



April 2011

India Budget is Positive to the Market

At the end of February, India's government unveiled a budget proposal designed to ease the impact of inflation on lower income earners. Stock market reacted positively after the announcement. The Bombay Stock Exchange's Sensitive Index jumped 3.5% on March 1, the largest gain since May, 2009.

The key features of the budget are shown below:

The total spending will rise 13.4% to 12.6 trillion rupees (\$278.8 billion) from a year earlier.

The budget deficit will narrow to 4.6% of gross domestic product in the financial year starting April 1 from 5.1% of GDP in the previous year.

Incomes below 180,000 rupees won't be taxed from the next financial year, increasing the threshold from 160,000 rupees.

The government plans to give cash directly to the poor to buy kerosene and remove a subsidy on the purchase of the fuel.

1% interest-rate subsidy will be provided for housing loans of up to 1.5 million rupees.

Credit flow for farmers raised from 375,000 crore to 475,000 crore in 2011-2012.

Allocation for social sector increased by 17% to 160,887 crore.

Allocation for education hiked by 24% to 52,060 crore.

Allocation for health increased by 20% to 26,760 crore.

Allocation for national defense raised by 12% to 164,000 crore.

Allocation for infrastructure increased by 23.3% to 214,000 crore.

India will build capacity to store 4 million metric tons of food grain by March 31, 2012, to help boost farm supplies and drive down food prices.

The country will increase the limit for foreign institutional investment in infrastructure bonds to \$25 billion from \$5 billion.

It will allow companies to issue tax-free bonds worth 300 billion rupees to finance infrastructure projects.

It will also allow foreigners to invest individually in domestic mutual funds.

The government proposed exempting imported parts and components for hybrid vehicles from basic customs duty and concessional excise duty.

The country will maintain the excise tax rate at 10%, refraining from raising the levy to the 12% level that existed before the global financial crisis to help boost investment.

India aims to raise 400 billion rupees from the sale of stakes in state-run companies. Proposed sales of stakes in Indian Oil Corp, the country's biggest refiner, and Steel Authority of India Ltd, its second-largest producer of the alloy, may help raise about 104 billion rupees next fiscal year, according to data compiled by Bloomberg.

Direct Taxes Code to be effective from April 2012 and implementation of GST is on course.

We believe that the budget can improve the market sentiment, attract foreign investment and increase transparency of national enterprises. However, the government's target to narrow the financial deficit could hardly be achieved.

We expect that the perfect storm of negative factors such as high inflation, interest rate tightening, corruption scandals and the Middle East tensions are probably going to ease in the next couple of months.

The fundamentals in India remain extremely positive in the long term. Presuming that oil prices begin declining once the crisis in Middle East & North Africa is over, Indian stock should continue to rebound.

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