

Sitting on a gold mine

Rajesh Shukla | The Financial Express | May 26, 2015 11:33 pm

While socio-cultural elements largely determine whether Indians use gold for savings or investment, the new monetisation scheme has potential

Gold has, for centuries, occupied one of the most significant positions in the asset repository of most households in India, be they poor or rich, but it has curiously been devoid of a similar significance in the nation's economy. Gold has traditionally performed multiple roles in Indian society—as an indicator of prosperity, endorsement of beauty, source of financial security, and a matchless medium of exchange and ritualistic value on festive and conjugal occasions.

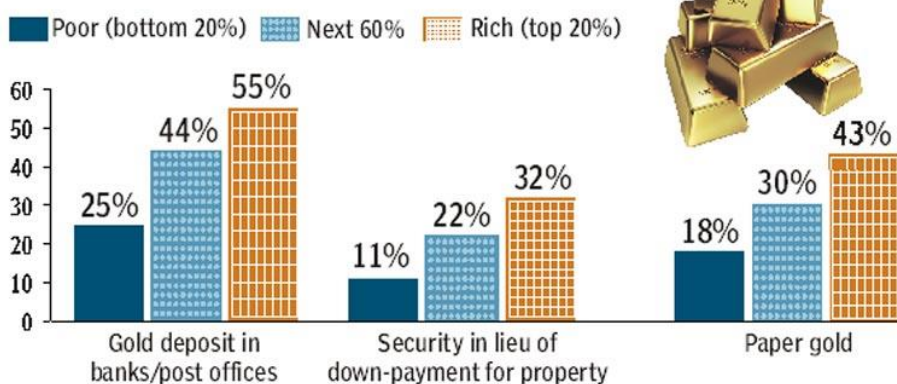
In an attempt to capitalise on this multiplicity of roles and the socio-economic importance ascribed to gold in Indian households, the government is seriously considering the introduction of a gold monetisation policy. The gold module of the ICE 360° Survey, undertaken by the People Research on India's Consumer Economy (PRICE) during the period August-November 2014, and sponsored by the World Gold Council, is a step in this direction. It is envisaged that some of the interesting facts and findings emerging from this survey could be instrumental in shaping the future gold policy in the country. Among others, the following questions were posed to the chief wage earners (CWEs) of Indian households during the course of the survey:

* If banks/post offices give interest on gold deposits, would you like to deposit gold in banks/post offices?

If a recognised builder accepts gold from you as security in lieu of down-payment and returns it after the agreed amount is paid, would you keep gold in such a scheme?

* If the government issues 'paper gold' that ensures regular income/returns, would you invest in it?

Share of CWEs (%) agreeing for options posed by income hierarchy

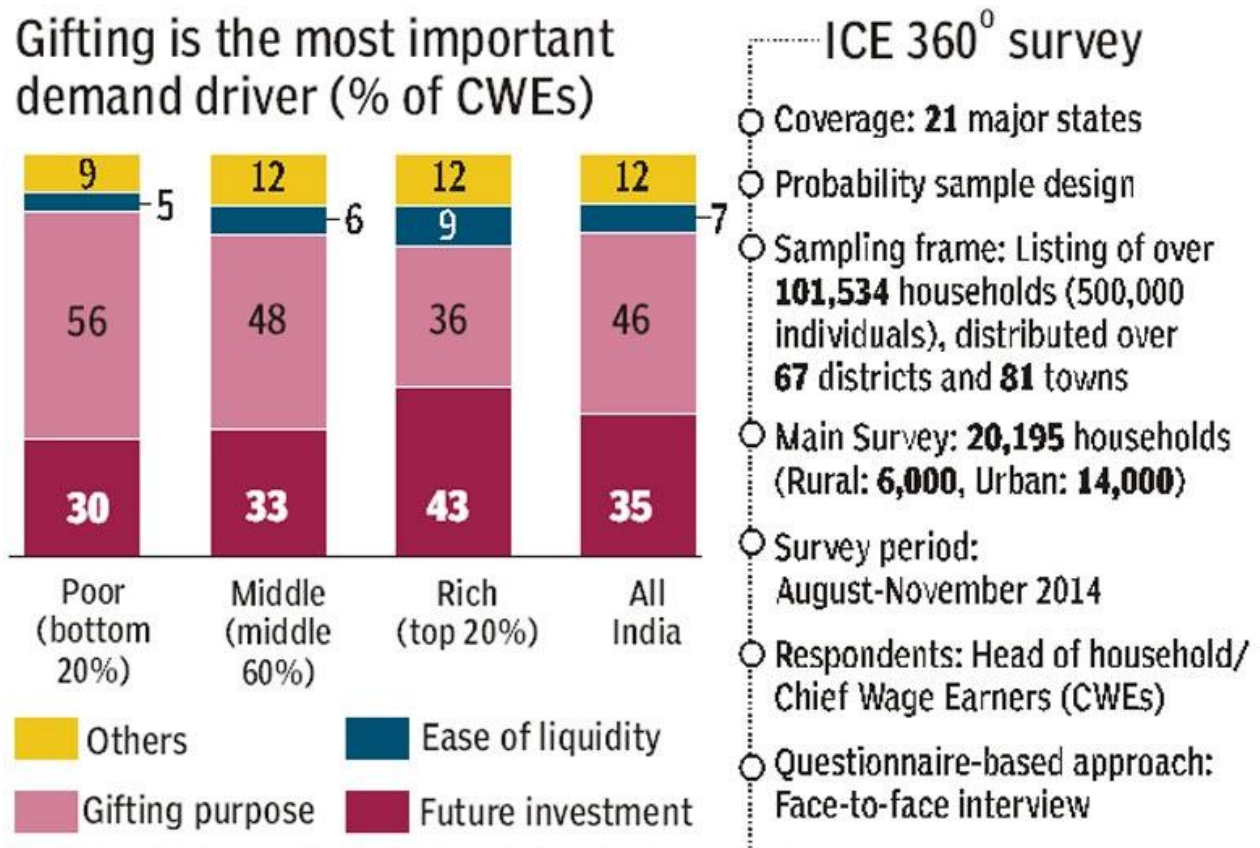


The estimates based on these questions were revealing—a whopping 43% of CWEs had an opinion that they would be willing to invest in a gold deposit scheme, while 22% of CWEs expressed their willingness to offer gold in lieu of down-payment for purchase of a property to a builder, and 31% were ready to invest in a

prospective 'paper gold' scheme promising regular income/returns. However, households comprising rich and highly-educated members with relatively stable sources of income were found to be more willing to invest in these schemes as compared to other households. The overarching finding of the survey was that

gold deposits are not treated at par with other modes of savings or deposits in Indian families, as investment in the yellow metal is preferred not merely for financial or business purposes but also for its social implications and aesthetic value. Interestingly, the research also showed that the most important demand driver for purchase of gold among all the income quintiles is gifting, as claimed by 56% of the poor, 48% of the middle-income, and 36% of the rich households, with the corresponding all-India figure averaging out at 46%. The estimated proportion of CWEs stating this reason for purchase of gold significantly exceeded CWEs citing other reasons such as future investment and ease of liquidity.

Gifting is the most important demand driver (% of CWEs)



Note: Future investment includes children's education, children's wedding and purchase of property/real estate

Source: ICE 360° survey (October 2014) from People Research on India's Consumer Economy (PRICE)

There are some other prominent findings of the gold module of the ICE 360° Survey.

* As regards the form of purchase, 86% CWEs stated their preference for jewellery, while 13% mentioned coins and bars, and 1% cited other forms of purchase of gold. However, there is a conspicuous disparity within this group of CWEs, as 37% of CWEs in the top income decile purchased gold in the form of coins/bars whereas the corresponding figure among the poor in the lowest decile was only 7%.

* While 78% of CWEs were aware of the possibility of taking loan against gold, only 8% of them had availed of this facility. Further, the share of those benefiting from gold loan is highest in south India (15%) and negligible in central and north India.

* About 86% of the households have ever purchased gold, and about 6% of them rank gold as a savings tool among one of the top three modes of saving.

* One in every 10 Indian households purchase gold annually or more frequently, and the gold demand in India is hardly affected by economic, fiscal or political downturns.

* Among those who took loans against gold, more than 33% did so to fulfil some social obligation while over 23% needed the funds for medical emergencies. A little over 12% resorted to loans against gold for investment or business purposes.

It can, therefore, be concluded from the survey that gold not only constitutes a key component of the saving and investment behaviour of Indian households, but also comprises a large social, cultural and perceptual element which governs how Indian households would use it as an instrument of savings, investment or aesthetic value. In addition, it signifies a form of women's empowerment, with women claiming ownership of most of the gold possessed by a household. In fact, gold can thus be seen as a form of investment which is equivalent to land ownership, resulting in crucial financial implications for both the individual household and the national economy.

The government policy relating to gold, be it in terms of the role of the banking system or a monetisation scheme, among other things, directly impacts the balance sheets and financial plans of Indian households in different ways, especially with regard to their ability to utilise it in the same flexible, efficient and customised manner as they do other physical or financial savings and investments.

A caveat, however, needs to be added before the unqualified endorsement of the government's proposed gold policy.

This concerns the possibility of the government fixing a minimum limit, say 30 gm, for investment in gold by a household in order for the latter to derive monetary benefits from the scheme. In case such a condition is imposed, it would largely negate the positive outcome of the policy as it would benefit only the rich and exclude the poor from the advantages of an innovative gold monetisation programme. Hence, the government's initiative for promoting gold investment in the country is laudable and needs to be supported. The ICE 360° Survey also unequivocally highlights public endorsement for the policy, but simultaneously emphasises the need for circumspection in dealing with its various elements and potential outcomes. The success or failure of the new gold policy will thus depend on the manner of its implementation and how effectively its advantages percolate down to the common man at the micro level through its radical outcomes for the economy at the macro level.

Authored by the ICE 360° research team, led by Rajesh Shukla, Director & CEO