MONTHLY UPDATE
MARCH 2017

INDIA ON A NEW GROWTH PATH

GLOBAL UPDATE | INDIA UPDATE | INDIA INFRASTRUCTURE & REALTY UPDATE

GLOBAL ECONOMY TO MOVE UP BY 3.5% IN 2017: IMF

The International Monetary Fund (IMF) raised its economic outlook for 2017. As per its latest statement, the global economy is expected to move up by 3.5% in 2017 and by 3.6% in 2018. This is certainly good news compared to 2016 when the global economy grew by 3.1%. The growth in global economy largely comes on the back of accelerated investment, manufacturing and rebound in trade. The IMF was more pessimistic in the forecast that it made in January 2017, where it reduced the growth forecast for the US and other advanced economies. In its latest forecast, the IMF also raised its outlook for advanced economies, which include the US, the UK, Germany, Italy, Spain, Japan and other developed nations. It now anticipates that these advanced economies will grow by 2% this year, up slightly from the 1.9% forecast in January. However, as per the IMF, 'a faster-than-expected pace' of interest rate hikes in the US could tighten financial conditions elsewhere, and strengthening of the US dollar could strain emerging-market economies with currencies that are pegged to the dollar. Emerging-market economies remain vulnerable as geopolitical tensions rise and the use of credit proliferates. China, in particular, 'faces the daunting challenge of reducing its reliance on credit growth.' The IMF also left unchanged its January forecast for emerging markets, which are anticipated to grow 4.5% in 2017 and 4.8% in 2018. China's growth this year is now estimated at 6.6%, up from 6.5% projected in January.

THE US FED RAISES RATES

Amid rising confidence that the economy is poised for a more robust growth, the US Federal Reserve has increased its benchmark rate of interest by 25 bps, thereby taking the base rate from 0.75% to 1%. There could be two more hikes in the pipeline, one in June and the other in December. This in all likelihood is possible after the Fed in its statement, noted that the business investment has 'firmed somewhat,' a slight upgrade from the characterisation of 'soft' after the Jan 31–Feb 1 meeting.

INTERNATIONAL TOURIST ARRIVALS TO EU INCREASE BY 4%

International tourist arrivals to the European Union almost reached 0.5 billion in 2016, which is 40% of the world's total tourist arrivals. Increased number of international tourist arrivals, in the EU, resulted in a 4% increase in 2016 compared to the previous year. This preliminary result is included in the first release of the 'European Union Short-Term Tourism Trends', a regular monitoring of EU tourism by the World Tourism Organization in the framework of the cooperation with the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs of the European Commission (EC). Despite many challenges facing Europe in 2016, tourism has once again shown extraordinary strength and resilience, reinforcing its contribution to economic growth, job creation and social well-being in the European Union. 2016 was the 7th consecutive year of sustained growth of international tourist arrivals, for the EU, which consists of 28 countries, following the 2009 global economic and financial crisis, with 0.10 billion more tourists than the pre-crisis level of 2008.

INDIA UPDATE

GDP GROWTH RATE TO TOUCH 7.4% IN 2017–18

The after effects of the much touted policy intervention by the Government of India through demonetisation to a great extent were dissipated, as the Indian economy grew by 7.1% in 2016–17. In a major boost to the ongoing reforms, in the Indian economy, the Asian Development Bank (ADB), in its recent study, predicted that the Indian economy would grow at 7.4% in 2017–18. In its recent economic study, the ADB stated that the impact of demonetisaion of high value bank notes is dissipating as the replacement banknotes enter circulation. Stronger consumption and fiscal reforms are also expected to improve business confidence and investment prospects in the country. Interestingly, a growth rate of 7.4% is higher than the growth rate of 6.2% in FY 2018. As regards the Indian economy, the report further states that a host of economic reforms have been initiated in India, in the recent past. Prominent among them are the Goods and Services Tax (GST) and liberalisation of the FDI regime.

RBI KEEPS INTEREST RATE STEADY; ALLOWS BANKS TO INVEST IN REITS

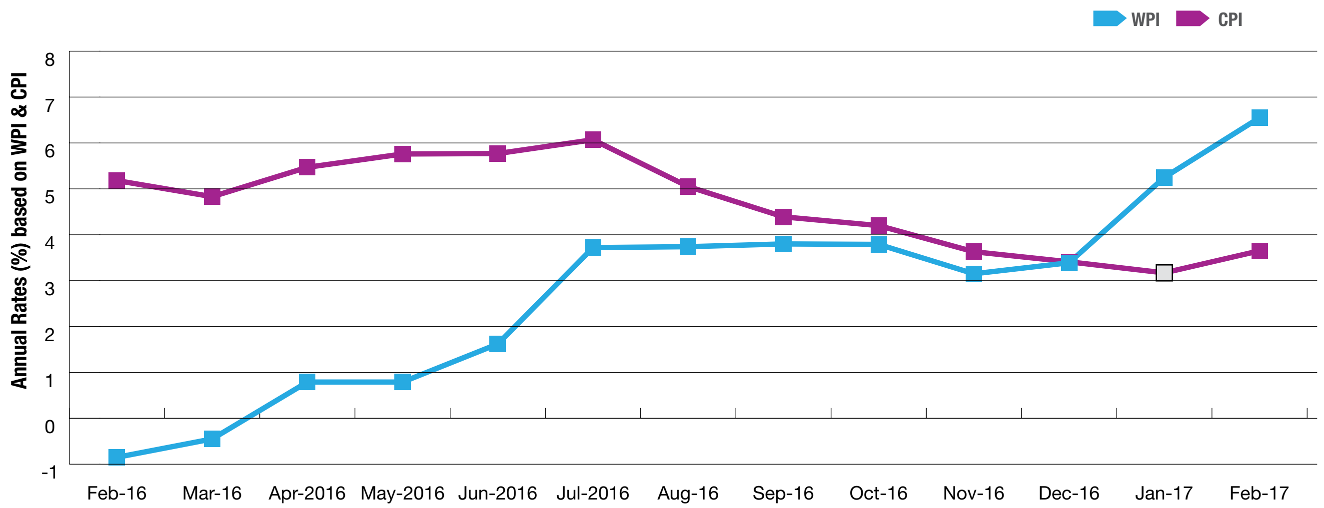
The Reserve Bank of India (RBI) in its first Bi-monthly Monetary Policy Statement, 2017–18 kept the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.25%. The reverse repo rate under the LAF is at 6%, and the marginal standing facility (MSF) rate and the Bank Rate are at 6.50%. The decision of the Monetary Policy Committee (MPC) is consistent with a neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2%, while supporting growth. In another major development, the RBI has allowed banks to invest in real estate investment trusts (REITs) and infrastructure investment trusts (InvITs). The banking regulator has proposed to allow banks to invest in such schemes after a request for the same was made with the Securities and Exchange Board of India (SEBI). The market regulator SEBI has already put in place regulations for REITs and InvITs. At present, banks are allowed to invest in equity-linked mutual funds, venture capital funds and equities to the extent of 20% for their net owned funds (NOF). It is proposed to allow banks to invest in REITs and InvITs through this window. Detailed guidelines in this regard have been recently issued.

SLOWEST GROWTH IN BANK CREDIT SINCE 1953–54

FY 2017 witnessed the slowest growth in bank credit since 1953–54. At 5.1%, this growth is second only to the 1.7% growth witnessed in 1953–54. The primary reason for this can be attributed to the fact that public sector banks that were burdened with bad loans found it hard to find safe avenues to lend. Apart from bad loans and sluggish corporate investments, demonetisation too pulled the plugs on growth of bank credit. During the October–December 2016 quarter, when demonetisation was carried out in India, bank credit shrunk by 2.3%, as against 2.7% growth during the same period in the previous year. Banks however, are faced with the twin-edged sword. On the one hand, they are flushed with deposits but on the other hand, are struggling to find safe avenues to lend. During FY 17, banks witnessed 11.8% growth in deposits. As a likely consequence of this double-edged sword, it's very likely that banks will report a higher percentage of bad loans as growth in credit helps mask bad loans.

CONSUMER INFLATION MOVES UP SLIGHTLY TO 3.65% IN FEBRUARY; WHOLESALE INFLATION SURGES FURTHER

INFLATION



Source: Ministry of Commerce & Industry, Ministry of Statistics and Programme Implementation, Government of India

Firmer food and fuel prices drove India's overall inflation higher in February. This to a large extent dimmed hopes of any rate cut by the RBI amid worries of hardening global commodity prices and expectation of vegetables turning dearer as summer approaches.

Consumer price inflation as measured by the consumer price index (CPI), slipped to 3.65% compared to 5.18% during the same period last year. However, when compared to January 2017, CPI moved up by 48 bps in February 2017. Only retail inflation for vegetables, pulses and products went down by 8.29% and 9.02% in February 2017 compared to February 2016. Among product categories that witnessed the maximum increase in inflation in February 2017 over February 2016 are sugar and confectionary, fruits, pan, tobacco and intoxicants, cereals and products. Retail inflation for sugar and confectionary went up by 18.83%, for fruits it increased by 8.33%, in case of pan, tobacco and intoxicants it went up by 6.18% and that of cereals and products increased by 5.30%.

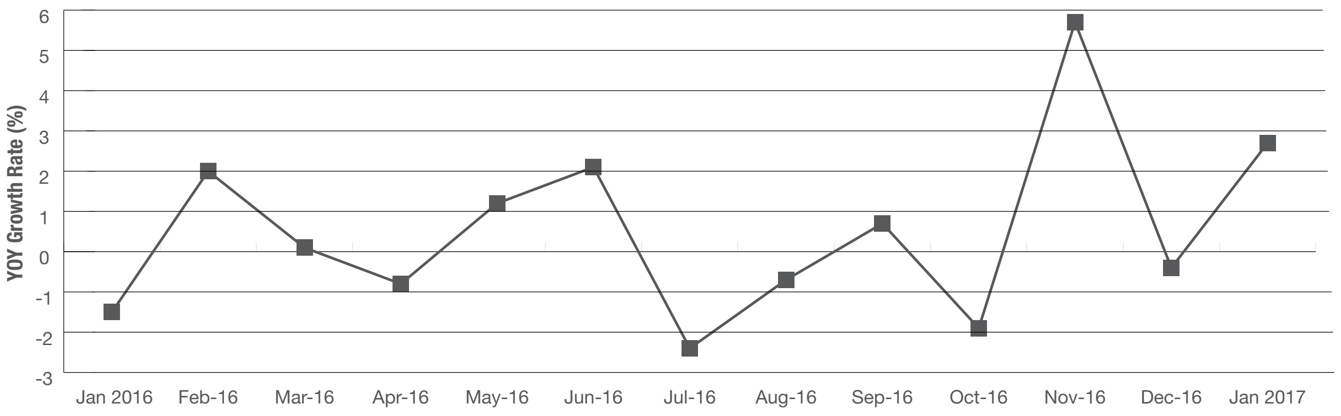
Wholesale inflation as measured by the wholesale price index (WPI), for February 2017 shot up to 6.55% compared to -0.85% in February 2016. On a month to month basis WPI has moved up by 130 bps.

The index for primary articles went up by 0.9% compared to January 2017. During the same period, the index for fuel and power increased by 1.3% due to higher price of cooking coal, aviation turbine fuel, bitumen and kerosene, high speed diesel, LPG and lignite. The prices of furnace oil, however, declined in February 2017. The index for manufactured goods remained unchanged in February 2017 compared to the previous month. The index for other groups like wood and wood products, leather and leather products, rubber and plastic products, chemicals and chemical products, non-metallic mineral products and transport, equipment and parts marginally moved up in February 2017 compared to January 2017. During the same period, the index for basic metals, alloys and metal products group declined by 0.5%.

Going forward, consumer inflation is expected to move up further as the base effects starts fading. Even though the India Meteorological Department (IMD) has predicted normal monsoons this year but there is a history of such forecasts going wrong, in the very recent past, and that may add to the agony.

INDUSTRIAL PRODUCTION MARGINALLY INCHES UP IN JANUARY 2017

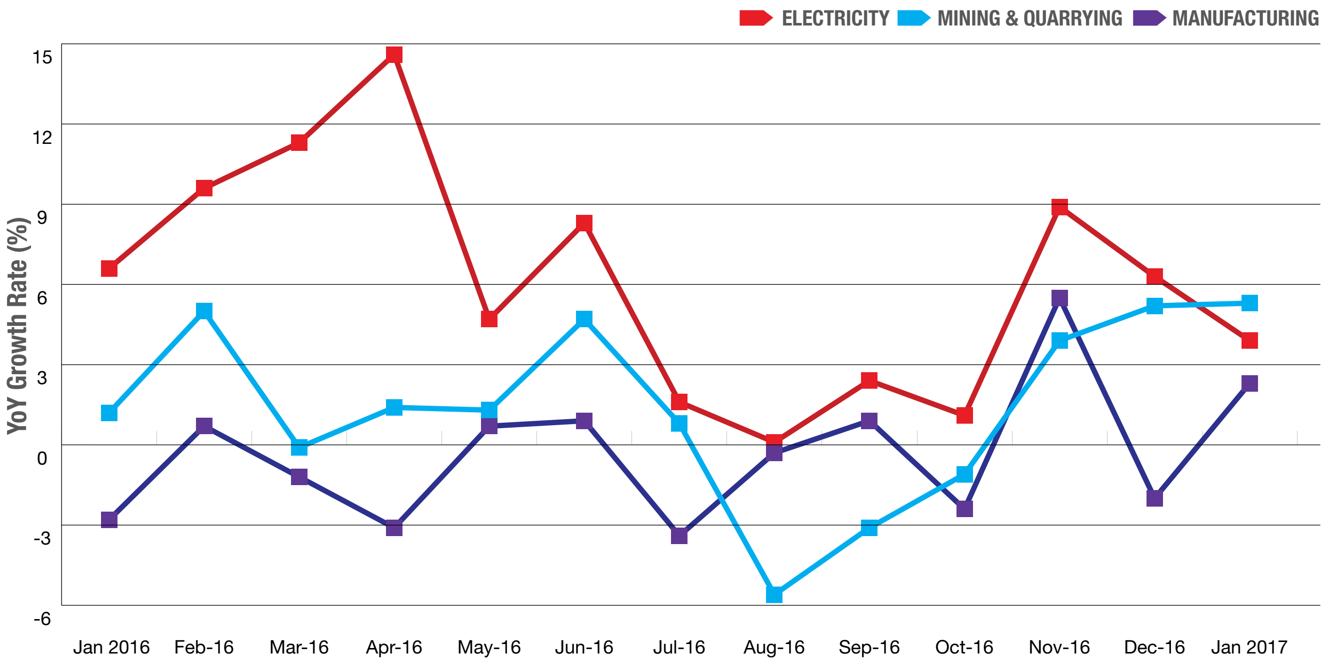
IIP (GENERAL INDEX)



Source: Ministry of Statistics and Programme Implementation, Government of India

Shrugging off the impact of demonetisation, the country's industrial production moved up in January 2017. It was up 2.7% compared to -1.5% in January 2016. On a month-to-month basis, the IIP was 420 bps higher than the figure recorded in December 2016.

IIP (SECTOR WISE)



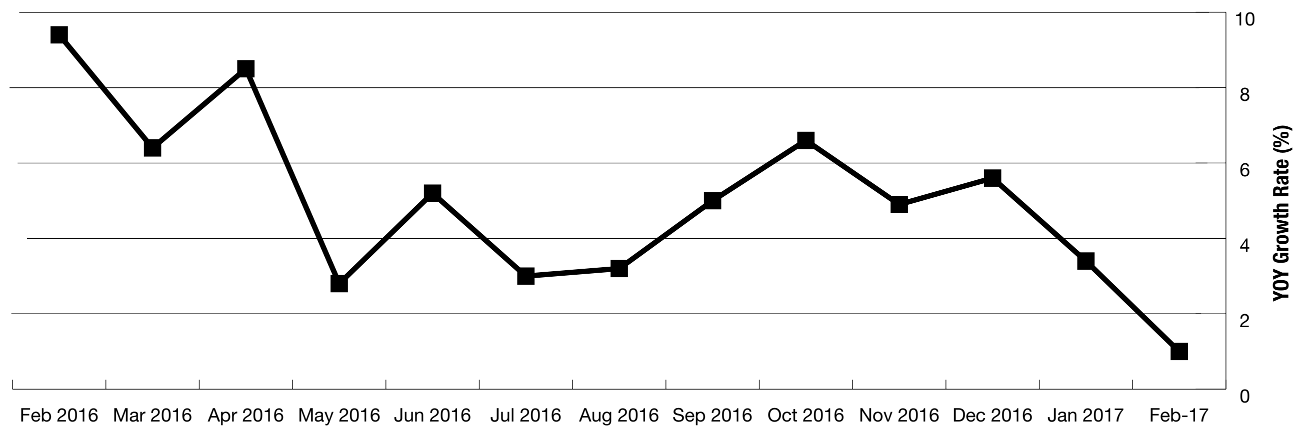
Source: Ministry of Statistics and Programme Implementation, Government of India

The growth rate of the mining and quarrying sector increased by 5.3% YOY during January 2017, as against 1.2% in the same period last year. The growth rate of the manufacturing sector, which was in the negative in January 2016, turned positive in January 2017, recording a 2.3% growth. Interestingly, the rate of growth of the manufacturing sector was also in the red in December 2016. The turn in the rate of growth of the manufacturing sector could largely be attributed to the Indian economy beating the demonetisation blues. The rate of growth of the electricity sector was essentially in the same place as witnessed last year, in January 2016.

With the slew of reforms that are in the pipeline, industrial production is most likely to improve in the days to come.

CORE SECTOR GROWTH SLIPS FURTHER

INDEX OF EIGHT CORE INDUSTRIES



Source: Ministry of Commerce & Industry, Government of India

The eight core sectors that comprise nearly 38% of the weight of items included in the IIP slipped further in February 2017. The growth rate of the combined index is 1% higher compared to February 2016. In fact, this growth rate of the combined index has been the lowest in the entire year.

Of the eight sectors, the growth rate of only three sectors was positive. Growth rates of the remaining five sectors were in the red. Sectors that witnessed positive growth are steel (8.7%), coal (7.1%) and electricity (1.5%). The sector that was largely responsible for putting the brakes on the growth rate was the cement sector. The growth rate of the sector was down 15.8%. This can largely be attributed to the sluggishness in the construction sector. To make matters worse, in the recent months cement prices witnessed a steep jump of 20–40%. As a consequence of this sudden increase, CREDAI members as well protested against this sudden increase in cement prices. The other sectors that pulled down the growth rate of the composite index are fertilizers (-5.3%), crude oil (-3.4%), refinery products (-2.3%) and natural gas (-1.7%).

EXPORTS CONTINUE TO RISE FURTHER

Further strengthening the double-digit growth witnessed by exports during February 2017, exports in March 2017 witnessed a significant growth of 27.59% in dollar terms. In value terms it amounted to USD$29.23 billion in March 2017 compared to USD$22.91 billion in March 2016. The rise in exports can be attributed to the revival of demand from major economies like United States, European Union, China and Japan. The cumulative value of exports in FY 17 was valued at $274.64 billion as against $262.29 billion in FY 16, thereby registering a positive growth of 4.71% in dollar terms.

Non-petroleum and non-gems and jewellery exports in March 2017 witnessed an increase of 25.5% in value terms compared to the same period last year. In FY 17, exports of the non-petroleum and non-gems and jewellery category witnessed a 4.2% increase, in value terms, during the same period last year.

During March 2017 imports in dollar terms witnessed a 45.25% increase compared to the same period last year. In terms of value, imports amounted to $39.66 billion.

Cumulative value of imports for FY 17 amounted to $380.36 billion as against $381.00 billion during FY 16, thereby registering a negative growth of 0.17%, in dollar terms.

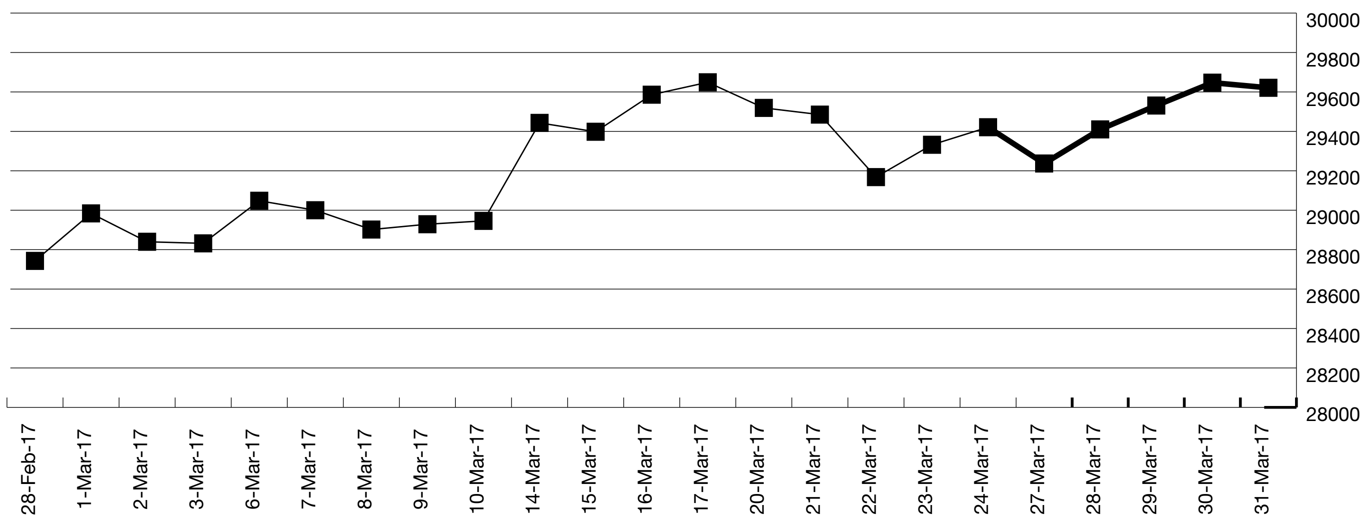
Non-oil imports in March 2017 were estimated at $29.95 billion, which was 33% higher compared to imports in the same category in March 2016. Non-oil imports during FY 17 were amounted to $293.90 billion, which was 1.39% lower than then level of such imports in FY 16.

Exports in trade and services during February 2017 amounted to $13.60 billion, thereby registering a negative growth of 3.76%, in dollar terms, during the same period last year. As regards imports in trade and services for February were valued at $7.2 billion, thereby registering a negative growth of 13.96%, in dollar terms.

The overall trade balance showed an improvement when merchandise and services were taken together. The overall deficit for FY 17 is estimated at $46.42 billion, which is 14.149% lower, in dollar terms compared to FY 16. (Please note that the services data pertains to April 2016–February 2017, as the latest data available from in the RBI is as per February 17).

SENSEX

S&P BSE SENSEX

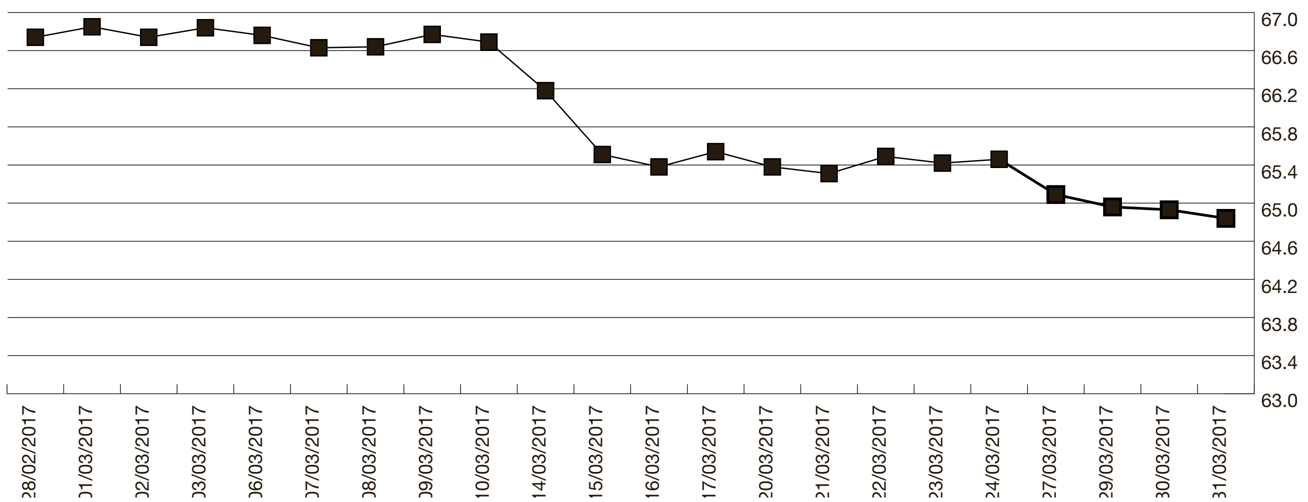


Source: BSE

The S&P BSE Sensex gained 3.05% during the month of March 2017.

CURRENCY

INR/USD



Source: Reserve Bank of India

The Indian rupee gained 2.85% over the dollar during the month of March 2017.

6,604 KM OF NATIONAL HIGHWAYS CONSTRUCTED UNTIL FEBRUARY 2017

The construction of National Highways will fall way short of the target in FY 17. Of the target of 15,000 km for FY17, only 6,604 km have been constructed until February 2017. The slow speed of construction is attributed to factors like land acquisition, utility shifting, non-availability of soil/aggregates, poor performance of contractors, environment/forest/wildlife clearance, ROB and RUB issue with the Indian Railways, public agitation for additional facilities and arbitration/contractual disputes with contractors.

ELECTRONIC TAGS FOR TOLL COLLECTION AT NATIONAL HIGHWAYS

The Indian Highway Management Company Ltd (IHMCL) incorporated by the National Highways Authority of India (NHAI) will expedite the implementation of Electronic Fee Collection (EFC) on National Highways. The National Payments Corporation of India (NPCI) will be the central clearing house in this case. As of March 2017, the participating banks are State Bank of India, Karur Vysya Bank, ICICI Bank, Axis Bank, IDFC Bank and Equitas Small Finance Bank. As on 3 March 2017, a total of 347,200 electronic tags have been issued for fee collection on National Highways.

₹340 CRORE RAISED BY IWAI THROUGH INFRASTRUCTURE BONDS

The Inland Waterways Authority of India (IWAI) has raised `340 crore through its maiden bond issue. The fully serviced Government of India bonds were privately placed with banks and financial institutions on 1 March 2017. The inflow of these funds will provide a major fillip to IWAI's ambitious plan to develop National Waterways in India. These 'river highways' are economical and environment-friendly and are expected to contribute in correcting the existing transport modal mix that imposes available logistics cost on the Indian economy.

PROGRESS ON THE JAL MARG VIKAS PROJECT (JMVP)

Capacity augmentation under of the National Waterway-1 between Haldia and Varanasi is underway. The project is being implemented with the technical and financial assistance of The World Bank. Under the project, multimodal terminals have been planned at Varanasi (in Uttar Pradesh), Sahibganj (in Jharkhand) and Haldia (in West Bengal). With regards the multimodal terminal at Varanasi, the contract for phase-1(A) has been awarded; road connectivity of the terminal with National Highway-7 and rail connectivity of the terminal with Jeonathpur railway station in the Eastern Dedicated Freight Corridor. Similarly, for the multimodal terminal at Sahibganj, the contract for Phase-1 has been awarded. Requisition for acquisition of land for the terminal has been filed with the district administration at Sahibganj. In case of the multimodal transport at Haldia, the tender process for Phase-1 has been completed.

APPENDICES

1. INFLATION

	WPI	CPI
Feb-17	**6.55**	**5.26**
Jan-17	5.25	3.17
Dec-16	3.39	3.41
Nov-16	3.15	3.63
Oct-16	3.79	4.2
Sep-16	3.8	4.39
Aug-16	3.74	5.05
Jul-2016	3.72	6.07
Jun-2016	1.62	5.77
May-2016	0.79	5.76
Apr-2016	0.79	5.47
Mar-16	-0.45	4.83
Feb-16	**-0.85**	**5.18**
WPI Base Year = 2004–05, CPI Base: 2012 = 100		

Source: Ministry of Commerce & Industry, Ministry of Statistics and Programme Implementation, Government of India

2. IIP

INDEX OF INDUSTRIAL PRODUCTION – GROWTH RATE				
	General Index	Mining & Quarrying	Manufacturing	Electricity
Jan 2017	**2.7**	**5.3**	**2.3**	**3.9**
Dec-16	-0.4	5.2	-2	6.3
Nov-16	5.7	3.9	5.5	8.9
Oct-16	-1.9	-1.1	-2.4	1.1
Sep-16	0.7	-3.1	0.9	2.4
Aug-16	-0.7	-5.6	-0.3	0.1
Jul-16	-2.4	0.8	-3.4	1.6
Jun-16	2.1	4.7	0.9	8.3
May-16	1.2	1.3	0.7	4.7
Apr-16	-0.8	1.4	-3.1	14.6
Mar-16	0.1	-0.1	-1.2	11.3
Feb-16	2	5	0.7	9.6
Jan 2016	**-1.5**	**1.2**	**-2.8**	**6.6**

Source: Ministry of Statistics and Programme Implementation, Government of India

3. CORE SECTOR

Sector	Coal	Crude oil	Natural gas	Refinery products	Fertilisers	Steel	Cement	Electricity	Overall Index
Weight	**4.379**	**5.216**	**1.708**	**5.939**	**1.254**	**6.684**	**2.406**	**10.316**	**37.903**
Weight	**4.379**	**5.216**	**1.708**	**5.939**	**1.254**	**6.684**	**2.406**	**10.316**	**37.903**
Feb-17	**7.1**	**-3.4**	**-1.7**	**-2.3**	**-5.3**	**8.7**	**-15.8**	**1.5**	**1.0**
Jan 2017	4.8	1.3	11.9	1.5	1.6	11.4	13.3	4.8	**3.4**
Dec 2016	6.4	-5.4	-1.7	2	2.4	5.6	0.5	10.2	**5.6**
Nov 2016	-1.6	-3.2	-1.4	15.1	0.8	16.9	6.2	2.8	**4.9**
Oct 2016	-5.8	-4.1	-5.5	9.3	2	16.3	5.5	2.2	**6.6**
Sep 2016	-9.2	-3.9	-5.7	3.5	5.7	17	3.1	0.1	**5**
Aug 2016	5.1	-1.8	3.3	13.7	-4.3	-0.5	1.4	1.6	**3.2**
Jul 2016	12	-4.3	-4.5	3.5	9.8	2.4	10.3	8.1	**3**
Jun 2016	5.5	-3.3	-6.9	1.2	14.8	3.2	2.4	4.6	**5.2**
May 2016	-0.9	-2.3	-6.8	17.9	7.8	6.1	4.4	14.7	**2.8**
Apr 2016	1.7	-5.1	-10.5	10.8	22.9	3.4	11.9	11.3	**8.5**
Mar 2016	**3.9**	**0.8**	**1.2**	**8.1**	**16.3**	**-0.5**	**13.5**	**9.2**	**6.4**
Feb 2016	**9.1**	**-4.6**	**-15.3**	**4.8**	**6.2**	**-2.8**	**9**	**6**	**9.4**

Source: Ministry of Commerce & Industry

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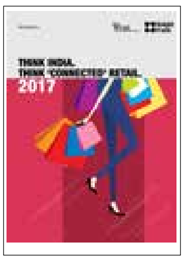

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