Dual Policy of Economic Tightening & Upcoming MPC

(June 5, 2026)

(Gold/Silver Import Duty Hike & Petrol/Diesel Price Increase)

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Dual Policy Announcements Are :

Gold & Silver Import Duty Hike

The government has raised the import duty on gold and silver to 15% (effective May 13, 2026) from the previous 6%

- **Breakup**: 10% Basic Customs Duty + 5% Agriculture Infrastructure and Development Cess (AIDC).
- With 3% IGST, the **effective total duty** is around **18.4%**.
- This also applies to platinum (to 15.4%) and related items like gold/silver dore, coins, etc.
- Additionally, duty-free imports under the Advance Authorisation scheme (for jewellery exporters) have been capped at **100 kg per licence**.

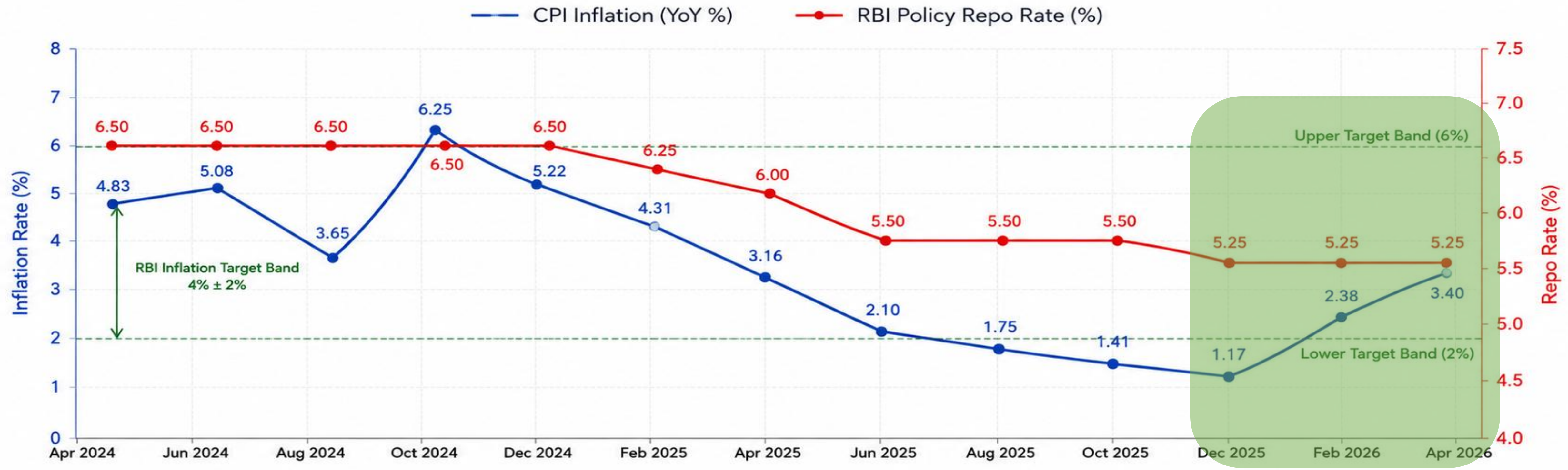
Petrol & Diesel Price Hike

- Oil Marketing Companies (OMCs like IOCL, BPCL, HPCL) hiked petrol and diesel prices by ₹3 per litre (effective May 15, 2026).
- This is the first major hike in nearly four years.

CPI & Policy Rate Movement in Last 2 Years ..

India: Inflation Rate vs Policy Repo Rate

Last 2 Years (Apr 2024 – Apr 2026)



Key Data Points

Period	CPI Inflation (YoY %)	Repo Rate (%)
Apr 2024	4.83	6.50
Oct 2024	6.25	6.50
Apr 2025	3.16	6.00
Jun 2055	2.10	5.50
Dec 2025	1.17	5.25
Apr 2026	3.40	5.25

Key Developments (Summary)

Mid 2024
Inflation eased on lower food prices but later spiked due to vegetable & food price pressures.

Oct – Dec 2024
Inflation peaked around 6%+.
RBI kept repo rate unchanged at 6.50% to maintain stability.

Early 2025
Inflation started cooling below 4%.
RBI began rate cut cycle in Feb 2025.

Mid 2025
Inflation fell sharply towards ~1–2%.
RBI lowered repo rate by 100 bps to 5.50% by Jun 2025.

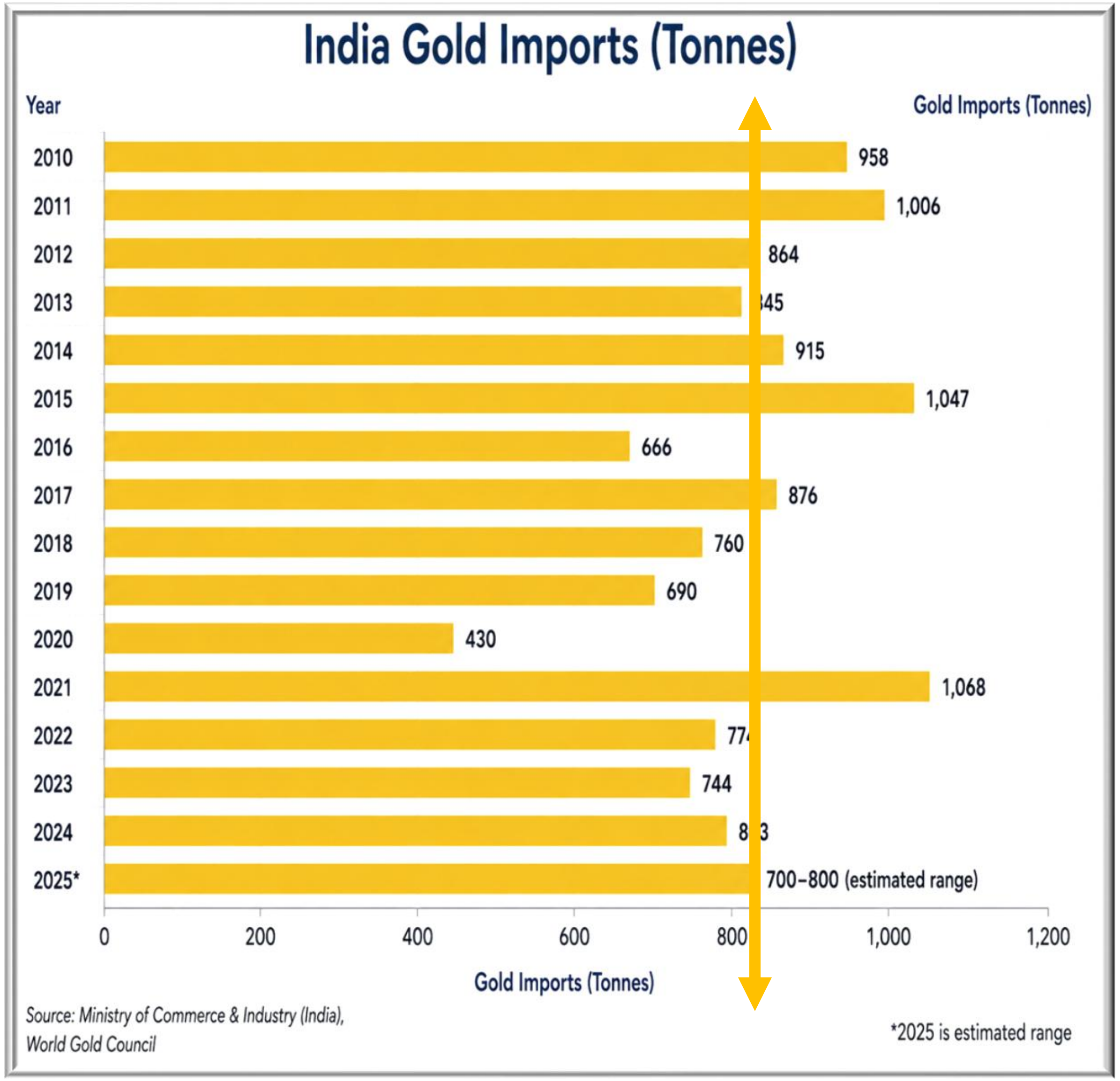
Late 2025
Inflation remained low and stable.
RBI cut repo rate further to 5.25% in Dec 2025.

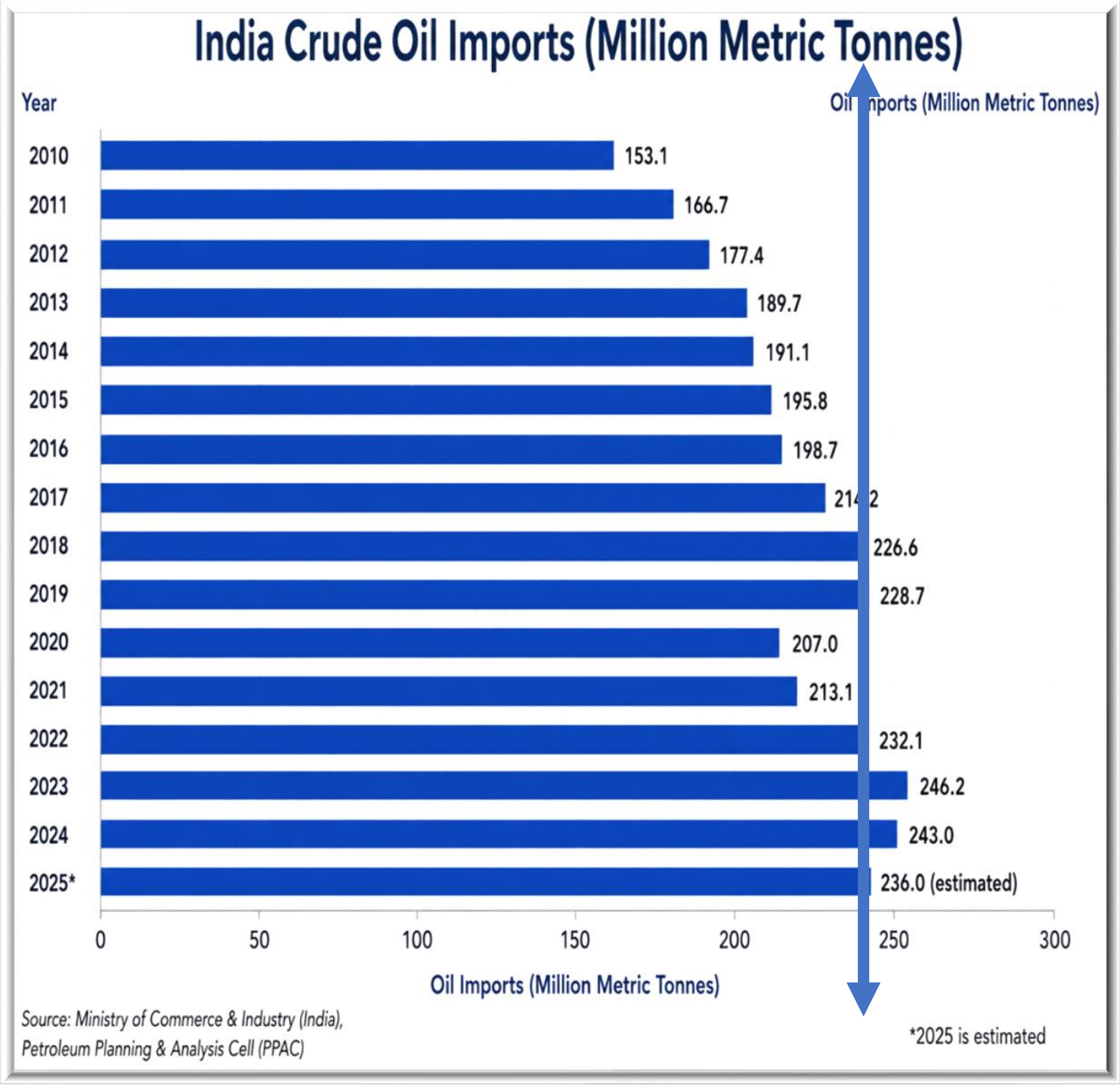
Early 2026
Inflation edged up but remained within target band.
RBI kept repo rate unchanged.

Source: Ministry of Statistics & Programme Implementation (MOSPI), RBI

Why it became inevitable for Govt to Make Such Announcement ? :

Volume of Gold & Oil import has no Exceptional Outlier ….



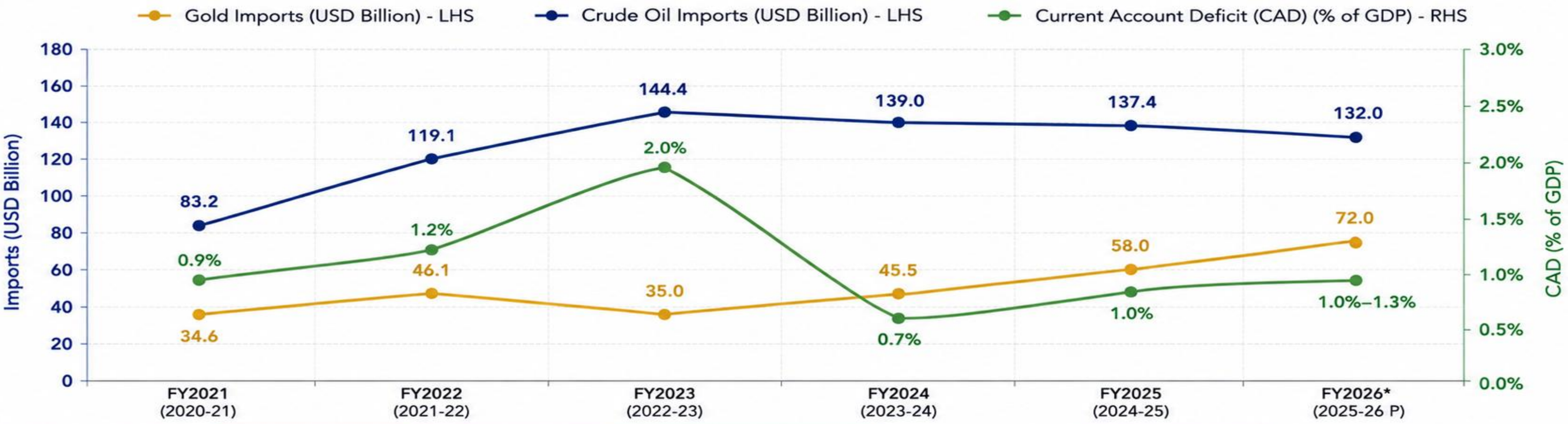


CAD as % of GDP is not able to explain it ….

India: Gold Imports, Crude Oil Imports & Current Account Deficit (Last 5 Years)

Financial Year wise Trend (FY2021 – FY2026*)

(*FY2026: Apr 2025 – Mar 2026 (P))



Financial Year	Gold Imports (USD Billion)	Crude Oil Imports (USD Billion)	Current Account Deficit (CAD) (% of GDP)
FY2021 (2020-21)	34.6	83.2	0.9%
FY2022 (2021-22)	46.1	119.1	1.2%
FY2023 (2022-23)	35.0	144.4	2.0%
FY2024 (2023-24)	45.5	139.0	0.7%
FY2025 (2024-25)	58.0	137.4	1.0%
FY2026* (2025-26 P)	72.0	132.0	1.0% – 1.3%

P: Provisional

Source: Ministry of Commerce & Industry (Gold & Oil Imports), RBI (Balance of Payments)

KEY TAKEAWAYS

- **Gold Imports:** Strong upward trend over last 5 years; touched a record ~USD 72 billion in FY2026.
- **Crude Oil Imports:** Peaked in FY2023 and have been gradually easing with softer global oil prices.
- **Current Account Deficit (CAD):** Worsened in FY2023 due to high commodity prices and imports; improved in FY2024 and remains manageable in FY2025–FY2026.

Strong services exports, remittances and lower oil prices helped contain CAD despite high gold imports.

India: Gold & Crude Oil Imports and Their Share in Current Account Deficit (Last 6 Years)

Financial Year	Total Imports (USD Bn)	Total CAD (USD Bn)	CAD (% of GDP)	Gold Import (USD Bn)	Gold Import as % of Total Imports (%)	Gold Import as % of CAD (%)	Oil Import (USD Bn)	Oil Import as % of Total Imports (%)	Oil Import as % of CAD (%)
FY2021 (2020-21)	394.4	13.6	0.9%	34.6	8.8%	28.7%	83.2	21.1%	68.9%
FY2022 (2021-22)	558.1	20.8	1.2%	46.1	8.3%	34.6%	119.1	21.3%	89.4%
FY2023 (2022-23)	683.0	34.2	2.0%	35.0	5.1%	17.5%	144.4	21.1%	72.2%
FY2024 (2023-24)	678.7	11.4	0.7%	45.5	6.7%	47.9%	139.0	20.5%	146.3%
FY2025 (2024-25)	720.4	15.1	1.0%	58.0	8.1%	58.0%	137.4	19.1%	137.4%
FY2026* (2025-26 P)	769.2	15.4 – 20.0	1.0% – 1.3%	72.0	9.4%	55.4% – 72.0%	132.0	17.2%	101.5% – 132.0%

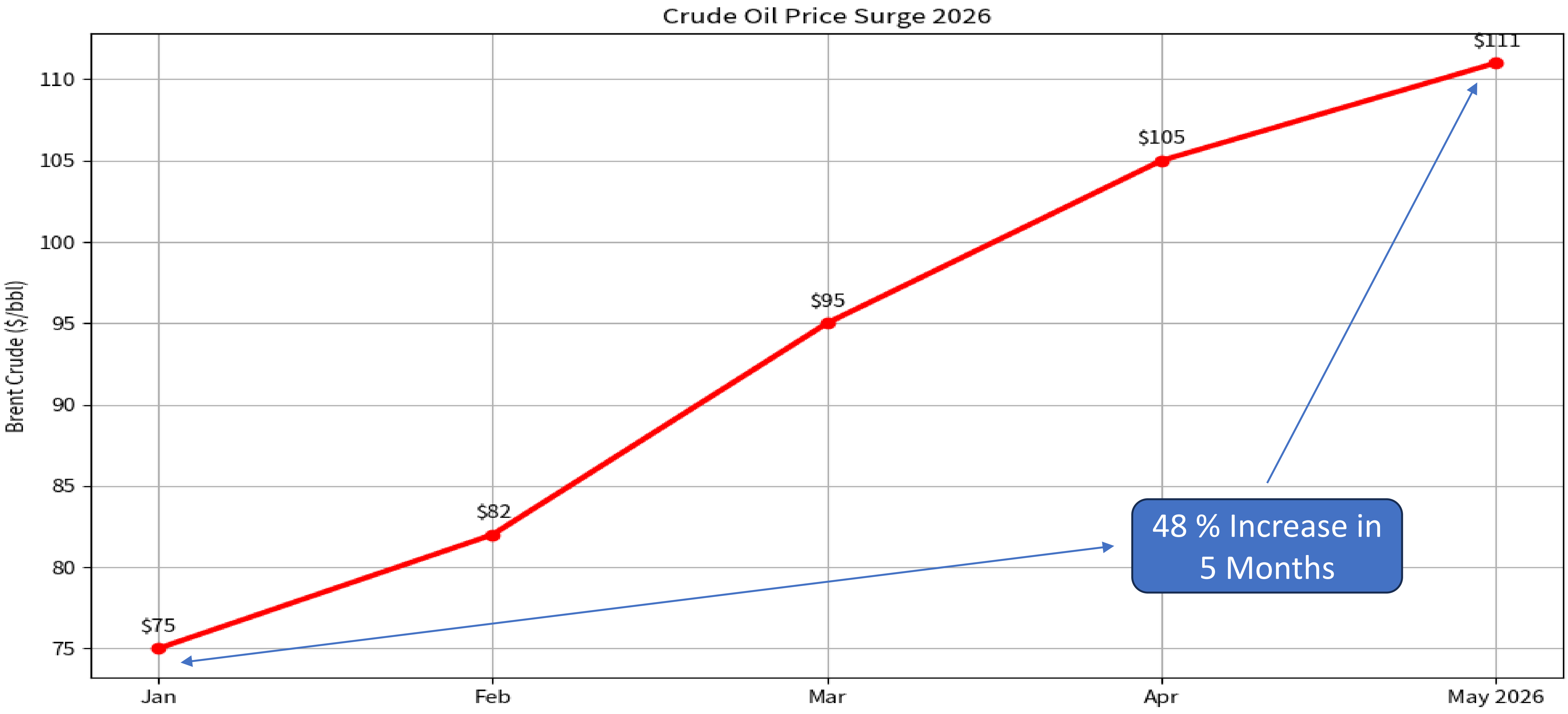
CAD = Current Account Deficit (Balance of Payments basis)
GDP (Nominal) used for calculation:
FY2021: $1,873 Bn | FY2022: $1,868 Bn | FY2023: $1,708 Bn
FY2024: $1,955 Bn | FY2025: $2,187 Bn | FY2026*: $2,350 Bn *(Provisional)*

Gold Import as % of Total Imports = *(Gold Import / Total Imports) × 100*
Gold Import as % of CAD = *(Gold Import / Total CAD) × 100*
Oil Import as % of Total Imports = *(Oil Import / Total Imports) × 100*
Oil Import as % of CAD = *(Oil Import / Total CAD) × 100*

*FY2026 is provisional (Apr 2025 – Mar 2026). CAD is in BOP (USD Billion).

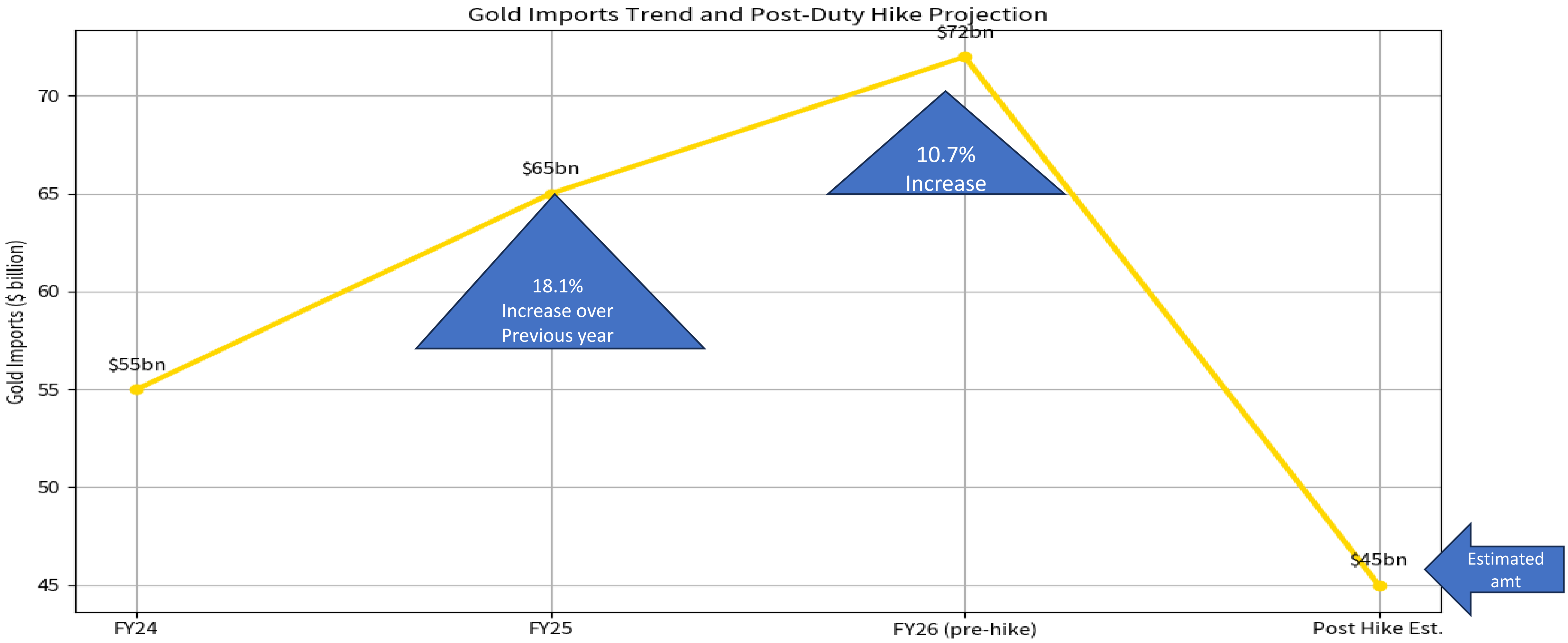
Source: Ministry of Commerce & Industry (India), RBI (Balance of Payments), World Gold Council

Reason 2 : Crude Oil Prices has soared up …



Positive for Rupee: Moderates fuel demand → lowers overall oil import bill (India imports ~85-90% of crude).

Reason 1 : Mounting Gold Import Putting pressure on Exchange …



What Benefit Economy Will Get ?

Positive for Rupee: Aims to curb non-essential imports (gold $70+ bn potential annual drain).

Expected 30-40% drop in imports → $20-25 bn annualized forex savings

Canara Bank

Whether Cost Push Inflation will compel RBI to change the Policy Rate in June MPC ?

Quantitative Estimation IMPACT of Price Rise on CPI

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A. Direct (First-Round) Impact

Component	Price Increase	Relevant Weight in CPI	Pass-through	Direct Contribution (bps)
	(A)	(B)	(C)	D= A*B*C
Petrol + Diesel	3.15%	1.60%	100%	**5 bps**
Broader Fuel & Transport	3.15%	4.5% (partial)	70%	**10 - 15 bps**
Fuel Total (1st Round)	-	-	-	**15 - 20 bps**
Gold/Silver Duty Hike	8 - 12%	1.13%	80%	**7 - 11**
Combined Direct	-	-	-	22 - 31 bps
Time Period	***Immediate to 4–6 weeks***			
Expected Visibility in CPI	*Starts in* ***May 2026 CPI*** *Full in* ***June 2026***			

B. Second-Round (Indirect) Impact (over 2-6 months)

Channel	Affected Weight	Fuel Pass-through	Multiplier	Contribution (bps)
Freight / Logistics	8.80% (Transport)	60–70%	1.5x	12 – 18 bps
Food (transport + agri)	36.75%	30–40%	1.4x	10 – 18 bps
Manufacturing / Services	Core (50%)	35–45%	1.3x	8 – 14 bps
Total Second-Round	-	-	-	30 - 50 bps
Time Period	***1–6 months (Peak: 2–4 months)***			
Expected Visibility in CPI	*Strong from July–September 2026*			

C. (C=A+B) : Grand Total Estimated Impact

- **Direct (1st Round): 22 – 31 bps**
- **Indirect (2nd Round): 30 – 50 bps**
- **Cumulative Impact (3–6 months):** 52 - 81 bps on headline CPI
- **Consensus Range (Economists): 40 – 60+ bps** (most probable 45–55 bps)

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