

Press Release

India's gold imports at a decade high level in H1 FY22 Pent-up demand amidst onset of festivities driving the spurt in imports

22 October 2021

Post the deleterious impact of the pandemic, India's external metrics has been on a gradual path of normalization with overall trade deficit widening to a nine-quarter high of USD 46.9 bn in Q2 FY22. On a half yearly basis, while exports have risen by 57.7% YoY in H1FY22 as compared to the corresponding period of the previous year, the expansion of the merchandise trade deficit is led by significant 81.4%YoY rise in imports. Interestingly, the surge in imports has been due to a very significant rise in gold imports which rose to a decade high level of USD 23.9 bn in H1 FY22 (Chart 1) clocking a growth of 253.6%YoY. Even as compared to the pre-pandemic period (H1 FY20) the gold imports have risen by 51.3% in H1 FY22 (Chart 2).

"In our opinion, the release of the pent-up demand following the easing of lockdown restrictions and re-opening of retail outlets, the revival in consumer sentiments due to the steady progress in vaccination, the declining risk of a third Covid wave along with re-stocking of inventories ahead of the festive and wedding season have led gold imports to surge in FY22 so far." **says Suman Chowdhury, Chief Analytical Officer, Acuite Ratings.** The mild correction in domestic gold prices by 2.7% from the peak seen in May-21 has further provided a fillip to domestic gold demand (Chart 3). As per the World Gold Council, for every 1% fall in the gold price in any given year, gold demand increases by 1.2%.

He adds "Further, it is also likely that a part of the increased household savings in the higher income categories are being partly deployed in physical gold as it has been traditionally considered to be a safe haven in an environment where the risks of the pandemic continue to exist. Additionally, investors may have also started to diversify their asset portfolios by redeploying the profits from the equity markets in bullion. Another factor which has also contributed to the rise in gold imports is the recovery in exports of gems and jewellery with strong demand from countries such as US, Hong Kong and UAE. The outbound shipment of gems and jewellery has increased to its pre-pandemic level and stood at ~USD 3.4 bn in Sep-21 (Chart 4). The cumulative exports in the first half of FY22 at USD 19.3 bn have already touched the levels seen in H1FY20 after reducing to less than half in the previous year. The proposed free trade agreement (FTA) with the UAE can further result in enhanced exports of gems and jewellery over the medium term. Looking ahead, with economy gradually normalizing we expect the strong momentum in gold imports to continue leading trade deficit to widen further. As such, we expect current account balance to register a deficit of USD 38 bn in FY22 from a surplus of USD 24 bn in FY21."

Chart 1: Gold imports in H1 FY22 stands at a decade high

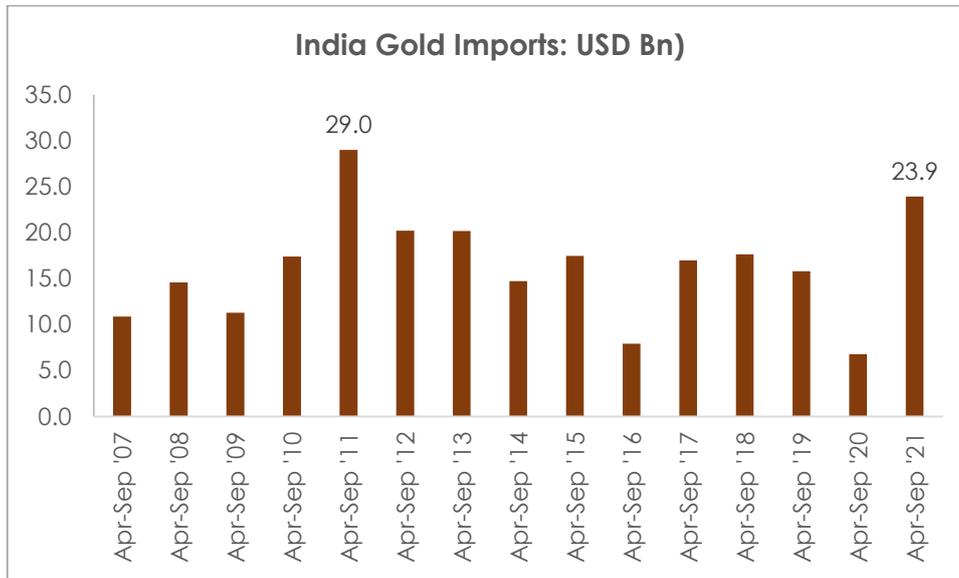


Chart 2: Correlation between a pickup in jewellery exports and higher gold imports

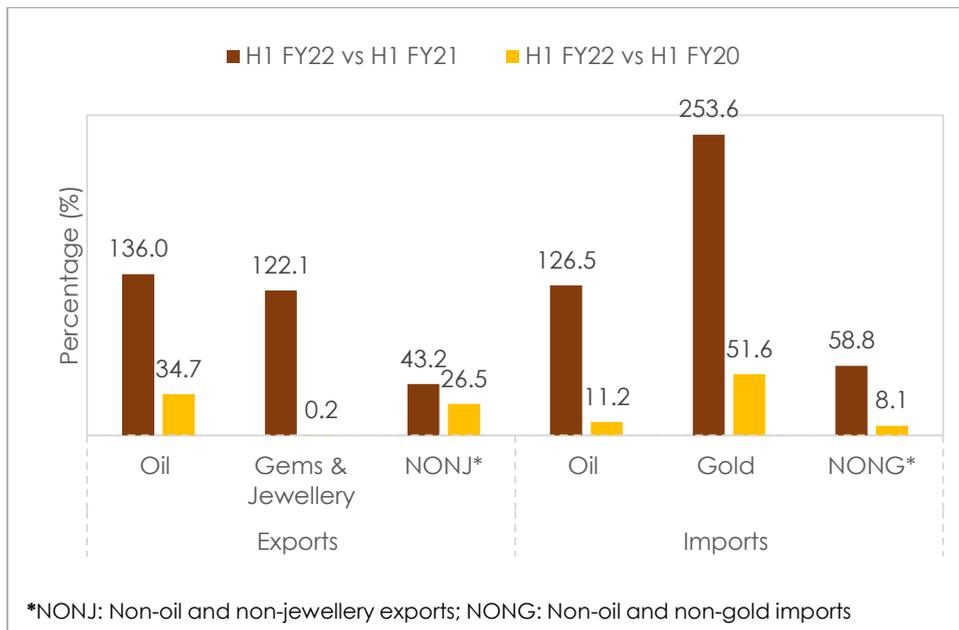


Chart 3: Gold prices have been on a declining trend since May-21

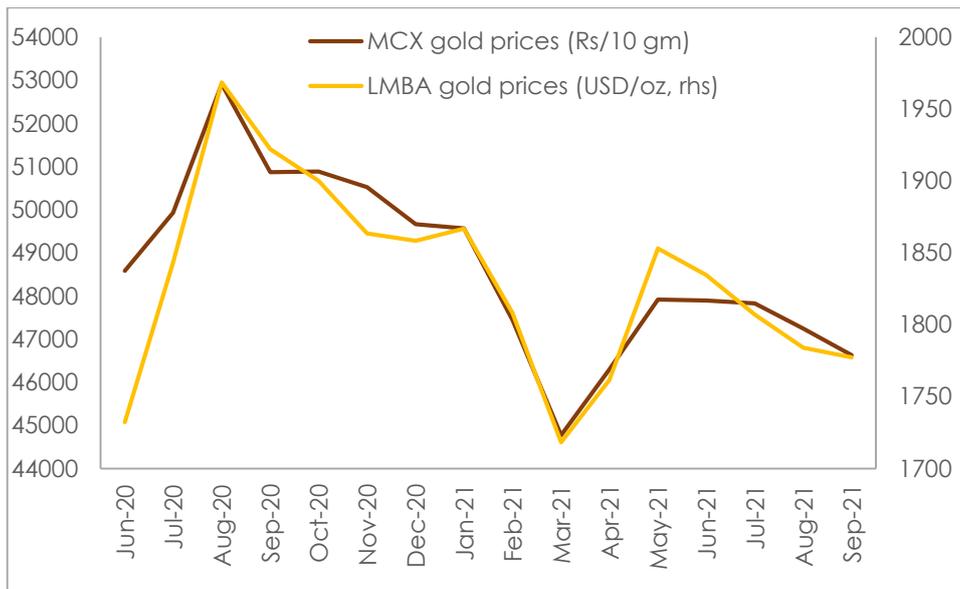
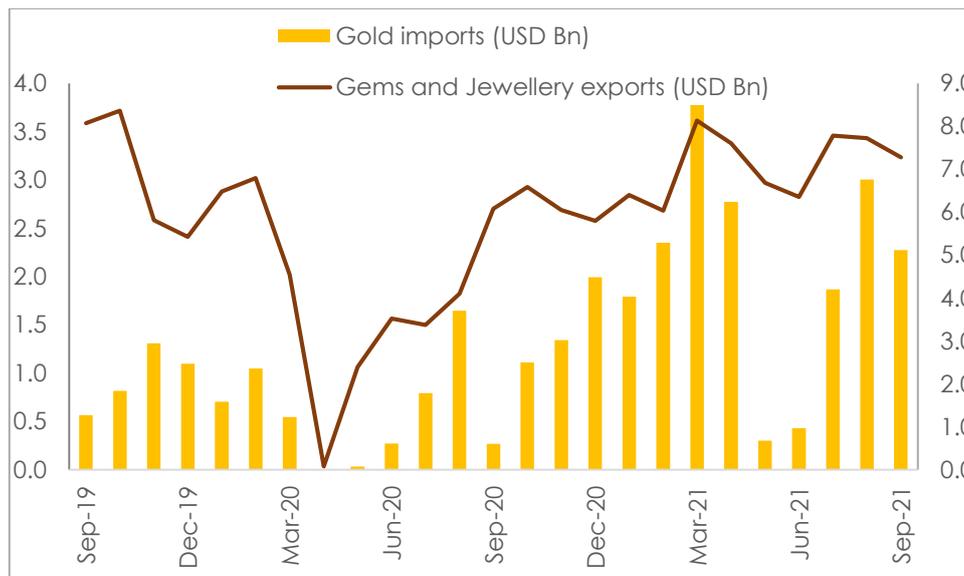


Chart 4: Gems and Jewellery exports touching pre-Covid levels



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Media Contacts:

| | |
|--|--|
| Roshni Rohira Ph: + 91-9769383310 roshnirohira@eminenceonline.in | Neelam Naik Ph: + 91-9619699906 neelam@eminenceonline.in |
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Investor Outreach:

Analytical Contact:

| | |
|---|--|
| Rituparna Roy Deputy Vice President Ph: + 91-7506948108 rituparna.roy@acuite.in | Suman Chowdhury Chief Analytical Officer Ph: + 91-9930831560 suman.chowdhury@acuite.in |
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