



**INDIA  
GOLD POLICY  
CENTRE**

Press Release

- 1. Gold an important tool for financial inclusion: IGPC IIMA study**
- 2. The quantity of gold reserve held by central banks in emerging markets and developing economies has risen sharply following the global financial crisis in 2008: Research paper from IGPC**

**May 15, 2017.** In an exhaustive study done among a thousand gold consumers across four districts from four states in urban and rural India it is revealed that gold is an important tool for financial inclusion among Indians. The study was conducted by researchers Misha Sharma, Shambhavi Srivastava and Govind Singh from IFMR Lead and funded by India Gold Policy Centre (IGPC) Indian Institute of Management, Ahmedabad. The study participants were active consumers of gold who use gold beyond mere ornamental purposes.

Gold loan was the most popular gold based financial product and informal gold loans constituted for a large pie of the market share offering lower gold loan amounts at higher interest rates compared to formal gold loan providers offering higher gold loan amounts at lower interest rates. Additionally, it was also found that gold loans were primarily being used for smoothening household consumption and for repaying previous debts, although, it must be pointed out that half of the sample also mentioned using it for productive purposes such as investment in business, education and household improvement and repairs. The study had 1000 respondent across four districts (Coimbatore, Kolhapur, Hooghly and Saharanpur) with the sample split evenly across rural and peri-urban areas and with 83% respondents being male.

Some key findings are as under:

- More than 70% of study respondents in Coimbatore and Kolhapur responded as having least/little preference to sell their gold. Responses Hooghly followed a normal distribution and generated a mix of responses from 1 to 10 where 10 represents a high willingness to see the gold. In Saharanpur, people don't seem to have a very high sentimental value for the gold they possess and more than 90% of respondents assigned scores between 6 to 10, representing high willingness to sell their gold.
- 44.37% of the total households approached confirmed having taken a gold loan. The average gold loan amount acquired by the study sample across all four districts was 31,387 INR at an average annual interest rate of 20 percent. Hooghly and Coimbatore people were against parting with their gold. Specifically in Kolhapur, respondents revealed that they prefer other investments as opposed to one which uses gold as collateral such as land based as it does not require them to physically part with an asset. In Coimbatore most of the loans were acquired from commercial banks followed by pawn brokers. Similarly, formal financial institutions such as NBFCs and commercial

banks seemed to be the most popular sources of credit in Kolhapur. In contrast to this, gold loans in Saharanpur and Hooghly were mostly acquired from informal sources such as pawn broker and shopkeepers.

- Major uses of gold loans as reported by respondents were debt repayment, health expenditures and smoothening immediate cash flow problems in businesses and households. Thus, gold loans, seems to provide ‘quick fixes’ to liquidity constraint and unlike most other loans are not primarily used for large planned expenditures such as purchase of new house or financing education.

Elaborating on the research study, Prof. Arvind Sahay, Head India Gold Policy Centre said, “Gold could be classified as an alternate tool for financial inclusion among low income households. This is more so true for the rural economy that constitutes 70% of the total population and pre-dominantly engages in agricultural activities as their primary source of income. With income from agriculture being uncertain and some lack of institutional credit for farming activities, the agrarian population relies heavily on gold (in the form of gold loan or selling gold) to meet their agricultural expenses”.

The study also observed that the relative lack of success of government schemes such as Gold Monetization Scheme, Sovereign Gold Bond and Indian Gold Coin Scheme can be attributed to people not being aware of these schemes. Respondents did express willingness to invest in these schemes if they got adequate information about the product, indicating the potential of the scheme with better targeting and promotion.

A separate research project conducted by Balagopal Gopalakrishnan and Sanket Mohapatra, found that the quantity of gold reserve held by central banks in Emerging Market and Developing Economies (EMDEs) has risen sharply following the global financial crisis in 2008; that, on average, the percentage of foreign exchange held by central banks in EMDEs in the form of G4 (dollar, yen, pound and Euro) decreased from 94% to 84% with much of that decrease being compensated for by an increase in the holding of gold. Large increases in gold holding were seen in Russia, China and Brazil, but not India – a point perhaps to be noted by the Reserve Bank of India. The research paper examines factors driving holding of gold by central banks in 50 EMDEs, with a focus on post-crisis developments. The researchers argue that the unprecedented monetary expansion in advanced economies has resulted in a shift in EMDE reserve asset holding strategy, resulting in continued accumulation of gold reserves even after the peak of the financial crisis.

Increase in EMDE gold holdings in the post-crisis period was strongly associated with the large expansion in liquidity and increase in central bank balance sheets in the advanced economies. This post-crisis effect holds even after controlling for a range of country-specific factors, international gold prices, and global risk indicator, and is robust to alternative measures of global liquidity, sub-samples excluding the BRICS countries, alternative specifications, and the inclusion of additional controls. The authors point out that US monetary policy is the primary driver of the global financial cycles and questions the level of independence enjoyed by other central banks, even those with flexible exchange rates such as the UK or the ECB. Therefore, the massive monetary easing conducted by the advanced economy central banks, led by the US Fed,

have increased the vulnerabilities of the EMDE central banks given the spillover effects the monetary easing has had in the EMDE countries.

The paper also investigates whether global factors such as excessive monetary easing by the central banks in the advanced economies and changes in the global risk environment can explain this increase in EMDE gold reserves, after controlling for domestic factors. It concluded that monetary expansion in advanced economies is robustly related to the post-crisis increase in EMDE gold reserves.

Professor Ashish Nanda, Director IIMA opined that “The global gold ecosystem is undergoing transformation owing to geopolitical changes and economic dynamics. The gold market is shifting East, with India and China constituting more than fifty percent of the global demand and China becoming leading gold supplier as well. In times of transition such as this, empirical research based policies and coordination along the value chain become critical. IGPC aims to address these needs and thereby impact policy and practice related to the gold industry in India and internationally”.

Ends.

#### **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 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 <http://www.iimahd.ernet.in/faculty-and-research/research-centers/igpc.html> and <https://twitter.com/IndiaGoldPolicy>

Details on IFMR Lead (Institute for Financial Management Research) can be accessed at <http://ifmr.ac.in/>

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