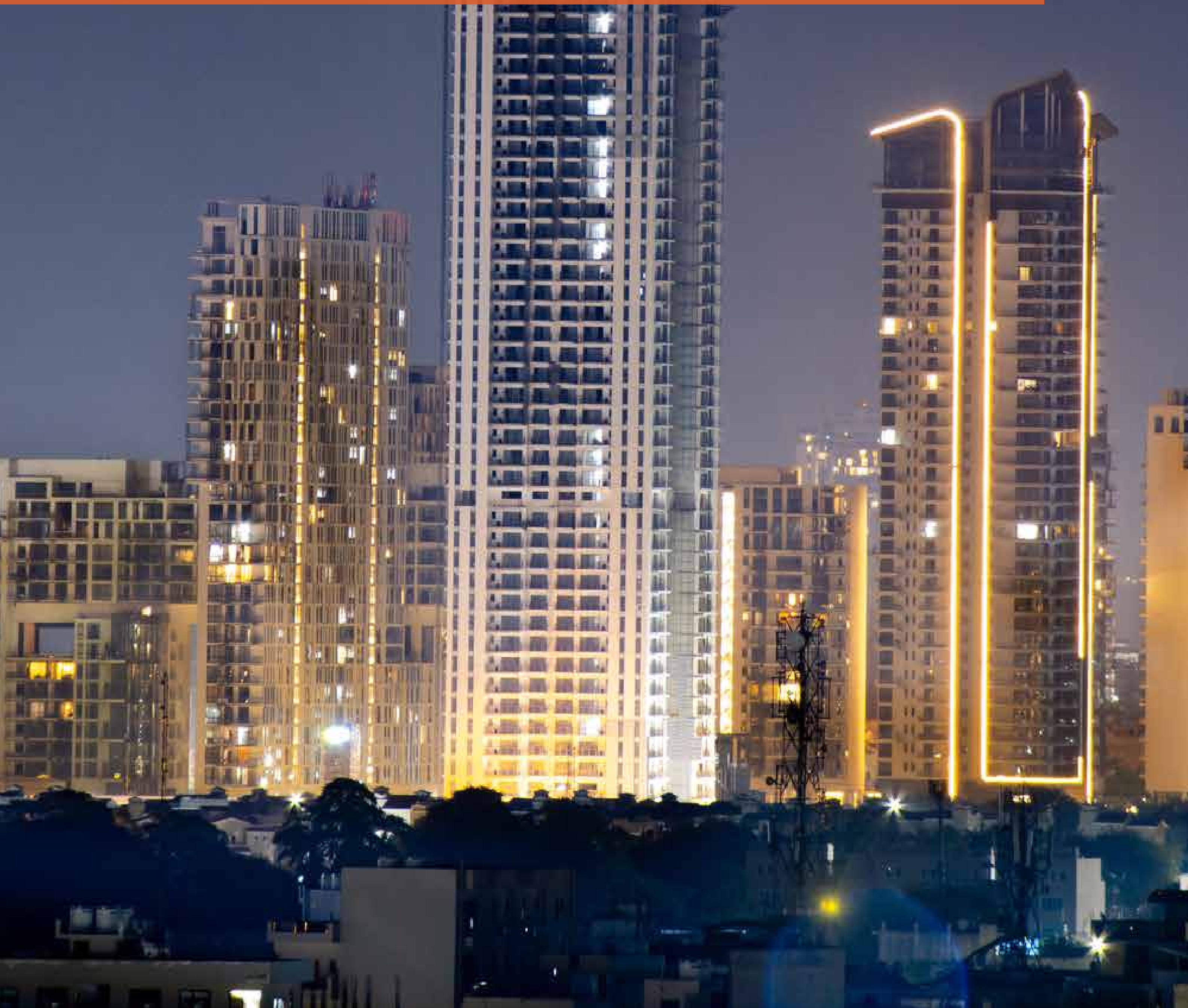
Ministry of External Affairs
Government Of India

ECONOMIC
DIPLOMACY
DIVISION

MONTHLY ECONOMIC REPORT

JULY 2021



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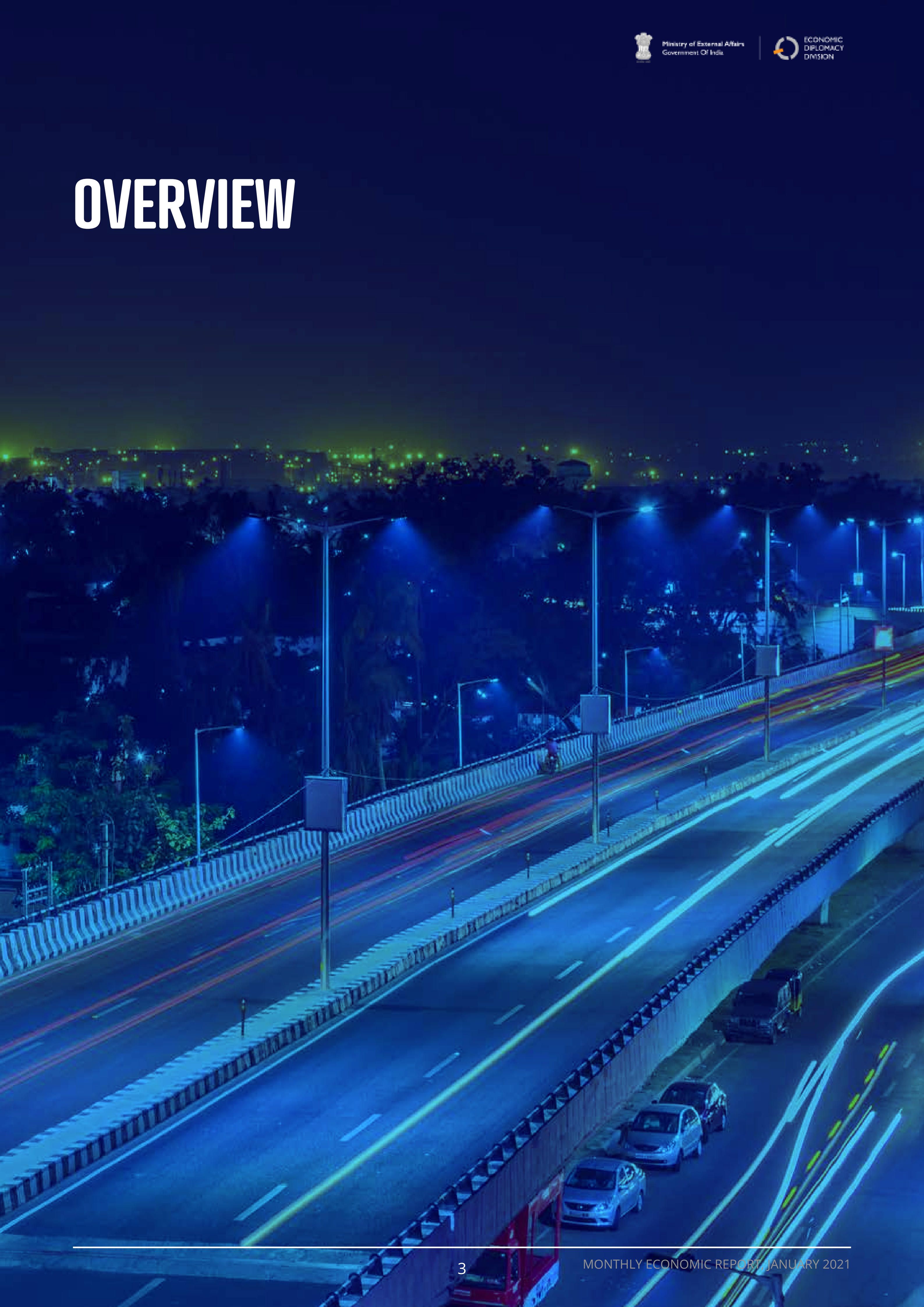
OVERVIEW



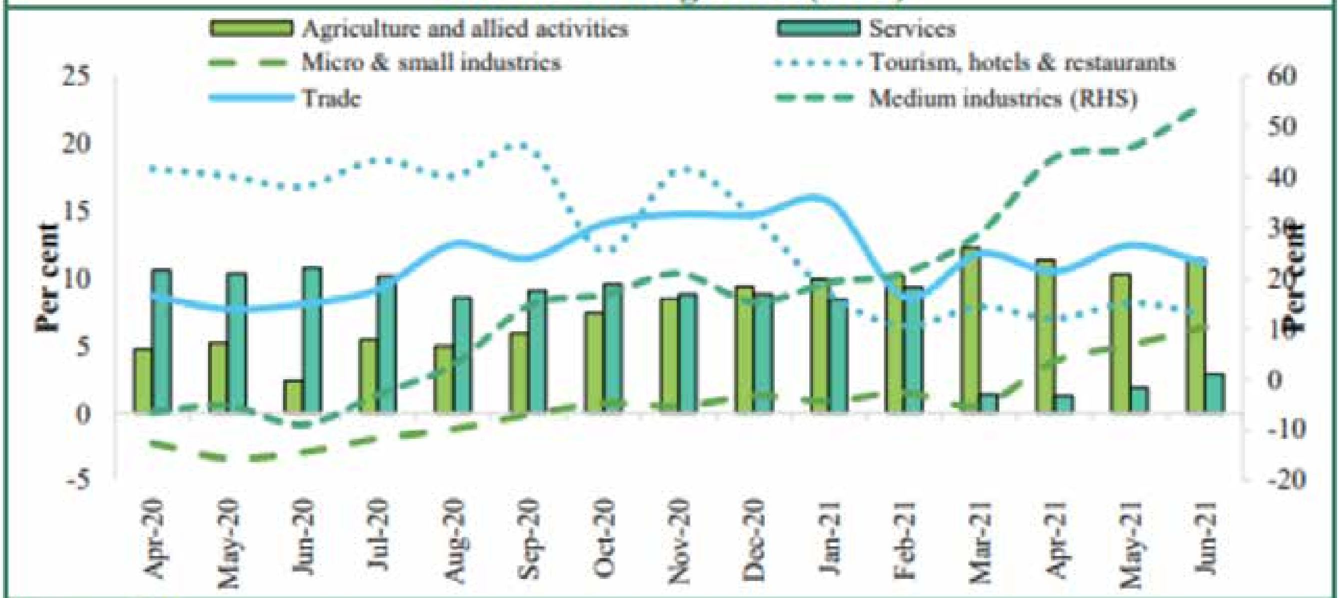
While the vaccination drive has been growing rapidly, the global resurgence of the highly transmissible Delta variant of COVID-19 between May to July has raised major concerns and placed emphasis on the importance of following social distancing and COVID appropriate behavior, despite a decline in the number of cases. India's cumulative vaccine doses administered so far amount to 515 million, with 49.8 percent of the population having received the first dose and 14.2 being fully vaccinated. Aided by the receding second wave, this has paved the way for India's economic recovery.

The high frequency indicators clearly pointed in the direction of a broad based economic revival. While the PMI Manufacturing began expanding, a boom was observed in GST collection as well, returning to its US$ 13.43 billion plus level in July as a sign of improved economic activity. Bolstering this further are the other indicators like Kharif sowing trends, fertilizer sales, power consumption, vehicle registrations, highway toll collections, e-way bills and digital transactions. Revival was observed in eight core industries, namely auto sales, tractor sales, port traffic, air passenger traffic as well. Despite inflation staying above 6 percent in May and June, it is expected to decline with the easing of restrictions, the southwest monsoon and the recent supply-side interventions in the pulses and oilseeds market. A revival in mutual funds, corporate bonds and insurance markets indicated the stability in financial markets. After remaining muted for nine consecutive fortnights, non-food credit growth crossed the 6.5 mark in the fortnight ending July 16, revealing positive bank credit growth. As an indication of the benefits of implementing the Atmanirbhar Bharat (AB) package, credit offtake was witnessed in agriculture and allied sectors along with the rapid growth of the micro, small and medium industries in June.

External sector indicators also reveal economic recovery, as evidenced by the recovery of petroleum product consumption in June and export rebound to a record monthly achievement of $USD 35.17 billion in July at a 47.9 YoY growth. Gross FDI inflows doubled to US $18.3 billion in April-May 2021 from US$8.5 billion during the previous year. Forex reserves stood at US$ 620.1 billion by the end of July 2021, amounting to 18 months of 2020-21 imports, shielding Indian markets from money outflows. Direct and indirect tax collections remained buoyant along with the capex registering a 26.3 percent YoY growth and the reprioritisation of revenue expenditure, contributing to the improved performance of central government finances during Q1 of FY 2021-22 from the corresponding period during the previous year. State governments are being aided by the centre in raising the capex to enable rapid economic recovery. Around 50 percent of the total GST deficit of the entire year. at US$ 10.07 million, was released in a single installment to the eligible states and UTs (with legislature), along with a back-to-back loan facility for the current fiscal year.

The future expectations index (FEI) rose from 96.4 in May 2021 to 104.0 in July 2021, owing to the boost in the general economic outlook and employment scenario after the receding COVID-19 second wave, according to RBI's latest July 2021 Consumer Confidence Survey where respondents expressed optimism over household income in the future.

With the second wave subsiding, most states have started lifting the restrictions and economic rejuvenation has been evident since the latter half of May 2021, reducing the negative economic impact. The vigorous recovery in tax collection mitigated the fiscal towards meeting the budgeted support to the economy. The recently discovered sero-prevalence indicates the reduction of possibility of severe infections from COVID, aided by the continued momentum of the vaccination drive. The presence of antibodies,thus, as suggested by recent studies, help in preventing the possibility of acquiring serious illnesses, giving rise to the anticipation of any subsequent waves having greatly reduced severity. At the same time, there continues to be an emphasis on following COVID appropriate behavior and social distancing, given the crucial point of the interjection of the need to maintain the buoyancy in economic recovery and vaccination drives and the appropriate protocol which need to be in sync with each other.

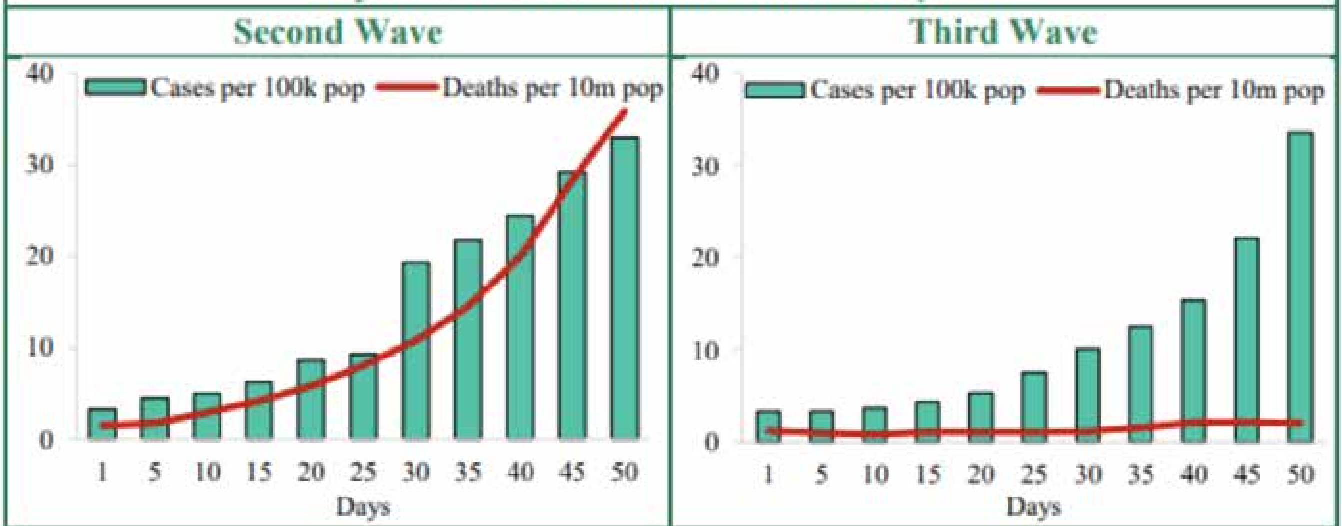


Source: RBI

COVID-19

Despite the receding of the second wave of COVID-19, the emergence of the Delta variant of the virus, to which the total number of cases across the world at around 200 million is being attributed, brought major concerns. The Center for Disease Control and Prevention (CDC) and WHO have called for stricter measures with regard to masking, even for fully vaccinated individuals and more rigid protocol for social distancing, to avert any possibly more dangerous variants, while increasing vaccinations to which a 10-fold or an even greater reduction in the possibility of severe disease or death and 3-fold decrease in infection risks have been attributed. Globally, a major priority is the need to enable easy and quick access to vaccines and delay the rollout timeline. Though the positivity rate at above 10 percent as of July 31 in around 46 districts has remained a major concern for India, along with 53 districts remaining in the vulnerable zone treading between 5-10 percent, the country's vaccination drive gaining momentum has brought hope. Till now, the cumulative vaccination doses amount to 515 million, with 49.8 percent of the total population having received the first dose and 14.2 percent being fully vaccinated. The results of the recently conducted fourth round of the sero-survey across 21 states, with the subjects including children this time, has brought major hope, since the overall sero-prevalence in the country was at 67.6 percent in June and July, higher than the three earlier surveys conducted. It also found that 62.3 percent of the unvaccinated population have SARS-CoV2 antibodies and that its prevalence was higher in 89.8 percent of the fully vaccinated population and 81 percent of those who were partially vaccinated. The current emphasis, therefore, is to sustain and expand vaccination drives along with strict adherence to COVID-appropriate behavior.

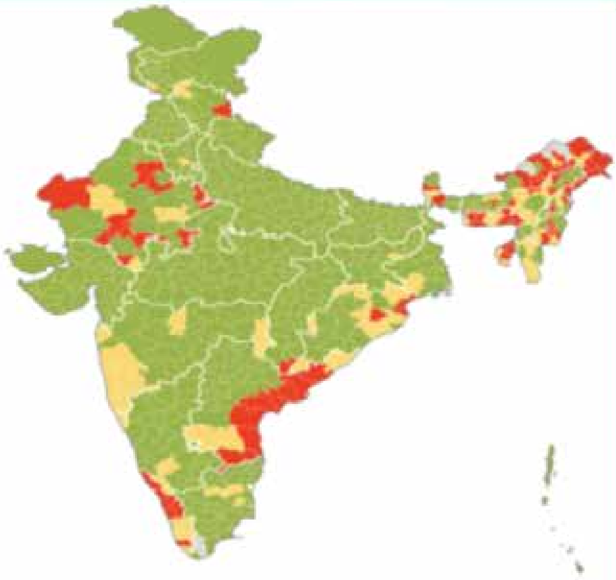
Impact of Vaccination in UK on Fatality Rates



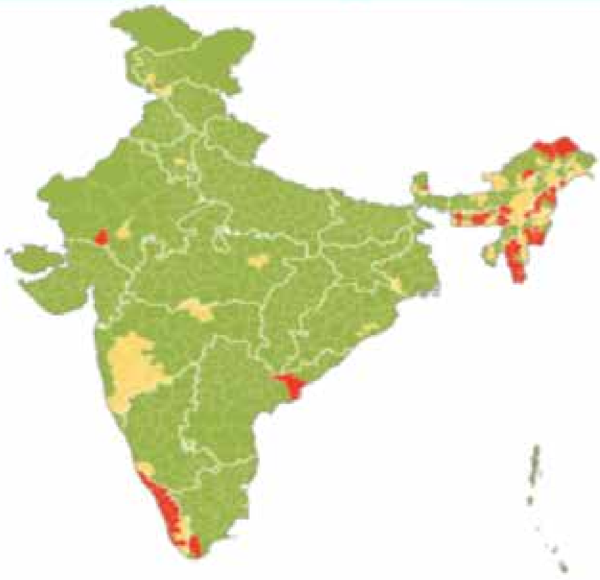
Source: Ourworldindata.org
Note: Second wave is from 8/9/20 while third wave is from 14/5/21. UK has fully vaccinated 56.6 per cent of its population as on date

Daily Positivity Rate (7 days moving average)

As on 30th June 2021



As on 31st July 2021

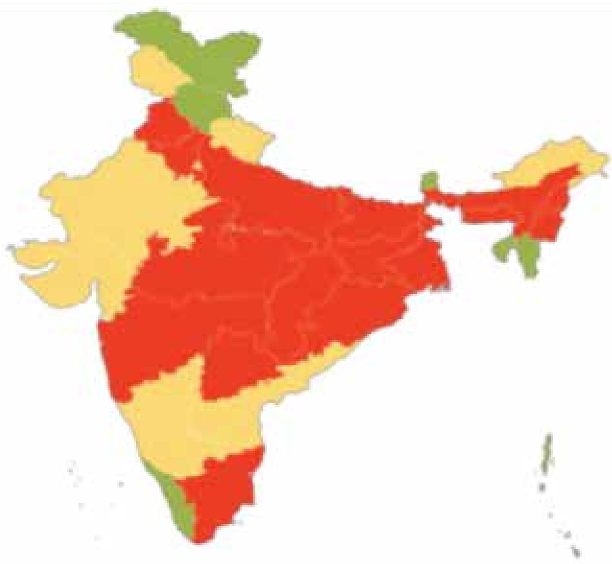


<5%	5-10%	>=10%

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

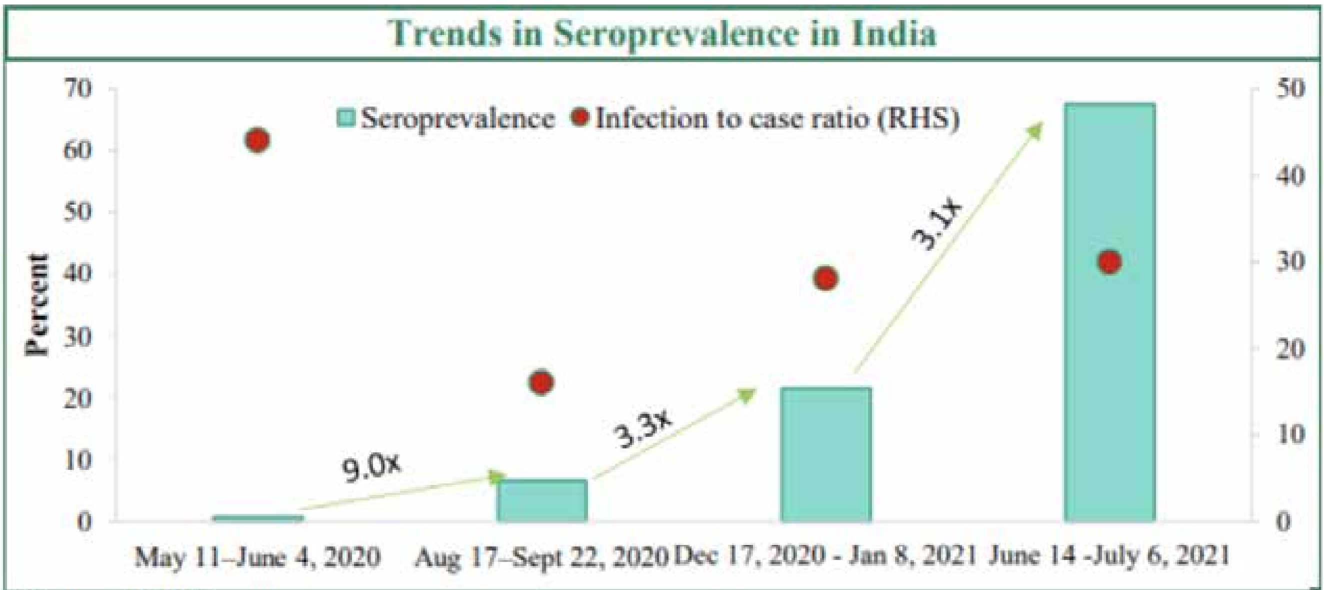
1st Dose

2nd Dose



<25%	25-50%	>=50%	<15%	15-25%	>=25%

Source: MOH&FW



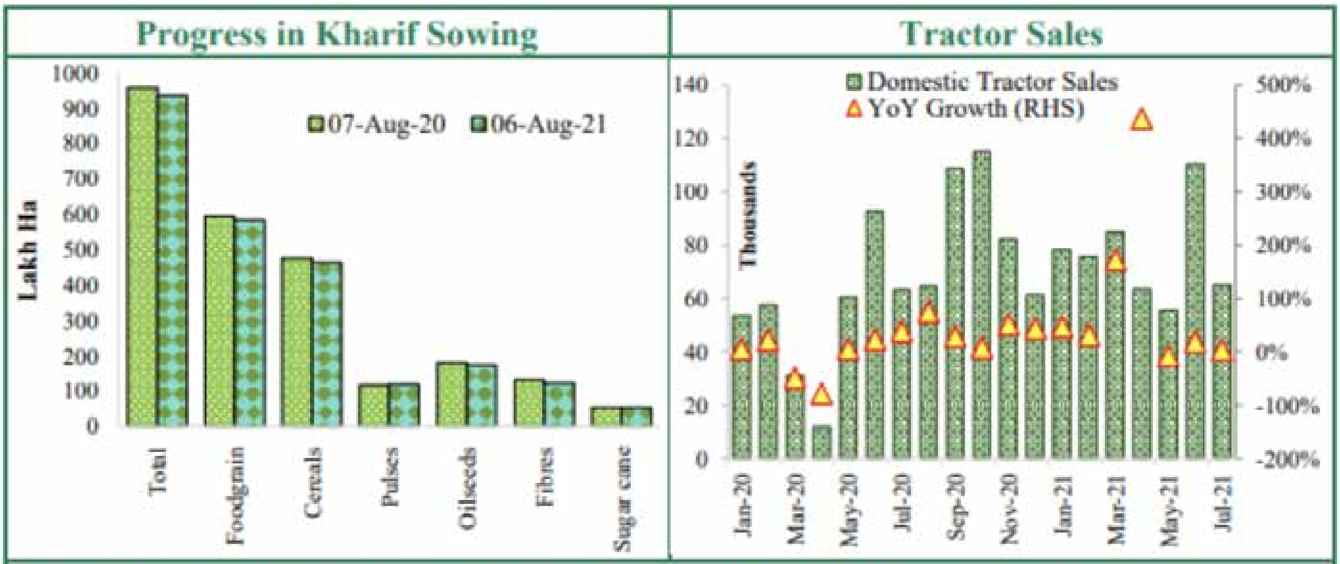
Source: ICMR

Global Overview

Continuing at a moderate pace in July, with persisting concerns over the delta variant, global economic activity in July saw an emergence in commercial flight activity and a slower-paced port activity, while global merchandise trade rose sequentially in 2021's second quarter with an anticipated growth rate of 8.0 percent for the year. A YoY growth of 62 percent was observed in the IMF All Commodities index, backed by demand growth and rise in natural gas and coal prices and a mild decrease in metal and food prices. Advanced economies showed better financing conditions while EMDEs showed constraint and increasing borrowing costs along with falling currency values while the dollar value increased. While the Asian growth projection for 2021 has been slightly lowered, to 7.2 from 7.3 percent owing to emerging infections by the Asian Development Outlook Supplement, July 2021, the growth rate has been raised to 5.4 percent for 2022. Asia has however shown sustained high performance in global trade. Global growth projections by IMF's World Economic Outlook Update, July 2021 stayed at 6.0 percent, with a slightly higher projection for advanced economies and its GDP projections for India rose to 9.5 percent. The Outlook called for clarity from central banks with regard to monetary policy for prior preparation with regard to anticipated inflation and to prevent financial constraints. The rising inflation is however expected to return to pre-pandemic levels by 2022.

Agricultural Sector

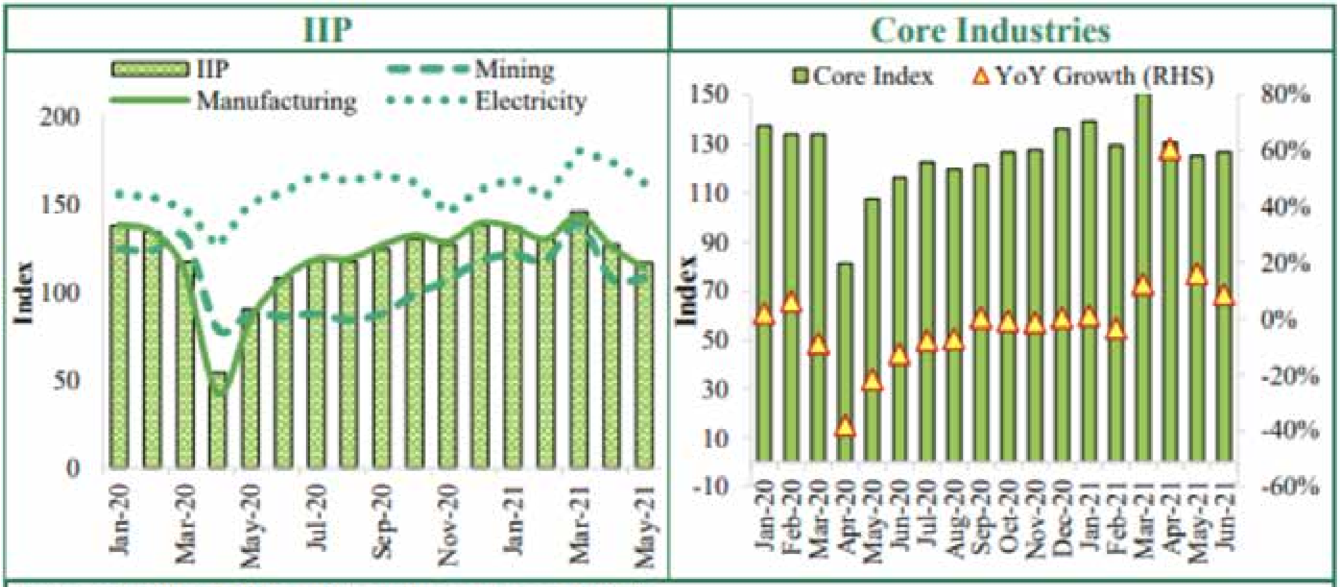
A robust southwest monsoon has helped the agricultural sector gain momentum, especially with kharif sowing, with around 67 percent of the country's area receiving normal to excess amounts of rainfall. As of 5 August 2021, the overall lve storage in 130 major reservoirs is almost 130 percent of the previous year's storage and 120 percent of the last 10 years' average. Around 933.9 hectares have been sown already, at minor 2.4 lower than the corresponding period the previous year but 1.2 percent higher than the last 5 years' average. Monthly fertilizer sales rose to 79.83 LMT in July 2021 from 65.87 LMT in June, while domestic tractor sales jumped by 3.3 percent in July 2021 from the corresponding period in the previous year. Over 278 LMT of food grains amounting to approximately US$ 12.69 billion, for a seven-month period, were set aside to be allocated under the "Pradhan Mantri Garib Kalyan Anna Yojana" (PM-GKAY) (May – November 2021), out of which 95.82 LMT was distributed by July 31, 2021. Continued support is being lent by MGNREGS in providing rural employment, with a total of 100 days of work having been completed by 3,91,112 households under MGNREGS between April-June 2021, at 22.8 percent higher than the previous year.



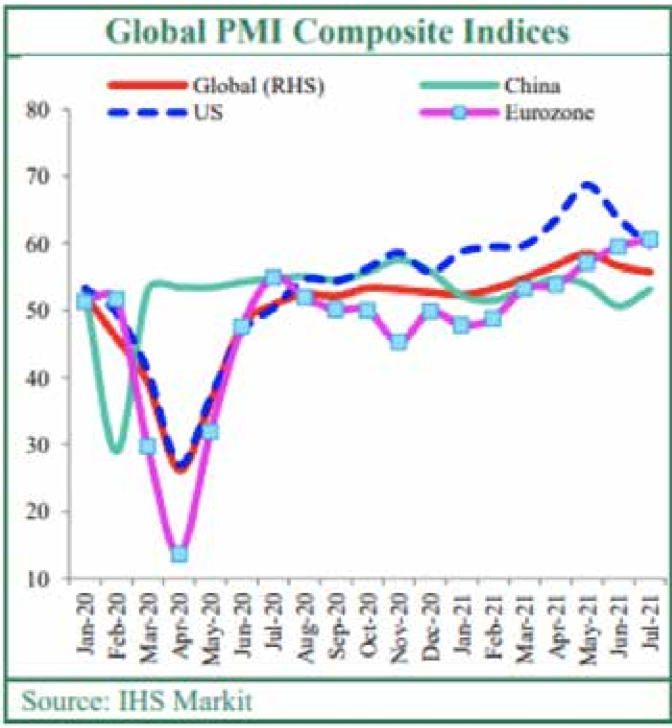
Source: Department of Agriculture and Farmers Welfare, Tractor and Mechanization Association

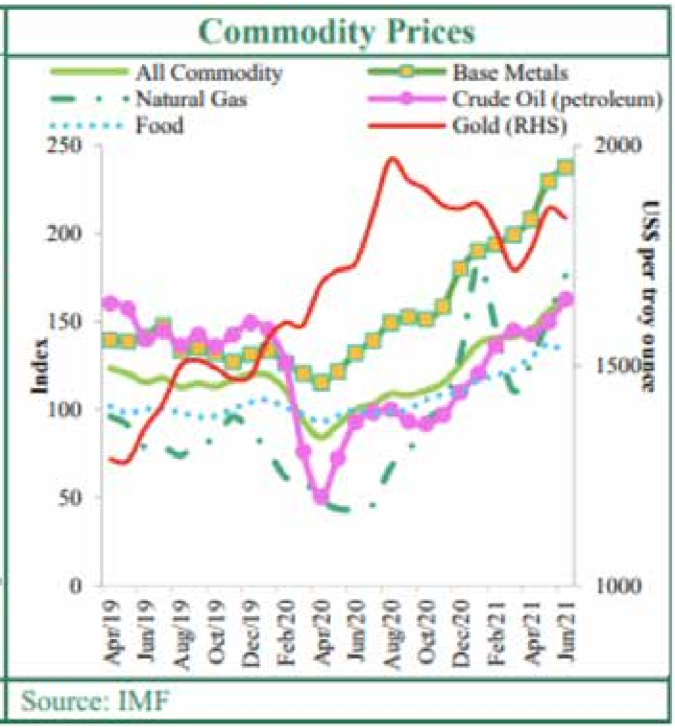
Index of Industrial Production (IIP) and PMI-Manufacturing

At 29.3 percent in May 2021, IIP rose on a YoY basis by 29.3 percent in May 2021, leading to a broad-based growth across all sectors and use-based classification of the IIP basket. Despite a decline in the output of all the six use-based categories in May 2021, The receding of the second wave and relaxation of the restrictions in June provides hope with regard to solidifying the industrial performance in the near future. From a fall at 12.4 percent in June 2020, core sector output rose by 8.9 percent in June 2021, with a sequential growth of 1.1 percent in June from May, indicating a reduced impact of the second wave during this period. Eight sectors grew by 25.3 percent between April-June 2021 from a contraction of 23.8 percent during the same period the previous year. All these sectors recorded a positive growth in June on YoY basis, barring crude oil. From 48.1 in June, India's PMI-Manufacturing rose to 55.3 in July 2021. Expansion was observed in the output, new orders, exports, quantity of purchases and input stocks, suggesting resuming commercial activity. Global PMI remained low at 55.7 with the US and Eurozone staying in bright spots and the Asian region experiencing a low. US Composite PMI was 59.7 in July 2021 with robust manufacturing activity and subdued services activity. Eurozone Composite PMI rose to a 21-year high in July, aided by services expansion from reopening of commercial activity and services expansion.



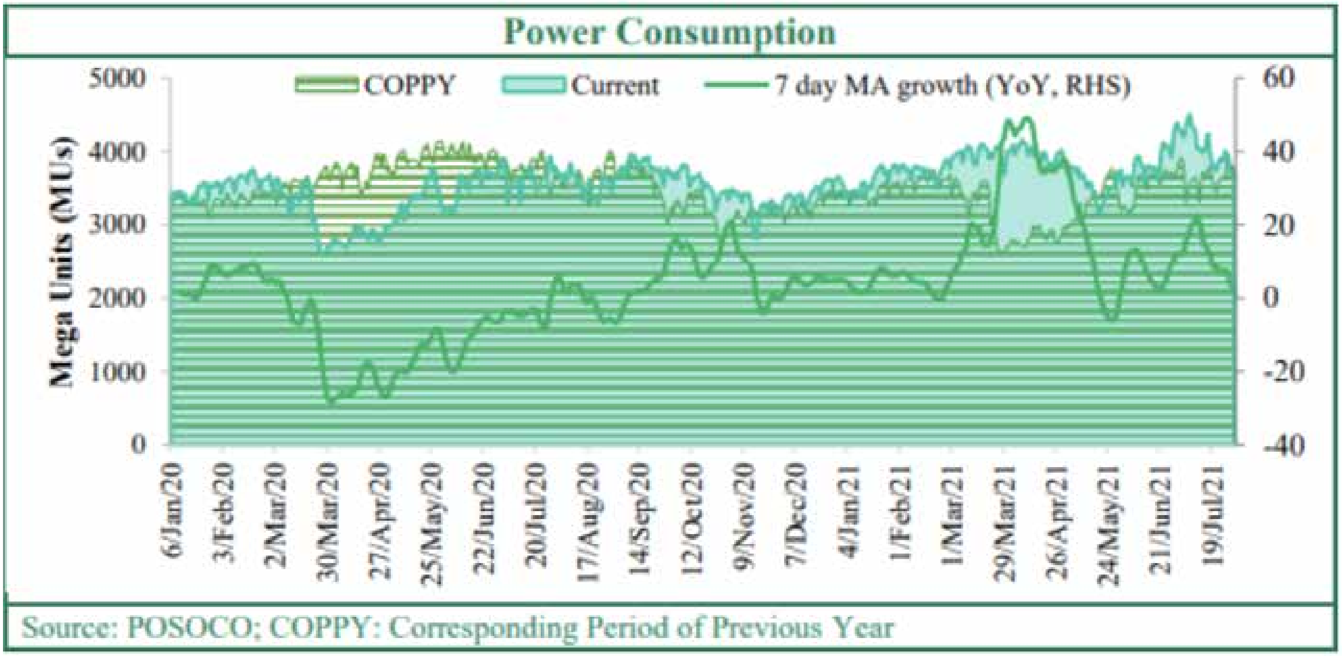
Source: MoSPI, Office of Economic Advisor, DPIIT





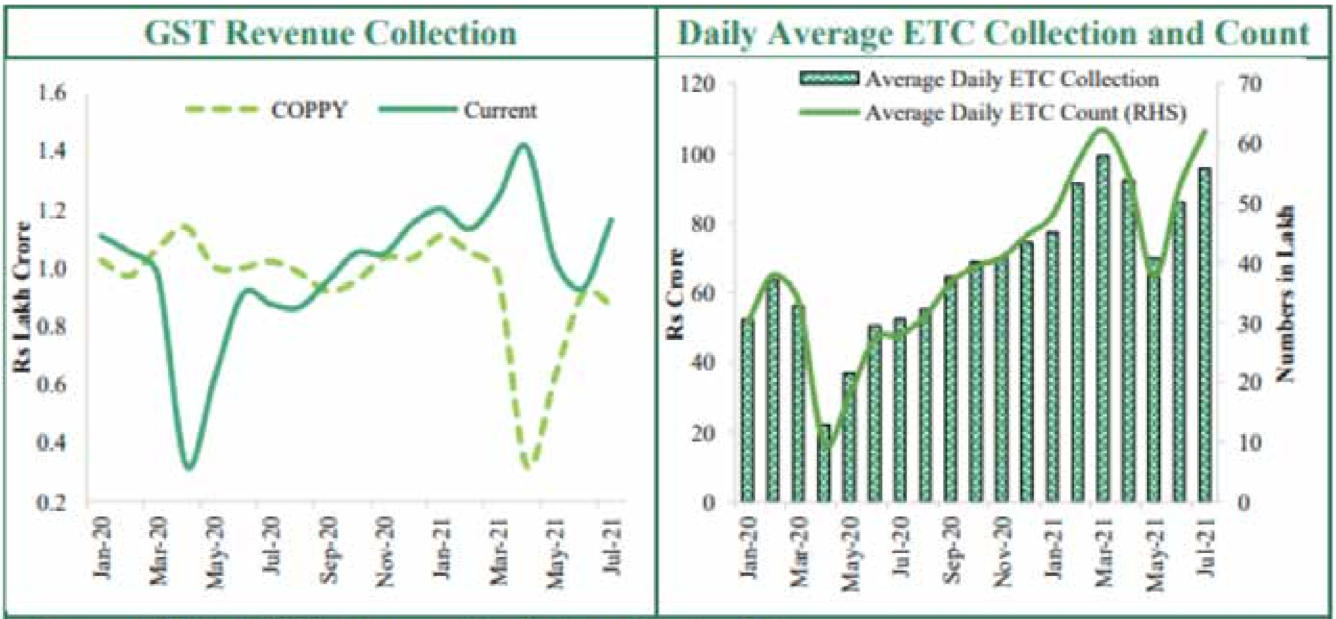
Power and E-way bills

The total number of generated e-way bills amounted to US$ 8.62 lakh in July 2021, with 32.7 percent YoY growth over the previous year and 17.4 percent growth from June 2021. They reached US$ 216 billion in July 2021 in terms of value, at a 6.2 percent decline over the previous month, and a 17.8 percent YoY growth since July 2020. Along with e-way bills data, strong revenue collections, supply chain corrections and logistics growth aided economic revival in July.



GST collection

At US$ 15.58 billion, July's GST collections gave a hint of the transactions of June 2021 along with economic activity resumption, after its fall to below US$ 13.43 billion in June. Along with a favorable base, the overall GST collection rose to 66.3 percent in FY 2021-22 in the April-July quarter.



Source: GSTN; COPPY: Corresponding Period of Previous Year

Automobile Sales

A resumption in automobile sales was characterized by increasing vehicle registrations in June 2021, along with 0.23 million sales of passenger vehicles from 0.09 in May and 0.1 million in June 2020. Recent numbers from vehicle registrations suggest further growth of vehicle sales in July. Commercial activity revival led to a further rise in Electronic Toll Collection (ETC) in highways with regard to value and volume.

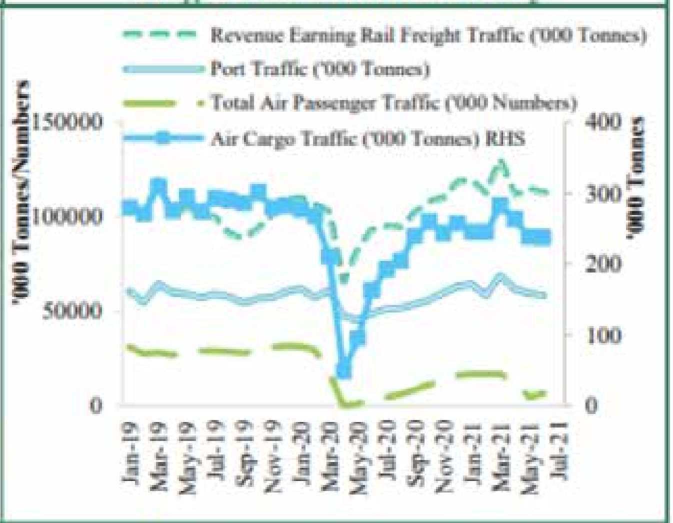
Freight and Traffic Activity

While rail freight maintained stability in June and July, air and port freight and traffic activity showed a drop in its momentum in June. Port traffic recovery reduced slightly to 58.63 million tonnes(MT) in June 2021 from 59.76 million tonnes in May, while showing a YoY growth. July 2021 saw rail freight stand at 112.7 MT, at YoY growth of 18.3 percent, while air cargo growth and air passenger traffic witnessed a slight decline and sequential expansion, respectively, over the past two months.

All India Vehicle Registrations

Source: VAHAN Dashboard

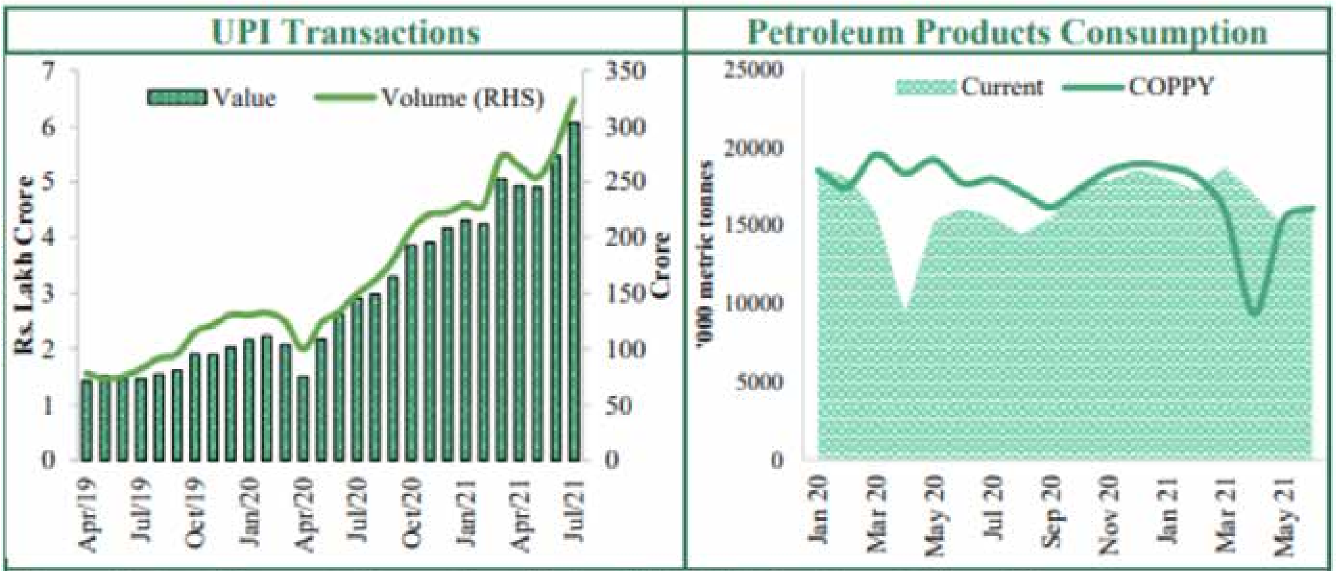
Freight and Traffic Activity



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

UPI transactions

PMI services rose to 45.4 in July 2021 from 41.2 in June, staying within the contractionary zone. With above 100 percent growth in both value at US$ 81.42 billion from US$ 73.5 billion in June and volume of transactions (at US$ 43.5 million and US$ 37.6 million, UPI transactions reached a record high in July 2021, indicating a resumption in economic activity and increased use of digital payment modes.



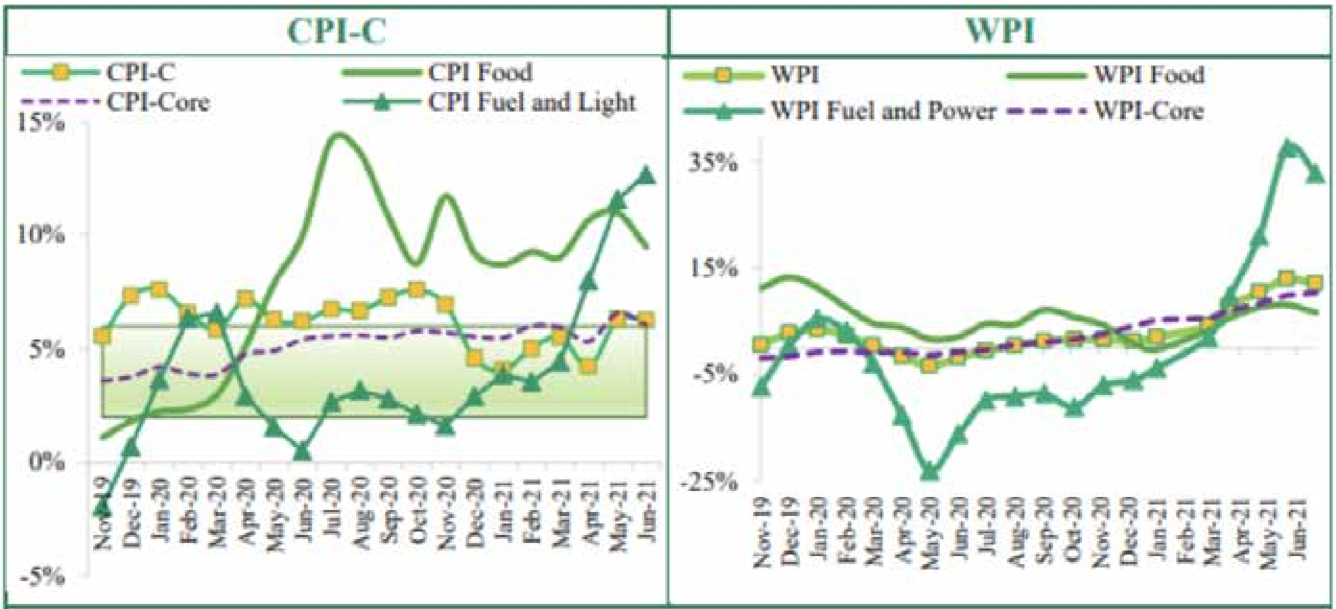
Source: National Payments Corporation of India; PPAC, M/o Petroleum & Natural Gas;
COPPY: Corresponding Period of previous Year

Crude oil and Petroleum Prices

Indian basket of crude oil prices increased to US$ 73.5/bbl in July 2021 from US$71.6/bbl in June and US$ 43.3/bbl, amidst an increase in demand and moderate global recovery. With an 8 percent recovery in June 2021, domestic consumption of petroleum products improved since May.

Commodity and Inflation

CPI-C inflation fell by 0.4 percent to 6.26 in June 2021 from 6.30 in May. Food and beverages, clothing and footwear, fuel and light were the major areas where inflation was observed, with the level being higher in urban areas at 6.37 percent than the 6.16 percent in rural areas. WPI inflation remained high at 12.07 percent in June compared to 12.94 percent in May owing to the drop in inflation of primary articles and fuel and power, while WPI food inflation dropped to 6.66 percent from 8.11 percent in May 2021 owing to the drop in the inflation of meat, eggs, milk, fish, pulses and sugar. Manufactured products' WPI inflation has risen continuously from June 2020 to 10.88 percent in June 2021. At above 6 percent in May and June 2021, inflation has boomed yet again. This is mainly due to the pandemic-induced supply shocks which elevated international commodity prices and inflationary pressures in edible oils and pulses. Mitigation measures for the current situation would be through the recent supply side interventions in the pulses and oilseeds market and the progress of the south-west monsoon. From its previous projection of the CPI inflation at 5.1 percent, RBI has revised it to 5.7 percent, at present.



Source: MoSPI, DPIIT

Surplus Liquidity

At US$ 91.37 billion of average daily net absorption under LAF, a continued liquidity surplus was observed in July 2021, from US$ 76.59 billion in June. A liquidity of US$ 2.68 billion was achieved on July 8 at RBI's first auction under G-SAP and liquidity amounting to cvia GSAP 1.0 via the third tranche of purchases was injected by the RBI. The weighted average call rate (WACR) trailed below the reverse repo rate by 23 bps and the tri-party repo rate by 15bps, compared to June. The 3-month TBill rate traded at 3.40 percent in July, while the month's 3-month certificates of deposit (CD) rate was 3.54 percent. Freshly issued CDs stood at US$ 36.4 billion on the fortnight ending July 16, 2021, compared to the US$ 20.09 billion in the fortnight ending July 31, 2021 and US$ 15.77 billion in the preceding fortnight. A YoY expansion in reserve money at 16.8 percent was observed in July 2021, following the increase in bankers' deposits with the RBI after the cash roll back of the cash reserve ratio (CRR) reduction last year. A YoY fall in circulating currency was observed at 10.25 percent in July 2021, from 12.32 percent in June 2021 and 22.17 percent in July 2020, while broad money (M3) grew by 10.78 percent in the fortnight ending July 16 from 10.67 in June and 12.35 in the corresponding period during the previous year. Currency growth, demand deposits and time deposits amounted to 11.42 percent, 23.07 percent and 9.11 percent respectively during the fortnight.

Source: RBI

Monetary Policy

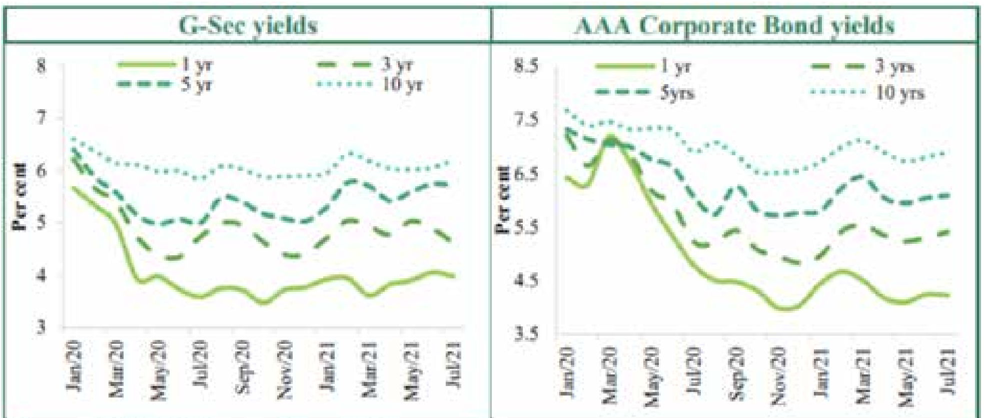
RBI's latest monetary policy statement 2021-22 (August 4-6) has maintained the policy repo rate under the liquidity adjustment facility (LAF) at 4.0 percent, as a consequence of which the reverse repo rate under LAF also stayed at 3.35 percent and the marginal standing facility (MSF) rate and Bank Rate at 4.25 percent. The statement mentioned its decision to maintain the rates to aid rapid economic recovery and contain inflation.

Bank credit growth

A growth up to 6.45 percent YoY was noted in bank credit on July 16, 2021 from 6.08 percent in the previous fortnight, while the credit deposit ratio slightly declined to 70.12 from 70.73 on the same date. While accelerated growth was observed in non-food credit, agriculture and allied activities, micro and small industries and food processing, gems & jewellery, glass, leather, mining & quarrying, paper, rubber, plastic, textiles in June and July 2021 (YoY), decline in the credit growth deceleration from 10.7 percent in June 2020 to 2.9 percent in June 2021. Good performance was noted in the credit growth in the trade segment and personal loans, at 11.1 percent in June 2021 from 8.1 percent in June 2020 and 11.9 percent in June 2021 from 10.4 percent in June 2020, respectively. Incremental investment deposit ratio stood at 48.79 from 60.70 percent a fortnight ago and 97.12 percent in the same period the previous year, when government security investments and approved security investments in line with total deposits are compared, exhibiting potential for credit expansion in subsequent months.

Financial Markets

G-Sec yields in July 2021 faced the pressures of high inflation, reaching a 10-year yield at 6.2 percent by the end of the month from 6.05 in June, showing a steeper yield curve during the month.Weighted average yields, however, hardened month-on-month in July. 10-year AAA rated corporate bond yields rose in July over June, 3-year and 5-year AAA yields experienced hardening. The ebbing of the second wave enabled the sequential rebounding of primary corporate bond market issuances on NSE and BSE to the pre-COVID levels at US$5.66 billion in June 2021 from US$2.83 billion in May and US$ 943 million in June 2020. The quarter's total outstanding debt amounted to US$ 489 billion while corporate bond issues amounted to US$ 19.14 billion. Net assets under management (AUM) of mutual funds rose to US$ 453 billion in June 2021, while the insurance sector saw a MoM rise in premium collections (131.25 percent) of life insurers and non-life insurance companies (20.24 percent). Mutual funds experienced a mild decline at US$ 2.02 billion in June 2021 from US$ 5.12 billion in May. A rise at 0.2 percent and 0.26 percent was observed in the range-bound BSE Sensex and Nifty 50, respectively, in July 2021, while market volatility moved in a downward tangent with a 12.80 India VIX index by the end of the month.

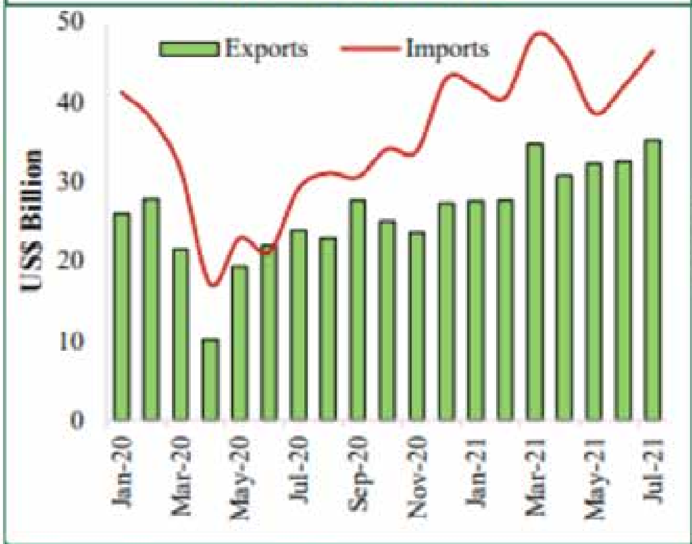


Source: CCIL, RBI, Extracted from CMIE

Exports and Imports

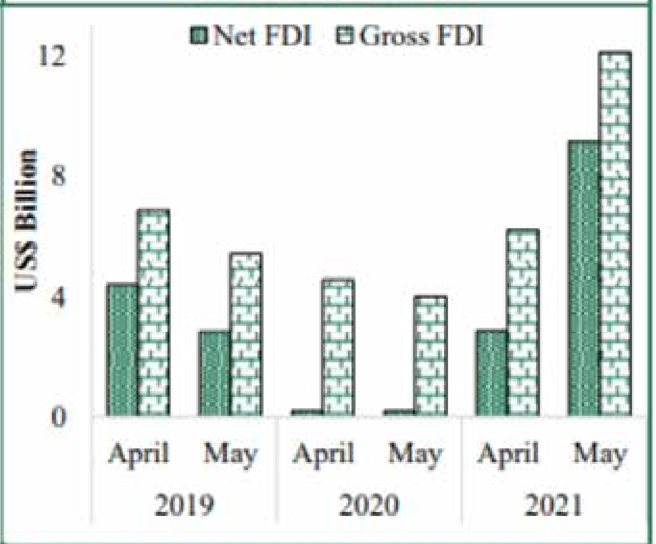
July 2021 recorded the highest ever monthly merchandise exports at US$ 35.2 billion from US$ 23.8 billion in July 2020. India' smerchandise imports also grew to US$ 46.4 billion in July 2021 from US$ 29.1 billion in July 2020. Non-petroleum and non-gems and jewellery exports amounted to US$ 26.1 billion in July 2021 from US$ 20.5 billion in July 2020. POL imports amounted to US$ 12.9 billion in July 2021 from US$ 6.5 billion in July 2020, while non-oil, non-GJ (Gold, Silver & Precious Metals) imports amounted to US$ 26.7 billion in July 2021 from US$ 19.7 billion in July 2020.

Merchandise Trade



Source: Department of Commerce

Gross and Net FDI



Source: RBI

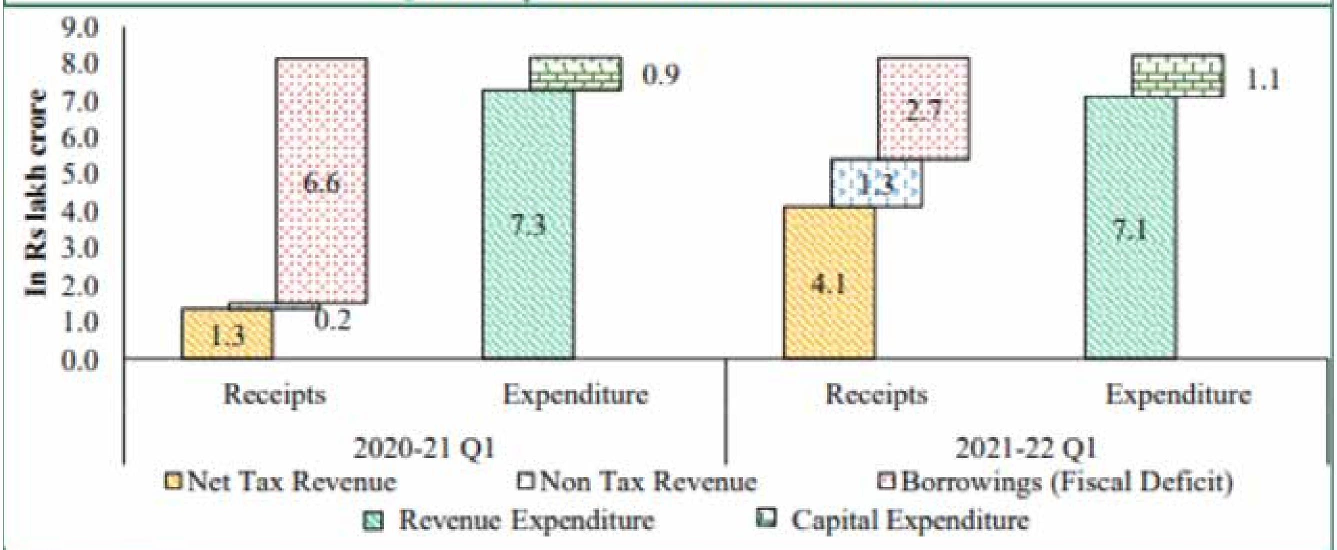
FDI inflows

July witnessed net FPI outflows of USD 0.49 billion from net outflows of USD 0.99 billion in June 2021 as a result of downward bias against the rupee, despite the robust FDI inflow of USD 12.1 billion during May 2021 and FDI equity inflows amounting to USD 10.57 billion. Forex reserves rose to US$ 620.1 billion by the end of July 2021, accounting for around 18 months of 2020-21 imports, shielding Indian markets from possible US stimulus exit driven hot money outflows. The foreign exchange market reflected these developments through the fall of the Indian rupee by 1.32 percent in July and reached USD 74.42 on 30th July 2021. Net spot purchase of USD 9.09 billion dollars was made by the RBI in July 2021 from USD 7.14 billion dollars in June.

Fiscal Developments for 2021-22 Q1 (April 2021- June 2021)

The April-June quarter of 2021 witnessed a better performance in the central government finances, with the fiscal deficit amounting to US$ 36.92 billion . YoY growth was observed in both direct and indirect taxes during the quarter, which could be attributed to the economic revival and positive sentiments among taxpayers, consequently leading to higher income estimates and advance tax payments during the quarter, in comparison to the corresponding quarter the previous year. A YoY growth was observed in the corporation tax and the personal income tax at 128 percent and 97.5 percent, respectively. While the net tax revenue amounted to US$ 55.65 billion, the non-tax revenue accounted for RBI's surplus transfer of US$ 13.34 billion to the Government, having increased by 738.4 per cent from the corresponding period during the previous year. The total expenditure stood at 23.6 percent of BE with a 1 percent YoY increase and capital expenditure registered a YoY growth at 26.30 percent during the quarter. Gross market borrowings amounted to US$ 59.16 billion during the quarter while the net market borrowings stood at US$ 19.82 billion. The allotment of the total market borrowings, as quoted by the RBI along with the State Governments/ Union Territories is estimated to be US$ 25.89 billion for the quarter. The centre is assisting the State governments/UTs in raising the capital expenditure to enable rapid economic recovery. Around 50 percent of the total GST deficit of the entire year, at US$ 10.11 billion, was released in a single installment to the eligible states and UTs (with legislature), along with a back-to-back loan facility for the current fiscal year. It additionally released the 4th monthly instalment of Post Devolution Revenue Deficit (PDRD) Grant of US$ 1.33 billion to the Fifteenth Finance Commission-recommended states, which are 17 in total.

Quarterly Trends in Fiscal Situation



Source: CGA

Conclusion

Since the second half of May, with the second wave receding, aided by the easing of the lockdown restrictions by state governments, the economy has been exhibiting visible signs of revival, backed by the anticipation that the impact of the second wave is milder. With the upward revision of RBI estimates aiding the GDP growth in the April-June 2021 quarter, a rapid rebound in economic indicators is being exhibited. The boom in tax collections aided the fiscal in fulfilling the budgeted support for the economy. The discovery of the seroprevalence indicates that India will soon witness a reduction in hospitalizations and COVID infections with a sustained vaccination drive. This provides hope that any subsequent waves will have a milder impact. In this regard, the emphasis is on the rigid observance of COVID-appropriate behavior given the crucial inflection point of economic recovery, vaccination drives coming together to revive the economy and the society

For more information:
Ministry of Finance, Department of Economic Affairs
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