Macrowatch

Monthly Update on Economy and Banking

August 2016

INDEX

Overview

Global policy space remained meandering between the dual objective of accelerating growth and managing inflation. While advanced economies underwent quantitative easing in line with its growth objectives, emerging economies faced the constraint of weak global trade, tighter credit conditions and volatility in currency movement. The central banks of major advanced economies have accordingly realigned their monetary policy instruments to the extent of negative interest rate to inhibit the deflationary trap. While at the same time, fiscal stimulus was provided to revive the growth prospects. Emerging economies remained varied on their growth picture. China's growth stabilized in Q2 of 2016 on the back of subdued manufacturing activity. Recessionary conditions showed signs of retreat from economies of Brazil and Russia. While UK's decision to leave the European Union has dragged down the global growth prospects by increasing the level of uncertainty.

The Federal Reserve maintained a gradual stance in its monetary policy approach in view of the prevalent US inflationary target and labor market conditions. In its Jul-16 policy meet, it has decided to hold the key Federal Fund rates in the range of 0.25 to 0.50 per cent. The European Central Bank, in its Jul-16 policy review, also maintained status quo on interest rate charged on main refinancing operations, marginal lending facility and the deposit facility at 0.00 per cent, 0.25 per cent and (-) 0.40 per cent respectively. The Bank of England (BoE), on the other hand, went for a monetary easing (after a span of nearly 7 years) in lieu with a package of measures to ease the liquidity conditions of the economy post Brexit. It has cut bank rate by 25 bps to 0.25 per cent. The bad loan crisis in Italy of about 300-350 billion pound has also created a possible threat to the Euro Zone's overall economic health. The Bank of Japan (BoJ) decided to continue with negative interest rate of (-) 0.1 per cent on deposits kept by financial institutions with the central bank; while at the same time resorting to Exchange Traded Funds (ETFs) purchase programme for indirect liquidity infusion into the system. The Japanese government also announced a host of fiscal measures including 7.5 trillion yen in spending by the national and local governments to revive the growth prospects of the economy.

The Indian economy remained buoyant in its growth prospects supported by a lot of developments to retain it on the path of sustainable growth. The passage of GST bill by both houses of the parliament, the movement towards an inflation targeting approach of 4% of CPI inflation with a lever of + / - 2 as RBI's mandate till March 2021 and infusion of capital by the government to the tune of Rs. 22,915 crore in 13 PSBs at the beginning of the second quarter of FY 2016-17 is expected to add further shine to India's growth story.

I.A. Outlook

The IMF's World Economic Outlook, Jul-16 update has expressed concern on the global growth prospects on the back of the "Brexit' issue.

Highlights of the report:

• On the back of UK's decision to leave the European Union, global growth has been downgraded by 0.1 per cent to 3.1 per cent for 2016 and 3.4 per cent for 2017;

•Productivity growth in most advanced economies remained sluggish and inflation remained below the target owing to the impact of declining energy prices;

•The growth rate of US economy has been revised downward for 2016 due to weaker demand condition even though growth is expected to pick up in the second half of 2016. In the Euro area, uncertainity on consumer and business confidence as well as potential bank stresses, post Brexit might be a drag down on its growth prospects in 2017;

•The output growth in the first quarter of 2016-17 was better than expected in the emerging market economies;

•The result of UK's referendum has increased uncertainty in the financial markets worldwide . The equity valuations for UK and European Banks remained low;

• The yield on safe assets have declined further reflecting both higher risk aversion and expectation for future monetary easing in the advanced economies.

Output Growth	Projections		Difference from April 2016 WEO Projection	
	2016	2017	2016	2017
World Output	3.1	3.4	–0.1	–0.1
Adv. Economies	1.8	1.8	-0.1	-0.2
United States	2.2	2.5	2.2	2.5
Euro Area	1.6	1.4	1.6	1.4
Japan	2.6	2.1	0.0	-0.2
United Kingdom	1.7	1.3	-0.2	-0.9
Emrg. & Dev. Economies	4.1	4.6	0	**0**
Russia	-1.2	1.0	0.6	0.2
China	6.6	6.2	0.1	0
India	**7.4**	**7.4**	**-0.1**	**-0.1**
Brazil	-3.3	0.5	0.5	0.5

Source: World Economic Outlook: July update 2016; IMF

India Outlook

Growth Scenario: As per IMF's World Economic Outlook-Jul-16 update, Indian economy remained the outperformer, yet its growth prospects has been marginally lowered to 7.4 per cent for both 2016 and 2017 on the back of subdued investment climate. The government's endeavor to revive the capex cycle of the economy is expected to give a push to India's potential growth rate . The RBI' s recent publication has also expressed concern about the deviation of potential and actual output since Q3 of FY 2011-12. Hence concerted efforts are required to increase the capital stocks as well as total factor productivity of the economy which would lower this deviation in the future.

Price outlook: India for the first time joined the club of nations which undertook an inflation targeting approach since the onset of financial crisis 2008-09. The Government of India on August 5, 2016 has institutionalized the Monetary Policy Committee (MPC) with a targeted inflation of 4% of CPI inflation with a lever of + / - 2 as RBI's mandate till March 2021. This new policy framework is expected to ease the dilemma of growth v/s inflation. The current CPI inflation level of 6.07% for the month of Jul-16, has already breached the upper band. The growth in urban consumption demand along with rural wage growth, the implementation of Seventh Pay Commission recommendations and the expected GST roll out from Apr1, 2017 is likely to add further pressure on the inflationary front in the medium term.

Fiscal outlook: The Centre's fiscal deficit for Q1 2016-17 stood at 61.1 per cent of the full year's estimate is quite higher than 51.6 per cent for the same period, last year. The tax revenue has improved significantly while non tax revenue sources falters. Thus revenue deficit stood at 79.7 per cent quiet higher than previous year's figure of 58.6 per cent. The RBI has notified that it will transfer a surplus of Rs 65,876 crore as dividend to the government for FY 2015-16. This amount is likely to ease the pressure on government's fiscal position in the short term and will enable to remain in the target range of 3.5 per cent by FY 2016-17.

External sector: Indian economy remained stable on the external front. With a current account deficit as low as 0.1 per cent in Q4 of FY 2015-16 and an improved export environment after a span of nearly 18 months, India is expected to shine on in an otherwise gloomy space. The foreign exchange reserves also remained comfortably at around USD 365 billion. The FPI investment in equity totaled to Rs. 1481.58 crore as of Jul-16, whereas in the debt market FPI's remained a net seller.

Banking sector Outlook: The Banking sector outlook strengthened on the back of government's infusion into PSBs in the beginning of the second half of financial year2016-17. The government's immediate infusion of about 75 per cent of Rs. 22,915 crore is credit positive for the Indian economy. The decision is likely to provide additional liquidity support and would enable higher credit off take in the future. However, continued detoriation in asset quality remained a concern.

II. Output

Sectors	FY 2014-15 (%)	FY 2015-16(%)	Q4, FY 2015-16(%)
Agriculture	-0.2	1.2	2.3
Industry	5.9	7.4	7.9
Services	10.3	8.9	8.7
GVA at basic prices	7.1	7.2	7.4

Provisional estimates of national income for FY 2015-16

Gross Value Added (GVA): Real GVA or GVA at constant Prices (2011-12) grew by 7.2% during FY 2015-16 (PE) as against 7.1% in FY 2014-15 (RE).

Gross Domestic Product (GDP): As per provisional estimates, real GDP or GDP at constant (2011-12) prices during FY 2015-16 stood at 7.6% as against 7.2% in FY 2014-15; while Nominal GDP growth stood at 8.7% in FY 2015-16 as against 10.8% in FY 2014-15;

Quarterly estimates of national income for Q4 FY 2015-16

Gross Value Added (GVA): GVA at basic prices grew by 7.4% in Q4 compared to 6.9% in Q3 FY 2015-16. **Gross Domestic Product:** Real GDP grew by 7.9% whereas nominal GDP grew by 10.4% in Q4 FY 2015-16.

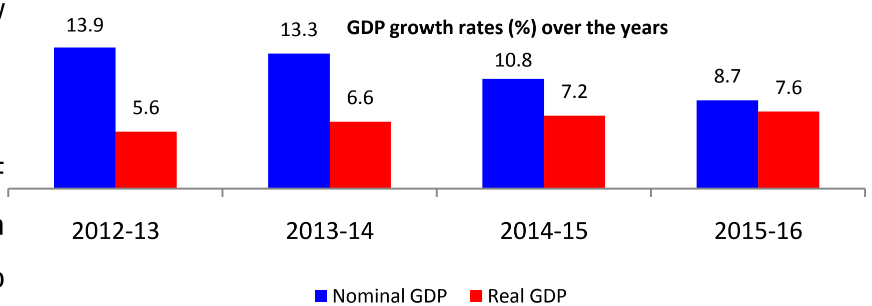
GDP from expenditure side at market price:

Private Final Consumption Expenditure (PFCE): PFCE in FY 2015-16 grew by 12.3 % with 59.5% share in total GDP. This reflects improvement in domestic demand of the economy.

Government Final Consumption Expenditure(GFCE): GFCE grew marginally by 5.4% in FY 2015-16 with its share in total GDP declining to 10.6% in FY 2015-16 from 10.9% in FY 2014-15.

Government Fixed Capital Formation(GFCF): Growth in GFCF remained moderate for the FY 2015-16 at 3.3%. However, its contribution to total GDP fell to 29.3% from 30.8% from previous year, which points to deficit demand.

Components	GDP at Market price			
	Growth over previous year		Percentage contribution to GDP	
	2014-15	2015-16	2014-15	2015-16
Consumption	**11.7**	**11.2**		
PFCE	10.5	12.3	57.6	59.5
GFCE	18.4	5.4	10.9	10.6
Investment	**8.9**	**3.2**		
GFCF	7.9	3.3	30.8	29.3
CIS	22.6	6.3	1.8	1.7
Valuables	18.2	-2.7	1.5	1.4
Exports	0.2	-5.4	22.9	19.9
Imports	1.3	-5.6	-25.9	-22.5
Net exports	**10.9**	**-7.5**		
Discrepencies	0.4	0.1	0.4	0.1



Performance of Agriculture Sector:

On the agriculture front, the Indian economy is expected to see a revival in the coming quarter. The south west monsoon , after a delayed onset has picked up vigorously from the third week of Jun-16. The cumulative rainfall from Jun 1 – Aug 17 2016, is normal with 0 per cent above the long period average (LPA). More than 80 per cent of the country has received normal to excess precipitation.

Forecast for the second half:

- In the second half of 2016, southwest monsoon is most likely to be above normal (>106% of LPA) with a probability of 55 per cent.
- The rainfall during August is likely to be 104 ± 9% of LPA as was forecasted in June.
- The season (June to September) rainfall over the country as a whole is likely to be 106% ±4% of LPA as was forecasted in June, 2016.

Crop productivity:

- The total sown area of major Khariff crops as of Aug-12, 2016 has increased by 5.8 per cent in FY 2016-17 quiet higher than 1.0 per cent growth registered in the previous year.
- Despite setback due to deficient rainfall in 2015 and due to shortage of water in reservoirs, the 4th Advance Estimates for production of foodgrains for FY 2015-16 has increased to 252.22 million tones (MT), which is about 0.20 been higher than registered in FY 2014-15.

Regions	01 June-Aug 17
	% Dep from LPA
Country as a whole	0%
Northwest India	8%
Central India	10%
South Peninsula	-8%
East & Northeast India	-16%

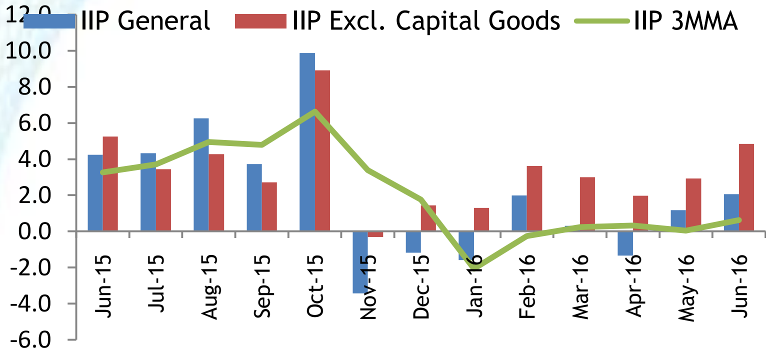
Y-o-Y growth rate as of Aug-16 of Khariff crops (in terms of area sown)		
Major Khariff Crops	FY 2015-16	FY 2016-17
Rice	0.5	3.6
Pulses	10.1	35.3
Coarse Cereals	3.3	7.5
Oilseeds	-0.1	4.2
Sugarcane	3.5	-8.2
Jute & Mesta	-4.1	-2.2
Cotton	-7.2	-7.9
Total	**1.0**	**5.8**

Performance of Industrial sector:

The industrial performance improved considerably with Index of Industrial Production improving to 2.1per cent in Jun-16 compared to 1.2per cent in May-16 and 4.2 per cent in Jun-15. The growth of the core sector indices which comprises of 38 per cent of IIP 's growth rate has also improved to 5.3 per cent in Jun-16 from 2.9 per cent in May-16. Mining, manufacturing and electricity also improved considerably to 4.7 per cent , 0.9 per cent and 8.3 per cent in Jun-16 after a period of contraction .

Components of IIP and their growth rates(%)			
	Apr-16	May-16	Jun-16
Sectoral Classification			
Mining	1.1	1.4	4.7
Manufacturing	-3.7	0.6	0.9
Electricity	14.6	4.7	8.3
Use Based Classification			
Basic goods	4.7	3.9	5.9
Capital goods	-25.0	-12.4	-16.5
Intermediate goods	2.3	3.6	6.1
Consumer goods	-1.9	1.1	2.8
Durables	11.8	6.0	5.6
Non-durables	-10.8	-2.2	-4.2

Though the performance of manufacturing sector in overall GDP remained significant, the IIP picture has often been misleading. This is primarily due to the volatile component of IIP i.e. the capital goods sector. If we plot the IIP excl capital goods along with the General IIP, it will reflect gradual improvement. The demand components also remained volatile, primarily the consumer durables component while the non durable component remains to be affected by the subdued rural demand in the past.

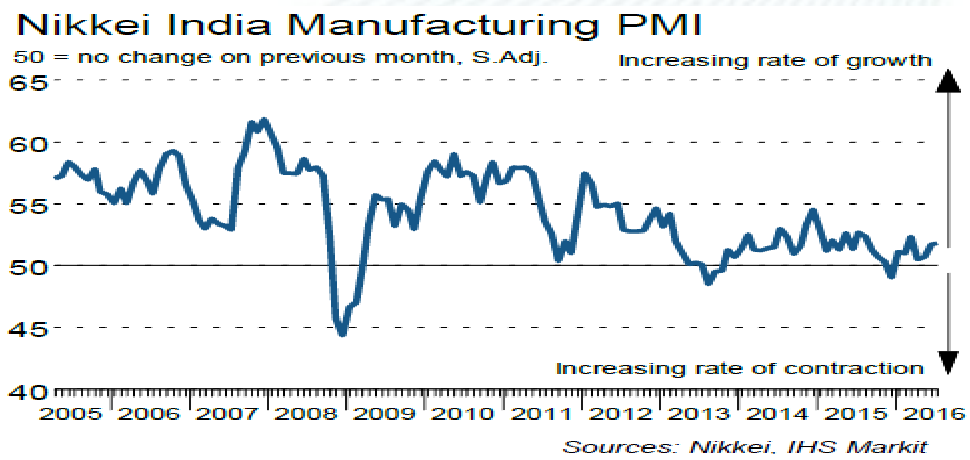


The performance of India's manufacturing economy continued to improve in Jul-16, with a stronger expansion in new business orders. This has been reflected in the higher growth rate of output. The seasonally adjusted Nikkei India Purchasing Manager's Index posted a four month high of 51.8 in Jul-16 compared to 51.7 in Jun-16.

•Rates of expansion in new orders and output both at four-month highs;

•Input cost inflation at five-month low;

•The data pointed to a revival in the manufacturing activity in the second half of 2016 after a slowdown which was observed in the Apr-Jun quarter of FY 2016-17.



Developments on the service sector:

•The service sector outlook remained fairly stable with Service sector purchasing managers polling the thirteenth successive month of expansion in Jul-16. The **Nikkei India Composite PMI Output Index** climbed to a three-month high of 52.4 in Jul-16 compared to 51.1 in Jun-16. The **Nikkei India Services Business Activity** Index rose to 51.9 in Jul-16 up from 50.3 in Jun-16. Business expectations remained optimistic on account of better economic conditions and planned increases in marketing budgets. The automobile sales across most segments, railway, port and international air freight traffic, foreign tourist arrivals, and domestic air passenger traffic are providing the underlying momentum for future upturn in the service sector activity.

Domestic Vehicle Sales:

• The auto industry has witnessed double digit growth in Q1 of FY 2016-17. However, exports still remain a matter of concern.

•The overall industry production has increased by11.74 per cent in Apr-Jun 2016-17 compared to 11.28 per cent in Apr-May 2016-17, the exports of passenger vehicles and commercial vehicles have revived considerably as well.

Particulars	Cumulative up to Jun-16 (Apr-Jun-16)	
The industry production	11.74	
Overall automobile exports	(-) 9.70	
	Growth in Total sales(%)	**Growth in Exports(%)**
Passenger vehicles sales	6.66	12.14
Commercial vehicles sales	12.99	7.22
Three wheelers sales	26.40	(-) 46.22
Two wheelers sales	14.26	(-) 8.30

•The **tourism sector** continued to contribute positively in the overall growth rate of service sector. There has been a 7.3 per cent growth rate in foreign tourist arrivals in Jun-16 over the same period in 2015. The foreign exchange earning from tourism also increased at the rate of 14.1 per cent (in rupee terms) in Jun-16, whereas in dollar terms the growth rate has been around 6.5 per cent in Jun-16 compared to 1.9 per cent in Jun-15. Through the e-Tourist Visa route, a whooping growth of 137.7 per cent in foreign tourist arrival has been observed which is a clear indication that government efforts to promote tourism to the next level have been gaining ground.

III. Developments on the External Sector:

The external sector has remained partly insulated from the global macroeconomic uncertainty. The India's merchandise exports after a prolonged period of decline recorded a positive growth of 1.3 per cent in Jun-16 over Jun-15. Though in Jul-16, exports faltered to 6.8 per cent primarily due to subdued global demand.

Merchandise Trade: The exports, which stood at US$ 21.69 billion was 6.84 per cent lower in Dollar terms (1.61 per cent lower in Rupee terms) compared to Jul-15. Imports also declined by 19.03 per cent in Dollar terms and 14.48 per cent lower in Rupee terms to USD 29.45 billion over the level of imports during Jul-15. Oil imports registered a decline of 28.1 per cent in Jul-16 compared to 16.4 per cent in Jun-16. Non oil imports also registered a sharp decline of 15.8 per cent in Jul-16 compared to a decline of 4.1 per cent registered in the previous month. The trade deficit declined to USD 7.8 billion in Jul-16 compared to 8.1 per cent in Jun-16.

Y-O-Y growth rate of Merchandise trade components			
	Jul-15	Jun-16	Jul-16
Exports	-9.7	1.3	-6.8
Imports	-9.2	-7.3	-19.0
Imports- Oil	-34.9	-16.4	-28.1
Imports- Non Oil	5.5	-4.1	-15.8
Trade Balance (US$ bn)	-13.1	-8.1	-7.8
Forex cover to imports	9.9	11.9	12.1

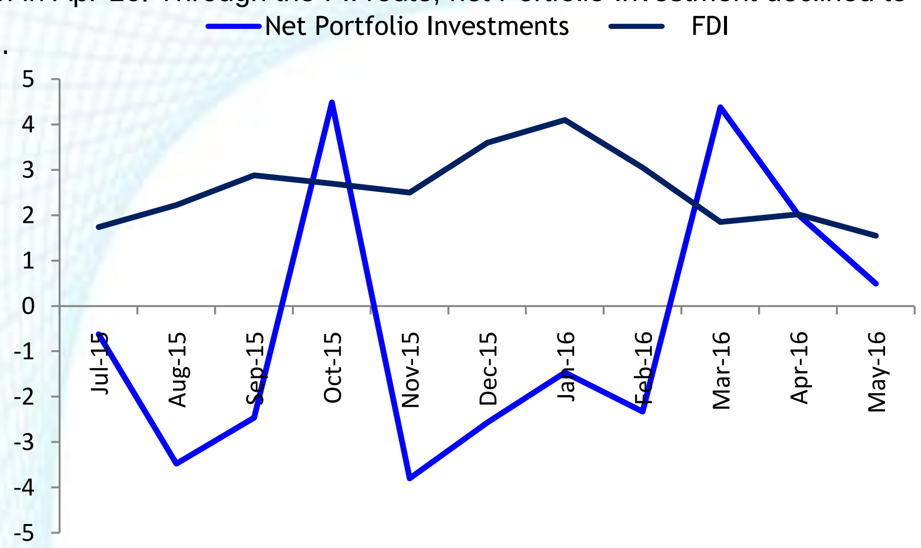
Services exports during the month of Jun-16 stood at USD 13.32 bn registering a negative growth of 1.03 per cent in dollar terms as compared to positive growth of 4.28 per cent during May-16. Services imports during Jun-16 were valued at USD 8.4 billion registering a positive growth both in dollar as well as in rupee terms.

Forex:

- The foreign exchange reserves (as of the last Friday of Jul-16) stood at USD 365.5 billion. The prevailing amount of reserves seems enough for import coverage of more than 12 months.

Period	Foreign Currency Assets	Gold	SDRs	Reserve Position in the IMF	Total Reserves
Mar-16	332.2	19.3	1.5	2.6	355.5
Jun-16	336.6	20.3	1.5	2.4	360.8
Jul-16	341.0	20.6	1.5	2.4	365.5

- The foreign investments through the FDI route stood at USD1.5 billion in May-16 compared to USD 2.0 billion in Apr-16. The cumulative (Apr-May 2016-17) net FDI stood at USD 3.5 billion . The direct investment to India through the equity route stood at USD2.1 billion compared to USD 3.4 billion in Apr-16. The net Portfolio Investment has declined to USD0.5 billion compared to USD2.0 billion in Apr-16. Through the FII route, net Portfolio Investment declined to USD(-)0.3 billion compared to USD1.1 billion in Apr-16.



IV. Prices

The price scenario remained elevated both on the retail front as well as with regard to whole price index.

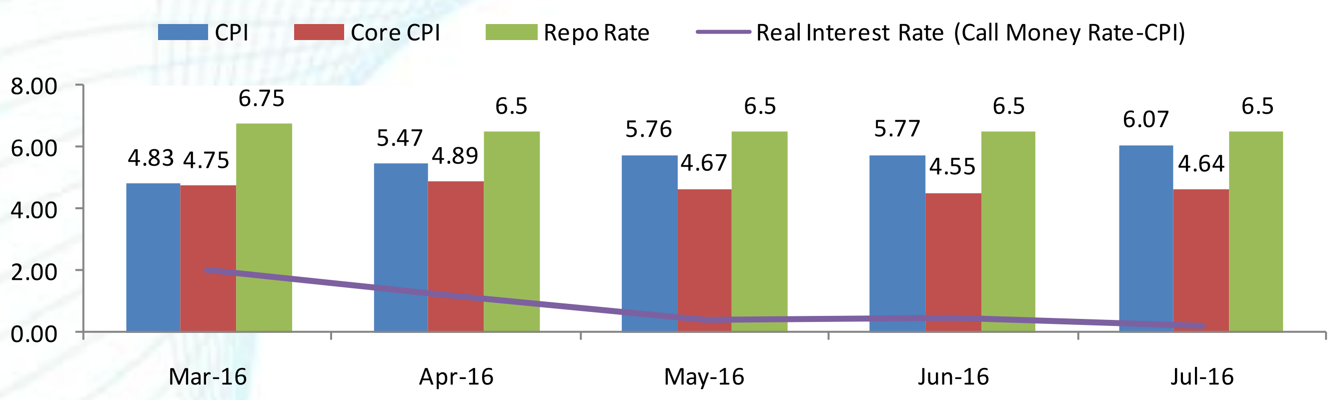
Consumer Price Index (CPI): The CPI increased to 6.07 per cent in Jul-16 compared to 5.77 per cent in Jun-16 and 3.69 per cent in Jul-15. Inflation remained on the higher side for the rural economy with CPI inflation climbing to 6.66 per cent in Jul-16 vis-à-vis 6.29 per cent in Jun-16 and 4.35 per cent in Jul-15.

Consumer Food Price Index (CFPI) has increased at a whooping rate of 8.35 per cent in Jul-16 compared to 7.79 per cent in Jun-16 and 2.15 per cent in Jul-15.

Core CPI has increased to 4.64 per cent in Jul-16 compared to 4.55 per cent in Jun-16 and 4.33 in Jul-15. The core CPI increased primarily due to increase in household goods and services component.

Component wise CPI: Food and beverages contributing a major share in overall CPI rose to 7.96 per cent in Jul-16 compared to 7.38 per cent in Jun-16. The prices of vegetables also increased by 14. 06 per cent in Jul-16 over Jul-15. Inspite of government's continued efforts to ease the price of pulses, pulses indices increased by 27.53 per cent in Jul-16 on y/y basis. The other volatile components viz housing, fuel and light registered inflation rate of 5.42 per cent and 2.75 per cent respectively.

The build up in the CPI index is 4.05 in Jul-16 compared to 3.3 per cent in Jun-16.



Inflation based on WPI:

• The annual rate of inflation, based on monthly WPI, rose to its highest In 23 months to 3.55% (provisional) in Jul-16 as compared to 1.62% in Jun-16 and (-) 4.00% during Jul-15. **Thus, the gap between CPI and WPI is narrowing**.

•The index for primary articles rose to 9.38 per cent in Jul-16 compared to (-) 3.98 per cent in Jul-15.

•The prices of manufactured products also rose by 1.82 per cent in Jul-16 compared to (-) 1.54 per cent registered in the previous month.

Way Forward:

The Indian economy has been gaining ground on the back of important structural reforms ranging from an inflation targeting approach of 4% of CPI inflation (with a lever of + / - 2 as RBI's mandate till March 2021) to the passage of GST Bill. The south west monsoon has been bountiful this season. Going forward we expect that a better agricultural performance would help contain the food inflation up to a great extent. The passage of GST with full rollout from Apr-17 might impact the inflation level moderately; though the impact on CPI is likely to be less as services component comprising of about 28 per cent in overall CPI. The RBI's indication of CPI inflation for Mar-17 is 5% and we maintain that the CPI inflation would be around 5 per cent by the end of FY 2016-17.

A close watch on inflation is indeed essential as it may tie RBI's hands for softer interest rate regime in the future policy meet.

V. Money & Banking

Third Bi-monthly Monetary Policy Statement, 2016-17

The Reserve Bank of India (RBI) in its Third Bi-Monthly Monetary Policy Statement for FY 2016-17, has kept the key policy rates unchanged. Accordingly Repo Rate stands at 6.50 per cent, reverse repo at 6.00 per cent, MSF and Bank Rate at 7.00 per cent each. The RBI has also left the CRR and SLR rates unchanged at 4.00 per cent and 21.00% respectively. The RBI has indicated that it would continue to provide liquidity as required but progressively lower the average ex ante liquidity deficit in the system from one per cent of NDTL to a position closer to neutrality.

Policy Stance and Rationale:

• The risks to the inflation target of 5 per cent for March 2017 continue to be on the upside until the possible impact of monsoon is reflected in the increase of Khariff crop productivity.

•The implementation of major policy reforms like GST, Seventh Pay Commission will stimulate the demand conditions which might create a pressure on the inflation front.

•Liquidity conditions eased during June-July 2016 due to increased government spending. The weighted average call money rate (WACR) and money market weighted average rate remained on an average 15 basis points below the policy repo rate since June 2016.

Growth outlook:

On the back of muted global growth and slackening external demand, the Gross Value Added (GVA) growth projection for 2016-17 has been retained at 7.6 per cent.

Important Rates (%)	
Repo	6.50
Reverse Repo	6.00
MSF	7.00
Bank Rate	7.00
CRR	4.00
SLR	21.00

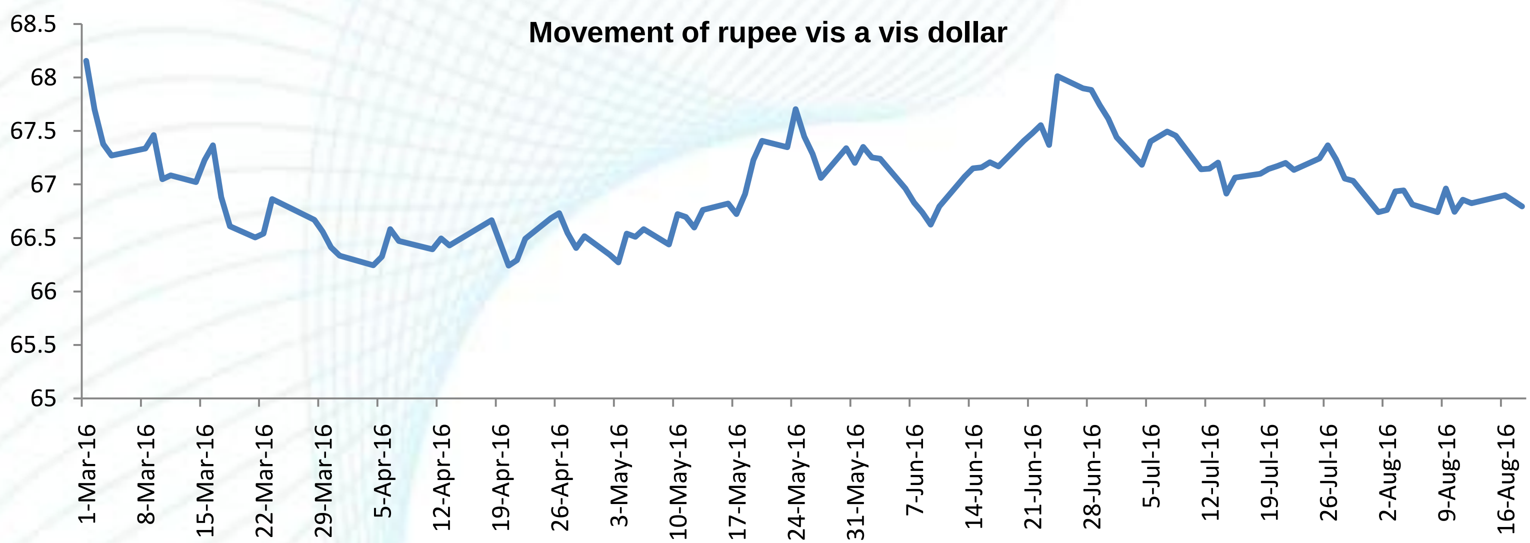
w.e.f	SLR to be maintained by SCBs (%)
9-Jan-16	21.50
2-Apr-16	21.25
9-Jul-16	21.00
1-Oct-16	20.75
7-Jan-17	20.50

The yield on benchmark 10 year government security was traded in the range of 7.16-7.45% in the month of Jul-16.

Rupee traded in range of 66.74-67.49 per US$ in Jul-16 and appreciated by 0.1% .

Markets: Equity market remained on an upbeat mode with Sensex and Bankex increasing by 3.9% and 5.1% respectively in Jul-16 on a month-on-month basis.

Indices	Jul-16	Jul-15	Mar-16	(%) y-o-y change	(%) YTD change
Sensex	28052	28115	25342	(-)0.22	10.69
Bankex	21679	21499	18392	0.84	17.87
CNX Nifty	8639	8533	7738	1.24	11.64
CNX PSU Bank	2863	3412	2449	-16.09	16.90



Sectoral deployment of bank credit

Sectors	Y-o-Y (Jun-16 over Jun-15)	Y-t-d (Jun-16 over Mar-16)
Gross Bank Credit (II + III)	**7.3**	**-0.3**
Food Credit	**-27.3**	**-26.5**
Non-food Credit (1 to 4)	**7.9**	**0.1**
Agriculture & Allied Activities	**13.8**	**2.4**
Industry (Micro & Small, Medium and Large)	**0.6**	**-3.1**
Micro & Small	-3.8	-3.2
Medium	-9.5	-5.1
Large	2.0	-3.0
Services	**9.2**	**1.6**
Personal Loans	18.5	3.2
Priority Sector	9.7	1.5

•**The gross bank credit grew by 7.3 per cent on a Y-o-Y basis while on a Y-t-D basis it declined by 0.3 per cent.**

•**Lower credit off take is primarily attributable to decline in food credit component of Gross Bank Credit.**

•On a year-on-year (y-o-y) basis, non-food bank credit increased by 7.9 per cent in June 2016 as compared with the increase of 8.4 per cent in June 2015.

•Credit to agriculture and allied activities increased by 13.8 per cent in June 2016 as compared with the increase of 11.1 per cent in June 2015.

•Credit to industry increased by 0.6 per cent in June 2016 as compared with the increase of 4.8 per cent in June 2015.

• **Major sub-sectors which witnessed contraction of credit, were food processing, infrastructure, gems & jewellery and vehicles, vehicle parts & transport equipment.**

•Credit to the services sector increased by 9.2 per cent in June 2016 as compared with the increase of 6.9 per cent in June 2015.

•Personal loans increased by 18.5 per cent in June 2016, up from the increase of 17.1 per cent in June 2015. The credit take off is contributed by loans to consumer durables and housing sector(including priority housing).

V. Developments in capital market:

- The capital market regulator- SEBI has made a lot of innovative moves in the past few months to attract investors and bring in transparency in the operational process.

- In an attempt to curb the potential for money laundering, it has proposed tighter rules for **participatory notes**. Participatory notes are off-shore derivative instruments (ODIs), issued by registered foreign portfolio investors (FPIs) to overseas investors who wish to invest in Indian stock markets without registering themselves with Sebi. By their very nature, P-Notes are seen as an opaque route for investment which leave room for round-tripping. The change in rules on P-Notes follow recommendations made by a Supreme Court-appointed Special Investigation Team (SIT), which was set up to address the issue of black money, or unaccounted and untaxed wealth.

- In a move of recognizing the role of Housing Finance Companies in affordable housing, the capital market regulator has now decided to increase additional exposure limits provided for HFCs in financial services sector from 5% to 10% Presently, the guidelines for sectoral exposure in debt oriented mutual fund schemes put a limit of 25% at the sector level and an additional exposure not exceeding 5% (over and above the limit of 25%) in financial services sector only to HFCs. Thus in accordance with the recent move the ceiling is expected to increase to 35 per cent.

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Appendix 1: Monthly Dynamic of Indian Economy (Annual growth in percent else mentioned otherwise)

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
Output													
IIP-General	**4.3**	**6.3**	**3.7**	**9.9**	**-3.4**	**-1.2**	**-1.6**	**2.0**	**0.3**	**-1.3**	**1.2**	**2.1**	
Mining	0.9	4.2	3.0	5.2	2.3	2.7	1.5	5.1	0.3	1.1	1.4	4.7	
Manufacturing	4.6	6.6	2.6	10.6	-4.4	-2.2	-2.9	0.7	-1.0	-3.7	0.6	0.9	
Electricity	3.5	5.6	11.4	9.0	0.7	3.2	6.6	9.6	11.8	14.6	4.7	8.3	
IIP-Use Based													
Basic Goods	5.4	3.7	4.2	4.2	-0.7	0.5	1.9	5.4	4.4	4.7	3.8	5.9	
Capital Goods	10.1	21.3	10.3	16.3	-24.4	-19.1	-21.6	-9.5	-15.3	-25.0	-12.3	-16.5	
Intermediate Goods	2.0	2.8	2.1	6.4	-0.7	1.3	2.8	5.1	4.4	2.3	3.9	6.1	
Consumer Goods	1.1	6.0	1.2	18.4	1.3	3.0	-0.1	0.8	0.5	-1.9	1.0	2.8	
Durables	10.5	17.0	8.4	42.3	12.5	16.4	5.6	9.6	9.9	11.8	6.0	5.6	
Non-Durables	-4.4	-0.9	-3.5	4.7	-4.7	-3.0	-3.2	-4.1	-5.0	-10.8	-2.3	-4.2	
Eight Core Infra	**1.1**	**2.7**	**3.2**	**3.2**	**-1.3**	**0.9**	**2.9**	**5.7**	**6.4**	**8.5**	**2.8**	**5.2**	
Steel Production	-2.6	-5.9	-2.4	-1.2	-8.5	-4.4	-2.8	-0.5	3.4	6.1	3.2	2.4	
Cement Production	1.3	5.4	-1.5	11.7	-1.8	3.2	9.0	13.5	11.9	4.4	2.4	10.3	
Money & Banking													
Money Supply (M3)	11.5	11.3	11.0	10.9	10.7	11.1	11.2	11.3	11.6	10.7	10.4	10.2	10.4
Bank Credit	**9.4**	**9.5**	**9.6**	**9.0**	**9.8**	**10.5**	**10.7**	**11.6**	**9.9**	**10.4**	**9.8**	**9.4**	**9.7**
Bank Deposits	**11.8**	**11.9**	11.2	11.1	10.4	11.5	11.6	11.0	11.3	10.1	9.5	9.6	9.5
SLR Investments	14.8	14.0	12.2	11.6	11.7	10.5	14.0	7.7	14.8	6.9	4.2	4.7	6.4
Interest Rates (% end-Month)													
Weighted Call Money Rates	7.1	7.0	7.1	6.8	6.8	6.8	6.9	6.7	6.9	6.5	6.4	6.4	6.3
10-year G Sec	7.8	7.8	7.7	7.7	7.8	7.8	7.5	7.8	7.5	7.4	7.5	7.6	7.3
Market (YoY Growth)													
Sensex	8.6	-1.3	-1.8	-4.3	-8.9	-5.0	-14.8	-21.7	-9.4	-5.2	-4.2	-2.8	3.9
Nifty	10.5	0.2	-0.2	-3.1	-7.6	-4.1	-14.1	-21.5	-8.9	-4.1	-3.2	-1.0	4.2
Inflation													
CPI-General	**3.7**	**3.7**	**4.4**	**5.0**	**5.4**	**5.6**	**5.7**	**5.3**	**4.8**	**5.5**	**5.8**	**5.8**	**6.1**
Core CPI	4.3	4.1	4.3	4.4	4.6	4.7	4.7	5.0	4.7	4.9	4.7	4.5	4.6
Cons. Food Price Index (CFPI)	2.2	2.2	3.9	5.3	6.0	6.4	6.8	5.3	5.2	6.4	7.5	7.8	8.4
Food and beverages	2.8	2.9	4.3	5.3	6.1	6.3	6.7	5.5	5.2	6.3	7.2	7.4	8.0
Pan, tobacco and intoxicants	9.8	9.4	9.3	9.4	9.4	9.3	9.0	8.5	8.5	8.0	7.7	7.3	6.8
Fuel and light	5.4	5.8	5.3	5.3	5.3	5.4	5.3	4.6	3.5	3.0	2.9	2.9	2.7
Housing	4.4	4.7	4.7	4.9	5.0	5.1	5.2	5.3	5.3	5.4	5.4	5.5	5.4
Cloth, bed & footwear	5.9	5.9	5.9	5.6	5.8	5.7	5.7	5.6	5.5	5.6	5.4	5.0	5.2
Misc. / Services	3.4	3.1	3.3	3.5	3.8	4.0	3.9	4.4	4.0	4.3	4.0	3.8	4.0
CPI-Rural	4.4	4.5	5.0	5.5	5.9	6.3	6.5	6.1	5.7	6.2	6.5	6.2	6.6
CPI-Urban	2.9	2.8	3.6	4.3	4.7	4.7	4.8	4.3	3.9	4.7	4.9	5.3	5.4
WPI Headline	**-4.0**	**-5.1**	**-4.6**	**-3.7**	**-2.0**	**-1.1**	**-1.1**	**-0.9**	**-0.5**	**0.8**	**0.8**	**1.6**	**3.5**
Core WPI / Non-food Manuf.	-1.5	-1.9	-1.9	-2.1	-2.0	-2.1	-2.1	-1.5	-1.0	-0.5	-0.4	-0.3	0.1
Food total	-1.4	-1.4	0.4	2.4	4.1	5.9	5.3	4.0	4.6	6.0	7.8	8.2	11.3
Fuel	-11.6	-16.2	-17.7	-16.3	-11.0	-9.1	-9.9	-7.1	-8.3	-4.8	-6.1	-3.6	-1.0
Non-food Primary	-11.2	-12.6	-10.6	-8.7	-7.2	-4.6	-2.1	-3.4	-0.3	-0.4	-4.8	-2.0	2.7
Business Surveys													
Manufacturing PMI*	**52.7**	**52.3**	**51.2**	**50.7**	**50.3**	**49.1**	**51.1**	**51.1**	**52.4**	**50.2**	**50.7**	**51.7**	51.8
Services PMI*	50.8	51.8	51.3	53.2	50.1	53.6	54.3	51.4	54.3	53.7	51.0	50.3	**52.4**
Merchandise Trade													
Exports	**-9.7**	**-20.1**	**-24.3**	**-17.5**	**-24.4**	**-14.7**	**-13.6**	**-5.7**	**-5.5**	**-6.7**	**-0.8**	**1.3**	**-6.8**
Imports	-9.2	-10.1	-25.4	-21.2	-30.3	-3.9	-11.0	-5.0	-21.6	-23.1	-13.2	-7.3	-19.0
Oil	-34.9	-30.3	-54.5	-45.3	-45.0	-33.2	-39.0	-21.9	-35.3	-24.0	-30.5	-16.4	-28.1
Non-oil	5.5	-2.2	-10.7	-9.9	-24.7	7.6	-1.4	-0.5	-17.9	-22.8	-7.1	-4.1	-15.8
Trade Balance (US$ bn)	-13.1	-12.5	-10.5	-9.8	-9.8	-11.7	-7.6	-6.5	-5.1	-4.8	-6.3	-8.1	-7.8
Brent Crude Prices(US$/bbl)	55.9	47.0	47.2	48.2	44.4	37.7	30.8	33.2	39.1	42.2	47.1	48.5	44.2
Foreign Investments (US$ bn)													
Net Portfolio Investments	-0.6	-3.5	-2.5	4.5	-3.8	-2.6	-1.5	-2.3	4.4	2.0	0.5		
FDI	1.7	2.2	2.9	2.7	2.5	3.6	4.1	3.0	1.9	2.0	1.5		
Exchange rate and reserves													
US$ exchange rate average	**63.6**	**65.1**	**66.2**	**65.1**	**66.8**	**66.2**	**67.9**	**68.6**	**66.3**	**66.5**	**67.3**	**67.2**	**67.2**
Foreign Assets (US$ bn)	353.5	355.4	350.0	353.6	351.6	352.0	347.6	350.4	355.9	363.1	360.8	362.7	365.5
Forex cover to imports (in months	9.9	10.0	10.1	10.4	10.7	10.8	10.7	10.9	11.3	11.7	11.9	11.9	12.1

*PMI Values 50 above point expansion in economic activity and vice versa;

Source: CSO, RBI, CGA, Ministry of Commerce, Ministry of Finance

Quarterly Dynamics of Indian Economy (Annual growth in percent else mentioned otherwise)

Indicator	2013-14				2014-15				2015-16				2016-17
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Output													
Real GDP^{bp} @	7.2	7.5	6.6	5.3	7.4	8.4	6.8	6.1	7.1	7.5	7.1	7.4	
Agri. & Allied	2.7	3.6	3.8	4.4	2.6	2.1	-1.1	-1.4	1.9	2.0	-1.0	2.3	
Industry	4.8	4.0	5.0	4.3	7.7	7.6	3.6	5.6	6.5	6.4	9.0	7.9	
Services	10.2	10.6	9.1	6.4	8.7	10.4	12.5	9.2	8.9	9.4	9.4	8.7	
GDP from Expenditure side (basic price)	7.0	7.5	6.4	-20.2	6.5	8.2	7.5	7.0	8.8	6.4	9.2	10.4	
Govt. consumption exp.	27.3	5.3	11.0	10.7	-2.0	5.8	31.7	1.2	1.2	6.9	7.8	2.9	
Pvt. Consumption exp.	7.7	5.6	4.6	-11.7	4.3	8.7	3.5	7.4	12.0	9.4	12.2	8.3	
Gross fixed capital formn. (GFCF)	2.3	6.3	5.3	-7.6	7.7	2.8	1.6	4.9	4.1	4.4	1.8	-1.9	
Inflation													
WPI	4.8	6.6	7.1	5.4	5.8	3.9	0.3	-1.8	-2.3	-4.6	-2.3	-0.9	
Non-food Manuf./ Core WPI	2.6	2.4	3.0	3.8	4.0	3.5	2.0	0.2	-0.6	-1.8	-2.1	-1.6	
CPI	10.7	10.8	10.9	6.9	6.9	6.8	5.0	6.6	5.9	4.6	5.3	5.5	
Money & Banking													
Broad Money (M3)	12.8	12.5	14.9	13.5	12.2	12.7	11.1	11.0	11.0	11.3	10.9	11.4	10.7
Bank Credit	13.7	17.9	14.5	14.3	13.3	9.7	10.5	12.5	9.6	9.5	9.8	10.7	11.8
Bank Deposits	13.8	14.1	15.9	14.6	12.4	13.4	11.5	11.4	11.4	11.7	11.0	11.3	10.1
Credit-Deposit Ratio (%)	76.4	78.3	76.7	77.7	77.0	75.8	76.1	76.5	75.7	74.9	76.4	76.9	76.4
Wtd. Call Money Rate (%) avg.	7.3	8.9	8.3	8.1	8.0	7.8	8.8	7.9	7.4	7.0	6.8	6.8	6.6
Repo Rate (%) end period	7.3	7.5	7.8	8.0	8.0	8.0	8.0	7.5	7.3	6.8	6.8	6.8	6.5
CRR (%) end period	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
10 Y G- Sec Yield (%) avg.	7.6	8.3	8.8	8.8	8.8	8.6	7.9	7.7	7.8	7.8	7.8	7.6	7.5
Fiscal Indicators of Centre													
Net Tax Revenue	-2.5	8.6	-48.3	16.1	8.7	9.4	5.9	6.4	-71.5	26.5	13.5	9.9	54.7
Corporate Tax	2.7	10.1	12.7	13.1	0.0	8.6	8.1	6.6	-65.6	16.8	6.7	-1.6	4.0
Excise Duties	-18.3	-1.8	-4.9	1.7	-0.1	3.3	4.1	6.6	-56.9	55.3	65.5	31.4	60.5
Non-tax Revenue	7.8	56.3	15.9	61.5	0.0	18.5	57.1	3.7	-19.2	31.2	-28.9	39.2	-40.6
Non-plan Expenditure	18.7	14.9	17.5	-27.7	0.1	2.8	11.9	7.2	2.8	8.5	16.2	5.3	1.7
Plan Expenditure	33.2	4.1	23.6	-14.0	0.0	10.9	-7.6	-0.5	13.8	3.3	-13.3	13.7	28.2
Fiscal Deficit as % to GDP	10.3	5.6	3.5	-2.8	10.5	4.8	2.9	-0.2	8.8	2.8	3.9	3.9	
External Sector													
Merchandise Exports	-1.5	11.9	7.5	-1.3	10.6	4.9	-1.0	-15.4	-16.8	-20.7	-17.8	-7.7	-2.1
Merchandise Imports	4.7	-4.8	-14.8	-12.3	-6.5	8.1	4.7	-10.4	-12.1	-15.2	-16.4	-13.1	-5.5
Trade Balance (US$ bn)	-50.5	-33.3	-33.2	-30.7	-34.6	-38.6	-39.3	-31.7	-34.2	-37.4	-34.0	-7.7	-6.1
Invisibles Earnings	3.0	4.3	3.6	6.2	0.7	2.9	3.1	-0.3	1.9	1.6	-4.1	-8.6	
Invisibles Payments	-0.4	3.7	-1.7	6.0	8.4	4.7	-0.6	-4.2	-0.7	2.2	5.6	-5.3	
Net Invisibles (US$ bn)	28.7	28.1	29.1	29.3	26.7	28.5	31.0	30.4	28.0	28.7	26.9	8.7	
Current Acct Balance(US$ bn)	-21.8	-5.2	-4.1	-1.3	-7.8	-10.2	-8.3	-1.3	-6.2	-8.7	-7.1	-4.8	
Capital & Fin. Acct Balance (US$ bn)	20.5	-4.8	23.8	9.2	8.6	11.8	9.7	-0.1	6.7	8.1	0		
Current Acct Balance (% to GDP)	-4.6	-1.2	-0.9	-0.3	-1.6	-2.0	-1.6	-0.2	-1.2	-1.7	-1.3	0.1	
Total Foreign Assets(US$ bn)	314.9	276.3	295.7	303.67	314.9	314.2	319.7	341.4	355.2	350.0	352.0	355.9	
USD/INR (Avg.)	56.0	62.1	62.1	61.8	59.77	60.60	62.00	62.20	63.50	64.91	65.93	67.5	
% Y/Y	3.2	12.5	14.6	14.1	6.8	-2.4	-0.1	0.6	6.2	7.1	6.3	8.5	

Note: @ GVA at Basic Prices (2011-12 series)

Source: CSO, RBI, CGA, Commerce Ministry

Note: @ GVA at Basic Prices (2011-12 series)

Appendix: Annual Dynamics of Indian Economy (Y/Y growth in percent else mentioned otherwise)

	FY 13	FY 14	FY 15	FY 16
Real GVA (Base 2011-12)	**4.9**	**6.6**	**7.1**	**7.2**
Agri. & Allied	1.2	3.7	0.2	1.2
Industry	2.4	4.5	6.1	7.4
Services	8.0	9.1	10.2	8.9
GDP from expenditure side at Constant prices base(2011-12)	**13.1**	**13.6**	**10.5**	**8.7**
Consumption				
Pvt Consumption	6.2	6.4	6.3	7.4
Govt. Consumption	1.7	8.2	12.8	2.2
Gross Fixed Capital Formation	3.0	3.0	4.6	3.3
Ratios to GDP at current prices (%)				
Consumption	71.9	76.5	68.5	70.1
Gross Capital Formation	37.2	33.0	32.3	31.2
IIP-General (Base 2004-05)	**1.1**	**-0.1**	**2.8**	**2.5**
Mining	-2.3	-0.8	1.4	**2.0**
Manufacturing	1.3	-0.8	2.3	**2.2**
Electricity	4.0	6.1	8.4	**5.4**
Money & Banking (end March)	13.6	13.5	11.1	11.1
Money Supply(M3)	**14.1**	**14.3**	**9.5**	**9.9**
Bank Credit Growth	14.3	14.6	11.4	11.3
Deposit Growth	15.4	10.7	13.2	12.9
SLR Investments	78.0	77.7	76.5	77.6
Credit-Deposit Ratio (%)	29.7	28.7	29.2	28.2
Investment-Deposit Ratio (%)	4.8	4.7	5.0	4.7
Cash-Deposit Ratio (%)				
Policy Rates (%) (end March)				
Bank Rate	7.5	8.0	**7.5**	6.75
Repo Rate (%)	6.5	7.0	6.5	5.75
Revese Repo (%)	4.0	4.0	4.0	4.0
CRR (%)	23.0	23.0	21.5	21.5
SLR (%)				
Inflation	**7.4**	**5.9**	**2.0**	**-2.5**
WPI (Avg.) Base 2004-05	10.4	9.7	6.0	
CPI-IW (Avg.) Base 2001*				
	4.8	**4.6**	**4.0**	**3.9**
Centre's Gross Fiscal Deficit	3.6	3.3	2.9	2.5
Revenue deficit	1.8	1.3	0.8	0.7
Primary deficit	2.3	2.2	2.3	
States' Fiscal Deficit	7.1	6.9	6.3	
Combined Fiscal Deficit(Centre+ state)	51.7	50.9	49.8	
Centre's Outstanding Liabilities	1.8	1.6	1.5	
Centre's External Debt	65.2	65.3	64.9	
General Govt. Gross Liabilities				
External Sector	306.6	318.6	316.7	
Merchandise Exports (US$ bn)	-1.0	3.9	-0.6	-15.2
Merchandise Exports	502.2	466.2	460.9	
Imports (US$bn)	0.5	-7.2	-1.1	-14.7
Merchandise Imports	-195.7	-147.6	-144.2	-132.2
Trade Deficit (US$bn)	224.0	233.2	236.9	
Invisibles Earnings (US$ bn)	2.2	4.1	1.6	
Invisibles Earnings	116.6	118.0	120.3	
Invisibles Payments (US$ bn)	8.3	1.3	1.9	
Invisibles Payments	107.5	115.2	116.7	
Net Invisibles (US$bn)	-88.2	-32.4	-27.5	
Current Account Balance (US$bn)	**-4.8**	**-1.7**	**-1.3**	
Current Acc. Bal. as % to GDP	89.3	48.8	28.1	
Capital & Financial Account (US$bn)	4.9	2.6		
% to GDP	292.6	303.7	341.4	355.1
Foreign Assets Reserves (US$bn)	7.0	7.8	8.9	1.2
Forex Cover to Imports (in months)	409.4	440.6	475.8	
Gross External Debt (US $bn)	22.3	23.5	23.2	
Gross External Debt (as % to GDP)	96.6	89.4		
Short Term debt	23.6	20.3		
(% Share of short term debt in Total External Debt				
Exchange rate	**54.5**	**60.5**	**61.1**	**65.5**
US$/INR-annual average	13.7	11.0	1.1	7.1
Depreciation (% y/y)				

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