SBI RESEARCH

ECOWRAP

GOLD LOSES SPARKLE: CUSTOM DUTY HIKED TO 15%..IMPACT WILL PLAY OUT…MEANWHILE OIL CONSUMPTION SIGNIFICANTLY DECLINED IN APRIL

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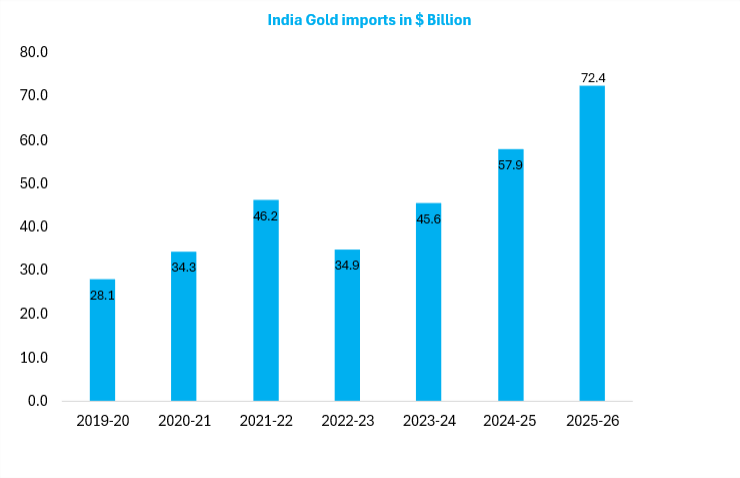
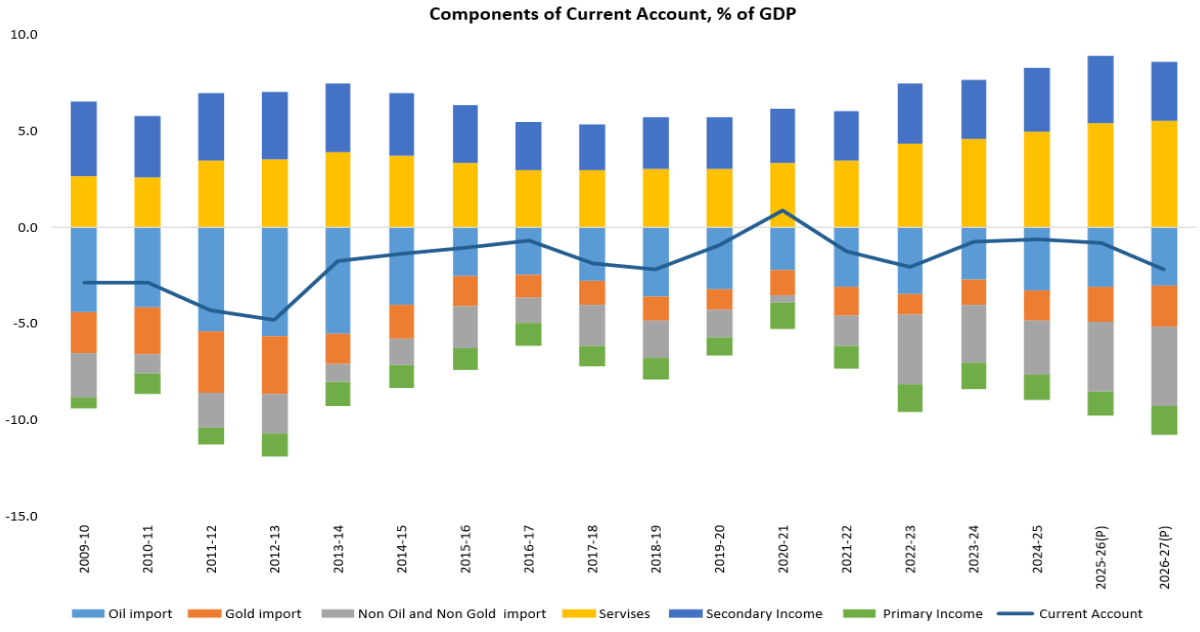
BROAD TRENDS IN GOLD IMPORTS

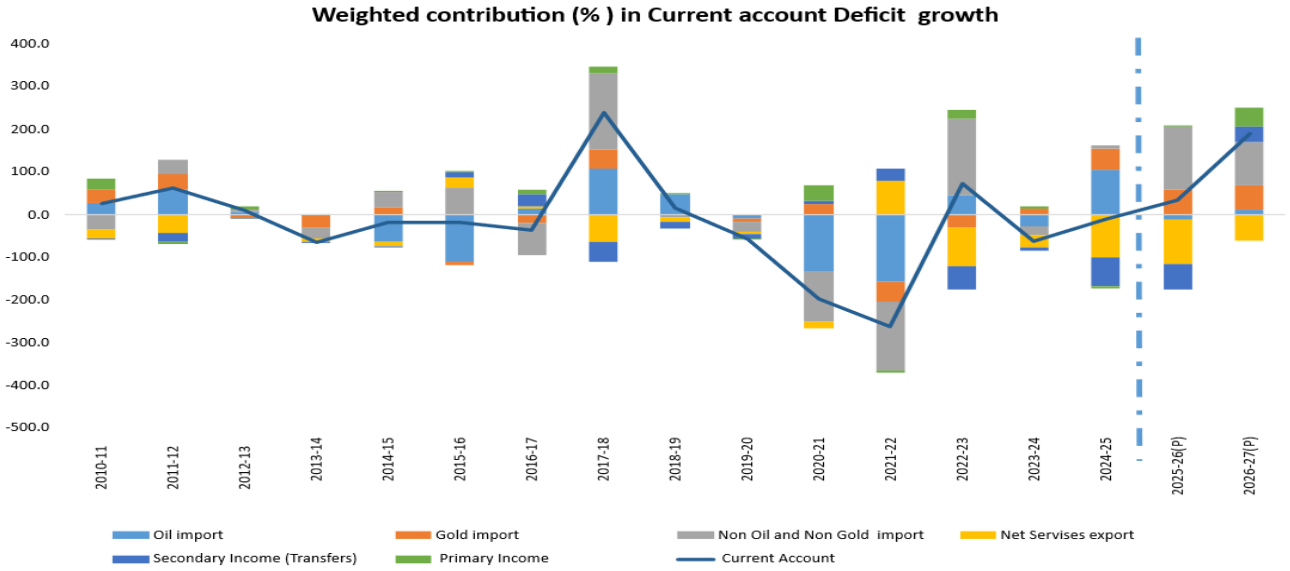
- The import of gold in recent trends has diverged in volume and value terms. The trends in value show a sharp rise from $57.9 billion in FY25 to $72.4 billion in FY26.
- In volume terms, the gold imports have shown a decreasing trend since FY24, reducing by approximately 5% in FY25 and FY26.
- **This shows that overall import bill has been dominated by price effect while volume effect is negative for last two years.**

GOLD IMPORTS AND CAD

- The impact of gold in Current Account Deficit (CAD) is a matter of concern. The decomposition of CAD both as per cent of GDP and in weighted contribution terms show that impact of gold imports has varied over time.
- There is no clear trend that CAD developments have been driven by gold. The highest impact in terms of GDP was seen a decade ago in FY12 and FY13. In weighted contribution terms projection based on recent trends show significant impact of gold imports on CAD.
- Another aspect that needs appreciation is that not all gold is domestically consumed. Re-exports in terms of jewelry account for 38%.
- **Interestingly, oil consumption also declined sharply by –4.6% yoy in Apr'26 echoing the Prime Minister appeal of cutting down of fuel consumption.**





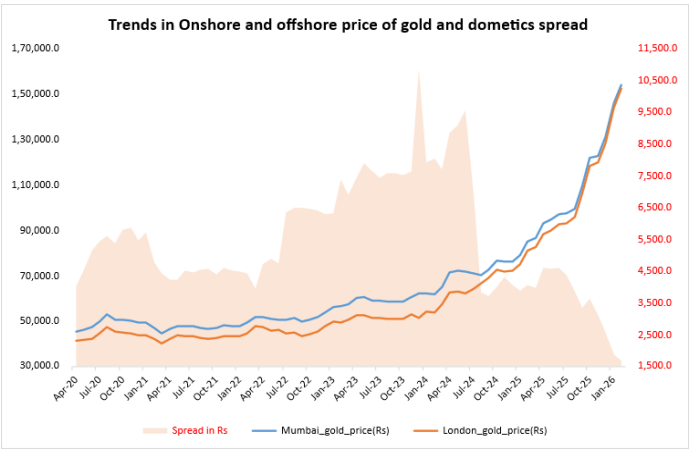


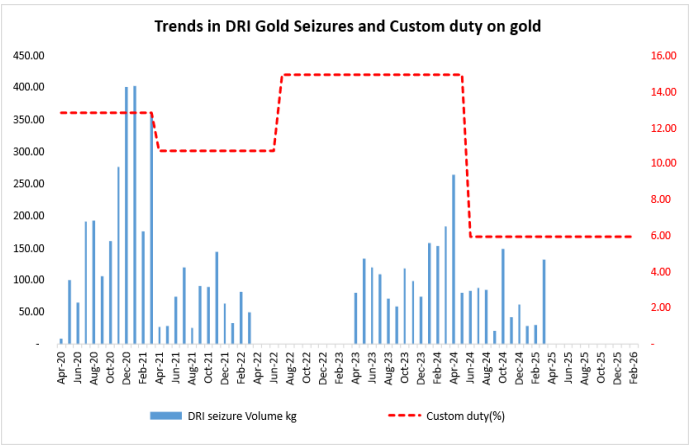
DUTY ESCALATION: IMPACT ON GOLD PRICES AND PHYSICAL MARKETS

- The decision to increase duty on gold imports has been taken on numerous occasions in the past. However, imposition of duty has it consequences in diverting the physical supply to grey channels.
- This is driven by higher spread between the offshore and onshore price of gold, which creates opportunity for arbitrage.
- Also, it should be kept in mind that duty on gold was reduced by more than half to 6% in June 2024 till current rise to 15%.
- **Invariably, rise in duty results in higher seizure by DRI. Using the best available monthly data on gold seizure by DRI this trend is visually discernable.**

OUTLOOK

- **We expect that current hike in duty may see similar trends as seen in past. However, we also feel that given the strong negative volume effect seen in recent two years, there will be some downward adjustment in volumes, the extent of which is however uncertain.**





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