COMMENT



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Overall positive, some minuses'

The Union Budget 2012-13 has taken positive steps to develop the commodity market ecosystem and infrastructure, such as enhancement of agriculture credit, storage and marketing facilities. Also, the Budget proposals are aimed at the government's endeavour to achieve faster, sustainable and inclusive growth in the coming 12th five-year Plan. The target of subsidy ceiling of two 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.

From the commodity market perspective, it is a mixed blessing! The impetus provided to the warehousing sector will strengthen the commodity market and the rural economy. Measures such as earmarking ₹5,000 crore from 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 and placing it at par with crop loans, would enhance credit flow for post-harvest agricultural loans and popularise warehouse receipt-based bank funding.

The other positive aspect for the commodities sector is the tremendous emphasis on infrastructure, which would create downstream impact through an increase in demand for industrial commodities – steel copper, cement, etc. In addition, more investment is coming into this sector through tax-free bonds. Excise exemption on 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 growth.

However, the proposed excise duty rise on refined gold and doubling of customs duty on gold bars & coins is worrisome. In recent years, gold has been an important instrument for long-term saving for the biggest savers of the Indian economy – households. Such an increase would hurt households' saving, small traders and jewellery makers.

While, overall, the Union Budget has set the right tone for growth and development of the economy over the next year, one would now wait for appropriate policy action to match the announcements.

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