

Import duty on gold, silver hiked to 15%

● Move aimed at easing pressure on current account

FE BUREAU
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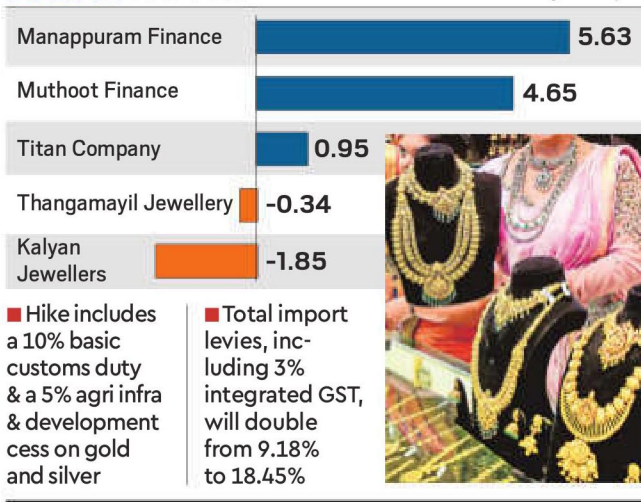
THE GOVERNMENT ON Wednesday raised the customs duty on imports of gold and silver to 15% from 6%, and on platinum to 15.4% from 6.4%, effective immediately, to safeguard macroeconomic stability, conserve foreign exchange and moderate non-essential imports amid the West Asia crisis.

The move comes just days after Prime Minister Narendra Modi urged citizens to avoid discretionary gold purchases for at least a year as part of a broader appeal for economic restraint amid the ongoing geopolitical uncertainties.

Shares of top jewellery companies, which had tumbled up to 6% following the announcement, ended the day on a mixed note. While Titan closed nearly

METAL MOVES

% change on May 13



1% higher on the BSE, Kalyan Jewellers was down nearly 2%.

According to government notifications, the hike includes a 10% basic customs duty and a 5% Agriculture Infrastructure and Development Cess (AIDC) on gold and silver, with consequential changes to related items such as gold/silver dore, coins, findings, and jewellery components.

According to experts, total import levies, including a 3% integrated goods and services tax (IGST) which is applied on the value including the BCD, will double from 9.18% to 18.45%. The IGST does not amount to a tariff as it is applied in lieu of the GST levied on local transactions.

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OFFICIALS DESCRIBED THE "calibrated increase" in duties as a measure aimed at moderating "avoidable import demand" at a time when external vulnerabilities remained elevated.

They said that customs duty has historically served as an effective policy instrument for moderating non-essential imports and managing current account deficit (CAD)-related pressures during periods of global volatility.

The government emphasises that foreign exchange resources must be prioritised towards essential imports such as crude oil, fertilisers, industrial raw materials, defence requirements, critical technologies, and capital goods.

Precious metals imports, while culturally significant, are largely consumption and investment-driven and involve substantial forex outflows with relatively lower linkage to productive industrial activity.

Aditi Nayar, chief economist at Icria, said gold and silver imports amounted to \$84.5 billion in FY26, equivalent to 11% of India's merchandise imports during the fiscal. "While the sharp hike in customs duties on gold and silver is expected to curtail such imports, this will not be enough to offset pressure on net oil imports owing to the surge in oil prices. At the same time, a weak monsoon may also compress rural demand," she said.

Earlier, duties were reduced from 15% to 6% for gold and silver (and 15.4% to 6.4% for platinum) in the Union Budget 2024-25, when external pressures eased. The current hike reverses that amid renewed stresses.

However, according to the Global Trade Research Initiative (GTRI), the recent tariff hike sharply improves the economics of importing precious metals at concessional duties through or from the UAE under the Comprehensive Economic Partnership Agreement (CEPA) with the nation.

"Under CEPA, India agreed to gradually reduce silver import duty from 10% to zero over ten years from May 2022. The current concessional rate stands at 7%. With the general tariff now at 15%, the duty gap has widened to 8 percentage points — an arbitrage opportunity that will grow annually until duties reach zero in 2031," GTRI said. Gold

imports from the UAE also enjoy a 1 percentage point concession below the MFN rate via a Tariff Rate Quota (TRQ), rising from 120 tonnes in 2022 to 200 tonnes by 2027. At the new 15% MFN rate, UAE gold will enter at 14%. This widening gap is likely to boost bullion routing through Dubai, even though the UAE produces neither gold nor silver, the GTRI said.

Gaura Sengupta, chief economist at IDFC First Bank, said the impact of the hike in gold import duty to 15% will largely depend on the price sensitivity of gold demand. In FY26, even as gold prices surged by 52.5%, import volumes declined by only 10%, indicating relatively moderate elasticity, she said.

"Given the sharp rise in crude oil prices, CAD is projected to widen beyond 2% of GDP in FY27. Against this backdrop, policy measures to attract stable capital inflows will be critical," Sengupta said. The CAD remained comfortable in FY26, at just 0.9% of GDP.

Meanwhile, Bipin Sapra, partner and indirect tax policy leader, EY India, pointed out that the higher customs duty can become the new normal. He underlined that higher landed costs will push up domestic prices, leading to moderation of demand in price-sensitive segments, particularly in jewellery demand, in the near term. "However, gold prices have been increasing steadily in the last few years on account of the increase in import price of gold. The higher customs duty can become the new normal," he said. Rising import duties can trigger a near-term uptick in smuggling activity, he said, necessitating "stricter enforcement at airports and other border areas".

Ranen Banerjee, partner and leader of economic advisory at PwC India, warned that investors with a negative view on the exchange rate dynamics might interpret this move as likely further pressure on the exchange rate, and may end up buying more physical gold and gold ETFs as a hedge.

Manoj Mishra, partner and tax controversy management leader at Grant Thornton Bharat, highlighted a strong historical correlation between higher gold import duties and increased smuggling in India.

