

# Behind PM Modi's austerity call, dipping foreign exchange reserves, rising gold imports

Behind Prime Minister Narendra Modi's call for austerity measures by citizens are substantial foreign exchange outflows linked to higher gold imports and spending on overseas travel under the Liberalised Remittance Scheme (LRS).

Written by: [George Mathew, Aanchal Magazine](#) 7 min read Mumbai, New Delhi Updated: May 12, 2026 08:32 AM IST



Prime Minister Narendra Modi. (File Photo)

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**RISING** pressure on India's external sector with forex reserves plummeting by \$38 billion in just two months since the onset of the West Asia conflict, and crude oil prices continuing to hover over \$100 a barrel, have started to worry policy makers.

Behind Prime Minister Narendra Modi's [call for austerity measures](#) by citizens are substantial foreign exchange outflows linked to higher gold imports and spending on overseas travel under the Liberalised Remittance Scheme (LRS). While the gold import bill has almost doubled to \$72 billion in 2025-26 in two years, outflow under LRS for foreign travel accounted for \$15 billion or 57 per cent of the total \$26.34 billion LRS in the first 11 months of 2025-26.

The fall in reserves to \$691 billion has also been driven by sustained capital outflows from foreign institutional investors (FIIs) amid heightened global uncertainty. FII outflows in January-May period were Rs 1.97 lakh crore as foreign investors continued their sell-off in the stock markets. The rupee also dropped below the 95 level to 95.21 against the US dollar.

### Unlock value through Gold Monetisation Scheme

Gold imports rose 24 per cent to a record \$71.98 billion in 2025-26. In two years, the gold import bill has almost doubled from \$35 billion in 2022-23. The import bill stood at \$45.54 billion in 2023-24, indicating a consistent upward trend in value term over the last two years.

Rajesh Rokde, Chairman of All India Gem and Jewellery Domestic Council (GJC) has proposed a monetisation scheme to unlock value in gold. India already possesses thousands of tonnes of idle household gold. “The solution may not lie only in reducing demand, but also in unlocking the immense value of existing gold through a transparent and regulated Gold Monetisation Scheme (GMS),” he said.

Instead of idle gold remaining locked in households and lockers, GMS can channel it into the formal economy — reducing imports, easing current account deficit (CAD) pressure and strengthening India's financial ecosystem. The answer lies not only in consuming less gold, but in utilising existing gold more efficiently, transparently and productively, Avinash Gupta of the Council said.

According to an AngelOne report, India is the world's second-largest gold consumer after China, with imports largely meeting jewellery sector demand. Higher gold imports have implications for the current account deficit, which rose to \$13.2 billion, or 1.3 per cent of GDP, in the December quarter, according to RBI data released on March 2, 2026. Switzerland remained the largest source of India's gold imports, accounting for around 40 per cent of the total, followed by the UAE with over 16 per cent and South Africa with nearly 10 per cent. Imports from Switzerland increased by 11.36 per cent to \$24.27 billion in 2025-26.

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Prime Minister Modi on Sunday called on citizens to cut back on spending on petroleum products and gold as the country grapples with mounting pressure on its foreign exchange reserves. Stressing the need for economic prudence, he urged people to adopt more sustainable and cost-effective habits to help reduce the import burden and conserve valuable forex reserves.

## Outward remittances remain high

Under LRS, outward remittances were at \$29.56 billion in FY25. Of this, travel accounted for more than 50 per cent outgo at \$ 16.96 billion. In the first 11 months of FY26, the LRS remittances stood at \$24.68 billion; January and February outward LRS were \$2.68 billion and \$2.33 billion, respectively.

Prime Minister advised citizens to avoid non-essential foreign travel and postpone discretionary gold purchases for at least a year. He emphasised the importance of prioritising locally manufactured goods and supporting domestic industries as a way to strengthen the Indian economy during a period of global uncertainty and external financial pressure.

As part of the appeal, Modi encouraged greater use of public transportation and electric vehicles (EVs) to lower fuel consumption and dependence on imported crude oil. He also suggested reviving work-from-home practices introduced during the [Covid-19](#) pandemic, saying it could significantly reduce fuel usage and commuting costs.

The remarks come amid concerns over rising import bills, volatile global energy prices and the strain on India's foreign exchange reserves, with gold and petroleum imports continuing to account for a substantial share of the country's overseas expenditure.

## Crude impact high given import dependence

Crude oil is likely to remain elevated and volatile, even with a temporary ceasefire. The geopolitical risk premium—particularly around the Strait of Hormuz—is unlikely to dissipate quickly. “For India, this is a critical vulnerability. Sustained high crude prices would widen the current account deficit and feed directly into inflation,” former RBI Governor D Subbarao said.

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Even without an actual supply disruption, uncertainty alone can keep prices elevated. The more realistic scenario is one of moderately high and volatile oil prices, rather than a return to earlier benign levels. State-owned oil marketing companies — Indian Oil, Bharat Petroleum and Hindustan Petroleum — are estimated to be piling up under-recoveries, which is the difference between the retail price and the import price, of about Rs 30,000 crore a month on petrol, diesel and cooking gas.

The ongoing conflict in West Asia could drive up diesel and petrol prices in India, which may, in turn, add to inflationary pressures. In its latest monthly economic review released April, the Ministry of Finance had said while some countries are yet to pass on higher prices of energy products and other commodities to households and businesses, it is “inevitable” they will have to do so. The Prime Minister has encouraged citizens to adopt electric vehicles, use carpooling, and rely more on public transport.

### **Foreign travel, overseas weddings**

Urging Indians to avoid non-essential foreign travel, the Prime Minister pointed out the growing culture of weddings abroad, travelling abroad, and vacationing abroad among the middle class. “We must decide that during this time of crisis, we should postpone travelling abroad for at least a year...,” he said on Sunday.

Foreign travel by Indians has surged post-pandemic even as tourist arrivals into India from other countries have lagged behind. As per the Ministry of Tourism data, India saw a record departure of 32.71 million nationals during 2025, a 5.9 per cent growth over the previous year. In 2024, the departure of Indian nationals was recorded at 30.89 million. Except for the pandemic years of 2020 and 2021, which saw a sharp dip, Indians have increasingly opted to travel abroad.

Meanwhile, foreign tourist arrivals in India in 2025 were 9.02 million, 9.4 per cent lower than the previous year. Foreign exchange earnings during 2025 stood at Rs 2.74 lakh crore, down 6.6 per cent from the previous year. Tourism plays an important role in the country’s GDP and is as well an employment-providing sector. In 2023-24, tourism is estimated to have contributed 5.22 per cent to the country’s GDP, while 3.69 crore people were employed directly in tourism, the Ministry data showed.

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