EXPERT TAKE

EXCLUSION OF FORWARD CONTRACTS (REGULATION) AMENDMENT ACT IS A DISAPPOINTING OMISSION FROM THE BUDGET SPEECH

Some silver lining & some clouds for commodities



LAMON RUTTEN
MD & CEO, MCX

THE BUDGET 2012-13 IS A significant and much-welcome statement of policy action from finance minister Pranab Mukherjee. One of the outstanding announcements has been the emergence of a clearer picture towards fiscal consolidation by addressing issues on governance and the administration of entitlements. The target of subsidy ceiling at 2% is indeed a bold step from the government. This, together with streamlining fertiliser, LPG and other subsidies through extensive use of the Aadhar platform will definitely be a step towards fiscal consolidation. From the commodity market perspective, it is a mixed blessing!

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 ₹5,000 crore out of the Rural Infrastructure Development Fund for warehouse creation and capex deduction at 150% for cold chains and warehouses would create investor interest in this sector, which is in dire need of capacity creation. The extension of the interest subvention scheme against warehouse receipts, placing it at par with crop loans, would enhance credit flow for post-harvest agricultural loans and popularise the mode of warehouse receipt-based bank funding.

Again, the other positive aspect for the commodity sector is the tremendous emphasis on infrastructure, which will create its downstream impact through an increase in demand for industrial commodities – steel copper, cement, etc. In addition to that, more investment is coming into this sector through tax-free bonds. At the same time, from the perspective of the jewellery sector, excise exemption of 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 a step to realise its untapped potential. Moreover, it has a broader reach across income groups, compared with other precious metals because of pricing.

However, on the same note, the proposed excise duty hike on refined gold from 1.5% to 3%, and doubling of customs duty from 2% to 4% on gold bars, coins are worrisome. In recent years gold has been an important instrument for long-term saving. 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 households and small traders as well as jewellery makers. On a macro scale, this may adversely affect potential household savings. While the Budget has set the right tone for the growth and development of the Indian economy over the next year, one would now wait for appropriate policy actions to match the announcements. In this regard, the exclusion of the much-awaited Forward Contracts (Regulation) Amendment Act, 2010 is a disappointing omission from the Budget speech.