

# 'India's gold imports unsustainable'

## Boost financial instruments, says Assocham

**SANJEEV SHARMA/TNS**

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There are growing concerns over gold imports and the consequent impact on ballooning current account deficit and locking up savings in unproductive avenues.

The Associated Chambers of Commerce & Industry of India (Assocham) in a study has pointed out that gold imports are unsustainable and savings need to be diverted to other financial instruments.

The finance ministry recently raised import duties on gold and silver to make them more expensive but, given India's love affair with gold and as a time tested instrument of savings, especially in rural areas, deterring gold consumption is neither a popular move nor easy.

The new rates on ad valorem basis – 2 per cent on 10 grams of gold and 6 per cent on one kilogram of silver – mean importers will have to

pay double the duty.

Being the world's largest gold importer, India accounts for nearly one-third of annual demand with import bill rising from US \$4.1 billion in fiscal 2001-02 to \$33.8 billion in 2010-11.

The Assocham study says at these levels, gold imports are a huge burden on the balance of payments and accentuates the current account deficit. On the other hand, it represents a massive strain on investable resources and weaning away domestic savings from gold assume importance as gold does not add much to the productive capacity of an economy.

The total import value of gold last fiscal was higher than the gross state domestic product of 12 states and budgeted estimated expenditure on fertilizers and food subsidy. India imported more gold than the annual budgeted estimated expenditure outlay on water supply, urban development and

sanitation, the study says.

India has one of the highest savings rate in the world to the tune of 30% but even with the launch and spread of several financial instruments, gold continues to grow in demand partly because of India's distinct social and cultural landscape.

The other reason is that despite all the fancy financial analysis, given the economic turmoil all over the world in the last 4-5 years, gold has been steadily rising and given good returns. So, in a sense the home grown financial acumen of people buying gold has been rewarded with gold touching record highs last September.

There are expectations that import duties on gold and silver may be hiked further in the budget to mop up revenues to contain the fiscal deficit and deter more imports to cushion the current account deficit. However, though it may make sense as a policy formula-

tion given gold's emotional quotient in Indian families, it may not be very popular.

Assocham has suggested introducing more financial saving instruments through post offices and extensive education campaigns should be undertaken particularly in rural areas to minimize the propensity towards gold.

Riddisiddhi Bullions director Prithviraj Kothari says traditionally, gold has been known as a safe-haven asset and a hedge against inflation. In countries such as India, it also has mythological, historical, economic, social and cultural significance.

"Because gold is a safe haven asset, continued uncertainty over global economic growth, geopolitical instabilities, concerns over long-term inflationary pressures and financial market worries can create a climate conducive for investors to flock back to the yellow metal", Kothari added.