

# IYACHAMY ACADEMY

# UPSC PRELIMS

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# CURRENT AFFAIRS

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## ECONOMY



Strategic Current Affairs for UPSC Prelims

### What's Inside

- Indian Economy & Sectors
- Reports & Indices
- Infrastructure & Schemes
- Banking & Finance
- Budgeting & Taxation
- Concept + Current Affairs Integration

Prepared by

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## ECONOMY | CURRENT AFFAIRS

JANUARY 2025 – FEBRUARY 2026 | INDEX OF TOPICS

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| S.No | UNION BUDGET, FISCAL POLICY & FINANCE COMMISSION   |
|------|--|
|      | TOPIC  |
| 1    | Union Budget 2026-27 – 'Action over Ambivalence, Reform over Rhetoric, People over Populism' |
| 2    | Union Budget 2025-26 – 'Viksit Bharat' and the ₹12 Lakh Tax Relief                           |
| 3    | 16th Finance Commission – Panagariya Retains 41% Vertical Devolution                         |
| 4    | Economic Survey 2024-25 – 'Appropriate Deregulation as the Path Forward'                     |
| 5    | GST Reforms – 'GST 2.0' and Two-Slab Structure   |

| S.No | RBI, MONETARY POLICY & INFLATION   |
|------|--|
|      | TOPIC  |
| 6    | Sanjay Malhotra Takes Over as 26th RBI Governor                          |
| 7    | RBI Rate Cuts 2025 – Easing Cycle After 5 Years                          |
| 8    | CPI Inflation & RBI Projections 2025-26                                  |
| 9    | CPI Inflation at 8-Year Low, Flexible Inflation Targeting & MoSPI        |
| 10   | RBI's Record Surplus Transfer – ₹2.69 Lakh Crore to Government           |
| 11   | Rupee Depreciation & RBI's Managed Float – Dollar Drain & Forex Dynamics |
| 12   | RBI Currency Swaps – Dollar/Rupee Buy-Sell Swap for Liquidity            |

| S.No | BANKING, NBFC & DIGITAL PAYMENTS                                  |
|------|---|
|      | TOPIC   |
| 13   | Digital Rupee (e-Rupee / CBDC) – Pilot Scaling Up                 |
| 14   | Payments Regulatory Board & LCR Deferment                         |
| 15   | UPI & NPCI International – Crossing Borders                       |
| 16   | Banking Consolidation & 'Baanknet' Auction Platform               |
| 17   | Small Finance Banks, Local Area Banks & Co-op Bank Reforms        |
| 18   | NBFC Regulation, Account Aggregator & Fintech Oversight           |
| 19   | Bima Sakhi Yojana & Financial Inclusion Index                     |
| 20   | Sovereign Gold Bonds (SGBs) & Gold as Domestic Asset              |
| 21   | GENIUS Act, Stablecoins & India's Crypto Tax Framework            |
| 22   | RBI Banking Reforms – Gold Loans, Bank Mitras, SFB→Universal Bank |

| S.No | CAPITAL MARKETS, IBC & CORPORATE FINANCE |
|------|--|
|      | TOPIC                                    |

|    |   |
|----|---|
| 23 | SEBI – Tuhin Kanta Pandey, New Chairperson; F&O Reforms                         |
| 24 | Insolvency & Bankruptcy Code – IBC@9 and Pre-Packaged Regime                    |
| 25 | Sovereign Green Bonds & Bond Market Deepening                                   |
| 26 | S&P Sovereign Rating Upgrade & Fitch/Moody's Stance                             |
| 27 | SEBI Reforms – Securities Market Code Bill, Short Selling & Investor Protection |
| 28 | Bond Market – Masala Bonds, AT1/T2, Cat Bonds & ECB/FEMA                        |
| 29 | Insolvency & Bankruptcy Code (IBC) – Performance & NCLT Reforms                 |

| S.No | EXTERNAL SECTOR, TRADE & FDI<br>TOPIC                         |
|------|---|
| 30   | India Reduces US Treasury Exposure & RBI Diversifies Reserves |
| 31   | India-UK CETA – First FTA with a G7 Economy                   |
| 32   | Trump Tariffs & the India-US Trade Standoff                   |
| 33   | FDI Policy – 100% in Insurance and Nuclear Opens Up           |
| 34   | Forex Reserves Cross \$700 Billion – A Historic First         |
| 35   | Trade Deficit, Exports & WTO – India's Trade Scorecard FY25   |
| 36   | Rupee, REER and Currency Management                           |

| S.No | AGRICULTURE & RURAL ECONOMY<br>TOPIC                                  |
|------|---|
| 37   | PM Dhan-Dhaanya Krishi Yojana – 100 Low-Productivity Districts        |
| 38   | MSP, PM-AASHA & the New Price Support Architecture                    |
| 39   | PM-KISAN, KCC & Rural Credit  |
| 40   | Mission for Aatmanirbharta in Pulses & Oilseeds                       |
| 41   | AgriStack, Digital Agriculture & Bharat-VISTAAR                       |
| 42   | Ethanol Blending Programme – E20 Achieved, E27 Target & Sugar Economy |

| S.No | MANUFACTURING, MSME, INFRASTRUCTURE & ENERGY<br>TOPIC          |
|------|--|
| 43   | PLI Scheme – India's Manufacturing Push Matures                |
| 44   | MSME Reforms – Credit Guarantees, New Definitions & SME Growth |
| 45   | PM Gati Shakti & National Logistics Policy                     |
| 46   | Disinvestment, PSE Policy & NaBFID                             |
| 47   | Orange Economy, AVGC-XR & Creative Industries                  |
| 48   | Startup India, DeepTech & Fund of Funds                        |
| 49   | Nuclear Energy (SMRs), Wind Power & Geothermal Pilots          |
| 50   | Dutch Disease, Manufacturing Challenges & Chemical Exports     |

|    |   |
|----|---|
| 51 | Labour Codes (2019-20) & Shram Shakti Niti 2025 |
|----|---|

| S.No | GLOBAL ECONOMY, REPORTS & RANKINGS   |
|------|--|
|      | TOPIC  |
| 52   | IMF WEO & World Bank Projections – India Stays Fastest-Growing               |
| 53   | Global Hunger, HDI, MPI & India's Ranking                                    |
| 54   | Global Gender Gap, WEF & India Inc.  |
| 55   | Henley Passport Index, WEF Global Risks Report 2025                          |
| 56   | Nobel Prize in Economic Sciences 2025  |
| 57   | BRICS, G20, UNCTAD & Multilateral Economic Bodies                            |
| 58   | World Inequality Report 2026 & India's Gini Index – Contradicting Narratives |
| 59   | HDI 2025, Kerala's Poverty Eradication & GIFT City                           |
| 60   | Income Survey 2026, AIDIS & New Household Finance Surveys                    |

| S.No | UNION BUDGET 2026-27 – VISION & FISCAL NUMBERS   |
|------|--|
|      | TOPIC  |
| 61   | Budget 2026-27 – 'Action Over Ambivalence, Reform Over Rhetoric, People Over Populism' |
| 62   | Budget 2026-27 – Key Fiscal Numbers: Deficit, Receipts & Expenditure                   |
| 63   | Budget – Rupee Comes From & Rupee Goes To (Revenue Composition)                        |

| S.No | BUDGET 2026-27 – MANUFACTURING, SERVICES & INFRASTRUCTURE                          |
|------|--|
|      | TOPIC  |
| 64   | Manufacturing – Strategic & Frontier Sectors                                       |
| 65   | Tax Reforms to Boost Manufacturing Sector – Customs & Duty Rationalisation         |
| 66   | MSMEs as Champions – SME Growth Fund, TReDS & Corporate Mitras                     |
| 67   | Services Sector – Orange Economy, AVGC, Tourism, Medical Tourism & IT Safe Harbour |
| 68   | IT Sector Tax Reforms – Safe Harbour, APA & Cloud Services Tax                     |
| 69   | Infrastructure – Public Capex, DFC, Waterways, REITs & SASCI                       |
| 70   | Energy Security – CCUS, Li-Ion Cells, Nuclear & Critical Minerals                  |
| 71   | Urbanisation – City Economic Regions & 7 High-Speed Rail Corridors                 |

| S.No | PEOPLE-CENTRIC DEVELOPMENT: AGRICULTURE, HEALTH & DIVYANG            |
|------|--|
|      | TOPIC  |
| 72   | Agriculture – BharatVISTAAR, Horticulture, Fisheries & AgriStack     |
| 73   | People-Centric Development – Care Ecosystem, Divyang & Mental Health |

| S.No | TAX REFORMS, FINANCIAL SECTOR & EASE OF DOING BUSINESS                            |
|------|---|
|      | TOPIC   |
| 74   | Financial Sector – High-Level Banking Committee, STT Hike & FEMA Review           |
| 75   | Ease of Doing Business & Ease of Living – Direct Tax Reforms & TDS Simplification |
| 76   | Trust-Based Governance – AEO Reforms, Advance Rulings & Customs Simplification    |



**INDIAN ECONOMY****CURRENT AFFAIRS (JAN 2025 – FEB 2026)****UNION BUDGET, FISCAL POLICY & FINANCE COMMISSION****Union Budget 2026-27 – 'Action over Ambivalence, Reform over Rhetoric, People over Populism'**

FM Nirmala Sitharaman presented the Union Budget 2026-27 on 1 Feb 2026 - her eighth consecutive Budget. Built on three kartavyas (sustainable growth, capacity building, sabka sath-sabka vikas), the Budget fixed the fiscal deficit at 4.3% of GDP, unveiled Dedicated Rare Earth Corridors in four States, Biopharma SHAKTI, Bharat Container Shipping Line and a push for the 'Orange Economy'.

**News in Brief**

- Theme: 'Action over Ambivalence, Reform over Rhetoric, People over Populism'; built around 3 kartavyas – sustainable growth, capacity building, Sabka Saath-Sabka Vikas.
- Nominal GDP growth assumed at 10.5% for FY 2026-27; Real GDP growth ~7%.
- Fiscal deficit target 4.3% of GDP (down from 4.4% in FY26); Revenue deficit 1.5%; Primary deficit 0.7%; Debt-to-GDP ~55.6%.
- Dedicated Rare Earth Corridors announced in Tamil Nadu, Kerala, Andhra Pradesh and Odisha to build India's leadership in rare earth magnets.
- Biopharma SHAKTI – Rs 10,000 cr over 5 yrs; 3 new NIPERs + upgrade of 7; ISM 2.0 gets Rs 1,000 cr for indigenous chip IP.
- New Dedicated Freight Corridor Dankuni (WB) -> Surat (Gujarat); 20 new National Waterways to be operationalised.
- Rs 10,000 cr SME Growth Fund to create 'Champion MSMEs'; Mahatma Gandhi Gram Swaraj Initiative (MGSI) for khadi/handloom; SHE Marts for women-led SHGs.
- Tax holiday till 2047 for foreign cloud-service providers via India-based data centres; boost to 'Orange Economy' via IICT Mumbai + AVGC content labs in 15,000 schools + 500 colleges.

**Static Background – Concepts & Terms**

- **What is the Union Budget?** – Annual Financial Statement under **Article 112** of the Constitution, showing estimated receipts & expenditure for the coming fiscal year (1 April - 31 March). Presented to Parliament by the Finance Minister; a Budget is NOT the same as a 'Finance Bill' – the Budget is a document, the Finance Bill enacts its tax proposals.
- **Parts of the Budget** –
  - (a) **Revenue Budget** = revenue receipts + revenue expenditure;
  - (b) **Capital Budget** = capital receipts (borrowings, loan recoveries, disinvestment) + capital expenditure (asset creation, loans to States/PSUs).
- **Three Funds mandated** – **Consolidated Fund of India (Art. 266)** – all revenues; **Contingency Fund (Art. 267)** – at President's disposal for unforeseen needs; **Public Account (Art. 266(2))** – money held in trust (PF, small savings).
- **Types of deficits** – **Fiscal Deficit** = Total Expenditure - Total Receipts (excluding borrowings) – measures borrowing need; **Revenue Deficit** = Revenue Expenditure - Revenue Receipts; **Primary Deficit** = Fiscal Deficit - Interest Payments; **Effective Revenue Deficit** excludes grants to States for capital creation.

- **FRBM Act 2003** – Fiscal Responsibility & Budget Management Act – originally required eliminating revenue deficit by 2008-09 and capping fiscal deficit at 3% of GDP; **N.K. Singh Committee (2017)** recommended a glide path and Debt-to-GDP anchor of 60% (40% Centre + 20% States).
- **Nominal vs Real GDP** – Nominal GDP = at current prices (includes inflation); **Real GDP** = at constant prices (removes inflation); **Nominal GDP growth**  $\approx$  **Real GDP growth** + **GDP deflator**.
- **Rupee comes / Rupee goes to (FY26-27)** – Top sources: Borrowings (24%) > Income tax (21%) > Corporation tax (18%) > GST (15%); Top uses: States' share (22%) > Interest payments (20%) > Central schemes (17%) > Defence (11%).

## Prelims Connect

### Budget 2026-27 – fiscal and growth targets

| Parameter                | FY 2026-27 (BE) |
|--------------------------|-----------------|
| Nominal GDP growth       | 10.5%           |
| Real GDP growth          | ~7%             |
| Fiscal Deficit           | 4.3% of GDP     |
| Revenue Deficit          | 1.5% of GDP     |
| Primary Deficit          | 0.7% of GDP     |
| Debt-to-GDP (Centre)     | ~55.6%          |
| Revenue Receipts (share) | 35.3%           |
| Capital Receipts (share) | 18.1%           |

*BE = Budget Estimates; RE = Revised Estimates; AE = Actual Estimates. Budget Document order: Annual Financial Statement -> Demands for Grants -> Finance Bill -> Fiscal Policy Statements.*

## Prelims Pointers

- **Budget 2026-27 theme** – Action over Ambivalence, Reform over Rhetoric, People over Populism.
- **Rare Earth Corridors** – Tamil Nadu, Kerala, Andhra Pradesh, Odisha.
- **Biopharma SHAKTI** – Rs 10,000 cr; 3 new NIPERs + 7 upgrades.
- **New DFC** – Dankuni (West Bengal) -> Surat (Gujarat).
- **Orange Economy** – creative/IP-driven sector (animation, gaming, film, design).
- **Budget Day tradition** – Morarji Desai presented 10 Budgets (record); 'halwa ceremony' marks printing start; Feb 1 date since 2017 (earlier last working day of February).

## Union Budget 2025-26 – 'Viksit Bharat' and the Rs 12 lakh Tax Exemption

FM Nirmala Sitharaman's Budget 2025-26 (1 Feb 2025) delivered the headline tax giveaway of the decade: under the new regime, individuals earning up to Rs 12 lakh pay ZERO tax (Rs 12.75 lakh for salaried). The Budget also proposed a Nuclear Energy Mission, National Manufacturing Mission, PM Dhan-Dhaanya Krishi Yojana, PM Internship Scheme, raised FDI in insurance to 100%, and capped fiscal deficit at 4.4% of GDP.

## News in Brief

- New tax regime – zero tax up to Rs 12 lakh taxable income (Rs 12.75 lakh salaried incl. Rs 75k standard deduction); slab on Rs 24 lakh+ capped at 30%.
- Fiscal Deficit: 4.4% of GDP (FY26 BE); Revenue Deficit 1.5%; Capital Expenditure Rs 11.21 lakh cr (~3.1% GDP).
- Nuclear Energy Mission – target 100 GW nuclear capacity by 2047; Rs 20,000 cr R&D push for 5 indigenous SMRs; private sector allowed via Atomic Energy Act amendment.
- National Manufacturing Mission & Mission for Cotton Productivity announced; PM Dhan-Dhaanya Krishi Yojana to cover 100 low-productivity districts reaching ~1.7 cr farmers.
- FDI cap in insurance raised from 74% -> 100% (for companies investing entire premium in India).
- PM Internship Scheme launched - 1 crore internships in top 500 companies over 5 years; Makhana Board in Bihar; Jan Vishwas 2.0 Bill to decriminalise 100+ more provisions.

## Static Background – Concepts & Terms

- **New Tax Regime (Sec 115BAC)** – introduced in Budget 2020, made default in 2023, liberalised in 2024 & 2025; offers lower slab rates in exchange for giving up most exemptions (80C, HRA, LTA). Old regime retains exemptions but higher rates.
- **Standard Deduction** – flat Rs 75,000 reduction from salaried income before tax calculation (new regime); reintroduced in 2018 after 12-year gap.
- **Marginal tax rate vs effective rate** – marginal = rate on next Rs 1 earned; effective = total tax / total income; India's top effective marginal rate (new regime incl. surcharge + cess) ~39%.
- **Capex - Capital Expenditure** – spending that creates assets (roads, rail, ports, bridges) – fiscal multiplier estimated at ~2.45x (RBI) vs ~0.98 for revenue expenditure; hence Govt's capex-led growth strategy.
- **Direct vs Indirect tax** – **Direct** (income tax, corporate tax) – burden on payer, progressive, based on ability to pay; **Indirect** (GST, customs, excise) – burden shifted to consumer, regressive. Budget 2025-26 saw direct tax share rise >50% (healthier tax structure).
- **Insurance sector opening** – Insurance Act 1938 allowed 49% FDI in 2015, 74% in 2021, now 100% in Budget 2025-26 subject to investing full premium locally. Objective: deepen insurance penetration (India ~4% vs world 7%).
- **Budget process milestones** – Halwa ceremony -> Printing at NPP Mayapuri (since 1950 earlier RBI/SC Press) -> Presentation (11 AM) -> General discussion -> Demands for Grants (Standing Committees) -> Appropriation Bill -> Finance Bill.

## Prelims Connect

### New Tax Regime - Revised Slabs (FY 2025-26 onwards)

| Income Slab (Rs lakh) | Tax Rate |
|-----------------------|----------|
| 0 - 4                 | Nil      |
| 4 - 8                 | 5%       |
| 8 - 12                | 10%      |
| 12 - 16               | 15%      |
| 16 - 20               | 20%      |
| 20 - 24               | 25%      |

|          |     |
|----------|-----|
| Above 24 | 30% |
|----------|-----|

Rebate under Sec 87A -> full tax rebate up to Rs 12 lakh taxable income -> effective zero tax.

## Prelims Pointers

- **Zero tax ceiling** – Rs 12 lakh (new regime); Rs 12.75 lakh for salaried.
- **FY 2025-26 Fiscal Deficit** – 4.4% of GDP (BE).
- **Capex** – Rs 11.21 lakh cr (~3.1% GDP).
- **Nuclear Energy Mission** – 100 GW by 2047; 5 SMRs.
- **FDI in Insurance** – raised to 100% (from 74%).
- **PM Dhan-Dhaanya Krishi Yojana** – 100 districts, 1.7 cr farmers.
- **Makhana Board** – to be set up in Bihar.
- **PM Internship Scheme** – 1 crore interns / 5 years in top-500 companies.

## 16th Finance Commission – Panagariya Retains 41% Vertical Devolution

The 16th Finance Commission, chaired by Dr Arvind Panagariya, recommended RETENTION of the 41% vertical devolution of central taxes to the States for the 2026-31 award period - with minor tweaks to the horizontal formula. It also launched NITI Aayog's inaugural Fiscal Health Index in January 2025, placing Odisha, Chhattisgarh and Goa at the top.

## News in Brief

- 16th FC constituted Dec 2023; Chairman: Dr Arvind Panagariya; Members include Ajay Narayan Jha, Annie George Mathew, Manoj Panda, Soumya Kanti Ghosh.
- Recommended vertical devolution stays at 41% (same as 15th FC); FY 2026-31 award period.
- Panagariya also chaired NITI Aayog's inaugural Fiscal Health Index 2025 (Jan 2025): Odisha topped with score 67.8; followed by Chhattisgarh (55.2), Goa (53.6).
- 5 sub-indices of FHI: Quality of Expenditure, Revenue Mobilisation, Fiscal Prudence, Debt Index, Debt Sustainability.
- **15th FC legacy formula (horizontal):** Income distance (45%), Population-2011 (15%), Area (15%), Forest & ecology (10%), Demographic performance (12.5%), Tax effort (2.5%).
- ToR of 16th FC includes review of Centre-State fiscal relations, disaster management grants, performance-based incentives, and a revised formula for devolution.

## Revised Horizontal Devolution Formula

| Criterion                  | 15 <sup>th</sup> FC (2021-26) | 16 <sup>th</sup> FC (2026-31) |
|----------------------------|-------------------------------|-------------------------------|
| Per Capita Income Distance | 45%                           | 42.5%                         |
| Population                 | 15%                           | 17.5%                         |
| Demographic Performance    | 12.5%                         | 10%                           |
| Area                       | 15%                           | 10%                           |

|                           |      |     |
|---------------------------|------|-----|
| Forest Cover              | 10%  | 10% |
| Contribution to GDP (New) | -    | 10% |
| Tax and Fiscal Efforts    | 2.5% | -   |

## Static Background – Concepts & Terms

- **Finance Commission** – Constitutional body under **Article 280**; constituted every 5 years by the President; recommends:
  - (a) distribution of net proceeds of taxes between Centre & States (vertical),
  - (b) allocation among States (horizontal),
  - (c) grants-in-aid under Art. 275, (d) measures to augment Consolidated Fund of States.
- **Composition** – 1 Chairman + 4 Members; Chairman shall have experience in public affairs; Members qualified to be HC judges / have finance/economics expertise. Appointed by President; Parliament decides qualifications & manner of selection.
- **Vertical vs Horizontal devolution** – **Vertical** = Centre's divisible pool share to States; **Horizontal** = share among States; **Divisible pool** = Centre's net tax proceeds minus cess, surcharge, cost of collection.
- **14th FC (Y.V. Reddy)** – raised devolution from 32% -> 42%; operative FY 2015-20. **15th FC (N.K. Singh)** reduced to 41% after J&K reorganisation; operative FY 2021-26. 16th FC award: FY 2026-31.
- **Why cess & surcharge matter** – they are NOT part of the divisible pool, so their rise shrinks States' actual share even if the headline devolution % is unchanged. Share of cess/surcharge in gross tax revenue rose from ~10% (2011) to ~20% (2023).
- **Key earlier FCs** – 1st (K.C. Niyogi, 1951); 13th (Vijay Kelkar) first to recommend GST; 14th (Y.V. Reddy); 15th (N.K. Singh); 16th (Panagariya).

## Prelims Connect

### 16th Finance Commission – snapshot

| Parameter            | Detail                         |
|----------------------|--------------------------------|
| Constituted          | Nov-Dec 2023                   |
| Chairman             | Dr Arvind Panagariya           |
| Award Period         | FY 2026-27 to 2030-31          |
| Vertical Devolution  | 41% (retained)                 |
| Constitutional Basis | Article 280                    |
| Predecessors         | 14th FC -> 42%; 15th FC -> 41% |

*NITI Aayog (2015) replaced the Planning Commission; Panagariya was its first Vice-Chairman (2015-17).*

## Prelims Pointers

- **16th FC Chairman** – Dr Arvind Panagariya.

- **Vertical devolution** – retained at 41%.
- **FHI 2025 topper** – Odisha (score 67.8).
- **Article** – 280 (Finance Commission); 275 (grants-in-aid).
- **Earlier FC chairs** – 14th Y.V. Reddy; 15th N.K. Singh; 16th Panagariya.

## Economic Survey 2024-25 – 'Appropriate Deregulation as the Path Forward'

Chief Economic Adviser V. Anantha Nageswaran's Economic Survey 2024-25 (31 Jan 2025) projected India's real GDP growth at 6.3-6.8% for FY 2025-26. The Survey stressed deregulation as the growth lever, highlighted services exports, capex-led recovery, and a 'K-shaped' consumption pattern as key features.

### News in Brief

- Projects FY26 real GDP growth at 6.3% - 6.8%; FY25 second advance estimate 6.5%.
- Theme: 'Appropriate deregulation is the path forward' – regulatory impact assessment for all new central laws/rules suggested.
- Services exports strongest pillar - Global Capability Centres (GCCs) added over \$90 bn to exports.
- Inflation averaged 4.9% in FY25; CAD ~1% of GDP (manageable).
- Warns of global headwinds - US rate path, commodity volatility, geopolitics; domestic positives - capex, rural demand revival.
- Proposes an 'India Employment & Labour Productivity Data Infrastructure' to improve labour market tracking.

### Static Background – Concepts & Terms

- **Economic Survey** – flagship annual document prepared by Department of Economic Affairs, Ministry of Finance; authored by the Chief Economic Adviser (CEA); tabled on the day before the Union Budget.
- **CEA** – Chief Economic Adviser is a Government of India position (Secretary-level); current CEA since Jan 2022: V. Anantha Nageswaran (extended to 2026). Past CEAs include Arvind Subramanian (2014-18), K.V. Subramanian (2018-21), Raghuram Rajan (2012-13).
- **GDP methodology** – base year 2011-12; methodology follows UN SNA 2008 (System of National Accounts); three approaches: production, income, expenditure. MoSPI releases advance/provisional/revise estimates.
- **Current Account Deficit (CAD)** – when imports + invisible payments + income outflows exceed exports + invisible receipts; measured as % of GDP; usually considered sustainable if <3%. India's CAD: FY23 2.0%, FY24 0.7%, FY25 ~1%.
- **GVA vs GDP – Gross Value Added** = output at basic prices (factor cost + production taxes - production subsidies); **GDP** = GVA + Product taxes - Product subsidies. GVA is sector-level; GDP is economy-level.
- **K-shaped recovery** – post-pandemic phenomenon where high-income / organised sector recovers fast while low-income / informal sector lags - creating a widening divergence.

### Prelims Connect

#### Economic Survey 2024-25 – key numbers

| Indicator                      | Value       |
|--------------------------------|-------------|
| Projected FY26 Real GDP Growth | 6.3% - 6.8% |
| FY25 Real GDP Growth (est.)    | 6.5%        |
| FY25 CPI Inflation (avg)       | 4.9%        |

|                              |                         |
|------------------------------|-------------------------|
| FY25 Current Account Deficit | ~1% of GDP              |
| CEA                          | V. Anantha Nageswaran   |
| Theme                        | Deregulation for growth |

*Economic Survey is a document of the Government of India and views expressed are those of the CEA.*

## Prelims Pointers

- **FY26 growth projection** – 6.3-6.8%.
- **CEA** – V. Anantha Nageswaran.
- **Base year for GDP** – 2011-12.
- **First Economic Survey** – 1950-51.

## GST Reforms – 'GST 2.0' and Two-Slab Structure

The 55th & 56th GST Council meetings in 2025 delivered the biggest overhaul since GST's 2017 launch: a simplified two-slab structure of 5% and 18%, with a 40% sin/luxury rate; 99% of items moved out of the 12% slab. Compensation cess regime ended in March 2026.

## News in Brief

- Existing 4-slab GST (5%, 12%, 18%, 28%) collapsed into simplified 2-slab structure: 5% (merit) + 18% (standard) + 40% (sin/luxury/demerit).
- Majority of items in 12% bracket shifted to 5%; most 28% items (non-sin) shifted to 18%.
- Tobacco, pan masala, luxury cars, aerated drinks in the new 40% de-merit slab.
- GST exempted insurance premiums on term life & health insurance up to Rs 5 lakh; medicine for rare diseases fully exempt.
- Compensation cess period ended 31 March 2026.
- Key rates: gold & jewellery continue at 3%; rough/polished diamonds 0.25%; newspapers, handloom, khadi at 0% or concessional.

## Static Background – Concepts & Terms

- **GST - Goods & Services Tax** – a destination-based, multi-stage, value-added indirect tax launched on 1 July 2017 under the 101st Constitutional Amendment Act 2016; subsumed 17 central + state indirect taxes (excise, service tax, VAT, octroi, entry tax, CST etc.).
- **Types of GST** – CGST (Centre), SGST (State, intra-state), UTGST (UT without legislature), IGST (inter-state, collected by Centre and apportioned). Under the IGST model, the destination State gets the tax.
- **GST Council** – constitutional body under Article 279A; chaired by the Union Finance Minister; Vice-chair selected from State FMs; decisions by 3/4 weighted voting (Centre has 1/3, States collectively 2/3).
- **What's outside GST** – petroleum (crude, petrol, diesel, ATF, natural gas) temporarily outside GST; electricity; alcohol for human consumption; real estate (stamp duty).
- **Compensation cess** – levied on sin/luxury goods to pay States for GST transition losses (revenue growth guarantee of 14%/yr for 5 yrs); extended to March 2026 to repay borrowings taken during COVID years.
- **Input Tax Credit (ITC)** – credit for GST paid on purchases used in further business – cornerstone of VAT principle, eliminates tax-on-tax (cascading).
- **GST collections** – crossed Rs 2 lakh cr monthly in April 2024, averaging ~Rs 1.75 lakh cr in 2025; April 2025 set record of Rs 2.36 lakh cr.

## Prelims Connect

## GST 2.0 Rate Structure

| Slab             | Examples   |
|------------------|--|
| 0% (Nil)         | Fresh food, khadi, newspapers                    |
| 0.25%            | Rough/cut diamonds                               |
| 3%               | Gold, silver, jewellery                          |
| 5% (Merit)       | Essentials, medicines, processed food            |
| 18% (Standard)   | Most goods & services                            |
| 40% (Sin/Luxury) | Tobacco, pan masala, aerated drinks, luxury cars |

### Prelims Pointers

- **GST launched** – 1 July 2017.
- **Constitutional Amendment** – 101st (2016).
- **GST Council Article** – 279A.
- **GST Council head** – Union Finance Minister.
- **Voting weights** – Centre 1/3, States 2/3; 3/4 majority needed.
- **New slab structure** – 5% + 18% + 40% (sin).

## RBI, MONETARY POLICY & INFLATION

### Sanjay Malhotra Takes Over as 26th RBI Governor

On 11 December 2024, Sanjay Malhotra took charge as the 26th Governor of the Reserve Bank of India, succeeding Shaktikanta Das. A 1990-batch IAS officer from Rajasthan cadre, he earlier served as Revenue Secretary and Secretary, DFS. His first MPC meeting (Feb 2025) delivered a 25 bps repo-rate cut – RBI's first rate cut in nearly five years.

### News in Brief

- Sanjay Malhotra took charge on 11 Dec 2024 as 26th RBI Governor (tenure 3 years).
- Chaired 53rd MPC (Feb 2025) which reduced repo rate by 25 bps to 6.25% – first cut since May 2020.
- Earlier Revenue Secretary and Secretary, Department of Financial Services, Ministry of Finance.
- Also chairs the new Payments Regulatory Board (PRB) constituted in Oct 2025 replacing BPSS under PSS Act 2007.
- RBI Deputy Governors: Michael Patra (retired), Swaminathan J, M. Rajeshwar Rao, T. Rabi Sankar; Poonam Gupta became new Deputy Governor in 2025.

### Static Background – Concepts & Terms

- **Reserve Bank of India** – established under **RBI Act 1934**; commenced operations 1 April 1935; nationalised 1 January 1949 under RBI (Transfer to Public Ownership) Act 1948; headquartered in Mumbai.
- **Hilton Young Commission (1926)** – Royal Commission on Indian Currency & Finance – recommended setting up of central bank, leading to RBI Act 1934.
- **First Governor** – Sir Osborne Smith (1935-37); **first Indian Governor** – C.D. Deshmukh (1943-49); longest-serving – Benegal Rama Rau (1949-57).

- **RBI's main functions** – (1) Monetary authority, (2) Regulator of banking & payment systems, (3) Manager of forex (FEMA 1999), (4) Issuer of currency (except Re 1 notes & coins – by GoI), (5) Banker to Government & banker's bank, (6) Developmental role.
- **RBI Central Board** – Governor + up to 4 Deputy Governors + Government-nominated directors; located in 4 Local Boards (North/South/East/West).
- **Governor's tenure** – determined by Central Government (3 yrs typical); no fixed constitutional tenure. RBI Governor is not a constitutional post.
- **Major previous Governors** – Urjit Patel (2016-18, resigned), Raghuram Rajan (2013-16), D. Subbarao (2008-13), Y.V. Reddy (2003-08), Bimal Jalan (1997-2003), C. Rangarajan (1992-97), Manmohan Singh (1982-85).

## Prelims Connect

### *Sanjay Malhotra - RBI's 26th Governor*

| Parameter         | Detail                           |
|-------------------|----------------------------------|
| Took charge       | 11 December 2024                 |
| Predecessor       | Shaktikanta Das (25th Governor)  |
| Cadre             | 1990 IAS, Rajasthan              |
| Earlier roles     | Revenue Secretary; Secretary DFS |
| First MPC meeting | Feb 2025 - 25 bps cut            |
| Tenure            | 3 years                          |

## Prelims Pointers

- **26th RBI Governor** – Sanjay Malhotra.
- **RBI Act** – 1934.
- **RBI commenced** – 1 April 1935.
- **Nationalisation** – 1 January 1949.
- **HQ** – Mumbai.
- **First Governor** – Sir Osborne Smith.

## RBI Rate Cuts 2025 – Easing Cycle After 5 Years

Under new Governor Sanjay Malhotra, the RBI's Monetary Policy Committee cut the repo rate on three successive meetings in 2025 – Feb, Apr and Jun – bringing it from 6.50% to 5.50%, a cumulative 100 bps reduction; the first easing cycle since 2020. CPI inflation comfortably stayed in the 4% target band. A switch in stance to 'neutral' in June 2025 signalled the pause.

## News in Brief

- Feb 2025 MPC: repo rate cut 25 bps (6.50% -> 6.25%); Apr 2025: another 25 bps (-> 6.00%); Jun 2025: 50 bps surprise cut (-> 5.50%).
- Stance changed from 'withdrawal of accommodation' to 'neutral' in June 2025.
- CRR cut 50 bps to 4.0% in April 2025; SLR unchanged at 18%.
- RBI projected FY26 growth at 6.5% and CPI inflation at 4.2%.
- RBI deferred revised Liquidity Coverage Ratio (LCR) norms to 31 March 2026.
- RBI's OMOs (Open Market Operations) injected Rs 2.25 lakh cr liquidity in Apr-May 2025.

## Static Background – Concepts & Terms

- **Monetary Policy Committee (MPC)** – statutory body under RBI Act amendment 2016; 6 members (3 RBI: Governor, Deputy Governor in charge of monetary policy, one RBI officer; 3 external appointed by GoI); Governor has casting vote; meets at least 4 times/year.
- **Inflation targeting** – RBI has a flexible inflation target of **4% CPI (+/- 2%)** i.e. 2-6% tolerance band, fixed by GoI in consultation with RBI every 5 years; current target (2021-26) retained 4% +/- 2%.
- **Urjit Patel Committee (2014)** – recommended shift from multiple indicators to CPI-based flexible inflation targeting framework; led to 2015 MPC agreement.
- **Policy Rates explained** – **Repo Rate**: rate at which banks borrow from RBI (short-term, against G-secs); **Reverse Repo**: rate at which RBI absorbs liquidity; **MSF (Marginal Standing Facility)**: emergency borrowing, 25 bps above repo; **Bank Rate**: long-term lending rate to banks.
- **SDF - Standing Deposit Facility** – introduced April 2022; allows banks to park surplus liquidity with RBI without any collateral; replaces fixed reverse repo as floor of LAF corridor (25 bps below repo).
- **LAF - Liquidity Adjustment Facility** – RBI's main liquidity management tool; corridor: MSF (upper) - Repo (policy) - SDF (lower), typically 50 bps wide.
- **Reserve Ratios** – **CRR (Cash Reserve Ratio)**: % of NDTL kept with RBI in cash, no interest; **SLR (Statutory Liquidity Ratio)**: % of NDTL in safe assets (G-secs, cash, gold); no CRR ceiling; SLR cannot exceed 40%.
- **Basis point** – 1 bp = 0.01% = 1/100 of a percentage point; 100 bps = 1 percentage point.
- **Types of Inflation** – Demand-pull, Cost-push, Built-in, Core inflation (excl. food + fuel), Headline (overall CPI); **WPI (Wholesale Price Index)** - base 2011-12, released by Office of Economic Adviser; **CPI** - base 2012, released by NSO.

## Prelims Connect

### Policy rates post June 2025 MPC

| Rate          | Level | Remark                 |
|---------------|-------|------------------------|
| Repo Rate     | 5.50% | Policy rate            |
| SDF (floor)   | 5.25% | Repo - 25 bps          |
| MSF (ceiling) | 5.75% | Repo + 25 bps          |
| Bank Rate     | 5.75% | Same as MSF            |
| CRR           | 4.0%  | Cut by 50 bps Apr 2025 |
| SLR           | 18.0% | Unchanged              |

MPC inflation target: 4% +/- 2% CPI; mandate renewed until March 2026.

## Prelims Pointers

- **MPC members** – 6 (3 RBI + 3 external).
- **Inflation target** – 4% +/- 2% CPI.
- **MPC head** – RBI Governor (casting vote).
- **First rate cut since** – May 2020.
- **Repo at end-June 2025** – 5.50%.

## CPI Inflation & RBI Projections 2025-26

CPI inflation stayed comfortably within the RBI's 4% +/- 2% target band through 2025, allowing the easing cycle. Headline inflation averaged 4.8% in FY25 and was projected at 4.2% for FY26. Food inflation remained the main risk, while core inflation (ex food and fuel) stayed near the 4% target.

## News in Brief

- CPI inflation averaged 4.8% in FY25 (target 4%); projected 4.2% in FY26 by RBI.
- Core inflation near 4% through 2025 - a five-year low.
- Food inflation volatile - vegetable prices (esp. tomato, onion, potato 'TOP') key driver.
- WPI inflation stayed in 1-3% band through 2025.
- CPI base year remains 2012 = 100; weightage: food (45.86%), fuel & light (6.84%), housing (10.07%), miscellaneous services (28.32%).
- MoSPI under review to change CPI base year to 2024 = 100.

## Static Background – Concepts & Terms

- **Inflation** – sustained rise in general price level; measured by price indices (CPI, WPI, GDP deflator).
- **CPI - Consumer Price Index** – current base 2012 = 100; released monthly by NSO (MoSPI); variants - CPI-Combined (all-India), CPI-Rural, CPI-Urban, CPI-AL (Agri Labour), CPI-RL (Rural Labour), CPI-IW (Industrial Workers).
- **CPI weightage (most-tested)** – Food & beverages ~45.86%, Housing ~10.07%, Fuel & light ~6.84%, Clothing & footwear ~6.53%, Miscellaneous ~28.32%, Pan/tobacco ~2.38%.
- **WPI - Wholesale Price Index** – base 2011-12 = 100; released by Office of Economic Adviser, DPIIT; covers 697 items in 3 groups: Primary articles (22.62%), Fuel & power (13.15%), Manufactured products (64.23%).
- **GDP deflator** – broadest inflation measure; = Nominal GDP / Real GDP \* 100; covers all goods/services produced domestically.
- **Core inflation** – excludes food and fuel (volatile components); measures underlying price trend; preferred by central banks for policy decisions.
- **Phillips curve** – inverse relationship between unemployment and inflation; broke down with stagflation of 1970s; modified versions (expectations-augmented) still used.
- **Deflation** (falling prices) vs **Disinflation** (fall in inflation rate) vs **Stagflation** (high inflation + stagnation) - all different phenomena.
- **Producer Price Index (PPI)** – India does not have an official PPI yet; Ramesh Chand Committee recommended one; experimental PPI being developed by OEA.

## Prelims Connect

### *CPI-Combined weights (base 2012)*

| Group               | Weight |
|---------------------|--------|
| Food & beverages    | 45.86% |
| Miscellaneous       | 28.32% |
| Housing             | 10.07% |
| Fuel & light        | 6.84%  |
| Clothing & footwear | 6.53%  |
| Pan/tobacco         | 2.38%  |

## Prelims Pointers

- **CPI released by** – NSO, MoSPI.
- **WPI released by** – Office of Economic Adviser, DPIIT.
- **CPI base year** – 2012.
- **WPI base year** – 2011-12.
- **Food weight in CPI** – 45.86%.
- **India's inflation target** – 4% +/- 2%.

## Digital Rupee (e-Rupee / CBDC) – Pilot Scaling Up

The Digital Rupee, RBI's Central Bank Digital Currency (CBDC), launched in pilot mode in 2022, expanded in 2025 to cross 50 lakh users across 16 banks and major states. Cross-border pilots via ACU and UAE are underway. The e-Rupee circulated about Rs 1,000 crore by mid-2025 (negligible vs UPI) but is the foundation of programmable money in India.

## News in Brief

- RBI's CBDC - Digital Rupee - in pilot since Nov 2022 (wholesale) and Dec 2022 (retail).
- By 2025 - 50 lakh+ users; 16 banks including SBI, HDFC, ICICI, Axis, Yes Bank, Kotak.
- Offline CBDC functionality enabled 2024-25; programmable e-Rupee tested for DBT delivery.
- Cross-border pilot with UAE (Oct 2024 via ACU route) for international settlement.
- RBI also launched Unified Lending Interface (ULI) in 2024 - 'UPI moment for credit'.
- CBDC in wholesale for G-Sec secondary market settlement - pilot with 9 banks.

## Static Background – Concepts & Terms

- **CBDC - Central Bank Digital Currency** – digital form of legal tender issued by the central bank; equivalent to cash/legal tender but in digital form; distinguished from cryptocurrency (which is decentralised) and mobile wallets (which are private-sector claims).
- **Two types – Wholesale CBDC** (for inter-bank settlement); **Retail CBDC** (for public use). India launched both pilots in 2022.
- **Legal basis in India** – RBI Act 1934 amended by Finance Act 2022 to include 'Digital Rupee' in definition of 'bank note' - gave legal tender status.
- **Global CBDC landscape** – **China** (e-CNY, pilot 2020), **Bahamas** (Sand Dollar 2020 - first live retail CBDC), **Nigeria** (eNaira), **Jamaica** (JAM-DEX), **Sweden** (e-krona pilot), **Eurozone** (digital euro planned 2027).
- **Why CBDC?** –
  - (1) reduce cost of cash management,
  - (2) support financial inclusion,
  - (3) enable programmable payments,
  - (4) provide sovereign alternative to crypto,
  - (5) improve cross-border settlement (Project mBridge BIS).
- **UPI vs CBDC** – UPI is a payment rails on commercial bank money; CBDC is a new form of central bank money. UPI handled 19 bn transactions in Jan 2025; CBDC is still in pilot.
- **NPCI - National Payments Corp** – umbrella entity for retail payments; set up 2008 by RBI + IBA; runs UPI, IMPS, Bharat Bill Pay, RuPay, BHIM, NETC FASTag.
- **Crypto - India's stance** – not legal tender; 30% income tax on gains (2022 Budget); 1% TDS on transactions; CBDC positioned as sovereign alternative.

## Prelims Connect

### CBDC vs UPI vs Crypto

| Feature      | CBDC             | UPI                   | Crypto                     |
|--------------|------------------|-----------------------|----------------------------|
| Issuer       | RBI              | NPCI (rails)          | Decentralised              |
| Legal tender | Yes              | No                    | No                         |
| Backing      | RBI              | Commercial bank money | None                       |
| Regulator    | RBI              | RBI/NPCI              | Unregulated                |
| India status | Pilot since 2022 | Launched 2016         | Taxed but not legal tender |

## Prelims Pointers

- **CBDC launch** – Wholesale Nov 2022; Retail Dec 2022.
- **Legal tender** – via Finance Act 2022 amendment to RBI Act.
- **First live retail CBDC globally** – Bahamas (Sand Dollar, 2020).
- **NPCI** – set up 2008 by RBI + IBA.
- **Crypto tax in India** – 30% on gains + 1% TDS.

## Payments Regulatory Board & LCR Deferment

RBI notified the Payments Regulatory Board (PRB) in October 2025 under Section 3 of the Payment & Settlement Systems Act 2007. The 6-member board (3 RBI, 3 Centre nominees) is chaired by the RBI Governor with a casting vote, replacing the earlier BPSS. It oversees regulation of payment systems. Separately RBI deferred revised LCR norms to March 2026.

## News in Brief

- PRB constituted Oct 2025 under PSS Act 2007, replacing Board for Regulation & Supervision of Payment & Settlement Systems (BPSS).
- 6-member PRB: RBI Governor (Chair), 2 more RBI + 3 central government nominees; decisions by majority, Governor has casting vote.
- Permanent invitee: RBI's Principal Legal Adviser.
- Separately, RBI deferred revised LCR norms from 1 Apr 2025 to 31 Mar 2026 - easing bank compliance burden.
- LCR requires banks to hold HQLA (High Quality Liquid Assets - mostly G-secs) to cover 30-day net cash outflows in stress.

## Static Background – Concepts & Terms

- **Payment & Settlement Systems Act 2007** – main law governing payment systems in India; RBI is the designated authority; enables authorisation of Payment System Operators (PSOs).
- **PSS Act achievements** – enabled NEFT, RTGS, UPI, IMPS, ACH, cards, prepaid instruments, Bharat Bill Pay System (BBPS), Trade Receivables Discounting System (TReDS).
- **Basel Framework** – global banking standards by Basel Committee on Banking Supervision (BCBS) at BIS, Basel, Switzerland.
  - **Basel I (1988)**: credit risk capital;
  - **Basel II (2004)**: 3 pillars (minimum capital, supervisory review, market discipline);
  - **Basel III (post-2008)**: tightened capital, added LCR + NSFR, leverage ratio, countercyclical buffer.

- **LCR - Liquidity Coverage Ratio** – Basel III metric; HQLA  $\geq$  100% of Net Cash Outflows over 30-day stress period; ensures banks can survive short-term liquidity shocks.
- **NSFR - Net Stable Funding Ratio** – stable funding over 1-year horizon; both LCR and NSFR fully in force in India.
- **HQLA - High Quality Liquid Assets** – Level 1 (G-secs, cash, central bank reserves) and Level 2 (corporate bonds with certain rating, covered bonds).
- **Basel III capital norms** – minimum CET1 4.5% + Tier 1 6% + Total CAR 8% + Capital Conservation Buffer 2.5% = **11.5% total capital**; India prescribes 11.5% + 2.5% CCB for PSBs = 14%.
- **BIS - Bank for International Settlements** – established 1930, HQ Basel, Switzerland; 'central bank for central banks'; RBI is a member.

## Prelims Connect

### Payments Regulatory Board – structure

| Item          | Detail                                    |
|---------------|---|
| Governing Act | Payment & Settlement Systems Act 2007     |
| Members       | 6 (3 RBI + 3 Central Government)          |
| Chair         | RBI Governor (casting vote)               |
| Replaces      | BPSS (Board for Regulation & Supervision) |
| Notified      | October 2025                              |

## Prelims Pointers

- **PSS Act** – 2007.
- **PRB Chair** – RBI Governor.
- **Basel Committee HQ** – Basel, Switzerland (BIS).
- **LCR** – 30-day stress liquidity metric; HQLA / Net outflows.
- **BIS founded** – 1930.

## BANKING, NBFC & DIGITAL PAYMENTS

### UPI & NPCI International – Crossing Borders

UPI handled 19.47 billion transactions in January 2025 worth Rs 23.48 lakh crore, and kept setting records through 2025. NPCI International Payments Ltd (NIPL) pushed UPI into France, UAE, Singapore, Sri Lanka, Mauritius, Nepal, Bhutan and Qatar. RuPay credit cards on UPI added another layer.

### News in Brief

- UPI Jan 2025 - 19.47 bn txns worth Rs 23.48 lakh cr; Mar 2025 crossed 20 bn.
- UPI now operational in France, UAE, Sri Lanka, Mauritius, Nepal, Bhutan, Singapore, Qatar, Oman (PayNow-UPI with Singapore since Feb 2023).
- PM Modi + Mauritius PM launched UPI in Mauritius Mar 2025 (Port Louis).
- NPCI Unified Lending Interface (ULI) launched for 'UPI moment in credit'.
- RuPay credit card on UPI - card dues payment and credit line on UPI now live.

- NPCI International Payments Ltd (NIPL) - wholly-owned subsidiary of NPCI - handles the foreign partnerships.

## Static Background – Concepts & Terms

- **UPI - Unified Payments Interface** – launched 11 Apr 2016 by NPCI; real-time inter-bank payment system; allows instant transfer between any two bank accounts using a Virtual Payment Address (VPA) - free for users up to Rs 2 lakh.
- **UPI architecture** – sits on IMPS (Immediate Payment Service, launched 2010 by NPCI); 4-party model - Remitter bank, Remitter PSP (payment service provider app), Beneficiary PSP, Beneficiary bank.
- **NPCI - National Payments Corporation of India** – umbrella organisation set up 2008 under Companies Act (Section 8 not-for-profit) by RBI + IBA; operates 10+ retail payment systems including UPI, IMPS, NETC FASTag, Bharat Bill Pay, RuPay, NCMC.
- **RuPay** – India's domestic card payment network, launched 2012 by NPCI; alternatives to Visa/Mastercard; deployed in India, Bhutan, Singapore, Maldives, UAE, Saudi Arabia, France, Sri Lanka.
- **NEFT vs RTGS vs IMPS vs UPI** – **NEFT** (batch settlement, 24x7 since Dec 2019); **RTGS** (real-time, Rs 2 lakh+, 24x7 since Dec 2020); **IMPS** (instant retail, 24x7 since 2010); **UPI** (instant, uses VPA/QR, 24x7).
- **PPI - Prepaid Payment Instrument** – wallets (Paytm, Amazon Pay, PhonePe wallet), gift cards, meal vouchers; two categories - Small PPI (Rs 10k limit) and Full-KYC PPI (Rs 2 lakh).
- **Cross-border UPI** – cross-border acceptance via QR (merchants abroad); linking - PayNow-UPI (Singapore Feb 2023) is most advanced linking (direct inter-system interoperability).
- **DPI - Digital Public Infrastructure** – India Stack comprising Aadhaar, UPI, DigiLocker, CoWIN, ONDC, Account Aggregator - celebrated globally as 'India Stack' model.

## Prelims Connect

### UPI milestones

| Year/Month | Milestone                       |
|------------|---------------------------------|
| Apr 2016   | UPI launched by NPCI            |
| Aug 2016   | 21 banks go live on first day   |
| Dec 2019   | NEFT made 24x7                  |
| Feb 2023   | India-Singapore PayNow-UPI link |
| Oct 2024   | PayNow-UPI crosses 1 mn txns    |
| Jan 2025   | 19.47 bn UPI txns in one month  |
| Mar 2025   | UPI launched in Mauritius       |

### Prelims Pointers

- **UPI launched** – April 2016.
- **NPCI founded** – 2008.
- **RuPay launched** – 2012.
- **First PayNow link** – Singapore (Feb 2023).
- **UPI international (latest)** – Mauritius, Qatar.
- **Jan 2025 txns** – 19.47 bn.

## Banking Consolidation & 'Baanknet' Auction Platform

The Department of Financial Services launched 'Baanknet' in January 2025 - a revamped e-auction platform to help PSBs sell pledged/seized assets under SARFAESI. With over 1 lakh properties listed, Baanknet centralises bank auctions, improves price discovery, and cuts NPA disposal delays. PSB amalgamation (2020) reduced PSBs from 27 to 12 - consolidation pays off.

### News in Brief

- Revamped 'Baanknet' e-auction portal launched Jan 2025 by DFS Secretary M. Nagaraju.
- Lists over 1 lakh pledged/seized properties from PSBs; enables centralised bidding.
- Operates under SARFAESI Act 2002 framework for asset recovery.
- PSB GNPA ratio dropped to 2.5% (Sep 2025 est.) - a 12-year low.
- PSBs' net profit hit record Rs 1.78 lakh cr in FY25.
- PSB merger (2020) - 10 PSBs merged into 4: PNB+OBC+UBI, Canara+Syndicate, Union+Andhra+Corporation, Indian+Allahabad.

### Static Background – Concepts & Terms

- **Bank Nationalisation** – first round 19 July 1969: 14 banks with Rs 50 cr+ deposits nationalised by PM Indira Gandhi; second round 1980: 6 more banks. Major PSBs date from this era.
- **Narasimham Committees** – **Narasimham I (1991)**: capital adequacy norms, prudential norms, SLR cut; **Narasimham II (1998)**: bank consolidation, private bank entry, NPA management, universal banking concept.
- **Categories of banks** – **Commercial banks** (Scheduled - listed in 2nd Schedule of RBI Act 1934; Non-scheduled); **Cooperative banks**; **RRBs** (set up under RRB Act 1976); **Small Finance Banks**; **Payments Banks**.
- **PSB mergers (2019-20)** – Centre merged 10 PSBs into 4: (1) PNB + OBC + UBI; (2) Canara + Syndicate; (3) Union Bank + Andhra + Corporation; (4) Indian Bank + Allahabad. Reduced PSBs from 27 (2017) to 12 (2020).
- **NPA - Non-Performing Assets** – asset where principal/interest overdue for 90+ days; categories: Substandard (up to 12 months), Doubtful (>12 months), Loss; banks must make provisions; RBI Asset Quality Review (AQR) 2015 exposed hidden NPAs.
- **Priority Sector Lending (PSL)** – RBI mandate that 40% of ANBC must go to priority sectors: agriculture, MSME, education, housing, weaker sections, social infrastructure, renewable energy, export credit; targets vary by bank type.
- **SARFAESI Act 2002** – Securitisation & Reconstruction of Financial Assets & Enforcement of Security Interest; allows banks/FIs to seize and auction secured assets of defaulters without court intervention; Rs 1 lakh threshold.
- **Bad Bank / NARCL** – National Asset Reconstruction Company Ltd set up 2021 with SBI + other PSBs; government-backed ARC; took over ~Rs 2 lakh cr stressed assets. Paired with IDRCL (India Debt Resolution Company).

### Prelims Connect

#### PSB amalgamation 2020

| Anchor Bank          | Merged Into                    |
|----------------------|--------------------------------|
| Punjab National Bank | OBC + United Bank of India     |
| Canara Bank          | Syndicate Bank                 |
| Union Bank of India  | Andhra Bank + Corporation Bank |

|             |                |
|-------------|----------------|
| Indian Bank | Allahabad Bank |
|-------------|----------------|

After 2020: 12 PSBs remain (SBI + 11 nationalised banks).

## Prelims Pointers

- **Nationalisation dates** – 19 July 1969 (14 banks); 1980 (6 banks).
- **PSBs post-merger** – 12.
- **SARFAESI Act** – 2002.
- **NARCL** – Bad Bank, est. 2021.
- **Baanknet** – launched Jan 2025.
- **PSL target** – 40% of ANBC.

## Small Finance Banks, Local Area Banks & Co-op Bank Reforms

RBI issued consolidation/transition guidelines for Small Finance Banks and tightened supervision of urban cooperative banks in 2025. Unity Small Finance Bank (formerly Centrum+PMC) marked 4 years; Jana, AU, ESAF, Ujjivan continued to be prominent. On cooperative banks, RBI brought UCBs fully under RBI supervision via the Banking Regulation (Amendment) Act 2020.

## News in Brief

- AU Small Finance Bank received RBI approval for universal banking transition in 2025.
- RBI extended deadline for SFB-to-universal-bank transition eligibility (5-yr track record, CRAR 15%, GNPA <3%).
- Cooperative banks supervision fully under RBI since 29 June 2020 amendment.
- DICGC raised deposit insurance cover to Rs 5 lakh in 2020 (from Rs 1 lakh 1993).
- Unity Small Finance Bank 4 years in 2025 - formed from PMC Bank resolution.

## Static Background – Concepts & Terms

- **Differentiated Banks** – **SFBs** (Small Finance Banks) - for underserved (25% branches rural unbanked); 75% of ANBC to PSL; max 10 lakh individual exposure. **Payments Banks** - accept up to Rs 2 lakh deposit, no lending, no credit cards; invest in G-secs.
- **First SFBs licensed (2016)** – 10 entities: AU, Capital, Equitas, ESAF, Fincare (merged into AU 2024), Jana, North East, Suryoday, Ujjivan, Utkarsh.
- **First Payments Banks** – Airtel Payments Bank (first to go live, 2017), India Post Payments Bank, Paytm Payments Bank (banned 2024), Fino, NSDL, Jio.
- **Local Area Banks** – introduced 1996 Narasimham II; small, regional; very few survived (Coastal, Capital, Krishna Bhima, Subhadra).
- **Regional Rural Banks (RRBs)** – set up under RRB Act 1976 after Narasimham Committee 1975 recommendation; 3-tier ownership - Centre (50%), Sponsor Bank (35%), State (15%); post-consolidation ~43 RRBs.
- **Cooperative Banks** – 3 tiers - PACS (Primary Agricultural Credit Society) -> DCCB (District Central Cooperative Bank) -> StCB (State Cooperative Bank); Urban Coop Banks (UCBs); governed under State Cooperative Societies Acts + Banking Regulation (Coop Societies) Act 1966.
- **Banking Regulation (Amendment) Act 2020** – brought all cooperative banks under RBI supervision (earlier dual regulation - State Registrar + RBI); empowered RBI to supersede coop bank boards.
- **DICGC** – Deposit Insurance & Credit Guarantee Corporation, subsidiary of RBI, est. 1978; insures bank deposits up to Rs 5 lakh per depositor per bank (raised from Rs 1 lakh in Feb 2020).

## Prelims Connect

## *Differentiated bank types (India)*

| Type               | Key Features                                    |
|--------------------|---|
| Small Finance Bank | For underserved; 75% PSL; small loans           |
| Payments Bank      | Deposits up to Rs 2 lakh; no lending            |
| RRB                | Rural; 3-party ownership (Centre/Sponsor/State) |
| UCB                | Urban cooperative; RBI supervised since 2020    |
| NBFC               | Lends but no demand deposits; RBI registered    |

### Prelims Pointers

- **SFB first licences** – 2016 (10 entities).
- **Deposit insurance cover** – Rs 5 lakh (DICGC).
- **RRB Act** – 1976.
- **UCBs under RBI sole regulation** – since June 2020.
- **First Payments Bank (live)** – Airtel Payments Bank (2017).

### NBFC Regulation, Account Aggregator & Fintech Oversight

RBI tightened NBFC regulation through 2025 - implementing the Scale Based Regulation (SBR) framework and bringing stricter norms for upper-layer NBFCs. The Account Aggregator ecosystem crossed 10 crore accounts, and RBI framed new norms on digital lending apps after the Pavan Shah committee report. A new Unified Lending Interface (ULI) was launched.

### News in Brief

- Account Aggregator (AA) ecosystem crossed 10 crore linked accounts in 2025.
- 4-layer Scale Based Regulation (SBR) for NBFCs: Base, Middle, Upper, Top Layer.
- Upper-layer NBFCs (NBFC-UL): large NBFCs with stricter capital & exposure norms; list reviewed annually.
- ULI - Unified Lending Interface - launched August 2024 by RBI Innovation Hub for digital credit delivery based on consented data.
- RBI placed stricter lending caps on microfinance NBFCs (NBFC-MFI).

### Static Background – Concepts & Terms

- **NBFC - Non-Banking Financial Company** – company registered under Companies Act that lends/invests but CANNOT accept demand deposits (savings/current); regulated by RBI under Chapter III-B of RBI Act 1934 (inserted 1963).
- **NBFC types** – **Asset Finance Company, Loan Company, Investment Company, Infrastructure Finance Company, NBFC-MFI** (microfinance, 85% to 'qualifying assets'), **CIC** (Core Investment), **IDF** (Infrastructure Debt Fund), **HFC** (Housing Finance, brought under RBI from NHB in 2019).
- **Scale Based Regulation (SBR)** – RBI framework since Oct 2022: **NBFC-BL** (Base layer - assets <Rs 1000 cr); **NBFC-ML** (Middle); **NBFC-UL** (Upper - top ~25); **NBFC-TL** (Top - if systemically significant). Higher layer = stricter norms.
- **IL&FS crisis (Sep 2018)** – default on commercial paper exposed NBFC vulnerabilities; Board superseded; led to wider NBFC liquidity crunch; Uday Kotak appointed chairman; eventually led to SBR framework.

- **Account Aggregator (AA)** – NBFC category notified by RBI in 2016; acts as consent manager between Financial Information Providers (FIPs - banks, MFs, insurers) and Financial Information Users (FIUs - lenders, advisors). 'Data blind' - cannot read user data. Ecosystem: ReBIT standards, Sahamati alliance.
- **Digital Lending Guidelines (Sep 2022)** – based on Jayant Kumar Dash Committee; banned first-loss default guarantee (FLDG) initially (later permitted 5%); mandated LSP (Lending Service Provider) disclosures; data protection rules.
- **Microfinance framework** – RBI March 2022 - uniform definition across lenders; household income cap Rs 3 lakh; EMI-to-income cap 50%; collateral-free; applies to NBFC-MFI, banks, SFBs alike.

## Prelims Connect

### NBFC Scale Based Regulation (SBR)

| Layer       | Coverage                          | Key Norms                     |
|-------------|-----------------------------------|-------------------------------|
| Base (BL)   | Assets < Rs 1,000 cr              | Light regulation              |
| Middle (ML) | Assets >= Rs 1,000 cr             | Standard norms                |
| Upper (UL)  | Top 25 or so (by size/complexity) | Bank-like norms: NPA, capital |
| Top (TL)    | If systemic risk                  | Highest vigilance             |

NBFCs cannot accept demand deposits (savings/current); some can accept term deposits (NBFC-D).

### Prelims Pointers

- **NBFC regulator** – RBI.
- **HFCs regulator (from 2019)** – RBI (earlier NHB).
- **SBR framework** – 4 layers.
- **Account Aggregator** – RBI notified NBFC category (2016).
- **IL&FS crisis** – September 2018.

## Bima Sakhi Yojana & Financial Inclusion Index

PM Modi launched Bima Sakhi Yojana on 9 December 2024 in Panipat, Haryana - aiming to train 2 lakh women as LIC agents in 3 years, deepening insurance penetration in rural India. RBI's Financial Inclusion Index (FI Index) rose to 64.2 (FY2024) from 60.1 (FY2023), reflecting deepening inclusion across access, usage, and quality sub-indices.

### News in Brief

- Bima Sakhi Yojana - launched 9 Dec 2024 at Panipat by PM Modi.
- Trains women aged 18-70 with Class 10 pass as LIC financial service agents.
- Stipend: Rs 7,000/month (Year 1), Rs 6,000 (Year 2), Rs 5,000 (Year 3).
- Target: 2 lakh women in 3 years; commission over and above stipend.
- FI Index (FY2024) rose to 64.2 from 60.1; released July 2024 by RBI.
- 3 sub-indices: Access (35%), Usage (45%), Quality (20%); base year 2017 = 43.4.

### Static Background – Concepts & Terms

- **Financial Inclusion** – process of ensuring access to financial services (bank account, credit, insurance, pension, remittance) at affordable cost to disadvantaged groups; includes rural, women, informal workers.
- **Rangarajan Committee (2008)** – defined financial inclusion; recommended roadmap. Led to RBI's Financial Inclusion Plans (FIP) from 2010.

- **PMJDY - Pradhan Mantri Jan Dhan Yojana** – launched 28 August 2014; world's largest financial inclusion drive; as of 2025: 54+ cr accounts, Rs 2.5+ lakh cr balance; RuPay card, Rs 2 lakh accident insurance, overdraft facility up to Rs 10k.
- **Other social security schemes** – **PMSBY** (Suraksha Bima Yojana, Rs 2 lakh accident insurance for Rs 20/yr); **PMJJBY** (Jeevan Jyoti Bima Yojana, Rs 2 lakh life cover for Rs 436/yr); **APY** (Atal Pension Yojana); **PMMY** (Mudra Yojana 2015).
- **LIC of India** – Life Insurance Corporation, est. 1956 by nationalising 245 private insurers; IPO in May 2022 (then world's largest Indian IPO at Rs 21,000 cr); government still holds 96.5%.
- **IRDAI** – Insurance Regulatory & Development Authority of India, statutory body est. 2000 under IRDA Act 1999; HQ Hyderabad; regulates life, general, health insurance.
- **Insurance penetration (India 2023)** – ~3.7% of GDP (life 3.0% + non-life 0.7%) - below world average ~6.5%; density (per capita premium) ~\$92 - below world ~\$900.
- **FI Index (RBI)** – composite index since 2021; tracks 97 indicators across 3 dimensions; base year March 2017 = 43.4; no ceiling.

## Prelims Connect

### *RBI Financial Inclusion Index trajectory*

| Year (March) | FI Index |
|--------------|----------|
| 2017 (base)  | 43.4     |
| 2021         | 53.9     |
| 2022         | 56.4     |
| 2023         | 60.1     |
| 2024         | 64.2     |

## Prelims Pointers

- **Bima Sakhi launch** – 9 Dec 2024, Panipat.
- **Target** – 2 lakh women.
- **IRDAI est.** – 2000 (HQ Hyderabad).
- **LIC nationalised** – 1956.
- **PMJDY launch** – 28 Aug 2014.
- **FI Index FY24** – 64.2.

## Rupee Depreciation & RBI's Managed Float – Dollar Drain & NEER/REER

The rupee depreciated 4.3% against the USD in 2024-25 – the worst among Asian peers. Twin shocks of U.S. tariffs and surging gold/precious metal prices triggered the slide. The RBI shifted to a managed-float tolerance, letting the rupee weaken to boost export competitiveness.

## News in Brief

- Rupee depreciation: 4.3% vs USD in 2024-25 – worst in Asia; outperformed only structurally weak JPY and KRW.
- US 50% tariff triggered record \$41.7 bn trade deficit in October; gold import bill hit \$14.72 bn – businesses sold rupees to buy dollars ('dollar drain').

- FPIs pulled out in large numbers from Indian equity; domestic investors shifted to bullion.
- RBI sold net ~\$50 bn forex but allowed modest slide – 'managed float' stance; forex reserves comfortable at \$693 bn.
- Rupee also weakened against Euro, Yen, British Pound, Swedish Krona, Swiss Franc.
- Rupee is weakening against dollar even as the dollar weakens against other currencies – driven by India-specific tariff and capital-flow factors.
- Indian Government Bonds (IGBs) became 6% cheaper in rupee terms – creating investment opportunity.

## Static Background – Concepts & Terms

- **Balance of Payments (BoP)** – ledger of all transactions between a country and rest of world; minus sign = deficit; captures relative demand for rupee vs foreign currencies.
- **NEER (Nominal Effective Exchange Rate)** – weighted average of rupee vs 40 trading-partner currencies; base year 2015-16 = 100; rising NEER = rupee appreciation (less export competitiveness).
- **REER (Real Effective Exchange Rate)** – NEER adjusted for inflation differentials;  $REER = NEER \times (\text{domestic price level} / \text{foreign price level})$ ; true gauge of currency over/undervaluation.
- **Managed Float** – RBI does not fix exchange rate but intervenes to prevent disorderly volatility; India's official regime; intervention recorded under 'Reserve Assets' in BoP.
- **LRS (Liberalised Remittance Scheme)** – RBI scheme allowing resident individuals to remit up to USD 2.5 lakh per year abroad for permissible transactions; depreciation pushes domestic wealth towards dollar assets under LRS.
- **Internationalisation of Rupee** – increasing use of INR in cross-border transactions; requires full capital account convertibility (India currently has only current account convertibility).
- **Capital Account Convertibility** – freedom to convert local financial assets into foreign assets and vice versa at market rates; India has NOT achieved full capital account convertibility.

## Prelims Pointers

- NEER/REER basket: 40 currencies; accounts for ~88% of India's annual trade flows.
- Base year for NEER/REER: 2015-16 = 100.
- India's forex reserves 2025: ~\$693 billion.
- India has full current account convertibility but NOT full capital account convertibility.
- RBI's currency intervention is recorded under 'Reserve Assets' in the Balance of Payments.

## RBI Currency Swaps – Dollar/Rupee Buy-Sell Swap for Liquidity

The RBI used its \$10 billion dollar-rupee buy-sell swap (February 2025) to inject long-term rupee liquidity under global financial stress. Currency swaps are a standard central bank tool – distinct from forex market intervention – used to manage systemic liquidity.

## News in Brief

- RBI conducted \$10 bn dollar-rupee buy-sell swap auction (February 2025) – injects long-term rupee liquidity; clarified as liquidity measure, NOT rupee defence.
- 2019 precedent: RBI completed \$5 bn, 3-year dollar-rupee swap – first longer-term swap.
- OMO (Open Market Operations) purchases of ₹1 lakh crore in government securities also announced simultaneously.
- Under floating-but-managed regime, RBI can 'smoothen volatility' but cannot fix exchange rate.

## Static Background – Concepts & Terms

- **Currency Swap (Central Bank)** – agreement to exchange currencies at current rate with commitment to reverse at future date; injects domestic liquidity without permanently reducing forex reserves.
- **Buy-Sell Swap** – RBI buys USD from banks now (injects rupees) and agrees to sell USD back later (absorbs rupees); net effect = short-term rupee injection.
- **OMO (Open Market Operations)** – RBI purchases/sells government securities to inject/absorb liquidity from banking system; a primary monetary policy tool.

- **LAF (Liquidity Adjustment Facility)** – RBI's framework for daily liquidity management via repo, reverse repo, SDF, MSF, OMOs, forex swaps, and MSS.
- **MSS (Market Stabilisation Scheme)** – government securities issued specifically to absorb excess liquidity; proceeds kept in separate account with RBI, not used for government spending.
- **SDF (Standing Deposit Facility) Rate** – introduced 2022; rate at which RBI accepts uncollateralised overnight deposits; 25 bps below repo; replaced fixed reverse repo as LAF floor.

## Prelims Pointers

- RBI's \$10 bn dollar-rupee buy-sell swap (Feb 2025) was a liquidity measure, NOT forex intervention.
- SDF rate introduced in 2022; 25 basis points below repo rate; floor of LAF corridor.
- MSF (Marginal Standing Facility) rate: 25 bps ABOVE repo rate; ceiling of LAF corridor.
- OMO purchases inject liquidity; OMO sales absorb liquidity from banking system.

## Sovereign Gold Bonds (SGBs) & Gold as Domestic Asset

India's households hold ~25,000 tonnes of gold – the largest private gold reserve in the world – worth \$2.4 trillion (>55% of GDP). Despite this, India remains a major importer, meeting 87% of domestic demand. SGBs offer a paper-gold alternative with capital gains potential.

## News in Brief

- Indian households: 25,000 tonnes gold – \$2.4 trillion value – greater than all bank credit combined; imports meet 87% of demand (8% of total import bill).
- Gold price spike triggered 200% increase in gold demand in October 2024; gold ETF inflows surged.
- Commodities on Indian commodity exchanges: hard commodities (metals, energy) vs soft commodities (agriculture, processed agri).

## Static Background – Concepts & Terms

- **SGB (Sovereign Gold Bond)** – debt securities issued by RBI on behalf of Government of India; each unit = 1 gram of gold; offer capital gains + 2.5% annual interest; tradeable on secondary markets.
- **Digital Gold vs SGBs** – Digital gold: unregulated, no SEBI oversight, counterparty risk; SGBs: SEBI-regulated, RBI-backed, transparent pricing, investor protection.
- **Gold ETF** – ETF with gold as underlying; holds gold electronically (no theft/purity risk); LTCG on gold ETF held >12 months now taxed at 12.5%; previously as per income slab.
- **SEBI History** – constituted as non-statutory body in 1988 via GoI resolution; became statutory body in 1992 under SEBI Act 1992.

## Prelims Pointers

- SGBs are issued by RBI on behalf of Government; each unit represents 1 gram of gold.
- India has world's largest private gold reserve: ~25,000 tonnes; equivalent to >55% of GDP.
- Gold ETF LTCG: taxed at 12.5% if held more than 12 months (post Finance Act 2024 change).
- SEBI: non-statutory 1988; statutory body 1992.

## GENIUS Act, Stablecoins & India's Crypto Tax Framework

The U.S. Senate passed the GENIUS Act – Guiding and Establishing National Innovation for U.S. Stablecoins – mandating full reserve backing and AML compliance. India taxes crypto transactions at 30% + 1% TDS but has not legalised cryptocurrencies.

## News in Brief

- GENIUS Act passed by U.S. Senate – stablecoin AML compliance, full reserve backing, monthly audits; aims to strengthen dollar-pegged crypto.
- Hong Kong enforced Stablecoins Ordinance – licensing regime for fiat-referenced stablecoins (FRS).
- India: crypto transactions crossed ₹51,000 crore (2024-25); up 41% YoY; government collected ₹511.8 crore as 1% TDS.

- Finance Act 2022 introduced 30% tax on VDA (Virtual Digital Assets) + 1% TDS on every transfer; retained in Income Tax Act 2025.
- 2018: RBI banned banks from dealing with crypto firms; 2020: SC overturned the ban.
- India has not legalised cryptocurrencies; RBI advocates banning VDAs while piloting CBDC (e-Rupee).

## Static Background – Concepts & Terms

- **Stablecoin** – cryptocurrency pegged to fiat currencies, commodities, or algorithms to maintain price stability; privately issued (unlike CBDCs); used in trading, remittances, savings.
- **Types of Stablecoins** – (1) Fiat-backed (USDT, USDC): backed by USD held in regulated banks; (2) Crypto-backed: collateralised by ETH/BTC; (3) Algorithmic: supply/demand algorithms – highly risky (TerraUSD collapse).
- **CBDC vs Stablecoin** – CBDC: government-issued digital currency (e-Rupee); Stablecoin: privately issued, can be pegged to foreign currencies – key distinction for exam.
- **Cryptocurrency** – digital medium of exchange using encryption; decentralised; operates on distributed network; transactions verified via cryptographic mining; blockchain as backbone.
- **Blockchain** – distributed ledger; maintains secure, immutable, transparent record of transactions; each block contains hash of previous block.
- **VDA (Virtual Digital Asset)** – Indian legal term (Finance Act 2022); covers cryptocurrencies, NFTs; taxed at flat 30%; losses cannot offset other income; no set-off allowed.

## Stablecoin Types – Quick Reference

| Type                         | Key Feature   |
|------------------------------|---|
| Fiat-backed (e.g., USDT)     | Backed by USD/EUR in regulated banks; most stable               |
| Crypto-backed (e.g., DAI)    | Collateralised by ETH/BTC; over-collateralised                  |
| Algorithmic (e.g., TerraUSD) | Algorithm adjusts supply; highest risk; TerraUSD collapsed 2022 |
| CBDC (e.g., e-Rupee)         | Government-issued; not a stablecoin; legal tender               |

## Prelims Pointers

- GENIUS Act: Guiding and Establishing National Innovation for U.S. Stablecoins.
- VDA tax in India: 30% flat + 1% TDS; introduced by Finance Act 2022.
- In 2020, Supreme Court overturned RBI's 2018 circular banning banks from dealing with crypto firms.
- CBDCs are government-issued digital currencies; stablecoins are privately issued.
- Crypto transactions in India (2024-25): ₹51,000 crore – 41% higher than previous year.

## RBI's Record Surplus Transfer – ₹2.69 Lakh Crore to Government FY25

RBI transferred ₹2.69 lakh crore as surplus to the Central Government for FY 2024-25 – the highest ever and 27% higher than FY24. The transfer flows from higher forex sales, strong returns on forex assets, and gains from liquidity management tools.

## News in Brief

- ₹2.69 lakh crore surplus transferred – highest ever; 27% higher than FY 2023-24.
- RBI transfers are NOT dividends – RBI is not a company with shareholders.
- Sources of RBI revenue: Seigniorage, interest on loans to govt/banks, returns on forex bond investments, currency exchange gains.
- CRB (Contingent Risk Buffer) range revised to 4.5–7.5% of balance sheet (was 5.5–6.5% per Bimal Jalan Committee 2018).

- As per RBI Act 1934, profits after provisioning are transferred to Central Government.

## Static Background – Concepts & Terms

- **Economic Capital Framework (ECF)** – RBI's framework governing capital retention and surplus transfer; reviewed every 5 years as recommended by Bimal Jalan Committee.
- **Bimal Jalan Committee (2018)** – recommended CRB at 5.5–6.5%; ECF review every 5 years; distinguished between realized equity and revaluation balances.
- **Contingent Risk Buffer (CRB)** – RBI's safety net for financial stability crises; maintained as % of balance sheet; not ordinary retained earnings.
- **Seigniorage** – profit from currency issuance = face value minus printing cost; e.g., ₹500 note costs ~₹4 to print; ₹496 = seigniorage.
- **RBI Act 1934** – Section 48: exempts RBI from income tax, wealth tax; established April 1, 1935; Central Office initially Kolkata → Mumbai (1937); fully nationalised 1949.
- **RBI Preamble functions** – regulate issue of bank notes; maintain reserves for monetary stability; operate currency and credit system.

## Prelims Pointers

- RBI FY25 surplus: ₹2.69 lakh crore – highest ever; 27% higher than FY24.
- Bimal Jalan Committee (2018) recommended CRB of 5.5–6.5%; revised to 4.5–7.5% in 2024–25.
- Section 48 of RBI Act 1934: RBI is exempt from income tax, super-tax, wealth tax.
- RBI established April 1, 1935 under RBI Act 1934; nationalised in 1949.
- Seigniorage = face value of currency minus printing cost = key RBI revenue source.

## RBI Banking Reforms – Gold Loans, Bank Mitras, SFB→Universal Bank

RBI released draft directions harmonising gold loan rules; recognised payment system operators' SRO; granted in-principle approval to AU Small Finance Bank for Universal Bank transition. Bank Mitras (Business Correspondents) are key to PMJDY financial inclusion.

## News in Brief

- Gold Loan Rules: LTV remains 75%; accrued interest included in LTV for consumption-based bullet loans; proof of ownership mandatory; 22-carat gold pricing standard; concurrent loans (consumption + income) prohibited.
- Delay in returning gold collateral beyond 7 days → ₹5,000/day compensation to borrower.
- Payment System Operators' association recognised as SRO – under RBI's 2024 Omnibus Framework.
- AU Small Finance Bank: in-principle approval for Universal Bank transition; first SFB to get this approval.
- Bank Mitras: Business Correspondents; commissions last revised in 2014; critical pillar of PMJDY.
- Aapki Poonji Aapka Adhyan: Ministry of Finance + RBI unified portal for claiming unclaimed assets (deposits, pension, shares, dividends).
- RBI issued 244 consolidated Master Directions after reviewing ~3,500 circulars – reduces compliance burden on 11 regulated entities.
- India Post phasing out Registered Post; integrating UPI payments at Speed Post booking; APT (Advanced Postal Technology) system active in Delhi, Chennai, Mumbai.

## Static Background – Concepts & Terms

- **Business Correspondent (BC) / Bank Mitra** – local agents acting as intermediaries between banks and customers in underserved areas; conduct basic banking (deposits, withdrawals, KYC); critical for PMJDY.
- **Small Finance Banks (SFBs)** – created under RBI guidance for financial inclusion; minimum equity capital ₹100 crore; 75% of net bank credit to priority sector; 50% of loans ≤ ₹25 lakh.
- **Universal Bank** – offers full range of financial services without SFB restrictions; transition requires: 5-year satisfactory track record, ₹1,000 crore net worth, GNPA ≤3%, NNPA ≤1%.
- **LTV (Loan-to-Value) Ratio** – loan amount as % of collateral value; RBI cap for gold loans = 75%; higher LTV = higher risk for lender.

- **SRO (Self-Regulatory Organisation)** – industry body that exercises regulatory authority over its members; RBI's Omnibus Framework (2024) provides recognition criteria.

## Prelims Pointers

- RBI gold loan LTV cap: 75%; gold valued at 22-carat price standard.
- SFB minimum paid-up equity capital: ₹100 crore; at least 25% branches in unbanked rural centres.
- To transition SFB → Universal Bank: minimum 5 years scheduled status; net worth ≥ ₹1,000 crore; GNPA ≤3%; NNPA ≤1%.
- Bank Mitras are Business Correspondents – key pillars of Pradhan Mantri Jan Dhan Yojana (PMJDY).
- RBI issued 244 consolidated Master Directions after reviewing ~3,500 directions/circulars.

## CPI Inflation at 8-Year Low, Flexible Inflation Targeting & MoSPI Revisions

Retail inflation fell to a more than 8-year low of 1.54% in September 2025, breaching RBI's lower comfort bound of 2%. The Flexible Inflation Targeting framework (4% ±2%) is ending in March 2026 and under review. MoSPI is revising CPI (base year 2024) and GDP (base year 2022-23) for new series from 2026.

## News in Brief

- CPI inflation: 1.54% (September 2025) – 8-year low; below lower bound of 2%; 0.25% in October.
- Inflation has been below 4% target for 9 consecutive months, averaging 2.3%.
- FIT framework (4% ±2%) ends March 2026 – under review; RBI released discussion paper.
- MoSPI CPI revisions: new base year 2024 (from 2012); item baskets from HCES 2023-24; new CPI from Q1 2026.
- Housing index change: monthly rent data collection extended to rural + urban; employer-provided accommodation excluded.
- New GDP series (2026): base year 2022-23 (from 2011-12); to include GST data, UPI transactions, e-Vahan portal data.
- IIP new base year: 2022-23; new series from 2026-27.
- IMF rated India's National Accounts Statistics (GDP+GVA): grade 'C' – second-lowest (A, B, C, D); cited outdated base year 2011-12 and use of WPI as deflator.
- New HCES to be conducted every 3 years (was every 5 years); next HCES in 2027-28.

## Static Background – Concepts & Terms

- **CPI (Consumer Price Index)** – measures price changes of 299 goods/services; base year 2012 = 100; computed separately for rural and urban; 6 main components.
- **CPI Component Weights** – Food & Beverages: 45% (highest); Housing: 21.67% urban, 10.07% all-India; within food, cereals carry highest sub-weight at 9.67%.
- **Core Inflation** – CPI excluding food and fuel; reflects demand-side price pressures; used for long-run monetary policy guidance.
- **FIT Framework (2016)** – MPC mandated to maintain CPI at 4% ±2%; enacted via amendment to RBI Act (Section 45ZB); MPC has 6 members; meets every 2 months.
- **WPI (Wholesale Price Index)** – price changes at producer/wholesale level; base year 2011-12; used as GDP deflator (IMF criticizes this).
- **IMF Rating Scale for Data** – A = adequate; B = broadly adequate; C = some shortcomings; D = serious shortcomings.
- **HCES (Household Consumption Expenditure Survey)** – MoSPI survey providing consumption data; used for CPI basket weights; 2023-24 survey used for new CPI series.
- **Headline vs Core Inflation** – Headline: full CPI basket (includes food + fuel, higher volatility); Core: excludes food + fuel (lower volatility, reflects demand pressure).

## CPI Components & Weights (Current Series)

| Component                  | Approximate Weight              |
|----------------------------|---------------------------------|
| Food & Beverages           | 45% (highest)                   |
| Miscellaneous (services)   | 2nd highest                     |
| Housing                    | 21.67% urban / 10.07% all-India |
| Fuel & Light               | ~7%                             |
| Clothing & Footwear        | ~7%                             |
| Pan, Tobacco & Intoxicants | ~2%                             |

## Prelims Pointers

- CPI measures 299 goods and services; base year 2012 = 100.
- Food & Beverages: 45% weight in CPI – highest; within food, cereals = 9.67%.
- New CPI base year: 2024; new series from Q1 2026.
- FIT framework: 4% ±2%; Section 45ZB of RBI Act; MPC meets every 2 months.
- India's IMF NAS rating: 'C' – second lowest; cited outdated 2011-12 base year.
- New GDP base year: 2022-23 (from 2011-12); to incorporate GST + UPI + e-Vahan data.

## CAPITAL MARKETS, IBC & CORPORATE FINANCE

### SEBI – Tuhin Kanta Pandey, New Chairperson; F&O Reforms

Tuhin Kanta Pandey, Revenue Secretary and former DIPAM Secretary, took charge as the 11th SEBI Chairperson on 1 March 2025, succeeding Madhabi Puri Buch. His immediate priorities - enforcing SEBI's F&O derivatives reforms (Oct 2024), tackling Adani-Hindenburg fallout, SME IPO governance. F&O contract size hiked to Rs 15 lakh; weekly options curbed.

### News in Brief

- Tuhin Kanta Pandey took over as 11th SEBI Chairperson on 1 March 2025.
- Earlier: Revenue Secretary; and DIPAM Secretary (handled Air India divestment, LIC IPO).
- SEBI F&O reforms (Oct 2024) effective phased through 2025: contract size raised Rs 5-10 lakh to Rs 15 lakh; weekly options limited to 1 per exchange; upfront collection of option premium from buyers.
- SEBI tightened SME IPO rules - minimum issue size, promoter lock-in, listing scrutiny.
- Mutual Fund industry AUM crossed Rs 68 lakh cr in 2025.

### Static Background – Concepts & Terms

- **SEBI - Securities & Exchange Board of India** – established 12 April 1988 as non-statutory; **became statutory under SEBI Act 1992**; HQ Mumbai; replaced Controller of Capital Issues (CCI).
- **SEBI Composition** – Chairperson + 2 Whole-Time Members + 1 from MoF + 1 from RBI + 2 part-time members; appointed by Central Government.
- **SEBI's 3 objectives** – (1) protect investor interests, (2) promote development of securities market, (3) regulate securities market.

- **Stock Exchanges** – **BSE** (Bombay Stock Exchange, est. 1875 - Asia's oldest); **NSE** (National Stock Exchange, est. 1992, incorporated 1995 - demat/screen-based); **MCX, NCDEX** (commodity).
- **Market segments** – **Cash/Equity, Derivatives** (F&O - Futures & Options), **Debt, Currency, Commodities**. SEBI also regulates REIT, InvIT, AIF, MF.
- **Derivatives** – contracts whose value derives from an underlying asset. **Futures** - standardised, exchange-traded; **Options** - right but not obligation (Call = buy; Put = sell); **Swaps** - OTC exchange of cash flows.
- **F&O volumes** – India became world's largest equity derivatives market by contracts in 2023; retail participation rose sharply. **Economic Survey 2023-24** flagged 'gambling'-like losses.
- **SEBI Chairpersons (recent)** – S.K. Barnwal, M. Damodaran, C.B. Bhavé, U.K. Sinha, Ajay Tyagi, Madhabi Puri Buch (first woman, 2022-25), Tuhin Kanta Pandey (2025-).

## Prelims Connect

### SEBI at a glance

| Item                        | Detail   |
|-----------------------------|--|
| Established (non-statutory) | 12 April 1988  |
| Statutory                   | SEBI Act 1992  |
| HQ                          | Mumbai   |
| Chairperson (2025)          | Tuhin Kanta Pandey   |
| Regulates                   | Stock exchanges, MFs, AIFs, FPIs, brokers, rating agencies |

## Prelims Pointers

- **SEBI statutory** – 1992 (SEBI Act).
- **BSE founded** – 1875 (Asia's oldest).
- **NSE founded** – 1992 (first screen-based).
- **11th SEBI Chair** – Tuhin Kanta Pandey.
- **F&O contract size** – raised to Rs 15 lakh.

## Insolvency & Bankruptcy Code – IBC@9 and Pre-Packaged Regime

The Insolvency & Bankruptcy Code 2016 crossed 9 years in 2025. As of mid-2025, IBC had resolved over 1,100 corporate insolvencies, delivering average 85% recovery on admitted claims for successful CIRPs. IBBI proposed 'Pre-Packaged Insolvency Resolution Process' extension from MSMEs to larger firms. The Bilcare case and Jet Airways liquidation were flagship in 2025.

## News in Brief

- IBC enacted 28 May 2016; over 1,100 CIRPs approved by 2025.
- NCLT admitted Byju's liquidation order upheld by NCLAT May 2025; Jet Airways CoC approved liquidation post SC ruling Nov 2024.
- IBBI released discussion papers on mediation in insolvency and group insolvency.
- Pre-pack insolvency (PPIRP) - available to MSMEs since 2021; extension to larger firms proposed.
- Cross-border insolvency - framework based on UNCITRAL Model Law still pending adoption by Parliament.

## Static Background – Concepts & Terms

- **IBC 2016** – Insolvency & Bankruptcy Code enacted 28 May 2016 based on T.K. Viswanathan Committee (BLRC 2015); unified earlier 12+ laws. Consolidates insolvency law for companies, LLPs, partnership firms, individuals.
- **Four pillars of IBC** – (1) IBBI (Insolvency & Bankruptcy Board of India, regulator); (2) **Insolvency Professionals (IPs)** + Agencies; (3) **Information Utilities** (NeSL); (4) **Adjudicating Authorities** - NCLT (companies), DRT (individuals).
- **CIRP - Corporate Insolvency Resolution Process** – timeline: 180 days, extendable by 90, hard cap 330 days (incl. litigation). Triggered by default of Rs 1 crore+ (raised from Rs 1 lakh in March 2020).
- **Committee of Creditors (CoC)** – financial creditors vote on resolution plan; 66% vote threshold for plan approval; 51% for routine matters.
- **Waterfall / priority of payments** – Sec 53: (1) Insolvency costs, (2) Secured creditors + workmen dues (24 months), (3) Workmen & employees (12 months), (4) Unsecured financial creditors, (5) Govt dues + remaining secured creditors' unpaid portions, (6) Any remaining debts, (7) Preference shareholders, (8) Equity shareholders.
- **Liquidation** – if no resolution plan or CoC rejects, company goes to liquidation under Sec 33; liquidator appointed; assets sold.
- **NCLT / NCLAT** – NCLT est. 2016 under Companies Act 2013 sec 408; NCLAT appellate under sec 410. Replaced Company Law Board (CLB).
- **Pre-packaged insolvency (PPIRP)** – introduced April 2021 via ordinance for MSMEs; debtor-in-possession + creditor approval of plan before formal filing; faster (120 days).

## Prelims Connect

### *IBC timeline and thresholds*

| Parameter                 | Value                        |
|---------------------------|------------------------------|
| Enactment                 | 28 May 2016                  |
| Regulator                 | IBBI                         |
| Adjudicator (Companies)   | NCLT                         |
| Adjudicator (Individuals) | DRT                          |
| Default threshold         | Rs 1 crore (post March 2020) |
| CIRP timeline             | 180 + 90 days; hard cap 330  |
| CoC voting threshold      | 66% for plan                 |
| PPIRP eligibility         | MSMEs (from 2021)            |

## Prelims Pointers

- **IBC Act** – 2016.
- **IBBI est.** – 2016.
- **Default threshold** – Rs 1 crore.
- **CIRP hard cap** – 330 days.
- **CoC voting** – 66% for plan.
- **Pre-pack** – MSME only (currently).

## Sovereign Green Bonds & Bond Market Deepening

India's Sovereign Green Bonds (SGrBs), debuted in Jan-Feb 2023, continued to be issued in 2025 as part of RBI's market borrowing calendar. The bond market deepened as FPIs poured in after India's entry into JP Morgan GBI-EM (June 2024) and Bloomberg EM Local (Jan 2025) indices. Corporate bond issuance also rose.

### News in Brief

- India included in Bloomberg Emerging Market Local Currency Index from 31 Jan 2025.
- Earlier included in JP Morgan GBI-EM Global Diversified Index from 28 Jun 2024; weight to rise to 10% over 10 months.
- Sovereign Green Bonds auctioned periodically 2025; proceeds for eligible green projects under India's Green Bond Framework (Nov 2022).
- FAR (Fully Accessible Route) G-Secs category - no FPI investment limit - made eligible for inclusion.
- Corporate bond issuance crossed Rs 10 lakh cr in FY25.

### Static Background – Concepts & Terms

- **Bond basics** – a **bond** is a debt security - the issuer promises to repay the principal at maturity and pay periodic interest (coupon). **Yield** is effective return; inverse to price (yield down = price up).
- **Types of Bonds (Govt)** – **G-Secs** (Government Securities, long-term); **T-Bills** (Treasury Bills, <1 year, zero-coupon); **Cash Management Bills** (very short); **State Development Loans (SDLs)** by State governments; **Sovereign Gold Bonds (SGB)** - gold-linked, launched 2015, discontinued 2024.
- **Who issues G-Secs** – RBI on behalf of Government of India under the **G-Sec Act 2006**; main issuance via auctions on e-Kuber platform; settlement via CCIL.
- **Yield curve** – plot of yield vs maturity; upward-sloping = normal (growth expectation); **inverted** = recession signal (short-term > long-term yields).
- **Green Bond** – bond whose proceeds are earmarked for environment-friendly projects. First green bonds by EIB (2007) and World Bank (2008). India issued Sovereign Green Bonds in Jan 2023 (Rs 8,000 cr) after framing its Green Bond Framework Nov 2022.
- **Credit rating agencies** – **Global** - Moody's, S&P Global, Fitch (big-3 oligopoly); **Indian** - CRISIL (S&P subsidiary), ICRA (Moody's), CARE, India Ratings, Brickwork. Ratings range AAA (safest) to D (default).
- **FPI - Foreign Portfolio Investor** – invests in securities market (shares, bonds); regulated by SEBI under FPI Regulations 2019; subject to sectoral caps, limits.
- **FAR - Fully Accessible Route** – announced March 2020; certain G-Secs exempt from FPI investment limits; bridge for index inclusion.

### Prelims Connect

#### India's bond index inclusion

| Index              | Inclusion Date    | Max Weight   |
|--------------------|-------------------|--------------|
| JP Morgan GBI-EM   | 28 June 2024      | 10% (phased) |
| Bloomberg EM Local | 31 January 2025   | ~10%         |
| FTSE Russell EMGBI | Expected Sep 2025 | ~9%          |

### Prelims Pointers

- **First Sovereign Green Bond** – Jan 2023.
- **G-Sec Act** – 2006.

- **FAR route** – March 2020.
- **Big-3 rating agencies** – Moody's, S&P, Fitch.
- **India's sovereign rating (S&P Aug 2024)** – upgraded to BBB with stable outlook.

## S&P Sovereign Rating Upgrade & Fitch/Moody's Stance

On 14 August 2024, S&P Global Ratings upgraded India's sovereign rating outlook from 'Stable' to 'Positive' (retaining BBB- score); in August 2025 it went further to upgrade India to BBB. Moody's retained Baa3 (lowest investment grade) with Stable outlook; Fitch also Baa3/BBB- Stable. This marks India's first upgrade in 18 years and validated fiscal & capex trajectory.

### News in Brief

- S&P upgraded India's long-term sovereign rating to BBB (from BBB-) in August 2025; first upgrade since 2007.
- Rationale: fiscal consolidation, robust capex, political stability, and infrastructure push.
- Moody's retained India at Baa3 Stable; Fitch at BBB- Stable.
- India's sovereign bond spread over US Treasuries tightened post upgrade.
- India has Rs 200+ lakh cr domestic government debt; external debt ~Rs 60 lakh cr (~20% of GDP).

### Static Background – Concepts & Terms

- **Sovereign credit rating** – opinion of a rating agency on a country's ability/willingness to honour debt obligations; affects the country's borrowing cost.
- **Rating scales – Investment grade:** AAA > AA > A > BBB (Moody's: Aaa > Aa > A > Baa). **Speculative grade:** BB > B > CCC > CC > C > D (Default). India is at lowest rung of investment grade.
- **India's sovereign rating history** – first BBB- in 2007 (S&P); went to 'Stable' by 2014; 'Negative' outlook in 2020 COVID; 'Positive' Aug 2024; BBB upgrade Aug 2025.
- **Why rating matters** – determines interest rate on sovereign debt; affects private sector borrowing (corporate ratings capped by sovereign); impacts FPI flows and currency stability.
- **India's argument against old rating** – economic growth fastest among large economies; forex reserves \$700 bn+; CAD manageable; debt largely domestic currency; unlike rated peers.
- **Debt sustainability** – depends on: primary balance + interest rate-growth differential. India's  $g > r$  helps keep debt stable even with high deficit.
- **Basel III & sovereign risk** – bank capital requirements depend on sovereign rating; AAA-rated 0% risk weight, BBB 50%, BB 100%.

### Prelims Connect

#### India sovereign ratings as of Aug 2025

| Agency              | Rating | Outlook |
|---------------------|--------|---------|
| S&P Global          | BBB    | Stable  |
| Moody's             | Baa3   | Stable  |
| Fitch               | BBB-   | Stable  |
| Japan Credit Rating | BBB+   | Stable  |
| DBRS                | BBB    | Stable  |

## Prelims Pointers

- **S&P upgrade year** – August 2025 (first since 2007).
- **S&P rating on India** – BBB.
- **Big-3 agencies** – Moody's, S&P, Fitch.
- **Baa3 (Moody's) equals** – BBB-.
- **Lowest investment grade** – BBB-/Baa3.

## SEBI Reforms – Securities Market Code Bill, Short Selling & Intraday Rules

SEBI proposed overhaul of conflict of interest norms and introduced new intraday position monitoring framework. The Securities Market Code Bill 2025 consolidates three securities laws into one, expanding the SEBI board from 9 to 15 members.

### News in Brief

- Securities Market Code Bill 2025: consolidates SCRA 1956 + SEBI Act 1992 + Depositories Act 1996; SEBI board: 15 members (up from 9); decriminalises minor violations; referred to Standing Committee on Finance.
- Conflict of interest overhaul: 'family' expanded to include legal dependents + relatives per Companies Act 2013; committee headed by Pratyush Sinha (former CVC Chief).
- SEBI Intraday Regulations: net intraday position capped at ₹5,000 crore per entity (was ₹1,500 crore EOD); gross intraday: ₹10,000 crore; effective October 1; applies to index options only.
- Short selling: spot market = intraday only (square off before 3:30 PM); futures market = positions can be carried forward; short delivery = default → exchange settles via auction + hefty penalty.
- SEBI: delta-based method replaces notional value-based method for calculating open interest – harder to manipulate.
- SIP rules: invalid after 3 consecutive failed installments (daily/weekly/monthly/fortnightly); 2 for quarterly/bi-monthly.
- SEBI Mutual Fund reforms: removed 0.05% additional expense charged by AMCs over exit load; simplified language.
- No SEBI-regulated entity can advertise with unregistered influencers.
- Financial Conditions Index (FCI): RBI study proposed daily-frequency FCI for India – composite indicator capturing money market, G-sec, corporate bonds, equities, forex; historical average since 2012.

### Static Background – Concepts & Terms

- **Short Selling** – selling shares not yet owned; must buy back to square off; spot market = same day; futures = can carry forward; risk = short delivery (default) if unable to buy back.
- **F&O (Futures & Options)** – derivative contracts; F&O losses: SEBI warns retail investors; India is world's largest F&O market by volume.
- **QIP (Qualified Institutional Placement)** – capital raising by listed company to QIBs (venture capital, pension funds, mutual funds); avoids lengthy IPO process.
- **Domestic vs FPI Capital** – structural shift: FPI ownership fell to 15-month low; domestic MFs + retail investors now own ~19% of equity market – reduces foreign volatility dependency.
- **STT (Securities Transaction Tax)** – introduced 2004 via Finance Act; levied on every securities transaction regardless of profit; challenged for double taxation (+ capital gains tax); no refund mechanism unlike TDS.
- **Small Savings Schemes** – Post Office savings instruments; rates set by government quarterly; linked to G-Sec yields with spread; examples: PPF, NSC, SCSS, Sukanya Samriddhi.

### Prelims Pointers

- SEBI Act 1992 – SEBI constituted as statutory body; established as non-statutory body in 1988 via GoI resolution.
- Securities Market Code Bill 2025 consolidates: SCRA 1956 + SEBI Act 1992 + Depositories Act 1996.
- STT introduced via Finance Act 2004; no refund provision unlike TDS.

- SEBI intraday index option cap: net ₹5,000 crore; gross ₹10,000 crore per entity.

## Bond Market – Masala Bonds, AT1/T2, Cat Bonds & ECB/FEMA

India's corporate bond market remains shallow, illiquid and opaque despite policy focus. Masala bonds allow Indian entities to raise funds abroad in rupee-denominated terms, shifting currency risk to investors. AT1 bonds (Additional Tier-1) are perpetual debt instruments under Basel III norms.

### News in Brief

- KIIFB Masala Bond probe: ED show-cause notice on Kerala CM for alleged FEMA violations linked to London/Singapore-listed masala bonds; proceeds allegedly used for land purchase – 'specifically prohibited'.
- India's corporate bond market: shallow, illiquid, opaque despite decades of policy focus; RBI directed NSE to develop secondary bond market.
- India's UBO thresholds: 10% for companies, 15% for partnerships – allow evasion of true ownership identification (FATF compliance concern).

### Static Background – Concepts & Terms

- **Masala Bonds** – rupee-denominated bonds issued by Indian entities in overseas markets; currency risk borne by investor (not issuer); named 'masala' by IFC (World Bank's investment arm); first issued by IFC in 2014; Kerala first state to issue in 2019.
- **ECB (External Commercial Borrowings)** – commercial loans from non-resident lenders; minimum 3-year maturity; governed by FEMA (Foreign Exchange Management Act).
- **FEMA 1999** – successor to FERA 1973; enacted post-liberalisation; violations = civil offence (not criminal as in FERA); full current account convertibility; capital account restrictions.
- **AT1 Bonds (Additional Tier-1)** – perpetual debt instruments; issued by banks to enhance core capital under Basel III; high risk (loss absorption, coupon cancellation); callable after 5 years; subordinate to all other debt.
- **Tier 2 Bonds** – supplementary capital; fixed maturity (min 5 years); subordination in liquidation; less risky than AT1.
- **Cat Bonds (Catastrophe Bonds)** – hybrid insurance-debt product; converts insurance risk into tradable security; sovereign nations sponsor; World Bank issues; investors risk losing principal in disaster; higher coupon rates.
- **Green Bonds** – issued to fund environmentally sustainable projects; India issued first sovereign green bonds in 2022-23; SEBI regulates social and green bonds.

### Key Bond Types – Quick Reference

| Bond Type    | Key Feature  |
|--------------|--|
| Masala Bond  | INR-denominated issued overseas; currency risk to investor     |
| Samurai Bond | Yen-denominated, issued in Japan by non-Japanese entity        |
| Panda Bond   | RMB-denominated, issued in China by foreign entity             |
| AT1 Bond     | Perpetual; Basel III capital; banks; loss absorption trigger   |
| Cat Bond     | Insurance+debt hybrid; disaster risk to investor; higher yield |

|                  |  |
|------------------|--|
| Green Bond       | Funds environmental projects; SEBI-regulated in India          |
| Zero Coupon Bond | Sold at discount; no periodic interest; face value at maturity |

## Prelims Pointers

- Masala Bond: rupee-denominated issued overseas; named by IFC (World Bank); first issued 2014; Kerala first state 2019.
- FEMA 1999 replaced FERA 1973; violations under FEMA are civil offences (not criminal).
- AT1 Bonds: perpetual; Basel III; callable after 5 years; high risk – can absorb losses.
- Cat Bond coupon rates: 1–2% for earthquakes; higher for cyclones/hurricanes.
- India issued first sovereign green bonds in FY 2022-23.

## Insolvency & Bankruptcy Code (IBC) – Performance & NCLT Reforms

The IBC (2016) introduced a creditor-in-control, 330-day resolution framework. In FY 2023-24, IBC accounted for 48% of total bank recoveries. NCLT faces structural overload with its 1999-era Eradi Committee framework deemed outdated.

### News in Brief

- IBC accounted for 48% of total bank recoveries in FY 2023-24 (RBI Annual Report 2024).
- NCLT sanctioned strength: 63 members; faces dual burden of IBC + Companies Act cases; Eradi Committee structure (1999) outdated.
- IBC maximum resolution period: 330 days including litigation time.

### Static Background – Concepts & Terms

- **IBC 2016** – comprehensive insolvency law for companies and individuals; replaced SICA, partial SARFAESI, Companies Act provisions; creditor-in-control framework (CoC decides resolution plan).
- **NCLT** – quasi-judicial body; Ministry of Corporate Affairs; established 2016 under Section 408 of Companies Act 2013; principal bench New Delhi; primary adjudicating authority under IBC.
- **NCLAT** – appellate body for NCLT orders; NCLAT decisions appealable to SC on point of law only.
- **PIRP (Pre-Packaged Insolvency Resolution Process)** – introduced 2021 for MSMEs; debtor + major creditors agree on resolution before formal NCLT filing; maximum 120 days; faster than regular CIRP.
- **CoC (Committee of Creditors)** – financial creditors who vote on resolution plan; minimum 66% vote needed to approve plan; under IBC, creditors are in control (not courts or debtors).
- **Waterfall Mechanism (IBC liquidation priority)** – IBBI resolution costs → secured creditors → workmen dues (24 months) → unsecured creditors → government dues → preference shareholders → equity shareholders.

### Prelims Pointers

- IBC enacted 2016; maximum resolution period: 330 days (including all litigation time).
- IBC = 48% of total bank recoveries in FY 2023-24.
- NCLT established 2016 under Section 408, Companies Act 2013; principal bench: New Delhi.
- PIRP (pre-packaged insolvency) introduced 2021 for MSMEs; maximum 120 days.
- Appeals from NCLAT go to Supreme Court on a point of law only.

## India Reduces US Treasury Exposure & RBI Diversifies Reserves

Ahead of US tariffs, India reduced exposure to US Treasury Bills. India ranks 10th-largest investor in US Treasuries. RBI shifted more gold to domestic custody and diversified reserves across sovereign debt, supranational bonds, deposits and gold. India's forex reserves hit record highs in 2025.

### News in Brief

- India reduced US T-bill exposure over past year as tariff risks rose; India ranks 10th largest investor in US Treasuries.
- Analysts note US can freeze Treasury access in geopolitical emergencies (precedent: Russia sanctions post-Ukraine invasion).
- RBI diversified: gold held abroad fell; gold held domestically rose sharply.
- Japan = largest investor in US Treasury securities; UK and China follow.
- India's forex reserves composition: US sovereign debt, Japan/Germany/France/UK G-secs, multilateral bonds (World Bank, IMF, ADB), central bank deposits, BIS deposits, physical gold.

## Static Background – Concepts & Terms

- **US Treasury Securities** – US government debt; T-Bills (<1 year), T-Notes (1-10 years), T-Bonds (>10 years); backed by US government; world's largest, most liquid bond market.
- **Forex Reserves composition (RBI)** – foreign currency assets (FCAs: largest component), gold, SDRs (Special Drawing Rights), reserve tranche in IMF.
- **SDR (Special Drawing Rights)** – IMF's international reserve asset; basket currency (USD, EUR, CNY, JPY, GBP); allocated to member countries.
- **BIS (Bank for International Settlements)** – 'central bank of central banks'; Basel; RBI holds deposits with BIS as part of reserve management.

## Prelims Pointers

- India: 10th largest investor in US Treasury securities.
- Japan: world's largest investor in US Treasury securities; followed by UK and China.
- Forex reserves composition: FCAs (largest) + gold + SDRs + IMF reserve tranche.
- BIS = Bank for International Settlements; 'central bank of central banks' based in Basel.

## EXTERNAL SECTOR, TRADE & FDI

### India-UK CETA – First FTA with a G7 Economy

In July 2025, India and the United Kingdom signed the long-awaited Comprehensive Economic and Trade Agreement (CETA) – a bilateral free trade agreement securing duty-free access for 99% of India's exports to the UK (covering nearly 100% of trade value) and broadly reciprocal concessions on UK goods. It is India's first FTA with a G7 economy and is projected to double bilateral trade from ~\$21 bn to over \$60 bn by 2030.

## News in Brief

- **Formal name** – Comprehensive Economic and Trade Agreement (CETA).
- **Signed** – July 2025 (negotiations began January 2022).
- **Scope** – goods, services, investment, government procurement, IPR, innovation.
- **Key Indian gains** – zero duty on textiles, apparel, leather, footwear, gems & jewellery, processed food, chemicals; easier movement of skilled professionals; 3-year social security exemption under Double Contribution Convention.
- **Key UK gains** – phased tariff cuts on Scotch whisky (150%→75% initially, 40% over 10 years), cars (110%→10% in a quota), cosmetics, chocolates, medical devices.

## Static Background – Concepts & Terms

- **Free Trade Agreement (FTA)** – a treaty between two or more countries that reduces or removes customs duties (tariffs), quotas and non-tariff barriers on 'substantially all' trade between them, as required by GATT Article XXIV of WTO.

- **Types of trade agreements** – **PTA** (Preferential Trade Agreement – partial tariff concessions); **FTA** (most tariffs eliminated); **CECA / CEPA** (FTA plus services & investment); **Customs Union** (common external tariff, e.g., EU); **Common Market** (+ factor mobility); **Economic Union** (+ common currency/policy).
- **India's existing FTAs** – Sri Lanka (1998), SAFTA (2004), Thailand, Singapore CECA (2005), Korea CEPA (2009), Japan CEPA (2011), ASEAN (goods 2009, services 2014), Malaysia, Mauritius CECPA (2021), UAE CEPA (2022), Australia ECTA (2022), EFTA TEPA (2024), UK CETA (2025).
- **CETA negotiating history** – 14 rounds of talks; started January 2022 under PM Boris Johnson & PM Modi; delayed by disagreements on dairy, automobiles, social security totalisation, IPR.
- **Bilateral trade context** – India-UK trade ~\$21 bn in 2023-24; UK is India's 6th largest trading partner; major Indian exports: engineering goods, gems & jewellery, petroleum products, textiles; major Indian imports: precious metals, machinery, beverages.
- **Double Contribution Convention** – bilateral social security agreement exempting Indian professionals working temporarily in UK (and vice versa) from paying social security contributions in the host country for 3 years – big gain for Indian IT/services workers.
- **Rules of Origin** – criteria determining which goods qualify for preferential treatment under an FTA; typically 'substantial transformation' or a minimum percentage of local value addition. CETA uses ~35% value-addition rule.
- **G7 context** – CETA is India's first FTA with a G7 country. G7 members: US, UK, Canada, France, Germany, Italy, Japan + EU as observer. India has no FTA with US, Canada or EU as of 2025.

## Prelims Connect

### *India's key bilateral/regional trade agreements*

| Agreement             | Year    | Type                 |
|-----------------------|---------|----------------------|
| India-Sri Lanka FTA   | 1998    | FTA (goods)          |
| India-Singapore CECA  | 2005    | CECA                 |
| India-Korea CEPA      | 2009    | CEPA                 |
| India-ASEAN FTA       | 2009/14 | FTA (goods+services) |
| India-Mauritius CECPA | 2021    | CECPA                |
| India-UAE CEPA        | 2022    | CEPA                 |
| India-Australia ECTA  | 2022    | Interim FTA          |
| India-EFTA TEPA       | 2024    | TEPA                 |
| India-UK CETA         | 2025    | CETA                 |

## Prelims Pointers

- **CETA full form** – Comprehensive Economic and Trade Agreement (India-UK).
- **Signed year** – 2025 (July).
- **% of India's exports duty-free** – 99%.
- **Significance** – India's first FTA with a G7 economy.
- **Social security benefit** – 3-year exemption under Double Contribution Convention.

- **WTO basis for FTAs** – GATT Article XXIV.

## Trump Tariffs & the India–US Trade Standoff

Following Donald Trump's return to the White House in January 2025, the US launched a new wave of reciprocal tariffs targeting major trading partners, including India. Through 2025–26, India faced tariff threats on textiles, pharmaceuticals, steel and auto components, culminating in an interim India–US trade deal proposed in early 2026 that would lower US tariffs on Indian goods to 18% in exchange for easier access to Indian markets for American imports.

### News in Brief

- **Trump's 'reciprocal tariff' doctrine** – any country charging higher tariffs on US goods than US charges would face matching tariffs.
- **Tariffs imposed on India** – up to 25–26% on select categories including textiles, steel, aluminium, auto parts; pharma threatened but later deferred.
- **India's response** – retaliatory duties on 28 US items (apples, almonds, walnuts, chickpeas) retained; push for a bilateral trade deal.
- **Interim deal (Feb 2026)** – US agreed to cap tariffs on Indian textiles, gems, chemicals at 18%; India agreed to ease duties on American imports.
- **Affected sectors** – IT services exports largely spared (not goods); gems & jewellery, garments, seafood worst hit.

### Static Background – Concepts & Terms

- **Tariff** – a tax imposed by a government on imported or exported goods; its chief purposes are protection of domestic industry, revenue, and trade policy leverage.
- **Types of tariffs** – **Ad valorem** (% of value); **Specific** (fixed amount per unit); **Compound** (both); **MFN tariff** (Most-Favoured-Nation, applied equally to all WTO members); **Preferential tariff** (lower, under FTA).
- **Most Favoured Nation (MFN)** – a WTO principle (GATT Article I) requiring each member to extend the same tariff/trade privilege to all other members; exceptions allowed for FTAs and developing countries.
- **Reciprocal tariff** – a tariff imposed in response to another country's tariff; Trump's version imposes a rate equal to the other country's average tariff on US goods.
- **US–India trade data** – bilateral trade ~\$120 bn in 2024; India has ~\$35 bn surplus with US (which Trump labels 'unfair'); US is India's largest export destination; top Indian exports to US: engineering goods, gems & jewellery, textiles, pharma, electronics.
- **Section 232 & 301 tariffs** – US trade laws used by Trump 1.0: Section 232 (national security, used on steel/aluminium), Section 301 (unfair trade practices, used on China). Expected to be revived under Trump 2.0.
- **GSP withdrawal 2019** – US terminated India's Generalised System of Preferences benefits under Trump 1.0, removing duty-free access for ~\$6.3 bn of Indian exports; not restored since.
- **WTO Dispute Settlement** – India and several members have challenged US tariffs at WTO; Appellate Body is non-functional since 2019 due to US blocking judge appointments.

### Prelims Connect

#### Key terms – international trade

| Term   | Meaning                |
|--------|------------------------|
| Tariff | Tax on imports/exports |

|                     |   |
|---------------------|---|
| Non-Tariff Barrier  | Quotas, standards, licensing used to restrict trade |
| Countervailing duty | Offsets subsidies given by exporting country        |
| Anti-dumping duty   | Offsets below-cost exports (dumping)                |
| Safeguard duty      | Temporary, protects from sudden import surges       |
| MFN                 | Equal tariff for all WTO members (GATT Art. I)      |
| National Treatment  | Imported goods treated = domestic (GATT Art. III)   |

## Prelims Pointers

- **Section 232 of US Trade Act** – national security tariffs.
- **Section 301** – unfair trade practices.
- **GSP stands for** – Generalised System of Preferences.
- **India's GSP status** – withdrawn 2019, not restored.
- **WTO Appellate Body status** – non-functional since 2019.
- **US-India bilateral trade** – ~\$120 bn, India runs surplus.

## FDI Policy – 100% in Insurance and Nuclear Opens Up

Union Budget 2025-26 raised the FDI cap in the insurance sector to 100% (from 74%), subject to the condition that the entire premium be invested within India. Separately, India is considering allowing up to 49% FDI in nuclear energy (starting with 26%) to meet its 100 GW nuclear target by 2047. These moves mark a significant liberalisation of India's FDI regime.

## News in Brief

- **Insurance FDI** – raised from 74% (2021) to 100% in Budget 2025-26; condition: full premium must be invested in India.
- **Nuclear FDI** – 49% being considered, staged approval starting 26%; needs amendment to Atomic Energy Act 1962 and CLNDA 2010.
- **India's FDI trend** – gross inflows \$70.9 bn in FY24; net \$26.5 bn; top sectors: services, computer software, telecom, construction.
- **Top source countries** – Mauritius, Singapore, USA, Netherlands, Japan (via DTAA routes).
- **Make in India context** – FDI liberalisation is a core pillar alongside PLI and ease of doing business.

## Static Background – Concepts & Terms

- **Foreign Direct Investment (FDI)** – investment from one country into business interests in another, involving ownership stake ( $\geq 10\%$ ) and management control, as opposed to portfolio investment.
- **FDI vs FPI** – FDI is long-term, stake  $\geq 10\%$ , brings technology/management; **Foreign Portfolio Investment (FPI)** is short-term, in shares/bonds without control, can exit quickly ('hot money').
- **FDI routes in India** – **Automatic route** (no prior RBI/govt approval needed); **Government route** (requires prior approval of concerned ministry).
- **Sectors where FDI is prohibited** – lottery, gambling, chit funds, Nidhi companies, real estate trading, manufacture of cigars/cigarettes, railway operations (except permitted).
- **Caps by key sectors (post-2025)** – Insurance 100% (auto), Defence 74% (auto)/100% (govt), Telecom 100% (auto), Banking Private 74%, PSB 20%, Print Media 26%, Digital Media 26%, Nuclear (pending) 49%.

- **FEMA 1999** – Foreign Exchange Management Act replaced FERA 1973; regulates all foreign exchange transactions including FDI; administered by RBI.
- **DPIIT** – Department for Promotion of Industry and Internal Trade (under MoCI); formulates FDI policy via annual 'Consolidated FDI Policy Circular'.
- **Press Note 3 (2020)** – India requires prior government approval for FDI from countries sharing land border (China, Bangladesh, Pakistan, Bhutan, Nepal, Myanmar, Afghanistan), to curb opportunistic takeovers.

## Prelims Connect

### FDI caps – key sectors after Budget 2025-26

| Sector               | FDI cap        | Route                       |
|----------------------|----------------|-----------------------------|
| Insurance            | 100%           | Automatic (w/ conditions)   |
| Defence              | 74%/100%       | Auto up to 74%, Govt beyond |
| Telecom              | 100%           | Automatic                   |
| Private Banking      | 74%            | Auto up to 49%, Govt beyond |
| Public Sector Banks  | 20%            | Government                  |
| Print Media (news)   | 26%            | Government                  |
| Digital Media (news) | 26%            | Government                  |
| Nuclear Energy       | 49% (proposed) | Government                  |
| Multi-brand Retail   | 51%            | Government                  |
| Single-brand Retail  | 100%           | Automatic                   |

## Prelims Pointers

- **Insurance FDI cap** – 100% (Budget 2025-26).
- **FDI policy administrator** – DPIIT, under Ministry of Commerce.
- **FDI law** – FEMA 1999.
- **Press Note 3 (2020)** – prior approval for land-border countries.
- **Top FDI source country** – Mauritius (historically), Singapore (recent years).
- **FDI vs FPI threshold** –  $\geq 10\%$  stake = FDI.

## Forex Reserves Cross \$700 Billion – A Historic First

India's foreign exchange reserves crossed the \$700 billion mark for the first time in September 2024 and remained above that level through 2025, making India the 4th largest holder of forex reserves globally (after China, Japan, Switzerland). The surge reflects RBI's active FX intervention, strong FPI inflows post-JP Morgan bond index inclusion, and record remittances of \$129 bn in 2024.

## News in Brief

- **Peak reserves** – crossed \$700 bn September 2024; oscillated \$640–710 bn through 2025.
- **Global rank** – India is the 4th largest forex holder (China \$3.3 tn > Japan \$1.2 tn > Switzerland \$0.9 tn > India \$0.7 tn).

- **Components** – Foreign Currency Assets (~87%), Gold (~10%), SDR (~2%), Reserve Tranche Position (~1%).
- **Cover** – sufficient for ~11-12 months of imports.
- **Rupee** – despite record reserves, rupee touched lifetime lows near ₹87/\$ in early 2025 due to Trump tariffs and FPI outflows.

## Static Background – Concepts & Terms

- **Foreign Exchange Reserves** – external assets held by the central bank (RBI in India) to meet balance of payments needs, support the currency, and maintain financial stability.
- **Components of reserves** – **Foreign Currency Assets (FCA)** (govt securities, deposits in foreign central banks, BIS – ~87%); **Gold** (~10%); **SDRs** (special drawing rights issued by IMF – ~2%); **Reserve Tranche Position (RTP)** (quota position with IMF – ~1%).
- **Why hold reserves** – (i) finance imports/external debt, (ii) defend rupee from speculative attacks, (iii) cushion BoP shocks, (iv) confidence signal to FPI/rating agencies.
- **Balance of Payments (BoP)** – systematic record of all economic transactions between residents and non-residents over a period. Has two accounts: **Current Account** (trade in goods, services, income, transfers) and **Capital Account** (FDI, FPI, ECBs, banking capital).
- **Current Account Deficit (CAD)** – arises when imports + foreign income outflows exceed exports + inflows. India's CAD ~0.7% of GDP in FY24 – manageable level.
- **Rupee convertibility** – India has **full current account convertibility** (1994), **partial capital account convertibility** (Tarapore Committee recommended full CAC; not yet implemented).
- **Exchange rate regime** – India follows a **managed float** – rupee is market-determined but RBI intervenes to curb excessive volatility, not to defend a specific rate.
- **Remittances** – India is world's largest recipient (\$129 bn in 2024 per World Bank Migration & Development Brief); Gulf countries + US + UK are major sources.

## Prelims Connect

### India's forex reserves composition (Sept 2025)

| Component                | Share (~) | Notes                        |
|--------------------------|-----------|------------------------------|
| Foreign Currency Assets  | 87%       | USD, EUR, GBP, JPY etc.      |
| Gold                     | 10%       | RBI resumed gold buying 2017 |
| SDRs                     | 2%        | IMF allocation               |
| Reserve Tranche Position | 1%        | Quota with IMF               |

## Prelims Pointers

- **India's forex global rank** – 4th largest.
- **Largest component** – Foreign Currency Assets (~87%).
- **SDR issuer** – IMF.
- **India's convertibility** – full on current account, partial on capital account.
- **Tarapore Committee** – recommended full capital account convertibility.
- **World's largest remittance recipient** – India (\$129 bn, 2024).

## Trade Deficit, Exports & WTO – India's Trade Scorecard FY25

India's merchandise trade deficit widened to a record ~\$287 bn in FY25 on rising oil and gold imports, even as services exports crossed \$340 bn for the first time – keeping the overall current account deficit within 1% of GDP. India remains active at WTO negotiations while continuing its 'Atmanirbhar Bharat' push.

## News in Brief

- **Merchandise exports FY25** – \$437 bn (broadly flat).
- **Merchandise imports FY25** – \$724 bn.
- **Merchandise trade deficit** – record \$287 bn.
- **Services exports** – crossed \$340 bn (IT-BPM ~\$200 bn, business services \$100 bn).
- **Net services trade surplus** – ~\$165 bn, offsetting much of the goods deficit.
- **Current Account Deficit** – ~0.9% of GDP (well within RBI's comfort zone of 2.5%).

## Static Background – Concepts & Terms

- **Balance of Trade vs Balance of Payments** – BoT is only for goods (merchandise); BoP includes goods + services + primary income + secondary income + capital account.
- **India's export profile** – engineering goods (largest ~26%), petroleum products, gems & jewellery, organic chemicals, electronic goods, drugs & pharmaceuticals, textiles, agriculture.
- **India's import profile** – crude oil (~28%), gold, electronics, coal, machinery, pearls & stones, chemicals, edible oils.
- **Top trading partners FY25** – Exports: USA (17%), UAE, Netherlands, China, Singapore. Imports: China (15%), Russia, UAE, Saudi Arabia, USA.
- **WTO (World Trade Organization)** – established 1 January 1995, HQ Geneva, Director-General Ngozi Okonjo-Iweala (Nigeria, first woman/African), successor to GATT 1947; 166 members (Comoros & Timor-Leste joined 2024).
- **WTO agreements – Uruguay Round 1994** – GATT (goods), GATS (services), TRIPS (intellectual property), TRIMs (investment), Agreement on Agriculture, SCM, Anti-Dumping, DSU (dispute settlement).
- **Doha Development Round** – launched 2001; stalled primarily over agriculture subsidies & market access; India key demand: **permanent solution to Public Stockholding for food security**.
- **Foreign Trade Policy 2023** – replaced 2015-20 policy; no end date (dynamic); pillars: Incentive→Remission, Export Promotion via Collaboration, Ease of Doing Business, Emerging Areas (e-commerce, districts as export hubs).
- **RoDTEP Scheme** – Remission of Duties and Taxes on Exported Products; replaced MEIS (2021); refunds embedded central + state taxes not otherwise rebated.

## Prelims Connect

### India's merchandise trade FY25 (provisional)

| Head                      | Value (\$ bn) |
|---------------------------|---------------|
| Merchandise Exports       | 437           |
| Merchandise Imports       | 724           |
| Merchandise Trade Deficit | 287           |
| Services Exports          | 340+          |
| Services Imports          | ~180          |

|                      |              |
|----------------------|--------------|
| Net Services Surplus | ~165         |
| Overall CAD          | ~0.9% of GDP |

## Prelims Pointers

- **WTO established** – 1 January 1995.
- **WTO HQ** – Geneva, Switzerland.
- **WTO DG** – Ngozi Okonjo-Iweala (2021–).
- **India's top export item** – Engineering goods (~26%).
- **India's top import item** – Crude oil (~28%).
- **Largest trade partner (imports)** – China.
- **Foreign Trade Policy 2023** – has no end date.
- **RoDTEP replaced** – MEIS in 2021.

## Rupee, REER and Currency Management

The Indian rupee touched an all-time low of ₹87.95 against the US dollar in February 2025, breaching ₹87 for the first time, under pressure from a strong dollar, Trump's tariff threats and FPI outflows. RBI's FX intervention and gradual liberalisation of remittances under LRS kept volatility contained.

### News in Brief

- **Rupee low** – ₹87.95/\$ in February 2025 (lifetime low).
- **Trigger** – DXY dollar index at 110+; FPI outflows ~\$15 bn in Oct 2024 – Feb 2025; Trump tariff fears.
- **RBI response** – active dollar selling from reserves, forward book operations, verbal interventions.
- **REER** – Rupee overvalued by ~5% on 40-currency Real Effective Exchange Rate basis (RBI data).
- **LRS cap** – Liberalised Remittance Scheme remains \$250,000 per resident individual per FY.

### Static Background – Concepts & Terms

- **Exchange rate** – price of one currency in terms of another; determined by demand-supply of currencies in FX market (spot, forward, derivatives).
- **Nominal vs Real Exchange Rate** – **NER** = market rate; **RER** = NER adjusted for price levels between two countries; **REER** = trade-weighted average RER across basket of currencies.
- **NEER** – Nominal Effective Exchange Rate – trade-weighted average of rupee against basket of currencies (without inflation adjustment).
- **Exchange rate regimes** – **Fixed** (peg to another currency/gold); **Floating** (market-determined); **Managed float** (floats but central bank intervenes); **Crawling peg** (gradual adjustments). India follows **managed float** since 1993.
- **Purchasing Power Parity (PPP)** – exchange rate that equalises the price of a basket of goods across countries; used for cross-country GDP comparisons. India is 3rd largest economy on PPP, 5th on nominal.
- **Dollar Index (DXY)** – measures USD against basket of 6 currencies (EUR 57.6%, JPY 13.6%, GBP 11.9%, CAD 9.1%, SEK 4.2%, CHF 3.6%); higher DXY = stronger dollar = pressure on EM currencies.
- **Rupee vs dollar – historical** – ₹1 = \$1 at independence (1947); ₹2.30 in 1966 (devaluation); ₹17.50 in 1991 (further devaluation under economic crisis); ₹45 in 2000; ₹60 in 2013 (taper tantrum); ₹75 in 2020; ₹83 in 2023; ₹87+ in 2025.
- **Liberalised Remittance Scheme (LRS)** – RBI scheme allowing resident individuals to remit up to \$2.5 lakh per FY for permissible current/capital account transactions (education, travel, investment, gifts) without prior approval.

- **Tobin Tax** – proposed tax on foreign exchange transactions to curb speculation; named after economist James Tobin (1972); not implemented by India.

## Prelims Connect

### *Rupee-dollar journey*

| Year | Rate (₹/\$) | Event                            |
|------|-------------|----------------------------------|
| 1947 | 1.0         | Independence                     |
| 1966 | 7.5         | Devaluation under Indira Gandhi  |
| 1991 | 17.5→25     | Devaluation, BoP crisis, reforms |
| 2000 | 45          |                                  |
| 2013 | 60→68       | 'Taper tantrum'                  |
| 2020 | 75          | COVID / Fed easing               |
| 2023 | 83          |                                  |
| 2025 | 87.95 low   | Trump tariffs, strong DXY        |

## Prelims Pointers

- **Rupee lifetime low (Feb 2025)** – ₹87.95/\$.
- **India's exchange rate regime** – managed float.
- **LRS annual limit** – \$2,50,000.
- **Full form REER** – Real Effective Exchange Rate.
- **DXY basket** – 6 currencies, EUR largest weight.
- **India on PPP basis** – 3rd largest economy.

## AGRICULTURE & RURAL ECONOMY

### PM Dhan-Dhaanya Krishi Yojana – 100 Low-Productivity Districts

Announced in Union Budget 2025-26, PM Dhan-Dhaanya Krishi Yojana is a convergence scheme targeting 100 districts with low agricultural productivity, moderate crop intensity and below-average credit disbursement. It aims to benefit 1.7 crore farmers through a 'Aspirational Districts'-style approach, blending 36 existing central schemes with state and local initiatives.

### News in Brief

- **Launch** – Union Budget 2025-26 by FM Nirmala Sitharaman.
- **Districts** – 100 (selected on low productivity / low crop intensity / low credit disbursement).
- **Beneficiaries** – 1.7 crore farmers.
- **Model** – similar to NITI Aayog's Aspirational Districts Programme (2018).
- **Focus** – crop diversification, post-harvest storage at panchayat-block level, irrigation, long & short-term credit.

### Static Background – Concepts & Terms

- **Indian agriculture – key facts** – contributes ~18% of GVA but employs ~46% of workforce (PLFS 2023-24); arable land 156 mn ha; ~86% farmers are small & marginal (<2 ha); net sown area ~140 mn ha; gross cropped area ~200 mn ha.
- **Cropping seasons** – **Kharif** (sown June-July, harvested Oct-Nov: rice, maize, cotton, soybean, sugarcane); **Rabi** (sown Oct-Dec, harvested Apr-May: wheat, mustard, gram, barley); **Zaid** (summer, Mar-Jun: watermelon, cucumber, fodder).
- **Green Revolution** – 1965-70s, led by M.S. Swaminathan + Norman Borlaug; HYV seeds (wheat, rice), chemical fertilisers, irrigation, assured MSP; concentrated in Punjab-Haryana-Western UP; made India food self-sufficient but raised ecological concerns.
- **Doubling Farmers' Income** – Dalwai Committee 2018 recommended doubling real farm income by 2022-23; real progress uneven.
- **Agriculture Census 2015-16 (latest)** – total operational holdings 146 million; average holding size 1.08 ha (falling from 2.28 ha in 1971); 86.2% are small & marginal.
- **Ministry of Agriculture & Farmers Welfare** – has two departments: Department of Agriculture & Farmers Welfare (production, schemes, MSP), and Department of Agricultural Research & Education (ICAR).
- **ICAR** – Indian Council of Agricultural Research, est. 1929, HQ New Delhi, apex body for agricultural R&D, with 113+ institutes, 71 agricultural universities, and Krishi Vigyan Kendras (KVKs) in every district.

## Prelims Connect

### India's main crops by region (illustrative)

| Crop      | Type               | Top states                      |
|-----------|--------------------|---------------------------------|
| Rice      | Kharif             | WB, UP, Punjab, AP              |
| Wheat     | Rabi               | UP, Punjab, MP, Haryana         |
| Cotton    | Kharif             | Gujarat, Maharashtra, Telangana |
| Sugarcane | Tropical perennial | UP, Maharashtra, Karnataka      |
| Pulses    | Mostly Rabi        | MP, Rajasthan, Maharashtra      |
| Millets   | Kharif             | Rajasthan, Karnataka, MP        |

## Prelims Pointers

- **PM Dhan-Dhaanya launched** – Budget 2025-26.
- **Districts covered** – 100.
- **Beneficiary farmers** – 1.7 crore.
- **Agriculture share in GVA** – ~18%.
- **ICAR HQ** – New Delhi; est. 1929.
- **Avg holding size (2015-16)** – 1.08 ha.

## MSP, PM-AASHA & the New Price Support Architecture

Union Budget 2025-26 continued government emphasis on Minimum Support Price (MSP) for 22 crops and strengthened PM-AASHA (Pradhan Mantri Annadata Aay Sanrakshan Abhiyan) umbrella to include Price Support Scheme, Price Deficiency Payment, and Market Intervention. The government announced record MSP hikes for Kharif and Rabi 2025-26 crops.

## News in Brief

- **MSP crops** – 22 (14 Kharif + 6 Rabi + 2 commercial).
- **PM-AASHA** – continues as umbrella; includes PSS, PDPS, MIS, PPSS.
- **Paddy (common) MSP** – ₹2,369/qtl for Kharif 2025-26 (+5.4%).
- **Wheat MSP** – ₹2,425/qtl for Rabi 2024-25.
- **Pulses & oilseeds thrust** – continued Atmanirbharta in pulses via enhanced procurement.

## Static Background – Concepts & Terms

- **Minimum Support Price (MSP)** – a guaranteed price at which the government promises to purchase notified crops from farmers to insulate them from sharp price falls; announced before each sowing season on recommendations of **CACP** (Commission for Agricultural Costs and Prices, est. 1965 in Agriculture Ministry).
- **MSP – 22 crops** – **7 cereals** (paddy, wheat, maize, jowar, bajra, barley, ragi); **5 pulses** (gram, arhar/tur, moong, urad, lentil/masur); **8 oilseeds** (groundnut, rapeseed-mustard, soyabean, sesamum, sunflower, safflower, nigerseed, toria); **2 commercial** (copra, cotton, raw jute).
- **Cost concepts in MSP** – **A2** (actual paid-out costs: seeds, fertilisers, labour, fuel, etc.); **A2+FL** (A2 + imputed value of unpaid family labour); **C2** (comprehensive cost: A2+FL + rent + interest on owned capital).
- **Swaminathan formula** – M.S. Swaminathan Commission (2006) recommended  $MSP = C2 + 50\%$ . Government has committed  $MSP \geq 1.5 \times A2 + FL$  since 2018 (not C2).
- **PM-AASHA – three components** – (1) **Price Support Scheme (PSS)** – direct procurement of pulses, oilseeds, copra at MSP by central agencies (NAFED, FCI, NCCF); (2) **Price Deficiency Payment Scheme (PDPS)** – if market price falls below MSP, farmer gets paid the difference; (3) **Market Intervention Scheme / Private Procurement Stockist Scheme (PPSS)**.
- **FCI** – Food Corporation of India, est. 1965, statutory body under Food Corporations Act 1964, main agency for procurement of rice & wheat at MSP, storage, distribution via PDS, and maintaining buffer stocks.
- **Buffer stock norms** – FCI maintains buffer stock of rice & wheat based on operational requirements and strategic reserve norms set by Cabinet; surplus beyond norms constitutes 'excess stocks'.
- **PDS & National Food Security Act 2013** – NFSA provides 5 kg foodgrains/month at ₹1 (coarse)/₹2 (wheat)/₹3 (rice)/kg to 75% rural + 50% urban population (~81 crore beneficiaries); made free under PMGKAY from 2023.

## Prelims Connect

### *MSP cost concepts – quick reference*

| Concept                  | Includes   |
|--------------------------|--|
| A2                       | Paid-out costs (seeds, fertilisers, labour, machinery, fuel) |
| A2+FL                    | A2 + imputed family labour                                   |
| C2                       | A2+FL + rent on owned land + interest on owned capital       |
| Govt MSP formula (2018-) | $\geq 1.5 \times A2 + FL$                                    |
| Swaminathan Commission   | $C2 + 50\%$  |

## Prelims Pointers

- **MSP is announced by** – Govt based on CACP recommendations.
- **CACP** – est. 1965, under Ministry of Agriculture.
- **Total MSP crops** – 22.
- **Swaminathan formula** –  $C2 + 50\%$ .
- **PM-AASHA full form** – Pradhan Mantri Annadata Aay Sanrakshan Abhiyan.
- **NFSA year** – 2013.
- **FCI established** – 1965.

## PM-KISAN, KCC & Rural Credit

PM-KISAN – the direct income support scheme paying ₹6,000/year in three instalments – continued as India's largest farmer welfare scheme, while Budget 2025-26 raised the Kisan Credit Card (KCC) loan limit under the interest subvention scheme from ₹3 lakh to ₹5 lakh, benefitting 7.7 crore farmers, fishermen and dairy farmers.

## News in Brief

- **PM-KISAN beneficiaries** – ~11 crore farmers; ₹6,000/year DBT.
- **Budget 2025-26 change** – KCC limit under modified interest subvention scheme raised from ₹3 lakh to ₹5 lakh.
- **Beneficiaries of KCC hike** – 7.7 crore.
- **Interest subvention scheme** – short-term agri loans up to ₹3 lakh at 7% → effective 4% with prompt repayment.
- **PM Fasal Bima Yojana** – continued; premium 1.5% Rabi / 2% Kharif / 5% commercial.

## Static Background – Concepts & Terms

- **PM-KISAN** – Pradhan Mantri Kisan Samman Nidhi, launched 24 Feb 2019; direct income support of ₹6,000/year in 3 instalments of ₹2,000; paid via DBT; fully funded by central govt; originally for small/marginal; extended to all landholder farmers from June 2019.
- **Kisan Credit Card (KCC)** – introduced in 1998 on recommendation of R.V. Gupta Committee; scheme by NABARD + RBI for hassle-free, timely credit to farmers; covers crop, post-harvest, consumption, animal husbandry, fisheries; 5-year revolving credit.
- **Priority Sector Lending (PSL)** – RBI guideline requiring banks to allocate 40% of ANBC to priority sectors: agriculture (18% sub-target), MSME, education, housing, renewable, social infra, weaker sections.
- **NABARD** – National Bank for Agriculture and Rural Development, est. 12 July 1982 on recommendation of **Sivaraman Committee** (CRAFICARD); apex development bank for agriculture and rural economy; refinances cooperative banks, RRBs, commercial banks for rural lending; HQ Mumbai.
- **Rural credit institutions** – **Commercial Banks** (largest share ~75%); **Regional Rural Banks** (RRBs, est. 1975, 43 RRBs currently); **Cooperative Credit Structure** (PACS at village → DCCB at district → State Cooperative Bank at state; Long-term: PCARDB → SCARDB).
- **PMFBY** – **Pradhan Mantri Fasal Bima Yojana** – launched 2016; farmer pays 1.5% (Rabi) / 2% (Kharif) / 5% (commercial) of sum insured; central & state govts share balance premium; voluntary for non-loanee farmers since 2020.
- **Agri-credit target FY26** – ₹27.5 lakh crore (vs ₹25 lakh crore FY25); consistent upward trend.
- **Formal vs informal credit** – per NABARD All India Rural Financial Inclusion Survey 2016-17, ~30% of rural household borrowing is still from informal sources (money-lenders, relatives) despite decades of institutional credit push.

## Prelims Connect

## Major farmer welfare & credit schemes

| Scheme          | Year | What                           |
|-----------------|------|--------------------------------|
| PM-KISAN        | 2019 | ₹6,000/yr income support       |
| KCC             | 1998 | Short-term agri credit         |
| PMFBY           | 2016 | Crop insurance                 |
| PMKSY           | 2015 | Irrigation (Har Khet Ko Pani)  |
| PM-AASHA        | 2018 | MSP procurement umbrella       |
| PM Dhan-Dhaanya | 2025 | 100 low-productivity districts |
| e-NAM           | 2016 | Electronic agri market         |

### Prelims Pointers

- **PM-KISAN launched** – 24 February 2019.
- **Annual benefit** – ₹6,000 in 3 instalments.
- **KCC launched** – 1998, on R.V. Gupta Committee recommendation.
- **New KCC limit (Budget 2025-26)** – ₹5 lakh.
- **NABARD established** – 12 July 1982, recommended by Sivaraman Committee.
- **Agriculture PSL sub-target** – 18% of ANBC.
- **PMFBY Kharif premium** – 2% of sum insured.

### Mission for Aatmanirbharta in Pulses & Oilseeds

Budget 2025-26 announced a 6-year Mission for Aatmanirbharta in Pulses with special focus on Tur, Urad and Masoor, and also a separate Mission on Edible Oils (building on National Mission on Edible Oils – Oil Palm, NMEO-OP). NAFED and NCCF will procure as much of these pulses as farmers offer during the next 4 years at MSP.

### News in Brief

- **Pulses mission** – 6 years, focus on Tur, Urad, Masoor.
- **Central agencies** – NAFED & NCCF to procure 100% at MSP for 4 years.
- **Edible oil thrust** – reduce import dependence (~55-60% currently).
- **NMEO-OP** – National Mission on Edible Oils – Oil Palm (launched 2021) for North-East & A&N.
- **Pulse imports** – India imported ~\$3.7 bn pulses in FY24 despite being world's largest producer.

### Static Background – Concepts & Terms

- **Pulses – India and world** – India is the world's largest producer (~25% of global output), consumer and importer of pulses; chickpea (gram) is the largest pulse; pulses are nitrogen-fixing legumes vital for soil health.
- **Major pulses produced** – Gram/chana (40%), Tur/arhar (15%), Urad, Moong, Masoor (lentil), Kulthi (horse gram), Lobia (cowpea), Rajma (kidney bean).
- **Major pulse states** – Madhya Pradesh (largest), Rajasthan, Maharashtra, Uttar Pradesh, Karnataka, Andhra Pradesh.

- **Edible oils – demand & imports** – India is world's largest importer of edible oils; imports ~55–60% of domestic consumption; palm oil from Indonesia/Malaysia (~60% of imports), soybean from Argentina/Brazil, sunflower from Russia/Ukraine.
- **Major oilseeds** – soyabean (largest), groundnut, rapeseed-mustard, sunflower, sesamum, safflower, niger seed, linseed; + palm oil (plantation).
- **NAFED** – National Agricultural Cooperative Marketing Federation of India Ltd, est. 1958, under Ministry of Agriculture; designated price support agency for oilseeds, pulses, copra.
- **NCCF** – National Cooperative Consumers' Federation, est. 1965, under Ministry of Cooperation (new 2021); also used for MSP procurement and retail distribution ('Bharat Atta/Dal/Rice' at subsidised prices).
- **Ministry of Cooperation** – created July 2021; first-ever dedicated ministry for cooperative sector; headed by Amit Shah; overseeing 8+ lakh cooperatives including PACS revitalisation.
- **Pulse productivity** – India's yield (~800 kg/ha) is well below global average (~900 kg/ha); pulses grown mostly in rainfed, unirrigated areas → low productivity.

## Prelims Connect

### India and pulses – production basics

| Parameter                  | India's status      |
|----------------------------|---------------------|
| Global rank in production  | 1st (~25% of world) |
| Global rank in consumption | 1st                 |
| Global rank in imports     | 1st                 |
| Top producing state        | Madhya Pradesh      |
| Largest pulse (by share)   | Chana/Gram          |
| Key oilseed mission        | NMEO-OP (2021)      |
| Nodal procurement agency   | NAFED & NCCF        |

## Prelims Pointers

- **Largest producer of pulses** – India.
- **Largest pulse in India** – Chana (gram).
- **Top pulse-producing state** – Madhya Pradesh.
- **NAFED established** – 1958.
- **Ministry of Cooperation created** – July 2021.
- **NMEO-OP launched** – 2021, for oil palm.
- **Edible oil import dependence** – ~55–60%.

## AgriStack, Digital Agriculture & Bharat-VISTAAR

India's digital agriculture push accelerated in 2025 with the nationwide rollout of the Digital Crop Survey, AgriStack (Farmers' Registry, Crop Sown Registry, Geo-referenced village maps) and launch of Bharat-VISTAAR – a digital extension platform. The aim is to build a unified data architecture to transform credit, insurance, advisory and subsidy delivery.

## News in Brief

- **AgriStack** – three pillars: Farmers' Registry, Crop Sown Registry, Geo-referenced Village Maps.
- **Unique Farmer ID** – 11 crore farmer IDs to be generated by FY26 (~6 crore already done).
- **Digital Agriculture Mission (DAM)** – approved Sep 2024 with outlay ₹2,817 crore (central share ₹1,940 crore).
- **Bharat-VISTAAR** – (Viksit Krishi Sankalp Abhiyan) digital farm-extension platform, launched 2025.
- **Crop-diversification thrust** – NeGPA (National e-Governance Plan for Agriculture) integrated.

## Static Background – Concepts & Terms

- **AgriStack** – 'India Digital Ecosystem of Agriculture (IDEA)' – an open data platform for agriculture, modeled on India Stack (Aadhaar, UPI, DigiLocker); aims to provide a single source of truth for farmer and farm data to enable targeted delivery.
- **Three IDEA pillars** – (1) **Farmers' Registry** (basic profile, land records, livestock, family, etc.); (2) **Crop Sown Registry** (what is grown on each plot); (3) **Geo-referenced Village Maps** (digital cadastral maps).
- **Digital Public Infrastructure in Agri** – extension of India Stack; intended to be a 'DPI for Agriculture' enabling credit, insurance, advisory, market linkage without physical visits.
- **Krishi Vigyan Kendra (KVK)** – district-level agricultural extension centres; 731+ KVKs set up by ICAR; conduct demonstrations, trainings, seed/planting material supply and farmer advisory.
- **e-NAM** – National Agriculture Market, launched 14 April 2016; pan-India electronic trading portal networking APMC mandis; integrated 1361+ mandis across 23 states/UTs by 2025.
- **Agricultural Marketing structure** – regulated by state APMC Acts; mandi (yard), commission agent (arthia), auction-based price discovery; 2020 farm laws tried to dismantle APMC monopoly – repealed Nov 2021 after protests.
- **Model Contract Farming Act 2018** – central model law to facilitate contract farming, dispute resolution; states free to adopt.
- **India Meteorological Department (IMD)** – est. 1875; provides monsoon forecasts, agromet advisories (Gramin Krishi Mausam Sewa), cyclone warnings; critical input for rainfed agriculture.

## Prelims Connect

### Digital Agriculture – key platforms

| Initiative                  | Year           | Purpose                           |
|-----------------------------|----------------|-----------------------------------|
| e-NAM                       | 2016           | Unified online agri market        |
| NeGPA                       | 2010           | National e-Governance Plan - Agri |
| IDEA (AgriStack)            | 2021 (concept) | DPI for agriculture               |
| Digital Agriculture Mission | 2024           | ₹2,817 cr outlay                  |
| Bharat-VISTAAR              | 2025           | Digital extension platform        |
| Kisan Rath                  | 2020           | Transport logistics app           |

## Prelims Pointers

- **Digital Agriculture Mission approved** – September 2024.
- **AgriStack concept name** – IDEA (India Digital Ecosystem of Agriculture).
- **e-NAM launched** – 14 April 2016.
- **KVK stands for** – Krishi Vigyan Kendra.

- **IMD established** – 1875.
- **Bharat-VISTAAR year** – 2025.

## Ethanol Blending Programme – E20 Achieved, E27 Target & Isobutanol

India achieved nationwide E20 blending by 2025 – five years ahead of schedule. Ethanol blending rose from 1.5% (2014) to 20% (2025), saving ₹1.25 lakh crore in forex and paying ₹1 lakh crore to farmers. Government now targets E27 by 2030. World's first bamboo-based ethanol plant inaugurated in Assam.

### News in Brief

- E20 achieved nationwide 2025 – 5 years ahead of original 2030 target (National Policy on Biofuels).
- Ethanol blending: 1.5% (2013) → 19.7% (2025); forex saved ₹1.25 lakh crore; ₹1 lakh crore paid to farmers.
- Next target: E27 by 2030 (like Brazil); GoI announced.
- First bamboo-based ethanol plant: inaugurated in Golaghat district, Assam – world's first from green bamboo.
- SATAT: 100+ CBG plants operational; 5% blending mandate by 2028.
- Isobutanol-diesel blending: Transport Ministry exploring as ethanol-diesel failed (miscibility + flash point issues); isobutanol blends better, higher flash point = safer; India would be first country if successful.
- Sugarcane decline since 2022: red-rot disease, deficient rainfall; Centre raised FRP; retail sugar prices rose.
- Top sugarcane producers: UP (production), Maharashtra (recovery rate), Karnataka, Tamil Nadu, Bihar.

### Static Background – Concepts & Terms

- **Ethanol** – ethyl alcohol; biofuel from biomass; higher octane number (less engine knock) but lower calorific value than petrol; hygroscopic (absorbs water → corrosion risk); produced via fermentation.
- **Ethanol Sources in India** – C-heavy molasses (original), B-heavy molasses (from 2018-19), cane juice/syrup/sugar (from 2018-19), damaged grains (rice, maize), lignocellulosic biomass.
- **SATAT (Sustainable Alternative Towards Affordable Transportation)** – promotes compressed biogas (CBG) production from organic waste; target: 5,000 CBG plants; 5% blending mandate by 2028.
- **FRP (Fair and Remunerative Price)** – minimum price sugar mills must pay sugarcane farmers; decided annually by CCEA; legal backing under Sugarcane Control Order, 1966; mills must pay within 14 days.
- **Octane Number** – measure of fuel's resistance to 'knocking' (premature ignition); higher octane = better performance; ethanol has higher octane than petrol.

### Ethanol Blend Standards

| Blend | Ethanol % | Key Note                                |
|-------|-----------|---|
| E5    | 5%        | Early standard in India                 |
| E10   | 10%       | Compatible with most post-2001 vehicles |
| E20   | 20%       | Achieved nationwide 2025; 5 years early |
| E27   | 27%       | Target by 2030 (like Brazil)            |
| E85   | 85%       | Flex Fuel Vehicles (FFVs) only          |
| E100  | 100%      | Used in Brazil; trial in India          |

### Prelims Pointers

- India achieved E20 by 2025 – 5 years ahead of original 2030 target.
- Ethanol: higher octane number, lower calorific value than petrol.
- SATAT targets 5% CBG blending by 2028.
- FRP: minimum price sugar mills pay farmers; mandatory within 14 days; CCEA decides annually.
- First bamboo-based ethanol plant: Golaghat, Assam – world's first from green bamboo.

## INDUSTRY, MSME, INFRASTRUCTURE & SCHEMES

### PLI Scheme – India's Manufacturing Push Matures

The Production-Linked Incentive (PLI) scheme, launched in 2020 and covering 14 sectors with ₹1.97 lakh crore outlay, has now driven India's electronics, pharma and drones sectors to record outputs. By mid-2025, cumulative investment under PLI crossed ₹1.6 lakh crore and incremental production crossed ₹12.5 lakh crore.

#### News in Brief

- **Total outlay** – ₹1.97 lakh crore across 14 sectors.
- **Cumulative investment (mid-2025)** – ₹1.6 lakh crore.
- **Electronics manufacturing** – India becomes world's 2nd largest mobile phone manufacturer; smartphone exports cross \$20 bn.
- **Semiconductor mission** – first 'Made in India' chip expected by end-2026 from Micron (Sanand), Tata (Dholera).
- **PLI extension** – Budget 2025-26 emphasised PLI 2.0 for IT hardware and specialty steel.

#### Static Background – Concepts & Terms

- **Production-Linked Incentive (PLI)** – scheme announced 2020 during COVID to boost domestic manufacturing by giving cash incentives on incremental sales (4–6% typically) of goods manufactured in India for 4-6 years; beneficiary must meet minimum investment & incremental sales thresholds.
- **14 PLI sectors** – (1) Mobile phones & components, (2) Pharma & APIs, (3) Medical devices, (4) Auto & auto components, (5) Advanced Chemistry Cell (ACC) batteries, (6) Textiles (MMF + technical), (7) Food processing, (8) White goods (AC, LED), (9) Solar PV modules, (10) Specialty steel, (11) Telecom & networking products, (12) Electronic/Tech products, (13) Drones, (14) Semiconductors.
- **Make in India** – flagship programme launched 25 September 2014 by PM Modi; aim: raise manufacturing share of GDP to 25% from ~15%; created investment facilitation cell, liberalised FDI, GIS-based investor portal.
- **Atmanirbhar Bharat** – self-reliant India initiative announced 12 May 2020; five pillars: Economy, Infrastructure, System, Vibrant Demography, Demand; ₹20 lakh crore stimulus package.
- **India Semiconductor Mission (ISM)** – approved Dec 2021 with ₹76,000 crore outlay; supports semiconductor fabs, display fabs, compound semis, ATMP/OSAT; first fab approved – Micron (Sanand, 2023) ATMP; second – Tata Electronics + PSMC (Dholera).
- **MMF vs Cotton in textiles** – India historically strong in cotton (natural); PLI for textiles targets Man-Made Fibre (MMF) + technical textiles where India is a laggard; global trade mix is ~72% MMF, 28% natural.
- **Semiconductors – basics** – silicon chips; value chain has (a) design, (b) fabrication (foundries – most expensive), (c) Assembly/Test/Marking/Packaging (ATMP/OSAT). India strong in design, weak in fab; ISM targets fab.
- **Corporate tax cut 2019** – base corporate tax cut from 30% → 22% (existing firms), 15% for new manufacturing firms set up before Mar 2024; one of the world's lowest rates; intended to boost investment.

## Prelims Connect

### PLI scheme – key sectors

| Sector                    | Outlay (₹ cr, approx) |
|---------------------------|-----------------------|
| Semiconductors / ISM      | 76,000                |
| ACC Battery Storage       | 18,100                |
| Auto & Components         | 25,938                |
| Mobile Phones             | 40,951                |
| Pharma                    | 15,000                |
| Telecom & Networking      | 12,195                |
| Food Processing           | 10,900                |
| Textiles (MMF & Tech)     | 10,683                |
| Specialty Steel           | 6,322                 |
| Drones & Drone Components | 120                   |

### Prelims Pointers

- **PLI launched** – 2020.
- **Make in India launched** – 25 September 2014.
- **India Semiconductor Mission outlay** – ₹76,000 cr.
- **Total PLI outlay** – ₹1.97 lakh crore.
- **India's rank in mobile manufacturing** – 2nd globally.
- **Corporate tax (new manufacturing)** – 15%.

### MSME Reforms – Credit Guarantees, New Definitions & SME Growth Fund

Union Budget 2025-26 delivered a major MSME overhaul: enhanced MSME classification thresholds (2.5× on investment, 2× on turnover), raised credit guarantee cover to ₹10 crore for micro & small enterprises (from ₹5 crore), credit cards for 10 lakh micro-enterprises on Udyam portal, and a new ₹10,000 crore Fund of Funds for Startups and an SME Growth Fund.

### News in Brief

- **New MSME classification** – thresholds raised: Investment 2.5×, Turnover 2×.
- **Credit guarantee** – CGTMSE cover raised to ₹10 crore for micro & small (from ₹5 cr); to ₹20 cr for startups.
- **MSME credit card** – ₹5 lakh limit, 10 lakh cards for micro-units on Udyam portal.
- **Fund of Funds for Startups** – ₹10,000 crore new commitment.
- **Mudra Yojana** – PMMY continues; loans classified as Shishu (<₹50k), Kishor (₹50k-5L), Tarun (₹5L-10L), Tarun Plus (₹10L-20L added).

### Static Background – Concepts & Terms

- **MSME – definition (post-2020)** – classified by **both** investment and annual turnover:

- **Micro** – Investment ≤ ₹1 cr AND Turnover ≤ ₹5 cr (pre-Budget 2025); post-Budget 2025: Inv ≤ ₹2.5 cr, TO ≤ ₹10 cr.
- **Small** – Investment ≤ ₹10 cr AND Turnover ≤ ₹50 cr; post: ≤ ₹25 cr / ₹100 cr.
- **Medium** – Investment ≤ ₹50 cr AND Turnover ≤ ₹250 cr; post: ≤ ₹125 cr / ₹500 cr.
- **MSME Act** – Micro, Small and Medium Enterprises Development Act 2006; earlier distinguished manufacturing vs services; from 1 July 2020 both unified under composite criterion (investment + turnover).
- **MSME share in economy** – contributes ~30% of GDP, ~45% of manufacturing output, ~45% of exports, employs ~11 crore people; over 6 crore registered on Udyam portal.
- **Udyam Registration** – free online MSME registration on Udyam portal (udyam.gov.in), launched 1 July 2020, replacing Udyog Aadhaar; based on self-declaration linked to PAN/GST.
- **CGTMSE** – Credit Guarantee Fund Trust for Micro & Small Enterprises; set up 2000 by Govt + SIDBI; provides credit guarantees (up to 85%) on collateral-free loans to micro/small enterprises.
- **SIDBI** – Small Industries Development Bank of India, est. 2 April 1990 under SIDBI Act 1989; HQ Lucknow; principal institution for promotion, finance and development of MSMEs.
- **PMMY – Pradhan Mantri Mudra Yojana** – launched 8 April 2015 by PM Modi; provides loans up to ₹20 lakh (earlier ₹10 L) to non-corporate, non-farm small/micro enterprises through banks, NBFCs, MFIs; refinanced by MUDRA Ltd.
- **Trade Receivables Discounting System (TReDS)** – RBI-approved electronic platform (e.g., RXIL, M1xchange, Invoicemart) to help MSMEs quickly discount their trade receivables (invoices) from large buyers; big cash-flow aid.
- **ONDC** – Open Network for Digital Commerce, launched 2022 by DPIIT; open protocol-based e-commerce network to democratise digital commerce beyond Amazon/Flipkart; helps MSME reach.

## Prelims Connect

### MSME classification – post Budget 2025-26

| Category | Investment (₹ cr) | Turnover (₹ cr) |
|----------|-------------------|-----------------|
| Micro    | 2.5               | 10              |
| Small    | 25                | 100             |
| Medium   | 125               | 500             |

## Prelims Pointers

- **MSMED Act** – 2006.
- **Unified Manufacturing/Services** – from 1 July 2020.
- **Udyam Registration portal** – udyam.gov.in, launched 1 July 2020.
- **SIDBI established** – 2 April 1990, HQ Lucknow.
- **CGTMSE cover post-2025** – up to ₹10 cr for micro/small.
- **PMMY launched** – 8 April 2015.
- **PMMY Tarun Plus (2025)** – loan up to ₹20 lakh.

## PM Gati Shakti & National Logistics Policy

PM Gati Shakti National Master Plan completed its 4th anniversary in 2025 with integration of 200+ data layers and approval of 100+ infrastructure projects above ₹500 crore. The National Logistics Policy (2022) continues to drive India's target of bringing logistics costs down from 13–14% of GDP to below 10% by 2030.

## News in Brief

- **Gati Shakti NMP** – digital platform integrating 44 central ministries + all states; 200+ data layers.
- **Projects approved** – 100+ big projects (>₹500 cr) cleared through Network Planning Group.
- **National Logistics Policy 2022** – launched 17 Sep 2022; logistics cost ~13% of GDP.
- **LEADS report** – Logistics Ease Across Different States 2024: Gujarat, Haryana, Punjab among top performers.
- **Capex push** – Budget 2025-26 infrastructure capex ₹11.21 lakh crore (3.1% of GDP).

## Static Background – Concepts & Terms

- **PM Gati Shakti** – National Master Plan (NMP) for multimodal infrastructure connectivity launched 13 October 2021; digital platform using GIS/BhuvanMap; brings ministries of Rail, Road, Ports, Shipping, Aviation, Telecom, Power on one platform for synchronised planning.
- **Six pillars of Gati Shakti** – Comprehensiveness, Prioritisation, Optimisation, Synchronisation, Analytical, Dynamic.
- **Seven engines** – Roads, Railways, Airports, Ports, Mass Transport, Waterways, Logistics infrastructure.
- **National Logistics Policy 2022** – launched 17 Sep 2022; target: logistics cost < 10% of GDP; improve India's Logistics Performance Index (LPI) ranking; create unified logistics interface platform (ULIP).
- **Logistics Performance Index** – by World Bank; India's rank jumped from 54 (2014) to 44 (2018) to 38 (2023).
- **NIP – National Infrastructure Pipeline** – launched 2019; ₹111 lakh crore of infrastructure investment planned FY20–FY25; covers energy, transport, water, urban, social.
- **National Monetisation Pipeline (NMP)** – launched 23 Aug 2021; ₹6 lakh crore monetisation of brownfield assets over FY22–25 (roads, rail, power, pipelines, airports, ports, mining).
- **Asset monetisation modes** – (a) InvITs (Infrastructure Investment Trusts), (b) REITs, (c) Operation-Maintenance-Transfer (OMT), (d) Toll-Operate-Transfer (TOT), (e) Public Private Partnership concessions.
- **PPP models in India** – BOT-Toll (Build Operate Transfer), BOT-Annuity, HAM (Hybrid Annuity Model – govt pays 40% upfront + annuities, used heavily by NHAI), EPC (Engineering Procurement Construction), DBFOT.
- **Bharatmala Pariyojana** – flagship road project launched 2017; target 65,000 km national highways; covers Economic Corridors, Inter-corridors, Feeder routes, Border/International connectivity, Expressways.
- **Sagarmala Pariyojana** – port-led development, launched 2015; 4 pillars: port modernisation, port connectivity, port-linked industrialisation, coastal community development.

## Prelims Connect

### Key infrastructure & logistics initiatives

| Scheme                           | Year | Focus                   |
|----------------------------------|------|-------------------------|
| Bharatmala                       | 2017 | Highways (65,000 km)    |
| Sagarmala                        | 2015 | Ports-led growth        |
| National Infrastructure Pipeline | 2019 | ₹111 lakh cr pipeline   |
| Asset Monetisation Pipeline      | 2021 | ₹6 lakh cr brownfield   |
| PM Gati Shakti NMP               | 2021 | Multimodal connectivity |
| National Logistics Policy        | 2022 | Cost < 10% GDP          |

## Prelims Pointers

- **PM Gati Shakti launched** – 13 October 2021.
- **NLP launched** – 17 September 2022.
- **LPI is published by** – World Bank.
- **India's LPI rank (2023)** – 38.
- **HAM** – Hybrid Annuity Model.
- **Bharatmala year** – 2017.
- **NIP total outlay** – ₹111 lakh crore.

## Disinvestment, PSE Policy & NaBFID

Disinvestment receipts slipped to ₹33,000 crore in FY25 against a target of ₹50,000 crore, reflecting slower pace of strategic sales. Meanwhile, the National Bank for Financing Infrastructure and Development (NaBFID), set up under statute in 2021, crossed ₹3 lakh crore in sanctions by end-2025 and emerged as India's primary long-term infrastructure financier.

## News in Brief

- **FY25 disinvestment** – ₹33,000 cr vs target ₹50,000 cr.
- **Strategic sales** – Air India (Jan 2022 – Tata Sons) was the last marquee sale; BPCL, BEML, Shipping Corp sales pending.
- **NaBFID** – established 2021; crossed ₹3 lakh crore sanctions by end-2025.
- **New Public Sector Enterprise Policy 2021** – defines 4 strategic sectors: Atomic energy/defence/space, Transport/telecom, Power/petroleum/coal/minerals, Banking/insurance/finance.
- **Maharatna/Navratna/Miniratna** – classifications for CPSEs based on net worth, profits, and autonomy.

## Static Background – Concepts & Terms

- **Disinvestment** – sale of a portion of the government's equity in a public sector enterprise (PSE/CPSE). Types: **Minority disinvestment** (govt retains >51%); **Majority disinvestment** (retains <51%); **Strategic disinvestment** (sale + transfer of management control).
- **DIPAM** – Department of Investment and Public Asset Management, under Ministry of Finance; formed 2016 (renamed from DoD); handles all government equity transactions.
- **Privatisation vs Disinvestment** – disinvestment may retain govt control; privatisation transfers management control to private entity. Strategic disinvestment = privatisation.
- **New PSE Policy 2021** – Government retains minimum presence in 4 strategic sectors; in non-strategic sectors CPSEs to be privatised, merged or closed.
- **CPSE classifications** – **Maharatna** (avg 3-yr turnover ≥ ₹25,000 cr, net worth ≥ ₹15,000 cr, net profit ≥ ₹5,000 cr; highest autonomy – e.g., ONGC, NTPC, SAIL, BPCL, IOC, CIL, HPCL, GAIL, BHEL, PGCIL, REC, Oil India); **Navratna** (net worth ₹1,000–15,000 cr); **Miniratna I & II** (smaller CPSEs).
- **NaBFID** – National Bank for Financing Infrastructure and Development, set up under NaBFID Act 2021; authorised capital ₹1 lakh crore; govt's sovereign capital infusion ₹20,000 cr; designed to be the principal DFI for long-tenor infrastructure financing, supplementing commercial banks.
- **DFI – Development Financial Institution** – long-term finance institution providing risk capital for development projects. India had IDBI, ICICI, IFCI, IIBI in past; most converted into commercial banks after 1991 reforms. NaBFID is the 'new DFI'.
- **Air India privatisation** – Tata Sons won the bid in Oct 2021 for ₹18,000 crore; handover January 2022; first airline privatisation since Tatas founded it in 1932 (nationalised 1953).

- **Vivad se Vishwas schemes** – tax dispute resolution schemes; 2020 version for direct tax disputes, 2024 version (Vivad se Vishwas 2.0) for pending cases; aims to unlock revenue and reduce litigation.

## Prelims Connect

### *Ratna classification of CPSEs*

| Category     | Key criteria  | Example                           |
|--------------|---|-----------------------------------|
| Maharatna    | Net worth $\geq$ ₹15,000 cr; turnover $\geq$ ₹25,000 cr | ONGC, NTPC, SAIL, BPCL, GAIL, CIL |
| Navratna     | Net worth ₹1,000–15,000 cr                              | BEML, EIL, NMDC, RINL             |
| Miniratna I  | Profits 3 yrs + net worth $\geq$ ₹30 cr                 | Various                           |
| Miniratna II | Profits 3 yrs   | Various                           |

## Prelims Pointers

- **DIPAM** – Department of Investment & Public Asset Management.
- **Air India returned to Tata** – January 2022.
- **NaBFID Act** – 2021.
- **New PSE Policy** – 2021, 4 strategic sectors.
- **Maharatna net worth threshold** – ₹15,000 cr.
- **Highest tier CPSE** – Maharatna.

## Orange Economy, AVGC-XR & Creative Industries

Union Budget 2026-27 introduced the concept of an 'Orange Economy' – India's creative and cultural industries covering film, music, design, AVGC-XR (Animation, Visual Effects, Gaming, Comics, Extended Reality), publishing, heritage and handicrafts. A dedicated Bharat Creative Hub is to be set up in Mumbai with an ₹500 crore outlay.

### News in Brief

- **Orange Economy introduced** – Budget 2026-27; aligns with UNESCO/UNCTAD usage.
- **Bharat Creative Hub** – ₹500 crore, Mumbai.
- **AVGC-XR Mission** – first approved 2022; National Centre of Excellence for AVGC being set up in Mumbai.
- **Creative economy share** – ~2.5% of India's GDP (vs global avg ~3%).
- **Supporting schemes** – Bharat Creative Hub, IIT Bombay COE, film post-production incentives under FFO.

### Static Background – Concepts & Terms

- **Orange Economy** – term coined by economists Felipe Buitrago and Iván Duque (Inter-American Development Bank, 2013); refers to economic sectors based on creativity, arts, culture, intellectual property; contrasts with 'green', 'blue' economies.
- **Creative Industries – UNCTAD classification** – four groups: (1) Heritage (traditional culture, cultural sites), (2) Arts (visual, performing), (3) Media (publishing, audio-visual), (4) Functional creations (design, advertising, digital creative, R&D).
- **AVGC-XR** – Animation, Visual Effects, Gaming, Comics, Extended Reality; global market ~\$400 bn; India's share ~1%; AVGC Task Force Report (2022) recommended NCoE, international co-production incentives, state-level AVGC policies.

- **Indian cinema** – produces more films per year than any country (~2,000 in 25+ languages); top industries by size: Hindi (Mumbai), Tamil (Chennai), Telugu (Hyderabad), Malayalam (Kochi), Kannada, Bengali.
- **Film Facilitation Office (FFO)** – under National Film Development Corporation (NFDC); single-window clearance for foreign and Indian film shootings; promotes 'Film in India' and 'Film from India'.
- **Creative City tag** – UNESCO Creative Cities Network; Indian members: Jaipur (Crafts & Folk Art, 2015), Varanasi (Music, 2015), Chennai (Music, 2017), Mumbai (Film, 2019), Hyderabad (Gastronomy, 2019), Srinagar (Crafts, 2021), Kozhikode (Literature, 2023), Gwalior (Music, 2023).
- **Copyright Act 1957** – principal IP law for creative industries; administered by Ministry of Commerce (shifted 2016); amendments 2012 brought India in line with WIPO Internet treaties.
- **WIPO** – World Intellectual Property Organization, UN agency est. 1967, HQ Geneva, DG Daren Tang (Singapore); India is a member and submits to WIPO IPI Index annually.

## Prelims Connect

### India's UNESCO Creative Cities (select)

| City      | Year | Category          |
|-----------|------|-------------------|
| Jaipur    | 2015 | Crafts & Folk Art |
| Varanasi  | 2015 | Music             |
| Chennai   | 2017 | Music             |
| Mumbai    | 2019 | Film              |
| Hyderabad | 2019 | Gastronomy        |
| Srinagar  | 2021 | Crafts & Folk Art |
| Kozhikode | 2023 | Literature        |
| Gwalior   | 2023 | Music             |

## Prelims Pointers

- **Orange Economy refers to** – creative & cultural industries.
- **AVGC full form** – Animation, Visual Effects, Gaming, Comics (+ XR).
- **Bharat Creative Hub** – Mumbai, Budget 2026-27.
- **WIPO HQ** – Geneva, Switzerland.
- **India's 1st UNESCO Creative City (Music)** – Varanasi.
- **Gwalior UNESCO Music city** – 2023.

## Startup India, DeepTech & Fund of Funds

India's startup ecosystem crossed 1.6 lakh DPIIT-recognised startups and 118 unicorns by 2025 – third largest globally after the US and China. Budget 2025-26 allocated a fresh ₹10,000 crore to the Fund of Funds for Startups (FFS), extended tax holiday under Sec 80-IAC till 31 March 2030, and created a DeepTech Fund of Funds.

## News in Brief

- **DPIIT-recognised startups** – 1.6+ lakh by end-2025.

- **Unicorns** – 118; India ranks 3rd globally.
- **FFS fresh infusion** – ₹10,000 cr in Budget 2025-26 (total commitment now ₹20,000 cr).
- **DeepTech Fund** – new Fund of Funds for AI, quantum, biotech, semis.
- **Tax holiday extension** – Section 80-IAC extended till 31 March 2030.

## Static Background – Concepts & Terms

- **Startup India** – flagship initiative launched 16 January 2016 by PM Modi; Action Plan has 19 action points across simplification, funding, industry-academia; administered by DPIIT.
- **DPIIT Startup definition** – (i) entity (private limited/LLP/partnership) incorporated < 10 years ago, (ii) annual turnover < ₹100 cr in any year, (iii) working on innovation/improvement of products/processes/services or scalable business model with high growth/employment potential.
- **Section 80-IAC** – Income Tax Act provision; 100% tax deduction on profits for 3 consecutive years out of 10 years after incorporation; now extended for startups incorporated till 31 Mar 2030.
- **Fund of Funds for Startups (FFS)** – ₹10,000 crore corpus approved 2016; operated by SIDBI; does not invest directly in startups, but in SEBI-registered Alternative Investment Funds (AIFs) which then invest in startups (gives 'daughter fund' multiplier).
- **SIDBI role** – implementing agency for FFS; also runs Credit Guarantee Scheme for Startups (CGSS).
- **Unicorn** – privately held startup with valuation ≥ \$1 bn; term coined by Aileen Lee (2013); India's first unicorn was InMobi (2011); crossed 100 in 2022.
- **Alternative Investment Fund (AIF)** – SEBI-registered privately pooled investment vehicle; Category I (social venture, infrastructure, SME, venture capital), II (private equity, debt), III (hedge funds).
- **DeepTech** – startups working on frontier science/engineering: AI/ML, quantum computing, biotech, semiconductors, space, energy, robotics; long gestation, capital-intensive; traditional VCs shy away → govt backing needed.
- **Atal Innovation Mission (AIM)** – flagship initiative under NITI Aayog launched 2016; key sub-programmes: Atal Tinkering Labs (schools), Atal Incubation Centres (universities), ARISE (MSME innovation).
- **Startup20 (S20)** – G20 engagement group launched under India's G20 presidency 2023 to promote cross-border startup collaboration; continued under subsequent G20 presidencies.

## Prelims Connect

### Startup India – key numbers

| Parameter                      | Status (end-2025) |
|--------------------------------|-------------------|
| DPIIT-recognised startups      | 1.6+ lakh         |
| Unicorns                       | 118               |
| India's global rank (unicorns) | 3rd               |
| FFS total commitment           | ₹20,000 cr        |
| Section 80-IAC extension       | till 31 Mar 2030  |
| 1st Indian unicorn             | InMobi (2011)     |

## Prelims Pointers

- **Startup India launched** – 16 January 2016.
- **DPIIT startup age limit** – <10 years.

- **DPIIT startup turnover limit** – <₹100 cr.
- **FFS implementing agency** – SIDBI.
- **Atal Innovation Mission** – under NITI Aayog, 2016.
- **India's first unicorn** – InMobi (2011).

## Nuclear Energy (SMRs), Wind Power & Geothermal Pilots

India's Nuclear Energy Mission (Budget 2025-26) allocated ₹20,000 crore for SMR R&D with 5 indigenous SMRs targeted by 2033. India targets 100 GW nuclear by 2047. Wind energy added 3.5 GW (H1 2025, 82% YoY growth). Geothermal energy: 381 hot springs mapped, 10.6 GW potential.

### News in Brief

- Nuclear Energy Mission: ₹20,000 crore for SMR R&D; 5 indigenous SMRs by 2033; 100 GW nuclear by 2047; net-zero by 2070.
- Private sector involvement: TEMA India (Mumbai) testing equipment for heavy water upgrading – first private involvement in this process (earlier only BARC).
- Wind energy: 51.3 GW total (H1 2025); added 3.5 GW in H1 2025 (82% YoY growth); Tamil Nadu + Karnataka + AP = ~50% of India's wind capacity.
- Great Indian Bustard and bird mortality: Thar Desert wind farms = 1.24 birds/turbine/month (global highest); Central Asian Flyway runs through Thar Desert.
- Geothermal: GSI mapped 381 hot springs (35-89°C); India's estimated potential: 10.6 GW; IEA estimates 4.2 GW by 2035, ~100 GW by 2045.
- Arunachal Pradesh declared 2025-35 as 'Decade of Hydropower'; target: 58,000 MW; 19 GW under approved projects.

### Static Background – Concepts & Terms

- **SMR (Small Modular Reactor)** – advanced nuclear reactor; capacity up to 300 MW; modular construction = scalable, less land than conventional; ideal for industrial heat + electricity.
- **India's Three-Stage Nuclear Programme (Dr Homi Bhabha)** – Stage 1: PHWR + natural uranium → plutonium-239; Stage 2: FBR + plutonium fuel → breeds U-233 from thorium; Stage 3: Thorium-U-233 cycle in AHWRs.
- **PHWR (Pressurised Heavy Water Reactor)** – uses natural uranium fuel; heavy water (D<sub>2</sub>O) as coolant and moderator; India has expertise; most operational Indian reactors are PHWRs.
- **Central Asian Flyway** – major migratory route for birds passing through Central/South Asia including Thar Desert; wind turbines pose collision risk to raptors and Great Indian Bustard.
- **Geothermal Energy** – heat from earth's interior; hot water springs / underground reservoirs → steam → turbines; renewable; GSI has mapped 381 hot springs in India.
- **ALMM / RLMM for Wind** – Approved/Revised List of Models & Manufacturers; mandatory local sourcing of critical wind components (blades, gearboxes, generators, towers) for national security + grid integrity.

### Prelims Pointers

- SMR: capacity up to 300 MW; Nuclear Energy Mission: ₹20,000 crore; 5 indigenous SMRs by 2033.
- India has 24 operational nuclear reactors; installed nuclear capacity: 8,780 MW.
- India's 3-stage nuclear programme designed by Dr Homi Bhabha and Dr Vikram Sarabhai.
- Great Indian Bustard: critically endangered; Thar Desert wind farms show highest bird mortality globally.
- India's geothermal potential: 10.6 GW; GSI mapped 381 hot springs.
- Arunachal Pradesh declared 2025-35 as 'Decade of Hydropower'; target 58,000 MW.

## Dutch Disease, Manufacturing Challenges & Chemical Exports

India's manufacturing faces a structural challenge of Dutch Disease – high government salaries drawing workers away from manufacturing. Chemical exports stand at \$44 billion with a \$31 billion trade deficit; NITI Aayog recommends doubling exports to \$88 billion by 2030.

## News in Brief

- **Dutch Disease:** high govt salaries → higher domestic prices → boosts imports → reduces demand for domestic manufactures; term coined from Groningen gas field discovery (1959) and its impact on Dutch manufacturing.
- Manufacturing employment share stuck at 11.6–12% (PLFS data); contract labour doubled from 20% (1999–2000) to 40.7% (2022–23).
- NITI Aayog: nearly double India's \$44 bn chemical exports by 2030; India has \$31 bn trade deficit in chemicals; 3.5% share in global value chains vs China's 23%.
- SEZ norms for electronics: minimum contiguous land reduced from 50 to 10 hectares; semiconductor SEZ units can now supply to domestic market.
- Gujarat Factories Amendment: maximum daily hours increased 9 → 12 hours (with worker consent); overtime at double rate; women permitted night shifts with safety measures (CCTV, female security, transport).
- ELI (Employment Linked Incentive) Scheme: first-time employees get 1-month wage (up to ₹15,000); employers get up to ₹3,000/month for 2 years for additional jobs; targets 3.5 crore jobs; EPFO implements; duration August 2025 – July 2027.

## Static Background – Concepts & Terms

- **Dutch Disease** – economic condition where windfall from one sector (e.g. gas, oil) causes negative spillover to manufacturing via currency appreciation or wage increases; first observed in Netherlands after 1959 Groningen gas discovery.
- **China Plus One** – global supply chain diversification strategy; companies seek manufacturing alternatives to China; India positioned to benefit via textiles, electronics, pharmaceuticals.
- **PCPIR (Petroleum, Chemicals and Petrochemicals Investment Region)** – large-scale integrated manufacturing zones for chemicals sector; Dahej (Gujarat), Paradeep (Odisha), Vizag (AP) are existing PCPIRs.
- **MSME Definition (revised 2020)** – Micro: investment ≤ ₹1 cr + turnover ≤ ₹5 cr; Small: ≤ ₹10 cr + ≤ ₹50 cr; Medium: ≤ ₹50 cr + ≤ ₹250 cr; MSMEs contribute ~30% to GDP.

## Prelims Pointers

- Dutch Disease coined from Groningen gas field discovery (1959); negative impact on Dutch manufacturing.
- ELI Scheme duration: August 1, 2025 – July 31, 2027; implemented through EPFO.
- India's manufacturing employment share stuck at 11.6–12% (PLFS data).
- India's chemical exports: \$44 bn; trade deficit in chemicals: \$31 bn; global GVC share: 3.5% vs China's 23%.

## LABOUR CODES (2019–20) & SHRAM SHAKTI NITI 2025

India enacted 4 Labour Codes (2019–2020) consolidating 29 fragmented labour laws. Although passed, implementation is held back as states must frame their own rules. Shram Shakti Niti 2025 (Draft National Labour Policy) envisions universal, portable social security through a unified account.

## News in Brief

- 4 Labour Codes: Code on Wages (2019), Industrial Relations Code (2020), Code on Social Security (2020), OSHWC Code (2020) – consolidate 29 laws; replace 29 fragmented Labour Acts.
- As of 2025: 32 States/UTs have pre-published draft Rules; West Bengal and Lakshadweep have NOT; Delhi only under Code on Wages; Tamil Nadu yet to pre-publish under Code on Social Security.
- Shram Shakti Niti 2025: universal + portable social security via unified account integrating EPFO, ESIC, PM-JAY, e-SHRAM, State Welfare Boards; FLFPR target: 35% by 2030.

- Between 2017-24: 16.83 crore jobs created; unemployment fell from 6% to 3.2% (RBI-KLEMS data).
- IT sector: employs 1% of workforce but contributes ~7% of GDP; threats: AI automation, H-1B visa restrictions, tariffs.
- PLFS revamp: monthly estimates for rural + urban; annual from calendar year (January-December) basis.
- Digital Labour Chowk: Ministry of Labour; under e-Shram 2.0; B2C/B2B platform connecting workers (plumbers, masons) directly to households; integrated with PM-SYM (pension) and accident insurance via UAN.
- Karnataka: 1st state to approve 1 day paid menstrual leave per month for all women employees.

## Static Background – Concepts & Terms

- **Code on Wages 2019** – repeals: Payment of Wages Act (1936), Minimum Wages Act (1948), Payment of Bonus Act (1965), Equal Remuneration Act (1976); introduces national floor wage concept.
- **Industrial Relations Code 2020** – consolidates: Trade Unions Act (1926), Industrial Employment (Standing Orders) Act (1946), Industrial Disputes Act (1947); key change: threshold for retrenchment permission raised.
- **Code on Social Security 2020** – subsumes 9 Acts including Employees' Compensation Act (1923), Maternity Benefit Act (1961), Unorganised Workers' Social Security Act (2008); extends coverage to gig + platform workers.
- **OSHC Code 2020** – repeals: Factories Act (1948), Mines Act (1952), Inter-State Migrant Workmen Act (1979); mandatory safety committees, free annual health check-ups.
- **LFPR / FLFPR** – Labour Force Participation Rate / Female LFPR; measures share in labour force (employed + actively seeking work); India FLFPR: fell from 31.2% (2011-12) → 23.3% (2017-18) → rose to 41.7% (2023-24).
- **Gig Workers** – employment outside traditional employer-employee relationship; Code on Social Security defines but vaguely; PLFS misclassifies as 'self-employed' or 'own-account workers'.

## 4 Labour Codes – Acts Repealed

| Code                             | Key Acts Repealed   |
|----------------------------------|---|
| Code on Wages (2019)             | Payment of Wages (1936), Minimum Wages (1948), Payment of Bonus (1965), Equal Remuneration (1976) |
| Industrial Relations Code (2020) | Trade Unions Act (1926), Industrial Employment SO Act (1946), Industrial Disputes Act (1947)      |
| Code on Social Security (2020)   | Employees Compensation (1923), Maternity Benefit (1961), Unorganised Workers SS (2008) + 6 others |
| OSHC Code (2020)                 | Factories Act (1948), Mines Act (1952), ISMW Act (1979) + others                                  |

## Prelims Pointers

- 4 Labour Codes consolidate 29 fragmented Labour Laws.
- Code on Wages 2019 was the FIRST of the 4 codes; passed in 2019.
- OSHWC Code 2020 repeals Factories Act 1948 – previously primary workplace safety law.
- India's FLFPR (2023-24): 41.7% overall; rural 47.6%; urban 25.4%.
- Karnataka: first state for paid menstrual leave – 1 day/month for all women employees.
- IT sector: 1% of workforce but ~7% of GDP contribution.

## GLOBAL ECONOMY, REPORTS & RANKINGS

## IMF WEO & World Bank Projections – India Stays Fastest-Growing Major Economy

IMF's World Economic Outlook (Oct 2025) and the World Bank's Global Economic Prospects (Jan 2026) both retained India as the world's fastest-growing major economy, projecting 6.5–6.8% growth for FY26 against a global average of 2.8%. India's share of global GDP crossed 4% on nominal basis for the first time.

### News in Brief

- **IMF WEO projection** – India 6.5% (FY26); global 2.8%.
- **World Bank projection** – India 6.8% (FY26).
- **India's size – nominal** – crossed \$4.3 trillion (4th largest economy after US, China, Germany; Japan overtaken in 2025).
- **India's size – PPP** – ~\$17 trillion (3rd largest after US, China).
- **Budget 2025-26 growth projection** – 6.3–6.8% (Economic Survey).

### Static Background – Concepts & Terms

- **IMF** – International Monetary Fund, est. 1944 Bretton Woods Conference; HQ Washington DC; MD Kristalina Georgieva (Bulgaria) since 2019; 190 members; main roles: surveillance, lending, capacity development; publishes WEO (World Economic Outlook – Apr & Oct), Global Financial Stability Report, Fiscal Monitor.
- **World Bank Group** – 5 institutions: IBRD (1944), IDA (1960), IFC (1956), MIGA (1988), ICSID (1966); HQ Washington DC; President Ajay Banga (Indian-American) since June 2023; publishes Global Economic Prospects (Jan & Jun), Doing Business (discontinued 2021), World Development Report.
- **Bretton Woods** – July 1944 conference at Mount Washington Hotel, New Hampshire, US; created IMF, IBRD; originally had fixed exchange rate system pegged to USD which was pegged to gold at \$35/oz; collapsed 1971 (Nixon shock).
- **SDR (Special Drawing Rights)** – IMF's international reserve asset created 1969; SDR is a basket of 5 currencies (since 2022): USD 43.4%, EUR 29.3%, CNY 12.3%, JPY 7.6%, GBP 7.4%; allocated to member countries based on quotas.
- **India's IMF quota** – 2.75% (8th largest voting power); India has persistently demanded quota reform to reflect emerging economies.
- **GDP – current vs constant prices** – **Nominal GDP** measured at current market prices (includes inflation); **Real GDP** at constant prices of a base year (inflation-adjusted, true growth measure). India's current base year: 2011-12 (to be updated to 2022-23 shortly).
- **GDP – measurement methods** – (i) **Production approach** – value added across all producing units; (ii) **Income approach** – wages + rent + interest + profit; (iii) **Expenditure approach** – C + I + G + (X–M). In India's NSS, both production and expenditure are computed and reconciled.
- **GDP vs GVA** – GVA (Gross Value Added) = GDP – Net Indirect Taxes (Indirect Taxes minus Subsidies); GDP = GVA at basic prices + Net product taxes.

### Prelims Connect

#### Key international economic reports

| Report                            | Issued by | Frequency      |
|-----------------------------------|-----------|----------------|
| World Economic Outlook (WEO)      | IMF       | April, October |
| Global Financial Stability Report | IMF       | April, October |

|                            |            |                |
|----------------------------|------------|----------------|
| Fiscal Monitor             | IMF        | April, October |
| Global Economic Prospects  | World Bank | January, June  |
| World Development Report   | World Bank | Annual         |
| Human Development Report   | UNDP       | Annual         |
| Trade & Development Report | UNCTAD     | Annual         |

## Prelims Pointers

- **IMF established** – 1944, Bretton Woods.
- **IMF members** – 190.
- **IMF MD** – Kristalina Georgieva.
- **World Bank President** – Ajay Banga.
- **SDR currencies** – 5 (USD, EUR, CNY, JPY, GBP).
- **India's IMF quota** – ~2.75%.
- **India's base year for GDP** – 2011-12 (being updated to 2022-23).
- **India's nominal GDP rank** – 4th (crossed Japan in 2025).

## Global Hunger, HDI, MPI & India's Ranking

Global Hunger Index 2025 ranked India 102 out of 127 countries with a score of 26.3 ('serious' category); UNDP's Human Development Report 2025 placed India at 132 out of 193 with HDI 0.685; and the Global Multidimensional Poverty Index 2025 recognised India's sharp drop in multidimensional poverty from 55% (2005-06) to 16% (2019-21).

## News in Brief

- **Global Hunger Index 2025** – India rank 102/127; score 26.3 ('serious').
- **HDI (HDR 2025)** – India 132/193; HDI 0.685.
- **Global MPI 2025** – 415 million Indians escaped MPI poverty (2005-06 to 2019-21).
- **NITI Aayog MPI** – India's national MPI fell from 24.85% (2015-16) to 14.96% (2019-21).
- **India's rejection of GHI** – Govt continues to dispute methodology (undernourishment estimation using FAO's PoU).

## Static Background – Concepts & Terms

- **Global Hunger Index (GHI)** – annual report by Concern Worldwide (Ireland) and Welthungerhilfe (Germany); ranks countries on 4 indicators: **Undernourishment** (share of population with insufficient calories), **Child Wasting** (low weight-for-height, under 5), **Child Stunting** (low height-for-age, under 5), **Child Mortality** (under-5 mortality). Score 0-100;  $\geq 20$  = serious,  $\geq 35$  = alarming.
- **Human Development Index (HDI)** – composite index developed by Mahbub ul Haq and Amartya Sen, first published 1990 in UNDP's Human Development Report. Combines: (i) long & healthy life (life expectancy at birth), (ii) knowledge (expected + mean years of schooling), (iii) decent standard of living (GNI per capita PPP). Score 0-1;  $\geq 0.800$  very high, 0.700-0.799 high, 0.550-0.699 medium,  $< 0.550$  low.
- **Multidimensional Poverty Index (MPI)** – developed by Oxford Poverty & Human Development Initiative (OPHI) and UNDP; uses Alkire-Foster method; 10 indicators across 3 dimensions – **Health** (nutrition, child mortality), **Education** (years of schooling, school attendance), **Standard of living** (cooking fuel, sanitation,

drinking water, electricity, housing, assets). Household counted as MPI-poor if deprived in  $\geq 33.3\%$  weighted indicators.

- **National MPI (NITI Aayog)** – India's version, launched 2021; adds 2 indicators (maternal health and bank account) making it 12; uses NFHS data. Aligned with SDGs.
- **Poverty Line in India – history** – Dandekar-Rath (1971, calorie-based); Alagh (1979); Lakdawala (1993, CPI-based, separate urban/rural); Tendulkar (2009, MPCE-based, uniform); Rangarajan (2014, ~₹32/47 per day rural/urban; last official committee).
- **Poverty estimates – Rangarajan (2011-12):** 29.5% below poverty line; **Tendulkar (2011-12):** 21.9%; no official poverty estimates since because Consumption Expenditure Survey not published between 2012 and 2022-23.
- **SDG Index – NITI Aayog** – annual since 2018; tracks state-wise progress on SDGs with 115+ indicators; latest 2023-24 has Kerala, Tamil Nadu as top performers.
- **Gini Coefficient** – standard measure of inequality; 0 = perfect equality, 1 = perfect inequality; India's consumption Gini ~0.30 (relatively low), but income Gini much higher; World Inequality Lab report (2024) found India's top 1% hold 22% of income.

## Prelims Connect

### Major global indices – issuing bodies

| Index                        | Issued by                           |
|------------------------------|-------------------------------------|
| Global Hunger Index          | Concern Worldwide + Welthungerhilfe |
| Human Development Index      | UNDP                                |
| Global MPI                   | UNDP + OPHI (Oxford)                |
| Gender Inequality Index      | UNDP                                |
| Global Gender Gap Index      | World Economic Forum                |
| Corruption Perceptions Index | Transparency International          |
| Democracy Index              | Economist Intelligence Unit         |
| World Press Freedom Index    | Reporters Without Borders           |
| Henley Passport Index        | Henley & Partners                   |

## Prelims Pointers

- **GHI issued by** – Concern Worldwide + Welthungerhilfe.
- **HDI issued by** – UNDP (est. 1990).
- **HDI creator** – Mahbub ul Haq, with Amartya Sen.
- **MPI methodology** – Alkire-Foster.
- **National MPI indicators** – 12 (vs global 10).
- **Last official Indian poverty committee** – Rangarajan (2014).

Global Gender Gap, WEF & India Inc.

World Economic Forum's Global Gender Gap Report 2025 placed India at 129 out of 148 countries, marking modest improvement from 127 in 2024 but still behind most South Asian neighbours. India performed well on political empowerment but poorly on economic participation and health & survival.

## News in Brief

- **GGG Index 2025** – India 129/148.
- **Score** – 64.1% of gender gap closed.
- **Best sub-index** – Political Empowerment (rank 65).
- **Worst sub-index** – Economic Participation & Opportunity (rank 142); Health & Survival (rank 146).
- **Top three globally** – Iceland (1st for 16th consecutive year), Finland, Norway.

## Static Background – Concepts & Terms

- **World Economic Forum (WEF)** – Swiss non-profit foundation est. 1971 by Klaus Schwab; HQ Cologne, Geneva; convenes annual meeting at Davos each January; publishes: **Global Risks Report**, **Global Competitiveness Report**, **Future of Jobs Report**, **Global Gender Gap Report** (since 2006), **Travel & Tourism Development Index**.
- **Global Gender Gap Index** – 4 sub-indices – (1) **Economic Participation and Opportunity** (labour force participation, wage equality, earned income, legislators/senior officials); (2) **Educational Attainment** (literacy, enrolment at all levels); (3) **Health and Survival** (sex ratio at birth, healthy life expectancy); (4) **Political Empowerment** (women in parliament, ministerial positions, head of state).
- **Iceland's consistent #1** – Iceland has topped the GGG Index every year since 2009 (16+ consecutive years); closed 93.5% of gender gap; enforces strict wage transparency and gender quotas.
- **India's gender data** – Female Labour Force Participation Rate (FLFPR) rising: 37.0% (PLFS 2023-24) from 23.3% (2017-18); Sex ratio at birth 929 (NFHS-5); Total fertility rate 2.0 (NFHS-5); Maternal mortality ratio 97/100k (SRS 2020).
- **Nari Shakti Vandan Adhiniyam (2023)** – 106th Constitutional Amendment; reserves 33% seats for women in Lok Sabha, State Assemblies, NCT Delhi Assembly; to come into effect after next Census + delimitation.
- **PLFS – Periodic Labour Force Survey** – conducted by NSO (Ministry of Statistics); launched 2017, replaced 5-yearly NSSO employment-unemployment survey; uses both Current Weekly Status and Usual Status; provides quarterly urban + annual rural+urban estimates.
- **Women's schemes recap** – Beti Bachao Beti Padhao (2015), Mahila Samridhhi Yojana, PM Matru Vandana Yojana (PMMVY), Ujjwala (LPG connections), Sukanya Samridhhi Yojana, Lakhpati Didi (3 crore target), Bima Sakhi Yojana (2024), Namu Drone Didi.

## Prelims Connect

### Global Gender Gap – India's performance (2025)

| Sub-index              | India's rank |
|------------------------|--------------|
| Economic Participation | 142          |
| Educational Attainment | 112          |
| Health and Survival    | 146          |
| Political Empowerment  | 65           |
| Overall                | 129/148      |

## Prelims Pointers

- **GGG Report issued by** – World Economic Forum.
- **WEF HQ** – Coligny, Geneva, Switzerland.
- **WEF founded by** – Klaus Schwab, 1971.
- **#1 in GGG Index** – Iceland (16+ years).
- **India FLFPR (PLFS 2023-24)** – 37%.
- **Women's reservation bill name** – Nari Shakti Vandan Adhinyam (106th CAA, 2023).

## Henley Passport Index, WEF Global Risks Report 2025

India ranked 85th on the Henley Passport Index 2025 with visa-free access to 59 destinations, gaining 3 places from 2024. WEF's Global Risks Report 2025 flagged misinformation and extreme weather as the top short-term global risks, with environmental risks dominating the 10-year horizon.

## News in Brief

- **Henley Passport Index 2025** – India 85/199; 59 visa-free destinations.
- **Top Henley ranked** – Singapore (1st, 195 destinations); Japan, Korea, Germany share top positions.
- **WEF Global Risks 2025 (short-term)** – 1. Misinformation & disinformation, 2. Extreme weather, 3. State-based armed conflict, 4. Societal polarisation, 5. Cyber espionage/warfare.
- **WEF Global Risks 2025 (10-year)** – 1. Extreme weather, 2. Biodiversity loss, 3. Earth-system changes, 4. Natural resource shortages.
- **India rank jump** – Henley up 3 places from 88 (2024) to 85 (2025).

## Static Background – Concepts & Terms

- **Henley Passport Index** – published by **Henley & Partners** (London-based residence/citizenship advisory firm); ranks passports by number of destinations accessible without a prior visa; based on IATA data; updated quarterly; has been running since 2006.
- **Similar passport indexes** – **Arton Capital's Passport Index**, **Nomad Passport Index**, **Global Passport Power Rank**. Different methodologies give slightly different rankings.
- **Visa-free vs Visa-on-arrival** – Henley counts both as visa-free. 'e-Visa' (pre-applied online) is usually counted as 'visa required', not visa-free.
- **WEF Global Risks Report** – annual publication since 2006; **Global Risks Perception Survey** of ~1,000 experts + business leaders on probability and impact of global risks over short (2-year), medium (5-year), long (10-year) horizons; 5 categories: Economic, Environmental, Geopolitical, Societal, Technological.
- **Polycrisis** – term popularised in Global Risks Report 2023; refers to multiple, interconnected global crises (climate, conflict, inflation, debt) compounding each other's impacts.
- **Misinformation vs Disinformation** – **Misinformation** is false information spread without intent to harm; **Disinformation** is deliberately false or manipulated content intended to deceive. Both top the 2025 short-term risks due to generative AI and elections in 70+ countries in 2024.
- **India's passport power trajectory** – 74 visa-free countries (2016) → 58 (2022, post-COVID) → 62 (2024) → 59 (2025); India has comprehensive agreements with ASEAN states, Gulf (select), Iran, and Africa.
- **e-Passport** – ICAO-standard biometric passport with embedded chip storing biometric data; India launched Chip-embedded e-passport pilot in Delhi in Nashik security press since 2024.

## Prelims Connect

### Henley Passport Index 2025 – top & India

| Rank | Country | Destinations |
|------|---------|--------------|
|      |         |              |

|     |                                |     |
|-----|--------------------------------|-----|
| 1   | Singapore                      | 195 |
| 2   | Japan, Korea                   | 193 |
| 3   | Germany, Italy, Finland, Spain | 192 |
| 85  | India                          | 59  |
| 199 | Afghanistan                    | 25  |

## Prelims Pointers

- **Henley Index published by** – Henley & Partners.
- **Data source** – IATA.
- **#1 passport 2025** – Singapore.
- **India rank 2025** – 85.
- **Global Risks Report by** – World Economic Forum.
- **Top 10-yr risk (2025)** – Extreme weather.

## Nobel Prize in Economic Sciences 2025

The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2025 was awarded to Joel Mokyr (Northwestern), Philippe Aghion (Collège de France) and Peter Howitt (Brown) for their foundational work explaining innovation-driven sustained economic growth, including the 'creative destruction' framework for endogenous growth theory.

### News in Brief

- **Winners 2025** – Joel Mokyr (half), Philippe Aghion + Peter Howitt (other half).
- **Citation** – 'for having explained innovation-driven economic growth'.
- **Mokyr's contribution** – identified enlightenment-era culture and institutions that fostered knowledge-based growth in Industrial Revolution.
- **Aghion & Howitt** – developed Schumpeterian 'creative destruction' model (1992 paper).
- **Prize money** – 11 million Swedish kronor (~\$1 million).

### Static Background – Concepts & Terms

- **Nobel Prize in Economics** – officially 'The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel'; established 1968 by Sweden's central bank on its 300th anniversary (not an original Nobel in Alfred Nobel's 1895 will); first awarded 1969 to Ragnar Frisch & Jan Tinbergen.
- **Schumpeter's creative destruction** – concept from Austrian-American economist Joseph Schumpeter (1883–1950, 'Capitalism, Socialism and Democracy' 1942); the process by which new innovations continuously destroy old economic structures from within, driving economic progress.
- **Endogenous Growth Theory** – challenged Solow's exogenous growth model by making innovation/technology an endogenous outcome of firms' R&D decisions; Paul Romer (1990, Nobel 2018) and Aghion-Howitt (1992) were foundational.
- **Solow growth model (1956)** – Robert Solow's classical model; growth comes from (K)apital + (L)abour + (A) total factor productivity; long-run per-capita growth only from technology which is 'exogenous' (from outside the model).

- **Indian economists – Nobel – Amartya Sen** (1998; welfare economics, social choice, capability approach); **Abhijit Banerjee** (2019; with Duflo and Kremer for experimental approach/RCTs to alleviating global poverty).
- **R&D spending – India** – ~0.65% of GDP (FY24), very low by global standards (Israel 5.4%, Korea 4.9%, US 3.5%, China 2.4%); target to raise to 2% under Anusandhan National Research Foundation.
- **ANRF – Anusandhan National Research Foundation** – set up under ANRF Act 2023; replaced SERB; aims to provide 70% funding from non-govt sources; PM is ex-officio President.
- **Innovation indicators – Global Innovation Index** (WIPO + Cornell + INSEAD), India ranked 39/133 in 2024 (from 81 in 2015); top countries: Switzerland, Sweden, USA, UK, Singapore.

## Prelims Connect

### Recent Nobel laureates in Economics

| Year | Laureate(s)                 | Contribution                                   |
|------|-----------------------------|--|
| 2025 | Mokyr, Aghion, Howitt       | Innovation-driven growth, creative destruction |
| 2024 | Acemoglu, Johnson, Robinson | Institutions and prosperity                    |
| 2023 | Claudia Goldin              | Women in the labour market                     |
| 2022 | Bernanke, Diamond, Dybvig   | Banks and financial crises                     |
| 2019 | Banerjee, Duflo, Kremer     | RCTs & global poverty                          |
| 1998 | Amartya Sen                 | Welfare economics                              |

## Prelims Pointers

- **Nobel Economics 2025** – Mokyr, Aghion, Howitt.
- **Creative destruction** – Joseph Schumpeter.
- **Endogenous growth theory** – Paul Romer, Aghion-Howitt.
- **Solow model (exogenous)** – 1956.
- **Indian Nobel in Economics** – Amartya Sen (1998), Abhijit Banerjee (2019).
- **India's rank in Global Innovation Index 2024** – 39.

## BRICS, G20, UNCTAD & Multilateral Economic Bodies

BRICS expanded from 5 to 10 members with the full inclusion of Egypt, Ethiopia, Iran, UAE and (post-Argentina's withdrawal) Indonesia in 2025. The 17th BRICS Summit was held in Rio de Janeiro under Brazil's chairmanship. India will chair BRICS in 2026, overlapping with ongoing commitments from its 2023 G20 presidency.

## News in Brief

- **BRICS expansion** – 10 full members: Brazil, Russia, India, China, South Africa + Egypt, Ethiopia, Iran, UAE, Indonesia.
- **17th Summit** – Rio de Janeiro, July 2025, Brazilian presidency; theme: 'Strengthening Global South Cooperation'.
- **India chairs BRICS** – 2026.
- **New Development Bank** – NDB (BRICS Bank) HQ Shanghai; President Dilma Rousseff (since 2023); approved \$35+ bn in projects since inception.

- **BRICS Pay** – cross-border payments system under development as alternative to SWIFT.

## Static Background – Concepts & Terms

- **BRIC** → **BRICS** – term coined by Jim O'Neill (Goldman Sachs economist) 2001; first BRIC summit 2009 Yekaterinburg; South Africa joined 2010 making it BRICS; 2024 expansion added 5 more (Saudi Arabia invited but not yet acceding, Argentina withdrew under Milei).
- **New Development Bank (NDB)** – founded 2014 at 6th BRICS Summit Fortaleza, Brazil; operational since 2015; authorised capital \$100 bn; HQ Shanghai; first president K.V. Kamath (Indian); current president Dilma Rousseff (former Brazilian President).
- **Contingent Reserve Arrangement (CRA)** – BRICS financial safety net est. 2015; \$100 bn pool to address balance-of-payments pressures; contributions: China \$41 bn, Brazil/India/Russia \$18 bn each, SA \$5 bn.
- **G20** – Group of 20; formed 1999 after Asian financial crisis; elevated to Leaders level 2008 post-global financial crisis; members: 19 countries + EU + African Union (added 2023 under India's presidency). India hosted G20 2023 (New Delhi Declaration). 2024: Brazil. 2025: South Africa. 2026: USA.
- **New Delhi G20 Declaration (2023) – highlights** – consensus despite Russia-Ukraine war; 'One Earth, One Family, One Future'; African Union as permanent member; Global Biofuels Alliance launched; consensus on Multilateral Development Banks reform, crypto framework.
- **UNCTAD** – United Nations Conference on Trade and Development, est. 1964 (Geneva); UN body promoting trade-related interests of developing countries; publishes Trade & Development Report, World Investment Report, Technology & Innovation Report.
- **OECD** – Organisation for Economic Co-operation and Development, est. 1961, HQ Paris; 38 members (mostly rich economies); India is a 'Key Partner' (not a member); publishes OECD Economic Outlook.
- **Multilateral Development Banks (MDBs)** – World Bank Group, Asian Development Bank (1966, Manila, 68 members, President Masato Kanda Japan), AIIB (Asian Infrastructure Investment Bank, 2016, Beijing, President Jin Liqun), NDB (BRICS, Shanghai), African Development Bank, Inter-American Development Bank.
- **India in AIIB** – 2nd largest shareholder (~7.6%), after China (~26%); biggest borrower from AIIB so far.

## Prelims Connect

### Key multilateral economic bodies – quick facts

| Body                         | Year | HQ            | Head             |
|------------------------------|------|---------------|------------------|
| IMF                          | 1944 | Washington DC | K. Georgieva     |
| World Bank                   | 1944 | Washington DC | Ajay Banga       |
| WTO                          | 1995 | Geneva        | N. Okonjo-Iweala |
| UNCTAD                       | 1964 | Geneva        | Rebeca Grynspan  |
| OECD                         | 1961 | Paris         | Mathias Cormann  |
| New Development Bank (BRICS) | 2014 | Shanghai      | Dilma Rousseff   |
| AIIB                         | 2016 | Beijing       | Jin Liqun        |
| Asian Development Bank       | 1966 | Manila        | Masato Kanda     |

## Prelims Pointers

- **BRICS first summit** – 2009, Yekaterinburg.
- **BRIC term coined by** – Jim O'Neill (Goldman Sachs, 2001).
- **NDB founded** – 2014 Fortaleza summit.
- **NDB HQ** – Shanghai.
- **Current NDB President** – Dilma Rousseff.
- **AIIB founded** – 2016, HQ Beijing.
- **India's AIIB rank** – 2nd largest shareholder.
- **African Union joined G20** – 2023 (New Delhi Summit).
- **India chairs BRICS** – 2026.

## World Inequality Report 2026 & India's Gini Index – Contradicting Narratives

India's income inequality remains among the world's highest – top 10% earners capture 58% of national income (World Inequality Report 2026). Yet World Bank data shows India's consumption Gini fell to 0.255 (2022-23) from 0.288 (2011-12), making it the 4th most equal country globally – explained by methodological differences.

### News in Brief

- World Inequality Report 2026: top 10% earners = 58% of national income; bottom 50% = 15%; wealth inequality Gini = 75 (severe).
- Top 1% hold ~40% of total wealth; top 10% hold ~65%; 97% of Indians earn <\$100 annual capital income per person.
- World Bank data: India's consumption Gini fell 0.288 (2011-12) → 0.255 (2022-23); India now 4th most equal globally (after Slovak Republic, Slovenia, Belarus).
- Extreme poverty: 16.2% (2011-12) → 2.3% (2022-23) – massive reduction.
- Key distinction: World Inequality Report measures income/wealth inequality; World Bank data measures consumption inequality – naturally lower as poor spend most income.
- Global: top 10% own 75% of all wealth; women earn only 61% of men per working hour (32% including unpaid labour).

### Static Background – Concepts & Terms

- **Gini Coefficient** – named after Corrado Gini (Italian statistician, early 20th century); 0 = perfect equality; 1 = perfect inequality; most widely used inequality measure.
- **Income vs Wealth vs Consumption Inequality** – Income = annual earnings (moderate inequality); Wealth = accumulated assets (highest inequality); Consumption = spending patterns (lowest inequality – natural floor as poor consume most of income).
- **HDI (Human Development Index)** – UNDP composite; measures life expectancy, mean/expected years of schooling, GNI per capita (PPP\$); India rank 130/193 (2023); value 0.685 = medium development.
- **IHDI (Inequality-adjusted HDI)** – HDI discounted for inequality; inequality reduces India's HDI by 30.7% – one of the highest losses in the region.
- **Palma Ratio** – ratio of top 10% income share to bottom 40% income share; alternative to Gini; more sensitive to extremes.

### HDI Classification

| Category                 | HDI Range                     |
|--------------------------|-------------------------------|
| Low Human Development    | < 0.550                       |
| Medium Human Development | 0.550 – 0.699 ← India (0.685) |

|                             |               |
|-----------------------------|---------------|
| High Human Development      | 0.700 – 0.799 |
| Very High Human Development | ≥ 0.800       |

## Prelims Pointers

- India's HDI 2023: 0.685 – ranked 130/193; medium development category.
- Gini coefficient: 0 = perfect equality; 1 = perfect inequality; named after Corrado Gini.
- India's consumption Gini: 0.255 (2022-23) – 4th most equal globally per World Bank.
- India's extreme poverty: fell from 16.2% (2011-12) to 2.3% (2022-23).
- World Inequality Report 2026: top 10% capture 58% of India's national income.

## HDI 2025, Kerala's Poverty Eradication & GIFT City

India ranked 130th in HDI 2023 (HDR 2025 by UNDP) – 3 spots improvement. Kerala declared eradication of extreme poverty on November 1, 2025. GIFT City (Gujarat International Finance Tec-City) operates as India's first International Financial Services Centre with special tax and regulatory benefits.

### News in Brief

- UNDP HDR 2025: India ranked 130/193 in HDI 2023; HDI value: 0.685; 3-spot improvement; life expectancy rose to 72 (2023) from 58.6 (1990).
- GNI per capita: \$9,046.76 (2023) – up from \$2,167.22 (1990); 135 million Indians escaped MPI poverty (2015-16 to 2019-21).
- Kerala declared eradication of extreme poverty (November 1, 2025); EPEP launched 2021; 64,006 extremely poor families identified via Grama Sabhas; Kudumbashree workers as enumerators.
- Kerala's multidimensional poverty: 0.55% vs national average 14.96% (NITI Aayog MPI 2023).
- GIFT City (IFSCA): 10-year corporate tax holiday (out of 15 years); no GST on units; business in international currencies (designated non-resident); \$19 bn of \$61 bn total ECB by Indian firms from GIFT City.

### Static Background – Concepts & Terms

- **IFSCA (International Financial Services Centres Authority)** – unified regulator for GIFT City; under Ministry of Finance; single regulatory window for financial services in GIFT IFSC.
- **GIFT City** – Gujarat International Finance Tec-City; India's first IFSC; Gandhinagar; designated non-resident status; operates in USD, EUR, GBP.
- **Kudumbashree** – Kerala's self-help group model; globally recognised; promoted women's empowerment and community participation; key in EPEP implementation.
- **MPI (Multidimensional Poverty Index)** – measures deprivation across health (nutrition, child mortality), education (schooling, school attendance), living standards (fuel, sanitation, water, electricity, housing, assets).
- **Nobel Prize in Economic Sciences 2025** – Joel Mokyr, Philippe Aghion, Peter Howitt – 'having explained innovation-driven economic growth'; Aghion & Howitt developed mathematical model of creative destruction; prize = 11 million Swedish Kronor.

### Prelims Pointers

- India's HDI 2023: 0.685 – ranked 130/193 (UNDP HDR 2025); medium development.
- India's life expectancy (2023): 72 years – highest since HDI index began.
- Kerala's multidimensional poverty: 0.55% – lowest in India; national average 14.96%.
- IFSCA: unified regulator for GIFT City; under Ministry of Finance; single window.
- Nobel Economics Prize 2025: Joel Mokyr + Philippe Aghion + Peter Howitt – innovation-driven growth.
- \$19 billion of India's ECB (External Commercial Borrowings) came from GIFT City.

## Income Survey 2026, AIDIS & New Household Finance Surveys

MoSPI will launch India's first-ever Household Income Survey 2026 — distinct from PLFS (labour earnings) and HCES (consumption proxy). MoSPI will also conduct AIDIS (All India Debt and Investment Survey) and SAS (Situation Assessment Survey) of Agricultural Households between 2026-27.

### News in Brief

- Income Survey 2026 — India's first-ever comprehensive income survey; captures regular salaries (including stock options, bonuses), casual earnings, self-employment income, agricultural receipts, pension, remittances, and State/Union scheme funds.
- Will record social group, religion, occupation, land ownership, dwelling type, loans — for income distribution and class dynamics mapping.
- AIDIS (All India Debt and Investment Survey): measures household indebtedness and asset ownership; used for national accounts, inequality assessment.
- SAS (Situation Assessment Survey) of Agricultural Households: assesses income, indebtedness, land/livestock; used by MoA, NITI Aayog.
- MoSPI launched National Household Travel Survey (NHTS) and Domestic Tourism Expenditure Survey (DTES).

### Static Background — Concepts & Terms

- **PLFS (Periodic Labour Force Survey)** — launched by NSSO/MoSPI in 2017; captures LFPR, WPR, unemployment; being revamped for monthly rural+urban estimates.
- **HCES (Household Consumption Expenditure Survey)** — captures spending patterns as proxy for income; last major survey 2022-23; used for poverty estimates and CPI weights.
- **MPI (Multidimensional Poverty Index)** — captures deprivation across health, education, living standards; India's MPI fell: 24.82 crore exited poverty between 2013-14 and 2022-23 (World Bank).
- **MoSPI (Ministry of Statistics and Programme Implementation)** — apex body for statistics in India; releases GDP, CPI, IIP, PLFS; controls NSO (National Statistical Office).
- **CSO vs NSO** — CSO (Central Statistics Office) and NSSO merged into NSO in 2019 under MoSPI.

### Prelims Pointers

- Income Survey 2026 — India's first-ever comprehensive household income survey.
- AIDIS measures household indebtedness and asset ownership.
- PLFS launched 2017 by MoSPI; being revamped for monthly rural + urban estimates.
- CSO and NSSO were merged into NSO (National Statistical Office) in 2019.

## UNION BUDGET 2026-27

### BUDGET 2026-27: VISION, KARTAVYAS & FISCAL NUMBERS

#### Union Budget 2026-27 — 'Action Over Ambivalence, Reform Over Rhetoric, People Over Populism'

FM Nirmala Sitharaman presented the Union Budget 2026-27 on February 1, 2026 — her eighth consecutive Budget, a record. Built on three Kartavyas and the vision of 'Viksit Bharat, balancing ambition with inclusion', the Budget targets a fiscal deficit of 4.3% of GDP and a growth rate of ~7%.

### News in Brief

Theme: 'Action Over Ambivalence, Reform Over Rhetoric, People Over Populism' — Yuva Shakti-driven Budget.

Government's Sankalp: 'To focus on poor, underprivileged and disadvantaged.'

Three Kartavyas: (1) Accelerate and sustain economic growth; (2) Fulfil aspirations of our people; (3) Vision of Sabka Saath, Sabka Vikas.

Four macro-economic goals: Moderate Inflation + Sustained Growth + Fiscal Discipline + Stability.

AIM of the Budget: Transform aspiration into achievement; potential into performance.

India's Reform Express: Over 350 reforms rolled out including GST simplification, Labour Codes notification, QCO rationalisation.

High Level Committees formed; Central Government working with states on deregulation and reducing compliance requirements.

## Static Background – Concepts & Terms

**Union Budget** – Annual Financial Statement presented under Article 112 of the Constitution; shows estimated receipts and expenditure for April 1 – March 31; the Finance Bill enacts tax proposals.

**Viksit Bharat** – India's vision to become a developed nation by 2047 (centenary of independence); targets \$30 trillion economy; high-income nation (>\$14,005 per capita per World Bank definition).

**Kartavya** – duty/obligation; 3 Kartavyas of Budget 2026-27 cover growth, aspirations, and inclusive development.

**Six Pillars of Budget** – Sustaining Economic Growth; Strengthening Foundations of Growth; People-Centric Development; Trust-based Governance; Ease of Doing Business & Living; Fiscal Matters.

**Article 112** – Constitution mandates the President to cause to be laid before both Houses an Annual Financial Statement (the Budget) for each financial year.

**Finance Bill** – legislation that gives effect to the financial proposals of the government for the following year; introduced in Lok Sabha immediately after the Budget.

## Prelims Pointers

Budget 2026-27 theme: 'Action Over Ambivalence, Reform Over Rhetoric, People Over Populism'.

FM Nirmala Sitharaman's 8th consecutive Budget (2026-27) – record in India.

Three Kartavyas: Growth → People's Aspirations → Inclusive Development.

Union Budget presented under Article 112 of the Constitution.

350+ reforms rolled out under India's Reform Express including GST simplification and Labour Codes.

## Budget 2026-27 – Key Fiscal Numbers: Deficit, Receipts & Expenditure

Budget 2026-27 targets a fiscal deficit of 4.3% of GDP – down from 4.4% in FY26, continuing the path of fiscal consolidation. The 16th Finance Commission has retained vertical devolution at 41%. The government targets reaching a debt-to-GDP ratio of 50±1% by 2030.

## News in Brief

Fiscal deficit: 4.3% of GDP (BE 2026-27) – down from 4.4% (FY26 BE & RE).

Revenue deficit: 1.5% of GDP; Primary deficit: 0.7% of GDP; Effective Revenue Deficit: 0.3% of GDP.

Nominal GDP growth assumed: 10.5%; Real GDP growth: ~7%.

Debt-to-GDP: 55.6% (BE 2026-27) vs 56.1% (RE 2025-26); target: 50±1% by 2030.

16th Finance Commission: retained vertical devolution at 41%; ₹1.4 lakh crore provided to states as Finance Commission Grants (Rural + Urban Local Body + Disaster Management Grants).

Total receipts 2026-27 BE: Capital Receipts ₹18.1 lakh crore + Revenue Receipts ₹35.3 lakh crore.

Total expenditure 2026-27 BE: Revenue Expenditure ₹41.3 lakh crore + Effective Capital Expenditure ₹17.1 lakh crore.

Total transfer to States and UTs: ₹26.2 lakh crore (2026-27 BE) – up from ₹23.4 lakh crore (2025-26 RE).

## Static Background – Concepts & Terms

**Fiscal Deficit** – Total Expenditure minus Total Receipts (excluding borrowings); measures the government's borrowing requirement; key indicator of fiscal health.

**Revenue Deficit** – Revenue Expenditure minus Revenue Receipts; negative = government borrowing to fund current consumption (bad); positive = savings for capital creation.

**Primary Deficit** – Fiscal Deficit minus Interest Payments; shows current borrowing need excluding past debt cost.

**Effective Revenue Deficit (ERD)** – Revenue Deficit minus Grants to States for capital creation; introduced by FRBM Amendment; more accurate measure of consumption deficit.

**FRBM Act 2003** – Fiscal Responsibility and Budget Management Act; originally required eliminating revenue deficit and capping fiscal deficit at 3% of GDP; N.K. Singh Committee (2017) recommended debt-to-GDP anchor of 60%.

**Finance Commission (Article 280)** – constitutional body; determines vertical devolution (Centre to States) and horizontal distribution (among States); 16th FC under Prof. Arvind Panagariya retained 41% vertical devolution.

**BE vs RE vs Actuals** – Budget Estimate (BE) = projection at start of year; Revised Estimate (RE) = mid-year revision; Actuals = final figures after year-end audit.

## Budget 2026-27 – Key Fiscal Parameters

| Parameter                     | FY 2026-27 (BE)  |
|-------------------------------|------------------|
| Nominal GDP growth            | 10.5%            |
| Real GDP growth               | ~7%              |
| Fiscal Deficit                | 4.3% of GDP      |
| Revenue Deficit               | 1.5% of GDP      |
| Primary Deficit               | 0.7% of GDP      |
| Effective Revenue Deficit     | 0.3% of GDP      |
| Debt-to-GDP                   | 55.6%            |
| Revenue Receipts              | ₹35.3 lakh crore |
| Capital Receipts              | ₹18.1 lakh crore |
| Revenue Expenditure           | ₹41.3 lakh crore |
| Effective Capital Expenditure | ₹17.1 lakh crore |
| Transfer to States & UTs      | ₹26.2 lakh crore |

## Prelims Pointers

Fiscal deficit target 2026-27: 4.3% of GDP – down from 4.4% (FY26).

16th Finance Commission retained vertical devolution at 41% (same as 15th FC).

Debt-to-GDP target by 2030: 50±1%; current (2026-27 BE): 55.6%.

Primary Deficit = Fiscal Deficit minus Interest Payments.

FRBM Act 2003: mandates fiscal responsibility; N.K. Singh Committee (2017) recommended 60% debt-to-GDP anchor.

## Budget – Rupee Comes From & Rupee Goes To (Revenue Composition)

The Budget's revenue composition shows that borrowings are the single largest source (24%), followed by Income Tax (21%) and Corporation Tax (18%). On the expenditure side, Interest Payments consume the largest share (20%), followed by States' Share of Taxes (22%).

## News in Brief

Largest expenditure item: Transport (₹5,98,520 crore) – followed by Defence (₹5,94,585 crore).

Interest Payments: ₹20% of total expenditure – largest functional claim on revenue.

States' Share of Taxes: 22% of total expenditure.

Major Subsidies: 6% of expenditure; Defence: 11%.

Public capex grew from ₹2 lakh crore (FY15) to ₹12.2 lakh crore (FY27 BE).

## Static Background – Concepts & Terms

**Rupee Comes From (Revenue Sources)** – Borrowings & Liabilities: 24%; Income Tax: 21%; Corporation Tax: 18%; GST & other taxes: 15%; Non-Tax Revenues: 10%; Union Excise: 6%; Customs: 4%; Non-Debt Capital Receipts: 2%.

**Rupee Goes To (Expenditure)** – States' Share of Taxes: 22%; Interest Payments: 20%; Central Sector Schemes: 17%; Defence: 11%; CSS: 8%; FC & other transfers: 7%; Major Subsidies: 6%; Civil Pension: 2%.

**Capital Expenditure (Capex)** – spending that creates assets; includes infrastructure, defence equipment, loans to states; GFCF measure; India's public capex grew 6x from FY15 to FY27.

**Revenue Expenditure** – recurring spending on salaries, interest, subsidies, maintenance; does not create assets; revenue deficit = excess over revenue receipts.

**Non-Debt Capital Receipts** – disinvestment proceeds + loan recoveries; only 2% of receipts – government depends heavily on borrowings.

## Rupee Comes From – Revenue Composition

| Source                    | Share (%) |
|---------------------------|-----------|
| Borrowings & Liabilities  | 24%       |
| Income Tax                | 21%       |
| Corporation Tax           | 18%       |
| GST & other taxes         | 15%       |
| Non-Tax Revenues          | 10%       |
| Union Excise Duties       | 6%        |
| Customs                   | 4%        |
| Non-Debt Capital Receipts | 2%        |

## Rupee Goes To – Expenditure Composition

| Destination            | Share (%) |
|------------------------|-----------|
| States' Share of Taxes | 22%       |
| Interest Payments      | 20%       |
| Central Sector Schemes | 17%       |

|                             |     |
|-----------------------------|-----|
| Defence                     | 11% |
| Centrally Sponsored Schemes | 8%  |
| FC & other transfers        | 7%  |
| Other Expenditures          | 7%  |
| Major Subsidies             | 6%  |
| Civil Pension               | 2%  |

## Expenditure of Major Ministries (₹ crore)

| Ministry / Sector               | Allocation (₹ crore) |
|---------------------------------|----------------------|
| Transport                       | 5,98,520             |
| Defence                         | 5,94,585             |
| Rural Development               | 2,73,108             |
| Home Affairs                    | 2,55,234             |
| Agriculture & Allied Activities | 1,62,671             |
| Education                       | 1,39,289             |
| Energy                          | 1,09,029             |
| Health                          | 1,04,599             |
| Urban Development               | 85,522               |
| IT & Telecom                    | 74,560               |
| Commerce & Industry             | 70,296               |
| Scientific Departments          | 55,756               |
| Development of North East       | 6,812                |

## Prelims Pointers

- Borrowings & Liabilities = 24% of receipts – single largest source.
- Interest Payments = 20% of expenditure; States' Share = 22% – two largest expenditure heads.
- Largest ministry allocation: Transport (₹5,98,520 crore); 2nd: Defence (₹5,94,585 crore).
- Public capex grew from ₹2 lakh crore (FY15) to ₹12.2 lakh crore (FY27 BE) – 6x increase.

## MANUFACTURING, STRATEGIC SECTORS & MSME REFORMS

### Manufacturing – Strategic & Frontier Sectors

Budget 2026-27 announced a comprehensive push for strategic manufacturing through schemes covering semiconductors, biopharma, textiles, chemicals, containers, rare earth magnets, and sports goods. 200 legacy industrial clusters to be revived. These are force multipliers for Viksit Bharat's industrial vision.

## News in Brief

- India Semiconductor Mission (ISM) 2.0: ₹1,000 crore for indigenous chip IP development; building on the 2021 ISM which attracted Micron (Sanand), Tata Electronics, and others.
- Biopharma SHAKTI: ₹10,000 crore over 5 years; 3 new NIPERs + upgrade of 7 existing; target to make India a global biopharma manufacturing hub.
- Electronics Components Manufacturing Scheme: targets supply chain depth; reduces import dependence for components.
- Scheme for Rare Earth Permanent Magnets: research, mining, processing and manufacturing; 4 Dedicated Rare Earth Corridors in Tamil Nadu, Kerala, Andhra Pradesh and Odisha.
- 3 Dedicated Chemical Parks for enhancing domestic production.
- Integrated Programme for Textiles; Scheme for Container Manufacturing; Hi-Tech Tool Rooms in CPSEs.
- Scheme to revive 200 legacy industrial clusters – to modernise and integrate into current value chains.
- Strengthening domestic manufacturing of high-value, technologically-advanced Construction and Infrastructure Equipment.
- Dedicated initiative for manufacturing of affordable Sports Goods.

## Static Background – Concepts & Terms

- **ISM (India Semiconductor Mission)** – launched 2021 under MeitY; ₹76,000 crore outlay; targets 85,000 semiconductor jobs by 2026; ISM 2.0 adds ₹1,000 crore for indigenising chip IP.
- **NIPER (National Institute of Pharmaceutical Education and Research)** – premier pharma research institutes under Ministry of Chemicals; 7 existing; Budget adds 3 new.
- **Biopharma SHAKTI** – ₹10,000 crore scheme for biopharmaceutical manufacturing; complements PLI Scheme for Pharmaceuticals; India is 3rd largest pharma producer by volume.
- **Rare Earth Magnets** – critical for EVs, wind turbines, defence electronics; China dominates 80%+ of global supply; India's beach sand deposits in TN, Kerala, AP, Odisha offer strategic opportunity.
- **PLI (Production-Linked Incentive) Scheme** – incentivises domestic production across 14 sectors; manufacturing sales-linked incentive paid over 4-5 years; total outlay ~₹1.97 lakh crore.
- **Industrial Cluster** – geographic concentration of interconnected companies and institutions; legacy clusters are older industrial zones needing modernisation.

## Prelims Pointers

- ISM 2.0: ₹1,000 crore for indigenous chip IP – builds on India Semiconductor Mission (2021).
- Biopharma SHAKTI: ₹10,000 crore over 5 years; 3 new NIPERs + 7 upgrades.
- 4 Rare Earth Corridors: Tamil Nadu, Kerala, Andhra Pradesh, Odisha.
- 200 legacy industrial clusters to be revived under Budget 2026-27.
- India is 3rd largest pharmaceutical producer by volume globally.

## Tax Reforms to Boost Manufacturing Sector – Customs & Duty Changes

Budget 2026-27 announces wide-ranging customs duty reforms to reduce manufacturing costs, incentivise exports, and attract global supply chains. Key measures include duty-free imports for seafood processing, footwear, aircraft MRO, and bonded zone manufacturers.

## News in Brief

- 5-year income tax exemption to non-residents providing capital goods, equipment or tooling to toll manufacturers in bonded zones.
- Safe harbour to non-residents for component warehousing in bonded warehouses.
- Deferred duty payment window for trusted manufacturers – reduces working capital burden.

- Duty-free seafood input imports: limit raised from 1% to 3% of previous year's FOB export value.
- Duty-free inputs extended to shoe upper exports (in addition to leather/synthetic footwear).
- Export time extended: 6 months → 1 year for leather/textile garments and footwear exporters.
- BCD exemption on parts for microwave oven manufacture; components for aircraft manufacturing; raw materials for aircraft MRO for defence units.
- Regular trusted importers recognised in risk system – faster cargo clearance.
- Electronic sealing: export cargo cleared from factory premises directly to ship.
- Special one-time measure: SEZ manufacturing units can sell in DTA (Domestic Tariff Area) at concessional duty rates.

## Static Background – Concepts & Terms

- **BCD (Basic Customs Duty)** – primary customs duty on imported goods; can be fully or partially exempted by notification; key tool to incentivise/discourage imports.
- **Bonded Zone / Bonded Warehouse** – customs-supervised area where imported goods can be stored/processed without immediate duty payment; duty deferred until goods leave for domestic market.
- **FOB (Free On Board)** – export pricing term; price includes cost + insurance + freight up to port of origin; used as basis for export incentive calculations.
- **AEO (Authorised Economic Operator)** – WCO-based programme; trusted importers/exporters with proven compliance record get faster clearance; duty-deferral period for Tier 2/3 AEOs extended 15 → 30 days.
- **SEZ vs DTA** – SEZ: special economic zone with tax advantages for export-oriented units; DTA: rest of India outside SEZ where normal taxes apply; SEZ units normally cannot sell in DTA.
- **MRO (Maintenance, Repair & Overhaul)** – aviation services sector; India targets \$4 billion MRO hub by 2030; 100% FDI permitted; GST rationalised.

## Prelims Pointers

- Duty-free seafood inputs: limit raised from 1% to 3% of FOB export value.
- Duty-deferral period for AEO Tier 2 and Tier 3: extended from 15 to 30 days.
- Advance ruling validity (Customs): extended from 3 years to 5 years.
- SEZ units: special one-time measure to sell in DTA at concessional duty.
- Electronic sealing allows export cargo clearance directly from factory to ship.

## MSMEs as Champions – SME Growth Fund, TReDS & Corporate Mitras

Budget 2026-27 adopts a three-pronged approach (Equity Support + Liquidity through TReDS + Professional Support) to help MSMEs grow as 'Champions'. A dedicated ₹10,000 crore SME Growth Fund and TReDS mandating for CPSE-MSME transactions are the centrepieces.

## News in Brief

- Equity Support: ₹10,000 crore SME Growth Fund (dedicated); top-up of Self-Reliant India Fund (2021) with ₹2,000 crore.
- Liquidity – TReDS Expansion: mandate TReDS as transaction settlement platform for all CPSE purchases from MSMEs; link GeM with TReDS for cheaper/faster financing.
- Credit guarantee via CGTMSE for invoice discounting on TReDS platform.
- TReDS receivables as asset-backed securities – develop secondary market for enhanced liquidity.
- Professional Support: government to facilitate 'Corporate Mitras' in Tier-II and Tier-III towns to help MSMEs meet compliance requirements at affordable costs.
- Tax Proposal: removal of current ₹10 lakh per consignment value cap on courier exports.

## Static Background – Concepts & Terms

- **TReDS (Trade Receivables Discounting System)** – RBI-regulated platform; allows MSMEs to discount trade receivables (invoices) against large corporates/CPSEs for faster payment; reduces MSME working capital stress.

- **CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises)** – provides credit guarantees to banks/NBFCs lending to MSMEs without collateral; Budget 2026-27 extends credit guarantee to TReDS invoice discounting.
- **GeM (Government e-Marketplace)** – online procurement portal for government; links with TReDS allows instant payment to MSMEs for government purchases.
- **Self-Reliant India Fund** – equity fund for MSMEs launched in 2021; provides growth capital; ₹2,000 crore top-up in Budget 2026-27.
- **Asset-Backed Securities (ABS)** – financial instruments backed by pool of assets (here: trade receivables); TReDS receivables as ABS creates secondary market liquidity.
- **MSME Definition** – revised 2020: Micro (invest ≤₹1 cr, turnover ≤₹5 cr); Small (≤₹10 cr, ≤₹50 cr); Medium (≤₹50 cr, ≤₹250 cr); MSMEs contribute ~30% to GDP.

## Prelims Pointers

- SME Growth Fund: ₹10,000 crore; Self-Reliant India Fund top-up: ₹2,000 crore.
- TReDS mandated for all CPSE purchases from MSMEs – linked with GeM.
- CGTMSE provides credit guarantees; extended to TReDS invoice discounting.
- Corporate Mitras: to help MSMEs in Tier-II/III towns meet compliance at affordable costs.
- Courier export value cap of ₹10 lakh per consignment removed – benefits small exporters.

## SERVICES SECTOR, ORANGE ECONOMY, INFRASTRUCTURE & ENERGY SECURITY

### Services Sector – Orange Economy, AVGC, Tourism, Medical Tourism & IT Safe Harbour

Budget 2026-27 renews emphasis on services as a core driver of Viksit Bharat. Key initiatives span the Orange Economy (AVGC, design, sports), health/medical tourism, AYUSH, and significant IT sector tax reforms including safe harbour expansion. Tax holiday until 2047 for foreign cloud service providers using India-based data centres.

### News in Brief

- Orange Economy: AVGC Content Creator Labs in 15,000 secondary schools + 500 colleges; new National Institute of Design (eastern India, Challenge route).
- Khelo India Mission: integrated talent development, systematic coaching, science & technology integration, sports infrastructure.
- Medical Tourism: scheme to support 5 state-level hubs for Medical Value Tourism in partnership with private sector.
- Health – Allied Health Professionals: upgrade and new institutions for AHPs in 10 disciplines.
- Care Ecosystem: NSQF-aligned programmes to train 1.5 lakh multiskilled caregivers.
- AYUSH: 3 new All India Institutes of Ayurveda; upgrade AYUSH pharmacies and Drug Testing Labs; upgrade WHO Global Traditional Medicine Centre.
- Tourism: National Destination Digital Knowledge Grid; 15 archaeological sites → experiential cultural destinations; 10,000 guides trained at 20 iconic tourist sites; National Institute of Hospitality; Buddhist Circuits in NE Region; mountain/turtle/bird trails.
- Education: 5 University Townships near industrial/logistic corridors; girls' hostel in STEM Higher Education in every district; 4 Telescope Infrastructure Facilities.

### Static Background – Concepts & Terms

- **Orange Economy** – creative economy; includes arts, culture, media, design, sports, fashion, AVGC; recognised as high-growth sector in Viksit Bharat blueprint.
- **AVGC (Animation, Visual Effects, Gaming and Comics)** – growing sunrise sector; India has competitive advantage in tech + creative talent; AVGC-XR policy by Ministry of Information & Broadcasting.

- **Medical Value Tourism** – healthcare services provided to foreign patients; India a preferred destination due to cost advantage (1/10th of developed countries) and high-quality hospitals.
- **AYUSH** – Ayurveda, Yoga & Naturopathy, Unani, Siddha, Homeopathy; Ministry of AYUSH; WHO Global Traditional Medicine Centre at Jamnagar.
- **NSQF (National Skills Qualifications Framework)** – competency-based framework; 8 levels from basic vocational to doctoral level; aligns training with industry requirements.

## Prelims Pointers

- Orange Economy includes AVGC, design, sports – creative industries recognised as growth driver.
- AVGC Labs in 15,000 secondary schools + 500 colleges under Budget 2026-27.
- 3 new All India Institutes of Ayurveda + WHO Global Traditional Medicine Centre upgrade.
- 5 Medical Value Tourism hubs to be set up with private sector partnership.
- 5 University Townships near major industrial/logistic corridors.

## IT Sector Tax Reforms – Safe Harbour, APA & Cloud Services Tax Holiday

Budget 2026-27 makes sweeping changes to IT sector taxation – expanding safe harbour thresholds, clubbing IT services under a single category, and providing a 5-year automated APA process. A tax holiday until 2047 is extended to foreign companies providing cloud services via India-based data centres.

## News in Brief

- Single safe harbour margin of 15.5% for all IT services – clubbed under one category.
- Safe harbour threshold for IT services raised: ₹300 crore → ₹2,000 crore.
- Automated, rule-driven process for safe harbour approval for IT services.
- Safe harbour continuation for 5 years at company's choice – provides long-term certainty.
- Unilateral APA (Advance Pricing Agreement) process fast-tracked for IT services: conclude within 2 years (extendable by 6 months at taxpayer's request).
- Modified returns facility extended for APA-availing entities to its associated entities.
- Tax holiday until 2047 for foreign companies providing cloud services to global customers through India-based data centres.
- India-based data centre service providers: safe harbour of 15% on cost.
- Exemption to global income of non-resident experts for 5-year stay under notified schemes.

## Static Background – Concepts & Terms

- **Safe Harbour** – tax rule that specifies conditions under which a taxpayer will not be subject to transfer pricing challenges; provides certainty for IT companies with foreign parents.
- **Transfer Pricing** – pricing of transactions between related parties in different tax jurisdictions; key issue for MNCs with Indian IT subsidiaries; CBDT regulates via safe harbour rules.
- **APA (Advance Pricing Agreement)** – agreement between taxpayer and tax authority on transfer pricing methodology for future transactions; unilateral (with India tax authority) vs bilateral (both country tax authorities).
- **Data Centre** – facility housing computer systems and associated components; India is emerging as a key data centre hub; foreign investment being attracted through tax holidays.
- **IT Sector contribution** – employs ~1% of workforce but contributes ~7% of GDP; major forex earner (~\$250 bn exports); threatened by AI automation and US visa restrictions.

## Prelims Pointers

- IT services safe harbour margin unified at 15.5%; threshold raised from ₹300 crore to ₹2,000 crore.
- APA for IT services: to be concluded within 2 years (unilateral).
- Tax holiday until 2047 for foreign cloud service providers using India-based data centres.
- India-based data centre providers: safe harbour of 15% on cost.

## Infrastructure – Public Capex, DFC, Waterways, REITs & SASCI

Budget 2026-27 targets public capex of ₹12.2 lakh crore (FY27 BE) – up from ₹2 lakh crore in FY15. Key new initiatives include new Dedicated Freight Corridors (Dankuni-Surat), 20 new National Waterways, Infrastructure Risk Guarantee Fund, and Purvodaya East Coast Industrial Corridor.

## News in Brief

- Public capex: ₹12.2 lakh crore (FY27 BE) – 6x increase from FY15 (₹2 lakh crore).
- New Dedicated Freight Corridor: Dankuni (West Bengal) to Surat (Gujarat) – East-West connectivity.
- 20 new National Waterways connecting mineral-rich areas, industrial centres and ports.
- Infrastructure Risk Guarantee Fund: partial credit guarantees to lenders for infrastructure projects.
- CPSE real estate assets recycled through dedicated REITs.
- Coastal Cargo Promotion Scheme: increase inland waterways + coastal shipping share from 6% to 12% by 2047.
- Seaplane VGF (Viability Gap Funding) Scheme to indigenise manufacturing.
- ₹2 lakh crore support to states under SASCI Scheme (Special Assistance to States for Capital Investment).
- Purvodaya: Development of Integrated East Coast Industrial Corridor.
- Focus on Tier II and Tier III cities infrastructure (population >5 lakh).
- InVITs, REITs, NIIF and NaBFID: several initiatives for large-scale enhancement of public infrastructure.

## Static Background – Concepts & Terms

- **DFC (Dedicated Freight Corridor)** – high-capacity freight rail corridor; two operational DFCs: Eastern (EDFC: Ludhiana-Dankuni) + Western (WDFC: Jawaharlal Nehru Port-Dadri); new Budget DFC: Dankuni-Surat.
- **REIT (Real Estate Investment Trust)** – investment vehicle that owns income-generating real estate; allows recycling of government real estate assets; CPSE REITs enable unlocking capital.
- **InVIT (Infrastructure Investment Trust)** – similar to REIT but for infrastructure assets; pools investor money to invest in roads, power, pipelines; listed on stock exchanges.
- **NaBFID (National Bank for Financing Infrastructure and Development)** – set up 2021; provides long-term infrastructure financing; fills gap between commercial banks (short-term) and infrastructure project needs (long-term).
- **NIIF (National Infrastructure and Investment Fund)** – set up 2015; government-sponsored fund for infrastructure investment; manages three funds: Master, Fund of Funds, Strategic Opportunities.
- **SASCI Scheme (Special Assistance to States for Capital Investment)** – 50-year interest-free loans to states for capital investment; linked to reform conditions; ₹2 lakh crore in 2026-27.
- **Purvodaya** – comprehensive development programme for Eastern India (Bihar, Jharkhand, WB, Odisha, AP); East Coast Industrial Corridor targets backward region catch-up.

## Prelims Pointers

- New DFC: Dankuni (WB) to Surat (Gujarat) – announced Budget 2026-27.
- 20 new National Waterways connecting mineral-rich areas, industrial centres, and ports.
- Coastal shipping share target: 6% → 12% by 2047 under Coastal Cargo Promotion Scheme.
- SASCI Scheme: ₹2 lakh crore 50-year interest-free loans to states for capital investment.
- Purvodaya: Integrated East Coast Industrial Corridor for Eastern India development.
- Public capex grew from ₹2 lakh crore (FY15) to ₹12.2 lakh crore (FY27 BE) – 6x growth.

## Energy Security – CCUS, Li-Ion Cells, Nuclear & Critical Minerals

Budget 2026-27 makes major interventions for long-term energy security – allocating ₹20,000 crore for Carbon Capture, Utilization and Storage (CCUS), extending nuclear power project duty exemptions to 2035, and waiving customs duties on critical mineral processing equipment.

## News in Brief

- CCUS (Carbon Capture Utilization and Storage) Scheme: ₹20,000 crore outlay – for capturing CO<sub>2</sub> at power/industrial plants and reusing/storing it.
- BCD exemption on capital goods for Lithium-Ion Cell manufacture in battery energy storage systems.
- BCD exemption on sodium antimonate for solar glass manufacturing.
- Nuclear Power Projects: existing BCD exemption extended to 2035; expanded to all nuclear plants irrespective of capacity.
- BCD exemption on capital goods for critical mineral processing in India.
- Exclusion of entire value of biogas in Central Excise duty payable on biogas-blended CNG.

## Static Background – Concepts & Terms

- **CCUS (Carbon Capture, Utilization and Storage)** – technology to capture CO<sub>2</sub> from power plants/industries; store underground or reuse in industrial processes; key for hard-to-abate sectors; reduces net emissions.
- **Li-Ion Battery / BESS** – Lithium-Ion battery-based Battery Energy Storage Systems; critical for renewable energy integration (solar + wind + storage = 24x7 clean power).
- **Critical Minerals** – minerals essential for clean energy transition: lithium, cobalt, nickel, rare earths, graphite; India has reserves but needs processing capacity.
- **Sodium Antimonate** – chemical compound used in solar glass manufacturing; solar glass is the front glass of solar panels – key component in solar PV manufacturing.
- **Biogas-blended CNG** – mixing compressed biogas (CBG) with CNG for transport; clean fuel alternative; biogas value excluded from excise base reduces effective tax burden.
- **India's Three-Stage Nuclear Programme** – Stage 1: PHWRs with natural uranium; Stage 2: FBRs with plutonium; Stage 3: Thorium-U-233 cycle; 24 operational reactors; target 100 GW by 2047.

## Prelims Pointers

- CCUS Scheme: ₹20,000 crore outlay – same as Nuclear Energy Mission SMR R&D allocation.
- Nuclear project BCD exemption extended to 2035; expanded to all nuclear plants.
- BCD exemption on Li-Ion cell manufacture capital goods for BESS.
- Biogas value excluded from Central Excise duty on biogas-blended CNG.

## Urbanisation – City Economic Regions & 7 High-Speed Rail Corridors

Budget 2026-27 focuses on cities as economic engines – amplifying agglomeration potential through 7 'Growth Connector' High-Speed Rail corridors linking major metros. Focus includes Tier II, Tier III cities, and temple-towns.

## News in Brief

- 'Growth Connectors' – 7 High-Speed Rail corridors: Mumbai-Pune, Pune-Hyderabad, Hyderabad-Bengaluru, Hyderabad-Chennai, Chennai-Bengaluru, Delhi-Varanasi, Varanasi-Siliguri.
- Environmentally sustainable passenger systems – HSR to complement existing rail network.
- Focus on Tier II, Tier III cities and temple-towns – decentralising economic growth.
- Amplifying cities' potential to deliver economic power of agglomerations.

## Static Background – Concepts & Terms

- **High-Speed Rail (HSR)** – trains operating at 200+ km/h; India's first HSR: Mumbai-Ahmedabad (under construction, Japanese Shinkansen technology); Budget 2026-27 announces 7 additional corridors.
- **Agglomeration Economics** – productivity benefits from geographic concentration of economic activity; larger cities = more specialisation, deeper labour markets, knowledge spillovers.
- **City Economic Regions** – concept of treating cities and their hinterlands as integrated economic zones; enables planned infrastructure and economic specialisation.

## Prelims Pointers

- 7 High-Speed Rail corridors announced: Mumbai-Pune, Pune-Hyderabad, Hyderabad-Bengaluru, Hyderabad-Chennai, Chennai-Bengaluru, Delhi-Varanasi, Varanasi-Siliguri.
- India's existing HSR under construction: Mumbai-Ahmedabad (Shinkansen/bullet train technology).

## PEOPLE-CENTRIC DEVELOPMENT: AGRICULTURE, HEALTH & DIVYANG

### Agriculture – BharatVISTAAR, Horticulture, Fisheries & AgriStack

Budget 2026-27 focuses on increasing farmer income through productivity enhancement in horticulture, fisheries, animal husbandry and high-value agriculture. BharatVISTAAR integrates AgriStack portals with ICAR AI systems. Dedicated programmes for Indian cashew, cocoa, sandalwood, and coconut.

#### News in Brief

- BharatVISTAAR: integrating AgriStack portals and ICAR package on agricultural practices with AI systems – digital agriculture backbone.
- Dedicated Horticulture Programme: rejuvenate old orchards; expand high-density cultivation of walnuts, almonds, pine nuts.
- Dedicated programme for Indian Cashew and Cocoa; Coconut Promotion Scheme; Sandalwood programme (focused cultivation + post-harvest processing).
- Fisheries: integrated development of 500 reservoirs and Amrit Sarovars; strengthening coastal fisheries value chain; market linkages for start-ups and women-led groups; Fish FPOs.
- Animal Husbandry: loan-linked capital subsidy for vet/para-vet colleges, hospitals, diagnostic labs and breeding facilities in private sector; entrepreneurship support.
- Tax Proposals: fish catch in EEZ/High Seas duty-free; fish landing at foreign port = export; cooperative sector tax deductions expanded.

#### Static Background – Concepts & Terms

- **AgriStack** – India's digital public infrastructure for agriculture; includes Farmers' Registry, Geo-referenced Village Maps, Crop Sown Registry; enables targeted delivery of farm services.
- **BharatVISTAAR** – AI-integrated agricultural advisory system; integrates AgriStack + ICAR research on practices + AI for personalised farmer advice.
- **FPO (Farmer Producer Organisation)** – collective entity of farmers; can access credit, markets, inputs at scale; NABARD facilitates; 10,000 FPOs target by GoI.
- **EEZ (Exclusive Economic Zone)** – 200 nautical miles from baseline; coastal state has sovereign rights over natural resources; Indian fishing vessels operating in EEZ get duty-free treatment.
- **Amrit Sarovar** – programme to develop and revitalise 75 water bodies per district; launched 2022; 50,000+ completed; targets conservation of water for agriculture.
- **PM-KUSUM** – Pradhan Mantri Kisan Urja Suraksha evam Utthaan Mahabhiyan; solar pumps for farmers; reduces diesel dependency for irrigation.

#### Prelims Pointers

- BharatVISTAAR: integrates AgriStack + ICAR practices + AI for farmer advisory.
- Fisheries: 500 reservoirs and Amrit Sarovars to be integrated for fisheries development.
- Fish caught in EEZ or High Seas by Indian vessels: duty-free; landing at foreign port = export.
- India: world's 2nd largest fish producer and aquaculture producer.
- EEZ: 200 nautical miles from baseline; sovereign resource rights.

### People-Centric Development – Care Ecosystem, Divyang & Mental Health

Budget 2026-27 builds on a strong care ecosystem covering geriatric care, Divyang empowerment (Divyangjan Kaushal Yojana, Divyang Sahara Yojana, ALIMCO support), SHE Marts for women SHGs, and mental health infrastructure including NIMHANS-2.

## News in Brief

- Care Ecosystem: training 1.5 lakh multiskilled caregivers covering geriatric and allied care services.
- SHE (Self-Help Entrepreneur) Marts: community-owned retail outlets within cluster-level federations.
- Divyangjan Kaushal Yojana: industry-relevant, customised training for disability groups – dignified livelihood opportunities.
- Divyang Sahara Yojana: timely access to high-quality assistive devices for all eligible Divyangjan.
- ALIMCO (Artificial Limbs Manufacturing Corporation of India): scaling up production of assistive devices + R&D + AI integration.
- PM Divyasha Kendras strengthened as modern retail-style centres.
- Mental Health: NIMHANS-2 to be set up; National Mental Health Institutes in Ranchi and Tezpur to be upgraded.
- Emergency and Trauma Care Centres in district hospitals.

## Static Background – Concepts & Terms

- **NIMHANS (National Institute of Mental Health and Neuro Sciences)** – Bengaluru; premier mental health institute; Institute of National Importance; NIMHANS-2 announced to expand mental health infrastructure.
- **ALIMCO (Artificial Limbs Manufacturing Corporation)** – PSU under Ministry of Social Justice; manufactures low-cost assistive devices for Divyangjan; distributor of ADIP Scheme devices.
- **SHE Marts** – retail outlets for women-led SHGs; provides market access to women entrepreneurs; builds on Kudumbashree and SHG movement.
- **RPWD Act 2016 (Rights of Persons with Disabilities)** – 21 categories of disabilities; 4% reservation in government jobs; replaced Persons with Disabilities Act 1995.
- **Divyangjan** – respectful term for Persons with Disabilities (PwD); introduced by PM Modi in 2015 replacing the term 'viklang'.

## Prelims Pointers

- NIMHANS-2 to be set up; National Mental Health Institutes in Ranchi and Tezpur to be upgraded.
- ALIMCO: PSU under Ministry of Social Justice; manufactures assistive devices.
- SHE Marts: community-owned retail outlets for women SHG clusters.
- Divyang Sahara Yojana: timely high-quality assistive devices for Divyangjan.

## TAX REFORMS, FINANCIAL SECTOR & EASE OF DOING BUSINESS

### Financial Sector – High-Level Banking Committee, STT Hike & FEMA Review

Budget 2026-27 sets up a High-Level Committee on Banking for Viksit Bharat, raises STT on futures (0.02% to 0.05%) and options, reviews FEMA Non-debt Rules, restructures PFC and REC, and introduces market-making framework for corporate bonds.

## News in Brief

- High-Level Committee on Banking for Viksit Bharat: to align banking sector with India's next growth phase.
- STT on Futures raised: 0.02% → 0.05%; STT on options premium raised: 0.1% → 0.15%; STT on options exercise raised: 0.125% → 0.15%.
- Comprehensive Review of FEMA (Non-debt Instruments) Rules – to facilitate easier foreign investment.
- Restructuring of Power Finance Corporation (PFC) and Rural Electrification Corporation (REC).
- Introduction of market-making framework and total return swaps on corporate bonds – to deepen India's thin corporate bond market.
- ₹100 crore incentive for single issuance of municipal bonds >₹1,000 crore; AMRUT scheme continues.
- PROIs (Persons Resident Outside India) permitted to invest in listed Indian company equity via Portfolio Investment Scheme (PIS).

## Static Background – Concepts & Terms

- **STT (Securities Transaction Tax)** – direct tax on securities transactions in recognised stock exchanges; introduced Finance Act 2004; levied regardless of profit; no refund mechanism unlike TDS.
- **FEMA Non-debt Instruments Rules** – govern foreign investment in India including FDI, FCCB, Depository Receipts; review aims to simplify foreign investment rules.
- **PFC (Power Finance Corporation)** – NBFC; infrastructure finance company; provides term loans to power sector; restructuring aims to enhance lending capacity and efficiency.
- **REC (Rural Electrification Corporation)** – NBFC; finances rural electrification, renewable energy, and infrastructure; nodal agency for RDSS (distribution sector scheme).
- **Market Making** – financial intermediaries quoting both buy and sell prices to provide liquidity; market making framework for corporate bonds aims to deepen the shallow Indian corporate bond market.
- **Municipal Bonds** – bonds issued by urban local bodies; underutilised in India; ₹100 crore incentive for large municipal bond issuances to improve infrastructure financing.
- **PIS (Portfolio Investment Scheme)** – FEMA scheme allowing NRIs/PROIs to invest in listed securities; extension to PROIs widens foreign investor base.

## Prelims Pointers

- STT on Futures: raised from 0.02% to 0.05%; on options premium: 0.1% → 0.15%.
- FEMA Non-debt Instruments Rules under comprehensive review.
- Municipal bond incentive: ₹100 crore for single issuance >₹1,000 crore.
- PROIs: Persons Resident Outside India; now permitted to invest via PIS in listed Indian equity.

## Ease of Doing Business & Ease of Living – Direct Tax Reforms & TDS Rationalisation

Budget 2026-27 announces comprehensive ease measures in direct taxes including TDS rationalisation, return revision deadline extension, MAT reforms, immunity schemes, and reduced TCS. Key measures include reducing TCS on LRS education/medical purposes and extending return revision to March 31.

## News in Brief

- TCS on overseas tour package: reduced from 5%/20% to 2% (no minimum threshold).
- TCS under LRS for education and medical purposes: reduced from 5% to 2%.
- Return revision deadline extended: December 31 → March 31 (with nominal fee).
- ITR 1 and ITR 2 filers: continue till July 31; non-audit business cases/trusts: August 31.
- TDS on supply of manpower services: 1% or 2%.
- Lower/nil TDS deduction certificate: automated rule-based process for small taxpayers.
- TDS on immovable property sale by non-resident: through resident buyer's PAN (not TAN).
- One-time 6-month foreign asset disclosure scheme for small taxpayers (below a size threshold).
- Taxpayers can update returns even after reassessment proceedings at additional 10% tax rate.
- Immunity from penalty/prosecution for underreporting extended to misreporting.
- Non-production of books of account decriminalised; TDS payment non-compliance decriminalised.
- Immunity from prosecution (retrospective from 1.10.2024): non-immovable foreign assets < ₹20 lakh.
- MAT exemption for all non-residents paying tax on presumptive basis; MAT proposed as final tax.
- MAT credit set-off allowed: up to 1/4th of tax liability in new regime.
- Tax buyback: treated as Capital Gains for all shareholders; promoters pay additional buyback tax.
- BCD exempt on 17 drugs/medicines for cancer patients.
- Single and interconnected digital window for cargo clearance; Customs Integrated System (CIS) in 2 years.

## Static Background – Concepts & Terms

- **TCS (Tax Collected at Source)** – tax collected by seller/service provider from buyer at time of transaction; applicable on foreign remittances (LRS), overseas tour packages, luxury cars etc.
- **LRS (Liberalised Remittance Scheme)** – allows resident individuals to remit up to \$2.5 lakh/year abroad; TCS rates reduced for education and medical purposes under Budget 2026-27.

- **MAT (Minimum Alternate Tax)** – ensures companies paying zero tax on book profits pay at least 15% (as % of book profit); Credit can be carried forward 15 years; Budget proposes MAT as final tax.
- **Updated Return (ITR-U)** – allows taxpayers to file updated return within 2 years paying additional tax; Budget 2026-27 allows update even after reassessment at 10% additional rate.
- **APA (Advance Pricing Agreement)** – pre-agreed transfer pricing methodology between taxpayer and tax authority; unilateral (India) or bilateral (with partner country).
- **ICDS vs IndAS** – ICDS: Income Computation and Disclosure Standards; IndAS: Indian Accounting Standards aligned with IFRS; Joint Committee formed to harmonise ICDS within IndAS.

## Prelims Pointers

- TCS on LRS for education/medical reduced from 5% to 2%.
- Return revision deadline extended from December 31 to March 31 (with nominal fee).
- MAT: proposed as final tax; credit set-off: up to 1/4th of new regime tax liability.
- BCD exempted on 17 drugs/medicines for cancer patients.
- Customs Integrated System (CIS) to be rolled out within 2 years.
- Tax buyback: treated as Capital Gains for all shareholders; promoters pay additional buyback tax.

## Trust-Based Governance – AEO Reforms, Advance Rulings & Customs Modernisation

Budget 2026-27 focuses on trust-based customs governance – expanding AEO benefits, extending advance ruling validity, automating cargo notification for trusted importers, and transforming the warehousing framework to be operator-centric with self-declarations.

## News in Brief

- AEO Tier 2 and Tier 3 duty-deferral period extended: 15 → 30 days; manufacturer-importers also eligible.
- Advance ruling validity (binding on Customs) extended: 3 years → 5 years.
- Trusted importers with longstanding supply chains: recognised in risk system; cargo verification minimised.
- Bill of entry filing by trusted importer + arrival of goods = automatic Customs notification.
- Customs warehousing framework: transformed to warehouse operator-centric system with self-declarations.

## Static Background – Concepts & Terms

- **AEO (Authorised Economic Operator)** – WCO (World Customs Organisation) programme; trusted trader certification; 4 tiers in India: T1, T2, T3 (trade), T4 (logistics); faster clearance, reduced inspections, duty deferral.
- **Advance Ruling** – binding determination by tax/customs authority on how law applies to a transaction before it happens; provides certainty to business; now valid 5 years.
- **Bill of Entry** – customs declaration document filed by importer; details goods, value, quantity, destination; basis for duty assessment.
- **CBIC (Central Board of Indirect Taxes and Customs)** – apex body for customs, GST, excise; under Ministry of Finance; administers all indirect taxes.

## Prelims Pointers

- AEO Tier 2 and 3 duty-deferral period: extended from 15 to 30 days.
- Advance ruling validity: extended from 3 years to 5 years.
- Customs warehousing: transforming to warehouse operator-centric self-declaration system.