Monetary Management and Financial Intermediation

03
CHAPTER

The Reserve Bank of India cut the policy rate by 50 basis points during 2016-17. However, it shifted its monetary policy stance from accommodative to neutral in February 2017 and cut the repo rate by 25 basis points in August 2017. Monetary aggregates, such as reserve money, decelerated significantly following the withdrawal of legal tender status of specified bank notes on November 9, 2016. The glut in liquidity persists several months after demonetization. Credit off-take from banks continued to decelerate and the non-performing assets situation deteriorated further. Sluggish growth and increasing indebtedness in some sectors of the economy have impacted the asset quality of banks and this is a cause for concern. Financial inclusion is proceeding apace under the Pradhan Mantri Jan Dhan Yojana. Average balance in accounts opened under PMJDY has registered steady growth in 2016-17 and zero balance accounts declined consistently.

Monetary Developments during 2016-17

3.1 The Government amended the Reserve Bank of India Act, 1934 in May 2016 to provide for a revised monetary policy framework. Under the amended Act, inflation target would be set by the Government, in consultation with the Reserve Bank, once in every five years and further provides for a statutory basis for the constitution of an empowered Monetary Policy Committee (MPC). The Government has fixed the inflation target of 4 per cent with tolerance level of +/- 2 per cent for the period beginning from 5th August, 2016 to March 31, 2021. Reserve Bank of India (RBI) also refined its liquidity management policy framework in April 2016, with the objective of meeting short-term liquidity needs through regular facilities; reducing frictional and seasonal mismatches through fine-tuning operations and providing more durable liquidity by modulating net foreign assets and net domestic assets in its balance sheet. This was, in part, a response to excessively tight liquidity conditions observed in late 2015 (see Box 3.1 figure 1).

3.2 The Government notified the constitution of the MPC on 29th September 2016. The MPC held three meetings in 2016-17. The MPC, in its last meeting of 2016-17 held on February 8 2017,while holding policy rates, changed the monetary policy stance from accommodative to neutral. In its latest meeting held on August 2, 2017, MPC cut policy repo rates by 25 bps to 6 per cent. Accordingly, reverse repo rate stands at 5.75 per cent, and the Marginal Standing Facility (MSF) rate at 6.25 per cent.

3.3 During 2016-17, monetary aggregates

Table 1. Revision in Policy Rates

Effective date	Bank rate/ MSF rate* (per cent)	Repo rate (per cent)	Reverse repo rate (per cent)	Cash reserve ratio (per cent of NDTL)	Statutory liquidity ratio (per cent of NDTL)
29-09-2015	7.75	6.75	5.75	4.00	21.50
1-12-2015	7.75	6.75	5.75	4.00	21.50
2-02-2016	7.75	6.75	5.75	4.00	21.50
5-04-2016	7.0	6.50	6.0	4.00	21.25
7-06-2016	7.0	6.50	6.0	4.00	21.25
9-08-2016	7.0	6.50	6.0	4.00	21.00
4-10-2016	6.75	6.25	5.75	4.00	20.75
7-12-2016	6.75	6.25	5.75	4.00	20.75
8-02-2017	6.75	6.25	5.75	4.00	20.50
6-04-2017	6.50	6.25	6.0	4.00	20.50
7-06-2017	6.50	6.25	6.0	4.00	20.50
2-08-2017	6.25	6.00	5.75	4.00	20.00

Source: **RBI.**

Notes: *: Bank Rate was aligned to MSF rate with effect from February 13, 2012. NDTL is net demand and time liabilities.

decelerated significantly following the withdrawal of legal tender status of specified banknotes (SBNs) on November 9, 2016. Prior to demonetisation, growth of reserve money (M0 on YoY basis), averaged around 15 per cent, nearly 4 percentage points higher than the average growth in the corresponding period of 2015-16 (Figure 1). The acceleration in reserve money was primarily on account of higher growth in currency in circulation (CIC). Following demonetisation, currency in circulation declined sharply the first time in the past several years, concomitantly pulling down reserve money (Table 2). The moderation in reserve money largely reflected build-up of government cash balances under the Market Stabilisation Scheme, mostly through the issuance of cash management bills as also the mounting LAF reverse repo with a view to absorbing excess liquidity in the banking system. After declining to a low of ₹9 trillion on January 6, 2017, currency in circulation started moving up in line with the remonetisation process and reached 74 per cent of its peak by March 31, 2017 (₹18 trillion on November 4, 2016). Consequently, reserve money, at end March 2017 recovered but stood lower by 12.9 per cent than the last year.

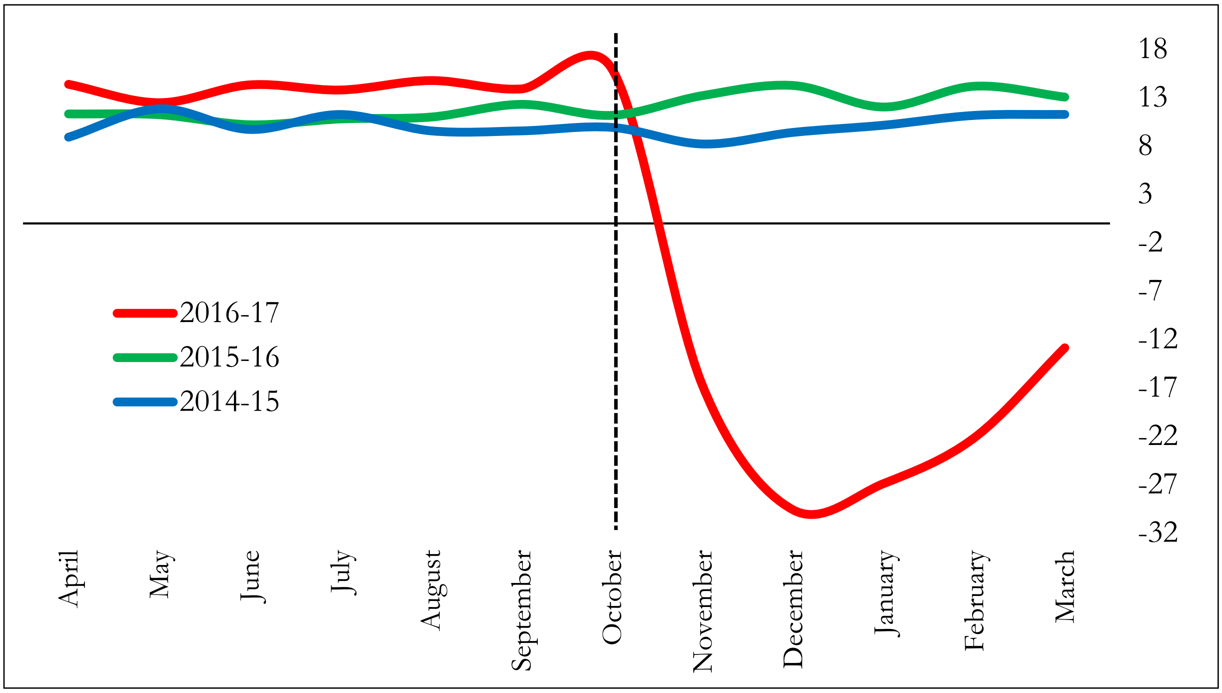
3.4 The growth of broad money (M3) slackened during 2016-17, reflecting subdued credit growth and the sizable redemption of FCNR (B) deposits (Figure 2). Subsequent to November 9, 2016, however, currency with the public plummeted and its growth turned negative. At the same time, aggregate deposits showed an upsurge as, restrictions on cash withdrawals were imposed along with the withdrawal of legal tender status of SBNs. Consequently, the reduction in broad money, post-demonetisation was much less than the

Table 2. Year-on-Year Change in Monetary Aggregates as on end March of Each Year (per cent)

Items	2017	2016	2015	2014	2013	2012	2011
Currency in circulation	-19.7	14.9	11.3	9.2	11.6	12.4	18.8
Cash with banks	8.1	6.6	12.4	10.7	14.6	15.2	18.0
Currency with the public	-20.8	15.2	11.3	9.2	11.5	12.3	18.8
Bankers' deposits with the RBI	8.3	7.8	8.3	34.0	-10.0	-15.9	20.2
Reserve money (M0)	-12.9	13.1	11.3	14.4	6.2	3.6	19.1
Demand deposits	42.5	11.0	9.8	7.8	6.0	-1.7	0.7
Narrow money(M1)	3.6	13.5	11.3	8.5	9.2	6.0	10.0
Time deposits	12.6	9.2	10.7	14.9	15.0	16.1	18.3
Broad money (M3)	10.6	10.1	10.9	13.4	13.6	13.5	16.1

Note: **Data are Provisional, *Source:* RBI**

Figure 1. Reserve Money Y-o-Y Growth (%) - Monthly Trend



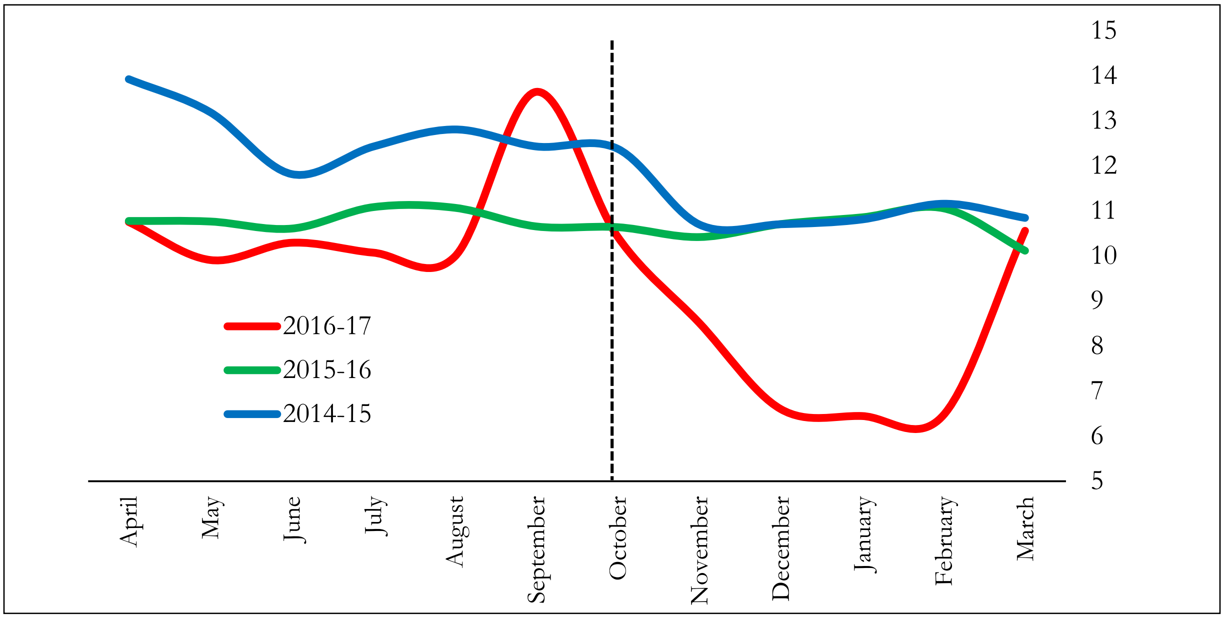
Source: **RBI**

contraction in reserve money, resulting in a sharp increase in money multiplier during the period. However, with the pace of remonetisation gathering momentum, broad money recovered and stood higher by 10.6 per cent than last year. Consequently, after reaching its peak at 8.8 on January 6, 2017, money multiplier declined in subsequent period and was placed at 6.8 on March 31, 2017 (5.3 last year)(Figure 3).

Liquidity Conditions and its Management

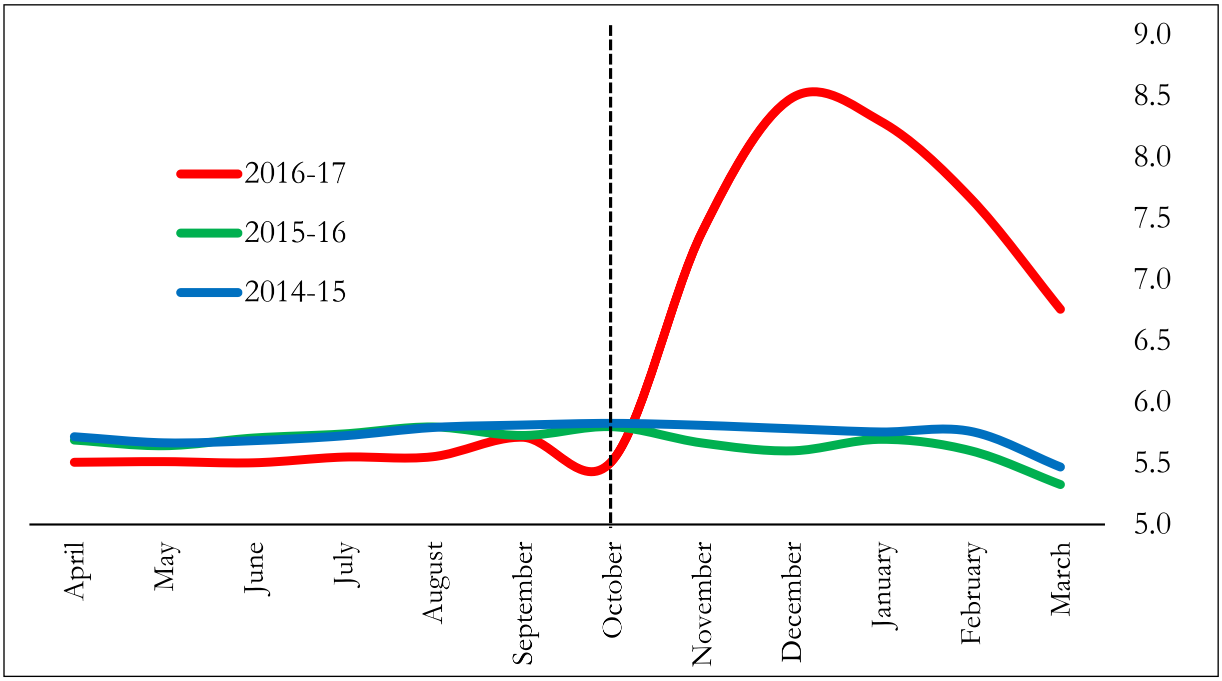
3.5 With the introduction of the new

Figure 2. Broad Money Y-o-Y Growth (%) - Monthly Trend



Source: **RBI**

Figure 3. Money Multiplier - Monthly Trend



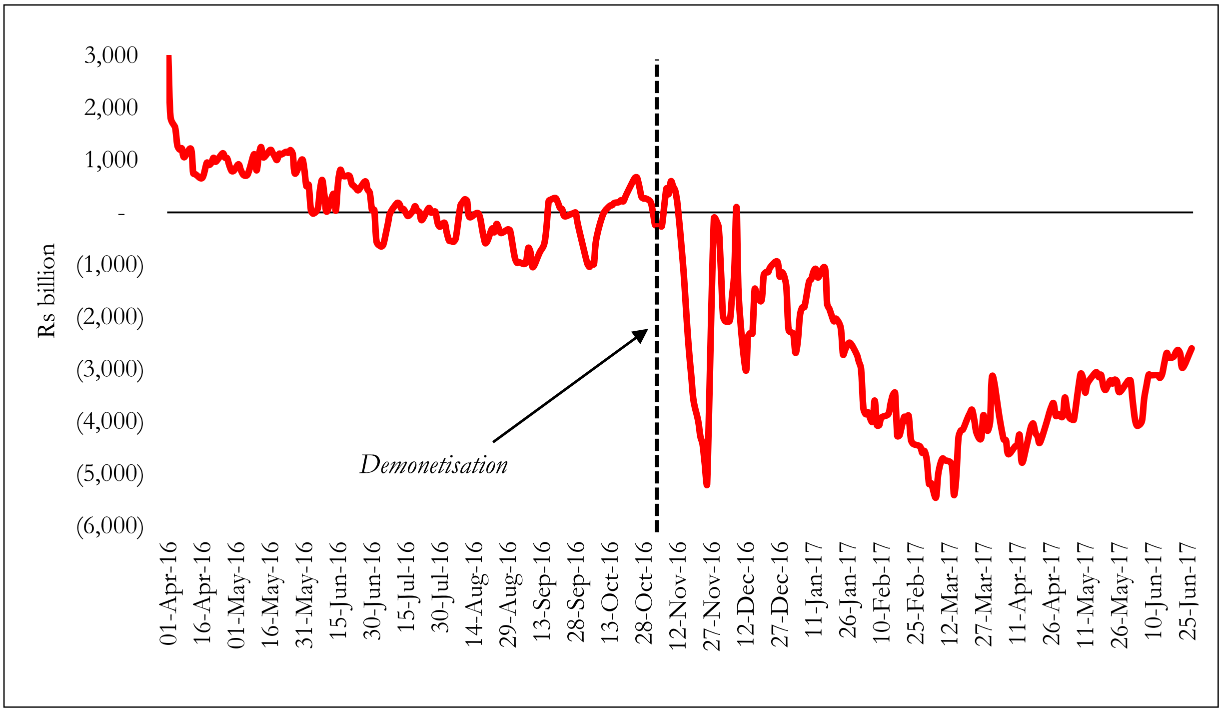
Source: **RBI**

liquidity management framework in April 2016, which entailed, inter alia, progressively lowering the average ex ante liquidity deficit in the system to a position closer to neutrality, the average monthly liquidity deficit in the system consistently declined from April through June 2016. RBI remained in absorption mode during the period from July to mid-September 2016 on the back of decline in Government of India (GoI) cash balances with the RBI and injection of permanent liquidity through OMO purchase auctions. The liquidity condition tightened slightly in the second half of September on account of advance tax outflows from the banking system and the resultant increase in the GoI cash balances with the RBI. It remained in surplus mode until mid-October 2016 before turning into deficit mode in the second half of October on the back of festival induced increase in currency in circulation. Such movements were within the usual experience.

3.6 Demonetisation announced on November 8, 2016 resulted in unprecedented liquidity surplus in the banking system. The net liquidity absorption under LAF touched a peak of ₹5194 billion on November 25, 2016. In order to mop up the deluge of liquidity in the banking system, the Reserve Bank took various measures. The measures included temporary imposition of 100 per cent incremental CRR (on the increase in NDTL between September 16, 2016 and November 11, 2016) with effect from the fortnight beginning November 26, 2016 and issuance of cash management bills (CMBs) under Market Stabilisation Scheme (MSS) and absorption through variable rate reverse repos of various tenors ranging from overnight to 91-days.

3.7 Large surplus liquidity condition engendered by demonetisation continued in Q4 of 2016-17 also. In order to absorb surplus liquidity, the RBI continued with the variable rate reverse repos and CMB issuances during January 2017 also. Liquidity absorption through CMB issuances under MSS touched a peak of ₹5,966 billion in January 2017. With the maturing of CMBs and discontinuation of fresh issuances of CMBs in February and March 2017, the RBI expanded the scale of reverse repo auctions to absorb surplus liquidity in the system. As a result, the average daily net liquidity absorption under the LAF increased from ₹2002 billion in January 2017 to ₹3,997 billion in February 2017 and further to ₹4,483 billion

Figure 4. Daily Market Liquidity



Source: **RBI**

Box 1. What is central bank liquidity?

Under the liquidity adjustment facility (LAF), banks and primary dealers (PDs) may either borrow from the RBI using the repo window (paying the repo rate) or park excess funds with the RBI using the reverse repo window (receiving the reverse repo rate). Note that the PDs are registered entities with the RBI who have the license to purchase and sell government securities. Since October 2013 and June 2014, the RBI also started term repo (up to 14 days) and term reverse repo (up to 56 days) operations. Transactions under repo and reverse repo window are collateralized.

Liquidity, at any given point of time, refers to the net fund (fund borrowed minus fund deposited with RBI) borrowed by banks and PDs under LAF. Liquidity shortage refers to a situation where net fund borrowed from RBI is positive. In other words, banks and PDs have to resort to RBI for overnight borrowings as there is liquidity crunch in the market. Similarly, excess liquidity refers to an opposite situation where net fund borrowed from the RBI is negative. Basically, banks and PDs have more than enough liquidity with them so they turn to the RBI to park their excess fund to earn interest.

in March 2017. Average daily net liquidity absorption through LAF and CMB issuances was ₹5932 billion during Q4 of 2016-17 with a peak of ₹7,956 billion recorded on January 4, 2017. However, all these measures have not succeeded in eliminating the excess liquidity from the system. Excess liquidity continues to remain in excess of ₹2,500 billon even in the last week of June 2017.

Banking Sector

3.8 Bank credit is an important indicator of economic activity. The high growth observed in the 2003-08 period was accompanied by a surge in monetary aggregates and credit growth, which usually exceeded the 20 per cent mark year on year. After being impacted sharply by the global financial crisis and the fiscal stimuli over the period 2008-10, credit growth remained at around the 15 per cent mark till February 2014. Subsequently, it has slowed down. During 2016-17, gross bank credit outstanding grew at around 7 per cent on an average. The latest reading for May 2017 is 4.1 per cent. The sluggish growth can be attributed to several factors: (a) incomplete transmission of the monetary policy as banks had not passed on the entire benefit of monetary easing to borrowers; (b) problem of twin-balance sheet (weak bank balance sheet as well corporate balance sheet); (c) more attractive interest rates for borrowers in the bond market and from non-banking financial institutions.

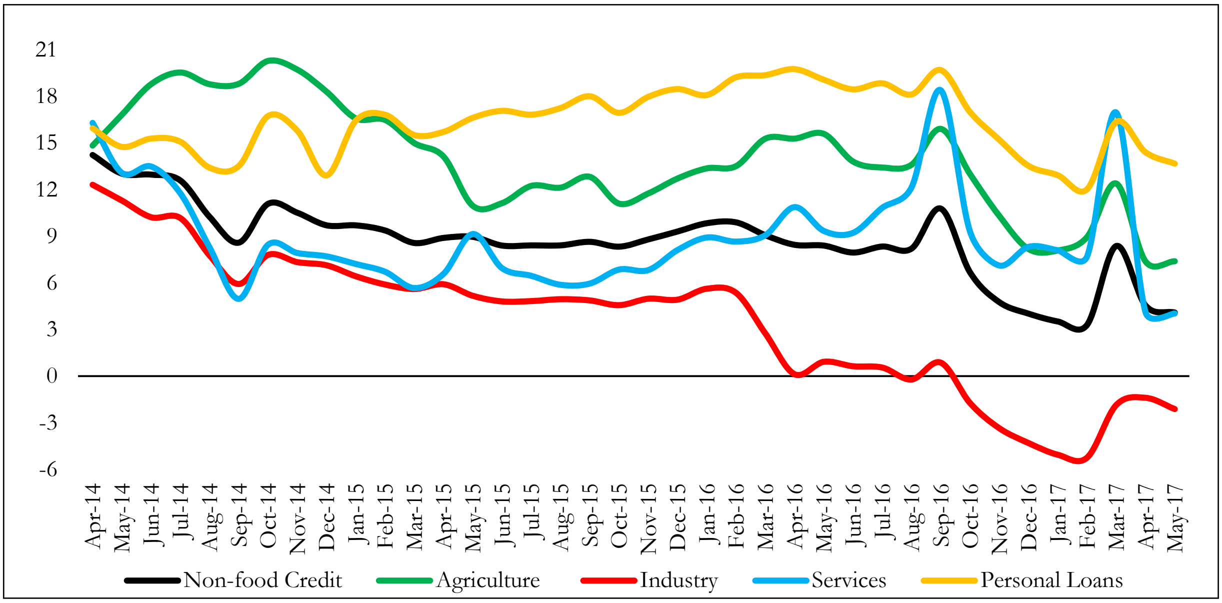
3.9 The trend in deployment of gross bank non-food credit by major sectors shows that credit off take by the industry sector has been slowing (Figure 5). The average gross bank credit to industry contracted by 1.6 per cent in the FY 2016-17.In May 2017, it contacted by 2.1 per cent. Even the personal loans segment slowed down in the second half of the FY 2016-17. Figures 6a and 6b show the aggregate deployment of non-food credit and credit to industry by public and private banks. We observe that the slowdown in credit off-take from public sector banks (PSBs) has been much more pronounced compared to the private sector banks (PVBs).

3.10 The gross non-performing advances (GNPAs) ratio of SCBs rose from 9.2 per cent in September 2016 to 9.5 per cent in March 2017. SCBs' capital to risk-weighted assets ratio (CRAR) improved from 13.4 per cent to 13.6 per cent between September 2016 and March 2017 whereas profit after tax (PAT) expanded by 45.8 per cent in 2016-17 as against a decline of 61.6 per cent in 2015-16, mainly due to higher increase in other operating income (OOI) relative to risk provisions and write-off.

Financial Inclusion

3.11 The launch of Pradhan Mantri Jan Dhan Yojana (PMJDY) in August 2014 has

Figure 5. Sectoral Deployment of Bank Credit (y-o-y, %)



Source: **RBI**

Figure 6a. Non-food Credit Growth Across Bankgroups (y-o-y, %)

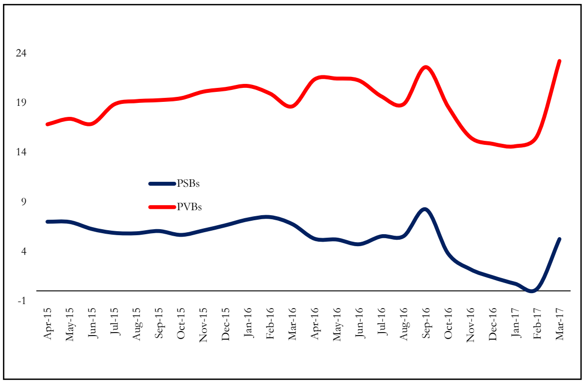
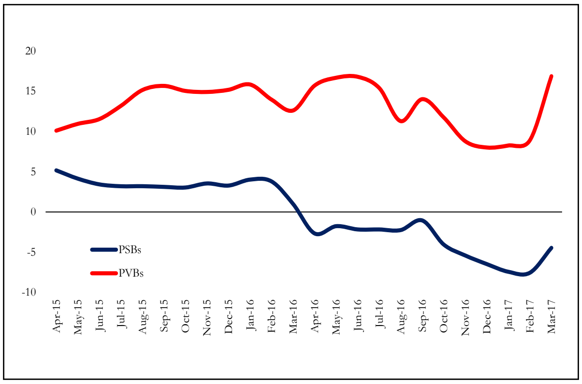


Figure 6b. Growth in Credit to Industry Across Bankgroups (y-o-y, %)



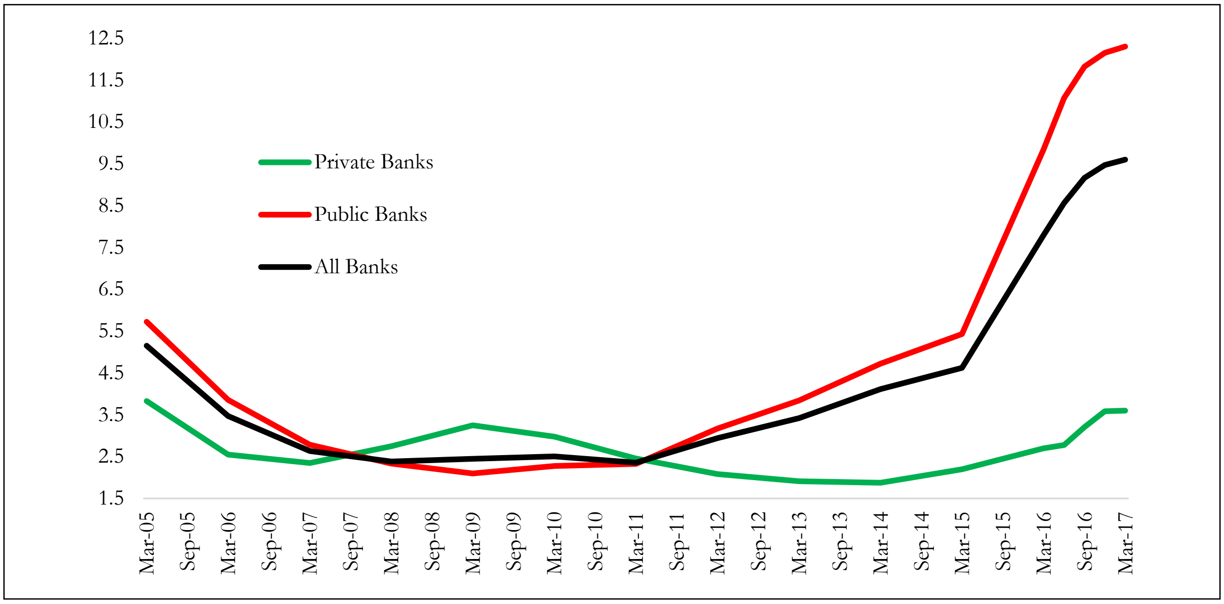
Source: **Survey Estimate**

Note: **Mar-17 numbers are provisional, PVBs – Private Sector Banks, PSBs – Public Sector Banks,**

committed India to an ambitious agenda of financial inclusion in mission mode. As this initiative approaches the close of its third year, it is appropriate to assess its impact in outcome terms, identify key takeaways, and look at the way ahead.

3.12 Basic Savings Bank Deposit Account (BSBD) accounts being the basic savings account product introduced specifically for unbanked persons, the growth in these accounts is a key parameter for assessing growth in financial inclusion. Prior to the launch of PMJDY, since introduction of BSBD accounts in 2005 till July 2014, the number of such accounts had grown to 25.54 crore. After the launch of PMJDY, the number of BSBD accounts rose rapidly to 51.50 crore by December 2016, of which 26.20 crore were accounts opened under PMJDY, representing more than half of the total. Since then, another 2.56 crore BSBD

Figure 7. NPAs - Across Bankgroups (y-o-y, %)



Source: **Survey Estimate**

Note: **All banks refer to Scheduled Commercial Banks**

Box 2. Banking Regulation (Amendment) Ordinance, 2017

The Banking Regulation (Amendment) Ordinance, 2017 was promulgated on May 4, 2017. It inserts two new Sections (viz. 35AA and 35AB) after Section 35A of the Banking Regulation Act, 1949 enabling the Union Government to authorize the Reserve Bank of India (RBI) to direct banking companies to resolve specific stressed assets by initiating insolvency resolution process, where required. The RBI has also been empowered to issue other directions for resolution, and appoint or approve for appointment, authorities or committees to advise banking companies for stressed asset resolution.

Soon after the promulgation of the Ordinance, the Reserve Bank issued a directive bringing the following changes to the existing regulations on dealing with stressed assets.

- It was clarified that a corrective action plan could include flexible restructuring, Strategic Debt Restructure Scheme (SDR) and Scheme for Sustainable Structuring of Stressed Assets (S4A).
- With a view to facilitating decision making in the Joint Lenders Forum (JLF), consent required for approval of a proposal was changed to 60 percent by value instead of 75 percent earlier, while keeping that by number at 50 percent.
- Banks who were in the minority on the proposal approved by the JLF are required to either exit by complying with the substitution rules within the stipulated time or adhere to the decision of the JLF
- Participating banks have been mandated to implement the decision of JLF without any additional conditionality.
- The Boards of banks were advised to empower their executives to implement JLF decisions without further reference to them

The ordinance will enable RBI to take a targeted approach and deal with non-performing assets quickly. An empowered Oversight Committee will be able to bypass three factors that have so far slowed the resolution process. One, stop 'free-riding' by lenders who didn't participate. Two, compliance after an agreement has been sealed. Three, certify the process in order to allay fears of future investigations.

The Government action will have a direct impact on effective resolution of stressed assets, particularly in consortium or multiple banking arrangements, as the RBI will be empowered to intervene in specific cases of resolution of non-performing assets, to bring them to a definite conclusion. On 13th June, 2017, the RBI identified 12 large loan defaulters where the Insolvency and Bankruptcy Code (IBC) would be initiated. Also, the RBI expanded the Oversight Committee to include three new members in a bid to speed up bad loans resolution. The Committee now consists of five members.

Box 3. Insolvency and Bankruptcy Code, 2016

The Insolvency and Bankruptcy Code, 2016 (Code) was enacted on May 28, 2016. The Code provides a comprehensive, modern and robust insolvency and bankruptcy regime, at par with global standards and even better in some aspects. The unique features of this regime are: (i) a comprehensive regime dealing with all aspects of insolvency and bankruptcy of all kinds of persons. (ii) separating commercial aspects of insolvency and bankruptcy proceedings from judicial aspects and empowered stakeholders and adjudicating authorities to decide the matters within their domain expeditiously. (iii) moving away from erosion of net worth to a more objective default in payment for initiation of the insolvency process. (iv) moving away from the 'debtor-in-possession' regime to a 'creditors-in-control' regime where creditors decide matters with the assistance of insolvency professionals. (v) providing collective mechanism to resolve insolvency rather than recovery of loan by a creditor. (vi) achieving insolvency resolution in a time bound manner and empowers the stakeholders to complete transactions in time.

A key innovation of the Code is four pillars of institutional infrastructure. The first pillar is a class of regulated persons, the "Insolvency Professionals", who assist the stakeholders in conduct of insolvency and bankruptcy process. The second pillar is a new industry of `Information Utilities' who store and make available authentic information required to carry out various transactions under the Code efficiently and expeditiously. The third pillar is the adjudicating authorities, namely, NCLT and DRT for corporates and individuals respectively and their appellate bodies, namely, NCLAT and DRAT. The fourth pillar is a regulator, namely, "The Insolvency and Bankruptcy Board of India" which has regulatory over-sight over the Insolvency Professionals, Insolvency Professional Agencies and Information Utilities and writes regulations to govern various transactions under the Code.

The Government moved at a quick pace to implement the Code. It established the Tribunals, National Company Law Tribunal (NCLT) and National Company Law Appellate Tribunal (NCLAT), on 1st June 2016 and the Insolvency and Bankruptcy Board of India (IBBI) on 1st October 2016. With concerted efforts of all concerned, most of the regulatory framework and ecosystem related to corporate insolvency were rolled out by 31st March 2017.

About 2050 applications have been filed before NCLT so far, of which, 112 applications have been admitted and another 146 have been rejected or withdrawn. The default underlying admitted applications range from a few lakh of rupees to a few thousands of crores. The announcement of 12 large defaulters by the RBI will expand this sharply.

Table 1. Month-wise Applications filed

	December 2016	January 2017	February 2017	March 2017	April 2017	May 2017	June 2017	Total
Numbers	1	9	42	106	558	462	872	2050

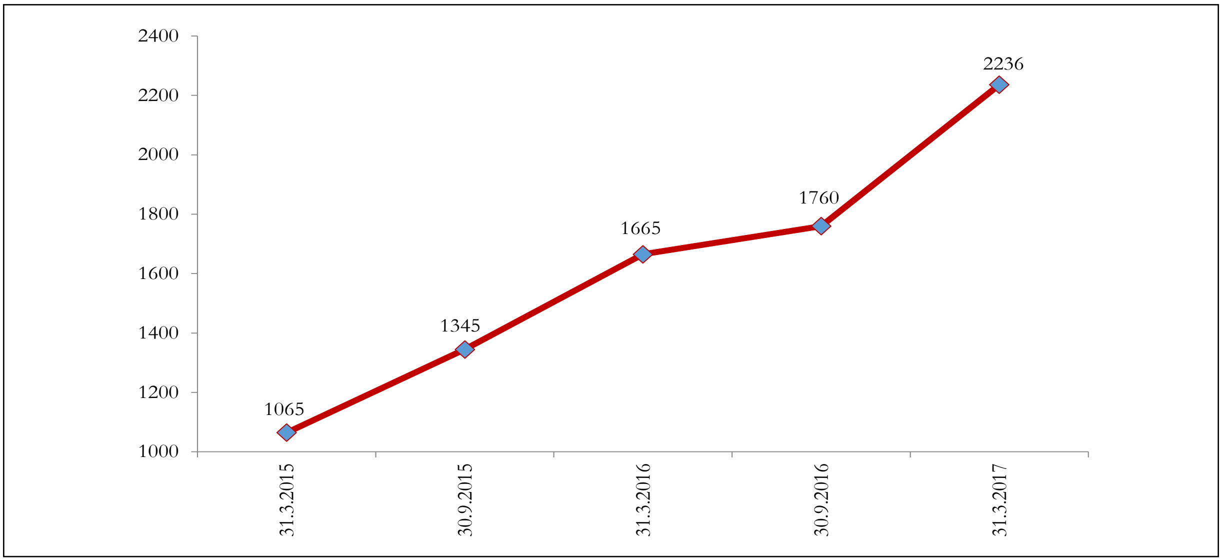
***Note:* Data sourced from NCLT website as on June 30, 2017.**

accounts have been opened under PMJDY, raising the total to 28.76 crore as on 31.5.2017. PMJDY's contribution to enhanced banking access is clear.

3.13 Gender has been an issue in financial inclusion. As of March 2014, women constituted about 28 per cent of all savings accounts, with 33.69 crore accounts. As of March 2017, according to data from top 40 banks and RRBs, women's share has risen to about 40 per cent. This includes 14.49 crore accounts opened by women under PMJDY, out of a total of 43.65 crore women's accounts. This represents a sizeable and rapid growth in financial inclusion of women.

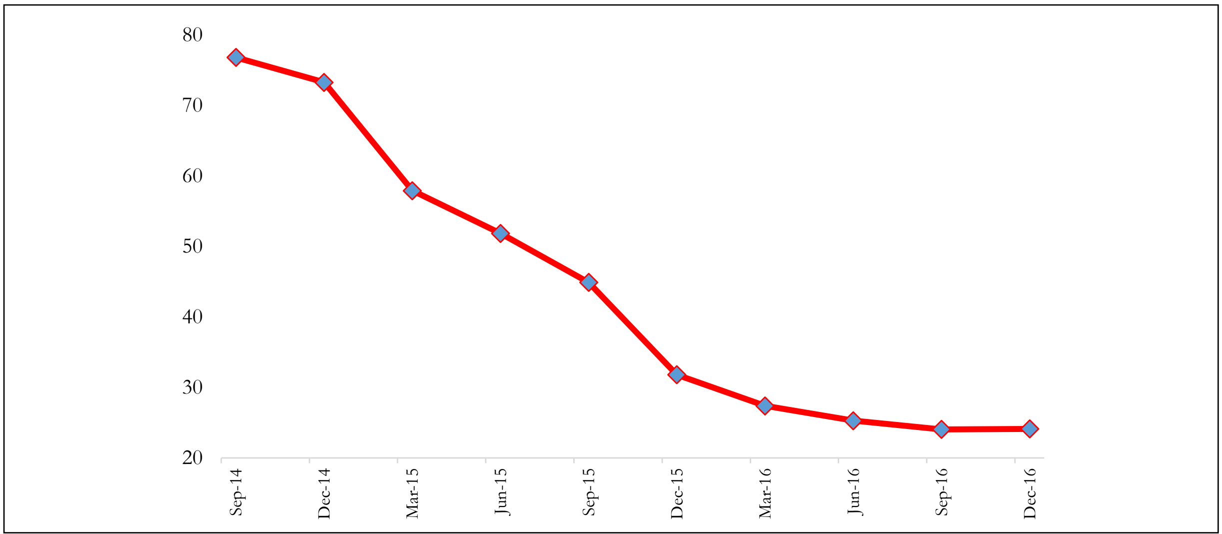
3.14 Effective financial inclusion should be reflected not only in terms of access but in the use of financial services. In terms of deposit mobilisation, the average balance in accounts opened under PMJDY has registered steady growth, from ₹1,065 per account in March 2015 to ₹2,236 in March 2017 (Figure 8). Also, zero balance accounts under PMJDY has declined consistently from nearly 58 per cent in March 2015 to around 24 per cent as of December 2016. Aadhaar-enabled payments, the principal mode of transactions at Banking Correspondent (BC) outlets, have also witnessed a rapid growth, growing from 0.3 crore per month in August

Figure 8. Average deposit balance in BSBD accounts opened under PMJDY (in ₹)



Source: **Scheduled Commercial Banks**

Figure 9. Zero Balance Accounts Under PMJDY (%)



Source: **PMJDY website**

2015 to 2.3 crore in August 2016 and 6.8 crore in May 2017. As a result of expansion in and strengthening of interoperability, the share of transactions performed by customers of one bank at the BC outlet of another bank ("off-us" transactions) has also risen, growing steadily from less than 1 per cent of all transactions at BC outlets till April 2016 to nearly 17 per cent in May 2017. This has happened even as the number of BCs has remained steady. While the number of rural accounts opened under PMJDY has grown from 8.0 crore in August 2015 to 14.8 crore in August 2016 and 17.2 crore in May 2017, the growth in transactions is at a rate much faster than the rate of growth of the rural account base. Thus, use of accounts in terms of both deposits and transactions through BC outlets has registered impressive growth, which has positive consequences for the viability of and the continued growth of the BC network.

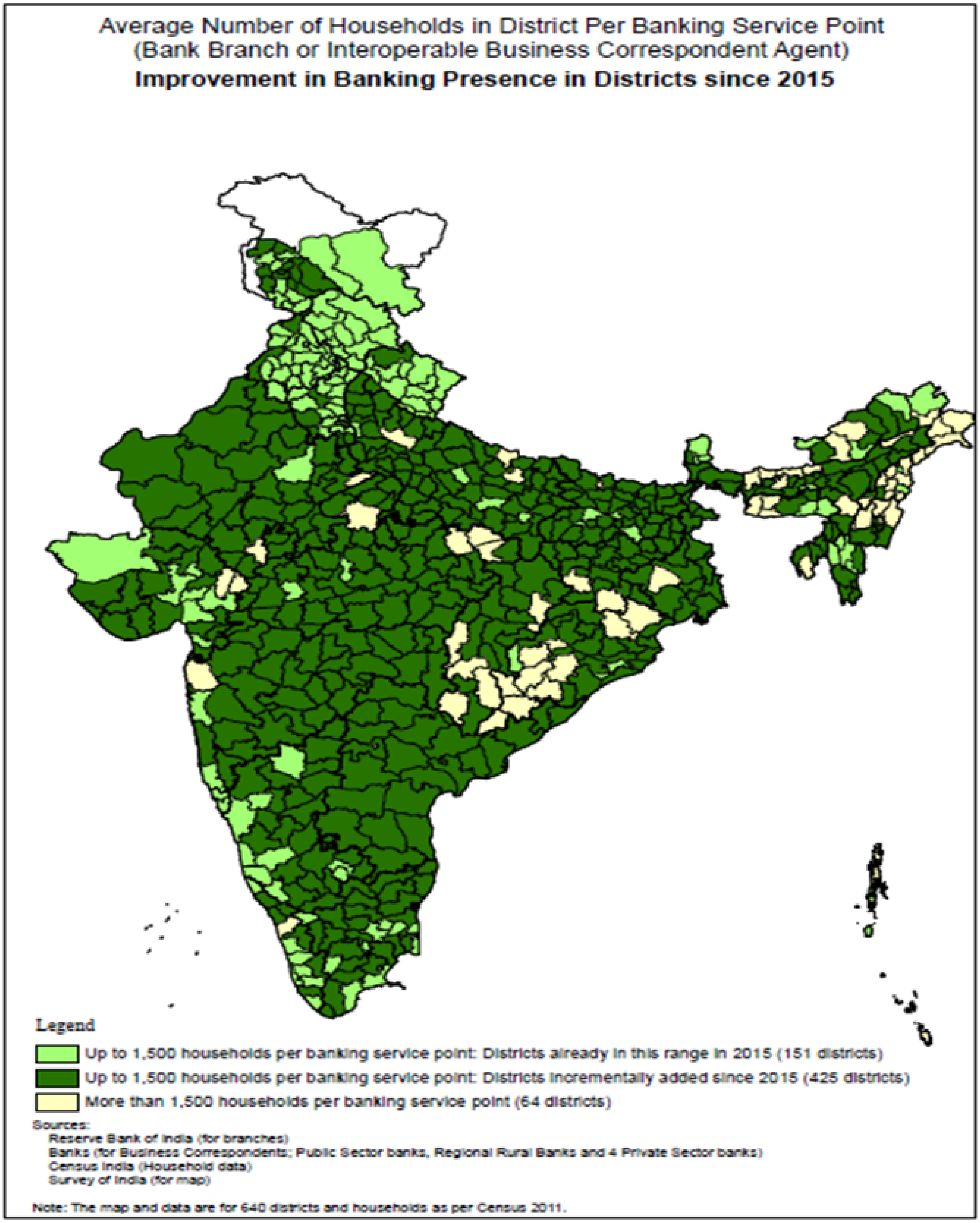
3.15 Besides the personal accident insurance cover to the holders of accounts opened under PMJDY through the insurance in-built into their associated debit cards, 10.02 crore accountholders have insured themselves for personal accident cover under Pradhan Mantri Suraksha Bima Yojana and 3.11 crore for life insurance cover under Pradhan Mantri Jeevan Jyoti Bima Yojana. As a result, the number of persons insured for personal accidents and life has increased from about 32.31 crore in March 2015 to about 45.44 crore in May 2017. This has been achieved while substantially lowering the premium amount, to make it affordable to large sections of population.

3.16 Among several strategic choices and innovations that have enabled these outcomes, three main enabling factors are noteworthy. The first enabler is the massive expansion made in effective banking presence in rural areas. Branches and interoperable BC outlets are the banking service points relevant for this. The number of such service points of Scheduled Commercial Banks, which was 1.16 lakh in March 2014 more than doubled to 2.62 lakh service points in March 2017. The number of districts having an average of up to 1,500 households per banking service point has risen from 151 districts in January 2015 to 576 districts in March 2017 (see map below). The second key enabler has been the linking of accounts with the customer's Aadhaar number, on user consent basis. About two of every three active savings accounts have been seeded with Aadhaar number, which has created the large user base required both for customer access for Aadhaar-enabled transactions and for BC viability. The third key enabler, for financial inclusion in insurance, is the innovation of leveraging the expanded banking network for insurance purposes and lowering premiums while expanding coverage. This innovation has increased the reach of micro insurance in rural areas in a major way.

Non-Banking Financial Sector

3.17 The consolidated balance sheet size of the Non-Banking Financial Sector (excluding government companies) increased by 14.5 per cent in 2016-17 to ₹12,56,388 crore compared to asset size growth of 16.87 per cent during 2015-16. The number of NBFCs stood at 11,522 as on March 31, 2017 as against 11,586 as on March 31, 2016.Capital and reserves (26.1 percent of total liabilities), bank borrowings (23.1 percent), debentures (21.1 per cent) and commercial paper (9.5 percent) are the major source of funding for NBFCs as on March 31, 2017. Loans & advances and investments formed 70 percent and 17 percent respectively of the total assets of the sector as on March 31, 2017. Loans and Advances of NBFCs grew by 16.4 percent to ₹8,81,651 crores during 2016-17 as against 12.5 percent during 2015-16. Credit to industry, services and retail sectors formed 42.2 percent, 30.8 percent and 21.5 percent of the total credit respectively as on March 31, 2017.

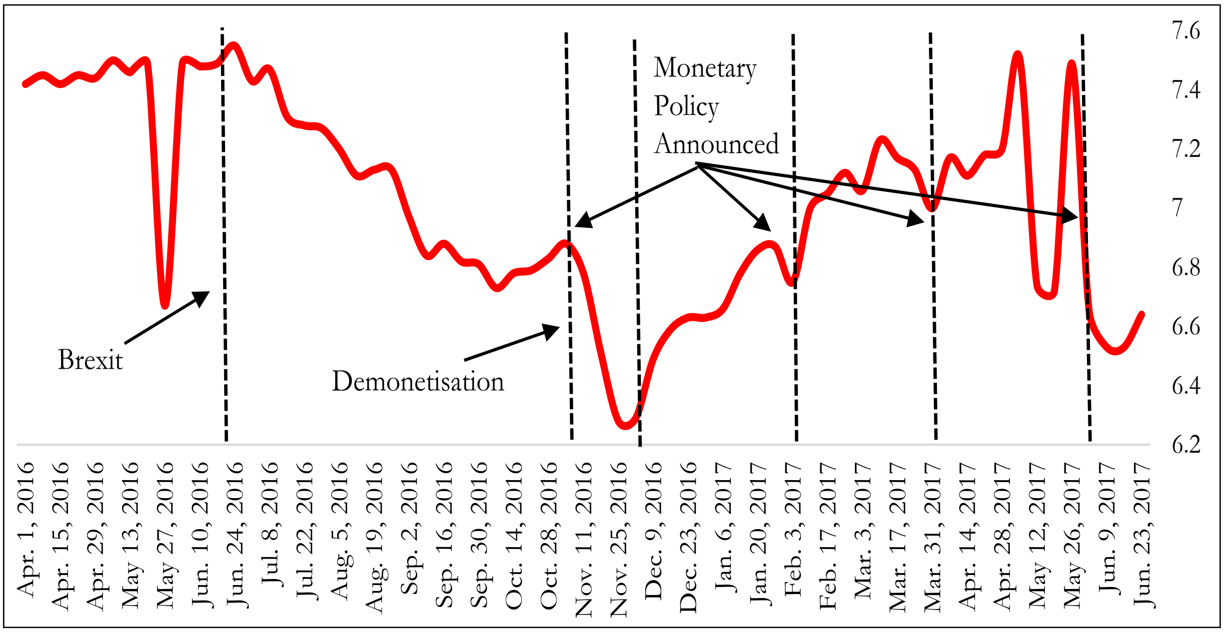
3.18 The gross NPA ratio (gross NPA to gross advances) of the NBFC sector increased to 4.4 per cent in March 2017 from its level of 4.2 per cent in March 2016. The Net NPA (net NPA to net advances) ratio was 2.2 per cent for March 2017 as well as March 2016. The average Capital to Risk Weighted Assets Ratio (CRAR) of the NBFC sector declined to 22.5 per cent in March 31, 2017 (24.3 per cent a year ago). The minimum requirement of CRAR for individual NBFCs is 15 per cent. Return on Assets (RoA) and Return on Equity (RoE) were 6.8 per cent and 1.8 per cent respectively during 2016-17 (as compared to 7.9 per cent and 2.1 per cent during 2015-16).



Developments in Government Securities Market

3.19 The 10-year government securities (g-sec) yield generally softened during the pre-demonetisation period on the back of positive sentiments generated by reduction in policy rate, reduction in minimum daily CRR maintenance from 95 per cent to 90 per cent of the requirement, and change in the liquidity management framework, from deficit to a position close to neutrality in the monetary policy statement of April 5, 2016. The g-sec yield exhibited slight

Figure 10. 10-Year G-Sec Yield (%)



Source: **RBI**

hardening bias in the run up to the Brexit referendum on June 23, 2016. However, the yield softened significantly, tracking the fall in global yields post the Brexit referendum results. A relatively stable domestic currency market, expectations of easing measures by major central banks and increased likelihood of delay in rate hike by the Federal Reserve kept the yield lower.

3.20 Post-demonetisation, there was a sharp decline in the yield. Thereafter, the yield, rose initially due to a combination of remonetisation and markets not anticipating policies. Since February 2017, there has been unusual volatility in g-sec rates, reflecting both policy surprises as well as large capital inflows. The g-sec yield softened sharply post June 2017 monetary policy statement, owing to significant decline in the inflation forecast of the RBI and future expectations of a rate cut.

Developments in Capital market

Primary Market

3.21 The year 2016-17 witnessed a steady increase in resource mobilisation in the primary market segment. During the year, 134 companies accessed capital market and raised ₹62,079 crore compared to ₹57,866 crore raised through 107 issues during 2015-16, showing 7.3 per cent increase over the year (Table 3). Resources mobilised by Mutual funds also increased substantially in 2016-17 as compared to the previous year. Total Asset under Management (AUM) increased to ₹17.54 lakh crore from ₹12.32 lakh crore during 2015-16 (Table 4).

3.22 Resource mobilisation through issuance of corporate bonds (public issuance and private placement) rose rapidly during 2016-17 as compared to previous year, with an amount of ₹6.70 lakh crore raised through 16 public issuances and 3377 private placements. Private placements continue to dominate the corporate bond market. However, it must be noted that resource mobilized through public and private placement of corporate bonds is not a substitute for bank credit. The maturity period of bonds are much shorter compared to bank credit and hence one need

Table 3. Primary Market Resource mobilisation through Public and Rights Issues (₹ crore)

Issue Type	2014-15		2015-16		2016-17		2017-18$	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Public issue (Equity)	46	3,311	74	14,815	106	29,105	16	2,344
Rights Issues (Equity)	18	6,750	13	9,239	12	3,415	2	368
Total Equity	64	10,061	87	24,054	118	32,520	18	2,712
Public Issue (Debt)	25	9,713	20	33,812	16	29,559	1	1,968
Total	89	19,774	107	57,866	134	62,079	19	4,680

Note: **Data for 2017-18 provisional. $ As on May 31, 2017** ***Source:*** **SEBI**

Table 4. Resource Mobilization by Mutual Funds

	2014-15		2015-16		2016-17		2017-18$ (₹ in crore)	
	Net flow	AUM	Net flow	AUM	Net flow	AUM	Net flow	AUM
Debt	22,556	6,94,127	33,008	7,82,900	2,13,154	10,74,652	20,167	5,83,558
Equity	71,030	3,45,139	74,026	3,86,403	70,367	5,43,541	74,195	11,63,671
Others	9,702	43,491	27,147	63,521	59,527	1,36,426	15,630	1,56,747
Total	1,03,288	10,82,757	1,34,181	12,32,824	3,43,048	17,54,619	1,09,992	19,03,975

$ As on May 31, 2017 ***Source:*** **SEBI**

Table 5. Funds Mobilized through Issuance of Corporate Bonds in India (Listed Securities)

Financial Year	No. of Public Issues	Amount Raised through Public Issue (₹ Crore)	No. of Pvt. Placement	Amount Raised through Private Placement (₹ Crore)	Total Amount Raised through Public Issue and Pvt. Placement (₹ Crore)
2014-15	25	9,713	2,611	4,04,136	4,13,849
2015-16	20	33,811	2,975	4,58,073	4,91,884
2016-17	16	29,559	3,377	6,40,716	6,70,275
2017-18$	1	1,969	602	97,208	99,177

Note: **Data for 2017-18 provisional.**

$ As on May 31, 2017***Source:*** **SEBI**

to be cautious while comparing such resource mobilization with bank credit.

Secondary market

3.23 Indian stock markets recorded a robust growth in 2016-17, with Sensex up by 16.9 percent and Nifty higher by 18.6 per cent as compared to losses registered in the previous year 2015-16. Except for South African stock market, 2016-17 was a year of positive

Box 4. Disintermediation in Credit and Deposits

Banks' share in credit intermediation witnessed a considerable change in 2016-17. The banks' share in incremental credit intermediation to private non-financial sector (PNFS) which was around 60 per cent in 2014-15 and 2015-16 declined to 45 per cent in 2016-17. In terms of resource mobilization as well we see a similar trend. Net flow of resources in mutual funds (MF) as a share of net time deposits (TD) flow in banks jumped sharply from 18 per cent in 2015-16 to 33 per cent in 2016-17. Note that annual net flows are calculated as change in total outstanding (for both lending and resource mobilization) for banks and non-banks between two financial years.

The greater role of non-banking sector in resource mobilization, and hence credit intermediation, helped commercial sector, albeit partially, to make up for historically low bank credit outstanding growth. Thus, problems in the banking sector are leading to greater reliance on non-banks for borrowers as well as savers.

Figure 1. Share in Net Credit Flow to PNFS (%)

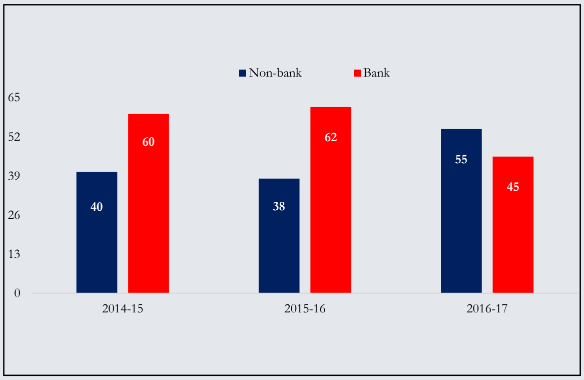
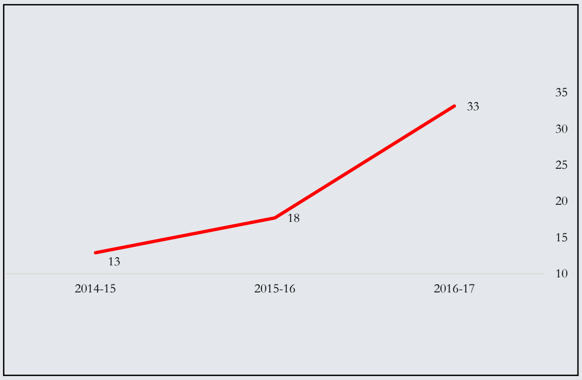


Figure 2. Net Flow in MF as % of Net TD Flow



Source: **Survey Estimates based on RBI, SEBI and BIS data.**

growth for equity world over, and gains in Indian markets were comparable to the gains in developed economies.

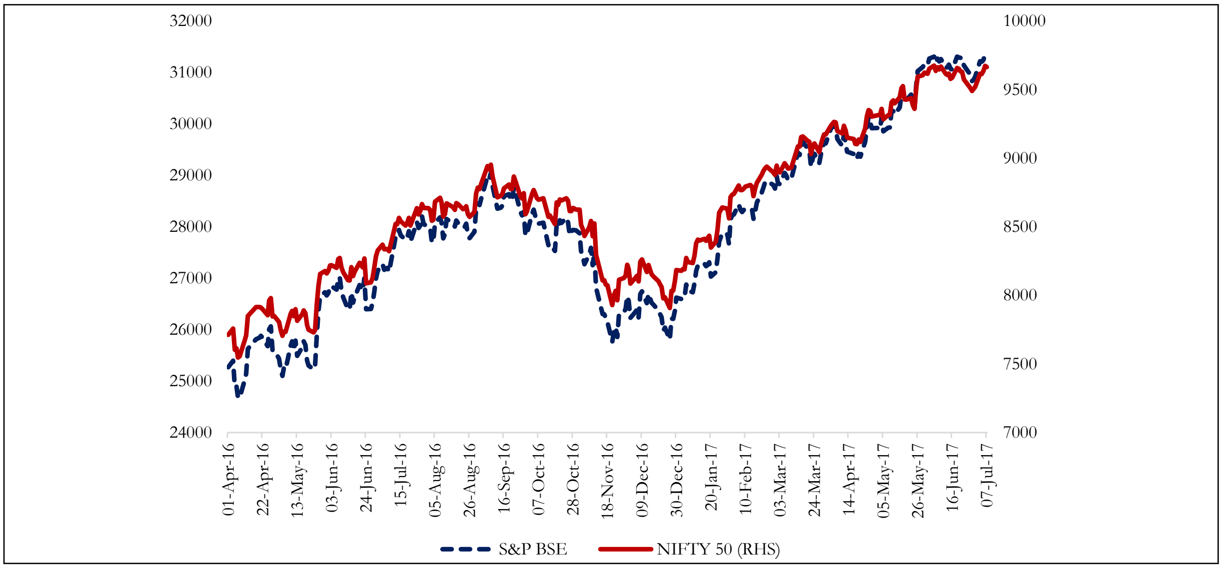
3.24 The steady upward momentum in the market was fuelled by global and domestic liquidity conditions. During the last quarter of 2016-17, Foreign Institutional Investors (FIIs) pumped in ₹68,627 crores (as against an outflow of ₹23,079 crores during the entire calendar year of 2016), while Domestic Institutional Investors (DIIs) brought in ₹1288 crore, on the back of strong and sustained subscription to mutual fund / insurance schemes. The total assets under management by Mutual funds rose by 42 percent in 2016-17 over the previous year. The other factors which raised market sentiments during the year included Government's commitment to fiscal consolidation roadmap, continuity and certainty of reforms, commitment to resolve bank NPAs, and certainty on implementation of GST etc.

Insurance and Pension Sector

3.25 Apart from protecting against mortality, property and casualty risks and providing a safety net for individuals and enterprises in urban and rural areas, the insurance sector encourages savings and provides long-term funds for infrastructure development and other long gestation projects of the Nation. The development of the insurance sector in India is necessary to support its continued economic transformation.

3.26 The potential and performance of the insurance sector should be assessed on the basis of two parameters, viz., Insurance Penetration and Insurance Density. Insurance penetration is defined as the ratio of premium underwritten in a given

Figure 11. Indian Benchmark Stock Indices (Sensex and Nifty)



Sources: Sensex, NIFTY

Table 6. Performance of Major Markets in the World

Index	2014-15 (31.03.2015)	2015-16 (31.03.2016)	2016-17 (31.03.2017)	Performance in FY 2016-17 (%, Local Currency Unit)	Performance in FY 2016-17 (%, Dollar)
Indian Markets					
SENSEX, India	27957	25342	29621	16.9	19.1
NIFTY, India	8491	7738	9174	18.6	20.8
Emerging Markets					
SHANGHAI COMPOSITE, China	3748	3004	3223	7.3	0.8
RTSI$, Russia	880	877	1114	27.1	43.7
Indice BOVESPA, Brazil	51150	50055	64984	29.8	44.7
JCI, Indonesia	5519	4845	5568	14.9	15.2
JSE40, South Africa	46017	46140	45167	-2.1	11.6
KOSPI, South Korea	2041	1996	2160	8.2	12.4
TAIWAN TAIEX, Taiwan	9586	8745	9812	12.2	17.7
Developed Markets					
S&P 500, US	2068	2060	2363	14.7	14.7
DOW JONES, US	17776	17685	20663	16.8	16.8
DAX, Germany	11966	9966	12313	23.6	18.1
FTSE 100, UK	6773	6175	7323	18.6	2.9
CAC-40, France	5034	4385	5123	16.8	11.3
NIKKEI 225, Japan	19207	16759	18909	12.8	13.9
HANG SENG, Hong Kong	24901	20777	24112	16.1	15.9
Straits Times, Singapore	3447.01	2840.9	3175.11	11.8	8.9

Sources: Bloomberg, Survey Estimate

year to the gross domestic product (GDP). Insurance density is defined as the ratio of premium underwritten in a given year to the total population (measured in US$ for convenience of international comparison).

3.27 The insurance penetration was 2.32 (Life 1.77 and General (Non-life) 0.55) in the year 2000 when the sector was opened up for private and has increased to 3.44 in 2015 (Life 2.72 and General 0.72). Insurance Penetration in some of the emerging economies in Asia, i.e., Malaysia, Thailand and China during the same year i.e.2015 was 5.81, 5.5 and 3.6 respectively. The insurance density in India was US$9.9 in 2000 which has increased to US$54.7 in 2015 (Life 43.2 and General 11.5). The comparative figures for Malaysia, Thailand and China during the same period i.e. 2015 were US$472, US$319 and US$281 respectively.

3.28 During the fiscal 2016-17, the Gross Direct Premium (GDP) of General Insurers (within India) crossed ₹1,27,631 crores (as per the provisional figures submitted by the insurers), registering 32 per cent growth (highest ever since 2000-01). Crop insurance, motor sales, health insurance etc. helped the industry report this growth. Life insurance industry registered a growth of 26.2 per cent in the first year premium as at the end of March, 2017 compared to the growth of 22.3 per cent of previous year with a first year premium underwritten of ₹1,75,022.5 crore compared to ₹1,38,657.3 crores in the previous year.

3.29 National Pension System (NPS) is a defined contribution-based pension scheme launched by the Government of India with the objectives of providing old age income, market-based returns over the long run and extending old age income security coverage to all citizens. The efforts of the government are to widen the reach of the scheme beyond employees who are within the government fold.

3.30 Till 31st March 2017, a total of 154.4 lakh members/subscribers, inclusive of the Atal Pension Yojana (APY), have been enrolled under the NPS. Assets under management (AUM), which includes returns on the corpus under the NPS, have witnessed an increase of 47 per cent from ₹1,18,810 crores on 31 March 2016 to ₹1,74,561 crore on 31 March 2017. The APY has a total of about 48 lakh subscribers and a corpus of ₹1,751 crore as on 31 March 2017.