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RBI Bulletin - July 2021

The Reserve Bank of India today released the [July 2021](#) issue of its monthly Bulletin. The Bulletin includes three Articles and Current Statistics.

The three articles are: [I. State of the Economy](#); [II. Monetary Policy Transmission in India: Recent Developments](#); and [III. Drivers of Indian Pharmaceutical Exports](#).

I. State of the Economy

The tapering of the second wave, coupled with an aggressive vaccination push, has brightened near-term prospects for the Indian economy. While several high frequency indicators of activity are recovering, a solid increase in aggregate demand is yet to take shape. On the supply side, agricultural conditions are turning buoyant with the revival in the monsoon, but the recovery of manufacturing and services sectors has been interrupted by the second wave. A pick-up in inflation is driven largely by adverse supply shocks and sector-specific demand-supply mismatches caused by the pandemic. These factors should ease over the year as supply side measures take effect.

II. Monetary Policy Transmission in India: Recent Developments

The transmission of policy repo rate changes to deposit and lending rates of scheduled commercial banks (SCBs) has improved substantially since the introduction of external benchmark linked lending rate (EBLR) regime in October 2019. Data collected from banks suggest that the share of outstanding loans linked to external benchmark in total floating rate loans has increased from as low as 2.4 per cent during September 2019 to 28.5 per cent by the end of 2020-21. The adoption of external benchmark-based pricing of loans has strengthened market impulses for a quicker adjustment in deposit rates. Further, a combination of surplus liquidity conditions amidst weak credit demand conditions has enabled banks to lower their deposit rates. The lowering of deposit rates has resulted in the decline in cost of funds for SCBs, prompting them to reduce their MCLR, and in turn their lending rates.

III. Drivers of Indian Pharmaceutical Exports

The article attempts to capture the dynamics of the Indian pharmaceutical industry as it evolved in the last two decades and looks specifically into the export markets with an aim to understand the determinants of exports that can help this sector leverage its export potential in future.

- The Indian pharmaceutical industry is currently heavily dependent on its imports of active pharmaceutical ingredients (APIs), especially from China,

despite having domestic research and development (R&D) potential through various channels such as joint ventures and domestic capacity improvements.

- Empirical analysis using panel data of 42 Indian pharmaceutical firms over the 12-year period from 2007 to 2019 suggest that import intensity and Research and Development (R and D) expenditure are the two key determinants of export intensity.
- A timely diversification of imports of raw materials and a long-term approach towards R and D is emphasised for elevating the sector's global position.

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