



## Indian Economy CA - August 2024 to December 2024

### Digital Economy

**Context :** India's digital economy is poised to constitute **1/5th of GDP 2026** as per RBI report.

- Digital Economy refers to the economic activities that arise from **connecting** individuals, businesses, devices, data, and operations through **digital technology**.
- India is the **third largest digitalised country** in the world, after USA and China.

### Significance

- ✓ **Contribution to GDP:** Around 10% in 2023, projected to reach **20% by 2026**.
- ✓ **Growth of E-commerce sector:** Due to the expansion of the digital economy. The E-commerce market to hit \$325 billion by 2030 (**Invest India**).
- ✓ **Financial inclusion:** Digitalization has improved access to banking services. Eg., PM JanDhan Yojana.

### Government Initiatives for digital economy

- UPI, e-Rupi, UPI 123Pay, Central Bank Digital Currency.

### Benefits

- ✓ Boost **accountability** in financial transactions, lowers corruption.
- ✓ **Increased opportunities for employment and entrepreneurship.** For example, Flipkart generated more than **1 lakh jobs** ahead of its Big Billion sales.
- ✓ **Decrease tax avoidance** by utilizing digital payments and transactions.
- ✓ **Increased convenience for customers to enable financial transactions.** For instance, the UPI transactions cross ₹20 trillion in July 2024.
- ✓ Enabled **businesses** to automate operations, reduce costs.
- ✓ Enhanced **customer experiences** through data analytics and digital platforms.

### Challenges

- **Slow Infrastructure Development:** For example, slow progress in the deployment of **BharatNet**.
- **Rural-Urban Digital divide:** Only 17% of rural households have internet access through any device, while urban households enjoy a much higher rate of 44%. (**India Inequality Report, 2022**)
- **Data breaches:** For example, Aadhaar data breach of 81.5 crore citizens. (**Global Risk Report**)
- **Cyber attacks:** India ranked as the **third-largest country** for phishing attacks after the US and UK.
- **Privacy issue:** Lack of comprehensive data protection law. For example, the recent Pegasus attack on MPs
- **Lack of research and development:** India spends only 0.64% to 0.7% of its GDP to R&D.

### Way forward

- ✓ **Introduce strong cybersecurity measures:** To safeguard users against fraud and cyberattacks. For example, UK General Data Protection Regulation and Data Protection Act, 2018.



- ✓ **Allocation of funds:** For upgrading digital infrastructure to guarantee consistent internet access.
- ✓ **Promotion of fintech innovation:** To cater to the unique requirements of the Indian market. For example, Paytm sandbox that provides instant notifications when you receive a payment.
- ✓ **Research and Development:** Countries such as Israel spends about **5.56%** of their GDP to R&D.

## Unified Payment Interface

**Context:** UPI transactions cross ₹20 trillion for third successive month in July 2024.

### Benefits

- ✓ **Financial inclusion:** The number of participating banks has increased from 21 to 399 (**State of Digital Economy Report**).
- ✓ **Improved transaction efficiency:** Allows participants to make transaction 24/7.
- ✓ **Encouragement to entrepreneurs:** More entrepreneurs can start and grow their businesses without the need for physical cash handling.
- ✓ **Transparency:** Digital transactions through UPI are easier to track and audit.
- ✓ **Increased Consumer Spending:** As people become more comfortable with digital payments, it leads to increase in spending. For example, the average daily transaction through UPI was about Rs.66,950 crores.

### Challenges

- **Infrastructure Limitations:** Only **15%** of rural households have an internet connection (**India Inequality Report, 2022**).
- **Digital Literacy:** Only **38%** of households in India are digitally literate (**India Inequality Report, 2022**).
- **Security Concerns:** The number of digital payment frauds rose from 9,046 to 36,075 in 2023-24 (**RBI**).
- **Regulatory Challenges:** The National Payments Corporation of India (NPCI) has set a maximum of ₹1 lakh per transaction and a limit of 20 transactions per day.
- **Merchant Acceptance:** Merchants in smaller towns and rural areas, still don't accept UPI transactions.

### Way forward

- ✓ **Expand Payment Acceptance Points:** Deploy more mobile Point of Sale systems.
- ✓ **Technical Upgrades:** Update the UPI technology infrastructure to handle high transaction volumes and ensure system stability.
- ✓ **Incentivizing Merchants:** To accept UPI payments.
- ✓ **24/7 Customer Service:** Ensure reliable and accessible customer support for UPI users.
- ✓ **Partnerships for Innovation:** Encourage collaboration between traditional banks and fintech companies for innovative solution for seamless transaction.
- ✓ **Boost International transactions:** Increase the number of countries that accept UPI transaction.

## Indian Economy: Growth, Challenges and Future Prospectus

**Context:** India has experienced impressive economic growth in recent years, driven by various factors, including strong domestic demand, increased investment, and a favourable global environment.



## Factors of the Growth

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- **Strong Domestic Demand:** Growth in retail, e-commerce, and organised retail due to rising incomes and consumer spending.
- **Infrastructure Investment:** Government investments in roads, railways, ports, and airports improve connectivity and economic activity.
- **Services Sector Growth:** Robust growth in IT and IT-enabled services.
- **Increased Investment:** Significant inflows into manufacturing, technology, and retail sectors.
- **Business Environment:** Improved infrastructure and government efforts attract both foreign and private sector investments.
- **Favorable Global Environment:** Increased economic activity and lower commodity prices benefit India, and contributions from overseas Indians support economic growth.
- **Young Population:** A significant working-age demographic boosts productivity and economic growth.
- **Structural Reforms:** Simplified tax system and labour and tax reforms improve business efficiency.
- **Technological Advancements:** Promotion of digital technologies increases efficiency and innovation through digital India and growth in digital technologies and online platforms.
- **Government Policies:** For example, **Aatmanirbhar Bharat** Campaign to promote domestic manufacturing and reduce import reliance.

### Aatmanirbhar Bharat (Self-Reliant India)

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- It aims to **boost domestic manufacturing** and **reduce reliance on imports** by encouraging local production and innovation.
- Through various initiatives and policy support, the movement seeks to strengthen India's economic resilience and global competitiveness.

### Tax Reforms in India

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- **Unified Tax Structure:** GST replaced multiple indirect taxes (excise duty, service tax, VAT, etc.), creating a more unified and simplified tax system.
- **Reduced Tax Cascade:** Eliminated the cascading effect of taxes, where taxes were levied on taxes, leading to higher prices for consumers.
- **Improved Efficiency:** Streamlined the tax compliance process for businesses, reducing paperwork and administrative burden.
- **Increased Tax Base:** Brought many informal businesses into the tax net, widening the tax base and increasing tax revenue.
- **Enhanced Transparency:** Improved tax administration transparency and reduced tax evasion opportunities.

### Other Tax Reforms

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- **Income Tax Reforms:** The government has implemented various reforms to the income tax system, such as reducing tax rates for individuals and businesses, introducing tax incentives, and simplifying the tax filing process.
- **Corporate Tax Reforms:** Lower corporate tax rates have been introduced to attract investments and boost economic growth.



- **Focus on Faceless Assessment:** The government has introduced faceless assessment procedures to reduce corruption and ensure fair tax assessments.
- **Digitalization:** Tax administration has been increasingly digitised, improving efficiency and transparency

## Challenges

- **Inadequate Infrastructure:** Poorly maintained roads and outdated power grids can disrupt business operations and slow economic growth.
- **Inefficient Logistics:** Logistics inefficiency increases transportation costs and delays supply chains, impacting overall economic productivity.
- **Urbanisation Challenges:** Rapid urban growth leads to infrastructure bottlenecks and inadequate planning, causing traffic congestion and strain on services.
- **High Unemployment and Skill Mismatch:** Elevated youth unemployment and skill mismatches contribute to joblessness, while many are engaged in informal, insecure jobs.
- **Income Inequality and Persistent Poverty:** Growing income disparities and persistent poverty in rural areas highlight significant socio-economic inequalities and lack of access to essential services.
- **Environmental Challenges:** Pollution and deforestation pose serious threats, with the need to balance economic development with environmental sustainability.

## Future Prospectus

- **Resilient and Diverse Economy:** India's ability to weather global economic shocks, its diverse economy with growing services and expanding manufacturing sectors demonstrate strong fundamentals.
- **Financial Stability:** A robust banking system and well-regulated capital markets contribute to overall financial stability.
- **Demographic Dividend:** A large, young population boosts labour force participation and productivity and fosters innovation and entrepreneurship.
- **Growing Global Influence:** India's expanding economic power and strengthened international partnerships enhance its global role and attractiveness to foreign investors.
- **Technological Advancements:** Rapid digital transformation and a vibrant start-up ecosystem drive innovation and improve efficiency across various sectors.
- **Policy Reforms and Infrastructure Development:** Continued economic reforms and investment in infrastructure improve the business environment, reduce costs, and create new opportunities.

## MGNREGA Unemployment Allowance

**Context:** In FY 2024, only ₹90,000 was released as 'unemployment allowance' under MGNREGS.

- According to **Section 7(1)** of MGNREGA, 2005, if a person is not employed **within 15 days of applying**, they are entitled to a **daily unemployment allowance**.
- It is **one-fourth** of the wage rate for the first **30 days** of the year and **half** of the wage rate thereafter.
- It was introduced to hold states **accountable** and ensure they provide work as mandated by law. However, it is one of most underutilized clauses due to administrative deficiencies.



- In 2022-23 and 2023-24, only six states disbursed the allowance, compared to three states in 2021-22 and four in 2020-21. No states provided the allowance in 2019-20.
- The low disbursement is due to **block-level inefficiencies, reporting flaws, lack of demand receipts, and state challenges from underfunding.**
- The Parliamentary Standing Committee on Rural Development has called for higher-level intervention by the Centre to address the issue and ensure compliance with the unemployment allowance provision.

## State of Rural Youth Employment Report 2024

**Context:** The State of Rural Youth Employment Report by the **Development Intelligence Unit (DIU)**, reveals that **70-85%** of employed rural youth want to **change their jobs.**

- The **opportunity youth** (unemployed/underemployed), which accounted for about **70% of all rural youth** across 21 states were surveyed.

### Key Findings

- **Current Perception of Agriculture:** The majority do not find agriculture aspirational due to **low productivity and insufficient profits.**
- **Preferred Job Types:** The majority prefer **small businesses** (manufacturing, retail, trading) or **salaried jobs** in public/private sectors.
- **Local Work Preference:** Over **60% of males and 70% of females** prefer work near their villages, even with lower income.
- **Support Needs for Entrepreneurship:** **90% of males and 50% of females** need support in accessing **seed capital**, and only **10%** need **full training** courses.
- **Needed Improvements in Agriculture:** Technical support to increase **productivity, crop diversification**, and access to **high-quality, affordable agri-inputs.**

## Status of Unemployment

**Context:** The Finance Minister announced a **five-scheme package** to **tackle unemployment**, yet India's job crisis remains **deep-rooted and persistent.**

- One key initiative includes incentivizing corporates to onboard **1 crore interns** over the **next 5 years.**

### Current Status

- **RBI's 109 million job creation** claim is disputed as the **Periodic Labour Force Survey (PLFS)** shows just a **4% increase** in the labor force since **2019-20.**
- Nearly **46% of workers** are in **agriculture**, where income hasn't increased, suggesting a **lack of gainful jobs elsewhere.**
- **MGNREGA data** shows rural distress with **24.8 lakh new job seekers** and **5.8 crore job demands** for **2024-25.**
- **Manufacturing's workforce share** fell from **12.6% (2011-12)** to **11.4% (2022-23)** and **key job-creating sectors (textiles, electronics, leather, and paper)** saw **negative industrial production.**
- Many prepare for **government exams** even in harsh conditions (as in the Delhi drowning issue), viewing them as the **only path to social mobility.**



- The Ministry of Personnel reported **22 crore** job applications, but only **7.2 lakh** positions were filled in **8 years**, with **30 lakh** posts still vacant.

### Limitations of the Proposed Schemes

- The **Internship Scheme** is **non-inclusive** and targets only the **top 500 companies**, excluding **micro, small, and medium enterprises** that could benefit more from lower-cost interns.
- Expecting each company to take on **4,000 interns annually** is an **unrealistic scale**, especially since most do not even have such large permanent workforces.
- With the impact of **AI reducing job roles**, companies are unlikely to expand their workforce in the short term significantly.
- The **voluntary nature of the scheme**, being merely a nudge, further reduces its potential effectiveness.
- The scheme ignores a more inclusive **Right to Apprenticeship proposal** aimed at transforming youth capabilities through on-the-job training.
- The government's **supply-side focus** overlooks the core issue of **weak demand**, making it less likely for companies to hire more workers.

### Income Inequality and Corruption

**Context:** The Gallup World Poll and Centre for Monitoring Indian Economy provide insights into **correlation** between **income inequality** and **corruption**.

- In India, the **top 1%** of income earners receive 22.6% of total pre-tax income, compared to 7.3% in 1980.

### Correlation Between Income Inequality and Corruption

- **Increased Wealth Concentration:** The **top 1% in India** now **controls over 40% of the total wealth**, leading to increased influence over public policies and decisions, often resulting in corruption.
- **Rent-Seeking Behaviour:** Greater income inequality drives wealthy investors to exploit public resources for private gain, reflecting broader corruption issues.
- **Speculative Investments:** High-income individuals engage in speculative investments, exacerbating inequality and creating opportunities for corrupt practices within financial markets.
- **Regulatory Capture:** As income inequality grows, powerful businesses may exert undue influence over regulatory agencies, leading to biased decision-making and increased corruption.
- **Unequal Access to Justice:** High-income individuals may have better access to legal resources and favourable judicial outcomes, undermining the fairness of the legal system and fostering corruption.
- **Globalization Impact:** As global resources become more valuable, regulatory bodies may become more susceptible to corruption, especially in high-stakes areas like infrastructure projects.

### Way Forward

- ✓ **Implement Progressive Taxation** to reduce income inequality and fund comprehensive social welfare programs. E.g. **Sweden** and **Norway**.
- ✓ **Enhancing Financial Inclusion:** The Pradhan Mantri Jan Dhan Yojana (PMJDY) has been successful in bringing millions of unbanked individuals into the formal banking system



- ✓ **Strengthening Labor Rights and Wage Policies:** The introduction of **minimum wage laws in several U.S. states** has helped reduce wage inequality among workers.
- ✓ **Land Reforms and Redistribution in Kerala** lead to reduced economic disparities.
- ✓ **Strengthen Regulatory Frameworks:** The **Foreign Corrupt Practices Act (FCPA) in the United States** sets stringent standards for anti-corruption compliance to implement robust internal.
- ✓ **Promote Transparency and Accountability:** India's Public Procurement Portal (GeM) provides a transparent platform for government procurement, enabling real-time tracking of processes.
- ✓ **Encourage Civic Engagement: Brazil's Participatory Budgeting** allows citizens to have a direct say in how public funds are allocated, enhancing transparency and accountability in local government spending.

## Handloom Industry in India

**Context:** The handloom industry in India, once a vibrant sector reflecting the nation's rich cultural heritage, is now facing a significant decline.

### Significance of the Handloom Industry

- **Cultural Heritage:** The **Banarasi saree, Pochampally ikat, and Kanchipuram silk** are globally recognised for their intricate designs and craftsmanship.
- **Employment Generation:** It is the **2<sup>nd</sup> largest employment generator** after agriculture (**4.3 million**).
- **Sustainable and Eco-Friendly:** Handloom weaving uses **natural fibres** like cotton, silk, and wool, which are biodegradable and environmentally friendly.
- **Rural Economy Support:** The industry plays a vital role in the rural economy by supporting livelihoods and generating income for families.
- **Promoting Gender Equality:** **Women constitute about 70%** of the total handloom workforce.

### Challenges Faced by the Handloom Industry

- **Competition from Power Looms and Machine-Made Products:** The introduction of polyester flags for the Har Ghar Tiranga campaign highlights the preference for cheaper products over handwoven khadi.
- **Erosion of the Flag Code's Original Intent:** The **Flag Code of India** was amended in 2021 to allow machine-made polyester flags, replacing the earlier requirement for hand-spun and hand-woven khadi.
- **Lack of Market Access and Branding:** Despite global demand for sustainable and fair-trade products, Indian handloom has not been effectively marketed to a global audience.
- **GST and Tax Burdens:** **GST** on raw materials like yarn, dyes, and chemicals increases production costs, squeezing the already thin margins of handloom weavers.
- **Declining Government Support:** Government initiatives like the **Vishwakarma Yojana** exclude handloom weavers and existing khadi cooperatives lack sufficient support and resources.
- **Inadequate Wages and Poor Working Conditions:** Handloom weavers earn meagre wages of **₹200-₹250 per day**, despite labour-intensive nature of work.

### Government Initiatives to Support the Handloom Sector

- **National Handloom Development Programme (NHDP):** Central sector scheme for comprehensive development and self-sustainability of handloom clusters at the block level.



- **Handloom Mark Scheme:** Brands handloom products, ensuring authenticity and securing a premium market position domestically and internationally
- **Yarn Supply Scheme:** Ensures regular supply of quality yarn at reasonable prices through NHDC and state governments.
- **Comprehensive Handloom Cluster Development Scheme (CHCDS):** Develops mega handloom clusters (15,000+ looms) with funding for technology, product development, and marketing.
- **Handloom Weavers' Comprehensive Welfare Scheme (HWCWS):** Provides life and accidental insurance for weavers aged 18-50, offering up to Rs. 2 lakhs for death or disability.

## Way Forward

- ✓ **Restoration of Khadi and Handloom Identity:** Khadi should be reinstated as the sole fabric for the national flag, emphasizing its cultural and historical significance.
- ✓ **Tax Reforms:** Exempt handloom products from GST or introduce subsidies on its raw materials.
- ✓ **Financial Support:** Provide easy credit access to handloom weavers through schemes like MUDRA loans.
- ✓ **Global Branding and Market Expansion:** Launch global campaigns to promote Indian handloom as a luxury and sustainable product.
- ✓ **Strengthening Cooperatives and Local Institutions:** Empower handloom weavers to form cooperatives and self-help groups for better bargaining power and market access.

## Flag Code of India

- The Flag Code originally mandated the use of “**hand-woven**” khadi fabric for the national flag to reflect India’s heritage. A 2022 amendment permitted machine-made polyester flags.
- The flag’s dimensions must be in the ratio of **3:2 (length to width)**.
- It must be displayed from sunrise to sunset.
- It must be hoisted with respect, and never touch the ground or water. The flag **cannot be used** for advertising, merchandise, or any commercial or decorative purposes.

## Industrial Parks

**Context** The Cabinet Committee on Economic Affairs cleared an outlay of ₹28,602 crore to set up 12 Industrial Parks across 10 States and along six major Industrial Corridors.

- The **Greenfield industrial** “smart cities” can attract potential investments, provide millions of direct and indirect jobs, and will offer investors a ‘**plug and play**’ alternative to set up shops.

Greenfield Investment	Brownfield Investments
<ul style="list-style-type: none"><li>• A new venture is begun by <b>constructing new facilities</b> instead of buying an existing facility.</li><li>• <b>Advantage:</b> It offers design flexibility along with the efficiency to meet the project's needs.</li></ul>	<ul style="list-style-type: none"><li>• It occurs when an entity purchases or leases an existing facility to begin new production.</li><li>• <b>Advantage:</b> It reduces start-up costs, time for the construction of new infrastructure.</li></ul>



## Catastrophe Insurance

**Context:** Proposals to bring the population and properties in the country under a catastrophe insurance plan is on rise after Wayanad landslide.

- Over 350 people died and properties worth hundreds of crores got destroyed in the landslide and they are largely uninsured.

### Need of Catastrophe Insurance

- Less than **10%** of the people and property have **insurance coverage** (IC) in any region in India (global average is 54%). In 2020 floods, India only got 11% as IC for its \$7.5 billion economic loss.
- India ranks **3<sup>rd</sup>** after the US and China for the highest number of **natural disasters** since 1900.
- India has suffered an **economic loss of \$150 billion** (where the loss is reported) with largest loss from floods (\$92.1 billion) followed by storms (\$44.7 billion) since 1900.

### Challenges

- **High Level of Protection Gap:** Only around 8% of the total losses are covered during the period **1991 to 2022** showing around **92% protection gap**.

⇒ *An insurance protection gap is the **difference** between the **amount** of insurance coverage one **need** and the **amount** one **actually have**.*

- **Formulating a voluntary common catastrophe rate:** If the rates are too low, premium will not be sufficient to cover the risk.
- **Red Tapism:** The **Insurance Catastrophe Pool(INCIP)** proposed by Standing Committee of the Lok Sabha is **stuck** with the Insurance Regulatory and Development Authority of India for over a decade.
- **Unviability of CAT (catastrophe) Bonds:** In India as the interest rates are high. Generally, re-insurers mobilise funds through CAT bonds at lower costs so that they can pay huge catastrophe losses.

⇒ *A CAT bond is a security that pays the issuer when a predefined disaster risk is realised.*

### Way Ahead

- ✓ A **specialised insurance scheme** by one of the public sector general insurance companies with subsidised premiums for disaster-prone areas like that in USA for the hurricane-prone Florida.
- ✓ Set up a working group of **IRDAI** with all stakeholders to examine these issues and provide appropriate policy recommendations.
- ✓ **Implement INCIP** with cost up to Rs 5,000 crore, to bring down the present undefined bill to rebuild lives after the catastrophes, providing a big comfort to citizens and the government.
- ✓ Encourage **CAT Bonds** proposed by General Insurance Corporation of India Limited (GIC Re), which are common in developed countries.

#### General Insurance Corporation of India (GIC Re)

- It was formed under Section 9 (1) of the **General Insurance Business (Nationalization) Act** to superintend, control, and carry on the business of general insurance across the country.



- It is registered as a **private company** under the Companies Act of 1956.
- It works under **Ministry of Finance** as the **sole Indian reinsurer** which provides insurance to other insurance companies.

## Indian Economy Slows Down After Election

**Context:** The Index of Eight Core Industries (ICI) hit 20-month low due to **post-election spending cuts and heatwaves**.

- **Coal** showed strong growth, while **electricity, natural gas, steel, cement, and fertilizers** grew more slowly, and the production of **refinery products** and **crude oil** declined.
- Purchasing Managers' Index dropped to 58.1, with input costs rising sharply and selling prices increasing at the fastest rate in nearly 11 years.
- The Inflation concerns are being driven by rising costs for coal, paper, and steel.
- RBI's Monetary Policy Committee faces the challenge to address the broadening inflation beyond food.

## RBI's Currency Regulations' Consequences

**Context:** RBI's attempts to control the rupee through regulatory changes can increase business costs and create adverse market effects.

### RBI's Currency Management Strategy

- **Managed Floating Exchange Rate Regime:**
  - ❖ It is a system where a currency's value is primarily set by market forces but occasionally adjusted by central bank intervention.
  - ❖ RBI intervenes to stabilise the currency by buying or selling it to prevent excessive fluctuations.
  - ❖ Supply and demand, trade balances, and economic conditions mainly drive the currency's value.
  - ❖ To balance currency stability with market responsiveness, supporting trade and investment.
  - ❖ RBI must carefully manage interventions to avoid market distortions while minimising volatility.

### Recent Trends in RBI's Currency Policy

- **Inflation Management:** The RBI prioritises controlling inflation by raising interest rates and tightening monetary policy to maintain price stability.
- **Foreign Exchange Market Intervention:** The RBI actively intervenes in the forex market to manage rupee volatility and stabilize the currency, especially during global market turmoil.
- **Exchange Rate Flexibility:** While intervening to manage volatility, the RBI allows the rupee to fluctuate within a certain band for market-based adjustments.
- **Capital Account Management:** The RBI manages capital flows through measures that include restrictions or incentives to handle excessive volatility.
- **Non-Traditional Tools:** Beyond interest rate adjustments, RBI increasingly uses non-traditional tools like quantitative easing & liquidity management to influence market conditions and support growth.



## Impacts of Regulatory Measures

- **Reduced Market Liquidity:** Regulatory restrictions, such as limiting speculative trades, can decrease market liquidity, making it harder for participants to trade and hedge effectively.
- **Increased Cost of Hedging:** With tighter regulations, the cost of managing currency risk through derivatives and other instruments may rise, impacting businesses and investors.
- **Shift to Offshore Markets:** Stricter onshore regulations can drive traders to offshore markets, potentially reducing the volume and effectiveness of domestic currency trading.
- **Regulatory Uncertainty:** Frequent changes in regulations introduce uncertainty, which can affect business planning and investment decisions due to unpredictable shifts in rules.
- **Market Distortions:** Expanded regulatory controls can disrupt market dynamics, leading to inefficiencies and misalignments in currency valuation.
- **Increased Compliance Costs:** New regulatory requirements increase compliance burdens for businesses and financial institutions, raising operational costs and impacting profitability.

## Way Forward

- ✓ **Enhanced Flexibility:** Increase the exchange rate band to reduce frequent interventions and let the market determine the exchange rate more.
- ✓ **Improved Communication:** Enhance transparency and communication about currency policy to help market participants understand the RBI's objectives and actions.
- ✓ **Policy Integration:** Align currency policy with other economic policies, like fiscal policy, to create a coherent macroeconomic framework and support broader economic goals.

## Unified Lending Interface

**Context:** RBI is set to launch the **Unified Lending Interface**, a tech platform for **frictionless credit**.

- **Unified Lending Interface (ULI)** is a platform designed to **simplify lending for MSMEs and farmers** by facilitating a **seamless and consent-based** flow of **digital information**, including **land records** from various states, from **multiple data service providers to lenders**.
- It will have a **common and standardized API** (Application Programming Interface), designed for a **'plug-and-play' approach** to ensure digital access to information from diverse sources.
- The RBI envisions ULI as part of "**new trinity**"- **JAM-UPI-ULI**, to advance India's digital infrastructure.

## Objectives

- ✓ To **cut down the time taken for credit appraisal**, especially for smaller and rural borrowers.
- ✓ To **reduce the complexity** of multiple technical integrations, without requiring extensive documentation.
- ✓ To **revolutionize lending space** in India, like just like UPI transformed the payments ecosystem.
- ✓ To **bring efficiency** to the lending process by reducing costs, speeding up disbursements, and improving scalability.



## Government Bonds

**Context:** RBI has decided to exclude new 14-year and 30-year long-term government bonds from the **Fully Accessible Route (FAR)** amid rising foreign investments.

- The recent changes are part of prudent **debt management** to **prevent the depletion of dollar reserves**.
- Existing securities remain accessible under FAR, but **new long-term securities require approval**.
- Only new government securities with **14-year and 30-year** tenors are **excluded** from FAR.
- This decision follows the inclusion of **Indian government bonds (IGBs)** in JP Morgan's emerging markets bond indices (GBI-EM).

## Securities and Exchange Board of India (SEBI)

**Context:** The **integrity of SEBI is under scrutiny** following allegations by New York-based **Hindenburg Research** of a conflict of interest involving the SEBI Chairperson, potentially compromising the ongoing investigation into the Adani Group.

- Allegations claim that the SEBI Chairperson had hidden stakes in **offshore funds** in Bermuda and Mauritius, which were reportedly used for **stock manipulation** by Adani Group.
- Her husband's role at an Alternative Investment Management company is also scrutinized for potential benefits from SEBI's regulatory changes favouring **REITs**.
- With the **Indian stock market** now a **\$5.3 trillion** powerhouse, concerns about regulatory impartiality and market integrity are heightened.

- ⇒ **Offshore funds are investment funds** managed outside an investor's country of residence, often used for tax benefits, regulatory advantages, and diversification.
- ⇒ **Real Estate Investment Trusts (REITs)** are companies that own, operate, or finance income-generating real estate and allow investors to buy shares and earn a portion of the income from the properties.

## About Securities and Exchange Board of India

- Established in April **1988** as a **non-statutory body**, SEBI became **statutory** on **April 12, 1992**, under the **SEBI Act, 1992**.
- It acts as the **principal regulator** of the **securities market**, and watchdog of the **Indian capital market** functioning under the **Ministry of Finance**.
- Its headquarters is in **Mumbai**, with regional offices in **Ahmedabad, Kolkata, Chennai, and Delhi**.
- The Board of Directors has 9 members including **chairperson** nominated by the Government of India, 2 members from the Union Ministry of Finance, 1 member from the Reserve Bank of India and 5 other members appointed by the Government, including at least 3 full-time Members.

## Key Focus Areas

- **Issuers:** Facilitates capital raising.
- **Investors:** Ensures safety and reliable information.
- **Intermediaries:** Promotes a competitive market environment



## Powers and Functions

- **Market Regulation:** Sets **capital-raising** rules, and ensures compliance through **inspections** and **investigations**.
- **Market Development:** Expand the market with **electronic trading** and **demat systems**.
- **Investor Protection:** **Educates investors**, provides **compensation**, and combats **fraudulent practices**.
- **Regulatory Actions:** Drafts **regulations**, conducts **inquiries** and imposes **penalties**.
- **Operational Powers:** Manages **money pooling** schemes, conducts searches, and oversees **mutual and venture capital funds**.

## Initiatives for Effective Functioning

- **Investor Education and Protection Fund (IEPF):** Promotes investor awareness and protection.
- **SCORES Portal:** A web-based system for lodging and tracking complaints.
- **Investor Education and Financial Literacy:** Initiatives like awareness campaigns and counseling centers.

## Challenges Faced by SEBI

- Balancing **market conduct regulation** with **prudential oversight** is increasingly challenging.
- SEBI's **broad enforcement power** can severely impact the economy, placing the **burden on parties to disprove allegations**.
- **Limited market consultation** and **lack of regulation reviews** create widespread fear of SEBI.
- **Insider trading** is a major issue and **disclosure regulations** often lack quality and substance.
- SEBI's **expansive statutory powers** grant significant discretion in subordinate legislation.
- SEBI's **smaller staff**, compared to its global counterparts, affects its market oversight effectiveness.

## Recommendations for Improvement

- ✓ Strengthen **regulatory approach** by drawing lessons from responses to scandals like **Wirecard's** misappropriation (E.g., **Germany's BaFin** reformed its financial regulations and oversight mechanisms).
- ✓ **Increase staff** and **attract top talent**, similar to the **UK's Financial Conduct Authority (FCA)**.
- ✓ Create a **unified financial regulator** to tackle overlaps, mirroring the **UK's FCA model**.
- ✓ Shift focus to **prudential oversight** with **enhanced intelligence**, as seen in the **US post-2008 crisis**.
- ✓ **Regularly review policies** and act promptly on allegations, following the example of global regulators like the **European Securities and Markets Authority (ESMA)**.

## Global Tax Reforms

**Context:** The UN's assumed prominence in international tax negotiations contrasts with the **OECD's** frameworks.

### OECD Tax Mandates Vs UN Tax Mandates

Aspect	OECD Tax Mandate	UN Tax Mandate
Key Initiatives	<ul style="list-style-type: none"> <li>• Global Minimum Tax</li> </ul>	<ul style="list-style-type: none"> <li>• Legally binding multilateral agreements.</li> </ul>



		<ul style="list-style-type: none"><li>• Incremental changes.</li><li>• Non-binding tax norms.</li></ul>
<b>Scope of Coverage</b>	<ul style="list-style-type: none"><li>• Targets large multinational companies, primarily digital and consumer-facing businesses.</li></ul>	<ul style="list-style-type: none"><li>• Encompasses broader scenarios, from legally binding agreements to voluntary norms.</li></ul>
<b>Complexity</b>	<ul style="list-style-type: none"><li>• High complexity due to detailed rules and evolving objectives; extensive negotiations over time.</li></ul>	<ul style="list-style-type: none"><li>• Varies by scenario; can range from complex binding agreements to simpler non-binding norms.</li></ul>
<b>Impact on Developing Countries</b>	<ul style="list-style-type: none"><li>• Criticized for not fully addressing the needs of developing countries, often seen as favouring wealthier nations.</li></ul>	<ul style="list-style-type: none"><li>• Aim to address developing countries' concerns more directly, focusing on equitable outcomes.</li></ul>
<b>Potential Outcomes</b>	<ul style="list-style-type: none"><li>• Possibility of complex, divergent standards leading to tax and trade disputes if agreements fail.</li></ul>	<ul style="list-style-type: none"><li>• Potential for multiple frameworks or incremental changes, avoiding a one-size-fits-all approach.</li></ul>

### Critical Issues with OECD's Tax Leadership

- **Lack of Representation and Mandate:**
  - ❖ **Limited Membership:** It has only 38 high-income countries; the UN has 196 members.
  - ❖ **Decision-Making Bias:** Often favour its wealthy members, marginalising lower-income countries.
  - ❖ **Transparency Issues:** Decision-making lacks openness.
- **Voluntary Adoption of Unenforceable Recommendations**
  - ❖ **Non-Binding Guidelines:** Its recommendations are **not legally binding**, reducing their impact.
- **Focus on Economic Competitiveness:**
  - ❖ **Competitiveness Priority:** Its policies often benefit multinationals over local businesses.
  - ❖ **One-Size-Fits-All:** Policies fail to account for diverse national contexts, leading to regressive practices.
- **Structurally Biased Implementation:**
  - ❖ **Weak Implementation:** OECD measures, like the common reporting standard and unitary taxation, face significant challenges and delays.
  - ❖ **Selective Reporting:** Country-by-country reporting and other transparency measures are often limited and exclude lower-income countries.
- **OECD Members' Role in Tax Abuses:**
  - ❖ **Major Tax Abusers:** OECD countries significantly contribute to global tax abuse and offshore wealth, highlighting a conflict of interest in its tax leadership.

### Need for UN Leadership in Global Tax Policy

- **Representation:**
  - ❖ **Global Inclusivity:** The UN includes nearly all countries, offering a comprehensive global perspective.



- ❖ **Fair Approach:** Considers impacts on all nations, including marginalised and lower-income countries.
- **Specialist Agencies:**
  - ❖ **Expertise:** UN Manages agencies like:
    - **United Nations Conference on Trade and Development (UNCTAD):** Focuses on trade and development.
    - **Department of Economic and Social Affairs (DESA):** Supports Sustainable Development Goals.
    - **UN Committee on Tax Matters:** Guides international tax standards.
    - **United Nations Development Programme (UNDP), United Nations Industrial Development Organization (UNIDO), International Trade Centre (ITC):** These organisations assist with trade and economic development.
- **Legal Frameworks:**
  - ❖ **Binding Conventions:** Enforces global standards through legally binding agreements (E.g., Paris Agreement).
  - ❖ **Successful Negotiations:** Trade agreements like GATT demonstrate practical multilateral cooperation.
- **Accountability**
  - ❖ **Enforceable Standards:** UN agreements require compliance and national alignment.
  - ❖ **Transparency:** Reporting mechanisms ensure public accountability and oversight.

## Removal of GST on Insurances

**Context:** Opposition leaders demanded the withdrawal of **GST of 18%** on life insurance and health insurance premiums.

- **Medical inflation** (14% towards the end of last year) and **high premiums** make health and life insurances **less affordable**.

### Justification for imposing GST

- **Doubts around Premium Reduction:** Lowering the GST might not help customers, as insurance companies points the rise in their overall costs.
- **Revenue Generation:** Gol earned over Rs **20,000 crore** from GST on all insurances during the last three financial years.

### Argument for withdrawing GST

- **High premium costs:** Frequent premium hikes and medical inflation reduced renewal rate of policies.
- **Highest GST Rate:** GST on insurance is the highest in the world. It will deter IRDAI's goal of "**Insurance for All by 2047**".
- **Global Best Practices:** Singapore and Hong Kong have no GST or VAT on insurance.
- **Stimulating Insurance Penetration:** Reduced costs can encourage more people, especially in rural areas, to buy insurance.

## Income Tax Returns (ITR)

**Context:** Most of India's personal income taxpayers have **opted for the new tax regime** for the Assessment Year 2024-25.

- ITR filings has increased by **7.5%**, reaching a record high of nearly **7.29 crore**.
- Out of the total ITR, **5.27 crore** were filed under the new tax regime, while **2.01 crore** under the old.




- **58.6 lakh** returns filed by **first-time filers**, indicating a **widening tax base**.
- **43.82%** of ITRs were filed on the **e-filing portal**.

## Record returns

The number of income tax returns (ITRs) as on July 31 touched 7.28 crore for 2023-24, 7.5% more than in the previous fiscal

A.Y.*	Due date	No. of ITRs filed
2020-21	Jan. 10, 2021	5,78,45,678
2021-22	Dec. 31, 2021	5,77,39,682
2022-23	July 31, 2022	5,82,88,692
2023-24	July 31, 2023	6,77,42,303
2024-25	July 31, 2024	7,28,80,318



\*ASSESSMENT YEAR

### New Tax Regime

- Introduced in **2020** and made the default regime in **Budget 2023-24**.
- **Tax rate slabs** reduced from **six to five**.
- **Tax-free income** limit raised to **₹3 lakh** from **₹2.5 lakh**.
- **Tax rebate limit** increased to **₹7 lakh** from **₹5 lakh**.
- **Standard deduction** raised to **₹75,000** from **₹50,000**.

### Urban Development in Himalayan Towns

**Context:** Himalayan towns require a development model tailored to their unique environmental and socio-economic contexts to ensure sustainable urbanisation.

- The **Indian Himalayan Range (IHR)** saw a decadal **urban growth rate** of over **40%** from 2011 to 2021.

### Key Challenges in IHR Towns

- IHR towns like Srinagar, Guwahati, Shillong, and Shimla struggle with **managing sanitation, waste, and water** due to **outdated planning models** (guided by **land-use principles**).
- Severe **staff shortages**, with a **75% deficit** in human resources, cripple effective city governance.
- **Unchecked urban sprawl** leads to the encroachment of open spaces, forests, and watersheds, as seen in Srinagar, where water bodies are overtaken by real estate.
- **High-intensity tourism** (7.9% annual growth, 2013-2023) and **unsustainable infrastructure** development put immense pressure on resources (land and water).
- Environmental issues like **water scarcity, deforestation, land degradation, biodiversity loss, and pollution** are worsening under this pressure.
- **Changing precipitation patterns** and **rising temperatures** further disrupt life in the region.



## Necessary Actions

- ✓ **Climate-Resilient Planning:** Urban planning in IHR should focus on **climate resilience**, with **consultant-driven** efforts and **vulnerability mapping** (geological and hydrological) for each town.
- ✓ **Local Involvement:** The planning process should adopt a **bottom-up approach**, involving local communities in decision-making.
- ✓ **Urban Financing:** The **Finance Commission** should boost urban financing for the IHR, increasing intergovernmental transfers to urban local bodies from current **0.5%** to at least **1% of GDP**.
- ✓ **Focus on Sustainability:** Prioritize sustainability through **eco-centric planning** processes and promote **ecotourism** for long-term benefits.

## Balancing Insolvency Interests

**Context (Print):** India's **insolvency law** needs balance to protect **creditors** and **debtors** amid rising household loan defaults and financial stress.

### Corporate Insolvency

**Creditor Control:** In corporate insolvency, the creditors, through the **Committee of Creditors (CoC)**, hold significant control over the resolution process.

**Priority of Claims:** The IBC establishes a **clear hierarchy** of claims, **prioritising financial creditors** over **operational creditors**.

**Resolution vs. Liquidation:** The primary objective of the IBC is to facilitate the resolution of financially distressed companies rather than proceeding directly to liquidation.

### Personal Insolvency

**Negotiation Power:** In personal insolvency, **creditors** often have **more power** and resources, making it hard for debtors to secure fair repayment terms.

**Stigmatization of Debtors:** Personal insolvency can deter individuals from seeking help, leading to further financial distress.

**Complexity of Individual Cases:** Personal insolvency cases can be highly individualistic, making standardised solutions difficult due to varying debtor circumstances.

## Balancing Mechanisms

**Standardized repayment plans:** can ensure fairness and transparency in the insolvency process for debtors and creditors.

**Flexible Framework:** While standardisation is essential, the insolvency framework should allow for flexibility to accommodate the unique circumstances of individual debtors and creditors.

**Judicial Oversight:** Adjudicating authorities like the **National Company Law Tribunal (NCLT)** and **Debt Recovery Tribunal (DRT)** ensure that stakeholder interests are balanced by approving or rejecting resolution plans based on fairness and IBC guidelines.

**Continuous Reforms:** As the insolvency landscape evolves, ongoing reforms are necessary to enhance the balance between debtor and creditor interests.

### Personal Insolvency Framework of IBC

**Fresh Start Process (FSP):** Enables individuals with limited income and minimal assets to apply for a discharge of qualifying debts. It is aimed at providing a fresh start for individuals.



**Insolvency Resolution Process (IRP):** Involves appointing an insolvency professional to oversee the debtor's assets and manage negotiations with creditors.

## India Post Payments Bank (IPPB)

**Context:** India Post Payments Bank (IPPB) celebrates its 7<sup>th</sup> Foundation Day.

IPPB was established in 2018 under the Department of Posts, Ministry of Communication, with 100% equity owned by the Government of India.

Before that, it was launched as a pilot project in 2017 in Ranchi (Jharkhand) & Raipur (Chhattisgarh).

Its mandate was to remove barriers for the unbanked and underbanked and reach the last mile by leveraging the postal network.

### Key Features

**Extensive Network:** IPPB capitalises on India Post's vast network of over 155,000 post offices, 135,000 of which are located in rural areas.

**Doorstep Banking:** Over 300,000 postmen and Gramin Dak Sewaks provide banking services at customers' doorsteps using smartphones and biometric devices.

**Digital Focus:** IPPB offers a seamless, paperless, cashless, and presence-less banking experience through digital platforms, integrating core banking systems with smartphones and biometric devices.

**Accessibility:** Banking services are available in 13 regional languages, ensuring inclusivity for India's diverse population.

**Low-Cost Model:** IPPB focuses on frugal innovation to keep its services affordable, especially for economically weaker sections of society.

### Services Offered

**Savings and Current Accounts:** IPPB provides zero balance savings accounts and current accounts tailored to individual and business needs.

**Money Transfer and Remittances:** Safe and secure domestic money transfer services.

**Direct Benefit Transfers:** Facilitates the direct transfer of government benefits to beneficiaries' accounts.

**Bill Payments:** This feature enables the payment of utility bills, such as electricity, water, and gas.

**Enterprise and Merchant Payments:** Solutions for businesses to manage payments efficiently.

**Aadhaar Enabled Payment System (AePS):** This system allows customers to make payments and access banking services using Aadhaar authentication.

**Virtual Debit Cards:** Provides secure, digital payment solutions.

**Insurance Services:** Offers various insurance products in collaboration with partner companies.

**Digital Life Certificate for Pensioners:** Facilitates pensioners in submitting life certificates digitally.

**Cash Management Services:** Tailored solutions for corporates and government bodies.



## Niveshak Didi

**Implementing Agency:** IPPB and Investor Education and Protection Fund Authority (under the Ministry of Corporate Affairs).

It was India's First Floating Financial Literacy Camp to promote Financial Literacy 'by the women, for the women' in Srinagar, J&K.

## India's inflation-targeting framework

**Context:** Debate on whether India should modify/abandon its **inflation-targeting (IT) framework**.

### What is Inflation targeting?

IT is a **monetary policy framework** where the central bank explicitly sets a publicly announced target for the inflation rate and uses tools like interest rates to steer the economy towards that goal.

It acts like a "**compass for price stability**," aiming to keep inflation within a specific range, ensuring **predictable prices** and fostering **economic confidence**.

**Inflation targeting worldwide:** While some countries have adopted **point targets**, others follow a more **flexible approach** to targeting inflation within a band. Inflation targeting has been adopted in many countries, including New Zealand, Australia, Canada, Finland, Israel, Spain, Sweden, and the UK.

### Pros and Cons of Inflation Targeting

Pros	Cons
Improve credibility & anchor inflation expectations, making economy investor-friendly.	Monetary policy actions take time to impact inflation, <b>risking mistimed responses</b> .
Provide a clear path for the medium-term inflation outlook, reducing the size of inflationary shocks.	It does <b>not remove supply bottlenecks</b> or shortages.
It enables businesses & investors to <b>plan their investments</b> and policies by considering inflation rate changes.	It may <b>overlook asset bubbles</b> or systemic financial risks while focusing solely on inflation.
It helps maintain a <b>transparent monetary policy</b> .	It may <b>limit policy flexibility</b> or constrain policy measures such as fiscal stimulus.
Informed IT have secured Indian banks from the spill-over effect of the Silicon Valley bank collapse.	Uniform inflation targets may not adequately consider regional disparities leading to potential <b>imbalances and uneven development</b> .

### History of Inflation Targeting in India

In the first two decades following independence, there was no formal framework for monetary policy.



**From the 1960s to the mid-1980s**, IT was described as “**credit planning**” during which policy operated via the statutory liquidity and cash reserve ratios.

**Mid-1980s to late 1990s**: RBI employed a “**monetary targeting with feedback**” framework, in which the broad money supply was aligned with projected GDP growth. Price stability was the central objective of monetary policy, with 5-7% as the target range for inflation.

The **Urjit Patel Committee Report (2014)** advocated for **Flexible Inflation Targeting (FIT)** and proposed a target of 4% inflation with a tolerance band of  $\pm 2\%$ .

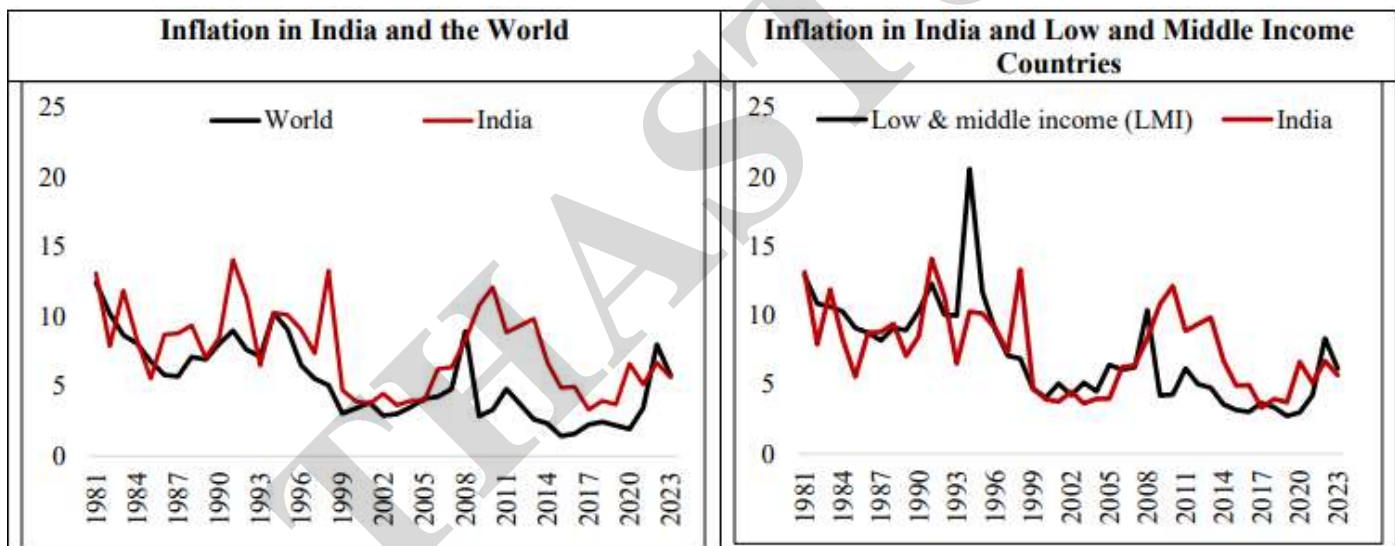
IT was introduced in **2015** through the **Monetary Policy Framework Agreement** between the Union Government and the RBI.

In **2016**, the RBI Act was amended, which gave statutory basis for **Monetary Policy Framework** and the **Monetary Policy Committee (MPC)**. This made inflation targeting a **legal mandate** for the RBI.

**Target**: In consultation with the RBI, the government set an inflation target of **4% (CPI-Combined inflation) with a band of  $\pm 2\%$**  (i.e., between 2% and 6%).

### Successes of Inflation Targeting in India

**Lower inflation volatility**: Inflation in India has averaged 7.5% since the 1980s, except in the early 2000s when it averaged 4%. Inflation has declined since the adoption of IT, compared to the preceding years and relative to the average inflation of the world and low- and middle-income countries.



**Less volatility**: Following the adoption of IT, the exchange rate, the stock market, and the call money rate, Yields on government debt have become less volatile. In contrast, the volatility of portfolio capital flows has not changed.

**Increased investment**: Price stability has helped fuel growth, allowing businesses to plan without worrying too much that surging their projections will be upset by surging costs. It has also **reduced interest rates** because it has **improved central bank credibility**.

### Challenges associated

**Use of headline inflation** as the nominal anchor causing “**second-round effects**” such as spillover of food inflation to non-food inflation through a wage-price spiral.

The current CPI series is based on the 2011-12 consumption survey. Though updated in 2015, it still contains obsolete items like DVDs and audio cassettes.

**Policy transmission lag**: Transmission to **bank lending rates** and **bond yields of longer-tenure securities** is **weaker** and has not improved with the adoption of IT.



**Growth vs Inflation Dilemma:** Tight monetary policy to control inflation can stifle growth, especially during economic downturns, making it hard for the RBI to balance these competing objectives.

### Way forward

**Strengthening the analytical framework of RBI**, given that its inflation and growth forecasts are frequently subject to significant errors.

**Improving the underlying data** that is outdated and has methodological issues.

**Better understanding of agriculture** to assess whether food inflation is temporary or a reflection of some deeper, structural issues.

**Strengthening monetary policy transmission** to ensure that changes in policy rates are effectively transmitted to the real economy, promoting the desired inflation outcomes.

**Enhancing coordination between monetary policy and fiscal policy** to achieve a harmonised and effective approach towards managing inflation and promoting economic stability.

### Reduced deposit mobilization by Banks

**Context:** RBI has raised concerns over **slower deposit mobilisation** compared to **credit growth**, stating that it may create **structural liquidity issues**.

#### Reasons for slower deposit mobilisation

**Slower deposit growth** relative to credit growth was observed during 2018-2019, 2011-2013, and 2004-2007. **Current and savings accounts**, banks' primary low-cost funding sources, account for 41% of total deposits, **down from 43%** in the previous year.

**Lower credit to GDP** for the current per capita income level compared to other Asian peers such as Thailand, Malaysia, and China.

**Outflow of household savings from banks to capital markets** adversely impacts the money multiplier and the deposit creation process. **Low government spending** in the run-up to the election led to an increase in government cash balances with the RBI.

### National Bank for Financing Infrastructure and Development

**Context:** Under the Companies Act, the government has notified the **National Bank for Financing Infrastructure and Development (NaBFID)** as a 'public financial institution'.

It was established in **2021** as an infrastructure-focused **development financial institution (DFI)** under the **National Bank for Financing Infrastructure and Development Act, 2021**.

NaBFID is the nation's **5th All India Financial Institution (AIFI)** aimed at fostering long-term non-recourse **infrastructure financing**.

**Other four AIFI:** National Housing Bank, National Bank for Agriculture and Rural Development, Small Industries Development Bank of India (SIDBI), and EXIM Bank.

NBFID has been set up as a **corporate body** with an authorised share capital of **one lakh crore rupees**.

Regulated and supervised by the **Reserve Bank of India (RBI)**.

**Objectives:** Address gaps in long-term non-recourse finance for infrastructure development, strengthen the development of bonds and derivatives markets in India, and sustainably boost the country's economy.



Initially, the **central govt** will own **100% shares** of it, which can subsequently be reduced up to **26%**. The central govt provided initial **grants worth Rs. 5,000 crore** to NBFID by the end of the first financial year.

Its performance will be assessed by an **external agency** appointed by the Central govt every **five years**.

The central government will appoint its **Board of Directors** after consulting with **RBI**.

### Source of funds

NBFID may raise money as **loans** or otherwise, both in **Indian rupees** and **foreign currencies**, or secure money by issuing and **selling various financial instruments**, including bonds and debentures.

NBFID may borrow money from the central government, RBI, scheduled commercial banks, mutual funds, and multilateral institutions such as the World Bank and Asian Development Bank.

### Immunity to Chairperson and employees

No investigation against NBFID employees without the Central Government's **prior approval** in the case of the Chairperson or any other director and the managing director in the case of other employees.

**Courts** will also require **prior sanction** for taking cognisance of offences involving NBFID employees.

## Annual Report of PLFS

**Context**The Periodic Labour Force Survey (PLFS) for the period between July 2023 and June 2024, released by the **Labour Bureau**.

### Findings

#### Labour Force Participation Rate (LFPR)

**Rural areas:** Increased from 50.7% in 2017-18 to 63.7% in 2023-24

**Urban areas:** Increased from 47.6% to 52.0%.

**Males:** Increased from 75.8% in 2017-18 to 78.8% in 2023-24

**Female:** Increased from 23.3% to 41.7%.

**For Muslim women:** Increased from 15% in 2021-22 to 21.4% in 2023-24.

**For Hindu women:** Increased from 26.1% in 2021-22 to 33.3%

#### Worker Population Ratio (WPR)

**Rural areas:** Increased from 48.1% in 2017-18 to 62.1% in 2023-24

**Urban areas:** Increased from 43.9% to 49.4%.

**Male:** Increased from 71.2% in 2017-18 to 76.3% in 2023-24

**Female:** Increased from 22.0% to 40.3%.

#### Unemployment Rate

**No improvement in the unemployment scenario**, neither in youth unemployment nor in overall unemployment.

The overall unemployment rate is **3.2%**, similar to last year.

**Unpaid family labour** has increased. Workers' **participation in agriculture** has risen for fourth time.



## "Make in India" Initiative

**Context:** It was **launched in 2014**, set out to boost India's manufacturing sector, aiming to increase its GDP contribution from **16-25% by 2025** and create **100 million new jobs by 2022**.

However, a decade later, the program has yielded **mixed results**.

### Achievements

**Ease of Doing Business:** India's rank improved from **134 in 2014** to **63 in 2020**, reflecting regulatory improvements and streamlining of processes.

**Foreign Investment:** The initiative made India a top destination for foreign direct investment (FDI), surpassing countries like the U.S. and China.

**Rise in Mobile Phone Manufacturing:** India has become the **second-largest** mobile phone manufacturer globally, with **22% of the world's smartphones** being made in India in 2021.

**Automobile Sector Growth:** India's automobile industry became the **fourth-largest** in the world by 2021, producing 26.3 million vehicles and establishing itself as a global hub.

**Defence Production and Exports:** India's defence manufacturing sector saw a significant boost, with defence exports rising from ₹1,521 crore in 2016-17 to ₹15,920 crore in 2021-22.

**Boost in Renewable Energy Manufacturing:** India is now the **third-largest** renewable energy producer in world, particularly excelling in solar manufacturing.

**Growth of MSMEs in the Manufacturing Ecosystem:** The number of MSMEs registered **grew by 18%** annually. MSMEs contribute **30% to India's GDP**.

### Shortcomings of the Make in India Initiative

**Stagnant Manufacturing Growth:** The manufacturing sector's GDP contribution remains around **17.7% as of 2023**, far from the **25% target**.

**Employment** has similarly fallen short, with job numbers decreasing from **51.3 million in 2017** to **35.7 million in 2023**.

**Job Creation:** The ambitious goal of creating 100 million new jobs has not been met, especially in labour-intensive industries like textiles and footwear, which are underfunded

**Export Performance:** India's share in global exports has barely increased, and its exports-to-GDP ratio fell from 25.2% in 2013 to 21.8% in 2024.

**High Import Tariffs:** Import tariffs on key manufacturing inputs have hurt India's competitiveness in international markets, making export-driven growth more challenging.

### Way Forward

**Focus on Labor-Intensive Sectors:** India should focus on labour-intensive industries like textiles, footwear, and agriculture-based industries to generate significant employment. E.g. **The textile sector in Bangladesh** has generated millions of jobs through focused government policies and investments.

**Increased Budget for Key Sectors:** Allocation of higher budgets for sectors like textiles and MSMEs is essential to boost labour-intensive manufacturing and employment. E.g. **China's** success in building its manufacturing capacity was driven by **sustained budget support for its electronics industries**.

**Support for MSMEs:** Streamlined financing, ease of regulatory compliance, and digitization of MSMEs can help them scale up. E.g. **Germany's "Mittelstand"** (small and medium-sized companies) strategy has supported the economy with innovation and competitiveness.



**Diversification of Export Base:** India should diversify its export base by tapping into new global markets and promoting high-value products. E.g. **Vietnam** successfully diversified its exports, moving from **agriculture-based exports to electronics, machinery, and textiles**, boosting its global trade standing.

**Participation in Global Value Chains (GVCs)** is essential for increasing the competitiveness of Indian products in international markets. E.g. **South Korea's participation in electronics and automobile global value chains** has positioned the country as a leading exporter worldwide.

**Simplifying Tax System:** The overly complex GST and high compliance burdens, especially on SMEs, need simplification to improve investor sentiment and reduce corruption.

**Land Reforms:** Amend stringent land acquisition laws to facilitate easier land purchases for industrial projects while safeguarding farmers' rights.

**Skill Training:** Strengthen the **Skill India initiative** by incentivizing youth participation to meet industry demands and boost employability.

**Co-operative Federalism:** Foster collaboration between states to ensure uniform progress across India, bringing underperforming states in line with successful ones through cooperative efforts.

## Trade Connect e-Platform

**Context:** Trade Connect e-Platform aims to transform India's **export** landscape.

### Objective

To facilitate and enhance international trade for Indian exporters by providing a **single-window solution** for accessing vital trade-related information and resources.

### Features

**Global E-Commerce Guide** for navigating **online markets**.

Trade Agreements and Tariff explorers to leverage Free Trade Agreements (FTAs).

**EXIM Paathshala** for educating exporters on global trade practices.

Integration with Other Platforms like Open Network for Digital Commerce (ONDC) and the GeM.

### Significance

**Support for MSMEs:** Helps MSMEs access global markets, learn FTA benefits, and expand trade.

**Market Expansion:** Showcasing international opportunities helps Indian exporters identify and access new markets, boosting India's global market share.

**Enhanced Connectivity:** Connects exporters with stakeholders, including Indian Missions abroad, Export Promotion Councils, & government agencies.

**Fostering Digital India:** By enhancing transparency and empowering businesses with seamless trade information access, reducing costs, lead times, and trade complexities.

## BHASKAR Platform for Startups

**Context:** The **Department for Promotion of Industry and Internal Trade (DPIIT)** is set to launch a groundbreaking digital platform called the **Bharat Startup Knowledge Access Registry (BHASKAR)**.



## About BHASKAR

It is part of the Startup India program and aims to centralise, streamline, and enhance collaboration among key stakeholders in India's entrepreneurial ecosystem through a **one-stop digital platform**.

Powerful **search** features and **unique BHASKAR IDs** for each stakeholder will facilitate easier interactions, enhance searchability, and enable efficient discovery of relevant opportunities and partnerships.

BHASKAR will serve as a vehicle for promoting India's global reputation as an **innovation hub**, making cross-border collaborations more accessible to startups and investors.

## Copper Conundrum: Domestic Production & Imports

**Context:** As global demand for copper surges, India faces **stagnation in domestic production**, leading to a significant increase in **copper concentrate imports**.

### Current State of India's Copper Industry

#### Production Trends

**Copper ore production declined** from 4.13 million tonnes (Mt) in FY19 to 3.78 Mt in FY24.

**Copper concentrate production dropped** by 13% in FY24 compared to FY19.

**Refined copper production grew** by 12% from 454 kilotonnes (kt) to 509 kt between FY19 and FY24.

#### Import Dependence

**Copper concentrate imports doubled** to Rs 26,000 crore in FY24 from Rs 13,000 crore in FY19.

The growth in refined copper production is largely supported by surging concentrate and anode imports.

### Factors Driving Copper Demand

Copper is now designated as a **critical mineral**. Its role in **clean energy technologies**, such as wind turbines and EV batteries, has increased its importance.

### Challenges in Domestic Copper Production

India has estimated copper ore reserves of **208 Mt**, mostly **low grade**.

Total copper resources stand at 1.51 billion tonnes, requiring extensive exploration.

The **National Mineral Exploration Trust (NMET)** approved only two copper exploration projects in FY23 and FY24 combined. **Only four copper blocks** have been auctioned since FY16.

Recent critical mineral auctions were annulled due to **insufficient investor interest**.

**Small block sizes** (1 square kilometre) deter potential investors, as copper is a **deep-seated mineral** requiring larger areas for commercially viable operations.

### Strategies for Securing Copper Supply

#### Domestic Initiatives

**Hindustan Copper Ltd (HCL)**, the major copper ore mining company in India, plans to triple output to 12.2 Mt by FY29 through existing mine expansion.

The **mines ministry** modified rules to **encourage private exploration** agencies for critical minerals.



## International Engagement

The mines ministry is gauging interest among domestic players in securing **overseas mineral resources**, E.g. **Zambia, DRC** and **Chile**.

**Vedanta**, which owns copper mines in Zambia, recently regained control of its operations.

It also assists domestic smelters and refiners in developing **new import sources**, such as **Mongolia**.

The ministry is exploring **bilateral investment treaties** with mineral-rich countries to de-risk investments.

Copper assets in Chile and the Democratic Republic of Congo (DRC) are also under consideration.

## India's Power Sector

**Context (IE):** India's power sector has grown significantly through **competitive bidding**. However, recent developments in **composite bidding** for **coal and solar capacity** have raised concerns.

**Competitive bidding** is a transparent process where **multiple bidders** compete to offer the best price for goods or services, ensuring efficiency and cost-effectiveness.

**Composite bidding** combines the procurement of **multiple energy sources**, such as coal and solar, in a single tender, creating a more complex bidding environment.

### Challenges of Composite Bidding

**Mismatch in Delivery Timelines:** Coal plants take **6-7 years** to become operational, whereas solar projects are ready in **1.5-2 years**, causing delays in power supply.

**Exclusion of Smaller Players** due to large-scale investment.

**Unequal Expertise:** Developers specialising in solar may lack the experience or capacity to handle coal-based projects, limiting competition and efficiency.

### Important Facts About India's Power Sector

**Global Rank:** India is the **third-largest producer and consumer** of electricity globally.

**Installed Capacity:** As of March 31, 2024, India's installed power capacity was **442.0 GW**.

**Renewable Energy capacity** reached 168.4 GW (**40.9% of total capacity**).

### Systemic Issues in India's Power Sector

**High Cost of Fuel** due to **delays in environmental clearances, land acquisition**, and lack of investment in coal extraction technology.

**Reliance on Imported Coal** despite abundant reserves. E.g. In 2023, India imported around **60 million tonnes of coal**, leading to additional costs of about \$2 billion

**Non-Renewable Dependency:** Around **80% of power generation** is based on thermal power plants.

**Aged Power Plants:** Many plants are outdated and inefficient, increasing operational costs.

**Aggregate technical and commercial losses** average **27%**, with some states as high as **40%**.

**Financial Health of DISCOMS** Poor financial conditions discourage private sector investment. E.g. **DISCOMS in Andhra Pradesh** reported accumulated losses exceeding Rs 20,000 crore in 2022

**Lack of Competitiveness:** High industrial tariffs and cross-subsidy regimes affect competitiveness.



**Multiple agencies** handling energy create challenges in resource utilisation. E.g. The overlapping responsibilities of the **Ministry of Power, Central Electricity Authority, and state utilities.**

## Government Policies & Initiatives

**Green Energy Corridor:** Projects to enhance renewable power evacuation with over 8,651 km of transmission lines and 19,558 MVA substations constructed.

**Rooftop Solar National Portal:** Streamlined process for residential consumers to apply for solar.

**Smart Meters:** Over 51.62 lakh meters were deployed under the **National Smart Grid Mission.**

**PLI Scheme:** Rs. 19,500 crores allocated for high-efficiency solar PV modules.

**Introduction of Competitive Bidding:** Competitive bidding in power generation, especially renewable energy, aims to bring transparency and lower costs.

**Saubhagya Scheme:** 2.82 crore households have been electrified under this scheme as of March 2021.

**KUSUM Scheme:** Promoting solar pumps and selling surplus power to local DISCOMS.

**LED Distribution:** More than 36.86 crore LED bulbs and other energy-efficient devices have been distributed, saving 48,411 million kWh annually.

## Way Forward

**Separate Bidding:** Conduct separate tenders for solar and coal power to avoid complexity and ensure that developers specialise in either renewable or conventional energy.

**Encourage Smaller Developers:** Create tenders with **lower entry barriers** to include smaller players, ensuring a broader range of bidders and more competition, which leads to better price discovery.

**Annual Procurement Calendar:** It can give developers time to plan their investments and bids.

**Cross-Subsidy Rationalization:** Gradual reduction of cross-subsidies to ensure more **equitable tariff structures**, reducing the financial burden on industries while still protecting vulnerable sections.

**Improved Metering:** Implement **100% net metering**, smart meters, and agricultural power metering to improve revenue collection, reduce losses, and ensure accurate billing. E.g. **smart meters** in **Delhi.**

**Cross-border trade** with neighbouring countries to better utilise surplus generation capacity. E.g. India exports electricity to **Bangladesh** and **Nepal** through regional grid integration during non-peak times.

**Promote Hybrid Power Solutions:** Encourage tenders that combine renewable sources like solar and wind with battery storage, enabling a more stable and reliable power supply.

**Enhance Grid Infrastructure** to facilitate smoother power flow from remote locations and enhance energy security. E.g. Upgrading transmission networks in solar-rich regions like **Gujarat.**

**Develop Capacity for Energy Storage** that complements renewable energy, ensuring steady power supply. For example, **energy storage systems** were developed alongside solar power projects in **Tamil Nadu.**

## INDIAsize initiative

**Context:** The government will soon launch the long-awaited '**INDIAsize**' initiative.

### About 'INDIAsize' initiative

The aim is to establish **standardised measurements** tailored to **Indian body types**, addressing fitting issues caused by reliance on Western sizing standards used by brands in India.



**Ministry: Ministry of Textiles.**

The initiative gathers anthropometric data from over 25,000 individuals aged **15 to 65 across India**, using human-safe **3D whole-body scanning technology** to develop a comprehensive **body size chart**.

The standardised size chart will help retailers and manufacturers produce better-fitting garments for Indian consumers, reducing return rates and enhancing customer satisfaction in the apparel industry.

## Navratna Status to CPSEs

**Context:** The **Department of Public Enterprises (DPE)** upgraded the four Central Public Sector Enterprises (CPSEs) - **Railtel Corporation of India, Solar Energy Corporation of India, SJVN (Satluj Jal Vidyut Nigam), and NHPC** - to '**Navratna**' status.

### Navratna

In **1997**, the government launched the **Navratna plan** to select CPSEs with comparative advantages and to help them become global giants.

### Eligibility

The CPSE should be a **Miniratna I** and **Schedule A Company**.

The CPSE should have obtained an '**excellent**' or '**very good**' rating in three of the last five MOUs.

The CPSE should have obtained a **composite score of 60 or more**, calculated concerning six specified parameters or ratios.

Net Profit to Net Worth (25%)

Manpower Cost to Cost of Production or Cost of Services (15%)

PBDIT (Profit Before Depreciation, Interest, and Taxes) to Capital Employed (15%)

PBDIT to Turnover (15%)

Earnings Per Share (10%)

Inter-Sectoral Performance (20%)

### Benefits

The Navratna status grants enhanced **autonomy** in **financial** and **operational** matters to CPSEs.

They can make large investments of **up to Rs 1,000 crore or 15% of their net worth** on a single project **without needing permission** from the Central Government.

They can invest up to **30% of their net worth** annually but it **should not exceed Rs.1000 crores**.

They can establish **joint ventures overseas**, access new markets, and leverage local expertise.

It empowers companies with **faster decision-making**, increased efficiency, and greater empowerment.

## SJVN Achieves Navratna Status

**Context:** **SJVN (Satluj Jal Vidyut Nigam)**, a leading Indian power company, has been awarded the prestigious **Navratna status (25th Navratna company)** by the Government of India.

SJVN was accorded the Miniratna status in 2008.



## Implications of the Navratna Status

The Navratna status grants greater **financial and operational freedom**, allowing the company to invest in its projects without any financial ceiling and invest up to **30% of its net worth** annually.

It also enables SJVN to form **joint ventures**, set up **overseas subsidiaries**, and undertake organisational restructuring to optimise its operations.

## Financialization

**Context:** The Chief Economic Adviser cautioned that financialization might distort macroeconomics.

### What is Financialization?

**Financialization** is a process whereby **financial markets**, financial institutions, and financial elites gain greater **influence** over **economic policy** and economic outcomes.

It also describes moving investments **away from traditional, 'physical' assets** (like real estate and gold) towards 'financial assets' (like mutual funds).

It transforms the functioning of economic systems at **both the macro and micro** levels.

### Factors driving Financialization

Growth of the **middle class** with **higher disposable income**.

Rise in **inflation**, causing households to **seek higher returns** beyond fixed deposits.

Increasing **digitisation** of the economy.

Government **incentives** on financial instruments.

### Potential Impacts of Financialization

Elevates the significance of the financial sector relative to the real sector.

Transfer income from the real sector to the financial sector.

Contribute to increased income inequality and wage stagnation.

May put the economy at risk of debt deflation and prolonged recession.

## Sovereign Wealth Fund

**Context:** The government has initiated preliminary discussions to examine the viability of establishing **India's own sovereign wealth fund (SWF)** with a likely corpus of Rs 5,00,000 crore.

The fund will comprise **new and existing shares of PSUs** and **borrowings against shares**.

### What is a Sovereign Wealth Fund?

An SWF is a **government-owned investment fund** comprising funds or surpluses created by that entity to meet desired allocation outcomes.

### Idea of SWF in India: Evolution

The idea of SWF was **first discussed** during **2007-08** when capital inflows exceeded \$108 billion in a single year but **waned** after the **Global Financial Crisis**.



In 2010-11, the **Planning Commission** revived the idea of setting up a \$10 billion non-commodity SWF to draw upon a part of the country's 'surplus' foreign exchange reserves.

India has a structure similar to SWF, i.e. **National Investment and Infrastructure Fund**.

### Arguments against SWF for India

SWFs are for countries with mineral wealth or running trade and **budget surpluses**. However, India runs persistent **current account deficits** and a sizeable **fiscal deficit**.

It could further **increase the fiscal deficit** due to borrowing. Since India's domestic markets are deep, SWF is hardly needed. Concerns related to its governance, structure, investment goals and policies.

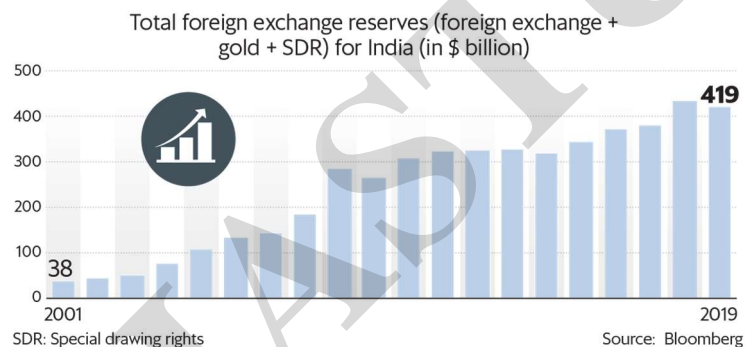
### Arguments in support of SWF for India

It can be key in maximising social, political, commercial and economic benefits, not just financial returns.

It can be used to make **direct investments** in entities with specialised knowledge in 'disruptive' fields such as quantum computing, GenAI, telecom, space-tech, and Greentech.

### The reserves gap

Assuming a GDP of \$5 trillion in 2025, India needs \$1 trillion in foreign exchange reserves, of which a quarter, \$250 billion, can go into an external sovereign wealth fund. India's reserves are just \$419 billion at present.



It can **increase India's global heft** and help the country achieve deeper **economic integration**.

It can create and leverage opportunities to develop specific infrastructure projects of mutual interest to India and other countries, such as the **India-Middle East-Europe Economic Corridor**, and invest in other vital projects overseas as part of **India's 'act-east' policy**.

It can help **address** the issue of **resource dependence** and **diversification of economic risk**.

E.g., Chinese dominance creates a risk of **economic coercion**, and its monopolistic practices limit space for new entrants, while the US and EU promote **localisation** and **friend-shoring**.

### UPI Boom and Cyber Threats

**Context (IE|TOI):** UPI has transformed **digital payments** in India, with transaction volumes soaring from 0.4 billion in 2017 to over **15 billion by September 2024**. However, this growth heightens **cyber security risks** due to **market concentration** among a few dominant players.

### Benefits of UPI Boom

**Enhanced Financial Inclusion:** Over **300 million retail** users and **50 million merchants** have adopted **UPI**, enabling rural and unbanked populations to access **digital payments**.



**Seamless Transactions:** UPI processed **15 billion** transactions in September 2024, up from 0.4 billion in 2017, enabling instant peer-to-peer and business payments.

**Cost-Effectiveness:** UPI transactions are largely free, reducing cash reliance and Point of sale costs, with transaction value reaching **₹139 lakh crore** in 2022.

**Boost to Digital Payments Ecosystem:** UPI now accounts for **75% of retail digital payments** in India.

**Transparency and Security** via **two-factor authentication** and digital trails reduce fraud and corruption.

**Economic Growth:** UPI adds **₹12,000 crore annually** to India's **GDP** by improving transaction speed and **financial inclusion**.

**Government Initiatives:** UPI facilitates **Direct Benefit Transfers (DBT)**, reaching 44 crore beneficiaries efficiently. Schemes like **PM-KISAN** use UPI to deliver financial support directly.

**Support for E-Commerce:** By 2023, UPI handled **60%** of online payments in e-commerce, boosting consumer confidence. Due to UPI's ease of use, e-commerce sales increased by **30%** during festive seasons.

**Adaptability and Flexibility:** UPI supports peer-to-peer, bill payments, and merchant transactions. It integrates seamlessly with platforms like **Bharat Bill Payment System (BBPS)** and **FASTag**.

### Cyber Threats Related to UPI Boom

**Market Concentration** increases the risk of **cyber attacks** or **service disruptions** affecting a large portion of UPI users as UPI is dominated by **PhonePe** and **Google Pay**, controlling **85%** of the market.

**Single Points of Failure:** High reliance on two major TPAPs raises concerns about system vulnerabilities. A breach or outage could **disrupt** the **entire UPI network**, impacting millions of users.

**Data Privacy Concerns:** UPI involves vast amounts of **personal** and **financial data**. Unauthorised access or data breaches can lead to **identity theft**, **fraud**, and **misuse of sensitive information**.

**Rising Phishing and Fraud** in UPI transactions, where users are tricked into revealing **PINs** or **OTPs**. In 2023, over **95,000 cases of UPI fraud** were reported, highlighting the increasing threat of cybercrime.

**Weakness in smaller UPI providers**, with less robust cyber security, makes them **vulnerable to attacks**, potentially affecting users and undermining **trust in the UPI ecosystem**.

### Impact of Cyber Threats

**Consumer Trust Erosion:** Repeated cyber incidents can significantly diminish **public confidence** in UPI; a survey found that **67%** of users would reconsider using it after a breach.

**Financial Losses** of around **₹1,000 crore in 2023**, affecting users and small businesses.

**Regulatory Backlash:** The **Reserve Bank of India** has indicated that rising fraud cases could lead to more stringent compliance, potentially stifling **UPI innovation**.

**Operational Disruptions:** Cyber attacks on TPAPs can cause significant service outages; a major incident in 2022 disrupted over **10 million transactions** in one day.

**Increased Compliance Costs:** Rising cyber security threats may force UPI providers to allocate up to **30%** of their budgets to security measures, diverting funds from innovation and expansion.

### Regulatory Challenges in Curbing Cyber Threats from UPI

**Lack of Enforcement:** The **National Payments Corporation of India (NPCI)** has struggled to enforce market share caps for **Third-Party App Providers (TPAPs)**.

**Delayed Policy Implementation:** Extensions on regulatory deadlines, such as the proposed **30% market cap for TPAPs**, have persisted since 2021.



**Insufficient Cyber security Standards:** A 2023 study found that only **40% of TPAPs** complied with essential security protocols, heightening vulnerability to cyber attacks.

**Limited Consumer Protection:** In 2023, nearly **15% of UPI users** reported fraud incidents, highlighting significant gaps in consumer safeguards.

**A fragmented regulatory landscape** among financial authorities leads to inconsistent compliance requirements, complicating adherence and oversight, which impacts overall UPI security.

### Way Forward for Cyber security in UPI

**Strengthening Cyber security Frameworks:** TPAPs must enhance security protocols with **end-to-end encryption** and **multi-factor authentication**, which can reduce account compromise by up to **99.9%**.

**Raising awareness** about safe online practices, such as recognising **phishing** attempts and creating **strong passwords**, can lower fraud risk. Informed users are **30%** less likely to fall victim to cyber fraud.

**Regulatory Oversight:** Implementing stricter regulations and **regular audits** for TPAP compliance can enhance security, as seen in **Singapore**, where strict checks led to a **40% reduction** in cyber incidents.

**Incident Reporting Mechanisms:** Establishing clear channels for reporting cyber incidents can speed up response times. E.g. **UK** has reduced **threat identification** and **resolution times by 50%**.

**Collaboration among Stakeholders** like TPAPs, regulatory bodies, and cyber security firms can enhance security. E.g., a **60%** increase in threat detection capabilities in **U.S. fintech collaborations**.

**Investment in Cybersecurity Technologies:** Allocating more resources to advanced security technologies can save businesses up to **₹500 crore annually** by preventing fraud and mitigating attack impacts.

## Middle-Income Trap

**Context:** The **World Development Report 2024** by the **World Bank** highlights the "**middle-income trap**," where **growth rates slow** as **incomes increase**. It emphasises adopting a "**3i**" **Approach** (Investment, Infusion of new technologies, and Innovation).

**Middle-Income Trap** refers to a situation in which a **country's growth slows** after **reaching middle-income levels**, preventing it from achieving high-income status. This happens because the **easy gains** from **cheap labour** and low-hanging industrialisation fade as countries climb out of poverty.

### Challenges for India

**Slow Growth in Manufacturing:** Manufacturing is no longer the growth engine, with developed nations going protectionist.

**Premature deindustrialisation:** Modern economies are seeing a decrease in manufacturing share at much lower GDP levels compared to the past.

**Rising Power of Billionaires:** Increasing control of the Indian economy by a few billionaire groups may hinder broad-based investment and equitable growth.

**Agriculture's Persistent Role:** Reverse structural transformation: Post-pandemic, India has seen rising employment in low-productivity sectors like agriculture.

### Way Forward

**Promote Export-Led Growth:** Even with global trade headwinds, India must integrate into global value chains and push for service sector growth.

**Domestic Innovation:** Emphasize technology transfer, foster innovation, and support start-ups and industries with R&D investment.



**Inclusive Growth:** Ensure workers benefit from economic growth through real wage increases and improved labour conditions.

**Neutral State Role:** The government should maintain neutrality, supporting all sectors based on merit and performance, not proximity to power.

### Lessons from South Korea and Chile

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#### South Korea

**State Intervention:** Directed private sector activities and promoted export-driven growth.

**Economic Planning:** Disciplined local elites and ensured adherence to state economic plans.

**Business Success:** Successful companies received state support, non-performers were allowed to fail.

#### Chile

**Resource Export:** State intervention ensured success in natural resource sectors like Salmon industry.

**Targeted Support:** Multiple fronts of state support ensured industry growth.

### All India Rural Financial Inclusion Survey

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**Context:** The All India Rural Financial Inclusion Survey for 2021-22 was released by NABARD.

#### Key Findings

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**Average monthly income of households** saw a substantial rise of 57.6% over five years, increasing from Rs. 8,059 in 2016-17 to Rs. 12,698 in 2021-22.

**Sources of Livelihood:** Self-employment, including farming, government/ private service, and casual wage labour, were three prominent income-generating activities.

**Increase in Savings:** 66% of households reported saving in 2021-22, compared to 50.6% in 2016-17.

**Insurance Coverage:** About 86% of agricultural households and 73% of non-agricultural households reported being covered under any routine type of insurance.

**Financial literacy:** Overall, only 10% of individuals from rural areas and close to 13% from semi-urban areas reported having been exposed to any session on financial education or training

#### Agriculture related findings

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57% of rural households in the country were “agricultural”.

**Average size of land** possessed by agricultural households works out to 0.7 ha.

**All-India average monthly income of agricultural households**, at Rs 13,661 in 2021-22, was more than the Rs 11,438 for non-agricultural rural households. The contribution of **cultivation** and **animal husbandry** to total income was over 45% in 2021-22, up from 43.1% in 2016-17.

**Kisan Credit Card (KCC):** 44% of agricultural households possessed a valid KCC.

“Agricultural household” is defined as one that:

Total value of produce from farming exceeding **Rs 6,500** (includes cultivation of field and horticulture crops, livestock and poultry rearing, or aquaculture, sericulture and apiculture); and

At least one member was **self-employed** in **such activities** during the reference year. In the 2016-17 survey, the threshold cut-off value of produce was Rs 5,000.



## CRI Index 2024

**Context:** Recently, the **Commitment to Reducing Inequality (CRI) Index 2024**, reveals that most countries have **regressed** on their **commitments** to reduce socio-economic inequalities.

It is an **annual** report published by **Oxfam** and **Development Finance International (DFI)**.

It assesses and ranks **164 countries** based on their efforts to reduce inequality through three key pillars: **Public Services, Progressive Taxation, Labour Rights**.

### Key Highlights of the 2024 Index

#### Ranking

**Top performers:** Norway, Canada, and Australia

**Worst performers:** South Sudan, Nigeria.

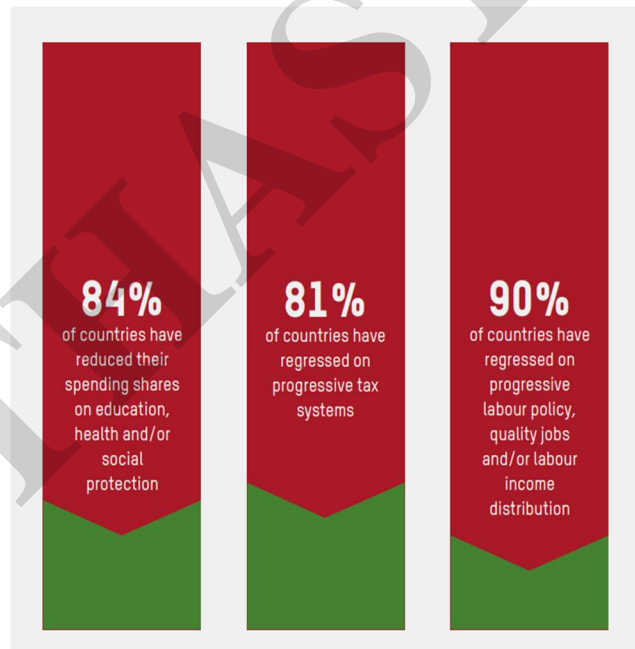
**India's Rank:** 127

**Belarus, Costa Rica & South Africa** are **best**-performing among the **low**- and **middle**-income countries.

#### Rising Inequality

Conflict, debt crisis, and climate shocks constrain spending in low—and lower-middle-income countries.

Billions face the **terrible hardship** of high and rising food prices and hunger, while the **number of billionaires** has **doubled** in the last decade. Also, many countries have **reduced spending** on education, health and/or social protection.



### Key Recommendations to Reduce Inequality

**Implement Progressive Taxation:** Increase taxes on the wealthiest 1% to ensure a fairer income distribution and reduce the wealth gap.

**Set National Inequality Reduction Plans (NIRPs):** Develop realistic, time-bound plans to combat inequality, with continuous monitoring and evaluation to track progress.

**Prioritise Public Spending on Health & Education:** Allocate at least 15% of total public expenditure to healthcare and 20% to education to strengthen these essential services and effectively reduce inequality.



## Reduced Spending by Middle-Income Households in India

**Context:** FMCG leaders raised concern about **declining consumer demand** among urban **middle-income** households.

### Reasons for Reduced Spending by Middle-Income Households in India

**High food inflation and increased costs** of essential services, such as healthcare and education, erode the purchasing power of middle-income households, leading to less discretionary spending.

**Muted Growth in Real Incomes:** The **Economic Advisory Council** has observed that while India's economy has expanded, wage gains have not been equitable, particularly in urban areas.

**Shifting towards premium products**, raising per-unit expenses while overall purchase volumes decline. E.g. Tata Consumer Products reports slowing demand in core segments due to this trend.

**Macroeconomic Uncertainty**, such as economic stability, job security, and global economic conditions, leads households to prioritise savings over spending.

**Government schemes** like the **National Food Security Act** and **Pradhan Mantri Garib Kalyan Anna Yojana** have reduced essential costs for low-income households, allowing them to spend on other needs.

### Implications of Reduced Spending in the Economy

**Impact on the FMCG Sector:** Companies like Hindustan Unilever reported **stagnant** or **declining sales**.

**Employment Strain:** A slowdown in consumer spending may result in **fewer job opportunities** and layoffs in retail and service industries. E.g. Reliance Retail reported a 3.5% decline in revenues.

**Government Revenue Decline:** Reduced consumer expenditure can lead to **lower GST collections**, straining government finances and welfare schemes.

**Pressure on Monetary Policy:** The **Reserve Bank of India** must balance inflation control with the need to **stimulate economic growth** by adjusting interest rates.

**Long-Term Consumer Behaviour Changes:** Persistent spending reductions may lead to more **conservative financial planning**, potentially leading to **economic stagnation**.

### Way Forward

**Stimulating Consumer Demand:** Implement **targeted fiscal measures** like tax rebates or cash transfers to increase disposable income. E.g. **Pradhan Mantri Garib Kalyan Anna Yojana**.

**Enhancing Financial Literacy programs** can significantly improve household management, potentially increasing savings, as the **World Bank Financial Literacy Report** shows.

**Monetary Policy Adjustments:** The **Reserve Bank of India** should consider reducing interest rates. A rate cut could increase **consumer loans**, which would promote economic expenditure.

**Supporting Job Creation:** Focus on creating jobs in growth sectors like **renewable energy**, which is projected to generate **1.2 million jobs by 2030**.

**Strengthening Social Safety Nets:** Expand unemployment benefits and healthcare support. Initiatives like **MGNREGA** provide crucial income support.

## NAFED

**Context:** Appointments Committee of the Cabinet (ACC) changed the MD of National Agricultural Cooperative Marketing Federation of India (**NAFED**).



## About NAFED

**Established:** October 2, 1958, on the birthday of Mahatma Gandhi.

**Registration:** Registered under the **Multi-State Co-operative Societies Act**.

**Headquarters:** New Delhi.

### Key Functions:

Facilitate the marketing and trade of agricultural produce and forest resources.

Implement **price stabilisation** measures under schemes like **Operation Greens**.

Procure oilseeds, pulses, and copra under the **Price Support Scheme (PSS)** in collaboration with the Food Corporation of India (FCI) and state governments like **PM-AASHA**.

## SEBI's New Rules

**Context:** SEBI has introduced measures to curb the frenzy in the **Futures and Options (F&O)** market. These new rules protect small investors from excessive speculation and potential losses.

### What is the Futures and Options (F&O) Market?

It is a **financial market** segment where participants can trade contracts to **buy or sell** assets at **predetermined prices** on future dates.

**Futures** contracts **obligate** the **buyer to purchase** and the **seller to sell** the asset at the **set price**, while **options** give the buyer the **right**, but **not the obligation**, to do so.

### Important Terms of Share Market

**Trading Volumes:** Trading volumes refer to the total quantity of shares or contracts traded for a particular security or market during a given period.

**Intraday Trading:** It involves buying and selling financial instruments within the same trading day. **Calendar Spread:** It is a trading strategy in the F&O market where an investor simultaneously buys and sells options or futures contracts on the same underlying asset but with different expiration dates.

## Domestic Systemically Important Banks (D-SIBs)

**Context:** RBI retained **SBI, HDFC** and **ICICI** as **Domestic Systemically Important Banks (D-SIBs)**.

### About D-SIBs

D-SIBs are banks whose potential **failure could severely disrupt the financial system** due to their size, cross-jurisdictional activities, complexity, lack of substitutability, and interconnectedness.

These banks are considered '**Too Big to Fail (TBTF)**', highlighting the critical impact their failure could have on the overall economy.

The framework for handling D-SIBs was established by the RBI in **2014** and implemented in **2015**.

RBI assesses these banks based on their **Systemic Importance Scores (SISs)** and assigns them to specific buckets. Based on that, a D-SIB must adhere to additional common equity requirements.



If a **foreign bank** with branches in India is designated as a **Global Systemically Important Bank (G-SIB)**, it must maintain an additional **Common Equity Tier 1 (CET1)** capital surcharge in India. This surcharge is proportionate to India's bank's **Risk-Weighted Assets (RWAs)**.

## RBI's Monetary Policy Stances

**Context:** Newly reconstituted monetary policy committee changing the policy stance from “**withdrawal of accommodation**” to “**neutral**”.

### The Importance of the Shift from “Withdrawal” to “Neutral”

**Reduced Inflationary Pressures:** The RBI may see **inflation pressures slowing down**, which reduces the need to keep tightening financial conditions.

**Supporting Economic Growth:** A neutral stance gives the RBI **flexibility to support growth** if needed, without the limits of a “**tightening**” focus.

**Focus on Data:** A neutral approach means that the RBI will base its future decisions on actual economic data, rather than following a fixed plan.

## Monetary Policy Stances

Stance	Objective	Policy Action	Indicators
<b>Accommodative</b>	To support economic growth.	Keeps interest rates low, making borrowing cheaper; encourages spending and investment.	Typically used during periods of low inflation and sluggish growth.
<b>Neutral</b>	To balance inflation control and growth.	Allows flexibility to raise or lower interest rates based on economic conditions.	Adapts to changing economic scenarios without a strong bias.
<b>Hawkish</b>	To curb inflation.	Raises interest rates, making borrowing more expensive; helps cool down an overheated economy.	It is used when inflation rises, with the risk of economic overheating.
<b>Dovish</b>	To stimulate economic activity.	May lower interest rates to reduce borrowing costs and encourage spending.	Applied during low inflation and economic downturns.

## Importance of Stances

### For Borrowers and Investors

**Loan Interest Rates** may become more **stable & predictable**, helping borrowers plan better.

**Investment Choices:** Investors can make better decisions, knowing what to expect from future monetary policy changes.

### For the Economy

**Controlling Inflation:** Helps keep inflation within the target range, protecting currency's buying power.

**Supporting Growth:** A neutral stance encourages steady economic growth by avoiding unnecessary restrictions on spending and investment.



## Paradox of Stagnant Rural Wages

**Context:** India's GDP has grown recently, but rural wages remain unchanged. **Labour Bureau** data shows that daily wage rates for agricultural and non-agricultural jobs have followed varied trends.

The **Wage Rate Index** reveals fluctuations in wage growth across different sectors, highlighting uneven progress in income for rural workers.

### Current State of Rural Wages in India

**Nominal Wages:** From April 2019 to August 2024, rural wages grew at an average of 5.2% in nominal terms. Agricultural wages grew higher at 5.8%.

**Economic Growth vs. Wages:** Despite India's economy and farm sector growing at an annual rate of 4.6% and 4.2% (2019-2023), rural wages have not increased proportionally.

**Real Wages:** Adjusted for inflation, show an overall decline of -0.4% for rural workers, with agricultural wages barely increasing by 0.2%. Inflation has outpaced wage growth, reducing purchasing power.

**Recent Trends (2023-24):** From April to August 2023, agricultural wage growth was 5.7% nominally but only 0.7% after inflation adjustment.

### Reasons for Stagnant Rural Wages

**Higher Female Workforce Participation:** The female Labour Force Participation Rate rose from 26.4% (2018-19) to 47.6% (2023-24). More people seeking work means wages are less likely to rise.

**Low Agricultural Productivity:** Adding more workers doesn't always increase productivity in rural agriculture, limiting wage growth.

**Technology in Agriculture:** Machines like threshers and harvesters reduce the need for manual labour, which limits rural job creation and wage increases.

**Lower Demand for Non-Agricultural Labor:** Industries that often hire rural workers, like FMCG and small manufacturing, are experiencing slower growth and profit margins.

**Limited Non-Farm Job Opportunities:** Small-scale industries, which could create jobs outside farming, remain underdeveloped due to a lack of support and financing.

**Weak Wage Guarantee Programs:** Programs like MGNREGA are hampered by delayed payments and budget constraints, reducing their impact on rural wages.

**Inflation:** Essential goods and fuel costs are rising faster than wages, eroding rural workers' real income.

**Impact of Climate Change:** Weather events like droughts and floods reduce farmers' income, making it harder for landowners to offer higher wages.

### Implications of Stagnant Rural Wages

**Reduced Demand:** With lower spending power in rural areas, demand for goods and services is limited, affecting small and medium businesses and slowing economic growth.

**Financial Strain:** High inflation and low wages push rural families into debt cycles of informal lenders.

**Underemployment:** Rural workers often return to compulsive farming with fewer non-farm job options.

**Gender Pay Gap:** Wage stagnation affects both men & women, but women earning less are hit harder.

**Forced Migration:** Limited rural jobs force people to move to cities, straining city resources.

**Lower Human Capital:** Low wages make it harder for rural families to afford education, healthcare, and nutrition, affecting long-term development.



## Solutions to Address Rural Wage Stagnation

**Strengthen Income Support Programs:** Increase payments in schemes like PM-KISAN and expand food distribution programs to ease financial pressures.

**Periodic Wage Adjustments:** Regularly adjust rural wages for inflation to help workers keep up with the rising cost of living.

**Reduce Gender Pay Gap:** Implement programs like **Maharashtra's Ladki Bahin Yojana** (Rs 1,500/month for low-income families) to support women and low-income households.

**Promote Rural Non-Farm Employment:** Encourage labour-intensive industries like textiles, food processing, and tourism to provide job opportunities. Schemes like **MGNREGA** can help to support job stability during seasonal unemployment.

**Agricultural Modernisation:** Improve productivity with better technology, irrigation, and quality seeds to increase income and wages in farming.

### Labour Bureau

Attached office under the **Ministry of Labour & Employment**; headquartered in **Chandigarh**.

It collects, collates and disseminates labour, employment and price statistics.

Source of primary data to several economic indicators like Consumer Price Index Numbers for Industrial Workers, Agricultural and Rural Labourers, Wage Rate Indices, etc.

### Wage Rate Index (WRI)

**By: Labour Bureau.** It is based on the recommendations of the International Labour Organization and the **National Statistical Commission**.

The new series on WRI has been compiled on a **half-year basis** (on the first of January and July every year) as opposed to the annual basis in the existing series.

The new WRI basket (2016=100) has enhanced the scope and coverage of occupations and industries compared to the old WRI series (1963-65=100).

## GDP as an Economic Measure

**Context:** GDP fails to capture the well-being of individuals and the state of the planet.

**Gross Domestic Product (GDP)** is the total monetary value of all **goods** and **services** produced **within a country** over a specific period, typically used to gauge economic performance

### Criticisms of GDP as an Economic Indicator

**Narrow Economic Focus:** GDP measures output but misses health, education, and poverty. India's **high GDP** (\$3 trillion in 2020) contrasts sharply with its **low HDI ranking** (132 in 2021).

**Exclusion of Unpaid Work:** According to the International Labour Organisation, **16.4 billion hours** of unpaid care work are performed daily, greatly benefiting society but remaining uncounted in GDP.

**Income Inequality:** GDP doesn't capture wealth gaps. In India, **top 1%** holds **21% of wealth**, while bottom **50%** holds only **13%**, masking severe inequality.

**Short-term Over Sustainability:** GDP promotes immediate gains, neglecting sustainability. India's industrial growth **depleted groundwater by 32%** (1993–2018).

**Wellbeing and Social Outcomes:** India's **low rank** (126th) in the **World Happiness Report 2023** shows that high GDP doesn't equate to improved well-being.



## Alternatives to GDP

**Wellbeing Indicators:** Countries like **New Zealand** use wellbeing indicators, such as **income, job quality, health, and environmental quality**, to assess societal progress beyond GDP.

**Human Rights Framework:** This approach evaluates economic policies based on their effectiveness in fulfilling essential rights, like **adequate living standards** and **healthcare**, prioritising **social justice**.

**Genuine Progress Indicator (GPI)** adjusts GDP by accounting for **environmental degradation**, income distribution, and unpaid work, offering a more comprehensive representation of societal progress.

**Buen Vivir (Ecuador):** "**Buen Vivir**" emphasises **community well-being** and **harmony** with nature, advocating for rights to nutrition, health, and education as alternatives to traditional economic growth.

## Limitations of Alternative Approaches to GDP

**Challenges in Measurement:** Wellbeing indicators often rely on economic frameworks that lack clarity and precision, particularly in addressing **gender equality issues**.

**Buen Vivir Scalability:** While rich in cultural significance, the Buen Vivir concept faces scalability challenges due to its reliance on **regional traditions** and **specific gender roles**.

**Data Availability:** Many alternative approaches depend on comprehensive data, often unavailable or inconsistent in India, limiting their effectiveness.

**Integrating alternative indicators** into existing policy frameworks is complex, as most current policies **prioritise GDP**, making it difficult to shift focus.

## Way Forward

**Integrated Approach:** India should adopt an integrated strategy that combines wellbeing, human rights, and sustainability, exemplified by the **National Health Mission's** focus on improving healthcare access.

**Policy Rethink:** Policies reduce inequality, as demonstrated by the **Pradhan Mantri Awas Yojana**, which aims to provide housing for over **20 million** people.

**Enhancing Data Collection** on wellbeing indicators through initiatives like the **Ayushman Bharat Digital Mission**, which aims to create a digital health ecosystem.

**Aligning national policies with the UN's SDGs** Goal 3 and Goal 4 about health education to increase the welfare of all. E.g. the New Education Policy 2020 for inclusive education.

**Community-based approaches** such as the **Self-Employed Women's Association (SEWA)** to enhance economic empowerment and well-being by aligning local needs with national policies.

## Advancing CPI and IIP Data Release Timings

**Context:** MoSPI has shifted CPI and IIP data release to 4 pm

### Consumer Price Index (CPI)

**Purpose:** Tracks retail price changes in goods and services, serving as a key indicator for inflation and cost of living adjustments.

#### Types of CPI:

**CPI for Industrial Workers (IW):** Compiled by the **Labor Bureau** under **Ministry of Labor and Employment (MoLE)**, with a **base year of 2011**; targets price fluctuations affecting industrial workers.



**CPI for Agricultural and Rural Laborers (AL and RL):** Also compiled by MoLE, with a base year of 1986-87, tracking price changes in rural and agricultural sectors.

**CPI (Rural, Urban, and Combined):** Published by the Central Statistics Office, under MoSPI, with a base year of 2012; **CPI Combined (Rural + Urban)** is the primary inflation measure for RBI.

**Weight Distribution in CPI Combined:**

- Food and Beverages:** 45.86%
- Miscellaneous:** 28.32%
- Housing:** 10.07%
- Fuel and Light:** 6.84%
- Clothing and Footwear:** 6.53%
- Pan, Tobacco, and Intoxicants:** 2.38%

**Significance of CPI**

- Used by the RBI to **monitor inflation** and **inform monetary policy**.
- Helps governments and central banks **control inflation, set policy rates & guide economic planning**.
- Indicates **consumer purchasing power** and economic stability.
- Used as a **deflator in national accounts** to measure real growth against price changes.

**Key Differences Between CPI and Wholesale Price Index (WPI)**

<b>Basis of Distinction</b>	<b>WPI</b>	<b>CPI</b>
<b><u>Scope</u></b>	Covers wholesale prices and <b>includes intermediate goods</b>	Focuses on retail prices and <b>final consumer goods</b>
<b><u>Objective</u></b>	Indicates overall inflation in the economy	Reflects consumer purchasing power and cost of living adjustments
<b><u>Data Collection</u></b>	Data is often voluntarily reported	Data is actively collected by market investigators
<b><u>Weighting</u></b>	Based on national accounts and enterprise data	Derived from consumer expenditure data

**Index of Industrial Production (IIP)**

- Purpose:** Measures industrial production across sectors on a **monthly basis**, Provides short-term indicator for manufacturing and industrial trends.
- Usage:** Used for economic planning and analysis, offering insights into sector-wise growth rates.
- Base Year:** 2011-12, with a six-week lag for data release.

**Key Sectors and Weight Distribution:**

- Manufacturing:** 77.63% of IIP weight
- Mining:** 14.37%
- Electricity:** 7.9%



**Eight Core Industries (representing 40.27% of IIP weight):** Refinery Products, Electricity, Steel, Coal, Crude Oil, Natural Gas, Cement, and Fertilizers.

#### **Product Categories in IIP:**

**Primary Goods:** Includes raw materials like mining products, fuels, electricity, and fertilizers.

**Capital Goods:** Machinery and other equipment used in production.

**Intermediate Goods:** Inputs such as yarn, chemicals, and semi-finished products like steel.

**Infrastructure Goods:** Materials used in construction, including cement, cables, and rail materials.

**Consumer Durables:** Long-lasting consumer items like vehicles, appliances, and electronics.

**Consumer Non-Durables:** Fast-moving goods, including food products, medicines, and toiletries.

**Data Compilation and Release:** IIP data is compiled and published **monthly** by the **CSO** under MoSPI and is accessible on the **Press Information Bureau (PIB) website**.

#### **Significance of IIP**

Reflects **output in mining, manufacturing, and electricity, indicating economic performance.**

Provides a quick overview of industrial growth trends before annual data is available.

**Tracks Eight Core Industries** to gauge overall industrial strength and their major role in the economy.

#### **Evolution of Data Release Timings**

**Pre-2013 Routine:** Previously, CPI and IIP data were **released at 11–11:30 am on the 12th of each month.**

**2013 Adjustment Due to Leaks:** Following data leaks, the timing was **shifted to 5:30 pm** to reduce trading volatility **by coinciding with forex and bond market closures.**

**New Timing Protocol:** CPI and IIP data will now release at **4 pm** on the **12th of each month.** If the 12th is a **holiday, CPI** data releases the **next working day** and **IIP data** the **previous working day.**

#### **Reasons for Advancing CPI and IIP Release Timings**

**Enhanced Accessibility:** The new 4 pm release allows stakeholders more time within the business day for analysis and timely decision-making.

**Market Alignment:** Aligning the release with major market closures limits after-hours trading impacts, enabling smoother assessments without unexpected market reactions.

**Improved Transparency:** MoSPI aims to boost transparency by enhancing data accessibility, promoting informed, timely economic decisions.

**Reduced Intraday Market Disruption:** By releasing data near market closing, MoSPI intends to lessen disruptive impacts on stock market trading.

**Historical Data Leak Concerns:** Past leak incidents influenced timing changes, with the 4 pm shift further mitigating potential premature data usage.

**Implications for Bond & Forex Markets:** Government bond and forex markets remain open until 5 pm, posing a risk of mid-session market reactions to the 4 pm data release.

#### **Concerns with New 4 pm Timing**

**Market Sensitivity:** Releasing data while bond and forex markets remain open until 5 pm could cause **volatility.**

**Limited Analysis Time:** Analysts and traders have less time to assess CPI and IIP data before making decisions, potentially impacting the accuracy of market reactions.



**Trading Overlap:** Although the stock market closes by 4 pm, bond and forex markets may experience **sudden shifts due to active trading** during data release.

## 'EV as a Service' Programme

**Context:** Union Minister launched 'EV as a Service' programme of Convergence Energy Services Limited (CESL), a subsidiary of Energy Efficiency Services Limited (EESL).

It aims to target the deployment of **5,000 electric cars** in **government ministries** and public sector units over the next two years. It aligns with India's goal of net zero by 2070 & PM E-DRIVE Scheme.

## Challenges for the EV market in India

**Charging Infrastructure:** Limited charging stations, especially in rural and non-urban areas, make long-distance travel difficult.

**High installation costs:** Charging points set-up and maintenance are expensive; hence, the operators' interest is minimised.

**Range & Charging Time Issues:** Compared to gas refuelling, EVs take hours to recharge.

**High Upfront Cost of EVs:** Battery and tech costs make EVs pricier than traditional vehicles, making affordability a hurdle. Also, Battery tech is still costly to produce, keeping EV prices elevated.

**Limited-Service Network:** Trained EV technicians and service centres are scarce, and maintenance is challenging for owners.

**Supply Chain Dependency:** Reliance on imports of lithium and cobalt exposes EV production to global supply fluctuations.

## Initiatives Related to Electric Vehicles in India

**New Electric Vehicle Policy 2024:** It aims to position India as a prime manufacturing hub for EVs.

Electric Mobility Promotion Scheme (EMPS) 2024: It aims to increase the sale of electric two-wheelers, three-wheelers and e-rickshaws.

**National Mission on Transformative Mobility and Storage:** This mission aims to localise the production of EVs and their components within the country.

**EV30@30 campaign:** It aims for at least 30% of new vehicle sales to be electric by 2030.

FAME-II: It aims to incentivise the purchase of EVs & establish the necessary charging infrastructure.

PLI Scheme: It aims to manufacture Advanced Chemistry Cells (ACC) to bring down battery prices.

**National Electric Mobility Mission Plan (NEMMP):** This plan aims to promote the adoption of electric and hybrid vehicles in the country.

**E-Amrit portal:** Launched at COP26 Summit in Glasgow as one-stop destination for all EV information.

**Green license plates:** Ministry of Road Transport & Highways has announced them for EVs.

**GST restructuring:** GST on EVs has been reduced from 12% to 5%; GST on chargers/ charging stations for electric vehicles has been reduced from 18% to 5% by GST Council.

**Go Electric campaign:** To create awareness of the benefits of EVs and EV charging infrastructure.



## Key Economy Terms

**Context:** **Producer Price Index (PPI)** and **Wage inflation** were recently in the news.

### Producer Price Index (PPI)

The **Producer Price Index (PPI)** is an economic indicator that measures the average price changes that producers receive for their goods and services at various production stages.

It focuses on the **producer's price perspective**, not the consumer's. It captures producers' prices before additional costs like taxes, transportation, and retail markups are added.

The PPI **excludes** the **taxes, transport, trade margins**, and other charges imposed when those products reach consumers or are used as inputs to other producers. In other words, it is the suppliers' price.

### Why is PPI Important?

Helps understand inflation from the **beginning of the supply chain**.

Provides insights into cost pressures faced by producers, which eventually is passed on to consumers.

Economists and policymakers use PPI to analyse economic conditions and make informed decisions.

### Wage Inflation

It refers to the rate at which workers' wages (compensation) increase over time. Unlike general inflation, which measures the rise in prices of goods and services, wage inflation specifically tracks the rise in wages.

### How is Wage Inflation Calculated?

Labour unions often base their wage increase negotiations on the expected rate of general inflation. For e.g., suppose the expected inflation rate is 2%. In that case, unions might negotiate for a wage increase higher than 2% to ensure that workers' wages grow in real terms.

Wage inflation is important because it helps **understand the labour market dynamics**. It shows how wage levels change and whether workers' earnings keep up with or outpacing general inflation.

## Pharmexcil

**Context:** The **Pharmaceuticals Export Promotion Council of India (Pharmexcil)** has asked Indian drug makers to express their willingness to supply IV fluids to the U.S. (facing shortage).

### About Pharmexcil

It is the authorised agency of the GOI to promote **pharmaceutical exports** from India.

It was set up under the provisions of **Foreign Trade Policy** by the **Ministry of Commerce and Industry**.

**Products and services falling under Pharmexcil:** Active Pharmaceutical Ingredients (API), Finished Dosage Forms (FDF), Surgicals, Nutraceuticals, Clinical Trials & Consultancy, Regulatory Services

**Headquarter:** Hyderabad.

*IV fluids are specially formulated liquids that are injected into a vein to prevent or treat dehydration.*



## Market Correction

**Context:** India's stock **market correction** is linked to China's economic stimulus measures, which made Chinese stocks more attractive to investors, leading to a sell-off in Indian shares.

### What is a Market Correction (MC)?

MC happens when **price of an asset**, like stocks/currencies, **drops by 10% or more** from its recent high.

It can happen to individual stocks, entire indices or the whole market, lasting for days, weeks, or months.

Generally, market corrections are **short** and last around **three to four** months.

### Why Do Market Corrections Happen?

MC are a **sign of a healthy market**. If prices only go up, it can lead to problems like high inflation.

Continuous rising stock prices mean economic growth, but too much can hurt low-income individuals due to inflation.

It prevents assets from becoming overpriced, stopping potential bubbles. Although it's **unpredictable**, they **encourage long-term investments**.

### How to Spot a Market Correction?

Financial experts use various charts and tools to predict and monitor corrections.

It is tough to pinpoint when a correction will happen because it can be caused by many factors, from broad economic shifts to issues within a single company.

Price changes during trading sessions are **risky for short-term traders**, who might face significant losses during corrections.

## New Framework for Reclassification of FPI to FDI

**Context:** RBI has introduced a new framework for reclassifying Foreign Portfolio Investments (FPI) into Foreign Direct Investments (FDI) when equity holdings exceed the prescribed limit.

### Key Details of New Framework

**Prescribed Limit:** FPIs are allowed to hold up to **10%** of an Indian company's total **paid-up equity capital** on a **fully diluted basis**.

**Reclassification Option:** If an FPI exceeds this limit, it can either relieve the surplus shares or reclassify them as FDI within **five trading days** from the date of settlement of the trades causing the breach.

**Government Approvals:** The FPI **must** obtain necessary **approvals from the government**, including approvals required for investments from land-bordering countries.

**Sector Restrictions:** Reclassification is **not permitted** in sectors prohibited for FDI.

**Investee Company Concurrence:** The FPI must also obtain concurrence from the Indian investee company to ensure compliance with **sectoral caps**, prohibited sectors, and other FDI conditions.

**Reporting Requirements:** Under the Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) Regulations, 2019, the FPI must report the entire investment within the specified timelines.

**Custodian Role:** The FPI should approve and concur with its **custodian**, who will freeze the purchase transactions in the Indian company's equity instruments until the reclassification is completed.



## Difference between FDI and FPI

Feature	Foreign Direct Investment (FDI)	Foreign Portfolio Investment (FPI)
<b>Definition</b>	Investment in a foreign country with significant control and influence over the business	Investment in foreign financial assets such as stocks and bonds without significant control
<b>Nature of Investment</b>	<b>Long-term</b> and strategic	<b>Short-term</b> and speculative
<b>Control and Influence</b>	High degree of control and influence over the management and operations of the entity	No significant control or influence over the entity
<b>Investment Type</b>	Equity capital, reinvested earnings, and other long-term capital	Stocks, bonds, and other financial instruments
<b>Entry Barriers</b>	Higher due to regulatory approvals and restrictions	Lower due to fewer regulations and restrictions

### Key Terms

**Paid-up Equity Capital:** The amount of money shareholders have paid for their shares in a company.

**Fully Diluted Basis:** Considering all possible shares that could be issued, including those from options, warrants, and convertible securities.

**Sectoral Caps:** Limits on the percentage of ownership that foreign investors can hold in specific sectors.

**Custodian:** A financial institution that holds customers' securities for safekeeping to minimise the risk of their theft or loss.

## DFCs boosting India's Economy

**Context:** **Dedicated Freight Corridors (DFCs)** are key to reducing logistics costs, enhancing supply chain efficiency, and driving GDP growth, while transforming railway infrastructure & boosting revenue.

### About DFCs

**Specialized Freight Routes:** DFCs are railway tracks exclusively designed for freight, featuring double-stack container and heavy-haul trains, enhancing capacity and speed.

#### Key Corridors:

**Eastern Dedicated Freight Corridor (EDFC):** 1,337 km long, from **Sonnagar (Bihar)** to **Sahnewal (Punjab)**, focusing on coal, steel, and agricultural products.

**Western Dedicated Freight Corridor (WDFC):** 1,506 km long, from **Mumbai to Dadri (UP)**, handling goods like textiles, chemicals, and industrial products.

**Foundation** for **EDFC** and **WDFC** was laid in **2006**. By 2024 three DFC stretches were inaugurated.

**Status:** **EDFC** is **operational**, while **WDFC** is **93% complete**, with full completion expected by December 2025. Over 325 freight trains operate daily on DFCs, marking a 60% increase compared to previous years.



**Freight Handling:** DFCs have handled 232 billion Gross Tonne Kilometres (GTKMs) and 122 billion Net Ton Kilometres (NTKMs), making up **over 10%** of Indian **Railways' freight** traffic.

### Significance of DFCs

**Boost to GDP:** DFCs have contributed to a reduction in **logistics costs**, lowering commodity prices by up to 0.5%, and supporting **industries' competitiveness**.

**Revenue Growth:** DFCs **contributed 2.94%** to the growth of Indian Railways' revenue from FY 2018-19 to FY 2022-23.

**Export-Import Traffic:** The WDFC has **improved port access** and **lowered transit times**, facilitating trade and boosting economic growth.

**Employment and Investments:** DFC development has created **jobs** and attracted **investments**, contributing to national economic growth.

**Eases Congestion:** Golden Quadrilateral handles **50%** of **freight** traffic with **16%** of **track** causing delays.

**Rail Freight Share:** As per the **National Rail Plan**, DFCs aim to boost rail freight's share to **45% by 2030**.

### Challenges

**Completion Delays:** Delays in completing the **final section of WDFC** have pushed back its full commissioning to July 2025, leading to a loss of immediate benefits.

**Cost Overruns:** Delays have resulted in an **additional Rs 2,690 crore** in project costs, raising the total expenditure to Rs 94,091 crore by March 2024.

### Way Ahead

**Timely Completion:** Speeding up the remaining construction of DFC sections is essential to fully realize their benefits and avoid further cost overruns.

**Expansion Plans:** Future corridors like the **East Coast Corridor, East-West Sub-Corridors, and North-South Sub-Corridors** will further enhance connectivity and economic integration.

**Continued Investment:** Ongoing **investment in technology and infrastructure** will ensure DFCs meet future freight demands and maintain efficiency.

## Banking Laws (Amendment) Bill, 2024

**Context:** LS passed the **Banking Laws (Amendment) Bill 2024**.

### Objectives of the Bill

**Strengthen governance** in banks.

Enhance **customer convenience** and flexibility.

**Protect depositors** and improve stability.

### Provisions of the Bill

**Increased Nominees for Accounts:** Allows **up to four nominees** for bank accounts; only **successive nomination** for lockers.

**Redefining 'Substantial Interest':** Raises **eligibility limit for directors to ₹2 crore** from ₹5 lakh.

**Cooperative Bank Directors:** Extends director tenure from 8 years to **10 years**; permits **Central Cooperative Bank directors to serve on State Cooperative Bank boards**.

**Statutory Auditor Remuneration:** Grants banks **autonomy** to decide statutory auditor remuneration.



**Reporting Dates for Compliance:** Shifts reporting dates to the **15th & last day of every month.**

## Implications of the Act

**For Customers:** Flexibility with multiple nominees & improves clarity on reporting & compliance.

**For Banks:** Strengthens governance, operational freedom and director eligibility alignment.

**For Sector Stability:** Reinforces depositor trust, banking system resilience and alignment with governance frameworks.

## Mule Bank Account

**Context:** RBI has launched an AI-powered model named **MuleHunter.AI** to combat digital fraud involving **mule bank accounts**.

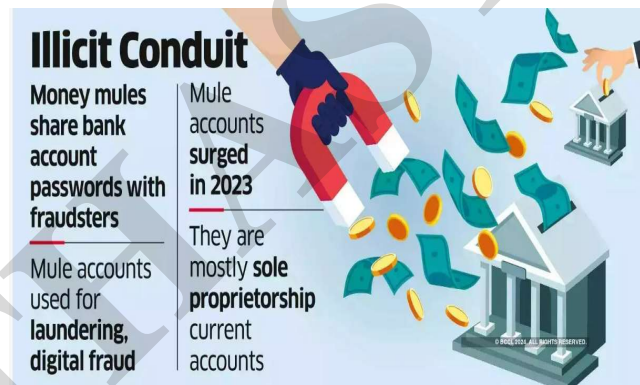
It is developed by the **Reserve Bank Innovation Hub (RBIH)**, Bengaluru, a subsidiary of the RBI.

The **traditional rule-based systems** often produce **high false positives**; therefore, RBIH developed an in-house **AI/ML-based solution**. The solution is more effective than static rule-based systems.

### What is a Mule Bank Account?

A mule bank account is a bank account that criminals use for **illicit activities**, including **laundering illegal funds**. These accounts often exploit innocent or coerce account holder's knowledge.

**How it works:** Criminals purchase these accounts from original users, often from lower-income groups or those with low technical literacy.



**Money Mule:** The term describes **innocent victims** whose accounts are used for laundering stolen or illegal money. These individuals often face police investigations while actual criminals remain undetected.

## Manmohanomics

**Context:** Former PM Manmohan Singh's key economic ideas & legacy revisited following his passing.

### Economic Planning vs Market Forces

**Balanced View on Planning:** Advocated **planning with caution**; emphasised **institutional efficiency** and honest public administration.

**Advocated Public Ownership:** Highlighted the need for **public ownership** in early development due to inadequate infrastructure and skewed wealth distribution.

**Concerns About Corruption:** Warned against inefficiency & corruption undermining planned allocation.



## Critique of Licence-Permit Raj

**Advocated Industrial Licensing:** Called for **reducing industrial licensing to critical sectors** and empowering entrepreneurs with investment decisions.

**Positive Incentives:** Suggested promotional schemes over licensing to attract investments in industries.

## Inequality and Elite-Mass Contradictions

**Against Inequality:** Warned that excessive inequality could destabilise society and distort resource allocation toward luxury goods over basic necessities.

**Avoiding “Soak the Rich” Policies:** Opposed populist measures targeting the wealthy; emphasised fostering trust between government and private industry to ensure productive entrepreneurship.

## Openness in Trade

**Expanded Export Potential:** Criticized export pessimism; advocated policies like inflation control and realistic exchange rates to boost exports.

**International Specialization:** Recognized the efficiency gains from engaging in global trade.

## Public Sector Enterprises (PSUs)

**Autonomy and Accountability:** Stressed granting PSUs functional autonomy and protecting executives' tenure to ensure long-term planning.

**Challenges with Trade Unions:** Urged unions to support technological upgrades instead of resisting change for job security.

**Depoliticised Pricing:** No political interference in adjusting PSU prices to prevent financial losses.

## Education, Health and Women's Empowerment

**Mass Education:** Linked education to improved productivity, aspirations and adaptability to new skills.

**Health and Sanitation:** Highlighted their role in enhancing economic productivity & national well-being.

## Legacy of Reforms

**Economic Liberalization:** Transformed India into an open, market-driven economy as FM in 1991.

**PM Tenure (2004–2014):** Oversaw rapid economic growth and poverty reduction but faced policy paralysis and corruption allegations in later years.

## Nehruvian Vision and Its Impact

**Context:** Arvind Panagariya's **The Nehru Development Model** critiques Nehru's economic policies, while Arun Mohan Sukumar's **Midnight's Machines** examines India's complex relationship with technological development.

## Key Features of the Nehru Development Model

**Economic Doctrine:** Advocated for **heavy industrialisation** and **state-led socialism** to eradicate poverty and achieve self-sufficiency.

**Planning and Controls:** Emphasised central planning through **Five-Year Plans**, **import substitution**, and **public sector expansion**.

**Policy Instruments:** **Licensing** of private enterprises, **import/export regulations** & investment controls.



## Visionary Contributions

**Institution Building:** Creation of IITs, NPL (National Physical Laboratory) and other institutions aimed to foster scientific temper and technical education.

**Political Stability:** Laid the foundation for a **stable democratic polity**.

**Heavy Industry:** Initiated **industrial capacity** in sectors like steel and energy.

## Major Issues in Nehru's Economic Vision

**Licence-Permit Raj:** Created **bureaucratic inefficiencies, delays, and corruption** in business activities.

**Neglect of Agriculture:** **Disproportionate allocations** to heavy industries left agriculture underfunded.

**Trade Policy Flaws:** **Import restrictions and high tariffs** reduced India's global export competitiveness.

**Bloated Bureaucracy:** Stifled entrepreneurial growth and innovation.

**Economic Imbalance:** Overemphasis on heavy industries led to **low growth in consumer goods and agricultural** sectors.

## Challenges in Technological Development

**Limited Diffusion of Technology:** Policies like the Community Development Scheme **lacked scalability** and grassroots impact.

**Foreign Trade Restrictions:** Imports are restricted to **basic machinery**.

**Brain Drain:** Failure to retain scientific talent, **despite institutions like IITs and NPL**.

## Impact on India's Growth

**Low Economic Growth:** Per capita GDP grew by **only 2% annually** during Nehru's tenure.

**Export Decline:** India's share in world exports fell from **2.5% in 1947 to 0.9% by 1966**.

**Agricultural Lag:** Inadequate food production led to the need for Green Revolution in subsequent years.

**Missed Opportunities:** Other Asian economies surged ahead between the 1950s and 1991, leveraging market-oriented reforms.

## Way Forward

**Technology Promotion:** Invest in R&D, frugal engineering & Digital India and Make in India.

**Balanced Resource Allocation:** Prioritise agriculture, small-scale industries and social infrastructure alongside heavy industries.

**Inclusive Growth Models:** Participatory policies catering to rural and urban development needs.

**Trade Liberalisation:** Shift from import substitution to export-driven policies to integrate with global value chains.

## Outlook for the Indian Economy for 2025

**Context:** The Finance Minister has called the slowing **Q2 growth** a "**temporary blip**," while RBI downgraded GDP growth forecasts for 2024-25 from **7.2% to 6.6%**.

## Key Drivers for Sustainable Economic Growth

**Job Creation Needs:** India requires sustained growth to generate 8 million jobs annually by 2030.

**Current Economic Trends:** The economy is projected to stabilise at a 6.5% growth rate in 2024, reflecting long-term trends amidst a cyclical slowdown.



**Increased Fiscal Spending:** Post-election fiscal spending and a restarted capital expenditure cycle drive investment-led growth.

**Services Sector Growth:** IT exports and remote work trends boost services surplus, though AI technologies pose risks to long-term growth.

**MSME Recovery:** Rural MSMEs are rebounding, improving employment, consumption and female labour participation.

**Potential Industrial Investments:** Capital goods order backlogs indicate growth prospects, particularly in sectors like thermal power.

**Government's Role:** Sustained fiscal efforts and strategic investments are critical to maintaining economic momentum and addressing disparities.

### Challenges Affecting Investment

**Growth Rate Challenges:** A 6% growth rate may be insufficient to reduce wealth disparities and support generational mobility.

**Policy-Driven Inflation:** Overestimated GDP growth by RBI led to higher interest rates, exacerbating inflation issues.

**Weak Corporate Growth:** Slowed due to weak urban demand, high inflation, and political uncertainty.

**Investment Barriers:** Corporate tax cuts fail to boost investment; tax laws and administration remain obstacles.

**Declining Household Savings:** Sharp drop in savings rate & rising debt levels threaten financial stability.

**Low Credit Growth:** It weakens economic momentum, especially in housing & industry.

**Fiscal Sustainability Concerns:** State subsidies like farm loan waivers strain fiscal health despite government deficit reduction efforts.

**Emerging Financial Risks:** Rising bad loans in personal loan and credit card segments signal instability.

### Way Forward

**Reforms:** A relatively clear election calendar in 2025 offers a chance to push through pending reforms, including labour codes.

**Investment Environment:** Reforming tax laws and creating a stable business environment will be essential for unleashing private investments.

**Financial Stimulus:** Need for strategic fiscal measures to revive credit growth, especially for MSMEs.

**Targeted Government Policies:** States must balance fiscal prudence with welfare schemes to avoid inflationary pressures.

### De-dollarisation

**Context:** The RBI Governor explained that India is **not working on de-dollarisation** but is concentrating on **reducing risks** to its domestic trade caused by global political tensions.

**De-dollarisation** refers to **reducing reliance** on the **U.S. dollar** as the primary reserve currency, medium of exchange, or unit of account. This involves countries **diversifying** their **foreign reserves** and conducting international trade in alternative currencies.

### Reasons for Moving Towards De-dollarisation

**Reduce dependency on the U.S. dollar:** This can help countries mitigate risks associated with fluctuations in the dollar's value and changes in U.S. monetary policy.

**Enhance economic sovereignty:** Using alternative currencies, countries can reduce their vulnerability to U.S. economic sanctions and restrictions.

**Promote global financial stability:** Diversifying reserve currencies can reduce the global financial system's dependence on a single currency, potentially leading to a more balanced and resilient system.

**Regional Cooperation:** Some regions, like BRICS (Brazil, Russia, India, China, and South Africa), are discussing using local currencies for trade to reduce reliance on the U.S. dollar.

### Challenges Associated with De-dollarisation

**Transition Costs:** Switching from the U.S. dollar to other currencies involves significant expenses, including updating financial systems and renegotiating trade agreements.

**Market Volatility:** Introducing new currencies can cause **market instability** and **uncertainty**, potentially disrupting global trade and investment.

**Lack of Trust and Acceptance:** Alternative currencies must gain widespread acceptance and trust, which can be challenging given the entrenched dominance of the U.S. dollar.

**Geopolitical Tensions:** Efforts to reduce reliance on the U.S. dollar may lead to **geopolitical tensions** and conflicts, which can be perceived as a challenge to U.S. economic dominance.

**Institutional Inertia:** Financial institutions and businesses are accustomed to using the U.S. dollar, and changing established practices requires considerable effort and willingness to adapt.

### Steps taken by Different Countries for De-dollarization

Country	Key Initiatives	Details
India	Local Currency Trade Agreements	Signed agreements with Russia and UAE to conduct trade in rupees, reducing reliance on the U.S. dollar.
	Vostro Accounts	Opened special Vostro accounts to facilitate trade in local currencies.
Russia	SPFS (System for Transfer of Financial Messages)	Developed SPFS as an <b>alternative to SWIFT</b> , enabling transactions without the U.S. dollar.
	Gold Reserves	Increasing gold reserves to diversify away from the U.S. dollar.
China	CIPS (Cross-Border Interbank Payment System)	Established CIPS to facilitate yuan transactions globally.
	Currency Swap Agreements	Entered into agreements with several countries to promote the yuan in international trade.
South Africa	Regional Currency Use	Encouraged the use of the South African rand in regional trade within Africa.



## Real Effective Exchange Rate

**Context:** The rupee's **real effective exchange rate (REER)** index touched a record high of **108.14**.

REER is the **nominal effective exchange rate** (a measure of the value of a **currency against a weighted average** of several **foreign currencies**) divided by a **price deflator** or index of costs.

It is an indicator of the **international competitiveness** of a nation in comparison with its trade partners.

The formula is weighted to consider the relative importance of each trading partner to the home country.

An **increasing REER** indicates that a country is **losing its competitive edge**. This implies that **exports** have become more **expensive**, and **imports** have become **cheaper**.

Nation's nominal effective exchange rate (**NEER**), adjusted for **inflation** in home country, equals its REER.

### Difference Between NEER and REER

Feature	NEER (Nominal Effective Exchange Rate)	REER (Real Effective Exchange Rate)
<b>Definition</b>	Value of country's currency against a basket of foreign currencies, weighted by trade significance	Adjusts NEER for <b>inflation differentials</b> between the home country and its trading partners
<b>Inflation Adjustment</b>	No	Yes
<b>Usefulness</b>	Tracking nominal movement of exchange rates does not account for price level differences	Offers accurate assessment of currency purchasing power and impact on trade
<b>Impact on Trade Competitiveness</b>	It does not provide a complete picture of international competitiveness	Rising REER indicates a potential loss of trade competitiveness

## Subsidies and Fiscal Management

**Context:** RBI released the "**State Finances: A Study of Budgets of 2024-25**" report highlighting the need to **rationalise subsidies** and **address fiscal challenges** for sustainable development.

### Key Concerns Raised by the RBI

**Rising Subsidy Expenditure:** States' increased spending on subsidies like loan waivers and free services **crowds out critical investments** in sectors like infrastructure and education.

**High Subnational Debt:** State debt remains above the 20% GDP threshold, requiring a clear, time-bound consolidation plan for fiscal stability.

**Cooperative Fiscal Federalism:** Proliferation of Centrally Sponsored Schemes (CSS) limits states' fiscal flexibility and autonomy, necessitating rationalisation for local needs.

**Inefficiencies in Public Expenditure:** A lack of linkages between spending and outcomes reduces the developmental impact of public expenditure.

**Limited Fiscal Transparency:** Inconsistent reporting of off-budget borrowings clouds fiscal liabilities, raising borrowing costs and weakening fiscal discipline.



## Recommendations

**Rationalisation of Subsidies:** To prioritise healthcare, education & infrastructure sectors.

**Debt Consolidation:** States with high debt must adopt transparent, time-bound strategies aligned with macroeconomic goals.

**Outcome Budgeting:** Link public expenditure to tangible and measurable outcomes to enhance accountability and developmental impact.

**Climate Budgeting:** Integrate climate action into fiscal planning to address ecological challenges and promote sustainability.

**Enhancing Fiscal Transparency:** Ensure timely and comprehensive data reporting, including off-budget borrowings, to improve fiscal assessment and reduce borrowing costs.

## Significance of Recommendations

**Rationalising Subsidies:** Frees resources for development, reduces fiscal burden, and aligns spending with priorities.

**Debt Consolidation:** Strengthens fiscal stability and ensures **debt sustainability & investor confidence**.

**Efficiency in Public Expenditure:** Promotes targeted resource use, improves governance trust, and enhances developmental impact.

**Climate Budgeting:** Supports sustainable development by integrating economic and ecological goals.

**Improved Transparency:** Strengthens accountability, reduces fiscal risks, and facilitates better planning and lower borrowing costs.

## SC Ruling on Coconut Oil Tax

**Context:** SC ruled that coconut oil should be classified as an **edible oil for taxation** purposes, attracting a **5% GST**, instead of being taxed as a hair care product at 18%, even when sold in small packets.

### Key Historical Classifications of Coconut Oil

**Pre-2005 Classification:** Coconut oil was broadly classified as edible under tax regulations.

**Central Excise Tariff Act 2005 Amendment:** Classified as an edible oil, taxed 8%; Hair care products were taxed 16%.

**2009 Circular:** Central Board of Excise and Customs classified coconut oil in containers **smaller than 200 ml** as **hair oil** for higher tax (16%).

**2015 Withdrawal of Circular:** Tribunals ruled small packs could not be presumed to be hair oil, and the circular was withdrawn.

**Tribunal Rulings:** Coconut oil was considered edible, irrespective of packaging size.

### Supreme Court's Views on Coconut Oil Taxation

#### 2018 Verdict (Split Decision)

**Justice Ranjan Gogoi:** Classified coconut oil as edible oil regardless of packaging size, emphasising its primary food use.

**Justice R Banumathi:** Applied the **Common Parlance Test**, ruling that coconut oil in small containers is understood as hair oil by the market and should be taxed as such.

#### 2023 Final Ruling

Coconut oil is classified as edible following the **Harmonised System of Nomenclature (HSN)**.

**Common Parlance Test** deemed **inapplicable**, as the product is clearly defined in law.



**Small-sized packaging** is common for both edible and hair oils.

Confirmed that edible oil can be packed in sizes like 50 ml, 100 ml, and 200 ml as referred to under **Packaged Commodities Rules, 1977**.

#### **Key Precedents Cited:**

**Homeopathic Hair Oil (2023):** Classified as a medicament, not a cosmetic, attracting a lower tax rate.

**Anardana Classification (2022):** Ruled as seeds for sowing under "Oil seeds and Oleaginous Fruits," based on its market understanding.

## **Windfall Gains Tax**

**Context:** The government **ended** the **windfall gains tax** on **crude oil production** within the country and **exports of diesel, petrol, and aviation fuel (ATF)**. This tax was **introduced 30 months ago** when global fuel prices surged after Russia invaded Ukraine.

The "**windfall gains tax**" was introduced to tax the **extraordinary profits** earned by oil companies during **unusual global market conditions**.

In India, it applied to fuel exports and domestic crude oil production under **central excise laws**.

### **Key Features of Windfall Gains Tax**

**Review Process:** Tax rates were reviewed **every two weeks** based on international fuel prices and profit margins. In the first review, the tax on petrol exports was set to zero and stayed that way.

**Special Additional Excise Duty (SAED):** Charged on domestic crude oil and exports of ATF.

**Combined SAED and Additional Excise Duty (AED):** This is applied to diesel and petrol exports, and AED is also called the **Road and Infrastructure Cess (RIC)**.

### **Why Was Windfall Gains Tax Introduced?**

The main goal was to take a **share of excess profits** while ensuring enough fuel supply for domestic use.

**Surge in Global Oil Prices:** Global oil prices went up sharply, which caused a rise in domestic oil prices because Indian crude oil prices are linked to international rates.

**Lucrative Margins:** High profits in international markets encouraged private refineries to export fuels.

**Global Context:** India was not alone imposing a windfall gains tax. Many other countries introduced similar taxes to capture the super-normal profits of energy companies after Russia invaded Ukraine.

### **Reasons for Scrapping the Windfall Gains Tax**

**Opposition from Oil Industry:** The Indian oil industry opposed the tax as it **limited profitability** and discouraged efforts to increase oil production.

**Unpredictable Taxation:** Frequent reviews made the taxation regime **unpredictable**.

**Decline in Revenue:** Revenue from the windfall gains tax **declined** due to the softening of international crude oil and **fuel prices**.

**Minimal Financial Impact:** The removal is expected to have minimal impact on the financials of domestic oil producers like ONGC and Oil India and major fuel exporters like Reliance Industries and Nayara Energy.