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INDUSTRY OUTLOOK

INDIA'S GOLD INDUSTRY: TRENDS, OPPORTUNITIES, AND FUTURE PROSPECTS

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Introduction

In India, gold has strong cultural and religious significance. As per World Gold Council, India is one of the largest consumers of gold jewellery, accounting for about 25 per cent of global gold demand. The demand for gold in India is primarily driven by weddings and festivals, making it an integral part of the country's culture and traditions.[1]

Gold holds profound cultural significance in India, where it accounts for about 25 per cent of global demand, driven largely by weddings and festivals. Despite limited domestic production, India's jewellery industry thrives, reflected in over US$ 22 billion worth of gems and jewellery exports in 2020-2021. To curb imports, India raised import duties to 12.5 per cent in 2022.

However, in an important development, in the Union Budget presented on July 23, 2024, there was an import duty cut on gold, silver, and platinum. With this change, the total duty has been revised to 6 per cent from the earlier 15 per cent effective July 2024.

This measure would boost retail demand and help curtail smuggling in the world's second-biggest bullion consumer. This would lead to higher imports of gold and other precious metals and a higher current account deficit (CAD). However, because of narrower merchandise trade deficit and a robust expansion in the services trade surplus, India's CAD more-than-halved to a seven-year low of $23.2 billion in FY2024 from $67 billion in FY2023. As a proportion of GDP, the CAD dipped sharply from 2 per cent in FY23 to 0.7 per cent in FY24. Given this macroeconomic landscape, there is no reason to be unduly concerned on this score.

Furthermore, the Gold Monetization Scheme (GMS) aims to reduce import dependency by mobilizing idle gold, attracting around 400,000 depositors by March 2022. India seeks to boost financial inclusion, promote capital formation, and support the gold refining industry while providing environmental benefits by reducing the need for new mining through GMS.

As a store of value, gold thrives during economic uncertainty, reflected in increased global holdings during crises. Investment in gold-backed ETFs hit record highs in 2022 amid financial volatility. Despite limited domestic production, India's jewellery industry, exporting over US$ 22 billion in 2020-2021, heavily relies on gold imports.

Gold loan schemes, like the popular GMS, play a vital role, with outstanding loans surpassing ₹5.5 lakh crore. Government policies, like import duties, impact gold demand, while historically, gold has served as an inflation hedge. GMS, mobilizing idle gold, reduces import dependency, promotes financial inclusion, and contributes to capital formation and environmental benefits, showing its multifaceted impact on India's economy and society.

Growth in gold loan portfolios of banks has moderated to 15 per cent in February 2024 from a peak of 26 per cent in June 2023. This attributed to rising competition from gold loan companies and fintech firms and higher gold prices impacting purchasing power, according to the media report.[23]

Frauds in Gold Loans by Banks

Commercial banks, the RBI and the Indian government are concerned about the rising incidence of frauds in gold loans, and consequently the steadily rising defaults and delinquencies in gold loans. These issues stem from the business strategies of banks with an accent on retail lending, obsessive concern of banks to meet stipulated targets, rising volume and proportion of unsecured loans, with a significant portion of unidentified borrowers and lack of transparency in the utilization of funds. There are also aspects, such as, misrepresentation of terms, asset substitution, asset substitution, loan churning, the manipulation of valuation of gold that borrowers keep as a mortgage keep for loan, collusion between the gold loan appraiser and the borrowers and in some cases, corruption and malpractices by the officers of the bank and the non-banking financial companies (NBFCs).

Some red flags in gold loan scams relate to hidden fees and charges, rushed processing and approval, insistence on collateral beyond the standard norms, absence of physical office or contact information, vague and ambiguous communication, unusual loan structures and lack of proper documentation. Hence, borrowers must be wary of unsolicited loan offers, high-pressure tactics, unrealistic promises, lack of transparency and suspicious documentation. It is also necessary for the borrowers to verify the lender's credentials and compare the interest rates offered by different lenders.

Given this overarching disconcerting scenario, the regulator has repeatedly been constrained to step in to set things right. The RBI's actions attempt to forestall potential financial froth and bubbles, which bring into question unsavory lending practices. The issue assumes greater significance because of a spike in gold loans, which reached ₹1.01 lakh crore by January 26, 2024, marking a 17 per cent increase from the previous year. This surge coincided with a 16.6 per cent rise in gold prices. This is both a systemic issue and an issue afflicting important constituents of the banking system, viz., State Bank of India (SBI), Canara Bank, Punjab National Bank, and Bank of Baroda. Given this rising menace, the Finance Ministry has directed Public Sector Banks (PSBs) to conduct a thorough review of their gold loan portfolios flagging instances of non-compliance with regulatory norms.

The RBI sought this information after a whistle-blower revealed that employees of two state-run banks had manipulated its system to meet gold loan targets. Bankers said the information was to understand the nature of frauds not captured under CIBL and other platforms.

In an indication of the progressively stiffening regulatory action, the RBI directed IIFL Finance to cease and desist from sanctioning or disbursing gold loans, and assigning or securitizing or selling any of its gold loans. The RBI inspected the IIFL Finance with reference to its financial position as of March 31, 2023, and observed some material supervisory concerns in the gold loan portfolio. The RBI also found breaches in the loan-to-value ratio and significant disbursal and collection of loan amounts in cash far in excess of the statutory limit. Hence while the gold loan portfolio of banks and NBFCs is set to grow, there is a manifest need for all-round caution and vigil on this score.

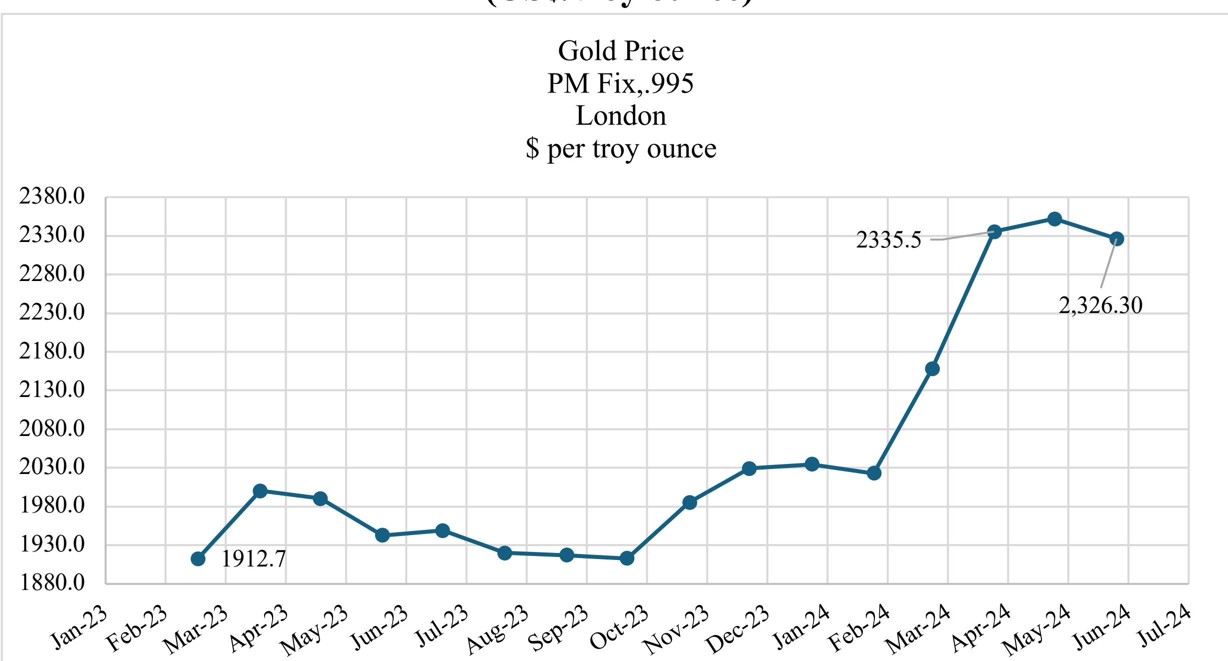
Global Price of Gold

Why Rising Gold Prices?

Gold prices are rising (until June 2024) due to consistent buying by central banks, particularly in emerging markets, to diversify reserves and hedge against economic uncertainties and currency fluctuations. In addition, geopolitical tensions, such as those between Iran and Israel, drive investors to seek safe-haven assets like gold. This trend is supported by historical data, showing significant price increases during periods of global instability, such as the Russia-Ukraine conflict.

In June 2024, the price of gold on the London Bullion Market declined by 1.1 per cent, settling at US$ 2,326.3 per troy ounce, down from its peak of US$ 2,352.1 per troy ounce in May. This slight decrease follows consistent price increases in April and May. The reduction in gold prices can be attributed to the uncertainty surrounding interest rate cuts by the Federal Reserve. Initially, three rate cuts were expected this year, but subsequent statements from the Fed indicated only one rate cut might occur by the end of the year.[4] This uncertainty likely impacted gold prices. Similarly, on the BSE spot market, gold prices averaged ₹71,578.8 per 10 grams in June, reflecting the same downward trend (see Chart 1).

Chart 1: International Price of Gold during 2023 and 2024 (US$/troy ounce)



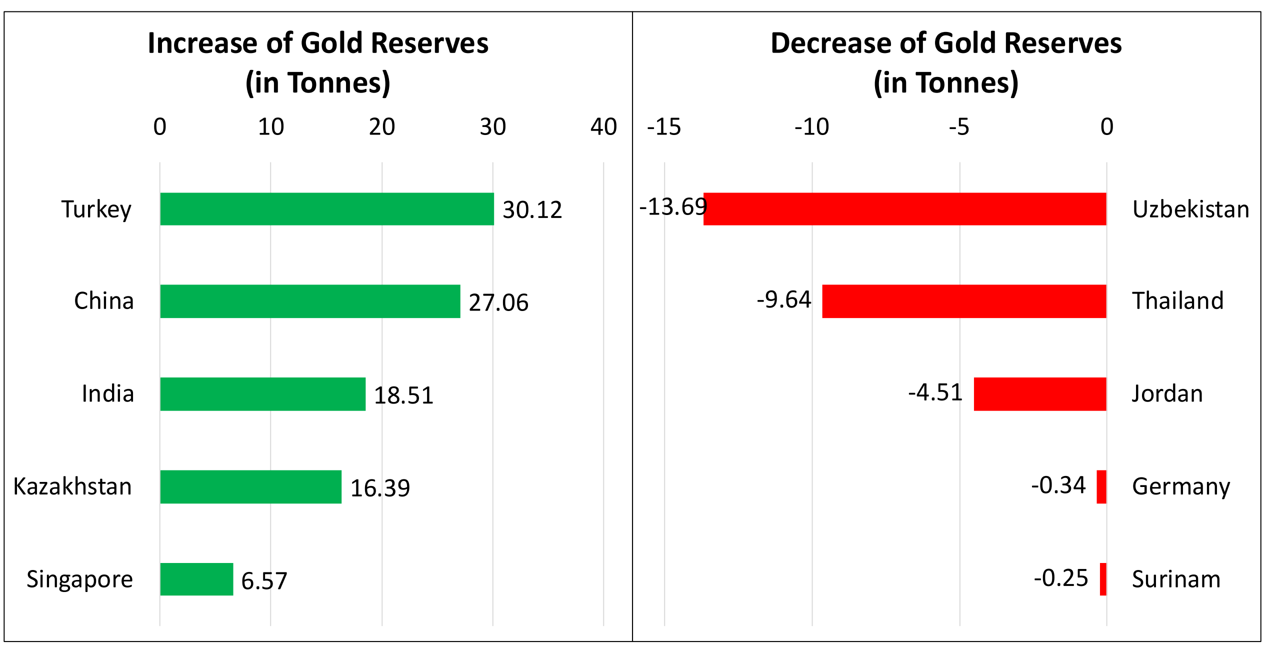
Source: CMIE Industry Outlook | Infomerics Economic Research

Gold prices are anticipated to rise by 9.9 per cent in the current financial year, following a 10.2 per cent increase in the previous year. This uptrend is attributed to escalating tensions between Iran and Israel amidst the ongoing Middle East crisis, fostering a rush into safe-haven assets like gold. Such geopolitical uncertainties typically drive investors towards gold as a safeguard against inflation and market instability, as evidenced by the surge in gold prices during the Russia-Ukraine conflict, which began on February 24, 2022. During this period, gold prices soared to US$ 1,947.8 per troy ounce, marking a 13.4 per cent increase in March 2022, highlighting gold's status as a safe-haven asset during times of global uncertainty.

Gold Reserves by Country

In Q1 2024, the Central Bank of Turkey led the increase in gold reserves by adding 30.12 tons, reflecting its on-going response to severe domestic inflation and a 69.8 per cent rise in prices annually. Conversely, Uzbekistan experienced the largest decrease, selling 13.69 tons after reducing its holdings by 14 tons in February, a common practice for the country which frequently shifts between buying and selling due to domestic production factors (see Chart 2).

Chart 2: Largest Increase and Decrease in Gold Reserves by Country (as of Q1 2024)



Source: World Gold Council

Turkey's significant purchase contrasts with its previous year's net sale of 160 tons to manage local market demands amidst trade deficits. This shift underscores the dynamic nature of central bank gold strategies influenced by economic conditions and market needs.

RBI’s Gold Reserves

The Reserve Bank of India (RBI) moved 100 tonnes of gold from the UK to its domestic vaults with close coordination between the finance ministry, the RBI, and various other government departments, including local authorities, with plans to relocate more soon UK back to India. This was the first such move of this quantum since 1991and addressed logistical and storage diversity concerns.
The Bank of England has traditionally served as a repository for many central banks, and India is no exception, with some of its gold reserves stored in London since prior to Independence. The RBI held 822.1 tonnes of gold, with 413.8 tonnes stored overseas as of March end. The RBI is among the central banks that have purchased gold in recent years, having added 27.5 tonnes in the last financial year.

RBI’s appetite for gold has also increased recently, with the RBI buying 1.5 times more gold in January-April 2024 than entire 2023 as a part of strategic diversification of reserves in challenging times. Although the RBI purchased 200 tonnes of gold from the IMF about 15 years ago, the RBI has steadily increased its gold reserves through consistent purchases over recent years.

As of March 2024, the RBI increased its gold reserves to 822.09 tonnes, up by 18.51 tonnes from the last quarter of 2023. During April to June, accumulated gold accounted for 69 per cent of the reserves held by the RBI driven by gold purchases and valuation gains due to price rises. The RBI added US$ 5.6 billion to its reserves, with foreign currency assets rising US$ 1.9 billion and gold value increasing by US$ 3.8 billion. As of 28 June 2024, India’s foreign currency reserves stood at US$ 652 billion.

The USA holds the largest gold reserves at 8133.46 tonnes, with no change over the past three quarters. Germany, with the second largest reserves, stands at 3352.31 tonnes, slightly down from 3352.65 tonnes in the previous quarter, according to the World Gold Council (see Table 1).

Table 1: Gold Reserves by Country

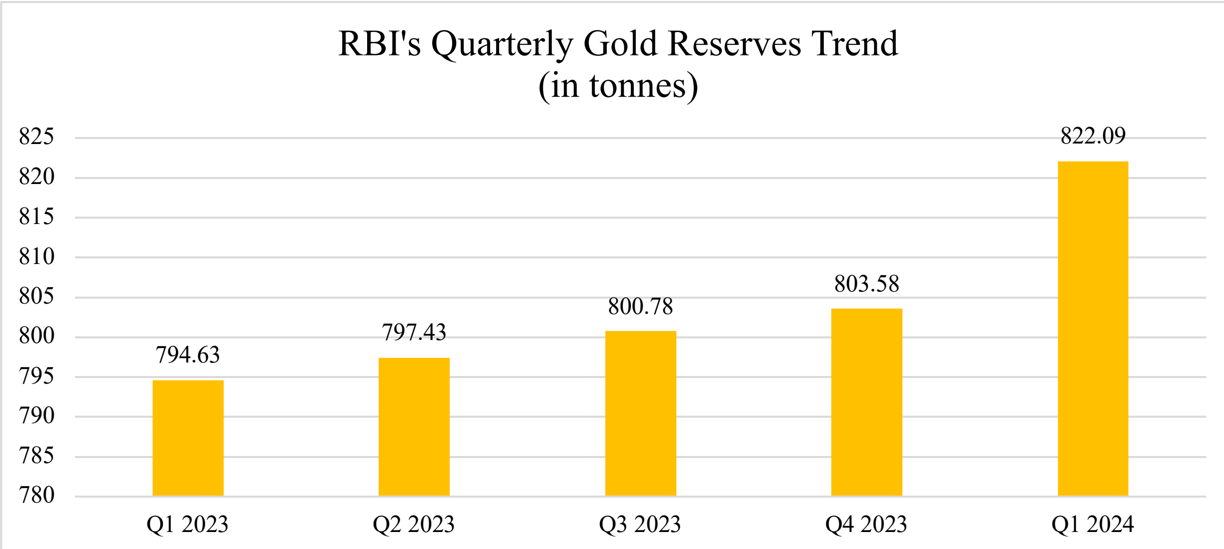
Country	Gold Reserves (in tonnes)	Gold Reserves (Values in Million)
India	822.09	58527.34
China	2262.45	161071.82
Japan	845.97	60227.84
United Kingdom	310.29	22090.45
Germany	3352.31	238662.64
France	2436.91	173492.11
Australia	79.87	5686.45
Qatar	102.53	7299.12
Kazakhstan	310.62	22114.18
Pakistan	64.68	4604.7
Turkey	570.3	40601.81
USA	8133.46	579050.15

Sources: Central Banks, Federal Reserve Bank of St. Louis, International Monetary Fund, World Bank, World Gold Council

Gold accounted for 69 per cent of the RBI reserves increase during the April-June 2024, driven by gold purchases and valuation gains due to price rises. The RBI added US$ 5.6 billion to its reserves, with foreign currency assets rising US$ 1.9 billion and gold value increasing by US$ 3.8 billion. As of 28 June 2024, India's foreign currency reserves stood at US$ 652 billion. The RBI bought around nine tonnes of gold between March 2024 and May 2024, with per tonne value rising from US$ 63.44 million to US$ 68 million. The global demand for gold, particularly from central banks like Turkey and China, has driven a price rally, benefiting the RBI's valuation gains.

The RBI's quarterly gold reserves trend from the first quarter of the last financial year until the first quarter of the current financial year rose steadily. In Q1 2023, the gold reserves were 794.63 tonnes, which rose to 822.09 tonnes in Q1 2024 (see Chart 3).

Chart 3: India's Gold Reserves Trend in India in the last Five Quarters

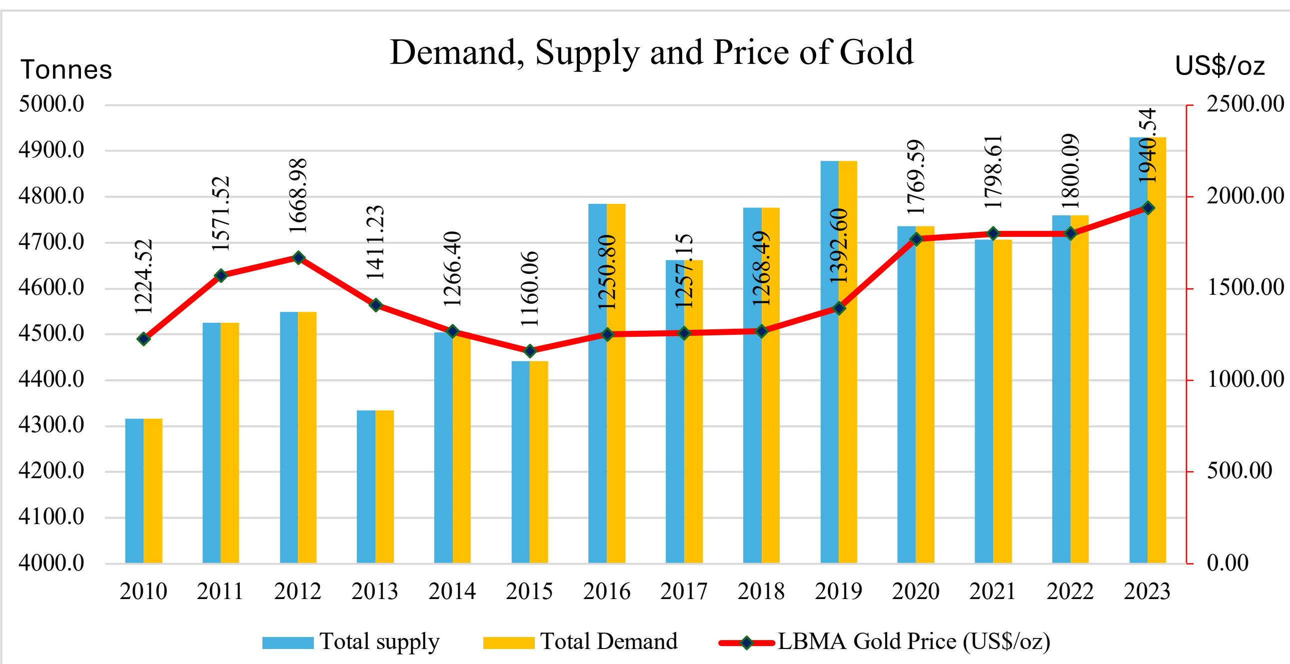


Source: RBI

Global Demand and Supply of Gold

Gold's diverse uses, in jewellery, technology and by central banks and investors, mean different sectors of the gold market rise to prominence at different points in the global economic cycle. This diversity of demand and self-balancing nature of the gold market underpin gold's robust qualities as an investment asset.[5]

Chart 3: Global Demand-Supply Balance of Gold



Source: World Gold Council

Domestic Demand and Supply of Gold in India

In Q1 2024, gold jewellery demand in India reached 95 tonnes, a 4 per cent increase from the comparatively weak Q1 of 2023 driven by India's robust macroeconomic environment, which has bolstered gold consumption. Rural demand, which had lagged behind urban demand due to the lingering effects of the pandemic, is now witnessing similar growth rates. The local gold price reflected this early improvement, moving to a premium in late January through late February before dropping to a significant discount in March due to surging prices that suppressed demand. The subdued demand in the months of March and April was due to the general election held during this period. In reaction to higher gold prices, there was a shift towards 18K diamond jewellery and jewellery with coloured gemstones, alongside increased recycling activity, which is common in price-sensitive markets like India.

The demand for gold remains weak in Q2, with continued record high gold prices dampening stock-building for Akshaya Tritiya and the wedding season. While large retailers persist with expansion and marketing efforts, the outlook for gold jewellery volumes remains subdued, especially with potential further price hikes and the impact of recent election (see Table 2).[6]

Table 2: Jewellery demand in selected countries

(in Tonnes)

Country/Region	2018	2019	2020	2021	2022	2023		Year-on-year % change
India	**598.0**	**544.6**	**315.9**	**610.9**	**600.6**	**562.3**	▼	**-6**
Pakistan	25.4	23.8	16.8	23.1	23.5	21.1	▼	**-10**
Sri Lanka	9.6	7.9	4.3	4.1	3.9	10.5	▲	**168**
Greater China	743.0	681.8	433.3	699.3	598.2	672.0	▲	**12**
China, P.R.: Mainland	686.3	638.0	413.8	673.3	570.8	630.2	▲	**10**
Hong Kong SAR	50.6	38.3	15.4	21.8	22.4	37.4	▲	**67**
Taiwan Province of China	6.0	5.4	4.1	4.2	5.0	4.4	▼	**-11**
Japan	16.5	17.0	13.8	15.5	15.4	16.3	▲	**6**
Indonesia	41.9	40.4	20.9	27.0	28.3	24.9	▼	**-12**
Malaysia	12.9	12.2	9.2	10.5	13.0	11.3	▼	**-13**
Singapore	11.5	10.5	5.7	7.0	9.1	7.2	▼	**-21**
Korea, Republic of	21.7	19.5	16.4	18.7	15.4	12.2	▼	**-21**
Thailand	12.1	11.1	5.8	8.1	9.4	9.2	▼	**-2**
Vietnam	18.2	17.3	10.7	11.9	18.1	15.1	▼	**-16**
Australia	-	-	-	8.4	11.0	10.4	▼	**-6**
Middle East	172.6	170.4	114.9	165.1	188.5	171.5	▼	**-9**
Saudi Arabia	39.4	37.2	22.7	33.3	37.9	38.1	▲	**1**

UAE	36.2	34.0	21.5	33.8	46.9	39.7	▼	-15
Kuwait	14.0	13.3	10.3	13.0	14.7	14.3	▼	-3
Egypt	24.7	26.7	21.3	31.7	32.3	26.7	▼	-17
Islamic Republic of Iran	29.4	30.5	20.0	26.3	29.9	27.3	▼	-9
Other Middle East	28.9	28.7	19.1	26.9	26.8	25.3	▼	-6
Turkey	36.4	36.5	25.9	33.9	36.9	41.9	▲	14
Russian Federation	43.0	44.5	29.8	41.5	35.7	39.7	▲	11
Americas	178.7	180.9	158.2	191.6	187.9	179.1	▼	-5
United States	128.4	131.1	118.2	149.1	143.8	136.0	▼	-5
Canada	14.3	14.4	13.1	15.2	15.4	14.3	▼	-7
Mexico	16.8	16.6	12.4	12.7	13.2	13.6	▲	3
Brazil	19.2	18.7	14.5	14.6	15.5	15.2	▼	-1
Europe ex CIS	73.4	72.1	55.9	67.8	72.1	69.9	▼	-3
France	13.0	12.6	10.5	12.4	14.2	14.2	▼	-0
Germany	10.6	10.6	9.0	11.1	11.1	10.7	▼	-4
Italy	18.5	18.2	13.8	17.3	19.4	18.7	▼	-4
Spain	8.7	8.8	6.9	7.8	8.1	8.2	▲	1
United Kingdom	22.5	21.8	15.7	19.3	19.3	18.2	▼	-6
Total above	2,014.8	1,890.4	1,237.6	1,944.4	1,866.7	1,874.7	▲	0
Other & stock change	235.4	236.3	160.5	203.9	222.2	217.9	▼	-2
World total	2,250.2	2,126.7	1,398.1	2,148.4	2,088.9	2,092.6	▲	0

Source: World Gold Council

Domestic Price of Gold-Budget Move and Beyond

There have been sharp declines in gold and silver prices in Asian markets due to increased economic concerns in China. But the festive season buying, a weak dollar, uncertainty surrounding the US elections, and possible Fed rate cuts in September could raise prices. In the wake of the presentation of the Union Budget on July 23, 2024 by the Finance Minister, gold price in India declined sharply. Subsequently, on July 24, 2024, gold price remained steady. Meanwhile, US gold prices rose marginally higher on July 24 as traders expected that the US economic data may exert influence on Federal Reserve's rate cut timeline. 22k gold price on July 24 in India stood at ₹ 64,950/10 gram while 100 grams of 22 carat yellow metal prices was priced at ₹ 6,49,500 on July 24. Similarly, 10 grams of 24k gold prices remained steady at ₹ 70,860 and 100 grams of 24 carat yellow metal prices on July 24 remained stable at ₹7,08,600. 18K gold prices in India did not change with 10 grams prices at ₹ 53,140 and 100 grams of 18 carat precious metal prices retailing at ₹ 5,31,400.

On 29 July, 2024, the price of gold became cheaper by ₹ 6,200 in most states of India in the last one week. In the capital Delhi, the price of 10 grams of 24 carat gold was ₹ 69,140. In Mumbai, the price of 24 carat gold was ₹ 68,990 per 10 grams. The price of silver was ₹ 84,400 per kg.

With surging demand for gold, especially as the wedding season approaches, gold prices are likely to rise this financial year, driven by escalating geopolitical tensions, robust central bank buying, and expectations of US Fed rate cuts on this reduced July 2024 base. After a 10.2 per cent increase last year, prices were forecasted to rise another 9.9 per cent, largely due to the Middle East crisis involving Iran and Israel, which has spurred a rush into safe-haven assets. But this rise would now partly be offset by the reduced duty cut. Historical trends, such as the surge during the Russia-Ukraine war, highlight gold's role as a safeguard against inflation and market instability during global uncertainties.

Import and Export of Yellow Metal

Export of Gold Jewellery (Plain & Studded)

The total gross export of Gold Jewellery in June 2024 was US$ 608.01 million (₹5074.27 crores), showing a growth of 6.36 percent (7.97 percent in ₹ terms) compared to US$ 571.63 million (₹4699.56 crores) in June 2023. For the period from April to June 2024, the provisional gross export of gold jewellery was US$ 2224.21 million (₹18553.02 crores), reflecting a growth of 12.25 percent (13.91 percent in ₹ terms) over the previous year's US$ 1981.52 million (₹16287.86 crores).[7]

Plain Gold Jewellery

The total export of Plain Gold Jewellery in June 2024 was US$ 295.61 million (₹2467.14 crores), showing a decline of 3.38 percent (-1.94 percent in ₹ terms) compared to US$ 305.95 million (₹2515.85 crores) in June 2023. However, for the period from April to June 2024, the provisional gross export of plain gold jewellery was US$ 1117.4 million (₹9320.62 crores), reflecting a growth of 17.02 percent (18.71 percent in ₹ terms) over the previous year's US$ 954.92 million (₹7851.52 crores).

Studded Gold Jewellery

The total export of Studded Gold Jewellery in June 2024 was US$ 312.4 million (₹2607.12 crores), showing a growth of 17.58 percent (19.39 percent in ₹ terms) compared to US$ 265.68 million (₹2183.7 crores) in June 2023. For the period from April to June 2024, the provisional gross export of all kinds of studded gold jewellery was US$ 1106.81 million (₹9232.4 crores), reflecting a growth of 7.81 percent (9.44 percent in ₹ terms) over the previous year's US$ 1026.61 million (₹8436.34 crores).

Import of Gold in India

At US$ 3.1 billion, gold imports in April 2024 were more than three times its value in the same month last year. Gold imports amounted to US$ 1 billion in April 2023. It is likely that this was guided by an increase in prices as well as quantum of gold imports. Gold prices in the global market were around 16.8 per cent higher in April 2024 compared to a year-ago. Import quantities of the yellow metal shot up to 795.3 tonnes in 2023-24, up by 17.2 per cent from its levels of the preceding fiscal year. This was primarily owing to robust demand for gold, which appears to have sustained in April as well.[8]

The import of Gold Bars for April - June 2024 has recorded an increase of 78.29 per cent compared to the same period in 2023, based on data from the same port. Even when considering the actual imports from all ports in 2023, there is a meagre increase in 2024. The import of Gold Jewellery for April - June 2024 has significantly increased and registered a growth of 250.91 per cent compared to the same period in 2023, both from the same port and considering actual imports from all ports. This uneven rise in gold imports can be attributed to the rising geopolitical instability and RBI's objective of gold in reserves is mainly to diversify its foreign currency assets base, as a hedge against inflation and foreign currency risks (see Table 3).

Table 3: Import of Gold and Gold Jewellery

(in ₹ crore)

	April - June 2024	**April - June 2023**	**April - June 2023**	**% growth (YoY)**
	(Provisional)	(Same port as current year)	(Actual imports all ports)	April - June 2024
Gold Bar	4999.6	2804.18	3387.51	78.29
Gold Jewellery	4985	1420.6	1420.6	250.91

Source: Gem & Jewellery Export Promotion Council

Institutional Initiatives

India's gold industry is undergoing significant changes in 2024 due to various institutional initiatives. The government's focus on formalizing the sector and increasing gold recycling has led to stricter regulations and a push for organized retail. The India International Bullion Exchange (IIBX) is expected to play a crucial role in standardizing the gold market (pricing) and reducing smuggling. While these measures aim to bring transparency and efficiency, they have also posed challenges for small-scale players. The industry is adapting to these changes by investing in technology, strengthening supply chains, and exploring new business models. Overall, the institutional interventions are expected to shape the gold market in India for years to come, leading to a more regulated, transparent, and organized industry.[9]

The RBI's 2024 strategy is to diversify its reserves by significantly increasing gold holdings. This aims to reduce reliance on dollar-denominated assets, providing a hedge against currency volatility and geopolitical risks. By increasing gold reserves, the RBI seeks to enhance the stability and resilience of India's financial system.

With an objective to provide investors with an alternative to physical gold, the Government of India rolled out the Series IV of the Sovereign Gold Bond Scheme 2023-24. The scheme aims to reduce the demand for physical gold, which in turn helps to control India's current account deficit and brings down the costs associated with importing gold. Also, it offers a safer and more cost-effective means of investing in gold, providing returns in the form of a fixed interest rate and potential capital appreciation.

Industry Risk and Challenges

India lacks a clear, cohesive gold policy. Without a unified vision or specific objectives for the gold industry, stakeholders are left without clear guidance, making it difficult to align efforts towards common goals. This lack of direction hampers strategic planning and long-term growth.

The regulatory landscape for the gold industry in India is fragmented, involving multiple circulars and notifications from various authorities such as the RBI, Ministry of Finance, Ministry of Commerce, DGFT, Customs, and others. This patchwork of regulations leads to confusion, inefficiency, and difficulty in compliance, as stakeholders must navigate through numerous documents to understand the rules.

India's gold policy often involves emulating international best practices without tailoring them to the unique needs and opportunities of the Indian market. While adopting proven models can be beneficial, it is crucial to innovate and develop solutions that address India's specific challenges. Merely replicating foreign models without factoring in India's distinctive peculiarities could lead to inadequate leveraging of India's technological advancements and market potential.

The Road Ahead

India's gold industry is at crossroads, balancing traditional demand with modern economic strategies. Increasing urbanization and rising disposable incomes are expected to sustain robust demand for gold jewellery. However, the shift towards digital and paper gold investments is a growing trend, reflecting a broader move towards financial inclusion and diversification. The government's initiatives, such as, the Sovereign Gold Bond Scheme, are pivotal in this transition, aiming to reduce the reliance on physical gold and thereby check the current account deficit.

The regulatory landscape for the gold industry in India is complex, involving multiple authorities and a plethora of regulations. This fragmentation and disjointed approach often leads to inefficiencies and compliance challenges. Streamlining these regulations and creating a cohesive and consistent gold policy is crucial for the sustainable growth of the industry. By adopting a unified vision and clear objectives, stakeholders can better align their efforts, promoting strategic planning and long-term development.

Looking ahead, innovation tailored to India's unique market needs will be essential. While emulating international best practices has its benefits, it is critical to develop solutions that address local challenges and leverage technological advancements. The focus should be on creating a balanced approach that includes both traditional gold consumption and modern investment avenues. By doing so, India can ensure that its gold industry remains resilient, adaptable, and poised for future growth.

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