

IMPACT OF GOLD PRICES ON GDP OF INDIA

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Abstract

India has a fascination with gold, be it for investments, gifts, as a tribute to deities, weddings, or any festive occasion. Gold is a symbol of prosperity, good fortune and has an inherent value that we can't ignore. Before looking at the correlation between gold and the gross domestic product (GDP), it is important to understand what GDP is and the factors that lead to its fluctuation. GDP is the best measure of a country's economy. GDP, in the simplest terms, measures the country's total output, and this includes everything that the country produces. The components of GDP are personal consumption expenditure, business investments, government expenditure and net exports (which refers to exports minus the imports). However the all inclusive acknowledgment, liquidity and place of refuge against financial or political strife makes gold worthwhile, it doesn't enhance the economy. The greater part of the gold purchased by us Indians is utilized for utilization reason as gems. Indeed, even according to the venture viewpoint, larger part of the Indians actually inclines toward the customary approach to holding it in the actual structure. Gold ETFs, which were first presented in quite a while in 2007, saw slow development in the underlying years. Over the recent years, interests in gold ETFs acquired force. Gold over the times has been considered as economic asset especially in India where people feel safer with their investment rather than investing in stock market related investments opportunities hence gold has way more importance and demand

Keywords: Gold ETF, GDP, Liquidity

1. Introduction

In India gold is one of the safest deemed form of investment and having gold in the possession is considered as the status symbol in the country like India and also it needs to understand that gold is the part and parcel of life of Indian citizens almost on every occasion purchasing of gold is considered as to be lucky charm for the family. India is a country where majority of the people belong to middle class families and with the middle class families the major struggle is with earning capacity where maximum families a situation of hand to mouth earning and in case these middle class families find any investment opportunity they turn their heads towards economic assets and gold is the major preference. Also, not only the common households but also the RBI central bank of India keep the gold reserve and for which gold council have underlined few reasons.

1. It is much safer from economy point of view
2. As gold is physical asset provides much safety
3. In case of any uncertain change in monetary system gold can act as backup to safeguard the economic crisis
4. Globally gold has much wider acceptance
5. Loans are easily available using gold as collateral

There are few drivers which affect the behavior of gold and these drivers have been divided into 4 major categories and these categories are as follows.

1. Economic expansion
2. Risk and uncertainty
3. Opportunity cost
4. Momentum

2. Literature Review

Prerana Baber et.al(2013)- The study underlined a point that there are many factors like market conditions, Income level, standard of living etc which affect the gold prices in India and sometimes these factors work as well in the inflation of gold prices in India.

Dr. Partap Singh (2014)- The major finding of this study was investment in gold is the major preference of the investors.

Dr P. Vidhya Priya and Dr. M. Mohanasundari (2014)-The study focused on the point that gold as tool of investment was launched to provide safer channel of investment and should be used in the same manner. And traditionally also Indians used to possess gold to make themselves in safer position.

3. Analysis and Interpretation

Table 1: International Gold Demand (Tonnes)		
Year	Quarter	Demand (Tonnes)
2017-2018	Quarter I	1113.4
	Quarter II	1021.4
	Quarter III	961.7
	Quarter IV	1172.1
2018-2019	Quarter I	984.9
	Quarter II	1040.2
	Quarter III	1082.6
	Quarter IV	1294.2
2019-2020	Quarter I	1070.8
	Quarter II	1140.4
	Quarter III	1104.6
	Quarter IV	1052.5
2020-2021	Quarter I	1083.8

From the table-1 it is very much clear that there is always rising demand of gold in the international market and not only in Indian market but with the introduction of Covid-19 in 2019-2020 there was fall in the demand of gold but with the start of 2021 the demand has also started rising.

Table 2: India 's Gold Demand and Supply

Year	Quarter	Demand (tonnes)	Supply (tonnes)
2017-2018	I	160.8	276.9
	II	202.5	275.5
	III	165.8	177.1
	IV	242.1	246.7
2018-2019	I	151.5	173.7
	II	189.2	227.7
	III	183.2	262
	IV	236.5	189.8
2019-2020	I	159	196.9
	II	213.2	287.9
	III	123.9	122.2
	IV	194.3	170.4
2020-2021	I	101.9	99

Table-2 also gives a point that since the economy has been hit by Covid-19 there has been huge fall in the demand of gold but since the recovery has started the demand has increased but in 2020 the economy started to get hit with inflation and that reduced demand of gold.

Table 3: India's Gold Demand Movement (Tonnes)

Quarter	Year		% of change	Year	% of change	Year	% of change
	2017-2018	2018-2019					
I	160.8	151.5	5.8 ↓	159	4.9 ↑	101.9	35.9 ↓
II	202.5	189.2	6.6 ↓	213.2	12.7 ↑		
III	165.8	183.2	10.5 ↓	123.9	32.3 ↓		
IV	242.1	236.5	2.3 ↓	194.3	17.8 ↓		

Table-3 also states that since the economy has been hit by Covid-19 there has been huge fall in the demand of gold but since the recovery has started the demand has increased but in 2020 the economy started to get hit with inflation and that reduced demand of gold. But here the statistics are in form of percentages.

4. Conclusion

Since the first quarter of 2019, India's GDP growth has been declining, and the first quarter saw few signs of a turnaround. Consumer expenditure on non-essential things decreased in this environment. The iCOVID-19 epidemic in March made this worse. People are being more frugal with their money. According to the analysis, there will be a significant demand for gold in both the Indian and global markets. The COVID-19 epidemic temporarily reduced demand for gold. However, it increases the demand for investment. Further research revealed that its supply and actual prices outweigh its demand and the expected price of gold. In light of this, it is determined that the Covid-19 epidemic has a beneficial impact on investment choices and a negative impact on gold buying habits.

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Annexure

1. Table 1: International Gold Demand (Tonnes)
2. Table 2: India 's Gold Demand and Supply
3. Table 3: India's Gold Demand Movement (Tonnes)