Working Paper

Abstract

This paper examines India's gold trade dynamics in the context of expectations of a rise in customs duty rates in the Union Budget 2025-26. The persistent demand for physical gold in India, which has remained inelastic over time, is largely met through imports due to limited domestic sources. The Government of India has attempted to regulate gold imports through customs duty adjustments, but our findings reveal that such measures have limited long-term effectiveness. Instead, higher rates encourage imports which utilise multi-duty structures. We argue for a structural shift in policy, including eliminating duty differential for all gold-based commodities, fostering strategic mining partnerships with resource-rich nations, and introducing short-term tax amnesty schemes to monetize household gold holdings. Furthermore, our analysis emphasizes the need to complement import management strategies with efforts to enhance exports, particularly in the gems and jewellery sector, which faces significant structural challenges.

Introduction

In India, the demand for physical gold has remained relatively consistent over time, with minimal fluctuations. In particular, in the period after 2014, the demand has been in the range of about 700 to 800 tonnes (WGC, 2024). Fulfilment of this demand through domestic sources is not feasible in the immediate short-term. Therefore, the demand is met largely through physical gold imports. Due to the perceived effect of these imports on India's trade balance, the Government of India has attempted to manage the quantity imported through the use of customs duty rates, which were increased from time to time.

To enhance domestic economic value addition to from gold industry, in July 2024, India implemented a significant reduction in customs duty rates on gold imports, lowering them from 15% to approximately 6% (Mishra, 2024). Following this reduction, monthly gold imports have risen sharply (Kumar, 2024).

In this context, there are indications that the Government of India is considering an increase in customs duty rates to curtail imports (Gupta, 2024). While the rise in imports is notable, we argue that any increase in customs duties is not advisable based on the data available. We argue that policymaking in this area necessitates a structural shift that accounts for the deeply embedded factors shaping the actual dynamics of India's gold markets. This paper presents a detailed analysis supporting this position. We outline the rationale behind our argument and propose future strategies that the government may consider when drafting its policy framework for gold imports.

Description of Data

For this paper, we have utilized data on India's gold demand sourced from the World Gold Council (WGC). Additionally, we have employed trade data from the Directorate General of Commercial Intelligence and Statistics (DGCIS), the Centre for Monitoring Indian Economy (CMIE), and the Database on Indian Economy provided by the Reserve Bank of India (RBI).

Analysis

In this section, we present several policy recommendations highlighting areas where the approach requires consideration. Each recommendation, along with supporting data and analysis, is addressed in the subsections below.

Reduction of duty rates on all variants of gold commodities regardless of the source of imports

The proposal to increase duty rates on gold imports is not justified for several reasons. These are analyzed and discussed in detail in this subsection.

The primary rationale for increasing duty rates is to discourage imports of gold-based commodities. This anticipated decrease in gold imports, in turn, is expected to reduce the burden on India's trade balance. However, the trade balance is adversely affected by several other factors beyond the volume of imports. In particular, these factors include, *inter alia*, rising international gold prices and the depreciation of the Indian rupee.

Therefore, even if imports are curtailed through higher duty rates, there cannot be any certainty that the desired improvement in the trade balance will be achieved. Over the past few months, international gold prices have risen (Business Standard, 2025) and the Indian rupee has depreciated (Sinha, 2025). These trends are expected to continue. Hence, any improvement in trade balance due to an anticipated fall in imports may be offset by these rising prices and depreciating domestic currency.

Secondly, an increase in duty rates may not discourage exports to an appreciable extent. This is because when import duties are increased, alternative legitimate mechanisms remain available to facilitate imports at reduced rates. The mechanisms which enable a legal pathway for importing gold at lower rates are a consequence of multi-duty structures in India's foreign trade. Three distinct ways have emerged through which multi-duty structures are, extensively used in the recent years, to reduce the cost of imported gold-commodities (Narayanaswami & Saxena, 2024). To illustrate one of these mechanisms, we have traced the gold imports from the least developed countries (LDCs) on which no customs duty is payable is due to the duty-free tariff preference scheme, in Figure 1.

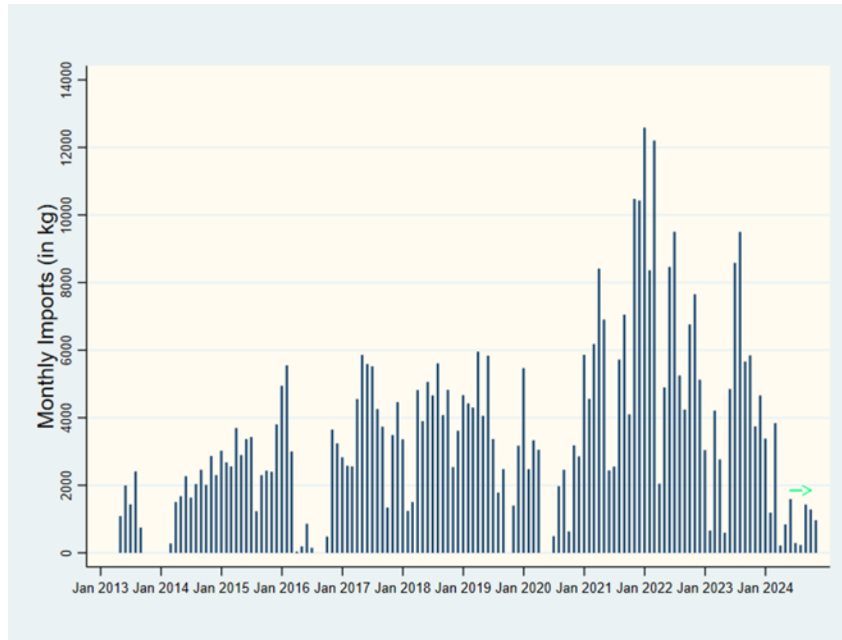

Figure 1: India's Gold Imports from LDCs (since Apr 2013)

It is evident that a significant quantity of gold-based commodities is imported from these countries due to the duty differential. Imports from these nations rise when the customs duty rates are increased. More importantly, when customs duty rates are reduced – the imports from these nations fall since the duty differential reduces. In this regard, we refer to the period after July 2024, when lower duty rates were announced under the Union Budget. In the period that followed, despite gold imports rising overall, imports from these countries were significantly lower on month-on-month basis. This demonstrates that imports from LDCs do not yield commercial benefits in the absence of a duty differential. Additionally, it shows that such imports are possibly not genuinely originating from LDCs, but rather are rerouted through these countries from other gold-exporting nations to India in response to changes in duty rates.

Based on the observed trends, any increase in duties is likely to result in a resurgence of gold imports from LDCs. Additionally, a significant portion of the demand could be met through informal channels, which currently exceed our capacity for effective oversight.

Third, we observe that historically, customs duty has not been an effective tool in managing imports. In this regard, we refer to Figure 2, where it may be observed that increases in customs duty lead to a decline in imports, indicating its immediate effectiveness. Each time duty rates rose, imports fell promptly; conversely, when rates dropped (e.g., between January and February 2021), imports increased. While changes in duty rates cause an immediate response, imports typically rise again in subsequent periods. An increase in duty rates does not lead to a sustained reduction in imports. Therefore, the long-term impact of customs duty on imports is not consistent.

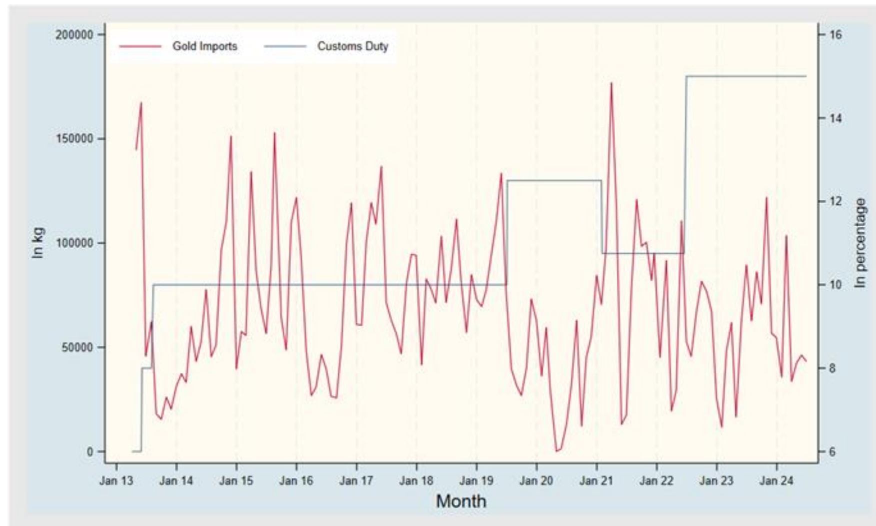

Figure 2: Customs Duty Rates vs India's Gold Imports (since 2013)

In summary, customs duty rates are ineffective tools for managing imports and stabilizing the trade balance for several reasons. Additionally, higher duty rates could lead to an increase in potentially rerouted imports from LDCs and encourage the use of informal channels for gold procurement. Therefore, we argue that to ensure stability in gold imports, there should be no incentive to favour one category of gold-based commodities over another based solely on duty differentials.

Supplementing the supply of physical gold through partnerships with other nations is a viable strategy

As discussed before, the nature of gold demand in India is inelastic. It has remained largely consistent, within the range of 700-800 tonnes since 2014, as shown in Figure 3. Therefore, unless an alternative source of supply can be identified to meet this demand, the reliance on gold imports cannot be eliminated.

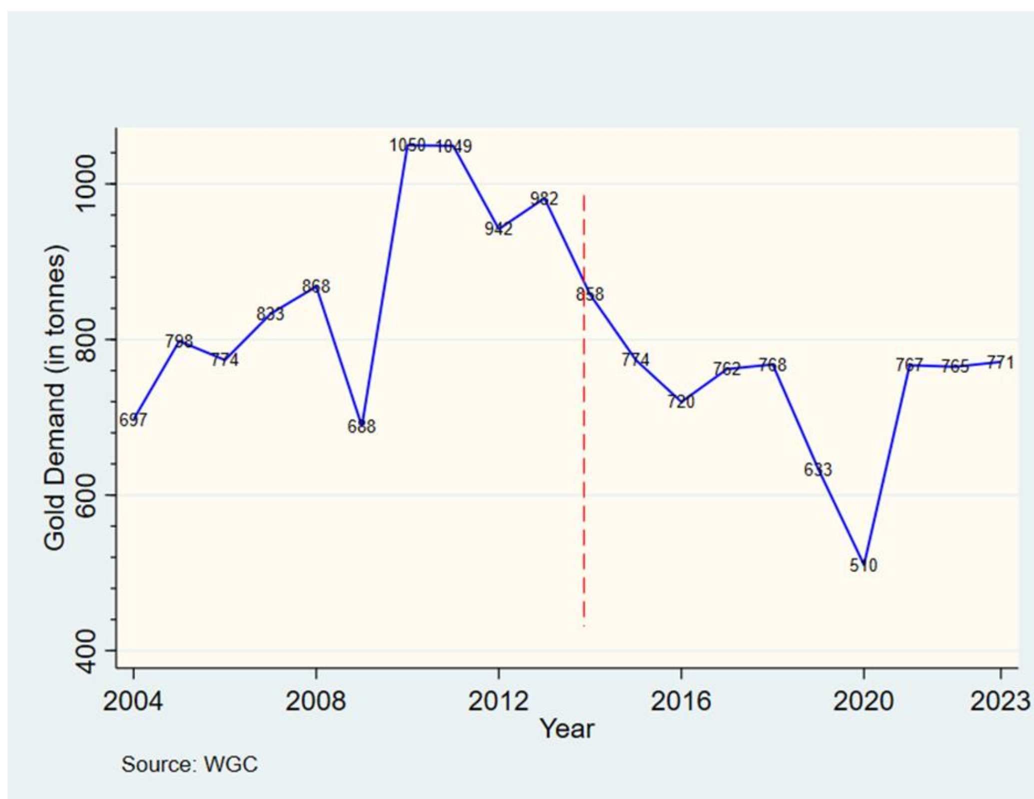

Figure 3: India's Physical Gold Demand (2004-23)

As an alternative, we identify strategic partnerships with resource-rich nations, such as Russia, which enable India to mine gold deposits in their territories. Such an arrangement would help meet domestic demand while advancing the objectives of self-reliance under initiatives like "Make in India." Refining of gold deposits mined in these countries would also contribute to development of domestic refining sector. Additionally, the proposed collaborations could include settlement mechanisms that bypass the use of the US dollar, thereby contributing to the broader goal of de-dollarization.

We find that to identify potential partners for such collaborations, two key aspects should be considered. First, the economic viability of gold deposits in the partner's territory is crucial. Second, the partner nation should derive strategic benefits from an alliance with India. Our finding is based on examples which demonstrate such partnerships. For instance, China secured access to critical minerals, including rare earth elements, by partnering with resource-rich nations. In exchange, China built significant critical infrastructure – such as roads, railways, and ports. For example, under its Belt and Road Initiative, China invested in Zambia and Congo to obtain access to copper and cobalt (Xiaoyang, 2023).

In the current context, the application of these factors yields multiple candidates. The Commonwealth of Independent States (CIS) region holds the largest economically mineable gold reserves among all regions. Additionally, this region boasts a low all-in sustaining cost (Metals Focus, 2020). Similarly, Russia is a viable candidate especially at the present time. The Russia-Ukraine war has hindered Russia's trading capacity with the West. This makes Russia more amenable to alternative trading arrangements, including those with India. Further, it has an existing trade relationship with India in respect of crude oil imports.

To conclude, given the consistent nature of domestic physical gold demand, gold imports are likely to remain unchanged unless there is an alternative source of supply. We find that a viable alternative strategy for India is to collaborate with other nations where it can mine the gold deposits. Based on precedents, we find that any nation that fulfills the dual criteria of being resource-rich and having a strategic interest in the collaboration would be a suitable partner.

Short term measures which encourage deposit of domestic gold holdings should be contemplated

Our recommendation in this subsection is framed in the context of previous Government of India schemes, such as the Gold Monetization Scheme (2015) and the Gold Deposit Scheme (1999), aimed at encouraging households to monetize their gold holdings (estimated to be approximately, 30,000 tonnes) by depositing them with banks which would have been lent to jewellers under gold metal loan schemes. The gold deposit schemes evinced little interest among Indian households. The lack of interest has been attributed to various factors (such as, low awareness, incentive structure) (IIM Ahmedabad, 2017). One factor that has received relatively less attention in policy discussions is the reluctance to disclose holdings due to fear of prosecution. This reluctance is plausible given the strong preference for owning gold in India, which may drive households to acquire gold through informal channels that they fear would be exposed.

We find that this challenge can be addressed by formulating a scheme akin to tax amnesty programs. A one-time, short-term scheme over a limited horizon (such as, five years) may be implemented encouraging citizens to voluntarily declare their gold holdings. From my deliberations with experts in Indian gold. For higher participation, such initiatives should expressly provide that no liability (civil or criminal) would be imposed on participation. Further, a monetary incentive may also be contemplated to boost participation. The basis for this recommendation draws from similar schemes introduced in India (income disclosure schemes formulated in 1997 and 2016) and other countries, such as, several Asian countries (Huda & Hernoko, 2017) and Italy (Rovelli, 2010).

In addition, the terms of the scheme could provide for a mechanism by which the Reserve Bank of India (RBI) may offer to purchase the disclosed gold holdings. This would significantly augment the central bank gold reserves. Currently, building central bank gold reserves involves expending foreign exchange which could be avoided in the event of RBI purchasing disclosed household gold holdings under the terms of the proposed scheme.

We note that it remains likely that despite this scheme, household may not deposit gold jewellery in monetization schemes given the associated cultural and emotional significance. However, this hinderance would not be applicable to gold coins and bars. These items are typically hallmarked and involve less craftsmanship involved compared to jewellery. Therefore, their deposits would significantly benefit the gold monetization scheme.

To summarize, domestic sources of gold supply can be significantly augmented if household gold holdings can be monetized. Low participation in monetization schemes could be a consequence of reluctance in disclosing the means of acquisition of gold holding. A one-time scheme, in the nature of tax amnesty programs offered in various jurisdictions, would significantly encourage deposits of unmonetized non-jewellery gold.

Policy focus on augmenting exports to address trade imbalance may be a more effective strategy

Before presenting our findings in this subsection, we draw reference to Figures 4 and 5. Figure 4 illustrates that there are periods of positive current account balance even when the imports were rising because the exports were also rising during the period (FY 2002-05). Further, positive current account balance has been observed even when exports were low because the imports were also low during that period (FY 2020-21). It also shows periods of negative current account balance despite the exports being high (FY 2012-13 and 2022-23) because the imports during these periods were also significantly high. Figure 5 illustrates that there are periods of positive current account balances or reduction of the current account deficit even when the gold imports were rising (FY 2020-21 and FY 2023-24). It also shows periods when the current account deficit worsened even though gold imports had fallen (FY 2022-23). These graphs highlight that the trade balance is not affected solely by imports or exports. A combination of both determines whether the account deficit would improve or worsen.

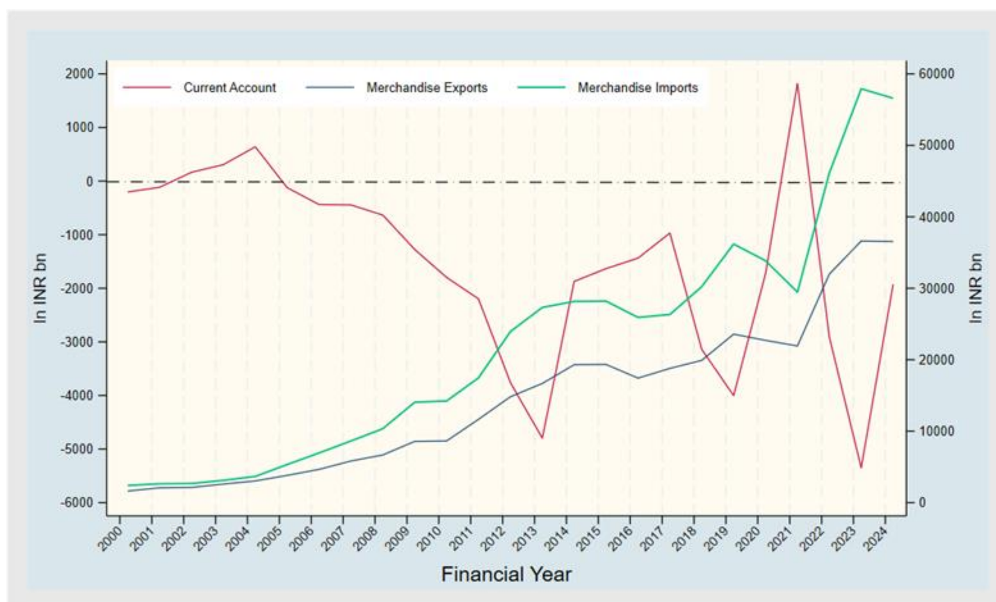

Figure 4: India’s Current Account vs Trade Flow (since FY 1999-2000)

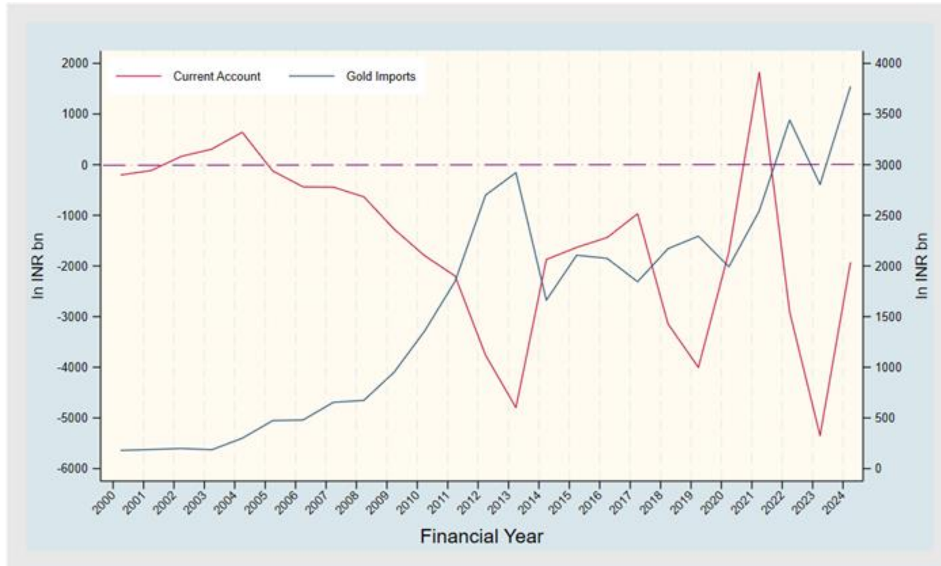

Figure 5: India's Current Account vs Gold Imports (since FY 1999-2000)

In light of above, we find that a policy strategy focused solely on managing gold import quantities would be insufficient in affecting the trade balance. Policies should necessarily also focus on improving India's exports, especially since depreciating Indian rupee makes India's exports more competitive. In this regard, we refer to Figures 6 and 7. Figure 6 shows that exports from the Indian gems and jewellery sector have demonstrated an upwards trend. Figure 7 highlights that the exports of gold jewellery have seen a consistent rise which is steeper than that for jewellery exports on the whole (in Figure 6).

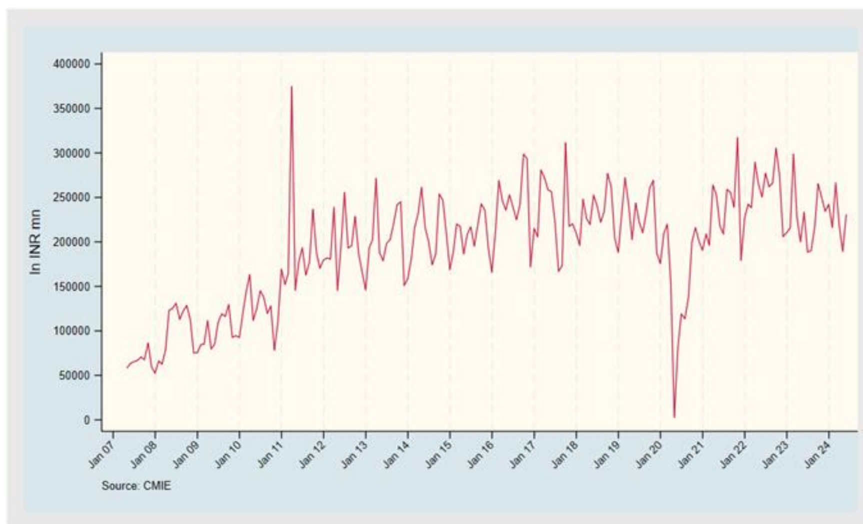

Figure 6: India's Jewellery Exports (Apr 2007 - May 2024)

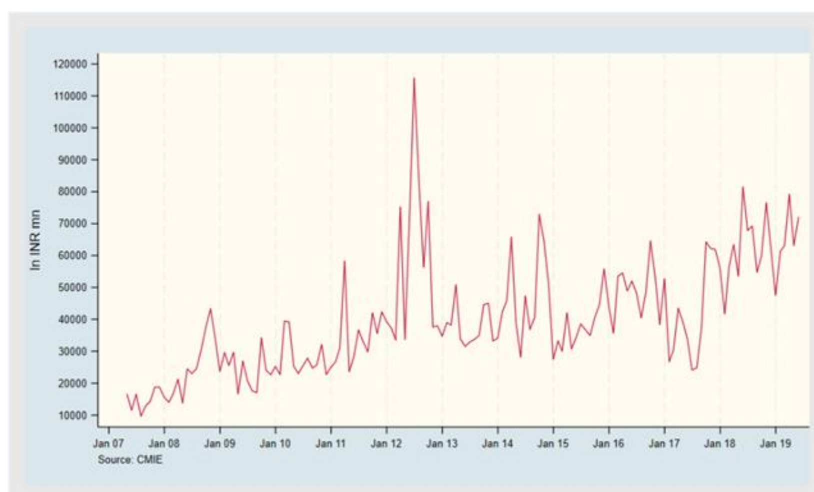

Figure 7: India's Gold Jewellery Exports (Apr 2007 - May 2019)

In light of above, we note that policy measures should focus on augmenting exports of Indian gems and jewellery, and in particular, gold jewellery. This would require addressing several structural challenges, such as, improving access to finance and infrastructure in respect of smaller artisans along with safer working conditions. In addition, policy measures should address concerns regarding the quality and purity of Indian jewellery in overseas markets. We believe that mandatory hallmarking which has been implemented so far in 361 districts would address this issue. In addition, continued facilitation of assaying and hallmarking centers to promote this process is a welcome step. In addition, steps to ensure that Indian refiners are able to achieve the same standards as necessary for international certifications (such as, those proposed by the London Bullion Market Association) would engender trust in Indian products.

To conclude, based on the data on India's trade balance, it is evident that any improvement or deterioration is determined collectively by the imports and the exports. The same finding is applicable in respect of imports of gold-based commodities. Accordingly, policy measures should target improvement of gold-based exports. In particular, exports of gems and jewellery (including that of gold) has seen sustained interest. However, the sector faces structural challenges which need to be addressed.

Conclusion

In the course of this paper, we highlight the limited long-term efficacy of customs duty rates as a policy tool for managing gold imports and addressing India's trade balance. The inelastic nature of domestic gold demand, coupled with inefficiencies such as rerouted imports and informal channels, necessitates a shift in policy focus. We recommend eliminating duty-based incentives, exploring strategic partnerships with resource-rich nations for gold mining, and introducing short-term tax amnesty schemes to encourage monetization of household gold holdings, particularly non-jewelry items like bars and coins.

Furthermore, our findings emphasize the need to balance import management with export promotion. Enhancing exports, especially in the gems and jewellery sector, is critical and requires addressing structural challenges such as access to finance and improving global trust

in Indian jewellery. A multi-faceted approach targeting imports, domestic monetization, and export enhancement will provide a more sustainable pathway to managing India's gold markets and trade balance.

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