

An Impact of Changing Attitude from Gold Consumption to Gold Investment on an Indian Economy –An Analytical Approach

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ABSTRACT - In India it has been proved that for every 1 percent increase in income, gold consumption increases by 1.5 percent, because gold is considered as a facade for their social status. Gold plays a vital role in Indian families, which has directly linked with their sentiments and ethnic rituals. Although the numbers of choices in the asset class given advanced return people exceedingly given importance to gold due to its consistency, liquidity, ease purchasing procedure, low risk, and minimal purchasing knowledge. Indians consider gold a fabulous-metal, which can provide an elucidation to several problems. In the recent years the Indian people treated gold as an investment option rather consumption choice. Their affinity towards gold has changed which directly affects the bullion market, balance of payment, Indian financial market and the economy as a whole. Gold investment in the forms of Gold ornaments, gold exchange traded funds, gold mutual funds. The country is presently the largest importer of gold on the world, consuming one-third of the world's supply on an annual basis. In fact gold is the second-most purchased in a foreign country commodity after oil. Gold imports directly affect the current account deficit (CAD) of India. This research paper tries to explore how the gold purchase as an investment influences Indian economy.

Key Words: Gold, consumption, investment, bullion market, Indian economy

I. INTRODUCTION

In India it has been proved that for every 1 percent increase in income, gold consumption increases by 1.5 percent, because gold is considered as a facade for their social status. India consumes approximately 849 metric tons of gold per year. This number is variable based on the economy at large. Gold is also seen as a storehouse of value. Gold plays a vital role in Indian families, which has directly linked with their sentiments and ethnic rituals. Gold as an asset plays a very vital role in an investor's portfolio as it not only provides steadiness for returns but also gives an chance to maximize the wealth of the investor. Investors generally buy gold as a way of diversifying risk. Traditionally, Indians always have an affinity towards Gold Jewellery. In the recent years, we have started moving from the concept of Gold Consumption (buying for Jewellery) towards Gold Investment (buying for future benefits). Gold investment in the forms of Gold ornaments,

gold exchange traded funds, gold mutual funds. The country is presently the largest importer of gold on the world, consuming one-third of the world's supply on an annual basis. In fact gold is the second-most purchased in a foreign country commodity after oil. Gold imports directly affect the current account deficit (CAD) of India. This research paper tries to explore how the gold purchase as an investment influences Indian economy.

SCOPE OF THE STUDY

The study on an impact of changing attitude from gold consumption to gold investment on an Indian economy is an analytical approach is conducted to know the various reasons why the people give priority to gold as an investment rather than other avenues. Gold plays an important role in the Indian's lifestyle. Such investment creates a tremendous impact on Indian economy through heap of import, balance of payment and reserve

maintenance. In this context the researcher tried to analyse the gold as consumption than gold investment.

STATEMENT OF THE PROBLEM

Based on the collection of previous literature the researcher found that most of the researches have emphasized on various forms of gold investment and factors influencing. A very few researcher have concentrated on consumer behavior during investment of gold. No researcher gave importance to economic point of view. Therefore the present study will be prominent on following questions:

1. What is the correlation between gold consumption and gold investment?
2. What happens in the economy if the gold investment increases?

OBJECTIVES OF THE STUDY

The present study had been undertaken with the following objectives:

- 1) To study the correlated reason between gold consumption and gold investment.
- 2) To analyze the impact of towering gold investment in financial structure of Indian economy.

II. LITERATURE REVIEW

Jalpa, Sheenam Gogia & Vatsala (2013) has conducted an empirical study on gold investment rage among the professionals with a comparative analysis of e-Gold, gold ETF and gold funds with an objective to study the most preferred metal for investment from gold, silver and platinum, to know the attitude towards investment in gold and other gold options risk associated and returns in gold investment. He concluded that family members and friend play an important role in investment decision and Risk and return perspective of gold ETF is considered as moderate in the ratings as compared to E-Gold and Gold funds.

Ragavendra RH (2013) has undertaken a comparative study on investing in gold related assets like Gold ETF, Gold mutual fund and physical gold. The results concluded that there is a significant difference among the Gold ETFs, Gold Mutual Funds and physical gold. The statistics shows

that return of Gold ETFs is higher than physical form of gold and also Gold Mutual Funds. .

Nishad Nawaz M. & Sudindra V. R. (2013) has undertaken a study on various forms of gold investment with an objective to study the awareness level and various options for investors for gold investment, to study the pros and cons of various forms of gold investment and to assist in creating awareness among investors. The results revealed that majority of the respondents prefer investing in jewellery and the awareness is very low in case of e gold, gold certificates etc. Respondents invest or purchase in Jewellery due to convenience and constraint being making charges.

Mohdsaleem and; Matloobullahkhan(2013) in their article “The overview of gold ETFs and its various positive features “ they tries to explain comparative study of Gold ETFs v/s Physical gold and it also give focus on Gold ETFs as a strong and attractive investment option for the investor. Gold ETFs gives extra leverage to its users in terms of the profit.

Ms k Sudhai & Ms. R. Buvanewari (2014) in their research paper” A Study on Investment Pattern Investors of Jewellery at Pattukkottai Town” Observed the investment pattern of investors in jewellery and the investment decisions are driven by number of factors such as income of the family , economic conditions, tax considerations. etc. The study concluded that the investors are ready to invest in the long term and less risky product because they are aware about consequences of short term investment plan.

III. RESEARCH METHODOLOGY

Research Design: The methods used in this study are both descriptive and analytical in nature.

Source of Data: The present study has been conducted on the basis of the **secondary data** .The required data has been collected through the websites journals and Ph.D. thesis.

Conceptual framework:

Gold: It is a chemical element with the symbol Au and an atomic number of 79. Gold is a dense, soft, shiny metal and the most malleable and ductile metal known. -Spall, Jonathan (2009)

Bureau of Indian Standards (BIS): The BIS hallmark is a hallmarking system for gold as well as silver jewellery sold in India certifying the purity of the metal. It certifies that the piece of jewellery conforms to a set of standards laid by the Bureau of Indian Standards, the national standards organization of India.

Carat: a measure of the purity of gold, pure gold being 24 carats.

Consumption: The action of using up a resource.

Investment: The action or process of investing money for profit.

Bullion market: It is a market through which buyers and sellers trade gold and silver as well as associated derivatives.

IV. GROUNDS BEHIND GOLD AS AN INVESTMENT

People have wanted to hold gold for various reasons. With various innovations, gold trading has evolved from physical gold to virtual trading. However, all forms of gold are equally attractive for investments. There are various reasons why people, especially Indians, invest in gold to meet their financial goals.

Safe ground against inflation –The value of currency goes down, when inflation rises where gold is the only element which retains its value and protects against inflation. Even in the periods of high inflation, gold retains its highest value in correlation with the price and cost of living.

Risk Diversification – If any investor who wants to reduce their risk in investment they will go for diversified investment portfolio. In comparison with traditional financial investments like stocks, share, bonds and mutual funds, investment in gold is a best option to risk diversification because of its market volatility and liquidity.

Liquidity – A high demand for gold ensures that it is easy to sell because gold is enormously liquid assets. when they need cash they can sell the gold or pledge the same without any hard and fast procedures.

Easy redemption - There is no lock in period in gold assets or ornaments. The redemption in physical gold will be easily taken place with the help of its purity like 916, hall

mark ,BIS ,carat verification and prices in gold market .If there is any emergency the people will move on to a loan option against their gold. In the case of the paper gold, the market price on the redemption date determines the redemption amount.

Protection from Currency Devaluation –Being tangible assets gold protecting investors against currency devaluation even the strongest of currencies losing their value because it is a natural asset which need not be reproduced.

Emergency product – Most of the countries and individual investors believe that having vast gold reserves that can be used to meet any abnormal and crisis situation. So that gold can be called as crisis or emergency commodity /products.

Easy to purchase – Buying gold is not a lengthy and complicated process; any persons can invest in gold through multiple mediums. Investors can choose from physical gold in the form of bars, coins and jewellery or opt to invest in it through Exchange Traded Funds, E-Gold, Gold Savings Accounts, Gold Funds, etc. a simple and basic knowledge will be enough for investment in physical gold where as paper gold can be invested through the agents or financial supportive agencies.

Demand and Supply – There is an inverse relationship between demand and supply of the Gold. As a natural resource which is supplied in a very limited level but the demand is very high in a country like India where people are very passion over to gold investment which also creates a artificial demand and high price.

Tangible asset- Gold is highly tangible in nature, which creates a perception of safety among the

investors. Purchasing gold is much easier compared to purchasing other tangible assets such as real estate. This feature helps the investors from unwanted disturbances like theft and misuse by others.

Wealth Creation- Gold is a precious metal which holds a special place in any Indian household and is considered a wealth of the family, for example, the gold jewels are passed on from one generation to the other as a legacy and a symbol of family wealth.

TAX ON GOLD IN INDIA

Gold jewellery will attract 3 percent goods and services tax (GST). Though it is higher than the previous applicable taxes, including 1 percent excise duty and 1.5 percent VAT, it is below the anticipated GST of 5 percent. Customs duty will continue to be 10 percent and processing charges will be taxed at 5 percent. Approximate industry average processing charges are around

12% of gold price. Prior to GST, total tax and duties are nearly 12.4 percent. After the implementation of GST, it will marginally increase to approximately 14 percent. On the other hand, if the gold value crosses Rs 30 lakhs, need to pay wealth tax one percent on the same because buy and sell gold at a profit, there is a capital gains tax that would need to be paid. 20% capital tax is imposed on physical gold and Gold ETF Traders and buyers move will likely force more transactions into the black market because tax on gold is excessively high in India.

GOLD RATE MOVEMENT IN INDIA

The following table focuses the historical movement of gold prices in India. It's important to note that the gold prices would fluctuate during the year and the amount mentioned below is a representation of the average price for that year. The table reveals the fact even the gold price increases one side, the other side the people's affinity and amicability towards gold also increase.

Table 1 Gold rate movement in India

Year	Price	Year	Price
1990	Rs. 3,200.00	2004	Rs. 5,850.00
1991	Rs. 3,466.00	2005	Rs. 7,000.00
1992	Rs. 4,334.00	2006	Rs. 8,400.00
1993	Rs. 4,140.00	2007	Rs. 10,800.00
1994	Rs. 4,598.00	2008	Rs. 12,500.00
1995	Rs. 4,680.00	2009	Rs. 14,500.00
1996	Rs. 5,160.00	2010	Rs. 18,500.00
1997	Rs. 4,725.00	2011	Rs. 26,400.00
1998	Rs. 4,045.00	2012	Rs. 31,050.00
1999	Rs. 4,234.00	2013	Rs. 29,600.00
2000	Rs. 4,400.00	2014	Rs.28,006.50

2001	Rs. 4,300.00	2015	Rs.26,343.50
2002	Rs. 4,990.00	2016	Rs.28,623.50
2003	Rs. 5,600.00	2017	Rs.29,667.50

Source: trading economy.com

V. RESULT EXPLORED FROM THE STUDY

- ❖ India's gold market is determined principally by the consumption of gold because the financial literacy is very low in India. So Indians desire buying gold in metal form, whereas Gold bonds, futures are preferred in other countries. Demand for gold in India is vary in different parts of the country. Generally, South Indians buy lots of gold ornaments.
- ❖ A gold import of India is on the augment. India imports 40 percent of the World's total production of Gold. India stood as second largest gold importer country in the world. India's gold import represents 8.4% of world imports during the year 2016. India imports approx 1000 tons of Gold per year
- ❖ Gold demand in the country rose 9 percent in 2017 from 2016 to 726.9 tones as jewellery demand increased 12 percent from a year ago - WGC report
- ❖ India is importing gold from more than 40 countries across the world. The imports are mainly from Switzerland, UAE, USA, Ghana, South Africa, Dominican Republic, Peru, Canada, Australia and Tanzania.
- ❖ Gold smuggling in India has surged since India raised its import duty to 10 percent in August, 2013 in an effort to narrow a gaping current account deficit.
- ❖ Smugglers brought around 120 tons of gold into the country in 2017, with nearly the same amount expected in 2018 unless the government reduces the import tax.
- ❖ In India, approx 4000 tons of gold is lying idle in Temples, and approx 15000 tons is in Indian homes..
- ❖ Average Indian middle class family's lifetime expenditure on Gold is approx 15 to 80 lakhs.

Table 2 India’s Top five Import Partners of Gold - Trade

Country	Amount
1. Switzerland	56.7% (USD 13 billion)
2. UAE	11.3% (USD 2 billion)
3. USA:	5.8% (USD 1.3 billion)
4. Ghana	5.6% (USD 1.2 billion)
5. South Africa:	5.2% (USD 1.1 billion)

Source: Export Genius

VI. IMPACT ON INDIAN ECONOMY

The first major problem the Indian economy faces with this high gold consumption rates is the increasing current account deficit (CAD). India has to pay for its gold imports using its foreign exchange reserves. It has a considerable impact in terms of economic value add, employment, contribution to foreign exchange earnings, and the trade balance. A report commissioned by the World Gold Council from Price water house Coopers estimated that gold made a direct contribution of more than \$30 billion to the Indian economy. More balance due to India because of unfavorable balance of payment. Inactive gold like jewelry and physical gold cannot support Indian Economy. Gold makes a widening gap between rich and poor. Rich and middle class are buying gold. As an end result of that rupee decrease in value, thereby inflation takes place. And the effect will be more on poor, because of hike in price.

VII. GOVERNMENT INITIATIVES

- ❖ Govt of India increased tax on gold imports to minimize the demand for gold imports. Reserve Bank of India has setup a committee to study why Indians spend lots of money on gold. Gold Monetization Scheme was launched in 2015 to bring out the gold lying idle in homes into the Indian Economy. Through this scheme people can deposit their gold and can earn interest on it. But the response was not up to the mark since the jewelry will be converted into gold bars. Temples are the major beneficiaries for this scheme.
- ❖ GST has implemented on gold at 3% from 1.2 percent on each purchasing. PAN card is necessary for more than Rs.2, 00,000 purchasing and mandatory for the

customers to disclose their tax code. Payment through online is encouraged.

- ❖ Gold monetization scheme is an initiative by Govt that facilitates the investor to deposit gold and earn interest on their gold deposit accounts just like savings account. When customer deposits gold at bank, the purity of gold is confirmed and accurate amount of gold is credited in the metal account. The deposited gold is lent by banks to jewelers/others at an interest rate higher than the interest paid to customer. The differential being bank's income. Customer will have the option to take cash or gold on redemption leaving them with more satisfaction and ease.
- ❖ The recent sovereign bond scheme launched by Government of India which tries to manifests the people attitude towards investment as gold such as paper gold and e gold apart from traditional methods of purchasing jewelries. It includes
 1. Gold ETFs: Gold exchange traded funds, or paper gold, is financial products that invest money in physical gold and are listed on a stock exchange. Gold bars, biscuits and coins.
 2. E-gold: Gold can be purchased in demat form through National Spot Exchange Limited.
 3. Gold mutual funds: A gold fund is an open-ended fund that has gold ETFs and shares of gold mining companies as its majority holdings.

VIII. CONCLUSION

It is impossible to separate gold from Indians because it is totally mingled with their feelings, emotional and sentiments. An Indian household and decision maker in the families feels that there is strong global market demand for gold which is an ideal hedge for financial market risks. Diversification with gold offsets inflation because of its liquid character. Gold is globally acknowledged investment and have some guaranteed however, for the country, it is an idle asset unless used productively. So we can control ourselves from buying more and more ornaments. We should look beyond gold for investment options. Average of the Indians families saving is locked in the form of gold. If the same is redirect to banks, big positive changes will happen in India’s Economy. Increase in interest rates will

definitely encourage people to save money in banks instead of buying gold. The government and financial institutions should take steps to control the people by investing in gold. At the same time investors should give value to economy's balance of payment.

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