Monetary Management and Financial Intermediation

03
CHAPTER

During 2017-18 (till January), monetary policy remained steady with only one policy rate cut in August. As the Y-o-Y effect of demonetisation wore off, the growth rate of both Currency in Circulation and M0 turned sharply positive. However, bank credit growth remains subdued, especially to the industrial sector. The 10 year G-sec yield, meanwhile, has hardened since September 2017. An ecosystem for the new insolvency and bankruptcy process took shape in 2017-18. The IBC mechanism is being used actively to resolve the NPA problem of the banking sector. The stock markets also hit record highs this financial year.

MONETARY DEVELOPMENTS DURING 2017-18

3.1 Monetary policy during 2017-18 was conducted under the revised statutory framework, which became effective from August 5, 2016[1]. At the time of writing, five meetings of the Monetary Policy Committee (MPC) had been held (till January 2018). In the third bi-monthly Monetary Policy Statement for 2017-18 in August 2017, the MPC decided to reduce the Policy Repo Rate by 25 basis points to 6.0 per cent. It kept the rates unchanged in both October and the latest meeting held in December. Accordingly, the Reverse Repo Rate under the Liquidity Adjustment Facility (LAF) stands at 5.75 per cent, and the Marginal Standing Facility (MSF) rate and the Bank Rate at 6.25 per cent (Table 1).

Table 1 : Revision in Policy Rates

Effective Date	Bank rate/ MSF Rate* (Percent)	Repo Rate (per cent)	Reverse Repo Rate (per cent)	Cash Reserve Ratio (per cent of NDTL)	Statutory Liquidity Ratio (per cent of NDTL)
05/04/16	7	6.5	6	4	21.25
09/08/16	7	6.5	6	4	21
04/10/16	6.75	6.25	5.75	4	20.75
08/02/17	6.75	6.25	5.75	4	20.5
06/04/17	6.5	6.25	6	4	20.5
07/06/17	6.5	6.25	6	4	20.5
02/08/17	6.25	6	5.75	4	20
14/08/17	6.25	6	5.75	4	19.5
04/10/17	6.25	6	5.75	4	19.5
06/12/17	6.25	6	5.75	4	19.5

Source: **RBI.**

Notes: *: **Bank Rate was aligned to MSF rate with effect from February 13, 2012.**

NDTL is Net Demand and Time Liabilities.

1 Refer to Chapter 3 of the Economic Survey 2016-17, Volume II, for details.

Table 2 : Year-on-Year Growth in Monetary Aggregates (end March, %)

Sl. No.	Items	2011	2012	2013	2014	2015	2016	Dec 2016#	2017	Dec 2017*
1	**Currency in Circulation**	18.8	12.4	11.6	9.2	11.3	14.9	-40.2	-19.7	80.4
2	**Cash with Banks**	18	15.2	14.6	10.7	12.4	6.6	124.3	4.2	-48.3
3	**Currency with the Public**	18.8	12.3	11.5	9.2	11.3	15.2	-47.6	-20.8	105.6
4	**Bankers' Deposits with RBI**	20.2	-15.9	-10	34	8.3	7.8	10.8	8.4	8.1
5	**Demand Deposits**	0.7	-1.7	6	7.8	9.8	11	26.4	18.4	6.4
6	**Time Deposits**	18.3	16.1	15	14.9	10.7	9.2	13.2	10.2	3.5
7	**Reserve Money (M0)**	19.1	3.6	6.2	14.4	11.3	13.1	-28.9	-12.9	55.9
8	**Narrow Money(M1)**	10	6	9.2	8.5	11.3	13.5	-18.9	-3.9	45.8
9	**Broad Money (M3)**	16.1	13.5	13.6	13.4	10.9	10.1	6.2	6.9	10.5

Source: RBI

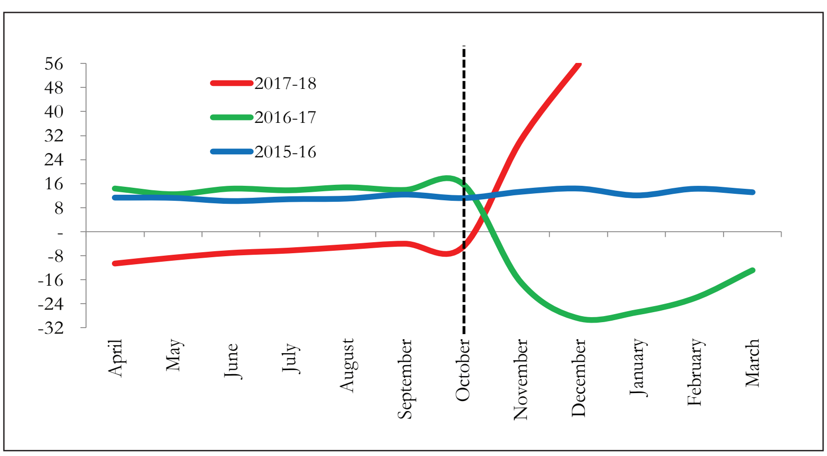
Notes: # : Data relating to items 1, 4 and 7 are as on December 30, 2016; data for the remaining items are as on December 23, 2016.

*** : Data relating to items 1, 4 and 7 are as on December 29, 2017; data for the remaining items are as on December 22, 2017.**

3.2 In tandem with the re-monetisation process, the Y-o-Y growth of Reserve Money (M0) during the financial year 2017-18 up to November 10, 2017 increased sequentially but remained in the negative territory and significantly lower than that in the previous year, reflecting the lingering, though progressively attenuated, impact of demonetisation (Figure 1). From November 17, 2017, as a favourable base effect set in, the Y-o-Y growth of both Currency in Circulation (CIC) and M0 turned sharply positive and higher than their respective growth rates in the previous year. As on December 29, 2017, M0 recorded an expansion of 55.9 per cent as compared with a negative growth of 28.9 per cent in the corresponding period of the previous year, primarily on account of an increase in CIC (80.4 per cent as against a decline of 40.2 per cent in the corresponding period of the previous year) (Table 2); CIC stood at 94.19 per cent of its pre-demonetisation level (Figure 2).

3.3 From the sources side, expansion in M0 during the financial year 2017-18 was driven by the decline in LAF reverse repo (net) and increase in RBI's net foreign assets. However, net RBI credit to government declined owing to net open market sales as well as an increase in government deposits.

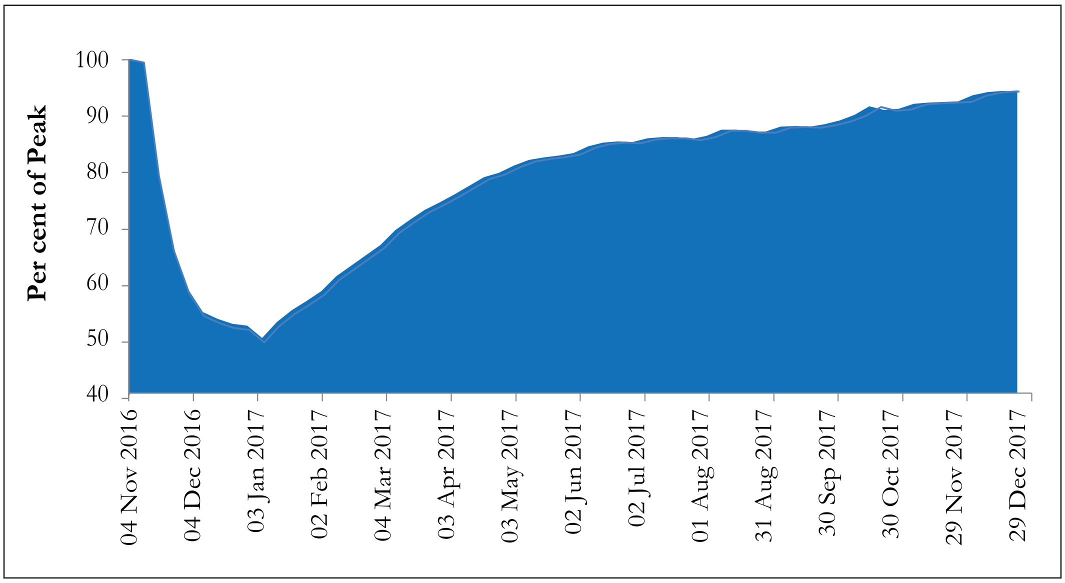
Figure 1 : Reserve Money Y-o-Y Growth (%) - Monthly Trend



Source: **RBI.**

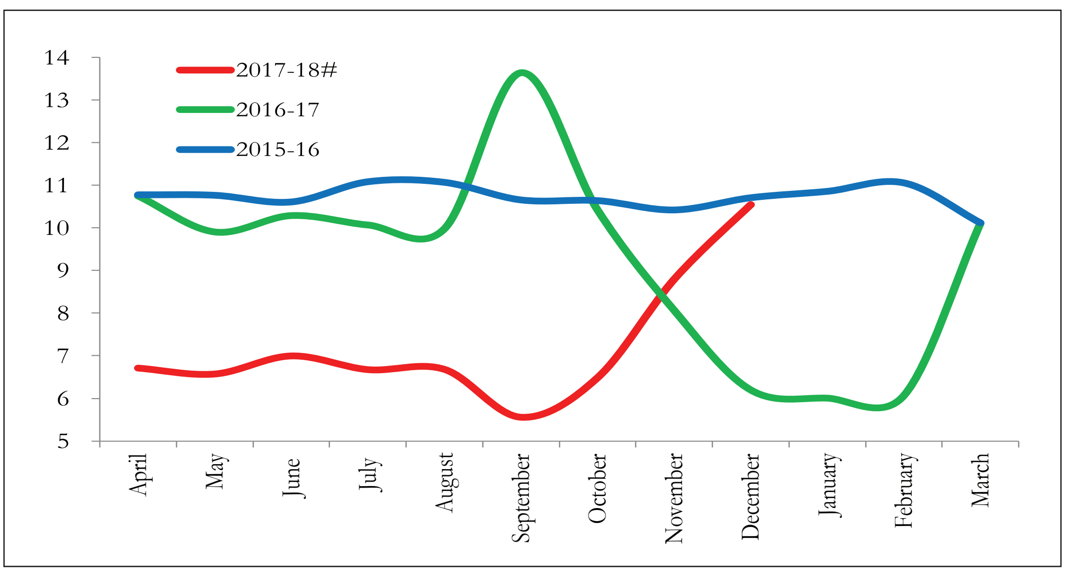
3.4 The Y-o-Y growth of M3 had slackened post-demonetisation, but remained positive– in contrast to the contraction in M0 – because the reduction in Currency with Public (CwP) was partially offset by an upsurge in aggregate deposits. During 2017-18, the Y-o-Y growth of broad money (M3) began picking up distinctly from end-September 2017 and, exceeded that in the previous year for the first time on November 24, 2017 reflecting the favourable base effect (Figure 3). On the same date, the ratio of CIC to M3 was 12.6 per cent as against 9.8 per cent in the corresponding period of the previous year. From the sources side, the expansion, albeit gradual, in credit from Scheduled Commercial Banks (SCBs) to the commercial sector, primarily contributed to M3 growth during 2017-18 so far.

Figure 2 : CIC as per cent of its Peak



Source: **RBI.**

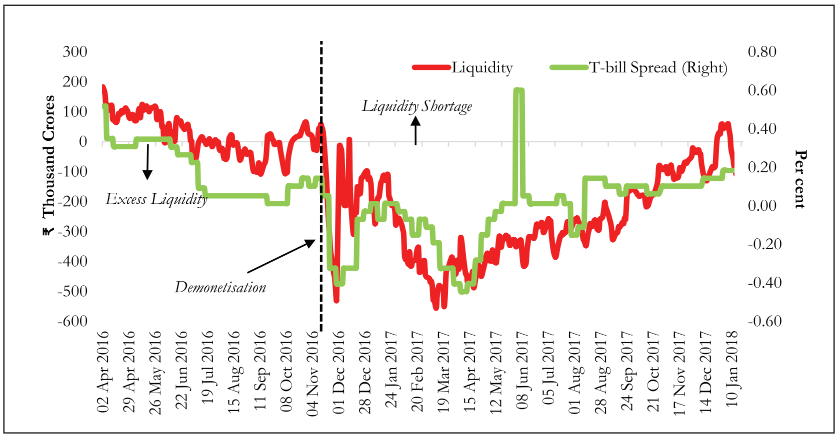
Figure 3 : Broad Money Y-o-Y Growth (%) - Monthly Trend



Source: RBI.

Note: #: **Data relating to December is as on December 22, 2017.**

Figure 4 : Daily Liquidity Management and T Bill Spread*



Source : **RBI.**

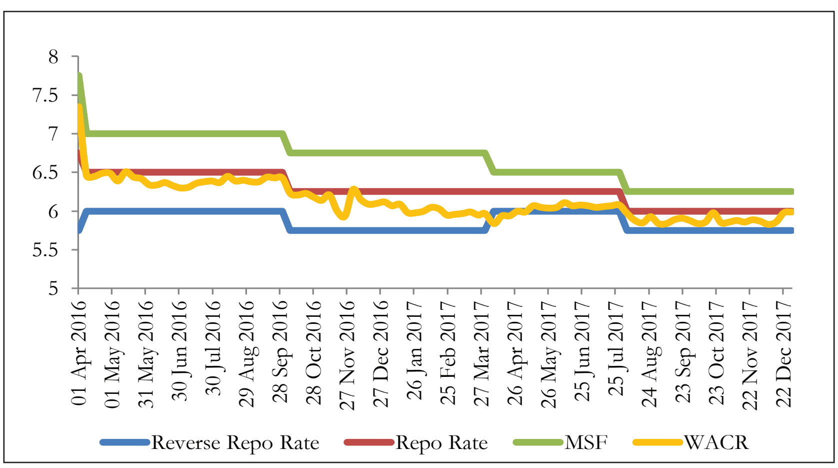
Note: * : **T Bill Spread = Repo Rate minus 91-Day Treasury Bill (Primary) Yield.**

LIQUIDITY CONDITIONS AND ITS MANAGEMENT

3.5 After demonetisation in early November 2016, the Reserve Bank had scaled up its liquidity absorption operations using a mix of both conventional and unconventional instruments. Liquidity conditions remain in surplus mode even as its magnitude moderated gradually with progressive remonetisation. The average daily net liquidity absorption under LAF, declined gradually from ₹419 thousand crores in March 2017 to ₹66 thousand crores in November 2017. In addition to LAF, surplus liquidity of ₹100 thousand crores was absorbed through issuance of Treasury Bills (TBs) under the Market Stabilisation Scheme (MSS) during April-May 2017. Enduring surplus liquidity conditions warranted OMO sale of ₹90 thousand crores during July to November 2017, with two OMO sale auctions of 10 thousand crores each, every month during July-October 2017 and one OMO sale auction in November 2017.As a consequence of these measures, net liquidity declined from an excess of ₹3.1 lakh crores as on March 31, 2017 to ₹47.8 thousand crores as on January 11, 2018 (Figure 4).

3.6 For the first half of 2017-18, the Weighted Average Call Rate (WACR) was closer to the Reverse Repo Rate. However, in recent months it has drifted to the middle of the policy corridor (Figure 5).

Figure 5: Policy Corridor and Call Rate (Per cent)



Source: **RBI.**

DEVELOPMENTS IN THE G-SEC MARKET

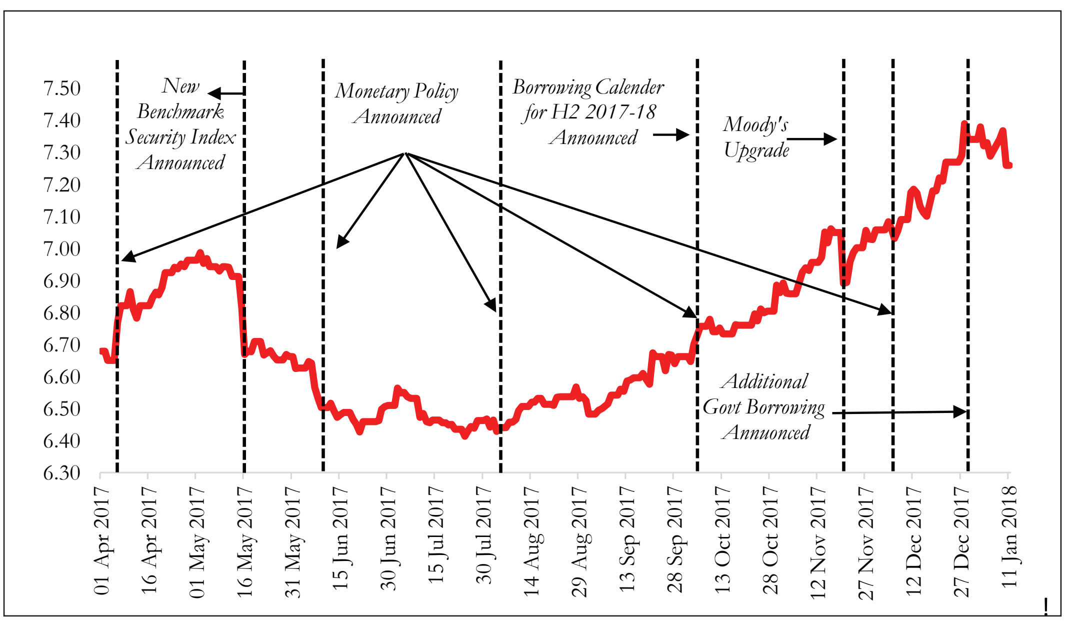
3.7 During 2017-18 (up to 11th January, 2018), the direction of movement of the 10-year generic G-sec yield altered significantly (Figure 6). In April 2017, G-secs traded with a moderate hardening bias, after the release of the minutes of the Monetary Policy Committee meeting on April 20, 2017, which enunciated upside risks to inflation. However, the G-sec yield softened sharply after May 12, 2017 mainly on account of auction of a new benchmark security coupled with lower than expected inflation for April 2017. Between May 2017 and July 2017, G-secs traded with a softening bias on account of better than expected economic data viz., lower inflation, positive monsoon forecast and dovish stance of monetary policy in June 2017. The softening of yield was further supported by robust FPI inflows.

3.8 Later, from mid-July to November 17, 2017, the yield movement was mainly guided by global factors and reflected a hardening bias in the US. Furthermore, domestic factors such as, higher CPI inflation, additional supply of securities through OMO sales, rise in oil prices leading to concerns of higher inflation, and higher government borrowings, exerted upward pressure on yields. India's sovereign rating upgrade by Moody's, however, briefly led to a decline of the 10-year G-sec yield to 7.10 per cent on November 20, 2017, but it went back up later. The G-sec yield as on January 11, 2018 stands at 7.26 per cent.

BANKING SECTOR

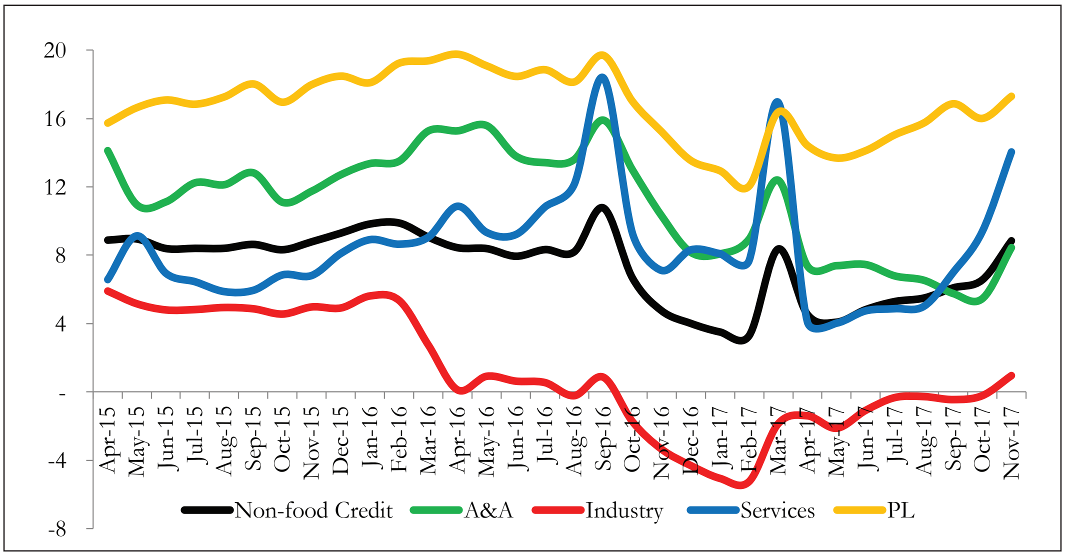
3.9 The performance of the banking sector, Public Sector Banks (PSBs) in particular, continued to be subdued in the current financial year. The Gross Non-Performing Advances (GNPA) ratio of Scheduled Commercial Banks (SCBs) increased from 9.6 per cent to 10.2 per cent between March 2017 and September 2017, whereas, their Restructured Standard Advances (RSA) ratio declined from 2.5 per cent to 2.0 per cent. The Stressed Advances (SA) ratio rose marginally from 12.1 per cent to 12.2 per cent during the same period. GNPA ratio of PSBs increased from 12.5 per cent to 13.5 per cent between March and September 2017. Stressed advances ratio of PSBs rose from 15.6 per cent to 16.2 per cent during the period.

Figure 6 : 10 Year G-Sec Yield (Per cent)



Source: **Bloomberg.**

Figure7 : Sectoral Deployment of Bank Credit Growth (%) - Monthly Trend



Source: **RBI.**

Note: **A&A: Agriculture and Allied Activities, PL: Personal Loans.**

3.10 Capital to Risk-weighted Asset Ratio (CRAR) of SCBs increased from 13.6 per cent to 13.9 per cent between March 2017 and September 2017 largely due to an improvement for private sector banks (PVBs). SCBs' Return on Assets (RoA) remained unchanged at 0.4 per cent between March 2017 and September 2017 while their Return on Equity (RoE) declined from 4.3 per cent to 4.2 per cent. Many PSBs have continued to record negative profitability ratios since March 2016.

CREDIT GROWTH

3.11 Non Food Credit (NFC) grew at 8.85 per cent Y-o-Y in November 2017 as compared to 4.75 per cent in November 2016. Bank credit lending to Services and Personal Loans (PL) segments continue to be the major contributor to overall NFC growth (Figure 7). Credit growth finally picked up in industrial sector after remaining persistently negative from October 2016 to October 2017. However, growth of credit to medium scale industries has remained negative since June 2015 (Table 3).

Table 3 : Industry-Wise Deployment of Bank Credit by Major Sectors (Y-o-Y, %)

Sector	March 2012	March 2013	March 2014	March 2015	March 2016	March 2017	November 2017
Industry	20.7	15.1	12.8	5.6	2.6	-1.9	0.1
• Micro & Small	12.6	20.2	23.6	8.2	-2.3	-0.5	4.6
• Medium	7.1	-0.1	-2.7	2.6	-7.8	-8.7	-8.3
• Textiles	9.9	15.1	10.2	-0.2	1.9	-4.6	4.6
• Infrastructure	20.8	15.9	14.6	10.5	4.4	-6.1	-2.3

Source : **RBI.**

Box 3.1 The New Insolvency and Bankruptcy Regime

The Insolvency and Bankruptcy Code, 2016 (IBC) was passed in May 2016. At the time the previous Economic Survey was issued, the new regime was in its very early days. The regulator had just been set up, and the basic ecosystem, including the rules governing corporate insolvency/ liquidation and certification of insolvency professionals who could run those transactions, had been newly created.

Since then, there has been a significant amount of progress – the entire mechanism for the Corporate Insolvency Resolution Process (CIRP) has been put in place. A number of rules and regulations have been notified to create the institutions and professionals necessary for the process to work. A large number of cases have entered the insolvency process, and a few have even exited the process.

Over 1,300 Insolvency Professionals are registered (under three Insolvency Professional Agencies). The first Information Utility has also started functioning. Over 525 cases of corporate insolvency have been admitted across all the National Company Law Tribunal (NCLT) benches[1]. In addition, 108 Voluntary Liquidation proceedings and one Fast-Track Corporate Insoluency Resolution have also been initiated (see Table 1 and Table 2 for details).

Table 1 : Status of cases admitted for Corporate Insolvency Resolution Process

Sl. No	Status of CIRP		Number of Corporates
1	CIRP in progress		442
	of which*	< 30 days	33
		30-150 days	225
		150-180 days	67
		>180 days	117
2	Resolution plans approved		10
3	Liquidation order passed		30
4	Closed by appeal/review		36
	Total CIRP petitions admitted:		525

Source: **IBBI.**
Note: ***: For a few corporates, orders are still awaited, hence the totals might not be exact.**

Table 2 : Sector-wise Analysis of Admitted Cases under IBC, 2016

Sl. No	Sector	Total Underlying Default (₹ Crores)	Number of Corporates				
			CIRP In Progress	Resolution Plan Approved	Liquidation Order Passed	Closed By Appeal/ Review	Total
1	Steel	57,001	39	2	3	1	45
2	Retail	12,719	12				12
3	Capital Goods-Non Electrical Equipment	4,785	14		2	1	17
4	Textiles	4,679	29		3	1	33
5	Trading	4,560	30	3	4	2	39
6	Chemicals	4,433	18			1	19
7	Ship Building	4,292	2				2
8	Construction	4,004	35		1	4	40
9	Computer Education	2,909	1				1
10	Mining & Mineral Products	2,700	10	1	1	1	13
11	Others	26,727	261	4	16	23	304
	Total	**1,28,810**	**451**	**10**	**30**	**34**	**525**

Source: **IBBI.**

1 The details are from the orders uploaded on the NCLT website on or before 6 January, 2018 for petitions dated till 31 December 2017. This data is tentative, and might change as new orders are updated.

Table 3 : Companies That Underwent Resolution Under IBC

Name of Corporate Debtor	Whether Under Erstwhile BIFR	Insolvency Commencement Date	Approval of Resolution By NCLT	Initiated By	Total Claims Of FCs*	Liquidation Value*	Resolution Amount - FCs*	% Recovery For FCs	% Realisation To Liquidation Value
Synergies Doorey Automotive Ltd.	Yes	23-Jan-17	02-Aug-17	CD	972.2	8.2	54.7	6%	669%
Shree Metalik Ltd.	N.A.	30-Jan-17	07-Nov-17	FC	1,287.20	283	607.3	47%	215%
Kamineni Steel & Power India Pvt. Ltd.#	Yes	10-Feb-17	27-Nov-17	CD	1,508.90	761	600	40%	79%
Chhaparia Industries Pvt. Ltd.	Yes	24-Feb-17	22-Sep-17	CD	49.8	17.2	20.6	41%	120%
Jekpl Private Ltd.	N.A.	17-Mar-17	15-Dec-17	CD	599	222.1	162	27%	73%
Hotel Gaudavan Pvt. Ltd.	N.A.	31-Mar-17	13-Dec-17	FC	76.7	36.1	44.2	58%	122%
Prowess International Pvt. Ltd.	N.A.	20-Apr-17	17-Oct-17	OC	3.4	N.A.	3.4	100%	N.A.
West Bengal Essential Commodities Supply Corp. Ltd.	N.A.	29-May-17	20-Nov-17	FC	359.2	N.A.	185.8	52%	N.A.
Shirdi Industries Ltd.	Yes	18-May-17	12-Dec-17	CD	673.9	103.1	175	26%	170%
Nandan Hotels Ltd.	N.A.	17-Aug-17	14-Dec-17	OC	N.A.	N.A.	1.4	N.A.	N.A.

Source: **IBBI**

Notes: *: **Amounts are in ₹ Crores.**

FC : Financial Creditors

#: **This resolution order was stayed by NCLAT.**

A major factor behind the effectiveness of the new Code has been the adjudication by the Judiciary. The Code prescribes strict time limits for various procedures under it. In spite of the large inflow of cases to NCLT benches across India, these benches have been able to admit or reject applications for CIRP admissions with few delays. In addition, appellate courts, including the NCLAT, High Courts and the Supreme Court have also disposed appeals quickly and decisively. In this process, a rich case-law has evolved, reducing future legal uncertainty.

On 13th June, 2017, the RBI identified 12 large loan defaulters where the Insolvency and Bankruptcy Code (IBC) was initiated. The status of the proceedings against these 12 defaulters, as of November 2017, is shown in table 4 below:

Table 4 : First Twelve Defaulters As Notified By RBI

Sl. No	Company#	Sector	Claims Admitted (₹ Crores)	180 Day Period Ends On	Current Status of CIRP
1	Alok Industries Ltd.	Textiles	29,912	14-01-2018	Applied for extension of 90 days
2	Amtek Auto Ltd.	Auto component	12,586	20-01-2018	Applied for extension of 90 days
3	ABG Shipyard Ltd.	Ship building	18,539	28-01-2018	CoC approved extension of 90 days
4	Bhushan Steel Ltd.	Steel	55,989	22-01-2018	In process
5	Bhushan Power and Steel Ltd.	Steel & Power Generation	48,524	22-01-2018	Extension up to 22 April, 2018
6	Electrosteel Steels Ltd.	Steel	13,302	16-01-2018	Extension up to 17 April, 2018
7	Essar Steel Ltd.	Steel	50,778	29-01-2018	Applied for extension of 90 days
8	Jyoti Structures Ltd.	Power Transmission	8,078	31-12-2018	Extension up to 31st Mar, 2018
9	Jaypee Infratech Ltd.	Infrastructure Development	13,322	04-02-2018	Applied for extension of 90 days
10	Lanco Infratech Ltd.	Power Generation	51,505	03-02-2018	Applied for extension of 90 days
11	Monnet Ispat and Energy Ltd.	Steel	10,412	13-01-2018	Applied for extension of 90 days
	Total		**3,12,947**		

Source: IBBI.
***Note:* # Era Infra Engineering Ltd. has not yet been admitted to CIRP.**

Box 3.2 : The Insolvency and Bankruptcy Code (Amendment) Bill, 2017

The Insolvency and Bankruptcy Code (Amendment) Bill, 2017, was passed by the Lok Sabha on December 29, 2017, and by the Rajya Sabha on January 2, 2018. It replaces the IBC (Amendment) Bill, 2017, which was promulgated on November 23, 2017.

In the CIRP the Committee of Creditors (CoC) invites resolution plans from resolution applicants, and may select one of these plans. The Code originally does not specify any restrictions on who these resolution applicants might be. The Bill has declared that some persons are ineligible to submit resolution plans:

(i) an undischarged insolvent;

(ii) a "wilful defaulter";

(iii) a borrower whose account has been identified as a non-performing asset for over a year and who has not repaid the amount before submitting a plan;

(iv) a person convicted of an offence punishable with two or more years of imprisonment;

(v) a person disqualified as a director under the Companies Act, 2013;

(vi) a person prohibited from trading in securities;

(vii) a person who is the promoter or in the management of a company which has indulged in undervalued, preferential, or fraudulent transactions;

(viii) a person who has given guarantee on a liability of the defaulting company undergoing resolution or liquidation, and has not honoured the guarantee;

(ix) a person who is subject to any of the above disabilities in any jurisdiction outside India; or

(x) a person who has a connected person disqualified in any manner above.

The thrust of the Bill is to prevent a range of undesirable persons from bidding for the debtor. The Bill may prevent promoters from bidding for their own firms. A resolution plan would typically involve significant haircuts on the parts of the financial and operational creditors. Thus, allowing a promoter to bid without restriction would mean countenancing a situation where an owner, having driven a firm into insolvency, is now able to purchase it back at a discount. This can lead to a situation of moral hazard, where incompetent or fraudulent promoters are effectively rewarded with the control of their company, leaving the creditors to write off their debts.

The Bill, thus, seeks to achieve a balanced approach, enabling the CoC to avoid imprudent transactions, while preserving its freedom to choose the best resolution plan from amongst all the applicants.

NON-BANKING FINANCIAL SECTOR

3.12 Non-Banking Financial Companies (NBFCs) bring in diversity and efficiency to the financial sector and make it more responsive to the needs of the customers. Peer to Peer (P2P) and Account Aggregators are the new categories of NBFC that have been introduced recently. To further financial inclusion through direct interaction between small lenders and small borrowers and to address the associated consumer protection issues, the Reserve Bank has introduced a new category of Non-Banking Financial Company (NBFC) called NBFC-P2P (NBFC- Peer to Peer Lending Platform) with light touch regulation and emphasis on adequate disclosures.

3.13 The NBFC sector, as a whole, accounted for 17 per cent of bank assets and 0.26 per cent of bank deposits as on September 30, 2017. The consolidated balance sheet size of the NBFC sector increased by 5 per cent (September 2017 over March 2017) to ₹20.7 lakh crores, as against an increase of 14.2 per cent between March 2016 and March 2017. NBFCs depended largely on public funds for funding their balance sheets. Borrowings through Non-Convertible Debentures (NCDs) witnessed a growth of 3.1 per cent as on end-September 2017 against a 19.8 percent growth during 2016-17 while bank borrowings increased by 5.4 per cent during the first half of the year (March 2017 to September 2017) against a negative growth of 7.0 per cent during 2016-17. On the asset side, loans and advances registered a growth of 6.6 per cent during the first half of the 2017-18 which was 12.7 per cent during the 2016-17.

3.14 The Capital to Risk Weighted Assets Ratio (CRAR) of NBFC sector declined slightly to 22.5 per cent as on end-September 2017 from 22.8 per cent as on March 31, 2017. The gross NPA ratio (per cent to advances) of NBFC sector declined to 5.5 per cent as on end-September 2017 from 6.1 per cent as on March 31, 2017. The net NPA (per cent to net advances) also decreased to 3.4 per cent in September 2017 from 4.1 per cent in March 31, 2017. The Return on Assets (RoA) of the sector increased to 2.0 per cent as on end-September 2017 as compared to 1.6 per cent as on end-March 2017. The Return on Equity (RoE) increased significantly to 9.0 per cent (annualized) as on end September 2017 from 7.0 per cent as on end-March 2017.

DEVELOPMENTS IN CAPITAL MARKET

Primary Market

3.15 The year 2017-18 (April-November) witnessed a steady increase in resource mobilisation in the primary market segment as compared to the corresponding period in the last financial year. During the year (April-November), 134 companies accessed primary market and raised ₹70,316 crores compared to ₹48,325 crores raised through 80 issues during the corresponding period of FY 2016-17, showing 45.5 per cent increase over the year. During 2017-18 (April-November), there were 122 Public Issues which raised ₹66,641 crores and 12 Rights Issues which raised ₹3,675 crores (Table 4).

3.16 The Indian mutual fund industry also registered a robust growth during April 2016 – October 2017. The AUM of Mutual Funds

Table 4 : Primary Market Resource Mobilisation through Public and Rights Issues (₹Crore)

Issue Type	2016-17#		2017-18#	
	No. of Issues	Amount	No. of Issues	Amount
Public issue (Equity)	65	23,134	118	62,745
Rights Issues (Equity)	5	1,297	12	3,675
Total Equity	70	24,431	130	66,420
Public Issue (Debt)	10	23,893	4	3,896
Total	80	48,325	134	70,316

Source: **SEBI.**

Note: **# indicates April-November of the respective financial year.**

Table 5 : Market Resource Mobilisation by Mutual Funds (₹Crore)

Financial Year	No of Folios	Gross Mobilization	Redemption	Net Inflow	Assets at the end of the period
2016-17	5,53,99,631	1,76,15,549	1,72,72,500	3,43,049	17,54,619
2017-18#	6,31,65,739	1,18,83,698	1,16,30,549	2,53,149	21,41,346

Source: **SEBI.**

Note: **#: Up to October 31, 2017.**

Table 6 : Total Resources Mobilized by Corporate Sector (₹Crore)

Year	Equity Issues			Debt Issues			Total Resource Mobilization (4+7)
	Public & Rights	Private Placements	Equity Total	Public	Private Placements	Debt Total	
1	2	3	4	5	6	7	8
April 2016 -Nov 2016	24,429	31,319	55,748	23,901	4,19,387	4,43,288	4,99,036
April 2017 -Nov 2017	66,424	78,344	1,44,767	3,897	4,18,952	4,22,848	5,67,615

Source: **SEBI.**

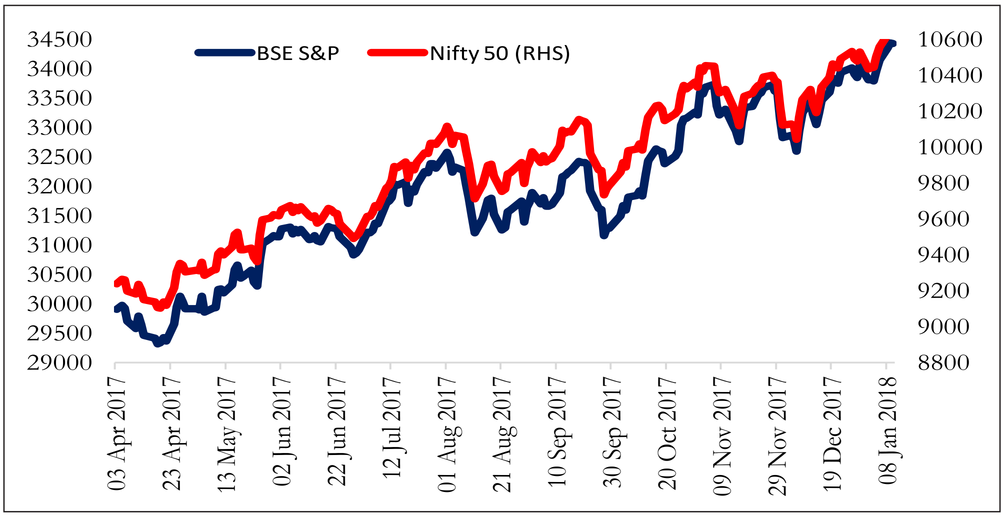
Notes: **1. Private placement of equity includes, amount raised through preferential allotments, QIP and IPP mechanism.**

2. Public equity issues include both IPOs and FPOs.

industry witnessed a constant growth in terms of new investment and increase in value of the existing investments as result of overall good market conditions (Table 5).

3.17 Resource mobilisation through issuance of corporate bonds (public issuance and private placement) rose rapidly during 2017-18 (April-November) as compared to the corresponding period in the previous year, with an amount of ₹4.23 lakh crores raised. Private placements continued to dominate the corporate bond market (Table 6). 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 is much shorter compared to bank credit. Also, if banks subscribe to corporate bonds then it may lead to double counting. Hence, one need to be cautious while comparing such resource mobilization with bank credit.

Figure 8 : Movement of Sensex and Nifty



***Sources:* BSE & NSE.**

Secondary Market

3.18 S&P BSE Sensex, the benchmark index of BSE, closed at 34,433 points as on January 10, 2018, witnessing a gain of 16.5 per cent from its closing of 29,621 points on March 31, 2017. During this period, S&P BSE Sensex touched its highest level of 34,443 points on January 9, 2018 and its lowest of 29,319 points on April 18, 2017. Nifty 50, the benchmark index of NSE, closed at 10,632 points on January 10, 2018, witnessing a gain of 15.9 per cent from its closing of 9,174 points as on March 31, 2017. During this period, Nifty 50 touched its highest level of 10,637 points on January 9, 2018 and its lowest of 9,105 points on April 19, 2017.

INSURANCE SECTOR

3.19 Insurance, being an integral part of the financial sector, plays a significant role in India's economy. 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 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).

3.20 The Insurance penetration which was 2.71 per cent in 2001, increased to 3.49 per cent in 2016 (Life 2.72 per cent and General 0.77 per cent). Insurance Penetration in some of the emerging economies in Asia, i.e., Malaysia, Thailand and China during the same year i.e. 2016 was 4.77, 5.42 and 4.15 per cent respectively. Globally insurance penetration and density were 3.47 per cent and US$ 353 for the life segment in 2016 and 2.81 per cent and US$ 285.3 for the non-life segment respectively. The insurance density in India, which was US$ 11.5 in 2001, has increased to US$ 59.7 in 2016 (Life 46.5 and General 13.2). The comparative figures for Malaysia, Thailand and China during the same period i.e. 2016 were US$ 452.2, US$ 323.4 and US$ 337.1 respectively.

3.21 During the fiscal 2016-17, the Gross Direct Premium (GDP) of General Insurers (within India) was ₹130.97 thousand crores, registering 33 per cent growth (highest ever since 2000-01). Crop insurance, motor sales, health insurance etc. helped the industry report this growth. Life insurance industry recorded a premium income of ₹418 thousand crores as against ₹367 thousand crores in the previous financial year, registering a growth of 14.04 per cent.