Indian Economy · GS - III

Voluntary restraint in gold consumption can have macroeconomic implications for an import-dependent economy like India. Examine its potential role in managing the current account deficit and strengthening external-sector stability.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 21/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Gold import dependence, current account deficit, foreign exchange outflows, balance of payments, household savings, financialisation of savings, gold monetisation, sovereign gold bonds, consumer behaviour, import substitution.

Model Answer

Introduction

Gold holds significant cultural and investment importance in India. However, substantial dependence on imported gold increases foreign exchange outflows and can put pressure on the external sector.

Macroeconomic Significance of Moderating Gold Imports

1. **Current Account Deficit:** Lower gold imports can reduce merchandise import expenditure and help moderate the current account deficit.
2. **Foreign Exchange Reserves:** Reduced demand for foreign exchange can ease pressure on external payments.

3. **Economic Resilience:** Lower dependence on imported gold can reduce vulnerability to international price and supply fluctuations.

Policy Measures

- **Financial alternatives:** Encourage investment in regulated financial instruments such as mutual funds, deposits and other productive savings avenues.
- **Gold monetisation:** Promote mobilisation of idle household gold through suitable financial mechanisms.
- **Consumer awareness:** Encourage informed and responsible purchasing decisions without undermining cultural preferences.
- **Stable regulation:** Ensure predictable import policies and transparent taxation.

Limitations

Voluntary appeals alone cannot determine gold prices, which are influenced by international demand and supply, exchange rates, inflation and import duties. Moreover, gold purchases are deeply linked to household preferences and social practices.

Conclusion

Responsible consumption can complement broader external-sector policies. A balanced strategy combining financial inclusion, alternative savings instruments and prudent import management can reduce external vulnerabilities while respecting household choice.

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