Prelims Exam Topics

RBI SURPLUS TRANSFER TO THE CENTRAL GOVERNMENT

Context

RBI approves record ₹2.86 lakh crore surplus transfer to Central Government for Financial Year 2025-26

About Surplus Transfer

- The Reserve Bank of India (RBI) transfers its excess earnings to the Central Government after deducting all operational expenses and necessary financial provisions.
- This transfer is known as a surplus transfer rather than a dividend because the RBI functions as a central bank and not as a profit-making commercial institution.

Legal Basis

- The process is regulated under Section 47 of the RBI Act, 1934.
- According to the Act, the RBI must first make provisions for:
    - Bad and doubtful debts,
    - Depreciation of assets,
    - Employee welfare and pension liabilities,
    - Other routine banking and operational contingencies.
- The remaining balance is then transferred to the Government of India.

Main Sources of RBI Income

- Interest on foreign investments such as bonds, treasury bills, and deposits held with other central banks.
- Interest from domestic government securities.
- Short-term lending operations to commercial banks, including repo transactions.
- Fees and commissions for managing borrowings of the Central and State Governments.
- Charges related to currency management and payment system operations.

Major Expenditures of RBI

- Printing and distribution of currency notes.
- Salaries, pensions, and other employee-related expenses.
- Commission paid to banks and primary dealers for handling public debt operations.

How is the RBI Surplus Transfer Determined?

- **Economic Capital Framework (ECF):** The surplus transfer is calculated according to the Economic Capital Framework adopted on August 26, 2019, based on the recommendations of the Bimal Jalan Committee.
- **Contingent Risk Buffer (CRB):** The RBI maintains a Contingent Risk Buffer within the range of 5.5% to 6.5% of its balance sheet to address unforeseen financial risks.
- **Calculation of Transferable Surplus:** The transferable surplus is arrived at after deducting the following from RBI's total income:
    - Operational and administrative expenses, and
    - Risk provisions under the CRB
- **Approval Process:** The final surplus amount is approved by the RBI Central Board during its meeting held after the close of the financial year (July–June).

VARIABLE REPO RATE (VRR) AUCTION

Context

RBI injects ₹81,590 crore transient liquidity into banking system via 3-day VRR auction

About VRR

- The Variable Repo Rate (VRR) is a liquidity management instrument used by the Reserve Bank of India (RBI) through which banks can obtain short-term funds at interest rates decided through auctions.
- Unlike fixed repo operations, where the RBI specifies the borrowing rate beforehand, VRR allows the rate to be determined by market-based bidding.

> **Transient liquidity** refers to temporary cash flow fluctuations in a financial or banking system

Operation of VRR

- Under the VRR mechanism, the RBI conducts auction-based repo operations, generally with maturities ranging from 1 to 14 days.
- During these auctions banks indicate the amount they wish to borrow and they also quote the interest rate they are willing to pay.
- The RBI accepts bids based on favourable market conditions and liquidity requirements.

- The final rate emerging from this competitive process is known as the variable repo rate. However, the rate cannot fall below the Reverse Repo Rate, which acts as the lower limit and prevents arbitrage opportunities.

Significance of VRR

- At times, short-term market interest rates may decline below the fixed repo rate, making borrowing through the regular repo window less attractive for banks.
- To address such situations, the RBI uses VRR to inject liquidity at rates aligned with prevailing market conditions.
- It makes borrowing more feasible for banks
- Reflects current liquidity conditions more accurately
- Supports the monetary policy framework without altering the stance of the Monetary Policy Committee (MPC)

Key Features of VRR

- **Flexible Maturity Period**: Usually ranges from 1 to 14 days, though longer tenures may also be used.
- **Auction-Based Mechanism**: Promotes transparency and market-driven pricing.
- **Liquidity Management Tool**: Helps balance short-term liquidity requirements with monetary stability.
- **Part of LAF Corridor**: Keeps market interest rates within the repo and reverse repo corridor set by the RBI.

VRR and Fixed Repo Rate: Key differences

Parameter	Variable Repo Rate (VRR)	Fixed Rate Repo
Interest Rate	Determined through auction-based bidding	Fixed in advance by RBI
Flexibility	Higher flexibility according to market conditions	Limited flexibility
Sensitivity to Market Conditions	More responsive to liquidity fluctuations	Less responsive to short-term changes
Usage	Used more frequently during volatile liquidity situations	Regular liquidity adjustment mechanism

INDIA–CYPRUS STRATEGIC PARTNERSHIP

Context

India and Cyprus upgraded bilateral ties during the visit of the Cyprus President to India.

Key Outcomes of the Visit

- **Strategic Partnership:** Bilateral relations elevated to Strategic Partnership level.
- **Defence Cooperation:** Five-year defence cooperation roadmap (2026–2031); Cyprus interested in Indian drones and missile systems.
- **Cyber & Maritime Security:** Decision to establish cyber-security dialogue and strengthen maritime-security cooperation.
- **Counter-Terrorism:** MoU signed for Joint Working Group on counter-terrorism.
- **Connectivity Initiatives:** Cooperation on IMEEC and Indo-Pacific Oceans Initiative (IPOI).
- **Trade & Investment:;** Both sides aim to double investments in next five years.(Cyprus among India's top 10 investors)

About Cyprus

- **Location**: Island country in the eastern Mediterranean Sea, located near Turkey, Syria and Lebanon. **Capital**: Nicosia.
- **Memberships:** Member of the European Union and Eurozone.
- **Strategic Importance:** Acts as gateway between Europe, West Asia and the Mediterranean region.
- **Cyprus Issue:** Island remains divided between Republic of Cyprus and Turkish-controlled Northern Cyprus since 1974.
    - India supports Cyprus's sovereignty and a UN-backed solution which gains significance amid Turkey's criticism on Kashmir and support for Pakistan.
- **Importance for India:** Important for IMEEC connectivity, EU outreach, maritime trade and investment flows

Mains Exam Topics

EMERGING STRATEGIC FAULTLINES IN INDIA–US RELATIONS

Context

Recent developments including U.S.–China rapprochement, differences over Russia, tariffs, West Asia crisis have highlighted emerging faultlines in India–United States relations despite continued strategic cooperation.

Structural Convergences Between India and U.S.

- **Shared Concerns on China:** Both countries oppose unilateral changes to Indo-Pacific balance of power. (South China Sea militarisation and Indo-Pacific competition)
- **Defence & Security Cooperation:** Expanding military exercises, logistics agreements and defence technology partnerships. (LEMOA, COMCASA, BECA, INDUS-X)
- **Critical & Emerging Technologies:** Cooperation in semiconductors, AI, quantum technologies, telecom and space sectors. (iCET initiative)
- **Quad & Indo-Pacific Cooperation:** Collaboration through the Quadrilateral Security Dialogue on maritime security and resilient supply chains.
- **Economic & Supply-Chain Partnerships:** Both support diversification of manufacturing and critical mineral supply chains away from China. (China+1 strategy)
- **People-to-People Linkages:** Indian diaspora, education and technology-sector ties remain a major stabilising factor. (Indian-origin leadership in Silicon Valley and U.S. corporations)

Emerging Faultlines in India–US Relations

- **Transactional & Coercive U.S. Policy:** U.S. increasingly linking trade, tariffs and sanctions with geopolitical alignment. (Tariff pressure over Russian oil imports)
- **U.S.–China Tactical Accommodation:** Washington shifting from direct confrontation with China towards managed competition and selective cooperation. (Trump–Xi summit on "strategic stability" and tariff de-escalation)
- **Strategic Autonomy vs Alliance Expectations:** India's multi-alignment approach conflicts with U.S. expectations of greater strategic alignment. (Differences over Russia, Iran and BRICS)
- **Pakistan Factor:** U.S. continues to retain strategic engagement with Pakistan for regional and security interests. (Afghanistan legacy, counterterrorism and regional stability concerns)
- **Divergent Regional Priorities:** India's continental and energy-security concerns differ from U.S. global strategic priorities. (US Israel attack on Iran affecting Indian Economy)

- **Technology & Economic Asymmetry:** Concerns regarding dependence on U.S.-controlled technology ecosystems and unequal economic leverage. (Semiconductors, AI, digital infrastructure and critical minerals)

Reasons Behind These Faultlines

- **Different Strategic Cultures:** U.S. follows alliance-based geopolitics while India prioritises strategic autonomy and issue-based partnerships.
- **Changing Global Power Balance**: Rise of China and emergence of multipolarity are reshaping global strategic calculations. (BRICS expansion and weakening unipolar order)
- **Rise of Economic Nationalism:** "America First" policies increased unilateral tariffs, sanctions and protectionist measures. (Trump-era trade and industrial policies)

Concerns for India

- **Threat to Strategic Autonomy:** External pressure may constrain India's independent foreign-policy choices.
- **Energy Security Risks:** Sanctions and geopolitical conflicts can disrupt affordable crude imports. (Russian crude and Hormuz-related disruptions)
- **Risk of U.S.–China "G2":** Great-power accommodation may marginalise middle powers like India.
- **Trade & Manufacturing Vulnerability:** Tariff volatility may affect exports and supply-chain integration. (Engineering, pharma and electronics sectors)
- **Indo-Pacific Strategic Uncertainty:** Reduced U.S. focus may strengthen China's regional assertiveness.
- **Financial & Supply-Chain Risks:** Global sanctions-based order increases vulnerability in shipping, payments and logistics networks.

Way Forward

- **Strengthen Strategic Autonomy:** Continue independent multi-alignment while avoiding excessive dependence on any bloc.
- **Diversify Energy & Trade Partnerships:** Expand ties with UAE, Central Asia, Africa, ASEAN and Latin America.
- **Accelerate Connectivity Corridors:** Strengthen INSTC, IMEC and alternative maritime routes to reduce chokepoint vulnerabilities.
- **Deepen Indo-Pacific Partnerships:** Expand cooperation with Japan, France, EU, ASEAN and Australia.

- **Build Alternative Financial Mechanisms:** Promote local-currency trade and resilient payment systems. (BRICS de-dollarisation discussions)
- **Pursue Pragmatic U.S. Engagement**: Sustain cooperation in defence, technology and business while managing political divergences through institutional dialogue

CYBER WARFARE IS OUTPACING GLOBAL LEGAL ACCOUNTABILITY

Context

Recent conflicts involving the United States, Israel and Iran highlighted the growing use of cyber operations alongside conventional warfare, raising concerns over accountability, attribution and cyber governance.

Cyber Warfare Becoming Part of Modern Conflict

- **Part of Hybrid Warfare:** Cyberattacks now accompany military strikes to weaken enemy communication and defence systems before physical attacks. (Israel–Iran cyber operations targeted media and communication networks)
- **Targeting Critical Infrastructure:** Modern cyberattacks increasingly focus on power grids, banking systems and pipelines to create economic disruption. (Ukraine power-grid attacks; Colonial Pipeline ransomware attack disrupted fuel supply in U.S.)
- **Use of Proxy Hacker Groups:** States often use unofficial hacker groups to maintain plausible deniability and avoid direct accountability. (Handala Hack Team linked with anti-Israel cyberattacks)
- **Low-Cost but High Impact:** Cyber warfare enables countries to inflict major damage without deploying large military forces. (Stuxnet malware damaged Iran's nuclear centrifuges)
- **Information & Psychological Warfare:** Cyber tools are used to spread propaganda, misinformation and influence public opinion during conflicts. (AI-generated disinformation during Russia–Ukraine war)
- **Blurring Civilian–Military Boundaries:** Civilian digital infrastructure like satellites and telecom networks are increasingly becoming targets. (Attacks on satellite communication systems in conflicts)

Issues in Tackling Cyber Warfare

- **Attribution Challenge:** Difficult to identify attackers as cyberattacks pass through multiple countries and networks.
- **Weak International Legal Framework**: Existing laws mainly address cybercrime, not state-sponsored cyber warfare. (Budapest Convention mainly targets cybercrime)

- **No Clear Definition of "Cyber Attack":** International law lacks clarity on when cyber operations qualify as "use of force". (UN Charter Article 2(4) ambiguity)
- **Limited Accountability Mechanisms**: International courts require state consent and sovereign immunity limits legal action.
- **Rapid Technological Evolution:** AI, quantum computing and autonomous cyber tools evolve faster than regulations.
- **Use of Non-State Actors:** Proxy hacker groups and cyber militias complicate responsibility and retaliation.
- **Difficulty in Evidence Collection:** Cyber investigations require classified intelligence and complex digital forensics.
- **Escalation Risks:** Major cyberattacks can escalate into military confrontation between states. (Cyber tensions during Russia–Ukraine conflict)

Way Forward

- **Develop Global Cyber Norms**: Build international consensus on responsible state behaviour in cyberspace.
- **Strengthen Cyber Resilience:** Protect critical infrastructure through regular audits, cyber drills and AI-based monitoring systems.
- **Improve Attribution Mechanisms:** Enhance cyber forensics and intelligence-sharing among countries.
- **Strengthen Domestic Institutions:** Build capabilities of Indian Computer Emergency Response Team (CERT-In), Defence Cyber Agency and National Cyber Coordination Centre.
- **Promote Public–Private Cooperation:** Coordinate with technology companies managing digital infrastructure and cloud services.
- **Develop Skilled Cyber Workforce:** Expand cyber-security education, ethical hacking and AI-security research ecosystems.