Addressing Gold Imports

Why in news?

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Union government plans to curb the gold imports under non-essential imports.

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What is the status of India's gold import?

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- Given India's imports of gold were $8.4bn in Q1FY19, they were 18% of the trade deficit in that quarter.
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- Indeed, with the current account deficit for FY19 looking like it could be in the 2.8% of GDP range.
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- Between FY17 and FY18, for instance, prices of gold fell from Rs 27,133 per ten grams to Rs 26,633.
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- During this period, demand also rose, from 172.5 tonnes to 181.2 tonnes.
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- The increased demand was just driven by only prices and also the fact that GDP growth fell from 7.2% in FY17 to 6.7% in FY18.
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Why government want to curb gold imports?

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- During FY13 and FY14, for instance, gold prices collapsed from Rs 28,923 per tonne to Rs 25,752.
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- But instead of demand shooting up, it fell from 234.2 tonnes to 224.2 tonnes,

primarily due to the fact that GDP rose from 5.5% to 6.4% in this period.
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- In FY15, prices fell further, to Rs 24,506 per tonne, but demand continued to fall, to 214.5 tonnes, once again due to the fact that GDP growth rose, to 7.5%.
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- Looked at another way, demand has continued to fall even though the current import duty of 10% was put in place over five years ago.
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- Demand was 222.4 tonnes in FY14—the duty was raised from 8% to 10% in August 2013 and it was 181.2 tonnes in FY18.
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- Even so, the absolute value of imports is high at $34bn in FY18 and $28bn in FY17 it was at its peak in FY12, at $57bn, So, the government would want to cut imports.
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- Union government to address this issue is looking at how to curb “non-essential imports”, and gold is seen as one such import.
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What are the issues with government’s plan?

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- Hiking import duties, however, may not work much since gold demand is not always driven by prices, and a lot depends upon the state of the economy, both locally as well as internationally.
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- There is also the likelihood of smuggling increasing as import duties rise, they are already a high 10%.
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- To the extent gold is a form of saving, a 10% import duty is, though, unfair to begin with since no other form of savings attracts a tax, leave alone a high one.
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What measures needs to be considered?

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- To meet the objective of lowering imports while making savings in gold

possible that the government came out with various gold bonds since November 2015.
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- But there was little demand for gold bonds is that as the scheme does not have the essential properties of gold.
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- It is not, for instance, available 24×7, but is sold in fixed tranches by the government.
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- Once bought, it is not liquid and needs to be held for five years before redemption, a secondary market does exist, but this is hardly as liquid.
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- Nor are gold prices of the current day used for either purchases or sales; an average of the last few days is used.
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- This means, that if gold prices are falling, anyone buying a bond ends up paying a higher price.
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- And when prices are rising, anyone selling ends up getting a lower price.
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- If the government is serious about lowering gold demand, rather than looking at hiking the import duty, it must find ways to make the gold bond a success.
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Source: Financial Express

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