What’s in for Indian markets in the upcoming Budget 2013?

The Indian equities have taken a breather since mid January 2013 as market participants ponder over the outcome of the Union Budget 2012-13.

The markets have pared their gains of over 2 per cent so far in the year 2013 and are up a little over 0.7 per cent as on February 20. They have seen a bit of corrections also on account of disappointing results towards the end of the earning cycle.

The markets have corrected despite the fact that overseas investors have pumped in a staggering $4 billion into the Indian stock market in the first two weeks of February. For the year 2013, FIIs have poured in close to $8 billion.

The Sensex is down nearly 2 per cent from its January's peak of over 20,000, but the carnage is more in the mid and small caps, a trend the budget will be looking to reverse.

The worst hit was the small and mid-cap space which has lost close to 10-70 per cent so far this year. Worse still, much of the money was raised by these investors after pruning their holdings in blue-chip stocks, most of which have risen this year.

For the Budget 2013, expectations are that the Finance Minister will deliver a reform-centric Budget addressing the fiscal and current account deficits in the wake of the sustained country downgrade scare.

"In our opinion, the FM cannot even afford a Budget which is termed as a non-event, leave alone a bad one," IIFL said in a note. "Attempts to revive the industry cycle, infrastructure and deepening the corporate bond market are other market-friendly measures likely to be taken up," the note added.

Brokerage firm IIFL believes that the Budget will deliver a good vibe and provide fresh legs to the market to scale new highs.

The twin deficits in the economy, that is the current account deficit and fiscal deficit, continue to pose a challenge to the macroeconomic outlook.

India needs to attract foreign capital to bridge its current account deficit that is projected to worsen to 4.4 per cent of GDP due to rising import of gold and crude oil.

"Although the government has stepped up momentum on positive reforms since September 2012, we believe that it cannot afford any adverse economic developments at this juncture on the back of the still-looming threat of sovereign ratings downgrade by credit rating agencies," Angel Broking said in a report.

The direst implications of a rating downgrade from the lowest investment grade to junk status could adversely impact capital inflows, the currency, and availability of cheaper overseas finance for the corporate sector.

Fiscal consolidation is expected to remain priority in the budget as macroeconomic stability and attracting capital inflows gain focus.

Lowering of fiscal deficit will provide much needed headroom for the Reserve Bank of India for monetary easing, which will provide boost to investment in the infrastructure sector.

Here we take a look at various reforms that investors are eyeing in the Budget 2013-14:

1) Investment by FIIs: Finance Minister P Chidambarammay announce extensive changes in the regulatory regime governing capital markets in the upcoming budget, including scrapping the cap on the amount foreign institutional investors can invest in rupee corporate debt and putting in place a simpler regime for foreign investors in stocks and bonds.

According to an ET report, various panels, including a high-powered expert committee on making Mumbai an international finance centre, had suggested removing the cap on foreign investments in debt that currently stands at $25 billion.

The withholding tax is currently 5 per cent on infrastructure bonds and 20 per cent on corporate bonds, and is widely regarded as an irritant. The ministry could also allow qualified foreign investors to invest over and above the foreign direct investment cap in sectors where there is no limit specified by Parliament.

2) Reduction of STT: The Finance Minster could also look at slashing the securities transaction tax (STT), but that would be contingent upon the government being able to make up through other taxes.

Market participants have been demanding a reduction in the STT, which is levied at the rate of 0.1 per cent on sale or purchase value of shares transacted through stock exchanges.

"There is a greater chance of reducing the STT so far as the delivery business is concerned because in some of the interviews that he has given recently, the FM has talked about his concern relating to lowering of delivery volume which has come down to as low as 3 per cent," said Deena Mehta, Managing Director, Asit C Mehta Investment Intermediates Ltd, in an interview with ET Now.

"A lot of businesses have gone away to foreign shores because of the STT which is there. There is a good chance that there could be reduction in the STT relating to the delivery volumes," added Mehta.

3) Disinvestments: Since April 2012, the Cabinet Committee on Economic Affairs has approved stake sale in 10 PSUs, namely, SAIL, NALCO, Hindustan Copper, MMTC BSE -3.70 %, Oil India, NMDC BSE -2.68 %, Hindustan Aeronautics, NTPCBSE -0.23 %, RCF and Engineers India, Angel Broking said in a report.

So far, the government has offloaded 5.58 per cent stake in Hindustan Copper, 10 per cent stake in NMDC, 10 per cent stake in Oil India BSE -1.44 % and 9.5 per cent stake in NTPC, and garnered over Rs 21,000 croee, i.e. 70 per cent of the budgeted divestment target of Rs 30,000 crore.

4) SUUTI stake sale: The government may also consider selling shares of blue-chip companies held by Specified Undertaking of the Unit Trust of India (SUUTI) which is the restructured unit of UTI, Angel Broking said in a report.

SUUTI holds 11.54 per cent in ITC, 23.6 per cent in Axis Bank BSE -1.96 % and 8.3 per cent in L&T, and although it is unlikely to wind up the entire stake simultaneously, the total value of these holdings amounts to over Rs 40,000 cr.

he brokerage firm is of the view that the buoyancy in the capital markets is fundamental to fetch these one-off revenues for the government.

5) Goods and Services Tax (GST): The impending legislation on the GST is aimed at creating a unified market for goods and services by replacing all indirect taxes, Angel Broking said in a report.

Goods and services include taxes such as central as well as state level sales taxes, service taxes, VAT, excise duty and octroi. The implementation of GST is likely to broaden the tax base, simplify tax structure and increase the tax to GDP ratio.

(Economic Times)