बैंक ऑफ़ बड़ौदा
Bank of Baroda
India's International Bank

Economic Intelligence

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MONTHLY MACRO INSIGHTS

In Brief

The lagged impact of demonetisation was reflected in a lower GVA growth for FY17 at 6.6% as against 7.9% in FY16. The impact was felt sharply in Q4 as GVA growth decelerated to 5.6%. However, the GDP deceleration is transitory in nature and the forecast of a normal monsoon augurs well for growth. In its second bi monthly policy review, RBI adopted status quo on the policy rate despite lowering its growth and inflation projections for FY18 as most of the MPC members were not too sure about the durability of softer inflation rate observed in the past few months. Inflation softening further in May'17 has raised expectations about a rate cut in the third bi monthly policy review in an attempt to be synchronous with the curve. We, however, feel that the sharp decline in food prices which has provided comfort on the inflation front has political economy connotations and will make rate cut decision difficult in the near term. Lower prices of food prices has adversely impacted farm earnings, prompting protests by farmers and has resulted in farm waivers being announced by a few state governments. Loan waivers have adverse implications for the fiscal scenario of states. Inflationary consequences of deteriorating fiscal situation will constrain RBI to effect a rate cut. The future rate action will also be shaped by developments in the external sector. The US Fed increased its federal funds rate by 25 bps to a target range of 1-1.25%, from the current 0.91% in its meeting during Jun 13-14. It adopted a hawkish stance and gave guidance that it will begin unwinding of its USD 4.5 trillion balance sheet at the end of the year. Balance sheet contraction by Fed can have adverse implications for external stability of the Indian economy. Notwithstanding the decision by OPEC and non OPEC members to extend the production cut agreement for nine months beginning July 1, 2017, the supply dynamics has ensured that the new floor for price would be around $50 per barrel range in the near future. The risks to external stability at present is evenly balanced given the guidance by Fed and oil price dynamics. On the whole, risks to macroeconomic stability at this points appears low. Steady progress in ensuring effective implementation of GST on July 1, 2017 by finalising registration, return, composition, refund, payment, invoice, input tax credit as well as the transition and returns rules has reaffirmed government's commitment to reforms.

Key Takeaway

- World Bank has retained its projections for the growth of global economy at 2.7% and 2.9% in 2017 and 2018 respectively. World Bank has held that global activity is firming up on the back of pick-up in manufacturing and trade.
- Major political and economic developments entangled global economy. Uncertainties arose in the Middle East on the back of Qatar crisis. In UK, Conservative Party losing its parliamentary majority and forming a coalition government also came as a jolt in the midst of Brexit. Further, political developments in US also contributed to uncertainty. However, the various uncertainties had only limited adverse impact on global markets.
- The growth numbers for Indian economy in 2016-17 reflected lagged impact of demonetization especially in Q4'17. The pass through of muted economic activity was clearly visible in the growth rate of industry as a whole with pronounced decline observed in the performance of construction sector.
- RBI in its Second Bi-monthly monetary policy has revised downwards its projections of growth rate of real GVA FY'18 to 7.3% from its earlier forecast of 7.4%.

Financial and Commodities Markets at a Glance

Indicator	01-Mar-17	03-Apr-17	02-May-17	28-Jun-17
Call	6.04	5.79	6.00	6.08
Repo	5,500	17,210	14,050	20520
US Treasury	2.46	2.46	2.29	2.22
G-Sec	6.92	6.61	6.99	6.50
Dollar	66.85	64.91	64.21	64.53
Pound	82.72	81.43	82.69	82.66
Sensex	28,894	29,910	29,921	30834
Crude	55.33	51.28	44.59	45.64
Gold	29,850	29,050	29,050	29,000
FII	185.5	643.1	-217.4	261.8
FII-E	154.9	538.2	-173.4	146.1
FII-D	30.5	104.9	-44.0	115.7

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

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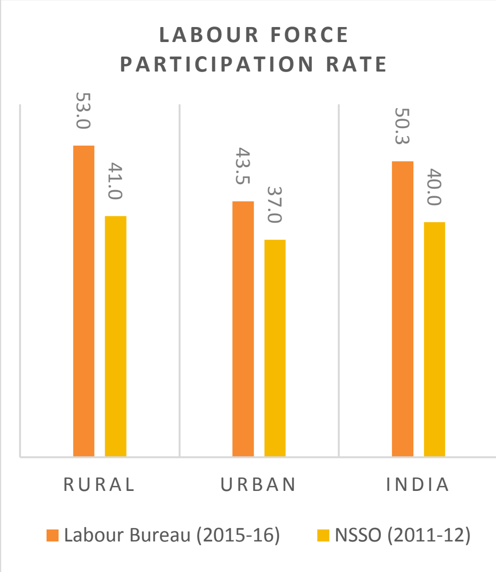
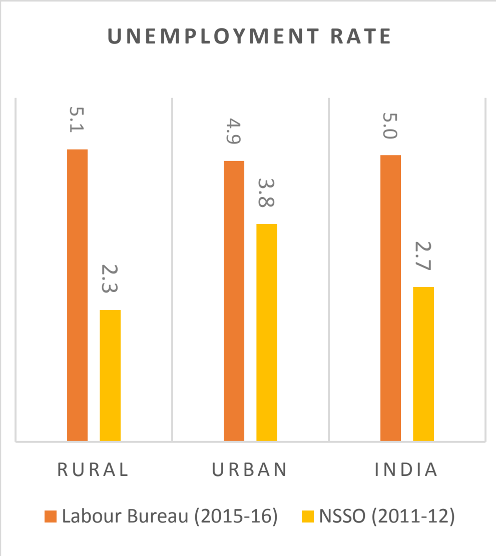
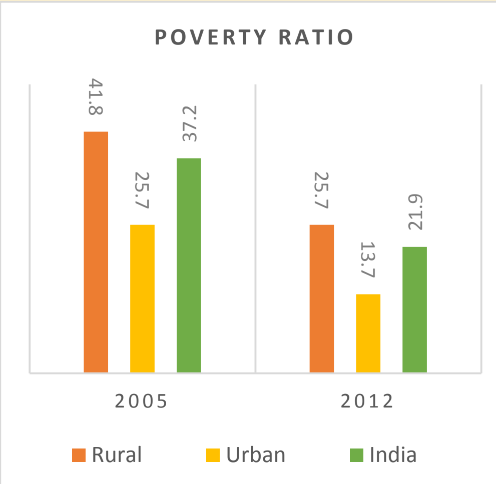
Key Takeaway

- IIP grew marginally by 3.1% in Apr’17 compared to a growth of 3.75% (revised) witnessed in Mar’17 and a growth of 6.5% in Apr’16 on a Y-o-Y basis. The improvement has been largely on account of Electricity generation which grew by 5.4% in Apr’17.
- Credit to industry and infrastructure continued to register negative growth while service sector credit growth remained lower at 4.8% in Apr’17 compared to growth of 11.0% in Apr’16.
- Inflation softened both at the retail and wholesale level in May’17. Retail inflation as measured by CPI declined significantly to 2.18% in May’17 compared to 2.99% in Apr’17 and 5.76% in May’16 on a y-o-y basis. Wholesale inflation edged down to 2.17% in May’17 compared to 3.85% in Apr’17 and -0.9% in May’16 on a y-o-y basis. Inspite of waning impact of favourable base, the falling inflation rate has been due to lower food inflation which continued to be impacted by seasonal trends.
- Food inflation entered into a deflation territory after a span of more than 5 years (CPFI last entered into negative territory in Jan’12). It recorded deflation rate of 1.05% in May’17 compared to an inflation rate of 0.61% in Apr’17 and 7.47% in May’16 on a y-o-y basis. WPI Food index grew by .1% in May’17 compared to 2.9% in Apr’17 and 7.1% in May’16 on a y-o-y basis.
- In its second Bi-monthly Monetary Policy FY’17-18, RBI decided to hold policy rate as the MPC finds itself in a quandary with regard to the durability of softer inflation rate being observed in the past few months. However, inflation projections have been revised downward and is expected to be in the range bound of 2.0-3.5% in H1’18 compared to its earlier forecast of 4.5% in H1’18. Whereas, in H2’18, inflation is expected to be within 3.5-4.5% compared to its earlier forecast of 5%.
- India’s exports grew by 8.32% in May’17 on y-o-y basis to US$ 24.01 bn, while declining slightly by (-) 2.5% on m-o-m basis. It must be noted that exports have shown positive growth since Sep’16. Non-petroleum and non-gems exports in May’17 grew by 6.77% on y-o-y basis to US$ 17.51 bn.
- One of the major concern of the industry was the loss of input tax credit for transition stocks. The transition rule that have allowed business to claim upto 60% of input tax credit for tax rates (GST rate) which exceed 18% and 40% credit for the rates lower than 18%, on inventories which remain unsold till June 30, has addresses this concern.
- US Fed undergoing 25 bps hike in its fund rate and sounding more hawkish in comparison to earlier policy statements also kept global economy abreast. Apart from this, what made global markets wary is impact of unwinding of Fed’s $4.5 trillion balance sheet later this year.
- IMD’s up gradation of previous forecast would auger well for the growth rate of agriculture sector. Sequentially, Industrial growth has also shown an uptick. Major high frequency service sector indicators have also shown traction.
- The fast paced reforms at play whether be it resolution of stressed assets scenario of the economy or structural reforms in the veil of GST, is expected to usher confidence of the global players on Indian economy in the near term.
- Balance sheet contraction by Fed can have adverse implications for external stability of the Indian economy.
- Notwithstanding the decision by OPEC and non OPEC members to extend the production cut agreement for nine months beginning July 1, 2017, the supply dynamics has ensured that the new floor for price would be around $50 per barrel range in the near future.
- The risks to external stability at present is evenly balanced given the guidance by Fed and oil price dynamics.

Indian Economy-Structural Coordinates







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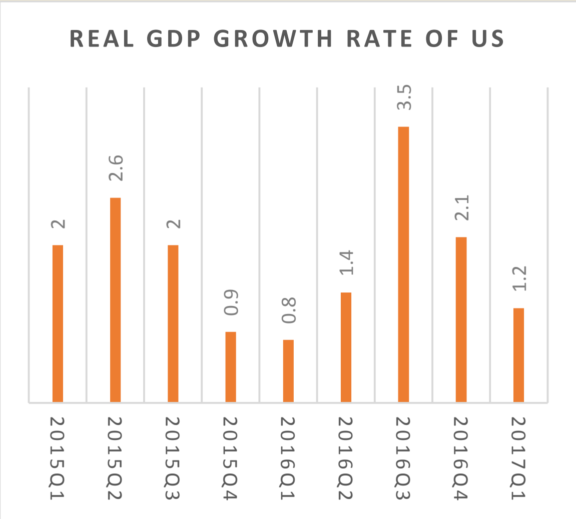

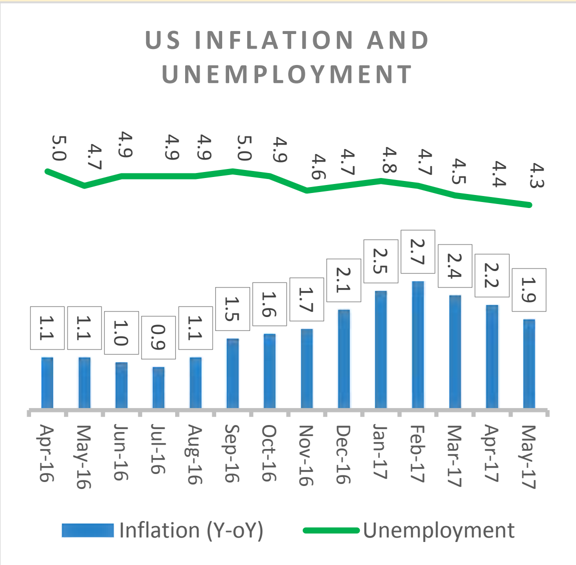

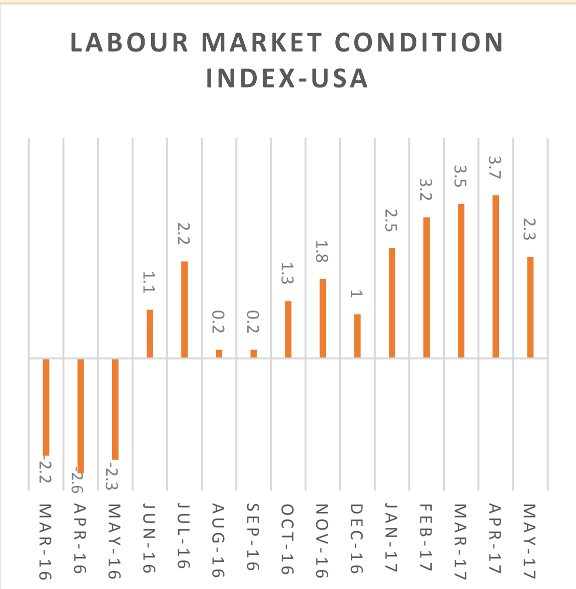

Global Developments

Growth

World Bank Global Economic Prospects, June 2017

- World Bank in its latest release has retained its Jan'17 projections for the growth of global economy at 2.7% and 2.9% in 2017 and 2018 respectively. The Report stated that global activity is firming up on the back of pick-up in manufacturing and trade.
- In advanced economies growth is expected to gain momentum from 1.7% in 2016 to 1.9% in 2017, as a result of strengthening domestic demand and exports. While the growth forecasts has been revised upwards to 1.7% for Euro Area and 1.5% for Japan, it has been revised downwards to 2.1% in 2017 for USA.
- Growth in emerging market and developing economies (EMDEs) is also expected to recover from 3.7% in 2016 to 4.1% in 2017 and an average of 4.6% in 2018-19, as growth in commodity exports picks up along with robust imports.

UNCTAD World Investment Report 2017, June 2017

- According to the latest World Investment Report released by UNCTAD in June 2017, global FDI flows fell by 2% in 2016 to US$ $1.75 trillion amid weak economic growth. While FDI inflows into developed economies grew accounting for about 59% of the total FDI inflows in 2016, FDI inflows to developing countries slowed.
- The Report forecasts a modest recovery in global FDI flows by 5% to US$ 1.8 trillion in 2017 due to growth prospects in major economies and acceleration in global trade.
- FDI inflows into developing economies are expected to increase by 10% in 2017, while inflows to developed countries are likely to remain stagnant at about US$ 1 trillion.
- US, China and India top the list of prospective destinations for investment by MNEs. Developing Asian countries such as Indonesia, Thailand, the Philippines, Viet Nam and Singapore, also figure among the most promising host countries.

Unemployment

- In US, while the headline unemployment rate declined marginally to 4.3% in May'17 from 4.4% in Apr'17, the broader indicator for labour market conditions though remained positive, declined to 2.3 in May'17.
- Unemployment rate in both the 19-member Euro Area (EA19) and the 28-member EU28 fell to the lowest levels since the global economic crisis in 2009. The seasonally-adjusted unemployment rate in EA19 declined to 9.3% in Apr'17 from 9.4% in Mar'17, it declined by 9 bps on Y-o-Y basis.
- The EU28 unemployment rate declined to 7.8% in Apr'17 from 7.9% in Mar'17, and 8.7% in Apr'16. Among the Member States, the lowest unemployment rates in Apr'17 were recorded in Czech Republic (3.2%) and Germany (3.9%). The highest rates were observed in Greece (23.2% in Feb'17) and Spain (17.8%).

Food

According to the latest data released by the Food and Agriculture Organisation (FAO), global food commodity prices increased in May'17 after experiencing decline for the last three successive months. The Global Food Price Index in May'17 increased by 2.2% and 10% on a sequential and Y-o-Y basis respectively. Except sugar, indices of all other key commodities increased sequentially with the highest increase seen in dairy (5.1%) and vegetable oils (4.7%).

Commodities

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

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World Trade Outlook

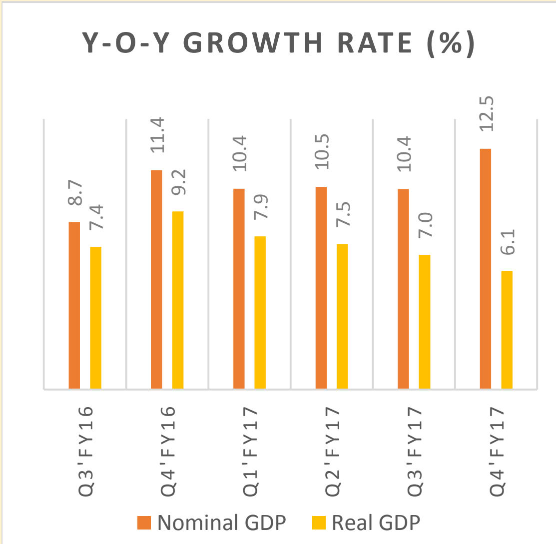
- The World Trade Outlook Indicator (WTOI) increased to 102.2 in Mar'17 from its last reading of 102.0 in Nov'16. Reading in Mar'17 is the highest since May'11, suggesting that global trade will continue to expand moderately in the second quarter of 2017. It must be noted that the WTOI has been consistently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

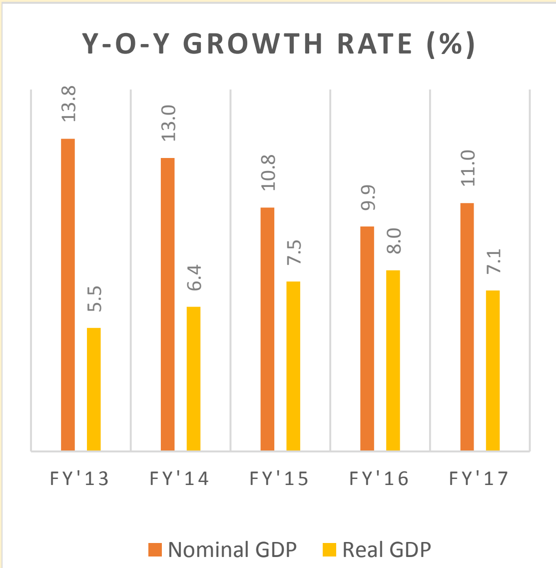
India's Growth Outlook

- GDP growth numbers for Indian economy in 2016-17 reflected lagged impact of demonetization especially in Q4'17. The pass through of muted economic activity during demonetization period was visible in the growth rate of industry as a whole with pronounced decline observed in the performance of construction activities. However, the impact was much less for the service sector because increased government spending compensated the subdued activity in real estate and financial services.
- In spite of lack luster performance of major sectors, optimism prevailed with regard to the growth rate of agriculture sector. An above normal monsoon along with government's concerted supply management framework has resulted in better growth rate of agriculture sector.
- As per the data released by CSO, real GVA remained subdued at 5.6% in Q4'17 compared to 8.7% in Q4'16, on a y-o-y basis. This has been the lowest growth rate since Q1'14. The major drag down in real GVA has been the poor performance of industrial sector which grew by 3.1% in Q4'17 compared to 6.2% in Q3'17, on a y-o-y basis. Inspite of this, mining and quarrying activity noted a remarkable growth rate of 6.4% in Q4'17 compared to 1.9% 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. Financial, real estate sector also remained subdued at 2.2% in Q4'17 compared to 3.3 in Q3'16. 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.
- Nominal GVA grew by 11.3% in Q4'17 compared to 9.4% in Q3'17, on a y-o-y basis. Here also mining and quarrying activities noted a massive increase of 33% in Q4'17 compared to 3.0% in Q3'17, on a y-o-y basis.

World Trade Outlook Indicator

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





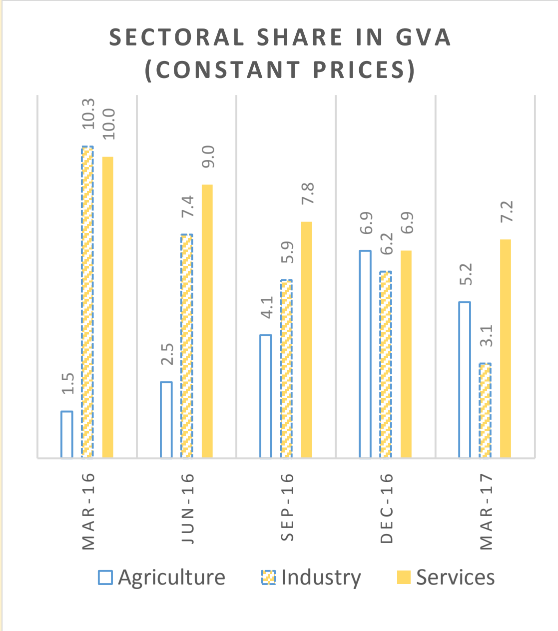
- Real GDP grew by 6.1% in Q4'17 compared to 7.0% in Q3'17 on a y-o-y basis. Inspite of a subdued pickup in real private consumption expenditure which grew by 7.3% in Q4'17 compared to 11.1% in Q3'17 growth was driven by substantial growth rate of government consumption demand which grew by 32% in Q4'17 compared to 21% in Q3'17 on a y-o-y basis. Investment demand in the economy also remained subdued. It declined by 2.1% in Q4'17 compared to a growth rate of 1.7% in Q3'17, on a y-o-y basis. Nominal GDP grew by 12.5% in Q4'17 compared to 10.4% in Q3'17, on a y-o-y basis.
- CSO has also published the Provisional Estimates (PE) for FY'17. This estimate is 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 and grew 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.
- The current growth numbers have incorporated revised WPI and IIP series. However, both the old and new GDP series remained closely alligned.
- Though the growth numbers in FY'17 have been impacted by demonetiszation initiative, optimism prevails with respect to overall economic outlook for FY'18. The second half of FY'18 is expected to witness massive change with Indian economy moving to a new indirect tax regime. There could be an adverse impact on GDP numbers in the near term, as industry prepares for transition to GST

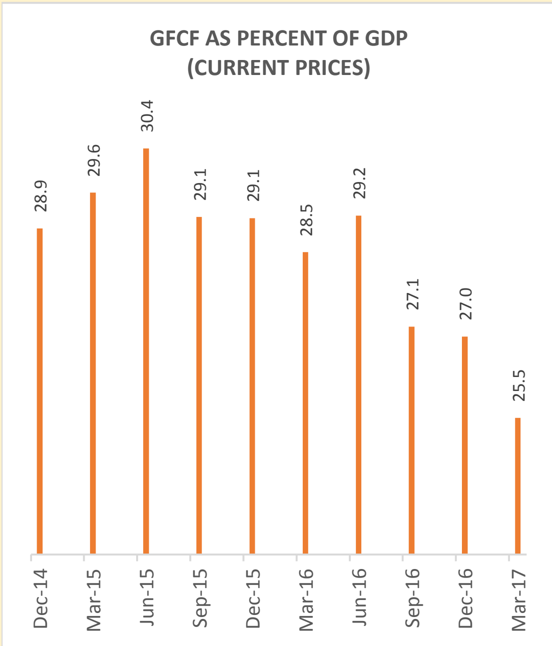
Growth Projections by International Agencies

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

RBI's Assessment of Growth Outlook

- RBI in its Second Bi-monthly monetary policy has revised downwards its projections of growth rate of real GVA FY'18 to 7.3% from its earlier forecast of 7.4%.
- RBI has highlighted several factors which would act as growth stimulators viz. (a) robust government spending (b) structural policy reforms which should crowd in private investment (c) rebounding of discretionary consumer spending along with the pace of remonetisation (d) transmission of policy rate reductions into bank lending rates (e) strengthening of external demand and broadening the recognition of industrial activity with the new IIP.
- However, several downside risks to growth have also been pointed out which might act as growth dampeners in the future. These are (a) elevated global political risks (b) rising input costs and wage pressures, which may act as a drag on the profitability of firms(c) twin balance sheet problems of overleveraged corporates and stressed banking sector that may delay revival in private demand.
- Overall, risks to growth remain evenly balanced.





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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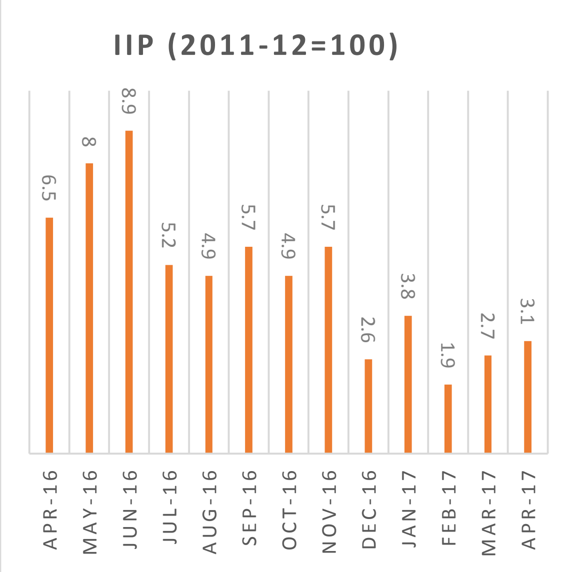
Industrial Production

- IIP grew marginally by 3.1% in Apr’17 compared to a growth of 3.75% (revised) witnessed in Mar’17 and a growth of 6.5% in Apr’16 on a y-o-y basis. The improvement has been largely on account of Electricity generation which grew by 5.4% in Apr’17.
- While it is interesting to see that sectorally all the three sectors namely Mining, Manufacturing and Electricity have registered a positive but weaker growth rate of 4.2% (6.7%), 2.6% (5.5%) and 5.4%(14.4%) respectively, on a y-o-y basis.
- As per use based classification, capital goods production which is used to gauge current investment in the country, contracted by (-) 1.3% in Apr’17 compared to the growth of 8.1% seen on a y-o-y basis. Primary and intermediate goods witnessed an expansion of 3.4% and 4.6% respectively for the same timeframe.
- The sharpest jump was seen in Infrastructure/Construction goods which is the new component in the IIP series which grew by 5.8% in Apr’17, gaining from the favorable base change. The consumer non-durables sector grew by a sharp 8.3% on the back of the strong and robust growth seen in pharmaceuticals, medicinal chemical and botanical products. The consumer durables sector was the worst performing sector in the use based category as it contracted by (-) 6.0% in Apr’17, largely due to the decline seen in the output of axles.
- Looking at m-o-m seasonally adjusted (SA) numbers, IIP declined by (-) 0.21% in Apr’17 compared to (-) 0.15% in Mar’17.
- To bring it in line with other macroeconomic indicators, the index of eight core industries has been revised with the new base year of IIP i.e 2011-12. This index now contributes 40.27% to the total industrial production.
- The index rose by a meagre 2.5% in Apr’17 in comparison to the growth of 8.7% recorded in Apr’16 on a y-o-y basis. The improvement has been due to the strong growth witnessed for fertilizers on account of favorable base effect as well as an improvement for steel sector due to the imposition of anti-dumping duties, which led these sectors to grow by 6.2% and 9.3% respectively on a Y-o-Y basis.
- On the other hand the following sectors namely the coal, cement and crude oil contracted by (-) 3.8, (-) 3.7% and (-) 0.6 in Apr’17 respectively.
- The infrastructure index witnessed a cumulative growth of 4.8% for the FY’17 compared to the 3% growth seen in FY’16 on a Y-o-Y basis.
- India’s manufacturing PMI slipped to a three-month low of 51.6 in May’17 from 52.5 in Apr’17. The decline was largely due to the low rate of expansion in new orders and production.
- On the cost front, business confidence levels improved due to the easing of inflationary pressures and growing business optimism in May’17 which hit a six month high with firms expecting new product launches, machinery acquisition and marketing campaigns.
- The composite PMI, which accounts for both manufacturing and services sector, touched a seven month high to 52.5 in May’17 from 51.3 in Apr’17.
- The rise in the composite PMI was attributed to the pick-up in services index, which rose to 52.2 in May’17 from 50.0 in Apr’17. Faster pace of increase in new business orders and acceleration in employment opportunities helped services activity to grow at a quicker pace in May’17.



IIP-Sectoral Components

	Sectors	Weight	Apr-17	Apr-16	Apr-Mar FY 17	Apr-Mar FY 16
Sectoral	Mining	14.3	4.2	6.7	5.4	4.3
	Manufacturing	77.6	2.6	5.5	4.9	3.0
	Electricity	7.99	5.4	14.4	5.8	5.7
Use Based	Primary	34.05	3.4	12.6	4.9	5.0
	Capital	8.22	-1.3	8.1	3.1	2.1
	Intermediate	17.22	4.6	0.0	3.4	1.5
	Infrastructure/ Construction	12.34	5.8	0.8	3.8	2.8
	Consumer Durable	12.84	-6.0	13.8	5.5	4.2
	Consumer Non Durable	15.33	8.3	0.1	8.8	2.7
	General	**100**	3.1	6.5	5.0	3.4

Core Sector Growth

Sector	Weight	Apr-17	Apr-16	Apr-Mar FY 17	Apr-Mar FY 16
Coal	10.3	-3.8	-1.8	3.2	4.8
Crude Oil	9.0	-0.6	-2.2	-2.5	-1.4
Natural Gas	6.9	2	-6.9	-1	-4.7
Refinery Products	28.0	0.2	19.1	4.9	4.9
Fertilizers	2.6	6.2	-3.0	0.2	7.0
Steel	17.9	9.3	4.5	10.7	-1.3
Cement	5.4	-3.7	4.3	-1.2	4.6
Electricity	19.9	4.7	14.5	5.9	5.7
Infrastructure Index	40.3	2.5	8.7	4.8	3.0

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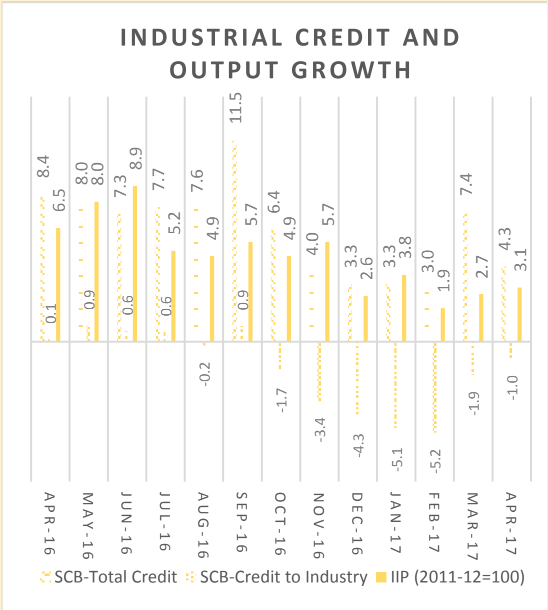
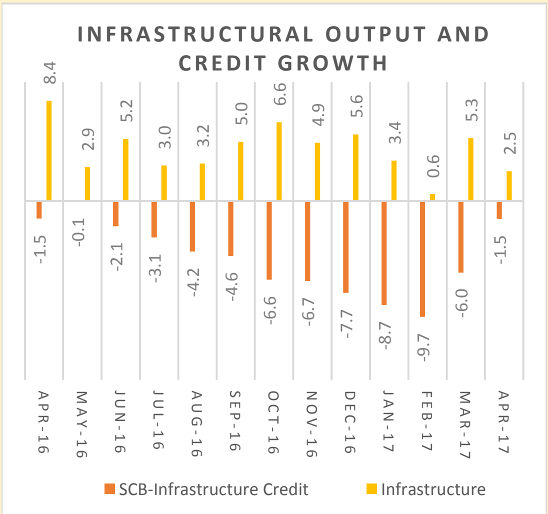
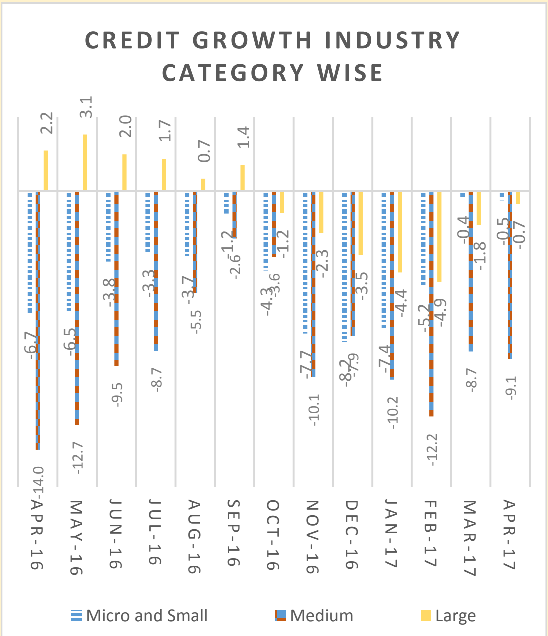
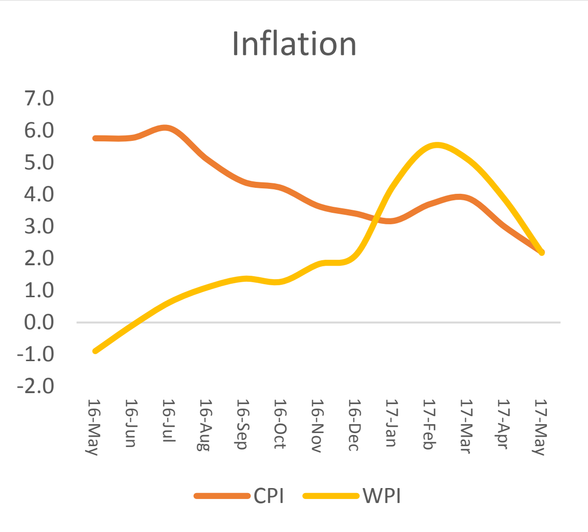


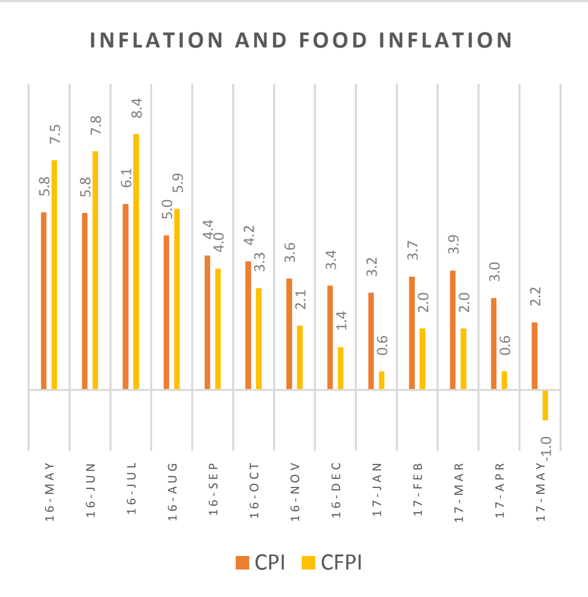


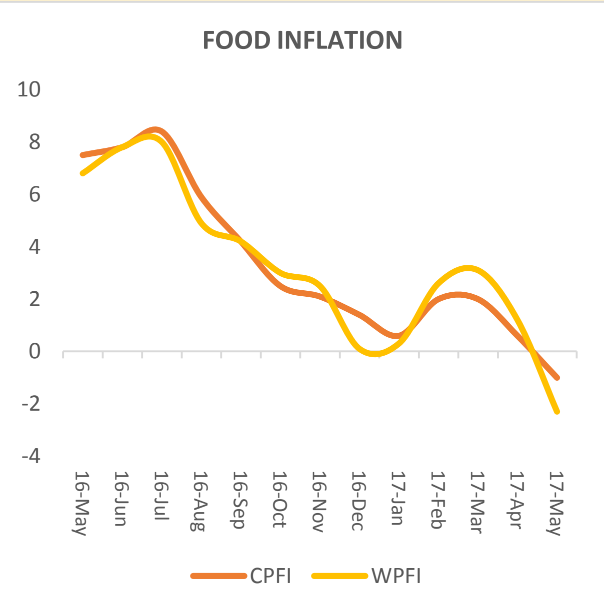


Credit Growth

- Credit growth from the banking system excluding food credit decelerated to 5.0% in Apr’17 from a high of 9.1% in Mar’17 on a y-o-y basis.
- Credit growth from the banking system has moderated to -3.5% for Apr’17 compared to stagnant loan growth at 0% during Apr’16.
- Credit to industry and infrastructure continued to register negative growth while service sector credit growth remained lower at 4.8% in Apr’17 compared to growth of 11.0% in Apr’16.
- Within Services, the segments which exhibited better credit growth in Apr’17 on a y-o-y basis include Professional Services (11.3%), Personal Loan (14.8%) Loan to Housing (13.4%), Consumer Durables (13.5%), Vehicle Loans (14.9%) and Credit Card Outstanding (32.1%).
- It may be observed that professional services, personal loans, loan to housing, and credit card outstanding consumer durables and vehicle loans witnessed accelerated growth, computer software, tourism, shipping, real estate, micro credit and export credit witnessed deceleration in growth.
- Credit to industry contracted by -1.0% in Apr, 1.9% in Mar’17, on the back of - 5.2% in Feb’17, -5.1% in Jan’17 and -4.3% in Dec’16 on y-o-y basis. It is for the ninth consecutive month that credit to industry has contracted.
- Credit growth to all the three categories of industries viz, MSME, Medium and Large, continues to remain negative since Oct’16.
- The MSME and Medium industries which experienced negative credit growth in all months of FY’17, except Mar’17 continued its trend of negative growth in Apr’17.
- Credit growth to large industries which was of a low order but nonetheless positive, turned negative since Oct’16.
- Among the industry groups, Food Processing, Beverage & and Tobacco, Textiles, Leather, Paper and Paper Products, Glass, Metal, Cement, Engineering showed negative credit growth in Apr’17 on y-o-y basis. Amongst these, Food processing and Beverage and Tobacco have been witnessing a declining credit growth for over 15 months. The rest have seen a decline in growth for 5-8 months now.
- Credit to infrastructure sectors is experiencing anemic growth since Apr’16, and it declined to -1.5% in Apr’17. The figure hovered in the 8-10% range between Apr’15 and Mar’16.
- Negative credit growth of around 5% partly reflects poor credit appetite by industry. Poor credit offtake from the banking system is also partly due to the focus on stressed asset management by PSBs which are one of the major financiers of infrastructure projects.
- The various initiatives taken by the Government and RBI for faster resolution of large stressed assets while will give confidence to bankers in expanding the loan book, the agricultural loan waivers announced by a few bigger states would make the Bankers wary about credit discipline.







Inflation

- Inflation softened both at the retail and wholesale level in May'17. Retail inflation as measured by CPI declined significantly to 2.18% in May'17 compared to 2.99% in Apr'17 and 5.76% in May'16 on a y-o-y basis.
- Wholesale inflation edged down to 2.17% in May'17 compared to 3.85% in Apr'17 and -0.9% in May'16 on a y-o-y basis. The buildup inflation rate in headline CPI and WPI was 0.38% and -0.35% respectively. Inspite of waning impact of favourable base, the falling inflation rate has been due to lower food inflation which continued to be impacted by seasonal trends.
- The inflation print for May'17 showed convergence at the retail and wholesale level. This has been primarily due to exclusion of indirect taxes in computation of WPI which has brought the new series much closer to CPI. The trend of major sub-indices also reflected the same. Food inflation at the retail level entered into deflationary territory in May'17.
- Decline in fuel and energy costs also aided the decline in inflation rate. In the CPI basket, it edged down to 5.5% in May'17 compared to 6.1% in Apr'17 on a y-o-y basis, while in the WPI basket, it fell down to 11.7% in May'17 compared to 18.5% in Apr'17 on a y-o-y basis. OPEC's agreeing to an extension of production cut till Mar'18 coupled with better supply side dynamics is expected to have sobering impact on fuel prices in the coming months.
- Deflation rate on a y-o-y basis was observed in prices of vegetables and pulses in the CPI basket. In the WPI basket, apart from food prices, non-food prices also showed the similar deflationary trend. Inflation rate of manufacturing items (excluding food) however remained steady at 2% in May'17 on a y-o-y basis. Though inflation rate eased in major items, slight pressure remained in clothing, housing and items of household goods and services in CPI.
- Core inflation edged down to 4.3% in May'17 compared to 4.5% in Apr'17 and 4.7% in May'16, on a y-o-y basis. A major respite was observed in the inflation rate of transport and communication component which cooled down to 3.5% in May' 17 compared to the stickiness observed in the past few months. Inflation rate of items of personal care also softened considerably to 3.3% in May'17 compared to 4.2% in Apr'17 on a y-o-y basis.
- Inflation rate in the agriculture sector entered into the negative territory. It noted a deflation rate of 1% in May'17 compared to 0.6% in Apr'17 on a y-o-y basis.
- Industry inflation marginally eased to 2.6% in May'17 compared to 2.7% in Apr'17 on a y-o-y basis. However, a notable thing was prices of base metals while showed an uptick in May'17 reversing from previous month's sharp fall.
- Services inflation edged down to 3.8% in May'17 compared to 4.3% in Apr'17 on a y-o-y basis. While inflation rate of household goods and services, recreation and amusement indices continue to exert upward pressure, sobering impact was seen due to moderation in inflation rate of other miscellaneous services.
- Both CPI and WPI Inflation were negative on m-o-m seasonally adjusted (SA) basis. While CPI inflation on m-o-m SA basis was around -0.06% WPI inflation was -1.01% in May'17.

Food Inflation

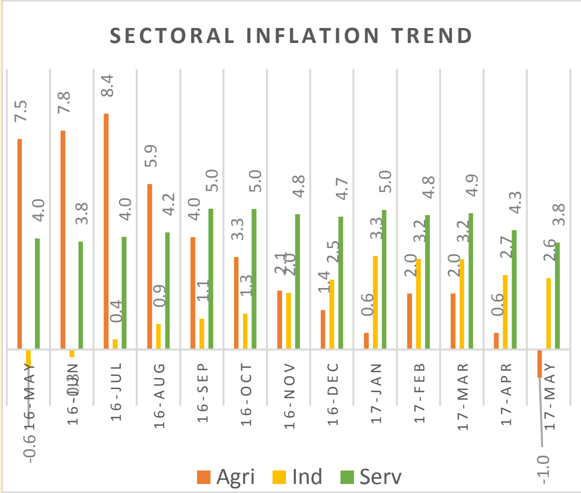
- Food inflation entered into a deflation territory after a span of more than 5 years (CPFI last entered into negative territory in Jan'12). It recorded deflation of 1.05% in May'17 compared to an inflation of 0.61% in Apr'17 and 7.47% in May'16 on a y-o-y basis. WPI Food index also declined by 2.3 % in May'17 compared to 1.2% in Apr'17 and 6.8% in May'16 on a y-o-y basis.
- Annual growth rate of vegetable prices continued its deflationary trend with pronounced decline being observed in potato and onion prices. Government's concerted efforts to check prices of pulses has started showing its impact. For the sixth straight month in a row, prices of pulses remained in the negative territory. Food inflation excluding vegetables rose by 2% in May'17 compared to 2.8% in Apr'17 on a y-o-y basis.
- Prices of protein based consumption items such as egg, milk and milk products softened in May'17. Inflation rate of egg also softened considerably to 0.7% in May'17 compared to 3.4% in Apr'17 on a y-o-y basis.
- Prices of sugar and confectionary rose at its lowest since Mar'16. It recorded inflation of 9.8% in May'17 compared to 11.4% in Apr'17 and 14.1% in May'16 on a y-o-y basis.
- Both CPI and WPI inflation has been negative on m-o-m seasonally adjusted (SA) basis in May'17. Seasonally Adjusted food inflation noted a growth rate of 1.09% in May'17.

Drivers of Food Inflation

- Inflation rate recorded a fresh low in May'17. Bumper crop harvest for second straight year along with prospects of above normal monsoon is expected to keep inflation in check in the near term.
- The lagged impact of demonetization is still playing out in bringing down inflation rate to a record low level. However, few upside risks remain in the coming months with waning of favorable base, fiscal risks emanating from farm loan waivers, stickiness in core CPI, GST, HRA, impact of rate hike by US Fed and uncertain geo-political environment.

Monsoon-South West

- As many as seven international weather forecasting models which had predicted adverse impact of El Nino on south west monsoon in April 2017 are now of the opinion that the threat has reduced significantly. This augurs well for a normal south west monsoon.
- IMD in its latest release on Jun 06, 2017 has upgraded its monsoon forecasts to 98% of long period average (LPA) with a model error of ±4% compared to its previous projection of 96 per cent with a model error of ±5%.
- The spatial distribution of rainfall is also expected to be normal. Region wise, seasonal rainfall is likely to be 96%, 100%, 99% and 96% of LPA over North-West India, Central India, South Peninsula and North-East India respectively, with a model error of ± 8 %. Monthly rainfall is likely to be 96% and 99% of LPA with a model error of ± 9 % for Jul'17 and Aug'17, respectively.
- On a cumulative basis i.e. Jun 01-14, 2017, rainfall was 15% above normal whereas for the current week i.e Jun 08-14, 2017, rainfall was 12% above normal. The IMD had earlier estimated a 38% probability of a near normal rainfall scenario for 2017-18.

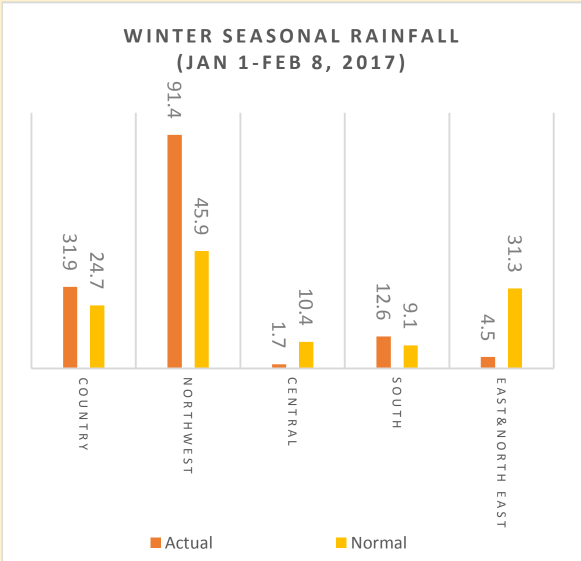


Food Inflation-Converging Trends From WPI and CPI

(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-May	7.5	31.6	2.6	10.8	2.6	9.0	14.1
16-Jun	7.8	26.9	3.1	14.7	2.6	5.5	16.8
16-Jul	8.4	27.5	3.9	14.0	3.5	9.3	21.9
16-Aug	5.9	21.9	4.1	1.0	4.4	9.6	24.8
16-Sep	4.2	14.7	4.3	-6.8	4.9	9.7	26.2
16-Oct	2.5	3.8	4.4	-11.4	4.0	11.0	23.7
16-Nov	2.1	0.2	4.9	-10.3	4.6	8.6	22.4
16-Dec	1.4	-1.6	5.3	-14.6	4.8	6.5	21.1
17-Jan	0.6	-6.6	5.3	-15.6	5.8	2.8	18.7
17-Feb	2.0	-9.1	5.3	-8.3	8.3	0.5	18.7
17-Mar	2.0	-12.4	5.4	-7.2	9.6	3.2	16.9
17-Apr	0.6	-15.9	5.1	-8.6	3.8	3.4	11.4
17-May	-1.0	-19.5	4.8	-13.4	1.4	0.7	9.8
WPI							
Weight	15.2	0.6	2.8	1.9	1.6	0.2	1.1
16-May	6.8	31.2	6.7	13.9	4.3	11.0	23.1
16-Jun	7.8	27.3	9.5	18.6	6.0	4.3	29.8
16-Jul	8.0	35.6	10.4	12.6	9.4	10.5	39.2
16-Aug	4.9	26.2	9.9	-7.7	11.9	9.1	36.8
16-Sep	4.2	19.2	9.4	-9.9	12.8	9.2	34.8
16-Oct	3.0	18.2	8.3	-11.8	6.4	7.5	33.5
16-Nov	2.5	19.0	9.9	-17.3	5.5	4.5	33.0
16-Dec	0.1	14.8	9.9	-26.9	0.6	1.4	27.5
17-Jan	0.3	4.2	8.5	-23.5	1.9	-5.4	25.5
17-Feb	2.6	-2.8	9.1	-8.0	3.6	1.1	24.4
17-Mar	3.1	-7.8	7.6	-0.5	6.0	6.5	21.8
17-Apr	1.2	-13.6	6.9	-7.8	0.1	23.3	13.2
17-May	-2.3	-19.7	4.1	-18.5	-0.7	-1.7	12.8

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



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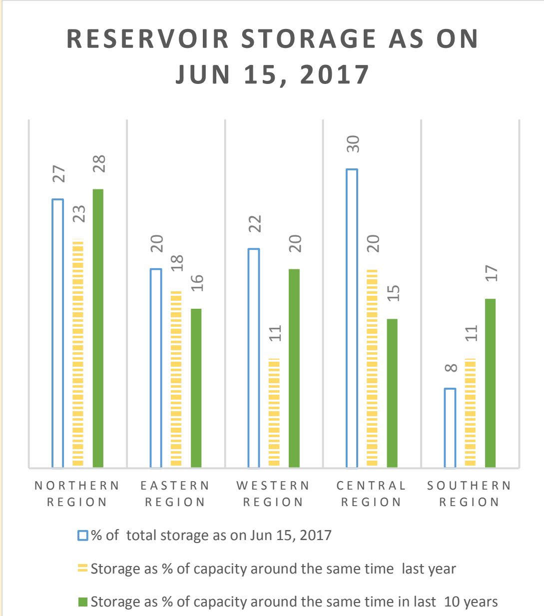
Drivers of Food Inflation

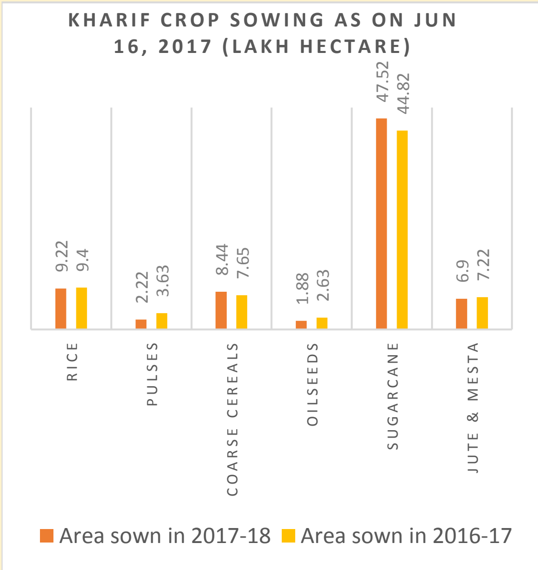
Storage in Reservoirs

- Water level of 91 major reservoirs across the country was 20% of their combined capacity as on Jun 15, 2017. The live storage in these reservoirs is 126% of their live storage in the corresponding period of last year and 107% of storage of average of last 10 years.
- Though water level of major reservoirs remained steady for the week ending Jun 15, 2017 compared to Jun 08, 2017; the overall storage position is better than the corresponding period of last year in the country as a whole and is also better than the average storage of last ten years during the corresponding period.
- The numbers of reservoirs having storage more than last year ware at 60 whereas those having storages more than average of last ten years stood at 54.
- All 91 major reservoirs are having storage less than or equal to 50% with respect to last year as well as with reference to average of last ten years.
- States having better storage than last year for corresponding period are Himachal Pradesh, Punjab, Jharkhand, Odisha, West Bengal, Tripura, Gujarat, Maharashtra, Uttar Pradesh, Madhya Pradesh, Chhattisgarh, and Telangana.



Progress in Cultivation

- As per the data released by Ministry of Agriculture, total sown area as on Jun 16, 2017 under kharif crops stood at 92.85 lakh hectare compared to 87.59 lakh hectare in the corresponding period of previous year.
- The major increase was observed in sown area of cotton and sugarcane, which rose by 4.42 and 2.70 lakh hectares respectively in FY'18 compared to the corresponding period of previous year. While the sown area of pulses, oilseeds and jute and mesta noted decline and stood at 2.22, 1.88 and 6.9 lakh hectare respectively. Sown area of rice declined marginally to 9.22 lakh hectare in FY'18 compared to 9.4 lakh crore in the same period of previous year.

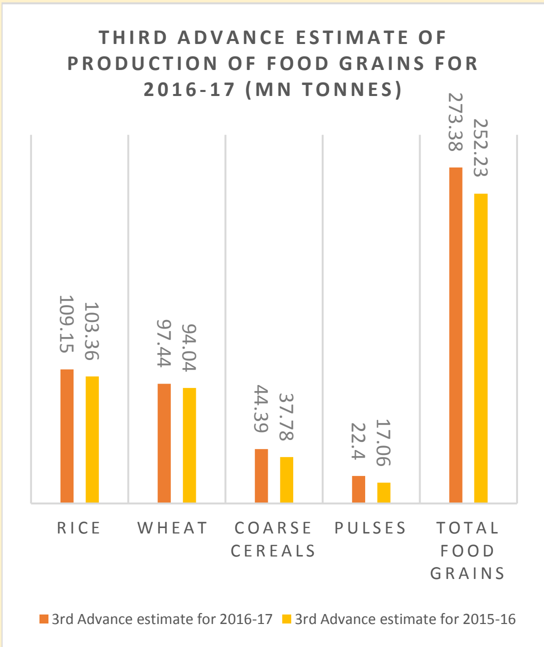


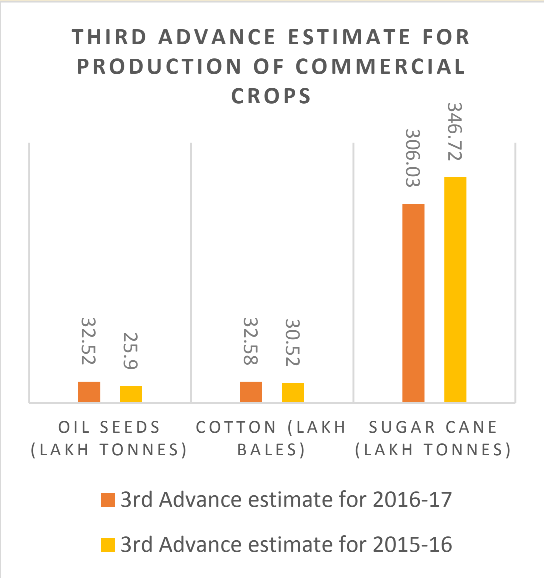
Initiatives for strengthening supply management framework

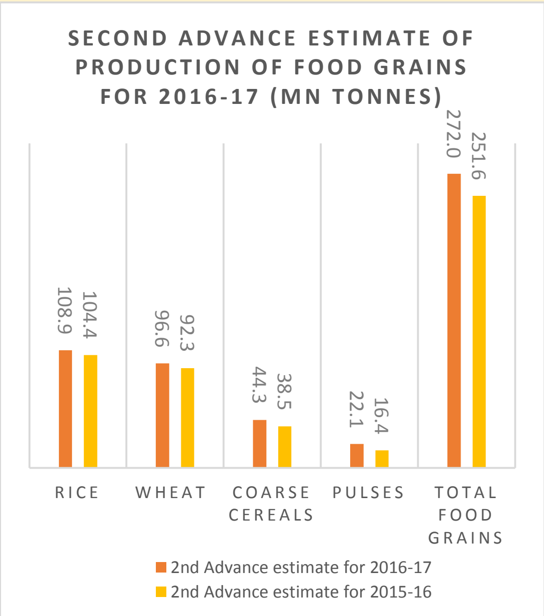
- In an effort to expand the formal credit outreach of farmers, Union Cabinet has approved the Interest Subvention Scheme for farmers for the year 2017-18. This will help farmers in getting short term crop loan up to Rs. 3 lakh payable within one year, at an effective interest rate of 4% per annum. In case farmers do not repay the short term crop loan in time they would be eligible for further interest concession of 2%.

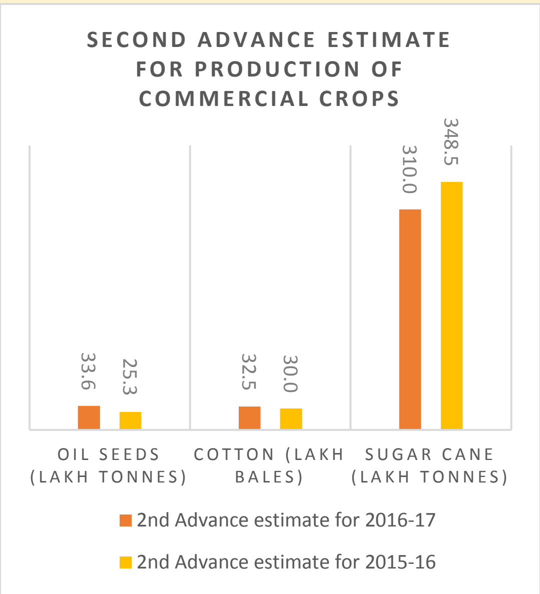
Third Advance Estimate of Agricultural Production in 2016-17

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





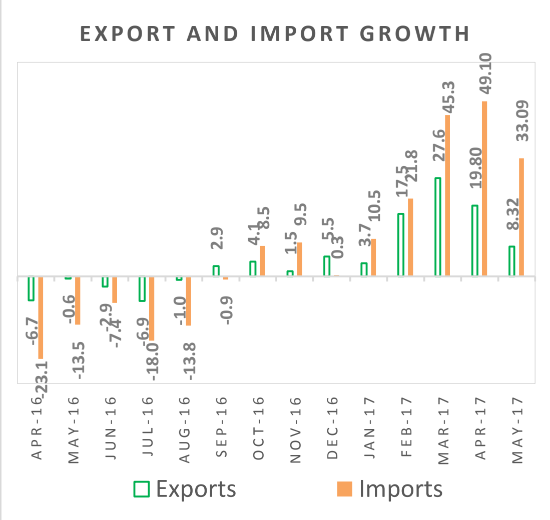




- Barring Gram, production of all foodgrains is estimated to touch new record levels. Rice is estimated to touch a new record at 109.15 MT, wheat at 97.44 million tonnes, pulses at 22.40 million tonnes. However, production of sugarcane has been lower at 42.42 million tonnes lower than last year's production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

RBI's assessment of inflation and rate outlook

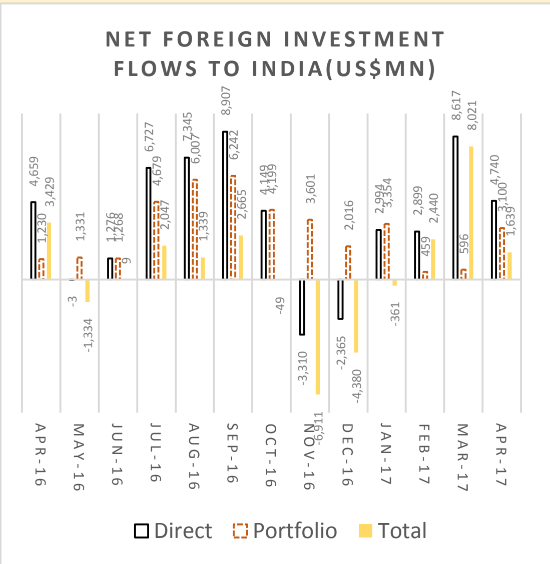
- Notwithstanding the factors supporting a rate cut, RBI preferred to stay put on the current interest rates as it was not too sure whether the softness in inflation observed in Apr'17 will persist.
- RBI adopted a cautious approach to lowering rates at this juncture as it feared loss of credibility. To quote RBI, 'Premature action at this stage risks disruptive policy reversals later and the loss of credibility.'
- RBI has held that it will keep a close watch on the incoming macro data and will be open to an interest rate cut if it becomes assured that inflationary trajectory has shifted downwards on an enduring basis.
- RBI had lowered its inflation projections. Inflation is expected to be in the range bound of 2.0-3.5% in H1'18 compared to its earlier forecast of 4.5% in H1'18. Whereas, in H2'18, inflation is expected to be within 3.5-4.5% compared to its earlier forecast of 5%.
- Forward looking surveys published by RBI has also lowered three months ahead and one year inflation expectations.
- Inflation softening further in May'17 has raised expectations about a rate cut in the third bi monthly policy review in an attempt to be synchronous with the curve. We, however, feel that the sharp decline in food prices which has provided comfort on the inflation front has political economy connotations and will make rate cut decision difficult in the near term.
- Lower prices of food prices has adversely impacted farm earnings, prompting protests by farmers and has resulted in farm waivers being announced by a few state governments.
- Loan waivers have adverse implications for the fiscal scenario of states. Inflationary consequences of deteriorating fiscal situation will constrain RBI to effect a rate cut.



FII and Exchange Rate

Month	FII-Equity	FII-Debt	FII	Re-Dollar Exchange Rate
Apr-16	8416	6418	14834	66.5
May-16	2,543	-4,409	-1,866	66.9
Jun-16	3713	-6220	-2507	67.3
Jul-16	12,612	6,845	19,457	67.2
Aug-16	9071	-2625	6446	66.9
Sep-16	10,443	9,789	20,233	66.7
Oct-16	-4306	-6000	-10306	66.7
Nov-16	-18,244	-21,152	-39,396	67.6
Dec-16	-8176	-18935	-27111	67.9
Jan-17	-1,177	-2,319	-3,496	68.1
Feb-17	9902	5960	15862	67.1
Mar-17	30,906	25,355	56,261	65.9
Apr-17	2,394	20,364	22,758	64.5
May-17	7,711	19,155	26,866	64.42
Jun-17*	3,157	20,929	24,086	64.46

* upto 20 Jun'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 May'17. It may be noted that except in Jan'17, trade competitiveness has deteriorated continuously in 2017, as reflected by a rise in 36-Currency Export and Trade Based Weights REER and also the 6-Currency Trade Based Weights REER.
- India's exports grew by 8.32% in May'17 on y-o-y basis to US$ 24.01 bn, while declining slightly by (-) 2.5% on m-o-m basis. It may be noted that exports have shown positive growth since Sep'16. Non-petroleum and non-gems exports in May'17 grew by 6.77% on y-o-y basis to US$ 17.51 bn.
- Imports grew by 33.09% on y-o-y basis to US$ 37.86 bn in May'17 compared to US$ 25.41 bn in Apr'17. While oil imports grew by 29.54% reflecting the impact of increase in oil prices, non-oil imports grew by 34.03% in May'17 on a Y-o-Y basis. It may be noted that according to World Bank commodity price data, oil prices have increased by 7.94% in May'17 on y-o-y basis following the curbs on production placed by the OPEC.
- A robust growth in non-oil imports by 34.03% on Y-o-Y basis in May'17 provides some indication of economic activity gaining traction, post demonetisation.
- As per data released by RBI, services trade slowed down in Apr'17. While services exports dropped by 9% in Apr'17 compared to a rise of 8.6% in Mar'17, services imports too witnessed a slump of 12.64% in Apr'17 compared to a growth of 14.26% in Mar'17. The trade balance in Services (i.e. net export of Services) for April'17 was estimated at US$ 5.7 bn.

Exchange Rate Outlook

- Indian currency remained in the range of 64.02-64.99/USD. It depreciated by 34 paise to 64.99/USD in the month of May. However, in view of the robust macro fundamentals of Indian economy, rupee strengthened considerably. But in the future, we maintain a depreciating bias for Indian currency in the midst of global uncertainties.
- The hawkish stance of US Fed Reserve along with its unwinding of USD 4.5 trillion balance sheet at the end of the year, is expected to impact adversely the capital account portfolio of India's BoP. The MPC minutes clearly used the term 'imported inflation' to highlight the pass through impact of external factors on domestic inflation rate. This in turn might pose upside risk on exchange rate in the near term.
- The falling crude oil prices is expected to provide respite to the overall outlook. In May'17, the OPEC Reference Basket fell 4.2% to average USD49.20/barrel amidst the prevailing supply glut.
- Balance sheet contraction by Fed can have adverse implications for external stability of the Indian economy.
- Notwithstanding the decision by OPEC and non OPEC members to extend the production cut agreement for nine months beginning July 1, 2017, the supply dynamics has ensured that the new floor for price would be around $50 per barrel range in the near future.
- The risks to external stability at present is evenly balanced given the guidance by Fed and oil price dynamics.

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Fiscal Sector

Preparedness for GST Roll Out

New Laws

- The 17th GST meeting held on June 18, 2017 approved five set of rules which include anti-profiteering clause, appeal and revision, advance ruling, assessment and fund settlement.
- The Anti-profiteering Authority will consist of 5 members comprising four joint secretary level officers who will be members and a Secretary level officer who will act as the Chairman of that body.
- The Authority can order a reduction in prices and ask companies to return money to customers. In case customers do not claim their money or are not identifiable, the money will go into a customer welfare fund.
- The Authority will not only decide on the penalty, which will be levied if the businesses do not pass on the benefit of price reduction to consumer. The Authority will have the power to debar an errant assessee from conducting business if he does not pass on lower prices on account of the GST to customers
- In its meeting held on June 3, 2017, GST Council cleared and finalized some other rules for its new tax framework which includes registration, return, composition, refund, payment, invoice, input tax credit as well as the transition and returns rules.
- In addition to finalizing the rules, the following formats namely the Transition, Return and the GST Mismatch formats have also been published not only to expedite the process but also to ensure smooth transition to this new tax framework.
- The council has even increased the limit under compensation scheme from Rs 50 lakh to Rs 75 Lakh. This will allow the traders, manufacturers and restaurant owners to opt for this scheme and pay taxes at 1%, 2%, and 5% respectively.

Transition Rule

- One of the major concern of the industry was the loss of input tax credit for transition stocks, the stocks purchased prior to implementation of GST. The transition rule states that business will be allowed to claim upto 60% of input tax credit for tax rates (GST rate) which exceed 18% and 40% credit for the rates lower than 18%, on inventories which remain unsold till June 30. This addresses that concern.
- It also gives the businesses a relief to carry forward their credit for the period of 90 days instead of the earlier proposed 60 days.

Rates

- After finalizing the rates for 500 goods, the Council also finalized its decisions (tax rate) on the remaining 6 goods, which will be taxed at the different rates. Footwear below Rs 500 will attract a tax of 5%, those above that cost, will be under the 18% tax bracket.
- A tax of 28% and 18% will be levied on beedis and tendu leaves respectively. Both solar panels and packaged food items will attract a tax of 5%. While biscuits will attract a tax of 18%, natural yarn and man made textiles will be taxed at 5% and 18% respectively.
- In precious metals, while gold will be taxed at 3%, rough diamonds will attract a tax of 0.25%. The council has also reconsidered its decision and slashed the rates on making charges to 5% from 18% earlier.
- The industry largely welocmed the new rates and expects that the overall impact of GST on the gold market will be positive as it will give the requisite boost to the economy by improving supply efficiency and eliminating double taxation (World Gold Council).

Revision in Rates

- The Council slashed the rates of over 66 items including packaged foods such as pickles, sauces as well as on cashew nuts and on tractor components, amongst other goods.
- The Council has also revised the tax rate to be applied on hotels with tariff in the range of Rs 2500-7500 per room per day to 18%, from an earlier rate of 28%. The state run lotteries will now attract a tax of 12%, those run by private players will be taxed at 28%.
- Under the GST framework the following cesses namely the education cess on imported goods, secondary and higher education cess on imported goods, cess on crude petroleum oil, road cess, special additional duty of excise on Motor Spirit and National Contingency Calamity Duty (NCCD) on Tobacco and Tobacco Products and Crude Petroleum Oil will continue to exist.

Preparedness

- Over 65.6 lakh taxpayers out of 80.91 Lakh have been enrolled on the GST portal. Designated steps have been taken by the GSTN (GST Network) to provide cyber security to this network and an additional window of 30 days have also been given to business for registration.
- To ensure timely and smooth rollout of the GST, filing of returns have also been simplified where in the tax payer has to file a simple, self-certified return and an extension for two months has also been granted for the same.
- To smoothen the rollout of GST, Cabinet Secretary has asked different Ministries and Public Sector Undertakings (PSUs) under those Ministries to set-up and activate a GST Facilitation Cell. The Cell is expected to function as the first point of contact for addressing any issue faced by business or industrial sector. The Cell would also be in constant touch with the major industry and business associations related to the respective Ministry and would provide constant support throughout.
- In an effort to deal with sectoral problems, the GST Council has constituted 18 sectoral groups comprising of Banking, Financial & Insurance, Telecom, Exports (incl Export Oriented Units and SEZs), IT & ITes, Transport & Logistics, Textiles, MSMEs, Oil & Gas (upstream & downstream), Gems & Jewellery, services received and provided by government, Food Processing, E-commerce, big Infra, Travel & Tourism, Handicrafts, Media & Entertainment, Drugs & Pharmaceuticals and Mining. These groups are expected to interact and examine representations received from trade and industry associations. They would also prepare sector specific guidance and point out issues which might cause a hurdle in the smooth functioning of GST.
- Apart from Jammu and Kashmir, all the other states have passed the SGST bill.

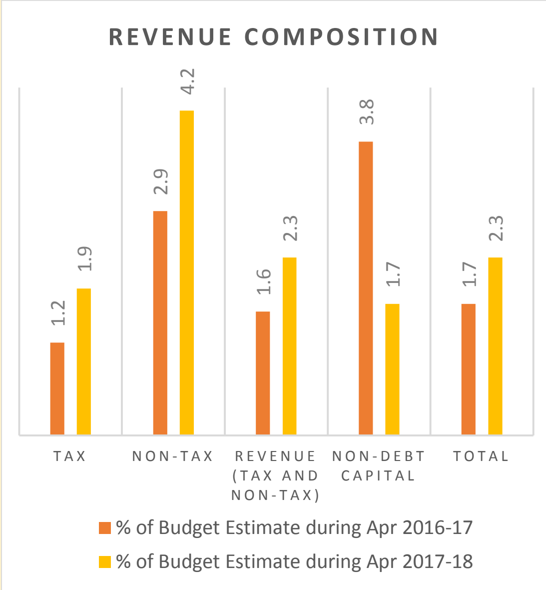
Fiscal Sector

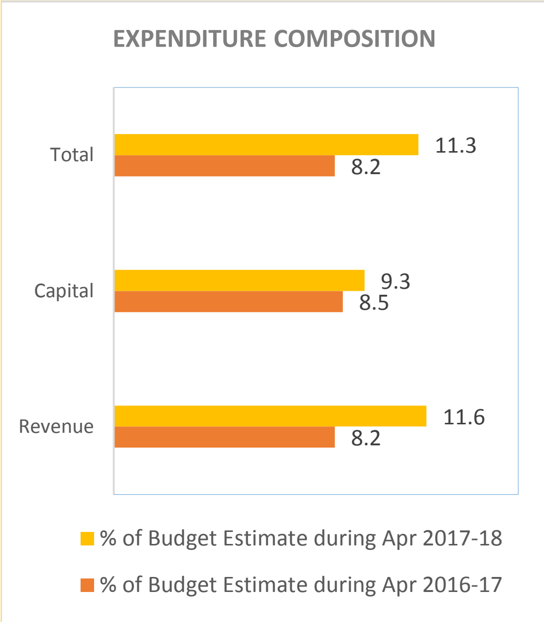
GST Rollout

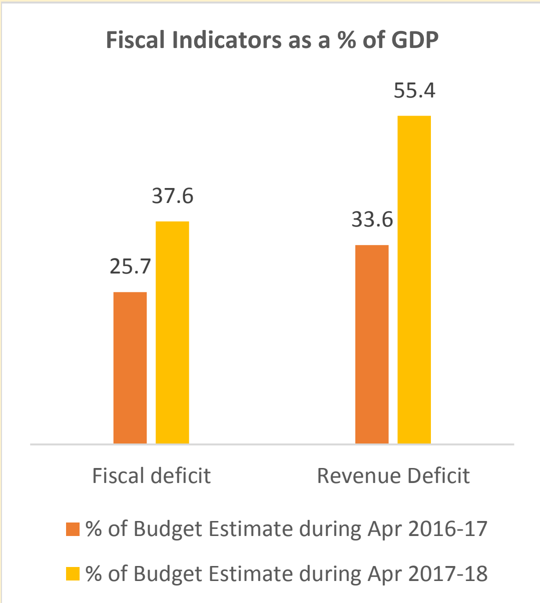
- Some of the challenges ahead of the GST roll out include installation of designated software by traders for filing returns and managing their books. Firms have to ensure that the interface of the GST Network and their own systems works in such a manner that is easier for them to avail input tax credit. While the GSTN has to be well equipped with handling these large set of invoices and pass on the tax credits to the taxpayers.
- While the Government wants to roll out GST on July 1, 2017, Industry has been clamouring to postpone the implementation to September 1, 2017. The demand for postponement is on the account of lack of Technological Readiness, especially for SMEs, Inadequate Awareness about Functioning and Operation of GST and time crunch to prepare for Compliance due to increase in returns to be filed.
- Following **cesses have been abolished** under the new regime:
  - The Rubber Act 1947- Cess on Rubber
  - The Industries (Development and Regulation) Act 1951- Cess on Automobile
  - The Tea Act 1953- Cess on Tea
  - The Coal Mines (Conservation and Develoment) Act, 1974- Cess on coal
  - The Beedi Workers' Welfare Cess Act 1977- Cess levied on Water consumed by certain industries and by local authorities.
  - The Sugar cess Act1982, the Sugar Development Fund Act 1982-Cess on Sugar
  - The Jute Manufacturers Cess Act1983- Cess on Jute Goods manufactured or produced or in part of Jute.
  - The Finance (2) Act 2004- Education cess on Excisable Goods
  - The Finance Act,2007- Secondary and Higher Education Cess on Excisable Goods
  - The Finance Act 2010- Clean Energy Cess
  - The Finance Act 2015- Swachh Bharat Cess
  - The Finance Acct 2016- Infrastructure Cess and Krishi Kalyan Cess

Tax Collection

- Non tax revenue collection was only Rs.0.1 lakh crore or 4.2% of Budget Estimates (BE) during April 2017 compared to Rs.0.09 lakh crore or 2.9% 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.2.05 lakh crore (37.6% of BE) in Apr 2017 .
- Net tax receipts for Apr'17 was Rs0.23 lakh crore or 1.9% of the estimates.
- Total receipts (from revenue and non-debt capital) of the government during the first month came in at Rs 0.36 lakh crore, or 2.3% of the estimates for FY'18.
- Total expenditure of the government in Apr 2017 was nearly Rs 2.42 lakh crore, or 11.3% of the entire year estimate.
- While the revenue deficit for the first month of FY'18 was Rs 1.78 lakh crore or 55.4%, of the budget estimates, the fiscal deficit for the same period was Rs 2.05 lakh crore or 37.6% of the Budget estimate.
- Risk of growing fiscal deficit is also looming over due to the announcement of farm loan waiver by many states including Maharashtra, Punjab, Karnataka and Uttar Pradesh. The central government has clearly stated that these waivers would strictly remain under the purview of state governments and central government will adhere to its fiscal targets. Nonetheless, chances of fiscal slippage remain high on account of the political sensitive nature of loan waivers.







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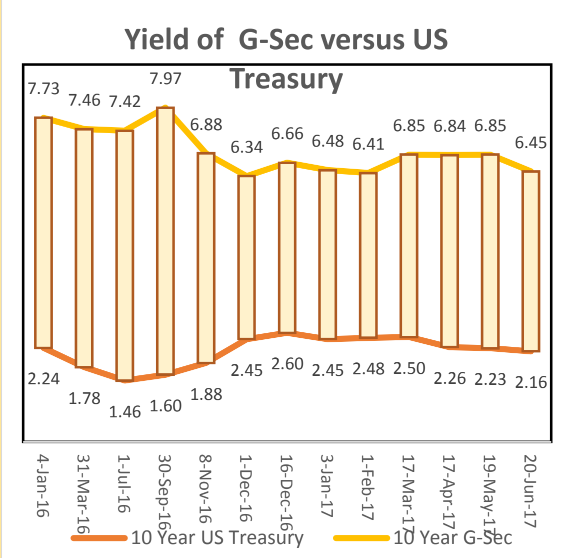
Financial and Commodities Markets

Stock Market

- The BSE Sensex not only crossed the 30,000 benchmark but surged ahead to rule above the mark and continue its upward journey. Between May 19, 2017 and June 20, 2017, the BSE Sensex rose by 2.73% to 31,297.53 points, driven by a host of positive developments in the Indian economy. The steady progress in implementation of GST as well as Government's resolve to address the issue of stressed assets of the Banking sector had a positive impact on the market sentiments. Though, the GDP figures showed the lagged impact of the demonetization and IIP growth also showed weakness, the market sentiments were positive due to prediction of normal monsoon, subdued inflation and RBI adopting a dovish stance despite holding rates steady. Though the US FOMC increased its benchmark rate, the markets remained focused on domestic developments.
- As compared to the broader index, the mid-cap and small-cap indices showed subdued performance by gaining 1.37% and 2.97%, respectively. Among the sectoral indices of BSE, the FMCG index surged by 6% to 10193.68 on June 20, 2017 driven by the expectations that under the GST regime the tax rate would be lower and they can avail input tax credit for certain taxes. Further, the FMCG firms would also benefit from GST by saving on logistic expenses due to smooth supply chain movement and claiming of input tax credit.
- The Bankex surged by 4% due to the measures undertaken by the RBI to address the issue of stressed assets wherein the actions were directed at specific firms with greater amount of stressed assets.
- The Auto index was a major gainer due to expectation of good monsoons, higher rural incomes and government thrust in agricultural and rural sectors is likely to push tractor demand up. Further, the global output and trade is expected to be higher in 2017 and 2018 as compared to the recent past. This augurs well for Auto sector. However, the implementation of GST is expected to have adverse impact on this sector as the tax rate would be higher under the new regime. The GST also posed new challenges for the Auto sector. As GST rolls out on 1 July 2017, automobile dealers can claim only about 60% input tax credit on unsold pre-GST stock held until then. Dealers, fearing the time-consuming tax adjustments between the pre- and post-GST regime, are hence offering hefty discounts to clear existing stock.
- The DIIs continued to be net buyers of equities in the first two months of FY18 while FIIs are net sellers. In May'17, DII had a net buy position of Rs 4277 crore while FII were in sell position to the extent of Rs 452 crore. Till June 20, 2017, again the FIIs had a net sell position of Rs 2,591 crore while DII had a net buy position of Rs 4,343 crore. This implies that the BSE Sensex journey beyond 30,000 mark is primarily driven by DIIs.
- The Asset under Management (AUM) of Mutual Funds as of May 31, 2017 stood at Rs 19.03 lakh crore registering a growth of 38% on y-o-y basis. The AUM touched Rs 10 lakh crore in May'14 and within three years, it has jumped to Rs 19.03 lakh crore.
- Going forward, the implementation of GST, progress of monsoon and first quarter performance of corporates are expected positively impact the market sentiments.
- The downside risks to the equity market is the adverse implications from increased geo political risks.

Financial and Commodities Markets



Gold

- Prior to GST, the overall tax rate on gold jewellery were 12.2%. This is made up of 10% customs duty, 1% excise duty, and 1.2% VAT. GST replaces the excise duty and VAT components but customs duty is applied separately. The headline gold rate of 3% announced on 3rd June was welcomed by the industry. The 18% tax on making charges which was subsequently revised downwards to 5% has helped to support growth sentiments in this industry.
- As per World Gold Council (WGC), GST may be disruptive in the short term as the industry adjusts to the new tax regime. Manufacturers' and retailers' working capital could be tied up because of inter-state gold stock transfers. Small-scale artisans and retailers with varying degrees of tax compliance may struggle to adapt. Consumers and jewelers may try to conduct recycling transactions under the counter, away from the prying eye of the tax man.

Financial and Commodities Markets

Bond

- The G-Sec yields came down as the CPI and new WPI with revised base showed softening bias due to lower vegetable prices and lower base effect. The old 10-year bond yields slipped from 6.86% on May 20, 2017 to 6.62% on June 20, 2017.
- All the government auctions during the month were fully subscribed with tenors ranging from 5 years to 34 years.
- On June 12, 2017, a switch operation of GoI securities was conducted with a scheduled commercial bank. Securities having face value of about ₹ 17,000 crore maturing in 2017-18 have been switched to longer tenor securities maturing in 2024-25 and 2029-30 at FIMMDA/ Market prices. In the Union Budget 2017-18 has provided ₹ 1,00,000 crore for buyback and switch operations.

Please refer page No. 24 for disclaimer.

Financial and Commodities Markets

Bond

- Lower than expected inflation, predictions of timely and normal onset of monsoon as well as expectations of a rate cut in the forthcoming policy have resulted in easing of g-sec yields.

Drivers of International Crude Oil Prices

- In its 172nd meeting OPEC and 11 non OPEC members extended the cut crude oil production for nine months beginning July 1, 2017 after the initial six months of output reductions failed to reduce the excess crude stockpiles and was not enough to balance the market.
- During the initial six months, despite compliance by OPEC and non-OPEC members which sought reduction in supply of about 1.8 million barrels a day from the market, the price movements remained range bound. The effort was undermined by resurgent U.S. production, weak fuel demand and robust OPEC exports.
- It is expected that the combination of seasonal demand growth and the nine-month extension will pare down global stockpiles. However, given the dynamics operating in the oil markets, it is expected that the new floor for price would be around $50 per barrel range.
- The success of the extension hinges on the strong compliance by the member countries that would lead to draw down of stockpiles. However, there are supply concerns as Nigeria and Libya are exempt from cutting production as they sought to restore exports that had been hampered by domestic conflicts.
- As per U.S. Energy Information Administration estimates, there are large number of about 5,946 wells in US which are drilled but not yet completed which represent the potential supply and would constrain support to crude prices beyond US$50 per barrel.
- Oil prices fell to seven-month lows in June 2017 after news of increases in supply by several key producers such as Nigeria and Libya that has undermined attempts by OPEC and other producers to support the market through reduced output.
- As per June edition of EIA's Short-Term Energy Outlook (STEO), given the extended production cuts, EIA now forecasts OPEC members' crude oil production to average 32.3 million b/d in 2017 and 32.8 million b/d in 2018. EIA expects a small inventory built up in 2018.

Implication of Oil price hike on India

- It may be noted that price of Indian basket of crude had increased by 12% between May'16 and May'17. However, between Apr'17 and May'17, crude prices dipped by around 4.0%.
- 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.
- From June 16, 2017, the prices of petrol and diesel are revised daily revision from fortnightly revision. This will facilitated in ensuring that the product prices would reflect exchange rate fluctuations without any delay. It is expected that this would lead to better stock management. Besides India, US and Australia also revise their fuel prices on a daily basis.

RBI-Policy Rates

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

Policy Rates and Ratios (%)

Repo- 6.25

Reverse Repo- 6.00

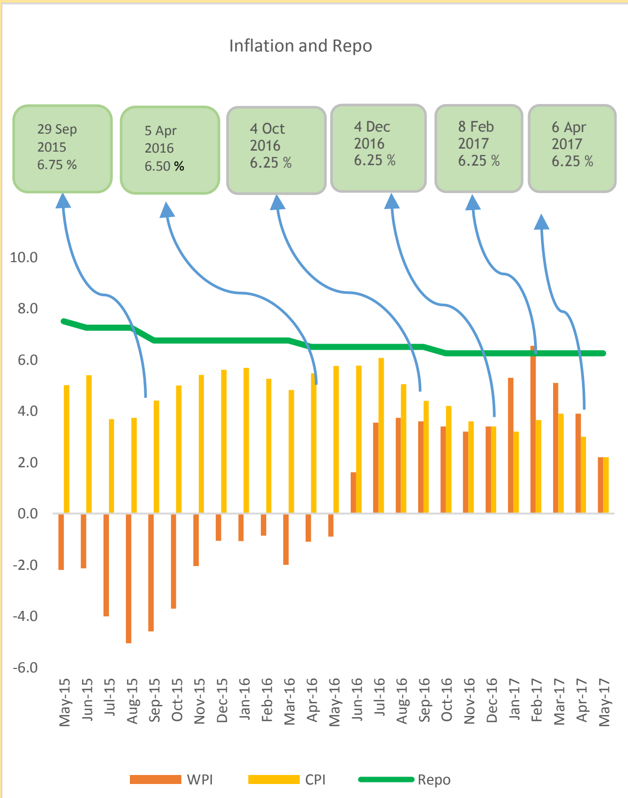
Bank rate -6.50

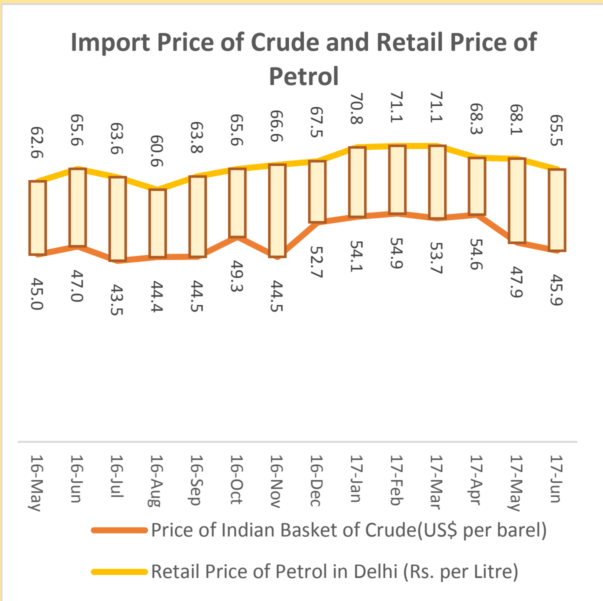
MSF- 6.50

CRR- 4

SLR- 20

Repo and Inflation Dynamics





Rate Decision by Major Central Banks

RBI

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

FED

- The Federal Open Market Committee's (FOMC) in its meeting during Jun 13-14, decided to raise the federal funds rate by 25 bps to a target range of 1-1.25%, which presently stand at 0.91%. The last rate hike were effected in Mar'17.
- The Fed, however, kept the stance of monetary policy remained accommodative in line with the FOMC's mandate of maintaining price stability and fostering maximum employment. The Committee at present expects to commence normalisation of balance sheet ($4.5 trillion) towards the end of this year, provided the economy would remain broadly in line with its expectations. It has also expressed that the near term risks to the economic outlook remains roughly balanced.
- Fed plans to achieve balance sheet normalisation by initially setting a selling cap of $10 billion a month consisting of $6 billion from treasuries and $4 billion from mortgage bonds. It will continue expand this pace and by $10 billion every three months, till it reaches the $50 billion a month.
- The Committee's growth projections for US economy increased a little in comparison to its Mar'17 projections from 2.1% in March to 2.2% for 2017. While it remained unchanged at 2.1% and 1.9% for 2018 and 2019 respectively.

BoE

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

Rate Decision by Major Central Banks

ECB

- The Governing Council of the ECB which is the main decision making body of ECB, on June 8, 2017 left the interest rate unchanged on the main refinancing operations, interest rates on marginal lending facility and deposit facility at 0.0%, 0.25% and -0.4% respectively.
- The governing council, however, decided to continue its asset purchase program at a new monthly pace of € 60 bn. (as against the previous level of € 80 bn.) till Dec'17 or beyond, in line with its growth and inflation dynamics,.
- It has also revised downwards its inflation forecast to 1.6% in 2019 from 1.7% level projected in March due to decline in energy prices.

BoJ

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

PBOC

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

Banking

Competition in the Lending Space

- Among select 12 banks (6 from the PSB space and 6 New Private Banks), four banks revised their 1 year MCLR, two banks each revised their base rates and FD rates for 1-2 years.
- While two banks lowered and another two banks increased their one year MCLR. While Bank of India lowered its FD rate for 1-2 years, Kotak Mahindra increased the same.
- Base rates of these banks varied within a range of 155 bps. HDFC Bank had the lowest base rate at 9.00% and IndusInd Bank had the highest base rate at 10.55%.
- SBI had the lowest MCLR rates at 8.00% in the 1-year tenure and IndusInd Bank continued to have the highest MCLR rate at 9.10% in the 1-year tenure.
- MCLR varied within a range of 110 bps. Range among the 12 banks with respect to variation in deposit rates remained at 40 bps for term deposits of tenure between 1 year-2 years and for less than Rs. 1 crore.

Innovation

- **Hike Messenger partners with YES Bank to launch in-app Wallet**- It was reported on Jun 21, 2017 that Hike-the Indian WhatsApp rival-will offer payment facilities to its 10 crore users through the Unified Payments Interface (UPI) by partnering with Yes Bank. The app enables instant bank-to-bank transfers. The wallet which is built in the app can be accessed to transfer money, recharge phones and make payment of phone bills. This makes Hike Messenger, the first messaging app in India to have a payments facility.
- **Punjab National Bank signs $100 mn loan with ADB for solar rooftop systems** - Punjab National Bank and Asian Development Bank have signed a $ 100 mn loan agreement on May 31, 2017 to finance solar rooftop systems in India. The loan will guaranteed by the Central government. The $100 mn loan is the first part of the multi-tranche finance facility amounting to $500 million i.e. Solar Rooftop Investment Program (SRIP) that was approved by ADB in 2016. The entire SRIP will cost $1 billion, inclusive of $500 million funding by ADB. The projects financed under the program will install solar rooftop system with a capacity of around 1 GW capacity. In terms of benefits to the environment, greenhouse gas emissions will be reduced by around 11 million tonne of carbon dioxide over a period of 25 years. Huge potential for expansion of solar rooftop technologies in India accompanied by a sharp drop in the price of solar panels are the motivation for ADB to finance the project.

Initiatives

- **Karnataka Bank to launch Aadhaar-enabled ATMs -** As reported on Jun 16, 2017, Karnataka Bank is in the process of launching around 100 Aadhaar-enabled ATMs in the near future. The Bank will be collaborating with an ATM service provider and the National Payments Corporation of India to launch this initiative. Already 3 mn of the 8.2 mn customers of the Banks have been linked to the Aadhaar. The Bank plans to set up around 30% of the Aadhaar-enabled ATMs in rural and semi-urban centres. These ATMs enable customers to transact through biometric authentication, where the need of a debit card and ATM PIN is eliminated. An Aadhaar Card and fingerprint can be used for cash withdrawals and other transactions at these ATMs. DCB Bank had launched similar Aadhar enabled ATMs in Bengaluru in Jun 2016, after a pilot in Mumbai in April 2016.
- **Risk weights and Loan-to-Value ratios eased for home loans -** During the second Bi monthly monetary policy review on June 7, 2017 RBI lowered the risk weights for home loans with prospective effect. This was done to support higher growth by encouraging the housing sector as home loans are characterised by low delinquency and large linkage effect. It was also decided to reduce the standard asset provisioning rate on such loans. As per the revised guidelines, loans upto Rs. 30 lakh with a loan to value ratio (LTV) of less than or equal to 80% would attract a risk weight of 35%. Whereas for the same outstanding amount i.e. Rs. 30 lakh, with a different loan to value ratio greater than 80% and less than or equal to 90%, risk weight would be 50%. For loans between 30-75 lakh, with a LTV of less than or equal to 80% will attract a risk weight of 35%. For loans above 75 lakh with a LTV less than or equal to 75%, a risk weight of 50% would be applied. For each case, there will be a standard asset provision of 0.25%.
- **NPCI to launch RuPay Credit Card by July 2017-** On June 15 2017 it was reported that NPCI is expected to commercially launch its RuPay credit card in about a month. Currently pilot project of RuPay credit cards is going on in partnership with 10 PSBs and Co-operative banks. As of now NPCI offers RuPay debit cards. NPCI had launched its debit card RuPay in April 2012. According to some estimates there are 775 million debit cards operating in the domestic market as compared to only 25 million credit cards in the domestic market. NPCI's RuPay credit will come in four variants. The high end variant will offer insurance upto Rs.10 Lakh. NPCI is also offering "tap to go" cards to facilitate easy travel in Kochi Metro. Similar cards will be offered for the BMTC (Bengaluru Metropolitan Transport Corporation) in Bengaluru.

- **Bank of Baroda to raise Rs.9000 crore via FPO and AT-1 Instruments in FY 2017-18 -** On May 28, 2017 it was reported that Bank of Baroda plans to raise up to Rs. 9000 crore by March 31, 2018. Of this Rs.9000 crore, Rs.6000 crore is planned to be raised through multiple modes, including Follow-on Public Offer (FPO) and Rs.3000 crore will be raised through Additional Tier-1 (AT-1) capital instruments. Issuing AT-1 bonds is advantageous for banks as in times of stress, banks can write off such investments or convert them into common equity after RBI's approval. Bank of Baroda plans to issue bonds in India and/or overseas in tranches.

Development

- **12 out of 51 banks score high in providing best customer services -**, Banking Codes and Standards Board of India (BCSBI) an independent body set up by the RBI, released its report "BCSBI Code Compliance Rating-2017" on June 13 2017. This Report has ranked individual banks (PSBs/SUCB/Private/Foreign) based on their performance under 5 parameters: information dissemination, transparency, grievance redressal, customer centricity and customer feedback. Only 12 out of 51 banks surveyed, received a "high" rating. Only 1 PSB (IDBI Bank) managed to make it to the list of those 12 banks. Rest all were private or foreign banks. High rankers included private banks such as, RBL Bank, Axis Bank, HDFC Bank, DCB Bank, IndusInd Bank, Kotak Mahindra Bank, ICICI Bank, Yes Bank, Standard Chartered Bank, HSBC and Citibank. Amongst the public sector banks, SBI and Bank of Baroda scored an "above average" rating. PNB and Canara Bank scored an "average" rating.

- **CCI Approves KBM's Stake Buy in Its Insurance Arm -** Kotak Mahindra Bank (KMB) on June 16 2017 got approval from Competition Commission of India (CCI) to buy 26% of Old Mutual Plc's stake in Kotak Life Insurance for Rs.1293 crore. Old Mutual Plc, an international long-term savings, protection and investment group holds 26% stake in the total paid-up share capital of the life insurance firm and the remaining 74% is directly or indirectly held by KMB.
- **7 PSBs Likely to Miss August Deadline to Meet 25% Public Float Norm-**It is reported that 7 public Sector Banks (PSBs) are expected to miss the August 21 2017 for bringing down the central government stake to 75%. On August 22 2014, Ministry of Finance had notified an amendment to the Securities Contracts (Regulation) Rules, 1957, according to which "every listed public sector company which has public shareholding below 25%, on the date of commencement of the Securities Contracts (Regulation) (Second Amendment), Rules, 2014, shall increase its public shareholding to at least 25%, within a period of three years, in the manner, as may be specified, by the Securities and Exchange Board of India." 7 PSBs in which central government had stake higher than 75% as of March 2017 are: United Bank of India (85.23%), Indian Bank (82.1%), Bank of Maharashtra (81.61%), Central Bank of India (81.28%), Punjab & Sind Bank (79.62%), Indian Overseas (79.56%) and UCO Bank (76.67%). To reduce the stake banks can go for follow-on public offer, offer for sale through stock exchanges, institutional placement programme, rights issue (with promoters forgoing their rights entitlements) and bonus issue (with promoters forgoing their bonus entitlements).

Regulatory Development

- **Aadhaar made mandatory for new bank accounts -** The Central Government in consultation with the RBI has amended the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 on Jun 1, 2017. As per the amendment, both Aadhaar and the Permanent Account Number (PAN) will be required for purpose of identity verification for opening of new bank accounts. New applicants will be required to provide the Aadhaar number or proof of Aadhaar enrollment. The revised rules have also mandated existing bank account-holders to provide their Aadhaar details by December 31, 2017. As per the directions of the Department of Revenue, Ministry of Finance, small accounts can be opened in the absence of Aadhaar card only at bank branches that are on the Core Banking Solution platform or in branches where it is "possible to manually monitor" such accounts. The guidelines further state that it is to be ensured that that foreign remittances are not credited to these small accounts and that the stipulated limits on monthly and annual transactions and balance are not breached.
- **Financial Resolution and Deposit Insurance Bill 2017 proposed by Union Cabinet -** With a view to provide a comprehensive resolution framework, Union Cabinet on Jun 14, 2017 approved a proposal to introduce the Financial Resolution and Deposit Insurance Bill 2017. The proposed Bill is expected to complement the Insolvency and Bankruptcy Code, 2016 by providing a resolution mechanism for financial entities. It would also pave the way for setting up of Resolution Corporation. Apart from this, the Bill seeks to repeal the Deposit Insurance and Credit Guarantee Corporation Act, 1961 to transfer the deposit insurance powers and responsibilities to the Resolution Corporation.

- **RBI approves INFOMERICS as a rating agency-** The number of domestic credit rating agencies for the purpose of assigning risk weights for computing capital adequacy of banks has been increased from six to seven as Infomerics Valuation and Rating Pvt Ltd received approval from RBI on Jun 13, 2017, to function as a full service rating firm. The other six rating agencies include CARE, CRISIL, FITCH India, ICRA, Brickwork Ratings and SMERA.

Please refer page No. 24 for disclaimer.

Development

- **Federal Bank to raise Rs 4000 crore debt -** On June 7 2017 it was reported that Federal bank is planning to raise Rs.4000 crore by issuing debt securities. The Board of the Bank has already approved the fund raising plan. The Bank management will seek shareholders' approval in the forthcoming annual general meeting. To quote a statement by the Bank in this regard, "raising of funds by way of issuance of debt securities including but not limited to non-convertible debentures, tier II bonds, long term bonds (infrastructure and affordable housing), masala bonds, green bonds up to Rs. 4,000 crore in Indian currency in one or more tranches in domestic/overseas market on private placement. Two days later, on June 9, it was also reported that the bank has received an approval for raising another Rs.2500 crore via equity sale. This will be done through rights issue, private placement, preferential issue, public issue, follow in public issue, GDR, ADR or any other combination. Through various fund raising means, the bank expects to achieve 12.5%-13% capital adequacy.

- **'Digi-Prayas' initiative launched by Axis Bank -** Axis Bank launched Digi-Prayas, a three month drive to impart financial literacy to 80,000 people across the country as reported on Jun 3, 2017. Apart from Financial literacy, Digi Prayas will involve, digital awareness and ability to use various modes of digital banking such as UPI, USSD and mobile based banking. 'Digi-Prayas' will be implemented in 24 selected villages across the country, Axis Bank, additionally, is in the process of setting up a digital banking ecosystem comprising business correspondents, EDC/POS devices, micro ATMs in the selected villages as a part of the programme. Activities like awareness sessions, workshops on digital modes of financial transactions, educating citizens about government policies and digital banking options in addition to training customers and merchants to access electronic payment systems such as IMPS, UPI, Bank PoS machines etc are a part of the literacy drive.

- **SBI to procure 6 lakh fingerprint scanners-** It was reported on Jun 26, 2017 that SBI is planning to procure 6 lakh fingerprint scanners to boost its rural banking business and digital payments channel. The biometric fingerprint scanners are expected to facilitate various Aadhaar based transactions from different channels as well as cashless merchant payments. Customers who opened accounts under the Pradhan Mantri Jan Dhan Yojana (PMJDY) can be reached out under the financial inclusion scheme by business correspondents (BCs) appointed by the Bank. Physical and digital forms of 'Acceptance Touch Points' which include Digital PoS (Bharat QR and Aadhaar Pay), regular PoS terminals, etc. are in the development pipeline.

- **Paytm applies for money market mutual fund licence** - It is reported on Jun 20, 2017 that Paytm has applied for licence to set up a money market mutual fund. The decision to tap the wealth management market is gided by the motivation to increase revenues from the short term securities market. The money market mutual fund generally provide higher interest than regular savings balances. It may be noted that Paytm also offers 'Digital Gold' which it launched in April 2017 to allow its customers to digitally trade gold through its platform.

SEBI seeks replies from Yes Bank, ICICI and Axis Bank on bad loan divergences - On June 2 2017 it was reported that SEBI has sought explanation from Yes Bank, Axis Bank and ICICI Bank on the divergence in assessment of NPAs by RBI and the concerned Bank for the financial year ending March 2016. It may be noted that RBI on April 18 2017 had issued a Circular in which it had instructed banks to make a disclosure in their financial statements if the divergence exceeded 15%. In case of Yes Bank, the divergence between RBI's assessment of Yes Bank's NPAs and bank's own assessment for the same was 558% (Rs.4176 crore vs Rs.749 crore reported). In case of Axis Bank divergence was reported to be of the order of 156% (Rs.9478 crore more than reported), and for ICICI Bank it was 19.5% (Rs.5105 crore more than reported). Yes Bank and ICICI Bank have disclosed these divergences in their Annual Report in the "notes to accounts" section, while Axis Bank is yet to come out with its Annual Report.

- **Reconstitution of Overseeing Committee**- RBI reconstituted the Overseeing Committee on Jun 22, 2017 with an expanded mandate to review resolution of cases where the aggregate exposure of the banking sector to the borrower exceeds Rs. 500 crore, in addition to cases falling under the purview of Scheme for Sustainable Structuring of Stressed Assets (S4A). The numbers of members in the panel has been increased to five from the existing two and will be headed by a Chairman. The Committee will work through multiple benches to deal with the large volume of cases referred to it.

- **Transactions to be recorded in passbook/ statement of account** – With the objective of improving customer service, RBI in a notification dated Jun 22, 2017 has specified the minimum required details for recording of transactions in passbook/statement of account of customers. Debit entries will include nature and reason of various bank charges, recovery of loan instalments with name of the loan account holder and the loan account number. Credit entries should reflect reversal of wrong debits with date and reason, mentioning of interest paid on savings account or fixed deposit, receipt from third parties mentioning the mode of transfer, name of remitter and that of the transferor bank.

Annex-2
Base Rate and MCLR of Select Banks

Name	Effective from	1 Y - MCLR	Effective from	Base Rate	Effective from	FD Rate for 1-2 years
Bank of Baroda	07-Jun-17	8.35	01-Jul-16	9.60	May-17	6.90
Bank of India	07-Jun-17	8.40	31-Mar-17	9.55	Apr-17	6.80
Canara Bank	07-Jun-17	8.40	01-Apr-17	9.40	May-17	6.80
Punjab National Bank	01-Jun-17	8.35	01-Jan-17	9.35	May-17	6.80
Union Bank of India	01-Jun-17	8.40	01-Feb-16	9.30	May-17	6.80
State Bank of India	01-Jun-17	8.00	01-Apr-17	9.10	Mar-16	6.90
Axis Bank	17-Jun-17	8.25	05-Apr-17	9.15	Dec-16	7.00
HDFC Bank	07-Jun-17	8.15	31-Mar-17	9.00	Jan-17	6.95
ICICI Bank	01-Jun-17	8.20	03-Jan-17	9.25	May-17	6.90
IndusInd Bank	01-Jun-17	9.10	17-Jan-17	10.55	Jan-17	7.15
Kotak Bank	01-Jun-17	8.90	14-Jun-17	9.20	Jun-17	6.75
Yes Bank	01-Jun-17	8.90	05-Oct-15	10.25	Nov-16	7.10

Note- All Banks in this sample except Kotak Mahindra Bank, Yes Bank and IndusInd Bank offer 4% interest rate on SB deposits. Yes bank offers 6% p.a interest rate on Saving Bank accounts for account balance of over Rs. 1 lakh. Kotak Mahindra bank offers 6% p.a interest rate on Saving Bank accounts for account balance of over Rs. 1 lakh and 5% p.a. interest rate on Saving Bank accounts for account balance upto Rs. 1 lakh. IndusInd Bank offers 5% interest rate on Saving Bank accounts for account balance of over Rs. 1 lakh - Rs. 10 lakh and 6% for account balance of over Rs. 10 lakh.

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

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

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

AXIS Bank offers 7.00% for term deposits of 1 year to less than 18 months, 7.10% for term deposits of 18 months to less than 2 years.

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

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

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

Kotak Mahindra Bank offers 6.75% for term deposits of 365 days to 389 days, 6.90% for 390 days, and 6.50% for term deposit of 391 days to 2 years.

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

Figures are in per cent.

Please refer page No. 24 for disclaimer.

Annex-2

Monthly Macro Indicators

Indicator	16-May	16-Jun	16-Jul	16-Aug	16-Sep	16-Oct	16-Nov	16-Dec	17-Jan	17-Feb	17-Mar	17-Apr	17-May
Production													
IIP (2011-12 Base)	8.0	8.9	5.2	4.9	5.7	4.9	5.7	2.6	3.0	1.9	3.8	3.1	
Infrastructure (2011-12 Base)	5.2	7.0	3.1	3.1	5.3	7.1	3.2	5.6	3.4	0.6	5.3	2.5	
Prices													
WPI(2011-12 Base)	-0.9	-0.1	0.6	1.1	1.4	1.3	1.8	2.1	4.3	5.5	5.1	3.9	2.2
CPI	5.8	5.8	6.1	5.1	4.39	4.2	3.6	3.4	3.2	3.7	3.9	3.0	2.2
Agriculture (2011-12 Base)	7.5	7.8	8.4	5.9	4	3.3	2.1	1.4	0.6	2.0	2.0	0.6	-1.0
Industry(2011-12 Base)	-0.6	-0.3	0.4	0.9	1.1	1.3	2.0	2.5	3.3	3.2	3.2	2.7	2.6
Services (2011-12 Base)	4	3.8	4	4.2	4.5	4.6	4.8	4.7	5	4.8	4.9	4.3	3.8
Banking													
Reverse Repo (Rs. Mn)	48331	104234	96493	55863	99851	108037	187952	216296	127612	135769	349833	372570	198219
Repo (Rs. Mn)	143911	53418	51953	64906	66210	98619	68773	47167	22413	24692	21492	13753	31364
Aggregate Deposits	8.9	9.7	9.6	8.8	13.8	10	17.8	17.4	16.11	15.1	18.2	13.7	
Total Credit	8	7.3	7.7	7.6	11.5	6.4	4	3.3	3.3	3	8.1	4.3	
Non Food Credit	8.4	7.9	8.3	8.2	10.8	6.7	4.8	4	3.5	3.3	9.2	5	
Industrial Credit	0.9	0.6	0.6	-0.2	0.9	-1.7	-3.4	-4.31	-5.1	-5.2	-1.5	-1	
Infrastructure Credit	-0.1	-2.1	-3.1	-4.2	-4.6	-6.6	-6.7	-7.66	-8.7	-9.7	-5.4	-1.5	
Service Credit	9.3	9.2	10.8	12.1	18.4	9.3	7.1	8.31	8.1	7.7	18.2	4.8	
Leading Indicators													
Manufacturing PMI	50.7	51.7	51.8	52.6	52.1	54.4	52.3	49.6	50.4	50.7	52.5	52.5	
Service PMI	51	50.3	51.9	54.7	52	54.5	46.7	46.8	48.7	50.3	51.5	50.2	
Composite PMI	50.9	51.1	52.4	54.6	52.4	55.4	49.1	47.6	49.4	50.7	52.3	51.3	
Services													
Passenger Traffic: All Airports	17.5	16.8	23	19.6	20.8	19.7	18.6	19.9	21.4	13.5	12.8	13.5	
Foreign Tourist Arrivals	3.8	7.4	17.1	11.8	13.3	10.3	9.2	13.6	16.5	12.9	11.9	25.0	
Goods Traffic Movement by Railways	-0.6	3	-1.9	-3.7	-2.7	-2.6	5.5	-0.1	0.34	3.5	7.7	4.6	3.9
Automobile Sales: Total	7.7	7.2	8.9	16.8	15.8	7.2	-4.2	-16	-5.13	2.4	2.9	9.5	9.6
Automobile Sales: Passenger Vehicle	5.2	7.6	13.9	18.9	20.7	6.2	5.8	4.3	14.56	8.7	11.0	14.4	9.3
Automobile Sales: Commercial Vehicle	15.1	7.3	2.1	2.4	0.4	13.5	-7.1	-5.7	-2.42	5.7	6.7	-24.9	-9.3
Automobile Sales: Two Wheelers	8.7	7.9	9.2	18.6	17.2	7.5	-5.2	-19.7	-7.72	2.1	2.3	10.4	11.0
Automobile Sales: Three Wheelers	-9.9	-6.6	-8.9	-11.9	-16.1	-2.1	-22	-37.3	-26.91	-22.2	-23.09	-6.2	-6.8
External													
FDI-Equity (US $mn)	2078	2340	4179	4901	5247	6300	4782	3451	4088	1322	2560	3323	
FII-Net Portfolio Investment(US $mn)	-1622	-279	2267	1558	2884	-40	-6902	-4371	-389	2454	9034	2653	
ECB(US $mn)	1318	1072	1203	3173	2463	1771	488	2801	1816	2227	3347	1305	
Exports	-1.6	1.5	-6.9	0.1	4.7	8.8	2.5	6.4	5.1	22.5	27.2	17.9	8.3
Imports	-13.4	-8.0	-19.3	-13.6	-0.9	10.7	12.0	1.2	10.6	21.2	45.3	46.8	33.1
Trade Balance(US $mn)	-6273	-8187	-7667	-7752	-8855	-11137	-13421	-10456	-9639	-7688	-10524	-13249	-13842
Rupee-Dollar Exchange Rate	66.91	67.30	67.21	66.94	66.74	66.75	67.63	67.90	68.08	67.08	65.88	64.50	64.42
Rupee-Pound Exchange Rate	97.25	95.55	88.52	87.80	87.72	82.52	84.02	84.74	83.86	83.82	81.24	81.54	83.21
Rupee-Euro Exchange Rate	75.69	75.57	74.36	75.00	74.83	73.61	73.14	71.60	72.33	71.46	70.34	69.17	71.17
REER 36 Country (Trade Based Weight) Base 2004-05=100	114.45	115.07	116.10	116.07	116.22	117.33	117.63	117.72	116.44	117.29	119.39	121.82	120.92
Forex Reserves Outstanding*(US $bn))	361	361	365	367	370	367	365	360	361.56	362.8	370	373	379

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

*Jan 2017 figures refer to reserves **382** as on June 16, 2017.

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.

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Notes

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