

## Important Vocab For the Editorial

1. **steam** (noun) – energy, momentum, impetus.
2. **populism** (noun) – related to policies that supposedly represent the opinions of ordinary people (Courtesy: VOA Learning English).
3. **moderate** (adjective) – average, modest, ordinary.
4. **incur** (verb) – suffer, experience, become subject to.
5. **shed** (verb) – drop, lose, throw out/jettison.
6. **worst-hit** (adjective) – affected severely.
7. **spook** (verb) – frighten, panic, make afraid/nervous.
8. **tax burden** (noun) – tax incidence/burden falls on the public.
9. **foreign portfolio investor** (noun) – Investors investing in financial assets, such as shares, government bonds, corporate bonds, convertible securities, infrastructure securities etc in a foreign country.
10. **buyback** (noun) – (share) repurchase, re-acquisition.
11. **weigh on** (phrasal verb) – burden, trouble, bother/beset; be burdensome to.
12. **rate cut** (noun) – a decision by a central bank (RBI) to reduce its main interest rate to the banks (like SBI, ICICI & etc in India) when these commercial banks get money from the central bank (like RBI in India). Once this rate goes down, the banks are in a position to give loans at lower interest rates to individuals and the industry.
13. **Federal Reserve (US)** (noun) – the central banking system of the United States (The Reserve Bank of India (RBI) is India's central banking institution).
14. **systemic** (adjective) – constructional, organizational.
15. **tilt** (noun) – inclination, nod, attempt on.
16. **revive** (verb) – energize, strengthen, fortify.
17. **regressive** (adjective) – retrograde, retrogressive, unprogressive/negative.
18. **angel tax** (noun) – a tax that is levied on the funding received by startups from an external investor. The 30% tax is levied when startups receive angel funding at a valuation higher than its 'fair market value'.
19. **bereft of** (adjective) – deprived of/stripped of; lacking, deficient in.
20. **instil** (verb) – inculcate, inspire, infuse.
21. **trajectory** (noun) – course, route, path.
22. **push through** (phrasal verb) – succeed in passing a law/reforms accepted by the people who oppose it.
23. **liquidity** (noun) – a measure of activity (i.e. the ability to buy or sell easily) in a market.
24. **lacklustre** (adjective) – dull, uninspired/uninteresting, mundane.
25. **lofty** (adjective) – noble, high, worthy.

## Losing steam: on impact of budget on markets

### Markets react negatively to the Budget's populism and inability to force reforms

Many investors who were hoping for business-friendly reforms were not too impressed by the maiden Budget of the second Narendra Modi government. After a moderate negative

reaction when the Budget was presented in Parliament on Friday, both the Sensex and the Nifty witnessed their biggest fall in over two years on Monday. The Sensex incurred a huge loss of 792.82 points while the Nifty shed about 250 points. Sectors such as banking, automobiles and power were the worst-hit, each witnessing a loss of over 3%. Investors were spooked by a variety of proposals made by Finance Minister Nirmala Sitharaman that are expected to increase the tax burden on them. These include the proposal to increase long term capital gains tax on foreign portfolio investors and to tax the buyback of shares by companies at 20%. The negative signal sent by the increased surcharge on people earning over ₹ 2 crore a year also weighed on markets. This tax on the “super-rich” is unlikely to make much of a difference to the government’s fiscal position. However, it does damage the image of the present government as a pro-business one and can affect fund flow into the country if the wealthy prefer to move to other countries. The proposal to raise minimum public shareholding in listed companies from 25% to 35% is also seen as an unnecessary intervention in markets. Global factors like strong jobs data coming from the United States which lowers the chances of an interest rate cut by the Federal Reserve, and the potential systemic risk posed by the troubles faced by Deutsche Bank may have also weighed on the markets. However, the losses experienced by western markets on Monday were nowhere as heavy as the losses faced by the Indian markets.

All these aside, the larger issue bothering the Indian investor may be the Budget’s supposed tilt towards populism as the government expands the size of its welfare projects instead of taking steps to revive private investment in the slowing economy. Apart from a few words from the Finance Minister on simplifying labour laws and relieving start-up investors from the regressive “angel tax”, the Budget was largely bereft of any major structural reforms that could instil confidence among investors. The trajectory of markets in the coming months will depend on the kind of reforms the government manages to push through, and on the actions of central banks across the globe. While the Reserve Bank of India looks to be easing its policy, any global liquidity tightening can affect foreign fund inflows. Despite lacklustre company earnings and other fundamental issues, markets in the past have been pushed up aggressively by the ample liquidity provided by central banks. But without enough reforms to strengthen the fundamentals that can back lofty valuations, it may be only a matter of time before markets begin to lose steam.