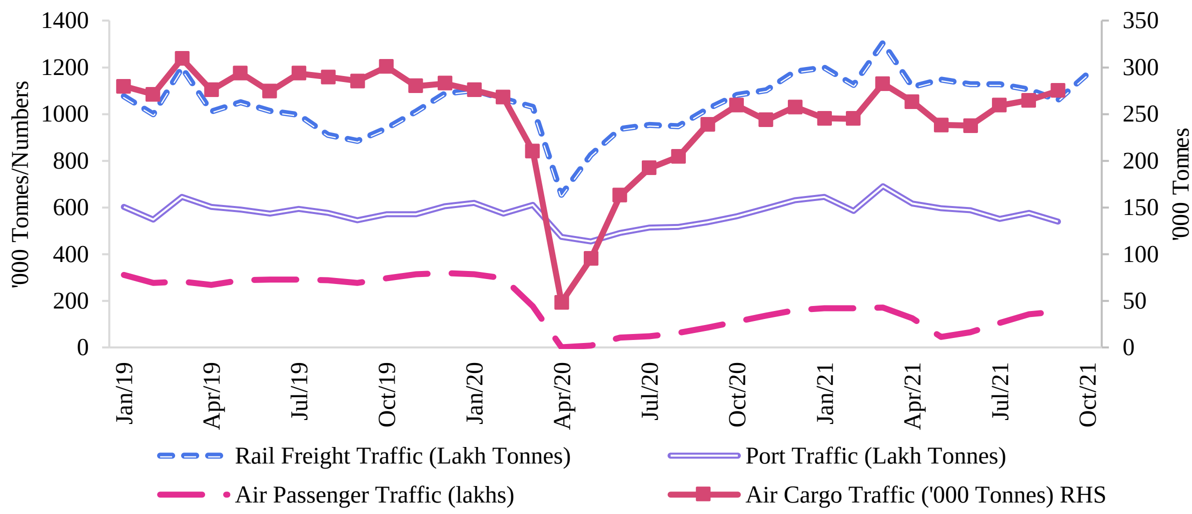


Source: VAHAN Dashboard

24. Vehicle registrations saw an uptick in October 2021, as compared to October, 2020, driven by two-wheelers, whose registration rose by 8.9 per cent. Two-wheelers comprise more than 70 per cent of total vehicle registrations. However, total vehicle registrations declined by 5.5 per cent with passenger vehicle registrations yet to increase. Protracted global supply disruptions in semiconductor chips has led to increased waiting time for four-wheelers' buyers, possibly limiting the full-potential of the festive fervour and increased preference for personal mobility after COVID-19.

25. Indian Railways has maintained its high momentum in freight activity. Rail freight loading stood at 117.34 million tonnes in October 2021, which is 25 per cent higher than October 2019 level, and 7.6 per cent higher than October 2020 level.

Rail, Port, and Air Traffic



Source: Ministry of Railways, Indian Ports Association, Airports Authority of India

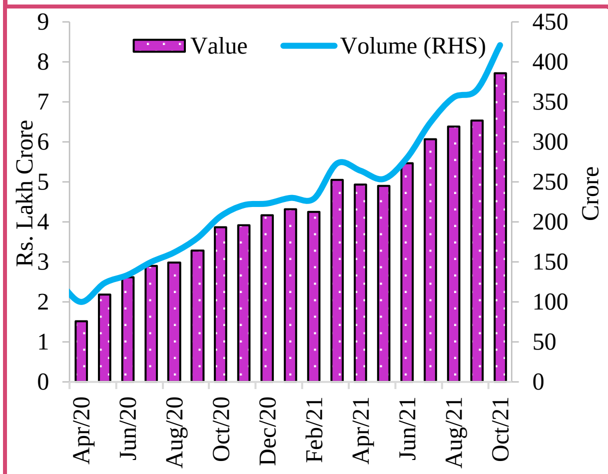
26. Air freight and traffic activity also witnessed sequential uptick in September with air cargo traffic being 15 per cent higher than last year. Air passenger traffic in September increased by 8 per cent over August 2021, and 83 per cent over September last year, while it is still 44 per cent lower than levels of September 2019. At the same time, recovery in port traffic at major ports moderated in September, with a modest 0.5 per cent growth with respect to September 2020.

27. 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, strongest monthly expansion since January 2012. The expansion was supported by increase in new work order. Although input costs continued to rise showing in high core inflation, the overall inflationary pressures eased out further in October.

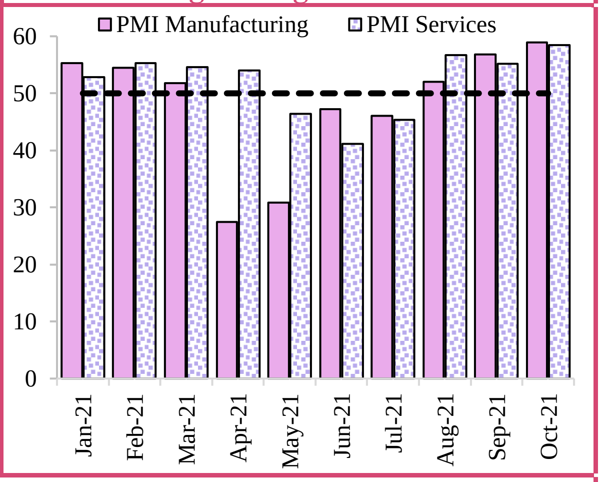
28. UPI transactions claimed another record high in October 2021 with value of total transactions climbing to ₹7.71 lakh crore compared to ₹3.9 lakh crore in October 2020. While

transaction volume firmed up to 421 crores, more than double of 207 crore transactions in October 2020. Transactions volume and value witnessed a double-digit MoM growth of 17.9 per cent and 15.3 per cent, respectively, in October over September 2021. Apart from upbeat consumer sentiment, the growth of digital payments index shows rapid adoption and deepening of digital payments across the country in recent years. Digital payments index of RBI rose by 63 points during past 12 months into the pandemic as compared to 54 points in the preceding 12 months. The steep rise in digital payments is further bolstered by the festive season and added features in digital transactions, such as increased limit for IMPS transactions.

UPI Transactions



Purchasing Managers' Index - India



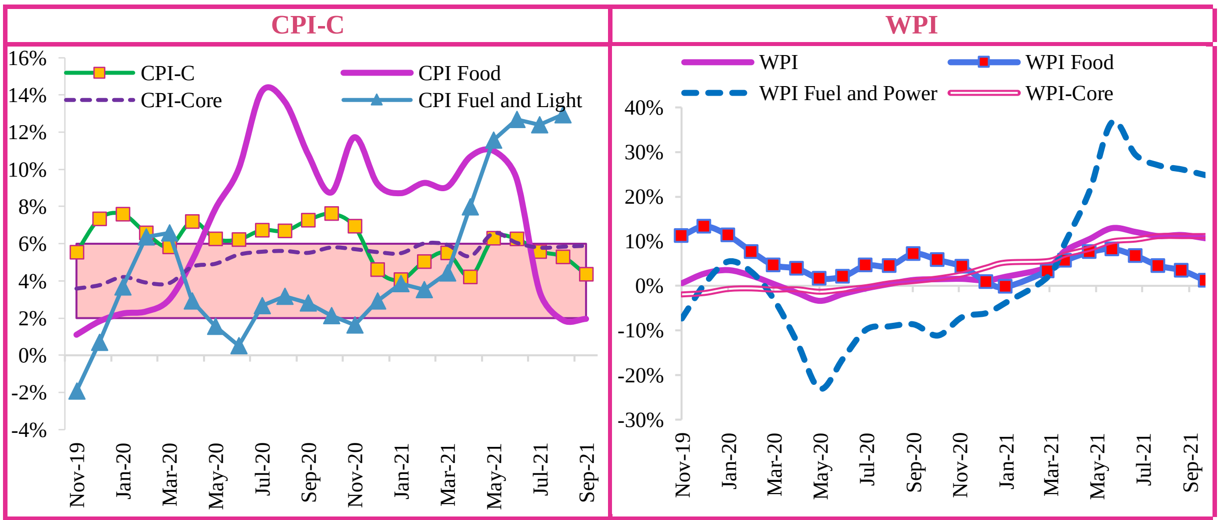
Source: National Payments Corporation of India, IHS Markit
COPPY: Corresponding Period of previous Year

29. In September 2021, domestic consumption of petroleum products remained broadly stable compared to previous month, while registering a growth of 2.9 per cent compared to corresponding period of last year. Price of Crude oil (Indian basket) hardened to 81.54 USD/bbl in October 2021 from 72.73 USD/bbl in September 2021, remaining significantly higher than 40.7 USD/bbl in October 2020, pumped up by demand recovery in Asia and supply outages in exporting countries.

Retail inflation eases further, food Inflation at 30-month low, wholesale price inflation softens to 6-month low

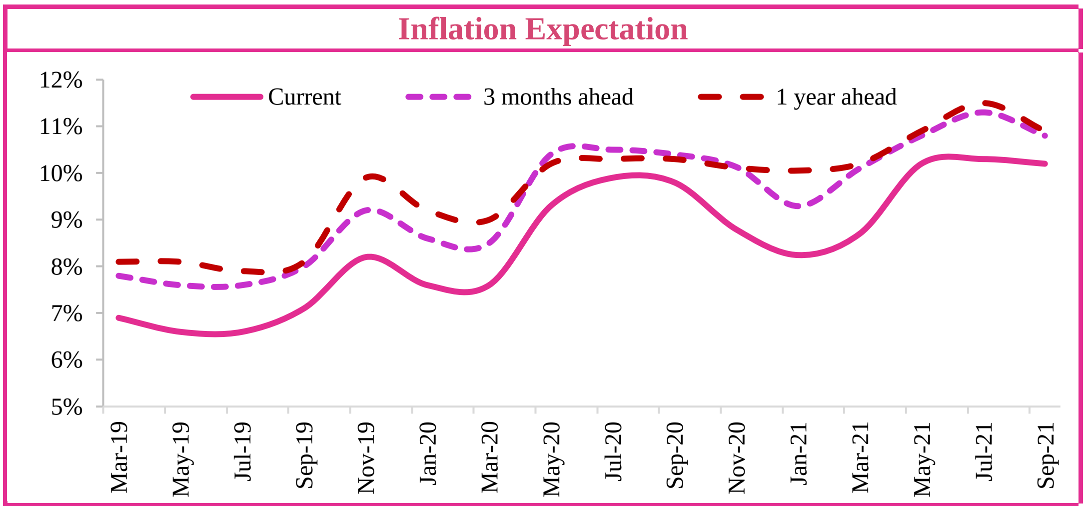
30. The consumer price index (CPI) eased further to 4.4 per cent in September 2021 from a peak of 6.3 per cent in May 2021 driven by low food inflation and favourable base effect. Food inflation declined to 30-month low of 0.7 per cent in September as compared to 3.1 per cent in August. While inflation in both rural as well as urban segments eased during the month, core inflation continued to remain sticky at 5.9 per cent in September. Fuel inflation also inched up to a new high of 13.6 per cent.

31. Wholesale price index (WPI) inflation softened to 6-month low of 10.7 per cent in September from 11.4 per cent 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.



Source: MoSPI, DPIIT

32. According to September 2021 round of the Reserve Bank of India's survey that tracks inflation dynamics, the three-months and one-year ahead median inflation expectations of urban households fell by 50 basis points (bps) and 60 bps, respectively after rising for three successive rounds. The proportion of respondents expecting the general price level to increase by more than the current rate decreased for three-months ahead horizon but increased for one-year ahead horizon vis-à-vis the previous round.



Source: RBI

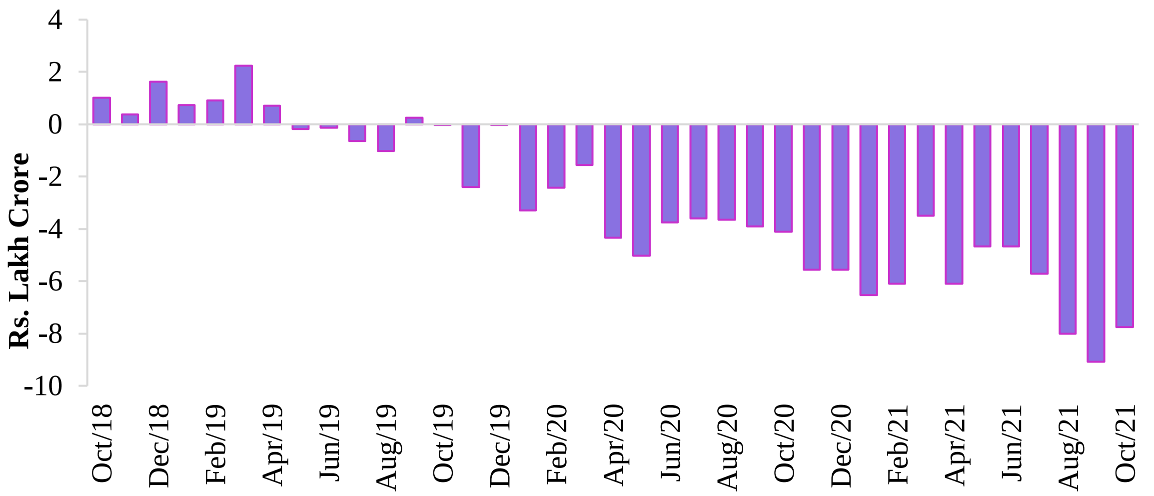
33. Softening of both wholesale as well as retail inflation reaffirms easing of price pressures in the economy. Retail inflation having declined to stay comfortably close to the median of RBI's monetary policy goal bodes well for prioritizing growth. Unlike the central banks in advanced countries, the RBI is not under pressure to raise repo rates for checking inflation that creates more room for monetary side expansion of demand. Going forward, good kharif production and adequate buffer stock of food grains are expected to keep food inflation low. While hardening input costs and ripple effects of escalating global crude oil prices continue to

pose concerns, responses to RBI's inflation survey indicate that these concerns are still not embedded into either cost-push or demand side inflationary expectations.

RBI continues with accommodative stance to bolster growth and expedite return to normalcy, liquidity comfort continues

34. RBI's Monetary Policy Committee resolved to continue with the extant configuration on the policy rates and its accommodative stance in its 33rd meeting during October 6-8, while deciding to prioritise growth amidst softening of inflation in recent months. To encourage banks to deploy their surplus funds in investments and loans in productive sectors of the economy amidst transitory supply side disruptions and gradual demand recovery in contact-intensive services, the reverse repo rate under the LAF was cumulatively reduced to 3.35 per cent at the start of the pandemic and has been the same ever since. The policy repo rate is also unaltered to alleviate persistent price pressures and keep inflation within monetary policy range.

Net Liquidity Injected (+)/Absorbed (-) (LAF & OMO)



Source: RBI

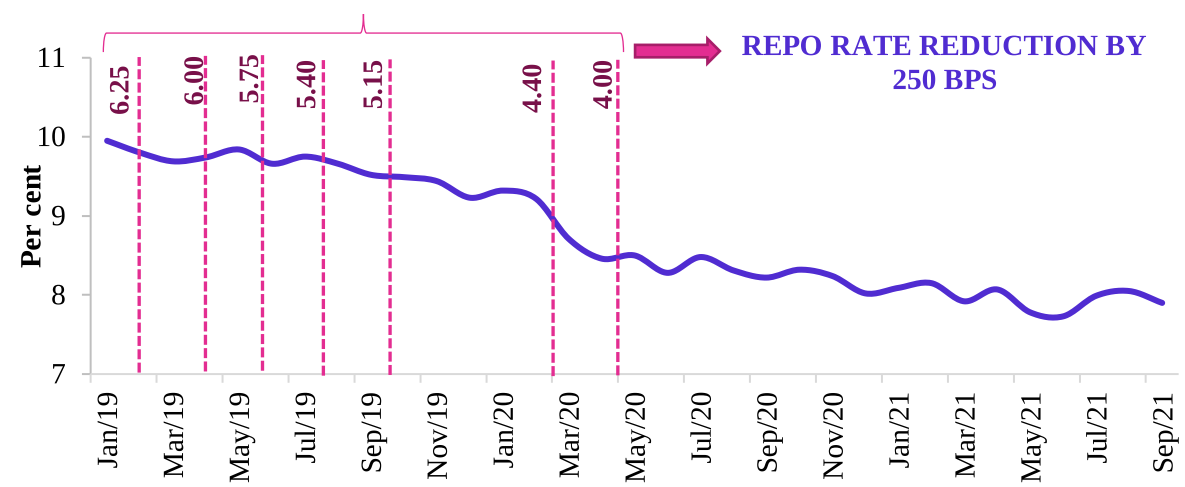
35. While liquidity comfort continues, liquidity surplus has relatively narrowed in October with RBI's tactical management of systemic liquidity including announcement of variable reverse repo rate auctions in its MPC meeting. The average daily net absorption under LAF reverse repo corridor framework stood at ₹7.7 lakh crore in October, reducing from ₹9.1 lakh crore in September 2021.

36. Notwithstanding surplus liquidity absorption, money markets have consistently traded below the reverse repo rate, which is indicative of adequate availability of surplus funds. The Weighted Average Call Rate (WACR), the operating target of monetary policy was closely aligned to the repo rate at 3.31 per cent in October. Additionally, overnight money market rates in the collateralised 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 per cent, respectively, in October. Inter-bank trading activity expanded as average daily volume in the call money market increased to ₹7,844 in October, 2021 from ₹7,381 crore in September 2021.

Surplus liquidity aids monetary policy transmission with positive spill overs

37. The abundance of systemic liquidity, forward guidance by the MPC of continuing with the accommodative stance have ensured that the short-term rates remain anchored and soft relative to the policy rate, aiding monetary policy transmission with positive spill overs to other segments of the market spectrum. There has been a complete pass-through of the policy repo rate cuts to the weighted average lending rate (WALR) on fresh rupee loans, evidenced in reduction of WALR by 130 basis points from 9.2 per cent in February 2020 to 7.9 per cent in September 2021.

Weighted Average Lending Rate (WALR) on fresh rupee loans



Source: RBI

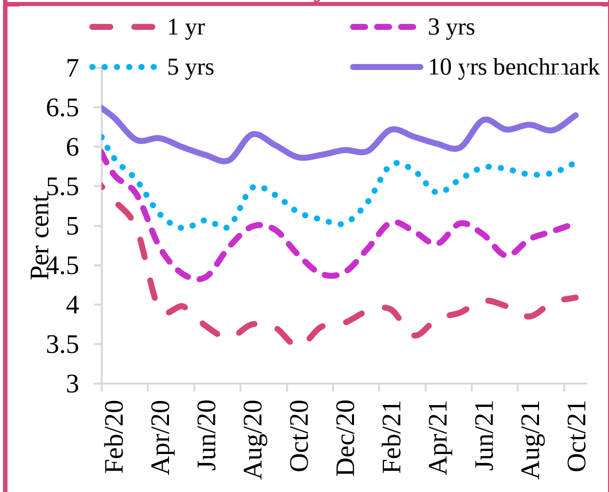
38. Yields on short-term (less than one year) money market instruments like the 91-day, 182-day, 364-day Treasury Bills (T-Bills) traded below the policy rate in the primary market, on an average, by 56 bps, 37 bps and 11 bps, respectively in October. Given surplus liquidity and improved growth in credit demand and bank deposits, fresh issuance of Certificate of Deposits (CDs) increased to ₹1,685 crore on October 8, 2021 from ₹877 crore in the corresponding period of previous year.

39. Reserve money (RM) growth on a YoY basis expanded to 14 per cent as on October 22, 2021 (12.2 per cent a year ago) compared to 14.2 per cent in the previous fortnight, following the gradual restoration of cash reserve ratio (CRR). Currency in circulation, the primary component of RM further moderated to 8.5 per cent (YoY growth) as on October 22, 2021 compared to 20.3 per cent a year ago and 9 per cent on September 24, 2021. Decline in currency in circulation since June, 2021 suggests that consumers are reducing their cash holdings with greater inclination to spend, raising prospects for increased consumption levels.

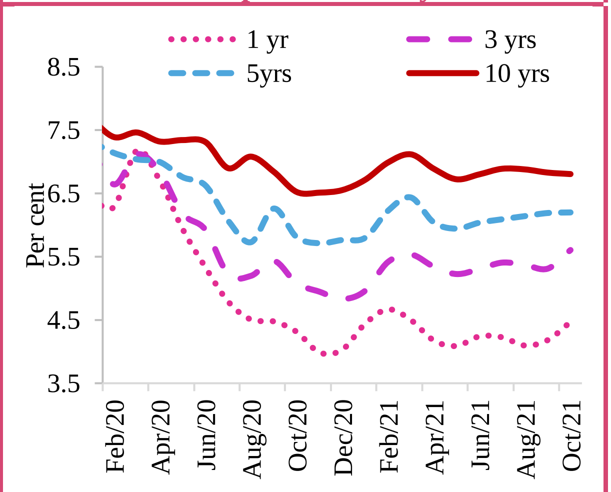
40. Money supply (M3) grew by 9.9 per cent (YoY) as on October 8, 2021 compared to 9.3 per cent in the previous fortnight and 12.1 per cent in the corresponding period of the previous year. Time deposits with banks, the largest component of money supply, stayed firm with YoY growth of 8.9 per cent compared to 10.6 per cent a year ago.

41. Inflationary pressure that has been softening since July with easing of supply-side constraints prevailed on G-Sec yields and subsequently on corporate bond yields. Largely stable 10-year government bond and AAA rated corporate bond yields indicate adequate liquidity in the market for both government and the private sector to borrow and allays the apprehension of public sector borrowing “crowding-out” private investment.

G-Sec yields



AAA Corporate Bond yields



Source: CCIL, RBI, Extracted from CMIE

Diversification of funding sources away from conventional bank credit underway

42. Credit disbursal by banks and other institutional lenders still remains moderate with bank credit YoY growth at 6.5 per cent in the fortnight ending October 8, 2021, compared to 6.7 per cent in the previous fortnight and 5.7 per cent in the corresponding period of the previous year. Credit-deposit ratio in the economy slightly fell to 69.9 as on October 8, 2021 compared to 70.06 as on September 10, signalling slowed purveying of credit in the economy.

43. At sectoral level, healthy growth of bank credit to mostly all sectors (including agriculture, MSMEs, personal loans, vehicles etc.) continued in September 2021, barring large industries. Personal loans posted a handsome 12.1 per cent growth, with loans for consumer durables growing at a stupendous 40 per cent on a y-o-y basis, which tracks the uptick in consumer spending in the festive season. Industry wise distribution of bank credit shows a healthy 5.8 per cent growth in flow of credit to infrastructure, fuelling infrastructure spending. Food processing industries, textiles and gems and jewellery sectors – all of them labour intensive – exhibited heightened flow of credit on a YoY basis in September, boding well for employment generation in the economy.

44. Meanwhile, a phenomenon of diversification of funding sources away from conventional bank credit towards tapping the commercial paper (CP) route and equity market is underway (also discussed in MER September 2021). While high rated corporates continue to access funding through the CP route at sub-4 per cent rates, brokerages have benefited from the stock market rally in their stock values soaring upwards. The IPO boom persists with seven

more Indian firms being given approval for their issue by SEBI, signalling that more Indian companies are actively tapping the market for their funding requirements. Additionally, activity on Peer to Peer (P2P) lending platforms, i.e., the practice of lending money to individuals via online platform connecting lenders with borrowers is seen to be on an upward trajectory.

45. Amidst congenial monetary and liquidity conditions in the economy, Indian stock market capitalisation in the economy soared to US$ 3.5 trillion, surpassing France to became the sixth most valuable market in the world. Increase in participation of new investors in the stock markets through mutual funds have enabled equity funds to attract investment worth ₹ 8,677.4 crore in September 2021. Consequently, asset under management (AUM) of the Indian mutual fund industry was at an unprecedented high of ₹36.7 lakh crore in September compared to ₹36.6 lakh crore in August.

46. On the back of a series of reforms undertaken by Government to strengthen banks, improve debt resolution and recovery, ebbing of COVID-19 induced downside risks and gradual recession of negative feedback between the real economy and financial system, Moody's Investor Services recently upgraded the outlook on India's sovereign credit rating to stable from negative. Augmenting this sentiment is the news that the 4R-based strategy to turnaround the performance of PSBs – through Recognition, Resolution, Recapitalisation and Reform – has started to yield dividends, as all PSBs turned profitable. Walking the path towards the larger vision of purveying credit to the overall economy, 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 upbeat festive mood across the country.

47. RBI continues to provide requisite policy support to broaden the reach of credit in the economy. Given the stellar performance of Small Finance Banks (SFBs) in providing last mile credit to individuals and small businesses, the three-year special long-term repo operations (SLTRO) facility of ₹10,000 crore at the repo rate to be deployed for fresh lending of up to ₹10 lakh per borrower has been further extended till December 31, 2021. Further, this facility has now been made available on tap to ensure extended support to entities such as small business units, micro and small industries, and other unorganised sector units. In a further fillip to extending credit to priority sectors of the economy, the facility for classifying banks' lending to registered NBFCs (other than MFIs) for on-lending to Agriculture (investment credit), Micro and Small enterprises and housing (with an increased limit) as priority sector lending up (to a certain limit) has been extended till March 31, 2022.

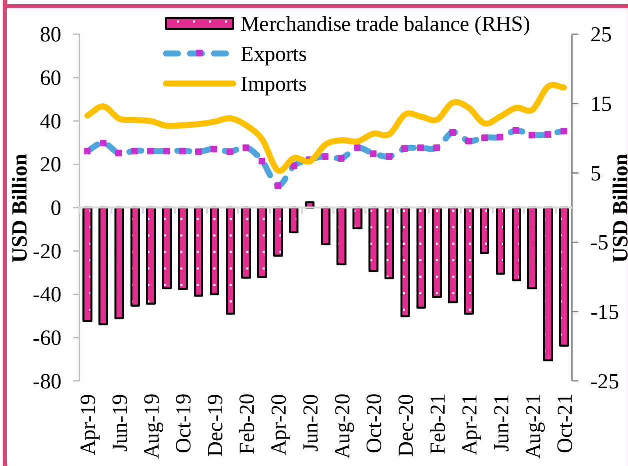
India's trade deficit narrows down in October, export rises with resurgent global demand

48. 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, India's merchandise exports continued its turbo-charged trajectory by crossing 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 per cent over October 2020 (US$ 24.9 billion) and 35.2 per cent over October 2019 (US$ 26.2 billion). India's merchandise imports also grew by 62.5 per cent to US$ 55.4 billion in October 2021, over October 2020 (US$ 34.1

billion) and 45.8 per cent over October 2019 (US$ 38.0 billion) which is a pointer towards pickup in domestic production activity and augurs well for growth pickup in the coming months.

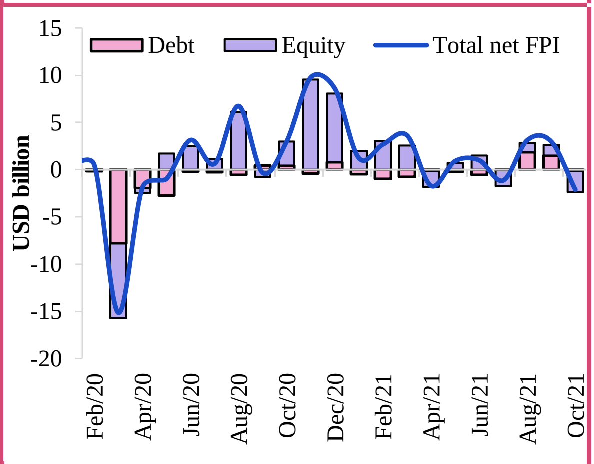
49. During September 2021, India's services exports (Receipts) were US$ 20.7 billion, after registering a positive growth of 22.0 per cent, while services imports (Payments) were US$ 12.2 billion recording a growth of 25.0 per cent, vis-à-vis September 2020. The trade balance in Services (i.e. Net Services export) for September 2021 was US$ 8.5 billion.

Merchandise Trade



Source: Department of Commerce

FPI Flows



Source: CDSL

50. Sustained growth of FDI at USD 19.2 billion in April to August 2021-22 and USD 21.3 billion during the same period in FY 20-21 is an endorsement by global investors of India's potential growth. This endorsement has happened despite India's GDP contracting severely in Q1 of FY20, worsening of India's economic assessment by a few credit rating agencies and relatively little fiscal expansion as compared to advanced nations.

51. India 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 Indian rupee (INR) depreciated against the US dollar in October 2021 by 1.9 per cent (m-o-m). India's foreign exchange reserves stood comfortably at US$ 640.1 billion as on October 22, 2021, providing cover for around 14 months of imports projected for 2021-22 or equivalent to112 per cent of total external debt outstanding or 52 per cent of total external liabilities at end-June 2021.[1]

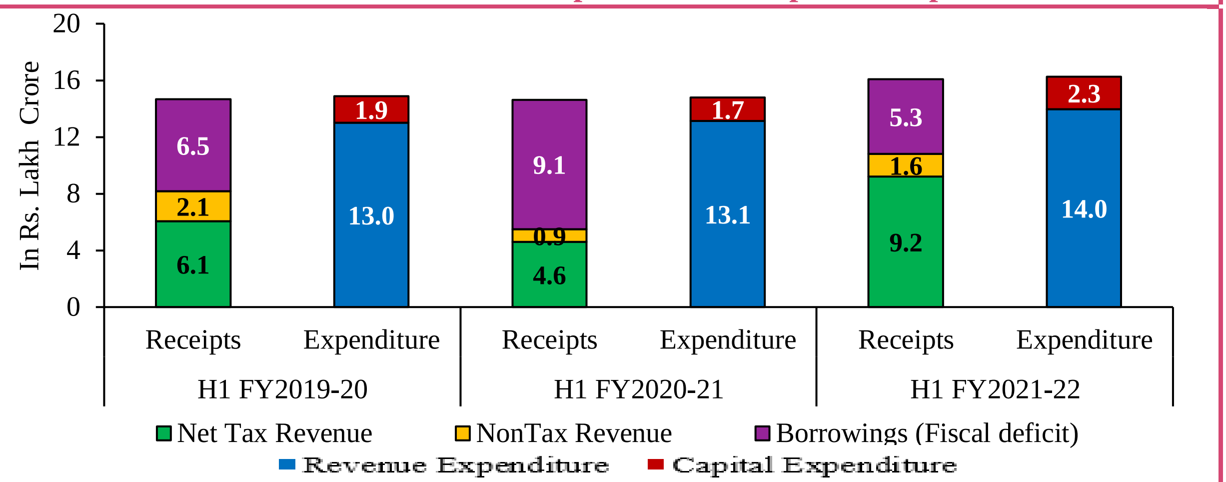
Improved finances ~fiscal deficit well below the trend, GST collection reached second highest level since implementation

52. Central Government finances have shown an improved performance during the first half of FY 22 relative to the previous year. Fiscal deficit stood at 35 per cent in first six months of FY 2021-22. Capital expenditure increased by 38 per cent YoY in the first six months. It is

[1] Based on data on India's external debt and international investment position at end-June 2021 released on September 30, 2021 by RBI.

the modest growth of 6.3 per cent in rationalized revenue expenditure, doubling of net tax revenues and increase in non-tax revenue by over 70 per cent, which has reigned-in fiscal deficit in the first six months of FY 2021-22.

Trends in Fiscal situation: Composition of receipts and expenditure



Source: Office of CGA

53. Growth in net tax revenues of the centre tracks economic recovery as much as it is an outcome of improved tax collection efforts. GST collections in particular have been soaring in FY 2021-22. GST collections in October, 2021 at ₹1.3 lakh crore has been the second highest monthly collections since implementation. Increasing consolidation of GST network as associated with rising collections will further integrate markets and support economic growth.

54. Likewise, the enhanced capital expenditure is also an outcome of focusing on key infrastructure areas under Railways, Road Transport and Highways, and Housing and Urban Affairs. Central government is well on its way of meeting the capex commitment in the budget 2021-22. Limited growth in revenue expenditure despite an YoY increase in major subsidies, indicates re-prioritisation of revenue expenditure to meet the fiscal targets.

55. Central Government has continued to support the State Governments towards a faster economic recovery. The Centre has released a total amount of ₹1.59 lakh crore as assistance under the back-to-back loan facility in lieu of GST Compensation, to all the eligible States and UTs (with Legislature) in the current FY. This amount released is over and above the compensation in excess of ₹1 lakh crore (based on cess collection) that is estimated to be released to States/UTs with Legislature during this financial year. The sum total of ₹2.59 lakh crore is expected to exceed the amount of GST compensation accruing in FY 2021-22.

Outlook

56. With India's COVID-19 vaccination campaign crossing new milestones in rapid succession and teeming festivities lending renewed optimism to India's ongoing economic recovery, further demand stimulation, fuller restoration of supply chains, narrowing of demand-supply mismatches and greater employment generation, are in the offing. Atmanirbhar

Bharat Mission encapsulating major structural reforms continues to play a critical role in shaping India's economic recovery, both through the signaling of business opportunities and expansion of spending channels. Armed with necessary macro and micro growth drivers, the stage is set for India's investment cycle to kickstart and catalyse its recovery towards becoming the fastest growing economy in the world!

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For any queries, you may contact :
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Scale			
YoY growth	15.5	102.7	755.1

Macro-Economic High Frequency Indicators Index

(Base value : Jan 2020 Value = 100)

Indicator	Mar-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
Capital Expenditure	262.8	270.8	257.0	555.3	435.1	353.4	160.1	385.9	129.7	397.4	138.7	355.7	470.7	
UPI (Value)	95.5	121.1	152.2	192.4	199.4	196.5	233.5	228.3	226.8	253.1	282.1	295.6	302.4	356.8
UPI (Volume)	95.5	102.5	137.9	170.9	176.2	175.5	209.3	202.3	194.4	214.6	248.3	272.5	279.7	323.3
Gross tax revenue (Central Govt)	224.7	97.1	146.5	211.0	119.7	101.6	243.1	115.0	96.4	148.0	111.1	110.7	219.2	
Tractor sales	58.5	174.0	203.4	114.7	146.8	141.7	159.4	118.8	104.2	206.8	122.2	100.6	173.2	
Nifty	71.9	86.1	94.0	116.9	114.0	121.5	122.8	122.3	130.3	131.4	131.8	143.2	147.3	147.7
Sensex	72.4	85.7	93.5	117.3	113.7	120.6	121.6	119.8	127.5	128.9	129.1	141.3	145.2	145.6
Merch Exports	83.1	85.2	106.7	105.0	106.2	108.0	133.3	116.9	124.8	125.6	136.2	128.2	130.7	137.2
Non-oil exports	83.7	88.7	106.0	109.4	111.5	111.2	135.8	119.4	118.8	125.8	130.6	126.1	126.1	133.5
Non-oil non gold imports	76.1	59.3	90.7	107.4	107.5	98.9	111.6	107.7	107.0	104.0	100.5	99.3	125.3	122.1
M3	102.3	105.5	108.1	110.0	112.1	113.1	114.3	114.8	115.3	116.8	117.6	117.7	118.1	
Natural gas production	92.0	91.9	88.1	93.1	98.0	88.3	103.3	102.1	108.3	109.8	114.4	115.6	114.7	
Non-food credit	102.9	101.3	101.8	104.7	105.9	106.7	107.0	107.7	107.1	107.2	108.1	108.0	108.7	
GST	88.1	82.0	86.2	103.9	108.3	102.1	111.8	127.6	92.7	83.9	104.7	101.1	105.6	117.4
Domestic Auto sales	62.7	68.4	129.7	85.0	105.0	105.1	110.2	76.9	26.7	78.8	93.1	96.1	104.1	

Indicator	Mar-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
Exchange Rate	104.3	106.2	103.0	103.2	102.5	101.9	102.1	104.5	102.7	103.2	104.5	104.0	103.2	105.2
Power consumption	94.4	100.4	106.9	101.5	98.0	92.1	108.2	104.9	97.2	101.5	110.4	113.9	100.7	
PMI Services	88.8	60.7	89.7	94.2	95.1	99.6	98.4	97.3	83.6	74.2	81.8	102.2	99.5	105.2
PMI Manufacturing	93.7	85.4	102.7	102.0	104.3	104.0	100.2	100.4	91.9	87.0	100.0	94.6	97.1	101.1
NEER	98.3	96.1	97.8	95.9	96.7	97.2	98.0	95.8	96.8	96.6	96.2	96.3	97.1	
Rail freight traffic	93.5	84.9	92.8	107.4	108.7	101.9	118.4	101.2	104.2	102.4	102.3	100.3	96.2	106.2
8-Core Industries	97.5	84.6	88.3	99.0	101.3	94.3	108.6	95.1	91.1	92.5	97.5	97.1	92.2	
Port cargo traffic	99.3	79.7	86.9	102.6	104.6	95.0	116.9	99.9	97.0	95.2	89.4	93.5	88.5	
Steel consumption	73.5	69.3	89.2	110.9	109.4	103.8	102.0	93.4	85.8	88.9	87.4	86.4	88.0	
Cement production	79.1	84.0	77.2	90.0	94.2	98.0	111.2	93.6	77.4	90.3	94.0	90.6	85.5	
Fuel consumption	85.0	85.8	82.5	99.3	96.3	92.1	100.2	88.6	78.7	84.5	88.5	84.9	84.9	
Fertilisers sales	44.9	106.6	73.4	115.5	94.6	71.5	64.6	31.2	48.4	102.1	123.8	107.6	72.9	84.0
Domestic Passenger vehicles sales	56.6	42.4	109.3	101.7	111.1	113.1	116.9	104.5	35.4	92.4	106.3	93.3	64.3	
Domestic air passenger traffic	60.3	15.5	31.4	58.2	61.3	62.2	61.8	44.7	16.0	24.1	39.2	52.3	55.4	