

Highlights



India leaps 23 places to rank at 77 on the World Bank's Doing Business Index, as the country ranked highest in South Asia with six reforms to find itself among the top-ten improvers for the second-consecutive year. Significant improvement was made in the ease of starting a business, dealing with construction permits and facilitating quicker cross-border trade. Dealing with construction permits jumped to 52 from 181 last year, as India streamlined the process of obtaining a building permit and improved building quality control by introducing decennial liability and insurance. The improved ranking will help boost sentiments towards Prime Minister Narendra Modi's government ahead of the general election. (Source: BloombergQuint)

The IMF has forecast a growth rate of 7.3% for India in 2018 and 7.4% in 2019, reflecting the country's economic rebound from demonetization and GST reform, as investment and private consumption strengthens. Should the projections fruit, India would regain the tag of fastest-growing major economies of the world, crossing China with more than 0.7 percentage point in 2018 and a 1.2 percentage point growth lead in 2019. (Source: BloombergQuint)

The Reserve Bank of India will carry out open market operation and inject Rs 40,000 crore or USD 5.51 billion into the system in November to meet festive season demand for funds through the purchase of government securities. The RBI had previously anticipated that the system liquidity will be in deficit in the second half of 2018 – 2019. It will determine its choice of instruments for both transient and durable liquidity management depending on evolving liquidity conditions. (Source: Reserve Bank of India)

An Investment Trends Monitor report by the UN has shown that inflows into India increased in the first half of 2018 as the country attracted USD 22 billion of FDI, at a time when global foreign direct investments dropped 41%. The global foreign direct investments fell 41% from USD 794 billion to USD 470 billion in the same period of 2017, as U.S. parent companies repatriated accumulated foreign earnings from their affiliates following tax reforms by the Trump administration. Developing economies saw FDI flows declining slightly compared to nations such as Ireland and Switzerland. (Source: BloombergQuint)

Chart 1: Bank Lending to Private Sector (% y/y, 3ma)



Sources: CEIC, Capital Economics

India's bank lending rate to the private sector grew at the fastest pace since 2014 in September. Spare capacity is shrinking, leaving conditions ripe for a pick-up in investment, suggesting that the upward trend for the pick-up has further to run. Reforms to clean up the banking sector, such as the new bankruptcy code and recapitalisation package, appear to be having a material positive impact on balance sheets, which is underpinning stronger lending. The recovery in bank lending will offset the slowdown in lending from India's non-bank financial companies (NBFCs) which have seen their funding costs rise sharply in recent weeks following news of a large-scale debt default from the IL&FS Group. The government's decision to nationalise the IL&FS Group, will help to contain the economic risks emanating from the shadow banking sector, alongside the RBI's announcement that it will cancel the licenses of 31 small shadow banks failing to meet regulatory requirements. (Source:CEIC,CapitalEconomics)

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