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Press Release

Rural India is more open to monetization of gold. Worldwide, gold is held as a hedge against potential vulnerabilities by central banks: IGPC studies

Two studies by India Gold Policy Centre reveal contrasting behavior between India and globally

Banks seek effective mitigation of risks relating to the operationalization of the Gold Monetisation policy

Rural consumers more reluctant to part with gold as compared to urban consumers, but are ready to pledge gold as collateral for loans

Globally, central banks adjust their gold holdings in response to changes in global risk conditions, with the magnitude of response depending on reserve-management capacity and country-specific vulnerabilities.

Ahmedabad. January 30. In two studies conducted exhaustively among stakeholders by India Gold Policy Centre (IGPC) under Indian Institute of Management, Ahmedabad, the relevance of gold and need for its monetization remains as strong as ever. The two studies are part of a series of studies being conducted by IGPC@IIMA to obtain a research based independent and indepth understanding of the gold industry in India – given that India is the second largest consumer of gold in the world and that gold tends to increase current account deficit and is a part of exchange reserves. The studies reveal many interesting aspects that they reveal about the stakeholders’ behavior in India and globally. The studies, “Gold Monetization in India as a Transformative Policy” by FPM students Priya Narayanan, Balagopal Gopalakrishnan and Prof Arvind Sahay and “Global Risk and Demand for Gold by Central Banks” by Balagopal Gopalakrishnan and Prof. Sanket Mohapatra have been uploaded for public on IIM Ahmedabad’s website www.iima.ac.in.

The first study “Gold Monetization in India as a Transformative Policy” is an indepth analysis of the buying pattern of gold in India. With an aim to suggest improvisations for a better implementation of Gold Monetization Policy that was introduced in 2015, a nationwide survey was carried across 1171 households, from 10 states that constitute approximately three-quarters of annual national gold consumption. Also interviewed were senior management of 6 banks, 5 refiners and one industry consultant to understand the challenges and implications of the policy for members of the gold ecosystem. The households revealed a tendency to accumulate gold for purposes ranging from marriage to child’s education; about 50% of respondents who accumulate gold in small quantities do so for marriage of child or self. Family functions and festivals form two main triggers for gold purchase, for around 60% of respondents, indicating ingrained habit and planned accumulation. There is also high liquidity and safety association of gold, with virtually no substitute, along with a clear reluctance to sell gold received as a gift by almost 70% of respondents.

Shared Prof. Arvind Sahay, Head of IGPC “Rural consumers are more reluctant to part with gold as compared to urban consumers, but are also ready to pledge gold as collateral, with 74% of rural consumers being open to pledging their gold, suggesting “liquidity use” of gold on the basis of requirement. High openness to pledging gold is also strongly correlated with a high level of comfort with holding one’s gold assets in the form of paper. Moreover, high income urban consumers hold a high proportion of their assets in the form of gold, indicating



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the use of gold for investment purposes, and implying its scope for monetization. A state wise analysis of parameters indicating propensity to consider gold as “investment” rather than “sentiment” shows Karnataka, Telengana and Tamil Nadu to be the most attractive regions for increasing the effectiveness of the policy in both rural and urban regions.

The Banks in India are struggling to promote products based on Gold Monetization policy and seek more control on the process to have a clear separation of risks or effective mitigation of risks relating to the operationalization of the policy. Continued Prof. Sahay, “While there is a broad understanding that banks need to take the lead in furthering this policy, inadequate specialization/experience in quality management of gold and lack of sufficient incentive alignment have been pointed out as the main reasons why banks are not yet fully on board. Process issues such as turnaround time and logistics requirements also deter banks and refiners from taking up the policy”.

The second study analyzed the behavior of central banks through data from 100 countries for 25 years during the period 1990 – 2015. Consistent with portfolio diversification and perception of gold as a safe asset, the gold holdings of central banks as a share of overall reserves increase in response to higher global risk. A one standard deviation increase in the global risk measure (equivalent to 6 units increase in VIX index), increases the share of the gold reserves by 4.2 percent.

Stated Prof. Sanket Mohapatra, “In addition, we find evidence that high-income countries have a relatively higher sensitivity of gold reserves to global risk than developing countries, possibly due to better reserve risk management by their central banks. Moreover, greater capital account openness is associated with a stronger response of central banks’ gold holding to global risk, while higher reserve coverage of imports (an indicator of external vulnerability) is associated with a weaker response. Finally, we also find evidence that the sensitivity depends on whether the currency regime followed is fixed or floating, with higher responsiveness seen in the case of fixed exchange rate regimes. These findings suggest that central banks adjust their gold holdings in response to changes in global risk conditions, with the magnitude of response depending on reserve-management capacity and country-specific vulnerabilities. The study reiterates the importance of gold as a hedge against potential vulnerabilities faced by an economy”.

Clearly, gold continues to glitter. The reasons may be different for India and for rest of the world.

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About India Gold Policy Centre

The India Gold Policy Centre, a part of Indian Institute of Management, Ahmedabad (IIMA) and sponsored by World Gold Council, is a Centre of excellence, conducting cutting-edge applied research on the Gold Industry in India and providing insights to suggest ways at both policy as well as execution levels. The objective of the ‘India Gold Policy Centre’ is to develop insights into how the significant stocks of gold that India owns can be used to advance growth, employment, social inclusion and the economic wealth of the nation. The Centre aims to conduct research that has a practical application and that the industry and all stakeholders can use, leading to the development of an effective gold ecosystem in the country. Additional information is available on our website: www.iimahd.ernet.in



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