All That Glitters

In the editorial of the February 2018 edition of CFO Connect, "Different Strokes", I referred to the benefits of the redeployment of savings from gold to financial instruments. The surge in yields for households could conceivably be anywhere between 1.5% and 6% of annual income. Moreover, there are tangible savings when money is borrowed from banks and micro finance companies, instead of traditional informal sources that a large chunk of the rural population currently depends upon. The reduction in interest cost could lie between 2% and 4% of income per annum. Even real estate investments, especially those in utilised commercial properties create economic churn and are therefore, productive. However, what is completely unproductive from even the most generous benchmarks is gold.

Some estimates suggest that gold holdings by Indian households and temples are about 22,000 tonnes. This adds up to a colossal USD 1 trillion in dormant assets, at current prices. That is a huge sum in the context of India's economy, just a little under half its annual output. Besides, India imports about 600 to 800 tonnes of gold each year amounting to USD 40 billion – so pointless when there is so much of the stuff lying unused.

What economies need is churn. Assets must be used and made productive. The most effective way for this to happen is through market mediation, as these create capital for investment and consequently generate higher returns, albeit with some risk, for investors. It seems very unlikely that the bulk of temple or household gold would ever be sold and invested in more productive assets. But if a mechanism could be involved where in the very least new imports are replaced by churning existing gold holdings, this in itself could convert India's current account imbalance into a sizeable surplus. If on the other hand, households, temples and other constituencies could find a way to convert the entire stock of gold into liquid assets, it could create a capital base of a trillion dollars. This could theoretically be leveraged many times over resulting in a mind-boggling impact on investment, growth, employment and consequently wealth creation. Logically, the monetisation of gold should also result in greater consumption, which should drive investment, and consequently economic growth. The economy could therefore shift gears into a sustainable virtuous cycle.

Arguably, Governments have over the years struggled with various schemes to prod households and temples to monetise their gold savings into financial assets. However, these schemes have so far only chipped away at the margins. Emotional, religious and social considerations built over centuries are hard to crack. Be that as it may, a persuasive campaign sustained over several years and accompanied by a convincing financial proposition, could make a dent in the current paradigm. For instance, most

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gold monetisation schemes in the past have sought to convert people's gold holdings (typically jewellery) into bonds or bars and coins. The incentive for investors is that they receive a liquid, tradeable instrument that is linked to the gold price and therefore earns some returns. But the fact is, gold returns are generally low and the inducement therefore insufficient. If a way could instead be found to share with the investor a part of the 'macroeconomic bonus' that will accrue to the nation as this paper has explained, the proposition becomes a lot more attractive. Investors will shift less grudgingly when they see a combination of tax benefits and better yields. The ultimate sums from shifts in gold investments are simply so large that even a small share of the stash will have a palpable impact. That way, India's gold may actually add some glitter. ■

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