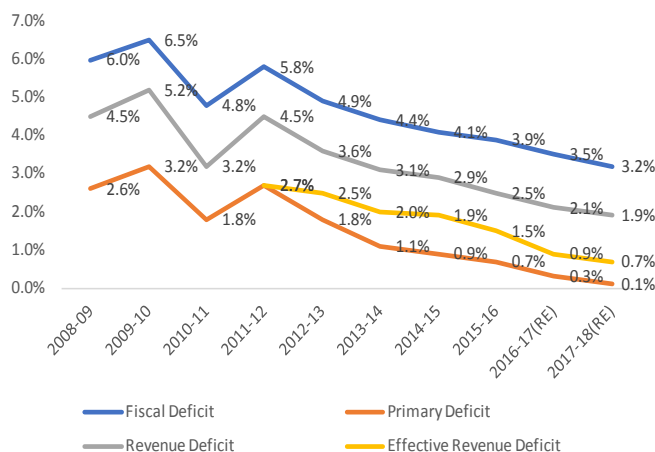
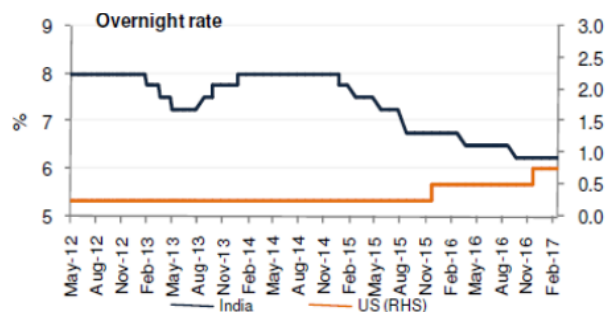


India Fiscal Deficit Trends (% of GDP)



Source: Union Budget

India Benchmark Repo Rate vs. US Overnight Rate



Source: RBI, Bloomberg, UTI MF

Note: Due to the Chinese New Year Holidays and much awaited events such as the India Budget, this report combines the key updates of January and February.

1. India finalises Union Budget for 2017-18, commits to a lower fiscal deficit trajectory

Finance Minister Arun Jaitley released India's Budget on February 1st 2017, targeting a fiscal deficit of 3.2% of GDP for FY18 and fiscal consolidation thereafter towards 3.0% in FY19 and FY20. Expenditure is focused on key social sectors including rural development and agriculture, education and transport. Creation of housing, push for infrastructure spending and employment creation, as well as partial distribution of wealth were also cited as growth supportive items on the agenda. Share of capital spending is set to increase by 24.5%. Gross borrowings of the government remain stable and a slight reduction in income tax was announced for the lower income bracket.

2. Push for infrastructure amplified with a spending allocation of nearly US\$60 billion

Infrastructure spending was a major theme in the Budget, with a focus on transportation upgrade. Moody's deemed the push for higher public investment as credit positive. Out of the \$60 billion (3.96 trillion rupees), approximately US\$36 billion will be allocated to roads, railways and ports. The railway budget increased by 8.3% from the previous year and highway construction is planned to rise from a rate of 27km per day to 41km per day.

3. The GST Council ensures GST laws are passed, a step closer to 1st July rollout

The GST Council (Goods & Services Tax) met in February to ensure that essential laws/legislations were passed in order to stick to a rollout deadline of 1st July. Although this was deferred from the original rollout deadline of 1st April, it was deemed as a more realistic timeline. The legally vetted drafts of three GST enabling bills - Central GST, Integrated GST and Compensation to states is now tabled for parliamentary ratification in March.

4. GDP numbers for 3QFY17 printed at a healthy 7.0%, GVA (Gross Value Add) at 6.6%

India recorded healthy growth numbers despite the effects of demonetization, reflective of strong trends in agriculture and in industries capturing the organized sector (which was less affected by demonetization versus the unorganized sectors). The services sector marked a slowdown. The 7.0% GDP print although lower than the previous quarter's print of 7.4%, beat market expectations of 6.0% growth.

5. Reserve Bank of India (RBI) pauses in its rate cut cycle, core inflation remains sticky

In its February monetary policy review, the RBI left the benchmark repo rate unchanged at 6.25% and adopted a neutral policy stance (from accommodative), citing upside risks to inflation. Further cuts are contingent upon this year's monsoon and further transmission of policy rate cuts through to lower lending rates at banks, which will in turn revive credit growth. The RBI stuck to its medium-term inflation target of 4% (plus/minus 2%), slightly lowered its FY17 growth forecast but remained upbeat on FY18 projections.

6. India's market regulator SEBI approves IPO of Asia's oldest stock exchange

The BSE (Bombay Stock Exchange) received approval for its IPO. Existing shareholders plan to sell nearly 30 million shares via the offer for sale route. Around 262 shareholders agreed to sell their shares including SGX (Singapore Exchange Limited) which will completely exit its 4.7% stake. The divestment efforts are positive for India's exchange business as it will encourage more retail investor participation.

7. Tax data positive despite demonetization, underscores more transparent GDP reporting

Both direct and indirect taxes levied by the Indian government showed good growth, suggesting that the worst of demonetization is over. Indirect tax collections grew 25% from April to December, direct tax collections were up over 12%.

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