

India's Waning Lust for Gold

What is the issue?

\n\n

\n

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

\n

\n\n

What are the recent trends in the market?

\n\n

\n

- **2017 Trend** - While there has been a recent drop in demand, on a whole, gold imports have considerably increased over the last year.
- 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.
- 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%.
- **Current trend** - 'Akshaya Tritiya' is perceived an auspicious to buy gold, and demand for gold is usually higher around the occasion (recently).
- 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.
- Also, the rural earning stress and the cash crunch in the market are additional factors that have added to the demand uncertainty.
- **Contrast** - It is commonly assumed that higher gold demand is connected to the increasing anxiety about the macroeconomic stability.
- 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.

\n

\n\n

Why should gold imports be curbed?

\n\n

\n

- 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.

\n

- As precious gems are also another alternative to hedge against currency, “Gold vs. Economic conditions” graph might not have a direct correlation.

\n

- Nevertheless, as gold is the dominant hedge, we need policies to constrain access to it and work for plugging the capital drain.

\n

\n\n

How does the future look?

\n\n

\n

- **Economic Changes** - “World Gold Council” has stated that enhancing transparency in purchases might bring demand down in many economies.

\n

- In India, the “Prevention of Money Laundering Act, and GST” might suppress demand for the metal in the coming years.

\n

- Also, many analysts hold that, as long as stock markets are effervescent (strong), gold demand will remain subdued.

\n

- **Policies** - Finance ministry’s “Gold Schemes” has already garnered considerable traction and it is hoped that these will net Rs. 50 Billion in 2017.

\n

- 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.

\n

- 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.

\n

- Additionally, various “electronic gold purchase schemes” have been run by mobile wallet providers such as Paytm – but its take-up remains doubtful.

\n

\n\n

\n\n

Source: Business Standard

\n\n

\n

