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## RISING PRICE OF GOLD IN INDIA: CAUSES AND CONSEQUENCES

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### **ABSTRACT:**

*The economic ramifications of escalating gold prices in India have emerged as a significant issue, impacting not only personal wealth but also the overall macroeconomic equilibrium. Gold holds a prominent place in Indian culture, often regarded as a reliable store of value and a safeguard against inflation, which makes its price variations critical for consumer behavior and investment approaches. This paper investigates the factors contributing to the increase in gold prices, including global economic elements such as currency fluctuations, inflation rates, geopolitical tensions, and imbalances in supply and demand. Additionally, domestic influences such as India's reliance on gold imports, evolving consumer preferences, and government policies are also crucial. The implications of these rising prices are complex. On the one hand, increased gold prices can enhance the wealth of gold owners, potentially boosting consumption and investment in other areas. On the other hand, they may lead to inflationary pressures, diminish disposable income, and raise living costs, particularly for lower-income groups who depend on gold as a primary savings method. Moreover, the rising expenses associated with gold ;wd, imports further strain India's current account deficit, affecting the stability of the Indian Rupee and its foreign exchange reserves.*

**KEYWORDS** –Gold, investment, India, Market, supply

## INTRODUCTION

Gold has historically been regarded as a representation of wealth and stability in India, playing a vital role in the nation's cultural, social, and economic spheres. It serves as a key asset for investment, savings, and a safeguard

against inflation, which makes variations in gold prices of considerable economic significance. Recently, the increase in gold prices has attracted considerable attention, as its impact reverberates across different sectors of the Indian economy. The factors driving the rise in gold prices in India are complex, involving both domestic and international elements. Global economic instability, concerns about inflation, and geopolitical conflicts frequently lead investors to seek gold as a secure investment. On the domestic front, the weakening of the rupee, heightened demand for gold during festive seasons, and the country's reliance on imports further exert upward pressure on prices. Moreover, speculative trading, fluctuations in the stock market, and regulatory measures such as import duties can intensify price volatility.

### **GOLD RATES HISTORICAL DATA FOR INDIA**

The historical trend of gold prices in India has experienced notable variations over the years. During the early 1990s, gold prices remained relatively stable, fluctuating between ₹400 and ₹600 per gram. However, the 2000s marked a significant rise, especially following the global financial crisis of 2008, when prices surged to over ₹2,000 per gram by 2010. The subsequent decade saw a continued upward trajectory, with gold prices reaching unprecedented levels, peaking at ₹5,000 to ₹6,000 per gram in 2019. The onset of the COVID-19 pandemic in 2020 further propelled prices, surpassing the ₹5,000 to ₹6,000 range. As of 2025, gold prices have stabilized between ₹5,000 and ₹6,500 per gram, shaped by global economic conditions, inflationary pressures, and geopolitical uncertainties. A detailed overview of the Historical Gold Rate Trend in India from 1964 to 2025 is presented in Table 1.

<b>Year</b>	<b>Price (24 Carat per 10 grams)</b>
1964	Rs.63.25
1965	Rs.71.75
1966	Rs.83.75
1967	Rs.102.50
1968	Rs.162.00
1969	Rs.176.00
1970	Rs.184.00
1971	Rs.193.00
1972	Rs.202.00

1973	Rs.278.50
1974	Rs.506.00
1975	Rs.540.00
1976	Rs.432.00
1977	Rs.486.00
1978	Rs.685.00
1979	Rs.937.00
1980	Rs.1,330.00
1981	Rs.1670.00
1982	Rs.1,645.00
1983	Rs.1,800.00
1984	Rs.1,970.00
1985	Rs.2,130.00
1986	Rs.2,140.00
1987	Rs.2,570.00
1988	Rs.3,130.00
1989	Rs.3,140.00
1990	Rs.3,200.00
1991	Rs.3,466.00
1992	Rs.4,334.00
1993	Rs.4,140.00
1994	Rs.4,598.00
1995	Rs.4,680.00
1996	Rs.5,160.00
1997	Rs.4,725.00
1998	Rs.4,045.00

1999	Rs.4,234.00
2000	Rs.4,400.00
2001	Rs.4,300.00
2002	Rs.4,990.00
2003	Rs.5,600.00
2004	Rs.5,850.00
2005	Rs.7,000.00
2007	Rs.10,800.00
2008	Rs.12,500.00
2009	Rs.14,500.00
2010	Rs.18,500.00
2011	Rs.26,400.00
2012	Rs.31,050.00
2013	Rs.29,600.00
2014	Rs.28,006.50
2015	Rs.26,343.50
2016	Rs.28,623.50
2017	Rs.29,667.50
2018	Rs.31,438.00
2019	Rs.35,220.00
2020	Rs.48,651.00
2021	Rs.48,720.00
2022	Rs.52,670.00
2023	Rs.65,330.00
2024	Rs.77,913.00
2025 (Till Today)	Rs.79,200.00

Source : <https://www.bankbazaar.com/gold-rate/gold-rate-trend-in-india.html>.

The information presented in Table 1 illustrates that the historical trend of gold prices from 1964 to 2024 exhibits notable fluctuations, influenced by a variety of economic factors such as inflation, government policies, geopolitical events, and global market dynamics. From 1964 to 1976, the price of gold experienced a consistent rise, increasing from Rs. 63.25 per 10 grams to Rs. 432, likely as a result of early inflation and shifts in the global economy. In the period between 1976 and 1980, the price escalated dramatically from Rs. 432 to Rs. 1,330, propelled by oil price shocks and widespread inflationary pressures. During these economic uncertainties, gold served as a safe haven, underscoring its function as a hedge against instability. The price fluctuations during this time reflect the global economic turmoil, including the disintegration of the Bretton Woods system. From 1980 to 1992, gold prices continued to rise steadily from Rs. 1,330 to Rs. 4,334, characterized by moderate growth amid controlled inflation despite ongoing economic challenges. Between 1992 and 2000, the price stabilized within the range of Rs. 4,334 to Rs. 4,400, indicative of India's economic reforms, liberalization efforts, and diminished inflationary pressures during that era.

Between 2000 and 2008, the price of gold experienced a significant increase, rising from Rs. 4,400 to Rs. 12,500. This surge was primarily influenced by the global financial crisis of 2008, which prompted investors to seek gold as a secure investment. From 2008 to 2012, the upward trend continued, with prices climbing to Rs. 31,050, driven by economic instability, the Eurozone debt crisis, concerns over global inflation, and heightened demand in India for both cultural and investment reasons. The period from 2012 to 2020 saw gold prices escalate from Rs. 31,050 to Rs. 48,651, propelled by geopolitical conflicts, trade disputes, and economic uncertainty. Between 2020 and 2024, prices soared to Rs. 77,913, influenced by the COVID-19 pandemic, expansive monetary policies, and inflation, which further enhanced gold's status as a safe haven. Gold has consistently served as a dependable hedge against inflation, with its value appreciating over time, particularly during economic downturns. Significant events such as the oil crisis of the 1970s, the financial crash of 2008, and the COVID-19 pandemic have solidified its reputation as a safe haven asset. In India, cultural traditions surrounding weddings and religious events, along with increased wealth following the economic liberalization of the 1990s, have contributed to robust domestic demand for gold. The consistent rise in gold prices makes it an appealing long-term investment, particularly in the face of stock market fluctuations. Overall, the historical price trajectory of gold underscores its durability and intrinsic value, especially in times of uncertainty.

## HOW GOLD PRICE IS VALUATED IN INDIA?

**Gold Supply** - The availability of gold in its natural state has become limited, with only a few countries possessing substantial reserves. Consequently, the supply of new gold is not stable and fluctuates over time,

necessitating management of the existing market quantity. Price fluctuations can occur rapidly if there are changes in the demand-supply dynamics, making these factors crucial in determining gold rates in India.

**Import Duties** - India's natural gold reserves are diminishing, and the country's gold production has significantly decreased compared to previous years. As a result, the majority of gold utilized in India is imported, which makes import duties a critical element in establishing gold prices within the nation. Elevated import duties are likely to drive prices up, while lower duties may have the opposite effect.

**US Dollar Influence** - The pricing of gold is significantly influenced by the performance of the US dollar, with an inverse relationship between gold prices and dollar values. This correlation exists because gold is traded globally, and the US dollar serves as the dominant international currency. Any fluctuations in the United States are likely to affect gold prices, either directly or indirectly. Given that a large portion of gold consumed in India is imported, domestic prices are also swayed by international market trends.

**Impact of International Relations** - The state of international relations among countries can affect gold prices, as geopolitical tensions can lead to price increases. For instance, if the United States experiences strained relations with a major gold-producing nation, the resulting supply constraints could influence gold prices. The easing of sanctions and the overall state of global relations are vital in determining gold rates, particularly since gold is often viewed as a hedge against geopolitical uncertainties.

## WHO DETERMINES GOLD PRICES IN INDIA?

Gold prices in India are determined largely through an informal process, as there is no "kingmaker" as such in the Indian gold industry. International prices do have a bearing on gold rates in India, though the rates might not be the exact same as they are internationally. The Indian Bullion Jewellers Association or the IBJA as it is known plays a key role in determining day to day gold rates in the country. IBJA members include the biggest gold dealers in the country, who have a collective hand in establishing prices. These members account for almost the entire legal gold sold and purchased in India, and come from all corners of this diverse nation. Gold in India is primarily imported by banks, who in turn supply this imported gold to bullion dealers across India. Banks supply this gold to dealers after adding their fee to it, which already makes them a bit higher than the rate at which gold was imported.

The IBJA then gets into the act of determining prices by speaking to the ten biggest gold dealers in the country. These dealers give their respective 'buy' and 'sell' quotes, depending on the rate at which they purchased gold.

IBJA then takes the average of these 'buy' and 'sell' quotes and determines the gold rate for a particular day based on this average. This average rate is adjusted for local taxes and a rate fixed accordingly.

Dealers generally arrive at their 'buy' and 'sell' rates by taking the international cost of gold and multiplying/adjusting it to the exchange value of the Rupee and adding any import duties and taxes such as VAT. Dealers ensure that they add their margin to the rates they give, keeping in mind their requirements. This procedure ensures that gold rates in India are on par with international trends and customers can purchase gold without any worry of being cheated with regards to gold rates.

## CONSEQUENCES OF RISING GOLD PRICES

**Inflationary Pressures:** Increased gold prices frequently indicate heightened inflation expectations, which can intensify domestic inflation.

**Impact on Consumer Spending:** Gold plays a crucial role in household savings and expenditures. Elevated prices may redirect funds from other consumer goods and services, thereby affecting overall consumption levels.

**Investment Shifts:** Rising gold prices may draw more investments into the gold market, potentially at the cost of other asset classes such as real estate, equities, or bonds.

**Balance of Payments:** Given that India is a significant importer of gold, surging gold prices lead to a higher import bill, adversely impacting the trade balance and the overall current account deficit.

**Economic Growth:** A substantial portion of savings in India is allocated to gold. Increased gold prices may diminish disposable income, which could slow investment in other sectors and potentially hinder economic growth.

## HOW IS GOLD AN ASSET?

In times of uncertainty, gold stands out as a highly sought-after investment. The global interest in precious metals has consistently risen year after year.

Since 2001, gold has appreciated at an approximate annual rate of 15%. The financial crisis of 2008-2009 highlighted the metal's unique characteristics, prompting a renewed emphasis on effective risk management strategies.

The fluctuating pace of economic growth has led institutional investors to consider this asset, which offers long-term returns. Additionally, gold acts as a diversifier, helping to cushion losses during periods of stock market instability.

As a highly liquid asset, gold proves invaluable during challenging times. It serves as a safeguard against inflation and currency devaluation. Furthermore, the metal tends to perform well when equities and bonds decline in value.

India, known for its deep-rooted affinity for gold, ranks second in global consumption. The metal is not only a lucrative investment but also a symbol of luxury. Over the years, its value has surged significantly, establishing it as one of the safest investment options available.

## CONCLUSION

The increase in gold prices in India is a multifaceted issue influenced by a combination of global and local factors. Changes in the international economy, including concerns about inflation, varying currency values, and geopolitical tensions, have heightened the demand for gold as a secure investment option. On the domestic front, cultural preferences for gold, speculative buying, and the rising incomes of the middle class have further fueled this demand. The implications for India's economy are complex: while gold acts as a means of preserving wealth, it also places pressure on household savings and alters consumer spending habits. The surge in prices contributes to inflationary trends, particularly affecting the import costs, as India is a significant gold importer. From a broader economic standpoint, elevated gold prices may lead to a decline in investments in other areas such as stocks or real estate, potentially hindering economic diversification. Additionally, this situation could worsen the current account deficit due to India's dependence on gold imports. The imbalance between supply and demand, exacerbated by limitations in global mining output and increasing consumption, may further drive up prices in the long run.

Forecasting trends indicates that escalating inflation, heightened global uncertainties, and a growing interest in gold among investors may continue to drive prices higher. To alleviate negative impacts, the government might need to implement policies that promote alternative investments, decrease reliance on gold imports, and enhance domestic production. Achieving long-term stability will necessitate initiatives focused on diversifying investment portfolios, improving financial literacy, and creating a sustainable economic framework. Potential policy measures, such as the Gold Monetization Scheme or tax incentives for alternative investments, could be considered to address the economic implications of gold. In summary, the rising gold prices in India present both opportunities and challenges, requiring well-thought-out strategies to ensure ongoing economic stability and growth.

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