बैंक ऑफ़ बड़ौदा
Bank of Baroda
India's International Bank

Economic Intelligence

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MONTHLY MACRO INSIGHTS

In Brief

US Fed pursued status quo in rates in the last week of July on the back of subdued inflation but signalled its plans to begin balance sheet normalization program relatively soon. Economic activity continued to be buoyant in Euro Area, UK and Japan. GDP numbers for Q2'17 is indicative that growth is gaining momentum in major economies such as Japan, Germany, Italy and Euro Area as a whole. In the Euro Area economies, monthly data points such as manufacturing and services PMI, industrial production, exports and imports reflect slowing yet positive growth in the current quarter, along with stable inflation and improving labour market conditions. In UK and Japan, industrial production, inflation and labour market conditions suggest improving conditions in the current quarter. China's economy on the other hand continues to struggle as its PMI numbers and trade data reflected further slowdown in business activity in the past month. In the backdrop of modest recovery in global growth prospects, India's latest macro data prints showed temporary hiccups faced by the economy post the rollout of GST. Industrial production numbers as well as manufacturing and services PMI suggested contraction in economic activity. RBI's monetary policy statement and Volume II of the Economic Survey both cautioned against growth dampeners and advised rebooting private investment and credit growth in the economy for higher sustainable growth. Softening inflation and weakening capex prompted RBI to cut the repo rate by 25bps in its last review on Aug 2, 2017. We expect RBI to pursue a status quoist approach for quite some time as it evaluates the impact of Monsoon and GST on economic activity. Geo-political tensions between the US and North Korea and oil price rise on the back of supply cuts, pushed the Indian bond yields moderately. Minutes of July Fed meeting suggested that the pace of rate hike by US Federal is likely to be rather slow. The movement of Indian rupee is expected to be range bound in the near term guided by policy reforms which will positively shape future growth prospects.

Key Takeaway

- In its latest World Economic Outlook update, IMF has kept the global growth projections unchanged at 3.5% in 2017 and 3.6% in 2018 but revised its growth forecast for 2016 upwards by +0.1% to 3.2%.
- Asian Development Bank in its growth outlook update has projected the Asia Pacific region to grow by 5.9% in 2017, an upward revision of 0.2% on the back of stronger than expected growth in exports. Growth forecast for 2018 has also been revised upward from 5.7% to 5.8% for 2018.
- In US, the headline unemployment rate declined marginally to 4.3% in Jul'17 compared to 4.4% in Jun'17
- Gross Bank Credit of SCBs picked up slightly in Jun'17 to 4.4% as compared to 3.5% in May'17 and 3.8% in Apr'17 on a y-o-y basis. Credit to industry continued the trend of negative growth for the ninth consecutive month since Oct'16 and contracted by -1.1% as compared to -2.1% in May'17.
- Cumulative rainfall between Jun 01, 2017 to Aug 16, 2017 has been 4% below the long period average. While Northwest India, East and North East India received rainfall 3% above the LPA. South Peninsula and Central India received rainfall 16% and 9% respectively below LPA.

Financial and Commodities

Indicator	19-May-17	19-Jun-17	18-Jul-17	18-Aug-17
Call	6.06	6.09	6.07	5.86
Repo	22,300	21,450	29,200	31,550
US	2.23	2.19	2.27	2.19
G-Sec	6.85	6.47	6.46	6.51
Dollar	64.99	64.38	64.33	64.1
Pound	84.18	82.51	84.29	82.62
Sensex	30,465	31,312	31,711	31,525
Crude	52.3	45.84	47.36	49.75
Gold	28,850	28,850	29,050	30,150
FII	142.8	-107.5	155.1	-326.4
FII-E	55.9	160.0	58.4	-300.0
FII-D	86.9	52.6	96.8	-26.4

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

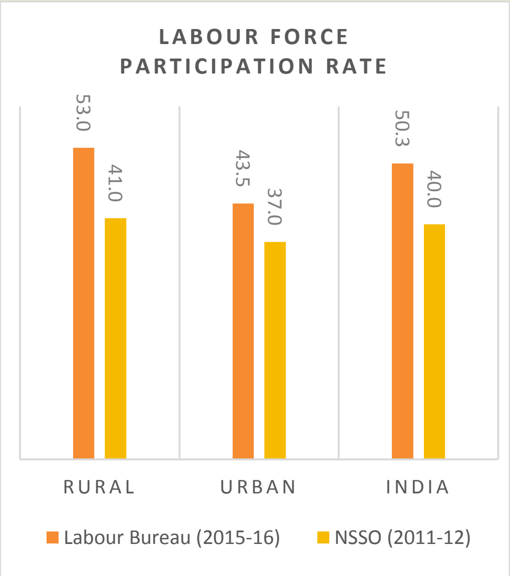
FII-refers to the net FII inflow in both debt and equity segments.

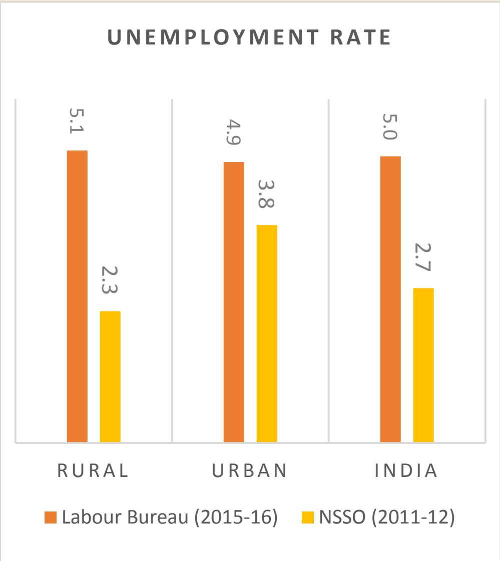
Inside

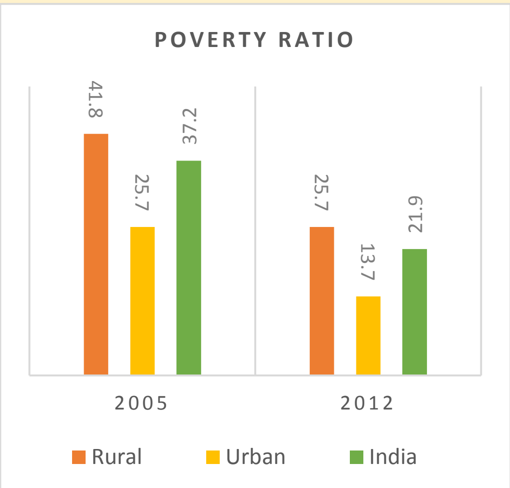
Key Takeaway

- The Economic Survey Volume II has highlighted that addressing the Twin Balance sheet problem of Indian economy requires attention. RBI's recent booster to growth through reduction of 25 bps in repo rate is also likely to lower borrowing cost and provide a fillip towards investment thereby improving the overall growth outlook.
- Major macroeconomic data releases of Indian economy reflected mixed picture. Industrial production growth contracted and entered the negative territory declining to (-) 0.1% in Jun'17 compared to 2.8% in May'17 and 8.0% in Jun'16, on a y-o-y basis. This is the slowest growth rate since Jul'13 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.
- Inflation edged up moderately both at the retail and wholesale level in Jul'17.
- Retail inflation rose to its three month high of 2.36% in Jul'17 primarily driven by rise in food price index. Inflation has fallen below the lower threshold of MPC's FIT (flexible inflation targeting) framework.
- Wholesale inflation grew by 1.88% in Jul'17 compared to 0.9% in Jun'17 and 0.6% in Jun'16 on a y-o-y basis.
- Food inflation at the retail level continued its deflationary trend for the third consecutive month. Consumer Food Price Index (CFPI) recorded deflation of (-)0.3% in Jul'17 compared to a deflation rate of (-)2.1% in Jun'17 on a y-o-y basis. At the wholesale level, WPI Food index edged up to 2.1% in Jul'17 compared to a deflation rate of 1.2% in Jun'17 and 8.6% in Jul'16 on a y-o-y basis.
- As per the data released by Ministry of Agriculture, total sown area as on Aug 18, 2017, under kharif crops stood at 976.34 lakh hectare compared to 984.57 lakh hectare in the corresponding period of previous year.
- Despite exhibiting a positive growth for the last seven months, India's exports slowed down to 3.9% in Jul'17 compared to 4.4% in Jun'17 on a y-o-y basis to US$ 22.54 billion. Growth in imports also slowed down to 15.4% in Jul'17. As a result of the sharp deceleration in imports, trade deficit continued to decline and reached US$ 11.45 bn in Jul'17 compared to US$ 12.96 bn in Jun'17.
- Net tax receipts for Apr-Jun'18 was Rs 1.77 lakh crore or 14.5% of the 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.4.41 lakh crore (80.8% of BE) by June, FY'18.
- The World Gold Council stated that the gold demand in Q2,2017 was at 953.4 tonnes lower 10% than the levels in corresponding period of 2016. During the H1, 2017, the demand was lower by 14% to 2003.8 tonnes. The net purchases by Central Bank of 176.7 tonnes were also lower by 3% in the first half year of 2017. However, bar and coin investment and jewellery demand improved.
- In Jul'17, global oil supply increased by 520 kb/d versus Jun'17. It was the third consecutive monthly increase. Global supply is up 500 kb/d on a year ago.
- OPEC crude output rose by 230 kb/d in Jul'17 to its highest level in this year to 32.84 mb/d, led by a strong recovery in Libya. Output from the 12 members included in the output pact edged up, eroding the compliance rate to 75%, the lowest this year. Year-to-date compliance is 87%. Together, the 22 countries are producing about 470 kb/d in excess of their commitment.

Indian Economy-Structural Coordinates







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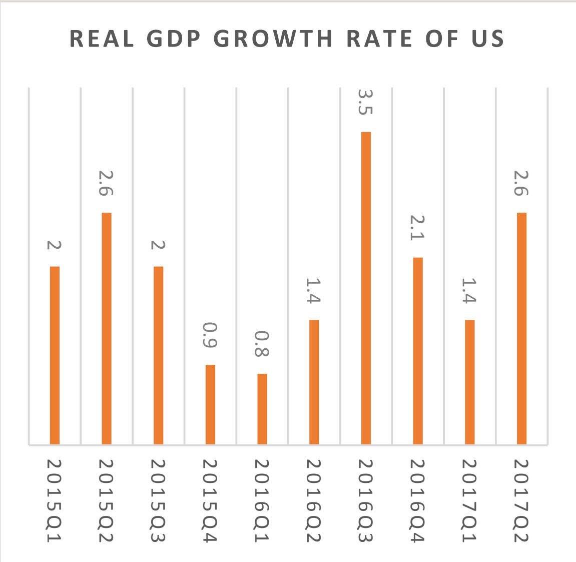
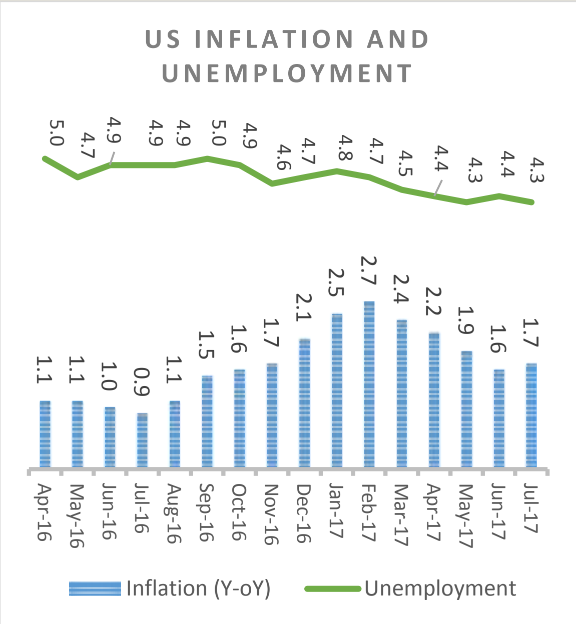
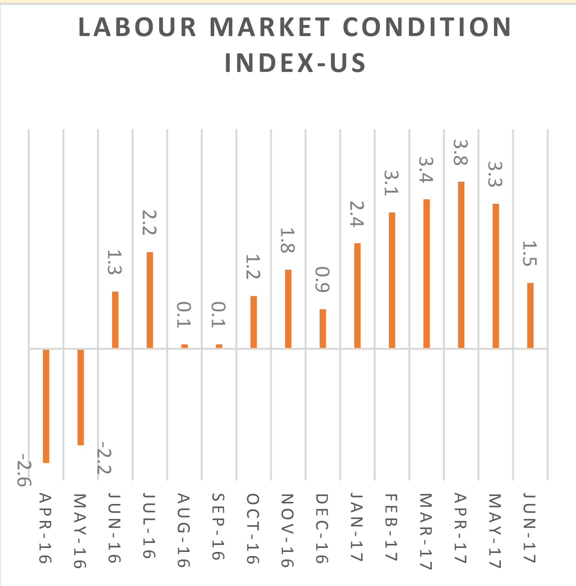






Global Developments

IMF World Economic Outlook Update, July 2017

- In an update to its World Economic Outlook Report released in Apr'17, IMF has kept the global growth projections unchanged at 3.5% in 2017 and 3.6% for 2018. IMF also revised upwards its growth forecast for 2016 by +0.1% to 3.2% as a result of higher growth in Iran and stronger activity in India following national accounts revisions.
- Growth in advanced economies is expected to be 2% in 2017, unchanged from April forecast, while slowing down to 1.9% in 2018 (-0.1%), mainly due to slowdown in growth in US. The growth forecast for US has been revised down from 2.3% to 2.1% in 2017 and from 2.5% to 2.1% in 2018.
- Growth forecasts for euro area have also been revised upwards significantly by 0.2% and 0.1% respectively in 2017 and 2018, as a result of positive surprises to activity in late 2016 and early 2017 which point to solid momentum.
- Emerging and developing economies are projected to see a sustained pickup in activity, with growth rising from 4.3% in 2016 (+0.2%) to 4.6% in 2017 (+0.1%) and 4.8% in 2018 (unchanged). China's growth forecast for 2017 has been revised upwards by 0.1% in 2017 to 6.7% and by 0.2% in 2018 to 6.4%, due to stronger than expected performance in Q1'17.

Asian Development Outlook (ADO) 2017 Supplement, July 2017

- In a supplement to its Asian Development Outlook 2017 Report released on July 20, 2017, ADB upgraded its growth outlook for the Asia Pacific region. The region is now expected to grow by 5.9% in 2017, an upward revision of 0.2% compared to the earlier forecast, on the back of stronger than expected growth in exports.
- Growth forecast for 2018 has also been revised upward from 5.7% to 5.8% for 2018. While growth forecast for China has been raised by 0.2% for both 2017 and 2018 to 6.7% and 6.4% respectively, India's growth has been kept unchanged.
- The growth outlook for the major industrial economies have been kept unchanged from ADO 2017 projection of 1.9% in both 2017 and 2018. Disappointing results in the US in the first quarter weighed down the outlook for 2017 downwards by 0.2% to 2.2%. However, stronger growth in the euro area and Japan, more than offset this decline. While the forecast for Japan has been revised upwards by 0.1% in 2017 to 1.1%, Euro Area growth is revised upwards by 0.2% to 1.8% in 2017 and 0.1% to 1.7% in 2018.

Unemployment

- In US, the headline unemployment rate declined marginally to 4.3% in Jul'17 compared to 4.4% in Jun'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 declined to 9.1% in Jun'17 compared to 9.2% in May'17 and 10.1% in Jun'16, on a sequential basis.
- The EU28 unemployment rate remained stable on a sequential basis at 7.7% in Jun'17, down from 8.6% in Jun'16. Among the Member States, the lowest unemployment rates in Jun'17 were recorded in Czech Republic (2.9%) and Germany (3.8%). The highest rates were observed in Greece (21.7% in Apr'17) and Spain (17.1%).

Food

According to the latest data released by the Food and Agriculture Organisation (FAO), global food commodity prices surged for the third consecutive month in Jul'17. The Global Food Price Index went up by 2.3% and 10.2% in Jul'17, on a sequential and y-o-y basis respectively. While the prices of meat remained unchanged sequentially, prices of sugar, cereals and dairy increased by 5.2%, 5.1% and 3.6% respectively in Jul'17. On the other hand, prices of vegetable oil declined by 1.1% sequentially.

World Trade Outlook

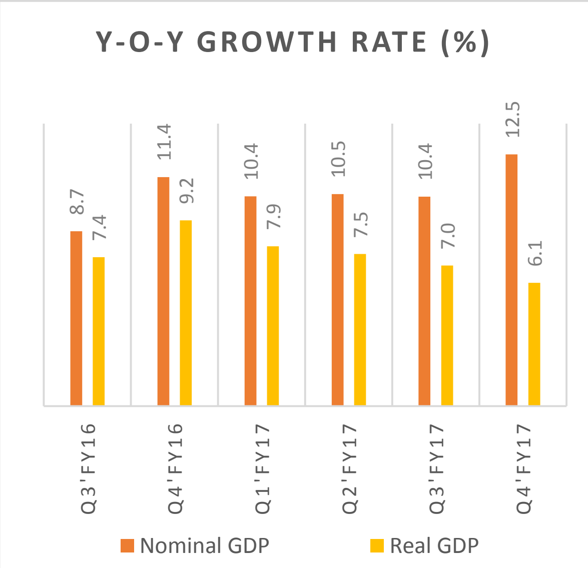
- The World Trade Outlook Indicator (WTOI) increased to 102.6 in Aug'17 from its last reading of 102.2 in Mar'17. This is the highest reading for the indicator since May'11, suggesting sustained momentum for trade growth in the third quarter of 2017. It must be noted that the WTOI has been consistently rising for the past four quarters suggesting that 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, container shipping and electronics components remained above trend, weakness in demand for automotive products and raw materials weighed down the overall index.
- Even though global export orders remained above trend, the index declined in the latest forecast, suggesting that the upward momentum in trade growth may have peaked. In this case, trade growth would be expected to be moderate later this year.
- 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.

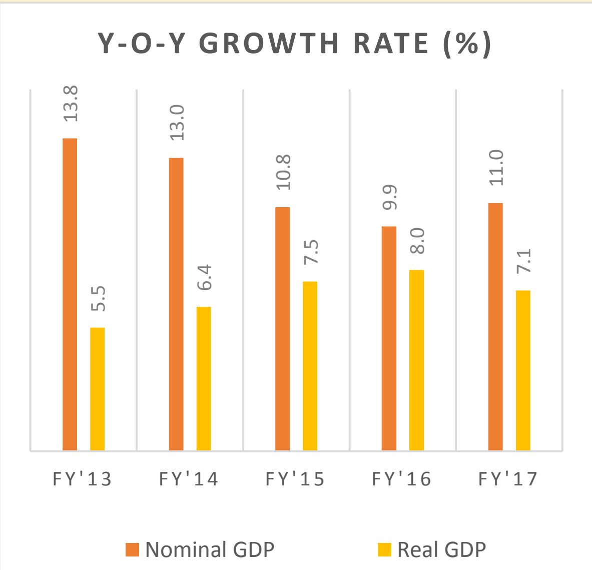
India's Growth Outlook

- The growth outlook of Indian economy though faced some tethering pains post demonetization, yet the overall outlook seems favourable in the medium term in view of the robust consumption demand and ongoing structural reforms.
- Declining investment demand continues to be a concern for achieving higher sustainable growth. The slowing rate of capital accumulation and debt overhang have constrained the investment demand of private sector. While public sector investor demand is slowly filling the gap but there needs to be enhanced complementarity between the two to address the issue of falling investment demand.
- The Economic Survey Volume 2 has also highlighted that addressing the Twin Balance sheet problem of Indian economy requires attention. RBI's recent booster to growth through reduction of 25 bps in repo rate is also likely to lower borrowing cost and provide a fillip towards investment thereby improving the overall growth outlook.
- As per the data released by CSO, on y-o-y basis real GVA growth 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 for the 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.
- Nominal GVA grew by 11.3% in Q4'17 compared to 9.4% in Q3'17 on a y-o-y basis.

World Trade Outlook Indicator

Drivers of Trade	Level of Index			
	Aug-16	Nov-16	Mar-17	Aug-17
Merchandise trade volume	97.0	97.4	98.6	99.9
Export Orders	101.8	102.2	104.2	102.9
International air freight (IATA)	103.2	105.8	104.4	107.9
Container port throughput	99.3	101.0	104.1	104.2
Automobile production and sales	99.6	103.1	99.7	95.3
Electronics components	100.4	99.0	97.9	100.4
Agriculture raw materials	103.1	99.2	98.6	98.8
WTOI	100.9	102.0	102.2	102.6





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India's Growth Outlook

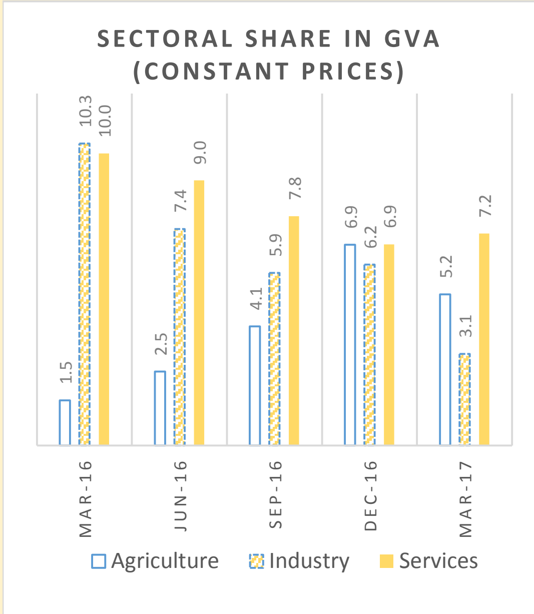
- Real GDP grew by 6.1% in Q4'17 compared to 7.0% in Q3'17 on a y-o-y basis. While pickup in real private consumption expenditure remained subdued growing at 7.3% in Q4'17 compared to 11.1% in Q3'17, growth was mainly driven by government consumption demand which grew by 32% in Q4'17 compared to 21% 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 GDP in 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.

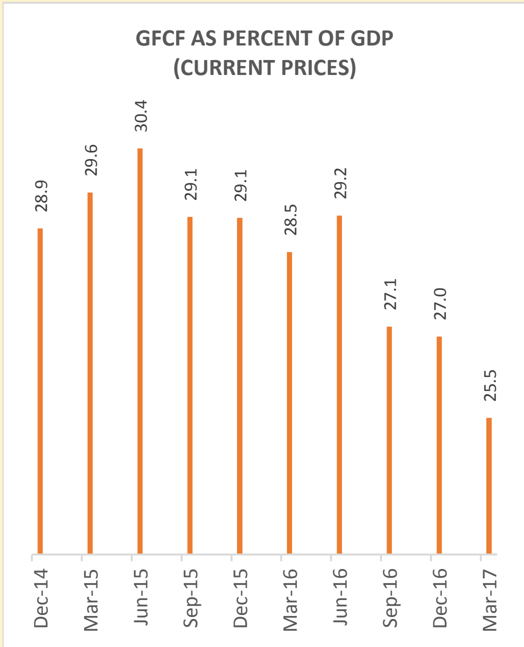
Growth Projections by International Agencies

- IMF in its World Economic Outlook Update Jul'17 has kept growth projections of India unchanged at 7.2% and 7.7% for 2017 and 2018 respectively. The Report highlighted that economic activity is expected to pick up significantly due to strong government spending.
- The Asian Development Outlook Supplement Jul'17 has also highlighted that growth rate of Indian economy would rebound significantly on the back of robust consumption demand. The Report pointed out that implementation of GST is expected to improve the ease of doing business and facilitate growth in the medium term.

RBI's Assessment of Growth Outlook

- RBI in its Third Bi-monthly Monetary Policy retained the projection of real GVA growth at 7.3% for 2017-18 with risks evenly balanced around it. The favorable domestic factors from a growth point of view are (a) well-distributed south-west monsoon boosting rural demand (b) vigorous growth in service sector activity, led by transport and hospitality sectors (c) softening retail inflation and low risk fuel price rise in future (d) policy reforms undertaken to improve the structural fundamentals of the Indian economy.
- However, RBI has also flagged growth dampeners such as weakness in capex cycle, reflected in falling number of new investment announcements, deceleration in the output of infrastructure goods and ongoing deleveraging in the corporate sector, fading optimism seen in RBI's Industrial Outlook Survey for Q2'FY18.
- RBI has reiterated its commitment towards giving growth the desired impetus. In the Monetary Policy Statement, it has highlighted that there is an urgent need to reinvigorate private investment and remove infrastructure bottlenecks. Efforts of the government and RBI towards resolving large stressed corporate accounts and restart credit flows to the productive sectors are steps towards this direction which would brighten the growth outlook in the future.





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

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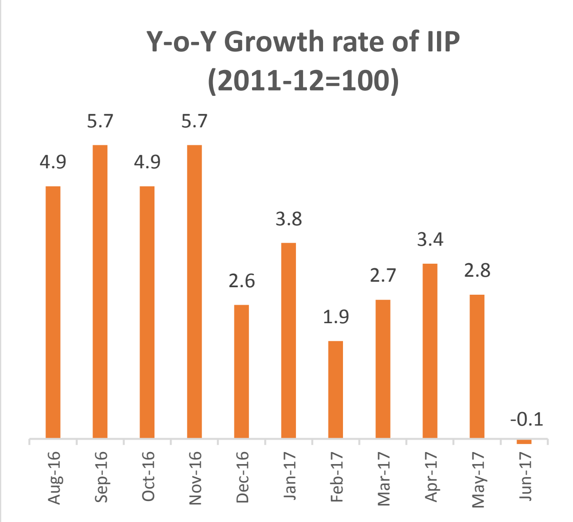
Industrial Production

- Industrial production contracted in Jun’17. IIP degrew by and entered the (-) 0.1% in Jun’17 compared to 2.8% in May’17 and 8.0% in Jun’16, on a y-o-y basis. This is the lowest growth rate since Jul’13 and reflects the impact of unfavourable base as well as trimming off the inventory before the implementation of GST.
- IIP on a seasonally adjusted (SA) m-o-m basis fell by (-)1.6% in Jun’17 compared to a growth rate of 1.5% in May’17.
- On sectoral basis, Mining activity grew by 0.4% in Jun’17 compared to a contraction of (-)0.9% in May’17 and 10.2% in Jun’16 on a y-o-y basis. Manufacturing activity contracted to (-)0.4% in Jun’17 from 7.5% in May’17 and 1.8% in Jun’16, on a y-o-y basis. Growth in Electricity also slowed down significantly to 2.1% in Jun’17 compared to 8.7% in May’17 and 9.8% in Jun’16.
- Industry wise, fifteen out of the twenty three industry groups in the manufacturing sector showed negative growth in Jun’17 on a y-o-y basis. production of electrical equipment registered the highest negative growth rate in Jun’17 on a y-o-y basis, whereas Other Manufacturing registered the maximum positive growth in Jun’17.
- As per the use based classification, except Consumer Non-Durables, all other sectors witnessed a decline. Capital Goods, Consumer Durables, Intermediate Goods and Primary Goods were the major drag to growth in IIP, declining by (-)6.8%, (-)2.1%, (-)0.6% and (-)0.2% respectively in Jun’17 compared to (-)3.9%, (-)4.5%, 0.7% and 3.4% respectively in May’17. Growth in Consumer Non-Durables though remained positive, declined to 4.9% in Jun’17 compared to 7.9% in May’17.
- The index of eight core industries, comprising 40.27% of weight in IIP grew by a meagre 0.4% in Jun’17 compared to 4.1% in May’17 and 7.0% in Jun’16 on a y-o-y basis.
- The overall index was pulled back by the negative growth witnessed in production of Coal, Cement and Fertilizers sectors. While Coal production contracted by (-)6.7% in Jun’17 from (-)3.2% in May’17, Cement production also contracted sharply to (-) 5.8% in the same period from (-)0.4% in May’17. Production of Fertilizers contracted to (-)3.6% in Jun’17 compared to (-)6.5% in May’17.
- On a cumulative basis, the infrastructure index increased by 2.4% in Apr-Jun’18 compared to a growth of 6.9% in the same period last year.
- Other high frequency indicators viz. India’s manufacturing PMI also reflected that production grew at its slowest pace since Feb 2009. Manufacturing PMI entered the contractionary zone to a low of 47.09 in Jul’17 from 50.9 in Jun’17. Production declined due to loss of traction in new orders as well as lower sales and accumulation of finished goods stocks.
- The composite PMI, which accounts for both manufacturing and services activities, declined sharply to 46.0 in Jul’17 from 52.7 in Jun’17. Services sector activity also declined sharply in Jul’17 as implementation of GST caused a contraction in new work leading to lower activity.
- Notwithstanding the contraction in PMI, firms remained upbeat about future business outlook as the new tax regime settles. The degree of optimism reached an 11-month high. Manufacturers were strongly upbeat regarding growth prospects, with sentiment also the highest since Aug’16.

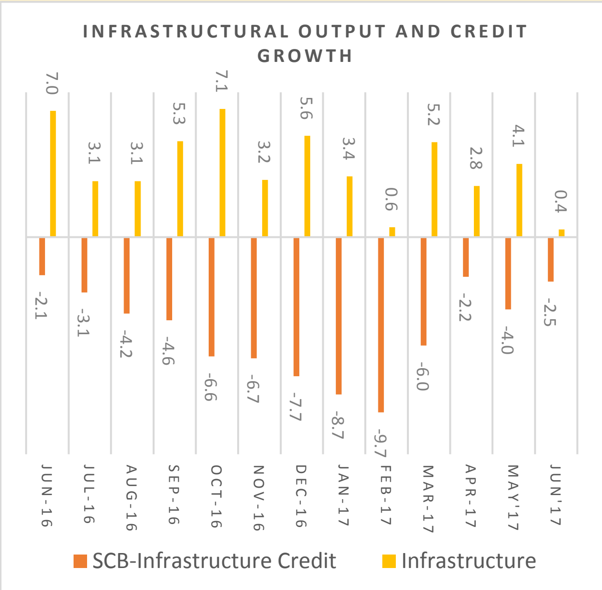


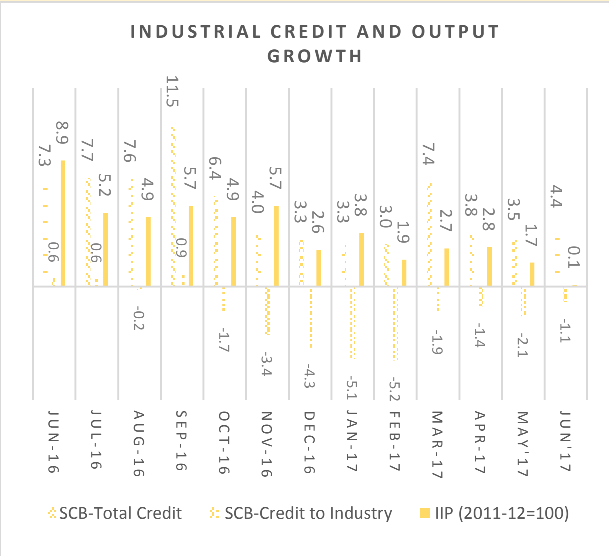
IIP-Sectoral Components

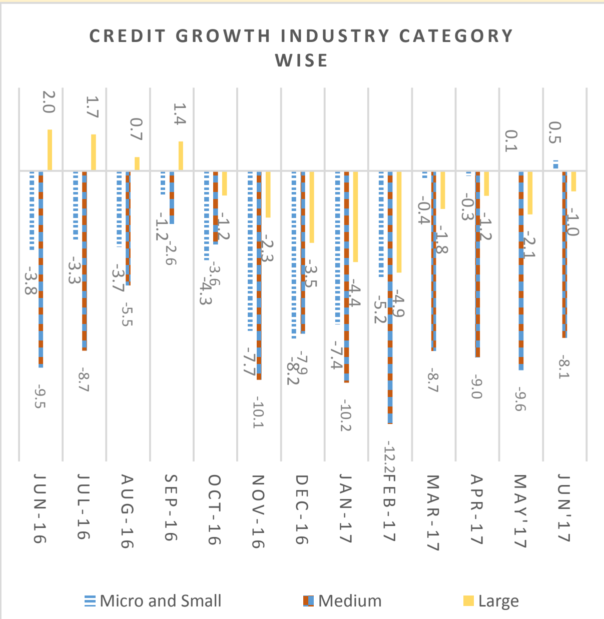
Sectors	Weight	Jun-16	Jun-17	Apr-Jun FY 17	Apr-Jun FY 18	
Mining	14.3	10.2	0.4	7.5	1.2	Sectoral
Manufacturing	77.6	7.5	-0.4	6.7	1.8	
Electricity	7.99	9.8	2.1	10.0	5.3	
Primary	34.05	8.2	-0.2	8.3	2.2	Use Based
Capital	8.22	14.8	-6.8	13.0	-3.9	
Intermediate	17.22	6.0	-0.6	3.4	1.3	
Infrastructure/ Construction	12.34	6.6	0.6	5.0	1.9	
Consumer Durable	12.84	4.5	-2.1	7.9	-0.9	
Consumer Non-Durable	15.33	11.4	4.9	7.6	7.7	
General	**100**	8.0	-0.1	7.1	2.0	

Core Sector Growth

Sector	Weight	Jun-17	Jun-16	Apr-Jun FY 18	Apr-Jun FY 17
Coal	10.3	-6.7	12.1	-4.4	5.3
Crude Oil	9.0	0.6	-4.3	0.2	-3.3
Natural Gas	6.9	6.4	-4	4.3	-5.8
Refinery Products	28.0	-0.2	5.8	1.8	8.9
Fertilizers	2.6	-3.6	5.9	-1.9	3.3
Steel	17.9	5.8	8.8	6.2	9.0
Cement	5.4	-5.8	10.5	-2.9	5.8
Electricity	19.9	0.7	9.8	4.9	10.0
Infrastructure Index	40.3	0.4	7.0	2.4	6.9

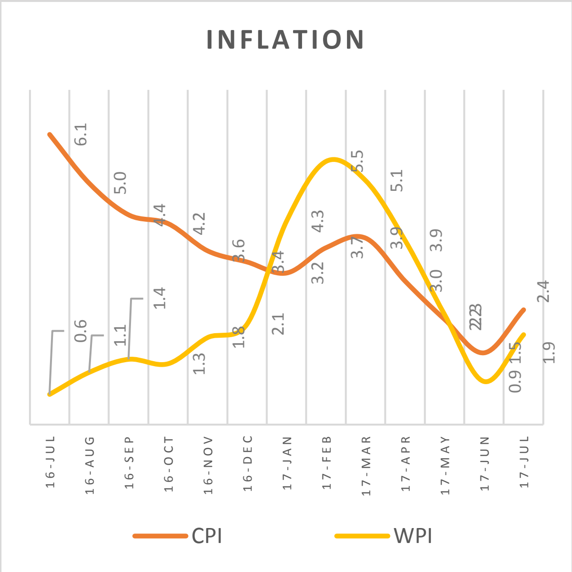


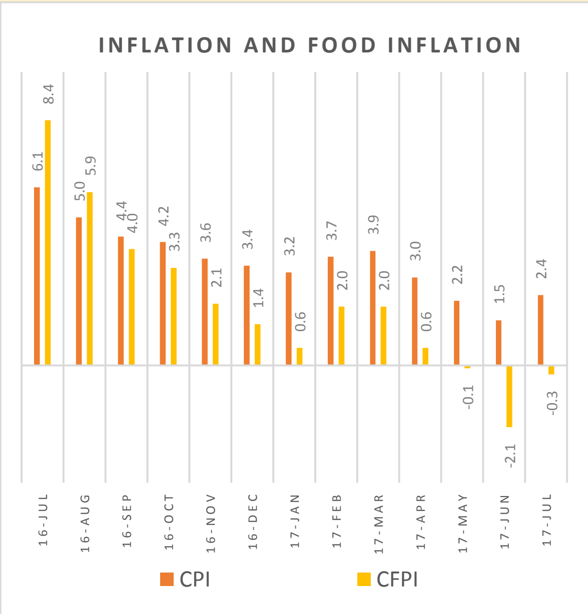


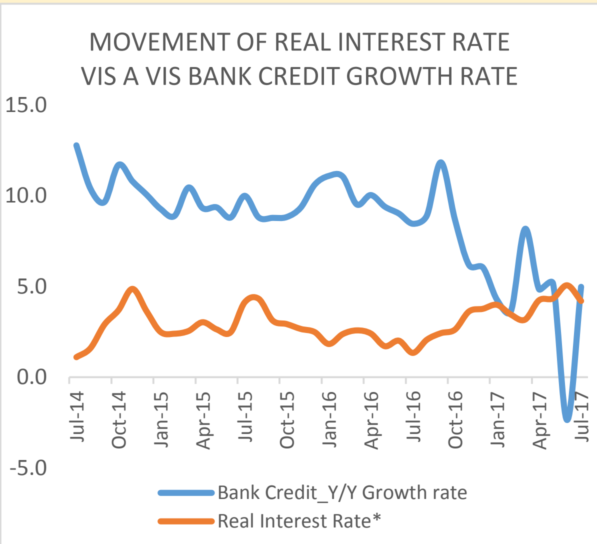


Credit Growth

- Gross bank credit picked up in Jun'17 to 4.4% as compared to 3.5% in May'17 and 3.8% in Apr'17 on a y-o-y basis.
- Non-food credit growth from the banking system improved to 4.8% in Jun'17 from 4.1% in May'17 on a y-o-y basis.
- On a cumulative basis, credit growth from the banking system has severely declined to 3.9% during Apr-Jun, FY'18 compared to 7.9% average loan growth during Apr-Jun, FY'17.
- Agricultural credit increased marginally to 7.5% in Jun'17 from 7.4% in May'17. However it was still lower than 13.8% in Jun'16 on a y-o-y basis.
- Credit to industry continued the trend of negative growth for the ninth consecutive month and contracted by (-)1.1% as compared to (-)2.1% in May'17. Among the industry sub-sectors, micro and small industries (SME) grew at a slow, albeit positive pace for the second consecutive month with growth of 0.5% in Jun'17. Both medium and large industries, in contrast, continued to register declining growth.
- Service sector credit growth picked up to 4.7% in Jun'17 from 4.0% in May'17, though it remained lower than 9.2% in Jun'16. Within Services, the segments which exhibited positive credit growth in Jun'17 on a y-o-y basis include Other Services (14.0%), Professional Services (12.6%), Trade (5.3%) and Transport Operators (4.4%). Other Services sub-segment witnessed a surge in credit growth to 14.0% in Jun'17 from 9.7% in May'17.
- It may be observed that all other segments under personal loans excluding credit card outstanding and other personal loans, witnessed a slowdown in growth in Jun'17 compared to May'17 and Jun'16.
- Among the industry groups, Mining & Quarrying, Food Processing, Beverage & Tobacco, Glass & Glassware, Cement & Cement Products, Gems & Jewellery and Infrastructure showed negative credit growth in Jun'17 as well as in Jun'16 on y-o-y basis.
- Leather and Leather Products, Petroleum, Coal Products & Nuclear Fuels, Rubber, Plastic and their Products, Vehicles & Transport Equipment, Construction and Other Industries were segments which registered positive growth in Jun'17 on y-o-y basis. However, Rubber, Plastic and their Products, Construction and Other Industries witnessed faster pace of growth in Jun'17 as compared to May'17.
- Credit to infrastructure sectors is experiencing anemic growth since Apr'16, and it registered growth of (-) 2.2% in Jun'17 as compared to (-) 4.0% in May'17. The figure hovered in the 8-10% range between Apr'15 and Mar'16.
- Credit growth which has remained below 5% since the demonetization period i.e. Nov'16 has not been able to bounce back, thus reflecting poor credit appetite by industry in addition to the issue of stressed assets management which continues to plague the banking sector.







Inflation

- Inflation edged up moderately both at the retail and wholesale level in Jul'17.
- Retail inflation rose to its three month high of 2.36% in Jul'17 primarily as a result of slower contraction in food price index. Apart from this, slightly upward pressure have also been exerted by fuel and light and housing indices. The rise in housing indices is due to the impact of Seventh Pay Commission's recommendations on implementation of HRA allowances. On m-o-m basis, retail inflation went up by 1.7% in Jul'17 compared to 0.5% in Jun'17.
- Food index continued its deflationary trend, contracting to (-)0.3% in Jul'17 compared to (-)2.1% in Jun'17. On m-o-m basis, consumer food price index grew by 3.2% in Jul'17 compared to 1.3% in Jun'17. Vegetables and fruit indices exerted upward pressure on overall CPI basket in Jul'17. This has been due to unequal spatial distribution of rainfall.
- Retail inflation in the rural sector grew by 2.4% in Jul'17 compared to 1.5% in Jun'17 on a y-o-y basis. In urban sector, inflation grew by 2.2% in Jul'17 compared to 1.4% in Jun'17 on a y-o-y basis.
- Core CPI i.e. CPI excluding food and fuel rose slightly to 4% in Jul'17 compared to 3.9% in Jun'17 and 4.6% in Jul'16 on a y-o-y basis. Household goods and services, health and education indices posed upward pressure in the index of core CPI. However, inflation rate of personal care items eased to 2.6% in Jul'17 compared to 3.4% in Jun'17. This could be due to deferred purchase decisions over uncertainties clouting GST.
- Wholesale inflation grew by 1.88% in Jul'17 compared to 0.9% in Jun'17 and 0.6% in Jun'16 on a y-o-y basis. On a m-o-m basis, wholesale inflation grew by 1.1% in Jul'17 compared to -0.2% in Jun'17. Primary articles especially food articles posed upside risk to WPI. Vegetable price indices grew by 21.9% in Jul'17 compared to a deflation rate of 21.2% in Jun'17.
- Within manufactured products, indices of tobacco, wearing apparel, paper and paper products, basic metals, other transport equipment and furniture posed upside risk in wholesale inflation.
- The buildup inflation rate in headline CPI and WPI was 2.5% and 0.6% in Jul'17 respectively.
- Fuel inflation in the retail basket increased considerably to 4.9% in Jul'17 compared to 4.5% in Jun'17 on a y-o-y basis. This is on account of rising oil prices globally due to robust seasonal demand and OPEC and non OPEC countries' commitment to comply with pledged output adjustments. However, in the WPI basket, fuel inflation grew by 4.4% in Jul'17 compared to 5.3% in Jun'17 on a y-o-y basis.
- Agricultural sector noted deflation rate of (-)0.3% in Jul'17 compared to (-)2.1% in Jun'17. Inflation in the industrial sector grew by 2.2% in Jul'17 compared to 2.3% in Jun'17. Services inflation remained stable at 3.3% in Jul'17.
- The seasonally adjusted series of CPI and WPI reversed its deflationary trend in Jul'17. CPI SA grew by 0.9% in Jun'17 compared to a deflation rate of 0.4% in Jun'17. WPI SA grew by 0.7 % in Jul'17 compared to a deflation rate of 0.9% in Jun'17.

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Food Inflation

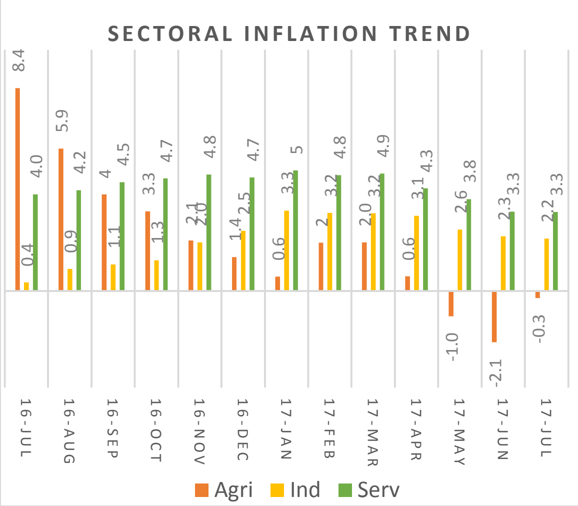
- Food inflation at the retail level continued its deflationary trend for the third consecutive month. Consumer Food Price Index (CFPI) recorded deflation of 0.3% in Jul’17 compared to a deflation rate of 2.1% in Jun’17 on a y-o-y basis. WPI Food index edged up to 2.1% in Jul’17 compared to a deflation rate of 1.2% in Jun’17 and 8.6% in Jul’16 on a y-o-y basis.
- Cereals and products in the retail basket noted inflation rate of 4% in Jul’17 compared to 4.4% in Jun’17 and 3.9% in Jul’16 on a y-o-y basis. Even though Vegetable prices continued in the deflationary territory, there was a sharp pickup in vegetable price index to (-) 3.6% in Jul’17. However, on m-o-m basis, vegetable index grew by 19.7% in Jul’17 compared to 6.1% in Jun’17.
- Inflation rate of protein based consumption items such as meat and fish, eggs and milk products softened considerably in Jul’17. Inflation rate for sugar and confectionary moderated to 8.3% in Jul’17 compared to 8.8% in Jun’17 on a y-o-y basis.
- Food inflation excluding vegetables grew by 1.1% in Jul’17 compared to 1.7% in Jun’17 on a y-o-y basis.
- Seasonally adjusted series of Consumer Food Price Index (CFPI) grew by 1.5% in Jul’17 compared to a deflation rate of 0.4% in Jun’17.

Drivers of Food Inflation

- Inflation edged up in Jul’17 driven by seasonal rebounding of vegetable price index. Food price index rose to its highest level in FY’18. However, the sharp uptick in food items especially vegetables like tomato, onions and potato will moderate in the coming months and could keep headline inflation anchored within the MPC’s targeted range. Favourable base impact on overall inflation has also faded considerably. Apart from this, spill over impact on inflation resulting from fiscal slippages which might arise from farm loan waiver still remains a concern. However, well progressing monsoon coupled with underlying policy initiatives are likely to soften the inflation in the near term.

Monsoon-South West

- As per the latest release of IMD, cumulative rainfall between Jun 01, 2017 to Aug 16, 2017 was 4% below LPA. Region wise Northwest India, East and North East India received rainfall 3% above LPA whereas South Peninsula and Central India received rainfall 16% and 9% respectively below Long Period Average (LPA).
- Despite a deficit of 4% in rainfall during Aug’17, foodgrain production is not likely to be impacted much due to the effective supply management framework of the government and well-timed sowing in the Kharif season.
- The forecast for the weeks between Aug 17, 2017 and Aug 23, 2017 suggests that rainfall activity is likely to above normal over South Peninsular India and adjoining Central & East India. Overall rainfall activity is likely to be normal for India as a whole.
- IMD in its release on Aug 08, 2017 had forecasted that quantitatively the rainfall over the country as a whole during the second half of the season is likely to be 100% of LPA with a model error of ±8%.
- The rainfall during Aug’17 is likely to be 99 ± 9% of LPA as was forecasted in Jun’17. The seasonal (Jun-Sep’17) rainfall over the country as a whole is likely to be normal (96% to 104% of LPA) as forecasted in Jun’17.
- IMD had earlier upgraded its monsoon forecasts to 98% of LPA with a model error of ±4% compared to its previous projection of 96% with a model error of ±5%.

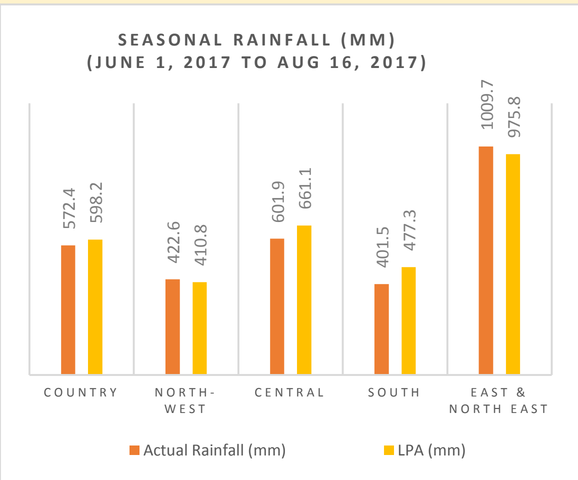


Food Inflation-Converging Trends From WPI and CPI

(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-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
17-Jul	-0.3	-24.7	4.0	-3.6	2.8	-2.0	8.3
WPI							
Weight	15.2	0.6	2.8	1.9	1.6	0.2	1.1
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
17-Jul	2.1	-32.6	0.6	21.9	2.7	-4.7	8.4

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 48% of their combined capacity as on Aug 17, 2017. The live storage in these reservoirs is 79% 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 6, whereas those having storages more than average of last ten years stood at 21.
- 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, Jharkhand, West Bengal, Tripura.

Progress in Cultivation

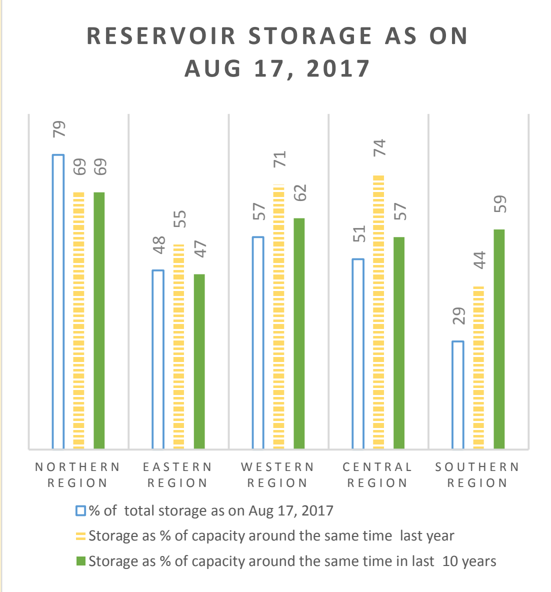
- As per the data released by Ministry of Agriculture, total sown area as on Aug 18, 2017, under kharif crops stood at 976.34 lakh hectare compared to 984.57 lakh hectare in the corresponding period of previous year.
- Despite the fall in aggregate area under cultivation, major increase was observed in area sown of cotton, sugarcane and rice, which rose by 16.6, 4.14 and 1.44 lakh hectare respectively in FY'18 compared to the corresponding period of previous year. On the other hand, area sown of oilseeds, coarse cereals and pulses noted a decline of 17.74, 7.42 and 4.74 lakh hectare respectively on a y-o-y basis.

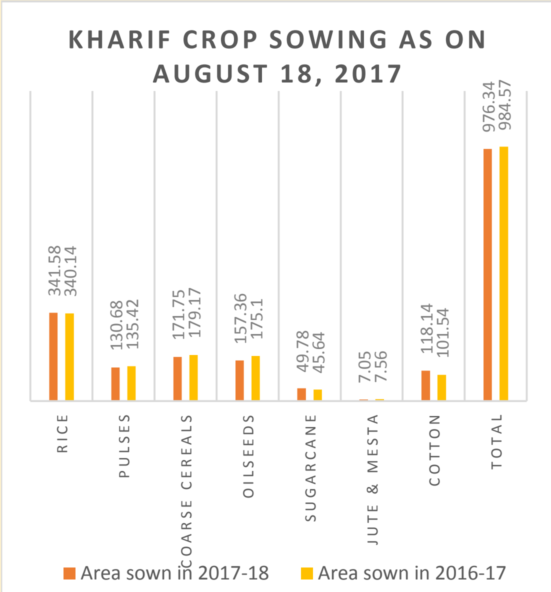
Initiatives for strengthening supply management framework

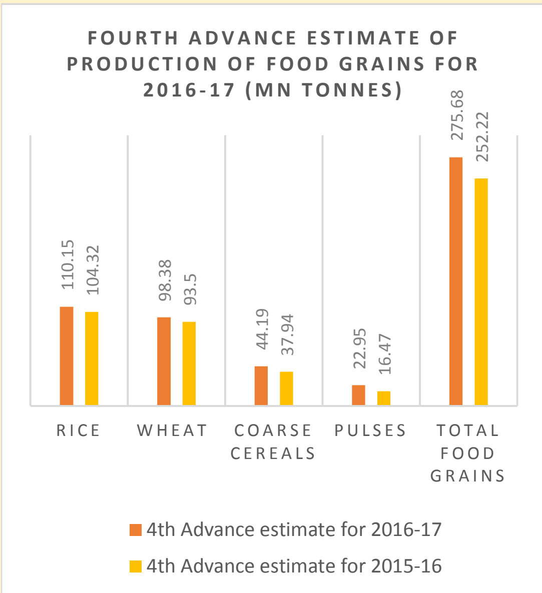
- In addition to a normal monsoon in FY'18, several initiatives have been taken by the government to build a robust supply framework.
- The Ministry of Agriculture & Farmers Welfare has released Rs.16,094.13 crore in Q1, FY'18 out of the budgeted amount of Rs. 62,125.02 crore during FY'18 noting an increase of 39% compared to FY'17 for holistic development of Indian agriculture. Among the various schemes, Rashtriya Gokul Mission noted the maximum increase in disbursement.
- Focus has also been given on allied activities. Government is implementing Mission for Integrated Development of Horticulture (MIDH) for development of horticulture including post-harvest management.
- In a step towards progressive agricultural marketing reforms, government has drafted a model "Agricultural Produce and Livestock Marketing (Promotion and Facilitation) Act, 2017.
- These initiatives would strengthen the supply framework and help in achieving the goal of income security of farmers in the future.

Fourth Advance Estimate of Agricultural Production in 2016-17

- Government's astute supply management policies coupled with spatially distributed adequate rainfall in the previous year have enabled foodgrain production to touch a record high of 275.68 million tonnes in 2016-17 as per the Fourth Advance Estimates.
- The current estimate is about 10.64 million tonnes (MT) higher than the previous record production of 265.04 MT achieved during 2013-14.







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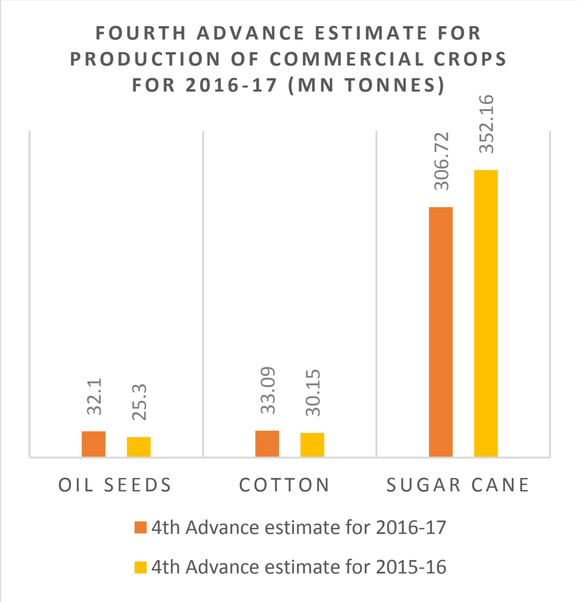

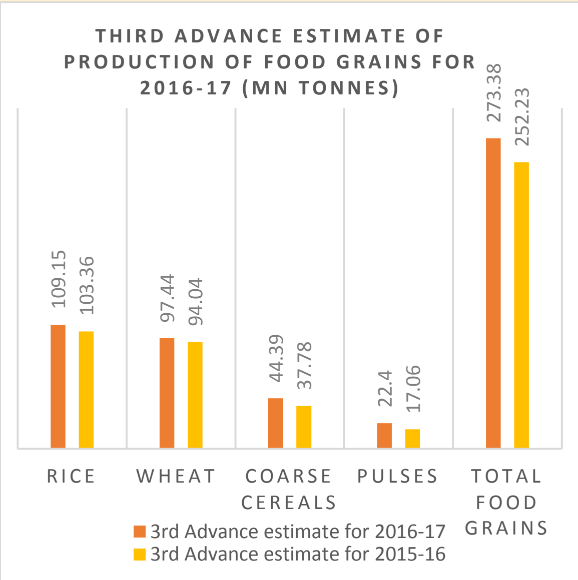

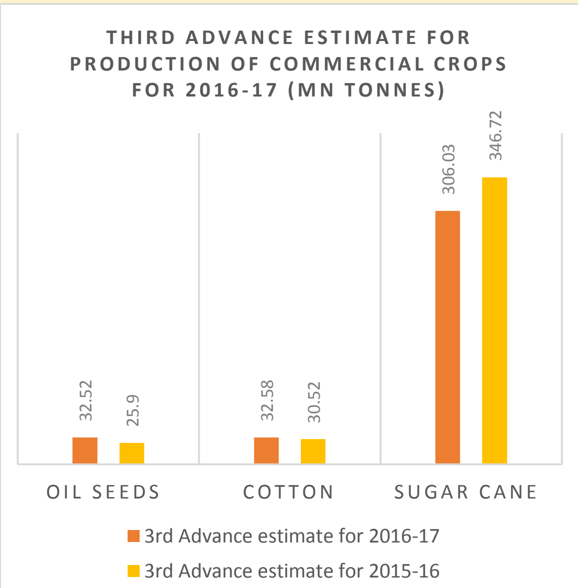

Fourth Advance Estimate of Agricultural Production in 2016-17

- The current year's production is also higher by 18.67 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 24.12 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 110.15 MT, wheat at 98.38 million tonnes, pulses at 22.95 million tonnes. However, production of sugarcane has been lower at 306.72 million tonnes compared to 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 22.95 million tonnes which is higher by 3.70 million tonnes than the previous record production of 19.25 million tonnes during 2013-14.
- Production of Pulses during 2016-17 is also higher by 5.32 million tonnes than their five years' average production. Current year's production is higher by 6.61 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 33.09 million bales (of 170 kg each) as compared to 30.01 million bales during 2015-16.
- 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, coupled with a favourable monsoon has enabled Indian economy to achieve the desired record level of production in 2016-17.

RBI's assessment of inflation and rate outlook

- RBI in the second bimonthly monetary policy had projected inflation to be in the range of 2.0%-3.5% in H1 of FY'18 and between 3.5%-4.5% in H2 of FY'18. The projections have been done taking into account a) the impact of implementation of house rent allowances (HRA) under the 7 th Central Pay Commission (CPC); (b) price revisions withheld ahead of the GST and (c) disentangling of the structural and transitory factors shaping food inflation. CPI based inflation excluding the impact of HRA is projected to be 4% by Q4'18.
- Keeping in mind the staggering growth rate post demonetization, RBI has provided the desired impetus to growth by signalling a softer interest rate through reduction in benchmark policy rate by 25 bps.
- The current inflation readings suggest that fear emanating from implementation of HRA allowance has materialized. Housing inflation has edged up in Jul'17. Apart from this, good monsoon and front loading of government expenditures will also enable effective pickup of demand conditions. Inspite of a slightly upward pressure in inflation posed by the above mentioned factors, positive supply shock on the back of varied reforms will keep inflation in check in the near term.
- The Economic Survey 2016-17 Volume II has also highlighted that Indian economy is undergoing a structural shift in the inflationary process towards low inflation. Hence, focus should be on stimulating demand and minimizing output gap. Thus, RBI is expected to be in a wait and watch mode until growth picks up effectively and impact of 175 bps rate cut since Jan'15 materializes.

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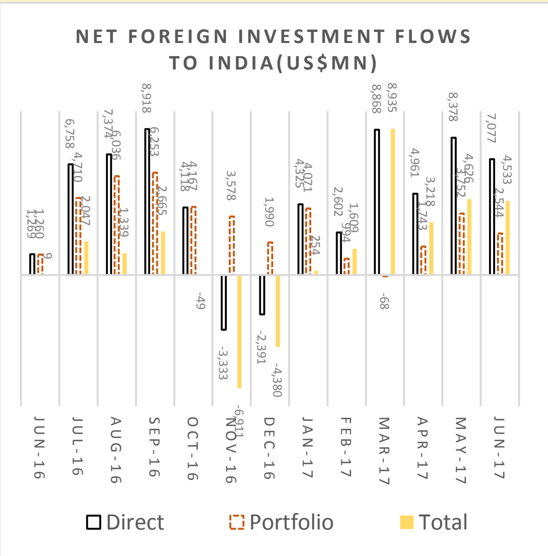
FII and Exchange Rate				
Month	**FII-Equity**	**FII-Debt**	**FII**	**Re-Dollar Exchange Rate**
Jun-16	3713	-6220	-2507	67.30
Jul-16	12,612	6,845	19,457	67.21
Aug-16	9071	-2625	6446	66.94
Sep-16	10,443	9,789	20,233	66.74
Oct-16	-4306	-6000	-10306	66.75
Nov-16	-18,244	-21,152	-39,396	67.63
Dec-16	-8176	-18935	-27111	67.90
Jan-17	-1,177	-2,319	-3,496	68.08
Feb-17	9902	5960	15862	67.08
Mar-17	30,906	25,355	56,261	65.88
Apr-17	2,394	20,364	22,758	64.51
May-17	7,711	19,155	26,866	64.42
Jun-17	3,617	25,685	29,302	64.44
Jul-17	5,161	18,867	24,028	64.46
Aug-17*	-8,868	9,166	298	63.92

* upto 18 Aug'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 Jul'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.
- Despite exhibiting a positive growth for the last seven months, India's exports slowed down to 3.9% in Jul'17 compared to 4.4% in Jun'17 on a y-o-y basis to US$ 22.54 billion. On a sequential basis, exports declined by (-)4.3% in Jul'17 compared to a decline of (-) 1.9% in Jun'17.
- Major commodity groups showing positive export growth are Marine Products (30.53%), Organic & Inorganic Chemicals (20.67%), Petroleum Products (20.27%) and Engineering Goods (15.16%).
- Growth in imports also slowed down to 15.4% in Jul'17 compared to 19.0% in Jun'17 on a y-o-y basis. On a sequential basis, imports declined by (-)6.9% in Jul'17 compared to a decline of (-) 3.5% in Jun'17.
- Oil imports grew by 15.0% in Jul'17 compared to 12.0% in Jun'17 on a y-o-y basis mainly on account of increase in gold imports which rose by 95% in Jul'17 on a y-o-y basis.
- Growth in imports of Non-oil imports slowed down to 15.5% in Jul'17 compared to 21.2% in Jun'17 on a y-o-y basis.
- Trade deficit continued to decline and reached US$ 11.45 bn in Jul'17 compared to US$ 12.96 bn in Jun'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 further declined by (-) 0.3% in Jun'17 on the back of a decline of (-) 0.2% in May'17. Services imports also declined by (-) 2.07% in Jun'17 following a decline of (-) 3.9% in May'17 on a y-o-y basis. Trade deficit in services was at US$ 5.9 bn in Jun'17 compared US$5.8 bn in May'17.

Exchange Rate Outlook

- Indian currency remained in the range of 64.08-64.82/USD. It appreciated by 66 paise to 64.08/USD in Jul'17. RBI's decision to cut policy rate by 25 bps to give growth the desired stimulus has bolstered investors' confidence on the Indian currency.
- The recently published minutes of US Federal Reserve reflected divided opinions about future rate hikes. While some FOMC members remained hawkish on the backdrop of robust US employment and household spending, others reflected dovish tone on amid growing concern about US economy's adherence to the targeted level of inflation. Hence, in the midst of uncertainty surrounding US fund rate hike, Indian rupee is expected to be stable in the near term.
- Forex reserves rose to a record high level of USD 392.87 billion on Jul 28, 2017. The forex cover to imports remained comfortably above 11 months. FPIs remained a net buyer both through the equity and debt route which were at USD 805.23 million and USD 2766.15 million respectively.
- The OPEC Reference Basket gained 4% on a m-o-m basis and averaged to USD 46.93/barrel in Jul'17. The gain in oil price recently might put strain on India's external balance. However, in view of robust macro fundamentals of Indian economy, exchange rate stability is likely to be maintained in the near term.

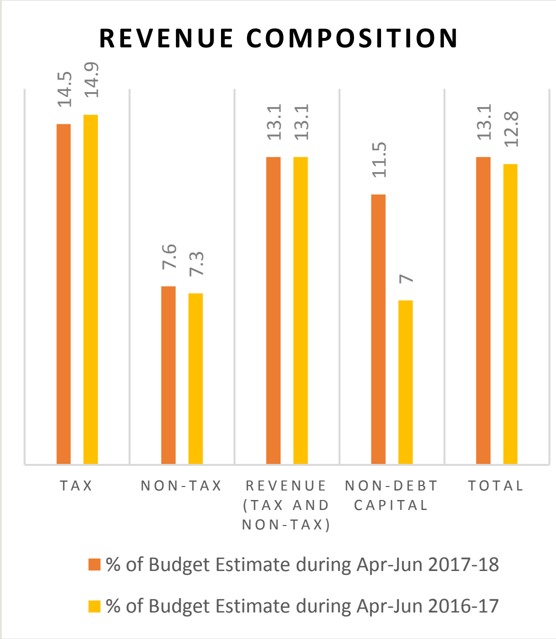
Fiscal Sector

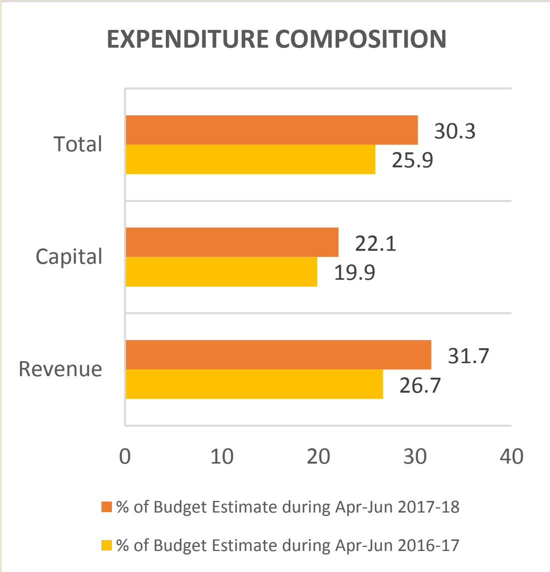
GST Rollout

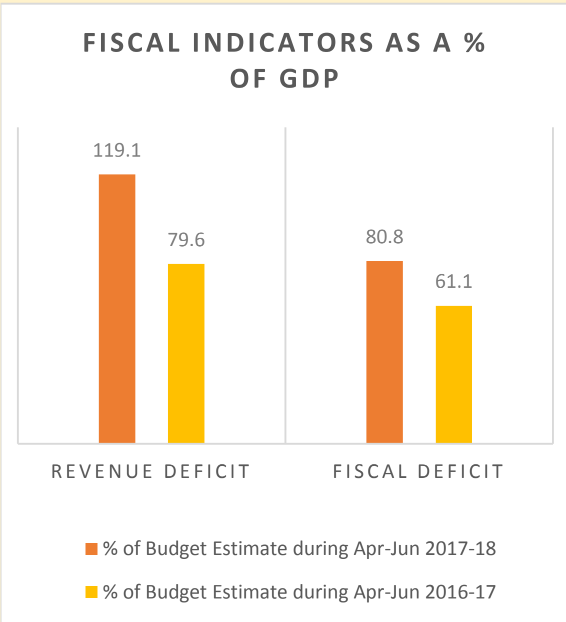
- In the GST Council meeting held on Aug 05, 2017, it was decided that the Central Government will move legislative amendments required to increase the maximum ceiling of cess levied on motor vehicles (including SUVs) to 25% from the current ceiling of 15%. This decision was taken after noting that the total tax incidence on motor vehicles [GST + Compensation Cess] under the GST regime was lower than the total tax incidence in pre-GST regime. Timeline for the implementation of the revised cess will be discussed in the next council meet scheduled for Sep 09, 2017.
- 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 proof, identity proof. It is not just suppliers, some small garments shops, too, are unwilling to make non-cash payments for stocks.
- The retail brand licensing industry is expected to benefit through GST as it will provide a level playing field to all the parties concerned and the industry will begin to look out for and respect IPRs. Brand licencing is basically renting the brand to an industry manufacturer or retailer to use it for promoting their own products in the potential market.
- The decorative slate industry on the other hand is expected to reel under the pressure due to the 28% tax rate on value-added worked slates. In the previous regime, the elevation products were taxed at 12.5%.
- GST council in a meeting scheduled on Aug 19, 2017, extended the timeline for traders and businesses to file their tax returns from Aug 20 to Aug 25, 2017. This was mainly due to the technical glitches in the GST Network had witnessed some technical glitches due to last minute return filing rush which resulted in this extension. The network is expected to face additional burden due to the growing number of registered tax payers.
- 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. 0.21 lakh crore or 7.6% of Budget Estimates (BE) upto Jun'17 compared to Rs.0.23 lakh crore or 7.3% 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.4.41 lakh crore (80.8% of BE) by June, FY'18.
- Net tax receipts for Apr-Jun'18 was Rs 1.77 lakh crore or 14.5% of the estimates.
- Total receipts (from revenue and non-debt capital) of the government up to the third month (Jun'17) came in at Rs 2.09 lakh crore, or 13.1% of the estimates for FY'18.
- Total expenditure of the government upto June' FY'18 was nearly Rs 6.50 lakh crore, or 30.3% of the entire year estimate.
- While the revenue deficit for the month of Apr-Jun' FY'18 exceeded by Rs 3.83 lakh crore, or 119.1%, of the estimates, the fiscal deficit for the same period exceeded by Rs 4.41 lakh crore, or 80.8% of the Budget estimate.







Financial and Commodities Markets

Stock Market

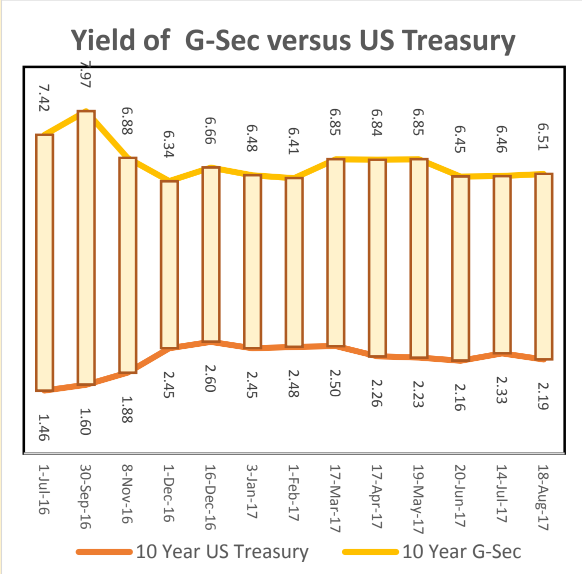
- The BSE Sensex touched a new high of 32,575 points on Aug 2, 2017 and NSE Nifty crossed the 10,000 mark driven by continuous reform momentum in the domestic economy as well as supportive global environment. However, the buoyancy in the market sentiments was not sustained and the markets began to correct from the peaks reached in the beginning of the month. The rising geo-political tensions and US Fed indicating its dovish stance had a sobering impact on the markets. Further, though the RBI effected a 25 bps cut in benchmark policy rate, it highlighted the upside risks to inflation trajectory.
- Bankex grew by 0.2% as the NPA resolution process gained momentum as more and more accounts were referred to NCLT. The FMCG index fell by 6.8% as the transition to GST adversely affected the earnings in first quarter.
- The rising stressed assets with banking sector and some companies have been taken up for initiation of insolvency and bankruptcy proceedings. SEBI, on Aug 4, 2017, mandated that listed entities would have to disclose within one working day from the date of their default, that is, non-payment of interest or principal from banks.
- The DIIs continued to be net buyers of equities from Apr 2017 till July 2017 while FIIs are net sellers except for the month of July. In Jul'17, DII had a net buy position of Rs 4786 crore and FII had a net buy position of Rs 1465 crore. Till Aug 18, 2017, again the FIIs had a net sell position of Rs 9810 crore while DIIs had a net buy position of Rs 10653 crore. This implies that the BSE Sensex journey beyond 30,000 mark is primarily driven by DIIs.
- The Average Assets under Management of Mutual Fund for the month of July 2017 stood at Rs 20.42 lakh crore. The Asset under Management (AUM) of Mutual Funds as of July 31, 2017 stood at Rs 19.97 lakh crore. Over March 31, 2017, the AUM increased by Rs 5.87 lakh crore in the four month period ending Jul'17.
- Going forward, the stabilization of business operations post the implementation of GST, progress of monsoon and emerging geo-political risks are expected to impact the market sentiments.

Financial and Commodities Markets

Bond

- The 10-year bond yields slipped from 6.47% on Jul 14, 2017 to 6.42% but then surged to 6.51% on Aug 18, 2017 as inflation at both retail and wholesale level firmed up in Jul'17. RBI at the third bi-monthly MPC meeting cut the policy rate by 25 bps to 6% while maintaining a neutral stance. As the markets had already factored a 25 bps cut in rates, there was no major impact on yields. Also, the minutes of the MPC indicated that the future rate cut would not be in the near term as the risks to higher inflation prints increased.
- The Second Volume of the Economic Survey 2016-17 suggested that the growth of the Indian Economy is weak, lacking the dynamism to push inflation towards 4%. As such, the scope for monetary easing by the RBI exists.
- We expect RBI to pursue a status quo approach for quite some time as it evaluates the impact of monsoon and GST on economic activity.
- All the government auctions during the month were fully subscribed with tenors ranging from 5 years to 34 years.

Financial and Commodities Markets



Gold

- The World Gold Council stated that the gold demand in Q2'17 at 953.4 tonnes was 10% lower than the levels in corresponding period of 2016. During H1'2017, the demand was lower by 14% at 2003.8 tonnes. The net purchases by Central Bank of 176.7 tonnes were also lower by 3% in the first half of 2017. However, bar and coin investment and jewellery demand improved.
- India drove global jewellery demand growth in Q2'17 almost single-handedly. Demand shot up to 126.7 tonnes compared with just 89.8 tonnes in Q2'16. Expecting a punitive GST rate, jewellers and consumers alike crammed their purchases into the first two months of the quarter, slowing down once the government confirmed that a 3% rate would be applied.
- Rural gold purchases have been boosted by greater liquidity along with expectations of a good monsoon rainfall and the positive impact of a higher number of auspicious wedding days in the Hindu calendar (26 auspicious days in Q2'17, compared with just 8 in Q2'16).
- Although the 3% GST rate was lower than many in India had anticipated, WGC expects that the new tax is likely to cause some short-term disruption as manufacturers, retailers, importers and consumers adapt to the new regime.
- As consumers and importers brought forward their purchases to Q2, demand will likely be subdued for a few weeks. Stock is plentiful across the supply chain and consumers who have recently purchased are unlikely to do so again in the short term.

Please refer page No. 24 for disclaimer.

Drivers of International Crude Oil Prices

Oil market Report International Energy Agency August 2017:

- Global oil supply increased by 520 kb/d in Jul'17 as compared to Jun'17. It was the third consecutive monthly increase. Global supply is up 500 kb/d on a year ago.
- OPEC crude output rose by 230 kb/d in Jul'17 to 32.84 mb/d. This was the highest level this year. The increase was led by a strong recovery in Libya. Output from the 12 members included in the output pact edged up, eroding the compliance rate to 75%, the lowest this year. Year-to-date compliance is 87%. Together, the 22 countries are producing about 470 kb/d in excess of their commitment.
- Non-OPEC output is expected to expand by 0.7 mb/d in 2017 and 1.4 mb/d in 2018. US output is expected to increase by 0.6 mb/d in 2017 and 1.0 mb/d in 2018. The ten non-OPEC countries cooperating with OPEC saw their compliance rate improved to 67% in Jul'17.
- Benchmark crude prices rose by US$ 1-2/bbl in Jul'17 with higher crude demand from refiners and anticipated oil field maintenance. Sweet-sour spreads widened for the first time in four months. Strong demand and refinery outages in Europe boosted diesel and gasoline prices.
- The new data suggests that in Q2'17, global stocks fell by 0.5 mb/d. In US stocks fell by 790 kb/d in Jul'17, as per the EIA Report for July 14, 2017.
- IEA demand estimates for 2017 have been increased to 1.5 mb/d, taking into account strong data for Q2'17 when demand increased by 1.8 mb/d. They also expect relatively strong demand growth for 2018 of 1.4 mb/d.
- As per Citigroup, US shale will prevail over OPEC because of its higher resilience to low prices and OPEC's losing strategy of cutting output and losing revenues and market share. They reflect that OPEC and its partners cannot sustain their current strategy over a longer term, while shale producers have adapted to low prices and can break even at WTI as low as US$ 40 a barrel.
- Oil prices remain range bound around US$ 50 a barrel despite the cuts, not only because compliance among OPEC members has been worsening instead of improving, but most of all because of rising US shale output.

Implication of Oil price hike on India

- It may be noted that price of Indian basket of crude had increased by 10% between Jul'16 and Jul'17. It touched US$ 47.86 per barrel. However, between Apr'17 and Jul'17, crude prices dipped by around 9%.
- 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 3.8% on y-o-y basis in Jun'17, while the consumption of controlled products such as Naptha increased by 3.9%, while coke and other products decreased by 16.0%. Thus, overall the consumption of petroleum products increased by 0.4% on y-o-y basis in Jun'17.

RBI-Policy Rates

- Following the policy review on August 2, 2017 the new policy rates and ratios are as given below

Policy Rates and Ratios (%)

Repo- 6.00

Reverse Repo- 5.75

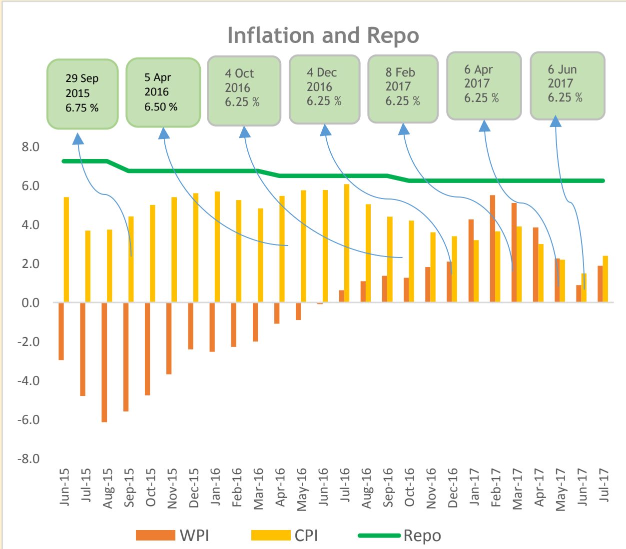
Bank rate -6.25

MSF- 6.25

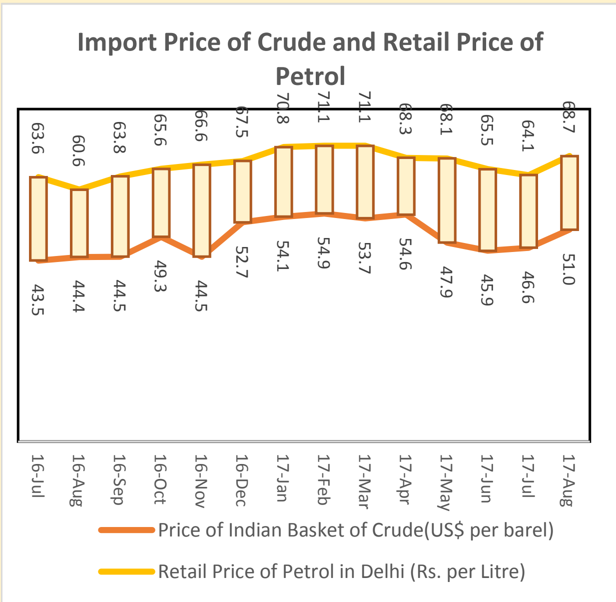
CRR- 4

SLR- 20

Repo and Inflation Dynamics



*RBI on Aug 2, 2017 cut Repo rate by 25 bps



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Rate Decision by Major Central Banks

RBI

- RBI in its third Bi monthly policy review for 2017-18 on August 2, 2017 reduced the policy rate by 25 bps to 6% on the back of low inflation, good monsoon and smooth roll out of GST.
- RBI has continued with its neutral stance despite the rate cut, on account of upside risks to inflation. Upside risks to inflation which follow from uncertainty on account of farm loan waiver by states and also timing and quantum of salary revisions given by them. Need for continuous monitoring of inflation trends to know if deflationary trends are only transient or more durable disinflation is underway.
- The central bank noted that industrial performance has weakened in April-May'17, core inflation in Jun'17 fell to its lowest level since Jan'12, and that there was urgent need to re-boot private investment.

FED

- The Federal Open Market Committee's (FOMC) in its meeting during July 25-26, decided to make no changes in the federal funds rate and keep it in the target range of 1-1.25%. The last rate hike occurred in Jun'17, which was the third such hike in last six months. It also suggested that it would take a decision to reduce its bond holding, which is expected in the next meeting.
- With the steady decline in the unemployment rate, the Fed is closely monitoring the inflation development as it has fallen below the 2% target level in the last five years and has also stated the near term risks to the economic outlook remains roughly balanced.
- The stance of monetary policy remained accommodative in line with the Committee's mandate of maintaining price stability and fostering maximum employment. The Committee at present expects to commence normalisation of balance sheet (US$4.5 trillion) soon enough, provided the economy would remain broadly in line with its expectations.
- It plans to steer normalistaion by initially setting a cap of US$ 10 bn. a month in bond sales by using US$ 6 bn. from treasuries and US$ 4 bn. from mortgage bonds. It will continue expand this pace and by US$ 10 bn. every three months, till it reaches the US$ 50 bn. a month.
- The Minutes of the FOMC meeting reflected that this process would be gradual by decreasing its reinvestment of the principal payments from securities held in the System Open Market Account.
- It also revealed that with labor market conditions strengthening, real GDP is expected to expand at a faster pace in Q2'17 compared to Q1'17.

BoE

- In its meeting which concluded on Aug 02, 2017, BoE's Monetary Policy Committee (MPC) voted by a majority of 6/2 in favour 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 totalling up to £10 bn. over the span of 18 months, 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.
- The inflation levels moved in tandem with MPC's expectation in June as it rose by 2.6% with the possibility of the inflation levels increasing above the 3% mark in October, owing to the depreciation of currency.

Rate Decision by Major Central Banks

ECB

- The Governing Council of the ECB which is the main decision making body of ECB, on July 20, 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.

BoJ

- BoJ in its monetary policy review held on July 20, 2017 has 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 its 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 has revised its inflation expectations down from a previous forecast of 1.4% to 1.1% for this fiscal year (2017-18) and from 1.9% to 1.8% for next fiscal year (2018-19). It no longer expects to reach the 2% target level by the end of Mar-2019, as had been suggested previously.
- The growth projection has been revised upwards from 1.6% to 1.8% 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.
- In its economic outlook, BoJ stated that the economy is expected to expand in the next two years supported by both domestic and external demand. Public investment is projected to improve in the year 2017 through a set of large scale stimulus measures by the government and increase in demand and investment due to the scheduled Olympic Games (2020). There is also a possibility of marginal deceleration given the impact of scheduled tax hike to be incorporated by 2019.
- On the price front, medium to long term inflation expectation is projected to increase gradually as firms are expected to make a shift towards wage hike (on a gradual basis) and improvement in output gap is also projected to continue. CPI is likely to increase and reach the target 2% mark by FY'20.

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.

Please refer page No. 24 for disclaimer.

Banking

Competition in the Lending Space

- Among select 12 banks (6 from the PSB space and 6 New Private Banks), one bank revised its 1 year MCLR, two banks revised their base rates, ten banks revised their FD rates for 1-2 years and eight revised their SB interest rates.
- Base rates of these banks varied within a range of 165 bps in Aug'17 same as in Jul'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 had the highest MCLR rate at 9.00% in the 1-year tenure. MCLR varied within a range of 100 bps.
- Range among the 12 banks with respect to variation in deposit rates narrowed to 45 bps in Aug'17 from 65 bps in Jul'17 for term deposits of tenure between 1 year-2 years and for less than Rs. 1 crore.

Innovation

- **IDFC launches new digital payment solution-** IDFC Bank has partnered with a digital payments company Zeta to launch 'IDFC Bank Benefits'. This will be a payment solution for corporates that digitises amount spent by employees and claims made by them, making the process simple, real-time and paperless. The solution integrates bundle of allowances and reimbursements offered by an employer into one preloaded card-IDFC Bank Benefit Card, issued by the Bank. The solution will be available via the Zeta app or on the web and Zeta Super Tag (Zeta's NFC payment solution). Initially, an integrated Benefits Card for medical, meal, LTA and fuel reimbursements will be launched. The service would be extended to other categories of allowances later.
- **Aurionpro launches Bank in a Box-** Aurionpro Solutions a global leader in enterprise security and banking solutions has announced its 'Branch-in-a-Box' product. The product is a Virtual Teller Machine (VTM) with fully integrated self-service kiosk for automating 90% of banking transactions at the branch level. The VTM will help in migrating routine transactions like eKYC, account opening, passbook and statement printing, video assistance, bill payment, cash and cheques deposit, cheque account summary, cash withdrawal, personalised instant card issuance, activation and replacement, from the branch to the teller machines.
- **Kotak Mahindra Bank launches Kotak Remit-** Kotak Mahindra Bank launched Kotak Remit—an Aadhaar-based integrated outward forex remittance solution for both customers and non-customers. The 24x7 forex remittance service offers a completely paperless process that enables users to register online using Aadhaar and PAN numbers, and initiate remittances instantly.

Initiatives

- **Canara Bank launches its first 'Digital Banking Branch' in Bengaluru-** Canara Bank launched its first 'Digital Banking Branch' in Bengaluru titled 'CANDI'. CANDI will provide an end-to-end digital experience to customers. The most attractive feature of the Digital Branch is a humanoid robot that addresses basic queries of customers on banking products and services. This is a first-of-its kind initiative by a public sector bank in the country. In the Digital Branch of Canara Bank, there is exhaustive usage of cloud technology for services like cash deposit, fund transfer and cheque clearing. There is also an interactive touchscreen-based 'Touch Banking' to enable the customers to understand banking products like car loan, home loan, education loan, mutual fund, life/health insurance and apply online for these products.
- **NPCI receives approval to operate BBPS-** NPCI National Payments Corporation of India (NPCI) has received approval from RBI to function as the Bharat Bill Payment Central Unit and operate the Bharat Bill Payment System (BBPS). As per the framework, a customer will be able to pay several bills such as electricity, telephone, water, gas, and direct-to-home television at a single location—physical or electronic—and receive instant confirmation once the payment is made. Nearly 45 crore bills which comprise of electricity, telecom, DTH, water and gas are permitted under BBPS. This initiative will provide a major push to digital payments and helps formalizing the bill payment system in the country.
- **SBI Lowers Deposit Rates-** State Bank of India (SBI) slashed the interest rate on savings bank deposits by 0.5 percentage points-from 4% to 3.5%-for the first time since the rate was deregulated in 2011. The new interest rate of 3.5% is applicable for deposits up to Rs.1 crore in a savings account. For deposits above Rs.1 crore, account holders will continue to earn 4% interest. SBI cited lower inflation and high real interest rate as key reasons for cutting the deposit rate.
- **Axis Bank Lowers Deposit Rates-** Axis Bank reduced interest rate on savings accounts by 50 basis points to 3.5% for deposits up to Rs.50 lakh. However, the Bank will continue to pay 4% interest on deposits of above Rs.50 lakh. Axis Bank is the fourth lender to reduce the interest rate after State Bank of India (SBI) begun the process of reducing interest rate on savings account.
- **PNB announces fee for depositing cash over Rs.5000-** Punjab National Bank (PNB) will charge its customers money for depositing cash above Rs.5000 in a non-base branch despite being located in the same city, effective from Sept 1, 2017. Currently, the charges apply only for depositing cash over Rs.25000 at a non-base branch within the same city. The Bank has also revised upwards the cheque returning charges for a payment of above Rs.1 crore to Rs.2000 for first cheque and Rs.2500 for subsequent bounces. At the same time, locker rent is being raised by 25% for small, medium, large and extra-large sizes. Besides this, PNB will levy a premium of 25% of the locker rent in 22 identified branches, 19 of which are in Delhi, 1 in Gurgaon and 2 in Faridabad. All the charges are exclusive of GST.

Initiatives

- **ICICI Bank launches Instant Credit Card facility-** ICICI Bank on Aug 09, 2017 launched its 'Instant Credit Card' facility allowing its savings account customers to get a credit card instantly through digital methods. Initially this facility will be available to few lakh pre-qualified customers who can apply for the card online and generate card details and start shopping online instantly. The card issued will have a credit limit of Rs.4 lakh.
- **Axis Bank to use solutions from its accelerator project-** Axis Bank from its first edition of accelerator program has selected solutions of 3 start-ups—Pally, FintechLabs and Gieom, for its use. Pally offers a chatbot solution that helps customers create an investment portfolio and maximise tax saving. FintechLabs uses analytics in the digital lending space to scan documents to make decisions, and Gieom uses AI to improve operational efficiency.
- **SBI integrates debit cards with Samsung Pay-** SBI's debit cards are integrated with Samsung Pay, which allows payments by waving a Samsung smart phone near a cash register at merchants instead of swiping a card. Samsung Pay works on around 2.5 million point-of-sale (PoS) terminals through its magnetic secure transmission (MST) technology. MST creates a dynamic magnetic field between the smart phone and the payment terminal's card reader. The bank has 270 million active debit cardholders, of which 130 million cardholders will be immediately eligible to make payments through Samsung Pay.

Development

- **Fincare Bank commences operations-** Fincare Small Finance Bank Limited has commenced operations as a small finance bank with effect from July 21, 2017. RBI had issued a licence to the Bank under Section 22 (1) of the Banking Regulation Act, 1949 to carry on the business of a small finance bank in India.
- **Axis Bank Buys FreeCharge-** On Jul 27, 2017 Axis Bank announced its acquisition of FreeCharge from Snapdeal at the cost of Rs.385 crore. According to Axis Bank, the acquisition was made to leverage over 5 crore customer base, strong brand name and its technology platform. FreeCharge's customer base is largely involved in small-value transactions. Utility bill payments is a key service feature of FreeCharge. The deal is subject to regulatory approval from the RBI.
- **UBI to sell 40% of its stake in wholly owned AMC-** As reported, UBI has signed an in principle agreement with Japan-based Dai-ichi Life insurance firm to sell 40% stake in the Bank's wholly owned asset management company. Earlier, Union Bank had tied up with KBC Participations Renta to form KBC Asset Management Company where the Belgian firm had 49% stake in asset management business. It may be noted that in September 2016, KBC had sold its entire stake in mutual fund to Union Bank of India.
- **BOI to sell stake in STCI Finance Ltd-** BOI has initiated the process of selling its stake in STCI Finance Ltd, a NBFC. The Bank is looking at a partial or complete sale of its 1.13 crore shares at a minimum price of Rs.550 per share, which will fetch the bank Rs.626 crore. STCI Finance provides loans against shares, corporate loans against properties, construction finance and corporate loans. BOI is its single largest shareholder.

Regulatory Development

- **RBI amends provisioning under Basel III-** RBI has amended certain provisions pertaining to Basel III Framework on Liquidity Standards–Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards. The amendment has been effected in Level 1 assets of banks which can be included in the stock of liquid assets without any limit as also without applying any haircut. Under the head of "Cash including cash reserves in excess of required CRR" the RBI has introduced two amendments for banks incorporated in India. They are: (1) Reserves held with foreign Central Banks in excess of the reserve requirement, where a foreign sovereign has been assigned a 0% risk weight as per rating by an international rating agency; and (2) Reserves held with foreign Central Banks in excess of the reserve requirement, to the extent these balances cover bank's stressed net cash outflows in that specific currency, in cases where a foreign sovereign has been assigned a non-0% risk weight as per rating by an international rating agency, but a 0% risk weight has been assigned at national discretion under Basel II Framework.
- **Short-term crop loans for framers to continue-** RBI on Aug 16, 2017 issued a notification conveying continuation of Interest Subvention Scheme for short term crop loans up to Rs.3 lakhs for FY2017-18. The scheme allows banks to give short term crop loans up to Rs.3 lakhs at an interest rate of 7% p.a. to the farmers. 2% p.a. interest subvention will be offered to the lending institutions for the same. The scheme also provides for an additional sweetener for the farmers who repay their loans promptly. For such farmers interest subvention offered would be 3% p.a., leading to an effective interest rate of 4% p.a. for the farmers.
- **RBI not an issuing bank for the government-** RBI has clarified that it will continue not to issue LCs on behalf of government and it will not act as an issuing or advising bank for government as far as transactions related to Bank Guarantees (BGs) are concerned. The government department would directly deal with any commercial bank (such as Bank of Baroda) identified by them without involving RBI. The role of RBI will continue to remain strictly limited to reimbursement of payments made by the banks for such LCs/BGs on behalf of the government.

Development

- **HDFC Bank aims to raise fund via infra bonds-** On Aug 16, 2017 it was reported that the HDFC Bank is planning to raise upto Rs.15000 crore through issuing of infrastructure bonds. The amount raised will be used for financing infrastructure projects especially in sectors like power and affordable housing. CRISIL has assigned “AAA” rating to the bond.
- **SBI planning to list 2 of its RRBs in next one year-** On Aug 18, 2017 it was reported that SBI is planning initial public offerings (IPOs) of its two regional rural banks (RRB)—Andhra Pradesh Grameena Vikas Bank and Saurashtra Gramin Bank, in the next one year. Aim of listing these 2 RRBs is to increase their value and efficiency. Of the 14 RRBs of SBI/sponsored by SBI, Andhra Pradesh Grameena Vikas Bank is the largest with asset size of Rs.25000 crore. Amended RRB Act of 2015 allows these banks to raise capital from sources other than the government and sponsor banks, without letting the combined shareholding of centre and sponsor bank to fall below 51%. The department of financial services and NABARD are finalizing IPO rules for RRBs.
- **Karur Vysya Bank opened its first Aadhaar Enrolment Centre-** On Aug 16, 2017, Karur Vysya Bank opened its first Aadhaar enrolment centre at a branch in Chennai. According to a Jul’17 notification released by UIDAI, all commercial banks are advised to provide Aadhaar enrolment and updation facility at their branches. At the Aadhaar enrolment centre KVB will offer Aadhaar enrolment and updation of Aadhaar data facilities for customers having approved documents for proof of residence and identity. Bank claims to complete each process within 15 minutes.
- **Canara Bank to raise $400 million through bond sale issue-** Canara Bank has tapped the international debt market with a benchmark dollar bond issue with a tenor of 5 years to raise $400 million through the bond sale issue. The issue is part of its $2-billion medium term note programme. Moody’s has rated the bonds at Baa3 and the Baseline Credit Assessment (BCA) is at Ba3.
- **SBI to raise Rs.2000 cr via Basel-III compliant bonds-** State Bank of India (SBI) plans to raise Rs.2000 crore by allotting Basel-III compliant bonds to various investors. The bonds would be Basel-III compliant, non-convertible, perpetual, subordinated bonds in the nature of debentures. They will carry a coupon rate of 8.15 per cent per annum with a call option after 5 years or the anniversary date thereafter.
- **Bank of Baroda to provide banking services to GeM-** Bank of Baroda has signed a MoU with the Directorate General of Supplies & Disposal (DGS&D) for providing various banking services to Government e-Marketplace (GeM). The Cabinet in April 2017 had approved creation of GeM Special Purpose Vehicle (SPV), in order to replace DGS&D, nodal purchase organization of the central government.
- **Digital transactions show sustained increase-** Unified Payments Interface (UPI), BHIM and USSD volumes have shown sustained increase during the last three months from 9.36 mn to 10.35 mn and to 11.63 mn while the value surged from Rs.2797.07 crore to Rs.3098.36 crore and to Rs.3411.35 crore in May, June and July 2017, respectively.
- **Airtel Payments Bank ties up with HPCL for ATM services-** Airtel Payments Bank has tied up with Hindustan Petroleum Corporation Limited (HPCL) to allow all its cash surplus petrol pumps to be used as ATM service/BCs for customers of the bank.
- **RBI releases draft tri-party directions for public comments-** With the objective to promote development of the financial system, RBI issued draft directions for Tri-party repo. Tri-party repo is a type of repo contract where a third entity (apart from the borrower and lender), called a Tri-Party Agent, acts as an intermediary between the two parties to facilitate services like collateral selection, payment and settlement, custody and management during the life of the transaction. Tri-party repo may be traded using any trading process authorised under specified directions by the Reserve Bank, including Bilateral/ Multilateral, anonymous or otherwise, quote driven or order driven. They will be allowed to trade using any trading process authorised under these directions by the Reserve Bank, including Bilateral/ Multilateral, anonymous or otherwise, quote driven or order driven. They may also be traded Over-the-counter including electronic platforms, or on stock exchanges. RBI has mandated that all tri-party repos shall be reported within 15 minutes of the trade for public dissemination to CCIL or to exchanges or any other reporting platform authorised by the RBI. The eligible tri-party agents include scheduled commercial banks, recognised stock exchanges and clearing corporations of stock exchanges or clearing corporations authorised under PSS Act. All settlements will be on Delivery vs Payment (DvP).
- **RBI releases MPC Minutes-** RBI on Aug 16, 2017 release Minutes of the Monetary Policy Committee meeting held from August 1-2, 2017. Minutes reflect that the members remain cautious against upside risks to inflation from food prices, impact of GST and implementation of HRA benefits. Members also flagged upside risks to inflation and fiscal deficit from the implementation of farm loan waivers. Weakness in the capex cycle and rising output gap prompted members to vote for a rate cut. 1 member who voted against it, did so keeping in view upside risks to inflation.
- **RBI issues directive to Comprehensive Credit Information providers (CICs) -** In view of the RBI’s observation that some CICs followed the practice of offering limited versions of Credit Information Report (CIRs) to Credit Institutions (CIs), RBI has directed CICs to ensure that the CIR in respect of a borrower incorporates all the credit information available in all modules, e.g. consumer, commercial and MFI, etc., in respect of the borrower.

Please refer page No. 24 for disclaimer.

Annex-1
Base Rate and MCLR of Select Banks

Name	Effective from	1 Y - MCLR	Effective from	Base Rate	Effective from	FD Rate for 1-2 years	Effective from	SB rate
Bank of Baroda	07-Aug-17	8.35	01-Jul-17	9.50	Aug-17	6.60	5-Aug-17	3.5
Bank of India	10-Aug-17	8.40	31-Mar-17	9.55	Jul-17	6.70	1-May-16	4.0
Canara Bank	07-Aug-17	8.40	01-Apr-17	9.40	Aug-17	6.40	1-May-11	4.0
Punjab National Bank	01-Aug-17	8.35	01-Jan-17	9.35	Aug-17	6.50	18-Aug-17	3.5
Union Bank of India	01-Aug-17	8.40	30-Jun-17	9.20	May-17	6.50	18-Aug-17	3.5
State Bank of India	01-Aug-17	8.00	01-Jul-17	9.00	Jul-17	6.50	31-Jul-17	3.5
Axis Bank	18-Aug-17	8.25	04-Jul-17	9.05	Jul-17	6.75	8-Aug-17	3.5
HDFC Bank	07-Aug-17	8.15	30-Jun-17	8.90	Aug-17	6.80	19-Aug-17	3.5
ICICI Bank	01-Aug-17	8.20	10-Aug-17	9.00	Jul-17	6.75	18-Aug-17	3.5
IndusInd Bank	17-Aug-17	9.00	17-Jan-17	10.55	Aug-17	6.85	17-Aug-17	4.0
Kotak Bank	01-Aug-17	8.65	02-Aug-17	9.10	Aug-17	6.60	4-Aug-17	5.0
Yes Bank	01-Aug-17	8.85	05-Oct-15	10.25	Aug-17	6.75	16-Aug-17	5.0

Note- Yes Bank offers 5% p.a interest rate on Saving Bank accounts for account balance of over Rs. 1 lakh. Kotak Mahindra Bank offers 5% p.a interest rate on Savings Bank accounts for account balance upto Rs.1 lakh, 6% p.a. interest rate on Savings Bank account balance above Rs.1 lakh up to Rs. 1 crore and 5.5% p.a. on balance above Rs. 5 crore.IndusInd Bank offers 4% interest rate on Saving Bank accounts for account balance of upto Rs. 10 lakh - Rs. 10 lakh, 5% interest rate for balance from Rs. 10 lakh - Rs. 1 cr and 6% for account balance of over Rs. 1 cr

Bank of Baroda, Punjab National Bank, Axis Bank, HDFC Bank, and ICICI Bank offer 3.5% p.a. interest rate on Saving Bank accounts below Rs. 50 lakh and 4% p.a. on Saving Bank accounts above Rs. 50 lakh. SBI offers 3.5% p.a. interest rate on Saving Bank accounts below Rs. 1 cr and 4% p.a. on Saving Bank accounts above Rs. 1 cr. Union Bank of India offers 3.5% p.a. interest rate on Saving Bank accounts below Rs. 25 lakh and 4% p.a. on Saving Bank accounts above Rs. 25 lakh.

Bank of Baroda offers 6.60% for term deposits of 1 year, 6.65% for term deposits above 1 year to 400 days and 6.50% for term deposits above 400 days to 2 years.

Bank of India offers 6.70% for term deposits of 1 year to less than 2 years and 6.50% for term deposits of 2 years.

Canara Bank offers 6.75% for term deposits of 1 year, 6.40% for term deposits of above 1 year to less than 2 years and 6.30% for term deposits of 2 years.

Punjab National Bank offers 6.60% for term deposits of 1 year and 6.50% for term deposits of 1 to 3 years.

Union Bank of India offers 6.75% for term deposits of 14 months and 6.50% 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 6.75% for term deposits of 1 year to less than 18 months, 6.25% for term deposits of 18 months to less than 2 years.

HDFC Bank offers 6.80% for term deposit 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 6.85% for term deposits of 1 year to less than 1 year 2 months, 6.75% for term deposit of 1 year 2 months to 2 years.

Kotak Mahindra Bank offers 6.60% for term deposits of 365 days to 390 days, and 6.50% for term deposit of 391 days to less than 23 months, 6.40% for 23 months to 2 years.

YES Bank offers 6.75% or term deposits from 1 year to less than 10 years, with 6.95% for term deposits for period ranging from 18 months 8 days – 18 months 18 days.

Figures are in per cent.

Annex-2

Monthly Macro Indicators

Indicator	16-Jul	16-Aug	16-Sep	16-Oct	16-Nov	16-Dec	17-Jan	17-Feb	17-Mar	17-Apr	17-May	17-Jun	17-Jul
Production													
IIP(2011-12 Base)	5.2	4.9	5.7	4.9	5.7	2.6	3.0	0.8	3.8	2.8	1.7	-0.1	
Infrastructure (2011-12 Base)	3.1	3.1	5.3	7.1	3.2	5.6	3.4	0.6	5.3	2.8	4.0	0.4	
Prices													
WPI (2011-12 Base)	0.6	1.1	1.4	1.3	1.8	2.1	4.3	5.5	5.1	3.9	2.3	0.9	1.9
CPI (2011-12 Base)	6.1	5.0	4.4	4.2	3.6	3.4	3.2	3.7	3.9	3.0	2.2	1.5	2.4
CPI Food (2011-12=100)	8.4	5.9	4.0	3.3	2.0	1.4	0.6	2.0	2.0	0.6	-1.0	-2.1	-0.3
WPI Manufacturing (2011-12=100)	0.4	0.9	1.1	1.3	2.0	2.5	3.3	3.2	3.2	3.1	2.6	2.3	2.2
CPI Services (2011-2012=100)	4.0	4.2	4.5	4.7	4.8	4.7	5.0	4.8	4.9	4.3	3.8	3.3	3.3
Banking													
Fixed Reverse Repo (Rs. Mn)	30040	63280	467290	63820	43050	138790	91570	223150	1351770	509900	163810	529930	160130
Fixed Repo (Rs. Mn)	34950	32070	74290	-	51080	40570	18500	14000	93950	11700	20000	24750	24750
Aggregate Deposits	8.3	8.9	12.8	9.2	15.6	15.7	12.7	12.0	15.9	11.5	10.9	2.1	9.0
Total Credit	7.7	7.6	11.5	6.4	4.0	3.3	3.3	3.0	7.3	3.8	3.5	4.4	
Non Food Credit	8.3	8.2	10.8	6.7	4.8	4.0	3.5	3.3	8.4	4.5	4.1	4.8	
Industrial Credit	0.6	-0.2	0.9	-1.7	-3.4	-4.3	-5.1	-5.2	-1.9	-1.4	-2.1	-1.1	
Infrastructure Credit	-3.1	-4.2	-4.6	-6.6	-6.7	-7.7	-8.7	-9.7	-6.1	-2.2	-4.0	-2.5	
Service Credit	10.8	12.1	18.4	9.3	7.1	8.3	8.1	7.7	16.9	4.1	4.0	4.7	
Leading Indicators													
Manufacturing PMI	51.8	52.6	52.1	54.4	52.3	49.6	50.4	50.7	52.5	52.5	51.6	50.9	47.9
Service PMI	51.9	54.7	52	54.5	46.7	46.8	48.7	50.3	51.5	50.2	52.2	53.1	45.9
Composite PMI	52.4	54.6	52.4	55.4	49.1	47.6	49.4	50.7	52.3	51.3	52.5	52.7	46.0
Services													
Passenger Traffic: All Airports	23.0	19.5	20.8	19.7	18.6	19.9	21.4	13.5	12.8	13.5	15.7	17.4	
Foreign Tourist Arrivals	16.8	8.8	12.1	8.6	7.6	11.9	16.4	12.6	11.9	25.0	19.4	22.5	7.4
Goods Traffic Movement by Railways	-1.9	-3.7	-2.7	-2.6	5.5	-0.1	0.3	3.5	7.7	4.6	3.9	2.8	5.6
Automobile Sales: Total	8.9	16.8	15.8	7.2	-4.2	-16.0	-5.1	2.4	2.9	9.5	9.6	1.8	12.0
Automobile Sales: Passenger Vehicle	13.9	18.9	20.7	6.2	5.8	4.3	14.6	8.7	11.0	14.4	9.3	-5.9	13.6
Automobile Sales: Commercial Vehicle	2.1	2.4	0.4	13.5	-7.1	-5.7	-2.4	5.7	6.7	-25.0	-9.3	-4.2	5.7
Automobile Sales: Two Wheelers	9.2	18.6	17.2	7.5	-5.2	-19.7	-7.7	2.1	2.2	10.5	11.0	4.0	12.7
Automobile Sales: Three Wheelers	-8.9	-11.9	-16.1	-2.1	-22.0	-37.3	-26.9	-22.2	-23.1	-6.3	-6.8	-13.0	-6.5
External													
FDI-Equity (US $mn)	4179	4901	5247	6300	4782	3451	4088	1322	2560	3323	4155	3214	
FII-Net Portfolio Investment(US $mn)	2267	1558	2884	-40	-6902	-4371	-389	2454	9034	2653	4681	4587	
ECB(US $mn)	1203	3173	1574	1471	278	2486	1804	1009	1697	1305	524	1618	
Exports	-6.9	0.1	4.7	8.8	2.5	6.4	5.1	22.5	27.2	17.9	8.3	4.4	3.9
Imports	-19.3	-13.6	-0.9	10.7	12	1.2	10.6	21.2	45.3	47.7	33.1	19.0	15.4
Trade Balance(US $mn)	-7,667	-7,752	-8,855	-11,137	-13,421	-10,456	-9,639	-7,688	-10,524	-13,478	-13,842	-12960.0	-11450.0
Rupee-Dollar Exchange Rate	67.03	66.98	66.66	66.86	68.53	67.95	67.81	66.74	64.84	64.22	64.55	64.7	64.1
Rupee-Pound Exchange Rate	88.3	87.69	86.42	81.3	85.53	83.42	84.85	83.05	80.88	82.83	82.64	84.3	84.2
Rupee-Euro Exchange Rate	74.27	74.62	74.75	72.91	72.84	71.62	72.55	70.72	69.25	69.88	72.14	74.0	75.2
REER 36 Country (Trade Based Weight) Base 2004-05=100	114.17	114.15	114.39	115.5	115.79	116.01	114.69	115.5	117.56	119.34	119.08	118.3	117.9
Forex Reserves Outstanding (US $bn))*	367	367	372	366	361	359	363	364	370	373	380	387	393

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

Please refer page No. 24 for disclaimer.

Annex-3
Quarterly Macro Indicators

	2013-14		2014-15				2015-16				2016-17			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	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.

Please refer page No. 24 for disclaimer.

Annex-4
Annual Macro Indicators

Indicator	2012-13	2013-14	2014-15	2015-16	2016-17
Real Sector Growth**					
GVA at Basic Price*	5.4	6.1	7.2	7.9	6.6
I. Agriculture	1.5	5.6	-0.2	0.7	4.9
II. Industry	3.3	3.8	7.5	8.8	5.6
Mining & quarrying	0.6	0.2	11.7	10.5	1.8
Manufacturing	5.5	5.0	8.3	10.8	7.9
Electricity, Gas &Water Supply	2.7	4.2	7.1	5.0	7.2
Construction	0.3	2.7	4.7	5.0	1.7
III. Services	8.3	7.7	9.7	9.7	7.7
Food Grains Production (Mn Tonnes)	257.1	265.0	252.0	251.6	275.7
Industrial production					
IIP	3.3	3.4	4.0	3.4	5.0
Basic Goods	0.5	2.3	3.8	5.0	4.9
Capital Goods	0.4	-3.6	-0.8	2.1	3.2
Intermediate Goods	5.1	4.5	6.2	1.5	3.4
Consumer	5.4	5.7	5.0	2.8	3.9
Consumer Durables	5.0	5.7	4.0	4.2	5.1
Consumer Non-Durables	6.1	3.7	4.1	2.7	8.5
Mining	-5.3	-0.1	-1.4	4.3	5.4
Manufacturing	4.8	3.6	3.9	3.0	4.8
Electricity	4.0	6.1	14.8	5.7	5.8
Banking					
Aggregate Deposits Growth	14.2	14.1	10.7	9.3	15.3
Demand Deposit Growth	5.9	7.8	11.2	12.0	44.2
SCBs food credit	18.6	2.1	-4.1	11.5	-48.8
SCBs non-food credit	14.0	14.2	9.3	10.9	9.0
Fiscal Sector (Combined)					
Gross fiscal deficit	6.9	6.7	6.7	7.5	6.5
Gross primary deficit	2.2	1.8	2.0	2.7	1.6
Revenue deficit	3.5	3.3	3.3	2.7	1.9
External Sector					
Exports Growth	-1.8	4.7	-1.3	-15.5	4.7
Imports Growth	0.3	-8.3	-0.5	-15.0	-0.2
Exports/GDP	16.4	17.0	15.2	12.5	12.1
Imports/GDP	26.8	24.2	22.0	18.2	16.8
Invisibles/ GDP	5.9	6.2	5.8	5.2	4.3
CAD /GDP	-4.8	-1.7	-1.3	-1.0	-0.7
Foreign Investment/GDP	5.0	2.4	4.5	1.9	1.2
Import Cover of Reserves^(Months)	7.0	7.8	8.9	10.9	12.0
FII(US$mn)	46710	26385	73457	31891	43786
FDI(US$mn)	19819	21564	31251	36021	35612

Note-@ Includes Net FDI, Net FPI and Net Other Investments
****provisional Estimates for 2016-17**
^Data for 2016-17 is as of Sept 2016
Figures are in per cent unless specified otherwise

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Notes

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