EDITORIAL HIGHLIGHTS

10-11-2026

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GS 2: POLITY

THE HINDU PAGE: 08

How students are the first line of resistance



N. Sai Balaji

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It would be a grievously wrong reading of the current national climate if one were to see the recent student protests as isolated incidents of resistance. Such a reading assumes that this movement is a temporary expression of dissatisfaction. It also assumes that it will eventually dissipate. The movement of today is built on the sediments of the grievances of the past, which were ignored and buried under layers of distortion.

The first section of society that recognises when democracy is under threat and stands up for it are always students. Almost a year after the Narendra Modi-led government first came to power in 2014, students of the Film and Television Institute of India (FTII) went on a hunger strike for 139 days, opposing the appointment of Gajendra Chauhan as chairman of the institute. Mr. Chauhan's lack of academic credentials was made up for by his proximity to the Rashtriya Swayamsevak Sangh (RSS) and the Bharatiya Janata Party (BJP).

These protests, from June-October 2015, were the first act of resistance. The government responded by dismissing the protesters as anti-nationals, an overused *modus operandi* to counter any protest challenging the government. While Mr. Chauhan wasn't sacked, his tenure was cut short to 14 months. The government's victory was temporary.

Agitations of the past

Such grievances cannot be suppressed by distortion – a lesson that governments find hard to understand. If not addressed and resolved, they simply change shape and return in other forms; this is what we have seen time and again. The 'Occupy UGC' movement demanding the restoration and a hike of the non-NET fellowship; the 'Justice for Rohith Vemula' campaign; the protests against the manufactured sedition cases against students of Jawaharlal Nehru University (JNU); the #WhereIsNajeeb movement; the anti-fee hike protests in various universities across the country, including Panjab University in Chandigarh, JNU and Delhi University; and the equal citizenship movement – all are examples of the same. Social and gender justice movements in India such as the 2012 Nirbhaya protests solidify the idea that the youth have the courage to mobilise, diagnose, and remedy society.

The COVID-19 pandemic and subsequent lockdowns witnessed a further attack on the integrity of educational systems. The government imposed the new National Education Policy (NEP) 2020 on students, teachers, and the academic community through a press conference. While the long-term consequences of this policy on the educational system are yet to be seen, issues have already begun to trickle in. Consolidation of power, centralisation of policy, and corruption are the essence of the system that NEP 2020 has built. Students, once again, were the first to resist this. The Jantar Mantar 1.0 movement was a testament to this resolve.

> In a country, and more broadly a society, that bleeds with hate, the youth continue to resist with humour and hope

Students also participated in the protests against the Unnao rape case, the Hathras gang rape, and the sexual harassment faced by wrestlers under the aegis of the Wrestling Federation of India (WFI). They continued to brave police brutality, arbitrary FIRs, and the persistent avoidance of the government in dealing with said issues. The entire country turned a blind eye to the brutality unleashed on students, consumed by the methodical madness of hate which has been moulded into acceptance by the 'Corporate Raj', that is, the Adani-Ambanification of India. Linguistic tools, therefore, were insufficient in resisting and challenging this juggernaut of fascist practices.

The sea of humanity that has turned up for the recent protests has been fed through the tributaries of agitations of the past; on the sediment of grievances that have settled over the years. It is ironic that a government that brags about and celebrates its role in the anti-Emergency protests has forgotten that it too began with a student movement against a fee hike in a university in Gujarat. It is presumptuous of the government to imagine that it is unique and will remain insulated from protests.

Different mode of protest

The political participation of Gen Z has brought a shift in how protests are carried out. Gen Z was a storm that rained memes and reels on the political landscape, with satire and non-conformity as a mode of politics; having fun was political resistance. The Jantar Mantar 1.0 movement isn't the first to witness this spirit. Since the post-COVID era, and especially during the third term of the Modi-led government, a brief survey of social media reveals that platforms such as Instagram and Reddit, along with youth-run YouTube channels, have become sites of resistance and challenge.

It is only natural that the social media-savvy Gen Z grew tired of the WhatsApp-forward drivel of older generations and brought its own rules of engagement with politics into the picture. For Gen Z, protests have become a site for content creation, and the police have become a destabilised collaborative figure in humorous reels, which reflects a refusal to fear the police state. Armed with a no-holds-barred approach, Gen Z has easily dismantled the curated PR caricatures political leaders had built of themselves with thousands of crores.

Interconnected struggles

A few political observers have said that the protests against electoral malpractices are not as emotive an issue as the anti-paper leak agitation. Again, this is an erroneous reading. The anti-SIR protests are yet another powerful turn in the student movement.

The youth have many grievances for which to hold the government accountable such as corporate monopoly over jobs, the rise of AI and its regulation, the government's withdrawal from the public sector, and the consequences of global conflict caused by the U.S.-Israel nexus. Free and fair elections are where they can act on their political aspirations and grievances. However, if the electoral system itself is broken and rigged, the youth can only rely on peaceful protests to seek accountability.

The government had given free rein to the police from day one. Those who opposed Mr. Chauhan and those who stood against former education minister Dharmendra Pradhan all faced lathis and FIRs. And now, peace bonds are being pushed on protesters to kill the democratic uprising. However, there is resistance here too; Neha Bora, AISA President, had recently refused to sign a peace bond, showing how resistance can turn into civil disobedience. To imagine that the government can, through brute force, slam the lid shut on protests is delusional. Let's not forget how the Unlawful Activities (Prevention) Act, 1967 has been weaponised to silence and jail student and pro-democracy activists.

By denotifying Jantar Mantar as a site of protest, the Modi-led government has denotified democracy. The only course to reclaim this is for India as a whole to become Jantar Mantar through peaceful protests. The protests across various campuses in India demanding the restoration of student union elections are a step towards rebuilding democracy that was destroyed over years of anti-democratic consolidation in our institutions.

In a country, and more broadly a society, that bleeds with hate, the youth continue to resist with humour and hope. You will find the youth protesting, and you will find them in reels. The youth refuse to give up on either of these spaces, displaying the public conscience in ways we never imagined. They are the public health centres of democracy; they diagnose threats and build resistance from the first instance. The responsibility to strengthen this fight falls on other sections of society. The process for democratic restoration has just begun.

GS 3: ENVIRONMENT
THE HINDU PAGE: 08

A case for Nepal: suing major carbon emitters for floods



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The catastrophic floods in Nepal which resulted in the deaths of thousands of people in August 2026, is overwhelmingly attributed to climate change. This is yet another worst-case climate change scenario from South Asia, after the floods in Pakistan in 2022.

A debate that has not drawn much attention so far in this part of the world is that there is scope to explore and establish the flood victims as victims of climate wrongs. The case for the Nepalese people needs to be analysed from the prism of climate litigations used by plaintiffs in many jurisdictions of Europe and the U.S. in the last two decades.

These plaintiffs, who were exposed to climate-related risks, have brought claims against state and private corporations on the ground of serious risks to life, well-being, health, property, privacy and disruption of family life. Though the plaintiffs have not turned out to be winners in these proceedings every time, the challenge itself has been eye-opening.

Legal reasoning

In a strict legal sense, it is extremely difficult to establish causation between a defendant's (such as a state or private corporation living miles away) failure to take appropriate measures restricting the emission of Greenhouse Gases (GHG) and the flood victims in those districts of Nepal bordering Tibet.

While climate wrongs harm society, they do not harm specific individuals or a group of individuals in a sufficiently direct and proximate way. The logic that is widely accepted now is that the failure to take appropriate measures by an entity makes an incremental contribution to global cumulative GHGs, which diffuse and leave global and lingering effects on the likelihood of adverse physical events. The impact of such events is itself dependent on extraneous factors such as exposure, vulnerability and resilience.

While climate wrongs harm society, they do not harm individuals in a sufficiently direct and proximate way

The identification of the victims exposed to risks in contrast to the 'general' population is needed to describe that specific group as victims of climate change. This gives them the standing to sue – to justify their invocation of individual or group rights and consider claims for compensation.

The people living in the Tibet-Nepal border area, specifically those living in the Trishuli and Bhote Koshi river basins area of Nepal, have been exposed to Glacial Lake Outburst Floods (GLOFs) over the last three decades. Scholarship focusing on the Tibetan Autonomous Region is of the view that since 2010 both the area and the number of glaciers is retreating at a faster rate than before. Climate scientists predict that the mountain glaciers will lose most of their volume by the end of the 21st century, placing alpine ecosystems and human population at risk. These climate-linked physical events, which were present prior to the flood, could possibly fulfil the normative threshold of the imminence of a catastrophe.

Holding emitters accountable

The case that merits attention in this context is the *Lliyua vs RWE* case which established that it is possible to causally link the GHG emissions of one large emitter to a concrete risk of life and property in a country that is 5,000 miles away. In the case, Lliyua, a Peruvian national, sued RWE (a German energy provider company headquartered in Germany) under a German private nuisance law on the ground that the company's past and present coal-fired power generation is responsible for huge quantities of CO_2, which reduced the stability of glaciers near his home.

In an important judgment, the Higher Court of Appeal in Hamm on May 28, 2025 ruled that RWE can be held legally responsible in principle, though the specific claim was dismissed due to inadequate proof of an imminent risk. The court accepted that past individual climate harms can proportionally contribute to climate risks and it also upheld that German civil law can apply to transboundary climate harms. This, in effect, amounts to saying that long distance and global scale do not automatically shield a corporation from liability.

In *Milieudefensie et al vs Royal Dutch Shell* (November, 2024), the Dutch Court of appeal confirmed under Dutch tort law principles that companies which contribute significantly to climate change and have it within their power to contribute to combating it, have an obligation, as per the general duty of care under Dutch law and human rights standards, to limit GHG emissions to counter climate change.

The climate lawsuit brought by four Indonesian islanders against Holcim, a Swiss building material giant, in the Swiss Cantonal Court of Zug (*Asmania vs Holcim*) is also quite relevant. Here, the plaintiffs sought a reduction of GHGs as well as compensation for present and future damages against Holcim's excessive CO_2 emissions.

Although there is no rule of binding precedent, it is still advisable for the flood victims of Nepal to use the channel of litigations against major GHG emitters, as there is growing judicial awareness of the duties owed by large emitters in responding to the threat of climate change.

GS 3: ENVIRONMENT (RENEWABLE ENERGY)
THE HINDU PAGE: 09

The next test for renewable energy



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Last week, India hosted the Bharat Renewable Energy Summit, celebrating India's double transition: near-universal household access to electricity and meeting surging power demand while building the world's third-largest renewable energy capacity. This week, Türkiye hosts COP31, with Australia holding the presidency of the climate negotiations. The COP31 hosts have proposed a global electrification target – 35 by 35 – seeking to raise electricity's share in final energy consumption to 35% globally by 2035.

Global energy transition

The reality is more nuanced. Global renewable energy capacity reached 5,149 GW in 2025. Last year alone, 692 GW were added, nearly 97% of it solar and wind. But the goal of tripling renewable energy capacity by 2030 remains far out on the horizon. The deployment of renewables is also uneven. China accounted for nearly two-thirds of last year's deployment; Africa only 1.6%. About 560 million people in Sub-Saharan Africa have no electricity.

Since 2020, there has been about 80% growth in renewable energy capacity. Renewables are now the default expectation in energy planning. But the question has flipped: from whether renewables make economic sense to whether the energy system can absorb them at scale.

Three challenges explain the gap between ambition and reality. One, grids and markets built for centralised fossil fuel plants cannot move cheap power to those who need it. Two, intellectual property and supply chains for cleantech sit in a few hands, raising energy security concerns. Three, a surge in AI-driven power demand is colliding with limits on energy, water and climate.

India has installed about 308 GW of non-fossil capacity. Crossing 500 GW will be a milestone for India, not the finish line

The global energy transition needs a new mantra: make renewables reliable, secure and digital.

Reliable renewables

Reliable means paying for what the system needs. India's installed battery storage stood at only about 9 GWh in mid-2026, most of it added in the first half of this year. Most contracts still pay for energy delivered, not for flexibility, reliability or dispatchability. The risk is cheap capacity that cannot be fully used, with the costs landing on distribution companies and consumers.

The fixes are unglamorous but decisive. Move beyond 25-year contracts towards real-time trading and contracts for difference. Run technology-agnostic auctions on integrated system plans. Cut permitting delays and grid-connection queues.

The International Renewable Energy Agency estimates that global grid investment must roughly double, from about $0.5 trillion a year to about $1 trillion. Recognising the need, India recently approved about $19 billion for State transmission and 50 GWh of battery storage, enabling up to 135 GW of renewable energy to be evacuated by 2032-33.

Secure means a transition that eases energy security concerns rather than worsening them. Energy security is the argument that wins support for renewables in most capitals; it will be lost if clean energy merely swaps one dependency for another. According to the International Energy Agency, cleantech manufacturing investment is dominated by China (70%).

India has begun to respond. Its solar module manufacturing capacity has reached about 262 GW; for solar cells, capacity has jumped to about 37 GW. Its National Critical Minerals Mission and Green Hydrogen Mission aim to increase mineral processing and electrolyser manufacturing. But no country can copy another's model. Multilateral institutions should offer a menu of options, matched to each country's starting point to build local manufacturing, resilient supply chains and skills pipelines.

Digital means guiding the frontier rather than reacting to it. Smart meters can act as the nervous system of a digital grid. India has already deployed about 54 million smart meters. This enables more grid-edge technologies, including storage solutions, software for optimising energy flow, and even a digital public infrastructure for energy.

Further, AI can forecast renewable output, optimise grids and unlock flexibility markets. Data-centre electricity use is set to rise from roughly 485 TWh to 950 TWh by 2030, from about 1.5 to 3% of global demand, and annual water consumption could more than double.

Large new loads should be sited using forward-looking heat and water-stress data. Data centres should disclose their power, water and carbon intensity, making resource efficiency a condition of viability, not an afterthought.

India has installed about 308 GW of non-fossil capacity. Crossing 500 GW will be a milestone for India, not the finish line. The real test is whether every unit generated is dispatched, every consumer benefits, and every manufacturer and young worker has a place in the new system. Cheap renewables made the transition possible. Reliable, secure and digital systems will make it real.

GS 2: SOCIAL JUSTICE (EDUCATION)

THE HINDU PAGE: 10

How AI is reshaping China's universities

AI disruption and a tightening job market are driving a sweeping change across China's universities; under the government's 'guideline on the reform of higher education institutions', universities will now be tasked with specific goals, pursuing either research, application-oriented objectives, or skills development

WORLD INSIGHT

Ananth Krishnan

The story so far:

In September 2026, China's government unveiled an ambitious 10-year plan to reform its universities. Driving the change is an increasingly challenging job market for the country's close to 13 million college graduates, who are facing the twin disruptions of AI and a slowing economy. Under the plan, dozens of graduate programmes are being disbanded, while universities themselves will be categorised and tasked with either pursuing research, applications or skills developments.

What is driving education overhaul?

A combination of factors, some not too dissimilar to the current challenges in India's own job market, has left policymakers grappling with a tepid job market and a vast number of graduates facing dim job prospects. Top of the list is a mismatch in skills between graduates and what companies are seeking. Depressed economic sentiment has also led companies to cut back on hiring, with the prolonged structural slowdown in the real estate market dragging down growth. AI is the third disruptive force, changing rapidly how the marketplace views and values skills.

One in five young Chinese is unemployed. According to data from China's National Bureau of Statistics in September, the jobless rate in the 16-24 age group (excluding students) was 18.9% in August, up from 17.9% in July.

How will the plan change higher education in China?

The Chinese government's "guideline on the reform of higher education institutions", released in September 2026, calls for universities "to pursue distinct development paths" and "foster new forms of integrated education to explore innovative approaches to nurturing top talent."



The government's guideline directs universities to 'pursue distinct development paths'. GETTY IMAGES

The main objective is differentiation. Universities will now be tasked with specific goals, pursuing either research, application-oriented objectives, or skills development.

China has more than 3,000 higher education institutions. Each of these will now be slotted into one of the three categories: research, applications or skills.

The problem of too many universities offering similar programmes and producing too many of the same kind of graduates has been cited as a major reason for differentiation. The disruption in the job market from AI, which is already widely being integrated across different industries in China, is another.

At the top end of the pyramid, the country's top research universities will be fined up to focus on, as the guideline says, "driving major breakthroughs in science and technology". Application-oriented institutions will be tasked with emphasising "practice-oriented talent, industry-education integration, technological innovation and research commercialisation." Finally, the institutions aimed at developing skills will "serve as a mainstay for cultivating master craftsmen and highly skilled professionals, with a focus on employment-oriented training and support for the development of a modern industrial system."

Liu Zhenjian, an expert on China's education system at Xiamen University, described the objective as not aimed at "labelling universities" but, as he told official media, "creating a rational division of functions among higher education institutions and their respective missions".

How will this impact students and how has the plan been received?

The restructuring will be implemented in the current Fifteenth Five-Year Plan (2026-2030) and completed by the end of the Sixteenth Plan (2031-2035), by when the goal is to establish China as a "leading nation" in education. China in 2024 launched an 11-year master plan on "building China into a leading country in education" by 2035.

Besides reorganising the roles of universities, the degree programmes within each university are also in the midst of a major adjustment. The Ministry of Education said last year that in the four-year period leading up to 2025, as high as 30 per cent of the degree programmes offered at Chinese universities had been reshuffled, with 10,200 new degree programmes added while 12,200 were cancelled.

A focus of additions has been AI, semiconductors, robotics and advanced manufacturing, while many of the deletions are in the humanities or in programmes related to streams such as interpretation, that have been impacted by AI.

The deletions have divided opinion. The Communication University of China, a leading university in Beijing related to the arts, said it had suspended more than a dozen tracks including translation, sociology and photography. It also scaled back its journalism programme – one of the largest in China – and is reviewing the dozens of degrees it had previously awarded in interpretation and foreign languages. The university will no longer offer five degrees in the arts, including photography, visual communication design and fashion design, while it introduced new undergraduate programmes including intelligent audiovisual engineering.

The decision sparked widespread debate in China, given that the university has produced some of the country's best known journalists and foreign language scholars. It will soon no longer be training students in those disciplines. Universities are also scaling back programmes such as accounting and some elements of computing that are being rendered irrelevant by AI.

The response has been mixed. Some lament what they see as the death of humanities and liberal arts, and a pivot away from focusing on a foundation for educating students in critical thinking, viewing the transformation as being too focused on the short-term instead of considering longer term consequences. Others argue that change is inevitable, and the phasing out of disciplines is a necessary response to technological disruption. "We all sighed at the news, but there weren't any strong emotions," a photography student told the Chinese publication Sixth Tone. "For me, using AI is simply switching to another creative medium or tool. What matters more is my own thinking."

THE GIST

- In September 2026, China unveiled an ambitious 10-year plan to reform its universities, driven by an increasingly challenging job market for the country's nearly 13 million college graduates
- The restructuring will be implemented during the current 15th Five-Year Plan (2026-2030) and completed by the end of the 16th Plan (2031-2035), with the goal of making China a "leading nation" in education

Sanskriti IAS

GS 3: ECONOMY
INDIAN EXPRESS PAGE: 10

Walking the fiscal tightrope won't be easy

HALF WAY through the financial year, the Union government's fiscal position presents a mixed picture. On the revenue side, recent data from the Controller General of Accounts shows that gross tax collections have grown at a subdued 6.1 per cent during April-September this year, marginally slower than the full year growth factored in the budget estimates. Disinvestment proceeds, though, are expected to exceed expectations, driven by the IDBI stake sale. On the expenditure side, capital spending by the Centre is showing signs of slowing down, while there is the growing likelihood of the subsidy bill exceeding initial estimates. Together, these trends raise the risk of a fiscal slippage this year.

Direct taxes have grown at a fairly healthy pace, corporate taxes more than personal income taxes. But the bigger drag has been due to excise revenue. Collections have fallen sharply due to the excise duty cuts on petrol and diesel — revenue has been just Rs 1.07 lakh crore so far this year, as compared to Rs 1.38 lakh crore over the same period last year. But, according to ICRA, this could be "partly offset by excess collections on the customs duty front, which has expanded by a strong 16.5 per cent in H1 (first half) FY2027". On disinvestment, so far the government has mopped up Rs 55,757 crore and another Rs 6,366 crore in asset monetisation. Add to this the government's share in the IDBI stake sale — Fairfax Financial Holdings has been selected as the buyer for a 60.72 per cent stake in the bank for Rs 52,878 crore — and the target of Rs 80,000 crore this year is likely to be surpassed.

On spending, capital expenditure, which had grown at a staggering 23.7 per cent in the first quarter, slowed down to just 2.8 per cent in the second quarter. But, the subsidy bill is likely to overshoot its budgeted amount. According to CareEdge Ratings the "fertiliser subsidy bill to exceed budget estimates, rising to Rs 2.5-2.7 trillion as against the budgeted Rs 1.7 trillion". This will add to pressures on the fiscal deficit. The Union budget had pegged the fiscal deficit at 4.3 per cent of GDP. But, CareEdge ratings expects it to be in the range of 4.3-4.5 per cent. Economists at SBI also expect the deficit to be higher by Rs 1.2 lakh crore due to revenue loss on account of excise cuts, and increase in the fertiliser and petroleum/LPG subsidy. This fiscal arithmetic raises the possibility of expenditure rationalisation in coming months.

Sanskriti IAS

GS 2: POLITY

INDIAN EXPRESS PAGE: 10

Court's relook at detention protects liberty

ON NOVEMBER 5, the Supreme Court (SC) reaffirmed a fundamental principle of natural justice that is also a feature of India's constitutional scheme. While overturning the denial of bail by the Tripura High Court in a Narcotic Drugs and Psychotropic Substances (NDPS) Act case, a bench comprising Justices Ujjal Bhuyan and A S Chandurkar held that "There is no such thing called temporary disruption of liberty". Any person detained by the state must be produced before a magistrate within 24 hours. *Sujit Das and Others v Union of India* rightly does away with the specious distinction between "detention" and "arrest", which is often used to short circuit the constitutional protections under Article 22. The proverbial clock begins ticking when the police take someone into custody, the Court has said, not after a formal arrest is made. Given the context of police excesses and laws that make bail difficult, the SC's assertion that "fundamental rights cannot be tinkered with so lightly, not even under the special statutes" is welcome.

At the heart of the judgment is a recognition of the role of the magistrate. It is at this stage that the claims of the arresting agency are first tested. Given that the "worst violations of human rights" often occur, as the Court said, during prolonged detentions, it is imperative for the magistrate and lower judiciary to scrutinise every arrest. In fact, Sujit Das follows from other recent SC verdicts, including *Prabir Purkayastha v State of Delhi* (2024), in which an arrest under the UAPA was voided because it did not follow the basic procedures laid down in law.

In *National Investigation Agency v Zahoor Ahmad Shah Watali* (2019), the SC said that while deciding on bail in UAPA cases, the state's version must, *prima facie*, be accepted. In the years since, the Court has carved out crucial exceptions, such as in *Union of India v KA Najeeb* (2021), which said that bail provisions under special laws must be seen in the context of prolonged trials and in *Sheikh Javed Iqbal v State of Uttar Pradesh* (2024), where it said that Watali cannot be treated as an absolute precedent to deny bail. Now, by dissolving the false dichotomy between "detention" and "arrest", the Court has gone a step further in championing liberty. The principle it has laid down must be given substance in the magistrate's office and the police *thana*.

GS 3: ECONOMY

INDIAN EXPRESS PAGE: 11

Is the worst over for the Indian economy?



ISHAN BAKSHI

THE RBI has been in a tough spot for some time now. It's been fighting multiple battles. Trying to curb inflation, arrest the rupee's decline and prevent actions rise in government bond yields. Whether it should have been engaging on all these fronts is another matter. But the manner in which it has gone about doing so suggests the absence of a coherent strategy.

Take inflation for instance. Price pressures have been building up in the economy for a while now as the RBI's own forecasts have indicated. In fact, in October, inflation is likely to have breached the upper threshold of the central bank's targeting framework. And so, given that monetary policy typically works with long lags, interest rates should have been raised earlier and by more.

So why did the central bank wait till October to raise rates and by just 25 basis points? There are three possible explanations. One, it had failed to anticipate the build-up of price pressures in the economy. Though the contrast between the August monetary policy statement and the minutes of that meeting is hard to explain. Two, it feared that growth would collapse. That the underlying growth momentum is weak contrary to what the headline numbers suggest — this could explain why real interest rates have been kept negative. Or three, that higher rates would increase government borrowing costs — on October 21, it rejected all bids at the Rs 23,000 crore I-bill auction as investors demanded higher yields.

Its approach to defending the rupee also raises questions. While it kept real interest rates negative, the RBI drew down its forex reserves in order to intervene in the currency markets. But this alone did not yield the desired results. This should have been expected. Considering the size of the forex market — the daily turnover in both the onshore and offshore markets was pegged at $185 billion in 2025 as per the Bank for International Settlements — the RBI simply does not have enough firepower to indefinitely carry out a defence of the currency. China's attempt to use its reserves to defend the currency in 2015 should have been instructive — it lost hundreds of billions of dollars in trying to defend its dollar peg as per some estimates. So alongside, the RBI has had to also rely on financial engineering and all sorts of counterproductive measures — these have created a whole set of other problems, from liquidity to hedging costs — in order to stem the currency's fall.



Over the past week or so, things appear to have turned around. The rupee has strengthened, bond yields are down and markets have edged higher. Perhaps RBI's blunt instruments have played a part. But more curious and critical are changes in the external environment.

For the past few years, foreign capital has been flowing out of the country. The AI boom was sucking capital from around the world. Alongside, higher bond yields in the developed economies, particularly the US, had raised the risk free rate, attracting capital. And the conflict in West Asia had kept oil prices elevated, raising the demand for dollars. All this had exerted pressure on the rupee.

However, these trends now appear to be shifting. The AI euphoria seems to be ebbing — stocks in the AI ecosystem such as NVIDIA, TSMC and SK Hynix are correcting. Oil prices have also fallen significantly following the US mid-term elections — Brent crude oil is trading below $98 per barrel. This will help ease price pressures. And US bond yields are down as well. With Indian assets becoming cheap amid a significant market correction and a weakening rupee, foreign capital has begun to trickle back in — foreign portfolio investors have been net buyers of $4.1 billion of equity in the first week of November.

The question now is whether the tide has turned? Is the worst over?

There is some breathing room now. But things could easily reverse. Hostilities in West Asia could resume. Oil prices could jump. There could be a capital flight towards safety. RBI's trade-offs are unlikely to disappear. It cannot keep real interest rates negative to support growth when inflation is high, while intervening in the currency markets to shore up the rupee, drain liquidity and contain bond yields indefinitely. It has to choose. Shifting from inflation to exchange rate targeting was a bad idea. If the world is more uncertain, you would want more shock absorbers not less. And the currency is a shock absorber. Worries about the electoral cycle should not guide economic policy. Whether in matters of the rupee or petrol prices. Political problems should not become economic problems.

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