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Increase in Gold Prices

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Why in News

Recently, the gold prices crossed Rs. 50,000 per 10 grams after nine years in India.

Gold prices in India are dictated by international prices. **India is the world's second-largest gold consumer after China.**

Key Points

- **Reasons:**

- Global uncertainties triggered by **Covid-19 pandemic weak dollar, low-interest rates environment** and **stimulus programmes** have increased the demand for gold.
- Rising virus cases and **USA-China tensions** have also led to increase in the gold price.

- **Gold as Safe Haven:**

- Whenever stock markets, real estate and bonds fall across the world, investors turn to gold to park their funds. It is considered as a **safe haven for investors during periods of uncertainties**.
- As gold is **highly liquid** and carries no default risk. It is scarce which has historically preserved its value over time.

Liquidity describes the degree to which an asset can be quickly bought or sold.

- Further, **supply growth of gold has changed little over time**, in contrast to **fiat money (paper currency)**, which can be printed in unlimited quantities to support monetary policy.
- Gold is an integral part of wedding ceremonies in India. It is traditionally used as a **hedge against inflation**.

Global economies are considering stimulus to boost growth which may lead to increase in inflation further.

- **Return on Gold:**

- Historically, gold has generated long-term positive returns.

The price of gold has increased by an average 14.1% per annum since 1973 after **Bretton Woods** collapsed and the gold standard system of pegging the currency to gold ended.

Bretton Woods System was a **fixed exchange rate system**, under which gold was the basis for the US dollar and other currencies were pegged to the US dollar's value.

- Gold has **surged nearly 40% in the last one year** while the **Sensex** (benchmark index of Bombay Stock Exchange) **showed a loss of 0.41%** in the same period.

- **India's Gold Market:**

- According to the **World Gold Council (WGC)**, households in India may have around 24,000-25,000 tonnes of gold. Various temples across the country also hold sizable gold holdings.

- The **Reserve Bank of India** bought 40.45 tonnes of gold in the financial year 2019-20, taking its total **holdings** of the gold to 653.01 tonnes.

It is a **part of RBI's forex reserves**.

- **India's gold demand in 2019** was 690.4 tonnes compared to 760.4 tonnes in 2018.

The **demand has reduced in 2020** due to lockdown caused by pandemic.

- Around 120-200 tonnes of gold are estimated to be **smuggled** into India every year.

Source: IE