

Surging gold prices driving core inflation higher: Crisil

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New Delhi, 18 June

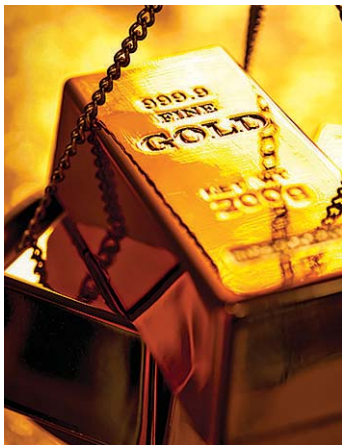
The spike in the prices of gold, a preferred safe haven asset amid global uncertainty, has pushed India's core retail inflation on an upward trajectory for four months in a row, even as the headline price rise pace measured by the consumer price index (CPI) fell to a 75-month low of 2.8 per cent in May, rating agency Crisil said in a report on Wednesday.

"While rising core inflation is indicative of strengthening domestic demand (and the resulting price pressure) in the economy, the recent spike is tied to global economic volatility rather than domestic factors," the report co-authored by Crisil chief economist Dharmakirti, principal economist Dipti Deshpande and junior economist Sharvari Rajadhyaksha reckoned.

Between May 2024 and May 2025, core inflation which excludes volatile food and energy prices, had risen 111 basis points (bps) to 4.2 per cent. One basis point equals 0.01 per cent. While prices in most sub-categories measured for core inflation had declined, five segments bucked the trend — gold, mobile tariffs, travel and transport, toiletries and silver.

"Gold saw the sharpest increase in inflation. Global prices surged as heightened global economic uncertainty drove safe-haven investment demand for the metal across the world," said the report titled 'Gilded distortion: How the price of gold is affecting core inflation signals'.

During FY2025, gold inflation



Inflation volatility

Between FY16 and FY25

Commodity	Inflation volatility
Gold	12.0
Fuel	4.5
Food	3.6

Note: Inflation volatility is measured by standard deviation of monthly inflation rates
Source: NSO, CEIC, Crisil

surged to 24.7 per cent on average against 15.1 per cent in FY 2024, and despite having a weight of just 2.3 per cent in the core inflation index, the yellow metal contributed 17 per cent of the price rise metric's uptick over the 12 month period ending May 2025.

The economists made a case for keeping gold out of core inflation measures, just as food and fuel categories are excluded, to assess the

true impact of domestic demand pressures on prices, particularly during periods of high global economic uncertainty, when gold prices tend to spike.

"One of the conditions for computing core inflation is its ability to filter out the noise in headline inflation caused by volatile components or transitory price movements that could distort signals on general price levels in the economy. Food and fuel, accordingly, are excluded from the RBI's core measure. However, we find that gold has exhibited higher volatility than food and fuel over the past decade," they pointed out.

Based on data from FY16 to FY25, Crisil's calculations pegged inflation volatility in gold at 12, while it was reckoned to be 4.5 for fuel and 3.6 for food items.

"Although jewellery demand from Indian households is high, it is the global investment demand for gold from global central banks, exchange traded funds that is increasingly driving up the metal's prices. During periods of global uncertainty, it may be useful to de-emphasise the role of gold prices by excluding it from the analysis of core inflation," they posited.

The US Federal Reserve, Bank of England, European Central Bank and Bank of Japan, also include gold in the form of jewellery (and rings in the case of Japan) in their core inflation calculations. However, they assign a significantly lower weightage than India assigns for the metal, at less than one per cent. This limits the impact of gold prices on their core inflation measures.