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July 6, 2009

Budget aims at inclusive growth and boosting domestic demand; market retreats

The Finance Minister Mr. Pranab Mukherjee today announced the Union Budget for the fiscal 2009-10. The Budget proposals appeared to be aimed at boosting domestic demand and ensuring inclusive growth. The Budget attempts to keep the focus on stimulating growth without diluting the Government's priorities in the rural and social sector - both of which are required to get back on track to achieve 9% GDP growth.

Infrastructure

The Budget has mandated the Infrastructure Financial Corporation Limited (IIFCL) to evolve a "Takeout Financing" mechanism for giving increased support to infrastructure projects. Meanwhile, allocations for highways were stepped up by 23%. Also, allocations for Jawaharlal Nehru Urban Renewal Mission were increased by 87%. These steps indicated that the government was focused on its goal to grow investment in this area to 9% of GDP by 2014. Other outlays for rural infrastructure – electrification, roads and housing – underline the government's commitment to infrastructure investment in urban as well as rural areas.

Taxation

The Budget proposed a marginal increase in personal income tax exemptions limits, while leaving corporate tax unchanged. Fringe Benefit Tax (FBT) and surcharge on personal income tax were also abolished by the government. It was announced that there was an agreement reached on the basic structure of a Goods and Services Tax (GST) which will be levied by the central and state governments and is expected to be effective from April 1, 2010. The budget also proposed to increase the Minimum Alternate Tax (MAT) on book profits from the current 10% to 15%. There were other announcements which were mainly aimed at boosting specific sectors that have been impacted due to the global economic meltdown. Another key point to note is that

Social Programme Spends

The 144% increase in spends towards the National Rural Employment Guarantee Scheme, 45% increase in the flagship Bharat Nirman programme and increased spending on other such programmes clearly indicated the "inclusive growth" mandate the government wants to pursue in the coming five years.

Fiscal Deficit

The Budget estimated the fiscal deficit at 6.8% of GDP for the year 2009-10 but provided no clarity on the steps that will be taken to bridge this deficit and reach the target as prescribed by the FRBM. The finance minister, however, has hinted that such announcements are likely to be made during the year.

In reaction to these announcements the BSE Sensex ended the day down by 5.83% or 869.65 points at 14,043.40. It would be important to note that the market crossed the 15,000 mark intraday, before the announcement of the Union Budget. There was an expectation that the Budget would provide clarity, and perhaps, even details of the roadmap, on FDI in certain sectors and disinvestment. The lack of any announcements in this regard could have disappointed a few market participants which was reflected in the markets ending significantly lower.

According to Ashu Suyash, Managing Director and Country Head – India, Fidelity International, "The government's focus on continuing to stimulate economic growth is encouraging. Also, abolishing the surcharge on personal income tax, while increasing the personal income tax limits is likely to leave more money in the hands of the consumer."

G-sec yields edged up today on expectations of increased government borrowing to bridge a higher fiscal deficit, as outlined in the Budget. Increased government borrowing usually translates into an increased supply of g-secs and tends to depress g-sec prices. The benchmark 10-year g-sec yield was ruling at 7.04% levels as of this writing.

Fidelity continues to monitor policy announcements and policy actions. Further updates will be released as warranted.
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