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VIDHVATH IAS KAS ACADEMY & STUDY CENTRE

DAILY CURRENT AFFAIRS

FOR UPSC CIVIL SERVICE EXAMINATION

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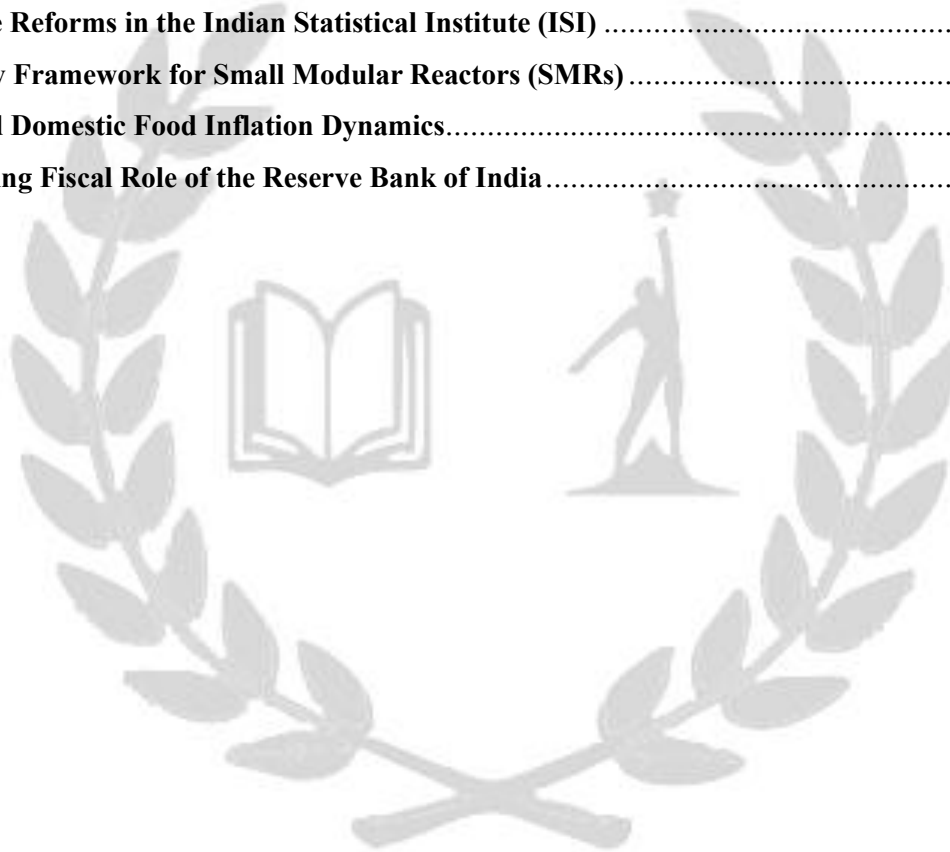
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1. Decoding India's Fertility-Job Puzzle

Key Definitions

- **Total Fertility Rate (TFR):** The average number of children born to a woman during her reproductive years. India's TFR has fallen to 1.9–2.0, dropping below the 2.1 replacement level.
- **Marriage Penalty:** The structural drop in women's labor force participation triggered immediately by marriage due to domestic burdens, distinct from the global "motherhood penalty."

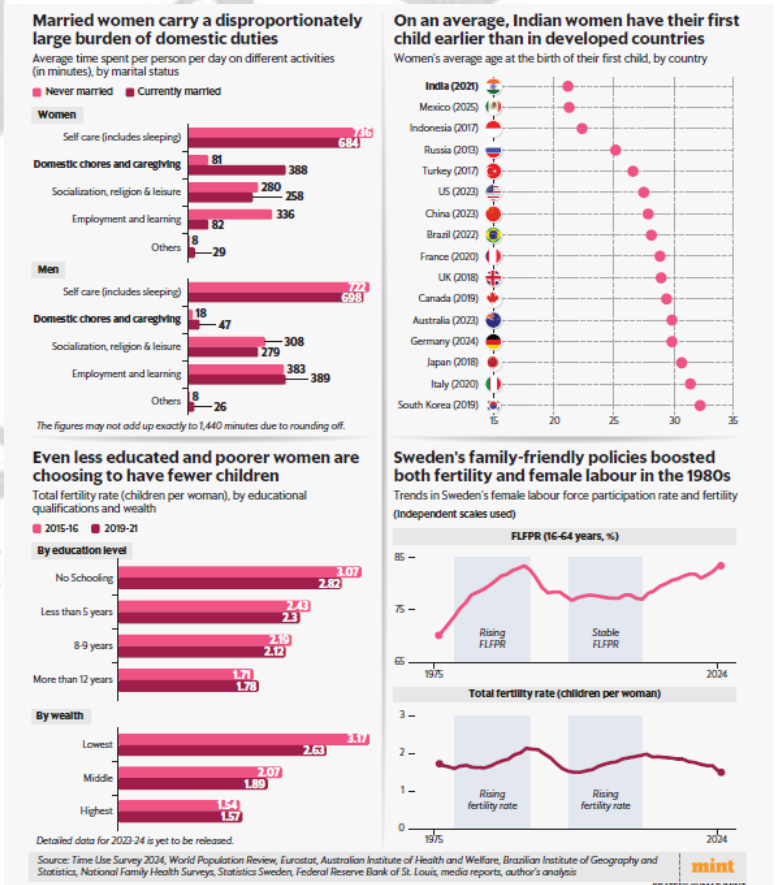
Core Summary

- **The Demographic Paradox:** India's TFR has declined below replacement level (2.0 in NFHS-5; 1.9 in SRS 2024), yet Female Labour Force Participation Rate (FLFPR) remains low at roughly 40% compared to a 50% global average, challenging the economic theory that lower fertility drives higher female employment.
- **Pre-emptive Workforce Exit:** Unlike Western nations facing a motherhood penalty, World Bank data shows marriage reduces Indian women's workforce participation by 12 percentage points, whereas childbirth causes a 4 percentage point drop, making marriage the primary hurdle.
- **Asymmetric Domestic Burden:** Time-use surveys reveal married women spend over 5 hours daily on unpaid chores while men spend under an hour. This domestic load forces women into volatile, low-paying informal and gig jobs to maintain flexibility.

- **Aspirational Constraints:** Escalating child-rearing costs combined with heightened digital exposure have transformed parental aspirations. Families opt for fewer children to maximize investment per child, a shift reinforced by successful historic population control campaigns.
- **The Care Economy Alternative:** Global models, like Sweden's combination of parental leave and subsidized public childcare, demonstrate that sustainable fertility and employment corrections require structural care infrastructure over isolated cash handouts.

Constitutional & Legal Provisions

- **Article 14 & 15:** Guarantee fundamental rights to equality and prohibit gender-based discrimination by the state.
- **Article 39(a) & (d):** Directive Principles ensuring equal livelihood rights and equal pay for equal work for both genders.
- **Article 42:** Mandates that the State secure just and humane conditions of work and maternity relief.





- **Maternity Benefit (Amendment) Act, 2017:** Mandates 26 weeks of paid maternity leave and mandatory crèche facilities for firms with 50+ employees.

UPSC Relevance & Conclusion

- **UPSC Relevance:** GS Paper I (Population and Associated Issues, Role of Women), GS Paper II (Social Sector Initiatives and Governance), and GS Paper III (Employment and Indian Economy).
- **Conclusion:** Capitalizing on India's demographic transition requires evolving the policy focus from basic educational access (*Beti Bachao, Beti Padhao*) to workforce retention (*Beti ko Kaam Dilao*). Addressing the crisis demands treating declining fertility as an institutional deficit in support frameworks rather than a simple population metric.

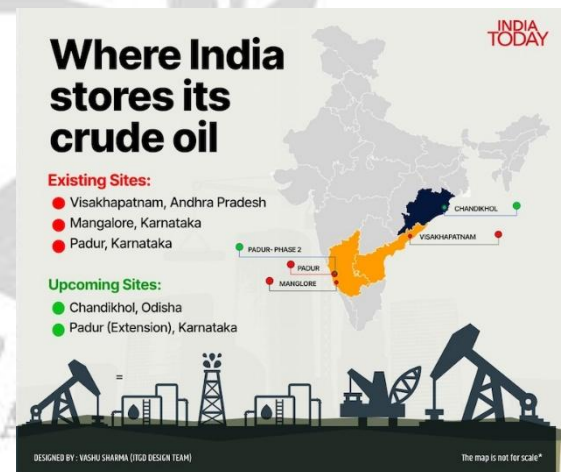
2. India's Strategic Petroleum Reserves Vulnerability

Key Definitions

- **Strategic Petroleum Reserve (SPR):** Emergency fuel stores maintained by a country's government to cushion against unexpected external supply shocks or geopolitical disruptions.
- **Net Crude Imports:** The total volume of crude oil a nation purchases from foreign markets minus any domestic crude oil exports.

Core Summary

- **Critical Storage Deficit:** A Council on Energy, Environment and Water (CEEW) report highlights that India's current SPR covers only 9-10 days of net crude imports, exposing the economy to severe energy security vulnerabilities.
- **Global Benchmarks:** India's emergency reserves lag significantly behind other major import-dependent Asian economies, such as Japan and South Korea, both of which maintain robust reserves exceeding 200 days.
- **Phase I Infrastructure:** India's operational SPR capacity stands at 5.33 million metric tonnes (MMT) across three underground rock cavern locations managed by Indian Strategic Petroleum Reserves Limited (ISPRL): Vishakhapatnam, Mangaluru, and Padur.
- **Commercialization Strategy:** To optimize costs, the government has permitted the commercial utilization of these reserves, allowing foreign National Oil Companies (NOCs) to store oil under a model where India retains first right of refusal during crises.
- **Phase II Expansion:** To meet the International Energy Agency (IEA) mandate of 90 days of import cover, India has approved Phase II commercial-cum-strategic expansion at Chandikhol and Padur to add 6.5 MMT of storage capacity.



Constitutional & Legal Provisions

- **Union List (Seventh Schedule):** Entry 53 places the regulation and development of oilfields, mineral oil resources, petroleum, and petroleum products under the exclusive legislative domain of the Central Government.



- **Petroleum Act, 1934:** Regulates the import, transport, storage, and production of petroleum products across the nation.
- **Essential Commodities Act, 1955:** Empowers the government to control production, supply, and distribution of petroleum products during national emergencies to check hoarding and price spikes.

UPSC Relevance & Conclusion

- **UPSC Relevance:** GS Paper III (Energy Security, Infrastructure, and Mobilization of Resources) and GS Paper II (Geopolitics and International Relations affecting India's interests).
- **Conclusion:** India's 9-10 day SPR cover underscores an urgent need to accelerate Phase II expansion and foster public-private partnerships. Securing energy resilience is vital to insulating macroeconomic stability from volatile global supply chains.

3. India's Jet Fuel Exports to Europe and Global Energy Shifts

Key Definitions

- **Jet Fuel (Aviation Turbine Fuel - ATF):** A specialized petroleum-based fuel used to power aircraft, requiring stringent refining standards for stability and performance.
- **Trade Laundering / Circumvention:** The practice where raw commodities from a sanctioned country are processed in a third-nation refinery and legally exported as new products to the sanctioning market.

Core Summary

- **Export Surge to Europe:** Data from Kpler and LSEG confirms that India's jet fuel exports to the European Union (EU) are bouncing back toward 2025 levels, filling the supply vacuum created by Western restrictions.
- **Volume and Destination:** Shipments have reached approximately 62,000 to 64,000 barrels per day (bpd), with a significant portion originating from Reliance Industries' Jamnagar refinery complex in Gujarat and heading to destinations like Italy.
- **Sanction Dynamics:** The European Union implemented a strict ban on petroleum products derived directly from Russian crude oil to deplete Moscow's revenues, structurally altering European energy supply chains.
- **The Refining Arbitrage:** As a major buyer of discounted Russian crude, Indian refiners process these imports domestically into refined products, establishing a crucial, legal backdoor supply route for energy-deficient Western markets.
- **Operational Segregation:** To comply with stringent Western oversight, major private refiners utilize structured administrative protocols to declare and certify that specific export-oriented batches are processed using non-Russian crude inputs.

Constitutional & Legal Provisions

- **Article 246 (Seventh Schedule - Union List):** Entry 53 grants the Parliament exclusive jurisdiction over petroleum and mineral oil resources, while Entry 41 covers trade and commerce with foreign countries.





- **Foreign Trade (Development and Regulation) Act, 1992:** Empowers the Central Government to formulate and execute India's Export-Import (EXIM) Policy, regulating strategic petroleum shipments and trade compliance.
- **Customs Act, 1962:** Provides the statutory framework for evaluating, inspecting, and documenting international cargo, including country-of-origin certification for refined hydrocarbon fuels.

UPSC Relevance & Conclusion

- **UPSC Relevance:** GS Paper II (Effect of Policies of Developed Countries on India's Interests, Bilateral Relations) and GS Paper III (Indian Economy, Energy Infrastructure, and Industrial Growth).
- **Conclusion:** The resurgence of Indian jet fuel flows to the EU highlights India's critical position as a stabilizing global refining hub. Balancing strategic autonomy with Western sanctions underscores the pragmatic nature of modern Indian foreign and economic policy.

4. Banking Sector Consolidation and Capital Liberalization

Key Definitions

- **Banking for Viksit Bharat:** A high-level policy initiative announced in the Union Budget 2026-27 to enhance the global scale, risk resilience, and capital deployment capabilities of Indian banks.
- **Foreign Direct Investment (FDI) Cap:** The maximum percentage of foreign ownership legally permitted in an industry; for public sector banks (PSBs), it is currently restricted to 20%.

Core Summary

- **Mandate for High-Level Committee:** The government is establishing a five-member high-level committee on banking reforms, likely chaired by M. Nagaraju, to address balance sheet constraints, governance, and asset optimization across public sector banks.
- **Proposed PSB Consolidation:** The panel is slated to evaluate a fresh blueprint to consolidate India's remaining 12 state-run lenders down to five large entities, continuing the consolidation policy trajectory seen during 2017-20 when 27 PSBs were pruned to 12.
- **FDI Cap Liberalization:** To infuse robust global capital and strengthen internal asset reserves without stressing the state exchequer, the committee is considering a significant hike in the FDI ceiling for PSBs from 20% to 49%.
- **The Narasimham Legacy:** The proposed merger template directly aligns with the landmark 1998 M. Narasimham Committee recommendations, which envisioned a tiered, highly efficient, and globally competitive domestic banking structure.
- **Strategic Operational Alignment:** Targeted reorganizations under consideration include a potential amalgamation of Bank of India with Union Bank of India to create a mega-lender second only to the State Bank of India, alongside a parallel merger of Indian Bank with Indian Overseas Bank.





Constitutional & Legal Provisions

- **Seventh Schedule (Union List):** Entry 45 explicitly vests the exclusive authority to legislate on "Banking" with the Parliament of India.
- **Banking Regulation Act, 1949:** Provides the structural and regulatory framework under which the Reserve Bank of India governs commercial and state-run banking operations, corporate governance, and asset audits.
- **Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980:** Constitutes the statutory basis for the nationalization, ownership structure, and legal amalgamation procedures of public sector banks in India.

UPSC Relevance & Conclusion

- **UPSC Relevance:** GS Paper III (Indian Economy, Mobilization of Resources, Banking Sector Reforms, and Infrastructure Financing).
- **Conclusion:** Transitioning India towards a high-growth trajectory necessitates a banking architecture capable of absorbing massive credit demands. By combining institutional consolidation with expanded foreign investment pathways, the reforms intend to build resilient, globally competitive financial champions while protecting financial stability and consumer welfare.

5. India's Historic Leap in Defence Production

Key Definitions

- **Defence Industrial Base (DIB):** The combined institutional, technological, and manufacturing infrastructure of public and private sector enterprises engaged in the research, development, production, and maintenance of military hardware.
- **Atmanirbharta in Defence:** A strategic national policy aimed at achieving self-reliance in military technology, minimizing dependence on foreign original equipment manufacturers (OEMs), and expanding localized manufacturing.

Core Summary

- **Record-Breaking Output:** India's annual defence production reached an all-time high of ₹1.78 trillion in FY26, highlighting a decisive shift toward a self-sustaining security ecosystem.
- **Robust Growth Trajectory:** This milestone reflects a 15.6% year-on-year growth compared to ₹1.54 trillion in FY25, and an impressive 110% surge from the FY21 output of ₹84,643 crore.
- **Indigenization Driven by Policy:** The rapid expansion is propelled by targeted structural reforms, including the notification of Positive Indigenization Lists (PILs) that ban the import of specific military systems and sub-assemblies.
- **Private Sector Integration:** Deliberate ease-of-doing-business initiatives, defense startups via iDEX (Innovations for Defence Excellence), and simplified industrial licensing have integrated private players into mainstream military manufacturing.





- **Export-Oriented Ecosystem:** This scaling of the domestic manufacturing base serves dual strategic mandates: fulfilling the modernization needs of the Indian Armed Forces and advancing India's footprint as a dependable global exporter of defense platforms.

Constitutional & Legal Provisions

- **Seventh Schedule (Union List):** Entry 1 (Defence of India) and Entry 2 (Naval, military and air forces; works) vest exclusive legislative and executive competence over defense infrastructure with the Central Government.
- **Defence Acquisition Procedure (DAP) 2020:** Formulates rules governing capital acquisitions, prioritizing "Buy (Indian-IDDMM)" (Indigenously Designed, Developed and Manufactured) categories to boost local content.
- **Industries (Development and Regulation) Act, 1951:** Provides the regulatory framework for licensing and governing defense industrial undertakings, balancing national security protocols with private enterprise entry.

UPSC Relevance & Conclusion

- **UPSC Relevance:** GS Paper III (Indigenization of Technology, Sectoral Growth, and Security Challenges), and GS Paper II (Government Policies and Interventions for Development).
- **Conclusion:** Touching the ₹1.78 trillion mark confirms that India's defense sector is evolving from an import-dependent regime into a potent manufacturing engine. Sustaining this momentum requires deeper private capital influx, a strong focus on core research and development, and steady export expansion to cement global strategic autonomy.

6. RBI's Liquidity Management via Variable Rate Repo

Key Definitions

- **Transient Liquidity:** Short-term, temporary fluctuations in the availability of cash or liquid funds within the banking system, often caused by seasonal or cyclical events like tax payouts.
- **Variable Rate Repo (VRR) Auction:** A monetary policy tool used by the Reserve Bank of India (RBI) to inject short-term liquidity into banks at a market-determined, competitive interest rate rather than a fixed repo rate.

Core Summary

- **Substantial Liquidity Influx:** The RBI injected ₹72,300 crore of transient liquidity into the banking system through two distinct Variable Rate Repo (VRR) auctions to counter a sudden tightening of money market conditions.
- **Trigger for Deficit:** The system's surplus liquidity narrowed abruptly due to quarterly advance tax outflows, which temporarily move large volumes of cash out of commercial banks and into government accounts held with the central bank.





- **Auction Mechanics:** The intervention was split into two parallel operations, including a primary two-day VRR auction that infused ₹50,016 crore at a competitive market-driven cut-off rate of 5.26%, alongside a secondary auction infusing ₹22,284 crore.
- **Stabilizing Call Money Rates:** By proactively injecting short-term cash, the RBI successfully prevented spikes in the Weighted Average Call Rate (WACR), keeping it aligned with the policy repo rate.
- **Dynamic Monetary Stance:** This short-term deployment underscores the central bank's fine-tuning approach to liquidity management, ensuring productive sectors face no credit bottlenecks while maintaining its overall anti-inflationary focus.

Constitutional & Legal Provisions

- **Seventh Schedule (Union List):** Entry 36 (Currency, coinage and legal tender) and Entry 38 (Reserve Bank of India) grant exclusive legislative and regulatory domain over monetary infrastructure to the Union Parliament.
- **Reserve Bank of India Act, 1934:** Section 45ZB establishes the statutory framework for the Monetary Policy Committee (MPC) and empowers the RBI to execute open market operations and liquidity management maneuvers.
- **Banking Regulation Act, 1949:** Empowers the RBI to monitor and regulate the asset-liability frameworks, cash reserves, and overall liquidity positions of commercial banking entities.

UPSC Relevance & Conclusion

- **UPSC Relevance:** GS Paper III (Indian Economy, Monetary Policy, Banking System, and Liquidity Adjustments).
- **Conclusion:** The RBI's deployment of VRR auctions reflects an agile approach to balancing frictional deficits without altering the structural monetary stance. Managing transient credit shocks ensures financial stability, checks unnecessary interest rate volatility, and anchors institutional lending capacity.

7. India-US Bilateral Ties and Global South Advocacy at the G7 Summit

Key Definitions

- **Global South:** A term broadly used to designate developing, emerging, and least-developed nations located primarily in Asia, Africa, and Latin America that share common socio-economic and historical challenges.
- **Economic Corridor:** A deeply integrated network of infrastructure, logistics, and supply chains designed to stimulate economic development across specific geographic regions by connecting economic nodes.

Core Summary

- **Resurgence in Bilateral Relations:** As detailed in Prime Minister Narendra Modi and US President Donald Trump held their first bilateral meeting in over a year on the sidelines of the G7 Summit in Evian, France, setting a cooperative trajectory for a comprehensive trade deal.
- **Strategic and Professional Commitments:** The high-level discussions emphasized a shared strategic commitment to regional security, maritime and sailor safety, and expanding growth avenues for skilled Indian professionals in international markets.



- **Advocacy for Vulnerable Nations:** Prime Minister Modi forcefully articulated that developing nations should not independently bear the asymmetric economic burdens of external geopolitical conflicts, notably the ongoing crisis in West Asia.
- **Supply Chain Interruptions:** The deliberation highlighted severe disruptions in vital global supply chains, specifically fuel, fertilizer, and food, which heavily penalize the economic stability of the Global South.
- **Call for Financial Backing:** India urged G7 leaders and global financial institutions to establish robust institutional mechanisms and support frameworks to insulate vulnerable economies from external macroeconomic shocks.
- **Structural Partnerships:** The Indian leadership proposed targeted global initiatives, including enhanced economic corridors and formalized skilled mobility partnerships, to build long-term, resilient international trade infrastructure.

Constitutional & Legal Provisions

- **Article 51 (Directive Principles):** Directs the State to promote international peace and security, maintain just and honorable relations between nations, and foster respect for international law.
- **Article 73:** Extends the executive power of the Union to the exercise of rights, authority, and jurisdiction vested in the Government of India by virtue of any treaty or agreement.



UPSC Relevance & Conclusion

- **UPSC Relevance:** GS Paper II (Bilateral, Regional, and Global Groupings involving India; Effect of Policies of Developed Countries on India's Interests; and International Institutions).
- **Conclusion:** India's diplomatic engagements at Evian demonstrate its dual strategy of strengthening critical bilateral relationships with the US while reinforcing its status as the leading voice for the Global South. Equitably distributing the financial burdens of global crises is essential to establishing a balanced, multipolar world order.

8. Decoding the US-Iran Diplomatic Deadlock

Key Definitions

- **Transactional Diplomacy:** A short-term, deal-driven negotiation style focused on immediate leverage, maximum pressure, and clear, highly visible breakthroughs.
- **Institutional / Bazaar Style Negotiation:** A systematic, scholarly diplomatic approach rooted in long-term strategic autonomy, civilisational history, deliberate ambiguity, and infinite patience.

Core Summary

- **Clash of Negotiating Philosophies:** As outlined by Shashi Tharoor in the impasse between the US and Iran stems not just from structural disputes like uranium enrichment but from a fundamental incompatibility in their philosophical approaches to negotiation.





- **The American Transactional Model:** Popularised by Donald Trump's *The Art of the Deal*, the US approach views negotiation as a zero-sum game fueled by personality, disruption, and "the squeeze"—applying maximum pressure to force rapid, high-stakes breakthroughs.
- **The Iranian Institutional Framework:** Anchored in Abbas Araghchi's *The Power of Negotiation*, Tehran's approach relies on systematic "smart power," institutional discipline, and a bazaar-style strategy that uses time as a weapon and values strategic patience.
- **Feedback Loop of Misinterpretation:** This conceptual chasm triggers a severe diplomatic mismatch; while Washington reads Iranian patience as a lack of seriousness or defiance, Tehran views unilateral American disruptions as lawless departures from international engagement.
- **Domestic and Regional Constraints:** Compromise is severely constricted by intense internal pressures—such as critical congressional scrutiny in Washington and an ideological clerical establishment in Tehran—compounded by the regional security anxieties of Israel and the Gulf states.
- **Divergent Long-term Destinations:** The conflict persists because the US pursues a definitive corporate-style "grand bargain," whereas Iran seeks a managed, perpetual state of balanced leverage that preserves its national dignity.

Constitutional & Legal Provisions

- **Article 51 (Directive Principles of State Policy):** Obligates India to promote international peace and security, maintain just and honourable relations between nations, and foster respect for treaty obligations.
- **The Joint Comprehensive Plan of Action (JCPOA):** The landmark 2015 nuclear framework endorsed by UN Security Council Resolution 2231, representing the international legal architecture governing Iranian nuclear compliance.

UPSC Relevance & Conclusion

- **UPSC Relevance:** GS Paper II (Bilateral, Regional, and Global Groupings involving India; Effect of Policies of Developed and Developing Countries on India's Interests; and West Asian Geopolitics).
- **Conclusion:** Resolving the persistent West Asian friction requires both Washington and Tehran to look beyond their narrow diplomatic scripts. For India, a stable West Asia is critical for energy security and regional connectivity, making a nuanced understanding of these deep-seated strategic cultures vital for domestic foreign policy.

9. Governance Reforms in the Indian Statistical Institute (ISI)

Key Definitions

- **Body Corporate:** A legal entity created by statute that possesses an independent legal personality, perpetual succession, and the capacity to sue, be sued, and hold property in its own name.
- **Institutional Calcification:** The gradual decline in organizational agility, adaptability, and performance caused by rigid, outdated bureaucratic structures and oversized decision-making bodies.

Core Summary

- **Historical Eminence vs. Current Stagnation:** Founded by P.C. Mahalanobis in 1931, ISI was pivotal in crafting India's early Five-Year Plans and national sample surveys, but systemic



governance failures have relegated it to the sidelines during the modern artificial intelligence revolution.

- **The Draft ISI Bill, 2026:** As highlighted in proposed legislation overhauls ISI's administrative architecture by establishing an agile 11-member Board of Governance with balanced internal and external representation to replace its unwieldy 33-member council.
- **Structural Decalcification:** The Bill transitions ISI into a proper body corporate, eliminating the procedural vetoes historically held by its 1,000-plus member General Body and replacing popularity-driven internal elections for division heads with merit-based appointments.
- **Decentralization and Regional Autonomy:** The reform framework grants essential administrative and financial autonomy to ISI's regional centres in Delhi, Bengaluru, Chennai, and Tezpur, removing centralized bureaucratic bottlenecks that have blocked progress for fifty years.
- **Expanding Mandate and Scaling Deficit:** The legislation explicitly expands ISI's academic mandate to include AI, machine learning, and advanced modelling, while seeking to scale up its intake from a restrictive 550-600 students annually toward the 2,500-student benchmark seen in premier IITs.



Constitutional & Legal Provisions

- **Seventh Schedule (Union List):** Entry 64 vests Parliament with exclusive powers over institutions of national importance funded by the Central Government, providing the constitutional basis for the Indian Statistical Institute Act, 1959.
- **Article 51A(h) (Fundamental Duties):** Directs citizens to develop a scientific temper, humanism, and the spirit of inquiry and reform, which underpins the state's mandate to modernize scientific institutions.

UPSC Relevance & Conclusion

- **UPSC Relevance:** GS Paper II (Governance, Statutory Bodies, and Government Policies for Development) and GS Paper III (Science and Technology, and Growth).
- **Conclusion:** To reclaim its world-class standing by its 2031 centenary, ISI must rapidly transition to the compact, autonomous governance structures utilized by IITs and IIMs. Revitalizing its institutional capacity is critical to securing India's leadership in global data-driven governance.

10. Regulatory Framework for Small Modular Reactors (SMRs)

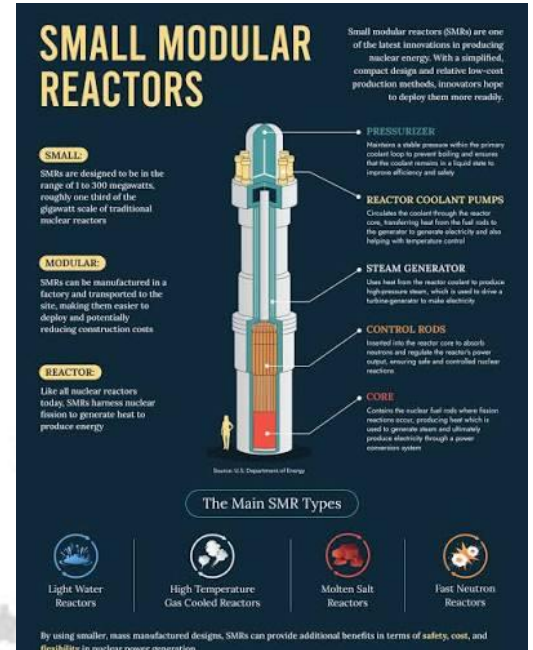
Key Definitions

- **Small Modular Reactors (SMRs):** Advanced nuclear reactors with a power capacity ranging from 30MWe to 300MWe per unit, designed to be factory-constructed and transported for rapid site installation.
- **SHANTI Act:** A landmark legislative framework that received Presidential assent on December 21, 2025, opening India's tightly regulated civil nuclear sector to private sector participation.



Core Summary

- **Parity in Safety Regulation:** India's top atomic energy regulator will maintain the same rigorous safety and licensing protocols for SMRs as applicable to conventional large-scale nuclear reactors.
- **Decarbonization Potential:** SMRs are increasingly pitched as a safer, low-carbon alternative capable of providing round-the-clock baseload electricity to deeply decarbonize energy-intensive industries like steel, cement, and aluminium.
- **Addressing the Experience Deficit:** Strict regulatory oversight is considered imperative because prospective private domestic entrants currently lack operational experience in managing sensitive nuclear facilities.
- **Mandatory Technology Pacts:** To secure a license, any new entrant must establish a formal agreement with a domestic or foreign technology provider to ensure continuous design support, operational training, and maintenance.
- **Annual Compliance Audits:** Following initial licensing, the regulator will execute annual monitoring to verify safety compliance and ensure plant operators receive continuous training from technology partners.
- **Strategic Energy Transition:** While Pressurised Heavy Water Reactors (PHWRs) remain the backbone of India's nuclear program, the state is actively seeking foreign investment and expertise to integrate into the global SMR manufacturing value chain.



Constitutional & Legal Provisions

- **Seventh Schedule (Union List):** Entry 6 vests exclusive legislative and executive authority over "Atomic energy and mineral resources necessary for its production" with the Central Government.
- **Atomic Energy Act, 1962:** Provides the core legal architecture for the development, control, and use of atomic energy for peaceful purposes, establishing the framework for regulatory watchdogs.
- **SHANTI Act, 2025:** Provides the statutory mechanism for private entities to set up nuclear facilities and manage the production, use, and disposal of nuclear energy under central license.

UPSC Relevance & Conclusion

- **UPSC Relevance:** GS Paper III (Infrastructure, Energy Security, Indigenization of Technology, and Scientific Developments) and GS Paper II (Government Policies and Interventions).
- **Conclusion:** The government's decision to maintain strict regulatory parity ensures that privatizing the civil nuclear sector under the SHANTI Act does not compromise safety protocols. Developing a secure, highly regulated SMR ecosystem is vital for balancing India's clean energy goals with stringent national security standards.



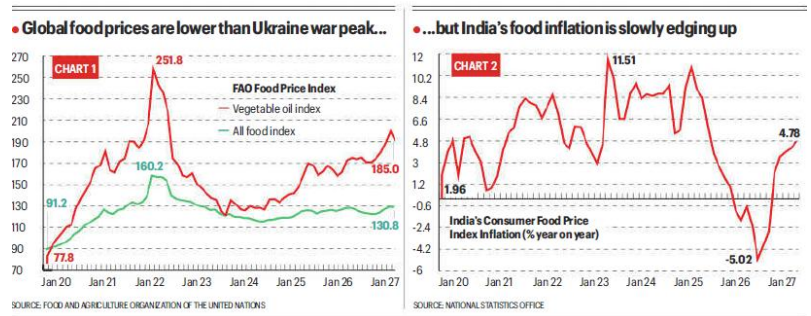
11. Global and Domestic Food Inflation Dynamics

Key Definitions

- **El Niño:** The periodic abnormal warming of surface waters in the central and eastern equatorial Pacific Ocean, which suppresses Indian monsoon rainfall and raises regional temperatures.
- **FAO Food Price Index:** A measure of the monthly change in international prices of a basket of food commodities, serving as a global benchmark for food inflation.

Core Summary

- **Emerging El Niño Threat:** As reported in the US NOAA has declared the development of El Niño conditions, with a 62-63% probability of intensifying into a "very strong" event between October and January, endangering upcoming crop cycles.
- **Global vs Domestic Divergence:** While the global FAO Food Price Index remains well below its March 2022 Ukraine war peak of 160.2 points, India's annual consumer food price index inflation is steadily ticking upward, hitting 4.8% in May.
- **The Vegetable Oil Exception:** Vegetable oils are the primary food commodity seeing a significant price surge, with the FAO vegetable oil index climbing 21.5% higher year-on-year due to increased diversion for biofuel production.
- **Buffer from Bumper Harvests:** Global food prices have been temporarily insulated from West Asian geopolitical shocks due to all-time record global outputs of wheat, corn, and soyabean during 2024-25 and 2025-26.
- **Supply Chain and Fertilizer Risks:** Persistent West Asian conflicts and threats to the Strait of Hormuz waterway have caused critical import costs for fertilizers like urea and di-ammonium phosphate to skyrocket, threatening Rabi crop yields.



Constitutional & Legal Provisions

- **Article 47 (Directive Principles):** Directs the State to raise the level of nutrition and the standard of living of its people and to improve public health as among its primary duties.
- **Essential Commodities Act, 1955:** Empowers the government to regulate the production, supply, and distribution of essential food items to prevent hoarding and stabilize domestic prices.

UPSC Relevance & Conclusion

- **UPSC Relevance:** GS Paper III (Indian Economy, Inflation, Major Crops, Cropping Patterns, and Agricultural Supply Chain) and GS Paper I (Important Geophysical Phenomena - El Niño).
- **Conclusion:** Managing creeping food inflation requires an agile policy approach that balances trade interventions with domestic buffer management. As climatic uncertainties like a potential super El Niño loom alongside geopolitical disruptions to input supplies, reinforcing agrarian climate-resilience and securing fertilizer supply lines remain critical to safeguarding macroeconomic stability and food security.



12. The Evolving Fiscal Role of the Reserve Bank of India

Key Definitions

- **Economic Capital Framework (ECF):** A structured methodology implemented in 2019 following the Bimal Jalan committee recommendations to determine the ideal level of risk provisions and surplus capital transfer from the RBI to the Government of India.
- **Divisible Pool:** The net proceeds of shareable central taxes and duties that must be constitutionally distributed between the Union and the States based on recommendations of the Finance Commission.

Core Summary

- **Record Surplus Transfer:** In May, the RBI approved an unprecedented surplus transfer of ₹2.87 lakh crore to the Union government for FY26, highlighting a steep jump from traditional annual transfers that historically averaged ₹30,000 crore to ₹65,000 crore.
- **Balance Sheet Expansion:** The central bank's balance sheet registered a phenomenal 20.6% year-on-year growth, touching ₹91.97 lakh crore by March 2026, alongside a 26% spike in gross income driven by strategic reserve operations.
- **Reserve Management Arbitrage:** To stabilize exchange-rate pressures on the rupee, the RBI engaged in reserve rebalancing by selling nearly \$12 billion in gold assets and purchasing \$7.5 billion in liquid foreign currency.
- **Fiscalization of Monetary Policy:** These standard stabilization activities generated heavy non-tax revenues from foreign exchange transactions, foreign asset gains, and interest on securities, effectively expanding the center's fiscal space without new borrowing or taxes.
- **Federal Imbalances:** Because central bank dividends are classified as non-tax revenue, they bypass the divisible pool and are excluded from fiscal devolution, inadvertently fostering fiscal centralization while states face rigid borrowing limits.
- **Autonomy and Institutional Distance:** While the RBI maintains operational autonomy, the increasing reliance on its massive balance sheet to meet sovereign fiscal needs risks narrowing the essential institutional distance required for unbiased inflation and currency management.



Constitutional & Legal Provisions

- **Article 268 to 271:** Govern the distribution of revenues between the Union and the States, detailing items that fall outside or within the divisible tax pool.
- **Article 293:** Places statutory limits and central consent mandates on the borrowing powers of State governments.
- **Section 47 of the RBI Act, 1934:** Mandates that after making provisions for bad debts, depreciation, and staff funds, the remaining net profits of the central bank must be transferred to the Central Government.

UPSC Relevance & Conclusion

- **UPSC Relevance:** GS Paper III (Indian Economy, Monetary Policy, Central Banking, and Mobilization of Resources) and GS Paper II (Fiscal Federalism and Statutory Bodies).



- **Conclusion:** The massive FY26 surplus transfer highlights a deep intertwining of monetary operations with state finances. Preserving a healthy institutional distance remains vital to ensuring that short-term revenue imperatives do not overshadow the RBI's core mandate of safeguarding macroeconomic stability and federal economic balance.
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