Monthly Political & Economic Updates
December 2016

UTI International

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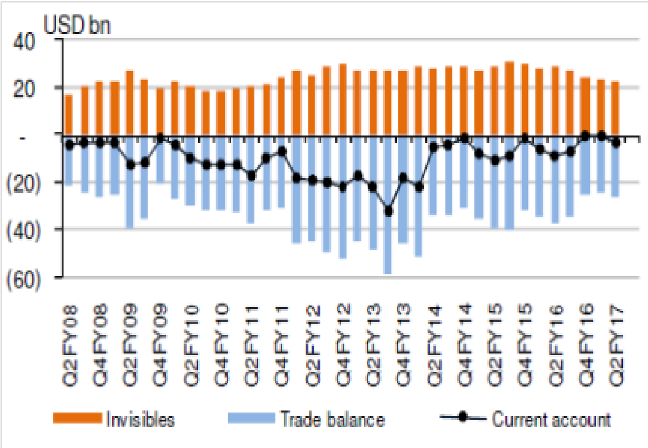
India Current Account



Source: CSO, UTI MF Research

India Commercial Credit Growth (yoy %)

Source: Bloomberg

1.Fitch ratings lowers India growth forecast, still remains higher than EM counterparts
Fitch lowered India's GDP growth projection to 6.9% for FY17 (current fiscal year ending March) from 7.4%, following the demonetization move. It also lowered forecasts for FY18 to 7.7% from 8.0%. Still, India's growth forecasts remain among the highest within Emerging Markets and Asia. The cash crunch and slowdown in activity faced by certain sectors due to demonetization is also deemed temporary and a good move longer term towards clamping down on graft and promoting better quality growth.

2.CBDT amends income tax provisions – promotes accountability
Following demonetization, India's Central Board of Direct Taxes (CBDT) amended certain income tax provisions to ensure accountability of cash. Banks and post offices now have to submit a report by the end of January 2017 on high value deposits. Income generated from property sales will be taxed in the year of sale.

3.Government approves the Major Port Authorities Bill, 2016
This bill replaces the Major Port Trusts Act, 1963 and effectively shifts the port model from a governance-based one to a landlord-based one, whereby regulatory responsibility resides with the landlord (the port authority) whilst infrastructure is leased to private companies to conduct port operations. This enables smoother decision-making, execution and transparency and puts the model in line with global practices.

4.India's current account deficit (CAD) narrows in Q2FY17, FX reserves rise
The CAD posted a deficit of USD 3.4bn in Q2FY17 (0.6% of GDP), versus USD 8.5bn (1.7% of GDP) in Q2FY16, due to a lower trade deficit (chart 1). A lower CAD and relatively healthy FDI and FPI inflows also resulted in a rise in FX reserves – an addition of USD 8.5 bn.

5.Indian rupee shows strength in December despite market volatility
According to the Centre for Monitoring Indian Economy (CMIE), India's currency appreciated in December both in NEER and REER terms (Nominal Effective Exchange Rate / Real Effective Exchange Rate). The trade-based NEER and REER both gained 0.7% month-on-month each. On a year-on-year basis the export based REER (against a basket of 36 currencies) gained 2.9%.

6.RBI holds rates, tweaks growth forecasts
In its policy review in December, the Reserve Bank of India (RBI) held interest rates but continued with an accommodative stance. The RBI also chose to overlook the transitory impact post demonetization and hinted at gradual (not aggressive) easing ahead, provided macro variables are favourable. The RBI projected March-17 inflation at 5% with upside risks whilst FY17 GVA growth was reduced to 7.1% (from 7.6%).

7.Bank credit growth bottoms further, credit cycle on the cusp of an upturn
India's bank credit growth declined even further to 5.8% yoy in December, an all-time low (chart 2). This was on the back of the recent temporary effects of demonetization resulting in a decline in credit demand. India has been on the cusp of an upturn in the credit cycle; with a clear bottoming of the cycle, from here on any upturn is deemed to provide fuel for asset markets particularly equities.