

**RESEARCH**
**BOB Economics Research | Union Budget 2021-22**

Big push for investments

**BOB Economics Research | Weekly Wrap**

Focus shifts to Budget and RBI policy

**SUMMARY**
**India Economics: Union Budget 2021-22**

The FM surprised by increasing FY21/22 fiscal deficit to 9.5%/6.8% of GDP from 4.6% of GDP in FY20. Spending in FY21 is 28.4% higher than FY20 led by subsidies, MNREGA, health and capex. Capex has got a boost even in FY22 with a 26.2% increase. This along with setting up of an infra bank will boost India's infra sector. Two PSBs and an insurance company were added to disinvestment list. While equity markets rallied, bond yields inched up on gross borrowing of Rs 12.1tn. We expect yields to increase further in FY22.

[Click here for the full report.](#)
**India Economics: Weekly Wrap**

Global equity markets fell on the back of concerns over vaccine rollout. US 10Y yield fell as Fed indicated continuation of lower rates. China's short-end yield rose by 36bps as liquidity dried up. Indian yields were stable ahead of the Budget but equity markets fell led by FPI outflows. Economic Survey called for higher deficits to spur growth with FY20 GDP growth revised lower to 4% from 4.2% earlier. Our fiscal deficit estimate for FY22 stands at 5.3% of GDP implying net borrowing of Rs 8.5tn. RBI to keep policy rates on hold.

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**TOP PICKS**
**LARGE-CAP IDEAS**

Company	Rating	Target
<a href="#">Cipla</a>	Buy	1,000
<a href="#">GAIL</a>	Buy	155
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">TCS</a>	Buy	3,710
<a href="#">Tech Mahindra</a>	Buy	1,130

**MID-CAP IDEAS**

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,600
<a href="#">Greenply Industries</a>	Buy	150
<a href="#">Laurus Labs</a>	Buy	480
<a href="#">Transport Corp</a>	Buy	300
<a href="#">Mahanagar Gas</a>	Sell	750

Source: BOBCAPS Research

**DAILY MACRO INDICATORS**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.07	2bps	13bps	(44bps)
India 10Y yield (%)	5.91	1bps	2bps	(70bps)
USD/INR	72.95	0.1	0.7	(2.2)
Brent Crude (US\$/bbl)	55.88	0.6	9.4	(3.9)
Dow	29,983	(2.0)	(1.2)	6.1
Shanghai	3,483	(0.6)	3.1	17.0
Sensex	46,286	(1.3)	(2.8)	13.7
India FII (US\$ mn)	28 Jan	MTD	CYTD	FYTD
FII-D	31.7	(472.6)	(472.6)	(4,566.2)
FII-E	(517.5)	2,573.7	2,573.7	32,549.5

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

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## UNION BUDGET 2021-22

01 February 2021

**Big push for investments**

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**Fiscal deficit at 9.5% in FY21:** To cushion the impact of pandemic, the Centre increased its fiscal deficit to 9.5% of GDP in FY21 (RE) compared with 4.6% of GDP in FY20. Spending has been increased to Rs 34.5tn in FY21 (RE) (17.7% of GDP) compared with Rs 26.9tn in FY20 (13.2% of GDP). Higher spending is attributed to subsidies, interest pay-out, health, MNREGA and capex.

**FY22 revenue estimates achievable:** After a decline of 5.5% in gross tax collections in FY21 (RE), tax collections are estimated to increase by 16.7% in FY22 (BE). The increase is led by direct taxes which are estimated to go up by more than 22% on the back of nominal GDP growth of 14.4% and a low base. In addition, non-tax collections are estimated to increase by 15.4% with pick-up in dividends and 5G auction. Disinvestment receipts are estimated to increase to Rs 1.75tn from Rs 320bn in FY21 (RE).

**Capex spending in focus in FY22:** Centre's capex is estimated to increase to 2.3% of GDP in FY21 (RE) from 1.7% of GDP in FY20. This will further increase to 2.5% of GDP in FY22 (BE). More importantly, the Centre has allocated Rs 200bn for setting up a National infra Bank with ambition of an asset base of Rs 5tn over 3 years. This implies a large push in infra spending in coming years. In addition, public sector banks will be able to off-load bad debts to asset reconstruction company to be set up next year.

**Fiscal Deficit at 6.8% in FY22:** The revenue estimates for FY22 look credible. However, the elevated gross and net borrowing in FY21 and now at Rs 12.1tn and Rs 9.2tn respectively in FY22 (BE) will put upward pressure on yields. Centre is reducing short-term and NSSF borrowing in FY22. Short-term yields have already moved up after RBI began normalisation of reverse repo operations. Given the fiscal impulse, we don't see any policy rate cut in FY22.

**KEY HIGHLIGHTS**

- Investments, capex and asset monetisation key themes of FY22 Budget.
- Fiscal deficit for FY21/FY22 estimated at 9.5%/6.8% of GDP.
- Gross/net borrowings in FY22 estimated at Rs 12.1tn/Rs 9.2tn.



## WEEKLY WRAP

01 February 2021

**Focus shifts to Budget and RBI policy**

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**Markets**

- **Bonds:** 10Y US and German yield inched lower. US Fed indicated lower rates likely to stay. China's 10Y yield rose by 6bps while 2Y yield shot up by 36bps as liquidity crunch is pointing towards tighter policy stance by PBOC. India's 10Y yield ended flat ahead of Budget. Economic Survey called for counter cyclical fiscal policy to support growth. RBI conducted 14-day reverse repo of Rs 2tn. System liquidity surplus was at Rs 5.8tn as on 29 Jan 2021 versus Rs 5tn last week.
- **Currency:** DXY rose by 0.4% supported by better than expected US jobless claims and consumer confidence. JPY depreciated by 0.9% to a 2-month low as Japan's industrial production declined further in Dec'20. CNY rose by 0.8% due to tightening of domestic liquidity conditions. INR closed flat. FII outflows were US\$ 617mn in the week.
- **Equity:** Global indices were lower this week due to concerns over slow roll-out of Covid-19 vaccine along with weaker than anticipated US GDP print. Speculative trading in US markets also impacted broader sentiment. Sensex fell by 5.3% ahead of the Budget led by auto and tech stocks.
- **Covid-19 tracker:** Global cases rose by 3.9mn in the week ending 29 Jan 2021 compared with 4.3mn in the previous week, led by dip in UK and US. India added 95k cases in the week versus 97k in the earlier week.
- **Upcoming key events:** Globally, policy decisions of BoE and RBA are due along with US payroll data, Euro Area GDP and global PMIs. In India, the week starts with the Union Budget followed by RBI's rate decision and Parliament session where 20 key bills will be tabled.



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**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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