

Gold ETF Inflows Surge: How India's Precious Metal Craze Is Straining the Economy

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Gold ETF Latest News

- Indian households are diversifying their savings, with investments in mutual funds and equities rising sharply — from 7% of financial assets in 2022-23 to 15% in 2024-25 — while bank deposits declined slightly. However, the long-standing preference for gold remains strong.
- Gold imports surged to \$12.07 billion in January, nearly tripling from December.
- A growing channel for this investment is gold exchange-traded funds (ETFs), reflecting the increasing financialisation and formalisation of household savings, even as it adds to gold import pressures.

Gold ETFs: From Niche Product to Investment Wave

- Gold ETFs function like mutual funds that invest in gold. They offer advantages over physical gold—no concerns about purity, storage, or security, and the flexibility to invest in small amounts.
- The fund handles gold purchases based on investor inflows.

Record Inflows in January

- What began modestly in 2007 surged dramatically in January. According to the World Gold Council, Indian gold ETFs purchased a record 15.52 tonnes of gold in January—nearly equal to the previous three months combined.
- Data from AMFI show net gold ETF inflows more than doubled to an all-time high of ₹24,040 crore, even as equity mutual fund inflows fell 14% to ₹24,029 crore.
- For the first time, gold ETFs attracted more investment than equity funds.
- Gold ETF inflows accounted for 22% of total gold imports (₹1.1 lakh crore) in January. The share was even higher for silver—52% of silver imports were linked to ETF inflows.

Speculation and Economic Concerns

- Analysts suggest the surge may reflect large-scale speculation in precious metals.
- While it may represent a shift from physical gold demand, concerns remain that heavy investment in gold—financial or physical—effectively amounts to capital moving out of the domestic economy.

Gold Rush Redux: Lessons from the Past

- After the 2008 global financial crisis, high inflation, a weakening rupee, and slow growth drove Indian households toward gold.
- Imports surged, forcing the government and RBI to curb free imports and introduce measures to discourage physical gold purchases.

Sovereign Gold Bonds: A Policy Experiment

- Launched in 2015, Sovereign Gold Bonds (SGBs) offered returns linked to gold prices plus 2.5% annual interest.
- Indians invested in bonds equivalent to 147 tonnes of gold worth ₹72,274 crore, reducing the need for physical imports.
- Rising gold prices made the scheme costly, with annual payouts nearing ₹18,000 crore. The government discontinued SGBs in early 2024 due to mounting fiscal pressure.

Renewed Concerns Over Gold Investments

- Although inflation is currently moderate, geopolitical tensions, policy uncertainty, and uneven global stock market gains have renewed interest in gold as a safe haven.
- A January spike in gold ETF-driven imports pushed India's goods trade deficit close to \$35 billion, highlighting macroeconomic risks.
- Given rising precious metal demand, a redesigned Sovereign Gold Bond scheme—possibly extended to silver and other metals—may help manage imports while offering households structured investment alternatives.

Source: **IE**

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