

Gold: the best possible liquid investment, finds RBI

Finance Minister P Chidambaram does not give up easily. With gold, probably he did. Many gold enthusiasts feared a further increase in taxes on the precious metal with the minister holding it responsible for the worsening external trade balance. Is there a change of heart when it comes to gold? It may be affecting the trade balance, but empirical study shows it is the foundation of entrepreneurship of millions. In fact, the Reserve Bank of India, which was beginning to take a tough stance on lending against gold, has been turning kind to the business.

After a knee-jerk reaction to rising stock prices, assets and liabilities of nonbanking finance companies (NBFCs), the central bank's working group had concluded that gold could turn out to be the best collateral even for banks. Indeed, it went to the extent of making gold a vehicle for financial inclusion.

"There is great scope for expanding financial inclusion in extending gold jewellery loans," said a recent report by the working group headed by KUB Rao. "If banks continue to increase their gold jewellery loans portfolio, the reliance of economically weaker sections of the society on money lenders and pawn brokers will come down considerably."

Also, the group headed by Rao has gone on to certify that it is probably the best liquid investment possible given that the risk associated with other assets such as stocks or bonds doesn't apply to gold.

Investors do not stop talking about how quickly the benchmark stock indices lost half their value within a year. Rao goes as far as to say that there's little chance of gold losing even a third of its value.

"The analysis of past data reveals that there is a distant possibility of a drop in the gold price of more than 40%," said the report. "Even the possibility of 30% decline is rare during a time horizon of one-six months."

The authorities may also be conceding that the common man has been a lot smarter in choosing his bets than financial wizards. Chidambaram's postbudget comment captures it: "I can only appeal to the people not to demand so much gold. I am not sure too many people will listen to me on that."

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