

GOLDEN OPPORTUNITY

The government's policy think tank moots a transformation of the gold market, which can give a boost to exports and FDI accompanied by a significant rise in employment by 2022.

By Ramesh Chakrapani



A committee set up by NITI Aayog on transforming India's gold market has recognised the untapped potential of this market to provide a stimulus to exports, economic growth and employment. It also envisioned developments towards achieving these objectives.

According to its report, titled "Transforming India's Gold Market", the committee deliberated on various themes aimed at transforming the gold market, which would, by 2022, see the industry's contribution to the gross domestic product (GDP) rise from 1.3 per cent (2016) to 2.5-3.0 per cent and gold exports more than double to \$20 billion from about \$8 billion in the 2016-17 fiscal.

The report also said that the industry has potential to increase employment opportunities from 6.1 million in 2016-17 to more than 9 million and attract foreign direct investment of about \$200 million by 2022 compared with \$70 million in 2016-17.

However, the report also said the market size should

increase without that having a negative impact on the current account deficit (CAD). According to the report, the country's gems and jewellery industry (including gold) is approximately Rs.650,000 crore in size, of which 90-95 per cent are of medium and small enterprises.

Globally, India is the second-largest gold market with a demand of around 800 tonnes and accounts for around 25 per cent of the world's gold demand. Since domestic production of gold is minimal, demand is met largely through imports. This reliance on gold imports has an adverse impact on the CAD and has further implications for the economy.

The report said that gold imports had declined from \$53.8 billion in 2012-13 to \$27.5 billion in 2016-17.

While international prices have doubled in the past decade, domestic prices have nearly trebled. The LBMA (London Bullion Market Association) price of gold rose from \$695 an ounce in 2007 to \$1,318 in 2017, whereas the domestic price rose from Rs.9,379 for 10 grams in 2007 to Rs.28,488 in 2017.

Historical prices

	LBMA A.M price (\$/oz)	INR price Rs/10gm
2007	695	9,379
2008	872	12,316
2009	972	15,291
2010	1,225	18,320
2011	1,572	23,921
2012	1,669	29,692
2013	1,411	29,303
2014	1,266	28,319
2015	1,160	26,396
2016	1,251	29,358
2017	1,318	28,488

SOURCE: LBMA, MCX spot price

Volume on exchanges (tonne equivalent)

	2014	2015	2016	Change in 2016 year on year
COMEX	126,028	130,135	179,047	38%
SHFE	23,858	25,317	34,760	37%
SGE*	4,931	7,288	11,793	62%
TOCOM	8,745	7,928	8,541	8%
MCX	3,972	3,947	4,094	4%
SGE Spot	2,645	4,756	3,699	-22%
DGCX ¹	426	312	412	32%
ICE Futures US	508	294	354	20%
Borsa Istanbul ¹	239	256	243	-5%

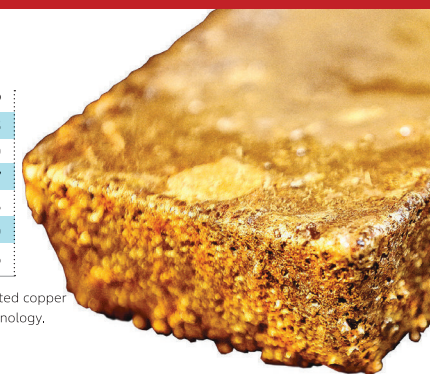
* All SGE contracts excluding SGE Spot. ¹ Physically backed.

² 100% Physical delivery. SOURCE: Thomson Reuters, relevant exchanges

Indian supply estimates (in tonnes)

Supply	2012	2013	2014	2015	2016
Gross bullion imports	974.5	959.4	994.8	1,065.0	648.3
of which Dore ¹	23.2	36.9	84.1	229.0	141.9
Net bullion imports	842.8	876.4	898.6	913.6	557.7
Scrap	118.0	95.8	92.5	80.2	81.8
Domestic supply from other sources ²	10.0	9.6	9.9	9.2	9.9
Total supply ³	970.8	981.8	1,001.0	1,003.0	649.5

¹ Volume of fine gold material contained in the dore'. ² Domestic supply from local mine production, recovery from imported copper concentrates and disinvestment. ³ This supply can be consumed across the three sectors – jewellery, investment and technology. Consequently, the total supply figure in the table will not add to jewellery plus investment demand for India.



Gold imports and balance of trade (in \$billion)

	2012-13	2013-14	2014-15	2015-16	2016-17
Balance of trade	-195.7	-147.6	-144.9	-130.1	-112.4
Current Account Deficit	-88.2	-32.3	-26.9	-22.2	-15.3
Total merchandise imports	489.3	490.7	450.2	448.0	381.0
Gold imports	53.8	28.7	34.4	31.8	27.5
Gold exports*	12.8	9.6	10.3	7.9	7.8
Net gold imports	41.0	19.1	24.1	23.9	19.7

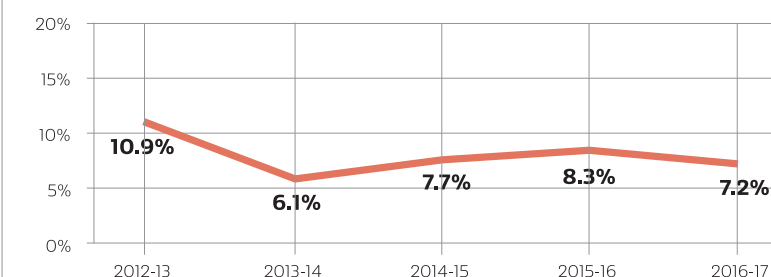
* Figure received from DGCI&S

FDI in gold compared with total FDI (in \$billion)

Financial year	FDI in ornaments & gold	Total FDI flows	Share
2012-13	26.7	34,298	0.08%
2013-14	33.6	39,046	0.09%
2014-15	268.8	45,148	0.60%
2015-16	42.7	55,559	0.08%
2016-17	69.0	60,082	0.11%
2017-18*	106.8	33,749	0.32%

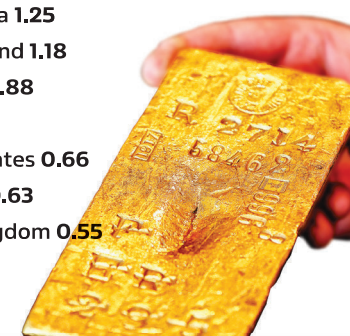
* April-September

Share of gold imports in total imports



2016 per capita consumption (grams)

Hong Kong	5.82
Switzerland	5.48
United Arab Emirates	5.02
Kuwait	3.13
Singapore	3.05
Saudi Arabia	1.90
Germany	1.46
Austria	1.25
Thailand	1.18
Turkey	0.88
China	0.66
United States	0.66
Vietnam	0.63
United Kingdom	0.55
Taiwan	0.53
India	0.51



Estimated human resources requirement across all sectors

Sector	2017	2022	Change in human resources requirement (%)
Agriculture	229	215.5	-13.5
Building construction & real estate	60.4	91	30.6
Retail	45.3	56	10.7
Logistics, transportation & warehousing	23	31.2	8.2
Textile & clothing	18.3	25	6.7
Education & skill development	14.8	18.1	3.3
Handloom & handicrafts	14.1	18.8	4.7
Auto & auto components	12.8	15	2.2
Construction material & building hardware	9.7	12.4	2.7
Private security services	8.9	12	3.1
Food processing	8.8	11.6	2.8
Tourism, hospitality & travel	9.7	14.6	4.9
Domestic help	7.8	11.1	3.3
Gems & jewellery	6.1	9.4	3.3