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CONTENTS

Monetary Policy Statement for 2014-15

Fourth Bi-monthly Monetary Policy Statement, 2014-15 1

Monetary Policy Report-September 2014 9

Speeches

Finance, Credit and Markets
R. Gandhi 39

Designing Banking Regulation in Aspiring Economies:
The Challenges
R. Gandhi 43

Re-emphasizing the Role of Compliance Function in Banks
S. S. Mundra 55

Articles

Monthly Seasonal Factors of Select Economic Time Series: 2013-14 63

Performance of Private Corporate Business Sector, 2013-14 73

Performance of Financial and Investment Companies, 2012-13 83

House Price Index: 2010-11 to 2013-14 93

Current Statistics 97

Recent Publications 130

MONETARY POLICY STATEMENT FOR 2014-15

Fourth Bi-Monthly Monetary Policy Statement, 2014-15

Monetary Policy Report-September 2014

Fourth Bi-Monthly Monetary Policy Statement, 2014-15 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:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 8.0 per cent;
- keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 per cent of net demand and time liabilities (NDTL);
- reduce the liquidity provided under the export credit refinance (ECR) facility from 32 per cent of eligible export credit outstanding to 15 per cent with effect from October 10, 2014;
- continue to provide liquidity under overnight repos at 0.25 per cent of bank-wise NDTL at the LAF repo rate and liquidity under 7-day and 14-day term repos of up to 0.75 per cent of NDTL of the banking system through auctions; and
- continue with daily one-day term repos and reverse repos to smooth liquidity.

Consequently, the reverse repo rate under the LAF will remain unchanged at 7.0 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 9.0 per cent.

Assessment

2. Since the third bi-monthly monetary policy statement of August 2014, global activity has been recovering slowly from the setback in Q1 of 2014, on the back of strengthening consumer spending and gradually improving labour market conditions in advanced economies (AEs) like the United States. However, the Euro area, where growth has stalled in the core economies, continues to be weak. Major emerging market economies (EMEs) continue to struggle with tepid domestic demand and headwinds from structural impediments. With monetary policy in AEs remaining highly accommodative, investor risk appetite has increased and spread to various asset classes. With volatility perhaps excessively low, financial markets have risen to new highs, driving surges of capital flows to EMEs. Apart from concerns about a sudden correction in financial markets if investors misread the timing of a reversal of the US monetary policy stance or if geopolitical tensions intensify, some downside risks to growth also persist, such as a possible further slowdown in the Euro area.

3. Domestic activity appears to have come off somewhat after the stronger-than-expected upturn in Q1 of 2014-15. In Q2, the growth of industrial production slumped in July, as capital goods production followed consumer durables into contraction. Exports cushioned the fall in manufacturing output, with the Reserve Bank's industrial outlook survey indicating expansion in export orders. Rainfall from the south west monsoon, now expected to be about 12 per cent deficient, will weigh on the *kharif* crop, mainly due to its uneven spatial distribution. This has resulted in drought-like conditions in some major production zones in the north-west region but also floods in the northern and eastern regions. In the services sector, constituents are moving at varying speeds and the purchasing managers' index points to uncertainty around future prospects. The recent cautious optimism that is building in the economy on the back of improved business sentiment needs to be placed on solid foundations through a step-up in investment. In this context, the resumption of stalled projects should

provide a boost to inventory and capex cycles, while reducing distressed bank loans and revitalising growth.

4. Retail inflation measured by the consumer price index (CPI) came off the vegetable prices-driven spike in July 2014 and eased in all major groups barring food. Large and persistent upside pressures on food prices have resulted in their contribution rising to almost 60 per cent of headline inflation in August. The full impact of the skewed rainfall distribution carries risks to the future path of food inflation, though vegetable prices have fallen recently after the recent spike. CPI inflation excluding food and fuel decelerated to its lowest level in the new series, mainly on account of sharp disinflation in transport and communication and household requisites. Future food prices and the timing and magnitude of held back administered price revisions impart some uncertainty to an otherwise improving inflation outlook, where lower oil prices, a relatively stable currency, and a negative output gap continue to put downward pressure. Base effects will also temper inflation in the next few months only to reverse towards the end of the year. The Reserve Bank will look through base effects.

5. Liquidity conditions have remained broadly balanced through Q2 of 2014-15, except for transient tightness in the second half of July and early August due to delayed Government expenditure. Thereafter, as these expenditures began to flow, liquidity conditions eased. With credit growth falling well below deposit growth in August and September, structural sources of liquidity pressures also eased. The average recourse to liquidity from the Reserve Bank, measured by daily net liquidity injection through LAF, term repo and MSF, decreased from ₹870 billion in July to ₹795 billion during August and further to₹450 billion during September so far (up to September 28). The Reserve Bank revised its liquidity management framework with effect from September 5, 2014, with more frequent 14-day term repos and daily overnight variable rate repo operations, to ensure flexibility, transparency and predictability in liquidity management operations.

6. Non-food credit growth decelerated in September 2014, the lowest level since June 2001, despite liquidity conditions remaining comfortable and deposit growth remaining normal. Partly, this sharp deceleration is on account of a high base – monetary tightening to curb the exchange market pressures in July-September last year raised interest rates on alternative sources of funds and pushed up the demand for credit from the banking system. Adjusting for these base effects, non-food credit growth would have been around 11 per cent in September 2014. Corporates have also opted to raise financing through alternative sources such as commercial paper, which are significantly larger than a year ago. Finance from other non-bank sources such as foreign direct investment and external commercial borrowing has also increased. Also, a few banks have sold stressed loans to asset reconstruction companies, and so these loans no longer appear as bank credit. Net bank credit is also lower because of repayments of loans by entities that have received payments by government departments and public enterprises, and because oil marketing companies' borrowing is lower. Finally, the slowdown in credit growth is more pronounced in public sector banks, but how much of this is because of needed bank balance sheet restructuring, repayments of stressed loans, or increased risk aversion is to be established. Going forward, as the investment cycle gathers momentum and overall demand picks up, banks will need to prepare to meet financing requirements as the credit cycle also turns. Equally, given the easy availability of foreign finance, corporations should be wary of being lulled by relative exchange rate stability and neglect to hedge foreign exchange liabilities.

7. Incoming data suggest that the current account deficit, placed at 1.7 per cent of GDP for Q1 of 2014-15 may remain contained in Q2. Over April-August 2014, the trade deficit was narrower than a year ago, notwithstanding a slowdown in export growth in July and August and a strengthening of non-oil non-gold import growth to its highest level since March 2013. The improvement in the trade balance has benefited from the fall in the value of gold imports. Even as the external financing requirement stays moderate, all categories of capital flows remain buoyant. As a result, there has been an accretion to international reserves, even though reserves denominated in US dollars have moderated somewhat in recent weeks, largely because of the strength of the US dollar.

Policy Stance and Rationale

8. Since June, headline inflation has ebbed to levels which are consistent with the desired near-term glide path of disinflation -- 8 per cent by January 2015. The most heartening feature has been the steady decline in inflation excluding food and fuel, by a cumulative 111 basis points since January 2014, to a new low. With international crude prices softening and relative stability in the foreign exchange market, some upside risks to inflation are receding. Yet, there are risks from food price shocks as the full effects of the monsoon's passage unfold, and from geo-political developments that could materialise rapidly.

9. For the near-term objective, therefore, the risks around the baseline path of inflation are broadly balanced, though with a slant to the downside (Chart 1). However, the undershooting of the objective may be temporary because of base effects. Turning to the medium-term objective (6 per cent by January 2016) the balance of risks is still to the upside, though somewhat lower than in the last policy statement. This continues to warrant policy preparedness to contain pressures if the risks materialise. Therefore, the future policy stance will be influenced by the Reserve Bank's projections of inflation relative to the medium term objective (6 per cent by January 2016), while being contingent on incoming data.

10. The momentum of activity in all sectors of the economy is yet to stabilise. Agriculture should shed

Chart 1: Projection of CPI Inflation (y-o-y) for 2014-15

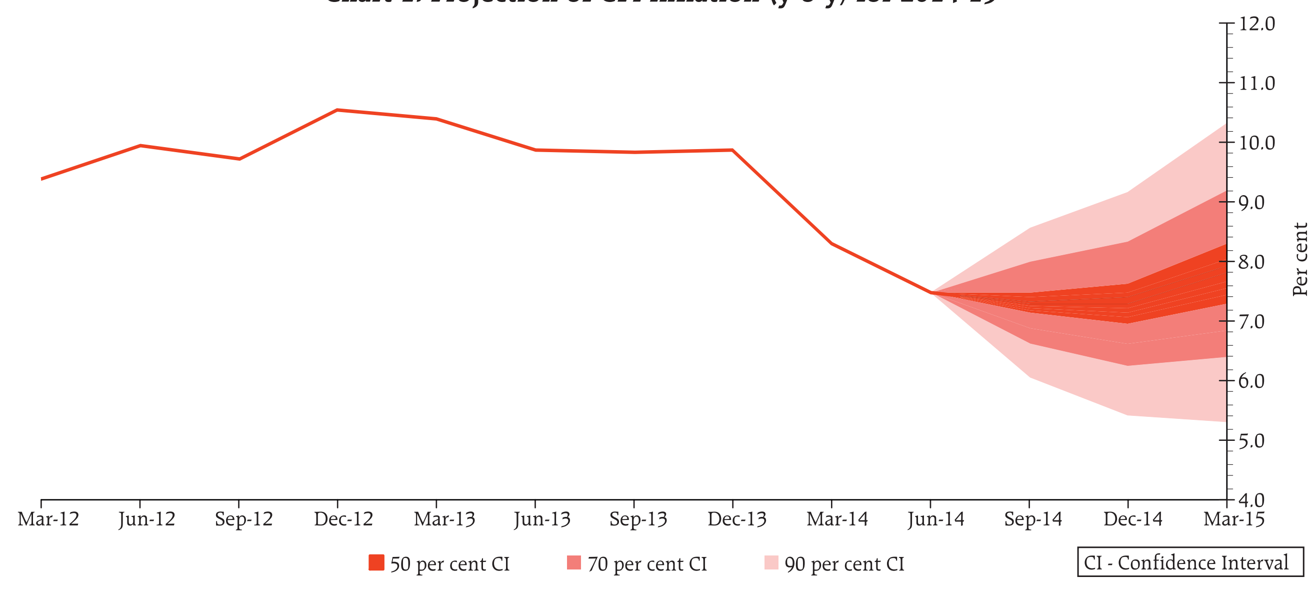
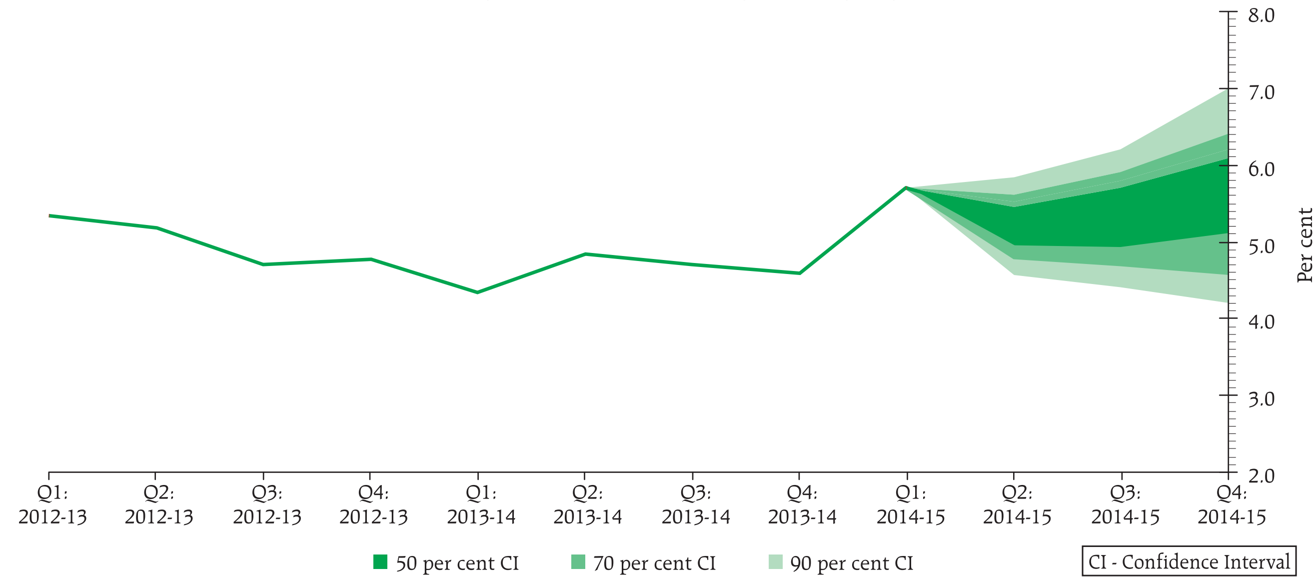


Chart 2: Quarterly Projection of GDP growth (y-o-y) for 2014-15



the effects of recent shocks and pick up in Q4 of 2014-15. Industrial activity will await improvement in the business environment and the resumption of consumption and investment demand before gaining sustained speed. Post-monsoon revival in construction activity and the likely strengthening of momentum in business and financial services should sustain the recent signs of expansion in the services sector. The key to a turnaround in the growth path of the economy in the second half of the year is a revival in investment activity – in greenfield as well as brownfield stalled projects – supported by fiscal consolidation, stronger export performance and sustained disinflation. With expectations of these conditions remaining broadly unchanged, the projection of growth for 2014-15 is retained at 5.5 per cent within a range of 5 to 6 per cent around this central estimate. The quarterly growth path may slow mildly in Q2 and Q3 before recovering in Q4.

11. With liquidity conditions easing, the recourse to ECR has fallen off substantially to about 10 per cent of the outstanding export credit eligible for refinance. Accordingly, in pursuance of the Dr. Urjit R. Patel Committee's recommendation to move away from sector-specific refinance, the access to the ECR is being brought down to 15 per cent of the eligible export credit, thus continuing to give banks room for manoeuvre. This will be in effect from October 10, 2014.

12. The fifth bi-monthly monetary policy statement is scheduled on Tuesday, December 2, 2014.

Part B: Developmental and Regulatory Policies

13. This part of the Statement reviews the progress on various developmental and regulatory policy measures announced by the Reserve Bank in recent policy statements and also sets out new measures.

14. Developmental and regulatory measures are being put in place within the organising framework of the five-pillar approach announced in October 2013 in the Second Quarter Review of Monetary Policy for 2013-14. This approach emphasises the strengthening of the monetary policy framework; fortifying the banking structure; broadening and deepening financial markets; expanding access to finance; and dealing

with stress in corporate and financial assets and putting them back to work.

I. Monetary Policy Framework

15. Efforts to improve the monetary policy framework are documented in Part A of this Statement and in the accompanying Monetary Policy Report. In continuation of the process of implementing recommendations of the Expert Committee to Revise and Strengthen the Monetary Policy Framework (Chairman: Dr. Urjit R Patel), the first issue of the Reserve Bank's Monetary Policy Report is being placed in the public domain along with this Statement. Steps have also been taken to refine the liquidity management framework with a view to making it flexible, transparent and predictable.

II. Banking and Financial Structure

16. The approach to strengthening the financial structure has been multi-pronged, comprising:

- an expansion of participation and competition in the financial system;
- building counter-cyclical capital and liquidity buffers compliant with Basel III standards; and
- refining and enhancing the efficacy of the regulatory and supervisory framework.

17. Turning to expanding the banking space, draft guidelines on Small Banks and Payments Banks as differentiated or restricted banks were placed on the Reserve Bank's website on July 17, 2014. Based on the feedback received:

- final guidelines on licensing of these banks will be issued by end-November 2014.

18. With regard to non-banking financial companies(NBFCs):

- changes in the regulatory framework for NBFCs will be introduced by end-October 2014 covering prudential regulations on core capital, asset classification and provisioning norms, regulation on deposit acceptance, corporate governance and consumer protection measures.

  With these changes coming into force, the Reserve Bank will recommence registering new NBFCs.

19. Pursuant to the guidelines issued on the liquidity coverage ratio (LCR) in June 2014 which permitted banks to reckon government securities to the extent allowed by the Reserve Bank under its marginal standing facility as Level 1 High Quality Liquid Assets (HQLA) under the LCR, banks will be allowed to:

- include government securities held by them up to another 5 per cent of their NDTL within the mandatory SLR requirement as level 1 HQLA in order to facilitate their meeting the LCR requirement while retaining the prudential aspect of the statutory liquidity ratio (SLR). This additional liquidity up to 5 per cent of NDTL will be available, in addition to the MSF, through a special facility and at a rate higher than the MSF rate as decided by the Reserve Bank taking into account the market conditions; and
- such government securities reckoned for the LCR should be valued at an amount no greater than their current market value as HQLAs are required to be taken at their market value for the purpose of computing the LCR.

Detailed guidelines will be issued by mid-November 2014.

20. To carry forward regulatory and supervisory initiatives,

- final guidelines for monitoring tools for intra-day liquidity management will be issued in October 2014, consistent with the quantitative tools finalised by the Basel Committee on Banking Supervision (BCBS);

- revised guidelines on a leverage ratio (LR) framework and attendant disclosure requirements, drawing on the BCBS's January 2014 paper, will also be issued by end-October 2014 so as to enable public disclosure of the LR by January 1, 2015; and
- a discussion paper will be issued by end-November on large exposures and convergence of exposure limits applicable in India with those of the BCBS which come into effect from January 1, 2019.

21. An Early Warning System (EWS) is being put in place to track banks' critical financial parameters. Deviations from pre-defined benchmarks would trigger more granular oversight in the form of enhanced off-site monitoring, focused discussions, on-site examination and punitive action, if warranted.

22. Along with early detection mechanisms for frauds, a Central Fraud Registry is also proposed to be created simultaneously as a searchable centralised database for use by banks.

23. Guidelines for declaring borrowers as 'non-co-operative' will be put out by end-October 2014.

III. Financial Markets

24. As part of the Reserve Bank's continuous engagement in broadening and deepening financial markets, it has been decided to:

- allow access to the liquidity adjustment facility (LAF) to scheduled urban co-operative banks (UCBs) in order to provide them an additional avenue for liquidity management, provided they fully comply with the eligible criteria prescribed for participation in the LAF including having current accounts and SGL accounts with Reserve Bank, Mumbai, the minimum bid size prescription and the like.

Detailed guidelines will be issued separately by mid-October 2014.

25. In order to further develop the government securities market and enhance liquidity, it has been decided to:

- bring down the ceiling on SLR securities under the HTM category from 24 per cent of NDTL to 22 per cent in a graduated manner *i.e.* 23.5 per cent with effect from the fortnight beginning January 10, 2015, 23.0 per cent with effect from the fortnight beginning April 4, 2015, 22.5 per cent with effect from the fortnight beginning July 11, 2015 and 22.0 per cent with effect from the fortnight beginning September 19, 2015.
- liberalise guidelines on short sale in Government securities as under:
  a. limit on short sale for liquid securities will be increased to 0.75 per cent of outstanding stock or ₹600 crore, whichever is lower (from 0.50 per cent of outstanding stock); short sale limit for illiquid securities is being retained at 0.25 per cent of the outstanding stock of securities; and
  b. banks and primary dealers (PDs) may be permitted to take short positions in government securities in the over-the-counter (OTC) market (within the total short sale limit), subject to appropriate audit/internal controls.

Detailed guidelines are being issued separately.

26. In April 2014, the Reserve Bank announced that it would examine the possibility of allowing limited re-repo/re-hypothecation of repoed government securities with the objective of developing the term repo/money market. In view of the growth of repo

markets during the last decade and the availability of a robust trading, clearing and settlement infrastructure with a central counter-party (CCP) guarantee, it has been decided to:

- permit re-repo of Government securities subject to appropriate control measures and development of IT infrastructure.

Detailed guidelines will be issued in consultation with all stakeholders by end- January 2015.

27. In order to address operational issues faced by foreign portfolio investors and long term foreign investors, it has been decided to:

- provide extended reporting timings on trade date and an option for T+2 settlements for secondary market OTC trades in government securities for such investors.

Detailed guidelines in this regard would be issued by end-November 2014.

28. With a view to easing operational conditions for hedging of foreign exchange risk by market participants, it has been decided to:

- increase the eligible limit for importers under the past performance route to 100 per cent from the existing 50 per cent *i.e.*, importers can hedge up to 100 per cent of the average of past three years' import turnover or the preceding year's import turnover, whichever is higher, subject to compliance with other conditions applicable for hedging under this route.

IV. Access to Finance

29. Expanding access of finance to the small, the poor, the unorganised and the underserved sections of society has been a central tenet of the Reserve Bank's developmental policies.

30. State-Level Coordination Committees (SLCCs) are being strengthened to focus on financial inclusion for flow of public savings to the formal channels and protection of public deposits mopped up by unauthorised and unscrupulous entities. In line with the recommendation of the Financial Stability and Development Council (FSDC):

- the SLCC, which is now chaired by State chief secretaries/UT Administrators, will meet every quarter instead of half-yearly.

31. With a view to easing difficulties faced by common persons while opening bank accounts and during periodic updating, guidelines on 'know your customer' (KYC) will be further simplified with immediate effect so that banks:

- do not insist on physical presence of the customer at the time of periodic updating; do not seek fresh proof of identity and address at the time of periodic updating in case of no change in status for 'low risk' customers; allow self-certification; accept a certified copy of the document by mail/post, etc; and
- do not seek fresh documents if an existing KYC compliant customer of a bank desires to open another account in the bank.

32. There is a need for banks to complete KYC for all customers including long standing 'low risk' customers. Banks should complete documentation, while minimising the effort on the part of the customer to what is strictly needed. In the event that customers are unable to comply within a reasonable time period, 'partial freezing' may be introduced in respect of KYC non-compliant customers *i.e.*, credits would be allowed in such accounts while debits would not be allowed, with an option to the account holder to close the account and take back the money in the account.

33. In line with its vision of migrating towards electronic payments and a 'less-cash' society, the Reserve Bank has been examining the feasibility of (a) standardisation in the operational processes and procedures involved in extension of mobile banking services, and (b) implementation of a pan-India bill payment system (recommended by GIRO Advisory Group (GAG)) facilitating anytime/anywhere payment of a variety of bills and dues. Similarly, the setting up and operationalisation of a system for uploading, accepting, discounting and settlement of the invoices/bills of micro, small and medium enterprises (MSMEs) is also being envisaged to facilitate faster financing for such entities. In this connection, it has been decided to:

- issue policy guidelines for the Bharat Bill Payment System (BBPS), Trade Receivables Discounting System (TReDS) and standardisation of processes in mobile banking services by end-November 2014.

34. Customer protection is an integral element of the endeavour to expand access to finance. Accordingly, a draft Charter of Customer Rights under Consumer Protection regulations was placed on the Reserve Bank's website in August for comments from the public. For operationalising the Charter of Customer Rights:

- necessary instructions will be issued to the banks by the appropriate regulatory departments in the Reserve Bank shortly.

35. Criteria for inviting applications from entities eligible under the Depositor Education and Awareness Fund (DEA-Fund) for registration will be issued on the Reserve Bank's website by the end of October 2014.

36. Looking ahead, the Reserve Bank's developmental and regulatory policies will continue to evolve within the five-pillar approach to build a competitive, vibrant and sound financial system that is geared to intermediating the financing needs of a growing economy. Efforts will be made to harness appropriate technology and ensure that financial services are available to all even as customer awareness and protection is reinforced. The Reserve Bank will continue to carry forward banking sector reforms by adapting the best international practices to country-specific requirements.

I. Macroeconomic Outlook

Economic activity gained pace in Q1 of 2014-15, but its momentum appears to have slackened in Q2. With the improvement in business confidence and congenial conditions for restarting investment demand, real GDP growth should pick up towards the close of the year, aided by a modestly firming global recovery supporting exports and the ongoing search for yields in international financial markets spurring capital inflows. Barring the impact of weather-related food supply disruptions, inflation has been moderating in a broad-based manner and is set to evolve around the expected trajectory through 2014-15. Elevated inflation expectations of households and risks from still-high input costs and sticky wages, however, present challenges to bringing down inflation to 6 per cent by January 2016 along the committed glide path.

I.1 Outlook for Inflation

With consumer price index (CPI) inflation easing from its recent peak of 11.2 per cent in November 2013, the near-term outlook for inflation has improved and the target of 8 per cent for January 2015 appears more within reach than at the time of the first bi-monthly monetary policy statement in April. Latest readings on sensitive components of food prices suggest that they may have peaked after monsoon related increases. The softening of international commodity prices, particularly crude oil, metals and chemicals, is feeding through into an abating of key input prices domestically. Wages, though still sticky, are decelerating, facilitating smaller increases in minimum support prices than in the past. Also, the stability in the exchange rate since January this year is entrenching the disinflation. Furthermore, the effects of past monetary policy tightening are operating through the slack in various segments of the economy to bring down inflation excluding food and fuel. Nevertheless, there are upside risks to inflation from the skewed spatial and temporal distribution of the monsoon and from geo-political tensions which could jeopardise the near-term outlook if they materialise.

Expectations of various economic agents tracked by forward-looking surveys provide useful insights into wage and price formation and thereby into the evolution of inflation conditions. Households' three month ahead inflation expectations appear to have discounted recent favourable developments on the inflation front and have been rising since March, presumably affected by monsoon uncertainty (Chart I.1). Households' inflation expectations for a year ahead also moved up after edging down since December 2013, and remain elevated relative to their long-run averages. Professional forecasters surveyed by the Reserve Bank also believe that median inflation may ease up to Q3 of 2014-15, but it is likely to firm up in Q4 (Chart I.2). Their long-term inflation expectations, however, appear to be on a gradually declining path. The industrial outlook survey of the Reserve Bank reflects a softening of manufacturers' expectations of input prices over the near-term; with slack in the economy persisting, this

Chart I.1: Inflation Expectations of Households

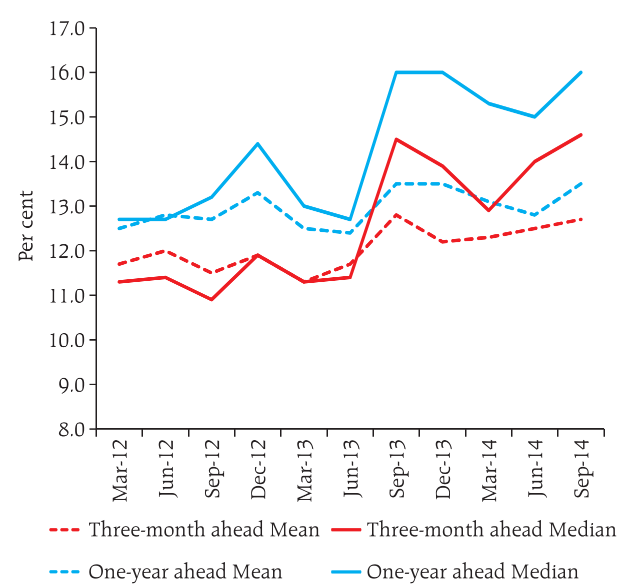
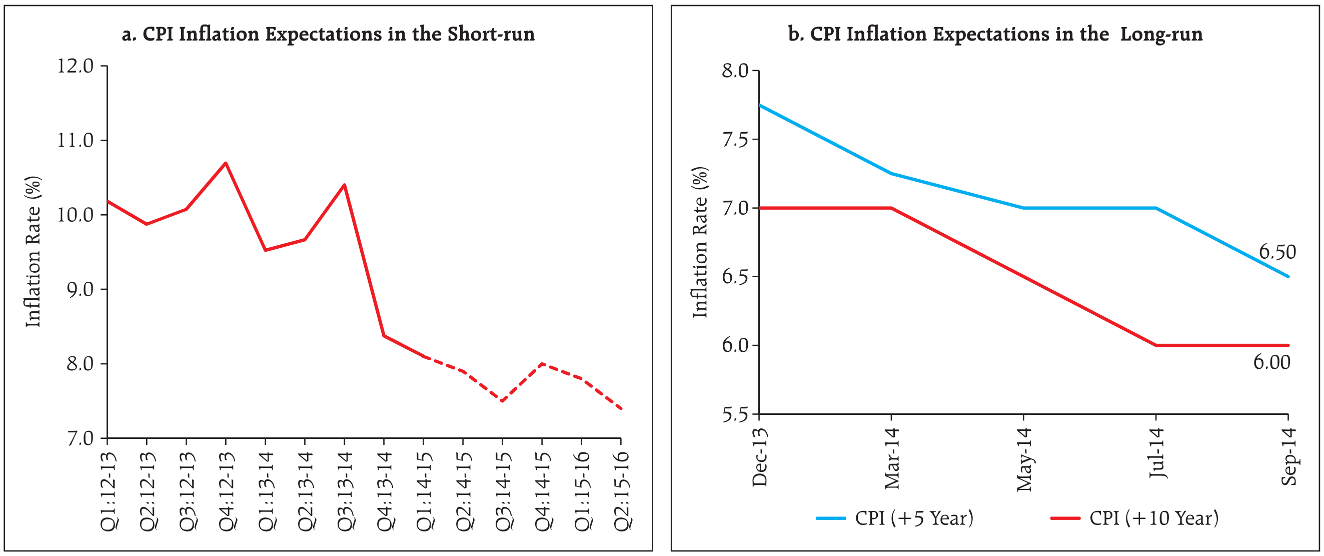


Chart I.2: Professional Forecasters' Short-term and Long-term Inflation Expectations

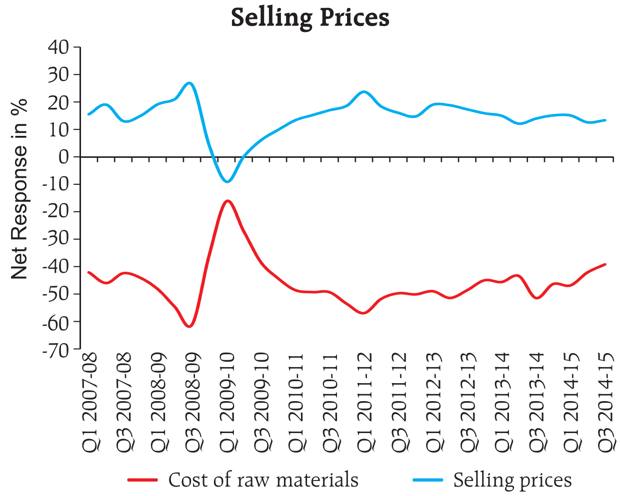


could lead to selling prices moderating going forward (Chart I.3).

Taking into account the baseline assumptions (Table I.1), **near-term forecasts** drawn from structural models, with off-model judgmental adjustments reflecting information that is not explicitly modeled, suggest that average CPI headline inflation will be about 8 per cent in Q4 of 2014-15, with a 70 per cent confidence interval of 6.8 per cent to 9.2 per cent. Thus, the risks to the target of ensuring CPI inflation at or below 8 per cent by January 2015 remain broadly balanced (Chart I.4). The near-term month-wise evolution of the inflation trajectory suggests that inflation will ease from the current level of close to 8 per cent to about 6 per cent by November. With favourable base effects reversing in the following months (Box I.1), inflation is likely to climb back to around 8 per cent by January through March 2015.

Model projections over a longer monetary policy horizon, *i.e.*, up to March 2016, assuming

Chart I.3: Expectations of Cost of Raw Materials & Selling Prices

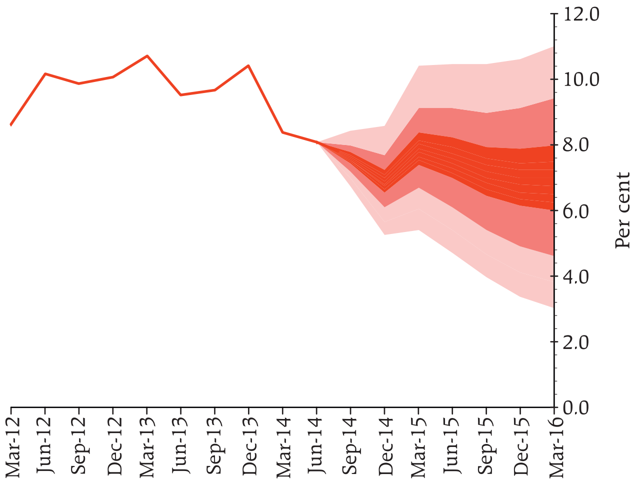


Net Reponse (NR) is the difference between percentage of repondents reporting optimism and those reporting pessimism. Any value greater than zero indicates expansion/optimism and *vice versa*.

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

- Indian basket crude oil price at US$ 100 per barrel for the remaining part of the year.
- Exchange rate at about ₹60 per US$ for the remaining part of the year.
- No increase in diesel prices from September 2014 onwards.
- No increase in administered LPG and kerosene prices in the remaining part of the year.
- Global growth picking up in the second half of the year, as projected in the World Economic Outlook (WEO) July 2014 update, IMF.
- Achievement of fiscal deficit targets as outlined in the Union Budget for 2014-15.
- No major change in domestic macroeconomic/structural policies during the forecast horizon.

Chart I.4: Projection of CPI Inflation (y-o-y) for 2014-15 and 2015-16



Quarterly Average

CI - Confidence Interval

unchanged macroeconomic policies and structural characteristics of the Indian economy, suggest that inflation will gradually ease to 7.0 per cent in Q4 of 2015-16 with a 70 per cent confidence interval of 4.6 per cent to 9.4 per cent. This indicates that the upside risks to the target of 6 per cent by January 2016 are significant, especially with economic activity and aggregate demand expected to pick up and structural improvements in food supply taking time to fructify.

I.2 Outlook for Growth

Real GDP growth surprised on the upside in Q1 of 2014-15, recording 5.7 per cent after remaining damped for eight consecutive quarters. On the supply side, the 12 per cent deficit in rainfall in the south west monsoon season as well as its uneven distribution and

Box I.1: Base Effects and Inflation Forecasting

Monetary policy authorities generally communicate their measurement of inflation, including the target(s) they set for it, in the form of year-on-year (y-o-y) changes *i.e.*, the percentage change between the price index (p) relating to a given month over its value in the corresponding month a year ago. Thus, inflation or π in a given month t is approximated as $\pi_t = [ln\ p_t - ln\ p_{t-12}]*100$ where p is the price index and *ln* is the natural logarithm. Likewise, inflation in the preceding month is $\pi_{t-1} = [ln\ p_{t-1} - ln\ p_{t-13}]*100$ and so on.

Accountability in the conduct of monetary policy focused on price stability involves explaining to the public why inflation has moved up or down between one period and another. Arithmetically, the explanation of why π_{t-1} moved to π_t consists of two parts: (1) why p_{t-1} moved to p_t or the month-on-month change in the price index which is referred to as 'momentum'[1]; and (2) why p_{t-12} moved from p_{t-13} or the 'base effect'.

Short-term y-o-y inflation forecasts are fundamentally influenced by the base effect and, therefore, a good understanding of how and why inflation behaved in the base period is key to robust forecasts. Formally, the base effect has been defined as the contribution to changes in the annual rate of inflation from unusual or extreme changes in the price index (or sub-index) during the base period *i.e.*, the period that is used as the basis for calculation of annual rates[2]. Forecasting y-o-y inflation thus involves two parts: (a) a good fix on base effects which is obtained from the momentum of inflation in the base period that is already known; and (b) projecting future momentum through time series techniques and structural models and converting them into price index values so that they can be expressed in y-o-y terms.

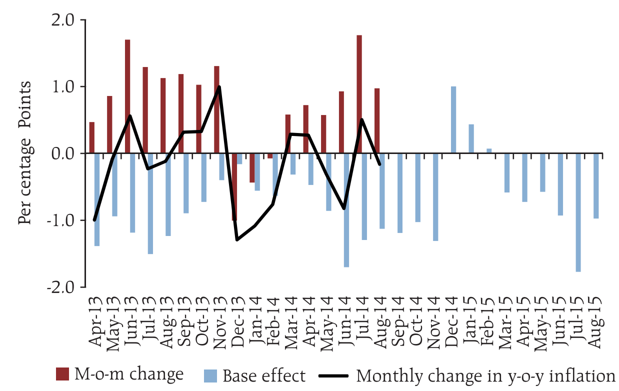
The inflation outcome characterising the year 2013-14 as well as 2014-15 so far is a good example of the interaction between momentum and base effects as reflected in the observed volatility of headline inflation. In June 2014, the sharp increases in prices of vegetables resulted in high momentum of headline price increases, but y-o-y inflation moved down because of a favourable base effect from even higher momentum in June 2013. By contrast, vegetable prices spiked further in July 2014 relative to the preceding month, pushing up momentum of headline inflation and more than offsetting the favourable base effect. Consequently, y-o-y headline inflation rose sharply in July 2014 in

(Contd...)

comparison with June 2014. In August 2014, with base effects overwhelming the headline price momentum, which had seen some moderation due to decline in the extent of month over month (m-o-m) increase in vegetable prices, y-o-y inflation registered a decline from July to August 2014 (Chart I.B1).

Going forward, favourable base effects are expected to dampen headline inflation over September-November 2014, aided by a moderation in momentum as vegetable prices come off their recent peak. The evolution of headline inflation during December 2014 -February 2015 will likely be significantly influenced by unfavourable base effects arising out of the sharp fall in m-o-m changes in prices during the base period. This, in spite of a possible subdued momentum obtained from a seasonal softening of vegetable prices, would result in an upturn in inflation during December 2014-February 2015. Monetary policy in disinflationary mode along

Chart I.B1: CPI Inflation : Momentum and Base effect



with normal monsoons next year could then mute the momentum of headline inflation. The favourable base effects from high inflation in June-August 2014 could operate in conjunction to produce an easing inflation trajectory in the middle of 2015-16.

[1] Usually seasonal adjustments are made in order to get a clear picture of the underlying trend that is not blurred by very short-run predictable changes related to seasonal effects as observed in say agricultural production or consumer spending and the like. Month-on-month changes are also usually annualised to get an annual rate assessment corresponding to the manner in which inflation is communicated.

[2] European Central Bank (2005), "Base Effects and their Impact on HICP Inflation in early 2005", ECB Monthly Bulletin, January, pp. 31-32.

delayed *kharif* sowing relative to a year ago will drag down agricultural growth, which is evident from the first advance estimates of *kharif* production. The sharp pick-up in industrial activity in Q1 has weakened thereafter, with decline in production of both consumer durables and capital goods. However, business sentiment is on an upswing as reflected in financial market conditions. Standard and Poor's have revised India's sovereign rating outlook from negative to stable, which should contribute to brightening the prospects for investment and capital flows. Constituents of the services sector are moving at different speeds. Construction activity should benefit from policy initiatives to boost affordable housing, investment in real estate, and refinancing of infrastructure projects coming back on-stream. Ahead of this recovery, bank credit to construction has been accelerating and should gain further momentum as efforts to improve credit disbursement support the revival of demand. On the other hand, financial and business services as well as social, community and personal services are unlikely to sustain the pace of expansion recorded in Q1 in view of sluggish banking activity and the expected fiscal consolidation.

Turning to the demand side, gross fixed capital formation should build upon the robust upturn in Q1 as announced policy measures to boost investment take effect. External demand is gradually improving, suggesting better prospects for export growth in the second half of 2014-15. Although corporate sales seem to be pointing to modest strengthening of consumption, rural demand is being moderated by slowing growth in agriculture.

Forward-looking indicators extracted from surveys of real activity conducted by the Reserve Bank as well as other agencies reflect cautious optimism on the near-term outlook for growth. While

Chart I.5: Professional Forecasters' Projected Growth

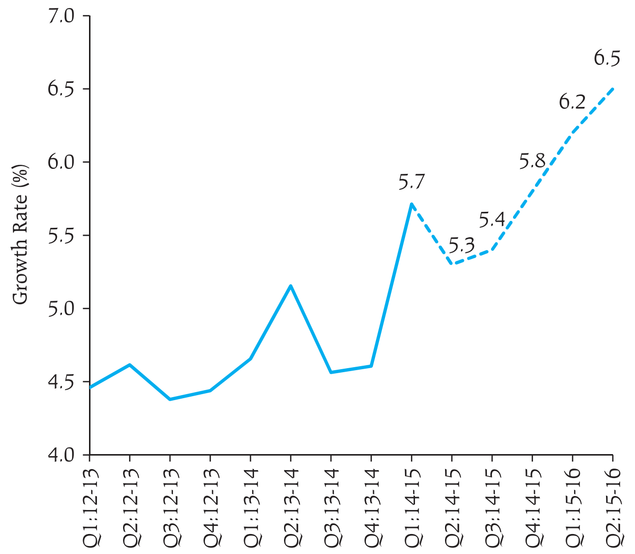


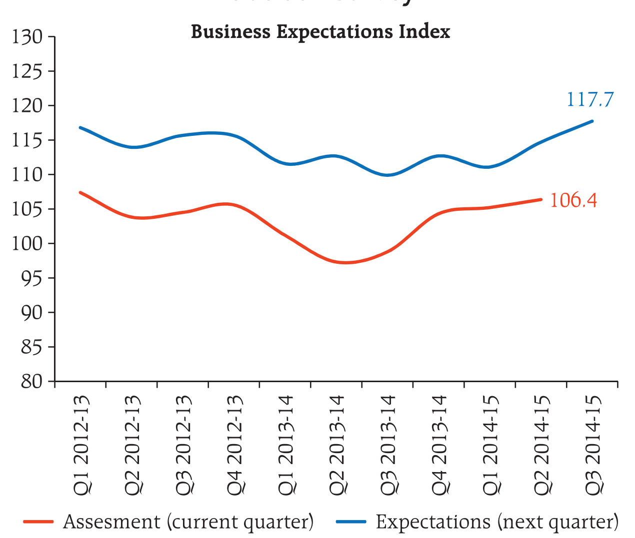
Table I.2: Business Expectations Surveys

	NCAER Business Confidence Index Q1: 2014-15	FICCI Overall Business Confidence Index Q4: 2013-2014	Dun and Bradstreet Business Optimism Index Q3: 2014	CII Business Confidence Index Q1: 2014-15
Current level of the index	143.5	69.0	145.5	53.7
Index as per previous survey	127.0	60.8	154.5	49.9
Index levels one year back	117.7	57.4	130.6	51.2
% change (q-o-q)	13.0	13.5	-5.8	7.6
% change (y-o-y)	21.9	20.2	11.4	4.9

professional forecasters expect only a gradual pick-up in growth after some deceleration in the second half of 2014 (Chart I.5), business expectations of corporates surveyed by the Reserve Bank are at an eleven-quarter high in Q3 of 2014-15 (Chart I.6). This is also corroborated by surveys conducted by other agencies, which ascribed upbeat business sentiment to formation of a stable government at the centre and the greater certainty about the policy environment, improvement in twin deficits, buoyant foreign capital inflows, a stable exchange rate and improved financial market conditions (Table I.2). Consumer confidence is also reviving, with the Reserve Bank's survey indicating expectations one year ahead at their highest levels since the global financial crisis (Chart I.7).

Model-based forecasts augmented with these forward-looking assessments indicate that the sharp pick-up in growth in Q1 of 2014-15 may not be sustained in Q2 and Q3 as the full impact of the

Chart I.6: Reserve Bank's Industrial Outlook Survey



100 is the threshold that separates contraction from expansion.

Chart I.7: Reserve Bank's Survey of Consumer Confidence

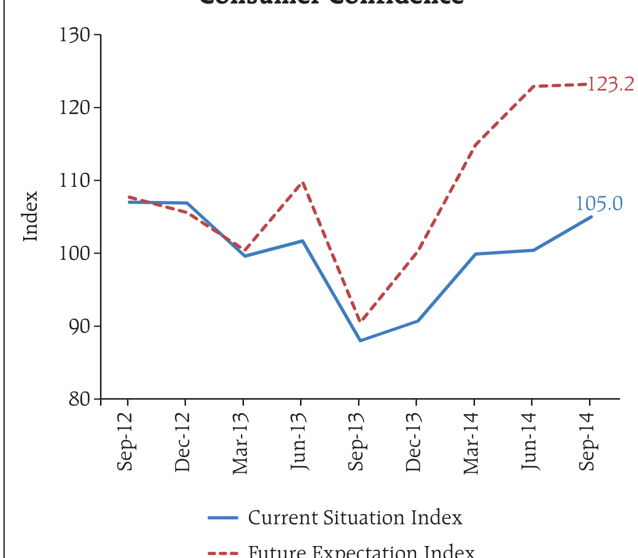
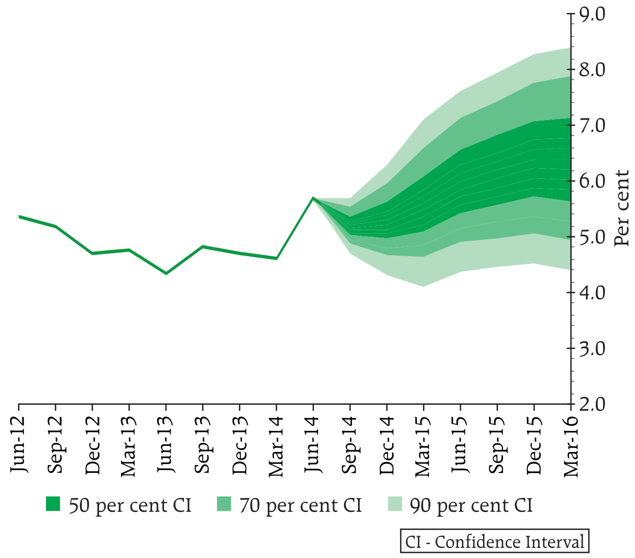


Chart I.8: Projection of GDP Growth (y-o-y) for 2014-15 and 2015-16



monsoon deficiency plays out on agricultural activity, with spillovers to non-agricultural sectors through demand effects (Chart I.8). The outlook for services, and in particular, community, social and personal services is weak. For other categories of services a slow turnaround is expected in the second half of 2014-15. Accordingly, prospects for reinvigoration of non-agricultural growth are expected to improve only gradually, gathering momentum in Q4 of 2014-15. Looking forward into 2015-16, the likely firming up of export growth and investment demand should support both manufacturing and service sector activity. Revival of stalled projects and the space created for private enterprise by ongoing fiscal consolidation should support a stronger step-up in the growth momentum in an environment of steady disinflation.

For 2014-15, real GDP growth is projected to lie between 5 per cent and 6 per cent, with a central estimate of 5.5 per cent. This projection remains unchanged from the April projection with a better than expected industrial growth compensating for the likely decline in agricultural growth. GDP growth for Q4 of 2014-15 is projected at 5.6 per cent with a 50 per cent confidence interval of 5.1 per cent to 6.1 per cent. For 2015-16, real GDP growth is projected to rise to 6.3 per cent.

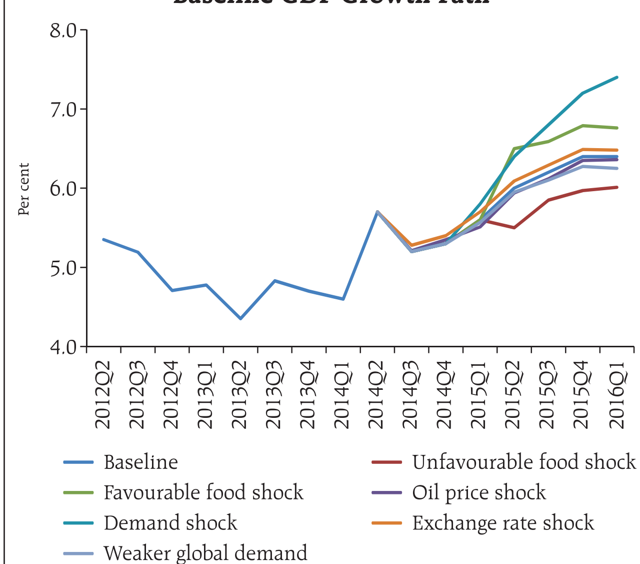
I.3 Balance of Risks

The macroeconomic outlook is subject to risks from both global and domestic uncertainties. Risks from global adversities such as a slowdown in the pace of global recovery, financial market turbulence due to faster than expected tightening of monetary policy in advanced economies and hardening of commodity prices on geo-political tensions and/or weather-related supply disruptions could impact all emerging economies. On the other hand, domestic risks stem from a larger than expected negative impact of a skewed distribution of monsoon, inflationary impact of a stronger than expected improvement in domestic economic activity and exacerbation of exchange market pressures. The likely impact of these shocks on growth and inflation are assessed using a quarterly projection and policy analysis system.

(a) **Uncertainty Surrounding Global Recovery**

If global growth turns out to be weaker than projected in the July update of the IMF's World Economic Outlook, due to either a lasting impairment of potential output, or financial vulnerabilities resurfacing and

Chart I.9: Impact of Risk Scenarios on Baseline GDP Growth Path

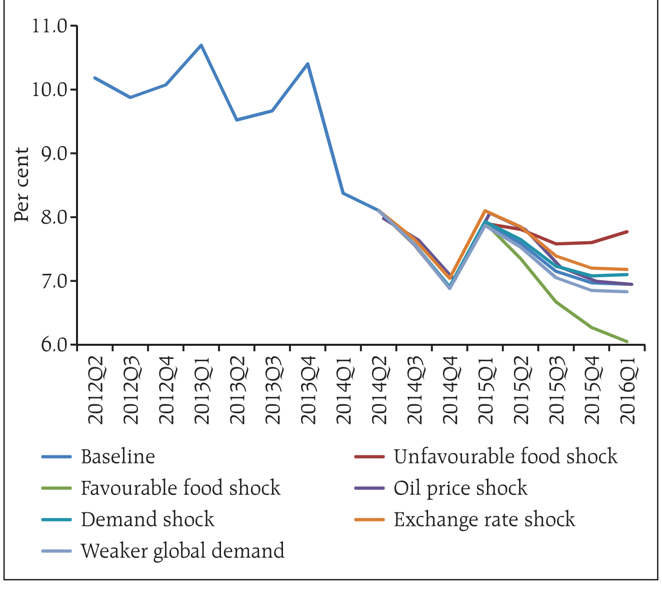


undermining consumer confidence, or the effects of monetary policy tightening, or a combination thereof, external demand conditions facing India's exports could worsen, translating into a negative external shock for growth. A widening of slack in the global economy by 50 basis points would lead to a decline in India's GDP growth from the baseline by about 20 basis points in 2015-16 (Chart I.9). Domestic inflation would also soften by about 10 basis points below the baseline, largely reflecting the fall in global commodity prices in response to higher slack in the global economy and their pass-through to domestic inflation (Chart I.10).

(b) **Reversal in Commodity Prices**

In the baseline, international crude prices are expected to gradually moderate through 2015 with alternate supply sources opening up amidst weak demand. Yet, a supply disruption induced imported inflation shock in the form of a 10 per cent increase in the price of the Indian basket of crude oil from the level assumed in the baseline could result in an increase in headline inflation by about 20 basis points above the baseline. The direct impact on domestic retail fuel prices will be reinforced by the second round impact on food, manufacturing and services prices. The crude oil price increase would have a minimal impact on GDP growth reflecting still low energy intensity of growth.

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



(c) **Below Normal Monsoon in 2015-16**

As regards specific domestic shocks, the baseline trajectories of growth and inflation assume a normal monsoon in 2015-16 and moderate increases in minimum support prices. If these conditions are not realised, the shock to farm output, and through demand and input linkages to other sectors, could result in a decline in overall GDP growth by around 40 basis points below the baseline in 2015-16. This may lead to food price pressures persisting at the levels prevailing so far, pushing headline inflation by about 80 basis points above the baseline by the end of 2015-16.

(d) **Augmenting Supply Capacity**

A favourable shock to the baseline inflation path could also be envisaged if the recent initiatives to address food supply bottlenecks fructify on an enduring basis, especially through improvements in the supply chain, reforms in market infrastructure and a step-up in investment in agriculture. This may result in GDP growth accelerating by about 40 basis points in 2015-16 over the baseline, and a faster fall in food price inflation leading to a decline in headline inflation by around 90 basis points below the baseline by the end of 2015-16.

(e) **Faster Closing of Output Gap**

The future path of inflation could also be impacted by the uncertainties surrounding the outlook for growth. If real GDP growth turns out to be stronger by 100 basis points than expected in 2015-16, aggregate demand could rise sharply in the form of a pick-up in investment and consumer spending. This would result in a faster closing of the output gap, translating into higher underlying inflation and an increase in headline inflation by about 20 basis points above the baseline by the end of 2015-16. This relatively muted effect of a positive demand shock essentially reflects the initial conditions – the persisting slack in the economy.

(f) **Depreciation of the Rupee**

Another risk to the baseline inflation path is volatility in the exchange rate emanating either from global developments or a domestic demand shock. If the exchange rate depreciates by 10 per cent in 2015-16 below the baseline assumption, a rise in import costs would feed into higher input costs and over time, translate into higher output prices as firms pass on cost pressures. The direct and indirect impact of the exchange rate change would cause headline inflation to increase by about 30 basis points above the baseline. The deprecation of rupee may, however, provide some boost to exports, resulting in an increase in GDP growth by about 10 basis points.

The macroeconomic outlook presented in this chapter is one of gradual disinflation with growth gaining some momentum from Q4 of 2014-15 and improvement in macro-balances (Table I.3). Near-term risks appear to be abating, but medium-term risks are still on the upside. The outlook draws upon the assessment of macroeconomic conditions presented in Chapter II to Chapter V.

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

	2013-14	2014-15P	2015-16P
Inflation (All India CPI-C, y-o-y, in per cent)[Last quarter of the year]	8.4	8.0	7.0
GDP Growth (in per cent)	4.7	5.5	6.3
Fiscal Deficit (per cent of GDP)	4.5	4.1	3.6 @
Assessment of Survey of Professional Forecasters' ^			
Key Macroeconomic Indicators	**2013-14**	**2014-15**	**2015-16**
Inflation (All India CPI-C, y-o-y, in per cent)*	8.4	7.9	7.0
Real GDP at factor cost (growth rate in per cent)	4.7	5.5	6.5
Agriculture & Allied Activities (growth rate in per cent)	4.7	1.9	3.5
Industry (growth rate in per cent)	-0.1	3.9	5.0
Services (growth rate in per cent)	6.2	7.0	7.6
Private Final Consumption Expenditure at current market price (growth rate in per cent)	12.4	12.1	12.9
Gross Domestic Saving (per cent of GDP)	30.4 $	30.7	32.0
Gross Fixed Capital Formation (per cent of GDP)	28.3	29.4	30.4
Money Supply (M3) (growth rate in per cent)	13.2	14.0	14.9
Bank Credit of schedule commercial banks (growth rate in per cent)	13.9	14.8	16.0
Combined Gross Fiscal Deficit (per cent of GDP)	6.9	6.6	6.1
Central Government Gross Fiscal Deficit (per cent of GDP)	4.6	4.2	3.9
Overall Balance of Payments (in US $ bn.)	15.5	33.1	31.2
Merchandise Exports (growth rate in per cent)	3.9	7.8	10.0
Merchandise Imports (growth rate in per cent)	-7.2	7.1	10.8
Merchandise Trade Balance (per cent of GDP)	-7.9	-7.6	-7.3
Current Account Balance (in US $ bn.)	-32.4	-40.0	-50.0
Current Account Balance (per cent of GDP)	-1.7	-2.0	-2.2
Capital Account Balance (in US $ bn.)	48.8	71.6	80.0
Capital Account Balance (per cent of GDP)	2.6	3.4	3.2

P: Projected.
^ : Forecast based on the Survey of Professional Forecasters, 30th Round.
* : Estimated from the end-year probability distribution of forecasts for 2014-15 and 2015-16.
@: As per the Government of India's Medium-term Fiscal Policy Statement.
$: Based on the Survey of Professional Forecasters, 27th Round.

II. Prices and Costs

The ebb of headline consumer price inflation through 2014-15 so far was interrupted by a spike in vegetable prices in July 2014 due to monsoon-induced supply disruptions. Excluding food and fuel, however, inflation has been declining, aided by the disinflationary stance of monetary policy. Headline inflation appears well aligned with the target of 8 per cent set for January 2015. As for costs, there are indications of some deceleration after a sustained period of high growth.

In January 2014, the Reserve Bank formally adopted a glide path for disinflation in terms of headline consumer prices[1], with milestones of 8 per cent by January 2015 and 6 per cent by January 2016. Drawing from the recommendations of the Expert Committee to Revise and Strengthen the Monetary Policy Framework (Chairman: Dr. Urjit R. Patel), this ushered in a fundamental regime shift in the conduct of monetary policy in India. The Reserve Bank anchored this change by tightening monetary policy in the January 2014 policy review and maintained this tight stance in subsequent policy reviews so as to set the economy firmly on the disinflation path. Since then, inflationary pressures have fallen in a broad-based manner. This has been aided by measures taken by the Government to control the fiscal deficit and to augment food supply, disincentivise agricultural exports and reform agricultural marketing policies.

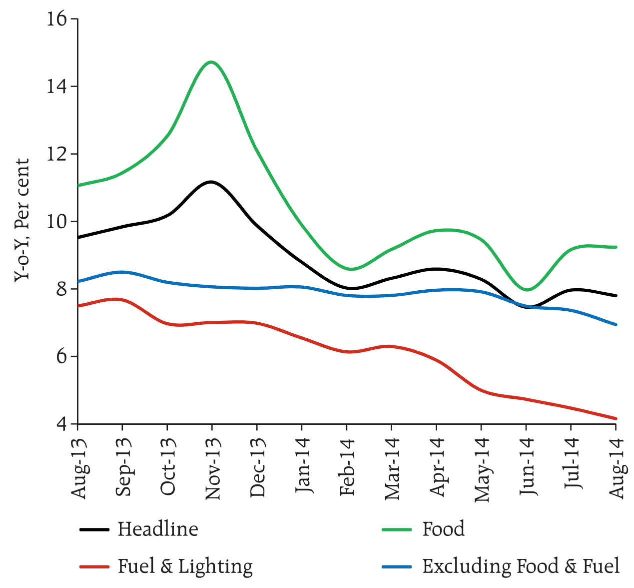
II.1. Consumer Prices

Inflation is ultimately determined by the stance of monetary policy, notwithstanding short-run disturbances emanating from sectoral price pressures. Reflecting the ongoing transmission of monetary policy impulses through the economy, inflation excluding food and fuel has declined from 8.5 per cent in September 2013 to 6.9 per cent in August 2014. Food inflation has also moderated in tandem from double digits to 9.2 per cent in August 2014, punctuated by sharp inclement weather-driven spikes. Fuel inflation has been steadily falling as administered increases in kerosene, cooking gas and coal prices have been held back while electricity price revisions have been low and infrequent. Accordingly, headline inflation has fallen from 11.2 per cent in November 2013 to 7.8 per cent in August 2014 – within range of the target of 8 per cent for January 2015 (Chart II.1).

Even as headline year-on-year inflation has been moderating, there was a sharp pick-up in month-on-month change in prices – or momentum – in July caused by sharp increases in food prices. The momentum, however, moderated in August (Chart II.2). The impact of higher momentum on the headline has been largely masked by favourable base effects. The magnitude of sequential increases in prices in CPI excluding food and fuel were also higher in June and July 2014, though it reversed in August.

A marked feature of the years following the global financial crisis of 2008-09 has been the persistence of CPI inflation in India. While there has been a downward correction in average headline inflation in

Chart II.1: Inflation in CPI and Major Groups



[1] Unless stated otherwise, consumer prices are measured by the consumer price index (combined) base: 2010=100.

Chart II.2: Drivers of CPI M-o-M Change

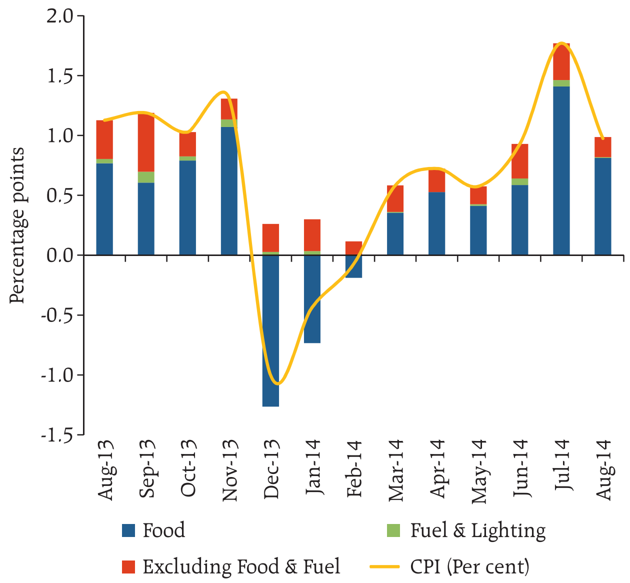
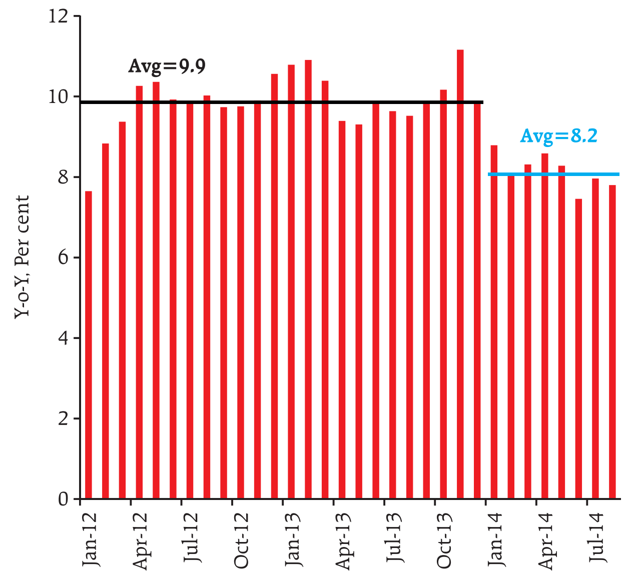


Chart II.3: CPI Inflation



the recent period beginning in January 2014 relative to 2012 and 2013, its inertia at elevated levels relative to tolerance thresholds warrants careful scrutiny of the sources of this persistence so as to break unidirectional expectations surrounding the inflation outlook (Chart II.3. and Box II.1).

II.2. Drivers of Inflation

Recent changes in headline inflation are observed to be sensitive to the behaviour of some of its components, which appear to be moving in diverse directions and exerting differing pulls (Chart II.4).

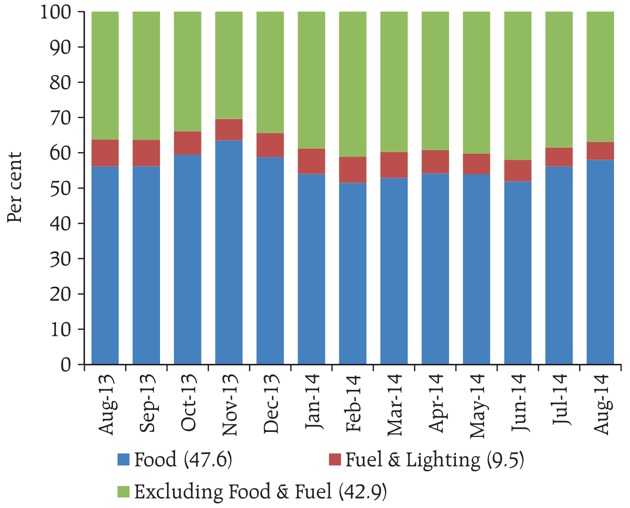
Analysis of the cross-sectional distribution of inflation assumes importance in this context to ascertain whether or not transitory elements are generating relative price changes which could be impacting aggregate price movements enduringly. In particular, India's inflation history shows that supply shocks tend to produce a positive skew to its distribution, with a few items pushing the average

Box II.1: Post-crisis Inflation Persistence in India

Inflation persistence is the tendency for shocks to push the inflation rate away from its steady state. Sources of inflation persistence have been identified as: (a) intrinsic persistence or backward-lookingness in price-setting behaviour; (b) extrinsic persistence arising out of the mark-up over costs; (c) expectations-based persistence emerging from the nature of inflation expectations; and (d) policy-driven persistence from monetary policy regime shifts. For a country like India which is exposed to a variety of shocks, this disaggregate approach assumes critical importance.

Recent studies in the Indian context suggest that: (i) inflation persistence increased in the post-global crisis period; (ii) both intrinsic and extrinsic persistence declined while expectations-driven inflation persistence increased; (iii) both intrinsic and extrinsic inflation persistence have, however, remained high relative to the cross-country experience; and (iv) the increase in expectations-driven inflation persistence could be due to consumers' incomplete information on the nature of economic shocks and also unhinged credibility around the ability of macroeconomic policies to deliver low and stable inflation.

Chart II.4: Weighted Contribution of Components to CPI Inflation



Note: Figures in parentheses represent weights in headline CPI.

inflation up on a sustained basis. Headline CPI inflation has largely had a positive skew, indicating that relative price pressures may be contributing to the overall inflation persistence (Chart II.5).

Food constitutes about 48 per cent of the CPI and has been the major source of upside pressures on retail inflation. Food price shocks have large and persistent effects on inflation expectations, with second-round effects propagating into prices of items other than food and resulting in a generalisation of inflation.

Within the food group, **cereals** constitute about 15 per cent of the CPI but the sub-group's contribution to food inflation has declined over the preceding 12 months (Chart II.6). The group of **protein-based items** (eggs, fish, meat, milk and pulses), which has been experiencing persistent upside pressures, contributed about a sixth of overall inflation through 2014-15 so far. **Fruits and vegetables** have a share of merely 7 per cent in the index, but contributed about a fifth of headline inflation in July and August, and are marked by sharp spikes in prices.

Headline inflation is also vulnerable to shocks from fuel prices, typically emanating from administered price changes in response to international crude price movements. The category **fuel and lighting** accounts for 9.5 per cent of the CPI. Contribution to headline inflation from this category has been falling on account of inadequate administered price revisions. However, the large element of suppressed inflation in subsidised kerosene and liquefied petroleum gas (LPG) warrants a precautionary monetary policy stance in the context of under-recoveries of oil marketing

Chart II.5: Skewness of CPI Y-o-Y Inflation (Kernel Density Estimates)

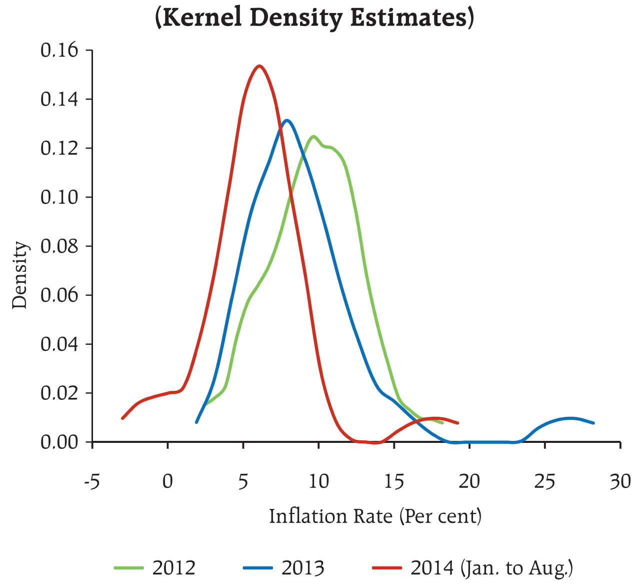


Chart II.6: Sub-groups' Contribution to CPI Food Inflation

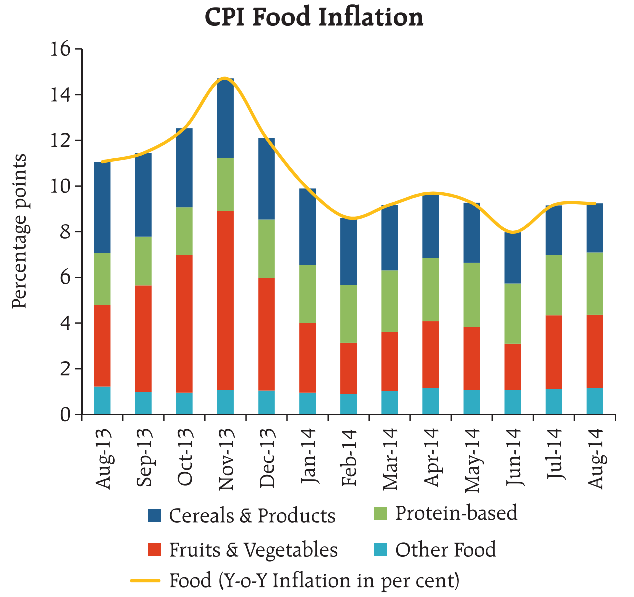


Table II.1: Under-recovery of Oil Marketing Companies

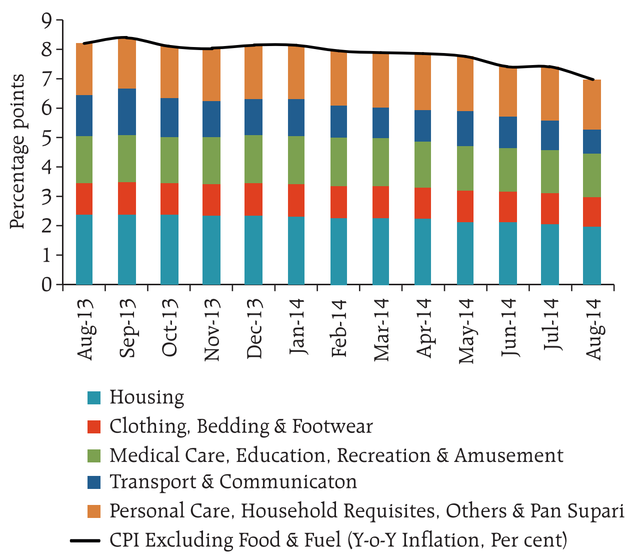
Product	2013-14 (₹ bn)	Q1 of 2014-15 (₹ bn)	Under-recovery (₹ per litre)*
Diesel	628	90 (105)	-0.35
PDS Kerosene	306	75 (65)	32.67
Domestic LPG	465	121 (85)	427.82
Total	**1,399**	**287 (256)**	

* Effective September 16, 2014.
Note: Figures in parentheses refer to the corresponding period of the previous year , *i.e.*, Q1 of 2013-14.
Source: Petroleum Planning & Analysis Cell.

companies (OMCs) which may push up outgoes on subsidies (Table II.1).

CPI inflation excluding food and fuel has been falling gradually since September 2013 in response to monetary policy actions, with favourable implications for the evolution of headline inflation. Within this category, **housing**[2]**,** contributing 11 per cent to headline inflation through 2014-15 so far, has been edging down with rentals easing in recent months. Inflation in respect of **transport and communication** – which mainly comprises petrol and transport fares – has experienced moderation since October 2013, largely reflecting the easing of international crude prices, stability in the exchange rate and favourable base effects (Chart II.7). The category of '**others**' in the CPI covers a heterogeneous group of personal non-tradable services with annual price changes persistently in double digits barring June 2014. This suggests that wages have been imparting upside price pressures to these labour-intensive services and on an economy- wide basis, they can lead to the generalisation of inflationary pressures.

Chart II.7: Sub-groups' Contribution to CPI Excluding Food and Fuel Inflation



Other indicators of retail inflation such as consumer price indices for industrial workers (CPI-IW), agricultural labourers (CPI-AL) and rural labourers (CPI-RL) ebbed in Q1 of 2014-15 and moderated further in July-August 2014. Wholesale inflation measured by the wholesale price index (WPI) as also the indicator of economy-wide price trends – the GDP deflator – have decelerated (Table II.2).

II.3. Costs

Cost pressures from both domestic and external sources have played a significant role in the co-existence of elevated inflation and a negative output gap, denting the efficacy of monetary policy in bringing inflation down to the desired extent. Supply bottlenecks in various sectors of the economy have imparted cost-push rigidities to the level and path of inflation.

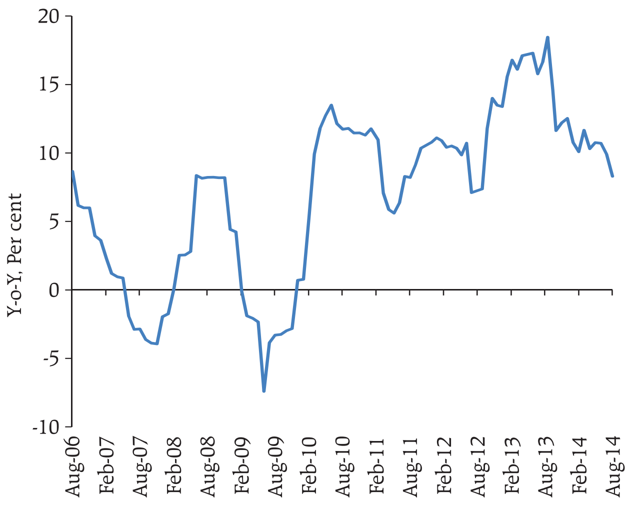
Imported inflation, mainly associated with the prices of crude petroleum, in 2014-15 so far, have eased. Combined with a stable exchange rate, market-determined prices of petroleum, oil

Table II.2: Measures of Inflation
(Y-o-Y per cent growth of quarterly/quarterly average/monthly data)

Quarter/ Month	GDP deflator	WPI	CPI	CPI-IW	CPI-AL	CPI-RL
Q1: 2013-14	5.7	4.8	9.5	10.7	12.6	12.4
Q2: 2013-14	7.2	6.6	9.7	10.8	12.9	12.7
Q3: 2013-14	7.8	7.1	10.4	10.6	12.4	12.3
Q4: 2013-14	5.3	5.4	8.2	6.9	8.5	8.7
Q1: 2014-15	5.8	5.8	8.1	6.9	8.1	8.3
Jul-14	N.A.	5.2	8.0	7.2	8.0	8.1
Aug-14	N.A.	3.7	7.8	N.A.	7.2	7.6

[2] CPI housing (in terms of rentals) is collected only in the urban areas. The weight of housing in the CPI-Urban is 22.5 per cent and in CPI-Combined is 9.8 per cent.

Chart II.8: Inflation in Select Farm Inputs



Note: Calculated from indices for electricity, agricultural machinery and implements, diesel, fertiliser and pesticides in WPI.

and lubricants (POL) could moderate. Furthermore, the staggered increases in the administered prices of diesel coupled with softening of international crude oil prices have wiped out the diesel under-recovery of OMCs in September 2014.

Costs of **farm inputs** have seen some deceleration in the last one year (Chart II.8). **Industrial raw material cost** pressures have been easing. The Reserve Bank's industrial outlook survey indicates that fewer firms assessed that input prices went up in Q2 of 2014-15 than in the corresponding quarter a year ago. At the same time, fewer firms expect increase in selling prices, reflecting perceptions of still weak pricing power (Table II.3).

Table II.3: Assessment for Input/Output Cost

(Percentage responses)

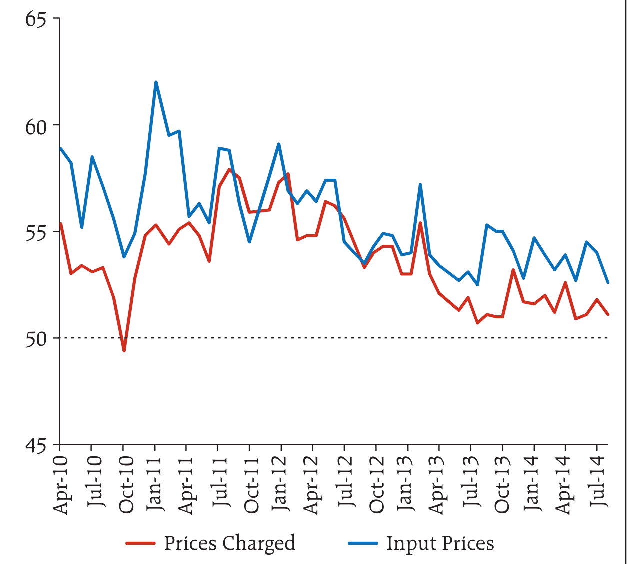
Quarter	Total Response (Number)	Cost of Raw Material (Net Response)	Selling Price (Net Response)
Q1:2013-14	1,321	-49.9	7.3
Q2:2013-14	1,207	-62.2	11.3
Q3:2013-14	1,223	-55.3	7.8
Q4:2013-14	1,114	-54.1	9.6
Q1:2014-15	1,293	-49.5	9.8
Q2:2014-15	1,225	-44.7	6.8

Source: Industrial Outlook Survey, RBI.

Services sector input cost pressures are perceived by purchasing managers to be moderating from their recent peak in 2011. Weak pricing power is, however, preventing the pass-through of even these moderate increases into selling prices (Chart II.9).

Trends in **labour costs** have to be assessed separately for both formal and informal sectors, given the dualistic character of the Indian labour market (Box II.2). Monetary policy has to be watchful about wage-price spirals posing risks to the disinflationary momentum.

Chart II.9: PMI Services (Seasonally Adjusted)



Source: HSBC India Services PMI.

Inflationary pressures are expected to ease further in Q3 as the effects of weather-related food price shocks wane and the usual seasonal trough sets in. Cost pressures from both domestic and external sources are softening. The path of headline inflation in the coming months will be impacted by favourable base effects. As they dissipate from December onwards, headline inflation could turn up in the last quarter of 2014-15. Potential administered price revisions carry upside risks to the near-term inflation outlook. It is critical that these dynamics are carefully monitored to ensure that the disinflation momentum is sustained.

Box II.2: Measurement of Wages/Labour Costs

Wages are a key determinant of the inflation process influencing cost conditions and also setting up – through rigidities in their formation – the short-run trade-off that monetary policy has to address. Unlike most advanced and many emerging market economies, the heterogeneity of labour markets and large presence of self-employed as well as the unorganised sector makes it difficult to collate and compile labour market and wage statistics on a regular basis. In order to assess wage pressures, therefore, the Reserve Bank uses a wide range of information.

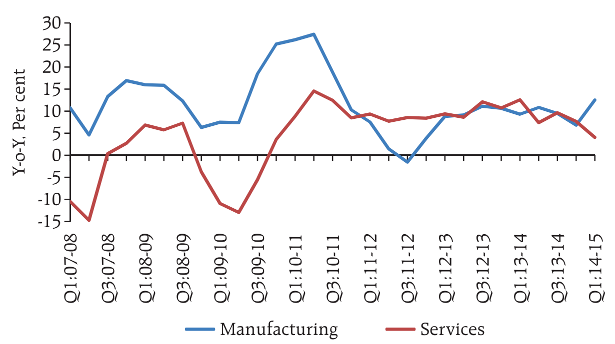
(i) In the organised sector, growth in **per unit employee costs**[1] extracted from balance sheets of companies engaged in manufacturing and services have remained moderate in recent quarters (Chart II.B.1).

(ii) **Unit labour costs** (ULCs), arrived at as a ratio of staff cost to value of production, have risen in the recent period for both manufacturing and services sector entities (Chart II.B.2).

(iii) **Rural wages** gauge wage pressures in the unorganised sector. Notwithstanding definitional changes, starting November 2013, which render temporal comparison difficult, modest softening in monthly rural wage growth appears to be underway (Chart II.B.3).

(iv) Information on item level indices for services in the CPI (IW) can proxy for wages as they predominantly reflect wages paid to labourers. A combined index incorporating seven such services[2] indicates that the cost of these services increased in recent months (Chart II.B.4).

Chart II.B.1: Growth in Per Employee Cost



Note: The per employee cost from Q1 of 2013-14 onwards is based on total number of employees as of March 2013.

Chart II.B.2: Unit Labour Cost

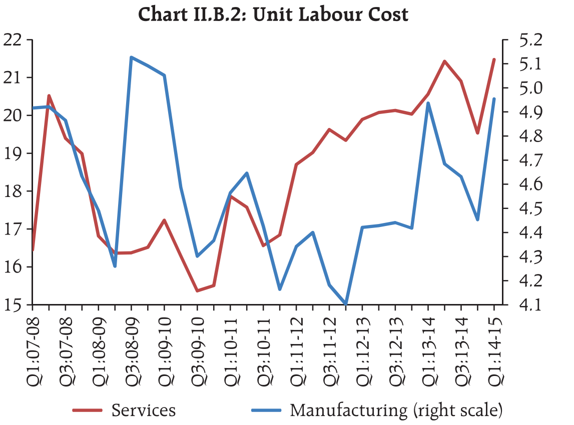


Chart II.B.3: Rural Wages (Average; All Occupations)

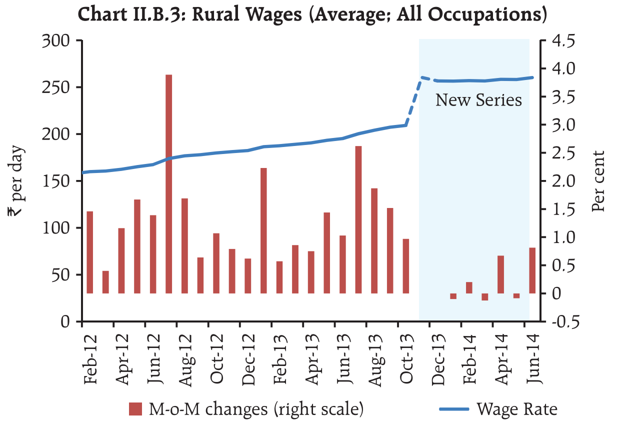
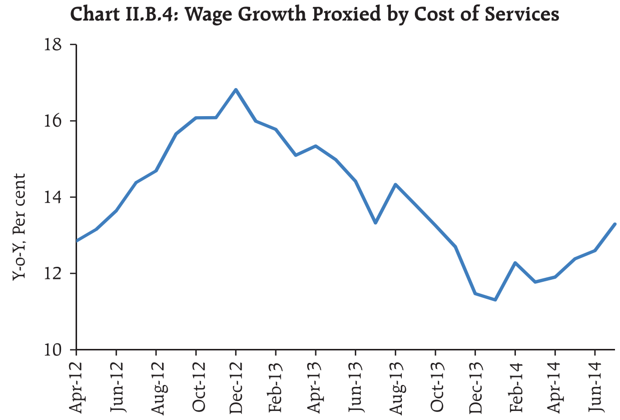


Chart II.B.4: Wage Growth Proxied by Cost of Services



Sources: Charts II.B.1 and II.B.2 are based on CapitaLine database. Chart II.B.3 is based on Labour Bureau data. Rural wage data was available for 18 occupations till October 2013 and is available for 25 occupations under a revised methodology since November 2013.

[1] The estimate is based on data for around 400 companies in manufacturing and around 200 companies in services. Per employee cost = Total employee expenses/total number of employees.

[2] Includes doctors' fees, private tuition fees, cycle rickshaw fares, barber charges, washing/ironing charges, tailoring charges and laundry charges.

III. Demand and Output

Domestic activity recorded a distinct upturn during Q1 of 2014-15. Improvement in business confidence has driven up investment demand after a two year hiatus, but consumption spending remains subdued. Industrial activity slumped in July after having picked up in Q1 supported by a steady rise in exports. Skewed and deficient monsoon is likely to dampen growth in the agriculture sector while the prospects for services are still mixed.

The Indian economy expanded at a faster than expected pace in Q1 of 2014-15 after eight successive quarters of sluggish growth. This has infused business sentiment with guarded optimism on the near-term outlook. Exports of goods and services in real terms have recorded double-digit growth for four successive quarters in spite of headwinds from a weak global economy and domestic supply constraints. Nevertheless, risks to agriculture from the skewed spatial distribution of the south-west monsoon and the still sluggish prospects for service sector activity will challenge efforts to sustain the momentum of activity over Q2 and Q3 of 2014-15.

III.1 Aggregate Demand

Real GDP at market prices grew at 5.8 per cent in Q1 of 2014-15 - higher than 4.2 per cent a year ago - buoyed by net exports and a turnaround in gross fixed capital formation (Table III.1).

In spite of election-related expenditure in April and May, the erosion of purchasing power by inflation and moderating real wage growth took its toll and the contribution of **private final consumption expenditure (PFCE)** to GDP growth declined over Q4 of 2013-14.

Gross fixed capital formation (GFCF) grew robustly at 7.0 per cent, though partly lifted by the base effect of decline of 2.8 per cent in Q1 of 2013-14. Subsequently, however, the contraction in capital goods production in July 2014 and sluggish imports of capital goods have raised concerns about sustainability of the investment recovery. Accordingly, the growth in new investment intentions of the private corporate sector has been modest (Chart III.1).

Sustained progress in putting **stalled projects** back to work is key to a durable reinvigoration of animal spirits in investment activity. This could also crowd-in new investment and provide a much needed stimulus to aggregate demand. So far, however, surmounting this gridlock has proved formidable as a number of factors are driving the time overruns in project implementation, including land acquisition, forest clearance and supply of raw material. Yet another binding constraint is the energy sector outlook with uncertainty regarding coal supply.

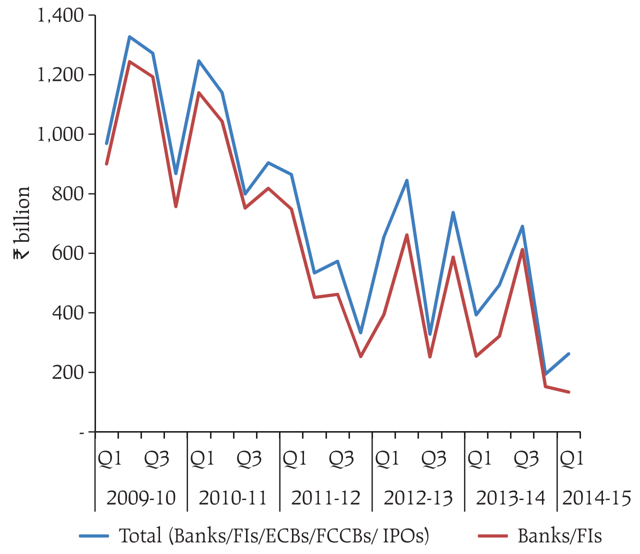
Table III.1: Real GDP Growth by Expenditure

(Per cent)

Item	2013-14 (PE)	2013-14				2014-15
		Q1	Q2	Q3	Q4	Q1
I. Private Final Consumption	4.8	5.6	2.8	2.8	8.2	5.6
II. Govt Final Consumption	3.8	12.9	-0.1	3.6	-0.4	8.8
III. Gross Fixed Capital Formation	-0.1	-2.8	3.1	0.2	-0.9	7.0
IV. Net Exports	-32.1	-15.0	36.7	52.9	47.5	30.2
Exports	8.4	-2.8	15.0	11.3	10.5	11.5
Imports	-2.5	1.7	0.4	-8.3	-3.7	-0.4
V. GDP at Market Prices	**5.0**	**4.2**	**5.2**	**4.4**	**6.1**	**5.8**

PE: Provisional Estimates.

Chart III.1: Envisaged Private Corporate Investment Intentions



Government final consumption expenditure (GFCE) decelerated sharply in Q1 of 2014-15 than a year ago. In terms of proportion to budget estimates (BE), the key deficit indicators of the central government, *viz.*, the revenue deficit (RD) and the gross fiscal deficit (GFD) were marginally lower during 2014-15 (up to July) than a year ago, mainly on account of lower plan revenue expenditure and capital expenditure on defence. Expenditure on subsidies was significantly lower at 33 per cent of BE from 51 per cent a year ago. Tax revenue dipped to 15 per cent of BE than 16.4 per cent a year ago on lower collections under custom duties and union excise duties. Non-tax revenues were also lower, mainly on account of interest and dividend receipts (Table III.2). Going forward, introduction of goods and services tax (GST) will provide a boost to the manufacturing sector.

Table III.2: Key Fiscal Indicators – Central Government Finances

Indicators	Actual as per cent of Budget Estimates (April - July)	
	2014-15	2013-14
I. Revenue Receipts	**14.8**	16.7
a. Tax Revenue (Net)	**15.0**	16.4
b. Non-Tax Revenue	**13.5**	18.0
2. Total Receipts	**14.2**	16.1
3. Non-Plan Expenditure	**30.5**	33.5
(a) On Revenue Account	**30.3**	33.4
(b) On Capital Account	**32.1**	33.8
4. Plan Expenditure	**23.0**	27.0
(a) On Revenue Account	**22.9**	27.4
(b) On Capital Account	**23.1**	25.1
5. Total Expenditure	**28.1**	31.3
6. Fiscal Deficit	**61.2**	62.8
7. Revenue Deficit	**70.4**	73.0
8. Primary Deficit	**198.1**	148.0

Net exports rose by 30.2 per cent in Q1 of 2014-15, providing valuable contribution to aggregate demand in spite of a subdued global recovery. Underpinning this improvement, export growth picked up to 11.5 per cent in Q1 of 2014-15, benefiting from the competitive edge stemming from rupee depreciation in 2013-14.

Reflecting the fall in merchandise trade deficit, a small rise in net exports of services, higher net investment income outgo related to servicing of equity and debt obligations and a marginal fall in net private transfers, the **current account deficit (CAD)** shrank to 1.7 per cent of GDP in Q1 of 2014-15, down from 4.8 per cent a year ago (Charts III.2 and III.3). Net of POL imports, the current account balance remains in surplus since Q4 of 2012-13.

Chart III.2: Current Account Balance

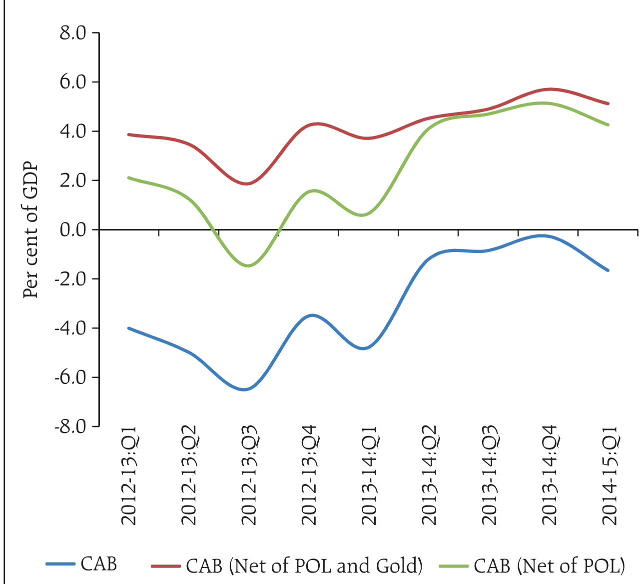


Chart III.3: Composition of Current Account Deficit

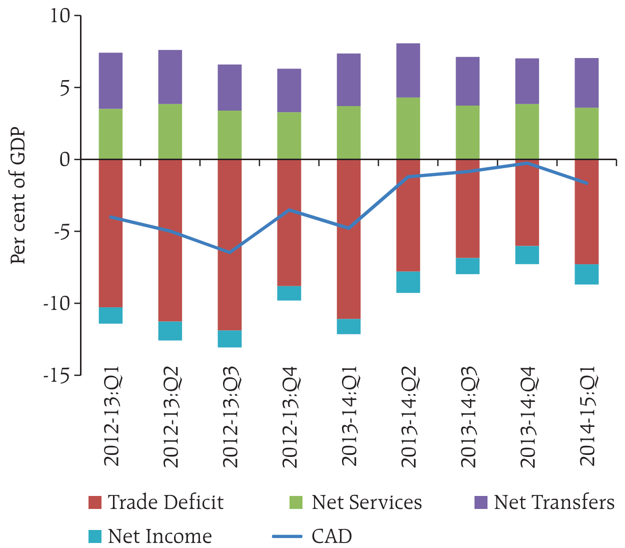
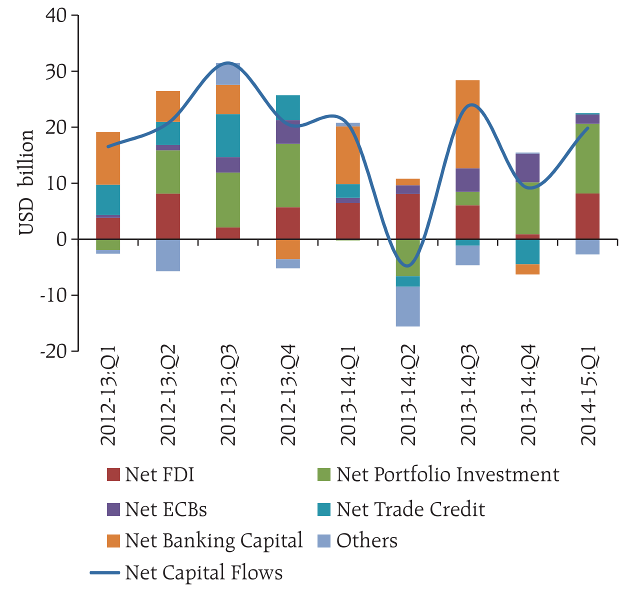


Chart III.4: Pattern of Net Capital Flows



The financial account of India's **balance of payments** in Q1 of 2014-15 was dominated by direct and portfolio investments. External commercial borrowings (ECBs)and trade credit also recorded net inflows (Chart III.4). India's external sustainability indicators recorded a modest improvement, contributed by a build-up of foreign exchange reserves**.** The **net international investment position (NIIP)** remained stable at 17.6 per cent of GDP in March 2014 which is sustainable from the point of view of the debt servicing profile and a viable level of the CAD.

Assessment of reserve adequacy should take into account not only reserves as measured conventionally but also off-balance sheet buffers in the form of net outstanding forward purchases of the Reserve Bank, which stood at US $ 5.4 billion as at end-July 2014, and bilateral/multilateral swap lines, such as the Reserve Bank of India and Bank of Japan Currency Swap Arrangement of US $ 50 billion and the Brazil, Russia, India, China and South Africa (BRICS) **Contingent Reserve Arrangement (CRA)**, 2014. Under the CRA, each country's maximum access limit is equal to a multiple of its own commitment to the total pool of US $ 100 billion.

III.2 Output

Real GDP at factor cost rose by 5.7 per cent in Q1 of 2014-15, shrugging off eight successive quarters of sluggish momentum with industrial growth, in particular, returning to positive territory after two quarters (Chart III.5 and Table III.3).

The prospects for **agriculture** in 2014-15 will likely be impacted by the vicissitudes of the south-west

Chart III.5: Quarterly GDP Growth

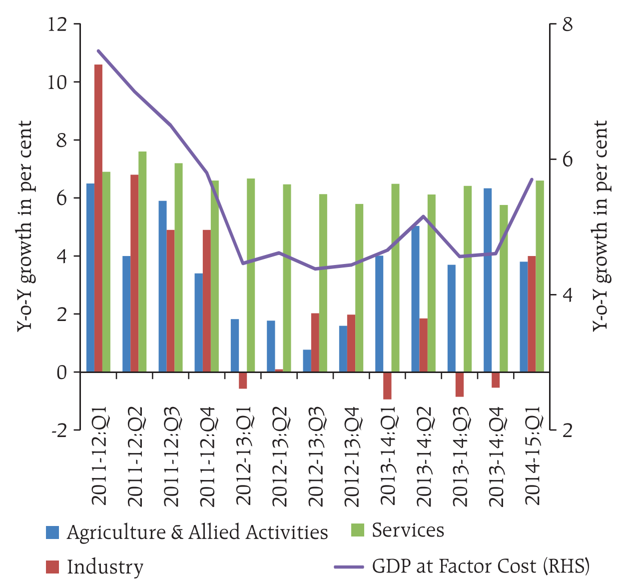


Table III.3: Real GDP Growth - Supply Side

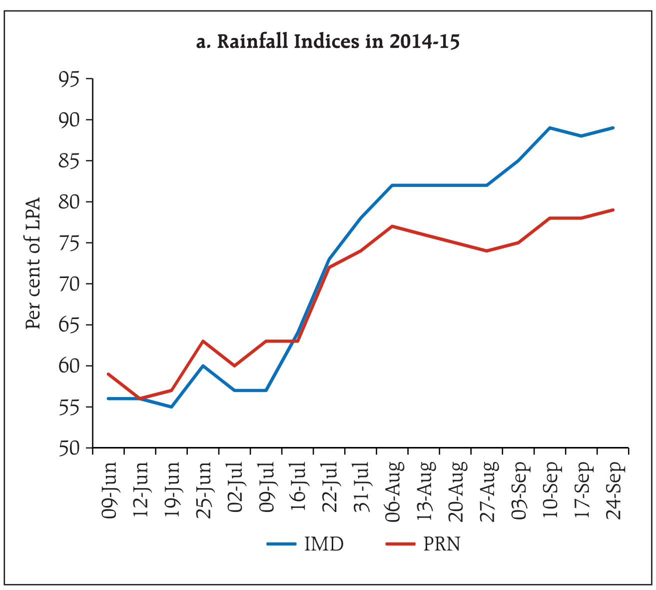
(Per cent)

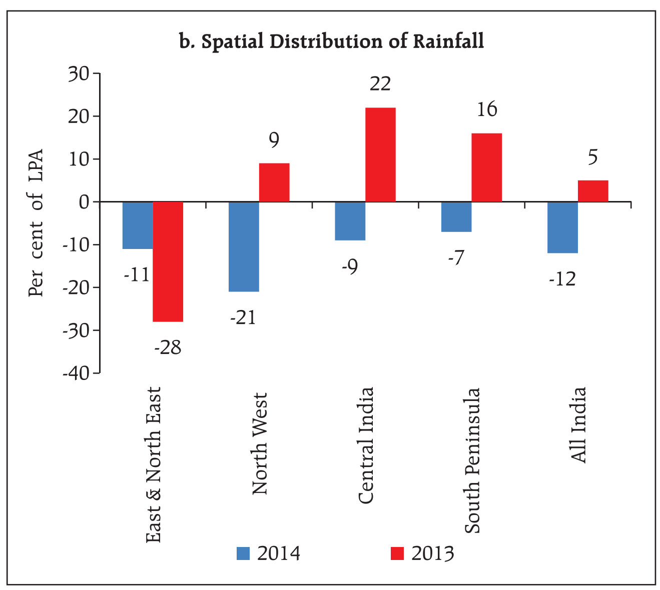
Sector	2013-14		2013-14				2014-15
	Share	Growth	Q 1	Q2	Q3	Q 4	Q 1
I. Agriculture, forestry & fishing	**13.9**	**4.7**	**4.0**	**5.0**	**3.7**	**6.3**	3.8
II. Industry	**18.7**	**-0.1**	**-0.9**	**1.8**	**-0.9**	**-0.5**	4.0
(i) Mining & quarrying	1.9	-1.4	-3.9	0.0	-1.2	-0.5	2.1
(ii) Manufacturing	14.9	-0.7	-1.2	1.3	-1.5	-1.4	3.5
(iii) Electricity, gas & water supply	1.9	5.9	3.8	7.8	5.0	7.2	10.2
III. Services	**67.4**	**6.2**	**6.5**	**6.1**	**6.4**	**5.8**	**6.6**
(i) Construction	7.4	1.6	1.1	4.4	0.6	0.7	4.8
(ii) Trade, hotels, transport & communication	26.4	3.0	1.6	3.6	2.9	3.9	2.8
(iii) Financing, insurance, real estate and business services	20.6	12.9	12.9	12.1	14.1	12.4	10.4
(iv) Community, social & personal services	12.9	5.6	10.6	3.6	5.7	3.3	9.1
IV. GDP at factor cost	**100.0**	**4.7**	**4.7**	**5.2**	**4.6**	**4.6**	**5.7**

monsoon. Setting in late, it gathered momentum rapidly from July and rainfall deficiency measured by the rainfall index of the India Meteorological Department (IMD) progressively narrowed from 43 per cent at the end of June to 12 per cent by late September. **The Reserve Bank's production-weighted rainfall index (PRN)**[1] indicates a larger rainfall deficit. The spatial and temporal distribution of rainfall has been skewed (Chart III.6). The *kharif* foodgrain production is likely to decline by 6.9 per cent in 2014-15, while production of other crops including oilseeds and commercial crops is also likely to suffer. On the other hand, reservoir levels have risen to 79 per cent and therefore, the *rabi* foodgrains output, which accounts for 50.7 per cent of total production on average, could largely alleviate *kharif* shortfalls.

The **index of industrial production (IIP)** grew by 4.2 per cent in Q1 of 2014-15, its fastest pace in 11

Chart III.6: South-West Monsoon and Rainfall Pattern





[1] PRN is calculated using contribution to total foodgrain production by each State.

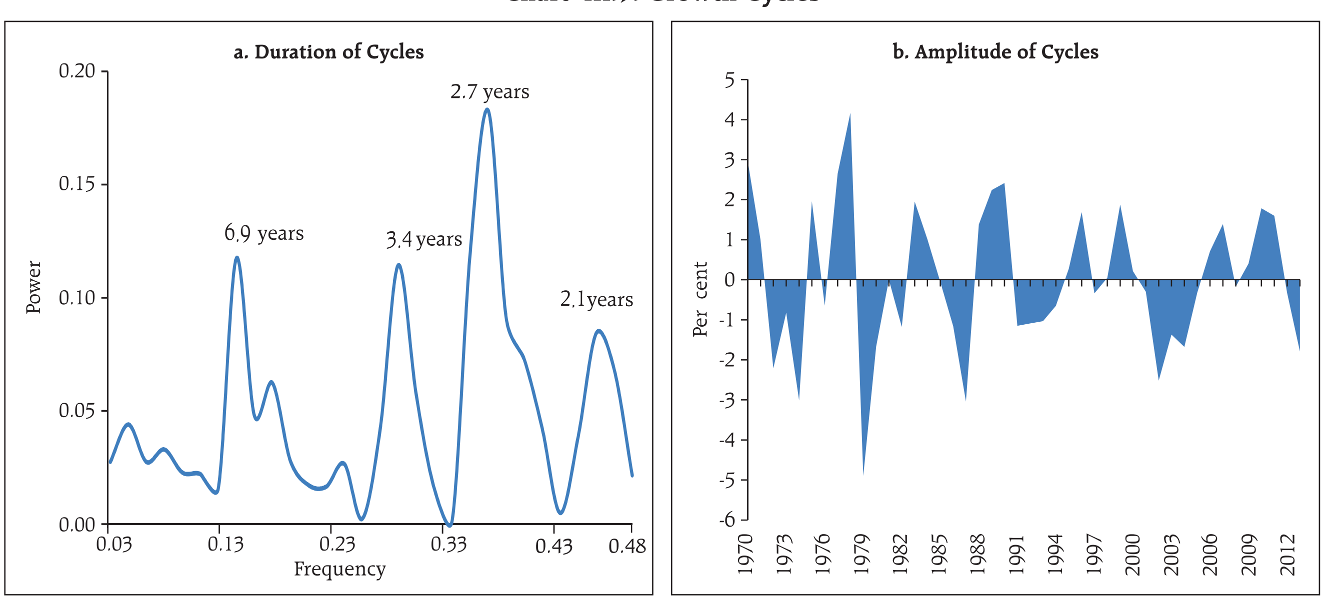
quarters. The pick-up in industrial activity in Q1 was driven by the capital goods sector, which recorded the highest growth in the last three years. Mining activity also recovered in Q1 from a 13-quarter slump and electricity generation registered a record level of production. However, its momentum fell in July 2014 as the IIP growth slipped to 0.5 per cent. The slowdown in manufacturing, especially the contraction in both consumer durable goods and capital goods production has added further uncertainty to the prospects for this sector. Core infrastructure industries (coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity), which constitute 37.9 per cent of the IIP, also lost some momentum in July.

Service sector activity, which constitutes two-thirds of the domestic economy, picked up in Q1 of 2014-15, expanding by 6.6 per cent. Within the sector, different constituents moved at differing speeds. Construction sector benefited from the delayed arrival of the south-west monsoon. Community, social and personal services also recorded robust growth. On the other hand, the growth of financing, insurance, real estate and business services lost some momentum, reflecting the deceleration in growth of credit and deposits in the banking system. Services PMI, after peaking in June 2014, has moderated in subsequent months. Lead indicators of activity in the services sector for Q2 exhibit a mixed picture.

III.3. Cyclical and Structural Aspects of Growth Dynamics

An assessment of the aggregate demand-supply balance in the economy would be usefully informed by an empirical measurement of its potential. This involves an evaluation of two elements: (a) the cyclical behaviour of output which provides insights into the role of excess/deficient demand in the state of the economy; and (b) trend output which enables a fuller evaluation of the role of aggregate supply determined by the production structure, institutional characteristics and constraints thereon. Estimating variances in GDP over the frequency domain helps to ascertain the presence of cycles as well as to measure the duration of the fluctuations. Disentangling of irregular, seasonal, cyclical and trend components suggests that the majority of cycles in India have a duration of about 2.7 years and cycles of shorter or longer durations are less frequent in occurrence. The amplitude of cycles has dampened over time, pointing to increasing resilience of economic activity to shocks (Chart III.7).

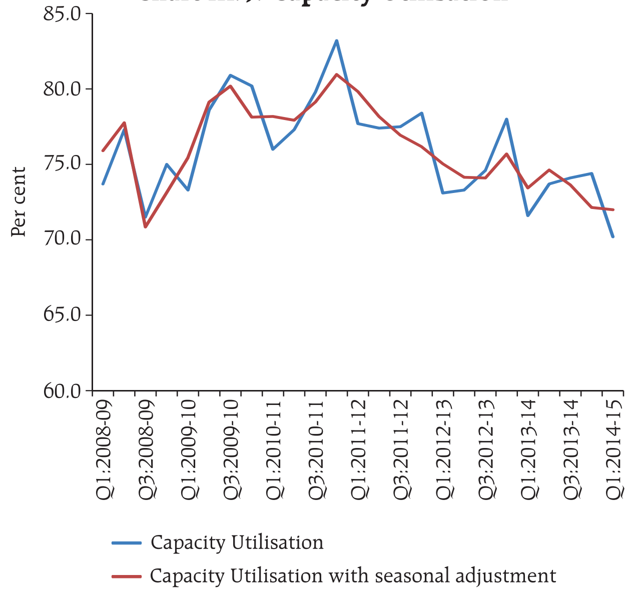
Chart III.7: Growth Cycles



Cycles are essentially fluctuations around its potential trend. **Potential output** is intrinsically unobservable and measuring it is challenging at all times, but especially so in the wake of a major crisis. Measurement typically suffers from high sensitivity to methodology: for instance, the standard univariate filters suffer from bias towards the choice of end points and lack an underlying economic basis. Estimates from multivariate filters derived from a small macroeconomic model which minimise the sensitivity to end points, suggest that India's potential output growth has been falling since 2008-09 to about 6.3 per cent in 2012-13 and since then the output gap has turned negative (Chart III.8). Juxtaposing estimates of average duration of cycles and potential growth suggests that the Indian economy may be approaching a turning point after two years of sluggish growth but, given the decline in potential output growth, the expansion phase may be shallower than before.

Capacity utilisation levels and **inventory cycles** provide information on the degree of slack in the economy. The order books, inventories and capacity utilisation survey (OBICUS) of the Reserve Bank points to seasonally adjusted capacity utilisation recording a modest decline in Q1 (Chart III.9). Finished goods inventory to sales ratio increased corroborating the presence of slack in the economy (Chart III.10).

Chart III.9: Capacity Utilisation



In summary, there are tentative signs of investment turning around in an environment of improving macroeconomic fundamentals and political stability. Downside risks to a durable pick-up in investment and growth stem from domestic supply constraints, particularly with regard to power, a reversal in the global interest rate cycle and re-emergence of geopolitical risks.

Chart III.8: Growth – Potential and Actual

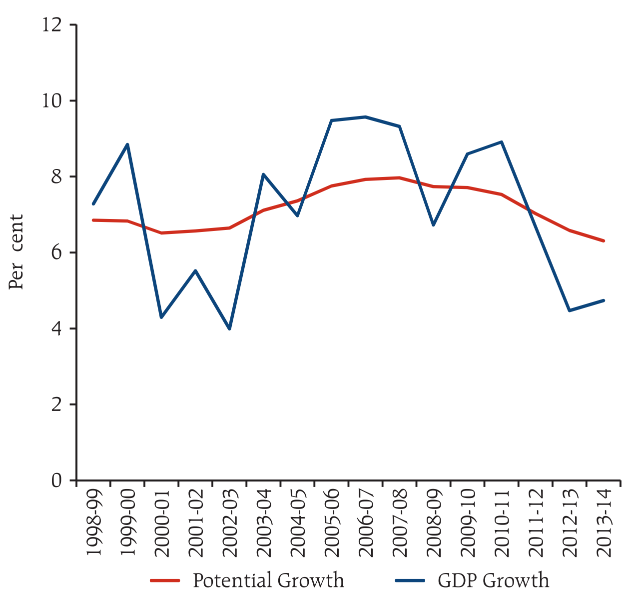
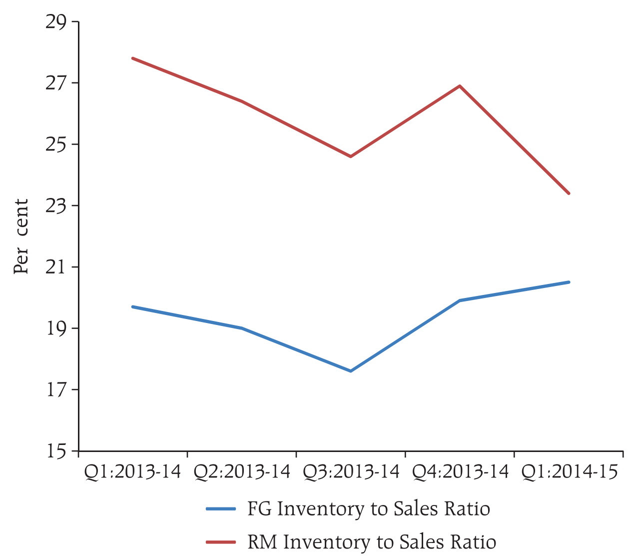


Chart III.10: Raw Material (RM) and Finished Goods (FG) Inventory to Sales Ratio



IV. Financial Markets and Liquidity Conditions

Financial markets have been upbeat, reflecting ebbing volatility and strengthening confidence in the outlook shared by domestic and foreign investors. Domestic money, debt and foreign exchange markets have remained stable and stock prices reached record highs. Growth in credit in the banking system, however, has turned sluggish. The Reserve Bank implemented a new liquidity management framework which provides greater assurance and flexibility on liquidity.

IV.1. Financial Markets

Domestic financial markets have been buoyant through Q2 of 2014-15, spurred by the risk-off search for yields in international markets, and a pick-up in business confidence domestically with the onset of political stability. The ebbing of international crude oil prices with the easing of geo-political tensions and expectations of improvement in domestic macro-fundamentals boosted market sentiment.

Overnight **money market** rates hardened during July as liquidity condition was tight. From mid-August, however, money market rates moderated, while in September, barring a brief spike on account of advance tax payments, rates eased below the liquidity adjustment facility (LAF) repo rate. A distinct feature of this period has been the drop in call money volumes, reflecting shifts by banks to the collateralised overnight segments. The call money market currently accounts for around 10 per cent of the total turnover in the overnight segment (Chart IV.1). The thinness of the call money market tended to amplify volatility in July and early August with the top five borrowers accounting for more than 50 per cent of call market turnover (Chart IV.2).

In the **government securities market**, yields inched up in the first half of July, trading with a bearish note as geo-political tensions in the Middle East pushed up crude oil prices. Subsequently, bullish sentiment returned on the back of announcement of a new 10-year benchmark security and re-adjustment of limits for investment by foreign institutional investors (FIIs) in government securities. Positive sentiment spilled over into August, boosted by the reduction in notified amounts under the remaining primary auctions for the first half of the year as well as the easing of crude oil prices as tensions in the

Chart IV.1: Money Market Turnover and Shares of Key Market Segments

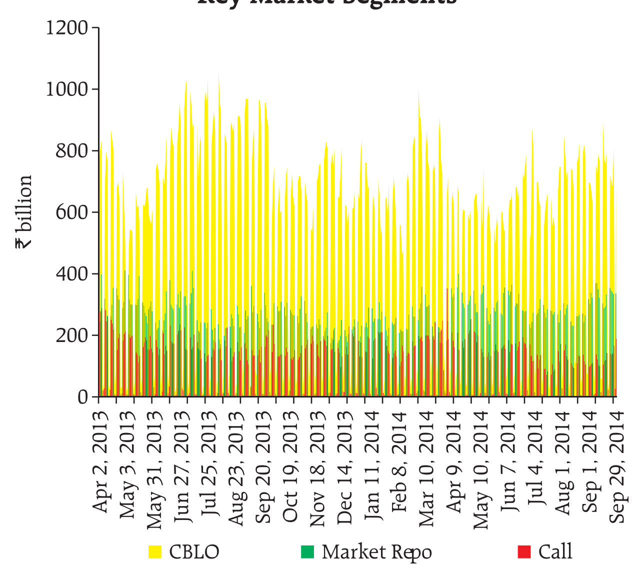


Chart IV.2: Call Market Turnover by Borrower

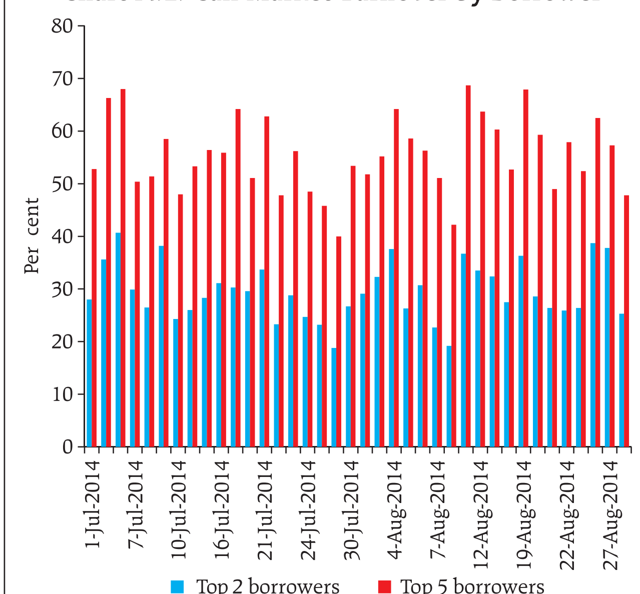
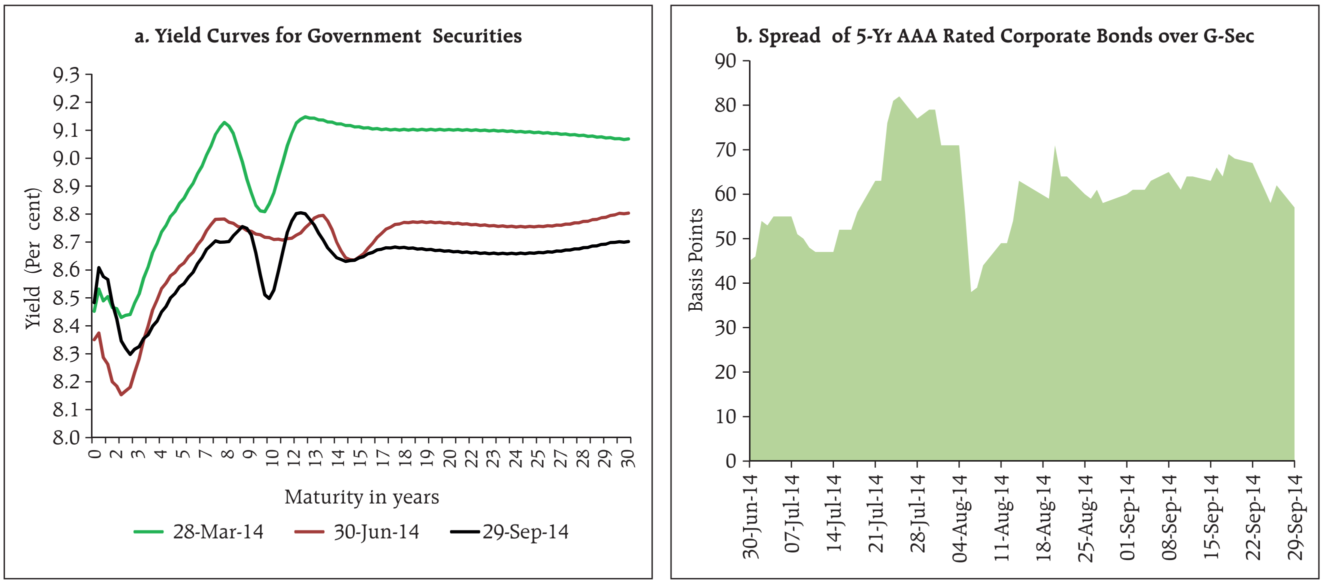


Chart IV.3: Debt Market - Government Securities and Corporate Bonds



Middle East and Ukraine abated. In September, yields moved in a tight range in the absence of any triggers. The 10-year yield declined through Q2 from 8.7 per cent at the end of June to 8.5 per cent on September 29 (Chart IV.3). Trading volumes have declined sizeably throughout the quarter.

The **corporate bond market** recorded a pick-up in activity during Q2 with an increase in offerings of public issues and rights issues, partly reflecting tightening bank credit conditions. Debt mobilisation through public issues and private placements has been significantly higher during July-August 2014 than that in the preceding quarter. Foreign portfolio investors (FPIs) invested ₹1,124 billion in the corporate bonds as on September 29, 2014 which amounted to about 46 per cent of the limit. Yields of AAA rated corporate bonds generally moved in line with gilt yields, while spreads have been broadly stable after picking up in early August.

In the **foreign exchange market**, the exchange rate of the rupee has moved in a narrow range of ₹59.7 and ₹61.6 against the US dollar during the quarter. Pick up in import demand and strengthening of the US dollar modestly weakened the rupee in July and early August. Thereafter, bunched inflows on account of FIIs, particularly into the debt market, and positive sentiment sparked by a narrower than expected current account deficit for Q1 as well as the credibility of fiscal consolidation helped the rupee to appreciate. In September, the rupee generally remained range-bound with pessimism on US interest rate expectations offset by positive sentiment triggered by the upturn in India's GDP growth in Q1 and easing of tensions in Ukraine. The softening of crude oil prices also supported the rupee. For the quarter as a whole, the rupee depreciated against the US dollar *albeit* with some appreciating bias during the second week of August to first week of September. The rupee was at ₹61.43 against the US dollar on September 29, 2014 (Table IV.1). The rupee has been appreciating in nominal effective terms since March 2014. Against the euro, the rupee appreciated by 5.2 per cent during Q2. Since July, forward premia have softened, tracking the spot market.

Equity markets rose through Q2 to reach historic highs on formation of a stable government at the centre, modest improvement in corporate earnings and positive expectations following exemption granted to banks by the Reserve Bank on reserve requirements for raising funds for infrastructure. The uptrend generally tracked global equity markets. Expectations of quantitative easing by the ECB, sustained FII investments (Chart IV.4), easing geo-political tensions

Table IV.1: Nominal and Real Effective Exchange Rates: Trade-Based (Base: 2004-05=100)

Item	Index Sep 26, 2014 (P)	Appreciation (+) / Depreciation (-) (Per cent)	
		Sep 26, 2014 over Mar 2014	2013-14 over 2012-13
36-REER	109.11	5.1	-2.2
36-NEER	73. 30	2.0	-7.7
6-REER	118.95	5.7	-3.7
6-NEER	67.61	2.0	-10.6
₹/US$ (as on Sep.29)	61.43	-0.7	-10.1
₹/Euro (as on Sep.29)	77.93	8.2	-13.7

P: Provisional.
Notes: REER figures are based on Consumer Price Index (combined).

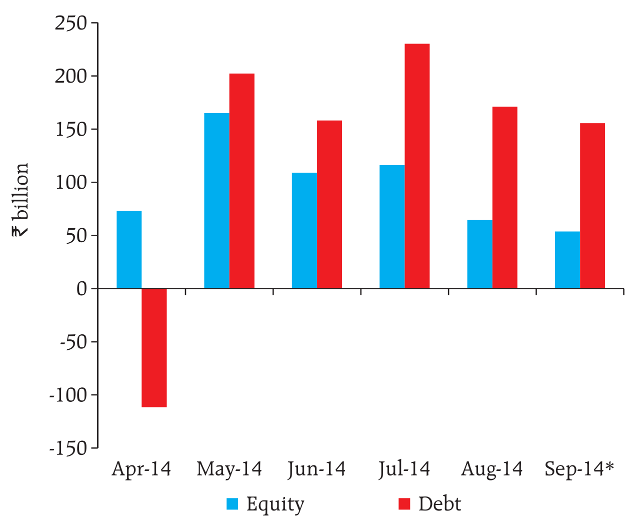
and the resulting softening of crude oil prices and the recent revision in India's sovereign rating outlook from negative to stable by Standard & Poor's helped in boosting equity markets.

Towards the end of the quarter, the equity markets pared some of the gains on concerns following geo-political tensions in Syria and the Supreme Court's verdict to de-allocate coal blocks. During Q2 so far (up to September 29, 2014), both the BSE Sensex and NSE Nifty recorded an increase of around 5 per cent. In the primary market, activity picked up mainly on the back of issuances through qualified institutional placements (QIPs) for debt repayment and capital expenditure. The Securities and Exchange Board of India (SEBI) announced a slew of measures related to IPOs and offers-for-sale, including 25 per cent public shareholding norms for public sector undertakings as also issued guidelines for Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts. In addition, the government decided to raise about ₹43.5 billion through disinvestment of public sector undertaking (PSU) shares.

The **credit market** has been subdued through Q2, with non-food credit growth decelerating on account of risk aversion related to asset quality as well as weak demand in general. With deposit growth remaining largely flat, a decline in credit growth led to a negative wedge (since August 2014) between credit and deposit growth, indicative of an increase in availability of structural liquidity with banks (Chart IV.5). Mirroring the slowing of bank credit growth, the flow of financial resources to the commercial sector has been lower than a year ago and higher funding has been obtained from non-bank sources (Chart IV.6).

Bank credit to agriculture recorded a higher year-on-year growth of 18.8 per cent in August 2014 as compared with 12.1 per cent in August 2013. Growth in credit to industry decelerated sharply to 7.6 per cent

Chart IV.4: Net Foreign Portfolio Investments - Equity and Debt



*: Up to September 26, 2014.

Chart IV.5: Bank Credit and Deposit Growth

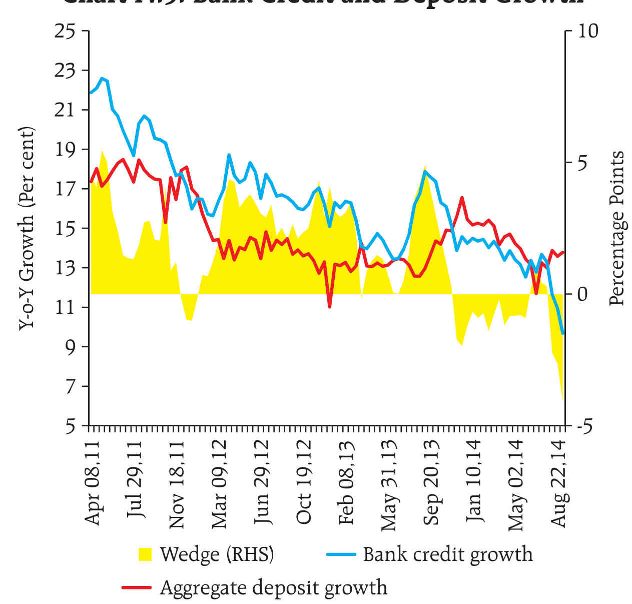
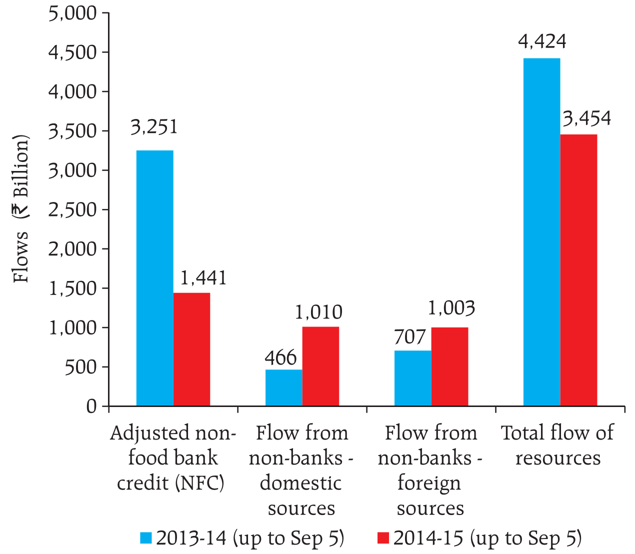
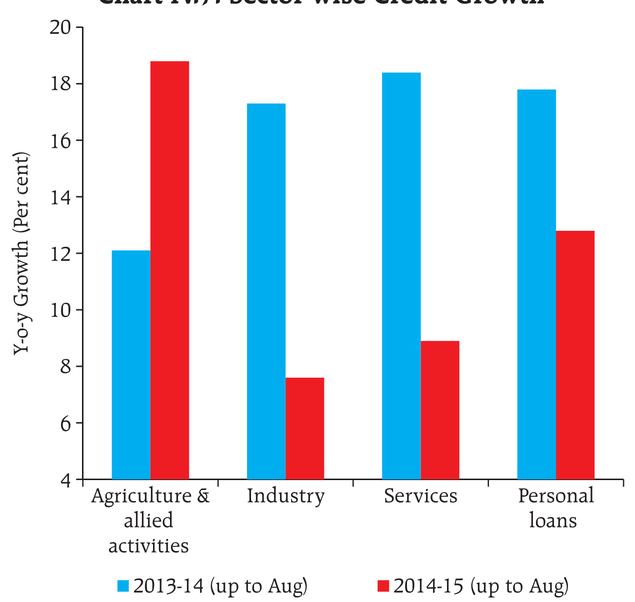


Chart IV.6: Flow of Financial Resources to Commercial Sector



in August 2014 from 17.3 per cent in August 2013 with lower growth in sectors such as infrastructure, basic metals, textiles, chemicals and food processing industries. Credit growth to the services sector also decelerated substantially during this period (Chart IV.7). This slowdown mainly reflects medium and large scale industries sourcing funds through commercial paper (CP) and external commercial borrowings (ECBs), sales of assets by banks to asset reconstruction companies

Chart IV.7: Sector-wise Credit Growth



(ARCs), bulk repayments by oil/fertilizer PSUs and reduction in banks' exposures in view of the stress on assets. During 2014-15 so far (up to September 25), term deposit rates and weighted average lending rates (WALR) have softened marginally. With moderation in inflation, however, this has translated to a modest tightening of credit conditions in real terms. The transmission of policy actions across market segments has been asymmetrical in various phases of the interest rate cycle (Table IV.2).

IV.2. Liquidity Conditions

A key factor influencing financial market behaviour is the movement of liquidity which, in turn, reflects the interplay of structural and frictional factors impinging on the system. A broad measure of liquidity encapsulating the impact of both factors is **money supply** or M_3. The growth rate (year-on-year) of money supply at 13.2 per cent during 2014-15 (up to September 5) has been running somewhat higher than a year ago

Table IV.2: Asymmetry in Transmission in Different Phases of Monetary Policy Cycles
(To Deposit and Lending Rates of Banks)

Item	Variation (Percentage Points)		
	Tightening Phase Mar. 19, 2010 to Apr. 16, 2012)	**Easing Phase** (April 17, 2012 to July 15, 2013)	**Tightening Phase** (Since July 16, 2013)
Policy Rate (Repo Rate)	**3.75**	**-1.25**	**0.75**
CRR	-1.00@	-0.75	0.00
Call Rate	4.98	-1.51	0.59
CBLO Rate	5.43	-2.34	1.44
Market Repo Rate	6.12	-1.49	0.89
91-Days Treasury Bill	4.53	-1.29	1.11
3-Month CP Rate	4.24	-2.17	0.64
3-Month CD Rate	4.36	-2.08	0.79
5-Year Corporate Debt Yield	0.93	-0.71	0.47
10-Year Corporate Debt Yield	3.13	-1.02	0.34
5-Year G-Sec Yield	1.05	-0.84	0.77
10- Year G-Sec Yield	0.64	-1.10	0.98
Median Deposit Rate	**2.31**	**0.00**	**0.24**
Median Base Rate	**2.75**	**-0.35**	**0.25**
WALR (Outstanding Rupee Loans)	**2.13**	**-0.44**	**-0.06#**
WALR (Fresh Rupee Loans)	**-**	**-**	**0.08#**

-: Not available. WALR: Weighted Average Lending Rate.
#: Data are till end- August 2014
@: CRR was cut to create the desirable liquidity conditions ahead of the repo rate cuts in next easing phase.
Note: Policy rate, deposit and base rates are at end-month while money and bond market rates are monthly average.
Source: Bloomberg and the Reserve Bank of India.

Chart IV.8: Money Supply and its Major Components

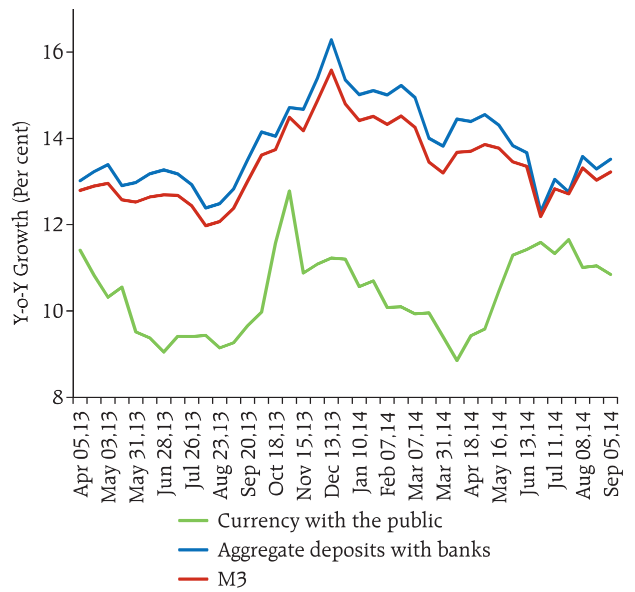
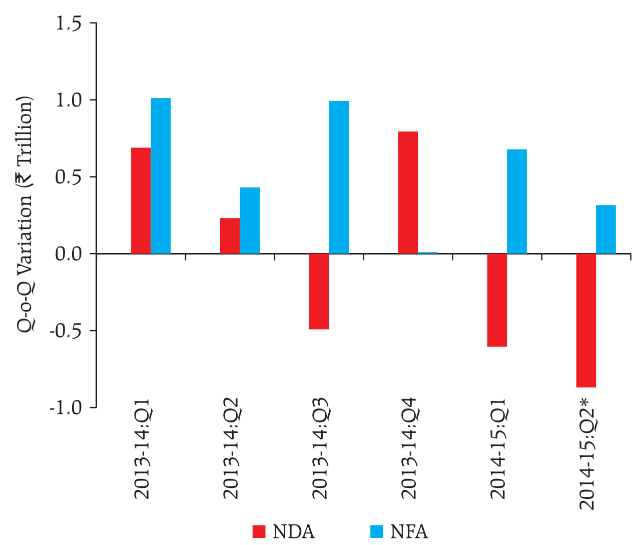


Chart IV.9: Reserve Money and its Sources



*: Data upto 19 September 2014

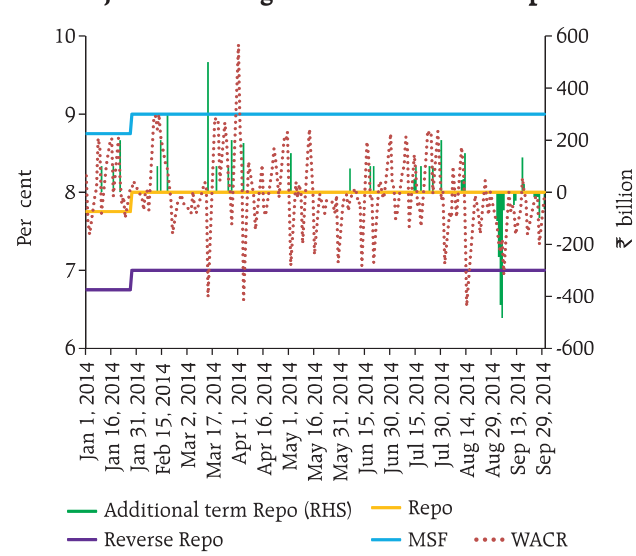
(Chart IV.8). The major components, *i.e.*, currency with the public and deposits, rose at a faster pace this year. Currency demand was higher on account of the spending during the general elections in April-May, but it has fallen back to usual levels in subsequent months.

Movements in **reserve money** essentially capture the Reserve Bank's response to various autonomous forces impacting liquidity conditions. The expansionary effects of the Reserve Bank's operations in the foreign exchange market – which experienced sizable surplus conditions through most of 2014-15 so far – were more than offset by a decline in net domestic assets (Chart IV.9).

The choice of instrument for liquidity management is based on an assessment of the sources of liquidity pressures from time to time - whether frictional or structural; transient or lasting. With call rates trading with a softening bias below the LAF repo rate during the first week of July, a 4-day term reverse repo was conducted to absorb excess liquidity, but it met with a tepid response as market participants showed reluctance to part with liquidity over periods beyond 24 hours. With spending by the government delayed by the passing of the Union Budget, liquidity conditions tightened again, and the call rates tended to hover above the repo rate, occasionally rising towards the MSF rate. Six special term repos of tenors varying between 3-day to 7-day for a cumulative amount of ₹650 billion were conducted.

By the first week of August, liquidity eased as Government spending began to gather momentum and the call rate moved down again to sub-repo rate levels. Thereafter, it reversed and as liquidity tightened

Chart IV.10: Call Rate Movement and Liquidity Injection through Additional Term Repos



on account of the build-up in cash balances of the Government, the Reserve Bank conducted one special term repo and two variable rate overnight repos, in addition to its regular operations, for a total amount of ₹247 billion (Chart IV.10). By mid-August, increasing expenditure by the Government along with a pick-up in deposits relative to credit off-take significantly expanded system-wide liquidity through the rest of the month and the first half of September. With effect from September 5, the Reserve Bank revised and fine-tuned its liquidity management framework under which overnight variable rate reverse repo auctions were conducted in the first half of September to absorb excess liquidity (Box IV. 1).

In summary, the progressive evolution of the term repo auctions as the main instrument of frictional liquidity management is expected to improve the transmission of policy impulses across the interest rate spectrum. Money, debt and foreign exchange markets have generally mirrored liquidity conditions and will follow incoming information, both global and domestic. Equity markets have displayed robust optimism and may continue to be supported by the global search for yields, although reversal in market sentiments surrounding the US monetary policy tightening remains a clear risk. Credit growth is expected to pick-up in the second half of 2014-15 as the industrial recovery gains momentum.

Box IV.1: Liquidity Projections and the New Liquidity Management Framework

The Reserve Bank's operating framework of monetary policy aims at anchoring the weighted average call rate around the policy repo rate as the first leg of monetary policy transmission. Liquidity management broadly encompasses: (a) the ability to generate precise projections of the likely evolution of the liquidity conditions driven by autonomous factors; and (b) timely use of appropriate discretionary liquidity injection/absorption measures (Table IV.B.1). Near term forecasts of liquidity incorporate full information judgement and time series estimation to capture momentum, seasonality and special factors such as festivals.

The Reserve Bank has put in place a revised liquidity management framework since September 5, 2014. Its features include: (a) assured access to liquidity of 1 per cent of NDTL (excluding ECR) in the form of bank-wise overnight fixed rate repos of 0.25 per cent of NDTL and the balance through variable rate 14-day term repos; (b) more frequent auction of term repos during a fortnight, allowing flexibility to banks to alter their liquidity assessment four times during the fortnight and participate in auctions accordingly; and (c) higher frequency of access to Reserve Bank's overnight liquidity, with the introduction of variable rate overnight repos/reverse repo auctions between 3 to 3.30 PM, besides extending the timing of ECR facility to 5 PM.

Table IV.B.1: Drivers of Liquidity Conditions

(₹ billion)

Item		2012-13	2013-14	2013-14 (Up to Sep. 6)	2014-15 (Up to Sep. 5)
A.	**Autonomous Drivers of Liquidity** (1+2+3+4)	**-1,738**	**-431**	**336**	**1,792**
1.	Net Purchases from ADs	-153	586	-771	883
2.	Currency with the Public	-1,174	-1073	-232	-422
3.	Government Cash Balance with RBI	-406	-118	1,132	1,291
4.	Others (residual)	-5	174	207	40
B.	**Management of Liquidity** (5+6+7+8) *	**1,970**	**1,550**	**-65**	**-2,512**
5.	Liquidity impact of LAF, MSF and Term Repos	-455	944	-295	-2,062
6.	Liquidity impact of OMO	1,546	523	267	-78
7.	Liquidity impact of refinance facilities	355	83	-3 7	-372
8.	First round liquidity impact of CRR change	525	0	0	0
C.	**Change in Bank Reserves # (A+B)**	**232**	**1,118**	**272**	**-720**

*: -ve sign indicates absorption of liquidity and +ve sign indicates injection of liquidity.
#: Includes vaults cash and adjusted for first round impact of CRR change.

V. Global Environment

Economic activity in the advanced economies turned up in Q2 of 2014, while in emerging market economies, it generally decelerated. Inflation in the advanced economies continues to be benign and below set targets, as economic slack persists. Several emerging market economies continue to face inflationary pressures alongside sluggish activity. Global commodity prices have eased and financial markets are buoyant, barring some volatility on geo-political tensions in early August and intermittent reactions to incoming data.

V.1 Global Economic Conditions

Global economic activity shed some of the weakness experienced in Q1 of 2014 – induced by harsh weather and inventory adjustment – and picked up modestly in Q2 on stronger consumer spending in the US and the UK. Growth in the advanced economies (AEs) is expected to firm up gradually through 2014 as financial conditions ease and monetary policy remains highly accommodative, but the recovery is vulnerable to downside risks from weak investment activity and possible escalation of geo-political tensions. Emerging Market Economies (EMEs) generally experienced deceleration of growth in Q2 – barring China on policy stimulus and India on improved business sentiment – and prospects for 2014 appear to be held back by structural constraints and subdued consumption and investment demand (Table V.1).

Table V.1:World Output and Trade Volume Growth (annual % change)

	2012	2013	2014P	2015P
World Output	**3.5**	**3.2**	**3.4**	**4.0**
Advanced Economies	**1.4**	**1.3**	**1.8**	**2.4**
United States	2.8	1.9	1.7	3.0
Euro Area	–0.7	–0.4	1.1	1.5
Japan	1.4	1.5	1.6	1.1
UK	0.3	1.7	3.2	2.7
Canada	1.7	2.0	2.2	2.4
Emerging Market Economies	**5.1**	**4.7**	**4.6**	**5.2**
Brazil	1.0	2.5	1.3	2.0
Russian Federation	3.4	1.3	0.2	1.0
China	7.7	7.7	7.4	7.1
Mexico	4.0	1.1	2.4	3.5
South Africa	2.5	1.9	1.7	2.7
World Trade Volume	**2.8**	**3.1**	**4.0**	**5.3**

P: Projections.
Source: WEO, IMF July update.

World trade growth has tracked the fragile recovery, but the recent firming up appears hesitant, having slipped behind global GDP growth since Q4 of 2011 (Table V.1). The World Trade Organization (WTO) has lowered its world trade growth forecast for 2014 to 3.1 per cent in September from 4.7 per cent in April. This is attributed to global recovery not being broad-based and unsteady in the first half of 2014, trade slowdown in major EMEs as a result of weak global recovery itself, and escalation of geo-political tensions.

Both AEs and EMEs are susceptible to **risks of reversal in sentiment** and re-pricing of risk premiums in global financial markets, especially if US long-term interest rates rise faster than expected.

V.2 Global Inflation Developments

Inflation remains subdued in the AEs. In the US, annual inflation declined to 1.7 per cent in August with core inflation remaining unchanged. Inflation in Japan increased sharply on the back of the hike in the value added tax (VAT), but moderated to 3.4 per cent in July. Excluding the impact of VAT, headline inflation was much lower at 1.3 per cent in July, with core inflation at 0.6 per cent. Euro area inflation remained unchanged at 0.4 per cent in August, primarily on account of lower energy prices. In the UK, inflation remains below the Bank of England's target of 2.0 per cent, declining to 1.5 per cent in August.

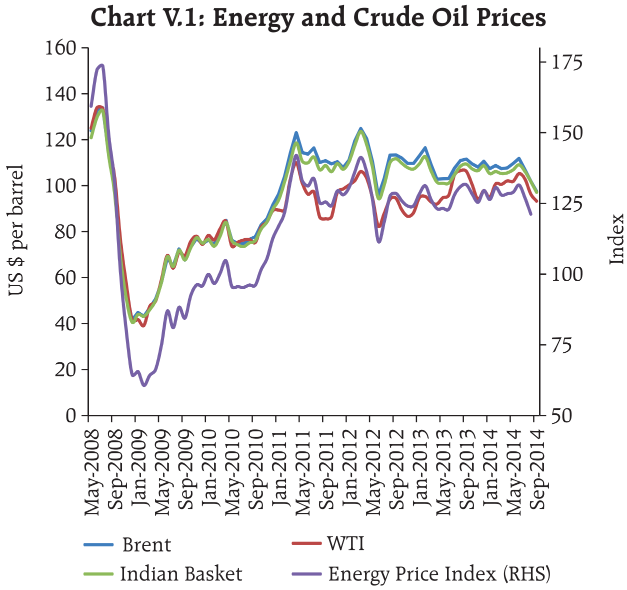
In EMEs, the picture is mixed with China experiencing lower inflation due to weakening domestic demand, while Brazil, Russia and Turkey face upside pressures due to domestic food price pressures and exchange rate depreciation. Other EMEs such as Indonesia and India have undertaken policy-driven disinflation. Unlike in the AEs, several EMEs continue to face inflationary pressures and their persistence suggests structural characteristics, warranting a broader policy strategy rather than merely front-loading of monetary policy.

World energy prices have begun to ease after remaining largely range bound during 2014, with Brent prices declining by 9.5 per cent between April and September to US $ 97.5 per barrel in September (Chart V.1). Notwithstanding risks of supply disruptions due to geo-political conflicts, global supply has held up on account of increased supplies from OPEC members and higher production in the US. Market participants expect oil prices to ease in the medium-term with Brent future contracts for December 2015 being traded at US $ 99.7 per barrel as on September 26, 2014.

Non-energy prices have also been softening since May, plateauing in July and August 2014. Global food prices, which have been declining since March 2014, fell to a seven-month low in August. This was driven by reduction in grain prices since March following plentiful harvests in the US (Chart V.2). The Food and Agriculture Organisation (FAO) forecasts stable food prices for the next 10 years.

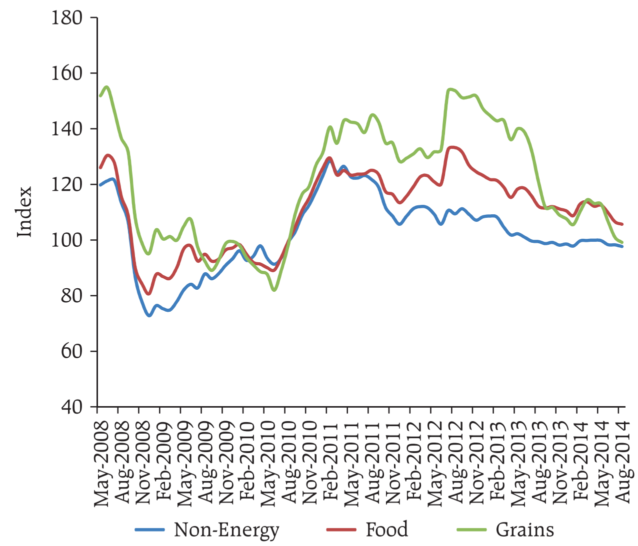
Overall, commodity prices are expected to remain stable, perhaps indicating the end of the commodity super-cycle that started in the late 1990s (Box V.1).

Chart V.1: Energy and Crude Oil Prices



Sources: World Bank, Bloomberg and Petroleum Planning and Analysis Cell.

Chart V.2: Non- energy Price Indices

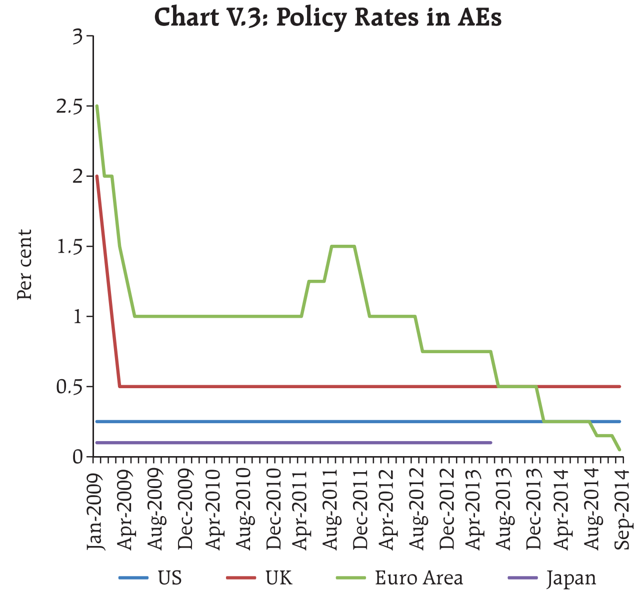


Source: World Bank

V.3 Monetary Policy Stance

With well anchored inflation conditions and sizable slack, central banks in the AEs have persevered with **highly accommodative monetary policies**, with forward guidance indicating that the policy stance will remain supportive of the recovery. In September 2014, the Fed kept its policy rate unchanged, but announced a further reduction in its asset purchases by $10 billion

Chart V.3: Policy Rates in AEs

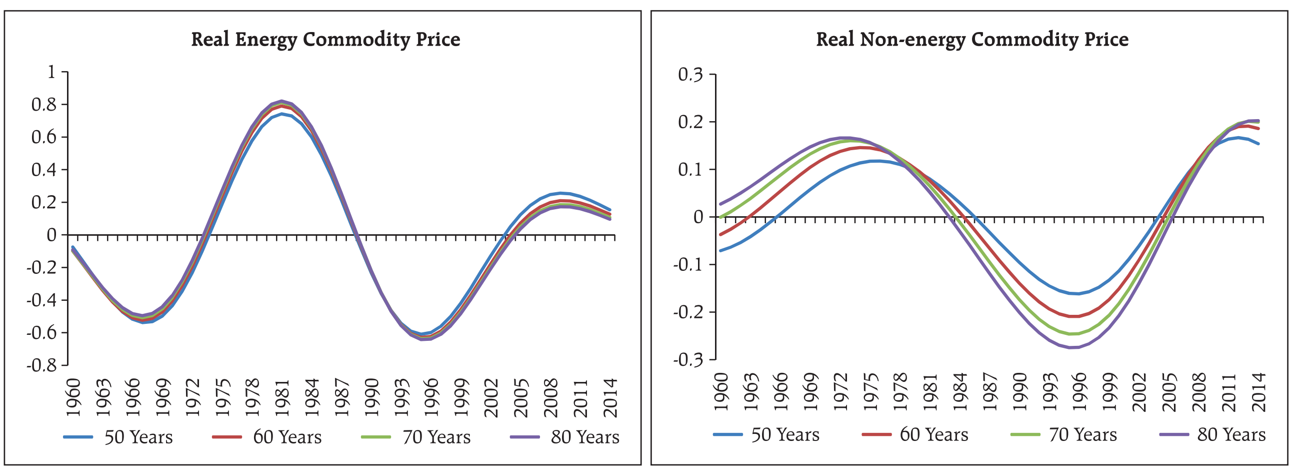


Source: Bloomberg

Box V.1: Has the Commodity Super-cycle Ended?

Commodity super-cycles are long and rapid rises in prices across commodities, propelled by persistent increases in demand outstripping supply. Since 1894, four super-cycles have been identified, with the last one starting from the late 1990s, and attributed to rapid and sustained industrialisation and urbanisation in China and other emerging economies. In this latest commodity super-cycle, inflation adjusted prices of commodities rose in the range of 60 to 500 per cent between 1999 and its peak in 2010. Oil price rose by 467 per cent, metals by 202 per cent and agricultural prices by 77 per cent - the largest price increases among all the four commodity super-cycles. Another striking characteristic of the recent super-cycle relative to its predecessors is high correlation across commodity prices and high price volatility, possibly owing to financialisation of commodity markets and increase in supply disruptions due to natural disasters. The sustained moderation in commodity prices since 2012 - across the board - from their peak levels has generated some debate around the question of whether the latest commodity super-cycle has come to an end. Given the pace of innovation and physical investment, supply-side costs are still rising due to resource depletion, while EMEs are expected to grow without any drastic reversal of commodity demand. In fact, commodity prices have occasionally shown signs of reviving more quickly than global economic activity. On the other hand, the world economy may be entering a phase of stable but secularly lower levels of growth, keeping commodity prices stable but higher than the level that prevailed before the current super-cycle phase began. Asymmetric Christiano and Fitzgerald band pass filters commonly used to identify commodity super cycles show that both real energy prices and real non- energy prices have already reached inflexion points and are turning onto on a downward phase (Chart V.B1).

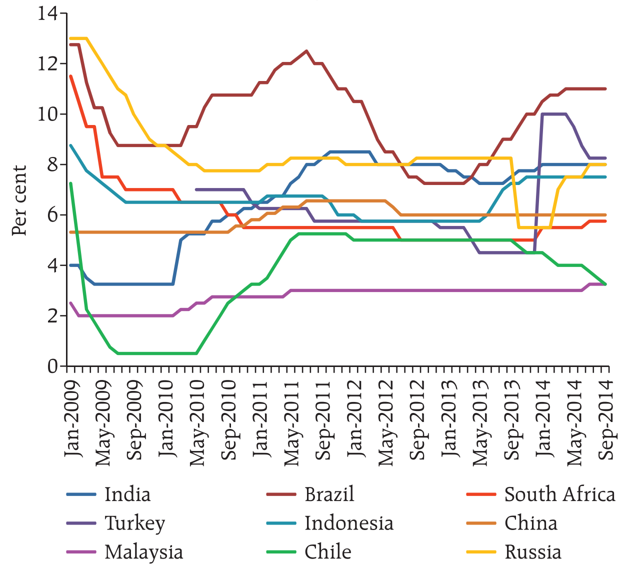
Chart V.B.1: Commodity Prices - Super Cycles



to a total of $15 billion. The ECB further reduced its key policy rate to 0.05 per cent and raised the charge on deposits to -0.20 per cent in September in order to encourage bank lending, and would start purchasing asset-backed securities and covered bonds in October. The Bank of Japan and the Bank of England have also retained high accommodation in their monetary policy stances, the former keeping unchanged the monetary base target, and the latter maintaining the policy rate and size of the asset purchase programme (Chart V.3).

In EMEs, monetary policy stances have been mixed, reflecting diverse domestic economic conditions as well as inflationary and exchange rate pressures. Turkey has started reducing its policy rate since May with improving global liquidity conditions and moderation of the impact of exchange rate fluctuations

Chart V.4: Policy Rates in EMEs



Source: Bloomberg

on inflation. Similarly, Chile has been slowly reducing its policy rate since February 2014 due to weakening domestic activity. By contrast, Russia has been on a tightening mode, raising its policy rate since March 2014 to contain inflationary pressures.

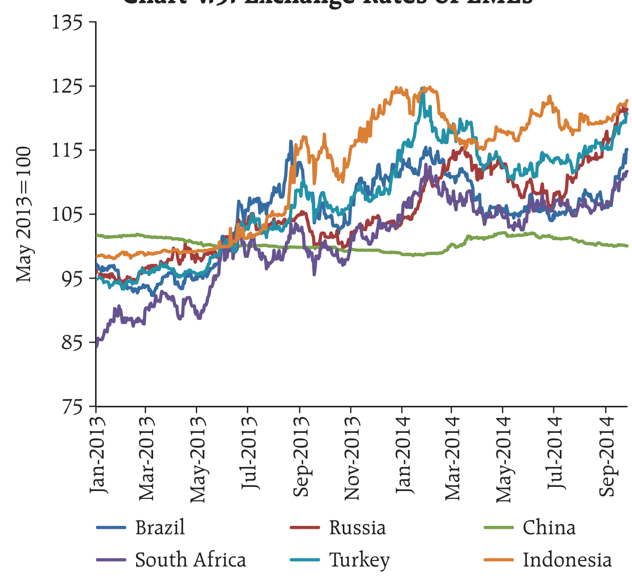
Brazil has been maintaining a high policy rate for the past several months as inflationary pressures persist, despite entering into recession. South Africa and Malaysia have also raised policy rates in July to address inflationary pressures. China and Indonesia, on the other hand, have kept their policy rates steady for the past several months (Chart V.4).

V.4 International Financial Markets

International financial markets are experiencing a generalised ebbing of volatility since early 2014 as 'taper' fears subsided, and a widening of the search for returns triggered a resurgence of capital flows. Although volatility picked up in August 2014 on geo-political concerns across bond and equity markets, losses have been recovered by early September as risk appetite was whetted by announcements of further stimulus in the Euro area. The search for returns appears to have resumed strongly while volatility has fallen back to new lows. EME financial markets have been buoyed by the reach for yields and the uptick in volatility in August proved to be a temporary aberration, accompanied by some re-pricing of risk with country-specific accents. The sharp rise in asset prices has raised the risk of financial instability in the event of an unanticipated bursting of building equity/ real estate bubbles.

The US dollar appreciated significantly against major currencies since July as conditions for recovery in the US economic activity became more favourable. In EMEs, currency markets stabilised with normalisation of capital flows, barring sporadic responses to incoming data. Reduced currency volatility also increased the attractiveness for carry trade targeting EME currencies in general (Chart V.5). The eventual reversal of carry trade poses a major risk to macro-stability.

Chart V.5: Exchange Rates of EMEs



Source: Bloomberg

In sum, **global economic slack would persist even though recovery has modestly firmed in the AEs**. Structural constraints and political tensions would mute growth in EMEs. As inflationary pressures appear benign, given the economic slack and stable commodity prices, AEs are likely to persist with their easy monetary policy stance. Among EMEs confronted with stubborn inflation experiences, the headroom for monetary policy action may increasingly become constrained by weaker than desirable economic activity. While financial markets and commodity prices would remain stable, an earlier than expected reversal in policy rate in the US could put pressures on these markets.

SPEECHES

Finance, Credit and Markets
R. Gandhi

Designing Banking Regulation in Aspiring Economies:
The Challenges
R. Gandhi

Re-emphasizing the Role of Compliance Function in Banks
S. S. Mundra

*Finance, Credit and Markets**

R. Gandhi

Finance, Credit and Markets

The role of the financial system is to intermediate between lenders and borrowers and provide avenues for saving and help investors find their financing needs. The financial markets impact growth by channeling saving to firms and improving the allocation of capital. Moreover, efficient financial markets and institutions tend to lower search and transactions costs in the economy.

2. As the industrialised nations' economies grew in the eighteenth, nineteenth and twentieth centuries, their financial systems also grew in depth and breadth. In the 19th century, London achieved its status as the world's leading financial centre, because the financial sector had developed rapidly in order to serve the needs of British industry and British exporters. Similar is the case with 20th century New York which played a similar role in relation to the American economy.

3. The relationship between financial development and economic growth is a subject of debate. Some economists just do not believe that the finance-growth relationship is important. For instance, Robert Lucas asserted in 1988 that economists badly over-stress the role of financial factors in economic growth. Moreover, Joan Robinson declared in 1952 that 'where enterprise leads, finance follows'. According to this view, economic development creates demands for particular types of financial arrangements, and the financial system responds automatically to these demands.

4. The well-known former editor of 'The Economist' Walter Bagehot expressed this in 1873 as follows 'In England, however, ... capital runs as surely and instantly where it is most wanted, and where there is most to be made of it, as water runs to find its level'.

5. However, it is now increasingly accepted that financial development has a positive effect on growth. Financial intermediation can affect economic growth by acting on the saving rate, on the fraction of saving channeled to investment, or on the social marginal productivity of investment.

6. The studies of McKinnon and Shaw in early seventies propounded that financial repression depresses growth; conversely, financial development should raise growth. A positive correlation between growth and indicators of financial development is well documented. A growing body of evidence suggests that financial institutions (such as banks and insurance companies) and financial markets (including stock markets, bond markets, and derivative markets) exert a powerful influence on economic development, poverty alleviation, and economic stability. This position holds good for India too.

7. It is imperative that our nation must achieve high economic growth to cater to growing aspirations of its people. To attain such growth large capital and efficient distribution of capital is needed which can only be possible through efficient and developed financial markets.

8. World Economic Forum has constructed an Index that measures financial development. Measures of financial development are captured across the seven pillars of the Index *viz.,* Institutional environment; Business environment; financial stability; Banking financial services; Non-banking financial services; financial market; and financial access.

9. India is ranked 40th out of 62 countries in the World Financial Development Index in 2012. India's rank in the parameters assessed in the Index is as under:

* Speech delivered by Shri R. Gandhi, Deputy Governor, Reserve Bank of India on August 26, 2014 at 'Credit Summit India 2014', organised by the Association of International Wealth Management of India and National Institute of Securities Market (NISM).

Parameter	Rank 2012
Institutional environment	56
Business environment	55
Financial stability	46
Banking financial services	45
Non-banking financial services	9
Financial markets	28
Financial access	45

10. While there may be debate on the methodology of rankings and the relative importance one may give to these rankings, it is pertinent to recognise the fact that there is tremendous scope for improvement. There is a need for working together in building more efficient financial markets.

11. Characteristics of financial markets development *inter alia* include:

a. Size of financial institutions and markets (financial depth)

b. Degree to which individuals can and do use financial institutions and markets (access)

c. Efficiency of financial institutions and markets in providing financial services (efficiency), and

d. Stability of financial institutions and markets (stability)

12. Market development is also dependent on the structure of the market and preference of savers for intermediation. In Asian economies there is a marked preference for bank intermediation. Bank-based finance has a special role to play for many economies in need of capital, and thus helps to ensure a well-balanced growth process. Benefit of bank-based finance relates to the intrinsic nature of the banking business: some projects cannot be financed directly by the market on account of significant information asymmetries between the borrowers and potential lenders. Banks can bridge this gap thanks to their comparative advantages in the assessment and monitoring of investment projects, which contributes to overcoming information asymmetries. Further, the economic literature on 'relationship banking' has demonstrated that banks can contribute to alleviating the impact of sudden economic shocks on their clients. Banks are, however, financial intermediaries that by nature add cost to the allocation of capital.

13. In Asian economies banking is a marvelous mechanism for channeling into productive investments the huge flow of household savings generated, since those countries including Mainland China, have savings-to-income ratios that are three, four, or even more times than the countries in the West. For all its potential contributions to economic growth, banking remains fragile. The high leverage combined with their 'extreme mismatch' of maturities (funding long-term assets with short-term and, in some cases, foreign currency-denominated liabilities) and reliance on demand deposits, makes them inherently vulnerable – and their economies to severe and recurring credit crunches.

14. Although banks play an important role in these economies by channeling funds from depositors to companies without access to capital markets, banking itself, says Nobel laureate Merton Miller from University of Chicago, is 'basically a 19th century technology'. Today's emerging Asian economies do not have well-developed capital markets and so remain heavily dependent on their banking systems to finance growth. However, as Miller argues, countries should develop a well fleshed out set of financial markets and associated institutions.

15. According to an Asian Development Bank's study the initiatives to develop bond markets should focus on: (i) sustaining a stable macroeconomic environment with low inflation and stable interest rates (ii) developing a healthy government bond market that would serve as a benchmark for the corporate bond market (iii) completing the post-crisis agenda of banking sector restructuring (iv) improving corporate governance (v) strengthening the regulatory framework for bond market (vi) rationalising tax treatment of bonds (vii) broadening the investor base, and (viii) promoting the growth of regional bond market centers.

Indian Debt Market

Bank Credit

16. India has the distinction of long history of both banks and capital market. Economic history of India narrates how both have been vibrant in many important cities, though Mumbai has been dominating all others. Slowly and steadily, especially after nationalisation, the banking sector has emerged as the source for investment funding.

17. In India, bank credit has been the significant contributor to the investment. Bank credit increased from ₹ 5 billion as at end March 1951 to ₹13 billion by March 1961, ₹47 billion by March 1971, ₹254 billion by March 1981, ₹1,164 billion by March 1991, ₹5,114 billion by March 2001, ₹39,420 billion by March 2011 and ₹67,352 billion by March 2014. What has been the contribution of capital market? During the 1970s, while capital market helped raising ₹10 billion worth of equity, bonds and debentures, banks extended credit worth ₹207 billion in that period. During the 1980s, the corresponding figures were ₹233 billion and ₹910 billion. In the 1990s, they were ₹1,172 billion and ₹3,950 billion respectively and in 2000s they were ₹2,115 billion and ₹34,206 billion respectively. In 2013-14, it was ₹556 billion and ₹9,556 billion respectively.

18. While the capital market has been disappointing, the private placement market in the past twenty years has been good. Though the issues thereat had been predominantly in the form of bonds and debentures, the growth in size has been very reassuring. It gained popularity from mid 1990s; from 1995-96 to 2000-01, this market raised ₹752 billion, in the next ten years, it helped raise ₹7,614 billion and in 2013-14, this market raised ₹3,899 billion.

19. Thus, the primary engine for Indian investments is the credit market. Despite all our efforts to develop corporate debt market, and calibrated increase in foreign capital, credit market remains the bulwark of Indian investment scenario.

OTC Market

20. In India, the small size of the OTC derivatives market, low level of complexity in products and regulatory structure that mandates that validity of any OTC derivative contract is contingent on one of the parties to the transaction being a regulated entity, resulted in orderly derivatives market development and lessened the concerns with regard to systemic risk. The OTC derivative products were introduced in a phased manner keeping in view the hedging needs of the real sector. The Reserve Bank has focused on improving transparency and reducing counterparty risk in the OTC derivatives markets and fostered development of robust market infrastructure for trading, settlement and reporting of transactions. As India is committed to implementation of the G-20/FSB reforms, reasonable progress has been made in implementing the OTC derivative reform measures in India. The status of reforms is as under:

- **Standardisation**: The process of standardisation is planned to be undertaken gradually. CDS transactions are standardised in terms of documentation, coupon, coupon payment date, *etc.* IRS on Overnight Index Swap have been standardised from April 1, 2013. Other benchmarks in IRS would be standardised in a phased manner.
- **Central clearing**: Calibrated steps towards central clearing of OTC derivative transactions are being taken. More than 70 per cent of IRS trades currently being centrally cleared without regulatory mandate. CDS market is still developing and it may take more time to achieve the necessary market activity to support central clearing of CDS transactions. Timeframe for guaranteed settlement of CDS will be mandated after a critical level of volume is attained.
- **Exchange or electronic platform trading**: Electronic platforms are available for transactions involving repos in Government securities, IRS, forward rate agreements and foreign exchange

forwards. Report of the Working Group on Government Securities and Interest Rate Derivatives Markets (Chairman: Shri R. Gandhi) has also recommended introduction of an electronic swap execution facility (electronic trading platform) for the IRS market, and consider introduction of a CCP which may provide guaranteed settlement of trades executed through the electronic platform.

- **Reporting to trade repositories**: As per existing regulatory guidelines, banks and primary dealers report IRS/FRA and foreign exchange derivatives transactions on CCIL reporting platform. With regard to CDS, all market makers must report all trades (including client trades) on the CCIL's reporting platform. Presently, client trades in IRS are also being reported by banks.

Conclusion

21. I am sure in this Summit, you will all be discussing the credit investment, market infrastructure, the various opportunities and challenges that the credit investment market offers and how to benefit out of this important segment of the financial market. I wish you all useful deliberations.

22. Thank you all for your attention.

*Designing Banking Regulation in Aspiring Economies: The Challenges**

R. Gandhi

Prof. Suresh Aggarwal, Head of the Department of Business Economics, University of Delhi, delegates to this flagship 41st Annual Convention of the Department and students participating in the convention–very good morning! It is an honour for me to be here today to deliver the inaugural address of the convention. The convention provides a valuable platform for interaction between the industry and academia on various current issues relevant to creating conducive business and growth environment. Banking is the backbone to the development of trade, investments and business in any country and provides crucial credit and payment infrastructure and services to an economy. In this backdrop, I thought that it may be appropriate for me to dwell on the main features of the Indian banking regulatory firmament, specifically, on how the Reserve Bank has tailored its regulatory stance and the banking regulation framework to suit the evolving needs of the economy and disparate stages of economic development. My address today, therefore, traces the evolution of banking regulation in India since independence to highlight the main thought process behind it as well as the challenges ahead in banking policy formulation.

What and why of Banking Regulation

2. Banks are special and therefore, exposed to special risks and challenges. In the course of fulfilling their primary function of financial intermediation they are intricately connected with various other drivers propelling growth and stability in the real sector. Banks are conduits for monetary policy transmission and serve as the backbone for credit creation and payments and settlement systems. Also, banks are highly leveraged institutions and function in fiduciary capacity. Therefore, the more immediate motivations for banking regulation are the protection of the depositors' interest and maintaining public confidence in the banking system. Banking regulations also aim at building efficiency and resilience of the banking system on the one hand and address the concerns that arise from the functioning of the financial system. Financial risks are more dynamic than static and assume more intrepid forms with the evolution of the banking functions, products and financial innovation, increased functional integration and decentralisation. Contagion and systemic risk, moral hazard, too big to fail phenomenon, public bailouts of banks are some of the issues that came under sharp scrutiny following the global financial crisis that erupted in 2008. As such banking regulation assumes critical significance to retain the resilience and soundness of the banking entities on the one hand and the macro-prudential stability of the financial system as a whole on the other and thereby also prevents volatility and disruptions in the real sector and the overall economy. Then, there are, of course, the structural and developmental issues relevant to a particular economy and the financial system which, in a large part, provide the backdrop for the regulatory measures.

3. Banking regulation can take the form of formalised legislation and statutory provisions, regulatory directions and guidelines, moral suasion, *etc.* Different times, evolutionary stages in banking and the various financial and banking crisis have all influenced the regulatory form and substance from time to time. World over, regulation for the banking sector has gone through cycles which range from prescriptive to principle based to a less pervasive format allowing the market

* Keynote address delivered by Shri R. Gandhi, Deputy Governor, Reserve Bank of India at the 41st Annual Convention of the Department of Business Economics, University of Delhi on September 29, 2014 at India Habitat Centre, New Delhi. Assistance provided by Ms Anupam Sonal is gratefully acknowledged.

mechanism to take precedence (market oriented form of regulation), from structural restrictions to micro and macro-prudential regulation, *etc.* As the effectiveness of traditional control based rules diminishes with increasing competition, liberalisation, globalisation and innovation, ongoing regulatory reform assumes great significance. The recent global financial crisis demonstrated the overwhelming need for evolving commensurate banking regulation as also the need for the regulatory reform process to remain ahead of the developments in the banking functions, products and services.

4. I intend to give you a peep into the contextual circumstances that led to the regulatory measures in the Indian banking sector, as also the rationale for considering these important reforms and/or changes. While one of the prime thought in this context has always been the need to align the Indian policy measures and regulatory guidelines with the international best practices, the different stages of economic growth in the country have had an important bearing on the regulatory process in the banking sector.

Banking Regulation in Emerging Market Economies (EMEs)

5. An emerging market economy (EME) is an economy that has some characteristics of a developed economy but is not yet a developed economy; it has aspirations to be a developed economy one day; it has certain distinct characteristics and differs from developed economies in multifarious ways. An EME is as an economy with low to middle per capita income with dominance of the proportion of the global population. EMEs are typically classified as emerging because of the relatively recent initiatives at development and reforms and beginning to open up their markets and 'emerge' on to the global scene. EMEs are expected to be fast-growing economies; the need for, as also the level of savings, investments, both domestic and foreign, consumptions and rate of growth are all expected to be higher and much faster due to the smaller base effect.

6. Accordingly, the EMEs have their specific economic and developmental needs and agenda. The global banking regulatory standards, or for that matter, the regulatory framework for any other financial sector segment is designed more to suit the needs and the level of development in the advanced economies. The fundamental reason for this is their dominant presence and role in the global standard setting fora as also the more advanced stages of their financial sector development including the higher level of complexity, variety and sophistication of financial products and services innovated/offered in these economies. However, the existing financial intermediaries and the available financial products and services in the EMEs often fall grossly short of meeting the requirements of higher and faster growth, savings, investments *etc.* Moreover, the requirements of funding infrastructure and social sectors, as also the real sector, are unprecedented, particularly in view of the serious constraints on funding, muted investor and international confidence, under developed condition of the social and public institutions, lower levels of appropriate skills, specialisation and expertise, *etc.* The risks and volatility emerging from the foregoing are equally large and often alien to the EME milieu. That is why the regulatory standards, often designed keeping in view the ground realities in the advanced economies, may not also always be a perfect fit for the emerging economies and the EMEs use national discretion in this respect while at the same time making sincere attempts at aligning their regulatory framework with the global best practices.

Evolution of Banking Regulation in India

7. The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the RBI Act, 1934. This marked the culmination of the prolonged

efforts, to set up a central bank in the country. The principle of aligning the regulatory structure to the specific needs of the country and for that matter to even go beyond the prevalent wisdom and ethos were distinctly visible at that time itself. Despite the Reserve Bank being constituted as a central bank, it was thought fit to prescribe in the statute itself a development role for the Reserve Bank. Accordingly, the Act has a provision that the Reserve Bank will develop and maintain expertise in agricultural development (later expanded as rural development) and related subjects and thus began the role of the central bank being sensitive to the need of the economy.

8. Private banks were then on the scene, though the money lenders were the major source of funding. A usurious and exploitative system prevailed. As such, after independence in the year 1947, the Indian banking industry was brought under the regulatory ambit of the Reserve Bank of India with the passing of the Banking Companies Act in the year 1949. Later, in March 1966, certain co-operative societies were brought within its fold and this act was renamed as the Banking Regulation Act, 1949 (BR Act). This enactment brought significant powers to the Reserve Bank of India (RBI) over the banks. Though anointed as the regulator, the Reserve Bank was, is and will be conscious of its responsibility to be alive to the aspirations of the economy.

Promotional and Developmental role of the Central Bank in India

9. The basic function of the Reserve Bank, according to the preamble of the Reserve Bank of India Act, is to regulate the issue of Bank notes and the keeping of the reserves with a view to maintaining monetary stability in India and generally to operate the currency and credit system of the country to its advantage. This function imposes on the Reserve Bank the responsibility for:

- Operating the monetary policy for maintaining price stability and ensuring adequate financial resources for developmental purposes;
- Promotion of the efficient financial system; and
- Meeting the currency requirement of the public.

10. In the process of discharging these responsibilities, the Reserve Bank over the years acquired a wide range of promotional and developmental roles. The Government's efforts to accelerate and sustain growth of the economy through planned development process and to realise its socio-economic goals also warranted a complimentary role from the Reserve Bank. The First Five Year Plan emphatically stated, that 'central banking in a planned economy can hardly be confined to the regulation of the overall supply of credit or to a somewhat negative regulation of the flow of bank credit. It would have to take on a direct active role of, firstly, in creating or helping to create the machinery needed for financing developmental activities all over the country and secondly, ensuring that the finance available flows in the directions intended'.

Establishment of Specialised Institutions

11. In order to meet this mandate that devolved outside the objectives defined in the RBI Act, 1934, in the years of the Five Year plans beginning from 1950-51, the Reserve Bank embarked upon a number of specialised initiatives. These included establishment of a well defined structure of credit institutions to promote savings and capital formation and to widen and deepen flow of agricultural and industrial credit.

12. Apart from furthering the development of cooperatives to provide short-term credit to agriculture, the Reserve Bank established a separate institution, *viz.*, the National Bank for Agriculture and Rural Development (NABARD) for provision of medium-term and long-term refinance for agriculture and rural development as also for providing consultative service

to the Government and banks and generally coordinate its activities in area of agricultural credit with those of the agencies engaged in purveying such credit. Further, in the absence of an active capital market, the Reserve Bank actively assisted in setting up of several specialised financial institutions at all India and also regional level, to widen the facilities for term-finance to industry and for institutionalisation of savings. This included establishment of Industrial Finance Corporation of India (IFCI), State Financial Corporations, Industrial Development Bank of India (IDBI) and Unit Trust of India (UTI). In order to provide a safety net for the small depositors and to encourage commercial banks and other financial institutions to grant loans to various categories for small borrowers, the Reserve Bank promoted the Deposit Insurance and Credit Guarantee Corporation of India Limited (DICGC) for providing insurance and guarantees against the risk of default in payment by the banks or to the banks.

13. Further, the Reserve Bank also helped establish specialised institutions for specific type of financing, like National Housing Bank (NHB) and Export Import Bank of India (EXIM Bank). For ushering in market making in government securities and treasury bills, the Reserve Bank established the Discount Finance House of India (DFHI) and the Securities Trading Corporation of India (STCI). The Reserve Bank also helped promote market infrastructure institutions like the Clearing Corporation of India Ltd (CCIL) and the National Payment Corporation of India Ltd (NPCI).

Expansion of the scope and reach of the Indian banking system

14. Even though, up to the late 1960's the Indian banking system made reasonable progress, there were still many rural and semi-urban areas which were not served by banks. The large industries and the big and established business houses tended to enjoy a major portion of the credit facilities, to the detriment of the priority sectors such as agriculture, small-scale industries and exports. Thus, with the primary objective of achieving efficient distribution of resources in conformity with the requirements of the economy and in order to meet the needs of the priority sectors, the Government decided to introduce social control over banks by amending the banking laws. Accordingly, on July 19, 1969 and April 15, 1980 respectively, 14 and six major Indian scheduled commercial banks in the private sector were nationalised. Social control marked a transitory stage in the evolution of banking policy and in this process; a system of credit planning and the Lead Bank Scheme were operationalised by the Reserve Bank to make the banking system function as an instrument of economic and social development.

15. In conformity with these desired objectives of social control, the banking policy was reoriented in the seventies for securing a progressive reduction in poverty, concentration of economic power and regional disparities in the banking facilities. The promotional aspects of the banking policy came into greater prominence. In this direction, the branch expansion policy was designed, among other things, as a tool for reducing inter-regional disparities in banking development, deployment of credit and urban-rural pattern of credit distribution. Administered interest rate policy emerged as an important instrument for directing the flow of funds and for augmenting the pace of deposit mobilisation. The Reserve Bank opted for selective extension of credit under the Selective Credit Control scheme to those sectors that were accorded priority in conformity with the national objectives. The objective was to correct undue price fluctuations in respect of certain commodities such as food grains and agricultural raw materials arising from speculative activities. The main instruments of Selective Credit Control were a) minimum margins for lending and b) ceilings on the level of credit against stocks of selected commodities to control the quantum of credit given.

16. The period since 1985 was a process of consolidation which involved, i) comprehensive action plans by banks covering organisation, structure, training, house-keeping, customer service, credit management and recovery of bank dues, productivity and profitability, ii) phased introduction of modern technology in banking operations with emphasis on financial viability by easing some of the policy related constraints on profitability, iii) strengthening capital base of banks and iv) allowing them flexibility in several areas.

17. By the end of eighties, the Indian economy had developed an extensive financial superstructure consisting of a vast network of institutions, deploying varied instruments and facilitating the mobilisation and channelling of funds for working capital and production credit purposes as well and for long term investment. The Reserve Bank thus helped promote and nurture a functionally varied and spatially diversified financial system.

Financial Sector reforms of 1990s–new Economic Policy Regime

18. In the economic planning phase initiated in April 1951, which postulated financial and physical controls for rapid economic and social developments, the financial system was increasingly called on to meet the financial needs of the economy. Commercial banks were subjected to interest rate controls and regulations such as the pre-emptions in forms of cash reserves ratio (CRR) and statutory liquidity ratio (SLR), directed lending, prescription of norms governing credit dispensation. The CRR and SLR that together imposed a marginal pre-emption of around 28 per cent of bank deposits in 1951, increased to 63.5 per cent in 1991. In addition, credit allocation at concessional rates at designated priority sectors constituted a major portion of bank credit and over time, this rose upto 40 per cent.

19. Though the steps initiated post 1951 propelled development of resource mobilisation and deployment relative to the pre 1951 period, several distortions, rigidities and weaknesses crept into the financial system which hindered it from playing its role in ushering in a more efficient and competitive economy. The efficiency, productivity and profitability of the banking system were severely challenged. Banks became saddled with a large volume of non-performing assets. The acceleration in economic growth witnessed in the eighties was also associated with macro–economic imbalances and persistence of structural rigidities. By 1990, against the background of the weak macro-economic situation with rising inflation, high fiscal deficit, low economic growth and unsustainable current account deficit, the Gulf war precipitated the balance of payments crisis. This led to loss of international confidence and as a consequence international commercial borrowing dried up and non-resident Indian deposits recorded net capital outflows. The foreign exchange reserves touched a low of US $1 billion (roughly equal to two week's imports) in June 1991. Besides, by August 1991, inflation had reached a peak of 17 per cent on annualised basis. These factors coupled together put pressure on India in meeting its international commitments.

20. The situation called for strong measures towards macro-economic stabilisation and removal of structural rigidities. As a response, an intensive reform programme for developing a competitive environment as a means of improving productivity and efficiency of both the economic and financial system was initiated. Deregulation of the real sector and removal of the license and permit system that was prevalent in and constrained almost all spheres of production and domestic trade were a part of these initiatives. It was, however, recognised that the financial sector reform was a necessary concomitant to the trade and industrial policy liberalisation.

21. An overhaul of the Indian financial system was initiated as part of the structural reforms. In August

1991, the GOI set up a high-powered Committee on the Financial System (CFS) under the Chairmanship of Shri M. Narasimham, to examine all aspects relating to the structure, organisation, functions and procedures of the financial system and made wide- ranging recommendations which formed the basis of financial sector reforms relating to banks, development financial institutions (DFIs) and the capital market in the years to come. The Committee's recommendations aimed at improving the allocative and functional efficiency of the banking sector while putting in place a vibrant, diversified, competitive and efficient system.

22. During the first phase (1991-92 to 1997-98) of reforms, several mutually reinforcing measures were initiated with focus on strengthening the commercial banking sector by applying prudential norms, providing operational flexibility and functional autonomy as also strengthening of the supervisory practices. The important measures undertaken during this period covered adoption of capital adequacy norms to strengthen the capital base of the banks, strengthening the IRAC (Income Recognition and Asset Classification) norms to enable realistic assessment of the asset quality of banks; phased reduction in the SLR and CRR to augment the lendable resources of banks; rationalisation and gradual deregulation of interest rates for inducing competitiveness; permitting new players in the banking sector to enhance competition and granting greater flexibility in branch expansion. Another important aspect of the reforms in this phase was new institutional arrangements like setting up of the Board for Financial Supervision (BFS) within the Reserve Bank in 1994 for strengthening the arrangements for monitoring and supervision of banks, especially in view of the increased risks faced by banks in the liberalised environment; instituting a state of-the-art Off-site Monitoring and Surveillance (OSMOS) system for banks in 1995 as part of crisis management framework for Early Warning System (EWS) and as a trigger for on-site inspections of vulnerable institutions; operationalisation of the Banking Ombudsman Scheme for expeditious and inexpensive resolution of customer complaints against deficiency in banking services and compilation and dissemination of credit information so as to contain incidence of fresh NPAs. Several other channels of NPA management were also instituted including Lok Adalats, Debt Recovery Tribunals (DRTs), Corporate Debt Restructuring Mechanism and Asset Reconstruction Companies (ARCs) for strengthening credit appraisal and recovery framework.

23. The focus in the second phase (1998-99 and beyond) was on further strengthening of the prudential norms in line with the international best practices, improving credit delivery, strengthening corporate governance practices, promoting financial inclusion, strengthening the urban co-operative banking sector and improving the customer service. The experience of banks facing asset-liability mismatches in the South East Asian countries during 1997, underlined the need for putting in place sound asset liability management (ALM) practices. The ALM framework was, therefore, complemented with guidelines on risk management. One of the significant achievement of this phase was the introduction of comprehensive policy framework of ownership and governance in private sector banks in February 2005 to ensure that (i) ultimate ownership and control was well diversified; (ii) directors and CEO and the important shareholders were 'fit and proper' and observed sound corporate governance principles; (iii) private sector banks maintained minimum net worth of Rs.300 crore for optimal operations and for systemic stability; and (iv) policy and processes were transparent and fair.

Impact of the Financial Sector Reforms

24. The reforms had the desired outcome of strengthening the banking sector; providing more operational flexibility to banks, enhancing the

competitive efficiency, and strengthening the legal framework governing operations of banks. In addition, the reform measures had a major impact on the overall efficiency and stability of the banking system in India. The outreach of the banks increased in terms of branch/ ATM presence. The balance sheets and overall banking business also grew in size. The financial performance of Indian banks improved, as reflected in their profitability. Following the 1st phase of reforms, the performance of nationalised banks particularly, showed significant improvement. In the second phase, the capital position improved significantly and banks were able to bring down their non-performing assets sharply. As the asset quality began to improve, banks also started expanding their credit portfolio which included increase in the flow of credit to the agriculture and SME sectors. Intensified competition however, narrowed down the margins. But despite this, banks improved their profitability among others, due to increased volumes and improvement in asset quality. Return on assets improved from 0.39 at the beginning of reforms in 1991-92 to 0.50 in 2001 -2002. The reform phase also witnessed increased use of technology which in turn, helped improve the customer service in banks.

25. During the period of reforms, conforming to international standards and best practices was the primary driver. It is equally true that the economy's difficult situation in the beginning and the liberalising, globalising and growing economy also dictated such an approach.

Shift towards Macro prudential Regulation

26. The reform process did not cease with the second phase of reforms but remained a progressive ongoing practice in the Indian banking system. The most significant among these and much applauded in the aftermath of the financial crisis have been the macro prudential policies. Globally, the financial crisis brought to the fore, only recently, the concept of macro prudential regulation of the financial system. However, in India along with the measures detailed in the foregoing paras, there was a gradual shift towards macro prudential financial regulation as early as 2004 itself. The Reserve Bank made use of the countercyclical policies since 2004 as a toolkit for addressing systemic risk and ensuring financial stability though it had used them sporadically even earlier.

27. The instruments used to address the time dimension of the systemic risk have been time varying risk weights and provisioning norms on standard assets for certain specific sectors wherein excessive credit growth, in conjunction with sharp rise in asset prices, has caused apprehension of potential build-up of systemic risk and asset bubbles. In the process, the policies have 'leaned' against the wind and have had the desired effect of moderating the credit boom in the specified sectors both through signaling effect and affecting the cost of credit.

28. As regards the cross sectional dimension of the systemic risk which deals with the interconnectedness issues, various measures have been undertaken such as, prudential limits on aggregate interbank liabilities; restricting the access of uncollateralised funding markets only to banks and PDs and stipulating caps on lending and borrowing; restricting the banks' investments in the capital instruments of other banks; stipulation on banks' exposure to NBFCs and MFs and close monitoring of systemically important NBFCs and financial conglomerates; restrictions on unbridled innovation in financial products; enhancing transparency and addressing risks in OTC transactions by operationalising reporting platforms and CCP arrangements.

Current Approach to Banking Regulation and Reforms and the Challenges involved

29. Given these realities, the needs for the financial sector reforms and regulatory development in India do

not necessarily converge with those felt in the developed nations. Risks emanating from the EME financial sector are also diametrically different from those emerging from those in the advanced economies. In the emerging economies, it is the limited spread of the financial sector as well as the constrained and or underdeveloped/lower capacity in terms of the products, services and institutions that subject these economies to various financial risks, as against the advanced economies where the risks emanate from the sheer scale and volumes of financial transactions, size, connectivity and systemic importance of the financial institutions, sophistication and complexity of the financial products and services *etc.*

30. The need for the financial development and regulatory reform remains as strong as ever in emerging markets. Instead of innovating complex and sophisticated products and instruments or setting up financial behemoths, the EMEs require to focus more on the fundamental financial sector elements such as financial stability, strengthening and creating sound banking systems, widening the scope and reach of the formal financial system and services, expanding financial inclusion and enhancing financial literacy, improving monetary policy transmission as also developing and deepening the financial markets (such as corporate bond markets and basic currency derivatives) and making them more liquid, *etc.* As such the financial development and regulation has to be aligned to these specific needs of the emerging market economy financial system.

31. One of the most critical aspects of reforms in the Indian financial sector, was the deliberate strategy of 'cautious gradualism' so that the pace of reforms remained specific to the nature of the Indian financial system in terms of its maturity, absorptive capacity and the stage of development and was neither too fast or abrupt to disrupt the very structure of the financial system nor too slow as not to have a meaningful impact. This approach encompassed small and steady doses of reform push, coupled with a close and continuous monitoring of impact and preparedness for taking mid-course correction, if required. The reform measures in the banking sector were coordinated with those in other areas and even within the banking sector, the measures were well sequenced, with an unwavering focus on stability.

32. On the one hand, while, since the early years of 2000, the Reserve Bank has embarked on a dedicated effort at reconciling its guidelines with the Basel Accords and chosen to be more conservative on many of the prudential norms in comparison to the global standards, it has also retained its national discretion on some of the regulatory aspects so as not to disrupt and instead encourage the flow of credit to sectors crucial for growth. Some such divergences, whether sub-equivalent or super-equivalent, are discussed below:

Capital requirement and Leverage Ratio

33. The RBI implemented Basel III requirements *w.e.f.* April 1, 2013. Under Basel III too in India, the minimum capital requirements has been retained at 9 per cent of Risk Weighted Assets as against Basel III requirements of 8 per cent. Leverage Ratio requirement is proposed to be at 4.5 per cent as against Basel III proposal of 3 per cent. In India, the real sector is predominantly dependent on the banking sector for credit needs. Any disruption in provision of credit supply from banks may be catastrophic for the economy. Further, the extant external credit ratings provided by the credit rating agencies to bank loans which determine the risk weight and capital for those exposures under the Basel II Standardised Approach for credit risk, suffer from various gaps and weaknesses. In view of the forgoing, it is desirable to reduce probability of bank failures by having additional capital. The Basel Committee for

Banking Supervision (BCBS) provides flexibility to national regulators to prescribe higher minimum capital requirements. Several other jurisdictions (*e.g.* Singapore, China, South Africa, Brazil, Australia *etc.*) have also prescribed higher capital requirements than 8 per cent of the risk weighted assets. Incidentally, the Reserve Bank has prescribed higher capital requirements even under Basle II.

34. However, capital and leverage ratio prescriptions at levels higher than the global standards can have constraining effect on the supply of adequate credit from banks to the productive sectors which in turn, can adversely impact growth to some extent raising questions of trade-off between growth and banking stability. Further, questions have been raised about requiring banks to mobilise additional capital, given the huge capital needs and a lackluster capital market. This compels us to take a balanced view about continuing with the additional requirements to ensure banking resilience by having adequate cushion towards identified weaknesses and the practical difficulties the banks face.

Exposure Norms–the Group borrower limits

35. Exposure norms for banks in India are as follows: for a single borrower, it is 15 per cent of the bank's capital funds and for borrowers belonging to a group, 40 per cent of the bank's capital funds. The present guidelines also allow banks to exceed the norm with respect to a single borrower and group borrower by an additional 10 per cent and 15 per cent respectively, for extension of credit to infrastructure projects and in exceptional circumstances. Apart from this, there are specific prudential norms for bank finance to NBFCs, call money/notice money borrowing and lending and inter-bank liabilities, *etc.* BCBS in the Standards published on Supervisory framework for measuring and controlling large exposures' (the BCBS Standards) in April 2014 have stipulated that the sum of all the exposure values of a bank to a single counterparty or to a group of connected counterparties must, at all times, not be higher than 25 per cent of the bank's available eligible capital base. As per the Standards, the eligible capital base is also revised to the effective amount of Tier 1 capital only.

36. In India, our effort has been to harmonise our guidelines with the international best practices and converge the same with the global prudential norms/ standards. However, India, being an emerging economy with limited sources of funds to finance the growth process, relatively smaller capital base of the Indian banks as also fewer number of corporate groups which can take up big ticket infrastructure and manufacturing projects and sudden growth in their size, has certain typical compulsions to meet. Funding requirement for development of the infrastructure sector in India is huge. During the 12th five year plan, starting in the current year, this requirement is estimated to be approximately US$1 trillion or Rs 61 lakh crore. Currently, a huge chunk of this financing responsibility is borne by the banks. The banking sector exposure to the infrastructure sector has grown from 3.61 per cent of total bank credit as on March 2003 to approx 15.09 percent of the total bank advances as on March 2014[1]. The group borrower limit in India is substantially larger in our country than the international norms due to the developmental needs of the country. Keeping the group borrower limit at the level of single borrower limit, that too related to Tier I than the total capital will severely constrain the availability of bank finance (which is the major source of finance in India) to these corporate groups and the infrastructure sector and thus hamper the growth of the economy. Stricter group exposure limits would also leave surplus lendable resources with banks which may result in adverse selection. At the same time, high exposures to specific businesses or

[1] Source: Handbook of Statistics on Indian Economy – 2013-14

business groups impairs stability and results in excessive concentration of credit. Thus, while we are aware of the need to reduce the group borrower limit, we have to take a considered view as to what extent and how smoothly this can be brought down going forward without adversely impacting the growth prospects of the economy.

Liquidity Standards – treatment of the SLR holdings

37. During the early 'liquidity phase' of the financial crisis that began in 2007, globally many banks faced unprecedented difficulties despite adequate capital levels. The Basel Committee on Banking Supervision (BCBS) recognised that such difficulties were due to lapses in basic principles of liquidity risk management. In response, as the foundation of its liquidity framework, the BCBS in 2008 published Principles for Sound Liquidity Risk Management and Supervision ('Sound Principles'), which provide detailed guidance on the risk management and supervision of funding liquidity risk. To complement these principles, the BCBS further strengthened its liquidity framework by developing two minimum standards for funding liquidity, *viz.*, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) to achieve two separate but complementary objectives. While the LCR's objective is to promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high-quality liquid assets to survive a significant stress scenario lasting for one month, the NSFR is aimed at promoting resilience over a relatively longer time horizon (one year) by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing basis.

38. Following the issue of final standards by BCBS, the Reserve Bank of India issued its final guidelines on 'Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards' on June 9, 2014. The RBI's guidelines have taken into account the range of HQLAs available in Indian financial markets and their liquidity *vis-à-vis* the liquidity instruments prescribed in the BCBS standard. The balance sheets of Indian banks have adequate liquid assets due to the CRR and SLR requirements of 4 per cent and 22 per cent respectively of a bank's NDTL. Any additional HQLA requirement on banks over and above CRR and SLR may reduce banks' capacity to meet the growing credit needs of the economy. It also reduces competitiveness of banks in India *vis-a-vis* their international counterparts. Keeping this aspect in view, Government securities to the extent of 2 per cent of NDTL *i.e.,* those currently allowed under marginal standing facility (MSF), have been allowed to be included as Level 1 HQLAs in India. Further, eligible common equity shares with 50 per cent haircut have been allowed to be included as a Level 2B HQLAs in RBI guidelines.

Counter Cyclical Capital Buffer

39. In the aftermath of the financial crisis in 2008, BCBS published *Guidance for national authorities operating countercyclical capital buffer* (CCCB) to propose a framework for dampening excess cyclicality of minimum regulatory capital requirements with the aim of maintaining the flow of credit from banks to the real sector in economic downturns with the capital accumulated in good times. Moreover, in good times, while the banks will be required to shore up capital, they may be restrained from extending indiscriminate credit. In Indian context, its implementation may have to be well calibrated by recognising structural changes in banking system due to financial deepening and the need for separating the structural factors from cyclical factors. Accordingly, it has been envisaged that while the credit-to-GDP gap shall be used for empirical analysis to facilitate CCCB decision, other indicators like Gross Non-Performing Assets' (GNPA) growth, Industrial Outlook Survey, Credit to Deposit Ratio, *etc.*, will also be considered in India.

Accounting Norms and IFRS implementation

40. Some of our prudential guidelines on key areas such as investment classification and valuation norms, impairment recognition and loan loss provisioning as well as securitisation are indeed at variance with international accounting norms. However, these guidelines were framed keeping the Indian financial system in perspective. Some of them are more conservative than international practices. For instance, we do not allow the recognition of unrealised gains in investment portfolios while requiring that unrealised losses be provided for. Similarly, we require banks to provide for standard assets even where there are no signs of impairment. While these have served us well, as our financial system develops we may have to harmonise our guidelines with international requirements.

41. At their summit in London in 2009, the G 20 leaders called on 'the accounting standard setters to work urgently with supervisors and regulators to improve standards on valuation and provisioning and achieve a single set of high-quality global accounting standards'. The International Accounting Standards Board (IASB) has now replaced IAS 39 with IFRS 9 with a view to reduce complexity and improve convergence.

42. With India having made a commitment to converge to IFRS and the Finance Minister's Budget announcement of the mandatory preparation of financial statements by companies (other than banks, insurance and NBFCs) on the basis of IFRS converged Indian Accounting Standards (Ind AS) from FY 2016-17 onwards, the RBI is in advanced stages of finalisation of a roadmap for banks and NBFCs in consultation with various stakeholders. The main challenges for Indian banks would be system changes, implementation of an expected loss impairment model and skilling human resources. Issues also arise on account of the interaction of the regulatory and accounting frameworks. For instance, apart from the complexities of an expected loss model, transitioning from an incurred loss to an expected loss model may also potentially adversely affect capital adequacy. Similarly, the introduction of a fair value through other comprehensive income (FVOCI) category coupled with the removal of the regulatory filters under Basel III may also potentially introduce volatility in the capital. In order to address implementation issues and facilitate a smoother transition, the RBI has set up a Working Group comprising professionals with experience in IFRS implementation, bankers and RBI staff engaged in regulation and supervision.'

KYC and AML Standards

43. The international standards for KYC/AML/CFT are set by the Financial Action Task Force (FATF) and the Reserve Bank issues KYC/AML/CFT guidelines mainly on the lines of FATF recommendations. However, irrespective of the FATF recommendations covering many areas, the Reserve Bank issues instructions to banks only if there are enabling provisions in Prevention of Money Laundering Act/Rules 2002. Thus, for example, Recommendation 17 of FATF provides for third party verification of KYC, subject to certain conditions. In India, we had not allowed it until enabling provisions were brought in the PML Rules by the Government in August 2013. Similarly, in terms of Recommendation 12 of FATF, banks/FIs are required to take reasonable measures to determine whether a customer or beneficial owner is a domestic Politically Exposed Person (PEP) and if so are required to take certain enhanced customer due diligence procedures, *etc.* Since the Government has not taken a decision in this regard/incorporated this in PML/Rules, the RBI has not instructed banks/FIs to follow the FATF recommendation.

Conclusion

44. To conclude, designing banking regulations for an aspiring economy has to carefully factor difficult realities and calibrate its policies. While on some the regulations have to conform to international standards, norms and best practices, on certain other issues the regulations will have to be designed using national discretion and consciously be different from such standards and norms. Enlightened self interest will have to be the guide post. In the Indian context, our past experience of and learnings from such deviations are our additional guide posts. Reserve Bank is ever conscious of this position.

Thank you.

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*Re-emphasizing the Role of Compliance Function in Banks**

S. S. Mundra

Shri G. Gopalakrishna, Director, CAFRAL; Shri P. R. Ravi Mohan, Chief General Manager-in-Charge, Department of Banking Supervision, Reserve Bank of India and the conference participants! It is a pleasure for me to deliver the keynote address at this Conference of senior representatives of the compliance departments of commercial banks. Across the globe, it is an accepted fact that compliance is an area that warrants considerable attention. In recent times, the emergence of compliance function as an area of greater focus is an acknowledgement of the damaging impact of non-compliance, not only on an entity's own reputation but, more broadly, also on the confidence in the system. Regulators, supervisors and international standard setters have become increasingly cognizant of the fact that merely enacting rules and regulations is a futile exercise unless these are complied with, both in letter and spirit, by the regulated entities. Not surprisingly, on account of a bigger push from the regulators/supervisors, the compliance function has assumed massive significance within the bank's internal structure and organisation. In my address today, I intend to talk about the relevance of compliance function within the bank's overall business strategy, operations and conduct and re-emphasise some of the key elements of the compliance framework that we would want to see in practice in our banks.

* Keynote address by Shri S. S. Mundra, Deputy Governor, Reserve Bank of India, at the CAFRAL Conference of Chief Compliance Officers in RBI, Mumbai on August 27, 2014. Assistance provided by Ms. Ranjana Sahajwala in preparation of this address is gratefully acknowledged.

Background

2. It has been some time now since the Global Financial Crisis first broke in 2008, extending its impact across the globe over time. Indeed, complete recovery of the financial system from the strenuous impact of the Crisis is yet to be accomplished. The years since the Crisis have extensively been dedicated by international standard setters and domestic authorities to both enhancing and reorienting financial sector regulations to ensure the sector's resilience in the face of present and future problems. However, even while standard setters and regulators have remained engaged in plugging the regulatory loopholes, several instances of misconduct on the part of banks continue to come to light, which keep reminding us of the need to refocus on the issue of 'compliance' in banks. Let me, therefore, begin by highlighting some of these recent instances of misdemeanors by banks in compliance-related matters which have had debilitating consequences in the form of massive penalties.

Global Episodes

3. i) In 2012, JP Morgan Chase & Co was involved in the so-called 'London whale' trades in the bank's 'Synthetic Credit Portfolio' comprising of credit default swaps and related instruments. The bank's trading strategy, which intended to serve as a hedge against credit risk, was unscrupulously used by its traders to build risky positions, thereby raising doubts about the efficacy of the internal compliance process. In a scathing indictment of the internal control and compliance machinery, Jaime Dimon, the CEO of J P Morgan remarked, 'Chief Investment Office, particularly the Synthetic Credit Portfolio, should have gotten more

scrutiny from both senior management, and I include myself in that, and the Firm-wide Risk control function. . . . . Make sure that people on risk committees are always asking questions, sharing information, and that you have very, very granular limits when you're taking risk. . . . . In the rest of the company we have those disciplines in place. We didn't have it here.'[1] The bank eventually lost more than US$ 6 billion and ended up paying US $920 million in penalties for settling probes by the UK and US investigators. As the losses piled up, the bank also misled investors and public through incorrect disclosures and withheld information from the regulators.

ii) Also in 2012, HSBC Holdings was hauled up by regulators of three jurisdictions for Anti-Money Laundering (AML)/Combating Financial Terrorism (CFT) violations in transferring money illegally through its subsidiaries. Several lapses were identified in HSBC's AML compliance which included ignoring internal warnings on inadequacy of internal monitoring systems, mis-categorisation of Mexico as a 'low risk' country leading to transactions being exempt from detailed monitoring, *etc.* A fine of US$ 1.9 billion was imposed on HSBC Holdings.

iii) Another gross misdemeanour that surfaced in 2012 involved long term manipulation of the LIBOR rate by multiple banks. The investigations revealed that the rate contributions made by banks to determine the sacrosanct benchmark rate, which is used to settle trillions of dollars of loans and transactions worldwide, was being consistently and deliberately wrongly reported by several banks (Deutsche Bank, Societe Generale, Citigroup, Royal Bank of Scotland, Barclays, UBS, J P Morgan Chase), over a period of time, for monetary gains, in violation of market standards and codes. The manipulated submissions were made with the intention to mislead and present a healthier outlook than the actual position of banks' credit quality, profitability and ability to raise funds. Penalties ranging from US$ 1 to 3 billion were imposed on the banks.

iv) In May 2014, the Federal Reserve Board imposed a US$100 million penalty on Credit Suisse for unsafe and unsound practices as well as a failure to comply with the banking laws governing its activities in the US. A 'cease and desist' order requiring the bank to promptly address deficiencies in its oversight, management, and controls governing compliance with the US laws has also been issued.

v) More recently in August 2014, Standard Chartered Bank has been penalised US$ 300 million by the Department of Financial Services, US for its failure to remediate AML compliance problems, as required in the 2012 settlement with the New York State Department of Financial Services (NYDFS). The bank had failed to review high-risk transactions even two years after the 2012 settlement, where it had agreed to reform its practices. Other sanctions and the requirement of further enhancing due diligence for AML compliance have also been

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[1] Report of JPMorgan Chase & Co. Management Task Force Regarding 2012 CIO Losses (http://files.shareholder.com/downloads/ONE/2272984969x0x628656/4cb574a0-0bf5-4728-9582-625e4519b5ab/Task_Force_Report.pdf)

imposed. Way back in 2012, NYDFS had observed that the bank was permitting US$ transactions with certain restricted countries and had also hidden such transactions from the regulators. It was alleged that the bank's actions left the US financial system vulnerable to terrorists, corrupt regimes and deprived law enforcement investigators of crucial information used to track all manner of criminal activity. The bank agreed to pay a negotiated penalty with an express agreement to reform its practices with regard to monitoring of high-risk transactions, which it failed to do till 2014.

Domestic Incidents

4. Closer home, instances of non-compliance have also troubled the Indian banking sector. Let me recount some instances:

i) A few years ago, in 2007-08, several banks were found involved in mis-selling complex derivative products to unsophisticated and naïve customers, blissfully unaware of the risks involved in these products. Guidance on customer suitability and appropriateness provided in the RBI's comprehensive guidelines on derivatives were ignored by banks in their pursuit of business and profits. Penalties were imposed on several banks.

ii) In 2013, several Indian banks were penalised by the RBI for non-adherence to certain KYC/AML requirements such as customer identification procedure, risk categorisation, periodical review of risk profiling of account holders, periodical KYC updation, KYC for walk-in customers, *etc.*

iii) Non-compliance with set rules, both regulatory and internal, has also resulted in a rise in the number of frauds in banks. In July 2014, the RBI imposed penalties on 12 banks for their non-compliance with regulatory guidelines in the conduct of the loan and current accounts of M/s Deccan Chronicle Holdings Ltd. These lapses on the part of banks facilitated the company in defrauding the banks.

iv) More recent instances of some banks having been embroiled in frauds and misappropriation relating to the fixed deposits created by them have come to light. These frauds could be attributable to a possible lack of adequate due diligence and non-adherence to internal norms and procedures.

5. The above examples of compliance failures not only raise issues of confidence and business ethics and cast a negative reputational impact, but also lead to deleterious outcomes in the form of losses, fines and penalties, strictures and restrictions. The reputational risk emanating from events of non-compliance and the consequent imposition of penalties needs to be viewed seriously.

Increasing significance of compliance

6. Post crisis, considerable progress has been made in enhancing and refining regulatory/supervisory standards, the gradual implementation of which will be achieved in stages till 2019. An important aspect of the reform measures is a greater focus on ensuring compliance with the standards across jurisdictions on a sustained basis. The compliance function is where all this comes together - ensuring that all applicable rules, regulations and standards are adhered to and implemented coherently, consistently and in the right spirit.

7. At the global level, international standard setters such as the Basel Committee on Banking Supervision

(BCBS) and the Financial Stability Board (FSB) have now put in place peer review mechanisms to ensure that national jurisdictions comply with international standards in right measure and spirit. These are in addition to the existing assessments of compliance of jurisdictions to international standards done by the International Monetary Fund/World Bank, under the Financial Sector Assessment Programs. Within national jurisdictions, regulators/supervisors and financial sector entities have realised the significance of the compliance function in ensuring good conduct of business at the entity level and facilitating a safe and sound banking system at the systemic level. Consequently, assessment of compliance is increasingly being focused on in supervisory oversight.

Is compliance a specific risk area?

8. The Basel Committee on Banking Supervision, in its guidance 'Compliance and the Compliance function in banks', issued in April 2005 states 'the compliance function is an *independent function* that identifies, assesses, advises on, monitors and reports on the bank's *compliance risk*, that is, the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking activities'.

9. What is the 'compliance risk' referred to above? Is it an independent risk that banks need to manage just as they manage credit risk, market risk or operational risk? Is it a subset of another risk or is it simply a function that needs to be performed as part of banking business? In the era of traditional banking business, simple products, and intense regulation, compliance was relatively simple. Banks had to comply with the provisions of the specific Acts and regulations set by the regulators. Compliance then could be identified simply as a function to be discharged as part of business. However, with globalisation, liberalisation, increased adoption and integration of IT in the business processes along with the introduction of new, innovative and complex products, the compliance function has gained in stature and significance. While compliance may still not be considered an independent 'risk' function, over the last few years, it has definitely evolved as an independent function in banks that impacts other risk/s.

10. Compliance is generally considered to be a part of operational risk. Under Basel II, operational risk is defined as 'the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk' (Basel Committee on Banking Supervision 2006, p. 144). Legal risk itself is defined as 'including, but… not limited to, exposure to fines, penalties or punitive damages resulting from supervisory actions, as well as private settlements' (Basel Committee on Banking Supervision 2006, p. 130). From this definition of legal risk one can see that compliance risk forms part of it and consequently is also considered to be a part of operational risk under Basel II/III.

What does compliance entail?

11. Let me now elaborate upon what compliance function really entails. In the present day context, compliance function encompasses several dimensions. I will discuss some of these in detail:

i) **Prudential and regulatory compliance**

Prudential and regulatory compliance includes compliance with directives and guidance of the regulator. For banks, this includes regulations emanating from the various departments of RBI, for example, regulations relating to income recognition, asset classification, provisioning, restructuring, capital adequacy, liquidity, disclosures, priority sector lending, exposure norms, *etc.*

For banks whose activities transcend the other segments of the financial sector (whether carried out departmentally or through subsidiaries) compliance with applicable regulations of other domestic regulators, *viz.* Securities and Exchange Board of India (SEBI), Insurance Regulation and Development Authority (IRDA), Pension Fund Regulation and Development Authority (PFRDA) also form part of prudential and regulatory compliance. For banks that have overseas operations in the form of branches, subsidiaries or joint ventures, compliance with prudential and regulatory norms of host country regulators is also important.

ii) Integrity and market conduct

In order to ensure the integrity of the financial system and to guard against its misuse for illegal purposes, compliance with AML and CFT rules has assumed great significance globally. The AML/CFT rules are based upon the Financial Action Task Force recommendations. It is incumbent upon banks to diligently ensure compliance with these rules. AML/CFT compliance in banks is assiduously assessed by regulators/ supervisors to ensure that the safety and soundness of the institution and whole of the financial sector is not being compromised on account of non-compliance with these rules.

Market conduct guidelines are also issued by various self-regulatory organisations within the financial sector. In India, we have the Banking Codes and Standards Board of India, Indian Banks Association, Foreign Exchange Dealers Association of India (FEDAI), Fixed Income Money Markets and Derivatives Association of India (FIMMDA), *etc.* that provide guidelines/guidance on various aspects relevant to the structuring of banking products . Such guidance, being based on good market conduct, also needs to be complied with. I must also sound a note of caution here. The inability of the financial market players to ensure fair treatment to consumers and their indulgence in unfair market practices has forced some of the jurisdictions to create a separate market conduct regulator. This has happened in UK, France, Australia and South Africa and there is no reason why it could not be replicated in India, if we did not mend our ways quickly. A separate regulator would mean additional regulatory and compliance burden for the banks. This should give you an added incentive to comply with the current regulations.

iii) Legal compliance

Compliance with various applicable laws and rules relating to the setting up of banks, tax laws and other legal enactments form an important part of compliance. In India, for example, compliance with the applicable provisions of the Banking Regulation Act 1949, Reserve Bank of India Act 1934, Foreign Exchange Management Act 1999, *etc.* is mandatory.

iv) Internal compliance

The prudential and regulatory compliance requirements, market conduct and integrity standards, and legal compliance requirement coupled with bank specific issues all culminate in various internal rules and policies. In recent times, there has been a growing trend towards encouraging banks to create their own internal control framework through a network of policies and procedures that would be best suited to meet the specific needs of the organisation. It is crucial for banks to ensure that internal compliance is adhered to with the same commitment as required for ensuring prudential, regulatory as well as legal compliance. No doubt, the primary position relating to internal compliances rests with the business area/unit within the bank. However, a pro-active role by the compliance function will provide strong impetus to internal compliance as well.

RBI guidelines on compliance function in banks

12. In 2007, the RBI issued guidelines to banks on the compliance function based on the Basel Committee guidance. The guidelines articulated the minimum requirements for putting in place an effective compliance function in banks. The guidelines also intended to guide bank-led 'Financial Conglomerates' in managing their 'Group wide compliance risk'. Acknowledging the significant differences among banks with regard to their scale of operations, their risk profiles and organisational structures, the guidelines exhorted banks to organise their compliance functions and set priorities to manage their compliance risks.

13. The guidelines stipulate that the compliance function has to necessarily be an integral part of governance framework along with the internal control and risk management process. Further, for the function to be effective, it is necessary that compliance is not merely viewed as a responsibility of an individual or a department, but is supported by a healthy compliance culture within the organisation. The guidelines clarify that the compliance function should have the right of direct access to the Board of Directors or to the Audit Committee/other Committee of the Board. Further, the Board or the Audit Committee or the special Committee of the Board could meet with the head of compliance at suitable intervals to assess the extent to which the bank is managing its compliance risk effectively. Thus, there is equal emphasis on ensuring independence of the compliance function and ensuring that it pervades all activities of the enterprise. .

14. The guidelines provide for having in place a Board approved compliance policy, a clear structure for the compliance department/unit, quality, tenure and location of compliance staff and the responsibility of the Board and senior management in ensuring an effective compliance culture in the bank. Banks need to nominate Chief Compliance Officers to function as the nodal point of contact between the bank and the regulator.

15. It is heartening to note that all banks in India now have in place dedicated compliance personnel, a compliance unit or a full-fledged compliance department depending upon their size and business. In many banks, the compliance unit/department is a separate unit with interaction/cooperation mechanisms for interaction with the risk management department and direct reporting lines to the Board/

Committee. I only urge proactive action from the compliance department personnel and support from bank managements in nurturing a thriving compliance culture within their respective organisations.

RBI assessment of efficacy of compliance process in banks

16. As I mentioned earlier, compliance assessment is an integral part of supervisory oversight. Over the last few years, increasing attention is being paid by the RBI on the extent, nature and quality of compliance by banks to various applicable rules and regulations; both under the annual financial inspection (AFI) process as well as the recently introduced risk-based supervision (RBS) process. In both approaches, compliance assessment plays an important role in the final rating assigned to a bank.

i) **Compliance review under AFI**

Under the AFI process, a detailed review of the compliance function, its working and the status of bank's compliance with extant statutory, legal, regulatory, market conduct and other applicable Acts is undertaken. Based on the key deficiencies, a Monitorable Action Plan (MAP) is prepared for each bank in consultation with the bank, laying down action points, clear deliverables and timelines. The progress made by the bank in achieving compliance is closely monitored by the RBI.

ii) **Compliance review under RBS**

Starting 2013, the supervision of several banks is being undertaken under the RBS approach. One of the key assessments made under RBS is the extent of a bank's compliance to the existing statutes, regulations and norms. Specific information relating to a bank's compliance with various laws, rules and regulatory guidelines is called for from the bank (Tranche 3 information), which is assessed off-site, supplemented by a subsequent on-site review. Based on the compliance risk identified, a Risk Mitigation Plan (RMP) is prepared for each bank in consultation with the bank, laying down the roadmap for mitigating identified risks with clear timelines. RMPs are rigorously monitored by the RBI.

Conclusion

17. Let me conclude by underscoring the need for a sound compliance function in a bank. The compliance function is at the center of value creation in a bank, strengthening public confidence, preserving and enhancing its reputation, and maintaining the integrity of its business and management. In effectively performing this function, in my view, compliance needs to be supported unconditionally through engagement from the top, which includes the Board and the senior management. The 'tone from the top' would set the pace for a sound compliance culture that values honesty and integrity. This would also entail strengthening the edifice of the function, which includes a well-rounded compliance structure with appropriate IT and quality HR resources in terms of number of qualified staff, training and skill development, independence, interaction with other areas and clear and direct reporting. Another crucial element for the success of compliance function is inculcation of strong ethics within the organisation, which can override profit motive and business target considerations.

18. Finally, from the regulator's perspective, compliance is absolutely non-negotiable. Full

compliance with all applicable laws, rules and regulations is a must. This belief has to find roots at the top and steadily percolate to all levels in a bank. Going forward, the compliance function in banks will need to play a greater and more proactive role in business operations as well as risk management. Let me remind that the cost of non-compliance has been steadily rising as seen from the instances I recounted earlier.

Before I close, I would like to once again thank CAFRAL and Shri Gopalakrishna for inviting me to this Conference and wish the deliberations all success.

Thank You!

ARTICLES

Monthly Seasonal Factors of Select Economic Time Series, 2013-14

Performance of Private Corporate Business Sector, 2013-14

Performance of Financial and Investment Companies, 2012-13

House Price Index: 2010-11 to 2013-14

*Monthly Seasonal Factors of Select Economic Time Series, 2013-14**

Analysis of seasonal behavior helps in differentiating between the seasonal changes and long-run changes of economic time series, which is useful for understanding the underlying economic phenomenon. This article presents the estimated monthly seasonal factors of selected 85 economic/ financial time series from broad sectors, namely, Monetary and Banking; Price; Industrial Production; External Trade and Services Sector, covering the period 2004-05 to 2013-14. The exercise revealed gradual decline in variation of seasonality in major monetary aggregates. For Scheduled Commercial Banks (SCBs), the seasonal variation of Aggregate Deposits and Credit showed moderation in recent period. Seasonality in WPI-All commodities remained low during the reference period. Within WPI, 'Primary Articles' exhibited more seasonal variation than 'Manufactured Products'. Seasonality in different CPI series have been stable in the recent years but consistently higher than WPI-All Commodities. Seasonality of IIP-General Index increased steadily over the reference period. Merchandise export is found to have higher seasonal variation than merchandise import post 2007-08.

Introduction: Economic time series, when measured at an interval less than a year, exhibits seasonal fluctuations around its annual trend. Such repetitive seasonal variations can occur due to climatic conditions, production cycle characteristics, seasonal nature of economic activity, festivals, vacation practices etc. Even seasonality, being integral part of data generating process, its magnitude may vary from year to year. Analysis of its direction and magnitude is useful in interpretation of movements of economic variables over time. Seasonal adjustment, *i.e.,* removal of seasonal effects, helps differentiate between the seasonal changes and long-run changes in the variables and is useful from the policy perspective in understanding the underlying economic phenomenon. The predictable recurring of seasonal fluctuations also allows the economic agents to setup policies or measurements to attenuate the impact. In this context, monthly seasonal factors for selected economic and financial time series of the Indian economy are being regularly published in the RBI Bulletin since 1980[1].

2. Data Coverage and Methodology

For estimating and analysing the seasonal factors, 85 monthly economic/financial time series covering (i) Monetary and Banking Indicators (17 series); (ii) Wholesale Price Index (WPI) (26 series); (iii) Consumer Price Index (CPI) (3 series); (iv) Industrial Production (30 series); (v) External Trade Sector (3 series) and (vi) Services Sector Indicators (6 series) have been considered in this article.

The reference period was broadly considered from April 1994 to March 2014, *i.e.,* last 20 years. For some series, the reference period was less than 10 years depending on the availability of consistent time series data.

The seasonal factors have been estimated using X-13ARIMA-SEATS software package developed by the US Bureau of Census[2], taking care of Diwali as major festival as well as trading day effects. The seasonality of the series is further subjected to various parametric and non-parametric statistical test procedures for their statistical significance.

3. Salient Findings

Seasonal Variation during Last Ten Years (2004-05 to 2013-14)

The average monthly seasonal factors over the last ten years (2004-05 to 2013-14) are presented in Table 1. The annual estimates of dispersion in seasonal factors, in terms of range (difference between peak and trough values of Seasonal Factors (SF) during a year), during the period, are presented in Table 2. The classification of variables as per range of seasonal factors during 2013-14 is provided in Table 3. The list of top-twenty and bottom-twenty series based on the average range of seasonal factors, during last five years (*i.e.,* 2009-10 to 2013-14) and the corresponding peak

* Prepared in the Modeling and Forecasting Division of the Department of Statistics and Information Management, Reserve Bank of India, Mumbai.

[1] The previous article in the series was published in October 2013 issue of the Reserve Bank of India, Bulletin.

[2] http://www.census.gov/srd/www/x13as/

and trough months are presented in Table 4. The salient features of observed seasonal variation over the reference period for some of the selected series during the last ten years are briefly discussed below.

3.1 **Monetary and Banking Indicators**

3.1.1 The following chart (Chart 1) exhibits the peak (blue) and trough (red) of monthly seasonal factors of Broad Money (M3) for every year in the secondary axis and their difference known as range(green) in the primary axis. Range of a series shows the change in seasonal variation over the period. Rest of the article explains the variation in seasonality by plotting the range of important economic series over time.

3.1.2 Seasonal variation in Broad Money (M3) was observed to be lower than Currency in Circulation, Narrow Money (M1) and Reserve Money (RM) over the years. After showing upward movement till 2006-07, the range of M3 declined gradually (Table 2).

3.1.3 The seasonal variations of aggregate deposits (SCBs) and Non-Food Credit (SCBs) exhibited similar movements for the entire reference period while the range of estimated seasonal factors for Aggregate Deposits always remained lower than Non-Food Credit. The seasonality of these two series exhibited downward movement since last couple of years. Seasonality in Investment indicated an increasing pattern (Table 2 and Chart 2).

3.1.4 Within aggregate deposits, demand deposits of SCBs witnessed higher seasonal fluctuations than Time Deposits of SCBs, which remained stable within the narrow band of 1.4 to 2.0 (Table 2). Seasonality of demand deposits remained within the range of 12.9-14.2 till 2008-09 and started declining steadily thereafter.

Chart 1: Peak and Trough values of seasonal factors and corresponding range: Broad Money (M_3)

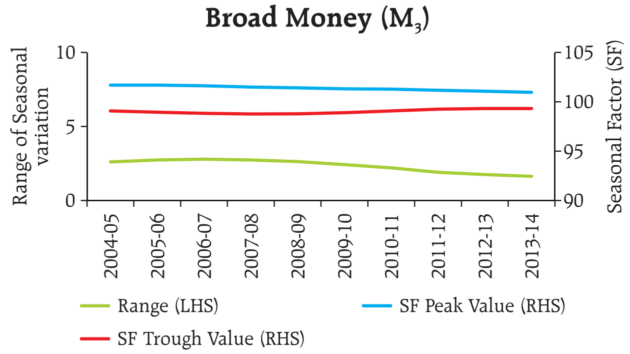
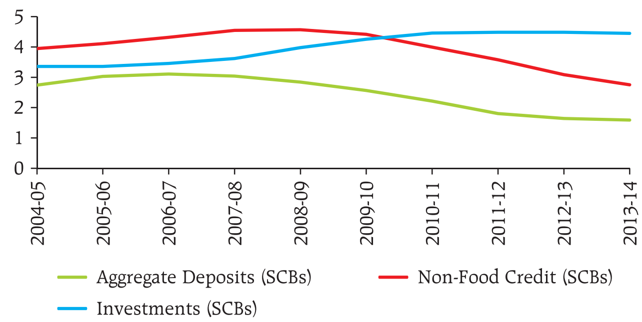


Chart 2: Ranges of Seasonal Factors of Aggregate Deposits, Non-Food Credit and Investment of SCBs



3.2 Wholesale Price Index (WPI)

3.2.1 The range of seasonal factors of WPI-All Commodities increased from 1.4 in 2004-05 to 1.7 in 2007-08, and thereafter, reverted to 1.1 in 2010-11 before the gradual increase to 1.4 in 2013-14 (Table 2). The seasonality in 'Primary Articles' prices was more than three times the seasonality in WPI-Manufactured Products. Also, during the last four years, seasonal variation for WPI-Manufactured Products narrowed down against gradual increase in WPI-Primary Articles (Table 2 and Chart 3).

3.2.2 Within the Primary Articles group, the seasonal variation in WPI-Food Articles increased from 4.9 in 2004-05 to 6.8 in 2013-14 whereas it ranged between

Chart 3: Ranges of Seasonal Factors of WPI of Primary Articles and Mfg. Products

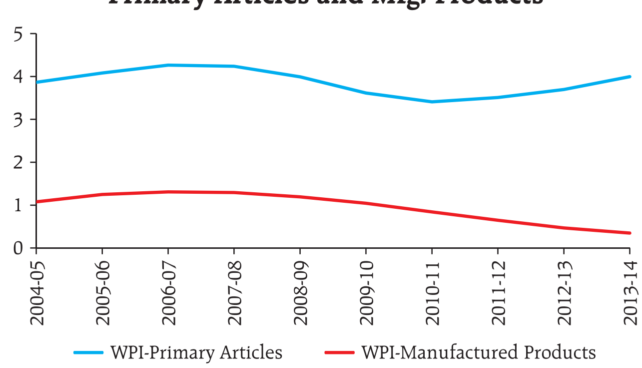


Chart 4: Ranges of Seasonal Factors of WPI of Food Articles and Non-Food Articles

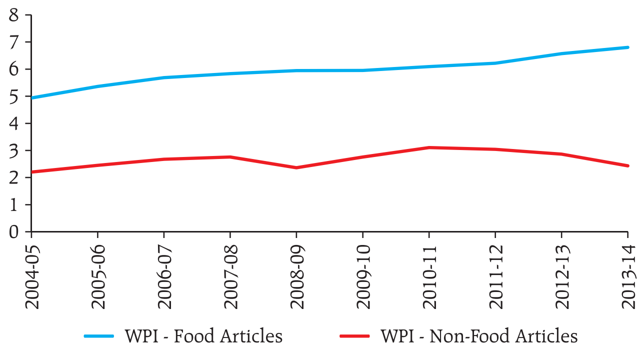
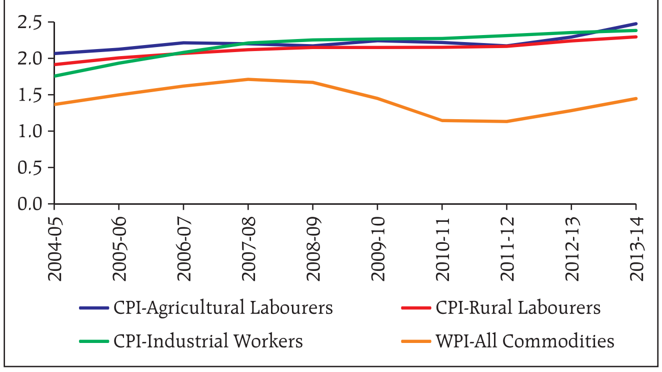


Chart 6: Ranges of Seasonal Factors of CPI-AL and CPI-RL, CPI-IW and WPI



2.2-3.1 for WPI-Non Food Articles during the reference period (Table 2 and Chart 4).

3.2.3 Within the WPI-Food Articles, the pulses group displayed more seasonal variation than the Cereals group. Both WPI-Cereals and WPI-Pulses exhibited stable seasonality in the range of around 2 and 5 respectively (Table 2 and Chart 5).

3.3 Consumer Price Index (CPI)

3.3.1 In the case of CPI for Agricultural Labourers (AL) and Rural Labourers (RL), similar movement in seasonal variations was observed during the last ten years with CPI-AL having slightly higher variation than the CPI-RL. The seasonality of different CPI series were consistently higher than WPI-All Commodities. The difference between the seasonal variations of CPI series and WPI-All Commodities have however, widened after 2008-09 (Table 2 and Chart 6).

3.4 Industrial Production

3.4.1 Seasonal variation of IIP-General exhibited slight upward movement during the reference period. Among the three major sectors of IIP, (*viz.*, Mining, Manufacturing and Electricity), IIP-Mining and IIP-Electricity exhibited the highest and lowest seasonal variation respectively with IIP-Mining showing an upward trend. IIP-Manufacturing displayed similar seasonality as IIP-General (Table 2 and Chart 7).

3.4.2 Among the use-based classification goods, IIP-Consumer Non-durable goods exhibited highest seasonality, whereas IIP-Intermediate Goods was the only group where seasonality has reduced over the years and it showed lowest seasonal variations throughout the reference period, except for 2008-09 and 2009-10 (Chart 8). Seasonal variations in IIP for Basic goods and Consumer goods have increased in recent years.

Chart 5: Ranges of Seasonal Factors of WPI of Cereals and Pulses

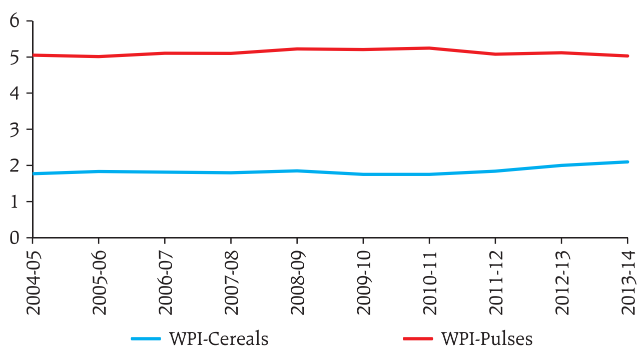


Chart 7: Ranges of Seasonal factors of IIP-Overall and Sectoral

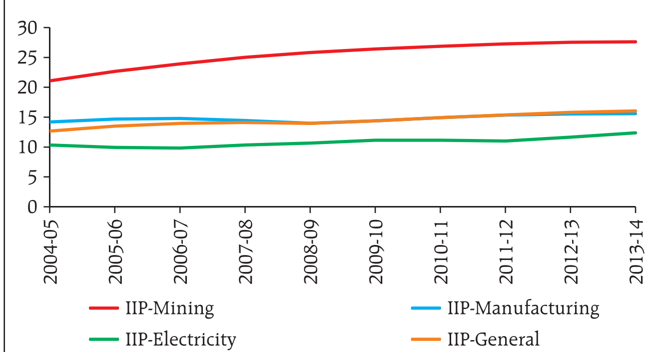


Chart 8: Ranges of Seasonal Factors of IIP-Use-based Classification of Industries

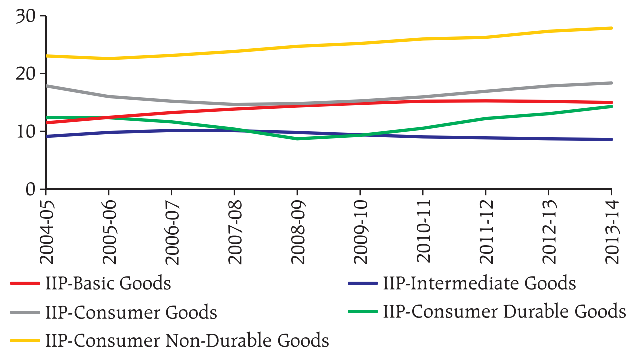
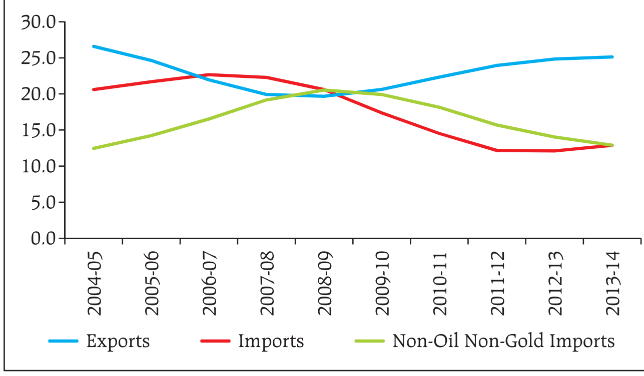


Chart 9: Range of Seasonal Factors of Export, Import and Non-Oil Non-Gold Imports



3.4.3 The seasonal variations of production of 'Cement' and 'Steel' exhibited opposite movements during 2004-05 to 2013-14 with higher magnitude of seasonality in Cement than Steel .The seasonality in 'Production of Commercial Motor Vehicles' decreased from 37.4 in 2004-05 to 28.6 in 2007-08 and thereafter increased steadily to 31.6 in 2013-14 (Table 2).

3.5 Services Sector Indicators

3.5.1 Over the reference period, seasonality in 'Railway Freight Traffic' was higher as compared to that of 'Cargo Handled at Major Ports'. The seasonal variation of 'Railway Freight Traffic' gradually increased from 19.9 in 2004-05 to 21.6 in 2013-14 whereas seasonal variation of 'Cargo Handled at Major Ports' decreased from 18.0 in 2004-05 to 15.0 in 2013-14. In last 5 years, the gap in seasonality is widening between these two series (Table 2).

3.5.2 The seasonal variation of passenger flown in Domestic area has increased over the years compared to passenger flown internationally (Table 2).

3.6 External Trade (Merchandise)

The seasonal variation in export was higher than import except during 2006-09. The gap between variations of seasonality increased in subsequent years. Non-Oil Non-Gold Import and total merchandise import have shown similar seasonality (Table 2 and Chart 9).

4 High and Low Seasonal Variation

Based on the average range of monthly seasonal factors during last five years (*i.e.* 2009-10 to 2013-14), External trade data and Services Sector indicators have exhibited highest seasonal volatility followed by industrial production (IIP General and its components) while seasonal variations of WPI and CPI have been found to be lower than other series. Money and Banking series have shown lower seasonal variability relatively. Comparing seasonal variability of all 85 series, 'IIP-Food products and beverages', 'IIP-Fabricated metal products, except machinery & equipment', 'Coal Production', 'Sales of Commercial Motor Vehicles' and 'Production of Commercial Motor Vehicles' have exhibited high seasonal variation. On the other hand, 'WPI-Grain Mill Products', 'WPI-Rice', 'WPI-Non-Food Articles', 'WPI-Protein Items (*viz.*, Pulses, Milk, Egg, Meat and Fish) Group' and 'WPI-Food Grains (Cereals and Pulses)' have shown low seasonal variation. (Table 4).

5 Post Crisis: Seasonal Variation

It was observed that, out of 85 series the seasonal variation for 39 series increased post crisis (after 2008-09). The series with substantial increase in seasonal variation post crisis are mainly from production related except some of the directly affected Money and banking series like 'Assets with Banking System (SCBs)' and highly inelastic price related series like 'WPI-Sugar'.

Table 1: Average Monthly Seasonal Factors of Selected Economic Time Series

Series/Month	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
1	2	3	4	5	6	7	8	9	10	11	12	13
A.1.1 Broad Money (M3)	101.4	100.9	100.2	100.2	99.8	99.7	99.7	99.4	99.1	99.3	99.6	100.7
A.1.1.1 Net Bank Credit to Government	101.7	101.5	101.1	101.8	100.9	99.6	99.2	99.6	97.2	98.7	98.6	100.3
A.1.1.2 Bank Credit to Commercial Sector	101.7	101.5	101.1	101.8	100.9	99.6	99.2	99.6	97.2	98.7	98.6	100.3
A.1.2 Narrow Money (M1)	102.5	101.4	100.6	99.1	98.6	99.4	98.3	98.3	99.2	99.2	100.0	103.6
A.1.2.1 Currency with Public	103.1	103.5	101.9	99.3	98.4	97.2	98.2	99.1	99.1	99.6	100.3	100.3
A.1.3 Reserve Money (RM)	103.1	101.8	101.1	99.7	98.9	97.8	98.6	99.2	98.5	98.6	98.9	104.1
A.1.3.1 Currency in Circulation	103.0	103.3	102.0	99.3	98.4	97.1	98.5	99.1	99.2	99.6	100.2	100.5
A.1.3.1.1 Notes in Circulation	103.0	103.4	102.1	99.2	98.3	97.0	98.4	99.3	99.1	99.5	100.2	100.5
A.2.1 Aggregate Deposits (SCBs)	101.3	100.6	99.9	100.4	100.1	100.0	99.9	99.5	98.9	99.2	99.5	100.9
A.2.1.1 Demand Deposits (SCBs)	101.4	98.3	97.7	98.2	98.5	102.5	99.1	98.2	99.1	98.8	99.9	108.6
A.2.1.2 Time Deposits (SCBs)	100.8	100.7	100.1	100.6	100.2	99.7	100.2	100.0	99.1	99.6	99.5	99.6
A.3.1 Cash in Hand and Balances with RBI (SCBs)	104.4	98.8	100.8	101.4	101.9	101.4	99.2	100.4	97.8	96.8	98.4	99.6
A.3.2 Assets with the Banking System (SCBs)	102.8	100.9	102.1	97.9	99.0	99.7	98.4	94.0	97.8	95.6	99.4	112.4
A.3.3 Bank Credit (SCBs)	101.3	100.3	100.1	99.4	99.0	99.6	99.0	99.0	99.9	99.7	100.2	102.6
A.3.3.1 Loans, Cash, Credits and Overdrafts (SCBs)	100.6	100.0	100.1	98.9	98.6	100.7	99.2	99.3	100.3	99.7	100.1	102.5
A.3.3.2 Non-Food Credit (SCBs)	101.1	99.9	99.8	99.3	99.0	99.7	99.2	99.1	99.9	99.9	100.3	102.8
A.3.4 Investments (SCBs)	100.8	100.7	100.1	101.4	101.8	100.7	101.0	100.2	98.2	98.5	98.5	97.9
B. WPI (Base: 2004-05=100) All Commodities	100.2	100.0	100.1	100.4	100.5	100.6	100.4	100.1	99.4	99.6	99.3	99.3
B.1 WPI - Primary Articles	99.6	99.6	100.5	101.1	101.7	101.3	101.3	101.2	99.1	98.8	97.9	97.9
B.1.1 WPI - Food Articles	99.0	99.2	99.9	101.2	101.7	102.0	102.7	102.2	99.0	99.0	97.1	96.9
B.1.1.1 WPI - Food Grains (Cereals+Pulses)	99.1	99.0	99.1	99.6	100.1	100.2	101.2	101.1	100.7	100.4	100.1	99.3
B.1.1.1.1 WPI - Cereals	99.3	99.3	99.2	99.4	99.9	100.0	100.7	100.7	100.4	100.7	100.6	99.7
B.1.1.1.1.1 WPI - Wheat	98.8	98.1	98.3	98.6	99.2	99.6	99.5	101.2	101.9	102.2	102.3	100.2
B.1.1.1.1.2 WPI - Rice	99.2	99.5	99.4	99.9	100.5	100.7	101.3	101.0	100.2	99.7	99.5	99.2
B.1.1.1.2 WPI - Pulses	98.4	98.1	98.4	100.4	101.2	101.5	102.6	102.8	101.2	99.5	98.2	97.8
B.1.1.2 WPI - Fruits & Vegetables	97.7	98.3	100.7	104.6	105.7	106.7	108.8	106.9	95.1	93.5	90.5	90.9
B.1.1.3 WPI - Milk	99.9	99.8	100.0	100.3	100.1	100.1	100.2	100.1	99.8	99.9	100.0	99.7
B.1.1.4 WPI - Egg, Meat and Fish	98.6	100.4	100.7	101.7	100.9	100.7	99.0	99.5	99.8	100.3	100.0	98.7
B.1.1.4.1 WPI - Egg	95.6	95.6	98.1	97.8	97.3	98.8	99.7	104.2	105.0	105.5	102.5	99.8
B.1.1.4.2 WPI - Meat	98.7	99.7	100.5	100.5	100.0	99.2	99.0	99.9	100.3	101.4	100.7	100.1
B.1.1.4.3 WPI - Fish	99.2	101.6	101.1	102.6	102.3	101.4	99.3	99.2	98.7	98.8	98.8	98.2
B.1.1.5 WPI - Protein Items (*viz.*, Pulses, Milk, Egg, Meat and Fish)	99.2	99.8	100.0	100.9	100.8	100.8	100.4	100.1	99.7	99.9	99.8	99.0
B.1.2 WPI - Non-Food Articles	100.5	100.3	100.4	100.4	100.7	100.5	99.0	99.2	99.5	99.9	99.4	100.5
B.1.2.1 WPI - Fibres	98.9	99.2	99.7	101.9	101.9	102.9	99.9	99.6	99.3	99.7	98.8	98.3
B.1.2.1.1 WPI - Raw Cotton	98.7	99.2	99.8	102.8	103.0	104.0	99.9	99.5	98.5	99.3	98.0	97.7
B.1.2.2 WPI - Oil Seeds	100.4	100.8	101.5	101.5	101.6	101.0	98.6	98.1	98.6	99.5	99.2	99.3
B.2 WPI - Manufactured Products	100.4	100.5	100.3	100.2	100.2	100.1	99.9	99.7	99.5	99.8	99.8	99.8
B.2.1 WPI - Food Products	99.8	99.7	99.7	100.2	100.4	100.6	100.3	100.1	99.9	100.1	99.9	99.3
B.2.1.1 WPI - Grain Mill Products	98.9	98.1	98.3	99.2	99.4	100.0	100.5	101.0	101.0	101.6	101.4	100.4
B.2.1.2 WPI - Sugar	99.0	98.6	98.1	99.0	100.2	101.5	101.4	101.7	101.5	100.7	99.4	99.0
B.2.1.3 WPI - Edible Oils	99.8	100.2	100.1	100.4	100.9	100.5	99.6	99.4	100.2	100.0	99.6	99.4
B.3 WPI - Non Food Manufactured Products	100.4	100.4	100.3	100.1	100.1	100.0	99.8	99.6	99.5	99.8	99.8	100.1
B.4 WPI - Non Food Non-Fuel	100.5	100.7	100.4	100.2	100.2	100.0	99.7	99.6	99.4	99.6	99.8	100.1
C.1 CPI for Industrial Workers (Base: 2001=100)	99.2	99.3	99.6	100.7	100.8	100.6	101.1	100.9	99.9	99.7	99.3	98.9
C.2 CPI for Agricultural Labourers (Base: 1986-87=100)	98.9	99.1	99.6	100.2	100.7	100.9	101.1	101.0	100.4	99.8	99.4	99.0
C.3 CPI for Rural Labourers (Base: 1986-87=100)	99.0	99.1	99.6	100.2	100.7	100.8	101.1	101.0	100.3	99.8	99.4	99.0

Table 1: Average Monthly Seasonal Factors of Selected Economic Time Series *(Concld.)*												
Series/Month	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
1	2	3	4	5	6	7	8	9	10	11	12	13
D. IIP (Base 2004-05 = 100) General Index	96.4	98.5	97.8	98.0	96.0	97.3	98.9	98.4	104.7	104.5	99.6	110.1
D.1.1 IIP - Basic Goods Industries	98.1	100.9	98.1	98.4	97.5	95.0	99.7	97.9	103.2	104.6	97.7	109.1
D.1.2 IIP - Intermediate Goods Industries	96.5	100.3	99.5	101.5	100.3	98.4	99.3	97.9	102.7	101.0	96.7	105.8
D.1.3 IIP - Consumer Goods Industries	98.7	98.1	96.5	97.5	92.9	95.1	96.2	96.9	106.2	108.8	104.3	108.5
D.1.3.1 IIP - Consumer Durable Goods Industries	98.0	100.4	98.2	100.0	96.4	101.8	106.5	100.9	96.0	99.5	97.7	104.8
D.1.3.2 IIP - Consumer Non-Durable Goods Industries	98.6	96.2	95.2	94.9	90.6	90.1	90.1	96.2	114.7	114.5	108.6	110.2
D.2.1 IIP - Mining	97.6	100.3	95.7	94.2	92.2	90.5	98.2	99.6	106.6	107.9	101.5	116.0
D.2.2 IIP - Manufacturing	95.8	97.7	97.7	98.3	96.1	98.1	98.7	98.1	104.9	104.4	100.2	110.1
D.2.2.1 IIP - Food products and beverages	97.3	90.1	88.6	81.2	72.3	70.2	77.1	98.2	135.6	135.7	126.6	126.3
D.2.2.2 IIP - Textiles	98.4	99.7	98.3	102.6	102.5	100.2	101.4	99.6	101.6	101.3	94.4	100.0
D.2.2.3 IIP - Wood and products of wood & cork except furniture; articles of straw & plating materials	90.5	102.6	98.0	100.6	99.7	96.0	95.9	98.6	108.6	100.6	103.7	106.0
D.2.2.4 IIP - Paper and paper products	97.0	101.4	99.0	102.5	101.6	99.7	100.5	98.2	100.1	99.3	95.4	105.6
D.2.2.5 IIP - Publishing, printing & reproduction of recorded media	98.6	101.4	98.7	103.0	101.4	98.3	103.0	99.4	102.1	99.9	94.6	99.8
D.2.2.6 IIP - Coke, refined petroleum products & nuclear fuel	94.7	98.8	100.7	102.4	100.8	96.6	101.0	97.2	101.8	103.8	96.5	105.5
D.2.2.7 IIP - Chemicals and chemical products	96.4	101.0	102.5	103.6	102.6	102.1	99.5	98.0	100.9	99.6	93.9	100.0
D.2.2.8 IIP - Rubber and plastics products	99.1	103.3	102.2	99.8	95.8	97.3	98.7	99.0	101.8	101.0	96.6	105.5
D.2.2.9 IIP - Other non-metallic mineral products	101.3	101.6	98.1	98.9	94.7	93.9	100.3	95.1	102.5	103.3	99.3	111.6
D.2.2.10 IIP - Basic metals	98.0	100.3	98.5	99.2	100.2	97.9	100.2	97.9	101.1	102.2	97.4	107.4
D.2.2.11 IIP - Fabricated metal products, except machinery & equipment	84.2	91.7	97.4	95.0	95.6	102.2	95.7	97.8	104.8	99.8	100.9	135.9
D.2.2.12 IIP - Motor vehicles, trailers & semi-trailers	97.2	97.2	89.8	98.5	97.2	97.4	101.9	101.2	92.4	105.9	105.4	116.2
D.2.2.13 IIP - Other transport equipment	91.1	95.3	94.6	96.8	98.4	103.7	110.2	105.5	96.3	100.8	98.3	109.5
D.2.3 IIP - Electricity	100.3	104.3	98.5	100.3	99.9	97.8	102.1	96.1	100.0	101.7	94.1	104.6
D.3 Cement Production	105.2	104.3	100.0	95.9	90.8	91.3	98.0	92.2	102.1	105.9	101.2	113.9
D.4 Steel Production	96.8	100.0	97.8	98.8	100.1	97.7	100.7	96.8	101.7	104.5	98.2	106.7
D.5 Coal Production	90.9	93.3	88.8	86.6	84.7	83.4	97.5	103.0	113.0	116.3	109.9	133.7
D.6 Crude Oil Production	98.9	101.3	99.4	101.4	100.8	98.0	102.0	98.7	102.1	101.6	92.8	102.9
D.7 Petroleum Refinery Production	96.1	100.5	100.0	101.8	101.0	95.9	100.4	97.9	101.7	103.6	96.4	104.5
D.8 Fertiliser Production	81.5	94.8	98.8	105.8	106.5	103.9	108.2	106.8	108.2	102.3	93.9	89.1
D.9 Natural Gas Production	97.5	101.4	98.4	102.0	100.8	98.0	102.9	99.6	102.6	102.0	92.0	102.7
D.10 Production of Commercial Motor Vehicles	91.7	94.3	89.1	97.0	97.2	99.3	101.2	102.8	96.4	107.3	104.3	118.2
E.1 Cargo handled at Major Ports	99.6	102.9	95.1	97.6	96.5	92.5	99.9	99.7	103.5	105.8	96.9	109.3
E.2 Railway Freight Traffic	97.7	101.1	96.7	97.7	95.3	92.6	97.8	97.9	104.3	106.4	98.6	113.8
E.3 Sales of Commercial Motor Vehicles	83.0	89.0	95.6	92.0	95.0	105.6	100.0	96.5	100.4	105.7	105.9	129.5
E.4 Passenger flown (Km) - Domestic	100.8	112.2	104.2	95.5	92.9	88.5	98.6	100.2	109.4	103.8	96.3	97.0
E.5 Passenger flown (Km) - International	96.1	99.9	101.1	107.1	104.5	92.9	92.2	94.8	106.8	110.4	94.2	100.7
E.6 Freight Tonne Km flown - Domestic	94.1	99.4	96.6	100.7	102.5	104.1	110.6	100.8	101.9	95.2	91.5	102.2
F.1 Exports	97.5	100.0	99.8	99.5	97.1	100.4	98.0	93.1	100.6	100.6	97.1	116.1
F.2 Imports	100.5	107.4	100.0	102.5	99.1	103.9	104.1	97.1	97.5	98.7	90.0	99.3
F.3 Non-Oil Non-Gold Imports	96.0	105.6	103.0	102.8	99.1	101.9	103.4	99.3	101.3	98.7	89.8	98.4

Table 2: Range (Difference Between Peak and Trough) of Seasonal Factors

Series/Year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Average Range
1	2	3	4	5	6	7	8	9	10	11	12
A.1.1 Broad Money (M3)	2.6	2.7	2.8	2.7	2.6	2.4	2.2	1.9	1.8	1.6	2.3
A.1.1.1 Net Bank Credit to Government	4.3	4.8	5.2	5.3	5.3	5.0	4.6	4.4	4.4	4.3	4.7
A.1.1.2 Bank Credit to Commercial Sector	4.3	4.8	5.2	5.3	5.3	5.0	4.6	4.4	4.4	4.3	3.8
A.1.2 Narrow Money (M1)	5.7	5.9	6.3	6.3	6.0	5.7	5.3	4.8	4.5	4.3	5.5
A.1.2.1 Currency with Public	6.9	6.8	6.9	6.7	6.6	6.3	6.0	5.7	5.5	5.4	6.3
A.1.3 Reserve Money (RM)	7.5	7.4	7.0	6.4	6.5	6.6	6.5	6.3	6.0	5.6	6.3
A.1.3.1 Currency in Circulation	7.0	6.9	6.9	6.8	6.6	6.3	5.9	5.6	5.3	5.1	6.2
A.1.3.1.1 Notes in Circulation	7.2	7.1	7.0	6.9	6.7	6.4	6.1	5.8	5.6	5.5	6.4
A.2.1 Aggregate Deposits (SCBs)	2.7	3.0	3.1	3.0	2.8	2.6	2.2	1.8	1.6	1.6	2.5
A.2.1.1 Demand Deposits (SCBs)	12.9	14.2	14.7	14.4	14.2	13.0	11.2	9.1	7.1	6.4	11.9
A.2.1.2 Time Deposits (SCBs)	1.7	1.8	1.8	1.9	1.9	2.0	1.9	1.7	1.4	1.4	1.8
A.3.1 Cash in Hand and Balances with RBI (SCBs)	14.0	13.7	12.7	11.2	9.9	7.9	6.1	5.4	4.6	4.3	7.9
A.3.2 Assets with the Banking System (SCBs)	13.1	14.3	16.2	17.9	19.0	20.2	21.3	21.7	21.1	20.1	17.6
A.3.3 Bank Credit (SCBs)	3.5	3.7	3.9	4.1	4.3	4.2	3.9	3.5	3.1	2.8	3.7
A.3.3.1 Loans, Cash, Credits and Overdrafts (SCBs)	3.3	3.6	4.0	4.2	4.3	4.2	4.0	3.7	3.5	3.6	3.8
A.3.3.2 Non-Food Credit (SCBs)	3.9	4.1	4.3	4.5	4.6	4.4	4.0	3.6	3.1	2.8	3.9
A.3.4 Investments (SCBs)	3.4	3.4	3.5	3.6	4.0	4.3	4.5	4.5	4.5	4.4	4.3
B. WPI (Base 2004-05=100) All Commodities	1.4	1.5	1.6	1.7	1.7	1.4	1.1	1.1	1.3	1.4	1.4
B.1 WPI - Primary Articles	3.9	4.1	4.3	4.2	4.0	3.6	3.4	3.5	3.7	4.0	3.5
B.1.1 WPI - Food Articles	4.9	5.4	5.7	5.8	5.9	6.0	6.1	6.2	6.6	6.8	5.9
B.1.1.1 WPI - Food Grains (Cereals+Pulses)	1.6	1.9	2.2	2.4	2.4	2.3	2.4	2.5	2.7	2.8	2.3
B.1.1.1.1 WPI - Cereals	1.8	1.8	1.8	1.8	1.9	1.8	1.8	1.8	2.0	2.1	1.9
B.1.1.1.1.1 WPI - Wheat	5.8	5.4	4.7	4.3	3.8	3.5	3.4	3.7	4.1	4.2	4.3
B.1.1.1.1.2 WPI - Rice	2.0	1.8	1.5	1.4	1.6	1.9	2.3	2.9	3.5	3.8	2.3
B.1.1.1.2 WPI - Pulses	5.1	5.0	5.1	5.1	5.2	5.2	5.2	5.1	5.1	5.0	5.1
B.1.1.2 WPI - Fruits & Vegetables	20.1	20.1	19.4	18.6	17.7	17.0	16.8	17.0	18.1	19.0	18.4
B.1.1.3 WPI - Milk	1.2	1.0	0.7	0.5	0.4	0.6	0.9	1.1	1.2	1.3	0.9
B.1.1.4 WPI - Egg, Meat and Fish	5.2	5.1	4.6	3.8	3.0	2.6	3.5	4.1	4.4	4.3	4.1
B.1.1.4.1 WPI - Egg	13.9	12.3	10.6	9.1	8.1	7.6	8.6	10.2	11.4	12.2	10.4
B.1.1.4.2 WPI - Meat	5.2	4.7	3.8	2.9	2.0	1.5	1.4	1.8	2.1	2.4	2.8
B.1.1.4.3 WPI - Fish	7.9	8.3	7.6	6.0	4.8	3.9	4.4	5.2	5.6	5.7	5.9
B.1.1.5 WPI - Protein Items (*viz.*, Pulses, Milk, Egg, Meat and Fish)	1.8	1.9	1.9	1.9	2.0	2.2	2.4	2.7	2.8	2.8	2.2
B.1.2 WPI - Non-Food Articles	2.2	2.5	2.7	2.8	2.4	2.8	3.1	3.0	2.9	2.4	2.7
B.1.2.1 WPI - Fibres	4.0	4.5	5.1	5.5	5.4	5.0	4.5	4.4	4.9	5.2	4.9
B.1.2.1.1 WPI - Raw Cotton	6.1	7.2	7.8	7.7	7.4	6.7	6.0	5.5	5.7	5.9	6.6
B.1.2.2 WPI - Oil Seeds	3.7	3.5	3.5	3.5	3.8	3.9	3.8	3.9	3.9	3.8	3.7
B.2 WPI - Manufactured Products	1.1	1.2	1.3	1.3	1.2	1.0	0.8	0.6	0.5	0.3	0.9
B.2.1 WPI - Food Products	1.9	1.6	1.2	1.0	1.0	1.2	1.3	1.5	1.7	2.0	1.4
B.2.1.1 WPI - Grain Mill Products	4.9	4.3	3.8	3.4	3.2	3.1	3.1	3.1	3.1	3.1	3.5
B.2.1.2 WPI - Sugar	2.0	1.9	2.2	2.9	3.9	4.9	5.3	5.1	4.7	4.3	3.7
B.2.1.3 WPI - Edible Oils	2.1	2.0	2.1	2.0	1.9	1.8	1.6	1.4	1.2	1.1	1.7
B.3 WPI - Non Food Manufactured Products	0.7	0.9	1.1	1.2	1.2	1.1	1.0	0.8	0.6	0.5	0.9
B.4 WPI - Non Food Non-Fuel	0.9	1.1	1.4	1.6	1.8	1.8	1.6	1.3	1.1	0.9	1.3
C.1 CPI for Industrial Workers (2001=100)	1.8	1.9	2.1	2.2	2.3	2.3	2.3	2.3	2.4	2.4	2.2
C.2 CPI for Agricultural Labourers (Base: 1986-87=100)	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.3	2.5	2.2
C.3 CPI for Rural Labourers (Base: 1986-87=100)	1.9	2.0	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.3	2.1

Table 2: Range (Difference Between Peak and Trough) of Seasonal Factors *(Concld.)*

Series/Year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Average Range
1	2	3	4	5	6	7	8	9	10	11	12
D. IIP (Base 2004-05 = 100) General Index	12.7	13.5	13.9	14.1	14.0	14.4	14.9	15.4	15.8	16.0	14.5
D.1.1 IIP - Basic Goods Industries	11.5	12.4	13.2	13.9	14.4	14.8	15.2	15.3	15.2	15.0	14.1
D.1.2 IIP - Intermediate Goods Industries	9.1	9.8	10.1	10.1	9.8	9.4	9.0	8.9	8.7	8.6	9.4
D.1.3 IIP - Consumer Goods Industries	17.9	16.0	15.2	14.7	14.8	15.3	16.0	16.9	17.9	18.4	16.3
D.1.3.1 IIP - Consumer Durable Goods Industries	12.4	12.4	11.6	10.4	8.7	9.3	10.5	12.2	13.1	14.3	11.5
D.1.3.1 IIP - Consumer Non-Durable Goods Industries	23.0	22.6	23.1	23.8	24.7	25.2	26.0	26.3	27.3	27.9	25.0
D.2.1 IIP - Mining	21.1	22.7	23.9	25.0	25.8	26.4	26.9	27.3	27.5	27.6	25.4
D.2.2 IIP - Manufacturing	14.2	14.7	14.8	14.4	14.0	14.4	14.9	15.4	15.6	15.6	14.8
D.2.2.1 IIP - Food products and beverages*			68.0	67.6	66.4	65.4	64.7	64.2	65.2	66.7	67.9
D.2.2.2 IIP - Textiles*			9.2	9.2	9.0	8.5	8.0	7.8	8.0	8.3	8.5
D.2.2.3 IIP - Wood and products of wood & cork except furniture; articles of straw & plating materials*			20.4	20.2	19.7	19.2	18.5	17.6	16.6	15.8	18.5
D.2.2.4 IIP - Paper and paper products*			11.0	11.0	11.0	10.6	10.1	9.6	9.1	9.0	10.2
D.2.2.5 IIP - Publishing, printing & reproduction of recorded media*			8.8	8.7	8.6	8.4	8.2	8.4	8.8	9.2	8.6
D.2.2.6 IIP - Coke, refined petroleum products & nuclear fuel*			11.3	10.9	10.6	10.7	10.8	10.7	10.8	10.9	10.8
D.2.2.7 IIP - Chemicals and chemical products*			10.0	10.3	10.7	10.6	10.3	9.5	8.8	9.0	9.9
D.2.2.8 IIP - Rubber and plastics products*			8.5	8.9	9.1	9.4	9.8	10.2	10.6	10.8	9.7
D.2.2.9 IIP - Other non-metallic mineral products*			16.4	16.5	16.8	17.4	18.0	18.6	19.0	19.4	17.7
D.2.2.10 IIP - Basic metals*			10.6	10.7	10.6	10.4	10.1	10.7	11.1	11.1	10.7
D.2.2.11 IIP - Fabricated metal products, except machinery & equipment*			42.1	43.4	46.1	49.6	53.6	56.9	59.2	60.5	51.4
D.2.2.12 IIP - Motor vehicles, trailers & semi-trailers*			25.9	25.9	26.0	26.2	26.5	26.6	26.7	26.9	26.3
D.2.2.13 IIP - Other transport equipment*			23.5	22.6	21.3	19.6	19.5	18.5	17.5	16.7	19.9
D.2.3 IIP - Electricity	10.3	9.9	9.8	10.3	10.7	11.2	11.2	11.0	11.7	12.4	10.8
D.3 Cement Production	21.7	21.3	21.2	21.6	22.5	23.4	24.1	25.0	25.7	26.2	24.2
D.4 Steel Production	12.6	12.2	11.7	10.7	10.1	10.5	10.7	10.9	10.8	11.0	11.1
D.5 Coal Production	39.2	42.2	45.7	48.5	50.4	52.3	54.5	56.3	57.2	57.2	50.4
D.6 Crude Oil Production	10.1	10.1	10.1	10.2	10.0	10.2	10.3	10.4	10.1	10.0	10.2
D.7 Petroleum Refinery Production	9.5	9.3	8.9	8.6	8.1	8.6	9.6	10.5	10.7	10.6	9.4
D.8 Fertiliser Production*	27.5	27.5	27.3	26.7	26.3	26.0	26.6	27.3	28.3	27.0	27.0
D.9 Natural Gas Production*	11.1	11.5	12.0	12.1	11.8	11.2	10.9	10.6	10.3	10.4	11.2
D.10 Production of Commercial Motor Vehicles	37.4	32.5	28.8	28.6	29.0	29.5	29.8	30.1	30.6	31.6	30.8
E.1 Cargo handled at Major Ports	18.0	18.3	18.2	17.8	17.3	16.7	16.3	15.7	15.3	15.0	16.9
E.2 Railway Freight Traffic	19.9	20.7	21.3	21.5	21.5	21.5	21.4	21.4	21.4	21.6	21.2
E.3 Sales of Commercial Motor Vehicles	57.5	53.3	50.4	47.5	45.2	43.3	42.0	41.5	41.7	42.3	46.5
E.4 Passenger flown (Km) - Domestic	21.7	20.8	21.1	22.6	23.8	25.3	26.0	26.5	26.3	26.2	24.0
E.5 Passenger flown (Km) - International	20.7	20.0	19.3	18.4	17.8	16.9	16.9	17.4	18.1	18.6	18.4
E.6 Freight Tonne Km flown - Domestic	13.6	14.6	16.4	18.3	20.0	21.5	22.5	22.4	21.6	20.9	19.2
F.1 Exports	26.6	24.6	21.9	19.9	19.7	20.6	22.3	23.9	24.8	25.1	23.0
F.2 Imports	20.6	21.7	22.7	22.3	20.6	17.4	14.5	12.2	12.1	12.9	17.7
F.3 Non-Oil Non-Gold Imports	12.5	14.2	16.5	19.2	20.5	19.9	18.1	15.7	14.0	12.9	16.4

*Seasonal adjustment for these series is based on 8 to 9 years data depending on availability. Guidelines of both, Office of National Statistics (ONS), UK, and US Census Bureau, however, suggest using more than ten years data for estimating stable monthly seasonal factors.

Table 3: Change in seasonal variation in 2013-14 *vis-à-vis* previous 5-years (2008-09 to 2012-13)

Series	2013-14	Average Range*	Change	Series	2013-14	Average Range*	Change
1	2	3	4	1	2	3	4
A.1.1 Broad Money (M3)	1.6	2.2	-0.5	C.1 CPI for Industrial Workers (Base: 2001=100)	2.4	2.3	0.1
A.1.1.1 Net Bank Credit to Government	4.3	4.8	-0.4	C.2 CPI for Agricultural Labourers (Base: 1986-87=100)	2.5	2.2	0.3
A.1.1.2 Bank Credit to Commercial Sector	4.3	4.8	-0.4	C.3 CPI for Rural Labourers (Base: 1986-87=100)	2.3	2.2	0.1
A.1.2 Narrow Money (M1)	4.3	5.3	-1.0	D. IIP (Base: 2004-05=100) General Index	16.0	14.9	1.1
A.1.2.1 Currency with Public	5.4	6.0	-0.6	D.1.1 IIP - Basic Goods Industries	15.0	15.0	0.0
A.1.3 Reserve Money (RM)	5.6	6.4	-0.7	D.1.2 IIP - Intermediate Goods Industries	8.6	9.2	-0.6
A.1.3.1 Currency in Circulation	5.1	5.9	-0.8	D.1.3 IIP - Consumer Goods Industries	18.4	16.2	2.2
A.1.3.1.1 Notes in Circulation	5.5	6.1	-0.6	D.1.3.1 IIP - Consumer Durable Goods Industries	14.3	10.8	3.5
A.2.1 Aggregate Deposits (SCBs)	1.6	2.2	-0.6	D.1.3.2 IIP - Consumer Non-Durable Goods Industries	14.3	10.8	3.5
A.2.1.1 Demand Deposits (SCBs)	6.4	10.9	-4.6	D.2.1 IIP - Mining	27.6	26.8	0.8
A.2.1.2 Time Deposits (SCBs)	1.4	1.8	-0.4	D.2.2 IIP - Manufacturing	15.6	14.8	0.8
A.3.1 Cash in Hand and Balances with RBI (SCBs)	4.3	6.8	-2.4	D.2.2.1 IIP - Food products and beverages	2.4	2.3	0.1
A.3.2 Assets with the Banking System (SCBs)	20.1	20.7	-0.6	D.2.2.2 IIP - Textiles	8.3	8.3	0.0
A.3.3 Bank Credit (SCBs)	2.8	3.8	-1.0	D.2.2.3 IIP - Wood and products of wood & cork except furniture; articles of straw & plating materials	15.8	18.3	-2.5
A.3.3.1 Loans, Cash, Credits and Overdrafts (SCBs)	3.6	4.0	-0.4	D.2.2.4 IIP - Paper and paper products	9.0	10.1	-1.1
A.3.3.2 Non-Food Credit (SCBs)	2.8	3.9	-1.2	D.2.2.5 IIP - Publishing, printing & reproduction of recorded media	9.2	8.5	0.7
A.3.4 Investments (SCBs)	4.4	4.3	0.1				
B. WPI (Base 2004-05=100) All Commodities	1.4	1.3	0.1	D.2.2.6 IIP - Coke, refined petroleum products & nuclear fuel	10.9	10.7	0.2
B.1 WPI - Primary Article	4.0	3.6	0.3				
B.1.1 WPI - Food Articles	6.8	6.2	0.6	D.2.2.7 IIP - Chemicals and chemical products	9.0	10.0	-1.0
B.1.1.1 WPI - Food Grains (Cereals+Pulses)	2.8	2.5	0.3	D.2.2.8 IIP - Rubber and plastics products	10.8	9.8	1.0
B.1.1.1.1 WPI - Cereals	2.1	1.8	0.3	D.2.2.9 IIP - Other non-metallic mineral products	19.4	17.9	1.4
B.1.1.1.1.1 WPI - Wheat	4.2	3.7	0.4	D.2.2.10 IIP - Basic metals	11.1	10.6	0.6
B.1.1.1.1.2 WPI - Rice	3.8	2.5	1.3	D.2.2.11 IIP - Fabricated metal products, except machinery & equipment	60.5	53.1	7.4
B.1.1.1.2 WPI - Pulses	5.0	5.2	-0.1	D.2.2.12 IIP - Motor vehicles, trailers & semi-trailers	26.9	26.4	0.5
B.1.1.2 WPI - Fruits & Vegetables	19.0	17.3	1.7	D.2.2.13 IIP - Other transport equipment	16.7	19.3	-2.6
B.1.1.3 WPI - Milk	1.3	0.8	0.5	D.2.3 IIP - Electricity	12.4	11.1	1.3
B.1.1.4 WPI - Egg, Meat and Fish	4.3	3.5	0.8	D.3 Cement Production	26.2	24.1	2.0
B.1.1.4.1 WPI - Egg	12.2	9.2	3.0	D.4 Steel Production	11.0	10.6	0.4
B.1.1.4.2 WPI - Meat	2.4	1.8	0.6	D.5 Coal Production	57.2	54.1	3.1
B.1.1.4.3 WPI - Fish	5.7	4.8	0.9	D.6 Crude Oil Production	10.0	10.2	-0.2
B.1.1.5 WPI - Protein Items (*viz.*, Pulses, Milk, Egg, Meat and Fish)	2.8	2.4	0.4	D.7 Petroleum Refinery Production	10.6	9.5	1.1
				D.8 Fertiliser Production	27.0	26.9	0.2
B.1.2 WPI - Non-Food Articles	2.4	2.8	-0.4	D.9 Natural Gas Production	10.4	11.0	-0.5
B.1.2.1 WPI - Fibres	5.2	4.9	0.4	D.10 Production of Commercial Motor Vehicles	31.6	29.8	1.8
B.1.2.1.1 WPI - Raw Cotton	5.9	6.3	-0.4	E.1 Cargo handled at Major Ports	15.0	16.3	-1.3
B.1.2.2 WPI - Oil Seeds	3.8	3.9	-0.1	E.2 Railway Freight Traffic	21.6	21.4	0.1
B.2 WPI - Manufactured Products	0.3	0.8	-0.5	E.3 Sales of Commercial Motor Vehicles	26.2	24.1	2.0
B.2.1 WPI - Food Products	2.0	1.3	0.7	E.4 Passenger flown (Km) - Domestic	42.3	42.7	-0.4
B.2.1.1 WPI - Grain Mill Products	3.1	3.1	0.0	E.5 Passenger flown (Km) - International	18.6	17.4	1.1
B.2.1.2 WPI - Sugar	4.3	4.8	-0.5	E.6 Freight Tonne Km flown - Domestic	20.9	21.6	-0.7
B.2.1.3 WPI - Edible Oils	1.1	1.6	-0.5	F.1 Exports	25.1	22.3	2.8
B.3 WPI - Non Food Manufactured Products	0.5	1.0	-0.5	F.2 Imports	12.9	15.4	-2.5
B.4 WPI - Non Food Non-Fuel	0.9	1.5	-0.6	F.3 Non-oil Non-Gold Imports	12.9	17.7	-4.8

*Average Range of Monthly Seasonal Factors for the last 5-years (2008-09 to 2012-13).

Table 4: List of Top-Twenty and Bottom-Twenty Series based on Average Range of Monthly Seasonal Factors during Last Five Years

Top-Twenty Series	Average Range	Peak Month	Trough Month	Bottom-Twenty Series	Average Range	Peak Month	Trough Month
1	2	3	4	1	2	3	4
D.2.2.1 IIP - Food products and beverages	65.3	Jan	Sep	B.2.1.1 WPI - Grain Mill Products	3.1	Jan	May
D.2.2.11 IIP - Fabricated metal products, except machinery & equipment	56.0	Mar	Apr	B.1.1.1.1.2 WPI - Rice	2.9	Oct	Mar
D.5 Coal Production	55.5	Mar	Sep	B.1.2 WPI - Non-Food Articles	2.8	Apr	Oct
E.3 Sales of Commercial Motor Vehicles	42.2	Mar	Apr	B.1.1.5 WPI - Protein Items (*viz.*, Pulses, Milk, Egg, Meat and Fish)	2.6	Sep	Apr
D.10 Production of Commercial Motor Vehicles	30.3	Mar	Jun	B.1.1.1 WPI - Food Grains (Cereals+Pulses)	2.5	Oct	May
D.2.1 IIP - Mining	27.1	Mar	Sep	C.1 CPI for Industrial Workers (Base: 2001=100)	2.3	Oct	Mar
D.8 Fertiliser Production	27.0	Oct	Apr	C.2 CPI for Agricultural Labourers (Base: 1986-87=100)	2.3	Nov	Mar
D.2.2.12 IIP - Motor vehicles, trailers & semi-trailers	26.6	Mar	Jun	C.3 CPI for Rural Labourers (Base: 1986-87=100)	2.2	Oct	Mar
D.1.3.1 IIP - Consumer Non-Durable Goods Industries	26.5	Jan	Sep	A.1.1 Broad Money (M3)	2.0	Apr	Dec
E.4 Passenger flown (Km) - Domestic	26.1	May	Sep	A.2.1 Aggregate Deposits (SCBs)	2.0	Apr	Dec
D.3 Cement Production	24.9	Mar	Aug	B.1.1.1.1 WPI - Cereals	1.9	Oct	Apr
F.1 Exports	23.0	Mar	Nov	B.1.1.4.2 WPI - Meat	1.8	Jan	Apr
E.6 Freight Tonne Km flown - Domestic	21.8	Oct	Feb	A.2.1.2 Time Deposits (SCBs)	1.6	Apr	Dec
E.2 Railway Freight Traffic	21.4	Mar	Sep	B.2.1 WPI - Food Products	1.5	Sep	Mar
A.3.2 Assets with the Banking System (SCBs)	20.9	Mar	Nov	B.2.1.3 WPI - Edible Oils	1.4	Aug	Nov
D.2.2.9 IIP - Other non-metallic mineral products	18.5	Mar	Sep	B.4 WPI - Non Food Non-Fuel	1.3	May	Dec
D.2.2.13 IIP - Other transport equipment	18.4	Mar	Apr	B. WPI (Base 2004-05=100) All Commodities	1.3	Sep	Mar
F.2 Imports	17.7	May	Feb	B.1.1.3 WPI - Milk	1.0	Jul	Mar
E.5 Passenger flown (Km) - International	17.6	Jan	Sep	B.3 WPI - Non Food Manufactured Products	0.8	Apr	Dec
B.1.1.2 WPI - Fruits & Vegetables	17.6	Oct	Feb	B.2 WPI - Manufactured Products	0.7	May	Dec

*Performance of Private Corporate Business Sector, 2013-14**

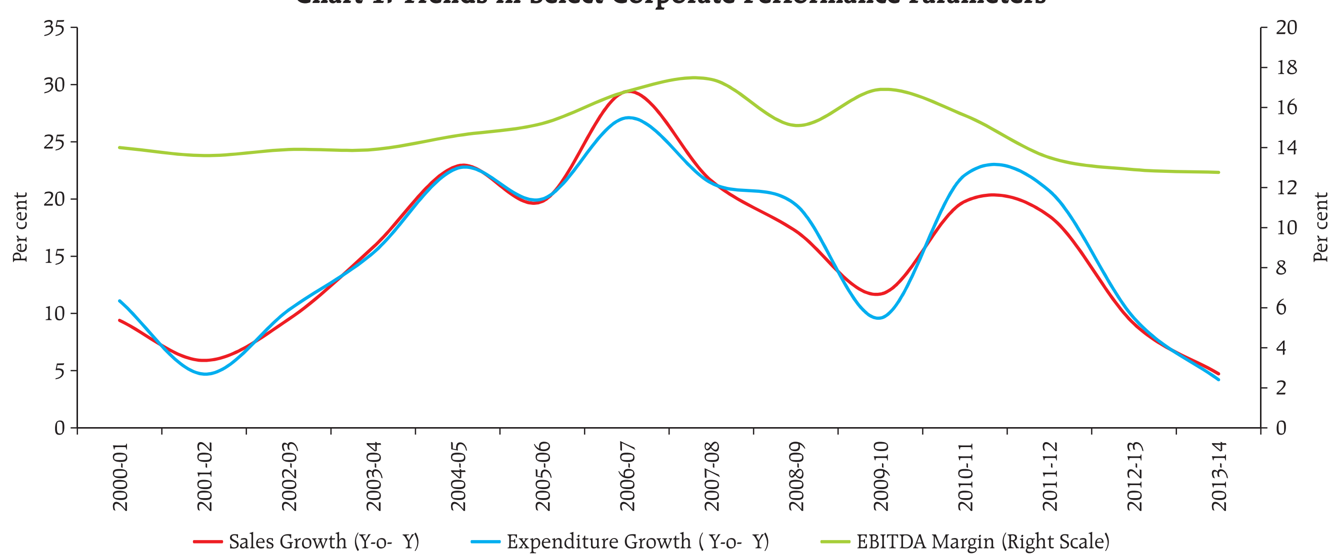
Sales growth of the private (non-financial) corporate business sector moderated for the third consecutive year during 2013-14 caused by decrease in the sales growth of manufacturing sector and the services sector (other than IT). IT sector has recovered in 2013-14 showing higher growth in sales and net profit after some moderation last year. Net profit of the manufacturing sector contracted in 2013-14 after recovering to some extent last year. The performance of small companies has further deteriorated as seen from the contraction of the sales, EBITDA and net profit in 2013-14. Percentage share of small companies in aggregate sales is small and steadily shrinking since 2007-08. This may be a cause of concern as small companies play an important role in industrial growth, innovation and employment generation. Small companies across all sectors (manufacturing, IT and non-IT service) have shown increase in their interest expenditure to sales ratios since 2007-08. Sales growth, however showed an improvement in the medium sized textile companies and for the pharmaceuticals industry, primarily driven by the large companies. EBITDA margins improved for the small sized construction companies. Quarterly results of 2,291 common companies showed an overall declining trend in sales growth during the previous eight quarters. However, it also showed increase in net profit growth in Q4:2013-14 on a Y-o-Y basis. Limited results for Q1:2014-15 hinted an improvement in sales growth and profitability.

The article analyses the performance of the private corporate business sector during 2013-14 based on the profit and loss statements of 2,854 listed non-government non-financial (NGNF) companies. Other important financial statements have also been referred, subject to availability. Besides analyzing the aggregate performance, the article provides a brief analysis by size and major industry groups. It also captures the evolving trend in sales, expenditure and profit margins of the corporate sector over a longer horizon. Detailed data has been made available in the Reserve Bank of India website.

1. *Aggregate sales growth moderated and net profits contracted*

1.1. Sales growth (Y-o-Y) of 2,854 companies of the private corporate sector continued to decelerate in 2013-14, for the third consecutive year. Sales growth this year was the lowest since 2000-01 (Chart 1).

Chart 1: Trends in Select Corporate Performance Parameters



* 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, 2012-13' was published in the October 2013 issue of the RBI Bulletin.

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

No. of companies	2013-14		2012-13*
	2,854		2,931
Items	Amount (₹ billion)	Y-o-Y Growth@ in Per cent	Y-o-Y Growth@ in Per cent
	1	2	3
Sales	29,496	4.7	9.1
Value of Production	29,535	4.0	8.8
Expenditure	25,771	4.2	9.6
CRM**	13,897	2.0	9.1
Staff Cost	2,228	11.8	14.6
Power and Fuel	947	1.0	10.3
Operating Profits(EBITDA)	3,764	2.3	3.5
Other Income@@	747	15.2	14.9
Depreciation	1,029	8.8	9.7
Gross Profits(EBIT)	3,482	3.0	3.8
Interest	1,091	11.5	17.5
Earnings Before Tax (EBT)	2,391	-0.5	-0.2
Tax Provision	618	3.6	5.1
Net Profits ^	1,706	-5.1	-2.0
Paid-up Capital	1,110	3.8	5.5

* : Published in October 2013 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.

Though, the expenditure on various heads grew at lower rates in 2013-14 as compared to 2012-13, the earnings before interest, tax, depreciation and amortization (EBITDA) growth also moderated in 2013-14 (Table 1).The trends in various components of expenditure as a proportion to sales since 2007-08 till 2013-14 revealed that at the aggregate level, CRM (cost of raw materials) to sales recorded a steady increase till 2011-12 and then moderated to some extent in the last two years, while staff cost to sales ratios have increased in the recent two years after remaining stable for three consecutive years (2009-10 to 2011-12) (Table 6). EBITDA margin remained steady in 2012-13 and 2013-14, although significantly at a lower level than that in 2007-08 (Table 2).

Table 2: Important Performance Parameters

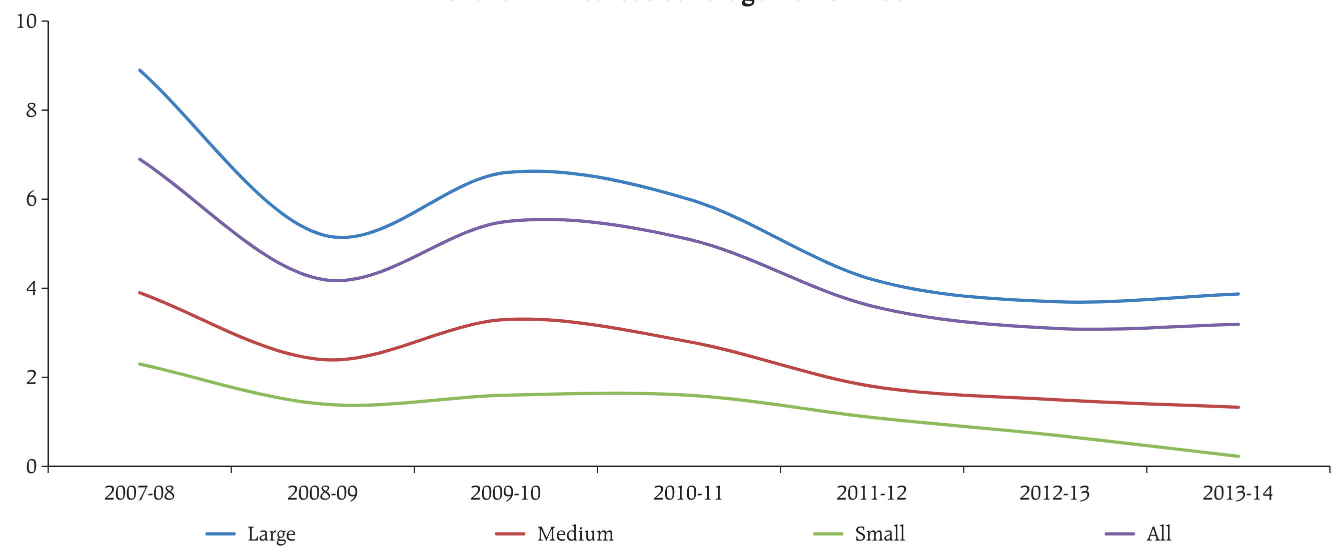
Period	No. of Companies	Sales Growth (Y-o-Y)	Expenditure Growth(Y-o-Y)	EBITDA Growth(Y-o-Y)	Net Profit Growth(Y-o-Y)	EBITDA Margin(Per cent)	Net Profit Margin(Per cent)
	1	2	3	4	5	6	7
2007-08	3,238	21.6	21.4	25.0	27.2	17.4	11.0
2008-09	2,549	17.2	19.5	-1.0	-18.4	15.1	8.1
2009-10	2,629	11.7	9.6	26.6	28.8	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

1.2. With 'non-core' income growth staying at similar level in 2013-14, as that of previous year, earnings before interest and tax (EBIT) growth slowed down. Net profit of listed NGNF companies contracted in 2013-14 for the third consecutive year. Consequently, net profit margin of the private corporate sector declined over the last three years. This is due to the moderation in expenditure growth during the period.

2. *Performance of small companies further worsened*

2.1. Size-wise comparison of private corporate sector showed that small companies (sales less than ₹1 billion) faced major setback in 2013-14. It reported sharp contraction in sales following a trend set since 2008-09. This impacted EBITDA growth heavily. Large companies (sales more than ₹10 billion) recorded higher EBITDA growth, while sales growth moderated. Medium companies (sales between ₹1 billion to ₹10 billion) also recorded lower sales growth and contraction in profits. For small and medium companies EBITDA and net profit margins have been declining since 2009-10. Large companies showed both margins at last year's level. Interest coverage ratio (EBIT/Interest Expenses) showed a steady decrease since 2007-08 across all sizes. Small

Chart 2: Interest coverage - size-wise



companies are struggling to service their debt as evident from alarmingly low interest coverage ratio in 2013-14 (Chart 2).

2.2. Sales of small companies have remained low as a percentage of aggregate sales of the listed non-financial private companies. Even that share has declined further over the years to stand at a meagre 1.3 per cent in 2013-14 (Table 3). However, they still continue to be the largest group in terms of numbers. The number and share of sales of large companies have improved over time, and has accordingly dominated the aggregate sales growth. Only large sized companies have maintained positive net profit margins in the last two years, while the small and medium sized companies are into losses. Declining fortune of the small companies is a matter of concern as they have important role to play in economic growth and in employment generation.

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

Period	Large		Medium		Small	
	No. of Compa-nies	Per cent share in sales	No. of Compa-nies	Per cent share in sales	No. of Compa-nies	Per cent share in sales
	1	2	3	4	5	6
2007-08	363	74.5	1,091	22.2	1,784	3.2
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	998	14.6	1,267	1.4
2012-13	462	85.3	1079	13.3	1,390	1.3
2013-14	474	86.3	1,001	12.4	1,379	1.3

3. *IT sector showed improvement*

3.1. Manufacturing sector have shown moderation in the sales growth. Services sector (other than IT) recorded its lowest sales growth in last seven years. On the other hand, IT sector has shown overall improved performance in 2013-14, recording increase in sales and EBITDA growth. It also, recorded a sizeable increase in net profit growth in 2013-14 (Table 5). EBITDA margins declined for the manufacturing and the non-IT services sectors. However, like small companies across the sectors, the small IT companies recorded contracting sales. Furthermore, small IT companies witnessed losses at the operating level itself (EBITDA negative).

Table 4: Size class wise performance parameters

Size Classes	Large					Medium					Small				
Period	Sales Growth (Y-o-Y)	EBITDA Growth (Y-o-Y)	Net Profit Growth (Y-o-Y)	EBITDA Margin (Per cent)	Net Profit Margin (Per cent)	Sales Growth (Y-o-Y)	EBITDA Growth (Y-o-Y)	Net Profit Growth (Y-o-Y)	EBITDA Margin (Per cent)	Net Profit Margin (Per cent)	Sales Growth (Y-o-Y)	EBITDA Growth (Y-o-Y)	Net Profit Growth (Y-o-Y)	EBITDA Margin (Per cent)	Net Profit Margin (Per cent)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2007-08	21.7	23.5	26.1	18.5	12.1	22.9	32.5	37.6	14.8	8.4	11.4	16.9	-6.8	10.1	5.4
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

Sales less than ₹1bn for small companies; between ₹1 bn to ₹10 bn for medium companies and more than ₹10bn for large companies.
$: Numerator / denominator Nil/Negligible.

3.2. During 2013-14, CRM to sales ratio declined for the manufacturing sector as a whole, while staff costs increased. For services sectors (IT and non-IT), CRM to sales ratio declined over a period of time whereas staff cost to sales has steadily increased. Across the sectors and size groups it is observed that staff cost to sales ratio is higher for small companies (Table 6). This hints at the importance of labour as a factor of production amongst the small companies. Staff cost to sales ratio is also high for IT companies irrespective of size. At the aggregate level, interest to sales ratio has increased from 2.3 per cent in 2007-08 to stand at 3.7 per cent in 2013-14, witnessing fluctuations in between.

4. *Sales moderated across industries but smaller companies suffered more even in comparatively better performing industries*

4.1. Most of the industries followed the general trend of lower sales growth and lower profit (EBITDA) margins in 2013-14 compared to 2012-13 except the pharmaceuticals industry.

Table 5: Sector wise important performance parameters

Sector	Manufacturing					Services (other than IT)					IT				
Period	Sales Growth (Y-o-Y)	EBITDA Growth (Y-o-Y)	Net Profit Growth (Y-o-Y)	EBITDA Margin (Per cent)	Net Profit Margin (Per cent)	Sales Growth (Y-o-Y)	EBITDA Growth (Y-o-Y)	Net Profit Growth (Y-o-Y)	EBITDA Margin (Per cent)	Net Profit Margin (Per cent)	Sales Growth (Y-o-Y)	EBITDA Growth (Y-o-Y)	Net Profit Growth (Y-o-Y)	EBITDA Margin (Per cent)	Net Profit Margin (Per cent)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2007-08	17.7	18.4	19.2	15.9	9.7	28.0	39.4	43.7	22.8	13.1	26.0	17.5	24.3	20.7	17.8
2008-09	16.3	-4.1	-25.6	13.5	6.6	12.2	-8.2	-22.0	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

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

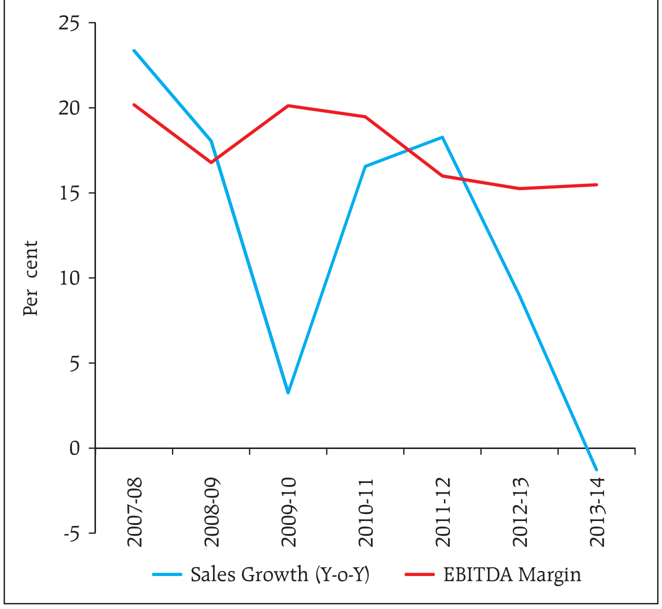
Period	CRM	Staff Cost	Interest Exp.	CRM	Staff Cost	Interest Exp.	CRM	Staff Cost	Interest Exp.	CRM	Staff Cost	Interest Exp.
	Large			Medium			Small			All Companies		
	1	2	3	4	5	6	7	8	9	10	11	12
Manufacturing												
2007-08	55.0	4.3	1.8	55.9	5.8	3.3	54.6	7.1	4.2	55.2	4.7	2.2
2008-09	55.4	4.1	2.6	56.3	6.0	4.0	50.5	7.8	5.3	55.5	4.6	2.9
2009-10	56.4	4.1	2.2	53.9	6.3	3.5	50.4	8.2	5.0	55.8	4.6	2.5
2010-11	58.9	4.0	2.0	55.4	6.4	3.5	49.5	8.0	3.9	58.1	4.5	2.3
2011-12	62.5	3.8	2.5	56.0	6.6	4.2	51.1	9.4	5.0	61.4	4.3	2.8
2012-13	61.5	4.0	2.8	56.4	7.0	4.3	51.7	9.4	6.4	60.7	4.5	3.1
2013-14	60.4	4.2	2.7	56.3	7.0	4.7	50.2	9.8	9.7	59.7	4.7	3.1
Services (Other than IT)												
2007-08	10.3	5.9	2.8	14.3	7.2	4.2	14.4	8.5	4.2	11.3	6.3	3.2
2008-09	15.7	5.2	5.0	15.7	9.6	5.3	18.0	10.7	6.8	15.8	6.2	5.1
2009-10	18.8	5.2	3.1	14.1	9.6	5.0	14.8	11.9	7.5	17.8	6.2	3.6
2010-11	18.7	5.3	4.3	10.1	10.1	6.7	19.6	10.5	7.5	17.3	6.2	4.7
2011-12	7.8	5.3	5.1	8.2	10.0	11.2	15.1	10.3	6.6	8.0	6.3	6.2
2012-13	6.8	4.6	4.7	9.4	10.9	14.9	20.6	10.8	6.3	7.6	5.9	6.6
2013-14	5.4	4.9	4.1	10.3	11.4	11.6	16.1	11.0	11.6	6.5	6.1	5.5
IT												
2007-08	4.7	33.9	0.5	6.5	30.8	1.9	12.8	24.8	2.1	5.2	33.1	0.7
2008-09	5.2	32.4	1.0	4.7	30.9	2.5	12.0	26.1	3.5	5.3	32.0	1.3
2009-10	4.8	31.4	0.6	4.9	34.6	2.9	12.2	21.7	3.6	5.0	31.5	1.0
2010-11	4.2	34.8	0.7	4.1	34.0	2.4	15.5	24.3	7.0	4.4	34.5	1.0
2011-12	3.3	36.6	1.0	7.9	35.5	4.2	15.2	31.6	9.1	4.0	36.4	1.5
2012-13	2.0	39.4	0.8	7.6	36.2	6.0	10.5	33.5	9.2	2.7	39.0	1.5
2013-14	1.3	38.4	0.5	2.1	41.2	7.2	17.3	28.4	18.7	1.6	38.5	1.2
All Companies												
2007-08	42.2	7.2	1.9	46.3	7.4	3.4	43.4	8.8	4.3	43.2	7.3	2.3
2008-09	42.7	6.9	2.8	47.1	7.9	4.2	41.3	9.9	5.4	43.6	7.2	3.1
2009-10	45.0	6.7	2.4	45.8	8.1	3.9	41.7	9.9	5.2	45.0	7.0	2.7
2010-11	46.7	6.7	2.4	46.3	8.4	3.9	41.4	10.0	5.2	46.5	7.0	2.7
2011-12	49.6	6.6	3.0	46.5	8.8	5.2	41.3	11.4	6.2	49.0	7.0	3.4
2012-13	48.6	6.9	3.4	46.4	9.1	6.0	42.0	11.7	7.2	48.2	7.2	3.8
2013-14	47.3	7.3	3.2	46.9	9.0	6.1	39.6	11.7	11.3	47.1	7.6	3.7

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

4.2. In the basic goods sector, sales growth of two major industries *viz.*, cement and iron & steel declined sharply, taking them into contraction in 2013-14 to -0.1 and -1.3 respectively from a peak of 24.5 and 18.3 per cent respectively in 2011-12. EBITDA margins continued to decline for two consecutive years in both cement and iron & steel industries (Chart 3 & 4). Also, a size wise analysis indicates a pronounced difference in sales growth and profit margins of small and large size companies of both these industries (Table 7). While the small cement companies could still record positive profit margins, small companies in iron & steel industry suffered a very steep sales contraction, accompanied by losses at the operating (EBITDA) and net (Net Profit) levels in 2013-14. Based

Chart 3: Cement and Cement Products

Chart 4: Iron & Steel



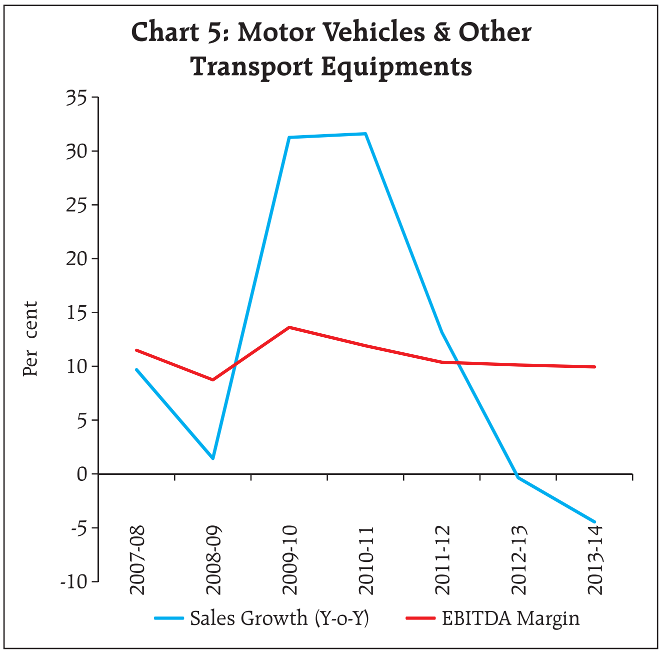
on the available cash flow statements, it is observed that, the iron & steel industry made higher amount of investments along with further additions to inventory in 2013-14. The cement industry, on the other hand showed lesser investments and also decrease in inventories in 2013-14.

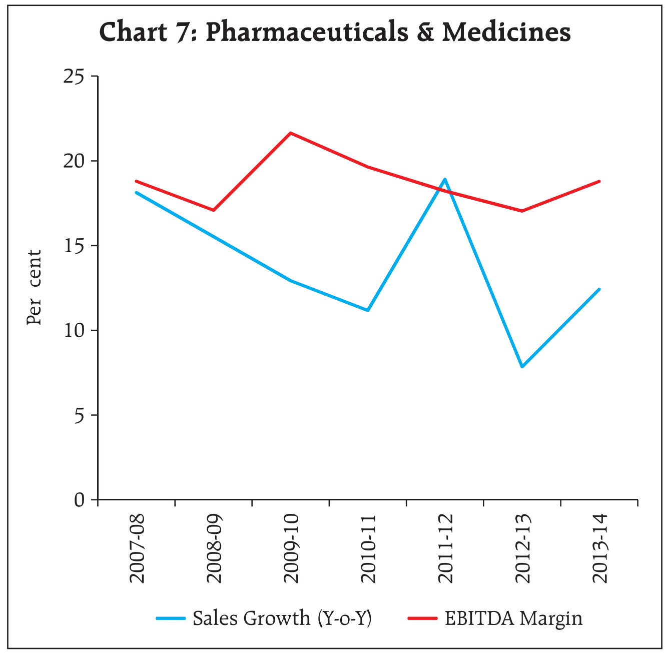
4.3. In consumer goods sector, motor vehicles industry witnessed a huge decline in sales growth in 2011-12 which was followed by further contraction in sales in 2012-13 and 2013-14 (Chart 5). Textile industry also witnessed decline in sales growth for three consecutive years (Chart 6) with noticeable differences between the large and the small size companies (Table 7). Sales growth in pharmaceuticals and medicines industries (Chart 7) witnessed upward trend in 2013-14 at aggregate level and in respect of the large size companies only. Sales growth of the small and the medium size companies declined during the year 2013-14 (Table 7). Net profit margins in consumer goods sector showed a marginal improvement except in textiles industries. Small companies in textile industry suffered negative net

Table 7 : Important Performance Parameters of Select Industries

Industry	Period	Large			Medium			Small			All Companies		
		Sales Growth (Y-o-Y)	EBITDA Margin (Per cent)	Net Margin (Per cent)	Sales Growth (Y-o-Y)	EBITDA Margin (Per cent)	Net Margin (Per cent)	Sales Growth (Y-o-Y)	EBITDA Margin (Per cent)	Net Margin (Per cent)	Sales Growth (Y-o-Y)	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	2012-13	9.3	11.5	5.9	-5.4	11.1	-5.3	10.6	19.4	10.2	10.8	20.3	10.7
	2013-14	-6.3	6.4	-0.5	-14.8	5.6	1.2	-0.1	14.4	6.9	0.6	15.3	7.7
Construction	2012-13	-3.0	12.9	2.1	-16.1	13.3	5.0	4.3	12.5	4.1	5.1	12.5	4.3
	2013-14	-12.1	11.4	1.1	-23.6	16.4	6.6	0.1	11.6	2.7	1.9	11.5	2.8
Iron and steel	2012-13	-1.7	5.9	-0.6	-11.9	3.6	-4.1	9.0	15.2	4.3	10.9	16.7	5.1
	2013-14	-14.4	2.9	-3.7	-31.5	-0.9	-39.6	-1.3	15.5	2.7	2.0	17.9	4.2
Motor vehicles and other transport equipments	2012-13	-4.9	9.2	3.1	-0.1	4.0	3.9	-0.4	10.1	5.4	0.2	10.3	5.7
	2013-14	-4.4	8.3	2.6	-8.9	1.0	-5.9	-4.5	9.9	5.6	-4.4	10.2	6.0
Pharmaceuticals and medicines	2012-13	9.2	13.3	5.7	-2.7	5.9	-1.9	7.8	17.0	10.1	7.7	18.5	11.8
	2013-14	8.0	13.8	4.4	-8.4	5.3	-0.6	12.4	18.8	11.2	14.2	20.4	13.3
Textiles	2012-13	4.6	8.8	-0.1	-8.9	2.5	-9.5	11.2	12.4	2.1	15.7	14.5	3.7
	2013-14	11.5	8.8	0.3	-3.9	0.7	-14.8	8.1	11.7	1.8	7.1	13.7	3.3
Machinery^	2012-13	-3.9	9.1	5.1	-2.1	4.4	-6.8	3.6	8.4	3.4	5.7	8.3	3.2
	2013-14	-2.4	7.4	0.1	-14.1	7.2	0.6	0.5	9.1	4.8	1.5	9.6	6.0

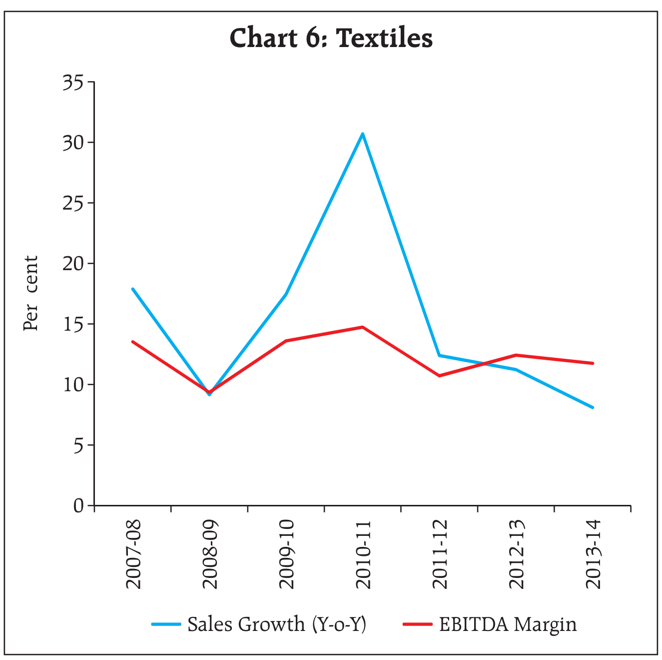
^ : includes Machinery & Machine Tools and Electrical Machinery and Apparatus.
Sales is less than ₹1bn for small companies; between ₹1 bn to ₹10 bn for medium companies and more than ₹10 bn for large companies.

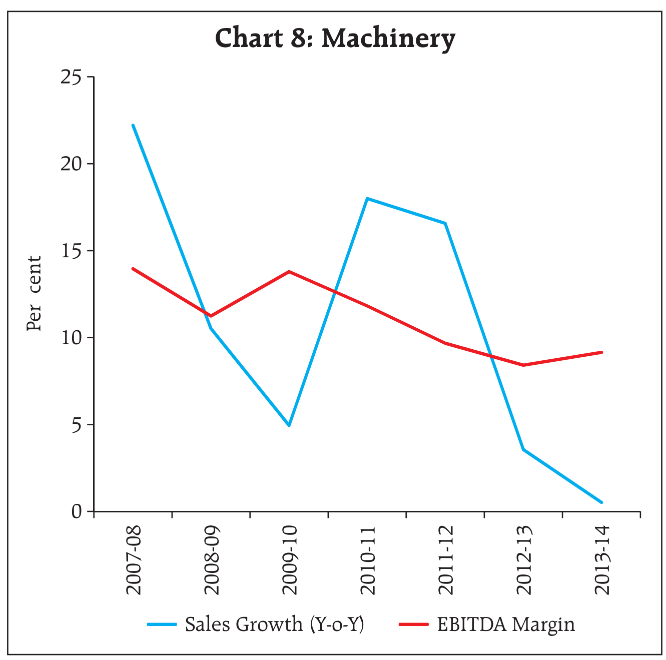


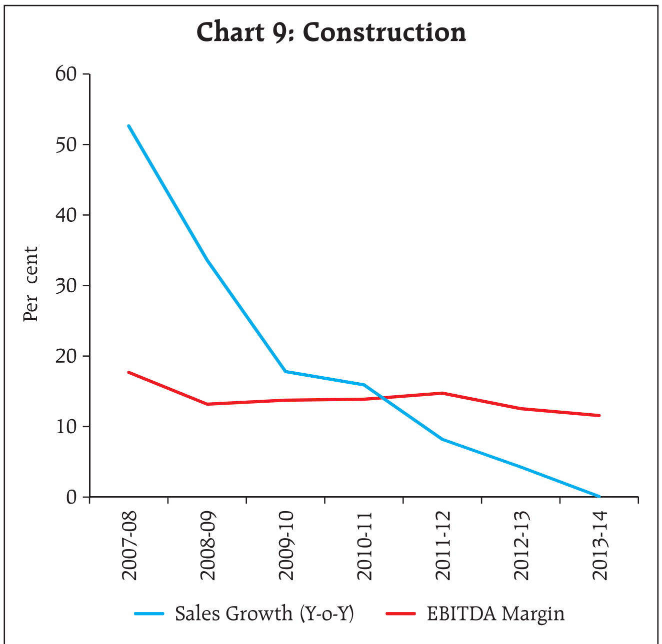


profit margins successively for 2012-13 and 2013-14. Among major industries, the motor vehicles industry generated higher operating cash flows as compared to the corresponding operating profits (EBITDA) in 2013-14 due to lowering of inventory levels and higher trade payables.

4.4. In capital goods sector, which is considered a vehicle of growth, the two major industries *viz.*, construction and machinery recorded three years of decelerating sales growth. A marginal growth in EBITDA and net profit margins was witnessed by machinery industry in the year 2013-14 (Chart 8 & 9). Construction industry has not yet come out of crisis since the year 2011-12 except that the small companies of this industry showed a recovery in EBITDA and net profit margins in the year 2013-14 in spite of







sharp contraction in sales (Table 7). Investments declined steadily with rising inventory levels in the construction industry and cash flow from operations also was the lowest among all major industries, although it recovered to some extent in 2013-14.

5. *On a quarterly basis, decline in sales growth remained unabated, profit margins steadied.*

5.1. An analysis over the quarters, of the performance of a common sample of 2,291 listed private non-financial companies revealed a steady decline in sales growth till Q1: 2013-14, followed by an upward movement in Q2:2013-14. Subsequently, sales growth declined in Q3, remaining flat in Q4 (Table 8). EBITDA contracted in Q2:2013-14 after a marginal recovery in Q1:2013-14 following a successive decline in growth rates for three consecutive quarters. The situation improved in Q3, followed again by a decline in Q4.

5.2. Growth rates in interest expenses declined gradually until it showed an upturn in Q2:2013-14. However, it declined once again in subsequent Q3 and then showed an increase in Q4. Other income exhibited a fluctuating pattern of rise and fall of varying magnitudes in alternate quarters.

5.3. Net profit contracted during Q4:2012-13 to Q2:2013-14, recovered to a positive growth of 9.9 per

Table 8: Performance of the Select companies over the Quarters - 2012-13 and 2013-14

Item	2012-13				2013-14			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	1	2	3	4	5	6	7	8
No. of companies	2,291							
Year-on-year Growth rate in Per cent								
Sales	14.3	12.3	10.0	4.8	3.3	7.8	5.5	5.5
Expenditure	16.7	13.2	8.6	5.6	2.8	8.0	3.8	5.7
Operating Profits (EBITDA)	-2.4	11.7	8.9	0.2	2.6	-0.4	7.5	6.6
Other Income	32.9	51.9	1.0	3.3	26.7	-2.9	25.5	17.3
Depreciation	10.4	10.3	10.4	8.6	9.1	12.0	7.9	8.4
Gross Profits (EBIT)	-1.0	19.4	7.0	-1.3	5.2	-4.3	10.5	8.3
Interest	40.1	12.3	18.0	11.3	11.5	22.2	10.2	11.9
Net Profits	-11.1	22.7	20.5	-13.4	-9.2	-22.4	9.9	19.5
Ratios in Per cent								
Operating Profits to Sales	13.0	13.3	12.8	12.8	12.9	12.4	13.2	13.0
Gross Profits to Sales	11.6	12.8	11.3	11.9	11.9	11.4	12.0	12.3
Net Profits to Sales	6.1	7.2	5.6	6.0	5.3	5.2	5.9	6.8
Interest to Sales	3.7	3.4	3.6	3.5	4.0	3.8	3.8	3.7
Interest to Gross profits	31.7	26.3	32.1	29.0	33.5	33.7	31.7	30.0
Interest Coverage (Times)	3.2	3.8	3.1	3.4	3.0	3.0	3.2	3.3

cent in Q3:2013-14 and improved to 19.5 per cent in Q4. Lesser tax provisions in Q4 helped to improve net profit growth further in Q4, despite lower growth rates of EBITDA (operating profits) and EBIT (gross profits). Interest coverage ratio has improved during the recent quarters. EBITDA margins in Q4:2013-14 remained at a level similar to that in Q1:2012-13, with range-bound fluctuations during the eight quarter period. Net profit margins have shown improvement during the last two quarters.

5.4. Limited results available so far for Q1:2014-15 (April-June 2014) indicated an improvement in sales growth, with higher EBITDA and net profits and better profitability.

Annex

Explanatory Notes

1. To compute the growth rates in any period, a common set of companies for the current and previous period is considered.
2. The classification of industries and sectors broadly follows the National Industrial Classification (NIC).
3. 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.
4. 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.
5. Other income includes various regular incomes like rents, dividends, royalties etc. and does not include extra-ordinary income/expenses.
6. 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.
7. 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.
8. The ratio / growth rate for which denominator is negative or negligible is not calculated, and is indicated as '$'.

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 Financial and Investment Companies, 2012-13**

An analysis of financial performance of select 1,005 non-government financial and investment companies for the year 2012-13, based on their audited annual accounts revealed that the growth in income and expenditure decelerated during the year 2012-13 vis-à-vis previous year due to moderate growth in interest income and interest expenses, respectively. The growth in net profit improved in 2012-13, but the growth in operating profits (EBDT) and operating profit margin declined. The share of long-term borrowings, which constitutes major part of total liabilities of financial and investment companies, increased as compared to previous year; with fall in the share of shareholders' funds. On the assets side, short-term and long-term loans as well as current and non-current investments gained in share. During 2012-13, profitability ratios like return on assets and return on shareholders' equity declined mainly as a result of further increase in debt-equity ratio. The financial and investment companies continued to rely mainly on external sources for expansion and used it predominantly for growing their long-term loans and investment portfolios.

This article presents an analyses of the performance of non-government non-banking financial and investment companies (excluding insurance and chit-fund companies) for the financial year 2012-13 based on the audited annual accounts of 1,005 companies, which closed their accounts during the period April 2012 to March 2013[1]. The performance of these companies during the last three years period *i.e.*, from 2010-11 to 2012-13 based on same set of companies data is also assessed in this article.

The segment of financial and investment companies in the private corporate sector is highly skewed. The presence of large sized and influential companies in terms of assets, income, retained profits, *etc.*, which are in large variance with the performance of remaining companies would exert considerable influence on the overall financial performance of the select companies. Therefore, the analysis presented in this article excludes results of ten such influential companies and confined to the sample of 1,005 companies. The detailed data for select 1,005 companies and also 1,015 companies (including ten influential companies) for the year 2012-13 along with explanatory notes have been made available in the website of the Reserve Bank of India. As per provisional estimate of population paid-up capital (PUC) supplied by Ministry of Corporate Affairs, GoI, the select 1,005 companies accounted for 35.4 per cent of paid-up capital of all non-government non-banking financial and investment companies as on March 31, 2013.

The financial and investment companies were classified into five groups, *viz.*(1) Share Trading and Investment Holding,(2) Loan Finance, (3) Asset Finance, (4) Diversified and (5) Miscellaneous. A company was classified in one of the first three principal activity groups if at least half of its annual income during the study year 2012-13 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[2] were classified under 'Miscellaneous' group. 'Share Trading and Investment Holding' companies dominated the sample in terms of number of companies followed by 'Loan Finance' companies. However, 'Loan Finance' companies dominate in terms of financial parameters *viz.*, paid-up capital, financial income and total net assets (Table 1).

* Prepared in the Company Finances Division of the Department of Statistics and Information Management, Reserve Bank of India, Mumbai. The previous study was published in October 2013 issue of the Reserve bank of India Bulletin, which covered 1,342 non-government financial and investment companies during 2011-12.

[1] In the case of companies, which either extended or shortened their accounting year, income, expenditure and appropriation figures have been annualised. The balance sheet data, however, have been retained as presented in the annual accounts of companies. The analysis of the financial performance for the year, are subject to this limitation.

[2] Companies engaged in financial advisory services, fund management services, portfolio management services, *etc.*, are also included in 'Miscellaneous' group.

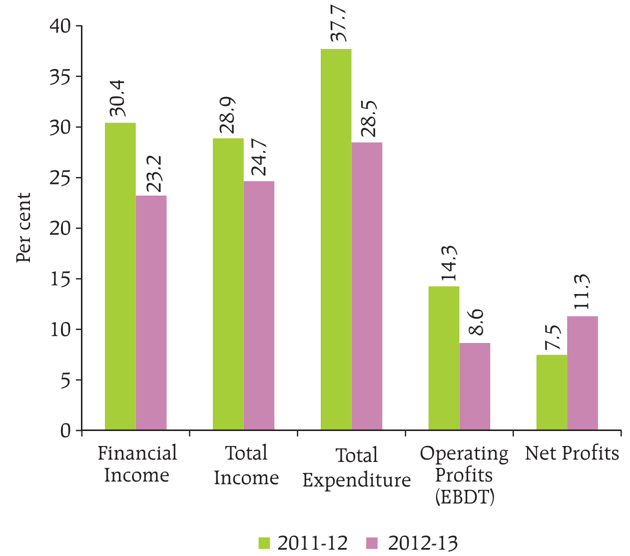
Table 1: Composition of Select 1005 Companies by Activity Group - 2012-13

(Per cent)

Activity	No. of Companies	Paid-up Capital	Financial Income	Total Net Assets
Share Trading and Investment Holding	43.2	27.9	8.0	13.8
Loan Finance	39.2	58.4	70.2	67.6
Asset Finance	5.1	4.3	11.9	10.1
Diversified	1.4	2.5	1.1	1.6
Miscellaneous	11.1	6.9	8.8	7.0
All Activities	**100.0 (1,005)**	**100.0 (3,41,876)**	**100.0 (7,56,683)**	**100.0 (57,61,393)**

Note: Figures in parentheses represent total under respective columns. The amounts are in ₹ millions.

Chart 1: growth rates of select items: 2011-12 and 2012-13



1. *Growth in Net Profits improved but that in Operating Profits declined*

1.1 The growth in income of select financial and investment companies declined to 24.7 per cent in 2012-13 from 28.9 per cent recorded in 2011-12. The growth in expenditure also declined to 28.5 per cent in 2012-13 from 37.7 per cent in 2011-12 (Chart 1).

1.2 The financial income of the select 1,005 financial and investment companies grew by 23.2 per cent in 2012-13 *vis-à-vis* 30.4 per cent in 2011-12. This moderation in financial income growth was mainly due to moderate growth in interest income together with decline in dividend income during the year. The growth in interest income moderated to 31.2 per cent in 2012-13 from 39.5 per cent in the previous year, whereas, dividend income declined by 1.3 per cent in 2012-13 from a positive growth of 38.5 per cent in 2011-12. Growth in interest expenses also decelerated sharply to 37.4 per cent *vis-à-vis* 57.6 per cent recorded in the previous year (Statement 1).

1.3 The operating profits (EBDT) of the select financial companies grew at a lower rate of 8.6 per cent in 2012-13 as compared to 14.3 per cent in 2011-12 (Chart 1 and Statement 1). However, net profits grew at an improved rate of 11.3 per cent in 2012-13 *vis-à-vis* 7.5 per cent in 2011-12. Dividend payment grew at higher rate, and consequently, retained profits grew at lower rate. It was also observed that the investment also grew at a higher rate *vis-à-vis* previous year.

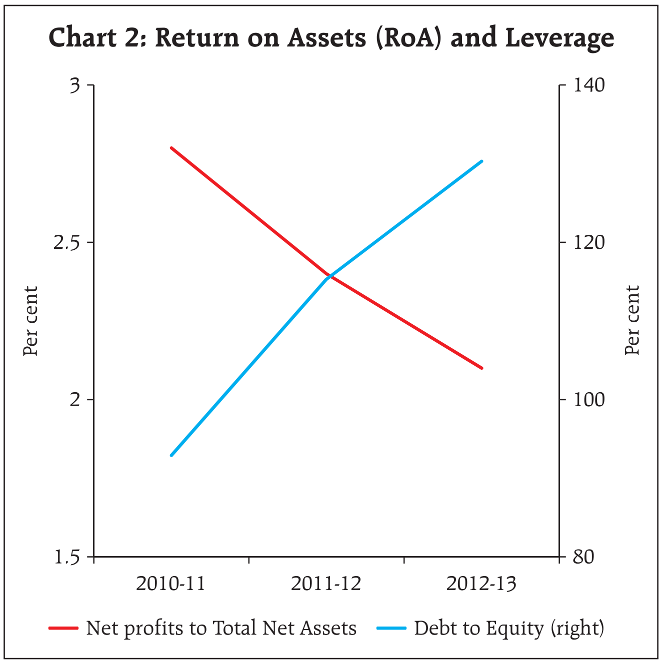
1.4 Among the activity groups, the growth of both the operating profits and net profits moderated for 'Loan Finance' and 'Assets Finance' group of companies (Statement 1). The growth in borrowing from banks also decelerated in 2012-13 in all the activity groups, except for 'Share Trading and Investment Holding' companies.

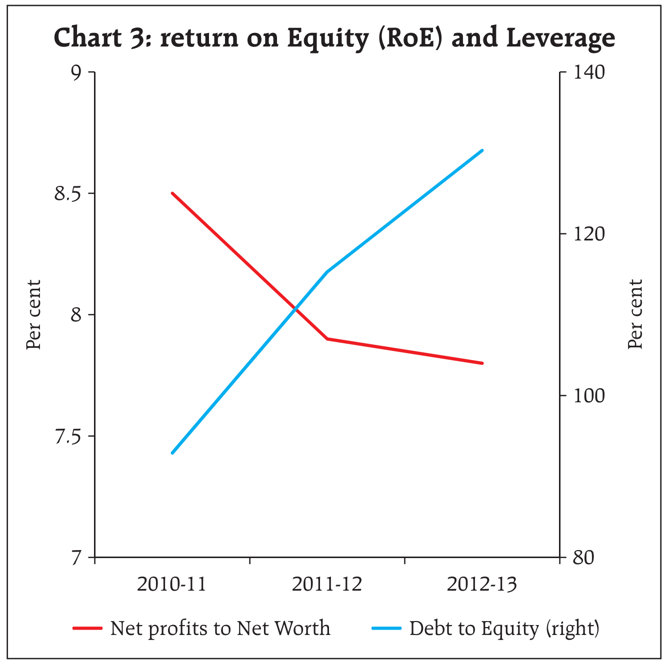
2. *Profitability ratios declined marginally mainly due to high leverage*

2.1 The leverage (measured as a ratio of debt to equity) of the select financial and investment companies had increased gradually from 92.9 per cent in 2010-11 to 115.3 per cent in 2011-12 and further to 130.3 per cent in 2012-13. The increase in leverage ratio during 2012-13 *vis-à-vis* previous year was observed in all the activity groups of select financial and investment companies, except 'Asset Finance' and 'Miscellaneous' companies (Statement 2).

2.2 As a result of increased leverage ratio, the profitability of financial and investment companies as measured by return on assets (ratio of net profits to total net assets) and return on equity (ratio of net profit to net worth) declined marginally (Chart 2 and Chart 3).

2.3 The marginal decline in return on assets is observed in all activity groups except 'Miscellaneous' companies. However, for 'Loan Finance' companies the





return on equity had increased *vis-à-vis* previous year (Statement 2).

2.4 The operating profit margin, measured as a ratio of operating profits to financial income also declined to 25.0 per cent in 2012-13 from 32.4 per cent recorded in 2010-11 due to low growth in operating profits (Chart 1, Statement 1 and Statement 2).

2.5 However, the dividend payout ratio (measured as ratio of dividends paid to net profits) of the select financial and investment companies had increased over the last three years, from 21.4 per cent in 2010-11 to 24.9 per cent in 2011-12 and then to 30.6 per cent in 2012-13. The increase in dividend payout ratio is seen in 'Share Trading and Investment Holding' and 'Loan Finance' groups of companies only (Statement 2).

3. *Share of Interest Income and Income from Hire Purchase Financing in total Income increased*

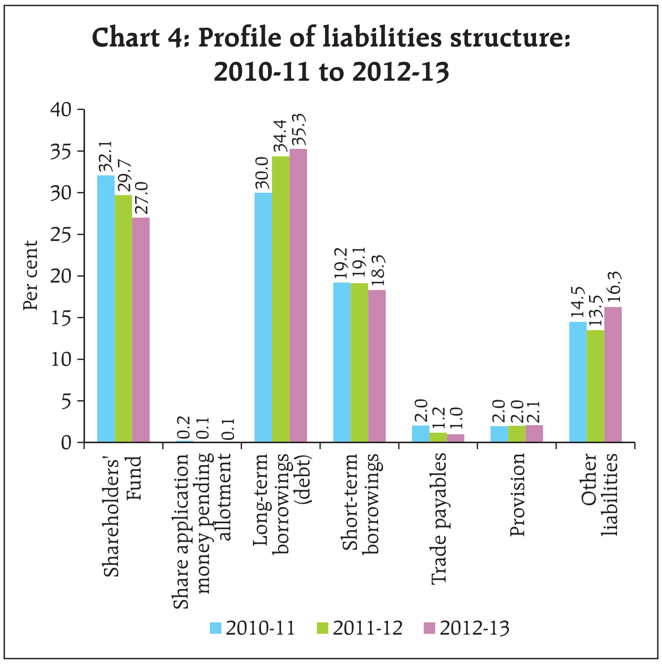
3.1 The fund based income continued to play dominant role in generating income for financial and investment companies as compared to fee-based income.

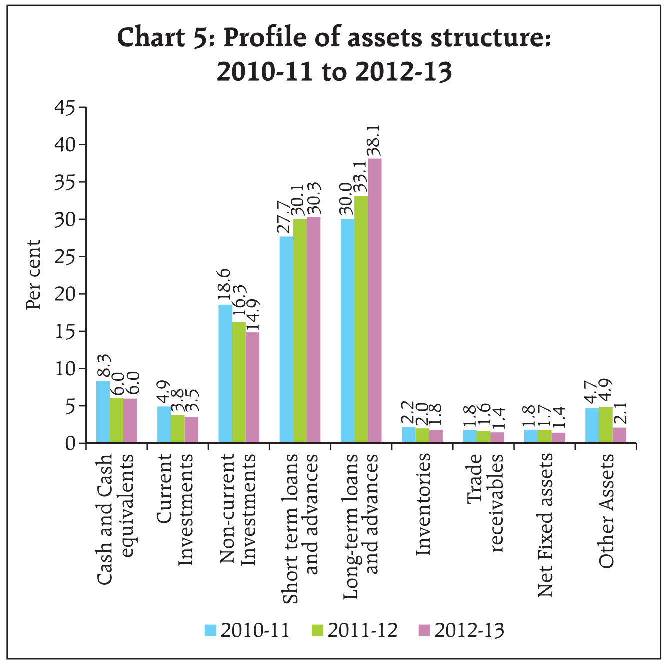
3.2 The shares of interest income, which is the main source of income generation for financial and investment companies and net earnings from hire purchase financing in total income continued to increase over the last three years. The share of interest income increased from 59.9 per cent in 2010-11 to 64.9 per cent in 2011-12 and then to 68.3 per cent in 2012-13, whereas, net earnings from hire purchase financing increased marginally from 5.3 per cent in 2010-11 to 5.6 per cent in 2011-12 and further to 6.0 per cent in 2012-13. However, the shares of brokerage income and income from share dealings in total income of the select financial and investment companies declined continuously in the last three years (Statement 3).

3.3 On the expenditure side, the share of interest expenses and provision (inclusive of both depreciation provision and other provision) to the total expenditure of the financial and investment companies increased in 2012-13 as compared to previous year. The interest expenses increased to 57.4 per cent in 2012-13 from 53.6 per cent in previous year. While, the share of expenses relating to salary, wages and bonus, bad debt and other expenses in total expenditure declined (Statement 3).

4. *Share of Long-term Borrowings in Total Liabilities increased and that of Shareholders' Funds declined*

4.1 The share of long-term borrowings, which constitutes major part of total liabilities of financial and investment companies increased gradually to 35.3 per cent in 2012-13 from 34.4 per cent in 2011-12, whereas,





the share of shareholders' funds fell gradually from 32.1 per cent in 2010-11 to 29.7 per cent in 2011-12 to further 27.0 per cent in 2012-13 (Chart 4). The decline in shareholders' funds might be due to increased dividends payout.

4.2 The increase in the share of long-term borrowings in total liabilities was observed for 'Share Trading and Investment Holding', 'Loan Finance' and 'Diversified' group of companies, whereas, marginal increase in share of shareholders' fund to total liabilities was seen only for 'Asset Finance' companies (Statement 4).

5. *Share of Long-term Loan and Advances in Total Assets continued to increase gradually, while share of investment declined*

5.1 The assets pattern of select companies showed that share of both current and non-current investments has gradually declined over the last three years with loans and advances (both short and long-term loans and advances) substituting for it (Chart 5). Share of long term loans and advances increased to 38.1 per cent in 2012-13 from 33.1 per cent previous year. Both long-term and short-term loans and advances together constituted more than two-thirds of total assets in 2012-13.

5.2 Increase in long-term loan financing was seen in all the activity groups except 'Share Trading and Investment Holding', whereas, increase in short-term loan financing was observed in the case of 'Loan Finance' and 'Miscellaneous' groups of companies (Statement 5).

6. *External sources continued to dominate in business expansion though its share in total sources of funds declined*

6.1 With larger role of long-term borrowings in liabilities structure of financial and investment companies, the external sources (*i.e.,* other than internally generated funds) continued to play major role in expanding business, however, their share in total sources of funds declined to 87.1 per cent in 2012-13 from 88.9 per cent in 2011-12. The decline in the share of external sources in total sources of funds was observed in almost all the activity groups of companies. The share of long-term and short-term borrowings in total sources of funds declined from 51.1 per cent and 18.7 per cent in 2011-12 to 38.6 per cent and 14.9 per cent in 2012-13, respectively (Statement 6). The decline in share of borrowings and increase in net profits might have contributed to the increase in share of internal sources in total sources of funds.

6.2 An increase in internal sources of fund was observed in all the activity groups of companies. In particular, for 'Share Trading and Investment Holding' companies, the share of internal sources of funds to total sources of funds increased to 40.4 per cent in 2012-13 from 28.6 per cent in previous year (Statement 6).

7. Long-term Loan financing and Investment pick-up in business activity

7.1 The share of long-term loan and advances in total uses of funds increased from 44.9 per cent in 2011-12 to 58.1 per cent in 2012-13, whereas, the share of short-term loan and advances in total uses of funds declined to 31.1 per cent in 2012-13 from 39.1 per cent in 2011-12. This increase in the share of long-term loans and advances in total uses of funds were observed for 'Share Trading and Investment holding', 'Loan Finance' and 'Diversified' groups of companies. While, the share of short-term loan and advances in total uses of funds declined in all activity groups except 'Miscellaneous' companies (Statement 7).

7.2 Further, it was also seen that the share of fresh investments (both current and non-current investments) in total uses of funds increased *vis-à-vis* previous year for almost all activity groups of companies except 'Loan Finance'. The share of fresh current investment in total uses of funds was at 2.5 per cent in 2012-13, while there was fall during 2011-12. The share of non-current investment in total uses of funds also increased to 9.1 percent in 2012-13 from 7.3 per cent in 2011-12. For 'Share Trading and Investment Holding' group of companies the share of fresh non-current investments increased to 87.8 per cent in 2012-13 from 65.4 per cent in 2011-12 (Statement 7).

Table 2: Select Growth Rates and Ratios of NBFC-Deposit taking and Housing Finance Companies

(Per cent)

Item	NBFC-D (40)			Housing Finance (18)		
	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13
Select Growth Rates						
1. Financial Income	-	21.2	24.3	-	53.7	54.4
2. Total Income	-	21.0	24.9	-	51.8	54.6
3. Total Expenditure	-	22.2	26.1	-	66.0	56.6
4. Operating Profits (EBDT)	-	18.6	19.5	-	16.0	45.8
5. Net Profits	-	19.5	23.2	-	8.6	42.4
Select Ratios						
1. EBDT to Financial Income	29.1	28.4	27.4	24.8	18.7	17.6
2. Debt to Equity	281.8	292.4	274.3	654.6	675.0	653.6

8. Profits of NBFC-Deposit taking (NBFC-D) and Housing Finance Companies (HFCs) improved and leverage declined in 2012-13

8.1 Contrary to the trend at aggregate level, growth rate of financial income for NBFC-D and HFCs increased during 2012-13 *vis-à-vis* previous year (Table 2). For the HFCs, the growth in expenditure decline to 56.6 per cent in 2012-13 from 66.0 per cent in 2011-12.

8.2 Not only the net profits, operating profits also grew at higher rate for both these type of companies in 2012-13 as compared to previous year. However, operating profit margin declined in 2012-13 in line with trend at aggregate level as compared to previous year.

8.3 The leverage for NBFC-D as well as for HFCs declined in 2012-13 after showing an increase in 2011-12 over 2010-11. The leverage ratio for HFCs was at significantly high level for all the three years.

9. Concluding Observations

9.1 It was observed from the aggregate results of the select 1,005 non-government financial and investment companies that their income and expenditure grew at lower rate during the year 2012-13 *vis-à-vis* previous year. However, the net profits grew at higher rate as compared to previous year, but the operating profits (EBDT) grew at lower rate and operating profit margin declined in 2012-13. Further, profitability ratios like return on assets and return on shareholders' equity declined mainly due to further increase in debt-equity ratio during 2012-13.

9.2 The share of long-term borrowings, which constitutes major part of total liabilities of financial and investment companies increased as compared to previous year, indicating an increasing role of long term borrowings in liability structure, with declined share of shareholders' funds. On the assets side, both short-term and long-term loans and advances as well as current and non-current investments gained in share.

9.3 The select financial and investment companies continued to rely mainly on external sources for expansion though its share in total sources of fund declined. Funds were predominantly used for growing their long-term loans and investment portfolios.

Statement 1: Growth Rates of Select Items of the Select Financial and Investment Companies: 2011-12 and 2012-13

(Per cent)

Item	All Activities		Share Trading and Investment Holding		Loan Finance		Asset Finance		Diversified		Miscellaneous	
	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
1. Financial Income	30.4	23.2	16.1	-8.4	35.4	27.1	41.2	32.5	49.5	85.7	6.7	15.5
Of which,												
(a) Interest Received	39.5	31.2	27.3	30.1	39.7	30.7	75.0	41.9	66.7	103.2	1.1	5.0
(b) Dividend Received	38.5	-1.3	38.2	-3.1	49.9	-8.8	-34.5	33.2	-148.8	-196.1	41.7	57.8
2. Total Income	28.9	24.7	12.3	-5.7	34.7	28.1	39.2	34.1	48.3	78.2	5.1	21.4
3. Total Expenditure	37.7	28.5	41.7	-17.3	41.1	34.8	40.2	35.2	49.6	80.2	15.7	12.9
4. Interest Payment	57.6	37.4	26.3	39.2	61.1	37.0	47.1	36.5	13.8	277.1	64.4	32.0
5. Employees' Remuneration	12.0	12.2	44.1	-21.8	8.3	23.6	19.1	26.2	42.2	64.6	4.1	-9.8
6. Operating Profits (EBDT)	14.3	8.6	-4.1	1.1	21.4	5.9	44.2	25.9	28.9	83.2	-22.9	26.6
7. Net Profits	7.5	11.3	-10.4	8.5	18.4	2.4	38.8	28.7	69.0	75.5	-50.6	153.4
8. Dividend Paid	25.4	36.4	14.9	17.1	49.0	44.6	14.3	27.4	-55.4	3.9	-16.0	84.1
9. Profits Retained	2.9	2.6	-21.3	3.0	13.1	-8.4	43.2	29.5	103.7	80.0	-69.7	254.7
10. Investments @	7.3	14.2	7.9	20.1	4.9	3.9	41.4	38.7	2.8	125.6	10.4	11.2
11. Total Net Assets @	25.9	24.4	10.2	15.4	30.0	26.7	27.0	25.2	58.5	97.1	21.7	11.5
12. Borrowings @	36.8	24.6	0.9	28.7	42.6	25.4	27.7	19.9	82.7	103.6	36.1	7.2
Of which, from Banks @	43.4	23.2	7.4	25.0	39.2	29.1	61.2	11.4	259.1	197.8	51.3	-22.6
13. Net Worth @	16.2	13.0	12.6	10.7	19.0	13.0	27.9	29.4	24.0	69.3	6.4	6.3

@ adjusted for revaluation, *etc.*, if any.

Statement 2: Select Financial Ratios of the Select Financial and Investment Companies: 2010-11 to 2012-13

(Per cent)

Item	All Activities			Share Trading and Investment Holding			Loan Finance		
	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13
1. Dividends to Net Profits	21.4	24.9	30.6	30.2	38.8	41.9	15.7	19.8	27.9
2. Operating Profits to Financial Income	32.4	28.4	25.0	60.2	49.7	54.9	29.7	26.7	22.2
3. Net profits to Total Net Assets	2.8	2.4	2.1	4.6	3.8	3.5	2.4	2.2	1.8
4. Net profits to Net Worth	8.5	7.9	7.8	7.0	5.5	5.4	9.4	9.4	8.5
5. Debt to Equity	92.9	115.3	130.3	27.5	26.6	32.0	124.4	158.3	184.2
6. Borrowings to Total Net Assets	49.3	53.6	53.7	25.6	23.5	26.2	53.2	58.4	57.8

Item	Asset Finance			Diversified			Miscellaneous		
1. Dividends to Net Profits	16.8	13.8	13.7	22.2	5.9	3.5	37.6	63.8	46.4
2. Operating Profits to Financial Income	28.5	29.1	27.7	17.1	14.8	14.6	22.4	16.2	17.7
3. Net profits to Total Net Assets	2.2	2.4	2.5	0.8	0.8	0.7	2.2	0.9	2.0
4. Net profits to Net Worth	12.7	13.8	13.7	4.6	6.3	6.5	6.8	3.1	7.5
5. Debt to Equity	246.7	237.0	198.1	13.2	111.3	321.9	78.7	119.7	109.1
6. Borrowings to Total Net Assets	67.1	67.5	64.6	61.8	71.3	73.6	44.7	50.0	48.1

Statement 3: Composition of Income and Expenditure of the Select Financial and Investment Companies: 2010-11 to 2012-13

(Per cent)

Items	All Activities			Share Trading and Investment Holding			Loan Finance		
	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13
Income									
1. Financial Income	**98.1**	**99.3**	**98.1**	**90.4**	**93.5**	**90.9**	**99.5**	**100.0**	**99.3**
A. Fund-based Income	**85.4**	**89.7**	**89.3**	**72.2**	**78.2**	**72.9**	**94.3**	**96.3**	**96.1**
Of which, (a) Interest	59.9	64.9	68.3	12.7	14.4	19.9	86.1	89.4	91.2
(b) Net Profit/ Loss in Share Dealings	5.8	4.9	2.4	32.0	30.6	18.8	2.1	1.7	0.8
(c) Net Earnings from Hire Purchase Financing	5.3	5.6	6.0	0.1	0.1	-0.1	0.2	-	0.1
B. Fee-based Income	**12.7**	**9.5**	**8.8**	**18.3**	**15.3**	**18.0**	**5.3**	**3.7**	**3.1**
Of which, Brokerage	5.6	3.1	2.2	4.4	3.1	2.9	1.0	0.6	0.4
2. Non-financial Income	**0.8**	**0.9**	**0.8**	**4.3**	**4.5**	**4.0**	**0.3**	**0.3**	**0.4**
3. Non-operating surplus/deficit	**1.1**	**-0.1**	**1.1**	**5.3**	**1.9**	**5.1**	**0.2**	**-0.4**	**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	46.9	53.6	57.4	31.9	28.5	47.9	52.7	60.2	61.1
2. Salaries, Wages and Bonus	12.9	11.0	10.1	13.5	10.2	13.7	11.3	9.9	9.1
3. Bad Debts #	4.4	2.4	2.4	0.6	0.7	0.7	5.4	2.3	2.5
4. Other Expenses	26.5	24.4	20.5	34.1	45.8	26.9	23.4	19.9	17.8
5. Other Provisions (other than tax and depreciation)	5.3	5.0	6.5	14.0	11.0	5.8	4.5	5.1	7.2
6. Depreciation Provision	2.4	2.1	1.9	3.5	2.2	2.7	1.4	1.2	1.1
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		
Income									
1. Financial Income	**99.2**	**100.6**	**99.5**	**90.9**	**91.6**	**95.4**	**98.2**	**99.7**	**94.9**
A. Fund-based Income	**94.6**	**96.4**	**96.5**	**67.1**	**69.2**	**78.0**	**43.7**	**50.0**	**45.4**
Of which, (a) Interest	11.7	14.7	15.6	54.6	61.3	69.9	9.4	9.1	7.8
(b) Net Profit/ Loss in Share Dealings	-0.7	-0.2	-0.1	7.3	5.3	6.3	2.3	2.3	1.7
(c) Net Earnings from Hire Purchase Financing	50.9	50.6	50.2	0.4	0.2	0.1	-	-	-
B. Fee-based Income	**4.6**	**4.2**	**3.0**	**23.8**	**22.4**	**17.5**	**54.5**	**49.7**	**49.5**
Of which, Brokerage	0.0	0.0	0.0	13.2	5.8	2.6	36.8	24.9	17.9
2. Non-financial Income	**0.4**	**0.3**	**0.3**	**4.4**	**3.1**	**1.6**	**0.4**	**0.7**	**0.9**
3. Non-operating surplus/deficit	**0.4**	**-0.9**	**0.3**	**4.7**	**5.3**	**3.0**	**1.4**	**-0.4**	**4.2**
Total Income	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Expenditure									
1. Interest	51.4	53.9	54.4	25.6	19.5	40.7	24.4	34.6	40.5
2. Salaries, Wages and Bonus	9.3	8.8	7.9	15.1	12.9	11.4	23.0	20.5	18.3
3. Bad Debts #	5.9	3.4	3.8	0.4	3.0	3.3	1.2	3.0	0.7
4. Other Expenses	20.4	24.0	23.6	50.9	59.5	40.8	41.4	33.4	30.4
5. Other Provisions (other than tax and depreciation)	7.1	3.8	4.4	2.2	1.0	1.6	3.1	1.6	4.6
6. Depreciation Provision	4.7	5.0	4.9	3.3	2.3	1.1	4.4	4.5	3.7
Total Expenditure	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Including provisions for bad debts.

\- Nil or negligible.

Statement 4: Profile of Liabilities Structure of the Select Financial and Investment Companies: 2010-11 to 2012-13

(Per cent)

Items	All Activities			Share Trading and Investment Holding			Loan Finance		
	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13
1. Shareholders' Fund	32.1	29.7	27.0	66.1	68.0	65.3	25.6	23.5	21.0
Of which, (a) Share Capital	7.7	6.9	5.9	12.2	12.6	12.0	7.1	6.2	5.1
(b) Reserves and Surplus	24.4	22.8	21.1	54.0	55.4	53.3	18.5	17.3	15.8
2. Share application money pending allotment	0.2	0.1	0.1	0.5	0.1	0.1	0.1	-	-
3. long-term borrowings (debt)	30.0	34.4	35.3	18.3	18.1	20.9	31.9	37.2	38.6
Of which, (a) Bonds/Debentures	9.9	12.1	13.4	9.3	8.1	10.0	7.9	12.4	13.3
(b) Term loans	15.6	17.7	18.2	1.2	2.4	2.3	19.8	20.4	22.0
Of which, from banks	14.7	16.6	16.9	0.3	0.5	0.6	18.8	19.2	20.5
4. Short-term borrowings	19.2	19.1	18.3	7.3	5.4	5.2	21.1	21.0	19.0
Of which, Loans repayable on demand	11.0	12.3	10.9	3.2	2.7	2.4	11.8	13.4	11.7
Of which, from banks	9.4	10.9	10.3	0.5	0.3	0.3	10.3	12.1	11.4
5. Trade payables	2.0	1.2	1.0	1.2	0.9	0.8	1.5	0.7	0.7
6. Provision	2.0	2.0	2.1	2.6	2.7	2.6	2.0	2.0	2.2
7. Other liabilities	14.5	13.5	16.3	4.0	4.8	5.1	17.8	15.6	18.5
Of which, Current	13.4	12.7	15.5	3.6	4.4	4.7	16.4	14.5	17.6
Of which, Current maturity of Long-Term debt	9.7	8.5	11.1	1.8	1.0	2.0	12.5	10.3	12.9
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		
1. Shareholders' Fund	17.3	17.4	18.1	16.7	13.1	11.2	31.6	28.0	26.7
Of which, (a) Share Capital	3.3	3.0	2.5	18.0	13.0	9.5	7.1	6.4	5.9
(b) Reserves and Surplus	14.0	14.5	15.6	-1.2	0.1	1.7	24.5	21.6	20.8
2. Share application money pending allotment	0.1	0.1	-	-	-	-	0.9	0.5	0.5
3. long-term borrowings (debt)	42.9	41.5	35.8	2.2	14.6	36.2	25.6	34.1	29.6
Of which, (a) Bonds/Debentures	26.1	18.2	18.8	-	3.9	18.4	8.3	10.5	11.9
(b) Term loans	13.1	20.2	15.8	1.6	10.0	17.4	16.1	21.5	16.2
Of which, from banks	12.4	19.7	15.3	1.6	10.0	17.4	15.7	21.5	16.2
4. Short-term borrowings	24.2	26.0	28.8	59.5	56.5	37.2	19.0	15.8	18.4
Of which, Loans repayable on demand	20.9	21.9	21.5	12.7	9.3	9.4	8.7	8.6	4.7
Of which, from banks	19.6	20.9	20.8	6.0	7.3	8.7	8.2	8.2	4.4
5. Trade payables	2.1	2.0	1.0	2.8	1.9	0.9	8.3	4.6	4.2
6. Provision	1.4	1.3	1.3	5.3	3.6	2.1	0.8	1.5	1.2
7. Other liabilities	11.8	11.4	14.7	13.5	10.3	12.2	13.7	15.6	19.4
Of which, Current	11.3	11.0	14.3	10.9	9.7	11.6	13.0	15.1	19.0
Of which, Current maturity of Long-Term debt	8.3	8.4	10.7	1.3	1.1	5.4	7.0	7.9	13.1
Total Liabilities	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

- Nil or negligible.

Statement 5: Profile of Assets Structure of the Select Financial and Investment Companies: 2010-11 to 2012-13

(Per cent)

Items	All Activities			Share Trading and Investment Holding			Loan Finance		
	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13
1. Cash and Cash equivalents	8.3	6.0	6.0	3.6	3.5	3.1	9.2	6.8	6.5
2. Current Investments	4.9	3.8	3.5	5.7	4.4	4.6	5.6	4.1	3.6
3. Non-current Investments	18.6	16.3	14.9	68.6	68.4	71.2	8.8	7.5	6.0
Of which, Indian Securities	18.5	16.3	14.8	68.6	68.4	71.2	8.8	7.5	6.0
4. Short term loans and advances	27.7	30.1	30.3	6.2	6.4	5.0	32.8	34.8	35.2
5. Long-term loans and advances	30.0	33.1	38.1	7.9	7.3	7.7	34.7	37.7	43.8
6. Inventories	2.2	2.0	1.8	2.5	4.1	3.8	2.1	1.5	1.4
7. Trade receivables	1.8	1.6	1.4	1.1	1.4	1.1	0.8	0.8	0.9
8. Net Fixed assets	1.8	1.7	1.4	2.1	2.1	1.4	1.1	0.9	0.8
9. Other Assets	4.7	4.9	2.1	1.0	1.3	1.0	4.3	5.3	1.4
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		
1. Cash and Cash equivalents	7.1	2.4	4.6	7.6	4.0	1.7	12.9	8.9	9.1
2. Current Investments	0.9	1.6	2.3	5.8	2.7	3.0	2.2	2.4	2.8
3. Non-current Investments	2.5	2.2	1.9	6.9	5.6	6.4	12.4	10.8	10.4
Of which, Indian Securities	2.5	2.2	1.9	6.9	5.6	6.4	12.4	10.8	10.4
4. Short term loans and advances	29.7	29.8	27.5	57.9	61.8	43.3	26.9	30.6	34.1
5. Long-term loans and advances	44.5	47.2	48.7	3.9	14.2	35.3	23.8	27.4	28.3
6. Inventories	1.6	1.5	1.3	6.3	4.2	6.5	2.1	2.2	1.2
7. Trade receivables	0.9	1.2	1.4	5.0	3.2	1.6	12.3	10.1	7.7
8. Net Fixed assets	3.1	4.1	3.4	2.7	1.7	0.8	5.6	4.9	4.2
9. Other Assets	9.5	9.7	8.7	3.6	2.3	1.1	1.2	1.8	1.3
Total Assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Statement 6: Composition of Sources of Funds of the select Financial and Investments Companies: 2011-12 and 2012-13

(Per cent)

Item	All Activities		Share Trading and Investment Holding		Loan Finance		Asset Finance		Diversified		Miscellaneous	
	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
Sources of Funds												
Internal Sources	11.1	12.9	28.6	40.4	9.7	9.8	12.8	13.8	1.7	2.2	9.0	12.8
1. Paid-up Capital	0.1	0.1	-	-	0.1	0.1	-	0.5	-	-	0.1	-
2. Reserves and Surplus	8.4	9.6	23.7	36.2	7.5	6.4	9.8	9.9	2.1	1.6	2.6	11.4
3. Provisions	2.6	3.2	4.9	4.2	2.0	3.3	3.0	3.4	-0.4	0.6	6.3	1.3
External sources	88.9	87.1	71.4	59.6	90.3	90.2	87.2	86.2	98.3	97.8	91.0	87.2
4. Share Capital and premium	11.0	6.7	50.6	16.9	8.5	4.8	7.7	9.8	4.5	7.9	5.8	6.1
Of which, Premium on shares	7.3	4.9	34.5	8.7	5.5	3.9	6.0	9.5	-	1.9	2.9	5.0
5. Capital receipts	1.0	-0.5	10.5	-6.2	0.1	0.2	-	-	0.3	-0.1	2.5	-2.4
6. Share application money pending allotment	-0.4	-0.1	-3.4	-0.5	-0.1	-0.1	0.1	-0.2	-	-	-1.6	0.2
7. Long-term borrowings	51.1	38.6	15.7	38.5	54.9	43.7	35.6	13.1	36.1	58.5	71.6	-9.2
Of which, (a) Bonds / Debentures	20.7	18.3	-3.9	21.9	27.6	16.4	-10.6	20.5	10.6	33.3	20.4	23.2
(b) Term loans	25.7	20.0	13.9	2.2	22.1	27.8	45.8	-1.8	24.5	25.1	45.4	-29.2
Of which, from banks	23.7	18.1	2.2	1.4	20.4	25.2	45.9	-2.0	24.5	25.1	47.2	-29.3
8. Short-term borrowings	18.7	14.9	-13.5	4.2	20.6	11.3	31.9	39.1	52.0	17.4	1.2	40.0
Of which, Loans repayable on demand	17.1	5.4	-1.6	0.5	18.8	5.4	25.3	19.5	3.6	9.5	8.0	-28.5
of which, from banks	16.5	7.8	-1.6	-0.2	17.8	8.7	25.3	20.1	9.6	10.1	8.1	-28.0
9. Trade payables	-2.2	0.2	-1.3	-0.1	-1.9	0.6	1.5	-2.7	0.5	-0.1	-12.3	0.7
10. Other liabilities	9.6	27.4	12.7	7.0	8.1	29.6	9.9	27.2	4.9	14.2	23.7	51.9
Of which, Current	9.8	26.7	12.2	6.2	8.3	28.8	9.5	26.9	7.6	13.6	24.3	51.7
Of which, Current maturities of long-term debt	3.6	21.5	-7.0	8.6	3.2	22.4	8.5	19.2	0.7	9.8	11.5	57.2
Total Sources of Funds	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

- Nil or negligible.

Statement 7: Composition of Uses of Funds of the select Financial and Investments Companies: 2011-12 and 2012-13

(Per cent)

Item	All Activities		Share Trading and Investment Holding		Loan Finance		Asset Finance		Diversified		Miscellaneous	
	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
Uses of Funds												
1. Cash and cash equivalents	-2.9	5.7	2.0	0.8	-1.1	5.4	-14.5	12.9	-2.2	-0.6	-9.3	10.3
2. Current Investments	-0.7	2.5	-8.2	5.3	-1.0	1.5	4.4	4.8	-2.7	3.4	3.3	5.8
3. Non-Current Investments	7.3	9.1	65.4	87.8	3.4	0.1	0.7	0.9	3.4	7.3	3.5	6.8
Of which, Indian Securities	7.3	9.0	65.4	87.7	3.4	0.1	0.7	0.9	3.4	7.3	3.5	6.8
4. Short term loans and advances	39.1	31.1	8.3	-4.2	41.8	36.3	29.7	18.0	69.1	24.2	46.7	63.7
5. Long term Loans and Advances	44.9	58.1	1.6	10.0	47.6	66.3	56.0	53.4	32.2	57.0	43.2	35.5
6. Inventories	1.3	0.9	19.7	1.9	-0.5	0.9	1.1	0.5	0.6	9.0	2.7	-7.8
7. Trade receivables	1.0	0.7	3.7	-0.6	0.7	1.3	2.2	2.3	0.2	-0.1	-0.2	-12.3
8. Gross Fixed Assets	1.9	0.9	3.4	-0.7	0.6	0.9	9.8	2.8	-1.2	-0.1	3.6	-
9. Other Assets	8.2	-8.9	4.2	-0.2	8.6	-12.9	10.6	4.4	0.6	0.1	6.6	-2.0
Total Uses of Funds	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

- Nil or negligible.

*House Price Index: 2010-11 to 2013-14**

The Reserve Bank is compiling quarterly house price index (HPI) (base: 2010-11=100) for ten major cities, viz., Mumbai, Delhi, Chennai, Kolkata, Bengaluru, Lucknow, Ahmedabad, Jaipur, Kanpur and Kochi. Based on these city indices, an average house price index representing all-India house price movement is also compiled. These indices are based on the official data of property price transactions collected from registration authorities of respective state governments. This article presents the trends in price based on HPI in India for the period Q1:2010-11- Q4:2013-14. Also, for understanding the price movements across different size classes, this article presents size wise house price indices and their trends.

Introduction

House is not just an asset but also a durable consumption good for households, providing shelter and other services. A change in the house price affects the households' perceived lifetime wealth and hence influences the spending and borrowing decisions of households. An increase in the house price raises the value of the housing relative to construction costs; hence a new construction is profitable when house price rises above the construction costs. Residential investment is, therefore, positively related with house price increase. House prices also affect bank lending and vice versa. Further, house price gains increase housing collateral. The potential two-way link between bank lending and house prices give rise to mutually reinforcing cycles in credit and real estate markets. These indicate that house prices may affect economic activity through private consumption of households, residential investment and credit allocation of the financial systems. Thus, understanding the price trends of this segment of asset class is important for monetary policy formulation.

Beginning with Mumbai city, the Reserve Bank initiated the work of compiling a house price index (HPI) in 2007 and brought out a quarterly HPI for Mumbai city (base: 2002-03=100). Over the quarters, the coverage has been extended by incorporating 9 more major cities, *viz.,* Delhi, Chennai, Kolkata, Bengaluru, Lucknow, Ahmedabad, Jaipur Kanpur and Kochi and the base is shifted to 2010-11=100.[1] Besides separate HPI for individual cities, an average HPI representing all-India house price movement is also compiled.

This article presents the trends in price based on HPI in India for the period Q1:2010-11- Q4:2013-14. It also focuses on the house price movements in housing submarkets classified by size of the house. For the first time, this exercise will give an idea on how prices of small, medium and large houses have moved in the recent period. In general, housing submarkets could be segmented by a variety of factors, such as by demand and supply factors, geographical/spatial, structural and neighborhood characteristics. Specifically a housing submarket can be defined as "a set of dwellings that are reasonably close substitutes of one another, but relatively poor substitutes for dwellings in other submarkets"[2]. In a segmented housing market, housing price dynamics need not be similar in each segment. The main purpose of delineating a housing market into segments is to identify distinct groups which could help stakeholders channelize and focus on different issues. One major contribution of market segmentation is to provide a more accurate house price structure across size classes.

The Reserve Bank's HPI uses the data on transacted houses at the point of Registration of houses; the data are collected from the registration departments of respective state governments. The HPI is developed on the basis of this registration price data and estimated as a stratified weighted average measure, stratification being done according to administrative zones within a city. This measure captures prices relating only to those houses sold during a period and not relevant to all houses in

* Prepared in the Statistical Analysis Division of the Department of Statistics and Information Management, Reserve Bank of India, Mumbai.

1 An earlier article on HPI was published as Reserve Bank of India (2012), "House Price Index", RBI Monthly Bulletin October 2012.

2 Bourassa, S. C., Hamelink, F., Hoesli, M., &MacGregor, B. D. (1999). "Defining housing submarkets", *Journal of Housing Economics, 8*(2), 160-183.

the economy. As this information set contains data on floor space area, in this article, size-wise house price indices are compiled and presented using the methodology described in the subsequent section.

This article is organised as follows. Section 2 explains the methodology for the compilation of aggregate house price indices as well as size-wise price indices. The trends in HPI in India are discussed in Section 3. Limitations are presented in Section 4. Section 5 concludes.

2. Methodology

The methodology for the compilation of aggregate house price is discussed in detail in the RBI Bulletin article of October 2012[1]. Aggregate House Price Index is a weighted average price index using Laspeyres' method with 2010-11 as the base year. First, the simple average of price (per square meter) of houses in each category, classified by small, medium and large for each ward/administrative zone in each quarter based on floor space area (FSA) is calculated. Second, the proportion of number of houses transacted in the three categories of FSA within a ward/zone during the period April 2010 – March 2011 is taken as the weights. Then, based on an average per square meter price for three FSA category houses in each ward/zone, price-relatives are calculated for each quarter. The price relative is nothing but a ratio of current period price to the base period price. The quarterly ward/zone weighted average price relatives are calculated next. These weighted relative prices are again averaged, using the proportion of number of houses transacted in each ward to the total number of houses transected in the city during the period April 2010 – March 2011 as the weights. The city-wise price indices are averaged using the population proportion (based on 2011 census) of the ten cities to its total to obtain the all-India index.

2.1 Size-wise price indices

For compilation of size class-wise price index at all India level, city level indices of small, medium and large houses are constructed first. For compiling the city level size-wise price indices, house transactions in each ward/zone for each city is classified to small, medium and large[3] based on the floor space area. At city level, for each size category price index is estimated as a weighted average price index, again using Laspeyres' method. The detailed methodology is explained as below.

First, the median price (per square meter) of the transacted houses (***P_{ijt}***) in each size category ***(i)*** in ward/zone ***(j)*** at quarter ***t*** is calculated. Then, based on an average per square meter price for three FSA category houses in each ward/zone, price-relatives are calculated for each quarter. The price relative is basically the ratio of current period price to the base period price. Price relative per square meter for the ithcategory, jth ward/ zone, tth quarter is given by

$$RP_{i,j,t} = \frac{P_{i,j,t}}{P_{i,j,0}},$$

where $P_{i,j,0}$ is the price in the base period. Then for each of the category - small, medium and large - these relative prices are again averaged, using the proportion of number of houses transacted in each ward to the total number of houses transacted in the city during the period April 2010 – March 2011 as the weight (***w_j***). The following formula is used for constructing the city-wise price indices for each category (small, medium and large) for tth quarter

$$HPI_i^t = \sum_{j=1}^{n} (\mathrm{RP}_{ijt} * w_j) = \text{for all t}$$

Where *i*=category of house (small/medium/ large) and n=number of ward/zone in each city. The city-wise price indices for each of the category are averaged using the population proportion (based on 2011 census) of the ten cities to its total to obtain the all-India index for small, medium and large category of house.

3. Trends in HPI

Overall house price index growth rates at all-India level are presented in Table 1. It is observed that index of house price, had been growing at an annual average rate of about 20 per cent (y-o-y) in 2011-12

[3] The classification broadly in line with the 33rd and 67th percentiles of FSA for transaction in each city.

Table 1: House Price Index and y-o-y change – All-India

Quarter	House Price Index	Y-o-Y change
Q1: 10-11	94.2	NA
Q2: 10-11	99.8	NA
Q3: 10-11	99.4	NA
Q4: 10-11	106.6	NA
Q1: 11-12	116.0	23.1
Q2: 11-12	119.4	19.7
Q3: 11-12	125.5	26.2
Q4: 11-12	134.1	25.8
Q1: 12-13	142.6	23.0
Q2:12-13	147.1	23.2
Q3:12-13	157.0	25.1
Q4:12-13	160.8	19.9
Q1:13-14	162.3	13.8
Q2:13-14	169.2	15.1
Q3:13-14	173.4	10.5
Q4:13-14	179.1	11.4

and 2012-13. However, the pace of growth in the average house prices slowed in 2013-14 at 12.7 per cent, plausibly reflecting a correction in trends on the back of subdued demand. For the latest Q4 of 2013-14 quarter, the y-o-y increase in the House Price Index at the all-India level was 11.4 per cent compared to 10.5 per cent in the preceding quarter.

The HPIs and year-on-year variation in prices across various cities are presented in Table 2 and Table 3 respectively. The growth in house prices has moderated in 2013-14 for Mumbai, Delhi, Kolkata, Jaipur and Kanpur. For instance, the house price in the city of Mumbai increased on an average annual basis by 30.0 and 18.5 per cent respectively for 2011-12 and 2012-13. This has declined to 8.7 per cent in 2013-14. However, in the cities like Bengaluru and Ahmedabad house prices grew at relativity slower pace during 2012-13, but picked up momentum in the 2013-14. Kolkata and Delhi which picked up momentum in the 2012-13 showing some moderation in price increase in 2013-14.

The size-wise HPI at all India level as well as point-to-point annual inflation rates are presented in Table 4. The prices in the small size category have gone up at an average annual rate of 23.7 per cent in the last 4 years. The average increase has been lower for medium and large categories at 18.2 and 18.6 per cent, respectively. However, the price variations are more pronounced in the small-size category compared to the other two size categories. In 2013-14, the price increase in the small and medium size category moderated to 8.7 and 10.7 per cent respectively, while that in the large size category remained almost at the average level.

Table 2: House Price Index - City wise

Quarter	Mumbai	Delhi	Bengaluru	Ahmedabad	Lucknow	Kolkata	Chennai*	Jaipur	Kanpur	Kochi
Q1: 10-11	90.6	100.7	98.6	93.2	88.8	77.9	102.7	95.3	91.7	89.6
Q2: 10-11	99.7	95.6	97.9	102.5	98.7	103.2	109.5	99.0	99.4	92.4
Q3: 10-11	100.9	92.1	97.9	102.0	104.7	106.6	94.6	103.6	103.7	113.8
Q4: 10-11	108.8	112.1	105.5	102.2	107.8	112.3	93.1	102.1	105.1	104.2
Q1: 11-12	122.1	126.8	110.7	121.3	118.0	103.0	101.2	106.3	104.7	120.9
Q2: 11-12	131.4	124.8	107.8	130.4	123.1	105.0	110.4	109.6	106.8	105.0
Q3: 11-12	122.8	136.7	138.6	137.1	131.9	103.2	110.7	108.3	108.5	103.1
Q4: 11-12	143.5	158.2	133.3	141.0	129.4	106.1	108.2	108.6	114.9	97.8
Q1: 12-13	147.6	177.3	133.3	140.8	136.4	135.2	119.2	113.4	114.4	98.8
Q2:12-13	148.1	183.2	136.6	146.4	156.6	149.1	117.8	117.4	106.0	127.5
Q3:12-13	158.9	200.7	141.2	150.6	169.3	162.5	137.6	118.9	92.8	136.5
Q4:12-13	159.5	213.1	141.9	155.0	166.2	169.4	137.4	129.4	90.9	124.2
Q1:13-14	160.0	214.8	142.3	161.9	173.9	171.8	138.3	129.4	82.4	127.0
Q2:13-14	169.2	215.7	150.4	171.7	186.7	173.5	150.0	128.0	92.0	161.6
Q3:13-14	169.2	211.1	169.3	172.6	203.6	168.2	174.3	127.3	81.6	189.4
Q4:13-14	169.2	229.3	184.3	169.4	212.5	169.8	179.3	120.0	78.4	166.2

Note: * Chennai Index is based on both residential and commercial properties

Table 3: House Price Index (y-o-y change in per cent) - City wise

Quarter	Mumbai	Delhi	Bengaluru	Ahmedabad	Lucknow	Kolkata	Chennai*	Jaipur	Kanpur	Kochi
Q1: 11-12	34.7	25.9	12.2	30.1	32.9	32.3	-1.5	11.5	14.1	34.9
Q2: 11-12	31.8	30.6	10.1	27.2	24.7	1.8	0.8	10.6	7.3	13.6
Q3: 11-12	21.7	48.5	41.5	34.4	26.0	-3.2	17.0	4.5	4.7	-9.5
Q4: 11-12	31.9	41.2	26.4	37.9	20.1	-5.5	16.2	6.4	9.3	-6.1
Q1: 12-13	20.9	39.8	20.5	16.0	15.6	31.2	17.8	6.7	9.3	-18.2
Q2:12-13	12.7	46.8	26.7	12.2	27.2	42.0	6.8	7.1	-0.7	21.5
Q3:12-13	29.4	46.8	1.9	9.9	28.3	57.5	24.2	9.9	-14.5	32.4
Q4:12-13	11.2	34.7	6.4	9.9	28.4	59.7	27.1	19.1	-20.9	27.0
Q1:13-14	8.4	21.1	6.7	15.1	27.6	27.1	16.0	14.1	-28.0	28.5
Q2:13-14	14.3	17.8	10.1	17.3	19.2	16.4	27.3	9.1	-13.2	26.7
Q3:13-14	6.4	5.2	19.9	14.6	20.3	3.5	26.7	7.0	-12.1	38.8
Q4:13-14	6.1	7.6	29.8	9.3	27.9	0.2	30.4	-7.3	-13.8	33.8

Note: * Chennai Index is based on both residential and commercial properties.

Table 4: Size-wise House Price Index and y-o-y change – All-India

Quarter	House Price Index			Y-o-Y Change		
	Small	Medium	Large	Small	Medium	Large
Q1: 10-11	95.0	95.4	92.3			
Q2: 10-11	99.6	100.4	101.7			
Q3: 10-11	97.3	97.7	100.4			
Q4: 10-11	108.1	105.3	105.6			
Q1: 11-12	119.4	116.0	113.0	25.7	21.6	22.5
Q2: 11-12	121.7	118.6	113.5	22.2	18.1	11.6
Q3: 11-12	125.3	122.5	121.4	28.7	25.4	20.9
Q4: 11-12	135.4	130.1	128.1	25.3	23.5	21.4
Q1: 12-13	156.6	143.5	130.9	31.2	23.7	15.8
Q2:12-13	168.9	145.4	136.8	38.8	22.6	20.5
Q3:12-13	182.5	150.8	146.7	45.7	23.1	20.8
Q4:12-13	188.4	157.9	149.0	39.1	21.4	16.3
Q1:13-14	179.6	154.8	158.0	14.7	7.8	20.8
Q2:13-14	189.0	162.9	166.4	11.9	12.0	21.6
Q3:13-14	194.4	169.6	165.9	6.5	12.5	13.1
Q4:13-14	193.8	174.0	177.3	2.9	10.2	19.0

4. Limitation of the data and methodology

The HPI presented here uses registration price data. It is often believed that registered prices of houses are in general underestimated due to various reasons like high registration fees and stamp duty, obligations for the payment of property tax, etc. Further, the differences in the time gaps between the actual transactions and registrations also do not always follow the similar pattern across different states. Moreover, registrations of the properties are done taking into account different criterion in different states, some of which are (a) partial consideration of un-divided share of land (b) partial consideration of sale of terrace rights, (c) consideration of agreement to sale at the time booking for total price, (d) sale deed only post completion of property. On the other hand, the registration procedure and records maintenance are not computerized in some states and the records in most states are maintained in the regional languages which necessitates further work with respect to bringing them into common format. Getting segregated transactions on land, agreement, whether a land is an agricultural land, sale deed, power of attorney etc. is another challenge. The ten-city average HPI compiled using Laspeyres' approach is a weighted average of city-level HPIs. Ideally, the number of transactions at city level could have been used as weight. However, in the existing data collection mechanism, separate information on the type of the property (residential/commercial) of Chennai is not available. As a result, the proportion of population of the city (to the total population of ten cities together) is used as the weight, as a proxy to the number of transactions.

5. Conclusion

This article presents the trends in house prices in India in the recent period based on a HPI. Further, for the first time, it presents an approach for compiling a size-wise house price index in Indian context. These indices are based on the official data received from registration authorities of various state governments and are compiled at city as well as all India level. Recent trends in the house price index reveal that increase in the house price which was steep in the last few years has moderated in 2013-14. In particular, the house price increase in the small and medium size category has moderated more sharply compared to the large size category.

CURRENT STATISTICS

Select Economic Indicators

Reserve Bank of India

Money and Banking

Prices and Production

Government Accounts and Treasury Bills

Financial Markets

External Sector

Payment and Settlement Systems

Contents

No.	Title	Page
1	Select Economic Indicators	99
	Reserve Bank of India	
2	RBI – Liabilities and Assets	100
3	Liquidity Operations by RBI	101
4	Sale/ Purchase of U.S. Dollar by the RBI	101
5	RBI's Standing Facilities	102
	Money and Banking	
6	Money Stock Measures	102
7	Sources of Money Stock (M_3)	103
8	Monetary Survey	104
9	Liquidity Aggregates	104
10	Reserve Bank of India Survey	105
11	Reserve Money – Components and Sources	105
12	Commercial Bank Survey	106
13	Scheduled Commercial Banks' Investments	106
14	Business in India – All Scheduled Banks and All Scheduled Commercial Banks	107
15	Deployment of Gross Bank Credit by Major Sectors	108
16	Industry-wise Deployment of Gross Bank Credit	109
17	State Co-operative Banks Maintaining Accounts with the Reserve Bank of India	110
	Prices and Production	
18	Consumer Price Index (Base: 2010=100)	111
19	Other Consumer Price Indices	111
20	Monthly Average Price of Gold and Silver in Mumbai	111
21	Wholesale Price Index	112
22	Index of Industrial Production (Base: 2004-05=100)	114
	Government Accounts and Treasury Bills	
23	Union Government Accounts at a Glance	114
24	Treasury Bills – Ownership Pattern	115
25	Auctions of Treasury Bills	115
	Financial Markets	
26	Daily Call Money Rates	116
27	Certificates of Deposit	117
28	Commercial Paper	117
29	Average Daily Turnover in Select Financial Markets	117
30	New Capital Issues by Non-Government Public Limited Companies	118

No.	Title	Page
	External Sector	
31	Foreign Trade	119
32	Foreign Exchange Reserves	119
33	NRI Deposits	119
34	Foreign Investment Inflows	120
35	Outward Remittances under the Liberalised Remittance Scheme (LRS) for Resident Individuals	120
36	Indices of Real Effective Exchange Rate (REER) and Nominal Effective Exchange Rate (NEER) of the Indian Rupee	121
37	External Commercial Borrowings (ECBs)	121
38	India's Overall Balance of Payments (US $ Million)	122
39	India's Overall Balance of Payments (₹ Billion)	123
40	Standard Presentation of BoP in India as per BPM6 (US $ Million)	124
41	Standard Presentation of BoP in India as per BPM6 (₹ Billion)	125
42	International Investment Position	126
	Payment and Settlement Systems	
43	Payment System Indicators	127
	Occasional Series	
44	Small Savings	
45	Ownership Pattern of Government of India Dated Securities (Face Value)	
46	Combined Receipts and Disbursements of the Central and State Governments	

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

No. 1: Select Economic Indicators

Item	2013-14	2012-13	2013-14		2014-15
		Q4	Q1	Q4	Q1
	1	2	3	4	5
1 Real Sector (% Change)					
1.1 GDP	4.7	4.4	4.7	4.6	5.7
1.1.1 Agriculture	4.7	1.6	4.0	6.3	3.8
1.1.2 Industry	-0.1	2.0	-0.9	-0.5	4.0
1.1.3 Services	6.2	5.8	6.5	5.8	6.6
1.1a Final Consumption Expenditure	4.7	4.6	6.8	6.8	6.2
1.1b Gross Fixed Capital Formation	-0.1	3.3	-2.8	-0.9	7.0

	2013-14	2013		2014	
		Jul.	Aug.	Jul.	Aug.
	1	2	3	4	5
1.2 Index of Industrial Production	-0.1	2.6	0.4	0.5	..
2 Money and Banking (% Change)					
2.1 Scheduled Commercial Banks					
2.1.1 Deposits	14.1	13.1	12.6	12.3	12.9
2.1.2 Credit	13.9	14.7	16.3	12.8	10.1
2.1.2.1 Non-food Credit	14.2	14.9	16.5	12.8	10.2
2.1.3 Investment in Govt. Securities	10.3	13.6	9.9	5.9	10.5
2.2 Money Stock Measures					
2.2.1 Reserve Money (M0)	14.4	6.6	7.4	11.5	9.8
2.2.2 Broad Money (M3)	13.2	12.4	12.1	12.7	13.0
3 Ratios (%)					
3.1 Cash Reserve Ratio	4.00	4.00	4.00	4.00	4.00
3.2 Statutory Liquidity Ratio	23.00	23.00	23.00	22.50	22.00
3.3 Cash-Deposit Ratio	4.7	5.1	5.2	4.9	5.1
3.4 Credit-Deposit Ratio	77.8	76.3	77.5	76.6	75.6
3.5 Incremental Credit-Deposit Ratio	76.8	42.6	70.3	38.6	27.8
3.6 Investment-Deposit Ratio	28.7	30.8	30.1	29.1	29.4
3.7 Incremental Investment-Deposit Ratio	21.6	54.7	36.1	41.1	44.8
4 Interest Rates (%)					
4.1 Policy Repo Rate	8.00	7.25	7.25	8.00	8.00
4.2 Reverse Repo Rate	7.00	6.25	6.25	7.00	7.00
4.3 Marginal Standing Facility (MSF) Rate	9.00	10.25	10.25	9.00	9.00
4.4 Bank Rate	9.00	10.25	10.25	9.00	9.00
4.5 Base Rate	10.00/10.25	9.70/10.25	9.70/10.25	10.00/10.25	10.00/10.25
4.6 Term Deposit Rate >1 Year	8.00/9.25	7.50/9.00	8.00/9.00	8.00/9.05	8.00/9.05
4.7 Savings Deposit Rate	4.00	4.00	4.00	4.00	4.00
4.8 Call Money Rate (Weighted Average)	8.59	8.33	10.23	8.67	8.01
4.9 91-Day Treasury Bill (Primary) Yield	8.86	11.26	12.02	8.65	8.60
4.10 182-Day Treasury Bill (Primary) Yield	8.86	10.73	12.01	8.71	8.68
4.11 364-Day Treasury Bill (Primary) Yield	8.96	10.46	9.94	8.70	8.68
4.12 10-Year Government Securities Yield	8.84	8.17	8.60	8.51	8.57
5 RBI Reference Rate and Forward Premia					
5.1 INR-US$ Spot Rate (₹ Per Foreign Currency)	60.10	61.12	66.57	60.25	60.47
5.2 INR-Euro Spot Rate (₹ Per Foreign Currency)	82.58	80.95	88.16	80.70	79.86
5.3 Forward Premia of US$ 1-month (%)	9.78	10.41	10.09	8.76	9.82
3-month (%)	8.79	9.69	9.16	8.63	8.47
6-month (%)	8.95	8.90	7.62	8.56	8.43
6 Inflation (%)					
6.1 All India Consumer Price Index	9.5	9.6	9.5	8.0	7.8
6.2 Consumer Price Index for Industrial Workers	9.7	10.8	10.7	2.4	6.9
6.3 Wholesale Price Index	6.0	5.9	7.0	5.2	3.7
6.3.1 Primary Articles	9.8	9.7	13.6	6.8	3.9
6.3.2 Fuel and Power	10.1	11.4	12.7	7.4	4.5
6.3.3 Manufactured Products	3.0	2.6	2.3	3.7	3.5
7 Foreign Trade (% Change)					
7.1 Imports	-8.3	-5.7	-0.8	4.5	2.1
7.2 Exports	4.8	11.8	13.9	6.9	2.4

Reserve Bank of India

No. 2: RBI - Liabilities and Assets

(₹ Billion)

Item	As on the Last Friday/ Friday						
	2013-14	2013	2014				
		Sep.	Aug. 29	Sep. 5	Sep. 12	Sep. 19	Sep. 26
	1	2	3	4	5	6	7
1 Issue Department							
1.1 Liabilities							
1.1.1 Notes in Circulation	12,835.11	11,862.69	13,206.64	13,296.60	13,342.31	13,255.88	13,160.74
1.1.2 Notes held in Banking Department	0.17	0.10	0.12	0.14	0.14	0.13	0.10
1.1/1.2 Total Liabilities (Total Notes Issued) or Assets	**12,835.28**	**11,862.79**	**13,206.76**	**13,296.74**	**13,342.45**	**13,256.01**	**13,160.84**
1.2 Assets							
1.2.1 Gold Coin and Bullion	682.33	757.85	668.44	663.35	663.35	663.35	663.35
1.2.2 Foreign Securities	12,141.07	11,093.03	12,525.76	12,621.19	12,667.22	12,581.19	12,484.50
1.2.3 Rupee Coin	1.41	1.45	2.10	1.74	1.42	1.00	2.54
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	4,721.36	3,646.38	4,141.41	3,953.80	3,864.38	4,036.47	4,031.33
2.1.1.1 Central Government	534.25	1.00	47.82	1.00	1.00	148.88	1.00
2.1.1.2 Market Stabilisation Scheme	–	–	–	–	–	–	–
2.1.1.3 State Governments	0.42	0.42	2.18	0.43	0.42	0.42	0.42
2.1.1.4 Scheduled Commercial Banks	3,805.71	3,273.06	3,595.39	3,324.17	3,351.28	3,363.34	3,379.26
2.1.1.5 Scheduled State Co-operative Banks	39.04	32.01	34.71	33.76	34.04	33.07	33.84
2.1.1.6 Non-Scheduled State Co-operative Banks	5.50	2.48	7.19	6.45	6.99	6.86	7.02
2.1.1.7 Other Banks	174.92	151.13	173.56	171.51	170.82	172.76	173.37
2.1.1.8 Others	161.52	186.28	280.55	416.48	299.82	311.12	436.42
2.1.2 Other Liabilities	8,567.95	8,913.02	8,336.12	8,248.33	8,266.36	8,246.92	8,359.98
2.1/2.2 Total Liabilities or Assets	**13,289.32**	**12,559.40**	**12,477.52**	**12,202.13**	**12,130.74**	**12,283.39**	**12,391.31**
2.2 Assets							
2.2.1 Notes and Coins	0.17	0.10	0.12	0.14	0.14	0.13	0.10
2.2.2 Balances held Abroad	4,588.34	4,287.34	5,276.47	5,109.09	5,069.20	5,169.38	5,376.86
2.2.3 Loans and Advances							
2.2.3.1 Central Government	–	–	–	7.07	–	–	–
2.2.3.2 State Governments	14.88	0.80	7.16	16.70	5.06	5.62	7.51
2.2.3.3 Scheduled Commercial Banks	421.78	412.31	871.85	327.19	529.36	847.05	745.16
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	77.15	25.50	107.29	46.82	48.83	72.94	91.37
2.2.4 Bills Purchased and Discounted							
2.2.4.1 Internal	–	–	–	–	–	–	–
2.2.4.2 Government Treasury Bills	–	–	–	–	–	–	–
2.2.5 Investments	7,387.75	6,872.94	5,402.41	5,862.69	5,657.46	5,375.40	5,388.38
2.2.6 Other Assets	799.25	960.40	811.88	832.08	820.34	812.51	781.57
2.2.6.1 Gold	619.82	688.42	607.20	602.57	602.57	602.57	602.57

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	Term Repo/ Overnight Variable Rate Repo	Term Reverse Repo/ Overnight Variable Rate Reverse Repo			Sale	Purchase	
	1	2	3	4	5	6	7	8	9
Aug. 1, 2014	153.79	93.82	–	–	25.00	–26.85	–	–	58.12
Aug. 4, 2014	100.05	235.26	–	–	–	–113.12	–	–	–248.33
Aug. 5, 2014	14.97	50.44	–	–	3.00	–37.34	–	–	–69.81
Aug. 6, 2014	99.71	21.67	–	–	16.39	77.55	–	–	171.98
Aug. 7, 2014	201.45	44.47	–	–	5.00	26.49	–	–	188.47
Aug. 8, 2014	198.78	29.59	610.09	–	24.85	53.86	–	–	857.99
Aug. 11, 2014	212.98	7.54	46.50	–	21.29	49.93	–	–	323.16
Aug. 12, 2014	221.38	29.40	50.06	–	0.65	21.29	–	–	263.98
Aug. 13, 2014	193.55	63.40	150.07	–	1.00	–41.61	–	–	239.62
Aug. 14, 2014	209.68	18.44	–	–	31.71	–88.54	–	–	134.41
Aug. 19, 2014	192.20	120.18	–	–	–	27.96	–	–	99.98
Aug. 20, 2014	187.25	121.18	–	–	0.20	39.34	–	–	105.61
Aug. 21, 2014	161.73	55.43	–	–	–	–85.43	–	–	20.87
Aug. 22, 2014	108.48	32.14	615.12	–	12.00	16.29	–	–	719.75
Aug. 25, 2014	173.22	33.23	–	–	2.26	19.19	–	–	161.44
Aug. 26, 2014	161.60	126.44	–	–	0.01	–10.14	–	–	25.03
Aug. 27, 2014	81.18	98.37	–	–	–	–14.00	–	–	–31.19
Aug. 28, 2014	94.64	43.58	–	–	10.85	59.40	–	–	121.31

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

Item	2013-14	2013	2014	
		Aug.	Jul.	Aug.
	1	2	3	4
1 Net Purchase/ Sale of Foreign Currency (US$ Million) (1.1–1.2)	8,992.00	–2,464.00	5,453.00	–511.00
1.1 Purchase (+)	52,394.00	724.00	9348.00	3964.00
1.2 Sale (–)	43,402.00	3,188.00	3,895.00	4,475.00
2 ₹ equivalent at contract rate (₹ Billion)	586.19	–153.38	305.07	–42.10
3 Cumulative (over end-March) (US $ Million)	8,992.00	–10,281.00	15,751.00	15,240.00
(₹ Billion)	586.19	–635.30	922.26	880.17
4 Outstanding Net Forward Sales (–)/ Purchase (+) at the end of month (US$ Million)	–31,030.00	–9,051.00	5,397.00	5,818.00

No. 5: RBI's Standing Facilities

(₹ Billion)

Item	As on the Last Reporting Friday							
	2013-14	2013	2014					
		Aug. 23	Mar. 21	Apr. 18	May 30	Jun. 27	Jul. 25	Aug. 22
	1	2	3	4	5	6	7	8
1 MSF	176.3	559.0	176.3	15.7	0.4	88.8	23.5	12.0
2.1 Limit	568.0	392.7	568.0	572.4	549.5	339.6	326.9	320.7
2.2 Outstanding	410.4	323.5	410.4	312.9	308.2	230.8	276.3	137.4
3.1 Limit	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0
3.2 Outstanding	22.2	25.1	22.2	26.7	19.7	17.9	20.7	23.5
4.1 Limit	–	–	–	–	–	–	–	–
4.2 Outstanding	–	–	–	–	–	–	–	–
5 Total Outstanding (1+2.2+3.2+4.2)	608.9	907.6	608.9	355.3	328.3	337.5	320.5	172.9

Money and Banking

No. 6: Money Stock Measures

(₹ Billion)

Item	Outstanding as on March 31/last reporting Fridays of the month/reporting Fridays				
	2013-14	2013	2014		
		Aug. 23	Jul. 25	Aug. 8	Aug. 22
	1	2	3	4	5
1 Currency with the Public (1.1 + 1.2 + 1.3 – 1.4)	12,483.4	11,632.3	12,928.7	13,003.9	12,917.3
1.1 Notes in Circulation	12,837.4	11,974.9	13,307.8	13,373.8	13,320.2
1.2 Circulation of Rupee Coin	166.0	154.9	169.6	169.6	169.6
1.3 Circulation of Small Coins	7.4	7.4	7.4	7.4	7.4
1.4 Cash on Hand with Banks	527.3	504.9	556.1	546.8	579.9
2 Deposit Money of the Public	8,063.5	7,403.1	8,242.1	8,238.4	8,299.3
2.1 Demand Deposits with Banks	8,043.9	7,348.8	8,128.1	8,142.3	8,202.1
2.2 ‘Other’ Deposits with Reserve Bank	19.7	54.3	114.0	96.2	97.2
3 M_1 (1 + 2)	20,547.0	19,035.3	21,170.8	21,242.3	21,216.6
4 Post Office Saving Bank Deposits	423.6	383.1	423.6	423.6	423.6
5 M_2 (3 + 4)	20,970.6	19,418.4	21,594.4	21,666.0	21,640.2
6 Time Deposits with Banks	74,426.3	68,581.4	77,261.6	77,963.5	77,819.0
7 M_3 (3 + 6)	94,973.3	87,616.7	98,432.4	99,205.8	99,035.6
8 Total Post Office Deposits	1,572.0	1,452.2	1,572.0	1,572.0	1,572.0
9 M_4 (7 + 8)	96,545.3	89,069.0	100,004.4	100,777.9	100,607.6

No. 7: Sources of Money Stock (M_3)

(₹ Billion)

Sources	Outstanding as on March 31/last reporting Fridays of the month/reporting Fridays				
	2013-14	2013	2014		
		Aug. 23	Jul. 25	Aug. 8	Aug. 22
	1	2	3	4	5
1 Net Bank Credit to Government	**30,386.0**	**29,330.2**	**29,847.9**	**30,571.2**	**30,161.7**
1.1 RBI's net credit to Government (1.1.1–1.1.2)	6,987.1	6,577.1	5,282.5	5,548.6	5,165.5
1.1.1 Claims on Government	7,855.2	6,578.5	5,392.9	5,550.0	5,409.8
1.1.1.1 Central Government	7,844.1	6,571.4	5,390.3	5,543.8	5,399.5
1.1.1.2 State Governments	11.1	7.1	2.6	6.2	10.3
1.1.2 Government deposits with RBI	868.1	1.4	110.4	1.4	244.3
1.1.2.1 Central Government	867.7	1.0	110.0	1.0	243.9
1.1.2.2 State Governments	0.4	0.4	0.4	0.4	0.4
1.2 Other Banks' Credit to Government	23,398.9	22,753.2	24,565.4	25,022.7	24,996.2
2 Bank Credit to Commercial Sector	**64,424.8**	**59,458.7**	**65,634.8**	**65,787.2**	**65,688.4**
2.1 RBI's credit to commercial sector	88.4	38.3	115.0	103.3	111.2
2.2 Other banks' credit to commercial sector	64,336.4	59,420.4	65,519.8	65,683.8	65,577.3
2.2.1 Bank credit by commercial banks	59,941.0	55,144.2	61,125.1	61,287.2	61,175.1
2.2.2 Bank credit by co-operative banks	4,357.8	4,228.0	4,350.8	4,353.7	4,358.8
2.2.3 Investments by commercial and co-operative banks in other securities	37.7	48.2	43.9	42.9	43.4
3 Net Foreign Exchange Assets of Banking Sector (3.1 + 3.2)	**19,239.5**	**17,740.6**	**20,317.9**	**20,614.1**	**20,280.1**
3.1 RBI's net foreign exchange assets (3.1.1–3.1.2)	18,025.3	17,537.7	19,103.6	19,399.8	19,065.9
3.1.1 Gross foreign assets	18,025.6	17,538.0	19,103.9	19,401.8	19,066.2
3.1.2 Foreign liabilities	0.3	0.3	0.3	2.0	0.3
3.2 Other banks' net foreign exchange assets	1,214.2	202.8	1,214.2	1,214.2	1,214.2
4 Government's Currency Liabilities to the Public	**173.4**	**162.3**	**177.0**	**177.0**	**177.0**
5 Banking Sector's Net Non-monetary Liabilities	**19,250.4**	**19,075.0**	**17,545.1**	**17,943.6**	**17,271.6**
5.1 Net non-monetary liabilities of RBI	8,433.2	9,162.3	8,718.8	9,087.8	8,237.4
5.2 Net non-monetary liabilities of other banks (residual)	10,817.2	9,912.7	8,826.3	8,855.8	9,034.2
M_3 (1+2+3+4–5)	**94,973.3**	**87,616.7**	**98,432.4**	**99,205.8**	**99,035.6**

No. 8: Monetary Survey

(₹ Billion)

Item	Outstanding as on March 31/last reporting Fridays of the month/reporting Fridays				
	2013-14	2013	2014		
		Aug. 23	Jul. 25	Aug. 8	Aug. 22
	1	2	3	4	5
Monetary Aggregates					
NM_1 (1.1 + 1.2.1+1.3)	20,420.5	18,935.0	21,033.1	21,105.5	21,079.7
NM_2 (NM_1+ 1.2.2.1)	51,967.6	48,606.0	53,779.3	54,138.9	54,068.3
NM_3 (NM_2 + 1.2.2.2 + 1.4 = 2.1 + 2.2 + 2.3 – 2.4 – 2.5)	92,735.6	87,568.8	95,820.7	96,466.5	96,327.6
1 Components					
1.1 Currency with the Public	12,497.4	11,649.0	12,943.7	13,018.8	12,932.6
1.2 Aggregate Deposits of Residents	78,008.2	73,167.3	80,744.7	81,398.2	81,357.9
1.2.1 Demand Deposits	7,903.4	7,231.7	7,975.4	7,990.5	8,050.0
1.2.2 Time Deposits of Residents	70,104.7	65,935.6	72,769.3	73,407.6	73,307.9
1.2.2.1 Short-term Time Deposits	31,547.1	29,671.0	32,746.2	33,033.4	32,988.6
1.2.2.1.1 Certificates of Deposit (CDs)	3,741.3	3,070.1	3,232.1	3,157.8	3,478.0
1.2.2.2 Long-term Time Deposits	38,557.6	36,264.6	40,023.1	40,374.2	40,319.3
1.3 ‘Other’ Deposits with RBI	19.7	54.3	114.0	96.2	97.2
1.4 Call/Term Funding from Financial Institutions	2,210.4	2,698.3	2,018.4	1,953.3	1,939.9
2 Sources					
2.1 Domestic Credit	97,053.0	90,646.1	97,667.9	98,671.7	98,229.2
2.1.1 Net Bank Credit to the Government	29,782.8	28,736.0	29,196.9	29,912.5	29,507.2
2.1.1.1 Net RBI credit to the Government	6,987.1	6,577.1	5,282.5	5,548.6	5,165.5
2.1.1.2 Credit to the Government by the Banking System	22,795.8	22,158.9	23,914.3	24,363.9	24,341.7
2.1.2 Bank Credit to the Commercial Sector	67,270.2	61,910.1	68,471.1	68,759.2	68,722.0
2.1.2.1 RBI Credit to the Commercial Sector	88.4	38.3	115.0	103.3	111.2
2.1.2.2 Credit to the Commercial Sector by the Banking System	67,181.8	61,871.9	68,356.1	68,655.9	68,610.9
2.1.2.2.1 Other Investments (Non-SLR Securities)	4,120.9	3,594.3	4,073.7	4,223.7	4,283.3
2.2 Government’s Currency Liabilities to the Public	173.4	162.3	177.0	177.0	177.0
2.3 Net Foreign Exchange Assets of the Banking Sector	16,009.8	15,997.9	17,290.4	17,651.8	17,440.6
2.3.1 Net Foreign Exchange Assets of the RBI	18,025.3	17,537.7	19,103.6	19,399.8	19,065.9
2.3.2 Net Foreign Currency Assets of the Banking System	–2,015.5	–1,539.8	–1,813.2	–1,748.1	–1,625.3
2.4 Capital Account	15,946.0	16,428.4	16,105.5	16,107.4	16,118.2
2.5 Other items (net)	4,554.6	2,809.2	3,209.1	3,926.6	3,401.0

No. 9: Liquidity Aggregates

(₹ Billion)

Aggregates	2013-14	2013	2014		
		Aug.	Jun.	Jul.	Aug.
	1	2	3	4	5
1 NM_3	**92,735.6**	**87,568.8**	**95,523.6**	**95,820.7**	**96,327.6**
2 Postal Deposits	1,572.0	1,452.2	1,572.0	1,572.0	1,572.0
3 L_1 (1 + 2)	**94,307.6**	**89,021.0**	**97,095.6**	**97,392.7**	**97,899.6**
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)	**94,336.9**	**89,050.4**	**97,125.0**	**97,422.1**	**97,928.9**
6 Public Deposits with Non-Banking Financial Companies	140.8	..	140.8	..	..
7 L_3 (5 + 6)	**94,477.8**	..	**97,265.8**	..	..

No. 10: Reserve Bank of India Survey

(₹ Billion)

Item	Outstanding as on March 31/last reporting Fridays of the month/reporting Fridays				
	2013-14	2013	2014		
		Aug. 23	Jul. 25	Aug. 8	Aug. 22
	1	2	3	4	5
1 Components					
1.1 Currency in Circulation	13,010.7	12,137.2	13,484.8	13,550.8	13,497.2
1.2 Bankers' Deposits with the RBI	4,297.0	3,379.8	3,583.1	3,473.0	3,497.5
1.2.1 Scheduled Commercial Banks	4,070.8	3,193.8	3,371.3	3,260.6	3,284.4
1.3 'Other' Deposits with the RBI	19.7	54.3	114.0	96.2	97.2
Reserve Money (1.1 + 1.2 + 1.3 = 2.1 + 2.2 + 2.3 – 2.4 – 2.5)	17,327.4	15,571.3	17,181.9	17,119.9	17,091.8
2 Sources					
2.1 RBI's Domestic Credit	7,562.0	7,033.6	6,620.0	6,630.9	6,086.4
2.1.1 Net RBI credit to the Government	6,987.1	6,577.1	5,282.5	5,548.6	5,165.5
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)	6,976.4	6,570.4	5,280.3	5,542.8	5,155.6
2.1.1.1.1 Loans and Advances to the Central Government	–	–	–	–	–
2.1.1.1.2 Investments in Treasury Bills	–	–	–	–	–
2.1.1.1.3 Investments in dated Government Securities	7,842.9	6,570.0	5,388.1	5,542.4	5,396.9
2.1.1.1.3.1 Central Government Securities	7,832.4	6,559.5	5,377.7	5,532.0	5,386.5
2.1.1.1.4 Rupee Coins	1.3	1.4	2.2	1.4	2.5
2.1.1.1.5 Deposits of the Central Government	867.7	1.0	110.0	1.0	243.9
2.1.1.2 Net RBI credit to State Governments	10.6	6.7	2.2	5.8	9.9
2.1.2 RBI's Claims on Banks	486.5	418.3	1,222.5	979.0	809.7
2.1.2.1 Loans and Advances to Scheduled Commercial Banks	484.7	416.7	1,221.2	977.3	808.2
2.1.3 RBI's Credit to Commercial Sector	88.4	38.3	115.0	103.3	111.2
2.1.3.1 Loans and Advances to Primary Dealers	0.3	25.1	0.2	0.2	0.2
2.1.3.2 Loans and Advances to NABARD	–	–	–	–	–
2.2 Government's Currency Liabilities to the Public	173.4	162.3	177.0	177.0	177.0
2.3 Net Foreign Exchange Assets of the RBI	18,025.3	17,537.7	19,103.6	19,399.8	19,065.9
2.3.1 Gold	1,296.2	1,268.0	1,240.0	1,275.6	1,275.6
2.3.2 Foreign Currency Assets	16,729.3	16,269.9	17,863.8	18,124.4	17,790.4
2.4 Capital Account	8,315.7	9,032.8	7,778.3	7,778.3	7,778.3
2.5 Other Items (net)	117.5	129.5	940.5	1,309.5	459.1

No. 11: Reserve Money - Components and Sources

(₹ Billion)

Item	Outstanding as on March 31/ last Fridays of the month/ Fridays						
	2013-14	2013	2014				
		Aug. 23	Jul. 25	Aug. 8	Aug. 15	Aug. 22	Aug. 29
	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)	17,327.4	15,571.3	17,181.9	17,119.9	17,274.2	17,091.8	17,295.3
1 Components							
1.1 Currency in Circulation	13,010.7	12,137.2	13,484.8	13,550.8	13,609.8	13,497.2	13,383.6
1.2 Bankers' Deposits with RBI	4,297.0	3,379.8	3,583.1	3,473.0	3,567.4	3,497.5	3,810.9
1.3 'Other' Deposits with RBI	19.7	54.3	114.0	96.2	97.0	97.2	100.9
2 Sources							
2.1 Net Reserve Bank Credit to Government	6,987.1	6,577.1	5,282.5	5,548.6	5,060.5	5,165.5	5,356.2
2.2 Reserve Bank Credit to Banks	486.5	418.3	1,222.5	979.0	1,098.6	809.7	829.8
2.3 Reserve Bank Credit to Commercial Sector	88.4	38.3	115.0	103.3	103.7	111.2	119.1
2.4 Net Foreign Exchange Assets of RBI	18,025.3	17,537.7	19,103.6	19,399.8	19,275.1	19,065.9	19,080.3
2.5 Government's Currency Liabilities to the Public	173.4	162.3	177.0	177.0	177.0	177.0	177.0
2.6 Net Non- Monetary Liabilities of RBI	8,433.2	9,162.3	8,718.8	9,087.8	8,440.7	8,237.4	8,267.0

No. 12: Commercial Bank Survey

(₹ Billion)

Item	Outstanding as on last reporting Fridays of the month/ reporting Fridays of the month				
	2013-14	2013	2014		
		Aug. 23	Jul. 25	Aug. 8	Aug. 22
	1	2	3	4	5
1 Components					
1.1 Aggregate Deposits of Residents	74,514.1	69,865.7	77,258.5	77,924.3	77,885.7
1.1.1 Demand Deposits	7,139.2	6,500.0	7,210.7	7,226.0	7,285.7
1.1.2 Time Deposits of Residents	67,374.9	63,365.7	70,047.8	70,698.3	70,600.0
1.1.2.1 Short-term Time Deposits	30,318.7	28,514.6	31,521.5	31,814.2	31,770.0
1.1.2.1.1 Certificates of Deposits (CDs)	3,741.3	3,070.1	3,232.1	3,157.8	3,478.0
1.1.2.2 Long-term Time Deposit	37,056.2	34,851.2	38,526.3	38,884.1	38,830.0
1.2 Call/Term Funding from Financial Institutions	2,210.4	2,698.3	2,018.4	1,953.3	1,939.9
2 Sources					
2.1 Domestic Credit	86,123.0	80,205.9	88,392.8	89,145.8	89,078.2
2.1.1 Credit to the Government	22,111.9	21,481.5	23,213.5	23,665.8	23,644.2
2.1.2 Credit to the Commercial Sector	64,011.1	58,724.4	65,179.3	65,480.0	65,434.0
2.1.2.1 Bank Credit	59,941.0	55,144.2	61,125.1	61,287.2	61,175.1
2.1.2.1.1 Non-food Credit	58,956.2	54,121.1	60,000.4	60,204.0	60,097.2
2.1.2.2 Net Credit to Primary Dealers	22.5	53.9	51.5	40.3	46.9
2.1.2.3 Investments in Other Approved Securities	16.3	21.7	19.6	19.5	19.4
2.1.2.4 Other Investments (in non-SLR Securities)	4,031.3	3,504.6	3,983.1	4,133.1	4,192.6
2.2 Net Foreign Currency Assets of Commercial Banks (2.2.1–2.2.2–2.2.3)	–1,977.9	–1,539.8	–1,813.2	–1,748.1	–1,625.3
2.2.1 Foreign Currency Assets	1,495.3	604.0	1,628.8	1,694.3	1,724.0
2.2.2 Non-resident Foreign Currency Repatriable Fixed Deposits	2,541.5	1,001.4	2,599.5	2,655.1	2,602.5
2.2.3 Overseas Foreign Currency Borrowings	931.7	1,142.4	842.5	787.3	746.8
2.3 Net Bank Reserves (2.3.1+2.3.2–2.3.3)	3,206.0	3,215.0	2,636.7	2,760.8	2,986.4
2.3.1 Balances with the RBI	3,163.4	3,193.8	3,371.3	3,260.6	3,284.4
2.3.2 Cash in Hand	458.7	437.9	486.6	477.5	510.2
2.3.3 Loans and Advances from the RBI	416.1	416.7	1,221.2	977.3	808.2
2.4 Capital Account	7,388.6	7,153.9	8,085.5	8,087.4	8,098.2
2.5 Other items (net) (2.1+2.2+2.3–2.4–1.1–1.2)	3,238.1	2,163.3	1,854.0	2,193.6	2,515.5
2.5.1 Other Demand and Time Liabilities (net of 2.2.3)	3,451.6	2,824.1	3,473.6	3,492.3	3,530.7
2.5.2 Net Inter-Bank Liabilities (other than to PDs)	–666.1	–710.4	–499.8	–515.3	–428.4

No. 13: Scheduled Commercial Banks' Investments

(₹ Billion)

Item	As on March 21, 2014	2013	2014		
		Aug. 23	Jul. 25	Aug. 8	Aug. 22
	1	2	3	4	5
1 SLR Securities	22,128.2	21,503.2	23,089.2	23,685.3	23,663.6
2 Commercial Paper	159.5	247.4	224.6	231.4	210.7
3 Shares issued by					
3.1 PSUs	82.9	82.6	75.1	75.0	76.4
3.2 Private Corporate Sector	334.2	335.8	332.6	331.3	330.6
3.3 Others	9.4	8.5	23.4	22.6	23.6
4 Bonds/Debentures issued by					
4.1 PSUs	831.5	485.9	744.6	725.2	724.3
4.2 Private Corporate Sector	1,159.1	1,030.1	1,196.3	1,209.7	1,209.3
4.3 Others	459.8	516.6	447.8	452.6	452.5
5 Instruments issued by					
5.1 Mutual funds	401.1	318.7	432.5	530.5	601.3
5.2 Financial institutions	593.8	479.1	572.6	554.7	564.0

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			
	2013-14	2013	2014		2013-14	2013	2014	
		Aug.	Jul.	Aug.		Aug.	Jul.	Aug.
	1	2	3	4	5	6	7	8
Number of Reporting Banks	213	215	213	213	146	148	146	146
1 Liabilities to the Banking System	1,308.7	1,064.8	1,364.0	1,397.8	1,261.9	1,025.7	1,314.2	1,344.6
1.1 Demand and Time Deposits from Banks	821.7	721.7	1,032.7	1,054.7	777.2	684.7	985.9	1,007.6
1.2 Borrowings from Banks	351.9	269.4	266.7	269.6	349.7	267.4	263.8	263.5
1.3 Other Demand and Time Liabilities	135.1	73.6	64.5	73.6	135.0	73.5	64.5	73.5
2 Liabilities to Others	85,878.6	80,817.4	88,118.3	89,723.7	83,649.3	78,731.1	85,772.0	87,377.9
2.1 Aggregate Deposits	79,200.8	73,439.6	81,758.2	82,895.2	77,055.6	71,433.4	79,492.3	80,636.4
2.1.1 Demand	7,312.5	7,003.7	7,307.5	7,651.6	7,139.2	6,839.8	7,122.1	7,471.0
2.1.2 Time	71,888.4	66,436.0	74,450.7	75,243.7	69,916.4	64,593.6	72,370.2	73,165.4
2.2 Borrowings	2,227.8	3,117.8	1,978.6	2,172.1	2,210.4	3,098.2	1,963.0	2,154.4
2.3 Other Demand and Time Liabilities	4,449.9	4,259.9	4,381.5	4,656.4	4,383.3	4,199.5	4,316.7	4,587.1
3 Borrowings from Reserve Bank	417.9	435.6	1,256.0	873.4	416.1	434.0	1,254.7	871.9
3.1 Against Usance Bills /Promissory Notes	–	–	–	–	–	–	–	–
3.2 Others	417.9	435.6	1,256.0	873.4	416.1	434.0	1,254.7	871.9
4 Cash in Hand and Balances with Reserve Bank	3,729.1	3,815.6	3,964.9	4,216.8	3,622.1	3,713.1	3,853.7	4,103.2
4.1 Cash in Hand	470.0	457.4	493.8	519.9	458.7	446.2	482.3	507.8
4.2 Balances with Reserve Bank	3,259.0	3,358.2	3,471.1	3,697.0	3,163.4	3,266.9	3,371.3	3,595.4
5 Assets with the Banking System	2,325.9	2,055.9	2,080.0	2,206.8	1,950.5	1,785.8	1,664.5	1,818.3
5.1 Balances with Other Banks	1,191.9	1,038.6	1,211.2	1,361.3	1,062.3	937.3	1,066.6	1,216.0
5.1.1 In Current Account	115.3	102.5	100.9	99.8	97.3	86.5	79.7	81.1
5.1.2 In Other Accounts	1,076.6	936.1	1,110.4	1,261.6	965.0	850.8	986.9	1,134.9
5.2 Money at Call and Short Notice	453.7	259.5	334.3	338.9	278.0	169.2	151.5	176.6
5.3 Advances to Banks	170.8	148.2	203.4	193.7	167.4	136.2	200.1	190.4
5.4 Other Assets	509.5	609.6	331.0	312.9	442.7	543.1	246.3	235.2
6 Investment	22,797.6	22,138.7	23,817.6	24,450.3	22,128.2	21,478.2	23,089.2	23,731.9
6.1 Government Securities	22,778.7	22,115.3	23,798.1	24,428.2	22,111.9	21,456.7	23,072.2	23,712.3
6.2 Other Approved Securities	18.9	23.3	19.4	22.1	16.3	21.5	16.9	19.6
7 Bank Credit	61,794.9	57,129.6	62,729.8	62,843.4	59,941.0	55,367.8	60,842.6	60,935.0
7a Food Credit	1,095.2	1,145.6	1,235.1	1,195.0	984.8	1,035.2	1,124.7	1,084.6
7.1 Loans, Cash-credits and Overdrafts	59,517.5	55,059.1	60,504.1	60,679.9	57,690.8	53,322.6	58,645.4	58,799.1
7.2 Inland Bills-Purchased	387.8	284.9	360.5	326.7	384.4	281.3	356.9	323.3
7.3 Inland Bills-Discounted	1,121.7	1,051.2	1,187.9	1,158.6	1,105.8	1,034.0	1,167.9	1,139.5
7.4 Foreign Bills-Purchased	266.9	248.7	236.1	238.6	262.9	247.7	234.9	237.5
7.5 Foreign Bills-Discounted	501.0	485.7	441.2	439.5	497.1	482.3	437.5	435.6

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

(₹ Billion)

Item	Outstanding as on				Growth (%)	
	Mar. 21, 2014	2013	2014		Financial year so far	Y-o-Y
		Aug. 23	Jul. 25	Aug. 22	2014-15	2014
	1	2	3	4	5	6
1 Gross Bank Credit	**56,572**	**51,991**	**57,309**	**57,293**	**1.3**	**10.2**
1.1 Food Credit	**912**	**979**	**1,134**	**1,072**	**17.5**	**9.5**
1.2 Non-food Credit	**55,660**	**51,012**	**56,175**	**56,222**	**1.0**	**10.2**
1.2.1 Agriculture & Allied Activities	**6,694**	**6,097**	**7,202**	**7,241**	**8.2**	**18.8**
1.2.2 Industry	**25,229**	**23,301**	**25,079**	**25,069**	**–0.6**	**7.6**
1.2.2.1 Micro & Small	3,517	2,924	3,543	3,505	–0.3	19.8
1.2.2.2 Medium	1,274	1,347	1,279	1,246	–2.2	–7.5
1.2.2.3 Large	20,438	19,030	20,257	20,318	–0.6	6.8
1.2.3 Services	**13,370**	**12,050**	**13,176**	**13,119**	**–1.9**	**8.9**
1.2.3.1 Transport Operators	904	823	891	886	–2.0	7.6
1.2.3.2 Computer Software	176	177	170	161	–8.4	–9.1
1.2.3.3 Tourism, Hotels & Restaurants	392	374	357	361	–7.9	–3.7
1.2.3.4 Shipping	99	90	96	95	–3.6	6.1
1.2.3.5 Professional Services	707	633	719	701	–0.9	10.7
1.2.3.6 Trade	3,228	2,846	3,242	3,219	–0.3	13.1
1.2.3.6.1 Wholesale Trade	1,701	1,493	1,644	1,640	–3.6	9.9
1.2.3.6.2 Retail Trade	1,527	1,353	1,598	1,578	3.4	16.7
1.2.3.7 Commercial Real Estate	1,544	1,360	1,582	1,599	3.6	17.6
1.2.3.8 Non-Banking Financial Companies (NBFCs)	2,946	2,834	2,933	2,951	0.2	4.1
1.2.3.9 Other Services	3,375	2,912	3,187	3,147	–6.8	8.1
1.2.4 Personal Loans	**10,367**	**9,564**	**10,717**	**10,792**	**4.1**	**12.8**
1.2.4.1 Consumer Durables	128	94	141	142	10.7	50.8
1.2.4.2 Housing	5,408	4,979	5,680	5,743	6.2	15.4
1.2.4.3 Advances against Fixed Deposits	641	600	542	538	–16.0	–10.2
1.2.4.4 Advances to Individuals against share & bonds	38	29	36	36	–5.7	24.9
1.2.4.5 Credit Card Outstanding	249	236	273	279	12.3	18.1
1.2.4.6 Education	600	573	612	623	3.7	8.6
1.2.4.7 Vehicle Loans	1,304	1,174	1,377	1,379	5.7	17.4
1.2.4.8 Other Personal Loans	1,998	1,879	2,056	2,052	2.7	9.2
1.2A Priority Sector	**18,781**	**16,326**	**18,466**	**18,475**	**–1.6**	**13.2**
1.2A.1 Agriculture & Allied Activities	6,694	6,097	7,202	7,241	8.2	18.8
1.2A.2 Micro & Small Enterprises	7,511	6,105	7,382	7,360	–2.0	20.6
1.2A.2.1 Manufacturing	3,852	2,924	3,543	3,505	–9.0	19.8
1.2A.2.2 Services	3,659	3,181	3,839	3,855	5.4	21.2
1.2A.3 Housing	3,034	2,888	3,142	3,160	4.2	9.4
1.2A.4 Micro-Credit	174	176	179	170	–2.4	–3.3
1.2A.5 Education Loans	579	551	580	583	0.7	5.9
1.2A.6 State-Sponsored Orgs. for SC/ST	2	1	3	4	121.3	205.2
1.2A.7 Weaker Sections	3,862	3,009	3,735	3,730	–3.4	24.0
1.2A.8 Export Credit	483	473	471	444	–8.1	–6.2

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

(₹ Billion)

Industry	Outstanding as on				Growth (%)	
	Mar. 21, 2014	2013	2014		Financial year so far	Y-o-Y
		Aug. 23	Jul. 25	Aug. 22	2014-15	2014
	1	2	3	4	5	6
1 Industry	**25,229**	**23,301**	**25,079**	**25,069**	**–0.6**	**7.6**
1.1 Mining & Quarrying (incl. Coal)	**353**	**323**	**391**	**380**	**7.7**	**17.7**
1.2 Food Processing	**1,480**	**1,214**	**1,476**	**1,446**	**–2.3**	**19.1**
1.2.1 Sugar	348	322	352	347	–0.2	7.7
1.2.2 Edible Oils & Vanaspati	213	176	197	188	–11.4	6.9
1.2.3 Tea	32	31	28	30	–8.4	–4.5
1.2.4 Others	887	685	899	881	–0.7	28.6
1.3 Beverage & Tobacco	**186**	**161**	**187**	**191**	**2.5**	**18.2**
1.4 Textiles	**2,040**	**1,849**	**1,962**	**1,958**	**–4.0**	**5.9**
1.4.1 Cotton Textiles	1,011	917	964	955	–5.6	4.1
1.4.2 Jute Textiles	20	21	21	21	6.8	2.5
1.4.3 Man-Made Textiles	216	193	194	195	–9.7	0.9
1.4.4 Other Textiles	793	718	782	786	–0.8	9.5
1.5 Leather & Leather Products	**103**	**90**	**101**	**101**	**–1.9**	**11.7**
1.6 Wood & Wood Products	**94**	**82**	**93**	**93**	**–0.4**	**13.5**
1.7 Paper & Paper Products	**331**	**307**	**334**	**336**	**1.5**	**9.5**
1.8 Petroleum, Coal Products & Nuclear Fuels	**635**	**568**	**567**	**537**	**–15.4**	**–5.4**
1.9 Chemicals & Chemical Products	**1,677**	**1,581**	**1,583**	**1,517**	**–9.5**	**–4.1**
1.9.1 Fertiliser	306	233	322	237	–22.5	2.0
1.9.2 Drugs & Pharmaceuticals	492	537	482	480	–2.4	–10.5
1.9.3 Petro Chemicals	435	425	346	358	–17.7	–15.7
1.9.4 Others	443	387	432	441	–0.6	13.8
1.10 Rubber, Plastic & their Products	**368**	**321**	**358**	**361**	**–1.9**	**12.6**
1.11 Glass & Glassware	**87**	**72**	**88**	**88**	**0.9**	**22.1**
1.12 Cement & Cement Products	**541**	**494**	**529**	**537**	**–0.7**	**8.7**
1.13 Basic Metal & Metal Product	**3,620**	**3,292**	**3,504**	**3,536**	**–2.3**	**7.4**
1.13.1 Iron & Steel	2,685	2,507	2,601	2,635	–1.9	5.1
1.13.2 Other Metal & Metal Product	934	785	904	901	–3.5	14.8
1.14 All Engineering	**1,456**	**1,362**	**1,441**	**1,448**	**–0.5**	**6.3**
1.14.1 Electronics	367	322	367	370	0.8	15.2
1.14.2 Others	1,088	1,041	1,074	1,078	–1.0	3.6
1.15 Vehicles, Vehicle Parts & Transport Equipment	**677**	**637**	**665**	**666**	**–1.7**	**4.6**
1.16 Gems & Jewellery	**720**	**700**	**675**	**707**	**–1.8**	**1.0**
1.17 Construction	**614**	**538**	**692**	**706**	**14.9**	**31.1**
1.18 Infrastructure	**8,398**	**7,847**	**8,696**	**8,706**	**3.7**	**10.9**
1.18.1 Power	4,883	4,531	5,163	5,230	7.1	15.4
1.18.2 Telecommunications	904	906	864	839	–7.2	–7.4
1.18.3 Roads	1,574	1,446	1,591	1,596	1.4	10.4
1.18.4 Other Infrastructure	1,036	965	1,078	1,042	0.5	7.9
1.19 Other Industries	**1,850**	**1,860**	**1,737**	**1,755**	**–5.1**	**–5.7**

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					
	2013-14	2013	2014			
		May 31	Apr. 25	May 2	May 16	May 30
	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)	417.9	361.7	413.6	416.1	418.8	419.4
2 Demand and Time Liabilities						
2.1 Demand Liabilities	139.7	131.9	136.1	136.3	139.5	137.8
2.1.1 Deposits						
2.1.1.1 Inter-Bank	25.4	23.7	22.5	23.4	23.2	24.1
2.1.1.2 Others	76.2	74.6	74.5	76.3	77.0	77.6
2.1.2 Borrowings from Banks	7.2	9.9	7.0	9.0	10.2	8.5
2.1.3 Other Demand Liabilities	30.9	23.7	32.1	27.5	29.0	27.6
2.2 Time Liabilities	899.5	804.6	897.7	895.4	893.6	892.8
2.2.1 Deposits						
2.2.1.1 Inter-Bank	541.4	509.0	547.6	544.0	541.5	540.1
2.2.1.2 Others	341.7	287.1	339.1	339.8	341.8	341.8
2.2.2 Borrowings from Banks	5.9	–	0.5	0.4	0.3	0.2
2.2.3 Other Time Liabilities	10.2	8.5	10.5	11.3	10.0	10.7
3 Borrowing from Reserve Bank	–	–	–	–	–	–
4 Borrowings from a notified bank / State Government	337.9	314.0	287.6	386.8	377.0	381.0
4.1 Demand	162.6	130.3	157.8	157.8	157.8	161.9
4.2 Time	175.3	183.7	229.8	229.0	219.2	219.1
5 Cash in Hand and Balances with Reserve Bank	43.0	35.8	39.1	40.0	36.2	38.4
5.1 Cash in Hand	2.2	2.0	2.1	2.0	2.0	2.0
5.2 Balance with Reserve Bank	40.8	33.8	37.0	38.1	34.1	36.4
6 Balances with Other Banks in Current Account	8.3	6.4	7.1	7.7	6.9	7.4
7 Investments in Government Securities	289.4	264.3	299.6	300.0	303.8	302.8
8 Money at Call and Short Notice	213.9	158.6	216.9	208.5	214.2	233.3
9 Bank Credit (10.1+11)	388.2	368.7	391.8	392.5	392.8	389.9
10 Advances						
10.1 Loans, Cash-Credits and Overdrafts	388.2	368.6	391.7	392.4	392.7	389.8
10.2 Due from Banks	650.1	570.3	626.3	620.8	605.7	605.0
11 Bills Purchased and Discounted	–	0.1	0.1	0.1	0.1	0.1

Prices and Production

No. 18: Consumer Price Index (Base: 2010=100)

Group/Sub group	2013-14			Rural			Urban			Combined		
	Rural	Urban	Combined	Aug. 13	Jul. 14	Aug. 14	Aug. 13	Jul. 14	Aug. 14	Aug. 13	Jul. 14	Aug. 14
	1	2	3	4	5	6	7	8	9	10	11	12
1 Food, beverages and tobacco	**138.8**	**138.0**	**138.6**	**138.2**	**149.0**	**151.4**	**140.2**	**149.7**	**151.9**	**138.8**	**149.2**	**151.6**
1.1 Cereals and products	132.8	131.9	132.6	131.2	140.6	141.5	131.3	138.0	139.2	131.2	139.9	140.9
1.2 Pulses and products	118.2	115.2	117.3	117.3	123.8	124.8	113.8	120.8	122.9	116.2	122.9	124.2
1.3 Oils and fats	143.9	141.9	143.2	142.9	146.1	146.1	141.8	138.1	138.0	142.5	143.5	143.5
1.4 Egg, fish and meat	143.1	146.8	144.4	142.4	153.2	153.7	147.0	156.3	157.8	144.0	154.2	155.1
1.5 Milk and products	144.2	139.0	142.3	142.2	156.3	158.1	136.9	153.1	154.0	140.2	155.1	156.6
1.6 Condiments and spices	134.3	132.9	133.9	132.9	141.2	142.5	131.5	147.8	150.6	132.5	143.1	144.9
1.7 Vegetables	161.5	157.5	160.3	167.8	185.5	199.6	186.1	189.8	200.4	173.6	186.9	199.9
1.8 Fruits	155.8	147.2	152.1	150.3	183.2	185.7	144.7	181.0	181.2	147.9	182.3	183.8
1.9 Sugar etc	109.5	105.0	108.2	110.3	111.1	111.4	106.6	108.2	108.1	109.2	110.3	110.5
1.10 Non-alcoholic beverages	135.0	136.9	135.8	133.8	141.6	142.2	135.9	143.4	144.3	134.7	142.4	143.1
1.11 Prepared meals etc	135.0	137.9	136.4	133.3	142.6	143.3	136.6	146.1	147.7	134.9	144.3	145.4
1.12 Pan, tobacco and intoxicants	143.5	147.8	144.7	142.0	152.8	153.6	147.1	159.9	162.8	143.4	154.8	156.1
2 Fuel and light	**136.9**	**133.9**	**135.7**	**135.5**	**142.2**	**142.3**	**133.7**	**137.1**	**137.3**	**134.8**	**140.3**	**140.4**
3 Housing	**--**	**133.5**	**133.5**	**--**	**--**	**--**	**132.1**	**142.6**	**143.3**	**132.1**	**142.6**	**143.3**
4 Clothing, bedding and footwear	**144.1**	**144.2**	**144.1**	**141.5**	**153.9**	**154.6**	**142.4**	**151.7**	**152.6**	**141.8**	**153.1**	**153.9**
4.1 Clothing and bedding	144.8	146.0	145.2	142.2	154.7	155.4	144.1	153.8	154.7	142.9	154.4	155.1
4.2 Footwear	140.0	133.8	137.7	137.9	149.2	150.1	132.6	139.4	140.0	136.0	145.7	146.4
5 Miscellaneous	**128.8**	**125.0**	**127.1**	**127.6**	**135.0**	**135.6**	**124.6**	**131.0**	**131.4**	**126.2**	**133.2**	**133.7**
5.1 Medical care	124.0	122.6	123.6	122.8	129.9	130.8	121.9	127.1	128.1	122.5	129.0	129.9
5.2 Education, stationery etc	125.7	126.9	126.4	124.5	133.4	134.0	127.6	135.8	137.3	126.2	134.7	135.8
5.3 Recreation and amusement	121.2	113.3	116.4	120.2	125.7	125.9	112.5	117.8	118.3	115.6	120.9	121.3
5.4 Transport and communication	131.0	125.3	127.8	130.3	137.6	137.9	125.2	130.5	130.0	127.4	133.6	133.4
5.5 Personal care and effects	126.2	121.6	124.3	124.8	132.5	133.3	120.6	128.1	129.2	123.1	130.7	131.6
5.6 Household requisites	134.1	127.5	131.4	132.8	138.4	138.9	126.6	132.9	133.5	130.3	136.2	136.7
5.7 Others	145.8	148.4	146.9	143.0	156.9	158.1	146.9	159.2	160.4	144.6	157.8	159.0
General Index (All Groups)	**136.4**	**133.3**	**135.0**	**135.4**	**145.0**	**146.7**	**133.6**	**141.9**	**143.0**	**134.6**	**143.7**	**145.1**

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

No. 19: Other Consumer Price Indices

Item	Base Year	Linking Factor	2013-14	2013	2014	
				Aug.	Jul.	Aug.
	1	2	3	4	5	6
1 Consumer Price Index for Industrial Workers	2001	4.63	236	237	252	253
2 Consumer Price Index for Agricultural Labourers	1986-87	5.89	750	754	799	808
3 Consumer Price Index for Rural Labourers	1986-87	–	751	753	801	810

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

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

Item	2013-14	2013	2014	
		Aug.	Jul.	Aug.
	1	2	3	4
1 Standard Gold (₹ per 10 grams)	29,190	30,216	28,008	28,080
2 Silver (₹ per kilogram)	46,637	48,807	45,450	43,969

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	2013-14	2013	2014		
			Aug.	Jun.	Jul. (P)	Aug. (P)
	1	2	3	4	5	6
1 ALL COMMODITIES	**100.000**	**177.6**	**179.0**	**183.0**	**184.6**	**185.7**
1.1 PRIMARY ARTICLES	**20.118**	**241.6**	**251.9**	**250.3**	**256.6**	**261.7**
1.1.1 Food articles	**14.337**	**238.9**	**252.4**	**250.1**	**258.6**	**265.4**
1.1.1.1 Food Grains	4.090	226.0	226.1	231.7	234.1	236.1
1.1.1.1.1 Cereals	3.373	225.5	227.1	231.9	234.0	235.5
1.1.1.1.2 Pulses	0.717	228.0	221.6	231.1	234.1	238.9
1.1.1.2 Fruits & Vegetables	3.843	244.3	290.6	248.7	285.3	304.5
1.1.1.2.1 Vegetables	1.736	294.5	397.2	272.9	333.6	377.8
1.1.1.2.2 Fruits	2.107	202.9	202.9	228.8	245.5	244.1
1.1.1.3 Milk	3.238	220.6	218.4	237.6	237.7	245.0
1.1.1.4 Eggs, Meat & Fish	2.414	275.7	288.0	292.9	276.6	271.1
1.1.1.5 Condiments & Spices	0.569	245.6	231.8	279.2	296.9	308.6
1.1.1.6 Other Food Articles	0.183	229.1	233.6	259.7	256.7	246.8
1.1.2 Non-Food Articles	**4.258**	**213.2**	**209.9**	**216.2**	**218.1**	**218.7**
1.1.2.1 Fibres	0.877	239.7	249.4	236.5	232.7	225.6
1.1.2.2 Oil Seeds	1.781	202.6	193.8	212.1	214.1	217.8
1.1.2.3 Other Non-Food Articles	1.386	213.5	209.3	215.6	217.7	214.7
1.1.2.4 Flowers	0.213	190.8	185.2	171.1	194.4	224.3
1.1.3 Minerals	**1.524**	**346.5**	**363.7**	**347.0**	**346.1**	**347.0**
1.1.3.1 Metallic Minerals	0.489	387.3	390.3	381.6	379.4	381.8
1.1.3.2 Other Minerals	0.135	213.2	215.5	209.1	207.1	208.8
1.1.3.3 Crude Petroleum	0.900	344.3	371.4	348.8	348.8	348.8
1.2 FUEL & POWER	**14.910**	**205.4**	**204.7**	**212.3**	**214.7**	**214.0**
1.2.1 Coal	2.094	190.8	191.5	189.8	189.8	189.8
1.2.2 Mineral Oils	9.364	226.0	224.3	233.8	237.7	236.5
1.2.3 Electricity	3.452	158.7	159.8	167.6	167.6	167.6
1.3 MANUFACTURED PRODUCTS	**64.972**	**151.5**	**150.6**	**155.4**	**155.4**	**155.8**
1.3.1 Food Products	**9.974**	**168.8**	**168.9**	**173.3**	**174.6**	**174.7**
1.3.1.1 Dairy Products	0.568	180.4	177.5	191.1	191.9	192.9
1.3.1.2 Canning, Preserving & Processing of Food	0.358	164.9	163.3	165.0	165.8	165.9
1.3.1.3 Grain Mill Products	1.340	167.9	166.9	174.6	174.8	175.2
1.3.1.4 Bakery Products	0.444	139.2	136.7	151.6	152.8	150.9
1.3.1.5 Sugar, Khandsari & Gur	2.089	183.0	185.2	185.0	187.2	189.5
1.3.1.6 Edible Oils	3.043	147.0	146.1	145.1	145.4	145.5
1.3.1.7 Oil Cakes	0.494	223.5	224.1	225.9	233.3	233.6
1.3.1.8 Tea & Coffee Proccessing	0.711	182.1	188.6	199.7	199.7	196.4
1.3.1.9 Manufacture of Salt	0.048	186.0	185.0	198.9	196.8	196.8
1.3.1.10 Other Food Products	0.879	178.5	177.2	191.8	193.6	191.3
1.3.2 Beverages, Tobacco & Tobacco Products	**1.762**	**186.0**	**182.2**	**198.1**	**198.7**	**199.6**
1.3.2.1 Wine Industries	0.385	128.9	127.1	137.1	137.7	137.5
1.3.2.2 Malt Liquor	0.153	170.8	170.5	174.9	174.9	176.3
1.3.2.3 Soft Drinks & Carbonated Water	0.241	161.4	161.4	159.2	159.2	159.1
1.3.2.4 Manufacture of Bidi, Cigarettes, Tobacco & Zarda	0.983	216.8	210.7	235.1	236.0	237.5
1.3.3 Textiles	**7.326**	**139.0**	**137.9**	**144.1**	**144.1**	**144.2**
1.3.3.1 Cotton Textiles	2.605	158.0	157.2	167.2	167.3	166.1
1.3.3.1.1 Cotton Yarn	1.377	174.7	174.1	188.4	188.8	186.3
1.3.3.1.2 Cotton Fabric	1.228	139.3	138.1	143.4	143.2	143.6
1.3.3.2 Man-Made Textiles	2.206	131.7	130.8	135.3	135.5	136.8
1.3.3.2.1 Man-Made Fibre	1.672	131.3	130.7	134.7	135.1	136.2
1.3.3.2.2 Man-Made Fabric	0.533	132.9	131.0	137.0	136.7	138.7
1.3.3.3 Woollen Textiles	0.294	154.8	153.2	158.5	158.5	159.0
1.3.3.4 Jute, Hemp & Mesta Textiles	0.261	183.9	181.6	189.8	189.9	190.9
1.3.3.5 Other Misc. Textiles	1.960	113.5	112.4	115.0	114.8	114.9
1.3.4 Wood & Wood Products	**0.587**	**179.1**	**177.8**	**186.9**	**185.4**	**185.4**
1.3.4.1 Timber/Wooden Planks	0.181	144.9	143.8	156.3	156.3	156.4
1.3.4.2 Processed Wood	0.128	185.6	185.8	190.5	190.5	190.5
1.3.4.3 Plywood & Fibre Board	0.241	205.2	202.9	213.5	209.5	209.6
1.3.4.4 Others	0.038	154.7	153.2	152.2	153.1	153.4

No. 21: Wholesale Price Index (Concld.)

(Base: 2004-05 = 100)

Commodities	Weight	2013-14	2013	2014		
			Aug.	Jun.	Jul. (P)	Aug. (P)
	1	2	3	4	5	6
1.3.5 Paper & Paper Products	**2.034**	**143.0**	**140.9**	**149.5**	**149.3**	**149.6**
1.3.5.1 Paper & Pulp	1.019	141.6	139.3	148.5	148.7	149.0
1.3.5.2 Manufacture of boards	0.550	131.2	130.4	133.0	132.1	132.8
1.3.5.3 Printing & Publishing	0.465	159.8	156.7	171.0	171.0	171.0
1.3.6 Leather & Leather Products	**0.835**	**143.1**	**143.6**	**145.8**	**144.3**	**146.7**
1.3.6.1 Leathers	0.223	114.3	113.5	116.2	116.3	116.0
1.3.6.2 Leather Footwear	0.409	159.8	161.5	164.1	161.4	166.0
1.3.6.3 Other Leather Products	0.203	141.3	140.8	141.4	140.5	141.6
1.3.7 Rubber & Plastic Products	**2.987**	**146.0**	**145.2**	**150.1**	**150.6**	**150.9**
1.3.7.1 Tyres & Tubes	0.541	174.1	173.7	176.2	177.9	178.1
1.3.7.1.1 Tyres	0.488	174.4	174.1	176.2	178.1	178.3
1.3.7.1.2 Tubes	0.053	171.4	169.9	176.5	176.6	176.6
1.3.7.2 Plastic Products	1.861	136.3	135.7	140.9	141.2	141.5
1.3.7.3 Rubber Products	0.584	151.1	148.8	155.1	155.4	156.0
1.3.8 Chemicals & Chemical Products	**12.018**	**148.9**	**148.1**	**153.3**	**153.3**	**154.1**
1.3.8.1 Basic Inorganic Chemicals	1.187	150.6	150.1	155.8	155.8	156.8
1.3.8.2 Basic Organic Chemicals	1.952	147.5	143.5	154.1	155.3	156.7
1.3.8.3 Fertilisers & Pesticides	3.145	148.2	147.7	151.3	150.9	151.5
1.3.8.3.1 Fertilisers	2.661	152.3	152.0	154.2	154.1	154.4
1.3.8.3.2 Pesticides	0.483	125.9	124.5	135.2	132.6	135.4
1.3.8.4 Paints, Varnishes & Lacquers	0.529	147.6	147.3	149.4	149.8	149.2
1.3.8.5 Dyestuffs & Indigo	0.563	132.6	129.5	143.1	142.3	143.6
1.3.8.6 Drugs & Medicines	0.456	126.8	126.8	128.8	128.8	128.7
1.3.8.7 Perfumes, Cosmetics, Toiletries etc.	1.130	157.3	157.1	160.8	160.8	161.0
1.3.8.8 Turpentine, Plastic Chemicals	0.586	147.6	147.2	155.6	155.7	156.2
1.3.8.9 Polymers including Synthetic Rubber	0.970	142.8	142.2	152.8	153.4	154.4
1.3.8.10 Petrochemical Intermediates	0.869	170.4	173.9	167.4	165.6	166.6
1.3.8.11 Matches, Explosives & other Chemicals	0.629	149.8	150.2	152.3	152.8	153.6
1.3.9 Non-Metallic Mineral Products	**2.556**	**166.2**	**165.9**	**169.0**	**168.1**	**169.5**
1.3.9.1 Structural Clay Products	0.658	176.1	173.2	186.8	188.6	188.7
1.3.9.2 Glass, Earthenware, Chinaware & their Products	0.256	131.7	130.5	133.0	133.1	133.0
1.3.9.3 Cement & Lime	1.386	167.0	168.2	165.5	162.6	165.9
1.3.9.4 Cement, Slate & Graphite Products	0.256	171.3	169.9	177.7	180.0	176.7
1.3.10 Basic Metals, Alloys & Metal Products	**10.748**	**164.5**	**162.9**	**166.9**	**166.8**	**166.4**
1.3.10.1 Ferrous Metals	8.064	154.9	153.1	157.6	157.3	156.7
1.3.10.1.1 Iron & Semis	1.563	154.1	150.1	161.3	160.8	158.8
1.3.10.1.2 Steel: Long	1.630	165.6	163.7	166.8	166.9	166.3
1.3.10.1.3 Steel: Flat	2.611	153.9	152.7	152.8	152.1	151.5
1.3.10.1.4 Steel: Pipes & Tubes	0.314	129.8	127.8	132.3	132.4	132.4
1.3.10.1.5 Stainless Steel & alloys	0.938	159.8	157.7	167.9	168.1	167.7
1.3.10.1.6 Castings & Forgings	0.871	142.6	143.2	145.3	145.3	146.8
1.3.10.1.7 Ferro alloys	0.137	155.6	155.5	160.2	159.9	159.7
1.3.10.2 Non-Ferrous Metals	1.004	164.0	164.2	167.3	167.1	168.4
1.3.10.2.1 Aluminium	0.489	137.9	138.3	141.8	141.3	143.3
1.3.10.2.2 Other Non-Ferrous Metals	0.515	188.9	188.8	191.6	191.7	192.2
1.3.10.3 Metal Products	1.680	211.2	208.9	211.6	212.6	212.2
1.3.11 Machinery & Machine Tools	**8.931**	**131.6**	**131.0**	**134.5**	**133.9**	**134.5**
1.3.11.1 Agricultural Machinery & Implements	0.139	141.6	138.2	148.5	149.2	148.8
1.3.11.2 Industrial Machinery	1.838	150.1	149.2	152.8	152.5	152.4
1.3.11.3 Construction Machinery	0.045	137.0	137.4	141.4	141.0	141.4
1.3.11.4 Machine Tools	0.367	160.4	159.5	163.6	164.5	163.7
1.3.11.5 Air Conditioner & Refrigerators	0.429	115.6	114.2	120.3	120.3	120.7
1.3.11.6 Non-Electrical Machinery	1.026	123.8	123.8	126.8	124.8	127.2
1.3.11.7 Electrical Machinery, Equipment & Batteries	2.343	136.6	135.7	138.6	138.3	138.4
1.3.11.8 Electrical Accessories, Wires, Cables etc.	1.063	150.3	150.1	155.0	152.6	156.5
1.3.11.9 Electrical Apparatus & Appliances	0.337	117.6	118.4	118.2	118.5	117.7
1.3.11.10 Electronics Items	0.961	87.9	86.9	90.1	89.6	89.6
1.3.11.11 IT Hardware	0.267	88.4	88.5	91.5	91.5	91.5
1.3.11.12 Communication Equipments	0.118	95.9	96.3	99.2	99.5	99.5
1.3.12 Transport, Equipment & Parts	**5.213**	**134.5**	**133.9**	**136.1**	**135.8**	**136.0**
1.3.12.1 Automotives	4.231	134.0	133.3	135.3	134.9	135.2
1.3.12.2 Auto Parts	0.804	133.6	133.8	137.1	137.0	137.2
1.3.12.3 Other Transport Equipments	0.178	150.1	149.0	149.6	149.7	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	2012-13	2013-14	April-July		July	
				2013-14	2014-15	2013	2014
	1	2	3	4	5	6	7
General Index	**100.00**	**172.2**	**172.0**	**167.2**	**172.7**	**171.4**	**172.3**
1 Sectoral Classification							
1.1 Mining and Quarrying	14.16	125.5	124.7	118.9	122.2	116.1	118.5
1.2 Manufacturing	75.53	183.3	181.9	176.8	180.9	182.7	180.8
1.3 Electricity	10.32	155.2	164.7	163.3	181.9	164.5	183.8
2 Use-Based Classification							
2.1 Basic Goods	45.68	153.6	156.9	151.5	163.8	152.1	163.6
2.2 Capital Goods	8.83	251.6	242.6	229.3	248.7	271.3	261.0
2.3 Intermediate Goods	15.69	146.7	151.3	148.5	152.6	151.0	154.9
2.4 Consumer Goods	29.81	190.6	185.3	182.6	174.4	182.1	168.6
2.4.1 Consumer Durables	8.46	301.1	264.2	271.0	237.2	277.6	219.7
2.4.2 Consumer Non-Durables	21.35	146.9	154.0	147.6	149.5	144.2	148.4

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			
	2014-15 (Budget Estimates)	2013-14 (Actuals)	2014-15 (Actuals)	Percentage to Budget Estimates	
				2013-14	2014-15
	1	2	3	4	5
1 Revenue Receipts	11,897.6	2,524.7	2,704.6	23.9	22.7
1.1 Tax Revenue (Net)	9,772.6	1,836.9	1,854.6	20.8	19.0
1.2 Non-Tax Revenue	2,125.1	687.9	850.0	39.9	40.0
2 Capital Receipts	6,051.3	4,104.6	4,022.6	67.4	66.5
2.1 Recovery of Loans	105.3	43.8	42.1	41.1	40.0
2.2 Other Receipts	634.3	14.3	1.2	2.6	0.2
2.3 Borrowings and Other Liabilities	5,311.8	4,046.5	3,979.3	74.6	74.9
3 Total Receipts (1+2)	17,948.9	6,629.4	6,727.2	39.8	37.5
4 Non-Plan Expenditure	12,198.9	4,798.5	4,951.0	43.2	40.6
4.1 On Revenue Account	11,146.1	4,351.1	4,557.1	43.8	40.9
4.1.1 Interest Payments	4,270.1	1,281.8	1,538.8	34.6	36.0
4.2 On Capital Account	1,052.8	447.3	393.9	38.2	37.4
5 Plan Expenditure	5,750.0	1,830.9	1,776.2	33.0	30.9
5.1 On Revenue Account	4,535.0	1,491.9	1,395.1	33.7	30.8
5.2 On Capital Account	1,215.0	339.0	381.1	30.3	31.4
6 Total Expenditure (4+5)	17,948.9	6,629.4	6,727.2	39.8	37.5
7 Revenue Expenditure (4.1+5.1)	15,681.1	5,843.0	5,952.2	40.7	38.0
8 Capital Expenditure (4.2+5.2)	2,267.8	786.4	775.0	34.3	34.2
9 Revenue Deficit (7-1)	3,783.5	3,318.3	3,247.6	87.4	85.8
10 Fiscal Deficit {6-(1+2.1+2.2)}	5,311.8	4,046.5	3,979.3	74.6	74.9
11 Gross Primary Deficit [10-4.1.1]	1,041.7	2,764.8	2,440.5	160.9	234.3

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

No. 24: Treasury Bills – Ownership Pattern

(₹ Billion)

Item	2013-14	2013	2014					
		Aug. 30	Jul. 25	Aug. 1	Aug. 8	Aug. 15	Aug. 22	Aug. 29
	1	2	3	4	5	6	7	8
1 14-day								
1.1 Banks	–	–	–	–	–	–	–	–
1.2 Primary Dealers	–	–	–	–	–	–	–	–
1.3 State Governments	1,101.8	514.8	933.7	1,009.3	735.8	701.6	846.5	784.5
1.4 Others	6.6	6.7	6.6	6.3	6.5	5.3	3.8	5.6
2 91-day								
2.1 Banks	286.0	371.3	333.4	309.2	322.2	297.4	272.4	294.9
2.2 Primary Dealers	286.9	291.6	299.9	323.6	317.7	356.2	329.7	377.8
2.3 State Governments	381.9	690.4	489.0	556.5	577.2	605.2	600.2	611.2
2.4 Others	300.3	241.3	565.0	565.4	560.8	547.9	591.1	510.6
3 182-day								
3.1 Banks	270.0	253.9	213.9	214.4	211.6	229.7	217.5	212.0
3.2 Primary Dealers	255.3	243.7	270.9	322.3	309.1	289.3	267.8	328.7
3.3 State Governments	74.1	4.0	74.5	74.5	74.5	74.5	74.5	74.5
3.4 Others	164.6	103.7	227.8	205.6	221.6	201.7	234.8	169.5
4 364-day								
4.1 Banks	356.1	326.2	488.9	442.7	466.3	463.6	436.1	477.3
4.2 Primary Dealers	480.7	570.1	519.0	570.6	524.1	528.3	520.9	533.3
4.3 State Governments	6.9	6.9	12.7	12.7	12.0	12.0	12.0	12.0
4.4 Others	523.6	406.8	398.4	392.5	424.6	422.7	457.2	403.3
5 Total	4,494.7	4,031.4	4,833.8	5,005.7	4,763.9	4,735.3	4,864.6	4,795.2

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										
2014-15										
Jul. 30	90	66	174.46	105.50	50	90.00	105.50	195.50	97.89	8.6456
Aug. 6	90	94	260.23	76.55	55	90.00	76.55	166.55	97.89	8.6456
Aug. 13	90	75	209.34	33.17	49	90.00	33.17	123.17	97.89	8.6456
Aug. 20	80	75	212.00	10.00	56	80.00	10.00	90.00	97.89	8.6456
Aug. 27	80	82	250.11	25.00	50	80.00	25.00	105.00	97.90	8.6038
182-day Treasury Bills										
2014-15										
Jul. 30	60	54	123.65	–	30	60.00	–	60.00	95.84	8.7050
Aug. 13	60	63	119.89	0.01	28	38.29	0.01	38.30	95.84	8.7050
Aug. 27	50	66	171.26	–	29	50.00	–	50.00	95.85	8.6832
364-day Treasury Bills										
2014-15										
Jul. 9	60	103	224.40	–	37	60.00	–	60.00	92.04	8.6722
Jul. 23	60	119	238.74	0.04	56	60.00	0.04	60.04	92.02	8.6959
Aug. 6	60	105	216.05	0.03	31	60.00	0.03	60.03	91.98	8.7432
Aug. 20	50	94	199.19	0.02	20	50.00	0.02	50.02	92.03	8.6840

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,	2014	6.00-9.00	7.68
August	2,	2014	1.00-8.00	5.87
August	4,	2014	5.00-8.20	7.75
August	5,	2014	6.00-8.25	7.67
August	6,	2014	6.25-9.05	8.33
August	7,	2014	6.25-8.45	7.99
August	8,	2014	6.50-9.05	8.31
August	9,	2014	5.50-8.25	6.51
August	11,	2014	6.50-8.80	8.55
August	12,	2014	6.50-8.80	8.33
August	13,	2014	6.50-8.22	7.77
August	14,	2014	5.00-9.00	8.33
August	16,	2014	6.00-8.75	7.22
August	19,	2014	6.50-8.30	7.95
August	20,	2014	6.50-8.35	7.85
August	21,	2014	6.25-8.30	7.73
August	22,	2014	6.00-8.30	7.93
August	23,	2014	5.00-7.75	6.59
August	25,	2014	6.00-8.60	8.14
August	26,	2014	6.00-8.50	7.86
August	27,	2014	6.00-9.00	7.74
August	28,	2014	6.00-9.00	8.23
August	30,	2014	0.25-7.50	5.25
September	1,	2014	6.00-8.05	7.57
September	2,	2014	5.50-7.60	7.34
September	3,	2014	5.50-8.60	7.23
September	4,	2014	5.50-8.00	7.39
September	5,	2014	4.50-8.40	7.77
September	6,	2014	4.50-9.90	8.57
September	8,	2014	6.00-8.60	7.97
September	9,	2014	6.00-8.10	7.76
September	10,	2014	6.00-8.05	7.81
September	11,	2014	6.00-8.05	7.76
September	12,	2014	4.00-8.50	7.73
September	13,	2014	5.50-8.10	6.92
September	15,	2014	5.50-8.60	7.77

No. 27: Certificates of Deposit

Item	2013	2014			
	Aug. 23	Jul. 11	Jul. 25	Aug. 8	Aug. 22
	1	2	3	4	5
1 Amount Outstanding (₹ Billion)	3,110.6	3,212.3	3,032.5	3,134.0	3,044.3
1.1 Issued during the fortnight (₹ Billion)	87.8	122.0	84.8	307.4	345.0
2 Rate of Interest (per cent)	9.64-11.70	8.33-8.96	8.38-9.41	8.50-9.48	8.73-9.94

No. 28: Commercial Paper

Item	2013	2014			
	Aug. 31	Jul. 15	Jul. 31	Aug. 15	Aug. 31
	1	2	3	4	5
1 Amount Outstanding (₹ Billion)	1,182.9	2,024.2	2,015.0	2,184.6	2,112.0
1.1 Reported during the fortnight (₹ Billion)	97.6	464.6	397.4	474.7	358.6
2 Rate of Interest (per cent)	9.50-14.31	8.16-12.42	8.12-11.77	7.36-11.96	8.26-12.62

No. 29: Average Daily Turnover in Select Financial Markets

(₹ Billion)

Item	2013-14	2013	2014					
		Aug. 30	Jul. 25	Aug. 1	Aug. 8	Aug. 15	Aug. 22	Aug. 29
	1	2	3	4	5	6	7	8
1 Call Money	230.7	209.5	119.4	187.3	194.2	123.3	153.9	145.8
2 Notice Money	71.6	57.8	53.0	67.7	48.3	46.9	64.3	62.4
3 Term Money	5.4	1.3	4.9	3.7	3.6	0.6	4.3	3.7
4 CBLO	1,196.3	1,481.4	961.6	1,164.2	1,197.6	1,181.5	1,153.2	1,279.8
5 Market Repo	986.8	846.3	1,022.3	872.0	1,074.4	776.0	1,125.6	837.0
6 Repo in Corporate Bond	0.3	–	–	–	5.1	–	–	–
7 Forex (US $ million)	50,568	55,889	49,599	59,866	55,957	44,431	59,248	59,023
8 Govt. of India Dated Securities	662.5	334.9	753.6	567.7	488.4	492.2	843.8	258.8
9 State Govt. Securities	12.8	10.3	12.7	3.4	2.8	4.1	3.4	5.0
10 Treasury Bills								
10.1 91-Day	26.7	33.9	24.7	24.4	55.0	41.4	34.8	42.8
10.2 182-Day	12.9	20.9	6.1	18.0	12.9	18.0	9.8	8.0
10.3 364-Day	25.4	47.5	18.7	7.4	22.9	14.1	13.6	15.2
10.4 Cash Management Bills	7.3	63.0	–	–	–	–	–	–
11 Total Govt. Securities (8+9+10)	740.3	447.7	815.7	620.9	582.1	569.7	905.5	329.8
11.1 RBI	4.0	12.8	0.3	0.4	2.5	0.1	0.9	1.1

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

(Amount in ₹ Billion)

Security & Type of Issue	2013-14		2013-14 (Apr.-Aug.)		2014-15 (Apr.-Aug.) *		Aug. 2013		Aug. 2014 *	
	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	53	58.1	16	31.0	18	26.1	9	17.3	3	16.1
1A Premium	43	53.2	15	28.6	15	13.6	9	15.9	2	4.8
1.1 Prospectus	38	12.4	11	10.2	11	4.7	5	0.7	1	2.0
1.1.1 Premium	30	10.7	10	9.6	10	3.9	5	0.4	1	1.6
1.2 Rights	15	45.8	5	20.8	7	21.4	4	16.6	2	14.1
1.2.1 Premium	13	42.5	5	19.0	5	9.7	4	15.5	1	3.3
2 Preference Shares	–	–	–	–	–	–	–	–	–	–
2.1 Prospectus	–	–	–	–	–	–	–	–	–	–
2.2 Rights	–	–	–	–	–	–	–	–	–	–
3 Debentures	17	58.7	3	9.7	12	44.4	1	1.0	2	5.3
3.1 Convertible	–	–	–	–	–	–	–	–	–	–
3.1.1 Prospectus	–	–	–	–	–	–	–	–	–	–
3.1.2 Rights	–	–	–	–	–	–	–	–	–	–
3.2 Non-Convertible	17	58.7	3	9.7	12	44.4	1	1.0	2	5.3
3.2.1 Prospectus	17	58.7	3	9.7	12	44.4	1	1.0	2	5.3
3.2.2 Rights	–	–	–	–	–	–	–	–	–	–
4 Bonds	–	–	–	–	–	–	–	–	–	–
4.1 Prospectus	–	–	–	–	–	–	–	–	–	–
4.2 Rights	–	–	–	–	–	–	–	–	–	–
5 Total (1+2+3+4)	70	116.8	19	40.7	30	70.5	10	18.3	5	21.4
5.1 Prospectus	55	71.0	14	19.9	23	49.1	6	1.7	3	7.3
5.2 Rights	15	45.8	5	20.8	7	21.4	4	16.6	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	2013-14	2013	2014				
			Aug.	Apr.	May	Jun.	Jul.	Aug.
		1	2	3	4	5	6	7
1 Exports	₹ Billion	19,050.1	1,664.8	1,432.0	1,550.7	1,571.8	1,658.5	1,641.6
	US $ Million	314,415.7	26,338.0	23,725.4	26,148.1	26,314.2	27,614.2	26,958.2
1.1 Oil	₹ Billion	3,832.5	368.0	191.8	203.1	362.0	434.1	..
	US $ Million	63,179.4	5,821.7	3,178.6	3,424.0	6,060.0	7,227.8	..
1.2 Non-oil	₹ Billion	15,217.6	1,296.8	1,240.1	1,347.7	1,209.8	1,224.4	..
	US $ Million	251,236.3	20,516.3	20,546.8	22,724.1	20,254.1	20,386.4	..
2 Imports	₹ Billion	27,154.3	2,340.4	2,163.7	2,329.5	2,269.6	2,406.4	2,301.6
	US $ Million	450,213.6	37,026.0	35,847.8	39,280.0	37,997.3	40,068.3	37,796.8
2.1 Oil	₹ Billion	9,978.9	955.0	782.5	858.3	797.0	876.3	781.8
	US $ Million	164,770.3	15,099.4	12,964.9	14,472.1	13,342.6	14,590.7	12,839.1
2.2 Non-oil	₹ Billion	17,175.5	1,385.4	1,381.1	1,471.2	1,472.6	1,530.1	1,519.8
	US $ Million	285,443.3	21,926.6	22,882.9	24,807.9	24,654.6	25,477.6	24,957.7
3 Trade Balance	₹ Billion	–8,104.2	–675.6	–731.7	–778.8	–697.8	–748.0	–660.0
	US $ Million	–135,797.9	–10,688.0	–12,122.3	–13,132.0	–11,683.1	–12,454.1	–10,838.6
3.1 Oil	₹ Billion	–6,146.4	–587.0	–590.7	–655.2	–435.0	–442.2	..
	US $ Million	–101,591.0	–9,277.7	–9,786.3	–11,048.1	–7,282.6	–7,362.9	..
3.2 Non-oil	₹ Billion	–1,957.9	–88.6	–141.0	–123.6	–262.8	–305.8	..
	US $ Million	–34,206.9	–1,410.3	–2,336.0	–2,083.8	–4,400.5	–5,091.2	..

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

No. 32: Foreign Exchange Reserves

Item	Unit	2013	2014					
		Sep. 20	Aug. 15	Aug. 22	Aug. 29	Sep. 5	Sep. 12	Sep. 19
		1	2	3	4	5	6	7
1 Total Reseves	**₹ Billion**	**17,359**	**19,527**	**19,314**	**19,328**	**19,243**	**19,250**	**19,235**
	US $ Million	**277,382**	**319,391**	**318,580**	**318,640**	**317,313**	**315,698**	**315,597**
1.1 Foreign Currency Assets	₹ Billion	15,512	17,878	17,670	17,685	17,613	17,619	17,611
	US $ Million	249,221	292,101	291,318	291,393	290,364	288,765	288,784
1.2 Gold	₹ Billion	1,446	1,276	1,276	1,276	1,266	1,266	1,266
	US $ Million	21,724	21,174	21,174	21,174	20,933	20,933	20,933
1.3 SDRs	SDRs Million	2,887	2,888	2,889	2,889	2,889	2,889	2,889
	₹ Billion	275	270	266	265	263	264	263
	US $ Million	4,424	4,416	4,397	4,386	4,344	4,333	4,325
1.4 Reserve Tranche Position in IMF	₹ Billion	125	104	102	102	101	101	95
	US $ Million	2,013	1,699	1,691	1,687	1,671	1,667	1,555

No. 33: NRI Deposits

(US$ Million)

Scheme	Outstanding				Flows	
	2013-14	2013	2014		2013-14	2014-15
		Aug.	Jul.	Aug.	Apr.-Aug.	Apr.-Aug.
	1	2	3	4	5	6
1 NRI Deposits	**103,844**	**67,893**	**108,498**	**110,615**	**8,280**	**7,168**
1.1 FCNR(B)	41,823	15,119	43,131	43,409	–69	1,586
1.2 NR(E)RA	52,908	44,825	56,225	57,971	8,340	5,405
1.3 NRO	9,114	7,948	9,141	9,235	8	177

No. 34: Foreign Investment Inflows

(US$ Million)

Item	2013-14	2013-14	2014-15	2013	2014	
		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)	**21,564**	**10,079**	**13,861**	**1,661**	**3,562**	**2,135**
1.1.1 Direct Investment to India (1.1.1.1–1. 1.1.2)	**30,762**	**10,562**	**14,105**	**1,918**	**3,716**	**2,099**
1.1.1.1 Gross Inflows/Gross Investments	**36,046**	**12,920**	**17,445**	**2,271**	**4,407**	**2,791**
1.1.1.1.1 Equity	25,274	8,835	12,389	1,484	3,576	1,354
1.1.1.1.1.1 Government (SIA/FIPB)	1,185	655	838	156	210	37
1.1.1.1.1.2 RBI	14,869	4,909	6,773	790	2,241	591
1.1.1.1.1.3 Acquisition of shares	8,245	2,897	4,402	462	1,049	650
1.1.1.1.1.4 Equity capital of unincorporated bodies	975	374	375	76	76	76
1.1.1.1.2 Reinvested earnings	8,978	3,451	3,451	696	696	696
1.1.1.1.3 Other capital	1,794	633	1,605	91	135	741
1.1.1.2 Repatriation/Disinvestment	**5,284**	**2,358**	**3,340**	**353**	**692**	**692**
1.1.1.2.1 Equity	4,786	2,094	3,200	284	648	648
1.1.1.2.2 Other capital	498	264	140	68	43	43
1.1.2 Foreign Direct Investment by India (1.1.2.1+1.1.2.2+1.1.2.3–1.1.2.4)	**9,199**	**483**	**244**	**258**	**154**	**–36**
1.1.2.1 Equity capital	12,420	1,551	1,230	219	324	211
1.1.2.2 Reinvested Earnings	1,167	474	474	99	99	99
1.1.2.3 Other Capital	3,148	1,639	1,274	352	317	240
1.1.2.4 Repatriation/Disinvestment	7,535	3,182	2,734	412	586	586
1.2 Net Portfolio Investment (1.2.1+1.2.2+1.2.3–1.2.4)	**4,822**	**–6,971**	**19,847**	**–2,031**	**5,366**	**2,041**
1.2.1 GDRs/ADRs	20	20	–	–	–	–
1.2.2 FIIs	5,009	–7,203	19,973	–2,018	5,417	2,091
1.2.3 Offshore funds and others	–	–	–	–	–	–
1.2.4 Portfolio investment by India	207	–212	126	13	50	50
1 Foreign Investment Inflows	**26,385**	**3,108**	**33,708**	**–370**	**8,928**	**4,176**

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

(US$ Million)

Item	2013-14	2013	2014		
		Jul.	May	Jun.	Jul.
	1	2	3	4	5
1 Outward Remittances under the LRS	**1,093.9**	**109.9**	**114.0**	**76.0**	**90.2**
1.1 Deposit	31.6	2.9	2.5	3.2	4.2
1.2 Purchase of immovable property	58.7	20.6	0.6	0.5	0.8
1.3 Investment in equity/debt	165.5	16.2	16.5	11.7	16.2
1.4 Gift	267.1	24.8	35.8	27.6	29.8
1.5 Donations	2.0	0.3	0.3	0.2	0.1
1.6 Travel	15.9	1.0	1.6	0.8	0.4
1.7 Maintenance of close relatives	173.9	13.8	25.6	9.7	11.1
1.8 Medical Treatment	4.7	0.4	0.8	0.6	0.4
1.9 Studies Abroad	159.3	15.5	20.4	12.6	18.2
1.10 Others	215.3	14.5	9.8	9.2	9.0

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

Item	2012-13	2013-14	2013	2014	
			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	78.32	72.32	68.93	72.72	73.68
1.2 REER	105.57	103.27	99.32	108.24	109.67
2 Export-Based Weights					
2.1 NEER	80.05	73.56	69.95	73.84	74.76
2.2 REER	108.71	105.48	101.25	110.58	111.96
6-Currency Trade Based Weights					
1 Base: 2004-05 (April-March) =100					
1.1 NEER	75.59	67.75	64.15	67.27	68.18
1.2 REER	117.15	112.77	107.89	118.72	120.33
2 Base: 2013-14 (April-March) =100					
2.1 NEER	111.57	100.00	94.69	99.29	100.64
2.2 REER	103.88	100.00	95.67	105.28	106.70

No. 37: External Commercial Borrowings (ECBs)

(Amount in US$ Million)

Item	2013-14	2013	2014	
		Aug.	Jul.	Aug.
	1	2	3	4
1 Automatic Route				
1.1 Number	573	46	58	53
1.2 Amount	12,340	1,096	2,560	453
2 Approval Route				
2.1 Number	140	7	8	5
2.2 Amount	20,892	1,209	1,162	54
3 Total (1+2)				
3.1 Number	713	53	66	58
3.2 Amount	33,232	2,305	3,722	507
4 Weighted Average Maturity (in years)	4.88	4.10	6.28	5.06
5 Interest Rate (per cent)				
5.1 Weighted Average Margin over 6-month LIBOR or reference rate for Floating Rate Loans	1.98	1.13	1.93	2.33
5.2 Interest rate range for Fixed Rate Loans	0.00-12.79	0.00-8.61	1.25-9.00	0.00-8.00

No. 38: India's Overall Balance of Payments

(US $ Million)

Item	Apr-Jun 2013 (PR)			Apr-Jun 2014 (P)		
	Credit	Debit	Net	Credit	Debit	Net
	1	2	3	4	5	6
Overall Balance of Payments(1+2+3)	**266,538**	**266,884**	**–346**	**286,376**	**275,197**	**11,179**
1 CURRENT ACCOUNT (1.1+ 1.2)	**130,958**	**152,747**	**–21,789**	**139,186**	**147,046**	**–7,860**
1.1 MERCHANDISE	**73,909**	**124,393**	**–50,484**	**81,712**	**116,360**	**–34,648**
1.2 INVISIBLES (1.2.1+1.2.2+1.2.3)	**57,049**	**28,354**	**28,695**	**57,474**	**30,686**	**26,788**
1.2.1 Services	36,522	19,655	16,868	37,568	20,499	17,069
1.2.1.1 Travel	3,825	2,999	826	4,232	3,838	394
1.2.1.2 Transportation	4,134	3,696	438	4,452	3,931	521
1.2.1.3 Insurance	503	263	240	537	304	234
1.2.1.4 G.n.i.e.	130	300	–169	132	248	–115
1.2.1.5 Miscellaneous	27,930	12,397	15,533	28,213	12,178	16,035
1.2.1.5.1 Software Services	16,484	350	16,134	17,533	519	17,014
1.2.1.5.2 Business Services	7,263	6,696	567	7,066	6,306	761
1.2.1.5.3 Financial Services	1,799	2,390	–591	1,581	1,415	166
1.2.1.5.4 Communication Services	635	426	209	450	262	188
1.2.2 Transfers	18,001	1,343	16,658	17,561	1,149	16,413
1.2.2.1 Official	131	265	–134	50	263	–213
1.2.2.2 Private	17,870	1,078	16,792	17,512	885	16,626
1.2.3 Income	2,526	7,357	–4,830	2,345	9,039	–6,694
1.2.3.1 Investment Income	1,777	6,784	–5,007	1,501	8,350	–6,849
1.2.3.2 Compensation of Employees	750	573	177	844	689	155
2 CAPITAL ACCOUNT (2.1+2.2+2.3+2.4+2.5)	**134,692**	**114,136**	**20,556**	**147,190**	**127,360**	**19,830**
2.1 Foreign Investment (2.1.1+2.1.2)	**65,201**	**58,938**	**6,263**	**80,837**	**60,229**	**20,607**
2.1.1 Foreign Direct Investment	10,486	3,998	6,488	11,810	3,642	8,168
2.1.1.1 In India	8,129	1,653	6,476	10,247	1,957	8,291
2.1.1.1.1 Equity	5,619	1,526	4,093	7,459	1,904	5,555
2.1.1.1.2 Reinvested Earnings	2,059	–	2,059	2,059	–	2,059
2.1.1.1.3 Other Capital	451	127	324	729	53	677
2.1.1.2 Abroad	2,357	2,346	11	1,562	1,685	–123
2.1.1.2.1 Equity	2,357	1,091	1,266	1,562	695	867
2.1.1.2.2 Reinvested Earnings	–	276	–276	–	276	–276
2.1.1.2.3 Other Capital	–	978	–978	–	714	–714
2.1.2 Portfolio Investment	54,715	54,939	–225	69,027	56,587	12,440
2.1.2.1 In India	54,203	54,665	–462	68,858	56,393	12,465
2.1.2.1.1 FIIs	54,183	54,665	–482	68,858	56,393	12,465
2.1.2.1.1.1 Equity	40,759	35,887	4,872	52,715	45,224	7,491
2.1.2.1.1.2 Debt	13,424	18,778	–5,354	16,143	11,169	4,974
2.1.2.1.2 ADR/GDRs	20	–	20	–	–	–
2.1.2.2 Abroad	512	274	237	169	194	–25
2.2 Loans (2.2.1+2.2.2+2.2.3)	**37,577**	**33,931**	**3,647**	**34,134**	**32,271**	**1,863**
2.2.1 External Assistance	1,043	751	292	1,215	1,265	–50
2.2.1.1 By India	12	62	–50	16	129	–113
2.2.1.2 To India	1,031	689	342	1,200	1,136	63
2.2.2 Commercial Borrowings	5,834	4,931	903	8,819	7,129	1,690
2.2.2.1 By India	537	56	481	446	164	282
2.2.2.2 To India	5,297	4,875	422	8,374	6,965	1,409
2.2.3 Short Term to India	30,700	28,249	2,451	24,099	23,877	222
2.2.3.1 Suppliers' Credit > 180 days & Buyers' Credit	30,415	28,249	2,166	23,428	23,877	–448
2.2.3.2 Suppliers' Credit up to 180 days	285	–	285	671	–	671
2.3 Banking Capital (2.3.1+2.3.2)	**25,989**	**15,664**	**10,325**	**24,064**	**24,179**	**–115**
2.3.1 Commercial Banks	25,877	15,664	10,212	23,969	24,179	–210
2.3.1.1 Assets	6,539	461	6,078	8,279	8,234	45
2.3.1.2 Liabilities	19,337	15,204	4,134	15,690	15,945	–255
2.3.1.2.1 Non-Resident Deposits	18,380	12,837	5,542	15,117	12,708	2,409
2.3.2 Others	113	–	113	95	–	95
2.4 Rupee Debt Service	–	25	–25	–	56	–56
2.5 Other Capital	5,924	5,578	346	8,156	10,626	–2,470
3 Errors & Omissions	**887**	–	**887**	–	**791**	**–791**
4 Monetary Movements (4.1+ 4.2)	**346**	–	**346**	–	**11,179**	**–11,179**
4.1 I.M.F.	–	–	–	–	–	–
4.2 Foreign Exchange Reserves (Increase - / Decrease +)	346	–	346	–	11,179	–11,179

No. 39: India's Overall Balance of Payments

(₹ Billion)

Item	Apr-Jun 2013 (PR)			Apr-Jun 2014 (P)		
	Credit	Debit	Net	Credit	Debit	Net
	1	2	3	4	5	6
Overall Balance of Payments(1+2+3)	**14,907**	**14,926**	**–19**	**17,125**	**16,456**	**668**
1 CURRENT ACCOUNT (1.1+ 1.2)	**7,324**	**8,543**	**–1,219**	**8,323**	**8,793**	**–470**
1.1 MERCHANDISE	**4,134**	**6,957**	**–2,823**	**4,886**	**6,958**	**–2,072**
1.2 INVISIBLES (1.2.1+1.2.2+1.2.3)	**3,191**	**1,586**	**1,605**	**3,437**	**1,835**	**1,602**
1.2.1 Services	2,043	1,099	943	2,246	1,226	1,021
1.2.1.1 Travel	214	168	46	253	230	24
1.2.1.2 Transportation	231	207	24	266	235	31
1.2.1.3 Insurance	28	15	13	32	18	14
1.2.1.4 G.n.i.e.	7	17	–9	8	15	–7
1.2.1.5 Miscellaneous	1,562	693	869	1,687	728	959
1.2.1.5.1 Software Services	922	20	902	1,048	31	1,017
1.2.1.5.2 Business Services	406	375	32	423	377	45
1.2.1.5.3 Financial Services	101	134	–33	95	85	10
1.2.1.5.4 Communication Services	36	24	12	27	16	11
1.2.2 Transfers	1,007	75	932	1,050	69	981
1.2.2.1 Official	7	15	–7	3	16	–13
1.2.2.2 Private	999	60	939	1,047	53	994
1.2.3 Income	141	411	–270	140	540	–400
1.2.3.1 Investment Income	99	379	–280	90	499	–410
1.2.3.2 Compensation of Employees	42	32	10	50	41	9
2 CAPITAL ACCOUNT (2.1+2.2+2.3+2.4+2.5)	**7,533**	**6,383**	**1,150**	**8,802**	**7,616**	**1,186**
2.1 Foreign Investment (2.1.1+2.1.2)	3,647	3,296	350	4,834	3,602	1,232
2.1.1 Foreign Direct Investment	586	224	363	706	218	488
2.1.1.1 In India	455	92	362	613	117	496
2.1.1.1.1 Equity	314	85	229	446	114	332
2.1.1.1.2 Reinvested Earnings	115	–	115	123	–	123
2.1.1.1.3 Other Capital	25	7	18	44	3	40
2.1.1.2 Abroad	132	131	1	93	101	–7
2.1.1.2.1 Equity	132	61	71	93	42	52
2.1.1.2.2 Reinvested Earnings	–	15	–15	–	17	–17
2.1.1.2.3 Other Capital	–	55	–55	–	43	–43
2.1.2 Portfolio Investment	3,060	3,073	–13	4,128	3,384	744
2.1.2.1 In India	3,031	3,057	–26	4,118	3,372	745
2.1.2.1.1 FIIs	3,030	3,057	–27	4,118	3,372	745
2.1.2.1.1.1 Equity	2,280	2,007	273	3,152	2,704	448
2.1.2.1.1.2 Debt	751	1,050	–299	965	668	297
2.1.2.1.2 ADR/GDRs	1	–	1	–	–	–
2.1.2.2 Abroad	29	15	13	10	12	–1
2.2 Loans (2.2.1+2.2.2+2.2.3)	**2,102**	**1,898**	**204**	**2,041**	**1,930**	**111**
2.2.1 External Assistance	58	42	16	73	76	–3
2.2.1.1 By India	1	3	–3	1	8	–7
2.2.1.2 To India	58	39	19	72	68	4
2.2.2 Commercial Borrowings	326	276	51	527	426	101
2.2.2.1 By India	30	3	27	27	10	17
2.2.2.2 To India	296	273	24	501	416	84
2.2.3 Short Term to India	1,717	1,580	137	1,441	1,428	13
2.2.3.1 Suppliers' Credit > 180 days & Buyers' Credit	1,701	1,580	121	1,401	1,428	–27
2.2.3.2 Suppliers' Credit up to 180 days	16	–	16	40	–	40
2.3 Banking Capital (2.3.1+2.3.2)	**1,454**	**876**	**577**	**1,439**	**1,446**	**–7**
2.3.1 Commercial Banks	1,447	876	571	1,433	1,446	–13
2.3.1.1 Assets	366	26	340	495	492	3
2.3.1.2 Liabilities	1,081	850	231	938	953	–15
2.3.1.2.1 Non-Resident Deposits	1,028	718	310	904	760	144
2.3.2 Others	6	–	6	6	–	6
2.4 Rupee Debt Service	–	1	–1	–	3	–3
2.5 Other Capital	331	312	19	488	635	–148
3 Errors & Omissions	**50**	–	**50**	–	**47**	**–47**
4 Monetary Movements (4.1+ 4.2)	**19**	–	**19**	–	**668**	**–668**
4.1 I.M.F.	–	–	–	–	–	–
4.2 Foreign Exchange Reserves (Increase - / Decrease +)	19	–	19	–	668	–668

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

(US $ Million)

Item	Apr-Jun 2013 (PR)			Apr-Jun 2014 (P)		
	Credit	Debit	Net	Credit	Debit	Net
	1	2	3	4	5	6
1 Current Account (1.A+1.B+1.C)	**130,950**	**152,722**	**–21,772**	**139,184**	**147,021**	**–7,837**
1.A Goods and Services (1.A.a+1.A.b)	**110,431**	**144,047**	**–33,616**	**119,280**	**136,859**	**–17,580**
1.A.a Goods (1.A.a.1 to 1.A.a.3)	**73,909**	**124,393**	**–50,484**	**81,712**	**116,360**	**–34,648**
1.A.a.1 General merchandise on a BOP basis	73,909	107,907	–33,998	81,712	109,312	–27,600
1.A.a.2 Net exports of goods under merchanting	–	–	–	–	–	–
1.A.a.3 Nonmonetary gold	–	16,486	–16,486	–	7,049	–7,049
1.A.b Services (1.A.b.1 to 1.A.b.13)	**36,522**	**19,654**	**16,868**	**37,568**	**20,499**	**17,069**
1.A.b.1 Manufacturing services on physical inputs owned by others	10	9	1	34	10	24
1.A.b.2 Maintenance and repair services n.i.e.	63	94	–30	31	59	–28
1.A.b.3 Transport	4,134	3,696	438	4,452	3,931	521
1.A.b.4 Travel	3,825	2,999	826	4,232	3,838	394
1.A.b.5 Construction	341	334	7	504	289	215
1.A.b.6 Insurance and pension services	503	263	240	537	304	234
1.A.b.7 Financial services	1,799	2,390	–591	1,581	1,415	166
1.A.b.8 Charges for the use of intellectual property n.i.e.	94	1,071	–977	198	1,392	–1,194
1.A.b.9 Telecommunications, computer, and information services	17,140	896	16,244	18,072	880	17,192
1.A.b.10 Other business services	7,263	6,696	567	7,066	6,306	761
1.A.b.11 Personal, cultural, and recreational services	362	141	221	301	317	–16
1.A.b.12 Government goods and services n.i.e.	130	300	–169	132	248	–115
1.A.b.13 Others n.i.e.	857	766	91	427	1,511	–1,084
1.B Primary Income (1.B.1 to 1.B.3)	**2,526**	**7,357**	**–4,830**	**2,345**	**9,039**	**–6,694**
1.B.1 Compensation of employees	750	573	177	844	689	155
1.B.2 Investment income	1,559	6,678	–5,119	1,253	8,210	–6,958
1.B.2.1 Direct investment	463	2,840	–2,377	445	3,675	–3,230
1.B.2.2 Portfolio investment	309	1,314	–1,005	14	1,594	–1,580
1.B.2.3 Other investment	58	2,523	–2,465	125	2,940	–2,815
1.B.2.4 Reserve assets	729	1	728	669	2	667
1.B.3 Other primary income	217	105	112	248	140	109
1.C Secondary Income (1.C.1+1.C.2)	**17,992**	**1,318**	**16,675**	**17,559**	**1,123**	**16,436**
1.C.1 Financial corporations, nonfinancial corporations, households, and NPISHs	17,870	1,078	16,792	17,512	885	16,626
1.C.1.1 Personal transfers (Current transfers between resident and/ non-resident households)	17,210	997	16,213	16,842	798	16,044
1.C.1.2 Other current transfers	660	81	579	670	88	582
1.C.2 General government	123	239	–117	48	237	–190
2 Capital Account (2.1+2.2)	**1,043**	**276**	**767**	**138**	**121**	**18**
2.1 Gross acquisitions (DR.)/disposals (CR.) of non-produced nonfinancial assets	8	9	–2	76	72	4
2.2 Capital transfers	1,036	267	769	63	49	13
3 Financial Account (3.1 to 3.5)	**134,012**	**113,895**	**20,118**	**147,126**	**138,515**	**8,610**
3.1 Direct Investment (3.1A+3.1B)	**10,486**	**3,998**	**6,488**	**11,810**	**3,642**	**8,168**
3.1.A Direct Investment in India	8,129	1,653	6,476	10,247	1,957	8,291
3.1.A.1 Equity and investment fund shares	7,678	1,526	6,152	9,518	1,904	7,614
3.1.A.1.1 Equity other than reinvestment of earnings	5,619	1,526	4,093	7,459	1,904	5,555
3.1.A.1.2 Reinvestment of earnings	2,059	–	2,059	2,059	–	2,059
3.1.A.2 Debt instruments	451	127	324	729	53	677
3.1.A.2.1 Direct investor in direct investment enterprises	451	127	324	729	53	677
3.1.B Direct Investment by India	2,357	2,346	11	1,562	1,685	–123
3.1.B.1 Equity and investment fund shares	2,357	1,367	990	1,562	971	591
3.1.B.1.1 Equity other than reinvestment of earnings	2,357	1,091	1,266	1,562	695	867
3.1.B.1.2 Reinvestment of earnings	–	276	–276	–	276	–276
3.1.B.2 Debt instruments	–	978	–978	–	714	–714
3.1.B.2.1 Direct investor in direct investment enterprises	–	978	–978	–	714	–714
3.2 Portfolio Investment	**54,695**	**54,939**	**–245**	**69,027**	**56,587**	**12,440**
3.2.A Portfolio Investment in India	54,183	54,665	–482	68,858	56,393	12,465
3.2.1 Equity and investment fund shares	40,759	35,887	4,872	52,715	45,224	7,491
3.2.2 Debt securities	13,424	18,778	–5,354	16,143	11,169	4,974
3.2.B Portfolio Investment by India	512	274	237	169	194	–25
3.3 Financial derivatives (other than reserves) and employee stock options	**1,735**	**2,280**	**–545**	**6,008**	**3,996**	**2,012**
3.4 Other investment	**66,750**	**52,677**	**14,073**	**60,281**	**63,111**	**–2,830**
3.4.1 Other equity (ADRs/GDRs)	20	–	20	–	–	–
3.4.2 Currency and deposits	18,492	12,837	5,655	15,212	12,708	2,504
3.4.2.1 Central bank (Rupee Debt Movements; NRG)	113	–	113	95	–	95
3.4.2.2 Deposit-taking corporations, except the central bank (NRI Deposits)	18,380	12,837	5,542	15,117	12,708	2,409
3.4.2.3 General government	–	–	–	–	–	–
3.4.2.4 Other sectors	–	–	–	–	–	–
3.4.3 Loans (External Assistance, ECBs and Banking Capital)	14,374	8,509	5,865	18,887	19,865	–978
3.4.3.A Loans to India	13,825	8,391	5,434	18,425	19,572	–1,147
3.4.3.B Loans by India	549	118	431	462	293	169
3.4.4 Insurance, pension, and standardized guarantee schemes	15	99	–84	29	32	–3
3.4.5 Trade credit and advances	30,700	28,249	2,451	24,099	23,877	222
3.4.6 Other accounts receivable/payable - other	3,149	2,983	166	2,054	6,630	–4,575
3.4.7 Special drawing rights	–	–	–	–	–	–
3.5 Reserve assets	**346**	–	**346**	–	**11,179**	**–11,179**
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)	346	–	346	–	11,179	–11,179
4 Total assets/liabilities	**134,012**	**113,895**	**20,118**	**147,126**	**138,515**	**8,610**
4.1 Equity and investment fund shares	53,056	41,433	11,623	70,001	52,321	17,680
4.2 Debt instruments	77,442	69,479	7,963	75,070	68,385	6,685
4.3 Other financial assets and liabilities	3,515	2,983	532	2,054	17,809	–15,754
5 Net errors and omissions	**887**	–	**887**	–	**791**	**–791**

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

(₹ Billion)

Item	Apr-Jun 2013 (PR)			Apr-Jun 2014 (P)		
	Credit	Debit	Net	Credit	Debit	Net
	1	2	3	4	5	6
1 Current Account (1.A+1.B+1.C)	**7,324**	**8,541**	**–1,218**	**8,323**	**8,791**	**–469**
1.A Goods and Services (1.A.a+1.A.b)	**6,176**	**8,056**	**–1,880**	**7,133**	**8,184**	**–1,051**
1.A.a Goods (1.A.a.1 to 1.A.a.3)	**4,134**	**6,957**	**–2,823**	**4,886**	**6,958**	**–2,072**
1.A.a.1 General merchandise on a BOP basis	4,134	6,035	–1,901	4,886	6,537	–1,650
1.A.a.2 Net exports of goods under merchanting	–	–	–	–	–	–
1.A.a.3 Nonmonetary gold	–	922	–922	–	421	–421
1.A.b Services (1.A.b.1 to 1.A.b.13)	**2,043**	**1,099**	**943**	**2,246**	**1,226**	**1,021**
1.A.b.1 Manufacturing services on physical inputs owned by others	1	1	–	2	1	1
1.A.b.2 Maintenance and repair services n.i.e.	4	5	–2	2	4	–2
1.A.b.3 Transport	231	207	24	266	235	31
1.A.b.4 Travel	214	168	46	253	230	24
1.A.b.5 Construction	19	19	–	30	17	13
1.A.b.6 Insurance and pension services	28	15	13	32	18	14
1.A.b.7 Financial services	101	134	–33	95	85	10
1.A.b.8 Charges for the use of intellectual property n.i.e.	5	60	–55	12	83	–71
1.A.b.9 Telecommunications, computer, and information services	959	50	908	1,081	53	1,028
1.A.b.10 Other business services	406	375	32	423	377	45
1.A.b.11 Personal, cultural, and recreational services	20	8	12	18	19	–1
1.A.b.12 Government goods and services n.i.e.	7	17	–9	8	15	–7
1.A.b.13 Others n.i.e.	48	43	5	26	90	–65
1.B Primary Income (1.B.1 to 1.B.3)	**141**	**411**	**–270**	**140**	**540**	**–400**
1.B.1 Compensation of employees	42	32	10	50	41	9
1.B.2 Investment income	87	374	–286	75	491	–416
1.B.2.1 Direct investment	26	159	–133	27	220	–193
1.B.2.2 Portfolio investment	17	73	–56	1	95	–94
1.B.2.3 Other investment	3	141	–138	7	176	–168
1.B.2.4 Reserve assets	41	–	41	40	–	40
1.B.3 Other primary income	12	6	6	15	8	7
1.C Secondary Income (1.C.1+1.C.2)	**1,006**	**74**	**933**	**1,050**	**67**	**983**
1.C.1 Financial corporations, nonfinancial corporations, households, and NPISHs	999	60	939	1,047	53	994
1.C.1.1 Personal transfers (Current transfers between resident and/ non-resident households)	962	56	907	1,007	48	959
1.C.1.2 Other current transfers	37	5	32	40	5	35
1.C.2 General government	7	13	–7	3	14	–11
2 Capital Account (2.1+2.2)	**58**	**15**	**43**	**8**	**7**	**1**
2.1 Gross acquisitions (DR.)/disposals (CR.) of non-produced nonfinancial assets	–	1	–	5	4	–
2.2 Capital transfers	58	15	43	4	3	1
3 Financial Account (3.1 to 3.5)	**7,495**	**6,370**	**1,125**	**8,798**	**8,283**	**515**
3.1 Direct Investment (3.1A+3.1B)	**586**	**224**	**363**	**706**	**218**	**488**
3.1.A Direct Investment in India	455	92	362	613	117	496
3.1.A.1 Equity and investment fund shares	429	85	344	569	114	455
3.1.A.1.1 Equity other than reinvestment of earnings	314	85	229	446	114	332
3.1.A.1.2 Reinvestment of earnings	115	–	115	123	–	123
3.1.A.2 Debt instruments	25	7	18	44	3	40
3.1.A.2.1 Direct investor in direct investment enterprises	25	7	18	44	3	40
3.1.B Direct Investment by India	132	131	1	93	101	–7
3.1.B.1 Equity and investment fund shares	132	76	55	93	58	35
3.1.B.1.1 Equity other than reinvestment of earnings	132	61	71	93	42	52
3.1.B.1.2 Reinvestment of earnings	–	15	–15	–	17	–17
3.1.B.2 Debt instruments	–	55	–55	–	43	–43
3.1.B.2.1 Direct investor in direct investment enterprises	–	55	–55	–	43	–43
3.2 Portfolio Investment	**3,059**	**3,073**	**–14**	**4,128**	**3,384**	**744**
3.2.A Portfolio Investment in India	3,030	3,057	–27	4,118	3,372	745
3.2.1 Equity and investment fund shares	2,280	2,007	273	3,152	2,704	448
3.2.2 Debt securities	751	1,050	–299	965	668	297
3.2.B Portfolio Investment by India	29	15	13	10	12	–1
3.3 Financial derivatives (other than reserves) and employee stock options	**97**	**128**	**–30**	**359**	**239**	**120**
3.4 Other investment	**3,733**	**2,946**	**787**	**3,605**	**3,774**	**–169**
3.4.1 Other equity (ADRs/GDRs)	1	–	1	–	–	–
3.4.2 Currency and deposits	1,034	718	316	910	760	150
3.4.2.1 Central bank (Rupee Debt Movements; NRG)	6	–	6	6	–	6
3.4.2.2 Deposit-taking corporations, except the central bank (NRI Deposits)	1,028	718	310	904	760	144
3.4.2.3 General government	–	–	–	–	–	–
3.4.2.4 Other sectors	–	–	–	–	–	–
3.4.3 Loans (External Assistance, ECBs and Banking Capital)	804	476	328	1,129	1,188	–59
3.4.3.A Loans to India	773	469	304	1,102	1,170	–69
3.4.3.B Loans by India	31	7	24	28	18	10
3.4.4 Insurance, pension, and standardized guarantee schemes	1	6	–5	2	2	–
3.4.5 Trade credit and advances	1,717	1,580	137	1,441	1,428	13
3.4.6 Other accounts receivable/payable - other	176	167	9	123	396	–274
3.4.7 Special drawing rights	–	–	–	–	–	–
3.5 Reserve assets	**19**	**–**	**19**	**–**	**668**	**–668**
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)	19	–	19	–	668	–668
4 Total assets/liabilities	**7,495**	**6,370**	**1,125**	**8,798**	**8,283**	**515**
4.1 Equity and investment fund shares	2,967	2,317	650	4,186	3,129	1,057
4.2 Debt instruments	4,331	3,886	445	4,489	4,089	400
4.3 Other financial assets and liabilities	197	167	30	123	1,065	–942
5 Net errors and omissions	**50**	**–**	**50**	**–**	**47**	**–47**

No. 42: International Investment Position

(US$ Million)

Item	As on Financial Year /Quarter End							
	2013-14		2013				2014	
			Mar.		Dec.		Mar.	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	1	2	3	4	5	6	7	8
1 Direct Investment Abroad/in India	128,709	242,706	119,510	233,671	119,838	226,552	128,709	242,706
1.1 Equity Capital and Reinvested Earnings	90,902	231,724	84,850	223,143	82,733	215,631	90,902	231,724
1.2 Other Capital	37,807	10,983	34,660	10,528	37,105	10,921	37,807	10,983
2 Portfolio Investment	1,068	193,033	1,375	201,268	1,340	179,595	1,068	193,033
2.1 Equity	931	139,661	1,261	139,460	1,184	132,348	931	139,661
2.2 Debt	137	53,372	114	61,808	156	47,248	137	53,372
3 Other Investment	49,191	379,053	34,822	339,526	43,205	370,891	49,191	379,053
3.1 Trade Credit	8,742	83,930	3,921	88,981	10,859	88,363	8,742	83,930
3.2 Loan	6,863	178,093	4,917	166,945	5,553	170,623	6,863	178,093
3.3 Currency and Deposits	17,862	103,992	13,058	71,003	13,867	98,772	17,862	103,992
3.4 Other Assets/Liabilities	15,724	13,037	12,926	12,597	12,926	13,134	15,724	13,037
4 Reserves	304,223	–	292,046	–	293,878	–	304,223	–
5 Total Assets/ Liabilities	483,192	814,793	447,753	774,465	458,261	777,038	483,192	814,793
6 IIP (Assets - Liabilities)		–331,600		–326,712		–318,778		–331,600

Payment and Settlement Systems

No. 43: Payment System Indicators

System	Volume (Million)				Value (₹ Billion)			
	2013-14	2014			2013-14	2014		
		Jun.	Jul.	Aug.		Jun.	Jul.	Aug.
	1	2	3	4	5	6	7	8
1 RTGS	**81.11**	**7.47**	**7.55**	**6.97**	**904,968.04**	**80,264.24**	**72,568.83**	**69,327.09**
1.1 Customer Transactions	76.35	7.10	7.17	6.62	573,614.03	54,092.02	48,376.16	46,545.69
1.2 Interbank Transactions	4.75	0.37	0.38	0.35	160,638.37	12,150.96	9,002.71	9,024.57
1.3 Interbank Clearing	0.011	0.001	0.001	0.001	170,715.64	14,021.27	15,189.97	13,756.83
2 CCIL Operated Systems	**2.56**	**0.27**	**0.26**	**0.21**	**621,569.63**	**68,567.05**	**64,303.13**	**53,810.98**
2.1 CBLO	0.18	0.02	0.02	0.02	175,261.92	13,657.55	14,587.50	13,397.60
2.2 Govt. Securities Clearing	0.87	0.11	0.09	0.06	161,848.24	24,523.19	20,805.51	15,954.32
2.2.1 Outright	0.82	0.10	0.08	0.05	89,566.99	10,479.58	8,031.79	5,274.34
2.2.2 Repo	0.046	0.010	0.010	0.008	72,281.26	14,043.61	12,773.72	10,679.98
2.3 Forex Clearing	1.51	0.14	0.15	0.13	284,459.46	30,386.31	28,910.13	24,459.06
3 Paper Clearing	**1,257.31**	**95.84**	**105.18**	**97.84**	**93,438.17**	**7,266.08**	**7,528.59**	**6,959.44**
3.1 Cheque Truncation System (CTS)	591.38	75.64	84.69	79.42	44,691.39	5,487.67	5,949.74	5,522.41
3.2 MICR Clearing	440.07	3.97	2.09	0.79	31,064.94	352.65	166.62	73.59
3.2.1 RBI Centres	215.50	1.46	0.61	0.15	15,246.84	128.58	58.83	12.94
3.2.2 Other Centres	224.57	2.51	1.48	0.64	15,818.10	224.07	107.80	60.65
3.3 Non-MICR Clearing	225.86	15.54	18.40	17.63	17,681.84	1,430.96	1,412.23	1,363.44
4 Retail Electronic Clearing	**1,108.32**	**105.25**	**111.37**	**110.55**	**47,856.29**	**4,889.01**	**4,995.00**	**5,055.57**
4.1 ECS DR	192.91	17.21	18.29	20.11	1,267.96	130.83	134.68	196.61
4.2 ECS CR (includes NECS)	152.54	10.10	8.04	8.55	2,492.19	155.77	147.79	181.66
4.3 EFT/NEFT	661.01	67.86	71.67	66.98	43,785.52	4,509.52	4,577.83	4,520.40
4.4 Immediate Payment Service (IMPS)	15.36	3.71	4.26	4.80	95.81	26.10	30.19	35.20
4.5 National Automated Clearing House (NACH)	86.50	6.38	9.11	10.11	214.81	66.79	104.50	121.71
5 Cards	**7,219.13**	**663.94**	**698.84**	**705.80**	**22,159.58**	**2,035.86**	**2,107.71**	**2,082.38**
5.1 Credit Cards	512.03	48.57	51.24	50.85	1,556.72	150.27	153.80	152.51
5.1.1 Usage at ATMs	2.96	0.31	0.32	0.32	16.87	1.67	1.72	1.73
5.1.2 Usage at POS	509.08	48.26	50.92	50.53	1,539.85	148.61	152.09	150.78
5.2 Debit Cards	6,707.10	615.37	647.60	654.95	20,602.86	1,885.59	1,953.90	1,929.87
5.2.1 Usage at ATMs	6,088.02	555.81	582.96	587.33	19,648.35	1,792.85	1,854.87	1,825.18
5.2.2 Usage at POS	619.08	59.56	64.64	67.62	954.51	92.73	99.03	104.69
6 Prepaid Payment Instruments (PPIs)	**133.63**	**16.58**	**18.71**	**20.00**	**80.87**	**11.04**	**12.89**	**12.62**
6.1 m-Wallet	107.51	13.71	15.52	16.58	29.05	4.66	5.52	4.27
6.2 PPI Cards	25.60	2.82	3.15	3.38	28.18	4.01	5.46	6.49
6.3 Paper Vouchers	0.53	0.05	0.04	0.04	23.63	2.36	1.91	1.86
7 Mobile Banking	**94.71**	**10.73**	**11.54**	**11.52**	**224.18**	**39.85**	**44.22**	**43.60**
8 Cards Outstanding	**413.60**	**428.51**	**433.53**	**443.73**	–	–	–	–
8.1 Credit Card	19.18	19.48	19.61	19.78	–	–	–	–
8.2 Debit Card	394.42	409.03	413.92	423.95	–	–	–	–
9 Number of ATMs (in actuals)	**160055**	**166894**	**168815**	**170463**	–	–	–	–
10 Number of POS (in actuals)	**1065984**	**1088708**	**1095901**	**1083061**	–	–	–	–
11 Grand Total (1.1+1.2+2+3+4+5+6)	**9,802.05**	**889.36**	**941.91**	**941.37**	**1,519,356.93**	**149,012.00**	**136,326.20**	**123,491.26**

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

Data are provisional and relate to select banks which cover 95 per cent of total non-food credit extended by all scheduled commercial banks.

1.2A.2.1 : Manufacturing include ₹335 billion and item 1.2A.2.2 : Services includes ₹34 billion credit to medium enterprises for the month of March 2014 only.

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**.

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1. Reserve Bank of India Bulletin 2014	₹180 per copy (over the counter) ₹220 per copy (inclusive of postage) ₹2,600 (one year subscription - inclusive of postage)	US$ 10 per copy (inclusive of postage) US$ 120 (one-year subscription)
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Name of Publication	Price	
	India	Abroad
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16. 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)
17. 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 courier charges)
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Name of Publication	Price	
	India	Abroad
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23. Banking Paribhashik Kosh (English-Hindi) 2010	₹75 per copy (over the counter) ₹97 per copy (including postal charges)	–
24. 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 1935-1981 (3 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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