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MONTHLY MACRO INSIGHTS

Prof. Biswa Swarup Misra
chief.economist@bankofbaroda.com

Piyusha Hukeri
Annie Varghese
Aditi Gupta
Dipanwita Majumdar
Jahnavi

In Brief

Range bound crude prices, predication of a normal rainfall and Fed's guidance for a graduated pace of rate hike in the backdrop of improved global growth and trade outlook, point to improved growth prospects for India in 2017-18. Both Government and Multilateral agencies have projected that growth in India will be around 7.5% for 2017-18. US Fed has started preparing the financial markets for bond sales in its attempt to normalize its balance sheet as its economy gains strength. The impact of sucking liquidity by US Fed to some extent will be nullified by the continued liquidity stimulus in Europe and Japan. The first round election results in France has given comfort to financial markets on the stability of Euro Zone. However, retaliation to the proactive military stance of USA and trade protectionism tilt of USA could act as drags on global growth. Demonetisation coupled with implementation of GST will bring more of the informal sector activity into the formal fold and hence will have a base broadening effect. GST though a game changer initiative will face some transitional hurdles in its implementation given the complexities of the federal setup. With core inflation sticky around 5%, we expect a long spell of status quo on policy rates from RBI. Indian rupee has exhibited remarkable strength in the last one month on the back of robust FII flows and India's better growth prospects. FII's are factoring in the stimulus to baseline GDP growth on account of implementation of GST and other forward looking policy initiatives. Notwithstanding the recent strength, rupee is expected to have a deprecating bias given the strong momentum observed in growth of non-oil imports and increased geo political risks which can make FIIs risk averse at the slightest change in sentiments.

Key Takeaway

- The first stage forecast of India Meteorological Department's (IMD's) published on April 18, 2017 is suggestive of a normal monsoon in 2017. IMD has predicted that the volume of rainfall in the southwest monsoon season would be 96% of the long period average (LPA), with an error range of 5%.
- IMF in its latest World Economic Outlook (WEO) published on Apr 18, 2017 has projected global growth to pick up from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018 as a result of buoyant financial markets and a long-awaited cyclical recovery in manufacturing and trade. However, it has trimmed India's growth forecast by 0.4% to 7.2% in FY'18 due to shock induced by cash shortages in the economy.
- In its Asian Development Outlook for 2017 released in Apr'17, ADB has forecasted growth in Asian region to expand to 5.7% in 2017 and 2018. The report has highlighted that South Asia's expansion would be driven by faster recovery in India. As per the report, Indian economy is expected to grow by 7.4% and 7.6% in FY'18 and FY'19 respectively.
- The RBI in its First Bi-Monthly Monetary Policy for FY'18 has expressed optimism on the growth front with risks remaining evenly balanced. Real GVA growth for FY'17 has been revised downwards to 6.7% from 6.9% as indicated in the Sixth Bi-monthly monetary policy statement on Feb 8, 2017. The real GVA growth for FY'18 is projected to be 7.4%.

Financial and Commodities Markets at a Glance

Indicator	01-Feb-17	01-Mar-17	03-Apr-17	21-Apr-17
Call	6.05	6.04	5.79	5.93
Repo	14,000	5,500	17,210	9,050
US Treasury	2.48	2.46	2.46	2.24
G-Sec	6.41	6.92	6.61	6.87
Dollar	67.65	66.85	64.91	64.64
Pound	84.95	82.72	81.43	82.81
Sensex	28,142	28,894	29,910	29,365
Crude	54.26	55.33	51.28	51.22
Gold	29,450	29,850	29,050	
FII	93.6	185.5	643.1	2.7
FII-E	66.5	154.9	538.2	-16.9
FII-D	27.1	30.5	104.9	19.6

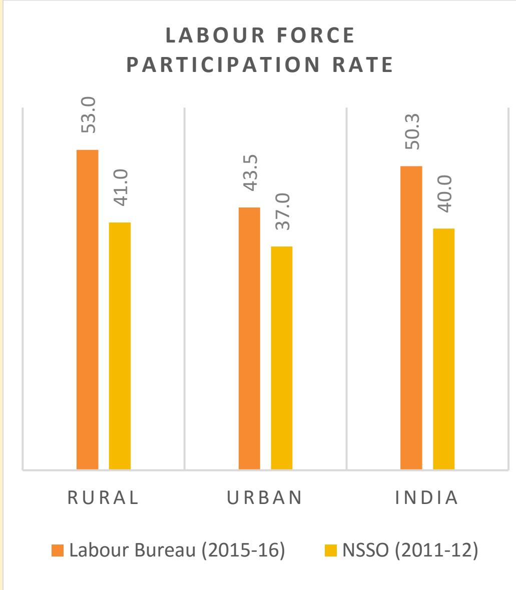
Note: G-Sec refers to yield on 10 year G-Secs and US treasury refers to 10 year US Government Paper
Call refers to Weighted average call money rate
Crude refers to price of Indian basket of crude
Dollar and Pound refers to the respective exchange rates with respect to Indian rupee.
Gold refers to price of 10 gms of standard gold in Mumbai markets
FII-D refers to net FII inflow in the debt segment
FII-E refers to net FII inflow in the equity segment
FII-refers to the net FII inflow in both debt and equity segments.

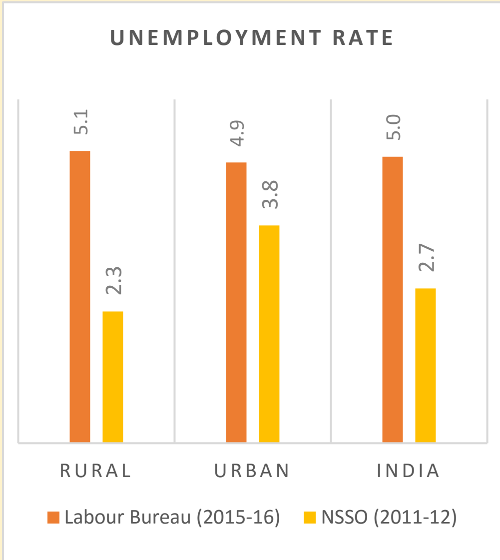
Inside

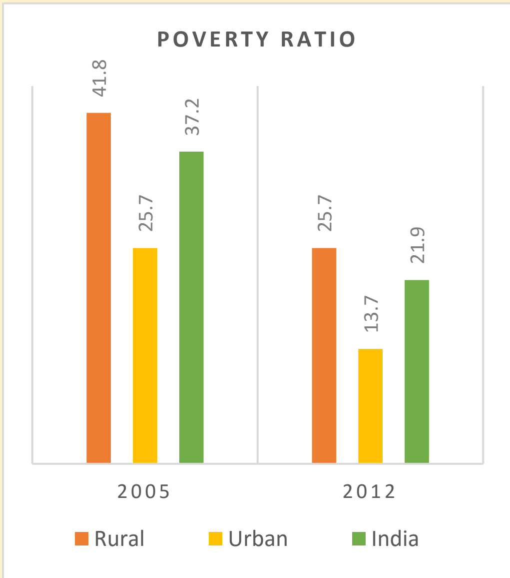
Key Takeaway

- Crude oil process though have firmed up but yet to become a major concern area for Indian economy.
- India is getting ready for the GST roll out. Though Government wants to roll out GST on July 1, 2017, Industry wants postponing the implementation to Sept 1, 2017. The demand for GST implementation on Sep 1, 2017 is on account of lack of technological readiness, especially for SMEs, inadequate awareness about functioning and operation of GST and time required to prepare for compliance burden due to increase in returns to be filed.
- Continuing with the double digit growth since Jan'17, exports grew by 27.59% on a y-o-y basis in Mar'17 to US$ 29.23 bn and up from US$ 24.49 bn in Feb'17. Exports have shown positive growth consecutively for the past six months providing indication that global growth and trade is gaining some momentum.
- Imports increased by a staggering 45.25% on y-o-y basis to reach US$ 39.67bn in Mar'17. The increase was majorly due to the increase in oil imports which grew significantly by 101.43% reflecting the impact of increase in oil prices.
- A robust growth in non-oil imports by 33.21% on y-o-y basis in Mar'17 provides some indication of economic activity gaining traction, post demonetisation.
- The trade balance for Mar'17 increased to US$10.4 bn from US$8.4bn in Feb'17
- Indian currency strengthened in Mar'17 guided by expectations of FIIs on the ability of the government to pursue reform oriented policies, election outcomes in some of the bigger states and the positive developments with regard to GST roll out.
- Notwithstanding the recent strength, rupee is expected to have a deprecating bias given the strong momentum observed in growth of imports and increased geo political risks which can make FIIs risk averse at the slightest change in sentiments
- Amidst the uncertainties clouting Fed's balance sheet normalization, future hikes in Federal Fund Rate and volatilities in oil prices, both domestic and foreign institutional investor's sentiments remained optimistic.
- In its First Bi-monthly Monetary Policy FY'17-18, RBI has maintained status quo on rates, while reaffirming its commitment to 4% CPI inflation on a durable basis. RBI has stated that CPI Inflation will be below the enunciated target of 5.0% in Q4 of FY 2016-17. However, RBI projects inflation to average 4.5% in H1 of FY 2017-18 and 5% in H2 of FY 2017-18.
- Retail inflation rate for FY'16-17 averaged 4.5% compared to 4.9% in FY'15-16. Wholesale inflation rate, on the other hand, averaged 3.7% in FY'16-17 compared to (-) 2.5% in FY'15-16.
- In view of the inflation dynamics especially sticky core inflation much above the target, we expect a long spell of status quo on policy rates from RBI
- Credit growth around 3% partly reflects poor credit appetite by industry.
- Historical low credit growth observed in F'17 is partly explained by conversion of bank loans to State Electricity Boards into UDAY Bonds and lower incremental credit to stressed assets, which now form a sizeable portion of total bank advances.
- RBI expects credit growth of 10% in FY'18.
- IIP contracted sharply to (-) 1.2% in Feb'17 following a positive growth of 2.7% in Jan'17 and a negative growth of (-) 04% in Dec'16 on y-o-y basis.
- On the whole the February IIP degrowth remains a cause for concern as cumulative growth for April-Feb this fiscal at 0.4% is much lower than 2.6% growth registered for the same period last fiscal.

Indian Economy-Structural Coordinates







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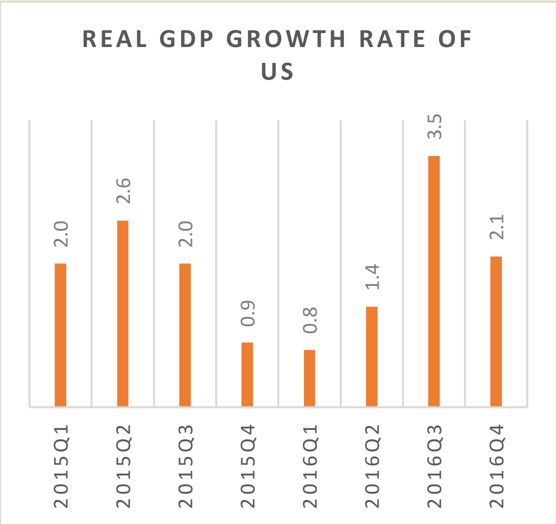

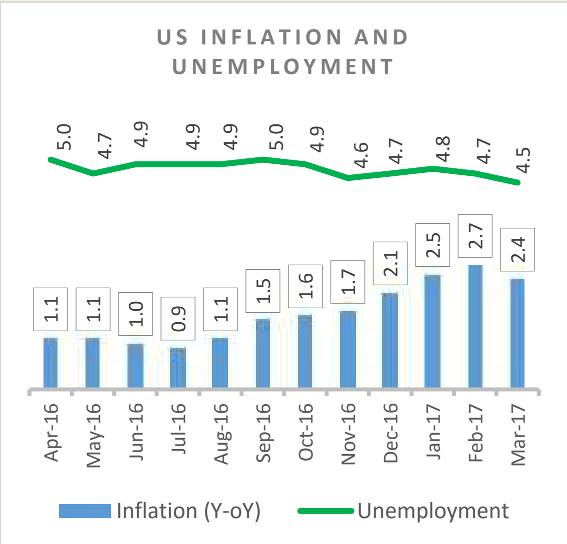

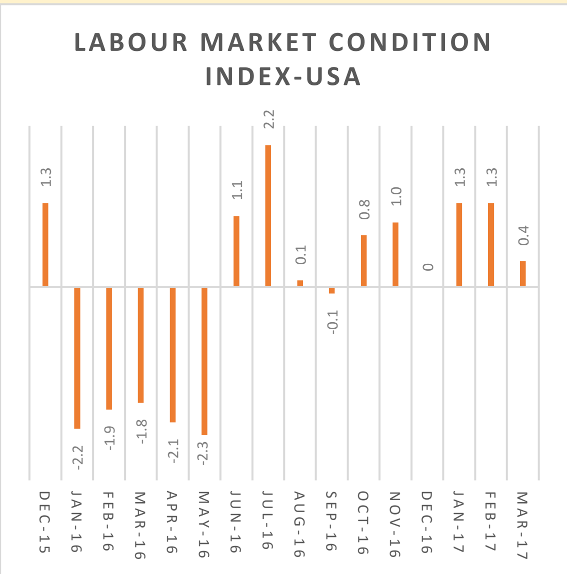

Global Developments

Growth

IMF World Economic Outlook (WEO), April 2017

- IMF in its latest World Economic Outlook (WEO) published on Apr 18, 2017 revised its October forecasts slightly upwards. Global growth is expected to pick up from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018 as a result of buoyant financial markets and a long-awaited cyclical recovery in manufacturing and trade.
- Growth forecasts for advanced economies have been revised upwards to 2% in 2017 and 2018, 0.2% point higher than Oct'16 forecasts. In US, growth picked up as firms grew more confident about future demand, and inventories started contributing positively to growth.
- Growth in emerging markets and developing economies is expected to improve from 4.1% in 2016 to 4.5% and 4.8%, in 2017 and 2018 respectively. In the latest growth, China's growth for 2017 has been revised upward to 6.6% in 2017 and which is expected to decline to 6.2% in 2018.

ADB: Asian Development Outlook 2017

- In its recent Asian Development Outlook for 2017 released in Apr'17, ADB forecasts the growth in Asian region to expand to 5.7% in 2017 and 2018, as a slowdown in China's growth is balanced by a healthy pickup in most other economies in the region.
- The Report noted that the inflation rate in the region after rising to 2.5% in 2016, is expected to accelerate further to 3.0% in 2017 and 3.2% in 2018 on the back of strong consumer demand and rebounding global commodity prices. Overall, price rises are still Reasonable, below the 10-year average of 3.9%, and unlikely to alter expectations of relatively stable prices in Asia.
- Growth in China is expected to slow down to 6.5% in 2017 and 6.2% in 2018 as it continues to rebalance its economy to focus more on consumption rather than relying primarily on exports.
- ADB expects India's growth to bounce back from 7.1% in 2016 to 7.4% in 2017 and 7.6% in 2018 as government deregulation and reform of taxes on goods and services, among other areas, are expected to improve confidence and thus business investment and growth prospects. It may be noted that growth faltered in India to 7.1% from 7.9% in 2015 as fixed investment languished and demonetisation temporarily stymied commerce.

Unemployment

- In US, while the headline unemployment rate declined to 4.5% in Mar'17 from 4.7% in Feb'17, the broader indicator for labour market conditions though remained positive, declined to 0.4 in Mar'17.
- The seasonally-adjusted unemployment rate in the 19 member euro area was 9.5% in Feb' 17, down from 9.6% in Jan' 17 and from 10.3% in February 2016.
- This remains the lowest rate recorded in the euro area since May 2009. The EU28 unemployment rate was 8. 0% in February 2017, down from 8.1% in Jan' 17 and from 8.9% in Feb' 16. This remains the lowest rate recorded in the EU28 since Jan 2009.
- Among the Member States, the lowest unemployment rates in February 2017 were recorded in the Czech Republic (3.4%), Germany (3.9%) and Malta (4.1%). The highest unemployment rates were observed in Greece (23.1% in December2016) and Spain (18.0%).

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Food

The Global Food Price Index for Mar'17 released by Food and Agriculture Organisation (FAO) declined by 1.8% sequentially while increasing by 13.4% on y-o-y basis in Mar'17 to 171.0. Except meat, the indices of all other commodities used in the calculation of the FFPI dropped in March, especially those of sugar and vegetable oils.

World Trade Outlook

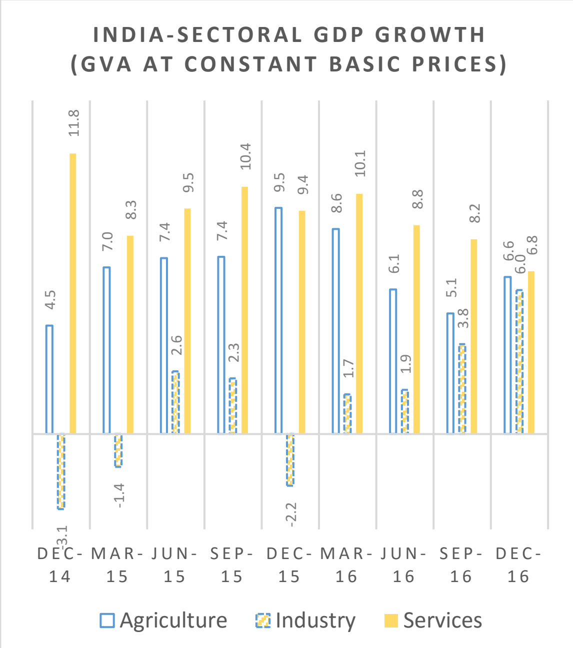
- In a recent release, WTO forecasted that global trade will expand by 2.4% in 2017. However, taking note of the uncertainty about near-term economic and policy developments, it has raised the forecast risk, placing the figure within a range of 1.8% to 3.6%. For 2018, the forecast for the growth in global trade is between 2.1 and 4%.
- Forward looking indicators, including the WTO's World Trade Outlook Indicator, points to stronger trade growth in the first half of 2017. The latest reading for World Trade Outlook Indicator (WTOI) for Nov'16 at 102.0 was higher than its last reading at 100.9 in Aug'16, suggesting an above trend trade growth in Feb-March 2017.
- Despite its optimistic forecast for 2017 and 2018, WTO has cautioned that these forecasts are based on certain assumptions and there is considerable downside risk that expansion will fall short of these estimates. Attaining these rates of growth depends to a large degree on global GDP expansion in line with forecasts of 2.7% this year and 2.8% next year.
- The global trade growth in 2016 remained subdued at 1.3% mainly due to cyclical factors as global economic activity experienced a slowdown. The slump in investment spending in the US and China's continued efforts to rebalance its economy away from investment and towards consumption, significantly dampened import demand.
- World commercial services exports remained stable in 2016 after falling by 5.5% in value terms in 2015. In terms of major services categories, total commercial services trade only grew by 0.1% in 2016 while transport services fell by 4.7%. Other types of services export saw a modest increase, including other commercial services which contains financial services.

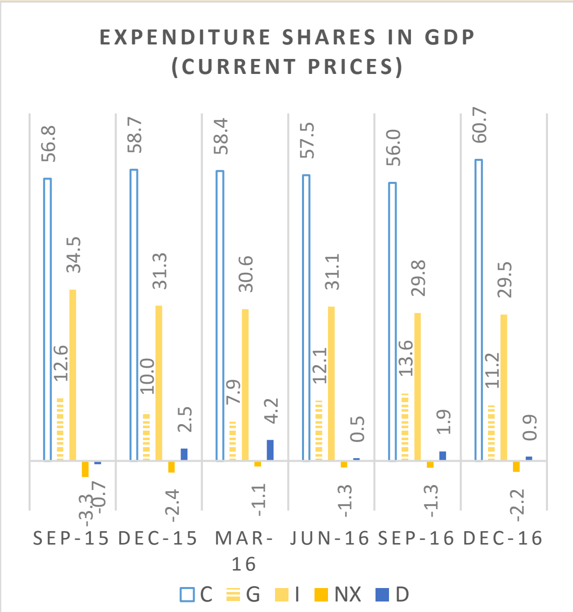
India's Growth Outlook

- The outlook for Indian economy in FY'17-18 seems bright by virtue of accelerated pace of remonetisation. Robust domestic policy reforms have spurred investors' confidence on Indian economy. Both consumption and investment demand of the economy are expected to pick up. Fiscal stimulus from the implementation of the Seventh Central Pay Commission award would boost aggregate demand in the near term. As the States catch up with the Centre in revising their pay structure, demand will get a further boost.
- Though weighed down by low capacity utilization and highly leveraged corporate sector, the quarterly CAPEX aggregates published by Centre for Monitoring Indian Economy (CMIE) suggests that investments are slowly gaining traction. CMIE data suggests that there has been a substantial fall in stalled projects and improvement in new projects in quarter ended Mar'17.
- Major international agencies have continued to pose their confidence in Indian economy. The Asian Development Bank (ADB) has highlighted that South Asia's expansion would be driven by faster recovery in India.

World Trade Outlook Indicator

Drivers of Trade	Level of Index		
	16-Jul	16-Nov	17-Feb
Merchandise trade volume	96.9	97	97.4
Export Orders	101.3	101.8	102.2
International air freight (IATA)	98	103.2	105.8
Container port throughput	97.1	99.3	101
Automobile production and sales	100	99.6	103.1
Electronics components	95	100.4	99
Agriculture raw materials	106.5	103.1	99.2
WTOI	99	100.9	102





India's Growth Outlook

- IMF in its World Economic Outlook WEO published on April 18, 2017 trimmed India's growth forecast by 0.4% to 7.2% in FY'17-18 due to shock induced by cash shortages in the economy. GDP growth has been projected to be 7.7% for FY'19
- IMF, however, is of the view that medium-term growth prospects of Indian are favourable, with growth expected to improve to 8% in the medium term due to the implementation of key reforms, loosening of supply-side bottlenecks, and appropriate fiscal and monetary policies
- IMF has brought out the importance of boosting financial stability through full recognition of nonperforming loans and raising public sector banks' capital buffers as well as undertaking appropriate fiscal and monetary policies that would make the medium term growth prospects favorable.

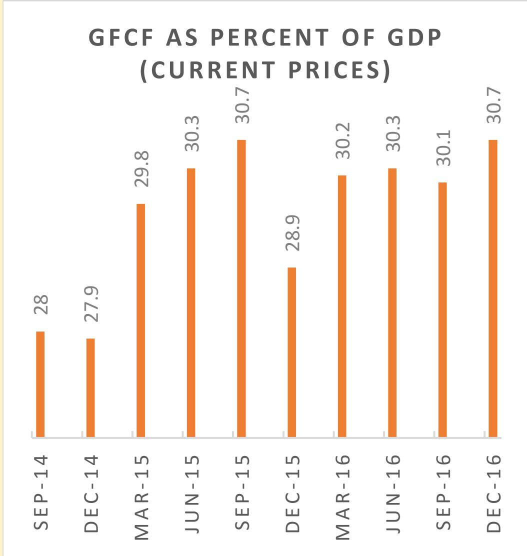
RBI's Assessment of Growth Outlook

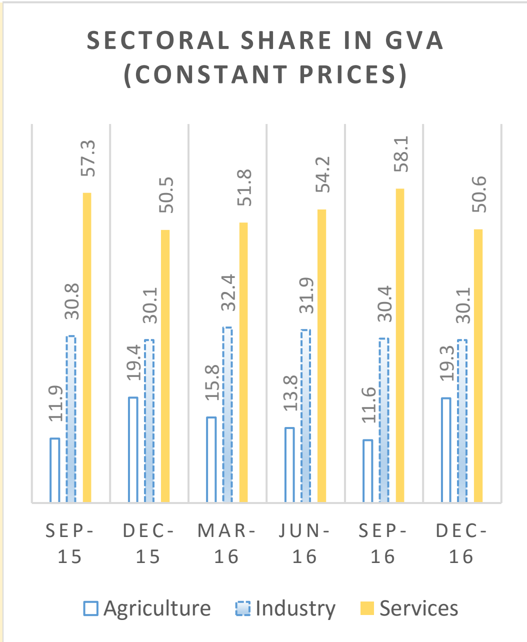
The RBI in its First Bi-Monthly Monetary Policy FY'17-18 has expressed optimism on the growth front with risks remaining evenly balanced. The favorable domestic factors from growth point of view are:

(a) Rebounding of discretionary consumer spending post demonetization
(b) Improved rural demand on the back of normal monsoon and record food grain production
(c) Transmission of policy rate reductions into bank lending rates and
(d) Policy reforms undertaken to improve the structural fundamentals of Indian economy.

The other key takeaway from RBI in its First Bi-Monthly Monetary Policy FY'17-18 are

- RBI lowered real GVA growth for FY'17 to 6.7% from 6.9% as indicated in its Sixth Bi-monthly monetary policy statement on Feb 8, 2017. RBI retained projection of real GVA growth for FY'18 at 7.4%. Further, a favorable global environment and no policy induced structural change would enable Indian economy to move on a higher trajectory with GVA growth of 8.1% in FY'19.
- RBI also flagged growth dampeners from several forward looking surveys viz. consumer confidence survey, industrial outlook survey also reemphasized the same risks. Concerns remain over lower capacity utilization, successively for three quarters during FY'17. Lower capacity utilization indicates subdued manufacturing demand. In spite of that, clear signs of optimism prevails with improvement in future production and employment situation.
- The recovery of growth is likely to be aided by reduction in banks' lending rates which is expected to show a revival in the overall demand conditions of the economy. Apart from this, the continued focus on stressed assets management would improve the supply side bottlenecks and help the demand conditions to pick up effectively.
- The RBI's recent regulatory initiatives with focus on Prompt Correction Action (PCA) is expected to address the asset quality challenges with greater clarity. Though temporarily it might pose additional burden on Indian Banking sector, yet timely address of stress in terms of efficiency as well as operational parameters is expected to support growth in the long run. This apart, the initiatives to promote infrastructure creation as well as infrastructure financing would also prove beneficial for long run growth prospects.





GDP Components in Spending- Share and Growth (Current Prices)

Component	Attribute	Sep -15	Dec-15	Mar-16	Jun -16	Sep -16	Dec -16
Consumption Spending	Share	56.8	58.7	58.4	57.5	56.0	60.7
	Growth	6.4	8.4	12.9	11.7	10.2	14.4
Government Spending	Share	12.6	10.0	7.9	12.1	13.6	11.2
	Growth	9.2	10.0	9.8	20.8	20.7	24.2
Investment Spending	Share	34.5	31.3	30.6	31.1	29.8	29.5
	Growth	10.0	3.6	0.0	-1.6	-3.4	4.4
Exports	Share	20.7	19.7	18.8	19.7	18.9	18.8
	Growth	-5.5	-7.5	-0.6	4.3	2.4	5.7
Imports	Share	23.9	22.0	19.9	21.0	20.3	21.0
	Growth	-5.4	-9.3	-3.3	-1.4	-5.2	5.6

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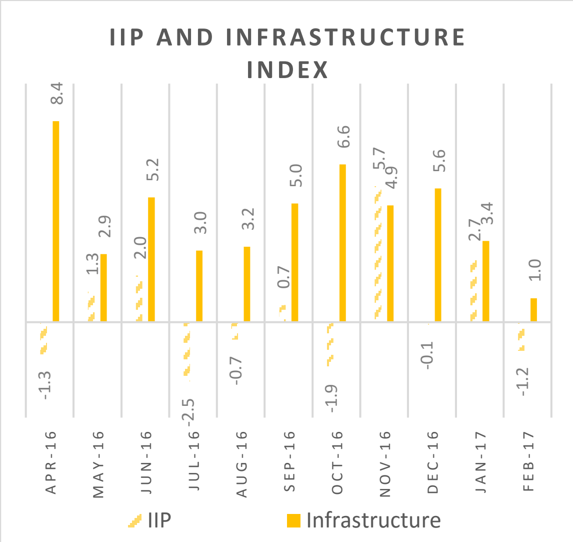
Industrial Production

- IIP contracted by (-) 1.2% in Feb'17 to a four month low from a positive growth of 2.7% in Jan'17. It registered a growth of 1.99% in Feb'16 on a y-o-y basis.
- The contraction in IIP has largely been attributed to the decline in manufacturing sector which constitutes 75% of the index. While the manufacturing sector grew by 2.3% in Jan'17, it declined to (-) 2% in Feb'17.
- The cumulative growth in IIP improved by a meagre 0.4% during Apr-Feb FY'17, compared to 2.6% growth seen on a y-o-y basis.
- As per sectoral classification, both Mining and Electricity recorded a positive growth rates of 3.3% and 0.3% respectively in Feb'17.
- As per use based classification, all the segments barring Basic goods registered a negative growth in Feb'17 thus contributing to the contraction in IIP.
- The cumulative growth during April-Feb 2017, contracted sharply and recorded a negative growth of (-) 14% in the Capital Goods sector and (-) 2.9% for Consumers Non-Durables sector.
- Within the Manufacturing sector, nine out of twenty-two industry groups (as 2-digit NIC-2004) have shown positive growth in Feb'17 on a Y-o-Y basis.
- The eight core industries (Infrastructure) which includes close to 38% weight in the IIP grew at a moderated pace of 1.0% in Feb'17 on a Y-o-Y basis.
- The cumulative growth registered in the Infrastructure segment was 4.4% during April-Feb'17 compared to 3.5% growth witnessed during Apr-Feb'16. Barring coal, steel and electricity, all the other industries witnessed a negative growth in Feb'17 with cement production contracting to 15.8%. The decline in cement output has largely been attributed to the stagnation in construction activity.
- If we look at the m-o-m seasonally adjusted (SA) numbers, IIP declined by 1.8% in Feb'17 compared to an increase of 2.9% in Jan'17.
- Manufacturing PMI for the third straight month registered an improvement and rose to a five month high of 52.5 in Mar'17, compared to 50.7 in Feb'17.
- This has largely been due to growing number of new orders from both domestic as well as export markets which could have helped to support industrial production.
- Moving away from the demonetization related contraction, services sector grew from 50.3 in Feb'17 to 51.5 in Mar'17 owing to the expansion in new business and output. Employment levels also noticed an upswing. Positive confidence levels within service sector was witnessed largely due to passing of the GST bill.
- The seasonally adjusted composite PMI output index rose from 50.7 in Feb'17 to 52.3 in Mar'17. This has largely been due to improvement in private sector activity. Employment levels improved for both manufacturing as well as service sector.
- The low IIP growth should be seen in the light of the volume and value dichotomy observed in the industrial sector. Being anchored to the 2004-05 base, IIP numbers signify more of noise than signal.

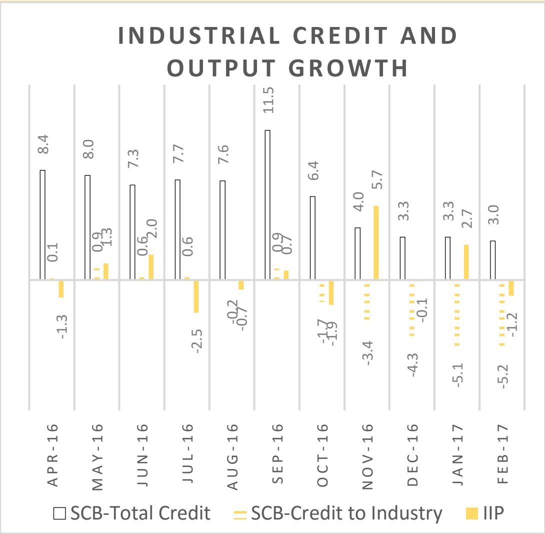


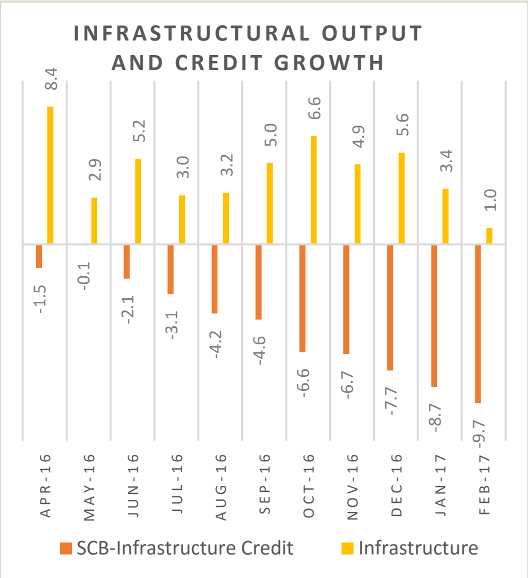
IIP-Sectoral and Used based Components

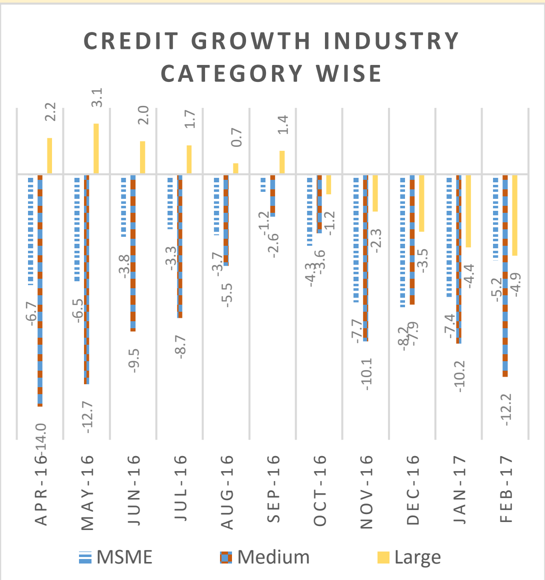
Sectors	Weight	Feb-17	Feb-16	Apr-Feb FY 17	Apr-Feb FY 16	
Mining	14.2	3.3	5.0	1.6	2.4	Sectoral
Manufacturing	75.5	-2.0	0.6	-0.3	2.3	
Electricity	10.3	0.3	9.6	4.6	5.1	
Basic	45.7	2.4	5.4	4.2	3.5	Use Based
Capital	8.8	-3.4	-9.3	-14.0	-1.4	
Intermediate	15.7	-0.2	4.9	2.1	2.3	
Consumer Durable	8.4	-0.9	10.4	4.7	11.5	
Consumer Non Durable	21.3	-8.6	-4.9	-2.9	-1.5	
Consumer Goods	29.8	-5.6	0.6	0.1	3.2	
General	**100**	-1.2	1.9	0.4	2.6	

Core Sector Growth

Sector	Weight	Feb-17	Feb-16	Apr-Feb FY 17	Apr-Feb FY 16
Coal	4.4	7.1	3.3	2.8	4.7
Crude Oil	5.2	-3.4	0.7	-2.8	-1.0
Natural Gas	1.7	-1.7	1.2	-1.9	-3.6
Refinery Products	5.9	-2.3	10.9	5.9	3.7
Fertilizers	1.3	-5.3	18.3	2.1	11.6
Steel	6.7	8.7	6.1	9.1	-0.8
Cement	2.4	-15.8	13.5	-0.7	4.2
Electricity	10.3	1.5	15.8	5.0	7.5
Infrastructure Index	37.9	1.0	9.4	4.4	3.5







Credit Growth

- Credit growth from the banking system excluding food credit decelerated to 3.3% in Feb'17 from an already low 3.5% in Jan'17 on a y-o-y basis. Credit growth declined to a multi-year low level of growth despite the GDP numbers showing a healthy growth.
- Credit growth from the banking system has moderated to 6.4% during Apr-Feb, FY'17 compared to 8.7% average loan growth during the same period of FY'16.
- While credit to industry and infrastructure remained lack luster, service sector credit growth has been relatively better at 10.1% during Apr-Feb, FY'17 compared to average growth of 7.3% during the same period in FY'16.
- Within services, the segments which exhibited better credit growth in Feb'17 on a y-o-y basis include Professional Services (19.4%), Personal Loan (12.0%) Loan to Housing (11.4%), Consumer Durables (18.1%), Vehicle Loans (18.2%) and Credit Card Outstanding (28.2%).
- It may be observed that all the above segments within services except credit card outstanding, consumer durables and vehicle loans have undergone deceleration in credit growth in Feb'17 compared to Jan'17. The growth in credit card outstanding could possibly reflect the impact of demonetization.
- Credit to industry declined by 5.2% in Feb'17, 5.1% in Jan'17 on the back of 4.3% in Dec'16, and -3.4% growth in Nov'16 and -1.7% growth in Oct'16, and 0.9% in Sep'16 on y-o-y basis.
- Average growth in Bank credit to industry was -1.5% during Apr-Feb, FY'17 compared to 5.1% growth recorded during Apr-Feb, FY'16.
- Credit to infrastructure sectors is experiencing anemic growth since Apr'16, and it declined to (-9.7%) in Feb'17. The figure hovered in the 8-10% range between Apr'15 and Mar'16
- Credit growth to infrastructure has been negative in each of the eleven months and was -5.0% during Apr-Feb, FY'17 compared to 8.9% during Apr-Feb, FY'16.
- Credit growth to all the three categories of industries viz, MSME, Medium and Large has been negative since Oct'16.
- The MSME and Medium industries have been experiencing negative credit growth during all months of FY'17 till February.
- Credit growth to large industries which was of a low order but nonetheless positive, turned negative since Oct'16.
- Credit growth around 3% partly reflects poor credit appetite by industry.
- Historical low credit growth observed in F'17 leads one to surmise whether it is a structural or cyclical phenomenon. Our sense is that amidst growing importance of NBFCs, there is some substitution effect is at work. However, it would be too early to consider the low credit growth as a structural phenomenon.
- This is because, the low credit growth from banks in FY 17 is partly explained by conversion of bank loans to State Electricity Boards into UDAY Bonds and lower incremental credit to stressed assets which now form a sizeable portion of total bank advances.
- RBI expects credit growth of 10% in FY'18.

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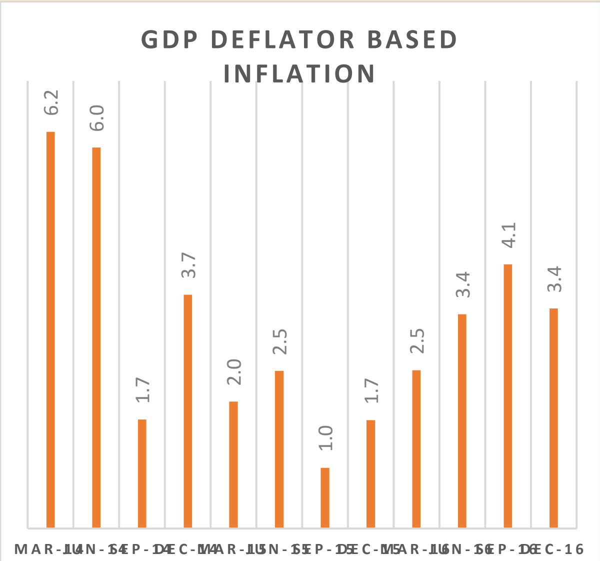
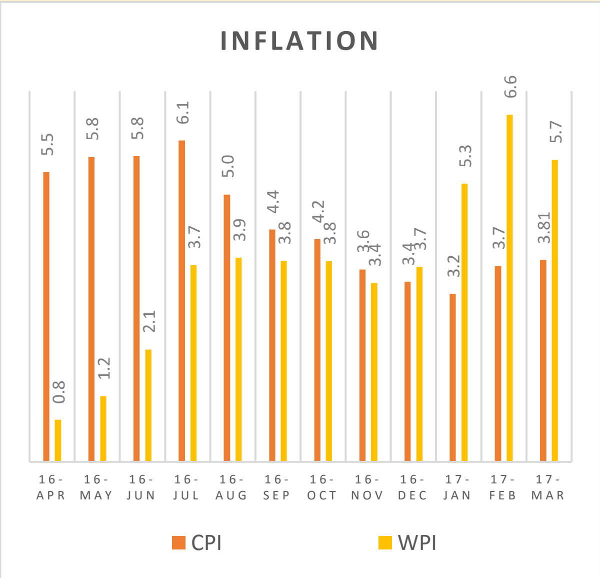
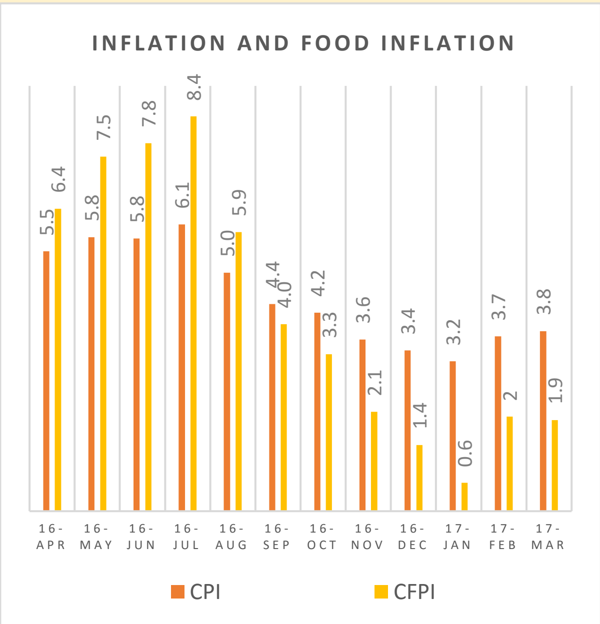






Inflation

- Inflation rate as per the latest reading of Mar’ 17 remained benign and within MPC’s targeted range. Retail inflation (CPI) noted an annual growth rate of 3.8% in Mar’17 compared to 4.8% in Mar’16. Wholesale inflation (WPI) edged down to 5.7% in Mar’17 from 6.5% in Feb’17, on account of softening food inflation as well as crude and base metal prices.
- Retail inflation rate for FY’16-17 averaged to 4.5% compared to 4.9% in FY’15-16. Wholesale inflation rate, on the other hand, averaged to 3.7% in FY’16-17 compared to (-) 2.5% in FY’15-16.
- Core CPI inflation rate comprising 47% of the overall CPI basket, continued to remain sticky at 4.9% in Mar’17 compared to 4.8% in Feb’17 and 4.7% in Mar’16.
- The stickiness in core CPI has been primarily due to transport and communication component which noted an increase of 510 bps in Mar’17 in comparison to Mar’16. This has been as a resultant of firming up of international crude oil prices since Dec’16 which has been embedded in transport and communication component as a lagged pass through to domestic prices of petrol and diesel.
- Sector specific inflation rate also remained meek. Government’s astute supply management policies continued to keep agriculture inflation rate in check. Industry inflation rate was driven by lower commodity prices viz. basic metals, alloys and metal products. While components viz. textiles, rubber and plastic products and chemicals and chemical products might pose upside risks in industry inflation rate in the future. Services inflation rate remained at 4.1% in Mar’17 compared to 4.9% in Mar’16. Inflation rate of components such as health, recreation and amusement and personal care and effects have substantially declined on an annual basis. The implementation of Goods and Service Tax in the future might further lead to stickiness of service sector’s inflation rate.
- Converging trends have been observed with regard to annual food inflation rate in CPI and WPI. The stark contrast has been with respect to inflation rate of vegetables. In the CPI basket, vegetable prices continued its deflationary trend while in WPI it reversed its deflationary trend and noted an annual inflation rate of 5.7% in Mar-17.
- Though CPI was positive on m-o-m SA basis, WPI on m-o-m SA basis turned negative after a span of 6 months. While CPI inflation m-o-m SA basis was around 0.31% in Mar’17, WPI inflation was -0.5% in Mar’17.
- Inspite of lower inflation rate for the past few months, upside risks to the baseline inflation path remain in the future. Hence in view of these risks, RBI in its current policy has continued with its neutral monetary stance while reiterating its commitment to achieve CPI inflation of 4% on a sustainable basis and in a calibrated manner.
- Further, government’s proactive supply management framework would further act as a facilitator in achieving the desired target range.

Please refer page No. 28 for disclaimer.

Food Inflation

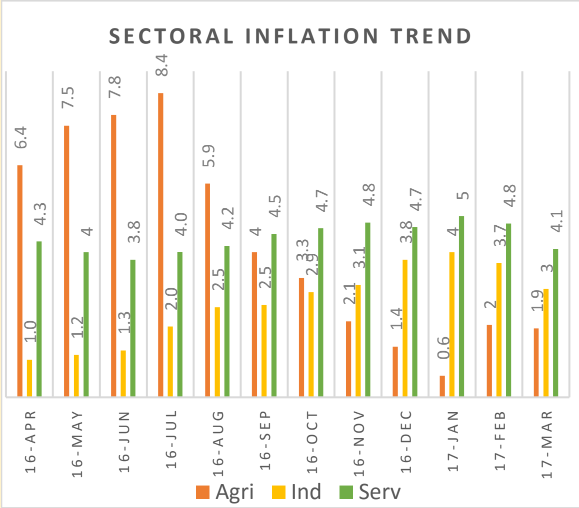
- While food inflation at the retail level moderated a tad, it increased marginally at the wholesale level. The softening of Consumer Food Price Inflation in Mar'17 was partly due to the base effect. However, advantage of a favorable base is slowly going to fade out in Q2, FY'17-18.
- Annual growth rate of vegetable prices continued its deflationary trend in CPI basket whereas in WPI basket it entered into positive territory owing to rise in price indices of specific items viz. tapioca, green peas, cauliflower and brinjal.
- Prices of protein based consumption items such as egg, milk and milk products also increased in the current month. Inflation rate of eggs increased by 277 bps in Mar'17 on a sequential basis.
- Though from a very high level, sugar inflation eased by 180 bps in Mar'17 on a sequential basis. Government efforts viz. announcement of duty free imports of 5 lac MT of raw sugar till June 30, 2017, is expected to further moderate sugar prices in the future.
- Both CPI and WPI inflation were positive on m-o-m seasonally adjusted (SA) basis in Mar'17. Seasonally adjusted food inflation at the retail level was 0.1% and at the wholesale level it was 0.38% in Mar'17.

Drivers of Food Inflation

- The lower inflation rate for the past few months was driven by seasonality impact of vegetable prices. Food inflation excluding vegetables averaged to 5.6% in FY'16-17 compared to 5.8% in FY'16-17. Favorable base impact also came into play along with the transient impact of demonetization in bringing down the rate of inflation. The future path of inflation will be governed by the outcome of South West monsoon in 2017 and OPEC's meeting scheduled on 25th May, 2017.

Monsoon-South West

- The India Meteorological Department's (IMD's) has released its first stage forecast of South West Monsoon for 2017. It has predicted that the volume of rainfall in the southwest monsoon season would be 96% of the long period average (LPA), with an error range of +/-5%. Additionally, the IMD had estimated a 38% probability of a near normal rainfall scenario.
- The latest forecast signal that weak El Nino conditions may develop during the latter part of the monsoon season. Weak positive Indian Ocean Dipole (IOD) conditions are also likely to develop during the middle of the season and persist subsequently. This might have an offsetting impact on the volume of rainfall as positive IOD conditions are likely to be favorable for a normal or above normal monsoon.
- The forecasts of IMD are encouraging as rainfall between 96% and 104% of LPA is considered to be normal. Apart from the volume of rainfall, the timing also becomes crucial.
- IMD will be issuing the update in forecasts in early June, 2017 as a part of the second stage long range forecast of monsoon rainfall. Along with the updated forecast, separate forecasts for the monthly (July and August) rainfall over the country as a whole and seasonal (June-September) rainfall over various geographical regions of India will also be issued. By that time, more information on the evolution of El Nino and IOD will be available.
- Apart from the behavior of monsoon, another critical area which will have a bearing on agricultural production is the water position in reservoirs. We next consider the water level of 91 major reservoirs across the country as on April 13, 2017, the latest data available on this count.

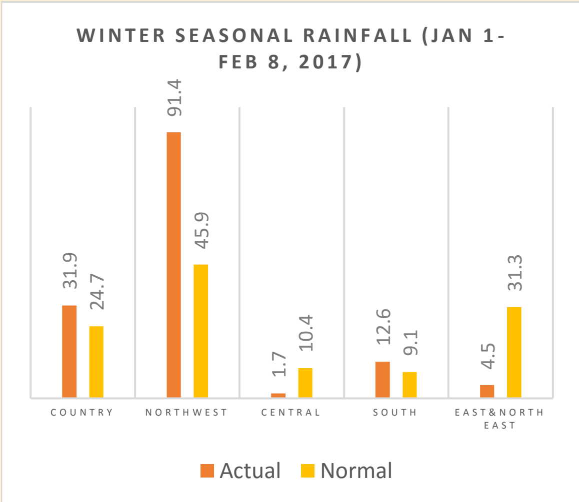


Food Inflation-Converging Trends From WPI and CPI

(y-o-y)

	Food	Pulses	Cereals	Veg	Fruits	Egg	Sugar
CPI							
Weight	45.86	2.38	9.67	6.04	2.89	0.43	1.36
16-Apr	6.4	34.2	2.5	5.0	1.7	6.6	11.2
16-May	7.5	31.6	2.6	10.8	2.6	9.0	14.1
16-Jun	7.8	26.9	3.1	14.8	2.8	5.5	16.8
16-Jul	8.35	27.5	3.9	14.0	3.5	9.3	21.9
16-Aug	5.9	21.9	4.1	1.0	4.4	9.6	24.8
16-Sep	4.0	14.3	4.3	-7.1	6.0	9.9	25.9
16-Oct	3.3	4.1	4.4	-5.7	4.4	9.5	23.6
16-Nov	2.0	0.3	4.8	-10.4	4.6	8.6	22.3
16-Dec	1.4	-1.6	5.3	-14.6	4.7	6.4	21.1
17-Jan	0.5	-6.6	5.2	-15.6	5.8	2.6	18.7
17 Feb	2.0	-9.0	5.3	-8.3	8.3	0.5	18.8
17 Mar	1.9	-12.4	5.4	-7.2	9.4	3.2	17.0
WPI							
Weight	14.33	0.72	3.37	1.74	2.1	0.19	1.73
16-Apr	4.7	36.5	4.2	2.9	-1.8	1.4	17.3
16-May	8.2	35.8	5.9	13.3	3.9	11.1	22.4
16-Jun	8.6	26.6	7.8	17.2	6.4	4.4	26.4
16-Jul	12.6	38.3	9.2	28.4	17.4	11.5	33.0
16-Aug	8.9	34.2	9.5	0.2	13.9	9.8	35.4
16-Sep	6.4	24.0	9.1	-10.9	14.1	10.0	32.9
16-Oct	4.8	22.0	8.3	-10.0	6.0	10.3	30.9
16-Nov	1.5	21.7	7.3	-24.1	2.5	4.5	31.8
16-Dec	-0.7	18.1	7.5	-33.1	0.0	2.5	28.0
17-Jan	-0.6	6.2	5.9	-32.3	3.6	-4.2	22.8
17-Feb	2.7	-0.8	6.1	-8.1	7.1	-0.1	21.2
17-Mar	3.1	-6.1	5.0	5.7	7.6	7.4	19.8

Sugar includes 'Sugar and confectionary' in CPI. Sugar under WPI is covered under manufactured products



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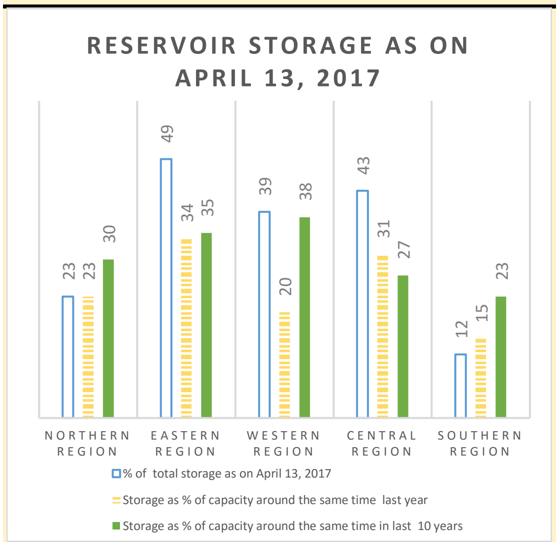
Drivers of Food Inflation

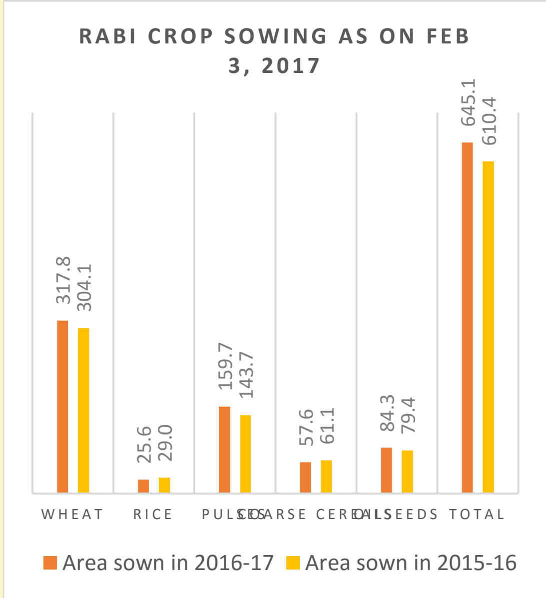
Storage in Reservoirs

- Water level of 91 major reservoirs across the country was 31% of their combined capacity as on April 13, 2017. The live storage in these reservoirs is 132% of their live storage in the corresponding period of last year and 106% of storage of average of last 10 years.
- Inspite of water level of major reservoirs going down by one per cent for the week ending April 13, 2017 compared to April 06, 2017; the overall storage position is better than the corresponding period of last year in the country as a whole and is also better than the average storage of last ten years during the corresponding period.
- The numbers of reservoirs having storage more than last year as well as more than average of last ten years are 54.
- All 91 major reservoirs are having storage less than or equal to 50% with respect to last year as well as with reference to average of last ten years.
- States having better storage than last year for corresponding period are Punjab, Rajasthan, Jharkhand, Odisha, West Bengal, Gujarat, Maharashtra, Uttar Pradesh, Uttarakhand, Madhya Pradesh, Chhattisgarh, Andhra Pradesh and Telangana (AP&TG: two combined projects in both states).



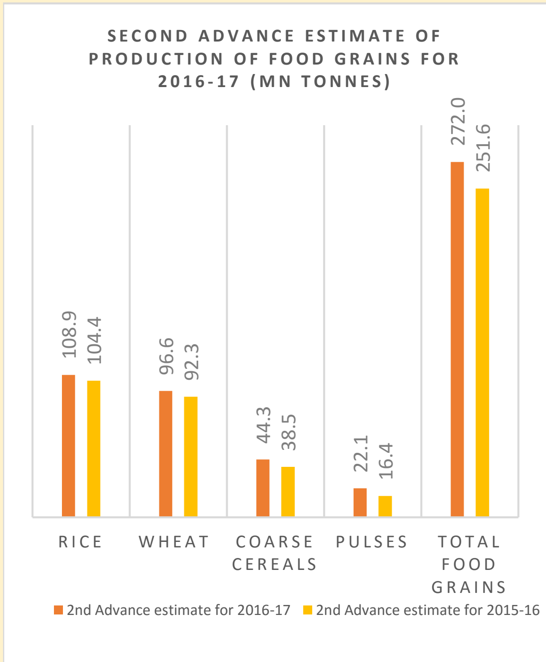
Progress in Cultivation

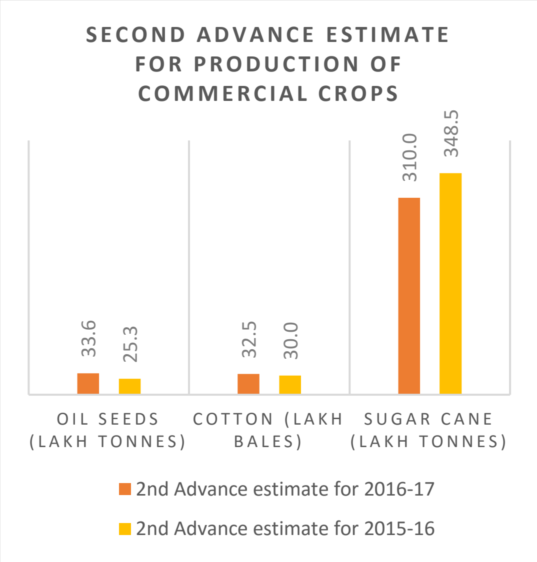
- As per preliminary reports received from the States, the total area sown under Rabi crops as on February 3, 2017 stands at 645.12 lakh hectares as compared to 610.44 lakh hectare this time in 2016 registering a growth of 5.7%.
- Wheat has been sown/transplanted in 317.81 lakh hectares, pulses in 159.72 lakh hectares, coarse cereals in 57.61 lakh hectares and area sown under oilseeds in 84.34 lakh hectares.
- Several initiatives have been undertaken by the government for building a robust supply management framework. The Cabinet has approved proposal for amendments to the NABARD Act, 1981. It will enable NABARD to enhance its activities which would facilitate promotion of integrated rural development.
- Apart from this, government has also undertaken progressive measures such as Geo-tagging of agriculture assets created under Rashtriya Krishi Vikas Yojna (RKVY). This would enable monitoring of wide spread activities in an efficient manner.

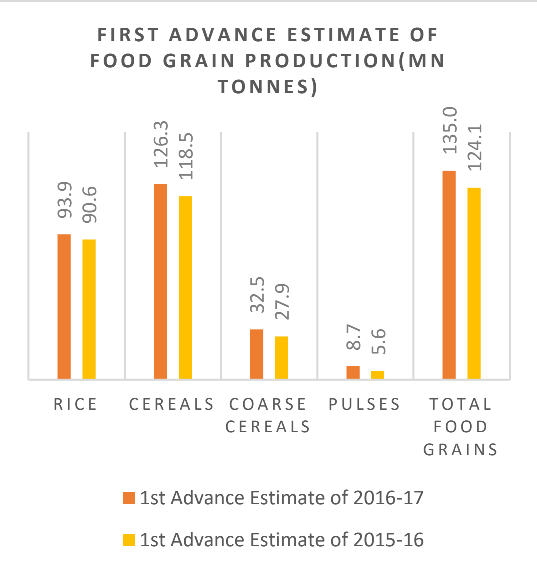


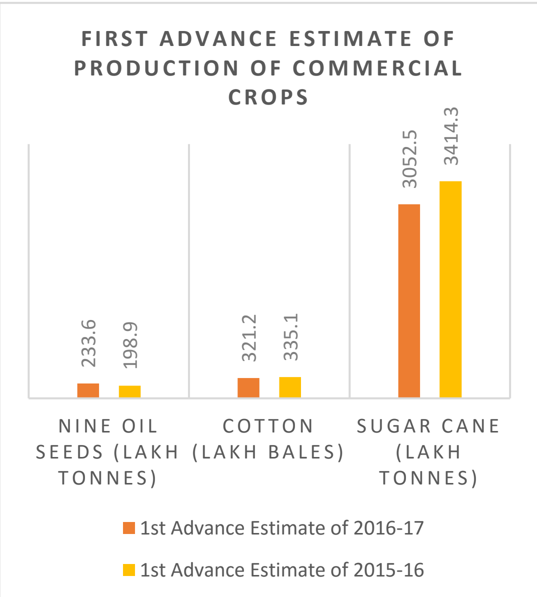
Second Advance Estimate of Agricultural production in 2016-17

- As a result of very good rainfall during monsoon 2016 and various policy initiatives taken by the Government especially post demonetisation to ensure availability of inputs, India is expected to witness record foodgrain production in 2016-17.
- As per Second Advance Estimates for 2016-17, total Foodgrain production in the country is estimated at 271.98 mn tonnes which is higher by 6.94 mn tonnes than the previous record production of achieved during 2013-14. The current year's production is also higher by 14.97 mn tonnes than the previous five years' (2011-12 to 2015-16) average production. The current year's production is significantly higher by 20.41 mn tonnes than the last year's foodgrain production.









Drivers of Food Inflation

Second Advance Estimates of Food Grain Production in 2016-17

- Production of a number of grains is estimated to touch new record levels such as rice is estimated to touch a new record at 108.86 mn tonnes, wheat at 96.64 mn tonnes, pulses at 22.14 mn tonnes. However, production of sugarcane has been lower at 309.98 mn tonnes lower than last years production of 348.45 mn tonnes.
- As a result of significant increase in the area coverage and productivity of all major Pulses, total production of pulses during 2016-17 is estimated at 22.14 mn tonnes which is higher by 2.89 mn tonnes than the previous record production of 19.25 mn tonnes achieved during 2013-14.
- Production of Pulses during 2016-17 is also higher by 4.50 mn tonnes than their five years average production. Current year's production is higher by 5.79 mn tonnes than the previous year's production of 16.35 mn tonnes.
- Production of Sugarcane is estimated at 309.98 mn tonnes which is lower by 38.46 mn tonnes than the last year's production of 348.45 mn tonnes.
- Despite lower area coverage during 2016-17, higher productivity of Cotton has resulted into higher production of 32.51 mn bales (of 170 kg each) as compared to 30.01 mn bales during 2015-16.
- To give a boost to production of rabi crops, Government has upwardly revised the procurement prices of a number of rabi crops. Besides, accepting the recommendations of CACP to increase MSPs of both Kharif and Rabi pulses for 2016-17 season, Government has announced a bonus of Rs.425 per quintal for Kharif Pulses viz. Arhar, Moong and Urad, Rs.200 per quintal for Gram and Rs.150 per quintal for Masur.

Inflation and Rate Outlook

- In its First Bi-monthly Monetary Policy FY'17-18, RBI has maintained status quo on rates, while reaffirming its commitment to 4% CPI inflation on a durable basis.
- RBI has stated that CPI Inflation will be below the enunciated target of 5.0% in Q4 of FY 2016-17. However, RBI projects inflation to average 4.5% in H1 of FY 2017-18 and 5% in H2 of FY 2017-18.
- RBI has held that risk to inflation remain evenly balanced. The impinging upside risks to inflation would be from rising probability of an El Nino effect, increase in HRA as recommended in the 7th Pay commission and one off effects of GST. However, softer crude prices and record food grain production will have a sobering impact on inflation.
- RBI has cautioned that recent global developments might entail a reflation risk which may lift commodity prices further and pass through into domestic inflation.
- Inflationary expectations also remained higher as is reflected in RBI's survey of urban households-Mar'17 round. The survey indicated an increase of 20-50 bps in inflation expectations over the Dec'16 round reversing partly the sharp decline of 2-3% points recorded in the Dec'16 round.
- In view of the inflation dynamics especially sticky core inflation much above the target, we expect a long spell of status quo on policy rates from RBI

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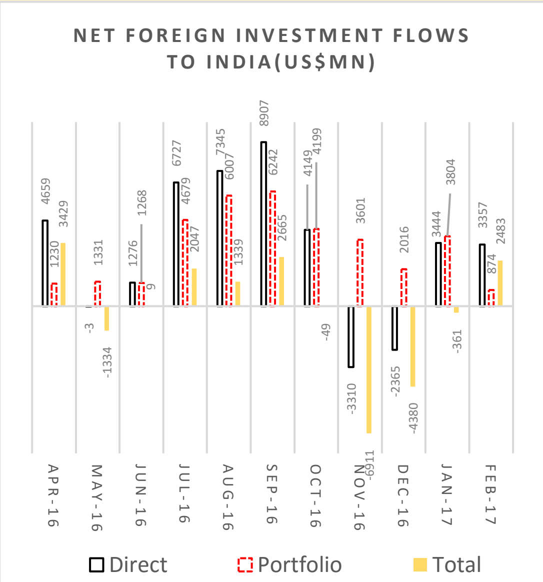
FII and Exchange Rate

Month	FII-Equity	FII-Debt	FII	Re-Dollar Exchange Rate
Apr-16	8416	6418	14834	66.5
May-16	2,543	-4,409	-1,866	66.9
Jun-16	3713	-6220	-2507	67.3
Jul-16	12,612	6,845	19,457	67.2
Aug-16	9071	-2625	6446	66.9
Sep-16	10,443	9,789	20,233	66.7
Oct-16	-4306	-6000	-10306	66.7
Nov-16	-18,244	-21,152	-39,396	67.6
Dec-16	-8176	-18935	-27111	67.9
Jan-17	-1,177	-2,319	-3,496	68.1
Feb-17	9902	5960	15862	67.1
Mar-17	30,906	25,355	56,261	65.9
Apr-17*	1241	17631	18872	64.6

* upto 21 Apr'17
Note: FII figures are in Rs. Crores
Monthly Average exchange rates between Indian Rs. and $



External Sector

- India's trade competitiveness deteriorated sequentially in Mar'17. It may be noted that except in Jan'17, trade competitiveness has deteriorated continuously since Apr'16 through Dec'16 as reflected by a rise in 36-Currency Export and Trade Based Weights REER and also the 6-Currency Trade Based Weights REER.
- Continuing with the double digit growth since Jan'17, exports grew by 27.59% on a y-o-y basis in Mar'17 to US$ 29.23 bn and up from US$ 24.49 bn in Feb'17. Exports have shown positive growth consecutively for the past six months providing indication that global growth and trade is gaining some momentum.
- Non-petroleum and non-gems exports in Mar'17 grew by 25.5% to US$ 21.42 bn on y-o-y basis. For the entire FY'17, non-petroleum and non-gems exports grew by 4.2% on y-o-y basis to reach US$ 192.42 bn.
- Imports increased by a staggering 45.25% on y-o-y basis to reach US$ 39.67bn in Mar'17. The increase was majorly due to the increase in oil imports which grew significantly by 101.43% reflecting the impact of increase in oil prices. It may be noted that according to World Bank commodity price data, oil prices increased by 33.02% in Mar'17 on a y-o-y basis following the curbs on production placed by the OPEC.
- A robust growth in non-oil imports by 33.21% on y-o-y basis in Mar'17 provides some indication of economic activity gaining traction, post demonetisation.
- The trade balance for Mar'17 increased to US$10.4 bn from US$8.4bn in Feb'17
- Cumulative value of exports for the period FY'17 was US$ 274.65bn, registering a growth of 4.71% on y-o-y basis.
- Cumulative value of imports for FY'17 was US$ 380.37 bn registering a negative growth of 0.17% on y-o-y basis. While oil imports increased by 4.24% to US$ 864.58 bn in FY'17, non-oil imports registered a decline of 1.39% on to reach US$293.91 bn in the same period.
- As per RBI, the trade balance in services for Feb'17 was estimated at US$ 5.8 bn with the exports at US$ 13.1 bn and imports at US$ 7.2 bn. The net export of services for Apr'16-Feb'17 was estimated at US$ 59.30 bn which is lower than net export of services of US$ 64.43 bn during Apr'15-Feb'16.

Drivers of recent rupee strengthening

- Indian currency strengthened in Mar'17 guided by expectations of FIIs on the ability of the government to pursue reform oriented policies, election outcomes in some of the bigger states and the positive developments with regard to GST roll out.
- Amidst uncertainties clouting Fed's balance sheet normalization, future hikes in Federal Fund rate and volatilities in oil prices, both domestic and foreign institutional investor's sentiments remained optimistic.

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Exchange Rate Outlook

- On the backdrop of appreciating rupee, the competitiveness of Indian currency remains questionable. The continued appreciation of rupee might pose hindrance to the flourishing export numbers.
- The Global Financial Stability Report of IMF as well as Asian Development Bank's ADB Outlook have highlighted that emerging market and developing economies (EMDEs) could face a sudden reversal of market sentiment.
- Elevated risks might arise from external negative spillovers which might be accompanied by sharp volatility in capital flows and exchange rates. Hence in view of the prevailing dollar liquidity, there is a need for mopping dollars by RBI so that it can guard itself from a possible depreciation of rupee in the future.
- RBI's has already announced in its first bi-monthly monetary policy FY'17-18 that Market Stabilisation Scheme (MSS) would be used as an instrument to regulate mismatches in dollar liquidity.
- As per IEA monthly report, oil prices (OPEC Reference Basket) averaged $50.32/b in Mar'17 representing a decline of 5.7% from the previous month. However, in the coming months on account of revival in oil demand as well as extension of production cut by OPEC and non-OPEC members beyond June 2017, oil prices could attain a higher floor. Higher crude oil prices through the trade channel can put the rupee under pressure.
- Notwithstanding the recent strength, rupee is expected to have a deprecating bias given the strong momentum observed in growth of imports and increased geo political risks which can make FIIs risk averse at the slightest change in sentiments

Fiscal Sector

GST Roll Out

- Lok Sabha and Rajya Sabha have passed the 4 bills in line with GST on March 29 and April 6, 2017 respectively which include the Central GST (CGST), Integrated GST (IGST), Union/State Territory GST (UT/SGST) and Compensation bill. This is an important landmark in the process of implementing the GST by meeting its revised deadline of July 1, 2017.
- Next step in implementing GST consists of discussion on fitment of rates for different goods and services. This is expected to happen in its next meeting scheduled on May 18-19, 2017. After the rate discussion, the state assemblies will have to pass the State GST Bill.
- Goods and Services are classified into different tax rates- 5%, 12%, 18% and 28%. The peak rate is expected to be capped at 20% (SGST-20% and CGST-20%).
- The GST council has set a cap on the cess on various demerit (or sin and luxury) goods in the legislation. Cess on aerated drinks and luxury cars have been capped at 15%. The collections through cess will be used to build the compensation fund.
- As of 1 March, 2017 close to 48 lakh taxpayers have been enrolled on the GST Portal. Designated steps have been taken by the GSTN (GST Network) to provide cyber security to this network.
- GST, which will replace a plethora of central and state taxes, is a consumption-based tax levied on sale, manufacture and consumption of goods and services at a national level. Under it, C-GST will be levied by the Centre, S-GST by states and I-GST on inter-state supply of goods and services.

Chronology of GST

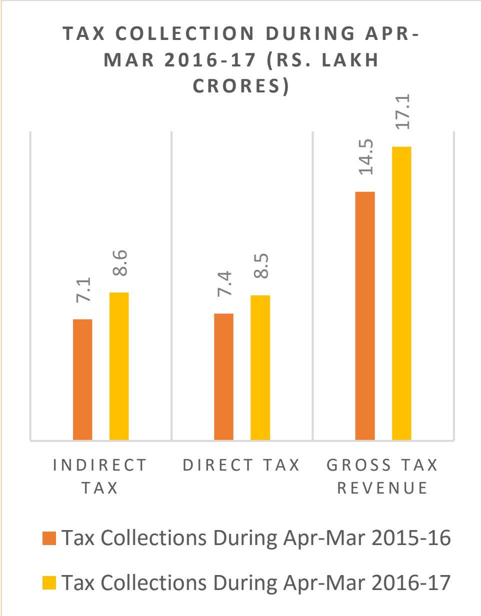
2006	• GST introduced in the Budget Speech of 2006-07
2011	• Constitution Amendment Bill introduced in the Lok Sabha.
Aug'16	• 122nd Constitution Amendment Bill for GST passed in Parliament. • Entry Tax clause dropped. • Assurance of full compensation to the states for the Potential Revenue loss, upto 5 years.
3 Nov'16	• 4 tier tax structure- 5%, 12%, 18% & 28% agreed upon by the GST Council.
12 Nov 16	• No consensus reached on both CGST and SGST laws.
4 Jan'17	• No major development in GST council meeting. • GST implementation extended to 1st July.
18 Feb'17	• Draft Compensation Bill finalised by GST Council.
4 Mar17	• Both CGST and IGST bills approved by GST Council.
29 Mar 17	• Lok Sabha passes the GST Supplementary Bills; CGST,SGST,IGST and Compensation Bill.
6 Apr'17	• Rajya Sabha passes the GST bills.

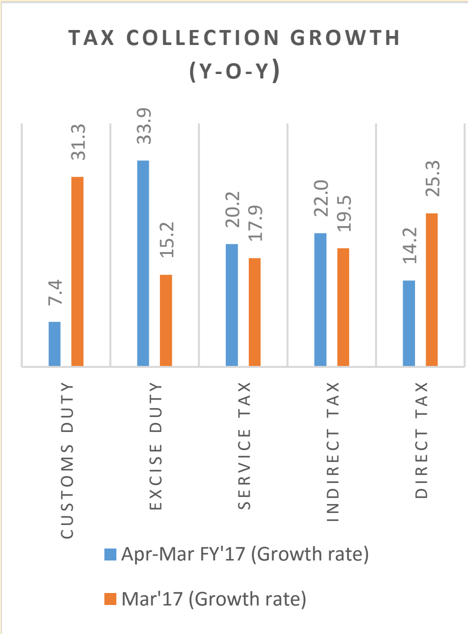
Please refer page No. 28 for disclaimer.

Fiscal Sector

GST Roll Out

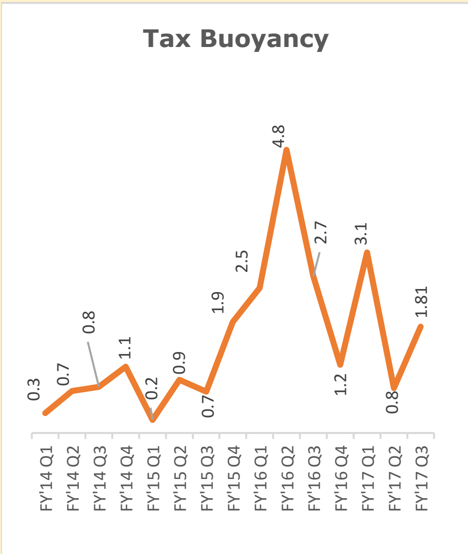
- At the Central level, the taxes being subsumed in GST are Central Excise Duty, Additional Excise Duty, Service Tax, Additional Customs Duty commonly known as Countervailing Duty, and Special Additional Duty of Customs. All the Cesses and surcharges would be subsumed under the GST except Clean Energy Cess.
- At the State level, the taxes being subsumed in GST are State Value Added Tax/Sales Tax, Central Sales Tax (levied by the Centre and collected by the States), Entertainment Tax (other than the tax levied by the local bodies), Octroi and Entry tax, Purchase Tax, Luxury tax, and Taxes on lottery, betting and gambling. Also, State cesses and surcharges in so far as they relate to supply of goods and services are covered in the GST.
- Some of the taxes that remain out of the purview of the GST are Toll tax, Basic Custom Duty, Stamp Duty, State Electricity Duty, Export Duty, Excise duty on tobacco products, Taxes on liquors and petroleum products and Property Tax.
- Though Government wants to roll out GST on July 1, 2017, Industry is clamouring for postponing the implementation to September 1, 2017. The demand for postponement in the implementation of in GST is on account of lack of Technological Readiness, especially for SMEs, Inadequate Awareness about Functioning and Operation of GST and time to prepare for Compliance Burden due to increase in returns to be filed.





Tax Collection

- Revenue Department exceeded its revised tax collections by 18% reaching to Rs 17.10 lakh crore for the year 2016-17. The estimates are a combination of both Direct and Indirect Taxes. Government tax revenue in the revised estimate was Rs 16.97 lakh crore compared to the Budgeted estimate of Rs 16.25 lakh crore.
- Net indirect tax collections (Central Excise, Service Tax and Customs) in the year 2016-17 grew by 22% on a y-o-y basis to reach Rs. 8.63 lakh crore.
- During the year 2016-17, on y-o-y basis, growth in net central excise, service tax and custom collections was 33.9%, 20.2% and 7.4% to reach Rs.3.83 lakh crore, 2.54 lakh crore and 2.26 lakh crore respectively.
- Net direct tax collections during the year 2016-17 grew by 14.2% on a y-o-y basis and touched Rs 8.47 lakh crore. The direct tax collections figures include the penalties and tax from Pradhan Mantri Garib Kalyan Yojana and Income Declaration Scheme (IDS). The objective of IDS scheme is to allow the people to declare their unaccounted wealth and pay a penalty of 45% on that wealth.
- In terms of gross revenue collections, Corporate Income Tax (CIT) and Personal Income Tax (PIT) improved by 13.1% and 18.4% respectively. Once adjusted for refunds, the net growth in CIT and PIT collections was registered at 6.7% and 21% respectively. In terms of refunds issued during Apr-Feb 2016-17, it noticed an improvement of 32.6% at Rs 1.62 lakh crore on a year-on-year basis.
- Through its operation of clean money, the Government was able to identify over 60,000 people of which 1300 high risk people were singled out for investigation for indulging in excessive cash sales during the demonetization period. Extensive enforcement has led to an increment in Income Tax Returns by 21.7% for FY 2016-17.



Financial and Commodities Markets

Stock Market

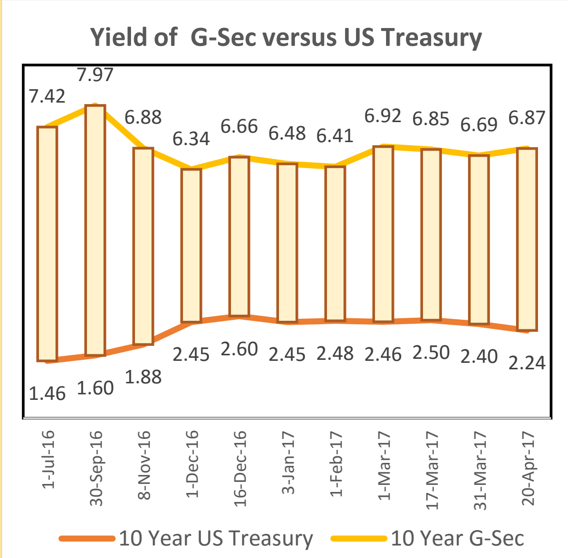
- Between March 20, 2017 and April 20, 2017, the BSE Sensex fell by 3.26% to 29,422.39 points as the positive developments were overshadowed by the geo-political concerns. As compared to the broader index, the mid-cap and small-cap indices showed positive growth of 4.09% and 7.64%, respectively.
- Among the sectoral indices of BSE, the Bankex index surged by 1.64% to 24,443.75 on April 20, 2017. It rose from a low of 24,050.29 on Mar, 20, 2017 on expectations of measures to address the stress in the banking sector to a peak of 24,793.97 on April 11, 2017. However, as the RBI tightened the provision norms and the declaration of the financial results of some banks which showed sharp jump in NPAs, there was paring of the gains and the index closed at 24,443.75 on April 20, 2017.
- It is worth noting that FIIs which were net buyers in the stock market during Mar'17 became net sellers till Apr, 19 2017. DIIs were net sellers during Mar'17 while they turned net buyers in Apr'17.
- The Asset under Management (AUM) of Mutual Funds as of March 31, 2017 stood at Rs 17.55 lakh crore registering a growth of 42%. The AUM touched Rs 10 lakh crore in May'14 and within three years, it has jumped to Rs 17.55 lakh crore.
- The stock markets responded to a host of factors that led to the BSE Sensex rising above 30,000 mark in intra-day trades on April 5, 2017 but closed at 29974 as there were concerns which limited the upside movement of the index.

The factors which impacted the equity markets positively are

- The passing of the GST and related bills in the Lok Sabha and Rajya Sabha had a positive impact on the index as the markets perceives that GST would usher in a structural change in the economy that would contribute positively to the growth momentum.
- RBI though maintained a status quoist approach, it undertook fine tuning of liquidity framework by increasing the reverse repo rate by 25 bps. The RBI concerns on inflation and excess liquidity led to a cautious sentiment in the market.
- Moreover, the US FED meetings minutes revealed that the central bank considered reducing its balance sheet size.

  The equity market, however, was also affected by the following concerns
- Rising geopolitical concerns on account of developments in Syria and North Korea had a negative impact on the market sentiments and markets turned cautious which saw investments shifting towards safe haven assets such as Gold.
- With the beginning of announcement of the financial results for FY'17, the IT sector showed weak earnings which also adversely affected markets sentiments. However, IMD's prediction for a normal monsoon acted as a breather for the market.
- During FY'17, the BSE Sensex gained by 16.61% while 10-year G-sec yield declined by 77 bps given the huge liquidity deluge. The crude oil firmed up by 44.9% during the FY'17. The rupee appreciated to Rs 64.84 per dollar on Mar 31, 2017 as against Rs 66.25 per dollar on Apr 4, 2016.

Financial and Commodities Markets



Gold

- The World Gold Council's Market Update released on Mar 8, 2017 predicted that the demand for gold in India would sustain in 2017 in the range of 650-750 tonnes on the back of robust growth, good monsoon and pay commission award for central government employees.
- Further, there are some global headwinds that would support the gold demand such as heightened political and geopolitical risks, surging inflation in advanced economies and currency depreciation.
- In 2016, the gold demand in India weathered a number of challenges such as 1% excise duty on Jewellery manufacturing that was protested through a 42-day strike and the demonetisation initiative which adversely affected spending.
- Moreover, from April 1, 2017, the cash transaction over Rs 2 lakh would be prohibited and this is expected to adversely affect the demand for gold in rural areas and especially for areas which are more dependent on cash than on alternative channels.
- Further, the industry is apprehensive of the impact of GST and expects a change in import duty to compensate for any potential increase in GST which may have an adverse impact on the demand for gold.

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Financial and Commodities Markets

Bond

- Post the first review of the Monetary policy of FY'17-18, the 10-year bond yields firmed up and ruled at elevated levels as the core inflation remained sticky at elevated levels and RBI in the policy had highlighted the upsides risks to inflation.
- In the first G-sec auction held on Apr 13, 2017 of four securities, the 10-year bond 6.97% 2026 devolved on the primary dealers to the extent of Rs 3,216 crore which was auctioned at a cut-off rate of 6.80%. The other securities maturing in 2022, 2034 and 2046 were auctioned at cut-off yields of 6.78%, 7.40% and 7.39%, respectively.
- The immediate impact of the policy was seen with the upward movement of the term structure of rates with call money rate aligning with new reverse repo rate and 10-year bond yield shot up by 12 bps.
- Lower than expected inflation rates, expectations of a normal monsoon and RBI allowing an auction to devolve on primary dealers lead to some easing of yields, however, with the increase in the geo-political uncertainty, the yields hardened.

Drivers of International Crude Oil Prices

- As per International Energy Agency (IEA), during the three months period since the agreement on the OPEC deal wherein the six month oil production cuts agreed by OPEC and eleven non-OPEC countries appears to have achieved the objective of stabilizing the oil prices. Except for the events such as unplanned outages and rise in geo-political tensions impacting the stability of oil prices.
- OPEC's compliance with the pledged cuts improved to 104% in Mar'17 from 90% in Feb'17, while the rate for non-OPEC producers in the accord rose to 64% from 38% over the same two months. OPEC's average compliance for 2017 is 99%
- The compliance of cut in production was impressive for OPEC countries while the non-OPEC countries were gradually improving their compliance.
- IEA expects the oil market production to increase by non-OPEC countries while the demand for oil has shown a weakening trend from major consumers such as India, Russia, Korea, some Middle-East countries and US. As a result, there is an expectation of balance in the oil market while moving towards reducing the excess supply in oil market and re-balancing in the oil market.
- However, there are signs of recovery in China's economic growth which might lead to higher demand and falling domestic production.

Implication of Oil price hike on India

- It may be noted that price of Indian basket of crude had increased by 29.06% between Apr'16 and Mar'17. However, between Jan'17 and Mar'17, crude prices dipped by around 4.8%.
- A dip in crude oil prices have important implications for macroeconomic stability in India. Decrease in oil prices have a sobering impact on inflation apart from having a soothing impact on the government finances and helps to avoid sharp fluctuation in the currency.

RBI-Policy Rates

- Following the policy review on Apr 6, 2017 the new policy rates and ratios are as given below

Policy Rates and Ratios (%)

Repo- 6.25

Reverse Repo- 6.00

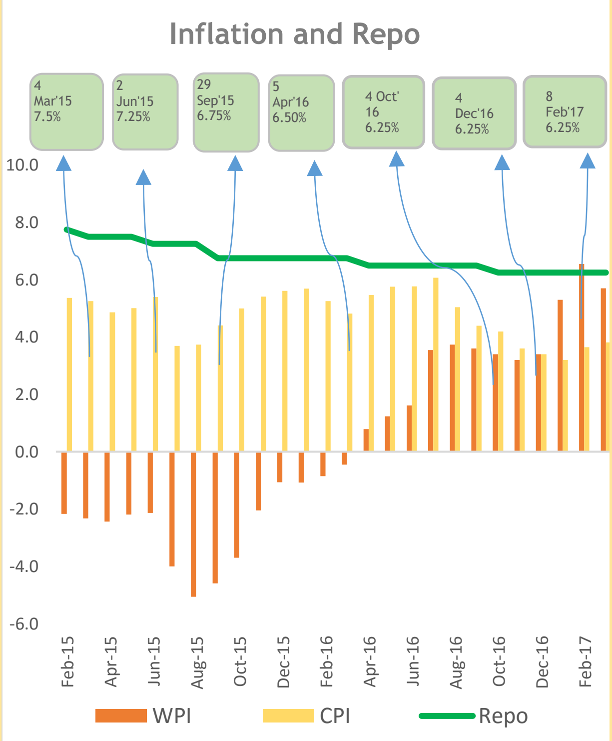
Bank rate -6.50

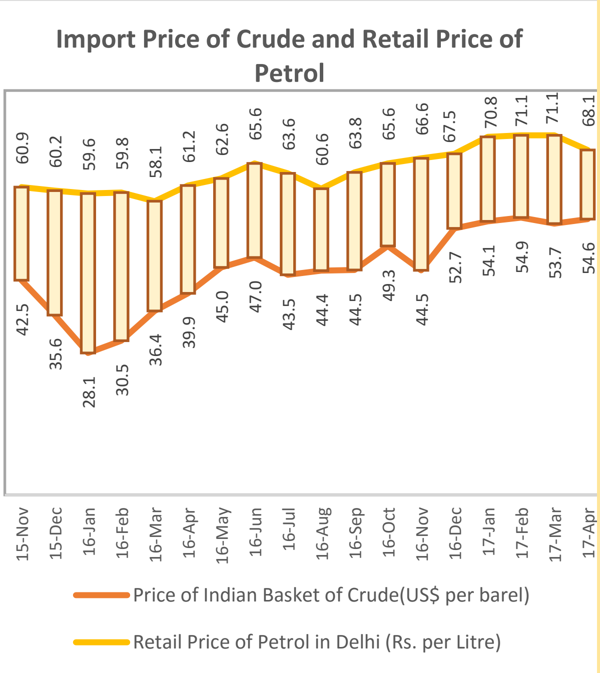
MSF- 6.50

CRR- 4

SLR- 20.50

Repo and Inflation Dynamics





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Rate Decision by Major Central Banks

RBI

- RBI kept the repo rate unchanged at 6.25% but reduced the LAF corridor from 50 bps to 25 bps with a view to achieve better alignment of the weighted average call money rate, which is the operating target for monetary policy, with the repo rate. The reverse repo rate, post this change becomes 6%.
- While the non-tinkering of the policy rate was along the expected lines, the narrowing of policy corridor is contrary to our expectations. RBI indicated its preference for the use of open market operations to manage surplus liquidity including the use of MSS rather than using reverse repo as a tool for managing liquidity.
- RBI's decision to increase the reverse repo rate will act as breather for banks in an atmosphere of subdued credit growth.
- While pursuing with a neutral monetary stance, RBI in the first bi monthly review of monetary policy for FY'17-18 has reiterated its commitment to achieve CPI inflation of 4% on a sustainable basis and in a calibrated manner.

FED

- In view of realized and expected labor market conditions and inflation, the FOMC raised the target range for the federal funds rate to 3/4 to 1% in its meeting on March 15, 2017. Primary Credit rate (discount rate) was also hiked to 1.50%.
- The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a sustained return to 2% inflation.
- In its Minutes released on 5 April, 2017, FOMC stated that it will continue to hold sizeable levels of long term securities, which will allow the Fed to continue with the accommodative financial condition.
- It expects the real GDP to grow at a modest pace from 2017 through 2019. Inflation is projected to increase gradually, largely on account of hike in food and energy prices and an expected increment in prices of non-energy imports.
- FOMC held that the foreign outlook risk are largely diminished and enhanced business and consumer confidence levels are expected in the coming months. While there are downside risks to the aggregate demand, there are upside risk to the unemployment rate.

BoE

- In its meeting ending on 15 March 2017, BoE's Monetary Policy Committee with a majority of 8-1 voted in favor of keeping the Bank rates intact at 0.25%.
- The Committee voted unanimously to continue with the programme of sterling non-financial investment-grade corporate bond purchases totaling up to £10 billion, financed by the issuance of central bank reserves.
- The Committee also voted unanimously to continue with the programme of £60 bn of UK government bond purchases to take the total stock of these purchases to £435 billion, financed by the issuance of central bank reserves. The asset purchase facility is expected to continue throughout the financial year 2017-18.

Rate Decision by Major Central Banks

ECB

- The Governing Council of the ECB on March 9, 2017 left the interest rate on the main refinancing operations, interest rates on the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.40% respectively.
- The Governing Council continues to expect the key ECB interest rates to remain at current or lower levels for an extended period of time, and well past the horizon of the net asset purchases.
- ECB decided to continue its QE program at €80 bn per month until the end of March 2017. From April 2017, the net asset purchases are intended to continue at a monthly pace of €60 bn until the end of Dec'17, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.
- ECB expects the real GDP to grow strongly in 2017 and 2018. While the overall economic outlook is improving, there are still some downside risks to the economy.

BoJ

- BoJ in its monetary policy review held on March 16, 2017 adopted status quoist approach.
- BoJ decided to continue applying an interest rate of -0.1% to the short term Policy-Rate balances that financial institutions park with it. BoJ further decided to purchase Japanese government bonds (JGBs) at the current pace viz, annual increase in the amount outstanding of its JGB holdings of about 80 trillion yen so that 10-year JGB yields will remain at around zero percent. BoJ has also given guidance for improved growth outlook and pacing up of inflation in 2017 and 2018.
- In addition, on asset purchases, banks sees that the outstanding amount will increase by 6bn yen and 90bn yen for exchange traded funds (ETF) and Japan real estate investment trusts (J-REITs) as BoJ plans to purchase these funds.
- The bank believes that the economic risks are skewed to the downside and with weakening inflation expectations, the 2% inflation target remains a distant goal.

PBOC

- The People's Bank of China (PBOC) raised interest rates by 10 bps on both medium-term lending facility loans and its open market operation reverse repurchase agreements to 3.05% and 3.2% respectively on March 15, 2017.
- PBOC also raised the rate on open market operation reverse repos for 7-day, 14-day and 28-day tenors, bringing them to 2.45%, 2.60% and 2.75% respectively.

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Banking

Competition in the Lending Space

- Among select 12 banks (6 from the PSB space and 6 New Private Banks), one revised down its 1 year MCLR, five revised their base rates and one its FD rates for 1-2 years.
- Base rates of these banks varied within a range of 155 bps. HDFC Bank had the lowest base rate at 9.25% and IndusInd Bank had the highest base rate at 10.55%.
- SBI had the lowest MCLR rates at 8% in the 1-year tenure and IndusInd Bank continued to have the highest MCLR rate at 9.10% in the 1-year tenure.
- There was no variation in MCLR as compared to the previous month. Range among the 12 banks with respect to variation in deposit rates remained at 40 bps for term deposits of tenure between 1 year-2 years and for less than Rs. 1 crore.

Innovation

- **Nomura Services launches fintech accelerator 'Voyager'-** It is reported that Nomura Services India, an arm of the Japanese investment bank, Nomura launched a fintech accelerator known as 'Voyager' on April 19, 2017 to support transformation of Indian fintech startups. Voyager is reported to provide a platform to emerging enterprises to access global markets by leveraging on its existing technology and processes through its integrated global hub in Mumbai. The accelerator will focus on technology such as artificial intelligence, data analysis to analyse macro trends in the industry and generate insights to help companies or consumers make better investment decisions. PwC, Google, IBM, Let's Talk Payments and Amazon Internet Services Pvt. Ltd. are the program partners for the initiative.
- **SBI to offer credit cards to all accounts with balance between Rs 20000-Rs.25000**-It is reported that SBI will offer a new variant of credit cards called as 'Unnati' to every account holder having a balance of Rs 20,000-25,000, without examining the credit history of the account holder. The initiative is reportedly aimed at encouraging adoption of credit cards and expanding the reach of digital payments. The 'Unnati' variant of SBI Card will be offered free, without any annual fee, for a period of four years. This initiative attempts to address the lack of credit history that poses a challenge in increasing the credit card penetration in the country. In addition to increasing the issuance in the number of credit cards, this measure is expected to assist in generation of credit history for new users including the additional account holders under the PMJDY scheme.

Initiatives

- **Bank of Baroda Ties up with Em3 Agri-**Bank of Baroda, on April 15, 2017, has signed a MoU with EM3 Agri Services to provide credit facilities to farmers and rural entrepreneurs for purchase of farm equipment and related machinery. The objective of the pact was to supplement the government's focus on doubling farmers' income by 2022 by providing end to end solutions to farmers. In addition to farmers, joint-liability groups, self-help groups, farmer producer organisations (FPOs) and small rural entrepreneurs are eligible to source loans to purchase farm machinery and farm equipment. EM3 Agri Services offers services for the entire cultivation cycle specializing in farm mechanization services like land preparation, transplantation/sowing, crop harvesting and post-harvest management for small hold farmers on a pay-per-use basis.

Policy Developments

Prudential Guidelines–Banks' investment in units of REITs and InvITs-In its notification dated April 18, 2017, RBI has allowed banks to invest in Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) within the overall ceiling of 20% of their net worth. The other permitted investments within the 20% limit include direct investments in shares, convertible bonds/ debentures, units of equity-oriented mutual funds and exposures to Venture Capital Funds (VCFs) (both registered and unregistered). Banks are required to prepare a Board approved policy on exposures to REITs/ InvITs which places an internal limit on such investments within the overall exposure limits in respect of the real estate sector and infrastructure sector. Banks have been permitted to invest a maximum of 10% in the total capital of an REIT/ InvIT.

RBI prescribes additional provisions for standard advances for telecom sector-In its notification dated April 18, 2017, RBI has advised banks to make provisions at higher rates in respect of advances to stressed sectors of the economy.

- The notification further states that banks are required to put in place a Board–approved policy for making provisions for standard assets at rates higher than the regulatory minimum, based on evaluation of risk and stress in various sectors.
- The Board approved policy will be subject to a quarterly review to evaluate the performance of various sectors of the economy to which the bank has an exposure and gauge the present and emerging risks and stress therein.
- The review may include quantitative and qualitative aspects like debt-equity ratio, interest coverage ratio, profit margins, ratings upgrade to downgrade ratio, sectoral non-performing assets/stressed assets, industry performance and outlook, legal/ regulatory issues faced by the sector, in addition to sector specific parameters.
- On an immediate basis, RBI has laid down guidelines for additional provisions at higher than mandated rates for exposures in telecom sector considering the ongoing stressed financial conditions in the sector and to guard against stressed balance sheets in the future.
- The last date to review the telecom sector by the Board of Directors of the banks has been set at June 30, 2017.

Development

- **SBI Card levies charges on small payments via cheque-It is reported that** SBI Cards, the payment solutions provider by SBI and GE capital, has started levying charges of Rs 100 for payment made through cheque for amounts up to Rs 2000 with effect from April 1, 2017. Cheque payments amounting more than Rs. 2000 are exempted from any charges. The decision to implement charges is reported to have been done to promote digital payment habits in smaller transactions.
- **IndusInd Bank to raise Rs 1,000 crore via Basel III bonds-** It was reported on April 5, 2017 that IndusInd Bank plans to raise Rs.1000 crore by issuing Basel III compliant bonds. The Bank proposes to raise funds by issue of subordinated and unsecured Basel III compliant bonds which will be in the nature of debentures and count towards non-equity regulatory additional tier I capital. The bonds will be issued on a private placement basis. Approval from the shareholders and the board of directors is awaited for the fund raising plan.
- **LIC to obtain services of bankers to manage lending operations-** LIC faced with a gross non-performing assets ratio of 3.76% on a debt portfolio of Rs. 3.79 lakh crore as on Mar'16. Is planning to enlist the services of experienced bankers as it lacks the expertise on loan risk assessment and resolution. LIC has set up a cell for lending, NPA resolution and one time settlement.
- **ICICI Bank partners with Truecaller for UPI Payments-**ICICI Bank has partnered with True Software Scandinavia AB, the developer of Truecaller app, which has a globally integrated caller ID synced with social media. The collaboration will enable in-app payments along with mobile recharges using the Unified Payments Interface. The facility is available for non-ICICI Bank customers as they can link their bank account of any bank (participating in UPI) to create a UPI ID and make instant and secure payments. Users of 'Truecaller Pay' will be required to create a new UPI ID or add an existing ICICI Bank VPA (virtual payment address) through a one-time registration, post which payments and recharges can be effected.
- **PNB launches new digital products-**Punjab National Bank (PNB) launched a number of new digital products on April 17, 2017, its 123rd Foundation Day to give a push to its digital initiatives. These products are: an automated electronic toll collection to facilitate hassle-free toll payment/collection, a credit card mobile app and a scheme for financing grid connected roof solar power projects were the among the new product launches and a mobile app to facilitate PNB staff to carry out their HR-related operations.
- **HDFC Bank Launches UPI Facility** -It is reported that HDFC Bank on April 7, 2017 launched its UPI facility on multi-bank mobile payments app Chillr. UPI was launched by National Payments Corporation of India (NPCI) in 2016 as a payment channel which eliminates the need of the beneficiary's account number, IFSC code and other related details. It, rather, requires a single virtual payment address (VPA) for beneficiary identification and a four-digit mPin for payment authentication.

Policy Developments

RBI revises Prompt Corrective Action (PCA) framework for banks-RBI, through its notification dated April 13, 2017, revised the existing PCA framework for banks which came into effect from April 1, 2017. The revised guidelines are based on the financials of the banks for FY'17. The key highlights from the revised PCA framework are

a) Indicators to be tracked for capital, asset quality, profitability and leverage would be CRAR/ Common Equity Tier I ratio, Net NPA ratio, Return on Assets and Tier I Leverage ratio respectively as these parameters remain the key focus areas for monitoring.

b) Breach of CRAR ratios imply capital ratios below the minimum prescribed 10.25% (9% minimum total capital plus 1.25%* of CCB as on March 31, 2017) ranging from a deficit of 250 bps to 400 bps below the mandated level. Net NPA ratios in the range of 6-12% and negative Return on Assets for 2-4 consecutive years would result in triggering PCA. The ranges indicate the risk thresholds which are categorized into three levels.

c) Breach of any risk threshold would result in invocation of PCA, with breach of risk threshold 3 of CET1 indicating probability of resolution through means such as amalgamation, reconstruction, winding up, etc.

d) In event of failure of any bank in meeting its depositors' obligations, resolution processes may be undertaken without referring to the PCA guidelines.

e) The framework is applicable to all banks operating in India, including small banks and foreign banks operating through subsidiaries in India.

f) Mandatory corrective actions pertaining to risk threshold are; Restrictions on dividend distribution/remittance of profits, promoters/owners/parent in the case of foreign banks to bring in capital; for risk threshold II, restriction on domestic and/or overseas branch expansion and higher provisions as part of the coverage regime in and for risk threshold III, restriction on domestic and/or overseas branch expansion and restriction on management compensation and directors' fees, as applicable. Discretionary corrective actions include common areas such as Special Supervisory Interactions, actions related to strategy, governance, capital, credit risk, market risk, HR, profitability, operations and any other specific action as deemed fit by RBI considering specific circumstances.

Policy Development

IFSC banking units receive approval for derivative transactions

- In its notification dated April 10, 2017, RBI modified directions to allow IFSC banking units (IBUs) to engage in derivative transactions to boost activity in international financial services centres (IFSCs). Key aspects of the directions are

- IBU can become a trading member of an IFSC exchange in an IFSC to trade in interest rate and currency derivatives, including structured products that the banks operating in India have been allowed to undertake. However, they shall obtain RBI's prior approval for offering any other derivative products.

- IBUs can become a professional clearing member (PCM) of the exchange for clearing and settlements in any derivatives segment.

- The IBU may, as a PCM of derivatives segment, guarantee trades executed by its clients as trading members of the exchanges. The total exposure which the bank would take on its registered clients should be determined by the Board in relation to the net worth of the bank and monitored regularly. However, the IBU should not guarantee any transaction other than what is required in its role as a PCM.

- RBI has also permitted IBUs to extend bank guarantees and short- term loans to IFSC stock broking/commodity broking entities.

- Additionally, fixed deposits accepted from non-banks by the IBUs cannot be repaid pre-maturely within the first year. However, fixed deposits accepted as collateral from non-banks for credit from IBUs or deposited as margin in favour of an exchange can be adjusted prematurely in event of default in repayment of the loan or meeting a margin call.

Development

- **Federal Bank Plans to Sell 26% in NBFC to Raise Rs 500 crore-**Federal Bank is reportedly planning to divest up to 26% stake in its non-bank finance unit Federal Financial Services, known as FedFina in an attempt to raise capital around Rs.400-500 crore for the NBFC. ICICI Securities will assist in the execution of the proposed divestment, which is aimed at expansion and growth of FedFina, which started operations as a distribution arm of the parent, post receiving its NBFC licence in 2010. Currently, gold and mortgage (home, auto, loan against property, etc) loans are sold by FedFina. Till date, Federal Bank has infused capital of Rs.190 crore in Fedfina, which is its wholly-owned subsidiary. The NBFC has more than 100-plus gold loan branches across the states of Tamil Nadu, Karnataka and Andhra Pradesh and has diversified into other products like structured finance (construction funding) in addition to being a distribution partner for insurers such as IDBI Federal and Bajaj Allianz.
- **SBI Merges Five Associate Banks and Bhartiya Mahila Bank with itself**-The five associates, State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore along with Bharatiya Mahila Bank were merged with SBI on April 1, 2017. It is reported that the merger has resulted in a unified entity with a balance sheet size of Rs 41 trillion, an employee strength of 277,000 personnel, a clientele base of over 500 million with more than 22,500 branches and 58,000 ATMs. SBI is expected to join the league of top 50 global banks with this merger.
- **Pradhan Mantri Mudra Yojana (PMMY) crosses target of Rs. 1.8 lakh crore for FY 2016-17-**Loans extended under the Pradhan Mantri Mudra Yojana (PMMY) during 2016-17 surpassed the set target of Rs.1.8 lakh crore for 2016-17. Sanctioned loans amounted to Rs.1,80,087 crore with final data still awaited from some small non-banking lenders. Out of the total sanctions, banks lent Rs.1,23,000 crore whereas share of NBFCs was about Rs.57,000 crore. The number of borrowers for FY'17 were over 4 crore. Women borrowers accounted for 70% of total borrowers. Among the category wise segmentation, about 20% of the borrowers belonged to SC Category, 5% to the ST Category, while OBCs accounted for almost 35% of the borrowers. For FY'18, the target for Mudra Loans has been set at Rs.2.44 lakh crore in the Union Budget. Mudra Loans are available up to Rs.10 lakh for non-agricultural as well as allied activities of agriculture such as Dairy, Poultry, and Bee Keeping also covered.
- **IBA looking for forensic auditors to check bank frauds**-In the wake of rising cases of fraud in the banking sector, Indian Banks' Association (IBA) is planning to enlist reputed CA firms to undertake forensic audit of banks in cases of fraud up to Rs 50 crore. The motivation for this initiative is to recover bad debts and identify loopholes in the financial system so as to take preventive measures. The shortlisted CA firms will book debt analysis, credit appraisal, documentary analysis in foreign trade, foreign trade finance mechanism and SWIFT (remittance). The emapnelled CA firms will be required to employ email cracking tools, voice interpreter, mobile call interpreter, big data analysing tools and lie detecting machines. The CA firm preferably should have a prior working association with regulatory bodies like CBI, SEBI, SFIO, EOW of State Police etc. IBA has invited applications from CA firms till April 25, to be empanelled for assignments relating to forensic audit of frauds.

Please refer page No. 28 for disclaimer.

Annex-1

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-Apr-17	8.35	01-Jul-16	9.60	Nov-16	7.00
Bank of India	07-Apr-17	8.50	31-Mar-17	9.55	Apr-17	6.90
Canara Bank	07-Apr-17	8.45	01-Apr-17	9.40	Jan-17	6.90
Punjab National Bank	01-Apr-17	8.45	01-Jan-17	9.35	Dec-16	6.90
Union Bank of India	01-Apr-17	8.50	01-Feb-16	9.30	Jan-16	6.80
State Bank of India	01-Apr-17	8.00	01-Apr-17	9.10	Mar-16	6.90
Axis Bank	18-Apr-17	8.25	05-Apr-17	9.15	Dec-16	7.00
HDFC Bank	07-Apr-17	8.15	31-Mar-17	9.00	Jan-17	6.95
ICICI Bank	01-Apr-17	8.20	03-Jan-17	9.25	Dec-16	7.00
IndusInd Bank	17-Apr-17	9.10	17-Jan-17	10.55	Jan-17	7.15
Kotak Bank	01-Apr-17	8.80	06-Jan-17	9.30	Mar-17	6.75
Yes Bank	01-Apr-17	8.80	05-Oct-15	10.25	Nov-16	7.10

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.

Punjab National Bank offers 7.00% for term deposits of 1 year and 6.90% for term deposits of 1 to 2 years.

Union Bank of India offers 7.00% for term deposits of 1 year and 6.80% for term deposits of 1 to 3 years.

State Bank of India offers 6.90% for term deposits of 1 year to 455 days, 6.75% for term deposit of 456 days to 2 years.

AXIS Bank offers 7.00% for term deposits of 1 year to less than 2 years, 7.10% for term deposits of 14 months to less than 15 months and 6.75% for term deposits of 2 years.

HDFC Bank offers 6.90% for term deposit of 1 year, 6.95% for term deposits of 1 year to 1 year 3 days and 6.25% for term deposits of 1 year 4 day to 2 years.

ICICI Bank offers 6.90% for term deposits of 365 days to 389 days, 7.00% for term deposit of 390 days to 2 years

IndusInd Bank offers 7.15% for term deposits of 1 year to less than 1 year 2 months, 7.05% for term deposit of 1 year 2 months to less than 2 years, and 7.15% for term deposit of 2 years.

Kotak Mahindra Bank offers 6.75% for term deposits of 1 year to 389 days, 7.00% for 390 days, and 6.50% for term deposit of 391 days to 2 years.

YES Bank offers 7.10% or term deposits from 1 year to less than 10 years, with 7.15% for term deposits for period ranging from 18 months 8 days – 18 months 18 days.

Figures are in per cent.

Annex-2

Monthly Macro Indicators

Indicator	16-Apr	16-May	16-Jun	16-Jul	16-Aug	16-Sep	16-Oct	16-Nov	16-Dec	17-Jan	17-Feb	17-Mar
Production												
IIP	-1.3	1.3	1.95	-2.5	-0.7	0.7	-1.9	5.7	-0.1	3.3	-1.2	
Infrastructure	8.5	2.8	5.2	3	3.2	5	6.6	4.9	5.57	3.4	1.1	
Prices												
WPI	0.8	1.2	2.1	3.7	3.9	3.8	3.8	3.4	3.7	5.5	6.5	5.7
CPI	5.5	5.8	5.8	6.1	5.1	4.39	4.2	3.6	3.4	3.2	3.7	3.8
Agriculture	6.4	7.5	7.8	8.4	5.9	4	3.3	2.1	1.4	0.6	2	1.9
Industry	1	1.2	1.2	1.8	2.4	2.5	2.7	3.2	3.7	4	3.7	3
Services	4.3	4	3.8	4	4.2	4.5	4.6	4.8	4.7	5	4.8	4.8
Banking												
Reverse Repo (Rs. Mn)	199432	48331	104234	96493	55863	99851	108037	187952	216296	127611	135769	349833
Repo (Rs. Mn)	113263	143911	53418	51953	64906	66210	98619	68773	47167	22413	24691	21492
Aggregate Deposits	9.8	8.9	9.7	9.6	8.8	13.8	10	17.8	17.4	16.11	15.1	
Total Credit	8.4	8	7.3	7.7	7.6	11.5	6.4	4	3.3	3.3	3	
Non Food Credit	8.4	8.4	7.9	8.3	8.2	10.8	6.7	4.8	4	3.5	3.3	
Industrial Credit	0.1	0.9	0.6	0.6	-0.2	0.9	-1.7	-3.4	-4.31	-5.1	-5.2	
Infrastructure Credit	-1.5	-0.1	-2.1	-3.1	-4.2	-4.6	-6.6	-6.7	-7.66	-8.7	-9.7	
Service Credit	10.9	9.3	9.2	10.8	12.1	18.4	9.3	7.1	8.31	8.1	7.7	
Leading Indicators												
Manufacturing PMI	50.5	50.7	51.7	51.8	52.6	52.1	54.4	52.3	49.6	50.4	50.7	52.5
Service PMI	53.7	51	50.3	51.9	54.7	52	54.5	46.7	46.8	48.7	50.3	51.5
Composite PMI	52.8	50.9	51.1	52.4	54.6	52.4	55.4	49.1	47.6	49.4	50.7	52.3
Services												
Passenger Traffic: All Airports	17.3	17.5	16.8	23	19.6	20.8	19.7	18.6	19.9	21.4	13.5	
Foreign Tourist Arrivals	10.6	3.8	7.4	17.1	11.8	13.3	10.3	9.2	13.6	16.5	12.9	10.7
Goods Traffic Movement by Railways	-3.7	-0.6	3	-1.9	-3.7	-2.7	-2.6	5.5	-0.1	0.34	3.5	7.7
Automobile Sales: Total	14.5	7.7	7.2	8.9	16.8	15.8	7.2	-4.2	-16	-5.13	2.4	2.9
Automobile Sales: Passenger Vehicle	10.2	5.2	7.6	13.9	18.9	20.7	6.2	5.8	4.3	14.56	8.7	11.0
Automobile Sales: Commercial Vehicle	14.7	15.1	7.3	2.1	2.4	0.4	13.5	-7.1	-5.7	-2.42	5.7	6.7
Automobile Sales: Two Wheelers	17.2	8.7	7.9	9.2	18.6	17.2	7.5	-5.2	-19.7	-7.72	2.1	2.3
Automobile Sales: Three Wheelers	-21.7	-9.9	-6.6	-8.9	-11.9	-16.1	-2.1	-22	-37.3	-26.91	-22.2	-23.09
External												
FDI-Equity (US $mn)	3456	2078	2340	4179	4901	5247	6301	4783	3452	4088	1322	
FII-Net Portfolio Investment(US $mn)	3141	-1622	-279	2267	1558	2884	-1818	-5479	-4031	-389	2454	
ECB(US $mn)	305	1318	1072	1203	3173	2463	1771	488	2801	1816	2227	
Exports	-6.7	-0.8	1.3	-6.8	-0.3	4.6	9.6	2.2	5.7	4.3	17.5	27.6
Imports	-23.1	-13.2	-7.3	-19.1	-14.1	-2.5	8.1	10.4	2.3	10.7	21	43.5
Trade Balance(US $mn)	-4845	-6273	-8116	-7761	-7674	-8339	-10160	-13008	-10369	-9840	-8896	-10437
Rupee-Dollar Exchange Rate	66.5	67.2	67.6	67.03	67	66.7	66.85	68.52	67.95	67.81	67.08	65.93
Rupee-Pound Exchange Rate	97.4	98.7	90.5	88.3	87.7	86.4	81.29	85.53	83.42	84.84	83.81	81.3
Rupee-Euro Exchange Rate	75.7	74.8	75	74.3	74.6	74.8	72.9	72.84	71.61	72.55	71.46	70.4
REER 36 Country (Trade Based Weight) Base 2004-05=100	111.23	112.11	112.909	114.17	114.15	114.49	115.52	115.799	116	115.24	115.67	117.67
Forex Reserves Outstanding*(US $bn))	363	361	361	365	367	370	367	365	360	361.56	362.8	370

Note: All figures unless specified otherwise refers to y-o-y growth and are in per cent. PMI figures are numbers.

*Jan 2017 figures refer to reserves as on Jan 20, 2017.

Please refer page No. 28 for disclaimer.

Annex-3
Quarterly Macro Indicators

	2013-14		2014-15				2015-16				2016-17	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
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	7.1
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	3.3
Industry	5.2	3.9	8	5.9	3.8	5.7	6.7	6.3	8.6	7.9	6.0	5.2
Mining and Quarrying	2.1	8.1	16.5	7	9.1	10.1	8.5	5	7.1	8.6	-0.4	-1.5
Manufacturing	6.4	4.5	7.9	5.8	1.7	6.6	7.3	9.2	11.5	9.3	9.1	7.1
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	3.5
Construction	4.4	0.8	5	5.3	4.9	2.6	5.6	0.8	4.6	4.5	1.5	3.5
Services	7.8	5.6	8.6	10.7	12.9	9.3	8.8	9	9.1	8.7	9.6	8.9
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	7.1
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	8.2
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	12.5
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	8.3
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	73.9
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	59.8
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	14.1
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	27.1
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	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	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	19.5
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	20.7
Discrepancies	-1.2	1.7	-3	-1.7	2.3	3.3	-3.3	-3.8	1.8	4.7	-3.4	-2.3
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	-0.6
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	-1.7
Capital Account as % of GDP	0	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	0.77
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	3.2
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	1.1
Errors and Omission as % of GDP	-0.1	-0.2	0	0.1	-0.4	0.1	-0.2	-0.1	0	0	0	0.1
Accretion(-)/Depletion (+) of Forex (Us$bn)	-19.1	-7.1	-11.2	-6.9	-13.2	-30.1	-11.4	0.9	-4.1	-3.3	-6.9	-8.5
FDI(US$bn)	6.1	0.9	7.6	7.5	6.9	9.3	10	6.5	10.7	8.8	4.1	17.2
FII(US$bn)	2.4	9.3	12.4	9.8	6.3	12.5	0	-3.5	0.6	-1.5	2.1	6.05
External Debt: USD: Total (bn)	426.9	446.2	453.1	456.3	458.7	475	482.4	480.5	479.3	485.1	479.7	456.1
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	397.6	372.2
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	82.1	83.8
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	79.7	79.4
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	17.1	18.4

Note-Figures are in per cent unless specified otherwise.

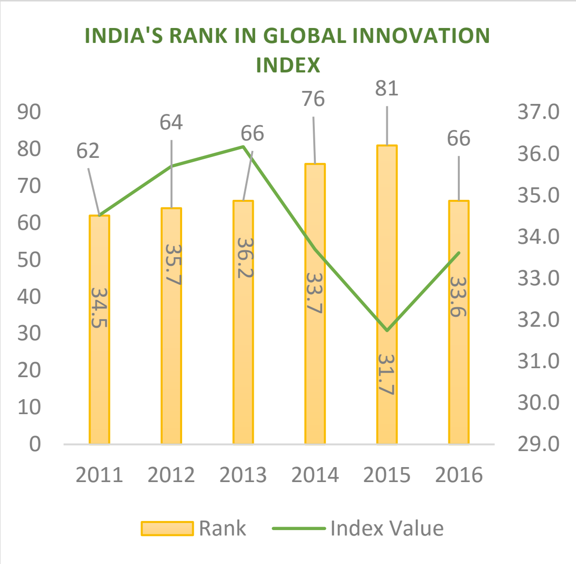
Annex-4
Annual Macro Indicators

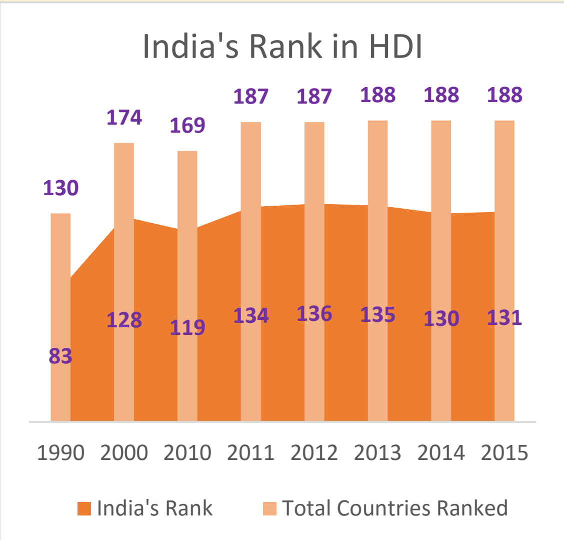
Indicator	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Real Sector Growth											
GVA at Basic Price*	9.6	9.3	6.7	8.6	8.9	6.7	5.4	6.2	6.9	7.8	6.7
I. Agriculture	4.2	5.8	0.1	0.8	8.6	5.0	1.5	5.55	-0.3	0.8	4.4
II. Industry	12.2	9.7	4.4	9.2	7.6	7.8	3.6	4.2	6.9	8.2	5.8
Mining & quarrying	7.5	3.7	2.1	5.9	6.5	0.1	-0.5	3.14	14.7	12.3	1.3
Manufacturing	14.3	10.3	4.3	11.3	8.9	7.4	6.0	5.07	7.5	10.6	7.7
Electricity, Gas &Water Supply	9.3	8.3	4.6	6.2	5.3	8.4	2.8	4.04	7.2	5.1	6.6
Construction	10.3	10.8	5.3	6.7	5.7	10.8	0.6	3.01	3.0	2.8	3.1
III. Services	10.1	10.3	10.0	10.5	9.7	6.6	8.1	7.7	9.5	9.8	7.9
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	271.98**
Industrial Production											
IIP	12.9	15.5	2.5	5.3	8.2	2.9	1.1	-0.1	2.8	2.4	0.4
Basic Goods	8.9	8.9	1.7	4.7	6.0	5.5	2.5	2.1	7.0	3.6	4.2
Capital Goods	23.3	48.5	11.3	1.0	14.8	-4.0	-6.0	-3.6	6.4	-2.9	-14.0
Intermediate Goods	11.5	7.3	0.0	6.0	7.4	-0.6	1.6	3.1	1.7	2.5	2.1
Consumer	16.1	17.6	0.9	7.7	8.6	4.4	2.4	-2.8	-3.4	3.0	0.1
Consumer Durables	25.3	33.1	11.1	17.0	14.2	2.6	2	-12.2	-12.6	11.3	4.7
Consumer Non-Durables	12.3	10.2	-5.0	1.4	4.3	5.9	2.8	4.8	2.8	-1.8	-2.9
Mining	5.2	4.6	2.6	7.9	5.2	-2.0	-2.3	-0.6	1.5	2.2	1.6
Manufacturing	15	18.4	2.5	4.8	9.0	3.0	1.3	-0.8	2.3	2.0	-0.3
Electricity	7.3	6.3	2.7	6.1	5.5	8.2	4.0	6.1	8.4	5.7	4.6
Banking											
Aggregate Deposits Growth	23.8	22.4	19.9	17.2	15.9	13.5	14.2	14.1	10.7	9.9	11.8
Demand Deposit Growth	17.9	22.0	-0.2	23.4	-0.6	-2.6	5.9	7.8	11.2	13.1	20.1
SCBs food credit	-1.0	14.3	-4.6	4.1	4.9	32.6	26.5	18.6	2.1	-4.1	-46.7
SCBs non-food credit	38.4	28.5	23	17.8	17.1	21.3	16.8	14	14.2	9.3	5.8
Fiscal Sector(Combined)											
Gross fiscal deficit	5.1	4.0	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	2.1
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	15.0	16.8	16.7	17.0	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	5.0	2.3	4.8	3.5	2.7	3.0	1.9	3.7	1.6	
Import Cover of Reserves (Months)	12.5	14.4	9.8	11.1	9.5	7.1	7.0	7.8	8.9	10.3	12.1
FII(US$mn)	3225	20328	-15,017	29048	29422	16812	27582	5009	40923	- 3,516	-1065#
FDI(US$mn)	16481	26864	32066	27146	22250	35855	22884	25274	31911	41043	3520#

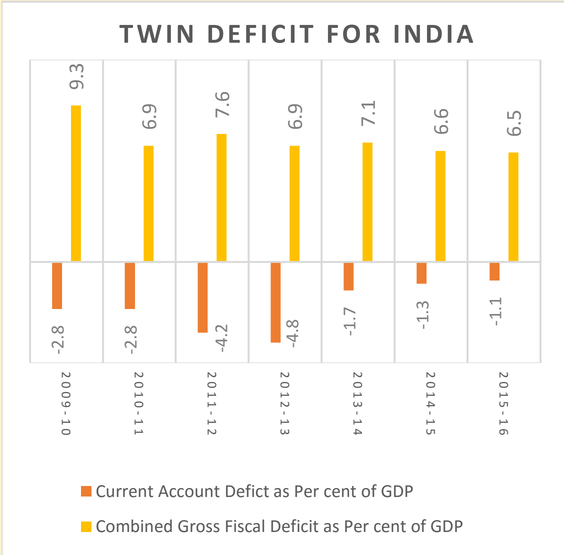
Note-*For 2006-07 to 2011-12 figures represent rate of growth GDP at factor cost (2004-05 base).
**2nd advanced estimates
APR-FEB
Figures are in per cent unless specified otherwise.

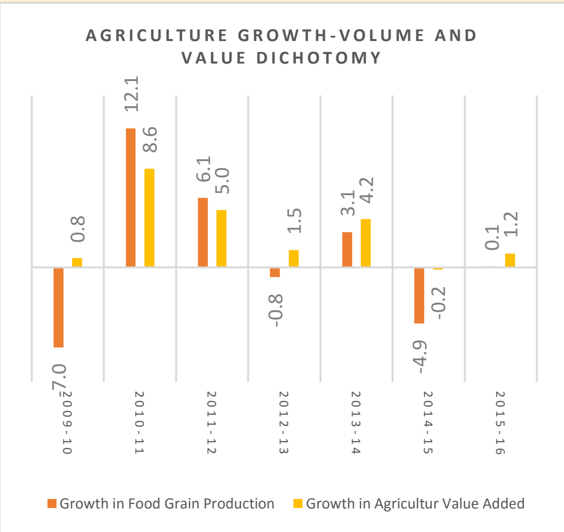
Please refer page No. 28 for disclaimer.

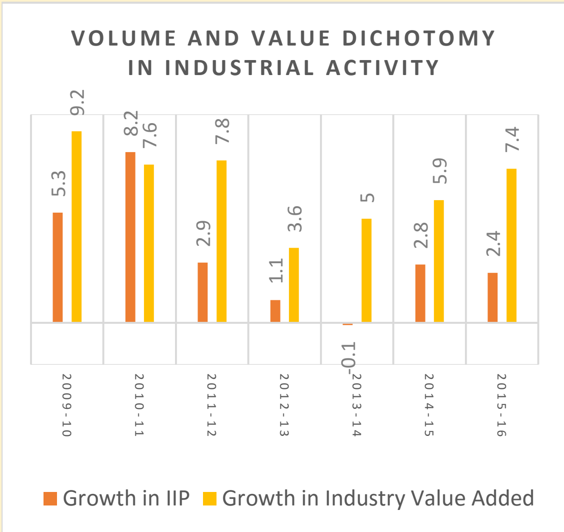
Indian Economy in Graphs











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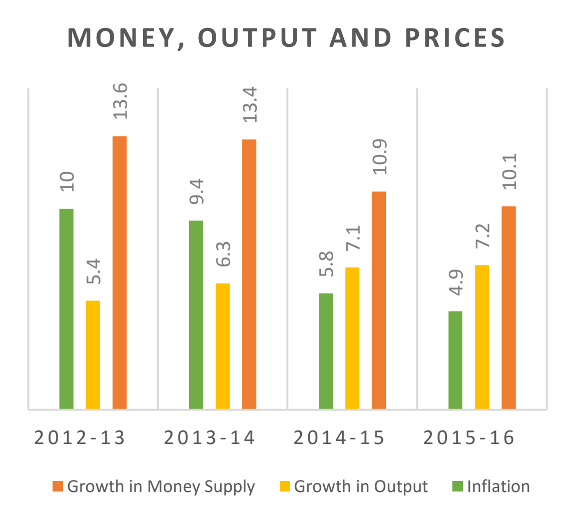
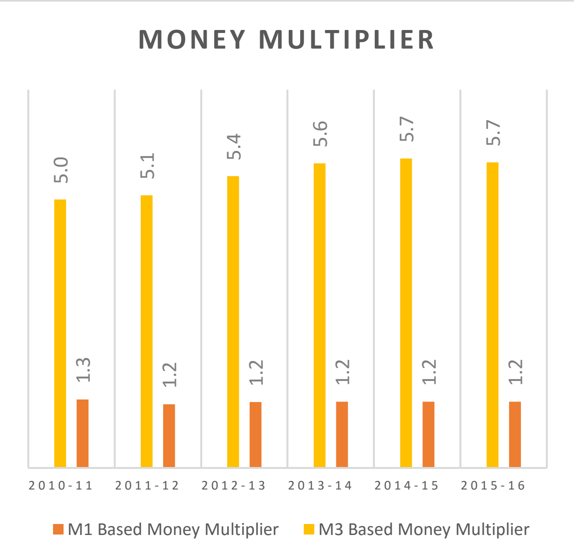
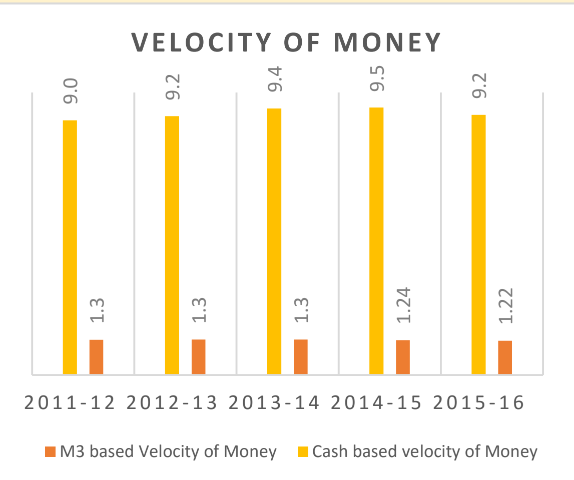
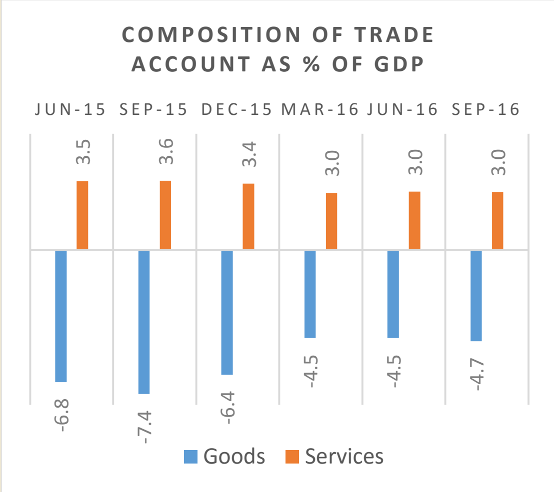
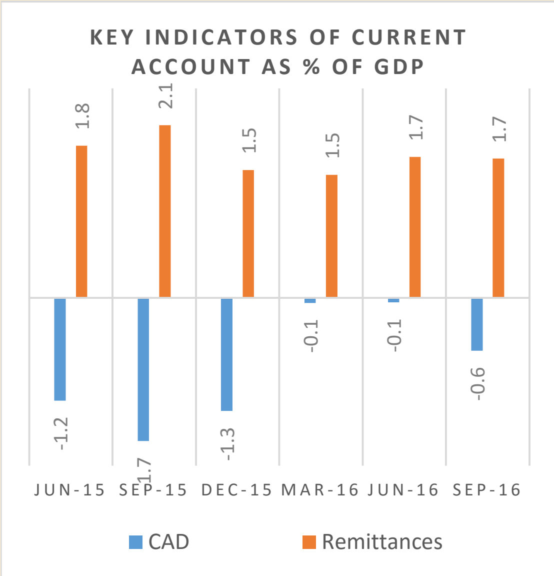
Indian Economy in Graphs

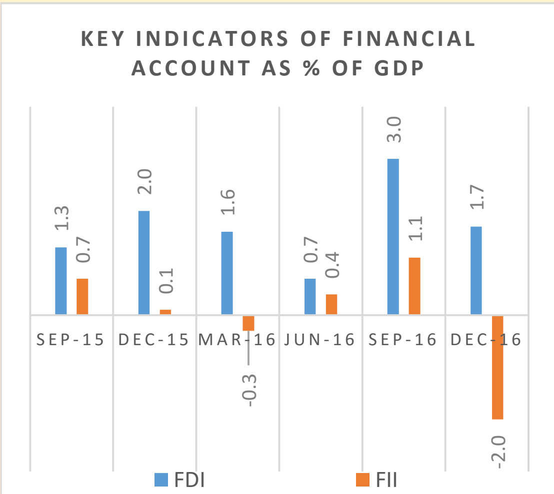












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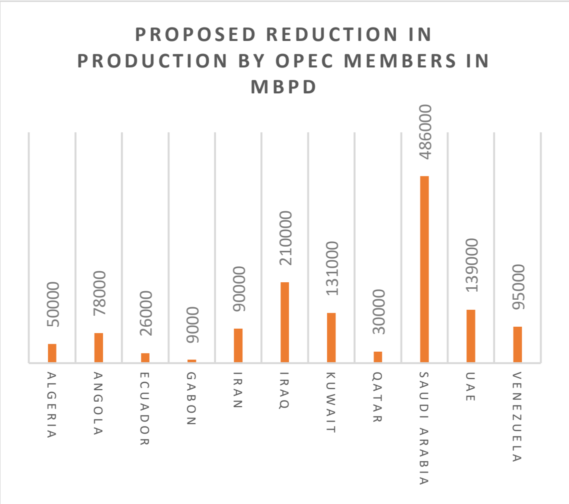
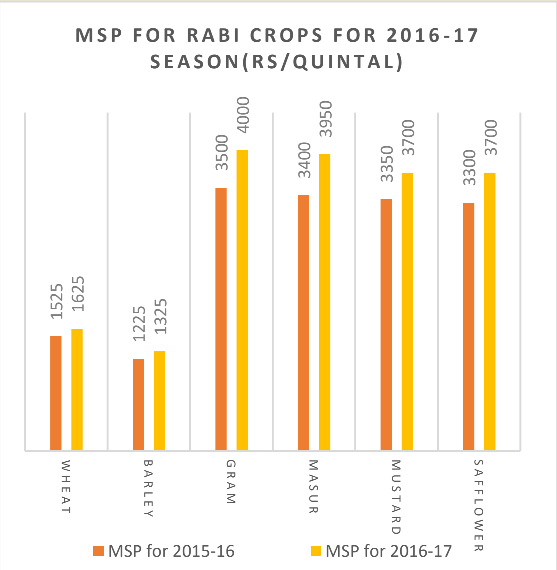
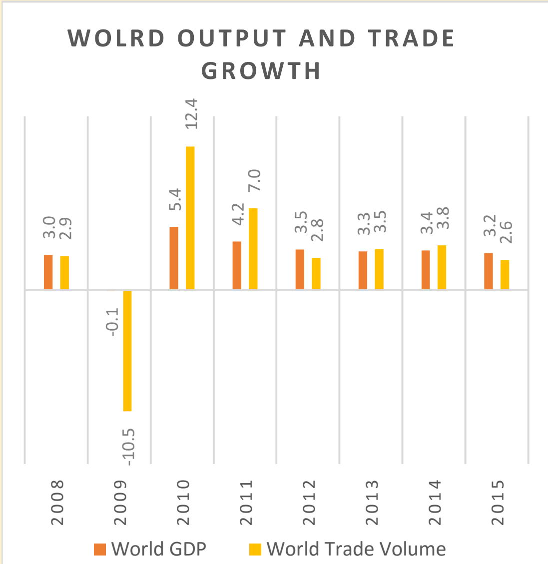
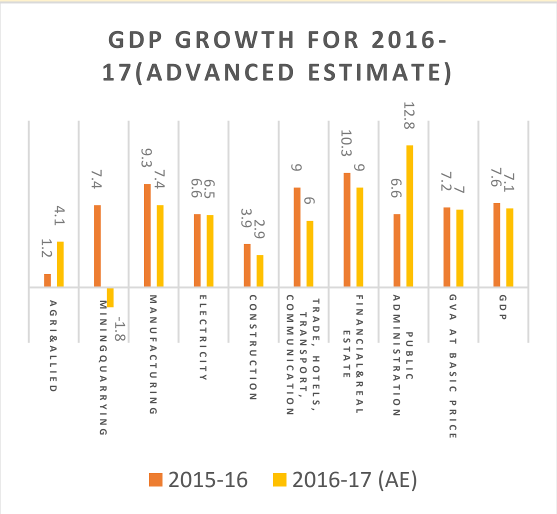
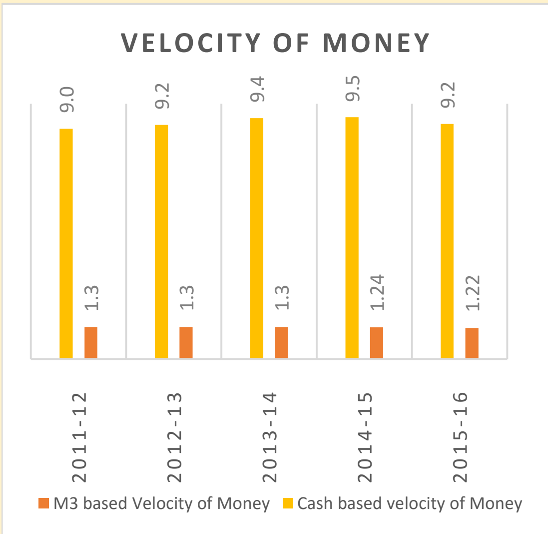
Indian Economy in Graphs











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For further details about this publication, please contact

Prof. Biswa Swarup Misra
Chief Economist
Bank of Baroda
Phone:+9122 66985713
E-Mail: chief.economist@bankofbaorda.com
bs.misra@bankofbaroda.com

Notes

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