A STUDY ON VARIOUS FACTORS IMPACT ON THE GOLD PRICE IN INDIA

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ABSTRACT

This study explores the various economic, political and global factors influencing the fluctuation of gold prices in India. Gold has traditionally been seen as a safe investment and a symbol of wealth in Indian society. The price of gold is highly volatile and is affected by a range of macroeconomic indicators including inflation, interest rates, currency fluctuations, crude oil prices and geopolitical tensions. This paper, based on secondary data from government publications, financial reports and economic surveys, analyzes these factors in detail to understand the trends in gold pricing in India.

KEYWORDS: Gold price, inflation, interest rate, rupee-dollar exchange rate, global economy,

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INTRODUCTION

Gold has always held a special place in Indian society, not just as a metal of adornment but also as a symbol of wealth, tradition and security. India is one of the largest consumers of gold in the world, with demand driven largely by cultural factors, investment motives and economic conditions (World Gold Council, 2022). The gold market in India is highly sensitive to both domestic and global economic trends.

Gold is traditionally seen as a hedge against inflation and currency devaluation. In times of financial uncertainty, investors tend to shift their investments towards gold due to its perceived stability and intrinsic value (Choudhry, 2013). Moreover, factors such as changes in interest rates, exchange rate fluctuations and geopolitical tensions contribute significantly to the volatility in gold prices (Kumar, 2018).

In the Indian context, gold prices are influenced not only by global market trends but also by the value of the Indian rupee, import policies, festive and seasonal demand and other socio-economic factors (Singh & Bedi, 2015). Understanding the movement of gold prices is important for investors, policymakers and consumers alike as it provides insight into larger economic dynamics. This study aims to analyze the major factors affecting gold price movements in India based on secondary data and existing literature.

REVIEW OF LITERATURE

- **Choudhry (2013)** found that inflation and exchange rate movements are highly correlated with gold prices in emerging markets like India.
- **Singh & Bedi (2015)** emphasized the role of global economic uncertainty and oil prices in influencing gold price volatility.
- **Reddy & Prasad (2017)** identified domestic demand during festive seasons and marriage periods as key seasonal factors impacting gold prices.

- **Kumar (2018)** studied the correlation between interest rates and gold investment, indicating an inverse relationship.
- **Sharma (2020)** analyzed the post-COVID trends showing how crisis-led situations spike gold demand due to investor uncertainty.

STATEMENT OF THE PROBLEM

Gold has traditionally been considered a stable and preferred investment in India due to its cultural importance and perceived security. However, in recent years, the price of gold in India has shown considerable volatility, influenced by a variety of domestic and international factors. Variables such as inflation rates, interest rate policies, fluctuations in the rupee-dollar exchange rate, global gold price movements and crude oil prices have made the gold market increasingly unpredictable.

This unpredictability poses challenges for investors, traders, financial institutions and policymakers who seek to manage risk and make informed decisions. While gold is often used as a hedge against inflation and economic uncertainty, the lack of a clear understanding of the specific factors driving price changes has led to investment decisions based more on speculation than on sound analysis.

Additionally, the interplay of global geopolitical tensions, changing government import duties, seasonal demand surges during festivals and weddings and the rise of digital gold platforms adds further complexity to gold price behaviour. Despite being one of the world's largest consumers of gold, India lacks comprehensive awareness among the general public about the real determinants of gold price volatility.

This gap in understanding creates the need for a structured and data-driven investigation into the various factors impacting gold prices in India. The problem lies not only in the fluctuation itself but also in the absence of timely analysis, forecasting tools and public education to guide stakeholders. Therefore, this study aims to bridge that gap by analyzing multiple economic and policy-related variables using secondary data, to offer practical insights for investors, economists and regulatory bodies.

OBJECTIVES OF THE STUDY

1. To analyze the key factors influencing gold prices in India.
2. To examine the impact of macroeconomic variables such as inflation, interest rates and exchange rates on gold prices.
3. To explore the global influences like crude oil prices and geopolitical tensions affecting gold rates in India.

SCOPE OF THE STUDY

The study is confined to secondary data sources and focuses on the Indian context. It covers a period of recent years (post-2010) to analyze trends and key influencing factors. The paper does not include primary data or consumer behaviour studies.

EVALUATION OF GOLD PRICE CHANGE IN INDIA

The gold price in India has undergone significant changes over the years, influenced by multiple interlinked domestic and global factors. From being a cultural symbol to a safe investment asset, gold holds a unique position in the Indian economy. A detailed evaluation of these price changes reveals complex trends shaped by economic cycles, policy shifts, global uncertainties and consumer sentiment.

Over the past two decades, gold prices have demonstrated a general upward trend. For example, the average gold price in India was around ₹5,000 per 10 grams in 2000. By 2020, it had increased to over ₹50,000 and by mid-2025, prices are fluctuating around ₹96,000 to

₹98,000 per 10 grams. This reflects more than just inflation it highlights investor preference for gold during uncertain times.

The financial crisis of 2008, Eurozone debt crisis in 2011, and the global COVID-19 pandemic in 2020 were major turning points that triggered spikes in gold prices, as investors turned to gold as a safe-haven asset. Each of these events caused fear in equity and currency markets, pushing up the demand for physical and paper gold.

The weakening of the Indian rupee against the US dollar has also contributed to rising gold prices in the domestic market. Since gold is globally priced in dollars, any depreciation in the rupee leads to a direct increase in gold prices in India. For instance, when the rupee crossed the ₹80 mark per dollar in 2022, domestic gold prices surged sharply even though global prices remained stable.

Policy changes by the Indian government and the Reserve Bank of India have also played a role. Import duties, changes in GST rates, and the launch of Sovereign Gold Bonds (SGBs) have impacted both the demand and price stability. When the government raised import duty in 2022 and 2023, domestic prices saw a quick jump due to increased cost of imports.

Additionally, seasonal and cultural factors influence price trends. Gold demand peaks during festivals such as Diwali and Dussehra and the wedding season. In anticipation of such events, prices may rise due to speculative buying and stockpiling by jewellers.

In 2025, despite short-term corrections and profit booking, gold remains on a strong footing due to continued global uncertainties, moderate inflation, and consistent central bank buying. India's gold prices reached a peak of over ₹98,000 in June 2025 and may cross ₹1,00,000 in the near future depending on market movements.

Fluctuations in global markets such as US Federal Reserve rate decisions, geopolitical instability (e.g., Russia-Ukraine conflict) and fluctuations in crude oil prices also contribute to the volatility in gold prices. These events affect investor sentiment and shift capital from riskier assets like stocks to stable assets like gold.

Furthermore, the growth of digital gold platforms and gold ETFs has added liquidity and transparency to the market. Retail investors now contribute to price movement more actively than before. The rising popularity of online gold savings also helps stabilize long-term demand.

In conclusion, the evaluation of gold price changes in India shows a steady upward momentum with short-term corrections. The interaction of global forces, domestic policy, cultural trends and investor behaviour makes gold pricing a dynamic and evolving subject. Continuous monitoring and data-driven analysis are essential for investors and policymakers alike to navigate the complexities of gold price trends.

FACTORS INFLUENCING GOLD PRICE IN INDIA

Inflation Rate

Gold is often seen as a hedge against inflation. When inflation rises, the value of paper currency declines, prompting investors to buy gold as a safer asset. This increased demand leads to higher gold prices (Choudhry, 2013).

Interest Rates

There is a typically inverse relationship between interest rates and gold prices. When central banks lower interest rates, holding gold becomes more attractive since alternative investment returns (like savings or bonds) offer lower yields (Kumar, 2018).

Rupee-Dollar Exchange Rate

Gold in India is largely imported. When the Indian rupee depreciates against the US dollar, the cost of importing gold rises, leading to higher domestic gold prices (Reddy & Prasad, 2017).

Global Gold Prices

Indian gold prices are directly influenced by international markets like COMEX and LBMA. Any change in global gold prices is reflected almost immediately in the Indian market (World Gold Council, 2022).

Crude Oil Prices

India imports most of its crude oil, and rising oil prices increase inflationary pressure. Since gold is also considered a hedge against inflation, this often results in rising gold demand and prices (Singh & Bedi, 2015).

Geopolitical Tensions

Conflicts such as wars, terrorism or political instability trigger fear in global markets. During such times, gold acts as a "safe haven" asset, leading to price hikes as investors shift their money from equities to gold (Sharma, 2020).

Government Policies

Policies such as import duty hikes, gold monetization schemes or restrictions on gold holdings directly impact gold supply and pricing. For instance, an increase in customs duty makes imported gold more expensive (Ministry of Finance, 2021).

Festive and Wedding Season Demand

India sees a seasonal surge in gold purchases during festivals like Diwali, Akshaya Tritiya, and the wedding season. This traditional and emotional attachment to gold pushes up its demand and price temporarily (Reddy & Prasad, 2017).

Stock Market Volatility

During periods of stock market instability or bearish trends, investors turn to gold as a safer investment. This portfolio shift increases gold demand and drives prices upward (Kumar, 2018).

Global Economic Indicators

Decisions by the US Federal Reserve on interest rates, global recession fears, and IMF forecasts all influence investor sentiment and gold prices globally and in India (IMF, 2021).

COVID-19 and Pandemic Events

The COVID-19 pandemic caused unprecedented global economic uncertainty. During such health crises, gold demand surged as a trusted store of value, leading to record high prices (Sharma, 2020).

Banking System Confidence

When public trust in banks decreases due to non-performing assets (NPAs) or banking frauds, people prefer to convert cash into gold, increasing its price due to rising demand (RBI, 2022).

Supply Chain Disruptions

Global disruptions in mining, refining, or transportation due to strikes, regulatory changes or pandemics can reduce the supply of gold, leading to price increases (World Gold Council, 2022).

Speculative Trading

Gold prices are influenced by speculation in commodity markets. Large-scale buying or selling by institutional investors or hedge funds can cause sharp price movements, regardless of actual demand-supply conditions (Singh & Bedi, 2015).

Real Estate and Housing Market Trends

When the real estate market underperforms, investors often divert funds to gold, especially in India where both gold and property are considered traditional assets. This shift adds upward pressure to gold prices (Kumar, 2018).

FINDINGS OF THE STUDY

1. Gold prices show strong positive correlation with inflation and negative correlation with interest rates.
2. Depreciation in INR against USD significantly impacts gold prices due to India's heavy reliance on gold imports.
3. Crude oil and gold often move in the same direction during periods of global uncertainty.
4. Seasonal demand adds pressure to gold prices, especially during festivals like Diwali and wedding seasons.
5. RBI policies on gold monetization and digital gold also affect investment trends.

Suggestions

- Gold investors should be educated about the risks and benefits of buying gold through banks, bonds, or digital platforms, so they can make informed decisions and avoid panic buying during uncertain times.
- People should be encouraged to invest in digital gold and Sovereign Gold Bonds, as these options are safer and help reduce the demand for imported physical gold, keeping prices more stable.
- Steps should be taken to strengthen the value of the Indian rupee, as a stronger currency reduces the cost of gold imports and helps control gold price inflation in the local market.
- Import duties on gold should be reviewed regularly to balance government revenue and consumer affordability; high taxes can lead to illegal imports and price instability.
- Recycling old gold should be promoted through buy-back offers and organized recycling programs, as this helps reduce the need for imports and controls the price fluctuations.
- The government should create a system to monitor and analyze gold price trends regularly and share reports with the public to improve transparency and decision-making.
- Efforts should be made to bring all gold transactions into the formal economy through better tracking, digital payments and policies that encourage legal purchases.
- Reliable and timely data on gold imports, exports, and consumption should be made public, so investors and policymakers can understand price changes and plan accordingly.
- Speculative trading in gold should be monitored closely by regulators to prevent sudden and artificial price increases caused by manipulation in futures markets.
- The Reserve Bank of India can use its gold reserves to help maintain economic stability by buying or selling gold based on inflation trends and global financial conditions.
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CONCLUSION

Gold continues to play a critical role in India's financial ecosystem, both culturally and economically. The study shows that multiple domestic and international factors contribute to the movement of gold prices. Understanding these influences can help investors make informed decisions and policymakers to formulate more effective regulations. As India moves toward more digital and formal investment channels, a deeper understanding of gold price determinants becomes crucial.

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