

Gold duty hiked again, this time for jewellery

■ 15% import levy follows RBI tightening gold NBFC norms

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THE government on Tuesday raised the import duty on gold jewellery to 15%, introducing a 5% tariff differential with raw gold. The move, which underlined the government's persistent efforts to dampen the demand for gold imports and stabilise the rupee, will also give some comfort to the domestic jewellery industry with a decisive export orientation. The finance ministry's decision came close on the heels of the Reserve Bank of India (RBI) tightening norms for gold loan non-banking financial companies (NBFCs) on Monday, a step towards making gold more illiquid and taking away its lure as a hedge against adversity.

The government hardened a crackdown on gold imports since June this year after imports in the first two months of the fiscal exceeded a record 300 tonnes, worsening fears of a runaway current account deficit. That has had the desired effect on imports, which saw 95% slump in August.



Gold imports accounted for a record 61% of the CAD last fiscal. The plan is to reduce the CAD from \$88 billion, or 4.8% of the gross domestic product (GDP), last fiscal to \$70 billion, or 3.8% of the GDP, in 2013-14. Compounding the government's worry, the rupee has depreciated by roughly 20% so far this fiscal.

Although jewellery made up for less than 1% of overall gold imports this fiscal, some bullion indus-

try executives said in the absence of a duty differential, imports were gradually picking up. India imported gold jewellery worth \$137.57 million in the first four months of this fiscal, compared with total gold imports of \$18.52 billion. The country hardly imported any gold jewellery before January 2012 as the duty differential was to the tune of 8%.

"As the import duty has been increased, buyers

again have to rely more on local jewellery brands and we can expect more income as domestic sales would rise to that extent," said Suvanker Sen, senior executive director at Senco Gold, the largest jeweller in eastern India.

"Usually, artisans manufacture gold jewellery factoring in demand and the process of manufacturing takes time. So, in the absence of a duty differential between the imports of plain gold and jewellery, bulk buyers who didn't want to wait for purchases started importing. This affected the livelihood of artisans who were dependent on jewellery making," said Mukesh Kothari, director at Riddhi Siddhi Bullion. The domestic jewellery industry directly employs at least 1 lakh artisans.

According to the new RBI guidelines, all gold loan NBFCs must seek the central bank's approval for any expansion plans beyond 1,000 branches and the gold loan companies must put in place proper storage and security facilities.

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