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Markets bleed after big blow (also see in Jpeg)

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Markets bleed after big blow

Investors watch a display screen on the Bombay Stock Exchange building on Thursday

THE BSE Sensex tanked 291 points to end below the 19,000 level—a three-month low—on Thursday after the government slapped more taxes on companies and the super-rich in the Union Budget. The higher-than-expected gross market borrowing target raised concerns about liquidity in the banking system.

Besides, worries about double taxation avoidance agreements also hit shares after the finance ministry said that tax residency certificates are no longer sufficient to claim benefits.

The benchmark BSE Sensex fell 1.52 per cent, or 290.87 points, to end at 18,861.54, hitting its lowest close since November 27, 2012. It was down 5.2 per cent for the month snapping a three-month gaining streak.

The broader Nifty fell 1.79 per cent, or 103.85 points, to end at 5693.05 closing below the psychologically important 5,700 level, and falling 5.7 per cent for the month.

Shares in public sector banks fell on concerns about liquidity in the banking system after the government set its target for gross market borrowing at ? 629,000 crore in 2013-14. State Bank of India fell six per cent, Punjab National Bank ended 5.5 per cent lower while Bank of India fell 5.7 per cent. Private sector lenders also fell with ICICI Bank down four per cent after finance minister P Chidambaram proposed to extend a scheme that provides farmers with low-cost loans to private banks.

Total 363 shares settled in their lower circuit band. D.R. Dogra, managing director and chief executive officer (CEO), CARE Ratings & Research, said, "The stock market movement during the course of the speech was indicative of a rather indifferent reaction to Budget bordering on disappointment."

The Budget cut taxes levied on various transactions in the stock market, a move that will bring down costs for investors and give a fillip to trading in shares. Chidambaram said that the securities transaction sax (STT) would be cut on different categories, including equity futures. The proposed reductions are being made in view of the changes and shifts in the market, he said.

FIIs would be permitted to participate in exchange traded currency derivatives segments

In the equity futures segment, STT would be brought down to 0.01 per cent from 0.017 per cent. For mutual fund/exchange traded fund (ETF) redemptions, the levy would be cut to 0.001 per cent from 0.25 per cent. In the case of purchase or sale of mutual funds or exchange traded funds the STT would be reduced to 0.001 per cent from 0.1 per cent, only on the seller. Analysts said the move to cut STT is a stock market friendly measure.

STT reduction on ETF is a further boost to aiding returns with lower transaction costs, said Aashish Somaiyaa, CEO, Motilal Oswal AMC.

Introduced in 2004, STT is levied on the sale and purchase of equities. Going by estimates, the tax accounts for a substantial part of the overall transaction costs in the stock market.

In order to attract more overseas investment into the stock market, Chidambaram said that procedures for foreign investors would be simplified besides having uniform KYC norms for them. "The Securities and Exchange Board of India will simplify the procedure for foreign portfolio investors and prescribe uniform registration and other norms by converging the different 'know your customer' (KYC) norms," Chidambaram said while presenting the Budget.

FM FORGOT to DON HIS THINKING CAP

by Ramesh Damani

IT WAS more like the third day of a test match that's heading into a draw. Markets fell pretty sharply right after the Budget speech, but that happened for various reasons only one of which was a Budget hangover. Today, markets should recover essentially because there was nothing majorly problematic in the Budget.

The biggest drawback, in fact, for the markets and for the Budget in general, was the fact that it was Chidambaram up there. Chidambaram has set such standards in the past that the final product seems to have lacked imagination. It seems like he didn't put on his thinking cap.

You know the old-school drill for Budgets in this country for so many decades now—tax cigarettes and the rich. And that's what he's ended up doing yet again. We might have hoped for something different from the finance minister. He could have talked about privatising a few PSUs, could have dumped some subsidies. Instead, the Budget shows a lack of ability to push through even small things that would suggest credible change.

4.8
NUMBER for the fiscal deficit, which Chidambaram has promised, could be reached

I haven't looked at all the math, but I would take Chidambaram at his word on the accounting. I think it's quite possible that we will reach the 4.8 number for the fiscal deficit, which he has promised.

As far as taxes go, they have done what finance ministers always do, and that is raise taxes on cigarettes and the rich. Now, the thing about taxing the rich-individuals and companies—is that Warren Buffet has managed to make it okay, acceptable; so, he's just following the global trend. If he only did it for a year, I would be fine with that, but these things always end up lasting longer, and that's the real fear.

Otherwise, most of the other changes-the reduction in STT, the new commodity transaction tax, the populist moves—we can live with all of that. Some of them are cosmetic moves, some of them are to be expected.

The main point though is that this is the same person who gave us the Dream Budget. It just doesn't seem to have Chidambaram's handiwork. We haven't looked out of the box, which is why it is disappointing. But ultimately, the market will move on. (As *told to Rohan Venkataramakrishnan)*