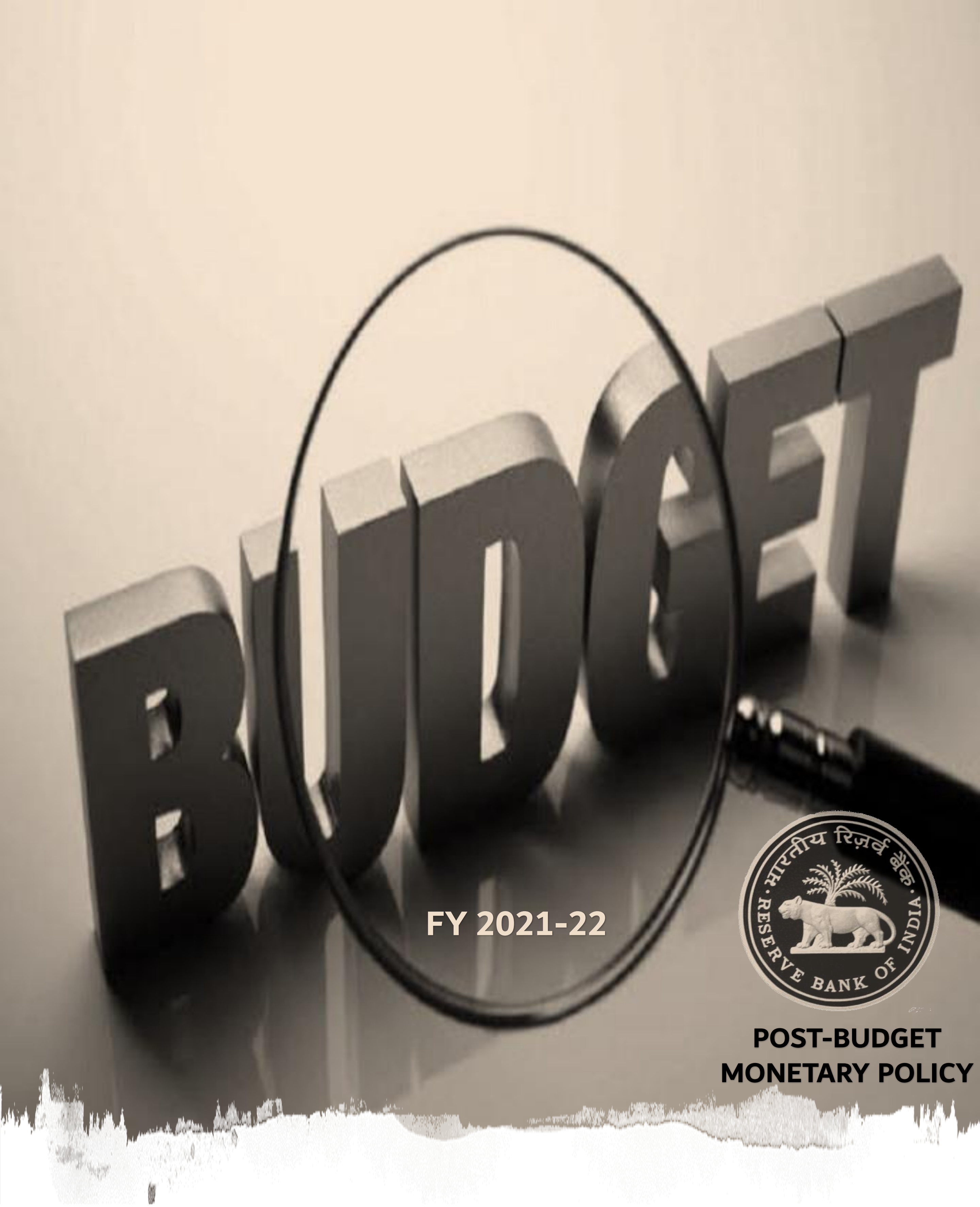


FY 2021-22

POST-BUDGET MONETARY POLICY

TALKING POINTS

FEBRUARY 2021

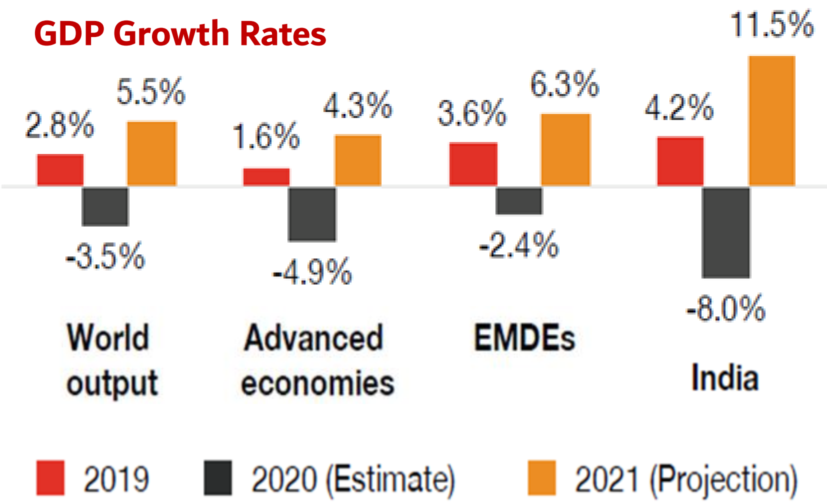
atom privé
WEALTH MANAGEMENT

PRO-GROWTH

The first week of February 2021 was an action-packed one on the Policy front, with the Union Budget on 1st Feb and RBI Policy announcement on 5th Feb.

The government and the RBI, authorities for Fiscal and Monetary Policies respectively, have focused on growth with a dash of conservative approach.

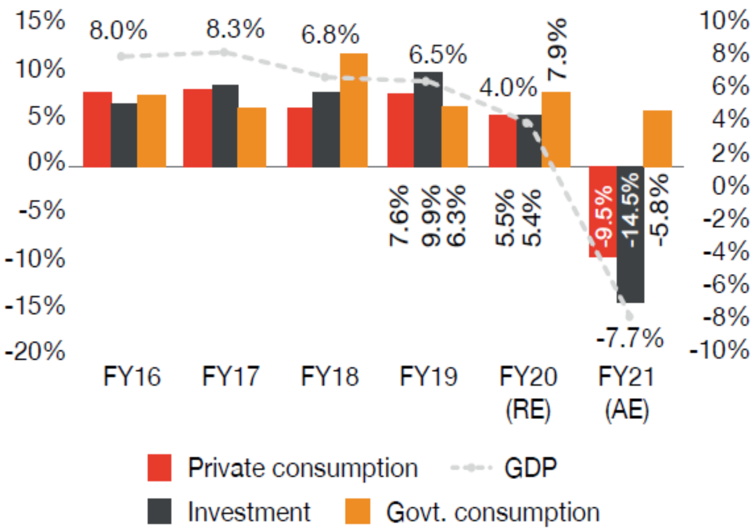
GDP Growth Rates



Source: World Economic Outlook (January 2021); IMF/ PWC

India's macroeconomic scenario was tough when Covid hit the country. A combination of slow growth, higher inflation and tight fiscal conditions were pushing the country into a tight spot. The lockdown conditions hit the Indian middle class, poor and migrant populations hard. Given the various challenges, the expectations from the Union Budget and the RBI Policy for reviving growth and sentiments, were high.

Annual GDP growth and demand components at constant prices



Source: World Economic Outlook (January 2021); IMF/ PWC

BUDGET FY 2021-22

"Faith is the bird that feels the light when the dawn is still dark."

Hon'ble Finance Minister Mrs. Nirmala Sitharaman started her budget speech with this quote from Rabindranath Tagore

Laying a vision for Atmanirbhar Bharat, Mrs. Sitharaman focused on six key pillars – health and wellbeing, physical and financial capital and infrastructure, inclusive development for aspirational India, reinvigorating human capital, innovation and R&D, and minimum government - maximum governance.

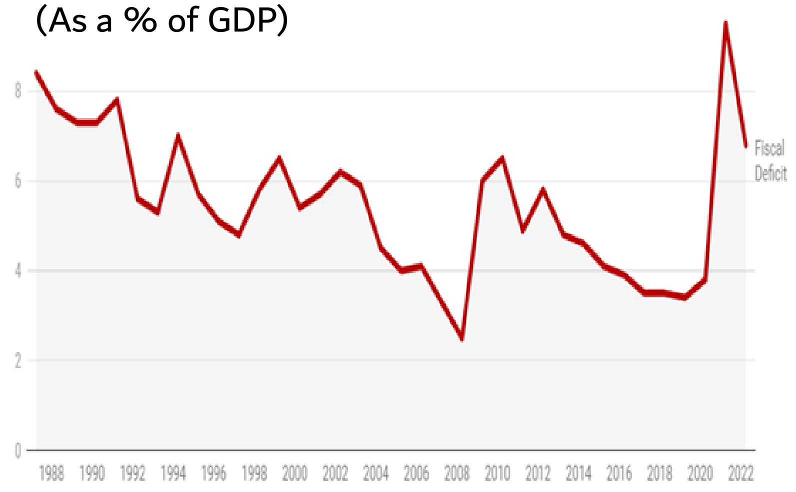
With an aim to provide the impetus for growth revival, the Budget has largely focused on aspects of key areas such as infrastructure boost, support for the MSMEs, skill development, healthcare improvement, etc.

The government, in the last decade, has walked on the path of fiscal prudence, largely focusing on targets set by FRBM Act. However, given the backdrop of slowing growth, an effective fiscal intervention was required to revive growth.

While sticking to FRBM in FY21 was a near impossibility given the disruption in economic activity due to the lockdown, the government's intent of growth even at the cost of Fiscal prudence is clear in the budgeted fiscal deficit of 6.8% in FY22, and also relaxing the target of bringing down fiscal deficit to less than 4.5% by FY26 (earlier target of ~3% by FY23).

Fiscal Deficit Trajectory

(As a % of GDP)

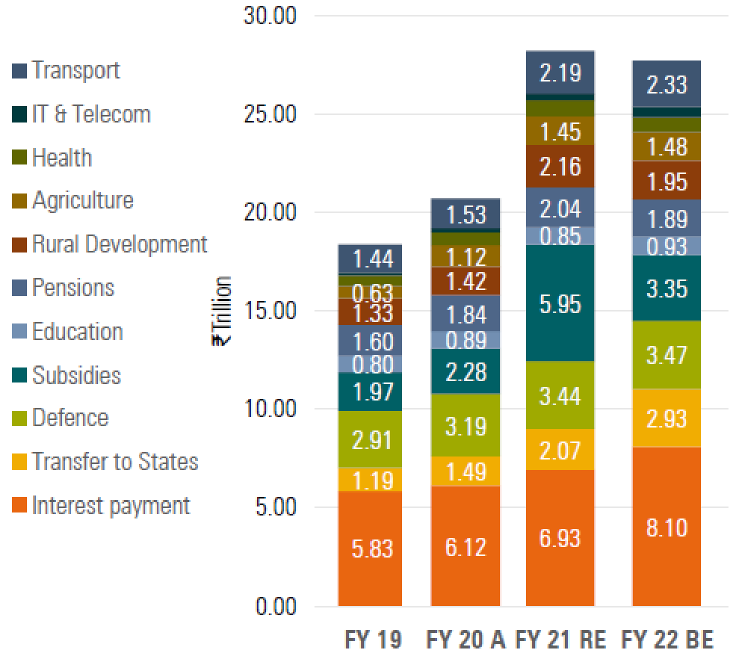


Source: Bloomberg Quint

Here is a look at some of the key budget numbers and estimates:

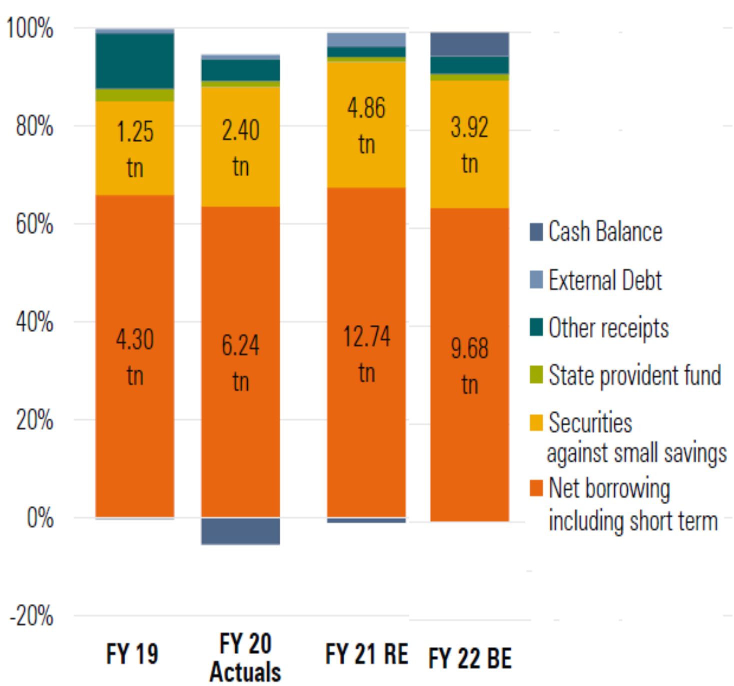
On the Expenditure front, the government has clearly prioritized Agri, Subsidies, Transport and other sectors that could generate employment. The concerning part is the ballooning of the interest payment bill that takes the lion's share of the expenditure.

Expenditure (Excluding Capital Expenditure)



Source: World Economic Outlook (January 2021); IMF/ PWC

Funding of the Fiscal Deficit



Source: World Economic Outlook (January 2021); IMF/ PWC

One of the key aspects of the budget is increased transparency on two fronts.

Government spend on Food Subsidy for FCI was partially funded by loans from National Small Savings Fund. This 'off balance sheet' arrangement did not increase the Fiscal Deficit.

Going forward, the Food Subsidy will reflect in the Budget and the government is planning to repay the dues to NSSF. Factoring this new arrangement, the growth in Expenditure is not, in reality, as spectacular it was made out to be.

Another measure of stopping the mobilization under the Government Fully Serviced Bonds, used to fund schemes of several Ministries, will result in a Budget that is relatively a truer reflection of the actuals.

On the impact of the measures for various sectors, here is a brief note - in alphabetical order:

01 ***Auto:***

Positive Impact.

Implementation of Vehicle Scrappage Policy is key.

Also, the allocation to new buses would help bus manufacturers.

02 ***Banks:***

Positive Impact.

Bank Recap, Privatization, setup of “Bad Bank”, Strengthening NCLT.

03 ***Consumer:***

Positive Impact for Precious Metals.

Cut in customs duty.

04 ***Defense, Education:***

Positive Impact.

Increased outlays. Key is implementation at a fast and efficient pace.

05 ***Healthcare and Infra:***

Big Positive.

With key verticals within these sectors standing to benefit from various proposals.

06 ***IT Services, Pharma, FMCG:***

Largely Neutral. No major changes

07 ***Metals:***

Negative Impact.

Due to reduction of customs duty on steel, steel scrap and copper scrap. However, this measure might benefit the user industries.

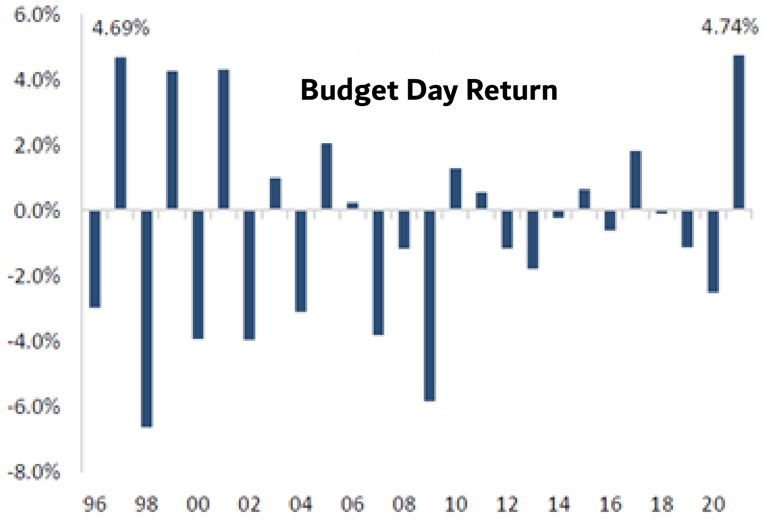
08 ***Real Estate:***

Marginally positive.

Affordable housing policy should help key players.

EQUITY MARKETS SCENARIO

The Equity markets reacted positively to the budget announcements. The confluence of a credible budget without significant increase in taxes, short covering, correction over a 10-day period before the budget and global factors, resulted in the best budget day returns in the recent past.



Source: Bloomberg

Given below are the returns for major global markets. The markets continue on the path of strong rebound (from lows of Mar '20).

Index	YTD	1 year	3 year
FTSE 100	0.45%	-13.09%	-10.85%
Shanghai	0.67%	21.57%	5.65%
Dow Jones	1.77%	7.03%	25.13%
CAC 40	1.94%	-6.14%	7.67%
DAX	2.46%	4.02%	11.65%
Nikkei 225	4.86%	20.78%	32.96%
BSE Sensex	6.24%	23.31%	48.85%
Nifty 50	6.74%	23.36%	42.45%
Taiwan Weighted	7.26%	36.08%	49.76%
Nasdaq	7.51%	45.54%	96.49%
Hang Seng	7.56%	6.88%	-3.41%
KOSPI	8.60%	41.08%	30.21%

Returns in Local Currency. As of end of day 5th Feb 2021

Absolute Returns

With the bears in hiding, the bulls might have more steam left.

This trend may be reversed by a sharp increase of interest rates, collapse in confidence of markets in central banks, collapse of USD, geopolitical conflicts – all of which appear to be 'conspiracy theories' as on now. The maxim of "borrowing our way to prosperity" continues to work.

We expect the markets to at least take a "time correction" pause if not a "price correction" from the current levels.

DEBT MARKETS SCENARIO

The debt markets on the other hand have had tough days since the beginning of this year.

The rising interest rates have resulted in many of the debt funds giving a negative yield in the month of Jan '21.

To meet the Fiscal Deficit, the Government has to borrow more.

For FY 20-21, the government will borrow 12.8 lakh crore against the earlier estimate (made in Feb '20) of 7.8 lakh crore. The Govt plans to borrow 80,000 Cr in next two months (Feb and Mar '21) and must continue to borrow high amounts well into next financial year.

This Budget announcement resulted in Interest rates going up for Government Securities. A rising interest rate scenario hits the bond prices. Debt Mutual Fund NAVs also suffer accordingly.

Source: Investing.com

MONETARY POLICY IMPACT

RBI's decision on the repo rate and accommodative stance was largely in line with market expectation.

However, given the borrowing program of the Government in Union Budget 2021-22, the expectations that RBI will announce certain measures to reduce the borrowing pressure were not fulfilled. Markets were disappointed, and yields rose by 5-15 bps with 10-year and 5-year benchmark hitting a multi-month high. We expect yields to trend higher and plateau once the news flow is absorbed by the market.

As the accruals of the mutual funds are reset at a higher mark, it will enhance the returns of the investors and returns would normalize over the next few months.

As the RBI Governor said, "It is during our darkest moments that we must focus on light", the government and RBI have set the ball rolling and the markets have welcomed these moves. 2021-22 will be a year of spring, taking us back to normalcy, recovery of demand and hopefully, back to a life as we knew it.

HERE'S TO A HEALTHY, SAFE AND A GREAT MONTH AHEAD!

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Data Sources: Union Budget Analysis by PWC, Deloitte, HDFC AMC, IDFC AMC, Morningstar, Bloomberg Quint