Indian Economy · GS - III

Analyse how India's dependence on imported precious metals influences its external sector stability. Suggest measures to balance consumer demand, domestic industry and macroeconomic priorities.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 13/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Precious-metal imports, merchandise trade deficit, current account balance, foreign exchange demand, exchange-rate vulnerability, recycling, domestic refining, import substitution, consumer behaviour, financial instruments.

Model Answer

Introduction

Precious metals such as gold and silver have significant cultural, investment and industrial importance in India. However, substantial import dependence creates implications for external sector stability.

Impact on the External Sector

1. **Trade deficit:** Higher imports increase the merchandise import bill and may widen the trade deficit, particularly when global prices rise.

2. **Current account pressure:** Persistent import demand can increase foreign exchange outflows and contribute to pressure on the current account balance.

3. **Exchange-rate vulnerability:** Global price fluctuations and rupee depreciation can jointly raise domestic precious-metal prices.

4. **Investment behaviour:** Strong household preference for physical precious metals may divert savings from productive financial investments.

Measures to Address the Challenge

- Promote recycling of household gold and silver through transparent collection and refining systems.
- Strengthen domestic refining, recovery and responsible mineral exploration.
- Expand awareness and accessibility of regulated financial alternatives, including exchange-traded funds.
- Improve import monitoring while avoiding policies that encourage smuggling or distort legitimate markets.

Conclusion

India needs a balanced strategy that respects cultural demand while reducing excessive import dependence. Recycling, domestic value addition and diversified savings instruments can strengthen external resilience.

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