Economics

March 14, 2012

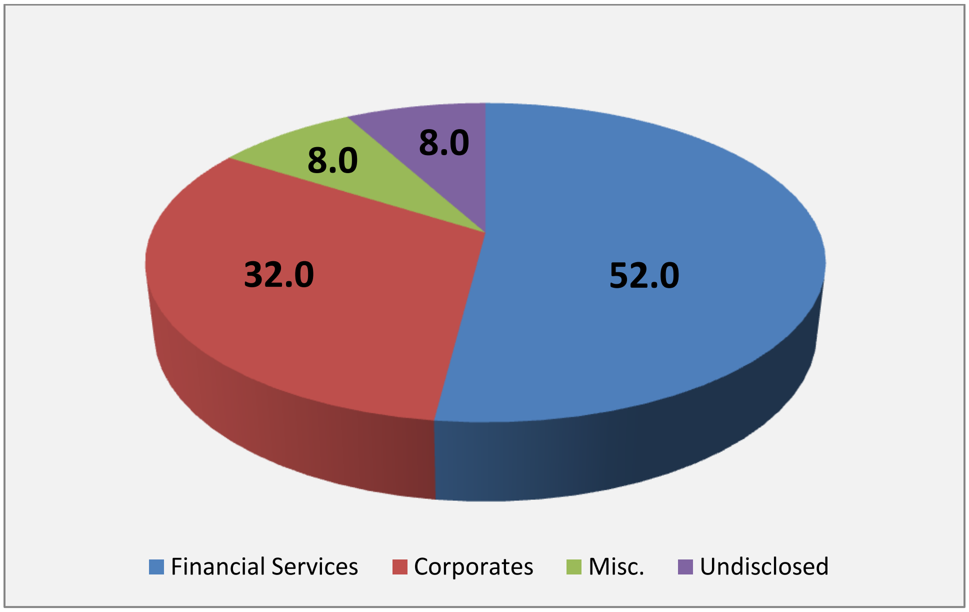
# CARE Ratings Survey on Union Budget 2012-13

In light of the presentation of Union Budget for 2012-13 on March 16, 2012, CARE Ratings has conducted a survey on Expectations from this Budget with regard to its orientation, strategy, provisions and reform initiatives.

Results of the CARE Ratings Survey on the Budget are based on the opinion of 50 respondents; across banks, financial institutions and intermediaries including brokerage firms, corporate bodies, consulting firms, research institutes and industry bodies.

**Spectrum of Responses**

**Exhibit 1: Composition of Respondents (% share)**



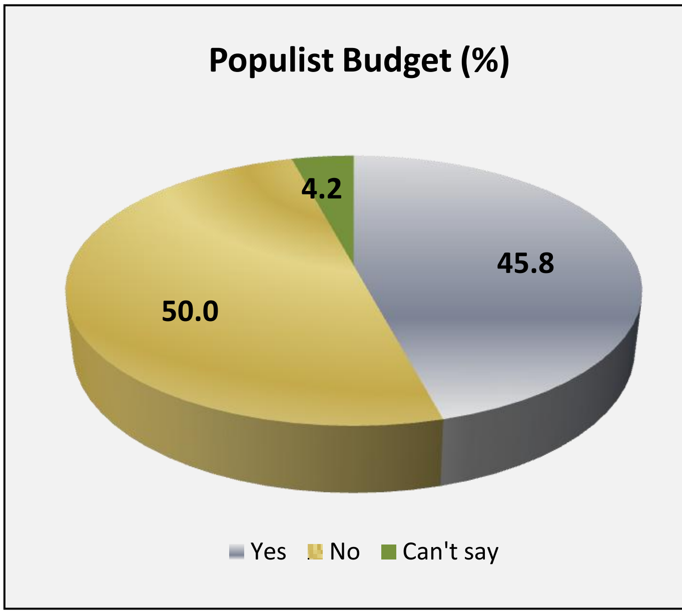

**Survey Responses**

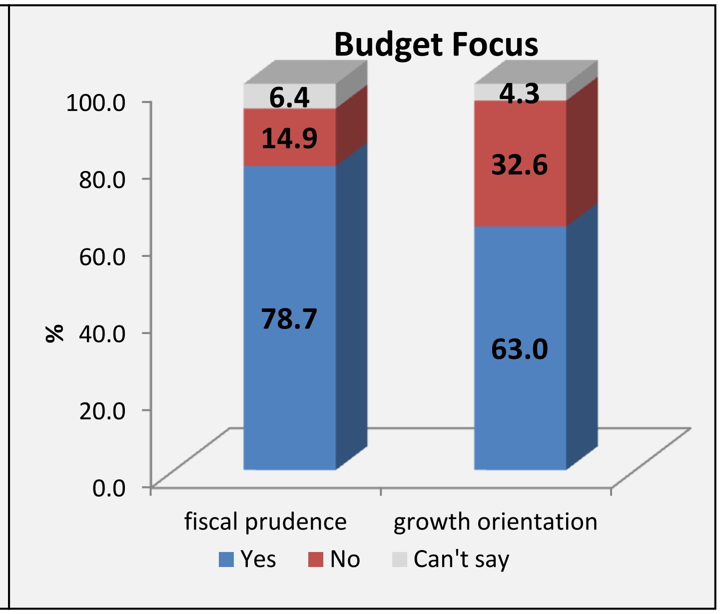
***On Budget Orientation***

- 45.8% of respondents are of the opinion that Budget 2013 would incorporate populist measures, while the majority (50.0%) feel contrary. Therefore, the opinion is almost evenly divided.
- A majority support a focus on fiscal prudence (78.7%) and orientation towards growth (63.0%) in the Budget; challenge for the government of borrowing less and financing expenditure through revenue streams.

- While rationalisation of tax slabs could act as a "sweetner" in the budget, it would be critical in case of an expansion in the tax base.

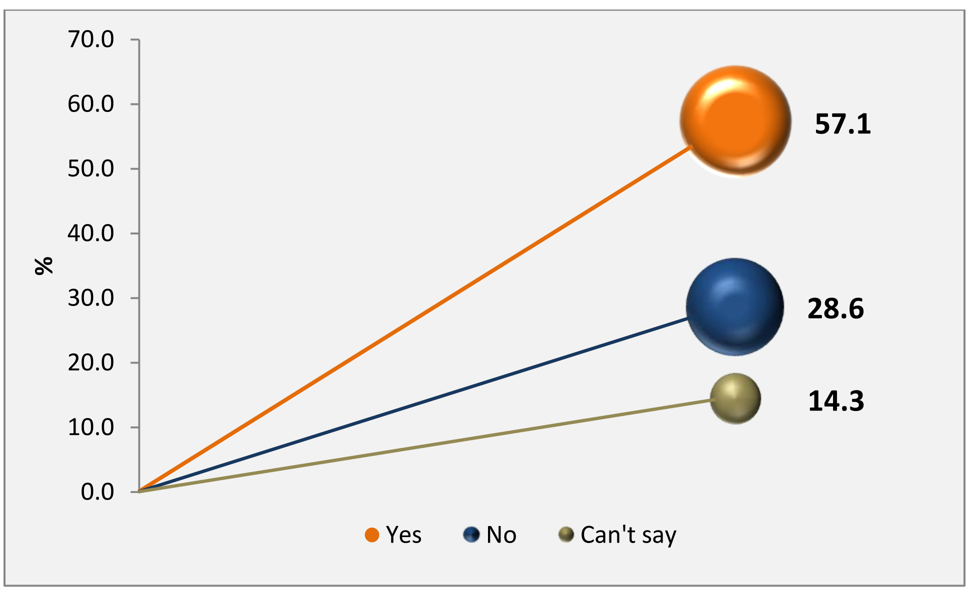
**Exhibit 2: Nature and Focus of Budget 2013**




- In accordance with the above expectations, the general belief is that the fiscal deficit target set by the government for FY13 would be less than 5% of GDP. As per the survey 57.1% of respondents expect fiscal deficit to be less than 5% (as shown in Exhibit 3)

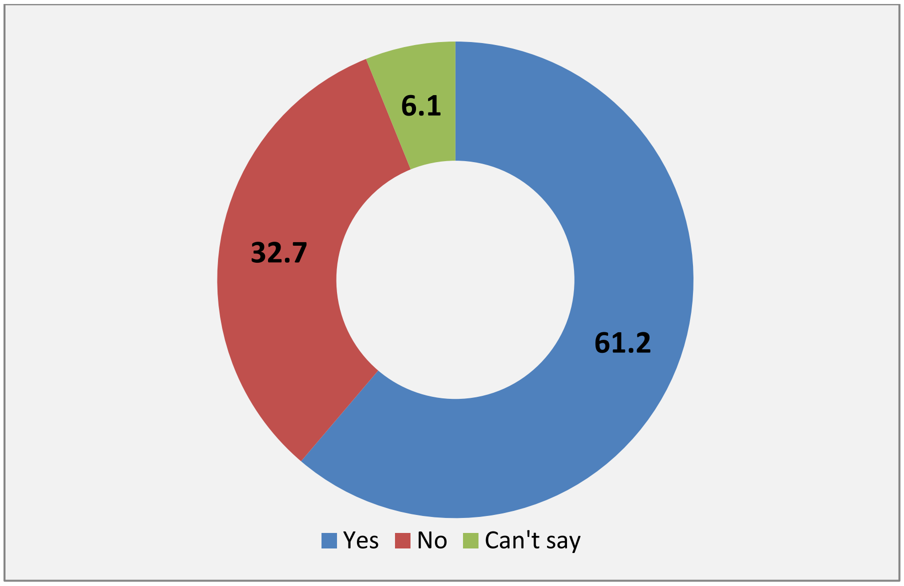
**Exhibit 3: Fiscal deficit less than 5% for FY13? (% share)**



***On Budget Management and Strategy***

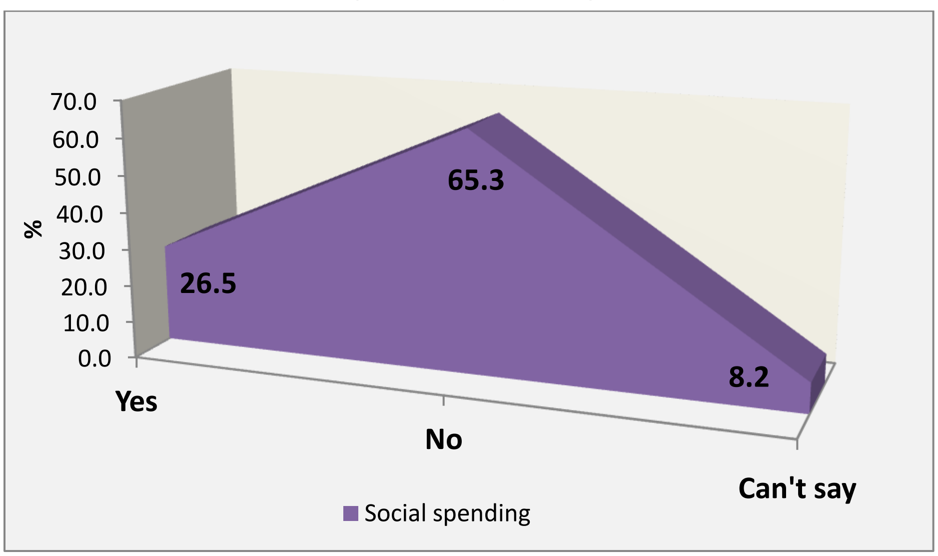
- 61.2% of the respondents expect the government to announce higher infrastructure expenditure in the upcoming budget, with 32.7% not in agreement with this opinion

**Exhibit 4: Higher infrastructure spending? (% share)**



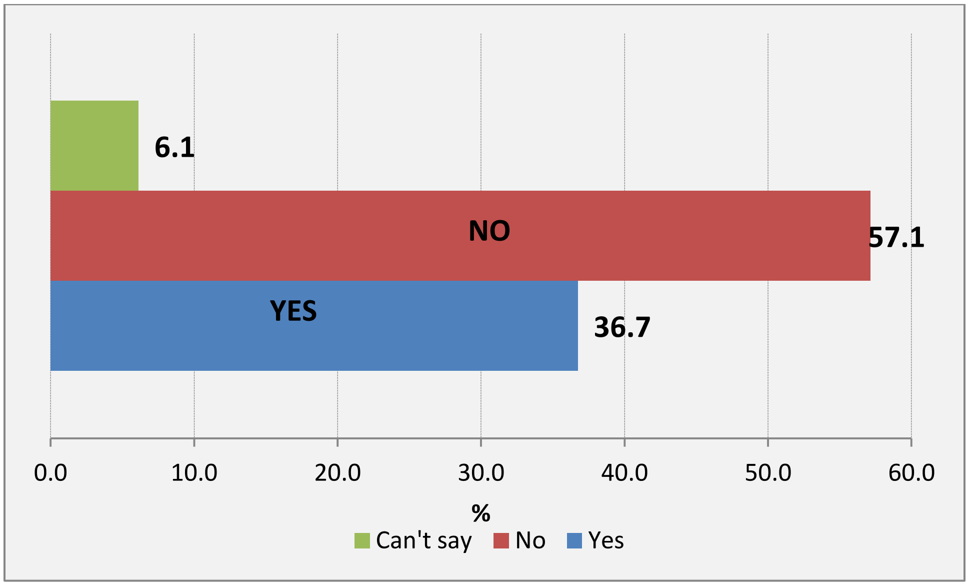

- Overall social spending is not expected to increase (65.3%), however, a considerable number of respondents (26.5%) also believe that social spending could increase
    - On the one hand, an increase in social spending could perhaps be justified given the backdrop of a rather weak domestic economy and uncertain global macro-economic scenario
    - On the other hand, we can infer that lower social spending would imply that food security will not be on the agenda

**Exhibit 5: Higher social spending? (% share)**



- Most respondents (57.1%) have a rather negative take on the provision of tax incentives for the manufacturing sector in the budget

**Exhibit 6: Tax benefits for Manufacturing? (%)**

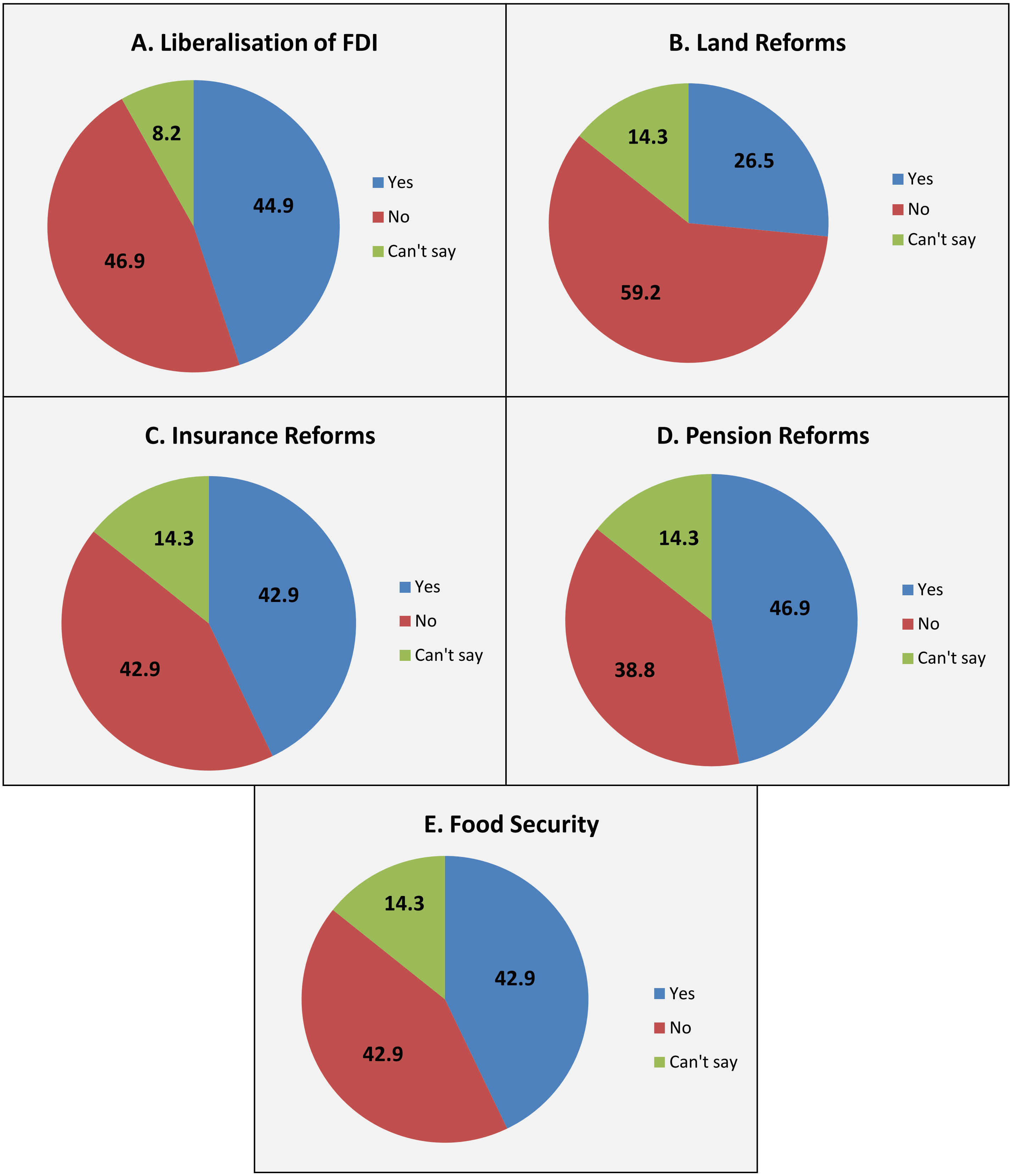



***On Policy Reforms***

- Five crucial policy reforms that have been under constant debate and discussion, were taken into consideration in the survey; these reforms include –
    - Liberalisation of FDI
    - Land Reforms
    - Food Security
    - Insurance Reforms, and
    - Pension Reforms

Exhibit 7 below provides a snapshot of the responses pertaining to these reform initiatives -

**Exhibit 7: Policy Reform Initiatives (% share)**



**Concluding remarks based on majority opinion:**

The Budget

1. may not be populist.
2. will be growth oriented.
3. will look at fiscal consolidation with fiscal deficit ratio of less than 5% of GDP.
4. will probably focus more on infrastructure spending and less on social spending.
5. may not give significant tax benefits for the manufacturing sector.
6. could have some reforms in the areas of FDI, pensions, insurance and food security (however, less than 50% for each of them).

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