GTRI brief

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The Ripple Effects of India's Precious Metal Duty Cuts

This sweeping tariff reduction on gold, silver, and platinum in the budget has sparked significant changes in prices, demand, and the broader economic landscape.

Duty cuts are seen as a bold move by the Government to reshape the dynamics of the precious metals market, and curb the impact of imports via the India-UAE Comprehensive Economic Partnership Agreement (CEPA).

The budget has significantly reduced customs duties on precious metals, cutting duties from 15% to 6% for gold bars, from 14.35% to 5.35% for gold dore, from 15.4% to 6.4% for platinum, from 15% to 6% for silver bars, and from 14.35% to 5.35% for silver dore.

This has led to a **substantial reduction in prices in a single day**, with gold prices decreasing by 5.28% from Rs 75,500 to Rs 68,500 per ten grams and silver prices dropping by 5.28% from Rs 91,700 to Rs 86,850 per kilogram. The reduction in import tariffs is expected to cause further price declines, with an anticipated total decrease of 7.56%.

Import tariffs on gold and silver were 15% and GST at 3%. Total was 18%. Now with reduction of import tariffs the total becomes 9%. Assuming one percent handing charges the Gold and silver prices impact would be 7.56%.

The lower prices are expected to **boost consumer demand, benefiting jewelers** who will see increased business as gold and silver become more affordable. However, **banks, jewelers, and private firms holding gold imported at the previous 15% duty will face significant losses**. Additionally, lower margins are likely to reduce gold smuggling activities.

The government is projected to lose Rs 28,000 crore annually in revenue due to the Most Favored Nation (MFN) duty reduction from 15% to 6%. This calculation is based on FY 2024 import levels, where India imported gold worth US$ 45.54 billion and silver worth US$ 5.44 billion, and exported jewellery worth US$ 13.23 billion.

There will also be a **reduction in gold and silver imports from Dubai under the India-UAE CEPA**. However, as India has committed to zero tariffs on platinum and silver in the next 2 and 7 years respectively, the possibility of future concessional tariff imports remains, necessitating renegotiations of CEPA.

Under India-UAE CEPA, 200 MT, or a quarter of India's annual imports of gold, was allowed at 1% concessional tariffs. The current duty reductions will not impact gold imports at 1% concessional duty. Gold was previously coming in at 14% tariffs and now will be at 5% tariffs. However, all other imports routes of bullion from Dubai via CEPA will be impacted.

For example, Gold was also imported from Dubai under CEPA as a platinum compound at 5% tariffs under India-UAE CEPA, benefiting from a 10% duty arbitrage. With the new Most Favored Nation (MFN) duty on gold set at 6%, this arbitrage drops from 10% to 1%. However, the arbitrage will rise from 1% to 3.5% next year and further to 6% in two years when CEPA tariffs on platinum become zero.

Similarly, silver was being imported at 8% tariffs with a 7% duty arbitrage under CEPA. Now, with the MFN duty on silver reduced to 6%, the arbitrage drops to zero. However, it will gradually increase to 6% as India has committed to zero tariffs on silver over the next seven years.

India-UAE CEPA allows unlimited imports of gold, silver, platinum, and diamonds from the UAE into India with zero tariffs in the coming years. This would have led to significant annual revenue losses, moved import business from banks to a few private traders, and replaced top suppliers with Dubai-based firms. It would also have disrupted the domestic diamond and jewelry industry, with major imports coming from GIFT City, which has transparency issues. The budget addressed most of these issues with bold measures.

As India braces for the ripple effects of these tariff cuts, the government may need to renegotiate CEPA to safeguard its economic interests. Without these renegotiations, the country risks significant revenue losses, market disruptions, and a shift in import dynamics. The recent budget has made a strong statement, but the future of India's bullion market hinges on strategic international negotiations.

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