



Mar 17, 2010

Editorial

The finance minister has given a pragmatic and forward looking budget with focus on fiscal prudence and financial inclusion. He sets up road map for Indian economic growth and needs to be applauded for the great balancing act. The budget addresses fiscal issues without comprising on unleashing the growth potential unlike just populist measures as came in the railway budget.

The background of global economic distress, increasing fiscal deficit and inflation in spite of domestic growth signals induced by liberal stimulus package doses was gloomy and markets were apprehensive of the stance government will take. Apprehensions of stimulus rollback and conservatism induced by impending European financial challenges left the finance minister with an unenviable position to do solve the equation of addressing immediate concerns and initiate growth.

The budget avoided negative surprises and meets consensus estimates of a fiscal deficit of 5.5% and moving on to 4.1% by FY13 without compromising on growth is reassuring for the markets. Revenues from disinvestment and 3G rollout will help keeping fiscal deficit in check. Holding on non plan expenditure and bringing subsidies in budget framework, plugging leakages in revenue and providing time lines for implementation of direct tax reforms, companies act amendments and GST are promising. Significantly enhanced outlays on education, health and rural development with more money in hands of the middle class with rationalization of income tax rates and enhanced reach of banking services will ensure financial inclusion of masses and fuel further the great Indian consumption story.

While the budget rides on growth and consumption inflationary expectations cannot be ignored. Also the fiscal deficit is based on 8.5% growth and 4% inflation which are ambitious. Unveiling of global economic challenges from Europe and delayed stability in developed world will pose further pressures derailing the fiscal prudence.

Equity markets will look for global cues, monsoon and Q4 results for further direction while the long term domestic story remains promising. Presently, the markets look fairly priced and all corrections should be used as an opportunity to accumulate for long term wealth creation.

Debt markets will take directions from RBI stance on liquidity to facilitate borrowing and inflation. While the hike in the long duration looks moderate there could be rise in the short term interest rates reducing the steepness of the yield curve. Investors will do well to select duration as per their time horizon and wait for inflation pressures to ease off in the later half of next fiscal. With Indian corporate scenario looking promising, perhaps it is time to look beyond duration and look at credit spreads as well, although with proper diligence and caution.

As the FM concluded his budget speech "It belongs to the farmer, the agriculturist, the entrepreneur and the investor. The opportunity is great. The time is right." Now, the key to future growth lies in the implementation and the execution with timely delivery which will certainly unfold tremendous opportunities for wealth creation.

Happy Investing!!