Surge in Gold Import

What is the issue?

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India’s gold imports witnessed a huge jump in April, increasing threefold to $3.85 billion from $1.23 billion in April 2016.

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Why it is significant?

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- The jump in gold demand is particularly significant given the many steps taken to reduce it in recent years.
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- Indian demand for gold is robust and that policymakers will have to continue worrying about its impact on the country’s trade deficit for a long time to come.
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- For instance, the demonetisation of high-value currency notes last November coincided with India’s gold demand dropping to a seven-year low of 675 tonnes during 2016, according to the World Gold Council.
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- Earlier, as part of his efforts to push Indians to decrease their gold purchases, Mr. Modi had introduced the **gold monetisation scheme** that aimed to reduce gold imports by using deposits to increase domestic supply.
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- But, as of early 2017, the amount of gold that had been deposited under the scheme was less than 1% of overall gold demand in 2016.
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Why gold is favoured more?

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- It is no secret that Indians tend to favour gold over other income-generating

financial assets.
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- This has, for a long time, led to concerns about savings being wasted on a dormant metal instead of being invested in productive business activities.
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- While such concerns may be valid, policymakers would do well by first tackling the issues that have explained the average Indian's preference for gold.
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- **The metal's predominant utility as a hedge against inflation,** which protects the average investor lacking sophisticated financial acumen from a depreciating rupee, cannot be ignored.
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- Ironically, the Centre's sudden demonetisation decision has possibly undermined confidence in the rupee as a store of value, adding to the yellow metal's attractiveness.
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- **Capital conservation** is an important reason for investment in gold by Indian households.
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- Gold's lure cannot be explained only as a reserve for illicit wealth or tax evasion.
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What is the way ahead?

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- Access to better and more formal financial market instruments remains a pipe dream for the majority in a country where talk of financial inclusion remains at the level of opening a basic bank account.
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- Any significant strides on this front will require s**tructural reform of the financial sector** that encourages more competition to spur financial innovation and access.
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Source: The Hindu

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