

IMPORT OF GOLD A BURDEN ON THE INDIAN ECONOMY

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Abstract : Gold is an inseparable part of an Indian Household due to its cultural and economic significance for Indians. India imports a major part that is over 90 per cent of its gold demand. High gold imports increases our import bills and puts immense pressure on our forex reserves. This widens our current account deficit and also causes currency volatility. The high imports put pressure on the Rupee. As a result, excessive gold imports may reduce the country's economic resilience.

In today's uncertain and unstable global environment when there are tensions between countries and war like situations the rise in crude oil prices are already straining the economy. Crude oil is a necessity for our economy and not precious metals like gold we must reduce non-essential imports and aim to build a stronger self-reliant India.

This research paper examines the impact of gold imports on the Indian economy and analyzes why they are often considered a burden. The study also discusses measures that can help reduce dependence on imported gold while maintaining economic stability. This research paper puts emphasis on the impact of gold imports on the Indian economy and how it has burdened it. We will also analyze and discuss the various measures to reduce our dependency on imported gold while still maintaining economic stability in our country.

IndexTerms - Gold Imports, Indian Economy, Current Account Deficit, Trade Deficit, Foreign Exchange Reserves, Exchange Rate, Gold Monetisation, Gold Demand, Import Dependence, Economic Growth.

INTRODUCTION

In India for centuries, purchasing gold has been a deep-rooted tradition, a financial strategy, a safe-haven asset, and also a symbol of wealth and prosperity. Buying gold is a ritual in many of our festivals, like Diwali and Dhanteras. It is a must for Indian weddings, and it is passed on from generation to generation. Physical gold has high liquidity value and is considered a safeguard against any immediate financial needs. India is the world's second-largest consumer of gold after China but produces a negligible portion of this substantial demand; as a result, our country is dependent on heavy imports to meet the ever-increasing demand for this precious yellow metal. To fulfill this significant demand for imports, we have to make payments in foreign currency, like the US dollar, which results in the depletion of our foreign exchange. Increased demand for the dollar destabilizes the rupee and weakens our macroeconomic stability. Buying more gold can have a negative ripple effect on India's economy. Money which is locked in the physical gold, does not contribute productively to our economy. It diverts the money from the industrial sector, job creation, infrastructure development, and economic growth. The manufacturing industry also gets impacted negatively. Policymakers and economists are concerned about the pattern of high demand for physical gold rising year-on-year and thus negatively affecting a country's trade balance and foreign exchange reserves. Thus, it is very essential for our policymakers to divert the household savings towards more productive investment. Therefore, an examination of the relationship between the gold imports and the health of the Indian economy is a must in the present economic scenario.

HYPOTHESIS 1

Increase in gold imports results in the increase of India's trade and current account deficit and negatively impacts economic stability.

HYPOTHESIS 2

High investments in physical gold diverts the investments from the productive sectors of the economy negatively affecting the economic growth.

OBJECTIVES OF THE STUDY

This research aims to examine India's dependence on imported gold.

1. To analyze the relation between India's trade and current account deficit and the gold imports.
2. To assess the effect of the import of this precious metal on foreign exchange reserves and the Indian Rupee.
3. To study how the investment in precious yellow metal affects productive investment in economic growth.

4. To study the measures taken to reduce our dependence on gold imports by our government.
5. To suggest ways to reduce the economic burden resulting from gold imports , while still maintaining a stable economy

RESEARCH METHODOLOGY

This research is based on secondary data collected from government reports, published literature and reliable sources such as RBI, DGC&S and the World Gold Council to analyse gold imports and their impact on the Indian economy.

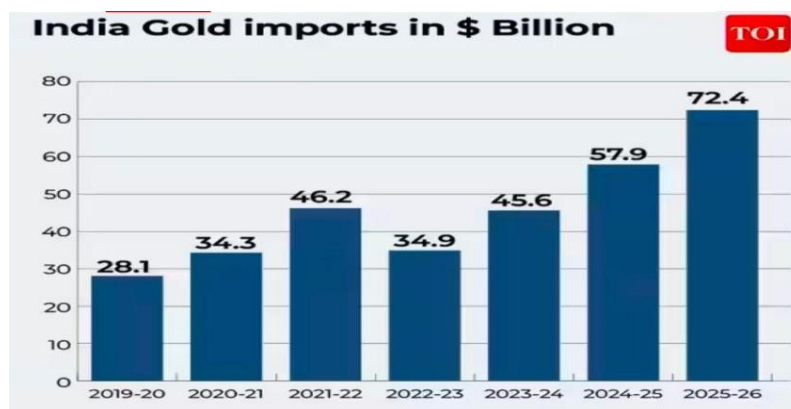
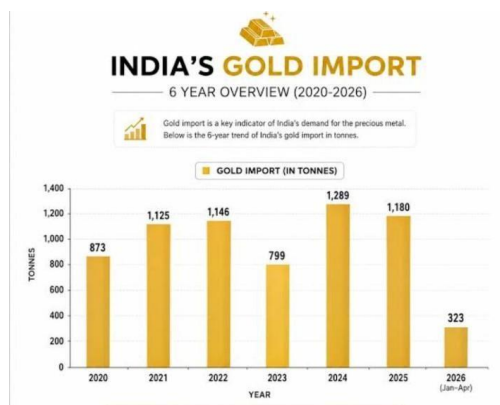
IV INDIA'S IMPORT TRENDS AND STRATEGIES

4.1 Navigating India's Gold Import Trends during April 2022 and March 2025: Strategic Interactions with Trade and Macroeconomic Indicators

According to the World Bank Report (2024), during the FY 2023-24 gold was the **second-largest imported commodity in India** with import value of approximately 47 USD billion in FY 2023-24 following Crude Oil whose import value has been observed over USD 180 billion in the same financial year. Hence, it is also imperative to observe the trend in the shares of gold in total imports on account of the fact that Gold occupies a significant position in the import commodity basket of India. The share of gold in India's total imports has also increased over the years. Based on annual data compiled from the Directorate General of Commercial Intelligence and Statistics (DGC&S), gold accounted for **4.9% in FY 2022-23 to 6.8% in FY 2023-24** and again to **7.2% in FY 2024-25**. Gold imports significantly increased from **678.3 MT in FY 2022-23 to 795.2 MT in FY 2023-24** a surge of 17.2% was followed by a remarkable decline to **669.3 MT in FY 2024-25**, portraying a negative growth rate of **15.8%**. On the contrary, the values of import have consistently surged from **35016.1 million USD (MUSD) in FY 2022-23 to 45542.1 MUSD in FY 2023-24** and further to **51588.5 MUSD in FY 2024-25**. This shows the respective growth rates of **30.1%** and **13.3%** In FY 2025–26, gold imports rose by **24.08%** year-on-year to **US\$71.98 billion**, highlighting the continued increase in India's expenditure on gold imports.

These annual trends in import values and quantities reflect consecutive increases in annual import prices from **51.6 MUSD/MT in FY 2022-23 to 57.3 MUSD/MT in FY 2023-24** and further increasing to **77.1 MUSD/MT in FY 2024-25**, representing an increase of approximately **34.6%** in import price in FY 2024-25 over FY 2023-24.

This indicates that the rise in prices of gold significantly led to **an increase** in India's **expenditure** on gold imports even when there was a **decline in the quantity** of gold imported.



V. THE FACTORS ATTRIBUTING TO THE INCREASE OF GOLD IMPORTS IN THE RECENT YEARS

The observed increase in the gold import shares as well as increase in imports in value terms in India can be attributed to the interplay of a handful of factors. Import duty on gold that was reduced from **15 per cent to 6 per cent** in the Union Budget 2024-25, had significantly surged the demand and import of gold but in May 2026, the import was hiked again to 15% to reduce the import of precious metals amid the conflict going on in West Asia. Additionally, the outbreak of the Russia-Ukraine war also led to an increase in the demand and import of gold in India since gold has been historically perceived as a safe asset during times of global uncertainties. In fact, this resulted in the growth of RBI's gold accumulation as reserves which had mounted to **876.18 tons** as of December 2024 valued at **66.2 USD billion**, up from **803.58 tons** valued at **48.3 USD billion** in December 2023. In fact, the share of gold in India's total foreign exchange reserves in value terms has been steadily rising over the last few years—from about **5.88%** as at September-2021 to about **7.06%, 7.37% and 9.32%**, respectively in the same months of the next three consecutive years (The Economic Times, Dec-2024). In FY 2025–26, the share of gold in India's foreign exchange reserves

increased further to 16.7% by the end of March 2026, compared with **9.32%** in September 2024 (Reserve Bank of India, 2026). The surge in gold imports during August, October and November had been particularly driven by the increased demand of gold during these festive months.

VI THE IMPACT ON THE INDIAN ECONOMY

6.1 A Dangerous Macroeconomic Combination

The rise in oil imports, record gold imports, pressure on the rupee, and widening trade deficits are occurring simultaneously. Oil and gold currently represent the two largest structural drains on India's foreign exchange reserves. Unlike many developed economies that possess stronger energy independence or reserve currencies, the Indian economy is affected by global commodity price fluctuations and external currency pressures.

6.2 Bullion imports induce currency pressure

Domestic banks sell Indian rupees (INR) and purchase US dollars (USD) to buy international gold, priced in USD. The resultant capital outflow depreciates the rupee.

India's foreign exchange reserves currently stand around US\$734.6 billion

around October 2026 a slight decrease from the previous values.

The Reserve Bank of India has intervened repeatedly in currency markets but the rupee itself has faced sustained pressure,

trading around ₹96.85 per US dollar in

several recent assessments.

This creates a self-reinforcing cycle where higher imports increase dollar demand, a weaker rupee makes imports costlier, higher import costs fuel inflation, and RBI interventions gradually reduce reserve buffers further.

Gold imports intensify this cycle because they create **massive dollar outflows** without generating productive economic returns. Unlike semiconductor equipment, industrial machinery, defence technology, or infrastructure inputs, imported gold does not increase manufacturing capacity, exports, productivity, or industrial competitiveness. However, gold also serves as a store of value and has cultural and investment significance for Indian households. Therefore, **its economic impact should be assessed in terms of both** its benefits to consumers and investors and its implications for India's import bill and external balance.

6.3 Widening the Gap: How Gold Imports Stretch the Current Account

Trade deficit influences the current account deficit (CAD). If the former widens, this can put direct pressure on the latter. As per RBI data, India's CAD widened to \$13.2 billion, or 1.3% of GDP, in the third quarter of FY2025–26 (October–December). The deficit stood at \$11.3 billion, or 1.1% of GDP in the corresponding quarter of FY 2024–25. The widening was primarily attributable to the larger merchandise trade deficit, with higher gold imports contributing to import growth.

VII IMPLICATIONS OF SUBSTANTIALLY PAUSING NON ESSENTIAL GOLD PURCHASES

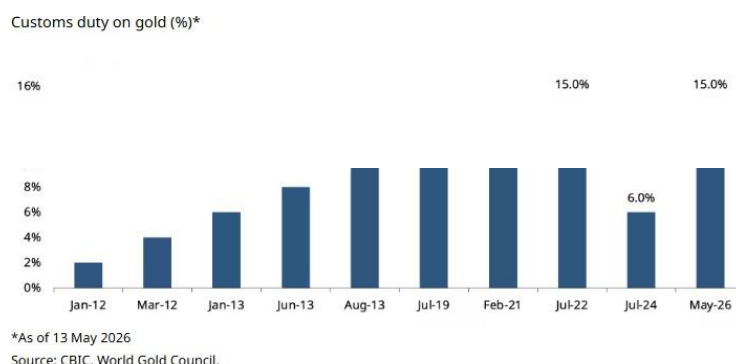
If non-essential gold purchases are paused for even one year, the implications would be enormous:

- India's merchandise trade deficit, **estimated at nearly \$333 billion in FY2025–26**, could shrink substantially within a single financial year depending on the trade flows in the country.
- India's **Current Account Deficit (CAD)**, currently estimated **around US\$25.2 billion, or 0.6% of GDP, in FY2025–26**, would improve significantly and reduce external vulnerability.
- Dollar outflow reduces from gold imports which would ease pressure on the rupee and reduce depreciation risks.
- The Reserve Bank of India would less likely feel the pressure of intervention, helping preserve forex reserves more effectively.
- Conserved foreign exchange could be used for critical imports such as crude oil, semiconductors, defence systems, and industrial capital goods.
- Even a partial **30–50% reduction in gold imports** could conservatively save India as much as \$20–36 billion annually in foreign exchange outflows. This could result in a significant reduction in import expenditure but not necessarily in foreign exchange savings.

VIII POLICY ACTIONS ON GOLD IMPORTS

The government has adopted a series of measures for moderating gold imports aimed at conserving foreign exchange reserves amid geopolitical uncertainty and mounting pressure on the INR. These measures include price-based actions, administrative and regulatory tightening, and consumer-directed messaging. Gold is among the top five imports for India, accounting for 8% of the country's merchandise imports in 2025, and similar measures have been utilised in the past. **On the price front**, the gold import duty was raised sharply from **6% to 15%**, making it the single largest increase on record and fully reversing the duty cut of July 2024. Rules were also tightened for gold imports linked to exports and the Prime Minister has directly appealed to consumers,

urging them to avoid buying gold for a year



A series of policy actions related to **administrative** and **regulatory tightening** included the delay in issuing annual licenses for bullion imports to banks, restrictions on the import of all forms of gold, silver and platinum jewellery and platinum alloys, and continued delay in issuance of notification exempting banks from the Integrated Goods and Service Tax (IGST), which led to the delay of bullion imports of over a month by the banks.

The government wants to encourage people to invest in businesses manufacturing and financial assets instead of locking the money in physical gold. The government wants the people to invest in Sovereign Gold bonds, Gold Monetization Scheme and Digital Gold and financial investments as an alternative to physical gold.

● Sovereign Gold bonds

SGBs are government securities denominated in grams of gold. They are substitutes for holding physical gold. Investors have to pay the issue price in cash and the bonds will be redeemed in cash on maturity. The Bond is issued by the Reserve Bank on behalf of the Government of India.

These bonds may also be traded on stock exchanges.

● Gold Monetization Scheme

The objective of this Scheme, introduced in 2015, is to mobilize idle gold held by households and institutions of the country and facilitate its use for productive purposes, and in the long run, to reduce the country's reliance on the import of gold. However, the Medium-Term and Long-Term Government Deposit components were discontinued with **effect from 26 March 2025**

Short Term Bank Deposits may continue at the discretion of participating banks.

● Digital Gold and Financial Investments

Digital gold is the modern way to buy, sell, and store 24-karat physical gold electronically, without the buyer having to hold it physically. When you buy digital gold, you are actually buying gold kept in a vault either by the company or one of its vaulting partners. However, **SEBI cautioned in November 2025** that digital-gold products offered by certain online platforms operate outside its regulatory framework and may expose investors to operational risks.

Regulated alternatives operating within established regulatory frameworks include Gold Exchange -Traded Funds (Gold ETFs) and Electronic Gold Receipts.

IX. CONCLUSION

Gold is a prestigious commodity for Indians; it holds considerable cultural, social and financial significance in India. Sale and purchase becomes an increased activity around the time of Diwali. Our country's gold sector needs a structural transformation from consumption lead to investment lead demand. Cutting down on imports will help our economy a great deal. We can reduce our imports by bringing back our gold reserves kept overseas with the central banks of other countries like The Bank Of England. This gold can be sold to jewellers or banks locally and replace the value by buying government bonds. We can do a gold swap in which whatever we import, we will pay for with actual gold through RBI Reserves. This way, no dollars are paid out for gold. We can make gold loans as a priority sector and reduce their costs, even if originated by an NBFC and sold to a bank. These loans can have comparatively low interest rates. Thus gold comes into circulation as a productive asset. People take loans to invest or spend. Our Government should put in efforts to increase domestic mining outputs which are negligible.

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