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India: All That Glitters Is Gold

- **Despite surging prices in recent years, gold demand in India has remained remarkably stable...**
- **….suggesting a shrinking price elasticity of demand**
- **This is because the investment share of gold demand, vis-à-vis consumption share, has progressively increased**
- **If volumes are increasingly invariant to prices, changes in gold imports will largely reflect changes in global prices**

As the Rupee has come under episodic pressure over the last two years, the focus has been squarely on the capital account and how capital flows have dried up. Meanwhile, discussions on the current account have centered largely on how impressively service exports have evolved in recent years.

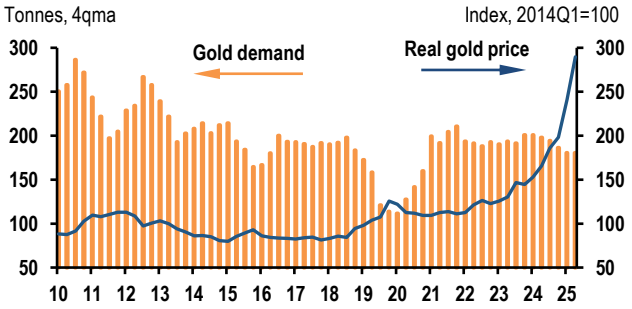
What this framing has overlooked is the extent to which surging gold imports have emerged as another external-sector fault line. Between FY23 and FY26, for example, gold imports doubled from ~$35bn to $72bn offsetting nearly half of the ~$75 bn increase in services exports during that period.

Given the under-appreciated salience of rising gold imports, this note tries to make sense of recent gold dynamics and what is underpinning them.

The puzzle: demand is losing its price anchor

The run-up in global gold prices in recent years is well known. The surprise, in the context of India, is that gold demand (in volume terms) has remained largely intact despite the sharp run-up in gold prices. India's gold demand (volume) -- which was 765 tonnes in FY23 – only ticked down to 721 tonnes in FY26 even as gold prices surged from (an average of) $1800/ounce to $3900/ounce during that time. Put differently, even as gold prices have more than doubled in the last 3 years, gold demand fell by just 6%.

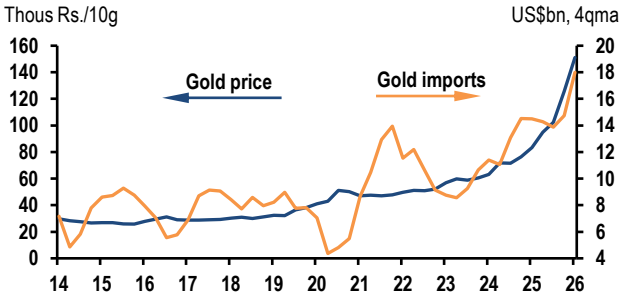
Figure 1: Real gold prices and gold demand in volumes



Source: MOSPI, WCG, J.P. Morgan. Gold prices deflated by core CPI

To make sense of these dynamics, we undertake a more formal analysis of the determinants of gold demand in India, to better understand how sensitive it is to price and income and, more importantly, to see if these elasticities have changed over time. This will help reveal to what extent demand is consumption-led versus investment-led in nature.

Figure 2: India gold prices and gold imports



Source: MOSPI, WCG, J.P. Morgan.

Full sample: elasticities are predictably signed

We estimate sensitivities/elasticities using the following variables: Gold volume demand (World Gold Council), Real GDP (proxy for real income) and Domestic gold prices in INR terms, deflated by core CPI inflation to compute "real" gold prices. We focus on core inflation as a better gauge of underlying consumer inflation rather than the more-volatile headline inflation. That said, the results don't materially change if core is replaced with headline inflation.

We estimate multivariate regressions, using quarterly data, over 2014Q1–2026Q1 to explain gold demand dynamics. We find that gold volume demand growth:

- Falls by 1.1% for every 1% rise in real prices
- Rises by 2.5% for every 1% increase in GDP growth

Our results are in line with the past studies.For example, Kanjilal and Ghosh (2014) estimate gold income elasticity to be

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between 1.7-2.2 and price elasticity to be between -0.7 to -1.0, respectively.

Table 1: Gold demand drivers

Dependent variable: Gold volumes	Model 1	Model 2
Gold prices (deflated by core CPI)	-1.1***	-1.1**
Real GDP	2.5***	2.5***
INR/USD (lag 4)		0.5

Source: WCG, JPM estimates. *** p<0.01, ** p<0.05, * p<0.10. Sample: 2010-2026
All variables in first difference of natural log, real and seasonally adjusted quarterly terms.

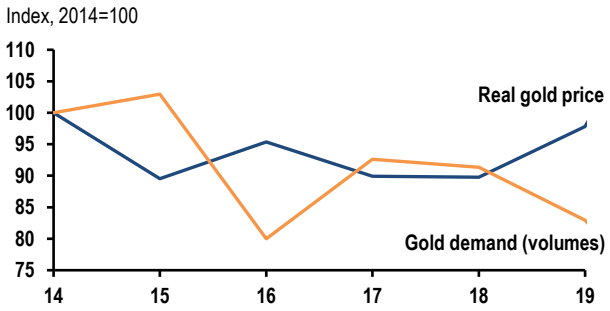
However, splitting the sample into 2014–2019 (pre-pandemic) and 2022–2026 results in surprising and contrasting trends.

A "tale of two halves"

2014–2019: relatively stable prices; relatively stable volumes

Between 2014–2019, gold demand appears to have been primarily price-driven. Price elasticities are high and negatively signed while income elasticities are not statistically significant. With real gold prices broadly range-bound, gold demand was largely stable during this period (Figure 3).

Figure 3: Real gold prices and gold demand in volumes



Source: MOSPI, WCG, J.P. Morgan. Gold prices deflated by core CPI.

2022–2026: demand intact despite surging prices

This dynamic, however, changes materially in the post-pandemic period (2022–2026) with prices having little bearing on gold demand. In the regression, both the price and GDP coefficients are not statistically significant even at the 25% level.

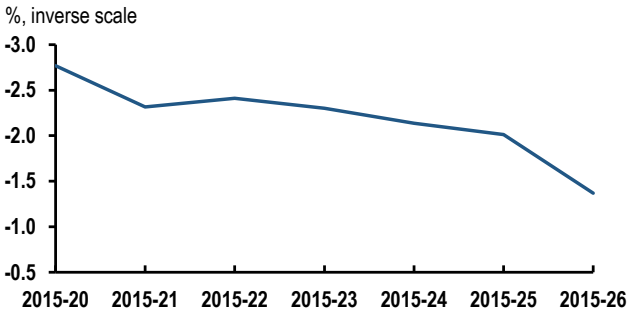
Table 2: Gold demand drivers

Dependent variable: Gold volumes	2014-2019	2022-2026
Gold prices (deflated by core CPI)	-2.2**	-0.6
Real GDP	1.5	2.6

Source: WCG, JPM estimates. *** p<0.01, ** p<0.05, * p<0.10.
All variables in first difference of natural log, real and seasonally adjusted quarterly terms.

Put simply, real prices, which were a driver of demand pre-pandemic, have ceased to have an impact on demand over the last three years. Rolling regressions also reinforce this shift. The price coefficient has continued to decline, suggesting that gold demand is becoming progressively less price-sensitive (Figure 4).

Figure 4: Gold demand* price sensitivity



Source: J.P. Morgan. * Proxied by gold imports for jewellery.

Bars over jewels

One reason why price sensitivity is falling is because of the changing composition of demand: a rising share of gold purchases is for investment rather than consumption. Arguably, consumption demand is inversely correlated with prices, but investment demand may either be invariant to prices or even positively correlated. Consequently, the larger the share of investment demand – versus consumption – the more ambiguous the sign of price elasticities on demand volumes. We have relied on data from the World Gold Council, which breaks gold demand into consumption and investment components, treating jewellery demand as consumption-driven and bars and coins as investment-driven.

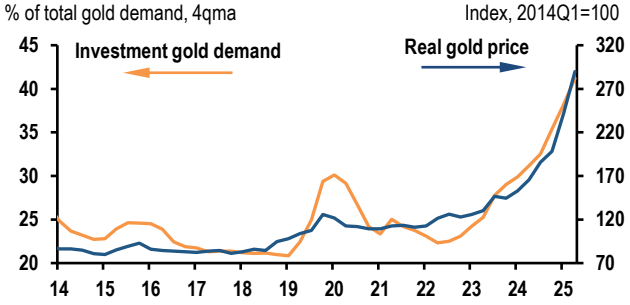
Investment's share of total demand represented almost 50% of total demand in 1Q26, significantly higher than about 30% in 1Q23. Consider what happened in the first quarter of 2026. When gold prices touched an all-time high, investment demand grew at ~33% oya – suggesting it is positively correlated with prices -- while consumption demand contracted by 19%oya – suggesting it is negatively correlated with prices. That investment demand has low price elasticity and may even be positively correlated with prices is also found in other studies. For instance, Baru, Gapalkrishnan and Mohapatra (2025) find that the price elasticity of investment gold (bars and coins) in middle-income countries was positive.

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Figure 5: Real gold prices and share of investment demand



Source: MOSPI, WCG, J.P. Morgan. Gold prices deflated by core CPI

This also comes out in our formal results. The price elasticity of gold for consumption between 2014-2026 (full sample) is negative (-1.30 and statistically significant), while investment is price inelastic. Table 3 below reveals that in the last 3 years consumption demand price sensitivity is -0.8 -- statistically significant at 15% -- while investment demand remains price inelastic.

All in all, gold demand in India is becoming price inelastic because the share of investments in gold demand is going up.

Table 3: Gold investment and consumption demand (2022-2026)

Dependent variable: Gold volumes	Investment	Consumption
Gold prices (deflated by core CPI)	0.3	-0.8*
Real GDP	0.7	2.5

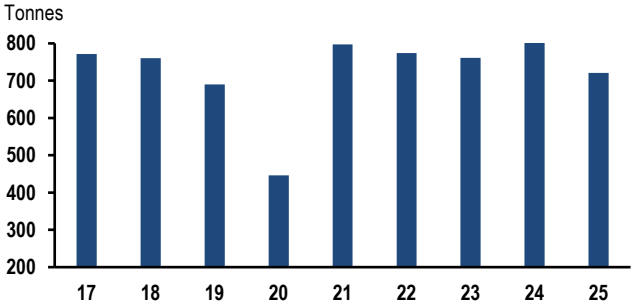
Source: WCG, JPM estimates. *** p<0.01, ** p<0.05, * p<0.15.
All variables in first difference of natural log, real and seasonally adjusted quarterly terms.

In turn, the growing share of investment demand appears to be a response to heightened global uncertainty. Gold price dynamics often track broader risk sentiment and can reflect nonlinear risk processes, rather than simple supply–demand fundamentals. Consistent with this, prior studies show that during episodes of elevated uncertainty—such as financial crises—gold demand tends to be relatively inelastic (Mandelbrot and Hudson, 2004 and Baftijari et al., 2025).

Gold imports driven by prices; policy efficacy may be limited

Despite investment's rising share of India's gold demand, total annual demand, barring the pandemic, has remained relatively stable—around 700–800 metric tons—even as it has become more price-inelastic. The literature attributes this stability to several structural factors: gold's role as a safe-haven asset and its deep embedding in the social fabric through intergenerational transfers, wedding-related purchases, and other culturally anchored uses.

Figure 6: India gold demand



Source: WCG, J.P. Morgan.

This shift toward more stable, less price-sensitive demand has two macroeconomic implications.

First, policy levers aimed at curbing demand via prices may have limited efficacy. Measures such as higher customs duties or other taxes will increase the landed cost of gold. However, if underlying demand is relatively price inelastic, the volume response is likely to be modest. In this context, the recent decline in gold imports/demand over the past couple of months may well reflect the sharp cooling in global gold prices, rather than a decline in volumes.

Second—and more importantly—gold prices have become the dominant driver of the gold import bill. Historically, the general equilibrium offset was meaningful: higher prices reduced volumes, dampening the impact of higher gold prices on India's gold import bill. With demand increasingly price-inelastic, that offset has weakened. As a result, the level of gold prices now plays a larger role in determining import values, because volumes do not adjust downward as much when prices rise.

Against this backdrop, the recent downtrend in gold prices—driven in part by the repricing of the expected Fed funds path—bodes well for India's current account deficit. For FY27, assuming an average gold price of $4,000/oz (vs. $3,936/oz in FY26), gold imports are likely to remain broadly flat at around ~$70bn.

