

Govt Hikes Import Duty on Gold, Platinum to 6%

Directs gold exchange-traded funds to park part of their gold holdings with banks

OUR BUREAUS

NEW DELHI | KOLKATA

The government on Monday announced a slew of measures including a hike in import duty on gold and platinum to discourage their consumption.

The finance ministry directed gold exchange-traded funds to park a part of their gold holdings with banks so that some demand for these metals is met from domestic sources. It also eased the terms of gold deposit schemes of banks to encourage individuals to deposit their idle gold, which will help increase domestic supply.

India's current account deficit widened to a record 5.4% of GDP in the first half of the current fiscal as gold and crude oil imports remained high, increasing the country's dependence on foreign capital inflows.

Announcing the measures, economic affairs secretary Arvind Mayaram said import duty on gold and platinum will now be 6% against 4% earlier. He said the steps taken by the government will help moderate the quantity of gold that is imported.

Following the announcement, gold rose Rs 315 to Rs 31,250 per 10 gram in the Delhi bullion market. Gold futures went up by almost 1% as February contract touched Rs 30,847 per 10 gm at the MCX.

Bullion traders and jewellers said gold and platinum will become costlier and the demand for the yellow metal in particular will come down.

The measures follow finance minister P Chidambaram's statement on January 2 that the government would be forced to make gold expensive if demand for it continued unabated. The statement came after data showed a jump in the current account deficit to 5.4% in the quarter to September. India imported \$56.5 billion worth of gold in 2011-12, and by the end of December 2012, the country had already made purchases worth \$38 bil-



lion. The current account deficit is the difference between exports of goods and services and inward remittances, and import of goods and services and transfers to outsiders.

A country running high current account deficit will need steady capital flows to bridge the gap or else it will run down its reserves that will depreciate currency and cause serious economic trouble.

Mayaram said the government will effect consequential changes in the additional customs duty and excise duty on gold ore bars, gold ores and refined gold. "The duties will be reviewed after sometime if there is a moderation in the quantity of gold that is imported into the country," he said. Bullion traders, however, were clearly unhappy with the announcement.

Mukesh Kothari, director of

Riddisiddi Bullion, said the move might turn the clock back to the days when gold smuggling was rampant.

Rajiv Popley, director of Mumbai-based Popley group, said import duty on gold will now stand at Rs 180 per gm. "It has come as a blow to the organised jewellers at a time when they are going in for more efficient management to bring down costs," he said.

Mayaram said the move to link gold ETF with deposit schemes will help increase physical availability of gold in the market, as a part of the gold with ETFs will be brought into circulation meeting the demand of gems and jewellery trade.

"Consequently, there will be a moderation in the quantity of gold that is imported into the country," he said.

Under the modified Gold De-

posit Scheme, the minimum quantity of gold that may be deposited into the scheme would be reduced and the minimum tenure would be brought down to six months from three years to draw investors to the scheme.

Market regulator Sebi and RBI will come out with notifications on gold ETFs and gold deposit schemes in two to three weeks. MF industry cheered the move saying it would bring down cost of operations for gold ETFs as they would not have to park gold in vaults on payment of charges.

"It is a positive move if gold ETFs are allowed to lend a portion of their gold deposits subject to regulatory framework. Investors sentiment will increase in gold-linked financial products," said Lakshmi Iyer, head of products at Kotak Mutual Fund.

