बैंक ऑफ़ बड़ौदा
Bank of Baroda
India's International Bank

Economic Intelligence

20 July 2017 Vol.1-12

MONTHLY MACRO INSIGHTS

In Brief

US economy continued to exhibit robust performance though its labour market has shown early signs of weakening. Further, the growth euphoria in US post president Trumps' election seems to be waning forcing the Fed to rethink its earlier plan of quicker rate hikes. Economic activity continues to be buoyant in Euro Area but UK is showing signs of sluggish growth. Not only economic activity strengthened in Japan and Germany but also the growth of China in Q2 was better than expected giving strength to the pace of global growth. In the backdrop of modest recovery in global growth prospects, India moved forward in its reform journey by implementing the much awaited GST on July 1, 2017. The latest macro data prints and undercurrents suggest that space has been created space for RBI to reduce rates. With inflation dipping below the lower threshold of flexible inflation targetting (FIT) framework and real interest rates rising, RBI is likely to opt for a rate reduction to spur investment and lackluster industrial growth in its third bimonthly policy review on August 3, 2017. The significant drop in core inflation and no major upside risks from Fuel inflation and a monsoon which is progressing well should give RBI the necessary comfort to lowers rates at this juncture. With the Finance Minister asserting that respective states have to deal with the financial burden of the farm loan waiver without the support from the Centre, fiscal implications from waivers has been contained, which should provide additional comfort to RBI to lower rates within the neutral stance of monetary policy. Indian bond yields have moderated and equity markets have performed quite well driven partly by domestic factors and partly by the globally buoyant sentiments. Notwithstanding the robust macro fundamentals, the spoilsport for equity market could be the slightest change in global sentiments given the current high valuations. With US Fed being less aggressive about interest rate hikes, external stability conditions have improved reducing the risk of imported inflation. The rupee is expected to be range bound in the near term in the absence of any adverse global developments, the chances of which is even.

Key Takeaway

- According to the latest OECD Economic Outlook released in June 2017, global growth is expected to recover to 3.5% in 2017 and 3.6% in 2018, on the back of a recovery in global trade and investment.
- In US, the headline unemployment rate increased marginally to 4.4% in Jun'17 from 4.3% in May'17.
- The recent testimony of US Federal Reserve Chairman reflected a more dovish approach on the back of growing concern about US economy's adherence to the targeted level of inflation. FOMC minutes has also outlined the detailed plan of balance sheet normalization. In the midst of all these, investors' confidence on emerging economies grew astoundingly.
- Gross Bank Credit of SCBs noted a subdued growth of 3.5% in May'17 compared to 8.0% in May'16 on a y-o-y basis. Credit to industry continued the trend of negative growth for the tenth consecutive month since Dec'16 and contracted by -2.1% as compared to -1.0% in Apr'17.

Financial and Commodities Markets at a Glance

Indicator	03-Apr-17	02-May-17	01-Jun-17	17-Jul-17
Call	5.79	6.00	6.04	6.07
Repo	17,210	14,050	17,500	26,000
US	2.46	2.29	2.21	2.31
G-Sec	6.61	6.99	6.74	6.46
Dollar	64.91	64.21	64.47	64.37
Pound	81.43	82.69	82.87	84.22
Sensex	29,910	29,921	31,138	32,075
Crude	51.28	44.59	50.17	-
Gold	29,050	29,050	29,150	29,000
FII	643.1	-217.4	293.19	204.3
FII-E	538.2	-173.4	175.35	83.1
FII-D	104.9	-44.0	117.8	121.2

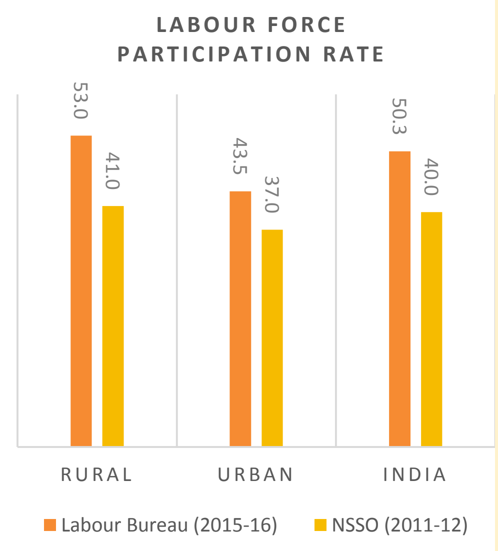
Note: G-Sec refers to yield on 10 year G-Secs and US treasury refers to 10 year US Government Paper
Call refers to Weighted average call money rate
Crude refers to price of Indian basket of crude
Dollar and Pound refers to the respective exchange rates with respect to Indian rupee.
Gold refers to price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

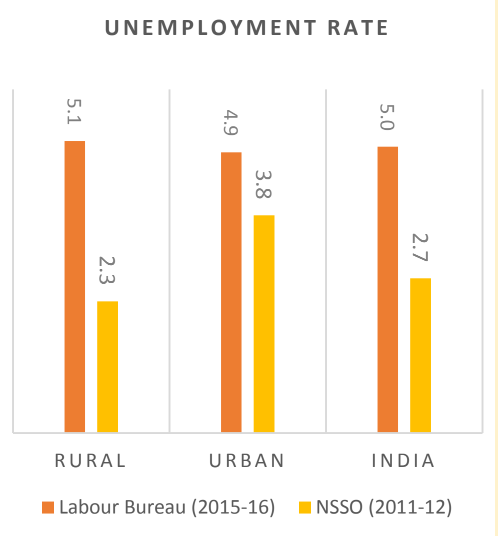
Inside

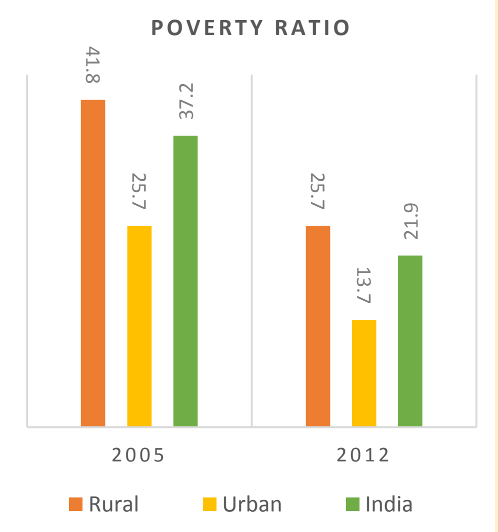
Key Takeaway

- Major macroeconomic data releases of Indian economy reflected mixed picture. Industrial production as measured by IIP plunged significantly recording growth rate of 1.7% in May'17 compared to 2.8% in Apr'17 and 8.0% in May'16, on a y-o-y basis. This is the slowest growth rate since Jul'15 and reflects the impact of unfavorable base as well as trimming off the inventory before the implementation of the GST, which could have lowered the requirement for new stock.
- Retail inflation plunged to its record low level of 1.5% in Jun'17 compared to 2.2% in May'17 and 5.8% in Jun'16 on a y-o-y basis. Inflation has fallen below the lower threshold of MPC's FIT (flexible inflation targeting) framework.
- Food inflation declined for the second consecutive month in a row in Jun'17. CFPI recorded deflation of 2.1% in Jun'17 compared to -1% in May'17 and 7.8% in Jun'16 on a y-o-y basis. WPI Food index also declined by 1.2% in Jun'17 compared to a growth rate of 0.1% in May'17 and 8% in Jun'16 on a y-o-y basis.
- As per the latest release of IMD, cumulative rainfall between Jun 01, 2017 and Jul 12, 2017 was 1% below LPA. Region wise, Northwest India received rainfall 33% above LPA whereas South Peninsula, Central and East and North East India received rainfall 10%, 9% and 4% respectively below LPA.
- As per the data released by Ministry of Agriculture, total sown area as on Jul 14, 2017, under kharif crops stood at 563.17 lakh hectare compared to 521.80 lakh hectare in the corresponding period of previous year.
- India's exports slowed down to 4.4 in Jun'17 compared to 8.3% in May'17 on a y-o-y basis. Whereas on a sequential basis, exports declined by 1.9% in Jun'17 compared to a decline of 2.5% in May'17.
- India adopted the GST framework on Jul 01, 2017. It marked a historic move on account of the paradigm shift in the entire indirect tax framework. A key feature of the system is that buyers will get credit for tax paid on inputs only when the seller has actually paid taxes to the government.
- The textile sector has seen the highest resistance on implementation of GST as apparel makers and wholesalers say the implementation of the goods and services tax has brought business to a standstill as their unregistered suppliers and customers are striving to remain outside the ambit of the new tax regime.
- The Government increased the Compensation cess on cigarettes so as to retain parity between the pre and post GST rates. As per the rates decided in May 2017 meeting, the GST rates on cigarettes fell below the pre-GST regime. As a result, on July 17, 2017, the GST council increased the cess which restored the parity.
- As per a report by Assocham and NEC technologies, GST is expected to boost the domestic Indian electronics industry due to elimination of cascading effect of taxes and savings of the firms on warehousing and logistics.
- The World Gold Council Report expects a positive net impact on India's gold industry under the GST framework. The effective tax rate on consumers is likely to increase to 13.5-14%, post implementation of GST, which is expected to improve the supply chain in the long run by enabling consolidation of the fragmented gold market
- Net tax receipts for May'18 was Rs 0.67 lakh crore or 5.5% of the budgetary estimates. The government has set a fiscal deficit target of Rs.5.4 lakh crore for 2017-18 of which it has already exhausted Rs.3.73 lakh crore (68.3% of BE) for May, FY'18.
- Global oil supply rose by 720 thousand barrels per day (kb/d) in June to 97.46 million barrels per day (mb/d) as producers increased supply. Output stood 1.2 mb/d above a year ago with non-OPEC firmly back in growth mode. Non-OPEC production is expected to expand by 0.7 mb/d in 2017 and 1.4 mb/d in 2018.

Indian Economy-Structural Coordinates







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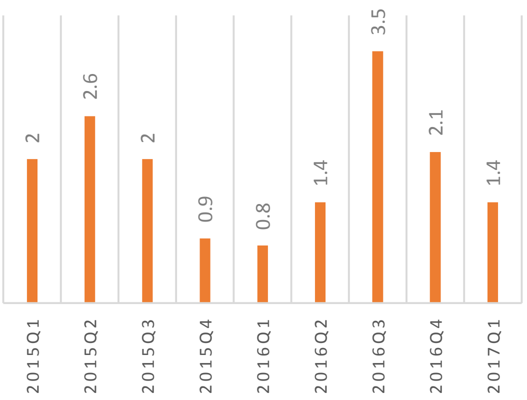
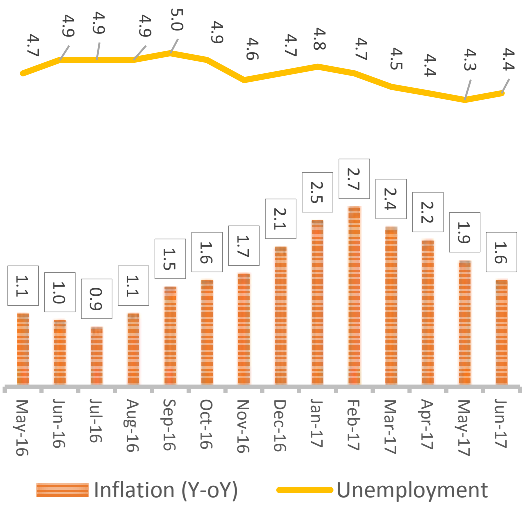
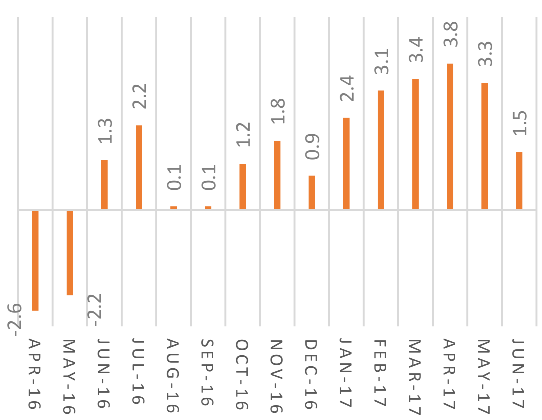


REAL GDP GROWTH RATE OF US



US INFLATION AND UNEMPLOYMENT



LABOUR MARKET CONDITION INDEX-USA

Global Developments

Growth

- Global growth continued its modest recovery amidst downside risks persisting with regard to rising protectionism and dampening impact of policy uncertainty.
- Growth prospects of advanced economies (AEs) improved led by firming up of investment and export demand. Concerns, however, have risen in Emerging Market and Developing Economies (EMDEs), with regard to the debt dynamics. Since the global financial crisis, fiscal positions of EMDEs have weakened and private sector debt has risen.
- World Bank in its latest release has retained its Jan’17 projections for the growth of global economy at 2.7% and 2.9% in 2017 and 2018 respectively. The Report stated that global activity is firming up on the back of pick-up in manufacturing and trade.
- In advanced economies, growth is expected to gain momentum from 1.7% in 2016 to 1.9% in 2017, on the back of strengthening domestic demand and exports. While the growth forecasts has been revised upwards to 1.7% for Euro Area and 1.5% for Japan, it has been revised downwards to 2.1% in 2017 for USA.
- Growth in Emerging Market and Developing Economies (EMDEs) is also expected to recover from 3.7% in 2016 to 4.1% in 2017 and further to an average around 4.6% in 2018-19, as growth in commodity exports picks up along with robust imports.

OECD Economic Outlook, June 2017

- According to the latest OECD Economic Outlook released in June 2017, global growth is expected to recover to 3.5% in 2017 and 3.6% in 2018, on the back of a recovery in global trade and investment.
- GDP growth in the OECD countries is expected to increase from 1.8% in 2016 to 2.1% in 2017 and 2018. While growth in the US is expected to pick up to 2.1% in 2017 and 2.4% in 2018, growth in Euro Area is expected to pick up slightly to 1.8% in both 2018 and 2019. Growth in Japan is expected to pick up to 1.4% in 2017 and decline to 1.0% in 2018.
- Amongst the developing countries, growth in China is expected to slow down to 6.6% in 2017 and 6.4% in 2018, while India’s growth rate is expected to strengthen to 7.3% in 2017 and 7.7% in 2018. Growth in Brazil is expected to turn positive in 2017 before reaching 1.6% in 2018.

Unemployment

- In US, the headline unemployment rate increased marginally to 4.4% in Jun’17 from 4.3% in May’17.
- Unemployment rate in both the 19-member Euro Area (EA19) and the 28-member European Union (EU28) fell to its lowest levels since the global economic crisis in 2009. The seasonally-adjusted unemployment rate in EA19 remained stable at 9.3% in May’17 and 10.2% in May’16, on a sequential basis.
- The EU28 unemployment rate also remained stable on a sequential basis at 7.8% in May’17, and down from 8.7% in May’16. Among the Member States, the lowest unemployment rates in May’17 were recorded in Czech Republic (3.0%) and Germany (3.9%). The highest rates were observed in Greece (22.5% in Mar’17) and Spain (17.7%).

Food

According to the latest data released by the Food and Agriculture Organisation (FAO), global food commodity prices surged for the second consecutive month in Jun’17. The Global Food Price Index went up by 1.4% and 7% in Jun’17, on a sequential and y-o-y basis respectively. Except sugar and vegetable oil, indices of all other key commodities increased sequentially with the highest increase seen in dairy (8.3%) and cereal prices (4.2%).

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World Trade Outlook

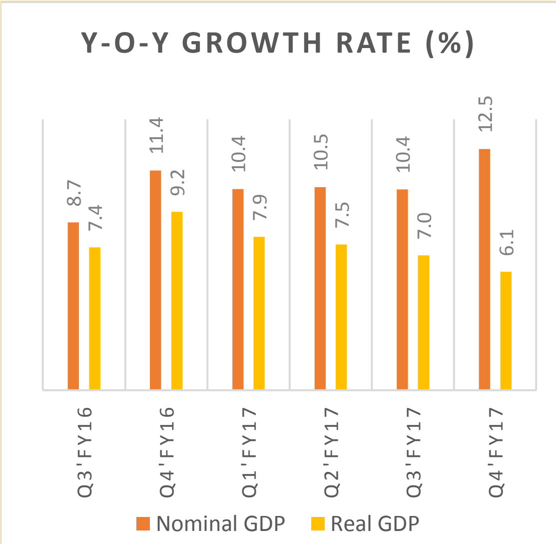
- The World Trade Outlook Indicator (WTOI) increased to 102.2 in Mar'17 from its last reading of 102.0 in Nov'16. Reading in Mar'17 is the highest since May'11, suggesting that global trade continued to expand moderately in the second quarter of 2017. It must be noted that the WTOI has been consistently rising for the past two quarters suggesting global trade is gaining traction.
- WTOI combines several trade-related indices into a single composite indicator to measure short-run performance against medium-run trends. A reading of 100 indicates trade growth in line with trend, while readings greater or less than 100 suggest above or below trend growth.
- Amongst the main components of the WTOI, while export orders, air freight and container shipping remained above trend and rose in the latest period, weakness in demand for automotive products, electronics and raw materials weighed down the overall index.
- The WTOI for Mar'17 is line with the WTO trade forecast issued on 12 April, 2017, which suggested a moderate recovery in global trade after sluggish expansion last year. In its April forecast, WTO forecasted that global trade will expand by 2.4% in 2017. However, taking note of the uncertainty about near-term economic and policy developments, it raised the forecast risk, placing the figure within a range of 1.8% to 3.6%. For 2018, the forecast for the growth in global trade is between 2.1 and 4%.
- It is important to note that WTOI is not intended as a short-term forecast, although it does provide an indication of trade growth in the near future. Its main contribution is to identify turning points and gauge momentum in global trade growth. It complements trade statistics and forecasts from the WTO and other organizations.

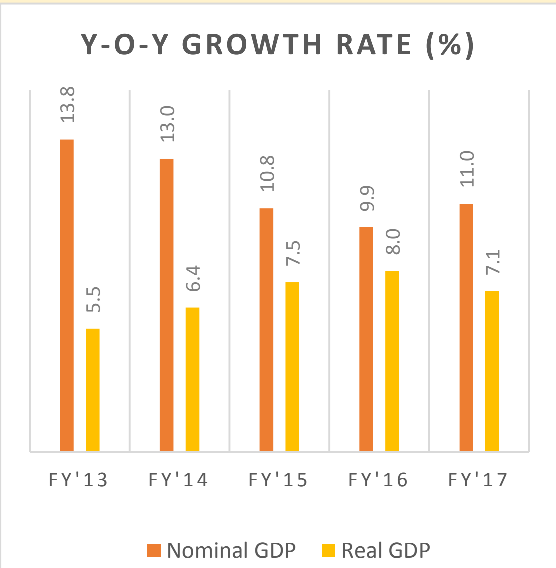
India's Growth Outlook

- Ongoing structural reforms in Indian economy have favorably brightened its growth outlook in the near term. However weak investment demand, partly emanating from the twin balance sheet problem has acted as a major constraint. The FSR Jun'17 highlighted the same, pointing out several similar risks.
- The likely dovish stance of US Federal Reserve in its future policy meet has also bolstered confidence of investors on Indian economy. Apart from this, proactive steps taken by RBI to tackle the stressed asset scenario is a positive development.
- With the impact of demonetization now phasing out, growth is likely to have picked up in Q1, FY'18. The positive impact of demonetization has already started showing in the form of increased advance tax collection in June quarter. Also with the implementation of GST, the revenue collection of the government is expected to strengthen considerably along with robust pick up of domestic consumption demand.
- As per the data released by CSO, on y-o-y basis real GVA remained subdued at 5.6% in Q4'17 compared to 8.7% in Q4'16, the lowest growth rate since Q1'14. The major drag down in real GVA has been the poor performance of industrial sector which grew by 3.1% in Q4'17 compared to 6.2% in Q3'17, on a y-o-y basis. The impact of an above normal monsoon in FY'17 was clearly visible in the improved growth rate of agricultural sector which grew by 5.2% in Q4'17 compared to 6.9% in Q3'17, on a y-o-y basis. Services sector activity was lifted slightly by increased growth rate of public administration, defence and other services which grew by 17.0% in Q4'17 compared to 10.3% in Q3'17, on a y-o-y basis.

World Trade Outlook Indicator

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





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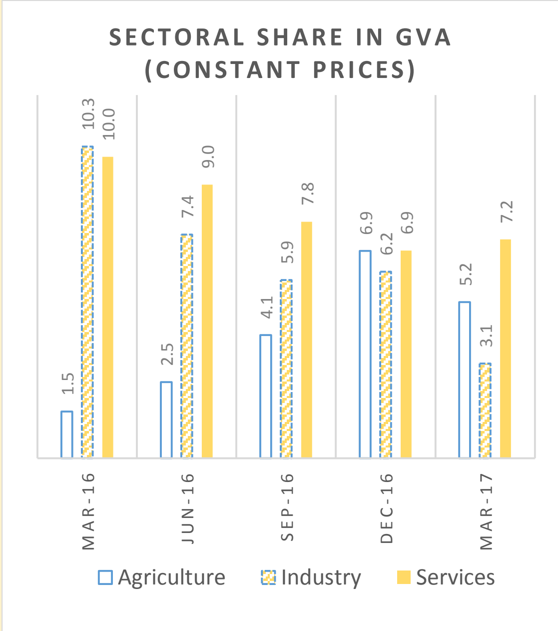
- Nominal GVA grew by 11.3% in Q4'17 compared to 9.4% in Q3'17, on a y-o-y basis.
- Real GDP grew by 6.1% in Q4'17 compared to 7.0% in Q3'17 on a y-o-y basis. While pickup in real private consumption expenditure remained subdued growing at 7.3% in Q4'17 compared to 11.1% in Q3'17, growth was mainly driven by substantial growth rate of government consumption demand which grew by 32% in Q4'17 compared to 21% in Q3'17 on a y-o-y basis. Investment demand in the economy also remained subdued. It declined by 2.1% in Q4'17 compared to a growth rate of 1.7% in Q3'17, on a y-o-y basis. Nominal GDP grew by 12.5% in Q4'17 compared to 10.4% in Q3'17, on a y-o-y basis.
- CSO has also published the Provisional Estimates (PE) for FY'17. These estimates are marginally different compared to Second Advanced Estimates (AE) published earlier. As per the PE, real GVA grew by 6.6% in FY'17 compared to 7.9% in FY'16. Agriculture sector performed remarkably to grow by 4.9% in FY'17 compared to 0.7% in FY'16. Industrial sector remained subdued growing by 6.6% in FY'17 compared to 7.9% in FY'16. Performance of services sector also fell considerably compared to previous year. It grew by 7.7% in FY'17 compared to 9.7% in FY'16.
- Nominal GVA grew by 9.7% in FY'17 compared to 8.5% in FY'16. Real GDP grew by 7.1% in FY'17 compared to 8.0% in FY'16, on a y-o-y basis. Nominal GDP grew by 11% in FY'17 compared to 9.9% in FY'17, on a y-o-y basis.

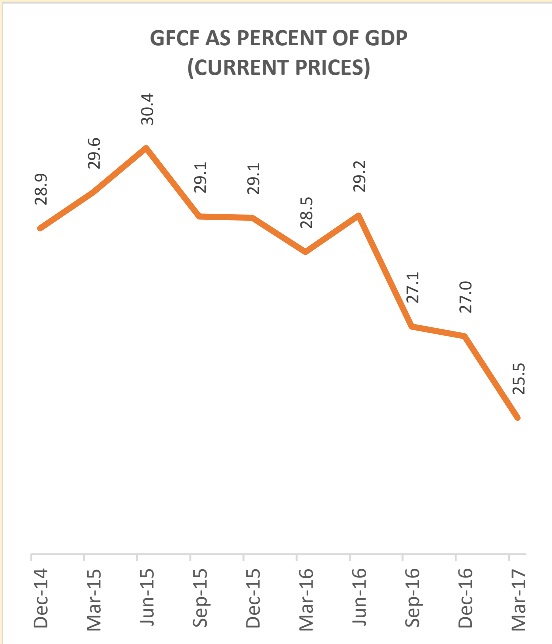
Growth Projections by International Agencies

- World Bank, in its flagship publication, Global Economic Prospects, lowered growth forecast for India to 7.2% and 7.5% in FY'18 and FY'19 respectively as against its earlier estimates of 7.5% and 7.6%. The downward revision in growth rates has been due to slower-than-expected recovery in private investment. The Report highlighted that domestic demand is expected to remain robust in future led by ongoing policy reforms.

RBI's Assessment of Growth Outlook

- RBI in its Second Bi-monthly monetary policy has portrayed that risks to domestic growth outlook remains evenly balanced with well progressing monsoon and varied underlying structural reforms. However, downside risk emanating from fiscal slippages and its impact on inflation might be visible towards the end of FY'18. Apart from this, highly leveraged corporate sector with banks grappling to solve the stressed assets scenario is also likely to pose hindrance to the overall growth outlook.
- In view of all these, RBI revised its projections of growth rate of real GVA FY'18 downwards to 7.3% from its earlier forecast of 7.4% in its Second Bi-monthly monetary policy.
- The current macro fundamentals of Indian economy with softening inflation, falling industrial production and lower capacity utilization by firms have called for concerted approach of the government towards removing the supply constraints. The current environment seems conducive for a reduction in real borrowing cost of the corporates. However, the effective pickup of investment demand will be dependent on the financial health of corporates.
- Hence in view of the durability of the softer inflation, it is essential to give growth the desired impetus.



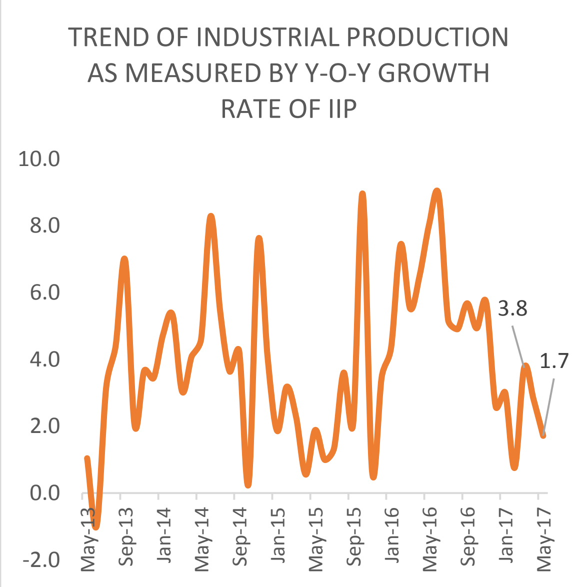


GDP Components in Spending-Share and Growth (Current Prices)

Component	Attribute	16-Mar	16-Jun	16-Sep	16-Dec	17-Mar
Consumption Spending	Share	59.1	57.4	57.3	61.6	58.7
	Growth	14.2	12	11.9	14.4	11.8
Government Spending	Share	7.9	12.2	13.8	11.3	9.6
	Growth	9.8	21.3	21.2	24.8	36.8
Investment Spending	Share	32.1	32.5	30.6	30.2	28.6
	Growth	5.1	5.3	2.6	2	0.1
Exports	Share	18.8	19.3	19.3	18.9	19.2
	Growth	-0.6	2.4	3.1	5.9	15.2
Imports	Share	19.9	21	20.8	20.4	20.3
	Growth	-3.3	-1.5	-3.7	2.4	15.1

Industrial Production

- Industrial production as measured by IIP plunged significantly recording growth rate of 1.7% in May'17 compared to 2.8% in Apr'17 and 8.0% in May'16, on a y-o-y basis. This is the slowest growth rate since Jul'15 and reflects the impact of unfavorable base as well as trimming off the inventory before the implementation of the GST, which could have lowered the requirement for new stock. However, on a sequential basis it grew by 5.7% in May'17 compared to a decline of 11.7% in Apr'17. On a cumulative basis, IIP grew by 2.2%. IIP on a seasonally adjusted basis (SA) grew by 1.1% in May'17 compared to a decline of 0.4% in Apr'17.
- On sectoral basis, mining activity fell by 0.9% in May'17 compared to a growth rate of 3.2% in Apr'17 and 5.7% in May'16, on a y-o-y basis. Manufacturing activity also remained muted at 1.2% in May'17 compared to 2.3% in Apr'17 and 8.6% in May'16, on a y-o-y basis. The only sector which showed optimism was Electricity which grew by 8.7% in May'17 compared to 5.4% in Apr'17 and 6.1% in May'16.
- Industry wise, twelve out of the twenty three industry groups in the manufacturing sector showed positive growth in May'17 on a y-o-y basis. Manufacture of pharmaceuticals, medicinal chemical and botanical products registered highest growth rate in May'17 on a y-o-y basis, whereas manufacture of beverages registered the maximum decline in May'17.
- In accordance with the use based classification, Consumer non-durables and Primary goods have been the major contributors towards the positive growth rate of IIP, noting growth rate of 7.9% and 3.4% in May'17 compared to 8.4% and 3.1% in Apr'16 on a y-o-y basis respectively. The major drag down have been the faltering growth rate of Consumer durables and Capital goods segment which declined by 4.5% and 3.9% respectively in May'17 on a y-o-y basis. The falling growth rate of consumer durables could be the impact of GST. Inventory destocking by firms has taken precedence over new production due to uncertainties clouting the new indirect tax regime.
- Industrial production excluding volatile components viz. capital goods, consumer durables also reflected muted picture. IIP excluding Capital goods grew by 2.1% in May'17 compared to 3.2% in Apr'17 and 7.6% in May'16. IIP excluding consumer durables noted growth rate of 2.7% in May'17 compared to 4.1% in Apr'17 and 7.1% in May'16 on a y-o-y basis. Infrastructure/construction goods grew at a gloomy pace of 0.1% in May'17 compared to 5.2% in Apr'16 on a Y-o-Y basis.
- The index of eight core industries comprising of 40.27 % of the weight of items included in the IIP grew by 3.6% in May'17 compared to 2.8% in Apr'17 and 5.2% in May'16 on a y-o-y basis. Among the industries, electricity and fertilizer registered the highest (6.4%) and lowest (-6.5%) annual growth rate in May'17 respectively.
- Other high frequency indicator viz. India's manufacturing PMI also reflected that production grew at its slowest pace since Feb'17. It slipped to a four-month low of 50.9 in Jun'17 from 51.6 in May'17. The slowdown was due to slower rate of expansion of new orders.
- However the composite PMI, which accounts for both manufacturing and services sector, touched an eight month high of 53.1 in Jun'17 from 52.2 in May'17 primarily driven by uptick in services activity. Firm's outlook on future business conditions remained mixed on account of potential impact of GST on manufacturing and services activity.

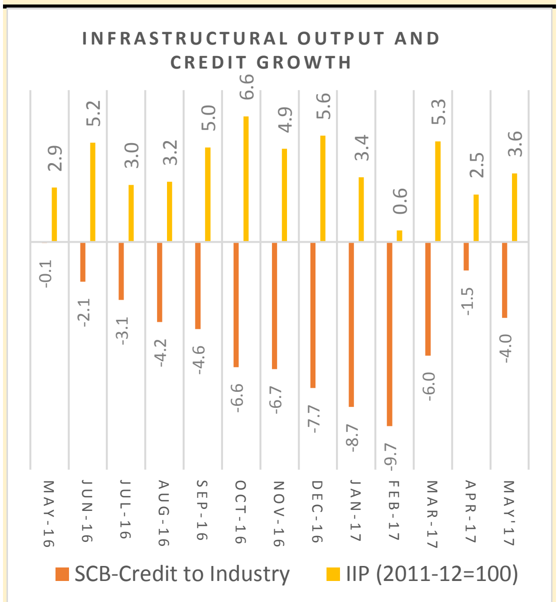


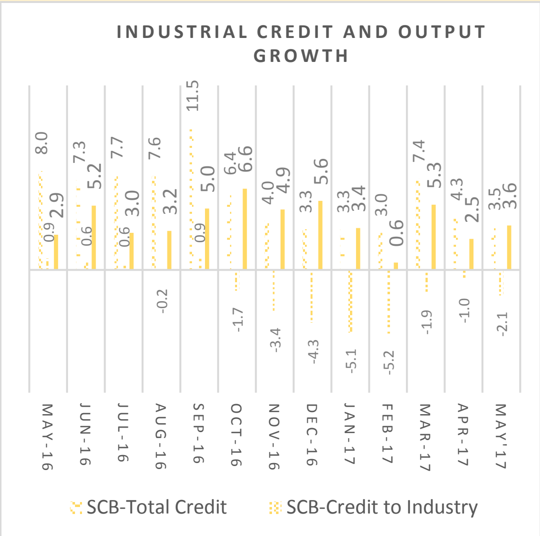
IIP-Sectoral Components

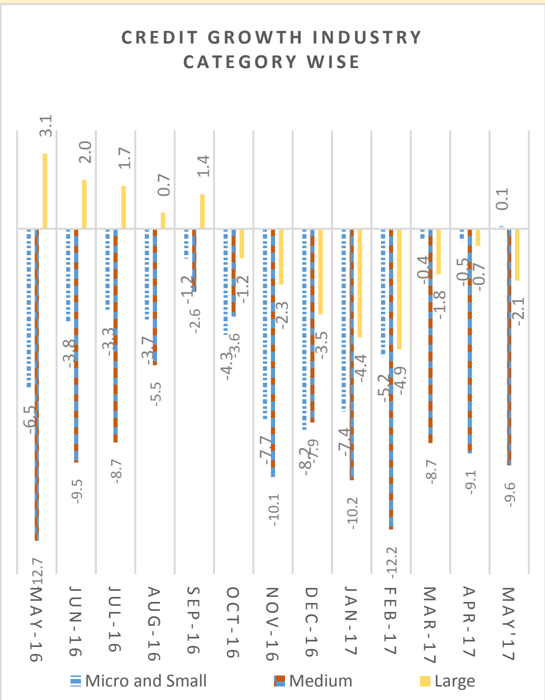
Sectors	Weight	May-16	May-17	Apr-May FY 17	Apr-May FY 18	
Mining	14.3	5.7	-0.9	6.2	1.1	Sectoral
Manufacturing	77.6	8.6	1.2	7.1	1.8	
Electricity	7.99	6.1	8.7	10.1	7.1	
Primary	34.05	4.6	3.4	8.5	3.2	Use Based
Capital	8.22	13.9	-3.9	11.1	-3.4	
Intermediate	17.22	4.5	0.7	2.3	2.3	
Infrastructure/ Construction	12.34	7.4	0.1	4.2	2.5	
Consumer Durable	12.84	14.7	-4.5	14.3	-5.0	
Consumer Non-Durable	15.33	12.4	7.9	6.3	8.2	
General	**100**	8.0	1.7	7.3	2.3	

Core Sector Growth

Sector	Weight	May-17	May-16	Apr-May FY 17	Apr-May FY 16
Coal	10.3	-3.3	6	2.1	-3.3
Crude Oil	9.0	0.7	-3.3	-2.8	0.1
Natural Gas	6.9	4.5	-6.5	-6.7	3.3
Refinery Products	28.0	-5.4	3.3	10.5	2.8
Fertilizers	2.6	-6.5	6.2	1.9	-0.8
Steel	17.9	3.7	13.4	9	6.3
Cement	5.4	1.8	2.7	3.5	-0.3
Electricity	19.9	6.4	6.2	10.2	5.9
Infrastructure Index	40.3	3.6	5.2	6.9	3.2







Credit Growth

- Gross Bank Credit of SCBs grew by 3.5% in May'17 compared to 8.0% in May'16 on a y-o-y basis.
- Non-food credit growth of SCBs decelerated to 4.1% in May'17 compared to 4.5% in Apr'17 on a y-o-y basis.
- Credit growth of SCBs has severely declined to 3.7% during Apr-May, FY'18 compared to 8.2% average loan growth during Apr-May, FY'17.
- Agricultural credit remained at 7.4% in May'17, same as in Apr'17 and 15.6% in May'16 on a Y-o-Y basis.
- Credit to industry continued the trend of negative growth for the tenth consecutive month since Dec'16 and contracted by -2.1% as compared to -1.4% in Apr'17. Among the industry sub-sectors, micro and small industries showed minor improvement with growth of 0.1% in May'17, while credit to both medium and large industries continued to decline in May'17 on a y-o-y basis.
- Service sector credit growth declined to 4.0% in May'17 compared to 4.1% in Apr'17 and 9.3% in May'16. Within Services, the segments which exhibited positive credit growth in May'17 on a y-o-y basis include Professional Services (14.4%), trade (6.1%) other services (9.7%) and transport operators (4.0%).
- It may be observed that all other segments under personal loans credit to consumer durables, advances against fixed deposits and advances to individuals against shares, bonds witnessed positive growth rates in May'17 as against those observed in May'16.
- Among the industry groups, Food Processing, Beverage & and Tobacco, Textiles, Wood and Wood Products, Paper and Paper Products, Glass, Metal, Cement and Engineering showed negative credit growth rate in May'17 on y-o-y basis. Amongst these, Food processing and Beverage and Tobacco have been witnessing a declining credit growth for over 16 months.
- The only activity/product segments that registered positive growth in May'17 were Leather, Petroleum, Coal Products & Nuclear Fuels, Rubber, Vehicles & Transport Equipment, Gems & Jewellery, Construction and Other Industries.
- Credit to infrastructure sector is experiencing anemic growth since Apr'16, and it deteriorated further to -4.0% in May'17 from -1.5% in Apr'17. The figure hovered in the 8-10% range between Apr'15 and Mar'16.
- Negative credit growth of around 5% partly reflects poor credit appetite by industry. Poor credit offtake from the banking system is also partly due to the focus on stressed asset management by PSBs which are one of the major financiers of infrastructure projects.
- The FSR Jun'17 has highlighted that financial health of the corporate sector has deteriorated significantly with rising debt to equity ratio. Sectors with high risk profiles viz. telecom, iron and steel and power are still grappling with their structural problems. Hence, this has resulted in lower credit offtake of the economy.

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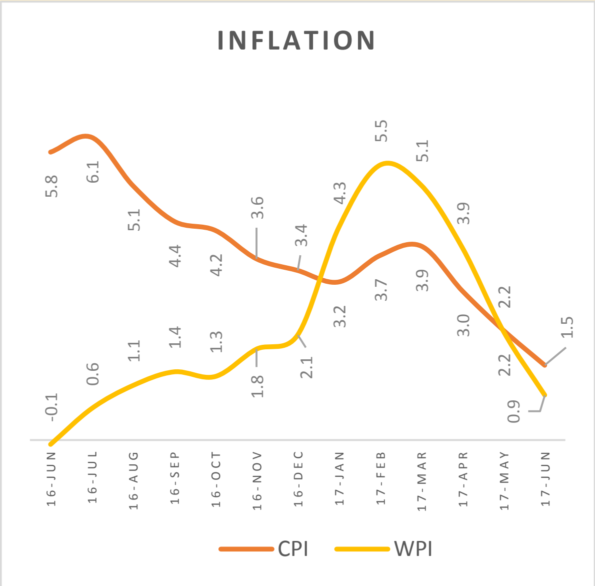
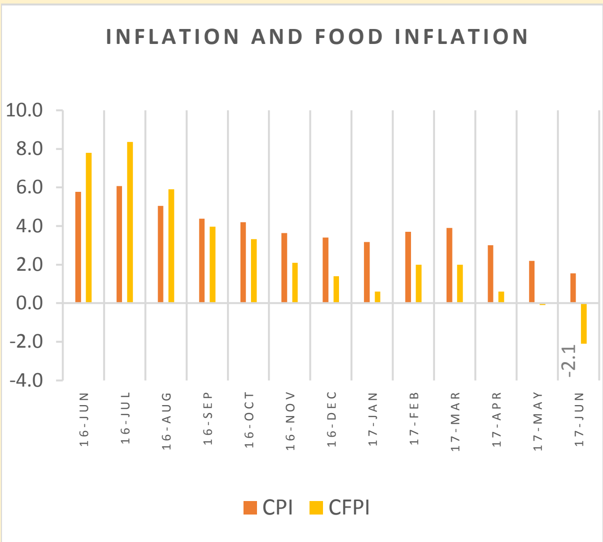
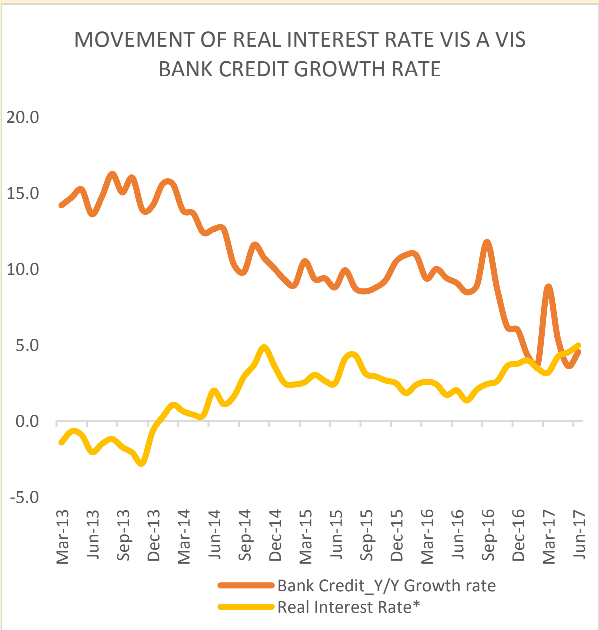






Inflation

- Inflation softened considerably both at the retail and wholesale level in Jun'17.
- Retail inflation plunged to its record low level of 1.5% in Jun'17 compared to 2.2% in May'17 and 5.8% in Jun'16 on a y-o-y basis. Inflation has fallen below the lower threshold of MPC's FIT (flexible inflation targeting) framework. This was due to continuing deflationary trend observed in food prices especially vegetables and pulses.
- On a sequential basis, inflation was at 0.5% in Jun'17 compared to 0.2% in May'17. Food index also edged up slightly by 1.3% in Jun'17 compared to 0.2% in May'17 primarily due to supply slump noted in few vegetable items viz. potato and onions in the recent past.
- Retail inflation in the rural sector grew by 1.6% in Jun'17 compared to 2.3% in May'17 on a y-o-y basis. In urban sector, inflation grew by 1.4% in Jun'17 compared to 2.1% in May'17 on a y-o-y basis.
- Core CPI i.e. CPI excluding food and fuel also dipped to its lowest level since Jan'12, recording a growth rate of 3.9% in Jun'17 compared to 4.3% in May'17 and 4.6% in Jun'16 on a y-o-y basis. All components except Personal care items showed falling inflation rate in May'17. Inflation rate of Transport and communication component in core CPI which previously exerted upside risks to overall inflation rate for the past few months, has now fallen significantly to 2% in Jun'17 compared to 3.5% in May'17 on a y-o-y basis. This has been due to pass through of falling global crude prices.
- Wholesale inflation dipped to its lowest level since Jul'16. It grew by 0.9% in Jun'17 compared to 2.2% in May'17 and -0.1% in Jun'16 on a y-o-y basis. Deflationary trend in the WPI basket was observed in primary articles primarily due to food articles. Within manufactured products, leather items, pharmaceuticals, medicinal, chemical and botanical products, machinery and equipment and other manufacturing indices showed deflationary trend in Jun'17 on a y-o-y basis.
- The buildup inflation rate in headline CPI and WPI was 0.9% and -0.4% in Jun'17 respectively.
- Fuel inflation both in the retail and wholesale basket fell considerably in Jun'17 owing to the pass through of falling crude prices. In the WPI basket, fuel inflation fell by 5.3% in Jun'17 compared to 11.7% in May'17 on a y-o-y basis. While in the CPI basket, it grew by 4.5% in Jun'17 compared to 5.5% in May'17 on a y-o-y basis.
- Sectoral inflation also softened considerably on a y-o-y basis. Inflation in agricultural sector declined by 2.1% in June'17 compared to -1% in May'17. In industrial sector, it grew by 2.3% in Jun'17 compared to 2.6% in May'17. Services inflation grew by 3.3% in Jun'17 compared to 3.8% in May'17.
- The seasonally adjusted series of CPI, Consumer Food Price Index (CFPI) and Vegetables also reflected a deflationary trend. CPI SA declined by 0.3% in Jun'17 compared to a decline of 0.1% in May'17. CFPI SA also declined by 0.4% in Jun'17 compared to a decline of 0.6% in May'17. SA series of vegetable index declined by 1.8% in Jun'17 compared to a decline of 2.4% in May'17.

Food Inflation

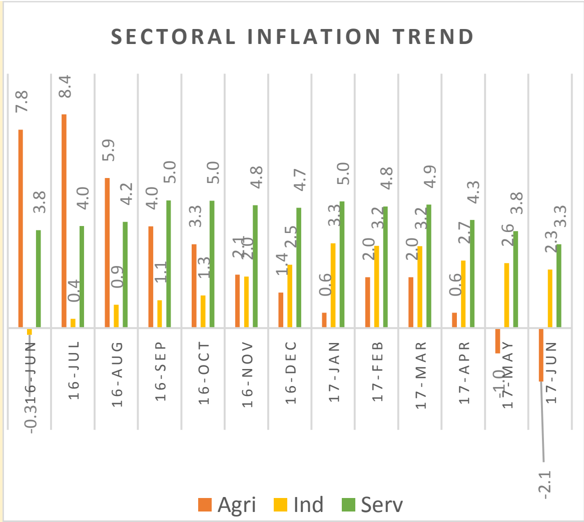
- Food inflation declined for the second consecutive month in a row in Jun’17. CFPI recorded deflation of 2.1% in Jun’17 compared to -1% in May’17 and 7.8% in Jun’16 on a y-o-y basis. WPI Food index also declined by 1.2% in Jun’17 compared to a growth rate of 0.1% in May’17 and 8% in Jun’16 on a y-o-y basis.
- Cereals and products noted inflation rate of 4.4% in Jun’17 compared to 4.8% in May’17 and 3.1% in Jun’16 on a y-o-y basis. Vegetable and pulses declined for the 10th and 7th month in a row respectively to 16.5% and 21.9% in Jun’17 on a y-o-y basis.
- Protein based consumption items such as eggs, spices also entered the deflationary territory. However, a little upward pressure remained was seen in items such as meat and fish. Inflation rate for sugar and confectionary which continued to pose downside risks to overall inflation rate in the recent past, moderated slightly to 8.7% in Jun’17 compared to 9.8% in May’17 on a y-o-y basis.
- Food inflation excluding vegetables grew by 0.1% in Jun’17 compared to 0.8% in May’17 on a y-o-y basis.

Drivers of Food Inflation

- Inspite of waning of favorable base in Jun’17, the lower inflation reading was partially driven by better harvest and government’s initiatives to remove supply side bottlenecks. However, on a sequential basis, downside risks to inflation was seen to be emanating from supply side disruptions of few items such as onion and potato.
- However, with well progressing monsoon coupled with underlying policy initiatives, inflation is likely to soften in the near term. Few upside risks still persist with regard to inflationary impact of GST, States roll out of HRA, strengthening of rural consumption demand and fiscal risks emanating from state farm loan waivers.

Monsoon-South West

- As per the latest release of IMD, cumulative rainfall between Jun 01, 2017 and Jul 12, 2017 was 1% below LPA. Region wise, Northwest India received rainfall 33% above LPA whereas South Peninsula, Central and East and North East India received rainfall 10%, 9% and 4% respectively below LPA.
- The forecast for the next two weeks i.e. between Jul 13, 2017 and Jul 26, 2017 also suggest that rainfall activity is likely to be above normal over India as a whole.
- IMD had earlier upgraded its monsoon forecasts to 98% of long period average (LPA) with a model error of ±4% compared to its previous projection of 96 per cent with a model error of ±5%.
- The spatial distribution of rainfall has also been expected to be normal. Region wise, seasonal rainfall is likely to be 96%, 100%, 99% and 96% of LPA over North-West India, Central India, South Peninsula and North-East India respectively, with a model error of ± 8 %. Monthly rainfall is likely to be 96% and 99% of LPA with a model error of ± 9 % for Jul’17 and Aug’17, respectively.
- According to Skymet, the above normal monsoon will improve the Kharif Crop Outlook for FY’18. It will help also in timely sowing and restoring the normal acreage under different crop.

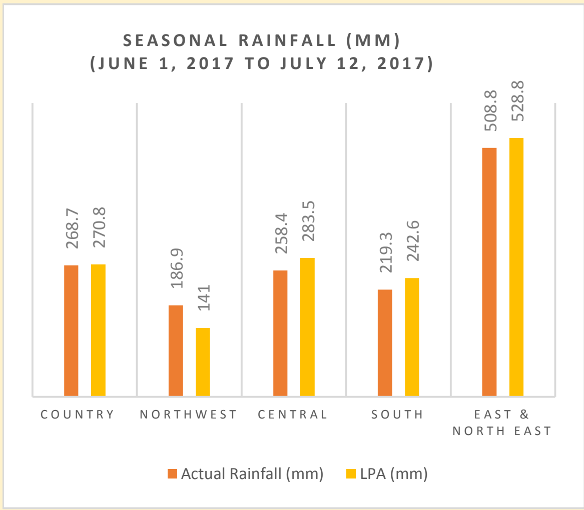


Food Inflation-Converging Trends From WPI and CPI

(y-o-y)

	Food	Pulses	Cereals	Veg	Fruits	Egg	Sugar
CPI							
Weight	39.1	2.4	9.7	6.0	2.9	0.4	1.4
16-Jun	7.8	26.9	3.1	14.8	2.8	5.5	16.8
16-Jul	8.4	27.5	3.9	14.0	3.5	9.3	21.9
16-Aug	5.9	21.9	4.1	1.0	4.4	9.6	24.8
16-Sep	4.2	14.7	4.3	-6.8	4.9	9.7	26.2
16-Oct	2.5	3.8	4.4	-11.4	4.0	11.0	23.7
16-Nov	2.1	0.2	4.9	-10.3	4.6	8.6	22.4
16-Dec	1.4	-1.6	5.3	-14.6	4.8	6.5	21.1
17-Jan	0.6	-6.6	5.3	-15.6	5.8	2.8	18.7
17-Feb	2.0	-9.1	5.3	-8.3	8.3	0.5	18.7
17-Mar	2.0	-12.4	5.4	-7.2	9.6	3.2	16.9
17-Apr	0.6	-15.9	5.1	-8.6	3.8	3.4	11.4
17-May	-1.0	-19.5	4.8	-13.4	1.4	0.7	9.8
17-Jun	-2.1	-21.9	4.4	-16.5	2.0	-0.1	8.7
WPI							
Weight	15.2	0.6	2.8	1.9	1.6	0.2	1.1
16-Jun	8.0	27.3	9.5	18.6	6.0	4.3	29.8
16-Jul	8.6	35.6	10.4	12.6	9.4	10.5	39.2
16-Aug	6.6	26.2	9.9	-7.7	11.9	9.1	36.8
16-Sep	6.3	19.2	9.4	-9.9	12.8	9.2	34.8
16-Oct	5.3	18.2	8.3	-11.8	6.4	7.5	33.5
16-Nov	5.3	19.0	9.9	-17.3	5.5	4.5	33.0
16-Dec	3.6	14.8	9.9	-26.9	0.6	1.4	27.5
17-Jan	3.8	4.2	8.5	-23.5	1.9	-5.4	25.5
17-Feb	5.2	-2.8	9.1	-8.0	3.6	1.1	24.4
17-Mar	5.0	-7.8	7.6	-0.5	6.0	6.5	21.8
17-Apr	2.4	-13.6	6.9	-7.8	0.1	23.3	13.2
17-May	0.1	-19.7	4.1	-18.5	-0.7	-1.7	12.8
17-Jun	-1.2	-25.5	1.9	-21.2	-0.1	-2.2	10.7

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



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Drivers of Food Inflation

Storage in Reservoirs

- Water level of 91 major reservoirs across the country was 23% of their combined capacity as on Jul 13, 2017. The live storage in these reservoirs is 85% of their live storage in the corresponding period of last year and 82% of storage of average of last 10 years.
- The overall storage position for the week ending Jul 13, 2017 reflected that water storage remained below the corresponding period of last year and average storage of last ten years during the corresponding period.
- The numbers of reservoirs having storage more than last year were at six whereas those having storages more than average of last ten years stood at 12.
- All 91 major reservoirs are having storage less than or equal to 50% with respect to last year as well as with reference to average of last ten years.
- States having better storage than last year for corresponding period are Himachal Pradesh, Punjab, West Bengal, Tripura, Gujarat, Uttar Pradesh, Chhattisgarh and Telangana.

Progress in Cultivation

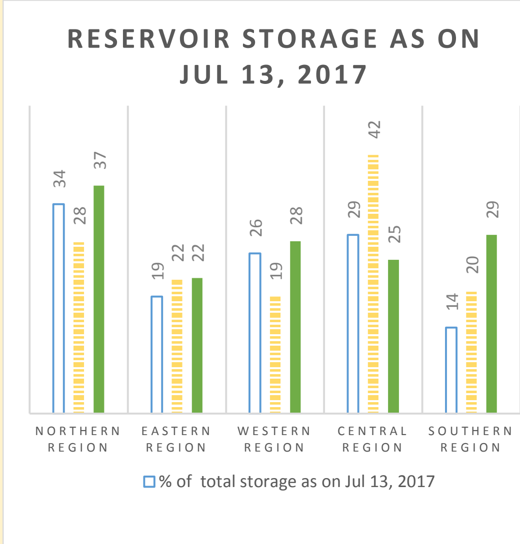
- As per the data released by Ministry of Agriculture, total sown area as on Jul 14, 2017, under kharif crops stood at 563.17 lakh hectare compared to 521.80 lakh hectare in the corresponding period of previous year.
- The major increase was observed in sown area of cotton, pulses and coarse cereals, which rose by 16.95, 14.33 and 14.27 lakh hectares respectively in FY'18 compared to the corresponding period of previous year. On the other hand, sown area of oilseeds and jute and mesta noted a decline of 11.83 and 0.53 lakh hectare respectively compared to the same period of previous year.

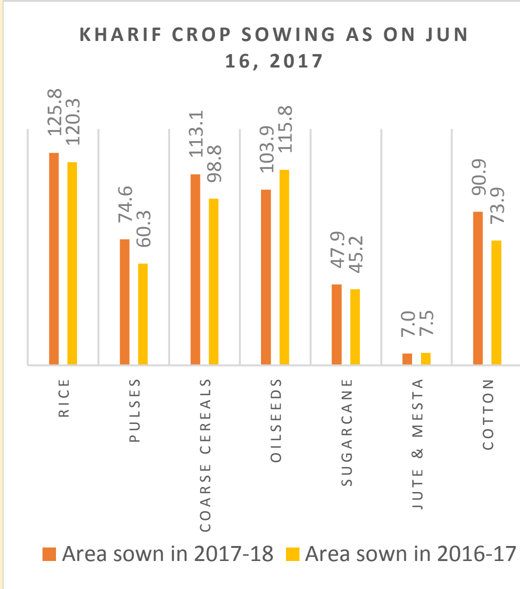
Initiatives for strengthening supply management framework

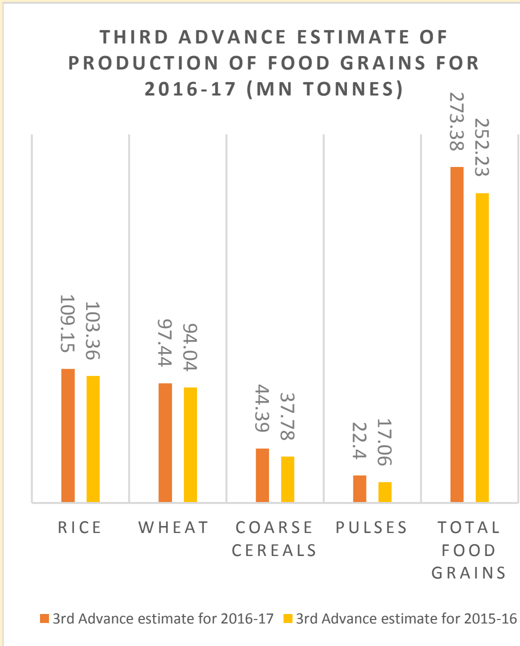
- Several initiatives have been taken by the government throughout the year to improve agricultural production. These include introduction of Soil Health Card scheme, Organic Farming Scheme and improvement of irrigation through Pradhan Mantri Gram Sinchai Yojana. Focus has also been made towards enhancing the income security of farmers through the initiative of e-NAM. Measures are being taken to improve the storage facilities through discussion with the Warehousing Development and Regulatory Authority (WDRA) for this purpose. Apart from this, farm mechanization and insurance coverage in agriculture have also received special attention.
- The government has increased Minimum Support Prices for the crop year FY'18. Among the major Kharif crops, MSP of paddy increased by 5.4%. For other Kharif crops such as Jowar, Bajra, Maize and Ragi MSP increased by 4.6%, 7.1%, 4.3% and 10.1% respectively. MSP of pulses such as Arhar, Moong and Urad dal increased by 7.9%, 6.7% and 8% respectively. For Medium and Long Staple Cotton MSP increased by 4.1% and 3.8% respectively.

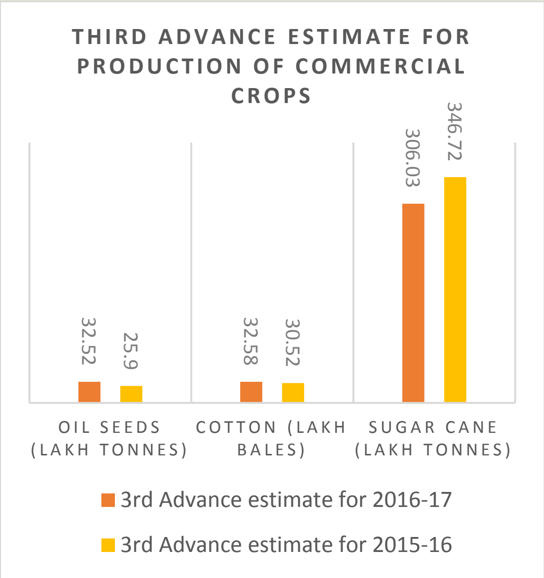
Third Advance Estimate of Agricultural Production in 2016-17

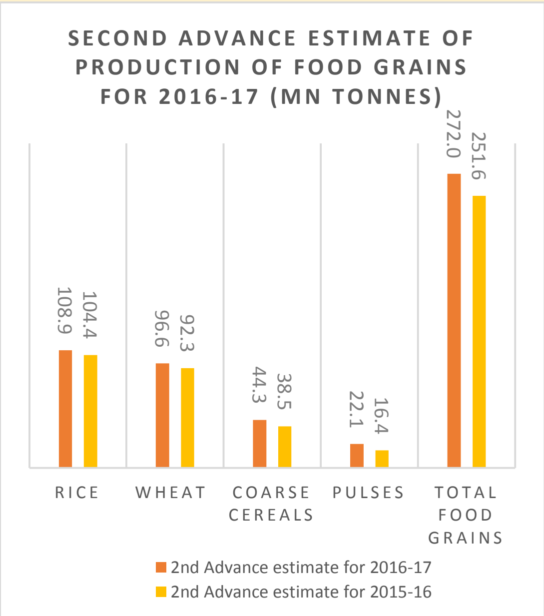
- The Ministry of Agriculture has set the country's grain production target at 273.38 MT for the 2016-17 crop year (July-June), 8.7% higher than the actual grain production of 251.57 million tonnes in 2015-16.
- Government's astute supply management policies coupled with spatially distributed adequate rainfall in the previous year have enabled foodgrain production to touch a record high of 273.38 million tonnes in 2016-17.

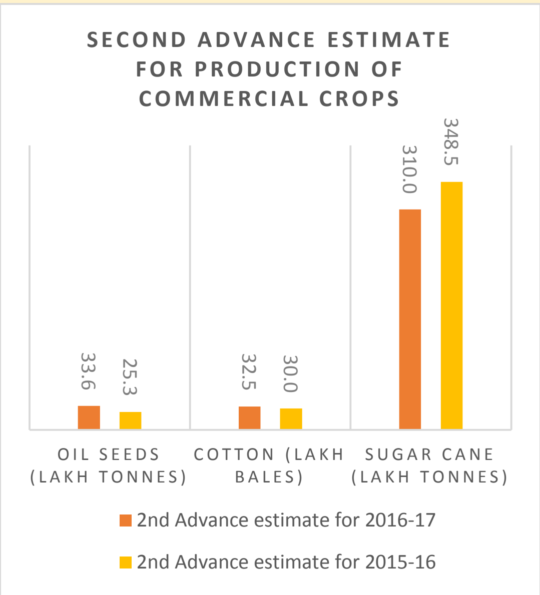












Third Advance Estimate of Agricultural Production in 2016-17

- The current estimate is about 8.34 million tonnes (MT) higher than the previous record production of 265.04 MT achieved during 2013-14.
- The current year's production is also higher by 16.37 million tonnes than the previous five years' (2011-12 to 2015-16) average production of foodgrains. The current year's production is significantly higher by 21.81 million tonnes than the last year's foodgrain production.
- Barring Gram, production of all foodgrains is estimated to touch new record levels. Rice is estimated to touch a new record at 109.15 MT, wheat at 97.44 million tonnes, pulses at 22.40 million tonnes. However, production of sugarcane has been lower at 42.42 million tonnes lower than last year's production of 348.45 million tonnes.
- As a result of significant increase in the area under cultivation and productivity of all major Pulses, total production of pulses during 2016-17 is estimated at 22.40 million tonnes which is higher by 3.15 million tonnes than the previous record production of 19.25 million tonnes achieved during 2013-14.
- Production of Pulses during 2016-17 is also higher by 4.77 million tonnes than their Five years' average production. Current year's production is higher by 6.05 million tonnes than previous years' production of 16.35 million tonnes.
- Despite lower area coverage during 2016-17, higher productivity of Cotton has resulted into higher production of 32.58 million bales (of 170 kg each) as compared to 30.01 million bales during 2015-16.
- Among foodgrain production, Kharif crops is estimated to cross the targeted level of 132.75 by 5.3 million tonnes. Government's efforts to strengthen the supply management framework of the economy through comprehensive risk coverage of crops, implementing varied market reforms by promoting of e-NAM and correcting pricing mismatches through Price Stabilisation Fund would enable Indian economy to achieve the desired record level of production in 2016-17.

RBI's assessment of inflation and rate outlook

- Inspite of 175 bps cut in benchmark policy rate (since Jan'15), real interest rate has remained at significantly high levels at around 5% in Jun'17. Notwithstanding the various structural reforms underway, it is the opportune time for the MPC to go for a reduction in policy rate. A lower real borrowing rate in a way would remove the hindrance towards effective pickup of investment demand.
- Core inflation which was previously posing risk to inflation, softened considerably in Jun'17. Since GST is also expected to be non-inflationary, this component might not pose major risk to inflation in the near term. Thus, the current juncture provides enough headroom for RBI to stimulate the demand of the economy through reduction in benchmark policy rate.
- The current inflation reading suggests that inflation has fallen below the lower threshold of MPC's targeted range. Since this is the last inflation data before RBI's policy meeting scheduled on Aug 02, 2017, it gives RBI some comfort about the durability of softer inflation in the near term. Hence inflation is likely to be in the range bound of 2.0-3.5% in H1'18 as projected by RBI. In the recently released Financial Stability Report as well, it has been highlighted that Inflation outlook seems favourable compared to previous FSR. This has necessitated RBI's attention towards creating enabling growth environment rather than too much worry about inflation.
- Given the above reasons, RBI might go for a rate cut.

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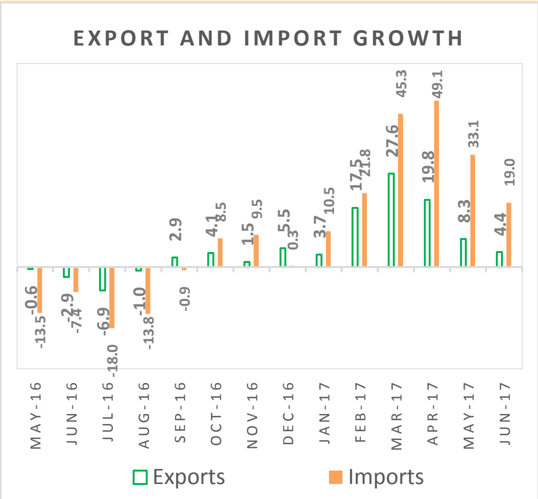
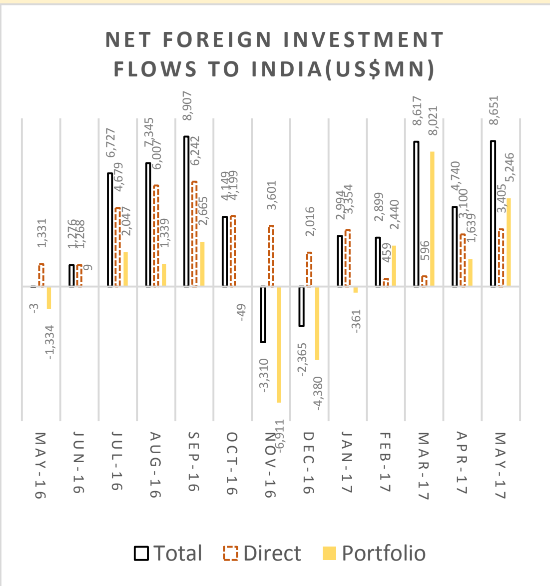


FII and Exchange Rate

Month	FII-Equity	FII-Debt	FII	Re-Dollar Exchange Rate
Jun-16	3713	-6220	-2507	67.3
Jul-16	12,612	6,845	19,457	67.2
Aug-16	9071	-2625	6446	66.9
Sep-16	10,443	9,789	20,233	66.7
Oct-16	-4306	-6000	-10306	66.7
Nov-16	-18,244	-21,152	-39,396	67.6
Dec-16	-8176	-18935	-27111	67.9
Jan-17	-1,177	-2,319	-3,496	68.1
Feb-17	9902	5960	15862	67.1
Mar-17	30,906	25,355	56,261	65.9
Apr-17	2,394	20,364	22,758	64.5
May-17	7,711	19,155	26,866	64.42
Jun-17	3617	25685	29302	64.44
Jul-17*	1033	11186	12219	64.60

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



External Sector

- India's trade competitiveness improved a tad sequentially in Jun'17. It may be noted that except in Jan'17, trade competitiveness has deteriorated continuously in 2017, as reflected by a rise in 36-Currency Export and Trade Based Weights REER and also the 6-Currency Trade Based Weights REER.
- India's exports slowed down to 4.4% in Jun'17 compared to 8.3% in May'17 on a y-o-y basis. Whereas on a sequential basis, exports declined by 1.9% in Jun'17 compared to a decline of 2.5% in May'17.
- Major commodity groups of export which has shown positive growth in Jun'17 on a y-o-y basis are Engineering Goods (14.78%), Petroleum Products (3.60%), Organic & Inorganic Chemicals (13.20%), Rice (27.29%) and Marine Products (24.27%).
- Imports also slowed down considerably to 19% in Jun'17 compared to 33.1% in May'17 on a y-o-y basis. While on a sequential basis, imports declined by 3.5% in Jun'17 compared to a decline of 0.1% in May'17.
- Oil imports grew by 12% in Jun'17 compared to 29.5% in May'17 on a y-o-y basis reflecting the impact of falling global crude prices on import basket. Non-oil imports grew by 21.2% in Jun'17 compared to 34% in May'17 on a y-o-y basis.
- Trade deficit narrowed slightly to less than US$ 13 bn in Jun'17 after reaching a 30 month high in May'17. The narrowing of trade deficit despite slowdown in export growth was due to a much sharper deceleration in imports growth.
- As per the data released by RBI, services exports declined by 0.2% in May'17 compared to a decline of 0.03% in Apr'17. Services imports declined by 3.9% in May'17 compared to a growth rate of 0.5% in Apr'17 on a y-o-y basis. Trade deficit in services was at US$5.8 bn in May 17, 2017 compared US$5.7 bn in April 17, 2017.

Exchange Rate Outlook

- Indian currency remained in the range of 64.26-64.74/USD. It depreciated by 19 paise to 64.74/USD in the month of May. Investors' confidence on the Indian currency remained stable on the back of various reforms.
- The recent testimony of US Federal Reserve Chairman reflected a more dovish approach on the back of growing concern about US economy's adherence to the targeted level of inflation. FOMC minutes has also outlined the detailed plan of balance sheet normalization. In the midst of all these, investors' confidence on emerging economies grew astoundingly.
- Forex reserves rose at a record high level of USD386.4 billion as on Jul 07, 2017. FPI remained a net buyer both through the debt and equity route which were at USD 175 million and USD 118 million respectively.
- The OPEC Reference Basket declined 8.1% in Jun'17 to its lowest level for the year at USD 45.21/barrel. Inspite of OPEC and non OPEC producer's conformity about scaling down production, oil market sentiments remained bearish on the back of excess oil supply and still-high oil inventories. The falling crude oil prices have provided comfort to India's exchange rate stability.
- The rupee is expected to be range bound in the near term in the absence of any adverse global developments, the chances of which is even.

Fiscal Sector

GST Implementation

- The Goods and Services Tax (GST) was rolled out on 1st of July 2017. With the implementation of GST, 22 States in India have abolished their check posts. In case of the rest 8 states, the process of abolishing the check post is underway. They include Assam, Himachal Pradesh, Manipur, Punjab, Meghalaya, Mizoram, Nagaland and Tripura.
- The Goods and Services Tax came into force, amid a historic midnight session in the Central Hall of Parliament. It was hailed as a momentous event for the Nation, given the magnitude of the task, which spans constitutional, legal, economic and administrative spheres. A key feature of the system is that buyers will get credit for tax paid on inputs only when the seller has actually paid taxes to the government. This creates a strong incentive for buyers to deal with honest and compliant sellers who pay their dues promptly. The President of India, therefore, remained confident that GST was a matter of time and it would eventually be implemented.
- The unique aspect of GST implementation was that every decision in the GST Council was taken with absolute unanimity with 3/4th majority, in which 2/3rd representation was from the States. In other words, this is for the first time that a major decision in the Government has been taken with the spirit of absolute federalism with full cooperation of all the States and Union Territories.
- A number of Ministries have established a GST Facilitation Cell to guide the industry players about the new tax regime. The GST facilitation cell will provide all possible support for the rollout of the levy to the major industries and business associations. It would serve as the first point of contact to address any issue being faced by any sector. Also, the cell is equipped with the complete knowledge of the relevant GST Act, rules, rate structure etc. Moreover, Press Information Bureau has also created a special webpage on GST http://pib.nic.in/gst which will be a one stop platform for all information on the new tax regime.

Sector Impact

- Regarding Fertilizer sector, the GST rate of fertilizers was reduced from the existing 12% to 5%. This is expected to benefit farmers to the tune of Rs. 1261 crores under GST regime. Under the new GST rates announced by the Council, average weighted MRP will decrease to Rs. 5909/ Ton (or Rs. 295.47/ 50kg bag) as compared to the existing All India weighted Average of Rs 5923/ Ton (or Rs. 296.18/50 kg bag).
- The aviation sector faced issues such as double taxation, concerns over availing input tax credit, movement of spare parts across the country and so on. The biggest issue was ensuring the Global Distribution System (GDS) software for booking tickets through travel agents is GST compliant before its roll-out. However, it was achieved and booking was GST compliant from the first day.
- As per Steel Users Federation of India (SUFI), the new tax regime abolished the special additional duty (SAD) on imported goods which was a very cumbersome procedure. There will be a shift from unorganized players to organised form of doing business. Also, the new indirect tax regime will bring "the trade and industry at par. The Indian Stainless Steel Development Association (ISSDA) perceived this to be a transition period for the industry as the unorganized sector would have to adapt to new tax structure.

Revision in Rates

- In the run-up to the implementation of GST, the Original Equipment Manufacturers (OEMs) and auto dealers focused on minimizing inventory by offering huge discounts as certain taxes were not eligible for offset under GST. The Auto sector has seen double impact on its performance first due to demonetization and now on account of GST implementation.
- Following the implementation of GST, the car and two wheeler producers have reduced the prices due to lower GST rates.
- The textile sector has seen the highest resistance on implementation of GST as apparel makers and wholesalers say the implementation of the goods and services tax has brought business to a standstill as their unregistered suppliers and customers are striving to remain outside the ambit of the new tax regime. There were protests in Surat against GST and in favour of a saral tax and against the imposition of 5% GST on textiles. They are of the view that GST should be on ready textile products and not on cloth.
- Tamil Nadu's textile cluster, which includes Coimbatore, Erode, Tirupur, Salem, Namakkal and Karur, is upset over the goods and services tax (GST) rates imposed on textile manufacturers, including job workers, who were so far exempted from any form of tax. While the principal manufacturers are to pay GST at 18%, job workers will have to pay 5%. Job workers use raw materials supplied by principal manufacturers to produce goods on their behalf and pay a much lower tax than the manufacturers themselves. The GST Council had initially placed an 18% tax on job work too before reducing it to 5% following protests.
- The tax on the job works will mean a huge burden on micro, small and medium enterprises, or MSMEs, which form a huge chunk of the state's substantial textiles sector. Job workers, who are the core of the industry and are largely part of the unorganized sector, have been brought into the tax net for the first time, a move that would hurt the sector.
- The small traders are reportedly facing challenges as they are not well versed with the IT systems and find it cumbersome to filing returns. Though, under GST, businesses with turnover less than Rs 20 lakh are not mandated to get registered but their large buyers want them to be registered so that they can claim for input tax credit.
- As per a report by Assocham and NEC technologies, GST is expected to boost the domestic Indian electronics industry due to elimination of cascading effect of taxes and savings of the firms on warehousing and logistics.

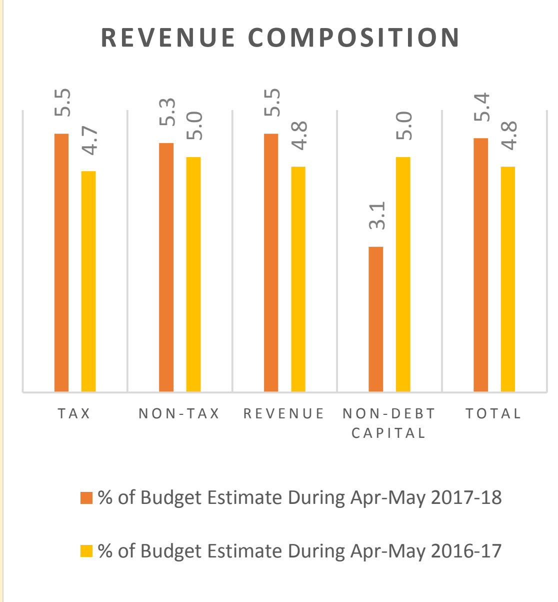
Fiscal Sector

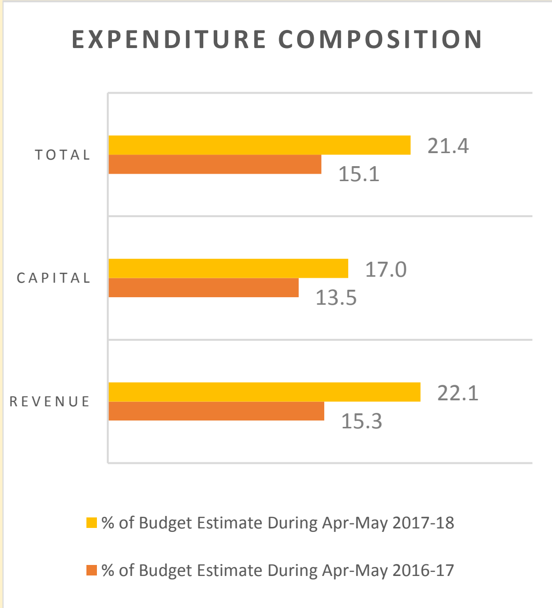
GST Rollout

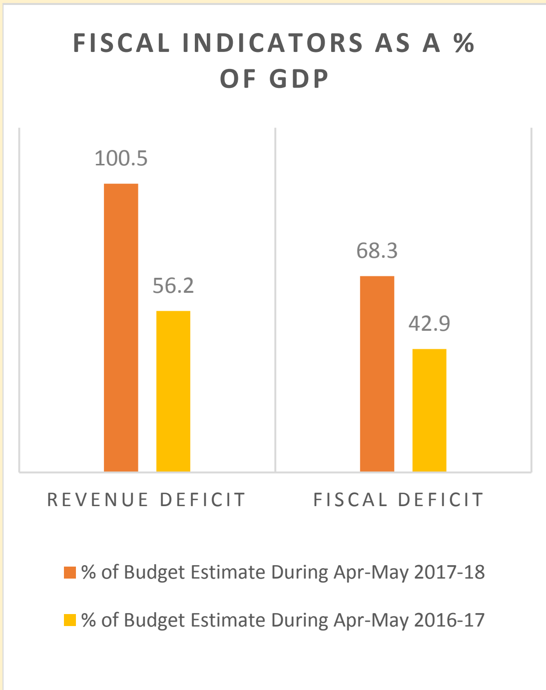
- The high end, branded apparel makers will benefit from the 28% tax rate. However, prices of small local apparel brands will rise as implementation of GST will erode their thin margins. Wholesalers in the apparel business usually earn around 10-15% margin. Further, unregistered entities face problems as they lack the prerequisite documents for KYC compliance such as address prof, identity proof. It is not just suppliers, some small garments shops, too, are unwilling to make non-cash payments for stocks.
- Also, there are rumours in the market that there are 37 returns to file. The unorganized sector makes up about 85% of the total Indian retail market and is expected to reach 87% by 2019 according to a January 2016 report by India Brand Equity Foundation. Of women's apparel, which is the fastest growing apparel segment in India, 11% share is made up by the branded market, as per a June 2017 report by Avendus Capital.
- Sectors such as Pharma expects a temporary decline in sales due to de-stocking by traders ahead of the GST implementation.
- The Central Board of Excise and Customs clarified that the accommodation in any hotel including five star hotels with a tariff of less than Rs. 7500 per unit/per day will attract a tax rate of 18%.
- The GST council though retained the tax rate of 28% and an ad valorem tax of 5%, it increased the cess on cigarette by linking it to the size of the cigarette. The cess on cigarattes was increased to address the issue of lower tax incidence. The increase will give Rs 5,000 crore extra revenue to the Centre's exchequer; this will be used for compensating states.

Tax Collection

- Non tax revenue collection was Rs.0.15 lakh crore or 5.3 % of Budget Estimates (BE) during May 2017 compared to Rs.0.16 lakh crore or 5% of BE during corresponding period of previous year.
- The government has set a fiscal deficit target of Rs.5.4 lakh crore for 2017-18 of which it has already exhausted Rs.3.73 lakh crore (68.3% of BE) by May, FY'18.
- Net tax receipts for May'18 was Rs 0.67 lakh crore or 5.5% of the estimates.
- Total receipts (from revenue and non-debt capital) of the government during the second month (May) came in at Rs 0.85 lakh crore, or 5.4% of the estimates for FY'18.
- Total expenditure of the government in May' FY'18 was nearly Rs 4.59 lakh crore, or 21.4% of the entire year estimate.
- While the revenue deficit for the month of May' FY'18 exceeded Rs 3.23 lakh crore, or 100.5%, of the estimates, the fiscal deficit for the same period exceeded by Rs 3.73lakh crore, or 68.3% of the Budget estimate.
- Risk of growing fiscal deficit has increased due to the announcement of farm loan waiver by many states including Maharashtra, Punjab, Karnataka and Uttar Pradesh. Though initially it was thought that demand for loan waiver will be contagious, the assertion by the Union Finance Minister that states have to pay for the loan waiver, resulted in the appetite for loan waiver seems to have significantly reduced for other states. Nonetheless, chances of fiscal slippage remain high on account of the political sensitive nature of loan waivers.





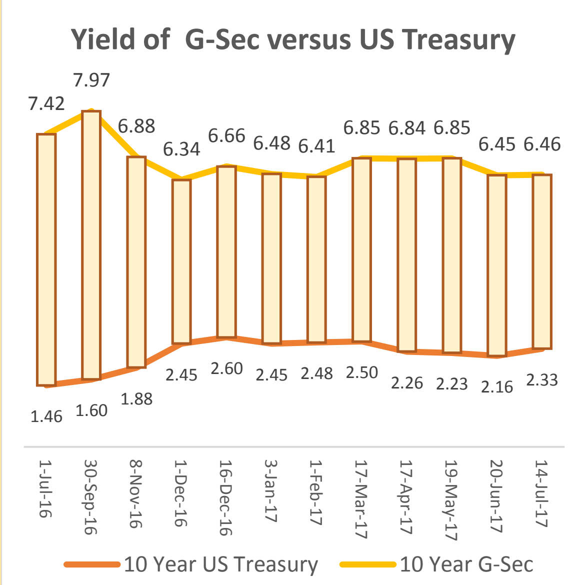


Financial and Commodities Markets

Stock Market

- The BSE Sensex continued its movements beyond the 30,000 benchmark breaching its earlier records and scaling new heights. The BSE Sensex touched an all-time high of 32,037.38 points on July 13, 2017. A host of factors propelled the stock indices higher. The historic implementation of GST after a decade of efforts has kept the market sentiments upbeat. Implementation of GST is set to transform India into a one tax economy and many sectors are expected to benefit from this transition due to elimination of cascading taxes and uniform tax rates across country for same commodity. Besides, factors such as continuity of subdued inflation has spurred expectations of a rate cut by the RBI in the ensuing review of Monetary Policy, steps to resolve the stressed assets of the Banking Sector and the dovish stance of the US Fed reserve with regards to rate hike has kept the momentum in the market. Despite the extension of the OPEC driven production cut, the crude oil prices remained weak supporting the positive sentiments in the market. The technical glitch at the National Stock Exchange (NSE) however had limited impact on market movements.
- SEBI on June 21, 2017 ushered in a host of measures that aimed at easing regulations for listed companies, allowing shareholders and lenders to divest their equity shareholding acquired through the conversion of debt into equity to investors, without the requirement of a mandatory open offer. It also allowed exemption from open offer guidelines, for all cases that are approved by the National Company Law Tribunal, under the Insolvency and Bankruptcy Code, 2016.
- Between June 20, 2017 and July 14, 2017, the BSE Sensex recorded a gain of 2.31% while the mid-cap and small-cap indices showed subdued performance by gaining 2.30% and 1.46%, respectively. Among the sectoral indices of BSE, the FMCG index surged by 6.07% to 10812.07 on July 14, 2017 driven by the benefits under the GST regime wherein the tax rates presently are lower than in the earlier regime and they can avail input tax credit for certain taxes. Further, the FMCG firms also benefit from GST by saving on logistic expenses due to smooth supply chain movement.
- The Bankex grew a lower by 1.21% due to the uncertainty surrounding the insolvency proceedings. While, BSE Metal index surged by 5.46% during the period under review. The declaration of financial results for Q1, FY18 by IT companies showed a mixed trend and market sentiments remained buoyant.
- SEBI has placed restrictions on foreign portfolio investors from issuing participatory notes where the underlying asset is a derivative. The participatory notes or Offshore Derivative Instruments (ODIs) where the derivative is underlying can be issued only for the purpose of hedging with respect to the equity shares held. Besides, SEBI has said that existing positions on unhedged P-Note derivatives have to be liquidated by the end of December 2020.
- The DIIs continued to be net buyers of equities in the first quarter months of FY18 while FIIs are net sellers. In Jun'17, DII had a net buy position of Rs 6676 crore while FII were in sell position to the extent of Rs 4051 crore. Till July 14, 2017, again the FIIs had a net sell position of Rs 689 crore while DII had a net buy position of Rs 3404 crore. This implies that the BSE Sensex journey beyond 30,000 mark is primarily driven by DIIs.

Financial and Commodities Markets



Gold

- As per the recently published Report by World Gold Council, the net impact on India's gold industry is likely to be positive under the GST framework. The Report highlighted that prior to GST rollout, the overall tax rate on gold jewellery stood at 12.2%. The effective tax rate on consumers is likely to increase to 13.5-14%, post implementation of GST. However, a more efficient and transparent tax regime would improve the supply chain and would enable consolidation of the fragmented gold market which in turn is expected to improve the supply side dynamics of the gold industry.
- Gold jewellery attracts 3% tax under GST. The Section 9 (4) of the Central GST Act mandates that tax on supply of taxable goods (gold, in this case) by an unregistered supplier (an individual, in this case) to a registered person (the jeweller, in this case) will be paid by the registered person under the reverse charge mechanism.
- However, the Government clarified that in case of sale of old gold or jewellery by individuals for consideration, it would not attract GST and jeweller will not be liable to pay tax under reverse charge mechanism on such purchases. However, if an unregistered supplier of gold ornaments sells it to registered supplier, the tax under reverse charge mechanism will apply.

Financial and Commodities Markets

Bond

- The G-Sec yields fell sharply as the CPI and new WPI with revised base showed softening bias due to lower vegetable prices and lower base effect. The 10-year bond yields slipped from 6.62% on Jun 20, 2017 to 6.46% on June 20, 2017. With the sustenance of subdued inflation rate at lower levels, there has been an expectation of rate cut in the impending review of monetary policy.

Financial and Commodities Markets

Bond

On July 12, 2017 for first time in the current financial year so far, RBI conducted OMO sales for Rs 10,000 crore to absorb excess liquidity from the banking system. This resulted in a jump in yield rates as markets feared further measures from RBI to absorb liquidity. The Ways and Means Advances (WMA) for the second quarter has increased by Rs 10,000 crore to be at Rs 70,000 crore as against the limit of Rs 60,000 crore in the first quarter of the current financial year.

Drivers of International Crude Oil Prices

Oil market report of International Energy Agency of July 13, 2017 highlights:

- Global oil supply rose by 720 thousand barrels per day (kb/d) in June to 97.46 million barrels per day (mb/d) as producers increased supply. Output stood 1.2 mb/d above a year ago with non-OPEC firmly back in growth mode. Non-OPEC production is expected to expand by 0.7 mb/d in 2017 and 1.4 mb/d in 2018.
- OPEC crude output rose by 340 kb/d in June to 32.6 mb/d after oil flows from Saudi flows increased and Libya and Nigeria, spared from cuts, pumped at stronger rates. OPEC compliance stood at 78%, the lowest rate this year.
- From the perspective of global demand, after lacklustre 1.0 mb/d growth in Jan-Mar 2017, there was a dramatic acceleration in Apr-Jun 2017 to 1.5 mb/d. For 2017 as a whole, demand is forecasted to reach 98.0 mb/d, with growth revised up by 0.1 mb/d compared to last month's Report to 1.4 mb/d. Further growth of 1.4 mb/d is foreseen for 2018, with global demand reaching 99.4 mb/d.
- OECD industry stocks fell in May by 6 mb on lower imports of crude and products. Stocks are now 266 mb above the five-year average, down from 300 mb in April. Preliminary data show a moderate reduction in OECD stocks for June.
- Doubts have been raised about the pace of the re-balancing process. This has been due to a dramatic recovery in oil production from Libya and Nigeria and a lower rate of compliance by OPEC with its own output agreement.
- Energy Information Administration (US) EIA forecasts Brent crude oil spot prices to average $51 per barrel (b) in 2017 and $52/b in 2018. West Texas Intermediate (WTI) crude oil prices are expected to be $2/b lower than Brent prices in 2017 and 2018.

Implication of Oil price hike on India

- It may be noted that price of Indian basket of crude had decreased by 0.9% between Jun’16 and Jun’17. However, between Apr’17 and Jun’17, crude prices dipped by around 11%. Thus, despite the extension of reduction pact, prices have remained stable.
- A dip in crude oil prices have important implications for macroeconomic stability in India. Decrease in oil prices have a sobering impact on inflation apart from having a soothing impact on the government finances and helps to avoid sharp fluctuation in the currency. As per Petroleum Planning and Analysis Cell (PPAC), the consumption of sensitive products that includes LPG increased by 0.4% on y-o-y basis in May 2017 while the controlled products such as Naptha increased by 6.7% while coke and other products increased by 3.4%.

Please refer page No. 24 for disclaimer.

RBI-Policy Rates

- Following the policy review on June 7, 2017 the new policy rates and ratios are as given below

Policy Rates and Ratios (%)

Repo- 6.25

Reverse Repo- 6.00

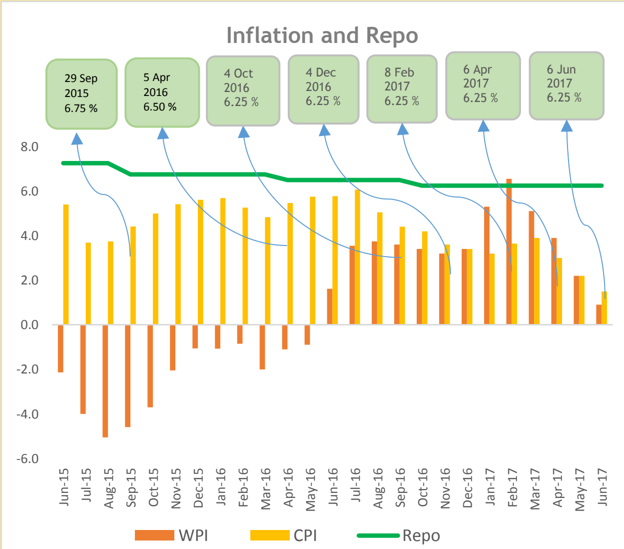
Bank rate -6.50

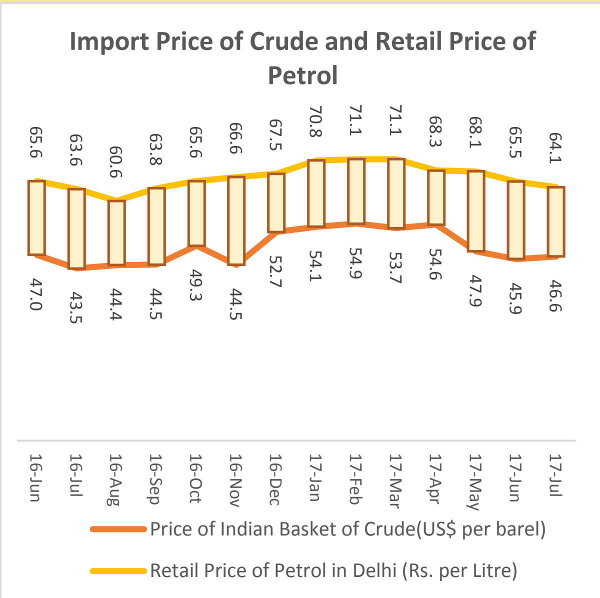
MSF- 6.50

CRR- 4

SLR- 20

Repo and Inflation Dynamics





Rate Decision by Major Central Banks

RBI

- RBI in its Second Bi monthly policy review for 2017-18 on June 7, 2017 kept the repo rate unchanged at 6.25%. The status quo on rates was guided by RBI's commitment to achieve CPI inflation of 4% on a durable basis.
- The SLR has been reduced by 50 bps to 20% to give banks more flexibility to comply with the LCR requirement of 100% by 2019.
- RBI lowered its growth projections for FY'18 by 10 bps and inflation by 100 bps in H1 of FY'18 and 50 bps in H2 of FY'18. It has also expressed its reservations on persistence of softness in inflation observed in Apr'17.
- By stressing on targeted intervention to create greater lending capacity for the healthier sectors of the economy rather than interest rate reduction to boost growth, RBI indicated use of selective credit instruments which had lost favour of the central Bank for quite some time.

FED

- The Federal Open Market Committee's (FOMC) in its meeting during Jun 13-14, decided to raise the federal funds rate by 25 bps to a target range of 1-1.25%, which presently stand at 0.91%. The last rate hike were effected in Mar'17.
- The Fed, however, kept the stance of monetary policy accommodative in line with the FOMC's mandate of maintaining price stability and fostering maximum employment. It has also expressed that the near term risks to the economic outlook remains roughly balanced.
- The Committee's growth projections for US economy increased a little in comparison to its Mar'17 projections from 2.1% in March to 2.2% for 2017. While it remained unchanged at 2.1% and 1.9% for 2018 and 2019 respectively.
- The US Fed in its Jun'17 policy meeting, had outlined the plan to reduce its USD 4.5 trillion balance sheet of bond holdings. The Minutes of the FOMC meeting reflected that this process would be gradual by decreasing its reinvestment of the principal payments it receives from securities held in the System Open Market Account. For payments of principal that the Federal Reserve receives from maturing Treasury securities, FOMC anticipates the cap will be set at USD 6 billion per month initially and will be increased in steps of USD 6 billion at three-month intervals over 12 months until it reaches USD 30 billion per month.

BoE

- In its meeting which concluded on May 14, 2017, BoE's Monetary Policy Committee (MPC) voted in a majority of 5/3 voting in favor of keeping the Bank rates intact at 0.25% and continuing with its neutral stance.
- The Committee voted unanimously to continue with the programme of sterling non-financial investment-grade corporate bond purchases totaling up to £10 bn., financed by the issuance of central bank reserves. The programme of £60 bn of UK government bond purchases will continue that would take the total stock of these bonds to £435 bn. financed by the issuance of central bank reserves. The asset purchase facility is expected to continue throughout FY'2017-18.
- With the threats of falling household spending, weakening housing market and sluggish wage growth looming large over the economy, the Committee held that it needed to assess all these risks before deciding its future stance on monetary policy. BoE is, however, remains optimistic about the UK economy drawing from growing consumer confidence, robust investment and exports and rate of unemployment falling to its lowest level (4.6%) in 40 years. The inflation levels surpassed the MPC expectation in May as it touched 2.9% with the possibility of the inflation levels increasing above the 3% mark owing to the depreciation of currency.

Please refer page No. 24 for disclaimer.

Rate Decision by Major Central Banks

ECB

- Prior to its monetary policy stance scheduled on Jul 20, 2017, there have been prevailing expectations in the market that ECB would supposedly change its forward guidance by making a gradual exit from quantitative easing programme and raising up of interest rates in the near future, on the back of the strong Euro data.
- The Governing Council of the ECB which is the main decision making body of ECB, on June 8, 2017 left the interest rate unchanged on the main refinancing operations, interest rates on marginal lending facility and deposit facility at 0.0%, 0.25% and -0.4% respectively.
- The governing council, however, decided to continue its asset purchase program at a new monthly pace of € 60 bn. (as against the previous level of € 80 bn.) till Dec'17 or beyond, in line with its growth and inflation dynamics.
- It has also revised downwards its inflation forecast to 1.6% in 2019 from 1.7% level projected in March due to decline in energy prices.

BoJ

- BoJ in its monetary policy review held on Jun 16, 2017 kept its short term policy rate i.e., the rate on current accounts held by financial institutions with the central bank, unchanged at -0.1%.
- It plans to continue to purchase Japanese government bonds (JGBs) at the current pace viz, annual increase in the amount outstanding of its JGB holdings of about 80 trillion yen so that 10-year JGB yields will remain at around zero percent, mainly due to the inflation level remaining far away from its target of 2% .
- BoJ revised its growth projection upwards from 1.5% to 1.6% for 2017-18. The growth assessment has been upgraded due to strong improvement witnessed in exports and industrial production along with increasing resilience in private consumption on the back of the steady improvement in employment and income situation.
- BoJ has also given guidance for improved growth outlook and pacing up of inflation in 2017 and 2018, on account of accommodative financial as well as government's large scale fiscal measures such as higher taxes.

PBOC

- On June 15, The People's Bank of China (PBOC) kept its interest rate unchanged. The rate for reverse repos for seven-day, 14-day and 28-day tenors were kept unchanged at 2.45%, 2.60% and 2.75% respectively.
- To ease the liquidity strain which arose due to tax payments and maturing reverse repos, it pumped in net 90 billion yuan into the financial system through the reverse repos via open market operations.

Banking

Competition in the Lending Space

- Among select 12 banks (6 from the PSB space and 6 New Private Banks), two banks revised their 1 year MCLR, five banks revised their base rates and three banks revised their FD rates for 1-2 years. All revision in the above rates were downward revisions.
- Base rates of these banks varied within a range of 165 bps in Jul'17 as compared to 155 bps in Jun'17. HDFC Bank had the lowest base rate at 8.90% and IndusInd Bank had the highest base rate at 10.55%.
- SBI had the lowest MCLR rates at 8.00% in the 1-year tenure and IndusInd Bank continued to have the highest MCLR rate at 9.10% in the 1-year tenure. MCLR varied within a range of 110 bps.
- Range among the 12 banks with respect to variation in deposit rates increased to 65 bps from 40 bps for term deposits of tenure between 1 year-2 years and for less than Rs. 1 crore.

Innovation

- **Indus OS, YES Bank Tie-Up for OS-integrated UPI Payment Platform-** India's indigenous android based operating system, Indus OS, is reported to have partnered with Yes Bank to launch an OS-integrated UPI platform. Customers will be able to use this platform through SMS, phone call, or third party apps. This partnership aims to further boost UPI based transactions. Indus OS is also reported to be working on Aadhaar based authentication process for transacting via its platform.
- **Google Awaits RBI Approval for Starting UPI Service-** According to reports, Google has completed testing of its Unified Payments Interface (UPI) payment service and is awaiting RBI's approval to launch its service in the country. It was reported that Facebook and WhatsApp are also in discussion to launch their own UPI services. However, Google is expected to beat them in the launch as its testing is complete. According to NPCI Chairman, Amazon and Uber will soon start accepting UPI payments.

Initiatives

- **State Bank of India to put more retail products on digital space-** It was recently reported that SBI is planning to offer more retail banking products on its digital platform on the back of increasing adoption of digital banking by consumers. The bank has also indicated to use data analytics to understand the spending habits of its retail consumers. For the corporate sector, using data analytics the bank is planning to develop a platform to connect buyers with sellers and track what each producer is producing.
- **SBI launches digital village in Nepal –** On July 09, 2017 SBI launched a digital village initiative in Nepal, in Jaharsing Pauwa village, 25 km east from Kathmandu. The area is considered to be underserved and remote. SBI opened its centre with flagship INTOUCH services. Villagers will be able to not only deposit and withdraw money via automatic machines but will also be able to open accounts, print debit cards etc. It also distributed around 430 debit cards to the local villagers.
- **Bank of India Launches 'Project Connect'-** On July 18, 2017 it was reported that Bank of India has launched 'Project Connect' initiative to increase contact between clients and bank's staff. Through this project the bank will aim to prevent poaching of its clients by other major banks apart from reducing bad loans, improving the share of low-cost deposits and retail credit. To achieve this, the bank will deploy 115 area managers close to 30-35 branches across India to monitor and support zonal branches. The bank has also opened a new vertical called 'Premium Client Care' to cater to the needs of top 1000 clients from its top 5 centres.
- **NPCI launches educational videos for BHIM users-** NPCI has developed educational videos for customers using the BHIM app. Link to these videos will be sent to the customers via SMS when they download the app. Through these videos, customers will be given a guided tour of initial steps to be followed to set up the app, such as, verifying their registered SIM card, generating BHIM app passcode, selecting their bank, generating UPI pin etc. This drive is part of the educational awareness program of NPCI aiming for smooth on-boarding of customers.
- **EPFO Ties-Up with 5 More Banks to Collect PF Dues-** On July 05, 2017, Minister of State (IC) for Labour & Employment announced that EPFO has now entered an agreement with 5 more banks for collection and payment of EPF dues. Bank of Baroda, ICICI Bank, HDFC Bank, Axis Bank, Kotak Mahindra Bank have been signed on to collect remittances and payments to beneficiaries at zero transaction charges. Employers having bank account with these banks will be able to deposit the EPF dues directly into EPFO's account using internet banking facility. Prior to this round of addition, PNB, Allahabad Bank, Indian Bank, Union Bank of India, have already been brought on board by EPFO for online collection of dues. Initially only SBI was allowed.
- **Chhattisgarh to merge all DCCBs into Single State Cooperative Bank-** On July 11, 2017 it was reported that Chhattisgarh government has decided to merge all its District Cooperative Central Banks (DCCBs) of the state into a single State Cooperative Bank, so as to be able to provide better and efficient services to its farmers. This is touted to be one of the major financial reforms in the state. After the merger, all 264 branches of the DCCBs will continue to function in the same way as before, but going forward they will provide services as a Scheduled Cooperative Bank. The working capital of the cooperative bank is expected to cross over Rs.10000 crore after the merger, giving bank adequate money for disbursement of more agriculture loans.

Please refer page No. 24 for disclaimer.

Development

- **Yes Bank Receives Funding from OPIC and Wells Fargo for SME lending-** On July 14, 2017 it was announced that Yes Bank has received US$150 million in funding from US government development finance institution's OPIC, and Wells Fargo. Objective of the funding is to increase lending support to women entrepreneurs and small and medium enterprises in India. As per the agreement Overseas Private Investment Corporation (OPIC) will provide US$75 million in financing and the other half will be jointly arranged with Wells Fargo. US$50 million of the financing would be used to expand support to women-owned businesses, while another US$50 million will be used for financing SME business in low-income states.
- **SBI reduces transaction charges on NEFT, RTGS and IMPS-** In July, SBI waived off transaction charges on transfers upto Rs.1000 done via IMPS. Post that it also reduced charges on transactions made via NEFT and RTGS. Transaction charges for NEFT have been brought down from the bracket of Rs.2.50-Rs.25, to Rs.1-Rs.5. RTGS charges have been revised down from Rs.25/Rs.50 to Rs.5 and Rs.10. All charges are exclusive of GST. Downward revision of charges has been done to promote digital banking further.
- **SIDBI reports 5 per cent drop in net profit-** On July 07, 2017, it was reported that SIDBI's net profit declined by 5% in FY2016-17 on the back of increase in operating expenses and interest expenses, by 27% and 16% respectively. SIDBI has provided loans worth Rs.3586 crore to 1384 MSMEs, through its Rs.10000 crore fund-'SIDBI Make in India Soft Loan Fund for MSMEs (SMILE)'. Under its Start-up Assistance and Growth Capital scheme it has reportedly sanctioned Rs.1107 crore as equity assistance to 575 MSMEs and Rs.3521 crore to 125 venture capital funds.
- **Canara-HSBC-Oriental Bank of Commerce Life Insurance announce tie-up with Dhanlaxmi Bank-** Canara HSBC Oriental Bank of Commerce Life Insurance, a partnership between Canara Bank, Oriental Bank of Commerce and HSBC Insurance (Asia Pacific) Holdings Ltd, has now entered into a tie with up Dhanlaxmi Bank to sell all its existing products to the customers of Dhanlaxmi Bank using its staff. The life insurance company has around 115 million customers while Dhanlaxmi Bank is reported to have about 2 million customers. The partnership aims to achieve the objective of providing seamless customer interface through bank branches of the entities involved and also reduce its cost of operations.
- **PNB to block all Maestro debit cards from July 31-** From July 31, 2017 all Punjab National Bank Maestro debit cards will be blocked as they are to be replaced with more secure EMV chip based cards. The bank will not charge any amount for replacement and new cards will be provided free of cost. This replacement of all cards is being done as per RBI's advisory issued in 2015, asking all the banks to migrate to safer EMV chip based cards from magnetic strip based cards.
- **SBI Offers GST-ready solutions starting July 01-** State Bank of India (SBI) announced that its Goods and Services Tax (GST) ready solutions, including the introduction of online payment through internet banking and debit card have been made available since 01 July, 2017. SBI account holders can deposit this tax (GST) of upto Rs.10000, in cash, cheque or draft form at any of the SBI branches across the country.

Regulatory Development

- **RBI Allows Payment Banks to Act as BCs for Other Lenders-** On June 29, 2017 RBI notified that Payment Banks (PBs) can act as Business Correspondents (BC) for other banks. As BCs, Payment Banks will be allowed to facilitate withdrawals and transfers by the customers, from banks for whom they are a BC. At any point in time, deposits with PBs cannot exceed Rs.1 lakh for any individual customer. Also PBs will not be able to use the money of customers for whom they act as BCs for intra-day funding facilities.
- **RBI Introduces Zero Customer Liability to Boost Digital Transactions-** RBI has put in place directions for categorization of limited and zero customer liability in case of unauthorized electronic banking transactions. In case of unauthorized transactions, either due to fraud/negligence on part of the bank or third party breach, if the customer reports the fraudulent transactions from the date of receiving the bank's communication within 3 days, then it would result in zero liability. If the consumer reports after 7 days then customer liability will be decided as per bank's board approved policy. It has been made mandatory for the consumers to register their mobile numbers for availing any electronic payment facility. In case they don't, the only electronic transaction activity they will be allowed is ATM cash withdrawals.
- **RBI Revises Limits for FPI investment in Government Securities-** On July 03, 2017 RBI notified that certain limits for FPI investment in Government (Centre & State) Securities have been revised. While it kept the overall cap of 5% for Central Government securities (G-Secs) and 2% for State Development Loans (SDLs) unchanged, it revised the limit for "long-term" investments upward. Limit for long-term FPI investment in G-Sec was revised upward to 75% and that for 'General Category' was brought down from 40% to 25%. It was also announced that investors will not be allowed to transfer the unutilized limits of 'Long-Term' category to 'General' category. Limits for investment by FPIs in G-Secs and SDLs for Q2FY18 has been increased by Rs.11,000 crore and Rs.6,100 crore, respectively. The new FPI limit for G-Secs and SDLs stands at Rs.2.42 lakh crore and Rs.2.75 lakh crore, respectively.
- **RBI Revises Funding Cap for Financial Literacy Centres & Rural Branches-** As per the earlier rules, FLCs and rural branches were eligible for funding support from the Financial Inclusion Fund for the financial literacy camps to the extent of 60% of the expenditure of the camp, subject to a maximum of Rs.15000/- per camp. This maximum cap has been revised downward to Rs.5000/- per camp.

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Development

- **Over 90% Indian customers still prefer branch over online banking: Report -** According to the Oracle J.D. Power India's 'Retail Banking Study (2017),' only 9% of the retail banking customers use mobile banking for everyday transactions, and 94% of the customers visit their bank branch atleast once a year. 51% of the customers reported having reliable online banking experience with their bank. Of the 48% the customers who didn't have any mobile banking app, 1/4th of them perceived security a key deterrence. In terms of overall customer satisfaction, India with 672 index points lagged behind other major economies such as China (806), USA (793) and Australia (748). Amongst public and private sector banks, Indian private sector banks fared better in customer satisfaction as compared to public sector banks.
- **SBI & PNB initiate corporate insolvency proceedings against Bhushan Steel, Power-** On July 14, 2017 SBI took Bhushan Steel to National Company Law Tribunal (NCLT) in Delhi for insolvency proceedings. Earlier PNB took Bhushan Power, sister company of Bhushan Steel, to NCLT for same under Insolvency and Bankruptcy Code (IBC), 2016. Both companies were on the list of 12 firms recommended by the RBI for insolvency proceedings. Bhushan Steel has a liability of around Rs.43,000 crore towards more than 20 banks, while Bhushan Power has a liability of around Rs.37,000 crore. Bhushan Steel is the third-largest secondary steel producer in the country with 5.6 million tonnes (mt) of secondary steel capacity.
- **HDFC Bank Credit Cards Cross 1 Crore -** HDFC Bank is set to be the first issuer in the country to cross 1 crore credit cards. The bank had over 88 lakh cards as of end-May 2017 and is adding three lakh new customers every month, which will enable it cross the 1-crore mark by end of 2017.
- **Axis Bank Launches Loans for Super Bikes-** Axis Bank announced the launch of Super Bike Loans for 500cc and above bikes. This marks the entry of the bank into growing and popular leisure biking segment. The product offering of the bank has Loan to Value Ratio of up to 95% of the bike cost including accessory funding with special offers & programs for their own HNI customers.
- **Divergence in Gross NPA Reported by IDBI Bank-** It was reported on July 12, 2017 that there was divergence in Gross NPA as reported by IDBI Bank for FY'16 and that assessed by the RBI for the same fiscal year. Divergence reported is of the scale of Rs.6816.60 crore. While the bank reported gross NPAs worth Rs.24875.07 crore as of 31 Mar'16, RBI's own assessment reported a figure of Rs.31691.67 crore for the same period. Divergence in net NPAs was reported to the tune of Rs.4755.60 crore.
- **FINO Payments Bank Limited Commences Operations-** RBI reported that effective June 30, 2017, FINO Payments Bank Limited has commenced its operations. FINO PayTech Limited was one of the 11 payment banks who were issued in principle approval for setting up the payments bank in August 2015 by the RBI.
- **Axis Bank Exposed to 8 out of 12 Accounts Identified by RBI for Resolution Under IBC-** On June 30, 2017 Axis Bank reported that out of the 12 accounts identified by the RBI for resolution under IBC, Axis Bank has exposure to 8 of the accounts. Its total fund-based outstanding on the 8 accounts stood at Rs.5071 crore and non-fund based outstanding was at Rs.212 crore.
- **RBI Identifies Accounts for Reference by Banks under IBC-** RBI announced that an Internal Advisory Committee (IAC) constituted by it has decided that all accounts with outstanding amount greater than Rs.5000 crore, with 60% or more classified as NPAs by banks as of March 31, 2016, will be recommended for resolution under the Insolvency and Bankruptcy Code, 2016 (IBC). As a result, 12 accounts contributing to almost 25% of the current gross NPAs of the banking system were identified.
- **RBI Releases Financial Stability Report-** RBI in its half yearly Financial Stability Report, Jun'17 has held that (a) domestic macroeconomic conditions have remained stable on the back of accelerated reforms. (b) Notwithstanding the optimistic growth outlook, weak investment demand partly emanating from the twin balance sheet problem in the economy acts as drag. (c)While deposit growth of SCBs picked up, credit growth remained sluggish. On the other hand, alternate sources of credit and investment have grown as shown in the aggregate expansion of balance sheet of the NBFC. (d) AUM by Mutual Fund touched a record high in Mar'17. (e) Banking stability indicator (BSI) worsened between Sep'16-Mar'17 on account of deterioration in asset quality and profitability. GNPAs of the banking sector rose between Sept'16 and Mar'17. However, optimism prevailed as stressed advances ratio declined due to fall in restructured standard advances. (f) With regard to sectoral exposure, infrastructure still remained an area of concern with telecommunication and power facing high 'debt at risk'.
- **Digital Transactions Continue to Rise in Jun'17-** Digital transactions rose in June in terms of value from the previous month, according to the Reserve Bank of India (RBI). Total digital transactions rose 2.36% to Rs.113.73 trillion, from Rs.111.11 trillion in May, according to the provisional data released by the RBI. The number of digital transactions, however, declined marginally to 831.7 million in June from 858.5 million in May. The highest volume was recorded in December at 957.5 million.

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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-Jul-17	8.35	01-Jul-17	9.50	May-17	6.90
Bank of India	10-Jul-17	8.40	31-Mar-17	9.55	Jul-17	6.70
Canara Bank	07-Jul-17	8.40	01-Apr-17	9.40	Jun-17	6.65
Punjab National Bank	01-Jul-17	8.35	01-Jan-17	9.35	May-17	6.80
Union Bank of India	01-Jul-17	8.40	30-Jun-17	9.20	May-17	6.80
State Bank of India	01-Jul-17	8.00	01-Jul-17	9.00	Jul-17	6.50
Axis Bank	17-Jun-17	8.25	04-Jul-17	9.05	Dec-16	7.00
HDFC Bank	07-Jul-17	8.15	30-Jun-17	8.90	Jan-17	6.95
ICICI Bank	01-Jul-17	8.20	28-Apr-17	9.10	May-17	6.90
IndusInd Bank	17-Jun-17	9.10	17-Jan-17	10.55	Jan-17	7.15
Kotak Bank	01-Jul-17	8.65	14-Jun-17	9.20	Jun-17	6.75
Yes Bank	01-Jul-17	8.85	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.

Bank of India offers 6.70% for term deposits of 1 year to less than 2 years and 6.65% for term deposits of 2 years.

Canara Bank offers 6.75% for term deposits of 1 year and 6.65% for term deposits of above 1 year to 2 years.

Punjab National Bank offers 6.80% for term deposits of 1 year and 6.70% for term deposits of 1 to 2 years.

Union Bank of India offers 7.00% for term deposits of 14 months and 6.80% for term deposits of above 14 months to 3 years.

State Bank of India offers 6.75% for term deposits of 1 year, 6.50% for term deposits of above 1 year to less than 2 years and 6.25% for term deposits of 2 years.

AXIS Bank offers 7.00% for term deposits of 1 year to less than 18 months, 6.5% for term deposits of 18 months to less than 2 years.

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

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

Kotak Mahindra Bank offers 6.75% for term deposits of 365 days to 390 days, and 6.50% for term deposit of 391 days to 2 years.

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

Figures are in per cent.

Please refer page No. 24 for disclaimer.

Annex-2

Monthly Macro Indicators

Indicator	16-Jun	16-Jul	16-Aug	16-Sep	16-Oct	16-Nov	16-Dec	17-Jan	17-Feb	17-Mar	17-Apr	17-May	17-Jun
Production													
IIP(2011-12 Base)	8.9	5.2	4.9	5.7	4.9	5.7	2.6	3.0	0.8	3.8	2.8	1.7	
Infrastructure (2011-12 Base)	7.0	3.1	3.1	5.3	7.1	3.2	5.6	3.4	0.6	5.3	2.8	3.6	
Prices													
WPI (2011-12 Base)	-0.1	0.6	1.1	1.4	1.3	1.8	2.1	4.3	5.5	5.1	3.9	2.2	0.9
CPI (2011-12 Base)	5.8	6.1	5.0	4.4	4.2	3.6	3.4	3.2	3.7	3.9	3.0	2.2	1.5
Agriculture (1986-87 Base)	6.0	6.7	6.6	4.9	3.2	2.9	2.7	2.5	3.1	2.7	2.6	1.4	
Industry (2001 Base)	6.1	6.5	5.3	4.1	3.3	2.6	2.2	1.9	2.6	2.6	2.2	1.1	
Services (2012 Base)	3.8	4.0	4.2	4.5	4.7	4.8	4.7	5.0	4.8	4.9	4.3	3.8	3.3
Banking													
Fixed Reverse Repo (Rs. Mn)	224890	30040	63280	467290	63820	43050	138790	91570	223150	1351770	509900	163810	529930
Fixed Repo (Rs. Mn)	47670	34950	32070	74290	-	51080	40570	18500	14000	93950	11700	20000	24750
Aggregate Deposits	9.1	8.3	8.9	12.8	9.2	15.6	15.7	12.7	12.0	15.9	11.5	10.9	11.1
Total Credit	7.3	7.7	7.6	11.5	6.4	4.0	3.3	3.3	3.0	7.3	3.8	3.5	
Non Food Credit	7.9	8.3	8.2	10.8	6.7	4.8	4.0	3.5	3.3	8.4	4.5	4.1	
Industrial Credit	0.6	0.6	-0.2	0.9	-1.7	-3.4	-4.3	-5.1	-5.2	-1.9	-1.4	-2.1	
Infrastructure Credit	-2.1	-3.1	-4.2	-4.6	-6.6	-6.7	-7.7	-8.7	-9.7	-6.1	-2.2	-4.0	
Service Credit	9.2	10.8	12.1	18.4	9.3	7.1	8.3	8.1	7.7	16.9	4.1	4.0	
Leading Indicators													
Manufacturing PMI	51.7	51.8	52.6	52.1	54.4	52.3	49.6	50.4	50.7	52.5	52.5	51.6	50.9
Service PMI	50.3	51.9	54.7	52	54.5	46.7	46.8	48.7	50.3	51.5	50.2	52.2	53.1
Composite PMI	51.1	52.4	54.6	52.4	55.4	49.1	47.6	49.4	50.7	52.3	51.3	52.5	52.7
Services													
Passenger Traffic: All Airports	16.8	23.0	19.5	20.8	19.7	18.6	19.9	21.4	13.5	12.8	13.5	15.7	
Foreign Tourist Arrivals	6.8	16.8	8.8	12.1	8.6	7.6	11.9	16.4	12.6	11.9	25.0	19.4	22.5
Goods Traffic Movement by Railways	3.0	-1.9	-3.7	-2.7	-2.6	5.5	-0.1	0.3	3.5	7.7	4.6	3.9	2.8
Automobile Sales: Total	7.2	8.9	16.8	15.8	7.2	-4.2	-16.0	-5.1	2.4	2.9	9.5	9.6	1.8
Automobile Sales: Passenger Vehicle	7.6	13.9	18.9	20.7	6.2	5.8	4.3	14.6	8.7	11.0	14.4	9.3	-5.9
Automobile Sales: Commercial Vehicle	7.4	2.1	2.4	0.4	13.5	-7.1	-5.7	-2.4	5.7	6.7	-25.0	-9.3	-4.2
Automobile Sales: Two Wheelers	7.9	9.2	18.6	17.2	7.5	-5.2	-19.7	-7.7	2.1	2.2	10.5	11.0	4.0
Automobile Sales: Three Wheelers	-6.6	-8.9	-11.9	-16.1	-2.1	-22.0	-37.3	-26.9	-22.2	-23.1	-6.3	-6.8	-13.0
External													
FDI-Equity (US $mn)	2340	4179	4901	5247	6300	4782	3451	4088	1322	2560	3323	4155	
FII-Net Portfolio Investment(US $mn)	-279	2267	1558	2884	-40	-6902	-4371	-389	2454	9034	2653	4681	
ECB(US $mn)	1072	1203	3173	1574	1471	278	2486	1804	1009	1697	1305	524	
Exports	1.1	-6.9	0.1	4.7	8.8	2.5	6.4	5.1	22.5	27.2	17.9	8.3	4.4
Imports	-8.5	-19.3	-13.6	-0.9	10.7	12.0	1.2	10.6	21.2	45.3	47.7	33.1	19.0
Trade Balance(US $mn)	-8,116	-7,667	-7,752	-8,855	-11,137	-13,421	-10,456	-9,639	-7,688	-10,524	-13,478	-13,842	-12,960
Rupee-Dollar Exchange Rate	67.62	67.03	66.98	66.66	66.86	68.53	67.95	67.81	66.74	64.84	64.22	64.55	64.74
Rupee-Pound Exchange Rate	90.52	88.30	87.69	86.42	81.30	85.53	83.42	84.85	83.05	80.88	82.83	82.64	84.26
Rupee-Euro Exchange Rate	75.01	74.27	74.62	74.75	72.91	72.84	71.62	72.55	70.72	69.25	69.88	72.14	74.00
REER 36 Country (Trade Based Weight) Base 2004-05=100	112.91	114.17	114.15	114.39	115.50	115.79	116.01	114.69	115.50	117.56	119.34	118.79	118.10
Forex Reserves Outstanding (US $bn))*	364	367	367	372	366	361	359	363	364	370	373	380	387
Note: All figures unless specified otherwise refers to y-o-y growth and are in per cent. PMI figures are numbers.													

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Annex-3
Quarterly Macro Indicators

	2013-14		2014-15				2015-16				2016-17			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GVA at Basic Prices Growth	6.3	4.6	7.8	8.5	6.2	6.5	7.6	8.2	7.3	8.7	7.6	6.8	6.7	5.6
Components Growth														
Agriculture, Forestry and Fishing	6.6	5.8	2.3	3.6	-3.1	-1.2	2.4	2.3	-2.1	1.5	2.5	4.1	6.9	5.2
Industry	4.1	2.7	9.7	8.3	4.7	7.2	7.3	7.1	10.3	10.3	7.4	5.9	6.2	3.1
Mining and Quarrying	-0.7	5.0	18.3	6.0	8.9	12.2	8.3	12.2	11.7	10.5	-0.9	-1.3	1.9	6.4
Manufacturing	6.0	3.5	10.6	9.7	3.7	8.9	8.2	9.3	13.2	12.7	10.7	7.7	8.2	5.3
Electricity, Gas, Water Supply and Other Utility Services	3.4	5.4	8.8	9.4	7.1	3.0	2.8	5.7	4.0	7.6	10.3	5.1	7.4	6.1
Construction	2.3	-0.4	5.4	5.8	4.7	3.0	6.2	1.6	6.0	6.0	3.1	4.3	3.4	-3.7
Services	7.6	5.3	8.2	9.8	11.8	8.9	9.3	10.1	9.6	10.0	9.0	7.8	6.9	7.2
Trade, Hotels, Transport, Communication and Services Related to Broadcasting	9.1	6.3	10.7	7.3	5.1	12.8	10.3	8.3	10.1	12.8	8.9	7.7	8.3	6.5
Financial, Real Estate and Professional Services	8.4	7.8	9.2	13.1	12.3	9.9	10.1	13.0	10.5	9.0	9.4	7.0	3.3	2.2
Public Administration, Defence and Other Services	4.2	0.5	2.9	7.4	22.1	1.3	6.2	7.2	7.5	6.7	8.6	9.5	10.3	17.0
Growth of Expenditure Components of Nominal GDP														
GDP	14.6	12.4	14.3	11.0	9.9	8.5	10.5	8.8	8.5	11.9	10.4	10.5	10.4	12.5
Net Taxes on Products	12.2	32.6	-14.1	5.1	13.8	20.1	59.2	43.1	10.7	21.4	40.6	23.6	21.4	19.5
Final Consumption Expenditure	15.8	11.7	14.5	15.8	8.7	8.7	6.5	7.6	10.5	13.3	13.5	13.6	15.9	14.7
Final Consumption Expenditure: Private	16.2	15.5	15.7	15.8	5.6	10.9	6.5	7.3	10.5	13.8	12.0	11.9	14.4	11.8
Final Consumption Expenditure: Government	13.0	-7.1	9.0	15.8	32.0	-4.9	6.3	9.1	9.9	9.7	21.3	21.2	24.8	36.8
Gross Fixed Capital Formation	7.4	3.5	10.6	11.2	4.9	4.3	4.4	1.9	9.2	7.8	5.9	2.9	2.2	0.6
Change in Stocks	-31.8	-33.0	122.0	118.6	103.6	109.9	-3.6	-4.1	-0.5	-0.5	9.4	7.9	9.6	8.0
Valuables	-49.2	-30.3	39.3	19.3	28.9	30.7	-15.9	4.1	9.0	-15.9	-15.2	-12.2	-13.7	-21.5
Exports of Goods and Services	28.4	22.8	14.7	-2.7	0.8	-9.0	-5.0	-5.5	-7.5	-0.6	2.4	3.1	5.9	15.2
Import of Goods and Services	-1.9	2.8	4.2	1.6	6.7	-6.6	-5.3	-5.4	-9.3	-3.3	-1.5	-3.7	2.4	15.1
BoP Indicatos														
Current Account as % of GDP	-0.9	-0.2	-1.5	-2.2	-1.5	-0.1	-1.2	-1.7	-1.4	-0.1	-0.1	-0.6	-1.4	-0.6
Trade Account as % of GDP	-3.2	-2.2	-3.6	-4.1	-3.6	-2.2	-3.2	-3.8	-3.1	-1.6	-1.5	-1.7	-2.7	-2.0
Capital Account as % of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account as % of GDP	1.0	0.4	1.6	2.1	1.9	0.0	1.4	1.7	1.3	0.0	0.0	0.8	1.3	0.5
Foreign Direct Investment as % of GDP	1.3	0.2	1.6	1.5	1.3	1.7	2.0	1.3	2.0	1.6	0.7	3.1	1.7	0.8
Foreign Portfolio Investment as % of GDP	0.5	1.9	2.6	1.9	1.2	2.3	0.0	-0.7	0.1	-0.3	0.4	1.1	-2.0	1.7
Errors and Omission as % of GDP	-0.1	-0.2	0.0	0.1	-0.4	0.1	-0.2	-0.1	0.1	0.0	0.0	-0.2	0.1	0.1
Accretion(-)/Depletion (+) of Forex (Us$bn)	-0.9	-0.2	-1.5	-2.2	-1.5	-0.1	-1.2	-1.7	-1.4	-0.1	-0.1	-0.6	-1.4	-0.6
FDI(US$bn)	6.1	0.9	7.6	7.5	6.9	9.3	10.0	6.5	10.7	8.8	3.9	17	9.7	4.9
FII(US$bn)	2.4	9.3	12.4	9.8	6.3	12.5	0.0	-3.5	0.6	-1.5	2.1	6	-11.3	10.8
External Debt: USD: Total (bn)	426.9	446.2	453.2	455.9	458.2	474.7	482.0	480.5	479.2	485.0	479.5	484.2	456.1	426.9
External Debt: USD: Long Term (bn)	334.2	354.5	363.1	368.9	372.6	389.2	398.4	395.7	397.7	401.6	397.4	403.0	372.2	334.2
External Debt: USD: Short Term (bn)	92.7	91.7	90.1	87.0	85.6	85.5	83.6	84.8	81.6	83.4	82.1	81.2	83.8	92.7
External Debt: USD: Short Term: Trade Related (bn)	86.2	81.7	82.0	80.4	79.0	81.6	79.3	79.2	77.4	80.0	79.7	79.5	82.5	86.2
Short Term Debt as % of Total Debt (bn)	21.7	20.5	19.9	19.1	18.7	18.0	17.3	17.6	17.0	17.2	17.1	16.8	18.4	

Note-Figures are in per cent unless specified otherwise.

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Notes

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