

## AMBIVALENT RELATIONSHIP OF GOLD WITH INDIA

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### ABSTRACT

India has ambivalent relationship with glittering metal Gold. Gold since ages is part of social economic culture of Indian. For Indians, Gold is asset as they buy it for adornment and Investment. For government gold is liability because it contributes a significant amount of current account deficit. . This paper studies the gold frenzy nature of Indians which is increasing gap of balance of trade in India. Secondary data from published reports and published papers are used in this paper. First unit of this paper studies the Gold consumption and imports in India. Second unit tries to find out reason for investment in gold by Indians. Emotional investment in Gold seems to be very high as demand for gold is increasing year on year.

**KEYWORDS:** Gold Import, Gold Investment, Balance of Trade

### INTRODUCTION

#### Objective of Study

- To find out reason why Indian buy gold
- To find out Gold consumption in India
- To find out gap in demand and supply of gold Imports

### RESEARCH METHODOLOGY

Secondary data is used in writing this research paper. 7 Research paper are studied and Various research reports published in past are used in this paper.

### INTRODUCTION

The yellow metal, Gold has ambivalent relationship with India. Gold investment has been favorite investment among Indians since ages. Citizens buy gold for adornment as well as for investment. It provides safety against uncertainties of future. Gold at one point of time was part of treasure of kings. Gold is widely accepted metal as tender of exchange. Gold on one hand is asset for Indians, on other hand gold is becoming liability for Government of India as it creates negative impact on balance of trade. India is not producer of gold. Most of gold is imported from outside. This paper studies reasons behind gold investment by Indians and its impact on government.

## Reasons for Gold Demand

Demand for gold in India can be interwoven with culture, traditions, desire of financial protection. There are various reasons for investment in gold.

FICCI Gold Survey report shows the following key parameters on why Indian buy gold. The result is as follows

**Table 1**

Why do You Buy Gold	Percentage out of 4846 Respondents
Safe investment	76.62%
For Adornment	52.54%
Festivals	42.24%
For Dependent's Marriage	34.54%
Own Marriage	32.85%
Special occasions	30.99%
Collateral	29.92%
Gifts	25.30%
Convert into jewellery in Future	23.05%
Towards specific objective	12.17%

**Investment:** According to FICCI and world gold council report Indian consumer buy gold as an investment. Gold works as perfect hedge against inflation and interest. There are many researcher who have done research on gold as investment.

Ghosh and others (2002) collected monthly gold price data and using co integrated regression technique found out that Gold can be regarded as inflation hedge.

In study done in Indian market Seshaiyan et al (2003) proved that investment in gold is perfect hedge against inflation as beta coefficient was positive and greater than 1.

Agarwal and Soenen (1988) tested that monthly return from 1973-1982. Regressing the gold return against market return, they proved that coefficient of market return is positive but small.

Kim, Youngje (2002) studied US equity market for a period 1985-1999 and found that gold prices do not exactly follow the S&P 500 index.

Carter et al. (1982), Jaffe (1989), Chua et al. (1990) examined to what extent Gold and Gold related instruments offer diversification opportunities superior to equity investment.

**Adornment:** Adornment is another reason for which Indian buy gold. 52.54% in respondents give adornment as reason for buying gold.

**Marriage:** Indian has tradition to give jewellery as gift to bride. At time of marriage girls family provide jewellery to girl and groom's family also gift jewellery to bride. 34.54% of respondent agreed that they buy gold for their dependent's marriage. 32.85% of respondent agreed that they buy gold for their own marriage.

**Festive:** India has tradition to buy gold at occasions like Akshya Tritaya and Diwali. 42.24% respondent had given this reason for buying gold. World Gold Council report of year 2014 states that Demand for gold jewellery increased in last quarter of year due to festive and marriage season in India.

## GOLD DEMAND AND SUPPLY

India is one of the biggest consumers of Gold consumption. According to the World Gold council Report “Gold Demand Trends 2014” the overall demand for gold in world is 4% down on year on year basis, but it is higher than 5 year average.

**Table 2: Historical Data for Gold Demand**

	Jewellery	Total Bar And Coin Invest.	ETFS and Similar	Technology	Central Banks	Total
2005	2,721.0	418.1	211.1	440.4	-663.4	3,127.2
2006	2,301.4	429.8	258.7	471.7	-365.4	3,096.2
2007	2,424.9	437.5	259.6	477.7	-483.8	3,116.0
2008	2,306.2	917.9	325.0	464.7	-235.4	3,778.3
2009	1,816.3	832.3	644.6	414.4	-33.6	3,674.0
2010	2,051.4	1,201.8	420.8	459.9	79.2	4,213.0
2011	2,090.8	1,493.4	236.9	427.0	480.8	4,729.0
2012	2,133.8	1,299.0	306.6	379.1	569.3	4,687.8
2013	2,669.1	1,700.8	-915.9	354.3	625.5	4,433.7
2014	2,461.4	1,002.2	-183.1	346.4	590.5	4,217.4
Q1'15	603.4	250.6	25.1	81.6	122.9	1,083.6
Q2'15	514.9	202.3	-23.5	83.5	127.9	905.0
Q3'15	631.9	295.7	-65.9	84.3	175.0	1,120.9

Source: Gold Demand Council

The major component of gold demand is jewellery. Gold jewellery demand was although down in 2014 by near 10% but was above five year average of 2152.9 tons by a comfortable margin of 5%. Year 2014 was standout year for Indian jewellery. Demand reached a record of 662.1 tonnes topping the previous year total by 8%. This is in spite of government measures designed to restrict gold imports being in place for much of the year. Wedding and festival seasons purchase drove robust demand of 179.1t in fourth quarter, up 19% over q4 of 2013.

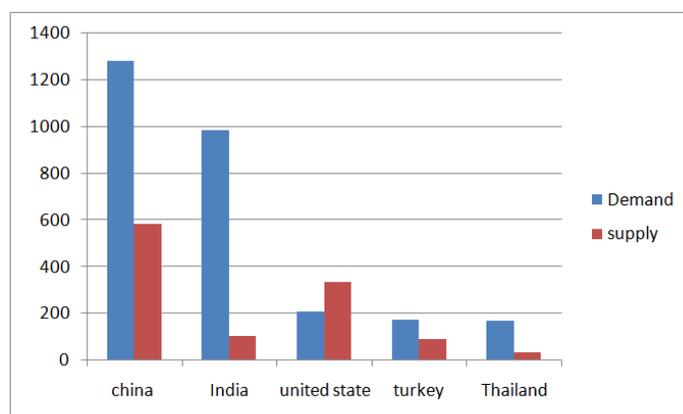
Region wise comparison of demand in different countries reveals that India has more than 24% share in world consumption of gold. India stands at second position after China. Both India and china clubbed together have more than 60% share in world gold jewellery consumption.

**Table 3: Jewellery Demand in Selected Countries (Tonnes)**

	2014	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15		Q3'14 Vs Q3'15, % Change
India	603.9	184.2	145.1	150.8	118.3	211.1	↑	15
Pakistan	21.8	5.5	6.1	5.3	5.4	5.9	↑	7
Sri Lanka	6.0	1.2	1.5	1.7	2.1	1.5	↑	21
<b>Greater China</b>	<b>875.5</b>	<b>194.3</b>	<b>225.1</b>	<b>236.6</b>	<b>186.5</b>	<b>203.0</b>	↑	<b>4</b>
China	807.2	181.2	205.4	221.2	174.5	187.6	↑	4
Hong Kong	60.0	11.2	17.6	13.6	10.5	13.7	↑	22
Taiwan	8.2	1.9	2.0	1.8	1.6	1.7	↓	-12
Japan	16.4	4.2	4.8	3.3	3.9	4.4	↑	5
Indonesia	36.5	8.2	7.2	12.1	9.1	10.2	↑	24
Malaysia	10.2	2.8	2.8	2.8	1.8	2.1	↓	-24
Singapore	14.5	3.6	3.2	3.5	2.8	3.2	↓	-10
S Korea	12.4	3.0	2.9	3.7	2.9	3.7	↑	23
Thailand	12.4	2.9	3.2	3.4	2.8	2.9	↑	2
Vietnam	12.5	2.7	3.0	4.4	3.7	3.5	↑	31
<b>Middle East</b>	<b>240.8</b>	<b>51.4</b>	<b>53.6</b>	<b>61.9</b>	<b>53.5</b>	<b>55.5</b>	↑	<b>8</b>

Saudi Arabia	68.4	15.0	18.0	17.3	17.9	15.8	↑	6
UAE	56.0	10.4	10.6	16.3	13.3	9.9	↓	-5
Kuwait	14.2	2.6	3.9	3.6	2.9	2.2	↓	-15
Egypt	45.1	11.1	9.5	9.0	8.0	11.8	↑	6
Iran	39.3	9.1	8.5	9.0	7.2	12.8	↑	40
Other Middle East	17.8	3.2	3.0	6.6	4.1	3.0	↓	-5
Turkey	68.1	16.9	20.2	10.4	11.6	12.1	↓	-29
Russia	67.0	16.6	13.9	9.4	9.2	13.5	↓	-19
<b>Americas</b>	<b>168.6</b>	<b>37.7</b>	<b>60.1</b>	<b>32.6</b>	<b>39.1</b>	<b>38.0</b>	↑	<b>1</b>
United States	116.6	25.6	44.4	22.0	25.5	26.2	↑	2
Canada	14.0	2.6	5.4	2.7	3.5	2.8	↑	4
Mexico	15.8	4.2	3.9	4.0	4.2	4.4	↑	5
Brazil	22.2	5.2	6.3	3.9	5.9	4.7	↓	-11
<b>Europe Ex CIS</b>	<b>76.1</b>	<b>12.8</b>	<b>36.1</b>	<b>12.7</b>	<b>14.4</b>	<b>12.7</b>	↓	<b>-1</b>
France	14.2	2.1	6.6	2.7	2.5	1.9	↓	-6
Germany	10.0	1.2	5.0	1.7	2.1	1.2	↑	1
Italy	18.7	2.9	9.4	2.5	3.6	2.8	↓	-2
Spain	7.6	1.7	2.3	1.8	2.1	1.8	↑	5
United Kingdom	25.7	4.9	12.9	4.0	4.1	4.9	↓	-1
Switzerland	-	-	-	-	-	-	-	-
Austria	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-
<b>Total Above</b>	<b>2,242.6</b>	<b>548.0</b>	<b>588.8</b>	<b>554.6</b>	<b>467.1</b>	<b>583.4</b>	↑	<b>6</b>
Other & stock change	218.7	46.1	68.1	48.9	47.8	48.5	↑	5
<b>World Total</b>	<b>2,461.4</b>	<b>594.1</b>	<b>657.0</b>	<b>603.4</b>	<b>514.9</b>	<b>631.9</b>	↑	<b>6</b>

Till now we discussed the demand aspect of gold India. Following chart shows the Demand of gold and supply of gold in tons in year 2014. The gap between demand and supply is filled by import of gold.



Source: GFMS Gold Survey 2014

Figure 1

There is huge Gap in demand and supply of Gold, which is filled by import of Gold. Looking at the above figure it is found that India is able to produce only 10% of gold demand and rest 90% of demand is filled by gold import. Gold import puts pressure on Indian Rupee.

## CONCLUSIONS

Gold is asset for citizen of India. People buy it for tradition adornment, marriages, gifts, etc. India is second largest consumer of gold in world and produce only 10% of its consumption. 90% of gold consumption is filled through

imports which create misbalance in balance of trade and works as liability for country. Government should make policies to convert this liability into assets so that gold investments come into circulation and create wealth for nation also.

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