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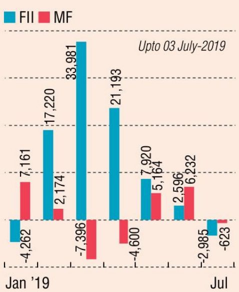
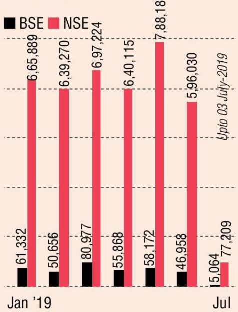
Markets pin hopes on growth measures

Looking for a strong infrastructure capex outloay, and good fiscal policy to support monetary easing

FPI/FII & MF equity net investments In Rs crore



Equity Market Turnover
In Rs crore



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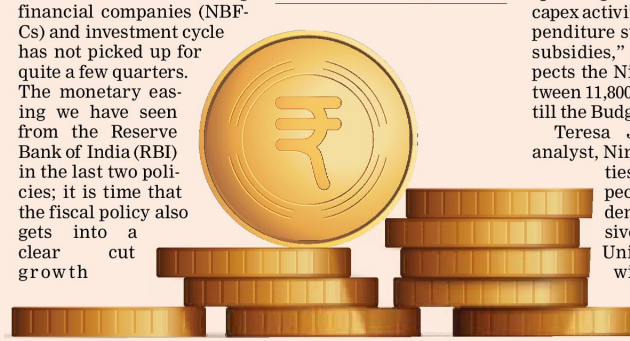
Mumbai: With just a day left for the new finance minister Nirmala Sitharaman to present her maiden Budget in the Parliament, stock market experts are looking forward to the event with optimism, especially for key measures that the BJP-led government could announce to push the economic growth.

Shailendra Kumar, co-founder and CIO, Narnolia Financial Advisors, said, "There is liquidity crisis, issues related to non-banking financial companies (NBFCs) and investment cycle has not picked up for quite a few quarters. The monetary easing we have seen from the Reserve Bank of India (RBI) in the last two policies; it is time that the fiscal policy also gets into a clear cut growth mode. This Budget is important for the market as we look forward to a good amount of infrastructure capex from the government. There is a need for a good fiscal policy to support the monetary easing that is going on. The kind of buoyancy missing in the economy has to come from the government side."

What capital market expects in this Budget

- Cut in LTCG/abandoning LTCG
- Rationalise Dividend Distribution Tax
- Raise exemption limit for income tax from Rs 2.5 lakh to Rs 3 lakh
- Cut tax rates for corporates
- Sticking to 3.4% fiscal deficit target



According to him, a little slippage in fiscal deficit is "fine" on account of higher spending.

"The market will react negatively or positively depending on whether the spending is on account of capex activity or revenue expenditure such as sops and subsidies," he said. He expects the Nifty to hover between 11,800 and 12,000-level till the Budget on July 5.

Teresa John, research analyst, Nirmal Bang Equities, said "We expect fiscal prudence over excessive populism in Union Budget 2019, with the government's focus on bringing down the cost of capital. Fiscal deficit for FY20 is likely to be pegged at 3.5% of GDP, a tad higher than the 3.4% of GDP targeted in the Interim Budget. This is due to revenue collection falling short of optimistic targets set in FY19."

According to her, while revenue growth is unlikely to be significantly different from that budgeted in February, the absolute target could be lower.

"We expect measures to boost rural consumption. At the same time, the government's thrust on infrastructure and capital spending will prevent them from cutting back on capital expenditure. We also expect some tax sops for the middle class in order to boost consumption. This may be in the form of a higher exemption limit or the introduction of a 10% tax bracket between the current 5% and 20%," John said.

Amar Ambani, president and research head, YES Securities concur that the government is expected to persist with reasonable levels of a deficit on the fiscal front, as indicated in the earlier budget.

"The reassurance on sticking with the path of fiscal prudence in the years ahead will be equally important. The next on the agenda would be the much-needed boost to economic growth. Towards this front, the most pertinent measure would be providing capital buffers to make liquidity widely available," he said.

Meanwhile, withdrawal of long term capital gain tax and reduction in corporate tax would cheer the market up, feel analysts.

According to B Gopkumar, ED & CEO, Reliance Securities said, a clear five-year road map on tax reforms, especially corporate tax rates, and measures to bring the stuck capital back into the production process by fast-tracking the resolution of NPAs will go a long way in reviving the incremental private capex and growth of the economy.