INTERNATIONAL RESEARCH JOURNAL OF MULTIDISCIPLINARY STUDIES

Vol. 4, Issue 4, April, 2018 | ISSN (Online): 2454-8499 | Impact Factor: 1.3599(GIF), 0.679(IIFS)

Gold Import in India :The Changing Scenario : 2006-12

[1]Manoj S. Yawalkar, [2]Dr. M. M. Munshi

[1]Asst. Prof., PES's MCOE-MBA, Pune-05.

[2]Asso. Professor, Dept. of Mgt. Sci. VTU, Belgaum, Karnataka.

ABSTRACT

Increasing Current Account Deficit (CAD) of India has become a the biggest problem in the development of the Indian Economy. And has become the world's third-largest current account deficit facing Country. It's facing the danger to reach up to up to $90 billion.

The main causes for high Current Account Deficit are :

1) *An unending appetite for gold, resulting in huge imports i.e. hundreds of tones of Gold has been imported against the precious and less stock of Foreign Currency . This underlined that India is the world's biggest consumer of the Gold.*
2) *It has played a major role in driving the rupee to a record low.*
3) *India imported approximately 860mt.tones of gold in 2012.*
4) *Gold and silver imports in April-October, 2013 declined by 12.86 per cent to USD 24 billion compared to USD 28 billion in the same period last year due to the restrictions imposed by the Reserve Bank of India to control the gold imports.*

The RBI and Central government of Indiatrust that those measures would help to bring down current account deficit. However, the merchants association thinks it would be counterproductive. The RBI restriction would lead to shortage of gold in the domestic market and artificial price rise may take place as well the decline in gold price in international market would not be reflected in local market price because of the RBI order. There is a distinct possibility of gold price rising in domestic market also. These trends in turn would lead to smuggling, black marketing and hoarding of gold which is fatal to the Indian economy. If India can resolve those gold imports related problems, it could solve the country's economic problems, decline the current account deficit, appreciate the rupee and boost growth.

KEYWORDS: Foreign Currency, RBI, Current Account Deficit (CAD), Gold, Gold Imports, India, Central Govt.

Introduction

Indian economyis the tenth-largest in the world by **nominal GDP** and the third-largest by **purchasing power parity (PPP)**. On the basis of per-capita-income, India is one of the major economies from G20 and of BRICS. India ranked 141st by nominal GDP and 130th by GDP on the grounds of Purchase Power Parity (PPP) in 2012w.r.to the report of the International Monetary Fund (IMF). India is theworld's largest consumer of gold from the period of liberalization.

Gold plays a crucial role in the social, religious and cultural life of Indians. Their love for gold is almost has a religious and traditional view. It is also a **symbol** of **wealth and status**, gold is a part of worship and culture too. It has the history of thousands of years and has become the symbol of prosperity.It has the highest demand at the time of Indian wedding. There may be no wedding like an Indian wedding. The events are continued for at least some days with music and dancing and traditions that go back centuries. It is the celebration of colors, flowers ,food and joy-> And then there's the gold: breathtaking. Here it's a symbol of purity as well the couple's wealth and welfare.

In India, from birth to death, including new born babies, children, men, women, seniors (old) amongst rich and poor :acquiring gold is a goal for the people. Indian Gold Market looks balanced to achieve greater heights, and has given the charm for gold in the country.

Economics of Gold in India :

The economics of gold is the WEB of several socio-economic problems in India. For instance, the smuggling of gold, drug trafficking, foreign exchange leakage, black market in foreign currencies, under and over-invoicing in exports and imports trade, unaccounted incomes and wealth, black or parallel economy and tax fudging. These are issues in one way and are linked to the purchase, sale and holding of gold and gold jewellery. Since gold forms part of the reserves of the Reserve Bank of India, it has an allegation for money supply and price levels. Since 1947, there is existing the proscription on the import of gold. The Gold Control Order 1963 and the Gold Control Act 1968 contained tight controls on the gold-related activities. Vice a versa, the Gold Control Act failed in reducing the domestic demand for gold jewellery.

The continuous and endless demand for the yellow metal is always growing. The Gold Control Act also failed to control the smuggling of gold. The Act placed hurdles in the export production of goldjewellery in India, when countries such as Italy were riding ahead in world gold jewellery exports. The Gold Control Act placed severe restrictions on goldsmiths, gold dealers and gold jewellery exporters. The quantitative restrictions did not permit large quantity production for satisfying overseas orders, which are usually large. The Act did not allow a certified goldsmith to receive more than 100 gms of standard gold for manufacturing jewellery. A Certified Gold Smith was not allowed to possess a stock of more than 300 gms of primary gold at any time. The quantity of primary gold in the possession of a licensed dealer was limited to between 400 gms and 2 kg., depending on the number of artisans employed.

There was the legal ban on transactions between one dealer and another. The Act also required gold dealers to operate from licensed premises only. This restriction was a hurdle to exports as foreign buyers could not visit widely scattered places of manufacture for inspection and buying.

The Gold Control Act was removed in 1990.,In the same year the Government of India had mortgaged40 tones of gold to London Bank against foreign exchange to overcome the country's balance of payment (BOP)problem. India had lost the opportunities for gold jewellery exportsdue to the gold control act and its era.

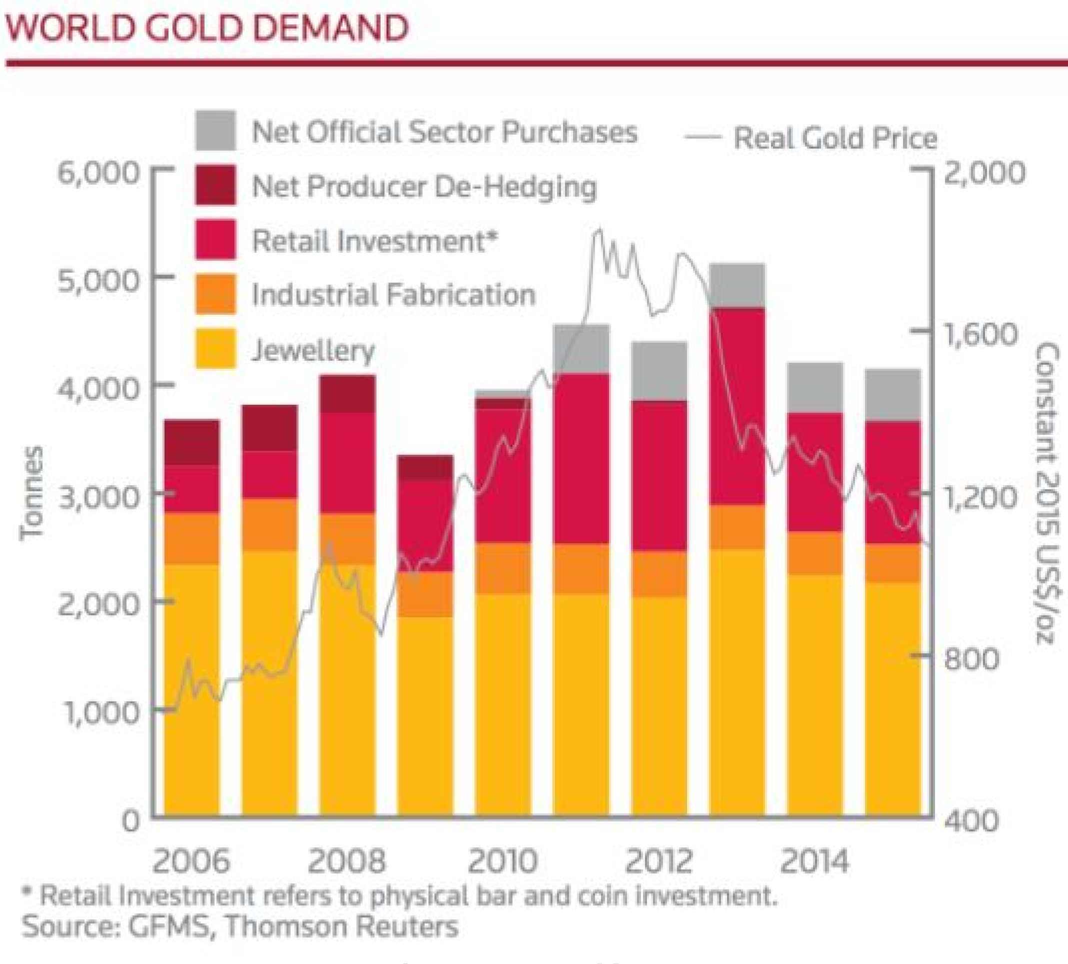
At the same time, smaller Asian countries like Thailand and Malaysia recorded abrupt rise in gold jewellery exports. Now, India has the bright future for gold jewellery exports. After the abolition of the Gold Control Act, the Government introduced further reforms. Import of gold was allowed on payment of customs duty. Subsequently, the import of gold was brought under open general license (OGL) by nominated agencies. They are as, Minerals and Metals Trading Corporation of India (MMTC), State Bank of India (SBI), State Trading Corporation (STC),

INTERNATIONAL RESEARCH JOURNAL OF MULTIDISCIPLINARY STUDIES
Vol. 4, Issue 4, April, 2018 | ISSN (Online): 2454-8499 | Impact Factor: 1.3599(GIF), 0.679(IIFS)

Handicrafts and Handlooms Exports Corporation (HHEC), Bank of India (BOI), Indian Overseas Bank (IOB), Canara Bank, Allahabad Bank, Bank of Nova Scotia and Standard Chartered Bank.

In 1991, there was the turning point to the Indian Economy, the liberalization era started.India accepted the policy of Liberalization, Privatization and Globalization (LPG). It resulted in reforming the world's largest gold market i.e. India, in volume terms that has expanded extensively. But the report of World Gold Council (WGC) presented on 15th August 2013 says " Chinacan overtake India as the world's biggest gold consumer in 2013, because the dragon of Red Army has more favorable policy for the precious metal as compared with the Indian economy." The data presented by this report showed that Gold consumption in China rose to 570 mt.tonnes in the first half of the 2013 calendar year, slightly higher than 566.5 mt.tonne in India. Gold consumption stood at 864 mt.tones in India, while it was 832 mt.tones in China during 2012.

Consumption of Gold (Consumption generates Demand)



Source : World Gold Council. (*https://www.gold.org/*)

In World Gold Council's quarterly report, showed that gold demand in India rose 71 percent to 310 mt.tonnes in the second quarter of calendar year 2013. It is the highest in the last 10 years, in spite of, government curbs to restrict imports to rein in mushrooming current account deficit. Of the total, Jewellery demand rose 51 per cent in volume terms to 188 mt.tonnes while investment

Vol. 4, Issue 4, April, 2018 | ISSN (Online): 2454-8499 | Impact Factor: 1.3599(GIF), 0.679(IIFS)

demand (investment in bars and coins) was up 116 per cent at 122 mt.tonnes. In value terms, demand rose 55 per cent to Rs. 78,681 crore with jewellery demand up 37 per cent at Rs. 47,716.2 crore and investment de mand rising 96 per cent to Rs. 30,964.8 crore.

Mr. Marcus Grubb, Managing Director, Investment, World Gold Council, stated "The second quarter continued the trend that we saw in the first, of a rebalancing in the market, as gold coming onto the market from ETF sales met with a wave of demand for bars and coins, as well as jewellery. This flow in bar and coin investment was a common theme in key markets around the world, and has been particularly important in the world's biggest gold markets, India and China." , with domestic production falling to irrelevant level, the consumption is met entirely through imports. The large gold imports have led to foremost concerns in the macroeconomic management. Table 1 is presenting the gold imports and its trends trends in India.

Table 1.Trends in Gold Imports w.r.to its Demand.

Year	Import of Gold in Rs. Crore	Growth Rate (%)	Year	Import of Gold in Rs. Crore	Growth Rate (%)
2000-01	18829	4.7	2006-07	65440	36.5
2001-02	19889	5.6	2007-08	67330	2.9
2002-03	18608	-6.4	2008-09	95324	41.6
2003-04	29946	60.9	2009-10	135878	42.5
2004-05	47348	58.1	2010-11	184742	36.0
2005-06	47951	1.3	2011-12	269563	45.9

Source: RBI Website (https://www.rbi.org.in/)

Reports

As shown in the above table, gold imports have escalated exponentially in the last decade. With respect to the data from DGCI &published in RBIreport, India's gold imports had shoot up as in 2000-0, when the growth rate was 4.7% and in 2011-12 it becomes 45.9%.

Gold imports comprise more than 10 percent of total imports and about a third of India's trade deficit today. The inflation rate in India is very high, soIndian consumer generally views gold as a hedge against it. Consumers measure the value of gold according to traditions where gold is considered a symbol of wealth and prosperity. Consumers also invest in gold as a part of domestic savings and a long-term investment to protect wealth. The Indians gold love affair is now facing a close scrutiny from the government. The budget has doubled import duty on bullion and non-standard gold to 4% and 10%, respectively, and slapped a 1% cess on unbranded jewellery. Rising gold imports is alarming news for the government,it has launched a skid of measures to contain the trend. The measures include

a) Raising import tax from 2 to 6 per cent,
b) Banning traders from importing gold on margins and the rupee pushed to a record low of Rs 58.16 against the US dollar in the June first week, 2013, making imports even more expensive.
c) The depreciation of the rupee has been on account of an increasing **current account deficit**, which is expected to be around 5% in 2012-13.

Vol. 4, Issue 4, April, 2018 | ISSN (Online): 2454-8499 | Impact Factor: 1.3599(GIF), 0.679(IIFS)

On 14 June, 2013 Mr. P. Chidambaram, the then Finance Minister of India, stated that **"investing in gold turns your money into an illiquid asset".** Consequently, this money cannot be used by banks or the government to invest in jobcreating projects. To import gold from the international market, India has to make payment in US dollars. As the country makes higher imports of gold means more stock of foreign currency goes out of the country, which hits the economy of the Country as,

a) It decreases the value of the Currency in the International Market i.e. against foreign currency, US$

b) It can shoot up the Rate of Inflation

According to World Gold Council, India Managing Director, hike in import duty on gold will make the precious metal expensive, while threatening that curbing supply will not be effective in the long run as this is likely to lead to demand being met through unauthorized channels. Almost all of India's gold demand is met through imports and this hike will increase the cost of gold which has to be faced by retail customers.

Indians are agreeablypaying attention to gold either to be bought as ornaments or investments. The cause of attraction with gold jewelry has roots in the culture, tradition and history as well the economic realities at the rural and grass root levels of the society. The increasing demand for gold in India is putting a burden on India's current account deficit, as the domestic gold production is negligible. Its resulting in the increased current account deficit. Not with the standing increasing prices of gold, the volumes of gold purchases are encouraged by the prospects of getting good appreciation, the societal reason. The gold imports appear to be price inelastic in India. In a country with over one billion population, **with social customs warranting purchase of gold for specific occasions, irrespective of the price, it is the core component of demand for gold imports**. Emergence of a new class of patrons who has hunger for investment in gold for real returns also adds to the demand and thereby to imports. The current trend in quantum of gold imports appears to be making India's external sector weak in terms of rising trade and current account deficits which, in the absence of adequate foreign capital flows i.e. FDI, it is again difficult can have consequences for maintaining adequate foreign exchange reserves.

Gold Imports and Current Account Deficit India introduced an estimated 835 mt.tonnes of gold in 2012-13,it is one of the major reasons for the highest current account deficit of $88.2 billion or 4.8 per cent of Gross Domestic Product.

The **CAD -> the excess of foreign exchange outflows over inflows**. This factorburdened on the rupee and in August, 2013dropped to a lifetime low of Rs. 68.85 against the US $. Current account deficit in India narrowed sharply to $5.2 billion, or 1.2 per cent of Gross Domestic Product, in the July-September quarter of 2013-14 on the back of turn- around in exports and decline in gold imports. The government raised import duty on the metal to 10 per cent and the Reserve Bank of India imposed several conditions on imports as a part of the steps to restrain gold demand,.The local currency has since recovered and closed at Rs. 63.11 against the US $, on November 14, 2013.

Measures taken by Central Bank of India i.e.RBI and Government of India in 2013

Jan 22 - Indian government took the decision to double the duty on raw gold to 5 percent.

Jan 30 - Finance Minister P. Chidambaram says no plans for additional taxes or curbs on gold imports.
Feb 1 - The RBI plans to introduce three to four gold-linked products in the next few months.
Feb 6 - The RBI says it would consider imposing value and quantity restrictions on gold imports by banks.
Feb 14 - The central bank relaxes rules on gold deposit schemes offered by banks by allowing lenders to offer the products with shorter maturities.
Feb 20 - Trade ministry recommends swing cheaper gold jewellery imports from Thailand.
Feb 28 - India keeps its gold import duty unchanged in its annual national budget, defying industry expectations.
Feb 28 - India proposes a transaction tax of 0.01 percent on non-agri- cultural futures contracts including precious metals.
March 1 - Finance minister appeals to people not to buy so much gold.
March 18 - The Reserve Bank of India says it is examining banks that sell gold coins and wealth management products to identify "systemic issues", with a view to closing any legal loopholes.
April 2 - Finance Minister suggests unlikely to raise the import tax on gold further to avoid smuggling and would instead introduce infla- tion-indexed instruments.
May 3 - The RBI restricts the import of gold on a consignment basis by banks.
June 3 - Finance minister says India cannot afford high levels of gold imports and may review its import policy.
June 5 - India hikes gold import duty by a third to 8 percent.
June 21 - Reliance Capital (RLCP.NS) halts gold sales and investments in its gold-backed funds.
June 24 - India's biggest jewellers' association asks members to stop selling gold bars and coins, about 35 percent of their business.
July 10 - India's jewellers could continue a voluntary ban on sales of gold coins and bars for six months.
July 22 - The RBI moves to tighten gold imports again, making them dependent on export volumes, but offers relief to domestic sellers by lifting restrictions on credit deals.
July 31 - India hopes to contain gold imports well below 845mt.tonnes that were shipped last year, Finance Minister says.
Aug 13 - India hikes import duty on gold for a third time in 2013 to 10 percent. Duties for silver and platinum also increased to 10 percent. Customs duty on gold dore bars, ore or concentrate increased to 8 per- cent from 6 percent.
Aug 14 - India turns the screws on gold buying again; banning imports of coins and medallion and making domestic buyers pay cash.
In April-October, 2013, Gold and silver imports declined by 12.86% to US $24 billion compared to US $28 billion in the same period last year (April-October, 2012) . This is the outcomeof the restrictions forced by the Reserve Bank of India to detain the gold importation. As per policy, importers have to re-export at least 20% of all the purchases from overseas, and jewellers started using stocks that had quantity up in April and May following record imports of 304.5mt.tonnes.
The restrictions imposed by Reserve Bank of India are applicable on nominated banks, agencies, premier, star trading houses, units in special economic zones (SEZs) and export-oriented units, which are permitted to import gold for use in the domestic sector. If any of those importers of gold

fails to export 20% of the gold from the arrived consignment, he would be barred from importing any more gold. This could reduce imports, as only a very small portion of gold is exported now.
If new import rules are conserved, then it is expected positively that, the Indian gold imports may fall 70% in the final quarter of the year 2013 i.e. from 255 mt.tonnes in the yearago period and are expected to be half i.e. 500-550 mt.tonnes next year of the usual levels.
Though the RBI rule was aimed at cutting the flow of gold into the country and not to stop it, the importing agencies took time to get a grip on the many operational procedures involved, including the undertaking that needs to be submitted to the customs department once the goods are delivered to an exporter for the next lot of imports.
The Kerala Gold and Silver Merchants Association has warned the restrictions on gold imports introduced recently by the Reserve Bank of India would not yield the intended results but reciprocate it be increased gold smuggling and hawala trading in the Gold.
In sight of the RBI order, when a bank imports 100 kg of gold, it can release only 80 kg into market for sale. The remaining 5% i.e. 20 Kg.be kept in customs bonded warehouses and 15 kg exported as gold ornaments if it wants to place fresh order for gold import.
The RBI and the Central government believe those measures could helpto decrease current account deficit (CAD). However, the merchants association thinks it would be counterproductive. The RBI restriction would lead to deficiency of gold in market and imaginary price rise in domestic market. The decline in gold price in international market could not be reflected in local market price because of the RBI order. There was a distinct possibility of gold price rising in domestic market also. These trends in turn would lead to smuggling, black marketing and hoarding of gold.

Suggestions and Recommendations

1. RBI and the Finance Minister of India P. Chidambaram have taken measures to reduce gold imports but the consumers of India need to realize that investment in gold is a dead asset. The Reserve Bank of India has also told regional banks they can no longer provide loans against gold jewellery — the latest move to discourage gold buying as the government seeks to reduce a gaping current ac- count deficit. There's logic to this as gold is India's second-biggest import cost after crude oil.

2. Experts, however, say addressing India's inflation and low real interest rates would have more of an impact on the current account deficit than curbs and duty hikes on gold. To discourage people from investing heavily in gold, the Reserve Bank has also placed restrictions on overseas purchases on a consignment basis and limited imports for local consumption against cash only. It has also asked banks to not give advances against gold exchange traded funds (ETFs) and units of gold mutual funds.

3. In an effort to control gold imports, Reliance Capital suspended gold sales, subscriptions in gold savings fund and financing against gold as security

4. The World Gold Council suggested that India needs to adopt a long-term policy on gold, and said measures such as import duty hike to 10 per cent and linking all forms of gold

imports to man- datory exports are unlikely to bring down the burgeoning Current Account Deficit.

5. Economic Affairs Secretary Shri. ArvindMayaram said that all imports of gold in India will now need a license from the foreign trade office (FTO) and will have to be brought into a customs bonded warehouse. He also added that unrefined gold would be added to existing rules stipulating that 20 percent of all imports must be used for export, which is usually in the form of jewellery.
6. People should rather invest in financial instruments such as mutual funds and government bonds to safeguard their investments against inflation. At a time when stock markets and mutual funds have failed to fetch good returns on investments, gold is seen as a lucrative investment by many. 6. India may need to examine its monetary policy rather than taxing the only store of value available to the Indian consumer.

REFERENCES :

Bundhun, Rebecca (2013), "Gold imports to India set for record" http://www.thenational.ae/business/industry-insights/economics/gold- imports-to-india-set-for-record

Websites :

•*http://in.reuters.com/article/2013/08/19/indiagoldtimelineidINDEE97I08O20130819*
• *http://www. indianexpress.com/news/cad-in-india-plunges-to--5.2-bn-as-exports-rise-gold-imports-decline-in-quarter/1202268/1*
• *http://www.indian- express.com/news/gold-imports-fall-95--in-august-ease-cad-woes/1166783/*
•*http://www.gold.org/investment/statistics/demand_and_supply_statistics/*
• *http://rbidocs.*
rbi.org.in/rdocs/PublicationReport/Pdfs/RWGS02012013.pdf