Market Conditions Post Budget

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« VIEWPOINT

This year's budget is a workman-like balancing act and the government has done a decent job given the challenges in the economy. On the positive side – we are happy to see the delivery on the fiscal promise-estimate at 5.2% FY13 & 4.8% FY14. The budget on first cut also seems to have avoided any major populist moves – which is commendable given this is the last big budget before the next general elections. While the FY13 fiscal target has been achieved with a cut on the plan expenditure - a reasonable roadmap and commitment seems to have been laid to maintain the path of fiscal consolidation. The net government market borrowing is expected to be at INR 4.84 trillion rupees – an increase of approx 4% over FY 2013 but the gross borrowing of INR 6.29 trillion which includes 500 billion for buyback of securities maturing in FY 2014 -2015 spooked the bond markets today and yields inched up by 6-7 bps.

Overall – we think the cuts in expenditure and the emphasis on controlling current account deficit would be viewed by the central bank as positive and may lead to rate cut cycle continuing this year. On the tax front there have been no damages as per our understanding. The budget must be commended for keeping the increases moderate and realistic almost across the board. The base rates for excise and the service tax slabs have remained stable at 12% against some recent talks and expectations of increase. The surcharge on high-income individuals is unlikely to affect consumption. Our disappointment is mainly on the lack of further visibility on policy initiatives for the coming months given the momentum created by the government on that front in the recent months. There are no statements of potential new reforms except the promises of progress on GST and a new trade policy.

There are almost no promises of legislative changes on labour laws, land acquisition or pensions and measure for investment inducement. Some of the positives include - announcement of a road regulator, deepening of the bond market for financing, introduction of the investment allowance of 15% & announcement for enhancing PPP projects with Coal India. But the government has done a lot of significant policy announcements outside the budget forum in the infra space and we hope and expect that to continue outside the budget forum.

From an equity markets perspective – reduction in STT should boost sentiment and the additional 5% surcharge on corporate tax would impact benchmark earnings growth marginally (< than 2%). Tomorrow onwards for the markets – it's going to be back to business and focus will come back on bottom-up earnings growth, the economy, valuations and the global risk environment.