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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).

Why in News?

The Prime Minister urged citizens to **reduce non-essential gold purchases, overseas travel and fuel consumption** amid concerns over **India's foreign exchange reserves,** which declined by **USD 38 billion in two months to around USD 691 billion as of May 2026**.

- The pressure was driven largely by a record **gold import bill** and volatile global oil prices, while economists warned that **excessive import restrictions could slow economic growth.**

What is the Current Macroeconomic Situation?

- **Depleting Forex Reserves:** India's foreign exchange reserves declined sharply to around **USD 690.69 billion by May 2026** as the **Reserve Bank of India(RBI)** intervened in currency markets to stabilise the Rupee, which recently crossed the **95 mark against the US dollar** amid global uncertainties.
  - The RBI sold dollar reserves to absorb liquidity shocks and curb excessive exchange rate volatility.
- **Twin Import Burden and Widening CAD:** The **Current Account Deficit (CAD)** is expanding under the structural weight of inelastic imports.
  - **Crude Oil Vulnerability:** India imports nearly 89% of its crude requirements. With **Brent crude** hovering above the USD 100-per-barrel threshold due to the **West Asia crisis,** every USD 1 increase translates to an approximate USD 1.5–USD 2 billion surge in the annual import bill.
  - **Gold Consumption:** India is the world's second-biggest gold consumer after China. Despite possessing thousands of **tonnes of idle household gold**, consumer demand pushed the **gold import bill** to a record **USD 71.98 billion in FY26**, almost doubling from USD 35 billion in 2022-23.
    - Despite record-high global prices, resilient domestic demand has turned the yellow metal into a major forex flashpoint, accounting for nearly **9% of India's total import bill.**
    - Unlike the **RBI's strategic sovereign gold accumulation,** household gold imports directly widen the **CAD**.
- **High Outflows under LRS:** The **Liberalised Remittance Scheme (LRS)** has witnessed massive outflows. Spending on foreign travel and overseas weddings accounted for **over 50% of the total LRS outflows in the first 11 months of FY26.**
  - This high volume of discretionary outward capital flow exacerbates the **pressure on forex reserves**, contravening the **principles of capital conservation** required during external shocks.
- **Fiscal Strain and Subsidized Burdens:** The global energy shock is creating severe fiscal bottlenecks. State-owned Oil Marketing Companies (OMCs) are absorbing massive under-recoveries estimated at Rs 30,000 crore monthly due to **frozen retail fuel prices.**

  - Furthermore, the cost of imported agricultural inputs like urea and ammonia has doubled. Passing these costs to consumers risks severe **food and transit inflation**, while absorbing them **threatens to breach fiscal deficit targets.**

- **Imported Inflation:** A weaker currency creates a vicious cycle: it inflates the domestic cost of imported essentials (oil, electronics, fertilizers), thereby fueling imported inflation.
  - Preventing further rupee depreciation has been flagged by the Chief Economic Advisor as a **"central macroeconomic imperative" for FY27**.

Why is India Calling for Austerity?

- **Managing the Current Account Deficit (CAD):** Non-essential imports, particularly physical gold, do not add to the nation's productive capacity.
  - By calling for a reduction in gold imports and foreign travel, the government is attempting to **contract the demand for dollars.** This eases the **downward pressure on the Rupee,** effectively acting as a non-monetary tool to curb **"imported inflation" t**hat would otherwise erode the purchasing power of the common citizen.
- **Behavioral Economics for Macro Stability:** The PM's call for work-from-home (WFH), carpooling, and virtual meetings represents a demand-side intervention **aimed at structurally reducing petroleum dependency** without imposing strict state rationing.
- **Strategic Resource Prioritization for Food Security:** With the **Kharif** sowing season approaching and global urea prices nearly doubling to USD 935 per tonne, India faces a choice between **subsidizing fuel for private cars or ensuring affordable fertilizers for farmers**.
  - The austerity call represents a "fuel vs. food" reallocation. By suppressing urban energy demand, the government **frees up fiscal space and logistical capacity to secure LNG and fertilizers,** ensuring that the West Asia crisis does not translate into a **domestic food security crisis.**
- **Defense Against 'Capital Flight':** The PM's appeal for "domestic-first" tourism is a behavioral nudge to convert **potential foreign exchange outflows into domestic demand,** supporting the local hospitality sector while keeping forex reserves intact.
- **Enhancing 'Strategic Autonomy'**: Energy security is usually viewed through the lens of supply (diversifying oil sources).
  - However, the 2026 austerity push signals a shift toward **demand-side resilience**. By institutionalizing **Electric Vehicles (EVs)** and public transport as a patriotic duty, the state is attempting to **decouple India's economic growth from the volatile Strait of Hormuz.**
  - Reducing the **'Energy-to-GDP' elasticity ensures** that India's strategic autonomy is not compromised by the threat of global supply chain blackmail or prolonged maritime blockades.

How Can Excessive Forex Saving Measures Hamper Economic Growth?

- **Import-Dependent Manufacturing:** India's manufacturing sector is deeply integrated with **Global Value Chains (GVCs).**
  - It relies heavily on imported capital goods, critical raw materials, and intermediate components (e.g., semiconductors, specialized machinery). Choking these imports to **save dollars directly impacts industrial output, exports, and GDP growth.**
- **The Protectionism Trap:** Resorting to tariff barriers or import substitution to save forex often breeds **domestic inefficiency.**
  - Indian exports (like pharmaceuticals, electronics, and refined petroleum) rely heavily on imported inputs. If acquiring these inputs becomes harder or more expensive due to forex-saving tariffs, Indian exports lose their price competitiveness in the global market.

- **Spooking Global Capital: Foreign Institutional Investors (FIIs) and FDI** prefer environments with predictable, friction-free entry and exit routes.
  - If global investors fear that India's capital account management is becoming overly restrictive to hoard forex, they will price in a higher "country risk premium," ultimately leading to capital flight rather than capital inflow.

1. Which one of the following groups of items is included in India's foreign-exchange reserves? (2013)

(a) Foreign-currency assets, Special Drawing Rights (SDRs) and loans from foreign countries

(b) Foreign-currency assets, gold holdings of the RBI and SDRs

(c) Foreign-currency assets, loans from the World Bank and SDRs

(d) Foreign-currency assets, gold holdings of the RBI and loans from the World Bank

India Hosts Kimberley Process Intersessional Meeting 2026

India, currently serving as the **Chair of the Kimberley Process (KP) for 2026**, hosted the **KP Intersessional Meeting in Mumbai** to fortify the global regulatory framework and ensure the integrity of the natural diamond supply chain.

- **Core Mandate:** The meeting focuses on the **Kimberley Process Certification Scheme (KPCS)**, an international initiative established under **UN General Assembly Resolution 55/56 (2000)** to prevent **"conflict diamonds"** from entering the legitimate global market.
  - India is one of the founding members of the **KPCS.**
- **India's Strategic Theme:** India's Chairship theme for 2026 focuses on the ***3Cs - credibility, compliance and consumer confidence -*** to enhance the transparency and sustainability of the natural diamond sector.
- **Economic Significance:** The event underscores India's position as a global leader in **diamond cutting and polishing**, with the country processing nearly **90% of the world's diamonds** and accounting for around **75% of global diamond turnover by value**.
  - Although India is not a major producer, it imports rough diamonds mainly from the **UAE, Belgium and Russia**, with major industry hubs in **Surat and Mumbai**. India is also emerging as a major producer of **Lab-Grown Diamonds (LGDs)**, contributing over **15% of global output in 2023**.

Kimberley Process

- **About**: The **KP** is an international forum launched in **2000 by Southern African countries** to regulate the trade in rough diamonds.
  - It aims to prevent the trade of **conflict diamonds**, which are diamonds used by rebel groups to finance armed conflicts against legitimate governments.
  - KP is **not a formal international organisation or legally binding treaty**. It operates through **burden-sharing contributions** from participating countries with support from industry and civil society.
  - Its rules are implemented through **national laws rather than international legal obligations**.

- **Participants: The KP has 60 participants representing 86 countries** (with the **European Union** acting as a single bloc), incorporating industry observers like the **World Diamond Council** and the **Civil Society Coalition**.
    - The KP members account for approximately 99.8% of global rough diamond production.
- **Global Relevance:** As the Chair, India aims to modernize the process to remain effective in a shifting geopolitical environment, ensuring that natural diamonds are recognized as a **sustainable and responsibly sourced product**.

Lt. Gen. N.S. Raja Subramani to take over as CDS; Vice Admiral Krishna Swaminathan appointed Navy Chief

Lieutenant General NS Raja Subramani is currently Military Adviser, National Security Council Secretariat from September 1, 2025

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Lt Gen NS Raja Subramani Appointed 3rd CDS

The Government of India has appointed **Lieutenant General NS Raja Subramani** as the 3rd **Chief of Defence Staff (CDS)**, succeeding **General Anil Chauhan** on 31st May 2026.

- **Chief of Defence Staff:** The CDS is the highest-ranking military officer in the Indian Armed Forces, serving as a pivotal institutional link between the military and the civilian political leadership.
    - The post of the **CDS was created in December 2019,** and the then army chief, **General Rawat,** was appointed as the first incumbent in January 2020.
    - The office was established following decades of recommendations from the **Kargil Review Committee (1999)** and the **Shekatkar Committee (2016)** to address coordination gaps exposed during the Kargil War.
- **Rank and Status:** The CDS is a **four-star officer** equivalent in rank to the three service chiefs but functions as the **"first among equals."**
    - The position is **not a constitutional office**; it was created through a **Cabinet decision** and sits **12th in the Indian Order of Precedence**.
- **Appointment Authority:** The CDS is appointed by the **Appointments Committee of the Cabinet (ACC)**, which is chaired by the **Prime Minister.**
- **Eligibility:** Any serving or retired three-star officer (Lieutenant General, Air Marshal, Vice Admiral) or four-star officer (General, Air Chief Marshal, Admiral) under the age of 62 is eligible.
- **Tenure:** While there is no fixed tenure in terms of years, the upper age limit for the CDS to serve in the office is **65 years**.

Roles and Responsibilities of the CDS

- **Administrative Leadership:** The CDS heads the **Department of Military Affairs (DMA)** within the **Ministry of Defence** and functions as its **Secretary**.

- **Dual Advisory Roles:** The officer acts as the **Principal Military Advisor to the Defence Minister** on all tri-service matters and the **Military Advisor to the Nuclear Command Authority (NCA)**, which is chaired by the Prime Minister.
- **Permanent Chairman of COSC:** Unlike the previous rotating system, the CDS serves as the **Permanent Chairman of the Chiefs of Staff Committee (COSC)** to ensure continuity in strategic planning.
- **Fiscal and Strategic Oversight:** The CDS is a member of the **Defence Acquisition Council (DAC)** and is responsible for implementing the **Five-Year Defence Capital Acquisition Plan**, prioritizing proposals based on anticipated budgets to reduce **wasteful expenditure**.
- **Mandate for "Jointness":** A primary responsibility is to foster **jointness in operations, logistics, transport, and training** among the **Army, Navy, and Air Force** to enhance combat capabilities.