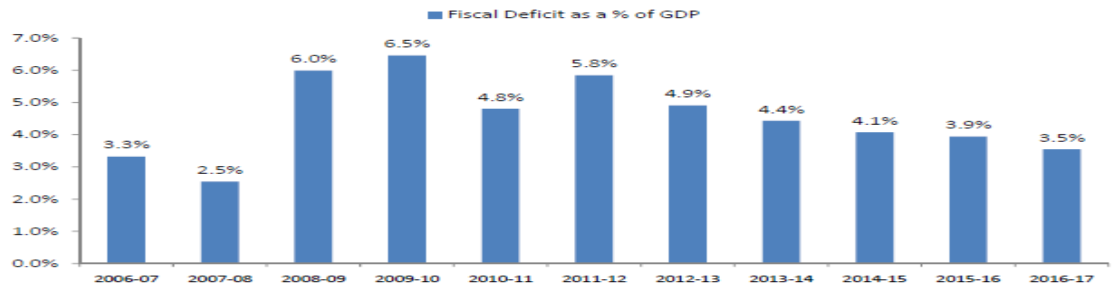
Monthly Political & Economic Updates

February 2016

Fiscal Consolidation Path



Source: GoI, UTI MF Research

Key Takeaways of The Indian Union Finance Budget for the fiscal year 2016-2017 (April 2016 to March 2017)

•The growth of economy accelerated to 7.6% in the year 2015-2016.

•The Current Account deficit has declined from USD18.4 billion in the first half of last year to USD 14.4 billion this year. It is projected to be 1.4% of GDP at the end of this year.Foreign exchange reserves are at the highest ever level of about USD 350 billion.

•To address the immediate demands of the sectors in need, the government has announced enhanced expenditure in the farm and rural sector, the social sector, the infrastructure sector and provided for recapitalisation of the banks.

•The Government shall endeavour to continue with the ongoing reform programme and ensure the passage of the Constitutional amendments to enable the implementation of the Goods and Service Tax GST), the passage of Insolvency and Bankruptcy law and other important reform measures which are pending before the Parliament.

•The fiscal deficit in Revised Estimate (RE) 2015-16 and Budgeted Estimate (BE) 2016-17 have been retained at 3.9% and 3.5% of GDP respectively

Reforms announced in Foreign Direct Investment (FDI) policy

•Foreign investment will be allowed in the insurance and pension sectors in the automatic route up to 49% subject to the extant guidelines on Indian management and control to be verified by the regulators.

•100% FDI in ARCs will be permitted through automatic route.Foreign Portfolio Investors (FPIs) will be allowed up to 100% of each tranche in securities receipts issued by ARCs subject to sectoral caps.

•Investment limit for foreign entities in Indian stock exchanges will be enhanced from 5 to 15% at par with domestic institutions.

•The existing 24% limit for investment by FPIs in Central Public Sector Enterprises, other than Banks, listed in stock exchanges, will be increased to 49% to obviate the need for prior approval of Government for increasing the FPI investment.

•The basket of eligible FDI instruments will be expanded to include hybrid instruments subject to certain conditions.

•FDI will be allowed in other activities regulated by financial sector regulators, in addition to the 18 specified Non-Banking Finance Companies (NBFC) activities which are currently permitted under the automatic route

•Foreign investors will be accorded Residency Status subject to certain conditions.Currently, these investors are granted business visa only up to 5 years at a time.

Financial Sector Reforms

•To improve greater retail participation in Government securities, RBI will facilitate their participation in the primary and secondary markets through stock exchanges and access to NDS-OM trading platform.

•To facilitate deepening of corporate bond market, following measures were announced:

a) Life Insurance Corporation of India will set up a dedicated fund to provide credit enhancement to infrastructure projects. The fund will help in raising the credit rating of bonds floated by infrastructure companies and facilitate investment from long term investors.

b)RBI will issue guidelines to encourage large borrowers to access a certain portion of their financing needs through market mechanism instead of the banks.

c) Investment basket of foreign portfolio investors will be expanded to include unlisted debt securities and pass through securities issued by securitisation Special Purpose Vehicles (SPVs).

d) For developing an enabling eco system for the private placement market in corporate bonds, an electronic auction platform will be introduced by SEBI for primary debt offer.

e) A complete information repository for corporate bonds, covering both primary and secondary market segments will be developed jointly by RBI and SEBI.

•Proposed allocation of USD 3.68 billion in 2016-17 towards recapitalisation of Public Sector Banks (PSBs). The Bank Board Bureau will be operationalized during 2016-17 which will provide roadmap for consolidation of PSBs.

•For speedier resolution of stressed assets, the Debt Recovery Tribunals (DRTs) will be strengthened

Market Impact

The overall Budget broadly delivered on aspects of fiscal restraint,addressing rural concerns,various administrative and simplification reforms on the tax front.The equity and bond markets rallied significantly amidst such expectations and the announcement of lower than expected gross borrowing.