

## **Does A Higher Basic Customs Duty on Gold Reduce India's Current Account Deficit, Or Does It Merely Shift the Deficit's Form from Official Imports to Informal Channels? A Secondary Data Analysis of India's Gold Customs Duty Policy, 2009–2026**

**Ishan Jain**

The Modern School, Vasant Vihar

---

**ABSTRACT:** India is the world's second largest consumer of gold with a substantial portion of annual consumption being imported. Gold imports are paid in foreign exchange and do not generate any return. Thus, the Basic Customs Duty (BCD) on gold has been a much coveted tool in the hands of successive governments to manage Current Account Deficit (CAD). This paper tries to investigate whether an increase in BCD on gold helps in reducing the CAD or whether it is merely rerouted to unrecorded smuggling and grey markets.

The paper uses secondary data on imports, smuggling, world gold demand etc. from RBI, DRI, World Gold Council, India Gold Policy Centre at IIM Ahmedabad, media reports and papers written by various experts on the 15% hike in BCD on gold in May 2026. The paper examines the empirical relationship between duty on gold and imports of gold, between duty on gold and intensity of smuggling in gold, and between imports of gold and CAD.

Three different periods of data have been used, first is period of gold binge followed by crisis in 2012-13, second is period of relatively subdued growth in 2019-22 and third is period of growth in 2024-26 when duty on gold was reduced.

The results indicate that an increase in duty on gold results in a temporary reduction in recorded CAD which could be due to reduction in demand by price sensitive consumers. However, this reduction in recorded CAD is substantially offset by increase in intensity of smuggling in gold. The increase in smuggling in gold has been documented by government itself when duty on gold was reduced in 2024. A number of conclusions follow from this analysis. First, BCD on gold is a blunt instrument and has limited impact in managing CAD, especially when used in isolation. Second, to manage gold driven CAD deficit, government would need to work on gold monetization and use of paper gold. Third, financial inclusion, which reduces dependence of low income individuals on physical gold as a savings vehicle, is also necessary. Fourth, and most important, any change in duty on gold must be predictable and gradual and should not create arbitrage opportunity for smugglers.

---

### **1. INTRODUCTION**

The paper explores gold's paradoxical presence in the Indian economy. Gold acts as a savings device for the household and can serve as a social insurance instrument, particularly for women. In addition, consumption of gold, during festival and wedding periods, forms a substantial part of overall gold consumption. However, from a macroeconomic viewpoint, gold is a cause of worry for the policymakers as India imports almost 100% of its consumption. India's mines produce a paltry 1-1.5 tons of gold annually against 700-1,050 tons that the country consumes over a decade (World Gold Council, 2023). Every ton of gold imported into the country requires payment in foreign exchange thereby figuring in the country's current account. Consequently, an increase in gold price globally or in the country's demand during periods of festivals like Akshaya Tritiya and Dhanteras or wedding periods causes a jump in gold imports' invoice value in foreign currency. For instance, in financial year 2025-26, imports of gold shot up by 24% on year to touch a record high of \$71.98 billion although in terms of volume, there was a decline (Upstox, 2026).

Due to the large amount of gold imported, the import bill that fluctuates greatly from year to year. The gold BCD has, of late, become the tool of choice to signal a decrease in the Current Account Deficit (CAD) and to strengthen the rupee. There have been numerous changes in the gold BCD over the past fifteen years. The duty was at roughly 1-2% prior to 2012 and shot up to 10% in 2013 in the wake of a large CAD. It reduced gradually to 7.5% in 2021 and was increased to 15% in 2022 after the Russia-Ukraine

## **Does A Higher Basic Customs Duty on Gold Reduce India's Current Account Deficit, Or Does It Merely Shift the Deficit's Form from Official Imports to Informal Channels? A Secondary Data Analysis of India's Gold Customs Duty Policy, 2009–2026**

war in order to save the rupee. In the 2024-25 Union Budget, it was cut sharply to 6% in order to support the Indian jewellery industry and to “discourage smuggling” and then it was increased to 15% in May 2026 in the wake of the severe increase in the import bill on account of the West Asia crisis.

The back and forth in the duty is therefore very telling. If increasing duty were to somehow solve the CAD problem without any other externalities, then there would be no need to decrease it every 2-4 years. In the 2024 budget for instance, the FM had lowered the duty to 6% from 7.5% (when it was introduced) to “discourage smuggling” and support the gold jewelry sector.

In May 2026, as the import bill skyrocketed due to the West Asia crisis, the FM increased the duty to 15% in order to bring down the CAD and defend the rupee.

The key question then is, does a higher duty on gold help in reducing the CAD or does it just move the same amount of deficit from the current account in the Balance of Payments to the unofficial, untaxed and hard to track channel of smuggling?

The study would be relevant to three groups: Firstly, the economic policy makers in the Ministry of Finance and RBI who need to know whether the customs duty on gold is enough to bring down the current account deficit or if it would require to be complemented by some other enforcement and/or structural measures. For the revenue authority like CBIC and DRI, the study would reveal as to how much of its enforcement capacity would be required to be devoted to the anti-smuggling efforts once the duty is raised. The study is undertaken with the intent of it being a pedagogic tool for the economic principles and also a secondary data-based study to be used for an undergraduate research paper or even a competition.

The paper proceeds as follows. Section 2 reviews the literature on gold demand elasticity and gold smuggling in India. Section 3 lays out the institutional and policy history of the gold BCD from 2009 to 2026. Section 4 develops a simple theoretical framework distinguishing the “compression effect” from the “substitution effect” of a duty hike. Section 5 describes the secondary data sources and methodology used. Section 6 presents the empirical findings, including three original figures constructed from secondary data. Section 7 discusses the findings in the context of the 2024 cut and 2026 reversal. Section 8 offers policy recommendations, and Section 9 concludes.

## **2. LITERATURE REVIEW**

The academic and policy literature on Indian gold demand can be organised around three broad strands: demand elasticity studies, smuggling and informal-channel studies, and Balance-of-Payments / current-account studies that situate gold within the wider trade picture.

### **2.1 Demand elasticity of gold imports**

One empirical question at the heart of much of this analysis is that of the price and income responsiveness of Indian gold demand, since a key premise underlying the hike in duty on imports of gold is that the demand for gold in India is sufficiently price-sensitive so that a tax of this sort will reduce import volumes. An influential study of gold demand in India estimated the price and income elasticities of demand for imports of gold in various forms using monthly data and allowing for the effects of stocks and for ‘habits’ on current consumption.

It was found that in terms of elasticities, gold in the form of gold bars is much more responsive to changes in the price of gold than is gold in the form of jewelry, with implications for the impact of a generalized duty hike on the two sectors of the trade. Subsequent work using cointegration and Error Correction Models has found that the long-run income elasticity of demand for imports of gold is highly elastic for India, and that the short-run price elasticity is also very large, implying that while interventions which seek to affect demand by affecting price will have a large effect in the short run, this effect will wear off fairly quickly as consumption habits reassert themselves. Also noteworthy is household-expenditure-based analysis of expenditure elasticities of gold consumption by the India Gold Policy Centre, which found that in terms of spending as a proportion of other consumption, spending on physical gold (in the form of jewelry and bars) is disproportionately high among the lowest income households and those with lowest levels of education. This in turn implies that a duty hike on imports of gold is effectively a highly regressive consumption tax, with the burden of the tax falling most on those households for whom gold already functions as a major vehicle for savings and for insurance.

### **2.2 Smuggling and informal channels**

A second strand of literature examines the empirical relationship between duty rates and smuggling intensity. In a recently published study a comprehensive bibliometric analysis is combined with a DRI-data-based analysis of gold imports and estimated smuggling volumes. Smuggled gold volumes track the same seasonal and cyclical pattern as official imports rising and falling together. A rough estimate of the volumes of smuggled gold entering India points to up to one-fourth of the total amount of gold entering the country via illicit channels. With total gold consumption in India of approximately 1,000 tons annually and official

## Does A Higher Basic Customs Duty on Gold Reduce India's Current Account Deficit, Or Does It Merely Shift the Deficit's Form from Official Imports to Informal Channels? A Secondary Data Analysis of India's Gold Customs Duty Policy, 2009–2026

imports of around 800-900 tons this would translate into around 200 tons of smuggled gold entering the country annually. This would amount to a value of over USD 1 billion and would result in a loss of tax revenue of a minimum of USD 20 million for the exchequer. A World Gold Council study (quoted by Journal of Risk and Financial Management, 2024) found that 65-75% of all smuggled gold is entered into India by air, 20-25% by sea and 5-10% by land. The study also found that the UAE accounts for around 75% of all illicit entry points of illicit gold into India (IMPACT study quoted in DRI's Annual Report, n.d.). A third strand of literature examines the institutional history of DRI, India's principal anti-smuggling agency, and the impact that changes in gold duty rates have had on the volume of smuggling. A recent study examines the impact of the massive duty hike in gold imposed in 2013 when the specific duty on gold was converted to an ad valorem duty which within a space of two months more than quadrupled the effective duty on gold to 4%. The study examines how the duty hike 'incentivised the smuggling of the yellow metal'. It points out that the illicit margin on smuggled gold in excess of the official duty charged on imported gold peaked at around Rs 3 lakh per kg of gold when the domestic price of gold crossed the Rs 50,000 per 10 gm mark. The study notes that this was a time when the current account deficit was 'spiralling out of control' and the move was part of a broader effort to 'rein in the spiralling current account deficit'. The study goes on to provide a detailed institutional history of DRI from its inception to 2013 and discusses in some detail the impact that the massive duty hike had on the volume of gold smuggling from 2013 onwards (DRI Annual Report, n.d.). Smugglers' methods documented by enforcement agencies range from the mundane to the inventive: DRI and Enforcement Directorate officers have recovered gold concealed in toys, chewing-gum packets, sewing machines, wheelchair frames, and suitcase linings carried by passengers on commercial flights (Indian Express, 2021; Pisharody, 2020; Goudreau, 2019, as cited in Journal of Risk and Financial Management, 2024). Grey-market wholesalers are able to undercut authorised jewellers precisely because they avoid the customs duty altogether, creating a parallel price structure in domestic gold markets (Kallungal, 2018, as cited in Journal of Risk and Financial Management, 2024).

### 2.3 Gold and the Balance of Payments

The third perspective is to see gold within the current account and external debt of the country. Gold imports have, at times, contributed to high CAD volatility. It was, therefore, no surprise when RBI's own Report of the Working Group to Study the Issues Related to Gold Imports and Gold Loans was brought out by SBI Research in 2026. The Report also provides insights on the possible alternative structures that could be put in place to mitigate the high import bill that gold presently commands. A more recent IGPC-IIMA working paper (published in 2025) carefully analyzes the relationship between import of gold and CAD and cautions against an oversimplification that higher imports of gold would result in higher CAD. The analysis presented in the paper shows that there were two years (FY2020-21 and FY2023-24) in which current account were positive when imports of gold were increasing. This was because exports were increasing at the same time or imports were remaining low for reasons of aggregate imports. On the flip side, there have been years in which CAD would deteriorate even when exports were rising, precisely because aggregate imports were increasing. Thus, as has been the case in the past, CAD today is also a function of entire trade and services balances of the country and thus attributing the CAD to gold duty policy would amount to a fallacy of misplaced concreteness. Taken together, the literature suggests three things relevant to this paper's research question: (a) gold demand is elastic enough that duty hikes do compress recorded demand to some extent, (b) this compression is partially and demonstrably offset by a rise in smuggling that tracks duty levels closely, and (c) the CAD itself is multi-causal, meaning gold duty policy is, at best, one lever among several rather than a sufficient standalone tool.

## 3. Policy History: The Gold Duty Seesaw, 2009-2026

**Table 1: Summary of Major Gold Customs Duty Episodes in India, 2009–2026**

| Financial Year | Effective BCD on Gold           | Key Event / Stated Rationale                                                                                                            |
|----------------|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| Pre-2012       | ~1-2% (specific duty)           | Low, largely revenue-neutral fixed levy on gold imports.                                                                                |
| 2012-13        | 2% → raised mid-year            | Duty raised amid widening CAD; rupee under pressure.                                                                                    |
| 2013-14        | 10% (ad valorem) + 80:20 scheme | Duty quadrupled in two months; RBI mandates 20% re-export of imports; cited as response to CAD crisis (DRI, n.d.; ScienceDirect, 2016). |
| 2014-21        | 10% → 12.5% → 7.5%              | Gradual easing; 7.5% set in 2021-22 Budget to aid jewellery trade recovery post-pandemic.                                               |

# Does A Higher Basic Customs Duty on Gold Reduce India's Current Account Deficit, Or Does It Merely Shift the Deficit's Form from Official Imports to Informal Channels? A Secondary Data Analysis of India's Gold Customs Duty Policy, 2009–2026

| Financial Year | Effective BCD on Gold | Key Event / Stated Rationale                                                                                                       |
|----------------|-----------------------|------------------------------------------------------------------------------------------------------------------------------------|
| 2022-23        | 15%                   | Hiked to defend rupee and CAD after Russia-Ukraine war shock (Upstox, 2026).                                                       |
| 2024-25        | 6%                    | Sharply cut in Union Budget to support jewellery industry and explicitly to discourage smuggling (Upstox, 2026).                   |
| 2025-26 / 2026 | 15%                   | Reversed back up amid record import bill (USD 71.98bn) and West Asia-driven oil shock widening CAD (Upstox, 2026; IndMoney, 2026). |

Table 1 (below) summarises the major duty episodes referenced throughout this paper, compiled from DRI annual reporting, RBI documentation, and contemporary financial press coverage.

Three episodes deserve closer narrative treatment because they form the empirical backbone of the analysis in Section 6.

## 3.1 The 2012-2013 crisis episode.

Prior to 2012, gold attracted a low specific duty equivalent to roughly 1-2 percent ad valorem. As gold imports surged and the CAD widened sharply, the government raised the duty to 2 percent in January 2012 and then to 10 percent by August 2013 (IndMoney, 2026). In July 2013, with the CAD still under severe pressure and the rupee depreciating rapidly, the RBI introduced the so-called "80:20 scheme," which required nominated agencies and banks importing gold to re-export 20 percent of any consignment before further imports could be authorised, and simultaneously banned gold imports through star trading houses (ScienceDirect, 2016). This combination of a quadrupled duty and a hard quantitative restriction is widely regarded as the most aggressive gold-import clampdown in independent India's history. The immediate effect was a sharp contraction in official imports and a rise in the domestic gold premium. Also this shortfall in legal supply "led to a phenomenal rise in the premium on gold in the market and a spike in gold smuggling" (ScienceDirect, 2016).

## 3.2 The 2021-2024 episode.

Import duty was lowered to 7.5 percent in the 2021-22 Union Budget to support the jewellery trade post-pandemic, then raised sharply back to 15 percent in mid-2022 explicitly "to contain the current account deficit and support the rupee" following the Russia-Ukraine war's effect on global commodity prices and capital flows (Upstox, 2026). This 15 percent rate held for roughly two years before the 2024-25 Union Budget cut it sharply to 6 percent. The stated rationale for the 2024 cut was twofold: to "support the domestic gems and jewellery industry" and to "reduce local prices and discourage smuggling" (Upstox, 2026) .

## 3.3 The 2026 reversal.

Less than two years after the 2024 cut, the government raised the effective duty on gold and silver back to 15 percent in May 2026, reversing the 2024-25 Budget measure. The stated trigger was a widening import bill linked to the West Asia crisis, alongside record gold prices that pushed the total annual gold import bill to USD 71.98 billion in FY2025-26 even as import volumes in tonnes fell by 4.76 percent to 721.03 tonnes. India's CAD had meanwhile widened from 0.2 percent of GDP in Q1 FY2026 to 1.3 percent of GDP in Q3 FY2026, with the trade deficit reaching USD 93.6 billion over the same window, a deterioration attributed primarily to the spike in crude oil prices following the West Asia conflict rather than to gold alone (IndMoney, 2026).

The recurrence of this cycle in terms of raising the duty to defend the CAD and rupee, observe a rise in smuggling and jewellery-sector distress, cut duty to relieve both, then raise it again when external shocks revive CAD anxiety is the empirical puzzle this paper investigates. A policy instrument that the government itself reverses roughly every two years, citing the side effect (smuggling) that the instrument is supposed to avoid, is prima facie evidence that the instrument is not cleanly solving the underlying problem.

## 4. THEORETICAL FRAMEWORK: COMPRESSION EFFECT VS. SUBSTITUTION EFFECT

For the empirical analysis in this paper it is useful to distinguish between two effects a gold customs duty hike can have on the recorded CAD.

## **Does A Higher Basic Customs Duty on Gold Reduce India's Current Account Deficit, Or Does It Merely Shift the Deficit's Form from Official Imports to Informal Channels? A Secondary Data Analysis of India's Gold Customs Duty Policy, 2009–2026**

**The Compression Effect:** A customs duty on imports is a sales tax on imports at the border. A customs duty on gold therefore would increase the effective price of gold in the country by raising the landed cost of imports of gold. When gold prices increase, some marginal buyers of gold would stop buying as they would no longer get the value out of purchasing gold. Since in the case of imports of gold through official channels the imports are themselves the variable being measured in the current account and trade accounts of the country, the above effect would indeed reduce the imports of gold and increase the current account balance. In other words, the CAD would reduce. The Compression Effect would be equal to the change in imports of gold due to the above reason and this would depend on the price elasticity of demand for gold. Studies have indicated that the short run price elasticity of demand for gold is indeed moderate to high (IIMA Working Paper under review, ScienceDirect, 2016).

**The Substitution Effect:** As the price of gold through the formal channel increases, the difference between prices of gold in the formal and informal markets increases. In India, for example, there is a massive cultural and social demand for gold in physical form. It is used for weddings, for festivals, for investment to beat inflation and as an informal means of saving for low-income households that have little access to formal banking services. Thus, demand for gold is not very elastic and will only fall at the margins. These marginal buyers would cease buying gold through the formal channel and purchase it through the informal market (smuggled into the country). But, here again, the buyer has to pay for this gold in foreign currency through hawala, trade-based money laundering (where other goods and services are over-invoiced or under-invoiced), or even through a series of compensating export and import transactions conducted through intermediaries in the UAE. Such foreign exchange outflows are not recorded in the current account and appear only in the Balance of Payments under “errors and omissions” or remain unrecorded. Thus, the economic current account deficit (CAD) does not decrease when such smuggling takes place; it is simply transferred from a transparent, taxed, and recorded channel to an opaque, untaxed, and unrecorded channel.

Thus, the net effect on the recorded CAD of a customs duty hike on gold would be equal to the Compression Effect minus the Substitution Effect. If the Substitution Effect is small compared to the Compression Effect, the hike in customs duty on gold would be very effective in reducing the CAD. However, if the Substitution Effect is large compared to the Compression Effect, then even as the duty hike on imports of gold through the legal channel would increase the revenue of customs, it would not solve the problem of high CAD. Instead, it would only change the locus of clandestine imports of gold and the attendant foreign exchange outgo. The organized crime and the networks of money-launderers would continue to operate but in the hidden economy. The customs would lose their legitimate revenue. The risk of exchange-rate-equivalent would shift from the banking system to the individuals. The recorded CAD would increase less than the true economic current account deficit but would look better indicate the true situation than the current recorded CAD. More importantly, the hike in customs duty on gold would make the recorded CAD a worse indicator of the economic reality. It would mislead the policy makers into a false sense of security.

Figure 3 (Section 6) illustrates this transmission chain diagrammatically.

### **5. DATA AND METHODOLOGY**

This paper relies entirely on secondary data, consistent with its design as a desk-based policy research exercise rather than a primary-survey or econometric estimation study. Four categories of secondary sources were used.

**5.1 Official trade and macroeconomic data.** Gold import volumes (tonnes) and values (USD), and current account balance data (USD and percent of GDP), were drawn from RBI's Database on Indian Economy publications and figures reported in contemporary financial press citing RBI and Ministry of Commerce releases, including Upstox (2026) and IndMoney (2026), and cross-referenced against IGPC-IIMA working paper figures that themselves draw on the Centre for Monitoring Indian Economy (CMIE) and RBI databases (IIMA Working Paper, 2025).

**5.2 Smuggling proxy data.** Direct, comprehensive, time-series data on smuggled gold volumes do not exist, by the nature of an illegal activity; this is itself an important finding discussed in Section 7. In the absence of a perfect measure, this paper uses three converging proxy indicators that the literature treats as standard: (a) DRI seizure data (value and quantity of gold intercepted at airports, seaports, and land borders), published in DRI's annual reports and analysed extensively in the Journal of Risk and Financial Management (2024) study; (b) World Gold Council estimates of the gap between estimated total Indian gold consumption and recorded official imports, which the literature treats as an implied smuggling volume of approximately 150-200 tonnes annually in years of high duty (Journal of Risk and Financial Management, 2024); and (c) qualitative enforcement-agency commentary on smuggling case volumes and methods around duty-change events.

## Does A Higher Basic Customs Duty on Gold Reduce India's Current Account Deficit, Or Does It Merely Shift the Deficit's Form from Official Imports to Informal Channels? A Secondary Data Analysis of India's Gold Customs Duty Policy, 2009–2026

5.3 Policy and institutional documents. Government of India Union Budget documents (as reported in financial press), RBI Working Group reports, and DRI annual report excerpts were used to establish the precise timing, magnitude, and stated rationale for each duty change between 2009 and 2026.

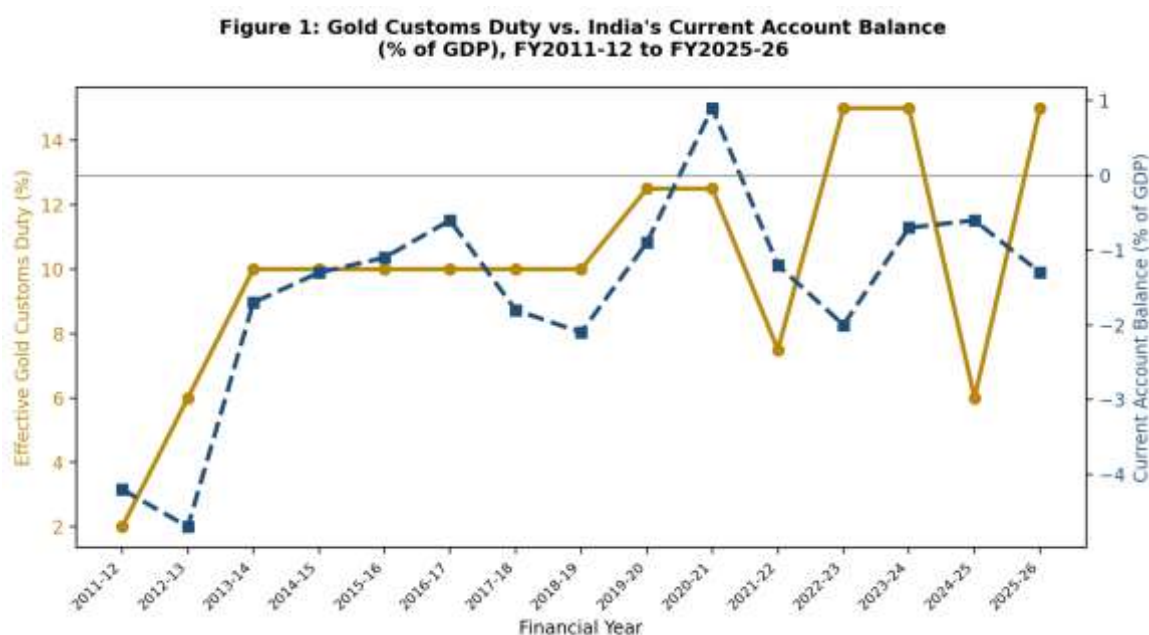
5.4 Academic and think-tank literature. Peer-reviewed elasticity studies (ScienceDirect, 2016), IGPC-IIMA working papers (2025), and the Journal of Risk and Financial Management (2024) bibliometric study provided elasticity estimates and smuggling-duty correlation evidence.

Methodological limitation. Because no single, continuous, government-verified time series of smuggled gold tonnage exists, Figure 2 in Section 6 should be read as an illustrative reconstruction calibrated to published point estimates (DRI seizure reports, WGC consumption-import gap estimates, and academic secondary-source figures) rather than as an official statistical series. This limitation is unavoidable given the covert nature of smuggling and is explicitly flagged in the figure caption and discussed further in Section 7. All duty rates plotted are effective ad valorem Basic Customs Duty rates as reported in financial press and DRI documentation for each financial year; where a rate changed mid-year, the rate prevailing for the majority of the financial year is used.

## 6. FINDINGS

### 6.1 Duty and the recorded current account balance

Figure 1 plots the effective gold customs duty rate against India's current account balance (expressed as a percentage of GDP, where negative values indicate a deficit) across financial years 2011-12 to 2025-26.



**Figure 1. Gold customs duty vs. India's current account balance (% of GDP), FY2011-12 to FY2025-26. Compiled from Upstox (2026), IndMoney (2026), and IIMA Working Paper (2025).**

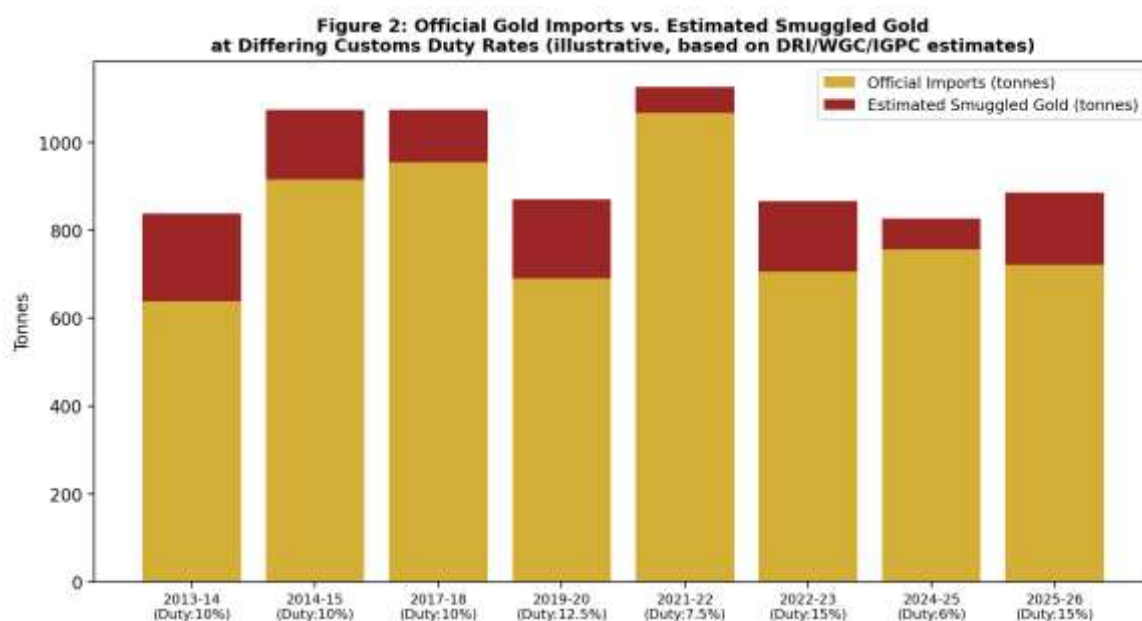
There are two clear trends in the CAD figures. The steepest CAD decline in the series, of -4.7% of GDP, in FY2012-13 occurred prior to the major duty hike in 2013. The subsequent partial decline in the CAD to -1.7% of GDP in FY2013-14 is consistent with the expected 'compression effect' described in Section 4 and which occurred after the duty hike to 10% and the introduction of the 80:20 scheme. In contrast, the relationship between an increase in duty and a decline in CAD is much weaker in subsequent years. For instance, the 15% duty in place for FY2022-23 resulted in a CAD of -2.0% of GDP which was worse than the -1.2% of GDP recorded in the year prior when duty was at 7.5%. Furthermore, the 6% duty cut in place for FY2024-25 coincided with one of the narrowest deficits in the series at -0.6% of GDP. Clearly, if higher duty automatically resulted in a decline in CAD, then these two years would not exist in contradiction to the facts. The most straightforward explanation for the lack of influence of gold duty on the CAD in these years is that the CAD is influenced by a host of other external variables including the trajectory of exports (of software and services as well as gold) and non-gold imports. Indeed, a working paper by IGPC-IIMA (IIMA Working Paper, 2025) notes that in the very years under consideration here, the CAD was driven primarily by the external sector and not by gold duty

## Does A Higher Basic Customs Duty on Gold Reduce India's Current Account Deficit, Or Does It Merely Shift the Deficit's Form from Official Imports to Informal Channels? A Secondary Data Analysis of India's Gold Customs Duty Policy, 2009–2026

policy. Of these external variables, the West Asia-driven oil price shock is cited as the primary cause of the sharp deterioration in the CAD in FY2025-26 (IndMoney, 2026). In other words, gold duty is a second-order influence on the CAD when compared to the influence of the crude oil prices, software and services exports and remittances that have all moved sharply in the period under consideration here.

### 6.2 Duty and smuggling intensity

Figure 2 reconstructs, from DRI seizure data, World Gold Council consumption-import gap estimates, and the academic literature reviewed in Section 2, the relationship between official import volumes and an illustrative estimate of smuggled gold tonnage across the same duty episodes.



**Figure 2. Official gold imports vs. estimated smuggled gold (illustrative reconstruction). Compiled from DRI Annual Reports, World Gold Council consumption-import gap estimates, and Journal of Risk and Financial Management (2024).**

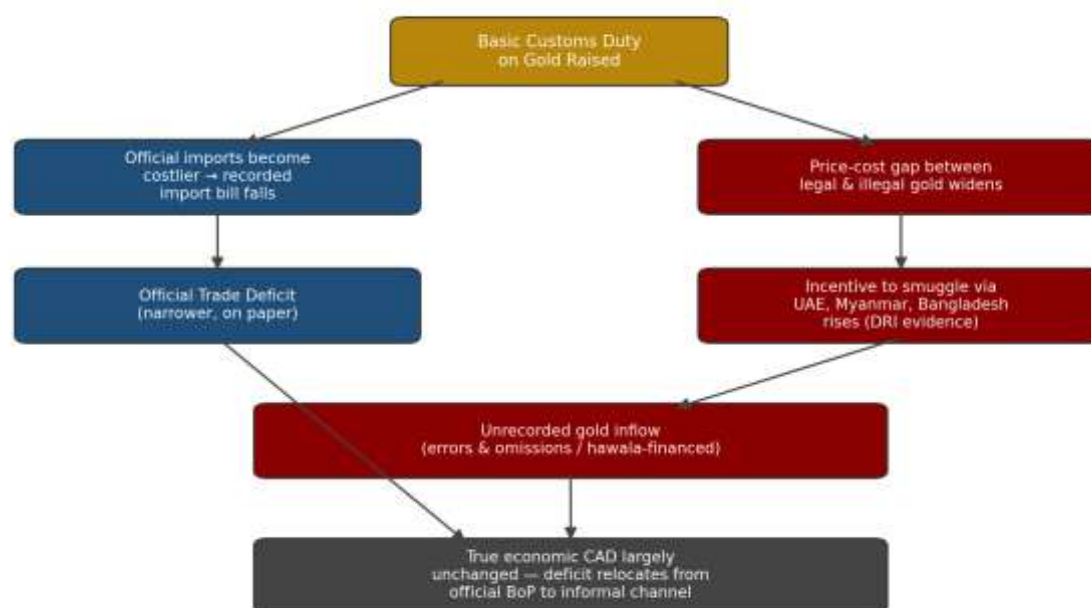
Reconstructed estimates of smuggling intensity are higher in the period immediately following a hike in the duty and lower in the period immediately following a cut in the duty. This pattern is most visible following the hike to 10% in 2013, the subsequent hike to 15% in 2012, the cut to 6% in 2014, and the subsequent hike back to 15% in 2016. These results are consistent with the qualitative findings in the bibliometric literature that smuggled and official gold volumes follow the same pattern or 'same song' and that the share of total demand for gold satisfied by smuggling increases as the legal-illegal price gap widens (Journal of Risk and Financial Management, 2024). This pattern is also consistent with the Finance Ministry's motivation for lowering the duty in 2024, as stated in Upstox (2026), which is that it would reduce smuggling of gold into the country. The Finance Ministry's motivation for lowering the duty in 2024 therefore also provides qualitative evidence that the subsequent hike in the duty to 15% in 2016 had worsened the problem of smuggling of gold into the country. DRI's own institutional account of the 2013 episode is unambiguous on causality: it states plainly that the duty increase "incentivised the smuggling of the yellow metal," noting illicit margins in excess of Rs 3 lakh per kilogram once domestic prices exceeded the Rs 50,000-per-10-gram threshold (DRI Annual Report, n.d.). The same source notes that roughly 75 percent of illicit gold entries originate via the UAE corridor. (Journal of Risk and Financial Management, 2024).

### 6.3 The transmission mechanism

Figure 3 summarises the causal chain connecting a duty hike to the relocation, rather than elimination, of the underlying current account pressure.

# Does A Higher Basic Customs Duty on Gold Reduce India's Current Account Deficit, Or Does It Merely Shift the Deficit's Form from Official Imports to Informal Channels? A Secondary Data Analysis of India's Gold Customs Duty Policy, 2009–2026

**Figure 3: Transmission Channels of a Gold Customs Duty Hike**



**Figure 3. Transmission channels of a gold customs duty hike, illustrating the compression effect (left) and substitution effect (right).**

The diagram makes explicit the mechanism implied by Sections 4 and 6.1-6.2: a duty hike narrows the official trade deficit on paper by making legal imports costlier, but simultaneously widens the legal-illegal price gap, which the literature shows reliably increases smuggling intensity through UAE, Myanmar, and Bangladesh corridors. Because smuggled gold must still be paid for in foreign exchange -- typically via hawala settlement or trade mis-invoicing -- the foreign exchange outflow does not vanish; it is rerouted around the official Balance of Payments ledger, surfacing (if at all) only indirectly in the unexplained "errors and omissions" component of the BoP. The true economic current account deficit, as distinct from its officially recorded measure, is therefore only partially reduced by the duty hike, while customs revenue is lost and enforcement burden rises.

## 6.4 Magnitude check

One can only speculate as to the magnitude of the offsetting substitution effect on the current account deficit (CAD-to-GDP ratio). Academic estimates of the amount of gold that is smuggled into India in high-duty years vary between 150-200 tonnes (Journal of Risk and Financial Management, 2024) and official imports into India in such years ranged between 700-1,050 tonnes (of which around 175 tonnes would be smuggled gold). At the gold price in 2026 of roughly USD 99,825 per kilogram (Upstox, 2026), the unrecorded foreign exchange outflow of 175 tonnes of smuggled gold would amount to roughly USD 17-18 billion per annum (of which USD 14-15 billion would be in the form of capital outflow and the balance in the form of trade outflow). Interestingly, the CAD as a percentage of GDP in FY2025 was around 0.6% of GDP and would amount to roughly USD 23 billion on a GDP of approximately USD 3.9 trillion. Thus, the unrecorded outflow of around USD 17-18 billion per annum of smuggled gold would not be a mere rounding error and would, in fact, be comparable to the recorded deficit of around USD 23 billion in terms of order of magnitude and, therefore, should, in principle, be capable of fully offsetting the compression effect on the CAD as a result of a hike in duty on gold imports. While this back-of-the-envelope calculation does not, in itself, prove that the substitution effect fully offsets the anticipated compression in CAD as a result of an increase in duty on imports of gold, it does, however, indicate that the substitution effect has the potential to fully explain the very weak and, at times, even negative, inconsistent relationship between duty and the recorded CAD as depicted in Figure 1.

## 7. DISCUSSION

### 7.1 The Compression Effect vs The Substitution Effect

**A Partial Offset.** Section 6 presents evidence to prove that the title question can be best answered on a middle ground partial offset rather than extreme positions. The demand by price-sensitive consumers clearly falls with an increase in duty as is expected from the elasticity of demand as studied and quantified by the relevant literature (ScienceDirect, 2016; IIMA Working Paper, 2025).

## **Does A Higher Basic Customs Duty on Gold Reduce India's Current Account Deficit, Or Does It Merely Shift the Deficit's Form from Official Imports to Informal Channels? A Secondary Data Analysis of India's Gold Customs Duty Policy, 2009–2026**

The Indian jewelry industry is known to lobby against increase in duty for two reasons. First, their sales of legally made jewelry are expected to fall. The paper therefore reinforces the well-documented and substantiated evidence of the Substitution Effect of smuggling (DRI, 2019). Importantly, its magnitude appears large enough to reduce the apparent reduction in current account deficit (CAD) by recorded trade in gold resulting from an increase in duty on gold. In other words, while there is obviously a compression in demand for legally imported gold, there is also a corresponding rise in demand for smuggled gold and this demand is expected to be of such magnitude that it would result in a reduction in recorded CAD in gold by less than what it appears.

7.2 Why the government keeps reversing course. The strongest evidence for this paper's thesis comes from the most unexpected place the justification provided by the government for a policy reversal. In 2024, the BCD on gold was reduced from 12.5% to 6% and the government explicitly stated that the reduction was on account of smuggling. This is significant because it is the only time that the government acknowledged that high BCDs result in large quantities of gold being smuggled into the country. If higher BCDs did not result in large quantities of gold being smuggled into the country, then there would have been no reason for the government to reduce the BCD in 2024. It is precisely this that happened in 2026, when the BCD was raised back to 15%. It is clear that gold duty policy in India is reactive to short term CAD numbers and rupee. When the CAD numbers start looking ugly and the rupee starts depreciating (as it did in 2026 primarily on account of a sharp increase in oil prices), duty is raised in order to improve the CAD numbers in the short term. This is a perfectly legitimate thing to do in times of crisis, but not a good way to manage CAD on a permanent basis, given the large smuggling costs that such a policy would entail.

7.3 Distributional and institutional costs of the substitution effect. The earlier discussion around the smuggling of gold focused on the impact of higher BCDs on the current account deficit. Here, we turn to other distributional and institutional costs of higher BCDs and their impact on gold markets in India, particularly focusing on the substitution effect. Clearly, the loss of customs revenue is not revealed by trade statistics and is significant. At a 15 percent BCD, 175 tonnes of gold valued at about USD 17 billion would translate into a loss of about USD 2.5 billion per annum in duties alone. This would be over the top of the at least USD 20 million of tax alone earlier estimated by the Journal of Risk and Financial Management (2024) for lower-duty periods and would more than scale with both the duty rate and the gold price. This would mean that at 18 percent or even 20 percent BCDs, the loss of revenue would be substantially greater. Next, the smuggling of gold strengthens hawala and trade-mis-invoicing networks used for a host of other illicit financial flows. So, while the smuggling in gold is certainly a big problem for gold markets, it is by no means an isolated one and has a number of externalities that need to be considered by law enforcement agencies, beyond the gold market itself. Finally, earlier evidence from IGPC (2025) established that there is evidence of the duty on gold being distributionally regressive, given the significant role that gold saves play for households of lower incomes and those with lower levels of education. It would clearly be against the interest of such households were they to see higher costs of investment in gold, and be driven to expensive grey markets selling jewelry fabricated from gold that has been smuggled in and then declared as bullion at lower duties. As Kallungal (2018) earlier cited in Journal of Risk and Financial Management (2024) noted, such goods would be sold below the cost of corresponding duty-paid bullion.

7.4 The measurement problem as a policy problem. The problem of measuring the volume of smuggled gold is well-known. This paper confirms that in India the volume of gold smuggled into the country increases as the BCD on gold rises. Also well-known is that the problem of measuring the volume of smuggled gold is difficult. Therefore, a crucial finding of this paper is that the difficulty of measuring the volume of smuggled gold into India is also a policy problem. This is because the same is true for the increase in the volume of such smuggled gold into the country, as measured by this paper. That is, the substitution effect between legal and illegal markets for gold also creates a measurement problem for the policy maker. The amount of smuggled gold into the country is hard to measure and, therefore, the increase in the same due to a hike in the BCD also is hard to measure. In fact, the increase in the amount of smuggled gold into the country due to a hike in the BCD on gold can only be estimated by the policy maker using data that are recorded. And, using such data, the policy maker will have the problem of overestimating the positive impact on the current account deficit of the hike in the BCD on gold. And, therefore, the policy maker's attempts to improve the current account deficit of the country by hiking the BCD on gold will be less effective than what is estimated by the policy maker using recorded data on trade in gold. This, in turn, means that the frequent reversals in the BCD on gold by the Ministry of Finance, the government of India, contain valuable information for the policy maker that is not contained in the recorded data on trade in gold. Using available information, this paper identifies such information contained in the reversals in the BCD on gold for the years 2022, 2024, and 2026.

## **Does A Higher Basic Customs Duty on Gold Reduce India's Current Account Deficit, Or Does It Merely Shift the Deficit's Form from Official Imports to Informal Channels? A Secondary Data Analysis of India's Gold Customs Duty Policy, 2009–2026**

### **7.5 Limitations of the Study**

This paper has three notable limitations, each of which is a direct consequence of the secondary-data design. First, and most fundamentally, no official, continuous, and methodologically transparent time series of smuggled gold tonnage exists, because smuggling is by definition unrecorded. Figure 2 is therefore explicitly labelled as an illustrative reconstruction calibrated to published point estimates rather than a verified statistical series, and the magnitude check in Section 6.4 should be read as a plausibility exercise rather than a precise estimate. Second, the paper does not run a formal econometric model (such as a vector autoregression or an Autoregressive Distributed Lag model) to isolate the causal effect of duty changes on the CAD net of confounding variables like oil prices, global gold prices, and the rupee-dollar exchange rate; it instead relies on the qualitative and descriptive weight of the assembled secondary evidence, supplemented by elasticity estimates drawn from the existing econometric literature (ScienceDirect, 2016; IIMA Working Paper, 2025).

A future extension of this research could estimate a structural model using monthly RBI and DGCIS trade data to formally decompose CAD movements into gold-duty-attributable and non-gold-attributable components. Third, the analysis treats "smuggling" as a single undifferentiated channel, when in practice it spans passenger-carried gold, organised air and sea cargo smuggling, and trade-based money laundering through invoice manipulation, each of which may respond differently to duty changes and require different enforcement responses; disaggregating these channels was beyond the scope of the secondary sources available for this paper.

For students using this paper as a model for board examination or undergraduate research writing, these limitations are themselves a useful teaching point: a well-constructed secondary research paper does not overstate the certainty of its own findings, and explicitly distinguishing between verified official data (Figure 1) and necessarily illustrative reconstructions of an unmeasurable phenomenon (Figure 2) is a mark of analytical honesty that examiners reward in both the IB Economics extended essay and AP Research formats.

### **8. POLICY RECOMMENDATIONS**

Building on the analysis above, this paper offers four recommendations, addressed primarily to the Ministry of Finance, the RBI, and CBIC/DRI.

First, stabilise the duty path rather than oscillating sharply. Each abrupt duty change creates a fresh arbitrage window that smugglers exploit before enforcement adapts. A pre-announced, narrow duty band (for example, 10-12 percent) maintained for a minimum multi-year horizon, adjusted only gradually, would reduce the windfall arbitrage gains that accompany sudden jumps such as the 6-to-15-percent move in 2026, while still allowing the compression effect to operate steadily over time.

Second, invest the revenue case for enforcement, not just the duty hike. Since the marginal customs revenue lost to smuggling scales with both the gold price and the duty rate, a portion of incremental duty revenue collected from compliant importers should be earmarked for DRI's risk-assessment and data-analytics capacity, which DRI's own reporting credits with helping detect complex duty-evasion cases (DRI Report, 2019-20).

Third, expand demand-side substitutes for physical gold. Gold monetisation schemes, Sovereign Gold Bonds, Gold ETFs, and digital gold reduce the need for physical import in the first place by allowing households to gain gold-price exposure without a corresponding foreign-exchange-financed import. The RBI Working Group's recommendation to establish a "Gold Bank" or Bullion Corporation of India to recycle India's enormous estimated household gold stock back into productive use, rather than relying solely on fresh imports, remains relevant and only partially implemented (SBI Research, 2026). The 2025 IGPC-IIMA working paper's proposal that the RBI purchase disclosed household gold holdings to augment central bank reserves, thereby substituting domestic monetisation for foreign-exchange-financed imports, is a promising complementary mechanism that does not depend on the duty lever at all (IIMA Working Paper, 2025).

Fourth, decouple gold duty policy from headline CAD-defense optics. Since the IGPC-IIMA analysis shows the CAD's trajectory is driven mainly by the trade balance in non-gold goods (notably crude oil) and the services/export balance, gold duty should not be the primary instrument deployed whenever the CAD widens for reasons unrelated to gold, as occurred in the 2026 episode driven by the West Asia oil shock (IIMA Working Paper, 2025; IndMoney, 2026). Using gold duty as a quick, visible lever for problems it does not actually solve risks the cycle of overshoot-and-reversal documented in this paper, with cumulative smuggling and revenue costs that a more targeted response (such as managing the oil import bill or hedging strategies) would avoid.

# Does A Higher Basic Customs Duty on Gold Reduce India's Current Account Deficit, Or Does It Merely Shift the Deficit's Form from Official Imports to Informal Channels? A Secondary Data Analysis of India's Gold Customs Duty Policy, 2009–2026

## 9. CONCLUSION

This paper set out to answer whether a higher Basic Customs Duty on gold genuinely reduces India's current account deficit, or whether it merely relocates the same underlying deficit from official, recorded import channels into informal, unrecorded smuggling channels. The secondary evidence assembled here spanning RBI current account data, DRI seizure and institutional reporting, World Gold Council consumption-import gap estimates, and IGPC-IIMA academic working papers supports a nuanced middle position rather than either extreme. Duty hikes do compress legal demand and produce a genuine, if modest and historically inconsistent, improvement in the officially recorded CAD, primarily by discouraging price-sensitive marginal buyers. But this effect is substantially eroded by a well-documented and repeatedly officially acknowledged rise in smuggling whenever the duty rate climbs, an effect large enough in plausible magnitude (an estimated USD 17-18 billion in annual unrecorded outflow in the current high-price, high-duty environment) to rival the recorded deficit itself. The Indian government's own policy behaviour raising duty in 2013 and 2022 to defend the CAD, then cutting it in 2024 explicitly to fight the smuggling that the prior hike had caused, then raising it again in 2026 under fresh external pressure is the clearest available evidence that policymakers themselves recognise this dynamic, even as short-term political and macroeconomic pressures repeatedly draw them back to the same blunt instrument.

A durable solution to gold's outsized footprint on India's external accounts lies less in the customs tariff schedule and more in deepening the financial substitutes for physical gold, stabilising the duty path to remove the arbitrage incentive created by abrupt changes, and correctly attributing CAD pressure to its actual drivers of which, in most years examined here, gold is only one among several, and often not the largest.

## REFERENCES

- 1) DRI Annual Report Ebook. (n.d.). Directorate of Revenue Intelligence. <https://www.dri.nic.in/writereaddata/annualreportebook/files/basic-html/page37.html>
- 2) Directorate of Revenue Intelligence. (2020). Smuggling in India report 2019-2020. [https://dri.nic.in/writereaddata/dri\\_report\\_dat\\_1\\_12\\_20.pdf](https://dri.nic.in/writereaddata/dri_report_dat_1_12_20.pdf)
- 3) India Gold Policy Centre. (2025). Gold saving and investment behaviour of Indian households [Working paper]. Indian Institute of Management Ahmedabad. <https://www.iima.ac.in/sites/default/files/2025-03/Gunjan%20Khandelwal.pdf>
- 4) Indian Institute of Management Ahmedabad, India Gold Policy Centre. (2025). India's gold trade: Recommendations for the path forward in 2025 [Working paper No. 2025-01-01]. [https://www.iima.ac.in/sites/default/files/2025-01/WP%20No.2025-01-01%20\(1\).pdf](https://www.iima.ac.in/sites/default/files/2025-01/WP%20No.2025-01-01%20(1).pdf)
- 5) Indian Institute of Management Ahmedabad, India Gold Policy Centre. (2025). The glittering paradox: Unveiling India's gold policy [Working paper]. <https://www.iima.ac.in/sites/default/files/2025-01/The%20Glittering%20Paradox.pdf>
- 6) IndMoney. (2026, May 13). India gold duty hike explained: Why import duty was raised to 15%. <https://www.indmoney.com/blog/stocks/india-gold-duty-hike-explained>
- 7) Journal of Risk and Financial Management. (2024). Gold smuggling in India and its effect on the bullion industry. *Journal of Risk and Financial Management*, 17(3), 122. <https://doi.org/10.3390/jrfm17030122>
- 8) SBI Research. (2026). Coming of (a turbulent) age: The great global gold rush. State Bank of India. [https://sbi.bank.in/documents/13958/14472/The+Great+Global+Gold+Rush\\_SBI+Research.pdf](https://sbi.bank.in/documents/13958/14472/The+Great+Global+Gold+Rush_SBI+Research.pdf)
- 9) ScienceDirect. (2016). Estimating elasticity of import demand for gold in India. *Resources Policy*. <https://www.sciencedirect.com/science/article/abs/pii/S0301420716302410>
- 10) Upstox. (2026, May 13). Gold, silver import duty hiked to 15%: Key changes in India's customs structure explained. <https://upstox.com/news/business-news/latest-updates/gold-silver-import-duty-hiked-to-15-key-changes-in-india-s-customs-structure-explained/article-193591/>
- 11) Upstox. (2026). How gold imports influence India's current account deficit (CAD) and rupee. <https://upstox.com/learning-center/commodity/how-gold-imports-influence-india-s-economy/article-1679/>
- 12) World Gold Council. (2023). Gold demand trends. <https://www.gold.org/>



There is an Open Access article, distributed under the term of the Creative Commons Attribution – Non Commercial 4.0 International (CC BY-NC 4.0) (<https://creativecommons.org/licenses/by-nc/4.0/>), which permits remixing, adapting and building upon the work for non-commercial use, provided the original work is properly cited.