



Ministry of External Affairs
Government Of India



ECONOMIC
DIPLOMACY
DIVISION

MONTHLY ECONOMIC REPORT

JULY 2022



CONTENTS

| | |
|--------------------------------|----|
| Executive Summary | 4 |
| Global Overview | 5 |
| Services Sector | 6 |
| Financial and Corporate Sector | 6 |
| Investment | 7 |
| Inflation Dynamics | 8 |
| Conclusion | 10 |



EXECUTIVE SUMMARY

The global economic outlook remains challenging amid elevated inflationary pressures, monetary policy tightening, recession fears and financial market uncertainties, although stock markets have staged a big recovery in the United States and elsewhere in the last two months. Despite softening of international commodity prices in July, inflationary pressures are expected to remain high in Advanced Economies (AEs) with a rebalancing of demand towards services and pass-through of higher input costs along the value chain. Rising wages may also lead to a broadening of inflation beyond commodity prices. Further, the tightening of monetary policy by central banks has generated apprehensions of recessions in major economies. Global manufacturing PMI declined to a two-year low of 51.1 in July 2022

Despite global headwinds, the IMF forecasts India's economy to grow at a robust rate of 7.4% in 2022-23, the highest among major economies. The buoyant performance of some high-frequency indicators during the first four months of 2022-23 is consistent with IMF's forecast. Index of Industrial production and 8 core industries points towards strengthening

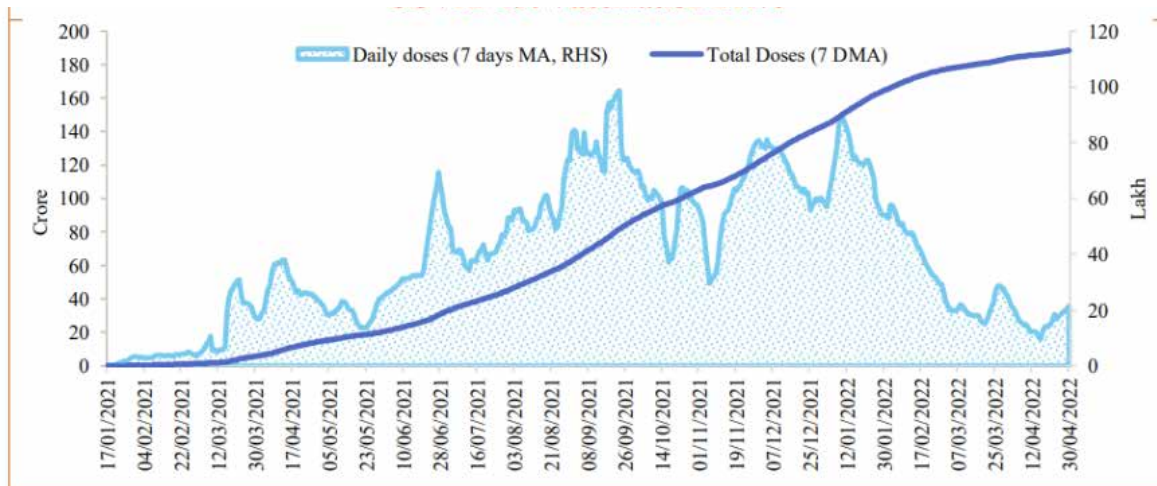
of industrial activity, while PMI Manufacturing touched an 8-month high in July with marked gains in growth of new business and output.

Growth momentum in services sector activity, as measured by PMI services remained comfortably in the expansionary zone in July 2022. PMI services should continue to remain in an expansive mode in the months ahead with the RBI's Services and Infrastructure Outlook Survey showing optimism of service-sector firms in respect of demand conditions, overall business situation, employment, and turnover in Q2 of 2022-23.

Kharif sowing supported by southwest monsoon coupled with higher MSP for Kharif crops is likely to enhance rural demand. Urban consumption is expected to benefit from the demand for contact-intensive services, improving the performance of corporates and growing optimism of consumers. The robust production of capital goods along with the government's capex push and large expansion in bank credit will uphold the investment activity. The manufacturing sector is expected to gain from easing of input prices and a rise in consumer demand during the festive season



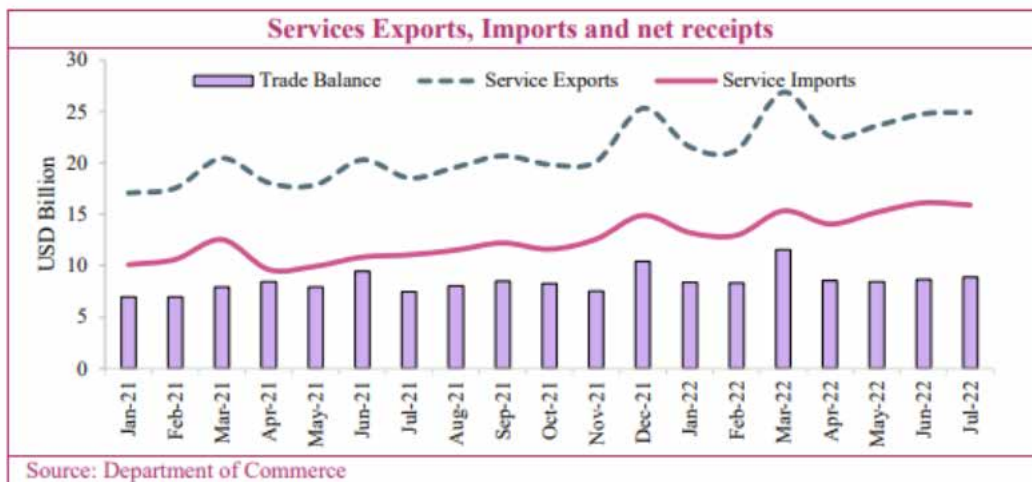
Global Overview



- The global macroeconomic scenario continues to evolve with inflation driven to a new high in many Advanced Economies (AEs) as supply chain disruptions, coterminous with the Russia-Ukraine conflict and Chinese zero COVID policy, persist, and demand continues to revive with the waning of the pandemic
- Inflation rate in the USA reached 8.5% in July 2022. Inflation in the EU also soared to a record 9.6% in June 2022.
- IMF's World Economic Outlook Update of July 2022, has also lowered the global growth forecasts for 2022 to 3.2% from 3.6% in its April update

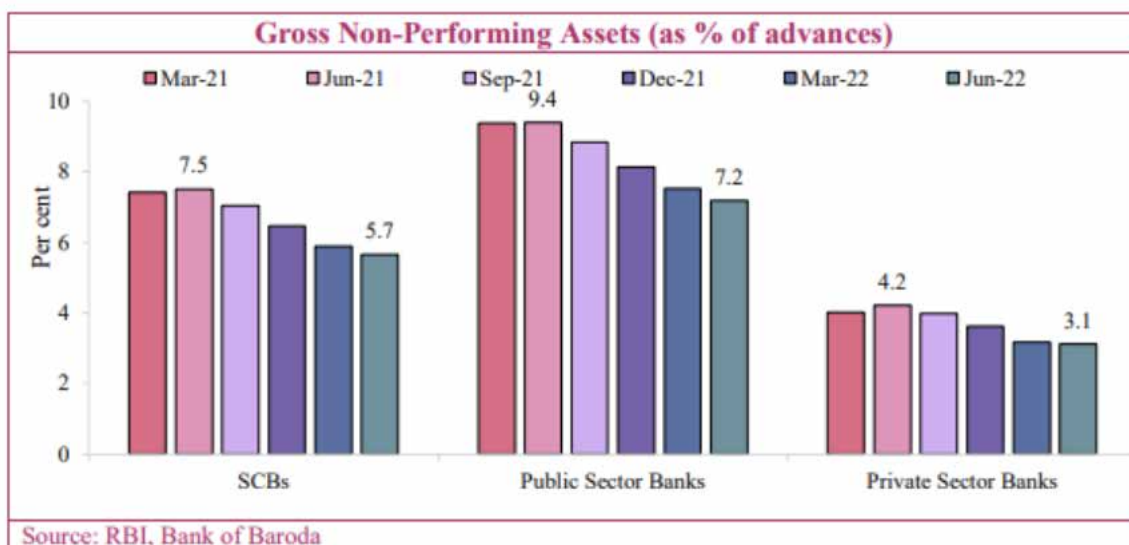


Services Sector



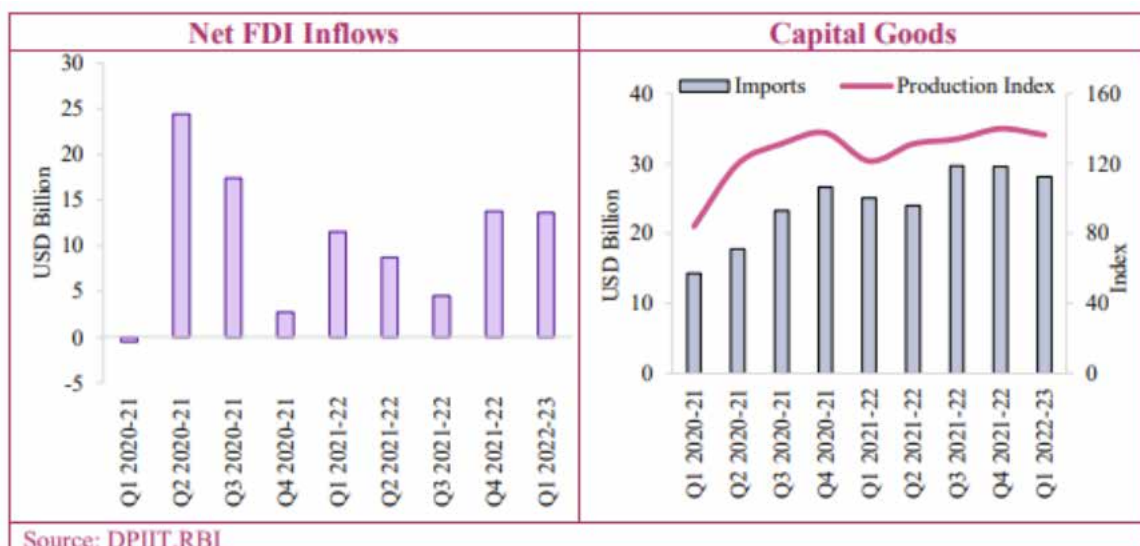
- Monetary tightening and elevated inflation in the country besides somewhat subdued export prospects consequent upon slowing growth in AEs may appear to pose some downside risks to India's growth.
- The bank-credit supply to the services sector registered a YoY growth of 12.8% in Q1 of FY 2022-23 as compared to 3.9% in the corresponding quarter of the previous year, mainly due to improved credit offtake by transport operators, professional services, retail trade and nonbanking financial companies (NBFCs).
- The railway freight traffic YoY growth of 8.4% in July 2022 was fuelled by incremental loading of coal, cement & clinker, and automobiles
- Growth momentum in services sector activity, as measured by PMI services, remained comfortably in the expansionary zone at 55.5 in July 2022, correcting for the exceedingly high level of 59.2 in June

Financial and Corporate Sector



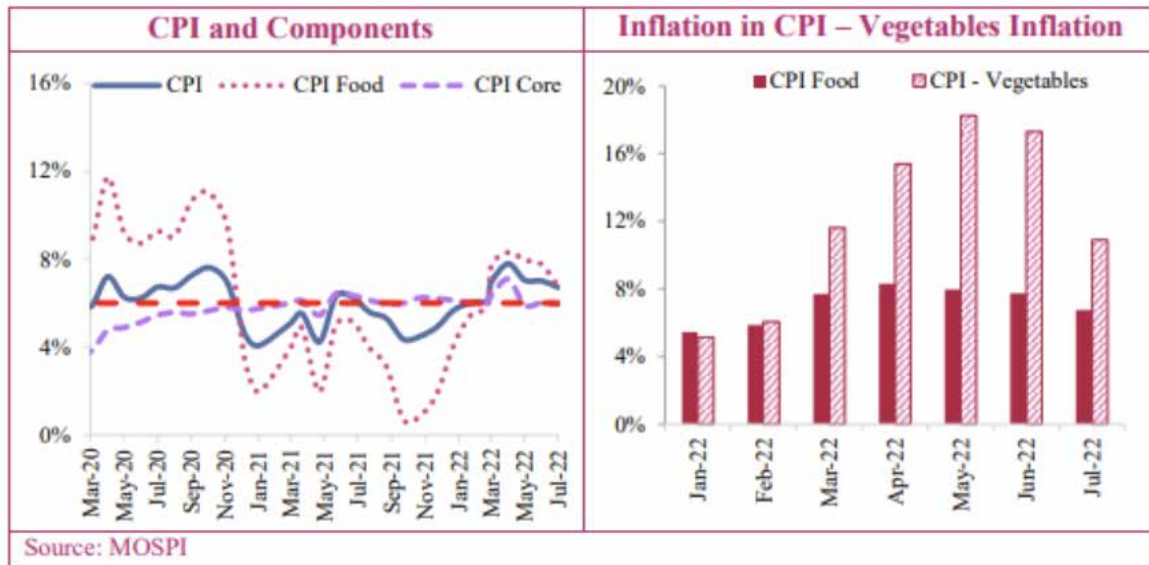
- Gross Non-performing Assets (GNPA) ratio has declined from 7.5% in the June quarter of 2021 to 5.7% in the June quarter of 2022.
- The balance sheets of the corporate sector have also been strengthening since May of 2020 and have continued to do so as the latest data available for June 2022 indicate, with robust metrics on net nominal and real sales, operating profit and interest coverage ratio staying above the pre-pandemic levels.
- The YoY growth in non-food bank credit stood at 14% in July 2022 driven by credit growth to both Industry and Services in the June quarter of 2022.
- Swift action by the Reserve Bank of India in raising policy rates and government measures to control the rise in prices and ensuring the supply of essential commodities, detailed later, have contributed to dampening the inflation rate staving off the risk of higher interest rates and higher cost of capital for the government and the industry

Investment



- Global investor confidence in India's economic landscape is further endorsed by net FDI inflows remaining robust at USD 13.6 billion in Q1 of 2022-23, as compared to USD 11.6 billion during the corresponding period of the last year
- The incipient outflows of FPI from EMEs and the resulting pressure on their currency had become evident in January itself as investors had begun pulling out funds in anticipation of policy rates increasing in AEs to mitigate inflationary pressures arising from a liquidity glut therein.
- Discussions with the Industry have revealed that FPI outflows from India happened because India's capital market is relatively more liquid. Some granular assessment shows that this indeed is the case.
- Bank credit to infrastructure projects grew by 9.5% to Rs. 12.1 lakh crore as of June 2022, and other crucial sectors such as the engineering goods sector saw a double-digit credit growth.
- Government also continues to support investment activity with capital expenditure reaching Rs. 1.75 lakh crore during Q1 of 2022-23, which is 23.4% of the budget estimate and 57% higher as compared to the corresponding period of last year.

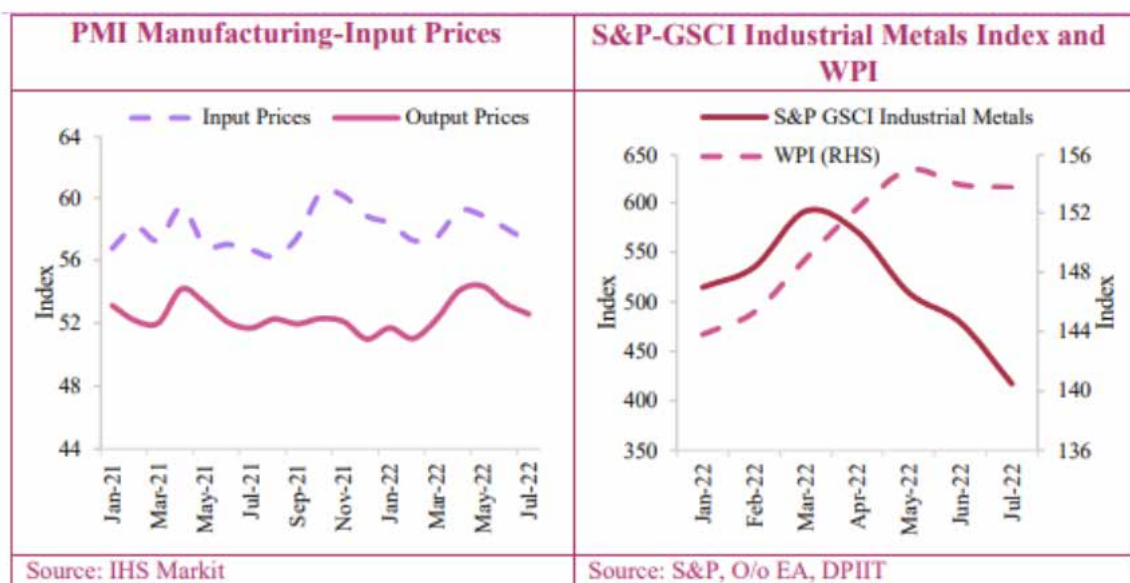
Inflation Dynamics



- After a high of 7.8% in April 2022, retail inflation has been declining in India with the latest print of 6.7% in July.



- The decline in inflation has been driven by retail food inflation, which to an extent has followed the decline in global food inflation as seen in the FAO price index falling for four consecutive months to 140.9 points in July 2022.
- Vegetable price inflation, which was 18.3% in May and 17.4% in June, declined to 10.9% in July contributing to an overall decline in retail inflation.
- Among non-food components, fuel and light inflation continue to increase. This could still be an outcome of supply chain issues although likely to be a temporary one, as declining global crude prices should eventually lower the inflation of fuel and light category as well.
- The price of the Indian basket of crude declined from USD 116.0/barrel to USD 105.5/barrel. A part of the difference between the prices of Brent crude and the Indian basket of crude may be attributed to Indian refiners procuring discounted Russian crude to diversify India's import sources of crude oil
- Softening of inflationary pressures in India is further on the anvil with the prices of raw materials such as copper, tin, aluminium, iron ore, and zinc all having declined in July 2022.
- WPI Inflation too eased from 15.2% in June to 13.9% in July, marking the second successive month of moderation.
- Data from the PMI Services report for July 2022 indicates that input costs increased at the slowest rate since February 2022 which has consequently contributed to a softer rise in prices charged.
- In its August meeting, the RBI's MPC raised the policy repo rate, the standing deposit facility (SDF), and the marginal standing facility (MSF) by 50 basis points to 5.4%, 5.15% and 5.65%.



Conclusion

India's growth outlook for 2022-23, though lower than projections made before the outbreak of the conflict in Europe which resulted in a sharply higher price for crude oil and other essential commodities, is still comfortably high and confirms the recovery of animal spirits and economic growth from the pandemic-induced contraction in 2021-22. The private sector and banking sector balance sheets are healthy and there is an appetite to borrow and to lend respectively. Therefore, barring further adverse shocks to commodity prices and, thus, India's terms of trade, economic growth will consolidate and retain its momentum into 2023- 24.



For more information:

Ministry of Finance, Department of Economic Affairs
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