

Why the gold monetisation initiative is failing to enthuse Indians

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Low returns, lack of awareness and a fetish for hoarding the yellow metal in the country seem to have led to the tepid response to the gold monetisation initiative

Nearly 18 months after it was first launched, the Narendra Modi-led government's gold monetization scheme is yet to find many takers. In response to a Lok Sabha question, the government revealed that till mid-February this year, the scheme has led to deposits worth only 6,410 kg of gold since it was launched, less than 2% of the annual imports of the yellow metal in 2016.

Launched to curb India's massive gold imports, which contributes significantly to India's trade deficit, the scheme allows a bank's customers to deposit their idle gold holdings for a fixed period of time in return for an interest in the range of 2.25% to 2.50%, and redeem it on maturity either in the form of gold or its rupee-equivalent amount.

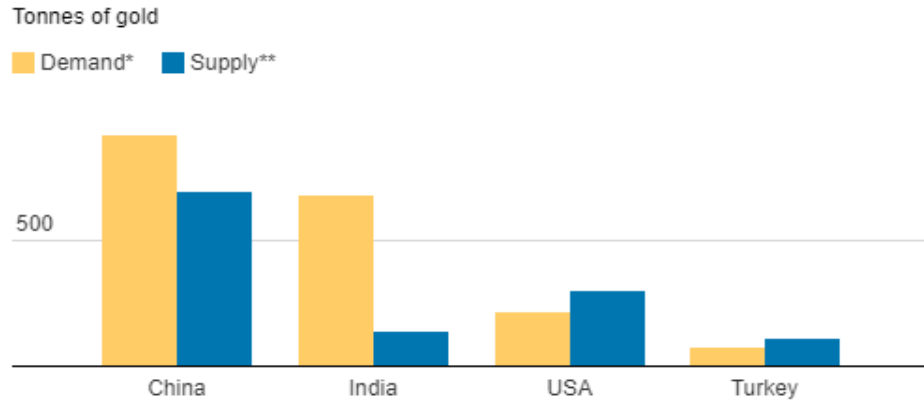
According to Union finance minister Arun Jaitley, Indian households (and temples) collectively own 20,000 tonnes of gold, a figure that is equivalent to the combined amount of gold held by the central banks of the US, Euro area and China.

The government hoped that its initiative will help monetize a significant chunk of such gold holdings, which would then be melted and sold/lent to jewellers (and other users of gold), to reduce India's dependence on imports.

But so far, the response to the scheme seems to have been extremely tepid. Gold imports still account for more than one-fourth of India's trade deficit and the country remains the largest importer of gold in the world despite having ceded the title of the "largest consumer" to China in the last few years.

One reason why many households are unwilling to park their gold in banks is the low interest rates on offer, according to a survey of 61,000 households conducted last year. The Household Survey on India's Citizen Environment & Consumer Economy (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.

India remains the largest net importer of gold despite China having surpassed India as the largest consumer



** includes demand for jewellery, bars and coins; ** includes supply of gold from fabricated old gold scrap and gold mine production*

Source: World Gold Council (WGC) and GFMS Gold Survey 2017

The survey shows that relatively educated and wealthier households showed slightly greater willingness to park their favourite metal with banks, suggesting that the lack of adequate information or understanding about the gold monetization scheme could, in part, be responsible for the tepid response. But even among the wealthy and educated lot, a majority of households were not too enthused about the idea of depositing their gold holdings in banks. 54% of households headed by a graduate were either undecided or not in favour of parking their gold holdings in a bank. Among illiterate households (which are also poorer on average), 72% were either undecided or against gold monetization.

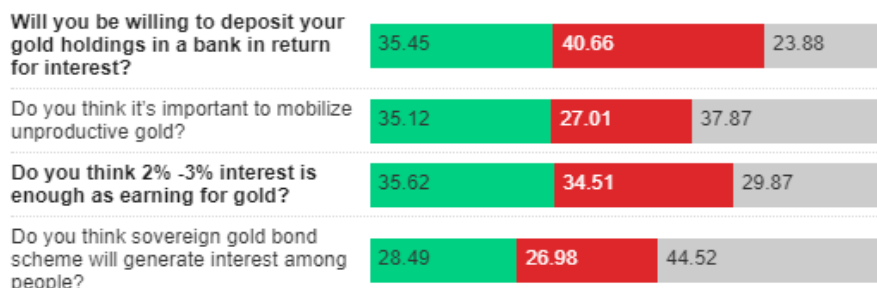
According to the survey, the three main motivations that drive people to hold gold are security (or capital conservation), scope of capital gains, and liquidity, in that order of importance. More importantly, the same set of motivations seems to persist across income and education levels.

While Indians seem unwilling to part with their gold in return for interest, they do use it as collateral for loans. While the richer households were more likely to obtain loans against gold from bank, the poorer households or those engaged in agricultural labour were more likely to obtain loan against gold from a moneylender than from a bank.

Not many people want to part with their gold; 2-3% interest on gold not deemed attractive by many

Perception on government's gold-related schemes

Yes No Can't say



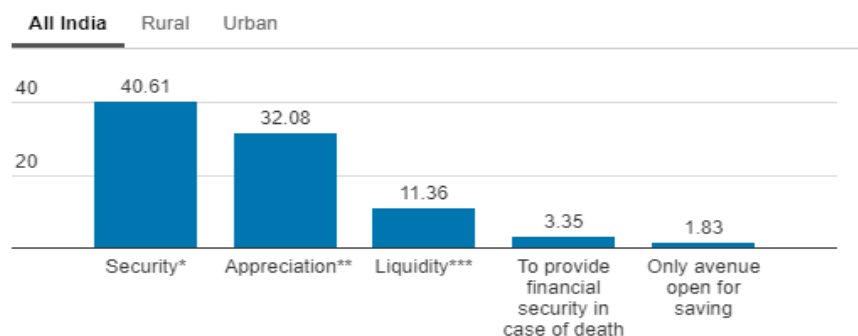
Results based on survey of 61,000 households conducted in 2016 by People Research on India's Consumer Economy (PRICE)

Source: ICE 360^o survey, 2016

There is another factor which could be holding back people from opting for the government's scheme to monetize their gold. Nearly three-fourth of India's gold stock is held in the form of jewellery and carries a lot of sentimental value. There is also a gender aspect to it, as gold in the form of jewellery allows women some sort of control over ownership and inheritance. Given this aspect, many households might prefer private schemes, which allow them to get back the gold in form of jewellery as opposed to the government's scheme which offers cash or solid gold.

The three main motivations behind holding gold are security, prospects of capital gains and liquidity

Reasons for saving in gold (% of responses)



* refers to those who said that the reason to save in gold was "Money will be secure"; ** those who said they invested in gold because "it gives very good returns in a short time" or "The value of this investment will always increase over time"; *** "I can easily access money any time I need"

Source: ICE 360^o Survey, 2016

In a January report, the World Gold Council pointed out that gold ownership is higher in rural India than in urban India. But the ICE 360° survey shows that the incremental demand for gold is higher in urban areas.

According to the survey, 16% of urban households bought gold (either in the form of coins, bars or jewellery) last year as against 11% of rural households. Indeed, the highest propensity to buy gold was reported in metros. Not only were urban households more likely to spend on gold, they were also likely to spend more on it when they did.

The twin engines of economic growth and urbanization—which often lower people’s dependence on physical forms of savings by providing greater access to financial savings—seem to have failed to temper Indians’ thirst for gold. Can Indian policymakers succeed where such forces have failed?

This story is based on the latest results from the ICE 360° survey conducted by the People Research on India’s Consumer Economy (PRICE) in 2016, and shared exclusively with Mint.