

Govt. raises Customs duty on gold by 2 percentage points

The government on Monday increased the Customs duty on gold and platinum by two percentage points to six per cent.

With this, the duty on gold has gone up five-fold since January last year, when it stood at one per cent.

The move is aimed at curtailing imports of the metals. Gold has been one of the biggest contributors to the spiralling current account deficit, at 5.4 per cent of the gross domestic product in the July-September quarter.

The government also allowed gold exchange-traded funds (ETFs) to deposit part of the physical gold held by them with banks and proposed a relaxation in banks' gold deposit schemes to encourage individual investors to put their idle gold in circulation.

India imported 969 tonnes of gold in 2011 (calendar year) and 604 tonnes in 2012 till September, according to the World Gold Council.

Announcing the steps, Economic Affairs Secretary Arvind Mayaram told reporters the steps would lead to moderation in imports, as the additional gold held by individuals and mutual funds would come out in the market and the demand would be met from within the country. Mutual funds would get a marginal interest for depositing the gold with banks. The duties would be reviewed after some time if there was a moderation in gold imports, he added. (MANAGING CURRENT ACCOUNT DEFICIT)

Banks have been advised to notify the changes in gold deposit schemes in the next two-three weeks. RBI would modify its guidelines, while Sebi would issue a circular with the changes.

The moves are expected to free part of the Rs 11, 674-crore gold held in ETFs by mutual fund houses for productive use by the gems and jewellery trade.

Gold deposit schemes are offered by six banks, including State Bank of India and Canara Bank. It is on-lent by banks to gems and jewellery traders. At the end of the deposit period, the depositor is entitled to physical gold or its equivalent in cash at market prices.

Bankers, however, say the schemes have not gained much traction as storage of gold is a hurdle. SBI officials say the bank has not yet on-lent the entire gold deposited with it.

To make gold deposit schemes attractive, the government proposes to reduce the minimum quantity and the tenure (to six months from three years at present).

On fears the import duty rise would stoke gold smuggling, Revenue Secretary Sumit Bose said the government had options to deal with that.

After on Monday's duty hike, gold has become Rs 350 per 10 g costlier. In Mumbai's Zaveri Bazaar, gold rose after the announcement to Rs 30,415 per 10 g. Traders delayed invoicing of orders to make additional income. The metal rose Rs 315 in New Delhi to Rs 31,250 per 10 g.

Gold futures spread shrinks

The spread (the difference between the near-month and far-month futures contracts on MCX) fell from Rs 730 to Rs 550, as prices in the current contract rose after the duty hike announcement, while profit booking in the April contract led to some moderation in prices.

(Business Standard)