

Hike in import duty on gold to have negligible impact on immediate purchase

Synopsis

The advanced purchase by customers for the yellow metal in India might tumble, said Viraj Didwania, director of Foresight Bullion India group on Friday.



The finance ministry had announced a hike in import duty on gold to 15% from 10.75% in order to check the current account deficit (CAD) and rising imports.

A depreciating rupee amid concerns over widening current account deficit prompted the government into action mode on Friday as it hiked import duty on gold to 15% in order to check the trade gap in the country.

Indians love gold and that leads to a bloated import bill as almost all of it is sourced from abroad. After the pandemic lull, demand for gold is surging.

The hike in duty may not impact the immediate demand for the yellow metal.

The advanced purchase by customers for the yellow metal in [India](#) might tumble, said [Viraj Didwania](#), director of [Foresight Bullion India](#) group on Friday.

According to [Didwania](#), the hike in import duty will have a negligible impact on the immediate purchase (also known as in exigible demand) in India.

However, investors looking to liquidate their gold might use this as a good exit opportunity. "Investors who hold gold and are in the process of liquidating gold, it's a boon for them as the price has gone up in markets," said Didwania.

On the other hand, the investors who have been on the fence to invest in gold will have to wait more owing to increased prices.

Quoting his internal sources, Didwania revealed that the percentage of scrap gold- returned by customers in exchange of money or used instead of fresh gold- is likely to surge further from current 60-70%.

Meanwhile, [Naveen Mathur](#), director, Anand Rathi Shares and Stock Brokers, attributed the import duty hike to the government's effort of curbing imports in order to reduce the pressure on rupee as it continues to fall.

The rise in import duty on gold has been done with the aim of reducing India's widening trade deficit which could put more pressure on the rupee.

"India is a net importer due to oil and gold requirements. The same places a pressure on the rupee (hit a record low earlier this week, 6.5% decline YTD), in order to reduce in ows to the world's second-largest consumer, India increased its import tax on gold in a surprise move today," said Naveen [Mathur](#), Director - Commodities and Currencies, Anand Rathi Shares and Stock Brokers.

Earlier today, the [finance ministry](#) had announced a hike in import duty on gold to 15% from 10.75% in order to check the current account deficit ([CAD](#)) and rising imports.

Prior to this, the basic customs duty on gold was 7.5%, now it will be 12.5%. Along with agriculture infrastructure development cess (AIDC) of 2.5%, the effective gold customs duty will be 15%.
