

Gold is more a necessity than a luxury in India

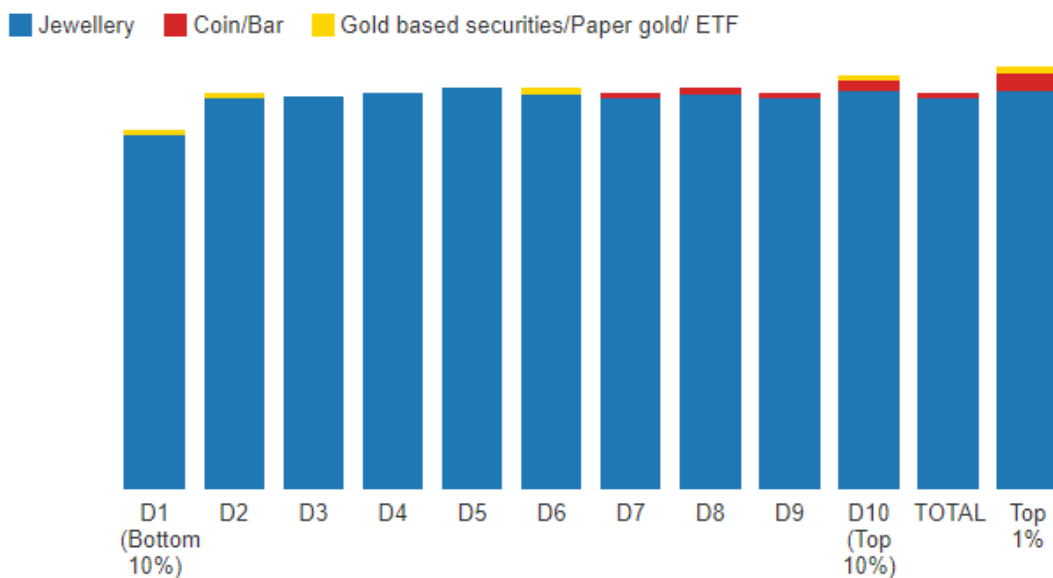
By: Dipti Jain | Mint | July 06, 2017

Gold consumption in India is a universal phenomenon across income classes, which explains why the GST rate on gold was fixed at just 3% and not 18%.

In the run-up to the implementation of the goods and services tax (GST), the chief economic adviser to the finance ministry, Arvind Subramanian, had argued that in line with other luxury items, gold should attract an 18% GST rate. However, bowing to opposition from states and industry bodies, the final rate levied on gold turned out to be much lower at 3%.

A Mint analysis of household survey data seems to suggest that one reason why state governments may have lobbied for a low tax rate on gold is because in a country such as India, gold purchases are not an exclusive preserve of the rich. Even though the rich tend to buy more of it, possession of gold is a universal phenomenon across income classes, the Household Survey on India's Citizen Environment & Consumer Economy (ICE 360° survey) shows.

Ownership of gold in the form of jewellery is almost evenly spread across all income classes



Figures indicate ownership of gold in different forms in % across income deciles

The ICE 360° survey was conducted by the independent not-for-profit organization, People Research on India's Consumer Economy, headed by two of India's best-known consumer economy experts, Rama Bijapurkar and Rajesh Shukla. The survey was partly financed by the World Gold Council.

One in every two households in India purchased gold in the last five years, according to the survey of 61,000 households conducted in 2016. Overall, 87% of households owned some amount of gold in the country, according to the survey.

In 2015-16 alone, 13% households reported purchasing some amount of gold. These figures are relatively higher compared to the estimates reported by the National Sample Survey Organisation (NSSO) in its last consumer expenditure survey of 2011-12. Only 3.4% households in rural India and 4.9% households in urban India had incurred any expenditure on gold ornaments in 2011-12, according to the NSSO.

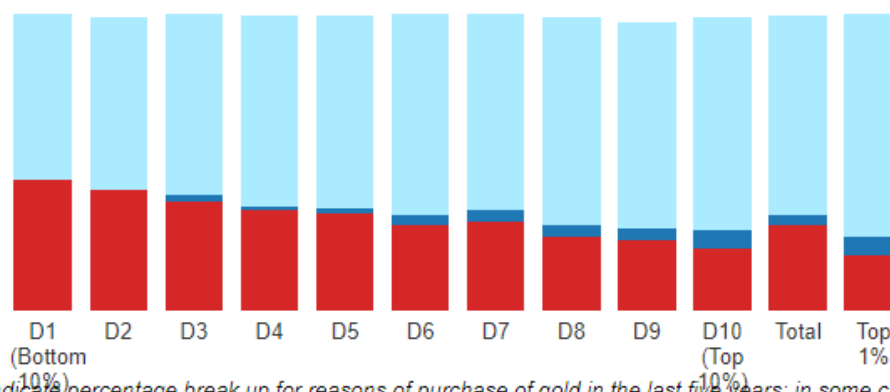
The two figures are not strictly comparable because the schedules for the two surveys differ, with the ICE 360° survey having a detailed section on gold consumption. NSSO figures are also likely to be understated as respondents are often hesitant to admit to purchasing gold, according to an official involved in such surveys, who did not wish to be identified.

Although gold connoisseurs are spread across income classes, the rich spend much more on gold compared to the poor. The average household spending on gold purchases was Rs30,298 for the top decile (top 10%) in the last year, roughly eight times the average spending of the bottom decile (bottom 10%).

A significant share of households across income classes purchased gold during weddings, according to the survey. But a much higher proportion purchased gold for other “social purposes” such as for gifts, personal use, to enhance social status, or to offer for worship or during festivals such as ‘Dhanteras’.

Surprisingly, marriage is not the biggest factor for purchase of gold

■ Wedding Purpose
 ■ To take advantage of slump in gold price or purely as investment
 ■ Other social purposes



Figures indicate percentage break up for reasons of purchase of gold in the last five years; in some cases numbers may not add to 100 as the reason "others" has not been included; other social purposes include gifting to someone, personal wear, to enhance social status, to offer for worship, to buy during festival times such as dhanteras as it is considered auspicious

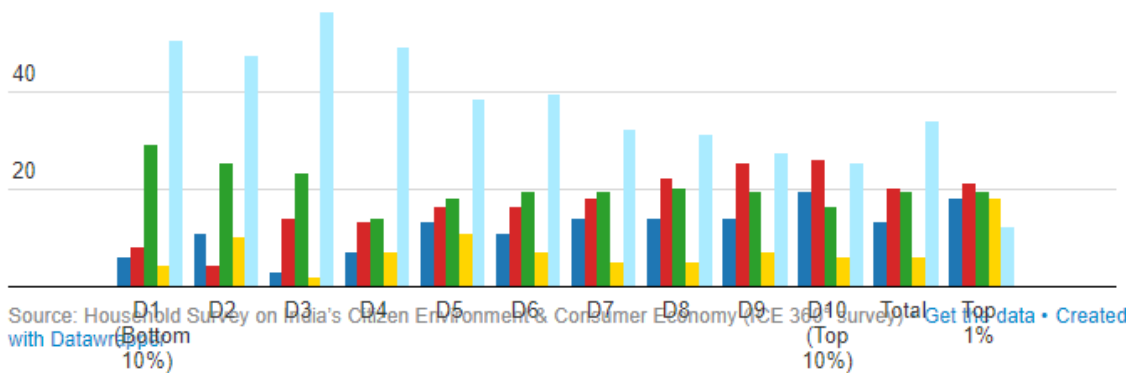
It is the richer households who are more likely to mortgage gold, the data shows. Only 4% of households in the bottom 10% income class ever availed of gold loan as against 13% of households in the top 10%. 14% of households in the top 1% households by income reported ever having taken gold loan.

The poorer income classes take gold loans mostly for medical emergencies or financial crises. As the chart below shows, the proportion of households availing gold loans because of such reasons is much higher among the poorer four deciles (bottom 40% of the income distribution) than among the richer income classes.

For the lower income classes, medical emergency and financial crisis are the main reasons for availing loan against gold

Figures indicate % break up of reasons for households to avail gold loan in different income classes

- To repay other loan
- Education
- Social occasion (function at home, wedding, child birth etc.)
- To invest in business/real estate/other assets
- medical emergency/ financial crisis (loss of major source of income, natural disasters, etc)



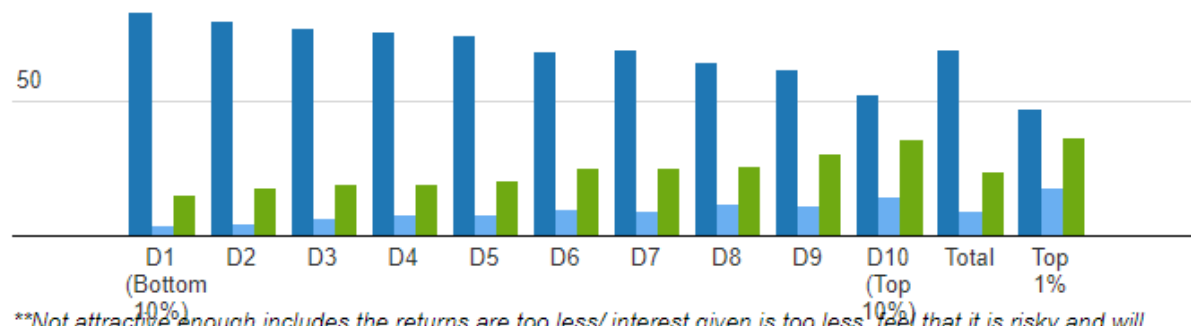
Source: Household Survey on India's Citizen Environment & Consumer Economy (ICE 360 Survey) with Datawrapper

This suggests that in the absence of adequate insurance or financial savings, gold holdings work as insurance for the poor, even in 21st century India. And given a chance, most of them would like to have more of such insurance, the data shows.

A major share of households do not invest in gold for lack of enough income

Figures indicate % break up of reasons for household across income deciles for not investing in gold in 2015-16

■ No saving to spare/ not enough income/ don't have enough money to invest here
 ■ Not attractive enough**
 ■ Other Reasons*



****Not attractive enough** includes the returns are too less/ interest given is too less, feel that it is risky and will eventually lose money, have lost money investing in this instrument; ***other reasons** include not wanting money to be locked in, prefer to have cash in hand, capital markets being down, lack of trust on finance companies, dependent on pension after retirement, lack of knowledge, or already made a one time investment

In a country without adequate social security and with low penetration of insurance products, it is a mistake to view gold merely as a luxury of the rich.