Budget's mixed blessing for commodities



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The positive steps taken in the Budget to develop the commodity market infrastructure are noteworthy.

The Finance Minister, Mr Pranab Mukherjee, presented a realistic Budget, considering the fiscal challenges facing the nation. It focuses on inclusive growth and all-round development. The approach is to augment productivity, spur investment, improve income distribution, and bring down inflation by way of speedy fiscal consolidation.

The target of subsidy ceiling at 2 per cent is indeed a bold step from the government. This, together with streamlining fertiliser, LPG and other subsidies through extensive use of the Aadhaar platform will definitely be a step towards fiscal consolidation.

CAPACITY CREATION

The positive steps taken to develop the commodity market ecosystem and infrastructure such as enhancement of agriculture credit, storage and marketing facilities are crucial and would go a long way in developing India's commodity market.

At the micro level, the impetus provided to the warehousing sector will strengthen the commodity market, in particular, and the rural economy, in general.

Measures such as earmarking Rs 5,000 crore out of the Rural Infrastructure Development Fund for warehouse creation and capex deduction at 150 per cent for cold chains and warehouses would create investor interest in this sector, which is in dire need of capacity creation.

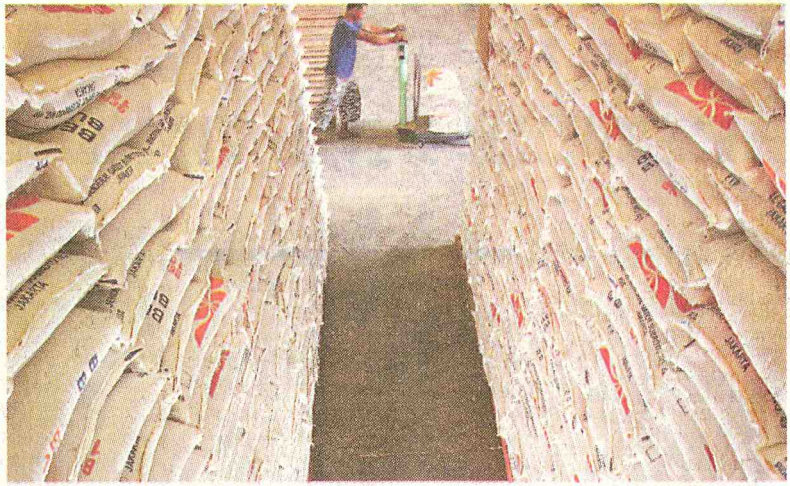
Extension of the interest subvention scheme against warehouse receipts, placing it on a par with crop loans, would enhance credit flow for post-harvest agricultural loans and popularise the mode of warehouse receipt-based bank funding.

Moreover, Viability Gap Funding (VGF), under the Scheme for Support to PPP in Agriculture Markets' common infrastructure, is an important instrument for attracting private investment into the sector.

IMPACT ON JEWELLERY

Again, the other positive aspect for the commodities sector is the tremendous emphasis on infrastructure, which will create its downstream impact through an increase in demand for industrial commodities – steel, copper, cement, and so on. In addition, more investment is coming into this sector through tax-free bonds.

At the same time, from the perspective of the jewellery sector, excise exemption for branded silver jewellery is a welcome step. Silver, so far, has been the "underestimated" bullion with immense savings potential that may help in capital formation for future growth. This seems to be the welcome step to realise its untapped potential. Moreover, it has a broader reach across income groups compared to other precious metals, because of pricing.



The impetus provided to the warehousing sector will strengthen the rural economy.

EXCISE DUTY HIKE

However, the proposed excise duty hike could impact inflation. And though it cannot be quantified, it can have a cascading effect on the economy. Rising excise duty on refined gold from 1.5-3 per cent, and doubling of Customs duty from 2-4 per cent on gold bars, coins is worrisome. In recent years, gold has been an important instrument for long-term savings for Indian households.

There has been a discernible increase in the demand for gold coins and gold bars. By virtue of being a safe haven for investment and a hedge against inflation, such a hike would hurt the households and small traders and jewellery-makers. At a macro scale, this may affect potential household saving, thereby affecting potential long-term capital formation.

While, overall the Budget has set the right tone for the growth and development of the economy over the next year, we now await appropriate policy actions to match the announcements.

In this regard, the exclusion of the much-awaited Forward Contracts (Regulation) Amendment Act, 2010 from the list of important legislations to be taken up immediately for financial sector legislative reforms, is an unfortunate and disappointing omission from the Budget speech.

(The author is MD&CEO, MCX. The views are personal.)