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MONTHLY MACRO REVIEW

FEBRUARY 2023

BONANZA WEALTH

UNION BUDGET FY2023-24

The Finance Minister, Mrs. Nirmala Sitharaman presented the Union Budget FY 2023-24 on 1st Feb 2023.
The seven priorities of the budget were Inclusive development through reforms in agriculture and co-operatives, health, education and skilling; Reaching the last mile through reforms in micro-irrigation, schooling and digitization; Infrastructure and investment through capex in railways and infrastructure projects; Unleashing the potential via Make AI in India initiative, R&D grants, 5G services labs etc; Green growth through sustainable ecosystems, green credit programs and other initiatives; Youth power through promotion of One District One product initiative, tourism boosting measures; and Financial sector focus through small savings schemes and credit guarantees for MSMEs.

Some of the achievements mentioned in the budget include India becoming the 5th largest economy in the world, surpassing the UK in 2022; digital payments of Rs 126 lac crores in 2022; 11.7 crore toilets constructed under SBM, 9.64 crore LPG connections under Ujjawala, 220 crore Covid vaccinations of 102 crore persons, 47.8 crore PM Jan Dhan bank accounts and Rs 2.2 lac crores direct transfer to farmers.

Some of the noteworthy announcements include:

- Modification of tax slabs under the new income tax regime
- Rebate under section 87A has been hiked from Rs 5 lakh to Rs 7 lakh under new regime
- Highest surcharge rate on income above Rs 5 crore to be reduced from 37% to 25% under new regime
- Maximum deposit limit for Senior Citizen Savings Scheme to be enhanced to Rs 30 lakh from Rs 15 lakh
- Fiscal deficit target of 6.4% retained in the Revised Estimate for FY23; reduced to 5.9% for FY24
- Capital Expenditure increased 33.4% to Rs 10 lakh crore (3.3% of GDP)
- Continuation of 50 year interest free loan to State Governments to incentivize infrastructure investment
- Compressed Bio Gas (CBG)-GOBARDHAN to promote circular economy-200 CBG plants and 300 community and cluster based-investment of 10000 crore
- Rs 35,000 crores priority capital for the energy transition
- National Green Hydrogen mission with an outlay of Rs 19,700 crore
- Defence budget increased to Rs 5.94 lakh crore from last year's Rs 5.25 lakh crore
- Rs 1.62 lakh crore set aside for capital expenditure including purchases of new weapons, aircraft, warships and other military hardware
- Revamped credit guarantee for MSMEs to take effect from Apr 1, 2023 with infusion of Rs 9,000 crore in corpus
- Phase 3 of E-courts projects to be launched with outlay of Rs 7,000 crore
- 50 additional airports, helipods, water aero drones, advanced landing grounds will be revived to improve regional air connectivity
- Outlay for PM Awaas Yojana enhanced 66% to over Rs 79,000 crore
- Tribals to get Rs 15,000 crore over next three years for safe housing, sanitation, drinking water, and electricity

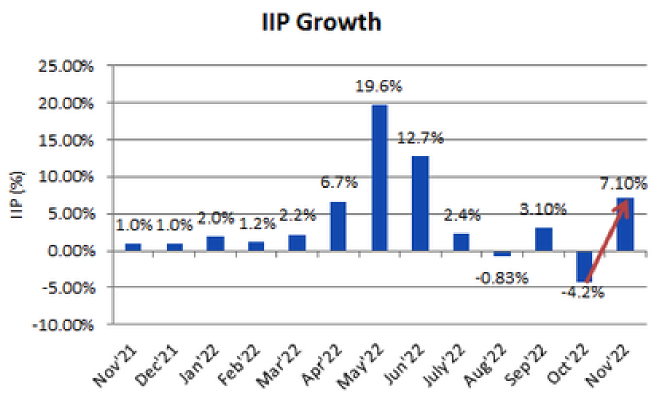
Concluding Remarks:

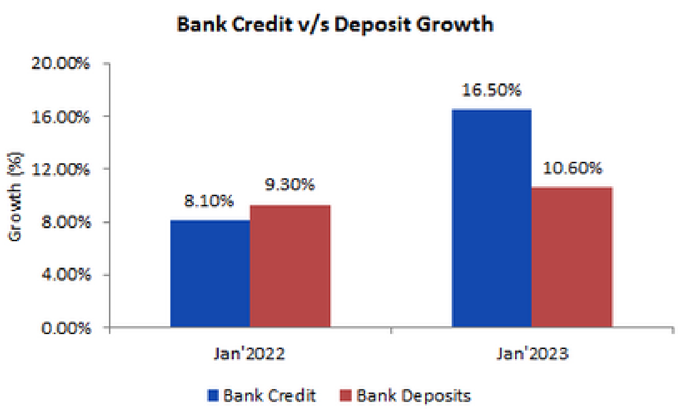
The Union Budget presented by Mrs. Nirmala Sitharaman on 1st Feb 2023 was a well-balanced budget with an orientation towards growth. The budget included both demand inducing announcements as well as supply side reforms. On the demand side, putting more money in the hands of the individuals by lowering effective personal income tax rates should lead to increase in consumption and consequently lead to more demand. The revamping of the credit guarantee scheme through infusion of Rs 9,000 crore should enable additional collateral-free guaranteed credit of Rs 2 lakh crore and reduce the cost of credit by 1%, leading to higher demand for MSME loans in an elevated interest rate environment. On the supply side, another large allocation to Capital Expenditure (reaching an all-time high of 3.3% of GDP), will help in hastening the development and infrastructure-oriented projects and in turn benefit employment and growth of the economy. At the same time, the reduction in fiscal deficit and lower borrowing will help crowd-in private investment. On the other hand, custom duty relaxation on various products are likely to provide support to the manufacturing sector. Overall, the budget was progressive and one which had something in it for everybody including the individual and the industries.

Allocation for Specific Ministries	**in Rs Lakh Crore**
Ministry of Defence	5.94
Ministry of Road Transport and Highways	2.70
Ministry of Railways	2.41
Ministry of Consumer Affairs, Food and Public Distribution	2.06
Ministry of Home Affairs	1.96
Ministry of Chemicals and Fertilizers	1.78
Ministry of Rural Development	1.60
Ministry of Agriculture and Farmer's Welfare	1.25
Ministry of Communications	1.23
Allocation to Major Schemes	**in Rs Crore**
Development of Pharmaceutical Industry	1,250
Eklavya Model Residential Schools	5,943
Jal Jeevan Mission	70,000
Pradhan mantri Awas Yojana	79,590
Scheme for Faster Adoption and Manufacturing of Evs (FAME)	5,172
North East Special Infrastrucrture Development Schemes	2,491

IIP GROWTH

Industrial growth bounced back sharply in Nov'22 at 7.1% YoY as compared to contraction of -4.2% in Oct'22 driven by robust growth momentum in Mining and Manufacturing. Mining grew by 9.7% YoY while manufacturing grew by 6.1% YoY. Electricity also grew by 12.7% YoY, however, on a monthly basis, electricity output declined by 1.5%. Moreover, the overall IIP numbers benefitted from a lower base as high prices and shortages of raw materials had hampered production in Nov'21. The capital goods sector, which is seen as a gauge of investment activity rose 20.7% YoY in Nov'22, while the consumer durables and non-durables sectors also rose sharply after continued slow growth during the past few months. The recovery in IIP is less likely to sustain as high frequency indicators slowed down in Dec'22 as against Nov'22. An early festive season in 2022 as compared to previous year means the upcoming numbers are likely to compare with an unfavorable base. Also, consumer sectors are likely to face headwinds in an elevated inflation and a high interest rate environment.



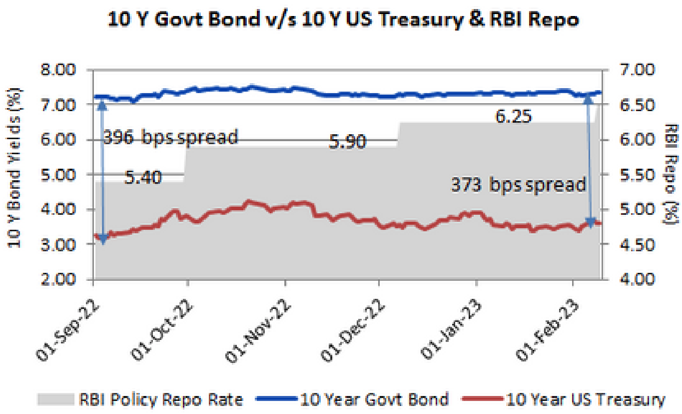


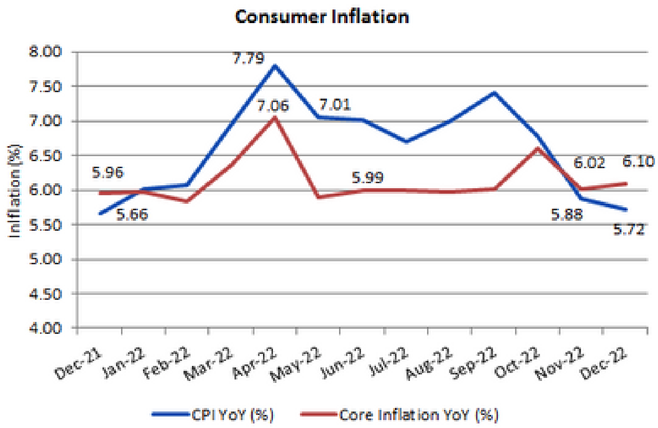
CREDIT GROWTH

Outstanding bank credit rose by 16.5% for the fortnight ended 13th Jan'23 as compared to just 8.1% in Jan'22. On the other hand, aggregate deposits rose by 10.6%, higher than last year's 9.3%. On an absolute basis, outstanding bank credit stood at Rs 132.8 lakh crore while bank deposits stood at Rs 176.7 lakh crore. The banks' credit growth has consistently been rising for the past eight months. Sustained pick up in bank credit growth reflects the continuation of firm demand for loans in the economy. On the other hand, higher rate of deposit growth persists as banks have begun to pass on the RBI's rate hikes. However, the growth in deposits has come from costly term deposits as lenders have seen a decline in low-cost deposits. Banks have started to aggressively increase rates to garner more deposits to support the loan growth.

INFLATION

Consumer Price Inflation (CPI) declined for the second consecutive month to 5.72% in Dec'22 as compared to 5.88% in Nov'22 on the back of double digit deflation in vegetable prices. On the other hand, inflationary pressures accentuated across cereals, protein-based food items and spices. Fuel inflation edged up primarily from an uptick in kerosene prices. Core CPI (i.e., CPI excluding food and fuel) inflation rose to 6.1% in Dec'22 due to sustained price pressures in health, education and personal care and effects. Although headline CPI has come down to within RBI's target range of 2-6%, sticky core CPI continues to remain a concern. Going forward, Commodity prices are expected to face upward pressures with the easing of COVID-related mobility restrictions in some parts of the world. The ongoing pass-through of input costs to output prices, especially in services, could continue to exert pressures on core inflation. Given this scenario, an unfavorable base and factoring in the current decline in commodity & food prices, we expect CPI to fall within the range of 5.8% to 6.1% in Jan'23.



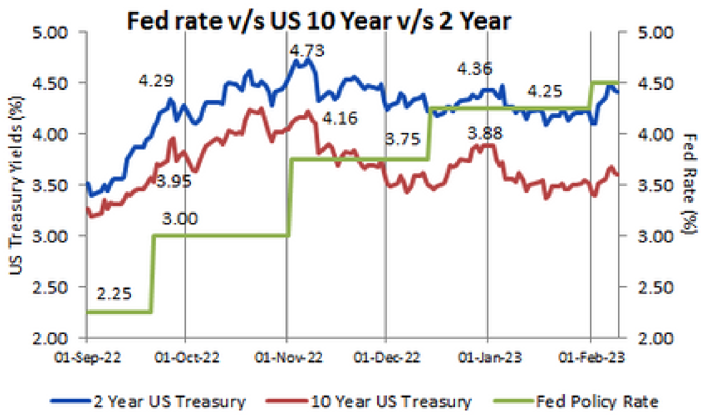


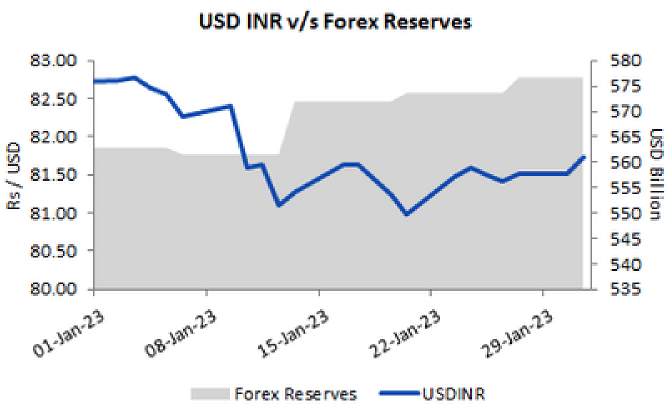
MONETARY POLICY

The RBI's Monetary Policy Committee (MPC) hiked the repo rate for the sixth time in a row, this time by 25 bps to 6.50%. The hike comes on the back of the US Fed's hike on Feb 1. The MPC issued a warning that although inflation had fallen back within the 2-6% range, the risks of higher core inflationary pressures remain. Hence, the MPC was of the view that further calibrated monetary policy action is warranted to keep inflation expectations anchored, break core inflation persistence and thereby strengthen medium-term growth prospects. For FY24, the RBI projected inflation at 5.3% and GDP at 6.4%. Going forward, given a relatively weak global growth scenario, the RBI will have to make calculated rate hikes in order to strike a fine balance between inflation and growth. At the same time, the RBI will also have to closely watch the US Fed's interest rate decisions.

FED DECISION

The US Federal Reserve hiked interest rate in US by 25 bps hike in its 1st Feb announcement, raising the federal funds rate to a target range of 4.50%-4.75%. The Fed Chairman, Jerome Powell cautioned that inflation remained elevated and that substantially more evidence would be required to be confident that inflation is on a sustained downward path. Markets, however, were looking for signs that the Fed would be ending the rate increases soon. But the statement provided no such signals. At first, stocks fell in the wake of the announcement, with the DJIA tumbling more than 300 points. However, the markets rebounded during Powell's press conference, after he acknowledged that "the disinflationary process" had started. The Fed's statement noted that it still sees the need for "ongoing increases in the target range" and that the "extent" of future rate increases would be based on factors such as the effects of rate hikes, developments in financial conditions and the economy.



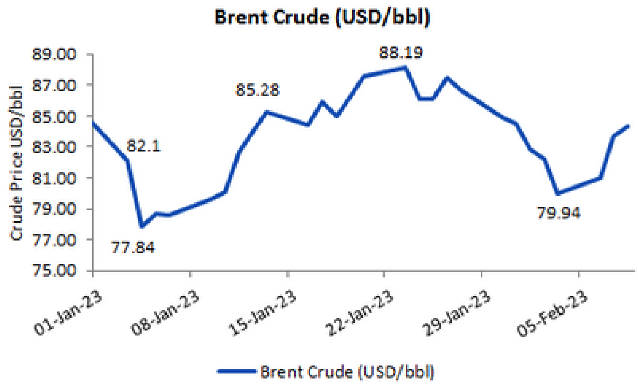


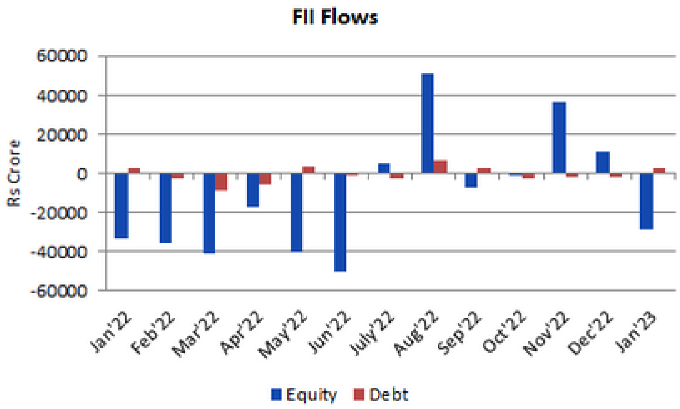
RUPEE MOVEMENT

In the month of Jan'23, the Rupee appreciated by 1.2% against the dollar. The Rupee, which started the month at 82.72 / USD appreciated to 81.74 / USD at month end even as RBI bolstered the forex reserves by approx. $14 billion in Jan'23. The Rupee gained strength during Jan'23 as weak economic data in the US fueled worries over growth outlook and raised further hopes that the US Fed's aggressive rate hikes are likely to have come to an end. US Treasury yields plunged as investors became more convinced that the Fed is nearing the end of the current rate hiking cycle. Going forward, the direction of the Rupee is likely to be determined by the dollar index levels, the extent of the widening of the current deficit, commodity prices and global growth scenario.

CRUDE OIL

Brent crude prices traded in the range of $77.84 per barrel to $88.19 per barrel in Jan'23. Oil prices fell by more than 5% at the start of the month, posting the steepest percentage loss in the first two trading days of any year for over 3 decades, as investors worried about fuel demand on slowing global growth and growing Covid-19 cases in China. On the other hand, OPEC oil output rose in Dec'22, despite an agreement by the wider OPEC+ alliance to cut production targets to support the market. However, prices bounced back mid-month on weakening dollar and improving mobility indicators in China. Prices reversed direction again at the end of the month after strong US jobs data raised concerns about higher interest rates even as investors sought more clarity on the imminent EU embargo on Russian refined products. Going forward, crude prices are likely to remain subdued on account of uncertainty in the global economy while Fed maintains its focus on taming inflation in US.



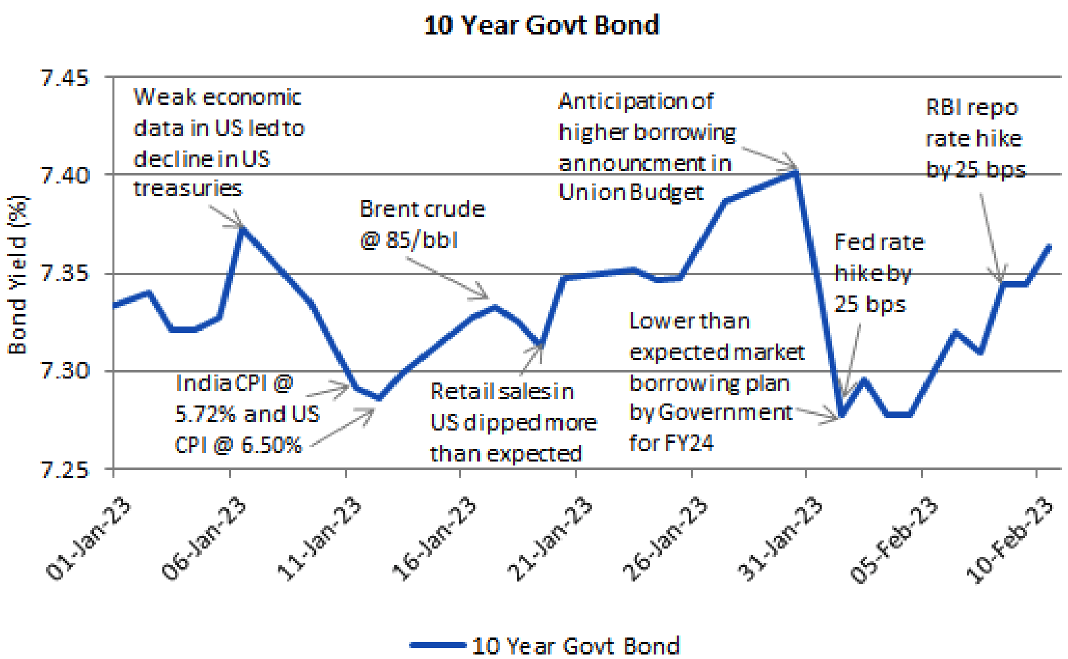


FOREIGN FLOWS

January witnessed net FII outflows to the tune of Rs 26,544 crore. Out of this, equity flows reversed direction and saw outflows at Rs 28,852 crore whereas the debt segment saw inflows of Rs 2,455 crore. In the first half of Jan'23, FPIs were net buyers into materials, capital goods, commercial & professional services and healthcare. FPIs were net sellers into financial services, software & services, energy, telecommunication services, and automobile & components. As the month progressed, FPIs increased their appetite for debt instruments when equity markets remained volatile on concerns of economic slowdown and sentiments in anticipation of Union Budget 2023-24. The equity outflow for the month of Jan'23 was highest since Jun'22. FPI outflows for the period Jan'22 - Jan'23, stood at Rs 1.59 lakh crore.

10 YEAR BENCHMARK GOVERNMENT BOND YIELDS:

Yields on the 10-Year benchmark bond – 7.26% GS 2032 – traded in the range of 7.28% to 7.40% in Jan'23. Yields wobbled in the range of 7.28% to 7.35% for most of the month alternating between the lower end on news of weak global economic data coupled with easing inflation figures and the higher end on rise in crude prices. However, yields inched higher at 7.40% towards the end of the month in anticipation of higher market borrowing announcement in the Union Budget. Eventually, yields declined below 7.30% after the Government announced lower-than-expected market borrowing numbers and fiscal deficit target of 5.9% for FY24, 50 bps lower than the numbers for FY23. To finance the fiscal deficit in FY24, the Government estimated the net market borrowings from dated securities at Rs.11.8 lakh crore. The balance financing is expected to come from small savings and other sources. Yields have adjusted on the slightly higher side after the US Fed and the RBI hiked the respective policy rates by 25 bps each. Going forward, the direction of yields will mostly be driven by the inflation data and anticipation around further rate hikes. With the rate hikes nearing their peak, the yields are likely to trade in the range of 7.25% to 7.45% in the month of Feb'23.



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