

A study on Savings and investment in gold by households in India

Nigashetty Ajaykumar Baburao

Part Time Research Scholar, Kousali Institute of Management Studies, Karnatak University, Dharwad

Abstract-The diversification of the financial services sector has provided the individual investor with a wide range of opportunities to invest. Savings are the mantras that any investment advisor will recite. Savings are the difference between the amount investor earns and the amount investor spends. One reason could be that there are certain materials goals that they want to save for. Indian investor's Behavior has been changing drastically in the post-economic reforms era in investment activity, preferences in selecting various financial instruments, evaluating and in analyzing the investment avenues. the current market scenario of high volatile, rapidly changing marketplace, various avenues for investment in gold are creating the confusion among Investors. As per various studies 16,000 tons of gold is there in Indian households predominantly in the form of jeweler. There are various alternatives available for investment in gold through options like jeweler, coins, bullions, ETF, mutual funds, E-gold etc.

Keywords: Gold-based savings, digital gold, household finance, financial inclusion, systematic savings Investment, Investment behavior, rural investor, investment pattern and financial market Socio-economic factors, Savings and Investment, Investment decisions.

1. INTRODUCTION TO GOLD AS AN INVESTMENT

In India, gold is considered a symbol of social status, financial security and cultural legacy. As a financial instrument, investments in gold or gold-backed products are driven by the various functions they perform. For instance, gold performs the dual role of savings as well as collateral for credit that can help households mitigate risks, smoothen consumption as well as raise funds to fulfill important goals such as marriage, education and capital for business. In the last decade, the purchasing value of gold in India has increased sharply by 96% while the total value of gold purchased has risen by a moderate 35%.⁴ This indicates that the demand for gold by Indian households is moderately inelastic.⁵ The strong

preference for gold is also reflected in Indian households' wealth allocation towards this asset. As per the CMIE-CPHS6 2019 data, there is a near universal demand for gold as 99% of households own some form of gold. In terms of share of total wealth, an average Indian household holds 84% of their total : Gold is considered by many, to be the best investment you can make to protect yourself during stock market declines and inflation. In fact, history shows that the performance of gold goes up in times of high inflation. However, the price of gold also has its highs and lows and you could just as easily lose money investing in gold as with any other investment. Factors need to be considering while investing in gold) Forms of buying gold: any investor has to be aware of the different forms of buying gold. Jewellery, the most traditional and the dominant form of buying gold in India and Bank coins, bullion bars, gold exchange trades etc are other forms of investment. (ii) Current income: Gold in any form does not give any current income. The only exception is the dividend option in the gold ETFs. If held in the physical form, there is only outflow of cash for the maintenance of lockers. (iii) Capital appreciation: gold is a very strong bet compared to shares that are highly volatile. The idea for gold investment will be to use it at times when the markets are falling and when the inflation is very high. (iv) Risk: Gold does not carry much risk at least in India, as we hardly see deflation in the real sense. Liquidity: Gold scores the highest in terms of liquidity, compared to all other investments. At any time of the day and any day gold can literally be converted to cash. Banks would give you a jewellery loan (remember though that many banks do not give loans on coins, including their own), and so would your friendly neighborhood pawn shop. (vi) Tax treatment: Gold suffers capital gains tax as per the IT Act. So it is better to ask your jeweller for the bill. Gold does not have any other tax benefits. (vii) Convenience: Gold scores very high here. But with the per gram price

rising, the smallest single investment is becoming higher. 1.1 Various forms of investment in gold: a. Jewellery b. gold bullion bars c. Gold coins d. Gold certifications or deposit scheme e. ETF f. Gold mutual funds g. E-Gold. h. Futures & options

2.LITERATURE REVIEW

According to Ritu and Ankur (2012), the role of gold has increased not only as a store of value but also as an important alternative asset class providing investment benefits. If the returns on bonds, equities and real estate are not adequately compensating for the risk involved and the rate of inflation, then the demand for gold and other alternative investments such as commodities increases.

Nigel Desebrock (2002) holds that in India, while cultural, adornment and other factors influence the purchase of gold jewelry, its parallel role as an investment is also relevant and that demand tends to be sensitive to the movements in the price of gold. He opines that the attitude of owning gold jewelry for 'adornment' and 'investment' purposes are no longer homogenous across the population. Among the urban or rural, rich or poor and young or old, they have started to diverge. This divergence is the outcome of varying rates of economic and social change among the different population groups. Denver Gold Group (2010), report that gold has served three important functions. It assumes the role of a financial asset, held by individual investors as a store of wealth and has proven as a premium portfolio diversifier. It has been a commodity, used primarily in jewelry but also in electronics, dentistry, and many other technological applications. Finally, it has been a monetary asset, used by governments as a reserve asset, as a form of money, and as a backing for their own currencies.

Roche (2010) observes that, when analyzing the price of gold, it is important to understand that gold price do not move like most of the other commodities. It has certain built-in unquantifiable characteristics that drive the price. The price of gold is actually a function of four things: its replacement potential for the U.S dollar, the future rate of inflation, sentiments - generally fear based, and true supply and demand.

3. RESEARCH OBJECTIVE

1)To study the various options available for investors in gold investment.

2) To study the pros and cons of various forms of gold investment.

Advantages of Gold Investment

The demand for gold is always high.

Regardless of the geographical location, gold's value and quantity remain the same.

Gold investment's liquidity is undeniable.

Gold is limited to mining. Therefore, unlike money, not even the government can reproduce it.

It has a global acceptance which enlarges the market beyond boundaries.

Its quantity remains the same. That is regardless of the time since purchase.

Gold doesn't expire.

Expect neither spoilage nor destruction.

As compared to others such as stocks, gold investment is relatively safe.

Drastic price changes are rare.

There is ease of buying and selling especially gold coins.

Gold ownership brings satisfaction and pride.

You can test gold which minimizes fraud.

Both experts and novices can easily indulge in gold investment.

It is an ideal option for investment diversification.

Disadvantages of Gold Investment

Gold has a high risk of theft.

It is a bad idea to consider the gold investment for short-term plans.

Failure to test gold can result in settling for counterfeit.

Buying it needs substantial capital.

For safety, gold's storage, as well as insurance, is expensive.

The future of gold investment is uncertain.

If you settle for the gold ETFs, you may incur brokerage fees.

The profits are irregular.

Its price's increase depends on demand since it has no interest.

Gold investment is not a passive business venture thus you only earn by selling it.

You can only exchange gold for money.

You can incur a loss if you buy it at a relatively high price.

Commissions that gold sellers demand are high too.

The international markets have a significant impact on its price. For instance, the stronger the dollar, the lower the costs.

There are high chances of government interventions.

How Does Gold Investment Affect Indian Economy?

The decline in the value of gold in the recent past has been so rapid that one could be forgiven for comparing it with the recession in Greece. However, Indians' lust for gold is no secret, but it has now reached a point where the nation's economy and its currency are being sacrificed in the bargain as the precious metal has fallen for three straight years.

The purchase of gold from foreign dealers for billions of dollars has resulted in Indian cash being sent overseas and a disruption in the balance funds coming in and going out of the nation, thus bringing down the rupee's value. As a result of the fiasco, key imports have become more expensive and business are beginning to find it increasingly hard to repay international loans.

Credit Score

Gold imports and Current Account Deficit (CAD)

Gold imports directly affect the current account deficit (CAD) of India. As a thumb rule, the larger the CAD with respect to GDP, the riskier it is for the overall economy. The country is presently the largest importer of gold on the planet, consuming one-third of the planet's supply on an annual basis. In fact gold is the second-most purchased overseas commodity after oil. Imports went to such high levels that during the UPA government, then-Finance Minister P. Chidambaram had appealed to Indian consumers to try and resist the temptation to purchase gold as it would have a positive impact on more aspects of the nation's economy than could be emphasised.

While the current account deficit of India has been controlled to some extent by the present NDA government, the main question on the minds of financial and economic experts is whether or not sufficient funds are flowing into the economy to compromise for the difference.

Gold as a means of saving

Gold is looked upon as one of the best options when it comes to security and savings for a good percentage of the 1.24 billion people that reside in India. There may be various reasons as to why gold is treated in high

regard in comparison with other investment instruments, but the fact that India is home to around 6,50,000 villages and only around 36,000 of those have a bank branch tells a whole story altogether. With a large portion of peoples' savings going into gold which they are likely to keel idle until they need the money, the economy is left wanting. This gold doesn't flow in the overall economy and as such does not contribute toward it.

Gold jewelries and the Indian economy

In addition, the cultural importance of gold makes it instrumental in ceremonies such as weddings. And it's not just the villagers who offer gold the amount of significance they do. Even lawyers, bankers, politicians and others purchase gold jewelry during festivals or special occasions. They consider it a fool-proof financial strategy, and since the real estate and capital markets are losing promise off late, the wealthy section of Indian society is now a new class of gold investors on its own. Though the demand for gold has always been high, the past four years have seen the demand turn into an investment and everyone who has the money goes in for gold, thereby adversely affecting the Indian economy.

4. DISCUSSIONS AND RECOMMENDATIONS

The returns generated by gold and other asset classes as of May 2020 over different period are given in the rise of COVID-19 in India, gold as an asset class generated 12% returns while bank deposit generated a negative return of 5.3% and equity markets generated a negative return of 2.9%. However, the findings from the primary research were that investors still preferred to invest in bank deposits rather than in gold instruments.

5. CONCLUSION

For a country with pronounced preference for gold in various forms and its deep-seated cultural inclination towards this asset, India has a thriving jewelry and gold-based financial market. The strong liking for gold is driven by its multiple uses that perform the role of a liquid financial instrument, an adornment, offering agency to women through ownership of this asset and as a tool to hedge inflation in the long run. Despite these factors, there is an incomplete market for

products that offer gold-based micro-savings plan, particularly for low and middle-income households. With products that require lengthy investment tenures and lump sum contribution, low-income households are unable to use these products, given their financial capability and economic status. An innovative gold-based savings scheme that accounts for low-income households' preference and financial circumstances.

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