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Editorial of the Day – 25.05.2026

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1. The U.S. Ends Russia Oil Waiver, Implications for India (TH)

GS Paper III – Indian Economy / Infrastructure / Environment

Topic – Infrastructure – Energy; Changes in industrial policy and their effects on industrial growth; Conservation, environmental pollution, and degradation.

Sub-Topic – Clean Energy Transition, Capacity vs. Generation Gap, Intermittency and Baseload Reliability, and Market Settlement Mechanisms.

1. Introduction

A recent escalation of geopolitical conflict in West Asia has pushed global energy prices upward, once again exposing India's vulnerability to external resource shocks. Despite a sustained policy emphasis on scaling up clean energy, nearly half of India's total fossil fuel imports continue to transit through the vulnerable Strait of Hormuz maritime chokepoint, including critical crude shipments from Saudi Arabia and Liquefied Natural Gas (LNG) imports from Qatar. This import dependency sits uneasily alongside the dominant domestic narrative celebrating India's rapid clean energy transition. The authors emphasize that while India has succeeded in expanding green energy *capacity*, it has yet to structurally displace coal in actual *generation*.

2. The Illusion of the Capacity Metrics

By standard capacity-based metrics, India appears to be at the forefront of a global green energy transition –

Historical Capacity Growth – Since 2017, renewable energy sources have consistently accounted for the largest share of new power capacity additions in India.

The Scale of Change – Renewable energy sources accounted for 42.4% of India's total installed power capacity by March 2026, up from just 0.72% in March 2005. Over the exact same period, coal's share in the installed capacity matrix fell from 58.7% to 42.2%.

The Policy Paradox – Despite these capacity shifts, vulnerability to external price shocks remains unchanged because installed capacity does not equate to actual electricity generation.

3. The Capacity and Generation Gap

The fundamental reality of India's power system is a widening mismatch between generation potential and real-time grid supply –

The Generation Split – While renewables account for over two-fifths (42.4%) of total installed capacity, they generated only 15.8% of actual electricity in April 2026.

The Coal Anchor – Conversely, coal-fired power plants still generated 71.8% of total electricity during the same month—only marginally lower than the 76.2% share recorded in March 2019.

Addition vs. Displacement – Renewable energy infrastructure is effectively being added *on top* of the existing coal baseline rather than structurally displacing it. The data shows that since 2018, India has added almost no new fossil fuel capacity, retired very few old coal plants, and experienced a decline in gas-based capacity, leaving coal as the main backup source.

4. Structural Bottlenecks – Intermittency and Baseload Reliability

The underlying reason for coal's persistence within the grid architecture is rooted in physics and infrastructure limitations –

Variable vs. Continuous – Solar and wind energy are intermittent power sources whose output fluctuates unpredictably based on seasonal weather conditions and diurnal cycles. Electricity demand, by contrast, remains continuous and peaks during non-solar hours.

The Balancing Deficit – In the absolute absence of grid-scale Battery Energy Storage Systems (BESS), flexible smart grids, and adequate alternative balancing capacity, coal-fired thermal assets must run continuously to provide the baseload reliability required to keep the national grid from collapsing.

The Tariff Spillover – Because fossil fuels continue to determine the marginal cost of power in India's electricity markets, domestic electricity tariffs remain closely tied to volatile global commodity indices like Brent crude, exposing even green-heavy states to external market shocks.

5. Comparative International Matrix – India, China, and Spain

The article provides a brief comparative overview of how different nations handle energy transition vulnerabilities –

China's Insulation Strategy – China remains exposed to global maritime supply lines, with oil and gas making up only 4% of its electrical power mix. Furthermore, electric vehicles (EVs) and hybrids now account for over half of all new car sales in China, reducing its domestic transport oil demand by over one million barrels per day.

Spain's Decoupling – Spain serves as a Western model for successfully breaking the historic link between gas markets and domestic electricity pricing through aggressive renewable integration and structural grid reforms.

The Indian Reality – India's transition remains real in capacity terms, but structurally incomplete in actual generation terms.

6. Way Forward – Moving to System Transformation

The next phase of India's green transition must move past simple capacity addition toward a comprehensive overhaul of the energy system –

Aggressive Storage Capitalization – Investing heavily in utility-scale Battery Energy Storage Systems (BESS) and Pumped Hydro Storage (PHS) to smooth out the intermittent output of solar and wind generation.

Grid Modernization – Upgrading transmission networks to enable flexible, real-time power routing across regional load dispatch centres.

Reforming Market Pricing Mechanisms – Redesigning electricity market settlement rules so that green power can be integrated at scale without being tied to the marginal cost of fossil fuels.

Acknowledging Coal's Transitional Role – Recognizing that coal's current persistence is not an institutional failure or a policy oversight, but a necessary stabilizing mechanism. Coal provides the baseload security that intermittent green platforms cannot yet replicate.

Source - <https://www.thehindu.com/opinion/lead/the-us-ends-russia-oil-waiver-implications-for-india/article71018329.ece>

Question

"In the context of India's clean energy transition, metrics focused on installed capacity create an incomplete picture of energy security. Critically evaluate the structural bottlenecks that prevent green energy capacity from displacing coal in actual generation, and suggest measures for comprehensive energy system transformation." (250 Words, 15 Marks)

1. Introduction

India's clean energy transition has expanded rapidly, with renewable energy sources growing to comprise 42.4% of total installed power capacity by March 2026. However, a structural divide persists - in actual electricity generation, renewables contributed only 15.8% of the power mix in April 2026, while coal continued to supply 71.8%. This indicates that renewable capacity is being built on top of the energy mix rather than replacing fossil fuels.

2. Structural Bottlenecks Preventing Coal Displacement

The Challenge of Intermittency - Solar and wind energy are highly variable and weather-dependent power sources. Because their generation cycles do not align with evening consumer demand peaks, they cannot provide a steady supply without structural support.

The Lack of Storage Infrastructure - India faces a deficit in grid-scale Battery Energy Storage Systems (BESS) and Pumped Hydro Projects. Without adequate storage assets to save afternoon solar surpluses, the national grid must rely on conventional coal-fired plants to maintain system balance.

Baseload Reliability Demands - To ensure grid frequency stability and avoid blackouts, the power system requires steady baseload power. As gas-based power generation has declined, coal has remained the primary source of operational reliability.

Marginal Cost Pricing Limitations - Domestic power market pricing mechanisms remain linked to fossil fuel costs. Consequently, spikes in global commodity benchmarks like Brent crude continue to drive up domestic electricity tariffs, even as renewable capacity increases.

3. Measures for Energy System Transformation

To achieve genuine energy self-reliance, India must shift its policy focus from capacity expansion to full system transformation -

Developing Storage Assets - Deploying targeted public incentives and implementing the Production Linked Incentive (PLI) scheme for advanced chemistry cells to scale up utility-scale battery banks and pumped hydro storage.

Modernizing Grid Transmission - Upgrading regional load dispatch centers with AI-driven forecasting tools to better balance variable renewable inputs with real-time demand fluctuations.

Reforming Power Markets - Redesigning electricity trading platforms to uncouple renewable energy pricing from the marginal cost of thermal generation, ensuring green energy can scale affordably.

Conclusion

India's energy challenge is no longer just about generating more green power; it requires building a resilient grid where renewables can reliably replace fossil fuels in daily electricity generation. Until storage infrastructure and grid flexibility are fully integrated, the clean energy transition will remain dependent on coal. Addressing these core bottlenecks is essential to insulate the economy from global energy shocks and secure long-term, sustainable energy autonomy.

Source - <https://www.thehindu.com/opinion/lead/the-us-ends-russia-oil-waiver-implications-for-india/article71018329.ece>

2. Rupee Depreciation, Available Realised Equity and Road Dust (IE)

GS Paper III - Indian Economy

Topic - Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment; External Sector; Inclusive growth and issues arising from it.

Sub-Topic - Balance of Payments (BoP) Crisis, Current Account vs. Capital Account Dynamics, Foreign Direct Investment (FDI) Squeeze, Monetary Policy Dilemmas, and External Sector Resiliency.

1. Introduction

Three months into the intensifying West Asia geopolitical conflict, India has successfully managed to prevent widespread domestic energy shortages. However, the economic burden-sharing of higher global energy prices between the public and private sectors has officially begun. While retail prices are being raised, further upward calibrations will be required to induce necessary behavioral adjustments among households and firms. Crucially, the true underlying pressure point for the Indian macroeconomy is not immediate energy logistics, but the Balance of Payments (BoP) and the stability of the Indian Rupee. The author stresses that identifying the unique nature of this currency episode is vital because the structural drivers of this external crisis differ completely from past historical episodes.

2. Two Unique Elements of the Current BoP Crisis

Unlike past macro-fiscal shocks, the current pressure on the external sector features two unprecedented characteristics -

A. A Chronic Underlying Phenomenon

1. External pressures heavily pre-date the recent escalation of the West Asia conflict.
2. For the first time in several decades, India's Balance of Payments (BoP) has been in a net deficit for two consecutive years, and the country is currently on course to record a third successive deficit. This persistent trend points to a chronic, underlying structural vulnerability rather than a temporary external shock.

B. Capital Account Origin vs. Current Account Origin

1. In typical historical currency crises, a widening Current Account Deficit (CAD)—driven by excessive imports—becomes heavily dependent on short-term, volatile capital inflows. When those inflows dry up, the rupee depreciates, forcing policymakers to squeeze the CAD via demand compression.
2. In this current episode, the Current Account Deficit has remained benign, averaging less than 1% of GDP over the past three years.
3. Instead, the pressure is driven entirely by a severe contraction on the Capital Account. Net capital inflows, which historically averaged 2.5% of GDP pre-pandemic, have consistently slowed since 2023 and completely dried up by 2025, triggering strong downward pressure on the rupee.

3. The Genesis - The Squeeze on Foreign Direct Investment (FDI)

The structural slowdown on the capital account is driven by changes in international investment behavior -

The Interdependence on Global Yields - Between 2010 and 2025, India's net Foreign Direct Investment (FDI) inflows showed a strong correlation with US 10-year Treasury bond yields.

The Yield Correlation – When US yields were low, global capital sought out emerging markets, leading to an inflow of FDI into India. Conversely, as US yields hardened over the last two years due to persistent inflation and tight fiscal conditions in the US, global net FDI inflows into India dried up.

The "Push" Factor Dominance – India's FDI inflows since 2010 have been heavily governed by global liquidity "push" factors rather than domestic "pull" factors. The last time India experienced a domestic, pull-factored FDI boom was during the strong corporate capital expenditure (CapEx) cycle of 2005–2010.

The Vietnam Comparison – In contrast to India's variable inflows, Vietnam has consistently attracted FDI inflows above 4% of its GDP, maintaining this pace regardless of shifting global interest rate cycles.

4. The Macroeconomic Pincer Effect

The combination of tight global financial conditions and localized energy shocks creates a dual pressure point –

Elevated Global Yields – Sticky inflation and complex fiscal situations in developed economies mean US bond yields are likely to remain elevated for longer, keeping capital tightly contained within Western markets.

The Crude Oil Multiplier – Due to West Asian conflict disruptions and shipping lane bottlenecks, global crude prices are projected to remain in triple digits (\$100+ per barrel) as supply stabilization takes time while demand holds steady.

The \$100 Billion Deficit Warning – Even if trade through the Strait of Hormuz remains partially open, high oil prices are on track to more than double India's CAD, pushing it close to \$100 billion for the current fiscal year. This combination of dry capital accounts and an expanding trade bill creates a pincer effect on the BoP.

5. The First Line of Défense and the Self-Fulfilling Hedging Spiral

The Exchange Rate as a Shock Absorber – The Reserve Bank of India's initial response has been to let the rupee gradually depreciate. This serves as an automatic stabilizer – a weaker currency discourages non-essential imports and improves export price competitiveness, helping narrow the CAD via "expenditure switching."

The Risk of an Overshooting Currency – However, relying exclusively on currency depreciation to close a massive BoP gap creates a major financial risk.

The Hedging Spiral – If the rupee drops too rapidly, foreign institutional investors, external commercial borrowers, and multinational firms face an incentive to aggressively hedge their existing Indian assets. This surge in defensive hedging increases the demand for US dollars, creating a self-fulfilling downward spiral that pushes the rupee far below its fundamental equilibrium value.

6. Reassessing Traditional Policy Interventions

The current capital-account crisis renders traditional monetary and fiscal options counterproductive –

The Failure of Demand Compression – In past crises, like the 2013 Taper Tantrum, the standard solution was to implement "expenditure compression"—tightening fiscal spending and raising interest rates to suppress domestic demand and lower the import bill.

The Current Economic Slack – Today, India's core inflation is stable at a low 2–3%, indicating significant economic slack. Furthermore, a highly anticipated private corporate investment cycle remains delayed due to global geopolitical uncertainties.

The Danger of Pro-Cyclical Tightening – Implementing macro-fiscal demand compression in this environment would be counterproductive. It would slow down domestic growth and cannibalize public capital expenditure to fund rising fuel and fertilizer subsidies. This slowdown would reduce corporate profitability, discouraging the foreign capital inflows needed to fix the BoP.

7. The Policy Solution – A Foreign Capital Augmentation Circuit Breaker

To stop the self-fulfilling depreciation loop without slowing economic growth, India requires an immediate policy shift –

The Structural Circuit Breaker – Policymakers must deploy targeted foreign capital augmentation measures to pull in near-term international capital.

Deploying Subsidized Swaps – The central bank should implement a subsidized foreign exchange swap window—similar to the policy deployed successfully during the 2013 crisis—to change investor and importer behavior, inject dollar liquidity, and prevent the rupee from overshooting.

The Ultimate Structural Imperative – The core lesson of this BoP episode is that attracting stable, long-term, and high-volume FDI is a critical macroeconomic necessity. India must implement structural reforms to improve its underlying industrial competitiveness, ensuring it can attract consistent capital independent of global financial cycles.

Source – <https://indianexpress.com/article/upsc-current-affairs/upsc-key-rupee-depreciation-available-realised-equity-and-road-dust-10707372/>

Question

"Unlike past external sector crises, contemporary pressures on the Indian Rupee are driven by structural shifts on the capital account rather than imbalances on the current account. Elaborate on this distinction and discuss the policy interventions required to stabilize the currency without slowing down domestic economic growth." (250 Words, 15 Marks)

1. Introduction

India's Balance of Payments (BoP) is facing pressure, heading toward a historic third consecutive year of net deficit. While historical currency depreciations—such as the 2013 Taper Tantrum—were caused by wide Current Account Deficits (CAD) driven by high domestic consumption, this current episode is different, originating primarily from structural vulnerabilities within the Capital Account.

2. Elaborating the Capital Account vs. Current Account Structural Split

The Benign Current Account – Over the past three years, India's domestic CAD has remained stable, averaging less than 1% of GDP. Core domestic inflation is low at 2–3%, indicating that the economy is not overheating and that import demand is not driven by excess consumption.

The Capital Account Drain – The external stress is caused by a sharp contraction in capital inflows, which have fallen from a pre-pandemic average of 2.5% of GDP to near-zero net inflows. High interest rates and hardening yields on US 10-year Treasuries have drawn global capital back to Western markets, exposing India's dependence on global liquidity "push" factors rather than strong domestic "pull" factors.

The Geopolitical Pincer Effect – With the West Asia conflict keeping crude oil prices high, India's CAD is projected to expand toward \$100 billion. Letting the rupee depreciate naturally helps act as a shock absorber via expenditure switching, but a rapid decline risks triggering a self-fulfilling hedging spiral among foreign investors, putting further pressure on the currency.

3. Policy Interventions Required to Balance Stability and Growth

Traditional solutions focused on compressing demand through interest rate hikes and fiscal tightening would be counterproductive today. Because of existing economic slack and delayed private investment, tightening policy would slow down domestic growth, hurt corporate returns, and discourage the foreign capital needed to stabilize the BoP. Instead, India should deploy targeted capital augmentation strategies –

Implementing Subsidized Forex Swaps – The Reserve Bank of India should introduce a dedicated, subsidized foreign exchange swap window for banks and institutional investors. This measure provides immediate dollar liquidity, anchors market expectations, and stops the self-fulfilling depreciation loop.

Attracting Stable, Long-Term FDI – Moving past a reliance on volatile portfolio flows by easing regulatory compliance for greenfield foreign investments. India must enhance its industrial competitiveness—matching peers like Vietnam, which consistently maintains FDI inflows above 4% of GDP—to ensure steady capital access across global yield cycles.

Promoting Local Currency Trade Invoicing – Expanding bilateral trade frameworks that allow for settlement in Indian Rupees (INR) or alternative non-dollar currencies, structurally reducing the economy's immediate requirement for US dollars during energy market shocks.

Conclusion

The current external sector challenge shows that maintaining macro-stability requires a shift from traditional demand-side restriction to active capital augmentation. By deploying a targeted financial circuit breaker to protect the rupee and implementing structural competitiveness reforms, India can safeguard its external accounts without compromising its domestic economic growth.

Source – <https://indianexpress.com/article/upsc-current-affairs/upsc-key-rupee-depreciation-available-realised-equity-and-road-dust-10707372/>

3. Creating Semiconductor Dependency? (BL)

General Studies Paper – General Studies Paper III – Science & Technology

Topic – Semiconductor technology

Sub-Topic – Data governance and digital sovereignty

Introduction

India has recently accelerated investments in semiconductor manufacturing under initiatives such as the India Semiconductor Mission (ISM). While major progress has been made in attracting assembly, testing, and packaging (ATMP) facilities, concerns remain that India may become dependent on foreign technology, intellectual property, and supply chains. Critics argue that without strengthening chip design, research, fabrication capability, and data sovereignty, India risks entering a “high-investment, low-value” semiconductor ecosystem.

1. Importance of Semiconductors

What are Semiconductors?

1. Semiconductors are essential electronic components used in computers, smartphones, vehicles, telecom systems, AI systems, and defence technologies.

Strategic Importance

1. They form the backbone of the digital economy and modern industrial systems.

Economic Importance

1. Semiconductor industries drive innovation, manufacturing growth, exports, and high-skilled employment.

2. Why India is Investing in Semiconductors

Reducing Import Dependence

1. India imports a significant share of advanced electronic components.

Strategic and National Security Concerns

1. Semiconductor access is increasingly linked with geopolitical competition and technological sovereignty.

Supporting Digital Economy

1. Expanding electronics manufacturing requires reliable chip supply chains.

Attracting Global Investment

1. India seeks to become part of global semiconductor value chains.

3. Current Focus of India's Semiconductor Push

Assembly, Testing, Marking and Packaging (ATMP)

1. India is primarily attracting facilities focused on packaging and assembly.

Incentive-Based Approach

1. Production-linked incentives (PLI) and subsidies are being used to attract investment.

Emerging Ecosystem

1. New semiconductor parks and fabrication proposals are under development.

4. Concerns Regarding Semiconductor Dependency

Limited Indigenous Capability

1. Much of the core technology and intellectual property remains foreign-controlled.

Focus on Low-Value Segments

1. Assembly and packaging generate lower value compared to chip design and fabrication.

Dependence on Imported Technology

1. India still relies heavily on foreign equipment, materials, and expertise.

Vulnerability to Export Controls

1. Global geopolitical tensions can disrupt technology access and supply chains.

5. Chip Design vs Assembly Debate

High-Value Activities

1. Chip design, architecture, and fabrication capture most of the value in semiconductor supply chains.

Risk of "Assemble but Not Control" Model

1. India may become a manufacturing subcontractor without technological autonomy.

Need for Indigenous R&D

1. Long-term competitiveness depends on innovation and domestic intellectual property creation.

6. Semiconductor Supply Chain Challenges

Capital Intensive Industry

1. Semiconductor fabrication plants require extremely high investment.

Technological Complexity

1. Advanced chips need precision engineering, clean rooms, and specialised equipment.

Resource Requirements

1. Semiconductor fabs consume large amounts of water, power, and rare materials.

7. Data and Digital Sovereignty Concerns

AI and Data Economy

1. AI development increasingly depends on large-scale data processing and chip infrastructure.

Foreign Control Risks

1. External control over computing infrastructure may affect India's digital autonomy.

Strategic Importance of Data Governance

1. Domestic semiconductor capability is linked with national digital sovereignty.

8. Global Semiconductor Geopolitics

US-China Technology Rivalry

1. Semiconductor supply chains are increasingly shaped by strategic competition.

Export Restrictions

1. Countries are imposing restrictions on advanced chip exports and technology transfers.

Supply Chain Fragmentation

1. Nations are trying to build resilient and secure semiconductor ecosystems.

9. Why India Needs a Comprehensive Semiconductor Strategy

Beyond Manufacturing

1. India must focus on design, research, materials, equipment, and talent development.

Building Indigenous IP

1. Domestic intellectual property creation is essential for technological sovereignty.

Developing Skilled Workforce

1. Semiconductor ecosystems require highly trained engineers and researchers.

10. Opportunities for India

Large Talent Pool

1. India already possesses strong software and engineering capabilities.

Growing Electronics Market

1. Rising domestic demand supports semiconductor ecosystem growth.

AI and Emerging Technologies

1. Semiconductor development can support India's ambitions in AI, defence, telecom, and quantum technologies.

11. Government Measures Required

Strengthen Chip Design Ecosystem

1. Expand design-linked incentives and research support.

Invest in R&D and Innovation

1. Promote university-industry collaboration and semiconductor research centres.

Develop Semiconductor Supply Chains

1. Encourage domestic manufacturing of materials, components, and equipment.

Build Strategic Partnerships

1. Collaborate internationally while protecting long-term national interests.

Way Forward

Move Up the Value Chain

1. India should gradually transition from packaging to advanced fabrication and chip design.

Promote Technological Sovereignty

1. Develop indigenous semiconductor intellectual property and research capability.

Ensure Secure Supply Chains

1. Diversify technology partnerships and reduce strategic vulnerabilities.

Integrate Semiconductor Policy with AI and Digital Strategy

1. Chips, AI, and data governance should be treated as interconnected strategic domains.

Conclusion

India's semiconductor push represents a major strategic opportunity, but focusing only on assembly and packaging could create long-term technological dependency. Sustainable semiconductor sovereignty requires investment in chip design, research, fabrication, skilled manpower, and indigenous intellectual property. India must therefore build not only the hardware ecosystem, but also the knowledge and innovation systems that power it.

Source - <https://www.thehindubusinessline.com/opinion/creating-semicon-dependency/article71018454.ece>

Question

Q. India's semiconductor mission must move beyond assembly and packaging to achieve technological sovereignty. Discuss. (250 words)

Introduction

Semiconductors are critical to the digital economy, defence systems, AI, and industrial production. India's semiconductor mission seeks to reduce import dependence and strengthen strategic technological capabilities.

Importance of Semiconductor Development

1. Enhances digital and technological sovereignty.
2. Supports electronics manufacturing and AI ecosystems.
3. Reduces vulnerability to global supply chain disruptions.
4. Promotes high-skilled employment and innovation.

Concerns Regarding Current Approach

1. Excessive focus on assembly and packaging creates limited value addition.
2. Dependence on foreign intellectual property and technology persists.
3. Export controls and geopolitical tensions may disrupt access to advanced chips.
4. Limited indigenous research and fabrication capability weakens autonomy.

Measures Required

1. Invest heavily in chip design, fabrication, and R&D.
2. Promote domestic semiconductor intellectual property creation.
3. Develop skilled manpower and research institutions.
4. Build resilient domestic supply chains and strategic partnerships.

Conclusion

India's semiconductor ambitions can succeed only if the country moves beyond low-value manufacturing toward innovation-driven technological capability and semiconductor self-reliance.

Source - <https://www.thehindubusinessline.com/opinion/creating-semicon-dependency/article71018454.ece>

4. The Rupee Is Facing an Exogenous Shock – Let's Respond Accordingly (MT)

General Studies Paper – General Studies Paper III – Indian Economy

Topic – Balance of Payments (BoP)

Sub-Topic – Global geopolitical shocks and Indian economy

Introduction

The Indian rupee has recently witnessed depreciation pressures against the US dollar due to external global developments rather than purely domestic weaknesses. Rising geopolitical tensions, global uncertainty, crude oil price volatility, and foreign capital outflows have increased pressure on emerging market currencies, including the rupee. Economists argue that such “exogenous shocks” require calibrated and pragmatic policy responses instead of panic-driven interventions.

1. Meaning of Exogenous Shock

Definition

1. An exogenous shock refers to an external event that affects an economy from outside the domestic system.

Examples

1. Global wars and geopolitical conflicts
2. Oil price shocks
3. US Federal Reserve interest rate hikes
4. Global financial instability
5. Sudden capital outflows

2. Why the Rupee is Under Pressure

Foreign Portfolio Investor (FPI) Outflows

1. Global investors often withdraw funds from emerging markets during uncertainty.

Rising Crude Oil Prices

1. India imports a large share of its crude oil requirements.
2. Higher oil prices increase dollar demand and widen the import bill.

Strong US Dollar

1. Higher US interest rates attract global capital towards dollar assets.

Geopolitical Tensions

1. West Asian conflicts and global instability create uncertainty in currency markets.

3. Nature of the Current Rupee Depreciation

Largely External in Origin

1. The recent rupee weakness is primarily linked to global financial and geopolitical developments.

Not Entirely Due to Domestic Weaknesses

1. India's macroeconomic fundamentals remain relatively stable compared to many emerging economies.

Market Sentiment Driven

1. Currency markets often react strongly to uncertainty and risk perceptions.

4. Impact of Rupee Depreciation on India

Negative Impacts

Higher Import Costs

1. Cost of crude oil, electronics, fertilizers, and machinery increases.

Imported Inflation

1. Expensive imports can raise domestic inflation.

Pressure on External Accounts

1. Current account deficit (CAD) may widen.

Increased Debt Burden

1. External debt repayments become costlier in rupee terms.

Positive Impacts

Export Competitiveness

1. Indian exports become relatively cheaper globally.

Support to Services Exports

1. IT and software export earnings may rise in rupee value.

Higher Remittances

1. Foreign remittances convert into more rupees domestically.

5. Role of RBI in Managing Currency Volatility

Forex Market Intervention

1. RBI can sell foreign exchange reserves to reduce excessive volatility.

Monetary Policy Coordination

1. Interest rate decisions influence capital flows and currency stability.

Liquidity Management

1. RBI ensures adequate liquidity while controlling speculative pressures.

6. Why Excessive Intervention Can Be Risky

Rapid Reserve Depletion

1. Aggressive defence of exchange rates can reduce forex reserves quickly.

Artificial Exchange Rate Stability

1. Over-management may distort natural market adjustments.

Unsustainable Strategy

1. Long-term currency stability depends on economic fundamentals, not only intervention.

7. Structural Factors Behind Currency Stability

Strong Economic Growth

1. Sustained productivity growth strengthens currency confidence.

Export Competitiveness

1. Diversified exports reduce external vulnerability.

Stable Capital Flows

1. Long-term FDI is more stable than volatile portfolio investments.

Fiscal Discipline

1. Lower fiscal deficits improve investor confidence.

8. India's Relative Strengths

Strong Forex Reserves

1. India possesses significant foreign exchange reserves compared to many emerging economies.

Diversified Economy

1. Services exports and domestic demand provide resilience.

Improving Manufacturing Base

1. Production-linked incentive (PLI) schemes aim to strengthen industrial capacity.

9. Key Policy Responses Needed**Avoid Panic Measures**

1. Policymaking should remain measured and data-driven.

Encourage Stable Capital Inflows

1. Promote long-term foreign direct investment (FDI).

Reduce Import Dependence

1. Accelerate renewable energy and domestic manufacturing.

Maintain Macroeconomic Stability

1. Control inflation and fiscal deficits.

10. Long-Term Strategy for Rupee Stability**Strengthen Productive Capacity**

1. Currency strength ultimately depends on economic productivity.

Improve Export Ecosystem

1. Expand manufacturing and high-value exports.

Deepen Financial Markets

1. Stronger domestic financial markets reduce vulnerability to external shocks.

Build Energy Security

1. Lower oil dependence reduces external account pressure.

Way Forward**Calibrated Currency Management**

1. RBI should smooth excessive volatility rather than target a fixed exchange rate.

Focus on Structural Reforms

1. Productivity, exports, and investment climate are more important than short-term currency defence.

Promote Long-Term Capital

1. Encourage stable investment rather than speculative inflows.

Enhance External Sector Resilience

1. Diversify trade partners, energy sources, and export markets.

Conclusion

The current rupee depreciation reflects a combination of global geopolitical tensions, capital outflows, and external financial shocks. While short-term volatility may continue, India's response should remain pragmatic and stability-oriented. Sustainable currency strength cannot be achieved through intervention alone; it ultimately depends on productivity growth, export competitiveness, macroeconomic discipline, and resilient economic institutions.

Source - <https://www.livemint.com/opinion/online-views/rupee-external-shock-optimal-response-policymakers-west-asia-rbi-fiscal-monetary-policy-11779568064372.html>

Question

Q. The recent depreciation of the Indian rupee is largely driven by external shocks rather than domestic weaknesses. Discuss the causes, consequences, and policy responses required to manage currency volatility. (250 words)

Introduction

The Indian rupee has recently depreciated against the US dollar due to geopolitical tensions, rising crude oil prices, and global capital outflows. Such external disturbances are often referred to as exogenous shocks.

Causes of Rupee Depreciation

1. Rising global uncertainty and geopolitical conflicts
2. Increase in crude oil prices raising import demand for dollars
3. Foreign portfolio investor outflows from emerging markets
4. Strong US dollar due to higher US interest rates

Consequences

1. Higher import costs and imported inflation
2. Increase in current account deficit
3. Costlier external debt repayments
4. However, exports and remittances may benefit

Policy Responses

1. RBI should manage excessive volatility through calibrated intervention
2. Encourage stable long-term capital inflows
3. Strengthen exports and domestic manufacturing
4. Maintain inflation and fiscal discipline
5. Reduce oil import dependence through renewable energy expansion

Conclusion

Currency stability ultimately depends on strong economic fundamentals. India must focus on productivity growth, export competitiveness, and macroeconomic resilience rather than relying solely on short-term currency interventions.

Source - <https://www.livemint.com/opinion/online-views/rupee-external-shock-optimal-response-policymakers-west-asia-rbi-fiscal-monetary-policy-11779568064372.html>