THEIR VIEW

Reverse policy distortions in the face of this year's perfect storm

Let India's rupee find its level, policy rate of interest rise, prices of war-hit items reflect import costs and exports flow smoothly

SUDIPTO MUNDLE
is chairman, Centre for Development Studies.

PTI

India is facing a perfect storm in the wake of the Iran war. Israel continues hostilities in Lebanon to block a US-Iran deal. Over 40% of our oil imports are still blocked at Hormuz, as are critical imports of LPG, LNG, fertilizers and other items. Capital has been in flight. The exchange rate is plunging, as are foreign exchange reserves. Growth is slowing, inflation is rising and El Niño may soon hit us. However, there is no need to panic. A calm but urgent reversal of some policy distortions should help us navigate our way through the crisis, buying us time for further structural reforms to revive high growth over the medium to long term.

The most visible impact of the storm is on the exchange rate. It was remarkably stable through 2024 till the first quarter of 2025, while several other emerging market economy currencies were depreciating. As pointed out in our 2025-26 Year End Macroeconomic Review (NIPFP *Policy Brief 49*, May 2026), this was mainly on account of RBI interventions. Till February 2026, RBI had net sold $43 billion in the spot market in 2025-26. It further net sold foreign exchange of $18 billion during March and April 2026. But interventions in the spot and forward markets are not working. The rupee started depreciating after US President Donald Trump's announcement of punitive tariffs on 2 April 2025 and this decline accelerated after the Iran war that broke out on 28 February. Meanwhile, the outflow of foreign capital continues. Net foreign portfolio investment (FPI), especially equity investment, has been negative in most months since October 2024. Net foreign direct investment (FDI) has also been negative in most months since July 2024. The dollar premium in the forward market indicates that the market expects the rupee to depreciate further.

Most professionals agree that rupee depreciation is being driven mainly by capital outflows and not the trade deficit. They also agree that instead of RBI depleting limited forex reserves, the rupee should be allowed to drop to its market clearing level (for example, C. Rangarajan and N.R. Bhanumurthy, *Mint,* 25 May). This would also help reduce the current account deficit by reducing imports and increasing exports. However, if perverse expectations prevail, the dollar premium may persist. Sajjid Chinoy has suggested that RBI should buy dollars, even at a premium, to augment forex reserves (*Indian Express*, 25 May). This could, hopefully, kill perverse expectations and arrest rupee depreciation.

Such dollar purchases would add to existing surplus liquidity, so RBI would need to sterilize excess liquidity through open market operations. This would further raise bond yields, which have been rising due to the excess supply of government debt. An increase in the repo rate, held constant for a long time, would add a tailwind to this process. This would help contain if not reverse the outflow of foreign capital. Such tightening of monetary policy would also contain the second-round effect of cost-push inflation driven by supply-side disruptions.

The third area requiring urgent policy reversal is the blocked pass-through of global fuel and fertilizer price increases. By April 2026, the price of Brent crude had spiked by nearly 78% year-on-year. Prices of LPG and LNG had also risen sharply. But the 'oil and gas' basket in the consumer price index increased by only 0.11% (NIPFP *Policy Brief 49*). These prices are administered and the government blocked the pass through to retail prices until recently, with the delay possibly on account of elections in several states. This has entailed huge losses for oil marketing companies, which will be passed on to the government in some form sooner or later. The same applies to fertilizers. By way of illustration, India has been buying urea at $935 per tonne but selling it to farmers at only $70 per tonne, a mind-boggling subsidy of $865 per tonne (A. Gulati and R. Juneja, *Indian Express* 25 May). The government is already off its fiscal consolidation path (NIPFP *Policy Brief 49*). The huge increase in the fuel and fertilizer subsidy burden will knock the government further off this path. Besides, such massive subsidies encourage diversion of supplies to the black market. The government has started passing on fuel import price increases gradually, but not yet for fertilizers. A full pass- through of the increase in import prices of both to consumers is urgent not only to contain demand, but also contain the damage to government finances. Vulnerable consumer groups can be protected through direct transfers.

The final area requiring immediate policy action is trade diversification. The high share of fuel and fertilizer imports from the Gulf region makes India particularly vulnerable to the Hormuz blockade. Efforts to diversify imports to alternative Gulf routes and non-Gulf sources like Russia, Africa and South and North America need to be scaled up on an urgent basis. On the export side, India is overly exposed to the US not just for goods exports, but more importantly the export of services, especially IT-enabled services. To reduce that exposure, legal impediments to exports to the EU, UK and other trade-agreement partners need to be urgently addressed.

Quick reversals of the policy distortions highlighted above should enable India to weather the storm and position itself for more longer-term structural reforms and an eventual return to a high-growth path.

These are the author's personal views.

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Instead of RBI depleting its forex reserves, it should let the rupee decline to its market clearing level. This may narrow the current account deficit by reducing imports and raising exports.

RBI may need to tighten policy. Also, fuel and fertilizer prices must cover import bills, while legal hurdles in the way of exports to India's trade-pact partners require resolution.

MINT CURATOR

Bankers may pay a hefty price for their embrace of Claude AI

Some banks are already feeling the pinch as AI use gets expensive

LIONEL LAURENT
is a Bloomberg Opinion columnist writing about the future of money and the future of Europe.

Banks could end up handcuffed to AI tools that get costlier over time BLOOMBERG

The finance industry's love of artificial intelligence (AI) has reached fever pitch—even in Europe, a traditional tech laggard. Beyond headline-grabbing announcements at HSBC or tin-eared ones from Standard Chartered, ask any fund manager, banker or trader and you are likely to hear stories of increasing adoption and experimentation.

If there's a catch, it is cost. Supply constraints are pinching all parts of the AI ecosystem, particularly computing power. Users of Anthropic's popular AI assistant Claude are grumbling about soaring prices. Even Anthropic's recent deal with SpaceX to increase its processing capacity has not fully absorbed demand from its customers for expensive, computation-hungry tasks. So, the price keeps going up.

Financier gripes about the cost of using Claude—a banker favourite—are starting to sound like those from the technology industry. The bill is on track to rise from tens of thousands of dollars for a single firm to several million.

Rampant demand from white-collar types is, of course, a good problem for companies like Anthropic that can impose price rises that might start to justify the AI industry's epic losses and hype-fuelled valuations. Dario Amodei's company is on track for its first profitable quarter and is mulling a stock-market listing as early as October.

But the rapid adoption of AI agents, which can perform tasks independently, and their soaring expense create new quandaries for finance customers even as they can see the advantages. This adds to pressure on a firm's profitability and is driving cost cuts in other parts of these businesses. It creates fears, too, of being handcuffed to particular AI companies as core IT skills shift to outside suppliers, usually American.

No wonder the boss of Standard Chartered touched a nerve with his ill-judged comments about "lower-value" human capital giving way to financial and investment capital as part of the bank's AI push. It could be construed as salaried employees paying the price for the technology's increasingly high costs. As one analyst put it to the bank: "The AI companies of today are not making any money and are spending a lot... Is it a problem that we don't really know how they'll be charging in a year or two from now?"

The behaviour of banks and other financial users is likely to evolve. Indeed, we may already be moving away from a 'token-maxxing' mindset—whereby heavy spending on AI processing power is a badge of honour regardless of whether it's wasted—into a more mature phase. I have been told of several examples where financial services are shifting to building inhouse models for tasks that do not need an all-knowing external LLM. "Not every task needs a frontier model," says Christopher Tozzi, author of a history on open-source software. That might encourage some surprise corporate thinking. Maybe 'lower-value' humans who can build and maintain a chatbot that is cheaper than an outside one will be found in possession of a valuable skill.

Finance firms might even do the unimaginable and club together, to better absorb AI costs from without and to share expertise on in-house models. This industry has never been good at sharing tech or data, with banks and asset managers usually trying to get one-up on their rivals. Nor has it been good at cross-border mergers that make sense but are politically difficult, such as UniCredit's tilt at Commerzbank.

Maybe AI is the catalyst that will revolutionize capital allocation and finally consolidate the industry, especially in Europe's over-banked parts. Perhaps UniCredit's boss Andrea Orcel should show German Chancellor Friedrich Merz the banks' expected AI budgets.

For now, few anticipate that Anthropic or OpenAI's competitive moats will be crossed anytime soon. AI evangelists are probably right that the fear of missing out is so strong today that any chance of an edge against a competitor will keep the finance crowd spending. Tech expenditure by governments and companies is set to rise almost 8% in 2026, the biggest increase in years. There are some parallels with cloud computing, where firms started building some stuff in-house without doing too much harm to the profits of Silicon Valley and Seattle. And, of course, AI is deepening Europe's geopolitical dependence on US tech giants such as Amazon.

But having seen some users successfully creating their own models, reducing though not eliminating their spending burden, I do wonder if this time there will be more pressure to avoid outsourcing too much too quickly. Lost in the furore around Bill Winters' AI comment was a more cautious line: "We are... being very, very thoughtful on the cost of AI." If that encourages more European corporate self-help, so much the better.

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MY VIEW | PEN DRIVE

Write to know: why writing must always be human

NANDINI NAIR

is associate director, New India Foundation, and a literary critic

Before we slouch into the arena to discuss AI writing versus human writing, we need to zoom out and ask a simpler question: What is writing? At its most fundamental level, it is "a way to communicate meaning across space and time" (as speaketh Claude AI). But at a more philosophical level, writing is a mode of inquiry. It is how we observe and ponder. It is how we cohere human experience into understanding. It is conscious daydreaming. Just as no two people have identical dreams, no two people's written work can perfectly plot onto each other's. And that is why writing is so glorious. It is specific to each one of us.

Those who argue that large language models (LLMs) are like the calculator—it helps us arrive quicker at an answer—see writing as a tool.

Sure, it is a tool, but unlike mathematics, with writing, there is no one correct answer. If we see writing only as a tool, then we overlook the importance of lived experience. Writing and reading is an act of communion, and for it to be sanctified, we need the facts. Has this author spent hours, days, weeks or months kneading each sentence into meaning? Or has the person fed prompts into a system and relied entirely on an external syntax?

Today, the scandal over the Commonwealth Short Story prize winners is because they cheated. Or allegedly did. Serious long-form fiction and non-fiction is an endurance sport; it is as much about intellect and rigour as it is about persistence. To pass off AI's work as one's own is to mock the entire enterprise. Those who use LLMs reach the finish line of the marathon first, but without the pounding chest, the drenched body and the buckling legs. What is the point of running the race at all, one could ask. The hue and cry over the Commonwealth short story winners is less about quality and more about a breach of faith. The writers lied, took a shortcut and were then caught out.

I am not saying that I will never read a book written by an LLM. But what I want is the truth; tell me it has been written by a non-human. We are now starting to see that, for example, the book *The AI Ten Commandments: A New Moral Code for Humanity* is authored by "Jamie Metzl and GPT-5." With time, we will see many more such non-human 'co-authors.'

When it comes to functional writing, business memos and interminable emails, the usefulness of AI is undeniable. Why spend hours on a business brief that Claude can write better and more precisely within seconds? But we must hold journalism and all of literature—fiction and non-fiction—to higher standards.

We read an article, short story or book not to witness how adroitly an author can prompt engineer, but to parse the fruits of toil and attention. I will always prefer a book that an author has taken 10 years to write over a book that was completed in a week by a bot. Toil is vital because it emphasizes slowness, it rewards pain and pause over optimization. No author writes because it is easy. Rather, it is the hardest thing that they love to do.

I have been teaching a short writing workshop to women MBA scholars for over a decade. Initially, the course was called Elements of Writing, as it led students through the technicalities of it. But I've recently changed the course to Write to Know. Because I now realize that students do not need to know the quirks of writing as they once did. Instead, they need writing to know themselves and to be known.

While we've returned to pen and paper in the classroom, AI has proven to be an equalizer.

In the past, one would often miss the argument for the language. But now, I only look at a student's unique observations and imagination, because I know the syntax can be fixed by a machine. For once, these students—many from towns like Meerut and Ghaziabad and Kullu and Madhubani—have the confidence to read out their work to the entire class, because no one is judging them for spellings or subject-verb agreement or dangling modifiers. In the classroom, and through the written page, these young professional women, many who've left their homes for the first time, find their voice in unexpected and revelatory ways. They write notes that arise from their darkest moments and their hope-filled futures. Thanks to AI, non-native English speakers can be judged for what they say rather than how they say it.

As a teacher, I tell them to use writing as a tool of excavation, before handing it over to AI for the gilding. They cannot outsource their thinking to a machine, but they can rely on it for polishing their prose.

LLMs will likely empower millions who lack felicity in the English language. But just as it is an equalizer, it is a leveller too. It flattens human tics.

At a time when being a snowflake is considered uncool, writing, in the best way, reminds us that we are all snowflakes. Our prose is unique to each one of us, it is our thumbprint in words. And for that, it needs to be celebrated, and more importantly, protected.

QUICK READ

Writing is a mode of inquiry. It's how we observe, ponder and turn human experience into understanding. It is conscious daydreaming. And no two dreams are alike.

Since AI can uplift millions who lack felicity in the use of English as a language, it will surely empower people. But beyond that, we should view writing as a starting point of knowledge.