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MONETARY POLICY STATEMENT FOR 2015-16

Fourth Bi-monthly Monetary Policy Statement for the Year 2015-16

Monetary Policy Report - September 2015

*Fourth Bi-monthly Monetary Policy Statement, 2015-16 by Dr. Raghuram G. Rajan, Governor**

Part A: Monetary Policy

Monetary and Liquidity Measures

On the basis of an assessment of the current and evolving macroeconomic situation, it has been decided to:

- reduce the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points from 7.25 per cent to 6.75 per cent with immediate effect;
- keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 per cent of net demand and time liability (NDTL);
- continue to provide liquidity under overnight repos at 0.25 per cent of bank-wise NDTL at the LAF repo rate and liquidity under 14-day term repos as well as longer term repos of up to 0.75 per cent of NDTL of the banking system through auctions; and
- continue with daily variable rate repos and reverse repos to smooth liquidity.

Consequently, the reverse repo rate under the LAF stands adjusted to 5.75 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 7.75 per cent.

Assessment

2. Since the third bi-monthly statement of August 2015, global growth has moderated, especially in emerging market economies (EMEs), global trade has deteriorated further and downside risks to growth have increased. In the United States, industrial production slowed as capital spending in the energy sector was cut back and exports contracted, weighed down by the strength of the US dollar. Consumer spending stayed buoyant, however, amidst steadily improving labour market conditions. In the Euro area, a fragile recovery strengthened, supported by domestic consumption, less slack in the labour market and improving financial conditions engendered by ultra-accommodative monetary policy. Economic activity in Japan, however, is faltering under the weight of weak private consumption and exports, with both business and consumer confidence subdued. EMEs are caught in a vortex of slowing global trade volumes, depressed commodity prices, weakening currencies and capital outflows, which is accentuating country-specific domestic constraints. China's intended rebalancing from investment towards consumption is being hit by the stock market meltdown, slower industrial production and weaker exports. The devaluation of the renminbi on August 11, while mild, has unsettled financial markets across the world. Brazil and Russia are grappling with recession and runaway inflation, while South Africa is facing tightening structural constraints which threaten to tip it into a downturn.

3. Since the Chinese devaluation, equity prices, commodities and currencies have fallen sharply. Capital flight from EMEs into mature bond markets has pushed down developed market yields, and risk spreads across asset classes have widened. Although volatility ebbed in early September and capital flows returned cautiously to some EMEs, sentiment in financial markets remains fragile. The September 17 decision of the Federal Open Market Committee to stay on hold in response to global conditions and weak

* Released on September 29, 2015.

domestic inflation lifted financial markets briefly, but overall financial conditions are yet to stabilise.

4. In India, a tentative economic recovery is underway, but is still far from robust. In agriculture, sown area has expanded modestly from a year ago, reflecting the timely and robust onset of the monsoon in June, but the southwest monsoon is currently deficient by 14 per cent – with production-weighted rainfall deficiency at 20 per cent. Nevertheless, the first advance estimates indicate that food grain production is expected to be higher than last year, reflecting actions taken to contain the adverse effects of rain deficiency through timely advisories and regular monitoring of seed and fertiliser availability. Allied farm activities, which are more insulated from the monsoon, remain resilient and could partly offset the effects of adverse weather on crop production. Rural demand, however, remains subdued as reflected in still shrinking tractor and two-wheeler sales.

5. Manufacturing has exhibited uneven growth in April-July, with industrial activity slowing sequentially in July, although it has been in expansionary mode for the ninth month in succession. Industries such as apparel, furniture and motor vehicles have experienced acceleration. Furthermore, the resumption of growth in production of consumer durables in recent months, after a protracted period of contraction over the last two years, is indicative of some pick-up in consumption demand, primarily in urban areas. Since our last review, however, external demand conditions have turned weaker, suggesting a more persistent drag from lower exports and cheaper imports due to global overcapacity. This contributes to continuing domestic capacity under-utilisation, decelerating new orders and a rising ratio of finished goods inventories to sales.

6. As a result of still tepid aggregate demand, output price growth is weak, but input material costs have fallen further, leading to an increase in margins for most producers. Weak aggregate demand appears to have more than offset the effect of higher margins to hold back new investment intentions. The expansion in capital goods production, therefore, likely relates more to the revival of stalled projects than to a build-up of the green field pipeline. Survey-based business sentiment has been falling in recent quarters. The manufacturing purchasing managers' index (PMI) nevertheless remained in expansion territory in August, although it slowed from July due to weak domestic and export order books.

7. In the services sector, construction activity is weakening as reflected in low demand for cement and the large inventory of unsold residential houses in some localities. Rising public expenditure on roads, ports and eventually railways could, however, provide some boost to construction going forward. Lead indicators relating to freight and passenger traffic are mixed. In August, the services PMI remained in expansion for the second consecutive month on improving new business, but business expectations remain subdued.

8. Headline consumer price index (CPI) inflation reached its lowest level in August since November 2014. The ebbing of inflation in the year so far is due to a combination of low month-on-month increases in prices and favourable base effects. Overall year-on-year food inflation dropped sharply, led by vegetables and sugar. Cereal inflation moderated steadily during April-August, but price pressures in respect of pulses and onions remained elevated.

9. CPI inflation excluding food and fuel eased in August for the second consecutive month, primarily due to the decline in petrol and diesel prices pulling down inflation in transportation. Fares other than for air transport have, however, remained inflexible

downwards. Inflation in house rentals increased, but was more than offset by some moderation in the heterogeneous category of services, including education, personal care and effects, and health. Inflation expectations of households remained elevated in double digits likely in response to recent month-on-month increases in the prices of vegetables and pulses. Professional forecasters' inflation expectations eased as credibility built around the January 2016 inflation target. Rural wage growth remains subdued and corporate staff costs decelerated.

10. Liquidity conditions eased considerably during August to mid-September. In addition to structural factors such as deposit mobilisation in excess of credit flow, lower currency demand and pick-up in spending by the government contributed to the surplus liquidity. In response, the Reserve Bank conducted variable rate reverse repos of overnight and longer tenors ranging from 2 to 20 days. As a result, the average net daily liquidity absorption by the Reserve Bank increased from ₹120 billion in July to ₹261 billion in August and further to ₹544 billion in September (up to September 15). Money market rates generally remained below the repo rate. As quarterly tax collections went out of the system from mid-September, deficit conditions returned and the Reserve Bank engaged in average net injections of the order of ₹544 billion (September 16 to 27), keeping the call money rate close to the repo rate. Some forms of bank credit such as personal loans grew strongly as did non-bank financing flows through commercial paper, public equity issues and housing finance.

11. With the weakening of growth prospects in EMEs and world trade volume growth falling below world GDP growth, India's merchandise exports continued to decline in the first two months of Q2. Imports values also declined, but the sharp fall in international crude oil and gold prices was offset by rising import volumes. Non-oil non-gold imports went back into contraction after recording a marginal pick-up in the previous quarter, although there were higher imports of fertilisers, electronics and pulses. With services exports moderating, the widening of the merchandise trade deficit could lead to a modest increase in the current account deficit (CAD) during Q2. Net capital inflows were buoyed by sustained foreign direct investment and accretion to non-resident deposits, and reduced by portfolio outflows, mainly from equity markets. Foreign exchange reserves rose by US $ 10.4 billion during the first half of 2015-16.

Policy Stance and Rationale

12. In the bi-monthly policy statement of August, the Reserve Bank indicated that further monetary policy accommodation will be conditioned by the abating of recent inflationary pressures, the full monsoon outturn, possible Federal Reserve actions and greater transmission of its front-loaded past actions. Since then, inflation has dropped to a nine-month low, as projected. Despite the monsoon deficiency and its uneven spatial and temporal distribution, food inflation pressures have been contained by resolute actions by the government to manage supply. The disinflation has been broad-based and inflation excluding food and fuel has also come off its recent peak in June. The Federal Reserve has postponed policy normalisation. Markets have transmitted the Reserve Bank's past policy actions via commercial paper and corporate bonds, but banks have done so only to a limited extent. The median base lending rates of banks have fallen by only about 30 basis points despite extremely easy liquidity conditions. This is a fraction of the 75 basis points of the policy rate reduction during January-June, even after a passage of eight months since the first rate action by the

Reserve Bank. Bank deposit rates have, however, been reduced significantly, suggesting that further transmission is possible.

13. Looking forward, inflation is likely to go up from September for a few months as favourable base effects reverse. The outlook for food inflation could improve if the increase in sown area translates into higher production. Moderate increases in minimum support prices should keep cereal inflation muted, while subdued international food price inflation should continue to put downward pressure on the prices of sugar and edible oil, and food inflation more generally. It is important that pro-active supply-side management by the government be in place to head off any food price pressures should they materialise, especially in respect of onion and pulses. The pass-through of the recent depreciation of the rupee will have to be carefully monitored, although benign crude prices should have an offsetting effect. Taking all this into consideration, inflation is expected to reach 5.8 per cent in January 2016, a shade lower than the August projection (Chart 1).

14. The modest pick-up in the growth momentum in the first half of 2015-16 benefited from soft commodity prices, disinflation, comfortable liquidity conditions, some de-clogging of stalled projects, and higher capital expenditure by the central government. Underlying economic activity, however, remains weak on account of the sustained decline in exports, rainfall deficiency and weaker than expected momentum in industrial production and investment activity. With global growth and trade slower than initial expectations, a continuing lack of appetite for new investment in the private sector, the constraint imposed by stressed assets on bank lending and waning business confidence, output growth projected for 2015-16 is marked down slightly to 7.4 per cent from 7.6 per cent earlier (Chart 2). Concurrent indicators also suggest that the new GDP series shows higher growth than would the old series, which necessitates recalibrating old measures of potential output and the output gap to the new series.

15. Since our last review, the bulk of our conditions for further accommodation have been met. The

Chart 1: Quarterly Projection of CPI Inflation (y-o-y) for 2015-16

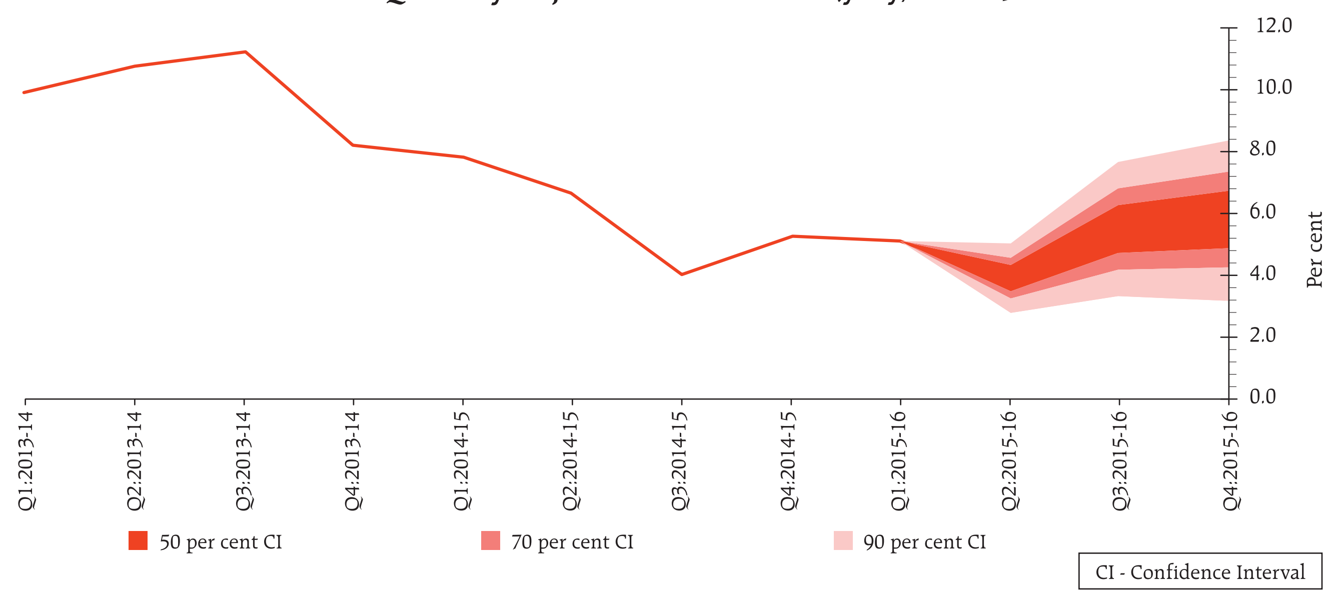
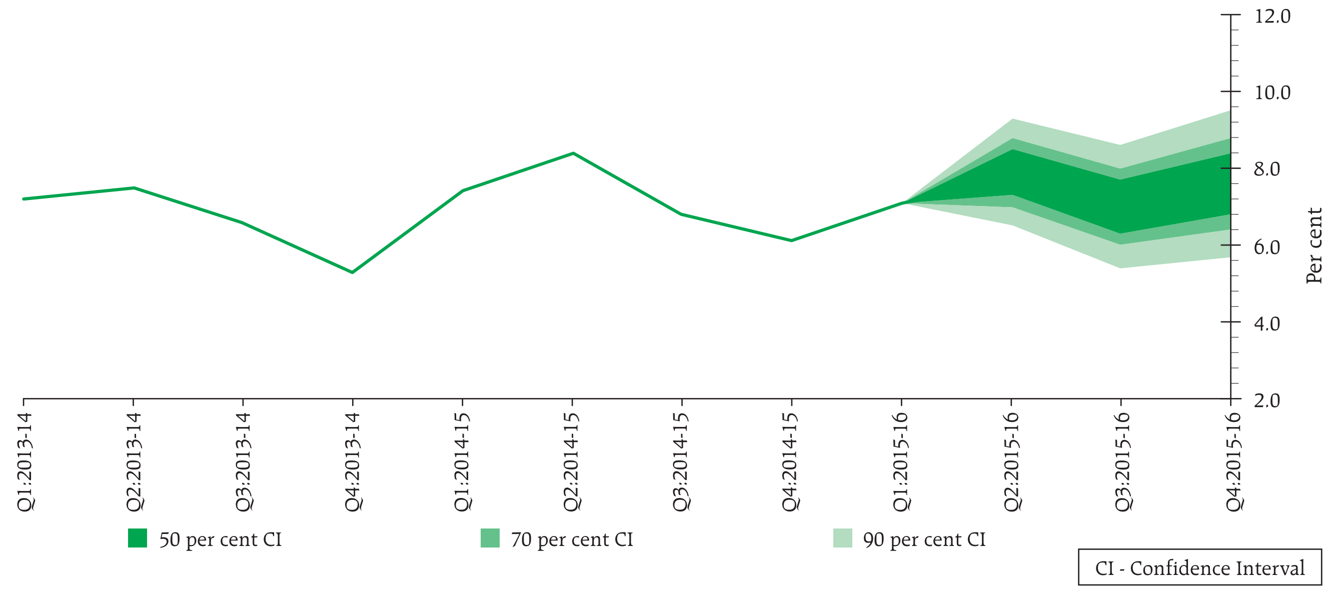


Chart 2: Quarterly Projection of Growth in GVA at basic prices (y-o-y) for 2015-16



January 2016 target of 6 per cent inflation is likely to be achieved. In the monetary policy statement of April 2015, the Reserve Bank said that it would strive to reach the mid-point of the inflation band by the end of fiscal 2017-18. Therefore, the focus should now shift to bringing inflation to around 5 per cent by the end of fiscal 2016-17. In this context, the weakening of global activity since our last review suggests that commodity prices will remain contained for a while. Still-low industrial capacity utilisation indicates more domestic demand is needed to substitute for weakening global demand in order that the domestic investment cycle picks up. The coming Pay Commission Report could add substantial fiscal stimulus to domestic demand, but the government has reaffirmed its desire to respect its fiscal targets and improve the quality of its spending. Under these circumstances, monetary policy has to be accommodative to the extent possible, given its inflation goals, while recognizing that continuing policy implementation, structural reforms and corporate actions leading to higher productivity will be the primary impetus for sustainable growth. Furthermore, investment is likely to respond more strongly if there is more certainty about the extent of monetary stimulus in the pipeline, even if transmission is slow. Therefore, the Reserve Bank has front-loaded policy action by a reduction in the policy rate by 50 basis points. Given our year-ahead projections of inflation, this ensures one year expected Treasury bill real interest rates of about 1.5-2.0 per cent, which are appropriate for this stage of the recovery.

16. While the Reserve Bank's stance will continue to be accommodative, the focus of monetary action for the near term will shift to working with the Government to ensure that impediments to banks passing on the bulk of the cumulative 125 basis points cut in the policy rate are removed. The Reserve Bank will continue to be vigilant for signs that monetary policy adjustments are needed to keep the economy on the target disinflationary path.

17. The fifth bi-monthly monetary policy statement will be announced on December 1, 2015.

Part B: Developmental and Regulatory Policies

18. This part of the Statement reviews the Reserve Bank's measures to strengthen the monetary policy framework, make banking structure and practices more efficient, broaden and deepen financial markets, deal with stress in corporate and financial assets, and extend the reach of financial services to all.

I. Monetary Policy Framework

19. Discussions on monetary policy and its institutional and operating framework are set out in Part A of this Statement and the Monetary Policy Report issued along with this Statement.

II. Banking Structure

20. The Reserve Bank has put out for comment draft guidelines for banks on the computation of base rate, based on their marginal cost of funds. Guidelines will be issued by end-November 2015.

21. In March 2015, the Reserve Bank issued a Discussion Paper titled "Large Exposures Framework and Enhancing Credit Supply through market Mechanism" for stakeholders' comments. The Discussion Paper focused on the need to encourage alternative sources of funding to bank credit for the corporate sector to finance growth. This would also de-risk the balance sheets of banks. Specifically, the paper proposed ways to encourage large corporates with borrowings from the banking system above a cut-off level to tap the market for their working capital and term loan needs. Based on suggestions received from stakeholders, the Reserve Bank will issue a draft circular by end-December 2015.

22. As a part of its supervisory process, the Reserve Bank assesses compliance by banks with extant prudential norms on income recognition, asset classification and provisioning (IRACP). There have been divergences between banks and the supervisor as regards asset classification and provisioning. In order to bring in greater transparency, better discipline with respect to compliance with IRACP norms as well as to involve other stakeholders, the Reserve Bank will mandate disclosures in the notes to accounts to the financial statements of banks where such divergences exceed a specified threshold. Instructions in this regard are being issued separately.

23. The Union Budget for 2014-15 emphasised the urgent need for convergence of the current Indian accounting standards (IND AS) with International Financial Reporting Standards (IFRS). The Reserve Bank has recommended to the Ministry of Corporate Affairs a roadmap for the implementation of IND AS by banks and non-banking financial companies from 2018-19 onwards. The Reserve Bank constituted a Working Group (Chairman: Shri Sudarshan Sen) for its implementation. The Report of the Working Group will be placed on the Reserve Bank's website by end-October 2015 for public comments.

24. At present, the minimum risk weight applicable on individual housing loans is 50 per cent. With a view to improving "affordability of low cost housing" for economically weaker sections and low income groups and giving a fillip to "Housing for All", while being cognisant of prudential concerns, it is proposed to reduce the risk weights applicable to lower value but well collateralised individual housing loans. Detailed guidelines are being issued separately.

25. Banks are permitted to hold investments under the HTM category in excess of the limit of 25 per cent of their total investments, provided the excess comprises only SLR securities and the total SLR securities held under the HTM category are not more than 22 per cent of NDTL. The SLR has been reduced

to 21.50 per cent of NDTL with effect from February 7, 2015. To align them, it has been decided to bring down the ceiling on SLR securities under HTM from 22 per cent to 21.50 per cent with effect from the fortnight beginning January 9, 2016. Thereafter, both the SLR and the HTM ceiling will be brought down by 0.25 per cent every quarter till March 31, 2017.

26. The Depositor Education and Awareness fund Scheme, 2014 has been established by transfer of bank deposits and other credit balances that have remained unclaimed for more than 10 years. It envisages grant of financial assistance to applicants selected on the basis of proposals intended to promote depositors' interests. In response to the press release issued on January 9, 2015, the Reserve Bank received 90 applications for financial assistance. The names of successful applicants will be announced by October 1, 2015. The window for inviting applications for availing financial assistance from the fund shall be re-opened.

27. The report of the High Powered Committee (HPC) on UCBs (Chairman: Shri R. Gandhi) to examine and recommend permissible business lines, appropriate size, conversion of UCBs into commercial banks and licensing of new UCBs was placed on the Reserve Bank's website on August 20, 2015 for comments and suggestions. Based on the feedback received, the recommendations of the Committee will be considered for implementation during the second half of 2015-16.

28. Cyber security has assumed critical importance across the globe. With the widespread use of new technologies, inter-connectedness and dependency, newer risks, threats and vulnerabilities have emerged. The Reserve Bank is setting up an information technology (IT) subsidiary to assist in monitoring the preparedness of banks and identifying systemic vulnerabilities along with aiding the Reserve Bank in its own cyber initiatives.

29. The Reserve Bank will update all its master regulations, and streamline the required procedure for compliance with the regulations by January 1, 2016. All master regulations will be fully updated and placed online. The Reserve Bank will also work to improve clarity in regulatory communications.

III. Financial Markets

30. With the objective of having a more predictable regime for investment by the foreign portfolio investors (FPI), the medium term framework (MTF) for FPI limits in debt securities, worked out in consultation with the government, is set out below.

(i) The limits for FPI investment in debt securities will henceforth be announced/ fixed in rupee terms.

(ii) The limits for FPI investment in the central government securities will be increased in phases to 5 per cent of the outstanding stock by March 2018. In aggregate terms, this is expected to open up room for additional investment of ₹1,200 billion in the limit for central government securities by March 2018 over and above the existing limit of ₹1,535 billion for all government securities (G-sec).

(iii) Additionally, there will be a separate limit for investment by FPIs in the State Development Loans (SDLs), to be increased in phases to reach 2 per cent of the outstanding stock by March 2018. This would amount to an additional limit of about ₹500 billion by March 2018.

(iv) The increase in limits will be announced every half year in March and September and released every quarter.

(v) The existing requirement of investments being made in G-sec (including SDLs) with a minimum residual maturity of three years will continue to apply.

(vi) Limits for the residual period of the current financial year would be increased in two tranches from October 12, 2015 and January 1, 2016. Each tranche would entail an increase in limits as under:

- ₹130 billion for central government securities composed of ₹75 billion for long term investors and ₹55 billion for others.
- ₹35 billion for SDL open to all FPI investors.

A circular with details of the MTF is being issued separately.

31. In the first bi-monthly monetary policy statement for 2015-16, announced on April 07, 2015, it was proposed to permit Indian corporates that are eligible to raise external commercial borrowings (ECB) to issue rupee bonds in overseas centres with an appropriate regulatory framework. Based on the comments received on the draft framework and in consultation with the Government, it has been decided to permit Indian corporates to issue rupee denominated bonds with a minimum maturity of five years at overseas locations within the ceiling of foreign investment permitted in corporate debt (US$ 51 billion at present). There shall be no restriction on the end use of funds except a small negative list. Detailed instructions are being issued separately.

32. The Reserve Bank has placed the draft framework on ECB on its website on September 23, 2015 for comments/ feedback. The revised framework suiting the current economic and business environment will replace the extant ECB policy.

33. Scheduled commercial banks and primary dealers (PDs) are currently permitted to execute the sale leg of short sale transactions in the over the counter (OTC) market in addition to the Negotiated Dealing System–Order Matching (NDS-OM) platform. Short sale in the OTC market is, however, not permitted between the primary member (PM) and its gilt account holder (GAH). The Clearing Corporation of India Ltd. (CCIL) has introduced a facility in the reported segment of NDS-OM which captures details of transactions involving gilt accounts. Accordingly, it is proposed to permit short sale by a PM to its GAH and also to treat purchase by a PM from its GAH as a cover transaction. Guidelines in this regard will be issued by end-October 2015.

34. There has been significant improvement in market infrastructure in the inter-bank repo market in G-sec. This enables Reserve Bank to review restrictions placed on repo transactions, particularly relating to the participation of gilt account holders in the repo market, guided by the recommendations of the Working Group on Enhancing Liquidity in the Government Securities and Interest Rate Derivatives Markets (Chairman: Shri R. Gandhi). New guidelines in this regard will be issued by end- November 2015.

35. When Issued (WI) trading in G-sec was permitted in 2006 to facilitate the distribution process by stretching the actual distribution period for each issue and allowing the market more time to absorb large issues without disruption. In order to encourage trading in the WI market, it is proposed to:

(i) permit the scheduled commercial banks to take short positions in the WI market for both new and reissued securities, subject to limits and other conditions in place from time to time; and

(ii) permit regulated entities other than banks and primary dealers (PDs) to take long positions in the WI market.

Detailed guidelines in this regard will be issued by end-November 2015.

36. Guidelines on repo in corporate debt were issued in January 2010. In order to further develop the repo market, a broad framework for introduction of electronic dealing platform/s for repo in corporate bonds will be designed in consultation with the Securities and Exchange Board of India (SEBI).

37. While the currency futures market has grown, participation in this segment has been restricted to a few categories of entities. In order to diversify the participation profile in the currency futures market, stand-alone PDs will be permitted to deal in currency futures contracts traded on the recognised exchanges, subject to adherence to certain risk control measures and without diluting their existing obligations in the G-sec market. Guidelines in this regard will be issued by end-November 2015.

38. At present, exchange traded currency derivatives include futures and options in four currency pairs *viz.*, USD-INR, EUR-INR, GBP-INR and JPY-INR. With a view to enabling direct hedging of exposures in foreign currencies and to permit execution of cross-currency strategies by market participants, exchange traded currency futures and options will be introduced in three cross-currency pairs *viz.*, EUR-USD, GBP-USD and USD-JPY. Necessary guidelines will be issued in consultation with SEBI by end-November 2015.

39. Establishing underlying exposure through verifiable documentary evidence has been a key regulatory requirement for accessing OTC forex markets. To provide more flexibility to market participants in managing their currency risk in the OTC market and for making hedging easier, it has been decided to increase the limit for resident entities for hedging their foreign exchange exposure in the OTC market from US$ 250,000 to US$ one million without the production of any underlying documents, subject to submission of a simple declaration. It is further proposed to comprehensively review the documentation related requirements in the OTC market. The possibility of participation by financially sophisticated investors up to certain limits in currency markets without underlying exposure will also be examined. Revised draft of the existing framework will be issued for public comments by end-December 2015.

IV. Currency Management

40. With growing financial inclusion, there are concerted efforts to enhance the use of technology and move towards a "less-cash" society. In order to promote electronic payments and use of cards for transactions, the Reserve Bank will put in the public domain a concept paper for proliferation of card acceptance infrastructure in the country, especially in the tier III to tier VI centres, by end-November 2015.

41. The Reserve Bank has issued ₹100, ₹500 and ₹1000 denomination banknotes in the Mahatma Gandhi Series–2005 with a new numbering pattern with ascending order of the size of the numbers from left to right. This is being introduced in a phased manner for all denominations of banknotes.

42. With a view to making identification of banknotes easier for visually challenged persons, the process for introduction of additional identification marks in

banknotes in the form of angular bleed lines has been initiated and is being introduced in the denominations of ₹100, ₹500 and ₹1000 as raised lines on both the left and right sides of the obverse of the banknote: 4 lines in ₹100, 5 lines in ₹500 and 6 lines in ₹1000. Furthermore, the size of the existing identification mark in these denominations is also being increased by 50 per cent to facilitate better identification.

I. Macroeconomic Outlook

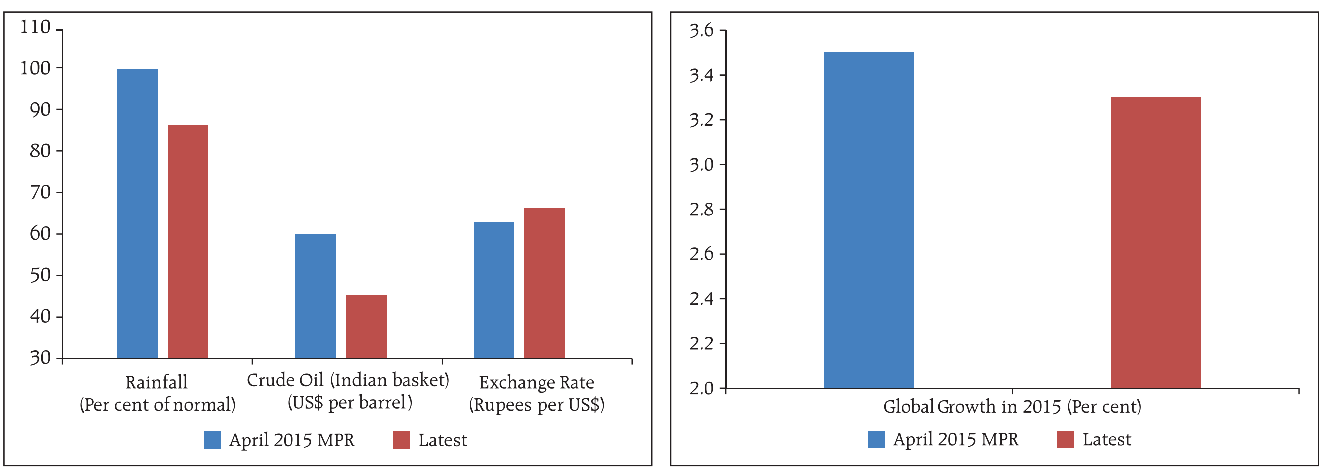
Macroeconomic developments in the first half of 2015-16 have evolved in close alignment with baseline forecasts. Going forward, inflation is projected to stay below the January 2016 target in 2015-16 and ease further in 2016-17. The projection of growth is revised downward for 2015-16, with some firming in the following year. Potential volatility in global financial markets poses the most significant risk to these projections.

Over the first half of 2015-16 (April-March), macroeconomic developments have evolved in close consonance with staff's baseline forecast paths set out in the April 2015 Monetary Policy Report (MPR). Deviations in levels, *albeit* small, are observed both above and below the projections, indicating the absence of systematic bias in forecast errors. Chapters II and III explain the factors underlying these deviations in inflation and growth developments, respectively.

Significant shifts in global and domestic macro-economic and financial conditions since the April 2015 MPR warrant a re-assessment of the baseline assumptions determining the initial conditions that drive staff's projections, and revisions if any (Chart I.1).

First, from the second quarter (Q2) of 2015-16, international crude oil prices have fallen substantially below the April 2015 MPR baseline assumption[1]. The lower level of oil prices assuaged domestic inflation pressures, supported domestic demand and helped to contain fiscal and current account deficits. Secondly, notwithstanding some bright spots – mainly the US and the Euro area – global growth has weakened below expectations, and the deepening slowdown in emerging and developing economies (EDEs) could warrant downward revisions in forecasts (Table I.1). Thirdly, high volatility seems to have become the new normal in global financial markets, with sharp risk-on-risk-off swings shifting external financial conditions across the emerging world. Prominent triggers are concerns about China - growth slowdown; stock market meltdown; devaluation - as well as the pace and timing of interest rate action by the US Federal Reserve. Fourthly, the growth in volume of world trade is hovering below the growth of the world GDP, vitiating the underlying price and income elasticities and weakening the contribution of exports to aggregate demand for a broad swathe of economies, advanced and emerging alike. With international trade prices contracting faster than trade volumes, the differential effects of terms of trade movements on net commodity exporters and importers have become somewhat blurred. Overall, global risks

Chart I.1: Evolution of Baseline Assumptions since April 2015 MPR



[1] As against the baseline assumption of US$ 60 per barrel in the first half and US$ 63 per barrel in the second half of FY 2015-16, the Indian basket of crude oil averaged US$ 50 per barrel in Q2.

Table I.1: Baseline Assumptions for Near-Term Projections

Variable	April 2015 MPR	Current (September 2015) MPR
Crude Oil (Indian Basket)*	US$ 60 per barrel in H1:2015-16 US$ 63 per barrel in H2:2015-16	US$ 50 per barrel in H2:2015-16
Exchange rate **	₹63 per US$ (the then prevailing level)	Current level
Monsoon	Normal in 2015	86 per cent of long period average (LPA) in 2015
Global growth ***	3.5 per cent in 2015	3.3 per cent in 2015
Domestic macroeconomic/structural policies during the forecast period	No major change	No major change

* Represents a derived basket comprising sour grade (Oman and Dubai average) and sweet grade (Brent) crude oil processed in Indian refineries in the ratio of 72:28.

**The exchange rate path assumed here is for the purpose of generating staff's baseline growth and inflation projections and does not indicate any 'view' on the level of the exchange rate. The Reserve Bank is guided by the need to contain volatility in the foreign exchange market and not by any specific level/ band around the exchange rate.

***: Based on projections from January 2015 and July 2015 updates of the IMF's World Economic Outlook.

have heightened significantly. Domestically, the full impact of the deficient and spatially uneven south-west monsoon is still unfolding.

Staff's growth and inflation projections for eight quarters ahead in the MPR are generated out of three interacting and mutually reinforcing models: (a) a macro econometric model that simulates the working of the economy and estimates structural parameters; (b) a forecasting and policy analysis system (FPAS) that uses these structural parameters to generate alternative paths of the policy interest rate under various shocks comprising the balance of risks (Box I.1), using two quarters ahead projection of key variables obtained from (c) a full information projection system that employs competing models (structural time-series analysis; multivariate regression analysis; forward looking surveys and lead indicators) aggregated parsimoniously through root mean squared error (RMSE) scores.

Box I.1: Forecasting and Policy Analysis System

Central banks adopting flexible inflation targeting have favoured the development of a forward-looking monetary policy framework centred on inflation forecasts as intermediate targets. A forecasting and policy analysis system (FPAS) has found appeal in terms of generating consistent model-based forecasts of the economy and calibrating policy reactions. The core of the FPAS is a quarterly projection model (QPM), which is a forward-looking open economy calibrated general equilibrium gap model in the new Keynesian tradition (Berg *et al*, 2006). Satellite models augment QPM by providing sectoral dynamics.

The QPM consists of four blocks: (a) an aggregate demand or IS function; (b) an inflation block capturing food, fuel, and core (excluding food and fuel) inflation dynamics, the last element taking the form of a hybrid New Keynesian Phillips curve; (c) the exchange rate block; and (d) a forward looking policy reaction function.

In real life, both inflation and growth are subject to considerable volatility and this affects public welfare adversely by imposing uncertainty around decision-making. Optimal monetary policy is all about maximising the well-being of economic agents in the country. In its simplest form, it can be described in terms of two components: one, minimising the deviations of inflation from a certain optimal rate and two, minimising deviations of real economic activity from the level determined by the productive potential of the economy. Setting optimal policy requires the assignment of optimal weights to each, depending on the responsiveness of demand to the real interest rate and the sensitivity of inflation to marginal cost and supply shocks. The optimal policy response will vary according to the size of these weights and the speed with which the policy instrument (the interest rate) is adjusted.

(Contd...)

Estimates of an optimal monetary policy rule in a FPAS-type framework indicate that for India, the optimum weight on the inflation gap (actual minus target) ranges between 1.6 and 2.2, while the weight on the output gap (actual minus potential) varies between 0.8 and 1.4, with these weights increasing as the speed of adjustment of the policy repo rate rises (the interest rate smoothing parameter falls).

References:

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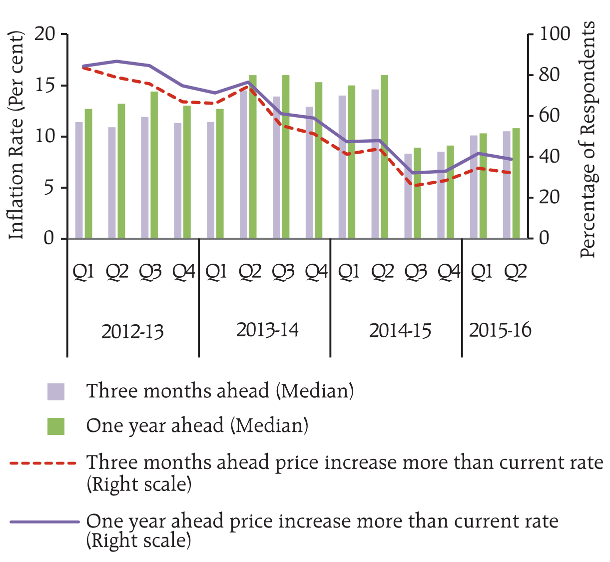
Patra, M.D., J.K. Khundrakpam, and S. Gangadaran (2015), "Optimal Simple Monetary Policy Rules for India with New CPI Inflation as the Nominal Anchor", (Mimeo).

I.1 Outlook for Inflation

Inflation expectations play a critical role in the formation of inflation through their impact on wage and price contracts. In the September 2015 round of the Reserve Bank's survey, urban households have reported a firming up of their inflation expectations, one quarter as well as one year ahead, for the third consecutive quarter (Chart I.2). Qualified by the caveat that the Reserve Bank's survey has yielded only 41 observations so far[2], there is strengthening empirical evidence of a significant element of backward-lookingness in households' inflation expectations with high sensitivity and adaption to recent movements in a few salient prices such as those of vegetables, fruits and petrol. Inflation expectations also reflect the memory of close to double digit inflation for six years (up to 2013-14). The September round of the survey indicates that inflation is expected to be 10.5 per cent in Q3 and 10.8 per cent one year ahead.

Chart I.2: Inflation Expectations of Households



Source: Inflation Expectations Survey, RBI

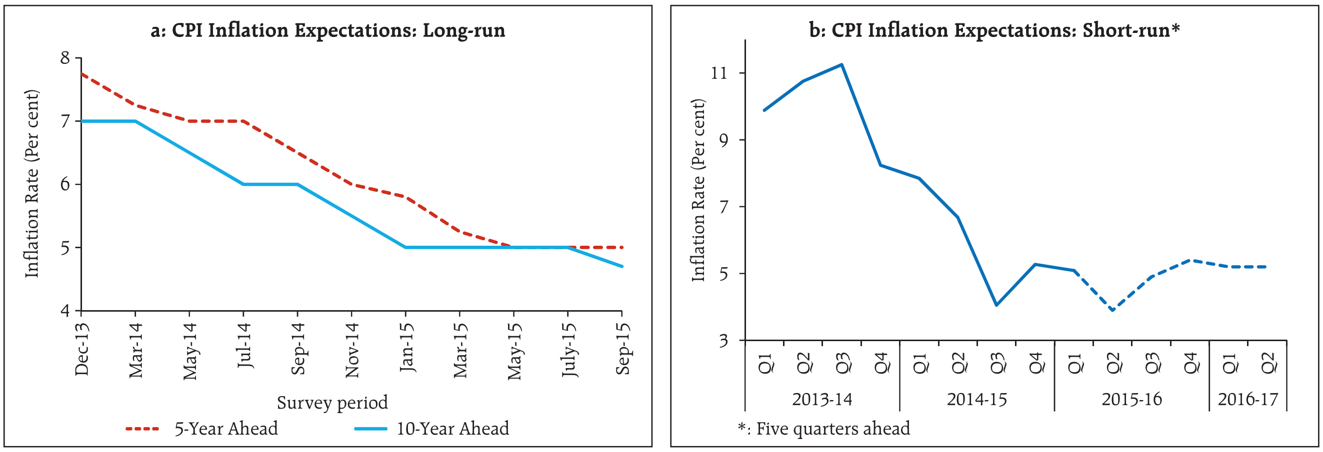
[2] The Reserve Bank has been conducting a quarterly survey on inflation expectations of urban households since September 2005. The survey, conducted in 16 cities, covers 5000 households and elicits qualitative and quantitative responses on expected price changes and inflation for the next three months and the next one year.

Professional forecasters expect short-run inflation to pick up in the coming quarters, in consonance with staff's projections (Chart I.3). Importantly, their inflation expectations 10 years ahead moderated to 4.7 per cent in the September 2015 survey, approaching the Reserve Bank's medium-term target, and indicating a better anchoring of long-term inflation expectations.

Purchasing managers' indices (PMI) indicate softening of inflationary pressures to their weakest level since April with upside pressures from the services sector being more than offset by the downside pressures from the manufacturing sector. Manufacturers polled by the Reserve Bank's industrial outlook survey expect increases in output prices to moderate, driven down by lower input prices as also weakening pricing power (Chart I.4). Inflationary pressures from rural wage growth have remained relatively muted on the back of a moderation in nominal wage growth and going forward, they are expected to remain contained.

Headline CPI inflation is expected to firm up from its current trough and rise to around 4.5 per cent in September as favourable base effects reverse and average

Chart I.3: Inflation Expectations of Professional Forecasters



Source: Survey of Professional Forecasters, RBI.

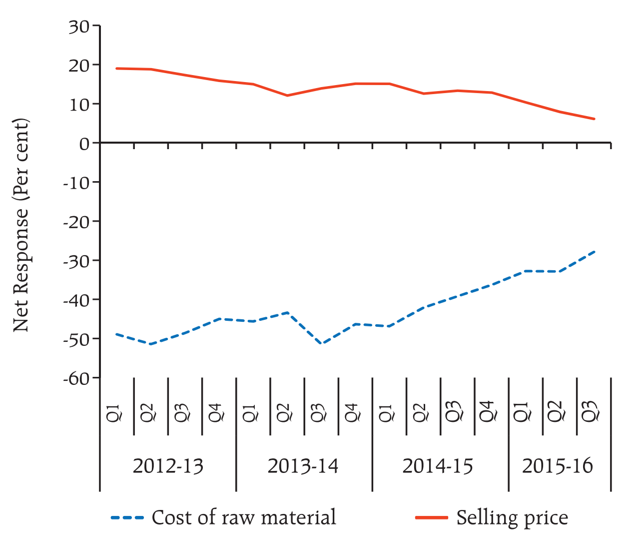
5.5 per cent in Q3 and 5.8 per cent in Q4 of 2015-16. Assuming that various determinants of inflation evolve in the manner posited by staff in this MPR, especially the evolution of global crude oil and domestic food price dynamics, CPI inflation is expected to average 5.5 per cent in 2016-17 and moderate to around 4.8 per cent in Q4 of 2016-17 (with a 70 per cent confidence interval of 2.6-7.0 per cent) (Chart I.5). The baseline outlook, however, is subject to considerable uncertainties surrounding commodity prices, monsoon and weather-related disturbances, volatility in seasonal items and spillovers from external developments through exchange rate and asset price channels (Box I.2).

I.2 Outlook for Growth

A factor complicating forecasts of real gross value added (GVA) is the underlying behaviour of deflators of various types of economic activity (Chapter II, Box II.3).

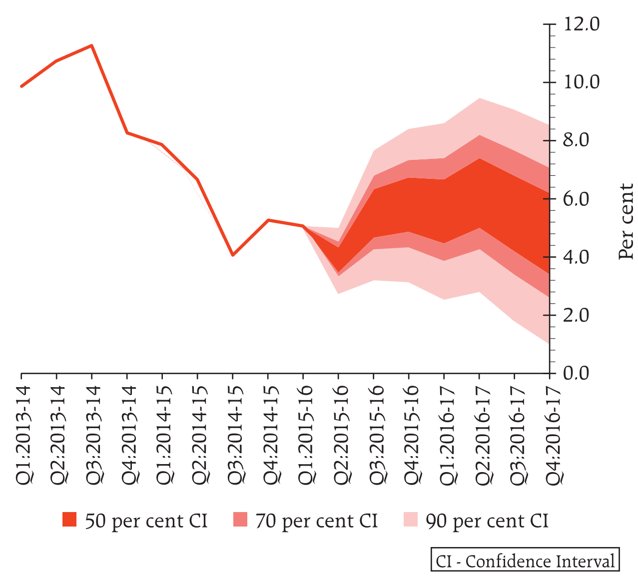
Looking ahead, the macroeconomic environment appears subdued. While consumption demand seems to be holding up other than in rural areas, the outlook

Chart I.4: Expectations of Cost of Raw Material and Selling Prices



Source: Industrial Outlook Survey, RBI

Chart I.5: Quarterly Projection of CPI Inflation (y-o-y)



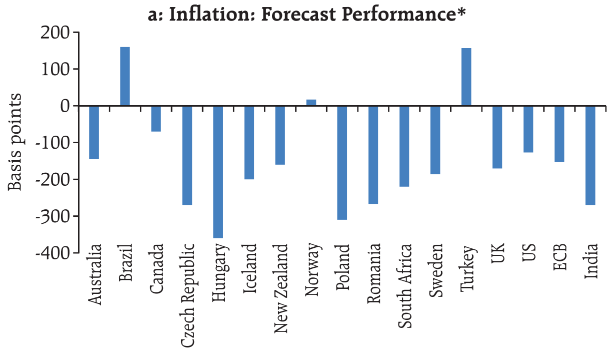
Box I.2: Central Bank Forecasts

Timely and accurate forecasts of growth and inflation play a critical role in the conduct and formulation of monetary policy. If the assumptions underlying these forecasts undergo drastic changes, actual outcomes may deviate substantially from the initial forecasts.

A survey of 16 central banks indicates that 13 over-predicted inflation during 2014 by an average of about 150 basis points (bps)[@] (Chart a), driven by large unexpected declines in crude oil and other commodity prices.

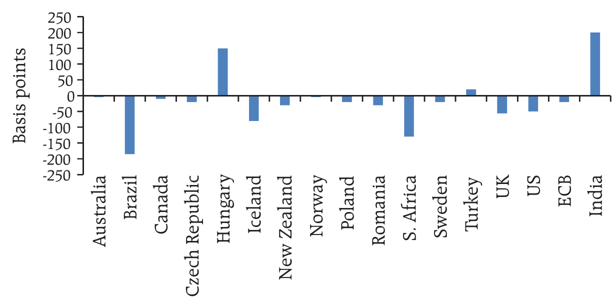
An optimism in growth projections is also evident in 2014, with average over-prediction of around 30 bps[#] (Chart b). This optimism is also visible in the IMF's growth forecasts for 2011-14 which were, on average, 60 bps more than actual growth, with average forecast errors for EDEs being almost twice as large as those for AEs (IMF, 2014). In India, actual growth in 2014 was higher than projected, largely an outcome of the revised methodology under the new GDP series.

a: Inflation: Forecast Performance*



*: Actual minus projected inflation. See footnote a for details.
Source: Respective Central Banks.

b: GDP Growth: Forecast Performance*



*: Actual minus projected growth. See footnote b for details.
Source: Respective Central Banks.

Given the uncertainty in the evolution of baseline assumptions, therefore, many central banks encompass their point forecasts for inflation and growth within fan charts, which provide a probabilistic assessment of the likely outcomes for inflation and growth.

Reference:

International Monetary Fund (2014), *World Economic Outlook*, October.

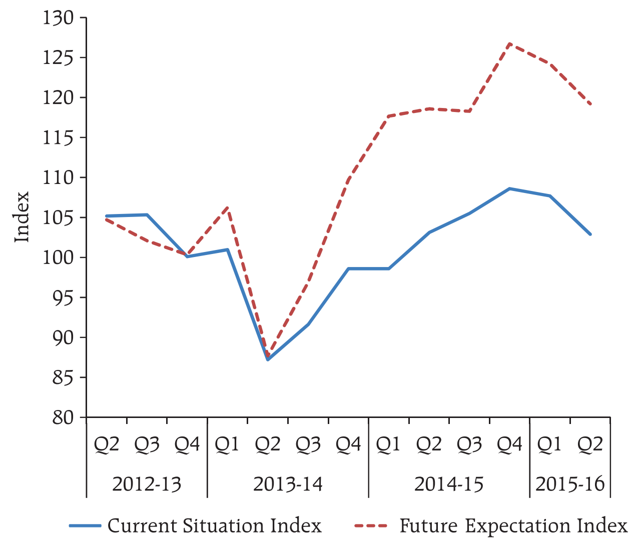
[@] The sample covers major central banks which provide forecasts on a quarterly basis (either in text or where this information can be inferred from the fan charts). The inflation forecast for the quarter January-March 2015 (in case of US, October-December 2014) made in the month nearest to January 2014 is evaluated against actual inflation during the quarter January-March 2015.

[#] This compares growth/output gap projections for the year 2014 (in the case of the US, Q4:2014) made in the month nearest to January 2014 with the actual outturn.

for investment demand remains lacklustre with a shrinking pipeline of greenfield projects, lack of forward movement on the brownfield pipeline, the pressure of considerable slack as evident in persisting under-utilisation of capacity and build-up of finished goods inventories, still high stress on banks' balance sheets and limited progress on major structural reforms. The prospects for exports too appear muted in view of the deterioration in the external trading environment. Moreover, the gains in terms of real incomes expected from favourable terms of trade for net commodity importers have been weak so far.

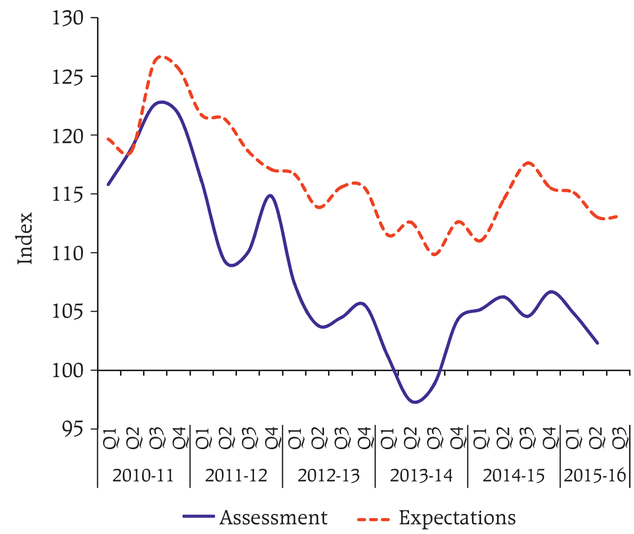
Over the second half of 2015-16, the recovery in the agricultural sector observed in Q1 is unlikely to sustain, given the 14 per cent deficit in rainfall as well as its uneven distribution, and lower reservoir levels. The industrial sector continues to suffer from structural weakness in various core sectors: financial stress among distribution companies (DISCOMs) in the electricity sector, declining natural gas and crude oil production,

Chart I.6: Consumer Confidence



Source: Consumer Confidence Survey, RBI

Chart I.7: Business Assessment and Expectations



Source: Industrial Outlook Survey, RBI

coal production impacted by weak demand, and sharp fall in international steel prices affecting domestic producers. Overall consumer confidence polled in the September 2015 round of the Reserve Bank's survey ebbed with regard to prospects for income and employment (Chart I.6).

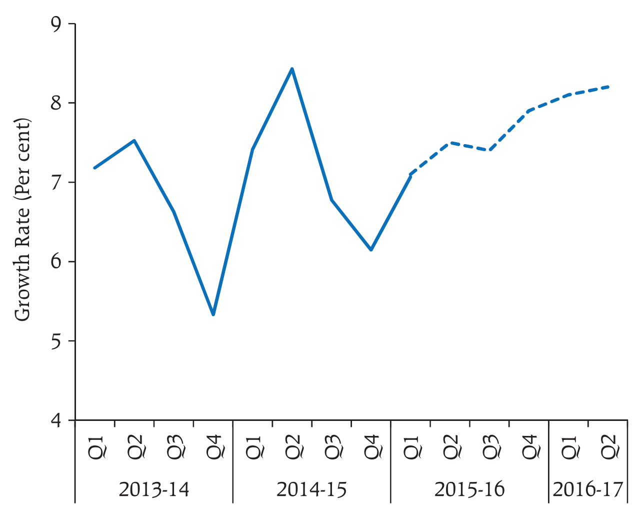
Business conditions assessed in the September 2015 round of the Reserve Bank's industrial outlook survey were slanted to the downside. Business expectations, however, stabilised for the ensuing quarter, benefiting from an improvement in the financial situation (Chart I.7). Lack of external and, especially, domestic demand are seen by the surveyed firms as the biggest constraint. Surveys by other agencies conducted during July-August 2015 also exhibit a moderation in business confidence (Table I.2).

Professional forecasters surveyed during September 2015 expect output growth to pick up gradually and remain at 7.5 per cent or higher till the second quarter of the next financial year (Chart I.8 and Table I.3).

Table I.2: Business Expectations Surveys

	NCAER Business Confidence Index	FICCI Overall Business Confidence Index	Dun and Bradstreet Business Optimism Index	CII Business Confidence Index
	Q1: 2015-16	**Q1: 2015-16**	**Q3: 2015**	**Q1: 2015-16**
Current level of the index	121.8	66.3	127.2	54.4
Index as per previous survey	138.2	73.2	126.8	56.4
% change (q-o-q)	-11.9	-9.4	0.2	-3.5
% change (y-o-y)	-15.1	-8.8	-12.5	1.3

Chart I.8: Professional Forecasters' Projected Growth



Source: Survey of Professional Forecasters, RBI

Table I.3: Reserve Bank's Baseline and Professional Forecasters' Median Projections

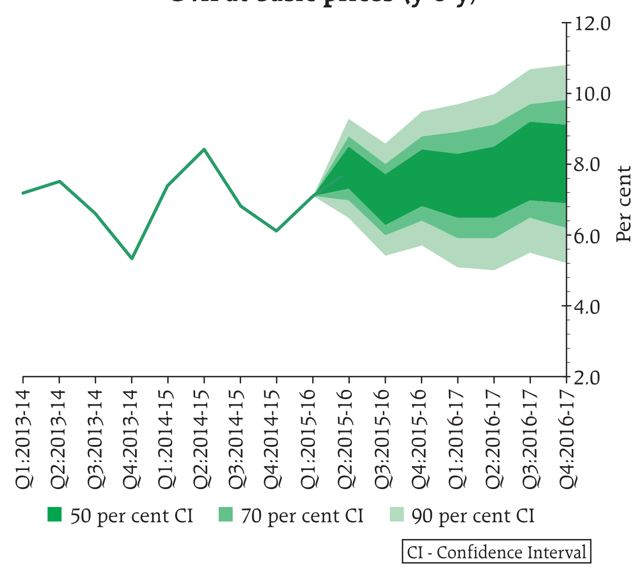
(Per cent)

	2014-15 (Actual)	2015-16	2016-17
Reserve Bank's Baseline Projections			
Inflation, Q4 (y-o-y)	5.3	5.8	4.8
Real Gross Value Added (GVA) Growth	7.2	7.4	7.8
Assessment of Survey of Professional Forecasters @			
GVA Growth	7.2	7.4	8.0
Agriculture and Allied Activities	0.2	1.5	3.0
Industry	6.6	6.7	7.2
Services	9.4	9.4	9.8
Gross Domestic Saving (per cent of GNDI)	-	30.5	31.0
Gross Fixed Capital Formation (per cent of GDP)	30.0	28.9	29.8
Money Supply (M3) Growth	10.8	12.0	13.5
Bank Credit of Scheduled Commercial Banks Growth	9.0	12.5	14.2
Combined Gross Fiscal Deficit (per cent of GDP)	6.9	6.3	6.0
Central Government Gross Fiscal Deficit (per cent of GDP)	4.0	3.9	3.6
Repo Rate (end period)	7.50	7.00	6.75
CRR (end period)	4.00	4.00	4.00
Yield of 91-Days Treasury Bills (end period)	8.27	7.3	7.2
YTM of Central Govt. Securities with term to maturity of 10-years (end period)	7.80	7.5	7.1
Overall Balance of Payments (US $ bn.)	61	44	43
Merchandise Export Growth	-0.6	-4.6	6.5
Merchandise Import Growth	-1.1	-4.1	7.1
Merchandise Trade Balance (per cent of GDP)	-7.0	-6.5	-6.6
Current Account Balance (per cent of GDP)	-1.3	-1.1	-1.3
Financial Account Balance (per cent of GDP)	4.4	3.2	3.2

@: Median forecasts.
Source: 36th Round of Survey of Professional Forecasters (September 2015)

Overall, lead/coincident indicators, the forward-looking surveys and estimates from model-based forecasts warrant a downward revision of GVA growth to 7.4 per cent in 2015-16 from the projection given in the April MPR. Growth in real GVA at basic prices is expected to be around 7.0 per cent in Q3 of 2015-16 before firming up to around 7.6 percent in Q4 with risks evenly balanced around this projection (Chart I.9). Real GVA growth is expected to pick up gradually in 2016-17 on a shallow cyclical upturn, driven by an expected normal monsoon and some improvement in external demand, but assuming no structural changes induced by policy measures and the absence of major supply shocks. The current environment of soft global commodity prices provides a potential upside bias to the growth projections.

Chart 1.9: Quarterly Projection of Growth in GVA at basic prices (y-o-y)



I.3 Balance of Risks

The baseline projections of growth and inflation set out in this chapter are subject to the evolution of a number of risks, both downside and upside. Plausible risk scenarios are developed below.

(a) Exchange Rate Movements

The exchange rate of the rupee has experienced bouts of sharp volatility since June 2015, triggered by heightened uncertainty in global financial markets and pressures on the exchange rate on account of external developments. Potential herding behaviour of foreign investors remains a significant risk at the current juncture. Estimates from the QPM suggest that a 10 per cent depreciation of the rupee *vis-à-vis* the US dollar relative to the baseline assumption of the current level of the exchange rate could lead to an increase of 20-30 bps in headline CPI inflation over two to four quarters, while boosting growth by around 10 bps (Charts I.10 and I.11). The favourable impact on exports and hence on growth can be expected to come into play in 2016-17, given the lags in the impact of exchange rate movements on export volumes. This positive impact could, however, get offset by the relatively quicker adverse impact of slowing external demand and competitive currency depreciations.

Chart I.10: Impact of Risk Scenarios on Baseline Inflation Path

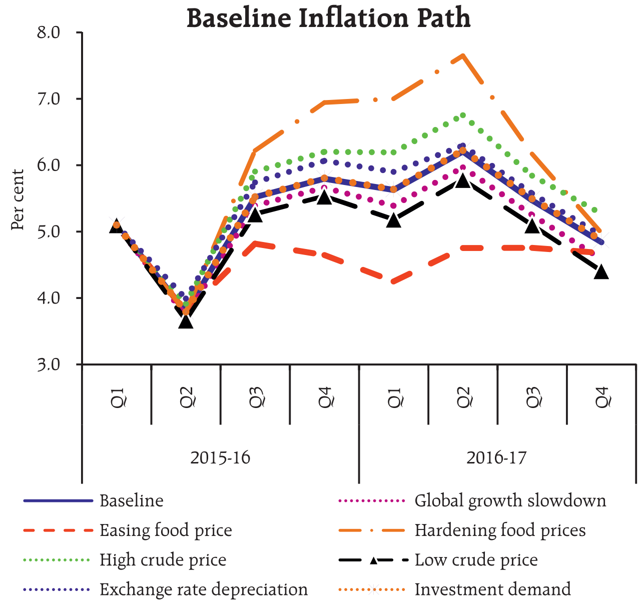
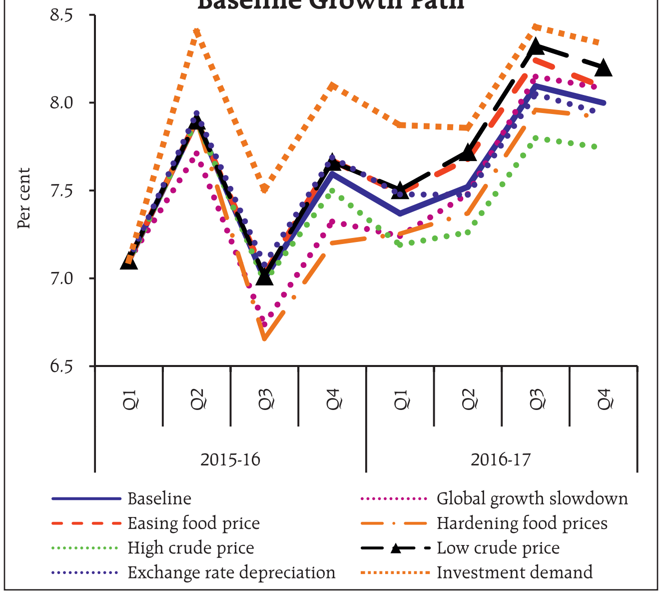


Chart I.11: Impact of Risk Scenarios on Baseline Growth Path



(b) Global Growth Slowdown

Given the large weight of China in the global economy, an accentuation of the loss of speed in the Chinese economy can spill over to the rest of the world through trade, financial and confidence channels. Potential volatility in the international financial markets over the pace of the US monetary policy normalisation, like the 2013 tapering episode, can also pull down global economic activity more than currently anticipated. A one percentage point lower global growth is estimated to reduce India's growth by 20-40 bps below the baseline. On the other hand, such a scenario may also lead to a further fall in international commodity prices, which could lower domestic inflation by 10-20 bps.

(c) Food Price Pressures

The south-west monsoon rainfall turning out to be deficient for the second year in succession has been factored into baseline projections. If food price pressures emanating from deficient monsoon remain contained on account of better supply management measures, headline inflation could turn out to be around 100 bps below the baseline in 2015-16. In view of the uneven rainfall, however, there is a risk that crop yields could be depressed more than envisaged. The resultant shortfall in crop production could reduce growth by around 30-40 bps, while putting upward pressure on food prices and inflation could turn out to be around 100 bps higher than the baseline in 2015-16.

(d) Uncertainties Surrounding Oil Prices

The sharp decline in international crude oil prices that has occurred over the course of the last one year highlights the high uncertainty around the baseline assumption. The deviation of oil prices in either direction would impact baseline growth and inflation scenarios. Weaker than expected global demand and/or further augmentation of supply would keep oil prices below the baseline assumption, whereas any supply disruptions due to geo-political developments could lead to potential spikes in oil prices. If oil prices moderate to around US$ 40 per barrel during 2015-16:H2, headline inflation could be lower by around 20-30 bps from the baseline by March 2016 and growth could be higher by about 10 bps. On the other hand, if supply disruptions push up oil prices to around US$ 70 per barrel, inflation could be higher by around 40 bps over the baseline by March 2016 and growth could be weaker by about 20 bps.

(e) Boost to Investment

The Centre's investment spending has seen a sharp increase in Q2 of 2015-16, consistent with the announcement in the Union Budget 2015-16. If this boost to public investment is sustained, and it crowds in private investment activity, real GVA growth could be 50 bps above the baseline in 2015-16. The impact on inflation, however, is likely to be muted in view of the still negative output gap.

Overall, the benign outlook for global crude oil and other commodity prices, in conjunction with weak domestic demand conditions, is expected to help keep inflationary pressures manageable. The deficient and uneven rainfall, however, does pose the risk of pressures on food prices, although supply side policies so far have been effective in managing the price situation. Potential elevation of volatility and uncertainty in the global financial markets related to the Chinese growth transition and US monetary policy normalisation and its spillover to the Indian markets also pose significant risks to the baseline paths of growth and inflation set out in this chapter.

II. Prices and Costs

Consumer price inflation has eased across the board in the first half of 2015-16. Input prices contracted, rural wage growth remained modest and corporate staff costs have undergone some deceleration.

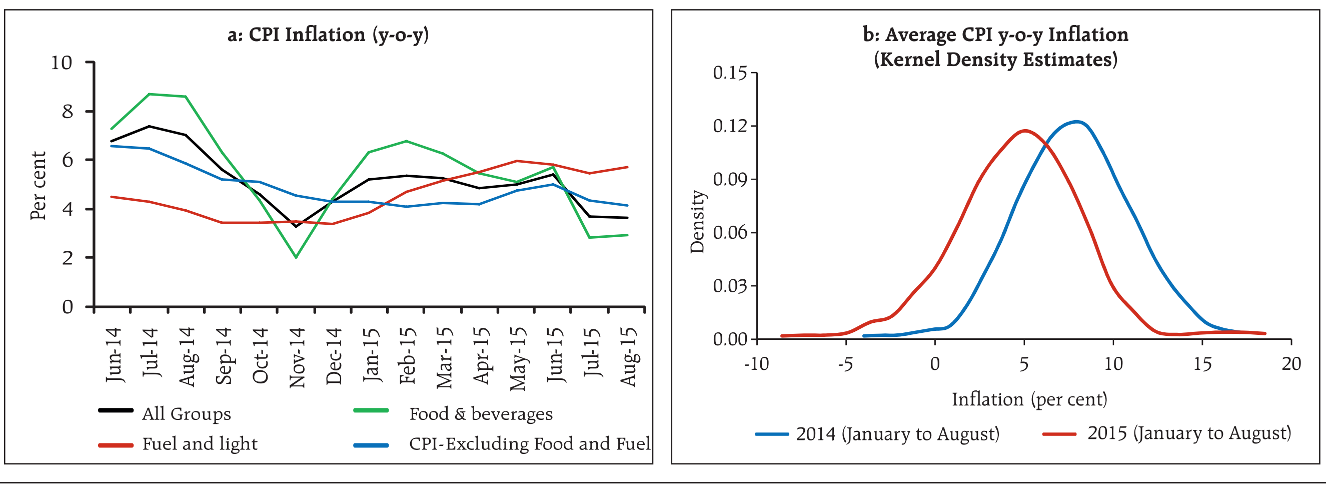
The MPR of April 2015 projected a steady disinflation through the first half of 2015-16. It anticipated a trough in August after which inflation was expected to turn up as favourable base effects dissipated. Inflation outcomes have closely matched this projected path directionally. Minor deviations in levels from the projected trajectory are attributable to three important developments. First, global commodity prices, especially of crude oil, hardened unexpectedly in Q1 before falling sharply in Q2. Secondly, food prices turned out to be more volatile than expected, with the *rabi* crop shortfall inducing spikes in prices of pulses and weather-related upsurge in prices of vegetables pushing up the momentum of headline inflation in May and June. Analogously, the rapid waning of these transient price pressures brought down month-on-month (m-o-m) inflation momentum in July faster than foreseen. Thirdly, the rupee depreciated in August; estimates suggest that typically, a 10 per cent nominal depreciation in the rupee leads to a 20-30 basis points (bps) increase in inflation over two to four quarters.

II.1 Consumer Prices

CPI inflation eased across the board over the first five months of 2015-16 (Chart II.1a). The distribution of inflation across major sub-groups has moved leftward but symmetrically around the mean, implying that the ongoing disinflation is broad-based (Chart II.1b).

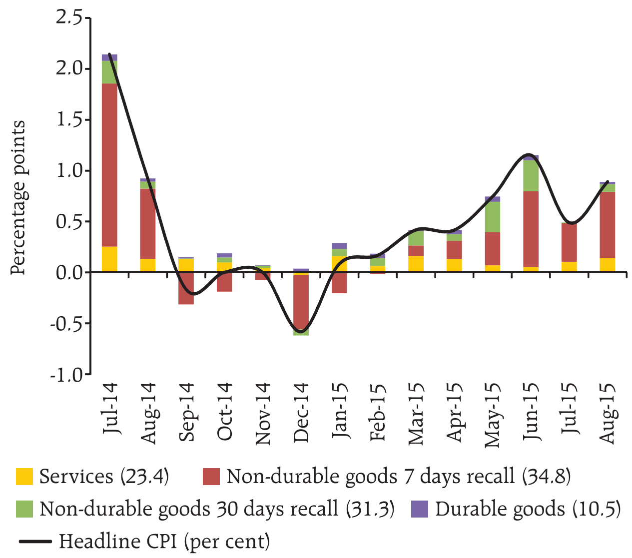
Headline inflation moderated to 5.1 per cent in Q1, undershooting staff's projection in the April 2015 MPR by 20 basis points. The seasonal firming up of price pressures materialised in May, rather than from April as is typical. In June, however, there was an unanticipated surge in m-o-m inflation momentum. A breakdown of m-o-m price increases under goods (durable and non-durables) and services showed that the uptick in prices in May was largely driven by pulses (under non-durable 30 days recall[1]), followed by vegetables (under non-durable 7 days recall[1]) and other protein-based food items (under non-durable 7 days

Chart II.1: CPI Inflation



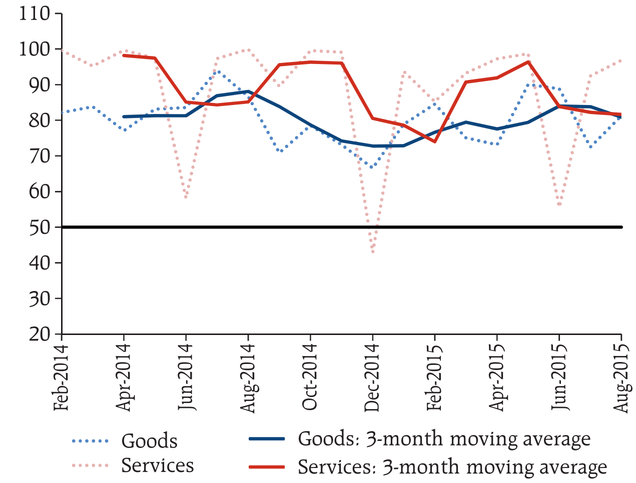
[1] The CPI weighting diagrams use the modified mixed reference period (MMRP) data based on the 2011-12 Consumer Expenditure Survey conducted by the National Sample Survey Office (NSSO). Under MMRP, data on expenditure incurred are collected for frequently purchased items – for edible oil, eggs, fish, meat, vegetables, fruits, spices, beverages, processed foods, pan, tobacco and intoxicants, during the last seven days; for clothing, bedding, footwear, education, medical (institutional), durable goods, during the last 365 days; and for all other food, fuel and light, miscellaneous goods and services including non-institutional medical services, rents and taxes, during the last 30 days.

Chart II.2: M-o-M change in Headline CPI



Note: Figures in parentheses are the groups' share in CPI.

Chart II.4 : Diffusion Indices*: CPI Goods and Services (not-seasonally adjusted)



*: The CPI inflation diffusion index, a measure of dispersion of price changes, categorises items in the CPI basket according to whether their prices are rising, stagnant or falling over the previous month. A reading above 50 for the diffusion index signals a broad expansion or the extent of generalisation of price increases and a reading below 50 signals a broad-based deflation.

recall) in June (Chart II.2). In Q2 so far, headline inflation fell to 3.7 per cent in August – the lowest since November 2014 – on a combination of favourable base effects and lower order of m-o-m increases (Chart II.3). In August, inflation eased below the projection by 30 basis points. Downward adjustment in pump prices of petrol and diesel as well as a generalised easing of inflation pressures across goods and services other than food and fuel aided this disinflationary impulse, tracking the trough projected in the April MPR. It is important to note, however, that the proportion of items registering price increase was higher in services than in goods (Chart II.4).

II.2 Drivers of Inflation

Abstracting from base effects, services inflation has been persistent relative to goods inflation (Charts II.5 and Box II.1).

Chart II.3: CPI Inflation : Momentum and Base Effects

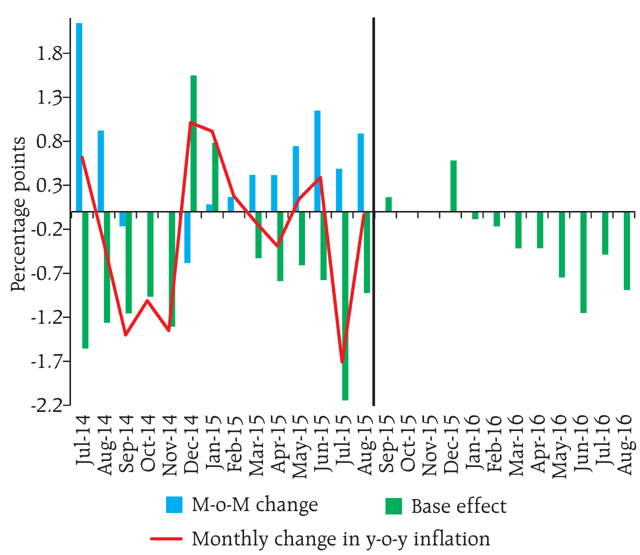
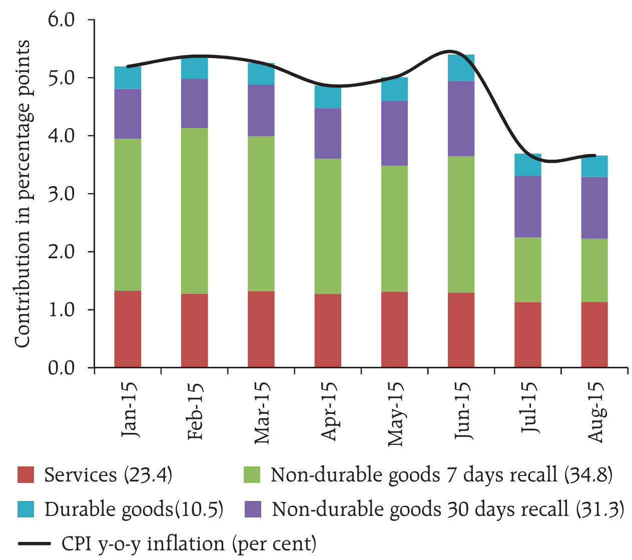


Chart II.5 : Drivers of Inflation

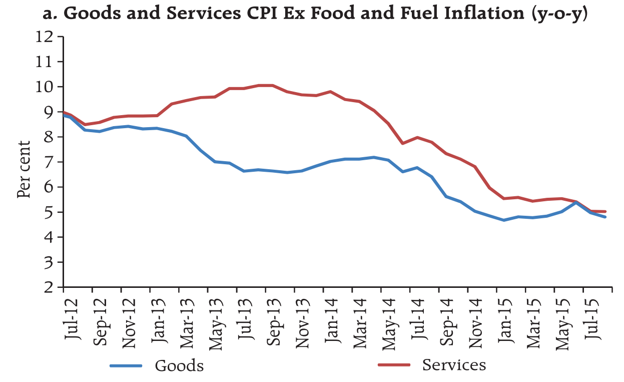


Note: Figures in parentheses are the groups' share in CPI.

Box II.1: Gauging Underlying Inflation Dynamics

It is observed that the gap between inflation rates of goods and services has a strong tendency to return to a "constant equilibrium value" in the long run (Peach, Rich and Antoniades, 2004). In India, goods and services inflation has generally been moving down since January 2014, with goods inflation being more volatile. Goods inflation excluding food and fuel (along with petrol and diesel) trailed services inflation on a similar exclusion basis with both converging to around 5 per cent in August 2015 (Chart a). Empirical evidence points to a long-run cointegrating relationship between the two series, with short-run error correction occurring mostly through goods inflation. Vector error correction model (VECM) estimates suggest that goods inflation needs to adjust by three times services inflation to restore equilibrium. Thus, services inflation turns out to be stickier. Accordingly, wholesale price inflation, which essentially captures goods price movements, may tend to underestimate the underlying inflation process in the current milieu.

a. Goods and Services CPI Ex Food and Fuel Inflation (y-o-y)



References:

Peach, R.W., Rich, R., and Antoniades, A. (2004), "The Historical and Recent Behavior of Goods and Services Inflation", Federal Reserve Bank of New York, Economic Policy Review, December.

Todd E. Clark (2004), "An Evaluation of the Decline in Goods Inflation", Federal Reserve Bank of Kansas City, Economic Review, 2nd Quarter.

The category of food and beverages constitutes 45.9 per cent of the CPI. During 2015-16 so far pre-emptive efforts to ward off food price pressures – such as government action against hoarding and black marketing, suspension of futures trading in select pulses, discouraging exports and incentivising imports of pulses and onions – worked to moderate food inflation despite deficient and spatially uneven monsoon. Overall, within the food category, inflation in all sub-groups, barring pulses, eased (Chart II.6, II.7).

Chart II.6 : Drivers of Food Inflation

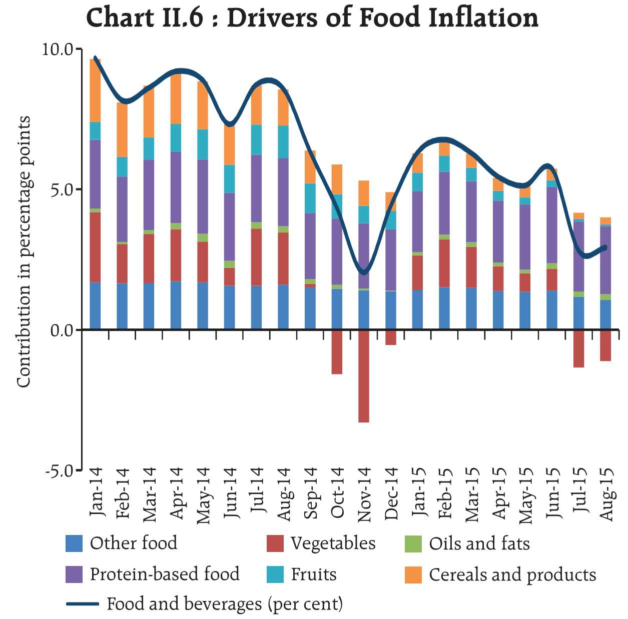
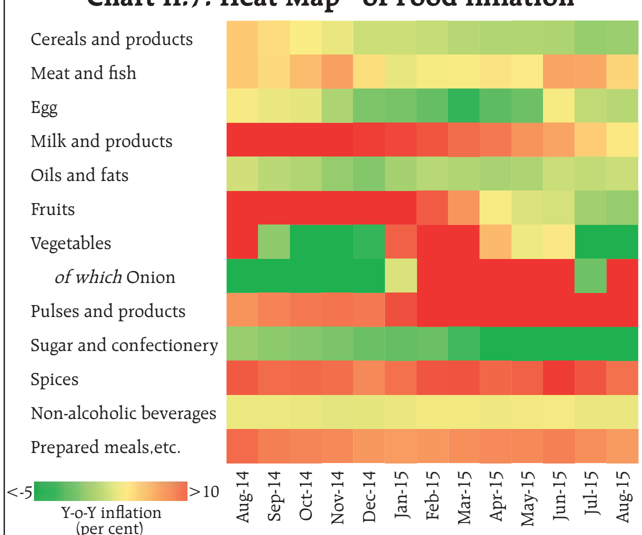


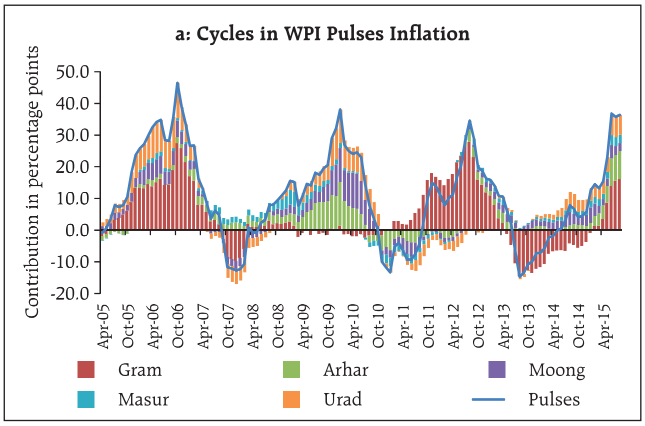
Chart II.7: Heat Map* of Food Inflation



*The heat-map visually elaborates the evolution of inflation. Greener areas indicate low inflation pressures and increasing order of red represents higher and higher inflation.

Box II.2: Pulses Price Spike: Pattern and Policy Options

Tracking the magnitude and duration of pulses price cycles suggest that cyclical peaks are similar (Chart a). However, the underlying drivers turned out to be different across different episodes – in the 2006 and 2012 episodes it was gram, while arhar played an important role in the 2009 episode. Upside pressures remain high in the case of arhar and urad during the current episode.



Source: Office of Ecconomic Adviser, Ministry of Commerce.

Although production of pulses has increased in recent years, it has been inadequate in meeting the growing demand, resulting in a secular increase in imports. Empirical evidence shows that deviations between global and domestic prices are corrected through adjustments in global prices within a period of about 5 months. This would imply that domestic price shocks get transmitted to global prices rather quickly, limiting viability of imports as an inflation control strategy. In this context, technological support to enhance yield as well as wider procurement at MSPs to give farmers downside protection are needed to augment production

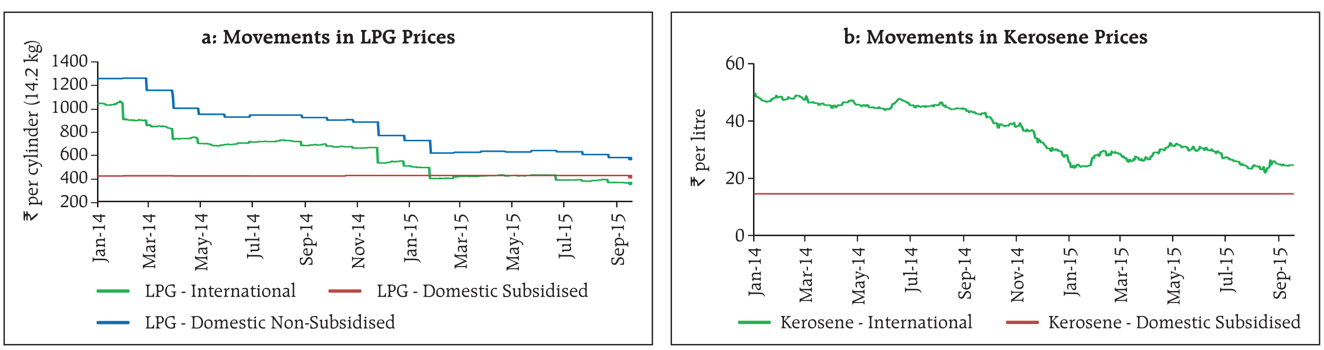
Reference:

G V Nadhanael, Gunjeet Kaur and Sujata Kundu (2015) "Pulses Conundrum in India: A Look at the Policy Options" *mimeo.*

Prices of pulses rose by double digits throughout the year so far because of a production shortfall in the previous year, imparting inflexibility to food inflation (Box II.2). Other protein-rich items like meat, fish and milk as also spices and prepared meals exhibited persistent price pressures emanating from demand-supply mismatches, given that the demand for these items is relatively income elastic.

In the fuel group, there were no changes in administered prices of liquefied petroleum gas (LPG) and kerosene. International prices of LPG and kerosene have seen a sharp decline since the second half of 2014 and the divergence between administered prices and international prices have considerably narrowed (Chart II.8). As a result, the under-recoveries on LPG and kerosene have declined sharply since 2014-15 (Chart II.9).

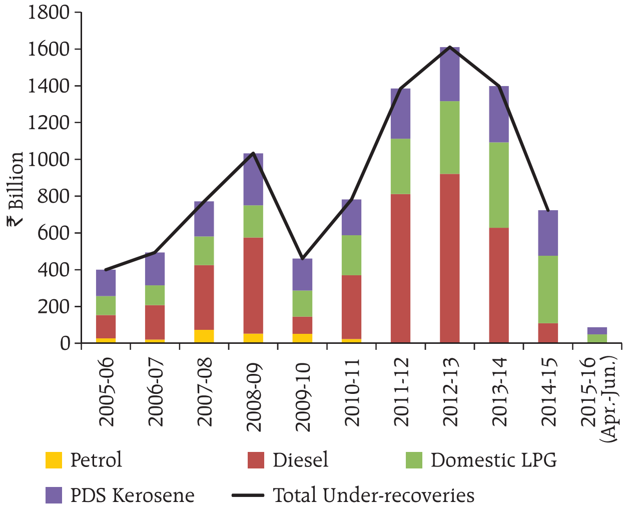
Chart II.8: Movements in Domestic and Global LPG and Kerosene Prices*



Source : Bloomberg, Indian Oil Corporation Limited, Petroleum Planning and Analysis Cell, MoP&NG, GoI

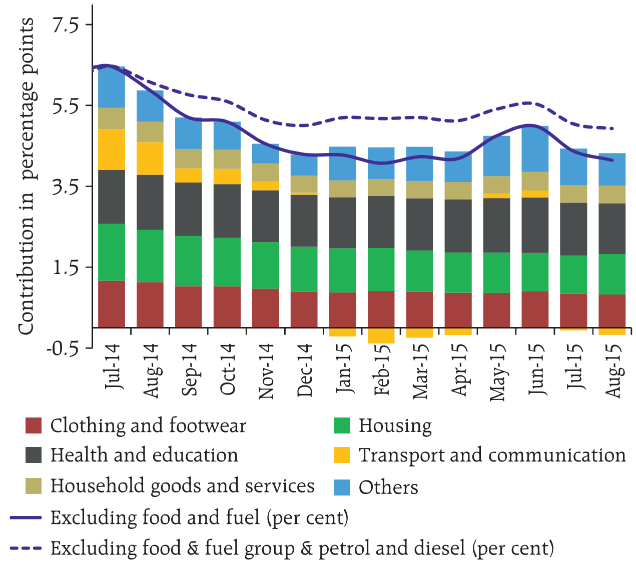
*The international price for kerosene is based on Bloomberg Singapore Jet Kerosene spot price. The international price for LPG is based on Bloomberg monthly posted price for Saudi Aramco butane and propane, combined in the ratio of 60:40, respectively. These international product prices are indicative prices, which are close to the benchmark prices, and do not represent the actual benchmark products used by oil majors for import pricing.

Chart II.9: Under-recoveries to Oil Companies on Sale of Sensitive Petroleum Products



Source : Petroleum Planning and Analysis Cell, MoP&NG, GoI

Chart II.10: CPI Excluding Food and Fuel Inflation



Barring some firming up in May-June induced by the hardening of international crude oil and gold prices, CPI excluding food and fuel inflation remained range-bound as a broad disinflationary momentum spread through the economy (Chart II.10). Softening international commodity prices engendered a softening of input price pressure.

Two components that recorded large moderation in inflation were transport and communications, and housing. The softening of international crude oil prices and pass-through to domestic prices of petrol and diesel generated the disinflation in respect of transport and communication. However, the pass-through was less than complete: only a third of the 17 per cent decline in international crude oil prices (Indian basket in rupee term between April and August) were reflected in cuts in domestic pump prices (Chart II.11a). Transportation fare reductions were moderate except in the case of air fare, muting the pass-through of lower international energy prices to consumers (Chart II.11b). Barring the north-west region, disinflation in respect of house rent, which started since early 2014-15, continued during the current year so far.

Chart II.11: Petroleum Product Prices and Domestic Fares

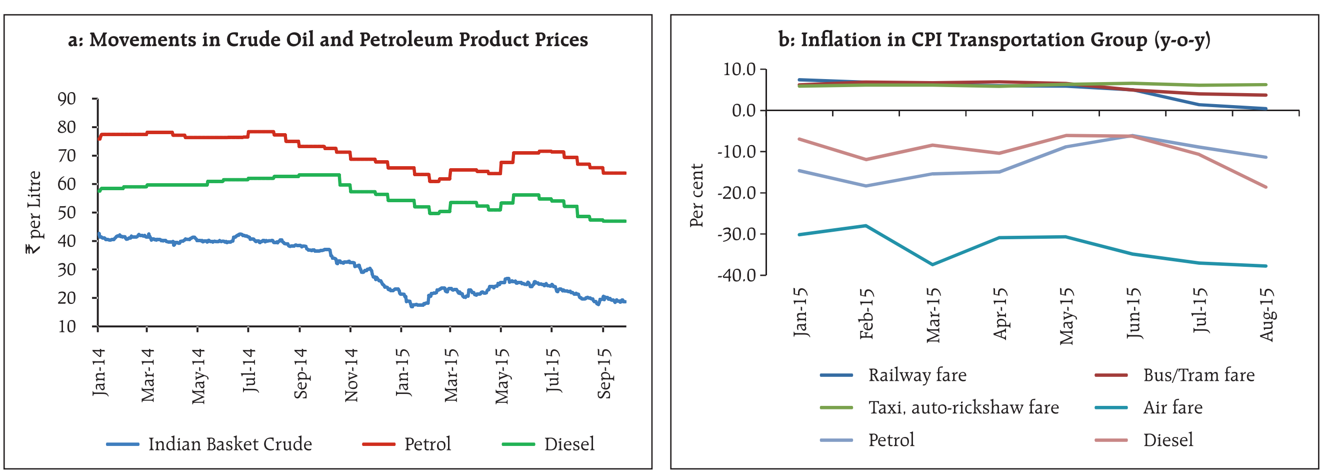
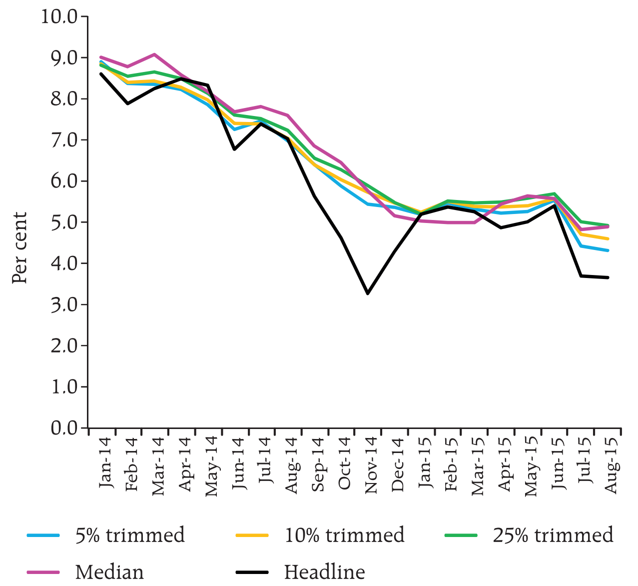


Chart II.12: CPI Trimmed Means (y-o-y)



Trimmed mean measures of CPI inflation eased steadily during the first half of 2015-16, with the softening bias getting accentuated from July (Chart II.12).

Table II.1: Measures of Inflation

(y-o-y, per cent)

	GVA Deflator	GDP Deflator	WPI	CPI	CPI-IW	CPI-AL	CPI-RL
Q1 : 2014-15	6.1	6.3	5.8	7.8	6.9	8.1	8.3
Q2 : 2014-15	4.5	4.7	3.9	6.7	6.8	7.3	7.6
Q3 : 2014-15	1.3	1.5	0.3	4.1	5.0	5.4	5.7
Q4 : 2014-15	-0.1	0.2	-1.8	5.3	6.6	5.8	6.0
Q1 : 2015-16	0.1	1.7	-2.3	5.1	5.9	4.5	4.7
Jul-15	--	--	-4.1	3.7	4.4	2.9	3.2
Aug-15	--	--	-5.0	3.7	--	3.0	3.2

IW: Industrial Workers, AL Agricultural Labourers, RL: Rural Labourers.

Other measures of inflation

Headline CPI disinflation was also reflected in disinflation for different indices. The WPI has slipped into deflation since Q4 of 2014-15 and the divergence between WPI and CPI inflation widened to 8.7 percentage points by August 2015 (Table II.1). The GDP/GVA deflator mirrored WPI movements; this warrants a careful review of the use of WPI, which does not include services, as the price index for arriving at current/constant price estimates of GDP/GVA (Box II.3).

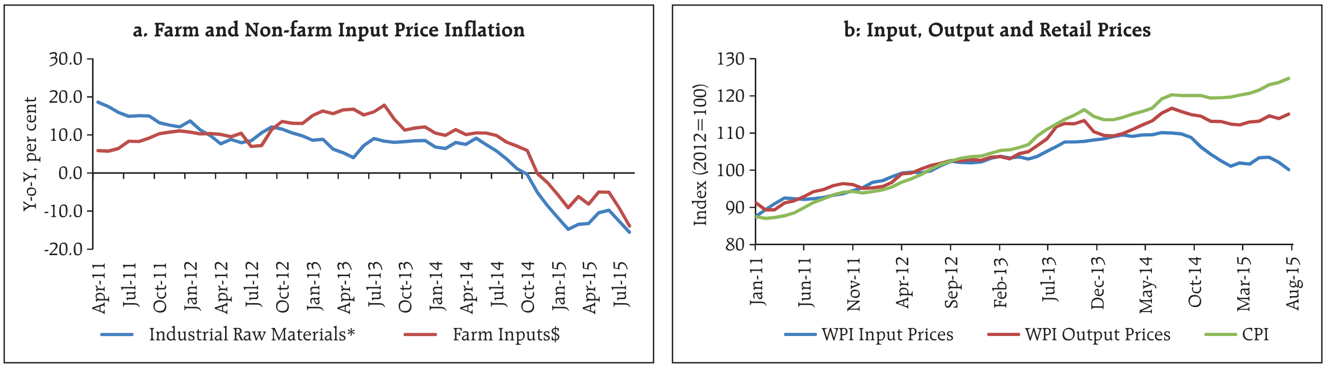
Box II.3 GDP and GVA Deflators

National income aggregates (GDP and GVA) are estimated at current and constant prices. Under the production approach, volumes are estimated independently for some activities and in others, estimates are prepared at current (constant) prices and the constant (current) price estimates are derived using a suitable price indicator (generally WPI at aggregate or disaggregated level or CPI). This has always been the practice and is followed in both old and new series. Estimates of all activities are aggregated, as appropriate, to arrive at GVA estimates at both constant and current price separately and adjusted for taxes less subsidies to arrive at GDP at market prices. The ratio of current to constant price estimate thus derived is the "implicit" GDP/GVA price deflator, reflecting overall inflation in all goods and services produced in the economy. Accordingly, the quarterly inflation rate derived from GDP/GVA deflators initially track the movement of the price index used in estimating current/constant price GDP for major activities.

In India, to obtain quarterly GVA estimates at current prices from constant prices estimates, WPI is widely used for many sectors. This tends to overstate the extent of price decline in the GDP deflator when WPI is in deflation. Services, which account for over 60 per cent of GVA, are not covered in WPI; yet the WPI is used as deflator for several services activities such as trade, hotels and restaurant, real estate and transportation.

Whereas the quarterly GDP/GVA deflator should represent the entire gamut of goods and services produced in the country and provide the most comprehensive measure of inflation in the economy, it is not so by construct. Representing the mixed impact of WPI and CPI inflation, with WPI having a larger weightage, annual inflation rates calculated for quarterly GDP/GVA deflators show a sharp decline since Q1 of 2014-15 to close to zero in Q4 of 2014-15.

Chart II.13: Input Costs



*Comprising of primary non-food articles, metallic and other minerals, coal, aviation turbine fuel, high speed diesel, naphtha, bitumen, furnace oil, lubricants, electricity (industry), cotton yarn and paper pulp from WPI.
$Comprising of high speed diesel, electricity (agricultural), fertilizers & pesticides, agricultural machinery & implements and tractors from WPI.
WPI input price index (rebased to 2012=100) comprises basic and intermediate goods; WPI output prices comprises of consumer durables and non-durables.

II.3 Costs

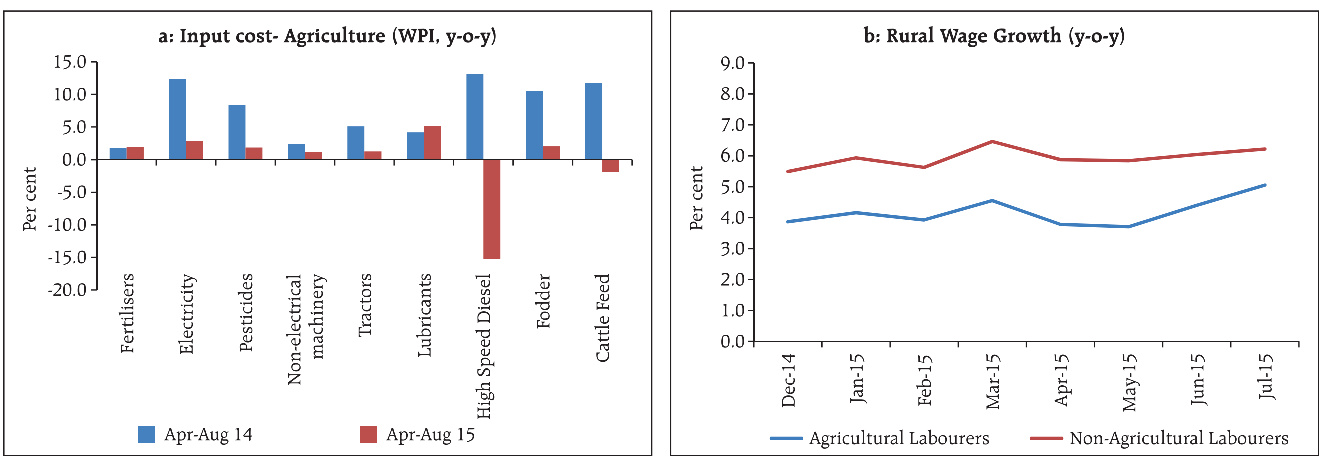
Cost pressures facing producers in farm and non-farm sectors were muted by the decline in international oil and metal prices, easing external cost conditions significantly. Domestic cost drivers were also softer. A comparison of the movements of wholesale input prices with those of wholesale output prices and retail prices indicates that the pass-through to consumers is far from complete (Chart II.13).

For the farm sector, falling diesel prices and the lower magnitude of revisions in electricity prices for irrigation contributed to benign cost conditions (Chart II.14a). Since the setting of MSPs follows a cost plus approach, these falling costs also translated into a lower order of increase in MSPs.

Rural wage growth, another key determinant of farm costs, remained muted during the current year so far, which further helped in keeping costs low (Chart II.14b). Wage growth in the farm sector was lower than in the non-farm sector, which could indicate that the pressure on wages from shortage in farm labour is ebbing.

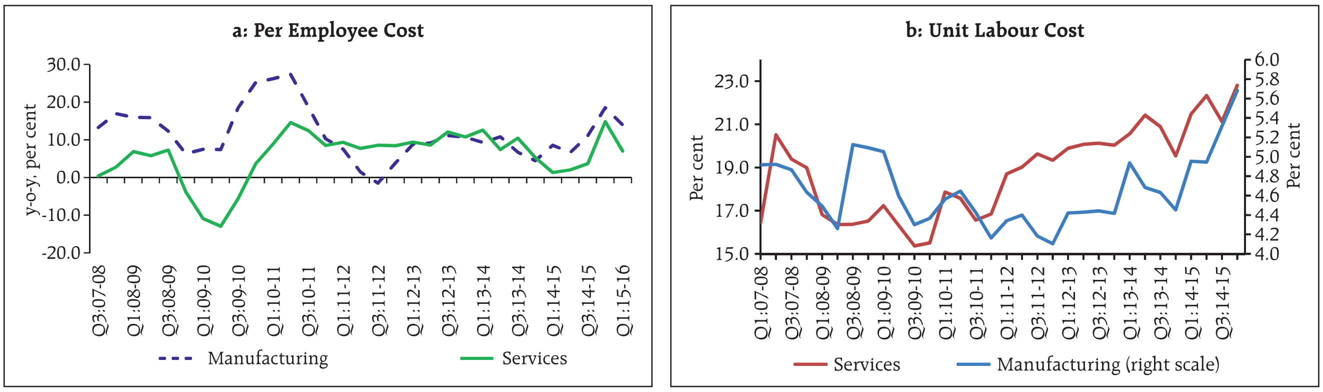
Wage growth in the organised sector represented by per employee cost has also undergone a deceleration in the current financial year so far, though the extent of moderation varied significantly between

Chart II.14: Agricultural Input Costs and Rural Wages



Source: a: WPI, Office of the Economic Adviser, GoI; b: Labour Bureau, GoI

Chart II.15: Labour Cost in Manufacturing and Services



Note: Per employee cost = Total employee cost/total number of employees. The per employee cost from Q1:2014-15 onwards is worked out based on total number of employees as of March 2014.
Source: Capitaline database

manufacturing and services sectors (Chart II.15a). Unit labour cost[2], however, increased and prominently so in the manufacturing sector as the value of production and sales decelerated at a faster pace (Chart II.15b).

The Reserve Bank's industrial outlook survey provides advance assessment of cost pressures. The 70th round of the survey shows declining raw material costs – constituting half of total cost. Empirical analysis suggests that a one point decline in net response on cost of raw materials is associated with a fall in inflation of industrial raw materials by around 80 basis points in the long-run.

The purchasing managers' index for manufacturing also endorses these declining pressures in input prices that have translated into lower output prices, especially for the manufacturing firms in intermediate and capital goods categories. Input prices faced by services industries are still rising, though at a much slower pace than in the past.

Deflation Risk is Overstated

In the wake of the influential secular stagnation hypothesis[3], deflation risks have drawn some intensity in debate: "If inflation is the genie, then deflation is the ogre that must be fought decisively"[4]. More recently, the devaluation of the RMB has increased concerns that "the risks of a deflationary, secular stagnation in the US would be increased by a large devaluation of the Renminbi"[5].

In the recent period, this view has been echoed in the discussions in India on inflation dynamics. The collapse of international commodity prices, the shrinking of international trade volumes relative to global economic activity, the flirtation of the euro area, Japan, Brazil and Russia with recession, successive downgrades of global growth forecasts and more recently, the fears of a pronounced slowdown in China have all been augmented by the persistent contraction in the WPI and the GVA deflator falling to zero. The prescription is that monetary policy should act aggressively to pre-empt deflation in India.

There are a panoply of duties, taxes, administered price settings and inflexible margins that effectively impede the pass-through of WPI/GDP deflator deflation into retail prices/CPI. At a narrative level, an array of facts can be offered to counter the deflation risk

[2] Measured by the ratio of staff cost to value of production.

[3] Summer, Lawrence H. (2014) 'U.S. Economic Prospects: Secular Stagnation, Hysteresis, and the Zero Lower Bound', Business Economics Vol. 49, No. 2. The hypothesis highlights a plausible scenario of chronic excess of savings over investment, with zero lower bound for interest rates inhibiting full adjustment between saving and investment.

[4] Lagarde, Christine (2014) 'The Global Economy in 2014', National Press Club, Washington DC, January 15.

[5] Quote by Lawrence Summer 'China's Renminbi Devaluation May Initiate New Phase in Global Currency War', New York Times, August 13, 2015.

argument in relation to India, including the sequential pick-up in GVA in Q1 in the Central Statistics Office's (CSO's) new series. That would, however, trivialise the discussion. The global forces cited earlier are indeed warning of a clear and present danger to the outlook for EMEs, and India cannot be immune. Yet it is important to clearly understand and prepare for the type of risks they portend. Rather than deflation, it is the risk of long drawn global stagnation that we should be concerned about.

Recent research suggests that the roots of slow growth lie in the protracted slowdown in private investment in EMEs and that factors beyond the slowdown in output growth are at work[6], but are differentiated across geographies. In Asia, Tobin's Q plays a key role, as reflected in weaker expectations of future profitability, dimmed by the slowing down of potential output. Tighter financial conditions, both domestic and external, have also been associated with the investment stagnation. A number of studies have also highlighted the decisive role of more country-specific constraints. For India, business and regulatory uncertainties embodied in delayed project approvals and large gaps in implementing infrastructural and other large scale projects have been identified as the major factors driving the recent slump[7]. If this view is accepted, then resolute fiscal policy and administrative/regulatory actions are urgently required to contend with the spectre of stagnation. It is only a committed policy stance aimed at removing infrastructure bottlenecks, addressing factors impeding stalled projects, rekindling cash flows, improving business conditions and enhancing human capital that will set the economy on a sustainable high growth path. Of course, monetary policy can play a role, but only as facilitator, not as primary actor.

[6] IMF (2015) "Where are we headed ? Perspectives on Potential Output", Chapter 3, World Economic Outlook, April.

[7] Anand, Rahul and Volodymyr Tulin (2014) "Disentangling India's Investment Slowdown" IMF Working Paper WP/14/47.

III. Demand and Output

Aggregate demand firmed up modestly in the first half of 2015-16, benefiting from resilient consumption demand and an incipient pick-up in investment. Agricultural activity was impacted by deficient rainfall. Industrial production has gained some speed and the acceleration in services has been sustained.

A slow and hesitant recovery has coursed unevenly through the first half of 2015-16, nudged essentially by tailwinds rather than robust engines of growth. In specific sectors, some green shoots are springing out of dry ground – passenger car and commercial vehicle sales; indirect tax collections; optimism on new business in purchasing managers' survey (services) and pick-up in some elements of urban private consumption. Elsewhere, enabling conditions for a gathering of momentum are taking shape – a large decline in input costs in manufacturing; a smart turnaround in coal production that fuelled robust electricity generation till distribution constraints set in; and a degree of insulation from global volatility and the overcast of gloom across EMEs. Yet, a vigorous and sustained revival of aggregate demand that presages the approach to an inflexion point in the path of the economy remains elusive (Box III.1). Rural demand subdued by lacklustre agricultural activity, stranded investment in stalled projects alongside weak new investment demand and still high levels of stress in banking sector assets continued to operate as binding constraints on overall aggregate demand.

Box III.1: Exploring Turning Points in the Growth Trajectory

Identifying turning points in growth cycles is challenging at all times. For the Indian economy, recent data revisions and short histories characterising new data series also pose formidable difficulties in measuring potential output as well as in locating the precise cyclical position of the economy in the post-global crisis years. The heightened uncertainty surrounding the global economy more generally renders this task daunting.

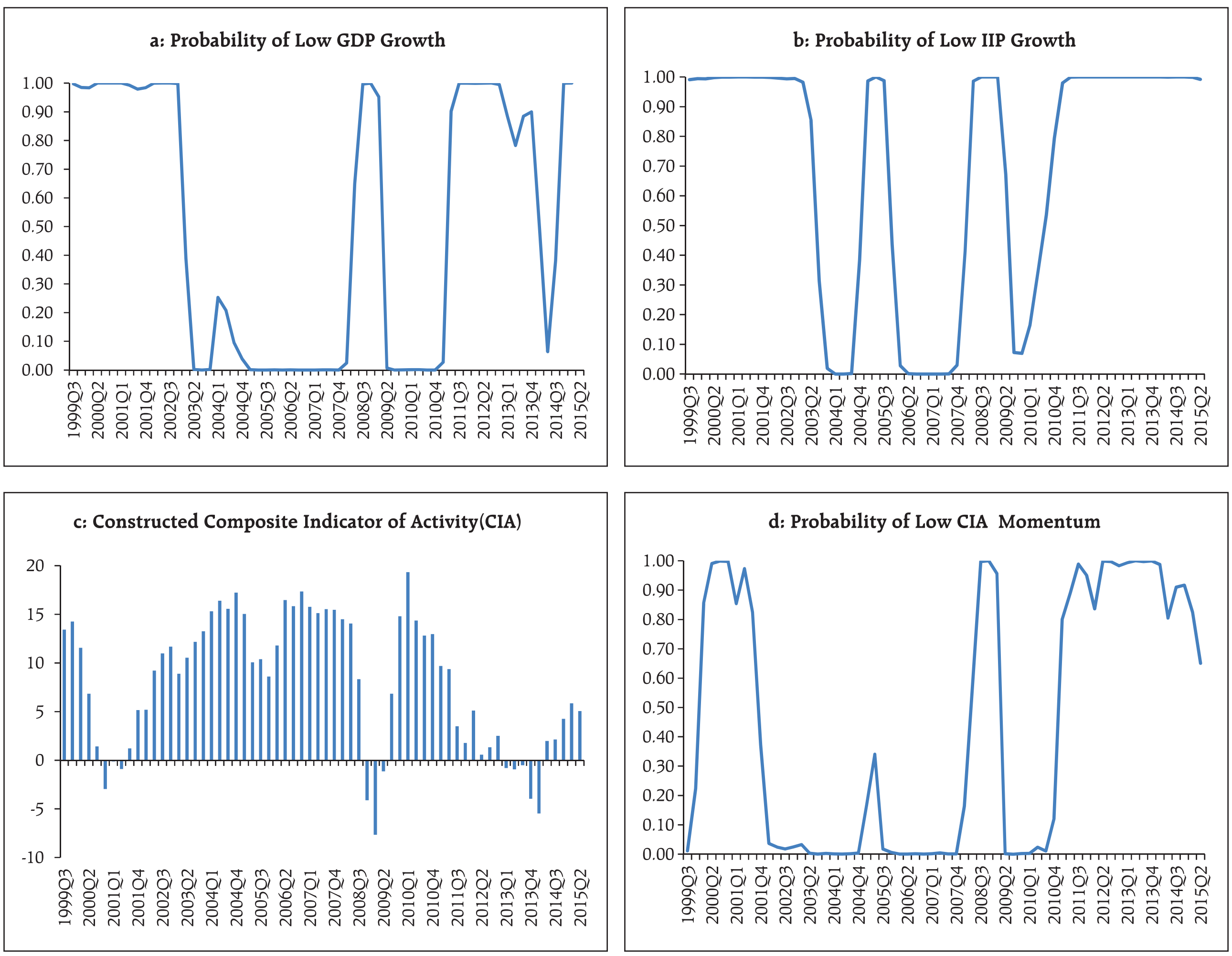
A pragmatic approach to detecting inflexion points against this backdrop is to separate phases of expansion from contraction in terms of regime specific averages of growth momentum (q-o-q, seasonally adjusted and annualised). This will allow for dating turning points or identifying those dates at which the economy switches from a low average regime to a higher average regime and *vice versa.* A range of methodologies are applied to date these transitions – clustering in shifts of a broad range of indicators; rules-of-thumb such as the two-quarter GDP contraction rule; the single index view which summarises coincident, leading and lagging indicators into one series using the volatility of each component as weights, and Markov switching models (Hamilton, 1989). Although pragmatic and flexible, several of these methodologies suffer from a degree of arbitrariness or consensus flaws and signals of turning points can turn out to be noisy (Boldin, 1994 provides a comprehensive survey). By contrast, Markov switching relies on statistically identifying turning points by estimating the probability of shifts between phases of the growth rate cycle. A regime shift occurs when the growth rate shifts to a new average and the probability of such a turnaround is high, and *vice versa.*

As depicted in Chart a, smoothed probabilities of a relatively low average GDP growth regime continuing fell in 2003 and persisted around zero up to 2008 (a probability of 0.5 and below indicates a regime shift), which coincides with the high growth period in India's recent history. Markov switching also accurately detected the slowdown in growth over 3 quarters during the global financial crisis, and the subsequent bounce back from 2009. Beginning in 2011, another regime shift to a relatively lower growth momentum is identified which is continuing, but for a short-lived interruption in 2014 due to the release of the new GDP series (base: 2011-12). A similar pattern is observed in respect of growth in industrial production, which is free of the 'new GDP series' effect (Chart b).

(Contd...)

In order to corroborate these findings, Markov switching was also applied to the OECD's composite leading indicator for India and to a specially constructed composite indicator of activity that combines a number of leading, coincident and lagging indicators of growth (such as production of capital goods and consumer goods, real non-food credit, railway and port freight, passenger and commercial vehicle sales) based on principal component analysis (Chart c). Although both the composite indicators point to a gradual pick-up in activity in India, evidence of a turning point in terms of a shift to a higher average growth momentum is not supported by estimated regime switch probabilities which, however, are on a declining path from the second half of 2014-15, but they are yet to cross 0.5 (Chart d). This suggests that an inflexion point in the growth path of the Indian economy and, therefore, a transition to a higher growth trajectory may still be some distance away.

Markov Switching Probability of Growth and Composite Indicator



References:

Boldin, Michael D (1994), 'Dating Turning Points in the Business Cycle', *Journal of Business*, 1994, 67(1).

Hamilton, James D (1989), 'A New Approach to the Economic Analysis of Nonstationary Time Series and Business Cycle', *Econometrica*, March, 57(2).

John, Joice (2015). 'Dating Turning Points in India's Growth Cycles', *mimeo*

Table III.1: Real GDP Growth (2011-12 Prices)

(Per cent)

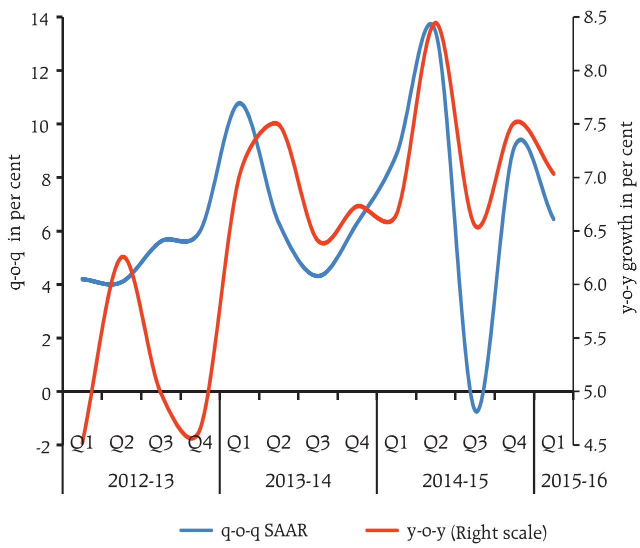
Item	2013-14	2014-15	Weighted contribution to growth*	2013-14				2014-15				2015-16
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
I. Private Final Consumption Expenditure	6.2	6.3	3.6	7.7	5.6	4.6	7.0	6.2	7.1	4.2	7.9	7.4
II. Government Final Consumption Expenditure	8.2	6.6	0.7	27.3	5.3	11.0	-7.2	1.6	8.9	27.6	-7.9	1.2
III. Gross Fixed Capital Formation	3.0	4.6	1.4	2.3	6.3	5.3	-1.4	8.7	3.8	2.4	4.1	4.9
IV. Net Exports	-69.0	-20.7	0.4	-25.6	55.8	-90.0	-91.0	-68.1	49.8	95.2	-36.1	13.2
Exports	7.3	-0.8	-0.2	2.6	-1.6	15.7	14.1	9.1	-2.0	-0.3	-8.2	-6.5
Imports	-8.4	-2.1	-0.6	-3.5	-8.4	-14.2	-7.0	-3.6	1.1	2.8	-8.7	-5.4
GDP at Market Prices	**6.9**	**7.3**	**7.3**	**7.0**	**7.5**	**6.4**	**6.7**	**6.7**	**8.4**	**6.6**	**7.5**	**7.0**

*: In percentage points in 2014-15. Component-wise contributions do not add up to GDP growth in the table because change in stocks, valuables and discrepancies are not included here.
Source: Central Statistics Office

III.1 Aggregate Demand

Aggregate demand measured by year-on-year changes in real GDP moderated sequentially in Q1 of 2015-16 in relation to the preceding quarter (Table III.1). Seasonally adjusted, the q-o-q slowdown in GDP in Q1 was even sharper (Chart III.1). Underlying this deceleration, government consumption expenditure did not exhibit the usual rebound that was expected in Q1 from cutbacks in the preceding quarter (Q4 of 2014-15) to meet annual fiscal targets. Furthermore, the contribution of net exports to aggregate demand turned modestly negative in Q1 of 2015-16 with the export contraction deepening as external demand fell away. On the other hand, the contribution of private consumption demand held up sequentially, supported by real income gains accruing from the ongoing disinflation. Alongside, the growth of gross fixed capital formation picked up, increasing its contribution to aggregate demand as the unclogging of stalled projects continued and input costs declined as global commodity prices softened.

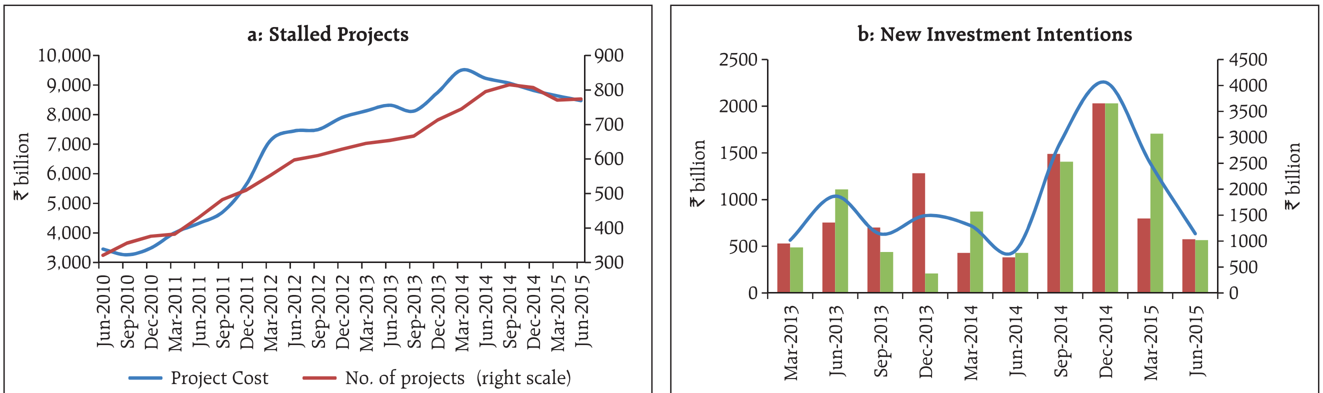
Chart III.1: GDP Growth



Source: Central Statistics Office

Turning to Q2, available indicators suggest that aggregate demand conditions have firmed a little further. Private final consumption expenditure exhibited resilience and the production of consumer durables turned up, although rural incomes have been sapped by the impact of the sub-normal monsoon on agriculture as well as the moderation in rural wage growth. This was also reflected in weakening sales of tractors and two wheelers. By contrast, fundamentals of urban consumption have been gradually improving. Purchasing managers' surveys and indices compiled by other agencies indicate cautious optimism on the employment situation in manufacturing and services. Lending to consumers by banks picked up, partly in response to reduction in interest rates, but also reflecting risk aversion among banks on exposure to

Chart III.2: Stalled Projects and New Investment



Source: CMIE

industry rather than a durable response to consumer demand. The improvement in passenger car sales in Q1 was sustained in July and August, benefiting to an extent from positive income effects of successive rounds of fuel price reductions.

The revival of investment demand in Q1 of 2015-16 is likely to have sustained in Q2. The government's policy focus on expeditious land acquisition, speedier environmental and other clearances is yielding dividends in the form of a decline in the stock of locked investment as well as in the number of projects (Chart III.2a). Also underway is a rebalancing of the composition of central government expenditure in favour of capital spending, with indications of front-loading in Q2. In anticipation, the flow of resources to the commercial sector has been rising, with non-bank sources more than offsetting the subdued growth of non-food bank credit, and the accommodative stance of monetary policy engendering comfortable liquidity conditions. Lead indicators such as higher production of capital goods, and buoyant production and sales of commercial vehicles point to an improving environment for a revival in new investment spending which have been flagging so far (Chart III.2b).

Growth in government final consumption expenditure, which turned up in Q1, has gained pace in the first month of Q2. Both revenue and capital expenditure accelerated, especially in July, with the former driven up by subsidy payments on food and fertilisers, and the latter reflecting higher plan expenditure as a strategy to frontload budgeted spending to support investment and growth (Table III.2). In fact, capital expenditure of the Centre increased by 39.0 per cent during April-July 2015, well above the budgeted growth for the year as a whole, and marking a reversal of the decline in capital expenditure a year ago. Within this category, capital outlays (which

Table III.2 : Key Fiscal Indicators
Central Government Finances

(per cent)

Indicators	Actual as per cent of Budget Estimate (April-July)	
	2014-15	2015-16
1. Revenue Receipts	14.8	18.3
a. Tax Revenue (Net)	15.0	16.7
b. Non-Tax Revenue	13.5	24.9
2. Total Non-Debt Receipts	14.2	17.7
3. Non-Plan Expenditure	30.5	33.8
a. Revenue Account	30.3	33.9
b. Capital Account	32.1	32.4
4. Plan Expenditure	23.0	33.9
a. Revenue Account	22.9	32.2
b. Capital Account	23.1	38.2
5. Total Expenditure	28.1	33.8
6. Fiscal Deficit	61.2	69.3
7. Revenue Deficit	70.4	77.6
8. Primary Deficit	198.1	258.7

Source: Controller General of Accounts, Government of India exclude loans and advances made by the Centre) increased by 48.3 per cent during April-July 2015. States, which account for around 60 per cent of public capital expenditure, will receive a quantum jump in their share of taxes in line with the recommendations of the 14th Finance Commission. This should boost overall investment spending in the economy, given that expenditure multipliers tend to be larger for States relative to the Centre.

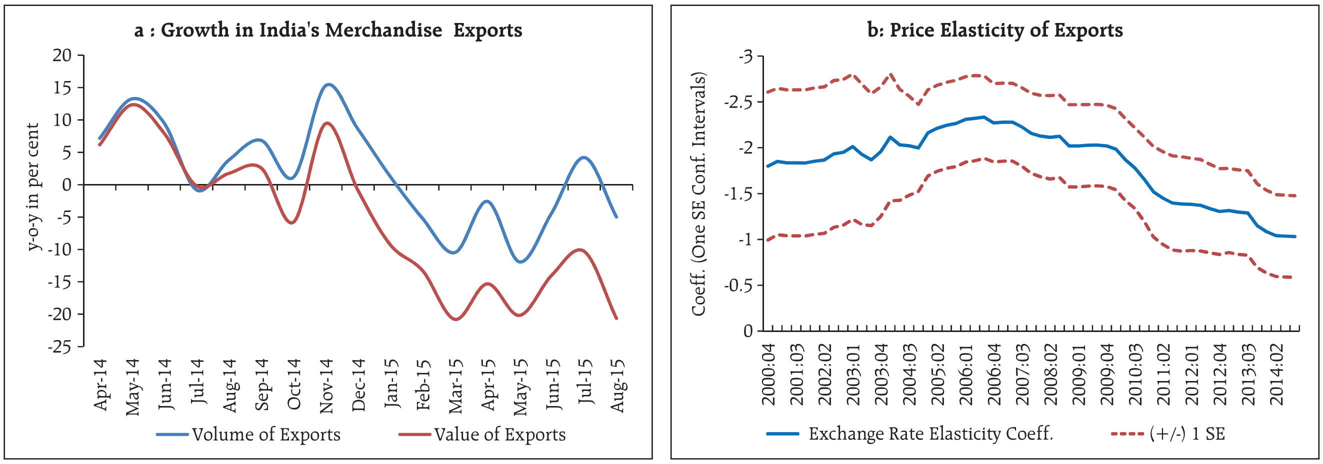
Gross tax revenues have risen robustly this year so far, led by excise duty collections which expanded by 69.7 per cent during April-August. The buoyancy in excise revenue primarily reflects resource mobilisation efforts in the form of increases in excise duty on petrol and diesel between November 2014 and January 2015, an increase in the clean energy cess and withdrawal of exemptions for motor vehicles, capital goods and consumer durables. Excluding these 'rate hike effects', excise duty collections would have grown by 9 per cent. Service tax collections rose 21.6 per cent in April-August, again reflecting the increase in service tax rates (inclusive of education cess) effected in June. Direct taxes – accounting for 42 per cent of total tax collections – were subdued through April-July. Staggered receipts from spectrum auctions conducted in March 2015 boosted non-tax revenue, while disinvestment proceeds from stake sale also provided a measure of fiscal support.

Despite the rising profile of revenues, the step-up in government spending resulted in some deterioration in the Centre's revenue and fiscal deficits as proportions to budget estimates during April-July 2015. Over the rest of the year, risks to budgetary targets appear evenly balanced. The fuller impact of subsidy reforms *viz.*, deregulation of diesel prices, the new domestic gas pricing policy, the launch of the new universal direct benefit transfer (DBT) scheme for liquefied petroleum gas (LPG) and the new urea policy coupled with lower international commodity prices are expected to reduce subsidy payments. On the downside, the implementation of one rank one pension (OROP) and the 7th Pay Commission award will pose risks to fiscal deficit targets in 2016-17 unless provisions are set aside from this year itself. The realisation of the budgeted disinvestment target assumes critical importance, particularly in the context of avoiding the investment-debilitating compression of expenditure that typically occurs in the last quarter of the year.

Net exports declined in Q2, reducing aggregate demand in a difficult external environment in which world trade volumes are slowing and heightened financial market volatility is impacting currencies and prices of tradables. The deterioration in net exports mainly reflected a sharp widening of the merchandise trade deficit as the contraction in exports turned out to be deeper than the decline in imports, offsetting gains in net terms of trade (Chart III.3a). Merchandise exports have been in contraction mode for the ninth successive month up to August, with a sharp decline in unit value realisations wiping out the recent modest growth of volumes. With these contrasting movements in prices and volumes and some evidence of a persistent decline in the price elasticity of exports, the impact of exchange rate depreciation on exports is weaker than in the years leading up to the global crisis of 2008-09 (Chart III.3b). Competitive trade policies and global supply chain dynamics are cited as factors dulling the pass-through of exchange rate changes into export prices and demand[1]. In terms of the Indian experience, however, a *caveat* may be in order in view of the large contribution of price/ exchange rate inelastic petroleum, oil and lubricants (POL) exports to total exports (about 13 per cent in April-August). Non-oil exports continue to be sensitive to the real exchange rate, even as subdued global demand operates as the key drag on India's export performance. More generally, the price sensitivity of tradables is being weakened by the wide recourse to non-price measures to curb imports by several economies. Exports of software services were

[1] Ahmed, S., M. Appendino, and M. Ruta (2015). 'Depreciations without Exports? Global Value Chains and the Exchange Rate Elasticity of Exports,' World Bank Policy Research Working Paper 7390, World Bank, Washington.

Chart III.3: Merchandise Exports



partly damped by declining global Information Technology (IT) spending.

Turning to imports, the persisting softness in international commodity prices has pulled down imports for the ninth consecutive month. Data for June to August indicate a pick-up in demand in volume terms for POL – mainly for inventory build-up - and gold ahead of the festival season. On the other hand, imports excluding bullion and POL remained weak, reflecting subdued domestic demand. Services imports remained relatively stable.

Turning to financing of net exports, net inflows of foreign direct investment have shown resilience in the face of high financial market turbulence, while non-resident Indian deposits have picked up, with rupee denominated flows responding favourably to the depreciation of the rupee. On the other hand, portfolio flows into equity markets have turned negative with sentiment changing due to concerns on the timing of the normalisation of US monetary policy and the devaluation of the Chinese RMB. Indicators of external vulnerability have shown steady improvement.

In the context of the slowdown in economic activity in India, attention has been drawn to the sensitivity of aggregate demand to interest rates. Estimation of IS-type aggregate demand functions over time suggests that sensitivity of the output gap to real interest changes has increased. Every percentage point increase in the real interest rate gap reduces the output gap by 10-13 basis points in the short run and by up to 25-50 basis points in the long- run. There are, however, non-linearities involved. The efficacy of interest rate changes in moving aggregate demand depends on their level relative to the natural interest rate, which is time-varying and sensitive to the rate of change of potential output, apart from factors such as demographics, the saving-investment balance and fiscal/financial/structural reforms[2].

III.2 Output

Output measured by gross value added (GVA) at basic prices firmed up in Q1 on a sequential y-o-y basis, reversing the deceleration in the second half of 2014-15. Seasonally adjusted q-o-q annualised GVA growth rose even more sharply and was broad-based. GVA in agriculture and allied activities came out of contraction in the last two quarters of 2014-15 and contributed a seventh of the output in Q1. While value added in industry showed resilience, service sector activity accelerated, accounting for nearly three fourth of the GVA growth in Q1.

[2] Behera, H.K., Pattanaik, S. and Kavediya, R. (2015). 'Natural Interest Rate: How to Assess the Stance of India's Monetary Policy under Uncertainty?', RBI Working Papers (forthcoming).

Turning to Q2, the progress of the south-west monsoon, which is critical to the quarter's outturn, has been deficient by 14 per cent so far relative to the long period average. Production weighted deficiency was even higher at 20 per cent and reservoir levels and soil moisture have been adversely affected. *Kharif* sowing acreage is higher than last year, but it is still below the quinquennial average. First advance estimates indicate that *kharif* foodgrains production for 2015-16 is up by 3.1 per cent relative to last year.

In the industrial sector, a large decline in input costs coincident with the downturn in international commodity prices drove a wedge between production and value addition. The growth of industrial GVA in Q1 kept pace with the momentum recorded in 2014-15 (Table III.3). In terms of its constituents, mining and quarrying was boosted by a step-up in coal production, which also pushed up electricity generation. On the other hand, natural gas production contracted.

Expenditure and costs of manufacturing firms listed on stock exchanges declined sharply in real terms (*i.e.*, quarterly nominal sales and expenditure deflated by WPI) and prevented the decline in real sales from eroding corporate earnings (Charts III.4a & b).

Industrial activity has gained some speed in Q2 with mining and quarrying and manufacturing sectors sharing the acceleration. In July, manufacturing continued to be powered by the growth of production of furniture, apparel and passenger cars, which suggests that urban consumption demand remains firm. Mining and quarrying activity showed flagging momentum on account of slowing coal production. The use-based classification of industrial activity points to both consumption and investment demand strengthening in Q2. The growth of capital goods production surged in July – the ninth consecutive month of expansion, barring the small decline in June. Consumer durables also grew strongly for the second month in succession in July.

Services sector GVA accelerated in Q1 and accounted for 62 per cent of overall GVA. Over the previous four quarters in succession, services sector growth exceeded 8 per cent, generating income to prop-up consumption demand. In Q2, the pace of activity

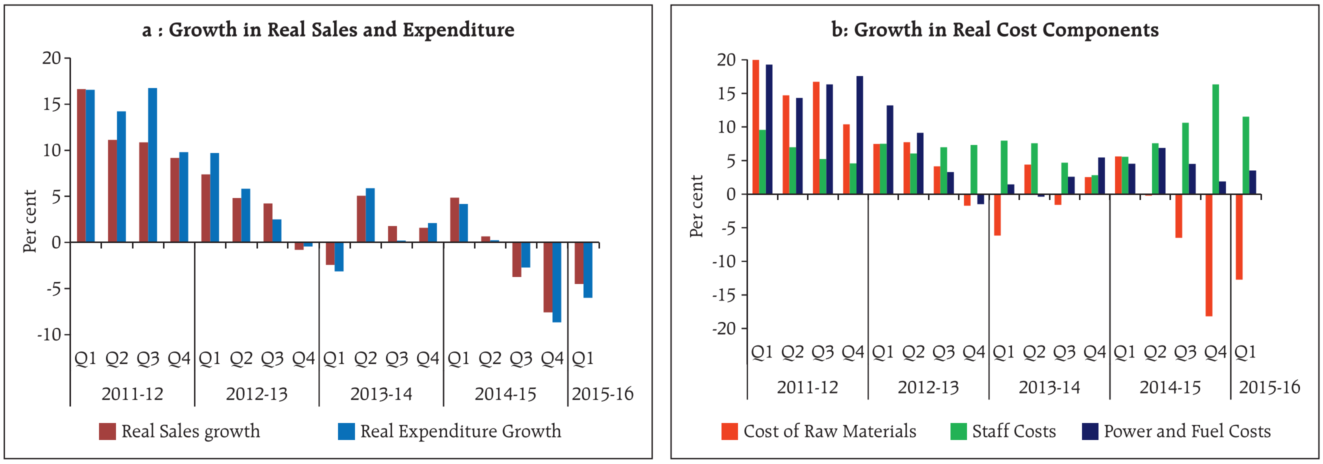
Table III.3: Growth in Gross Value Added at Basic Prices (Supply Side)

(Per cent)

	2013-14	2014-15	2014-15	2013-14				2014-15				2015-16
	Growth		Share	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
I. Agriculture, forestry & fishing	**3.7**	**0.2**	**16.1**	**2.7**	**3.6**	**3.8**	**4.4**	**2.6**	**2.1**	**-1.1**	**-1.4**	**1.9**
II. Industry	**5.3**	**6.6**	**23.3**	**5.9**	**4.2**	**5.5**	**5.5**	**8.1**	**7.2**	**3.8**	**7.2**	**6.4**
(i) Mining & quarrying	5.4	2.4	2.9	0.8	4.5	4.2	11.5	4.3	1.4	1.5	2.3	4.0
(ii) Manufacturing	5.3	7.1	18.1	7.2	3.8	5.9	4.4	8.4	7.9	3.6	8.4	7.2
(iii) Electricity, gas, water supply & other utilities	4.8	7.9	2.3	2.8	6.5	3.9	5.9	10.1	8.7	8.7	4.2	3.2
III. Services	**8.1**	**9.4**	**60.6**	**8.9**	**9.7**	**8.3**	**5.6**	**8.4**	**10.2**	**11.1**	**8.0**	**8.6**
(i) Construction	2.5	4.8	8.1	1.5	3.5	3.8	1.2	6.5	8.7	3.1	1.4	6.9
(ii) Trade, hotels, transport, communication and services related to broadcasting	11.1	10.7	19.4	10.3	11.9	12.4	9.9	12.1	8.9	7.4	14.1	12.8
(iii) Financial, real estate & professional services	7.9	11.5	20.5	7.7	11.9	5.7	5.5	9.3	13.5	13.3	10.2	8.9
(iv) Public administration, defence and other services	7.9	7.2	12.6	14.4	6.9	9.1	2.4	2.8	7.1	19.7	0.1	2.7
IV. GVA at basic prices	**6.6**	**7.2**	**100.0**	**7.2**	**7.5**	**6.6**	**5.3**	**7.4**	**8.4**	**6.8**	**6.1**	**7.1**

Source: Central Statistics Office.

Chart III.4: Performance of Manufacturing Firms

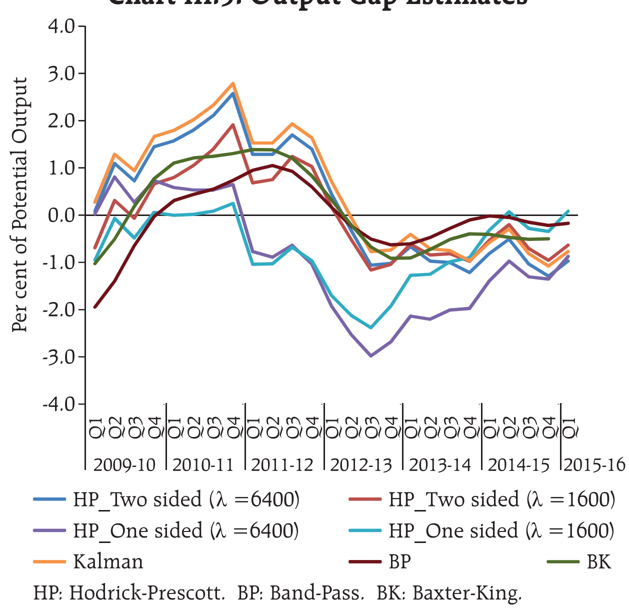


was sustained, although sectoral constraints are tightening. In the construction sector, activity has slowed and housing inventories are reported to be piling up, especially in the premium sector. Lead indicators of activity in trade, hotels, transport and communication, which constitute about a third of the services sector, pointed to a sustained recovery in Q2 as evident in the improvement in domestic air passenger and freight traffic, cargo handled by major ports and sales of commercial vehicles. Financial, real estate and professional services slowed on banks' risk aversion in response to stressed assets and tepid investment demand, which was reflected in relatively subdued growth in credit and deposits. The pressure on profits of IT and related companies due to low global demand pulled down growth in professional services, although the depreciation of the rupee in Q2 may provide a boost to this sector going forward.

III.3 Output Gap

Assessment of the output gap is a continuous exercise in order to examine the state of the economy *vis-a-vis* the underlying cycle. While estimates of the output gap are highly sensitive to the choice of data and methodology, a broad consensus has evolved around the prevalence of a negative output gap - actual output trailing below potential - since Q3 of 2012-13 (Chart III.5). The presence of slack in the industrial

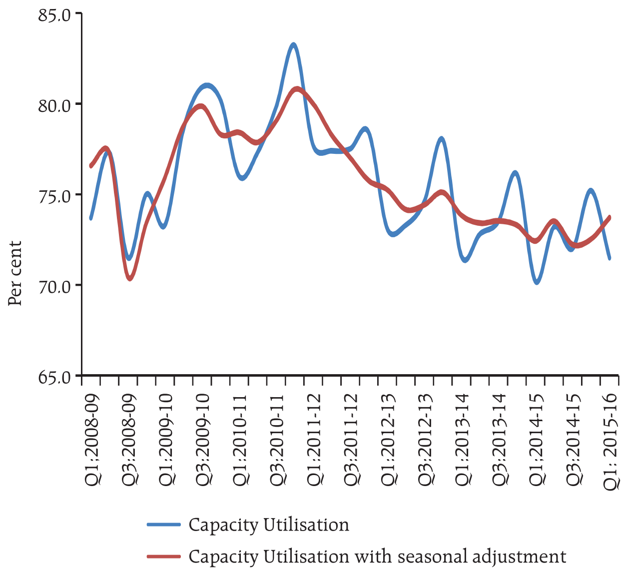
Chart III.5: Output Gap Estimates



sector is also borne out by the Reserve Bank's 30th round of the Order Book, Inventory and Capacity Utilisation (OBICUS) survey, which suggests that seasonally adjusted capacity utilisation levels have been below 75 per cent since 2013-14 (Chart III.6)[3].

[3] According to CRISIL (July, 2015), capacity utilisation in ten out of twelve large industrial sectors is hovering at five-year lows, constraining fresh investments. Its assessment suggests that despite positive growth in public sector capital expenditure in 2015-16, overall capital investment may decline modestly during the year, due to falling net private capital expenditure.

Chart III.6: Capacity Utilisation



So far, real activity in India has evolved well below the path projected in the April 2015 MPR, essentially on account of the subsequent downward revision by 30 basis points in the CSO's provisional estimates for 2014-15, the base year for the projections. Accounting for this revision and the more recent evidence presented in this chapter, some downward adjustment in these projections is warranted, as given in chapter I. A major step-up in capital expenditure of the government holds the key to sustaining the recent pick-up in the investment cycle, supported by low input costs and defreezing of stalled projects. An early resolution of the stress facing DISCOMs is necessary to restart resource flows to the sector including bank credit. Global excess capacity in specific sectors such as steel may heighten import competition for domestic production, apart from raising risks to asset quality in this sector. Improving the conditions for doing business assumes priority in order to create a conducive environment for a durable revival of investment and growth.

IV. Financial Markets and Liquidity Conditions

Amidst global headwinds and financial market turbulence, money and bond markets in India remained relatively insulated. By contrast, equity and foreign exchange markets were impacted by global financial market turmoil. Credit market activity picked up modestly in specific sectors, though restrained by lingering risk aversion.

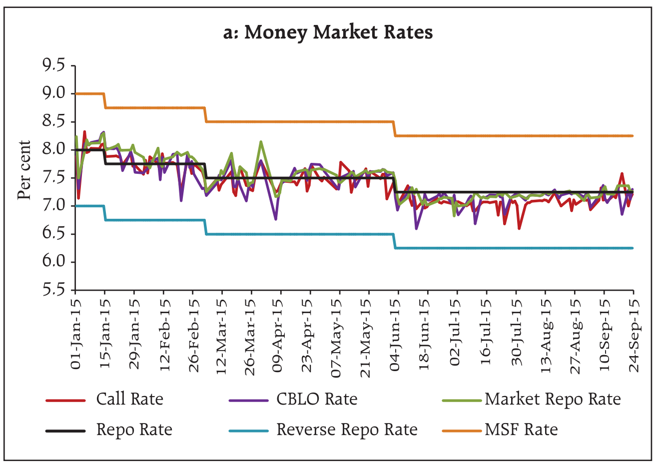
During the first half of 2015-16, global shocks imparted a marked increase in volatility to financial markets worldwide. Equity and foreign exchange markets in India have been the most impacted though much less than EME peers. By contrast, gilt, money and credit markets have been relatively insulated and have instead exhibited sensitivity to domestic developments such as monsoon deficiency, and impediments in the reform process inhibiting acceleration of the growth momentum. Liquidity conditions have, by and large, been comfortable and financing conditions have generally improved.

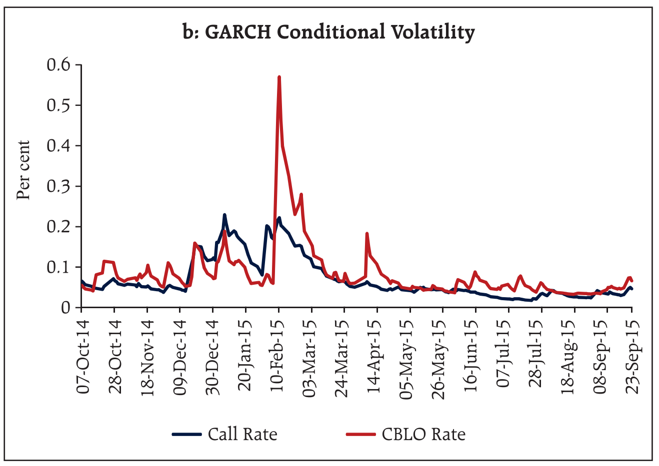
IV.1 Financial Markets

The uncollateralised inter-bank call money rate serves as the operating target of monetary policy. The Reserve Bank's liquidity management operations endeavour to keep the call money rate anchored to the policy repo rate. Although call money market turnover accounts for only 10 per cent of the total volume in the overnight segment of the money markets, other rates such as those in the collateralised segments [collateralised borrowing and lending obligation (CBLO) and market repo] closely co-move with the call money rate, despite non-bank participants such as mutual funds contributing around 50 per cent of the total volume in the CBLO segment.

Money market conditions evolved in distinct phases over the first half of 2015-16. As government spending resumed after the restraint exercised in Q4 of 2014-15 to meet fiscal targets and banks unwound year-end 'window dressing', money market rates softened below the policy rate in the first half of April, reflecting abundant liquidity. During mid-April to May, transient tightness set in as government spending decelerated. As a consequence, the overnight call money rate hovered around or a little above the policy rate (Chart IV.1a). From June onwards, however, the combined impact of a pick-up in the government's capital expenditure and the growing structural liquidity surplus (emanating from higher deposit mobilisation relative to credit off-take) pushed money market rates persistently below the repo rate up to the mid-September advance tax outflows. Since then, interest rates in the money markets have firmed up and have been trading tightly around the repo rate.

Chart IV.1: Money Market Rates





The average spread of the daily weighted average call money rate (WACMR) *vis-a-vis* the repo rate (excluding Saturdays) widened from (-)9 bps during Q1 of 2015-16 to (-)18 bps during Q2 (up to September 28), reflecting surplus liquidity conditions. The volatility in daily money market rates, measured through generalised autoregressive conditional heteroscedasticity (GARCH), declined significantly (Chart IV.1b).

Under the revised liquidity management framework instituted in September 2014, variable rate repo/ reverse repo operations of tenor ranging from overnight to 28 days are conducted to match diverse liquidity needs and assessments of market participants. In response, average daily trading volume in the uncollateralised term money and CBLO segments recorded an increase to ₹2.2 billion and ₹90.7 billion, respectively, during the first half of 2015-16 (up to September 24) from ₹1.9 billion and ₹89.9 billion during the same period last year. Factors such as lending through cash credit, inadequate treasury management by banks/ corporates and large unforeseen shifts in government spending continue to inhibit the fuller development of the term money market.

Since 2014-15, the commercial paper (CPs) market has been an attractive source of short-term funding for corporates. The weighted average discount rate (WADR) on CPs has traded below banks' weighted average lending rates (WALR) on fresh rupee loans by 275 bps, on an average, in 2014-15 and by 301 bps in 2015-16 so far. Moreover, between January and mid-September, the WADR declined by 75 bps, indicative of full transmission of policy rate cuts. Consequently, CP issuances have risen by about 40 per cent on a y-o-y basis up to September 15 (Chart IV.2a). Over 60 per cent of these issuances were in the maturity bucket of 31-90 days. Banks' investment in CPs have grown, reflecting increased credit risk aversion embedded in stressed assets, and CPs offer an attractive alternative for investment of funds, given surplus liquidity conditions.

In contrast, outstanding certificates of deposit (CDs) declined by about 68 per cent during April-September 14, 2015 indicating reduction in banks' dependence on short-term market based funding (Chart IV.2b). Banks' appetite for bulk deposits, including CDs, has come down with deposit growth running ahead of credit off-take. As a result, the effective CD rate declined by about 100 bps, closing the gap between the one year deposit rate and the 90-day CD rate.

In Q1 of 2015-16, yields in the Government securities (g-sec) market hardened in April on bearish sentiment related to the unchanged stance of monetary policy and weakening of the rupee, briefly interrupted by some easing on Moody's upgrade of the outlook for India. Yields came under renewed pressure again during the first half of May and June due to the global bond

Chart IV.2: Commercial Paper and Certificates of Deposit

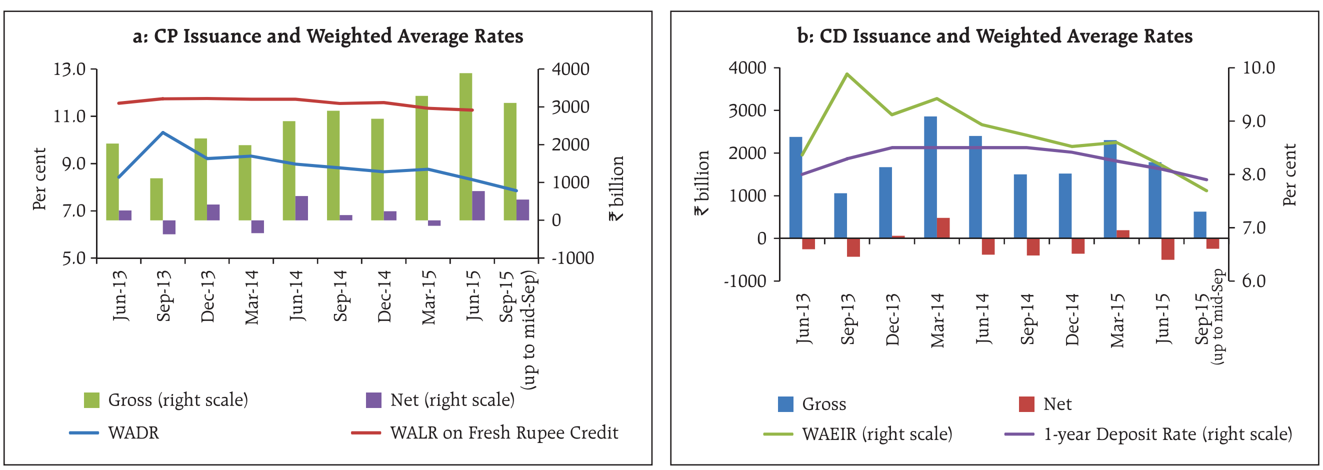


Chart IV.3: G-Sec Yield Curve

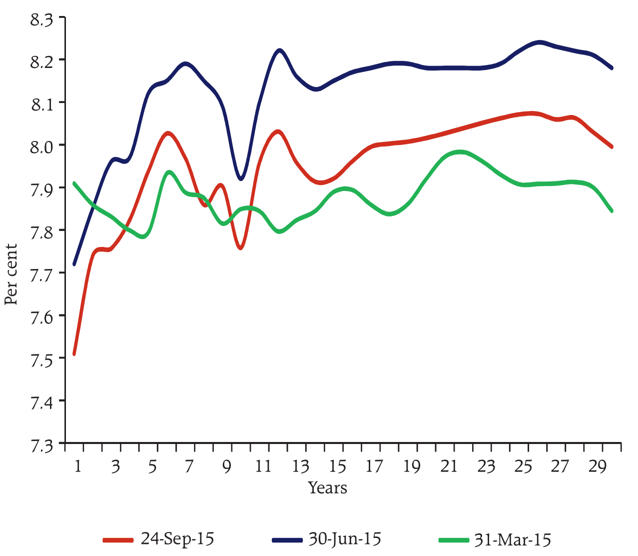
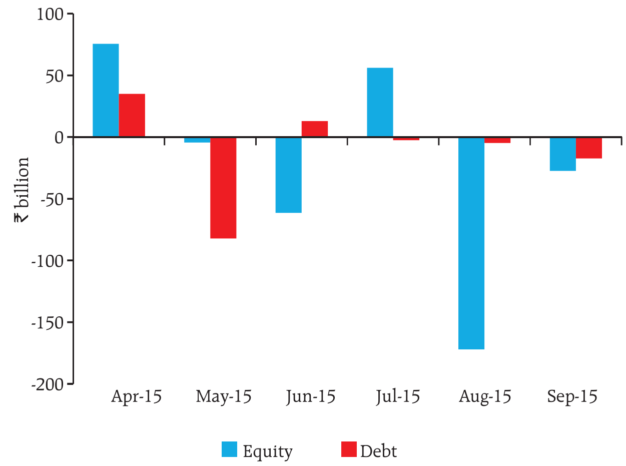


Chart IV.4: Net FPI Investment



Source: NSDL

market sell-off originating with German 10-year bonds, the elevated size of the government market borrowing programme and concerns over forecasts of a sub-normal monsoon, leading to a vertical shift in the yield curve in June over March (Chart IV.3).

In Q2, yields moved in a narrow range in July and the greater part of August, trading with a soft bias as crude prices eased on expectations of Iran's re-entry into the oil market. Yields also tracked US treasuries as worries over Greece and the bursting of the stock market bubble in China triggered flights to safe haven. The 'black Monday' crash in the Shanghai composite index on August 24 caused yields to jump by 11 bps which, however, was short-lived. Thereafter, yields softened in anticipation of further easing of the monetary policy in response to decline in inflation, and the deferment of the US monetary policy action in the FOMC meeting of September 17. The yield spread between 10-year and 1-year g-sec, which was negative prior to June turned positive, suggesting some optimism about near-term growth prospects.

Foreign portfolio investors' (FPIs) cumulative investment in the debt market amounted to US$ 57.3 billion as on September 24, 2015 with FPIs almost exhausting their g-sec investment limit. During April-September 24, 2015, there were portfolio outflows of ₹195 billion with outflow from the debt segment being limited (Chart IV.4).

The increased participation of FPIs in the g-sec market has widened the investor base and contributed to an increasing level of integration between the Indian and the global bond markets evidenced by the co-movements of yields (Chart IV.5).

Chart IV.5: 10-year Government Bond Yield

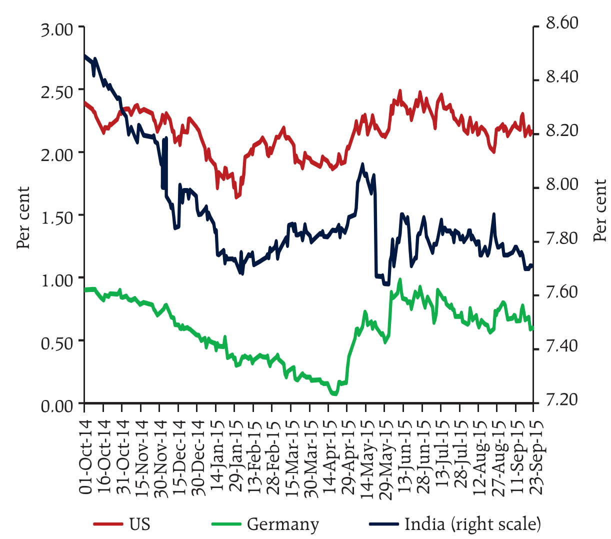
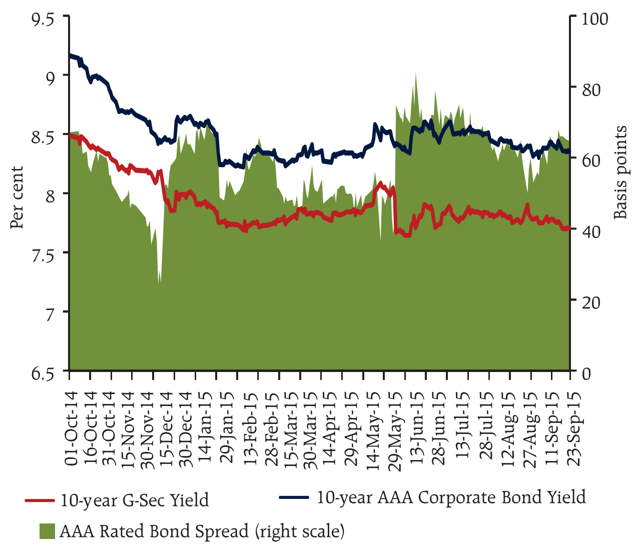


Chart IV.6: Bond Yield and Spread



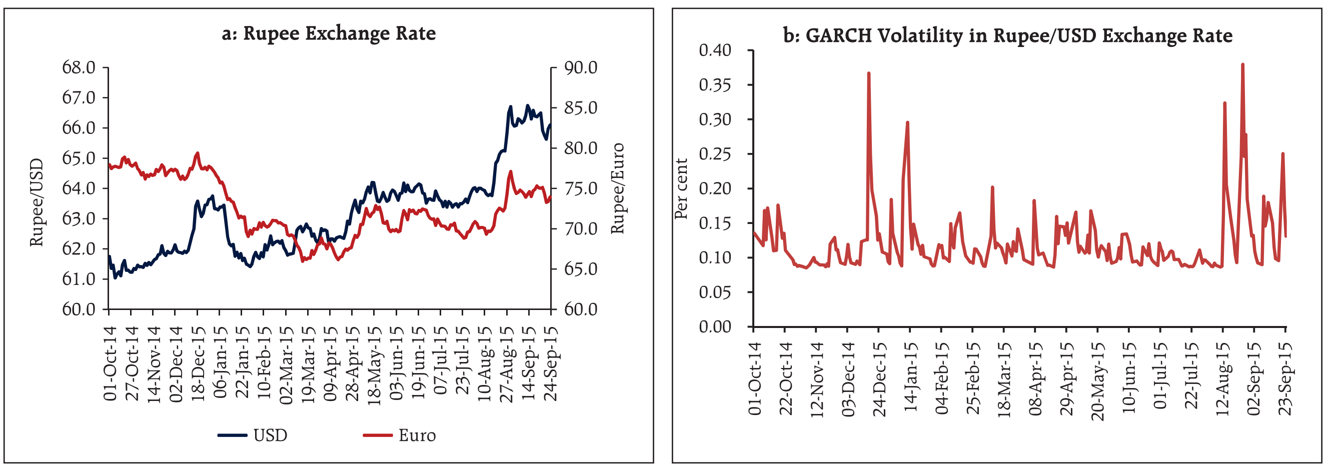
Primary issuances in the corporate bond market rose through the first half of 2015-16, almost entirely due to private placement, which could be substituting for bank credit. The secondary market remained sluggish, reflecting declining liquidity in corporate bonds.

Yields of AAA rated corporate bonds largely tracked g-sec yields with the yield spread showing signs of softness in the recent period, indicative of easing financing conditions (Chart IV.6). FPIs' investment in corporate bonds stood at about ₹1,860 billion as on September 24, 2015, amounting to 76 per cent of the limit.

In the foreign exchange market, the exchange rate came under repeated bouts of downward pressure in Q1 on negative sentiments stemming from a combination of domestic and global developments – contraction in exports; portfolio outflows on concerns relating to taxation; the Greek crisis; global bond market sell-off; and hardening of crude oil prices (Chart IV.7a). The exchange rate of the rupee moved in the range of ₹62.2 to ₹64.2 in Q1, spiking to ₹ 63.6 on April 27 and again to ₹64.2 on May 12. The rupee traded with a depreciating bias throughout June in response to forecasts of a sub-normal monsoon and data indicating a strong US economy and, therefore, a sooner normalisation of US monetary policy.

In Q2, there were two-way movements in July, with positive sentiment generated initially by the conclusion of the nuclear agreement with Iran, followed by a weakening in the second half of the month as large sell-offs in Chinese equity markets triggered plunges across emerging markets. After a brief respite, the rupee came under pressure breaching the level of ₹65 by mid-August to ₹66 by end-August triggered by devaluation of the Chinese RMB on August 11 and the Chinese stock

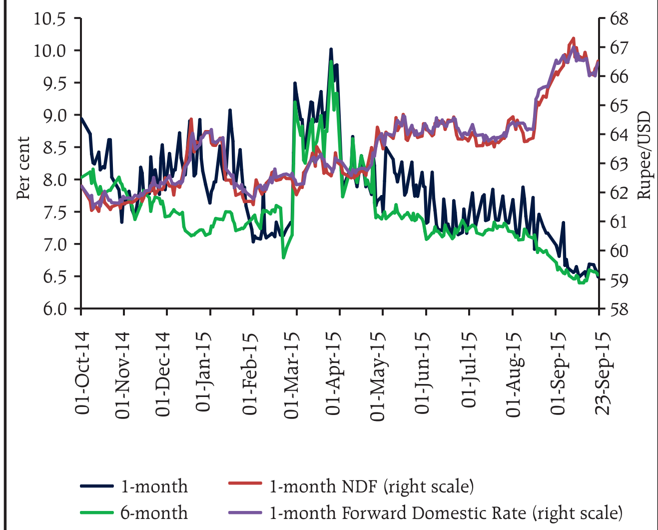
Chart IV.7: Movements in Rupee Exchange Rate



market meltdown on August 24. The rupee stabilised in September and traded in a narrow range, with the FOMC's decision to hold off rate increases imparting a mild appreciation bias. Accordingly, the volatility in the rupee-dollar exchange rate, as measured through GARCH, remained contained during May to mid-August and heightened thereafter (Chart IV.7b). Nevertheless, the rupee fared relatively better than other EME currencies during 2015-16 so far (see Chart V.6b of Chapter V).

In the forward segment, premia declined during the first half of 2015-16, reflecting the narrowing of interest rate differentials (Chart IV.8). The forward exchange rate in the domestic market and non-deliverable forward (NDF) market moved in consonance.

Chart IV.8: Forward Market



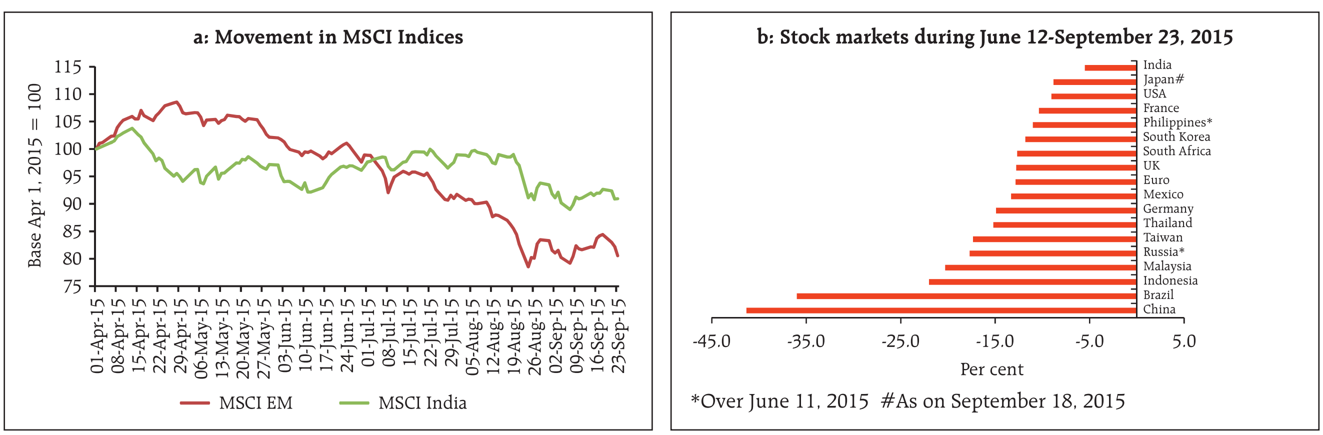
In the equities market, the rally witnessed in the second half of 2014-15 lost steam in Q1 of 2015-16, with the MSCI India index trailing behind its emerging market peers (Chart IV.9a). Poor monsoon forecasts and slower than anticipated pace of reforms pulled down share prices in India. In Q2, however, equity markets in India staged a smart recovery and remained above the MSCI EM Index, taking cues from relatively greater resilience of the Indian rupee *vis-à-vis* other EMEs and some AEs through the RMB devaluation (Chart IV.9b).

As policy interventions by the Chinese authorities failed to allay investor concerns about the ongoing slowdown, Indian equity markets tumbled in late August and early September on the back of a global sell-off. After scaling a high of 29682 on January 29, the sensex was about 14 per cent down by September 28.

During 2015-16 so far (up to end August), resource mobilisation through the primary capital market improved significantly, mainly through equity issuances (Chart IV.10).

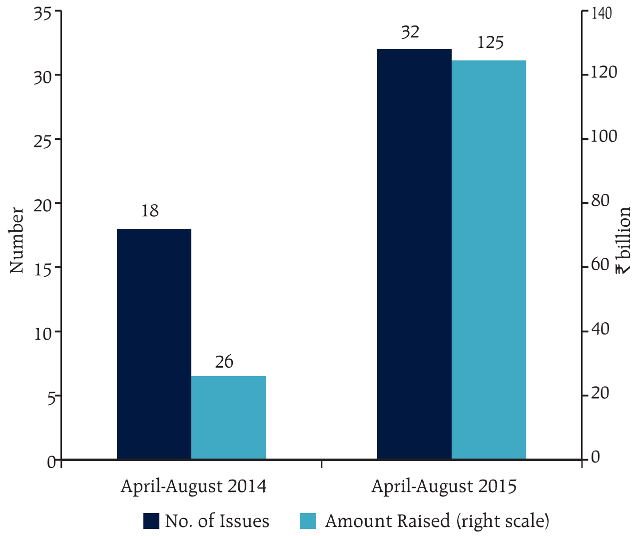
In the credit market, credit off-take during the first half of 2015-16 has been higher than in the corresponding

Chart IV.9: Global Stock Market Movements



Source: Bloomberg

Chart IV.10: Public and Rights Issues - Equity



period of previous years, barring 2013-14 (Chart IV.11). Private sector banks were again the largest lender group in the first half of the year. Incremental lending has been mostly to the personal loan segment, especially housing, reflecting resilience of consumer demand and the aversion of banks to stressed sectors. The total flow of resources to the commercial sector was higher during the financial year so far than a year ago (Table IV.1).

Chart IV.11: Credit Offtake during First Half of the Financial Year

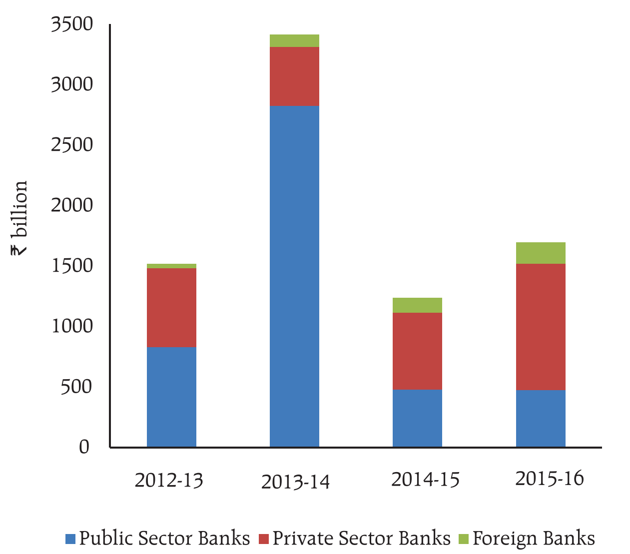


Table IV.1: Flow of Financial Resources to Commercial Sector

(₹ billion)

	April-March		April 1 to September 18	
	2013-14	2014-15	2014-15	2015-16
A. Adjusted non-food Bank Credit (NFC)	**7,647**	**5,781**	**1,249**	**1,858**
i. Non-Food Credit	7,316	5,464	1,174	1,613
ii. Non-SLR Investment by SCBs	331	317	76	245
B. Flow from Non-banks (B1+B2)	**6,505**	**6,978**	**2,703**	**2,801**
B1. Domestic Sources	**4,302**	**4,762**	**1,936**	**2,106**
of which:				
i. Public issues by non-financial entities	199	87	23	125^
ii. Gross private placements by non-financial entities	1314	1,277	350	347^
iii. Net issuance of CPs subscribed to by non-banks	138	558	1,178	1,034
iv. Net Credit by housing finance companies	737	954	207	270*
B2. Foreign Sources	**2203**	**2,216**	**767**	**695**
of which:				
i. Foreign Direct Investment to India	1868	2,107	711	846*
C. Total Flow of Resources (A+B)	**14,152**	**12,759**	**3,952**	**4,659**

*: Up to July 2015 ^: Up to August 2015.

In response to the reduction in the policy repo rate by 75 bps since January 2015, banks' median base rates have fallen by 30 bps (Table IV.2). WALR on fresh rupee loans have, however, declined by 43 bps. Incomplete pass-through reflects the presence of structural rigidities in the credit market: (a) mobilisation of deposits at fixed rates with only about 20 per cent of term deposits getting re-priced during a year; (b) competition from small savings schemes where the interest rates are revised only once a year; (c) savings deposit rates of public sector banks remaining unchanged at 4 per cent since deregulation in October 2011; and (d) base rate of banks being mostly determined on the basis of average cost rather than marginal cost (Box IV.1).

Table IV.2: Deposit and Lending Rates of SCBs (excluding RRBs)

(Per cent)

Month-end	Repo Rate	Term Deposit Rates		Lending Rates		
		Median	WATDR	Median Base Rate	WALR - Outstanding Rupee Loans	WALR - Fresh Rupee Loans
1	2	3	4	5	6	7
Mar-14	8.00	7.74	8.79	10.25	12.21	11.64
Jun-14	8.00	7.74	8.73	10.25	12.21	11.68
Sep-14	8.00	7.72	8.70	10.25	12.12	11.59
Dec-14	8.00	7.55	8.64	10.25	12.11	11.59
Mar-15	7.50	7.51	8.57	10.20	12.06	11.25
Jun-15	7.25	7.22	8.43	9.95	11.94	11.08
Aug-15	7.25	7.14	8.35 #	9.95	11.93 #	11.16 #
Variation (Percentage Points) (since end-December 2014)	**-0.75**	**-0.41**	**-0.29**	**-0.30**	**-0.18**	**-0.43**

#: Data relate to July 2015.

WATDR: Weighted Average Term Deposit Rate.

WALR: Weighted Average Lending Rate.

Note: (i) Median is the middle number after arranging the indicator in the ascending/decending order.

(ii) WALR/WATDR have been computed based on data submitted by banks. As banks often revise their past data, these data are provisional.

A financial conditions index[1] (FCI) constructed by estimating principal components tracks GVA growth closely with a one quarter lead with a high correlation (0.73) (Chart IV.12).

Box IV.1 Are Policy Impulses to Deposit and Lending Rates Lost in Transmission?

The cross-country experience on monetary policy transmission to deposit and lending rates suggests that: (i) corporate lending rates are much more responsive to changes in the policy rate than deposit or household/consumer loan rates; (ii) banks with the largest market shares price their products less competitively; (iii) for the majority of products, the pass-through is incomplete even in the long-run; (iv) deposit rates adjust faster downward than upward; (v) where loan market competition is strong and higher than in the deposit markets, deposit rates are kept lower; (vi) shorter term rates show higher degree of pass-through and faster adjustment speed than longer term rates; and (vii) the long-run pass-through is higher for unsecured personal loans and cash credit than for mortgages, which provides evidence of a collateral effect.

In the Indian context, an empirical exercise based on Monte Carlo Markov Chain based Gibbs sampling with monthly data from March 2013 to June 2015 reveals that a 100 bps shock to WACMR affects weighted average term deposit rates (WATDR) and WALR cumulatively by 36 bps and 31 bps, respectively, over a horizon of 3 quarters. On the other hand, changes in WATDR pass over to WALR fully within a much shorter period, according it primacy in determining the cost of funds. Finally, as the supply and demand of funding credit needs is intermediated by the overall holdings of sovereign SLR securities by banks, its impact on WALR is found to be significant owing to the pre-emption of banking resources. Fiscal rectitude and consequent drawdown of g-sec holdings by banks can thus greatly help in fostering monetary policy transmission. The

(Contd...)

[1] The index uses monthly data on financial variables such as non-food credit, money supply, total capital raised by corporates, sensex, equity volatility, nominal exchange rate, spread between 3-month TB and WACR, spread between 10 year sovereign yield between India and the US, and spread between 10 year AAA corporate bond and 10 year G-sec yield (Khundrakpam, J. *et al.* 2015 forthcoming).

limited effectiveness of monetary policy transmission to lending rates can be attributed to imperfections in financial markets, as mentioned earlier. The recently announced draft guidelines on determination of base rates based on marginal cost of funding are likely to improve monetary policy transmission.

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IV.2 Liquidity Conditions

Liquidity conditions were generally tight during Q1 of 2015-16 mainly due to restrained government spending. In Q2, however, liquidity conditions eased significantly as public expenditure picked up and deposits exceeded credit substantially. Both phases were actively managed through liquidity operations by the Reserve Bank with average daily net injection of ₹776 billion in Q1 and average daily net absorption of ₹178 billion in Q2 (up to September 24) (Chart IV.13). The Reserve Bank deployed a mix of variable rate repo/ reverse repo auctions of varying tenors ranging from overnight to 20 days. Keeping in view durable surplus liquidity conditions, the Reserve Bank conducted OMO sales on July 14 to absorb ₹82.7 billion, besides undertaking regular net OMO sales through the anonymous negotiated dealing system– order matching

Chart IV.12: Movement in FCI and GVA growth

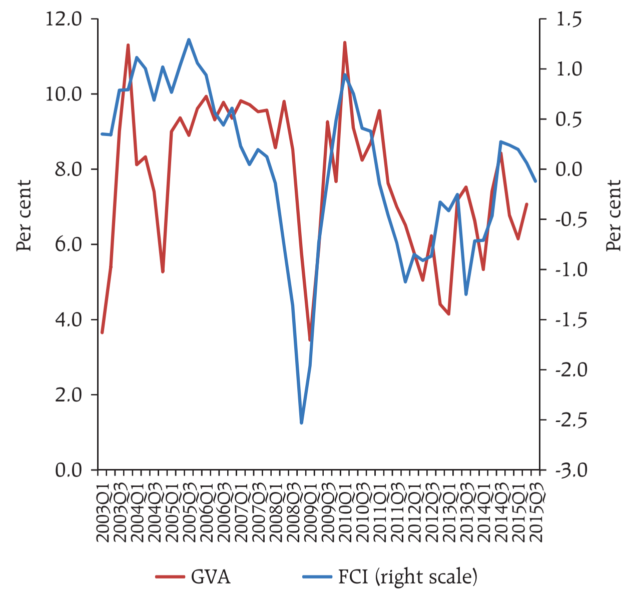
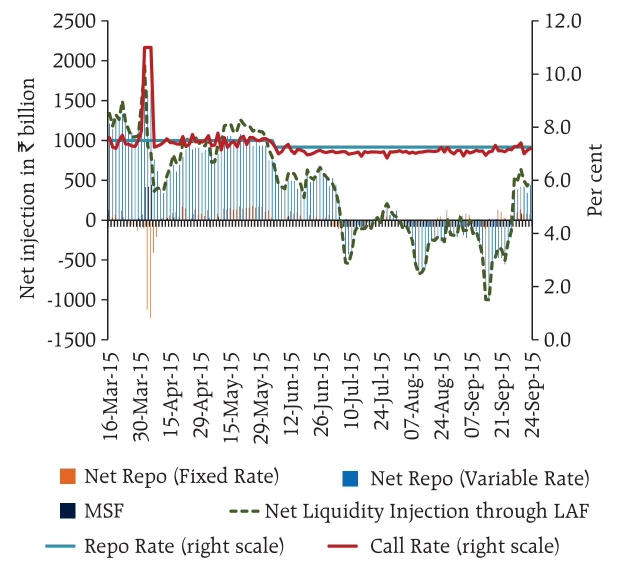


Chart IV.13: RBI's Liquidity Operations



(NDS-OM), to ensure close alignment of the WACMR to the policy repo rate while dampening volatility.

On a y-o-y basis, reserve money growth was significantly higher at 12.3 per cent as on September 18, 2015 than 9.6 per cent a year ago. The y-o-y growth rate in broad money decelerated to 11.2 per cent as on September 4, 2015 from 13.0 per cent a year ago.

To sum up, financial markets in India have been impacted by risk-on risk-off investor sentiment triggered by global uncertainties. Global market turbulence and evolution of overall global liquidity conditions will have a determining influence on domestic financial markets going forward.

V. External Environment

Global economic activity has moderated with EMEs slowing down, while the recovery in AEs remains tepid. Depressed commodity prices have kept inflation conditions generally benign. Accordingly, monetary policy is accommodative across countries. High financial market turbulence has emerged as the biggest risk to global growth and financial stability.

Since the MPR of April 2015, the pick-up in global growth in Q2 of 2015 appears to be moderating in Q3, hamstrung by the persisting loss of speed in EMEs - which constitute 57 per cent of global GDP in purchasing power parity terms - and the continuing lack of traction in the recovery in AEs. Industrial production in major economies decelerated in July and August, and the volume of world trade continues to contract. Going forward, macroeconomic risks have been accentuated by high uncertainty surrounding the slowdown in China and its global spillovers.

Global financial markets experienced bouts of volatility in Q2, triggered by the global bond market sell-off originating in Germany, uncertainty surrounding the resolution of the Greek crisis and the incoming data-driven risk swings associated with the impending normalisation of US monetary policy. In Q3, volatility has re-emerged in financial markets, starting with the bursting of the equity bubble in China and fanned by significant policy intervention failures. The meltdown set off large declines in equity markets and currencies across EMEs and further slumps in commodities. Investors have shunned EMEs as an asset class in a rush to safe haven, causing accelerated capital outflows, depreciating exchange rates, hardening of bond yields and widening of risk spreads all of which have worked to tighten financing conditions facing these economies. Consequently, several EMEs have had to step back from accommodative monetary policy stances to protect financial stability. In AEs by contrast, monetary policy remains ultra-accommodative and expectations relating to raising of the target Federal Funds rate have been pushed out.

V.1 Global Economic Conditions

In the United States, the robust pick-up in economic activity in Q2 lost some momentum in Q3, reflecting slowing manufacturing and exports, and cuts in energy sector capital expenditure. In the Euro area, the modest recovery that set in during the first half of 2015 firmed up in Q3 on lower energy prices and gradual pickup in bank lending to the private sector. Activity in the UK was sustained by the strength of domestic demand, especially consumption, while exports continued to contract, hurt by appreciation of the sterling. The Japanese economy has weakened further - following the contraction in Q2 - due to slackening consumer spending and shrinking exports (Table V.1).

Most EMEs have slowed down further, *albeit* at varying speeds, due to a combination of adverse factors - falling commodity prices, tighter external financial conditions, geo-political concerns and country-specific

Table V.1: Real GDP Growth (q-o-q, annualised)

(Per cent)

	Q3-2014	Q4-2014	Q1-2015	Q2-2015	2015 (P)
Advanced Economies					
US	4.3	2.1	0.6	3.9	2.5
Euro Area	1.2	1.6	2.0	1.6	1.5
Japan	-1.1	1.3	4.5	-1.2	0.8
UK	2.8	3.2	1.6	2.8	2.4
Canada	3.2	2.2	-0.8	-0.5	1.5
Korea	3.2	1.2	3.2	1.2	3.3
Emerging Market Economies (EMEs)					
China	7.6	6.0	5.6	6.8	6.8
Brazil	0.4	0.2	-2.8	-7.6	-1.5
Russia	-1.3	-2.8	-6.3	-8.0	-3.4
South Africa	2.1	4.1	1.3	-1.3	2.0
Thailand	4.0	4.4	1.2	1.6	3.7
Malaysia	3.6	7.2	4.8	4.4	4.8
Mexico	2.4	2.8	1.7	2.0	2.4
Saudi Arabia*	5.9	10.7	4.0	-5.4	2.8

Memo

	2014	2015P	2016 P
World Output	3.4	3.3	3.8
World Trade Volume	3.2	4.1	4.4

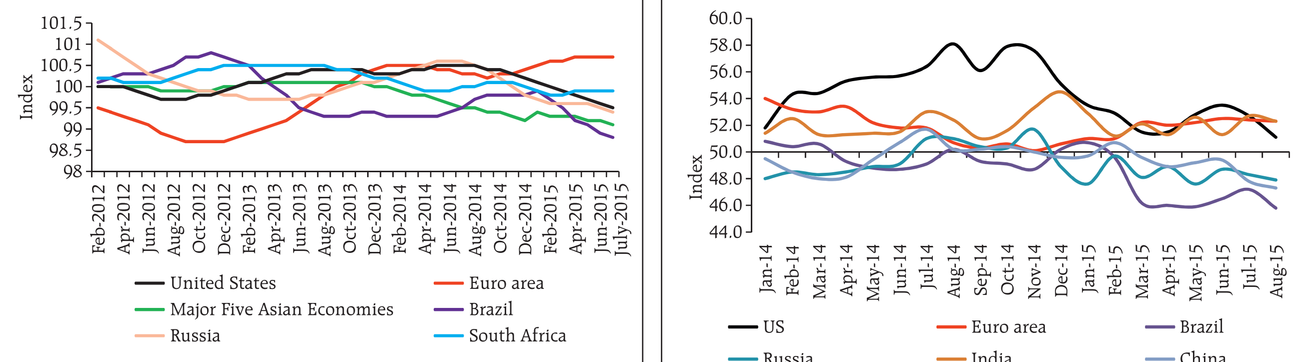
P : Projection *: Seasonally Unadjusted

Source: Bloomberg and IMF.

Chart V.1: Movement in Lead Indicators

a: OECD Composite Leading Indicators Index

b: Purchasing Managers' Index for Manufacturing



Note: Major five Asian economies include China, India, Indonesia, Japan and Korea.
Source: OECD.

Source: Datastream and Federal Reserve Bank of St. Louis.

structural fragilities – further compounded by the slowdown in China. High frequency indicators, including purchasing managers indices, industrial production and imports point to further deceleration in Q3 in China in an environment of slowing residential construction activity, declining investment efficiency and rising debt levels. The recession in Brazil and Russia is set to deepen further, amidst falling commodity prices and high inflation weighing on consumer and investment demand. South Africa is on the edge of recession as power shortages become binding amidst weak global demand and rising labour cost.

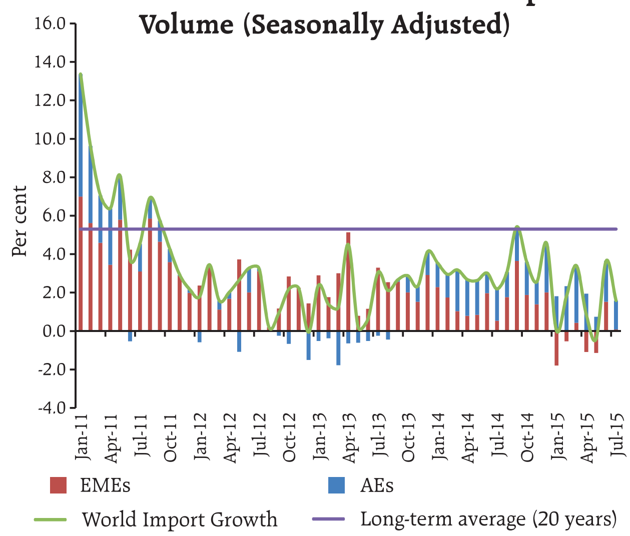
In the second half of 2015, AEs are expected to lead the global economy, gaining from lower oil prices, ebbing drag from fiscal adjustments and the accommodative stance of monetary policy. The near-term outlook for these economies nonetheless remains weak. On the other hand, risks to global growth are developing from the continuing weakening of growth in EMEs, growing vulnerabilities to currency depreciation, capital outflows disrupting financial markets and asset prices, and rising levels of indebtedness. The OECD's composite leading indicators suggest that growth in major economies, including the US, could taper (Chart V.1a). Purchasing managers' indices for manufacturing indicate business conditions are turning down modestly in the US and Euro area, but worsening more sharply in some major EMEs (Chart V.1b).

The momentum of global trade volume remained weak in the first half of 2015, largely owing to sharper fall in import volumes in EMEs than in AEs (Chart V.2). Import contraction in value terms was particularly pronounced across EMEs.

V.2 Commodity Prices and Global Inflation

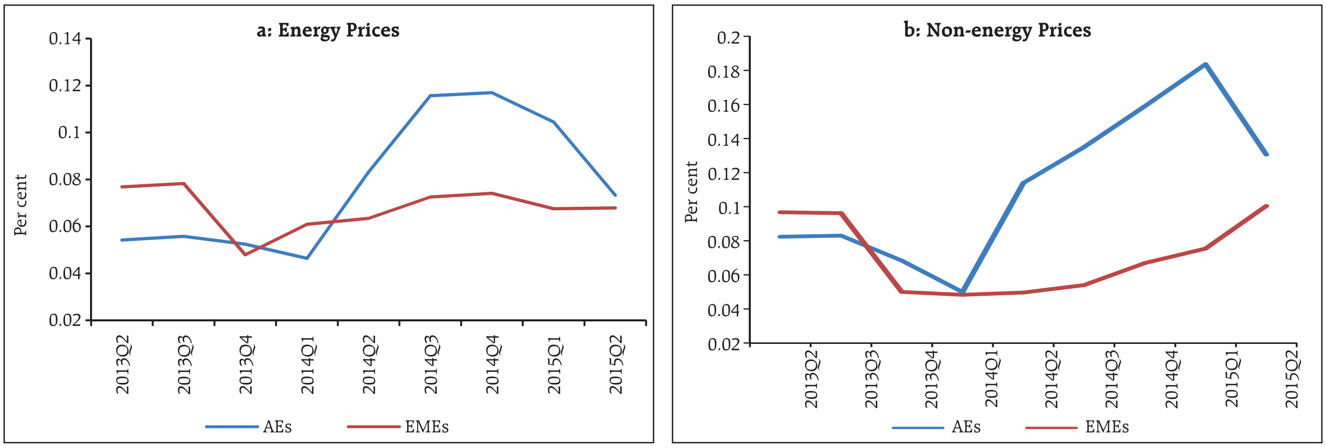
Global commodity prices continued to soften on supply glut conditions and weak demand from EMEs.

Chart V.2: Contribution of AEs and EMEs to Growth in World Merchandise Import Volume (Seasonally Adjusted)



Source: CPB Netherlands Bureau for Economic Policy Analysis.

Chart V.3: Impact of 1% Change in Commodity Prices on Inflation



Source: Staff Estimates. AEs: The US, the UK, Euro area, Canada and Japan. EMEs: Turkey, Hong Kong, Singapore, China, Thailand, Korea and Chile.

Crude oil prices rebounded in Q2 on stronger demand, but tumbled in August 2015 to their lowest level since February 2009 on concerns of slowdown in China, high inventory levels in the US and supply escalation, particularly from Iran. Prices of basic metals have remained weak owing mainly to slowdown in construction, infrastructure spending and industrial activity in metal importing countries along with supply increases and renewed strength of the US dollar. Global food prices remained low as major foodgrains and edible oils remained well supplied with adequate production.

Panel rolling auto-regressive distributed lag (ARDL) models[1] show that both energy and non-energy prices have had a significant influence on inflation in AEs and commodity importing EMEs. While this impact has tended to increase over the period 2013Q2 to 2015Q2 in AEs, it has broadly remained stable in EMEs, indicating that these prices play a larger role in inflation formation in the former than in the latter (Chart V.3a and b).

In the US, inflation remains low despite the recent uptick driven by housing costs. Although the Euro area exited deflation in May, fears of a renewed downward spiral have increased, arising from depressed commodity prices and strengthening of the euro in late August. Similarly, deflation worries persist in Japan, with inflation dipping in July due to weak domestic demand and low energy prices.

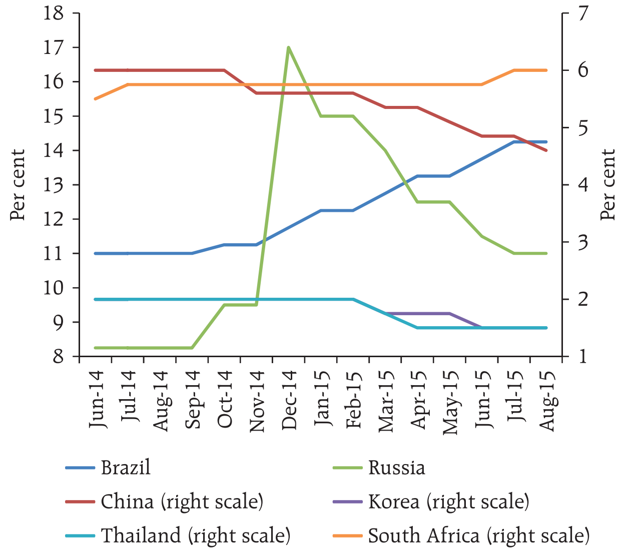
In some EMEs, inflation risks have turned up on structural constraints and sizable currency depreciation, which have overwhelmed the impact of softening commodity prices. Inflation is elevated in Brazil and Russia in spite of recession in these economies. In Turkey, Indonesia and South Africa, inflation remains high because of structural rigidities.

V.3. Monetary Policy Stance

The stance of monetary policy across most economies continues to be highly accommodative, but set to diverge. The Federal Open Market Committee (FOMC) deferred the normalisation of monetary policy in its September meeting. The Bank of England also trimmed its inflation forecasts and delayed interest rate increases. For the European Central Bank (ECB), meeting its inflation target has become increasingly difficult with falling oil prices and appreciation of the euro following the stock market turmoil of August.The ECB has indicated the possibility of larger asset purchases going forward. In Japan, the weakening of near-term growth prospects could induce further monetary easing.

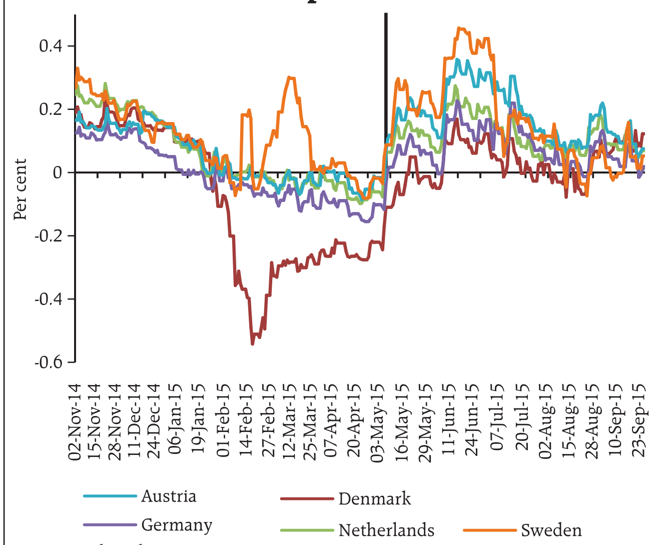
[1] Variables consist of domestic CPI inflation, change in energy and non-energy price indices.

Chart V.4: Policy Stance in EMEs



Source: Bloomberg

Chart V.5: Yields on 5 year G-sec in Select European Countries



Source: Bloomberg

On the other hand, policy stances in EMEs remain mixed. The recent cut in benchmark lending and deposit rates, and currency devaluation in China had spillover effects on other EMEs. Despite runaway inflation, Russia has been cutting rates to counter recession. Turkey and Indonesia have kept their policy rates intact in the face of growth slowdown, while intervening in the foreign exchange market to contain currency depreciation. Thailand and Korea have been emboldened by subdued inflation to cut rates to spur export demand. Brazil, on the other hand, raised its policy rate to counter inflation due to currency depreciation pressure, despite recessionary conditions intensifying. South Africa raised its policy rate in July to curb inflation (Chart V.4).

V.4 Global Financial Markets

Developments in global financial markets during Q2 of 2015 and in Q3 are in stark contrast. In Q2, ultra-accommodative monetary policy in AEs buoyed asset prices across all classes. Conditions altered drastically in Q3, with the protracted Greece negotiations initially, and later with the sharp fall in Chinese equity prices and RMB devaluation weakening investor sentiment precipitously. In the fixed income markets, yields on government bonds fell to record lows in April and in Europe, a significant amount of sovereign debt traded at negative yields (Charts V.5).

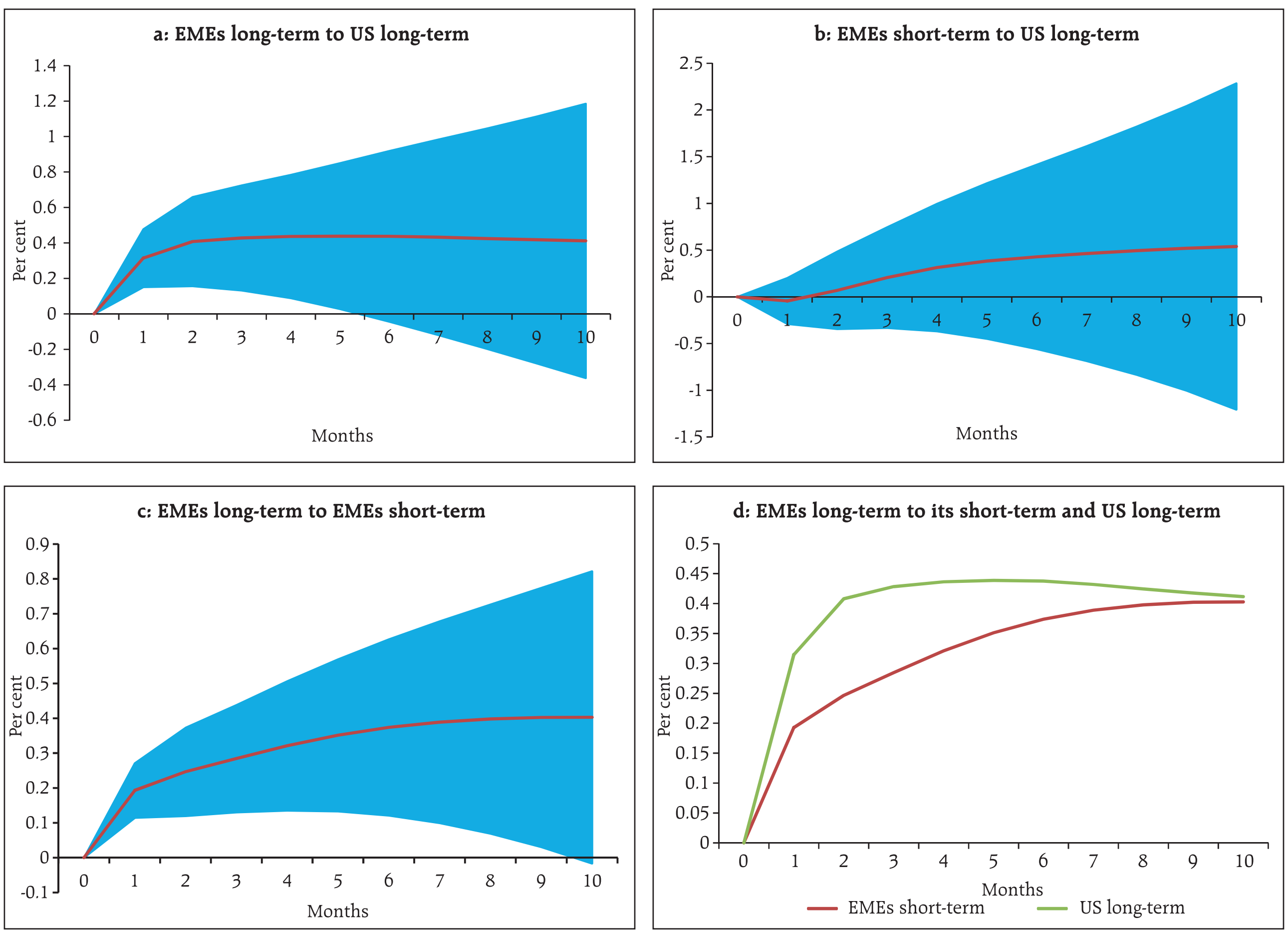
By end-April, growing investor unease against the backdrop of the brewing crisis in Greece, expanded asset purchases by the ECB and liquidity shortages due to regulatory changes under Basel III provoked a sell-off in the German bund market in which 10-year yields shot up by close to 80 basis points during May and June. In Europe, bond yields tracked the widening of Greek CDS spreads and fell when negotiations failed. However, contagion was limited when the likelihood of a new programme gained ground in July. Even though bond markets remained largely resilient to the Chinese stock market meltdown since late June, the rush for exit by jittery investors pulled down government bond yields everywhere. This short-lived but unusual cross-border transmission of bond market impulses, driven by the rapid turnaround in investor sentiment, suggests that as the trajectory of monetary policy becomes clearer in AEs, long term yields could play a significant role in the evolution of monetary conditions in EMEs, heightening the dilemmas they already face in the setting of monetary policy (Box V.1).

Box V.1: Will Global Long Term Interest Rates Determine Monetary Policy in BRIICS?

Since the early 2000s, an unfolding channel of financial linkage between economies has been global long-term interest rates. Financial sector reforms, globalisation and an intensification of the search for yields in the years after the global crisis enabled many EME governments to issue long-term local currency bonds in international markets to take advantage of the low term premium induced by quantitative easing. Aggregate borrowing by non-banks outside the US in US dollar bond markets since the start of 2000 multiplied by more than four times to about US$ 4.5 trillion by the first quarter of 2015 (McCauley *et al.,* 2015).

A consequence has been that domestic long-term interest rates in EMEs have been directly impacted by global long-term interest rates, while becoming less responsive to domestic short-term policy rates (Turner, 2015). This has set up a monetary policy dilemma for EMEs: very low long-term interest rates in AEs induced large scale capital flows to EMEs causing exchange rate appreciation, easing of domestic bond yields and liquidity conditions which, in turn, expanded credit conditions. By contrast, as the experience with the RMB devaluation showed, generalised risk aversion and capital outflows depreciated EME currencies and tightened monetary conditions. Going forward, as the normalisation of US monetary policy nears, will central banks in EMEs be forced to react to movements in global long-term interest rates through policy rate changes?

Impulse Response Results



Source: Staff Estimates.

(Contd.)

For BRIICS countries (including Indonesia), panel VAR analysis comprising domestic long-term yield, short-term rates, industrial production, inflation and exchange rate and US long-term yield for the period June 2009 to June 2015 reveals that a 100 basis point rise in the US 10-year yield is associated with more than 40 basis points increase in the 10-year yield, corroborating Turner (2015) for eight EMEs and Miyajima *et al.*, (2014) for five Asian economies. However, unlike in the latter, short-term rates in BRIICS do not respond to the US 10-year yield. Even though domestic short-term rates have a significant influence on the domestic long-term yield, the impact is lower than that of the US 10-year yield, similar to Turner (2015) (Charts a to d). These suggest that even though monetary policy in BRIICS could get constrained by movements in global long-term yields, policy rate changes may continue to be determined primarily by domestic factors.

References:

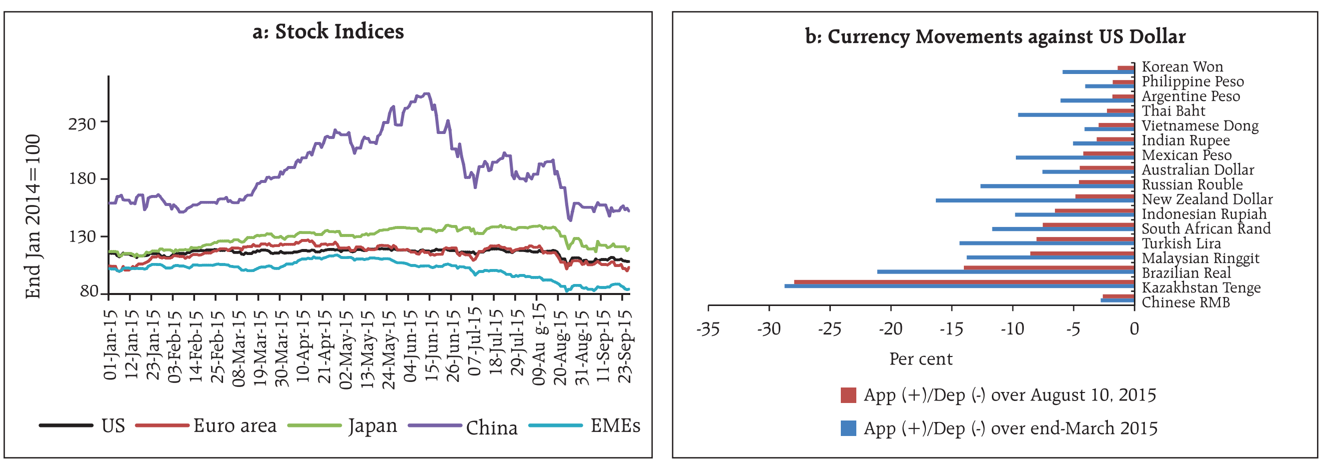
McCauley, R. N, P. McGuire, and V. Sushko (2015), 'Global Dollar Credit: Links to US monetary policy and leverage', *BIS Working Papers No. 483.*

Miyajima, Ken, M.S. Mohanty and James Yetman (2014), 'Spillovers of US unconventional monetary policy to Asia: the role of long-term interest rates', *BIS Working Papers No.478.*

Turner, P (2015),'Global Monetary Policies and the Markets: Policy Dilemmas in the Emerging Markets', *Comparative Economic Studies, 57.*

Equity prices in Q2 rose to record highs in AEs and EMEs alike driven by search for yield – the Shanghai Composite rose by 114 per cent – and stretched valuations began to become evident in the surge in P/E ratios across the world. The sharp fall in Chinese equity prices in late June and July spilled over to other markets in Asia, affecting commodity markets and weakening exchange rates. Although equity prices stabilised in late July and early August, the RMB devaluation of August 11, followed by downslides till early September, was interpreted by markets as a sign of deeper weaknesses in the Chinese economy. The turbulent fall in Chinese equities by 8.5 per cent on August 24, 2015, dubbed as 'Black Monday', cleaved through the global stock markets – US markets fell by 3.9 per cent, Euro area by 5.4 per cent and EMEs by 5.0 per cent (Chart V.6a). Subsequent to the Fed's pause on September 17, portfolio inflows to select EMEs have resumed. Volatility resurfaced in equity and currency markets in late September triggered by a stock sell-off in Germany and weaker than expected Chinese manufacturing.

Chart V.6: Equity Markets and Currency Movements



Source: Bloomberg

In the foreign exchange markets, the broad dollar index depreciated by 2.6 per cent over the period April to mid-May in response to bearish sentiment triggered by the contraction of the US economy in the preceding quarter, downgrades to growth projections by the FOMC, fears about a slowing China and deflation risks globally. By May, however, improved data on retail sales, wage growth and consumer confidence renewed the strength of the US dollar, with safe haven demand and unwinding of carry trades after the bond market sell-off adding support to another rally that took the US dollar to its highest level since 2003 on September 7. By contrast, the euro, which had depreciated by 9.7 per cent during Q2 as quantitative easing by the ECB was enlarged, appreciated modestly in the subsequent period. EME currencies, which have in general depreciated since end-March 2015 implying their weak fundamentals and/or adverse terms of trade, plunged following the RMB devaluation on August 11 as foreign portfolio investors rushed for safety (Charts V. 6b).

In sum, the current soft patch in the global economy is expected to continue in the near term as downside risks have increased significantly. While lower commodity and oil prices augur well for demand in oil importing economies, especially AEs, China's economic outlook will be a key factor for growth prospects of commodity exporters and other major EMEs.

SPEECHES

*Sustainable Growth in the Financial Sector**

Raghuram G. Rajan

Coimbatore Krishnarao Prahalad was born in Tamil Nadu. One of nine children, he obtained an undergraduate degree in physics from the University of Madras and went on to a diploma at IIM, Ahmedabad as a member of the first graduating batch. He followed that with a DBA from Harvard Business School in 1975. Prahalad started his academic career at the University of Michigan in 1977, and in 1990, he and Gary Hamel co-authored an article in the Harvard Business Review titled, *'The Core Competence of the Corporation.'* In this influential article, building on the work of Edith Penrose who first stressed the importance of the unique capabilities of a firm, Prahalad and Hamel encouraged corporate executives to 'identify, cultivate, and exploit the core competencies that make growth possible.'

In their 1994 book, *Competing for the Future*, Prahalad and Hamel analysed how established market leaders like IBM tend to lose ground to innovative upstarts like Apple – IBM failed to see the future of the personal computer because it was too focused on maintaining its leadership in the mainframe business. Perhaps most important to India, Prahalad's 2005 book, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*, explored how businesses might pursue sustainable growth while catering to the poorest of the poor. Indeed, much as the term 'core competence', the term 'the bottom of the pyramid' has entered the common lexicon. He received many awards and honors during his life time, but perhaps the greatest honor is the continuing influence of his work.

I met C. K. Prahalad when I was at the University of Chicago. Despite his enormous reputation and the exalted circles he moved in, he was always down to earth, and immensely insightful. He cared deeply about India, and gave freely of his time and money to make a difference here. Many of you have attended the seminars he organised to improve Indian business practice. He believed we Indians could be second to none; some of the businessmen here have taken his message to heart and delivered. He and I never got a chance to do research together, but we did write a joint letter to the then Prime Minister in 2009, together with Abhijit Banerjee, advocating, among other steps, accelerated efforts to bring out a unique ID in India. Perhaps, therefore, we all had a small role in the Prime Minister setting up the Unique ID Authority, headed by Nandan Nilekani.

As an aside, given how far Nandan's UIDAI has taken us towards a universal unique identity for India, it would be sad if its use were severely restricted. Other countries like the United States have used unique IDs, such as social security numbers, without serious allegations of violations of privacy. Learning from worldwide experience, we need to see how we can satisfy the concerns of the Supreme Court without undermining the value of the unique ID. The unique ID can enable a variety of economically valuable activities that particularly benefit the bottom of the pyramid. For instance, not only can UIDs expand the access of the poor and young to credit as they borrow against the collateral of their future good name, it will also allow the regulator to detect and curb over-lending to individuals by asking lenders to report the IDs of borrowers to credit bureaus. Today, unscrupulous lenders can avoid current regulations against over-lending by simply misreporting the borrower's name or address. Similarly, the Government has used UIDs to weed out duplicate beneficiaries for various welfare schemes, allowing better targeting of scarce funds to the very poor. I think C. K. would want us to find a way to move forward with UIDs. I do believe, as C. K. did,

* Speech delivered by Dr. Raghuram G. Rajan, Governor, Reserve Bank of India on September 18, 2015, at the 4th C.K. Prahalad Memorial Lecture.

that India can be far more successful and influential than it is today. What do we need to do to succeed? How can we compete effectively against the best? Do we need to identify our core competencies as a nation? Rather than attempt to speak from the perspective of business, let me speak from the vantage point of a central banker.

Let me also quickly offer my standard disclaimer: *For any hints on what we will do in the upcoming policy statement, please read the guidance in our last policy statement. I quote: 'Significant uncertainty will be resolved in the coming months, including the likely persistence of recent inflationary pressures, the full monsoon outturn, as well as possible Federal Reserve actions. As the Reserve Bank awaits greater transmission of its front-loaded past actions, it will monitor developments for emerging room for more accommodation.' Nothing I say in what follows is meant to offer further guidance, and please don't read veiled meaning where none is intended.*

If we look around the world today, it does not present a pretty picture. Industrial countries are still struggling, with a few exceptions, to grow. Our fellow BRICS all have deep problems. Indeed, India appears to be an island of relative calm in an ocean of turmoil. What is different and how can we be assured that it will continue?

A lesson from Brazil?

Perhaps Brazil offers a salutary lesson. Only a few years ago, the world was applauding the country's thriving democracy, its robust economic growth, and the enormous strides it was making in reducing inequality. It grew at 7.6 per cent in 2010, and had discovered huge oil reserves which the then President Lula likened to 'winning a lottery ticket'. Yet the country is expected to shrink by 3 per cent this year, and its debt just got downgraded to junk. What went wrong?

Paradoxical as it may seem, Brazil tried to grow too fast. The 7.6 per cent growth came on the back of substantial stimulus after the global financial crisis. In an attempt to keep growth high, the New York Times says the central bank was pressed to reduce interest rates, fuelling a credit spree that overburdened customers are now struggling to repay.[1] Further, Brazil's government funded development bank hugely increased subsidised loans to corporations. Certain industries were favored with tax breaks while price controls were imposed on gasoline and electricity, causing huge losses in public sector firms. Petrobras, the national oil company, which was supposed to make enormous investments in oil drilling, instead became embroiled in a corruption scandal. Even as government pensions burned an ever larger hole, budget deficits expanded, and the political consensus to narrow them has become elusive.

Towards sustainable growth

While the Brazilian authorities are working hard to rectify the situation, let us not ignore the lessons their experience suggests. Growth has to be obtained in the right way. It is possible to grow too fast with substantial stimulus, as we did in 2010 and 2011, only to pay the price in higher inflation, higher deficits, and lower growth in 2013 and 2014. Of course, India is not in the same situation today. But with the world being an inhospitable place, we have to work hard to strengthen our current recovery and put it on a more sustainable footing. And while monetary policy will accommodate to the extent there is room, we will expand sustainable growth potential only by continuing to implement reforms the government and regulators have announced. These are intended to strengthen the environment for doing business and to expand access to financing, and these will then in turn allow our companies to find and exploit their core competencies.

For the RBI, the key tasks are to keep inflation low not just today but well into the future so that we get moderate nominal interest rates that satisfy not just the vocal borrowers but also the silent savers. We also

[1] 'As a Boom Fades, Brazilians Wonder How it all Went Wrong', Simon Romero, New York Times, September 11, 2015.

need to clean up the banking system of distressed assets so that it is in a position to fund growth again. While we understand the difficulties industry has and will work as hard as we can on improving the environment, India must resist special interest pleas for targeted stimulus, additional tax breaks and protections, directed credit, subventions and subsidies, all of which have historically rendered industry uncompetitive, government over-extended, and the country incapable of regaining its rightful position amongst nations.

Belief

What will be critical in success, as the Prime Minister said earlier this month while meeting industrialists and bankers, is that business has to believe in the tremendous possibilities and opportunities the nation has, and be willing to take the investment risks that will generate returns. No country succeeds without believing in itself – I do not mean the unwarranted belief that we are intrinsically better than everyone else but the confidence that given our population, our demographics, our massive infrastructure investment opportunities, and the wide range of capabilities in our people, the arc of history is turning towards us. While Indian business has been hurt by public authorities' acts of omission and commission in the past, it has to look forward. And I have no doubt that as business presses people in positions of public responsibility to make the changes needed to ease doing business, we will respond.

What specifically are we doing on the environment in the financial sector and what more do we need to do? Let me turn to that, dwelling specifically on the need to foster competition and innovation, on creating an environment hospitable to those who do not belong to the club, on improving the structures we have to deal with distress, and on strengthening human capital in the financial system.

Fostering Competition and Innovation

In order to get sustained growth, we need more competition, especially from new entrants who are in a better position to reach hitherto excluded parts of our economy. After a decade of no new entry, we will see two new private banks this year, and a large number of payment banks and small finance banks next year. Licensing is likely to go on tap.

Incumbents have expressed fears about unfair competition. Competition is only unfair if it is not on the same playing field. In fact, new entrants have no privileges that incumbents do not already enjoy. We hope, though, that the new entrants will find innovative ways of giving customers better services at lower prices, thus shaking up and changing the banking sector for the better.

Regulators are naturally a conservative lot. It is good we are that way else there would be no speed breakers in the economy to slow its propensity to get into trouble. But we also should not stand in the way of innovation. There is a Chinese saying: 'Cross the river by feeling the stones'. We have tried to follow that path of experimentation and incremental liberalisation. So, for example, as increasingly innovative new services want their customers to have the ability to make payments quickly, we have allowed small value card payments without two-factor authentication. As we and financial institutions gain experience, and as new technologies ensuring security emerge, we can liberalise further. More generally, our philosophy is to allow innovation in institutions, instruments and practices so long as they do not present a clear and present danger. Once we understand them better, and they grow to a material size, we can do a deeper analysis on how they should be regulated.

Similarly, we have been allowing more and more participation in derivative markets by what are typically known as speculators – those without an underlying risk they are hedging. Speculators are much maligned in India and often confused with market manipulators. The two are different. Speculators take positions in an instrument and thus take risks, much as an investor in a stock takes risk. They typically take the necessary other side to hedgers. Without speculators, there would be little depth in most markets and prices would be distorted. The market manipulator moves thin markets in a preferred direction so as to make a quick profit, in contrast to the speculator who simply takes a side she thinks will make money. In the securities we regulate, we intend to encourage broader participation while discouraging manipulation.

More generally, we would like to improve regulation by focusing on what is absolutely necessary to create a sound business environment – focusing on enabling regulation rather than paternalistic regulation – while increasing enforcement of what is on the books. We will trust but we will also verify. To this end we are streamlining all our regulations by the end of the year into new Master Documents which will be placed on the internet and updated on a real time basis, so that any regulated entity can know quickly the gamut of what is required when undertaking an action.

Including Outsiders

As India grows, financial sector participants will grow beyond the insiders who typically dominate economic activity in the early stages of growth in every country. Outsiders and new entrants will want access, arm's length contracts that they can trust, and a dispute settlement system that is transparent and predictable.

Start first with access. We need to bring more of the hitherto excluded to participate in the financial system. The Prime Minister's Jan Dhan Yojana has created accounts for much of the excluded population. Government has taken the next step of attaching a variety of financial services such as accident and life insurance to these accounts, and sending Direct Benefits such as scholarships, pensions, and subsidies to these accounts. We also have to ease access to bank accounts through Business Correspondents, payment banks, and point-of-sales machines so that they are used frequently. Easy payments, access to cash-in and cash-out facilities, and widespread availability of safe savings instruments have to be our next objectives in the financial inclusion of households.

We also need to ease lending to small producers, whether they are farmers, Self Help Groups, or businesses. For this, we need to improve the structure and working of credit information bureaus, collateral registries, and debt recovery tribunals – ironically, credit flows easily only when the lender is persuaded that he will get his money back, so easier access to credit necessitates harsher consequences of default. Perhaps the most important source of collateral value is land. We need better digital mapping and clean records of land ownership across the country so that land can be used more effectively as collateral.

Newcomers and outsiders rely, not on relationships to get things done, but on arm's length auctions and contracts, enforced quickly by an impartial bureaucracy and judiciary. The clean-up that is taking place in methods of allocating resources like mines and spectrum, and the attempts to improve the speed of bureaucratic and judicial decision making are all much needed to increase participation, though much more has to be done over time. Any reforms have to be institutionalised, so that they outlive the reformer's passing.

Finally, newcomers and outsiders need protection against unfair practices. As one example of what we are doing, the RBI has developed a Charter of Consumer Rights following public consultation. Bank boards have been asked to put in place frameworks that ensure those rights are protected. After those frameworks have been in operation for some time, the RBI will take a view on best practices, and regulation, if any is needed. In the meantime, field visits by the RBI, to check mis-selling as well as the proper functioning of bank infrastructure such as branches and ATMs, will be expanded.

Resolution of Distress

Failure is inevitable in a free enterprise system. An effective resolution system is needed to preserve residual enterprise value after financial failure. Two critical elements are the speed of resolution and the predictability of how losses are shared amongst contracts. For instance, few outsiders will want to lend if they believe they will be subordinated to promoter interests in bad times. So we need a speedy bankruptcy code to resolve distress while maintaining the priority structure of claims, and I am glad the Finance Ministry intends to bring one in soon. The bankruptcy code will give creditors more ability to resolve distress, and help strengthen the corporate bond market, which is so essential to infrastructure financing.

In the meantime, we have to find ways to deal with the distress in the banking system. Regulatory forbearance, where the RBI softens its rules on classifying bad loans, only makes it easy for banks to 'extend and pretend'. It is not a solution. Since no other stake-holder – such as the promoter, tariff authorities, tax authorities, etc. – contributes to resolution, the real project limps along, becoming increasingly unviable. Meanwhile, analysts grow increasingly suspicious of bank balance sheets and the growing volume of 'restructured' assets. Also, some large promoters take advantage of banker fears about assets turning non-performing to extract unwarranted concessions, without any sacrifice in the value of their stake. Regulatory forbearance therefore ensures that problems grow until the size of the provisioning required to deal with the problem properly becomes alarmingly large – which then prompts calls for yet more forbearance.

Forbearance is also a disservice to the bank's owners (which may include the Government) who, instead of being faced with a small problem early and being given the opportunity to apply corrective action, are faced with large problems suddenly when they cannot be pushed into the future any more.

The RBI ended the forbearance accorded to restructured loans. Henceforth, restructured loans will be classified as non-performing loans. However, the RBI has made it easier to recognise and deal with distressed projects. In other words, while ending forbearance, we have introduced flexibility for those who recognise and deal with stressed assets early – the early warning database of large loans, the Joint Lenders' Forum, the Strategic Debt Restructuring process, the 5/25 mechanism, and so on should all be seen as the RBI's way of giving banks the flexibility to deal with the stressed asset problem in the absence of a functioning bankruptcy code, even while bringing more urgency and discipline to dealing with the problem.

Naturally, some criticise our easing the way for restructuring. One gentleman accosted me the other day and asked why, when he was paying his debt regularly, his competitor who had siphoned money out of the firm through over-invoicing was getting his debt written down because it was unpayable. The reality is that firms have got into trouble for a variety of reasons, only one of which is over-invoicing. Wherever possible, of course, promoters should share fully in the costs of restructuring. But the restructuring process is not meant to deal with criminality. Siphoning money out of a business is a crime against lenders and investors, and should be dealt with as such by the investigative authorities. However, the original sin of over-invoicing should not be a reason to keep idle a spanking new plant and to let its workers go.

Developing Human Capital

The country needs many more finance professionals with specific skills for the enormous financing needs that lie ahead. Today, for example, too many of our project decisions are made by banks listening to the same set of consultants, which means that too few independent views get embedded in the evaluation decision. Ironically, the same consultants who advised on the project initiation are also called in when the project goes bad. Banks need to have these skills in-house so they are not forced to follow the herd. This problem is most apparent in public sector banks, though private banks are not immune.

The quick way is for our public sector banks to recruit the needed talent in the short run from the market. While the challenges of making a mark in the public sector may attract some to the top public sector bank positions, for subordinate positions it may be essential to pay a market wage. That cost will be small when set against the enormous national benefit of banks making better decisions.

Of course, the bulk of public sector promotions will continue to come from in-house talent. Also, poaching talent from other banks is a zero sum game for the system. Therefore, our banks will have to develop skills in-house by training staff – not so much in soft skills such as leadership but hard skills such as risk management capabilities.

In our development role, the RBI has to help strengthen the human capital in the financial system. Some of our teaching units such as the College of Agriculture and Banking and the Staff College have been training bankers in important areas such as agricultural lending and MSME lending. Increasingly, our Center for Advanced Financial Research and Learning (CAFRAL) will provide courses in state of the art financial techniques such as project evaluation, structuring and resolution of distress as well as risk management. Banks may want to pool resources to set up other such facilities, or press CAFRAL to expand its offerings.

Conclusion

These are some of the ways I think we can position the financial system towards sustainable growth. Before I end, let me try to answer one last question. In the same way as firms have core competencies, do countries have core competencies?

Perhaps they do. But it is very hard for public authorities to determine what they are in the face of massive lobbying and disinformation from interested parties. If we say we want to focus on national core competencies, every industry will be out to show why it thoroughly fits the bill – in the same way as every industry today wants to tell us why they especially deserve special tax benefits or interest subventions. Remember, the License Permit Raj persisted precisely because some industries were favoured over others in the so-called national interest. So even if nations have core competencies, it will be very hard to determine what they are, and very easy to succumb to vested interests in supporting the wrong ones. Better to focus on creating an enabling environment, and let the core competencies emerge from the fillip given by the environment – much as the IT sector emerged as a result of the investment the country made in technical education, but without specific encouragement by the government.

Let me conclude. C. K. Prahalad believed Indian business was capable of scaling world heights and so do I. But there are no easy paths to the top. Jugaad or 'working around' difficulties by hook or by crook is a thoroughly Indian way of coping but it is predicated on a difficult or impossible business environment. And it encourages an attitude of short cuts and evasions, none of which help final product quality or sustainable economic growth. While we should respect the entrepreneurial abilities of our business people in difficult environments, it is better for us to change the environment for the better. That is indeed what we are trying to do.

All this requires patience. The current difficulties of emerging markets stem from a complicated set of reasons, but an important one is impatience to regain growth by overemphasizing old and ineffective methods of stimulus. Brazil may have overspent, China may have overinvested. The world is a difficult place. Let us recognise we are doing quite well in comparison – indeed, many industries in difficulty have a problem because exports are low or imports are very competitive, and not because domestic demand is inordinately weak. We cannot compensate entirely for what is happening across our borders, else we will risk acquiring the problems our fellow emerging markets have. We have to have the discipline to stick to our strategy of building the necessary institutions and creating a new path of sustainable growth where Jugaad is no longer needed. For this, we need the understanding and cooperation of business, not impatience and pressure for quick impossible fixes. Only then can we realise our true potential as a nation. Thank you.

*Financial Consumer (Depositor) Protection – Reflections on Some Lingering Questions**

R. Gandhi

At the outset, let me express my pleasure at being here today with you on the occasion of the M R Pai Memorial Lecture; it is my proud honour to have presented the Eleventh M R Pai Memorial award to Madam Smt. K J Udeshi, former Deputy Governor, Reserve Bank and former Chairperson, Banking Codes and Standards Board of India (BCSBI). It is normal for teachers to be presenting awards and prizes to their students and wards; but it is a strange thing for a student to present an award to his teacher. The M R Pai Foundation has just caused that. As young boys and girls, I am sure, many of you, like me, would have day dreamed to present awards and prizes to our teachers. Today, thanks to the M R Pai Foundation, my such daydream has become a reality. Smt Udeshi has been a mentor to me and many more in the Reserve Bank. With her charming disposition and dedication, her staunch adherence to principles and high values and varied knowledge and expertise, she had been a well-respected coach and mentor; and also a strict disciplinarian. Having been a sports person, she knew the value of playing by rules and importance of fair play. That definitely helped her in being a strict disciplinarian when she was in the Reserve Bank and also during her tenure as the first Chair-person of the BCSBI. I am very grateful to you, Madam, for giving me this privilege to honour you with the M R Pai Memorial Award.

2. As is well known, Shri M R Pai was a multi-faceted personality, but his greatest contribution lay in starting the consumer movement in India. He was active in all areas, and confronted monopolistic giants like the telephone services, the Indian Airlines, and more particularly the banks, earning the title of Champion of the Consumer. Consumer protection and consumer activism has come a long way since those times. The best example of this is in what the Financial Sector Legislative Reforms Commission (FSLRC) has said in their Report in 2013.

'Consumer protection: A prime motivation of all financial regulation is to protect consumers. The relationship between financial firms and their customers is one where, many times, the outcomes may harm customers. These problems are not sporadic or accidental; but are often rooted in basic problems of information and incentives and will not be alleviated through financial literacy campaigns. The central purpose of financial regulation is to intervene in the relationship between financial firms and their customers, and address market failures. This requires a comprehensive consumer protection framework that covers both the problem of prevention (interventions that induce financial firms towards fair play) and cure (addressing consumer grievances)'.

3. I am sure this is music for the great soul of Shri Pai. I will be discussing the essential elements of, and the need for consumer protection, as well as initiatives taken both globally and in India with specific reference to the financial sector.

Consumer protection – Role of the Reserve Bank

4. Protection of the interests of the depositors has been one of the mandates of the Reserve Bank. The Banking Regulations Act 1949 is replete with the phrases like 'in the interests of depositors' wherever it entrusts powers to the Reserve Bank; be it granting of a banking license or cancellation thereof, giving directions on advances or on any banking matter, applying for suspension, winding up, or amalgamation of banks, approving appointment of CEOs or additional

* M R Pai Memorial Lecture delivered by Shri R. Gandhi, Deputy Governor, Reserve Bank of India on Sep 8, 2015 at IMC, Mumbai. Assistance provided by Ms Reena Banerjee is gratefully acknowledged.

directors, removal of CEOs, all these are to be exercised keeping, among other things, the depositors interests in view. But the services provided by the banking sector today are much more than only deposit services. This rapid increase in the nature of financial services has highlighted the need for robust regulation as well as consumer education to protect and empower consumers. The need to extend provision of banking services to underserved sections of the population whose financial literacy is low, combined with the growing complexity of financial products and the use of technology can increase the risk of mis-selling. Financial consumer protection should be reinforced and integrated with other financial inclusion and financial education policies. If such protection is absent, the benefits to economic growth of expanded financial inclusion may be severely undermined. Financial consumer protection also contributes to strengthening financial stability. Taking these factors into account, the Reserve Bank has recently articulated its Core Purpose, Values and Vision as its commitment to the Nation to include regulating markets and institutions under its ambit to ensure financial system stability and consumer protection.

5. Apart from the Reserve Bank, the Government of India has also been concerned with financial consumer protection. The Financial Sector Legislative Reforms Commission (FSLRC), about which I had referred to earlier, was constituted by the Ministry of Finance in March 2011, and was asked to comprehensively review and redraw the legislations governing India's financial system. In its report submitted to the Ministry of Finance in March 2013, containing a draft Indian Financial Code to replace the bulk of the existing financial laws, consumer protection was also highlighted.

6. The work of the Commission in the field of consumer protection marks a watershed compared with traditional approaches in Indian financial law. It marks a break with the tradition of *caveat emptor*, the 'buyers beware' concept, and moves towards a position where a significant burden of consumer protection is placed upon financial firms. The draft Code first establishes certain basic rights for all financial consumers. In addition, the Code defines what is a unsophisticated consumer, and an additional set of protections are defined for these consumers. The proposed basic protections are:

a. Financial service providers must act with professional diligence;

b. Protection against unfair contract terms;

c. Protection against unfair conduct;

d. Protection of personal information;

e. Requirement of fair disclosure;

f. Redress of complaints by financial service providers.

7. In addition, unsophisticated consumers will have three additional protections:

a. The right to receive suitable advice;

b. Protection from conflicts of interest of advisors;

c. Access to the redress agency for redress of grievances.

8. The regulator will be given an enumerated set of powers through which it must implement these protections. Alongside these objectives and powers, the regulator will also be given a set of principles that guide the use of the powers.

9. The Reserve Bank has welcomed this suggested approach to consumer protection. The draft IFC is currently under examination.

Consumer protection – What does it imply and how will it help?

10. Financial consumer protection sets clear rules of conduct for financial firms regarding their retail customers. It aims to ensure that consumers: (1) receive information to allow them to make informed decisions,

(2) are not subject to unfair or deceptive practices, and (3) have access to recourse mechanisms to resolve disputes. Complementary financial literacy initiatives are aimed at giving consumers the knowledge and skills to understand the risks and rewards of using financial products and services—and their legal rights and obligations in using them. Clear rules of conduct for financial institutions, combined with programs of financial education for consumers, will increase consumer trust in financial markets and will support the development of these markets[1].

International initiatives regarding consumer protection – initiatives by International organisations

11. Globally, several initiatives have been taken for consumer protection by both the international standard setting bodies and the regulators. Regarding initiatives taken by standard setting bodies, the G20 requested the OECD/FSB and others to articulate principles on Financial Consumer Protection. These broadly state that financial consumer protection should be an integral part of the legal, regulatory and supervisory framework and there should be equitable and fair treatment of consumers with special attention dedicated to the needs of vulnerable groups. It should include access to adequate complaints handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient. The G20/OECD Task Force on Financial Consumer Protection is currently focused on supporting the implementation of the High-level Principles. The OECD is workingon how to enhance financial consumer protection, which includes determining what is required to help consumers gain the confidence, knowledge, information, security and choices they need to enable them to fully participate in financial markets. In 2011, the Financial Stability Board published its report on Consumer Finance Protection with particular focus on credit.

[1] Good Practices for financial consumers World Bank June 2012

12. Consumers International (CI) is a world federation of consumer groups. Recently, CI conducted a global survey of 80 member jurisdictions to assess the state of consumer protection across the world. Key findings include:

- Since 2012, Members felt the top three advances they had witnessed in consumer protection were from: new legislation, consumer representation and regulation and enforcement. Increasing consumers' awareness of their rights was also an important factor.
- Members felt that the three main factors that contribute to consumer detriment are: economic and development challenges, lack of regulation and enforcement; and poor quality products and services.

Financial Consumer Protection

13. Various national initiatives:

a. In USA, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) established the Consumer Financial Protection Bureau (CFPB) to protect consumers by carrying out federal consumer financial laws. The CFPB is authorised to exercise its authority to ensure that: (1) Consumers are provided with timely and understandable information to make responsible decisions about transactions involving consumer financial products and services; (2) Consumers are protected from unfair, deceptive, or abusive acts and practices and from discrimination; (3) Outdated, unnecessary, or unduly burdensome regulations concerning consumer financial products and services are regularly identified and addressed in order to reduce unwarranted regulatory burdens; (4) Federal consumer financial law is enforced consistently, without regard to (service providers') status as depository institutions, in order to promote fair competition; and (5) Markets for consumer financial products and services operate transparently and efficiently to facilitate access and innovation.

b. In UK, the Financial Services Act of 2012 set up the Financial Conduct Authority (FCA) which is responsible for regulating the consumer credit industry from 1 April 2014, taking over the role from the Office of Fair Trading. The FCA supervises banks to ensure they treat customers fairly, and encourages innovation and healthy competition. The authority has significant powers, including the power to regulate conduct related to the marketing of financial products. It is able to specify minimum standards and to place requirements on products. In addition, the FCA is able to ban financial products for up to a year while considering an indefinite ban; it will have the power to instruct firms to immediately retract or modify promotions which it finds to be misleading, and to publish such decisions.

c. In the European Union, the European Banking Authority (EBA) promotes a transparent, simple and fair internal market for consumers in financial products and services. The EBA seeks to foster consumer protection in financial services across the EU by identifying and addressing detriments consumers may experience, or are at risk of experiencing, in their dealings with financial firms. The role and tasks of the EBA related to consumer protection and financial activities include: collecting, analysing and reporting on consumer trends in the EU; reviewing and co-ordinating financial literacy and education initiatives; developing training standards for the industry; contributing to the development of common disclosure rules; monitoring existing and new financial activities; issuing warnings if a financial activity poses a serious threat to the EBA's objectives as set out in its funding Regulation; and temporarily prohibiting or restraining certain financial activities, provided certain conditions are met. The market is governed by the various directives issued by the EU such as the Directives on Consumer Credit.

d. In Hong Kong, the industry-established Code of Banking Practice (CoBP) promotes good banking practices by setting out the minimum standards which financial institutions should follow in their dealings with customers. The Code is a non-statutory one issued by the financial industry associations for voluntary compliance by financial institutions. The Hong Kong Monetary Authority (HKMA) expects financial institutions in Hong Kong to comply with the CoBP and will monitor compliance as part of its regular supervision. There are also examples of international voluntary codes.

Consumer Protection in India – Initiatives by the Reserve Bank

14. Consumer protection has been an ongoing effort of the Reserve Bank. For greater effectiveness and a more focused approach, several committees were appointed on aspects of customer service in banks from time to time, including the Talwar Committee (1975), the Goiporia Committee (1990), the Tarapore Committee (2004), the Sadasivan Working Group (2006), and the Damodaran Committee on Customer Service (2010). The importance of consumer protection was also highlighted in the Committee on Financial Sector Reform chaired by Dr Raghuram G. Rajan. The RBI had set up the Banking Ombudsman Scheme to act as a visible and credible dispute resolution agency for common persons utilising banking services and to ensure redress of grievances of users of banking

services in an inexpensive, expeditious and fair manner that provides impetus to improve customer services in the banking sector on a continuous basis.

Some recent initiatives by the Reserve Bank

15. Let me now detail some recent initiatives by the Reserve Bank regarding consumer protection:

a) Most important perhaps was the release of a Charter of Customer Rights, which enshrined broad, overarching principles for protection of bank customers and enunciates the 'five' basic rights of bank customers. These are: (i) Right to Fair Treatment; (ii) Right to Transparency; Fair and Honest Dealing; (iii) Right to Suitability; (iv) Right to Privacy; and (v) Right to Grievance Redress and Compensation. The Reserve Bank also advised the Indian Banks' Association (IBA) and the Banking Codes and Standards Board of India (BCSBI) to formulate a 'Model Customer Rights Policy' encapsulating the principles enshrined in the Charter. Initially, all the scheduled commercial banks, regional rural banks and urban co-operative banks are expected to prepare their own Board approved policy incorporating the five basic rights of the Charter which, among other things, would contain a monitoring and oversight mechanism for ensuring adherence.

b) The Reserve Bank of India undertook several measures on KYC, including releasing a note along with a poster and a booklet comprising a few common questions relating to Know Your Customer (KYC) norms for opening bank accounts. The objective of this is to bring awareness among the general public about the KYC simplification measures taken by the Reserve Bank in the recent times with a view to helping the common man in opening bank accounts.

c) The measures taken for simplification of KYC include prescribing a single document for proof of identity and proof of address, removing the requirement for separate proof of address for current address, making KYC a bank process rather than a branch process, relaxing the Officially Valid Documents (OVDs) for low risk customers, increasing the time intervals for periodic updation of KYC for existing low/medium and high risk customers from 5/2/1 years to 10/8/2 years, respectively.

d) Further, banks need not seek fresh proofs of identity and address at the time of periodic updation, from those customers who are categorised as 'low risk', in case of no change in status with respect to their identities and addresses. A self-certification by the customer to that effect should suffice in such cases. Banks may not insist on physical presence of such low risk customer at the time of periodic updation. Further, if an existing KYC compliant customer of a bank desires to open another account in the same bank, there should be no need for submission of fresh proof of identity and/or proof of address for the purpose. Further, Business Correspondents and Business Facilitators were allowed to act as Customer Service Point (CSP) for e-KYC purpose.

e) To mitigate the difficulties faced by transgender persons in opening accounts, banks were directed to include 'third gender' in all forms/ applications, *etc.* as a valid classification.

f) Initiatives were taken to further enhance transparency in pricing of credit, based on the recommendations of Working Group on Pricing of Credit. Banks were advised to display on their website *inter alia*, the interest rate range of contracted loans for the past quarter for different categories of advances granted to individual borrowers along with mean interest rates for such loans; the total fees and charges applicable on various types of loans to individual borrower which should also be disclosed at the time of processing of loan for transparency and comparability and to facilitate informed decision making by customers; Annual Percentage Rate (APR) or such similar other arrangement of representing the total cost of credit on a loan to an individual borrower so as to allow customers to compare the costs associated with borrowing across products and/or lenders. Apart from displaying such information, banks were also advised to provide a clear, concise, one page key fact statement/fact sheet, to all individual borrowers at every stage of the loan processing as well as in case of any change in any terms and conditions, which would also be included as a summary box to be displayed in the credit agreement.

g) While undertaking insurance distribution business, either under the corporate agency or broking model under the relevant IRDA Regulations, banks were directed to put in place a system of assessment of the suitability of products for customers, and classify products into universally suitable products and complex products which necessarily require customer need assessment prior to sale. It should be ensured that there is a standardised system of assessing the needs of the customer and that initiation/transactional and approval processes are segregated. Banks should treat their customers fairly, honestly and transparently, with regard to suitability and appropriateness of the insurance product sold. There should be no violation either of Section 10(1) (ii) of the BR Act, 1949 or the guidelines issued by IRDA in payment of commissions/brokerage/incentives. This may be factored in while formulating a suitable performance assessment and incentive structure for staff. Further, it must be ensured that no incentive (cash or non-cash) should be paid to the staff engaged in insurance broking/corporate agency services by the insurance company. The bank should not follow any restrictive practices of forcing a customer to either opt for products of a specific insurance company or link sale of such products to any banking product. It should be prominently stated in all publicity material distributed by the bank that the purchase by a bank's customer of any insurance products is purely voluntary, and is not linked to availment of any other facility from the bank. Further, the details of fees/brokerage received in respect of insurance broking/agency business undertaken by them should be disclosed in the 'Notes to Accounts' to their Balance Sheet. A robust internal grievance redressal mechanism should be put in place along with a Board approved customer compensation policy for resolving issues related to services offered. It must also ensure that the insurance companies whose products are being sold have robust customer grievance redressal arrangements in place. Further, the bank must facilitate the redressal of grievances of the customer.

h) To encourage the usage of credit and debit cards, the Reserve Bank has issued various instructions on security of card transactions and risk mitigation measures, including directions on online alerts as well as on additional factor of authentication which have significantly increased customer confidence in using cards. Some initiatives taken recently are as under:

- To avoid inconvenience, the requirement of Additional Factor of Authentication for small value card present transactions was relaxed for customers making small value payments on contactless cards upto a maximum value of ₹2,000/- per transaction subject to certain conditions.
- Banks were also advised in the interest of customer awareness and protection to clearly explain to customers about the technology, its use, and risks while issuing such contact less cards; indicate the maximum liability devolving on the customer, if any, at the time of issuance of such cards along with the responsibility of the customer to report the loss of such cards to the bank; and to put in place robust mechanism for seamless reporting of lost/stolen cards, which can be accessed through multiple channels.
- To further put in place risk mitigation measures for customers using various types of cards, banks are advised that with effect from February 1, 2016 all new cards issued – debit and credit, domestic and international – by banks shall be EMV chip and pin based cards.

i) To alleviate the hardships faced by pensioners who are deprived of regular pension payments in case of misplacement of life certificates, all agency banks handling government pension payments were advised to issue a duly signed acknowledgement to pensioners on receipt of the life certificate submitted in physical form. Banks were also advised to promote the use of digital life certificates among pensioners, which would eliminate the need for physical presence at branches and issue of acknowledgement.

j) To ensure transparency in the promotional material and to build an enduring relationship with the customers, correlate a product brand name to the name of the entity/company authorised under the PSS Act, all authorised entities issuing payment products were advised that all the information available to the public regarding the product as advertisements, on website, application form, *etc.* should prominently carry the name of the entity/company authorised by RBI under the PSS Act.

k) Banks were advised to ensure that penal charges on non-maintenance of minimum balances in savings bank accounts are directly proportionate to the extent of shortfall observed, reasonable and not out of line with the average cost of providing the services that the balance in the savings account does not turn into negative balance solely on account of levy of charges for non-maintenance of minimum balance the bank should notify the customer clearly by SMS/email/letter *etc.* that in the event of the minimum balance not being restored in the account within a month from the date of notice, penal charges will be applicable. In case the minimum balance is not restored within a reasonable period, which shall not be less than one month from the date of notice of shortfall, penal charges may be recovered under intimation to the account holder.

l) To further boost the quality of customer service and to ensure that there is undivided attention to resolution of customer complaints in banks, all public sector banks and select private sector and foreign banks were advised to appoint an internal ombudsman thereby providing a forum available to bank customers for grievance redressal before they approach the Banking Ombudsman.

m) Apart from issuing instructions to banks, the Reserve Bank also issues cautionaries to members of the general public. We cautioned members of the public against an app (application) doing rounds on WhatsApp purportedly to facilitate checking of balance in customers' bank accounts.

n) The Reserve Bank of India also cautioned the public against Multi-level Marketing (MLM) activities explaining the functioning of these entities, and advising that falling prey to such offers can result in direct financial losses, apart from the fact that these are cognizable offences under the Prize Chit and Money Circulation (Banning) Act 1978.

Some Lingering Questions

16. I understand that in many a depositor's mind, several questions linger and they eagerly await the regulator's response. As I understand, it is not the answer they seek but the rationale and explanation for our actions and the so called 'inactions'. It is our duty to explain. Let me discuss some of these contemporary issues and questions.

Deposit Insurance

17. First issue that I want to discuss relates to deposit insurance. More specifically, the issue relating to increasing the limit on deposit insurance cover. Deposit Insurance protects depositors against the loss of their deposits in case a deposit institution is not able to meet its obligation to the insured depositors. In India, the commercial banks, Regional Rural Banks (RRBs), Local Area Banks (LABs) and co-operative banks are covered by deposit insurance. There has been a persistent demand from stakeholders and public representatives in the recent past for a hike in deposit insurance cover from the current level of ₹1 lakh. The Deposit Insurance Systems around the world have evolved over time by reforms adopted by various jurisdictions based on experience, international developments, guidance from supra national bodies like IMF, International Association of Deposit Insurers (IADI) and other environmental changes from time to time. One of the basic principles of deposit insurance is that the deposit insurance system should cover at least 80 per cent of the deposit accounts and 20 – 30 per cent of the total assessable deposits. In India, we have surpassed this norm in a substantial way; as on March 31, 2015, our DICGC's deposit insurance covers as high as 92.3 per cent of the deposit accounts and 31 per cent of the total assessable deposits.

18. Therefore, before deciding on this demand, we have to factor in two major issues *viz.*, the moral hazard issue and the risk based premium issue. Deposit insurance inherently creates a moral hazard *i.e.* the parties to the deposit insurance *viz.*, a bank and its insured depositors get an incentive to take more risk because the costs of risk, in whole or in part, are borne by others, generally a deposit insurance agency, in our case the Deposit Insurance and Credit Guarantee Corporation (DICGC). Most deposit insurance systems initially adopt an *ex-ante* flat-rate premium system because they are relatively simple to design, implement and administer. However, these systems were open to criticism in that they do not reflect the level of risk that banks pose to the deposit insurance system. Flat-rate premium systems have also been viewed as being unfair as 'low-risk' banks are required to pay the same premium as 'higher-risk' banks. With no inbuilt incentive for 'higher risk' banks to improve their risk profile, a flat rate system would accentuate the moral hazard problem. Therefore the primary objective of most differential premium systems has been to provide incentives for banks to avoid excessive risk taking, minimise moral hazard and introduce more fairness into the premium assessment process. Introducing fairness into the system bolsters industry support for deposit insurance. A hike in cover without calibrating the premium rates to the risk profile of the insured banks only exacerbates the moral hazard. Recognising

this, a Committee on Differential Premium System for Banks in India (Chairman: Shri Jasbir Singh) has been constituted by DICGC and has submitted its Report yesterday. We hope that introduction of Risk Based Premium system will make ground for considering raising the insurance cover from the present ceiling of ₹1 lakh.

Structure of Differentiated Banks and Consumer Protection

19. You have noticed that we have recently granted 'in principle' licenses to 11 entities to form Payments Banks in the country; and several of you nurture a vague feeling about how these differentiated banks will subserve consumers interests. I want to explain to you how we have carefully structured the regulatory arrangements of these banks from the perspective of consumer protection.

20. As you will recall, consequent to the discussion paper called 'Banking Structure in India – The Way Forward', brought out by the Reserve Bank in August 2013, and the recommendations of the Committee headed by Shri Nachiket Mor, on Comprehensive Financial Services for Small Businesses and Low-Income Households to look into the issues relating to financial inclusion, in November 2014 we announced our intention to grant licenses to two types of differentiated banks *viz.*, the Payments Banks and the Small Finance Banks.

21. The objective of setting up of Payments Banks will be to further financial inclusion; the strategies will be by providing (i) small savings accounts and (ii) payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users. The scope of the activities permitted for the Payment Banks included **a.** Acceptance of demand deposits. Payments Bank will initially be restricted to holding a maximum balance of ₹1 lakh per individual customer, **b.** Issuance of ATM/debit cards **c.** Payments and remittance services through various channels and some ancillary activities.

22. The deposits collected by them can be only in current or savings account; they cannot accept fixed deposits. The payments banks are prohibited from lending activity. They can deploy the deposits largely in government securities only; a small portion, upto 25 per cent of their deposits, can be held in deposits with other banks.

23. The consumer protection aspects of the design are as follows: The public deposits in the Payments Banks will be covered by the deposit insurance of the DICGC. As the deposit ceiling is ₹1 lakh and the deposit insurance ceiling is also ₹1 lakh, it means that the depositors of the Payments Banks will be fully insured. Actually, there were arguments why Payments Banks should be covered under deposit insurance, when their assets will be fully in high quality liquid assets of government securities and high credit bank accounts. Still, we concluded that such an assurance as deposit insurance is needed for the depositors of payments banks, as the concept is new and depositors will need additional confidence.

24. As the payments bank may operate in remote areas mostly through BCs, ATMs and other networks, the payments bank will be required to have at least 25 per cent of physical access points including BCs in rural centres. Further, we require that a controlling office for a cluster of access points should also be established for control over various outlets and customer grievance redressal. We have insisted that the bank should have a high powered Customer Grievances Cell to handle customer complaints. The payments banks will also come under the purview of the RBI's Banking Ombudsman Scheme, 2006.

25. Now, let me explain the arduous process we adopted for granting 'in principle' licence. I want to emphasise here that granting banking licenses is not a tick box exercise; it needs to be based on the high regulatory comfort about the 'fit and proper' position

of those who will manage the bank. Further, banks are high leverage organisations; and whose moneys they leverage? They actually leverage public deposits. Should we not require highest degree of assurance about the entities with whom public moneys can be entrusted? Will this not actually mean, as we said in our Guidelines, licenses shall be issued on a very selective basis. The licensing authority has to apply its mind and exercise judgment. To do this, we had multiple layers of checks so that the exercise is not arbitrary. Actually, we had five layers of assessment – the first round was the preliminary scrutiny by staff based on eligibility criteria, the second round was a detailed analysis of applications by staff after information collection, including from agencies, the third round by an external committee comprising people with high integrity and expertise, the fourth round by the internal committee, and the fifth round by the Committee of the Central Board of the Reserve Bank. We are convinced that our decision to adopt the cautious approach in licensing of payments banks in the initial years is very prudent and sound.

26. Another care that we have taken is to keep intact the difference between authorising financial service providers versus licensing financial product purveyors. The Financial Service Providers do not deal in the consumers' money; they only render broking, agency and/or advisory services to the consumers. Whereas, the financial product purveyors like the banks, mutual funds and insurance companies, actually receive moneys from the consumers and manage those moneys. This handling of public moneys need a totally different regulatory approach, as compared to handling of servicing the consumers through agency or advisory function. That is why the prudential regulations on the former are much more stringent than the conduct regulations on the latter. It clearly follows that while the liberal authorisations may be possible in the case of service providers, cautious authorisations will be needed in the case of authorisations of banks.

27. We have also announced that we will license Small Finance Banks, another new set of differentiated banks. The objective of setting up of small finance banks, like the payments banks, is also to further financial inclusion; however, it is sought to be achieved through a different set of strategies *viz.*, (i) provision of savings vehicles primarily to unserved and underserved sections of the population, and (ii) supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations. The small finance bank, in furtherance of the objectives for which it will be set up, shall primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganised sector entities. It can also undertake other non-risk sharing simple financial services activities, not requiring any commitment of own fund, such as distribution of mutual fund units, insurance products, pension products, *etc.*

28. The prudential guidelines for the Small Finance banks have been suitably tweaked. It will be required to extend 75 per cent of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL). The maximum loan size and investment limit exposure to a single and group obligor would be restricted to 10 per cent and 15 per cent of its capital funds, respectively. Further, in order to ensure that the bank extends loans primarily to small borrowers, at least 50 per cent of its loan portfolio should constitute loans and advances of upto ₹25 lakh.

29. Keeping customer protection requirement in view, we have prescribed that the Small Finance Banks should have high powered Customer Grievances Cell to handle customer complaints and the small finance banks will come under the purview of the RBI's Banking Ombudsman Scheme, 2006.

30. We have received 72 applications and are in the final stages of determining who all can be granted licenses. At the cost of repetition, I want to emphasise here also that granting banking licenses is not a tick box exercise; it needs to be based on the high regulatory comfort about the 'fit and proper' position of those who will manage the bank. The Small Finance Banks are also high leverage organisations, and we require highest degree of assurance about the entities with whom public moneys can be entrusted. Therefore, licences shall be issued on a very selective basis only; we will soon announce grant of licenses to the selected applicants.

Market Development and Customer Protection

31. As regulators we often face the dilemma of market development or market innovations versus customer protection. We are still a developing and emerging market; while in several respects we have reached international standards, there are still quite a sizable segments in the financial sector that needs development and innovations. Financial inclusion is a case in point. New ideas need to be encouraged; initial cost which will be typically high needs to be recovered; initial period risks and failures need adequate return and compensation. On the other hand, these compulsions will militate against consumer protection. As regulators, we recognise this dilemma. We did face this dilemma in recent years in the cases of micro finance institutions, the ATMs, credit and debit cards, the electronic fund transfer services like the RTGS and NEFT and even the cash services. We were convinced about the need for expansion of these services and conveniences; we understood the trade-offs between the charges for these services and the consumer interests. Our approach has been a gradual move from facilitating entrenchment of such developments and innovations by ensuring competition and choices for consumers to a fairer treatment of consumers and fair charges.

Life in Low Interest Rate Regime

32. Now, I would like to paint the scenario that will emerge in our country in the next few years and some preparations that all of us as savers should be undertaking. For a very long period, more specifically in our own living memory of the post-Independence era, India had been going through high inflationary period; of course, thankfully, we never had the hyper inflationary periods like in several African or South American countries; but certainly, our experience of inflation was in high single digits to teens and hence inflationary expectations were very well entrenched. Though we did experience low inflationary levels in some periods, we could not sustain it. For yet another time, we are now experiencing low levels of inflation and it is amply clear that this time around we will be able to sustain it for the years to come. Also, the monetary policy framework agreement that we have with the Government, prescribes that the objective of monetary policy will be to maintain the consumer inflation at four, plus or minus two per cent. This gives the necessary assurance and confidence to keep the inflationary expectations at bay. It is heartening to note that influential thinkers now worry about recession.

33. What does this low inflationary period entails for the savers? For one thing, they will realise that the real value of their savings is higher and remains preserved and protected. In periods of low inflation, the real value of money does not change much. However, they will find that the nominal interest rates that they receive will be low, as compared to the interest rates that they enjoyed during the high inflation period. After all, the simple formula for determining interest rate is:

Nominal Interest rate =
Real Interest rate + Rate of Inflation.

34. As the real interest rate in any economy will be more or less constant, the nominal interest rate is directly proportional to rate of inflation. Thus it will rise when rate of inflation increases and fall when the rate of inflation falls.

35. The uninformed may get worried; it may give rise to an illusion – more specifically in the minds of those who live on fixed interest income; as if their income levels have come down. It is not so; actually, their low nominal interest income will now command and fetch better goods and services, as the real value of their saving and incomes have been preserved.

36. As business and consumer confidence will be higher and better during low inflationary levels, savers will have higher appetite for risk taking. This will mean less reliance on pure fixed interest income; before investing, savers will weigh various financial products of capital market for appropriate risk-reward combination. Savers will increasingly need and seek the services of financial advisers and analysts to help them decide investments. This is the life we must all be prepared for.

Conclusion

37. To conclude, let me once again recall what 'the uncommon common man', Shri M R Pai espoused. In his words 'most Indians are ignorant of their rights and are therefore taken for a ride'. As regulators, we are conscious of this position and that is why we constantly pay our closer attention on financial consumer protection, more specifically the protection of the vulnerable, defenseless retail consumers.

38. Thank you very much for your patient attention.

*Asset Reconstruction and NPA Management in India**

R. Gandhi

Ladies and Gentlemen, Very Good Morning.

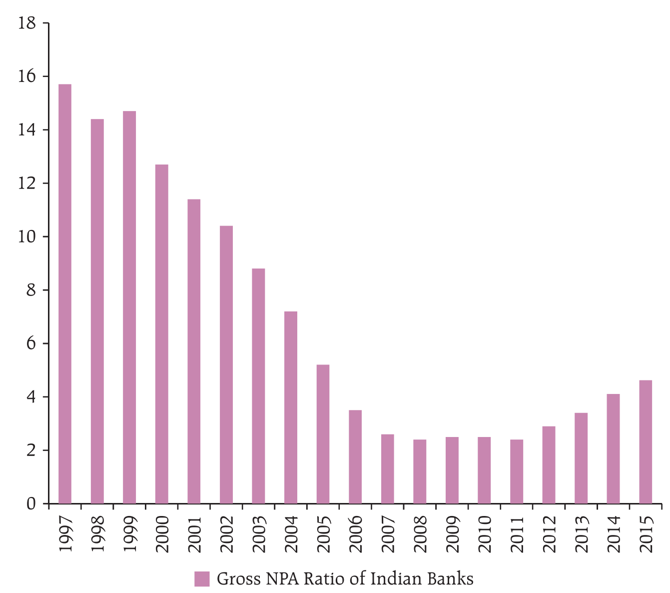
2. It is indeed a pleasure to be present here and interact with you on the important issue of management of non-performing assets in India. Such events are quite important especially when there is a surge in stressed assets in banking in the recent times.

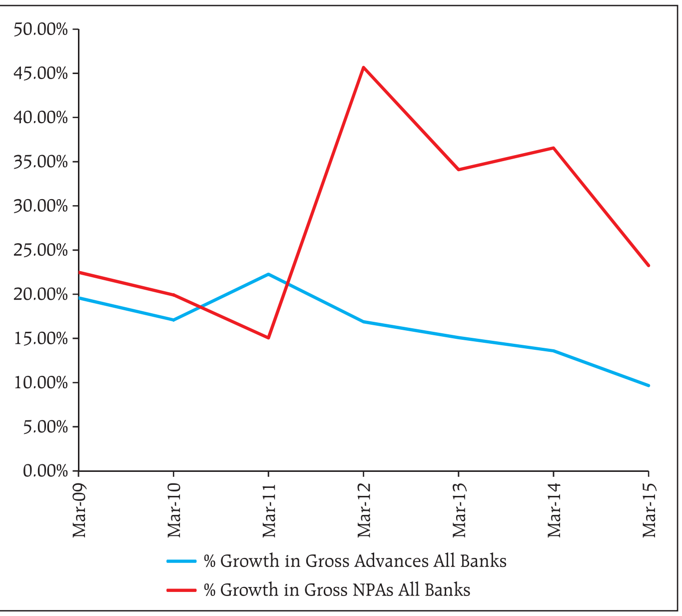
Current Position

3. However, if we look a little far back, the asset quality of the Indian banking system was not like this; it had actually been improving significantly since the implementation of reforms in the banking sector and introduction of prudential norms, enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002, Credit Information Companies Act, *etc.* The gross NPAs ratio steadily declined from 15.7 per cent in 1996-97 to 2.36 per cent in 2010-11. However, the amount of non-performing assets witnessed spurt subsequently and as on March 2015, it was at 4.62 per cent of the gross advances of the banks in comparison with 2.36 per cent of the gross advances as at March 2011. The growth in NPAs was much higher than the growth in advances during the last four years. In addition, the ratio of restructured standard assets to gross advances grew to 6.44 per cent as at the end of March 2015 from 5.87 per cent of gross advances as on March 2014. The total stressed assets (*i.e.*, NPAs plus Restructured Assets) as on March 2015 were 11.06 per cent of gross advances.

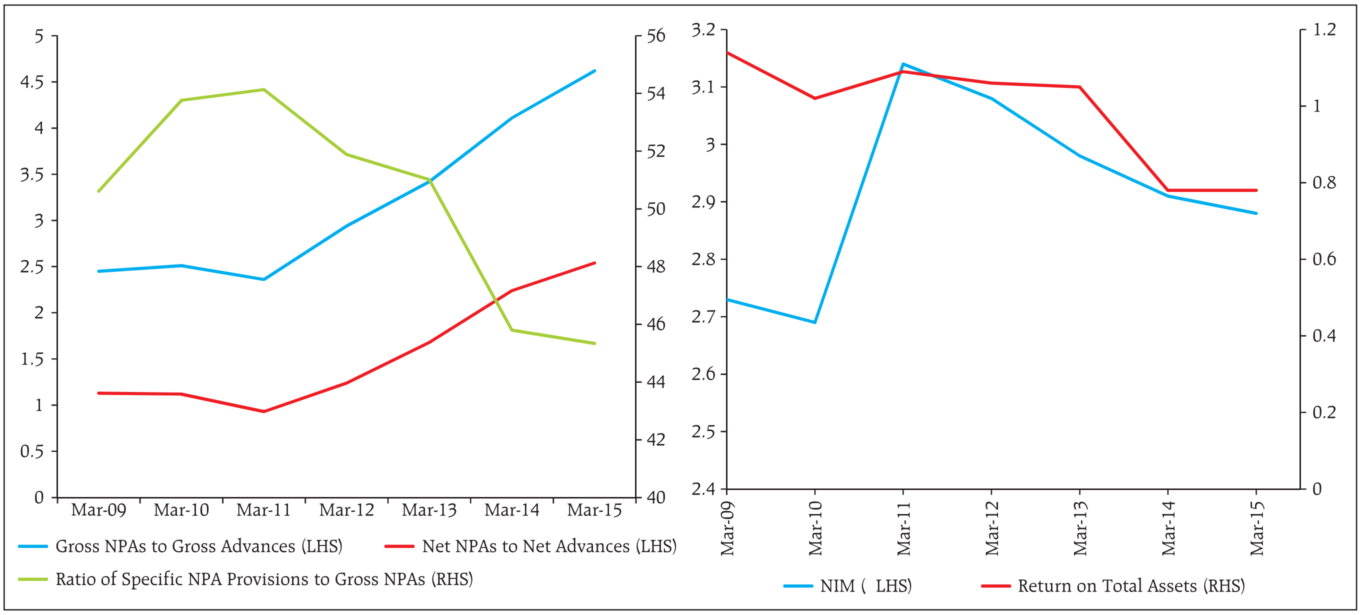
4. The sharp increase in stressed assets has adversely impacted the profitability of the banks. The annual return on assets has come down from 1.09 per cent during 2010-11 to 0.78 per cent during 2014-15. Considering the effect it has on both capital and liquidity position of the bank, there is an urgent need for banks to reduce their stressed assets and clean up their balance sheets lest they become a drag on the economy.

5. Managing asset quality is always very important and becomes a prominent objective especially during a period of economic downturn. Recognising the





* Keynote address delivered by Shri R. Gandhi, Deputy Governor, Reserve Bank of India at the The Economic Times ReModel in India – Asset Reconstruction & NPA Management Summit, Mumbai on Sep 15, 2015. Assistance provided by Shri A K Choudhary, Smt. Chandana Dasgupta and Shri B. Nethaji is gratefully acknowledged.



importance of effective asset quality management, Reserve Bank has issued various guidelines to banks, from time to time, on various aspects of asset quality management.

Preventive Management

6. Reserve Bank has advised banks that the management of credit risk should receive the top management's attention and the process should encompass:

a) Measurement of risk through credit rating/ scoring;

b) Quantifying the risk through estimating expected loan losses and unexpected loan losses;

c) Risk pricing on a scientific basis; and

d) Controlling the risk through effective Loan Review Mechanism and portfolio management.

7. Further, the Reserve Bank has also advised the banks to put in place a robust credit risk management system which is sensitive and responsive to various factors affecting credit risk. The guidelines entail involvement of top Management, including the Board of Directors of the bank in actively managing the credit risk of the banks. Banks are required to put in place proactive credit risk management practices like annual/ half-yearly industry studies and individual obligor reviews, credit audit which entails periodic credit calls that are documented, periodic visits of plant and business site, and at least quarterly management reviews of troubled exposures/weak credits.

Recent Regulatory Initiatives

8. Recently, In January 2014, the Reserve Bank of India had released a comprehensive 'Framework for Revitalising Distressed Assets in the Economy'. The Framework outlines a corrective action plan that will incentivise early identification of problem cases, timely restructuring of accounts which are considered to be viable, and taking prompt steps by banks for recovery or sale of unviable accounts. In addition, to address the issue of information asymmetry as also to identify the problem early, a Central Repository of Information on Large Credits (CRILC) to collect, store, and disseminate credit data to lenders, was set up. Under this arrangement, banks are reporting credit information, including classification of an account as SMA to CRILC on all their borrowers having aggregate fund-based and non-fund based exposure of ₹50 million and above with them.

9. While having a proper credit risk management is very important for managing asset quality, another issue which is equally important is proper structuring of the credit facilities extended to various borrowers. While granting credit facilities, banks should set realistic repayment schedules on the basis of a proper analysis of cash flows of the borrowers. This would go a long way to facilitate prompt repayment by the borrowers and thus improve the record of recovery in advances. A 'one size fits all' approach and providing plain vanilla loans to all clients may not be in the interest of banks as well as its customers.

10. In order to effect a structural change in the way project loans are granted by banks, and considering the need to facilitate banks to offer long term project financing, which may ensure long term viability of infrastructure and core industries sector projects by smoothening the cash flow stress in initial years of such projects, the Reserve Bank has issued guidelines on flexible structuring of long term project loans with periodic refinancing option. The Reserve Bank has also introduced the concept of 'standby credit facility' to fund cost overruns in projects. Such 'standby credit facilities' are sanctioned at the time of initial financial closure; but disbursed only when there is a cost overrun. At the time of initial credit assessment of borrowers/project itself, such cost overruns are assessed, agreed to be disbursed in the eventuality of cost over runs, and the Debt Equity Ratio, Debt Service Coverage Ratio, Fixed Asset Coverage Ratio, *etc.* are determined accordingly. Thus, there may not be any need for the borrower to approach the banks at a later stage for additional finance.

Restructure/Rehabilitation

11. However, despite proper credit appraisal and proper structuring of loans, slippages in the asset quality may not be unavoidable, especially when the economic cycles turn worse. Hence, once a weak account is identified, banks need to consider various remedial actions. One of the remedial options is restructuring. In spite of their best efforts and intentions, sometimes borrowers find themselves in financial difficulty because of factors beyond their control and also due to certain internal reasons. For the revival of the viable entities as well as for the safety of the money lent by the banks, timely support through restructuring in genuine cases is called for. The objective of restructuring is to preserve the economic value of viable entities that are affected by certain internal and external factors and minimise the losses to the creditors and other stakeholders.

12. Such support to borrowers who are in temporary financial difficulties need not be contingent upon retention of asset classification status as 'standard'. There is a tendency among banks to withdraw their support once an account is classified as NPA. Mere classification of an account as non-performing asset need not result in withdrawal of support to viable borrowal accounts. The purpose of asset classification and provisioning is to present a true picture of bank's balance sheet and not to stigmatise accounts/borrowers. However, while considering their support to accounts under stress, banks should make proper distinction between willful – defaulters/non-cooperative/ unscrupulous borrowers on the one hand, and on the other hand, borrowers defaulting on their debt obligations due to circumstances beyond their control.

13. As you may be aware, the Reserve Bank has withdrawn special asset classification benefits available to restructuring of assets with effect from April 1, 2015 to align our norms on restructuring with international best practices. Subsequent to that there is a sudden drop in the assets being 'restructured' and it seems that banks have become very choosy in restructuring loans to borrowers who are under stress. One of the reasons cited for drop in restructuring of assets is that 'banks have no incentive in restructuring'. We feel that decision of the banks in restructuring should be driven by their motivation to revive an account which is under temporary financial difficulties and preservation of the economic value of viable entities in the interest of both the creditors and borrowers, rather than merely

concentrating on asset classification and provisioning benefits.

Recovery/Exit

14. As a first step towards effective recovery/exit framework from accounts which are beyond revival, banks should have a well -defined loan recovery policy which sets down the manner of recovery of dues depending upon the circumstances of each account. Banks may resort to either opt for legal avenues or non-legal avenues for exiting the account. Banks may enter into compromise settlements in terms of their Board approved policy for compromise settlement of NPAs. However, adequate care should be taken to ensure that the compromise settlements are done in a fair and transparent manner. Banks may also sell their NPAs to other banks (which happens outside the SARFAESI Act). There are a few banks which have better recovery expertise and we have seen instances of them purchasing NPAs from other banks.

15. In the event of failure of the above mentioned measures, banks could resort to filing suits with Debt Recovery Tribunals or invoke the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. An alternate option to enforcement of security interest is that of selling the NPAs to securitisation companies/ reconstruction companies (SCs/RCs) registered under the SARFAESI Act. SCs/RCs are expected to do a specialised task of recovering and reconstructing the NPAs thereby reducing the NPAs in the system. The purpose of creation of SCs/RCs was to resolve NPAs of banking system by using their expertise.

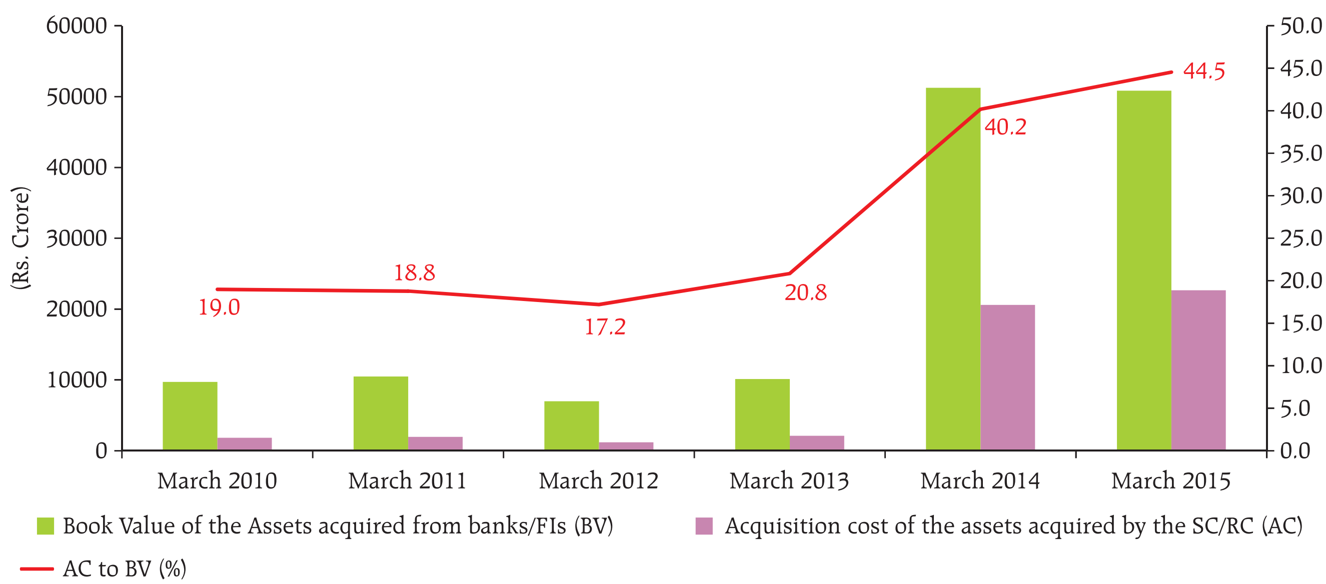
Asset Reconstruction Companies

16. As on date 15 SCs/RCs are registered with the Reserve Bank. Sale of NPAs to SCs/RCs which was relatively sporadic has picked up substantially during the last two financial years.

17. However, only a few of them appear to be successful in acquiring assets from banks. Of 15 registered SCs/RCs, asset size in respect of top three SCs/RCs (*viz.*, ARCIL, 'JM Financial' and 'Edelweiss') account for more than two thirds of total assets of all SCs/RCs.

18. An analysis of purchase of NPAs by SCs/RCs indicate that acquisition cost as a percentage to book value of assets increased sharply from 20.8 per cent as on March 2013 to 44.5 per cent as on March 2015. In

Chart 3: Trends in Assets Acquired and Acquisition Cost



other words, the discount rate at which SCs/RCs are acquiring NPAs from the banks/FIs decreased considerably, possibly on account of (i) developing of improved NPA recovery methods by banks (ii) selling of relatively fresh NPAs (iii) outsourcing the valuation of NPAs (iv) presence of competition among SCs/RCs while auctioning NPAs.

19. On the recovery side, the performance is not very encouraging. As on March 31, 2015, the average recovery rate (assets resolved as a per cent to assets acquired) of SCs/RCs was at 31.0 per cent. One of the reasons for a dip in the average recovery rate is due to the fact that substantial part of the assets under management of SCs/RCs is acquired recently. Further, a wide variation in recovery rates among SCs/RCs is also observed for the same reason.

20. An analysis of investor class in security receipts (SRs) does not depict any divergence. It is observed that seller banks/FIs have been subscribing majority of SRs. On an average seller banks/FIs have been subscribing 74 per cent of total SRs issued during the period March 2010 to March 2015. In past two years, seller banks subscribed around 80 per cent of total SRs.

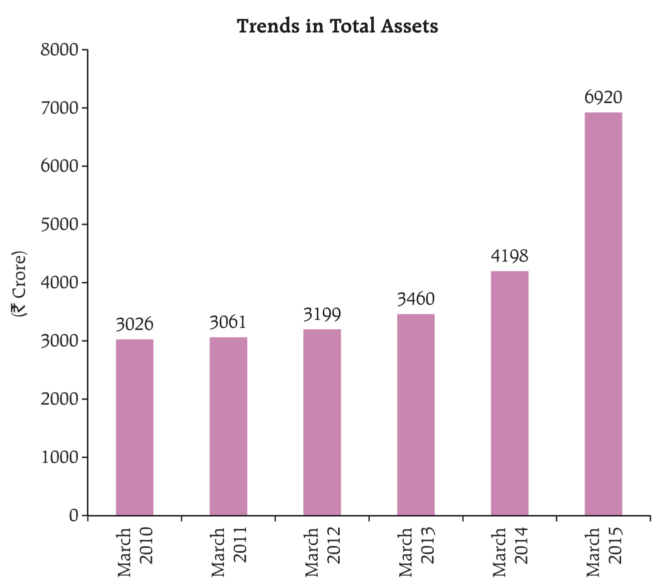
21. The aggregate asset size of SCs/RCs witnessed sharp growth of 64.8 per cent during 2014-15 on top of 21.3 per cent growth witnessed in the previous year. In numerical terms, aggregate asset size of SCs/RCs stood at ₹6920 crore as on March 31, 2015. The reported average Return on Assets of SCs/RCs was at 3.48 per cent while the average Return on Equity stood at 4.48 per cent during the period March 2010 to March 2014.

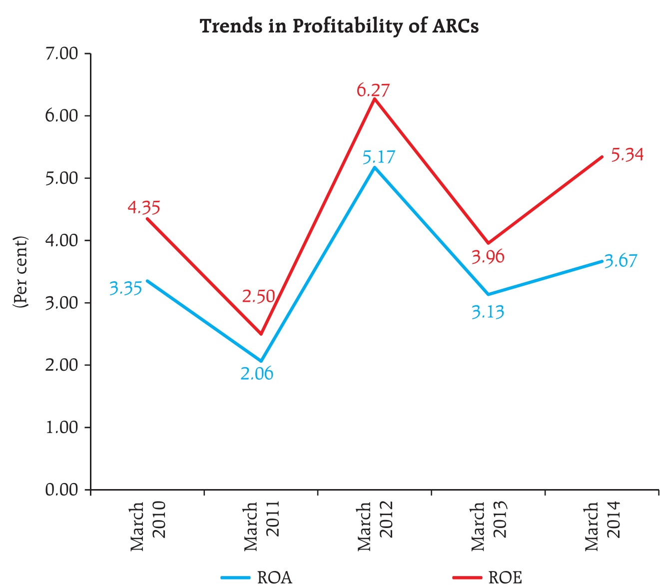
Subscription of Security Receipts – By Institution

(per cent to Total SRs)

Item	March 2010	March 2011	March 2012	March 2013	March 2014	March 2015
SRs held by SCs/RCs in its own account	21.2	21.0	21.4	24.0	15.0	14.4
SRs issued to other QIBs	5.5	7.3	8.8	8.6	4.7	3.5
SRs held by Seller banks/FIs	73.3	71.4	69.4	66.8	80.0	82.0
SRs held by FIIs	0.0	0.2	0.4	0.5	0.3	0.2
Total	100	100	100	100	100	100

22. The RBI has recently taken various steps to improve the system's ability to deal with distressed assets of banks and financial institutions. The Reserve Bank has issued various guidelines relating to the operations of SCs/RCs as also to make transactions between them and banks more transparent. These guidelines were further strengthened with floors on





transaction prices and prevention of collusions with promoters in buy back deals. The modified guidelines mandated SCs/RCs to have an increased skin in the game by making it compulsory for them to invest and hold minimum 15 per cent (as against 5 per cent hitherto) of the security receipts issued by them.

23. In order to promote the business of asset reconstruction in India, foreign direct investment cap on SCs/RCs has been increased from 49 per cent to 74 per cent under the automatic route. While foreign institutional investors have also been allowed to participate in the equity of the SCs/RCs, the maximum shareholding by FIIs cannot exceed 10 per cent of the paid up capital of the SC/RC. With a view to facilitate debt consolidation, SCs/RCs are now permitted to acquire debt from other SCs/RCs. SCs/RCs have also been permitted to convert a portion of the debt into shares of the borrower company as a measure of asset reconstruction. Consent threshold for security enforcement actions has been brought down to 60 per cent of the amount outstanding to a borrower as against 75 per cent hitherto. SCs/RCs with acquired assets in excess of ₹500 crore can float a fund under a scheme and utilise upto 25 per cent of funds raised from the qualified institutional buyers for restructuring of financial assets acquired. Promoters of the defaulting company/borrowers or guarantors are allowed to buy back their assets from the SCs/RCs subject to certain conditions that are helpful in the resolution process and minimisation of cost. Guidelines on Uniform Accounting Standards for SCs/RCs has been issued for reckoning Acquisition cost, Revenue Recognition, Valuation of SRs, *etc.* to induce transparency in the books of SCs/RCs. Norms for calculation of management fee has also been rationalised. Management fee will now have to be based on the net asset value of the SRs rather than the outstanding SRs issued.

24. With these regulatory changes, SCs/RCs will need to focus on actual redeeming of security receipts as it is no longer possible for them to base their profit model on the basis of management fees. In the near term, SCs/RCs may find it difficult to align their pricing to the expectations of the selling banks and the selling banks also may not have yet reconciled to a realistic sale price expectation for the assets that they want to offload, resulting in the reduction in sales. The rationale behind these regulatory changes was to incentivise the process of recoveries/restructuring, as net asset values of SRs is calculated on the basis of the likely rate of recovery of stressed assets.

25. The RBI has also advised that the banks using auction process for sale of NPAs to ARCs should be more transparent, including disclosure of the Reserve Price specifying clauses for non-acceptance of bids, *etc.* If a bid received is above the Reserve Price and also fulfils the other conditions specified, acceptance of that bid would be mandatory.

26. It is expected that these amendments to the regulations will improve recovery prospect for SCs/RCs. Membership of Joint Lenders' Forum (JLF), lower threshold for consent to enforce the SARFAESI Act, more time set to conduct due diligence and greater disclosures will enhance transparency and lead to better resolution of NPAs. It would also result in lower vintage of NPAs being sold by banks and quicker debt aggregation.

NPA Management – New Thoughts

27. Let me now share with you some of the thoughts we have been discussing on NPA management.

Enhancing Credit Appraisal Capacity

28. One of the fundamental issues that hampers NPA Management is the inadequacies in the credit appraisal capacity of banks, more specifically on project appraisal. As we know, there is just one technical consultancy firm, besides some specific desks in some banks. With the requirement of independent evaluation for JLFs and the number of JLFs, there is a crying need for emergence of additional technical capabilities to undertake evaluation of projects, restructuring schemes, *etc.* Banks will have to strengthen their in-house desks as well. Reserve Bank through the Centre for Advanced Financial Research and Learning has taken

initiative to organise capacity building program for bankers.

Number of members in a consortium

29. Another suggestion that has come relates to limiting the number of banks and financial institutions that should be permitted in a consortium or even in a multiple banking arrangement. It is said that the banks with very meagre share neither have incentives nor inclination to independently assess the proposal and they typically and blindly go by one that has bigger share. Even if the bank has in-house technical capabilities, with a small share it's voice is not strong enough. Therefore, the suggestion is to have a regulatory limit on the number of members in a consortium or multiple banking arrangements so that every member has at least 10 per cent of the exposure and therefore will have serious independent credit appraisal and credit monitoring. There are counter views about this suggestion, especially with regard to the freedom to be available for a bank or borrower to take the commercial decision on a loan.

Ready List of Management and Technical Experts/ Specialists

30. Yet another suggestion is to prepare a ready list of management and technical experts and specialists whose services can be availed by banks, financial institutions or the asset reconstruction companies whenever the JLFs decide to change the management under a CAP. Perhaps IBA can prepare and update such a ready list.

31. All these suggestions need further exploration and discussion before we take a final view.

Issues faced by SCs/RCs

Capital

32. There is no denying the fact that SCs/RCs need capital and that too on continuing basis to be able to grow and be meaningful players in the sector while avenues of raising capital is limited. The networth of 15 ARCs is only around ₹4000 crore whereas stressed assets in the system run into lakhs of crore. The industry being a capital intensive one, SCs/RCs are struggling to raise capital. Deep-pocket investors are interested in the business but cautious on account of slow pace of judicial and administrative environment. While there is limited appetite among the existing sponsors and shareholders, the limit of 50 per cent on individual shareholding and the stipulation that the sponsor should not have any controlling interest in the SCs/RCs (as stipulated by the SARFAESI Act) are proving to be stumbling blocks in this regard. However, it needs to be mentioned here that it would not be an easy option for SCs/RCs to raise funds through IPO for the reason that while on the one hand, there is an apparent lack of investor appetite in the domestic MARKET in the distressed space, the performance of SCs/RCs has, so far, remained dismal for a variety of reasons and this may prove to be a road block. SCs/RCs that can raise capital in a timely manner will be better positioned to play an active role in the field. SCs/RCs need to explore more in this regard especially through FDI route. There has also been a demand from the industry that subordinated debts like loans from the sponsors should be designated as Tier II capital and should be taken into account while calculating the capital adequacy of the SCs/RCs.

Pricing of NPAs

33. The other important issue is pricing of NPAs. Currently there is no meeting point between price expectation of sellers and bid price by SCs/RCs, which is also evident from the low success rate of auctions. This also proves to be a hindrance while bringing in more investors willing to invest in the SRs being issued by the SCs/RCs to raise funds for acquisition of NPAs. Investors in stressed asset portfolios expect high returns, based on high-risk, high-reward principle which SCs/RCs find impossible to offer if the assets being acquired are not realistically priced. Equilibrium in offer and bid prices is essential for revival of the NPA market. This issue is best resolved by market forces and participants. Indian Banks Association in

consultation with Association of Asset Reconstruction Companies may draw contours of mutually acceptable methodology for reserve price valuation. Discovery of fair price for NPAs may definitely help in more deals going through auctions and also generate interest from secondary investors like distress asset funds which can participate via SCs/RCs.

Need of Secondary Market for SRs

34. In the absence of third party investor money which is an automatic fall-out of a virtually non-existent secondary market, the bank that sells NPAs doubles up as investor in SRs. A meaningful solution would have been to delink investment in security receipts from only a select group of qualified institutional buyers (QIBs) (as mandated under the SARFAESI Act) and throwing it open for all institutional players in debt trading. Further, as pointed out by the SCs/RCs, in terms of Guidelines issued by SEBI, High Networth Individuals (HNIs) are already allowed to participate in the SR market as Alternate Investment Funds (AIFs) have been notified as QIBs, eligible for investment in SRs issued by SCs/RCs. One possibility is that they may be allowed to participate directly in the SR market, as they have necessary risk capital and risk appetite. This measure may help widen investor base and infuse greater depth to the secondary market for SRs. An active secondary market for SRs will attract special situations funds and QIBs to this market. The Reserve Bank has already suggested to the Government of India that Section 7 of the SARFAESI Act may be amended by giving power to RBI to specify the category of the investors from time to time in consultation with SEBI.

Debt Aggregation

35. While sale of NPAs by banks depend on various factors like security package available, best price, *etc.*, and therefore many times sale with respect to debt of a single borrower to a single SCs/RCs may not be possible, sale of entire debt of one borrower to single SC/RC would help in effective and efficient resolution. Piece meal sale of an asset particularly with turn around potential by different lenders defeats the purpose itself as it results not only in delays but also pricing hiccups and derails resolution process. Alternatively, SCs/RCs may also need to evolve mechanism to coordinate in successful resolution of those assets, in the best interest of all stake holders.

Judicial delays

36. An important factor affecting recovery performance of SCs/RCs is the delay in judicial process: be it under SARFAESI Act or at the level of debt recovery tribunals. A fast and efficient judicial system is a *sine qua non* for effective resolution of NPAs. Realising the importance of having a strong bankruptcy framework in improving the ease of doing business, Government of India has constituted a Bankruptcy Law Reforms Committee to study the corporate bankruptcy legal framework in India. The Committee has submitted an Interim Report in February 2015 for immediate action and its final report is expected to be submitted within 12 months, recommending a Bankruptcy Code. The Reserve Bank expects that recommendations of the Committee, when implemented, would result in significant improvement in the bankruptcy framework of the country and enable banks/SCs/RCs to resolve their stressed assets in an effective manner.

Conclusion

37. I am sure that with the efforts of the Government in bringing in a strong bankruptcy framework and various regulatory initiatives being taken by the Reserve Bank of India, the effectiveness of the SCs/RCs would improve to a great extent. At the same time, I hope that the market participants iron out the frictions which are best resolved among themselves, without looking for regulatory solutions to such issues.

38. I find that you have a technical sessions on regulatory limitations on unlocking the potentials of NPAs, solutions for managing NPAs and even preventive measures. I wish the event a great success and will look forward to receive your considered suggestions and comments.

39. Thank you very much for your patient attention.

*Financing India's Growth – Challenges and Way Ahead**

S. S. Mundra

Shri Yaduvendra Mathur, Chairman & Managing Director, Export Import Bank of India; Shri Sunil Srivastava, Dy Managing Director, State Bank of India; Shri Alok Shriram, President , PHD Chamber of Commerce and Industry (PHDCCI); Shri Sanjeev Gupta, Chairman, Banking Committee, PHDCCI; delegates to the Summit; members of the print and electronic media; ladies and gentlemen! I am grateful to the PHD Chamber for inviting me to deliver the keynote address on a very important theme 'Financing India's Growth- Way forward'. I am happy to note the efforts being made by the PHD Chamber for promotion of industry, trade and entrepreneurship through its research-based policy advocacy role. The Summit today, I feel, is an important step in that journey. I also understand that the PHD Chamber and CRISIL have combined to prepare a knowledge report highlighting key issues essential for financing India's growth and I compliment them for their efforts. I trust that the recommendations made therein would positively impact the economic growth and development of the country.

2. In my address today, I intend to talk about India's growth potential, suitable model for India's growth, key challenges that undermine the achievement of the potential growth rate and the way forward in overcoming these challenges. Let me; however, begin with an overview of the global economic situation and where India stands at present.

* Keynote Address delivered by Shri S. S. Mundra, Deputy Governor, Reserve Bank of India at a Summit on 'Financing India's Growth – Way forward' organised by PHDCCI at New Delhi on September 9, 2015.

Global Overview

3. The global economy is presently dominated by four themes- the Chinese slowdown, the impending rate hike by the US Federal Reserve, the large-scale slump in global commodity prices, especially oil and the continued sluggishness in the economic recovery. Looking at the Advanced Economies (AEs), growth is virtually stagnant in Japan at 0.8 per cent while the Continental Europe is slated to report only marginally higher growth at 1.5 per cent during 2015. The recovery in North America, including in the USA is modest and the UK is likely to witness a modest 2.4 per cent growth during 2015.

4. The emerging and developing economies (EMDEs) have also been witnessing significant slowdown in growth. China's growth rate is likely to fall to 6.8 per cent from 7.4 per cent, while that for Russia (-3.4 per cent from 0.6 per cent) and Brazil (-1.5 per cent from 0.1 per cent) are set to go into negative territory in view of recessionary pressures. Of the other BRICS nations, South Africa is estimated to grow higher at 2.1 per cent up from 1.5 per cent. Against this backdrop of negative to modest positive growth rates for the large economic powerhouses and major EMDEs, India's economy is poised to grow at 7.6 per cent with potential for even higher growth rates. The outlook for growth in India is improving gradually. The business confidence remains strong and as the initiatives taken by the Union Government begin to find traction, it is expected that private investment and consumer sentiment would revive. We in the RBI firmly believe that moderate inflation is essential to ensure and sustain a higher trajectory of growth. That brings us to the question '**what is our growth potential?**'

India's Growth Potential

5. This question has been a subject of active debate in the academic and policy research circles. Literatures/ research papers have put varying estimates of the country's potential growth rate notwithstanding the methodological issues surrounding the estimation of potential output, leading to considerable uncertainty. There is, however, a fair degree of unanimity that the Indian economy is currently growing below its potential and closing this negative output gap (*i.e.*, actual growth minus potential growth) has to be a priority.

6. What is holding India back in attaining its potential higher growth rate? Since the conference theme is 'Financing India's growth – Way Forward', I would like to start with a basic question: **Is availability of finance constraining growth?** Financial sector is meant to sub-serve the needs of the real economy and cannot drive growth by itself. We have seen the pitfalls of the financial economy racing ahead of the real economy in the form of the Global Financial Crisis. I would argue that availability of finance, so far, has been a much smaller problem and it is more on account of structural problems that the rate of growth has not achieved its potential levels. It is contextual to mention here that as per World Bank's 'Doing Business 2015' report, while as a country we languished at 142nd rank amongst 189 countries in the overall ranking; on the parameter of ease of 'Getting Credit', we faired comparatively much better at 36th position.

7. As we deliberate on ways of financing India's growth, let me place some pertinent points for further reflections and begin with talking about what should be our growth model.

What kind of growth do we want?

8. The growth model that we should pursue has also been a subject of great debate amongst the policy makers. Should it be a manufacturing driven, export-led growth, should it be infrastructure led growth or one driven by domestic consumption? In fact, all models have their respective pluses and minuses. We have the examples of current Chinese meltdown and the Asian Financial Crisis of late 90s which, in part, resulted from heavy investment in infrastructure creation which ceases to provide positive returns beyond a point or too much reliance on export-led growth. Perhaps, we might want an equitable mix of all – growth led by increase in domestic consumption, investment in infrastructure and manufacturing. I believe we are well past a period when we could focus exclusively on being a world manufacturing hub for driving growth. To my mind, we would do well to aspire for a growth model which predominantly focuses at domestic manufacturing and global service delivery, which would be much more sustainable. It is also essential to realise that growth can be sustainable only if it is inclusive in nature and outlook. The *inter se* disparities or skewness in development between regions, communities *etc.*, is neither desirable nor good for the society.

Key Challenges to growth

9. Having discussed about the potential growth rate for India and the model of growth that we would like to pursue, let me highlight some key challenges to achievement of the potential growth rate. Although there are also certain socio-political reasons for slower growth, from an economic stand point, I feel following are some of the major challenges:

a. Lack of investment in infrastructure- both physical and financial

b. High level of Financial Exclusion

c. Skill gap, which has implications for employability

d. Decline in Gross Capital Formation & dwindling domestic savings rate

What needs to be done?

10. Government as well as the RBI have been mindful of these challenges and have been taking steps to overcome them in a sustainable manner. It is also worth emphasizing here that there needs to be a fine balance struck between promoting investment in 'capital intensive' and 'labour intensive' companies, whether in industry or in service segments. This is necessary keeping in view the sheer number of educated workforce in the country. Over a period of time we have witnessed contribution of the service sector go up significantly to around 57 per cent of the GDP. The recent growth in output in the services sector can largely be attributed to rapid development of skill intensive services like Information Technology (IT) and IT enabled Services (ITeS) sectors, e-commerce and professional service segments, mostly oriented towards the external market. There are questions raised about the quality and sustainability of this service-sector growth as also its potential for future growth. However, I believe that the Government's thrust on digital India and skill development will continue to support expansion of both: modern services like e-commerce, communication and finance as also more traditional services like trade, transport and storage, *etc.*

Urban Migration

11. A crucial piece of the growth continuum would emerge from continued migration of people to urban areas. This would fuel demand for housing, transportation, electricity, education, healthcare facilities, *etc.* Governments/Municipal bodies would also need to invest in creation of roads, sewage systems, water supply facilities, *etc.* While focus on impending urbanisation is critical, the rural economy should continue to remain an area of focus as more than 60 per cent people would continue to live in rural areas.

Focus on Rural Economy and Financial Inclusion

12. Income levels in the rural areas could be improved through land reforms like consolidation of fragmented landholdings, which in turn can support modern harvesting methods, and training the rural people for undertaking non-farm activities. Efforts to enhance the credit absorption capacity must be supplemented through financial literacy, vocational training initiatives and an efficient crop insurance framework.

13. The RBI has for long been focused on inclusive growth through policies like selective credit control, priority sector lending norms, lending to weaker sections of the society, service area approach and through the financial inclusion drive in recent past; details of which are well too known to this audience. The RBI's policies on expansion of branch network in rural and semi-urban centers have also been part of this initiative. There is a need now to leverage upon these efforts to channelise savings and deploy them for productive asset creation. The two newly licensed full-service banks, eleven payment banks and soon to

be licensed small finance banks, would provide further impetus to accessibility of finance and render the credit intermediation process more efficient, thereby contributing to a sustainable and inclusive growth.

Focus on SME financing – a key driver for future

14. While on the subject of inclusive growth, it is pertinent to talk about the MSME sector, which has the potential to foster strong growth by creating local demand and driving consumption. Presently, MSMEs contribute nearly 8 per cent of the country's GDP, 45 per cent of the manufacturing output and 40 per cent of the exports. They provide the largest share of employment after agriculture and are nurseries for entrepreneurship and innovation. Acknowledging the importance of the sector to economic growth, both-Government of India as well as the RBI have been taking measures to enhance flow of credit to the sector. On its part, the RBI has launched several initiatives in this regard. To specifically address the issue of delayed payments to the MSME sector, TReDS has been conceptualised as an authorised electronic platform to facilitate discounting of invoices/bills of exchange of MSMEs. On the other hand, as part of capacity building of MSME divisions in banks and to develop entrepreneurial sensitivity, the RBI has recently launched targeted training programmes for the functionaries in commercial banks. Government of India has also recently laid out a framework for revival and rehabilitation of MSM enterprises. The other initiatives of Government of India *i.e.,* 'Make in India', 'Skill India Mission' and 'Digital India' also ties in neatly to provide further push to the sector.

Role of banks in financing growth

15. Traditionally, like other emerging markets, Indian economy has been bank-dominated. So whether it is for project development, or working capital needs of the corporates, banks have been the primary source of credit. Though primarily banks are supposed to undertake maturity and liquidity transformations, there are limitations on the extent of asset-liability mismatches they can run on their books. The large scale distress being witnessed in banks' infrastructure portfolio also raises issues about their ability to critically appraise such projects. The typical role for the banks in mature markets is to originate loans and then distribute to other willing players in the market. They predominantly undertake working capital finance and provide structured financial solutions to their clients. They also act as market makers for various financial sector products. With the gradual widening and deepening of our financial markets, it would be fair to expect our banks to also gradually shift their focus to SME and retail clients while leaving the long-term resource contribution to other players including pension funds/insurance companies which have long-duration liabilities on their balance sheets.

16. There is another factor relevant in this context. While the banks' ability to dispense credit depends upon their capital position, they are also guided by the viability of the projects to be funded. Risk aversion stemming from stress in financial assets has been one of the reasons for restrained bank credit growth in recent times.

Have borrowers been meeting their obligations?

17. I have raised the issue of borrowers' obligations on many occasions and at the cost of repeating myself, I would like to emphasise the point once more. While the quest to grow is understandable, the borrowers cannot exclusively rely on bank funds to finance this growth, without committing their own funds. The

labyrinthine maze through which several large infrastructure projects have been funded point to extremely low or negligible levels of equity contributions leading to extremely high levels of leverage and virtually no skin in the game for the promoters. There is a very visible pattern here. The last few years' growth was largely on account of Infra projects. These projects were launched by a handful of promoters with thin equity as I alluded to earlier. I suspect that this small group has run out of even such thin level of equity to contribute their fair share for revival of the stalled projects, not to talk about commissioning of new projects. So, it should be obvious to everyone that if momentum has to continue then they have to either find fresh equity on their own or make way for others who can contribute such equity both for the existing projects and also for new ones.

18. It is also pertinent to mention here that the present legal system does not facilitate an easy closure/takeover of unviable firms. In order to overcome such problems and to salvage value in firms in distress, it is imperative to take measures for an early enactment of a Bankruptcy Code. Creation of a central authority for resolution of financial firms in distress also needs an early finalisation.

19. High levels of debt accumulation by corporates has been encouraged in part by the availability of low-cost, abundant and flexible debt, facilitated by the search-for-yield environment created by the extraordinary policy measures undertaken in the US, UK, euro area and Japan. Several corporates have increased leverage, by borrowing in both foreign and domestic currencies. As corporates, you have to be mindful of global uncertainty, which is a given. The interconnectedness of markets lends itself to volatility. The entities with significantly higher unhedged forex borrowings are most likely to face maximum distress.

Governance reforms

20. India would continue to need external capital for growth and hence, we must create conducive environment for boosting investor confidence, which includes stable, efficient and predictable legal, taxation and audit framework along with credible credit rating regimes, amongst others.

Conclusion

21. I shall conclude by reiterating a few points I made earlier. Persistently weak economic conditions in the global and domestic markets have perhaps been the single most important reason for moderate growth in recent times rather than availability of finance for productive purposes. Going forward also, availability of finance should not be a constraint considering India's attractiveness as a major investment destination for global investor community. However, the path to a potentially higher and sustainable growth is essentially through higher savings and infrastructure investment, which needs to be ably supported by an environment of macroeconomic and financial stability. It is essential, therefore, to sustain the momentum of gradual economic reforms which I alluded to earlier. Both, the RBI and the Government would have to collectively work towards creating the necessary enablers for growth like moderate inflation, stable exchange rate, fiscal consolidation, predictable legal/taxation and auditing regime. Early resolution of the impasse on land acquisition, enactment of GST and bankruptcy code would also provide strong leg up to

investment climate in the country and drive up growth. Strengthening the pace of financial inclusion and financial literacy, more efficient and better-directed public spending, particularly on the social sector (education and health) and skill-development would be equally significant steps towards this goal.

Thank you!

ARTICLES

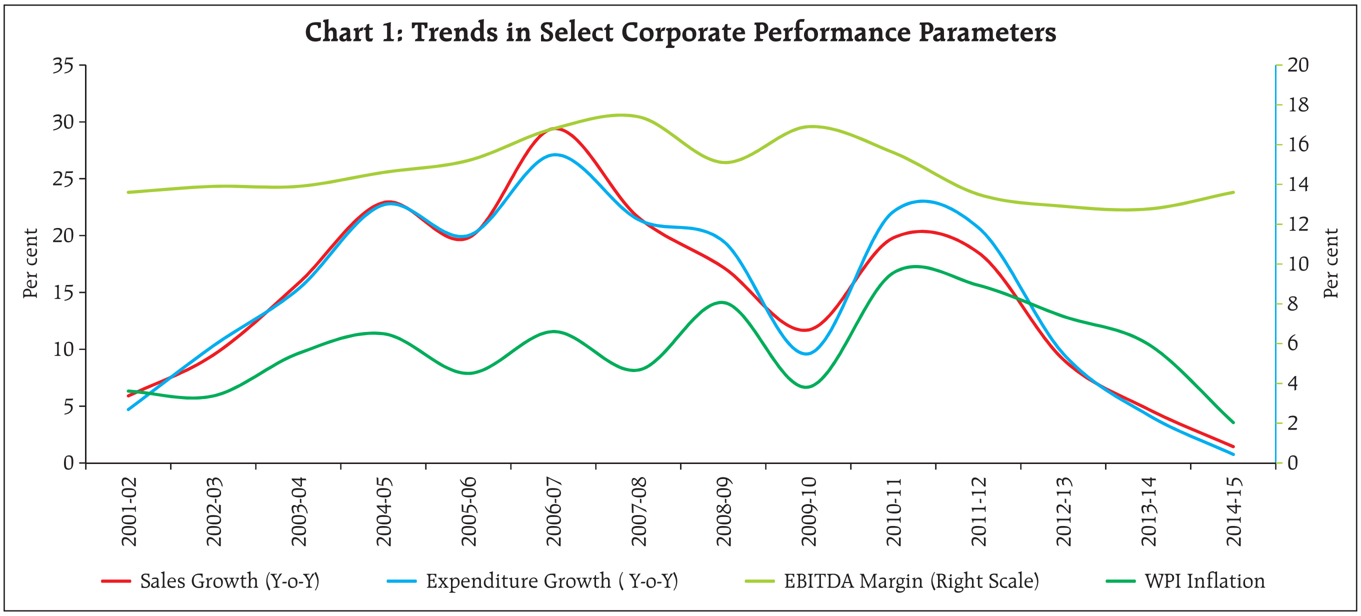
*Performance of Private Corporate Business Sector during 2014-15**

Sales growth of the private (non-financial) corporate business sector moderated for the fourth consecutive year led by a decrease in sales growth of manufacturing and IT sectors during 2014-15. Services (other than IT) sector partly recovered in 2014-15 showing higher growth in sales and EBITDA after some moderation last year. Net profit of the manufacturing sector contracted in 2013-14 and 2014-15 after a minor recovery in 2012-13. Performance in 2014-15 was affected primarily by the steep fall in oil prices during the year. This caused a sharp contraction in the sales and expenditure of the petroleum products industry group over the four quarters of 2014-15. This in turn, pulled down the aggregate as well as the manufacturing sector. However, an improvement was recorded in aggregate sales growth of non-oil companies for the first time in five years. Cost of raw materials (CRM) to sales was the lowest in 2014-15 compared with the last five years due to fall in commodity prices. The growth in raw material expenses for these companies remained low during the previous three financial years which aided in better EBITDA growth and margins improved in 2014-15. Weak signals of a plausible turnaround were visible in terms of marginally better Y-o-Y sales growth for few of the important industries like Cement, Motor Vehicles, Iron & Steel, Machinery on the back of either a contraction or extremely low sales growth in 2013-14.

Quarterly results of 2,070 common companies showed declining trend in aggregate sales growth during the four quarters of 2014-15. It also showed higher EBITDA growth in the first half of the year which was not sustained. However, results for Q1:2014-15 indicated marginal improvement in sales growth excluding petroleum product industry.

1. Aggregate sales growth moderated and Operating profit (EBITDA) growth increased

1.1. Sales growth (Y-o-Y) of the private corporate sector continued to decelerate in 2014-15 for the fourth consecutive year. Nominal sales growth in this year was the lowest since 2001-02 (Chart 1). Value of production also decreased in 2014-15. Raw material expenses



* Prepared in the Corporate Studies Division of the Department of Statistics and Information Management Reserve Bank of India, Mumbai. The previous study 'Performance of Private Corporate Business Sector, during the 2013-14' was published in the October 2014 issue of the RBI Bulletin.

Table 1A : Performance of the Listed Non-Government Non-Financial Companies

No. of companies	2014-15		2013-14*
	2,925		2,854
Items	Amount (₹ billion)	Y-o-Y Growth# in Per cent	Y-o-Y Growth# in Per cent
	1	2	3
Sales	31,191	1.4	4.7
Value of Production	31,330	1.3	4.0
Expenditure	27,101	0.7	4.2
CRM**	13,893	-3.4	2.0
Staff Cost	2,595	10.5	11.8
Power and Fuel	1,152	5.1	1.0
Operating Profits(EBITDA)	4,229	5.3	2.3
Other Income@@	923	14.0	15.2
Depreciation	1,183	5.1	8.8
Gross Profits(EBIT)	3,969	7.3	3.0
Interest	1,270	4.4	11.5
Earnings Before Tax (EBT)	2,699	8.8	-0.5
Tax Provision	770	25.3	3.6
Net Profits ^	1,825	-0.7	-5.1
Paid-up Capital	1,531	2.8	3.8

* : Published in October 2014 issue of the RBI Bulletin
\# : Growth rates calculated on the basis of common set of companies during any period
** : CRM : Consumption of Raw Materials
@@ : Includes forex gain while forex losses are included in Expenditure
^ : Adjusted for non-operating surplus/deficit

Table 1B : Performance of the Listed Non-Government Non-Financial Companies – Excluding Petroleum Products Industry

Indicator	2014-15	2013-14
No. of companies	2,907	2,836
Growth Rate (Y-o-Y)		
Sales	4.7	3.9
Expenditure	4.5	3.4
Raw Material	4.3	-0.4
Staff Cost	10.6	12.0
Power and Fuel	5.2	1.0
EBITDA	5.4	2.3
Other Income	16.1	15.3
Depreciation	6.4	10.7
EBIT	7.4	2.4
Interest	6.0	12.4
Tax Provision	27.5	2.9
Net Profits	-2.1	-7.3
Paid-up Capital	3.4	3.6
Ratio (Per Cent)		
CRM/Sales	49.0	49.0
Staff cost/Sales	8.9	9.5
EBITDA to Sales	13.9	14.3
EBIT to Sales	12.8	13.3
Net Profit to Sales	6.0	5.8

contracted in 2014-15 after a sharp deceleration in 2013-14. Staff costs also showed a moderating trend for three years in a row, although it remained at a higher level than that observed in 2009-10. The trends in various components of expenditure as a proportion to sales since 2008-09 till 2014-15 revealed that at the aggregate level, CRM (cost of raw materials) to sales recorded a steady increase till 2011-12 and then continued to moderate to some extent till 2013-14. However, it recorded a steep fall in 2014-15 and was the lowest since 2008-09 (Chart 2). The staff cost to sales ratios have increased in recent three consecutive years after hovering around the same level from 2009-10 to 2011-12 (Table 6).

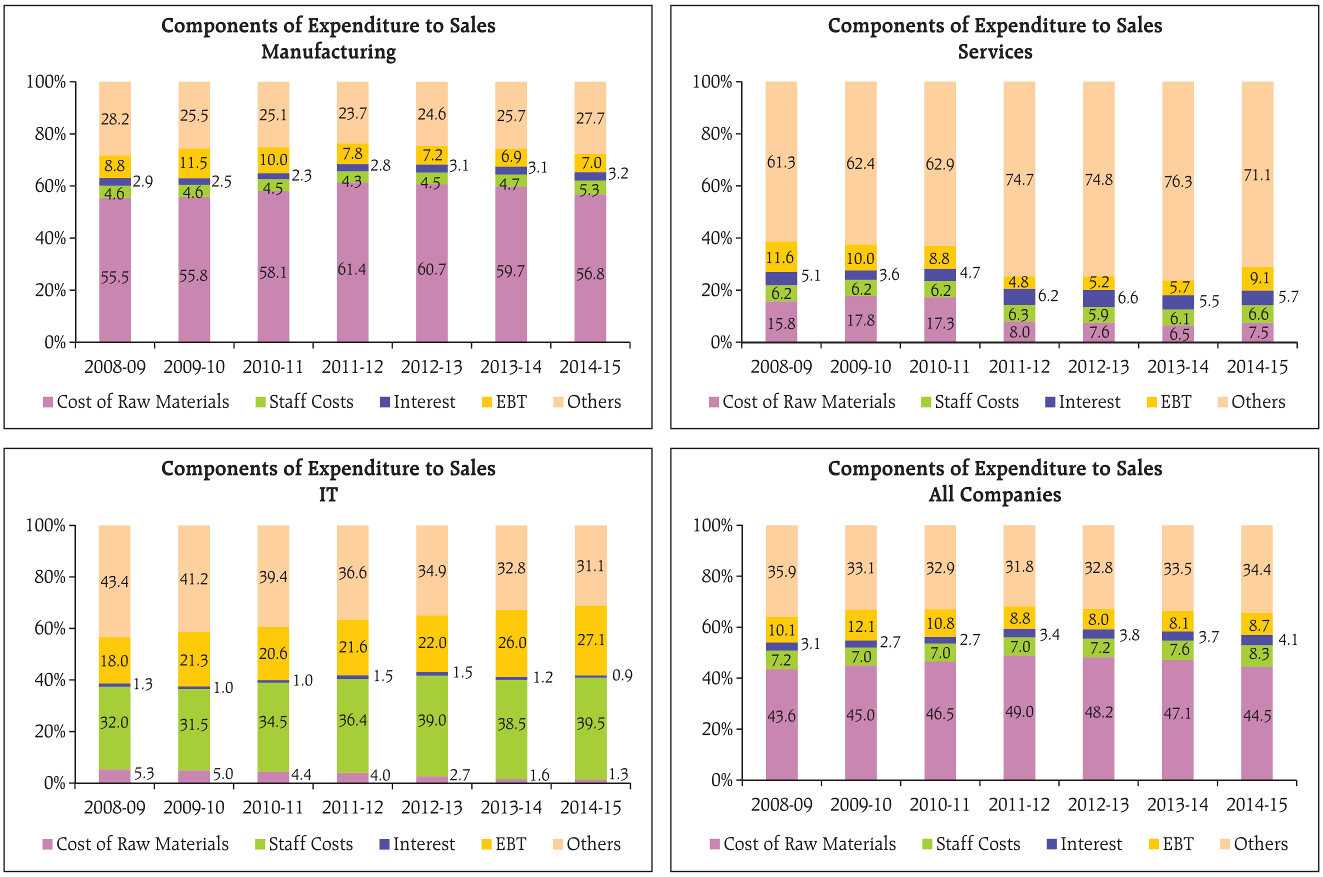
1.2. Earnings before interest, tax, depreciation and amortization (EBITDA) growth increased on account of lower expenditure growth. Earnings before interest and tax (EBIT) increased in 2014-15 compared to 2013-14 consequent to increase in EBITDA. Net profit contracted in 2014-15 for the fourth consecutive year, though at a much lower rate compared with the earlier years. EBITDA margin increased in 2014-15 compared to 2013-14 but net profit margin remained range bound for previous three years.

Table 2: Important performance parameters

Period	No. of Companies	Sales Growth	Expenditure Growth	EBITDA Growth	Net Profit Growth	EBITDA Margin (Per cent)	Net Profit Margin (Per cent)
	1	2	3	4	5	6	7
2008-09	2,549	17.2	19.5	-1.0	-18.4	15.1	8.1
2009-10	2,629	11.7	9.6	26.6	28.8	16.9	9.4
2010-11	2,763	19.8	22.1	12.4	15.8	15.6	9.0
2011-12	2,679	18.5	20.7	1.7	-16.8	13.5	6.4
2012-13	2,931	9.1	9.6	3.5	-2.0	12.9	5.9
2013-14	2,854	4.7	4.2	2.3	-5.1	12.8	5.8
2014-15	2,925	1.4	0.7	5.3	-0.7	13.6	5.9

Growth indicators are Y-o-Y

Chart 2: Cost of Raw Materials, Staff Cost, Interest and EBIT as Percentage of Sales



1.3. Keeping in mind the huge impact of the fall in global petroleum prices, the performance of the companies excluding petroleum products was separately looked at in 2014-15 because the companies belonging to the petroleum products industry, recorded a significant contraction in sales (15.3 per cent Y-o-Y) and expenditure (17.4 per cent Y-o-Y). As expenditure contracted at a higher rate than sales, EBITDA growth improved in 2014-15. Contraction in other income led to a moderation in the net profit growth, which however remained at a higher level than the average of seven years. Improvement was observed in both EBITDA and net profit margins.

1.4. Based on 2,907 excluding petroleum product companies, slight improvement in Y-o-Y sales growth was observed in 2014-15 (4.7 per cent) compared with 3.9 per cent in the previous year though it remained much below the growth observed during 2008-09 to 2011-12 (Table 1B).

2. Performance of small companies worsened further

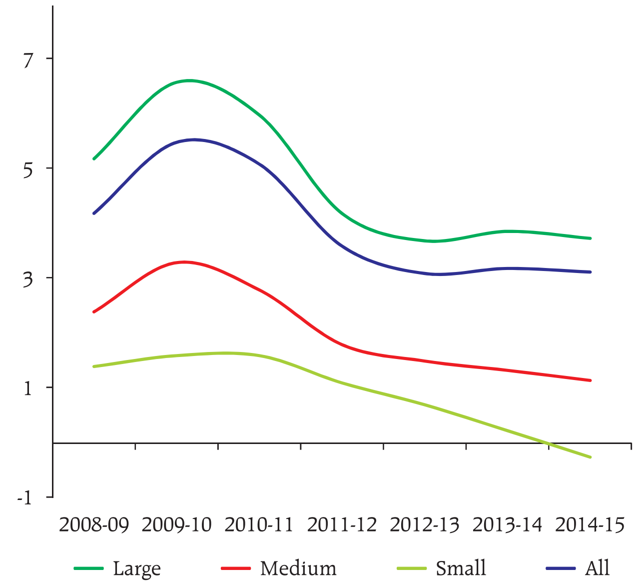
2.1. Large companies exhibit a pattern of regularity in terms of filing their annual unaudited results as compared with the medium and small sized companies. This is evident from the fact that more number of small companies move in and out of the sample captured within reasonable time.

2.2. Large companies (sales more than ₹10 billion) recorded higher EBITDA growth, despite sales growth moderation. Medium companies (sales between ₹1 billion to ₹10 billion) recorded contraction in sales and profits. Sales growth of the small companies (sales less than ₹1 billion) faced major setback in 2013-14 and contracted further in 2014-15. For the small companies

Table 3: Size class wise per cent share in sales and no. of companies

Period	Large		Medium		Small	
	No. of Companies	Per cent share in sales	No. of Companies	Per cent share in sales	No. of Companies	Per cent share in sales
	1	2	3	4	5	6
2008-09	268	76.8	933	20.7	1,348	2.5
2009-10	323	79.1	973	18.8	1,333	2.2
2010-11	401	81.7	1,049	16.6	1,313	1.7
2011-12	414	84.0	998	14.6	1,267	1.4
2012-13	462	85.3	1,079	13.3	1,390	1.3
2013-14	474	86.3	1,001	12.4	1,379	1.3
2014-15	472	86.8	1,025	12.0	1,428	1.2

Chart 3: Interest coverage - size-wise



the sales growth contracted at a higher rate than the growth in components of expenditure *viz.*, cost of raw materials and staff costs. This resulted in higher expenditure to sales ratio (Table 6) and consequent operating losses *i.e.*, negative EBITDA. Among the three size groups, only the large companies showed slight improvement in margins from the level observed during the previous year (Table 4).

2.3. Interest coverage ratio (EBIT/Interest Expenses) showed a steady decrease across all size groups particularly since 2011-12 (Chart 3). Interest expenses contracted significantly for the small sized companies in 2014-15. However the problem of poor debt servicing capability remained severe for small companies due to losses in the operating level itself, which further worsened the losses in the EBIT level.

3. Improvement in non-IT services sector

3.1. Sales growth of the manufacturing sector further worsened in 2014-15 and reached its lowest in the last seven years, but there has been an improvement in EBITDA growth (Table 5). The performance of the IT sector declined in 2014-15, with declining growth rates of sales, EBITDA and net profit after considerable improvement in the previous year. There has been a

Table 4: Size class wise performance parameters

Size Classes	Large					Medium					Small				
Period	Sales Growth	EBITDA Growth	Net Profit Growth	EBITDA Margin (Per cent)	Net Profit Margin (Per cent)	Sales Growth	EBITDA Growth	Net Profit Growth	EBITDA Margin (Per cent)	Net Profit Margin (Per cent)	Sales Growth	EBITDA Growth	Net Profit Growth	EBITDA Margin (Per cent)	Net Profit Margin (Per cent)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2008-09	20.3	1.6	-12.5	16.2	9.3	10.2	-7.9	-40.6	11.9	4.3	-7.8	-40.2	-84.1	8.4	1.4
2009-10	13.0	27.1	26.4	17.6	10.2	9.6	25.0	45.7	14.7	6.5	-8.8	12.4	42.7	9.2	3.5
2010-11	20.6	13.3	18.1	16.2	9.8	19.1	7.5	4.1	13.2	5.6	-4.4	2.2	-70.4	8.7	1.1
2011-12	20.8	3.7	-15.0	14.0	7.0	9.5	-9.5	-34.6	11.1	3.4	-9.2	-23.6	125.7	6.3	1.2
2012-13	10.7	4.0	3.2	13.3	6.8	1.5	0.7	-62.1	10.5	1.3	-9.3	-14.4	$	5.4	-4.7
2013-14	6.0	5.2	0.2	13.4	6.8	1.0	-15.1	-77.3	9.6	0.6	-26.3	-58.2	$	3.2	-11.9
2014-15	2.3	6.3	3.0	14.5	7.1	-2.8	0.3	@	8.6	-0.8	-15.6	@	$	-1.7	-17.6

Growth indicators are Y-o-Y

Table 5: Sector wise important performance parameters

Sector	Manufacturing					Services (other than IT)					IT				
Period	Sales Growth	EBITDA Growth	Net Profit Growth	EBITDA Margin (Per cent)	Net Profit Margin (Per cent)	Sales Growth	EBITDA Growth	Net Profit Growth	EBITDA Margin (Per cent)	Net Profit Margin (Per cent)	Sales Growth	EBITDA Growth	Net Profit Growth	EBITDA Margin (Per cent)	Net Profit Margin (Per cent)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2008-09	16.3	-4.1	-25.6	13.5	6.6	12.2	-8.2	-22	20.9	10.7	18.1	17.9	2.7	20.6	15.5
2009-10	13.3	33.9	45.2	16.1	8.6	3.7	0.0	-19.8	18.0	8.2	5.0	19.1	19.1	23.4	17.8
2010-11	23.0	11.9	20.6	14.4	8.3	7.1	9.3	3.4	17.7	7.8	15.0	11.4	12.5	22.2	16.7
2011-12	19.5	0.1	-21.7	11.9	5.5	14.3	-0.7	-42.2	16.1	3.7	18.6	14.9	23.3	21.6	17.5
2012-13	9.4	3.1	3.6	11.3	5.4	10.7	6.0	-29.6	16.0	2.7	11.3	17.0	7.1	22.5	16.8
2013-14	4.3	-0.2	-7.5	10.9	4.9	1.9	-4.5	-33.5	15.0	3.6	17.0	28.6	25.8	25.5	19.1
2014-15	0.4	3.3	-6.7	11.5	4.6	5.9	32.4	@	17.9	6.7	8.9	6.5	7.4	24.7	19.2

Growth indicators are Y-o-Y

noticeable turnaround in the performance of non-IT service sector with exceptional EBITDA and net-profit growth in 2014-15. However this jump in net profit growth was caused by the performance of a few select companies in the transportation, storage & communications and the trading industry. EBITDA margin improved for the manufacturing and non-IT sector and it has decreased slightly for IT sector.

3.2. During 2014-15, CRM to sales ratio continued its gradual declining trend for the manufacturing sector as a whole, while staff costs to sales ratio increased for the third consecutive year (Table 6). The non-IT services sector witnessed an increase in both CRM and staff cost to sales ratio in 2014-15. For IT sector an increase in staff cost to sales ratio is observed in 2014-15. Almost all sectors and size groups recorded an increase in staff cost to sales ratio during 2014-15 compared to previous year. Interest to sales ratio has gradually increased from 2.7 per cent in 2009-10 to 4.1 per cent in 2014-15, witnessing minor fluctuations in between.

3.3. Based on half-yearly financial statements of 2,638 companies common for previous 3 half years *i.e.*, from half years ended March 2014 to March 2015 it is observed that the improved performance of the non-IT services sector resulted in lower leverage (debt to equity) ratio and higher interest coverage and solvency ratio during the second half of 2014-15 compared to previous year. The leverage ratio also improved for the manufacturing sector. Return on assets (ROA) weakened for all sectors and this decline was highest for IT sector. The IT sector weakened in terms of main financial ratios in tune with its declining growth rates of performance parameters. The manufacturing and non-IT services sector improved in terms of quick and current ratio.

4. Performance of major industries - weak signs of recovery in only few industries

4.1. Most of the industries remained much below the seven year average performance in terms of sales growth and EBITDA margin. However, a few major industries showed some signs of marginal recovery from successive deterioration.

4.2. In the basic goods sector, sales growth (Y-o-Y) improved for the Cement and the Iron & Steel industry in 2014-15 after successive and significant deceleration since 2011-12 ending in an overall contraction in 2013-14 (Chart 4 & 5). Margins are yet to recover to the levels observed in 2008-09 for both the industries. The Iron & Steel industry recorded a significant rise in interest burden, both due to a fall in profits and rise in interest. With a heavy share in aggregate borrowings, it turned out to be one of the most vulnerable industries. Also, the operating cash flow contracted for the group of 21 companies that have reported their cash flow statements for 2014-15. The net cash used in financing activities increased with a rise in long-term

Table 6: CRM, Staff Cost and Interest Expenditure as percentage to Sales

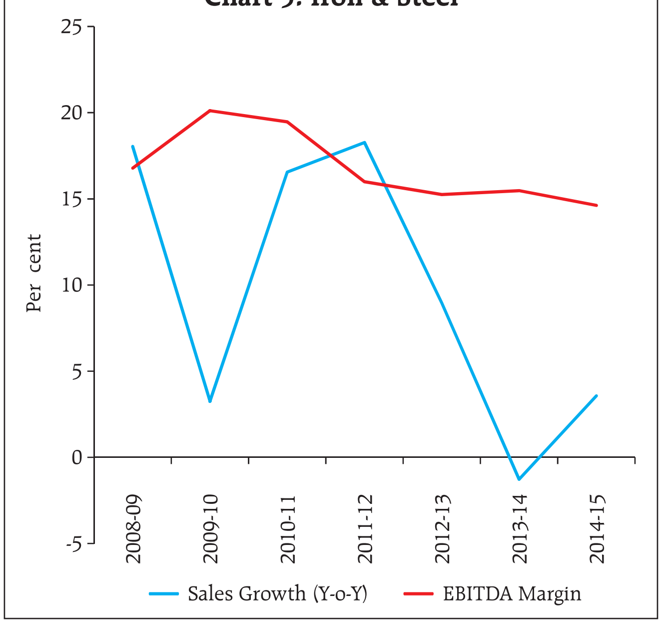
Period	CRM	Staff Cost	Interest Exp.	CRM	Staff Cost	Interest Exp.	CRM	Staff Cost	Interest Exp.
	Large			Medium			Small		
	1	2	3	4	5	6	7	8	9
Manufacturing									
2008-09	55.4	4.1	2.6	56.3	6.0	4.0	50.5	7.8	5.3
2009-10	56.4	4.1	2.2	53.9	6.3	3.5	50.4	8.2	5.0
2010-11	58.9	4.0	2.0	55.4	6.4	3.5	49.5	8.0	3.9
2011-12	62.5	3.8	2.5	56.0	6.6	4.2	51.1	9.4	5.0
2012-13	61.5	4.0	2.8	56.4	7.0	4.3	51.7	9.4	6.4
2013-14	60.4	4.2	2.7	56.3	7.0	4.7	50.2	9.8	9.7
2014-15	57.2	4.9	2.9	54.9	7.4	5.1	51.5	10.1	7.7
Services (Other than IT)									
2008-09	15.7	5.2	5.0	15.7	9.6	5.3	18.0	10.7	6.8
2009-10	18.8	5.2	3.1	14.1	9.6	5.0	14.8	11.9	7.5
2010-11	18.7	5.3	4.3	10.1	10.1	6.7	19.6	10.5	7.5
2011-12	7.8	5.3	5.1	8.2	10.0	11.2	15.1	10.3	6.6
2012-13	6.8	4.6	4.7	9.4	10.9	14.9	20.6	10.8	6.3
2013-14	5.4	4.9	4.1	10.3	11.4	11.6	16.1	11.0	11.6
2014-15	6.3	5.4	4.7	12.0	12.1	9.0	19.9	11.7	16.6
IT									
2008-09	5.2	32.4	1.0	4.7	30.9	2.5	12.0	26.1	3.5
2009-10	4.8	31.4	0.6	4.9	34.6	2.9	12.2	21.7	3.6
2010-11	4.2	34.8	0.7	4.1	34.0	2.4	15.5	24.3	7.0
2011-12	3.3	36.6	1.0	7.9	35.5	4.2	15.2	31.6	9.1
2012-13	2.0	39.4	0.8	7.6	36.2	6.0	10.5	33.5	9.2
2013-14	1.3	38.4	0.5	2.1	41.2	7.2	17.3	28.4	18.7
2014-15	1.0	39.8	0.4	4.7	37.3	6.7	13.3	31.7	11.9
All Companies									
2008-09	42.7	6.9	2.8	47.1	7.9	4.2	41.3	9.9	5.4
2009-10	45.0	6.7	2.4	45.8	8.1	3.9	41.7	9.9	5.2
2010-11	46.7	6.7	2.4	46.3	8.4	3.9	41.4	10.0	5.2
2011-12	49.6	6.6	3.0	46.5	8.8	5.2	41.3	11.4	6.2
2012-13	48.6	6.9	3.4	46.4	9.1	6.0	42.0	11.7	7.2
2013-14	47.3	7.3	3.2	46.9	9.0	6.1	39.6	11.7	11.3
2014-15	44.4	8.1	3.7	46.0	9.3	6.5	40.4	12.0	10.2

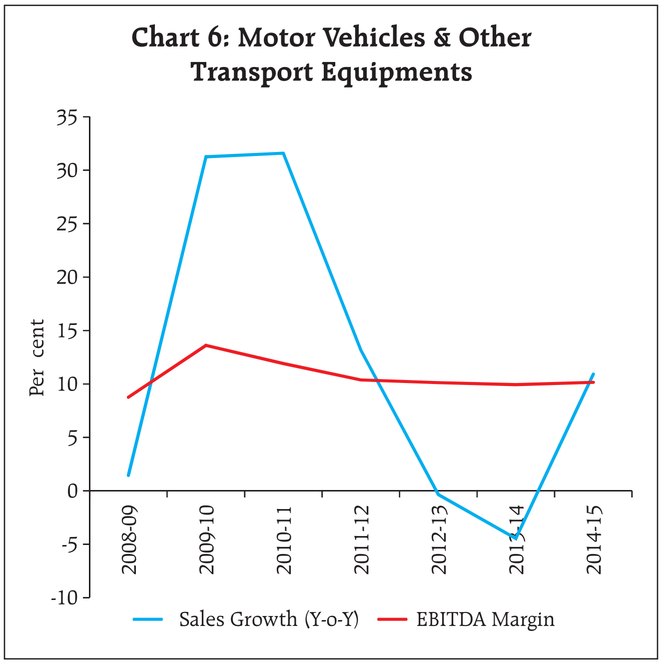
Sales is less than ₹1bn for small companies; between ₹1 bn to ₹10 bn for medium companies and more than ₹10bn for large companies.

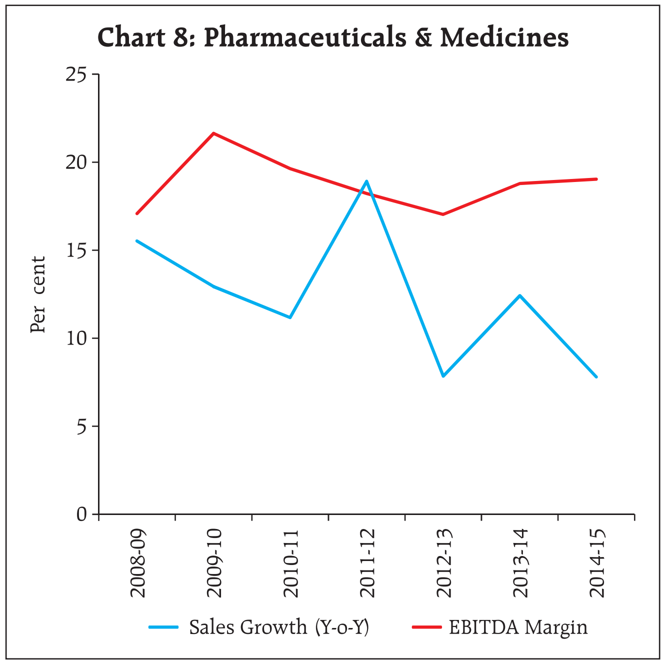
and short-term borrowings and interest related payments. The Cement industry on the other hand could increase its operating cash flow as well as the investing cash flow.

Chart 4: Cement and Cement Products

Chart 5: Iron & Steel





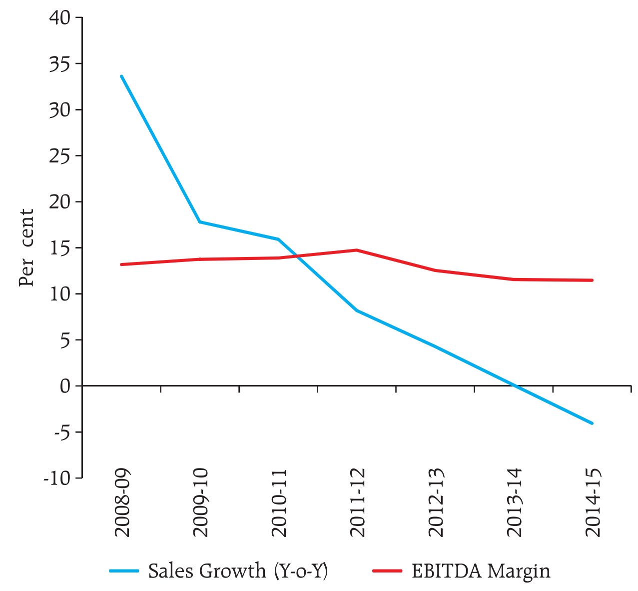


4.3. In the consumer goods sector, the Motor Vehicles industry recovered significantly after two years of successive contractions in Y-o-Y sales, although the growth rates remained lower than that observed during 2009-10 and 2010-11. However, an early analysis of the cash flow statements indicated lower operating cash flows. A pickup in EBITDA growth was observed. Net profit suffered significantly in 2011-12 and is still in contraction. The Pharmaceuticals industry slowed down with respect to sales and EBITDA growth, while net profits contracted. The Textile industry stagnated in terms of sales growth with heavy contraction in net profit. Textiles is another vulnerable industry with high leverage, poor interest burden and large borrowings. Cash used in financing activities increased significantly in the early sample of cash flow statements in this industry.

4.4. In the capital goods sector, sales growth of the Machinery industry continued to remain weak, after the temporary recovery observed in 2010-11 and 2011-12 (Chart 9). Sales growth was higher in 2014-15 as compared to 2013-14. EBITDA showed a minor positive growth but net profit contracted significantly for the fourth consecutive year, and profitability remained low. The Construction industry contracted in sales after three years of successive deceleration (Chart 10). Expenditure growth also contracted in 2014-15. This led to contracting profits but profitability remained flat. Interest burden leaped up in 2013-14 and 2014-15, although aggregate interest expenses showed lower growth.

Chart 9: Machinery

Chart 10: Construction



5. Contraction of sales and net profits on a quarterly basis.

5.1. Performance of a common sample of 2,070 listed non-government non-financial companies on a quarterly basis showed fluctuations in sales growth (Y-o-Y) from Q1:2013-14 to Q2:2014-15 followed by successive contractions in Q3 and Q4 of 2014-15 (Table 8). EBITDA growth decreased from 10 per cent in Q2:2014-15 to 1.2 per cent in the next quarter and improved to 4 percent in Q4:2014-15.

Table 7 : Important Performance Parameters of Select Industries

Industry	Period	Large			Medium			Small			All Companies		
		Sales Growth	EBITDA Margin (Per cent)	Net Margin (Per cent)	Sales Growth	EBITDA Margin (Per cent)	Net Margin (Per cent)	Sales Growth	EBITDA Margin (Per cent)	Net Margin (Per cent)	Sales Growth	EBITDA Margin (Per cent)	Net Margin (Per cent)
	1	2	3	4	5	6	7	8	9	10	11	12	13
Cement and Cement products	2013-14	0.6	15.3	7.7	-6.3	6.4	-0.5	-14.8	5.6	1.2	-0.1	14.4	6.9
	2014-15	9.7	15.8	7.2	9.1	11.2	6.7	34.9	9.2	0.8	9.8	15.4	7.1
Construction	2013-14	1.9	11.5	2.8	-12.1	11.4	1.1	-23.6	16.4	6.6	0.1	11.6	2.7
	2014-15	-3.0	11.9	2.2	-12.0	7.5	-8.8	-9.7	13.1	4.1	-4.1	11.5	1.1
Iron and Steel	2013-14	2.0	17.9	4.2	-14.4	2.9	-3.7	-31.5	-0.9	-39.6	-1.3	15.5	2.7
	2014-15	4.3	15.8	2.1	0.1	5.0	-4.2	-26.9	-4.7	-25.2	3.6	14.6	1.3
Motor Vehicles and other transport equipments	2013-14	-4.4	10.2	6.0	-4.4	8.3	2.6	-8.9	1.0	-5.9	-4.5	9.9	5.6
	2014-15	13.0	10.6	4.0	-3.9	6.7	-2.4	-28.3	-21.8	-43.3	10.9	10.2	3.3
Pharmaceuticals and medicines	2013-14	14.2	20.4	13.3	8.0	13.8	4.4	-8.4	5.3	-0.6	12.4	18.8	11.2
	2014-15	10.7	20.6	13.1	-3.1	12.7	4.5	-4.4	6.4	-3.2	7.8	19.0	11.4
Textiles	2013-14	7.1	13.7	3.3	11.5	8.8	0.3	-3.9	0.7	-14.8	8.1	11.7	1.8
	2014-15	2.7	14.3	3.7	-6.1	4.7	-3.5	-1.9	3.5	-9.0	-0.3	11.0	1.1
Machinery ^	2013-14	1.5	9.6	6.0	-2.4	7.4	0.1	-14.1	7.2	0.6	0.5	9.1	4.8
	2014-15	3.0	8.8	2.3	5.4	9.1	2.7	-11.4	4.6	-6.2	3.1	8.8	2.2

^ : includes Machinery & Machine Tools and Electrical Machinery and Apparatus
Sales is less than ₹1bn for small companies; between ₹1 bn to ₹10 bn for medium companies and more than ₹10bn for large companies.
Growth indicators are Y-o-Y

Table 8: Performance of the Select companies over the Quarters - 2013-14 and 2014-15

Item	2013-14				2014-15			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	1	2	3	4	5	6	7	8
No. of companies	2,070							
Year-on-year Growth rate in Per cent								
Sales	3.0	8.4	5.8	6.5	8.3	4.7	-0.1	-4.4
Expenditure	2.4	8.8	4.4	6.5	7.8	4.0	0.4	-6.0
Operating Profits (EBITDA)	2.2	1.1	5.6	6.4	14.1	10.0	1.2	4.0
Other Income	27.4	0.4	28.0	9.4	-0.7	33.2	3.5	8.4
Depreciation	8.8	11.8	7.3	8.4	7.3	4.4	6.0	5.9
Gross Profits (EBIT)	4.9	-1.9	8.9	6.5	12.8	16.9	0.3	4.5
Interest	8.0	16.7	6.9	6.9	2.3	5.3	8.8	10.7
Net Profits	-3.4	-14.7	7.1	11.6	24.6	29.7	-8.5	-10.3
Ratios in Per cent								
Cost of Raw Materials to Sales	55.0	57.4	56.3	57.2	56.0	56.9	53.8	51.5
Staff Costs to Sales	7.9	7.9	7.6	7.4	8.0	8.2	8.5	9.0
Interest to Sales	3.6	3.5	3.4	3.3	3.5	3.6	3.8	3.8
Interest to Gross profits	29.3	29.3	28.0	26.6	26.4	26.7	30.5	28.1
Interest Coverage (Times)	3.4	3.4	3.6	3.8	3.8	3.7	3.3	3.6
EBITDA to Sales	13.2	12.7	13.3	13.2	14.1	13.5	13.5	14.3
EBIT to Sales	12.4	11.9	12.3	12.4	13.1	13.4	12.4	13.6
Net Profits to Sales	6.2	6.0	6.5	6.9	7.2	7.4	5.9	6.6

5.2. Growth rates in net profits recorded and sustained high positive growth from Q3:2013-14 to Q2:2014-15 and subsequently contracted sharply in Q3 and Q4:2014-15. An explanation for the deteriorating net profit growth in Q4 could be the higher interest to gross profits despite positive growth rate in EBITDA (operating profits) and EBIT (gross profits). Interest coverage ratio remained steady across all quarters. EBITDA margins also maintained at a steady level during the eight quarter period. Other income increased from 3.5 per cent in Q3 to 8.4 per cent in Q4:2014-15.

5.3. Growth rates in both staff expenses and interest expenses, exhibited a gradual increase from Q1 to Q4:2014-15 whereas growth in CRM contracted sharply to negative 17.4 per cent in the last quarter.

5.4. Results available for Q1:2015-16 (April-June 2015) indicated a contraction in sales growth, but at a lower rate compared to Q4:2014-15 for the aggregate level and the manufacturing sector. The sales growth of the IT sector improved compared with previous quarter. There has also been an improvement in profitability ratio at the aggregate level.

Annex

Explanatory Notes

1. Selection of companies:
   a. Results of companies which were available for financial year 2014-15 *i.e.* April 2014 to March 2015 were directly included in the sample.
   b. Some companies filed earnings results ending March 2015, but covered either more than or less than a year and therefore were not directly comparable with the results reported by them for the previous year. Profit and Loss statements for such companies were generated from the comparable quarterly earnings results filed by them during FY: 2014-15.
   c. Profit and loss statements of companies with financial year ending other than March were also included in the sample using a similar method of aggregating quarterly results as in (b) above.
   d. In case of major amalgamations, profit and loss statements of the previous years were reconstructed from individual statements of the respective companies.
2. To compute the growth rates in any period, a common set of companies for the current and previous period is considered.
3. The classification of industries and sectors broadly follows the National Industrial Classification (NIC).
4. The manufacturing sector consists of industries like Iron & Steel, Cement & Cement products, Machinery & Machine Tools, Motor Vehicles, Rubber, Paper, Food products etc. This does not include 'Tea Plantations' and 'Mining & Quarrying' industries. The services (other than IT) sector includes Real Estate, Wholesale & Retail Trade, Hotel & Restaurants, Transport, Storage and Communication industries. This does not include Construction and Electricity Generation & Supply Industries.
5. FOREX gain and loss are reported on net basis by companies and included in the net profit calculation. While net FOREX loss is considered as a part of the expenditure and thus included in EBITDA, net FOREX gain is considered as a part of other income and included in EBIT.
6. Other income includes various regular incomes like rents, dividends, royalties etc. and does not include extra-ordinary income/expenses.
7. Extra-ordinary income/expenses are included in EBT and net profit. As the name suggests, these income/ expenses can be very large for some of the companies in a particular quarter.
8. Some companies report interest on net basis. However, some companies include the interest expenses on gross basis, where, interest received is reported in other income.
9. The ratio / growth rate for which denominator is negative or negligible is not calculated, and is indicated as '$' or '@' respectively.

Glossary of Terms

EBITDA	-	Operating Profits / Earnings before Interest, Tax, Depreciation & Amortization	-	Sales + Change in Stock – Expenditure
EBIT	-	Gross Profits/Earnings before Interest & Tax	-	EBITDA+ Other Income – Depreciation & Amortisation
EBT	-	Earnings before Tax	-	EBIT – Interest Payment + Extra-ordinary income/expenses
Net Profit	-		-	EBT – Tax
Interest Burden	-		-	Interest Payment / EBIT*100
Interest Coverage	-		-	EBIT/Interest Payment

*Performance of Non-Government Non-Banking Financial and Investment Companies, 2013-14**

An analysis of financial performance of select 18,225 non-government non-banking financial and investment companies (NGNBF&I) for the year 2013-14, based on their audited annual accounts showed that the performance of NGNBF&I companies had declined during 2013-14 as compared to the previous year. The growth in financial income declined during 2013-14 as compared to the previous year mainly due to modest growth in interest income. The growth in operating profit (EBDT) and net profit declined significantly in 2013-14. However, the operating profit margin, return on assets and return on shareholders' equity increased marginally in 2013-14 as compared to the previous year. The share of long-term borrowings in total liabilities of select NGNBF&I companies increased during 2013-14, whereas share of short-term borrowings declined marginally during the year vis-à-vis the previous year. The share of shareholders' funds continued to fall gradually over the three years period. On the assets side, the share of long-term loans and advances in total assets improved during 2013-14. While the share of non-current investment in total assets declined, that of current investment improved marginally in 2013-14. The NGNBF&I companies continued to rely mainly on external sources for their business expansion, however their share in total sources of funds decreased marginally in 2013-14. The funds raised through debt finance (including short-term borrowings) decreased marginally in 2013-14. The select NGNBF&I companies predominantly used their funds for expanding their long-term loans portfolios.

* Prepared in the Company Finances Division of the Department of Statistics and Information Management, Reserve Bank of India, Mumbai. The previous article was published in October 2014 issue of the Reserve Bank of India Bulletin, which covered 1,005 non-government non-banking financial and investment companies during 2012-13.

This article presents an analysis of the performance of non-government non-banking financial and investment companies (excluding insurance and banking companies) for the financial year 2013-14 based on the audited annual accounts data of 18,225 companies, Of which 17,636 companies' data are based on Ministry of Corporate Affairs (MCA)[1], Government of India (GoI), systems (Extensible Business Reporting Language (XBRL) and Form 23AC/ACA (Non-XBRL) platform) and remaining 589 companies' data are as collated by Department of Statistics and Information Management, Reserve Bank of India (not included in the select NGNBF&I of MCA), which closed their accounts during the period April 2013 to March 2014. The performance of these companies during the three years period *i.e.,* from 2011-12 to 2013-14 has been assessed in this article[2]. The detailed data for select 18,225 companies for the study year 2013-14 along with explanatory notes have also been made available in the website of the Reserve Bank of India. As per provisional estimate of population paid-up capital (PUC) supplied by MCA, the select 18,225 NGNBF&I companies accounted for 91.3 per cent of total PUC of all NGNBF&I as on March 31, 2014.

Based on National Industrial Classification (NIC) 2004 code, the NGNBF&I companies were classified[3]

[1] The CFD has been receiving corporate data from MCA, which collects corporate sector statistics, *i.e.*, annual balance sheet and profit and loss accounts data, through two mutually exclusive systems viz., Extensible Business Reporting language (XBRL) and Form 23AC/ACA (Non-XBRL) platform. Under XBRL based system, corporate with PUC ₹ 5 crore and above or having turnover ₹ 100 crore and above or listed companies submit their complete annual accounts, whereas through 'Form 23AC/ACA' system, data on select variables from annual accounts of remaining companies are submitted.

[2] Growth rates and ratios of select financial items for some activity groups in the present article may not match with the previous articles published in RBI Bulletin due to differences in the composition and method of classification of activity groups as well as categorization of income from various activities. Reference may please be made to the explanatory notes released with data in the RBI website.

[3] In the previous articles, a company was classified in one of the three principal activity group *viz.*, 'Share Trading and Investment Holding', 'Loan Finance' and 'Asset Finance', if at least half of its annual income during the study year was derived from that principal activity consistent with the income yielding assets. In case no single principal activity was predominant, the company was classified under 'Diversified' group. Companies not engaged in any of the above three activities, but conducting financial activities were classified under 'Miscellaneous' group.

Table 1: Composition of Select 18,225 NGNBF&I Companies by Activity Group - 2013-14

(Per cent)

Activity	No. of Companies	Paid-up Capital	Financial Income	Total Net Assets
Share Trading and Investment Holding	43.1	30.0	16.7	16.6
Loan Finance	14.5	34.2	39.5	42.9
Asset Finance	16.4	12.4	17.9	19.8
Diversified	2.6	3.2	1.3	1.8
Miscellaneous	23.4	20.2	24.7	18.8
Of which: Chit and Mutual Fund	7.8	2.0	2.6	1.6
All Activities	**100.0 (18,225)**	**100.0 (9,64,418)**	**100.0 (17,60,771)**	**100.0 (137,27,905)**

Note: Figures in parentheses represent total under respective column. The amounts are in ₹ million.

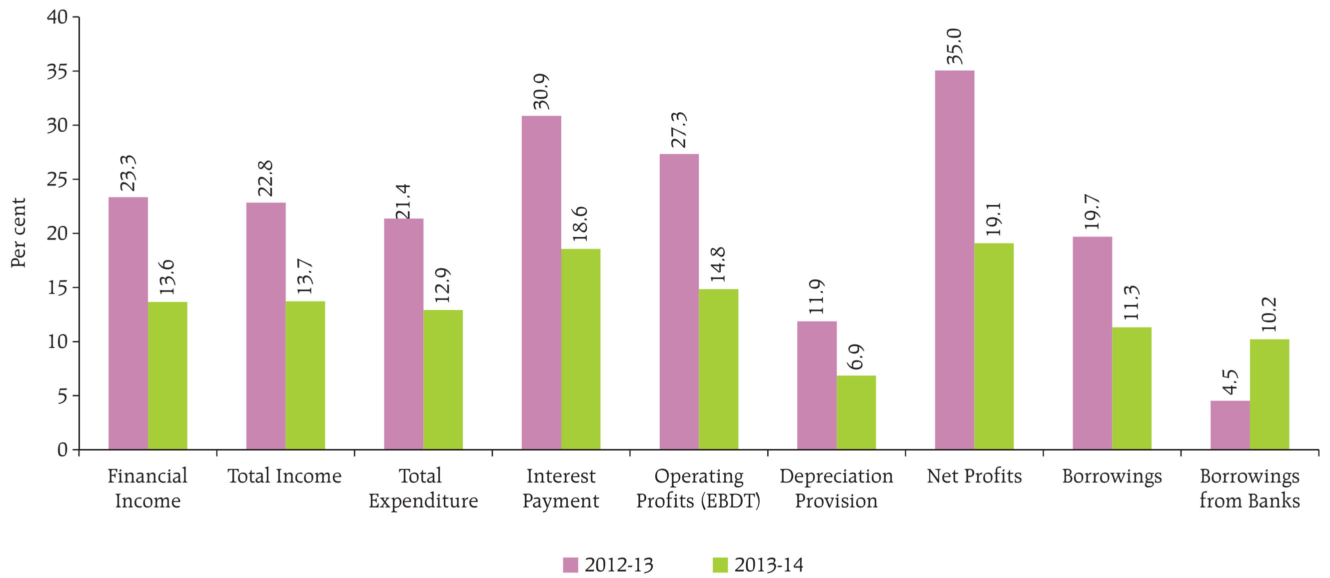
into five major activity groups, *viz.,* (1) Share Trading and Investment Holding, (2) Loan Finance, (3) Asset Finance, (4) Diversified and (5) Miscellaneous *(including Chit Fund and Mutual Fund companies*). In terms of number of companies, the composition of select 18,225 NGNBF&I companies showed that 'Share Trading and Investment Holding' has the largest share followed by 'Miscellaneous' and 'Asset Finance' companies. However, 'Loan Finance' companies dominated the sample in terms of financial parameters *viz.*, paid-up capital, financial income and total net assets during 2013-14 (Table 1).

1. *Growth in Income as well as Profits declined*

1.1 The growth in total income of the select NGNBF&I companies declined to 13.7 per cent in 2013-14 from 22.8 per cent recorded in 2012-13. The total expenditure also grew at lower rate of 12.9 per cent in 2013-14 as compared to 21.4 per cent observed in 2012-13 (Chart 1).

1.2 The financial income of the select NGNBF&I companies grew at 13.6 per cent in 2013-14 as against 23.3 per cent witnessed in 2012-13. This modest growth in financial income was mainly due to moderate growth in interest income during the year. The growth in interest income declined to 15.3 per cent in 2013-14 from 27.1 per cent in the previous year. However, dividend income growth accelerated significantly to 14.3 per cent in 2013-14 from 3.9 per cent in 2012-13 (Statement 1). Growth in interest expenses also decelerated sharply to 18.6 per cent *vis-à-vis* 30.9 per cent recorded in the previous year, which resulted in moderate growth in total expenditure (Chart 1).

Chart 1: Growth rates of select items: 2012-13 and 2013-14



1.3 The operating profits (EBDT) of the select NGNBF&I companies grew at a lower rate of 14.8 per cent in 2013-14 as compared to 27.3 per cent observed in 2012-13. Growth in net profits also declined significantly to 19.1 per cent in 2013-14 from 35.0 per cent in 2012-13 (Chart 1). Dividend payment grew at much lower rates of 13.2 per cent during 2013-14 as compared 61.1 per cent in the previous year, leading to higher growth in the retained profit of select financial and investment companies during 2013-14 (Statement 1).

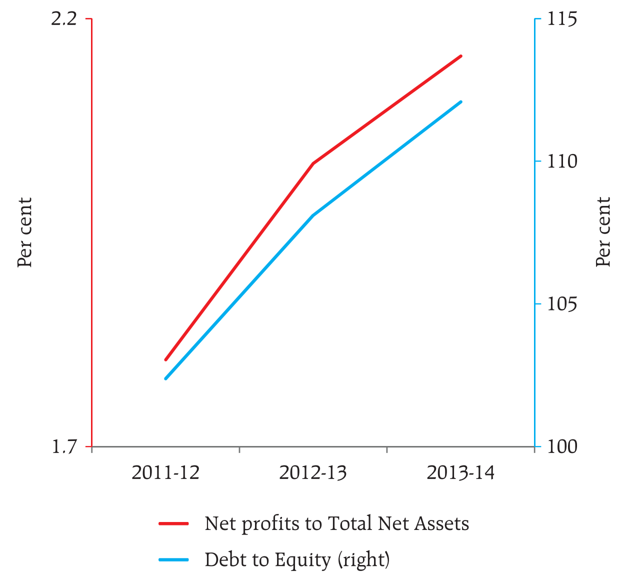
1.4 Growth in total borrowings declined to 11.3 per cent in 2013-14 from 19.7 per cent in 2012-13. However, the growth in borrowings from banks had increased significantly to 10.2 per cent in 2013-14 from and 4.5 per cent registered in the previous year. It was also observed that the growth in investment had declined to 4.9 per cent in 2013-14 from 15.8 per cent witnessed in the previous year (Chart 1, Statement 1).

1.5 Among the activity groups, except for 'Share Trading and Investment Holding', lower growth in interest income was observed in all the activity group *viz.*, 'Loan Finance', 'Asset Finance', 'Diversified' and 'Miscellaneous' group of companies. Lower growth in operating profits and net profits were observed in all the activity groups in 2013-14 except for 'Loan Finance' companies, which witnessed marginal increase in net profit during 2013-14 as compared to the previous year (Statement 1).

2. *Profitability Ratios: Profitability ratios increased marginally, while leverage ratio increased gradually*

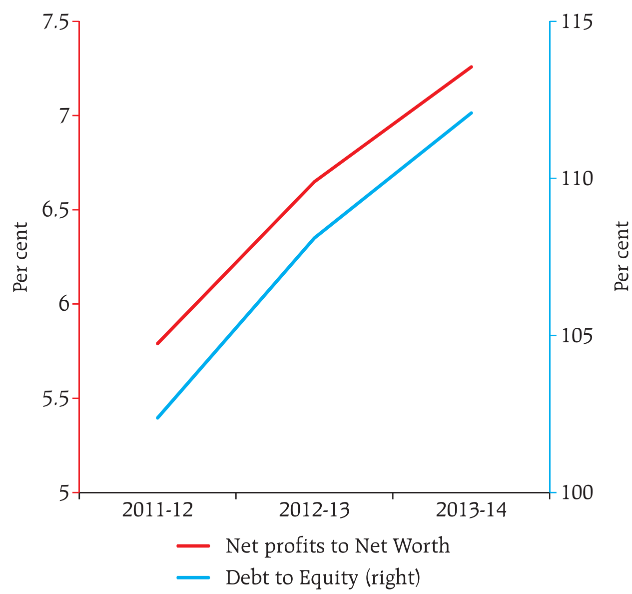
2.1 Return on assets (RoA) (measured as a ratio of net profits to total net assets) and return on equity (RoE) (measured as a ratio of net profit to net worth) of select NGNBF&I companies increased gradually to 2.2 per cent and 7.3 per cent, respectively, in 2013-14 from 1.8 per cent and 5.8 per cent in 2011-12 (Chart 2 and Chart 3). All the activity groups except 'Share Trading and Investment Holding' and 'Miscellaneous' companies witnessed an increase in RoA and RoE during 2013-14 as compared to the previous year (Statement 2).

Chart 2: Return on Assets (RoA) and Leverage



2.2 The operating profit margin, measured as a ratio of operating profits to financial income of select NGNBF&I companies increased marginally to 26.4 per cent in 2013-14 from 26.1 per cent in the previous year. The activity group *viz.*, 'Share Trading and Investment Holding', 'Loan Finance' and 'Asset Finance' witnessed an increase in operating profit margin during 2013-14 as compared to the previous year (Statement 2).

Chart 3: Return on Equity (RoE) and Leverage



2.3 The dividend payout ratio (measured as a ratio of dividends paid to net profits) of the select NGNBF&I companies declined to 48.1 per cent in 2013-14 from 50.6 per cent recorded in the previous year. Among the activity groups, the dividend payout ratio for 'Loan Finance' and 'Asset Finance' declined in 2013-14, whereas 'Share Trading and Investment Holding' and 'Miscellaneous' group of companies witnessed a marginal increase in dividend payout ratio during 2013-14 as compared to the previous year (Statement 2).

2.4 The leverage ratio (measured as a ratio of debt to equity) of the select NGNBF&I companies witnessed a gradual increase from 102.4 per cent in 2011-12 to 112.1 per cent in 2013-14. Gradual increase in leverage ratio was observed among all the activity groups except for 'Loan Finance'. The leverage ratio of 'Loan Finance' and 'Asset Finance' companies was at a very high level compared to other activity groups during the three years period, however, the leverage ratio for 'Loan Finance' witnessed declining trend over the three years period (Statement 2).

2.5 The ratio of total borrowings to total net assets of select NGNBF&I companies declined marginally to 46.8 per cent in 2013-14 from 47.1 per cent in 2012-13. Further, the ratio of bank borrowings to total borrowings of select NGNBF&I companies also declined marginally to 33.1 per cent in 2013-14 from 33.4 per cent in 2012-13. The marginal decline in the ratio of bank borrowings to total borrowings during 2013-14 were seen for 'Asset Finance' and 'Miscellaneous' companies, whereas 'Share Trading and Investment Holding', 'Loan Finance' and 'Diversified' companies witnessed an increase in the ratio during 2013-14 as compared to the previous year (Statement 2).

3. *Income and Expenditure: Share of Interest Income in Total Income and share of Interest Expenses in Total Expenditure increased marginally*

3.1 The fund based income continued to play a dominant role in generating income for NGNBF&I companies as compared to the fee-based income. The share of interest income, which is the main component of fund-based income for NGNBF&I companies, in total income increased marginally from 66.3 to 67.2 per cent during 2013-14. Increase in share of interest income in total income during the year was observed for 'Share Trading and Investment Holding' and 'Miscellaneous' companies, whereas 'Loan Finance', 'Asset Finance' companies witnessed marginal and 'Diversified' companies recorded substantial decline in 2013-14 as compared to the previous year (Statement 3).

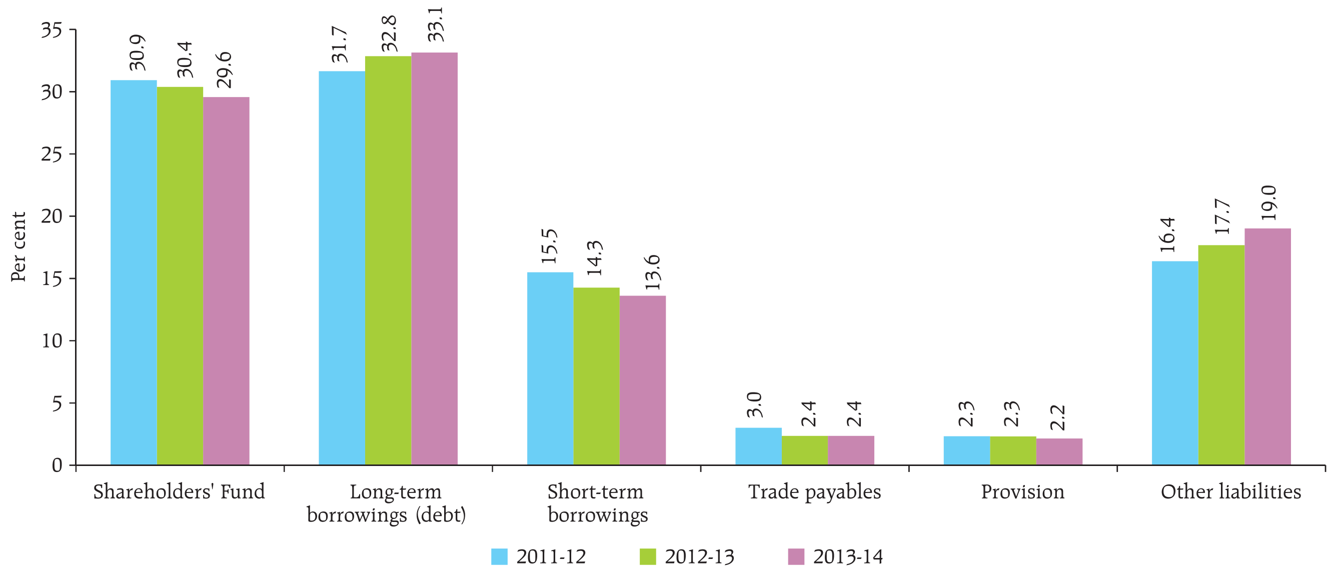
3.2 On the expenditure side, the share of interest expenses in total expenditure of select NGNBF&I companies continued to increase gradually from 49.1 per cent in 2011-12 to 55.6 per cent in 2013-14. Further, the shares of bad debt expenses and provisions (inclusive of both depreciation provision and other provisions) in total expenditure declined marginally during the year. The increase in the share of interest expenses in total expenditure during 2013-14 as compared to the previous year was observed among all the activity groups (Statement 3).

4. *Capital Structure: Share of Shareholders' Funds declined gradually*

4.1 The share of shareholders' funds in total liabilities witnessed a gradual decline from 30.9 per cent in 2011-12 to 29.6 per cent in 2013-14 (Chart 4). The decline in the share of shareholders' funds in total liabilities during 2013-14 was witnessed among all the activity groups except for 'Miscellaneous' group of companies (Statement 4).

4.2 The capital structure of select NGNBF&I companies showed that the share of long-term borrowings in total liabilities increased gradually to 33.1 per cent in 2013-14 from 31.7 per cent in 2011-12. Further, the share of long-term loans from banks also increased marginally to 10.6 per cent in 2013-14 from 10.4 per cent in the previous year (Statement 4). However, the share of short-term borrowings in total liabilities declined gradually to 13.6 per cent in 2013-14 from 15.5 per cent in 2011-12 (Chart 4).

Chart 4: Profile of Liabilities Structure: 2011-12 to 2013-14



4.3 A marginal increase in the shares of long-term borrowings in total liabilities was observed among all activity groups except for 'Loan Finance' companies. For 'Loan Finance' companies, the share of both short-term and long-term borrowings in total liabilities declined marginally during 2013-14 as compared to the previous year (Statement 4).

5. Assets Pattern: Share of Long-term Loans and Advances in Total Assets increase gradually

5.1 The increase in the share of long-term loans and advances in total assets was seen in all activity groups, whereas the share of non-current investments in total assets declined in all the activity groups during 2013-14 except for 'Diversified' companies (Statement 5).

5.2 However, the select NGNBF&I companies witnessed marginal decline in the share of short-term loans and advances in total assets during 2013-14 as compared to the previous year. Loans and advances of select NGNBF&I companies, both short-term and long-term together constituted more than 50.0 per cent of the total assets.

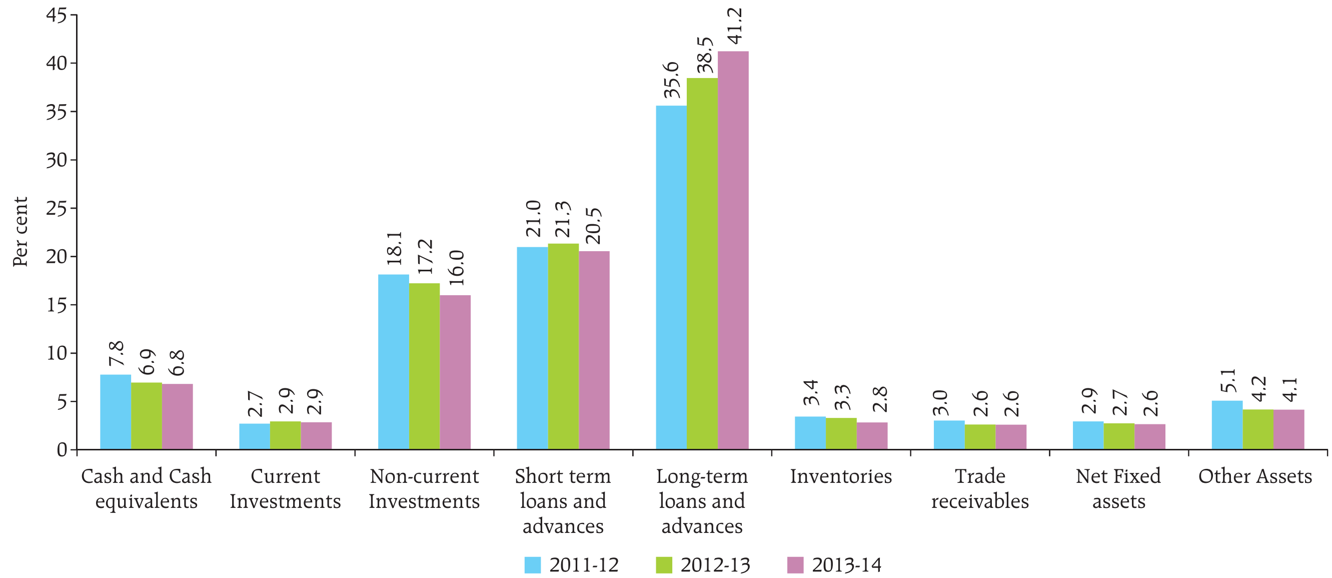
5.3 The assets pattern of select NGNBF&I companies showed that the share of non-current investments in total assets declined in 2013-14 as compared to the previous year with long-term loans and advances substituting for it (Chart 5). The share of non-current investments in total assets declined gradually from 18.1 per cent in 2011-12 to 16.0 per cent in 2013-14, while the share of long-term loans and advances increased to 41.2 per cent in 2013-14 as against 38.5 per cent witnessed in the previous year.

6. Sources of Funds: Share of External Sources of Funds decreased

6.1 With larger role of long-term borrowings in total liabilities structure of select NGNBF&I companies, the external sources continued to play a major role in expanding the business. However, the share of external sources of funds in total sources of funds declined marginally to 72.7 per cent in 2013-14 as against 74.7 per cent recorded in 2012-13.

6.2 The fund raised through debt finance had declined marginally during the year. The share of funds mobilized from long-term borrowings in total sources of funds declined marginally to 34.9 per cent in 2013-14 from 35.3 per cent in 2012-13. However, the share of fund raised through term loans from banks in total sources of funds increased to 12.3 per cent in 2013-14

Chart 5: Profile of Assets Structure: 2011-12 to 2013-14



from 6.0 per cent in the previous year. The decline in the share of external sources of funds in total sources of funds was observed among all the activity groups except for 'Asset Finance' and 'Diversified' companies (Statement 6).

6.3 The share of internal sources of funds in total sources of funds increased to 27.3 per cent in 2013-14 from 25.3 per cent in the previous year, which was largely contributed by lower share of dividend payout in net profit during 2013-14. The increase in the share of internal sources of funds in total sources of funds was observed in all the activity groups except for 'Asset Finance' and 'Diversified' companies (Statement 6).

7. Uses of Funds: Long-term loans financing pick-up in business activity

7.1 The share of long-term loans and advances extended by select NGNBF&I companies in total uses of funds increased significantly to 62.9 per cent in 2013-14 from 48.0 per cent recorded in 2012-13, whereas the share of short-term loans and advances in total uses of funds declined marginally to 13.7 per cent in 2013-14 from 21.0 per cent in the previous year (Statement 7).

7.2 Further, it was also observed that the share of both current and non-current investments in total uses of funds declined to 2.2 per cent and 5.8 per cent in 2013-14 from 3.7 per cent and 11.4 per cent in 2012-13, respectively.

7.3 Increase in the share of long-term loans and advances in total uses of funds during 2013-14 was observed among all the activity groups except for 'Loan finance' companies. Further, decline in the share of short-term loans and advances was observed for 'Loan Finance', 'Asset Finance' and 'Miscellaneous' companies (Statement 7).

8. Performance of Chit Fund and Mutual Fund Companies: Operating Profit margin, RoA and RoE declined gradually over the past three years

8.1 In contrast to the general declining trend observed at aggregate level for the select NGNBF&I companies in their financial performance, the financial income for select 1,416 Chit Fund and Mutual Fund companies grew at higher rate of 15.8 per cent during 2013-14 as against 12.2 per cent registered in previous year. However, their total income grew at lower rate of 9.6 per cent in 2013-14 as compared to 14.1 per cent in 2012-13 (Table 2).

Table 2: Select Growth Rates and Ratios of Chit and Mutual Fund Companies (1,416)

Per cent

Item	2011-12	2012-13	2013-14
Select Growth Rates			
1. Financial Income	-	12.2	15.8
2. Total Income	-	14.1	9.6
3. Total Expenditure	-	14.8	19.6
4. Operating Profits (EBDT)	-	12.3	2.3
5. Net Profits	-	11.9	-39.6
Select Ratios			
1. EBDT to Financial Income	30.3	30.3	26.8
2. Debt to Equity	26.0	30.6	34.4
3. Net profits to Total Net Assets	4.0	3.7	2.1
4. Net profits to Net Worth	12.0	10.9	6.4
5. Borrowings to Total Net Assets	17.9	22.5	27.4
6. Bank Borrowings to Total Borrowings	37.8	20.9	13.0

Note: Figures in parentheses represent total number of chit and mutual fund Companies.

8.2 The total expenditure of select chit and mutual fund companies grew at higher rate of 19.6 per cent in 2013-14 as compared to 14.8 per cent in 2012-13. The operating profits grew at much lower rate in 2013-14 as compared to previous year mainly due to relatively higher growth rate in total expenditure to the total income. The growth in net profits of select chit and mutual fund companies had contracted during 2013-14.

8.3 Following the trend at aggregate level, the leverage ratio (debt to equity ratio) of select chit and mutual fund companies increased gradually over the last three years. However, operating profit margin, RoA and RoE of select chit and mutual fund companies declined gradually over the last three years.

8.4 The share of borrowings to total net assets increased gradually to 27.4 per cent in 2013-14 from 17.9 per cent in 2011-12, whereas the share of borrowings from banks in total borrowings of select chit and mutual fund companies declined gradually from 37.8 per cent in 2011-12 to 13.0 per cent in 2013-14.

9. *Concluding Observations*

9.1 It was observed from the aggregate results of the select 18,225 NGNBF&I companies that the income and expenditure grew at moderate rate during the year 2013-14 as compared to the previous year. Further, the operating profit (EBDT) and net profits also grew at lower rates as compared to the previous year. However, the operating profit margin as well as profitability ratios like return on assets and return on shareholders' equity improved marginally in 2013-14 as compared to the previous year.

9.2 The shares of long-term borrowings in total liabilities of select NGNBF&I companies increased in 2013-14, whereas the share of short-term borrowings in total liabilities declined marginally during the year as compared to the previous year. Further, there was a marginal decline in the share of shareholders' funds in total liabilities. On the assets side, share of long-term loans and advances in total assets increased, whereas the share of short-term loans and advances declined in 2013-14. The share of non-current investments in total assets declined marginally in 2013-14.

9.3 The select NGNBF&I companies continued to rely mainly on external sources for business expansion, however their share had decreased marginally in 2013-14. The share of funds raised through debt finance declined marginally during 2013-14 as compared to the previous year. While the share of long-term loans and advances in total assets increased significantly in 2013-14, indicating that the select NGNBF&I companies used their funds predominantly in expanding their long-term loans portfolios.

Statement 1: Growth Rates of Select Items of the Select 18,225 NGNBF&I Companies: 2012-13 and 2013-14

(Per cent)

Item	All Activities		Share Trading and Investment Holding		Loan Finance	
	(18,225)		(7,862)		(2,646)	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14
1. Financial Income	23.3	13.6	16.9	9.5	25.9	16.3
Of which,						
(a) Interest Received	27.1	15.3	17.8	23.3	25.6	14.4
(b) Dividend Received	3.9	14.3	-8.4	31.1	61.4	11.7
2. Total Income	22.8	13.7	19.1	6.8	27.0	15.8
3. Total Expenditure	21.4	12.9	12.6	7.8	25.6	12.3
4. Interest Payment	30.9	18.6	43.6	23.1	30.9	17.4
5. Employees' Remuneration	14.4	12.1	5.4	10.1	18.2	12.7
6. Operating Profits (EBDT)	27.3	14.8	20.4	11.3	27.5	29.0
7. Net Profits	35.0	19.1	43.0	4.6	42.0	32.1
8. Dividend Paid	61.1	13.2	47.5	5.0	22.9	10.3
9. Profits Retained	15.8	25.1	39.9	4.4	76.8	59.7
10. Investments	15.8	4.9	17.2	1.6	8.2	9.3
11. Total Net Assets	19.8	12.2	13.5	10.4	17.7	13.0
12. Borrowings	19.7	11.3	21.5	12.1	13.7	7.9
Of which, from Banks	4.5	10.2	31.5	13.6	-7.8	21.6
13. Net Worth	17.6	9.1	12.6	7.7	19.9	11.4

Item	Asset Finance		Diversified		Miscellaneous	
	(2,995)		(466)		(4,256)	
1. Financial Income	31.6	15.2	23.2	14.8	19.0	11.3
Of which,						
(a) Interest Received	38.2	16.2	36.2	23.8	24.1	13.1
(b) Dividend Received	-85.6	39.0	74.8	-27.8	-2.4	5.6
2. Total Income	25.0	16.5	21.0	86.1	18.3	11.4
3. Total Expenditure	24.3	14.2	-4.8	16.4	20.8	16.0
4. Interest Payment	29.1	18.2	14.6	58.2	29.2	18.7
5. Employees' Remuneration	16.1	6.6	-1.9	8.6	20.5	15.2
6. Operating Profits (EBDT)	60.1	17.7	#	9.5	14.8	-2.8
7. Net Profits	42.3	30.0	#	#	9.7	-3.4
8. Dividend Paid	30.8	28.5	#	16.9	18.5	23.8
9. Profits Retained	47.5	30.6	#	#	7.9	-9.7
10. Investments	11.2	3.0	12.0	6.3	48.1	2.0
11. Total Net Assets	22.4	15.0	15.3	7.0	28.9	9.5
12. Borrowings	22.8	20.6	61.9	11.2	29.3	7.7
Of which, from Banks	7.2	-3.3	331.1	85.3	20.4	0.3
13. Net Worth	13.6	8.5	-3.9	2.9	31.2	8.9

Note: Figures in brackets below the activity name represents the number of companies in the activity.

is denominator is negative or very small/negligible

Statement 2: Select Financial Ratios of the Select 18,225 NGNBF&I Companies: 2011-12 to 2013-14

(Per cent)

Item	All Activities			Share Trading and Investment Holding			Loan Finance		
	(18,225)			(7,862)			(2,646)		
	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14
1. Dividends to Net Profits	42.4	50.6	48.1	41.6	42.8	43.0	64.6	55.9	46.7
2. Operating Profits to Financial Income	25.3	26.1	26.4	32.6	33.6	34.2	24.0	24.3	26.9
3. Net profits to Total Net Assets	1.8	2.0	2.2	2.4	3.1	2.9	1.5	1.8	2.1
4. Net profits to Net Worth	5.8	6.6	7.3	4.4	5.6	5.4	6.4	7.6	9.0
5. Debt to Equity	102.4	108.1	112.1	19.8	23.4	26.5	165.2	164.1	156.9
6. Borrowings to Total Net Assets	47.1	47.1	46.8	22.9	24.6	24.9	53.7	51.9	49.5
7. Bank Borrowings to Total Borrowings	38.3	33.4	33.1	30.8	33.4	33.8	38.7	31.4	35.4
Item	Asset Finance			Diversified			Miscellaneous		
	(2,995)			(466)			(4,256)		
1. Dividends to Net Profits	30.8	28.3	27.9	#	#	#	17.4	18.8	24.1
2. Operating Profits to Financial Income	17.6	21.5	21.9	-3.0	20.9	20.0	28.3	27.3	23.8
3. Net profits to Total Net Assets	1.2	1.4	1.6	-3.8	-2.3	0.6	3.2	2.7	2.4
4. Net profits to Net Worth	5.0	6.3	7.6	-5.7	-4.1	1.2	10.8	9.0	8.0
5. Debt to Equity	181.3	200.6	221.8	3.1	13.5	21.3	94.6	95.4	102.5
6. Borrowings to Total Net Assets	58.5	58.7	61.5	20.2	28.4	29.5	46.5	46.7	45.9
7. Bank Borrowings to Total Borrowings	32.7	28.5	22.9	1.6	4.2	7.0	49.8	46.4	43.2

Note: Figures in brackets below the activity name represents the number of companies in the activity.
is denominator is negative or very small/negligible

Statement 3: Composition of Income and Expenditure of the Select 18,225 NGNBF&I Companies: 2011-12 to 2013-14

(Per cent)

Items	All Activities			Share Trading and Investment Holding			Loan Finance		
	(18,225)			(7,862)			(2,646)		
	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14
Income									
1. Financial Income	98.9	99.3	99.2	96.5	94.7	97.1	99.6	98.7	99.1
A. Fund-based Income	94.4	95.2	95.2	94.1	92.3	94.6	94.7	94.2	94.7
Of which, (a) Interest	64.1	66.3	67.2	32.5	32.1	37.1	75.8	75.0	74.1
(b) Net Profit/ Loss in Share Dealings	3.2	3.1	3.2	10.2	9.9	10.0	2.6	2.6	2.4
(c) Net Earnings from Hire Purchase Financing	1.9	1.8	1.0	1.7	5.8	1.5	0.3	0.4	0.4
(d) Other Fund-based Income	21.9	21.0	20.7	45.6	41.2	42.0	12.0	11.9	13.5
B. Fee-based Income	4.4	4.0	4.0	2.3	2.4	2.4	4.9	4.5	4.4
Of which, (a) Brokerage	0.8	0.5	0.5	0.1	0.1	-	1.3	1.0	0.9
(b) Other Fee-based Income	3.5	3.4	3.4	1.7	1.9	2.1	3.6	3.5	3.5
2. Non-financial Income	0.8	0.6	0.5	2.4	1.3	1.1	0.3	0.4	0.4
3. Non-operating surplus/deficit	0.3	0.1	0.3	1.2	4.1	1.8	0.1	0.8	0.4
Total Income	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Expenditure									
1. Interest	49.1	53.0	55.6	19.7	25.2	28.8	62.4	65.1	68.0
2. Salaries, Wages and Bonus	14.4	13.5	13.4	23.3	21.8	22.3	9.7	9.2	9.2
3. Provident Fund	0.9	0.9	0.9	1.5	1.6	1.4	0.6	0.6	0.6
4. Employees Welfare Expenses	0.9	0.9	0.8	1.9	1.9	1.4	0.6	0.6	0.5
5. Bad Debts #	0.7	0.7	0.4	1.6	1.3	0.7	0.9	1.0	0.4
6. Other Expenses	27.3	25.2	24.3	43.1	41.5	39.7	19.9	17.5	17.2
7. Other Provisions (other than tax and depreciation)	4.0	3.3	2.4	3.4	1.7	1.4	4.4	4.8	2.7
8. Depreciation Provision	2.7	2.5	2.3	5.5	4.9	4.4	1.4	1.4	1.4
Total Expenditure	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Items	Asset Finance			Diversified			Miscellaneous		
	(2,995)			(466)			(4,256)		
Income									
1. Financial Income	96.2	101.2	100.1	164.5	167.3	103.2	99.4	100.0	99.9
A. Fund-based Income	91.1	96.9	96.2	153.8	162.9	99.3	94.7	95.6	95.2
Of which, (a) Interest	76.7	84.8	84.6	26.8	30.2	20.1	62.9	65.9	67.0
(b) Net Profit/ Loss in Share Dealings	0.5	0.8	1.2	6.0	4.6	6.3	0.8	0.6	1.2
(c) Net Earnings from Hire Purchase Financing	7.2	1.9	1.9	1.3	0.2	2.0	1.0	1.0	0.9
(d) Other Fund-based Income	4.1	8.5	7.7	108.5	112.6	64.7	28.1	26.5	24.7
B. Fee-based Income	5.1	4.3	3.9	10.7	4.5	3.9	4.7	4.4	4.7
Of which, (a) Brokerage	0.7	0.3	0.1	0.6	0.4	0.2	0.5	0.4	0.5
(b) Other Fee-based Income	4.0	3.5	3.4	10.1	4.1	3.8	4.2	4.0	4.2
2. Non-financial Income	0.9	0.3	0.2	0.3	0.2	0.4	0.5	0.6	0.3
3. Non-operating surplus/deficit	3.0	-1.5	-0.3	-64.7	-67.5	-3.6	0.1	-0.6	-0.3
Total Income	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Expenditure									
1. Interest	65.2	67.6	70.0	23.2	27.9	37.9	39.7	42.5	43.5
2. Salaries, Wages and Bonus	8.4	7.8	7.3	28.0	28.9	26.9	18.5	18.5	18.3
3. Provident Fund	0.5	0.6	0.8	1.0	1.2	0.9	1.1	1.1	1.1
4. Employees Welfare Expenses	0.8	0.6	0.6	0.1	0.5	0.7	1.0	0.9	0.9
5. Bad Debts #	0.3	0.1	0.1	0.5	0.8	0.1	0.2	0.5	0.2
6. Other Expenses	19.5	19.9	19.0	33.6	31.9	29.4	32.8	30.1	29.2
7. Other Provisions (other than tax and depreciation)	3.3	1.4	0.4	10.7	5.2	0.5	3.6	3.5	3.9
8. Depreciation Provision	2.1	1.9	1.8	2.9	3.6	3.5	3.0	2.9	2.8
Total Expenditure	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: Figures in brackets below the activity name represents the number of companies in the activity.
Including provisions for bad debts
- Nil or negligible

Statement 4: Profile of Liabilities Structure of the Select 18,225 NGNBF&I Companies: 2011-12 to 2013-14

(Per cent)

Items	All Activities			Share Trading and Investment Holding			Loan Finance		
	(18,225)			(7,862)			(2,646)		
	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14
1. Shareholders' Fund	30.9	30.4	29.6	55.0	54.6	53.2	22.9	23.4	23.1
Of which, (i) Share Capital	7.3	7.1	7.0	12.9	13.1	12.7	5.3	5.4	5.6
(ii) Reserves and Surplus	23.5	23.2	22.5	41.8	41.3	40.3	17.6	18.0	17.5
2. Share application money pending allotment	0.2	0.2	0.1	0.4	0.4	0.4	0.1	0.1	0.1
3. Non-current liabilities	33.5	34.9	35.1	12.3	14.3	15.4	39.2	40.2	38.1
(a) Long-term borrowings (debt)	31.7	32.8	33.1	10.9	12.8	14.1	37.9	38.4	36.2
Of which, (i) Bonds/Debentures	14.5	15.9	16.5	0.1	0.6	1.2	19.0	20.6	19.7
(ii) Term loans	12.4	12.0	11.9	6.4	6.7	7.9	13.4	12.2	11.4
Of which, from banks	11.1	10.4	10.6	4.7	4.6	5.3	11.8	10.0	10.4
(b) Deferred Tax liabilities (Net)	-	-	-	-	-	-	-	-	-
(c) Long-term provisions	0.9	1.0	0.9	0.5	0.5	0.5	0.8	1.1	1.0
(d) Other long-term liabilities	0.9	1.0	1.0	0.9	1.0	0.8	0.5	0.7	0.9
4. Current liabilities	35.4	34.6	35.2	32.3	30.7	30.9	37.7	36.4	38.8
(a) Short-term borrowings	15.5	14.3	13.6	12.1	11.8	10.8	15.8	13.5	13.3
Of which, Loans repayable on demand	8.4	7.1	6.8	4.0	4.7	4.1	10.2	7.3	8.3
Of which, from banks	6.9	5.4	4.9	2.4	3.6	3.2	9.0	6.2	7.1
(b) Trade payables	3.0	2.4	2.4	8.1	6.2	6.7	1.8	1.6	1.7
(c) Short term Provision	1.4	1.3	1.2	2.5	2.1	1.9	1.4	1.3	1.1
(d) Other current liabilities	15.4	16.6	18.0	9.6	10.7	11.6	18.8	20.0	22.6
Total Liabilities	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Items	Asset Finance			Diversified			Miscellaneous		
	(2,995)			(466)			(4,256)		
1. Shareholders' Fund	23.9	22.3	21.0	65.4	55.0	52.9	29.8	30.3	30.3
Of which, (i) Share Capital	5.1	4.7	4.4	11.7	10.4	12.2	8.5	7.5	7.6
(ii) Reserves and Surplus	18.8	17.5	16.6	53.7	44.6	40.7	21.2	22.7	22.6
2. Share application money pending allotment	0.2	0.1	0.1	0.7	0.1	0.1	0.1	0.2	0.1
3. Non-current liabilities	44.6	45.8	47.7	6.5	14.9	18.5	32.1	32.4	34.0
(a) Long-term borrowings (debt)	43.4	44.7	46.6	2.0	7.4	11.3	28.2	28.9	31.0
Of which, (i) Bonds/Debentures	24.9	27.2	31.5	0.1	5.9	9.4	8.5	8.4	7.4
(ii) Term loans	16.1	15.1	12.9	0.1	0.6	1.7	13.4	14.2	16.3
Of which, from banks	15.9	15.0	12.7	0.1	0.5	1.6	12.0	12.5	14.3
(b) Deferred Tax liabilities (Net)	-	-	-	-	-	-	-	-	-
(c) Long-term provisions	0.8	0.7	0.6	4.2	7.0	6.5	1.3	1.0	1.0
(d) Other long-term liabilities	0.4	0.5	0.5	0.3	0.5	0.7	2.6	2.4	2.0
4. Current liabilities	31.3	31.8	31.2	27.3	30.0	28.5	37.9	37.1	35.7
(a) Short-term borrowings	15.1	14.0	15.0	18.2	21.0	18.2	18.3	17.8	14.9
Of which, Loans repayable on demand	4.9	2.5	2.5	0.6	1.1	2.1	13.1	14.2	10.7
Of which, from banks	3.3	1.8	1.4	0.2	0.7	0.4	11.2	9.2	5.5
(b) Trade payables	1.6	1.2	1.0	2.0	1.7	1.6	2.5	2.0	1.5
(c) Short term Provision	0.8	0.7	0.8	0.9	1.1	1.2	1.2	1.2	1.3
(d) Other current liabilities	13.9	15.8	14.4	6.2	6.3	7.4	15.9	16.2	18.1
Total Liabilities	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: Figures in brackets below the activity name represents the number of companies in the activity.
- Nil or negligible

Statement 5: Profile of Assets Structure of the Select 18,225 NGNBF&I Companies: 2011-12 to 2013-14

(Per cent)

Items	All Activities			Share Trading and Investment Holding			Loan Finance		
	(18,225)			(7,862)			(2,646)		
	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14	2011-12	2012-13	2013-14
1. Current Assets	**40.4**	**39.1**	**37.7**	**46.1**	**44.4**	**43.7**	**34.0**	**32.9**	**32.8**
(a) Cash and Cash equivalents	7.8	6.9	6.8	15.2	12.3	11.4	5.6	5.5	5.5
(b) Current Investments	2.7	2.9	2.9	3.7	4.9	4.3	2.3	2.4	2.7
(c) Inventories	3.4	3.3	2.8	6.6	6.7	6.8	2.3	2.2	1.6
(d) Trade receivables	3.0	2.6	2.6	5.4	4.3	4.8	1.4	1.3	1.4
(e) Short term loans and advances	21.0	21.3	20.5	12.9	13.6	14.6	19.4	20.0	19.4
(f) Other current assets	2.4	2.0	2.1	2.3	2.6	1.9	3.0	1.6	2.2
2. Non-Current Assets	**59.6**	**60.9**	**62.3**	**53.9**	**55.6**	**56.3**	**66.0**	**67.1**	**67.2**
(a) Non-current Investments	18.1	17.2	16.0	33.9	33.9	31.4	16.3	14.7	13.9
Of which, Indian Securities	18.1	17.2	15.9	33.9	33.9	31.1	16.1	14.6	13.7
(b) Long-term loans and advances	35.6	38.5	41.2	10.6	12.5	16.7	45.2	49.1	50.3
(c) Deferred tax assets	0.3	0.3	0.3	0.2	0.3	0.3	0.4	0.4	0.4
(d) Net Fixed assets	2.9	2.7	2.6	6.1	6.1	5.8	1.7	1.5	1.4
(e) Other non-current Assets	2.7	2.2	2.1	3.0	2.8	2.0	2.4	1.4	1.2
Total Assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Items	Asset Finance			Diversified			Miscellaneous		
	(2,995)			(466)			(4,256)		
1. Current Assets	**32.7**	**30.9**	**29.0**	**30.5**	**33.8**	**31.8**	**59.2**	**56.9**	**53.3**
(a) Cash and Cash equivalents	3.7	3.5	4.0	10.2	11.8	8.7	9.7	8.5	8.5
(b) Current Investments	1.2	1.5	1.4	8.1	9.6	8.1	3.7	3.2	3.0
(c) Inventories	4.7	4.4	3.4	1.2	1.4	1.9	1.9	1.6	1.5
(d) Trade receivables	2.6	1.9	1.6	2.0	1.7	2.0	5.3	5.0	4.5
(e) Short term loans and advances	19.0	17.7	16.9	6.4	7.1	8.5	36.7	36.3	33.5
(f) Other current assets	1.6	1.9	1.7	2.6	2.2	2.5	1.9	2.2	2.3
2. Non-Current Assets	**67.3**	**69.1**	**71.0**	**69.5**	**66.2**	**68.2**	**40.8**	**43.1**	**46.7**
(a) Non-current Investments	12.2	10.7	9.5	61.1	57.6	58.6	8.3	10.6	9.9
Of which, Indian Securities	12.2	10.7	9.5	61.1	57.6	58.6	8.3	10.6	9.9
(b) Long-term loans and advances	49.6	53.5	55.9	4.8	5.4	6.7	25.7	26.0	30.2
(c) Deferred tax assets	0.2	0.2	0.2	0.1	0.1	0.1	0.2	0.3	0.3
(d) Net Fixed assets	1.8	1.7	1.6	1.8	2.0	1.8	4.1	3.6	3.9
(e) Other non-current Assets	3.4	3.0	3.8	1.6	1.2	1.0	2.4	2.7	2.5
Total Assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: Figures in brackets below the activity name represents the number of companies in the activity.
- Nil or negligible

Statement 6: Composition of Sources of Funds of the Select 18,225 NGNBF&I Companies: 2012-13 and 2013-14

(Per cent)

Item	All Activities		Share Trading and Investment Holding		Loan Finance	
	(18,225)		(7,862)		(2,646)	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14
	Sources of Funds					
Internal Sources	**25.3**	**27.3**	**34.1**	**39.2**	**16.3**	**26.8**
1. Paid-up Capital	4.0	6.0	8.0	7.3	3.7	6.2
2. Reserves and Surplus	10.1	18.5	23.3	31.3	1.0	18.8
3. Provisions	11.2	2.8	2.7	0.6	11.6	1.8
External sources	**74.7**	**72.7**	**65.9**	**60.8**	**83.7**	**73.2**
4. Share Capital and Premium on shares	11.1	-2.0	19.0	1.0	19.0	-4.7
5. Money Received Against Share Warrants	-0.1	-	-	0.1	-	-
6. Share application money pending allotment	-	-	0.1	0.9	-0.1	0.1
7. Long-term borrowings	35.3	34.9	26.1	27.0	37.6	19.0
Of which, (a) Bonds / Debentures	20.6	21.3	4.6	6.6	26.6	13.1
(b) Term loans	9.0	10.5	8.6	18.9	5.1	5.2
Of which, from banks	6.0	12.3	4.0	11.6	-	13.3
8. Deferred Tax Liabilities (Net)	-	-	-	-	-	-
9. Other long-term liabilities	1.4	0.5	1.6	-0.8	1.6	1.9
10. Short-term borrowings	7.3	8.1	9.4	1.3	0.4	11.9
Of which, Loans repayable on demand	0.6	3.9	9.5	-1.2	-8.3	15.9
Of which, from banks	-2.2	0.7	12.1	-0.9	-8.4	13.4
11. Trade payables	-0.8	2.3	-8.4	11.5	0.3	2.9
12. Other current liabilities	20.6	29.0	18.1	19.8	24.9	42.1
Total Sources of Funds	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Item	Asset Finance		Diversified		Miscellaneous	
	(2,995)		(466)		(4,256)	
	Sources of Funds					
Internal Sources	**15.0**	**14.9**	**76.2**	**49.7**	**33.3**	**34.4**
1. Paid-up Capital	3.2	2.1	0.5	30.0	3.8	7.9
2. Reserves and Surplus	9.8	11.6	-3.1	-4.1	20.8	18.5
3. Provisions	2.0	1.3	78.8	23.8	8.7	8.1
External sources	**85.0**	**85.1**	**23.8**	**50.3**	**66.7**	**65.6**
4. Share Capital and Premium on shares	1.7	-1.2	-1.1	-7.3	5.1	2.0
5. Money Received Against Share Warrants	0.1	-	-0.3	-	-0.2	-0.1
6. Share application money pending allotment	-0.3	0.1	-1.1	-0.5	0.4	-1.3
7. Long-term borrowings	49.9	59.2	12.4	52.5	28.9	50.2
Of which, (a) Bonds / Debentures	37.1	60.2	12.8	47.0	7.4	-2.2
(b) Term loans	10.4	-2.0	1.0	13.9	15.4	36.5
Of which, from banks	10.8	-2.6	1.0	13.6	13.2	32.0
8. Deferred Tax Liabilities (Net)	-	-	-	-	0.1	-
9. Other long-term liabilities	0.8	0.5	0.5	2.7	1.5	-2.3
10. Short-term borrowings	8.9	21.4	11.3	-16.5	14.7	-14.6
Of which, Loans repayable on demand	-7.9	2.3	1.1	13.6	16.6	-24.6
Of which, from banks	-4.7	-1.1	1.0	-2.1	1.9	-31.4
11. Trade payables	-0.2	-0.3	-0.1	0.8	0.2	-3.9
12. Other current liabilities	24.1	5.4	2.0	18.7	16.1	35.6
Total Sources of Funds	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: Figures in brackets below the activity name represents the number of companies in the activity.
- Nil or negligible

Statement 7: Composition of Uses of Funds of the Select 18,225 NGNBF&I Companies: 2012-13 and 2013-14

(Per cent)

Items	All Activities		Share Trading and Investment Holding		Loan Finance	
	(18,225)		(7,862)		(2,646)	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14
	Uses of Funds					
1. Current Assets	**29.5**	**26.0**	**30.5**	**37.3**	**24.3**	**31.9**
(a) Cash and Cash equivalents	2.5	5.6	-9.6	3.2	4.4	5.7
(b) Current Investments	3.7	2.2	13.4	-1.2	2.5	4.9
(c) Inventories	2.3	-0.9	7.7	7.2	1.6	-2.9
(d) Trade receivables	0.6	2.4	-3.8	8.9	0.7	2.6
(e) Short term loans and advances	21.0	13.7	17.9	24.5	21.3	14.6
(f) Other current assets	-0.4	2.9	4.9	-5.4	-6.2	7.1
2. Non-Current Assets	**70.5**	**74.0**	**69.5**	**62.7**	**75.7**	**68.1**
(a) Non-current Investments	11.4	5.8	33.3	7.1	5.4	7.3
Of which, Indian Securities	11.4	5.3	33.4	4.1	5.3	7.1
(b) Long-term loans and advances	48.0	62.9	25.5	57.4	64.6	58.7
(c) Deferred tax assets	0.2	0.5	0.6	0.9	-	0.7
(d) Net Fixed assets	10.9	3.8	8.9	3.1	9.2	2.2
(e) Other non-current Assets	-	1.0	1.2	-5.8	-3.5	-0.8
Total Uses of Funds	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Items	Asset Finance		Diversified		Miscellaneous	
	(2,995)		(466)		(4,256)	
	Uses of Funds					
1. Current Assets	**22.4**	**16.5**	**16.1**	**2.6**	**45.0**	**14.6**
(a) Cash and Cash equivalents	2.4	7.6	6.5	-28.2	4.2	7.5
(b) Current Investments	3.0	0.9	5.6	-10.1	1.4	0.6
(c) Inventories	3.0	-3.3	0.9	7.0	0.6	0.3
(d) Trade receivables	-1.0	-0.2	-0.1	5.1	3.7	-0.6
(e) Short term loans and advances	11.9	11.5	3.5	22.7	32.1	4.1
(f) Other current assets	3.2	-	-0.2	6.1	3.0	2.6
2. Non-Current Assets	**77.6**	**83.5**	**83.9**	**97.4**	**55.0**	**85.4**
(a) Non-current Investments	3.6	1.5	10.1	58.0	17.0	2.1
Of which, Indian Securities	3.6	1.5	10.1	58.0	17.0	2.1
(b) Long-term loans and advances	69.6	72.1	2.5	20.3	24.9	70.2
(c) Deferred tax assets	0.3	0.1	-	0.7	0.3	0.1
(d) Net Fixed assets	2.5	0.5	71.7	20.1	9.1	12.5
(e) Other non-current Assets	1.6	9.3	-0.5	-1.8	3.6	0.4
Total Uses of Funds	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: Figures in brackets below the activity name represents the number of companies in the activity.
- Nil or negligible

CURRENT STATISTICS

Contents

Notes: .. = Not available.
– = Nil/Negligible.
P = Preliminary/Provisional. PR = Partially Revised.

No. 1: Select Economic Indicators

Item	2014-15	2013-14	2014-15		2015-16
		Q4	Q1	Q4	Q1
	1	2	3	4	5
1 Real Sector (% Change)					
1.1 GVA at Basic Prices	7.2	5.3	7.4	6.1	7.1
1.1.1 Agriculture	0.2	4.4	2.6	-1.4	1.9
1.1.2 Industry	6.6	5.5	8.1	7.2	6.4
1.1.3 Services	9.4	5.6	8.4	8.0	8.6
1.1a Final Consumption Expenditure	6.4	4.7	5.3	5.5	6.3
1.1b Gross Fixed Capital Formation	4.6	-1.4	8.7	4.1	4.9

	2014-15	2014		2015	
		Jul.	Aug.	Jul.	Aug.
	1	2	3	4	5
1.2 Index of Industrial Production	2.5	0.9	0.5	4.2	..
2 Money and Banking (% Change)					
2.1 Scheduled Commercial Banks					
2.1.1 Deposits	10.7	12.3	12.9	11.8	11.4
2.1.2 Credit	9.0	12.8	10.4	9.4	9.3
2.1.2.1 Non-food Credit	9.3	12.8	10.5	9.6	9.5
2.1.3 Investment in Govt. Securities	12.6	5.9	10.6	14.8	13.4
2.2 Money Stock Measures					
2.2.1 Reserve Money (M0)	10.2	11.3	9.6	10.8	11.0
2.2.2 Broad Money (M3)	11.0	12.4	12.8	11.5	11.4
3 Ratios (%)					
3.1 Cash Reserve Ratio	4.00	4.00	4.00	4.00	4.00
3.2 Statutory Liquidity Ratio	21.50	22.50	22.00	21.50	21.50
3.3 Cash-Deposit Ratio	4.8	4.9	5.1	4.8	4.7
3.4 Credit-Deposit Ratio	75.7	76.6	75.8	74.9	74.3
3.5 Incremental Credit-Deposit Ratio	46.3	38.6	32.5	34.2	31.4
3.6 Investment-Deposit Ratio	29.7	29.1	29.4	29.8	30.0
3.7 Incremental Investment-Deposit Ratio	45.9	41.1	44.8	45.3	44.9
4 Interest Rates (%)					
4.1 Policy Repo Rate	7.25	8.00	8.00	7.25	7.25
4.2 Reverse Repo Rate	6.25	7.00	7.00	6.25	6.25
4.3 Marginal Standing Facility (MSF) Rate	8.25	9.00	9.00	8.25	8.25
4.4 Bank Rate	8.25	9.00	9.00	8.25	8.25
4.5 Base Rate	10.00/10.25	10.00/10.25	10.00/10.25	9.70/10.00	9.70/10.00
4.6 Term Deposit Rate >1 Year	8.00/8.75	8.00/9.05	8.00/9.05	8.00/8.25	7.25/8.00
4.7 Savings Deposit Rate	4.00	4.00	4.00	4.00	4.00
4.8 Call Money Rate (Weighted Average)	7.36	8.67	8.01	7.03	7.03
4.9 91-Day Treasury Bill (Primary) Yield	8.27	8.65	8.60	7.48	7.44
4.10 182-Day Treasury Bill (Primary) Yield	8.14	8.71	8.68	7.53	7.49
4.11 364-Day Treasury Bill (Primary) Yield	7.98	8.70	8.68	7.62	7.54
4.12 10-Year Government Securities Yield	7.80	8.51	8.57	7.84	7.79
5 RBI Reference Rate and Forward Premia					
5.1 INR-US$ Spot Rate (₹ Per Foreign Currency)	62.59	60.25	60.47	63.89	66.08
5.2 INR-Euro Spot Rate (₹ Per Foreign Currency)	67.51	80.70	79.86	70.12	74.37
5.3 Forward Premia of US$ 1-month (%)	9.78	8.76	9.82	7.32	6.81
3-month (%)	8.50	8.63	8.47	7.20	6.72
6-month (%)	8.11	8.56	8.43	7.20	6.64
6 Inflation (%)					
6.1 All India Consumer Price Index	5.9	8.0	7.7	3.7	3.7
6.2 Consumer Price Index for Industrial Workers	6.3	7.2	6.8	4.4	4.4
6.3 Wholesale Price Index	2.0	5.4	3.9	-4.1	-5.0
6.3.1 Primary Articles	3.0	6.8	3.7	-3.7	-3.7
6.3.2 Fuel and Power	-0.9	7.4	4.5	-12.8	-16.5
6.3.3 Manufactured Products	2.4	4.1	3.7	-1.5	-1.9
7 Foreign Trade (% Change)					
7.1 Imports	-0.6	4.5	1.2	-9.9	-10.1
7.2 Exports	-1.2	-0.2	1.6	-9.7	-20.6

Reserve Bank of India

No. 2: RBI - Liabilities and Assets

(₹ Billion)

Item	As on the Last Friday/ Friday						
	2014-15	2014	2015				
		Sep.	Aug. 28	Sep. 4	Sep. 11	Sep. 18	Sep. 25
	1	2	3	4	5	6	7
1 Issue Department							
1.1 Liabilities							
1.1.1 Notes in Circulation	14,264.95	13,160.74	14,580.67	14,694.17	14,786.70	14,792.22	14,716.09
1.1.2 Notes held in Banking Department	0.12	0.10	0.14	0.16	0.12	0.14	0.17
1.1/1.2 Total Liabilities (Total Notes Issued) or Assets	**14,265.06**	**13,160.84**	**14,580.81**	**14,694.32**	**14,786.82**	**14,792.36**	**14,716.25**
1.2 Assets							
1.2.1 Gold Coin and Bullion	642.29	663.35	612.09	626.63	626.63	626.63	626.63
1.2.2 Foreign Securities	13,609.92	12,484.50	13,956.44	14,055.82	14,146.91	14,152.96	14,077.30
1.2.3 Rupee Coin	2.38	2.54	1.82	1.41	2.81	2.31	1.86
1.2.4 Government of India Rupee Securities	10.46	10.46	10.46	10.46	10.46	10.46	10.46
2 Banking Department							
2.1 Liabilities							
2.1.1 Deposits	5,953.69	4,031.33	5,076.70	5,224.41	4,836.54	5,349.50	5,328.66
2.1.1.1 Central Government	1.01	1.00	1.01	1.00	1.01	1.01	1.36
2.1.1.2 Market Stabilisation Scheme	–	–	–	–	–	–	–
2.1.1.3 State Governments	21.40	0.42	0.42	0.42	0.42	0.42	0.47
2.1.1.4 Scheduled Commercial Banks	3,573.56	3,379.26	3,677.13	3,671.27	3,608.07	3,799.90	3,742.46
2.1.1.5 Scheduled State Co-operative Banks	35.10	33.84	32.74	32.81	31.69	32.45	32.49
2.1.1.6 Non-Scheduled State Co-operative Banks	11.24	7.02	12.34	12.96	12.46	12.53	12.06
2.1.1.7 Other Banks	189.63	173.37	192.10	193.94	192.29	194.58	193.99
2.1.1.8 Others	2,121.76	436.42	1,160.97	1,312.01	990.59	1,308.61	1,345.84
2.1.2 Other Liabilities	8,002.15	8,359.98	9,117.65	9,130.36	9,258.58	9,147.03	9,077.52
2.1/2.2 Total Liabilities or Assets	**13,955.84**	**12,391.31**	**14,194.36**	**14,354.78**	**14,095.12**	**14,496.53**	**14,406.17**
2.2 Assets							
2.2.1 Notes and Coins	0.12	0.10	0.15	0.16	0.12	0.14	0.17
2.2.2 Balances held Abroad	6,408.77	5,376.86	7,908.77	7,803.89	7,862.52	7,754.66	7,751.54
2.2.3 Loans and Advances							
2.2.3.1 Central Government	–	–	–	359.27	–	–	–
2.2.3.2 State Governments	57.60	7.51	22.73	23.21	17.32	42.96	27.72
2.2.3.3 Scheduled Commercial Banks	1,403.93	745.16	141.98	93.84	160.67	640.36	588.13
2.2.3.4 Scheduled State Co-op.Banks	–	0.35	0.35	0.35	0.35	0.35	–
2.2.3.5 Industrial Dev. Bank of India	–	–	–	–	–	–	–
2.2.3.6 NABARD	–	–	–	–	–	–	–
2.2.3.7 EXIM Bank	–	–	–	–	–	–	–
2.2.3.8 Others	107.73	91.37	47.73	35.25	45.70	52.47	52.48
2.2.4 Bills Purchased and Discounted							
2.2.4.1 Internal	–	–	–	–	–	–	–
2.2.4.2 Government Treasury Bills	–	–	–	–	–	–	–
2.2.5 Investments	5,260.32	5,388.38	5,298.06	5,254.67	5,234.99	5,235.85	5,236.70
2.2.6 Other Assets	717.38	781.57	774.59	784.14	773.44	769.74	749.43
2.2.6.1 Gold	583.45	602.57	556.01	569.22	569.22	569.22	569.22

No. 3: Liquidity Operations by RBI

(₹ Billion)

Date	Liquidity Adjustment Facility				MSF	Standing Liquidity Facilities	OMO (Outright)		Net Injection (+)/ Absorption (-) (1+3+5+6+8-2-4-7)
	Repo	Reverse Repo	Variable Rate Repo	Variable Rate Reverse Repo			Sale	Purchase	
	1	2	3	4	5	6	7	8	9
Aug. 1, 2015	–	237.55	–	–	–	–	–	–	–237.55
Aug. 3, 2015	21.56	52.67	–	571.98	1.80	–0.80	4.70	–	–606.79
Aug. 4, 2015	21.42	38.01	96.25	96.09	0.45	–	1.05	–	–17.03
Aug. 5, 2015	25.06	29.59	–	89.15	5.65	–	0.85	–	–88.88
Aug. 6, 2015	26.74	20.47	–	73.89	–	–	1.35	–	–68.97
Aug. 7, 2015	24.73	39.56	91.05	292.40	4.75	–	5.15	–	–216.58
Aug. 8, 2015	–	3.93	–	–	–	–	–	–	–3.93
Aug. 10, 2015	19.56	22.97	–	341.62	1.52	–	2.05	–	–345.56
Aug. 11, 2015	20.26	22.17	58.50	131.38	2.00	–	3.25	–	–76.04
Aug. 12, 2015	56.62	27.50	–	112.69	0.30	–	3.85	–	–87.12
Aug. 13, 2015	59.37	11.99	–	141.00	6.10	–	2.20	–	–89.72
Aug. 14, 2015	25.86	36.06	48.35	158.57	–	–4.10	6.00	–	–130.52
Aug. 17, 2015	141.47	15.93	103.00	13.95	0.30	1.00	6.45	–	209.44
Aug. 18, 2015	–	87.80	–	–	6.75	–	–	–	–81.05
Aug. 19, 2015	33.96	36.15	–	256.82	2.50	–2.00	2.30	–	–260.81
Aug. 20, 2015	32.46	43.57	–	130.38	–	2.10	5.85	–	–145.24
Aug. 21, 2015	44.06	33.69	9.00	174.39	12.45	–	0.80	–	–143.37
Aug. 22, 2015	–	14.40	–	–	7.50	–	–	–	–6.90
Aug. 24, 2015	125.08	55.72	–	50.13	47.11	–	1.00	–	65.34
Aug. 25, 2015	129.83	71.65	9.50	60.27	–	–	1.35	–	6.06
Aug. 26, 2015	107.30	21.38	–	82.65	9.90	–	4.40	–	8.77
Aug. 27, 2015	111.83	48.98	–	55.92	2.25	–4.50	5.60	–	–0.92
Aug. 28, 2015	39.14	83.31	10.50	143.06	2.00	4.50	5.30	–	–175.53
Aug. 29, 2015	–	29.47	–	–	–	–	–	–	–29.47
Aug. 31, 2015	54.73	65.58	–	109.49	13.50	–	7.05	–	–113.89

No. 4: Sale/ Purchase of U.S. Dollar by the RBI

Item	2014-15	2014	2015	
		Aug.	Jul.	Aug.
	1	2	3	4
1 Net Purchase/ Sale of Foreign Currency (US$ Million) (1.1–1.2)	54,837.00	–511.00	169.00	–1,559.00
1.1 Purchase (+)	124,414.00	3,964.00	4,123.00	4,486.00
1.2 Sale (–)	69,577.00	4,475.00	3,954.00	6,045.00
2 ₹ equivalent at contract rate (₹ Billion)	3,308.59	–42.10	13.86	–104.30
3 Cumulative (over end-March) (US $ Million)	56,882.00	15,240.00	8,743.00	7,184.00
(₹ Billion)	3,430.69	880.17	562.79	458.49
4 Outstanding Net Forward Sales (–)/ Purchase (+) at the end of month (US$ Million)	8,322.00	5,818.00	4,599.00	2,901.00

No. 4 A : Maturity Breakdown (by Residual Maturity) of Outstanding Forwards of RBI (US$ Million)

Item	As on August 31, 2015		
	Long (+)	Short (-)	Net (1-2)
	1	2	3
1. Upto 1 month	4,655	2,060	2,595
2. More than 1 month and upto 3 months	7,424	1,851	5,573
3. More than 3 months and upto 1 year	17,980	320	17,660
4. More than 1 year	3,042	25,969	-22,927
Total (1+2+3+4)	33,101	30,200	2,901

No. 5: RBI's Standing Facilities

(₹ Billion)

Item	As on the Last Reporting Friday							
	2014-15	2014	2015					
		Aug. 22	Apr. 17	May 29	Jun. 26	Jul. 24	Aug. 21	Sep. 18
	1	2	3	4	5	6	7	8
1 MSF	41.9	12.0	2.2	13.1	–	0.5	12.5	81.8
2 Export Credit Refinance for Scheduled Banks								
2.1 Limit	128.2	320.7	127.1	127.1	127.1	127.1	–	–
2.2 Outstanding	51.8	137.4	45.5	39.9	36.6	12.3	–	–
3 Liquidity Facility for PDs								
3.1 Limit	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0
3.2 Outstanding	17.0	23.5	20.6	20.6	20.3	16.0	16.5	16.5
4 Others								
4.1 Limit	–	–	–	–	–	–	–	–
4.2 Outstanding	–	–	–	–	–	–	–	–
5 Total Outstanding (1+2.2+3.2+4.2)	110.7	172.9	68.3	73.5	56.9	28.8	29.0	98.3

Money and Banking

No. 6: Money Stock Measures

(₹ Billion)

Item	Outstanding as on March 31/last reporting Fridays of the month/reporting Fridays				
	2014-15	2014	2015		
		Aug. 22	Jul. 24	Aug. 7	Aug. 21
	1	2	3	4	5
1 Currency with the Public (1.1 + 1.2 + 1.3 – 1.4)	13,863.5	12,924.0	14,230.0	14,250.7	14,211.5
1.1 Notes in Circulation	14,288.8	13,320.2	14,675.9	14,681.9	14,663.3
1.2 Circulation of Rupee Coin	186.9	175.2	192.5	192.5	192.5
1.3 Circulation of Small Coins	7.4	7.4	7.4	7.4	7.4
1.4 Cash on Hand with Banks	619.6	578.8	645.8	631.1	651.8
2 Deposit Money of the Public	9,053.4	8,179.9	9,174.2	9,141.5	9,282.4
2.1 Demand Deposits with Banks	8,907.5	8,114.6	8,973.5	8,989.5	9,131.0
2.2 'Other' Deposits with Reserve Bank	145.9	65.3	200.7	151.9	151.3
3 M_1 (1 + 2)	**22,916.8**	**21,103.9**	**23,404.2**	**23,392.2**	**23,493.8**
4 Post Office Saving Bank Deposits	467.0	446.1	508.5	508.5	508.5
5 M_2 (3 + 4)	**23,383.8**	**21,550.0**	**23,912.7**	**23,900.6**	**24,002.3**
6 Time Deposits with Banks	82,538.7	77,744.1	86,028.0	86,577.5	86,644.9
7 M_3 (3 + 6)	**105,455.5**	**98,848.0**	**109,432.2**	**109,969.6**	**110,138.7**
8 Total Post Office Deposits	1,729.2	1,656.3	1,826.8	1,826.8	1,826.8
9 M_4 (7 + 8)	**107,184.7**	**100,504.3**	**111,259.0**	**111,796.4**	**111,965.5**

No. 7: Sources of Money Stock (M_3)

(₹ Billion)

Sources	Outstanding as on March 31/last reporting Fridays of the month/reporting Fridays				
	2014-15	2014	2015		
		Aug. 22	Jul. 24	Aug. 7	Aug. 21
	1	2	3	4	5
1 Net Bank Credit to Government	**30,061.6**	**30,141.6**	**32,859.6**	**33,780.7**	**33,057.6**
1.1 RBI's net credit to Government (1.1.1–1.1.2)	3,645.2	5,165.5	4,853.8	5,488.6	4,713.4
1.1.1 Claims on Government	5,293.6	5,409.8	5,105.4	5,490.0	5,335.3
1.1.1.1 Central Government	5,258.3	5,399.5	5,076.0	5,470.2	5,314.3
1.1.1.2 State Governments	35.3	10.3	29.4	19.9	21.0
1.1.2 Government deposits with RBI	1,648.4	244.3	251.7	1.4	621.9
1.1.2.1 Central Government	1,647.9	243.9	251.2	1.0	621.5
1.1.2.2 State Governments	0.4	0.4	0.4	0.4	0.4
1.2 Other Banks' Credit to Government	26,416.3	24,976.1	28,005.8	28,292.1	28,344.2
2 Bank Credit to Commercial Sector	**70,395.8**	**65,614.2**	**71,471.9**	**71,627.2**	**71,552.9**
2.1 RBI's credit to commercial sector	148.5	111.2	46.2	50.4	55.1
2.2 Other banks' credit to commercial sector	70,247.4	65,503.0	71,425.7	71,576.8	71,497.8
2.2.1 Bank credit by commercial banks	65,364.2	60,869.0	66,560.9	66,716.4	66,662.5
2.2.2 Bank credit by co-operative banks	4,825.1	4,579.3	4,810.5	4,808.4	4,776.0
2.2.3 Investments by commercial and co-operative banks in other securities	58.0	54.7	54.3	52.0	59.3
3 Net Foreign Exchange Assets of Banking Sector (3.1 + 3.2)	**22,506.5**	**20,057.9**	**23,702.8**	**23,663.7**	**24,415.4**
3.1 RBI's net foreign exchange assets (3.1.1–3.1.2)	21,272.8	19,065.9	22,469.1	22,430.0	23,181.7
3.1.1 Gross foreign assets	21,273.0	19,066.2	22,469.4	22,430.3	23,182.0
3.1.2 Foreign liabilities	0.2	0.3	0.3	0.3	0.3
3.2 Other banks' net foreign exchange assets	1,233.7	992.0	1,233.7	1,233.7	1,233.7
4 Government's Currency Liabilities to the Public	**194.3**	**182.6**	**199.9**	**199.9**	**199.9**
5 Banking Sector's Net Non-monetary Liabilities	**17,702.7**	**17,148.3**	**18,802.0**	**19,301.9**	**19,087.1**
5.1 Net non-monetary liabilities of RBI	7,852.7	8,269.2	8,600.6	8,888.0	8,996.7
5.2 Net non-monetary liabilities of other banks (residual)	9,849.9	8,879.1	10,201.4	10,413.9	10,090.4
M_3 (1+2+3+4–5)	**105,455.5**	**98,848.0**	**109,432.2**	**109,969.6**	**110,138.7**

No. 8: Monetary Survey

(₹ Billion)

Item	Outstanding as on March 31/last reporting Fridays of the month/reporting Fridays				
	2014-15	2014	2015		
		Aug. 22	Jul. 24	Aug. 7	Aug. 21
	1	2	3	4	5
Monetary Aggregates					
NM_1 (1.1 + 1.2.1+1.3)	22,916.8	21,103.9	23,404.2	23,392.2	23,493.8
NM_2 (NM_1+ 1.2.2.1)	58,851.4	54,917.6	60,843.6	61,075.7	61,167.6
NM_3 (NM_2 + 1.2.2.2 + 1.4 = 2.1 + 2.2 + 2.3 – 2.4 – 2.5)	105,030.2	98,186.2	108,993.3	109,507.9	109,624.9
1 Components					
1.1 Currency with the Public	13,863.5	12,924.0	14,230.0	14,250.7	14,211.5
1.2 Aggregate Deposits of Residents	88,762.2	83,256.2	92,172.1	92,730.8	92,850.5
1.2.1 Demand Deposits	8,907.5	8,114.6	8,973.5	8,989.5	9,131.0
1.2.2 Time Deposits of Residents	79,854.7	75,141.6	83,198.6	83,741.3	83,719.5
1.2.2.1 Short-term Time Deposits	35,934.6	33,813.7	37,439.4	37,683.6	37,673.8
1.2.2.1.1 Certificates of Deposit (CDs)	2,974.5	3,478.0	2,233.8	2,002.0	2,017.3
1.2.2.2 Long-term Time Deposits	43,920.1	41,327.9	45,759.2	46,057.7	46,045.7
1.3 'Other' Deposits with RBI	145.9	65.3	200.7	151.9	151.3
1.4 Call/Term Funding from Financial Institutions	2,258.7	1,940.6	2,390.5	2,374.4	2,411.6
2 Sources					
2.1 Domestic Credit	105,143.8	100,077.3	109,215.0	110,395.0	109,725.5
2.1.1 Net Bank Credit to the Government	30,061.6	30,141.6	32,859.6	33,780.7	33,057.6
2.1.1.1 Net RBI credit to the Government	3,645.2	5,165.5	4,853.8	5,488.6	4,713.4
2.1.1.2 Credit to the Government by the Banking System	26,416.3	24,976.1	28,005.8	28,292.1	28,344.2
2.1.2 Bank Credit to the Commercial Sector	75,082.2	69,935.7	76,355.4	76,614.3	76,667.9
2.1.2.1 RBI Credit to the Commercial Sector	148.5	111.2	46.2	50.4	55.1
2.1.2.2 Credit to the Commercial Sector by the Banking System	74,933.8	69,824.5	76,309.2	76,563.9	76,612.8
2.1.2.2.1 Other Investments (Non-SLR Securities)	4,653.3	4,282.3	4,823.2	4,941.2	5,054.0
2.2 Government's Currency Liabilities to the Public	194.3	182.6	199.9	199.9	199.9
2.3 Net Foreign Exchange Assets of the Banking Sector	19,441.0	17,440.6	19,866.3	19,788.9	20,544.0
2.3.1 Net Foreign Exchange Assets of the RBI	21,272.8	19,065.9	22,469.1	22,430.0	23,181.7
2.3.2 Net Foreign Currency Assets of the Banking System	–1,831.8	–1,625.3	–2,602.8	–2,641.0	–2,637.7
2.4 Capital Account	16,773.5	16,704.1	17,324.8	17,327.1	17,291.4
2.5 Other items (net)	2,975.3	2,810.2	2,963.1	3,548.9	3,553.1

No. 9: Liquidity Aggregates

(₹ Billion)

Aggregates	2014-15	2014	2015		
		Aug.	Jun.	Jul.	Aug.
	1	2	3	4	5
1 NM_3	**105,030.2**	**98,186.2**	**108,137.4**	**108,993.3**	**109,624.9**
2 Postal Deposits	1,729.2	1,656.3	1,797.9	1,826.8	1,826.8
3 L_1 (1 + 2)	**106,759.4**	**99,842.5**	**109,935.2**	**110,820.1**	**111,451.7**
4 Liabilities of Financial Institutions	29.3	29.3	29.3	29.3	29.3
4.1 Term Money Borrowings	26.6	26.6	26.6	26.6	26.6
4.2 Certificates of Deposit	0.3	0.3	0.3	0.3	0.3
4.3 Term Deposits	2.5	2.5	2.5	2.5	2.5
5 L_2 (3 + 4)	**106,788.7**	**99,871.8**	**109,964.5**	**110,849.4**	**111,481.0**
6 Public Deposits with Non-Banking Financial Companies	297.4	..	297.4	..	..
7 L_3 (5 + 6)	**107,086.1**	..	**110,262.0**	..	..

No. 10: Reserve Bank of India Survey

(₹ Billion)

Item	Outstanding as on March 31/last reporting Fridays of the month/reporting Fridays				
	2014-15	2014	2015		
		Aug. 22	Jul. 24	Aug. 7	Aug. 21
	1	2	3	4	5
1 Components					
1.1 Currency in Circulation	14,483.1	13,502.8	14,875.9	14,881.8	14,863.3
1.2 Bankers' Deposits with the RBI	4,655.6	3,497.5	3,928.5	3,921.2	3,925.9
1.2.1 Scheduled Commercial Banks	4,396.7	3,284.4	3,692.7	3,684.1	3,688.9
1.3 'Other' Deposits with the RBI	145.9	65.3	200.7	151.9	151.3
Reserve Money (1.1 + 1.2 + 1.3 = 2.1 + 2.2 + 2.3 – 2.4 – 2.5)	19,284.6	17,065.7	19,005.0	18,955.0	18,940.4
2 Sources					
2.1 RBI's Domestic Credit	5,670.3	6,086.4	4,936.6	5,213.1	4,555.5
2.1.1 Net RBI credit to the Government	3,645.2	5,165.5	4,853.8	5,488.6	4,713.4
2.1.1.1 Net RBI credit to the Central Government (2.1.1.1.1 + 2.1.1.1.2 + 2.1.1.1.3 + 2.1.1.1.4 – 2.1.1.1.5)	3,610.4	5,155.6	4,824.8	5,469.2	4,692.8
2.1.1.1.1 Loans and Advances to the Central Government	–	–	–	123.5	–
2.1.1.1.2 Investments in Treasury Bills	–	–	–	–	–
2.1.1.1.3 Investments in dated Government Securities	5,256.2	5,396.9	5,073.6	5,345.2	5,311.9
2.1.1.1.3.1 Central Government Securities	5,245.7	5,386.5	5,063.2	5,334.8	5,301.4
2.1.1.1.4 Rupee Coins	2.2	2.5	2.4	1.5	2.4
2.1.1.1.5 Deposits of the Central Government	1,647.9	243.9	251.2	1.0	621.5
2.1.1.2 Net RBI credit to State Governments	34.9	9.9	29.0	19.4	20.6
2.1.2 RBI's Claims on Banks	1,876.6	809.7	36.6	-326.0	-213.0
2.1.2.1 Loans and Advances to Scheduled Commercial Banks	1,876.1	808.2	36.2	-326.3	-213.4
2.1.3 RBI's Credit to Commercial Sector	148.5	111.2	46.2	50.4	55.1
2.1.3.1 Loans and Advances to Primary Dealers	24.1	23.5	16.0	19.5	16.5
2.1.3.2 Loans and Advances to NABARD	–	–	–	–	–
2.2 Government's Currency Liabilities to the Public	194.3	182.6	199.9	199.9	199.9
2.3 Net Foreign Exchange Assets of the RBI	21,272.8	19,065.9	22,469.1	22,430.0	23,181.7
2.3.1 Gold	1,191.6	1,275.6	1,216.1	1,168.1	1,168.1
2.3.2 Foreign Currency Assets	20,081.4	17,790.4	21,253.2	21,262.1	22,013.8
2.4 Capital Account	8,166.4	8,364.2	8,145.0	8,145.0	8,145.0
2.5 Other Items (net)	-313.7	-95.0	455.6	743.0	851.7

No. 11: Reserve Money - Components and Sources

(₹ Billion)

Item	Outstanding as on March 31/ last Fridays of the month/ Fridays						
	2014-15	2014	2015				
		Aug. 29	Jul. 31	Aug. 7	Aug. 14	Aug. 21	Aug. 28
	1	2	3	4	5	6	7
Reserve Money (1.1 + 1.2 + 1.3 = 2.1 + 2.2 + 2.3 + 2.4 + 2.5 – 2.6)	19,284.6	17,269.2	18,807.6	18,955.0	18,934.9	18,940.4	18,847.9
1 Components							
1.1 Currency in Circulation	14,483.1	13,389.3	14,750.1	14,881.8	14,941.8	14,863.3	14,780.6
1.2 Bankers' Deposits with RBI	4,655.6	3,810.9	3,894.4	3,921.2	3,843.3	3,925.9	3,914.3
1.3 'Other' Deposits with RBI	145.9	69.0	163.2	151.9	149.9	151.3	153.0
2 Sources							
2.1 Net Reserve Bank Credit to Government	3,645.2	5,356.2	5,009.2	5,488.6	4,773.4	4,713.4	4,694.5
2.2 Reserve Bank Credit to Banks	1,876.6	829.8	-282.0	-326.0	-292.6	-213.0	-200.2
2.3 Reserve Bank Credit to Commercial Sector	148.5	119.1	53.6	50.4	51.0	55.1	60.7
2.4 Net Foreign Exchange Assets of RBI	21,272.8	19,080.3	22,496.6	22,430.0	22,903.9	23,181.7	23,033.0
2.5 Government's Currency Liabilities to the Public	194.3	182.6	199.9	199.9	199.9	199.9	199.9
2.6 Net Non- Monetary Liabilities of RBI	7,852.7	8,298.8	8,669.7	8,888.0	8,700.7	8,996.7	8,940.1

No. 12: Commercial Bank Survey

(₹ Billion)

Item	Outstanding as on last reporting Fridays of the month/ reporting Fridays of the month				
	2014-15	2014	2015		
		Aug. 22	Jul. 24	Aug. 7	Aug. 21
	1	2	3	4	5
1 Components					
1.1 Aggregate Deposits of Residents	82,648.9	77,456.2	86,003.8	86,556.3	86,671.6
1.1.1 Demand Deposits	7,940.3	7,193.3	7,981.0	8,001.1	8,142.6
1.1.2 Time Deposits of Residents	74,708.6	70,262.8	78,022.7	78,555.2	78,529.0
1.1.2.1 Short-term Time Deposits	33,618.9	31,618.3	35,110.2	35,349.8	35,338.0
1.1.2.1.1 Certificates of Deposits (CDs)	2,974.5	3,478.0	2,233.8	2,002.0	2,017.3
1.1.2.2 Long-term Time Deposits	41,089.7	38,644.6	42,912.5	43,205.3	43,190.9
1.2 Call/Term Funding from Financial Institutions	2,258.7	1,940.6	2,390.5	2,374.4	2,411.6
2 Sources					
2.1 Domestic Credit	94,881.9	88,650.9	97,862.6	98,393.1	98,529.2
2.1.1 Credit to the Government	24,897.5	23,530.6	26,479.7	26,753.5	26,816.5
2.1.2 Credit to the Commercial Sector	69,984.3	65,120.2	71,382.8	71,639.6	71,712.8
2.1.2.1 Bank Credit	65,364.2	60,869.0	66,560.9	66,716.4	66,662.5
2.1.2.1.1 Non-food Credit	64,420.0	59,791.2	65,475.2	65,701.9	65,635.7
2.1.2.2 Net Credit to Primary Dealers	35.7	41.9	62.9	48.5	63.6
2.1.2.3 Investments in Other Approved Securities	20.7	16.7	25.5	23.1	22.3
2.1.2.4 Other Investments (in non-SLR Securities)	4,563.7	4,192.6	4,733.6	4,851.5	4,964.4
2.2 Net Foreign Currency Assets of Commercial Banks (2.2.1–2.2.2–2.2.3)	–1,831.8	–1,625.3	–2,602.8	–2,641.0	–2,637.7
2.2.1 Foreign Currency Assets	1,647.0	1,724.0	1,208.7	1,159.8	1,273.3
2.2.2 Non-resident Foreign Currency Repatriable Fixed Deposits	2,684.0	2,602.5	2,829.4	2,836.2	2,925.4
2.2.3 Overseas Foreign Currency Borrowings	794.8	746.8	982.1	964.7	985.6
2.3 Net Bank Reserves (2.3.1+2.3.2–2.3.3)	2,741.5	2,982.0	4,215.9	4,555.3	4,467.2
2.3.1 Balances with the RBI	3,730.7	3,284.4	3,692.7	3,684.1	3,688.9
2.3.2 Cash in Hand	533.5	505.8	559.3	544.9	564.9
2.3.3 Loans and Advances from the RBI	1,522.8	808.2	36.2	–326.3	–213.4
2.4 Capital Account	8,365.4	8,098.2	8,938.1	8,940.5	8,904.8
2.5 Other items (net) (2.1+2.2+2.3–2.4–1.1–1.2)	2,518.6	2,512.6	2,143.1	2,436.2	2,370.9
2.5.1 Other Demand and Time Liabilities (net of 2.2.3)	3,777.2	3,499.4	3,363.4	3,505.8	3,430.7
2.5.2 Net Inter-Bank Liabilities (other than to PDs)	–620.4	–268.7	–603.6	–605.3	–628.2

No. 13: Scheduled Commercial Banks' Investments

(₹ Billion)

Item	As on March 20, 2015	2014	2015		
		Aug. 22	Jul. 24	Aug. 07	Aug. 21
	1	2	3	4	5
1 SLR Securities	24,918.3	23,547.4	26,370.6	26,776.6	26,838.8
2 Commercial Paper	467.9	211.0	594.9	619.4	672.7
3 Shares issued by					
3.1 PSUs	81.8	76.4	77.8	78.9	84.4
3.2 Private Corporate Sector	365.8	330.6	386.5	382.6	389.4
3.3 Others	32.7	23.6	31.6	36.8	46.5
4 Bonds/Debentures issued by					
4.1 PSUs	809.5	742.6	754.1	741.5	762.1
4.2 Private Corporate Sector	1,159.2	1,222.1	1,097.6	1,146.4	1,150.8
4.3 Others	505.1	452.5	536.4	538.5	544.4
5 Instruments issued by					
5.1 Mutual funds	585.6	617.5	706.1	700.2	698.7
5.2 Financial institutions	627.6	583.8	644.6	607.2	615.3

No. 14: Business in India - All Scheduled Banks and All Scheduled Commercial Banks

(₹ Billion)

Item	As on the Last Reporting Friday (in case of March)/ Last Friday							
	All Scheduled Banks				All Scheduled Commercial Banks			
	2014-15	2014	2015		2014-15	2014	2015	
		Aug.	Jul.	Aug.		Aug.	Jul.	Aug.
	1	2	3	4	5	6	7	8
Number of Reporting Banks	214	213	212	212	147	146	145	145
1 Liabilities to the Banking System	**1,619.2**	**1,415.8**	**1,727.9**	**1,746.3**	**1,561.5**	**1,362.9**	**1,670.7**	**1,689.2**
1.1 Demand and Time Deposits from Banks	1,153.7	1,079.4	1,344.7	1,352.1	1,102.0	1,032.0	1,288.8	1,296.0
1.2 Borrowings from Banks	404.1	262.9	326.1	331.9	398.2	257.4	325.0	330.9
1.3 Other Demand and Time Liabilities	61.5	73.6	57.1	62.4	61.4	73.5	57.0	62.3
2 Liabilities to Others	**94,577.6**	**89,757.0**	**99,126.8**	**99,700.3**	**92,163.6**	**87,400.2**	**96,657.5**	**97,227.3**
2.1 Aggregate Deposits	87,651.2	82,928.8	91,820.2	92,196.7	85,332.9	80,667.4	89,459.2	89,821.9
2.1.1 Demand	8,125.7	7,610.6	8,605.0	8,681.0	7,940.3	7,430.3	8,407.9	8,479.7
2.1.2 Time	79,525.6	75,318.2	83,215.2	83,515.8	77,392.6	73,237.1	81,051.3	81,342.3
2.2 Borrowings	2,279.0	2,193.5	2,660.2	2,774.8	2,258.7	2,167.7	2,636.1	2,756.7
2.3 Other Demand and Time Liabilities	4,647.3	4,634.7	4,646.4	4,728.7	4,572.0	4,565.2	4,562.2	4,648.6
3 Borrowings from Reserve Bank	**1,582.5**	**873.4**	**292.9**	**142.3**	**1,582.0**	**871.8**	**292.9**	**142.0**
3.1 Against Usance Bills /Promissory Notes	–	–	–	–	–	–	–	–
3.2 Others	1,582.5	873.4	292.9	142.3	1,582.0	871.8	292.9	142.0
4 Cash in Hand and Balances with Reserve Bank	4,379.4	4,214.5	4,349.2	4,357.5	4,264.3	4,101.5	4,233.9	4,242.2
4.1 Cash in Hand	544.9	517.5	588.0	576.9	533.5	506.1	576.7	565.1
4.2 Balances with Reserve Bank	3,834.6	3,697.0	3,761.2	3,780.6	3,730.7	3,595.4	3,657.3	3,677.1
5 Assets with the Banking System	**2,581.2**	**2,048.8**	**2,535.2**	**2,816.2**	**2,217.7**	**1,658.5**	**2,174.9**	**2,456.3**
5.1 Balances with Other Banks	1,540.2	1,211.8	1,707.7	1,895.8	1,374.1	1,064.0	1,546.4	1,739.2
5.1.1 In Current Account	109.3	98.7	108.5	157.1	91.3	77.9	90.3	142.7
5.1.2 In Other Accounts	1,430.9	1,113.1	1,599.1	1,738.6	1,282.7	986.1	1,456.1	1,596.5
5.2 Money at Call and Short Notice	374.3	325.0	216.7	281.0	225.9	164.7	84.0	146.4
5.3 Advances to Banks	192.5	195.1	227.4	228.2	189.2	191.7	219.1	226.8
5.4 Other Assets	474.2	316.9	383.5	411.3	428.5	238.1	325.4	344.0
6 Investment	**25,610.7**	**24,450.5**	**27,410.2**	**27,674.7**	**24,918.3**	**23,746.5**	**26,679.5**	**26,937.0**
6.1 Government Securities	25,586.6	24,431.2	27,387.6	27,649.5	24,897.5	23,729.6	26,659.3	26,914.9
6.2 Other Approved Securities	24.0	19.4	22.6	25.2	20.7	16.9	20.2	22.1
7 Bank Credit	**67,426.9**	**63,023.9**	**68,950.9**	**68,812.7**	**65,364.2**	**61,114.9**	**66,918.0**	**66,773.1**
7a Food Credit	1,078.0	1,195.0	1,206.3	1,162.2	944.2	1,084.6	1,071.5	1,027.4
7.1 Loans, Cash-credits and Overdrafts	65,154.2	60,851.2	66,706.2	66,589.3	63,123.9	58,970.0	64,705.1	64,581.2
7.2 Inland Bills-Purchased	348.6	331.9	363.5	354.8	344.1	328.5	357.5	348.4
7.3 Inland Bills-Discounted	1,221.1	1,159.1	1,231.9	1,209.6	1,199.9	1,139.5	1,211.9	1,190.0
7.4 Foreign Bills-Purchased	242.6	242.2	220.1	232.0	241.2	241.1	219.4	231.3
7.5 Foreign Bills-Discounted	460.3	439.5	429.2	427.2	455.2	435.8	424.1	422.2

No. 15: Deployment of Gross Bank Credit by Major Sectors

(₹ Billion)

Item	Outstanding as on				Growth (%)	
	Mar. 20, 2015	2014	2015		Financial year so far	Y-o-Y
		Aug. 22	Jul. 24	Aug. 21	2015-16	2015
	1	2	3	4	5	6
1 Gross Bank Credit	**61,023**	**56,925**	**61,592**	**61,600**	**0.9**	**8.2**
1.1 Food Credit	**994**	**1,072**	**1,105**	**1,050**	**5.7**	**–2.0**
1.2 Non-food Credit	**60,030**	**55,853**	**60,487**	**60,550**	**0.9**	**8.4**
1.2.1 Agriculture & Allied Activities	**7,659**	**7,204**	**8,043**	**8,078**	**5.5**	**12.1**
1.2.2 Industry	**26,576**	**24,999**	**26,220**	**26,238**	**–1.3**	**5.0**
1.2.2.1 Micro & Small	3,800	3,469	3,720	3,679	–3.2	6.0
1.2.2.2 Medium	1,265	1,210	1,193	1,142	–9.8	–5.6
1.2.2.3 Large	21,511	20,320	21,307	21,417	–0.4	5.4
1.2.3 Services	**14,131**	**13,135**	**14,039**	**13,906**	**–1.6**	**5.9**
1.2.3.1 Transport Operators	916	907	940	949	3.7	4.6
1.2.3.2 Computer Software	172	170	194	191	10.9	12.3
1.2.3.3 Tourism, Hotels & Restaurants	370	367	368	372	0.4	1.2
1.2.3.4 Shipping	101	99	103	103	1.3	3.9
1.2.3.5 Professional Services	844	796	876	887	5.0	11.4
1.2.3.6 Trade	3,657	3,259	3,705	3,658	0.0	12.3
1.2.3.6.1 Wholesale Trade	1,801	1,612	1,795	1,755	–2.6	8.8
1.2.3.6.2 Retail Trade	1,856	1,646	1,910	1,904	2.6	15.6
1.2.3.7 Commercial Real Estate	1,665	1,583	1,669	1,655	–0.6	4.5
1.2.3.8 Non-Banking Financial Companies (NBFCs)	3,117	2,940	2,964	2,949	–5.4	0.3
1.2.3.9 Other Services	3,289	3,014	3,220	3,143	–4.4	4.3
1.2.4 Personal Loans	**11,663**	**10,515**	**12,184**	**12,329**	**5.7**	**17.3**
1.2.4.1 Consumer Durables	153	142	159	160	4.6	12.7
1.2.4.2 Housing	6,285	5,726	6,672	6,745	7.3	17.8
1.2.4.3 Advances against Fixed Deposits	625	532	581	587	–6.2	10.2
1.2.4.4 Advances to Individuals against share & bonds	54	43	54	57	5.1	32.8
1.2.4.5 Credit Card Outstanding	305	279	331	340	11.6	21.8
1.2.4.6 Education	633	622	649	661	4.4	6.2
1.2.4.7 Vehicle Loans	1,246	1,123	1,305	1,314	5.4	17.0
1.2.4.8 Other Personal Loans	2,362	2,047	2,433	2,465	4.4	20.4
1.2A Priority Sector	**20,103**	**18,357**	**20,755**	**20,708**	**3.0**	**12.8**
1.2A.1 Agriculture & Allied Activities	7,659	7,204	8,043	8,078	5.5	12.1
1.2A.2 Micro & Small Enterprises	8,003	7,295	7,975	7,918	–1.1	8.5
1.2A.2.1 Manufacturing	3,800	3,469	3,720	3,679	–3.2	6.0
1.2A.2.2 Services	4,203	3,826	4,255	4,239	0.9	10.8
1.2A.3 Housing	3,224	3,146	3,305	3,309	2.7	5.2
1.2A.4 Micro-Credit	177	169	178	177	0.0	4.9
1.2A.5 Education Loans	592	583	593	600	1.3	2.9
1.2A.6 State-Sponsored Orgs. for SC/ST	3	4	5	5	37.0	35.5
1.2A.7 Weaker Sections	4,049	3,728	4,290	4,390	8.4	17.8
1.2A.8 Export Credit	426	444	395	359	–15.9	–19.2

No. 16: Industry-wise Deployment of Gross Bank Credit

(₹ Billion)

Industry	Outstanding as on				Growth (%)	
	Mar. 20, 2015	2014	2015		Financial year so far	Y-o-Y
		Aug. 22	Jul. 24	Aug. 21	2015-16	2015
	1	2	3	4	5	6
1 Industry	**26,576**	**24,999**	**26,220**	**26,238**	**–1.3**	**5.0**
1.1 Mining & Quarrying (incl. Coal)	**360**	**386**	**343**	**332**	**–7.7**	**–14.0**
1.2 Food Processing	**1,715**	**1,431**	**1,583**	**1,543**	**–10.0**	**7.9**
1.2.1 Sugar	414	345	376	362	–12.6	4.8
1.2.2 Edible Oils & Vanaspati	211	189	192	181	–14.2	–4.2
1.2.3 Tea	32	30	30	30	–5.8	1.2
1.2.4 Others	1,058	867	986	970	–8.3	11.9
1.3 Beverage & Tobacco	**186**	**186**	**174**	**175**	**–6.3**	**–5.8**
1.4 Textiles	**2,019**	**1,939**	**1,970**	**1,968**	**–2.5**	**1.5**
1.4.1 Cotton Textiles	1,000	953	974	972	–2.8	2.0
1.4.2 Jute Textiles	22	21	21	21	–4.5	0.1
1.4.3 Man-Made Textiles	204	195	209	206	1.4	5.9
1.4.4 Other Textiles	793	770	766	768	–3.1	–0.2
1.5 Leather & Leather Products	**102**	**100**	**100**	**100**	**–2.5**	**–0.2**
1.6 Wood & Wood Products	**98**	**94**	**97**	**101**	**2.7**	**7.2**
1.7 Paper & Paper Products	**341**	**330**	**340**	**342**	**0.4**	**3.6**
1.8 Petroleum, Coal Products & Nuclear Fuels	**561**	**550**	**433**	**432**	**–23.0**	**–21.4**
1.9 Chemicals & Chemical Products	**1,545**	**1,500**	**1,510**	**1,520**	**–1.6**	**1.3**
1.9.1 Fertiliser	254	236	226	218	–14.1	–7.8
1.9.2 Drugs & Pharmaceuticals	493	474	497	511	3.6	7.7
1.9.3 Petro Chemicals	331	343	336	342	3.4	–0.3
1.9.4 Others	467	447	451	450	–3.7	0.7
1.10 Rubber, Plastic & their Products	**378**	**366**	**363**	**364**	**–3.7**	**–0.5**
1.11 Glass & Glassware	**88**	**88**	**86**	**85**	**–3.5**	**–2.9**
1.12 Cement & Cement Products	**560**	**535**	**560**	**560**	**–0.1**	**4.5**
1.13 Basic Metal & Metal Product	**3,854**	**3,523**	**3,862**	**3,875**	**0.5**	**10.0**
1.13.1 Iron & Steel	2,834	2,624	2,861	2,868	1.2	9.3
1.13.2 Other Metal & Metal Product	1,020	899	1,001	1,007	–1.2	12.0
1.14 All Engineering	**1,540**	**1,453**	**1,504**	**1,536**	**–0.3**	**5.7**
1.14.1 Electronics	368	348	364	376	2.2	8.2
1.14.2 Others	1,172	1,106	1,141	1,160	–1.0	4.9
1.15 Vehicles, Vehicle Parts & Transport Equipment	**682**	**655**	**673**	**680**	**–0.3**	**3.9**
1.16 Gems & Jewellery	**718**	**685**	**699**	**709**	**–1.3**	**3.5**
1.17 Construction	**743**	**719**	**729**	**731**	**–1.6**	**1.7**
1.18 Infrastructure	**9,245**	**8,697**	**9,388**	**9,411**	**1.8**	**8.2**
1.18.1 Power	5,576	5,217	5,744	5,769	3.5	10.6
1.18.2 Telecommunications	919	840	903	899	–2.1	7.1
1.18.3 Roads	1,687	1,603	1,698	1,704	1.0	6.3
1.18.4 Other Infrastructure	1,064	1,038	1,043	1,039	–2.3	0.1
1.19 Other Industries	**1,839**	**1,763**	**1,806**	**1,773**	**–3.6**	**0.6**

No. 17: State Co-operative Banks Maintaining Accounts with the Reserve Bank of India

(₹ Billion)

Item	Last Reporting Friday (in case of March)/Last Friday/ Reporting Friday					
	2014-15	2014	2015			
		May 30	Apr. 17	May 1	May 15	May 29
	1	2	3	4	5	6
Number of Reporting Banks	31	31	31	31	31	31
1 Aggregate Deposits (2.1.1.2+2.2.1.2)	**422.3**	**419.4**	**415.8**	**413.6**	**411.0**	**418.1**
2 Demand and Time Liabilities						
2.1 Demand Liabilities	**148.1**	**137.8**	**139.3**	**142.4**	**137.7**	**140.1**
2.1.1 Deposits						
2.1.1.1 Inter-Bank	33.7	24.1	25.3	26.2	26.5	26.1
2.1.1.2 Others	77.7	77.6	78.5	79.0	76.8	77.9
2.1.2 Borrowings from Banks	9.3	8.5	9.0	9.4	9.0	8.7
2.1.3 Other Demand Liabilities	27.4	27.6	26.5	27.9	25.5	27.5
2.2 Time Liabilities	**854.6**	**892.8**	**853.0**	**832.4**	**845.5**	**836.5**
2.2.1 Deposits						
2.2.1.1 Inter-Bank	499.2	540.1	505.9	486.7	483.0	485.2
2.2.1.2 Others	344.6	341.8	337.2	334.6	334.2	340.2
2.2.2 Borrowings from Banks	0.1	0.2	0.1	0.2	18.4	1.4
2.2.3 Other Time Liabilities	10.8	10.7	9.7	10.9	9.9	9.7
3 Borrowing from Reserve Bank	–	–	–	0.4	–	–
4 Borrowings from a notified bank / State Government	450.9	381.0	448.6	443.9	437.0	425.6
4.1 Demand	174.9	161.9	174.7	174.5	174.4	170.3
4.2 Time	276.0	219.1	273.9	269.4	262.6	255.3
5 Cash in Hand and Balances with Reserve Bank	**40.5**	**38.4**	**38.9**	**45.4**	**39.5**	**39.1**
5.1 Cash in Hand	2.4	2.0	2.1	6.5	2.2	2.1
5.2 Balance with Reserve Bank	38.1	36.4	36.8	38.9	37.3	37.0
6 Balances with Other Banks in Current Account	10.0	7.4	7.6	6.6	6.5	6.7
7 Investments in Government Securities	282.4	302.8	262.9	265.1	266.6	271.1
8 Money at Call and Short Notice	198.8	233.3	183.0	179.7	188.3	187.2
9 Bank Credit (10.1+11)	**426.4**	**389.9**	**425.9**	**414.7**	**427.6**	**429.2**
10 Advances						
10.1 Loans, Cash-Credits and Overdrafts	**426.4**	**389.8**	**425.8**	**414.7**	**427.5**	**429.1**
10.2 Due from Banks	709.2	605.0	668.6	665.3	661.8	664.7
11 Bills Purchased and Discounted	0.1	0.1	0.1	0.1	0.1	0.1

Prices and Production

No. 18: Consumer Price Index (Base: 2012=100)

Group/Sub group	2014-15			Rural			Urban			Combined		
	Rural	Urban	Combined	Aug. 14	Jul. 15	Aug. 15	Aug. 14	Jul. 15	Aug. 15	Aug. 14	Jul. 15	Aug. 15
	1	2	3	4	5	6	7	8	9	10	11	12
1 Food and beverages	**122.6**	**124.1**	**123.1**	**125.3**	**127.5**	**129.8**	**128.9**	**129.5**	**131.1**	**126.6**	**128.2**	**130.3**
1.1 Cereals and products	122.0	123.9	122.6	121.8	124.0	124.7	124.8	123.2	123.0	122.7	123.7	124.2
1.2 Meat and fish	122.3	125.5	123.5	122.8	131.5	131.5	127.3	134.3	131.7	124.4	132.5	131.6
1.3 Egg	119.0	118.4	118.7	117.8	122.0	121.2	116.5	119.5	118.1	117.3	121.0	120.0
1.4 Milk and products	122.3	122.7	122.5	121.9	128.7	128.8	122.2	127.7	128.0	122.0	128.3	128.5
1.5 Oils and fats	110.6	103.7	108.1	110.6	113.5	113.9	103.6	106.3	106.8	108.0	110.9	111.3
1.6 Fruits	128.6	126.1	127.4	129.7	133.3	134.4	132.7	132.8	130.1	131.1	133.1	132.4
1.7 Vegetables	140.0	146.7	142.3	161.1	140.8	153.5	181.9	153.5	165.4	168.2	145.1	157.5
1.8 Pulses and products	115.1	117.8	116.0	114.1	133.8	137.9	115.2	149.5	156.0	114.5	139.1	144.0
1.9 Sugar and confectionery	102.8	99.5	101.7	105.1	94.1	93.0	102.7	85.7	85.3	104.3	91.3	90.4
1.10 Spices	115.0	122.6	117.5	114.6	123.4	124.0	122.1	131.5	132.8	117.1	126.1	126.9
1.11 Non-alcoholic beverages	116.4	114.9	115.8	115.8	121.0	121.4	114.4	118.3	118.8	115.2	119.9	120.3
1.12 Prepared meals, snacks, sweets	123.0	125.4	124.1	121.7	131.7	132.4	124.7	131.1	131.7	123.1	131.4	132.1
2 Pan, tobacco and intoxicants	**120.0**	**123.7**	**120.9**	**118.8**	**129.4**	**130.0**	**123.0**	**133.1**	**134.2**	**119.9**	**130.4**	**131.1**
3 Clothing and footwear	**121.7**	**118.5**	**120.5**	**120.7**	**128.3**	**129.0**	**117.9**	**122.7**	**122.8**	**119.6**	**126.1**	**126.5**
3.1 Clothing	122.1	119.2	121.0	120.9	128.8	129.5	118.6	123.5	123.7	120.0	126.7	127.2
3.2 Footwear	119.6	114.7	117.6	118.8	125.5	126.3	114.1	117.9	118.2	116.8	122.3	122.9
4 Housing	-	**116.1**	**116.1**	-	-	-	**115.5**	**119.9**	**120.9**	**115.5**	**119.9**	**120.9**
5 Fuel and light	**116.5**	**112.3**	**114.9**	**115.4**	**123.0**	**123.7**	**111.8**	**115.3**	**115.2**	**114.0**	**120.1**	**120.5**
6 Miscellaneous	**113.6**	**113.1**	**113.4**	**113.5**	**118.1**	**118.2**	**113.9**	**116.3**	**116.1**	**113.7**	**117.2**	**117.2**
6.1 Household goods and services	116.9	115.8	116.4	115.9	123.0	123.7	115.3	119.5	119.7	115.6	121.3	121.8
6.2 Health	114.9	112.5	114.0	114.0	120.8	121.1	112.2	116.0	116.6	113.3	119.0	119.4
6.3 Transport and communication	112.0	110.3	111.1	113.2	114.1	113.7	112.5	111.5	109.9	112.8	112.7	111.7
6.4 Recreation and amusement	112.8	113.3	113.1	112.2	118.0	118.5	112.9	116.6	117.1	112.6	117.2	117.7
6.5 Education	116.4	118.4	117.6	116.2	122.9	123.7	119.2	125.4	126.2	118.0	124.4	125.2
6.6 Personal care and effects	109.4	110.2	109.7	109.4	112.7	112.5	110.5	111.7	112.0	109.9	112.3	112.3
General Index (All Groups)	**119.5**	**118.1**	**118.9**	**120.7**	**124.7**	**126.1**	**119.9**	**122.4**	**123.1**	**120.3**	**123.6**	**124.7**

Source: Central Statistics Office, Ministry of Statistics and Programme Implementation, Government of India.

No. 19: Other Consumer Price Indices

Item	Base Year	Linking Factor	2014-15	2014	2015	
				Aug.	Jul.	Aug.
	1	2	3	4	5	6
1 Consumer Price Index for Industrial Workers	2001	4.63	251	253	263	264
2 Consumer Price Index for Agricultural Labourers	1986-87	5.89	800	808	822	832
3 Consumer Price Index for Rural Labourers	1986-87	–	802	810	827	836

Source: Labour Bureau, Ministry of Labour and Employment, Government of India.

No. 20: Monthly Average Price of Gold and Silver in Mumbai

Item	2014-15	2014	2015	
		Aug.	Jul.	Aug.
	1	2	3	4
1 Standard Gold (₹ per 10 grams)	27,415	28,080	25,539	25,729
2 Silver (₹ per kilogram)	40,558	43,969	35,257	35,500

Source: Business Standard/Business Line/The Economic Times, Mumbai for Gold and Silver prices in Mumbai.

No. 21: Wholesale Price Index

(Base: 2004-05 = 100)

Commodities	Weight	2014-15	2014	2015		
			Aug.	Jun.	Jul. (P)	Aug. (P)
	1	2	3	4	5	6
1 ALL COMMODITIES	**100.000**	**181.2**	**185.9**	**179.1**	**177.5**	**176.7**
1.1 PRIMARY ARTICLES	**20.118**	**248.8**	**261.2**	**249.1**	**247.2**	**251.5**
1.1.1 Food articles	**14.337**	**253.4**	**265.3**	**257.9**	**255.7**	**262.3**
1.1.1.1 Food Grains	4.090	235.0	237.3	245.9	247.0	249.4
1.1.1.1.1 Cereals	3.373	233.6	237.0	231.0	231.9	233.1
1.1.1.1.2 Pulses	0.717	241.4	239.0	316.1	317.8	326.0
1.1.1.2 Fruits & Vegetables	3.843	257.3	303.4	249.9	242.7	265.8
1.1.1.2.1 Vegetables	1.736	276.6	373.4	254.3	252.1	294.2
1.1.1.2.2 Fruits	2.107	241.5	245.8	246.2	234.8	242.5
1.1.1.3 Milk	3.238	242.6	245.0	249.9	250.3	250.1
1.1.1.4 Eggs, Meat & Fish	2.414	282.3	269.8	286.3	280.4	278.7
1.1.1.5 Condiments & Spices	0.569	298.8	308.8	326.3	333.8	336.0
1.1.1.6 Other Food Articles	0.183	249.4	251.4	246.8	249.1	248.0
1.1.2 Non-Food Articles	**4.258**	**212.1**	**218.9**	**218.7**	**215.6**	**217.4**
1.1.2.1 Fibres	0.877	215.3	225.4	209.0	208.1	203.5
1.1.2.2 Oil Seeds	1.781	208.9	218.3	218.6	212.1	212.8
1.1.2.3 Other Non-Food Articles	1.386	215.6	214.8	232.8	232.9	233.2
1.1.2.4 Flowers	0.213	202.6	224.3	167.0	163.3	210.4
1.1.3 Minerals	**1.524**	**308.5**	**341.2**	**251.1**	**255.9**	**244.6**
1.1.3.1 Metallic Minerals	0.489	388.6	395.9	324.7	331.1	324.4
1.1.3.2 Other Minerals	0.135	211.8	207.6	209.3	212.1	208.5
1.1.3.3 Crude Petroleum	0.900	279.6	331.5	217.4	221.7	206.6
1.2 FUEL & POWER	**14.910**	**203.5**	**214.0**	**193.5**	**187.1**	**178.7**
1.2.1 Coal	2.094	189.8	189.8	189.9	189.9	189.9
1.2.2 Mineral Oils	9.364	219.6	236.5	202.7	192.5	179.2
1.2.3 Electricity	3.452	168.0	167.4	170.5	170.5	170.5
1.3 MANUFACTURED PRODUCTS	**64.972**	**155.1**	**156.1**	**154.2**	**153.7**	**153.1**
1.3.1 Food Products	**9.974**	**172.9**	**175.5**	**172.5**	**172.0**	**171.7**
1.3.1.1 Dairy Products	0.568	199.5	196.4	208.6	207.7	207.4
1.3.1.2 Canning, Preserving & Processing of Food	0.358	167.2	166.3	164.2	162.7	165.6
1.3.1.3 Grain Mill Products	1.340	175.1	175.0	173.9	172.8	174.9
1.3.1.4 Bakery Products	0.444	149.2	152.9	152.6	152.5	152.8
1.3.1.5 Sugar, Khandsari & Gur	2.089	182.7	189.7	162.3	158.4	156.3
1.3.1.6 Edible Oils	3.043	145.0	145.8	149.2	148.8	147.9
1.3.1.7 Oil Cakes	0.494	227.0	235.9	241.2	257.1	249.3
1.3.1.8 Tea & Coffee Proccessing	0.711	189.7	199.1	198.3	197.4	201.4
1.3.1.9 Manufacture of Salt	0.048	197.3	196.8	199.8	209.7	199.8
1.3.1.10 Other Food Products	0.879	194.1	192.3	204.3	203.2	205.6
1.3.2 Beverages, Tobacco & Tobacco Products	**1.762**	**200.8**	**201.6**	**206.0**	**206.1**	**206.4**
1.3.2.1 Wine Industries	0.385	137.0	137.5	136.7	135.9	136.5
1.3.2.2 Malt Liquor	0.153	177.5	176.3	180.6	180.6	180.7
1.3.2.3 Soft Drinks & Carbonated Water	0.241	162.6	158.7	166.3	167.9	168.8
1.3.2.4 Manufacture of Bidi, Cigarettes, Tobacco & Zarda	0.983	238.7	241.1	246.9	246.9	247.1
1.3.3 Textiles	**7.326**	**142.6**	**144.1**	**141.4**	**141.2**	**140.6**
1.3.3.1 Cotton Textiles	2.605	162.6	165.2	158.9	158.6	157.7
1.3.3.1.1 Cotton Yarn	1.377	179.2	184.6	170.4	170.0	168.8
1.3.3.1.2 Cotton Fabric	1.228	144.0	143.5	146.0	145.9	145.2
1.3.3.2 Man-Made Textiles	2.206	135.3	137.6	133.9	133.5	133.2
1.3.3.2.1 Man-Made Fibre	1.672	134.5	137.1	133.9	132.9	132.2
1.3.3.2.2 Man-Made Fabric	0.533	138.0	139.1	133.4	135.1	136.2
1.3.3.3 Woollen Textiles	0.294	159.5	159.0	160.3	159.3	150.4
1.3.3.4 Jute, Hemp & Mesta Textiles	0.261	192.9	190.9	203.1	205.0	210.3
1.3.3.5 Other Misc. Textiles	1.960	115.0	115.0	115.4	115.5	115.4
1.3.4 Wood & Wood Products	**0.587**	**187.8**	**185.9**	**196.7**	**197.9**	**198.5**
1.3.4.1 Timber/Wooden Planks	0.181	156.9	156.4	161.9	163.0	165.4
1.3.4.2 Processed Wood	0.128	191.1	190.5	192.4	192.4	192.6
1.3.4.3 Plywood & Fibre Board	0.241	214.9	210.8	232.3	234.5	234.5
1.3.4.4 Others	0.038	152.6	154.2	150.6	149.8	147.3

No. 21: Wholesale Price Index (Concld.)

(Base: 2004-05 = 100)

Commodities	Weight	2014-15	2014	2015		
			Aug.	Jun.	Jul. (P)	Aug. (P)
	1	2	3	4	5	6
1.3.5 Paper & Paper Products	**2.034**	**150.7**	**150.1**	**153.3**	**153.6**	**154.7**
1.3.5.1 Paper & Pulp	1.019	149.8	149.3	151.1	151.3	150.6
1.3.5.2 Manufacture of boards	0.550	133.8	134.5	134.9	135.3	136.9
1.3.5.3 Printing & Publishing	0.465	172.4	170.2	179.9	180.1	184.8
1.3.6 Leather & Leather Products	**0.835**	**145.0**	**146.5**	**144.4**	**144.3**	**144.9**
1.3.6.1 Leathers	0.223	116.0	116.1	115.8	115.9	118.9
1.3.6.2 Leather Footwear	0.409	161.9	164.4	160.5	160.1	159.5
1.3.6.3 Other Leather Products	0.203	143.1	144.1	143.4	143.5	144.1
1.3.7 Rubber & Plastic Products	**2.987**	**149.9**	**151.1**	**149.6**	**149.4**	**148.7**
1.3.7.1 Tyres & Tubes	0.541	177.3	178.2	177.0	177.0	177.1
1.3.7.1.1 Tyres	0.488	177.5	178.3	177.7	177.7	177.8
1.3.7.1.2 Tubes	0.053	175.7	176.8	170.6	170.6	170.6
1.3.7.2 Plastic Products	1.861	140.2	141.8	139.7	139.5	138.5
1.3.7.3 Rubber Products	0.584	155.3	156.0	155.9	155.6	154.7
1.3.8 Chemicals & Chemical Products	**12.018**	**152.8**	**154.1**	**151.5**	**151.4**	**151.3**
1.3.8.1 Basic Inorganic Chemicals	1.187	156.1	156.8	156.0	156.0	156.6
1.3.8.2 Basic Organic Chemicals	1.952	150.9	156.5	142.4	142.4	141.4
1.3.8.3 Fertilisers & Pesticides	3.145	152.0	151.3	154.4	154.8	154.7
1.3.8.3.1 Fertilisers	2.661	154.9	154.2	157.8	158.1	158.1
1.3.8.3.2 Pesticides	0.483	135.7	135.4	136.1	136.5	135.9
1.3.8.4 Paints, Varnishes & Lacquers	0.529	149.9	149.2	151.5	151.1	152.1
1.3.8.5 Dyestuffs & Indigo	0.563	144.8	146.6	141.8	141.2	141.5
1.3.8.6 Drugs & Medicines	0.456	129.3	129.2	130.4	130.4	130.5
1.3.8.7 Perfumes, Cosmetics, Toiletries etc.	1.130	160.7	161.0	163.5	163.5	163.7
1.3.8.8 Turpentine, Plastic Chemicals	0.586	156.4	156.2	154.9	155.5	155.5
1.3.8.9 Polymers including Synthetic Rubber	0.970	152.3	154.5	147.4	147.2	147.3
1.3.8.10 Petrochemical Intermediates	0.869	162.0	166.0	156.9	155.0	153.7
1.3.8.11 Matches, Explosives & other Chemicals	0.629	153.5	153.8	154.8	155.1	154.5
1.3.9 Non-Metallic Mineral Products	**2.556**	**172.9**	**171.2**	**176.8**	**174.2**	**175.6**
1.3.9.1 Structural Clay Products	0.658	192.4	191.0	197.0	198.0	197.9
1.3.9.2 Glass, Earthenware, Chinaware & their Products	0.256	135.5	133.4	141.6	140.8	141.1
1.3.9.3 Cement & Lime	1.386	169.6	167.4	173.7	168.3	170.5
1.3.9.4 Cement, Slate & Graphite Products	0.256	177.7	178.2	177.8	178.3	179.8
1.3.10 Basic Metals, Alloys & Metal Products	**10.748**	**165.6**	**166.7**	**158.7**	**157.1**	**154.1**
1.3.10.1 Ferrous Metals	8.064	155.6	156.7	146.7	145.0	141.5
1.3.10.1.1 Iron & Semis	1.563	156.7	159.2	145.7	143.8	138.9
1.3.10.1.2 Steel: Long	1.630	164.7	166.4	154.3	151.9	147.8
1.3.10.1.3 Steel: Flat	2.611	150.8	151.5	138.5	136.0	132.3
1.3.10.1.4 Steel: Pipes & Tubes	0.314	133.4	132.2	132.2	131.3	129.7
1.3.10.1.5 Stainless Steel & alloys	0.938	167.3	167.4	163.4	163.3	160.2
1.3.10.1.6 Castings & Forgings	0.871	145.6	146.5	145.6	145.6	144.2
1.3.10.1.7 Ferro alloys	0.137	158.9	160.2	150.7	150.5	151.0
1.3.10.2 Non-Ferrous Metals	1.004	168.6	169.1	165.9	165.3	164.7
1.3.10.2.1 Aluminium	0.489	144.9	145.0	139.4	138.6	137.9
1.3.10.2.2 Other Non-Ferrous Metals	0.515	191.1	192.0	191.1	190.7	190.2
1.3.10.3 Metal Products	1.680	211.6	213.0	211.8	210.2	208.5
1.3.11 Machinery & Machine Tools	**8.931**	**134.6**	**134.7**	**135.2**	**135.2**	**134.9**
1.3.11.1 Agricultural Machinery & Implements	0.139	148.7	148.1	149.3	149.6	149.0
1.3.11.2 Industrial Machinery	1.838	152.3	152.4	153.9	154.0	153.8
1.3.11.3 Construction Machinery	0.045	141.1	141.4	141.5	141.5	141.5
1.3.11.4 Machine Tools	0.367	165.0	165.4	165.8	165.8	165.9
1.3.11.5 Air Conditioner & Refrigerators	0.429	120.6	120.7	120.7	120.5	120.5
1.3.11.6 Non-Electrical Machinery	1.026	126.9	127.1	127.6	127.7	127.4
1.3.11.7 Electrical Machinery, Equipment & Batteries	2.343	138.6	138.4	138.2	138.2	137.9
1.3.11.8 Electrical Accessories, Wires, Cables etc.	1.063	156.0	156.5	157.2	157.0	156.3
1.3.11.9 Electrical Apparatus & Appliances	0.337	119.8	118.5	121.8	121.7	121.7
1.3.11.10 Electronics Items	0.961	89.6	89.8	89.3	89.3	88.9
1.3.11.11 IT Hardware	0.267	91.5	91.5	91.7	91.7	91.7
1.3.11.12 Communication Equipments	0.118	98.7	99.2	98.5	98.5	98.5
1.3.12 Transport, Equipment & Parts	**5.213**	**136.2**	**136.0**	**137.7**	**137.8**	**137.7**
1.3.12.1 Automotives	4.231	135.3	135.2	136.6	136.7	136.7
1.3.12.2 Auto Parts	0.804	138.1	137.4	140.3	140.1	140.2
1.3.12.3 Other Transport Equipments	0.178	150.1	150.2	152.0	152.4	150.8

Source: Office of the Economic Adviser, Ministry of Commerce and Industry, Government of India.

No. 22: Index of Industrial Production (Base:2004-05=100)

Industry	Weight	2013-14	2014-15	April-July		July	
				2014-15	2015-16	2014	2015
	1	2	3	4	5	6	7
General Index	**100.00**	**172.0**	**176.9**	**173.3**	**179.4**	**173.0**	**180.3**
1 Sectoral Classification							
1.1 Mining and Quarrying	14.16	124.7	126.5	121.6	122.3	116.2	117.7
1.2 Manufacturing	75.53	181.9	186.1	181.8	189.1	182.2	190.7
1.3 Electricity	10.32	164.7	178.6	181.9	186.6	183.8	190.3
2 Use-Based Classification							
2.1 Basic Goods	45.68	156.9	167.8	164.1	172.0	162.8	171.2
2.2 Capital Goods	8.83	242.6	258.0	249.2	259.2	263.2	291.0
2.3 Intermediate Goods	15.69	151.3	153.8	153.0	155.3	155.4	157.8
2.4 Consumer Goods	29.81	185.3	178.9	175.6	179.6	171.3	173.5
2.4.1 Consumer Durables	8.46	264.2	231.0	237.7	251.5	220.9	246.0
2.4.2 Consumer Non-Durables	21.35	154.0	158.3	151.0	151.2	151.7	144.7

Source : Central Statistics Office, Ministry of Statistics and Programme Implementation, Government of India.

Government Accounts and Treasury Bills

No. 23: Union Government Accounts at a Glance

(Amount in ₹ Billion)

Item	Financial Year	April–August			
	2015-16 (Budget Estimates)	2014-15 (Actuals)	2015-16 (Actuals)	Percentage to Budget Estimates	
				2014-15	2015-16
	1	2	3	4	5
1 Revenue Receipts	11,415.8	2,704.6	3,455.4	22.7	30.3
1.1 Tax Revenue (Net)	9,198.4	1,854.6	2,099.3	19.0	22.8
1.2 Non-Tax Revenue	2,217.3	850.0	1,363.1	40.0	61.5
2 Capital Receipts	6,359.0	4,022.6	3,866.6	66.5	60.8
2.1 Recovery of Loans	107.5	42.1	45.6	40.0	42.4
2.2 Other Receipts	695.0	1.2	128.0	0.2	18.4
2.3 Borrowings and Other Liabilities	5,556.5	3,979.3	3,693.0	74.9	66.5
3 Total Receipts (1+2)	**17,774.8**	**6,727.2**	**7,321.9**	**37.5**	**41.2**
4 Non-Plan Expenditure	13,122.0	4,951.0	5,456.1	40.6	41.6
4.1 On Revenue Account	12,060.3	4,557.1	5,062.8	40.9	42.0
4.1.1 Interest Payments	4,561.5	1,538.8	1,634.7	36.0	35.8
4.2 On Capital Account	1,061.7	393.9	393.3	37.4	37.0
5 Plan Expenditure	4,652.8	1,776.2	1,865.9	30.9	40.1
5.1 On Revenue Account	3,300.2	1,395.1	1,339.8	30.8	40.6
5.2 On Capital Account	1,352.6	381.1	526.1	31.4	38.9
6 Total Expenditure (4+5)	**17,774.8**	**6,727.2**	**7,321.9**	**37.5**	**41.2**
7 Revenue Expenditure (4.1+5.1)	15,360.5	5,952.2	6,402.6	38.0	41.7
8 Capital Expenditure (4.2+5.2)	2,414.3	775.0	919.4	34.2	38.1
9 Revenue Deficit (7-1)	**3,944.7**	**3,247.6**	**2,947.2**	**85.8**	**74.7**
10 Fiscal Deficit {6-(1+2.1+2.2)}	**5,556.5**	**3,979.3**	**3,693.0**	**74.9**	**66.5**
11 Gross Primary Deficit [10-4.1.1]	**995.0**	**2,440.5**	**2,058.3**	**234.3**	**206.9**

Source: Controller General of Accounts, Ministry of Finance, Government of India.

No. 24: Treasury Bills – Ownership Pattern

(₹ Billion)

Item	2014-15	2014	2015					
		Aug. 29	Jul. 24	Jul. 31	Aug. 7	Aug. 14	Aug. 21	Aug. 28
	1	2	3	4	5	6	7	8
1 14-day								
1.1 Banks	–	–	–	–	–	–	–	–
1.2 Primary Dealers	–	–	–	–	–	–	–	–
1.3 State Governments	838.1	784.5	659.7	643.4	691.5	704.9	762.0	724.1
1.4 Others	14.7	5.6	9.8	8.5	6.3	11.2	10.4	8.4
2 91-day								
2.1 Banks	446.9	294.9	405.0	402.6	373.7	396.2	342.4	361.3
2.2 Primary Dealers	284.1	377.8	304.0	261.7	220.7	199.5	232.7	214.8
2.3 State Governments	368.3	611.2	619.8	683.8	652.6	572.6	594.6	556.6
2.4 Others	264.9	510.6	479.6	519.5	589.3	606.7	627.3	624.3
3 182-day								
3.1 Banks	231.5	212.0	386.6	354.7	357.6	351.6	335.2	335.7
3.2 Primary Dealers	408.9	328.7	198.2	259.2	246.6	263.7	265.5	311.7
3.3 State Governments	13.9	74.5	15.1	15.1	15.1	15.1	15.1	45.1
3.4 Others	113.9	169.5	201.9	166.9	176.5	165.4	180.0	123.2
4 364-day								
4.1 Banks	330.8	477.3	457.2	399.4	413.8	426.6	401.0	397.9
4.2 Primary Dealers	657.3	533.3	640.3	674.7	625.3	631.2	634.7	647.3
4.3 State Governments	12.0	12.0	23.2	23.2	23.2	23.2	23.2	23.2
4.4 Others	483.4	403.3	420.9	383.2	418.2	399.6	421.6	412.1
5 Total	4,468.7	4,795.2	4,821.1	4,795.8	4,810.3	4,767.3	4,845.6	4,785.6

No. 25: Auctions of Treasury Bills

(Amount in ₹ Billion)

Date of Auction	Notified Amount	Bids Received			Bids Accepted			Total Issue (6+7)	Cut-off Price	Implicit Yield at Cut-off Price (per cent)
		Number	Total Face Value		Number	Total Face Value				
			Competitive	Non-Competitive		Competitive	Non-Competitive			
	1	2	3	4	5	6	7	8	9	10
91-day Treasury Bills										
2015-16										
Jul. 29	80	75	459.63	93.05	43	80.00	93.05	173.05	98.17	7.4769
Aug. 5	80	78	488.80	8.80	52	80.00	8.80	88.80	98.18	7.4353
Aug. 12	80	81	585.60	15.02	17	80.00	15.02	95.02	98.22	7.2689
Aug. 19	90	73	377.94	114.00	58	90.00	114.00	204.00	98.18	7.4353
Aug. 26	90	61	339.37	11.02	42	90.00	11.02	101.02	98.18	7.4353
182-day Treasury Bills										
2015-16										
Jul. 29	60	68	268.84	–	8	60.00	–	60.00	96.38	7.5326
Aug. 12	60	60	162.34	0.01	34	60.00	0.01	60.01	96.39	7.5110
Aug. 26	50	74	223.55	30.04	29	50.00	30.04	80.04	96.40	7.4894
364-day Treasury Bills										
2015-16										
Jul. 8	60	90	315.67	0.02	32	60.00	0.02	60.02	92.94	7.6172
Jul. 22	60	78	193.00	0.03	37	60.00	0.03	60.03	92.94	7.6172
Aug. 5	60	78	260.73	0.02	33	60.00	0.02	60.02	92.97	7.5824
Aug. 19	50	63	188.64	–	8	50.00	–	50.00	93.01	7.5360

Financial Markets

No. 26: Daily Call Money Rates

(Per cent per annum)

As on		Range of Rates	Weighted Average Rates
		Borrowings/ Lendings	Borrowings/ Lendings
		1	2
August	1, 2015	4.00-6.48	5.45
August	3, 2015	5.70-7.25	7.01
August	4, 2015	5.70-7.35	7.06
August	5, 2015	5.70-7.25	7.06
August	6, 2015	5.70-7.28	7.08
August	7, 2015	4.75-7.30	7.10
August	8, 2015	4.00-7.75	6.39
August	10, 2015	5.70-7.55	7.09
August	11, 2015	5.70-7.25	7.09
August	12, 2015	5.70-7.25	7.11
August	13, 2015	5.70-7.28	7.10
August	14, 2015	5.75-7.30	7.07
August	17, 2015	5.70-7.80	7.23
August	19, 2015	5.75-7.25	7.07
August	20, 2015	5.70-7.25	7.00
August	21, 2015	4.50-7.30	7.12
August	22, 2015	3.50-6.48	6.12
August	24, 2015	4.25-7.30	7.12
August	25, 2015	5.75-7.32	6.92
August	26, 2015	5.75-7.35	7.11
August	27, 2015	5.75-7.30	7.03
August	28, 2015	4.00-7.25	7.06
August	29, 2015	4.00-6.60	6.19
August	31, 2015	5.70-7.35	7.13
September	1, 2015	5.70-7.30	7.09
September	2, 2015	5.70-7.25	7.11
September	3, 2015	5.70-7.17	6.93
September	4, 2015	5.00-7.30	7.07
September	5, 2015	5.00-8.25	7.88
September	7, 2015	5.25-7.25	7.10
September	8, 2015	5.00-8.20	7.32
September	9, 2015	5.00-7.50	7.10
September	10, 2015	5.80-7.50	7.11
September	11, 2015	5.70-7.35	7.08
September	14, 2015	5.75-7.60	7.18
September	15, 2015	5.70-7.45	7.15

Note: Includes Notice Money.

No. 27: Certificates of Deposit

Item	2014	2015			
	Aug. 22	Jul. 10	Jul. 24	Aug. 7	Aug. 21
	1	2	3	4	5
1 Amount Outstanding (₹ Billion)	3,044.3	2,378.8	2,271.1	2,050.2	2,065.3
1.1 Issued during the fortnight (₹ Billion)	345.0	226.5	37.6	103.1	260.0
2 Rate of Interest (per cent)	8.73-9.94	7.54-8.16	7.25-8.11	7.25-8.05	7.29-7.95

No. 28: Commercial Paper

Item	2014	2015			
	Aug. 31	Jul. 15	Jul. 31	Aug. 15	Aug. 31
	1	2	3	4	5
1 Amount Outstanding (₹ Billion)	2,112.0	3,185.9	3,149.4	3,232.6	3,094.6
1.1 Reported during the fortnight (₹ Billion)	358.6	616.7	571.9	678.8	599.5
2 Rate of Interest (per cent)	8.26-12.62	7.45-11.52	7.36-11.76	7.09-12.24	7.33-12.29

No. 29: Average Daily Turnover in Select Financial Markets

(₹ Billion)

Item	2014-15	2014	2015					
		Aug. 29	Jul. 24	Jul. 31	Aug. 7	Aug. 14	Aug. 21	Aug. 28
	1	2	3	4	5	6	7	8
1 Call Money	190.3	145.8	183.7	148.9	154.4	204.1	180.3	157.7
2 Notice Money	65.4	62.4	79.6	36.5	84.4	3.6	112.8	35.5
3 Term Money	4.1	3.7	4.9	2.2	4.0	4.4	4.5	4.2
4 CBLO	1,168.3	1,279.8	1,406.4	1,387.1	1,322.7	1,354.7	1,428.5	1,479.8
5 Market Repo	1,097.6	837.0	1,373.7	955.6	1,081.2	915.3	1,459.4	971.8
6 Repo in Corporate Bond	0.3	–	0.4	1.2	0.4	5.3	1.0	0.4
7 Forex (US $ million)	56,541	59,392	48,094	57,532	47,786	48,167	49,991	68,530
8 Govt. of India Dated Securities	772.4	258.8	521.7	602.2	619.2	683.9	736.4	849.6
9 State Govt. Securities	15.8	5.0	17.0	36.7	22.9	25.0	35.5	31.0
10 Treasury Bills								
10.1 91-Day	35	42.8	47.0	43.1	28.9	45.6	46.5	41.6
10.2 182-Day	12.1	8.0	8.0	8.2	4.7	13.8	6.9	17.2
10.3 364-Day	21.4	15.2	18.8	19.9	26.2	18.2	10.5	14.2
10.4 Cash Management Bills	0.7	–	–	–	–	–	–	–
11 Total Govt. Securities (8+9+10)	857.4	329.8	612.6	710.0	702.0	786.5	835.6	953.6
11.1 RBI	–	1.1	2.8	6.2	4.7	5.5	5.8	3.8

No. 30: New Capital Issues By Non-Government Public Limited Companies

(Amount in ₹ Billion)

Security & Type of Issue	2014-15		2014-15 (Apr.-Aug.)		2015-16 (Apr.-Aug.)*		Aug. 2014		Aug. 2015 *	
	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount
	1	2	3	4	5	6	7	8	9	10
1 Equity Shares	**63**	**93.1**	**18**	**26.1**	**32**	**124.5**	**3**	**16.1**	**9**	**19.1**
1A Premium	53	76.8	15	13.6	29	117.7	2	4.8	8	14.9
1.1 Prospectus	46	30.4	11	4.7	29	48.6	1	2.0	9	19.1
1.1.1 Premium	40	28.0	10	3.9	26	42.7	1	1.6	8	14.9
1.2 Rights	17	62.8	7	21.4	3	76.0	2	14.1	–	–
1.2.1 Premium	13	48.8	5	9.7	3	75.0	1	3.3	–	–
2 Preference Shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.1 Prospectus	–	–	–	–	–	–	–	–	–	–
2.2 Rights	–	–	–	–	–	–	–	–	–	–
3 Debentures	**23**	**77.4**	**12**	**44.2**	**3**	**8.0**	**2**	**5.1**	**–**	**–**
3.1 Convertible	–	–	–	–	–	–	–	–	–	–
3.1.1 Prospectus	–	–	–	–	–	–	–	–	–	–
3.1.2 Rights	–	–	–	–	–	–	–	–	–	–
3.2 Non-Convertible	23	77.4	12	44.2	3	8.0	2	5.1	–	–
3.2.1 Prospectus	23	77.4	12	44.2	3	8.0	2	5.1	–	–
3.2.2 Rights	–	–	–	–	–	–	–	–	–	–
4 Bonds	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4.1 Prospectus	–	–	–	–	–	–	–	–	–	–
4.2 Rights	–	–	–	–	–	–	–	–	–	–
5 Total (1+2+3+4)	**86**	**170.6**	**30**	**70.3**	**35**	**132.6**	**5**	**21.2**	**9**	**19.1**
5.1 Prospectus	69	107.8	23	48.9	32	56.6	3	7.1	9	19.1
5.2 Rights	17	62.8	7	21.4	3	76.0	2	14.1	–	–

* : Data is Provisional

Source: Based on prospectus/advertisements issued by companies, replies to Reserve Bank's questionnaire and information received from SEBI, stock exchanges, press reports, etc.

External Sector

No. 31: Foreign Trade

Item	Unit	2014-15	2014	2015				
			Aug.	Apr.	May	Jun.	Jul.	Aug.
		1	2	3	4	5	6	7
1 Exports	₹ Billion	18,963.5	1,632.2	1,388.4	1,429.2	1,437.9	1,481.4	1,384.2
	US $ Million	310,338.5	26,803.5	22,125.1	22,401.5	22,516.9	23,280.3	21,271.7
1.1 Oil	₹ Billion	3,460.8	324.5	175.7	163.1	193.2	201.8	182.2
	US $ Million	56,794.2	5,329.2	2,800.2	2,557.1	3,025.5	3,171.0	2,799.3
1.2 Non-oil	₹ Billion	15,502.7	1,307.7	1,212.7	1,266.1	1,244.7	1,279.7	1,202.0
	US $ Million	253,544.4	21,474.3	19,324.9	19,844.3	19,491.4	20,109.3	18,472.4
2 Imports	₹ Billion	27,370.9	2,281.9	2,079.0	2,095.6	2,111.3	2,296.5	2,191.3
	US $ Million	448,033.4	37,472.8	33,130.2	32,846.3	33,061.8	36,089.2	33,674.4
2.1 Oil	₹ Billion	8,428.7	780.4	467.9	545.6	554.2	603.6	478.8
	US $ Million	138,325.5	12,814.8	7,456.8	8,551.3	8,678.9	9,485.0	7,357.4
2.2 Non-oil	₹ Billion	18,942.1	1,501.6	1,611.1	1,550.0	1,557.1	1,693.0	1,712.5
	US $ Million	309,707.9	24,658.0	25,673.4	24,295.0	24,382.9	26,604.2	26,317.0
3 Trade Balance	₹ Billion	–8,407.4	–649.7	–690.6	–666.4	–673.4	–815.1	–807.1
	US $ Million	–137,694.9	–10,669.3	–11,005.1	–10,444.9	–10,544.9	–12,809.0	–12,402.8
3.1 Oil	₹ Billion	–4,967.9	–455.8	–292.2	–382.4	–361.0	–401.8	–296.6
	US $ Million	–81,531.4	–7,485.6	–4,656.6	–5,994.2	–5,653.4	–6,314.1	–4,558.1
3.2 Non-oil	₹ Billion	–3,439.5	–193.9	–398.4	–284.0	–312.4	–413.3	–510.5
	US $ Million	–56,163.5	–3,183.7	–6,348.5	–4,450.7	–4,891.5	–6,494.9	–7,844.6

Source: DGCI&S and Ministry of Commerce & Industry.

No. 32: Foreign Exchange Reserves

Item	Unit	2014	2015					
		Sep. 26	Aug. 21	Aug. 28	Sep. 4	Sep. 11	Sep. 18	Sep. 25
		1	2	3	4	5	6	7
1 Total Reseves	**₹ Billion**	**19,348**	**23,269**	**23,120**	**23,068**	**23,221**	**23,120**	**23,039**
	US $ Million	**314,182**	**355,354**	**351,920**	**349,031**	**351,390**	**352,021**	**349,979**
1.1 Foreign Currency Assets	₹ Billion	17,721	21,747	21,597	21,518	21,667	21,567	21,489
	US $ Million	287,392	331,731	328,307	325,657	327,968	328,560	326,578
1.2 Gold	₹ Billion	1,266	1,168	1,168	1,196	1,196	1,196	1,196
	US $ Million	20,933	18,250	18,250	18,035	18,035	18,035	18,035
1.3 SDRs	SDRs Million	2,889	2,889	2,889	2,889	2,889	2,889	2,889
	₹ Billion	265	268	269	269	270	270	268
	US $ Million	4,307	4,075	4,068	4,049	4,068	4,097	4,049
1.4 Reserve Tranche Position in IMF	₹ Billion	95	85	86	86	88	88	87
	US $ Million	1,549	1,298	1,295	1,290	1,319	1,328	1,316

No. 33: NRI Deposits

(US$ Million)

Scheme	Outstanding				Flows	
	2014-15	2014	2015		2014-15	2015-16
		Aug.	Jul.	Aug.	Apr.-Aug.	Apr.-Aug.
	1	2	3	4	5	6
1 NRI Deposits	**115,163**	**110,664**	**120,552**	**119,335**	**7,217**	**8,226**
1.1 FCNR(B)	42,824	43,409	44,231	44,157	1,586	1,333
1.2 NR(E)RA	62,746	58,020	66,648	65,709	5,453	6,500
1.3 NRO	9,593	9,235	9,674	9,469	177	393

No. 34: Foreign Investment Inflows

(US$ Million)

Item	2014-15	2014-15	2015-16	2014	2015	
		Apr.-Aug.	Apr.-Aug.	Aug.	Jul.	Aug.
	1	2	3	4	5	6
1.1 Net Foreign Direct Investment (1.1.1–1.1.2)	**32,628**	**12,962**	**13,819**	**1,457**	**1,735**	**1,906**
1.1.1 Direct Investment to India (1.1.1.1–1. 1.1.2)	**34,427**	**13,528**	**15,516**	**1,639**	**1,952**	**2,086**
1.1.1.1 Gross Inflows/Gross Investments	**44,291**	**16,892**	**20,089**	**2,342**	**2,898**	**3,032**
1.1.1.1.1 Equity	31,885	12,388	14,113	1,354	2,082	2,296
1.1.1.1.1.1 Government (SIA/FIPB)	2,219	863	900	37	91	59
1.1.1.1.1.2 RBI	22,530	6,774	11,643	591	1,750	1,885
1.1.1.1.1.3 Acquisition of shares	6,185	4,376	1,192	650	166	276
1.1.1.1.1.4 Equity capital of unincorporated bodies	952	374	378	76	76	76
1.1.1.1.2 Reinvested earnings	8,983	3,451	3,707	696	696	696
1.1.1.1.3 Other capital	3,423	1,053	2,269	292	120	40
1.1.1.2 Repatriation/Disinvestment	**9,864**	**3,363**	**4,572**	**703**	**946**	**946**
1.1.1.2.1 Equity	9,612	3,271	4,506	683	944	944
1.1.1.2.2 Other capital	252	92	66	20	2	2
1.1.2 Foreign Direct Investment by India (1.1.2.1+1.1.2.2+1.1.2.3–1.1.2.4)	**1,799**	**566**	**1,697**	**182**	**217**	**179**
1.1.2.1 Equity capital	4,075	1,270	1,801	214	366	313
1.1.2.2 Reinvested Earnings	1,092	474	940	99	99	99
1.1.2.3 Other Capital	3,280	1,431	1,089	393	158	173
1.1.2.4 Repatriation/Disinvestment	6,649	2,609	2,132	523	406	406
1.2 Net Portfolio Investment (1.2.1+1.2.2+1.2.3–1.2.4)	**40,934**	**19,875**	**–6,390**	**2,055**	**–618**	**–3,470**
1.2.1 GDRs/ADRs	–	–	273	–	–	–
1.2.2 FIIs	40,923	19,973	–6,947	2,091	–676	–3,528
1.2.3 Offshore funds and others	–	–	–	–	–	–
1.2.4 Portfolio investment by India	–11	99	–283	37	–58	–58
1 Foreign Investment Inflows	**73,562**	**32,837**	**7,429**	**3,512**	**1,118**	**–1,564**

No. 35: Outward Remittances under the Liberalised Remittance Scheme (LRS) for Resident Individuals

(US$ Million)

Item	2014-15	2014	2015		
		Jul.	May	Jun.	Jul.
	1	2	3	4	5
1 Outward Remittances under the LRS	**1,325.8**	**90.2**	**106.0**	**140.7**	**380.3**
1.1 Deposit	51.4	4.2	5.1	6.8	10.0
1.2 Purchase of immovable property	45.5	0.8	6.5	9.0	7.4
1.3 Investment in equity/debt	195.5	16.2	18.3	21.2	24.6
1.4 Gift	403.5	29.8	35.5	43.6	52.8
1.5 Donations	3.2	0.1	0.6	0.6	0.1
1.6 Travel	11.0	0.4	1.0	1.5	26.0
1.7 Maintenance of close relatives	174.4	11.1	14.3	20.5	124.2
1.8 Medical Treatment	7.2	0.4	0.4	0.6	1.7
1.9 Studies Abroad	277.1	18.2	12.5	21.9	113.9
1.10 Others	157.1	9.0	11.8	15.1	19.6

No. 36: Indices of Real Effective Exchange Rate (REER) and Nominal Effective Exchange Rate (NEER) of the Indian Rupee

Item	2013-14	2014-15	2014	2015	
			September	August	September
	1	2	3	4	5
36-Currency Export and Trade Based Weights (Base: 2004-05=100)					
1 Trade-Based Weights					
1.1 NEER	72.32	74.08	73.59	74.74	74.16
1.2 REER	103.27	108.93	109.07	111.64	110.78
2 Export-Based Weights					
2.1 NEER	73.56	75.21	74.73	75.72	75.17
2.2 REER	105.48	111.24	111.35	113.98	113.16
6-Currency Trade Based Weights					
1 Base: 2004-05 (April-March) =100					
1.1 NEER	67.75	68.63	68.18	68.09	66.75
1.2 REER	112.77	120.02	120.04	123.94	121.51
2 Base: 2013-14 (April-March) =100					
2.1 NEER	100.00	101.30	100.64	100.50	98.53
2.2 REER	100.00	106.43	106.44	109.90	107.74

No. 37: External Commercial Borrowings (ECBs)

(Amount in US$ Million)

Item	2014-15	2014	2015	
		Aug.	Jul.	Aug.
	1	2	3	4
1 Automatic Route				
1.1 Number	733	53	57	51
1.2 Amount	19,215	453	694	441
2 Approval Route				
2.1 Number	88	5	5	4
2.2 Amount	9,170	54	1,450	310
3 Total (1+2)				
3.1 Number	821	58	62	55
3.2 Amount	28,385	507	2,144	751
4 Weighted Average Maturity (in years)	6.49	5.06	4.99	4.30
5 Interest Rate (per cent)				
5.1 Weighted Average Margin over 6-month LIBOR or reference rate for Floating Rate Loans	2.12	2.33	1.48	2.09
5.2 Interest rate range for Fixed Rate Loans	0.00-13.50	0.00-8.00	0.00-5.25	0.00-10.75

No. 38: India's Overall Balance of Payments

(US $ Million)

Item	Apr-Jun 2014 (PR)			Apr-Jun 2015 (P)		
	Credit	Debit	Net	Credit	Debit	Net
	1	2	3	4	5	6
Overall Balance of Payments(1+2+3)	**283,800**	**272,621**	**11,179**	**266,838**	**255,408**	**11,430**
1 CURRENT ACCOUNT (1.1+ 1.2)	**139,186**	**147,045**	**–7,859**	**126,584**	**132,774**	**–6,190**
1.1 MERCHANDISE	**81,712**	**116,274**	**–34,562**	**68,024**	**102,221**	**–34,197**
1.2 INVISIBLES (1.2.1+1.2.2+1.2.3)	**57,474**	**30,771**	**26,703**	**58,560**	**30,553**	**28,007**
1.2.1 Services	37,568	20,582	16,986	38,046	20,623	17,423
1.2.1.1 Travel	4,232	3,838	394	4,566	3,845	721
1.2.1.2 Transportation	4,452	3,931	521	3,870	4,128	–258
1.2.1.3 Insurance	537	304	234	482	282	200
1.2.1.4 G.n.i.e.	132	248	–115	131	269	–139
1.2.1.5 Miscellaneous	28,213	12,261	15,952	28,997	12,098	16,899
1.2.1.5.1 Software Services	17,533	519	17,014	18,335	676	17,658
1.2.1.5.2 Business Services	7,066	6,306	761	7,792	7,302	490
1.2.1.5.3 Financial Services	1,581	1,415	166	1,286	778	509
1.2.1.5.4 Communication Services	450	262	188	495	154	341
1.2.2 Transfers	17,561	1,149	16,413	17,287	1,130	16,157
1.2.2.1 Official	50	263	–213	146	264	–117
1.2.2.2 Private	17,512	885	16,626	17,141	867	16,274
1.2.3 Income	2,345	9,040	–6,696	3,228	8,800	–5,573
1.2.3.1 Investment Income	1,501	8,352	–6,851	2,345	8,272	–5,928
1.2.3.2 Compensation of Employees	844	689	155	883	528	355
2 CAPITAL ACCOUNT (2.1+2.2+2.3+2.4+2.5)	**144,614**	**125,435**	**19,179**	**140,253**	**122,181**	**18,073**
2.1 Foreign Investment (2.1.1+2.1.2)	**80,575**	**60,255**	**20,321**	**78,588**	**70,713**	**7,874**
2.1.1 Foreign Direct Investment	11,548	3,667	7,881	15,479	5,303	10,177
2.1.1.1 In India	9,986	1,957	8,029	14,159	2,680	11,478
2.1.1.1.1 Equity	7,459	1,904	5,555	9,735	2,617	7,117
2.1.1.1.2 Reinvested Earnings	2,059	–	2,059	2,315	–	2,315
2.1.1.1.3 Other Capital	468	53	415	2,109	63	2,046
2.1.1.2 Abroad	1,562	1,711	–149	1,321	2,622	–1,302
2.1.1.2.1 Equity	1,562	714	849	1,321	1,122	198
2.1.1.2.2 Reinvested Earnings	–	276	–276	–	742	–742
2.1.1.2.3 Other Capital	–	721	–721	–	758	–758
2.1.2 Portfolio Investment	69,027	56,587	12,440	63,108	65,411	–2,303
2.1.2.1 In India	68,858	56,393	12,465	62,848	65,318	–2,469
2.1.2.1.1 FIIs	68,858	56,393	12,465	62,575	65,318	–2,742
2.1.2.1.1.1 Equity	52,715	45,224	7,491	51,323	51,325	–3
2.1.2.1.1.2 Debt	16,143	11,169	4,974	11,253	13,993	–2,740
2.1.2.1.2 ADR/GDRs	–	–	–	273	–	273
2.1.2.2 Abroad	169	194	–25	260	93	167
2.2 Loans (2.2.1+2.2.2+2.2.3)	**31,916**	**30,418**	**1,498**	**27,869**	**29,662**	**–1,793**
2.2.1 External Assistance	1,215	1,265	–50	1,500	1,207	293
2.2.1.1 By India	16	129	–113	14	134	–120
2.2.1.2 To India	1,200	1,136	63	1,486	1,074	412
2.2.2 Commercial Borrowings	6,602	5,276	1,326	3,824	5,102	–1,278
2.2.2.1 By India	446	164	282	686	81	605
2.2.2.2 To India	6,156	5,112	1,044	3,138	5,021	–1,883
2.2.3 Short Term to India	24,099	23,877	222	22,545	23,353	–807
2.2.3.1 Suppliers' Credit > 180 days & Buyers' Credit	23,428	23,877	–448	22,545	21,434	1,111
2.2.3.2 Suppliers' Credit up to 180 days	671	–	671	–	1,918	–1,918
2.3 Banking Capital (2.3.1+2.3.2)	**23,967**	**24,081**	**–115**	**27,637**	**16,609**	**11,028**
2.3.1 Commercial Banks	23,872	24,081	–210	27,637	16,333	11,304
2.3.1.1 Assets	8,279	8,234	45	6,227	2,490	3,738
2.3.1.2 Liabilities	15,592	15,847	–255	21,410	13,843	7,567
2.3.1.2.1 Non-Resident Deposits	15,020	12,610	2,409	16,922	11,036	5,886
2.3.2 Others	95	–	95	–	277	–277
2.4 Rupee Debt Service	–	56	–56	–	34	–34
2.5 Other Capital	8,156	10,626	–2,470	6,159	5,162	997
3 Errors & Omissions	**–**	**141**	**–141**	**–**	**453**	**–453**
4 Monetary Movements (4.1+ 4.2)	–	**11,179**	**–11,179**	–	**11,430**	**–11,430**
4.1 I.M.F.	–	–	–	–	–	–
4.2 Foreign Exchange Reserves (Increase - / Decrease +)	–	11,179	–11,179	–	11,430	–11,430

No. 39: India's Overall Balance of Payments

(₹ Billion)

Item	Apr-Jun 2014 (PR)			Apr-Jun 2015 (P)		
	Credit	Debit	Net	Credit	Debit	Net
	1	2	3	4	5	6
Overall Balance of Payments(1+2+3)	**16,970**	**16,302**	**668**	**16,937**	**16,211**	**725**
1 CURRENT ACCOUNT (1.1+ 1.2)	**8,323**	**8,793**	**–470**	**8,034**	**8,427**	**–393**
1.1 MERCHANDISE	**4,886**	**6,953**	**–2,067**	**4,318**	**6,488**	**–2,171**
1.2 INVISIBLES (1.2.1+1.2.2+1.2.3)	**3,437**	**1,840**	**1,597**	**3,717**	**1,939**	**1,778**
1.2.1 Services	2,246	1,231	1,016	2,415	1,309	1,106
1.2.1.1 Travel	253	230	24	290	244	46
1.2.1.2 Transportation	266	235	31	246	262	–16
1.2.1.3 Insurance	32	18	14	31	18	13
1.2.1.4 G.n.i.e.	8	15	–7	8	17	–9
1.2.1.5 Miscellaneous	1,687	733	954	1,840	768	1,073
1.2.1.5.1 Software Services	1,048	31	1,017	1,164	43	1,121
1.2.1.5.2 Business Services	423	377	45	495	463	31
1.2.1.5.3 Financial Services	95	85	10	82	49	32
1.2.1.5.4 Communication Services	27	16	11	31	10	22
1.2.2 Transfers	1,050	69	981	1,097	72	1,025
1.2.2.1 Official	3	16	–13	9	17	–7
1.2.2.2 Private	1,047	53	994	1,088	55	1,033
1.2.3 Income	140	541	–400	205	559	–354
1.2.3.1 Investment Income	90	499	–410	149	525	–376
1.2.3.2 Compensation of Employees	50	41	9	56	34	23
2 CAPITAL ACCOUNT (2.1+2.2+2.3+2.4+2.5)	**8,648**	**7,501**	**1,147**	**8,902**	**7,755**	**1,147**
2.1 Foreign Investment (2.1.1+2.1.2)	4,818	3,603	1,215	4,988	4,488	500
2.1.1 Foreign Direct Investment	691	219	471	982	337	646
2.1.1.1 In India	597	117	480	899	170	729
2.1.1.1.1 Equity	446	114	332	618	166	452
2.1.1.1.2 Reinvested Earnings	123	–	123	147	–	147
2.1.1.1.3 Other Capital	28	3	25	134	4	130
2.1.1.2 Abroad	93	102	–9	84	166	–83
2.1.1.2.1 Equity	93	43	51	84	71	13
2.1.1.2.2 Reinvested Earnings	–	17	–17	–	47	–47
2.1.1.2.3 Other Capital	–	43	–43	–	48	–48
2.1.2 Portfolio Investment	4,128	3,384	744	4,006	4,152	–146
2.1.2.1 In India	4,118	3,372	745	3,989	4,146	–157
2.1.2.1.1 FIIs	4,118	3,372	745	3,972	4,146	–174
2.1.2.1.1.1 Equity	3,152	2,704	448	3,258	3,258	–
2.1.2.1.1.2 Debt	965	668	297	714	888	–174
2.1.2.1.2 ADR/GDRs	–	–	–	17	–	17
2.1.2.2 Abroad	10	12	–1	16	6	11
2.2 Loans (2.2.1+2.2.2+2.2.3)	**1,908**	**1,819**	**90**	**1,769**	**1,883**	**–114**
2.2.1 External Assistance	73	76	–3	95	77	19
2.2.1.1 By India	1	8	–7	1	8	–8
2.2.1.2 To India	72	68	4	94	68	26
2.2.2 Commercial Borrowings	395	315	79	243	324	–81
2.2.2.1 By India	27	10	17	44	5	38
2.2.2.2 To India	368	306	62	199	319	–120
2.2.3 Short Term to India	1,441	1,428	13	1,431	1,482	–51
2.2.3.1 Suppliers' Credit > 180 days & Buyers' Credit	1,401	1,428	–27	1,431	1,360	71
2.2.3.2 Suppliers' Credit up to 180 days	40	–	40	–	122	–122
2.3 Banking Capital (2.3.1+2.3.2)	**1,433**	**1,440**	**–7**	**1,754**	**1,054**	**700**
2.3.1 Commercial Banks	1,427	1,440	–13	1,754	1,037	718
2.3.1.1 Assets	495	492	3	395	158	237
2.3.1.2 Liabilities	932	948	–15	1,359	879	480
2.3.1.2.1 Non-Resident Deposits	898	754	144	1,074	700	374
2.3.2 Others	6	–	6	–	18	–18
2.4 Rupee Debt Service	–	3	–3	–	2	–2
2.5 Other Capital	488	635	–148	391	328	63
3 Errors & Omissions	**–**	**8**	**–8**	**–**	**29**	**–29**
4 Monetary Movements (4.1+ 4.2)	**–**	**668**	**–668**	**–**	**725**	**–725**
4.1 I.M.F.	–	–	–	–	–	–
4.2 Foreign Exchange Reserves (Increase - / Decrease +)	–	668	–668	–	725	–725

No. 40: Standard Presentation of BoP in India as per BPM6

(US $ Million)

Item	Apr-Jun 2014 (PR)			Apr-Jun 2015 (P)		
	Credit	Debit	Net	Credit	Debit	Net
	1	2	3	4	5	6
1 Current Account (1.A+1.B+1.C)	**139,184**	**147,019**	**–7,836**	**126,572**	**132,749**	**–6,177**
1.A Goods and Services (1.A.a+1.A.b)	**119,280**	**136,856**	**–17,577**	**106,070**	**122,843**	**–16,774**
1.A.a Goods (1.A.a.1 to 1.A.a.3)	**81,712**	**116,274**	**–34,562**	**68,024**	**102,221**	**–34,197**
1.A.a.1 General merchandise on a BOP basis	81,712	109,195	–27,483	68,024	94,701	–26,677
1.A.a.2 Net exports of goods under merchanting	–	–	–	–	–	–
1.A.a.3 Nonmonetary gold	–	7,080	–7,080	–	7,520	–7,520
1.A.b Services (1.A.b.1 to 1.A.b.13)	**37,568**	**20,582**	**16,986**	**38,046**	**20,623**	**17,423**
1.A.b.1 Manufacturing services on physical inputs owned by others	34	10	24	26	4	22
1.A.b.2 Maintenance and repair services n.i.e.	31	59	–28	43	83	–40
1.A.b.3 Transport	4,452	3,931	521	3,870	4,128	–258
1.A.b.4 Travel	4,232	3,838	394	4,566	3,845	721
1.A.b.5 Construction	504	289	215	352	233	120
1.A.b.6 Insurance and pension services	537	304	234	482	282	200
1.A.b.7 Financial services	1,581	1,415	166	1,286	778	509
1.A.b.8 Charges for the use of intellectual property n.i.e.	198	1,392	–1,194	162	1,485	–1,323
1.A.b.9 Telecommunications, computer, and information services	18,072	880	17,192	18,877	933	17,944
1.A.b.10 Other business services	7,066	6,306	761	7,792	7,302	490
1.A.b.11 Personal, cultural, and recreational services	301	317	–16	424	489	–65
1.A.b.12 Government goods and services n.i.e.	132	248	–115	131	269	–139
1.A.b.13 Others n.i.e.	427	1,594	–1,167	34	790	–756
1.B Primary Income (1.B.1 to 1.B.3)	**2,345**	**9,040**	**–6,696**	**3,228**	**8,800**	**–5,573**
1.B.1 Compensation of employees	844	689	155	883	528	355
1.B.2 Investment income	1,253	8,212	–6,960	1,947	8,081	–6,134
1.B.2.1 Direct investment	445	3,675	–3,230	1,113	3,104	–1,990
1.B.2.2 Portfolio investment	14	1,594	–1,580	22	2,108	–2,086
1.B.2.3 Other investment	125	2,941	–2,816	84	2,869	–2,785
1.B.2.4 Reserve assets	669	2	667	728	1	727
1.B.3 Other primary income	248	140	109	398	191	206
1.C Secondary Income (1.C.1+1.C.2)	**17,559**	**1,123**	**16,436**	**17,275**	**1,105**	**16,170**
1.C.1 Financial corporations, nonfinancial corporations, households, and NPISHs	17,512	885	16,626	17,141	867	16,274
1.C.1.1 Personal transfers (Current transfers between resident and/ non-resident households)	16,842	798	16,044	16,529	790	15,739
1.C.1.2 Other current transfers	670	88	582	611	76	535
1.C.2 General government	48	237	–190	134	238	–104
2 Capital Account (2.1+2.2)	**138**	**121**	**18**	**84**	**76**	**8**
2.1 Gross acquisitions (DR.)/disposals (CR.) of non-produced nonfinancial assets	76	72	4	3	11	–8
2.2 Capital transfers	63	49	13	81	65	16
3 Financial Account (3.1 to 3.5)	**144,478**	**136,518**	**7,959**	**140,181**	**133,560**	**6,622**
3.1 Direct Investment (3.1A+3.1B)	**11,548**	**3,667**	**7,881**	**15,479**	**5,303**	**10,177**
3.1.A Direct Investment in India	9,986	1,957	8,029	14,159	2,680	11,478
3.1.A.1 Equity and investment fund shares	9,518	1,904	7,614	12,050	2,617	9,432
3.1.A.1.1 Equity other than reinvestment of earnings	7,459	1,904	5,555	9,735	2,617	7,117
3.1.A.1.2 Reinvestment of earnings	2,059	–	2,059	2,315	–	2,315
3.1.A.2 Debt instruments	468	53	415	2,109	63	2,046
3.1.A.2.1 Direct investor in direct investment enterprises	468	53	415	2,109	63	2,046
3.1.B Direct Investment by India	1,562	1,711	–149	1,321	2,622	–1,302
3.1.B.1 Equity and investment fund shares	1,562	990	573	1,321	1,865	–544
3.1.B.1.1 Equity other than reinvestment of earnings	1,562	714	849	1,321	1,122	198
3.1.B.1.2 Reinvestment of earnings	–	276	–276	–	742	–742
3.1.B.2 Debt instruments	–	721	–721	–	758	–758
3.1.B.2.1 Direct investor in direct investment enterprises	–	721	–721	–	758	–758
3.2 Portfolio Investment	**69,027**	**56,587**	**12,440**	**62,835**	**65,411**	**–2,576**
3.2.A Portfolio Investment in India	68,858	56,393	12,465	62,575	65,318	–2,742
3.2.1 Equity and investment fund shares	52,715	45,224	7,491	51,323	51,325	–3
3.2.2 Debt securities	16,143	11,169	4,974	11,253	13,993	–2,740
3.2.B Portfolio Investment by India	169	194	–25	260	93	167
3.3 Financial derivatives (other than reserves) and employee stock options	**6,008**	**3,996**	**2,012**	**1,344**	**4,594**	**–3,250**
3.4 Other investment	**57,894**	**61,089**	**–3,195**	**60,523**	**46,822**	**13,701**
3.4.1 Other equity (ADRs/GDRs)	–	–	–	273	–	273
3.4.2 Currency and deposits	15,114	12,610	2,504	16,922	11,313	5,610
3.4.2.1 Central bank (Rupee Debt Movements; NRG)	95	–	95	–	277	–277
3.4.2.2 Deposit-taking corporations, except the central bank (NRI Deposits)	15,020	12,610	2,409	16,922	11,036	5,886
3.4.2.3 General government	–	–	–	–	–	–
3.4.2.4 Other sectors	–	–	–	–	–	–
3.4.3 Loans (External Assistance, ECBs and Banking Capital)	16,669	18,012	–1,343	16,039	11,606	4,433
3.4.3.A Loans to India	16,208	17,719	–1,512	15,339	11,391	3,948
3.4.3.B Loans by India	462	293	169	700	214	485
3.4.4 Insurance, pension, and standardized guarantee schemes	29	32	–3	35	34	–
3.4.5 Trade credit and advances	24,099	23,877	222	22,545	23,353	–807
3.4.6 Other accounts receivable/payable - other	1,983	6,558	–4,575	4,709	516	4,192
3.4.7 Special drawing rights	–	–	–	–	–	–
3.5 Reserve assets	–	**11,179**	**–11,179**	–	**11,430**	**–11,430**
3.5.1 Monetary gold	–	–	–	–	–	–
3.5.2 Special drawing rights n.a.	–	–	–	–	–	–
3.5.3 Reserve position in the IMF n.a.	–	–	–	–	–	–
3.5.4 Other reserve assets (Foreign Currency Assets)	–	11,179	–11,179	–	11,430	–11,430
4 Total assets/liabilities	**144,478**	**136,518**	**7,959**	**140,181**	**133,560**	**6,622**
4.1 Equity and investment fund shares	70,001	52,340	17,661	66,331	60,529	5,802
4.2 Debt instruments	72,493	66,441	6,052	68,868	61,084	7,784
4.3 Other financial assets and liabilities	1,983	17,737	–15,754	4,982	11,946	–6,964
5 Net errors and omissions	–	**141**	**–141**	–	**453**	**–453**

No. 41: Standard Presentation of BoP in India as per BPM6

(₹ Billion)

Item	Apr-Jun 2014 (PR)			Apr-Jun 2015 (P)		
	Credit	Debit	Net	Credit	Debit	Net
	1	2	3	4	5	6
1 Current Account (1.A+1.B+1.C)	**8,323**	**8,791**	**-469**	**8,034**	**8,426**	**-392**
1.A Goods and Services (1.A.a+1.A.b)	**7,133**	**8,184**	**-1,051**	**6,732**	**7,797**	**-1,065**
1.A.a Goods (1.A.a.1 to 1.A.a.3)	**4,886**	**6,953**	**-2,067**	**4,318**	**6,488**	**-2,171**
1.A.a.1 General merchandise on a BOP basis	4,886	6,530	-1,643	4,318	6,011	-1,693
1.A.a.2 Net exports of goods under merchanting	–	–	–	–	–	–
1.A.a.3 Nonmonetary gold	–	423	-423	–	477	-477
1.A.b Services (1.A.b.1 to 1.A.b.13)	**2,246**	**1,231**	**1,016**	**2,415**	**1,309**	**1,106**
1.A.b.1 Manufacturing services on physical inputs owned by others	2	1	1	2	0	1
1.A.b.2 Maintenance and repair services n.i.e.	2	4	-2	3	5	-3
1.A.b.3 Transport	266	235	31	246	262	-16
1.A.b.4 Travel	253	230	24	290	244	46
1.A.b.5 Construction	30	17	13	22	15	8
1.A.b.6 Insurance and pension services	32	18	14	31	18	13
1.A.b.7 Financial services	95	85	10	82	49	32
1.A.b.8 Charges for the use of intellectual property n.i.e.	12	83	-71	10	94	-84
1.A.b.9 Telecommunications, computer, and information services	1,081	53	1,028	1,198	59	1,139
1.A.b.10 Other business services	423	377	45	495	463	31
1.A.b.11 Personal, cultural, and recreational services	18	19	-1	27	31	-4
1.A.b.12 Government goods and services n.i.e.	8	15	-7	8	17	-9
1.A.b.13 Others n.i.e.	26	95	-70	2	50	-48
1.B Primary Income (1.B.1 to 1.B.3)	**140**	**541**	**-400**	**205**	**559**	**-354**
1.B.1 Compensation of employees	50	41	9	56	34	23
1.B.2 Investment income	75	491	-416	124	513	-389
1.B.2.1 Direct investment	27	220	-193	71	197	-126
1.B.2.2 Portfolio investment	1	95	-94	1	134	-132
1.B.2.3 Other investment	7	176	-168	5	182	-177
1.B.2.4 Reserve assets	40	0	40	46	0	46
1.B.3 Other primary income	15	8	7	25	12	13
1.C Secondary Income (1.C.1+1.C.2)	**1,050**	**67**	**983**	**1,096**	**70**	**1,026**
1.C.1 Financial corporations, nonfinancial corporations, households, and NPISHs	1,047	53	994	1,088	55	1,033
1.C.1.1 Personal transfers (Current transfers between resident and/ non-resident households)	1,007	48	959	1,049	50	999
1.C.1.2 Other current transfers	40	5	35	39	5	34
1.C.2 General government	3	14	-11	9	15	-7
2 Capital Account (2.1+2.2)	**8**	**7**	**1**	**5**	**5**	**0**
2.1 Gross acquisitions (DR.)/disposals (CR.) of non-produced nonfinancial assets	5	4	0	–	1	-1
2.2 Capital transfers	4	3	1	5	4	1
3 Financial Account (3.1 to 3.5)	**8,639**	**8,163**	**476**	**8,898**	**8,477**	**420**
3.1 Direct Investment (3.1A+3.1B)	**691**	**219**	**471**	**982**	**337**	**646**
3.1.A Direct Investment in India	597	117	480	899	170	729
3.1.A.1 Equity and investment fund shares	569	114	455	765	166	599
3.1.A.1.1 Equity other than reinvestment of earnings	446	114	332	618	166	452
3.1.A.1.2 Reinvestment of earnings	123	–	123	147	–	147
3.1.A.2 Debt instruments	28	3	25	134	4	130
3.1.A.2.1 Direct investor in direct investment enterprises	28	3	25	134	4	130
3.1.B Direct Investment by India	93	102	-9	84	166	-83
3.1.B.1 Equity and investment fund shares	93	59	34	84	118	-35
3.1.B.1.1 Equity other than reinvestment of earnings	93	43	51	84	71	13
3.1.B.1.2 Reinvestment of earnings	–	17	-17	–	47	-47
3.1.B.2 Debt instruments	–	43	-43	–	48	-48
3.1.B.2.1 Direct investor in direct investment enterprises	–	43	-43	–	48	-48
3.2 Portfolio Investment	**4,128**	**3,384**	**744**	**3,988**	**4,152**	**-163**
3.2.A Portfolio Investment in India	4,118	3,372	745	3,972	4,146	-174
3.2.1 Equity and investment fund shares	3,152	2,704	448	3,258	3,258	0
3.2.2 Debt securities	965	668	297	714	888	-174
3.2.B Portfolio Investment by India	10	12	-1	16	6	11
3.3 Financial derivatives (other than reserves) and employee stock options	**359**	**239**	**120**	**85**	**292**	**-206**
3.4 Other investment	**3,462**	**3,653**	**-191**	**3,842**	**2,972**	**870**
3.4.1 Other equity (ADRs/GDRs)	–	–	–	17	–	17
3.4.2 Currency and deposits	904	754	150	1,074	718	356
3.4.2.1 Central bank (Rupee Debt Movements; NRG)	6	–	6	–	18	-18
3.4.2.2 Deposit-taking corporations, except the central bank (NRI Deposits)	898	754	144	1,074	700	374
3.4.2.3 General government	–	–	–	–	–	–
3.4.2.4 Other sectors	–	–	–	–	–	–
3.4.3 Loans (External Assistance, ECBs and Banking Capital)	997	1,077	-80	1,018	737	281
3.4.3.A Loans to India	969	1,060	-90	974	723	251
3.4.3.B Loans by India	28	18	10	44	14	31
3.4.4 Insurance, pension, and standardized guarantee schemes	2	2	0	2	2	0
3.4.5 Trade credit and advances	1,441	1,428	13	1,431	1,482	-51
3.4.6 Other accounts receivable/payable - other	119	392	-274	299	33	266
3.4.7 Special drawing rights	–	–	–	–	–	–
3.5 Reserve assets	–	**668**	**-668**	–	**725**	**-725**
3.5.1 Monetary gold	–	–	–	–	–	–
3.5.2 Special drawing rights n.a.	–	–	–	–	–	–
3.5.3 Reserve position in the IMF n.a.	–	–	–	–	–	–
3.5.4 Other reserve assets (Foreign Currency Assets)	–	668	-668	–	725	-725
4 Total assets/liabilities	**8,639**	**8,163**	**476**	**8,898**	**8,477**	**420**
4.1 Equity and investment fund shares	4,186	3,130	1,056	4,210	3,842	368
4.2 Debt instruments	4,335	3,973	362	4,371	3,877	494
4.3 Other financial assets and liabilities	119	1,061	-942	316	758	-442
5 Net errors and omissions	–	**8**	**-8**	–	**29**	**-29**

No. 42: International Investment Position

(US$ Million)

Item	As on Financial Year /Quarter End							
	2014-15		2014		2015			
			Jun.		Mar.		Jun.	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	1	2	3	4	5	6	7	8
1 Direct Investment Abroad/in India	130,508	264,519	128,858	250,428	130,508	264,519	131,810	270,070
1.1 Equity Capital and Reinvested Earnings	89,421	253,048	90,329	239,301	89,421	253,048	89,965	257,818
1.2 Other Capital	41,087	11,471	38,528	11,127	41,087	11,471	41,845	12,252
2 Portfolio Investment	1,429	228,195	1,261	208,942	1,429	228,195	1,595	230,799
2.1 Equity	1,050	148,443	944	147,115	1,050	148,443	1,216	146,003
2.2 Debt	378	79,751	317	61,827	378	79,751	379	84,797
3 Other Investment	44,190	386,704	45,549	382,967	44,190	386,704	39,791	390,636
3.1 Trade Credit	2,705	82,878	8,335	84,185	2,705	82,878	1,595	82,050
3.2 Loan	4,872	177,094	5,078	178,956	4,872	177,094	3,640	174,668
3.3 Currency and Deposits	19,763	115,313	15,722	106,419	19,763	115,313	17,447	120,059
3.4 Other Assets/Liabilities	16,851	11,420	16,415	13,407	16,851	11,420	17,110	13,859
4 Reserves	341,639	–	316,138	–	341,639	–	356,001	–
5 Total Assets/ Liabilities	517,766	879,418	491,806	842,338	517,766	879,418	529,197	891,506
6 IIP (Assets - Liabilities)		–361,652		–350,531		–361,652		–362,309

Payment and Settlement Systems

No. 43: Payment System Indicators

System	Volume (Million)				Value (₹ Billion)			
	2014-15	2015			2014-15	2015		
		Jun.	Jul.	Aug.		Jun.	Jul.	Aug.
	1	2	3	4	5	6	7	8
1 RTGS	**92.78**	**8.26**	**8.25**	**7.82**	**929,332.89**	**93,130.00**	**86,870.00**	**80,895.66**
1.1 Customer Transactions	88.39	7.88	7.87	7.46	631,050.74	64,280.00	59,710.00	55,602.26
1.2 Interbank Transactions	4.38	0.38	0.38	0.37	122,981.62	9,900.00	9,180.00	8,773.96
1.3 Interbank Clearing	0.012	0.001	0.001	0.001	175,300.73	18,950.00	17,980.00	16,519.43
2 CCIL Operated Systems	**3.03**	**0.28**	**0.26**	**0.28**	**752,000.42**	**76,446.45**	**69,847.28**	**66,133.45**
2.1 CBLO	0.21	0.02	0.02	0.02	167,645.96	18,136.03	17,550.23	16,267.03
2.2 Govt. Securities Clearing	1.09	0.10	0.09	0.08	258,916.76	25,663.06	23,104.84	20,588.94
2.2.1 Outright	0.98	0.09	0.08	0.08	101,561.62	9,724.64	8,531.05	8,086.82
2.2.2 Repo	0.109	0.012	0.011	0.009	157,355.15	15,938.42	14,573.79	12,502.12
2.3 Forex Clearing	1.73	0.16	0.15	0.17	325,437.69	32,647.36	29,192.21	29,277.48
3 Paper Clearing	**1,196.51**	**90.30**	**96.94**	**91.39**	**85,434.14**	**6,693.75**	**7,098.26**	**6,545.05**
3.1 Cheque Truncation System (CTS)	964.86	79.35	83.89	78.85	66,769.93	5,833.21	5,966.83	5,530.43
3.2 MICR Clearing	22.43	-	-	-	1,850.40	–	–	–
3.2.1 RBI Centres	7.50	-	-	-	614.51	–	–	–
3.2.2 Other Centres	14.93	-	-	-	1,235.89	–	–	–
3.3 Non-MICR Clearing	209.82	10.95	13.05	12.54	16,939.34	860.54	1,131.44	1,014.62
4 Retail Electronic Clearing	**1,687.44**	**227.61**	**245.17**	**246.06**	**65,365.51**	**6,899.17**	**6,923.25**	**6,755.08**
4.1 ECS DR	226.01	19.11	19.34	18.69	1,739.78	149.63	151.84	149.99
4.2 ECS CR (includes NECS)	115.35	3.02	3.70	3.29	2,019.14	85.92	104.43	82.41
4.3 EFT/NEFT	927.55	91.22	103.11	95.94	59,803.83	6,324.58	6,289.37	6,153.38
4.4 Immediate Payment Service (IMPS)	78.37	13.82	15.60	16.65	581.87	103.24	112.17	119.06
4.5 National Automated Clearing House (NACH)	340.17	100.44	103.43	111.49	1,220.88	235.80	265.43	250.25
5 Cards	**8,423.99**	**782.80**	**815.38**	**835.19**	**25,415.27**	**2,365.23**	**2,416.40**	**2,411.55**
5.1 Credit Cards	619.41	60.89	65.24	66.00	1,922.63	176.89	198.48	201.57
5.1.1 Usage at ATMs	4.29	0.47	0.46	0.47	23.47	2.18	2.38	2.44
5.1.2 Usage at POS	615.12	60.42	64.79	65.52	1,899.16	174.71	196.09	199.13
5.2 Debit Cards	7,804.57	721.91	750.14	769.19	23,492.65	2,188.34	2,217.92	2,209.98
5.2.1 Usage at ATMs	6,996.48	632.77	655.17	672.45	22,279.16	2,066.12	2,077.85	2,074.42
5.2.2 Usage at POS	808.09	89.13	94.97	96.74	1,213.49	122.23	140.07	135.56
6 Prepaid Payment Instruments (PPIs)	**314.46**	**55.43**	**64.53**	**52.95**	**213.42**	**32.31**	**37.92**	**38.74**
6.1 m-Wallet	255.00	47.31	53.60	42.84	81.84	12.68	14.29	13.35
6.2 PPI Cards	58.91	8.06	10.89	10.07	105.35	16.96	21.64	23.46
6.3 Paper Vouchers	0.55	0.05	0.04	0.04	26.24	2.66	1.99	1.93
7 Mobile Banking	**171.92**	**21.82**	**24.96**	**25.15**	**1,035.30**	**221.17**	**235.71**	**217.93**
8 Cards Outstanding	**574.56**	**596.21**	**608.80**	**620.84**	–	–	–	–
8.1 Credit Card	21.11	21.52	22.00	22.33	–	–	–	–
8.2 Debit Card	553.45	574.69	586.80	598.51	–	–	–	–
9 Number of ATMs (in actuals)	**181398**	**184221**	**187571**	**189189**	–	–	–	–
10 Number of POS (in actuals)	**1126735**	**1132955**	**1165325**	**1191311**	–	–	–	–
11 Grand Total (1.1+1.2+2+3+4+5+6)	**11,718.19**	**1,164.66**	**1,230.55**	**1,233.69**	**1,682,461.11**	**166,616.91**	**155,213.12**	**146,260.11**

Explanatory Notes to the Current Statistics

Table No. 1
1.2 & 6: Annual data are averages of months.
3.5 & 3.7: Relate to ratios of increments over financial year so far.
4.1 to 4.4, 4.8, 4.12 & 5: Relate to the last day of the month/financial year.
4.5, 4.6 & 4.7: Relate to five major banks on the last Friday of the month/financial year.
4.9 to 4.11: Relate to the last auction day of the month/financial year.

Table No. 2
2.1.2: Include paid-up capital, reserve fund and Long-Term Operations Funds.
2.2.2: Include cash, fixed deposits and short-term securities/bonds, *e.g.*, issued by IIFC (UK).

Table No. 4
Maturity-wise position of outstanding forward contracts is available at http://nsdp.rbi.org.in under ''Reserves Template''.

Table No. 5
Special refinance facility to Others, i.e. to the EXIM Bank, is closed since March 31, 2013.

Table No. 6
For scheduled banks, March-end data pertain to the last reporting Friday.
2.2: Exclude balances held in IMF Account No.1, RBI employees' provident fund, pension fund, gratuity and superannuation fund.

Table Nos. 7 & 11
3.1 in Table 7 and 2.4 in Table 11: Include foreign currency denominated bonds issued by IIFC (UK).

Table No. 8
NM_2 and NM_3 do not include FCNR (B) deposits.
2.4: Consist of paid-up capital and reserves.
2.5: includes other demand and time liabilities of the banking system.

Table No. 9
Financial institutions comprise EXIM Bank, SIDBI, NABARD and NHB.
L_1 and L_2 are compiled monthly and L_3 quarterly.
Wherever data are not available, the last available data have been repeated.

Table No. 15 & 16
Data are provisional and relate to select banks which cover 95 per cent of total non-food credit extended by all scheduled commercial banks (excludes ING Vysya which has been merged with Kotak Mahindra since April 2015).
Export credit under priority sector relates to foreign banks only.
Micro & small under item 2.1 includes credit to micro & small industries in manufacturing sector.
Micro & small enterprises under item 5.2 includes credit to micro & small enterprises in manufacturing as well as services sector.
Priority Sector is as per old definition and does not conform to FIDD Circular FIDD.CO.Plan.BC.54/04.09.01/2014-15 dated April 23, 2015.

Table No. 17
2.1.1: Exclude reserve fund maintained by co-operative societies with State Co-operative Banks
2.1.2: Exclude borrowings from RBI, SBI, IDBI, NABARD, notified banks and State Governments.
4: Include borrowings from IDBI and NABARD.

Table No. 24
Primary Dealers (PDs) include banks undertaking PD business.

Table No. 30
Exclude private placement and offer for sale.
1: Exclude bonus shares.
2: Include cumulative convertible preference shares and equi-preference shares.

Table No. 32
Exclude investment in foreign currency denominated bonds issued by IIFC (UK), SDRs transferred by Government of India to RBI and foreign currency received under SAARC SWAP arrangement. Foreign currency assets in US dollar take into account appreciation/depreciation of non-US currencies (such as Euro, Sterling, Yen and Australian Dollar) held in reserves. Foreign exchange holdings are converted into rupees at rupee-US dollar RBI holding rates.

Table No. 34
1.1.1.1.2 & 1.1.1.1.1.4: Estimates.
1.1.1.2: Estimates for latest months.
'Other capital' pertains to debt transactions between parent and subsidiaries/branches of FDI enterprises.
Data may not tally with the BoP data due to lag in reporting.

Table No. 35
1.10: Include items such as subscription to journals, maintenance of investment abroad, student loan repayments and credit card payments.

Table No. 36
Increase in indices indicates appreciation of rupee and vice versa. For 6-Currency index, base year 2012-13 is a moving one, which gets updated every year. REER figures are based on Consumer Price Index (combined). Methodological details are available in December 2005 and April 2014 issues of the Bulletin.

Table No. 37
Based on applications for ECB/Foreign Currency Convertible Bonds (FCCBs) which have been allotted loan registration number during the period.

Table Nos. 38, 39, 40 & 41
Explanatory notes on these tables are available in December issue of RBI Bulletin, 2012.

Table No. 43
1.3: Pertain to multilateral net settlement batches.
3.1: Pertain to two centres - New Delhi and Chennai.
3.3: Pertain to clearing houses managed by 21 banks.
6: Available from December 2010.
7: Include IMPS transactions.

Detailed explanatory notes are available in the relevant press releases issued by RBI and other publications/releases of the Bank such as **Handbook of Statistics on the Indian Economy**.

Recent Publications of the Reserve Bank of India

Name of Publication	Price	
	India	Abroad
1. Reserve Bank of India Bulletin 2015	₹200 per copy (over the counter) ₹240 per copy (inclusive of postage) ₹2,800 (one year subscription - inclusive of postage)	US$ 11 per copy (inclusive of postage) US$ 130 (one-year subscription) (inclusive of air mail courier charges)
2. Handbook of Statistics on the Indian Economy 2013-14	₹300 (Normal) ₹350 (inclusive of postage) ₹225 (concessional) ₹275 (concessional with postage)	US$ 35 (inclusive of air mail courier charges)
3. Report on Currency and Finance 2009-12 Fiscal-Monetary Co-ordination	₹515 (normal) ₹555 (inclusive of postage)	US$ 16 per copy (inclusive air mail courier charges)
4. Report on Currency and Finance 2003-08 Vol. I to V (Special Issue)	₹1,100 (normal) ₹ 1,170 (inclusive of postage) ₹ 830 (concessional) ₹ 900 (concessional inclusive of postage)	US$ 55 per copy (inclusive air mail courier charges)
5. State Finances - A Study of Budgets of 2014-15	₹390 per copy (over the counter) ₹430 per copy (including postal charges)	US$ 14 per copy (inclusive air mail courier charges)
6. Handbook of Statistics on State Government Finances 2010	CD-ROM ₹80 (normal) ₹105 (inclusive of postage) ₹60 (concessional) ₹85 (concessional inclusive of postage)	US$ 16 per CD (inclusive of air mail courier charges) US$ 4 per CD (inclusive of registered air mail charges)
7. CD Compendium of Articles on State Finances (1950-51 to 2010-11)	₹280 (over the counter) ₹305 (inclusive of postal charges) ₹210 (concessional) ₹235 (concessional inclusive of postage)	US$ 8 (inclusive of air mail book post charges)
8. Mint Road Milestones RBI at 75	₹1,650 per copy (over the counter)	US$ 50 per copy (inclusive of air mail courier charges)
9. India's Financial Sector, An Assessment Vol. I to VI 2009	₹2,000 per copy (over the counter) ₹2,300 per copy (inclusive postal charges) ₹1,500 per copy (concessional price) ₹1,800 per copy (concessional inclusive of postage)	US$ 40 per set and US$ 120 per set (inclusive of air mail courier charges)
10. The Paper and the Promise: A Brief History of Currency & Banknotes in India, 2009	₹200 per copy (over the counter)	US$ 30 per copy (inclusive of air mail courier charges)
11. Report of the committee on Fuller Capital account Convertibility (Tarapore Committee Report II)	₹140 per copy (normal) ₹170 (per copy by post)	US$ 25 per copy ((inclusive of air mail courier charges)
12. A Profile of Banks 2012-13	₹80 per copy (over the counter) ₹110 per copy (inclusive of postal charges)	US$ 7 per copy (inclusive of air mail courier charges)

Name of Publication	Price	
	India	Abroad
13. Selected Banking Indicators 1981 to 2002 (On CD-ROM)	₹250 per CD (over the counter) ₹300 per CD (including postal charges)	US$ 75 (per CD) (inclusive of air mail courier charges)
14. Statistical Tables Relating to Banks in India 2012-13	₹240 per copy (over the counter) ₹300 (inclusive of postage)	US$ 13 per copy (inclusive of air mail courier charges)
15. Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks 1981-2003 (on CD-ROM)	₹185 per copy (over the counter) ₹240 per copy (including postal charges)	US$ 20 per copy US$ 55 per copy (inclusive of air mail courier charges)
16. Basic Statistical Returns of Scheduled Commercial Banks in India Vol. 41 March 2012	₹270 per copy (over the counter) ₹310 per copy (inclusive of postal charges)	US$ 10 per copy (inclusive of air mail courier charges)
17. Private Corporate Business Sector in India - Selected Financial Statistics from 1950-51 to 1997-98	₹500 per CD (over the counter)	US$ 100 per CD ROM (inclusive of air mail courier charges)
18. Banking Glossary (2012)	₹80 (normal) (postage extra)	

Notes

1. Many of the above publications are available at the RBI website (www.rbi.org.in).
2. Time Series data are available at the Database on Indian Economy (http://dbie.rbi.org.in).
3. The Reserve Bank of India History 1935-1997 (4 Volumes), Challenges to Central Banking in the Context of Financial Crisis and the Regional Economy of India: Growth and Finance are available at leading book stores in India.

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