Indian Economy · GS - III

Gold prices are influenced by a combination of monetary conditions, currency movements, geopolitical uncertainty and central-bank behaviour. Analyse the factors determining international gold prices and examine their implications for the Indian economy.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 23/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Safe-haven asset, US dollar, Treasury yields, monetary policy, central-bank reserves, import dependence, current account deficit, exchange rate, inflation

Model Answer

Introduction

Gold occupies a distinctive position in the global financial system as an investment asset, reserve holding and store of value. Its international price responds to changes in monetary conditions, currency movements, investor sentiment and geopolitical developments.

Factors Influencing International Gold Prices

1. **US dollar movements:** Gold is internationally traded in dollars. Dollar depreciation generally makes it relatively cheaper for holders of other currencies, potentially supporting demand.
2. **Interest rates and bond yields:** Lower Treasury yields reduce the opportunity cost of holding non-interest-bearing gold, making it relatively attractive.

3. **Geopolitical uncertainty:** Wars, financial instability and global economic uncertainty can increase safe-haven demand.
4. **Central-bank purchases:** Accumulation of gold by central banks influences global demand and reserve diversification.
5. **Investor behaviour:** Financial market volatility, inflation expectations and investment flows through gold-backed funds can influence prices.

Implications for India

1. **Import bill:** Higher international prices increase India's gold import expenditure and can widen the merchandise trade deficit.
2. **Current account:** Greater import expenditure can put pressure on the current account balance.
3. **Domestic inflation:** Rising gold prices increase household expenditure and influence jewellery-sector costs.
4. **Household savings:** Gold price volatility affects household wealth and investment decisions.
5. **Foreign exchange management:** Large gold imports can increase demand for foreign currency and add pressure on the rupee.

Way Forward

1. Promote transparent and efficient domestic gold markets.
2. Encourage financial diversification through accessible investment instruments.
3. Strengthen recycling and responsible domestic gold recovery.
4. Monitor import trends and external-sector vulnerabilities.

Conclusion

Gold prices reflect the interaction of global monetary conditions and investor confidence. For India, managing gold-related external vulnerabilities while maintaining consumer choice and financial stability requires a balanced policy approach.