

Traders stock up on gold before duty hike

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Demand for gold increased at a rapid pace in the first three weeks of January as traders and jewellers stocked up on the precious metal in the run-up to the import duty hike announced by the finance ministry on 21 January.

In expectation of the increase, bullion buyers stepped up purchases of gold to avoid paying a higher import duty, bankers said. Finance minister P. Chidambaram had said on 2 January that the government was left with no choice but to make imports of gold more expensive to curb demand in the backdrop of a widening current account deficit.

The government increased the import duty on gold to 6% from 4%, the second such increase in the current fiscal year. Chidambaram's predecessor Pranab Mukherjee raised the duty to 4% from 2% in his February 2012 budget.

Kotak Mahindra Bank Ltd witnessed double the demand for gold in the first three weeks of January compared with the same period last year as traders rushed to take advantage of the gap between Chidambaram's 2 January remark and the actual increase.

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"We have seen a significant increase in demand for gold. Demand has increased very strongly between December and January. In this month so far, demand has been at least double the average," said Mohan Shenoi, treasurer at Kotak Mahindra Bank.

The possibility of a rise in the import duty had likely converted the latent demand for gold into real demand, said Ajay Marwaha, head of trading at **HDFC Bank Ltd.**

HDFC Bank and Kotak Mahindra Bank are two of the 30-odd Indian banks licensed to import gold into the country.

A **State Bank of India** official, who did not want to be named, said the bank had also seen higher demand for gold in January.

"The demand is always strong post-September due to the festive season, but this January it has been higher by about 25% to 30% compared with last year, which witnessed a slowdown in demand. Compared with 2011, when the demand was good, it was at least 15% higher," Marwaha said.

These are, however, estimates based on trading in the market.

Gold industry lobby group World Gold Council, which tracks the numbers on a quarterly basis, said India's gold imports

between January and September 2012 (the latest figures available) dropped 24% to 607.6 tonnes from 800.8 tonnes in the same period of 2011.

But between July and September 2012, the quarter before the festive season in India kicks in, imports grew 9% to 223.1 tonnes from 204.8 tonnes in the year-ago period.

According to government data, gold imports into the country were estimated at \$38 billion (around ₹2 trillion today) between April and December 2012 compared with \$56.5 billion in 2011-12.

Marwaha of HDFC Bank estimates that India imports about 60-70 tonnes of gold in a month, but in the last six weeks, the demand has been 80 tonnes.

The current account deficit, which is the difference between a country's imports and exports of goods, services and transfers, rose to 5.4% of India's gross domestic product in the July-September quarter, up from 4.2% in fiscal 2011-12. Such a high deficit means a significant erosion of a country's foreign assets.

Gold imports constituted 11.5% of India's total import basket in 2011-12 in value terms, growing from 6.9% in 2008-09.

Karan Vasa, associate vice-president at RiddiSiddhi Bullions Ltd, a non-banking licensed importer, said gold imports usually



On the rise: Experts say demand for gold has been 80 tonnes in the past six weeks.

spike between July and September, but this January imports are at least 50-60% higher than in the same month last year.

"Around 55-60 tonnes of gold has already been imported this month. On an average, 70 tonnes of gold is imported every month, but it is mostly between July and September, just ahead of the festive season. India imports 300-400 tonnes of gold in that period out of the approximate 900 tonnes imported per year," Vasa said.

World Gold Council data

shows that India imported 986.3 tonnes of gold in 2011, down from a record 1,006.3 tonnes in 2010. On an average, India imported 734.34 tonnes of gold between 2002 and 2011.

Economists are not sure whether raising import duty is the right way to curb gold imports. In a note on Tuesday, Sonal Varma, India economist at **Nomura Financial Advisory and Securities (India) Pvt. Ltd.**, said the government's move tackles only the "symptom, not the cause" of higher gold imports.

"Gold demand has risen as a hedge against inflation. Therefore, we think imposing import duty will likely only shift gold imports from official to unofficial channels as it tackles the symptom, not the cause," Varma said. Nomura estimates gold imports to ease to \$44 billion in fiscal 2014 from an estimated \$48.3 billion in fiscal 2013, or a drop of 0.2%.

"In volume terms, the additional imposition of import duty could lead to gold imports moderating to 750-800 tonnes in FY14. However, we do not expect gold imports to fall much more than that as consumption demand for gold (around 65% of gold demand) and investment demand (around 35%) have already moderated close to their averages," Varma added.