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A study on Trend analysis of Import of Gold by India

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ABSTRACT

India is the largest consumer of gold in the world and largest importer after crude oil.Gold is a major vehicle of saving for large number of low and middle income households in rural and urban areas. India is the most rare country in the world, who do trade of export as well as import of gold at a high level. There has been an almost sustained rise in the international gold prices since 2002, with just one deep correction in 2008 and 2013. As gold is an integral part of savings of a large number of investors, this has raised apprehensions whether any correction in gold prices will have destabilizing implications on the financial markets. As the domestic production of these precious metals is negligible compared to their rising consumption, India has been importing hundreds of tons of gold every year. India is stepping up import of Gold this fiscal due to rising demand for the noble metal. Huge gold imports have put pressure on current account deficit (CAD)which in turn affecting the value of rupee. And in such a situation even Finance Minister recently made request to Indians that they should resist the temptation to buy gold for a year at least as rupee has become very weak against dollar. In this backdrop, the paper makes an attempt to analyze the trend of import of gold by India from various countries like U.K.,U.S.A, China, U.A.E, Afghanistan. The present research is secondary data based and five years data were taken to comprehend the trend of import of gold from various countries.

INTRODUCTION

In India, gold is as much a thing to be possessed as it is a concept. The word 'gold' in the ancient texts has wide meaning and connotations, ranging from the mundane to the sublime. In the Sanskrit language there are at least seven synonyms for gold, viz.Swarna, Suvarna, Hiranya, Kanak, Kanchan, Hem and Ashtapada. Gold in India serves many functions and wearing it has several implications.India has been the largest consumer of gold jewellery in recent times, and during 2008, the consumption was estimated to be 501 tonnes accounting for 23% of world demand (Exhibit 8). The main reason for demand for gold has been the traditions and cultures in India, which gives a lot of importance to gold as a gift in marriages or other functions and also the need for gold, as an investment. For the purpose of purchase of gold ornaments, from reputed jewellers and/or gold coins, many financiers have introduced financing schemes. The customer can purchase ornaments or gold coins under these financing schemes and pay back in installments.

International gold prices had risen almost unabatedly in the last few years, though there was one large correction in 2008 and then recently in 2013. From July 2011 the pace of increase in gold prices has, however, accelerated further and in the third quarter of 2011, gold prices rose much faster. The spurt in gold prices which occurred in 2011 took place in the background of worsening of financial and economic scenarios initially in the US, followed by the debt problems in the European Countries. As a result of these adverse global developments and "flight to quality", gold is emerging as a "safe" asset for investment purposes. The impact of the rise in international gold prices till March 2013 was reflected in its domestic prices as well. Despite the sharp recent price rise, in India, demand for gold has sustained, not only as a component of safe savings but also due to its social and cultural importance. Therefore, movements in gold prices in India are of keen interest to all segments of the society including investors. From the policy perspective, gold's price rise has raised a concern as to whether a future crash in gold prices would have financial stability implications? "The story of gold has a deeper message, one that has none of the transitory qualities of what one choose to use as money. Seen in this broader sense, the story of gold has no ending."

In much of Asia, the Middle East, and the Indian subcontinent, gold is the best possible protection against upheaval, both political and economic. For men and women throughout the developing world, gold is still one of the most liquid and widely accepted forms of exchange, quite simply the most efficient store of value they possess. As we know that India's domestic production of gold is very limited, the rising demand has to be sourced from outside the country. Moreover, Gold as a commodity on its own does not add much to the productive capacity of the economy. When one buys gold, it either is stored in lockers or gets converted into jewellery. In both the cases, money spent on purchasing gold gets blocked since gold is not a productive asset. There are certain qualities of gold that make it a desirable investment option. One of them is the ability of gold to insure against instability and protect against risk.

India imports most of its gold requirement. Moreover, the foreign exchange reserve that is used to import gold reduces the availability of this resource to finance the import of other commodities. Such high value of gold imports has now started hurting India's current account position.

Gold's share in total import bill of the country has gone up from 8.1 per cent in 2001-02 to 9.6 per cent in 2010-11.

Annual Rate of Gold Imports growth in the last three years was very high. In 2008-09 the growth was 23.0 percent, in 2009-10 it was 38.1 per cent and in 2010-11 the recorded growth stood at 18.3 per cent. Thus the average rate of growth during this period was 26.8 percent. Although the global financial conditions prevailing during this period were volatile yet such high levels of gold imports indicates India's obsession with gold.

ASSOCHAM projections for gold imports suggest that:The projected Gold Import figures under two different conditions would be:
Scenario 1- Gold import bill would be US $ 100 billion by 2015-16
Scenario 2 - Gold import should reach US $ 65.4 billion in 2015-16

In terms of percentage share of gold and silver combined were the 2nd most imported commodity in 2010-11. Whereas comparatively the import share of other key industrial raw materials such as Coal, Coke, Iron and Steel is much lower in the total import bill of the country.

India accounts for nearly one-third of the total world demand for gold.

Indian consumer demand for gold is 37.6 per cent more than that of China.

Whereas in terms of GDP, India's GDP is just 27.7 percent of China and a meager 11.0 percent of USA.

India's forex reserves are 8.81 percent of China's forex reserves yet its gold demand is more than that of China by 37.6 percent.

India's gold imports were higher than the twelve states GSDP in the year 2010-11.

Gold import value for the year 2010-11 was higher than the budget estimated expenditure on Urban Development, Housing, Family Welfare for the year 2010-11 .

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Thus there is an urgent need to encourage the substitution of gold purchases with alternatives in the formal financial sector which shall also help in increasing the productive capacity of the economy.

Table 1

Gold Imports - US Dollars (US $ million)

Year	Gold Import	Total Import	Percentage Share
2001-02	4170.4	51413.3	8.1
2002-03	3844.9	61412.1	6.3
2003-04	6516.9	78149.1	8.3
2004-05	10537.7	111517.4	9.4
2005-06	10830.5	149166	7.3
2006-07	14461.9	185735.2	7.8
2007-08	16723.6	251439.2	6.7
2008-09	20725.6	298833.9	6.9
2009-10	28640.1	288372.9	9.9
2010-11	33875.8	352574.9	9.6

Source: RBI
Data for 2009-10 are revised
Data for 2010-11 are provisional

Table 2

Comparison of Gold import with GDP at current price
(US $ Billion)

	Gold Import Bill	Gross Domestic product
1999-00	4.2	450.5
2000-01	4.1	460.2
2001-02	4.2	477.8
2002-03	3.8	507.2
2003-04	6.5	599.5
2004-05	10.5	661.3
2005-06	10.8	765.6
2006-07	14.5	872.8
2007-08	16.7	1138.5
2008-09	20.7	1150.2
2009-10	28.6	1293.5
2010-11	33.9	1603.2
2011-12	41.0*	1796.2#
2012-13	49.6*	2056.6#
2013-14	62.6*	2354.8#

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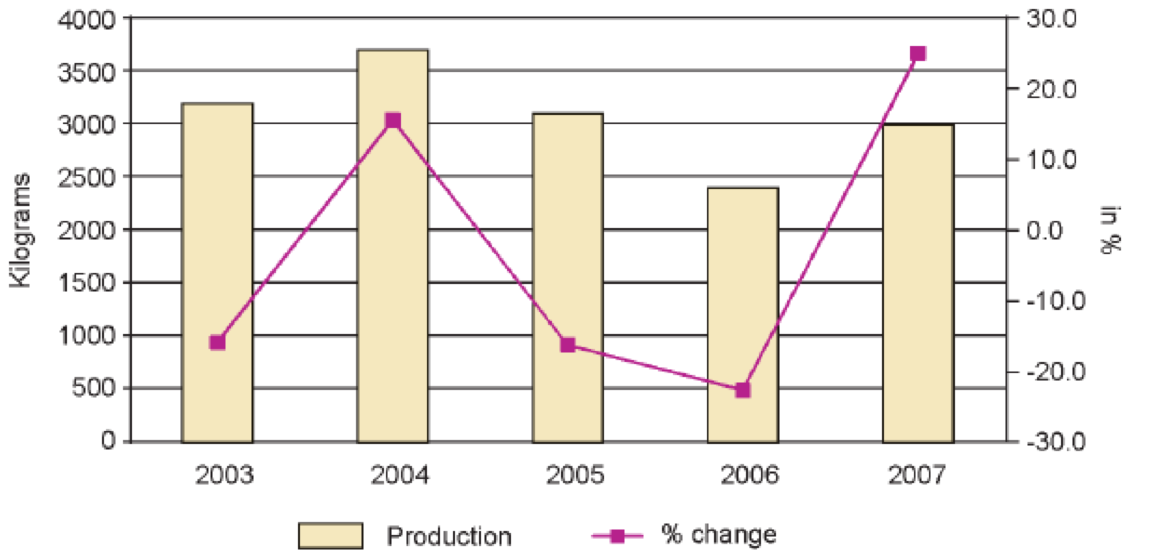
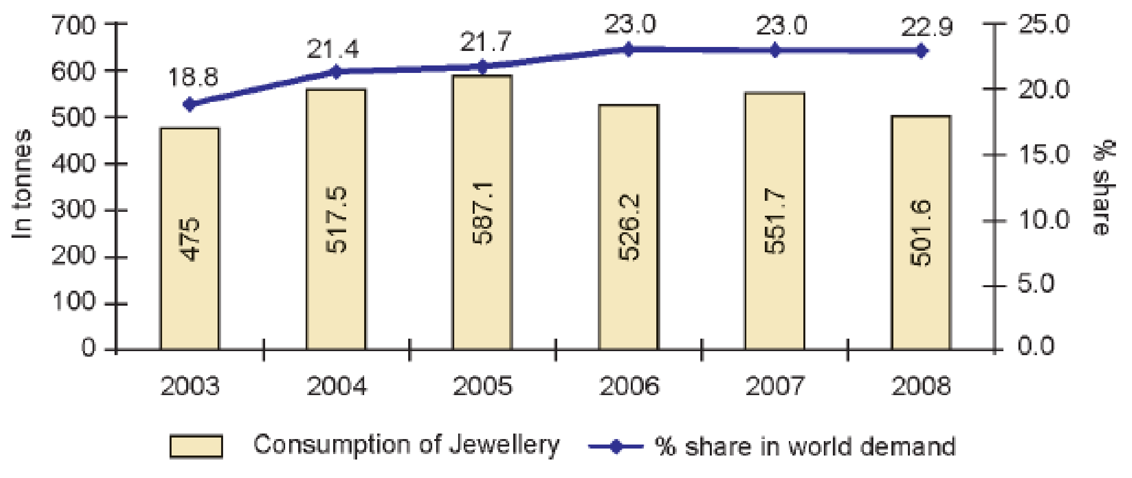
Exhibit 7:
PRODUCTION OF GOLD IN INDIA



SOURCE: USGS Minerals Yearbook 2006 & 2007

Exhibit 8:
INDIA'S SHARE IN WORLD CONSUMPTION OF GOLD JEWELLERY



SOURCE: World Gold Council

GOLD Demand Fell In India during 2012:

Table 3
Consumer's Gold Demand vis-à-vis GDP

	Consumer demand in selected countries 12 month ended Q3'11* (Tonnes)			GDP 2010-11 (US $ Trillion)
	Jewellery	Total bar and coin invest	Total	
India	649.9	409.1	1059	1.6
China	508.9	260.8	769.7	5.9
Russia	70	-	70	1.5
USA	119.3	94.2	213.5	14.8
UK	25.2	-	25.2	2.2
World Total	**2018.2**	**1409.2**	**3427.4**	

Source: Consumer Demand Figures taken from Gold Demand Trends Third Quarter 2011, World Gold Council, figures are provisional
GDP figures taken from UNCTAD, GDP figures for 2010-11 are provisional

LITERATURE REVIEW

According to the world gold council:

As of 2010, it was estimated that approximately 168,300 tonnes of gold has been mined over the course of human history. Fifty percent of above ground stocks exist in jewellery form. Gold used in technological applications, dentistry and other forms of fabrication accounts for an additional 12%. However, it is more common to estimate the size of the *financial* or *investable* gold market by looking at private investment and official sector bullion holdings, which are considered to be in near-market form. Together, these two components account for approximately 36% of all above ground gold stocks or approximately 60,400 tonnes of gold. Using the 2010 average price of gold of US$1,224.52/oz, the size of *financial* gold holdings is equivalent to US$2.4tn.

To put that into context, the gold market is larger than any single European sovereign debt market, yet it is no-one's liability. The gold market is even comparable to the size of U.S. government-guaranteed debt (US$2.7tn), otherwise known as the agency market. By comparison, above-ground silver stocks represent a smaller market. Industry estimates suggest that identified silver bullion stocks by the end of 2009 were around 31,000 tonnes.Even with a conservative assumption that the actual amount of silver available to the market in terms of bars

and coins is twice as large, at an average price of US$20.25/oz for 2010, the size of the financial silver market would be equivalent to $40.5bn dollars (less than 2% of the financial gold market). Furthermore, as of 2009, total above ground stock estimates for copper and platinum were a much smaller US$7.6bn and US$3.5bn respectively.

According to the Reserve Bank of India:

Gold has been perceived as 'safe haven' especially during periods of financial and economic stress. A 'safe haven' can broadly be defined as an asset that protects investors' wealth against financial turmoil. Therefore, an asset with a stable real value or, at least a stable nominal value is an uncontroversial safe haven, as it allows its holder to resell it without loss at any time (Coudert & Raymond, 2010). Viewed from this aspect, gold possess almost all characteristics essential to be classified as a safe haven. During the last decade, volatility of gold prices has been higher than that of sovereign bond markets but lower than riskier assets like equities and other commodities. There is some empirical evidence that gold could be a hedge even against stocks, though only in the short run (Baur and Lucey, 2010).The process of financialisation of commodities has led to a far greater interest in gold as an alternative asset. Investors take confidence in high liquidity through daily trading in gold, which exceeds that of any sovereign’s bond market with the exception of US treasuries. The rising share of Bars and Coins and ETFs in total demand is a sign of the financialisation of the commodity.

Global gold demand in Q1 2012 was 1,097.6 tonnes (t), down 5% from the high demand levels seen in Q1 2011 (1,150.7t), according to the World Gold Council's Gold Demand Trends report. This decrease was largely because of expected introduction of import taxes in India and high gold prices. Gold demand value however, showed a 16% increase year on year to an estimated US$59.7 billion. The average price of gold for the quarter was US$1,690.57, 22% higher than the average for Q1 2011. Demand for the quarter was underpinned by increased demand in China, continued central bank purchasing and inflows into exchange-traded funds (ETFs).China's investment and jewellery demand reached 255.2t up 10% on the previous year's levels. Investment demand recorded strong growth with a quarterly record of 98.6t, up 13% from Q1 2011, demonstrating investors' continued need to preserve wealth amidst ongoing concerns over inflation. Jewellery demand in China also increased significantly to 156.6t, accounting for 30% of global jewellery demand making China the largest jewellery market for the third consecutive quarter.

Gold demand in India was affected in Q1 2012 by a number of factors; a new tax on gold jewellery, two increases in the import duty for gold and weakness and volatility in the rupee. Jewellery demand fell 19% to 152.0t from Q1 2011. Investment demand was down 46% from the previous year at 55.6t. In May, the government withdrew the new tax on jewellery and the market is already responding positively. Central banks across the globe continued the now established trend of net purchasing with demand in Q1 2012 reaching 80.8t. Demand was driven by Eastern Europe with Russia and Kazakhstan adding to their holdings and accounting for a substantial amount of the purchasing. Mexico's central bank made the largest single purchase of 16.8t. The main driver for this demand by emerging market central banks is the need to diversify their holdings.

First quarter demand for ETFs and similar products totalled 51.4t, equivalent to a value of US$2.8bn; in stark contrast to the first quarter of 2011, when the sector witnessed net outflows. Marcus Grubb, Managing Director, Investment at the world Gold Council said, "China and India have seen continuing economic growth and whilst China's economy is expected to slow, it will nonetheless surpass the rates of growth in the West. As it was previously forecasted it is likely China will become the largest source of demand for gold in 2012.This growth story also extends to other emerging market economies and is reinforced by central banks' continued buying of gold, as a diversifier and a preserver of national wealth. The current picture of the gold market is diverse and not withstanding a flight into US dollars and treasuries near term, it is believed that the fundamental reasons for investing in gold today remain very strong and compelling".

QUIET PROGRESS

For the last 20 years, world gold council has shown India’s annual gold consumption fluctuating from 400 tons to 800 tons. Estimated Indian gold reserves at 25,000 to 30,000 tons are double of the next largest country- the USA with 14,000 tons. India has 20% of the world population and 20% the worlds above the ground gold.

High Levels of Gold Imports, Is it Sustainable?

In the above section, it was examined Gold Import trends since Import Liberalization between 1999-00 to 2010-11. Thereafter it was to estimate Gold import trends under two projection scenarios. Scenario I: where it was assumed that Gold Imports will continue in the same compound annual growth rate as latest twelve years from 1999-00 to 2010-11. For Scenario II, we assume Gold import share in GDP to remain constant at 2010-11 level.

Scenario I: Worst case of Gold import

Gold import has been calculated on the basis of compound annual growth rate of period 2010-11 over 1999-00. CAGR for the period calculated 21.02 per cent on the basis of the Gold import calculated from 2011-12 to 2015-16 and GDP projected figure has been used from 12th plan draft report. For this scenario, assuming the gold import bill increases on the basis of CAGR rate the Gold import bill will be approximately US $ 100 billion by 2015-16. Please refer Table 8.

According to The Hindu

With demand being robust due to fall in gold prices, India's import of the yellow metal in April-June 2013 period is expected to touch a record level at 300-400 tonnes, according to the World Gold Council (WGC).Unprecedented levels of demand in the last quarter owing to lower gold prices have led to depletion of stocks in a number of key markets. Jewellery shops in China and India have run low or in some cases completely out of stock, it said. "In India, imports of gold are headed towards record levels in Q2 of 2013. It is anticipated that 300-400 tonnes of imports in the second quarter, as much as a 200 per cent year-on-year increase and almost half of total imports last year," the WGC said in its market update for the second quarter of this year.

The country had imported only 153 tonnes of gold in the same period in 2012 calendar year as demand was lower because of record prices at that time. Global gold prices have dropped sharply in mid-April from USD 1,535.5/ ounce to USD 1,390/ounce, it added. Despite the price fall in April, the WGC's research indicates that sentiment towards gold in the two largest markets is still extremely positive, with 70 per cent of consumers in India and China anticipating a stable or increasing price in the next 12 months. "Purchasing behaviour has been extremely strong, which indicates sustained demand over 2013 as a whole. While it is expected volumes will return to more normal levels, the momentum created in demand in Q1 and thus far in Q2 is likely to continue," it observed.

Noting that the outlook for the remainder of 2013 is even more positive, the WGC said, "We anticipate record quarterly totals for the second quarter in India and China. Even if ETF (electronically traded funds) outflows continue, it is quite likely that gold previously held in the ETFs will find its way to Asian consumers taking a long-term view on gold."During the first quarter (January-March) of this year, there was very strong demand in the consumer markets for bars, coins and jewellery, the report said. "Purchases in India, China and the US were particularly strong. Consumer reaction to lower prices in the quarter was very positive and led to records being set in Chinese demand and in jewellery demand worldwide," it said. In India, consumers have flooded into the market, viewing the lower prices very much as a buying opportunity, with a sudden rise in jewellery sales reported from retailers across the nation. This was echoed in re-stocking by jewellers ahead of Akshaya Tritiya on May 13, it added. Gold imports from India, the world's largest consumer, are expected to increase to 900 tonnes in the current calendar year as against 860 tonnes in 2012.

OBJECTIVE OF THE STUDY:

- TO STUDY THE IMPORT OF GOLD FROM INDIA.

Research Methodology:

a.) The study

It was an exploratory study to analyze the trend of import of gold by India from various countries and also to develop suggestions for importers.

Exploratory study

The study is an exploratory research is a preliminary phase and is absolutely essential in order to obtain a proper definition of problem at hand .exploratory study can be used to establish priorities in studying the competing explanations of the phenomenon.

- In formulating a problem for more precise investigation or for developing hypotheses.
- For establishing priorities for further research.
- Gathering information about the practical problems for carrying out research on particular conjectural statements.

b.) The Tools

Tools for data collection –The secondary data was used as a source of data collection. The various data collection sources used for study were websites , search engines, books and journals.

Tools for data analysis- The collected data was analyzed through the trend analysis. Trend Analysis is the analysis, which shows the actual trend of the product on the basis of actual trend values.Through the trend analysis one can determine the values and can plan according to the trend whether it is increasing or decreasing

Sales Values (in lakhs)
Import of Gold

Year	U.K.	USA	Afganistan	China	UAE
2006-07	1888929.92	5310541.44	15613.31	7900860.72	3917494.34
2007-08	1994151.94	8462542.31	43976.2	10911607.1	5423319.3
2008-09	2676770.8	8481827.99	59245.85	14760559.5	10592643.31
2009-10	2112542.8	8058432.69	59040.37	14604861.2	9179885.04
2010-11	2456169.4	9135850.32	66202.4	19807907.6	14912337.84

TREND ANALYSIS

Trend Value of Import of Gold from UK
(Value in Rs. Lacs)

Year	Value	Trend Value
2006-07	1888929.92	1975139.01
2007-08	1994151.94	2100425.99
2008-09	2676770.80	2225712.97
2009-10	2112542.80	2350999.95
2010-11	2456169.40	2476286.94
2011-12	.	2601573.92
2012-13	.	2726860.90
2013-14	.	2852147.88
2014-15	.	2977434.86
2015-16	.	3102721.85

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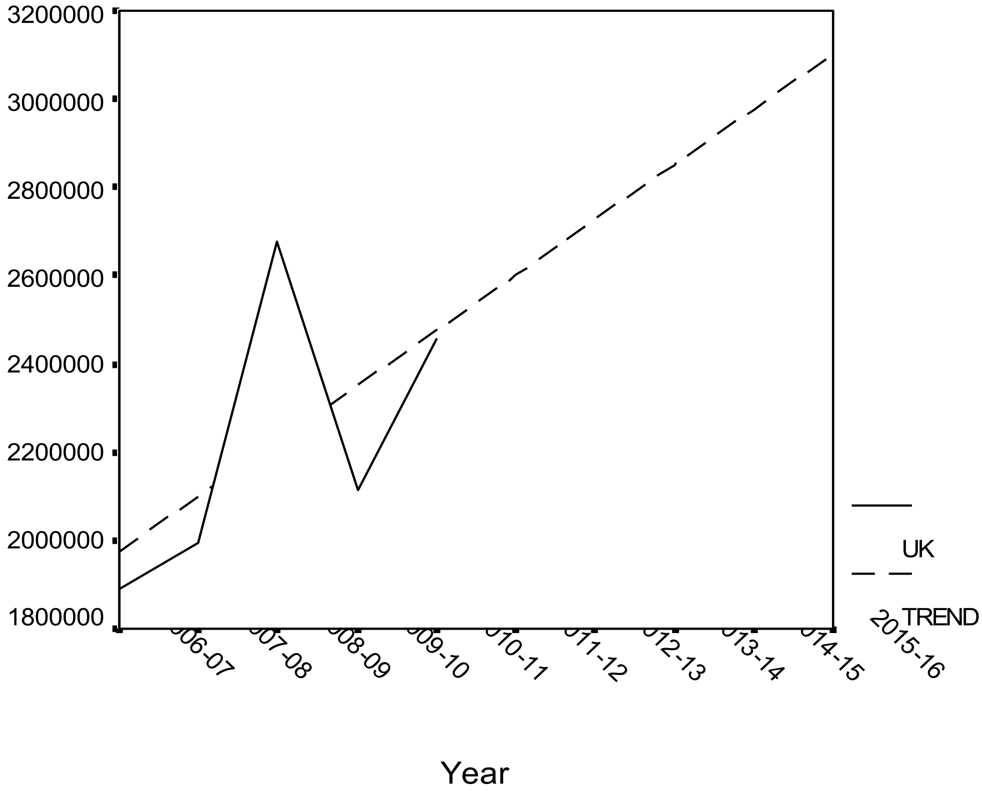

Graph 1 Shows Trend of Import of Gold from U.K

As it is clearly shown in the graph that the import of gold are on increasing trend from U.K . in the year 2007-08, it increased at a high rate and in the year 2009-10 it decreased rapidly. Investment and jewellery demand from Indian consumers plummeted 38% to 181.3 tonnes in the second quarter of 2012. Buying was hit by a hike in import duties and record-high local prices due to a weak rupee but it was on a different track as compared to the other countries. Here the imports have increased and as well as decreased periodically. It can also be noticed that the higher decrement has given a little increase. As the trend line assures that the imports will incline in the future years though recently the imports will rise up gradually.

<u>Trend Value of Import of Gold from USA</u>
(Value in Rs. Lacs)

Year	Value	Trend Value
2006-07	5310541.44	6440537.32
2007-08	8462542.31	7165188.14
2008-09	8481827.99	7889838.95
2009-10	8058432.69	8614489.76
2010-11	9135850.32	9339140.58
2011-12	.	10063791.39
2012-13	.	10788442.21
2013-14	.	11513093.02
2014-15	.	12237743.83
2015-16	.	12962394.65

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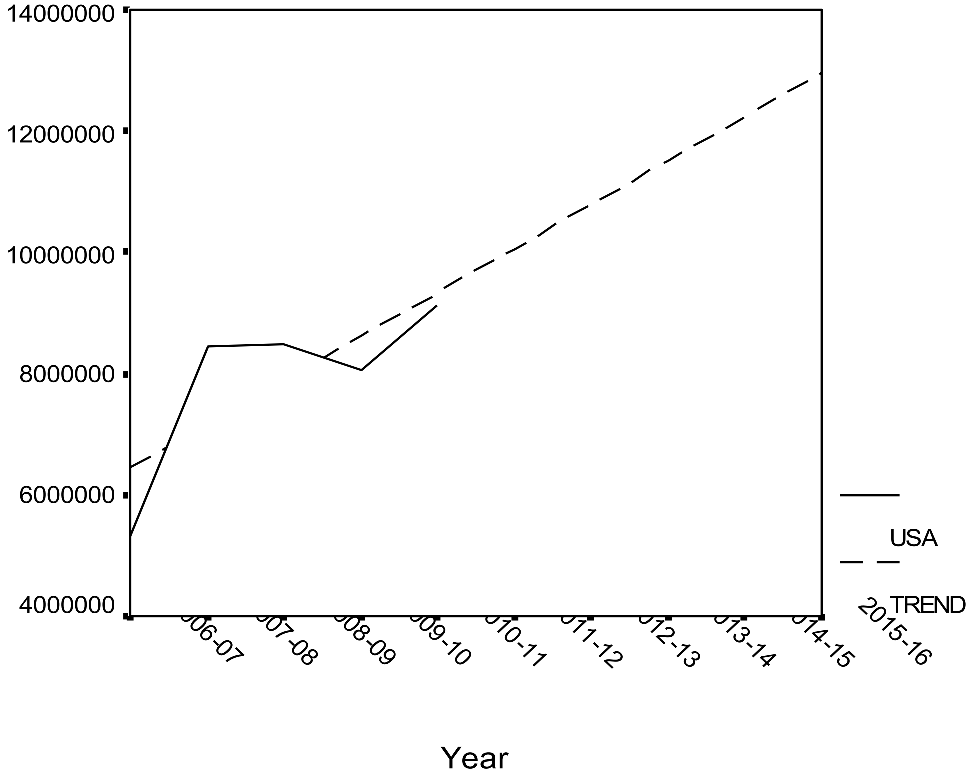

Graph 2 Shows Trend of Import of Gold from U.S.A.

As it is clearly shown in the graph that the import of gold are on increasing trend from USA. "Gold imports in the previous year (2010-11) was USD 40 billion. India imported $39.5 billion of gold in first nine months of this. The increase of USD 20 billion is partly attributable to high level of inflation. If USD 20 billion excluded, which was considered to be an excess, then the current account deficit(CAD) would have come to moderate levels (last year), India saw USD 60 billion worth of gold imports last year and the situation partly contributed to high CAD levels.

Trend Value of Import of Gold from Afghanistan
(Value in Rs. Lacs)

Year	Value	Trend Value
2006-07	15613.31	25567.16
2007-08	43976.20	37191.39
2008-09	59245.85	48815.63
2009-10	59040.37	60439.86
2010-11	66202.40	72064.10
2011-12	.	83688.33
2012-13	.	95312.57
2013-14	.	106936.80
2014-15	.	118561.04
2015-16	.	130185.27

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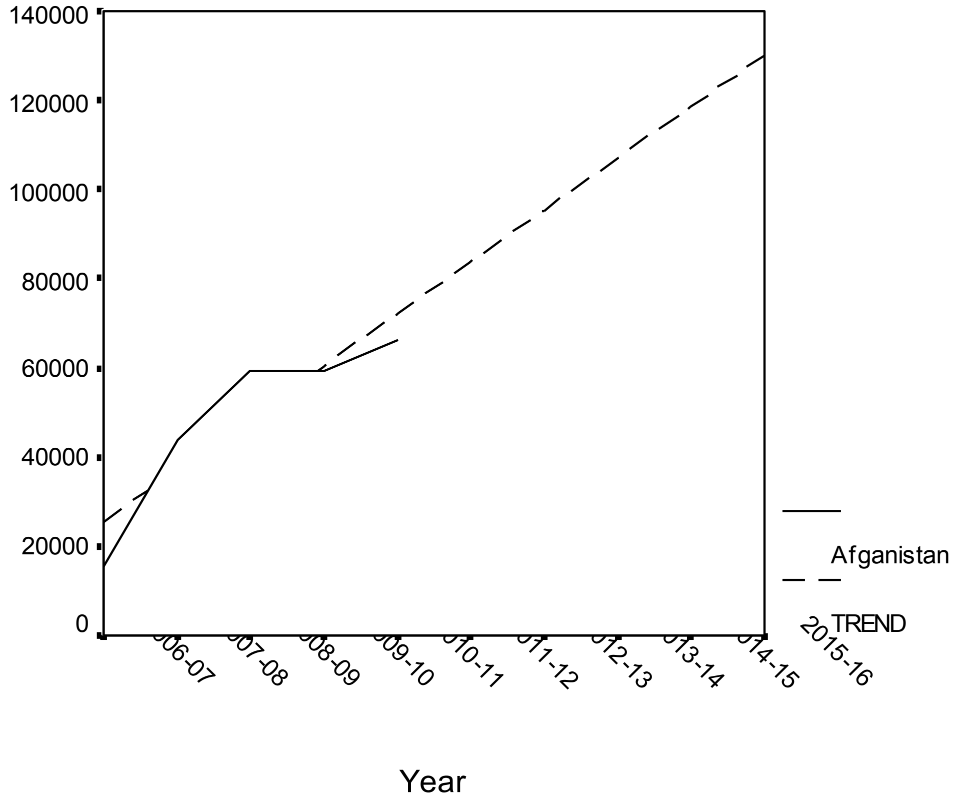
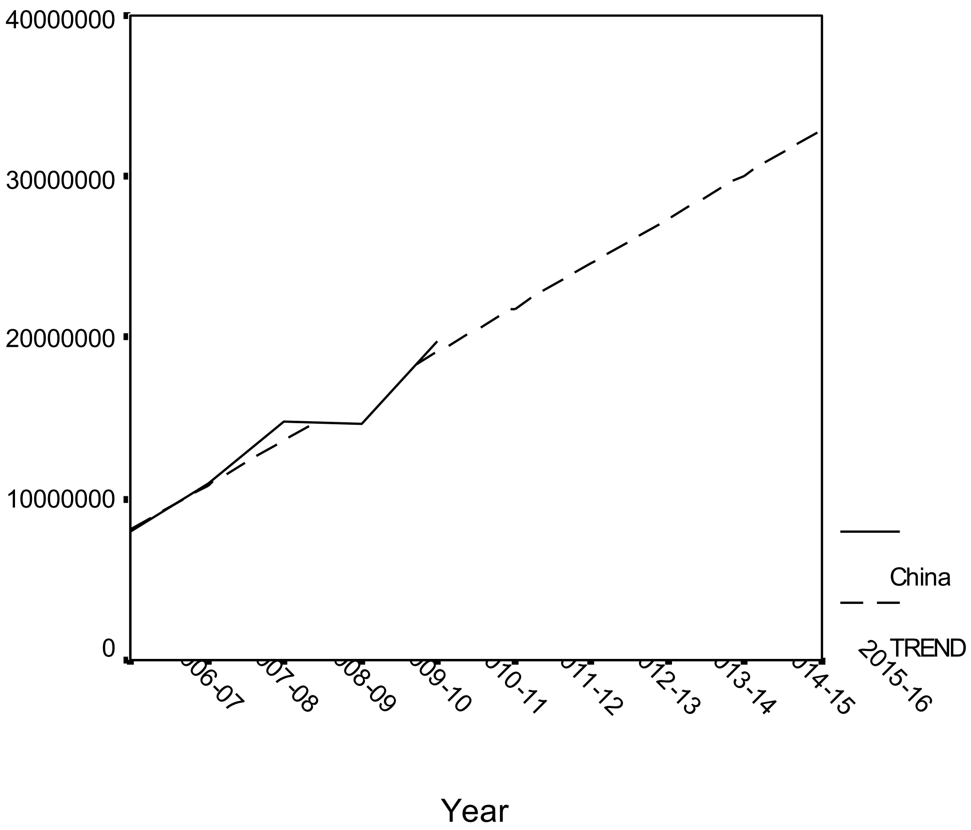


Graph 3 Shows Trend of Import of Gold from Afganistan

From the graph, it is clear that the imports of gold from Afghanistan by India are also increasing in mass. In the year 2006-07 it had a high increase in imports. During the year 2009-10 the imports were stable neither high nor low. But after that in the year 2010-11 it increased normally. The trend for importing gold began modestly, and received little attention. But in 2011 this growing trend started to get noticed. On an average, where the trend is considered, it is a increasing trend and the imports of gold will further increase.

Trend Value of Import of Gold from China
(Value in Rs. Lacs)

Year	Value	Trend Value
2006-07	7900860.72	8095689.66
2007-08	10911607.12	10846424.44
2008-09	14760559.50	13597159.22
2009-10	14604861.20	16347894.00
2010-11	19807907.58	19098628.78
2011-12	.	21849363.56
2012-13	.	24600098.34
2013-14	.	27350833.12
2014-15	.	30101567.90
2015-16	.	32852302.68

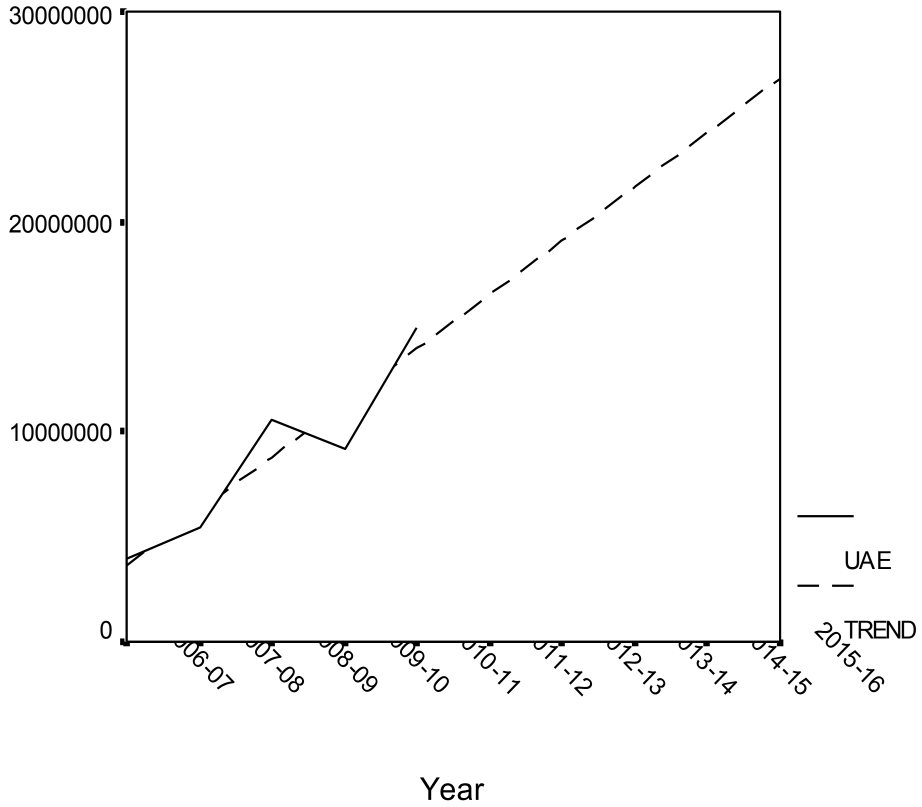


Graph 4 Shows Trend of Import of Gold from China

India's import of the gold from china has consistently increased for the years. The demand has increased consistently till 2008-09 period but after this it has increased drastically in further years. The ability of China to sustain Gold exports is impressive," said HSBC, "considering the economy is showing signs that growth is cooling and income growth is moderating then too good exports were observed." India imported 104 tons of Gold from Hong Kong in April, a loss of 65 percent over March imports. This increased demand can be a result of industrialization of jewellery industry in India. In the year 2008-09 the imports remained stable and just after that in the year 2010-11 it increased at a high level.

Trend Value of Import of Gold from UAE
(Value in Rs. Lacs)

Year	Value	Trend Value
2006-07	3917494.34	3655885.42
2007-08	5423319.30	6230510.69
2008-09	10592643.31	8805135.97
2009-10	9179885.04	11379761.24
2010-11	14912337.84	13954386.51
2011-12	.	16529011.79
2012-13	.	19103637.06
2013-14	.	21678262.34
2014-15	.	24252887.61
2015-16	.	26827512.88



Graph 5 Shows Trend of Import of Gold from U.A.E.

U.A.E. is on a different track as compared to the other countries. Here the imports have increased and as well as decreased periodically. It can also be noticed that the little decrement has given a huge increase. In year 2009-10 period the imports decreased normally. A tonne of gold costed approximately $40 million. Merchants estimated that the minimum loss of fake gold imported by local traders is nothing less than $200 million imported. But in the year 2010-11 it again increased rapidly. As the trend line assures that the imports will incline in the future years though recently the imports will rise up gradually.

Future Trends

What is the likely demand trend for the future? Given the fact that gold demand is income-elastic, it would be safe to assume that demand will increase over the next decade. Also presently as the gold prices have come down. Interestingly, serious work on assessing demand for gold has been going on in India for some years now. Since gifting gold jewellery at the time of marriage constitutes the major component of demand, a ball-park estimate could be made on the basis of the number of marriages that take place annually. On the assumption of around 8 million marriages per year, and on the basis of another set of assumptions regarding gold required for marriage by families of different income groups, one arrives at a figure of little over 900 tonnes.
Although this approach is appealing, one obvious difficulty in equating gold requirement with gold purchase demand arises out of the fact that it is common practice among families in India to begin accumulation of gold required for the marriage of a female child right after her birth. Nevertheless, such estimates provide some insight into this complex process.It is true that gold is facing strong and growing competition from other investments and savings vehicles. With the spread of banking, even in rural areas, which absorb about 70% of gold consumption, there is anecdotal evidence that suggests that Indian families are increasingly opting for bank deposits and gold shares as alternative items for

gifts at the time of marriage. Recent empirical studies (Vaidyanathan, A, Economic & Political Weekly, February 20, 1999) have established that the price of domestic gold in relation to share prices is emerging as an important determinant of import for gold.

Implications of the study:

A) For Indian gold exporters and importers from India

The study would help the gold importers in identifying demand of gold in the country and trend of import of gold from various countries. It will help to know about global competitors, it would help them in knowing the reasons behind the increase and decrease of imports from various countries. At last it will also help them in understanding the current scenario of gold industry and future trends.

b) For researchers

The study being exploratory in nature highlights some areas where researchers can carry on further study to understand the trend of import of gold. Also whether any correction in gold prices will have destabilising implications on the financial markets.

c) For government

The study would also be beneficial for government; it will help them in identifying reasons behind rise in Indian gold imports from various countries and to know current situation and future trends of gold.

d) For students

Students, who are interested in exploring about gold, can know current scenario of and market potential of various countries with future trends.

Conclusion

The India-gold love affair is now facing a close scrutiny from the government. The budget has doubled, import duty on bullion and non-standard gold to 4% and 10%, respectively, and slapped a 1% cess on unbranded jewellery. FM's message is clear: reduce gold's allure and head off Indians to other investments. For, too much gold is a drag on India's economy.But the result of research shows inclining trend of import of gold from various countries.

While gold does fit within the definition of a commodity – an economic good, which is valued and useful and has little or no difference in composition or quality regardless of the place of production – its market dynamics and the sheer diversity of its application make it distinct from other commodities. Gold has a unique performance profile in terms of returns, volatility and correlation, and these characteristics combine to produce in gold a very different reaction to economic and financial variables relative to other commodities in periods of expansion and recession alike. Commodities other than gold can also be considered luxury goods or be used in technological applications. Some are basic goods used in everyday life, others are also used as inflation hedges or to protect against currency devaluation, and all of them in general provide some degree of diversification to an investor's portfolio. However, gold can be regarded as different precisely because it performs all such functions. Over time, gold's performance follows a different path from other commodities. Gold's information ratio (a measure of return per unit of risk) over the past 20 years has been one of the highest. Moreover, the VaR for a position in gold, which measures the maximum expected loss in a given period of time with a certain degree of confidence, is one of the smallest among all commodities and even with respect to the already diversified commodity indices.

Data generating process of international gold prices in the post 2003 period has gained complexities and exhibit non-linear characterization perhaps owing to the emergence of new economic centres such as China and India, which have a significant impact on the demand for gold. In the post 2003 period, variability in the international gold prices in the long-run horizon though continued to be affected by the international commodity prices but the same does not exhibit any influence in the short-run. During this period, short-run variability in the international gold prices is largely caused in response to the volatility in the US exchange rate and mildly by the volatility in the international equity prices. This leads to the inference that in the short-run, gold is “debasing” US dollar and equity, though investors still hold gold as a “hedge” against inflation with a long-term perspective.

Observation from above trends and India’s gold rush spooked the economy again as frantic purchases of gold in April 2013 widened the trade deficit to a disturbing $17.8 billion, but people queued up to buy even more coins and ornaments setting the stage for an even bigger gap between exports and imports. The sharp fall in gold prices in April 2013 unleashed pent-up demand in India, hoisting the import bill for bullion to $7.5 billion in April 2013,up from a relatively modest $3.5 billion in the same month a year ago. Acceleration in gold imports contribute to the current account deficit, which is the biggest concern for Indian economy and spark worry. Though government tried to curb India’s appetite for gold with import duties and central bank also took initiative by imposing restriction on import of metal but Indian buyers did not care. The sudden surge in demand has prompted the World council to forecast that India’s imports this year will exceed earlier estimates of 865-965 tonnes. The figures still provide a bad indication for Indian economy by observing robust appetite for yellow metal. According to Chidambaram if people of India don't buy gold for one year (June 2013-June 2014) the whole situation can dramatically change. If they can resist temptation to buy gold for six months or one year, it will dramatically change the situation of current account deficit.. And positive impact will be seen on its every other index that measures the economy- stock market, exchange rates, interest rates.

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