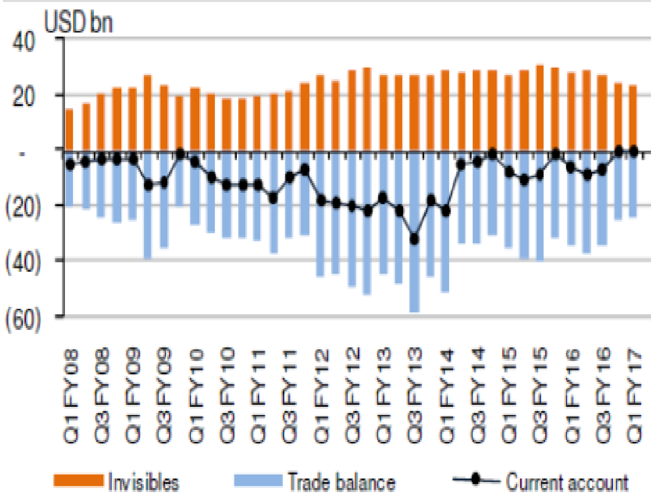
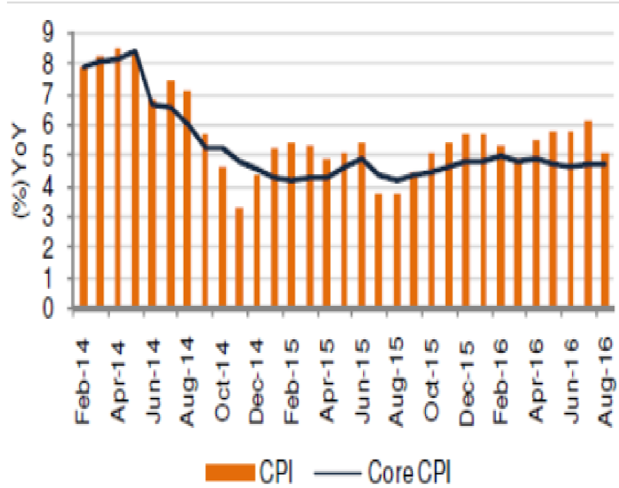
Monthly Political & Economic Updates
Sep 2016

India's current account position



Source: CSO, UTI MF Research

India Inflation – CPI and Core CPI (%, year-on-year)



Source: Office of Economic Advisor, MOSP, UTI

1.India's current account deficit narrows further in the first quarter of FY17
India's current account deficit narrowed to $0.3 billion (0.1% of GDP) in the first quarter of the financial year from $6.1 billion (1.2% of GDP) a year ago. The financial account was supported by FDI inflows worth $4.1 billion and foreign institutional investor (FII) flows of $2.1 billion. The current account overall has benefitted from low commodity prices (lower trade deficit due to a lower import bill).

2.August inflation eases – supportive of further monetary easing
The headline consumer price index inflation (CPI) came in at 5.05% in August versus 6.07% in July. The headline rate lost 100 bps on the back of easing pressure on food prices. Broadly, key trends indicate a sharp fall in the food price index, moderation in fuel prices and also steady core inflation.

3.Indian assets witness highest inflows in 11 months from FIIs
According to data from the CDSL, foreign institutional investors bought $1.6 billion worth of equities and $1.5 billion worth of bonds in September. Foreign investors are increasingly comfortable with monetary easing supporting the case for Indian assets, the pace of recent reforms and stronger macro fundamentals.

4.Union Cabinet approves merger of Railway Budget, marking the biggest reform in the sector
After years of presenting separate budgets, the Union Cabinet approved the merger of the Railway budget with the General budget (with effect in the next financial year, 2017-18). This implies an instant saving for the stressed Railways sector of approx. $1.5 billion, as Indian Railways will no longer have to pay the annual dividend to the central government of India on the budgetary support.

5.Moody's affirms further positive developments in India
Moody's stated that the reforms undertaken by the Indian government will help boost investor confidence and bolster growth potential, although cautioned that muted private investment and banking sector risks could remain a constraint on India's sovereign rating. However, Moody's also said that India's banking system is moving past the worst of its asset quality down cycle.

6.Overall industrial output falls to an eight-month low, infrastructure output rises
The Index of Industrial Production (IIP) for July fell to an 8-month low of -2.4% year-on-year, a reversal of the 2% growth registered in June. Mining, Manufacturing and Electricity exhibited weaker production growth rates. This provides even more reason for the central bank to maintain an accommodative stance to support domestic growth. Meanwhile India's core industries' output (infrastructure sectors) which comprise close to 38% of the IIP, rose by 3.2% in August, up from 3% in July.

7.India moves up in the Global Competitiveness Index
In the World Economic Forum's Global Competitiveness Index, India climbed up the ranks by 16 places to 39th globally, among 138 countries, making it the fastest riser in the survey.