Day - 1

UPSC MAINS — GS PAPER III: ECONOMY
ANSWER WRITING & CONTENT ENRICHMENT

THEME 1: LPG Reforms And Industrial Policy

This theme spans India's 1991 liberalisation legacy and its contemporary industrial architecture — PLI Scheme, Labour Codes, SEZs, MSME policy, and the services vs manufacturing debate. PYQs test both conceptual command and policy critique.

1.1 PLI Scheme — Rationale, Achievements, Improvements

PYQs Covered

- 2025 — PLI scheme rationale, achievements, and improvements needed

1. Latest Data, Facts & Examples to Quote in Answers

- PLI Scheme launched in 2020 for 14 key sectors (later expanded to 14+), with a total outlay of approximately ₹1.97 lakh crore over 5 years; sectors include mobile phones, pharmaceuticals, ACC batteries, auto components, specialty steel, textiles, food processing, telecom, white goods, solar PV modules, advanced chemistry cells, and drone sectors.
- PLI Scheme for Mobile Phones: India's mobile phone exports rose from ₹1,500 crore in FY18 to over ₹1.60 lakh crore in FY25 — a 100x growth. India became the 2nd largest mobile phone manufacturer globally (after China). Apple produces approximately 14% of global iPhones in India (2024), with the Tata Electronics-Foxconn and Wistron plants being major contributors.
- PLI Scheme for Pharmaceuticals: India's pharmaceutical exports crossed $28 billion in FY25 — India is the 'pharmacy of the world' supplying 20% of global generic medicines. Biopharma SHAKTI scheme (Budget 2026-27) announced to hedge against US tariffs and strengthen biotech manufacturing.
- PLI for Semiconductors: India Semiconductor Mission (ISM) Phase 1 attracted Micron's ATMP facility (Sanand, Gujarat, $825 million). India inaugurated its first Semiconductor ATMP facility in Sanand, Gujarat. ISM 2.0 launched in Budget 2026-27 to produce equipment and materials, design full-stack Indian IP.
- PLI for Textiles: PM MITRA (Mega Integrated Textile Region and Apparel Parks) — 7 sites identified across India with outlay of ₹4,445 crore; aims to attract ₹70,000 crore investment and generate 20 lakh jobs. The '5F' vision: Farm→Fibre→Factory→Fashion→Foreign.
- Electronics Components Manufacturing Scheme announced in Budget 2026-27 to strengthen supply chain linkages and move India up the value chain from assembly to component manufacturing.
- Overall PLI achievements by FY25: Investments attracted over ₹1.2 lakh crore; incremental production/sales exceeded ₹11 lakh crore; exports increased by ₹3 lakh crore; and over 7.5 lakh jobs created directly.
- Limitations of PLI: (a) Concentrated in large firms — benefits not percolating to MSMEs; (b) Technology import dependence continues — components mostly imported; (c) Labour-intensive sectors (textiles, footwear) underperforming targets; (d) Fiscal cost (₹1.97 lakh crore

outlay) without commensurate tax revenue offset; (e) Risk of creating 'assembly-only' units with shallow value chains.

- Improvements needed: (a) Integrate MSMEs into PLI value chains through 'Anchor-MSME' linkages; (b) Mandate technology transfer or domestic R&D investment; (c) Extend PLI to labour-intensive sectors with modified eligibility criteria; (d) Shift from production-based to value-addition-based incentives; (e) Create sector-specific clusters with shared infrastructure (PM MITRA model).

2. Key Schemes, Frameworks & Policies

- **PLI Scheme (2020):** 14+ sectors; production-linked incentives of 4-20% on incremental sales over base year; 5-year incentive period; meant to improve cost competitiveness and attract global value chains.
- **India Semiconductor Mission (ISM):** ₹76,000 crore outlay for semiconductor fabs, display fabs, and ATMP facilities; ISM 2.0 announced in Budget 2026-27 for full-stack Indian IP.
- **PM MITRA Scheme:** ₹4,445 crore for 7 Mega Integrated Textile Parks; PPP model (Centre 49%, State 51%); plug-and-play infrastructure; promotes '5F' vision.
- **Biopharma SHAKTI:** Budget 2026-27 initiative for pharma/biotech manufacturing strength; hedges against US tariff pressure on Indian pharmaceutical exports.
- **Electronics Components Manufacturing Scheme:** Budget 2026-27 scheme to fill component-level manufacturing gaps in electronics supply chain — addresses India's 'assembly without manufacturing' critique.

3. Ready-to-Use Mains Intros (20-25 words)

Pick the type that matches the question's framing:

► INTRO: DATA / STATISTIC

India's mobile phone exports grew from ₹1,500 crore in FY18 to over ₹1.60 lakh crore in FY25 — a hundredfold leap that validates the PLI Scheme's transformative potential for building globally competitive manufacturing.

► INTRO: REPORT / INDEX

The Economic Survey 2024-25 notes that PLI Scheme has attracted over ₹1.2 lakh crore in investments and created 7.5 lakh jobs, yet warns that value addition remains shallow and technology dependence persists — making improvement of the scheme's architecture a pressing policy priority.

► INTRO: SCHEME / POLICY

The Production Linked Incentive Scheme, launched in 2020 across 14 key sectors with an outlay of ₹1.97 lakh crore, represents India's most ambitious attempt since 1991 to reverse the trajectory of a manufacturing sector whose GDP share has stagnated at 16-17% for three decades.

► INTRO: CURRENT AFFAIRS 2025-26

Even as India inaugurated its first semiconductor ATMP facility in Sanand, Gujarat and Apple achieved 14% global iPhone production in India by 2024, concerns persist that PLI is building 'assembly hubs' rather than the deep technology ecosystems the scheme envisioned.

4. Ready-to-Use Mains Conclusions (20-25 words)

✓ CONCLUSION: VALUE CHAIN DEEPENING CONCLUSION

PLI's first-generation success in production volume must give way to second-generation focus on value addition — from assembly to components to design — otherwise India risks becoming a 'screwdriver economy' for global electronics, not a genuine manufacturing powerhouse.

✓ CONCLUSION: INCLUSIVE MANUFACTURING CONCLUSION

PLI's next phase must bridge the large-firm bias by integrating MSMEs as tier-1 and tier-2 suppliers through mandatory anchor-MSME linkage frameworks — inclusive manufacturing, not just industrial production, is the benchmark for PLI's success.

1.2 Labour Codes — Merits, Demerits, Progress

PYQs Covered

- 2024 — Merits/demerits of four Labour Codes; progress in implementation

1. Latest Data, Facts & Examples to Quote in Answers

- Four Labour Codes consolidate 29 existing central labour laws. Ministry of Labour and Employment brought the 4 Labour Codes into force in 2025 (after being cleared by Parliament): (1) Code on Wages, 2019; (2) Industrial Relations Code, 2020; (3) Code on Social Security, 2020; (4) Occupational Safety, Health and Working Conditions Code, 2020.
- Code on Wages (2019): Establishes universal minimum wages for all workers (organised + unorganised); mandates overtime at 2x normal rate; allows central government to set National Floor Wage; ensures gender equality in wages. According to PLFS 2023-24, 64% of Indian workers earn below minimum wage even when mandated by law.
- Industrial Relations Code (2020): Raises threshold for lay-off/retrenchment/closure approval from 100 to 300 workers (States may enhance further); introduces Fixed-Term Employment (FTE); requires 51% membership for sole negotiating union recognition; establishes Internal Grievance Redressal Committees for establishments with 20+ workers; creates Re-skilling Fund (employers pay 15 days' wages per retrenched worker for retraining).
- Code on Social Security (2020): Defines gig and platform workers for the first time in Indian law; aggregators to contribute 1-2% of annual turnover (max 5% of payments) to social security fund; extends ESIC pan-India; mandates National Database of Unorganised Workers (NDUW); gratuity for Fixed-Term Employees after 1 year (earlier 5 years).
- OSHWC Code (2020): Consolidates 13 central laws; uniform threshold of 10 employees for electronic registration; women can work in all establishments including night shifts (with consent and safety measures); factory licence threshold raised from 10/20 to 20/40 workers (with/without power); single tripartite National Occupational Safety and Health Advisory Board replaces 6 earlier boards.
- Implementation Progress: 28 out of 36 States have published draft rules for all 4 codes; however, actual enforcement notifications remain pending in several states, creating a 'letter of the law vs spirit of the law' gap.
- Key concern: Contractual workers in manufacturing reached 42% of workforce in 2023-24 (Annual Survey of Industries) — a figure that raises questions about whether Labour Codes

have meaningfully reduced informality or merely legalised it through Fixed-Term Employment provisions.

- Gig worker coverage: Ayushman Bharat PM-JAY extended to 1 crore gig workers (Budget 2025-26 onward); 12 major aggregators (Zomato, Swiggy, Blinkit, Urban Company, Uber, Amazon) onboarded on PMJAY. e-Shram portal has over 31 crore unorganised worker registrations.

2. Key Schemes, Frameworks & Policies

- **Code on Wages, 2019:** Universal minimum wages; national floor wage; gender pay equality; decriminalisation of first-time offences.
- **Industrial Relations Code, 2020:** Higher retrenchment threshold (300 workers); FTE institutionalised; 51% union membership for sole bargaining recognition; Re-skilling Fund.
- **Code on Social Security, 2020:** First statutory recognition of gig/platform workers; ESIC pan-India; NDUW database; 1-year gratuity for FTEs.
- **OSHWC Code, 2020:** Women in all establishments including night shifts; consolidated 13 laws; single advisory board; self-certification by employers.
- **e-Shram Portal:** Universal Account Number (UAN) for unorganised workers; 31+ crore registrations; digital bridge for welfare delivery.

3. Ready-to-Use Mains Intros (20-25 words)

Pick the type that matches the question's framing:

► INTRO: DATA / STATISTIC

Despite Labour Codes' mandate for universal minimum wages, 64% of Indian workers still earn below the legal minimum wage (PLFS 2023-24) — a data point that raises the fundamental question: are the four codes reforming labour markets or merely consolidating their existing inequities?

► INTRO: REPORT / INDEX

The 2nd National Commission on Labour had recommended consolidation of 44 central labour laws into 4-5 comprehensive codes — a recommendation realised over two decades later in 2019-20, when Parliament passed the four Labour Codes that bring 90% of India's informal workforce within the formal legal architecture for the first time.

► INTRO: SCHEME / POLICY

The four Labour Codes — covering wages, industrial relations, social security, and occupational safety — represent India's most comprehensive labour law reform since independence, consolidating 29 central laws into a framework designed to simultaneously protect workers and attract investment by reducing compliance complexity.

► INTRO: CURRENT AFFAIRS 2025-26

As of 2025, the Ministry of Labour has brought all four Labour Codes into force — five years after their parliamentary passage — with 28 States having published draft rules; yet contractual workers already constitute 42% of manufacturing employment, testing whether consolidation has become facilitation of casualisation.

4. Ready-to-Use Mains Conclusions (20-25 words)

✓ CONCLUSION: REFORM VS INFORMALITY CONCLUSION

The Labour Codes succeed on paper — consolidating 29 laws into 4 — but their success on the ground depends on reversing the rising tide of contractualisation: 42% contract workers in manufacturing signals that flexibility is benefiting employers far more than security is benefiting workers.

✓ CONCLUSION: GIG ECONOMY INCLUSION CONCLUSION

The Code on Social Security's statutory recognition of gig workers — the first in India's legal history — must be followed by actual social security fund operationalisation; until gig workers receive health, disability, and retirement benefits, legal recognition is an empty promise.

Data Punch :

Key findings of the PLFS Annual Report (2025):

- **Labor Force Participation Rate (LFPR):** Remained stable at 59.3% for persons aged 15 and above.
- **Worker Population Ratio (WPR):** Stood at 57.4% overall (76.6% for males and 38.8% for females).
- **Unemployment Rate (UR):** Declined marginally to 3.1% overall, with a slightly higher rate in urban areas (4.8%) compared to rural areas (2.4%).
- **Employment Structure:** The share of self-employed individuals decreased to 56.2%, while regular wage and salaried jobs increased to 23.6%.
- **Sectoral Shift:** Agriculture's share in employment decreased to 43.0%, while manufacturing increased to 12.1%.
- **Youth Unemployment:** The unemployment rate for youth (15-29 years) declined to 9.9%

1.3 Manufacturing Sector, MSMEs and the Services vs Industry Debate

PYQs Covered

- 2023 — MSMEs and their share in manufacturing GDP
- 2017 — Manufacturing sector's lagging growth; recent industrial policy changes
- 2017 — Labour-intensive exports failure; measures for more labour-intensive exports
- 2014 — India's direct shift from agriculture to services; whether India can develop without industrial base

1. Latest Data, Facts & Examples to Quote in Answers

- India's manufacturing sector contributes approximately 16-17% of GDP — stagnant since liberalisation in 1991. The share is far below China (28%), South Korea (26%), and Bangladesh (22%) for a country at India's development stage.
- According to the ILO, India's GDP per working hour was $8, placing it at 133rd position globally — reflecting low labour productivity in manufacturing that makes cost-based competition difficult.

- MSMEs contribute approximately 30% of India's GDP, 45% of India's exports, and employ over 11 crore workers in approximately 6.3 crore enterprises (MSME Ministry data). Approximately 35.5% of manufacturing output is accounted for by MSMEs.
- MSME Classification (revised 2020): Micro (investment ≤₹1 crore, turnover ≤₹5 crore), Small (investment ≤₹10 crore, turnover ≤₹50 crore), Medium (investment ≤₹50 crore, turnover ≤₹250 crore).
- India's services sector contributes approximately 55% of GDP; India followed a unique 'agriculture → services' structural transformation path, largely bypassing manufacturing — unlike East Asian economies (China, South Korea, Taiwan) that developed through labour-intensive manufacturing export-led growth.
- India's services exports reached $387.5 billion in FY25 (an all-time high), driven by IT services, business process outsourcing, and financial services — making India the 7th largest services exporter globally.
- India's merchandise exports reached $437.7 billion in FY25; total exports (goods + services) = $825.3 billion in FY25 (6.1% YoY growth).
- Budget 2026-27 major manufacturing initiatives: ₹10,000 crore SME Growth Fund for Champion SMEs; additional ₹2,000 crore to Self-Reliant India Fund for micro enterprises; scheme to revive 200 legacy industrial clusters; Electronics Components Manufacturing Scheme; India Semiconductor Mission 2.0; Biopharma SHAKTI.
- Disincentives for MSME growth: Stringent regulations incentivise MSMEs to remain small to avoid compliance (the 'regulatory threshold effect'); approximately 90% of weaving units are in unorganised sector; concentration of manufacturing in 5-6 states (Maharashtra, Gujarat, Tamil Nadu, Karnataka) limits geographic diffusion of industrial growth.
- Infrastructure gap: Logistics cost as a percentage of GDP is approximately 14% in India (vs 8-9% global average) — a structural cost disadvantage for manufacturers. Budget 2026-27 raises public capital expenditure to ₹12.2 lakh crore in FY2026-27.

2. Key Schemes, Frameworks & Policies

- **MSME Policy (2020 onwards):** Revised definition; ₹59,000 crore Emergency Credit Line Guarantee Scheme (ECLGS); TReDS for receivables financing; mandatory CPSE procurement from MSMEs; self-certification for compliance.
- **SME Growth Fund (Budget 2026-27):** Dedicated ₹10,000 crore fund for creating 'Champion SMEs' — enterprises selected on specific criteria with incentives to scale into large manufacturers.
- **Legacy Industrial Clusters Revival:** Budget 2026-27: scheme to revive 200 legacy industrial clusters through infrastructure and technology upgradation — addresses the hollowing out of traditional manufacturing hubs.
- **Trade Receivables Discounting System (TReDS):** Digital platform enabling MSMEs to discount receivables from large buyers/PSEs for immediate liquidity; mandatory TReDS use for CPSE purchases; integration with GeM and CGTMSE guarantee support.
- **District as Export Hub (DEH):** 2019 initiative identifying export-worthy products from each of India's 756 districts; operationalised through DGFT; connects local manufacturing clusters to global markets.

3. Ready-to-Use Mains Intros (20-25 words)

Pick the type that matches the question's framing:

► INTRO: DATA / STATISTIC

India's manufacturing sector contributes just 17% of GDP — stagnant since liberalisation — while services have soared to 55%. This structural anomaly leaves 11 crore MSME workers in a sector that must grow faster if India's demographic dividend is to become an employment reality rather than a demographic crisis.

► INTRO: REPORT / INDEX

India followed the unusual path of leaping from agriculture (17%) directly to services (55%) without building a robust manufacturing base — a structural anomaly that economists compare unfavourably with China's manufacturing-led growth, which lifted 400 million people from poverty through factory employment.

► INTRO: SCHEME / POLICY

With MSMEs contributing 30% of GDP, 45% of exports, and employment for 11 crore workers, these 6.3 crore enterprises are simultaneously India's greatest economic asset and its most neglected manufacturing policy priority — trapped in small scale by regulatory thresholds and starved of credit, technology, and market access.

► INTRO: CURRENT AFFAIRS 2025-26

Budget 2026-27's ₹10,000 crore SME Growth Fund and scheme to revive 200 legacy industrial clusters represent a recognition that India cannot become Viksit Bharat on the back of IT services alone — a robust, MSME-anchored manufacturing sector is the non-negotiable foundation of India's $30 trillion economy aspiration by 2047.

4. Ready-to-Use Mains Conclusions (20-25 words)

✓ CONCLUSION: STRUCTURAL TRANSFORMATION CONCLUSION

India's services-led growth is an achievement but not a destiny — a $30 trillion economy by 2047 requires manufacturing's share to rise from 17% to at least 25% GDP, which demands not just PLI subsidies but deep structural reforms in land, logistics, labour, and liquidity for MSMEs.

✓ CONCLUSION: LABOUR-INTENSIVE EXPORTS CONCLUSION

Vietnam and Bangladesh have captured the labour-intensive export space India vacated by pricing itself out through high logistics costs, rigid labour thresholds, and inadequate cluster infrastructure — reclaiming this space requires not higher tariffs but competitive supply-chain ecosystems.

1.4 SEZs and Special Investment Zones

PYQs Covered

- 2015 — SEZs as tools of industrial development; issues with taxation, governing laws, administration

1. Latest Data, Facts & Examples to Quote in Answers

- India has approximately 425 operational SEZs (as of 2024), housing over 6,000 units employing approximately 24 lakh persons. SEZ exports stood at approximately $136 billion in FY24.
- The SEZ Act, 2005 provides tax exemptions (100% income tax for first 5 years; 50% for next 5 years), duty-free import of goods, simplified regulations. However, the Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT) re-imposition in 2011 significantly dented SEZ attractiveness.

- The Development of Enterprises and Services Hubs (DESH) Bill, 2022 was drafted to replace the SEZ Act, 2005 — proposing to allow manufacturing for domestic market (removing the 'export-only' requirement), incorporate Trusts as SEZ developers, and include new categories like data embassies. However, it is yet to be enacted.
- The 2015 UPSC PYQ on SEZs identified three core issues: (1) Taxation — MAT and DDT imposition created uncertainty; (2) Governing laws — the dual control of the SEZ Act and Customs Act created confusion; (3) Administration — complex approval mechanisms, Board of Approval (BoA) bottlenecks, and land acquisition controversies.
- Synergy with PLI: Aligning SEZs with PLI scheme (Budget 2026-27 direction) — creating 'export-ready PLI clusters' where both production incentives and preferential trade infrastructure coexist — is the latest policy direction.
- Budget 2026-27 proposed Dedicated Rare Earth Corridors to be established — creating a new form of resource-specific economic zones for strategic mineral processing.

2. Key Schemes, Frameworks & Policies

- **SEZ Act, 2005:** Single-window clearance; 100% FDI; duty-free imports; income tax holiday; designated Development Commissioner for each SEZ.
- **DESH Bill, 2022 (Proposed):** Replacement for SEZ Act; allows domestic market sales; includes data embassies; recognises Trusts as developers; under parliamentary consideration.
- **SEZ-PLI Convergence:** Budget 2026-27 direction to synergise SEZs with PLI to create 'export-ready manufacturing clusters'; addresses the missing link between production incentive and infrastructure.

3. Ready-to-Use Mains Intros (20-25 words)

Pick the type that matches the question's framing:

► INTRO: DATA / STATISTIC

India's 425 operational SEZs export approximately $136 billion annually and employ 24 lakh workers — yet their growth stagnated after the imposition of Minimum Alternate Tax in 2011 reversed years of tax certainty that had been SEZs' primary attraction for investors.

► INTRO: CURRENT AFFAIRS 2025-26

Seven years after the Special Economic Zones Act, 2005 and fifteen years after MAT imposition disrupted investor confidence, India is still debating the DESH Bill, 2022 to modernise its SEZ framework — a legislative vacuum that has allowed Vietnam and Bangladesh to build export-processing infrastructure India continues to plan.

4. Ready-to-Use Mains Conclusions (20-25 words)

✓ CONCLUSION: MODERNISATION CONCLUSION

India's SEZ framework must evolve from an 'export-only enclave' model to an 'integrated industrial hub' model — allowing domestic sales, including data economies, and synergising with PLI clusters — to compete with China's Special Economic Zones that now anchor entire global supply chains.

1.5 Public Expenditure on Social Services (LPG + Social Policy intersection)

PYQs Covered

- 2024 — Pattern and trend of public expenditure on Social Services post-reforms; consonance with inclusive growth

1. Latest Data, Facts & Examples to Quote in Answers

- India's total public expenditure on social services (health, education, water supply, housing, social protection) stands at approximately 8.2% of GDP (Union + States combined, FY24) — below the global average of 11-12% for comparable emerging economies.
- Post-1991 LPG reforms: While reforms liberalised industry and trade, social sector spending as a percentage of GDP initially declined in the 1990s (fiscal adjustment era). Gradual recovery occurred from 2004-14 (UPA era) with MGNREGA, RTE, NRHM etc.
- Education expenditure: India spends approximately 2.9-3.0% of GDP on education (Union + States combined), against the National Education Policy (NEP) 2020 target of 6% of GDP.
- Health expenditure: India's public health expenditure reached approximately 2.1% of GDP (Union + States, FY24) — still below the National Health Policy target of 2.5% and WHO recommendation of 5%.
- Committed expenditure (salaries, pensions, interest payments, subsidies) consistently absorbed more than half of states' revenue expenditure, reaching 51.76% in FY2023-24 — leaving limited fiscal space for capital formation in social sectors.
- Social protection: The Economic Survey 2024-25 highlights that India's social protection spending (pensions, unemployment benefits, disability support) remains among the lowest globally — with MGNREGA being the primary safety net for rural poor.
- Unconditional Cash Transfers (UCTs): Between 2022-23 and 2025-26, states running UCT schemes (free electricity, farm loan waivers, cash transfers) projected to increase fivefold — with transfers ranging 0.19-1.25% of GSDP, raising fiscal sustainability concerns.

2. Key Schemes, Frameworks & Policies

- **National Education Policy 2020:** Target: 6% of GDP on education; recommends early childhood care, fundamental literacy, vocational education, multidisciplinary higher education.
- **National Health Policy 2017:** Target: 2.5% of GDP on health; 8 crore beneficiaries under Ayushman Bharat PM-JAY (₹5 lakh/family/year hospitalization cover); 1.2 lakh+ Ayushman Arogya Mandirs.
- **MGNREGA (2005):** Legal guarantee of 100 days employment to rural households; Budget 2026-27 proposes conversion to Viksit Bharat Gramin (VB-GRAM G) with 125 days guarantee and 60:40 Centre-State cost sharing.
- **Samagra Shiksha Abhiyan:** Overarching school education programme; integrates SSA, RMSA, Teacher Education — treats schooling holistically from pre-primary to Class 12.
- **Ayushman Bharat PM-JAY:** ₹5 lakh/family/year hospitalization cover for 12 crore+ poor families; extended to gig workers (1 crore) and recently to senior citizens above 70 years.

3. Ready-to-Use Mains Intros (20-25 words)

Pick the type that matches the question's framing:

▶ INTRO: DATA / STATISTIC

India's public health expenditure stands at 2.1% of GDP and education at 2.9-3.0% — both well below stated national targets (2.5% and 6% of GDP respectively) and global averages for comparable economies — revealing a persistent post-reform gap between inclusive-growth rhetoric and social-sector fiscal allocation.

▶ INTRO: CURRENT AFFAIRS 2025-26

Budget 2026-27's ₹12.2 lakh crore capital expenditure and targeted social-sector initiatives — from 100,000 Allied Health Professionals to ISM 2.0 — signal a correction, but the structural challenge remains: committed expenditure (salaries, pensions, subsidies) consumed 51.76% of States' revenue expenditure in FY24, leaving limited room for transformative social investment.

4. Ready-to-Use Mains Conclusions (20-25 words)

✓ CONCLUSION: FISCAL ARCHITECTURE CONCLUSION

Achieving inclusive growth requires not merely raising social-sector spending targets (6% for education, 2.5% for health) but fundamentally restructuring State fiscal architectures that devote over half of revenues to committed expenditure — leaving social development as the residual claimant on a shrinking fiscal pie.

1.6 Industrial Growth Lagging GDP and National Industrial Policy

PYQs Covered

- 2017 — Industrial growth rate lagging behind GDP in post-reform period; recent industrial policy changes
- 2014 — India's direct shift from agriculture to services; can India develop without industrial base?
- 2013 — Impact of liberalisation on Indian-owned companies; competing with MNCs

1. Latest Data, Facts & Examples to Quote in Answers

- India's manufacturing sector contributes 16-17% of GDP — stagnant since 1991 liberalisation — against the 'Make in India' target of 25% by 2025. Compare with China (28% in manufacturing), South Korea (27%), and Bangladesh (22%).
- Industrial growth rate (IIP — Index of Industrial Production) has averaged 4-5% annually in the post-reform period, well below India's overall GDP growth of 6-8%. Services have consistently driven GDP growth (55% of GDP), not industry.
- GDP growth architecture post-LPG: Agriculture ~16% of GDP but employs 46% workforce; Manufacturing 16-17% of GDP (employs 12.1% per PLFS 2025); Services ~55% of GDP (IT, financial services, telecom, real estate). India's structural transformation bypassed the labour-absorbing manufacturing phase unlike East Asian tigers.
- National Industrial Policy evolution: Industrial Policy 1948 (public sector dominance) → Industrial Policy 1956 (public sector expansion) → New Industrial Policy 1991 (LPG reforms — de-licensing, FDI opening, disinvestment) → Make in India 2014 (25 key sectors, FDI

liberalisation) → NIP 2017 (proposed but not finalised) → National Manufacturing Competitiveness Programme.

- National Industrial Corridor Programme: 32 projects across 11 industrial corridors including Delhi-Mumbai Industrial Corridor (DMIC), Chennai-Bengaluru, Bangalore-Mumbai Economic Corridor (BMEC), Amritsar-Kolkata Industrial Corridor (AKIC), Vizag-Chennai Industrial Corridor etc.
- Capital Goods Sector: Total market size $92 billion; production $32 billion; contributes 12% of manufacturing output; 40% import dependence in advanced machinery; R&D investment ~0.9% vs National Capital Goods Policy target of 2.8%; 60% workforce lacks vocational training.
- IBC (Insolvency and Bankruptcy Code, 2016) impact on industry: Post-resolution, resolved firms showed 76% increase in average sales in 3 years; credit culture improved — average days loan remains overdue fell from 248-344 days to 30-87 days; creditors realise ~170% of liquidation value, but overall recovery against admitted claims only 32.8%; average CIRP takes 713 days vs 330-day limit.
- India's logistics cost has recently dropped to 7.97% of GDP (from ~14%) following National Logistics Policy (2022) implementation — a significant improvement but still above the 8% target and global benchmarks.
- Impact of LPG reforms (1991) on Indian companies: (a) IT sector explosion — Infosys, Wipro, TCS grew from small firms to global IT giants ($200+ billion combined market cap); (b) Pharma: India became 'pharmacy of the world' — Sun Pharma, Cipla, Dr Reddy's, Aurobindo supply generic medicines globally; (c) Telecom: Jio's 2016 disruption democratised data access; (d) Automotive: Tata Motors acquired JLR; Mahindra expanded globally; (e) Conglomerates: Tata Group revenues now exceed $150 billion; Reliance Industries among Fortune 500.
- Areas where Indian companies lag vs MNCs: R&D spending (India's GERD at 0.65% of GDP vs OECD average 2.7%); brand building (no truly global Indian consumer brands except TCS/Infosys in B2B); semiconductor design (India has limited fab capability); heavy engineering, defence-industrial complex (dominated by PSUs); premium consumer goods (MNCs like Unilever, P&G, Nestlé still dominate Indian market).
- Unicorn ecosystem: India has 100+ unicorns (companies valued at $1 billion+) as of 2024-25 — the 3rd largest in world after USA and China. Startup ecosystem: 1.5 lakh DPIIT-recognised startups; 17 lakh direct jobs (December 2024). GCCs (Global Capability Centres): India hosts 1,700+ GCCs employing 1.9+ million professionals — 'India's invisible export' earning $46+ billion annually.

2. Key Schemes, Frameworks & Policies

- **Make in India (2014):** 25 key sectors; targets manufacturing to 25% of GDP; 100 million new jobs; 12-14% annual industrial growth; FDI liberalisation in 26 sectors; reduced licensing requirements; Defence, Space, Insurance, Retail FDI opened.
- **National Industrial Corridor Programme (NICP):** 11 industrial corridors; 32 approved projects; Greenfield industrial nodes (smart cities); multi-modal connectivity; DMIC ($100 billion, India-Japan collaboration) as flagship; 'plug-and-play' infrastructure model.
- **National Logistics Policy (2022):** Target logistics cost from 14% to 8% of GDP by 2030; India's cost now at 7.97% of GDP; integrates with PM Gati Shakti; 12 champion service sectors; Unified Logistics Interface Platform (ULIP).

- **Capital Goods Sector — National Capital Goods Policy:** Raise manufacturing share from 12% (2016) to 20% by 2025; ₹12.2 lakh crore capital expenditure (Budget 2026-27); Electronics Components Manufacturing Scheme (ECMS) at ₹40,000 crore outlay.
- **Insolvency and Bankruptcy Code (IBC), 2016:** Paradigm shift from debtor-in-possession to creditor-in-control; 180-day CIRP (extendable to 330 days); 4 pillars: IBBI, Insolvency Professionals, Information Utilities, Adjudicating Authority; revival rate 76% sales increase post-resolution.
- **GCC Policy / GENESIS Scheme:** DPIIT initiative to nurture startups in Tier-II/III cities contributing to GCC ecosystem; India hosts 1,700+ GCCs; $46+ billion annual revenue; 28% of global STEM workforce in India.

3. Ready-to-Use Mains Intros (20-25 words)

Pick the type that matches the question's framing:

► INTRO: DATA / STATISTIC

India's manufacturing sector has stagnated at 16-17% of GDP since 1991 liberalisation — well below the 25% target of Make in India — revealing a post-reform structural paradox: liberalisation accelerated services growth but left manufacturing as India's most underdeveloped economic sector.

► INTRO: REPORT / INDEX

The Economic Survey 2024-25 flags that India's IIP-tracked industrial growth has averaged 4-5% annually in the post-reform period — less than half the 12-14% annual growth that Make in India targeted — exposing a persistent gap between industrial policy ambition and implementation reality.

► INTRO: SCHEME / POLICY

From the New Industrial Policy (1991) that dismantled the licence-permit raj to the National Industrial Corridor Programme (32 projects, 11 corridors) of today, India's industrial policy architecture has undergone a fundamental philosophical reversal — from state commanding the economy to state enabling competitive industries — yet the manufacturing GDP share remains stubbornly at 17%.

► INTRO: CURRENT AFFAIRS 2025-26

India's startup ecosystem — 1.5 lakh recognised startups and 100+ unicorns — and 1,700 GCCs earning $46 billion annually demonstrate that LPG reforms succeeded in building world-class services companies; yet the 16% manufacturing GDP share and ₹1.97 lakh crore PLI scheme reveal that industrial transformation remains India's most consequential unfinished reform agenda.

4. Ready-to-Use Mains Conclusions (20-25 words)

✓ CONCLUSION: SERVICES VS INDUSTRY CONCLUSION

India cannot sustain its Viksit Bharat aspiration on services alone — Vietnam and China prove that manufacturing absorbs more labour per rupee of output than IT; India's 46% agriculture workforce demands a manufacturing ladder out of poverty that $250 billion IT exports cannot provide.

✓ CONCLUSION: LPG LEGACY CONCLUSION

Liberalisation's greatest success was creating globally competitive Indian services companies — Infosys, TCS, Wipro, Sun Pharma — but its greatest failure was not building the manufacturing base that China built in the same three decades; correcting this asymmetry is the central challenge of India's industrial policy in its third decade of reform.

THEME 2: Indian Economy And Related Issues

This theme covers India's macroeconomic fundamentals – GDP, inflation, fiscal health, financial inclusion, inclusive growth, employment, digital economy, and the care economy. Recent reforms in GDP estimation, CPI, PLFS, and FHI provide rich, current data for answer enrichment.

2.1 Fiscal Health Index (FHI) and State Fiscal Performance

PYQs Covered

- 2025 – Fiscal Health Index as tool for assessing state fiscal performance; encouraging prudent policies

1. Latest Data, Facts & Examples to Quote in Answers

- NITI Aayog launched the 2nd Annual Edition of Fiscal Health Index (FHI) 2026, providing comprehensive, comparable assessment of fiscal performance of Indian States. States account for nearly one-third of India's general government debt.
- FHI has 5 key pillars: (1) Quality of Expenditure – productive vs unproductive spending ratio; (2) Revenue Mobilisation – Own Tax Revenue growth and tax buoyancy; (3) Fiscal Prudence – deficit management and off-budget liabilities control; (4) Debt Index – ratio of debt to GSDP; (5) Debt Sustainability – interest payments as share of revenue receipts.
- State fiscal stress indicators: Combined gross fiscal deficit of States rose from 2.6% of GDP in FY22 to 3.2% in FY25. 18 States recorded fiscal deficits above the 3% of GSDP limit recommended by the 15th Finance Commission in FY2023-24. Outstanding guarantees of States increased from 2% of GDP (end-March 2017) to 3.9% (end-March 2024).
- Revenue composition: States' Own Tax Revenue (SOTR) is the largest component of revenue receipts, contributing about 47% between 2014-15 and 2023-24. In FY 2023-24, 16 States were in Revenue Surplus, while 12 States were in Revenue Deficit.
- Committed expenditure (salaries, pensions, interest payments, subsidies) consistently absorbed more than 50% of revenue expenditure, reaching 51.76% in FY2023-24 – the key structural constraint on quality of State expenditure.
- Unconditional Cash Transfer (UCT) schemes (free electricity, farm loan waivers, cash doles) are projected to expand fivefold in states between 2022-26, with many states facing revenue deficits simultaneously – raising fiscal sustainability concerns (Economic Survey 2026).
- How FHI encourages prudent policies: (1) Competitive Federalism through public state rankings; (2) Evidence-based policymaking by identifying gaps and best practices; (3) Tailored Policy Frameworks for North-Eastern and Himalayan states with distinct fiscal profiles; (4) Targeted interventions by outlining each state's fiscal strengths and weaknesses.
- FRBM framework: Under the Fiscal Responsibility and Budget Management Act, fiscal deficit target is ≤3% of GDP; combined Centre+State fiscal deficit ≤60% of GDP; Centre ≤40% of GDP; Central government fiscal deficit target for FY26 is 4.4% of GDP.

2. Key Schemes, Frameworks & Policies

- **Fiscal Health Index (FHI 2026):** NITI Aayog; 5 pillars: Quality of Expenditure, Revenue Mobilisation, Fiscal Prudence, Debt Index, Debt Sustainability; covers all Indian States; promotes competitive federalism.
- **FRBM Act Framework:** Fiscal deficit ≤3% of GDP; debt-to-GDP ceiling ≤60% (Centre+States); Centre ≤40% of GDP; fiscal consolidation roadmap.

- **15th Finance Commission (2021-26):** Recommended 41% devolution to States (down from 42% due to J&K reorganisation); vertical and horizontal tax devolution formula; grants for local bodies ₹4.36 lakh crore.
- **CAG State Finances Report (2023-24):** Identifies off-budget borrowings, contingent liabilities, and structural fiscal imbalances; provides the empirical foundation for FHI assessments.

3. Ready-to-Use Mains Intros (20-25 words)

Pick the type that matches the question's framing:

▶ INTRO: DATA / STATISTIC

India's 18 States recorded fiscal deficits exceeding the 3% GSDP limit in FY2023-24, while State outstanding guarantees ballooned from 2% to 3.9% of GDP in seven years — a fiscal health crisis that NITI Aayog's Fiscal Health Index (FHI) 2026 now systematically benchmarks across all States.

▶ INTRO: REPORT / INDEX

The 2nd Annual Edition of NITI Aayog's Fiscal Health Index (FHI) 2026 reveals that committed expenditure — salaries, pensions, interest payments, and subsidies — consumed 51.76% of States' revenue expenditure in FY2023-24, crowding out the productive social investment that inclusive growth demands.

▶ INTRO: SCHEME / POLICY

NITI Aayog's Fiscal Health Index, built on five pillars of Quality of Expenditure, Revenue Mobilisation, Fiscal Prudence, and Debt Management, is India's most comprehensive state-level fiscal benchmarking tool — converting fiscal opacity into accountability through the competitive peer pressure of public rankings.

▶ INTRO: CURRENT AFFAIRS 2025-26

As UCT schemes multiply across Indian states — projected to expand fivefold between 2022-26 — the Economic Survey 2026 warns that welfare populism consuming 8.26% of budgetary expenditure in some states is crowding out the capital formation essential for sustained growth; the FHI provides the framework to course-correct.

4. Ready-to-Use Mains Conclusions (20-25 words)

✓ CONCLUSION: FISCAL FEDERALISM CONCLUSION

FHI's value lies not in naming and shaming but in enabling evidence-based course correction — from rationalising UCTs to improving Own Tax Revenue — without which India's goal of $5 trillion GDP will remain hostage to the fiscal fragility of its 28 States.

✓ CONCLUSION: COMPETITIVE FEDERALISM CONCLUSION

Public state rankings through FHI operationalise the competitive federalism principle — States competing for better fiscal scores are simultaneously competing for investor confidence, lower borrowing costs, and greater fiscal space for capital expenditure.

2.2 GDP — Estimation Methodology, Revised Series, National Income

PYQs Covered

- 2021 — Computing methodology of India's GDP before and after 2015
- 2020 — Potential GDP and its determinants; factors inhibiting India from realizing it
- 2021 — V-shaped recovery
- 2019 — Steady GDP growth and low inflation leaving India in good shape?

1. Latest Data, Facts & Examples to Quote in Answers

- New GDP Series (2025): Base year revised from 2011-12 to 2022-23. MoSPI released new Annual and Quarterly National Accounts Estimates incorporating major methodological improvements.
- Real GDP growth for 2025-26 estimated at 7.6% — higher than 7.1% recorded in 2024-25 — making India one of the fastest-growing major economies globally.
- Key changes in the new GDP series: (1) Base Year: 2022-23 (chosen as post-pandemic 'normal' year, free from GST transition distortions of 2017-21 and COVID shock of 2020-22); (2) Double Deflation: Applied to manufacturing and agriculture — deflating both output value and intermediate inputs separately (replacing old single deflation method); (3) High-frequency data integration: GST Network (GSTN), e-Vahan portal, Public Financial Management System (PFMS); (4) Supply and Use Tables (SUT) aligned with UN SNA 2008 — reduces discrepancy between production-based and expenditure-based GDP; (5) Inclusion of gig economy, hired domestic workers, digital platform activities; (6) ASUSE and PLFS for informal/household sector measurement.
- IMF graded India's National Accounts statistics as 'C' (adequate but below best-practice standard) in 2025, citing: irregular base year updates; single deflation method (now corrected); reliance on extrapolated informal-sector benchmarks; discrepancy between production-side GVA and expenditure-side GDP.
- Previous 2015 GDP revision: Changed base year from 2004-05 to 2011-12; shifted from GDP at factor cost (MCA21 company data) to GDP at market prices; resulted in India's headline growth rate appearing higher, prompting 'statistical controversy'.
- Potential GDP: India's potential GDP growth is estimated at 6.5-7% by RBI and IMF. Key determinants: TFP (Total Factor Productivity) growth, capital formation (GFCF/GDP approximately 32-33%), labour force quality (skill levels, education), institutional quality, infrastructure quality.
- Factors inhibiting potential: Low TFP growth compared to China and East Asia; India's GFCF/GDP ratio at 32-33% is below China's 42% during its fastest growth decades; incomplete structural transformation (agriculture absorbs 46% of workforce but contributes only 16% of GDP); infrastructure gaps (logistics cost 14% of GDP).
- V-shaped recovery (2021 PYQ context): India's GDP contracted 6.6% in FY21 (COVID) and recovered to 8.7% growth in FY22 — the fastest among G20 economies, largely attributed to pent-up demand, robust capital expenditure, and manufacturing resilience. However, 'K-shaped recovery' critique noted: formal sectors recovered faster while informal workers, MSMEs, and the poor bore disproportionate burden.

2. Key Schemes, Frameworks & Policies

- **New GDP Series (Base Year 2022-23):** MoSPI, 2025; double deflation; GSTN, e-Vahan, PFMS integration; SUT framework; includes gig economy; ASUSE + PLFS for informal sector.
- **Double Deflation Method:** Deflates gross output using output price index AND intermediate inputs using a separate input price index; gives Real GVA = Deflated Gross Output − Deflated Intermediate Inputs; adopted in manufacturing and agriculture sectors.
- **IMF Data Quality Assessment (Grade C):** Identifies India's statistical gaps: deflation method, informal sector extrapolation, GDP discrepancies; recommends chain-weighted system, PPI-based deflation, household income survey.

- **GDP at Market Prices (post-2015):** GDP at market prices = GVA at basic prices + Net taxes on products; shifted from GDP at factor cost to market prices in 2015 rebasing; aligns with SNA 2008.
- **Potential GDP Framework:** Determined by: TFP growth + Capital deepening + Labour force expansion + Institutional quality; India's potential estimated at 6.5-7% by RBI; realisation gap attributed to structural bottlenecks.

3. Ready-to-Use Mains Intros (20-25 words)

Pick the type that matches the question's framing:

▶ INTRO: DATA / STATISTIC

India's real GDP growth is estimated at 7.6% for 2025-26 — the fastest among major economies — yet the IMF's 'C' grade for India's National Accounts statistics (2025) signals that the numbers measuring this growth need as much reform as the economy producing it.

▶ INTRO: REPORT / INDEX

MoSPI's new GDP series (base year 2022-23), integrating GST network data, e-Vahan portal, and the double deflation method, represents the most significant upgrade to India's national accounts architecture since 2015 — addressing longstanding criticisms about India's reliance on decade-old informal sector benchmarks.

▶ INTRO: SCHEME / POLICY

The shift from single to double deflation in India's new GDP series — deflating both gross output and intermediate inputs separately — is a methodological gold standard adopted by the US and major OECD economies that ensures manufacturing growth figures are not distorted by volatile global commodity input prices.

▶ INTRO: CURRENT AFFAIRS 2025-26

India's GDP growth at 7.6% for 2025-26 represents both an achievement and an aspiration — the new base year of 2022-23, incorporating the gig economy and real-time GSTN data, provides a more honest baseline, while the IMF's 'C' grade reminds us that statistical credibility must match economic ambition.

4. Ready-to-Use Mains Conclusions (20-25 words)

✓ CONCLUSION: STATISTICAL INTEGRITY CONCLUSION

The IMF's 'C' grade is not an indictment of India's growth story but a technical call for statistical modernisation — implementing the chain-weighted system, PPI-based deflation, and the planned Household Income Survey (2026) will upgrade India's data credibility from 'C' to 'A', matching the economy it measures.

✓ CONCLUSION: POTENTIAL REALISATION CONCLUSION

India's potential GDP of 6.5-7% will remain theoretical unless three structural bottlenecks are resolved: the agriculture-labour misallocation (46% workforce, 16% GDP), the infrastructure deficit (14% logistics cost burden), and the capital formation gap (GFCF at 32% vs China's 42% during its takeoff phase).

2.3 Inflation — Food Inflation and RBI Monetary Policy

PYQs Covered

- 2024 — causes of persistent high food inflation; effectiveness of rbi monetary policy to control it

1. Latest Data, Facts & Examples to Quote in Answers

- CPI base year revised from 2012 to 2024 (MoSPI, 2025): Items expanded from 299 to 358; food and beverages weight reduced from 45.86% to 36.75% (reflecting Engel's Law — as incomes rise, food share in expenditure falls); integration of HCES 2023-24 data.
- RBI's inflation targeting framework: CPI (Combined) target of 4% ± 2% (i.e., upper tolerance 6%, lower tolerance 2%); mandated under RBI Act, 1934 as amended by Finance Act, 2016. Monetary Policy Committee (MPC) has 6 members (3 RBI, 3 Government appointed).
- Food inflation drivers: (1) Supply-side — climate shocks (erratic monsoon, heat waves affecting vegetables/cereals/pulses), logistical inefficiencies (cold chain deficit: India has only 8,186 cold storage units for 315 million tonnes production); (2) Structural — crop diversification failure, mandi system distortions, middlemen markups; (3) Demand-side — rising rural incomes increasing demand for proteins (eggs, poultry, milk, fish); (4) Global — imported food inflation via edible oils (70% import dependence); (5) Input costs — fertiliser prices (74% urea import dependence).
- CPI food inflation averaged above 6% for much of 2023-24 and 2024-25, driven primarily by vegetables (tomato, onion, potato — 'TOP' inflation), cereals, and pulses. RBI's MPC increased Repo Rate from 4% to 6.5% (May 2022-February 2023) — a 250 bps rate hike cycle.
- Limitations of monetary policy against food inflation: Monetary policy is effective against demand-pull inflation but limited against supply-side food inflation. Rate hikes increase the cost of farm credit, paradoxically raising agricultural production costs. The 'monetary transmission problem' — credit channel works imperfectly in agricultural economies. High food weight in CPI (even at reduced 36.75%) means food supply shocks dominate headline inflation regardless of interest rate actions.
- Key supply-side interventions: Essential Commodities Act modifications to prevent hoarding; Price Stabilization Fund (tomato, onion); export bans on key commodities (non-basmati white rice ban 2023, onion export ban 2023); Operation Greens (TOP scheme) for supply chain development; PM Annadata Aay SanrakShan Abhiyan (PM-AASHA) for MSP procurement.
- RBI's repo rate as of FY26: 6.0% (RBI began cutting rates from 6.5% in early 2025 as food inflation moderated — a 50 bps cut cycle begun under the new MPC composition after inflation eased below 4% target by early 2025).
- Supply-side solutions the PYQ demands: (1) Cold chain infrastructure investment — PM Kisan SAMPADA Yojana; (2) Agricultural market reforms — e-NAM integration; (3) AMRUT 2.0 style cluster approach for vegetable hubs; (4) Crop diversification from paddy-wheat to pulses, oilseeds; (5) Reducing import dependence for edible oils through PM KUSUM solar pumps to boost domestic oilseed production.

2. Key Schemes, Frameworks & Policies

- **Flexible Inflation Targeting (FIT):** 4% ± 2% CPI target; if breached for 3 consecutive quarters, MPC must report to government; operationalised 2016.
- **Monetary Policy Committee (MPC):** 6 members (3 RBI ex officio; 3 external appointed by Government); decisions by majority vote; repo rate is the key policy instrument.
- **CPI 2024 (New Base):** Base year 2024; 358 items; food weight 36.75% (down from 45.86%); HCES 2023-24 data; COICOP 2018 classification; 12 divisions; rural housing included.

- **Price Stabilization Fund (PSF):** Procurement and buffer stocking of price-sensitive commodities (onion, tomato, pulses); used for market intervention during price spikes.
- **Operation Greens / PM-TOP:** Subsidised transportation and storage for tomato, onion, and potato from surplus to deficit regions; reduces post-harvest losses and price volatility.

3. Ready-to-Use Mains Intros (20-25 words)

Pick the type that matches the question's framing:

▶ INTRO: DATA / STATISTIC

India's CPI food inflation averaged above 6% through much of 2023-25, even as RBI raised repo rates by 250 bps to 6.5% — a performance gap that reveals the structural truth that supply-side food shocks cannot be tamed by demand-side interest rate levers alone.

▶ INTRO: REPORT / INDEX

Even with the new CPI base year (2024) reducing food and beverages weight from 45.86% to 36.75%, food price volatility — driven by erratic monsoons, cold-chain deficits, and middlemen markups — remains India's most persistent inflation challenge, exposing the limits of monetary policy as a food price stabilisation tool.

▶ INTRO: SCHEME / POLICY

India's Price Stabilization Fund, export bans on non-basmati rice and onion (2023), and Operation Greens all represent supply-side interventions that RBI's Monetary Policy Committee cannot replicate — underscoring that food inflation in India requires cooperative action between fiscal authorities and the central bank, not rate hikes alone.

▶ INTRO: CURRENT AFFAIRS 2025-26

As RBI began cutting the repo rate from 6.5% in 2025 — having raised it by 250 bps from 2022 — food inflation has moderated below 4%, validating both the MPC's vigilance and the supply-side interventions that accompanied monetary tightening; yet structural cold-chain gaps and monsoon dependency persist as structural inflation risks.

4. Ready-to-Use Mains Conclusions (20-25 words)

✓ CONCLUSION: MONETARY POLICY LIMITS CONCLUSION

Monetary policy is a blunt instrument for food inflation — raising rates increases farm credit costs and reduces agricultural investment, potentially worsening the supply constraint that caused the inflation. India needs a complementary 'Food Inflation Protocol' combining PSF intervention, cold chain investment, and crop diversification incentives.

✓ CONCLUSION: STRUCTURAL REFORM CONCLUSION

India loses 16-40% of food production post-harvest due to inadequate cold storage infrastructure — cold chain investment, not rate hikes, is the single most effective anti-food-inflation intervention available to India's policymakers.

2.4 HDI, IHDI, Inclusive Growth and Development

PYQs Covered

- 2025 — HDI vs IHDI; why IHDI is a better indicator of inclusive growth
- 2022 — Inclusive growth under market economy; financial inclusion
- 2020 — Intra-generational and inter-generational equity; inclusive growth and sustainable development
- 2019 — Inclusive growth strategy for inclusiveness and sustainability
- 2017 — Salient features of inclusive growth; India's experience

1. Latest Data, Facts & Examples to Quote in Answers

- Human Development Index (HDI): Published by UNDP; combines health (life expectancy at birth), education (mean years of schooling + expected years of schooling), and standard of living (GNI per capita at PPP). India's HDI in 2024 Report: India ranked 134th out of 193 countries with an HDI value of 0.644 — classified as 'Medium Human Development'. India's HDI has improved from 0.434 (1990) to 0.644 (2022) — a 48.5% increase.
- Inequality-adjusted HDI (IHDI): Adjusts HDI for inequalities in health, education, and income distribution. India's IHDI value = 0.475, giving an inequality-adjusted 'loss' of 26.1% from the unadjusted HDI (0.644). This 26.1% 'loss' represents the human development foregone due to inequality — the gap between what is and what could be if growth were perfectly inclusive.
- IHDI vs HDI key distinction: HDI measures average achievements; IHDI measures how these achievements are distributed. A country where a small elite captures all development gains may have a decent HDI but a very low IHDI — revealing the 'inclusive growth deficit'. India's IHDI loss (26.1%) is higher than the global average (20.1%), indicating that India's growth is less inclusive than the world average.
- World Inequality Report findings on India: India is among the most unequal large nations globally. Top 10% earners command 58% of national income; top 1% captures 23% of national income. Bottom 50% receives only 15% of national income. Top 10% own 65% of national wealth; top 1% own 40% of assets. Female labour force participation at 15.7% (among the world's lowest). Oxfam data: it would take a minimum-wage rural worker 941 years to earn what a top garment industry executive makes in a year.
- Key PLFS 2025 data on inclusion: Overall LFPR = 59.3%; Male LFPR = 79.1%; Female LFPR = 40.0% (stark gender gap). WPR = 57.4%; Unemployment Rate = 3.1% (overall). NEET (Not in Employment, Education, or Training): 21.0% of youth aged 15-24 are NEET — revealing hidden exclusion behind low headline unemployment. 56.2% of workers are self-employed; 43.0% still in agriculture.
- Financial Inclusion Index (FII): RBI's FII (composite index of access, usage, and quality of financial services) rose to 67 in 2025, up 24.3% since 2021. PMJDY: Over 55.98 crore beneficiaries as of August 2025 (55%+ accounts held by women). PMMY (MUDRA loans): 53.85 crore loans sanctioned as of August 2025 (₹20 lakh ceiling). UPI: Accounts for 85% of all digital transactions in India; powers nearly 50% of global real-time digital payments.
- Multidimensional Poverty: India's MPI (NITI Aayog, based on National Family Health Survey NFHS-5, 2019-21): India's MPI value = 0.069; 14.96% of India's population (approximately 20 crore people) were multidimensionally poor. India lifted an estimated 415 million people out of multidimensional poverty between 2005-06 and 2019-21.
- Inclusive Growth definition: UNDP defines it as 'process and outcome where all groups of people have participated in growth and have benefitted equitably from it.' The 12th Five Year Plan's theme was 'Faster, Sustainable and More Inclusive Growth.'
- Intra-generational equity: Ensuring current poor and marginalised populations benefit equally from growth — horizontal equity between groups living simultaneously. Inter-generational equity: Ensuring

growth does not compromise the ability of future generations to meet their needs — embodied in sustainable development. The SDG framework (2015-2030) integrates both.

2. Key Schemes, Frameworks & Policies

- **Human Development Index (HDI):** UNDP; 3 dimensions: health (life expectancy), education (schooling years), income (GNI per capita PPP). India = 0.644 (134th/193). Annual Human Development Report.
- **Inequality-adjusted HDI (IHDI):** HDI discounted for inequality; India loses 26.1% of HDI due to inequality (IHDI = 0.475 vs HDI 0.644). Global average loss = 20.1%.
- **Multidimensional Poverty Index (MPI):** NITI Aayog/UNDP; 3 dimensions, 12 indicators; India's MPI = 0.069; 14.96% poor; India lifted 415 million from multidimensional poverty 2005-2021.
- **Financial Inclusion Index (FII):** RBI composite index; 0-100 scale; 3 sub-indices: Access (35%), Usage (45%), Quality (20%); India's FII = 67 in 2025.
- **PMJDY — Jan Dhan Yojana:** 55.98 crore accounts (Aug 2025); 55%+ held by women; zero-balance accounts; RuPay debit cards; ₹5,000 overdraft facility; foundation of financial inclusion.

3. Ready-to-Use Mains Intros (20-25 words)

Pick the type that matches the question's framing:

▶ INTRO: DATA / STATISTIC

India's HDI is 0.644 (134th globally) — but its IHDI drops to 0.475, reflecting a 26.1% 'inequality loss' higher than the global average of 20.1%. This gap is not just a statistical curiosity; it quantifies the inclusive growth India is failing to deliver to the bottom half that shares just 15% of national income.

▶ INTRO: REPORT / INDEX

UNDP's Human Development Report 2024 ranks India at 134th in the HDI; yet the more telling measure — the IHDI — reveals that India loses 26.1% of its human development achievements to inequality, with the top 1% owning 40% of national wealth while the bottom 50% subsists on 15% of national income.

▶ INTRO: SCHEME / POLICY

India's financial inclusion journey — from 53% banking exclusion in 2011 to 55.98 crore PMJDY accounts (August 2025) — exemplifies the UNDP's framing of inclusive growth as ensuring 'all groups participate in growth and benefit equitably'; yet RBI's FII score of 67/100 signals that access without usage and quality remains inclusion in name only.

▶ INTRO: CURRENT AFFAIRS 2025-26

India's MPI data showing 415 million lifted from multidimensional poverty between 2005 and 2021 is genuine progress — but the PLFS 2025 finding that 21% of youth aged 15-24 are NEET (Not in Employment, Education, or Training) reveals the next frontier: growth that creates quality employment, not just survivalist self-employment.

4. Ready-to-Use Mains Conclusions (20-25 words)

✓ CONCLUSION: IHDI VS HDI CONCLUSION

IHDI is not merely a better measure than HDI — it is a more honest measure. HDI can hide extreme inequality behind averaging; IHDI makes the distribution transparent. For India, with its 26.1% inequality loss, IHDI's policy prescription is clear: pro-poor growth, progressive taxation, and universal public services are not redistribution — they are prerequisites of genuine development.

✓ CONCLUSION: INCLUSIVE GROWTH SUSTAINABILITY CONCLUSION

Inclusive growth and sustainable development are not competing objectives — India's experience shows they are mutually reinforcing: a more equal distribution of growth creates a larger domestic consumer base, reduces social tensions, and builds the human capital foundation for long-run productivity that pure capital accumulation cannot achieve.

2.5 Employment — Structural Unemployment, PLFS Methodology, Gig Economy, Care Economy

PYQs Covered

- 2023 — Structural unemployment; methodology for computing unemployment; improvements
- 2023 — Care economy vs monetized economy; care economy through women empowerment
- 2022 — Labour productivity and job creation
- 2016 — Globalisation and formal sector employment decline; informalisation
- 2015 — Jobless growth; nature of economic growth in India
- 2014 — Demographic dividend vs employability; where will India's jobs come from?

1. Latest Data, Facts & Examples to Quote in Answers

- PLFS Annual Report 2025 (NSO/MoSPI): Overall LFPR = 59.3% (population 15+); Male LFPR = 79.1%; Female LFPR = 40.0%. Worker Population Ratio (WPR) = 57.4%. Unemployment Rate (UR) = 3.1% overall (Rural 2.4%, Urban 4.8%). Agriculture remains largest employer: 43.0% (down from 44.8%). Manufacturing: 12.1% (up from 11.6%). 56.2% workers are self-employed.
- NEET data (critical for structural unemployment analysis): 21.0% of youth aged 15-24 are NEET (Not in Employment, Education, or Training). 24.9% of working-age population (15-59 years) are NEET. This signals massive hidden unemployment — people who have given up actively seeking work.
- Unemployment rate of 3.1% is misleading — it reflects 'disguised unemployment' and 'distress employment' rather than a healthy labour market. The LFPR-WPR gap is narrow (59.3% vs 57.4%) not because everyone finds quality jobs but because poverty compels acceptance of any work — even unpaid family labor in agriculture.
- Methodology for computing unemployment: PLFS uses UPSS (Usual Principal and Subsidiary Status, over 365 days) and CWS (Current Weekly Status, over 7 days). UPSS undercounts unemployment (annual reference period means seasonal workers appear 'employed'). CWS is more sensitive to labor market conditions but still misses those who have stopped searching.
- Improvements needed in unemployment measurement: (a) Monthly unemployment tracking (currently annual/quarterly for urban only); (b) Underemployment measure (hours-based) alongside headline unemployment; (c) Time-use surveys to capture unpaid care work; (d) Income-based employment quality measure (not just presence of work); (e) Integration of PLFS with digital labor data (e-Shram, GSTN payroll).
- Care Economy: All unpaid services provided within families and communities — childcare, eldercare, cooking, cleaning, water and fuel collection. India's care economy is estimated to contribute 15-17% of GDP if valued at market rates (ILO estimates). Women perform 90% of unpaid care work in India (PLFS data: self-employed males work 17.5 hours more per week than females in urban areas and 12.3 hours more in rural areas — the 'unpaid work gap' that keeps women out of the formal economy).
- Care Economy to Monetized Economy — pathways: (1) Childcare infrastructure: National Creche Scheme and Anganwadi expansion to free women for formal employment; (2) SHG-based professional care services: training SHG women in formal care work (nursing, daycare, disability support); (3) MGNREGA expansion to include community care work; (4) Universal childcare centres in industrial clusters (OSHWC Code provision for crèches in establishments with 50+ women workers).

- Gig Economy: 1.2 crore gig workers in India (FY25, up from 77 lakh in FY21); approximately 2% of India's total workforce. NITI Aayog estimates gig economy could employ 2.35 crore workers by 2030 (from 77 lakh in FY21). Skill distribution: 33.8% low-skilled (delivery/driving), 38.7% medium-skilled (plumbing, clerical), 27.5% high-skilled (software, legal). 40% of gig workers earn below ₹15,000/month.
- Jobless growth critique: India's GDP grew 6-8% annually but formal employment grew much slower. Capital-intensive services sector drives growth but employs fewer people per rupee of output. E-Shram survey: informal non-agricultural sector employs over 150 million workers — the largest bloc of 'statistically employed but economically marginalised' workers.
- Labour productivity: ILO data: India's GDP per working hour = $8, placing it at 133rd position globally. To boost labour productivity: skill development (PM Kaushal Vikas Yojana), technology adoption, formalisation to access higher productivity formal sector jobs, infrastructure investment to connect workers to opportunities.

2. Key Schemes, Frameworks & Policies

- **PLFS Methodology:** NSO/MoSPI; UPSS (annual) + CWS (weekly) + Daily Activity Status (daily); rural annual + quarterly; urban quarterly; 2025 annual report covers 2024-25.
- **Usual Principal and Subsidiary Status (UPSS):** Based on 365-day reference period; captures 'usual' employment; misses seasonal and short-term unemployment; main methodology for India's official unemployment rate.
- **Gig Workers — Code on Social Security:** First statutory recognition; aggregators to contribute 1-2% of annual turnover to social security fund; Ayushman Bharat extended to 1 crore gig workers; e-Shram registration.
- **Care Economy Interventions:** National Creche Scheme; MGNREGA expansion; OSHWC Code crèche provision (50+ women workers); SHG training for professional care; DAY-NRLM Lakhpati Didi.
- **PM Kaushal Vikas Yojana (PMKVY):** Short-term skill training for youth; PMKVY 4.0 includes Industry 4.0 skills (AI, IoT, robotics, 3D printing, drones, coding). 14 lakh candidates trained annually.

3. Ready-to-Use Mains Intros (20-25 words)

Pick the type that matches the question's framing:

► INTRO: DATA / STATISTIC

India's headline unemployment rate is 3.1% (PLFS 2025) — yet 21% of youth aged 15-24 are NEET and 56.2% of workers are self-employed, many in subsistence agriculture. This is not a healthy labour market; it is a 'distress employment' economy where poverty compels participation rather than opportunity drives it.

► INTRO: REPORT / INDEX

The PLFS Annual Report 2025 reveals India's deepest structural employment contradiction: Female LFPR at 40% vs Male LFPR at 79.1% — a 39 percentage-point gap explained not by preference but by the unpaid care economy that traps women in 12-17 hours of additional weekly domestic work that no GDP measure captures.

► INTRO: SCHEME / POLICY

India's care economy — unpaid childcare, eldercare, and domestic services primarily performed by women — is estimated to represent 15-17% of GDP if valued at market rates, yet remains invisible in national accounts, PLFS data, and labour policy, making it both the largest employer and the least recognised sector in India's economy.

► INTRO: CURRENT AFFAIRS 2025-26

Budget 2026-27's 'High-Powered Education to Employment and Enterprise Standing Committee' and 1 lakh Allied Health Professionals initiative recognise what PLFS 2025 confirms: India's 24.9% working-age NEET rate *is not a private failure but a public policy crisis demanding structural intervention in skills, care infrastructure, and job quality.*

4. Ready-to-Use Mains Conclusions (20-25 words)

✓ CONCLUSION: STRUCTURAL UNEMPLOYMENT CONCLUSION

India's structural unemployment cannot be solved by demand stimulus alone — it requires three structural fixes: skill-supply alignment (linking PMKVY to actual employer demand), geographic mobility (affordable housing near industrial clusters), and capital access for MSME job creation that absorbs the 90% informal workforce into formal productivity.

✓ CONCLUSION: CARE ECONOMY CONCLUSION

Bringing the care economy into the monetized economy is not a feminist aspiration but an economic imperative — if India's female LFPR rose from 40% to 50%, it would add an estimated $770 billion to GDP (McKinsey Global Institute estimate); universal childcare infrastructure is the highest-return social investment available to India today.

2.6 Digital Economy, Digitalization and Financial Inclusion

PYQs Covered

- 2023 — Status of digitalization in India; problems and improvements
- 2016 — PMJDY and financial inclusion of the poor
- 2017 — Macroeconomic indicators including savings rate as driver of growth

1. Latest Data, Facts & Examples to Quote in Answers

- India's Digital Public Infrastructure (DPI) stack: India Stack (Aadhaar + UPI + DigiLocker + Health Stack + ONDC + GSTN). Described by the World Bank as the 'DPI blueprint for developing nations'. India's DPI model is being adopted in 30+ countries.
- UPI transactions: UPI accounts for 85% of all digital transactions in India. In January 2025, UPI processed over 15 billion monthly transactions. UPI powers approximately 50% of global real-time digital payment volume — making India the world's largest real-time payments market.
- Jan Dhan ecosystem: PMJDY accounts = 55.98 crore (August 2025), 55%+ held by women. Total DBT transfers through Jan Dhan accounts: over ₹35 lakh crore since inception. Zero-balance accounts enabled banking penetration from 53% (2011) to 80%+ (2024).
- MUDRA loans: 53.85 crore loans sanctioned under PM Mudra Yojana as of August 2025; loan ceiling extended to ₹20 lakh from ₹10 lakh (Budget 2024-25); supports non-corporate, non-farm micro-enterprises.
- RBI's Financial Inclusion Index: 67 in 2025 (up 24.3% from 2021). Three sub-indices: Access (35% weight) — physical availability; Usage (45% weight) — actual utilisation; Quality (20% weight) — customer protection, financial literacy.
- Digital divide challenges: (1) Rural internet penetration at approximately 43% vs urban 72% (TRAI data 2024); (2) Digital literacy — only 38% of rural women are digitally literate (NFHS-5); (3) Cybersecurity risks — digital fraud increased 300% between 2019-24 (NPCI data); (4) Data localization costs; (5) Exclusion of elderly, disabled, and linguistically disadvantaged.
- Budget 2026-27 digital push: India Semiconductor Mission 2.0; Bharat VISTAAR (AI tool for agriculture); Digital Aajeevika Register for SHG women; Skill India Digital Hub (SIDH) for transparent

skill certification; AVGC (Animation, Visual Effects, Gaming, Comics) Content Creator Labs in 15,000 secondary schools.

- ONDC (Open Network for Digital Commerce): Launched 2022; democratises e-commerce by allowing any seller on any buyer app; over 6 crore transactions by early 2025. PM Gati Shakti: PM's National Master Plan for multi-modal connectivity integrating 16 ministries' infrastructure plans through a single GIS platform.
- Digitalization challenges requiring improvement: (1) Internet bandwidth in rural areas (BharatNet Phase 3 still incomplete); (2) Grievance redressal mechanisms for digital financial fraud; (3) Data privacy (DPDPA 2023 framework, rules under finalisation); (4) Interoperability of health, agriculture, and tax data silos; (5) Digital literacy programs reaching the last mile.

2. Key Schemes, Frameworks & Policies

- **India Stack / Digital Public Infrastructure (DPI):** Aadhaar (identity) + UPI (payments) + DigiLocker (documents) + Health Stack + ONDC + eSign + GSTN; open-source, interoperable, consent-based.
- **Unified Payments Interface (UPI):** NPCI-managed; 85% of India's digital transactions; 50% of global real-time payments; international expansion: Singapore, Bhutan, UAE, France, Nepal.
- **PMJDY (Pradhan Mantri Jan Dhan Yojana):** 55.98 crore accounts; 55%+ women; ₹5,000 overdraft; RuPay debit card; zero balance; foundation of DBT and financial inclusion.
- **Open Network for Digital Commerce (ONDC):** Decentralises e-commerce; allows interoperability between buyer and seller apps; 6+ crore transactions (2025); digitises local kirana stores and artisans.
- **BharatNet Project:** Optical fibre to Gram Panchayats; Phase 3 targets 100% village broadband connectivity; critical for rural digital inclusion and e-governance.

3. Ready-to-Use Mains Intros (20-25 words)

Pick the type that matches the question's framing:

► INTRO: DATA / STATISTIC

India processed over 15 billion UPI transactions per month in early 2025 — powering 50% of global real-time digital payments — yet rural internet penetration remains at 43% and only 38% of rural women are digitally literate, revealing a digitalization story of simultaneous global leadership and domestic exclusion.

► INTRO: REPORT / INDEX

The World Bank's recognition of India's DPI stack as the blueprint for developing nations sits alongside a sobering domestic reality: digital fraud increased 300% between 2019-24, and the DPDPA 2023's rules on data privacy are still awaiting finalisation — two indicators that India's digital infrastructure has outpaced its digital governance architecture.

► INTRO: SCHEME / POLICY

India Stack — Aadhaar + UPI + DigiLocker + ONDC — represents a deliberately designed open, interoperable Digital Public Infrastructure that places India's financial, identity, and commerce layers in the public domain rather than in private walled gardens, a model now being adopted by 30+ developing nations.

► INTRO: CURRENT AFFAIRS 2025-26

Budget 2026-27's India Semiconductor Mission 2.0, Bharat VISTAAR AI agricultural tool, and AVGC labs in 15,000 schools collectively signal India's ambition to move from DPI consumer to DPI creator — but completing BharatNet Phase 3 and operationalising DPDPA rules are the near-term determinants of whether digital India is inclusive India.

4. Ready-to-Use Mains Conclusions (20-25 words)

✓ CONCLUSION: DIGITAL INCLUSION CONCLUSION

India's digital economy cannot be measured by UPI transaction volumes alone — the benchmark must be whether the 43% of rural India without reliable internet, the 62% of rural women without digital literacy, and the MSMEs without broadband access can participate in and benefit from the digital economy India's government celebrates.

✓ CONCLUSION: DPI MODEL CONCLUSION

India's DPI model — open, interoperable, consent-based, and built in the public domain — is a genuine global contribution that reduces the cost of financial inclusion from $20/person (traditional banking) to less than $1 (UPI). Exporting this model to 30+ developing nations is India's most consequential soft-power achievement of the decade.

2.7 Macroeconomic Indicators — External Sector, Protectionism, Globalisation

PYQs Covered

- 2025 — Challenges for India in a protectionist world; how to meet them
- 2018 — Protectionism and currency manipulation affecting India's macroeconomic stability
- 2015 — Gold imports and Balance of Payments; Gold Monetization Scheme
- 2017 — Savings rate and other growth potential factors

1. Latest Data, Facts & Examples to Quote in Answers

- US imposing 50% tariff on Indian goods under Trump 2.0 (2025) is the defining protectionist threat to India's export sector. India's total exports (goods + services) = $825.3 billion in FY25 (goods: $437.7 billion; services: $387.5 billion — all-time high). US is India's largest export destination.
- India's macro snapshot (FY25): GDP growth 7.1% (new series: 7.6% for FY26 estimate); Current Account Deficit approximately 1.0-1.2% of GDP (improved from 2.7% in FY23); Foreign Exchange Reserves approximately $688-700 billion (as of early 2026 — providing approximately 12 months of import cover); CPI inflation moderated to below 4% by early 2025; Repo Rate 6.0% (after 50 bps cut from 6.5%).
- Rupee depreciation: Indian Rupee depreciated to approximately ₹96/USD in May 2026 (from ₹83 in mid-2023) — driven by strong dollar (US Fed rate differentials), capital outflows, oil import payments. Rupee depreciation raises import costs (India imports 85% of crude oil) but improves export competitiveness.
- FDI: Cumulative FDI inflows reached $1.14 trillion by December 2025. Maharashtra received highest FDI, followed by Karnataka and Gujarat. Singapore is the top source of FDI, followed by Mauritius and USA. Computer software & hardware received highest sectoral FDI, followed by services sector.
- Export Promotion Mission (EPM): Launched in Budget 2025-26; ₹25,060 crore outlay; 6-year timeline (FY26-FY31); two sub-schemes — Niryat Protsahan (financial support) and Niryat Disha (non-financial/market readiness support); priority for tariff-affected sectors: textiles, leather, gems and jewellery, engineering goods, marine products.
- Protectionism challenges for India: (1) US tariff escalation threatens $75-80 billion of India's US-bound exports; (2) 'Friend-shoring' creates pressure to choose sides in US-China supply chain decoupling; (3) Carbon Border Adjustment Mechanism (CBAM) of EU from 2026 threatens Indian steel, aluminium, and fertiliser exports; (4) Anti-dumping measures and non-tariff barriers (NTBs) in major markets; (5) WTO Appellate Body crisis — dispute settlement dysfunctional since 2019, making multilateral trade adjudication slow.
- India's responses to protectionism: (1) Accelerate FTA negotiations (India-EU FTA, India-UK FTA, India-GCC FTA, India-Canada FTA — all under negotiation); (2) Diversify export markets — reduce US-EU dependence; (3) Improve domestic competitiveness through PLI, logistics reform, infrastructure;

(4) Use 'China+1' manufacturing opportunity; (5) Internationalise rupee for trade settlement (reducing dollar dependence); (6) Leverage G20/WTO platforms for multilateral rule reform.

- Gold Monetization Scheme (2015 context): India is the world's largest gold consumer (approximately 800-900 tonnes/year); gold imports contribute significantly to Current Account Deficit. GMS aimed to mobilise India's estimated 20,000-25,000 tonnes of household gold (valued at approximately $1.3 trillion) into the financial system through short, medium, and long-term deposits. Scheme performance has been modest — cultural attachment to physical gold remains the primary barrier.
- Savings rate: India's Gross Savings Rate has fallen from approximately 36-37% of GDP (2007-08, peak) to approximately 30-31% of GDP (FY24). Household savings have declined (high consumption, inflation eroding real savings). Corporate savings have improved. Government dissaving (fiscal deficits) has offset private savings growth. India's investment rate (GFCF/GDP) at approximately 32-33% is above savings, financed by foreign capital (FDI + FII).

2. Key Schemes, Frameworks & Policies

- **Export Promotion Mission (EPM):** ₹25,060 crore; FY2026-31; Niryat Protsahan (financial) + Niryat Disha (non-financial); targets textiles, leather, gems, engineering, marine.
- **India-EFTA Trade and Economic Partnership Agreement:** Signed March 2024 with Switzerland, Norway, Iceland, Liechtenstein; $100 billion FDI commitment from EFTA over 15 years; India's most significant FTA since India-UAE CEPA (2022).
- **Gold Monetisation Scheme (2015):** Short (1-3 year), medium (5-7 year), long-term (12-15 year) gold deposits; interest paid in gold; banks mobilise gold to reduce CAD; National Gold Policy under development.
- **Rupee Internationalisation:** RBI framework for settlement of trade in Indian rupees; 22 countries opened Special Vostro Accounts for rupee trade settlement; India-Russia oil trade in rupees post-2022 sanctions.
- **PM Gati Shakti:** National Master Plan for multi-modal connectivity; GIS-based platform integrating 16 ministries; reduces logistics cost (target: from 14% to 7.5% of GDP); World Bank infrastructure corridor development.

3. Ready-to-Use Mains Intros (20-25 words)

Pick the type that matches the question's framing:

► INTRO: DATA / STATISTIC

India's merchandise exports grew to $437.7 billion and services exports to $387.5 billion in FY25 — both all-time highs — yet the US imposing a 50% tariff on Indian goods in 2025 and the EU's Carbon Border Adjustment Mechanism threaten to reverse years of export diversification gains in a single protectionist turn.

► INTRO: REPORT / INDEX

The WTO Appellate Body has been dysfunctional since 2019 and global trade growth has slowed to 1.7% (down from 5.6% in 1990-2008), signalling that the rules-based multilateral trade order India has benefited from is under existential pressure — making India's accelerated FTA strategy with the EU, UK, and GCC an economic imperative, not a geopolitical choice.

► INTRO: SCHEME / POLICY

India's Export Promotion Mission (₹25,060 crore, FY2026-31) and its twin sub-schemes — Niryat Protsahan for financial support and Niryat Disha for market readiness — represent India's most comprehensive export promotion architecture since the abolition of the Export-Import Policy, targeting tariff-affected sectors with priority resources.

► **INTRO: CURRENT AFFAIRS 2025-26**

The rupee's depreciation to ₹96/USD in May 2026 is simultaneously a challenge (imported inflation for an 85% oil-import-dependent economy) and an opportunity (improved export competitiveness for labour-intensive sectors) — managing this exchange rate paradox while building foreign exchange reserves to $700 billion is India's central external-sector challenge for 2026.

4. Ready-to-Use Mains Conclusions (20-25 words)

✓ **CONCLUSION: STRATEGIC TRADE CONCLUSION**

India's response to protectionism must be threefold: defensive (WTO dispute mechanisms, FTA negotiations), offensive (becoming an indispensable node in global supply chains through PLI and semiconductor investments), and structural (reducing logistics costs from 14% to 7.5% of GDP to make Indian exports price-competitive without tariff dependence).

✓ **CONCLUSION: EXTERNAL VULNERABILITY CONCLUSION**

India's current account deficit, gold import compulsion, and rupee vulnerability to capital flow reversals are structural external weaknesses that require domestic structural reforms — not just monetary policy responses — including gold monetisation, renewable energy transition (to reduce oil import dependence), and services export diversification beyond IT.

Day 2

UPSC MAINS – GS PAPER III: ECONOMY

ANSWER WRITING & CONTENT ENRICHMENT PART 2

Theme 3: Agriculture & Food Security | Theme 4: Fiscal Policy & Resource Mobilisation | Theme 5: Banking, External Sector & Monetary Policy

Theme 3: Agriculture, Food Security And Allied Sectors

Agriculture anchors 16% of GDP while employing 46.1% of India's workforce – a structural paradox that defines India's development challenge. This theme tests mastery over MSP, mechanisation, food processing, agri-credit, food security, allied sectors, and the Budget 2026-27's transformative agri-schemes.

3.1 Agriculture and Allied Sectors – Structure, Performance, Challenges

PYQs Covered

1. *2023 – Inclusive development requires increasing agricultural productivity and farmer income*
2. *2022 – Agricultural production and price distortions; MSP reforms and alternatives*
3. *2019 – Inefficient APMC marketing system; reforms needed*
4. *2018 – MSP and its implementation; farm distress*
5. *2016 – Land reforms; farmer distress; sustainable agriculture*

1. Latest Data, Facts & Value-Added Content (Budget 2026-27 / Eco Survey 2025-26)

- Agriculture and Allied Sector contributes approximately 16% to India's GDP (Economic Survey 2024-25) and supports livelihoods of 46.1% of the population. Agriculture and allied sectors' GVA increased by 225% at current prices between 2011-12 and 2023-24; Gross Value of Output (GVO) grew 54.6% at constant prices in the same period.
- **Agricultural growth:** India's agriculture sector grew at 4.6% in 2024-25. The highest decadal growth was 4.5% between FY16-FY25, primarily due to livestock (7.1%) and fishing and aquaculture (8.8%); crops grew at 3.5%.
- **Foodgrain production:** India achieved a record production of 353.96 million tonnes (Third Advance Estimates, FY2024-25), driven by higher output of rice, wheat, maize and coarse cereals. Horticulture production (~362 MT) now exceeds total foodgrain production (~329 MT) – signalling shift from low-value cereals to high-value crops.
- **India's global agricultural position:** World's largest producer of dry onions (25% of global output); 2nd largest producer of vegetables, fruits, and potatoes (12-13% of global output); 1st in milk production (25% of world's total); 2nd largest consumer and 3rd largest producer of fertilisers globally.
- **MSP critical data:** Only 6% of farmers benefit from MSP (Centre for Budget and Governance Accountability data); procurement covers mostly rice and wheat (cereal-centric bias); only 10% of farmers know MSP before sowing; MSP calculated at 1.5 times A2+FL cost (Swaminathan Commission demanded 1.5 times C2 cost); rice and wheat procurement concentrated in Punjab, Haryana, Madhya Pradesh, Chhattisgarh – geographic concentration.

- **MSP calculation methods**: A2 (out-of-pocket expenses: seeds, fertilisers, hired labour, irrigation); A2+FL (A2 + imputed family labour value); C2 (A2+FL + rental value of own land + interest on fixed capital). Government uses 1.5x A2+FL; farmers demand 1.5x C2 (Swaminathan Commission recommendation).
- **Farm mechanisation levels (ICAR 2020-21):** Overall mechanisation 45% — 70% for seedbed preparation, 40% for sowing/planting, 33% for weeding, 34% for harvesting. Compared to USA (95%), Brazil (75%), China (59.5%); India's 45% shows the gap. Dalwai Committee on Doubling Farmers' Income: Mechanisation lowers input costs by 25%, drives 20% yield increase, and boosts farm incomes by 25-30%.
- **Edible oils:** India imports 56% of its edible oil needs (15.66 MMT in 2023-24). Palm oil 60%, soyabean oil 20%, sunflower oil 20% of imports. Rising consumption consistently outpaces domestic production since 2013-14.
- **Irrigation:** Gross irrigated area as share of gross cropped area rose from 41.7% (2001-02) to 55.8% (2022-23). Still, over 52% of India's farmland relies on monsoons — inter-state and inter-crop disparities persist.
- **Fertiliser imbalance:** India's N:P:K ratio is far higher in nitrogen than the recommended 4:2:1 due to heavy urea subsidy. India imports 95% of phosphate requirements and is 100% import-dependent for potash. 27 of 33 operational urea plants are older than 25 years; 7 plants older than 50 years. Fertiliser subsidy is the 2nd largest subsidy after food.
- **Agricultural credit:** In 2025, agricultural credit flow exceeded ₹25 lakh crore. Kisan Credit Card (KCC) outstanding = ₹10.05 lakh crore (Dec 2024, up from ₹4.26 lakh crore in March 2014). Agriculture Infrastructure Fund (AIF) = ₹1 lakh crore for post-harvest cold chains and logistics.

2. Key Schemes, Frameworks & Policies to Cite

- **PM Dhan Dhaanya Krishi Yojana (PM-DDKY):** Budget 2025-26 scheme consolidating 36 agricultural schemes across 11 ministries; ₹1.44 lakh crore outlay (₹24,000 crore/year) over 6 years (2025-31); targets 100 underperforming districts; 1.7 crore farmers (mainly small/marginal, 86% of farming population); focuses on crop diversification, irrigation, credit, storage, digital market access.
- **MSP Framework (CACP):** Commission for Agricultural Costs and Prices; announces MSP for 23 crops before sowing; currently 1.5x A2+FL cost; Swaminathan Commission recommendation: 1.5x C2; legal guarantee debate — fiscal cost ₹10-17 lakh crore annually (40% of Union Budget).
- **PM Krishi Sinchayee Yojana (PMKSY):** 'Har Khet Ko Paani, More Crop Per Drop'; irrigation convergence scheme; micro-irrigation targets 50% water-use reduction; Accelerated Irrigation Benefits Programme (AIBP) for incomplete irrigation projects.
- **Sub-Mission on Agricultural Mechanisation (SMAM):** 40-50% subsidy on farm equipment for individual farmers (higher for SC/ST); Custom Hiring Centres (CHCs); Farm Machinery Banks; Kisan Drone programme (100% grant for agricultural institutions); FARMS app (like ride-sharing for farm machinery); DBT via Agrimachinery Portal.
- **PM AASHA (Annadata Aay SanrakShan Abhiyan):** Combines Price Support Scheme (PSS), Price Deficiency Payment Scheme (PDPS), and Private Procurement & Stockist Scheme (PPSS); addresses MSP implementation gap.

- **e-NAM (National Agriculture Market):** Launched April 2016; 10 years completed 2026; electronic platform linking 1,361 mandis across 23 states; standardised quality assaying; FPOs can store produce in WDRA-accredited warehouses for e-NWRs (Negotiable Warehouse Receipts) and sell on e-NAM.
- **Mission for Aatmanirbharta in Pulses:** Target: self-sufficiency in pulses by 2027; 100% MSP procurement commitment; seed development; cluster demonstration farms; addresses protein-nutrition deficit.
- **National Mission on Edible Oils — NMEO-Oilseeds:** Addresses 56% import dependence on edible oils; focus on palm oil expansion (NMEO-OP), oilseed area expansion, yield enhancement; target: reduce import dependence to 30% by 2031-32.

3. Ready-to-Use Mains Intros (20-25 words each)

Pick the type that matches the question's framing:

► INTRO: DATA / STATISTIC

India harvested a record 353.96 million tonnes of foodgrains in 2024-25, yet 6% of farmers benefit from MSP and 56% of edible oil needs are imported — achievements and vulnerabilities coexisting in a sector that employs 46% of India's workforce on 16% of its GDP.

► INTRO: REPORT / INDEX / SURVEY

Economic Survey 2024-25 highlights that 86% of India's farmers own less than 2 hectares, yet agriculture grew 4.6% in FY25 — the highest decadal growth rate driven by allied sectors (livestock: 7.1%, fisheries: 8.8%), confirming that the structural transformation of Indian farming is happening in non-crop segments, not cereals.

► INTRO: SCHEME / POLICY / BUDGET

PM Dhan Dhaanya Krishi Yojana (PM-DDKY), launched in Budget 2025-26 with ₹1.44 lakh crore outlay over 6 years, represents India's most ambitious attempt to converge 36 agricultural schemes across 11 ministries into a single integrated framework targeting 100 underperforming districts that concentrate agricultural backwardness.

► INTRO: CURRENT AFFAIRS 2025-26

Budget 2026-27's High Value Agriculture initiative (coconut, sandalwood, cocoa, cashew in coastal areas), Coconut Promotion Scheme, and Bharat-VISTAAR multilingual AI tool for integrating AgriStack with ICAR practices signal that India's agriculture policy is finally moving from input subsidies toward technology-enabled, high-value crop diversification.

4. Ready-to-Use Mains Conclusions (20-25 words each)

✓ CONCLUSION: MSP REFORM CONCLUSION

The legal MSP guarantee debate confuses a procurement mechanism with an income guarantee — India needs a Price Deficiency Payment model that compensates farmers for shortfalls without warehousing costs or private market displacement, while fiscal resources are redirected from blanket subsidies to irrigation, cold chain, and crop diversification.

✓ CONCLUSION: STRUCTURAL TRANSFORMATION CONCLUSION

India's agriculture cannot remain trapped in the wheat-paddy-water-intensive cycle that depletes groundwater, distorts cropping patterns, and captures only cereal-intensive MSP benefits — the PM-DDKY's district-level convergence model, if implemented faithfully, could deliver the crop diversification that a decade of standalone schemes has failed to achieve.

3.2 Food Processing Sector — Scope, Challenges, Government Initiatives

PYQs Covered

- *2020 — Food processing sector in India; value addition and reducing post-harvest losses*
- *2017 — Significance of food processing industries in India*
- *2015 — National Food Security Act; food subsidies and economic management*

1. Latest Data, Facts & Value-Added Content (Budget 2026-27 / Eco Survey 2025-26)

- **Food processing sector market size:** ₹30.5 lakh crore ($354 billion) in 2024 — projected to reach ₹45.8 lakh crore ($535 billion) by FY26 and $1,100 billion by FY35 (Viksit Bharat @2047). Sector contributes ~7.9% of manufacturing GVA and ~8% of agricultural GVA. Accounts for ~13% of India's exports and ~6% of industrial investment.
- **Employment:** 1.93 million workers in organized sector factories; 5.1 million+ in unorganised micro-enterprise segment. Processed foods form 20.4% of India's total agri-exports (up from 13.7% in 2014-15).
- **Critical processing gaps:** India processes only ~10% of its total agricultural output (US: 65%, Malaysia/Philippines: 70-80%). Fruits and vegetables processing rate: only 2.2% — a key reason why 16-40% of India's horticultural produce is lost post-harvest annually. Annual post-harvest losses estimated at ~₹1,00,000 crore.
- **Cold chain infrastructure gap:** Over 70% of India's cold storage is single-commodity (primarily potatoes). Acute shortage of multi-commodity cold stores, atmospheric control facilities, reefer transport trucks, and farm-level pre-cooling nodes.
- **PM Kisan SAMPADA Yojana achievements: Over** 1,618 projects approved; 1,185+ fully operationalised. Reduced post-harvest losses by up to 70% in fisheries and 85% in dairy. Attracted ₹21,900 crore in private investments; benefited 51 lakh farmers; generated 7.22 lakh direct and indirect jobs.
- **PLI for Food Processing (approved March 2021):** 171 food-processing companies approved; ~70 MSMEs directly enrolled; 50% reimbursement on overseas branding and marketing expenditure.
- **Budget 2026-27 (Food Processing allocations):** PM Formalisation of Micro Food Processing Enterprises (PMFME) scheme allocated ₹2,000 crore (US$226.31 million) in FY26 budget; 100 new NABL-accredited food testing laboratories announced (March 2025) for export competitiveness.
- **Food processing structure:** Primary processing (cleaning, grading, milling) → Secondary processing (combining ingredients into everyday food products) → Tertiary processing (Ready-to-Eat/Ready-to-Cook, long shelf life) — India dominated by primary processing; tertiary processing is where global value is captured.
- **Industry structure paradox:** Unorganised micro-enterprises comprise ~98% of units and employ 5.1+ million workers but capture only 35-40% of production value. Organized corporate sector (~2% of units) captures 60-65% of value — a structural dualism that limits value addition, export quality, and FSSAI compliance.
- **BHARATI initiative (APEDA):** Bharat's Hub for Agritech, Resilience, Advancement and Incubation for Export Enablement — empowering 100 agri-food and agri-tech startups to achieve ₹4,28,450 crore ($50 billion) in agri-food exports by 2030.
- **Key technology gaps:** India lacks indigenous capacity for Individual Quick Freezing (IQF) machinery, Aseptic Packaging Plants, High-Pressure Processing (HPP) systems, and automated optical sorting — all imported from Germany, Italy, Japan. Import duties on inputs + lack of maintenance engineers makes adoption expensive.

2. Key Schemes, Frameworks & Policies to Cite

- **PM Kisan SAMPADA Yojana (Scheme for Agro-Marine Processing and Development of Agro-Processing Clusters):** Umbrella scheme under MoFPI; components: Integrated Cold Chain and Value Addition Infrastructure, Agro-Processing Clusters, Food Processing & Preservation Capacities, Food Safety and Quality Assurance Infrastructure; financial assistance as grant-in-aid on reimbursement basis.
- **PLI for Food Processing (2021):** March 2021; scales up manufacturing capacity; builds global Indian food brands; 50% reimbursement on overseas branding; 171 companies approved; 70 MSMEs enrolled.
- **PM Formalisation of Micro Food Processing Enterprises (PMFME):** Formalising, digitising, and upgrading small-scale food processing units; FY26 budget: ₹2,000 crore; targets unorganised micro-enterprises for compliance, credit, and market linkage.
- **Sunrise Sectors for Way Forward:** Nutraceuticals and Functional Foods; Alternative Proteins (plant-based meats, precision fermentation); Pet Food and Animal Feed; Digital Traceability via Blockchain (FSSAI's FoSCoS).
- **NIFTEM and CFTRI:** National Institute of Food Technology, Entrepreneurship and Management (NIFTEM) and Central Food Technological Research Institute (CFTRI) — as 'plug-and-play' R&D hubs for food processing MSMEs; government recommends using these for pooled research infrastructure.

3. Ready-to-Use Mains Intros (20-25 words each)

Pick the type that matches the question's framing:

► INTRO: DATA / STATISTIC

India processes barely 10% of its agricultural output — against the US's 65% and Malaysia's 80% — while losing ₹1 lakh crore annually to post-harvest waste. This processing gap is simultaneously India's greatest agri-sector failure and the most compelling case for investment in the food processing industry.

► INTRO: REPORT / INDEX / SURVEY

The food processing sector's market size reached ₹30.5 lakh crore ($354 billion) in 2024 and is projected to reach $1,100 billion by FY35 under the Viksit Bharat roadmap — yet India processes only 2.2% of its fruits and vegetables, compared to global leaders who process 70-80%, revealing the structural gap between India's processing potential and reality.

► INTRO: SCHEME / POLICY / BUDGET

PM Kisan SAMPADA Yojana — which reduced post-harvest losses by 70% in fisheries and 85% in dairy across 1,185+ operationalised projects — demonstrates that targeted supply-chain investment in cold chain, agro-processing clusters, and food safety infrastructure yields measurable outcomes; scaling this model to reach the ₹1 lakh crore annual post-harvest waste is India's food processing imperative.

► INTRO: CURRENT AFFAIRS 2025-26

Budget 2026-27's Integrated Programme for the Textile Sector, high-value agriculture for coastal crops, and BHARATI initiative for agri-tech startups collectively signal that India's food processing and agricultural export ambition is $50 billion by 2030 — a target that requires moving from low-value bulk commodity exports to branded, value-added food products on global retail shelves.

4. Ready-to-Use Mains Conclusions (20-25 words each)

✓ **CONCLUSION: VALUE CHAIN CONCLUSION**

India's food processing transformation requires not just capital but structural re-engineering — from fragmented supply chains to cooperative aggregation models, from primary cleaning-and-milling to high-margin tertiary Ready-to-Eat processing, and from bulk commodity exports to globally branded Indian 'superfoods' including Shree Anna millets and functional foods.

✓ **CONCLUSION: INFRASTRUCTURE INVESTMENT CONCLUSION**

Cold chain infrastructure is the single most consequential investment India can make in the food system — India loses 16-40% of horticultural produce annually, not for lack of production capacity but for lack of the pre-cooling, reefer transport, and multi-commodity cold storage that would convert post-harvest waste into export revenue and farmer income.

3.3 Farmer Income, Rural Economy and Budget 2026-27 Agri-Initiatives

PYQs Covered

- *2025 – Explain the role of rural economy in overall economic development of India*
- *2024 – Explain the mechanisms to increase farmers income and rural prosperity*
- *2022 – Steps needed to double farmers' income*
- *2015 – Price support mechanisms for farmers*

1. Latest Data, Facts & Value-Added Content (Budget 2026-27 / Eco Survey 2025-26)

- **Budget 2026-27 Agriculture and High-Value Farming:** Government to support high-value crops such as coconut, sandalwood, cocoa, and cashew in coastal areas; Coconut Promotion Scheme launched to increase production and productivity; Bharat-VISTAAR (Virtually Integrated System to Access Agricultural Resources) — multilingual AI tool integrating AgriStack portals with ICAR agricultural practices packages.
- **Dalwai Committee (Doubling Farmers' Income):** Target was to double farmers' real income by 2022-23 from 2015-16 base. Seven sources of income growth: Improvement in crop productivity, Reduction in cost of production, Increase in Crop Intensity, Diversification to allied activities, Improvement in terms of trade (MSP), Shift in farmers from farm to non-farm occupations, Better price realization.
- **Rural consumption:** India's rural consumer market is growing faster than urban — rural per capita consumption expenditure grew 9.2% annually in real terms (HCES 2023-24 vs CES 2011-12), outpacing urban growth. Rural India is the new engine of India's consumer market, driven by rising agricultural incomes, MGNREGA wages, and welfare transfers.
- **FPO (Farmer Producer Organizations):** Approximately 56.32 lakh farmers registered under the Formation and Promotion of 10,000 FPOs scheme; 39% are women. FPOs aggregate small farmers, reduce intermediaries, provide market access, and improve bargaining power. NABARD and SFAC (Small Farmers' Agribusiness Consortium) are key implementation bodies.
- **PM-KISAN:** Direct income support of ₹6,000/year in 3 instalments to farmer families; 11 crore+ farmer beneficiaries; implemented with 100% Aadhaar seeding to prevent leakages. Combined with PM Fasal Bima Yojana (crop insurance) and PMKSY (irrigation) — the three pillars of direct farmer support.
- **MGNREGA:** Legal guarantee of 100 days of unskilled manual work per rural household; Budget 2025-26 replaced with Viksit Bharat Gramin (VB-GRAM G) with 125-day guarantee; 60:40 Centre-State cost sharing; priority to water security, infrastructure, livelihood assets, climate mitigation; floor wage ₹300/day (up to ₹409/day in Haryana).

- **e-NAM ten-year impact:** Connected 1,361 mandis; enabled FPO participation in electronic commodity trade; reduced price discovery transaction costs; Negotiable Warehouse Receipts (e-NWRs) allow WDRA-accredited warehouses to serve as collateral for farmer credit.
- **Integrated Farming Systems (IFS):** Combining crop production with animal husbandry, fisheries, agroforestry — each sub-system's waste is the other's resource, reducing input costs by 20-30% and increasing net farm income. Budget 2026-27 promotes IFS as a model for small/marginal farmer income diversification.
- **Blue Economy**: India's blue economy contributes 4% of GDP; handles 95% of trade by volume. India has 12 major ports (Vadhavan Port will be the 13th) and 200+ minor ports. By 2035, coastal shipping modal share expected to grow from 6% to 33%. Pradhan Mantri Matsya Sampada Yojana: ₹20,050 crore scheme for fisheries development.
- **Kisan Credit Card (KCC) expansion:** Outstanding amount more than doubled from ₹4.26 lakh crore (March 2014) to ₹10.05 lakh crore (December 2024); benefiting 7.72 crore farmers. RBI raised collateral-free agricultural loan limit from ₹1.6 lakh to ₹2 lakh to address input cost inflation.

2. Key Schemes, Frameworks & Policies to Cite

- **PM Dhan Dhaanya Krishi Yojana (PM-DDKY):** Flagship 2025 agri-convergence scheme; 100 underperforming districts; 1.7 crore farmers targeted; ₹1.44 lakh crore over 6 years; merges 36 schemes across 11 ministries including PM-KISAN, PMFBY, PMKSY, PMDDKY App for digital farmer-market connectivity.
- **Kisan Rin Portal and Jan Samarth Portal:** Digital agricultural credit portals enabling end-to-end digital KCC lending; real-time loan tracking; automated verification; bypasses physical bottlenecks for credit access in 100 PM-DDKY districts.
- **National Cooperation Policy 2025:** Vision: 'Sahkar Se Samriddhi' (Prosperity through Cooperation); 2nd policy after 2002; aims for technology-enabled, financially self-reliant cooperative units; promotes cooperative banks, PACS (Primary Agricultural Credit Societies), Cooperative Stack integrating with AgriStack.
- **Farmer Producer Organizations (FPOs):** 10,000 FPOs formation scheme; NABARD + SFAC implementation; 56.32 lakh farmers registered; equity grants ₹15 lakh/FPO; credit guarantee from NABARD; women FPOs for dairy, organic, handicrafts.
- **Bharat-VISTAAR (Budget 2026-27):** Virtually Integrated System to Access Agricultural Resources; multilingual AI tool; integrates AgriStack portals with ICAR package on agricultural practices; real-time crop advisory, market prices, weather alerts, and scheme information in local languages — India's most ambitious agri-digital integration tool.

3. Ready-to-Use Mains Intros (20-25 words each)

Pick the type that matches the question's framing:

▶ INTRO: DATA / STATISTIC

India's rural per capita consumption grew 9.2% annually in real terms (HCES 2023-24), outpacing urban India — confirming that the rural economy is no longer India's development laggard but its fastest-growing consumer base, as rising agricultural incomes, welfare transfers, and MGNREGA wages begin to translate into rising rural purchasing power.

▶ INTRO: REPORT / INDEX / SURVEY

The Dalwai Committee on Doubling Farmers' Income identified seven income streams — crop productivity, reduced production costs, higher crop intensity, allied activities, MSP terms of trade, non-farm shifts, and better *price realisation — a multidimensional framework that remains incomplete with only two streams (MSP and PM-KISAN) receiving adequate policy attention.*

► INTRO: SCHEME / POLICY / BUDGET

The PM Dhan Dhaanya Krishi Yojana's convergence of 36 agricultural schemes across 11 ministries — with a ₹1.44 lakh crore outlay targeting India's 100 most agriculturally backward districts — represents the single most ambitious attempt to address the productive capacity of the 1.7 crore small and marginal farmers who constitute 86% of India's farming population.

► INTRO: CURRENT AFFAIRS 2025-26

Budget 2026-27's Bharat-VISTAAR multilingual AI tool, combining AgriStack and ICAR agricultural science in regional languages, represents a recognition that India's agricultural transformation cannot be delivered top-down through centralized schemes — it requires placing real-time, personalised, locally-relevant information directly in the hands of individual farmers.

4. Ready-to-Use Mains Conclusions (20-25 words each)

✓ CONCLUSION: RURAL ECONOMY CONCLUSION

India's rural economy is not just an agricultural economy — with MGNREGA wages, PM-KISAN transfers, rural construction activity, and allied sector growth collectively raising rural consumption, rural India is becoming India's largest consumption engine, whose further development requires cold chain investment, FPO scaling, and digital connectivity rather than just crop price support.

✓ CONCLUSION: FARMER INCOME CONCLUSION

Doubling farmers' income requires moving beyond MSP (which benefits only 6% of farmers) to the seven-stream Dalwai model — the highest-impact interventions being crop diversification toward high-value horticulture and allied sectors, cost reduction through mechanisation and precision agriculture, and FPO-enabled direct market access eliminating the commission-agent middlemen who capture 25-40% of farm gate value.

Theme 4: Fiscal Policy, Resource Mobilisation And Public Finance

Fiscal policy is the government's most powerful macro-stabilization and distributive tool. This theme tests command over India's tax architecture (GST 2.0, direct tax reform), public debt management, state finances, resource mobilisation, and the fiscal-social spending balance — areas where Budget 2026-27 and Economic Survey 2025-26 provide dense, examiner-valued data.

4.1 Union Budget 2026-27, GST 2.0 and Tax Architecture

PYQs Covered

- *2025 – Performance of GST in improving India's tax revenue and tax administration*
- *2022 – Economic significance of the Union Budget beyond accounting exercise*
- *2021 – Significance of National Monetisation Pipeline*
- *2019 – Disinvestment in public enterprises; privatisation vs disinvestment*
- *2016 – Revenue from Direct Taxes; challenges in tax collection*

1. Latest Data, Facts & Value-Added Content (Budget 2026-27 / Eco Survey 2025-26)

- **Union Budget 2026-27 key numbers:** Public capital expenditure increased **~9% to ₹12.2 lakh crore**. Interest payments absorb approximately **26% of total budget expenditure** — the single largest expenditure head. Revenue from gross tax collection expected to cross **11.5% of GDP** (from 10.8% pre-pandemic). Budget outlay for major programmes: PM-DDKY ₹24,000 crore/year; SME Growth Fund ₹10,000 crore; NIP-linked infrastructure ₹12.2 lakh crore capex.
- **Union Budget 2026-27 themes** — Three Kartavyas (Duties)**: (1) Accelerating and sustaining economic growth, enhancing productivity and resilience; (2) Fulfilling aspirations of people and building their capacity; (3) Ensuring Sabka Sath, Sabka Vikas** — every family, community, region, and sector has access to opportunities. First Budget prepared in Kartavya Bhawan.
- **GST 2.0 Reform (56th GST Council, 2025):** Two-slab system (5% and 18%), removing 12% and 28% rate. 40% Special De-Merit Rate for 'sin' goods. Median tax rate effectively moves from 12% to 5%. Relief measures: All individual life and health insurance policies exempted; 36 specific lifesaving drugs at nil rate; FMCG/Essentials moved from 18% to 5%. GST Dispute Resolution: GSTAT (GST Appellate Tribunal) operational.
- **GST revenue impact:** GST 2.0 estimated revenue loss of ~₹48,000 crore (Finance Ministry estimate on FY23-24 base). But counter-effect: Boost to nominal GDP growth estimated at 20-30 basis points; wider tax net through compliance incentivisation. GST revenue has grown from ₹7.2 lakh crore (FY19) to ₹22.08 lakh crore (FY25) — 3x growth in 6 years.
- **Direct Tax performance:** Personal income tax + corporate tax combined crosses ₹20 lakh crore (FY25). Non-corporate tax (personal income tax) outperforms corporate tax — reflecting rising formalization and formalisation of self-employed. Direct tax buoyancy consistently above 1.8 (meaning direct taxes grow faster than GDP) since FY22. Income tax returns filed increased substantially.
- **Tax-to-GDP ratio:** India's gross tax-to-GDP ratio hovers at ~11.5-11.7% — substantially below OECD average (~34%) and emerging market peers (20-25%). Narrow personal income tax base: less than 8% of population pays income tax. Agriculture income is constitutionally exempt from income tax (per 7th Schedule, Entry 82, Union List covering only non-agricultural income).
- **Indirect tax challenges**: 50% of India's GDP and 80%+ of workforce in informal sector largely evade direct tax. GST still excludes petroleum products, alcohol, and electricity — breaking input tax credit

chain and causing cascading taxes. Inverted duty structure persists (e.g., bicycles taxed at 5% but steel/plastic inputs at 18%).

- **National Monetisation Pipeline (NMP):** Aims to unlock value of operational public assets for fresh capital deployment; 2021-26 target of ₹6 lakh crore via TOT (Toll Operate Transfer), InVITs (Infrastructure Investment Trusts), REITs (Real Estate Investment Trusts), and asset monetisation; roads, railways, power transmission, telecom towers, pipelines included.
- **Resource mobilisation:** SIP flows have increased from ₹4,000 crore/month (FY15) to ₹28,000 crore/month (FY25); equity ownership in India rose from 11% (FY14) to 18.8% (2025); mutual fund AUM crossed ₹65 lakh crore by FY25 — household savings migrating from bank deposits and gold to financial markets.
- **Budget 2026-27 Infrastructure Risk Guarantee Fund:** New fund to strengthen private developer confidence during infrastructure construction phase — addresses the risk premium that has historically deterred private infrastructure investment in India. New Dedicated Freight Corridors; Coastal Cargo Promotion Scheme; 7 High-Speed Rail corridors announced.

2. Key Schemes, Frameworks & Policies to Cite

- **GST 2.0 Framework:** Two-slab system: 5% and 18%; 40% Special De-Merit Rate for sin goods; all insurance policies exempt; 36 lifesaving drugs at nil rate; GSTAT operational; simplification = fewer disputes, lower compliance cost, expanded tax base.
- **Faceless Assessment Scheme:** Eliminated physical interface between taxpayers and tax officials for income tax assessment; AI-based risk profiling; random allotment of cases; reduced corruption and improved compliance.
- **National Monetisation Pipeline (NMP, 2021):** ₹6 lakh crore monetisation target 2021-26; TOT for roads; InVITs for power and gas pipelines; REITs for real estate; leasing of railways and airport assets — unlock capital without selling ownership.
- **FRBM Act Framework (Revised):** Fiscal deficit target: 4.4% of GDP (FY2026-27); medium-term target: 4.0% of GDP; debt-to-GDP ceiling: 60% combined Centre+States; Centre ≤40% of GDP; fiscal consolidation roadmap mandated.
- **Tax Buoyancy:** Tax buoyancy = (% change in tax revenue) / (% change in GDP). Buoyancy >1 means taxes grow faster than GDP; India's direct tax buoyancy consistently 1.8+ since FY22 — reflects formalisation, Faceless Assessment, and higher compliance through technology.

3. Ready-to-Use Mains Intros (20-25 words each)

Pick the type that matches the question's framing:

► INTRO: DATA / STATISTIC

India's GST revenue grew threefold — from ₹7.2 lakh crore (FY19) to ₹22.08 lakh crore (FY25) — yet India's tax-to-GDP ratio at 11.7% remains well below the OECD average of 34%, illustrating that GST's structural success has not resolved India's deeper challenge of expanding the taxable economic base.

► INTRO: REPORT / INDEX / SURVEY

Budget 2026-27's first preparation in Kartavya Bhawan signals a philosophical reframing — from budget as an accounting exercise to budget as a public duty (kartavya): accelerating growth, building human capacity, and ensuring inclusive access — embodying the Economic Survey's core argument that public investment is both a growth driver and a social equity instrument.

► INTRO: SCHEME / POLICY / BUDGET

GST 2.0's two-slab structure (5% and 18%), exemption of all insurance policies, and 36 lifesaving drugs at zero rate represent the GST architecture's maturation from a revenue-maximisation tool to a growth and welfare instrument — though the ₹48,000 crore estimated revenue loss tests the fiscal consolidation commitment of a government targeting 4.4% fiscal deficit for FY2026-27.

► **INTRO: CURRENT AFFAIRS 2025-26**

SIP flows touching ₹28,000 crore/month in FY25 and household equity ownership rising from 11% to 18.8% since FY14 represent a structural transformation in Indian household financial behaviour — from gold and bank deposits to market instruments — providing the deepening domestic capital base that makes India less vulnerable to FPI-driven volatility in public markets.

4. Ready-to-Use Mains Conclusions (20-25 words each)

✓ **CONCLUSION: TAX ARCHITECTURE CONCLUSION**

India's tax architecture needs three structural upgrades: widening the direct tax base (taxing agricultural income above a threshold while protecting small farmers), fully integrating petroleum and alcohol into GST to complete the input tax credit chain, and deploying real-time data from GSTN/UPI/PAN to eliminate the informal economy's tax invisibility.

✓ **CONCLUSION: FISCAL CONSOLIDATION CONCLUSION**

India's fiscal path requires balancing the 4.4% FY27 fiscal deficit target against the 26% of budget devoted to interest payments and the 51.76% of state revenue consumed by committed expenditure — both of which crowd out the productive capital investment that is the only long-term path to the tax buoyancy that makes consolidation self-sustaining.

4.2 Public Debt, State Finances and the Fiscal Health Index

PYQs Covered

- *2025 — Fiscal Health Index as accountability mechanism for state fiscal management*
- *2024 — Challenge of rising state debt and free-bies (UCTs) on fiscal health*
- *2023 — Quality of government expenditure — revenue vs capital spending*

1. Latest Data, Facts & Value-Added Content (Budget 2026-27 / Eco Survey 2025-26)

- Fiscal Health Index (FHI) 2026 (NITI Aayog, 2nd Annual Edition): Five pillars — Quality of Expenditure, Revenue Mobilisation, Fiscal Prudence, Debt Index, Debt Sustainability. States account for ~one-third of India's general government debt. Public state rankings create competitive fiscal discipline.
- State fiscal stress (CAG Report 2023-24 + FHI 2026): 18 States recorded fiscal deficits above 3% of GSDP limit (15th FC recommendation) in FY2023-24; 12 States in revenue deficit; 16 States in revenue surplus. Combined State gross fiscal deficit rose from 2.6% of GDP (FY22) to 3.2% (FY25). Outstanding State guarantees rose from 2% of GDP (March 2017) to 3.9% (March 2024).
- Committed expenditure burden: Salaries, pensions, interest payments, and subsidies consumed 51.76% of States' revenue expenditure in FY2023-24 — leaving less than half of revenue for productive/discretionary spending. Committed expenditure reaches as high as 70-80% in some fiscally stressed states.

- Unconditional Cash Transfers (UCTs): States running UCT schemes projected to increase fivefold between 2022-26. UCT ranges from 0.19% to 1.25% of GSDP; in some states, accounts for 8.26% of total State budgetary expenditure. Economic Survey 2026 recommends making cash transfers conditional, review-based, and time-bound (citing Mexico's Progresa/Oportunidades model — conditional on school attendance and health check-ups).
- National Debt sustainability: Centre's fiscal deficit for FY2026-27: 4.4% of GDP (down from 5.1% in FY2022-23). India's total public debt (Centre + States) approximately 80-85% of GDP — higher than emerging market average (~54%) though manageable given predominantly rupee-denominated debt. Centre's interest payments approximately 26% of total expenditure (Budget 2026-27).
- FRBM Act compliance: Target: Centre fiscal deficit ≤3% of GDP; currently on glide path toward this target (4.4% FY27 → 4.0% FY28 → 3.5% FY29 approx.). State fiscal deficit limit: ≤3% of GSDP per 15th FC; 18 of 28 states breached this in FY2023-24.
- Tax devolution: 15th Finance Commission (2021-26): 41% vertical devolution of central tax to states; revenue deficit grants ₹2.9 lakh crore to 17 states; local body grants ₹4.36 lakh crore; sector-specific grants ₹1.3 lakh crore. 16th Finance Commission (constituted December 2023, chaired by Arvind Panagariya): formulating recommendations for 2026-31; key debate: North-South formula tension (income-distance 45% of weightage).
- Capital expenditure quality: Central government capex at ₹12.2 lakh crore (Budget 2026-27, ~9% increase). Multiplier effect of government capex estimated at 2.5-3x for construction and infrastructure (IMF and NITI Aayog estimates). Revenue-to-capex ratio improvement is the key 'quality of expenditure' metric — India's fiscal consolidation has been achieved partly by cutting capex rather than revenue expenditure, weakening quality.

2. Key Schemes, Frameworks & Policies to Cite

- **Fiscal Health Index (FHI 2026):** NITI Aayog; 5 pillars; State rankings published; context-specific for NE/Himalayan states; enables evidence-based fiscal policymaking; targets improvement in Own Tax Revenue, subsidy rationalisation, debt management.
- **15th Finance Commission Framework:** 41% devolution; revenue deficit grants; local body grants; tied/performance-based grants; sector-specific allocations for health, education, judiciary; covers 2021-26.
- **16th Finance Commission (2023-2031):** Constituted December 2023; Arvind Panagariya (Chair); formulating recommendations for 2026-31; focal tension: demographic performance (benefits South) vs population (benefits North); expected report by December 2025 (delayed; report pending mid-2026).
- **Prudent State Fiscal Practices:** CAG audit; FHI-based competitive benchmarking; GST reform expanding SOTR (States' Own Tax Revenue); property tax modernisation; reducing off-budget borrowings; mandatory medium-term fiscal plans; state fiscal councils.
- **Viability Gap Funding (VGF):** Government subsidy to make commercially unviable but socially necessary projects bankable for PPP; used in highways, airports, solar power; aligned with Infrastructure Risk Guarantee Fund (Budget 2026-27) to expand private infrastructure investment.

3. Ready-to-Use Mains Intros (20-25 words each)

Pick the type that matches the question's framing:

► INTRO: DATA / STATISTIC

India's state governments devoted 51.76% of revenue expenditure to committed costs (salaries, pensions, interest, subsidies) in FY2023-24, while 18 of 28 states breached the 3% fiscal deficit ceiling — a structural fiscal stress pattern that NITI Aayog's Fiscal Health Index now systematically benchmarks and publicly ranks across all States.

► INTRO: REPORT / INDEX / SURVEY

Economic Survey 2026 flags that the rapid fivefold expansion of state UCT schemes between 2022-26 — consuming up to 8.26% of some states' total budgetary expenditure — risks converting India's fiscal federalism from a vehicle for public investment into a mechanism for competitive welfare populism that crowds out the capital formation growth demands.

► INTRO: SCHEME / POLICY / BUDGET

The Fiscal Health Index's five pillars — Quality of Expenditure, Revenue Mobilisation, Fiscal Prudence, Debt Index, and Debt Sustainability — operationalise competitive fiscal federalism by converting complex state-level fiscal performance into public rankings, creating the peer-pressure mechanism that institutional mandates alone cannot generate.

► INTRO: CURRENT AFFAIRS 2025-26

With central capex at ₹12.2 lakh crore (Budget 2026-27) and the 16th Finance Commission under Arvind Panagariya formulating the 2026-31 devolution formula, India's fiscal federalism is at an inflection point — the Commission's formula will determine whether the North-South fiscal equity tension is resolved through higher income-distance weighting or through performance-based grants that reward fiscal discipline.

4. Ready-to-Use Mains Conclusions (20-25 words each)

✓ CONCLUSION: STATE FISCAL HEALTH CONCLUSION

India's fiscal federalism will only achieve its growth potential when states shift from committed-expenditure-dominated budgets (51.76% in FY24) to capital-investment-oriented ones — FHI creates the benchmarking, 16th Finance Commission provides the devolution incentive, and GST buoyancy provides the additional own-tax revenue that together give States the fiscal space to invest rather than merely administer.

✓ CONCLUSION: UCT FISCAL SUSTAINABILITY CONCLUSION

Unconditional Cash Transfers are politically irreversible but fiscally unsustainable — India should shift to the Mexico Progresa model of conditional, targeted, time-bound transfers that incentivise education and health outcomes, converting welfare spending from a fiscal liability into a human capital investment with measurable economic returns.

Theme 5: Banking, Financial Markets, External Sector And Monetary Policy

This theme covers India's banking sector health, digital payment ecosystem, RBI monetary policy, external sector performance, FDI dynamics, and globalisation challenges. Budget 2026-27 and Economic Survey 2025-26 integrate these into India's macro-stability and growth narrative.

5.1 Banking Sector Health, RBI Monetary Policy and Digital Payments

PYQs Covered

- *2024 – Role of RBI in regulating digital lending and protecting consumers*
- *2022 – Role of NBFC sector in India's financial sector; challenges*
- *2021 – NPA crisis in India's banking sector; resolution mechanisms including IBC*
- *2019 – Cooperative banking; governance and regulatory issues*
- *2018 – Public sector banks – recapitalisation, merger, governance reforms*

1. Latest Data, Facts & Value-Added Content (Budget 2026-27 / Eco Survey 2025-26)

- **Banking sector health (FY25):** Gross NPA ratio of Scheduled Commercial Banks at a 12-year low of approximately 2.8% (from 11.2% peak in FY18). Capital Adequacy Ratio (CRAR) at approximately 17.5% — well above RBI's minimum 9%. Net NPA at approximately 0.6%. Provision Coverage Ratio above 75%. PSB profitability: Cumulative net profit of all PSBs crossed ₹1.41 lakh crore in FY25 — highest ever.
- **RRBs (Regional Rural Banks):** 28 RRBs (reduced from 43 through 'One State-One RRB' consolidation); over 22,158 branches; total business crossed ₹12 lakh crore; 32.4 crore deposit accounts; 3.2 crore loan accounts. Net profit of RRBs: ₹7,720 crore (provisional, Dec 2025). Gross NPA of RRBs: 5.4% in FY2024-25 (13-year low). 89% of RRB loans to Priority Sector; RRBs hold 18.5% of PMJDY accounts.
- **NBFCs:** Self-Regulatory Organisation status granted to Finance Industry Development Council (FIDC) by RBI (2024). NBFCs provide credit to small borrowers, farmers, self-employed individuals, and microentrepreneurs — complementing banks in sectors with limited bank reach. Infrastructure Finance Companies (IFCs) play critical role in financing large infrastructure projects.
- **Digital payments:** India processes ~50% of global real-time digital payments (NPCI/RBI data). UPI monthly transactions exceeded 15 billion (January 2025); UPI powers 85% of India's digital transactions. Bharat Bill Payment System (BBPS), National Electronic Funds Transfer (NEFT), RTGS, CTS form the payment infrastructure backbone. PSS Act 2007 gives RBI statutory payment system regulation authority.
- **Payments Vision 2028 (RBI, 2024):** Roadmap for expanding digital payments ecosystem; targets broader population coverage including rural areas; addresses cybersecurity, fraud liability frameworks, and interoperability.
- **RBI Monetary Policy:** Repo rate as of FY26 — 6.0% (after 50 bps cuts from 6.5% in February-April 2025 as CPI inflation moderated to below 4%). Monetary Policy Committee (MPC): 6 members (3 RBI ex-officio + 3 government-appointed external members). Flexible Inflation Targeting (FIT): CPI target 4% ±2%; RBI legally mandated to maintain this target since 2016.

- **Credit growth and deposit trends:** Bank credit growth moderated to approximately 10-12% in FY25 (from 16% in FY24). Household savings shifting from bank deposits (57.9% → 35.2% of incremental savings between FY12-FY25) toward equity/mutual funds (SIP inflows: ₹4,000 crore/month in FY14 → ₹28,000 crore/month in FY25).
- **Cooperative banks:** National Cooperation Policy (NCP) 2025 — vision 'Sahkar Se Samriddhi'; second cooperation policy after 2002; three-tier PACS-DCCB-State Cooperative Bank credit structure; promotes cooperative banks; 5 pillars: Legislative & Institutional Reforms, Financial Empowerment, Business Ecosystem Development, Future-Readiness & Technology, Inclusivity Measures. PACS (Primary Agricultural Credit Societies): 8 lakh+ PACS institutions but only 63,000 functional.
- **Corporate Bond Market:** India's corporate bond market at approximately ₹44 lakh crore outstanding — remains underdeveloped relative to bank credit. RBI and SEBI working to deepen it through InVIT/REIT market development, credit default swaps, and repo in corporate bonds.
- **IBC impact on banking sector:** Post-IBC, credit culture improved — average loan overdue days fell from 248-344 days to 30-87 days. Creditors realise approximately 170% of liquidation value. Recovery against total admitted claims: 32.8% — but deterrent effect has been substantial.

2. Key Schemes, Frameworks & Policies to Cite

- **Flexible Inflation Targeting (FIT, 2016):** CPI target 4% ±2% (range 2-6%); RBI Act 1934 amended by Finance Act 2016; MPC 6-member body; RBI must report to Parliament if target breached for 3 consecutive quarters.
- **Payments Vision 2028 (RBI):** Roadmap for digital payments; addresses cybersecurity, fraud liability imbalance, interoperability; targets inclusive payment ecosystem; promotes innovation by non-banks.
- **National Cooperation Policy 2025 (NCP-2025):** 'Sahkar Se Samriddhi'; 5 pillars; digital cooperative ecosystem; cooperative banks; PACS revitalisation; 'Cooperative Stack' integrating with AgriStack; youth and gender inclusion in cooperatives.
- **Self-Regulatory Organisation (SRO) for NBFCs:** Finance Industry Development Council (FIDC) — RBI-granted SRO status, 2024; objective: betterment of NBFC sector; complementing RBI oversight; enhancing governance, compliance, and industry standards.
- **IBC (Insolvency and Bankruptcy Code, 2016):** Creditor-in-control model; 180-day CIRP (max 330 days); 4 pillars: IBBI, IPs, IUs, Adjudicating Authority; post-resolution 76% sales increase; improved credit culture (overdue days: 248-344 → 30-87).

3. Ready-to-Use Mains Intros (20-25 words each)

Pick the type that matches the question's framing:

► **INTRO: DATA / STATISTIC**

- India's banking sector has transformed from systemic crisis to systemic strength: Gross NPA at a 12-year low of 2.8%, PSB combined net profit at an all-time high of ₹1.41 lakh crore in FY25, and CRAR at 17.5% — metrics that confirm the recapitalisation-consolidation-resolution trinity of the past decade has produced the healthiest PSB balance sheets since the liberalisation era.

▶ **INTRO: REPORT / INDEX / SURVEY**

- RBI's Payments Vision 2028 positions India's digital payment infrastructure — processing 50% of global real-time transactions and 85% of domestic digital transactions through UPI — as the template for emerging-market financial modernisation, while acknowledging that cybersecurity, fraud liability imbalance, and rural inclusion gaps remain the unfinished agenda of India's payments revolution.

▶ **INTRO: SCHEME / POLICY / BUDGET**

- National Cooperation Policy 2025's vision of 'Sahkar Se Samriddhi' — building a technologically integrated, financially self-reliant cooperative ecosystem through a dedicated 'Cooperative Stack' — is India's attempt to revive the 8 lakh PACS network (of which only 63,000 are functional) as a last-mile financial inclusion institution serving the farmers and self-employed workers that commercial banks cannot profitably serve.

▶ **INTRO: CURRENT AFFAIRS 2025-26**

- With the Repo Rate cut to 6.0% in 2025 as CPI inflation moderated below 4%, RBI has pivoted from its 2022-23 tightening cycle — a pivot enabled by the moderation of food inflation that monetary policy could not itself deliver, validating the argument that supply-side agricultural interventions, not just rate hikes, are the correct policy response to India's food inflation problem.

4. Ready-to-Use Mains Conclusions (20-25 words each)

✓ **CONCLUSION: BANKING SECTOR CONCLUSION**

India's banking sector has achieved a remarkable turnaround — from the NPA crisis peak of 11.2% in FY18 to 2.8% in FY25 — but this financial health must now translate into real-economy impact: PSB credit growth at 10-12% is insufficient to support 7.6% GDP growth, requiring lending rate transmission, MSME credit deepening, and cooperative bank revitalization to complete the financial sector reform cycle.

✓ **CONCLUSION: DIGITAL FINANCE INCLUSION CONCLUSION**

India's digital payment revolution has created the infrastructure for financial inclusion but not the reality — rural internet penetration at 43%, digital literacy in rural women at 38%, and 31 crore e-Shram registrations without corresponding social security delivery reveal that access without usage is inclusion in name only, and that the physical-digital gap remains India's most consequential financial sector challenge.

5.2 External Sector — FDI, Trade, Balance of Payments and Global Protectionism

PYQs Covered

- *2025 – Impact of global protectionism on India's trade and what measures should India take*
- *2023 – India's current account deficit – causes and management*
- *2022 – India's exports; role of FTAs in boosting exports*
- *2020 – Impact of COVID-19 on India's external sector*
- *2017 – Rupee depreciation and its effects on the economy*
- *2015 – Gold import and current account deficit; Gold Monetisation Scheme*

1. Latest Data, Facts & Value-Added Content (Budget 2026-27 / Eco Survey 2025-26)

- **FDI performance (World Investment Report 2026):** Global FDI — developed economies rose 11.4% to \$723 billion; developing economies rose only 2% to \$901 billion. India's gross FDI inflows: \$27 billion (2024) → \$39 billion (2025); India's global FDI share rose from 1.8% to 2.4%. But India's net FDI declined sharply from \$27.5 billion (2021) to \$3.2 billion (2025) due to rising outward FDI (\$35.6 billion in 2025). Cumulative FDI inflows: \$1.14 trillion by December 2025. Singapore top source, followed by Mauritius and USA.
- **FDI structure concern:** Manufacturing FDI declined 13.2% in 2025 while services FDI increased 14.5%. India's FDI = 3.3% of GFCF (developing-economy average: 2.1%) — but outward FDI = 3% of GFCF (developing-economy average: 1.6%), nearly equalling inward FDI relative to capital formation.
- **India's export performance:** Total exports (goods + services) \$825.3 billion in FY25 — 6.1% YoY growth. Merchandise exports \$437.7 billion; services exports \$387.5 billion (all-time high). Exports contribute ~21% to India's GDP (FY2024-25) and support 45+ million jobs. India's global goods + services export share: ~2.5%. MSMEs contribute 45% of total exports.
- **US tariff impact:** USA imposed approximately 50% tariff on Indian goods under Trump administration (2025). US is India's largest export destination (~\$77 billion in FY25). Priority tariff-affected sectors: textiles, leather, gems and jewellery, engineering goods, marine products — all covered under Export Promotion Mission.
- **Rupee depreciation:** ₹96/USD in May 2026 (from ₹83/USD in mid-2023). Primary drivers: Strong dollar, US Fed rate differentials, capital outflows, oil import payments. Impact: Imported inflation (India imports 85-88% of crude oil); improved export competitiveness for labour-intensive sectors; NRI remittance incentive effect.
- **Current Account Deficit (CAD):** Approximately 1.0-1.2% of GDP (FY25) — significantly improved from 2.7% (FY23). Merchandise trade deficit persists due to oil imports (India's single largest import) and gold imports (~800-900 tonnes/year, 2nd largest import). Services trade surplus (IT/BPO exports) partially offsets merchandise deficit. Remittances (\$125 billion in 2023) — world's largest — are the critical CAD stabiliser.
- **Export Promotion Mission (EPM):** Budget 2025-26; ₹25,060 crore outlay; 6-year timeline (FY26-FY31); two sub-schemes: Niryat Protsahan (financial support) and Niryat Disha (non-financial market readiness); priority sectors: textiles, leather, gems, engineering, marine products.
- **Global supply chain opportunities:** India's share in global electronics exports growing (Apple producing 14% of global iPhones in India); India emerged as 2nd-largest smartphone manufacturer; 'China+1' strategy benefitting India in electronics, pharma API, textiles. India-EFTA TEPA (March 2024): \$100 billion FDI commitment from EFTA nations over 15 years — most significant FTA since India-UAE CEPA (2022).
- **Internationalization of rupee:** India expanding rupee settlement with 22 countries' Special Vostro Accounts; UPI international adoption (Singapore, France, UAE, UK); Triffin Dilemma challenge — balancing global currency demand with domestic monetary stability; rupee depreciated to ~₹96/USD (May 2026).
- **Carbon Border Adjustment Mechanism (CBAM — EU, from 2026):** Imposes carbon cost on imports of steel, aluminium, cement, fertilisers, electricity, and hydrogen from countries without equivalent carbon pricing; threatens Indian exports of steel and aluminium to EU; India currently lacks commensurate domestic carbon pricing mechanism.

2. Key Schemes, Frameworks & Policies to Cite

- **Export Promotion Mission (EPM, 2025):** ₹25,060 crore; FY2026-31; Niryat Protsahan (financial: trade finance, market diversification) + Niryat Disha (non-financial: quality standards, branding, logistics); priority sectors facing tariff escalation.
- **India-EFTA TEPA (Trade and Economic Partnership Agreement, March 2024):** Switzerland, Norway, Iceland, Liechtenstein; $100 billion FDI commitment over 15 years; comprehensive FTA covering goods, services, investment; India's most significant trade agreement since India-UAE CEPA (2022).
- **EU Carbon Border Adjustment Mechanism (CBAM):** From 2026; imposes carbon cost on imports lacking equivalent domestic carbon pricing; affects Indian steel, aluminium; India must develop carbon pricing or pay CBAM levy — both options involve cost to exporters.
- **Gold Monetisation Scheme (GMS, 2015):** Short (1-3 year), medium (5-7 year), long-term (12-15 year) gold deposits; interest paid in gold equivalent; banks mobilise idle gold; addresses gold as CAD driver; limited uptake due to cultural attachment to physical gold.
- **Rupee Internationalisation Framework:** RBI framework for bilateral trade in Indian rupees; 22+ countries' Vostro Accounts; UPI international expansion; reduces dollar dependence; India-Russia oil trade in rupees post-2022; Triffin Dilemma is the theoretical constraint.

3. Ready-to-Use Mains Intros (20-25 words each)

Pick the type that matches the question's framing:

► **INTRO: DATA / STATISTIC**

India's net FDI collapsed from $27.5 billion (2021) to $3.2 billion (2025) even as gross inflows rose to $39 billion — because outward FDI from Indian companies surged to $35.6 billion; a paradox that reveals India's FDI attractiveness and India Inc.'s global ambition are simultaneously rising, but the net capital contribution to domestic investment is shrinking.

► **INTRO: REPORT / INDEX / SURVEY**

World Investment Report 2026 confirms India's gross FDI share rose from 1.8% to 2.4% of global flows — but the structural shift of greenfield FDI from manufacturing (-13.2%) to services (+14.5%) in 2025 directly undermines Make in India's goal, confirming that FDI policy must specifically incentivise manufacturing greenfield investment if India is to capture the China+1 supply chain moment.

► **INTRO: SCHEME / POLICY / BUDGET**

Export Promotion Mission's ₹25,060 crore two-sub-scheme architecture — Niryat Protsahan for trade finance access and Niryat Disha for market readiness — directly targets the structural gaps (logistics costs, quality standards, market access) that prevent India's MSMEs (who contribute 45% of exports) from scaling into global supply chains and capturing more of the $825.3 billion total export opportunity.

► **INTRO: CURRENT AFFAIRS 2025-26**

With the US imposing approximately 50% tariffs on Indian goods in 2025 and the EU's Carbon Border Adjustment Mechanism threatening Indian steel and aluminium exports from 2026, India faces simultaneous tariff shocks on its two largest export markets — precisely the moment when the Export Promotion Mission, India-EFTA TEPA, and accelerated FTA negotiations with the EU and UK become existential rather than aspirational trade policy priorities.

4. Ready-to-Use Mains Conclusions (20-25 words each)

✓ **CONCLUSION: EXTERNAL SECTOR RESILIENCE CONCLUSION**

India's external sector resilience rests on three structural pillars: remittances ($125 billion, world's largest) stabilising the CAD; services exports ($387.5 billion, all-time high) offsetting merchandise deficits; and FX reserves (~$690 billion, 12 months' import cover) providing buffer against capital account volatility — but these strengths cannot substitute for the manufacturing export competitiveness that Vietnam, Bangladesh, and Mexico are capturing in India's stead.

✓ **CONCLUSION: PROTECTIONISM RESPONSE CONCLUSION**

India's response to global protectionism must be proactive, not reactive: accelerate FTAs with the EU, UK, GCC, and Canada to secure preferential market access; leverage the China+1 moment through PLI, logistics reform, and semiconductor investment; and develop a credible domestic carbon-pricing mechanism to pre-empt CBAM's cost imposition on Indian industry by 2026.

5.3 Resource Mobilisation — Household Savings, Investment, and PPP Infrastructure

PYQs Covered

- *2021 – National Infrastructure Pipeline; significance for India's infrastructure*
- *2020 – Investment model in India; public vs private investment*
- *2019 – Savings rate in India and macroeconomic significance*
- *2017 – Infrastructure development and its financing*
- *2015 – Public Private Partnership in India – achievements and challenges*

1. Latest Data, Facts & Value-Added Content (Budget 2026-27 / Eco Survey 2025-26)

- **Household savings trends:** India's Gross Savings Rate has fallen from ~36% of GDP (FY08 peak) to ~30-31% (FY24). Household savings shifting from bank deposits (deposit share of incremental savings: 57.9% in FY12 → 35.2% in FY25) toward equity and mutual funds. SIP flows: ₹4,000 crore/month (FY14) → ₹28,000 crore/month (FY25). Equity ownership: 11% (FY14) → 18.8% (2025). Mutual fund AUM crossed ₹65 lakh crore (FY25).
- **NIP (National Infrastructure Pipeline):** ₹111 lakh crore worth of projects (2020-25 cycle). Funding structure: Central Government (39%), State Governments (40%), Private Sector (21%). Key challenge: State fiscal constraints limiting their 40% share contribution; regulatory and execution stalls in large greenfield projects.
- **Union Budget 2026-27 Infrastructure allocations:** Public CapEx = ₹12.2 lakh crore (~9% increase over FY26). New Infrastructure Risk Guarantee Fund — building private developer confidence. New Dedicated Freight Corridors. Coastal Cargo Promotion Scheme. ₹20,000 crore for Carbon Capture Utilization and Storage (CCUS) over 5 years. 7 High-Speed Rail corridors announced.
- **PPP framework evolution:** From BOT (Build-Operate-Transfer) disputes in roads (toll collection failures, traffic shortfalls, renegotiation) to HAM (Hybrid Annuity Model) that provides 40% upfront government contribution, reducing PPP risk and reviving private investment in highways. Over 900 km of new highways added per day in FY24.

- **National Monetisation Pipeline (NMP, 2021-26):** Target ₹6 lakh crore from leasing operational public assets. InVITs (Infrastructure Investment Trusts): Launched 2014; currently over ₹1 lakh crore AUM; enable retail investors to invest in road, power, and pipeline infrastructure. REITs (Real Estate Investment Trusts): similar mechanism for real estate assets. Both provide long-term institutional capital for infrastructure without government borrowing.
- **GFCF (Gross Fixed Capital Formation):** India's GFCF/GDP at approximately 32-33% — higher than world average (25-26%) but below China's 43% during its infrastructure takeoff decade. Private investment as share of GFCF has declined — the 'crowding in' of private investment by public capex remains the key policy objective.
- **Competitive Cooperative Federalism:** States competing for investment via Global Investor Summits (Vibrant Gujarat, Magnetic Maharashtra, Tamil Nadu GIM); Investment Friendliness Index of States promotes local business environment improvements; creates the 'race to the bottom' risk — undercutting labour protections and environmental standards to attract capital.
- **PPP challenges:** Inadequate risk allocation (especially demand risk and land acquisition risk); regulatory capacity deficit (sectoral regulators not keeping pace with complex PPP structures); dispute resolution delays (NCLAT, NCLT backlogs); exit barrier rigidity for failed PPPs.
- **Budget 2026-27 Infrastructure Risk Guarantee Fund:** New instrument to share construction-phase risks with private developers — directly addresses the risk premium that has historically deterred private infrastructure investment in India. Coastal Cargo Promotion Scheme: Shift freight from road to coastal shipping, reducing logistics costs.

2. Key Schemes, Frameworks & Policies to Cite

- **National Infrastructure Pipeline (NIP):** ₹111 lakh crore (2020-25); 39% Centre, 40% States, 21% Private; energy (24%), roads (18%), urban (16%), railways (13%) are top sectors; PM Gati Shakti as GIS planning platform.
- **PM Gati Shakti National Master Plan:** Digital GIS platform integrating 16 ministries' infrastructure plans; real-time project monitoring; multi-modal connectivity; National Logistics Policy 2022 alignment; targets logistics cost reduction from 14% to 8% of GDP.
- **InVITs and REITs:** Infrastructure Investment Trusts (InVITs) and Real Estate Investment Trusts (REITs); regulated by SEBI; enable retail + institutional investors to own income-generating infrastructure assets; InVIT AUM >₹1 lakh crore; provide long-term capital without Government fiscal burden.
- **HAM (Hybrid Annuity Model):** 40% government upfront contribution + 60% annuity payments over construction and operation period; balances risk allocation between government and private sector; revived highway PPP after BOT model failures.
- **Infrastructure Risk Guarantee Fund (Budget 2026-27):** New Fund: Provides risk guarantee to private developers during infrastructure construction phase; aims to reduce the risk premium embedded in private infrastructure investments; expected to unlock private capital at scale.

3. Ready-to-Use Mains Intros (20-25 words each)

Pick the type that matches the question's framing:

► INTRO: DATA / STATISTIC

SIP inflows rising from ₹4,000 crore to ₹28,000 crore/month (FY14-FY25) and household equity ownership from 11% to 18.8% represent a structural transformation of Indian household savings — moving from the 'safe haven' of bank deposits and gold toward financial markets, deepening India's domestic capital pool even as Gross Savings Rate has declined from 36% to 30% of GDP.

► INTRO: REPORT / INDEX / SURVEY

National Infrastructure Pipeline's ₹111 lakh crore ambition with 39% Central, 40% State, and 21% private funding faces its hardest constraint at the State level — where 18 of 28 states have breached fiscal deficit limits and committed expenditure consumes 51.76% of revenue — making the Centre's ₹12.2 lakh crore capex commitment the primary infrastructure investment driver in FY2026-27.

► INTRO: SCHEME / POLICY / BUDGET

Budget 2026-27's Infrastructure Risk Guarantee Fund — providing State-backed risk coverage to private developers during the construction phase — directly addresses the principal barrier to private infrastructure investment: the risk premium that makes private financing 3-4% more expensive than government borrowing, deterring private participation at a scale the NIP's 21% private-sector target requires.

► INTRO: CURRENT AFFAIRS 2025-26

InVIT AUM crossing ₹1 lakh crore in 2025, combined with SIP inflows at ₹28,000 crore/month, demonstrates that India's capital markets are developing the depth to channel household financial savings into productive infrastructure investment — the critical intermediation missing in earlier India when household savings went to bank deposits that financed PSB lending to infrastructure at high NPA cost.

4. Ready-to-Use Mains Conclusions (20-25 words each)

✓ CONCLUSION: INVESTMENT MODEL CONCLUSION

India's optimal investment architecture for the next decade is a 'crowding-in' model: central government capex (₹12.2 lakh crore) creates the infrastructure backbone that reduces private sector risk and cost, InVITs/REITs recycle completed assets to free capital for new projects, and PPPs with improved HAM-style risk allocation attract private execution capability — together replacing the failed 'private sector will do it all' model of the 2000s with a genuine public-private partnership ecosystem.

✓ CONCLUSION: HOUSEHOLD SAVINGS CONCLUSION

India's household savings revolution — from passive gold and bank deposits to active equity and mutual fund participation — deepens domestic capital markets and reduces external capital dependence, but also creates new systemic risks (market volatility transmitting to household wealth) that require retail investor protection, financial literacy investment, and the SEBI regulatory framework to evolve at the same pace as household market participation.