INDIAN STREAMS RESEARCH JOURNAL
ISSN NO : 2230-7850
IMPACT FACTOR : 5.1651 (UIF)
VOLUME - 15 | ISSUE - 11 | DECEMBER – 2025

FLUCTUATIONS IN GOLD PRICES AND THEIR IMPACT ON THE INDIAN ECONOMY: A CRITICAL ANALYSIS

Dr. Shanthakumari KHG
Associate Professor,
Sri Sri Shivalingeswara Govt First College and PG center, Channagiri, Karanataka.

ABSTRACT:

Gold has traditionally occupied an important position in the Indian economy because of its cultural significance, use in jewellery, role as a household asset and importance as an investment instrument. In recent years, fluctuations in domestic and international gold prices have become increasingly significant for macroeconomic policy. Gold prices are influenced by several factors, including international economic conditions, inflation expectations, interest rates, geopolitical uncertainty, exchange-rate movements, central-bank demand and investor behaviour. In India, these effects are amplified because the country relies heavily on imported gold to satisfy domestic demand. Consequently, an increase in gold prices can influence household consumption, savings behaviour, imports, the trade balance, the current account, the exchange rate and domestic investment. At the same time, rising gold prices can benefit households holding gold, gold-financing companies, jewellery businesses and investors. This paper critically examines the causes of gold-price fluctuations and their economic effects in India. It analyses the relationship between gold prices and household demand, imports, exchange rates, inflation, investment and financial stability. The study uses secondary data from the Government of India, Reserve Bank of India, World Gold Council and other published sources. The analysis suggests that gold-price movements have both positive and negative effects. While higher prices can increase household wealth and investment returns, persistent price increases can reduce jewellery affordability and increase the rupee value of India's gold import bill. The paper concludes that gold should be viewed not merely as a commodity but as an important component of India's financial, external and household economic system.

KEYWORDS: *Gold Price, Gold Demand, Inflation, Exchange Rate, Gold Imports, Current Account, Investment, Indian Economy.*

INTRODUCTION:

Gold has occupied a unique position in the Indian economy for centuries. It is used not only as jewellery but also as a form of saving, investment and wealth preservation. Gold is associated with weddings, festivals and social traditions and is therefore deeply integrated into household financial decisions.

From an economic perspective, gold is different from many ordinary commodities. It functions simultaneously as a **consumption good, investment asset, store of value and financial collateral**. Consequently, changes in its price can have effects extending beyond the gold market itself.

The international price of gold is determined largely by global financial and economic conditions. Domestic gold prices in India are additionally influenced by the exchange rate of the rupee, import duties, domestic taxes, transportation costs and local market conditions.

India's dependence on imported gold is particularly important. The World Gold Council has noted that India has very limited domestic mine production and relies heavily on imports to meet domestic demand.

Therefore, fluctuations in gold prices can affect India's **import expenditure and balance of payments**. Research on India has found a significant relationship between gold prices and exchange rates and has highlighted the implications of gold imports for the current account and the rupee.

The importance of gold has become even more evident during periods of economic uncertainty. When investors face uncertainty in equity markets, inflation or geopolitical instability, gold can become more attractive as a safe-haven asset. This can increase demand and push prices higher.

At the same time, rising gold prices do not necessarily result in an equivalent decline in Indian demand. Gold demand is influenced by income, cultural preferences, investment motives and expectations about future prices. World Gold Council research estimates that, over the long term, a 1% increase in the rupee gold price reduces gold demand by approximately 0.4%, while a 1% increase in per-capita gross national income increases demand by approximately 0.9%.

This demonstrates that India's gold market cannot be understood solely through the law of demand and supply.

STATEMENT OF THE PROBLEM

Gold prices have experienced substantial fluctuations over the past several years. These fluctuations have important implications for India because of the country's large gold market and dependence on imports.

A sustained increase in gold prices creates contradictory economic effects.

On the one hand:

- Existing gold holders experience capital gains.
- Investors may benefit from higher returns.
- Gold-backed lenders may experience increased collateral values.
- The value of household wealth increases.

On the other hand:

- Jewellery becomes less affordable.
- Gold imports can become more expensive in rupee terms.
- The trade deficit can increase.
- Pressure may emerge on the exchange rate.
- Household savings may move towards gold rather than productive financial assets.

Therefore, the central problem addressed by this study is:

How do fluctuations in gold prices affect different sectors of the Indian economy, and what are their implications for economic growth and macroeconomic stability?

OBJECTIVES OF THE STUDY

The major objectives are:

1. To examine the causes of fluctuations in gold prices.
2. To analyse the relationship between international and domestic gold prices.
3. To study the impact of gold-price fluctuations on Indian households.
4. To examine the impact on gold imports.
5. To analyse the effects on inflation and consumption.
6. To examine the implications for the jewellery sector.
7. To suggest policy measures for managing the economic consequences of gold-price fluctuations.

RESEARCH QUESTIONS

The study attempts to answer the following questions:

1. What are the major factors responsible for fluctuations in gold prices?
2. Why are Indian gold prices affected by international gold prices?
3. How do changes in gold prices influence Indian gold demand?
4. Do higher gold prices reduce gold imports?
5. How do gold-price movements affect the Indian rupee?
6. What is the impact of gold-price fluctuations on household savings?
7. How do gold-price fluctuations affect investment and financial stability?
8. What policy measures can reduce the adverse macroeconomic effects of excessive gold imports?

Hypotheses

The following hypotheses may be tested in future empirical research:

H_{01}:
Gold-price fluctuations have no significant impact on India's gold import demand.
H_1:
Gold-price fluctuations have a significant impact on India's gold import demand.
H_2:
Gold-price fluctuations have no significant relationship with the exchange rate of the Indian rupee.
H_2:
Gold-price fluctuations have a significant relationship with the exchange rate of the Indian rupee.
H_3:
Gold-price fluctuations have no significant impact on household investment behaviour.
H_3:
Gold-price fluctuations significantly influence household investment behaviour.

RESEARCH METHODOLOGY

The study is **descriptive and analytical** in nature.

Nature of Data

The study uses secondary data from:

- Government of India
- Ministry of Commerce and Industry
- Reserve Bank of India
- World Gold Council
- International gold-market publications
- Academic research papers
- Published economic studies

The World Gold Council provides extensive information on Indian gold demand, prices, imports and investment behaviour.

Period of Analysis

The principal discussion focuses on recent developments, particularly the period **2021–2025**, while earlier evidence is used where necessary to explain long-term relationships.

Methods

The study uses:

- Trend analysis
- Comparative analysis
- Descriptive statistics
- Economic interpretation
- Review of previous studies

Meaning of Gold-Price Fluctuation

Gold-price fluctuation refers to changes in the market price of gold over time.
Prices can move:

- Upward
- Downward
- Rapidly
- Gradually
- Temporarily
- Over a long-term trend

Gold prices are normally quoted internationally in US dollars. Therefore, Indian consumers are affected by two major variables:

International gold price + Rupee–US dollar exchange rate

A simplified relationship can be expressed as:
Domestic Gold Price ≈ International Gold Price × Exchange Rate + Taxes and Other Costs
Therefore, even if the international price remains unchanged, depreciation of the rupee can increase India's domestic gold price.

Major Causes of Gold-Price Fluctuations

Inflation

Gold is commonly regarded as a hedge against inflation.
When consumers and investors expect the purchasing power of money to decline, they may increase their demand for gold.
Higher inflation expectations can therefore contribute to increased gold demand.

Interest Rates

Gold does not generate interest or dividends.
Therefore, when interest rates are high, financial assets such as deposits and bonds may become more attractive relative to gold.
Conversely, lower interest rates can reduce the opportunity cost of holding gold.
This can increase investment demand.

US Dollar Movements

Gold is internationally priced in US dollars.
There is often an inverse relationship between the US dollar and international gold prices.
When the dollar weakens, gold can become relatively more attractive to international investors.
India is also affected through the exchange rate because domestic gold prices depend partly on the rupee-dollar exchange rate.

Geopolitical Uncertainty

Wars, political conflicts, financial crises and international tensions can increase demand for gold as a safe-haven asset.
During periods of uncertainty, investors may move money away from riskier assets towards gold.
This can produce sudden increases in gold prices.

Central-Bank Demand

Central banks hold gold as part of their international reserves.
In recent years, central-bank gold purchases have become an important factor supporting global gold demand. The increased role of gold in official reserves can influence global market sentiment and prices.

Investment Demand

Gold demand is increasingly influenced by investment products such as:

- Gold bars
- Gold coins
- Gold exchange-traded funds
- Gold-backed financial products

Recent Indian market evidence shows that investment demand can remain strong even when high prices reduce jewellery demand.

Gold Prices and Indian Household Demand

Gold has a special position in Indian households.
Gold is purchased for:

- Weddings
- Festivals
- Religious ceremonies
- Savings
- Investment
- Emergency financial needs
- Intergenerational wealth transfer

An increase in gold prices produces two opposing effects.

Substitution effect

Higher prices reduce affordability, particularly for middle- and lower-income households.
This can reduce the quantity of jewellery purchased.

Wealth effect

Existing gold owners become wealthier when gold prices rise.
This may encourage some households to sell or pledge gold to obtain funds.
Therefore, the overall effect on demand depends on income, expectations and the purpose for which gold is purchased.
World Gold Council research indicates that income is a particularly important long-term determinant of Indian gold demand.

Impact on Gold Imports

India's limited domestic gold production means that domestic demand is largely met through imports.
This creates a major macroeconomic channel through which gold-price fluctuations affect the economy.
When international gold prices rise, the cost of importing a given quantity of gold increases.
The effect can be represented as:

Higher Gold Price → Higher Import Bill → Wider Trade Deficit → Possible Pressure on Current Account

This does not mean that every increase in gold prices automatically worsens the current account. Import quantities may decline when prices rise. However, India's strong structural demand for gold means that the adjustment can be incomplete.
Academic research has highlighted the importance of gold imports for India's balance of payments and current account.

Gold Prices and the Indian Rupee

The relationship between gold prices and the exchange rate is complex.
India imports most of its gold.

When the domestic demand for imported gold increases substantially, the demand for foreign currency can also increase.
This can place pressure on the rupee.
A weaker rupee, in turn, increases the domestic price of imported gold.
Therefore, a feedback mechanism can emerge:

Higher Gold Demand → Higher Gold Imports → Greater Foreign Exchange Demand → Rupee Pressure → Higher Domestic Gold Price

Research on India's gold market has identified a significant relationship between gold prices and exchange rates.

Impact on Current Account

The current account records transactions relating to goods, services, income and transfers between India and the rest of the world.
Gold imports are included in merchandise imports.
Therefore, large gold imports can contribute to India's trade deficit.
A sustained increase in gold prices can raise the value of imports even when the physical quantity imported remains unchanged.
This creates an important policy concern.
However, it is necessary to distinguish between:

- price effects,
- quantity effects, and
- exchange-rate effects.

A high gold price may reduce physical demand but still increase the total rupee value of imports.

Impact on Inflation

Gold prices can affect inflation through several channels.
First, gold is included in household consumption and investment behaviour.
Second, higher gold prices can increase the cost of jewellery.
Third, higher import prices can contribute to imported inflation when the rupee is weak.
However, gold is not a major direct determinant of India's overall consumer inflation. Its more important macroeconomic effects operate through imports, exchange rates, household wealth and financial behaviour.

Impact on Household Savings

Gold is one of the traditional forms of household saving in India.
When gold prices increase strongly, households may become more interested in gold as an investment.
This can create both positive and negative consequences.

Positive effects

- Wealth preservation
- Portfolio diversification
- Protection against currency depreciation
- Potential capital appreciation

Negative effects

Excessive investment in physical gold can divert household savings from:

- Bank deposits
- Bonds
- Equity

- Mutual funds
- Productive investment

Thus, the economic effect depends on whether gold complements or substitutes for productive financial investment.

Impact on the Jewellery Industry

The jewellery sector is directly affected by gold prices.
When prices rise rapidly:

- Jewellery becomes more expensive.
- Consumers may reduce the quantity purchased.
- Consumers may exchange old jewellery.
- Lightweight jewellery may become more popular.
- Investment-oriented purchases may increase.

Therefore, high gold prices can reduce physical jewellery volumes while increasing the monetary value of sales.
Recent World Gold Council data illustrate this distinction: despite very high prices, Indian jewellery spending has remained substantial even when jewellery volumes weakened.
This distinction between **volume demand and value demand** is important for analysing the Indian gold market.

Gold as an Investment Asset

Gold is increasingly regarded as an alternative investment asset.
Investment channels include:

1. Physical gold
2. Gold coins
3. Gold bars
4. Gold ETFs
5. Sovereign Gold Bonds
6. Other gold-linked financial instruments

The development of financial gold products can reduce some of the disadvantages associated with physical gold storage and improve transparency.
Recent evidence indicates that investment demand has become increasingly important in India. In the first quarter of 2026, for example, investment demand rose strongly even as jewellery volumes faced pressure from high prices.
This demonstrates that rising gold prices can change the **composition of gold demand**, not simply its total quantity.

Gold and Financial Stability

Gold also has implications for financial stability.
Gold is widely used as collateral for loans.
When gold prices increase:

- The value of collateral increases.
- Borrowers can potentially obtain larger loans.
- Gold-financing companies may benefit.
- Household liquidity may improve.

However, rapid declines in gold prices can reduce collateral values and increase financial stress for borrowers who have pledged gold.
Thus, gold-price volatility can create both opportunities and risks for financial institutions.

Gold and Rural Economy

Gold has particular importance in rural India.
Rural households may purchase gold when agricultural incomes are strong and use it as a store of wealth.
Gold can also serve as an emergency financial asset.
During periods of financial stress, households may pledge gold to obtain loans.
Therefore, gold-price increases can increase household wealth on paper, while gold-price decreases can reduce the value of collateral.
The relationship between gold and rural household finance is therefore important for inclusive financial policy.

Positive Effects of Rising Gold Prices

Rising gold prices are not entirely harmful to the Indian economy.
They can produce several positive effects.

19.1 Increase in Household Wealth
People already holding gold experience capital gains.

19.2 Higher Returns for Investors
Gold investors can earn substantial returns when prices rise.

19.3 Benefit to Gold-Backed Lending
Higher collateral values can support gold-backed credit.

Support for Gold Recycling
High prices can encourage households to sell old jewellery and increase recycling.

Increased Financial Market Participation
Higher prices may encourage investors to use gold ETFs and other formal financial products.

Negative Effects of Rising Gold Prices

However, persistent gold-price increases can also create macroeconomic problems.

Higher Import Bill
India's dependence on imported gold means that higher prices can increase import expenditure.

Pressure on Trade Balance
Large gold imports can increase the merchandise trade deficit.

Pressure on the Rupee
Higher foreign-exchange demand for imports can contribute to exchange-rate pressure.

Reduced Jewellery Affordability
Middle-income households may postpone or reduce purchases.

Diversion of Savings
Excessive investment in gold may reduce the resources available for productive financial investment.

Risk of Informal Imports
Very high import duties combined with strong demand can create incentives for unofficial imports. The World Gold Council has noted the relationship between high import duties and incentives for unofficial gold flows.

Gold Price Fluctuations: A Conceptual Framework

The relationship can be represented as follows:

Global Economic Uncertainty
Higher Investment Demand for Gold
Higher International Gold Price
Higher Indian Domestic Gold Price
Changes in Jewellery and Investment Demand
Changes in Gold Imports
Impact on Trade Balance and Current Account

Possible Exchange-Rate Effects
Feedback into Domestic Gold Prices
This demonstrates that gold prices interact with several components of the Indian economy rather than operating in isolation.

Critical Analysis
The impact of gold-price fluctuations on India is neither entirely positive nor entirely negative.
The effect depends on the direction and duration of the price movement.
A moderate increase in gold prices can increase household wealth and provide attractive investment returns.
However, extremely rapid increases can create affordability problems and increase the rupee value of imports.
Similarly, a decline in gold prices may benefit consumers and reduce import costs but can reduce the wealth of existing gold holders and the value of gold pledged as collateral.
Another important observation is that Indian gold demand is not determined by price alone.
Income, culture, weddings, festivals, investment expectations and economic uncertainty all influence demand.
World Gold Council research indicates that income growth can have a stronger long-term effect on gold demand than price changes.
This explains why gold demand can remain resilient even when prices are extremely high.

Policy Implications
The Government of India and the Reserve Bank of India need to consider several factors when designing gold-related policies.

Encourage Financial Gold
Financial products such as ETFs can provide exposure to gold without requiring households to hold large quantities of physical gold.

Strengthen Gold Recycling
A developed recycling market can reduce India's dependence on imported gold.

Improve Import Policy
Gold import duties should balance three objectives:
- Revenue generation
- Import management
- Prevention of smuggling

Excessively high duties may encourage unofficial imports.

23.4 Promote Financial Literacy
Households should understand the risks and returns associated with gold compared with other financial assets.

23.5 Improve Data Collection
Better data on household gold holdings, recycling, imports and informal trade would improve policymaking.

MAJOR FINDINGS
The major findings of the study are:
1. Gold has a unique economic and cultural role in India.
2. International gold prices strongly influence domestic Indian gold prices.
3. The rupee-dollar exchange rate is an important determinant of domestic gold prices.
4. Inflation and economic uncertainty can increase gold demand.
5. Gold-price increases have both wealth and affordability effects.

6. India's dependence on imported gold makes gold-price movements relevant to the balance of payments.
7. Higher gold prices can increase the rupee value of the gold import bill.
8. Gold demand does not respond to price alone.
9. Income growth and investment motives are important determinants of demand.
10. Higher prices can reduce jewellery volumes while increasing the monetary value of purchases.
11. Gold can provide portfolio diversification and a hedge against uncertainty.
12. Excessive physical gold accumulation may divert household savings from productive financial assets.
13. Gold-price changes affect the value of collateral for gold-backed loans.