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e-ISSN : 2455-3662
SJIF Impact Factor: 3.395

EPRA International Journal of Multidisciplinary Research

Volume: 2 Issue: 1 January 2016

Published By :
EPRA Journals

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GOLD FRENZIED INDIAN AND REMEDIAL MEASURES

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ABSTRACT

Emotional investment in Gold seems to be very high as demand for gold is increasing year on year. 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. Third unit studies the measures taken by the Government to curb the Gold import.

KEYWORDS: *Gold Import, Gold Monetisation Scheme, Sovereign Gold Bonds, Gold Investment*

OBJECTIVE OF STUDY

1. To find out Gold consumption in India and Import of Gold to meet the demand
2. To find out reason why Indian buy gold
3. Government remedial measures to cut gold import

RESEARCH METHODOLOGY

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

UNIT-1

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 1: 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.

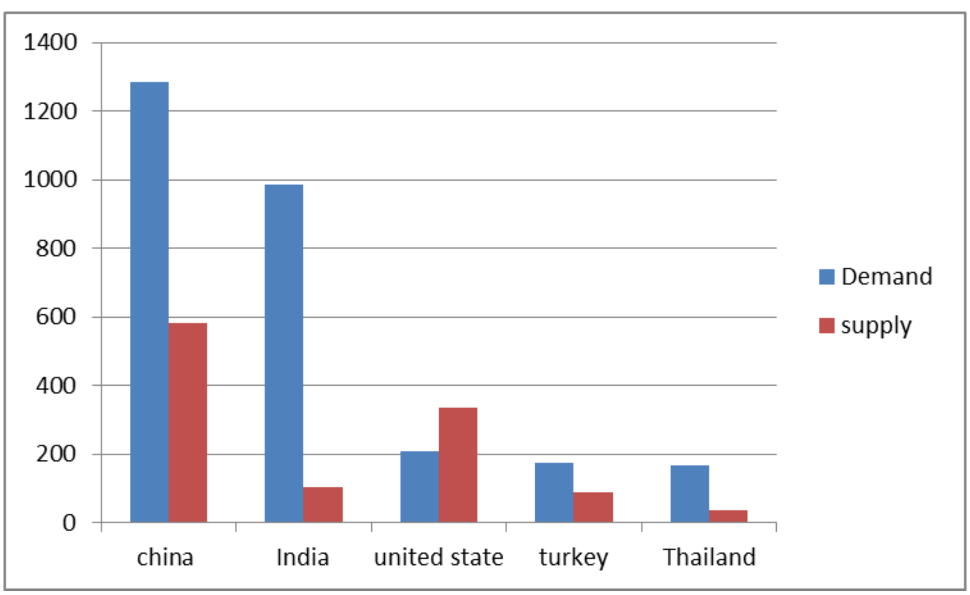
The major component of gold demand is jewellery. Gold jewellary demand was although down in 2014 by near 10% but was above five year average of 2152.9 tons by a comfortable margin of 5%. Year 2014 was standout year for Indian jewellery. Demand reached a record of 662.1 tonns topping the previous year 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 2: Jewellry 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
Greater China	875.5	194.3	225.1	236.6	186.5	203.0	↑	4
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
Middle East	240.8	51.4	53.6	61.9	53.5	55.5	↑	8

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
Americas	168.6	37.7	60.1	32.6	39.1	38.0	↑	1
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
Europe ex CIS	76.1	12.8	36.1	12.7	14.4	12.7	↓	-1
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	-	-	-	-	-	-	-	-
Total above	2,242.6	548.0	588.8	554.6	467.1	583.4	↑	6
Other & stock change	218.7	46.1	68.1	48.9	47.8	48.5	↑	5
World total	2,461.4	594.1	657.0	603.4	514.9	631.9	↑	6

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

There is huge Gap is 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.

UNIT- 2
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

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 counsumer buy gold as an investment. Gold works as perfect hedge against inflation and interest. There are many researches done 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 Seshaian et al (2003) proved that investment in gold is perfect hedge against inflation as beta coefficient was postivie and greater than 1.

Agarwal and Soenen (1988) tested that monthly return from 1973-1982Regressing the gold return against market return, the 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 fellow 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 resson 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 jewellary 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 jewellary increased in last quarter of year due to festive and marriage season in India.

UNIT- 3
GOVERNMENT REMEDIAL MEASURES

Gold import has third highest share in import share after petroleum and capital goods. To control the trade deficit the government had taken the following steps to curb the gold demand.

Gold Monetisation Scheme:-

Gold Monetisation Scheme (GMS) was launched by Finance minister of India. Objective of GMS are

1. To mobilize the gold held by household and institutions in country
2. To Provide a fillip to gems and jewelry sector in the country by making gold available as raw material on loan from the banks
3. To be able to reduce reliance on import of gold over time to meet the domestic demand.

In GMS gold peurity will be tested and jewellery will be melted by Fire Assey Test. After Fire Assey Test. After Fire Assey Test, if the customer agrees to deposit gold, then he will be given a certificate by collecting centre certifying the amount and purity of deposited gold. When the customer produces the certificate of gold deposited at purity testing centre the bank will open Gold saving account for customer and credit the quantity of gold into the customer's account. The customer will have the option of redemption either in cash or in gold, which will have to be exercised in the beginning itself. The bank will commit to paying an interest to the customer which will be payable after 30/60 days of opening of the Gold Savings Account. The customer will have the option of redemption either in cash or in gold, which will have to be exercised in the beginning itself. The current rate of interest on a medium-term gold deposit is 2.25 per cent annually; for a long-term one, 2.5 per cent. The lock-in period for medium-term deposits is three years; for long-term ones, it is five years. For medium-term deposits, pre mature withdrawal between three years and five years will attract a penalty of 0.375 per cent in reduced interest rate. For pre mature withdrawal between five to seven years, the penalty will be 0.25 per cent in a reduced interest rate.

Sovereign Gold Bonds:-

Government had launched the Sovereign Gold Bonds (SGB). SGB will be issued on payment of money and would be linked to the price of gold. The objective of SGB is

1. To reduce the demand for physical gold bonds
2. Shift part of estimated 300 tons if physical gold purchased every year for investment into 'Demat' gold bonds.

Features: The Government will issue bonds with a nominal rate of interest (which will be linked to international rate for gold borrowing). An indicative lower limit of 2% may be given but the actual rate will have to be market determined. On maturity, the investor receives the equivalent of the face value of gold in Rupee terms. The rate of interest on the bonds will be payable in terms of grams of gold. The interest will be calculated on 10,000 at a certain per cent say 2 or 3%. The tenor of the bond could be for a minimum of 5 to 7 years so that it would protect investors from medium term volatility in the gold prices. Bonds will have a sovereign guarantee. Capital gains tax treatment will be the same as for physical gold.

CONCLUSION

Government has launched the schemes to control the Gold import. Investment opportunities are provided, which will be linked to gold prices. India has 20,000 tonnes of domestic stock of gold. Can it be Monetised? Through the launch of GMS RBI is eyeing especially on trusts, such as the Tirupati Devasthanam or the Siddhi Vinayak one in Mumbai, who have ample amount of gold. Gold collected through GMS will be resold into the market so that import of gold can be reduced. GMS and SGB schemes will be tested on time, how much gold import can be reduced by these schemes.

ACKNOWLEDGEMENT

Authors thanks Research Innovation and Consultancy Department of I K Gujral Punjab Technical University, Jalandhar for providing support and necessary help research of this paper.

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