

PRESS RELEASE

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INDIAN FISCAL STIMULUS PACKAGE “DOUBLE-EDGED SWORD” FOR GOLD MARKET, ACCORDING TO WGC

World Gold Council has welcomed the Indian government’s massive economic impetus measures but warned that the rise in gold import duty will put added pressure on the gold market, already suffering from high local prices and the impact of lower consumer spending.

The Indian government has announced in its budget that it is investing heavily in the agricultural, industrial and social sectors in an effort to boost consumer confidence and drive economic growth, resulting in a budget increase of 36%. To help pay for this package the gold industry has become a tax target.

There are two key changes in the Indian budget that have an impact on the gold market:

- The import duty on gold bullion has doubled from Rs. 100 per 10 gms to Rs. 200 per 10 gms. The Rs. 100 duty has been applicable since 2004, when the gold price was Rs. 5800 per 10 gms, and import duty was 2% of the gold price. After this increase import duty as a percentage of the gold price is 1.4%
- An excise duty component of 2% applicable on branded jewellery has been abolished. While welcome news, the branded sector only represents 4% of the Indian gold jewellery market.

Ajay Mitra, Managing Director Indian Subcontinent, World Gold Council, commented:

“The Indian gold market is notoriously sensitive to price. We have recently seen record rupee prices, and coupled with the impact of global recession this has put a significant dampener on local gold demand. The government’s announcement is a double-edged sword and while we welcome the broader confidence-boosting package, which we believe will help drive consumer spending, we caution the addition to gold import duty, which will inevitably add cost to the end consumer and impact gold demand.

“World Gold Council actively communicated with the Indian Central Bank and Ministries of Finance and Commerce in the late 1990’s to facilitate the free flow of gold into the country and in making a case for the rationalisation of import duties. The stabilisation of import duties enabled the secure development and growth of the Indian market through official channels. We hope that this higher duty rate does not add to significant trading through non-official channels.”

The difference in price between the internationally sourced gold and Indian domestic gold widens to 3 to 3.5 % (per 10 grams) due to the additional taxation and this could lead to additional smuggling especially during periods of high demand during festival season.

For further information,

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WORLD GOLD COUNCIL

Notes to Editors:

World Gold Council

World Gold Council's mission is to stimulate and sustain the demand for gold and to create enduring value for its stakeholders. It is funded by the world's leading gold mining companies. For further information visit www.gold.org

