

Gold import could drop 10% as agencies plan cuts

fe Bureau

New Delhi, June 5: India's gold imports could drop by up to 10% to around 880 tonnes this fiscal on the back of the latest measures by the Reserve Bank Of India (RBI) to restrict purchases of the precious metal from overseas, which have contributed in good measure to the worsening of country's current account deficit.

Officials at state-run trading agencies MMTC and STC, through which around 35% of the country's gold imports are canalised, said they would reduce their purchases from overseas by discontinuing with the consignment scheme, which enabled importers to place orders beyond their genuine business requirements.

India, the world's top bullion consumer, imported around 980 tonnes in the last fiscal, of which nearly 15% was used for jewellery export purposes. With the government promising more measures, if required, to trim

gold imports, analysts said the impact of the latest RBI steps will be felt more dramatically in the short-term, especially in June and July.

"The RBI has been regularly issuing circulars and we have to curtail our imports as per those directives. Certain schemes will be discontinued and all agencies which are nominated by the central bank—including the private ones—have to follow," said an STC official without sharing the actual fall in imports of the precious metal. An MMTC official said it was too early to gauge the precise fall in imports.

"Gold imports are already taxed at 6% and coupled with the cess, the cost of imports would be around 6.6%, if you discount the charges levied by the agencies for imports. The latest measures by the RBI would drive up the costs by up to 1%," Sanjeev Agarwal, chief executive officer at Gitanjali Export Corporation, told FE. "There could be a short-term impact on imports. But in the long run,



these measures (to choke supplies) run the risk of opening up avenues for smuggling and other illegal channels."

The central bank on Tuesday extended restrictions on gold imports on consignment basis to agencies, in addition to banks, with a view to allowing purchases from overseas "only to meet the genuine needs of the exporters of gold jewellery". It also directed that all letters of credit must be opened by designated

banks or agencies for gold imports only on 100% cash margin basis.

The measures came amid imports hitting 162 tonnes of gold in May, a record for any month, and compared with 142.5 tonnes in April—which was again a month of huge purchases from abroad. Purchases by Indian surged after a drop in prices since mid-April in the global market.

Gold has been trading at a premium of \$15 an ounce in India over the global rate for the past two weeks, thanks to strong physical demand. Gold overseas was ruling at \$1,402.41 an ounce at 1251 GMT on Wednesday up 0.2%.

Prithviraj Kothari, managing director at Mumbai-based Riddisiddhi Bullion, said the price crash since mid-April triggered a frenzy for gold as consumers, and many jewellers, had been waiting for nearly two years for the elevated level of prices to tumble.

"Although the measures may have some impact on imports during June and July in

the longer term, the price will play a major role in the import trend," he said.

The government is worried particularly about the fact that an idle asset like gold has been pressuring the country's current account deficit, along with the indispensable crude oil.

The country's CAD scaled a peak of 6.7% of gross domestic product in the quarter through December 2012 and hit a record 5.3% in the first three quarters of the fiscal year through March 2013. The current account comprises the balance of trade, net factor income such as interest and dividends, and net transfer payments.

However, analysts said some bulk buyers could still bypass the latest restrictions. "There are other ways to import gold. The restrictions have been imposed only on consignment-based imports. But there are other ways like importing it by paying a fixed price or taking it on loan," said Suvanker Sen, executive director of Senco Gold.