बैंक ऑफ़ बड़ौदा
Bank of Baroda
India's International Bank

Economic Intelligence

19 Dec 2016

Vol.1-5

MONTHLY MACRO INSIGHTS

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In Brief

Both OECD and ADB have projected global growth prospects to improve in 2017 guided by robust consumer spending and supportive fiscal and monetary policies. Notwithstanding better medium term prospects, India's growth will be dented in the short term as the system restores to normalcy, post-demonetisation. Government has taken a number of steps, post demonetization, to support higher agricultural growth. Industrial growth, however, continues to be sluggish.
The lead indicators suggest considerable slowdown in service sector, which is the main driver of the India's growth. Though internal stability will not be much of an issue, upside risks to external stability has increased on account of two factors. First, Fed has not only hiked interest rates in its meeting during Dec 13-14 but also has given guidance for quicker and more frequent rate hikes in 2017. Second, OPEC members agreeing to cut production and non-OPEC members also extending their support will keep oil prices at elevated levels. Though presence of alternative production channels will put a ceiling on oil prices, elevated oil prices will create a triple whammy for the Indian economy. Thus, a confluence of external developments and transitional domestic economic adjustment will create a depreciating bias for the Indian rupee. The fiscal stance which will be enunciated in the Union Budget 2017-18 scheduled on Feb 1, 2017 and policy of new US Government and crude price movement in the coming months will shape policy stance of RBI in its sixth bimonthly policy review scheduled on Feb 7, 2017.

Table-1
FINANCIAL AND COMMODITIES MARKETS – POST DEMONETISATION

	8-Nov 2016	9-Nov 2016	1-Dec 2016	16-Dec 2016
Call	6.22	6.2	6.13	5.73
G-Sec	6.9	6.75	6.33	6.64
Dollar	66.71	66.8	68.4	67.8
Pound	82.71	83.43	85.69	84.23
Crude	43.34	43.1	50.3	52
Sensex	27,591	27,253	26,560	26,490
Gold	30,700	32,500	28,800	27,750

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

Inside

SNIPPETS

- RBI in its fifth bi-monthly policy review on Dec 7, 2016 followed a status quoist approach. This was as per our expectations outlined in the November 2016 edition of Monthly Macro Insights (http://www.bankofbaroda.co.in/Economic_Scenario.asp)
- Two broad forces drove the RBI decision. First, upside risks to 5% inflation target by March 2017 because of waning base effect and stickiness of core CPI inflation. Second, hardening of yields on US Treasury following the election of Mr. Trump as the new US president and OPEC decision to cut crude production that will put pressure on the rupee to depreciate.
- The policy decision should be seen in the context of protecting the yield difference between G-Sec and US treasury so as to retain India's attractiveness for foreign investors.
- UD Fed increased the target range for federal funds rate to 1/2 to 3/4 % (0.50% to 0.75%) in its FOMC meeting during Dec 13-14, 2016. Fed also strongly signalled it could still tighten monetary policy in 2017 as the labour market improves further and there is return to 2% inflation.
- The Fed Chairperson held that US growth was looking stronger and rate increases would be needed to keep the economy from overheating. In case of higher inflation, there is a possibility of an aggressive stance on interest rates going ahead.
- Post demonetisation, the Purchasing Managers Survey undertaken during Nov 12-24, 2016 revealed considerable slack in the service sector and the composite index also fell below 50.

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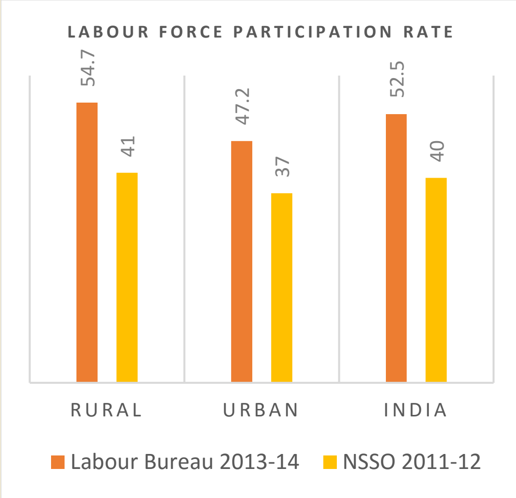
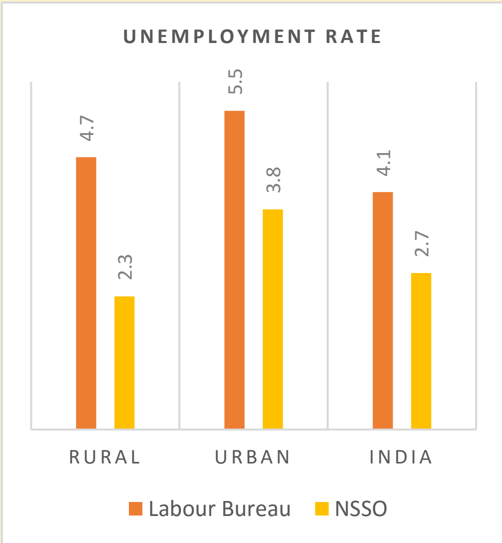
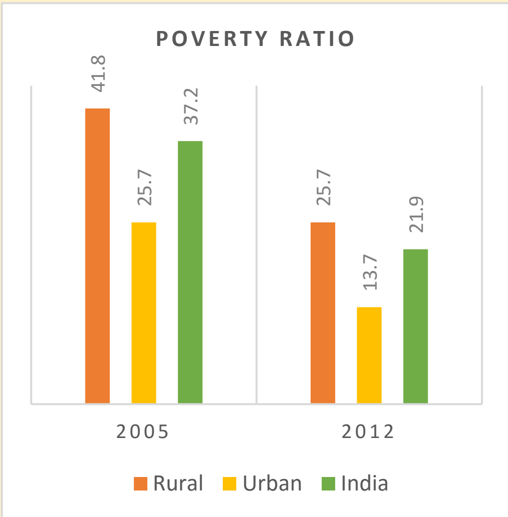
SNIPPETS

- ADB trimmed its 2016 growth estimate for India to 7% from 7.4% due to weak investment, agricultural slowdown and the government's recent demonetisation.
- In its Nov 2016 issue of Economic Outlook, Organisation for Economic Cooperation and Development (OECD) estimated global growth would accelerate from 2.9% in 2016 to 3.3% in 2017 and 3.6% in 2018. OECD has placed greater focus on fiscal policy intertwined with trade policy to drive the global growth higher.
- India's GDP growth in Q2 of 2016-17 published by CSO on Nov 30, 2016 was 7.3% and GVA growth was 7.1% on y-o-y basis. GVA growth for H1 2016-17 remains at the same level of 7.2% as in H1 of 2015-16.
- Post demonetisation, slack in economic activity was reflected in anaemic credit growth during November. Industrial credit growth which was negative in Oct-16, would have got a severe jolt in November.
- RBI in its Fifth bimonthly monetary policy on December 7, 2016 has revised down its real GVA growth for 2016-17 to 7.1% due to unexpected loss of growth momentum in Q2, FY 2016-17 and effects of withdrawal of specified bank notes (SBNs).
- Downside risks to growth would be through disruptions in cash-intensive sectors such as retail trade, hotels & restaurants and transportation, and in the unorganised sector and compression of aggregate demand with adverse wealth effects.
- As the US Fed has effected a rate hike in its meeting held during Dec 13-14, 2016, capital flight from emerging markets will be encouraged. India will also experience pressure of capital outflow. The extent of capital outflow will be governed by the growth prospects of respective countries.
- With the OPEC deal already done and non-OPEC members also extending their support to cut production, crude oil prices around US$55 will be the new normal. The possibility of a supply augmentation from fracking, however, will put price around US$65 as the ceiling. Notwithstanding the ceiling to crude price, India will lose quite a bit of the windfall gain from lower crude oil prices for close to two years.
- The first impact will be on the oil import bill which will create additional demand for dollars putting the rupee under pressure as India will also lose a bit of its appeal as there will be a transitional dip in India's growth following demonetization which will also add to the pressure on rupee in the short term.
- Thus, a confluence of external developments and transitional domestic economic adjustment will create a depreciating bias for the Indian rupee.
- Price of Indian basket of crude has increased by 17.3% between end November and mid December 2016. If we consider a slightly longer horizon, prices have increased by more than 85% during Jan 2016 and Dec 2016.
- According to World Energy Outlook-2015, published by International Energy Agency, India's oil demand is estimated to grow by 6 million barrels per day (mb/d), which is the largest projected for any country's oil demand, from 3.8 mb/d in 2014 to 9.8 mb/d by 2040.
- An increase in oil prices poses a triple whammy directly by influencing oil prices in the inflation basket and indirectly through pressure on government finances and the exchange rate.
- Significant drop in CPI and WPI based inflation both on y-o-y coupled with likely CPI trajectory in the rest of FY 17 gives confidence that the 5% inflation target

Indian Economy-Structural Coordinates







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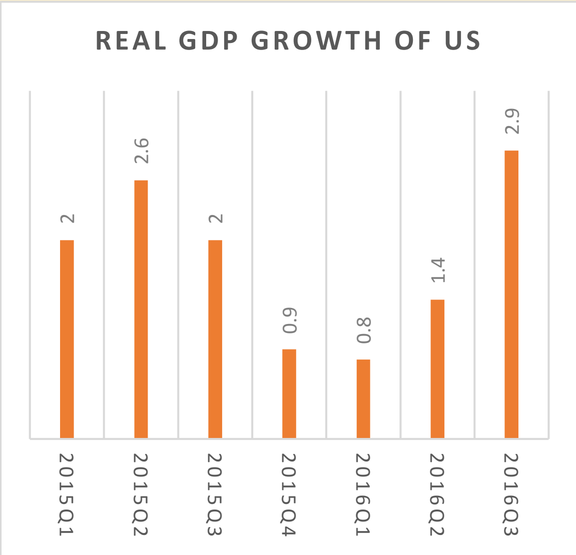
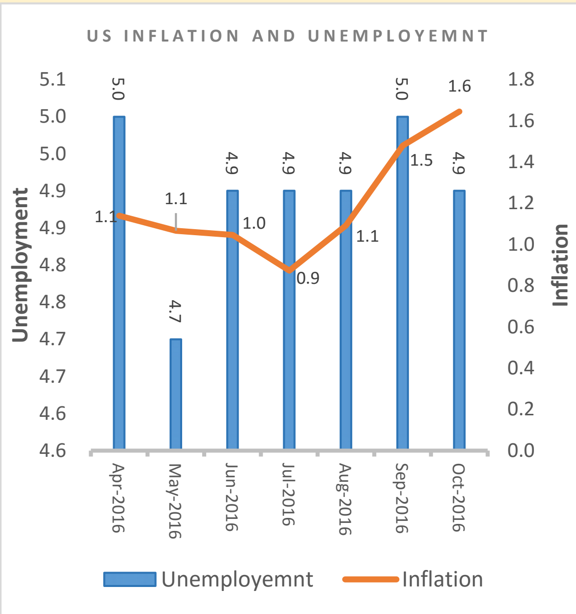
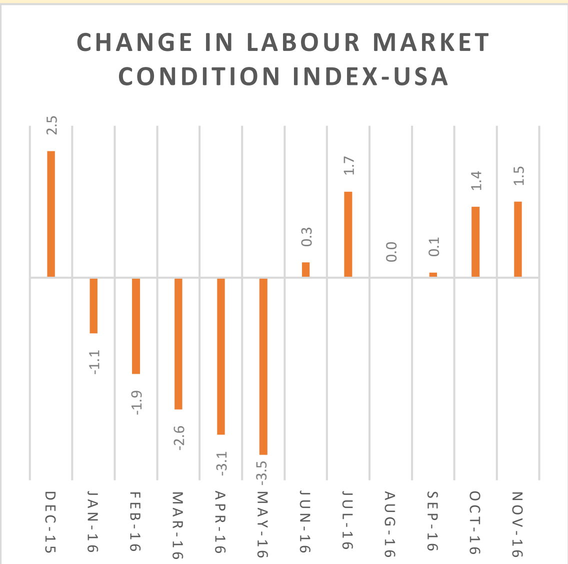






Growth Outlook-Global

OECD

- In its Nov 2016 issue of Economic Outlook, Organisation for Economic Cooperation and Development (OECD) estimated global growth to accelerate from 2.9% in 2016 to 3.3% in 2017 and 3.6% in 2018.
- The Report showed firmer signs of a pickup in growth across a number of large developing countries, as well as the U.K. and France. It suggested that 2017 will mark an acceleration from the lackluster pace of expansion recorded this year.
- As per OECD, the global economy remains in low-growth trap with investment and trade remaining weak thereby affecting consumption through limits on advances in wages growth and productivity.
- Fiscal policy, if implemented and is effective, could catalyse private economic activity and push the global economy to a modestly higher growth rate of around 3.50% by 2018 .
- OECD has placed greater focus on fiscal policy intertwined with trade policy to drive the global growth higher. It contends that expansionary fiscal policy initiatives would support growth while reducing inequality without jeopardizing fiscal sustainability.
- As per OECD, India is projected to grow at 7.5% in 2017-18 driven by private consumption, higher public wages, agriculture production. However, it has held that despite the fiscal consolidation efforts of the Central Government, there remains little room for accommodative polices. It has highlighted that repairing public banks' balance sheets and improving their governance would support the revival in investment. The ongoing landmark GST and subsidy reforms are promising.
- However, these forecasts are before the announcement of the demonetisation.

ADB

The key takeaways form the Asian Development Outlook Update 2016 published by ADB are as follows

- Growth of 45 developing Asian economies is expected to grow at 5.6% slightly lower than its earlier estimate of 5.7% on account of slower growth expectations from India, one of the region's largest economies. Growth is expected to edge back up to 5.7% in 2017.
- Asian economies will continue their robust expansion in the face of global economic uncertainties.
- The combined growth forecast for the major industrial economies-the United States, the Euro Area, and Japan-is revised upwards as robust consumer spending growth supported the US economy, while supportive monetary policy and improving labor markets fueled growth in the Euro Area. Despite a stronger Yen, the external sector still led the expansion in Japan.
- China is expected to grow by 6.6% in 2016 and 6.4% in 2017. The growth estimate for South-east Asia was kept at 4.5% for this year and 4.6% next year.
- Growth estimate for India has been trimmed to 7% from 7.4% due to weak investment, agricultural slowdown and the government's recent demonetisation.

Growth Outlook-Global

IMF

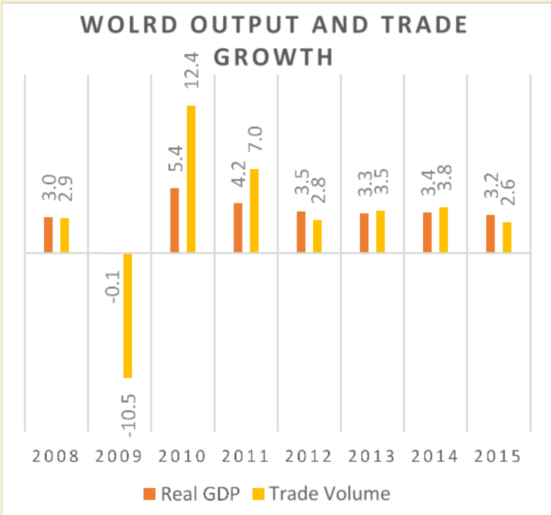
IMF in its recent assessment of World Economic Outlook published on Oct 4, 2016 has maintained its growth forecast for world economy at 3.1% for 2016 as provided in its review in July 2016.

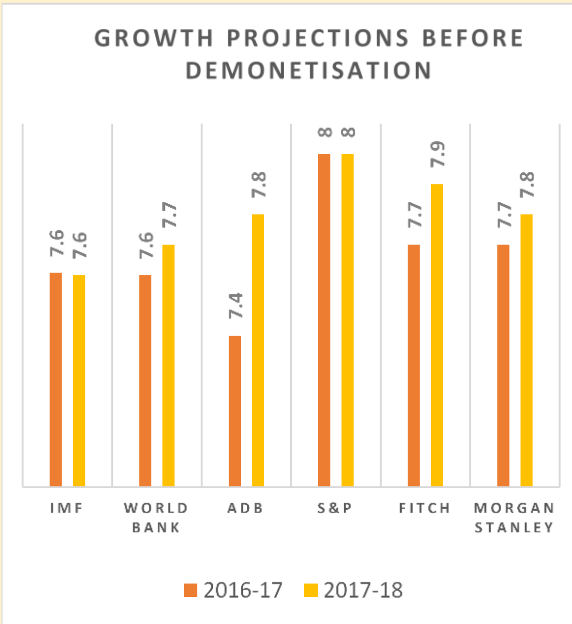
- Global growth is expected to be subpar at 3.1% in 2016, which will slightly increase to 3.4% in 2017. Advanced economies will expand just 1.6% in 2016, less than last year's 2.1% pace and down from the July forecast of 1.8%.
- In emerging market and developing economies, growth will accelerate in 2016 for the first time in six years to 4.2%, slightly higher than the July forecast of 4.1%. Next year, emerging economies are expected to grow at 4.6%.
- Chinese economy, the world's second largest, is forecasted to expand 6.6% in 2016 and 6.2% in 2017, down from a growth of 6.9% in 2015. In China, policymakers will continue to shift the economy away from their reliance on investment and industry towards consumption and services, a policy that is expected to slow growth in the short term while building the foundations for a more sustainable long-term expansion.
- The forecast reflects a more subdued outlook for advanced economies following Brexit and weaker-than-expected growth in the United States.
- IMF has highlighted the need for ending the creeping protectionism in the world and more progress on moving ahead with free-trade agreements and other trade-creating measures. IMF has pointed out that the earlier consensus that more trade implied better economic growth is now being put to question.
- IMF has raised the specter that persistent stagnation, particularly in advanced economies, could further fuel populist calls for restrictions on trade and immigration. Such restrictions would hamper productivity, growth, and innovation.

World Trade Outlook

In its trade statistics and outlook published on Sep 27, 2016 WTO has observed that:

- World merchandise trade volume is expected to grow by 1.7% in 2016, accompanied by real GDP growth of 2.2% at market exchange rates. This would be the slowest pace of trade and output growth since the financial crisis.
- Trade growth was weaker than expected in the first half of 2016 due to falling import demand and slowing GDP growth in several major developing economies as well as in North America.
- Trade in 2017 is expected to grow between 1.8% and 3.1%, a range being provided to reflect potential changes in the relationship between trade and output.
- Certain trade-related indicators have improved, including export orders and container port throughput, but overall momentum in trade remains weak.



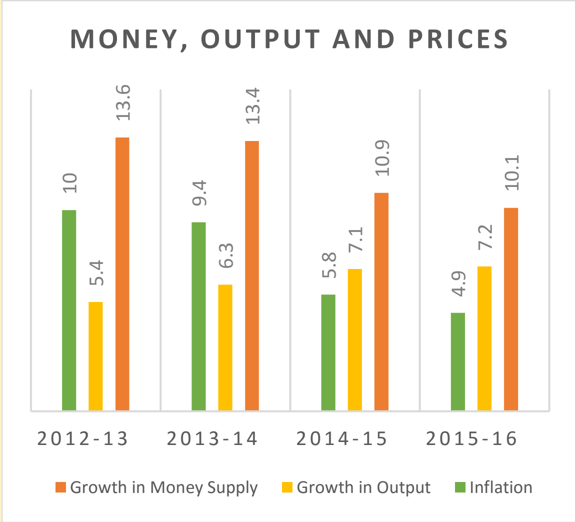


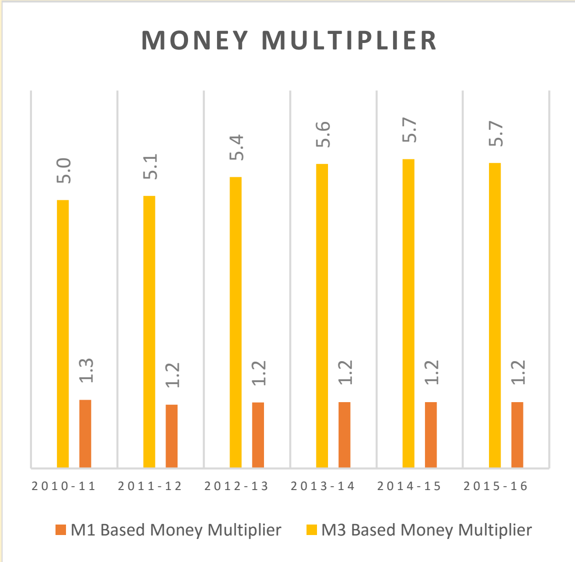
India's Growth Outlook

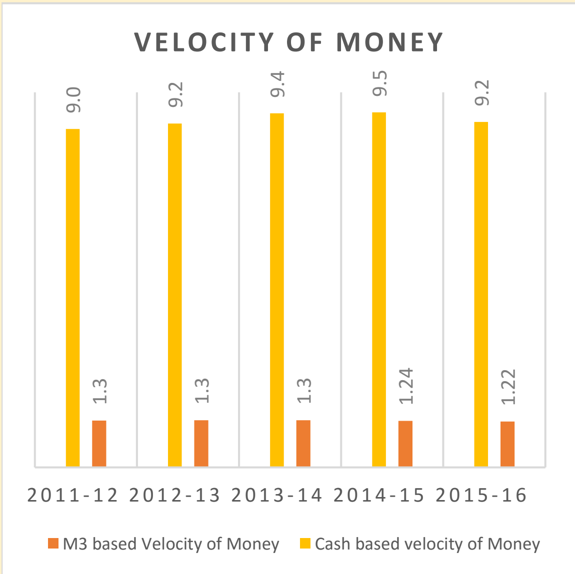
- GDP growth in Q2 of 2016-17 released on Nov 30, 2016 was 7.3% and GVA growth was 7.1% on y-o-y basis. GVA growth for H1 of 2016-17 at 7.2% was the same as for H1 of 2015-16.
- Given the normal monsoon in the Kharif season after two consecutive years of drought, the Q2 GVA for agriculture and allied activities grew by 3.3% as compared to 2.0% in Q2 of 2015-16 and 1.8% in Q1 of 2016-17. The food gains production during Kharif season was up by 8.9% in Q2 of 2016-17 as compared with a decline of 3.2% in the corresponding period last year.
- On a sectoral basis, growth decelerated for mining, quarrying with production of coal, crude oil and natural gas contracting on y-o-y basis. The growth in manufacturing, electricity, and financial services was weaker in Q2 of 2016-17 as compared to that in Q2 of 2015-16. Growth of sectors such as construction, trade, hotels and transport, and public administration was better on y-o-y basis.
- Prior to demonetisation, the various estimates of India's growth were in a range of 7.4-8% real GDP growth in 2016-17 and 2017-18. Since the withdrawal of specified bank notes (SBNs), the growth projections have been pared down. There have been debates as to the extent of growth dampening in near future and its implication on the long run growth trajectory.
- The primary growth driver of the Indian economy, the consumption spending that was boosted by better monsoon and impact of pay commission has been adversely affected. More specifically, discretionary spending has suffered given the cash crunch.
- Moreover, while the private investment continued to languish, higher government spending will lends some support to the growth momentum.

RBI's Assessment of Growth Outlook

- Real GVA growth for 2016-17 has been lowered to 7.1% from 7.6% with risks evenly balanced around it.
- Growth will get support from boost to consumption demand from higher agricultural output and implementation from the 7th CPC award.
- Downside risks to growth will be through two channels- First, short run disruption in cash intensive sectors such as retail trade, hotels and restaurants and transportation and in the unorganized sector. Second-Aggregate demand compression due to adverse wealth effect.
- While the impact of the first channel will be temporary, that of the second channel will be limited.







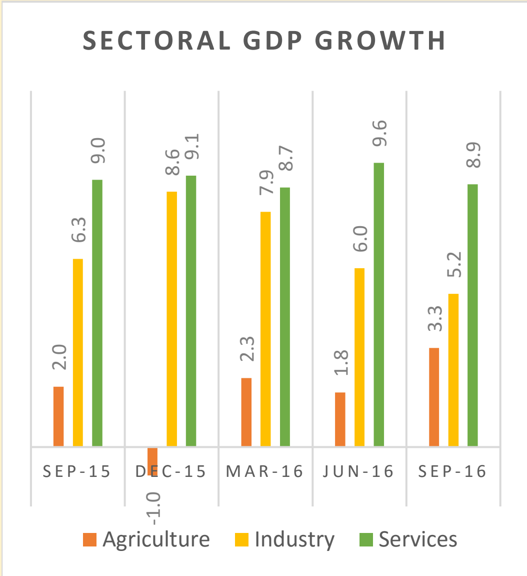
India's Growth Outlook

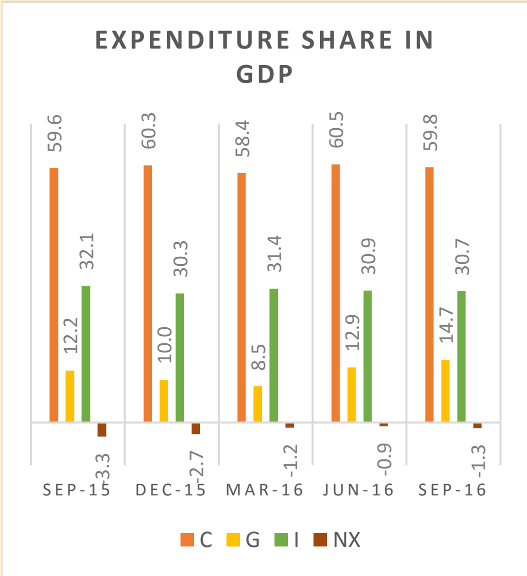
Results of the Survey of Professional Forecasters on Macroeconomic Indicators– Round 43

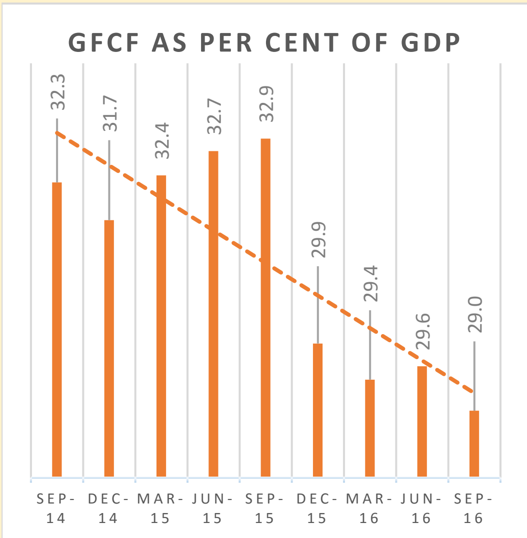
- Forecasters expect real Gross Value Added at basic prices (GVA) to grow by 7.1% in 2016-17. 'Agriculture & Allied Activities' and 'Services' are expected at 3.1% and 8.4%, respectively. 'Industry' growth forecast has been placed at 6.9%.
- In 2017-18, real GVA is expected to increase by 7.4%, led by growth in 'Services' by 9.0%. 'Agriculture & Allied Activities' and 'Industry' are expected to grow by 2.9% and 7.3 %, respectively.
- CPI (Combined) headline inflation is expected to fall sharply to 4.1% in Q3 of 2016-17 and thereafter gradually increase to 4.7% till Q2 of 2017-18.
- The core CPI (defined as excluding food and fuel) inflation is revised up compared to the last round and is likely to remain below 5.0% till Q2 of 2017-18.
- WPI inflation is expected to go up to 4.0% in Q4 of 2016-17 and may decline thereafter.
- Money supply (M3) growth has been revised down by 30 basis points (bps) to 11.2% from 11.5% in the previous round for 2016-17. M3 is expected to grow by 12.0% in 2017-18. Bank credit growth is forecasted at 11.0% in 2016-17 and is likely to improve to 12.0% in 2017-18
- Central Government's gross fiscal deficit (GFD) is projected at 3.5% of GDP in 2016-17 and is expected to improve to 3.0% of GDP in 2017-18. The combined GFD of Central and State Governments is projected at 6.4% of GDP in 2016-17 and is likely to reduce to 6.0% of GDP in 2017-18
- Merchandise Exports is likely to grow by 1.4% in 2016-17 and is expected to improve to 5.6% in 2017-18.
- Current Account Deficit is projected at 0.7% and 1.0% (of GDP) in 2016-17 and 2017-18, respectively. Capital Account balance is expected at 1.9% of GDP in 2016-17

RBI's Consumer Confidence Survey

- The Consumer Confidence Survey (CCS) provides an assessment of respondents' perceptions on general economic conditions and own financial situation during the current period and a year ahead.
- Current Situation Index (CSI) showed a turnaround and improved by 4.5 percentage points in November 2016 round of the survey due to increase in the net response of all parameters except price level.
- Future Expectations Index (FEI) also improved, however, by a lower magnitude of 2.2 percentage points and reached 125.5 in the current round of the survey, due to enhanced expectations on future economic conditions, income and employment.

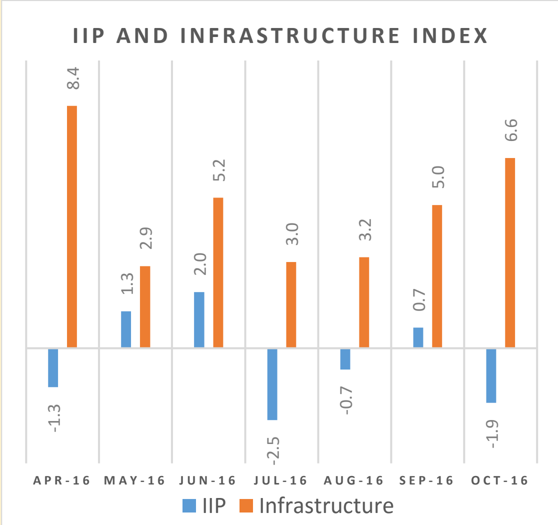






Industrial Production

- After a positive growth of 0.7% in Sep'16 for IIP, it again de-grew by -1.9% in Oct'16. As a result, for Apr-Oct, FY'17, the IIP degrew by -0.3% on y-o-y basis as against 4.8% in the same period last year.
- Mining and manufacturing as per sectoral and Capital Goods as per use based classification exhibited negative growth in Oct'16. Within manufacturing, fourteen out of the twenty two industry groups (as per 2 - digit NIC -2004) have shown negative growth in Oct'16 on a y-o-y basis.
- The consumer goods degrew by -1.6% in Oct'16 due to contraction in non-durables of 3.0% and marginal growth of 0.2% in consumer durables. In Oct'15, the consumer durables grew by 41.9%.
- If we look at the m-o-m seasonally adjusted (SA) numbers, IIP degrew by 0.84% in Oct'16 compared 1.1% in Sep'16. Except in July'16 and Oct'16, IIP on a m-o-m SA basis has shown positive growth in all months during Apr-Sep FY'17.
- The Eight Core Industries (infrastructure) comprising nearly 38% of the weight of items included in the IIP, recorded growth of 6.6% in Oct'16 on y-o-y basis. Infrastructure segment had a cumulative growth of 4.9% during Apr-Oct, FY'17 compared to 2.8% during Apr-Oct, FY'16. All segments except coal, crude and natural gas registered positive growth in Oct'16. However, refinery output increased due to pick-up in exports and capacity additions.
- The seasonally adjusted Manufacturing PMI was above the threshold of 50 for the eleventh consecutive month in Nov'16. PMI at 52.3 in Nov'16 fell from 54.6 in Oct'16, the highest level since Aug'15. The November reading for PMI declined as the cash crunch affected the production activities following the withdrawal of high value notes in circulation.
- Data collected during Nov 11-24, 2016 using questionnaires from purchasing executives in over 400 industrial companies revealed that the withdrawal of high value banknotes reportedly hampered manufacturing growth in November, with companies signalling softer increases in order books, buying levels and output.
- However, despite the constraints, the index remained in expansionary zone above 50. One factor contributing to the downward movement in the PMI was a softer expansion in new business inflows. Order books rose at a moderate pace that was the slowest since July. Concurrently, inflation rates for both output charges and purchase costs eased since October.
- The services sector PMI, however, dipped rather sharply to 46.7 in Nov'16 as against 54.5 in Oct'16 as the cash driven sectors such as hotels & restaurants, renting and business activities suffered. Given the share of more than 60% of the services sector in the GDP, the growth outlook remains weak. Further, the gauge of private sector activity, the Composite PMI Output Index, fell to 49.1 in November from a near-four year high of 55.4 in October.

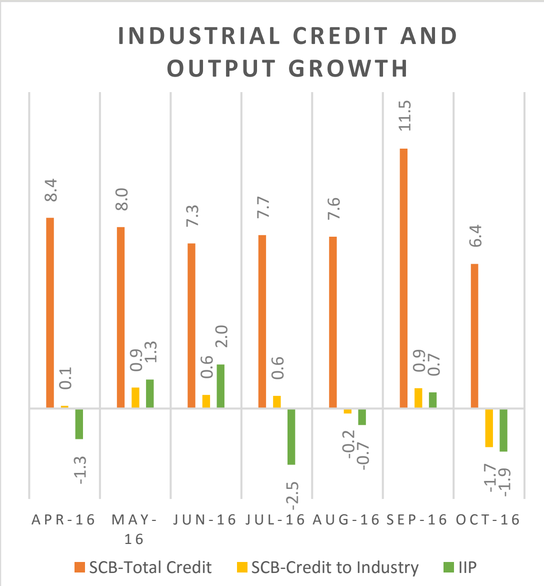


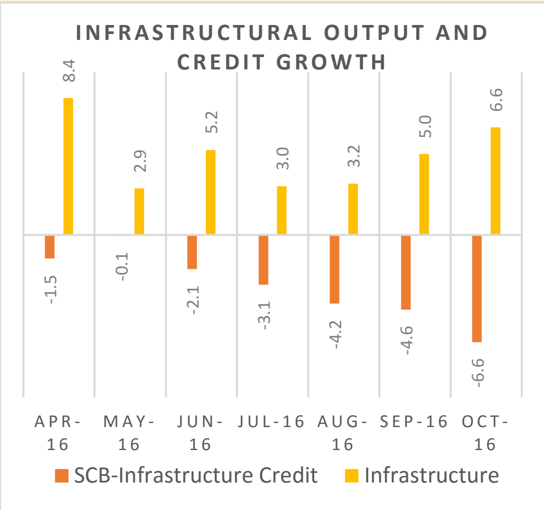
IIP-Sectoral and Used based Components Growth-Oct 2016

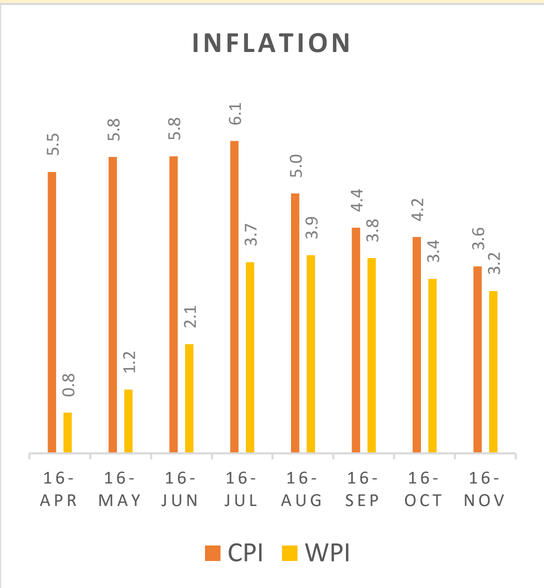
Sectors	Weight	Oct-2016	Oct-2015	Apr-Oct FY 17	Apr-Oct FY 16	
Mining	14.2	-1.1	5.3	-0.2	2.2	Sectoral
Manufacturing	75.5	-2.4	10.6	-1	5.1	
Electricity	10.3	1.1	9	4.6	5.2	
Basic	45.7	4.1	4.2	4	4.5	Use Based
Capital	8.8	-25.9	16.5	-22.1	9	
Intermediate	15.7	2.9	6.3	3.5	2.5	
Consumer Durable	8.4	0.2	41.9	6.4	11.7	
Consumer Non Durable	21.3	-3	4.8	-2.5	0.1	
Consumer Goods	29.8	-1.6	18.3	1.2	4.5	
General	**100**	-1.9	9.9	-0.3	4.8	

Core Sector Growth

Sector	Weight	Oct-2016	Oct-2015	Apr-Oct FY 17	Apr-Oct FY 16
Coal	4.4	-1.6	6.6	0.7	4.4
Crude Oil	5.2	-3.2	-2.1	-3.3	0.1
Natural Gas	1.7	-1.4	-1.8	-4	-2.1
Refinery Products	5.9	15.1	-4.4	8.9	2.4
Fertilizers	1.3	0.8	16.8	4.8	10.6
Steel	6.7	16.9	-5.5	8.5	0.7
Cement	2.4	6.2	12.1	4.8	2.9
Electricity	10.3	2.8	13.8	4.7	5.9
Infrastructure Index	37.9	6.6	3.8	4.9	2.8







Credit Growth

- Credit growth from the banking system has moderated to 8.2% during Apr-Oct, FY'17 compared to 8.3% average loan growth during the same period of FY'16.
- While credit to industry and infrastructure has been lack luster, service sector credit growth has been quite steady at 11.4% during Apr-Oct, FY'17 compared to average growth of 6.8% during the same period in FY'16.
- Within services, professional services (31.0%) and personal loan (17.0%) growth has been robust. Loan to Housing (16.6%), Consumer durables (20.3%), Vehicle Loans (23.5%) and Credit Card Outstanding (28.7%) have also posted high growth in Oct 2016 on a y-o-y basis.
- Credit to industry degrew by 1.7% on Oct'16 compared to 0.7% in Sep'16. It may be noted that the negative growth in credit to industry is observed in July'16, Aug'16 and Oct'16 on a y-o-y basis.
- Growth in Bank credit to industry was 0.2% during Apr-Oct, FY'17 compared to 5% growth recorded during Apr-Sep, FY'16.
- Credit to infrastructure sectors used to be in the 8-10% range between Apr'15 and Mar'16 is experiencing anemic growth since Apr'16.
- Credit growth to infrastructure has been negative in each of the six months and was -3.2% during Apr-Oct, FY'17 compared 8.8% during Apr-Oct, FY'16.
- Focus on stressed asset management by PSBs which are one of the major financiers of infrastructure projects is partly responsible.

Inflation

- The latest reading for both WPI and CPI which is for Nov'16 indicates continued moderation in inflation at the retail level and the wholesale level.
- While WPI based inflation paced down to 3.15% in Nov'16 from 3.4% in Oct'16, CPI based inflation fell to 3.63% in Nov'16 from 4.2% in Oct'16 on y-o-y basis. The provisional WPI for Sep'16 has been revised upwards from 3.6% to 3.80%.
- For CPI, the only component to record negative growth on y-o-y basis was for vegetables which dipped by -10.29% which has a weight of 6.04%. While all others recorded positive growth with sugar and related products surging the highest at 22.40%.
- CPI based inflation on m-o-m seasonally adjusted (SA) basis was also negative for Nov'16. In fact, SA m-o-m inflation was negative for all months since Aug'16 except for Oct'16.
- WPI based inflation quickened to 0.4% in Nov'16 compared to 0.1% in Oct'16. Except Aug'16 and Sep'16, SA m-o-m based WPI has been positive for all moths in FY'17
- Agriculture related product inflation which had been a matter of concern since Apr'16 has eased significantly in the past three months on y-o-y basis.
- Fuel and power, and manufactured products inflation is slowly building up as suggested by WPI inflation.

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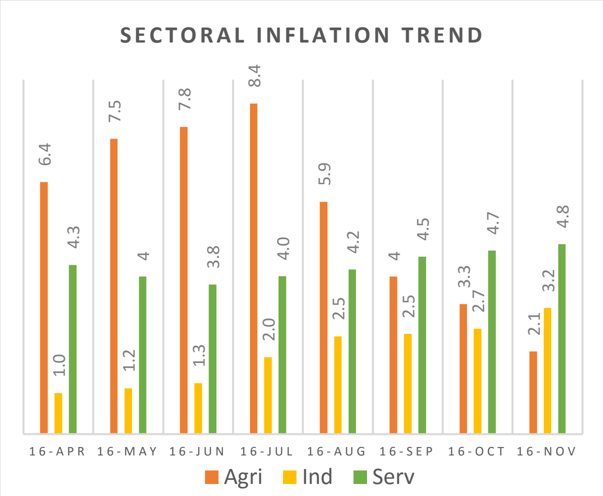
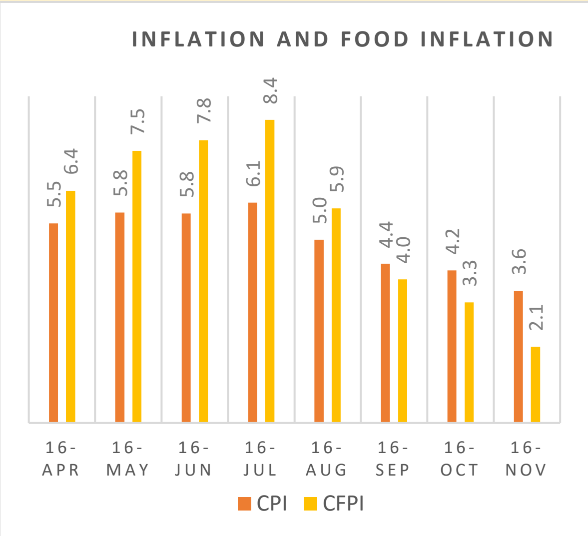




Food Inflation-Converging Trends From WPI and CPI

(y-o-y)

	Food	Pulses	Cereals	Veg	Fruits	Egg	Sugar
CPI							
Weight	45.86	2.38	9.67	6.04	2.89	0.43	1.36
16-Apr	6.4	34.2	2.5	5.0	1.7	6.6	11.2
16-May	7.5	31.6	2.6	10.8	2.6	9.0	14.1
16-Jun	7.8	26.9	3.1	14.8	2.8	5.5	16.8
16-Jul	8.35	27.5	3.9	14.0	3.5	9.3	21.9
16-Aug	5.9	21.9	4.1	1.0	4.4	9.6	24.8
16-Sep	4.0	14.3	4.3	-7.1	6.0	9.9	25.9
16-Oct	3.3	4.1	4.4	-5.7	4.4	9.5	23.6
16-Nov	2.1	0.2	4.9	-10.3	4.6	8.6	22.4
WPI							
Weight	14.33	0.72	3.37	1.74	2.1	0.19	1.73
16-Apr	4.7	36.5	4.2	2.9	-1.8	1.4	17.3
16-May	8.2	35.8	5.9	13.3	3.9	11.1	22.4
16-Jun	8.6	26.6	7.8	17.2	6.4	4.4	26.4
16-Jul	12.6	38.3	9.2	28.4	17.4	11.5	33.0
16-Aug	8.9	34.2	9.5	0.2	13.9	9.8	35.4
16-Sep	6.4	24.0	9.1	-10.9	14.1	10.0	32.9
16-Oct	4.3	21.8	6.1	-10.0	6.4	10.3	29.6
16-Nov	1.5	21.7	7.3	-24.1	2.5	4.5	31.8

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

- Though WPI inflation has not reached the stage of concern, gradual building up of manufactured products inflation and fuel inflation given the developments relating to fuel supply needs monitoring.
- Services inflation is gradually gaining momentum from 3.8% in June'16 and reached 4.8% in Nov'16.
- RBI has highlighted the concerns regarding inflation given the CPI inflation excluding food and fuel remaining steady and OPECs agreement to cut production.

Food Inflation

- Food inflation is down both at retail (CPI) and wholesale (WPI) level.
- Food inflation at 8.4% which had been the major driver of high print for CPI in July'16 has come down to 3.3% in Oct'16 and further to 2.1% on y-o-y basis.
- Food component of WPI based inflation is down from 12.6% in Jul'16 to 4.3% in Oct'16 and 1.5% in Nov'16 on y-o-y basis.
- The CPI food inflation which had turned positive (0.21%) on m-o-m seasonally adjusted (SA) basis in Oct'16 again turned negative in Nov'16(-0.6%).
- Seasonally Adjusted CPI food inflation had been negative in July'16(-0.12%), Aug'16(-1.5%) and Sep'16 (-1.2%).
- Seasonally Adjusted WPI food inflation has been negative a in all months during Aug'16-Nov'16.
- It is expected that food inflation will sustain its downward trend in the coming months on the back of good production.
- Inflation of vegetables which used to be more than 10% during May-July 2016 has turned negative in Sep and Oct 2016. Significant moderation is seen in the inflation for Pulses.
- Only Sugar continued to exhibit double digit inflation in the CPI basket in Oct'16 and Eggs higher single digit inflation.
- From an index perspective, Cereals, Pulses, Vegetables and sugar which have a combined weight of 21% in CPI are witnessing significant moderation in their inflation. Hence from an overall CPI perspective, there is good relief.

Drivers of Food Inflation

- Rainfall in adequate quantity, at the appropriate time and spatially well distributed, generally have an assuaging effect on food inflation.

Monsoon-South West

- Seasonal rainfalls over Northwest India, Central India, South Peninsula and Northeast India were 95%, 106%, 92% and 89% of their respective LPA.
- Out of the total 36 meteorological subdivisions, 11 sub-divisions constituting 30% of the total area of the country received normal rainfall and 3 sub-divisions received excess rainfall (13% of the total area) during the season.
- However, 8 sub-divisions constituting 26% of the total area of the country received deficient seasonal rainfall.
- Monthly rainfall over the country as a whole was 89% of LPA in June, 107% of LPA in July, 91% of LPA in August and 97% of LPA in September.

Monsoon-North East

- Though IMD had predicted a normal North-east monsoon season (October-December) 2016, for the country as a whole, cumulative rainfall during this year's post-monsoon (beginning Oct 1, 2016) has so far up to 14 December been 43% below LPA.

Drivers of Food Inflation

Monsoon-North East

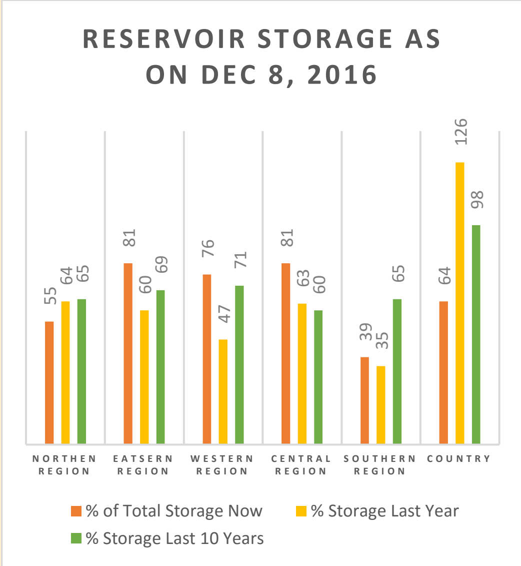
- As on Dec 14, Northwest (-67%) had the highest departure from the LPA followed by Southern Peninsula (-60%) and East and North East (-25%) and Central India at (-11%).
- As on Dec 14, 2016, only 5 out of 36 meteorological subdivisions had received excess rainfall. As on that date, 25 sub divisions had received deficient rain. Only 6 sub divisions had normal rainfall.
- The northeast monsoon is likely to remain weak over the southern peninsula because of the late onset of La Niña and a predominantly northward movement of the cyclonic disturbances.
- It may be noted that the south Peninsula receives about 30% of its annual rainfall during the NE monsoon season. Tamil Nadu in particular receives about 48% of its annual rainfall during this season.
- During 2015, a strong El Niño and the side effects of warming of the surface temperature of north Indian Ocean had resulted in active cyclones with a pre -dominant westward motion. Several parts of Tamil Nadu were inundated due to the heavy cyclonic rains last year.
- Though south west monsoon had been normal, a below normal north east monsoon act as a constraint to achieve 4% agricultural growth.
- The Meteorological Department has cautioned about a severe cyclonic storm Vardah over west central and adjoining south Bay of Bengal. It is expected that would be heavy rainfall and storm causing harm to hutments and dwellers in the areas.

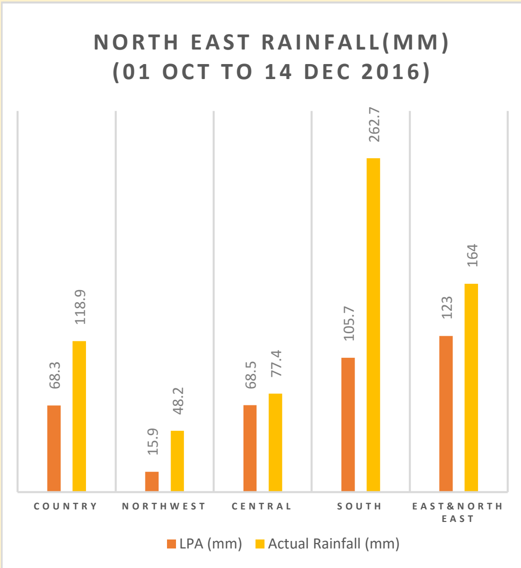
Storage in Reservoirs

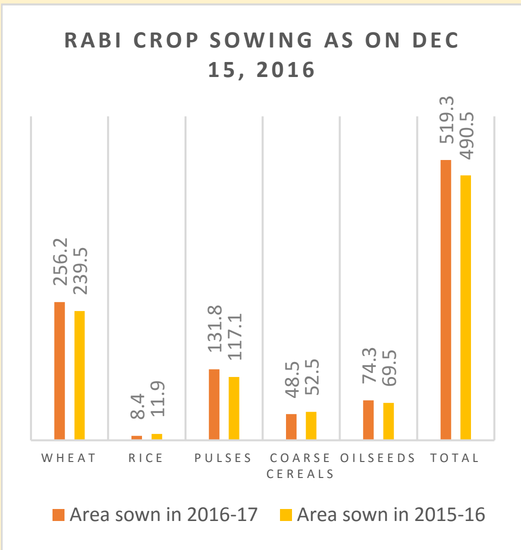
- Water level in 91 large reservoirs across the country touched 64% of their combined capacity as on Dec 8, 2016. The live storage in these reservoirs is 126% of their live storage in the corresponding period of last year and 98% of storage of average of last 10 years.
- States having better storage than last year for corresponding period are Punjab, Rajasthan, Jharkhand, Odisha, West Bengal, Gujarat, Maharashtra, Uttar Pradesh, Madhya Pradesh, Chhattisgarh, AP&TG (Two combined projects in both states), Telangana and Karnataka.
- State having equal storage than last year for corresponding period is Uttarakhand.
- States having lesser storage than last year for corresponding period are Himachal Pradesh, Andhra Pradesh, Tripura, Kerala and Tamil Nadu.

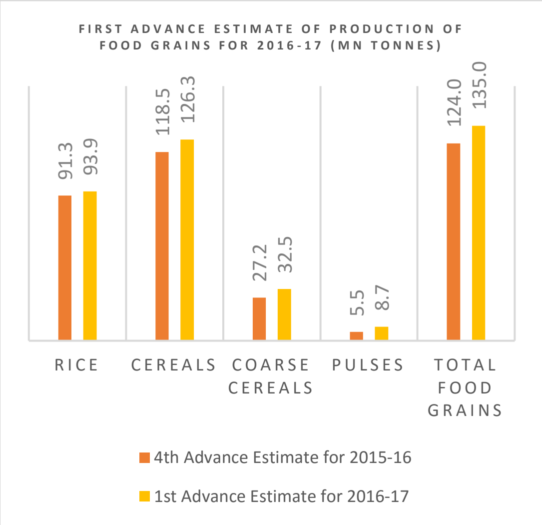
Area Under Cultivation

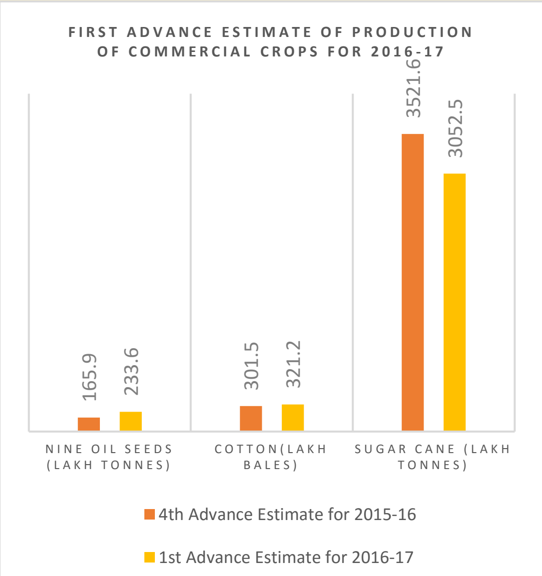
- As per preliminary reports received from the States, the total area sown under Rabi crops as on 9th December, 2016 stands at 472.43 lakh hectares as compared to 438.90 lakh hectare this time in 2015.
- Wheat has been sown/transplanted in 225.63 lakh hectares, pulses in 121.74 lakh hectares, coarse cereals in 44.83 lakh hectares and area sown under oilseeds in 72.23 lakh hectares.
- The Pradhan Mantri Fasal Bima Yojana (PMFBY) launched in the country from Kharif 2016 has provided coverage to 366.64 lakh farmers (26.50%) and it is expected to exceed the target of 30% coverage for both Kharif and Rabi seasons in 2016-17.

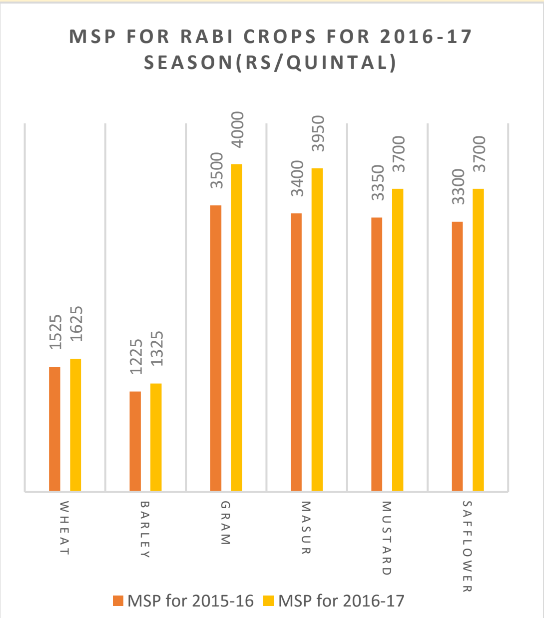












Drivers of Food Inflation

- The Ministry of Agriculture has set the country's grain production target at 270.10 million tonne (mt) for the 2016-17 crop year (July-June), 6.7% higher than the actual grain production of 253.23 mt in 2015-16.
- As per the 1st Advance Estimates for 2016-17, total production of Kharif foodgrains is estimated at 135.03 million tonnes which is a new record. If realized, production will be higher by 11.02 million tonnes as compared to last year's Kharif foodgrains production of 124.01 million tonnes.
- Production of Kharif rice is estimated at 93.88 million tonnes, and that of Kharif pulses is estimated at 8.70 million tonnes a new record.
- To give a boost to production of rabi crops, Government has upwardly revised the procurement prices of a number of rabi crops. Besides, accepting the recommendations of CACP to increase MSPs of both Kharif and Rabi pulses for 2016-17 season, Government has announced a bonus of Rs.425 per quintal for Kharif Pulses viz. Arhar, Moong and Urad, Rs.200 per quintal for Gram and Rs.150 per quintal for Masur.

RBI's Households' Inflation Expectations - November 2016

- Households' inflation expectations for three-month as well as one-year ahead period moved down in November 2016 as per the Inflation Expectations Survey of Households conducted by the Reserve Bank of India (RBI)
- The proportion of respondents expecting general prices to rise by 'more than current rate' in three-month and one-year ahead declined sharply in November 2016 round. Similar sentiments were observed across all product groups.
- Three-month and one-year ahead median inflation rates declined sharply by 130 basis points in this round compared to September 2016 round.

Inflation and Rate Outlook

- RBI expects headline inflation to be around 5% by March 2017 with lesser upside risks as compared to those highlighted in fourth bi-monthly review in Oct 2016. The inflation projection has been guided by the following considerations:
  - In the subsequent months, base effects are expected to reverse and turn unfavourable in December and February.
  - Core CPI inflation (excluding food and fuel) has been stubborn and could set a floor to headline inflation.
  - While withdrawal of SBNs could result in a 10-15 bps reduction in CPI in Q3, depreciation of the rupee on account of hardening of crude prices and US Treasury yields can feed into inflation.
- As Fed increased its benchmark rate by 25 bps in December 2016 and oil prices are expected to have an upward bias, the exchange rate will have a depreciating bias.
- The next policy review is scheduled on Feb 7, 2016 by which time two major developments would have taken place. First, greater clarity about economic policies and priorities of Trump Administration. Second, the fiscal stance as revealed from Union Budget 2017-18 union Budget.

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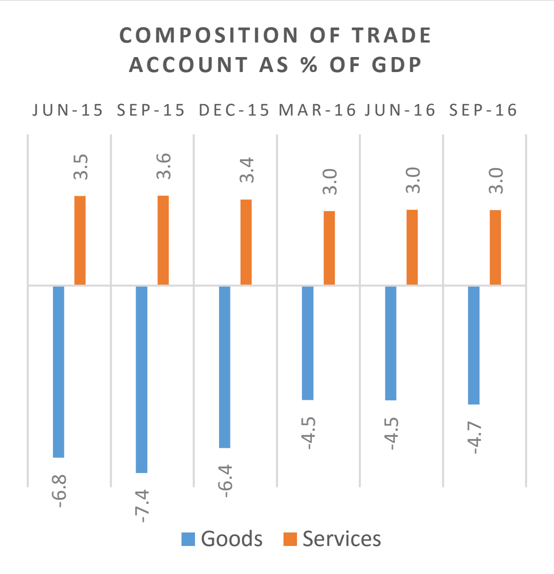
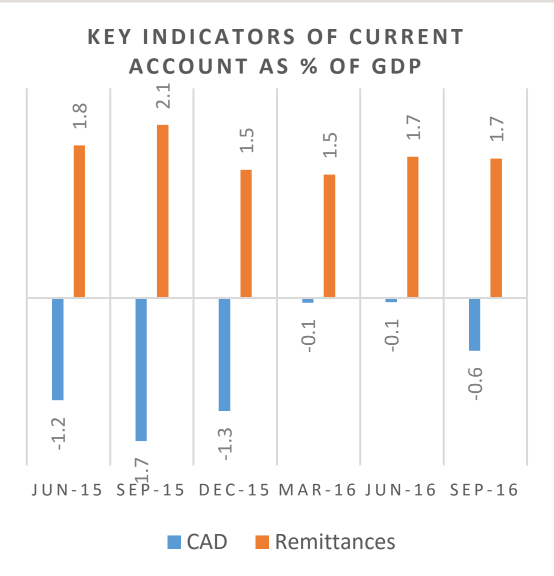
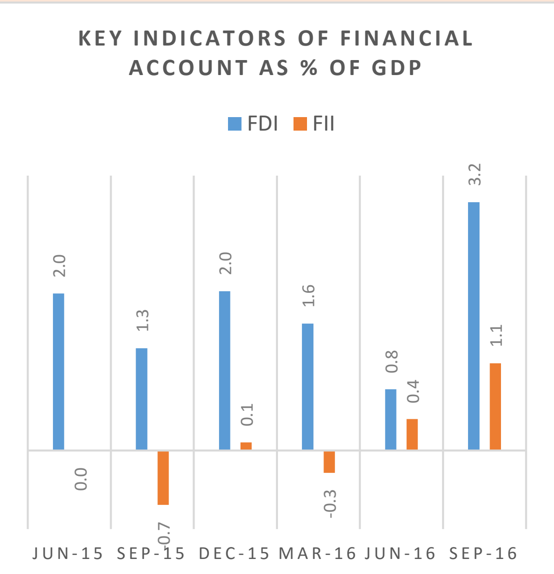






Inflation and Rate Outlook

- In most likelihood, government will adhere to the path of fiscal prudence and Fed policy rate will have an upward bias.
- RBI will be keenly observing the inflation and growth trajectory post demonetisation and will be taking cognizance of the external developments in deciding its policy stance.

External Sector

- India's trade competitiveness has deteriorated continuously since April 2016 through November 2016 as reflected in a rise in 36-Currency Export and Trade Based Weights REER and also the 6-Currency Trade Based Weights REER.
- Exports continued to revive even in November 2016 by showing a positive growth of 2.29% in dollar terms to reach US$20bn.
- Cumulative value of exports for the period April-November 2016-17 was US$ 174922.78 million registering a positive growth of 0.10 per cent in Dollar terms.
- Non-petroleum exports in November 2016 were valued at US$ 17602.33 million, an increase of 2.1 % on Y-o-Y basis. Non-petroleum exports during April-November 2016-17 were valued at US$ 155713.51 million, an increase of 1.8%.
- Imports increased by 10.44% year-on-year in Nov'16 to US $33.02 billion.
- Non-oil imports increased by a faster pace at 11.70% in Nov-16 to US$26.18 billion.
- Cumulative value of imports for the period April-November 2016-17 was US$ 241101.60 million registering a negative growth of 8.44 per cent in Dollar terms.

The BoP data for the period Apr-Sep 2016 was published by RBI on Dec 13, 2016. The key points from the BoP for Apr-Sep 2016 are

- The current account deficit (CAD) narrowed to US$ 3.7 billion (0.3 per cent of GDP) in H1 of 2016-17, significantly lower than US$ 14.7 billion (1.5 per cent of GDP) in H1 of 2015-16 due to contraction in trade deficit.
- The contraction in the CAD was primarily on account of a lower trade deficit (US$ 49.5 billion) than in H1 of last year (US$ 71.3 billion).
- Net invisible receipts were lower, mainly due to moderation in software exports and private transfers and higher outgo on account of primary income (profit, interest and dividends).
- Net FDI inflows during H1 of 2016-17 rose by more than 28.8 per cent over the level during the corresponding period of the previous year.
- Portfolio investment recorded a net inflow of US$ 8.2 billion during H1 as against a net outflow of US$ 3.5 billion a year ago.
- Foreign exchange reserves (on a BoP basis) increased by US$ 15.5 billion in H1 of 2016-17.
- Oil price dynamics will have a significant bearing for the BoP in the third quarter of FY'17.

Exchange Rate Outlook

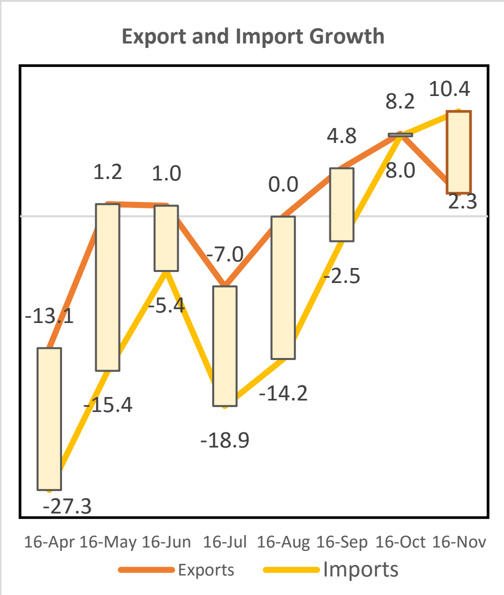
- US Fed has effected a rate hike in its meeting held during Dec 13-14, 2016. This will encourage capital flight from emerging markets. India will also experience pressure of capital outflow. The extent of capital outflow will be governed by the growth prospects.
- With the OPEC deal already done and non-OPEC members also extending their support to cut production, crude oil prices around US$55 will be the new normal. The possibility of a supply augmentation from fracking will put price around US$65 as the ceiling. Notwithstanding the ceiling to crude price, India will lose quite a bit of the windfall gain.
- The first impact will be on the oil import bill which will create additional demand for dollars putting the rupee under pressure as India will also lose a bit of its appeal as there will be a transitional dip in India's growth following demonetization will also add to the pressure on rupee in the short term.
- Thus, a confluence of external developments and transitional domestic economic adjustment will create a depreciating bias for the Indian rupee.

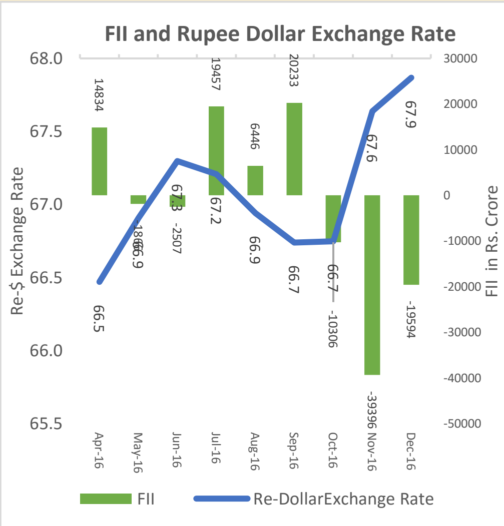
Fiscal Sector

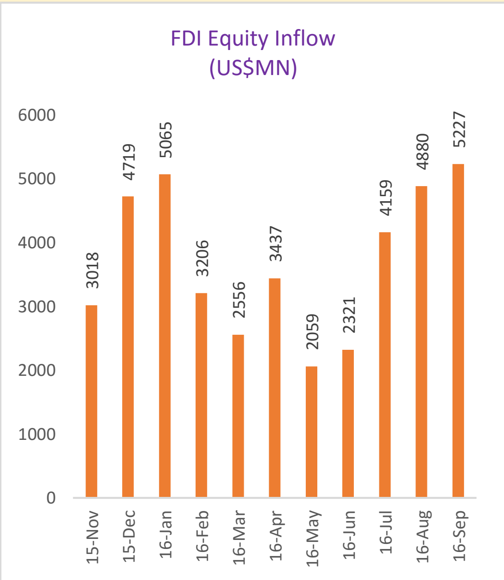
GST-Six meetings of the GST Council were held on the following dates - 22-23 September, 2016; 30 September, 2016; 18-19 October, 2016; 3-4 November, 2016; 2-3 December, 2016 and 11 December, 2016.

Some of the important decisions taken in the last six Meetings of the GST Council paving way for roll out of GST with effect from 1st April 2017 are:

- The threshold limit for exemption from levy of GST would be Rs.20 lakhs for normal States (Rs.10 lakhs for the Special Category States enumerated in Article 279A of the Constitution).
- To compensate States for 5 years for loss of revenue due to implementation of GST, the base year for the revenue of the State would be 2015-16 and a fixed growth rate of 14% will be applied to it.
- Approval of the Draft GST Rules on Registration; Payment; Return; Refund and Invoice, Debit & Credit Notes with the understanding that minor changes may be permitted with the approval of the Chairperson, if required, due to suggestions from the stakeholders or from the Law Department.
- All entities exempted from payment of indirect tax under any existing tax incentive scheme would pay tax in the GST regime and the decision to continue with any incentive scheme shall be with the concerned State or Central Government. In case any State Government or Central Government decides to continue any existing exemption/incentive scheme, it will be administered by way of a reimbursement mechanism.
- Bands of rates of goods under GST shall be 5%, 12%, 18% and 28% and in addition there would be a category of exempt goods. Further, a cess would be levied on certain goods such as luxury cars, aerated drinks, pan masala and tobacco products.
- Despite the consensus on most of the issues, contentious issues remain and they are dual control, list of items in tax bracket and model CGST and IGST laws. Given the possibility of passing the CGST and IGST laws in the Budget Session in early February and subsequent passage of state GST law in their Assemblies, the deadline for implementation of April appears to be daunting. However, the government has time till September 2017 i.e. one year from passing of Constitutional Amendment Bill by Parliament to pass the law.

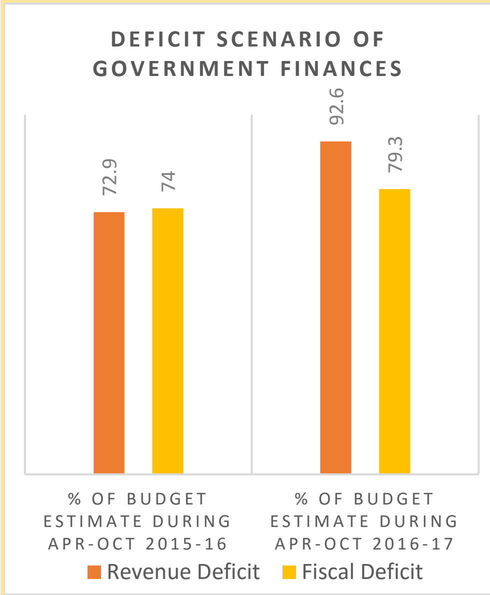


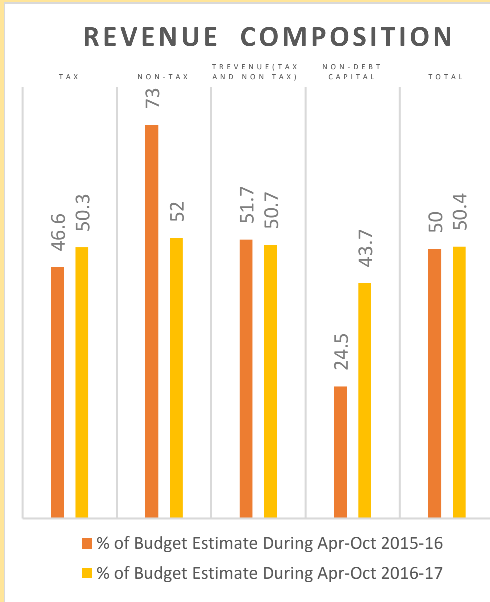


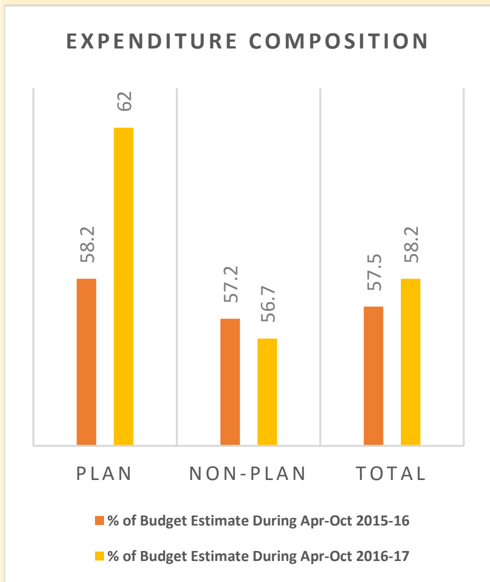


Tax Collection

- During November 2016, the net indirect tax (with ARM) grew at the rate of **23.1%** compared to corresponding month last year. The growth rate in net collection for Customs, Central Excise and Service Tax was **16.1%, 33.7%** and **15.5%** respectively during the month of November, 2016, compared to the corresponding month last year. However, the total indirect tax collection (with ARM) for the month of November 2016 showed a decline of 13.9% over October 2016 figures.
- Net indirect tax collections (Central Excise, Service Tax and Customs) during Apr-Nov 2016 grew by 26.2% on a y-o-y basis to reach Rs 5.52 lakh crore. Till November 2016, 71.1% of the Budget Estimates of indirect taxes for Financial Year 2016-17 has been achieved.
- During the Apr-Nov period on Y-o-Y basis, growth in net central excise, sevice tax and custom collections was 43.5%, 25.7% and 5.6% to reach Rs.2.43 lakh crore, 1.60 lakh crore and 1.48 lakh crore respectively.
- Net Direct Taxes collection grew by 15.12% during Apr-Nov, 2016 on a y-o-y basis to reach Rs.4.12 lakh crore. Till November, 2016, 48.67% of the Budget Estimates of direct taxes for FY 2016-17 has been achieved.
- After adjusting for refunds, the net growth in CIT collections was 8.75% while that in PIT collections is 23.89% during Apr-Nov 2016 on a y-o-y basis.
- Refunds amounting to Rs.1,05,561 crore have been issued during April-November, 2016, which is 17.35% higher on a Y-o-Y basis.
- Post demonetisation initiative, Income Tax Searches lead to Admission of Undisclosed Incomes of Rs. 2600 Crore of Specified During Nov 8-Dec 16, 2016.
- While Searches have been carried out in 291 cases across the country, 295 cases have been covered by survey action. In addition to these, open enquiries have been effected in more than 3000 cases. Approximately Rs. 393Crore including Rs. 316 Crore cash and Rs. 77 crore worth of jewellery has been seized. Of the cash seizure, about Rs. 80 crore is in new currency. As a result of these investigations, approximately Rs.2600 crore of undisclosed income has been admitted by the taxpayers.
- The government offered a “last window”, Pradhan Mantri Garib Kalyan Yojana (PMGKY), 2016, launched on December 17 to people with unaccounted wealth to come clean or face stringent penalties while inviting others to blow the whistle on those suspected to be holding unaccounted money as it launched the scheme. The scheme will remain open until March 31, 2017.
- Those who declare cash deposits under PMGKY will be levied a charge of 50%, which comprises 30% tax, surcharge at the rate of 30% on tax and 10% penalty. In addition to this, 25% of the amount declared will go into the noninterest-bearing Pradhan Mantri Garib Kalyan Deposit Scheme, 2016, for four years.
- Declarations under PMGKY will be confidential and those taking advantage of it will escape prosecution. Part of PMGKY’s proceeds will be used for the benefit of the poor.
- Those who don’t take advantage of the scheme and are caught later will face up to 85% penalty, besides prosecution. Not declaring undisclosed cash or deposits in banks under the scheme now but showing it as income in the tax return form would attract a total of 77.25% in taxes and penalty.







Rate Decision by Major Central Banks

RBI

- As per our estimate given in the November 2016 edition of Monthly Macro Insights (http://www.bankofbaroda.co.in/Economic_Scenario.asp), RBI has kept the policy rates unchanged in its fifth bi monthly policy review on Dec 7, 2016.
- Two broad forces drove the decision. First, upside risks to 5% inflation target by March 2017 because of waning base effect and stickiness of core CPI inflation. Second, hardening of yields on US Treasury following the election of Mr. Trump as the new US president and OPEC decision to cut crude production that will put pressure on the rupee to depreciate.

FED

- In its FOMC meeting during Dec 13-14, 2016, Fed increased the target range for federal funds rate to 1/2 to 3/4 % (0.50% to 0.75%) but strongly signalled it could still tighten monetary policy in 2017 as the labour market improves further and there is return to 2 per cent inflation.
- The Fed Chairperson held that US growth was looking stronger and rate increases would be needed to keep the economy from overheating and fuelling high inflation. In case of higher inflation, there is a possibility of an aggressive stance on interest rates going ahead.
- Fed conveyed that two to three rate increases are possible in 2017 if the job market continued to improve, inflation surges and major new risks did not arise. Further, the incoming governments promise to boost growth through tax cuts, spending and deregulation.
- The Fed also projected an aggressive rise in interest rates next year and in 2018, and restores its longer-run interest rate forecast to 3.0% from 2.9%.

ECB

- The Governing Council of the ECB on Dec 8, 2016 left the interest rate on the main refinancing operations, interest rates on the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.40% respectively.
- The Governing Council continues to expect the key ECB interest rates to remain at current or lower levels for an extended period of time, and well past the horizon of the net asset purchases.
- ECB decided to continue its QE program at €80 billion per month until the end of March 2017. From April 2017, the net asset purchases are intended to continue at a monthly pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.

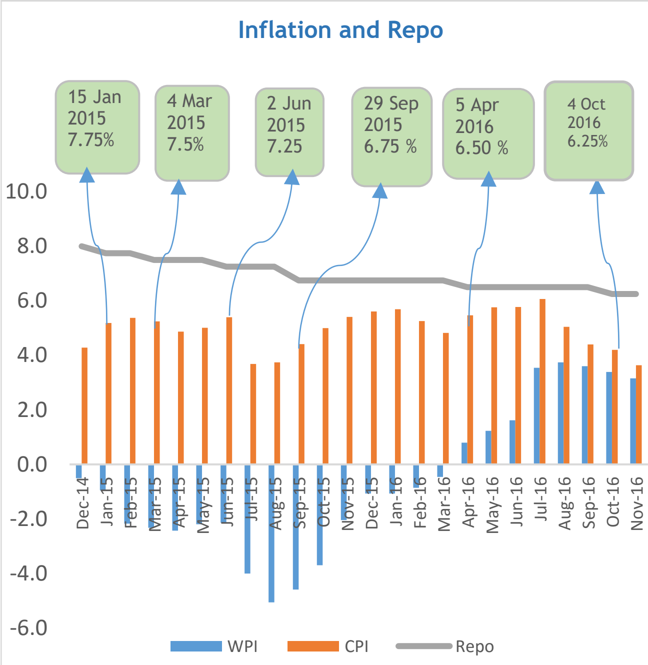
RBI-Policy Rates

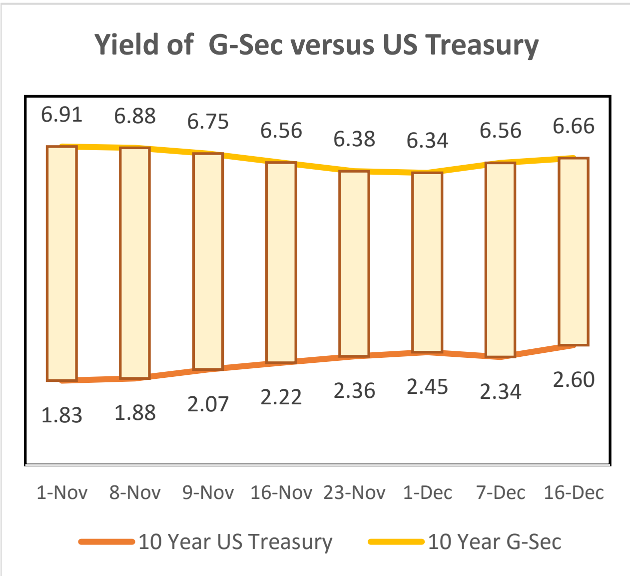
- Following the policy review on Dec 7, 2016, the new policy rates and ratios are as given below

Policy Rates and Ratios (%)

Repo- 6.25
Reverse Repo- 5.75
Bank rate -6.75
MSF- 6.75
CRR- 4
SLR- 20.75

REPO AND INFLATION DYNAMICS





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Rate Decision by Major Central Banks

BoE

- At its meeting ending on 3 November 2016, the nine members of the MPC voted unanimously to maintain Bank Rate at 0.25%, the level to which they were cut in August in the wake of the Brexit vote.
- The Committee voted unanimously to continue with the programme of sterling non-financial investment-grade corporate bond purchases totalling up to £10 billion, financed by the issuance of central bank reserves.
- The Committee also voted unanimously to continue with the programme of £60 billion of UK government bond purchases to take the total stock of these purchases to £435 billion, financed by the issuance of central bank reserves.
- BoE had maintained in September that the bank rate most likely was going to be lowered for a second time post-referendum to bring the rate close to zero. The unanimous view to hold to rates indicated the widespread belief that conditions have indeed picked up.
- A slew of positive reports before the rate decision showed steady growth in the dominant services sector, as well as in manufacturing and construction in October. These reports follow a better-than-expected overall GDP reading for the third quarter last week. In fact BoE's own forecasts have been revised higher. It is now predicting growth of 2.2% in 2016 and 1.4% in 2017, up from 2% and 0.8% in August.
- Growth estimate for 2018 however has been pared down to 1.5% from 1.8% and inflation will be much above the 2% inflation target at 2.8%. While high inflation would require increase in policy rates, subdued growth would demand just the opposite putting policy makers in a quandary.

BoJ

- In its monetary policy meeting on Nov 1, 2016, BoJ decided to maintain interest rate of -0.1% on some of the excess reserves that financial institutions park with it.
- The Bank will continue with interest rate targeting. The Bank maintained its purchase of Japanese government bonds so that the 10-year JGB yield will remain at zero percent.
- It added a long-term interest rate target to its massive asset-buying programme, overhauling its policy framework and recommitting to reaching its 2% inflation target as quickly as possible.
- BoJ maintained that it will allow inflation to overshoot its target by maintaining an ultra-loose policy.

Financial and Commodities Markets

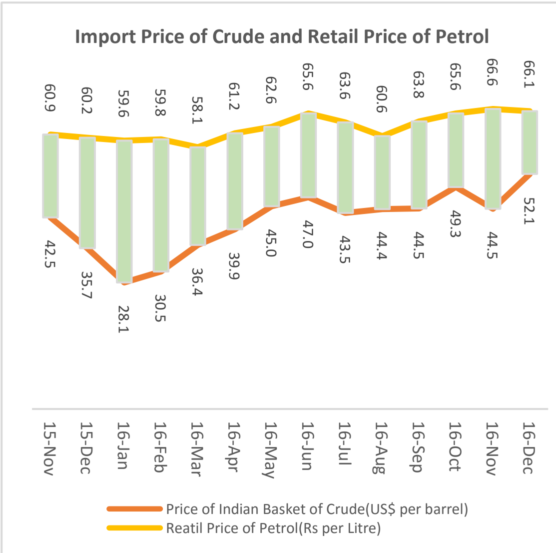
- The G-Sec yield which had softened significantly due to the liquidity surge and expectation of a 25 bps rate cut to support domestic economy following the demonetization initiative and the significant decline in inflation.
- As RBI did not change rates, there was a correction in the market expectations and G-Sec yields again shot up by around 25 bps falling the status quoist monetary policy.
- The status quoist approach to rates also helped the Rupee to regain some of the lost ground against the dollar.
- Inflow of liquidity to the banking system helped the call rate to be below the repo rate for all days in December 2016
- As expected, the US Fed increased its target rate and offered a hawkish future stance of interest rates, the stock indices declined. Also, the yields on short-term U.S. debt surged and their exchange rate appreciated given the expectations of better growth in US.
- In December month, the stock markets were influenced by the actions of the central bank wherein the markets expected the US Fed to hike rates of 25 bps in view of the growing US economy which materialized along with a hawkish statement by the US Fed on future rate hikes. Further, given the growth uncertainty, the ECB continued its stimulus measures that saw markets surging.
- The domestic stock markets were affected by the global developments and remained concerned about the future portfolio flows. Further, the markets remained concerned about the growth prospects amidst the RBI maintained its rates quo in the fifth review of the monetary policy.
- From November 9, 2016 (post demonetization) to December 16, 2016, the largest decline was in the sectoral indices of BSE of Consumer Durables, Consumer Discretionary Goods and Services (CDGS), Auto, finance reflecting the impact on compression of consumption demand. IT index showed a growth of 5.34% while BSE Sensex dipped by -2.80% during the period under review.
- Going ahead, the stock markets are expected to remain range bound with downward bias as the markets would realign itself amidst global and domestic uncertainties. The markets would focus on new policies in US following the new Government assuming the charge of the office. The pace at which the domestic economy recuperates from the demand disruptions would keep the markets in a range.
- Gold prices dropped to their lowest in over 10 months, with the dollar surging after the United States raised interest rates for the first time in a year and signalled further hikes for 2017.
- Crude oil prices have shot up by more than 15% following the OPEC deal. The impact at the retail level will not be as sharp because the pass through of lower global crude prices to retail prices have been much lower.
- Oil prices dropped as a hike in U.S. interest rates drove money away from commodities and into U.S. bonds and the dollar, but a tighter fuel market looms in 2017 due to planned production cuts led by OPEC and Russia.

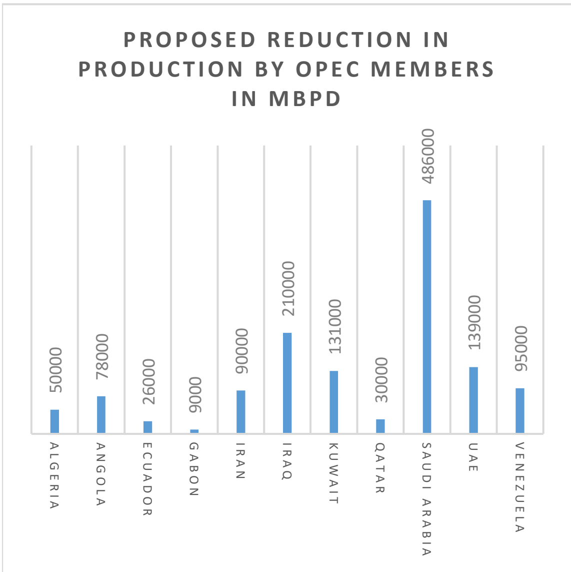
Drivers of International Crude Oil Prices

- Following its 171 meeting in Vienna, OPEC has decided to reduce production by around 1.2 mb/d to bring its ceiling to 32.5 mb/d, effective 1st of January 2017 to restore a global oil demand and supply balance. The duration of this agreement is six months.
- Following the agreement, Saudi Arabia, Iraq, UAE, and Kuwait making the biggest absolute cuts in production. Saudi Arabia will cut about 486,000 barrels per day by reducing output to 10.06 million bpd. However, seen from a different perspective, the proposed cut amounts to all members except Iran reducing their production by 4.6% from current (October 2106) levels. While Iran has been allowed to have a smaller cut of 2.3% to address its concerns owing to sanction for a long period, Libya and Nigeria have been exempted from production cut, as their output has been hurt by unrest and violence.
- The decision to reduce output to support process got a further boost as Non OPEC countries also agreed on Dec 10, 2016 to reduce output by 558,000 barrels a day, the largest-ever contribution by non-OPEC countries. Russia has pledged to cut most among the non-OPEC countries at 300,000 barrels a day.
- The success of the OPEC to lift international crude prices will be dependent on two factors. First, some OPEC countries may not adhere to the agreed reductions. Second, as price of crude increases beyond a threshold, it will prompt many fracking companies in North Dakota and Texas to start drilling again, supplying more crude and driving the market back down.
- The International Energy Agency has held that oil markets would find themselves more balanced in the first half of next year if the Organization of the Petroleum Exporting Countries and its allies acted on their pledge to reduce supplies.
- The IEA has held that OPEC and its non-OPEC partners stick to their pledges, global inventories could start to draw in the first half of 2017. It may be observed that, commercial inventories in industrialized countries fell in October for the third month in a row. They have drawn 75 million since reaching a historical high in July, but remain 300 million above the five-year average.
- Global oil demand growth is also better than expected and rose by 1.4 million barrels a day in 2016, 120,000 barrels a day above the IEA's previous forecast, largely due to robust U.S. demand. Robust third-quarter demand in the U.S. and methodological changes for China were the main factors. The agency also upgraded its global oil demand growth forecast by 110,000 barrels a day in 2017 to 1.3 million barrels a day.
- OPEC crude oil production averaged 32.32m b/d during 2015, increasing by 0.93m b/d, or 3.0 per cent, over 2014, the first surge in production after two years of decline.
- In 2015, the top three crude oil producing countries were Saudi Arabia (10.19m b/d), Russia (10.11m b/d) and the United States (9.43m b/d). Saudi Arabia displaced Russia from first place for the first time since 2005.
- World oil demand averaged 93.0m b/d in 2015, up by 1.7 per cent y-o-y, with the largest increases taking place in Asia Pacific, particularly India and China, North America, Western Europe, the Middle East and Africa.
- Global crude oil price have increased by more than 15% since the OPEC deal was struck.

Implication of Oil price hike on India

- Price of Indian basket of crude has increased by 17.3% between end November and mid December 2016. If we consider a slightly longer horizon, prices have increased by more than 85% during Jan -2016 and Dec 2016.
- According to World Energy Outlook-2015, published by International Energy Agency, India's oil demand is estimated to grow by 6 million barrels per day (mb/d), which is the largest projected for any country's oil demand, from 3.8 mb/d in 2014 to 9.8 mb/d by 2040.
- An increase in oil prices poses a triple whammy. Directly by influencing oil prices in the inflation basket and indirectly through pressure on government finances and the exchange rate.





Banking

Competition in the Lending Space

- Though RBI has adopted a status quoist approach to policy rates, banks on their own have lowered benchmark lending rates taking advantage of the excess liquidity.
- Among select 12 banks (6 from the PSB space and 6 New Private Banks), 9 have revised down their 1 year MCLR, 1 revised its base rate and 9 in their FD rates for 1-2 years.
- Base rates of these banks varied within a range of 135 bps. HDFC Bank had the lowest base rate at 9.25% and IndusInd Bank had the highest base rate at 10.60%.
- Four banks namely SBI, HDFC, Axis Bank and ICICI had the lowest MCLR rates at 8.90% in the 1-year tenure and IndusInd continued to have the highest MCLR rates in the 1-year tenure.
- Variation in MCLR reduced to a range of 55 bps from 70 bps in the previous month. Range among the 12 banks with respect to deposit rates further narrowed down to 50 bps in December 2016 from 60 bps in November 2016 for term deposits of tenure between 1 year-2 years and for less than Rs. 1 crore.

Innovation

Digital Lending Facility For Small Customers-A new venture called 'Arth Impact', an NBFC with the express purpose of undertaking digital lending to the bottom-rung customer founded by Manish Khera, former CEO of Airtel Payments Bank and former MD of Fino PayTech aims to cater to micro-entrepreneurs and migrant and semi-skilled workers. Small ticket size loans ranging from Rs. 15000 to Rs. 50000 with individual based proper risk assessment, catering to the urban population, is termed to be the forte of the business model. Operational costs are reported to be minimised through a digital medium and back-end credit assessment as gender-neutral lending is expected to differentiate the new venture from others in the market.

'INDIA QR' for seamless payments-In a bid to boost cashless economy, the government has led an initiative for an interoperable Quick Response (QR) code functional across payment platforms such as MasterCard, Visa and Rupay. These QR code based payments eliminate the need of a card swipe machine as well as debit cards. The common QR code-based payments solution will be called India QR and is expected to be launched in January 2017.

Development

ICICI Bank raises $88 million via Japanese `Pro-bonds'- ICICI Bank, has raised 10 billion Japanese yen ($88 million) by selling a new series of bonds known as pro-bonds, the first issue of its kind by an Indian company. The bank acting through its DIFC (Dubai) branch, priced an issuance of 5-year fixed rate notes for an aggregate principal amount of JPY 10 billion under the bank's Tokyo Pro-Bond Programme, which is listed in Tokyo Stock Exchange. Japan-based pro-bonds, which came into existence in 2008, target professional investors and are aimed at developing Japan's bond market. The issue was rated as BBB-, the lowest in the investment grade in line with India's sovereign rating. The bonds will mature in five years and offer 0.678% fixed rate. Through this route, Japanese institutional investors, who are facing negative interest rates, can earn higher rates.

RBI utilises CRR as a tool to control money supply-With effect from Nov 26, 2016, RBI introduced a transitory measure to absorb the liquidity deluge through an incremental Cash Reserve Ratio (CRR) of 100 per cent on the increase in NDTL (net demand and time liabilities) between September 16 and November 11, 2016.

Rationale for the Move- Between September 16, 2016 and November 11, 2016, aggregate deposits of Banks increased by Rs. 3.24 lakh crores. The move with regard to CRR should be seen in the light of Rs. 5.44 lakh crores received by banks during November 10, 2016 and November 18, 2016 (exchange amounted to Rs. 33,006 crore and deposits amounted to Rs. 5.11 lakh crore).

- The increase in liquidity had prompted banks to invest in G-Secs, driving down their yield. The decline in G-Sec yield at a time when yield on US treasury has gone up had led to depreciation of the Indian rupee since the beginning of demonetisation initiative. This had implication also for the decline in the Sensex. The CRR directive implies, sucking out of liquidity from the banking system by around Rs. 3.24 lakh crore. The idea is to support the fall in G-Sec yield and the Rupee vis a vis dollar.
- It is reported that RBI had G-Secs worth Rs. 7 lakh crore to absorb liquidity. Given the pace at which deposits were garnered by Commercial banks, RBI would have run out of G-Secs. It might had to issues market stabilization bonds to suck out excess liquidity as was done during 2005 when liquidity increased consequent to huge dollar flows. Sucking out of liquidity was expected to provide support to rupee which has depreciated because G-Sec yields will reverse the declining trend observed since demonetization.
- Following the enhancement of Market Stabilisation Scheme (MSS) limit to Rs. 6 trillion in Dec 2016, the incremental CRR was rolled back on Dec 7, 2016.

Development

Yes bank partners with OLA for mobile ATMs-Yes Bank has partnered with Ola taxicab services to set up mobile ATMs for cash withdrawals. The service will be available in various locations across 10 major cities. Debit card based withdrawals by swiping cards through Point of Sales machines which will be available in Ola cabs will enable customers to receive cash. These OLA cabs will be stationed near YES Bank branches across locations in the cities.

Canara Bank plans to dilute stake in Can Fin Homes to 30%- Canara Bank on Dec 5, 2016 has communicated that it plans to bring down stake in its housing finance subsidiary Can Fin Homes to 30% as part of strategy to exit non-core business. Besides, the bank also intends to reduce its stake by 70 per cent in unlisted Canbank Factors Ltd. At present, Canara Bank holds 43.45 per cent stake in the housing finance company while the remaining 56.55% is with public shareholders. It may be observed that for the quarter ended September 30, 2016 Can Fin Homes reported 55.6% rise in net profit at Rs 55.06 crore against that of Rs 35.38 crore in the same quarter of 2015-16.

IBBI publishes norms for insolvency professional agency- The Insolvency and Bankruptcy Board of India (IBBI) was set up in first week of Oct 2016. The chairman of IBBI has been appointed by the government in Sep 2016 and IBBI has recently (Nov 21 and Nov 23) brought out eligibility norms to be a Professional Member of an Insolvency Professional Agency and also for eligibility norms to be registered with the IBBI as an Insolvency Professional Agency. It may be observed that the Insolvency and Bankruptcy Code, 2016 was passed by the Parliament in May 2016 is a game changer initiative by the Government provides a definite time frame of 180 days in normal cases and 270 days in special cases to decide whether the defaulting business entity can continue as a going concern or needs to be liquidated. The implementation of the Code, however, requires creation of institutional infrastructure comprising a new regulator, a new cadre of resolution professionals, a new industry of insolvency professional agencies and a new industry of information utilities. The efficacy of the Code will depend on how swiftly the new institutional apparatus leverages technology in reducing asymmetry of information between lenders and borrowers.

RBI slashes MDR

- RBI has instructed banks to slash MDR (merchant discount rate) charges on payments made through debit cards and do away with levies on small transactions through mobile phones and Internet from January 1 to March 31 in order to encourage digital transactions and tackle the currency shortage in the banking system.
- The MDR for debit card payments, including for payments made to the government, will be capped at 0.25% for transactions up to Rs 1,000 and 0.5 % between Rs 1,000-2,000. The existing MDR cap is 0.75% for transactions up to Rs 2,000 and 1% for over Rs 2,000. However, there is no RBI cap on MDR on credit card payments.
- Banks and prepaid payment instrument issuers have also been asked to not to levy any charges for transactions up to Rs 1,000 from January 1 to March 31. This would cover transactions through Immediate Payment Service (IMPS), USSD-based *99# and Unified Payment Interface (UPI) systems. Merchant discount rate is the rate charged to a merchant by a bank for providing debit and credit card services.

Revision in MSS Ceiling- RBI on Dec 2, 2016 through a press release communicated about the revision in MSS celling. After the withdrawal of the legal tender character of the ₹ 500 and ₹ 1000 denomination notes with effect from November 9, 2016, there has been a surge in the deposits with the banks. Consequently, there has been a significant increase of liquidity in the banking system which is expected to continue for some time. In order to facilitate liquidity management operations by the RBI in the current scenario, Government of India has, on the recommendation of the RBI, decided to revise the ceiling for issue of securities under the Market Stabilisation Scheme (MSS) to ₹ 6,000 billion.

RBI issues guidelines on large exposure of banks-With the objective of reducing concentration risk of banking industry as well as dependence of large corporates on banks for their funding needs, RBI, on Dec 1, 2016 has issued final guidelines on the Large Exposure (LE) framework, which are effective from March 31, 2019. According to the guidelines, large exposure limits have been revised to 20% from 15% of tier-I capital for a single entity and to 25% from 40% of tier-I capital for group exposure. Under the proposed LE framework, exposure to a counterparty will constitute both on- and off-balance sheet exposures included in either the banking or trading book and instruments with counterparty credit risk. RBI has specified that application of the LEF at the consolidated level implies that a bank must consider exposures of all the banking group entities (including overseas operations through branches and subsidiaries), which are under regulatory scope of consolidation, to counterparties and compare the aggregate of those exposures with the banking group's eligible consolidated capital base. A large exposure is defined as any exposure to a counter-party or group of counter-parties which is equal to 10% of the bank's tier-I capital. Bank boards can allow an extra 5% exposure of tier-I capital to a single borrower, accompanied by a board approved policy.

Govt pushes rural digital banking- The USSD (Unstructured Supplementary Service Data technology) based service for smart phones, developed by the National Payments Corporation of India (NPCI) is used by customers to access basic banking activities, such as balance enquiry and generating mini statement by dialling *99# and entering short messages. This platform is now being pursued by the government to bring digital banking to the rural poor post demonetisation. NPCI is reported to have been exhorted by the government to increase the adoption of USSD-based banking services for the rural population which might not have access to smartphones. Regional Rural Banks (RRBs) are going to be approached to initiate use of this service to enable the rural poor to undertake basic banking activities. 23 RRBs, out of total 56 RRBs in the country own a mobile banking license. Sponsors of these RRBs i.e. commercial banks too are being brought into fold to share their technology with their respective RRBs. Post demonetization, to boost the digital payment channels, the Telecom Regulatory Authority of India (TRAI), on Nov 22, 2016 reduced charges for USSD services to around 50 paise from about Rs. 1.5 per transaction.

Moratorium on NPA recognition for small borrowal accounts-Post the demonetisation initiative, RBI on Nov 21, 2016 allowed moratorium on payment of bank dues during Nov1-Dec 31, 2016 for loans up to Rs. 1 crore to defer the classification of an existing standard asset as substandard. Such loans account for 30.1% of the total credit limit sanctioned and 35.1% of the outstanding loan of the banking system in March 2015 (The latest data point available from RBI). It will be helpful if the scope of deference is extended to loans up to Rs. 10 crores which account for another 11.5% of the total credit outstanding and 10.5% of the total credit limit sanctioned.

Initiatives

ICICI bank's digital plan: 100 villages in 100 days-ICICI Bank announced on Nov 28, 2016 to transform 100 villages into 'ICICI Digital Villages' in 100 days as part of its efforts to provide digital ecosystem across the country. The Digital Village programme encompasses digital transactions, vocational training, and credit facility to help villagers earn a sustainable livelihood. Villagers will be enabled to use digital channels for banking and payments transactions. Under this initiative, bank accounts will be opened using Aadhar-based e-KYC and make cashless payments to retail stores through SMS/USSD (Unstructured Supplementary Service Data)-based mobile solution. Additionally, the Bank will impart vocational training to nearly 10,000 underprivileged villagers, especially women, to help them earn a sustainable livelihood. Also, credit facilities would be offered to generate employment opportunities. Further, SMS banking facility will be available in regional languages and will function on basic mobile phones. The bank will also set up end-to-end merchant infrastructure that will enable the retailers at the village to accept mobile-based payments.

SBI to set up separate point of sales business segment- State Bank of India (SBI) would be second bank to hive off its point of sales (PoS) terminal business into a separate company and is seeking a technology partner for the same which would facilitate hiring and retaining talent in the bank. ICICI Bank took a similar decision in 2009 and sold majority stake to First Data Corporation. SBI plans to retain merchant acquiring as a captive business, offering only 26% stake to a technology partner. SBI has the largest network of PoS machines in the country with 3.3 lakh card swipe terminals of the 14.6 lakh installed in India.

AIRTEL starts India's first payments bank service, to pay 7.25% interest on deposits-Airtel Payments Bank, which received payment bank license from RBI in Aug 2015 has launched the first live payments bank in the country on Nov 23, 2016 in a pilot mode in Rajasthan. The company reported that accounts can be opened with Aadhaar based paperless e-KYC with the customer's Airtel mobile number being his/her bank account number. The payment bank intends to provide an interest rate of 7.25% per annum on in savings bank deposits. Airtel retail outlets providing telecom services, will act as Airtel banking points and offer basic banking services. The pilot project will commence with banking points at 10,000 Airtel retail outlets. Facilities like money transfer to any bank account (within Airtel Bank) in India, personal accidental insurance of Rs. 1 lakh with every savings account, easy deposit and withdrawal will be available to the customers. By leveraging on its telecom business, it is also offering free talk time of one minute in his/her Airtel number per rupee deposited, for first time deposits in savings account.

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-Dec-16	9.05	01-Jul-16	9.60	Nov-16	7.00
Bank of India	07-Dec-16	9.25	30-Sep-16	9.65	Dec-16	7.00
Canara Bank	07-Dec-16	9.15	11-Oct-16	9.60	Dec-16	7.10
Punjab National Bank	01-Dec-16	9.15	01-Oct-15	9.60	Dec-16	6.90
Union Bank of India	01-Dec-16	9.30	01-Dec-16	9.55	Nov-16	7.25
State Bank of India	01-Dec-16	8.90	05-Oct-15	9.30	Nov-16	6.90
Axis Bank	17-Dec-16	8.90	27-Jul-16	9.35	Dec-16	7.00
HDFC Bank	07-Dec-16	8.90	24-Oct-16	9.25	Dec-16	6.90
ICICI Bank	01-Dec-16	8.90	05-Oct-15	9.35	Nov-16	7.00
IndusInd Bank	17-Nov-16	9.45	19-Oct-15	10.60	Nov-16	7.15
Kotak Bank	01-Dec-16	9.20	07-Oct-16	9.40	Dec-16	6.75
Yes Bank	01-Dec-16	9.10	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, 7.10% for term deposits of above 1 to less than 2 years and 7.25% for 2 years and above.

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

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

Kotak Mahindra Bank offers 6.75% for term deposits of 1 year to 389 days, 7.10% for term deposit of 390 days to less than 2 years.

ICICI Bank offers 7.00% for term deposits of 365 days to 390 days, 6.50% for term deposit of 391 days to less than 2 years

AXIS Bank offers 7.00% for term deposits of 1 year to less than 2 years and 6.75% for term deposits of 2 years.

Figures are in per cent.

Annex-1
Growth Projections – Pre and Post Demonetization

Organisation	Growth Forecast	Growth Boosters	Potential Drags
Pre-Demonetization			
S&P July 22, 2016	8% Growth for 2016-17 and 2017-18	Strong consumption growth continues apace, the external accounts look reasonably resilient post-Brexit, and fiscal policy looks prudent. The structural reform drive continues to gain traction. Consumer confidence looks quite high and investor confidence seems buoyant.	Lack of investment pickup
IMF Oct 4, 2016	Marginally scaled up India's economic growth projections by 0.2 percentage points to 7.6 per cent each for 2016-17 and 2017-18 from its earlier review in July 2016.	India's economy benefitted from lower oil prices, effective policy actions and stronger external sector indicators	In the near term, private investment will be constrained by weal corporate and public bank balance sheets. Increasing capital buffers of banks, Timely Implementation of GST, elimination of poorly targetted subsidies, enhancing efficiency of mining sector and increasing electricity generation are key for higher growth.
World Bank June 20, 2016	India's economic growth to be at 7.6 percent in 2016-2017, followed by a modest acceleration to 7.7 percent in 2017-2018 and 7.8 percent in 2018-2019.	Economic activity in India has remained robust, supported mainly by domestic demand. Growth will continue to be driven by private consumption, which has benefited from lower energy prices and higher real incomes. The World Bank has also observed that an accommodative monetary stance, public investments in infrastructure, and progress on structural reforms, including new bankruptcy laws, should support a pickup in private investment	The most significant near-and medium-term risks stem from the banking sector and its ability to finance private investment which continues to face several impediments in the form of excess global capacity, regulatory and policy challenges, in addition to corporate debt overhang.
Post-Demonetisation			
ADB Dec 13, 2016	ADB expects India to grow 7.0% in 2016-17 as against 7.4% forecasted earlier.	The effects of transition are expected to be short-lived and Indian economy is to grow at 7.8% in 2017.	Weak Investment, agriculture slowdown and recent demonetization.
Fitch Nov 29, 2016	GDP growth to lower slightly to 6.9% in 2016-17 from 7.4% projected earlier	Implementation of the structural reform agenda is expected to contribute to higher growth & higher real disposable income would support growth but the anticipated recovery looks a bit less certain in light of ongoing weakness in the data.	Temporary disruptions in economic activity due to demonstration
Morgan Stanley Dec 9, 2016	Revised its growth estimate from 7.7% to 7.4% for 2016.	Overall growth story remains on track. Impact of demonetization to be short-term. Growth momentum back from April 2017 with support from consumption and exports.	Demonetization expected to affect near-term economic activity, thus leading to a slower pace of growth recovery.

Annex-3
Monthly Macro Indicators

Indicator	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
Production														
IIP	9.9	-3.4	-0.9	-1.6	1.9	0.3	-1.3	1.3	1.95	-2.5	-0.7	0.7	-1.9	
Infrastructure	3.2	-1.3	0.9	2.9	5.8	6.4	8.5	2.8	5.2	3.0	3.2	5	6.6	
Prices														
WPI	-3.7	-2	-1.1	-1.1	-0.9	-0.5	0.8	1.2	2.1	3.7	3.7	3.6	3.4	3.2
CPI	5	5.4	5.6	5.7	5.3	4.8	5.5	5.8	5.8	6.1	5.1	4.39	4.2	3.6
Agriculture	5.2	6.1	6.4	6.8	5.3	5.2	6.4	7.5	7.8	8.4	5.9	4.0	3.3	2.1
Industry	-1.7	-1.4	-1.5	-1.2	-0.5	0.1	1	1.2	1.2	1.8	2.4	2.5	2.7	3.2
Services	3.5	3.8	4	3.9	4.4	4	4.3	4	3.8	4	4.2	4.5	4.6	4.8
Banking														
Reverse Repo (Rs. Mn)	75959	79720	70233	77843	49575	153307	199432	48331	104234	96493	55863	99851	108037	187952
Repo (Rs. Mn)	134648	164022	136607	162492	143599	144912	113263	143911	53418	51953	64906	66210	98619	68773
Aggregate Deposits	10.4	9.7	10.1	10.4	9.6	8.1	9.5	8.9	9.2	8.9	8.9	11.3	9.8	15.9
Total Credit	8.1	8.6	9.2	9.5	9.7	9	8.4	8	7.3	7.7	7.6	11.5	6.4	
Non Food Credit	8.3	8.8	9.3	9.8	9.9	9.1	8.4	8.4	7.9	8.3	8.2	10.8	6.7	
Industrial Credit	4.6	5	5.3	5.6	5.4	2.7	0.1	0.9	0.6	0.6	-0.2	0.9	-1.7	
Infrastructure Credit	8.3	8.7	8.4	9.8	9.1	4.4	-1.5	-0.1	-2.1	-3.1	-4.2	-4.6	-6.6	
Service Credit	6.8	6.8	9.2	8.9	8.6	9.1	10.9	9.3	9.2	10.8	12.1	18.4	9.3	
Leading Indicators														
Manufacturing PMI	50.7	50.3	49.1	51.1	51.1	52.4	50.5	50.7	51.7	51.8	52.6	52.1	54.4	52.3
Service PMI	53.2	50.1	53.6	54.3	51.4	54.3	53.7	51	50.3	51.9	54.7	52	54.5	46.7
Composite PMI	52.6	50.2	51.6	53.3	51.2	54.3	52.8	50.9	51.1	52.4	54.6	52.4	55.4	49.1
Services														
Passenger Traffic: All Airports	14.8	20.8	16.8	17.9	19.6	20.4	17.3	17.5	16.8	23	19.6	20.8	19.7	
Foreign Tourist Arrivals	2.2	6.6	3.1	6.7	11.3	12	10.6	3.8	7.4	17.1	11.8	13.3	10.3	
Goods Traffic Movement by Railways (Mn Tonnes)	93	88	95	98	89	100	86	92	92	89	85.6	86.4	90.9	92.5
Automobile Sales: Total	11.1	-0.4	-1.5	3.1	10.2	10.2	14.5	7.7	7.2	8.9	16.8	15.8	7.2	-4.2
Automobile Sales: Passenger Vehicle	21.5	7.2	5.1	-0.6	5.4	9.2	10.2	5.2	7.6	13.9	18.9	20.7	6.2	5.8
Automobile Sales: Commercial Vehicle	12.3	7	13.6	19.3	18.8	20.7	14.7	15.1	7.3	2.1	2.4	0.4	13.5	-7.1
Automobile Sales: Two Wheelers	10.1	-1.3	-3.1	3.5	10.4	10.8	17.2	8.7	7.9	9.2	18.6	17.2	7.5	-5.2
Automobile Sales: Three Wheelers	-3.5	-13.3	-6.2	-3	20.4	-7.2	-21.7	-9.9	-6.6	-8.9	-11.9	-16.1	-2.1	-22
External														
FDI-Equity (US $mn)	5326	3018	4719	5065	3206	2556	3437	2059	2321	4159	4880	5227		
FII-Net Portfolio Investment(US $mn)	4478	-3784	-2572	-1471	-2381	4328	1133	-385	-193	2726	1022	2991		
ECB(US $mn)	2114	3164	3034	1395	1353	1521	305	1318	1072	1203	3173	2463	1771	
Exports	-17.5	-24.4	-14.8	-13.6	-5.7	-5.5	-6.7	-0.8	1.3	-6.8	-0.3	4.6	9.6	2.2
Imports	-21.2	-30.3	-3.9	-11	-5	-21.6	-23.1	-13.2	-7.3	-19.1	-14.1	-2.5	8.1	10.4
Trade Balance(US $mn)	-9692	-9782	-11664	-7639	-6542	-5071	-4845	-6273	-8116	-7761	-7674	-8339	-10160	-13008
Rupee-Dollar Exchange Rate	65.2	66.8	66.3	67.9	68.6	66.3	66.5	67.2	67.6	67.03	67	66.7	66.85	68.52
Rupee-Pound Exchange Rate	99.9	100.4	98.4	97.8	95.2	95.1	97.4	98.7	90.5	88.3	87.7	86.4	81.29	85.53
Rupee-Euro Exchange Rate	71.7	70.7	72.5	74.1	75.1	75.1	75.7	74.8	75	74.3	74.6	74.8	72.9	72.84
REER 36 Country (Trade Based Weight) Base 2004-05=100	113.6	113.2	110.2	110.8	110.2	110.9	110.6	110.9	112.6	113.5	113.87	114.51	115.13	115.39
Forex Reserves Outstanding*(US $bn))	352	352	352	349	347	356	363	361	360.8	365.49	366.8	369.6	367.15	365.30

Note: All figures unless specified otherwise refers to y-o-y growth and are in per cent. PMI figures are numbers.
***September 2016 figures refer to reserves as on Sep 16, 2016.

Annex-4
Quarterly Macro Indicators

	2013-14		2014-15				2015-16				2016-17	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
GVA at Basic Prices Growth	6.3	4.9	7.4	8.1	6.7	6.2	7.2	7.3	6.9	7.4	7.3	7.1
Components Growth												
Agriculture, Forestry and Fishing	5	4.6	2.3	2.8	-2.4	-1.7	2.6	2	-1	2.3	1.8	3.3
Industry	5.2	3.9	8	5.9	3.8	5.7	6.7	6.3	8.6	7.9	6.0	5.2
Mining and Quarrying	2.1	8.1	16.5	7	9.1	10.1	8.5	5	7.1	8.6	-0.4	-1.5
Manufacturing	6.4	4.5	7.9	5.8	1.7	6.6	7.3	9.2	11.5	9.3	9.1	7.1
Electricity, Gas, Water Supply and Other Utility Services	3.8	5.8	10.2	8.8	8.8	4.4	4	7.5	5.6	9.3	9.4	3.5
Construction	4.4	0.8	5	5.3	4.9	2.6	5.6	0.8	4.6	4.5	1.5	3.5
Services	7.8	5.6	8.6	10.7	12.9	9.3	8.8	9	9.1	8.7	9.6	8.9
Trade, Hotels, Transport, Communication and Services Related to Broadcasting	10.5	7.8	11.6	8.4	6.2	13.1	10	6.7	9.2	9.9	8.1	7.1
Financial, Real Estate and Professional Services	7.1	6.7	8.5	12.7	12.1	9	9.3	11.9	10.5	9.1	9.4	8.2
Public Administration, Defence and Other Services	4.7	0.9	4.2	10.3	25.3	4.1	5.9	6.9	7.2	6.4	12.3	12.5
Expenditure components as % of GDP												
Net Taxes on Products	7.6	11.9	3.9	6.3	8.1	13.5	5.4	7.6	9.4	14.9	5.9	8.3
Final Consumption Expenditure	69.2	65.6	70.4	71.1	68.2	64.8	71.3	72.8	70.4	66.5	73.4	73.9
Final Consumption Expenditure: Private	61	56.5	58.3	57.9	57.9	56.4	59.8	59.6	60.3	58.4	60.5	59.8
Final Consumption Expenditure: Government	8.2	9.1	12.1	13.2	10.3	8.4	11.5	13.1	10.1	8.1	12.9	14.1
Gross Fixed Capital Formation	31.2	31.1	32.2	31.1	29.9	30.1	31.6	31.4	27.6	26.9	28.3	27.1
Change in Stocks	1.5	1.6	1.9	1.8	1.6	1.8	1.8	1.8	1.6	1.7	1.8	1.8
Valuables	1.3	1.5	1.6	1.4	1.3	1.8	1.5	1.4	1.3	1.3	0.7	0.7
Exports of Goods and Services	25.1	25.1	24.2	23.8	23	20.9	21	21	19.2	18.8	20.0	19.5
Import of Goods and Services	27.1	26.6	27.4	27.5	26.2	22.7	23.9	24.5	22	19.9	20.9	20.7
Discrepancies	-1.2	1.7	-3	-1.7	2.3	3.3	-3.3	-3.8	1.8	4.7	-3.4	-2.3
BoP Indicators												
Current Account as % of GDP	-0.9	-0.2	-1.5	-2.2	-1.5	-0.1	-1.2	-1.7	-1.3	-0.1	-0.1	-0.6
Trade Account as % of GDP	-3.2	-2.2	-3.6	-4.1	-3.6	-2.1	-3.3	-3.9	-3	-1.6	-1.5	-1.7
Capital Account as % of GDP	0	0	0	0	0	0	0	0	0	0	0	0
Financial Account as % of GDP	1	0.4	1.6	2.1	1.9	0	1.4	1.8	1.3	0.03	-0.01	0.77
Foreign Direct Investment as % of GDP	1.3	0.2	1.6	1.5	1.3	1.7	2	1.3	2	1.6	0.8	3.2
Foreign Portfolio Investment as % of GDP	0.5	1.9	2.6	1.9	1.2	2.3	0	-0.7	0.1	-0.3	0.4	1.1
Errors and Omission as % of GDP	-0.1	-0.2	0	0.1	-0.4	0.1	-0.2	-0.1	0	0	0	0.1
Accretion(-)/Depletion (+) of Forex (Us$bn)	-19.1	-7.1	-11.2	-6.9	-13.2	-30.1	-11.4	0.9	-4.1	-3.3	-6.9	-8.5
FDI(US$bn)	6.1	0.9	7.6	7.5	6.9	9.3	10	6.5	10.7	8.8	4.1	17.2
FII(US$bn)	2.4	9.3	12.4	9.8	6.3	12.5	0	-3.5	0.6	-1.5	2.1	6.05
External Debt: USD: Total (bn)	426.9	446.2	453.1	456.3	458.7	475	482.4	480.5	479.3	485.1	479.7	
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	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	80.4	79	81.6	79.3	79.2	77.4	80	79.7	
Short Term Debt as % of Total Debt (bn)	21.7	20.5	19.9	19.1	18.7	18	17.3	17.6	17	17.2	17.1	

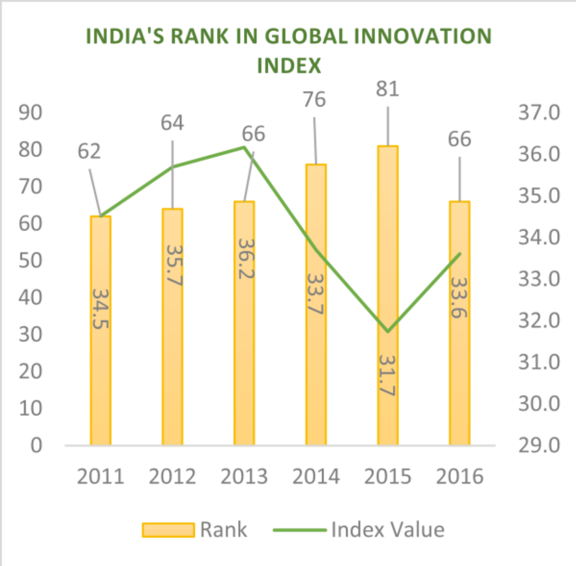
Note-Figures are in per cent unless specified otherwise.

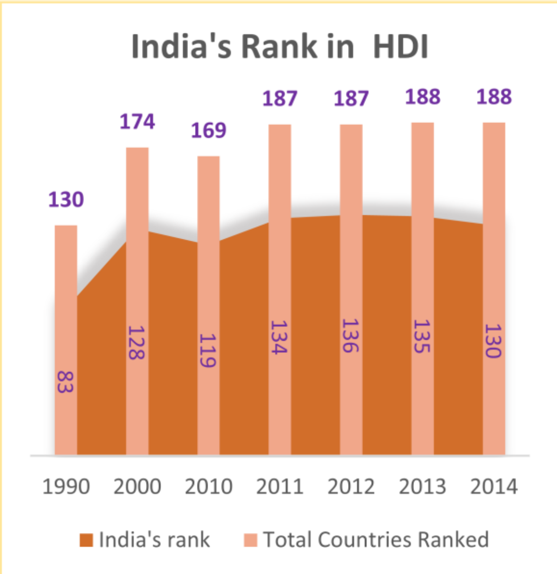
Annex-5
Annual Macro Indicators

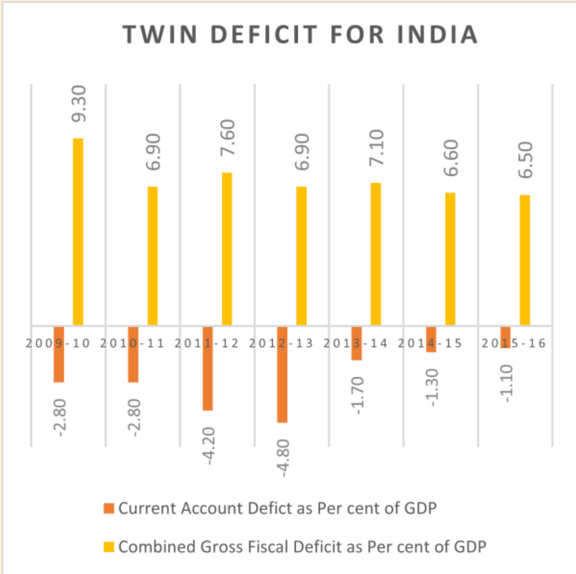
Indicator	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Real Sector Growth										
GVA at Basic Price*	9.6	9.3	6.7	8.6	8.9	6.7	5.4	6.3	7.1	7.2
I. Agriculture	4.2	5.8	0.1	0.8	8.6	5.0	1.5	4.2	-0.2	1.2
II. Industry	12.2	9.7	4.4	9.2	7.6	7.8	3.6	5.0	5.9	7.4
Mining & quarrying	7.5	3.7	2.1	5.9	6.5	0.1	-0.5	3.0	10.8	7.4
Manufacturing	14.3	10.3	4.3	11.3	8.9	7.4	6.0	5.6	5.5	9.3
Electricity, Gas &Water Supply	9.3	8.3	4.6	6.2	5.3	8.4	2.8	4.7	8.0	6.6
Construction	10.3	10.8	5.3	6.7	5.7	10.8	0.6	4.6	4.4	3.9
III. Services	10.1	10.3	10.0	10.5	9.7	6.6	8.1	7.8	10.3	8.9
Food Grains Production (Mn Tonnes)	217.3	230.8	234.5	218.1	244.5	259.3	257.1	265.0	252.0	252.2
Industrial Production										
IIP	12.9	15.5	2.5	5.3	8.2	2.9	1.1	-0.1	2.8	2.4
Basic Goods	8.9	8.9	1.7	4.7	6	5.5	2.5	2.1	7	3.6
Capital Goods	23.3	48.5	11.3	1	14.8	-4	-6	-3.6	6.4	-2.9
Intermediate Goods	11.5	7.3	0	6	7.4	-0.6	1.6	3.1	1.7	2.5
Consumer	16.1	17.6	0.9	7.7	8.6	4.4	2.4	-2.8	-3.4	3
Consumer Durables	25.3	33.1	11.1	17	14.2	2.6	2	-12.2	-12.6	11.3
Consumer Non-Durables	12.3	10.2	-5	1.4	4.3	5.9	2.8	4.8	2.8	-1.8
Mining	5.2	4.6	2.6	7.9	5.2	-2	-2.3	-0.6	1.5	2.2
Manufacturing	15	18.4	2.5	4.8	9	3	1.3	-0.8	2.3	2
Electricity	7.3	6.3	2.7	6.1	5.5	8.2	4	6.1	8.4	5.7
Banking										
Aggregate Deposits Growth	23.8	22.4	19.9	17.2	15.9	13.5	14.2	14.1	10.7	9.9
Demand Deposit Growth	17.9	22	-0.2	23.4	-0.6	-2.6	5.9	7.8	11.2	13.1
SCBs food credit	-1	14.3	-4.6	4.1	4.9	32.6	26.5	18.6	2.1	-4.1
SCBs non-food credit	38.4	28.5	23	17.8	17.1	21.3	16.8	14	14.2	9.3
Fiscal Sector(Combined)										
Gross fiscal deficit	5.1	4	8.3	9.3	6.9	7.6	6.9	7.1	6.6	6.5
Gross primary deficit	-0.3	-1.2	3.3	4.5	2.4	3.2	2.3	2.3	1.7	1.6
Revenue deficit	1.3	0.2	4.3	5.7	3.2	4.1	3.4	3.2	2.6	2.5
External Sector										
Exports Growth	22.6	29.1	13.6	-3.5	39.8	22.5	-1.8	4.7	-1.3	-15.9
Imports Growth	24.5	35.5	20.7	-5.1	28.2	32.3	0.3	-8.3	-0.5	-15.3
Exports/GDP	13.6	13.4	15.4	13.4	15	16.8	16.7	17	15.4	12.8
Imports/GDP	20.1	20.8	25.2	22	22.4	27.1	27.4	24.9	22.5	18.5
Invisibles/ GDP	5.5	6.1	7.5	5.9	4.6	6.1	5.9	6.1	5.7	7.2
CAD /GDP	-1	-1.3	-2.3	-2.8	-2.8	-4.2	-4.8	-1.7	-1.3	-1.1
Foreign Investment/GDP	3.1	5	2.3	4.8	3.5	2.7	3	1.9	3.7	1.6
Import Cover of Reserves (Months)	12.5	14.4	9.8	11.1	9.5	7.1	7	7.8	8.9	
FII(US$mn)	3225	20328	-15,017	29048	29422	16812	27582	5009	40923	- 3,516
FDI(US$mn)	16481	26864	3206 6	27146	22250	35855	22884	25274	31911	41043

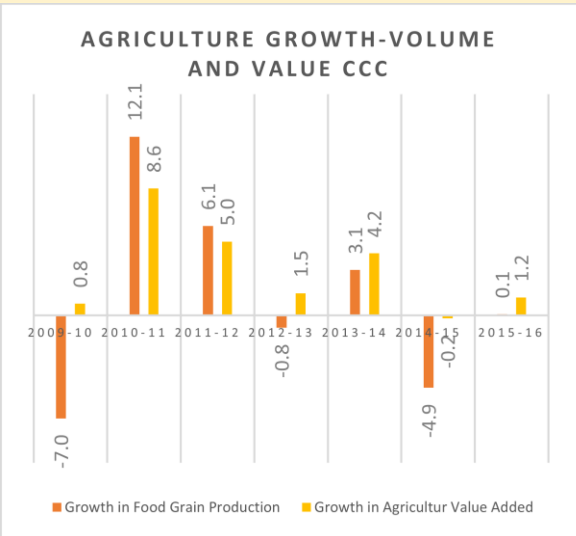
Note-*For 2006-07 to 2011-12 figures represent rate of growth GDP at factor cost (2004-05 base).
Figures are in per cent unless specified otherwise.

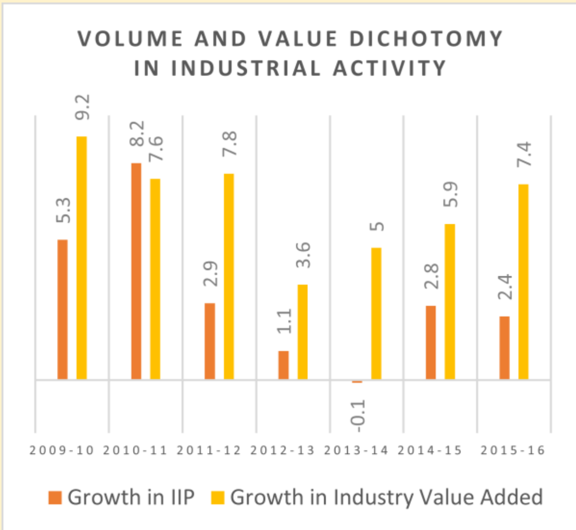
Indian Economy in Graphs











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Notes

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