# Indian Economy · GS - III

**How do global crude oil prices and U.S. Treasury yields influence foreign investment flows, exchange-rate stability and inflation in India? Discuss.**

| EXAM YEAR | PAPER | SUBJECT |
|---|---|---|
| DAILY PRACTICE 02/11/2026 | GS - III | Indian Economy |

| MARKS | WORD LIMIT |
|---|---|
| 10 | ~150 words |

## Answer Hint

**Capital flows; Government Securities; Fully Accessible Route; global interest rates; crude oil imports; rupee depreciation; imported inflation; macroeconomic stability**

## Model Answer

### Introduction

India's financial markets are increasingly influenced by global interest rates, commodity prices and international investor sentiment. These factors affect foreign investment, currency stability and domestic inflation.

### Impact of Global Factors

**1. U.S. Treasury Yields:** Higher U.S. yields can attract global capital towards dollar-denominated assets. This may reduce demand for Indian securities, increase borrowing costs and place depreciation pressure on the rupee.

**2. Crude Oil Prices:** Higher oil prices increase India's import expenditure, widen the current account deficit and raise transportation and production costs. This can intensify inflationary pressures.

**3. Foreign Investment in G-Secs:** Foreign investment can broaden the investor base and improve market liquidity. However, volatile capital flows may increase bond-yield and exchange-rate fluctuations. The Fully Accessible Route facilitates foreign investment in specified Government Securities.

### Policy Measures

- Maintain credible monetary and fiscal policies.
- Diversify energy sources and promote domestic renewable energy.
- Develop deep and resilient domestic bond markets.
- Maintain adequate foreign-exchange reserves and monitor capital-flow risks.
- Improve export competitiveness and reduce structural import dependence.

**Conclusion**

India must strengthen domestic economic resilience while monitoring global financial conditions. Policy coordination and diversified energy supplies can help manage external shocks and sustain macroeconomic stability.