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MONTHLY MACRO INSIGHTS

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In Brief-Growth prospects improved and labour market conditions tightened in major parts of the world but price pressure also increased. Controversy surrounding US President, geo political risk arising from the low tolerance of US to North Korea's nuclear weapon ambitions and Indian Army's punitive artillery assaults across the LOC against Pakistan has increased uncertainty for the global economy. Though US Fed did not change policy rates as it awaited more signs of overheating, ECB decided to continue with its monetary stimulus but at a reduced the pace of asset purchase driven by inflationary pick up in the Euro Area. Japan, however, maintained its easy money stance. Indian economy progressed one step closer to the game changing GST roll out on July 1, 2017. Different estimates suggest that GST will increase the GDP growth rate by 2-4% in the medium term and will have a sobering impact on inflation, thus, contributing to the overall objective of growth with stability. In the Indian economy, the base year for two major high frequency indicators viz. WPI and IIP were changed in an effort to improve the coverage, scope and methodology used in construction of the relevant indices. The key monthly data points indicated that while price pressure eased significantly both at the wholesale and retail level, output captured through IIP gained traction at the synchronized base of 2011-12. Progress of South West Monsoon, High frequency indicators of service sector activity and robust growth in non oil imports and exports indicated that growth in gaining traction. Though conditions are getting favourable, we feel RBI would not like to create destabilizing conditions in the currency market by reducing policy rates at this juncture. Recent strength of Rupee is guided by political stability and commitment to reforms. However, rupee can be below 65 against US Dollar on a sustainable basis, only if growth around 8% is achieved through revival of private capex. From the current levels, rupee depreciation is more likely and rather sharply if geo political risks increase significantly as India is structurally a trade deficit country. Promulgation of an ordinance empowering the RBI to facilitate faster resolution of bad debts of banks and announcement of sector specific polices to ease supply constraints augurs well for reviving private capex.

Financial and Commodities Markets at a Glance

Indicator	01-Mar-17	03-Apr-17	02-May-17	23-May-17
Call	6.04	5.79	6.00	6.06
Repo	5,500	17,210	14,050	23000
US Treasury	2.46	2.46	2.29	2.29
G-Sec	6.92	6.61	6.99	6.77
Dollar	66.85	64.91	64.21	64.77
Pound	82.72	81.43	82.69	84.03
Sensex	28,894	29,910	29,921	30365
Crude	55.33	51.28	44.59	52.64
Gold	29,850	29,050	29050	29250
FII	185.5	643.1	-217.4	245.9
FII-E	154.9	538.2	-173.4	138.6
FII-D	30.5	104.9	-44.0	107.3

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.

Key Takeaway

- With the finalization of GST rates in the recently concluded GST Council meet during May 18-19, 2017, Indian economy has moved closer to implement GST from July 1, 2017. Adoption of GST will lead to overhauling of the indirect tax regime.
- Besides GST, a host of policy initiatives and administrative decisions coupled with robust macro fundamentals are expected to support higher growth of Indian economy.
- Amongst major decisions of government, the notable ones have been empowering RBI to fast track resolution of stressed assets in the banking sector, Unveiling the National Steel policy 2017, extending preferential treatment to domestically manufactured iron & steel products (DMI&SP) and ensuring transparent and optimal allocation of coal to power units through Scheme for harnessing and allocating Koyla(Coal) Transparently in India (SHAKTI) scheme
- The government is also periodically reviewing the infrastructure sector. This in turn would enable faster execution of the stalled projects and would improve the performance of this sector. Hence, due attention of the government towards the grass root dynamics would remove the supply side bottlenecks and put the Indian economy on a higher growth trajectory.

Inside

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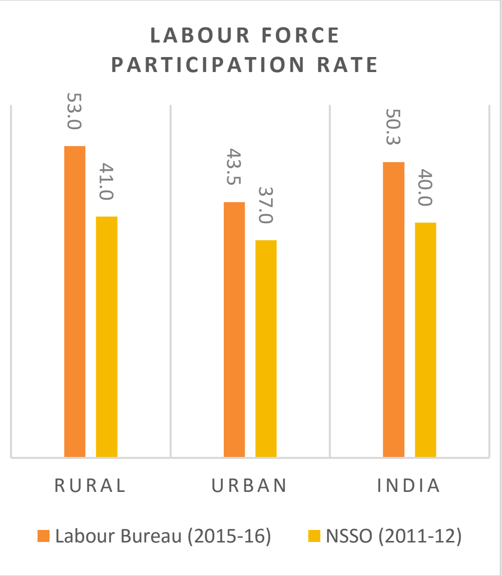
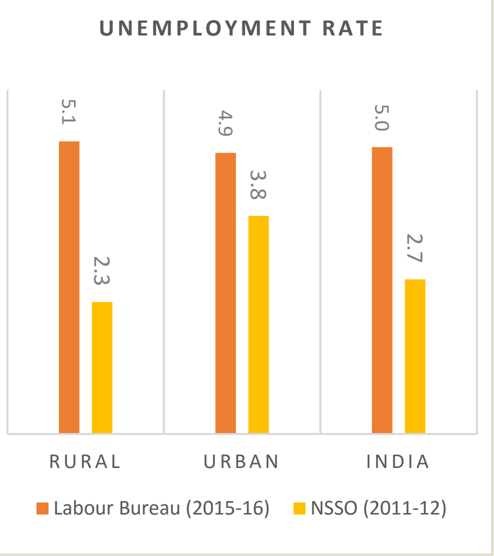
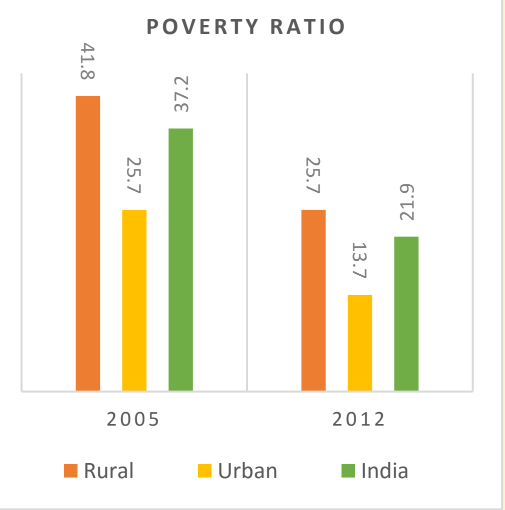
Key Takeaway

- India's exports registered a double digit growth of 19.8% on Y-o-Y basis in Apr'17 to US$ 24.64 bn., up from US$ 29.23 bn. in Mar'17. Exports have shown positive growth consecutively for the past seven months providing indication that global growth and trade is gaining some momentum.
- Imports surged by a staggering 49.1% on Y-o-Y basis to reach US$ 25.41 bn. in Apr'17. While oil imports grew by 30.12% to US$ 73.95 bn. in Apr'17, reflecting the impact of increase in oil prices, non-oil imports grew by 54.5% in Apr'17 on a Y-o-Y basis.
- Indian currency remained in the range of Rs.64-65 per dollar in Apr'17. The appreciation of rupee continued on the back of government's fast paced reforms which has bolstered confidence of domestic and foreign investors. Foreign Portfolio Investors remained a net buyer both through the debt and equity route in Apr'17.
- The India Meteorological Department's (IMD's) has released its first stage forecast of South West Monsoon 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.
- According to the revised base year (2011-12), inflation at the wholesale level rate softened to 3.9% in Apr'17 compared to 5.3% in Mar'17 and -1.1% in Apr'16 on a Y-o-Y basis. Retail inflation also edged down to 3.0% in Apr'17 compared to 3.9% in Mar'17 and 5.5% in Apr'17 on a Y-o-Y basis.
- 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.
- Credit growth from the banking system excluding food credit accelerated to 9.0% in Mar'17 from a low of 3.3% in Feb'17 on a Y-o-Y basis.
- While credit to industry and infrastructure remained bleak, service sector credit growth fared relatively better at 10.9% during FY'17 compared to average growth of 7.4% during FY'16.
- On 12 May 2017, Central Statistics Office changed the base year of all India Index of Industrial Production (IIP) to 2011-12 from the old base of 2004-05, in an effort to improve the coverage, scope and methodology used in construction of this index.
- The cumulative growth in IIP improved by a robust 5% during FY'17, compared to 3.4% in FY'16 on Y-o-Y basis. The industrial output grew at an average pace of 3.8% in the last five fiscal years.
- IMF in its latest Regional Economic Outlook for Asia Pacific published in May 2017 has revised the growth forecasts for Asia upward to 5.5% in 2017 from its Oct'16 forecast of 5.4% due to the increased growth momentum in large economies such as China and Japan. Growth is projected at 5.4% in 2018.
- IMF has also revised the growth forecasts for China and Japan upwards for 2017 to 6.6% and 1.2%, respectively, on the back of continued policy support and strong readings from indicators such as purchasing managers' indices (PMI).
- UN revised the growth forecasts for India for 2017 and 2018. While the growth forecast for 2017 has been revised downwards by 0.4% to 7.3% in 2017, primarily due to slower investment growth and lagged impact of demonetization. Growth forecast for 2018 has been revised upwards by 0.3% to an impressive 7.9%, led by effective policy reforms.

Indian Economy-Structural Coordinates







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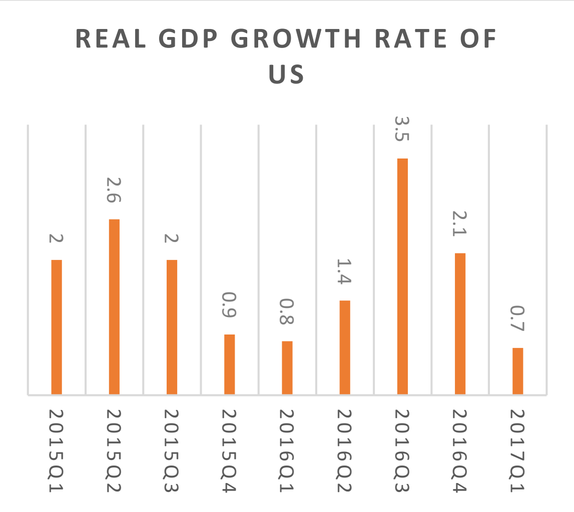

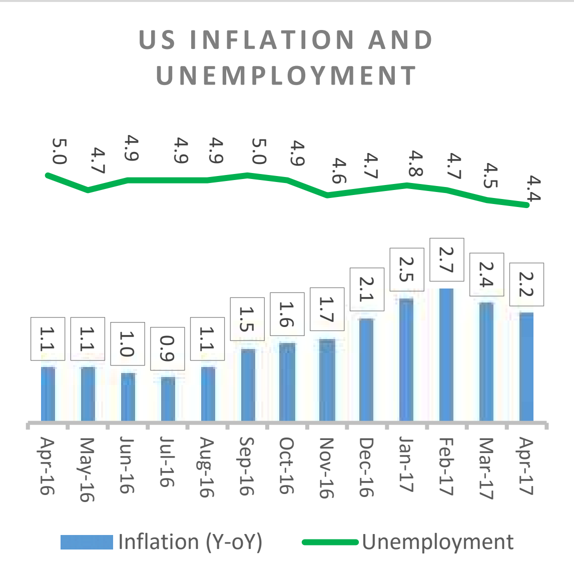

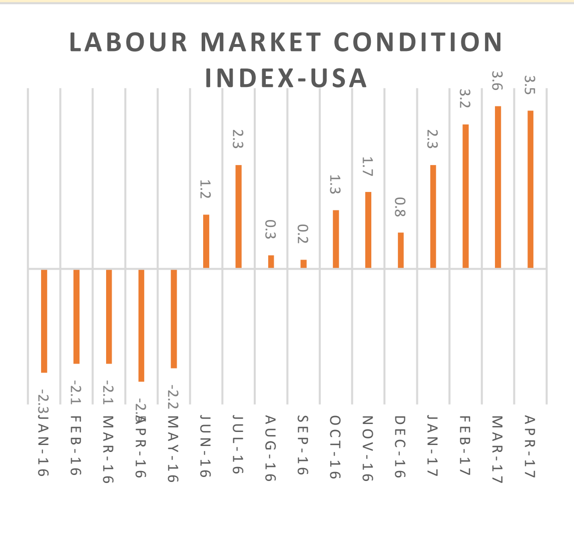

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Global Developments

Growth

IMF Regional Economic Outlook: Asia and Pacific, May 2017

- IMF in its latest Regional Economic Outlook for Asia Pacific published in May, 2017 has revised its growth forecasts for Asia upward to 5.5% in 2017 from its Oct'16 forecast of 5.4% due to the increased growth momentum in large economies such as China and Japan.
- Growth forecasts for China and Japan have also been revised upwards for 2017 to 6.6% and 1.2%, respectively, on the back of continued policy support and strong readings from indicators such as purchasing managers' indices (PMI).
- Despite the positive near term outlook, the report cautions against several downside risks and uncertainties. Over the medium-term, growth faces secular headwinds, including from population aging in some Asian countries and slowing productivity growth particularly in advanced economies of the region and China.

World Economic Situation and Prospects 2017: Update as of mid-2017

- The United Nations has released an update of its World Economic Situation and Prospects published earlier in Jan'17. As per the Update, global growth forecast has been kept unchanged, at 2.7% and 2.9% in 2017 and 2018 respectively.
- Amongst, developed economies, while the growth rate of US and Japan has been revised upward (by 0.2% each), growth rate of EU has been revised downward (by 0.1%) in 2017. In developing economies, the growth rate of China has been kept unchanged at 6.5% in both 2017 and 2018.
- The Report has highlighted that moderate recovery in global trade and rising demand from East Asian and South Asian economies will contribute to higher global GDP. Apart from this, global commitments to deepen international policy coordination and renewed efforts to ensure progress in key areas of global importance would also provide an enabling environment for better global growth prospects.

Unemployment

- In US, while the headline unemployment rate declined to 4.4% in Apr'17 from 4.5% in Mar'17, the broader indicator for labour market conditions though remained positive, declined to 3.5 in Apr'17.
- Unemployment rate in both the 19-member Euro Area (EA19) and the 28-member EU28 fell to the lowest levels since the global economic crisis in 2009. While the seasonally-adjusted unemployment rate in EA19 remained stable sequentially at 9.5% in Mar'17, it declined by 7 bps on Y-o-Y basis.
- The EU28 unemployment rate declined to 8.0% in Mar'17, from 8.1% in Feb'17 and 8.7% in Mar'16. Among the Member States, the lowest unemployment rates in Mar'17 were recorded in Czech Republic (3.2%) and Germany (3.9%). The highest rates were observed in Greece (23.5% in Jan'17) and Spain (18.2%).

Food

According to the latest data released by the Food and Agriculture Organisation (FAO), global food commodity prices fell in Apr'17 amid expectations of ongoing robust supplies of key staples. The Global Food Price Index in Apr'17 fell by 1.8% on a sequential basis but rose by 10% on a Y-o-Y basis. Except meat, indices of all other key commodities fell in Apr'17 on a sequential basis with the highest drop seen in sugar (-9.1%) and vegetable oils (-3.9%).

Global Developments

Commodities

- According to latest data from World Gold Council, global gold demand noted a decline of 18% in Q1'17 on a Y-o-Y basis due to a slowdown in inflows in exchange-traded funds (ETFs) and a drop in demand from central banks. Gold demand in India, however, increased by 15% during this period.

World Trade Outlook

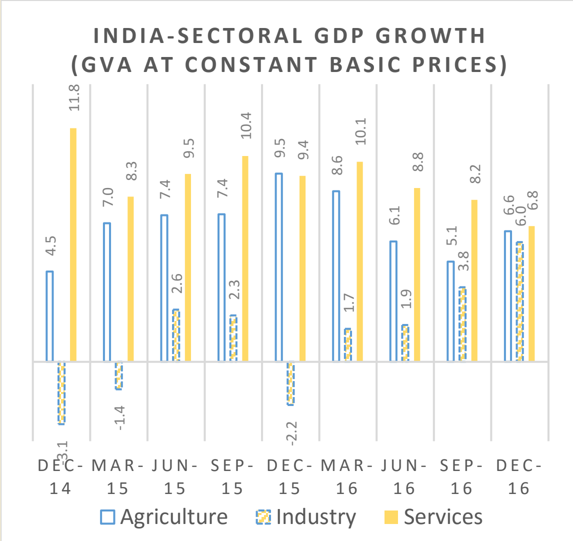
- The World Trade Outlook Indicator (WTOI) increased to 102.2 in Mar'17 from its last reading of 102.0 in Nov'16. Reading in Mar'17 is the highest since May'11, suggesting that global trade will continue to expand moderately in the second quarter of 2017. It must be noted that the WTOI has been consistently rising for the past two quarters suggesting global trade is gaining traction.
- WTOI combines several trade-related indices into a single composite indicator to measure short-run performance against medium-run trends. A reading of 100 indicates trade growth in line with trend, while readings greater or less than 100 suggest above or below trend growth.
- Amongst the main components of the WTOI, export orders, air freight and container shipping remained above trend and rose in the latest period, weakness in demand for automotive products, electronics and raw materials weighed down the overall index.
- The WTOI for Mar'17 is line with the WTO trade forecast issued on 12 April, 2017, which suggested a moderate recovery in global trade after sluggish expansion last year. In its April forecast, 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 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%.
- It is important to note that WTOI is not intended as a short-term forecast, although it does provide an indication of trade growth in the near future. Its main contribution is to identify turning points and gauge momentum in global trade growth. It complements trade statistics and forecasts from the WTO and other organizations.

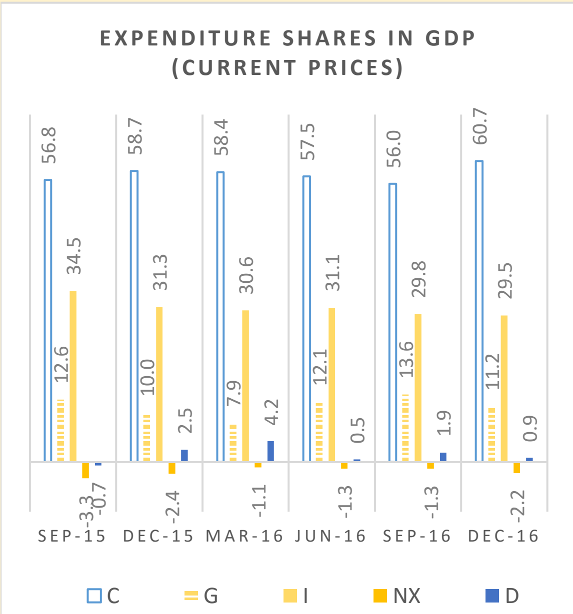
India's Growth Outlook

- A host of policy initiatives and administrative decisions coupled with robust macro fundamentals are expected to support higher growth of Indian economy. Amongst major decisions of government, the notable one has been empowering RBI to take decisions independently with regard to resolution of stressed assets in the banking sector.
- Unveiling the National Steel policy 2017, extending preferential treatment to domestically manufactured iron & steel products (DMI&SP) and ensuring transparent and optimal allocation of coal to power units through the SHAKTI scheme would ease impediments for the core sectors of the economy and would benefit the economy in the medium to long term.
- The government is also periodically reviewing the infrastructure sector. This in turn would enable faster execution of the stalled projects and would improve the performance of this sector. Hence, due attention of the government towards the grass root dynamics would remove the supply side bottlenecks and put the Indian economy on a higher growth trajectory.
- A softer inflation rate for the past few months amidst an effective pickup in demand conditions has improved the growth outlook in the near term. Normal monsoon prediction by IMD in 2017 would also act as a growth booster.

World Trade Outlook Indicator

Drivers of Trade	Level of Index			
	Apr-16	Aug-16	Nov-16	Mar-17
Merchandise trade volume	96.9	97.0	97.4	98.6
Export Orders	101.3	101.8	102.2	104.2
International air freight (IATA)	98.0	103.2	105.8	104.4
Container port throughput	97.1	99.3	101.0	104.1
Automobile production and sales	100.0	99.6	103.1	99.7
Electronics components	95.0	100.4	99.0	97.9
Agriculture raw materials	106.5	103.1	99.2	98.6
WTOI	99.0	100.9	102.0	102.2





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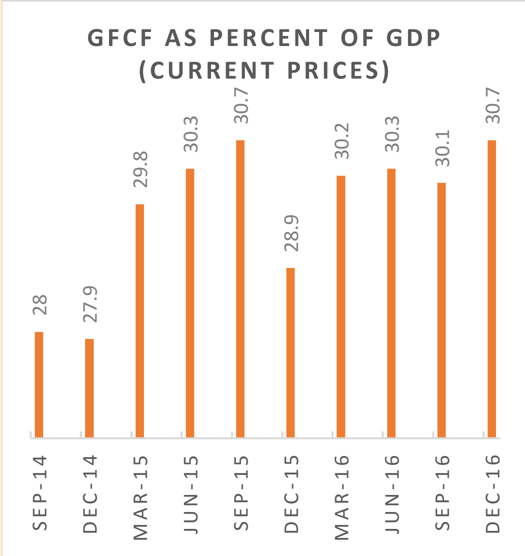
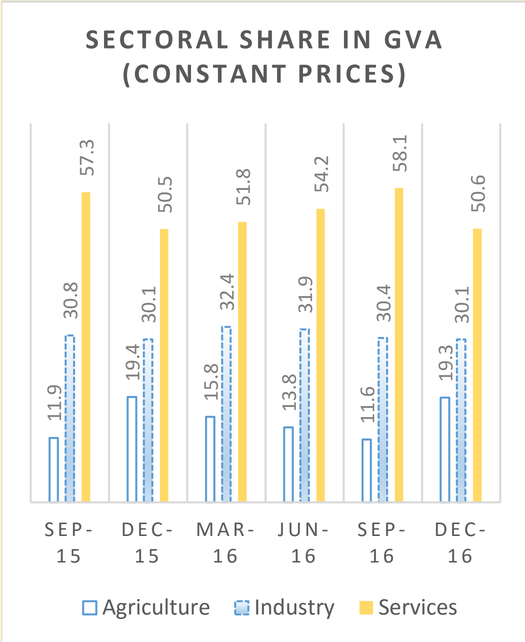
India's Growth Outlook

- Major International organizations have expressed confidence in Indian economy and have said that sound policy reforms would enable the economy to post healthier growth rate in future.
- United Nations (UN) in its Update of the World Economic Situation and Prospects Report 2017 has revised growth forecasts for India for 2017 and 2018. While the growth forecast for 2017 has been revised downwards by 0.4% in 2017 (primarily due to slower investment growth and lagged impact of demonetization) to 7.3%, growth forecast for 2018 has been revised upwards by 0.3% to an impressive 7.9%, led by effective policy reforms.
- With the finalization of GST rates in the recently concluded GST Council meet, Indian economy is all geared to overhaul its indirect tax regime.
- Implementation of GST is seen as a game changer reform as it will bring about fundamental changes in the design of indirect tax system in India by making it growth friendly, contributing to improved efficiency and widening of the tax base of the economy.
- The effective GST rate for goods turns out to be 15.8% (exemptions have been given for 7% goods, while 14% goods are in 5% category, 17% goods are in 12% category, 43% goods in 18% category and 19% goods in 28% category). It is the weighted average rate of applicable GST for different segments of goods.
- The revenue neutral rate (the rate which will not lead to any loss of revenue from the new system compared to the existing tax system) suggested by the Committee on RNR headed by Chief Economic Advisor to Government of India was also in the range of 15-15.5%. Thus, GST council has calibrated the GST system in such a way that revenue shortfall will be minimal and so also the need to compensate states.
- Health and education services, have been given exemption from service tax. These are two critical dimensions of human and social development and hence the tax system is having a pro people stance especially when public spending takes care of 25% of total spending on health and 75% of spending on health is met through out of pocket expenses.
- The adopted GST rates will have one time softening impact on inflation. However, the reduction in transaction costs and efficiency gain associated with GST vis a vis the current system of indirect taxation will contribute to the GDP growth anywhere between 2-4% in the medium to long term.
- Though the GST rate correspond to the revenue neutral rate, it is significantly higher for India than for countries such as Australia (10%), Canada (5%), Japan (5%), Singapore (7%) and Switzerland (8%).
- The revenue neutral rate without any exemptions by some estimates turnout to be 12%. This rate if adopted would have taken away the subjective nature of classification of goods and services into different GST rates. This school of thought believes that Progressivity of taxation should be attempted only through direct taxes.



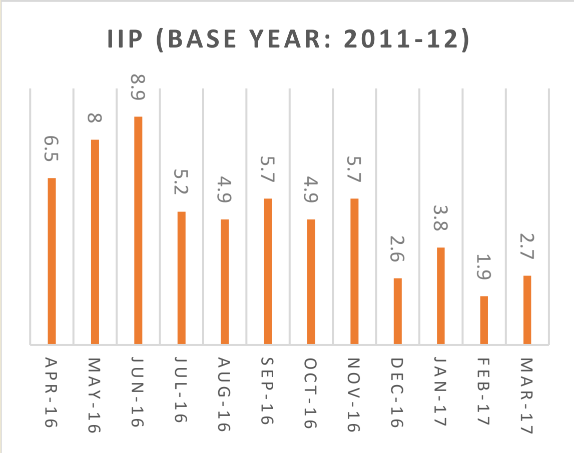


GDP Components in Spending-Share and Growth (Current Prices)

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

Industrial Production

- Central Statistics Office on May 12, 2017 changed the base year of all India Index of Industrial Production to 2011-12 from the old base of 2004-05 in an effort to improve the coverage, scope and methodology used in construction of this index.
- With the change in base year, weightage of sectoral components have also changed. The revised weights for Mining, Manufacturing and Electricity are 14.37%, 77.63% and 7.995% respectively. While weightage for the Manufacturing sector has grown, weightage of electricity has declined, and renewable energy is added as new category in this sector. The base year for Wholesale Price Index (WPI) has been also been revised to the year 2011-12, which will now be used for deflation of the IIP index.
- IIP expanded by 2.7% in Mar'17 compared to a growth of 1.9% in Feb'17 and a growth of 5.5% in Mar'16 on a Y-o-Y basis. The expansion in IIP has largely been attributed to improvement in Mining sector which grew by 9.7% in Mar'17 compared to 4.6% growth in Feb'17.
- The cumulative growth in IIP improved by a strong 5% during Apr-Mar'17, compared to 3.4% growth seen on Y-o-Y basis. The industrial output grew at an average pace of 3.8% in last five fiscal years.
- As per sectoral classification, all the three sectors namely Mining, Manufacturing and Electricity have registered a positive growth rate of 5.3%, 4.9% and 5.8% respectively for FY'17 on a Y-o-Y basis. A sharp increase is noticeable in both Mining (4.3%, FY'16) and Manufacturing (3%, FY'16).
- The use based components under IIP have been reconstituted with the base revision, Basic goods have been replaced by Primary goods and Infrastructure/Construction goods have been added to the set.
- The cumulative growth during FY'17 for all the components has been positive on a Y-o-Y basis. The sharpest jump was witnessed in both consumer durables and consumer non-durables sector which grew by 6.25% and 9.0% respectively in FY'17.
- Looking at m-o-m seasonally adjusted (SA) numbers, IIP improved by 2.7% in Mar'17 compared to 1.9% in Feb'17.
- The index of eight core industries which contributes 38% to the industrial production (with base year: 2004-05) rose sharply by 5% in Mar'17 from a modest increase of 1% in Feb'17 on a Y-o-Y basis. The improvement has been due to the strong double digit growth in both Coal and Steel sector of 10% and 11% for Coal and steel sector respectively.
- The growth in steel has largely been due to growing export demand, while the growth in coal sector has been due to improvement in coal India's output. Refinery products and crude oil have also improved marginally from (-) 2.3% and (-) 3.4% in Feb'17 to (-) 0.3% and 0.9% in Mar'17 respectively.
- The infrastructure index witnessed a cumulative growth of 4.5% for the FY'17 compared to the 4% growth seen in FY'16 on a Y-o-Y basis. With the exception of crude oil, natural gas and cement which declined for this period on a Y-o-Y basis, all the other sectors recorded a positive growth rate.
- The infrastructure index is based on old base year. It will be revised and updated to the new base of 2011-12 to bring it in line with other macroeconomic indicators in due time.
- The Manufacturing PMI for Apr'17 reflected expansion in manufacturing activity for the fourth straight month. The index remained at its previous month's reading of 52.5 in Apr'17. The reason for this expansion is the



IIP-Sectoral Components

Sectors	Weight	Mar-17	Mar-16	Apr-Mar FY 17	Apr-Mar FY 16	
Mining	14.3	9.7	4.7	5.3	4.3	Sectoral
Manufacturing	77.6	1.2	5.0	4.9	3.0	
Electricity	7.99	6.2	11.9	5.8	5.7	
General	100	2.7	5.5	5.0	3.4	

Used based Components

Sectors	Weight	Apr-Mar FY 14	Apr-Mar FY 15	Apr-Mar FY 16	Apr-Mar FY 17	
Primary	34.05	2.3	3.8	5.0	4.9	Use Based
Capital	8.22	-3.6	-0.8	2.1	1.9	
Intermediate	17.22	4.5	6.2	1.5	3.0	
Infrastructure /Construction	12.34	5.7	5.0	2.8	3.8	
Consumer Durable	12.84	5.7	4.0	4.2	6.2	
Consumer Non Durable	15.33	3.7	4.1	2.7	9.0	

Core Sector Growth (2004-05=100)

Sector	Weight	Mar-17	Mar-16	Apr-Mar FY 17	Apr-Mar FY 16
Coal	4.4	10.0	2.5	3.6	4.5
Crude Oil	5.2	0.9	-5.1	-2.5	-1.4
Natural Gas	1.7	8.3	-10.5	-1.1	-4.2
Refinery Products	5.9	-0.3	10.8	5.4	4.3
Fertilizers	1.3	-0.8	22.9	1.8	12.5
Steel	6.7	11.0	7.8	9.3	-0.1
Cement	2.4	-6.8	12.9	-1.3	5.0
Electricity	10.3	5.9	17.9	5.1	8.3
Infrastructure Index	37.9	5.0	9.3	4.5	4.0

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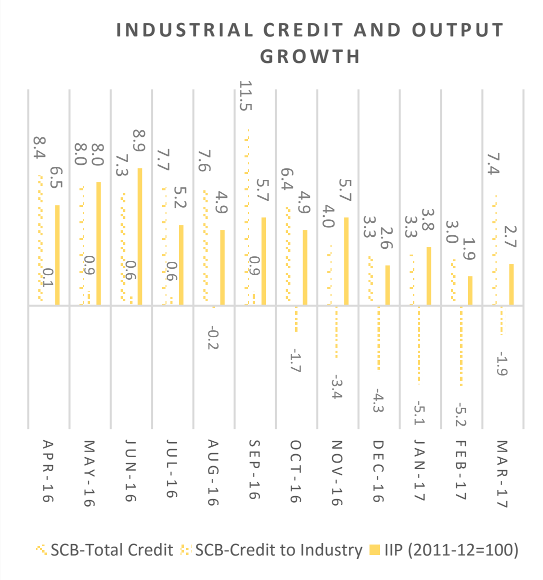

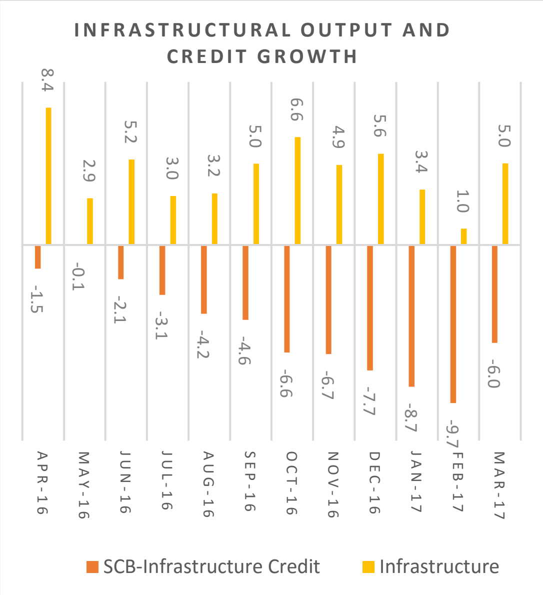

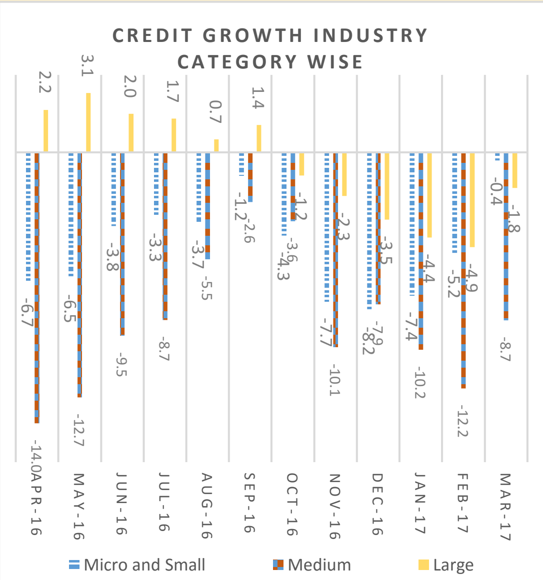

Industrial Production

- Service sector activity remained muted and declined to a three month low of 50.2 in April’17.This has been due to slower expansion in output, new orders and employment.
- The composite PMI, which accounts for both manufacturing and services sector, also moderated to 51.3 in Apr’17 from 52.3 in Mar’17. However, respite was seen on the price front. Average input cost inflation which was at its 9 month high in Mar’17 slowed down in Apr’17, primarily due to lower fuel prices.

Credit Growth

- Credit growth from the banking system excluding food credit accelerated to 9.0% in Mar’17 from a low of 3.3% in Feb’17 on Y-o-Y basis. Credit growth accelerated in line with the healthy GDP growth.
- Credit growth from the banking system has moderated to 6.5% during FY’17 compared to 8.7% average loan growth during FY’16.
- While credit to industry and infrastructure remained lack luster, service sector credit growth has been relatively better at 10.9% during FY’17 compared to average growth of 7.4% during FY’16.
- Within Services, the segments which exhibited better credit growth in Mar’17 on a Y-o-Y basis include, Professional Services (32.0%), Personal Loan (16.7%), Loan to Housing (15.2%), Consumer Durables (17.2%), Vehicle Loans (12.5%) and Credit Card Outstanding (38.4%).
- It may be noted that professional services, personal loans, loan to housing, and credit card outstanding witnessed accelerated growth, while consumer durables and vehicle loans witnessed deceleration in growth. Slowing growth of consumer durables and vehicle loans, and accelerating growth of credit card outstanding may be the impact of demonetization.
- Credit to industry contracted by 1.9% in Mar’17, on the back of - 5.2% in Feb’17, -5.1% in Jan’17 and -4.3% in Dec’16 on Y-o-Y basis. It is for the eighth consecutive month that credit to industry has contracted.
- Credit growth to all the three categories of industries viz, Micro and Small, Medium and Large, continues to remain negative since Oct’16.
- The MSME industries experienced negative credit growth in all months of FY’17.
- Credit growth to large industries which although low but nonetheless positive, turned negative since Oct’16.
- Average growth in Bank credit to industry was -1.6% during FY’17 compared to 4.9% growth recorded during FY’16.
- Among the industry groups, Food Processing, Beverage & and Tobacco, Textiles, Cement, Engineering showed negative credit growth in Mar’17 on Y-o-Y basis. Amongst these, Food processing and Beverage and Tobacco have been witnessing a declining credit growth for over 15 months. The rest have seen a decline in growth for 5-8 months now.
- Credit to infrastructure sectors is experiencing anemic growth since Apr’16, and it declined to -6.0% in Mar’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 twelve months and was -5.1% during FY’17 compared to 8.5% during FY’16.
- Negative credit growth of around 2% partly reflects poor credit appetite by industry. Poor credit offtake from the banking system is also partly due to the focus on stressed asset management by PSBs which are one of the major financiers of infrastructure projects.

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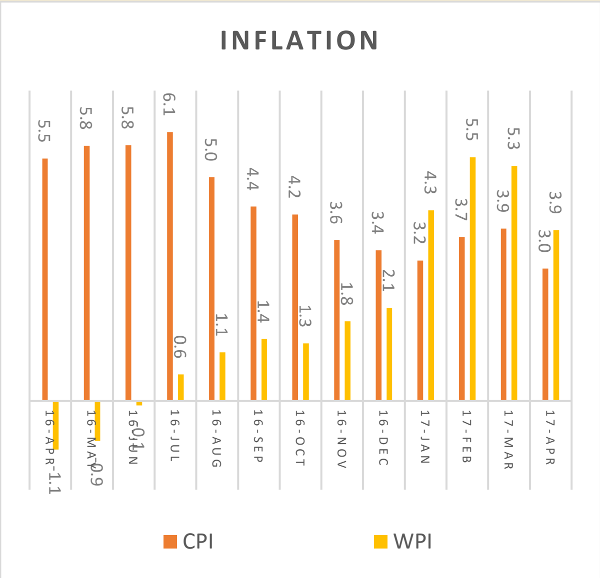
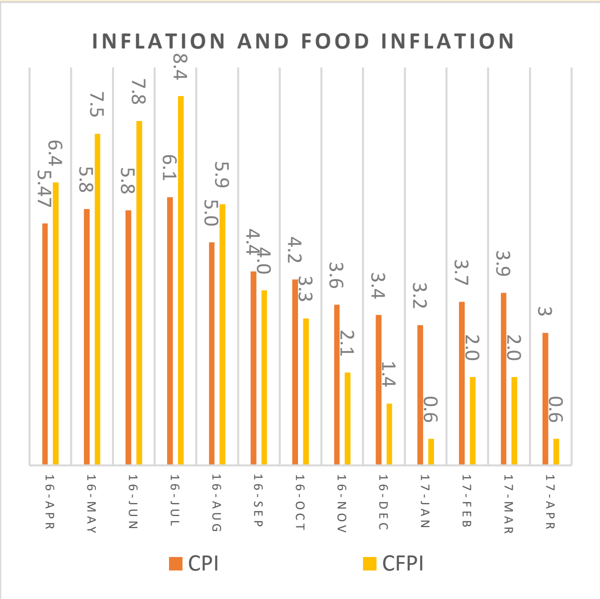
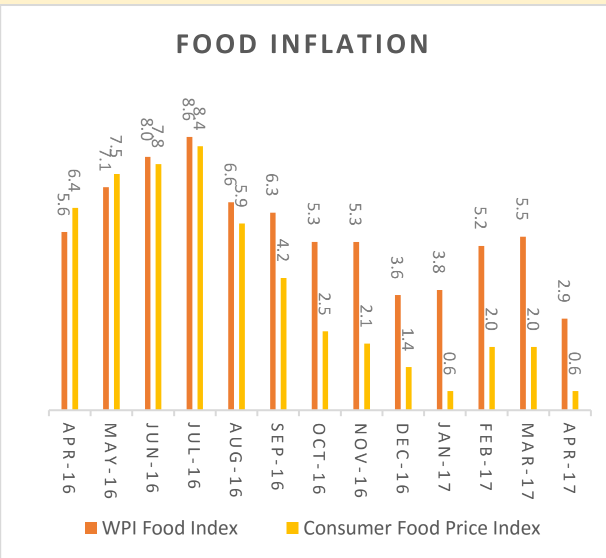






Inflation

- Price pressure in the Indian economy eased significantly both at the wholesale and retail level at the synchronized base of 2011-12 level.
- The base year of WPI has undergone a revision. Currently 2011-12 is taken to be the base year for construction of WPI, rather than 2004-05 used earlier. The decision of base year revision has been in view of the changing dynamics of Indian economy as well as to improve the coverage, scope and methodology used in construction of the index.
- The current base year of WPI differs in several aspects: a) Number of items have been increased to 697 from the earlier number of 676 b) Number of price quotations available for construction of the new series also increased by 52% c) The new series excludes indirect taxes in the computation of individual items of WPI. This decision in turn will insulate WPI from fiscal policy decisions and would enable it to act as a pure price deflator d) The new series also publish WPI Food Index which will comprise of Food Products under Manufactured Products and Primary Articles. This will enable comparative analysis of food inflation both at the wholesale level and retail level. e) The new series has also undergone a methodological change in the computation process. Item level aggregates for new WPI have been compiled using Geometric Mean (GM) rather than arithmetic mean used earlier. This is in line with international best practices used in construction of indices. f) The weights of the broad three heads of WPI has also undergone a slight revision from its previous base (refer to the adjacent table).
- According to the revised base year, inflation at the wholesale level rate softened to 3.9% in Apr’17 compared to 5.3% in Mar’17 and (-)1.1% in Apr’16 on a y-o-y basis. Retail inflation also edged down to 3.0% in Apr’17 compared to 3.9% in Mar’17 and 5.5% in Apr’17 on a Y-o-Y basis.
- The falling inflation rate has been due to lower food inflation both at the retail and wholesale level. The lagged impact of demonetization along with favorable base effect have also come into play in bringing down inflation rate.
- The stickiness of Core inflation also disappeared temporarily, primarily due to lower inflation rate of Personal Care items. Core inflation edged down to 4.5% in Apr’17 compared to 4.9% in Mar’17 and Apr’16 on a Y-o-Y basis.
- Agriculture, Industry and Services inflation also slowed down considerably. The impact of a favorable base is expected to continue in Q1 and Q2 of FY’18 in bringing down inflation in the agriculture sector. Apart from this, expectation of a normal monsoon as predicted by IMD will provide further respite.
- Industry inflation rate also remained muted at 2.7% in Apr’17 compared to 3.0% in Mar’17 and -0.8% in Apr’16 on a Y-o-Y basis. Items such as leather, chemical products and electrical equipment were in the deflationary territory.
- Services inflation slowed to 3.9% in Apr’17 compared to 4.0% in Mar’17 and 4.8% in Apr’16. With the GST rollout scheduled from July 1, 2017, this component of CPI is expected to face upward pressure in the near term.

Food Inflation

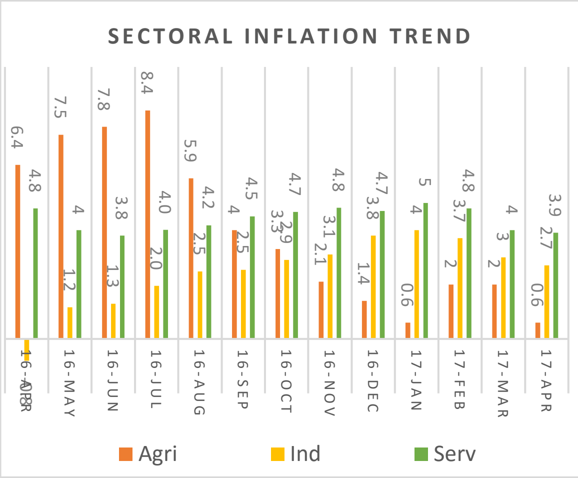
- Consumer Food Price Inflation also moderated substantially to 0.6% in Apr’17 compared to 2.0% in Mar’17 and 6.4% in Apr’16 on a Y-o-Y basis. Food inflation at the wholesale level moderated to 2.9% in Apr’17 compared to 5.5% in Mar’17 and 5.6% in Apr’16 on a Y-o-Y basis.
- Components such as vegetables and pulses continued its deflationary trend in overall CPI basket in Apr’17. Sugar maintained its double digit inflation though at declining pace in view of the recent initiatives taken by the government.
- Prices of protein based items such as meat and fish declined both on a sequential as well as on a Y-o-Y basis in Apr’17. However for items such as egg, milk and milk products inflation pressure seemed building up slowly on a sequential basis.
- Both CPI and WPI inflation have been positive on m-o-m seasonally adjusted (SA) basis in Apr’17. CPI (SA) was 2.98% in Apr’17 compared to 3.89% in Mar’17 and 5.47% in Apr’16. WPI (SA) was 3.85% in Apr’17 compared to 5.29% in Mar’17 and -1.09% in Apr’16.
- Seasonally Adjusted consumer food price inflation noted a growth rate of 0.6% in Apr’17 compared to 2.01% in Mar’17 and 6.4% in Apr’16.

Drivers of Food Inflation

- Inflation rate is expected to remain low in the first half of FY’17-18 primarily driven by a favorable base, lower commodity prices (particularly base metals and agricultural raw materials) and expectation of a normal monsoon as predicted by IMD. However, pressure continues to emanate from volatility in energy prices. Apart from this, the impact of HRA on housing is also expected to put upward pressure on inflation.

Monsoon-South West

- The India Meteorological Department (IMD’s) released its first stage forecast of South West Monsoon 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 has 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.
- The IMD has also released its preliminary forecast of the scheduled date of arrival of South West monsoon in Kerala. The onset of monsoon over Kerala signals the beginning of rainy season in the Indian subcontinent. The onset of monsoon over Kerala is scheduled for May 30, 2017. The prediction has a model error of ± 4 days.
- The recently published weekly monsoon report of IMD, however stated that South West monsoon has already advanced in some parts of Bay of Bengal, Andaman and Nicobar Islands. In the week May 11-17, 2017, rainfall was 31% was below normal. Whereas on a cumulative basis i.e. March 01-May 17, 2017, rainfall was 4% below the normal.

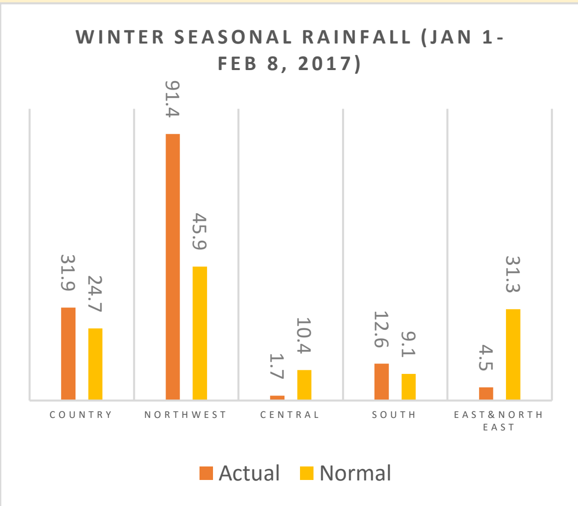


Food Inflation-Converging Trends From WPI and CPI

(y-o-y)

	Food	Pulses	Cereals	Veg	Fruits	Egg	Sugar
CPI							
Weight	45.9	2.4	9.7	6.0	2.9	0.4	1.4
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	8.4	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	4.8	6.5	21.1
17-Jan	0.6	-6.6	5.3	-15.6	5.8	2.8	18.7
17-Feb	2.0	-9.0	5.3	-8.3	8.3	0.5	18.8
17-Mar	2.0	-12.4	5.4	-7.2	9.6	3.2	16.9
17-Apr	0.6	-15.9	5.1	-8.6	3.8	3.4	11.4
WPI							
Weight	24.4	0.6	2.8	1.9	1.6	0.2	1.1
16-Apr	5.6	34.3	5.2	4.3	2.7	3.4	18.9
16-May	7.1	31.2	6.7	13.9	4.3	11.0	23.1
16-Jun	8.0	27.3	9.5	18.6	6.0	4.3	29.8
16-Jul	8.6	35.6	10.4	12.6	9.4	10.5	39.2
16-Aug	6.6	26.2	9.9	-7.7	11.9	9.1	36.8
16-Sep	6.3	19.2	9.4	-9.9	12.8	9.2	34.8
16-Oct	5.3	18.2	8.3	-11.8	6.4	7.5	33.5
16-Nov	5.3	19.0	9.9	-17.3	5.5	4.5	33.0
16-Dec	3.6	14.8	9.9	-26.9	0.6	1.4	27.5
17-Jan	3.8	4.2	8.5	-23.5	1.9	-5.4	25.5
17-Feb	5.2	-2.8	9.1	-8.0	3.6	1.1	24.4
17-Mar	5.5	-7.8	7.6	-0.5	6.0	23.0	4.2
17-Apr	2.9	13.6	6.9	-7.8	0.1	23.3	13.2

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



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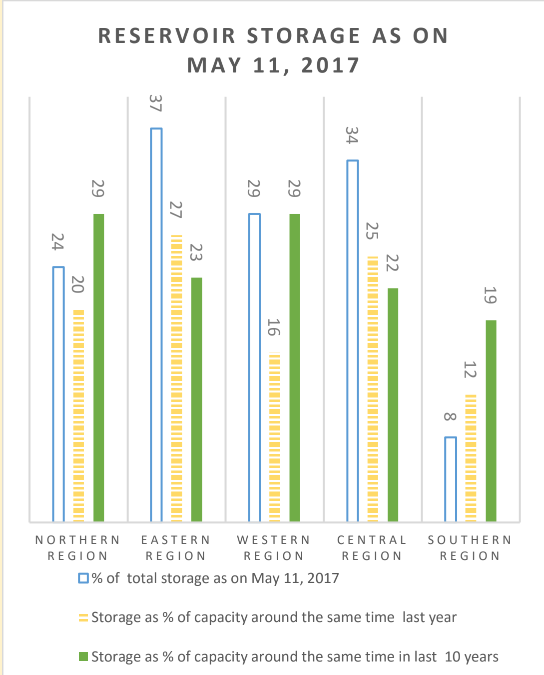
Drivers of Food Inflation

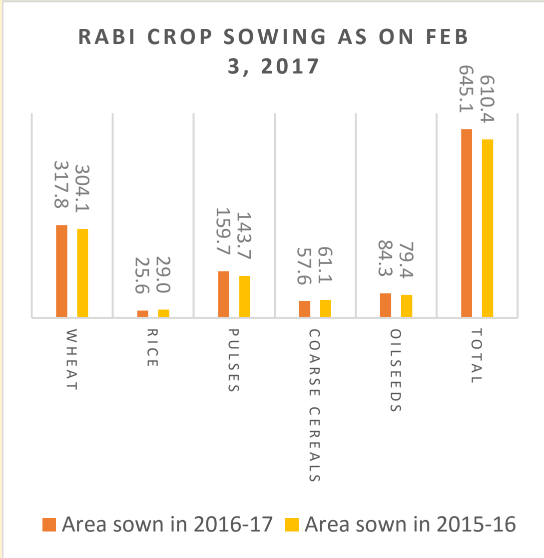
Storage in Reservoirs

- Water level of 91 major reservoirs across the country was 24% of their combined capacity as on May 11, 2017. The live storage in these reservoirs is 125% of their live storage in the corresponding period of last year and 103% of storage of average of last 10 years.
- Inspite of water level of major reservoirs going down by two per cent for the week ending May 11, 2017 compared to May 04, 2017; the overall storage position is better than the corresponding period of last year in the country as a whole and is also slightly better than the average storage of last ten years during the corresponding period.
- The numbers of reservoirs having storage more than last year is 60 whereas the number of reservoirs having storage more than average of last ten years is 27.
- 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, Madhya Pradesh, Chhattisgarh, and Telangana.



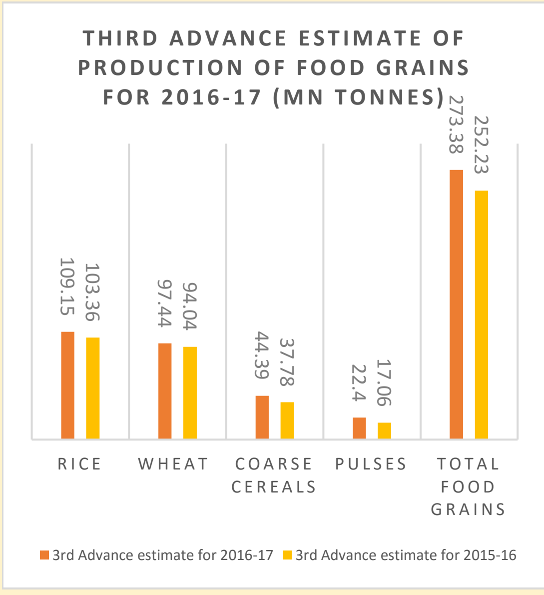
Progress in Cultivation

- 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 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.
- Government is taking multifold approach to bring the wave of digitization in the agriculture sector for improving farm as well as farmer's productivity.
- Recently, Union Agriculture Minister has launched e-Krishi Samvad, an internet-based interface that is designed to provide direct and effective solutions to the problems faced by farmers. Through this interface, farmers will be able to directly reach out to subject experts at the Indian Council of Agricultural Research with their problems. Those with no internet access can reach out via phones.



Third Advance Estimate of Agricultural production in 2016-17

- Government's astute supply management policies coupled with spatially distributed adequate rainfall in the previous year have enabled foodgrain production to touch a record high of 273.38 million tonnes in 2016-17.
- The current estimate is about 8.34 million tonnes (MT) higher than the previous record production of 265.04 MT achieved during 2013-14. The current year's production is also higher by 16.37 million tonnes than the previous five years' (2011-12 to 2015-16) average production of foodgrains. The current year's production is significantly higher by 21.81 million tonnes than the last year's foodgrain production.
- The Ministry of Agriculture has set the country's grain production target at 273.38 MT for the 2016-17 crop year (July-June), 8.7% higher than the actual grain production of 251.57 million tonnes in 2015-16.
- Barring Gram, production of all foodgrains is estimated to touch new record levels. Rice is estimated to touch a new record at 109.15 MT, wheat at 97.44 million tonnes, pulses at 22.40 million tonnes. However, production of sugarcane has been lower at 42.42 million tonnes lower than last year's production of 348.45 million tonnes.



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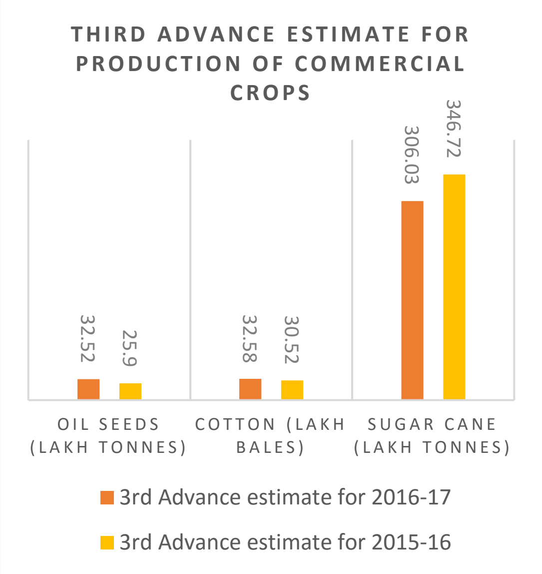
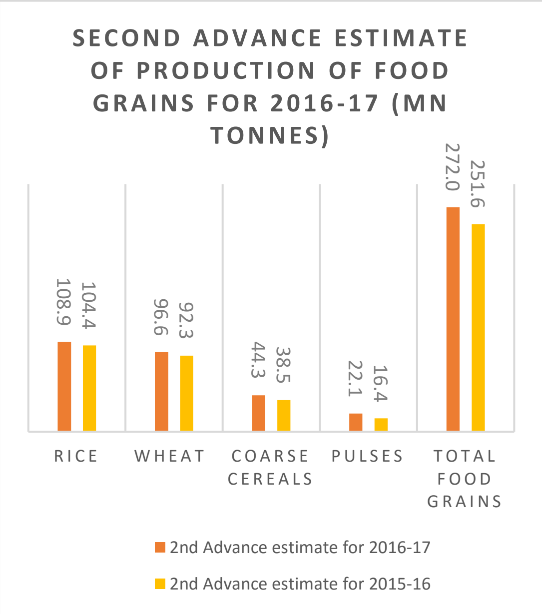
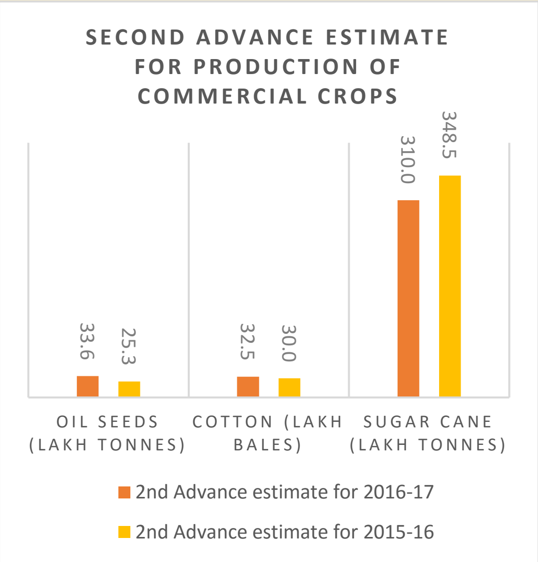






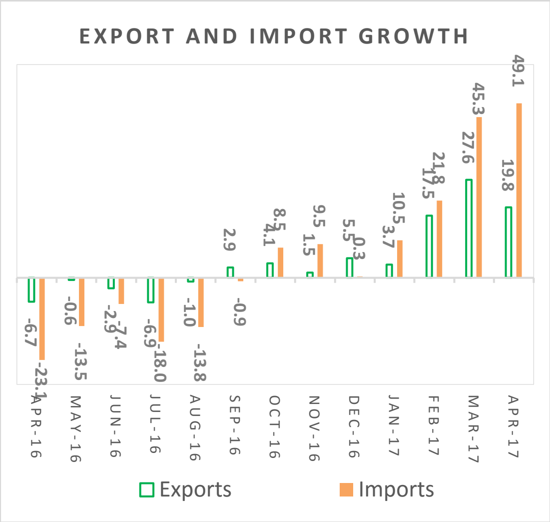
Drivers of Food Inflation

Second Advance Estimates of Food grain production in 2016-17

- 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 22.40 million tonnes which is higher by 3.15 million tonnes than the previous record production of 19.25 million tonnes achieved during 2013-14.
- Production of Pulses during 2016-17 is also higher by 4.77 million tonnes than their Five years' average production. Current year's production is higher by 6.05 million tonnes than previous years' production of 16.35 million tonnes.
- Despite lower area coverage during 2016-17, higher productivity of Cotton has resulted into higher production of 32.58 million bales (of 170 kg each) as compared to 30.01 million bales during 2015-16.
- Among foodgrain production, Kharif crops is estimated to cross the targeted level of 132.75 by 5.3 million tonnes. Government's efforts to strengthen the supply management framework of the economy through comprehensive risk coverage of crops, implementing varied market reforms by promoting of e-NAM and correcting pricing mismatches through Price Stabilisation Fund would enable Indian economy to achieve the desired record level of production in 2016-17.

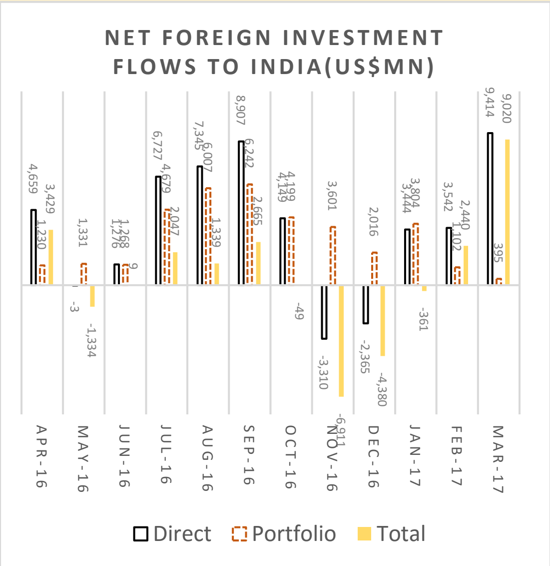
Inflation and Rate Outlook

- Though recent inflation data has provided the comfort that India is adhering to its inflation targeting regime, yet inflation pressure is expected to build up in the medium term especially in the second half of FY'18, when favorable base impact would wane out.
- HRA implementation of the 7th Pay Commission is another major event which requires close monitoring. In the minutes of RBI's First Bi-monthly Monetary Policy Statement for 2017-18, it has been clearly pointed out that effective monitoring is required as "to what extent the increase in the centre HRA is matched by state HRAs; and the extent to which the centre and state HRAs are implemented simultaneously". This in turn might have an upward risk to the inflation trajectory.
- Food inflation has softened in the past few months primarily due to seasonality and laggard impact of demonetisation coming into full swing. However, cereals, protein-rich items other than pulses and sugar is exhibiting inflationary pressure.
- Rural demand is also expected to rise significantly on the back of rising rural wages and expectation of a good monsoon. The more prevalent rate for services at 18% finalized by GST council might contribute to stickiness of core inflation. However the full impact will be visible in second half of FY'18.
- Though IMD has made initial projections about a normal monsoon in 2017, adverse weather impact cannot be ruled out altogether. As such, RBI would like to wait and watch the progress of monsoon before drawing comfort.
- RBI would not like to create destabilizing conditions in the currency market by reducing policy rates at this juncture. Rather it is preferring calibrated intervention to build the forex reverse to counter sudden reversal of rupee strengthening due to adverse geo political developments.



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	2,394	20,364	22,758	64.5
May-17*	4,157	12,941	17,099	64.3

* upto 19 May'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 Apr'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 19.8% on a Y-o-Y basis in Apr'17 to US$ 24.64 bn and up from US$ 29.23 bn in Mar'17. Exports have shown positive growth consecutively for the past 7 months providing indication that global growth and trade is gaining some momentum. Non-petroleum and non-gems exports in Apr'17 grew by 17.1% to US$ 17.72 bn on Y-o-Y basis.
- Imports continued to rise, witnessing a staggering growth rate of 49.1% on y-o-y basis to reach US$ 25.41 bn in Apr'17. While oil imports grew by 30.12% reflecting the impact of increase in oil prices, non-oil imports grew by 54.50% in Apr'17 on a Y-o-Y basis. It must be noted that according to World Bank commodity price data, oil prices have increased by 25.40% in Apr'17 on a Y-o-Y basis following the curbs on production placed by the OPEC.
- A robust growth in non-oil imports by 54.50% on Y-o-Y basis in Apr'17 provides some indication of economic activity gaining traction, post demonetisation.
- As per RBI, the trade balance in services for Mar'17 was estimated at US$ 5.9 bn with the exports at US$ 14.2 bn. and imports at US$ 8.3 bn. The net export of services for Apr'16-Mar'17 was estimated at US$ 65.21 bn. which is lower than net export of services of US$ 69.42 bn. during Apr'15-Mar'16.

Exchange Rate Outlook

- Indian currency remained in the range of Rs. 64-65 per dollar in Apr'17. Foreign Portfolio Investors remained a net buyer both through the debt and equity route in Apr'17.
- Exchange rate has appreciated significantly from 68.04 on Jan 30, 2017 to 64.02 as on March 17, 2017. Rupee is deriving its recent strength from political stability and reforms commitment of the government.
- However, support to rupee below 65 on a sustainable basis can be achieved only if growth around 8% is achieved through revival of private capex.
- 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.
- Rupee appreciation in any significant manner from its current levels is less likely as RBI would not let the rupee to strengthen further, adversely impacting the export momentum.
- 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
- From its current levels, depreciation is more likely and rather sharply if geo political risks increase significantly as India is structurally a trade deficit country.

Fiscal Sector

GST Roll Out

- In its two day meeting held on May 18-19, 2017 on fitment of rates for different goods and services, GST council cleared the 7 rules of the new tax framework which includes registration, return, composition, refund, payment, invoice and input tax credit. The two remaining rules which are transition rules and return are still awaiting approval from the legal committee.
- Goods and services have been classified based on the Harmonised System of Nomenclature (HS) code. While the 1211 items in the goods category are slotted under the 5 slabs including nil rate, the 500 items in the services have been categorized into 4 slabs of 5%, 12%, 18% and 28%.
- Though the council has broadly approved the rates and the items classified under those rates, there is still scope of updating these rates at a later stage. Of the 1211 items, 81% of those have been kept under the tax rate of 18% or low. The council has kept essential and mass use commodities in the lowest tax slab.
- 83 out of 500 services were exempted under GST, these include education, healthcare, religious travel including Hajj, non-AC train travel including local train and metro. Other services which were exempt in the earlier regime continue to be exempt in GST too.
- Overall, FMCG and automobile sector is expected to benefit due to lower tax incidence. With the exception of tractor, all the other automobiles will attract a tax of 28% with an additional cess, despite that the new rates are still lower than the current rate. Cement and paints might have a marginally negative impact due to higher tax rates.
- With coal being categorized in the 5% slab compared to 11.7%, power sector is expected to gain due to reduction in final tariff which would eventually be passed on to the consumer.
- As 5% tax is levied on transportation making travel through cabs, flights, AC train travel much cheaper. Some of these listed transport services would not be eligible for any Input Tax Credit as Petroleum which is the major input in this sector and it has been kept outside the purview of GST.
- As taxes collected by the local bodies are not subsumed within GST which gives states the power to levy additional tax over and above the GST rate to compensate the local bodies over their loss due to the removal of octroi and other local body taxes. Maharashtra state government has already ratified the provision by the way of which it will compensate the urban local body and in this case the Brihanmumbai Municipal Corporation (BMC) for the first year which will get Rs 7200 crore for the first year under GST.
- There are still some products such as gold, textile, footwear, bio-diesel, bidis, agriculture implements and lotteries on which decision has not been taken. This will happen in the next meeting scheduled on June 3, 2017. After the rate discussion, the state assemblies will have to pass the State GST Bill.
- Some of the challenges ahead of the six weeks' timeline for possible GST rolled out by July 1, 2017 include, installation of designated software by traders for filing returns and managing their books. Firms have to ensure that the interface of the GST Network and their own systems works in such a manner that it easier for them to avail input tax credit. While the GSTN has to be well equipped with handling these large set of invoices and pass on the tax credits to the taxpayers.
- The rules regarding anti-profiteering clause which will keep a check on price spikes, have to be finalized before the rollout date so that the final consumer too benefit from the change in prices as the firms who revise their prices can avail the input tax credit and are required to pass on the benefit to final consumers.

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.
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 Mar'17	• 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.
18 & 19 May'17	• Rates assigned to goods and services.

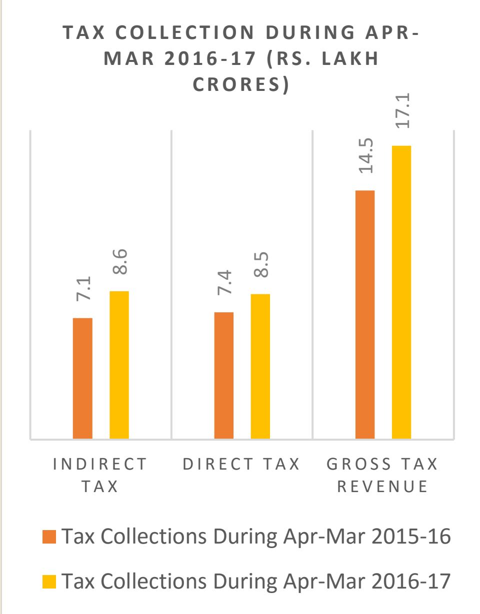
Please refer page No. 28 for disclaimer.

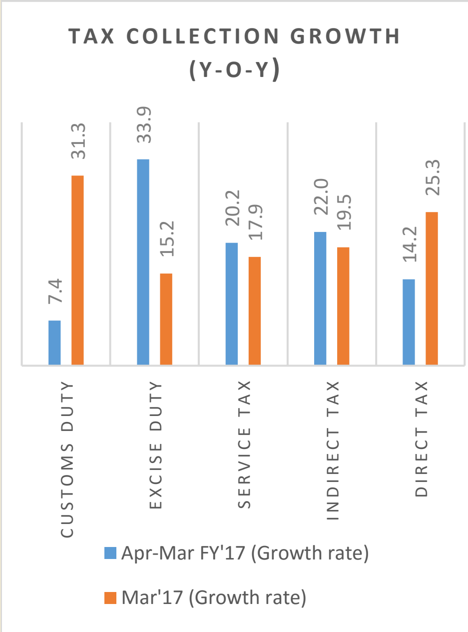
Fiscal Sector
GST Rollout

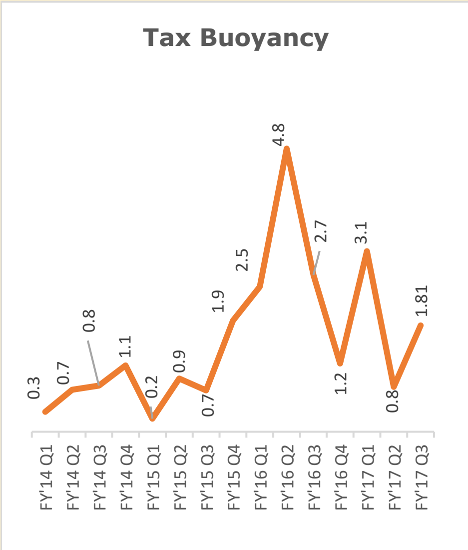
- The GST council has set a cap on the cess on various demerit (or sin and luxury) goods in the legislation. Cess on aerated drinks and luxury cars have been capped at 15%. Collections through cess will be used to build the compensation fund.
- With the end of phase-I of enrolment on April 30, 2017, over 60.5 lakh taxpayers out of 84 Lakh had 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.
- 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 is on the account of lack of Technological Readiness, especially for SMEs, Inadequate Awareness about Functioning and Operation of GST and time crunch to prepare for Compliance due to increase in returns to be filed.

Fiscal Sector
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 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.







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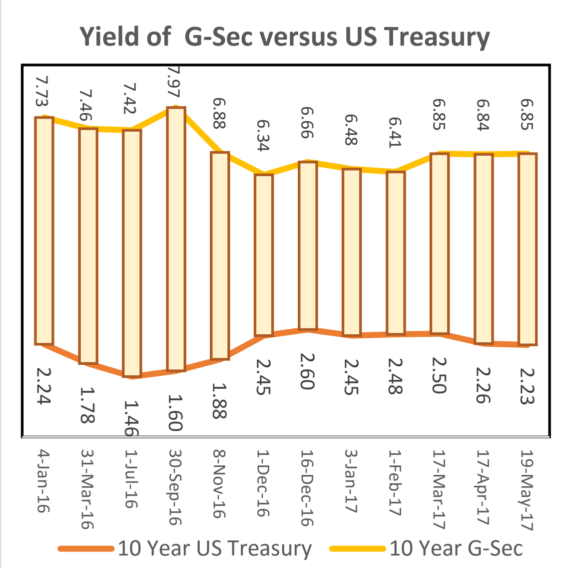
Financial and Commodities Markets

Stock Market

- After touching the 30,000 benchmark in intra-day trade on April 4, 2017, the BSE Sensex index ruled above this mark continuously from May 10, 2017. Between April 20, 2017 and May 19, 2017, the BSE Sensex jumped by 3.54% to 30464.92 points, driven by a host of positive developments in the Indian economy that have entrenched the fact that the Indian economy is poised for higher growth impervious to the downside risks. The finalisation of fitment of rates and assurance that GST would be implemented by July 1, 2017 has positively boosted the sentiments across the markets. The prediction of timely arrival and normal monsoon has further supported the positive movements in the stock indices. Following the revision in the base for inflation indices and IIP, the new series showed that the inflationary pressure was weaker and growth was better due to improved IIP for Mar'17 implied that the economy was in a sweet spot. As compared to the broader index, the mid-cap and small-cap indices showed subdued performance by gaining 1.09% and 0.65%, respectively.
- The global economy remained conducive with the forming of a reformist government in France and major advanced economies such as Japan and US registering growth. However, the controversies surrounding the US administration had some sobering impact on the bullish sentiments.
- Among the sectoral indices of BSE, the Bankex index surged by 5.79% to 25,858.58 on May 20, 2017 driven by the measures undertaken by the Government to empower RBI to address the stressed assets concern of the Banking sector, measures taken to support the steel sector, and better financial performance for FY'17. Banks and financial institutions have broadly shown trends of lower accretion to NPAs than expected. The FMCG index got a boost post the announcement of GST rates for these goods which are perceived to be positive for this sector.
- In FY'18 so far, the DIIs continue to be net buyers of equities while FIIs are net sellers. In April 2017, DII had a net buy position of Rs 9247 crore while FII were in sell position to the extent of Rs -6628 crore. Till May 19, 2017, again the FIIs had a net sell position of Rs 249 crore while DII had a net buy position of Rs 1974 crore. This implies that the BSE Sensex journey towards 30,000 mark is primarily driven by DIIs.
- The Asset under Management (AUM) of Mutual Funds as of April 30, 2017 stood at Rs 19.26 lakh crore registering a growth of 36%. The AUM touched Rs 10 lakh crore in May'14 and within three years, it has jumped to Rs 19.26 lakh crore.
- The review of preliminary reports of the earnings shows that more companies have met the earnings estimates than expected implying that the impact of demonetization on earnings has been subdued and companies are showing some signs of recovery. The sharp spillover effects of withdrawal of SBNs appears to have be dissipated away. However, the sustained revival of earnings growth would need some more time to show on earnings performance.
- Going forward, the positive momentum in corporate earnings would be sustained given the anticipation of better monsoon, stable commodity prices, low interest rate regime, benign inflationary scenario, and reform orientation of the Government. However, the political uncertainty in the US may affect the market sentiments adversely.

Financial and Commodities Markets



Gold

- The World Gold Council's data shows that the Global Gold demand in Q1'FY17 was at 1,034 tonnes as compared to 1,290 tonnes in Q1'16. The lower demand was attributed to lower inflows in ETFs and Central Banks demand for Gold.
- The Central Banks purchase of Gold in Q1'17 was at 76.3 tonnes as against 104.1 tonnes in Q1'16. The demand for gold among central banks has showed signs of slowing demand after reaching a peak of 174.9t in mid-2014. It is expected that their purchases would be at lower level during 2017.
- The Indian Jewellery demand surged 16% to 92.3 tonnes in Q1'17 on a low base in Q1'16 as the demand for Gold which was adversely affected post demonetization, saw some revival. The positive impact of demonetization shows a gradual move towards usage of alternative payment channels.
- The demand for Gold is expected to be robust for India with continued remonetisation, wedding season demand and festive demand. However, the market remains apprehensive of GST impact on Gold prices as GST is scheduled to be implemented from July 1, 2017.

Financial and Commodities Markets

Bond

- The G-Sec yields came down as the CPI and new WPI with revised base showed softening bias due to lower vegetable prices and lower base effect. The old 10-year bond yields firmed from 6.87% on April 20, 2017 to around 6.96% in the first week of May'17 and then slipped to 6.86% on May 20, 2017. The US Fed held the rates steady in its meeting while considering the softness in the economy in the first quarter as transitory.

Financial and Commodities Markets

Bond

- The new 10-year bond along with other three bonds was auctioned on May 12, 2017 at a cut-off yield of 6.79%. All the government auctions during the month were fully subscribed with tenors ranging from 5 years to 38 years. The yield on the new 10-year bond yield slipped from 6.73% on May 12, 2017 to 6.68% on May 18, 2017 on favourable inflation numbers.
- Lower than expected inflation, predictions of timely and normal onset of monsoon as well as easing of US yields following the US Fed keeping the rates steady, resulted in range bound movements of the yield rates.

Drivers of International Crude Oil Prices

- The OPEC will hold its meeting on May 25, 2017 at Vienna that would review the production cut agreement which would have implications for the oil prices. Ahead of the meeting, crude oil prices have firmed up. It is widely expected that the production cut would continue to be extended in 2018. However, there is uncertainty regarding the time frame of the production cut and extend of the cut. The previous production cut has placed a floor for price movements.
- The OPEC's previous agreement in favour of reduction in production of 1.2mn barrels of oil by OPEC members and by 6, 00,000 barrels of oil by non-OPEC members was for six months and ending Jun'17.
- The compliance to production cut was impressive for OPEC countries. The non-OPEC countries gradually improving their compliance.
- IEA expects the oil 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.
- IEA also stated that given the robust production by Shale Oil sector, it is expected that the North America would increase its production by about 79 thousand barrels over the levels in 2016.
- As per IEA, oil production cut by OPEC may not alter the supply position to the level of five-year average. For stocks to reflect the impact of production cut, IEA perceives that it would take longer duration of lower levels of production.
- According IEA, global production capacity will grow by 5.6 mn bpd by 2022, with capacity growth highly concentrated: the U.S., Brazil, and Canada are expected to account for 60% of global capacity growth.

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

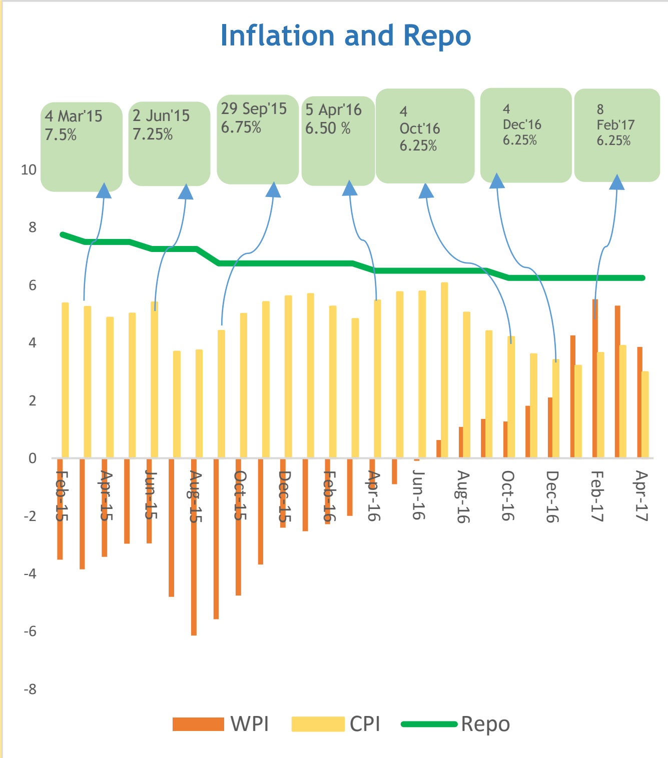
Bank rate -6.50

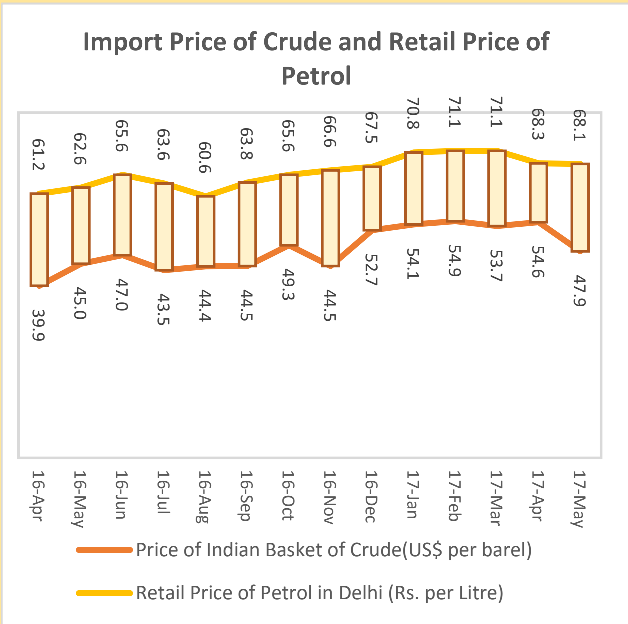
MSF- 6.50

CRR- 4

SLR- 20.50

Repo and Inflation Dynamics





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Rate Decision by Major Central Banks

RBI

- RBI in its first Bi monthly policy review for 2017-18 on April 6, 2017 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%.
- 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 its meeting ending on 3 May 2017, FOMC voted unanimously on keeping the interest rates unchanged in the 0.75-1% target range.
- This has been done on account of the slow GDP growth rate of 0.7% in Q1'17, but is largely expected to be transitory in nature. FOMC expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate. There is an increased scope of a rate hike in the next meeting scheduled in June'17.
- While the labor market continues to strengthen with unemployment rate down to 4.5%, lowest in last 10 years, the slow growth of 2% on an annual basis remains a cause of concern.
- FOMC stated that while the inflation level has been moving closer to its long term objective of 2% mark, its core Private Consumption expenditure (excluding food and fuel) which is the preferred mode of measuring inflation levels, grew by 1.6% on an annual basis.

BoE

- In its meeting ended on May 11, 2017, BoE's Monetary Policy Committee (MPC) with a majority of 7-1 voted in favor of keeping the Bank rates intact at 0.25% and continuing with its neutral stance.
- The committee revised its inflation forecast upwards and its growth forecast downwards. The growth forecasts has been revised downwards by 0.1% to 1.9% in 2017, while inflation is expected to rise further above the target of 2% to a little below the 3% mark in Q4'17.
- The Committee voted unanimously to continue with the programme of sterling non-financial investment-grade corporate bond purchases totalling up to £10 bn., 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 bn., financed by the issuance of central bank reserves. The asset purchase facility is expected to continue throughout FY'2017-18.

Rate Decision by Major Central Banks

ECB

- The Governing Council of the ECB which is the main decision making body of ECB, on April 27, 2017 left the interest rate unchanged on the main refinancing operations, interest rates on marginal lending facility and deposit facility at 0.0%, 0.25% and -0.4% respectively.
- However in line with its growth and inflation dynamics, the governing council decided to continue its asset purchase program at a new monthly pace of € 60 bn. (as against the previous level of € 80 bn.) till Dec'17 or beyond, as and when needed.
- The Council expects that the key interest rates would remain at current or lower levels for an extended period of time.

BoJ

- BoJ in its monetary policy review held on April 27, 2017 adopted status quo approach and decided to continue with its short term interest rate target of -0.1%.
- 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.
- In its economic outlook, BoJ stated that the economy is expected to expand in the next two years but at a moderate pace with a possibility of deceleration, given the impact of scheduled tax hike to be incorporated by 2019.
- While real GDP growth has been projected at an annual rate of 1.6% in FY'17, inflation rate is expected to reach 1.4% in 2017.
- It was clear to continue with its programme of Quantitative and Qualitative Easing with Yield curve control to move in line with its price stability target of 2%.
- BoJ has also given guidance for improved growth outlook and pacing up of inflation in 2017 and 2018, on account of accommodative financial as well as government's large scale fiscal measures such as higher taxes.
- 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

- On April 1, The People's Bank of China (PBOC) raised its interest rate on standing lending facility loans (SLF) by 0.2% points to 3.3%, these loans are mainly used by small and medium-sized financial institutions. It raised the 7-day and 1-month loan rate to 3.45% and 3.8% respectively.
- The People's Bank of China (PBOC) raised interest rates by 10 basis points on both medium-term lending facility (MLF) 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 seven-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), two revised down their 1 year MCLR, five revised their base rates and five their 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 9.00% and IndusInd Bank had the highest base rate at 10.55%.
- SBI had the lowest MCLR rates at 8.00% in the 1-year tenure and IndusInd Bank continued to have the highest MCLR rate at 9.10% in the 1-year tenure.
- Bank of India and Punjab National Bank reduced their 1-year MCLR rates by 10bps. Range among the 12 banks with respect to variation in deposit rates increased from 40 to 45 bps for term deposits of tenure between 1 year-2 years and for less than Rs. 1 crore.

Innovation

- **Kotak Mahindra Bank Experiments with BlockChain in Banking Operations-** Kotak Mahindra Bank on May 17, 2017 reported that it had used blockchain for a Letter of Credit (LC) transaction with JP Morgan Singapore as the partner bank. Other major banks which have been using blockchain technology in their operations include ICICI Bank, Yes Bank and Axis Bank. Most banks begin with using this technology in their LC transaction as it is one of most cumbersome transaction process. Verifying, approving and documenting process takes time as multiple parties from different countries are involved in the process. Blockchain avoids duplicity of data and integrates data to a central cloud-based system.
- **ICICI Bank Makes 100 Villages Digitally-Enabled**- ICICI Bank on May 2, 2017 announced that it has made 100 villages in India digitally enabled in FY17 and will make 500 more by FY'18. As per this initiative, the bank provides infrastructure for the villagers to open accounts via Aadhar-enabled e-KYC, make cashless payments at retail stores using USSD and using POS machines at seed and fertilizer outlets. It has also decided to give vocational training to approximately 10,000 underprivileged villagers, especially women and teach them ways to earn a sustainable livelihood. The bank also provides credit facilities to trained villagers to help them be self-employed.

Initiatives

- **Corporation Bank Plans to Raise Rs.3,500 crore-**On May 22, 2017 it was reported that Corporation Bank is planning to raise Rs.3500 crore from the market in the coming months after its board gave its approval to the proposal. It is expected that the funds will be raised either through allotment of equity shares on preferential basis follow on public issue or rights issue or qualified institutions placement (QIP) or by way of additional tier-I bond or tier II bonds or debt issue. It could be raised through a combination of these methods.
- **Vijaya Bank to Raise Capital of Rs.1,000 crore from the Market**-On May 12, 2017 it was reported that Vijaya Bank would be raising Rs.1,000 crore capital from the market as bank is targeting CRAR (Credit Adequacy Ratio) of 13% plus by end of FY'18. It plans to take up capital raising at the end of Q1'18 or in the beginning of Q2'18. In FY'17 the bank reported a net profit of Rs.750.45 crore and jump of 56% y-o-y in its operating profit. Its Gross NPAs reduced to 6.59% in FY'17 from 6.64% in FY'16. The

Government Amends the Banking Regulation Act, 1949-On May 5, 2017 an Ordinance with amendments to the Banking Regulation Act, 1949 was approved by the President of India. Two new Sections viz. 35AA and 35AB were added after Section 35A of the Banking Regulation Act, 1949. This ordinance gives more power to RBI to direct banks to resolve their stressed asset situation. Specifically,

1. Government may authorise the Reserve Bank of India (RBI) to issue directions to banks to initiate insolvency proceedings against defaulters under the bankruptcy code.
2. RBI on its own accord can issue directions to banks for resolution of stressed assets.
3. RBI may form committees with members it can choose to appoint to advise banks on resolution of stressed assets

RBI Modifies Guidelines for Timely Resolution of Stressed Assets -RBI on May 5, 2017 modified its guidelines for "Framework for Revitalising Distressed Assets in the Economy- Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)". Using its powers under Sections 21, 35A and 35AB of the Banking Regulation Act, 1949, the Central Bank reiterated that lenders must strictly comply with the timelines given in the Framework for finalising and implementing the CAP or monetary penalty will be imposed. To help banks take timely decision on implementing the Corrective Action Plan (CAP) for stressed assets, it has allowed decision taken by 60% of the creditors by value and 50% of the creditors by number in the Joint Lender Forum (JLF) binding on all lenders. It may be noted that earlier the threshold was 75% by value to take decisions at the JLF. Those banks not in favour can exit subject to finding their substitute within the given timeline. In case they fail find their substitute, they will then have to abide by the majority decision.

- RBI on May 22, 2017 announced that it will expand the Oversight Committee (OC) which is tasked to ensure that loan restructuring under the S4A scheme is done in a transparent manner. Each deal must be cleared by it before implementation. Looking at the volume of cases referred to this committee, RBI has sought to increase its members. The other important aspect of the notification is that the RBI is contemplating to build an in-house expertise for rating the stressed assets of the banks. This step is proposed so as to as to avoid "rating-shopping" by banks by approaching private credit rating agencies.

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Initiatives

- **Allahabad Bank Aims to Reduce Corporate Lending Exposure-** Allahabad Bank on May 17, 2017 has observed that the bank, is looking forward to reduce its exposure to corporate lending. The Bank intends to alter the loan portfolio from 65:35 (corporate lending to retail lending) to 50:50. The Bank has also informed that going forward it will be very selective in extending corporate loans in terms of sector, ratings of the company and the form of guarantee that is given by the company. The Bank is also in the process of rationalising bank branches and may not go for aggressive expansion. No timeline for achieving these goals, however, was mentioned.

  Union Bank Signs MoU with Ministry of Finance-On May 23, 2017 it was reported that Ministry of Finance has recently signed a MoU with Union Bank of India for the current financial year. The agreement is reportedly signed between the government, bank's management and its union, agreeing upon conditions to reduce their NPAs, improve their profits and better manage the recoveries. The government is expected to sign more such MoUs with weaker banks as a part of the overall plan to revive the health of the state-owned banks and to ensure that they adhere to the performance parameters. It is reported that to maintain profitability, government will ask these banks to shut their non-profitable domestic and international branches, exit out of the non-core banking business, sell assets and reduce overheads.

- **PNB to Adopt New Strategy to Speed up JLF Decisions-**On May 20, 2017 it was reported that Punjab National Bank is planning to change its approach to speed up the decision taken by JLFs of which it is a part. The bank is planning to divide its loans into two categories- one in which it is a lead bank and the other in which it isn't. The case in which it is a lead bank, it will take more active part in coordinating with other lenders and will call for a meeting of senior officials who have the power to take decision on behalf of the banks they represent. It will take the lead that the consortium reaches a decision before the borrower is called. It has also proposed to reduce the time lag between the first JLF meeting and the final meeting in which the decision is taken. As of FY'17, PNB's Gross NPAs was 12.53% and Net NPAs was 7.81%.

Development

- **RBI Initiates Prompt Corrective Action (PCA) Against IDBI Bank-** RBI on May 9, 2017 initiated Prompt Corrective Action (PCA) against IDBI Bank on the back of rapidly rising NPAs and negative RoA. IDBI's Gross NPAs increased to Rs.44,753 in FY'17 thereby reporting a growth 80% on y-o-y basis and accounting for 21.3% of total advances. Its Net NPAs reached 13.26% in FY'17. It reported RoA of -1.38% for FY'17 and -3.36% for Q4'17. It may be noted that RBI initiates Prompt Corrective Action (PCA) against a bank when its CRAR falls below 9% and/or it reports Net NPAs over 10% and/or its RoA is below 0.25%. In case of IDBI both Net NPAs and RoA were the triggers. Following this, IDBI's lending will get restricted as it will have to review its loan policy and revamp its credit monitoring system. It will also have to skip dividend payments.

Development

- **RBI Revises Guidelines for 'Rationalisation of Branch Authorisation Policy'-** RBI on May 18, 2017 revised its guidelines for 'Rationalisation of Bank Authorisation Policy'. Apart from Regional Rural Banks, the revised guidelines will be applicable to all the domestic commercial banks, Small Finance Banks, Payment Banks and Local Area Banks. The key features of the revised guidelines are

- RBI has defined "Banking Outlets" as 'a fixed point service delivery unit, manned by either bank's staff or its Business Correspondent where services of acceptance of deposits, encashment of cheques / cash withdrawal or lending of money are provided for a minimum of 4 hours per day for at least five days a week.' This is a departure from how it defined "Bank Branches" earlier as it no longer counts Mobile Branches, Extension Counters, off-site ATMs, Back Offices or Processing Centres as "Bank Branches".

- The other major departure made in the revised guidelines pertains to the way it defines 'Unbanked Rural Centres' (URCs). Earlier, URCs were those which did not have any brick and mortar structure of a scheduled commercial bank for customer based banking transactions. Now, it will be defined as one which 'does not have a CBS-enabled 'Banking Outlet' of a Scheduled Commercial Bank, a Payment Bank or a SFB or a Regional Rural Bank nor a branch of a Local Area Bank or licensed Co-operative Bank for carrying out customer based banking transactions."

- RBI has also removed restrictions upon number of branches that a bank can open in Tier 1 centres. However, the condition that 25% of the total banking outlets in Tier 1 centres must be opened in URCs has been retained. The difference, however, lies in the fact that now "banking outlets" opened in North Eastern states including Sikkim and in Left Wing Effected (LWE) districts will be considered as those opened in URCs.

- Earlier certain back offices and processing centres of banks were allowed to undertake customer interface activities. Now no such exceptions will be made for any bank. Those branches which have ongoing consumer interface activities currently will now have to close them within a year's time from the date of RBI's notification.

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Development

- **Paytm to start payments bank operations from May 23-** Paytm launched the first phase of its payments bank on May 23, 2017 by offering accounts on an invite-only basis to mostly its north India customers. The e-wallet company plans to invest around Rs 400 crore to build its banking network over the next two years. In its first year, the bank plans to expand to 31 brick-and-mortar branches and add 3,000 customers. By 2020, it plans to add 500 million customers. In its second launch phase, Paytm will launch the bank in other metro cities. The payments bank has already received an investment of Rs 220 crore from its parent company One97 Communications. Paytm wallet will continue to be a wallet solely even after the bank is launched. Customers can keep a cash balance in it as well as continue to transacting using the e-wallet. While the wallet will become a part of the bank, it will not accrue any interest unlike money in the bank account. If customers wish to open an account with the Paytm Bank, they will have to complete all normal compliances. Existing customers will be transferred to the Paytm Payments Bank automatically post the launch. Paytm will issue debit cards in partnership with RuPay cards for an annual fee of Rs 100. First five ATM transactions will be free in non-metro cities per month. Post that, customers will be charged Rs 20 per ATM withdrawals.
- **SBI, HDFC, ICICI Bank and Axis Bank Slash Home Loan Rates**- SBI On May 9, 2017 reduced interest rates on home loans upto Rs.30 lakh from 8.60% to 8.35%. In the face of rising competition, HDFC, ICICI Bank and Axis Bank followed suit and reduced their lending rates for home loans upto Rs.30 lakh to 8.35%. HDFC cut the interest rate to 8.35% for female borrowers and 8.40% for others for loans up to Rs30 lakh. ICICI Bank slashed its interest rate on loans up to Rs30 lakh by 30 basis points to 8.35% for salaried female borrowers and 8.40% for others ICICI Bank will charge 8.50% for self-employed women borrowers and 8.55% in case of others. Axis Bank will charge 8.35% to salaried customers and 8.40% to others. As credit appetite of industries is facing a tough time, banks are increasingly looking towards the affordable housing space. Government's 'Housing for All' by 2022 initiative also provides the required impetus. It May be noted that government provides 4% interest subsidy on housing loans upto 9 lakhs and 3% interest subsidy on loans upto Rs.12 lakhs.
- **Diverging Numbers Reported for Yes Bank's FY'16 NPAs**-It was reported on May 12, 2017 that there was divergence in Net NPA as reported by Yes Bank for FY'16 and that assessed by the RBI for the same fiscal year. It was reported that the divergence was of the scale of Rs.4,000 crore. While the bank reported net NPAs worth Rs.748.98 crore as of 31 Mar'16, RBI's own assessment reported a figure of Rs.4,925.68 crore for the same period. The bank in its statement clarified that this divergence was for FY'16 and will have no carry forward impact in FY'18.
- **Disha Microfin gets final approval from RBI for small finance bank-** Disha Microfin on May 12, 2017 announced that it had received the final licence from RBI to operate as a small finance bank. This bank will be called Fincare Small Finance Bank. It is an Ahmedabad based NBFC-MFI. It is expected to start operation from July this year. It had received an in principle licence in Sep'15. It may be noted that Committee on Financial Sector Reforms under the Chairmanship of Dr. Raghuram G. Rajan in 2008, had recommended that RBI could experiment giving licences to well governed, deposit taking small private banks that serve niche interests and can meet credit and remittance needs of small businesses, unorganised sector, low income households, farmers and migrant workers.

Development

- **NPCI Plans Awareness Drive to Promote Digital Transactions-**Owing to government push for digital payments and as a part of the digital drive campaign, the National Payments Corporation of India (NPCI) on May 14, 2017 informed that it is planning to launch a mega campaign to educate common people about various means of digital payments. It aims to encourage people to use mobiles and RuPay-enabled Jan Dhan debit cards for day-to-day transactions. Publicity campaigns will also be launched to make people more aware of the BHIM app and Aadhar Pay. According to NPCI, 37 crore RuPay debit cards have been issued so far and out of which about 25 crore are Pradhan Mantri Jan Dhan (PMJDY) cards. Point of Sale machines have also doubled from 1.5 mn to 3 mn after demonetisation.
- **SEBI Allows Government to Raise Stake in Andhra Bank-** The central government on March 16, 2017 has proposed to infuse Rs.1100 crore in Andhra Bank by way of issue of equity shares on preferential basis. This would raise the stake of the Government of India in Andhra Bank by 8.5%. According to SEBI regulations, in any financial year, no entity is allowed to gain more than 5% of additional shares/voting rights unless a public announcement of an open offer for acquiring shares of the target company is made. On May 17, 2017 SEBI exempted central government from this clause for acquiring additional shares in Andhra Bank to infuse capital into the bank. Following this, central government's stake will increase to 69.76% from 61.26% as on 31.03.2017.
- **RBI Introduces Additional Settlement Batches in National Electronic Funds Transfer (NEFT) System-** RBI on May 8, 2017, it announced that starting July 10, 2017 settlement batches will operate at 8:30am, 9:30am, 10:30am…..5:30pm and 6:30pm. The total number of settlement batches will be 23 henceforth and the starting batch at 8.00 am and closing batch at 7.00 pm will remain as it is. It may be noted that following its vision for 2018, RBI in its First Bi-monthly Monetary Policy Statement for 2017-18 on April 7, 2017 had announced that the NEFT settlement cycle will be reduced from hourly batches to half hourly batches and additional 11 settlement batches will be introduced.

Annex-2
Base Rate and MCLR of Select Banks

Name	Effective from	1 Y - MCLR	Effective from	Base Rate	Effective from	FD Rate for 1-2 years
Bank of Baroda	07-May-17	8.35	01-Jul-16	9.60	May-17	6.90
Bank of India	07-May-17	8.40	31-Mar-17	9.55	Apr-17	6.90
Canara Bank	07-May-17	8.45	01-Apr-17	9.40	May-17	6.80
Punjab National Bank	01-May-17	8.35	01-Jan-17	9.35	May-17	6.80
Union Bank of India	01-May-17	8.50	01-Feb-16	9.30	Mar-17	6.80
State Bank of India	01-May-17	8.00	01-Apr-17	9.10	Mar-16	6.90
Axis Bank	18-May-17	8.25	05-Apr-17	9.15	Dec-16	7.00
HDFC Bank	08-May-17	8.15	31-Mar-17	9.00	Jan-17	6.95
ICICI Bank	01-Apr-17	8.20	26-Apr-17	9.10	May-17	6.90
IndusInd Bank	17-Apr-17	9.10	17-Jan-17	10.55	Jan-17	7.15
Kotak Bank	01-May-17	8.80	06-Jan-17	9.30	May-17	6.70
Yes Bank	01-May-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.

Canara Bank offers 6.90% for term deposits of 1 year and 6.80% for term deposits of above 1 year to less than 2 years.

Punjab National Bank offers 6.90% for term deposits of 1 year and 6.80% for term deposits of above 1 year to less than 2 years.

Union Bank of India offers 7.00% for term deposits of 14 months and 6.80% for term deposits of above 14 months 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 and 7.10% for term deposits of 14 months to less than 15 months.

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.

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 6.70% for term deposits of 12 months to less than 15 months, 6.50% for 15 months to less than 2 years and 6.25% for term deposit of 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	17-Apr
Production													
IIP(2004-05 Base)	-1.3	1.3	1.95	-2.5	-0.7	0.7	-1.9	5.7	-0.1	3.3	-1.2		
IIP(2011-12 Base)	6.5	8.0	8.9	5.2	4.9	5.7	4.9	5.7	2.6	3.8	1.9	2.7	
Infrastructure (2004-05 Base)	8.5	2.8	5.2	3	3.2	5	6.6	4.9	5.57	3.4	1.1	5.0	
Prices													
WPI(2004-05 Base)	0.8	1.2	2.1	3.7	3.9	3.8	3.8	3.4	3.7	5.5	6.5	5.7	
WPI(2011-12 Base)	-1.1	-0.9	-0.1	0.6	1.1	1.4	1.3	1.8	2.1	4.3	5.5	5.3	3.9
CPI	5.5	5.8	5.8	6.1	5.1	4.39	4.2	3.6	3.4	3.2	3.7	3.9	3.0
Agriculture (2011-12 Base)	6.4	7.5	7.8	8.4	5.9	4	3.3	2.1	1.4	0.6	2.0	2.0	0.6
Industry(2004-05 Base)	1	1.2	1.2	1.8	2.4	2.5	2.7	3.2	3.7	4	3.7	3	
Industry(2011-12 Base)	-0.8	-0.6	-0.3	0.4	0.9	1.1	1.3	2.0	2.5	3.3	3.2	3.0	2.7
Services (2011-12 Base)	4.3	4	3.8	4	4.2	4.5	4.6	4.8	4.7	5	4.8	4.9	4.3
Banking													
Reverse Repo (Rs. Mn)	199432	48331	104234	96493	55863	99851	108037	187952	216296	127612	135769	349833	372570
Repo (Rs. Mn)	113263	143911	53418	51953	64906	66210	98619	68773	47167	22413	24692	21492	13753
Aggregate Deposits	9.8	8.9	9.7	9.6	8.8	13.8	10	17.8	17.4	16.11	15.1	18.2	
Total Credit	8.4	8	7.3	7.7	7.6	11.5	6.4	4	3.3	3.3	3	7.4	
Non Food Credit	8.4	8.4	7.9	8.3	8.2	10.8	6.7	4.8	4	3.5	3.3	9	
Industrial Credit	0.1	0.9	0.6	0.6	-0.2	0.9	-1.7	-3.4	-4.31	-5.1	-5.2	-1.9	
Infrastructure Credit	-1.5	-0.1	-2.1	-3.1	-4.2	-4.6	-6.6	-6.7	-7.66	-8.7	-9.7	-6	
Service Credit	10.9	9.3	9.2	10.8	12.1	18.4	9.3	7.1	8.31	8.1	7.7	19.5	
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	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	50.2
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	51.3
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	12.8	
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	4.5
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	9.5
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	14.4
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	-24.9
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	10.4
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	-6.2
External													
FDI-Equity (US $mn)	3456	2078	2340	4179	4901	5247	6300	4782	3451	4088	1322	2560	
FII-Net Portfolio Investment(US $mn)	3141	-1622	-279	2267	1558	2884	-40	-6902	-4371	-389	2454	9034	
ECB(US $mn)	305	1318	1072	1203	3173	2463	1771	488	2801	1816	2227	3347	
Exports	-7.1	-0.6	1.5	-6.9	0.0	4.7	8.8	2.6	6.1	4.7	17.5	27.6	-7.1
Imports	-24.2	-13.5	-7.4	-18.0	-13.3	0.1	9.7	10.8	1.1	11.0	20.8	45.3	-24.2
Trade Balance(US $mn)	-4,845	-5,992	-8,406	-8,153	-7,877	-9,164	-10,830	-13,034	-10,502	-9,833	-8,624	-10,437	-13,249
Rupee-Dollar Exchange Rate	66.47	66.91	67.30	67.21	66.94	66.74	66.75	67.63	67.90	68.08	67.08	65.88	64.50
Rupee-Pound Exchange Rate	95.27	97.25	95.55	88.52	87.80	87.72	82.52	84.02	84.74	83.86	83.82	81.24	81.47
Rupee-Euro Exchange Rate	75.41	75.69	75.57	74.36	75.00	74.83	73.61	73.14	71.60	72.33	71.46	70.34	69.17
REER 36 Country (Trade Based Weight) Base 2004-05=100	113.78	114.45	115.07	116.10	116.07	116.22	117.33	117.63	117.72	116.44	117.29	119.39	121.98
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	Q3
GVA at Basic Prices Growth	6.5	4.8	7.5	8.1	6.1	6.1	7.8	8.4	7.0	8.2	6.9	6.7	6.6
Components Growth													
Agriculture, Forestry and Fishing	6.6	5.8	2.2	3.5	-3.1	-1.4	2.6	2.3	-2.2	1.7	1.9	3.8	6.0
Industry	4.4	3.1	9.1	6.8	4.5	7.0	7.4	7.4	9.5	8.6	6.1	5.1	6.6
Mining and Quarrying	2.2	8.4	22.0	9.5	12.1	14.4	11.2	13.9	13.3	11.5	-0.3	-1.3	7.5
Manufacturing	5.8	3.9	9.9	7.9	3.5	8.5	8.5	10.3	12.8	10.8	9.0	6.9	8.3
Electricity, Gas, Water Supply and Other Utility Services	3.2	5.2	9.3	8.0	8.0	3.6	2.5	5.9	4.1	7.8	9.6	3.8	6.8
Construction	2.7	-0.7	3.2	3.5	3.2	2.2	4.8	0.0	3.2	3.0	1.7	3.4	2.7
Services	7.8	5.6	8.1	9.8	11.8	8.3	9.5	10,4	9.4	10.1	8.8	8.2	6.8
Trade, Hotels, Transport, Communication and Services Related to Broadcasting	9.4	6.9	10.4	7.2	4.8	11.8	10.6	8.9	9.6	13.2	8.2	6.9	7.2
Financial, Real Estate and Professional Services	8.4	7.8	9.2	13.3	12.4	9.4	10.2	13.1	10.4	8.9	8.7	7.6	3.1
Public Administration, Defence and Other Services	4.2	0.5	2.9	7.5	2.1	1.3	6.3	7.2	7.5	6.7	9.9	11.0	11.9
Growth of Expenditure Components of Nominal GDP													
GDP	14.3	12.2	14.1	10.2	9.9	9.0	10.5	9.4	8.7	11.3	10.8	11.8	10.6
Net Taxes on Products	15.4	35.3	-16.3	2.2	10.7	23.5	62.6	45.9	12.8	22.2	27.1	19.0	17.1
Final Consumption Expenditure	15.8	11.8	14.7	15.3	8.3	7.9	6.4	6.9	8.6	12.5	13.2	12.1	15.8
Final Consumption Expenditure: Private	16.2	15.5	15.9	15.2	5.1	10.0	6.4	6.4	8.4	12.9	11.7	10.2	14.4
Final Consumption Expenditure: Government	13.0	-7.1	9.0	15.8	32.0	-4.9	6.4	9.2	10.0	9.8	20.8	20.7	24.2
Gross Fixed Capital Formation	7.9	-0.4	12.8	6.0	4.8	5.6	9.8	10.4	3.3	1.0	-1.0	-2.7	5.8
Change in Stocks	-19.5	-20.6	69.9	66.4	57.1	62.1	3.4	3.8	6.4	5.6	9.5	8.7	11.1
Valuables	-49.1	-31.8	30.4	12.5	24.3	48.3	-12,8	12.6	4.4	-20.1	-33.5	-33.5	-33.5
Exports of Goods and Services	28.4	22.8	14.7	-2.7	0.8	-9.0	-5.0	-5.5	-7.5	-0.6	4.3	2.4	5.7
Import of Goods and Services	-1.9	2.8	4.2	1.6	6.7	-6.6	-5.3	-5.4	-9.3	-3.3	-1.4	-5.2	5.6
Discrepancies	-147.2	245.0	-886.7	-604.4	-259.9	54.1	-83.5	-53.9	52.1	112.4	-222.4	-423.8	-61.0
BoP Indicatos													
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	-3.0	-1.6	-1.5	-1.7	
Capital Account as % of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial Account as % of GDP	1.0	0.4	1.6	2.1	1.9	0.0	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	2.0	1.3	2.0	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	-0.7	0.1	-0.3	0.4	1.1	
Errors and Omission as % of GDP	-0.1	-0.2	0.0	0.1	-0.4	0.1	-0.2	-0.1	0.0	0.0	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	10.0	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	0.0	-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	475.0	482.4	480.5	479.3	485.1	479.7		
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		
External Debt: USD: Short Term (bn)	92.7	91.7	90.1	87.0	85.6	85.5	83.6	84.8	81.6	83.4	82.1		
External Debt: USD: Short Term: Trade Related (bn)	86.2	81.7	82.0	80.4	79.0	81.6	79.3	79.2	77.4	80.0	79.7		
Short Term Debt as % of Total Debt (bn)	21.7	20.5	19.9	19.1	18.7	18.0	17.3	17.6	17.0	17.2	17.1		
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.

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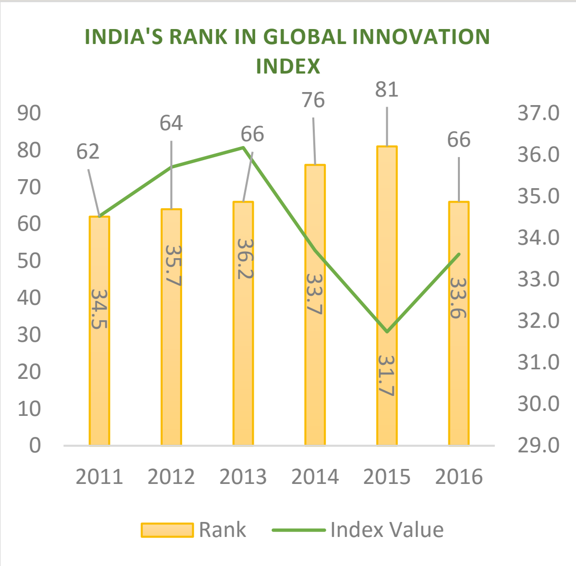
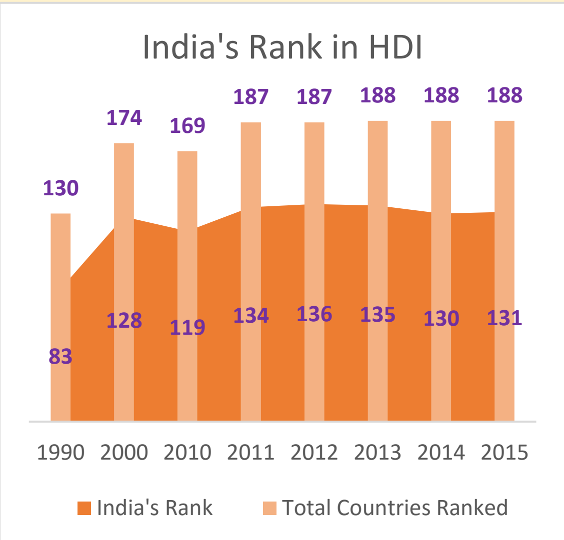
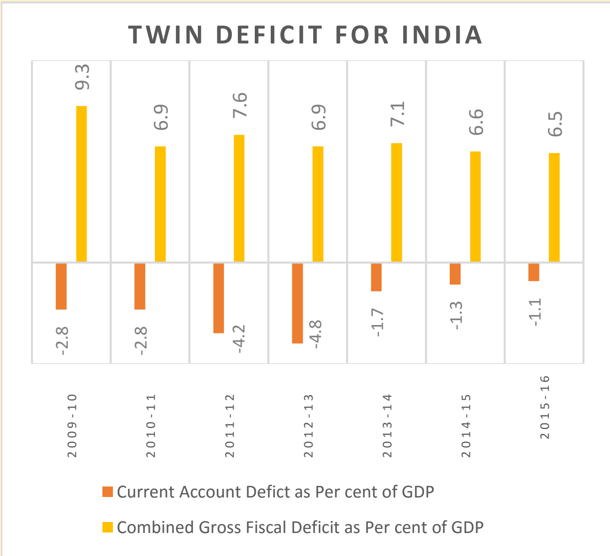
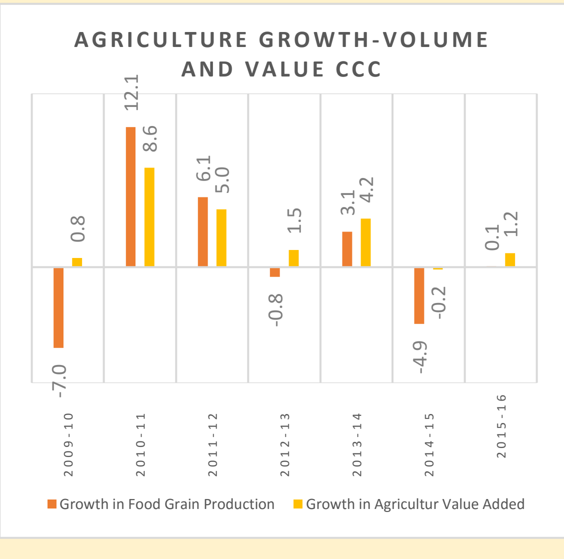
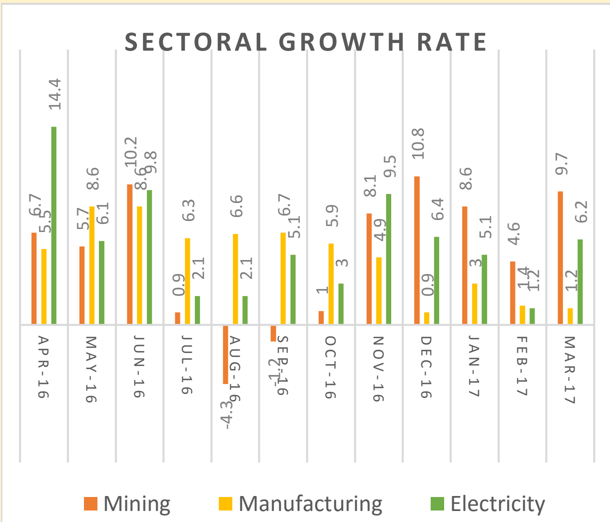
Indian Economy in Graphs











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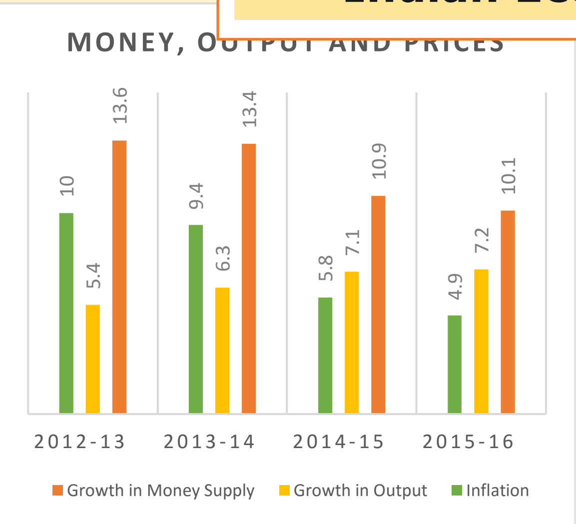
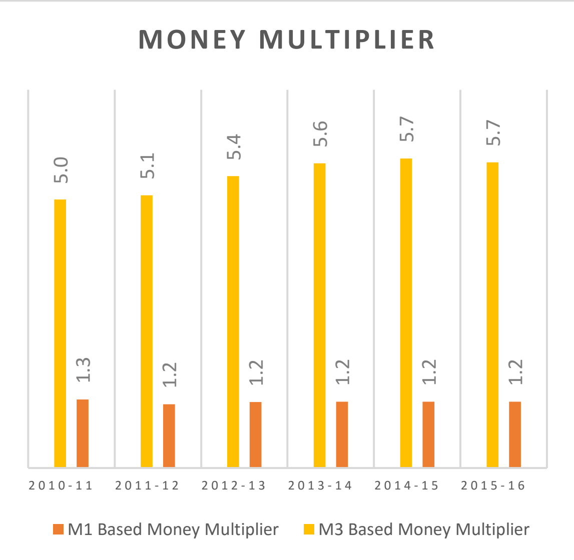
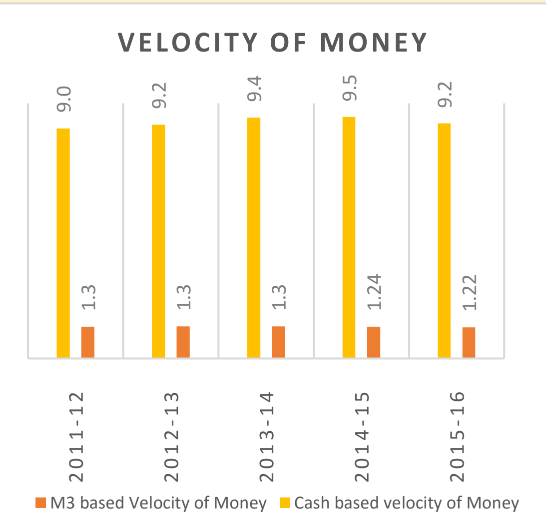
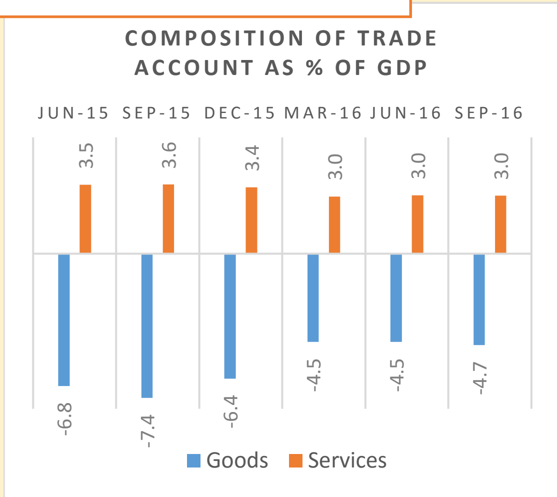
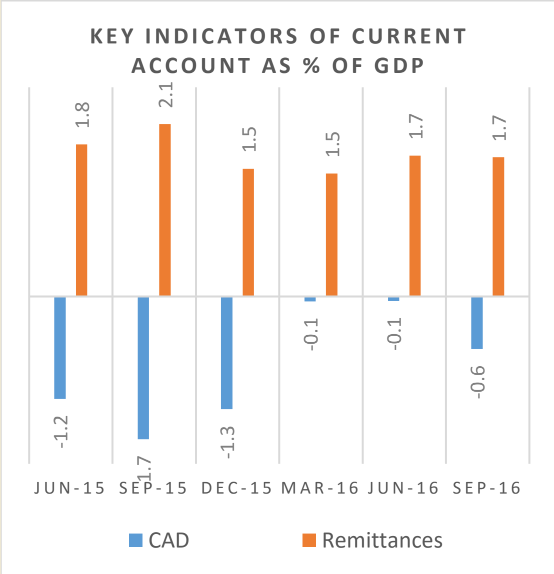
Indian Economy in Graphs

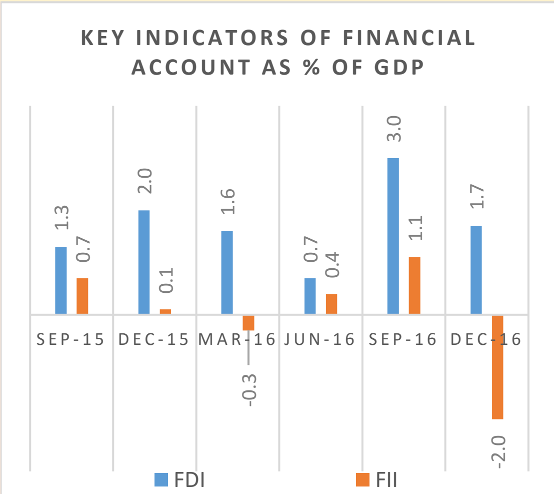












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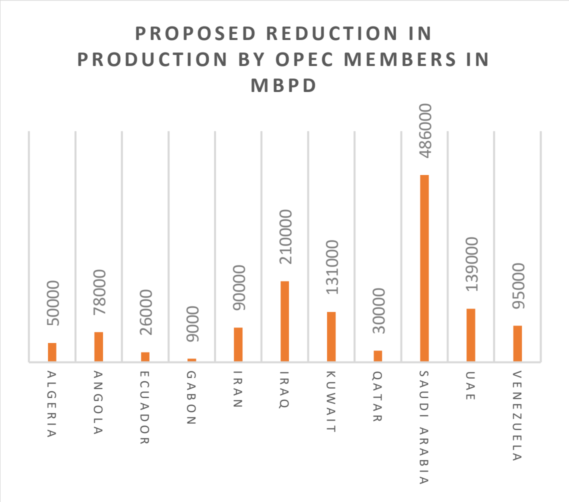

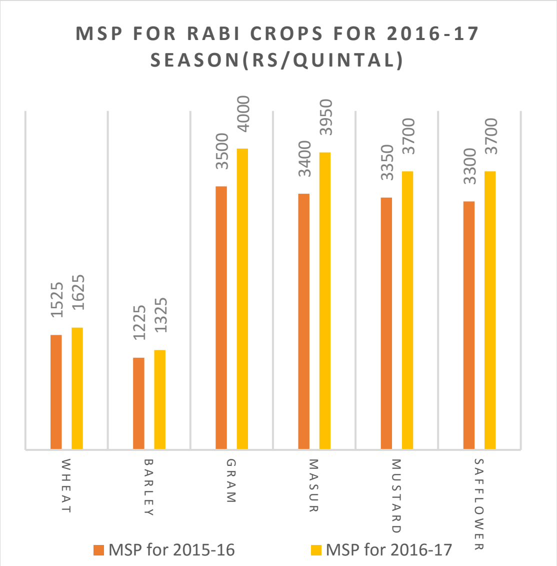

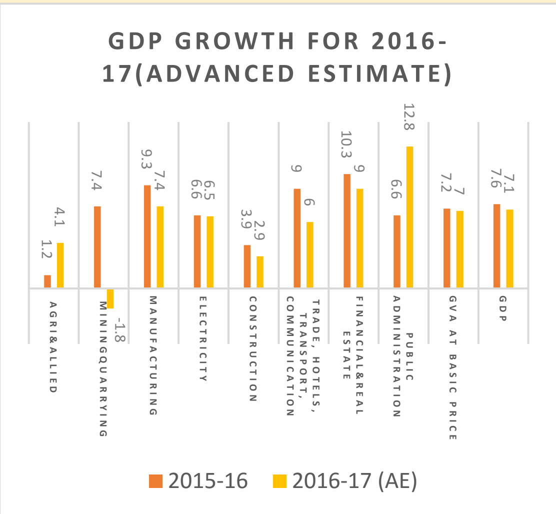

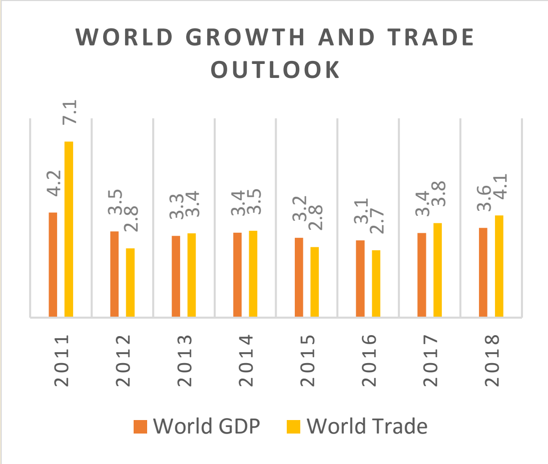

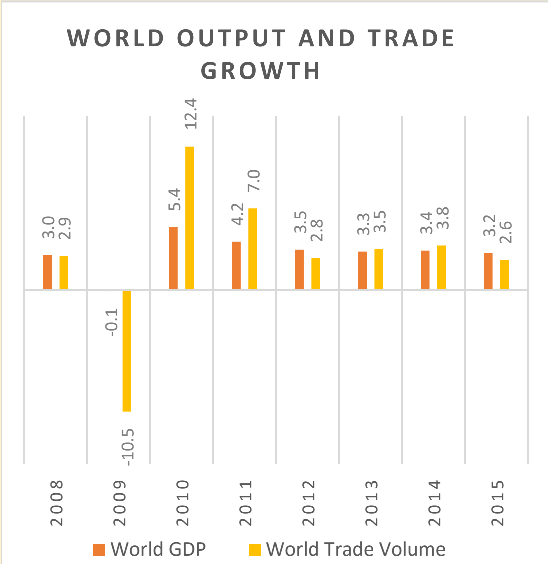

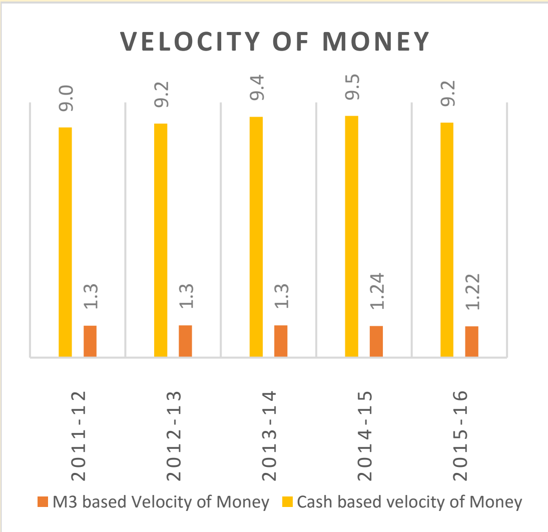

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Notes

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