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EDITORIAL ANALYSIS

Deeper Than the Shock: On India's External-Sector Vulnerabilities

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Deeper Than the Shock: On India's External-Sector Vulnerabilities

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Source: ujiyari.com — researched, fact-checked & UPSC-mapped

INTERVIEW ANGLE

"The rupee strengthened when US-Iran tensions eased. Is that a sign of resilience or of dangerous dependence on external conditions India does not control?"

Source: Original editorial ↗ Business Standard

Every fact web-verified against primary sources (https://ujiyari.com/how-we-verify/)

WHY THIS MATTERS NOW

India's external accounts have enjoyed a spell of calm. The easing of US-Iran tensions has pulled energy prices lower, relieving the import bill and the current account, while government and Reserve Bank of India measures, including the lifting of interest-rate caps on FCNR(B) and NRE deposits, have steadied the rupee. The danger lies in reading this relief as resilience (https://ujiyari.com/vocab/resilience/). The forces behind it are largely external, and the structural weaknesses they temporarily mask remain firmly in place.

THE CRUX IN 60 WORDS

Cheaper oil and capital-account measures have eased India's current account and rupee, but the relief is borrowed from geopolitics (https://ujiyari.com/vocab/geopolitics/) and volatile debt flows. India's real vulnerabilities are structural: soft gross FDI, a persistent trade deficit and dependence on portfolio money. Durable fixes lie in higher equity inflows, stronger exports, tariff reassessment and disciplined currency management.

THE ISSUE, DECODED

ELEMENT	WHAT IT IS	WHY IT MATTERS
Current account deficit	Gap between imports and exports of goods, services and income	Widens when energy prices rise, narrows when they fall, often regardless of policy
FCNR(B) and NRE deposits	Foreign-currency and rupee NRI deposit schemes	Relaxing rate caps attracts debt-creating, reversible inflows
Gross FDI	Stable, long-term equity investment from abroad	The most resilient way to fund the external gap; currently soft
Forex reserves	RBI's stock of foreign assets	A buffer against shocks, but it treats symptoms, not causes

THE ANALYSIS: BORROWED CALM, STRUCTURAL WEAKNESS

1. **The current account improves for the wrong reasons.** A lower oil bill flatters the deficit, but this is a geopolitical windfall (https://ujiyari.com/vocab/windfall/), not earned competitiveness.
2. **Capital-account fixes raise risk.** Easing caps on NRI deposits pulls in debt-creating flows that can reverse rapidly under stress, unlike sticky FDI.
3. **The export engine underperforms.** A persistent merchandise trade deficit and modest export share keep the balance of payments dependent on portfolio money and remittances.
4. **Reserves are a buffer, not a cure.** A large reserve stock can smooth volatility (https://ujiyari.com/vocab/volatility/) but cannot substitute for structurally sound inflows and exports.

DATA AND INSTITUTIONS VAULT

has two main accounts: the current account (trade in goods and services, income, transfers) and the capital and financial account (FDI, FPI, loans, deposits).

Foreign Currency Non-Resident (Banks) deposits, denominated in foreign currency, bear no exchange-rate risk for the depositor.

Non-Resident External rupee accounts, repatriable.

FDI is long-term, control-oriented equity; Foreign Portfolio Investment is shorter-term and more volatile.

through intervention to curb volatility, not to fix a level.

THE DEBATE

The argument for concern: India's external comfort depends on cheap oil and benign global risk appetite, neither of which it controls. Leaning on debt-creating inflows raises the risk of a sudden stop, and large reserves only delay rather than resolve the reckoning.

The argument against: Optimists note that India holds a sizeable reserve cushion, runs a flexible exchange rate and attracts strong services exports and remittances, giving it real shock-absorption capacity.

The balanced verdict: The buffers are genuine but defensive. They buy time without changing the underlying structure. The prudent (https://ujiyari.com/vocab/prudent/) course is to use this calm period to raise the quality of inflows and the competitiveness of exports, so the next shock finds India stronger by design rather than by luck.

HOW TO THINK ABOUT THIS (TRANSFERABLE SKILL)

> *Always separate cyclical relief from structural improvement. A deficit that narrows because input prices fell is not the same as one that narrows because exports rose. The transferable skill is asking, of any good economic number, whether it reflects something India did or something the world did to India.*

DIAGRAM-IN-WORDS

`Cheap oil + debt inflows -> narrower current account + steadier rupee -> apparent stability`

The durable path replaces that chain: `higher FDI + export competitiveness + sound tariffs -> resilient balance of payments independent of oil and risk cycles`

THE WAY FORWARD

1. **Raise the quality of inflows** by prioritising stable, equity-based FDI over reversible debt deposits, through predictable policy and ease of doing business (https://ujiyari.com/terms/ease-of-doing-business/).
2. **Build export competitiveness** via logistics, scale and integration into global value chains.
3. **Reassess tariff structures** that raise input costs and blunt (https://ujiyari.com/vocab/blunt/) the competitiveness of Indian manufacturers.
4. **Manage the currency with discipline**, leaning against both overvaluation that hurts exporters and disorderly depreciation that imports inflation.

5. **Treat reserves as insurance, not a strategy**, deploying the current calm to fix structural drivers.

THE TAKEAWAY BOX

Use in GS3 economy answers on balance of payments, external-sector management and the FDI-versus-debt-flows debate.

"The recent calm is an opportunity, not an achievement."

Components of BoP, FCNR(B) versus NRE, FDI versus FPI, the RBI's role in managing rupee volatility.

Policy prudence and the temptation to claim credit for externally driven good news.

Connects to past GS3 questions on the current account deficit, FDI and exchange-rate management.

Make in India, PLI schemes, export strategy and the global geopolitics of energy prices.

Sources: Business Standard (https://www.business-standard.com/opinion/editorial), Mint (https://www.livemint.com/opinion)

KEY ARGUMENTS AT A GLANCE

Temporary relief from lower energy prices and capital-account measures masks structural external-sector vulnerabilities that only higher FDI, stronger exports and sounder currency management can fix.

✓ SUPPORTING

- Easing US-Iran tensions cut oil prices and relieved the current account, but the relief is contingent on geopolitics India does not control.
- Measures such as lifting interest-rate caps on FCNR(B) and NRE deposits attract volatile debt-creating flows rather than stable equity inflows.
- India's gross FDI has been soft and the merchandise trade deficit persistent, leaving the balance of payments dependent on portfolio and remittance flows.

⚠ COUNTER

Some argue that healthy forex reserves and a flexible rupee already provide ample buffer, so structural alarm is overstated.

→ WAY FORWARD

Prioritise higher gross FDI through stable policy, deepen export competitiveness, reassess tariff structures that raise input costs, and review currency-management to avoid both overvaluation and disorderly depreciation.

✍️ MAINS ANSWER FRAMEWORK

QUESTION

"India's external-sector stability rests on factors largely outside its control." Critically examine India's balance-of-payments vulnerabilities and the policy options to address them durably. (250 words)

INTRODUCTION

A welcome calm has returned to India’s external accounts. Easing US-Iran tensions softened oil prices, and government and RBI measures have steadied the rupee.

But cyclical relief should not be mistaken for structural strength, because the conditions that produced it lie largely beyond India’s borders.

BODY

India’s balance of payments has a recurring weakness: a persistent merchandise trade deficit funded by volatile flows. When energy prices fall, the current-account deficit narrows automatically, but this is a windfall of geopolitics, not the fruit of policy.

To shore up the capital account, authorities have leaned on debt-creating inflows, such as relaxing rate caps on FCNR(B) and NRE deposits, which attract money that can leave as quickly as it arrives. Meanwhile gross foreign direct investment, the most stable form of external financing, has been soft, and exports have struggled to gain durable share.

The result is an external position that looks comfortable when oil is cheap and global risk appetite is high, and fragile when either reverses. Large reserves provide a buffer, but reserves manage symptoms, not causes.

Durable resilience requires raising the quality of inflows toward equity and FDI, improving export competitiveness, reassessing tariffs that inflate input costs, and managing the rupee to avoid both overvaluation that hurts exporters and disorderly falls that import inflation.

CONCLUSION

The recent calm is an opportunity, not an achievement. India should use this breathing space to fix the structural drivers of external vulnerability rather than wait for the next geopolitical shock to expose them.

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