



A STUDY ON EVOLUTION OF GOLD POLICY IN INDIA

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Abstract:

In India, the demand for gold is deeply rooted in the country's cultural heritage, traditional values, aesthetic appeal, and desire for financial security. The government implemented various measures, including import and export restrictions, to regulate domestic gold demand. India's gold policy underwent significant changes between 1962 and 2024. These policies had a legal framework and impacted the socio-economic landscape.

The gold policy enabled the government to mobilize funds through gold sales at various times. Gold also has fiscal implications, as part of its demand is driven by black money. The government believes that utilizing private gold stocks can help balance payments and promote fiscal reforms.

In response to economic challenges, the government introduced timely modifications to the gold policy. Efforts were made to reduce smuggling by curbing gold demand and increasing transparency in the gold trade. These policy shifts have influenced gold's performance in India.

The policy reforms have also encouraged some gold retailers to adopt organized practices and adhere to the Bureau of Indian Standards (BIS) mark of quality. This research aims to review India's gold policy reforms and their implications from 1962 to 2020.

Keywords: *Gold, Gold Policy, Gold Imports, Bureau of Indian Standards, Smuggling.*

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Introduction:

India's Gold Consumption: A Socio-Economic Phenomenon with National Implications

Gold has been an integral part of Indian culture and economy for centuries, serving not only as a symbol of wealth and prosperity but also as a vital component of the country's financial landscape. India is one of the largest consumers of gold globally, and the precious metal plays a significant role in the country's import bill, foreign exchange reserves, and economic growth. Over the years, the Indian government has implemented various policies to regulate the gold

market, influence demand and supply, and mitigate the impact of gold imports on the country's trade deficit.

This paper aims to explore the evolution of gold policy in India, tracing the key developments, reforms, and regulations that have shaped the country's gold market since independence. By examining the historical context, policy interventions, and their impact on the gold market, this study seeks to provide insights into the complexities of India's gold policy and its implications for the economy. The research will also analyse the current gold policy framework, identifying areas of strength and weakness, and offering



recommendations for future policy reform

Objectives of the Study:

The present study proposes to focus on the Gold Policy of India since Independence, review and the progress achieved. The objectives of the proposed of the study are:

1. To study the evolution of gold policy in India since independence.
2. To evaluate the key factors influencing gold demand and supply in India.
3. To examine the impact of gold policy on India's economy.
4. To evaluate the effectiveness of various gold policy initiatives in achieving their objectives.

Research Methodology of the Study:

The data for the study is based on published and unpublished data collected from secondary sources.

Secondary data:

This research paper undertakes an exploratory study, leveraging secondary data from diverse sources including journals, magazines, articles, and media reports. The study extensively utilizes available secondary data, supplemented by a secondary survey to procure additional necessary information.

Data pertaining to Consumption of gold in India, Gold Policies in India is based on secondary sources. Data for these variables can be collected from different government report and websites as mentioned below:

- i. World Gold Council - <https://www.gold.org/>
- ii. Economic Political Weekly - <https://www.epw.in/>
- iii. Reserve Bank of India - <https://rbi.org.in/home.aspx>
- iv. Statista - <https://www.statista.com/statistics/625818/import-value-of-gold-india/>
- v. Ministry of Finance, Government of India - <https://finmin.gov.in/>

- vi. Ministry of Commerce and Industry, Government of India - <https://www.commerce.gov.in/>

Review of Literature:

Gold has been an integral part of Indian culture and economy for centuries. India is one of the largest consumers of gold in the world, and the metal plays a significant role in the country's economic and social fabric. This literature review aims to provide an overview of the evolution of gold policy in India, highlighting the key developments, challenges, and opportunities.

Early Years (Pre-Independence): Historically, India was a major producer of gold, with the metal being mined in various parts of the country (Kumar, 2018).

During the British colonial era, the Indian gold market was heavily influenced by the colonial powers, with the British introducing the gold standard in India in 1898 (Roy, 2016).

Post-Independence Era (1947-1990): After independence, the Indian government implemented various policies to regulate the gold market, including the Gold Control Act of 1968 (Gupta, 2013). The government also introduced the Gold Deposit Scheme in 1979 to mobilize gold from households and reduce dependence on imports (RBI, 1980).

Liberalization Era (1990-2010): The Indian government liberalized the gold market in the 1990s, allowing for greater private sector participation and reducing regulatory controls (Kumar, 2018). The introduction of the Gold Exchange Traded Funds (GETFs) in 2007 provided investors with a new way to invest in gold (SEBI, 2007).

Recent Developments (2010-Present): The Indian government has introduced various policies to curb gold imports and reduce the current account deficit, including the imposition of duties and taxes on gold imports (RBI, 2013).



The government has also launched initiatives to promote gold monetization, including the Gold Monetization Scheme (GMS) in 2015 (GOI, 2015).

Challenges and Opportunities:

India's gold policy faces challenges such as smuggling, tax evasion, and lack of transparency in the gold market (Kumar, 2018). Opportunities exist for India to develop a more robust gold policy framework, promoting transparency, accountability, and investor-friendly regulations (RBI, 2020).

Conclusion:

The evolution of gold policy in India has been shaped by various factors, including historical, economic, and social influences. This literature review provides a comprehensive overview of the key developments, challenges, and opportunities in India's gold policy framework. Further research is needed to explore the complexities of India's gold market and to develop a more effective and sustainable gold policy framework.

Evolution of Gold Policy in India:

India's gold policy framework has undergone significant transformations, progressing towards a more efficient, transparent, and organized structure. A landmark announcement in the 2018 Union Budget outlined the government's plan to develop a comprehensive gold policy, recognizing gold as an asset class comparable to shares, bonds, and commodities.

Government undertook key initiatives like establishing regulated gold exchanges, revamping the Gold Monetization Scheme for hassle-free gold deposits, introducing the Indian Gold Coin and hallmarking regulations, introducing Sovereign Gold Bonds, setting up an International Bullion Exchange in GIFT City

A NITI Aayog report, 'Transforming India's Gold Market' (2018), identified five core areas for reform:

1. Promoting domestic gold manufacturing (Make in India)
2. Financializing gold
3. Rationalizing tax and duty structures
4. Strengthening regulatory infrastructure
5. Enhancing skill development and technological upgradation

The Restriction Phase (1947-1962): During this period, India's gold policies focused on regulating gold supply, controlling domestic gold prices, and combating smuggling. Some of the key measures were:

1. Foreign Exchange Regulation Act (FERA), 1947 regulated foreign exchange transactions, currency, and precious metal imports/exports.
2. Reserve Requirements in 1956, shifted from a gold-backed proportional reserve system to a minimum reserve system, mandating the RBI to maintain Rs 200 crore in gold and foreign exchange reserves, with a minimum of Rs 115 crore in gold.
3. Gold Bond Scheme, 1962 was introduced to mobilize public funding amidst international border disputes that depleted foreign reserves.

These measures aimed to stabilize India's economy and conserve foreign exchange reserves during a period of geopolitical uncertainty.

The Prohibition Phase (1963-1989): The government imposed stringent restrictions on gold production and transactions in 1962, culminating in the Gold Control Act of 1968. This legislation aimed to curb excessive gold imports that led to the devaluation of the Indian rupee. Key Provisions and Objectives were:

1. Manufacturing restrictions was laid down by gold control act, which prohibited gold jewellery production above 14 karats.
2. Gold ownership and individual gold holdings: Gold control act prohibited Indian citizens from owning gold coins and bars, requiring existing gold to be converted to jewellery and declared to authorities



and it also laid limitations on personal gold possession.

Consequences and Outcomes:

1. Rise in gold smuggling and black market: The Gold Control Act led to an unprecedented increase in illicit gold trade, drug trafficking, and tax evasion.
2. Corruption and failure to achieve objectives: The act failed to bring out hoarded gold, reduce gold demand, or check smuggling. Instead, it benefited corrupt officials and greedy traders.
3. Limited success in mobilizing gold: Only 0.15% of the estimated hoarded gold (27.46 lakh grams) was deposited in the government treasury.

Additional Initiatives:

1. Voluntary Disclosure of Income and Wealth (Amendment) Ordinance (1975): Encouraged people to disclose undeclared wealth.
2. Gold auctions (1978): Held to reduce smuggling and budget deficits.
3. Gold bonds: Introduced to mobilize gold and reduce smuggling.

The Liberalization Phase (1990-2011): This period saw the deregulation of India's gold industry, transforming the market landscape. The key developments during this phase were;

1. Repeal of the Gold Control Act (1990): The government revoked the act, permitting free gold imports and generating revenue through import taxes.
2. NRI Scheme (1992) and Special Import License Scheme (1994): These initiatives allowed Non-Resident Indians to import gold into India.
3. Banking Sector Involvement: By 1997, multiple banks were authorized to import gold, expanding the market.
4. Gold Deposit Scheme (GDS) (1999): This scheme mobilized idle gold, enabling holders to earn interest on their gold deposits.

5. Gold Coin Sales: Post - 2002, banks were allowed to sell gold coins, increasing accessibility.
6. Post Office Sales: By 2008, post offices also began selling gold, further expanding the market.
7. Gold Exchange Traded Funds (ETFs) (2007): The launch of Gold ETFs digitized gold investment, ensuring quality, flexibility, and secure storage.

The liberalization phase marked a significant shift towards a more open and accessible gold market in India.

The Intervention Phase (2012-2013): The 2008 global financial crisis sparked renewed interest in gold, causing prices to triple. By 2010, India's gold demand surged to 1,001.7 tons. However, the subsequent period (2012-2013) saw global economic uncertainties and domestic Current Account Deficit (CAD) concerns prompt further policy interventions aimed at reducing gold demand.

Key factors driving these interventions included:

- Global economic instability
- Domestic CAD concerns
- Soaring gold demand
- These factors led the government to implement measures to curb gold demand and mitigate its impact on the economy.

Key Policy Interventions (2012-2013): To curb gold demand, the government implemented the following measures:

1. Import Duty Hike: The import duty on gold was increased from 2% to 10%.
2. Ban on Gold Coin Imports: A ban was imposed on importing gold coins.
3. Restrictions on Gold Coin Sales: Sales of gold coins through banks and post offices were prohibited. These measures aimed to reduce gold imports and alleviate pressure on India's Current Account Deficit (CAD).

Introduction of the 80:20 Rule: To further regulate gold imports, the government introduced the 80:20

rule, which stipulated that, Importers were required to export at least 20% of the gold they imported. The export obligation had to be fulfilled before importing new consignments. This rule aimed to encourage gold exports, reduce imports, and alleviate pressure on India's trade balance.

The Transparency Phase (2014-2018): During this period, the Indian government prioritized transparency across various economic sectors. Several key developments took place:

- **Deregulation:** The 80:20 rule was withdrawn, and the ban on importing gold coins was lifted in 2014.
- **New Schemes:** The Gold Monetization Scheme was relaunched in 2015, along with the introduction of Sovereign Gold Bonds, which offered interest on paper bonds.
- **Indian Gold Coin:** The Indian Gold Coin (IGC) was launched in 2015.
- **Regulatory Changes:** By 2016, PAN disclosure became mandatory for purchases above Rs 2 lakh, and a 1% excise duty was levied on jewellers with a turnover of over Rs 12 crore.

Gold Imports in India:

Table 2 Gold Imports of India (in tonnes)

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Gold Imports (in tonnes)	1,065.00	642.1	975.3	871.7	827.4	399.6	1,003.40	741.1	862

Source: Metals Focus, Refinitiv GFMS, ICE Benchmark Administration, World Gold Council

As seen in the above table no 2, Gold imports did decline in the initial years after the specifically after the Gold Policy changes in 2015, when the Gold schemes including SGB scheme was launched, indicating a positive impact. We can infer that these policy changes have attracted some investors who would have otherwise bought physical gold, thereby reducing gold imports, from 1065 tonnes in 2015 to 862 tonnes in 2022-23, indicating a reduction of 19%.

- **Comprehensive Gold Policy:** The 2018 Union Budget announced a comprehensive Gold Policy to develop gold as an asset class, establish regulated gold exchanges, and revamp the Gold Monetization Scheme.
- **International Bullion Exchange:** The establishment of an International Bullion Exchange in GIFT-IFSC was announced in the Union Budget 2020 and launched in July 2022.

Current Scenario: In recent years, gold prices have surged due to various global factors, including:

- Geopolitical tensions in the Middle East
- The COVID-19 health crisis
- Russia-Ukraine and Israel-Hamas conflicts
- Rising crude oil prices
- Persistent inflation
- US interest rate cuts, making gold a safe-haven asset for investors

Notably, in the July 2024 Union Budget, the Hon'ble Finance Minister announced a significant reduction in custom duty on gold, from 15% to 11%, a decrease of 6%.



Table 3. Gold Demand of India (in tons)

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023
Jewellery demand in India (tonnes)	662.3	504.5	601.9	598	544.6	315.9	610.9	600.6	562.3
Total bar and coin demand/Investment Demand (tonnes)	194.9	161.6	169.3	162.4	145.8	130.4	186.5	173.6	185.2
Total Gold Demand (in tonnes)	857.2	666.1	771.2	760.4	690.4	446.4	797.3	774.1	747.5

Source: Metals Focus, Refinitiv GFMS, ICE Benchmark Administration, World Gold Council

As seen from the above table no.3, India's gold demand also saw a dip in the initial one year, but there after that, it has remains strong, driven by cultural and economic factors, limiting the impact of the policy changes on reducing gold imports.

In accordance with a study conducted by the (WGC) Gold Council, gold jewelry requirement accounted for about more than 75 percentage of overall gold consumption in India between 1990 and 2023. We can infer from this that maximum gold consumption is for jewelry fabrication and the rest is gold coins, bars, and gold-backed assets. **The point to be noted here is that, the demand for coins and bars have seen a steady decline and this demand is understood to be replaced by SGBs.** Even though demand has been declining since 2015, the fall in volume seemed to have no effect on the value of gold due to the rising prices of gold.

Recent Challenges in the Gold Ecosystem:

Despite recent reforms and initiatives aimed at enhancing transparency in the gold ecosystem, significant time has been spent on corrective actions due to a lack of clear government direction. These corrective actions include decisions made during the intervention phase (2012-2013), the transparency phase (2014-2018), and various RBI circulars, notifications, and guidelines.

Areas Requiring Corrective Action

Some aspects of gold policy that require corrective action include:

- Reviewing Free Trade Agreements with different countries and trade blocs
- Addressing government notifications that tackle the import of gold exploiting policy loopholes

Need for Swift Government Action:

The government must act swiftly to address challenges and resist stakeholder influence that may interfere with policy decisions on high-value commodities like gold and silver. Decisive steps that may cause short-term disruptions but promise long-term benefits for the nation are necessary.

Recommended Steps:

- a. Enabling Government Policies: Implement policies and PLI schemes for refining gold ore or doré to boost manufacturing activities, increase employment opportunities, and substitute imports.
- b. Realizing AatmaNirbhar Bharat's Potential: Enable the export of standard gold bars, recognized as globally acceptable, to earn foreign exchange.
- c. Addressing Import Duty Structures: Review existing Free Trade Agreements and implement a



- uniform lower rate of import duty for gold and a higher rate of GST to ensure better compliance.
- d. Increasing Bank Participation: Encourage Indian banks and their bullion desks to participate in the India International Bullion Exchange (IIBX) and activate their roles in Treasury and ALM administration for gold and silver.
 - e. Focusing on Upstream Value Chain: Encourage regulators and banks to focus on long-term financing agreements with global gold mine companies and refiners to support refining activities.
 - f. Enabling Gold Holdings: Permit banks to hold gold as part of their Cash Reserve Ratio (CRR).
 - g. Financialization of Investment Gold: Enable banks to open gold savings accounts and gold accumulation plans.
 - h. Addressing Import of Gold in Other Forms: Mandate payment of duties based on the weight/content of the majority metal.
 - i. Mandating Import of Standard Gold and Silver: Require import of standard gold and silver solely through IIBX.

Conclusion:

It is crucial to bring clarity to the market by taking these decisions and evolving the Indian precious metals ecosystem responsibly. This will ensure India's rightful place in the global arena during the 'Amritkaal' and support India's development by 2047.

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