

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:5798

ANSWERED ON:11.05.2012

AGGRAVATION OF BALANCE OF PAYMENT DUE TO GOLD IMPORTS

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Will the Minister of FINANCE be pleased to state:

(a) whether huge import of gold is creating a dangerous situation by aggravating country's balance of payments problem resulting in the depreciation of the rupee and depleting the foreign exchange reserves;

(b) if so, the reaction of the Government thereto; and

(c) the details of action taken/proposed to be taken by the Government to address the concern?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) The balance of payments situation is assessed in terms of current account and capital account balance. The current account deficit (CAD) increased to 4.0 per cent of GDP in 2011-12 (upto December 2011) as compared to 3.3 per cent during the same period of 2010-11 due to widening of trade deficit on account of higher imports of POL and gold & silver.

The main reasons for rupee depreciation are the supply-demand imbalance in the domestic foreign exchange market, mainly due to widening of CAD, slowdown in FII inflows, and heightened risk aversion due to the euro area sovereign debt crisis.

The CAD is financed by capital account surplus and drawdown of foreign exchange reserves in situations where CAD exceeds capital account balance. In 2011-12 (upto December 2011), as CAD is higher than the capital account surplus, there was drawdown of foreign exchange reserves to the tune of US\$ 7.1 billion.

(b)&(c) To lower the impact of gold imports on CAD under balance of payment, Government in the Union Budget 2012-13 has proposed to increase basic custom duty on standard gold bars; gold coins of purity exceeding 99.5 per cent and platinum from 2 per cent to 4 per cent and on non-standard gold from 5 per cent to 10 per cent.

Further, the Reserve Bank of India has taken certain prudential measures in respect of Non-Banking Financing Companies (NBFCs) predominantly engaged in lending against collateral of gold jewellery, to restrict the loans against gold.