

Indian households hold over \$950 billion of gold: Macquarie

NEW DELHI: India's innate fascination with gold continues as Indian households hold gold worth over \$950 billion which in turn is around 50 per cent of the country's GDP in dollar terms, says a report.

Gold consumption is part of India's culture and tradition and the country is the world's largest consumer of gold, followed by China.

Indian households hold 18,000 tonnes of gold which represents 11 per cent of the global stock and worth more than \$950 billion, around 50 per cent of India nominal GDP in dollar terms, says global research firm Macquarie.

According to Macquarie, 7-8 per cent of India's \$329 billion in household savings was held in gold in 2009-10.

With gold evolving as a store of value more than an adornment, rising gold prices have also contributed towards increasing Indian households' "perceived wealth".

Macquarie used the term "perceived wealth" because most Indian households are reluctant to part with their gold jewellery and other gold holdings, even at times of crisis, as doing so is considered a stigma, it said.

Notwithstanding the 64 per cent cumulative rise in gold prices, (in rupee terms) between January 2010 and September 2011, gold consumption in India in volume terms (including jewellery and net retail investment) is still holding strong.

During the first three quarters of 2011, there has been a 5 per cent year-on-year increase, on the top of 72 per cent year-on-year growth registered in 2010, Macquarie said.

Although during the quarter ended September, 2011, gold demand in volume terms declined 23 per cent over last year largely owing to sharp depreciation in rupee, high gold prices and inauspicious times according to the Hindu calendar.

However, in value terms "India still remains the world's largest consumer of gold as of September, 2011, in tonnage terms," Macquarie said.

The report further noted that rising gold consumption is one of the reasons for a depreciating rupee.

"Gold imports alone have contributed nearly 40 basis points to the 130 basis points widening in India's current account deficit between FY'08 and FY'11," Macquarie said.

Gold imports are the third-largest of India's merchandise imports after crude oil and capital goods. In 2010, about 92 per cent of the supply of gold in India was met through net imports and the rest through recycled gold and other sources.

One of the factors behind the weakness in rupee is the high current account deficit of India, while most other Asian countries have a current account surplus. In addition, it is running a very high fiscal deficit and domestic growth is slowing, Macquarie said.

"We expect the current account deficit to remain high at 2.8 per cent of GDP for FY2011-12," Macquarie said.

Following the US sovereign debt downgrade and increased uncertainty in the euro zone, the rupee has depreciated by 18.6 per cent against the \$ since August, 2011.

While the weakening trend against the \$ is across the board, the rupee has been the worst performing currency in the Asia excluding Japan region.