

## Should RBI allow Indian banks to buy back gold?

Indians have been always allured to Gold. From centuries Indians are buying gold either in the form of jewellery, coins, bars or other assets. According to World Gold Council, India is the largest consumer of gold, accounting for 22% of the world jewellery market and 35% of the retail investment demand valued at Rs.2.2 trillion in 2011, growing at compounded annual growth rate of 4.7% since 1992.



## Why India is biggest consumer of gold?

- 1. Provides hedge against inflation:** Gold is considered as a safest investment alternative even during the times of financial distress. It provides a hedge against inflation since its real value remains stable over a period of time. During financial year 2011-2012 only gold gave a compound annual return of 36%.
- 2. Huge social value:** Gold has a huge social value as traditionally it is purchased during marriages and social customs in India.
- 3. Limited investment avenues available in rural area:** As per Cognizant survey of Indian Gold loan market, 2012 rural India accounts for around 65% of total gold stock as there are limited investment avenues available in rural and semi-urban areas to meet exigencies.
- 4. Emotional Value:** Indian household typically have an emotional attachment and sense of personal belonging to gold they own. Household contribute around 80% of the demand and estimated around 25,000 tonnes of gold is held by Indian household.
- 5. Highly liquid asset:** From consumer point of view Gold is seen as a highly liquid asset. It protects the savers wealth given the persistent and sharp rise in gold prices.

By

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