बैंक ऑफ़ बड़ौदा
Bank of Baroda
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Economic Intelligence

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MONTHLY MACRO INSIGHTS

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In Brief

Global growth and trade prospects are expected to be sequentially better in 2017. Crude oil prices are expected to hover around US$55 per barrel in the first half of 2017 given the current dynamics of global demand and supply. Inward looking policies seem to be sparking animal spirits within USA but issues related to their practicability have also created policy uncertainty for now and might very well create external instability in developing countries in the near future. Union Budget adhered to the path of fiscal prudence but just fell short of the 3% Fiscal deficit target laid out in the fiscal consolidation roadmap. Overall, stimulus to consumption and investment from the Budget is positive for growth. The lower market borrowing envisaged in the Budget augurs well for inflation. Nonetheless, stubborn core inflation at around 5%, prompted RBI to change its stance from accommodative to neutral and adopt status quo on policy rates approach in the sixth bi monthly policy review. RBI had shown greater tolerance to CPI inflation deviating from the 4% mark, within the2-6% range in its fourth bimonthly review in October 2016. In the latest review, RBI has conveyed its resolve to achieve the 4% inflation target on a durable basis. With a firmer commitment to the 4% target within flexible inflation targeting framework coupled with the shift in stance from accommodative to neutral and impending upside risks to inflation from basic metal , Oil and housing, RBI has conveyed the almost end of the easing cycle. We were expecting a rate cut that is more of a technical nature to bring parity in the interest rate spectrum, which has been achieved by the hawkish stance. The rupee has been appreciating in the recent past, which is more due to weakness of dollar owing to policy uncertainty in USA which has caused robust FII in flows in February reversing the negative trend observed for last four months during Oct 2016 and Jan 2017. The change in monetary policy stance and increased share of capital expenditure in the Budget is welcome for higher sustainable growth. Going forward early and effective resolution of stressed assets of banks and adequate recapitalization of banks is needed to support growth which will have a bearing on growth and stability.

TABLE-1
FINANCIAL AND COMMODITIES MARKETS – POST BUDGET

	31-Jan 2017	1-Feb 2017	9-Feb 2017	20-Feb 2017
Call	6.02	6.05	6.08	5.98
G-Sec	6.4	6.41	6.81	6.86
Dollar	67.81	67.64	67.01	66.97
Pound	84.84	84.95	83.81	83.19
Crude	53.96	54.26	54.23	54.97
Sensex	27655	28141	28329	28661
Gold	29450	29450	12750	29800

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

Key Takeaway

- Union Budget 2017-18 broadly treaded the path of fiscal consolidation. Stimulus to consumption and investment coupled with lower market borrowing envisaged in the Budget augurs well for growth and macroeconomic stability. In sum, the budget is progressive in nature with its emphasis on inclusive development.
- RBI kept the policy repo rate unchanged at 6.25% as it changed monetary policy stance to neutral from accommodative and has communicated greater resolve to achieve the 4% inflation target on a durable basis in its sixth bimonthly review on Feb 8, 2017.
- CPI Core inflation has been stubborn at around 5% for the past five months and WPI inflation has also crossed 5% in Jan 2017. With a firmer commitment to the 4% target within flexible inflation targeting framework coupled with the shift in stance from accommodative to neutral and impending upside risks to inflation from basic metal , Oil and housing, RBI has conveyed the almost end of the easing cycle.
- Crude oil prices is expected to hover around US$55 because of increase in non-OPEC production despite conformity of more than 90% to agreed production cut by OPEC members

Inside

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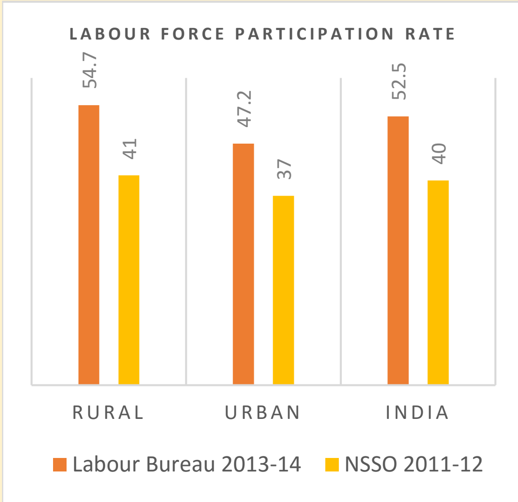
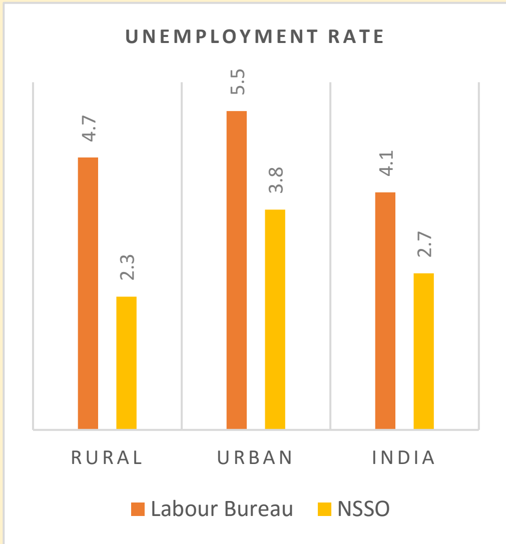
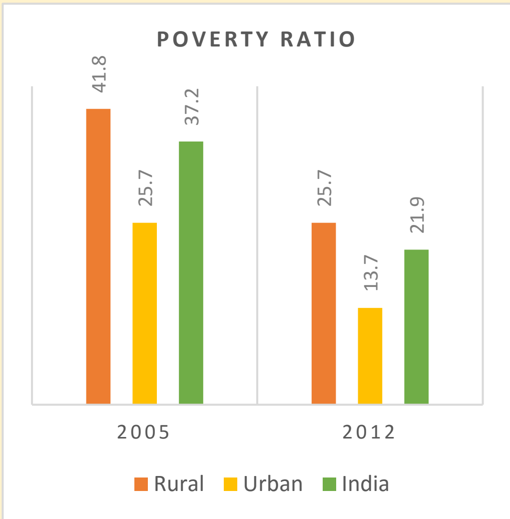
Key Takeawy

- The latest reading for World trade Outlook Indicator (WTOI) at 102.0 for the month of November suggest that trade growth will be above trend in Feb-March 2017. The WTOI has been consistently rising for the past two quarters suggesting global trade is gaining traction.
- RBI has projected CPI Inflation in the range of 4-4.5% in H1 of 2017-18 and in the range of 4.5-5% in H2 of 2017-18.
- Economic Survey expect real GDP growth to be in the range of 6.75 - 7.5% for FY 2018 and RBI expects it to be at 7.4%. RBI has lowered its Real GVA growth for 2016-17 has been revised downwards to 6.9% in 2016-17.
- IIP dipped sharply to (-) 0.4% in Dec'16 following a positive growth of 5.7% in Nov'16 and a negative growth of (-) 1.82% in Oct'16 on y-o-y basis.
- On the whole the December IIP degrowth remains a cause for concern as cumulative growth for April-Dec this fiscal at 0.3% is even lower than 3.2% recorded for the same period last fiscal.
- Manufacturing PMI which had gradually declined from 54.6 in Oct'16 to 52.3 in Nov' 16 and 49.6 in Dec' 16 reversed course and again crossed the 50 mark in Jan' 17 suggesting mild expansion to reach 50.4. The PMI for Jan'17 suggests that adverse effect of demonetisation on manufacturing activity, might be weathering.
- Credit growth from the banking system decelerated to 3.3% in Dec'16 from an already low 4.0% in Nov'16 on a y-o-y basis. The stagnancy in credit growth seen in the current financial year to the levels not seen for a period more than couple of decades.
- Credit growth to infrastructure has been negative in each of the nine months and was -4.1% during Apr-Dec, FY'17 compared 8.7% during Apr-Dec, FY'16.
- Credit growth to all the three categories of industries viz, MSME, Medium and Large has been negative beginning with Oct 2016.
- With a more than 5% reading, WPI inflation has now reached a stage of concern. The surge in WPI has been majorly driven by the spike in oil prices and sugar which have increased rather drastically thereby negating the effect of the sharp dip in prices of vegetables, onions, potatoes and oil seeds.
- As per preliminary reports received from the States, the total area sown under Rabi crops as on 3rd February, 2017 stands at 645.12 lakh hectares as compared to 610.44 lakh hectare this time in 2016.
- As a result of very good rainfall during monsoon 2016 and various policy initiatives to ensure availability of inputs post demonetisation, India is expected to witness record foodgrain production in 2016-17. As per Second Advance Estimates for 2016-17, total Foodgrain production in the country is estimated at 271.98 million tonnes which is higher by 6.94 million tonnes than the previous record production of Foodgrain of 265.04 million tonnes achieved during 2013-14.
- Export growth surged in Jan' 17 by 4.32% as against a growth of 5.7% in Dec' 16 on a y-o-y basis to US$22.11bn. Exports have positive growth consecutively for the past five months reflecting global growth gaining some momentum.
- The tenth meeting of the GST council held on 18 Feb'17 approved only one draft law pertaining to compensation to the states for revenue loss following implementation of GST

Indian Economy-Structural Coordinates







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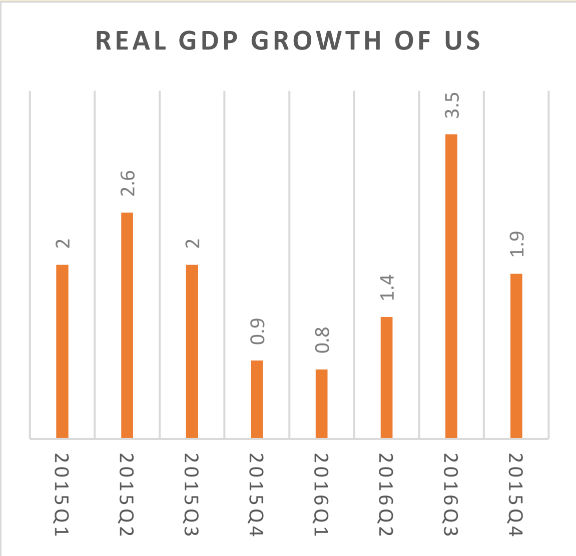

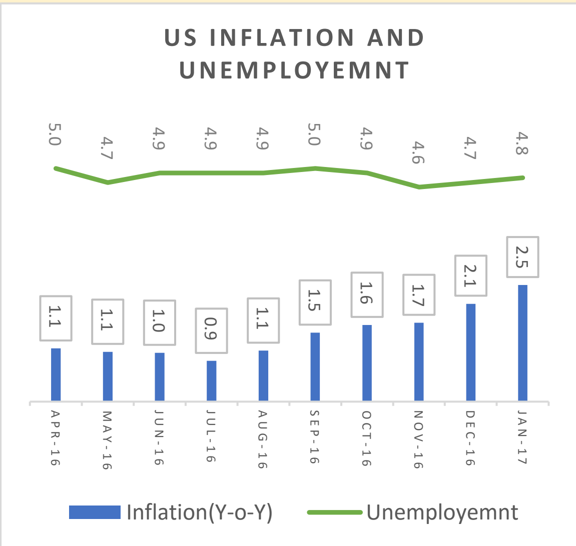

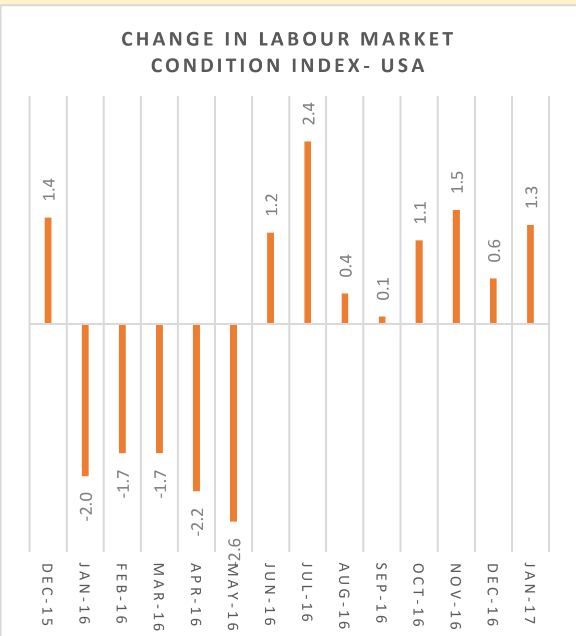

Global Developments

Growth

- IMF in its update on World Economic Outlook published on Jan 16, 2017 had projected economic activity to gather momentum in 2017 and 2018, especially in emerging market and developing economies.
- Global growth is projected to grow by 3.4% in 2017 and 3.6% in 2018 from an estimated 3.1% in 2016.
- IMF expect growth to be widely diverse due to policy uncertainty in US and its ramifications on the global economy.
- The IMF Chief, Christine Lagarde at World Government Summit held at Dubai on Feb 12, 2017 held that US economic growth prospects are expected to be better under the new tax policies and planned additional investment in infrastructure. The policies of the new administration are expected to stoke inflation.
- Pick-up in inflation would lead to US Fed increasing rates fatser that would be a challenge for other parts of the world especially the developing economies which are short of dollar supply. She also expressed concern about the upcoming European elections given the recent populist shift.
- World Bank and UN in the Jan 2017 also expect Global growth to be better in 2017 compared to 2016. Details are given the January Edition of this publication.

Unemployment

- Both headline as well as a broader indicator of labour market conditions indicate improved labour market conditions in USa beginning with June 2016
- The seasonally-adjusted unemployment rate in the 19 member euro area declined to 9.6 % in December 2016 both on a sequential (9.7 % in Nov'16) and y-o-y basis (10.5 % in Dec' 15).
- Unemployment rate in the 28 member European Union was 8.2 % in December 2016, stable compared to November 2016 and down from 9.0 % in December 2015. Among the Member States, the lowest unemployment rates in December 2016 were recorded in the Czech Republic (3.5 %) and Germany (3.9 %). The highest rates were observed in Greece (23.0 % in October 2016) and Spain (18.4 %).

Food

The Global Food Price Index released by Food and Agriculture Organisations (FAO) increased by 2.1% sequentially and 16.4% on y-o-y basis in Jan'17 to reach 173.8. This is highest growth in the index since February 2015. The surge has been contributed by sugar (9.9% seq), cereals (3.4% seq) and vegetable oils (1.8% seq).

Commodities

- In its publication, 'Gold Demand Trends Full Year 2016', the World Gold Council has reported that gold demand in calendar year 2016 increased by 2.2% on y-o-y basis to reach a 3-year high of 4,308.7 tonnes.
- Around 70% increase in investment has offset the drop in demand for jewelry by 15% and bars and coins by 2% leading to an increase in overall demand. The gold price increased 8% despite gold supply increasing 5% on y-o-y basis. Having risen by 25% till the end of Sept' 16, gold relinquished some of its gains in Q4 following President Trump's conciliatory acceptance speech and Fed's rate hike in Dec'16.

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World Trade Outlook

The major observations in the Trade Statistics and Outlook published by WTO on Feb 14, 2017, are:

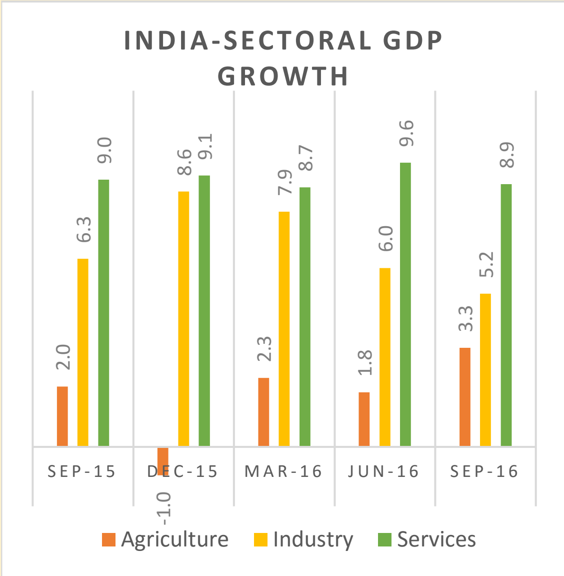
- The latest reading for World Trade Outlook Indicator (WTOI) at 102.0 for the month of Nov 2016 suggest that trade growth will be above trend in Feb-March 2017. The WTOI has been consistently rising for the past two quarters suggesting global trade is gaining traction.
- It may be noted that WTOI is a leading indicator of world trade, which provides guidance on the trajectory of merchandise trade 3 to 4 months ahead.
- WTOI is published with a 3 months lag. The latest WTOI for November 2016 was published on Feb 14, 2017. WTOI was 99 at the time of its first ever publication by WTO in July 2016. In its first update in Nov 2016, WTOI improved to 100.9 for Aug 2016 and subsequently in its second update in Feb 2017 to 102.0 for Nov 2016.
- It may be noted that 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.
- The WTO's approach in calculating the WTOI is similar to that used in PMIs. WTOI is based on six key trade-related indices:
    1. Export orders reported by central banks and national statistics agencies in leading manufacturing economies;
    2. International freight tonne kilometres reported by the International Air Transport Association (IATA);
    3. Total container throughput from a dozen major shipping ports, in twenty-foot equivalent (TEU) units;
    4. Automotive vehicle sales and/or production figures in major markets;
    5. Customs data on electronic components trade, in physical units; and
    6. Customs data on trade flows for agricultural raw materials.

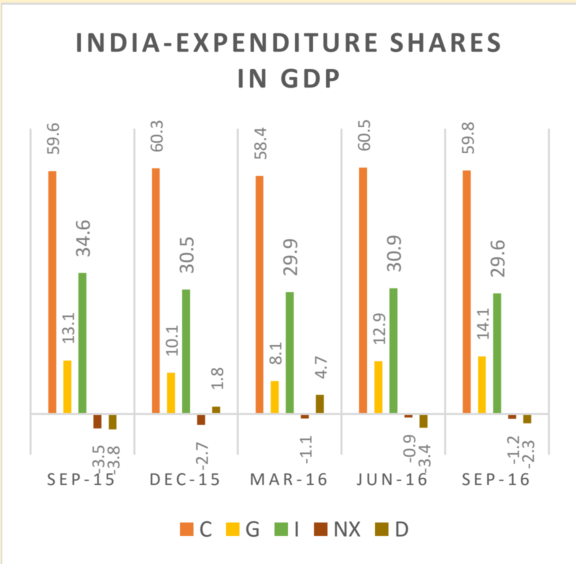
All data in the WTOI are of monthly frequency and are seasonally adjusted and rebased to 100.

- Four of the six component indices of the latest WTOI improved sequentially in Nov. Air freight, automobile sales, export orders and container shipping are all moving in a positive direction above trend and rising. Data on international freight tonne kilometres from the International Air Transport Association (IATA) suggests that European air carriers posted strong growth. Container port throughput of major ports has largely recovered from its recent slump while the automobile index has also rebounded after dipping in the middle of last year. On the other hand, indices for electronics and agricultural raw materials trade are both below trend.
- The WTO trade forecast issued on 27 September last year foresaw world merchandise trade growth of 1.7% in 2016 and growth between 1.8% and 3.1% in 2017.The WTOI currently suggests that trade volume may begin to recover in the fourth quarter once data become available. Any such rebound would have to be fairly strong for trade growth in 2016 to match the 1.7% increase forecast by the WTO last September.
- 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. As such, it complements trade statistics and forecasts from the WTO and other organizations.

World Trade Outlook Indicator

Drivers of Trade	Level of Index		
	16-Jul	16-Nov	17-Feb
Merchandise trade volume	96.9	97	97.4
Export Orders	101.3	101.8	102.2
International air freight (IATA)	98	103.2	105.8
Container port throughput	97.1	99.3	101
Automobile production and sales	100	99.6	103.1
Electronics components	95	100.4	99
Agriculture raw materials	106.5	103.1	99.2
WTOI	99	100.9	102





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India's Growth Outlook

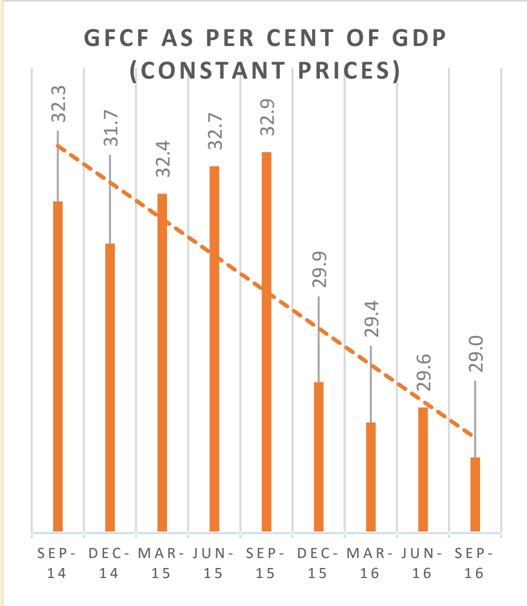
Economic Survey 2016-17

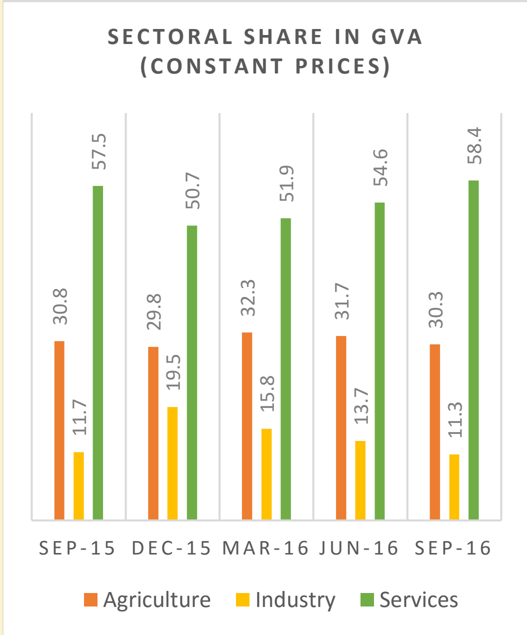
- Economic Survey 2016-17 expects real GDP growth to be in the range of 6.75 - 7.5% for FY 2018 driven by.
- Improvements in the export sector on the back of rising global economic activity. As per the IMF's World Economic Outlook in January 2017, global growth is projected to increase from 3.1% in 2016 to 3.4% in 2017. Indian exports could have a share in the higher global growth in 2017, thus increasing by 1%.
- The behaviour of consumption expenditure is unclear. Revival of discretionary consumption is expected to improve with remonetistion gaining pace in a scenario where borrowing costs have been lowered. This will drive spending on housing and consumer durables. The risks to a downward trend in consumption is the projected rise in international oil prices.
- Subdued private investment could be partially reinstated by higher government spending depending upon the balance of the fiscal policy.
- GDP growth in 2016-17 as per Advanced Estimates released by CSO on Jan 6, 2017 is expected to be 7.1% as compared to 7.6% in 2015-16.
- GVA growth is projected to be 7.0% in 2016-17 as compared to 7.2% in 2015-16. GDP growth signified investment continues to be subdued.
- The primary growth driver of the Indian economy, consumption spending supposed to be boosted by better monsoon and implementation of 7th Pay Commission recommendations has been adversely affected, due to demonetisation. More specifically, discretionary spending has suffered given the cash crunch.
- Moreover, while the private investment continued to languish, higher government spending will lend some support to the growth momentum.

RBI's Assessment of Growth Outlook

While assessing the macroeconomic impact of demonetization, RBI in its Sixth Bi-Monetary Policy 2016-17 on Feb 08, 2017 has held that

- Real GVA growth for 2016-17 has been revised downwards to 6.9% in 2016-17.
- Real GVA growth for 2017-18 is projected at 7.4% for 2017-18 with risks evenly balanced around it.
- RBI has held that the sharp recovery in growth will be driven by four factors. These are
  (a) bounce back of discretionary consumer spending held back by demonetisation
  (b) restoration of economic activity in cash sensitive sectors such as retail trade, hotels and restaurants and in the unorganised sector
  (c) decline in MCLR on account of increase in banking liquidity post demonetisation and
  (d) emphasis on increasing capital expenditure, boosting rural economy and affordable housing in a fiscally prudent Union Budget 2017-18.





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

Component	Attribute	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Consumption Spending	Share	59.6	60.3	58.4	60.5	59.8
	Growth	9.5	13.6	14.3	11.7	12.4
Investment Spending	Share	32.1	30.3	31.4	30.9	30.7
	Growth	7.4	1.5	-2.1	-2.4	-4.1
Government Spending	Share	12.2	10.0	8.5	12.9	14.7
	Growth	5.8	6.6	6.4	24.3	20.8
Exports	Share	19.4	19.1	19.7	20.0	20.2
	Growth	-6.2	-8.6	-0.9	5.4	4.1
Imports	Share	22.7	21.8	20.9	20.9	21.5
	Growth	-5.1	-8.7	-3.4	-3.5	-5.4

Union Budget 2017-18 Theme - "Transform, Energise and Clean India" TEC India

Macro Assessment

- The fiscal deficit for 2017-18 budgetted at 3.2% marks less than expected improvement given the fiscal space available with the government post demonetisation.
- The deviation to the fiscal consolidation road map was guided by the need to give an investment stimulus to the economy. This is reflected in the budgetted increase in the share of capital expenditure from 13.9% in 2016-17(RE) to 14.4% in 2017-18 (BE). It is also encouraging to note that the share of capital expenditure increased from 12.5% budgeted in 2016-17 to 13.5% in the revised estimates.
- Though one would have expected the budget to stick to the fiscal consolidation roadmap and aim for 3% fiscal deficit, the intention behind missing the target is laudable.
- Boost to MSME sector stands out. Corporate income tax reduction from 30% to 25% will give a boost to the MSME segment. The reduction in income tax rates for the individuals below income level of Rs. 5 lakhs will support consumption in the economy.
- The lower market borrowing envisaged in the Budget augurs well for a low interest regime. However, non adherence of 3% fiscal deficit can irritate foreign investors and rating agencies which can create market volatility for some time.
- Notwithstanding his commitment, the Finance Minister could have been more forthcoming in addressing the resolution and capitalisation needs of public sector banks.
- Overall, stimulus to consumption and investment from the Budget is positive for growth. In sum, the budget is progressive in nature with its emphasis on inclusive development.

Key Budget Indicators

a) Fiscal deficit budgetted at 3.2% in FY 18 and at 3% in FY 19.
b) Nominal GDP growth is pegged at 11.75% in 2017-18
c) Revenue deficit of 2.3% in 2016-17(BE) revised to 2.1% in 2016-17(RE).
d) Revenue deficit for 2017-18 targeted at 1.9%.
e) Increase in capital expenditure by 25.4% in 2017-18(BE) over 2016-17(BE) and 10.7% over 2016-17(RE).
f) Total expenditure for 2017-18(BE) is pegged at Rs. 21.47 lakh crore.
g) Transfer to States and UTs has increased from Rs. 3.6 lakh crore IN 2016-17 to Rs. 4.11 lakh crore in 2017-18
h) Net market borrowing of government contained at Rs. 3.48 lakh crore in 2017-18(BE) as compared to Rs. 4.25 lakh crore in 2016-17(BE).

Banking Related Measures in Budget 2017-18

a) Allowable provision for Non-Performing Asset of Banks increased from 7.5% to 8.5%. Interest taxable on actual receipt instead of accrual basis in respect of NPA accounts of all non-scheduled cooperative banks also to be treated at par with scheduled banks.
b) Rs. 10,000 crore provided for recapitalisation of banks in 2017-18
c) Time-bound listing of central PSUs. Shares of rail PSEs like IRCTC, IRCON and IRFC to be listed in stock exchanges.
d) Farm credit targeted at Rs. 10 tn in FY 18
e) Banks have targeted to introduce additional 10 lakh new POS terminals by March 2017. They will be encouraged to introduce 20 lakh Aadhar based POS by September 2017

Ten distinct themes of the Budget

1. Farmers : committed to double their income in 5 years;
2. Rural Population: providing employment & basic infrastructure;
3. Youth: energising them through education, skills and jobs;
4. The Poor and the Underprivileged: strengthening the systems of social security, health care and affordable housing;
5. Infrastructure: for efficiency, productivity and quality of life;
6. Financial Sector : growth & stability by stronger institutions;
7. Digital Economy: for speed, accountability and transparency;
8. Public Service: effective governance and efficient service delivery through people's participation;
9. Prudent Fiscal Management: to ensure optimal deployment of resources and preserve fiscal stability;
10. Tax Administration: honouring the honest.

Firsts' associated with 2017-18 budget

a) Change in the date of the presentation of Budget to enable implementation from the start of new financial year.
b) Merger of the Railways Budget with the General Budget to account for fiscal expenditures.
c) Elimination of classification of plan and non-plan expenditure within sectors.

Key Announcements

a) Lowering of corporate tax rate to 25% for MSME companies with annual turnover up to Rs. 50 crore.
b) Ban on cash transactions above Rs. 3 lakhs, subject to certain exceptions.
c) LIC to launch pension scheme with 8% guaranteed return for 10 years.
d) Affordable housing granted infrastructure status.
e) Further FDI liberalisation under consideration.

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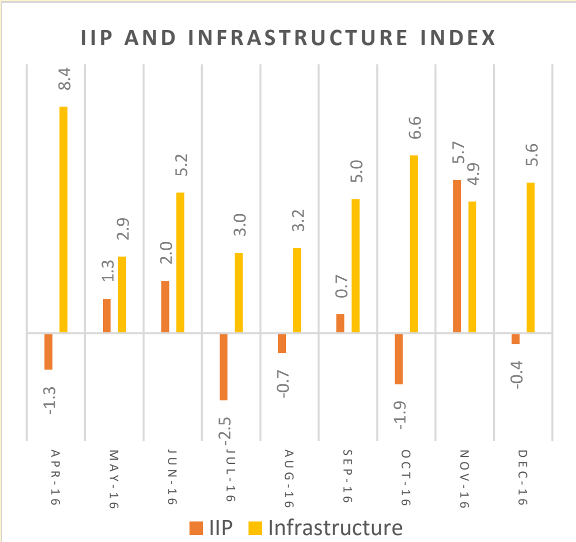
Industrial Production

- IIP dipped sharply to (-) 0.4% in Dec'16 following a positive growth of 5.7% in Nov'16 and a negative growth of (-) 1.8% in Oct'16 on y-o-y basis.
- During the current financial year so far, the IIP degrew for 5 months with the highest contraction in the month of July 2016. On the other hand, the highest growth was seen in Nov'2016 at 5.7%.
- The segments as per sectoral based classification exhibited mixed growth in Dec'16 with manufacturing showing contraction while mining and Electricity showing positive growth.
- As per the used based classification, only basic goods registered a positive growth and all other segments such as capital goods, intermediate goods and consumer goods recorded a negative growth.
- During Apr-Dec 2016, capital goods degrew by -17.3% and consumer non durables by -2.3% on a y-o-y basis.
- Within manufacturing, ten out of the twenty two industry groups (as per 2 - digit NIC -2004) have shown negative growth in Dec'16 on a y-o-y basis.
- If we look at the m-o-m seasonally adjusted (SA) numbers, IIP degrew by -4.2% in Dec' 16 compared to 1.7% in Nov'16. Except in July, October and Dec, IIP on a m-o-m SA basis has shown positive growth in all months during Apr-Nov FY'17.
- The Eight Core Industries (infrastructure) comprising nearly 38% of the weight of items included in the IIP, recorded growth of 5.6% in Dec'16 on y-o-y basis.
- Infrastructure segment had a cumulative growth of 5.0% during Apr-Dec, FY'17 compared to 2.6% during Apr-Dec, FY'16. All segments except crude, natural gas, fertilizers and cement registered positive growth in Dec'16.
- The Manufacturing PMI which had fallen below 50 in Dec 2016 again crossed the threshold of 50 in Jan 2017. PMI at was at 50.4 in Jan'17 as against 49.6 in Dec'16.
- The January reading for PMI has been contributed by growth in new orders and growth in output. It may be noted that there has been a reversal in the contraction witnessed in December due to the cash crunch on account of withdrawal of SBNs.
- The composite PMI, however, continues to be below 50 since Dec 2016.
- The slump in IIP to -0.4% in December 2016 compared to an increase of 5.7% in November could be primarily due to base effect and contraction in the consumer goods which could be attributed to cash crunch.
- On the whole the December IIP degrowth remains a cause for concern as cumulative growth for April-Dec this fiscal at 0.3% is even lower than 3.2% recorded for the same period last fiscal.
- The low IIP growth should be seen in the light of the volume and value dichotomy observed in the industrial sector. Being anchored to the 2004-05 base, IIP numbers signify more of noise than signal.
- In this context, credit flowing to industry could be an alternative indicator to ascertain momentum in industrial activity



IIP-Sectoral and Used based Components

Sectors	Weight	Dec-16	Dec-15	Apr-Dec FY 17	Apr-Dec FY 16	
Mining	14.2	5.2	2.8	0.9	2.3	Sectoral
Manufacturing	75.5	-2.0	-1.9	-0.5	3.2	
Electricity	10.3	6.3	3.2	5.1	4.5	
Basic	45.7	5.3	0.7	4.3	3.5	Use Based
Capital	8.8	-3	-18.6	-17.3	1.9	
Intermediate	15.7	-1.2	1.5	2.8	2	
Consumer Durable	8.4	-10.3	16.6	5	12.3	
Consumer Non Durable	21.3	-5	-2.7	-2.3	-0.9	
Consumer Goods	29.8	-6.8	3.2	0.6	4	
General	**100**	-0.4	-0.9	0.3	3.2	

Core Sector Growth

Sector	Weight	Dec-16	Dec-15	Apr-Dec FY 17	Apr-Dec FY 16
Coal	4.4	4.4	5.3	2	4.5
Crude Oil	5.2	-0.8	-4.1	-3.2	-0.8
Natural Gas	1.7	-0.01	-6.1	-3.3	-2.8
Refinery Products	5.9	6.4	2.1	7.8	2.3
Fertilizers	1.3	-4.7	13.5	3.4	11.3
Steel	6.7	14.9	-3.1	8.9	-1.6
Cement	2.4	-8.7	4.1	2.8	2.6
Electricity	10.3	6	8.8	5.4	6.2
Infrastructure Index	37.9	5.6	2.9	5	2.6

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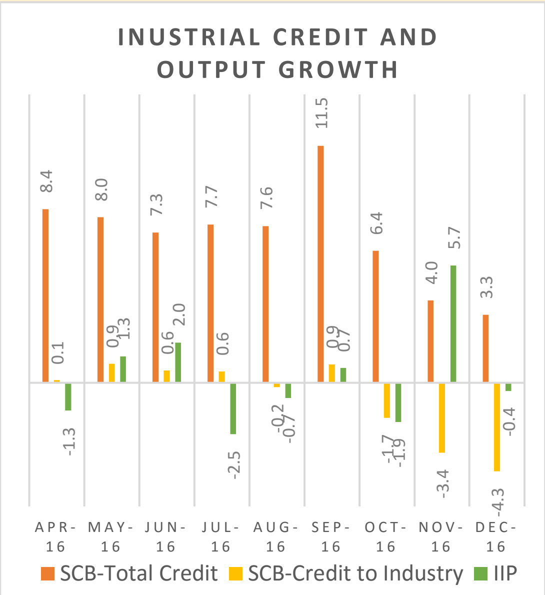
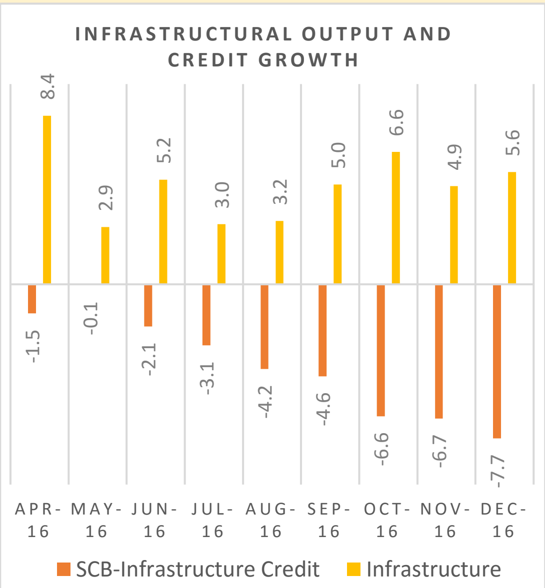
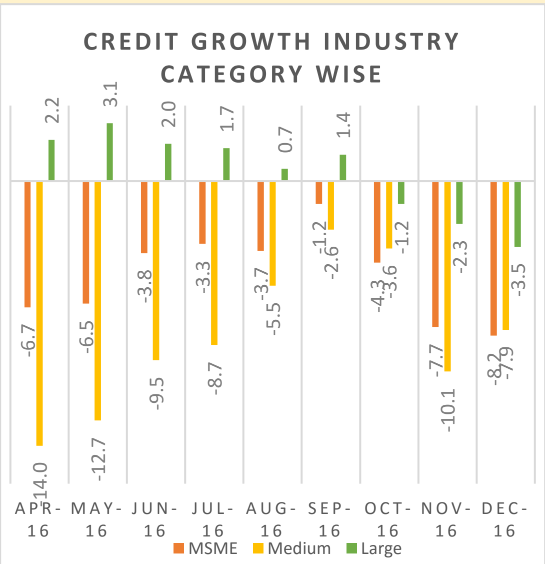




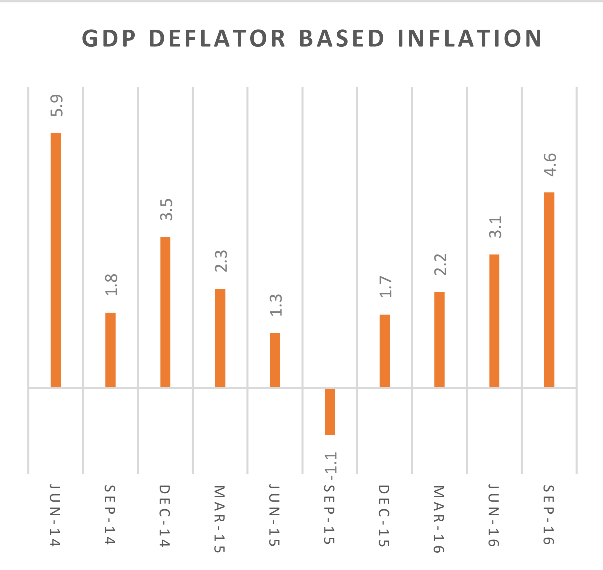


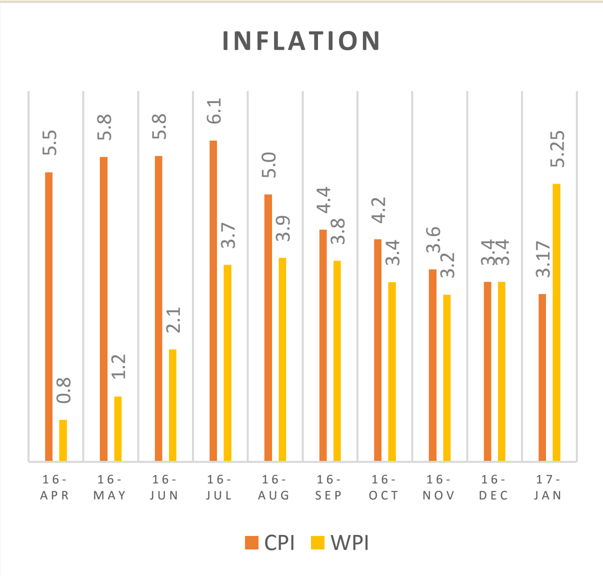
Credit Growth

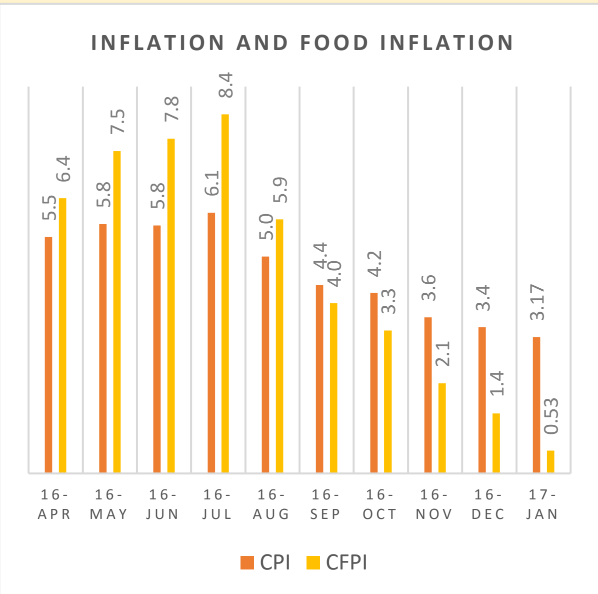
- Credit growth from the banking system decelerated to 3.3% in Dec'16 from an already low 4.0% in Nov'16 on a y-o-y basis. The stagnancy in credit growth seen in the current financial year to the levels not seen for a period more than couple of decades.
- Credit growth from the banking system has moderated to 7.1% during Apr-Dec, FY'17 compared to 8.4% average loan growth during the same period of FY'16.
- While credit to industry and infrastructure has been lack luster, service sector credit growth has been relatively better at 10.7% during Apr-Dec, FY'17 compared to average growth of 7% during the same period in FY'16.
- Within Services, the segments which exhibited better credit growth in Dec 2016 on a y-o-y basis include professional services (22.7%), personal loan (13.5%) Loan to Housing (14.8%), Consumer durables (16.3%), Vehicle Loans (18.9%) and Credit Card Outstanding (26.3%).
- It may be observed that all the above segments within services except Credit card outstanding have undergone deceleration in credit growth in Dec'16 compared to Nov'16. The growth in credit card outstanding could possibly reflect the impact of demonetization.
- Credit to industry degrew by 4.3% in Dec'16 on the back of -3.4% growth in Nov'16 and -1.7% growth in Oct'16, and 0.9% in Sep'16 on y-o-y basis.
- Average growth in Bank credit to industry was -0.7% during Apr-Dec, FY'17 compared to 5% growth recorded during Apr-Dec, FY'16.
- Credit to infrastructure sectors used to be in the 8-10% range between Apr'15 and Mar'16 is experiencing anemic growth since Apr'16.
- Credit growth to infrastructure has been negative in each of the nine months and was -4.1% during Apr-Dec, FY'17 compared 8.7% during Apr-Dec, FY'16.
- Credit growth to all the three categories of industries viz, MSME, Medium and Large has been negative beginning with Oct 2016.
- The MSME and Medium industries have been experiencing negative credit growth during all months of FY'17 till December.
Credit growth to large industries which was of a low order but nonetheless positive, turned negative since October 2016.
- Credit growth 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.

Concomittants for Better Rate Transmission- In the press meet following the sixth monetary policy review, RBI governor held that though policy rates have declined by 175 bps since Jan 2015, the weighted average lending rate has declined by only 80 bps. The Policy statement has outlined three factors which if addressed can improve timely transmission of policy rates to bank lending rates. These are:

a) Quick and efficient resolution of NPAs.
b) Faster and adequate recapitalisation of banks.
c) Quicker Alignment of small saving rates to G-sec rates.







Inflation

- The comprehensive GDP deflation based inflation has increased successively from -1.1% in Sep-15 quarter to 4.55% for Sep-2016 quarter.
- Inflation as per the latest reading which is for Jan' 17 indicates that while retail inflation continues to fall, wholesale inflation reversed its declining trend.
- While WPI based inflation jumped to 5.25% in Jan '17 from 3.4% in Dec'16 and from (-) 1.07% in Jan' 16. The CPI based inflation fell to 3.17% in Jan'17 from 3.41% in Dec'16 and from 5.69% in Jan'16 on y-o-y basis.
- Notwithstanding their diverse movements on y-o-y basis, both CPI and WPI Inflation were positive on m-o-m seasonally adjusted (SA) basis. While CPI inflation on m-o-m SA basis was around 0.61% WPI inflation was 1.47% in Dec'16.
- Agriculture related product inflation which had been a matter of concern since Apr'16 has eased significantly in the past six months on y-o-y basis.
- Fuel and power, and manufactured products inflation is slowly building up as suggested by WPI inflation. The Fuel and power grew by 4.7% and manufactured products rose by 0.5% sequentially.
- With a more than 5% reading, WPI inflation has now reached a stage of concern.
- The surge in WPI has been majorly driven by the spike in oil prices and sugar which have increased rather drastically thereby negating the effect of the sharp dip in prices of vegetables, onions, potatoes and oil seeds.
- Developments relating to fuel supply also needs close monitoring.
- Services inflation is gradually gaining momentum from 3.8% in June'16 and reached 4.7% in Dec'16 and further increased to 5.06% in Jan'17.
- RBI has highlighted the concerns regarding inflation given the CPI inflation excluding food and fuel remaining steady and OPECs agreement to cut crude oil production.
- RBI would be tracking the developments in WPI based inflation along with core CPI more closely on inflation
- RBI has projected CPI Inflation in the range of 4-4.5% in H1 of 2017-18 and in the range of 4.5-5% in H2 of 2017-18. However, RBI has clarified that these projections about CPI are underestimates as they have not factored in the significant upside risks to inflation from higher crude oil prices, exchange rate depreciation and effect of house rent allowances under seventh central pay commission award.

Food Inflation

- Food inflation is significantly low at retail (CPI) and is negative at the wholesale (WPI) level in Jan’17 on y-o-y basis.
- Food inflation at 8.4% which had been the major driver of high print for CPI in July’16 has successively come down to 3.3% in Oct’16 and to 1.4% in Dec’16 and further to 0.53% in Jan 17 on y-o-y basis.
- Food component of WPI based inflation which has been on a downward trend since Aug’16 has turned negative since past two months at -0.7% in Dec’16 and -0.6% in Jan’17 on y-o-y basis.
- The CPI food inflation been positive on mo-m seasonally adjusted (SA) basis in Dec’16(0.67%) and Jan ‘17(0.39%) from negative in Nov’16(-0.91%).
- Seasonally Adjusted WPI food inflation has also been positive for Dec’16 (0.97%) and Jan’17(0.1%) from -1.21% in Nov ‘16.
- Except in Oct’16 and Dec’16, in the rest three months between Aug’16 and Dec’16, seasonally adjusted M-o-M food inflation has been negative.
- While the inflation of vegetables has declined while that of sugar and confectionary has increased rather substantially.
- Only Sugar continues to exhibit double digit inflation both in the CPI and WPI basket from July’16 through Dec’16.

Drivers of Food Inflation

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

Winter Rainfall

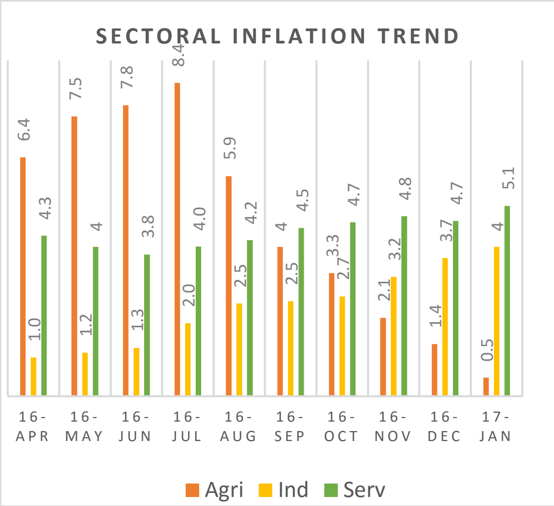
- For the country as a whole, cumulative winter rainfall beginning with Jan 1, 2017 and till Feb 8, 2017 has been 29% above LPA.
- The above LPA rainfall is contributed only by the North West and Southern regions which had rainfall over the LPA by 99% and 38% respectively. Central India and East & North East have departed from LPA to the extent of 84% and 86%.

Monsoon-North East

- Though IMD had predicted a normal North-East monsoon season (October-December) 2016, for the country as a whole, cumulative rainfall during this year’s post-monsoon (beginning Oct 1, 2016) has so far up to 31 December been 45% below LPA.

Monsoon-South West

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

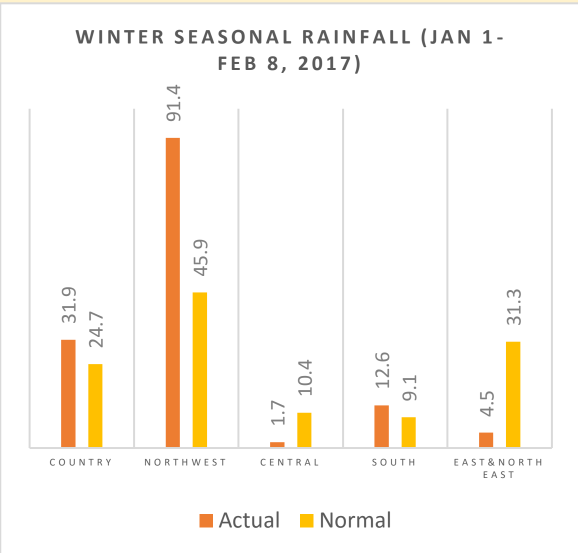


Food Inflation-Converging Trends From WPI and CPI

(y-o-y)

	Food	Pulses	Cereals	Veg	Fruits	Egg	Sugar
CPI							
Weight	45.86	2.38	9.67	6.04	2.89	0.43	1.36
16-Apr	6.4	34.2	2.5	5.0	1.7	6.6	11.2
16-May	7.5	31.6	2.6	10.8	2.6	9.0	14.1
16-Jun	7.8	26.9	3.1	14.8	2.8	5.5	16.8
16-Jul	8.35	27.5	3.9	14.0	3.5	9.3	21.9
16-Aug	5.9	21.9	4.1	1.0	4.4	9.6	24.8
16-Sep	4.0	14.3	4.3	-7.1	6.0	9.9	25.9
16-Oct	3.3	4.1	4.4	-5.7	4.4	9.5	23.6
16-Nov	2.0	0.3	4.8	-10.4	4.6	8.6	22.3
16-Dec	1.4	-1.6	5.3	-14.6	4.7	6.4	21.1
17-Jan	0.5	-6.6	5.2	-15.6	5.8	2.6	18.7
WPI							
Weight	14.33	0.72	3.37	1.74	2.1	0.19	1.73
16-Apr	4.7	36.5	4.2	2.9	-1.8	1.4	17.3
16-May	8.2	35.8	5.9	13.3	3.9	11.1	22.4
16-Jun	8.6	26.6	7.8	17.2	6.4	4.4	26.4
16-Jul	12.6	38.3	9.2	28.4	17.4	11.5	33.0
16-Aug	8.9	34.2	9.5	0.2	13.9	9.8	35.4
16-Sep	6.4	24.0	9.1	-10.9	14.1	10.0	32.9
16-Oct	4.8	22.0	8.3	-10.0	6.0	10.3	30.9
16-Nov	1.5	21.7	7.3	-24.1	2.5	4.5	31.8
16-Dec	-0.7	18.1	7.5	-33.1	0.0	2.5	28.0
17-Jan	-0.6	6.2	5.9	-32.3	3.6	-4.2	22.8

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



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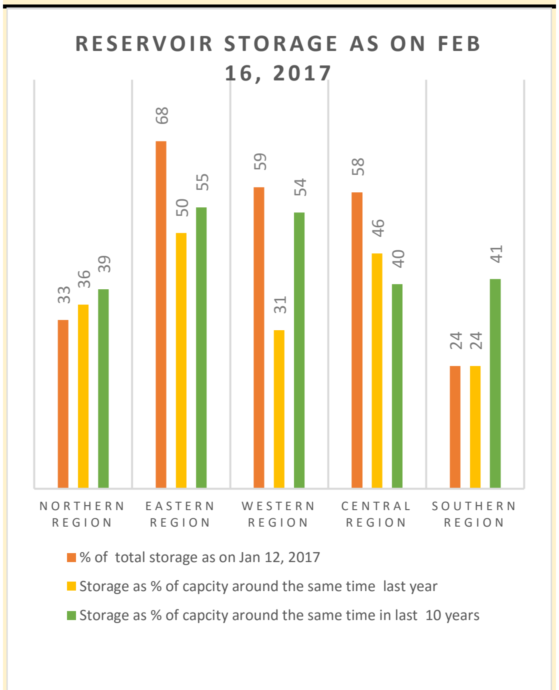
Drivers of Food Inflation

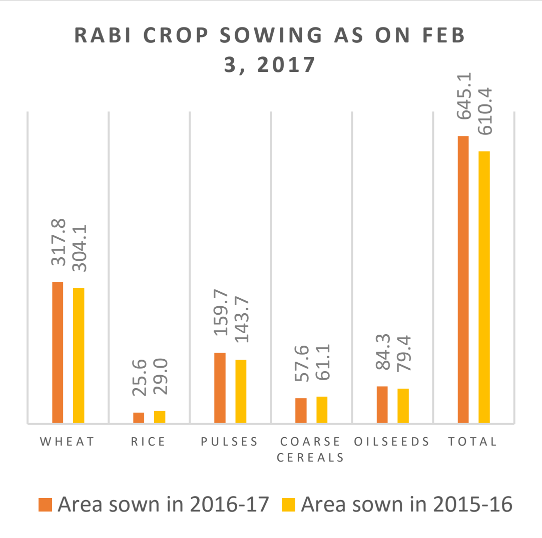
Storage in Reservoirs

- Water level in 91 large reservoirs across the country was 45% of their combined capacity as on Feb 16, 2017. The live storage in these reservoirs is 128% of their live storage in the corresponding period of last year and 102% of storage of average of last 10 years.
- Thus, 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 are 58 and reservoirs having storage more than average of last ten years are 46.
- The number of reservoirs having storage less than or equal to 50% with respect to last year are 13 and having storage less than or equal to 50% with reference to average of last ten years are 18.
- States having better storage than last year for corresponding period are Punjab, Rajasthan, Jharkhand, Odisha, West Bengal, Gujarat, Maharashtra, Uttar Pradesh, Madhya Pradesh, Chhattisgarh, and Telangana.



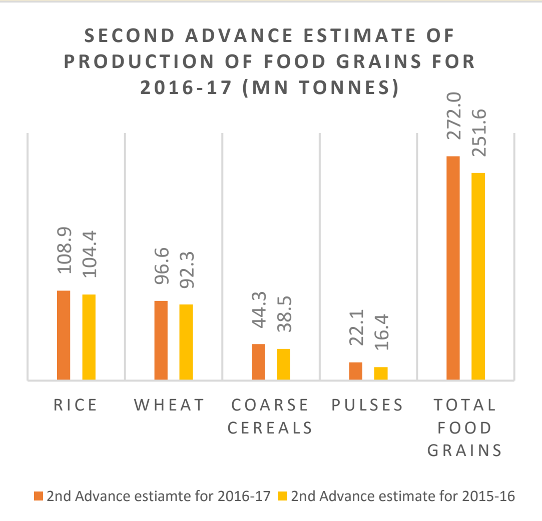
Progress in Cultivation

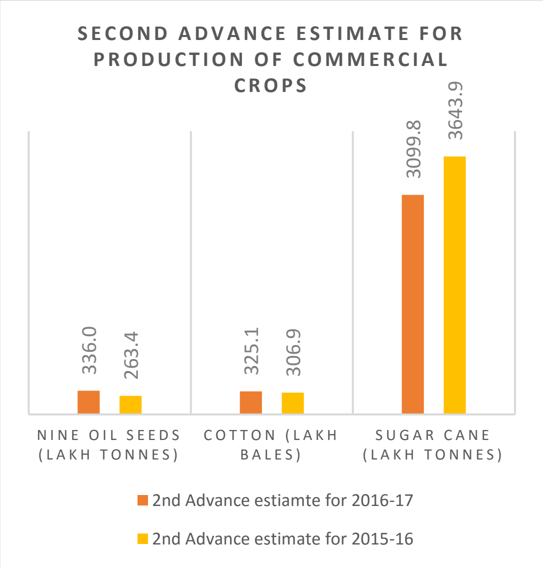
- As per preliminary reports received from the States, the total area sown under Rabi crops as on February 3, 2017 stands at 645.12 lakh hectares as compared to 610.44 lakh hectare this time in 2016 registering a growth of 5.7%.
- Wheat has been sown/transplanted in 317.81 lakh hectares, pulses in 159.72 lakh hectares, coarse cereals in 57.61 lakh hectares and area sown under oilseeds in 84.34 lakh hectares.
- The Pradhan Mantri Fasal Bima Yojana (PMFBY) launched in the country from Kharif 2016 has provided coverage to 366.64 lakh farmers (26.50%) and it is expected to exceed the target of 30% coverage for both Kharif and Rabi seasons in 2016-17.

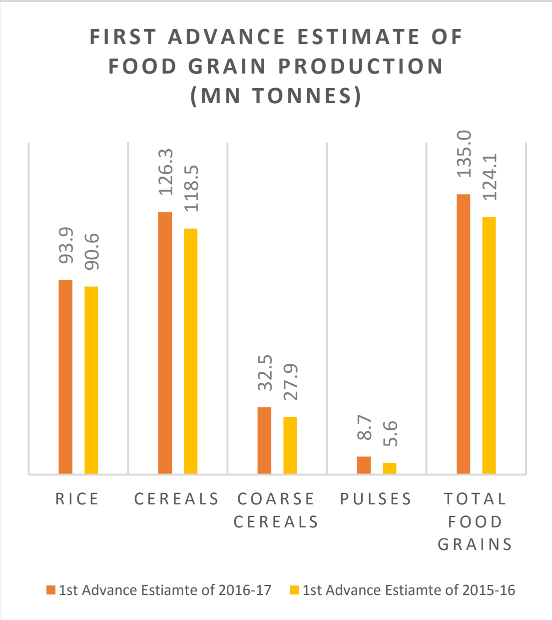


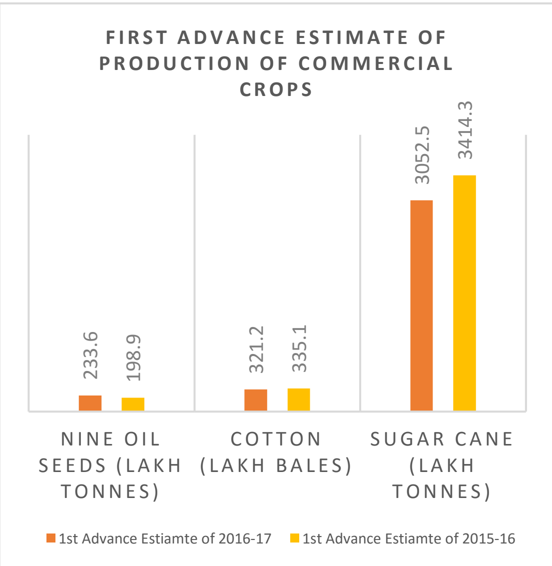
Second Advance Estimate of Agricultural production in 2016-17

- As a result of very good rainfall during monsoon 2016 and various policy initiatives taken by the Government especially post demonetisation to ensure availability of inputs, India is expected to witness record foodgrain production in 2016-17.
- As per Second Advance Estimates for 2016-17, total Foodgrain production in the country is estimated at 271.98 million tonnes which is higher by 6.94 million tonnes than the previous record production of Foodgrain of 265.04 million tonnes achieved during 2013-14.
- The current year's production is also higher by 14.97 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 20.41 million tonnes than the last year's foodgrain production.
- The Ministry of Agriculture has set the country's grain production target at 271.98 million tonne (mt) for the 2016-17 crop year (July-June), 8.1% higher than the actual grain production of 251.57 mt in 2015-16.









Drivers of Food Inflation

Second Advance Estimates of Food grain production in 2016-17

- Production of a number of grains is estimated to touch new record levels such as rice is estimated to touch a new record at 108.86 million tonnes, wheat at 96.64 million tonnes, pulses at 22.14 million tonnes. However, production of sugarcane has been lower at 309.98 million tonnes lower than last years production of 348.45 million tonnes.
- As a result of significant increase in the area coverage and productivity of all major Pulses, total production of pulses during 2016-17 is estimated at 22.14 million tonnes which is higher by 2.89 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 4.50 million tonnes than their Five years' average production. Current year's production is higher by 5.79 million tonnes than the previous year's production of 16.35 million tonnes.
- Production of Sugarcane is estimated at 309.98 million tonnes which is lower by 38.46 million tonnes than the last year's production of 348.45 million tonnes.
- Despite lower area coverage during 2016-17, higher productivity of Cotton has resulted into higher production of 32.51 million bales (of 170 kg each) as compared to 30.01 million bales during 2015-16.
- To give a boost to production of rabi crops, Government has upwardly revised the procurement prices of a number of rabi crops. Besides, accepting the recommendations of CACP to increase MSPs of both Kharif and Rabi pulses for 2016-17 season, Government has announced a bonus of Rs.425 per quintal for Kharif Pulses viz. Arhar, Moong and Urad, Rs.200 per quintal for Gram and Rs.150 per quintal for Masur.

Inflation and Rate Outlook

- RBI has projected CPI Inflation in the range of 4-4.5% in H1 of 2017-18 and in the range of 4.5-5% in H2 of 2017-18. However, RBI has clarified that these projections about CPI are underestimates as they have not factored in the significant upside risks to inflation from higher crude oil prices, exchange rate depreciation and effect of house rent allowances under seventh central pay commission award.
- In its Sixth Bi-monthly Monetary Policy review for 2016-17 held on Feb 8, 2017 RBI maintained status quo on rates as it shifted stance from accommodative to neutral, conveyed greater commitment to the 4% inflation target and awaited more clarity on the impact of demonetisation.
- RBI had shown greater tolerance to CPI inflation deviating from the 4% mark, within the 2-6% range in its fourth bimonthly review in October 2016. In contrast, RBI in the sixth bimonthly review has communicated greater resolve to achieve the 4% inflation target on a durable basis.
- Shifting its preference within the targeted range of inflation to the median, has necessitated a status quo approach to policy rates as core inflation remains much above the desired 4% and there are upside risks to inflation from basic metals, oil and housing.
- With the shift in stance from accommodative to neutral and impending upside risks to inflation, RBI has conveyed the almost end of the easing cycle.

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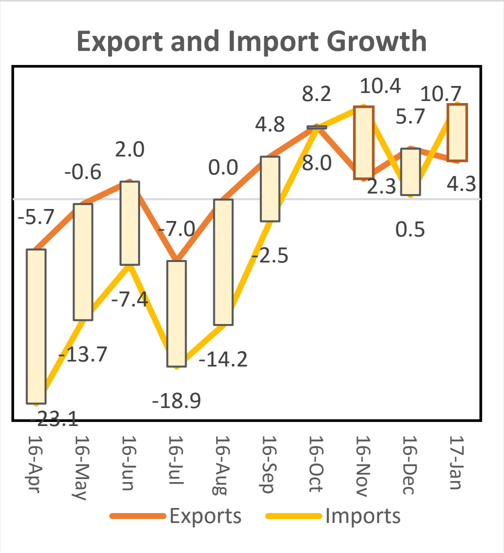

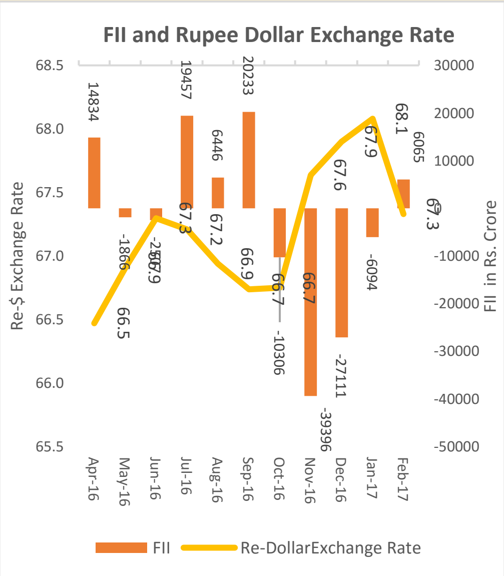

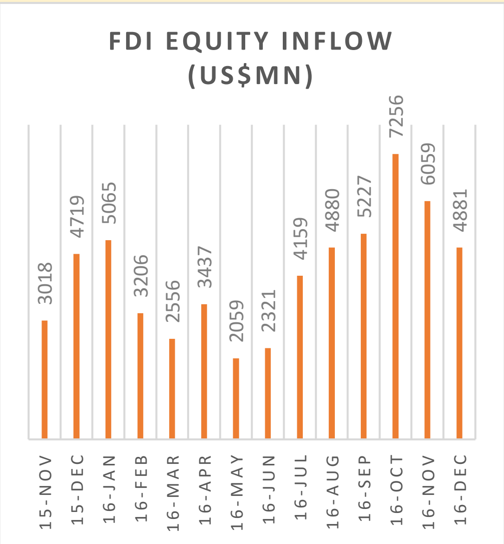

External Sector

- India's trade competitiveness improved a tad sequentially in Jan'17. Trade competitiveness, however, has deteriorated continuously since April 2016 through December 2016 as reflected in a rise in 36-Currency Export and Trade Based Weights REER and also the 6-Currency Trade Based Weights REER.
- Export growth decelerated in Jan' 17 to 4.3% as against a growth of 5.7% in Dec' 16 on a y-o-y basis to US$22.11bn. Exports have shown positive growth consecutively for the past five months reflecting global growth and trade gaining some momentum.
- Cumulative value of exports for the period April-January 2016-17 was US$ 220.92 bn registering a growth of 1.09% on y-o-y basis.
- Non-petroleum exports in January 2017 grew by 1.6% to US$ 19.42 bn on y-o-y basis. During April-Jan FY'17. Non-petroleum exports grew by a meagre 2.2% on y-o-y basis to reach US$ 196.54bn.
- Imports increased by 10.70% on y-o-y basis to reach US$ 31.95bn in January 2017. While oil imports grew by 61.07% reflecting the impact of the increase in oil prices following the curbs on production placed by the OPEC, non oil imports exhibited degrowth of 0.01% to reach US$ 8.14 bn and 23.81 bn respectively in January 2017.
- Cumulative value of imports for the period April-Jan FY'17 was US$ 307.31 bn registering a negative growth of 5.81% on y-o-y basis. Both oil and non-oil imports for the period Apr-Jan 2016-17 registered a decline of 5.81% each on y-o-y basis to reach US$73.32 bn and US$238.25bn respectively.
- A marginal growth in non-oil imports by 0.01% on y-o-y basis in Jan 2017 provides early indications of economic activity gaining traction, post demonetization.
- As per RBI, the trade balance in services for Dec'16 was estimate at US$ 5.5 bn with the exports at US$ 13.8 bn and imports at US$ 8.29 bn. The net export of services for April-December 2016-17 is estimated at US$ 48.32 bn which is lower than net export of services of US$ 53.55 bn during the April-December, 2015-16.

Exchange Rate Outlook

- Strengthening of labour markets coupled with expansionary fiscal policy has raised possibilities of Fed hiking policy rates in USA so as not to be behind the curve.
- The IMF Chief has already cautioned developing countries dependent on FII inflows about currency depreciation should Fed hike interest rates faster and by a higher amount.
- Oil prices though have increased by 23% during Dec 2016 and Mid Feb 2017, they are not expected to jump significantly higher than their current levels of US$55 per barrel. This will help the rupee to hold ground
- The rupee has been appreciating in the recent past, which is more due to weakness of dollar owing to policy uncertainty in USA which has caused robust FII in flows in February reversing the negative trend observed for last four months during Oct 2016 and Jan 2017.
- Change in Monetary policy stance will also support the Rupee from depreciating significantly.
- In the event of FIIs turning underweight on emerging market economies, India will also experience pressure of capital outflow.
- The near term outlook for Rupee is range bound with a deprecating bias unless growth rebounds significantly.

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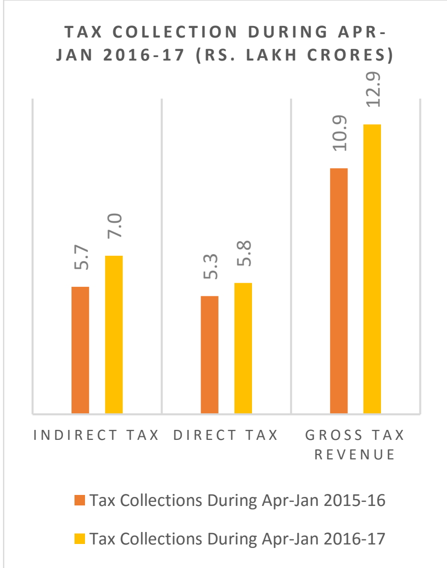
Fiscal Sector

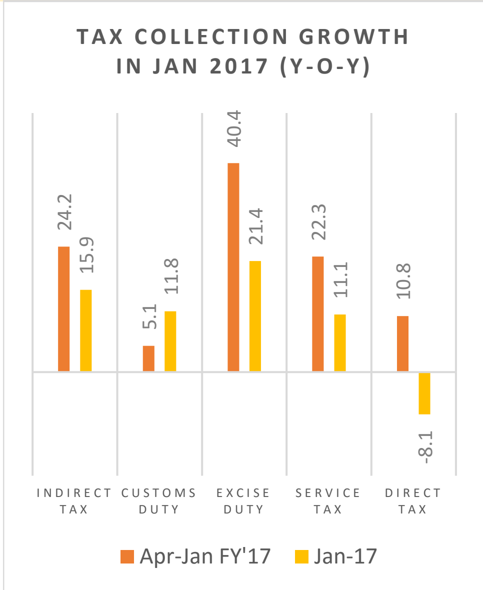
GST Roll Out

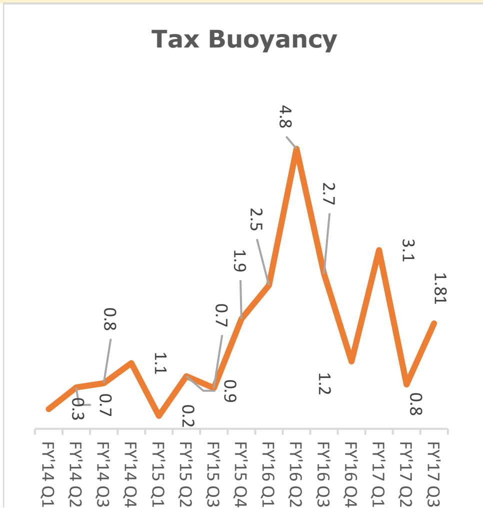
- The tenth meeting of the GST council held on 18 Feb'17 considered 4 draft laws and approved only one pertaining to compensation of revenue of revenue loss to the states by the Centre following the implementation of GST. The other three crucial draft laws pertaining to central GST, State GST and Integrated GST will be taken up in the next meeting of GST council scheduled during March 4-5 in Srinagar.
- Once the GST council approves the draft laws, they will be taken up in the second half of Budget session scheduled in the second week of March 2017.
- Post the March 4-5 meeting, another meeting of the GST council will be needed to approve goods and services in different tax slabs.
- In its ninth meeting on January 16, 2017, the GST Council has set the date of 1 July for rolling out the goods and services tax (GST) after the Centre and the States struck a consensus on the contentious issue of sharing of administrative powers.
- It may be noted that the first six meetings of the GST Council were held on the following dates - 22-23 September, 2016; 30 September, 2016; 18-19 October, 2016; 3-4 November, 2016; 2-3 December, 2016 and 11 December, 2016.
- The seventh and eighth meetings of GST Council were held during Dec 22-23, 2016 and Jan 3-4, 2017 respectively. However, no consensus was reached on the much-debated issue on the administrative split, yet majority of the states had a positive attitude on the issue during the meeting.

Tax Collection

- Net indirect tax collections (Central Excise, Service Tax and Customs) during Apr-Jan 2016-17 grew by 16.9% on a y-o-y basis to reach Rs 7.03 lakh crore.
- During the Apr-Jan 2016-17 period on Y-o-Y basis, growth in net central excise, service tax and custom collections was 40.5%, 22.0% and 4.7% to reach Rs.3.13 lakh crore, 2.03 lakh crore and 1.86 lakh crore respectively
- Net Tax collections on account of Customs during April-January 2016-17 stood at Rs. 1.86 lakh crore as compared to Rs. 1.77 lakh crore during the same period in the previous Financial Year, thereby registering a growth of 4.7%.
- As regards the growth rates for Corporate Income Tax (CIT) and Personal Income Tax (PIT), in terms of gross revenue collections, the growth rate under CIT is 11.7% while that under PIT (including STT etc.) is 21.0%. However, after adjusting for refunds, the net growth in CIT collections is 2.9% while that in PIT collections is 23.1%. Refunds amounting to Rs.1.41 lakh crore have been issued during April-Jan, 2016-17, which is 41.0% higher than the refunds issued during the corresponding period last year.
- The "Operation Clean Money " an initiative of the Income Tax department on Jan 31, 2017 for the e-verification of the large cash deposits during the demonetization phase.
- E-mails were sent to 18 lakh tax payers, out of which 5.72 lakh tax payers have submitted response as of Feb 12, 2017. The IT department is analyzing the explanations provided against the nature of business and profile in terms of the returns filed earlier.
- A look at the tax collection data for January 2017 reveals that Customs tax collection has increased as traction is seen on the trade front. Excise duty collections are down and it could be a lead indicator of a subdued IIP growth in Jan 2017. Service tax collections has increased as the cash crunch has eased and supply of currency has increased. 4) Direct tax collections was negative as direct taxes are generally paid at quarter ends rather than in intermittent months.



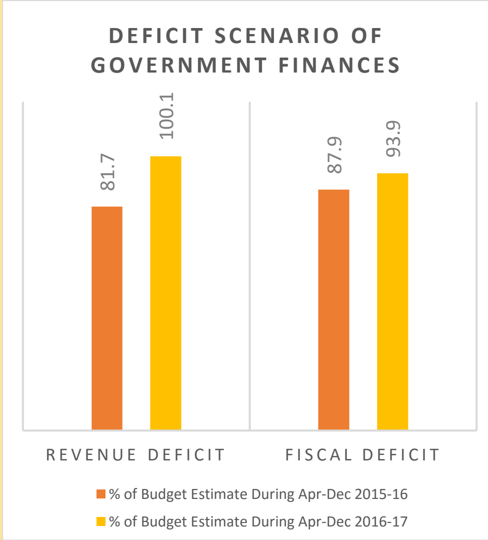


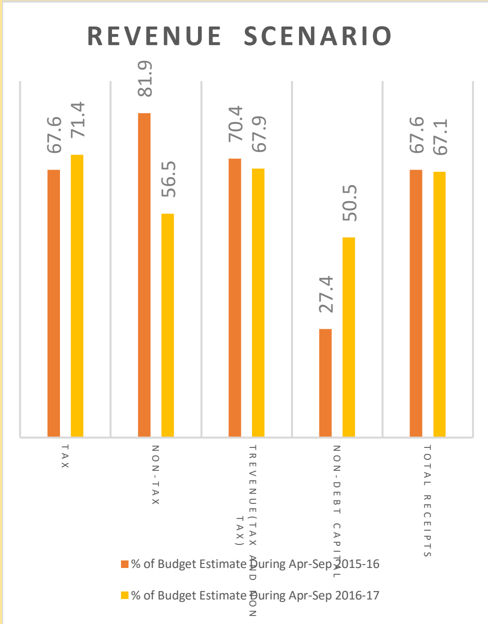


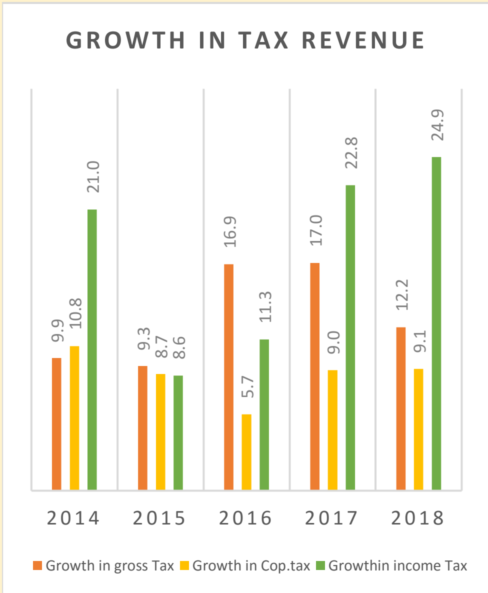
Financial and Commodities Markets

Stock Market

- Foreign Portfolio Investors (FPIs) and domestic Institutional Investors (DII) were net buyers in Jan'17 to the extent of Rs 212.16 crore and Rs 3633 crore. Till Feb 16, 2017, the FPIs have turned buyers to the extent of Rs 1397 crore and DII have continued their buy stance to the extent of Rs 3199 crore.
- The stock markets rallied both before and after the announcement of the Union Budget. The markets responded positively to the Budget as it provided for stimulus to consumption and investment while being fiscally prudent. The post budget surge in Sensex was to some extent a relief rally as the Budget did not impose any taxes on capital gains as was expected in certain quarters. The government announced gross borrowings for FY18 at Rs 5.8 trillion and contained the fiscal deficit to 3.2% for FY18.
- Subsequently the stock market remained cautious ahead the monetary policy review by the RBI.
- RBI's change in its liquidity stance while keeping the rates of interest steady led to a decline in the stock indices. Further, as the IIP contracted and inflation rebounded with WPI crossing 5%, the markets moved in a narrow range.
- Stock market got support from the Q3FY17 results which indicated that most of the companies met the expectations of earnings despite the challenging environment, post demonetisation
- The Q3 FY'17 results of 1660 listed companies indicated net profits grew BY 27.7 percent and revenues including other income rose by 9%, best in two years.
- The US stock indices posted record surge on expectations of new tax policies of the administration which would be growth supporting that would increase infrastructure spending and support corporate earnings.
- Between January 20, 2017 and February 17, 2017, all sub indices registered growth with the BSE Sensex surging by 5.30%. However, the mid-cap and small cap indices showed higher growth of 6.67% and 5.54% respectively.
- The consumption related sub indices posted mixed growth. Consumer durables surged by 11.1% while FMCG posted 3.95% growth. The capital goods segment also grew by 5.53% and metals by 4.20%.
- The Bankex surged by 8.83% while realty index surged by 7.52% as the government announced a host of measures that would boost the housing sector as well as the banking sector in terms of Affordable housing and subsidy for first time home buyers. This has boosted the realty index which was adversely affected post demonetization.
- Going forward, the stock market would respond to factors such as the outcome of states elections, new US policies, US Fed interest rate decision and its repercussion on FII flows.







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Financial and Commodities Markets

Bond

- The bond market initially did not respond in a big way to the Budget as it awaited more clarity on the net borrowings and was assessing the possibility of raising the budgeted amount through small savings.
- The Sixth bi monthly monetary policy review on Feb 8, 2017 provided the major trigger for the bond markets
- The RBI in its policy review while maintaining a status quo on rates shifted its liquidity stance from accommodative to neutral and in a way conveyed the end of the rate easing cycle.
- As the markets were expecting a rate cut, the status quo on rates surprised the market and there was sharp jump in the yields. As a result, there was a sharp upward shift in the yield curve across the maturities.
- The monetary policy review was also important from the perspective of ascertain the floor of a lower interest rate regime for India with its aspirations and constraints.
- The 10-year bond yield galloped from 6.4% on Feb 7, 2017 to 6.85% on Feb 9, 2017. Thereafter, the yields have hovered around 6.8%.
- The yields which had slipped sharply following the inflow of surplus liquidity post demonetization were reversed post the announcement of the policy. Further, as the WPI inflation data was released at 5.2%, the yields surged to 6.88% on Feb 14, 2017 as it jumped more than expectations.

Gold

- Gold prices have remained high despite the strengthening dollar primarily due to volatility in the global stock markets and heightened political and policy uncertainties. The sources of uncertainty are primarily worries on the policy front in the US, elections outcomes in the many European countries such as Italy, Netherlands, and France, Germany as well as the developments relating to Brexit.
- In its publication, 'Gold Demand Trends Full Year 2016', the World Gold Council has reported that gold demand in calendar year 2016 increased by 2.2% on y-o-y basis to reach a 3-year high of 4,308.7 tonnes. Around 70% increase in investment has offset the drop in demand for jewelry by 15% and bars and coins by 2% leading to an increase in overall demand. The gold price increased 8% despite gold supply increasing 5% on y-o-y basis. Having risen by 25% till the end of Sept' 16, gold relinquished some of its gains in Q4 following President Trump's conciliatory acceptance speech and Fed's rate hike in Dec'16.
- Gold demand in India fell by 21.2% on y-o-y basis in calendar year 2016 to 675.5 tonnes, in contrast to 10 year annual average of 845 tonnes as new rules made it mandatory for customers to disclose their tax code for purchases above Rs. 2 lakh and liquidity crunch post demonetisation acted as dampeners. Consumption is expected to be between 650 and 750 tonnes in 2017, with appetite likely to be adversely affected by the uncertainties associated with the working of the GST.

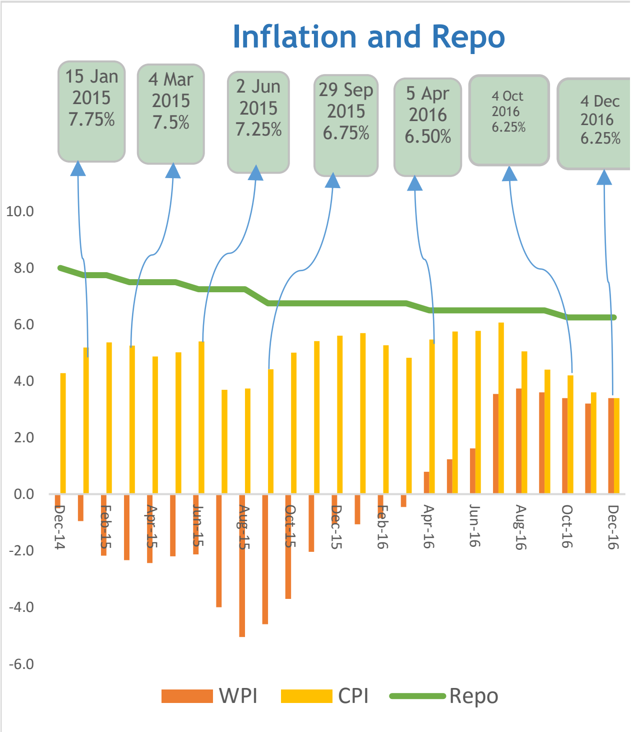
RBI-Policy Rates

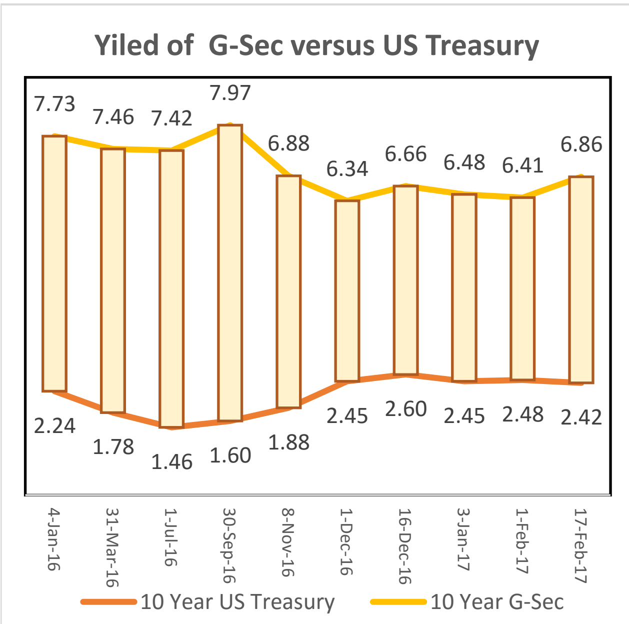
- Following the policy review on Dec 7, 2016, the new policy rates and ratios are as given below

Policy Rates and Ratios (%)

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

REPO AND INFLATION DYNAMICS





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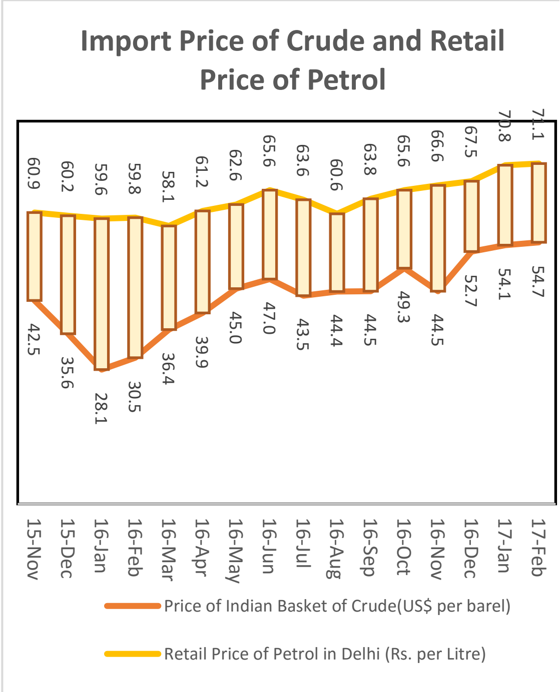
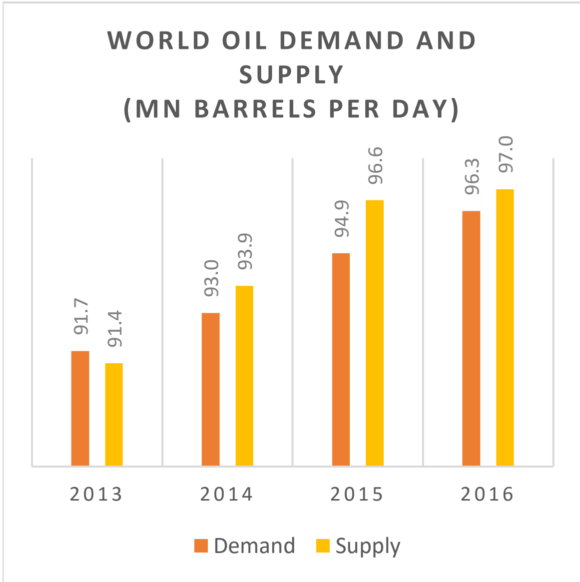
Drivers of International Crude Oil Prices

- According to OPEC Secretary General, January 2017 Oil production data of OPEC countries suggest that conformity from participating OPEC nations with output curbs had been above 90 percent and oil inventories would decline further this year.
- The Organization of the Petroleum Exporting Countries and other producers outside the group agreed in November to cut output by about 1.8 million barrels per day (bpd) in an effort to drain a glut that has depressed prices for over two years.
- The success of the OPEC to lift international crude prices will be dependent on two factors. First, some OPEC countries may not adhere to the agreed reductions. Second, as price of crude increases beyond a threshold, it will prompt many fracking companies in North Dakota and Texas to start drilling again, supplying more crude and driving the market back down.
- The U.S. Energy Information Administration (EIA) is now predicting less oil demand for this year, cutting its global demand forecast by 10,000 barrels per day to 1.62 million barrels per day. EIA also cuts its estimate for global oil demand growth for 2018 by 50,000 barrels per day to 1.46 million barrels per day.
- EIA's latest Short-term Energy Outlook (STEO) report published on Feb 7, 2017, raises its forecast on U.S. crude production and prices for this year. The agency forecasts US crude production will increase from estimated 8.9 million barrels per day in 2016 to 9 million barrels per day this year. For 2018, the EIA forecasts U.S. crude oil production will climb to 9.5 million barrels per day.
- EIA has increased its price forecast for WTI and Brent benchmarks. STEO forecasts average Brent prices at US$55 per barrel in 2017, with WTI at US$54, with Brent climbing $2 in 2018 to reach US$57 per barrel. This is up from last month's STEO report which had forecast the benchmarks at $55 for WTI and $56 for Brent in 2018.
- Implied global petroleum and liquid fuels inventories are estimated to have increased by 0.8 million barrels per day (b/d) in 2016. EIA expects the oil market to be relatively balanced in 2017 and 2018, with inventory draws averaging 0.1 million b/d in 2017 and builds averaging 0.2 million b/d in 2018.
- Benchmark North Sea Brent crude oil spot prices averaged $55/barrel (b) in January, a $1/b increase from December. This price was $24/b higher than the January 2016 average, and it was the highest monthly average for Brent spot prices since July 2015.
- EIA forecasts Brent crude oil prices to average $55/b in 2017 and $57/b in 2018. West Texas Intermediate (WTI) crude oil prices are forecast to average about $1/b less than Brent prices in 2017.

Implication of Oil price hike on India

- Price of Indian basket of crude has increased by 23% between end November and mid-February 2017. If we consider a slightly longer horizon, prices have increased by more than 93% during Jan-2016 and Jan 2017.
- An increase in oil prices poses a triple whammy, directly by influencing oil prices in the inflation basket and indirectly through pressure on government finances and the exchange rate.
- In the last five and half years, oil imports amounted to on an average 30% of total import bill for India. However, between November 2015 and Dec 2016, this ratio was only 22% reflecting the gain from cheaper crude oil prices.





Global Petroleum and Other Liquids

	2015	2016	2017	2018
Supply & Consumption	(million barrels per day)			
Non-OPEC Production	58.80	58.20	58.48	59.55
OPEC Production	38.03	39.02	39.55	40.21
OPEC Crude Oil Portion	31.63	32.52	32.70	33.20
Total World Production	96.83	97.22	98.03	99.76
OECD Commercial Inventory (end-of-year)	2969	3087	3066	3107
Total OPEC surplus crude oil production capacity	1.46	1.26	1.69	1.21
OECD Consumption	46.33	46.63	47.03	47.26
Non-OECD Consumption	48.73	49.83	51.06	52.29
Total World Consumption	95.06	96.47	98.09	99.55
Primary Assumptions (percent change from prior year)				
World Real Gross Domestic Product[a]	2.6	2.3	2.7	3.0
Real U.S. Dollar Exchange Rate[b]	10.7	6.3	5.3	0.9

Note-
a Weighted by oil consumption. b Foreign currency per U.S. dollar
Source- Short-Term Energy Outlook, Feb 2017, US ENERGY Information Administration

Rate Decision by Major Central Banks

RBI

- RBI kept the policy rates unchanged in its Sixth bi monthly policy review on Feb 8, 2017.
- Though policy rates have remained unchanged, contrary to our expectations, we are not surprised as RBI used this occasion to change its stance from accommodative to neutral which was overdue.
- The increased risks to stability as discussed in the Jan-2017 edition of our Monthly Macro Insight coupled with no definite assessment of demonetisation impact has compelled RBI to adopt a status quoist approach.
- The change in stance and greater emphasis on macroeconomic stability reflected in today's policy review is welcome for higher sustainable growth. We were expecting a rate cut that is more of a technical nature to bring parity in the interest rate spectrum, which we feel will be achieved by the hawkish stance.
- In a way today's policy has set the floor in the context of moving towards a lower interest rate regime for an emerging country like India with its aspirations and constraints.

FED

- As expected, US Fed in its meeting concluded on February 1, 2017 held the rates steady at a range of 0.5% to 0.75% after having increased the rate by 25bps a second hike in more than 10 years. There are seven more Fed policy meetings in 2017, with the next one scheduled for March 14-15.
- From the statements of Fed Chairperson, it is expected that given the sturdy improvement in the labour market conditions, Fed will be more aggressive in the rate increases in 2017 so as not be behind the curve and when it takes action, has to increase rates much faster and by a greater quantum.

BoE

- At its meeting ended on 1 February 2017, the nine members of the MPC voted unanimously to maintain Bank Rate at 0.25%, the level to which they were cut in August in the wake of the Brexit vote.
- The Committee voted unanimously to continue with the programme of sterling non-financial investment-grade corporate bond purchases totalling up to £10 billion, financed by the issuance of central bank reserves.
- The Committee also voted unanimously to continue with the programme of £60 billion of UK government bond purchases to take the total stock of these purchases to £435 billion, financed by the issuance of central bank reserves.
- The Committee's latest economic projections are contained in the February Inflation Report. The MPC has increased its central expectation for growth in 2017 to 2.0% and expects growth of 1.6% in 2018 and 1.7% in 2019. The upgraded outlook over the forecast period reflects the fiscal stimulus announced in the Chancellor's Autumn Statement, firmer momentum in global activity, higher global equity prices and more supportive credit conditions, particularly for households. Domestic demand has been stronger than expected over the past few months, and there have been relatively few signs of the slowdown in consumer spending that the Committee had anticipated following the referendum.

Rate Decision by Major Central Banks

ECB

- The Governing Council of the ECB on Jan 19, 2017 left the interest rate on the main refinancing operations, interest rates on the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.40% respectively.
- The Governing Council continues to expect the key ECB interest rates to remain at current or lower levels for an extended period of time, and well past the horizon of the net asset purchases.
- ECB decided to continue its QE program at €80 billion per month until the end of March 2017. From April 2017, the net asset purchases are intended to continue at a monthly pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.

BoJ

- **Bank of Japan (BoJ) decided by a 7-2 majority vote to adopt a status quoist approach to rate setting** in its monetary policy meeting on Jan 31, 2017. BoJ decided to continue applying an interest rate of -0.1 % to the short term Policy-Rate Balances that financial institutions park with it. BoJ further decided to purchase Japanese government bonds (JGBs) at the current pace viz, annual increase in the amount outstanding of its JGB holdings of about 80 trillion yen so that 10-year JGB yields will remain at around zero percent. BoJ has also given guidance for improved growth outlook and pacing up of inflation in 2017 and 2018

PBOC

People's Bank of China, **the Chinese Central Bank increased the costs of 7, 14 and 28-day reverse repurchase agreements by 10 basis** points each to 2.35%, 2.5% and 2.65% respectively. This is the first increase since 2013 for the two shorter tenors, and the first such move since 2015 for the 28-day contracts. It is also reported to have increased its overnight rate for standing lending facility (SLF) loans to 3.1% from 2.75% effective from Feb 3, 2017. Also the SLF loans for tenures of 7 days and one-month were also revised upwards by 10 bps. The rate hike was unanticipated and is possibly driven by the need to contain capital outflows and encourage deleveraging of companies.

Banking

Competition in the Lending Space

- Among select 12 banks (6 from the PSB space and 6 New Private Banks), Union Bank of India reduced its MCLR, Base rate as well as FD rates for 1-2 years. Further, Kotak Mahindra Bank and Yes Bank revised down its 1 year MCLR and Canara Bank revised down its base rate.
- Base rates of these banks varied within a range of 130 range. SBI, Axis Bank, HDFC Bank and ICICI Bank had the lowest base rate at 9.25% and IndusInd Bank had the highest base rate at 10.55%.
- SBI continued to have the lowest MCLR rates at 8.00% in the 1-year tenure and IndusInd continued to have the highest MCLR rate at 9.10% in the 1-year tenure.
- Range in deposit rates decreased to 90 bps in Feb 2017 from 100 bps in January 2017 for these 12 banks with respect to term deposits of tenure between 1 year-2 years and for less than Rs. 1 crore.

Innovation

Canara bank and Ministry of HRD to jointly promote HEFA-It is reported on Feb 16, 2017 that Canara Bank has signed a memorandum of understanding with the Ministry of Human Resource Development to promote the Higher Education Financing Agency (HEFA), a special purpose vehicle with an authorised capital of Rs. 2,000 crore. HEFA would leverage the equity to raise up to Rs. 20,000 crore for funding projects for infrastructure and development of world class Labs in IITs/IIMs/NITs and such other institutions. HEFA would also mobilise CSR funds from PSUs/corporates, which would in turn be released for promoting research and innovation in these institutions on a grant basis.

It may be noted that the, the Union Cabinet in September 2016 had approved the establishment of HEFA to give a major push for the creation of high quality infrastructure/capital assets in premier educational institutions. The principal portion of the loan will be repaid through 'internal accruals' (earned through fee receipts, research earnings etc.,) of the institutions. The Government would service the interest portion through regular Plan assistance. All the centrally funded higher educational institutions would be eligible for joining as beneficiaries of HEFA. Beneficiary institutions, however, are required to escrow a specific amount from their internal accruals to HEFA for a period of 10 years.

IDBI bank ties up with Consumerfed-IDBI Bank is reported to have tied up with Kerala State Cooperatives Consumers' Federation (Consumerfed) for cashless purchases by its customers. The association will enable customers to transact through debit cards at various distribution outlets of Consumerfed. It may be noted that Consumerfed is a network of fair price grocery and medical shops as well as beverage outlets in Kerala.

Mastercard to provide online payment solutions to Airtel Payments Bank-It is reported on Feb 16, 2017 that Airtel Payments Bank will utilize the services of MasterCard for faster processing of payments through an online debit card. The initiative will enable the customers of the Bank to make digital payments at over 1 lakh online merchant outlets.

Mahindra Lifespace & SBI to create platform on home finance-The realty wing of Mahindra group, Mahindra Lifespace Developers announced a partnership with State Bank of India on Feb 08, 2017 to establish a platform for customized needs as well as faster and easier access to home finance. As a part of the deal, both the companies will collaborate to provide exclusive home ownership solutions for customers serviced by each other by way of promotion, sharing of information

Income Tax Department (ITD) initiated Operation Clean Money on Jan 31, 2017-Initial phase of the operation will involve e-verification of large cash deposits made during Nov 9-Dec 30, 2016. In the first batch, around 18 lakh persons have been identified whose cash transactions are not congruent with the tax payer's profile. ITD has enabled online verification of these transactions to reduce compliance cost for the taxpayers while optimising its resources. The taxpayers covered in this phase are required to submit their response on the portal within 10 days in order to avoid enforcement actions.

Govt to arm agencies to freeze assets of economic offenders-Following the announcement in the Union Budget 2107-18 the government is planning to give more teeth to central investigation agencies and bankers under a proposed new rule, which will allow them to "confiscate assets" of economic offenders who have fled the country to escape investigation, without court approval. The move would allow investigators to attach assets of such offenders in the initial phase of investigation unlike existing rules, which take more than two years for the agencies to conclude the probe and be able to seize assets. However, the probe agencies would be required to inform the court after confiscation of assets for further legal procedure.

At present, the process of confiscation begins only when central agencies are able to establish "proceed of crime". This can be only done once the investigation is completed, and even after that the authority can provisionally attach the assets for 180 days only. They also require a court order and it should be confirmed by an independent adjudicating authority. The government is also contemplating providing a timeframe to offenders to appear for the investigation, else, their domestic property would be attached and after a certain deadline it could be auctioned too for recovery. Accordingly, these new provisions would be introduced in some of the economic offences laws like the Prevention of Money Laundering Act, Income Tax Act and the Code of Criminal Procedure. A provision is likely to be also included in the Bankruptcy and Insolvency Code. All the authorities, including banks, have been asked to provide lists of such offenders who have escaped probes in various big matters.

Development

Banks' investments in SLR securities decline in January-Banks' investments in securities that qualify under statutory liquidity ratio dropped sequentially for the first time in four months in the fortnight ended Jan 20, 2017. During the fortnight ended January 20, banks' investments in SLR securities fell to Rs. 35.83 lakh crore from Rs 36.35 lakh crore as on Jan 02, 2017. The drop in SLR investments was on account of maturity of the short term cash management bills (CMBs) in January. It may be noted that CMBs are issued under market stabilization scheme and qualify as SLR instruments have shorter maturity periods. On Dec 19, 2016, the Government had raised the limit of MSS bonds from Rs. 30,000 crore to Rs. 6 lakh crore, in order to suck out excess liquidity post the demonetisation initiative.

Cabinet approves merger of Associate Banks with SBI-The Cabinet, on Feb 16, 2017 has approved the merger of five associate banks , State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore with SBI. Proposals for the said merger were initiated in May 2016 by SBI. The merger is expected to create an entity that will be one of the 50 largest banks in the world with an asset base of Rs 37 lakh crore and presence in 36 countries. It will have over 500 million customers with 22,500 branches and 58,000 ATMs and an employee strength of over 270,000. The merged entity will be almost five times the size of India's second largest bank. The combined balance sheet will have a GNPA ratio of 8.7% of combined advances and a provisional coverage ratio of about 60%. The five associate banks had a market share of 5.30 per cent in deposits and 5.33 per cent in advances on March 31, 2016 with a net profit at Rs 1,640 crore. It may be noted that State Bank of Patiala and State Bank of Hyderabad are wholly owned subsidiaries of SBI.

Banks allowed to use statutory reserves for AT1 bond coupon payment-RBI on Feb 3, 2017 permitted banks to utilize statutory reserves to pay coupon (interest) on additional tier-I bonds, subject to certain regulations. Coupons can be paid out of 'distributable items' or 'current year profits' or 'brought forward from previous years profits and reserves'. Accumulated losses and deferred expenditure are required to be netted off from these profits and reserves for computation of balances available for coupon payment. Also coupon payments on AT1 bonds are subject to the issuing bank meeting minimum regulatory requirements for CET1, Tier 1 and Total Capital ratios. The accumulated losses and deferred revenue expenditure, if any, are also required to be netted off to arrive at the available balances for payment of coupon.

Ujjivan starts operations as small finance bank-Ujjivan Financial Services commenced operations as a small finance bank (SFB) by launching five pilot branches in Bengaluru on Feb 06, 2017. It is reported that these branches have been equipped to provide complete services. The Bank plans to extend services to 457 branches in 24 states over the next few months. The NBFC-MFI was among the ten entities to receive license from RBI to function as small finance banks in Sep 2016.

RBI establishes standing committee on Cyber Security- RBI on Feb 8, 2017 has announced creation of an inter department Standing Committee on Cyber Security to establish an ongoing system of security review and analysis of the emerging threats to protect the Indian banking system from cyber attacks. The Standing committee will comprise members like industry experts on cyber security, government representatives and others. The main aim of this committee would be to review the threats inherent in the upcoming and existing technology, adoption of security protocols, interface with various stakeholders and suggest possible policy interventions to strengthen cyber security preparedness of the banking system. The formation of the standing committee comes is based on the recommendations of the Expert Panel on Information Technology and Cyber Security headed by Meena Hemchandra that was set up by RBI. RBI has also instructed banks to improve their cyber security preparedness.

RBI to set up separate Enforcement Department-With a view to developing a sound framework and process for enforcement action RBI on February 8, 2017 announced setting up of a centralized Enforcement Department to deal with non-compliance of various regulations. RBI noted that regulation, surveillance and enforcement are three important facets of financial sector oversight mechanism. While Regulation define the framework in which financial entities function, Surveillance is the process through which adherence to the regulations is monitored and Enforcement deals with penalty for violation of norms. Regulation, surveillance and enforcement will be carried out jointly by the new department.

RBI desires common pool of forensic audit firms by banks-With an aim to investigate high-value frauds swiftly, the Reserve Bank of India (RBI) has expressed the need for banks to come up with a common pool of forensic audit firms for quicker actions and avoidance of delay with respect to evaluating eligibility of the audit firms. The development implies that in case of fraud investigations, a bank has to only invite price bids from the selected and pre- approved group of forensic audit firms, rather than test its professional competency and other qualifying criteria. Such a move is expected to lessen the time taken for fixing staff accountability, lodging complaints with law enforcement agencies, and invoking penal measures, such as debarring fraudulent borrowers from availing bank finance or raising funds from capital markets. It has been observed by RBI Deputy Governor that the gap between the date of occurrence of the fraud and detection has been widening as well as that of the first bank and the last bank reporting the borrowal account as fraudulent to the RBI.

India Post gets payments bank licence to start services-India Post has received the license to commence operations as a payments bank from RBI on jan 28, 2017. India Post Payments Bank (IPPB) becomes the third entity to receive the permission after Airtel Payment Bank and Paytm. Payment banks can accept deposits up to Rs. 1 lakh per account from individuals and small businesses and include services such as acceptance of demand deposits, Internet banking and remittance services.

POS and Card transactions record decline of more than 25% in January 2017-The value of transactions at point-of-sale (PoS) machines dropped over 25% in January to Rs. 2304 crore after peaking in December at Rs. 3110 crore in the wake of demonetisation.

Though aggregate volume of PoS transactions fell, the average ticket size of transactions rose to around Rs 1,812 from roughly Rs 1,680. The aggregate value of credit and debit card transactions also fell in Jan 2017 to Rs 41,748.43 crore as against Rs 52,223.84 crore for December 2016. In December, card-based transactions had risen over 48% from their November levels and even surpassed the R51,121 crore clocked in October, which marked the peak of the festive season.

Budget 2017-18 has announced a mission targeting 2,500 crore digital transactions for the year through Unified Payments Interface (UPI), Unstructured Supplementary Service Data (USSD), Aadhar Pay, immediate payment service (IMPS) and debit cards. The Government has also set a target to introduce 10 lakh new PoS terminals by March and they will be encouraged to introduce 20 lakh Aadhar-based PoS terminals by September. Some observers feel that the fall in digital transaction figures for Jan 2017 may be due to behavourial preferences.

Relaxation of Cash Withdrawal Limits Post-Demonetisation

RBI Deputy Governor has indicated a two stage process for relaxing cash withdrawal from SB accounts

- First Stage-Effective from Feb 23, 2017-Permission to withdraw Rs. 50,000 per week from the existing Rs. 24,000.
- Second Stage-Effective from Mar 13, 2017-No limit on cash withdrawal.

Initiatives

SBI to hike stake in credit card JVs with GE -It is reported that SBI may increase its stake in its credit card joint venture - SBI Cards and Payment Services (SBICPSL) - as well as find a new strategic partner to replace existing partner GE Capital in GE Capital Business Processes Management Services (GECBPMSL) which takes care of the technology and processing needs of SBI Card in the current quarter. SBI holds 60 per cent stake in SBICPSL and 40 per cent in GECBPMSL with the balance being held by GE Capital in both the ventures. SBI plans to increase its stake in GECBPMSL to at least 51% from 40% and from 60% to 74% in SBICPSL. The government's push to Digital India and cashless transactions may have prompted SBI's decision. The proposal is also in tandem with General Electric's global strategy to exit financial services, which is a non core business for the American conglomerate. Barclays is advising SBI, while Morgan Stanley has been roped in to assist GE for the above mentioned transaction. With 47.5 lakh credits cards, SBI has the second-largest number of credit cards in with a market share slightly above 15%. In the month of December alone, SBI issued 1.05 lakh new cards. Normally, 35-40 per cent is the attrition. So, net addition was 65,000 in the month of December. In the last few months, SBI added more than one lakh cards a month. One year back, the addition was in the range of 60,000-65,000 a month. Two years back it was in the range of 40,000-45,000.

Changes in NPA norms for restructured education loans-In order to encourage banks to provide education loans, RBI has permitted that rescheduling of payment period of such loans due to unemployment of borrower will not be treated as restructured accounts for computing NPAs. Banks may allow up to three spells of moratorium (not exceeding 6 months each) during life cycle of education loan, taking into account spells of unemployment/underemployment, However, banks would be required to maintain a higher provisioning of 5% during the additional moratorium period and one year thereafter. The RBI's response was on a clarification sought by the IBA whether the education loans with extended repayment period be treated as restructured loans. As per In 2013, the Department of Financial Services (DFS) had notified that if the repayments in education loans are extended due to revision in the repayment period, the same may not be treated as restructuring. IBA had written to RBI to confirm whether the 2013 notification of DFS holds good in view of RBI's Master Circular of July 2015,

Bank of Baroda is focussing on retail loans by a strong sales force-In order to boost its retail loans portfolio, Bank of Baroda (BoB) on Feb 13, 2017 announced building up a dedicated sales team of 2000 personnel to supplement the efforts of its branches in the home, auto and personal loans segment. Initially, the sales team is expected to be operational in the coming three months on a trial basis in metro centers and subsequently in other parts of the country. The bank is also planning to bring in additional support systems such as good quality valuers, faster legal approval processes and more number of pre-approved developers to increase its share of retail business in the credit portfolio.

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-Feb-17	8.35	01-Jul-16	9.60	Nov-16	7.00
Bank of India	07-Feb-17	8.50	30-Sep-16	9.65	Dec-16	7.00
Canara Bank	07-Feb-17	8.45	07-Jan-17	9.50	Jan-17	6.90
Punjab National Bank	01-Feb-17	8.45	01-Jan-17	9.35	Dec-16	6.90
Union Bank of India	01-Feb-17	8.50	01-Feb-16	9.30	Jan-16	7.00
State Bank of India	01-Feb-17	8.00	01-Jan-17	9.25	Nov-16	6.90
Axis Bank	18-Feb-17	8.25	02-Jan-17	9.25	Dec-16	7.00
HDFC Bank	07-Feb-17	8.15	24-Oct-16	9.25	Jan-17	6.25
ICICI Bank	01-Feb-17	8.20	03-Jan-17	9.25	Dec-16	7.00
IndusInd Bank	17-Feb-17	9.10	17-Jan-17	10.55	Jan-17	7.15
Kotak Bank	01-Feb-17	8.85	06-Jan-17	9.30	Jan-17	6.75
Yes Bank	01-Feb-17	8.85	05-Oct-15	10.25	Nov-16	7.10

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

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, 6.95% for term deposit of 456 days to less than 2 years and 6.85% for term deposit of 2 years.

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

HDFC Bank offers 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 6.75% for term deposit of 2 years.

Kotak Mahindra Bank offers 6.75% for term deposits of 1 year to 390 days, 6.25% 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.

Annex-1
Growth Projections – Pre and Post Demonetization

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

Annex-3
Monthly Macro Indicators

Indicator	15-Dec	16-Jan	16-Feb	16-Mar	16-Apr	16-May	16-Jun	16-Jul	16-Aug	16-Sep	16-Oct	16-Nov	16-Dec	17-Jan
Production														
IIP	-0.9	-1.6	1.9	0.3	-1.3	1.3	1.95	-2.5	-0.7	0.7	-1.9	5.7	-0.4	
Infrastructure	0.9	2.9	5.8	6.4	8.5	2.8	5.2	3	3.2	5	6.6	4.9	5.57	
Prices														
WPI	-1.1	-1.1	-0.9	-0.5	0.8	1.2	2.1	3.7	3.7	3.6	3.4	3.2	3.4	5.2
CPI	5.6	5.7	5.3	4.8	5.5	5.8	5.8	6.1	5.1	4.39	4.2	3.6	3.4	3.2
Agriculture	6.4	6.8	5.3	5.2	6.4	7.5	7.8	8.4	5.9	4	3.3	2.1	1.4	0.5
Industry	-1.5	-1.2	-0.5	0.1	1	1.2	1.2	1.8	2.4	2.5	2.7	3.2	3.7	4
Services	4	3.9	4.4	4	4.3	4	3.8	4	4.2	4.5	4.6	4.8	4.7	5.1
Banking														
Reverse Repo (Rs. Mn)	70233	77843	49575	153307	199432	48331	104234	96493	55863	99851	108037	187952	216296	127611
Repo (Rs. Mn)	136607	162492	143599	144912	113263	143911	53418	51953	64906	66210	98619	68773	47167	22413
Aggregate Deposits	10.3	10.3	10.2	9.2	9.8	8.9	9.7	9.6	8.8	13.8	10.0	17.8	17.4	
Total Credit	9.2	9.5	9.7	9	8.4	8	7.3	7.7	7.6	11.5	6.4	4	3.3	
Non Food Credit	9.3	9.8	9.9	9.1	8.4	8.4	7.9	8.3	8.2	10.8	6.7	4.8	4	
Industrial Credit	5.3	5.6	5.4	2.7	0.1	0.9	0.6	0.6	-0.2	0.9	-1.7	-3.4	-4.31	
Infrastructure Credit	8.4	9.8	9.1	4.4	-1.5	-0.1	-2.1	-3.1	-4.2	-4.6	-6.6	-6.7	-7.66	
Service Credit	9.2	8.9	8.6	9.1	10.9	9.3	9.2	10.8	12.1	18.4	9.3	7.1	8.31	
Leading Indicators														
Manufacturing PMI	49.1	51.1	51.1	52.4	50.5	50.7	51.7	51.8	52.6	52.1	54.4	52.3	49.6	50.4
Service PMI	53.6	54.3	51.4	54.3	53.7	51	50.3	51.9	54.7	52	54.5	46.7	46.8	48.7
Composite PMI	51.6	53.3	51.2	54.3	52.8	50.9	51.1	52.4	54.6	52.4	55.4	49.1	47.6	49.4
Services														
Passenger Traffic: All Airports	16.8	17.9	19.6	20.4	17.3	17.5	16.8	23	19.6	20.8	19.7	18.6		
Foreign Tourist Arrivals	3.1	6.7	11.3	12	10.6	3.8	7.4	17.1	11.8	13.3	10.3	9.2	13.6	
Goods Traffic Movement by Railways	-0.9	0.3	-0.7	-1.2	-3.7	-0.6	3	-1.9	-3.7	-2.7	-2.6	5.5	-0.1	
Automobile Sales: Total	-1.5	3.1	10.2	10.2	14.5	7.7	7.2	8.9	16.8	15.8	7.2	-4.2	-16	-5.13
Automobile Sales: Passenger Vehicle	5.1	-0.6	5.4	9.2	10.2	5.2	7.6	13.9	18.9	20.7	6.2	5.8	4.3	14.56
Automobile Sales: Commercial Vehicle	13.6	19.3	18.8	20.7	14.7	15.1	7.3	2.1	2.4	0.4	13.5	-7.1	-5.7	-2.42
Automobile Sales: Two Wheelers	-3.1	3.5	10.4	10.8	17.2	8.7	7.9	9.2	18.6	17.2	7.5	-5.2	-19.7	-7.72
Automobile Sales: Three Wheelers	-6.2	-3	20.4	-7.2	-21.7	-9.9	-6.6	-8.9	-11.9	-16.1	-2.1	-22	-37.3	-26.91
External														
FDI-Equity (US $mn)	4719	5065	3206	2556	3437	2059	2321	4159	4880	5227	7256	6066	4881	
FII-Net Portfolio Investment(US $mn)	-2572	-1471	-2381	4328	1133	-385	-193	2726	1022	2991	-1818	-5478	-4031	
ECB(US $mn)	3034	1395	1353	1521	305	1318	1072	1203	3173	2463	1771	488	2801	
Exports	-14.8	-13.6	-5.7	-5.5	-6.7	-0.8	1.3	-6.8	-0.3	4.6	9.6	2.2	5.7	4.3
Imports	-3.9	-11	-5	-21.6	-23.1	-13.2	-7.3	-19.1	-14.1	-2.5	8.1	10.4	2.3	10.7
Trade Balance(US $mn)	-11664	-7639	-6542	-5071	-4845	-6273	-8116	-7761	-7674	-8339	-10160	-13008	-10369	-9840
Rupee-Dollar Exchange Rate	66.3	67.9	68.6	66.3	66.5	67.2	67.6	67.03	67	66.7	66.85	68.52	67.95	67.81
Rupee-Pound Exchange Rate	98.4	97.8	95.2	95.1	97.4	98.7	90.5	88.3	87.7	86.4	81.29	85.53	83.42	84.84
Rupee-Euro Exchange Rate	72.5	74.1	75.1	75.1	75.7	74.8	75	74.3	74.6	74.8	72.9	72.84	71.61	72.55
REER 36 Country (Trade Based Weight) Base 2004-05=100	110.2	110.8	110.2	110.9	110.6	110.9	112.6	113.5	113.87	114.51	115.13	115.39	116.75	116.01
Forex Reserves Outstanding*(US $bn))	352	349	347	356	363	361	361	365	367	370	367	365	360	361
Note: All figures unless specified otherwise refers to y-o-y growth and are in per cent. PMI figures are numbers.														
***Jan 2017 figures refer to reserves as on Jan 20, 2017.**														

Annex-4
Quarterly Macro Indicators

	2013-14		2014-15				2015-16				2016-17	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
GVA at Basic Prices Growth	6.3	4.9	7.4	8.1	6.7	6.2	7.2	7.3	6.9	7.4	7.3	7.1
Components Growth												
Agriculture, Forestry and Fishing	5	4.6	2.3	2.8	-2.4	-1.7	2.6	2	-1	2.3	1.8	3.3
Industry	5.2	3.9	8	5.9	3.8	5.7	6.7	6.3	8.6	7.9	6.0	5.2
Mining and Quarrying	2.1	8.1	16.5	7	9.1	10.1	8.5	5	7.1	8.6	-0.4	-1.5
Manufacturing	6.4	4.5	7.9	5.8	1.7	6.6	7.3	9.2	11.5	9.3	9.1	7.1
Electricity, Gas, Water Supply and Other Utility Services	3.8	5.8	10.2	8.8	8.8	4.4	4	7.5	5.6	9.3	9.4	3.5
Construction	4.4	0.8	5	5.3	4.9	2.6	5.6	0.8	4.6	4.5	1.5	3.5
Services	7.8	5.6	8.6	10.7	12.9	9.3	8.8	9	9.1	8.7	9.6	8.9
Trade, Hotels, Transport, Communication and Services Related to Broadcasting	10.5	7.8	11.6	8.4	6.2	13.1	10	6.7	9.2	9.9	8.1	7.1
Financial, Real Estate and Professional Services	7.1	6.7	8.5	12.7	12.1	9	9.3	11.9	10.5	9.1	9.4	8.2
Public Administration, Defence and Other Services	4.7	0.9	4.2	10.3	25.3	4.1	5.9	6.9	7.2	6.4	12.3	12.5
Expenditure components as % of GDP												
Net Taxes on Products	7.6	11.9	3.9	6.3	8.1	13.5	5.4	7.6	9.4	14.9	5.9	8.3
Final Consumption Expenditure	69.2	65.6	70.4	71.1	68.2	64.8	71.3	72.8	70.4	66.5	73.4	73.9
Final Consumption Expenditure: Private	61	56.5	58.3	57.9	57.9	56.4	59.8	59.6	60.3	58.4	60.5	59.8
Final Consumption Expenditure: Government	8.2	9.1	12.1	13.2	10.3	8.4	11.5	13.1	10.1	8.1	12.9	14.1
Gross Fixed Capital Formation	31.2	31.1	32.2	31.1	29.9	30.1	31.6	31.4	27.6	26.9	28.3	27.1
Change in Stocks	1.5	1.6	1.9	1.8	1.6	1.8	1.8	1.8	1.6	1.7	1.8	1.8
Valuables	1.3	1.5	1.6	1.4	1.3	1.8	1.5	1.4	1.3	1.3	0.7	0.7
Exports of Goods and Services	25.1	25.1	24.2	23.8	23	20.9	21	21	19.2	18.8	20.0	19.5
Import of Goods and Services	27.1	26.6	27.4	27.5	26.2	22.7	23.9	24.5	22	19.9	20.9	20.7
Discrepancies	-1.2	1.7	-3	-1.7	2.3	3.3	-3.3	-3.8	1.8	4.7	-3.4	-2.3
BoP Indicators												
Current Account as % of GDP	-0.9	-0.2	-1.5	-2.2	-1.5	-0.1	-1.2	-1.7	-1.3	-0.1	-0.1	-0.6
Trade Account as % of GDP	-3.2	-2.2	-3.6	-4.1	-3.6	-2.1	-3.3	-3.9	-3	-1.6	-1.5	-1.7
Capital Account as % of GDP	0	0	0	0	0	0	0	0	0	0	0	0
Financial Account as % of GDP	1	0.4	1.6	2.1	1.9	0	1.4	1.8	1.3	0.03	-0.01	0.77
Foreign Direct Investment as % of GDP	1.3	0.2	1.6	1.5	1.3	1.7	2	1.3	2	1.6	0.8	3.2
Foreign Portfolio Investment as % of GDP	0.5	1.9	2.6	1.9	1.2	2.3	0	-0.7	0.1	-0.3	0.4	1.1
Errors and Omission as % of GDP	-0.1	-0.2	0	0.1	-0.4	0.1	-0.2	-0.1	0	0	0	0.1
Accretion(-)/Depletion (+) of Forex (Us$bn)	-19.1	-7.1	-11.2	-6.9	-13.2	-30.1	-11.4	0.9	-4.1	-3.3	-6.9	-8.5
FDI(US$bn)	6.1	0.9	7.6	7.5	6.9	9.3	10	6.5	10.7	8.8	4.1	17.2
FII(US$bn)	2.4	9.3	12.4	9.8	6.3	12.5	0	-3.5	0.6	-1.5	2.1	6.05
External Debt: USD: Total (bn)	426.9	446.2	453.1	456.3	458.7	475	482.4	480.5	479.3	485.1	479.7	
External Debt: USD: Long Term (bn)	334.2	354.5	363.1	369.3	373.1	389.5	398.8	396.1	398.1	402.2	397.6	
External Debt: USD: Short Term (bn)	92.7	91.7	90.1	87	85.6	85.5	83.6	84.8	81.6	83.4	82.1	
External Debt: USD: Short Term: Trade Related (bn)	86.2	81.7	82	80.4	79	81.6	79.3	79.2	77.4	80	79.7	
Short Term Debt as % of Total Debt (bn)	21.7	20.5	19.9	19.1	18.7	18	17.3	17.6	17	17.2	17.1	

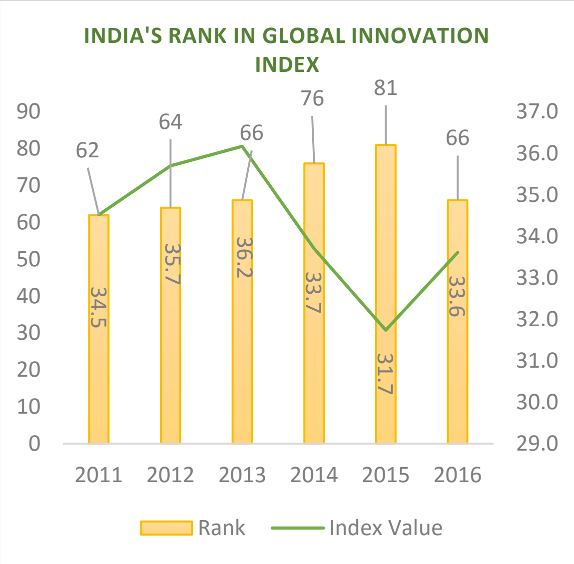
Note-Figures are in per cent unless specified otherwise.

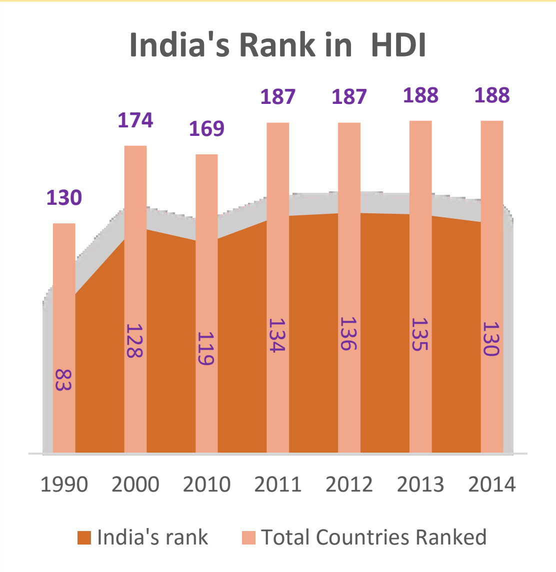
Annex-5
Annual Macro Indicators

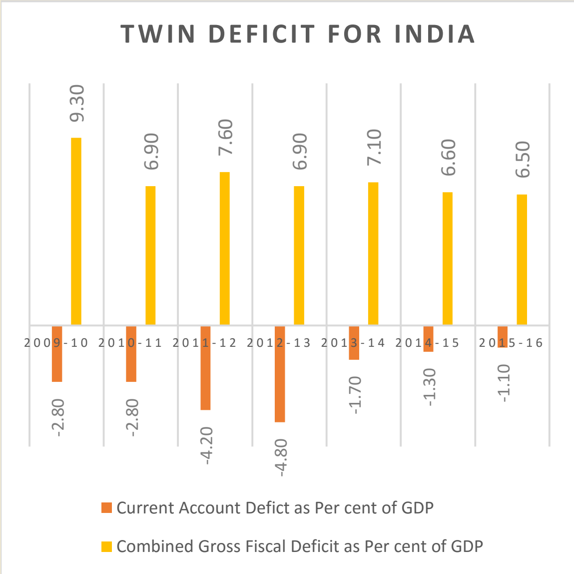
Indicator	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Real Sector Growth										
GVA at Basic Price*	9.6	9.3	6.7	8.6	8.9	6.7	5.4	6.3	7.1	7.2
I. Agriculture	4.2	5.8	0.1	0.8	8.6	5.0	1.5	4.2	-0.2	1.2
II. Industry	12.2	9.7	4.4	9.2	7.6	7.8	3.6	5.0	5.9	7.4
Mining & quarrying	7.5	3.7	2.1	5.9	6.5	0.1	-0.5	3.0	10.8	7.4
Manufacturing	14.3	10.3	4.3	11.3	8.9	7.4	6.0	5.6	5.5	9.3
Electricity, Gas &Water Supply	9.3	8.3	4.6	6.2	5.3	8.4	2.8	4.7	8.0	6.6
Construction	10.3	10.8	5.3	6.7	5.7	10.8	0.6	4.6	4.4	3.9
III. Services	10.1	10.3	10.0	10.5	9.7	6.6	8.1	7.8	10.3	8.9
Food Grains Production (Mn Tonnes)	217.3	230.8	234.5	218.1	244.5	259.3	257.1	265.0	252.0	252.2
Industrial Production										
IIP	12.9	15.5	2.5	5.3	8.2	2.9	1.1	-0.1	2.8	2.4
Basic Goods	8.9	8.9	1.7	4.7	6	5.5	2.5	2.1	7	3.6
Capital Goods	23.3	48.5	11.3	1	14.8	-4	-6	-3.6	6.4	-2.9
Intermediate Goods	11.5	7.3	0	6	7.4	-0.6	1.6	3.1	1.7	2.5
Consumer	16.1	17.6	0.9	7.7	8.6	4.4	2.4	-2.8	-3.4	3
Consumer Durables	25.3	33.1	11.1	17	14.2	2.6	2	-12.2	-12.6	11.3
Consumer Non-Durables	12.3	10.2	-5	1.4	4.3	5.9	2.8	4.8	2.8	-1.8
Mining	5.2	4.6	2.6	7.9	5.2	-2	-2.3	-0.6	1.5	2.2
Manufacturing	15	18.4	2.5	4.8	9	3	1.3	-0.8	2.3	2
Electricity	7.3	6.3	2.7	6.1	5.5	8.2	4	6.1	8.4	5.7
Banking										
Aggregate Deposits Growth	23.8	22.4	19.9	17.2	15.9	13.5	14.2	14.1	10.7	9.9
Demand Deposit Growth	17.9	22	-0.2	23.4	-0.6	-2.6	5.9	7.8	11.2	13.1
SCBs food credit	-1	14.3	-4.6	4.1	4.9	32.6	26.5	18.6	2.1	-4.1
SCBs non-food credit	38.4	28.5	23	17.8	17.1	21.3	16.8	14	14.2	9.3
Fiscal Sector(Combined)										
Gross fiscal deficit	5.1	4	8.3	9.3	6.9	7.6	6.9	7.1	6.6	6.5
Gross primary deficit	-0.3	-1.2	3.3	4.5	2.4	3.2	2.3	2.3	1.7	1.6
Revenue deficit	1.3	0.2	4.3	5.7	3.2	4.1	3.4	3.2	2.6	2.5
External Sector										
Exports Growth	22.6	29.1	13.6	-3.5	39.8	22.5	-1.8	4.7	-1.3	-15.9
Imports Growth	24.5	35.5	20.7	-5.1	28.2	32.3	0.3	-8.3	-0.5	-15.3
Exports/GDP	13.6	13.4	15.4	13.4	15	16.8	16.7	17	15.4	12.8
Imports/GDP	20.1	20.8	25.2	22	22.4	27.1	27.4	24.9	22.5	18.5
Invisibles/ GDP	5.5	6.1	7.5	5.9	4.6	6.1	5.9	6.1	5.7	7.2
CAD /GDP	-1	-1.3	-2.3	-2.8	-2.8	-4.2	-4.8	-1.7	-1.3	-1.1
Foreign Investment/GDP	3.1	5	2.3	4.8	3.5	2.7	3	1.9	3.7	1.6
Import Cover of Reserves (Months)	12.5	14.4	9.8	11.1	9.5	7.1	7	7.8	8.9	
FII(US$mn)	3225	20328	-15,017	29048	29422	16812	27582	5009	40923	- 3,516
FDI(US$mn)	16481	26864	32066	27146	22250	35855	22884	25274	31911	41043

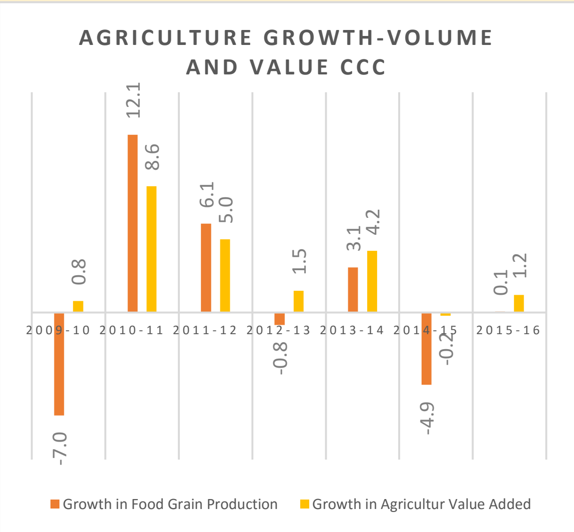
Note-*For 2006-07 to 2011-12 figures represent rate of growth GDP at factor cost (2004-05 base).
Figures are in per cent unless specified otherwise.

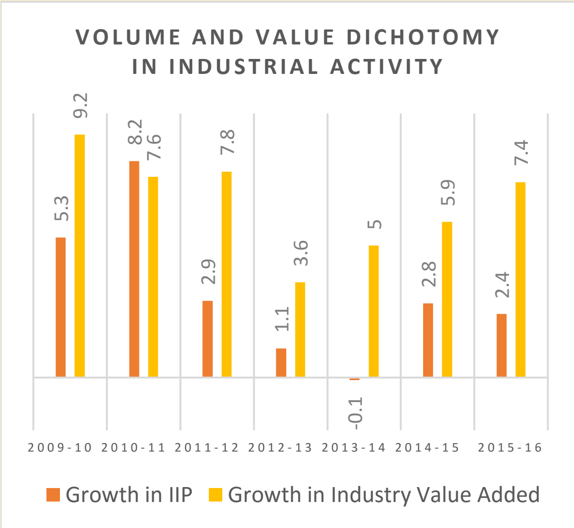
Indian Economy in Graphs











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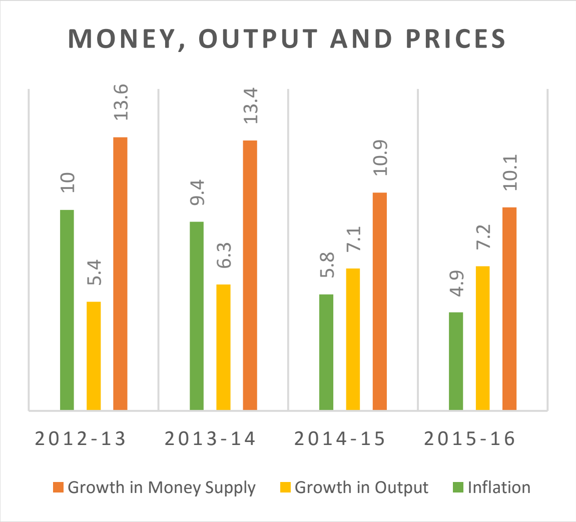

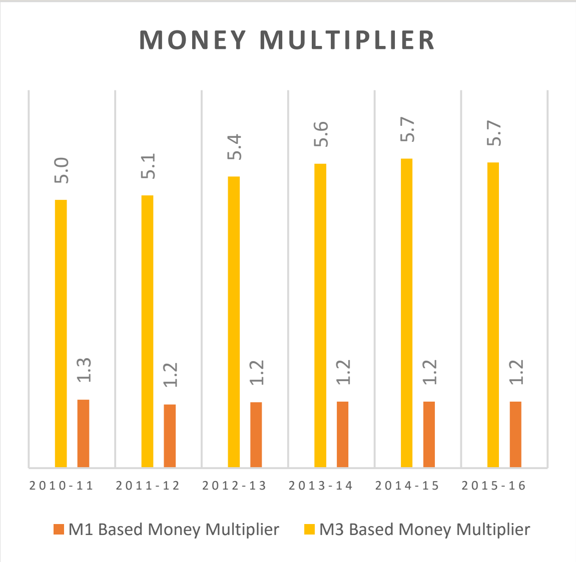

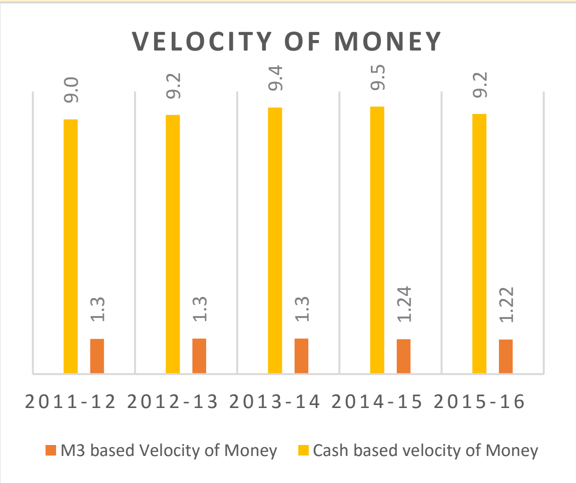

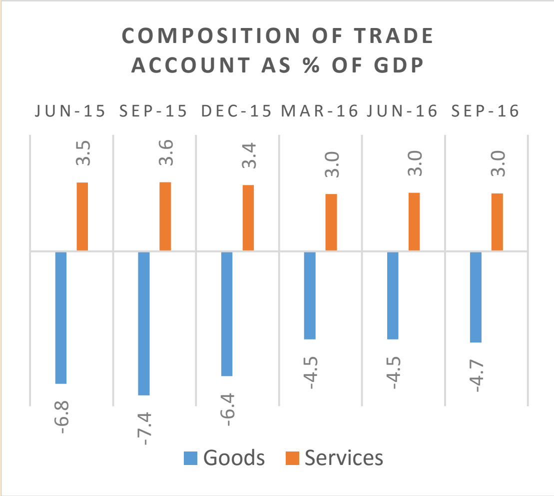

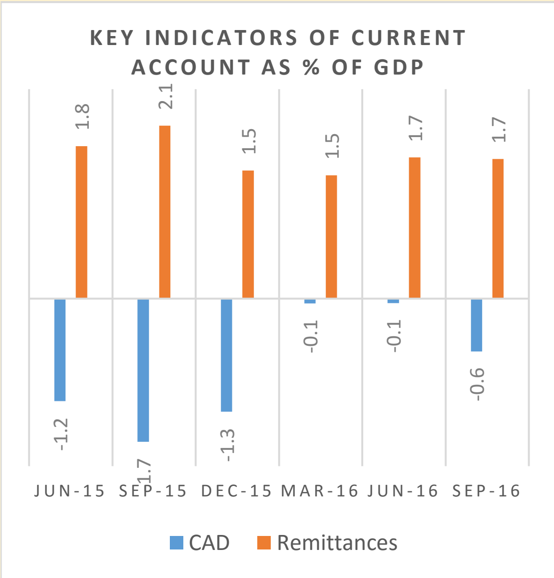

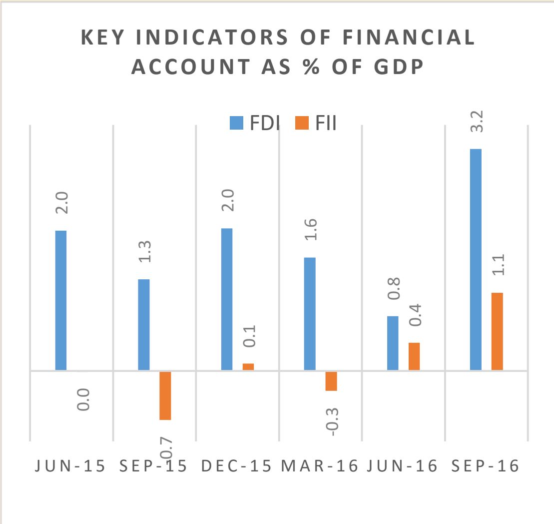

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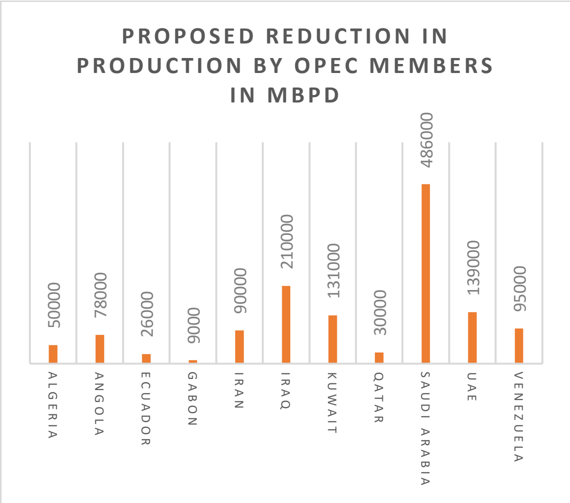

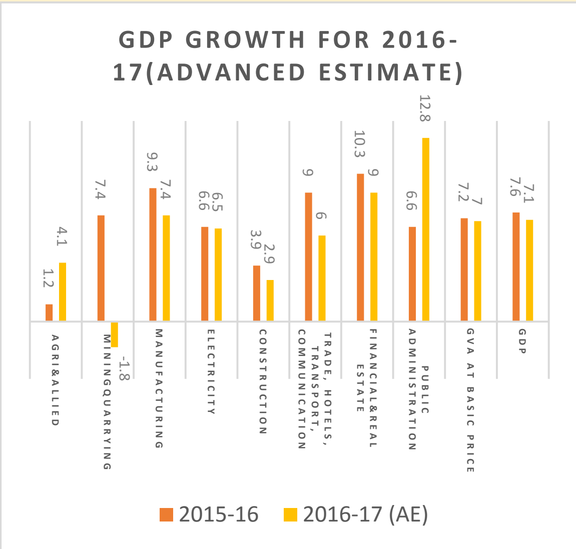

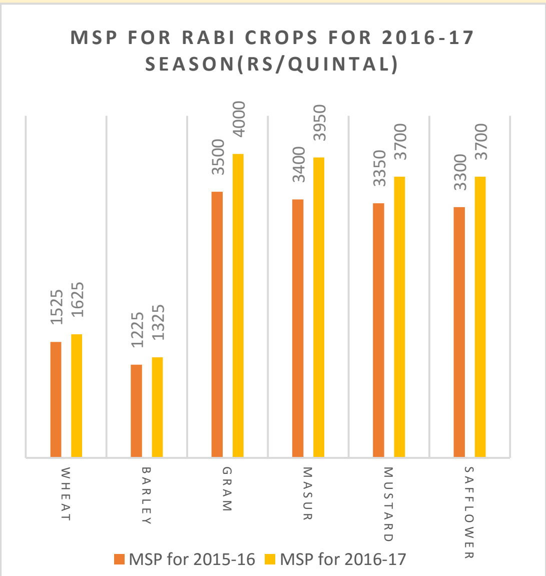

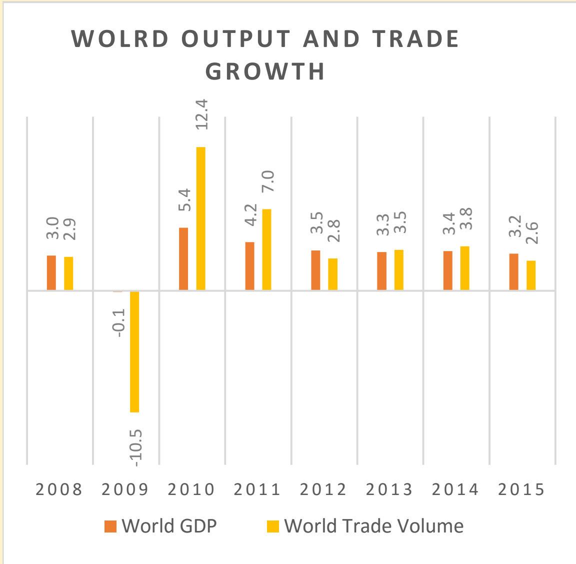

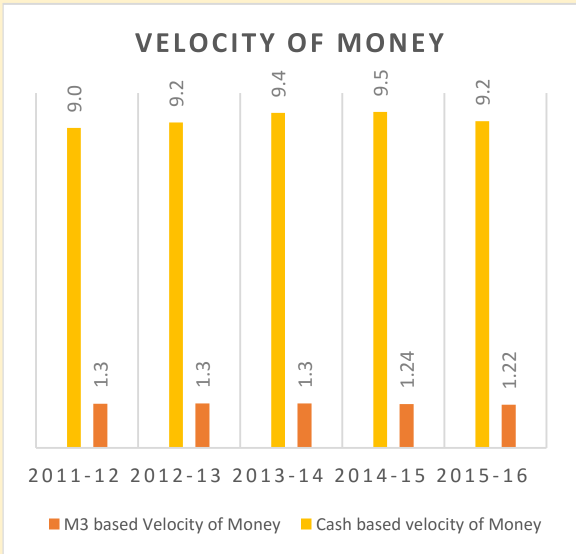

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Notes

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