India’s Waning Lust for Gold

What is the issue?

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- Gold imports are a major strain on the country’s Balance of Payment (BoP).
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- But there are indications that this pressure will ease in the current fiscal due to several economic factors and policy initiatives.
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What are the recent trends in the market?

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- **2017 Trend -** While there has been a recent drop in demand, on a whole, gold imports have considerably increased over the last year.
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- A combination of retail restocking and high rural demand is thought to have pushed gold imports up by 67% in the financial year 2017-18.
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- Overall, the gold import bill had rose by 13% (to $34 billion) and returns for Indian investors were 1% higher than the global average of 6%.
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- **Current trend -** ‘Akshaya Tritiya’ is perceived an auspicious to buy gold, and demand for gold is usually higher around the occasion (recently).
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- But this year’s occasion was a damper due to high prices (Rs 32,500 for 10 gram), which is 10% higher than the previous year.
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- Also, the rural earning stress and the cash crunch in the market are additional factors that have added to the demand uncertainty.
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- **Contrast -** It is commonly assumed that higher gold demand is connected to the increasing anxiety about the macroeconomic stability.
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- But the RBI has pointed out recently that the gold import figures have seen a sharp reduction in recent months – which contradicts the palpable anxiety.

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Why should gold imports be curbed?

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- An increase in imports of gold and precious gems is a form of capital flight out the economy and strains our trade balance and exchange rate.
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- As precious gems are also another alternative to hedge against currency, “Gold vs. Economic conditions” graph might not have a direct correlation.
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- Nevertheless, as gold is the dominant hedge, we need policies to constrain access to it and work for plugging the capital drain.
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How does the future look?

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- **Economic Changes -** “World Gold Council” has stated that enhancing transparency in purchases might bring demand down in many economies.
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- In India, the “Prevention of Money Laundering Act, and GST” might suppress demand for the metal in the coming years.
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- Also, many analysts hold that, as long as stock markets are effervescent (strong), gold demand will remain subdued.
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- **Policies -** Finance ministry’s “Gold Schemes” has already garnered considerable traction and it is hoped that these will net Rs. 50 Billion in 2017.
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- Notably, these schemes had a poor response when it was unleashed in 2015, which indicated that gold was preferred not just for speculative interests but also for its ability to prove evasive for tax authorities.
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- As such, the continuing efforts by the government to increase its supervision of the sector are both welcome and likely to hit demand going forward.
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- Additionally, various “electronic gold purchase schemes” have been run by mobile wallet providers such as Paytm – but its take-up remains doubtful.

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Source: Business Standard

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