

REVOLUTION OF GOLD IN INDIAN ECONOMY

A.ARUN KUMAR BSc, MBA

College of Commerce and Business Management, Osmania University

Hyderabad, Andhrapradesh, India.

Phone: +91-9848360036

ABSTRACT:

The love of Indians for gold is timeless. Gold has a special significance in all ages. The importance of gold can be understood from the saying "ALL THAT GLITTERS IS NOT GOLD". In India, people buy gold not only on occasions like weddings, festivals or special events but also anytime and every time. Gold is offered to Indian deities. The Hindu calendar also has some special days like Dhanteras, Akshayatriya, Dussera to buy gold.

But are the growing prices of gold breaking up the love affair of Indians for gold??? This article concentrates on the importance of gold in Indian culture, changing trends in the gold prices over a period, factors influencing the fluctuations in gold prices and the effect of the change in gold prices on the Indian economy.

INTRODUCTION:

In India, gold is considered much more than a precious metal. For centuries, civilizations have used gold as an object of luxury. Gold is taken as a sign of supremacy and beauty. It is a sign of power and status. Gold holds great sacred meaning in Indian culture, as it is the symbol of the Hindu goddess Lakshmi, considered highly auspicious. Hindus believe that their goddess was born from the cosmic egg of gold, and hence buying gold will bring them good fortune and destiny. In Indian culture, women and gold are inseparable from each other. Many people think that Indians are fanatics for gold. Although this cannot be entirely denied, but the truth is that Gold always had a particular connotation in all ages.

India is a vast country, a combination of several cultures, traditions, customs, religions and regions but the love for gold is universal. It is equally sought by a rich businessman or a poor farmer. Indians see gold as a symbol of purity, prosperity and good fortune. Gold purchase in India is related to cultural and religious beliefs. The Indian tradition demands buying gold for occasions such as weddings, birthdays, anniversaries and other important festivals. The Hindu calendar also has some auspicious days to buy gold such as Diwali, Dussera, Dhanteras, etc.

In the Indian society, life's earnings are spent in the big fat weddings and 35-50% of the expenditure spent for a wedding goes in to the purchase of gold and jewellery. As a custom, the gold jewellery gifted to the bride is also displayed in the wedding which symbolizes the status of the family. Gold to us Indians is a symbol of good luck and a lifetime investment. Like genes and the genetic traits, gold is passed down from generations to generations. It is considered as an investment and saving which may come to resort during a huge financial crisis of the family. Even today, though there are many other investment areas like stock markets, mutual funds, etc., people prefer to invest in gold.

Investment is that application of one's earnings or assets that give a financial return as income while keeping the capital invested protected from loss. Savings is that capital which is handily available during emergency or need while protecting the capital rather than appreciation of the capital. Gold and silver however combine the advantages of both investments and savings provided they are accumulated regularly over a period of time.

The recent market trends are however portraying a different picture. The fluctuating prices of gold and the all-time hike in the gold prices has shattered the love of Indians for gold. Though not completely, but the hike in the gold prices have affected the Indian markets and the Indian economy. But before understanding the factors and reasons for fluctuations in the gold prices, it is important to understand and identify the significance of gold and jewellery in the Indian culture.

SIGNIFICANCE OF GOLD IN INDIAN CULTURE:

Gold is a precious metal with which mankind has had a long and very intimate relation. Gold is considered as a symbol of purity and good fortune. Most of the gold that the entire world holds lies in India. The main reasons why Indians consider gold as an investment are:

- **Gold is considered as equivalent to liquid cash:** Gold is considered as a security or asset which can be converted in to cash whenever required.
- **Gold is a very good investment:** Due to its consistently increasing value, gold is considered as a safe and secure investment.
- **Gold, a good gift item:** It is precious and worthy. It is given as gift during weddings, birthdays or any other special occasions. It is a symbol of prestige and is considered auspicious.
- **Gold considered as status symbol:** Gold symbolizes wealth. In Indian weddings, the bride wears jewellery as a symbol of the family status.
- **Gold has religious significance:** Gold is a symbol of Hindu goddess Lakshmi. Gold is bought or gifted on occasions of festivals like Dhanteras, Dussera and Diwali.
- **Gold has great ornamental value:** Women and gold jewellery are inseparable from each other. Gold ornaments are always in fashion and will never become out of fashion. Even the wedding rings are made of gold to mark a long lasting relationship.
- **Gold: An ancestral property:** Gold is passed down from generation to generation as an ancestral property.

MARKET TRENDS IN GOLD PRICES:

The gold rate in the market depends on the demand and availability of the metal. The gold price has become unpredictable but those in commodities market seem to have a better grip on the gold price. There has been a drastic change in the gold prices over a century from now. The following table will show the gold price history for the last 86 years:

10 Gms of GOLD PRICE History for The Last 86 yrs

Year	Price	Year	Price	Year	Price	Year	Price
1925	₹ 18.75	1947	₹ 88.62	1969	₹ 176.00	1991	₹ 3,466.00
1926	₹ 18.43	1948	₹ 95.87	1970	₹ 184.50	1992	₹ 4,334.00
1927	₹ 18.37	1949	₹ 94.17	1971	₹ 193.00	1993	₹ 4,140.00
1928	₹ 18.37	1950	₹ 99.18	1972	₹ 202.00	1994	₹ 4,598.00
1929	₹ 18.43	1951	₹ 98.05	1973	₹ 278.50	1995	₹ 4,680.00
1930	₹ 18.05	1952	₹ 76.81	1974	₹ 506.00	1996	₹ 5,160.00
1931	₹ 18.18	1953	₹ 73.06	1975	₹ 540.00	1997	₹ 4,725.00
1932	₹ 23.06	1954	₹ 77.75	1976	₹ 432.00	1998	₹ 4,045.00
1933	₹ 24.05	1955	₹ 79.18	1977	₹ 486.00	1999	₹ 4,234.00
1934	₹ 28.81	1956	₹ 90.81	1978	₹ 685.00	2000	₹ 4,400.00
1935	₹ 30.81	1957	₹ 90.62	1979	₹ 937.00	2001	₹ 4,300.00
1936	₹ 29.81	1958	₹ 95.38	1980	₹ 1,330.00	2002	₹ 4,990.00
1937	₹ 30.18	1959	₹ 102.56	1981	₹ 1,800.00	2003	₹ 5,600.00
1938	₹ 29.93	1960	₹ 111.87	1982	₹ 1,645.00	2004	₹ 5,850.00
1939	₹ 31.74	1961	₹ 119.35	1983	₹ 1,800.00	2005	₹ 7,000.00
1940	₹ 36.04	1962	₹ 119.75	1984	₹ 1,970.00	2006	₹ 8,400.00
1941	₹ 37.43	1963	₹ 97.00	1985	₹ 2,130.00	2007	₹ 10,800.00
1942	₹ 44.05	1964	₹ 63.25	1986	₹ 2,140.00	2008	₹ 12,500.00
1943	₹ 51.05	1965	₹ 71.75	1987	₹ 2,570.00	2009	₹ 14,500.00
1944	₹ 52.93	1966	₹ 83.75	1988	₹ 3,130.00	2010	₹ 18,500.00
1945	₹ 62.00	1967	₹ 102.50	1989	₹ 3,140.00	2011	₹ 26,400.00
1946	₹ 83.87	1968	₹ 162.00	1990	₹ 3,200.00		

The price of 10grams of gold in the year 1925 was Rs. 18.75 and the price of 10grams of gold in the year 2011 was Rs. 26,400. The gold price of 10grams currently in May, 2012 is around Rs. 29,500. Initially the increase in gold price was less from year to year with a drastic increase in the recent years. In the past decade, the increase in gold prices has been notable. However, a sudden jump in the price from Rs. 18,500 in 2010 to Rs. 26,400 in 2011 is a notable increase.

This increase may be attributed to the stock market in India. Due to the uncertain stock markets, people started investing in gold which is a safe and stable investment. As there is an increase in demand only and not in supply of gold, there has been a drastic hike in the gold price to bridge the gap between the demand and supply.

The following is an analysis chart showing the highest and lowest gold prices in India and percentage difference between them in the past 1 year:

Months	Gold purity	Highest price INR (per gram)	gold Lowest price INR (per gram)	Percentage difference
1 month	24K	2964.00	2850.00	4.00
2 months	24K	2964.00	2820.00	5.11
3 months	24K	2964.00	2759.00	7.43
4 months	24K	2964.00	2750.00	7.78
5 months	24K	2964.00	2724.00	8.81
6 months	24K	2964.00	2724.00	8.81
7 months	24K	2964.00	2684.00	10.43
8 months	24K	2964.00	2609.00	13.61
9 months	24K	2964.00	2598.00	14.09
10 months	24K	2964.00	2326.00	27.43
11 months	24K	2964.00	2169.00	36.65
12 months	24K	2964.00	2169.00	36.65

The highest and lowest gold prices studied for over 1 year show that the percentage difference between the highest and lowest gold prices has been fluctuating. The percentage difference between the highest and lowest prices was 36.65% 12 months back and it was 4.00% 1 month back.

The study reveals the trend of fluctuating prices of gold in India. The fluctuation has increased in the recent years when compared to the older years. In the Indian market, there is more fluctuation in gold rate than others.

FACTORS INFLUENCING THE GOLD PRICES:

Gold is considered as an investment with high value making it a reliable form of wealth. The actions of the people and the market trends drive the prices of gold. For the prospective gold buyer, it is important to understand the factors which influence the gold prices. This will help the buyer to analyze and invest in gold to direct towards more profit. There are many factors influencing the gold prices but in practice only few factors play the role. Other factors are only speculative. The following are the factors which are influencing gold prices:

- **Economics of supply and demand:**

The economics of supply and demand is applicable to all commodities. If the demand for gold increases suddenly especially in the Indian market and if the supply cannot meet the demand, the prices of gold will increase. Similarly if the supply of gold falls, this will also lead to an increase in the gold prices.

- **Gold and other policies of central banks:**

The banks often invest in gold to hedge against inflation. Their other policies on interest offered on savings will also affect the gold price. The higher interest rates offered on savings by banks will drive the customers to invest more in currency. If the interest rates on savings are low, customers invest in gold and the gold purchase increases.

- **Prevalent social conditions:**

In times of war or any other emergencies, the value of currency is in uncertainty driving the gold prices to increase. Since, one can be sure of value of gold even in such situations, people try to buy more and more of gold pushing up the prices of gold.

- **State of the economy:**

If the economy is in uncertainty with the markets performing in a worse manner like now, people will show more interest to invest in gold thereby resulting in increase in gold prices.

- **Value of US dollar:**

Since the dollar has become the global trading currency, the gold rate has always been in relation with the dollar. Any fall in the value of the dollar will lead to the increase in gold prices.

Acknowledge of the above factors will help an investor to invest wisely. An investor who keeps in mind these factors can invest in gold aiming at profits and preventing any losses.

IMPACT OF FLUCTUATING GOLD PRICES ON INDIAN ECONOMY:

There is very little effect of gold price on the Indian economy. However, the opposite is very true. The fluctuations in the economy affect the gold price in India. The usefulness of gold as an economic indicator is questioned by some, but it is still recognized as a hedge against the US dollar and as some measure of inflation. Traditionally, the price of gold was seen to reflect the monetary inflation. Rising inflation often coincides with a booming economy. A rise in gold prices can at times be attributed to the booming economy.

When the dollar is seen to be on rise, investors move away from gold and invest in currency. This causes the price of gold to drop drastically. Since, dollar is considered a global trading currency, there is a relationship between the value of dollar, Indian rupee and the gold price. Hence, the value of the US dollar in turn affects the fluctuating gold price in India.

The only real and direct effect that gold has on Indian economy is in the mining sector, where individual companies may be under the direct influence of fluctuation in the prices. Gold miners make profit from selling gold. Their profit margins are highly determined by the prevalent gold price in the commodity market.

CONCLUSION:

Gold is an important asset sought by every Indian from a poor farmer to a rich businessman. The gold prices have risen drastically in a span of 2-3years reaching an all-time high of Rs. 29,500 in 2012. It has become unreachable to a common man. If this trend continues, a common man will see gold not as an investment or saving but as an unreachable asset.

Yet as the tradition follows, Indians treat gold as a token of good luck, prosperity and good fortune. No wedding, no festival is complete without gold and jewellery. Though there is a rise, the demand has not come down. The saying "All that glitters is not gold" shows the importance of gold in our society. The rich can afford buying gold even in such situations whereas the poor will not bother about the gold price. It is the common man of the middle class who is suffering from the impact of rise in gold prices. Indian culture and tradition forces him to invest in gold though he cannot actually invest in gold at such high price. Hence, a wise judgement and analysis is necessary in the present day scenario to invest in gold and jewellery. The factors specified in the above article will help an individual to invest wisely in gold and make profits.

Gold is a hedge against all kinds of uncertainties. Gold comes to recue even in the prevailing global and financial uncertainty. However, the government has to take strict measures to control the increasing prices of gold and help investors to overcome the losses due to uncertainties in other markets.

ACKNOWLEDGEMENTS:

This research is conducted in a PhD Article partially funded by Osmania University. I thank Professor Vedula Shekar, T.Sowmya (Asst.Prof) for their guidance and all the study participants for providing their time and insight.

REFERENCES:

1. Article on "Fluctuating gold rate" from www.indiangoldrates.com
2. Article on "Factors affecting the price of gold" from www.indiangoldrates.com
3. Article on "Indian Bullion" from www.getting-positive-karma-now.com
4. Gold rate in India from www.indiagoldrate.com
5. Article on "The importance of gold in Indian culture" from www.articleonlinedirectory.com
6. www.hubpages.com
7. www.commodityonline.com