बैंक ऑफ़ बड़ौदा
Bank of Baroda
India's International Bank

Economic Intelligence

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MONTHLY MACRO INSIGHTS

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In Brief

The inflow of new data points since the last edition of this Note coupled with rate actions by major central banks has led to a downward revision to our rate expectations in the forthcoming Monetary Policy review. India's BoP in Q1 revealed significant compression in CAD, moderation in FDI and sharp uptick in the FII flows adding to the external stability in a reasonably paced growth scenario. Significant moderation in CPI based inflation with manufacturing inflation within acceptable range and stable services Inflation in Aug 2016 contributed to internal stability. RBI is well placed to meet the inflationary target for March 2017 given the current pace and expected evolution of inflation and thus will be open for a rate cut. Front loading of liquidity in view of the FCNR(B) redemptions due in October-November coupled with absence of any surprises from Fed, Monsoon and Oil, has set the stage for a rate cut. We expect a 25 bps cut in the repo rate. In principle consensus amongst OPEC members to cut oil supply after a gap of 8 years will keep crude prices on the edge. However, it is not until November a clear picture on the crude front will emerge. Geo-political developments in the Indian subcontinent will impart volatility to markets in the short run but will not materially drag India's growth prospects.

SNIPPETS

- GST council has made a good start and the likelihood of rolling out GST on Apr 1, 2017 has increased. The more contentious issues of GST rate will be taken up in October 2016.
- Fed deferred the rate hike to a future date citing desired strength in the labour market is yet to be achieved.
- International Crude prices might come under pressure as OPEC after a gap of 8 years has agreed in principle to restrict production. The share of each member in the cut will be decided in the OPEC meet scheduled in November. This is a major development as India has been a net beneficiary of the lower crude oil prices. Though production cut of OPEC will take some time to be implemented, India should get prepared for a reversal of lower crude oil prices.
- BoJ shifted to a "yield curve control" under which it will buy long-term government bonds to keep 10-year bond yields at current levels around zero percent and also reaffirmed its commitment to ultra loose monetary policy to overshoot the 2% inflation target.
- The key BoP indicators for the Apr-June 2016 period signalled improvement in external stability reflected through the current account deficit (CAD) and foreign investment flows.
- Financial markets in India has been stable post Brexit (Table-1).
- Significant drop in CPI based inflation both on yoy and mom (sa) basis coupled with likely CPI trajectory in the rest of FY 17 gives confidence that the 5% inflation target for Mar 17 will be met.
- Not only has the South western monsoon been normal IMD has predicted that the north east monsoon also will be normal. This will help the southern states which had a rainfall deficiency of 10% from the normal.

Table-1
FINANCIAL AND COMMODITIES MARKETS - PRE AND POST BREXIT

	22-June 2016	23-June 2016	31-Aug 2016	29-Sep 2016
Call	6.27	6.37	6.39	6.42
G-Sec	7.47	7.48	7.11	6.97
Dollar	67.55	67.37	66.84	66.55
Pound	99.15	99.47	88.70	86.61
Crude	48.36	49.55	45.23	43.48
Sensex	26765	27002	28452	27827
Gold	29500	29500	30900	31200

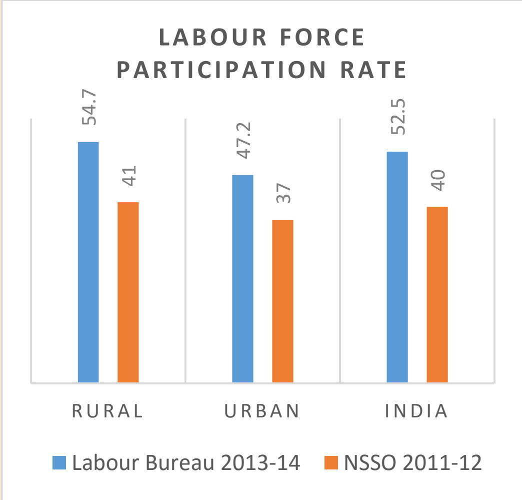
Note
G-Sec refers to yield on 10 year G-Secs.
Call refers to Weighted average call money rate.
Crude refers to price of Indian basket of crude
Dollar and Pound refers to the respective exchange rates with respect to Indian rupee.
Gold refers to price of 10gms of standard gold in Mumbai markets.

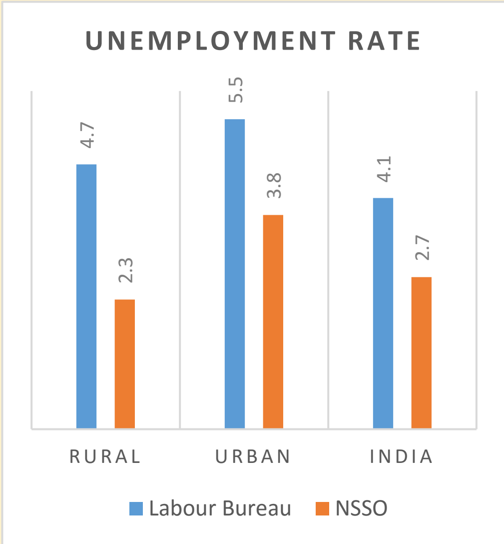
Inside

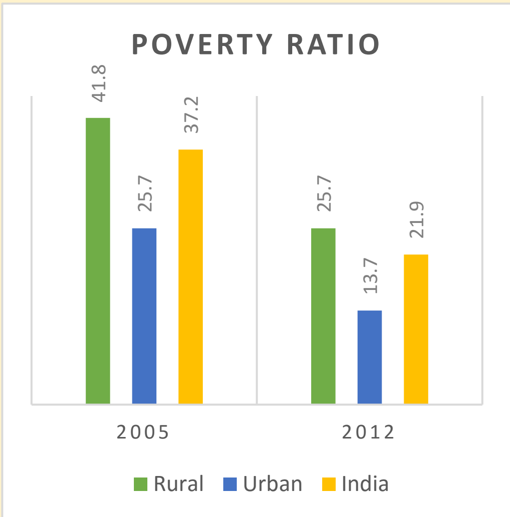
SNIPPETS

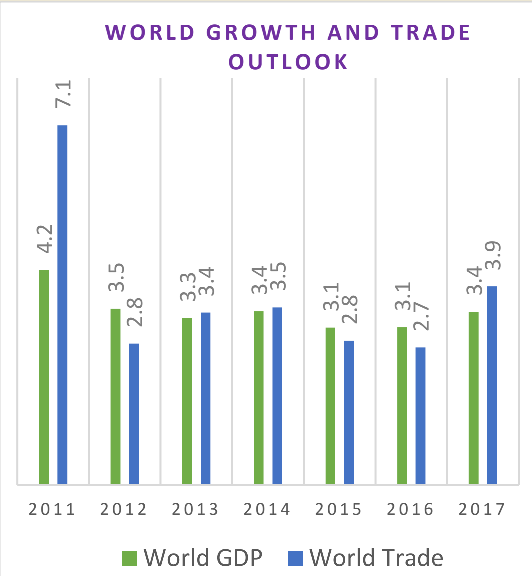
- Credit growth continues to be tepid for the industry and negative for infrastructure industries all through April to August in FY 17.
- IIP exhibited negative growth in July 2016. This is the second month in which IIP recorded negative growth in FY'17.
- Manufacturing as per sector based and capital goods as per use based classification showed negative growth.
- Subdued global crude oil prices following Brexit has been a positive for India both in managing trade deficit and fuel inflation.
- Both OECD and UNCTAD on Sep 21, 2016 have projected global economy to grow at a slower pace in 2016. However, only a modest uptick is expected in 2017.
- The various estimates of India's growth puts it in a range of 7.4-8% real GDP growth in 2016-17 and 2017-18.
- The more optimistic projections highlight robust monsoon after two drought years which will sustain stronger rural demand, ongoing structural reforms push including passage of Bankruptcy code, likely passage of GST (goods and services tax) in the monsoon session.
- The other positives are push to public investment in roads, easing of foreign direct investment (FDI) regulations, lower crude oil prices, relatively buoyant consumer and investor confidence.
- The drags on growth is the lower than expected private investment revival, high levels of stressed assets in the banking sector, poor export performance, muted credit offtake and potential inflationary consequences of the pay and wage hike.
- The Ministry of Agriculture has set the country's grain production target at 270.10 million tonne (mt) for the 2016-17 crop year (July-June), up 6.7% from the actual grain production of 253.23 mt in 2015-16.
- Sowing of Khariff crops was 1060 lakh hectares as on Sep 23, 2016 compared to 1023 lakh hectares around the same time last year- an increase of 3.6%
- The various initiatives to make the capital, labour and natural resources markets more competitive and efforts to harness human capital has led to significant improvement in India's competiveness as reflected in the global competitiveness Index .
- Major reforms in the past few months included passage of the Bankruptcy Code, passage of the GST Act, relaxation in FDI norms and the recent measures to strengthen the corporate bond market.

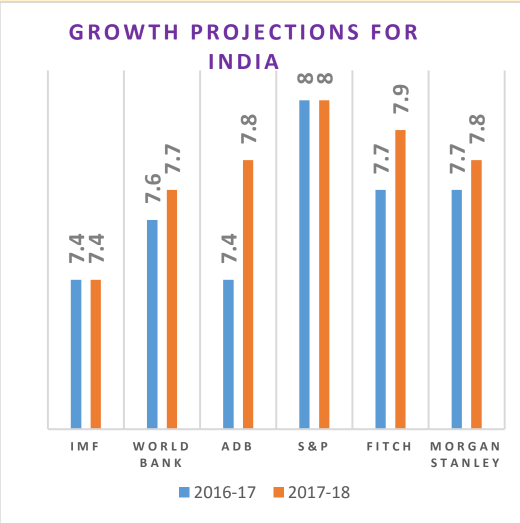
Indian Economy-Structural Coordinates

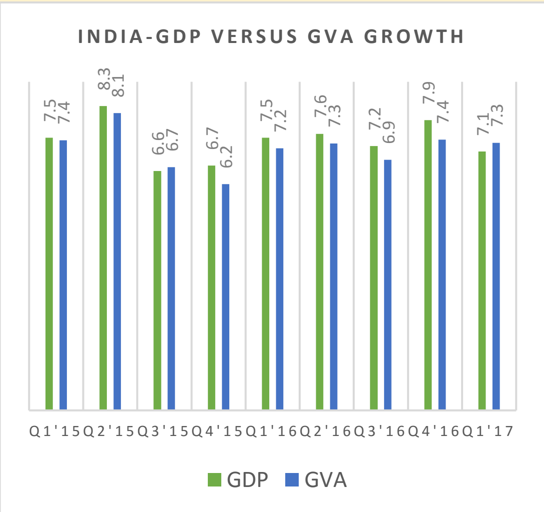












Growth Outlook

Global

OECD and UNCTAD which published their global growth projections on Sep 21, 2106 have highlighted continuing weakness in the global economy and trade.

Key points from the OECD Assessment

- In its interim economic outlook published on Sep 21, 2016 OECD brought out that the global economy is projected to grow at a slower pace in 2016 compared to 2015.
- OECD projects that the global economy will grow by 2.9% in 2016, lower than the long-run averages of around 3.75% However, a modest uptick at 3.2% is expected in 2017
- The Outlook warns that a low-growth trap has taken root, as poor growth expectations further depress trade, investment, productivity and wages.
- Weak trade growth and financial distortions are exacerbating slow global economic growth.
- Over the past few years, the rate of global trade growth has halved relative to the pre-crisis period, and it declined further in recent quarters, with the weakness concentrated in Asia.
- While low investment has played a role, rebalancing in China and a reversal in the development of global value chains could signal permanently lower trade growth, leading to weaker productivity growth.

Key points from the UNCTAD Assessment

- UNTACD published the Trade and Development Report 2016 on Sep 21, 2016 has flagged the knock-on effects on most developing countries arising from the loss of dynamism in the advanced economies, combined with low commodity prices and global financial instability.
- According to UNCTAD, global economic growth below 2.5% remains weak and global trade slowed down dramatically to around 1.5% in 2015 and 2016, compared to 7% before the crisis. Developing economies will grow on average less than 4% in 2016, but with considerable variation across countries and regions.
- As per this report, to attain sustained and inclusive growth, countries need to adjust their policy strategies in order to advance structural transformation.
- The UNCTAD report warns that developing countries have become increasingly vulnerable to volatile global financial markets, including speculative and sizeable capital flows, and that financial deregulation in emerging economies is beginning to see corporations reduce their profit-to-investment ratios, with negative consequences for long-term economic growth

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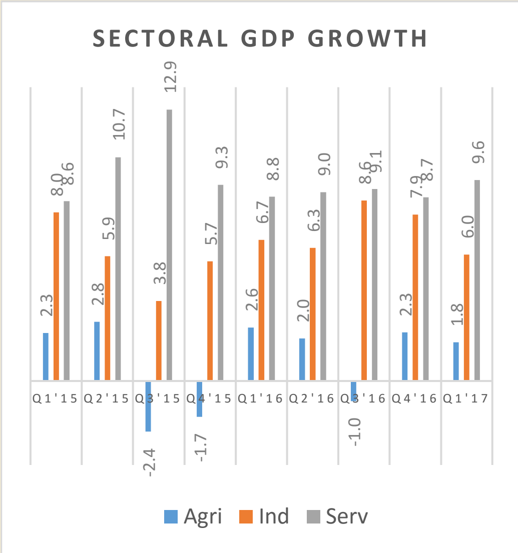
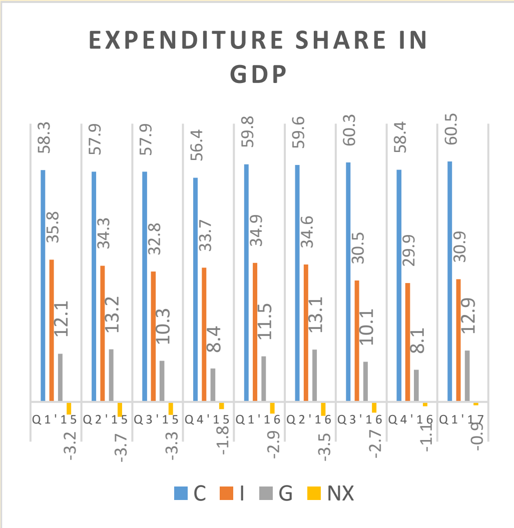
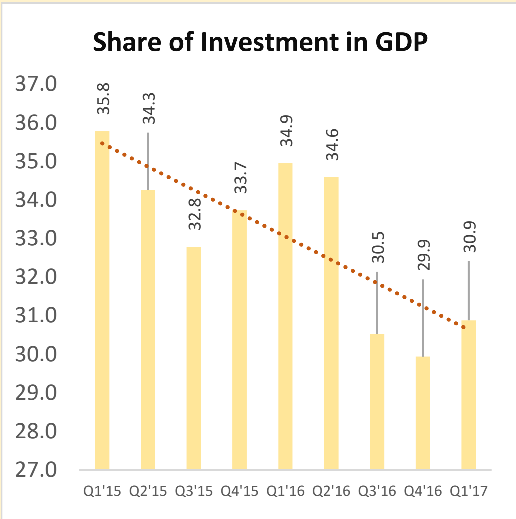
India's Growth Outlook

- Asian Development Bank (ADB) in its Asian Development Outlook 20016 update published on Sep 27, 2016 has projected a growth rate of 7.4% in 2015-16 and 7.8% in 2016-17 for India driven by strong consumption and an investment revival.
- ADB has cautioned the drags to growth owing to stressed balance sheet of banks and private corporates.
- S&P in its 'APAC Economic Snapshots' published on September 19 2016, has maintained its earlier projection of GDP growth for India about 8% over the next few years.
- S&P has pointed out that India's structural reforms has maintained strong momentum, most recently with the GST passage and should propel growth higher. S&P has assessed India's growth to be "steroid-free" backed by a broadening of consumption base.
- The various estimates of India's growth puts it in a range of 7.4-8% real GDP growth in 2016-17 and 2017-18.
- The more optimistic projections highlight robust monsoon after two drought years which will sustain stronger rural demand, ongoing structural reforms push including passage of Bankruptcy code, likely passage of GST (goods and services tax) in the monsoon session.
- The other positives are push to public investment in roads, easing of foreign direct investment (FDI) regulations, lower crude oil prices, relatively buoyant consumer and investor confidence.
- The drags on growth is the lower than expected private investment revival, high levels of stressed assets in the banking sector, poor export performance, muted credit offtake and inflationary consequences of the pay hike.
- RBI in its Annual Report 2015-16 published on Aug 29, 2016 had pointed out that , the near-term domestic growth outlook appears somewhat brighter than that 2015- 16. RBI has projected GVA growth for 2016-17 is at 7.6% as against 7.2% in 2015-16.
- The investment activity continues to be subdued while consumption is expected to be buoyant due to cascading impact of the pay commission and better agriculture sector growth on the back of better monsoon progress.
- IIP has been weak due to subdued manufacturing growth.
- Growth will get some support from the revised FDI policy and other reforms underway in the economy.





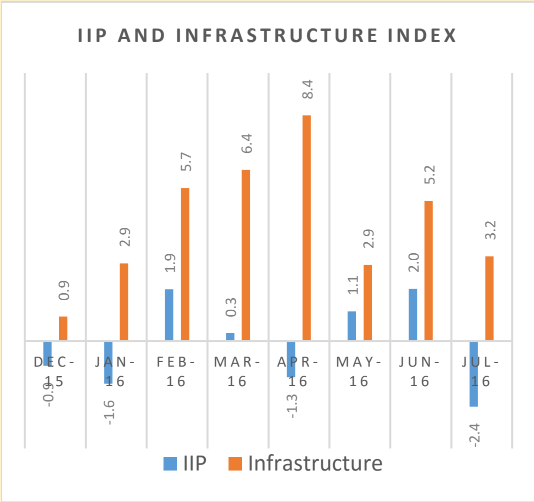


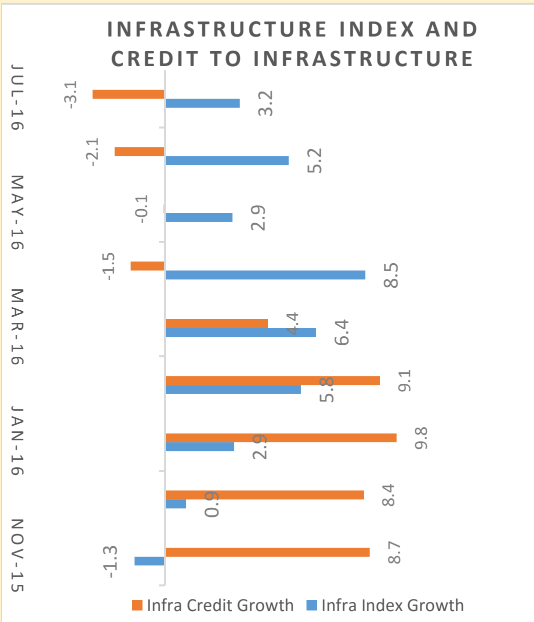
Industrial Production

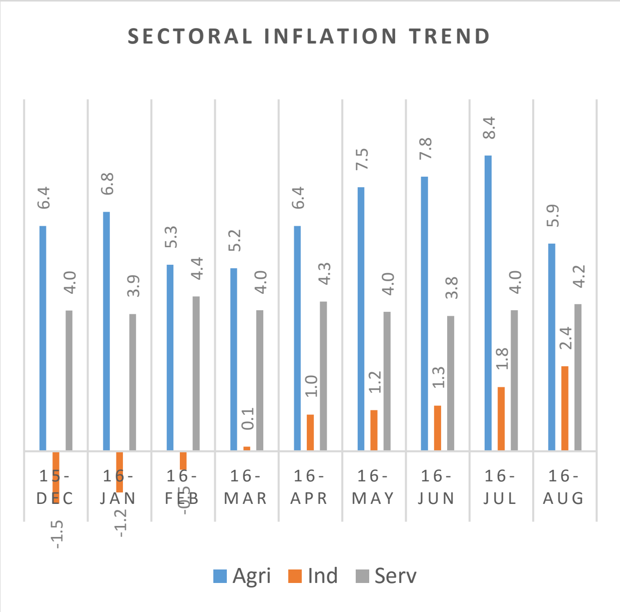
- IIP de-grew by 2.4% in July'16 following a growth of 2% in June'16 on y-o-y basis. This is the second month for which IIP recorded negative growth in FY'17.
- Manufacturing as per sectoral and Capital Goods as per use based classification exhibited negative growth. Within Manufacturing, twelve out of the twenty two industry groups (as per 2 - digit NIC -2004) in the manufacturing sector have shown negative growth during the month of July 2016 on a y-o-y basis.
- If we look at the m-o-m seasonally adjusted (SA) numbers, IIP grew by -4.7% in Aug'16 as compared to 1.7% in June'16.
- Core industries (infrastructure) growth moderated further to 3.2% in July'16 compared to 5.2% in June'16 after an impressive 8.1% in Apr'16 on y-o-y basis. All segments except crude and natural gas registered positive growth in June '16
- Consumer goods production which has also been lackluster especially non-durables, will get a strong push arising from the government's decision on June 29, 2016 to implement 7th Pay Commission from Jan 1, 2016 and normal monsoon.
- Good chances are that capital goods production will get good support in coming months in the backdrop of continuous capacity addition in infrastructure industries for the last six months and uptick in demand for consumer goods.

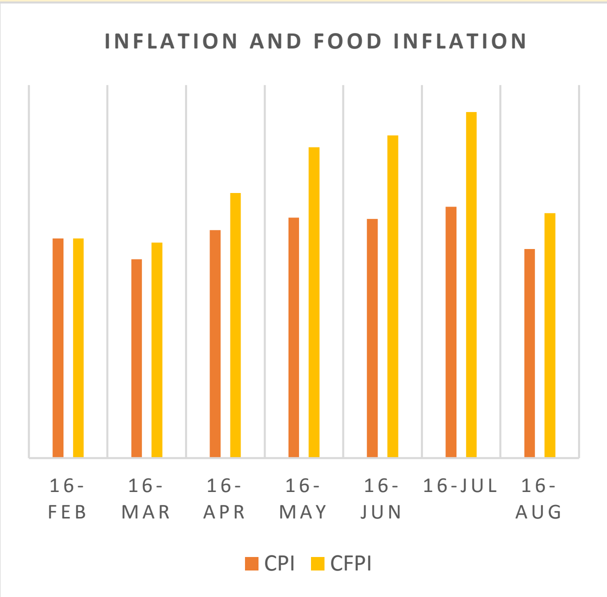
Credit Growth

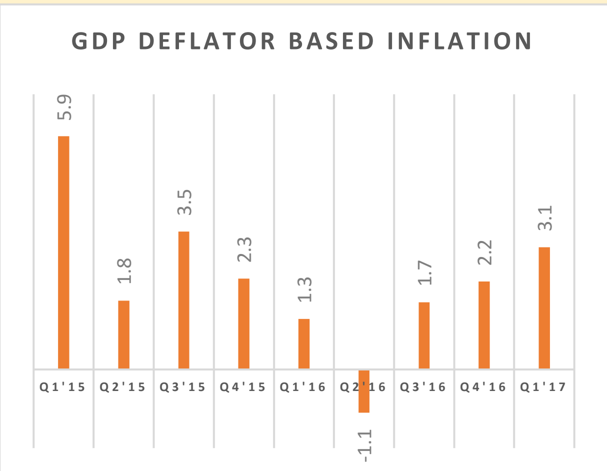
- Credit growth from the banking system has moderated to 7.9% during Apr-July 2016-17 compared to 8.2% average loan growth during the same period of 2015-16.
- While credit to industry and infrastructure has been lack luster, service sector credit growth has been quite steady at 10.3% during Apr-July, 2016 compared to average growth of 7.1% during 2015-16.
- Within services, professional services and personal loan growth has been robust. Loan to Housing, Consumer durables, Vehicle Loans and Credit Card Outstanding have posted high growth in May 2016 compared to the trend seen during 2015-16.
- Credit growth to industry was lower at 0.55% in July'16 compared to a lackluster 0.6% in June'16 on a y-o-y basis.
- Growth in Bank credit to industry has been very small compared to 5% growth recorded during Apr-July 15.
- Credit to infrastructure sectors used to be in the 8-10 per cent range between Apr'15 and Feb'16 is experiencing anemic growth since Mar'16.
- Credit growth to infrastructure has been negative in each of the four months and was -1.7% during Apr-July'17 compared 9.1% during Apr-July' 16.
- Focus on stressed asset management by PSBs which are one of the major financiers of infrastructure projects is partly responsible.











Inflation

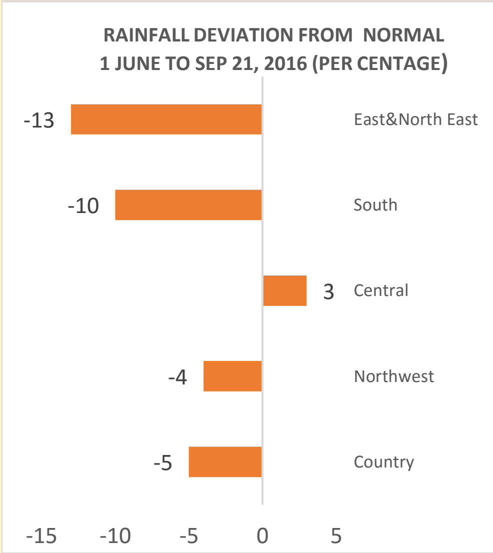
- The latest reading for both WPI and CPI indicates, inflation both at the wholesale level hardened slightly whereas considerable softening was observed at retail level.
- While WPI based inflation paced up to 3.74% in Aug to 3.55% in July'16, CPI based inflation fell to 5.05% in Aug compared to 6.06% in July'16 on y-o-y basis.
- Both CPI and WPI Inflation, however, softened in Aug'16 on m-o-m seasonally adjusted (SA) basis.
- Agriculture related product inflation which has been a matter of concern since Apr'16 has eased significantly in Aug'16 and is expected to decline further on the back of good monsoon.
- Manufactured products inflation is also slowly building up as suggested by WPI inflation.
- Though WPI inflation has not reached the stage of concern, gradual building up of manufactured products inflation needs close monitoring.
- Services inflation holding steady around 4% for the last 6 months is a matter of comfort.

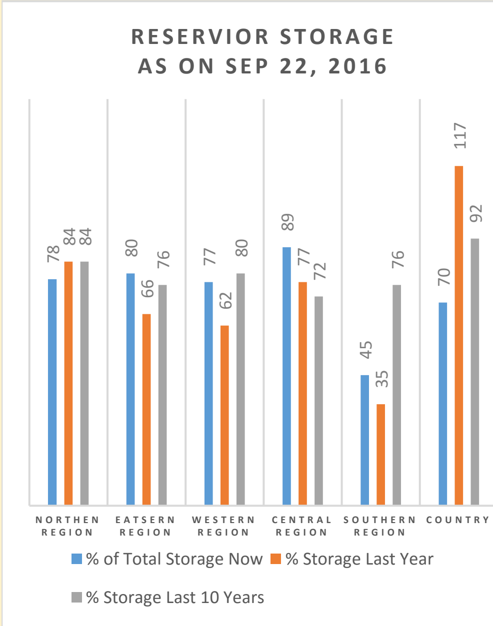
Food Inflation

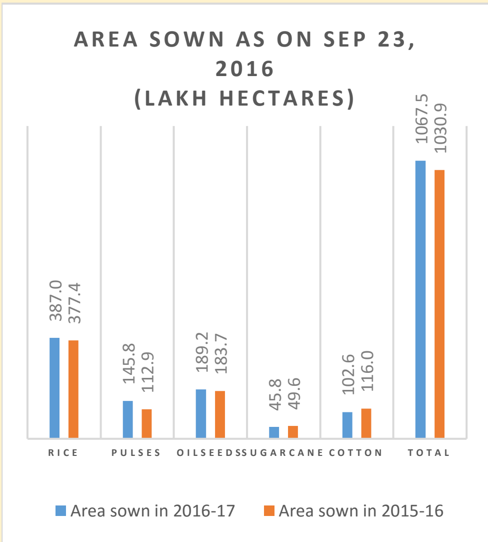
- Food inflation is down both at retail (CPI) and wholesale (WPI) level.
- Food inflation at 8.4% which had been the major driver of high print for CPI in July'16 has come down to 5.9% in Aug'16.
- Food component of WPI based inflation is down from 11.8% in Jul'16 to 8.2% in Aug'16
- Food inflation which has moderated in Aug'16 after reaching a peak in July is expected to moderate further as monsoon has been normal after two years of drought.
- Seasonally Adjusted CPI food inflation has been negative in July'16(-0.4%) and Aug'16(-1.5%). Seasonally Adjusted WPI food inflation has also been negative in Aug'16.
- Pulses and Sugar continue to exhibit double digit inflation in the CPI basket.
- The increased price of pulses has triggered a shift in area under cultivation away from sugarcane and cotton towards pulses. Going forward while pulse prices may come under control because of multiple interventions, sugar and cotton prices may see a spike following shrinkage of Area sown.
- From an index perspective, pulses and sugar have a combined weight of 4% in CPI. Hence from an overall CPI perspective, their influence will not upset the overall CPI even if there is no great relief for them.

Drivers of Food Inflation

- For the country as a whole, cumulative rainfall during this year's monsoon so far up to September 21 has been **5% below LPA**.
- 28 out of 36 subdivisions of the country have received normal to excess and 8 sub divisions received deficient rainfall so far. Excess rain was observed in both Eastern and Western Rajasthan and Western Madhya Pradesh.
- The southern region which has received relatively lesser rainfall compared to all other regions except East and North East from the southern western monsoon will get support from the North East monsoon.
- Operational forecast for the 2016 North-east monsoon season (October-December) indicates that rainfall over south Peninsula (Tamil Nadu, Coastal Andhra Pradesh, Rayalaseema, Kerala and south interior Karnataka) is most likely to be normal (90% -100% of LPA).
- It may be noted that the south Peninsula receives about 30% of its annual rainfall during the NE monsoon season. Tamil Nadu in particular receives about 48 % of its annual rainfall during this season.
- Moot point is well spread out normal rainfall will help to support 4% agricultural growth.
- Water level at 91 large reservoirs across the country touched 70% of their combined capacity as on Sep 22, 2016. The live storage in these reservoirs is 117% of their live storage in the corresponding period of last year and 92% of storage of average of last 10 years.
- The numbers of reservoirs having storage more than last year are 56 and reservoirs having storage more than average of last ten years are 45.
- Two reservoirs have storage less than 20% with respect to last year and 5 reservoirs had storage less than 20% with reference to average of last ten years.
- Eight reservoirs have storage less than or equal to 50% with respect to last year and 17 have storage less than or equal to 50% with reference to average of last ten years.
- The total sown area as on 23th September, 2016 as per reports received from States, stands at 1067.53 lakh hectare as compared to 1030.89 lakh hectare at this time last year and total normal area of 1062.50 lakh hectare.
- Sowing of Khariff crops was 1060 lakh hectares as on Sep 23, 2016 compared to 1023 lakh hectares around the same time last year- An increase of 3.6%
- Sowing of pulses increased by 29% to 145 lakh hectares on a y-o-y basis as on Sep 23, 2016
- There was a -61% departure from normal storage in AP&TG (Two combined projects in both states) and -30% or more deviation from normal storage in reservoirs located in Andhra Pradesh, Karnataka, Kerala and Tamil Nadu.







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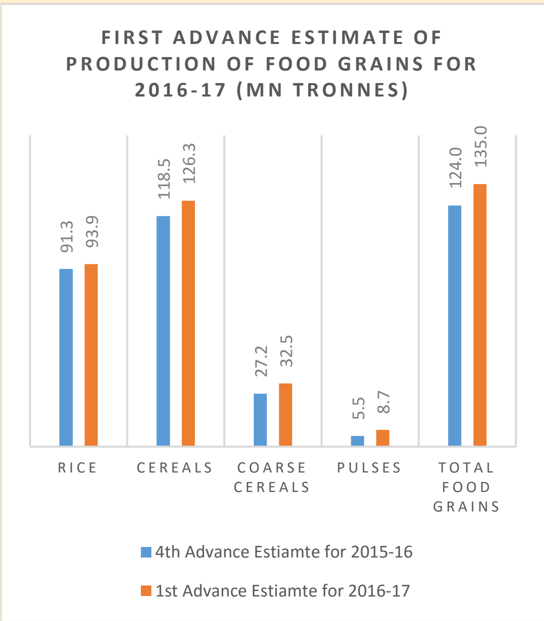
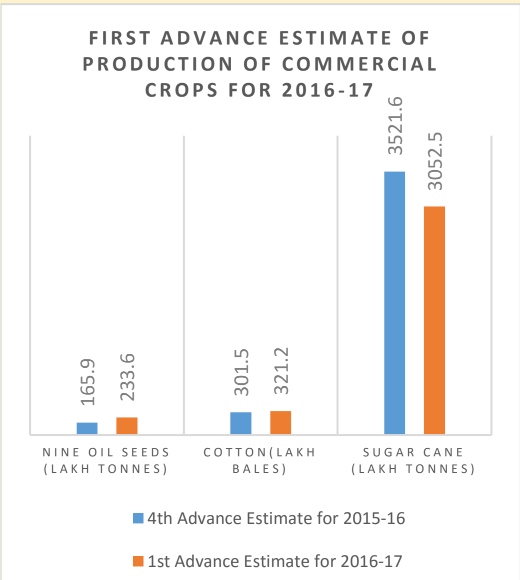
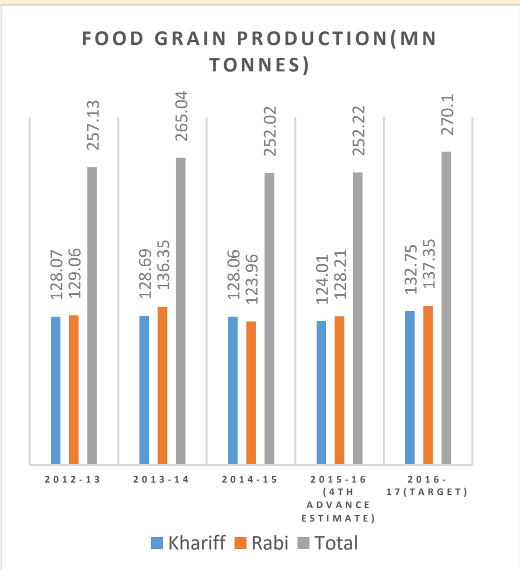


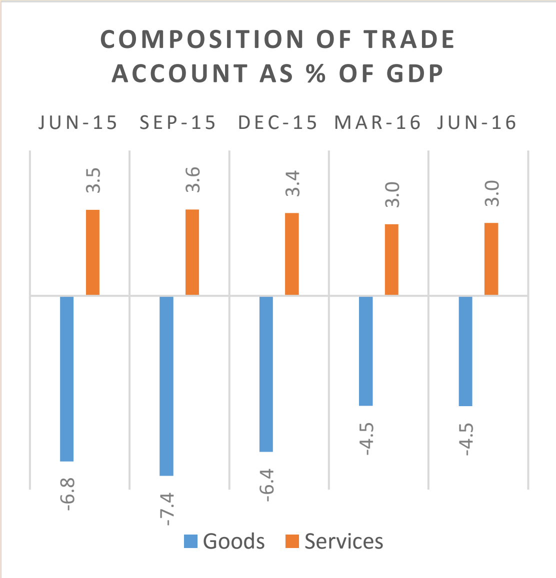


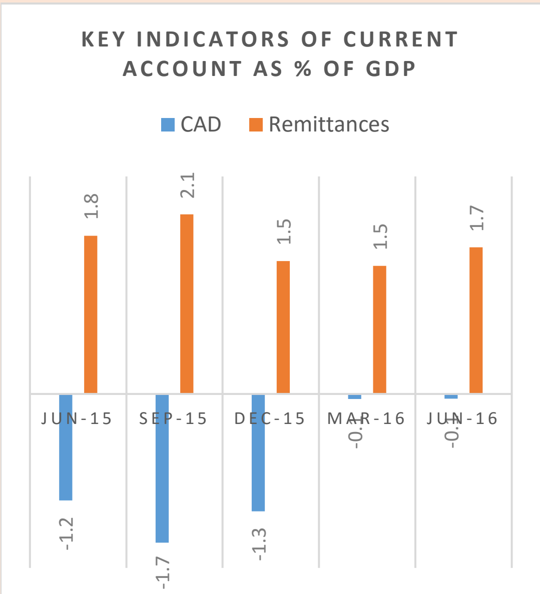


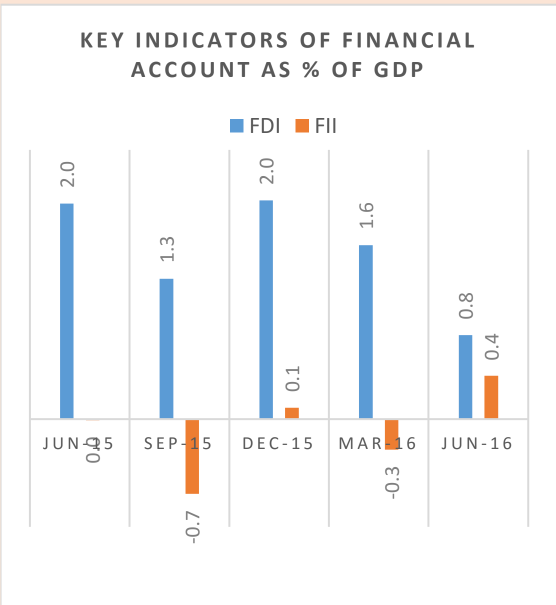
- The Ministry of Agriculture has set the country's grain production target at 270.10 million tonne (mt) for the 2016-17 crop year (July-June), up 6.7% from the actual grain production of 253.23 mt in 2015-16.
- The Agriculture Ministry released the first advanced estimate of food grains and commercial crops production in 2016-17 on Sep 22, 2016.
- As per the 1st Advance Estimates for 2016-17, total production of Kharif foodgrains is estimated at 135.03 million tonnes which is a new record. If realized, production will be higher by 11.02 million tonnes as compared to last year's Kharif foodgrains production of 124.01 million tonnes.
- Kharif rice estimated at 93.88 million tonnes , and Kharif pulses estimated at 8.70 million tonnes a new record

Inflation and Rate Outlook

- RBI in its third bi-monthly statement in June 2016 had flagged upside risks to the inflationary projection of 5 % by March 2017.
- August consumer price index (CPI) fell sharply to 5.05 percent year-on-year from 6.07 percent in July, driven by a sharp fall in food prices, which has about 50 percent weight in the CPI basket.
- It is expected that the inflation would not breach the inflation target in view of the progress of the south western monsoon so far and the likely normal north east monsoon. The base effect will also help.
- Significant moderation in CPI based inflation with manufacturing inflation within acceptable range and stable services Inflation in Aug 2016 contributed to internal stability.
- IIP growth in July was -2.4 percent, compared to 1.9% (revised) in June. Industrial production displays weakness in manufacturing as well in capital goods segments
- Front loading of liquidity in view of the FCNR(B) redemptions due in October-November coupled with absence of any surprises from Fed, Monsoon and Oil, has set the stage for a rate cut. We expect a 25 bps cut in the repo rate.







External Sector

- Notwithstanding a blip in June'16, India's merchandise exports fell in both July'16 and Aug'16 on a y-o-y basis.
- Exports declined by 0.3% year on year to US$ 21.51 in Aug-16.
- Imports declined by 14.1% year-on-year in Aug'16 to $29.19 billion, a trend observed since December 2014 due to weak global demand and a fall in commodity prices.
- Non-oil imports declined by a faster pace at 15.7% compared to 8.5% for oil imports in Aug-16.
- The BoP data for the period Apr-June 2016 was published by RBI on Sep 21, 2016.

The key points from the BoP for Apr-June 2016 are

- The current account deficit (CAD) narrowed to US$ 0.3 billion (0.1 per cent of GDP) in Q1 of 2016-17, significantly lower than US$ 6.1 billion (1.2 per cent of GDP) in Q1 of 2015-16
- The contraction in the CAD was primarily on account of a lower trade deficit (US$ 23.8 billion) than in Q1 of last year (US$ 34.2 billion) and in the preceding quarter (US$ 24.8 billion).
- On a BoP basis, merchandise imports declined sharply (by 11.5 per cent) vis-à-vis merchandise exports (which declined by 2.1 per cent), leading to a lower trade deficit in Q1 of 2016-17.
- Foreign exchange reserves (on a BoP basis) increased by US$ 7.0 billion in Q1 of 2016-17 as compared with an accretion of US$ 11.4 billion in Q1 of 2015-16 and US$ 3.3 billion in the preceding quarter.
- Net workers' remittances declined by 2% as remittances to India declined by 3% and remittances from India increased by 9.1%, albeit on a low base.
- Net foreign direct investment moderated to US$ 4.1 billion in Q1 of 2016-17 from US$ 10.0 billion in Q1 of 2015-16 and US$ 8.8 billion in the preceding quarter i.e., Q4 of 2015-16.
- On the other hand, portfolio investment, recorded a net inflow of US$ 2.1 billion in Q1 of 2016-17 as against a marginal outflow in the corresponding period of last year and an outflow of US$ 1.5 billion in the preceding quarter, primarily reflecting net inflow in the equity component.
- Accretion to non-resident Indian (NRI) deposits at US$ 1.4 billion moderated in Q1 of 2016-17 from their level in Q1 last year as well as in the preceding quarter.
- According to World Energy Outlook-2015, published by International Energy Agency, India's oil demand is estimated to grow by 6 million barrels per day (mb/d), which is the largest projected for any country's oil demand, from 3.8 mb/d in 2014 to 9.8 mb/d by 2040.
- Oil price dynamics will have a significant bearing for the BoP in the third quarter of FY'17

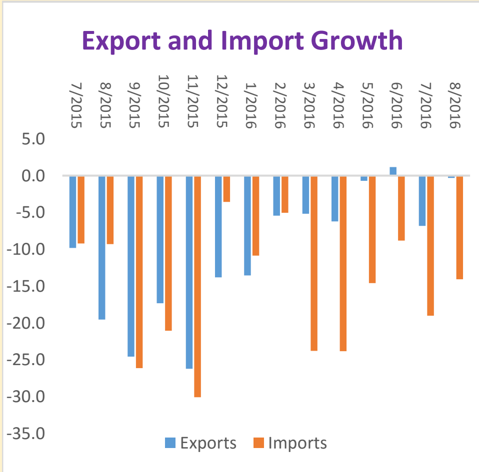
Exchange Rate Outlook

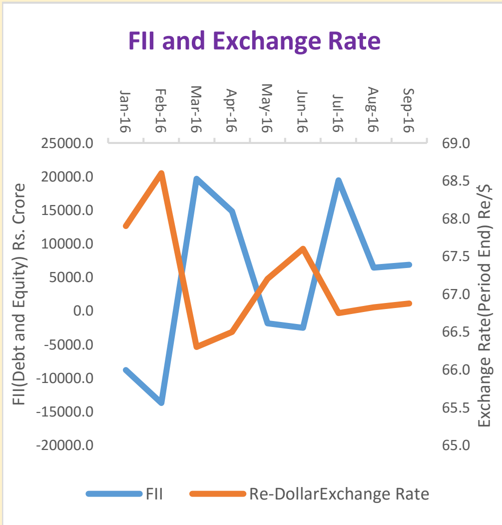
- Rupee-Dollar exchange rate to remain range bound with a near term downward bias because of FCNR (B) redemption pressure and surgical strike by India and possible retaliation by Pakistan.
- We do not think the geo political developments in the Indian sub-continent will derail India's growth prospects.
- Indian rupee movement will be governed by FDI and FII inflows which is guided more by the domestic growth prospects
- Higher growth in India makes it an attractive destination for FDI and FII.
- The impact of subdued global growth is felt through sluggish exports and also subdued crude prices.

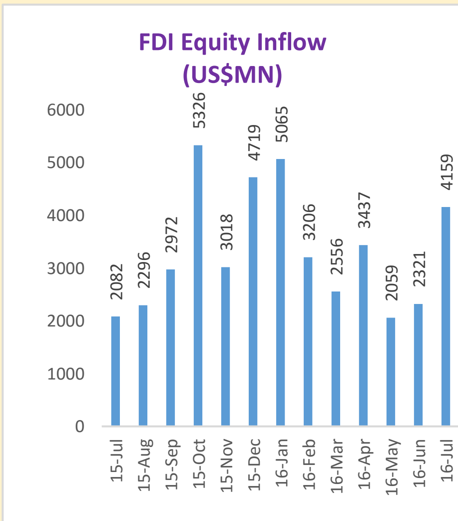
  Current global situation is beneficial for India as the gains from low crude prices far outweighs loss from export earnings because of subdued global growth scenario.
- Pressure on rupee may be seen in bouts during October. However, RBI's commitment to address volatility coupled with reform push by the government and better growth prospects will keep India a desired destination for foreign investment which will provide support to the Rupee.

Fiscal Sector

- Direct Tax Collections up to August, 2016 show that net revenue collections are at Rs. 1.89 lakh crore which is 15.03% more than the net collections for the corresponding period last year.
- Till August 2016, 22.30% of the Budget Estimates of direct taxes for Financial Year 2016-17 has been achieved.
- After adjusting for refunds, the net growth in CIT collections is (-) 1.89% while that in PIT collections is 31.76%.
- Indirect tax collections (Central Excise, Service Tax and Customs) upto August 2016 show that net revenue collections are at Rs 3.36 lakh crore which is higher by 27.5% year-on-year.
- Till August 2016, 43.2% of the Budget Estimates of indirect taxes for Financial Year 2016-17 has been achieved. During Apr-Aug 2016, Central Excise net tax collection grew by 48.8%, Service tax by 23.2% and Customs duty by 5.7%.
- In order to remove inconvenience and to facilitate ease of compliance, the government extends due date for filing of Income Tax Returns from 30th September, 2016 to 17th October, 2016







Structural Changes in Budget

- Government has ushered in structural changes in the Union Budget making process that include removal of distinction between plan and non-plan expenditure, advancement of budget presentation by about an month and merger of demands of Railways. All these changes will be put into effect simultaneously from the Budget 2017-18.

Merger of Railway and General Budget

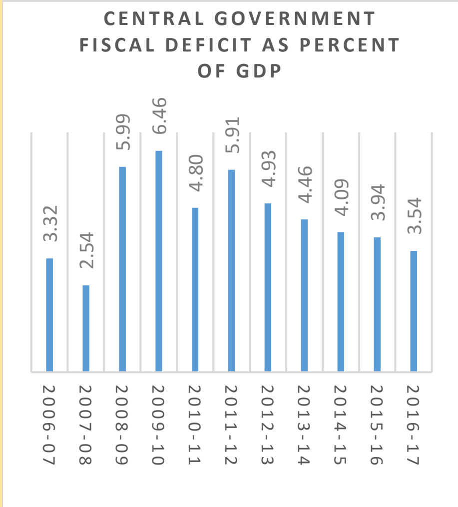
The merger of the Railway and General Budgets from 2017-18 will put an end to a 92-year-old practice. The presentation of a unified budget will bring the affairs of the Railways to centre stage and present a holistic picture of the financial position of the Government.

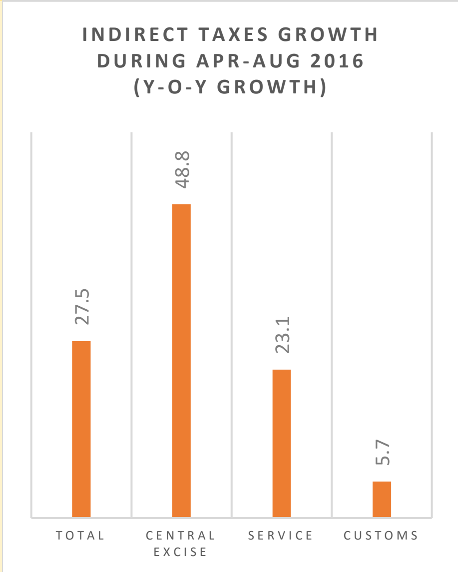
The merger of the two budgets will have the following administrative and financial arrangements-

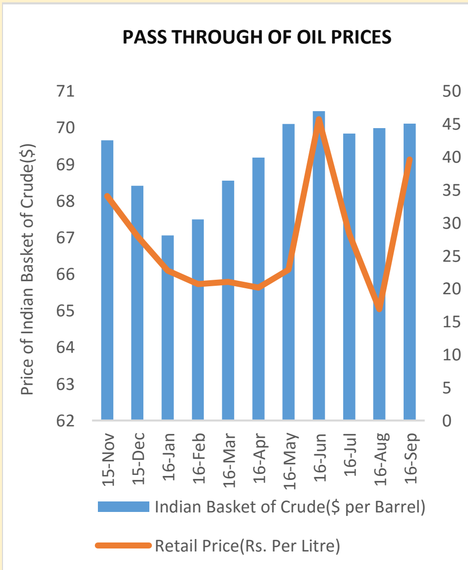
- The Railways will continue to maintain its distinct entity-as a departmentally run commercial undertaking as at present.
- Railways will retain their functional autonomy and delegation of financial powers etc. as per the existing guidelines.
- The existing financial arrangements will continue wherein Railways will meet all their revenue expenditure, including ordinary working expenses, pay and allowances and pensions etc. from their revenue receipts.
- The Capital at charge of the Railways estimated at Rs.2.27 lakh crore on which annual dividend is paid by the Railways will be wiped off. Consequently, there will be no dividend liability for Railways from 2017-18 and Ministry of Railways will get Gross Budgetary support.
- Consequent to the merger, the appropriations for Railways will form part of the main Appropriation Bill.

Budget Presentation date

- The government has decided to advance the date of Budget presentation from the last day of February to a suitable date taking into account the forthcoming assembly elections.
- This would pave the way for early completion of Budget cycle and enable Ministries and Departments to ensure better planning and execution of schemes from the beginning of the financial year and utilization of the full working seasons including the first quarter.
- Advancement of Budget presentation will preclude the need for seeking appropriation through 'Vote on Account' and enable implementation of the legislative changes in tax; laws for new taxation measures from the beginning of the financial year.







OPEC Meeting in Algiers during Sep 26-28 - Takeaway

- The OPEC meeting in Algiers during Sept 25-26, 2016 assumed significance as it marks the first co-ordinated action to bolster crude prices that have battered the finances of producer economies since the oil collapse began two years ago. It is reported that has agreed to reduce its oil output to 32.5 million bpd from the current production levels of around 33.24 million bpd.
- The OPEC will decide in concrete levels of production by each country at its next formal meeting in November. Once production targets were reached, OPEC would reach out to non OPEC producers for cooperation.
- Arriving at quotas for each member and following through with cuts means there is still a way to go. The amount of oil taken off the market will determine how successful the deal is in alleviating a supply glut. Oil analysts estimate that 700,000 to 1 million barrels per day needed to be taken off the market to have a meaningful impact on global supplies and prices. The decision to cut output assumes significance as last time OPCE cut production was during the financial crisis 2008
- As the OPEC members are facing economic problems in their own countries, the commitment to production cut will be difficult to honour. In the previous cut announced by OPEC, apart from Saudi Arabia none of the other countries followed the mandated production levels.
- Even if the OPEC members cut production, oil market has expanded well beyond OPEC's control. Global oil production stood at around 50 million barrels per day in 1974, with OPEC contributing over 25 million barrels. But now world production is very close to 100 million barrels per day while OPEC's own share has only risen to 33 million barrels.
- OPEC has to take cognisance of the fact that new players, especially shale oil producers in the US are waiting for an opportunity to increase their production to take advantage of the price rise.

Merger of Plan and Non Plan classification in Budget and Accounts:

The Plan and Non Plan classification will be merged in Budget and Accounts from 2017-18. However, earmarking of funds for Scheduled Castes Sub-Plan/Tribal Sub-Plan. Similarly, the allocations for North Eastern States will also continue.

This will help in ascertaining the cost of delivering a service but also to link outlays to outcomes and also correct the neglect of essential expenditures on maintenance of assets and other establishment related expenditures for providing essential social services while focusing on the revenue, and capital expenditure.

GST Council Decisions

- Following the 122nd Constitution amendment for introduction of Goods and Services Tax (GST), the Cabinet approved setting up of the GST Council.
- The GST Council met for the first time during September 22-23, flagging off the process of determining the details of the new indirect tax system and resolving differences on crucial first-principle issues.
- The Council reached a consensus on the threshold turnover for a business to be covered by the GST at Rs.20 lakh, so that it is not a compliance burden for small retailers and traders. Businesses in the Northeastern and hill states with annual turnover below Rs.10 lakh would be excluded from GST
- The Centre turned down the Central Board of Excise and Customs's proposal to create dual control over the assessment of businesses with an annual turnover of up to Rs.1.5 crore and give States that power. The States would have sole jurisdiction over assesses (currently in the Value Added Tax [VAT] net at present) having a turnover of Rs.1.5 crore or less, while the administrative control of businesses with a turnover exceeding that limit would be jointly with the Central and State governments.
- The Council also decided that the existing 11 lakh service tax assesses will continue to be under the jurisdiction of the Centre. Since the GST will allow the States to also tax services, over time the revenue officials in the States will be trained after which they will begin assessing assesses in the services sector.
- The compensation that the Centre would pay to the States for losses of revenue because of the transition to the new regime would be routinely, quarterly or bi-monthly. The Council agreed to settle for 2015-16 as the base year for calculating the compensation.
- The Council would reconvene on September 30 to finalise the categories of goods and services that would be exempt from the GST. After that, it would meet on October 17, 18 and 19 to fix the slabs and rates at which the GST would be paid by consumer.

Rate Decision by Major Central Banks

RBI

- The fourth bi monthly monetary policy statement of RBI scheduled on October 4, 2016 is being keenly watched as it is the first policy under a new institutional framework of Monetary Policy Committee taking the rate decision as opposed to the earlier practice of the RBI Governor taking the final call on rates.

- The Key Policy Rates and Ratios at present are (%)

  Repo-6.5
  Reverse Repo-6
  MSF-7
  CRR-4
  SLR-21.25

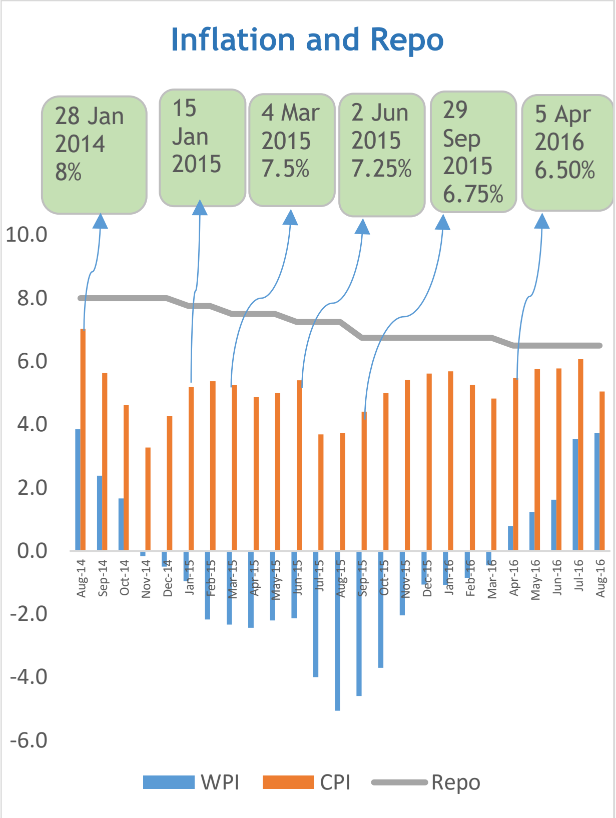
FED

- In its FOMC meeting during Sep 20-201, 2016, Fed left interest rates unchanged but strongly signalled it could still tighten monetary policy by the end of 2016 as the labour market improves further. US growth was looking stronger and rate increases would be needed to keep the economy from overheating and fuelling high inflation.
- Fed conveyed that one rate increase is possible in 2016 if the job market continued to improve and major new risks did not arise.
- The Fed also projected a less aggressive rise in interest rates next year and in 2018, and cut its longer-run interest rate forecast to 2.9 per cent from 3.0 per cent.

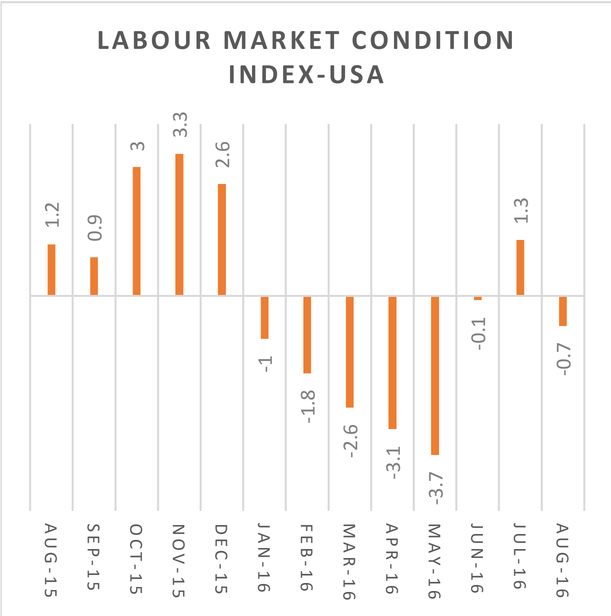
ECB

- The Governing Council of the ECB on Sep 8, 2016 left the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively.
- The Governing Council continues to expect the key ECB interest rates to remain at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases.
- ECB confirmed that the monthly asset purchases of €80 billion are intended to run until the end of March 2017, or beyond, if necessary, and in any case until it sees a sustained adjustment in the path of inflation consistent with its inflation aim.

RBI REPO AND INFLATION DYNAMICS



US-LABOUR MARKET DYNAMICS



Rate Decision by Major Central Banks

BoE

- At its meeting ending on 14 September 2016, the MPC voted unanimously to maintain Bank Rate at 0.25% to meet the 2% inflation target.
- The Committee voted unanimously to continue with the programme of sterling non-financial investment-grade corporate bond purchases totalling up to £10 billion, financed by the issuance of central bank reserves.
- The Committee also voted unanimously to continue with the programme of £60 billion of UK government bond purchases to take the total stock of these purchases to £435 billion, financed by the issuance of central bank reserves.

BoJ

- In its monetary policy meeting on Sep 21, 2016, BoJ decided to introduce "QQE with Yield Curve Control" by strengthening the two previous policy frameworks viz, "Quantitative and Qualitative Monetary Easing (QQE)" and "QQE with a Negative Interest Rate" with a view to achieving the price stability target of 2% at the earliest.
- The BoJ maintained the 0.1% negative interest rate on some of the excess reserves that financial institutions park with it. However, it abandoned its base money target and instead adopted "yield curve control" under which it will buy long-term government bonds to keep 10-year bond yields at current levels around zero percent.
- It added a long-term interest rate target to its massive asset-buying programme, overhauling its policy framework and recommitting to reaching its 2% inflation target as quickly as possible.
- BoJ maintained that it will allow inflation to overshoot its target by maintaining an ultra-loose policy.

Financial and Commodities Markets

- New 10-year Govt bond issued at 6.97 per cent-The government auctioned a new 10-year benchmark bond at a cut-off yield of 6.97 % on 2nd September, 2016. It was for the first time since July 2009 that a 10-year bond was issued below 7% coupon rate. The auction was part of Rs. 14000 crore of bond issuance by RBI. The existing 10-year bond closed at 7.11%. The government has raised Rs. 87000 crore through the existing bond that was issued at a coupon of 7.59 % in January 2016.
- Reasonably good growth prospects aided by steady progress of monsoon and softer crude prices are other supporting factors for the fall in yield.
- On expectations of a possible rate cut, the 10-year bond yields have declined rather sharply and are ruling below 7% registering 82 bps fall from 7.74% at the beginning of the year.
- This is also partly due RBI's OMO operations that have provided ample liquidity by sucking out the excess supply of government bonds, leading to bond prices moving up and yields lower.
- The redemption of the on-going FCNR deposits can however, lead to some bouts of volatility in the near term.
- RBI has assured markets that it would supply dollars in case of sharp volatility in the rupee. This may lead to a shortage of rupee liquidity as the RBI will be sucking out rupees to sell dollars.
- While RBI has assured adequate liquidity through more OMOs if need be (as is the case now), sudden disruptions cannot be ruled out. This can lead to yield moving up sharply in the interim.
- The International Energy Agency (IEA) on Sep 13, 2016 has projected Global oil surplus to persist into first half of 2017. Sharp decline in growth of global oil demand, combined with stocked inventories and rising supply to result in oversupply in the crude market at least through the first half year of 2017.
- IEA did not change its forecast for demand growth for 2017 from its prediction in June at 1.2 million barrels per day, but reduced its forecast for 2016 consumption growth to 1.3 million bpd, from 1.4 million. Saudi Arabia and Iran have each raised oil output by over 1 million barrels a day since late 2014 when OPEC shifted strategy to defend market share rather than price.
- Notwithstanding the decision by OPEC to cut production in its meeting at Algiers, oil prices will not come under severe pressure given the demand and supply dynamics in the global oil market

Banking

Competition in the Lending Space

- Base rates of select 12 banks (6 from the PSB space and 6 New Private Banks) varied within a range of 130 bps. SBI and HDFC bank had the lowest base rate at 9.30% and IndusInd Bank had the highest base rate at 10.60%. HDFC Bank and IndusInd Bank respectively had the lowest and highest MCLR rates in the 1-year tenure.
- The variation in MCLR, decreased from the past month to a range of 70 bps. As far as deposit rates are concerned, we find greater convergence amongst the select 12 banks. We find the range is 40 bps for term deposits of tenure between 1 year-2 years and for less than Rs.1 crore.
- Finer segmentation is observed in the liability side with respect to tenure of term deposits for a number of banks.

Innovation

- **ICICI Bank forays into 'software robotics'**- ICICI Bank has forayed into 'software robotics' by inducting over 200 software robots who are performing over 10 lakh transactions per day for the bank which comprises 10% of its total transactions. The 'software robots' have been deployed across functions in retail banking, agri-business, treasury, trade and forex. The bank is expecting a significant improvement in its cost to income ratio once the initiative is rolled out in full. The bank plans to engage 500 software robots by the end of the year which will help it to automate 20% of its total transactions.
- **Kotak Mahindra Bank (KMB) launches 'Kotak Now' for account opening application**- In an attempt to make account opening more simpler and cost-effective manner, the Bank has launches 'Kotak Now' an end-to-end application wherein a customer will be able to open a bank account within 10 minutes, without visiting a branch or any other merchant.
- The customer will establish identity through their mobile number and a one-time password (OTP). The customer will then have to get connect through a video chat with one of the KMB executives to open the account.
- The bank tied-up with a German start-up 'WebID' which has a patented technology to establish identities through specially built algorithms and has already implemented it in 30 banks worldwide.
- The Bank expects to save at least 50 per cent on "up to Rs 3,000" spent on a new account opening by implementing the above account opening process. Initially, the process has been implemented only for current accounts and will be soon expanded to other offerings. The Bank is targeting to open at least a fourth of the new accounts through this application in a year.

Reserve Bank widens market for sale of stressed assets

To improve the sale of bad loans by lenders, the Reserve Bank of India has permitted banks to sell these loans to other banks, non-banking financial companies (NBFCs) or financial institutions through e-auction, while making banks' boards more accountable for stress resolution. To expedite the process, RBI has encouraged banks to use the "Swiss challenge method" to sell non-performing loans of recent vintage. Under this method, an entity (bank or lender) that receives an unsolicited bid for an asset or project has to publish the bid and invite third parties to match or exceed it. The entity that submits the unsolicited bid will be allowed to match or better the ensuing best bid. In addition, RBI has decided to restrict banks' investment in security receipts (SRs) backed by their own stressed assets. Where SRs' value is above 50 per cent of the amount of assets sold, banks need to make higher provisioning that should either be the net asset value declared by the SCs/RCs or provisioning as if it was a direct loan, effective April 1, 2017. This limit will be reduced to 10 per cent from April 1, 2018. Prospective buyers should be given a minimum of two weeks for due-diligence. Where the exposure is above Rs. 50 crore, banks need to get at least two external valuation reports.

PSBs using AT1 bonds to shore up capital base

It is reported that PSBs have issued close to Rs 17,000 crore of Basel 3-compliant Additional Tier-1 (AT-I) bonds - a hybrid instrument - to raise capital till August 2016. Banks having a rating below the AA level have a tough task at hand to place the AT1 bond issue.

Please refer page No. 23 for disclaimer.

Development

Shareholder Base Expands in NPCI

With additional 46 banks owning stake in National Payments Corporation of India (NPCI), the number of shareholding banks have risen to 56 banks from 10 banks previously. The new shareholder banks in the NPCI comprise 13 public sector banks, 15 private sector banks, one foreign bank, 10 multi-state co-operative banks and seven regional rural banks. The new shareholders have collectively infused Rs. 119 crore into NPCI as shares to the new shareholders' were issued at a book value of Rs. 352 per share. With the induction of new shareholders, shareholding of PSBs has declined to 57% from 60 %, while that of private sector banks risen up to 17% from 2%.

New RBI norms to make FY17 costlier for large firms

It is reported that RBI is planning to increase the provisioning requirement for new lending to large corporates. This is expected to increase that incremental interest cost by 100 bps. More specifically, it is expected that Fund-based sanctions from the total banking system of Rs. 25,000 crore at any time during 2017-18; Rs. 15,000 crore at any time during 2018-19 and Rs. 10,000 crore at any time from April 1, 2019 would be subject to higher provisioning norms.

Loans above 50% of the incremental funds raised by the borrower during the financial year would be subject to additional 3% provision and additional risk weight of 75%.

RBI likely to Identify on nodal agency for P2P lenders

Peer-to-peer (P2P) lenders may receive access to credit bureau data as the RBI is expected to issue the final guidelines regarding P2P lending shortly and expected to identify for a nodal agency in this segment. A P2P lending firm allows an individual to lend or borrow money to or from others, without assistance from financial intermediary, through an online platform that connects the lender and borrower.

PSBs prevented from selling Perpetual Bonds to Retail Investors

Citing complexities in the nature of the instrument and potential risks of mis-selling, SEBI has prevented PSBs to sell perpetual bonds to smaller investors. Perpetual bonds earn coupon income forever as they do not have a maturity date. The issuing bank does not have to redeem the principal amount.

MUDRA Invests Rs 203 crore in Securitisation Deals- Micro Units Development & Refinance Agency (MUDRA) has invested Rs. 100 crore in two securitisation deals with Janalakshmi Financial Services, Rs. 50 crore in Satin Credit Care and Rs. 53 crore in SK Financial Services. The coupon rates for all the securitisation deals are between 9.5% and 10% and the average yield for all assets was around 22%.

MUDRA, was established in April 2016, with an initial corpus of Rs. 5000 crore to provide capital to all banks seeking refinancing of small business loans under Pradhan Mantri Mudra Yojna. MUDRA's attempt is to provide support to NBFCs and MFIs so that they in turn finance micro enterprises by participating in securitisation of their loan assets. It provides credit enhancement to these organisations.

Finance Ministry revises recapitalisation criteria for PSBs

It is reported that Finance Ministry has revised the recapitalisation norms for PSBs. The second tranche of capital allocation for the current fiscal would be based on cost of operations as well as recovery and quality of credit on the basis of risk weighted assets.

Only those lenders that fulfil the criteria post third quarter (October-December) results of the current fiscal will be eligible for the second round of funding. Capital was allocated in the previous tranche on the twin principles of ensuring 7.5 percent Common Equity Tier 1 (CET 1) at the end of the 2016 and growth capital.

RBI to allow FPIs to buy unlisted debt securities

RBI has decided to allow foreign portfolio investors (FPIs) to invest in securitised debt instruments issued by special purpose vehicles (SPVs) of financial institutions as well as in unlisted debt securities of all public companies by the end of September 2016.

At present FPIs are permitted to invest only in listed debt securities, apart from companies in the infrastructure sector. Additionally, investment by FPIs in securitised debt instruments, such as pass-through certificates, is currently not permitted.

FPIs will now be allowed to invest in any certificate or instrument issued by an SPV set up for the securitisation of assets where banks, financial institutions and non-bank finance companies are originators.

The proposed change on FPI investment in unlisted debt securities entails that FPIs would be allowed to invest in primary issues of non-convertible debentures (NCDs)/bonds by a public company, with a restriction that the issuing company cannot use the funds for real estate activities, purchase of land, investing in capital market, or on-lending to other entities.

Please refer page No. 23 for disclaimer.

Banks' Investments in CPs crosses of Rs 1 lakh crore

It is reported that banks' investments in commercial papers (CP) as a share of their total investments stood at more than Rs 1.06 lakh crore, thus accounting for over one-fourth of the CP market of Rs. 3.86 lakh crore as on August 19. While the CP market has grown at a compounded annual growth rate (CAGR) of 22.1% during the last five years, banks' investments in this instrument have grown at a CAGR of 47.1%. Weak demand for credit from industry combined with faster transmission of rates in the money market are some of the factors leading to increase in investment in this instrument.

RBI to review norms for overseas hedging of commodity price risk

RBI has set up a Working Group comprising members from RBI, SEBI, commercial banks and corporates to review the guidelines for hedging of commodity price risk by residents in overseas markets.

The review is necessary as exposure of Indian entities to commodity price risks has been accentuated by the growing integration of the Indian economy and the global economy.

The mandate of Working Group includes assessment of the risks faced by resident entities and their hedging requirements; identification of gaps in the existing regulatory framework in relation to the hedging requirements - coverage of commodities, participants and products; and suggestions regarding broad principles for guiding the regulatory regime for overseas hedging of commodity risks.

The Group is required to submit its report by February 28, 2017.

Development

Federal Bank has launched its second Federal Skill Academy at Coimbatore, Tamil Nadu. The academy has been launched as part of Bank's Corporate Social Responsibility initiatives. The Skill Academy at Coimbatore initially provide an in-demand CNC Machine Operator Certificate Course in Milling & Turning. The initiative will facilitate underprivileged students to successfully complete the courses which will make them employable for opportunities both in India as well as abroad. The first Academy was inaugurated last year at Ernakulam, Kerala. Through this initiative, the Bank becomes part of the Skill Development Mission initiated by the Government to up-skill millions of students and make India a hub for skilled workforce.

Initiatives

Yes Bank set to enter offshore bond market with 5-year dollar bond-Yes Bank is planning to raise US $300-500 million before March 2017 to avail cheaper funding for its offshore lending branch at Gujarat International Finance Tec-City (GIFT) in Gandhinagar, Gujarat, through a five-year dollar bond. The offshore branch is meant to function as a foreign branch of the domestic bank and lend in foreign currency.

UBI signs MOU with M&M-Union Bank of India has signed a MoU with Mahindra and Mahindra Ltd. to finance its commercial vehicles across India. The Bank has also tied up with TVS Motors, Atul Auto, Bajaj Auto, Ashok Leyland, Tata Motors and Piaggio for similar financing schemes. Subsequent plans are to tie up with Maruti Suzuki, SML Isuzu, Eicher Motors, Force Motors and Volvo. The Bank hopes to finance 10,000 vehicles every month and lend Rs. 300-400 crore through the Pradhan Mantri Mudra Yojana.

SBI raises Rs 2000 crore capital via additional Tier-1 bonds- State Bank of India (SBI) has raised Rs. 2100 crore through additional Tier-1 (AT1) bonds to boost its capital base as well as business growth. It placed the entire AT-1 bond issue with YES Bank. The debt instrument is reported to have a coupon (interest rate) of 9% payable annually and embedded with a call option after five years. SBI's capital adequacy ratio (CAR) was 14.01% in June 2016, out of which common equity tier-1 (CET-1) was 10.71%, while CAR was 12% with CET-1 of 9.59 % in June 2015. CET-1 received a boost of 72 bps in Q1'17 on account of gains from revaluation of real estate assets.

Please refer page No. 23 for disclaimer.

Annex-1
Growth Projections

Organisation	Growth Forecast	Growth Boosters	Potential Drags
S&P July 22, 2016	8% Growth for 2016-17 and 2017-18	Strong consumption growth continues apace, the external accounts look reasonably resilient post-Brexit, and fiscal policy looks prudent. The structural reform drive continues to gain traction. Consumer confidence looks quite high and investor confidence seems buoyant.	Lack of investment pickup
ADB July 18, 2016	ADB expects India to grow 7.4% in 2016-17 and 7.8% in 2017-18.	The improved monsoon encouraged more planting of rice, pulses and sugarcane into July. There are some signs of an uptick in rural demand in anticipation of good monsoon and a rural-oriented government budget.	The potential growth of the country can be raised further if it can successfully implement necessary reforms including unifying the tax regime, improving labour market regulations, and opening further to foreign direct investment and trade.
IMF July 19, 2016 and IMF July 23, 2016	Marginally scaled down India's economic growth projections by 0.1 percentage point to 7.4 per cent each for 2016-17 and 2017-18	India's economy is on a recovery path, helped by lower oil prices, positive policy actions and improved confidence	Slower investment revival than expected earlier, Vulnerabilities in corporate financial positions and public bank asset quality could threaten financial stability if left unaddressed, decelerating pace of reforms, and sluggish exports will weigh on growth
World Bank June 20, 2016	India's economic growth to be at 7.6 percent in 2016-2017, followed by a modest acceleration to 7.7 percent in 2017-2018 and 7.8 percent in 2018-2019.	Economic activity in India has remained robust, supported mainly by domestic demand. Growth will continue to be driven by private consumption, which has benefited from lower energy prices and higher real incomes. The World Bank has also observed that an accommodative monetary stance, public investments in infrastructure, and progress on structural reforms, including new bankruptcy laws, should support a pickup in private investment	The most significant near- and medium-term risks stem from the banking sector and its ability to finance private investment which continues to face several impediments in the form of excess global capacity, regulatory and policy challenges, in addition to corporate debt overhang.
Fitch July 18, 2016	GDP growth to accelerate slightly to 7.7% in 2016-17 and 7.9% in 2017-18	Expected pick up in consumption in both urban and rural areas after a civil-servant wage hike of 24% and the strong likelihood of stronger rainfall than in the previous two poor monsoon years.	Weak fiscal balances, India's and NPA of PSBs which are contingent liabilities of the Government.
Morgan Stanley July 18, 2016	Revised its growth estimate from 7.5% to 7.7% for 2016. It also scaled up growth rate to 7.8%, from earlier 7.7% for 2017.	Growth recovery is becoming more broad-based, driven by public capex, foreign direct investment (FDI) and consumption.	This indicated that private investments are yet to pick up.

Annex-2
Base Rate and MCLR of Select Banks

Name	Effective from	1 Y - MCLR	Effective from	Base Rate	Effective from	FD Rate for 1-2 years
Bank of Baroda	07-Sep-16	9.40	01-Jul-16	9.60	Dec-15	7.30
Bank of India	07-Sep-16	9.40	05-Oct-15	9.70	Dec-15	7.30
Canara Bank	01-Aug-16	9.35	07-Oct-15	9.65	Jul-16	7.50
Punjab National Bank	07-Sep-16	9.35	01-Oct-15	9.60	Aug-16	7.30
Union Bank of India	01-Sep-16	9.40	30-Jun-16	9.60	Aug-16	7.55
State Bank of India	01-Aug-16	9.10	05-Oct-15	9.30	Sep-16	7.15
Axis Bank	17-Sep-16	9.25	27-Jul-16	9.35	Aug-16	7.25
HDFC Bank	07-Sep-16	9.05	04-Jan-16	9.30	Sep-16	7.25
ICICI Bank	01-Sep-16	9.10	05-Oct-15	9.35	Sep-16	7.30
IndusInd Bank	26-Aug-16	9.75	19-Oct-16	10.60	Jul-16	7.50
Kotak Bank	01-Sep-16	9.55	05-Oct-15	9.50	Aug-16	7.30
Yes Bank	01-Sep-16	9.45	05-Oct-15	10.25	Apr-16	7.50

Note- All Banks in this sample except Kotak Mahindra Bank, Yes Bank and IndusInd Bank offer 4% interest rate on SB deposits. Yes bank offers 6% p.a interest rate on Saving Bank accounts for account balance of over Rs. 1 lakh. Kotak Mahindra bank offers 6% p.a interest rate on Saving Bank accounts for account balance of over Rs. 1 lakh and 5% p.a. interest rate on Saving Bank accounts for account balance upto Rs. 1 lakh. IndusInd Bank offers 5% interest rate on Saving Bank accounts for account balance of over Rs. 1 lakh - Rs. 10 lakh and 6% for account balance of over Rs. 10 lakh.
Canara Bank offers 7.25% for term deposits of 1 year and 7.50% for term deposits of 1 to 2 years.
State Bank of India offers 7.15% for term deposits of 1 year to 455 days and 7.25% for term deposits of 456 days to 2 years.
Union Bank of India offers 7.50% for term deposits of 1 year and 7.55% for term deposits of 1 to 3 years.
IndusInd Bank offers 7.75% for term deposits of 1 year to 1 year 2 months and 7.50% for term deposits of 1 year 2 months to 2 years.
Kotak Mahindra Bank offers 7.50% for term deposits of 365 days to 390 days and 7.30% for term deposits of 391 days to 2 years.

Figures are in per cent.

Annex-3
Monthly Macro Indicators

Indicator	Jul-15	Aug-15	Sep-15	Oct-15	Nov -15	Dec-15	Jan-16	Feb-16	Mar -16	Apr-16	May-16	Jun-16	Jul-16	Aug-16
Production														
IIP	4.3	6.3	3.7	9.9	-3.4	-0.9	-1.6	1.9	0.3	-1.3	1.1	1.9	2.4	
Infrastructure	1.1	2.6	3.2	3.2	-1.3	0.9	2.9	5.8	6.4	8.5	2.8	5.3	3.2	
Prices														
WPI	-4	-5.1	-4.6	-3.7	-2	-1.1	-1.1	-0.9	-0.5	0.8	1.2	2.1	3.6	3.7
CPI	3.7	3.7	4.4	5	5.4	5.6	5.7	5.3	4.8	5.5	5.8	5.8	6.1	5.1
Agriculture	2.2	2.2	3.9	5.2	6.1	6.4	6.8	5.3	5.2	6.4	7.5	7.8	8.4	5.9
Industry	-1.5	-2.0	-1.7	-1.7	-1.4	-1.5	-1.2	-0.5	0.1	1.0	1.2	1.2	1.8	2.4
Services	3.4	3.1	3.3	3.5	3.8	4.0	3.9	4.4	4.0	4.3	4.0	3.8	4.0	4.2
Banking														
Reverse Repo (Rs. Mn)	50341	40861	65648	56357	56800	52108	59680	37608	118689	166727	38187	83387	77195	41446.8
Repo (Rs. Mn)	25941	44925	94674	99900	112374	101353	124577	108937	112190	82260	114558	42734	41562	48155.8
Aggregate Deposits	12.3	10.5	9.9	10.4	9.7	10.1	10.4	9.6	8.1	9.5	8.9	9.2	8.9	8.9
Total Credit	8.2	8.2	8.4	8.1	8.6	9.2	9.5	9.7	9.0	8.4	8.0	7.3	7.7	
Non Food Credit	8.4	8.4	8.6	8.3	8.8	9.3	9.8	9.9	9.1	8.4	8.4	7.9	8.3	
Industrial Credit	4.8	5.0	4.9	4.6	5.0	5.3	5.6	5.4	2.7	0.1	0.9	0.6	0.6	
Infrastructure Credit	8.3	8.2	8.7	8.3	8.7	8.4	9.8	9.1	4.4	-1.5	-0.1	-2.1	-3.1	
Service Credit	6.4	5.9	5.9	6.8	6.8	9.2	8.9	8.6	9.1	10.9	9.3	9.2	10.8	
SLR-Investment	14.1	13.4	11.6	11.1	11	10.6	7.6	7.1	3.6	4.9	4.6	5.6	5.9	5.3
Leading Indicators														
Manufacturing PMI	52.7	52.3	51.2	50.7	50.3	49.1	51.1	51.1	52.4	50.5	50.7	51.7	51.8	52.6
Service PMI	50.8	51.8	51.3	53.2	50.1	53.6	54.3	51.4	54.3	53.7	51	50.3	51.9	54.7
Composite PMI	52	52.6	51.5	52.6	50.2	51.6	53.3	51.2	54.3	52.8	50.9	51.1	52.4	54.6
Services														
Passenger Traffic: All Airports	23.4	16.2	12.3	14.8	20.8	16.8	17.9	19.6	20.4	17.3	17.5	16.8	23	
Foreign Tourist Arrivals	10.5	4.1	6.6	2.2	6.6	3.1	6.7	11.3	12	10.6	3.8	7.4	17.1	11.8
Goods Traffic Movement by Railways (Mn Tonnes)	91	89	89	93	88	95	98	89	100	86	92	92	89	85.6
Automobile Sales: Total	2.3	-0.3	0.1	11.1	-0.4	-1.5	3.1	10.2	10.2	14.5	7.7	7.2	8.9	16.8
Automobile Sales: Passenger Vehicle	10.8	5.6	2.9	21.5	7.2	5.1	-0.6	5.4	9.2	10.2	5.2	7.6	13.9	18.9
Automobile Sales: Commercial Vehicle	10	10.6	9.8	12.3	7	13.6	19.3	18.8	20.7	14.7	15.1	7.3	2.1	2.4
Automobile Sales: Two Wheelers	1.1	-1.4	-0.7	10.1	-1.3	-3.1	3.5	10.4	10.8	17.2	8.7	7.9	9.2	18.6
Automobile Sales: Three Wheelers	-5.9	-4.3	1	-3.5	-13.3	-6.2	-3	20.4	-7.2	-21.7	-9.9	-6.6	-8.9	-11.9
External														
FDI-Equity (US $mn)	2082	2296	2972	5326	3018	4719	5065	3206	2556	3437	2059	2321	4159	
FII-Net Portfolio Investment(US $mn)	-676	-3528	-2444	4478	-3784	-2572	-1471	-2381	4328	1133	-385	-193	2726	
ECB(US $mn)	2144	751	2615	2114	3164	3034	1395	1353	1521	305	1318	1072	1203	
Exports	-10.3	-20.7	-24.3	-17.5	-24.4	-14.8	-13.6	-5.7	-5.5	-6.7	-0.8	1.3	-6.8	-0.3
Imports	-10.3	-10	-25.4	-21.2	-30.3	-3.9	-11	-5	-21.6	-23.1	-13.2	-7.3	-19.1	-11.9
Trade Balance(US $mn)	-12812	-12478	-10479	-9767	-9782	-11664	-7639	-6542	-5071	-4845	-6273	-8116	-7761	-7674
Rupee-Dollar Exchange Rate	64	66.3	65.7	65.2	66.8	66.3	67.9	68.6	66.3	66.5	67.2	67.6	67.03	67.0
Rupee-Pound Exchange Rate	100	102.3	99.5	99.9	100.4	98.4	97.8	95.2	95.1	97.4	98.7	90.5	88.3	87.7
Rupee-Euro Exchange Rate	70	74.5	73.8	71.7	70.7	72.5	74.1	75.1	75.1	75.7	74.8	75	74.3	74.6
REER 36 Country (Trade Based Weight) Base 2004-05=100	112	113	113.2	113.6	113.2	110.2	110.8	110.2	110.9	110.6	110.9	112.6	113.5	113.7
Forex Reserves Outstanding(US $bn))	353	352	350	352	352	352	349	347	356	363	361	360.8	365.49	366.8
Note: All figures unless specified otherwise refers to y-o-y growth and are in per cent. PMI figures are numbers.														

Annex-4
Quarterly Macro Indicators

	2013-14		2014-15				2015-16				2016-17
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
GVA at Basic Prices Growth	6.3	4.9	7.4	8.1	6.7	6.2	7.2	7.3	6.9	7.4	7.3
Components Growth											
Agriculture, Forestry and Fishing	5	4.6	2.3	2.8	-2.4	-1.7	2.6	2	-1	2.3	1.8
Industry	5.2	3.9	8	5.9	3.8	5.7	6.7	6.3	8.6	7.9	6.0
Mining and Quarrying	2.1	8.1	16.5	7	9.1	10.1	8.5	5	7.1	8.6	-0.4
Manufacturing	6.4	4.5	7.9	5.8	1.7	6.6	7.3	9.2	11.5	9.3	9.1
Electricity, Gas, Water Supply and Other Utility Services	3.8	5.8	10.2	8.8	8.8	4.4	4	7.5	5.6	9.3	9.4
Construction	4.4	0.8	5	5.3	4.9	2.6	5.6	0.8	4.6	4.5	1.5
Services	7.8	5.6	8.6	10.7	12.9	9.3	8.8	9	9.1	8.7	9.6
Trade, Hotels, Transport, Communication and Services Related to Broadcasting	10.5	7.8	11.6	8.4	6.2	13.1	10	6.7	9.2	9.9	8.1
Financial, Real Estate and Professional Services	7.1	6.7	8.5	12.7	12.1	9	9.3	11.9	10.5	9.1	9.4
Public Administration, Defence and Other Services	4.7	0.9	4.2	10.3	25.3	4.1	5.9	6.9	7.2	6.4	12.3
Expenditure components as % of GDP											
Net Taxes on Products	7.6	11.9	3.9	6.3	8.1	13.5	5.4	7.6	9.4	14.9	5.9
Final Consumption Expenditure	69.2	65.6	70.4	71.1	68.2	64.8	71.3	72.8	70.4	66.5	73.4
Final Consumption Expenditure: Private	61	56.5	58.3	57.9	57.9	56.4	59.8	59.6	60.3	58.4	60.5
Final Consumption Expenditure: Government	8.2	9.1	12.1	13.2	10.3	8.4	11.5	13.1	10.1	8.1	12.9
Gross Fixed Capital Formation	31.2	31.1	32.2	31.1	29.9	30.1	31.6	31.4	27.6	26.9	28.3
Change in Stocks	1.5	1.6	1.9	1.8	1.6	1.8	1.8	1.8	1.6	1.7	1.8
Valuables	1.3	1.5	1.6	1.4	1.3	1.8	1.5	1.4	1.3	1.3	0.7
Exports of Goods and Services	25.1	25.1	24.2	23.8	23	20.9	21	21	19.2	18.8	20.0
Import of Goods and Services	27.1	26.6	27.4	27.5	26.2	22.7	23.9	24.5	22	19.9	20.9
Discrepancies	-1.2	1.7	-3	-1.7	2.3	3.3	-3.3	-3.8	1.8	4.7	-3.4
BoP Indicators											
Current Account as % of GDP	-0.9	-0.2	-1.5	-2.2	-1.5	-0.1	-1.2	-1.7	-1.3	-0.1	-0.1
Trade Account as % of GDP	-3.2	-2.2	-3.6	-4.1	-3.6	-2.1	-3.3	-3.9	-3	-1.6	-1.5
Capital Account as % of GDP	0	0	0	0	0	0	0	0	0	0	0
Financial Account as % of GDP	1	0.4	1.6	2.1	1.9	0	1.4	1.8	1.3	0.03	-0.01
Foreign Direct Investment as % of GDP	1.3	0.2	1.6	1.5	1.3	1.7	2	1.3	2	1.6	0.8
Foreign Portfolio Investment as % of GDP	0.5	1.9	2.6	1.9	1.2	2.3	0	-0.7	0.1	-0.3	0.4
Errors and Omission as % of GDP	-0.1	-0.2	0	0.1	-0.4	0.1	-0.2	-0.1	0	0	0
Accretion(-)/Depletion (+) of Forex (Us$bn)	-19.1	-7.1	-11.2	-6.9	-13.2	-30.1	-11.4	0.9	-4.1	-3.3	-6.9
FDI(US$bn)	6.1	0.9	7.6	7.5	6.9	9.3	10	6.5	10.7	8.8	4.1
FII(US$bn)	2.4	9.3	12.4	9.8	6.3	12.5	0	-3.5	0.6	-1.5	2.1
External Debt: USD: Total (bn)	426.9	446.2	453.1	456.3	458.7	475	482.4	480.9	479.7	485.6	-
External Debt: USD: Long Term (bn)	334.2	354.5	363.1	369.3	373.1	389.5	398.8	396.1	398.1	402.2	-
External Debt: USD: Short Term (bn)	92.7	91.7	90.1	87	85.6	85.5	83.6	84.8	81.6	83.4	-
External Debt: USD: Short Term: Trade Related (bn)	86.2	81.7	82	80.4	79	81.6	79.3	79.2	77.4	80	-
Short Term Debt as % of Total Debt (bn)	21.7	20.5	19.9	19.1	18.7	18	17.3	17.6	17	17.2	-
Note-Figures are in per cent unless specified otherwise.											

Annex-5
Annual Macro Indicators

Indicator	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Real Sector Growth										
GVA at Basic Price*	9.6	9.3	6.7	8.6	8.9	6.7	5.4	6.3	7.1	7.2
I. Agriculture	4.2	5.8	0.1	0.8	8.6	5.0	1.5	4.2	-0.2	1.2
II. Industry	12.2	9.7	4.4	9.2	7.6	7.8	3.6	5.0	5.9	7.4
Mining & quarrying	7.5	3.7	2.1	5.9	6.5	0.1	-0.5	3.0	10.8	7.4
Manufacturing	14.3	10.3	4.3	11.3	8.9	7.4	6.0	5.6	5.5	9.3
Electricity, Gas &Water Supply	9.3	8.3	4.6	6.2	5.3	8.4	2.8	4.7	8.0	6.6
Construction	10.3	10.8	5.3	6.7	5.7	10.8	0.6	4.6	4.4	3.9
III. Services	10.1	10.3	10.0	10.5	9.7	6.6	8.1	7.8	10.3	8.9
Food Grains Production (Mn Tonnes)	217.3	230.8	234.5	218.1	244.5	259.3	257.1	265.0	252.0	252.2
Industrial Production										
IIP	12.9	15.5	2.5	5.3	8.2	2.9	1.1	-0.1	2.8	2.4
Basic Goods	8.9	8.9	1.7	4.7	6	5.5	2.5	2.1	7	3.6
Capital Goods	23.3	48.5	11.3	1	14.8	-4	-6	-3.6	6.4	-2.9
Intermediate Goods	11.5	7.3	0	6	7.4	-0.6	1.6	3.1	1.7	2.5
Consumer	16.1	17.6	0.9	7.7	8.6	4.4	2.4	-2.8	-3.4	3
Consumer Durables	25.3	33.1	11.1	17	14.2	2.6	2	-12.2	-12.6	11.3
Consumer Non-Durables	12.3	10.2	-5	1.4	4.3	5.9	2.8	4.8	2.8	-1.8
Mining	5.2	4.6	2.6	7.9	5.2	-2	-2.3	-0.6	1.5	2.2
Manufacturing	15	18.4	2.5	4.8	9	3	1.3	-0.8	2.3	2
Electricity	7.3	6.3	2.7	6.1	5.5	8.2	4	6.1	8.4	5.7
Banking										
Aggregate Deposits Growth	23.8	22.4	19.9	17.2	15.9	13.5	14.2	14.1	10.7	9.9
Demand Deposit Growth	17.9	22	-0.2	23.4	-0.6	-2.6	5.9	7.8	11.2	13.1
SCBs food credit	-1	14.3	-4.6	4.1	4.9	32.6	26.5	18.6	2.1	-4.1
SCBs non-food credit	38.4	28.5	23	17.8	17.1	21.3	16.8	14	14.2	9.3
Fiscal Sector(Combined)										
Gross fiscal deficit	5.1	4	8.3	9.3	6.9	7.6	6.9	7.1	6.6	6.5
Gross primary deficit	-0.3	-1.2	3.3	4.5	2.4	3.2	2.3	2.3	1.7	1.6
Revenue deficit	1.3	0.2	4.3	5.7	3.2	4.1	3.4	3.2	2.6	2.5
External Sector										
Exports Growth	22.6	29.1	13.6	-3.5	39.8	22.5	-1.8	4.7	-1.3	-15.9
Imports Growth	24.5	35.5	20.7	-5.1	28.2	32.3	0.3	-8.3	-0.5	-15.3
Exports/GDP	13.6	13.4	15.4	13.4	15	16.8	16.7	17	15.4	12.8
Imports/GDP	20.1	20.8	25.2	22	22.4	27.1	27.4	24.9	22.5	18.5
Invisibles/ GDP	5.5	6.1	7.5	5.9	4.6	6.1	5.9	6.1	5.7	7.2
CAD /GDP	-1	-1.3	-2.3	-2.8	-2.8	-4.2	-4.8	-1.7	-1.3	-1.1
Foreign Investment/GDP	3.1	5	2.3	4.8	3.5	2.7	3	1.9	3.7	1.6
Import Cover of Reserves (Months)	12.5	14.4	9.8	11.1	9.5	7.1	7	7.8	8.9	
FII(US$mn)	3225	20328	-15,017	29048	29422	16812	27582	5009	40923	- 3,516
FDI(US$mn)	16481	26864	32066	27146	22250	35855	22884	25274	31911	41043

Note-*For 2006-07 to 2011-12 figures represent rate of growth GDP at factor cost (2004-05 base).
Figures are in per cent unless specified otherwise.

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