CARPE DIEMIAS

1ST EDITION

APPSC GROUP-II MAINS 2026

INDIAN ECONOMY

STRICTLY ACCORDING TO SYLLABUS

UNION BUDGET 2026-27 • ECONOMIC SURVEY 2025-26

LATEST GDP, CPI, WPI INDEX | REPORTS | COMMITTEES

MARKS BOOSTER

PYQ ORIENTED

- Chapter-wise Coverage as per APPSC Syllabus
- Previous Year Questions (PYQs) with Analysis
- Latest Data & Statistics (2025-26)
- Important Reports, Committees & Indices
- Conceptual Clarity & Exam-Focused

HIGH QUALITY MATERIAL

- COVERS COMPLETE SYLLABUS
- UPDATED WITH LATEST DEVELOPMENTS
- EXAM FOCUSED CONTENT
- DIAGRAMS, TABLES & FLOWCHARTS

PREFACE

The **Indian Economy** is one of the most important and scoring components of the **APPSC Group-II Mains Examination**. In recent years, the examination has increasingly focused on conceptual clarity, analytical understanding, and the application of current economic developments. Aspirants are expected to integrate static concepts with the latest updates from the **Union Budget**, **Economic Survey**, government policies, committees, reports, and economic indicators.

Keeping these evolving trends in mind, **CarpeDiem IAS** presents the **APPSC Group-II Mains Indian Economy – Marks Booster Series (2026 Edition)**, prepared strictly in accordance with the latest APPSC syllabus. This book has been comprehensively updated with the **Union Budget 2026–27**, **Economic Survey 2025–26**, latest **GDP, GVA, CPI, WPI, IIP**, important reports, committees, indices, and recent policy developments.

The content is presented in a simple, structured, and exam-oriented manner using **flowcharts, tables, diagrams, comparison charts, and summary boxes** to simplify complex economic concepts and facilitate quick revision. Special emphasis has been placed on **PYQ-oriented topics**, high-probability areas, and value-added content that enables aspirants to maximize their scores in the Mains examination.

We sincerely hope this book serves as a reliable companion throughout your preparation and helps you develop a strong conceptual foundation while achieving success in the **APPSC Group-II Mains Examination**.

Best Wishes,

Team CarpeDiem IAS
APPSC Group-II Marks Booster Series – 2026 Edition

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1. Structure of Indian Economy, Economic Planning and Policy

A. MACROECONOMICS

INTRODUCTION TO MACROECONOMICS

1. Basics of Macroeconomics

- **Definition:** The branch of economics studying the economy as a whole (aggregate variables) rather than individual units.
- **Key Variables:** National Income, GDP, Inflation, Unemployment, Economic Growth, Money Supply, Interest/Exchange Rates, Fiscal/Monetary Policy, Balance of Payments.
- **Origin:** Emerged as a separate branch after **John Maynard Keynes** published ***The General Theory of Employment, Interest and Money (1936)***.
    - *Context:* The Great Depression (1929-33) disproved the Classical School's belief that markets self-correct. Keynes advocated for **government intervention (Demand Management)**.

2. Key Economists & Books

Economist	Title	Known As / Key Concept
Adam Smith	*The Wealth of Nations (1776)*	Father of Economics/Capitalism; **Invisible Hand Theory**
John Maynard Keynes	*General Theory... (1936)*	**Father of Modern Macroeconomics**
Alfred Marshall	*Principles of Economics (1890)*	**Father of Microeconomics**; Demand-Supply, Consumer Surplus
David Ricardo	*Principles of Political Economy...*	Comparative Advantage, Rent Theory

Thomas Malthus	*Essay on the Principle of Population*	Population growth outpaces food supply

3. Micro vs. Macroeconomics

Feature	Microeconomics	Macroeconomics
Focus	Individual units (Consumer, Firm)	Entire Economy
Variables	Price of one commodity, Individual Income	General Price Level (Inflation), National Income
Demand/Supply	Demand/Supply of one product	Aggregate Demand/Aggregate Supply
Goal	Profit maximization, Utility maximization	Economic Growth, Full Employment, Price Stability

4. Core Economic Concepts

- **Basic Economic Problems (due to Scarcity):** What to produce? How to produce? (Labour vs. Capital intensive). For whom to produce?
- **Scarcity:** Unlimited wants vs. limited resources.
- **Opportunity Cost:** The value of the *next best alternative forgone* when a choice is made.
- **Production Possibility Curve (PPC):** Shows combinations of two goods produced efficiently.
  - *Inside PPC:* Inefficient/Unemployed resources.
  - *On PPC:* Efficient/Maximum production.
  - *Outside PPC:* Unattainable with current resources (requires tech/capital growth).
- **Types of Economy:** Capitalist (USA), Socialist (Historical USSR), **Mixed Economy (India - Private + Public sector)**.

5. Economic Players & Goals

- **4 Sectors:** Households (own factors of production), Firms (produce goods/services), Government (taxes, public goods, welfare), External Sector (trade, remittances).
- **Macro Goals:** Economic Growth, Full Employment, Price Stability, External Stability, Equitable Distribution, Sustainable Development.

STOCKS, FLOWS, INVESTMENT & CIRCULAR FLOW

1. Stock vs. Flow

Feature	Stock	Flow
Definition	Measured at a **particular point of time** (Snapshot)	Measured over a **period of time** (Video)
Nature	Static	Dynamic
Examples	Wealth, Capital, Money Supply, National Debt, Water in a dam	Income, GDP, Savings, Investment, Fiscal Deficit, River flow

- Money Supply is a **Stock**; Investment is a **Flow**.

2. Capital, Investment & Depreciation

- **Capital Stock:** Total value of productive assets at a point in time.
- **Gross Capital Formation (GCF):** Total addition to capital assets in a year.
  - *Formula:* **GCF = Gross Fixed Capital Formation (GFCF) + Change in Inventories**.
- **Investment:** Expenditure on *new* capital goods (Factories, Machinery). *Excludes buying shares, gold, or existing houses.*
  - *Gross Investment:* Total investment before deducting depreciation.
  - *Net Investment:* Actual addition to capital stock.
  - *Formulas:* **Gross Inv = Net Inv + Depreciation** | **Net Inv = Gross Inv - Depreciation**
- **Depreciation:** Reduction in asset value due to wear/tear, obsolescence, or time. Also called **Consumption of Fixed Capital (CFC)**.

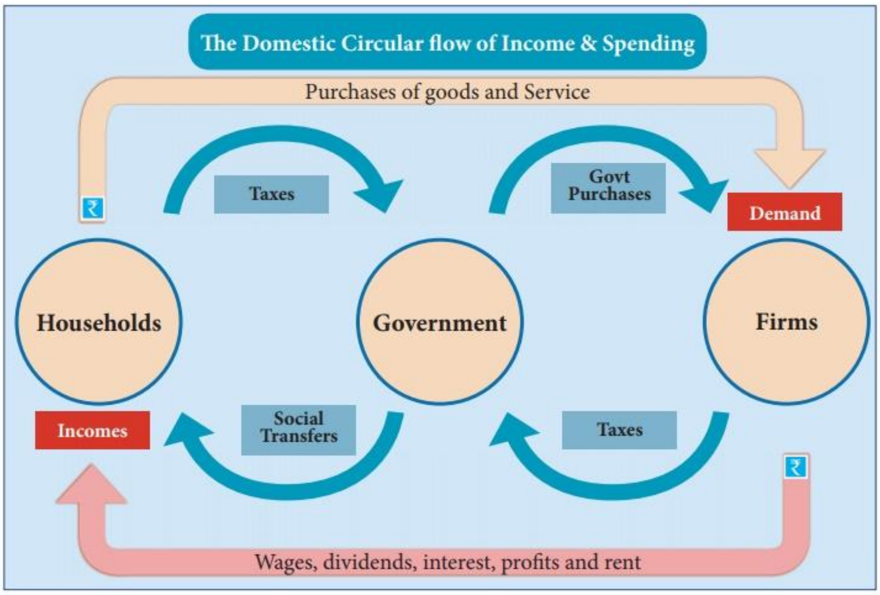
3. Efficiency Metrics: COR & ICOR

- **Capital Output Ratio (COR):** Capital required to produce one unit of output. (High COR = Less Efficient).
- **Incremental Capital Output Ratio (ICOR):** *Additional* capital required to produce one *additional* unit of output.
  - *Formula:* **ICOR = Increase in Capital (Investment) ÷ Increase in Output (GDP)**

- *Rule:* **Lower ICOR = Higher Efficiency**. (Used in Harrod-Domar Growth Model: *Growth ≈ Savings Rate ÷ ICOR*).

4. Circular Flow of Income

Explains the continuous movement of goods, services, and money.



- **Leakages (Withdrawals):** Reduce aggregate demand. **Savings (S) + Taxes (T) + Imports (M)**.
- **Injections (Additions):** Increase aggregate demand. **Investment (I) + Govt. Expenditure (G) + Exports (X)**.
- *Equilibrium Condition:* **Leakages = Injections** *(S + T + M = I + G + X)*.

B. NATIONAL INCOME ACCOUNTING AND GROSS DOMESTIC PRODUCT (GDP)

1. National Income Accounting Basics

- **Definition:** Systematic measurement of total economic activity (Production, Income, Expenditure) in a year.
- **Nodal Agency: National Statistical Office (NSO)** under the **Ministry of Statistics and Programme Implementation (MoSPI)**. *(Note: CSO and NSSO were merged into NSO in 2019).*
- **History:** Dadabhai Naoroji (1867 - first estimate), V.K.R.V. Rao (1931), National Income Committee (1949 - Chairman: P.C. Mahalanobis).

2. Understanding GDP (Gross Domestic Product)

- **Definition:** Total market value of all **final** goods and services produced within the **domestic territory** of a country during one accounting year.
- **Decoding the Term:**
    - **Gross:** Depreciation is *not* deducted.

- **Domestic:** Production inside economic boundaries (Nationality doesn't matter).
- **Product:** Only newly produced final goods/services counted.

- **What GDP Measures:** Production, Economic Activity, Size of Economy.
- **What GDP Does NOT Measure:** Happiness, Equality, Welfare, Environmental quality.

3. Domestic Territory vs. Political Territory

- **Domestic Territory (Economic Boundary):** Includes Political boundary + **Indian Embassies abroad** + **Indian Ships/Aircraft anywhere** + Offshore oil rigs + Territorial waters.
- **Excludes: Foreign Embassies located inside India** (e.g., US Embassy in Delhi is US territory).
- Domestic Territory is conceptually larger/different from Political Territory.

4. Normal Resident

- **Definition:** A person/institution whose **centre of economic interest** lies in the country for **one year or more**.
- *Rule:* **Residence ≠Citizenship**. (e.g., An American working in India for 5 years is an Indian Normal Resident; an Indian working in Dubai for 10 years is a UAE Normal Resident).

5. Inclusions & Exclusions in GDP

Included in GDP	Excluded from GDP
Final goods and services	Intermediate goods (to avoid double counting)
Production by foreign firms in India (e.g., Toyota in Karnataka)	Second-hand goods (no current production)
Factor payments (Wages, Rent, Interest, Profit)	**Transfer payments** (Pensions, Scholarships, PM-KISAN, Gifts)
Brokerage/Commission on second-hand sales	Pure financial transactions (Shares, Bonds, Lottery)
	Illegal/Underground economy activities

6. Base Year

India officially revised its Gross Domestic Product (GDP) base year from 2011-12 to 2022-23 to better reflect the economy's structural transformation, digitalization, and post-pandemic recovery.

This update reduced the nominal size of the economy by roughly 3% to 4%, which mathematically increased fiscal deficit and debt-to-GDP ratios.

India's Revised GDP Estimates and New Measurement Framework

1. OVERVIEW AND KEY HIGHLIGHTS

- **Real GDP Growth:** Estimated at 7.6% for FY 2025-26, accelerating from 7.1% in FY 2024-25.
- **Nominal GDP Growth:** Projected to grow by 8.6% in FY 2025-26.
- **Absolute GDP Size:** Revised downward by approximately 3–4%. This does not mean the economy shrank; it indicates a downward correction of earlier overestimations using better data and improved methodology.
- **Growth Rates:** Annual GDP growth rates remain broadly similar to the old series, varying by only plus or minus 1 percentage point.

2. CONCEPT OF BASE YEAR AND REBASING

- **Base Year Definition:** The reference year whose prices are used to calculate Real GDP (constant prices) in the National Accounts Statistics. It serves as the benchmark for measuring economic growth over time.
- **Rebasing:** The process of changing the reference year and recalculating GDP using latest prices, updated production structures, improved methodologies, better quality data, and new economic activities.

- **Frequency:** Normally revised every 5 to 10 years to account for structural changes, emergence of new industries, shifts in consumer preferences, and technological advancements.
- **Nodal Agency:** National Statistical Office (NSO) under the Ministry of Statistics and Programme Implementation (MoSPI).
- **Why 2022-23 was chosen:** A good base year must represent a normal economic year without major recessions, pandemics, wars, or abnormal shocks, and should have relatively stable inflation. 2022-23 represents the most recent normal economic period following the severe disruptions of the 2019-2021 pandemic.

3. TIMELINE OF GDP BASE YEAR REVISIONS IN INDIA

- 1948-49: First Official Series
- 1960-61: 1st Revision
- 1970-71: 2nd Revision
- 1980-81: 3rd Revision
- 1993-94: 4th Revision
- 1999-2000: 5th Revision
- 2004-05: 6th Revision
- 2011-12: 7th Revision
- 2022-23: Latest Revision (Released in 2026)

4. METHODOLOGY AND INTERNATIONAL STANDARDS

- **Compilation Method:** Follows the globally accepted Benchmark-Indicator methodology. Annual estimates act as benchmarks, which are then extrapolated using high-frequency monthly or quarterly indicators.
- **Global Standards:** India currently compiles GDP in line with the UN's System of National Accounts 2008 (SNA 2008) and the IMF’s Quarterly National Accounts Manual 2017.
- **Future Alignment:** India plans to migrate to the updated SNA 2025 guidelines during the next base year revision cycle (expected global adoption around 2029-30).

5. MAJOR NEW DATA SOURCES

The revised series significantly reduces dependence on proxy indicators by integrating real-time, granular administrative data:

- **Household Sector Measurement:** Shifted to deriving actual level estimates using the Annual Survey of Unincorporated Sector Enterprises (ASUSE) and the Periodic Labour Force Survey (PLFS).
- **GST Data:** Used systematically for allocating all-India private corporate sector estimates across states, cross-validation in annual accounts, and quarterly estimation in manufacturing and non-financial services.
- **e-Vahan Database:** Utilized to estimate Private Final Consumption Expenditure (PFCE) specifically related to road transport services.
- **Public Financial Management System (PFMS):** Used to compile central government accounts and distribute them across states, allowing the use of actual expenditure figures at the First Revised Estimates stage.
- **Recent Expert Studies:** Updated rates incorporated from studies by the Indian Grassland and Fodder Research Institute, Central Marine and Inland Fisheries Research Institutes, National Dairy Research Institute, and Jawaharlal Nehru University.

6. KEY METHODOLOGICAL IMPROVEMENTS

- **Double Deflation:** Introduced double deflation in manufacturing and agriculture, discontinuing single deflation. This provides a more accurate measurement of real value added.
- **Granular Price Indices:** Deflators are now applied at a highly granular level, incorporating over 260 item-level Consumer Price Index (CPI) indices instead of broad inflation measures.
- **Segregation of Multi-Activity Corporations:** Using MGT-7 and MGT-7A corporate filings (which report activity-wise turnover shares), value added is now distributed accurately across all business activities, rather than assigning it only to the principal activity.
- **Improved PFCE Estimation:** Adopts a mixed methodology combining the Household Consumer Expenditure Survey, direct estimation from production and administrative data, and the commodity flow approach. It also implements the updated international COICOP 2018 classification.
- **Inclusion of Hired Domestic Workers:** The services of paid domestic workers are now classified as "activities of households as employers of domestic personnel" and included in GDP.

- **Capturing the Digital, Platform, and Gig Economy:** Moving beyond just corporate MCA-21 filings, the new series includes unincorporated enterprises, self-employed individuals, and informal workers to accurately capture their contribution.
- **General Government Sector Adjustments:** Accounts for the rollout of the National Pension System (NPS) alongside the Old Pension Scheme (OPS). It also imputes the value of government-provided accommodation in place of House Rent Allowance (HRA).
- **Supply and Use Table (SUT) Framework:** The new series integrates the SUT framework using the "product-balancing" principle (ensuring total supply equals total use). This reconciles differences between production, income, and expenditure approaches, resolving statistical discrepancies.

7. KEY FINDINGS AND STRUCTURAL SHIFTS

- **Sectoral Share Changes:**
  - Agriculture: The share of the primary sector in GDP ***increased*** due to improved estimation methods and better coverage.
  - Industry: The overall industry share slightly ***increased.***
  - Manufacturing: The share of manufacturing in the overall economy increased marginally to **14.7%** (from 14.3% previously). However, the **absolute size** of the manufacturing sector actually ***declined*** because the overall GDP baseline became smaller.
  - Services: The services sector remains the largest contributor to GDP (approx. 55% in FY25), but its overall share declined slightly in the new series.
- **Institutional Sector Changes:**
  - **Private Corporate Sector**: The share declined from 35.4% to 33.9% for 2022-23. This corrects the previous overestimation of the corporate sector's contribution.
  - **Household and Informal Sector**: The share increased primarily driven by the better capture and estimation of the agricultural and informal economies.

8. IMF CONCERNS AND RESOLUTION

- **Previous Grading:** The IMF had previously graded India's National Accounts a 'C'.
- **Major Concerns Raised:** Old base year, weak GDP deflators, use of single deflation, statistical discrepancies between production and expenditure estimates, lack of seasonally adjusted GDP data, and methodological inconsistencies.

- **Resolution:** The 2022-23 revision was partly motivated by these concerns. The introduction of double deflation, the SUT framework, and better data sources directly address many of these methodological issues.

9. IMPACT ON MACROECONOMIC INDICATORS AND TARGETS

- **Effect on Ratios:** Because the absolute size of the GDP denominator has decreased, several key macroeconomic ratios are affected. These include the Debt-to-GDP ratio, Fiscal Deficit-to-GDP ratio, Tax-to-GDP ratio, Current Account Deficit-to-GDP ratio, Credit-to-GDP ratio, and Per Capita GDP.
- **Impact on National Targets:** The downward correction in the absolute economic size implies that national macroeconomic targets, such as the goal of attaining a $5 trillion economy, may now require more years to achieve due to the smaller baseline.

10. FUTURE REFORMS AND ROADMAP

- **Base Year Updates Across Indices:** GDP and Index of Industrial Production (IIP) are revised to 2022-23. CPI is revised to 2024. WPI revision is currently in progress.
- **Introduction of Producer Price Index (PPI):** MoSPI plans to incorporate the PPI in the near future to measure the rate of change in prices of goods and services bought and sold directly by producers.
- **Back-Series Data:** Expected to be released by December 2026. The historical GDP will be recalculated using the new methodology and linked back to 1950-51.
- **Transparency:** MoSPI will release a detailed 'Sources and Methods' publication explaining the exact methodology and data sources used in the compilation of the new estimates.

11. IMPORTANT CONCEPTS AND CLARIFICATIONS

- **GDP vs. GVA:** GDP measures the economy from the expenditure side and includes net product taxes (GVA + Product Taxes - Product Subsidies = GDP). GVA measures the economy from the production side and is generally preferred by economists for analyzing sector-wise production performance.
- **What GDP Rebasing DOES NOT Mean:** Rebasing does not mean the economy actually shrank, citizens became poorer overnight, production suddenly decreased, or growth collapsed. It simply means the economy is now being measured more accurately using improved data and methods.
- **Structural Transformation:** In FY 2024-25, the approximate share of the Primary Sector in nominal GDP is 19.7%, the Secondary Sector is 25.3%, and the Tertiary Sector is 55.0%. The

GDP, NDP, GNP, NNP, National Income & Disposable Income

1. UNDERSTANDING THE FLOW OF NATIONAL INCOME

The journey from total production to the money actually available in a household's pocket follows a specific sequence.

The Sequence: GDP (+ NFIA) ➔ **GNP** ➔ (- Depreciation) ➔ **NNP** ➔ (- Net Indirect Taxes) ➔ **National Income** ➔ (Adjust for Corporate Taxes, Undistributed Profits, Transfer Payments) **Personal Income** ➔ (- Personal Taxes) **Personal Disposable Income (PDI)**

2. CORE CONCEPTS: GROSS vs. NET & DOMESTIC vs. NATIONAL

A. Gross vs. Net (The Depreciation Factor)

- **Gross:** Means **Depreciation is NOT deducted**. (Represents the economy *before* accounting for wear and tear).
  - *Examples:* GDP, GNP, Gross Investment.
- **Net:** Means **Depreciation HAS been deducted**. (Represents the economy *after* accounting for wear and tear).

- *Paid Abroad:* Profit earned by Samsung in India, salary paid to foreign experts in India.

- **Interpretation:**
  - **Positive NFIA:** Residents earn more abroad than foreigners earn domestically (GNP > GDP).
  - **Negative NFIA:** Foreigners earn more domestically (GDP > GNP). *Common in developing nations with high FDI.*
  - **Zero NFIA:** GDP = GNP.

Net National Product (NNP)

- **Definition:** GNP after deducting depreciation.
- **Formula: NNP = GNP – Depreciation**

National Income (NI)

- **Definition:** The total factor income earned by the normal residents during one year. It is strictly **NNP at Factor Cost**.
- **Formula: National Income = NNP at Market Price – Net Indirect Taxes (NIT)**
- **Net Indirect Taxes (NIT): Indirect Taxes (GST, Excise, Customs) – Subsidies (Fertilizer, LPG, Food)**.
- *Why subtract NIT?* Indirect taxes go to the government, not the factors of production. National Income measures *only* factor incomes (Wages, Rent, Interest, Profit).

4. INCOME FROM THE PERSPECTIVE OF INDIVIDUALS

Private Income

- **Definition:** Total income received by the private sector (households + private enterprises) from all sources.
- **Includes:** Factor Income, Transfer Payments, Income from Abroad, Interest on National Debt.
- *Note:* Private Income is generally greater than National Income because it includes transfer incomes.

Personal Income (PI)

- **Definition:** The income **actually received by households**.
- **Formula: PI = National Income – Undistributed Profits – Corporate Tax – Social Security Contributions + Transfer Payments**
  - *Deducted:* Undistributed Profits (Retained earnings/reserves), Corporate Tax (goes to govt), Social Security Contributions.
  - *Added:* Transfer Payments (Scholarships, Old Age Pension, PM-KISAN, Gifts) because households actually receive them.

Personal Disposable Income (PDI)

- **Definition:** The income **actually available** for households to spend or save after paying personal taxes.
- **Formula: PDI = Personal Income – Personal Taxes (Income Tax) – Non-Tax Payments (Fines, Penalties)**
- **Ultimate Use:** Households use PDI for **Consumption (C) + Saving (S)**.
- *Formula:* **PDI = C + S** *(Highly tested concept)*

5. NATIONAL DISPOSABLE INCOME (NDI)

- **Definition:** The maximum income available to the entire nation for consumption and saving.
- **Formula: NDI = NNP at Market Price + Net Current Transfers from Abroad**
- *Examples of Current Transfers:* Foreign Aid, Gifts, Remittances (current transfers, not factor income), International Relief.

Differences

A. Factor Income vs. Transfer Income

Feature	Factor Income	Transfer Income
Nature	Payment for productive services	Received without any production
Inclusion	Included in National Income	Excluded from National Income
Examples	Salary, Rent, Interest, Profit	Pension, Scholarship, Gift, PM-KISAN

METHODS OF GDP CALCULATION & PRICE CONCEPTS

1. Three Methods of GDP Calculation

Theoretically, all three methods yield the same GDP because: **Production = Income = Expenditure**.

A. Product Method (Value Added Method)

- **Concept:** Adds the value added at each stage of production to avoid **double counting**.
- **Formula: Value Added = Value of Output - Intermediate Consumption**.
- *Example:* Farmer (₹100) →Miller (₹180) →Baker (₹250). GDP = 100 + 80 + 70 = ₹250.

Formula for Value added method –

Gross Value Added at MP = Value of Output – Intermediate Consumption

NNP at FC (National Income) = GVA at MP – Depreciation – Indirect taxes + Subsidies + Net factor Income from Abroad.

B. Income Method

- **Concept:** Sums all factor incomes earned during production.
- **Formula: GDP = Wages + Rent + Interest + Profit + Mixed Income**.
- *Note:* Mixed Income is for self-employed (doctors, farmers) where labour and capital income cannot be separated. Transfer incomes are excluded.

NDP at FC = Compensation of Employees in Kind or Cash + Interest + Profits + Rent + Mixed Income of Self Employed.

C. Expenditure Method

- **Concept:** Sums total final spending in the economy.
- **Formula: GDP = C + I + G + (X - M)**
  - **C:** Household Consumption
  - **I:** Investment (Capital goods, *not* shares/gold)

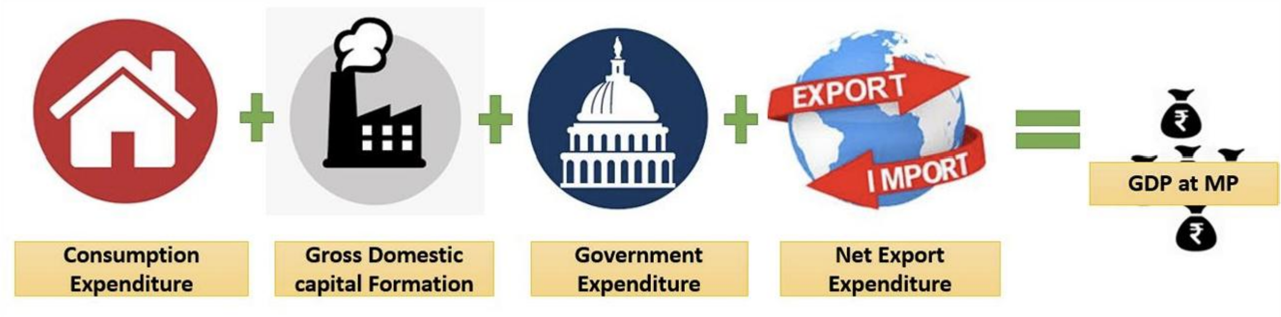
  - **G:** Govt. Final Consumption Expenditure
  - **X - M:** Net Exports (Exports minus Imports)

- *Why subtract Imports?* Because C, I, and G include spending on imported goods, which were not produced domestically.

The expenditure method arrives at domestic income by adding up all expenditures made on goods and services produced in the domestic territory during a year.

GDP at MP = Private Final Consumption Expenditure (C) + Government Final Consumption Expenditure (G) + Gross Domestic Capital Formation (I) + Net Exports (NX).

GDP at MP = C + G + I + NX or GDP at MP = C + G+ I + (X-M) NX = Exports (X) – Imports (M)



From Domestic Income, GDP at MP we can derive National Income (NNP at FC)

NNP at FC (National Income) = GDP at MP – Depreciation – Indirect taxes + Subsidies + Net factor Income from Abroad

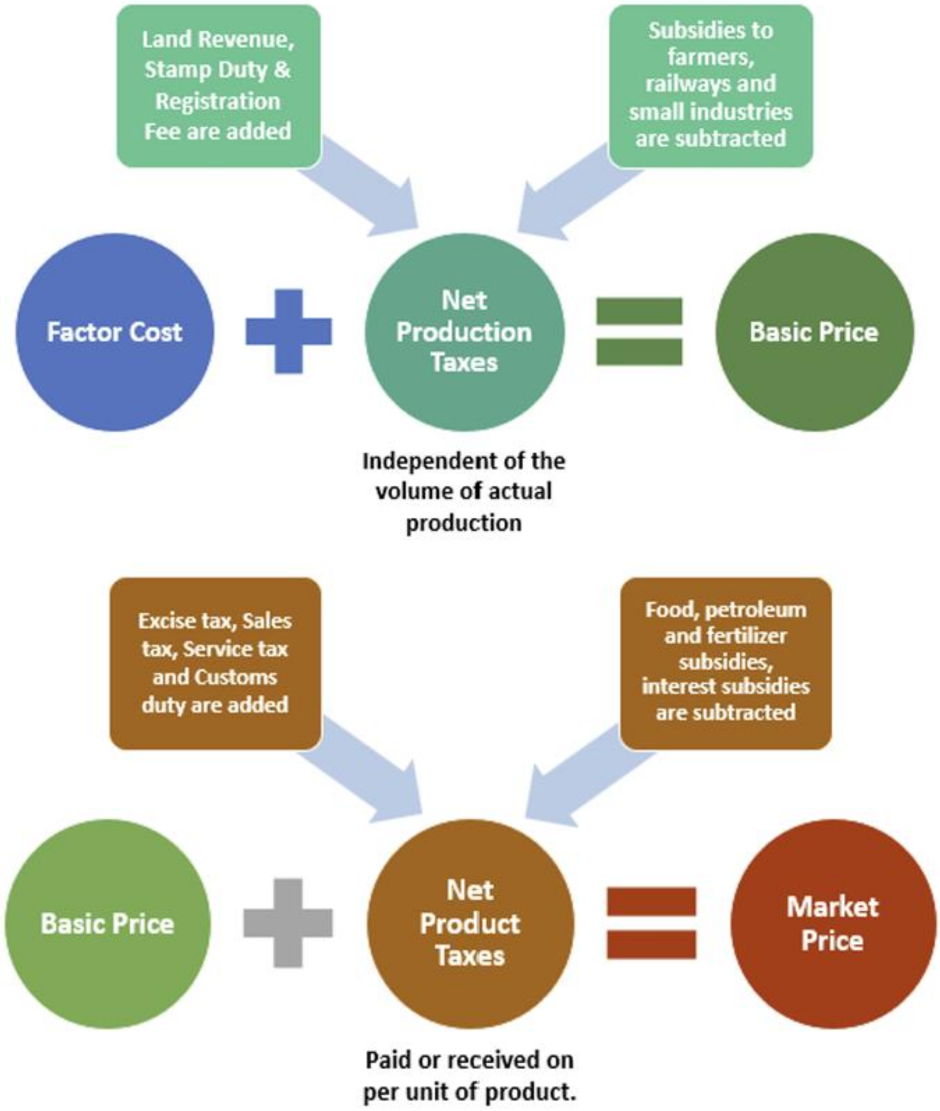
2. GVA vs. GDP

- **GVA (Gross Value Added):** Measures the economy from the **Production side**. Shows sectoral contribution (Agri, Industry, Services).
- **GDP:** Measures the economy from the **Expenditure side**.
- **Formula: GDP = GVA + Product Taxes - Product Subsidies**.
- *Shift in Focus:* India now emphasizes GVA at Basic Prices to better reflect actual production without indirect tax distortions.

3. Price Concepts: Factor Cost, Basic Price, Market Price

Understanding the flow of prices and taxes is very important..

- **Production Taxes/Subsidies:** Applied irrespective of the volume of production (e.g., property tax on a factory, payroll taxes). They alter the Basic Price but do not directly change the final Market Price.



GDP Deflator

The GDP deflator, also called implicit price deflator, is a measure of inflation. It is the ratio of the value of goods and services an economy produces in a particular year at current prices to that of prices that prevailed during the base year.

This ratio helps show the extent to which the increase in gross domestic product has happened on account of higher prices rather than an increase in output. Since the deflator covers the entire range of goods and services produced in the economy — as against the limited commodity baskets for the wholesale or consumer price indices — it is seen as a more comprehensive measure of inflation.

GDP price deflator: **GDP price deflator = (nominal GDP ÷ real GDP) x 100**

Key Concepts:

- **Intermediate Consumption:** Goods and services used up in the production process (e.g., flour used by a bakery). These are excluded from GDP to avoid double-counting.
- **Depreciation:** The reduction in the value of capital assets over time due to use and obsolescence. It is subtracted from Gross measures to arrive at Net measures.

• **GNP = GDP + NFIA**
• **NNP = GNP – Depreciation**
• **National Income (NI) = NNP at Market Price – Net Indirect Taxes = NNP at Factor Cost**
• **Personal Income = NI – Corporate Tax – Undistributed Profits – Social Security Contributions + Transfer Payments**
• **Personal Disposable Income = Personal Income – Personal Taxes – Non-Tax Payments**
• **PDI = Consumption + Savings**

National Income Aggregates

Aggregate	Simple Meaning	Formula
GDP at Market Price (GDPMP)	Total value of all **final goods and services** produced **within India's domestic territory** in one year at **market prices** (price paid by consumers). Includes production by both Indian and foreign companies operating in India.	**GDPMP = C + I + G + (X – M)**
GDP at Factor Cost (GDPFC)	GDP measured at the **income received by factors of production** (wages, rent, interest, profit). It excludes net indirect taxes.	**GDPFC = GDPMP – Net Indirect Taxes (NIT)**
Net Domestic Product at Market Price (NDPMP)	GDP after deducting **depreciation (wear and tear of capital assets)**. Shows the net value of production within India.	**NDPMP = GDPMP – Depreciation**
Net Domestic Product at Factor Cost (NDPFC)	Net income earned by factors of production **within India's domestic territory** after deducting depreciation and net indirect taxes.	**NDPFC = NDPMP – Net Indirect Taxes (NIT)**
Gross National Product at Market Price (GNPMP)	Total value of final goods and services produced by **India's normal residents**, whether in India or abroad, at market prices.	**GNPMP = GDPMP + NFIA**
Gross National Product at Factor Cost (GNPFC)	GNP measured at **factor cost** (income earned by factors of production).	**GNPFC = GNPMP – Net Indirect Taxes (NIT)**
Net National Product at Market Price (NNPMP)	GNP after deducting depreciation. It represents the net value of production by India's residents.	**NNPMP = GNPMP – Depreciation** **OR** **NNPMP = NDPMP + NFIA**
Net National Product at Factor Cost (NNPFC) / National Income (NI)	Total **factor income** (wages, rent, interest and profit) earned by India's normal residents during a year.	**NI = NNPMP – Net Indirect Taxes (NIT)** **OR**

C. SECTORS OF THE INDIAN ECONOMY

1. Classification of Economic Sectors

The economy is classified into various sectors to systematically study economic activities, measure GDP, frame policies, and analyze structural changes.

Based on Nature of Activity: Primary, Secondary, Tertiary, Quaternary, and Quinary Sectors. **Based on Ownership:** Public Sector and Private Sector. **Based on Employment Conditions:** Organised Sector and Unorganised Sector. **Based on Registration:** Formal Sector and Informal Sector. **Based on Economic Function:** Real Sector and Financial Sector.

2. Structural Transformation of the Indian Economy

Definition: Structural transformation refers to the gradual shift of economic activity and employment from the Primary Sector to the Secondary Sector, and finally to the Tertiary Sector during economic development.

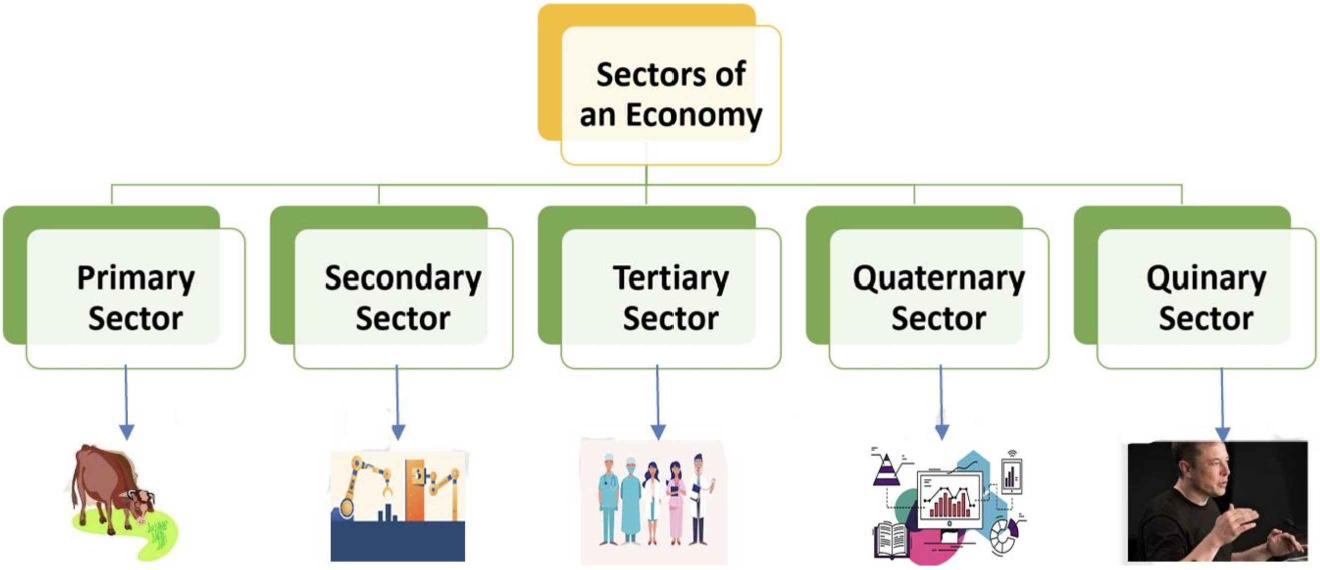
Typical Development Pattern: Agriculture →Manufacturing →Services.

India's Unique Pattern (Service-Led Growth): India skipped the massive intermediate industrialization phase and shifted directly from an agriculture-dominated economy to a service-dominated economy.

- **Reasons:** Strong IT sector, large English-speaking workforce, 1991 economic liberalisation, global outsourcing boom, and the telecommunications revolution.
- **Challenges:** Manufacturing employment remains low, agriculture still employs a massive workforce leading to disguised unemployment, and there are significant regional and rural-urban disparities.

Key Economic Models:

- **Lewis Dual Economy Model:** Propounded by W. Arthur Lewis, it explains the transfer of surplus labour from traditional, low-productivity agriculture to modern, high-productivity industry. In India, this transformation is incomplete because a large labour force remains stuck in agriculture.
- **Kuznets Structural Change:** Propounded by Simon Kuznets, it states that economic development causes the agriculture share to decline, industry to increase, and services to dominate later, accompanied by rising urbanisation and per capita income.



Primary Sector (Extraction & Production)

Definition: Economic activities directly dependent on and extracting natural resources from the Earth.

Activities Included: Agriculture, animal husbandry, dairy, fishing, forestry, mining, horticulture, apiculture, sericulture, floriculture, aquaculture, and plantation.

Characteristics: Nature-dependent, lowest labour productivity, seasonal, labour-intensive, rural-based, high disguised unemployment, and income uncertainty.

Contribution to the Economy (FY 2024-25):

- **GDP Share:** Approximately 19.7% of Nominal GDP.
- **Employment:** Engages more than 40% of the total workforce.
- **Implication:** The massive gap between its GDP share and employment share indicates low labour productivity and disguised unemployment in agriculture.

Allied Activities: Dairy (the largest allied activity), poultry, sheep/goat rearing, fisheries, and beekeeping. These are crucial for supplementing farmers' incomes and reducing dependence on monsoon-dependent crop cultivation.

Emerging Concepts:

- **Blue Economy:** Sustainable use of ocean resources for economic growth (fishing, ports, shipping, marine biotechnology, offshore energy).

- **Green Economy:** Economic development with low carbon emissions, resource efficiency, and environmental sustainability (e.g., agroforestry, climate-resilient farming).

Secondary Sector (Manufacturing & Industry)

Definition: Economic activities that convert raw materials obtained from the primary sector into finished or semi-finished products through manufacturing, processing, and construction.

Activities Included: Manufacturing, construction, electricity, gas and water supply, food processing, automobile production, and chemical engineering.

Contribution to the Economy (FY 2024-25):

- **GDP Share:** Approximately 25.3% of Nominal GDP.
- **Growth Rate:** 6.1% (y-o-y) in real GVA.

Types of Manufacturing:

- **Labour-Intensive:** Require more workers and less capital (e.g., Textiles, leather, garments, food processing). Highly suitable for India's demographic profile.
- **Capital-Intensive:** Require heavy investment and advanced technology (e.g., Steel, petroleum refining, heavy engineering). High productivity but lower employment generation.

Micro, Small, and Medium Enterprises (MSMEs): Revised classification based on Investment and Annual Turnover:

- **Micro:** Investment up to ₹2.5 crore; Turnover up to ₹10 crore.
- **Small:** Investment up to ₹25 crore; Turnover up to ₹100 crore.
- **Medium:** Investment up to ₹125 crore; Turnover up to ₹500 crore.

Key Government Initiatives:

- **Make in India (2014):** To transform India into a global manufacturing hub.
- **Production Linked Incentive (PLI) Scheme (2020):** Provides financial incentives based on *incremental production* to boost manufacturing, exports, and import substitution.
- **Industrial Corridors:** Integrated industrial regions connected by high-quality transport infrastructure (e.g., Delhi-Mumbai, Chennai-Bengaluru, Visakhapatnam-Chennai).

- **Industry 4.0:** The fourth industrial revolution involving AI, IoT, Robotics, Big Data, and 3D Printing for smart manufacturing.
- **Circular Economy:** An economic system based on Reduce, Reuse, Recycle, Recover, Repair, and Refurbish to minimize waste and maximize resource efficiency.

Tertiary Sector (Services)

Definition: Activities that provide intangible services rather than producing tangible goods. It supports both the primary and secondary sectors by facilitating production, trade, and communication.

Activities Included: Banking, insurance, IT, transport, communication, tourism, healthcare, education, retail, real estate, and logistics.

Contribution to the Economy (FY 2024-25):

- **GDP Share:** Approximately 55.0% of Nominal GDP. It is the largest and fastest-growing sector of the Indian economy.

Why did the Service Sector grow so rapidly in India?

- Economic liberalisation in 1991.
- The IT and telecommunications revolution.
- A large, skilled, English-speaking workforce.
- Globalisation and the outsourcing boom.
- Rapid expansion of the digital economy.

Quaternary and Quinary Sectors

As the knowledge economy expanded, the tertiary sector was further sub-divided.

Quaternary Sector (Knowledge & Information):

- Involves intellectual activities, knowledge creation, and innovation.
- **Activities:** Research and Development (R&D), Artificial Intelligence, data analytics, software development, biotechnology, consultancy, and think tanks.

Quinary Sector (Decision-Making & Leadership):

D. SECTORAL DISTRIBUTION OF INCOME IN INDIA

Introduction and Importance

Sectoral Distribution of Income refers to the percentage contribution of different sectors of the economy to India's Nominal GDP or Gross Value Added (GVA). It provides a clear picture of which sector contributes how much to the national economy.

Understanding this distribution is crucial for analyzing the structure of the Indian economy, assessing the level of economic development, identifying growth patterns, measuring sector-wise productivity, tracking structural transformation, and formulating policy priorities and investment strategies.

The Production Approach (Supply Side)

National income can be measured using the Production Approach, which is also known as the Supply Side of the economy. Under this approach, GDP is estimated by adding the value produced by the three main sectors: Agriculture, Industry, and Services.

Sectoral Contribution to GDP (FY26 First Advance Estimates)

According to the First Advance Estimates for FY26 released by MoSPI, the sectoral contribution to India's Nominal GDP is as follows:

- Services Sector: 51.1% (Largest Contributor)
- Industry Sector: 24.3% (Second Largest)
- Agriculture, Livestock, Forestry & Fishing: 15.2% (Third Largest)

Detailed Breakdown of the Primary Sector

The Primary Sector contributes 15.2% to India's Nominal GDP. Its share has declined from 16.3% in FY25 to 15.2% in FY26, primarily due to the faster growth of the industry and services sectors, reflecting structural transformation rather than a shrinkage in absolute agricultural output.

The sector comprises the following components:

- Agriculture: Provides food security, raw materials, and rural employment. It remains the largest employer in India.
- Livestock: Includes dairy, poultry, sheep, goat, and piggery. It is one of the fastest-growing and most stable components of agriculture.
- Forestry: Includes timber, fuelwood, bamboo, and minor forest produce. It supports biodiversity and tribal livelihoods.

PRACTICE MCQ

Consider the following statements regarding the sectoral contribution to India's GDP (FY26 First Advance Estimates):

1. Services contribute more than 50% of India's Nominal GDP.
2. Manufacturing contributes a larger share than construction.
3. Mining contributes less than 2% of GDP.

Which of the statements given above are correct?

A. 1 only

B. 1 and 2 only

C. 2 and 3 only

D. 1, 2 and 3

Answer: D

Explanation: According to the FY26 First Advance Estimates, the Services sector contributes 51.1% to the Nominal GDP. Within the Industry sector, Manufacturing contributes 12.8%, which is higher than Construction at 7.8%. Mining and Quarrying contribute 1.4%, which is indeed less than 2%. Therefore, all three statements are correct.

E. ECONOMIC GROWTH, DEVELOPMENT, AND ECONOMIC SYSTEMS

1. Conceptual Framework: Growth vs. Development

Sources of Economic Growth

Economic growth is achieved by increasing the economy's capacity to produce goods and services, primarily indicated by the growth rate of production. It is driven by:

- Increase in the quantity and quality of factors of production (land, labor, capital).
- Capital formation and investment within the country.
- Technological progress and innovation.
- *Note :* Global technical progress or trade volume growth does not necessarily guarantee domestic economic growth unless there is domestic capital formation.

Concept of Economic Development

Economic development is a broader, multidimensional concept that encompasses both quantitative and qualitative changes. It is defined as the enlargement of the range of people's choices and the expansion of their entitlements and capabilities.

- **Focus Areas:** Health, education, employment, safety, environmental sustainability, social inclusion, gender empowerment, and infrastructure.
- **Amartya Sen's Capability Approach:** Development consists of the removal of various types of unfreedoms that leave people with little choice and little opportunity. These unfreedoms include poverty, tyranny, poor economic opportunities, systematic social deprivation, neglect of public facilities, and intolerance.
- **Prerequisite:** Economic growth is a necessary prerequisite for economic development, but growth alone does not guarantee development (e.g., if poverty and unemployment increase alongside GDP growth, it is not considered development).

Key Differences Between Growth and Development

- **Scope:** Economic growth is a narrow, single-dimensional concept focusing solely on the increase in real GDP, per capita income, and production. Economic development is a multidimensional phenomenon focusing on income growth alongside the improvement of living standards and human capabilities.

F. ECONOMIC PLANNING IN INDIA

1. Introduction to Economic Planning

Following nearly two centuries of British colonial rule, India gained independence in 1947 facing severe challenges like mass poverty, food shortages, inflation, illiteracy, and a lack of infrastructure. To address these deep-rooted issues as a long-term strategy, the Indian government adopted 'Economic Planning'.

The Process of Planning Economic planning involves a systematic process to achieve desired developmental goals:

- **Identification and Prioritization:** Listing the problems facing the economy and prioritizing them based on urgency (short-term vs. long-term).
- **Target Setting:** Fixing specific, measurable targets to achieve the desired goals within a defined timeframe.
- **Resource Estimation:** Calculating the financial, human, and physical resources required to achieve the targets.
- **Resource Mobilization:** Identifying sources to arrange the required funds (budgeting) and estimating the manpower needed for execution.
- **Implementation and Review:** Executing the plan in an organized manner and conducting periodic reviews to rectify mistakes and accommodate changes until the final goal is realized.

2. Economic Planning Before Independence

Even before independence, several economic plans were drafted by prominent leaders and economists to highlight colonial exploitation and propose alternative development models.

- **Dadabhai Naoroji:** Published "Poverty and Un-British Rule in India," presenting the first authentic economic study of British India. He propounded the "Drain Theory," estimating that Britain was draining 200-300 million pounds of India's revenue, which led to the formation of the Royal Commission on Indian Expenditure in 1896.
- **Bombay Plan (1944):** Drafted by eight prominent industrialists, including JRD Tata and GD Birla. It envisaged doubling the per capita income and tripling the national income within 15 years. Though not officially accepted by Jawaharlal Nehru, many of its ideas influenced subsequent state plans.

Third Five-Year Plan	**1961–66**	**5.6%**	**2.8%**	Self-Reliance Strategy	Agriculture, Self-Reliance, Self-Sustained Growth	Aimed to make India a **self-reliant and self-generating economy**. Failed due to **1962 Sino-India War, 1965 Indo-Pak War and 1965–66 drought**. Shifted focus to defence.
Three Annual Plans (Plan Holiday)	**1966–69**	—	—	Plan Holiday	Agriculture, Green Revolution	Introduced due to failure of Third Plan, inflation, devaluation of the rupee and economic crisis. Marked the beginning of the **Green Revolution** with HYV seeds, fertilizers and irrigation. Helped stabilize the economy.
Fourth Five-Year Plan	**1969–74**	**5.7%**	**3.3%**	Growth with Stability & Self-Reliance	Agriculture, Family Planning, Self-Reliance	Main objective: **Growth with Stability** and **Progressive Achievement of Self-Reliance**. Faced poor monsoons, inflation, Bangladesh refugee crisis and 1971 war. Considered largely unsuccessful.
Fifth Five-Year Plan	**1974–79**	**4.4%**	**4.8%**	Garibi Hatao	Poverty Removal & Self-Reliance	Prepared by **D.P. Dhar**. Main objectives: **Garibi Hatao (Removal of Poverty)** and **Self-Reliance**. During the Emergency, emphasis shifted to the **20-Point Programme**. Terminated early in 1978 by the Janata Government.
Rolling Plan	**1978–80**	—	—	Rolling Plan	Employment-Oriented Growth	Introduced by the **Janata Government**.

						Proposed annual revision of targets instead of fixed five-year plans. Replaced after the Congress returned to power in 1980.
Sixth Five-Year Plan	**1980–85**	**5.2%**	**5.7%**	Poverty Alleviation & Modernisation	Technology, Employment, Poverty Reduction	Focused on increasing national income, modernisation, poverty reduction and employment. Important programmes included **IRDP**, **TRYSEM** and **NREP**. Generally considered successful.
Seventh Five-Year Plan	**1985–90**	**5.0%**	**6.0%**	Food, Work & Productivity	Employment, Food Security, Productivity	Main theme: **Food, Work and Productivity**. Aimed at increasing foodgrain production, employment and productivity. Recorded one of the highest growth rates before economic reforms, helping India move beyond the "Hindu Rate of Growth."

The Situation of Indian Economy till 1990.

India had experienced 40 years of planned development

A strong industrial base was set up India had become self-sufficient in the production of food

But still, a major segment of the population continued to depend on agriculture for its livelihood After the Seventh plan, the Eighth plan could not happen.

Let’s understand the situation of the economy between the Seventh and Eighth plan.

- **Low Forex Reserves:** Sufficient for only about **two weeks** of imports.

External Reasons:

- **Gulf War (1990–91):** Oil prices surged, increasing the import bill and inflation.
- **Collapse of Soviet Union:** India lost a major trading partner and the Rupee Trade mechanism.
- **Decline in Remittances:** Indians returned from Gulf countries.
- **Credit Rating Downgrade:** International agencies reduced confidence, making external borrowing difficult.

2. The Balance of Payments (BoP) Crisis, 1991

- **Definition:** A situation where a country cannot meet its international payment obligations due to a shortage of foreign exchange.
- **Gold Pledging (1991):** To obtain emergency forex, India pledged about **67 tonnes of gold** to foreign banks (including the Bank of England and Union Bank of Switzerland).
- **IMF & World Bank Assistance:** India approached the IMF for a bailout linked to economic reform conditions. The World Bank supported structural adjustment, infrastructure, and policy reforms.

3. Stabilization vs. Structural Adjustment Programme (SAP)

Feature	Stabilization Programme	Structural Adjustment Programme (SAP)
Nature	Short-term measures	Long-term measures
Focus	Reduce inflation, control fiscal deficit, increase forex, macroeconomic stability	Improve efficiency, liberalization, privatization, structural reforms

4. New Economic Policy (NEP), 1991

- **Announced: 24 July 1991**
- **Prime Minister:** P. V. Narasimha Rao
- **Finance Minister:** Dr. Manmohan Singh
- **Three Pillars:** Liberalization, Privatization, Globalization (LPG).

Category	Autonomy Level	Key Features & Examples
Maharatna	Highest	Major investment decisions without govt approval. *Examples: ONGC, IOC, NTPC, SAIL, Coal India, BHEL, GAIL, Power Grid.*
Navratna	Medium	Greater operational freedom. *Examples: BEL, CONCOR, HAL, NALCO, NMDC, REC, RITES.*
Miniratna	Limited	Smaller profit-making CPSEs (Category-I & II) with financial autonomy.

5. Advanced Privatization Concepts

- **Corporatization:** Converting a Govt Department into a Govt Company (Ownership remains with Govt, management becomes corporate). *Example: Ordnance Factory Board.*
- **Commercialization:** Running Govt enterprises on commercial principles for profit and efficiency.
- **Asset Monetization:** Leasing existing brownfield public assets (Roads, Railways, Airports) to earn revenue **without selling ownership**.
- **National Monetisation Pipeline (NMP):** Launched in **2021** to mobilize resources using existing infrastructure assets.

6. Public-Private Partnership (PPP) Models

Model	Full Form	Ownership During Concession	Finance	Transfer at End?
BOT	Build-Operate-Transfer	Private	Private	Yes
BOOT	Build-Own-Operate-Transfer	Private	Private	Yes
BOO	Build-Own-Operate	Private	Private	No
DBFOT	Design-Build-Finance-Operate-Transfer	Private	Private	Yes
HAM	Hybrid Annuity Model	Shared	Shared (40% Govt / 60% Private)	Yes
EPC	Engineering-Procurement-Construction	Government	Government	Not Applicable

G. ECONOMIC PLANNING IN INDIA AFTER 1991

Five-Year Plans in India (1992–2017)

Plan	Period	Target Growth	Actual Growth	Theme / Objective	Major Focus	Outcome / Important Facts
Eighth Five-Year Plan	**1992–97**	**5.6%**	**6.8%**	Economic Reforms & Human Development	Liberalization, Privatization, Globalization (LPG), Human Resource Development	First plan after the **1991 Economic Reforms** under **P. V. Narasimha Rao**. Introduced fiscal and economic reforms. Recorded the **highest growth rate (6.8%)** among plans up to that time. Agriculture, manufacturing, exports and foreign investment performed well. Public sector share in total investment declined to about **34%**, reflecting increased private sector participation.
Ninth Five-	**1997–2002**	**6.5%**	**5.4%**	**Growth with Social**	Agriculture, Rural Development,	Prepared under the **United Front Government**.

H. FISCAL DECENTRALISATION IN INDIA

1. Concept and Meaning of Fiscal Decentralisation

Fiscal Decentralisation refers to the transfer of financial powers, functions, and responsibilities from the Union Government to States, and from States to Local Governments. It is the assignment of **Revenue Powers** and **Expenditure Responsibilities** to sub-national governments.

- **Simple Mantra:** "*Money follows Functions.*" Whenever administrative powers are transferred, financial resources must also be transferred to perform those functions.
- **World Bank Definition:** The assignment of revenue powers and expenditure responsibilities to sub-national governments.
- **M.A. Oommen:** Means the "Fiscal Empowerment" of Local Governments.
- **N. Feruglio:** Transfer of decision-making power regarding revenue and expenditure to lower governments.

Why is it Needed?

The Central Government cannot understand every local problem. Local Governments know local needs, priorities, and resources. Hence, to ensure effective grassroots democracy and inclusive development, funds must be decentralized alongside functions.

Dimensions of Importance

- **Economic:** Better resource allocation, efficient public spending, reduced leakages, and improved productivity.
- **Political:** Strong local democracy, enhanced citizen participation, and local accountability.
- **Administrative:** Faster decision-making, reduced bureaucracy, and better monitoring.
- **Social:** Targeted poverty reduction, better education/health outcomes, and balanced rural development.

2. The "Three Fs" of Decentralisation

For decentralisation to be successful, the devolution of the **3 Fs** must occur simultaneously:

1. **Functions:** Transfer of administrative duties (e.g., primary health, local roads).
2. **Functionaries:** Transfer of staff and personnel to execute those duties.

User Charges (Fees)

- Collected for specific services: Water supply, parking, markets, street lights, sanitation, solid waste management, building plan approvals.

Inter-Governmental Transfers

- **From Union →State →Local Bodies.**
- Includes: Tax devolution (via Finance Commissions), Statutory Grants, Centrally Sponsored Schemes (CSS).

Capital Finance

- Includes: Loans, issuance of **Municipal Bonds**, sale of assets, and borrowings from the state/market.

Breakdown: PRIs vs. ULBs

Feature	Panchayati Raj Institutions (PRIs)	Urban Local Bodies (ULBs)
Tax Revenue	Land revenue, local taxes, fees from markets/ponds/fisheries.	Property tax, profession tax, entertainment tax, advertisement tax, water tax.
Non-Tax	Income from Common Property Resources (CPR), village assets.	License fees, parking fees, market fees, rent from municipal properties.
Grants	State Finance Commission grants, Central Finance Commission grants.	State grants, Central Finance Commission grants, JNNURM/AMRUT tied grants.
Borrowings	Limited; mostly state loans.	**Municipal Bonds** (e.g., Pune, Hyderabad, Indore have issued them).

5. Institutional Mechanisms: SFC vs. CFC

Feature	State Finance Commission (SFC)	Central Finance Commission (CFC)
Constitutional Article	**Article 243-I** (PRIs) & **243-Y** (ULBs)	**Article 280**
Appointed By	**Governor** of the State	**President** of India
Frequency	Every **5 Years**	Every **5 Years**
Primary Focus	Distribution of **State Taxes** and grants to **Local Bodies**.	Distribution of **Union Taxes** between Centre and States; augmenting State funds for Local Bodies (Art 280(3)(bb)).
Nature	Intra-State Fiscal Federalism	Inter-State & Centre-State Fiscal Federalism

I. NITI AAYOG

1. Introduction and Genesis

- **Full Form:** National Institution for Transforming India.
- **Established:** 1 January 2015.
- **Established By:** Union Cabinet Resolution (Not by an Act of Parliament or Constitutional Amendment).
- **Replaced:** The Planning Commission (which functioned from 1950 to 2014).
- **Nature:** Non-Constitutional, Non-Statutory Executive Body and Premier Policy Think Tank of the Government of India.
- **Headquarters:** New Delhi.

Why was the Planning Commission Replaced?

After nearly 65 years of planned development, the Planning Commission became unsuitable for a rapidly changing, market-oriented economy due to:

- **Centralized & Top-Down Approach:** "One-size-fits-all" policies that ignored regional disparities.
- **Weak State Participation:** States were treated as implementers rather than equal partners.
- **Fund Allocation Powers:** Created financial dependency and lacked focus on pure policy research.
- **Post-1991 Realities:** The LPG reforms, globalization, coalition politics, fiscal federalism, and the digital economy required a flexible, dynamic institution.

2. Vision, Mission, and Guiding Principles

- **Vision:** To build a "New India" through cooperative federalism, sustainable development, innovation, inclusive growth, and evidence-based policy.
- **Mission:** Foster cooperative and competitive federalism, accelerate economic growth, improve governance, promote innovation, and strengthen state capacity.
- **Guiding Principles:** Bottom-up planning, people-centric development, transparency, technology-driven governance, and sustainable development.

- **Competitive Federalism:** States competing with each other to improve governance, attract investment, and improve the Ease of Doing Business.
- **Bottom-Up Planning:** Planning originates at the grassroots level (Village →Block →District →State →Nation) rather than being dictated from Delhi.

6. Major Flagship Initiatives & Programmes

A. Aspirational Districts Programme (ADP)

- **Launched:** January 2018.
- **Objective:** To rapidly transform 112 of India's most backward districts into fast-developing ones.
- **Motto:** "Sabka Saath, Sabka Vikas" via Convergence, Collaboration, and Competition.
- **Core Strategy:**
    - *Convergence* of Central/State schemes.
    - *Collaboration* between Centre, State, and District officials.
    - *Competition* via **Delta Ranking**.
- **Delta Ranking :** Districts are ranked based on **incremental improvement** (progress over time), NOT absolute performance.
- **Five Themes:** Health & Nutrition, Education, Agriculture & Water Resources, Financial Inclusion & Skill Development, Basic Infrastructure.
- **Aspirational Blocks Programme (ABP):** Launched in **2023** to focus on the development of backward blocks within districts.

B. Atal Innovation Mission (AIM)

- **Launched:** 2016.
- **Objective:** Promote innovation, entrepreneurship, and scientific temper.
- **Components:**
    - **Atal Tinkering Labs (ATL):** Established in **Schools** (Grades VI-XII) to foster curiosity in robotics, AI, IoT, and 3D printing.
    - **Atal Incubation Centres (AIC):** Established in **Universities and Institutions** to support startups.

2. Money, Banking, Public Finance and Foreign Trade

A. MONEY AND BANKING IN INDIA

1. Evolution of Money: Barter System to Modern Money

The Barter System

- **Definition:** A system where goods and services are directly exchanged without the use of money.
- **Core Problem: Double Coincidence of Wants** (Both parties must simultaneously want each other's goods).
- **Other Limitations:** Lack of a common measure of value, indivisibility of certain goods, difficulty in storing wealth, and limited scope for trade.

Functions of Money

Money solves the problems of the barter system and serves the following functions:

1. **Medium of Exchange:** Eliminates the double coincidence of wants; makes trade fast and efficient.
2. **Unit of Account:** Acts as a common measure of value (e.g., pricing a car in ₹10 lakh). Simplifies accounting.
3. **Store of Value:** Preserves purchasing power over time, allowing individuals to save and spend later.
4. **Standard of Deferred Payments:** Facilitates future transactions like loans, salaries, pensions, and EMIs.
5. **Universal Acceptability:** Widely accepted by everyone for the settlement of transactions.
6. **Dynamic Nature:** Purchasing power fluctuates inversely with the price level (Inflation ↑= Purchasing Power ↓).
7. **Cashless Function:** Modern money exists digitally (UPI, AePS, E-wallets, Internet Banking).

2. Modern Forms of Money

A. Currency (Fiat Money & Legal Tender)

M4	M3 + Total Post Office deposits (excluding NSC)	Lowest	-

B. RESERVE BANK OF INDIA (RBI)

A. Functions & Governance

- **Established:** 1935 (Hilton Young Commission). Nationalized in 1949.
- **Key Functions:** Issuer of currency, Banker to Govt, Banker to Banks, Lender of Last Resort, Custodian of Forex Reserves, Regulator of monetary policy and banking system.
- **Governor Appointment:** Recommended by the **Financial Sector Regulatory Appointments Search Committee (FSRASC)**, headed by the **Cabinet Secretary**.
- **Tenure:** Maximum 3 years (eligible for reappointment).
- **Section 7 of RBI Act, 1934:** Empowers the Central Government to issue directions to the RBI in the "public interest" after consulting the Governor. *(Highly debated during the RBI-Govt friction in 2018).*

B. Minimum Reserve System

Introduced in 1956 (replacing the Proportional Reserve System). RBI must maintain a minimum reserve of **₹200 Crores**, comprising:

- **₹115 Crore** in Gold/Gold Bullion.
- **₹85 Crore** in Foreign Securities/Currencies.

C. RBI Publications

- **Annual:** Report on Trend and Progress of Banking in India.
- **Half-Yearly:** Financial Stability Report (FSR), Monetary Policy Report.
- **Bi-Monthly:** Monetary Policy Statement.
- **Quarterly:** Industrial Outlook Survey, Consumer Confidence Survey.

D. Key Committees on RBI & Financial Sector

1. **Usha Thorat Committee (2004):** Recommended RBI should maintain reserves equal to **18% of its total assets**.

C. BANKS IN INDIA

Classification of Banks, Scheduled Commercial Banks, SBI, Nationalised Banks, Regional Rural Banks, Differentiated Banks, Small Finance Banks, Payment Banks

WHAT IS A BANK?

A bank is a financial institution licensed to accept deposits, lend money, facilitate payments, create credit, and promote economic development.

Definition under Banking Regulation Act, 1949

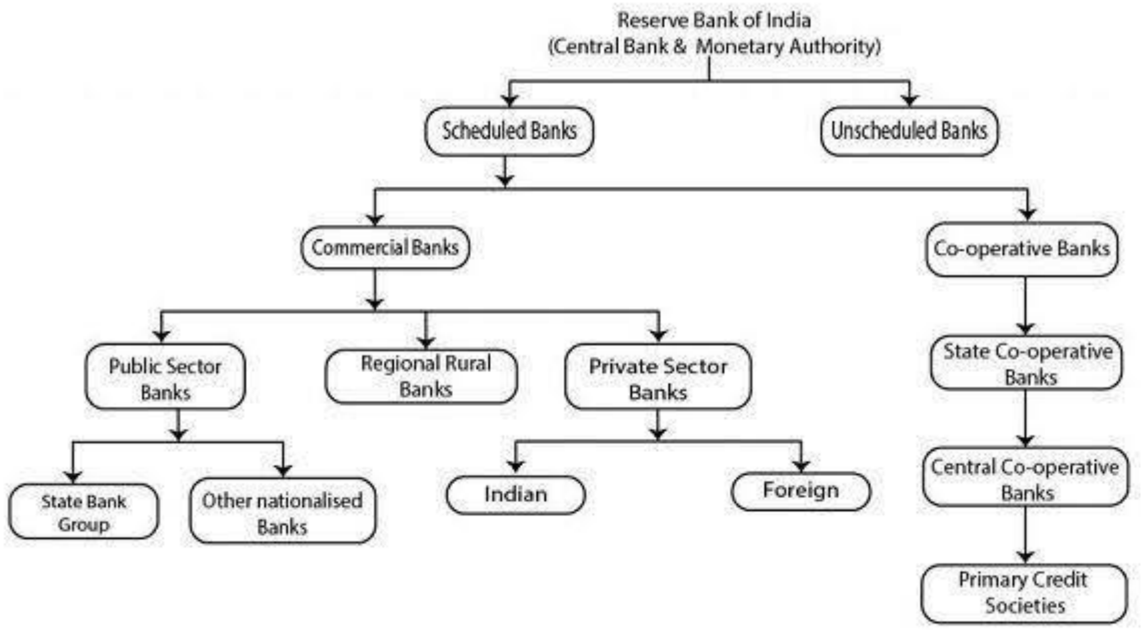
Banking means accepting deposits from the public for lending or investment, repayable on demand or otherwise and withdrawable by cheque, draft or otherwise.

EVOLUTION OF BANKING IN INDIA

- 1770: Bank of Hindostan established (first bank in India)
- 1806: Bank of Calcutta established
- 1809: Bank of Bengal established
- 1840: Bank of Bombay established
- 1843: Bank of Madras established
- 1921: Imperial Bank of India formed
- 1935: Reserve Bank of India established
- 1949: RBI Nationalised
- 1955: Imperial Bank became State Bank of India
- 1969: 14 major banks nationalised
- 1980: 6 more banks nationalised
- 1991: Banking Sector Reforms based on Narasimham Committee recommendations
- 2020: Mega merger of Public Sector Banks

CLASSIFICATION OF BANKS IN INDIA

Banks in India are broadly classified into Scheduled and Non-Scheduled Banks. Scheduled Banks are further divided into Commercial Banks and Cooperative Banks.



Commercial Banks include:

- Public Sector Banks
- Private Sector Banks
- Foreign Banks
- Regional Rural Banks

Cooperative Banks include:

- State Cooperative Banks
- District Central Cooperative Banks
- Primary Credit Societies

COMMERCIAL BANKS

Commercial banks are governed by the Banking Regulation Act, 1949. Their main functions include accepting deposits, granting loans, credit creation, agency services, digital banking, foreign exchange, and investment.

SCHEDULED AND NON-SCHEDULED BANKS

Scheduled Banks

These are banks included under the Second Schedule of the RBI Act, 1934.

REGIONAL RURAL BANKS (RRBs)

Established to provide banking services in rural areas under the Regional Rural Banks Act, 1976.

- First RRB: Prathama Bank, established in 1975 in Moradabad.
- Objectives: Provide rural credit, support agriculture, small farmers, agricultural labourers, rural artisans, MSMEs, and overall rural development.
- Ownership Pattern: Government of India holds 50%, Sponsor Bank holds 35%, and State Government holds 15%.
- Sponsor Banks: Usually Public Sector Banks like SBI, PNB, Canara Bank, etc.
- Regulation: Regulated by both RBI and NABARD.
- Functions: Crop loans, SHG financing, rural MSMEs, financial inclusion, PMJDY, and KCC implementation.
- Recent Reforms: The government is consolidating RRBs under the "One State–One RRB" approach to improve efficiency, profitability, and technology adoption.

DIFFERENTIATED BANKING

This concept was introduced to serve specific customer segments and achieve financial inclusion rather than universal banking. It was introduced following the recommendations of the Nachiket Mor Committee (2013).

- Types of Differentiated Banks: Small Finance Banks, Payment Banks, Local Area Banks, RRBs, Urban Cooperative Banks, and PACS.

NACHIKET MOR COMMITTEE (2013)

Constituted by the Reserve Bank of India.

- Major Recommendations: Universal financial inclusion, ensuring every Indian has a bank account, introducing differentiated banking (Payment Banks and Small Finance Banks), expanding banking outlets, and promoting low-cost digital banking. Many recommendations led to the RBI's differentiated bank licensing policy in 2015.

SMALL FINANCE BANKS (SFBs)

Introduced by the RBI in 2015 to provide banking services to small farmers, MSMEs, the unorganised sector, small businesses, and low-income households.

- Eligible Promoters: NBFCs, MFIs, Resident Individuals, and Local Area Banks with a minimum of 10 years of experience.

SIDBI (Small Industries Development Bank of India)

- Establishment: Established in 1990 under the SIDBI Act, 1989.
- Headquarters: Lucknow.
- Functions: MSME finance, startup finance, refinance, credit guarantees, and cluster development.
- Key Schemes: SMILE, Make in India support, startup funding, and green finance initiatives.

EXIM Bank (Export-Import Bank of India)

- Establishment: Established in 1982 under the Export-Import Bank of India Act, 1981.
- Objective: To promote exports, overseas investment, and international trade.
- Functions: Providing export credit, buyer's credit, overseas project finance, and export promotion.

National Housing Bank (NHB)

- Establishment: Established in 1988 under the National Housing Bank Act, 1987.
- Functions: Housing finance regulation, refinancing Housing Finance Companies (HFCs), and housing sector development.
- Recent Update: Since 2019, the Government of India fully owns the NHB.

MUDRA (Micro Units Development and Refinance Agency)

- Launch: Launched in 2015 under the Pradhan Mantri Mudra Yojana (PMMY).
- Functions: Refinancing Microfinance Institutions (MFIs) and promoting micro-enterprises.
- Loan Categories:
  - Shishu: Up to ₹50,000
  - Kishor: ₹50,000 to ₹5 lakh
  - Tarun: ₹5 lakh to ₹10 lakh
  - Tarun Plus: ₹10 lakh to ₹20 lakh (introduced to support successful PMMY borrowers seeking expansion)

NaBFID (National Bank for Financing Infrastructure and Development)

- Establishment: Established in 2021 under the NaBFID Act, 2021.

COMPLETE LIST OF HIGH-YIELD COMMITTEES

- Narasimham Committee I (1991): Banking Reforms
- Narasimham Committee II (1998): Banking Strengthening and Consolidation
- Verma Committee (1999): Restructuring Weak Public Sector Banks
- Raghuram Rajan Committee (2008): Financial Sector Reforms
- Nachiket Mor Committee (2013): Financial Inclusion and Differentiated Banks
- P. J. Nayak Committee (2014): Public Sector Bank Governance
- Malegam Committee (2011): Microfinance Regulation
- Usha Thorat Committee: NBFC Regulation and Supervision
- Bimal Jalan Committee (2019): RBI Economic Capital Framework
- N. S. Vishwanathan Committee (2021): Urban Cooperative Bank Reforms
- Y. M. Deosthalee Task Force (2018): Public Credit Registry

D. BANKING SECTOR REFORMS & NPA MANAGEMENT

1. FOUNDATIONAL COMMITTEES & EVALUATION FRAMEWORKS

Narasimham Committee (1991 & 1998)

- **Core Recommendation:** Advocated the merger of strong banks (public & private) to enhance efficiency, scale, and global competitiveness.
- **Autonomy:** Recommended reduced government interference in the day-to-day operations and management of banks.

CAMEL Parameters (Bank Performance Evaluation)

An internationally recognized framework to evaluate the financial health and operational soundness of banks:

- **C - Capital Adequacy:** Ensures banks maintain sufficient capital to absorb risks.
  - *Formula:* **Capital Adequacy Ratio (CAR)** = (Bank's Capital / Risk-weighted Assets) × 100
  - *Bank's Capital* = Tier 1 + Tier 2 capital.

E. MONETARY POLICY

1. INTRODUCTION TO MONETARY POLICY

Monetary policy refers to the macroeconomic strategy adopted by the central bank (in India, the Reserve Bank of India under the RBI Act, 1934) to manage the supply of money and credit in the economy. It utilizes various instruments, such as interest rates and liquidity measures, to achieve specific economic goals.

Core Objectives of Monetary Policy

- **Accelerating Economic Growth:** Ensures sufficient liquidity to stimulate investment and development.
- **Price Stability and Inflation Control:** Keeps inflation within a target range while preventing deflation.
- **Exchange Rate Stabilization:** Maintains a stable and competitive exchange rate for external trade.
- **Balancing Savings and Investment:** Aligns interest rates to encourage savings and channelize them into productive investments.
- **Employment Generation:** Creates an economic environment conducive to job creation.

2. CLASSIFICATION OF MONETARY POLICY

Monetary policy is broadly classified into two types based on the economic conditions:

Expansionary Monetary Policy (Dovish Policy)

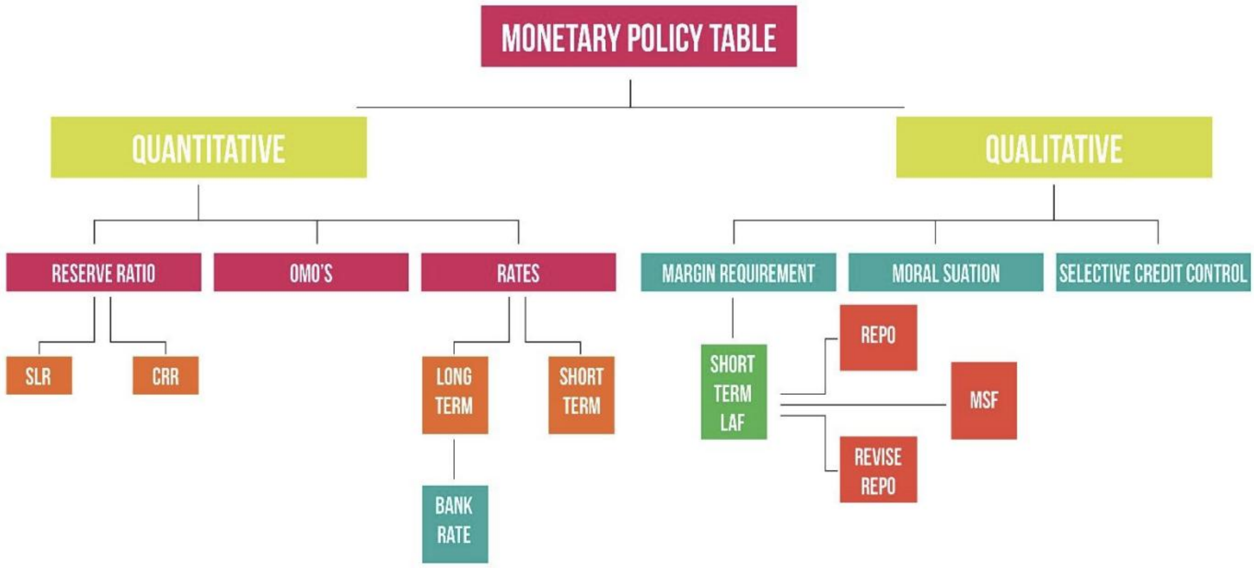
- **Objective:** Increase money supply to fuel economic growth.
- **Key Features:** Reduction in interest rates (Repo Rate, Bank Rate, SLR, MSF). Injects liquidity into the banking system, enabling banks to lend more, which increases aggregate demand.
- **Context:** Adopted during economic slowdowns or recessions (e.g., Global Financial Crisis of 2008).

Contractionary Monetary Policy (Hawkish / Dear Money Policy)

- **Objective:** Decrease money supply to control inflation.
- **Key Features:** Increase in interest rates. Absorbs excess liquidity, reducing credit available for spending and investment, thereby curbing aggregate demand.

4. INSTRUMENTS OF MONETARY POLICY

The RBI uses both quantitative and qualitative tools to implement monetary policy.



Quantitative Tools (General Tools)

- **Liquidity Adjustment Facility (LAF):** The primary mechanism for injecting or absorbing liquidity. It consists of overnight and term repo/reverse repos, SDF, and MSF.
- **Repo Rate:** The interest rate at which the RBI provides overnight liquidity to banks against the collateral of government and other approved securities.
- **Reverse Repo Rate:** The rate at which the RBI absorbs liquidity from banks against the collateral of eligible government securities.
- **Marginal Standing Facility (MSF) Rate:** A penal rate at which banks can borrow overnight from the RBI by dipping into their SLR portfolio (up to 1% of Net Demand and Time Liabilities). It acts as a safety valve against unanticipated liquidity shocks. The MSF rate is placed 25 basis points above the policy repo rate.
- **Standing Deposit Facility (SDF) Rate:** The rate at which the RBI accepts uncollateralized overnight deposits from banks. Introduced in April 2022, it replaced the fixed reverse repo rate as the floor of the LAF corridor. It is placed 25 basis points below the policy repo rate.
- **LAF Corridor:** The corridor has the MSF rate as its upper bound (ceiling) and the SDF rate as its lower bound (floor), with the policy repo rate in the middle.

Current Challenge in Transmission As noted in the Economic Survey 2024-25, households are increasingly moving their savings from traditional bank deposits to the stock market. This structural shift makes bank deposits scarce and expensive. Consequently, even if the RBI cuts the repo rate, banks are hesitant to lower lending rates proportionately because their "raw material" (deposits) is becoming costlier to acquire.

F. INFLATION: CONCEPTS, MEASUREMENT, AND MANAGEMENT

1. INTRODUCTION TO INFLATION

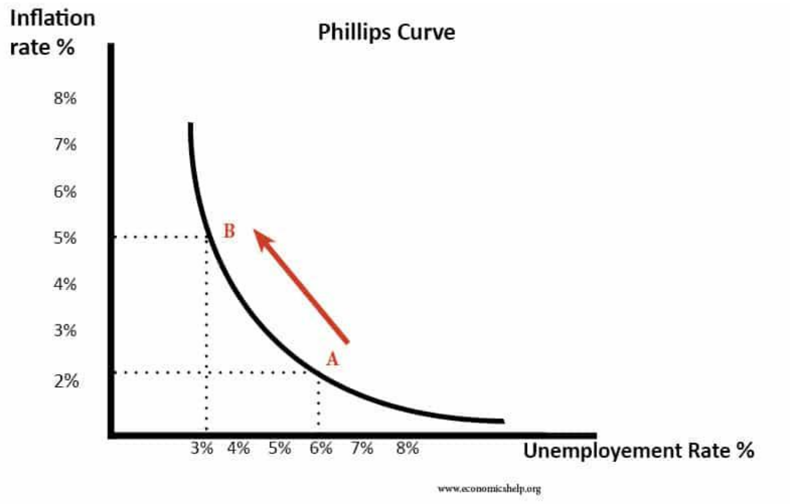
- **Definition:** Inflation refers to the general and sustained rise in the price level of goods and services in an economy over time. It directly reduces the **purchasing power** of money (each unit of currency buys fewer goods and services).
- **Measurement in India:** The **Ministry of Statistics and Programme Implementation (MoSPI)** is responsible for measuring inflation by tracking changes in the prices of a representative basket of goods and services over time.

2. TYPES OF INFLATION

A. Based on Causes

- **Demand-Pull Inflation:** Occurs when aggregate demand exceeds aggregate supply ("too much money chasing too few goods").
    - *Causes:* Expansionary fiscal/monetary policies (govt spending, tax cuts, lower interest rates), depreciation of the domestic currency (makes imports costlier), and black money.
- **Cost-Push Inflation:** Driven by an increase in the cost of production, which is passed on to consumers as higher prices.
    - *Causes:* Rising wages (wage-price spiral), spike in raw material prices (e.g., global crude oil shock), supply chain disruptions, and indirect tax hikes.
- **Monetary Inflation:** Happens when there is an excessive increase in the money supply without a corresponding increase in goods and services.
    - *Causes:* Central bank printing money or excessively lowering interest rates. **Financing a budget deficit by creating new money** is considered the most inflationary action.
- **Imported Inflation:** Occurs when a country's currency depreciates, making foreign goods (like crude oil) more expensive, thereby raising domestic production and consumption costs.

- **Mechanism:** As unemployment decreases, the labor market tightens, leading to upward pressure on wages. Higher wages increase consumer demand and production costs, resulting in higher inflation.



7. INFLATION INDICES AND INDICATORS

A. GDP Deflator (Implicit Price Deflator)

- **Definition:** A comprehensive measure reflecting the price changes of *all* goods and services produced in the economy.
- **Formula:** (Nominal GDP / Real GDP) × 100
- **Interpretation:** = 1 (No price change), > 1 (Inflation), < 1 (Deflation).

B. Wholesale Price Index (WPI) - NEW SERIES (BASE YEAR 2022-23)

- **Purpose:** Measures price changes at the wholesale (first point of bulk sale) level.
- **Coverage: Goods only** (No services).

Released by: Office of Economic Adviser (OEA), DPIIT.

Base Year Shift: 2011-12 ➔ **2022-23**

Key Methodological Shifts

- **Massive Basket Expansion:** Tracked items expanded significantly from **697 to 957** to reflect modern economic realities.
- **Green Energy Inclusion:** Solar, wind, and nuclear electricity are now formally tracked under the 'Electricity' group, reflecting India's energy transition.

CPI vs. WPI vs. PPI

Parameter	CPI (Consumer Price Index)	WPI (Wholesale Price Index)	PPI (Producer Price Index)
Measurement Focus	Prices paid by consumers at the **retail level**.	Wholesale prices of physical goods traded in **bulk**.	Prices received by domestic producers at the **factory-gate level**.
Services Inclusion	**Yes** (housing, education, healthcare, transport).	**No** (strictly physical goods).	**Yes** (core services like banking, telecom, insurance).
Imports Coverage	**Yes** (reflects what domestic consumers buy, regardless of origin).	**Yes** (tracks wholesale market prices, including imported goods).	**No** (strictly tracks domestic output and production).
Pricing Valuation	**Retail Price** (includes all indirect taxes and retail margins).	**Wholesale Price** (includes indirect taxes and trade margins).	**Basic Price** (explicitly excludes indirect taxes, trade, and transport margins).
Primary Policy Use	RBI's anchor for **Inflation Targeting** and Repo Rate decisions.	Used as a **GDP deflator** and for corporate contract price escalation clauses.	Tracking **supply-side inflation**, input cost transmission, and domestic industrial health.
Publishing Authority	**NSO, MoSPI**	**Office of Economic Adviser, DPIIT**	**Office of Economic Adviser, DPIIT**

E. The Base Effect

- Refers to how the price levels of the previous year influence the calculation of the current year's inflation rate.
- *Example:* If inflation was extremely low or negative in the base year (due to a good harvest), even a normal price increase in the current year will show up as a massive spike in the inflation percentage.

8. MEASURES TO COMBAT INFLATION

Policy Type	Action	Impact on Inflation
Monetary Policy	Increase Repo Rate, Bank Rate, CRR, SLR	Makes borrowing costly, reduces credit creation and money supply.
	Open Market Operations (Sell G-Secs)	Absorbs excess liquidity from the banking system.
	Increase Interest Rates	Reduces consumer spending and business investment.
Fiscal Policy	Increase Taxes	Reduces disposable income and consumer demand.
	Reduce Government Spending	Directly lowers aggregate demand in the economy.
	Broaden Tax Coverage	Reduces the fiscal deficit, lowering the need for inflationary borrowing.
Other Measures	Price Controls / Essential Commodities Act	Short-term relief, but may distort markets and cause black marketing.
	Import Controls / Duty Cuts	Reduces inflationary pressure from imported goods.
	Wage Restrictions	Prevents the self-fulfilling wage-price spiral.

9. THE PRICE-WAGE SPIRAL

A vicious feedback loop where rising wages and rising prices drive each other:

1. **Inflation rises**, increasing the cost of living.
2. **Workers demand higher wages** to maintain their real income.
3. **Firms raise prices** to cover the increased input (wage) costs and maintain profit margins.
4. This leads to **further inflation**, prompting workers to demand even higher wages, continuing the cycle.

10. IMPACTS OF INFLATION ON DIFFERENT GROUPS

Group	Impact / Outcome	Nature
Consumers	Reduced purchasing power, higher cost of living.	**Negative**
Creditors / Lenders	Loss of real purchasing power on the money they lent.	**Negative**

Debtors / Borrowers	Reduced real burden of debt (they repay with cheaper money).	**Positive**
Savers	Reduced real value of fixed-income savings and cash holdings.	**Negative**
Wage Earners	Real wages fall if nominal wages do not keep pace with inflation (especially in the unorganized sector).	**Negative**
Investors	Short-term gains in asset prices (equity, real estate), but long-term uncertainty.	**Mixed**
Taxpayers	Higher tax burden due to "bracket creep" (pushed into higher tax slabs) and rising indirect taxes.	**Negative**
Exchange Rate	Depreciation of the domestic currency against foreign currencies.	**Mixed**
Trade Balance	Short-term improvement (exports become cheaper), but long-term worsening if the country relies heavily on imported raw materials.	**Mixed**
Public Morale	Decreased morale due to rising inequality and economic uncertainty.	**Negative**

11. WHY DOES THE RBI STILL ALLOW MCLR?

While the RBI has mandated the **External Benchmark Lending Rate (EBLR)** for new floating-rate retail and MSME loans to ensure faster transmission of Repo Rate cuts, older loans are still linked to the **Marginal Cost of Funds based Lending Rate (MCLR)**.

- **Reason for allowing MCLR:** Banks hold a massive portfolio of long-term deposits (like 5-year or 10-year FDs) locked in at historically high fixed interest rates.
- **The Risk:** If banks are forced to instantly link all existing loans to the external Repo rate (EBLR), a sharp cut in the Repo rate would drastically reduce their lending income. However, their deposit interest expenses would remain high. This mismatch could lead to severe financial stress or a crisis for the banking sector. Thus, MCLR acts as a transitional buffer.

G. INDIA'S FISCAL POLICY: FISCAL IMBALANCE, DEFICIT FINANCING, AND FISCAL RESPONSIBILITY

DEFINITION AND OBJECTIVES

Fiscal policy involves government adjustments in expenditure and taxation to stabilize economic output and employment. It aims to manage economic cycles and influence aggregate demand through surplus budgets (revenue exceeds expenditure), deficit budgets (expenditure exceeds revenue), or balanced budgets.

COMPONENTS OF FISCAL POLICY

- **Taxation Policy:** Involves setting the rates, structures, and types of taxes (direct and indirect) that the government collects from individuals and businesses to generate revenue.
- **Expenditure Policy:** Involves deciding the quantum and allocation of government spending across various sectors like infrastructure, defense, social welfare, and subsidies.
- **Investment and Disinvestment Policy:** Involves managing the government's assets and liabilities, such as public sector enterprises, financial institutions, and sovereign wealth funds, including the strategic sale of government stakes.
- **Debt or Surplus Management:** Involves borrowing (issuing bonds, taking loans) or saving money to finance the gap between the government's revenue and expenditure, ensuring macroeconomic stability.

TYPES OF FISCAL POLICY

Fiscal policy is broadly classified into two types based on the prevailing economic conditions:

Expansionary Fiscal Policy

- **Purpose:** To stimulate economic growth and counter economic contractions or recessions.
- **Tools:**
  - **Increase in Government Spending:** Allocating more funds for public projects, infrastructure, and social programs.
  - **Tax Cuts:** Reducing taxes to boost disposable income for consumers and businesses.
- **Impact:** Boosts aggregate demand through increased consumer spending and business investment. It creates more employment opportunities and helps prevent or end recessions.
- **Example:** Used globally during the 2008 financial crisis to stimulate economic growth.

H. FISCAL RESPONSIBILITY AND PUBLIC DEBT IN INDIA

1. FRBM ACT AND WAYS AND MEANS ADVANCES (WMA)

Fiscal Responsibility and Budget Management (FRBM) Act

The FRBM Act aims to ensure fiscal discipline in India by limiting fiscal deficits, controlling government debt, and promoting macroeconomic stability. It mandates transparency and medium-term fiscal planning.

Objectives of the FRBM Act:

- **Reduce Fiscal Deficits:** Limit government spending and bridge revenue gaps.
- **Control Government Debt:** Ensure long-term debt sustainability.
- **Promote Economic Stability:** Prevent excessive borrowing and inflation.
- **Intergenerational Equity:** Ensure fair distribution of fiscal burdens across generations.
- **Enhance Transparency:** Provide clear, standardized information on fiscal performance.
- **Medium-term Planning:** Mandate the presentation of a 3-5 year fiscal policy statement.

Key Targets for the Central Government:

- **Fiscal Deficit:** Estimated to end at 4.8% in FY25, with a target to bring it down to 4.4% in FY26.
- **Debt-to-GDP Ratio:** Estimated to decline to 56.1% in FY26 (from 57.1% in FY25).
- **Fiscal Consolidation:** Annual targets are adjusted for GDP growth and extraordinary situations.

Statements Mandated by the FRBM Act:

- **Medium-term Fiscal Policy Statement:** Outlines rolling 3-year targets for key fiscal indicators.
- **Fiscal Policy Strategy Statement:** Outlines fiscal priorities, strategic shifts, and justifications for any deviations from targets.
- **Macroeconomic Framework Statement:** Provides the macroeconomic outlook regarding GDP growth, fiscal balance, and external sector conditions.

The Escape Clause:

- Allows temporary deviations from fiscal targets during emergencies such as national disasters, structural economic crises, or global shocks (e.g., the relaxation allowed during the COVID-19 pandemic).

Key FRBM Targets and Relaxations for States:

- **Fiscal Deficit:** Target is 3% of GSDP. Relaxation of up to 0.5% is allowed in case of emergencies (national disasters, economic crises).
- **Debt-to-GDP Ratio:** Target is 25% of GSDP. Relaxation is permitted during economic disruptions, subject to a plan for gradual reduction.
- **Revenue Deficit:** Target was Zero by FY20. It remains flexible if fiscal pressures are exceptionally high due to unexpected events.

The 25% GSDP Anchor: The FRBM rules state that individual state governments should endeavor to limit their total outstanding liabilities within 25% of their GSDP. This forms part of the larger macro-economic goal to keep general government debt (Centre + States) under 60% of national GDP

Ways and Means Advances (WMA)

WMA is a short-term liquidity facility provided by the Reserve Bank of India (RBI) to both the Central and State governments to bridge temporary mismatches in their cash flow (receipts vs. expenditures).

- **Nature:** Short-term loans, typically for a few days to a couple of months.
- **Limits:** Fixed by the RBI based on the fiscal conditions and capital budget of the respective government. For states, the limit is revised semi-annually.
- **Interest Rate:** Charged at the prevailing RBI Repo Rate.
- **Overdraft Facility (Static Addition):** If a government exceeds its WMA limit, it can avail an overdraft facility for a maximum of **50 consecutive days** in a year. The interest rate on this overdraft is **2% above the Repo Rate**.

2. GOVERNMENT DEBT AND DEFICITS

Sources and Burden of Government Debt

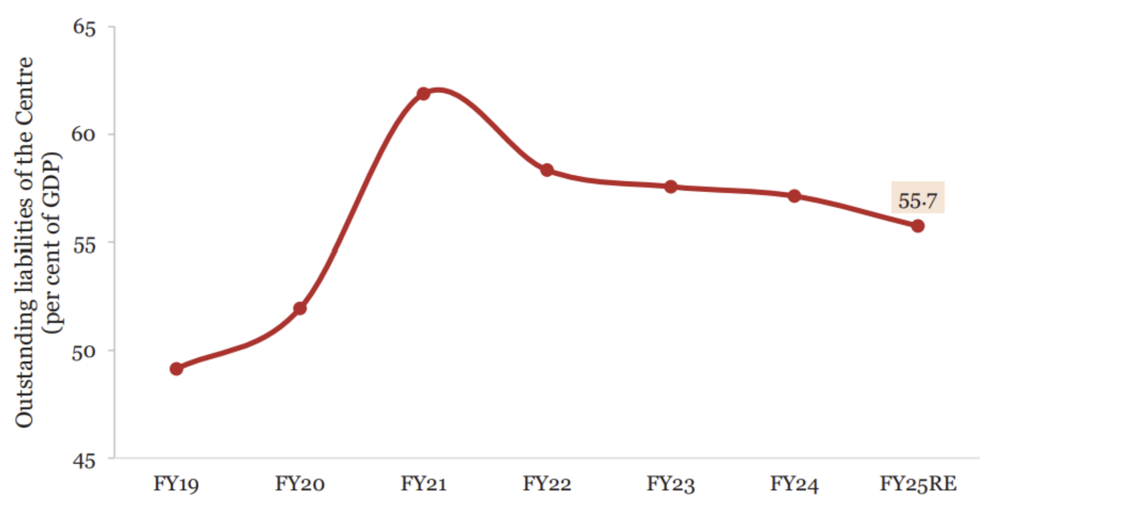
Government debt arises from budgetary deficits and is typically financed through taxation, borrowing (issuing bonds), and printing money.

- **External Debt Size:** Stood at USD 747.2 billion at the end of June 2025.
- **External Debt-to-GDP Ratio:** Moderated to 18.9% at the end of June 2025 (from 19.1% in March 2025).
- **Currency Composition:** US dollar-denominated debt is the largest (53.8%), followed by Indian Rupee (30.6%), Yen (6.6%), SDR (4.6%), and Euro (3.5%).
- **Instrument Composition:** Loans are the largest component (34.8%), followed by currency and deposits (23%), trade credit (17.7%), and debt securities (16.8%).
- **Maturity Profile:** Long-term debt (maturity >1 year) grew by 9.2% YoY, while short-term debt declined by 4.6% YoY, indicating a safer debt profile.
- **General Government Debt:** Constitutes 22.4% of total external debt ($148.7 billion).

Global Comparison and Trends:

- **India:** Debt-to-GDP ratio is around 80% (ranked 31st globally). The Central Government aims to reduce the debt-to-GDP ratio to 50% (+/- 1%) by March 31, 2031. General government debt is expected to decrease from 82.5% in FY24 to 73.4% in FY31.
- **China:** Ranked 21st with a public debt ratio of 96%. China recorded the highest rise in debt, nearly doubling its ratio since 2015.
- **Germany:** Has seen a steady decline in its general government debt-to-GDP ratio since 2015.

Chart II.21: Centre's debt trajectory



Source: Department of Economic Affairs and MoSPI.

I. INDIAN TAX STRUCTURE

1. INTRODUCTION TO TAXATION

Tax is a compulsory financial charge or levy imposed by a government on individuals, businesses, or other entities to fund public expenditures and government functions. It is a crucial source of revenue for the state.

Classification of Taxes

Taxes can be classified based on multiple parameters:

- **Based on Nature:** Direct Taxes vs. Indirect Taxes.
- **Based on Purpose:** Revenue Taxes (to raise funds) vs. Regulatory Taxes (to regulate behavior, e.g., sin taxes).
- **Based on Duration:** Permanent Taxes vs. Temporary Taxes.
- **Based on Entities Taxed:** Personal Taxes vs. Corporate Taxes.
- **Based on Progressivity:**
  - *Progressive:* Higher income attracts a higher tax rate.
  - *Proportional:* Fixed proportion of income/profits, regardless of the income level.
  - *Regressive:* Lower income groups pay a higher percentage of their income compared to richer groups.
- **Based on Administration:** Central Taxes vs. State Taxes.

2. DIRECT TAXES

A direct tax is levied directly on the income, wealth, or property of individuals or organizations. The incidence and impact of the tax fall on the same person, and it is paid directly to the government.

Key):

- In India, income from allied agricultural activities like poultry farming and wool rearing in rural areas is **exempted** from any tax.
- Rural agricultural land is **not considered a capital asset** under the provisions of the Income-tax Act, 1961.

Types of Direct Taxes

Arvind Subramanian Committee (2015)	Recommend GST revenue-neutral rate, propose lower rates for metals, ensure state compensation.

6. MACRO INDICATOR: TAX-TO-GDP RATIO

The Tax-to-GDP ratio measures the size of the tax revenue relative to the size of the economy. It indicates the efficiency of a country's tax collection system.

India's tax-to-GDP ratio aligns with major economies as reforms lift revenue: Report

ed: Jan 24, 2026, 10:37:00 AM IST

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India's tax-to-GDP ratio stands **at 19.6 percent**, matching major global economies. This figure, combining central and state collections, exceeds other emerging markets. Advanced economies report higher ratios. Policy reforms are underway to boost collections. The upcoming Income Tax Act 2025 aims to target the informal economy and improve efficiency.

While the central gross tax revenue remains lower at 11.7 per cent, the integrated figure exceeds those of other emerging markets such as Hong Kong, Malaysia, and Indonesia.

Implications of a Decrease in Tax-to-GDP Ratio:

1. **Slowing Economic Growth Rate:** A declining ratio may indicate an economic slowdown, as tax revenues generally correlate with economic activity.
2. **Less Equitable Distribution of National Income:** A decreasing ratio can suggest that a significant portion of income is concentrated in sectors or individuals that are under-taxed or evade taxation, worsening inequality.

4. West Bengal (7.22% - *Note: WB is 4th, Bihar is 5th at 9.95%*) -> *Correction based on table: UP (17.62), Bihar (9.95), MP (7.35), WB (7.22), Maharashtra (6.44). (Note: Southern states like Karnataka, Tamil Nadu, and Telangana saw marginal increases or stabilization in their shares compared to the 15th FC, mitigating fears of a massive drop due to the population parameter).*

J. GOODS AND SERVICES TAX (GST) & GST 2.0 REFORMS

1. INTRODUCTION & CONSTITUTIONAL FRAMEWORK

GST is a comprehensive, multi-stage, **destination-based** indirect tax levied on the value added to goods and services at every stage of supply.

- **Implementation:** 1st July 2017 (Motto: *One Nation, One Tax, One Market*).
- **Constitutional Basis:** Introduced via the **101st Constitutional Amendment Act, 2016**.

Key Constitutional Provisions

Article	Provision / Significance
Article 246A	Grants **special concurrent powers** to Parliament and State Legislatures to levy GST.
Article 269A	Levy and apportionment of **IGST** on inter-state trade (Centre collects, Centre & States share).
Article 279A	Establishment of the **GST Council** (Federal fiscal architecture).
Article 286	Restrictions on the imposition of tax on the sale or purchase of goods in inter-state trade.
Article 366(12A)	Defines GST as any tax on supply of goods/services, *excluding* alcoholic liquor for human consumption.
Article 366(26A)	Defines "Services".

Taxes Subsumed under GST

- **Central Taxes:** Central Excise Duty, Service Tax, Additional Excise Duty, Additional Customs Duty (CVD/Countervailing Duty), Special Additional Duty of Customs (SAD).
- **State Taxes:** State VAT, Entry Tax/Octroi, Luxury Tax, Entertainment and Amusement Tax, Purchase Tax, State Cesses and Surcharges.

K. UNION BUDGET 2026-27: COMPREHENSIVE ANALYSIS

1. BUDGET HIGHLIGHTS AT A GLANCE

Total Expenditure

- **Budget Estimate 2026-27:** ₹53,47,315 crore
- **Increase:** 7.7% over Revised Estimate (RE) 2025-26
- **Interest Payments:** ₹14,03,972 crore (26% of total expenditure, 40% of revenue receipts)
- **Increase in Interest Payments:** 10.2% over RE 2025-26

Total Receipts (excluding borrowings)

- **Budget Estimate 2026-27:** ₹36,51,547 crore
- **Increase:** 7.2% over RE 2025-26
- **Tax Revenue Growth:** Expected to increase by 8% over RE 2025-26

GDP & Deficits

- **Nominal GDP Growth Estimate:** 10% for 2026-27
- **Revenue Deficit:** 1.5% of GDP (same as RE 2025-26)
- **Fiscal Deficit:** 4.3% of GDP (down from 4.4% in RE 2025-26)
- **Primary Deficit:** 0.7% of GDP (down from 0.8%)

Debt Position

- **Outstanding Liabilities 2026-27:** 55.6% of GDP
- **Target:** Reduce to ~50% (±1%) of GDP by March 2031

Borrowings

- **Budgeted Borrowings 2026-27:** ₹16,95,768 crore
- **Increase:** 8.8% over RE 2025-26

2. MAIN TAX PROPOSALS IN FINANCE BILL 2026-27

A. Direct Tax Proposals

1. Income Tax

- **No change in income tax slabs** for Assessment Year 2026-27

- **Tax Holidays:**
  - **Global Cloud Services:** Tax holiday until 2047 for foreign companies providing cloud services using Indian data centres (services to Indian customers must be routed through Indian reseller)
  - **IFSC & Offshore Banking Units:** Tax holiday increased from 10 to **20 years**; post-period taxation at **15%**

2. Securities & Capital Gains

- **Share Buybacks:** All buybacks to be taxed as capital gains
  - **Additional buyback tax for promoters**
  - **Effective Rate:** 22% for corporates, 30% for non-corporate promoters
- **Securities Transaction Tax (STT) Increase:**
  - Options: 0.1% → **0.15%**
  - Options exercised: 0.125% → **0.15%**
  - Futures: 0.02% → **0.05%**

3. Mutual Funds

- **No deduction allowed** for interest expenditure incurred in earning:
  - Dividend income
  - Income from mutual fund units
- *(Previously allowed up to 20% of gross dividend/income)*

4. Minimum Alternate Tax (MAT)

- **No credit accumulation** available for MAT from April 1, 2026
- **MAT Rate reduced:** 15% → **14%**
- **MAT credit set-off:** Up to 25% of tax liability **only in new tax regime**

B. International Taxation & Compliance

1. Foreign Assets Disclosure Scheme, 2026

- **Time-bound scheme** for disclosure of foreign assets by small taxpayers
- **Target Group:** Returning non-residents and certain small taxpayers
- **Benefits:**
  - Graded relief

- Immunity from penalty and prosecution
- Subject to payment of tax, additional levy, or fixed fee (depending on category)

2. Relaxations for Non-Residents

- **5-year income tax exemption** for supplying capital goods to electronics manufacturers
- **Exemption of global income** for expert non-residents working in India (up to 5 years under notified schemes)
- **MAT exemption** extended to more categories of non-residents

3. Tax Collected at Source (TCS) Reductions

- **Education/Medical Treatment:** TCS on remittance >₹10 lakh reduced from 5% → **2%**
- **Overseas Tour Packages:** TCS reduced from 5%/20% (depending on amount) → **2%**

C. Compliance Reforms

- **Rationalisation of penalty and prosecution:**
  - Several offences decriminalised
  - Maximum imprisonment reduced to **2 years** for certain offences

3. POLICY HIGHLIGHTS BY SECTOR

A. Finance & Economy

- **High Level Committee on Banking for Viksit Bharat** to be set up
- **Foreign Exchange Management (Non-debt Instruments) Rules** to be reviewed for simplification
- **Individual PROI (Persons Resident Outside India):**
  - Permitted to invest in equity instruments of listed Indian companies through Portfolio Investment Scheme
  - Investment limit increased from **5% → 10%**
- **Bond Market Development:**
  - Market making framework with access to funds and derivatives on corporate bond indices
  - Total return swaps on corporate bonds proposed

- **Biopharma SHAKTI Scheme:** (Strategy for Healthcare Advancement through Knowledge, Technology, and Innovation)
  - Duration: **5 years**
  - Outlay: **₹10,000 crore**
  - Objective: Enable domestic production of biologics and biosimilars
- **Pharmaceutical Education:**
  - **3 new National Institutes of Pharmaceutical Education and Research (NIPERs)**
  - **7 existing institutions** to be upgraded

J. Agriculture

- **Cooperative Members:** Deductions extended for supplying **cotton seeds and cattle feed**
- **Animal Husbandry:** Credit-linked subsidy programme
- **Coconut Promotion Scheme:** To increase production

4. BUDGET ESTIMATES: 2026-27 VS 2025-26 (REVISED)

Table 1: Budget at a Glance (₹ crore)

(₹ in Crore)

Particulars	Actuals 2024-25	Budgeted 2025-26	Revised 2025-26	Budgeted 2026-27	% Change (RE to BE)
Revenue Expenditure	36,00,914	39,44,255	38,69,087	41,25,494	+6.6%
Capital Expenditure	10,51,953	11,21,090	10,95,755	12,21,821	+11.5%
- Capital Outlay	8,55,244	8,95,245	8,87,364	9,43,042	+6.3%
- Loans & Advances	1,96,710	2,25,844	2,08,391	2,78,780	+33.8%
Total Expenditure	**46,52,867**	**50,65,345**	**49,64,842**	**53,47,315**	**+7.7%**
Revenue Receipts	30,36,619	34,20,409	33,42,323	35,33,150	+5.7%
Capital Receipts	41,818	76,000	64,027	1,18,397	+84.9%
- Recoveries of Loans	24,617	29,000	30,190	38,397	+27.2%
- Disinvestments	17,202	47,000	33,837	80,000	+136.4%
Total Receipts (excl. borrowings)	**30,78,436**	**34,96,409**	**34,06,350**	**36,51,547**	**+7.2%**
Revenue Deficit	5,64,296	5,23,846	5,26,764	5,92,344	+12.4%
- % of GDP	1.7%	1.5%	1.5%	1.5%	-
Fiscal Deficit	15,74,431	15,68,936	15,58,492	16,95,768	+8.8%
- % of GDP	4.8%	4.4%	4.4%	4.3%	-
Primary Deficit	4,58,856	2,92,598	2,84,154	2,91,796	+2.7%
- % of GDP	1.4%	0.8%	0.8%	0.7%	-

Note: GDP figures are implied as per percentages. | RE – Revised Estimates | BE – Budget Estimates

5. RECEIPTS HIGHLIGHTS 2026-27

Table 2: Break-up of Central Government Receipts (₹ crore)

(₹ in Crore)

Particulars	Actuals 2024-25	Budgeted 2025-26 (BE)	Revised 2025-26 (RE)	Budgeted 2026-27 (BE)	% Change (RE to BE 2026-27)
A. Gross Tax Revenue	37,96,382	42,70,233	40,77,772	44,04,086	+8.0%
- Corporation Tax	9,86,767	10,82,000	11,09,000	12,31,000	+11.0%
- Taxes on Income	12,35,171	14,38,000	13,12,000	14,66,000	+11.7%
- GST	10,27,041	11,78,000	10,46,480	10,19,020	-2.6%
-- CGST	8,76,471	10,10,890	9,58,480	10,19,020	+6.3%
-- GST Compensation Cess	1,50,570	1,67,110	88,000	0	-100%
- Customs	2,33,201	2,40,000	2,58,290	2,71,200	+5.0%
- Union Excise Duties	3,00,253	3,17,000	3,36,550	3,88,910	+15.6%
B. Devolution to States	12,86,885	14,22,444	13,92,971	15,26,255	+9.6%
C. Centre's Net Tax Revenue	25,00,039	28,37,409	26,74,661	28,66,922	+7.2%
D. Non-Tax Revenue	5,36,580	5,83,000	6,67,662	6,66,228	-0.2%
- Interest Receipts	40,435	47,738	40,165	41,763	+4.0%
- Dividends & Profits	3,08,424	3,25,000	3,75,590	3,91,000	+4.1%
- Other Non-Tax Revenue	1,84,206	2,05,668	2,48,461	2,29,373	-7.7%
E. Capital Receipts (w/o borrowings)	41,818	76,000	64,027	1,18,397	+84.9%
- Disinvestment	17,202	47,000	33,837	80,000	+136.4%
Total Receipts (C+D+E)	30,78,437	34,96,409	34,06,350	36,51,547	+7.2%
Borrowings	15,74,431	15,68,936	15,58,492	16,95,768	+8.8%

Key Receipts Analysis:

1. Tax Revenue Trends:

- **Gross Tax Revenue Growth:** 8% (lower than nominal GDP growth estimate of 10%)
- **Corporation Tax:** Expected to grow by 11%
- **Income Tax:** Expected to grow by 11.7%
    - *Note:* Income tax rates were cut in 2025-26; revenue foregone estimated at ₹1 lakh crore
    - Revised estimate shows further shortfall of ₹1,26,000 crore
- **GST Collections:**
    - CGST expected to grow by 6.3%
    - **GST Compensation Cess: ₹0** (ended in June 2022)

- Includes ₹1,85,000 crore as special loans to states for capex

3. Finance Commission Grants (16th FC):

- **Total:** ₹1,29,397 crore (-15.4% over RE 2025-26)
- **Urban Local Bodies:** ₹45,272 crore (+74% - significant increase)
- **Post Devolution Revenue Deficit Grants: ₹0** (discontinued by 16th FC)

7. MINISTRY-WISE EXPENDITURE ALLOCATIONS

Table 4: Top Ministries by Allocation (₹ crore)

Ministry	Actuals 2024-25	Budgeted 2025-26	Revised 2025-26	Budgeted 2026-27	% Change	% of Total Budget
Defence	6,36,003	6,81,210	7,32,512	7,84,678	+7.1%	**15%**
Road Transport & Highways	2,99,460	2,87,333	2,87,142	3,09,875	+7.9%	6%
Railways	2,55,263	2,55,445	2,55,466	2,81,377	+10.1%	5%
Home Affairs	2,24,585	2,33,211	2,41,485	2,55,234	+5.7%	5%
Consumer Affairs, Food & PD	2,15,009	2,15,767	2,38,409	2,39,521	+0.5%	-
Rural Development	1,79,307	1,90,406	1,88,753	1,97,023	+4.4%	-
Chemicals & Fertilisers	1,84,993	1,61,965	1,91,186	1,77,061	**-7.4%**	-
Agriculture & Farmers' Welfare	1,39,744	1,37,757	1,33,370	1,40,529	+5.4%	-
Education	1,10,736	1,28,650	1,21,949	1,39,289	**+14.2%**	-
Health & Family Welfare	90,684	99,859	96,854	1,06,530	+10.0%	-
Communications	1,47,832	1,08,105	79,768	1,02,267	**+28.2%**	-
Jal Shakti	46,720	99,503	41,437	94,808	**+128.8%**	-

L. INTERNATIONAL FINANCIAL INSTITUTIONS & GLOBAL TRADE GOVERNANCE

1. THE BRETTON WOODS CONFERENCE (1944)

The foundation of the post-WWII global economic architecture.

- **Date & Location:** July 1–22, 1944, at Mount Washington Hotel, New Hampshire, USA.
- **Key Architects:** John Maynard Keynes (UK) and Harry Dexter White (USA).
- **Participants:** 44 Allied nations.
- **Core Objectives:** Establish a stable international monetary system, prevent competitive currency devaluations, and foster post-war reconstruction.
- **Major Outcomes:**
  1. **International Monetary Fund (IMF):** To foster monetary cooperation and provide short-term Balance of Payments (BoP) support.
  2. **International Bank for Reconstruction and Development (IBRD / World Bank):** To finance post-war reconstruction and long-term development/poverty reduction.
  3. **Fixed Exchange Rate System:** Global currencies pegged to the US Dollar, which was convertible to gold at **$35 per ounce**.
  4. *(Note: A third pillar, the International Trade Organization (ITO), was proposed but failed to materialize, later replaced by GATT/WTO).*

2. WORLD BANK GROUP (WBG)

Established in 1944; comprises **189 member countries**. Headquartered in Washington, D.C.

- **Major Reports:** World Development Report (WDR), Human Capital Index. *(Note: Ease of Doing Business report was discontinued in 2021).*
- **Shareholding:** USA is the largest single shareholder (16.41% votes), followed by Japan, Germany, UK, and France.

1. **Non-Discrimination:**
    - *MFN (Most-Favoured-Nation):* Treat all trading partners equally at the **border**.
    - *National Treatment:* Treat foreign and domestic goods equally once they **enter the domestic market**.
2. **Reciprocity & Market Access:** Progressive reduction of trade barriers.
3. **Rule-Based System & Dispute Resolution:** Predictable framework and binding dispute settlement.

Governance Structure

1. **Ministerial Conference:** Highest body, meets every **2 years**.
2. **General Council:** Day-to-day decision-making in Geneva. Acts as the **Trade Policy Review Body (TPRB)** and **Dispute Settlement Body (DSB)**.
3. **Subsidiary Councils:** Council for Trade in Goods, Council for Trade in Services, TRIPS Council.

Dispute Settlement Mechanism (DSM)

- **Appellate Body:** The "Supreme Court" of world trade (7 members).
- *Current Crisis:* **Paralyzed since 2019** because the USA has been blocking the appointment of new judges, citing concerns over judicial overreach and treatment of China.

WTO Agreement on Agriculture (AoA) - 3 Pillars

1. **Market Access:** Tariff reductions. Includes the **Special Safeguard Mechanism (SSM)** allowing developing nations to impose extra duties against import surges/price drops.
2. **Domestic Support (Subsidies - The "Boxes"):**
    - 🟢 **Green Box:** Non-trade distorting (e.g., research, pest control, crop insurance). *No limits.*
    - 🔵 **Blue Box:** Production-limiting subsidies (e.g., EU's direct payments). *No limits.*
    - 🟠 **Amber Box:** Trade-distorting subsidies (e.g., MSP, price support). *Subject to reduction limits.*
    - **De Minimis Clause:** Allows minimal Amber Box subsidies up to **10% of agricultural production value** for developing countries (5% for developed).

M. INTELLECTUAL PROPERTY RIGHTS (IPR): GLOBAL INSTITUTIONS & INDIA'S FRAMEWORK

1. INTRODUCTION TO INTELLECTUAL PROPERTY RIGHTS (IPR)

- **Definition:** IPRs grant exclusive legal rights to creators/inventors over their intellectual assets (inventions, literary works, trademarks, designs) for a limited period. This incentivizes creativity, innovation, and economic growth.
- **Human Rights Basis:** Grounded in **Article 27 of the Universal Declaration of Human Rights (UDHR)**, which guarantees everyone the right to the protection of the moral and material interests resulting from any scientific, literary, or artistic production of which they are the author.

2. CATEGORIES OF INTELLECTUAL PROPERTY RIGHTS

Category	Description & Protection Period
Copyright	Protects original literary, artistic, musical, and dramatic works. • *Global Standard (Berne):* Life of author + 50 years. • *India Standard:* Life of author + **60 years**.
Trademarks	Protects distinctive signs, logos, words, or expressions identifying products/services. Protection lasts **indefinitely** as long as it is renewed and remains distinctive.
Geographical Indications (GI)	Identifies goods with unique characteristics, quality, or reputation linked to their specific geographical origin (e.g., Darjeeling Tea). Valid for **10 years**, renewable indefinitely.
Patents	Protects inventions (products or processes). Grants exclusive rights for **20 years** from the date of filing, subject to novelty, inventive step, and industrial applicability.
Industrial Designs	Protects the visual design, shape, configuration, and color of products with aesthetic value (not functional). Valid for **10 years**, extendable by **5 years** (Total 15 years).
Trade Secrets	Protects confidential business information (e.g., recipes, algorithms, manufacturing processes) that provides a competitive edge. No fixed time limit; lasts as long as secrecy is maintained.
Layout Designs (ICs)	Protects the 3D layout/topography of Semiconductor Integrated Circuits. Valid for **10 years**.

Muga Silk & Assam Tea	Assam	Handicraft / Agricultural
Odisha Rasagola & Pattachitra	Odisha	Food / Handicraft

VALUE ADDITION

1. National IPR Policy, 2016

- **Slogan:** "*Creative India; Innovative India*" (Rachanatmak Bharat; Navonmeshi Bharat).
- **Objective:** To stimulate a dynamic, vibrant, and holistic IPR system that fosters innovation and balances public interest.
- **Nodal Agency: CIPAM** (Cell for IPR Promotion and Management) under DPIIT is the nodal point for coordinating the implementation of the National IPR Policy.

2. Traditional Knowledge Digital Library (TKDL)

- An initiative by **CSIR** and the **Ministry of Ayush**.
- **Purpose:** To prevent the grant of invalid patents (biopiracy) by international patent offices for traditional Indian medicinal knowledge (e.g., the famous Turmeric and Neem patent revocations in the US/EPO). It translates ancient texts into multiple international languages for patent examiners to search as "prior art."

3. Important Global Indices

- **Global Innovation Index (GII):** Published annually by **WIPO**. (India's rank has consistently improved, entering the top 40 recently).

Ranks→ 38 IN 2025

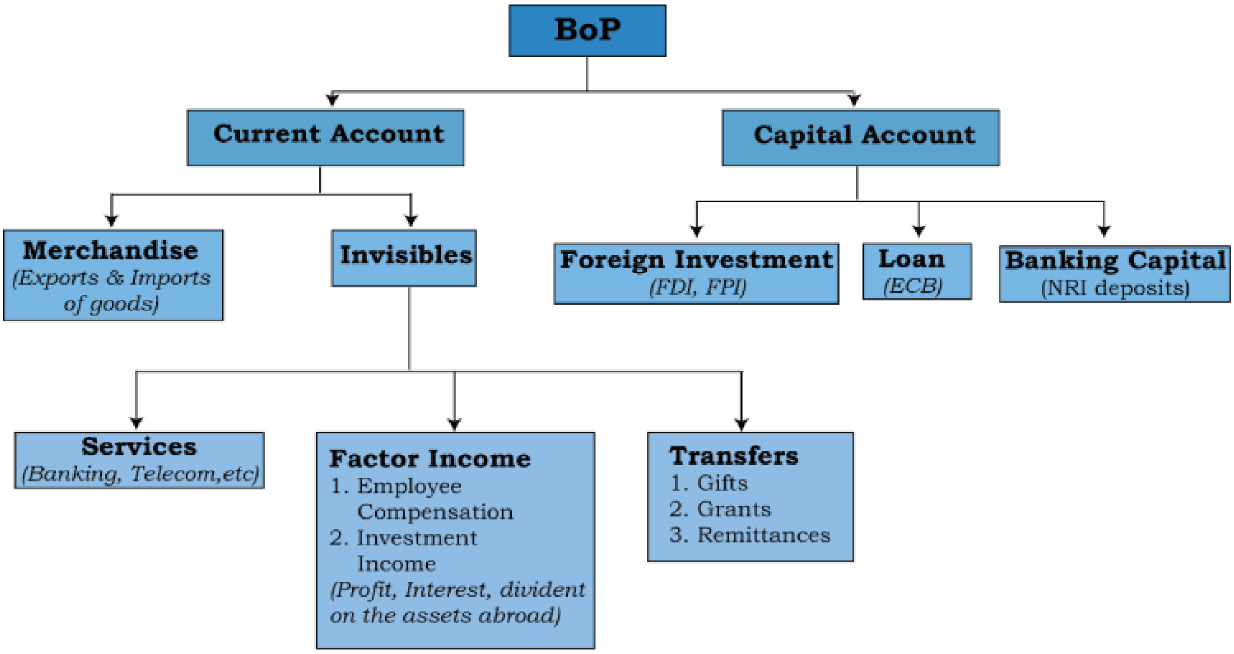
Union Minister of Commerce & Industry Shri Piyush Goyal Calls for Making India's IP Approval System Among Top Five Globally in Speed, Transparency and Efficiency

Shri Piyush Goyal Calls for Collective Efforts to Foster Innovation Culture; Highlights 50,000 New Innovation Labs in Schools

India Registers 215% Growth in Patent Filings in a Decade; GII Ranking Improves from 81 to 38: Shri Piyush Goyal

Government Recruiting Personnel to Accelerate IP Approvals; Shri Goyal Stresses Transparency and Integrity

Posted On: 09 MAR 2026 9:13PM by PIB Delhi



4. CURRENT ACCOUNT

The Current Account records transactions related to **Goods, Services, Income, and Current Transfers**. It reflects a country's international trading performance.

Formula: Current Account = Trade Balance + Net Services + Net Primary Income + Net Current Transfers

A. Trade in Goods (Balance of Trade / Visible Trade (Merchandise):)

- **Includes:** Exports of goods and Imports of goods.
- **Formula:** Balance of Trade (BoT) = Exports − Imports
- **Trade Surplus:** Exports > Imports
- **Trade Deficit:** Imports > Exports
    - *Exports:* India's share in global merchandise exports is 1.8%. Top destinations: USA, UAE, Netherlands, UK, China.
    - *Imports:* Top items are crude oil, gold, and electronic goods. Top sources: China, USA, UAE, Saudi Arabia.

Major Exports of India: Petroleum products, Engineering goods, Pharmaceuticals, Gems & Jewellery, Organic chemicals, Textiles, Automobiles, Software-enabled products.

Major Imports of India: Crude Oil, Gold, Electronics, Coal, Fertilisers, Machinery, Chemicals.

B. Trade in Services (Invisible Trade)

- **Includes:** IT Services, Banking, Insurance, Tourism, Shipping, Transport, Consulting, Royalties.
- **India's Status:** Consistently records a **large surplus** in services exports, particularly from IT and Business Process Outsourcing (BPO).

C. Net Primary Income (Factor Income)

- **Includes:** Interest, Dividends, Profits, Compensation of Employees.
- **Formula:** Income earned abroad by residents − Income paid to foreign residents

D. Net Current Transfers

- **Definition:** One-sided transfers without any *quid pro quo* (no return benefit).
- **Examples:** NRI Remittances, Gifts, Grants, Foreign Aid, Donations.
- **India's Status:** Among the **world's largest recipients** of remittances.

Current Account Deficit (CAD): Occurs when imports + net outflows exceed exports + net inflows.

- *Formula:* CAD = Trade Gap + Net Current Transfers + Net Factor Income.
- *Significance:* A deficit implies the nation is a net borrower from the rest of the world.

Current Account Balance Status

Type	Meaning	Explanation
Surplus	Receipts > Payments	• When the government's total receipts are more than its total payments. Indicates a positive fiscal position.
Balanced	Receipts = Payments	• When the government's total receipts are equal to its total payments. Indicates a neutral fiscal position.
Deficit	Payments > Receipts	• When the government's total payments are more than its total receipts. Indicates a negative fiscal position.

5. CAPITAL ACCOUNT

The Capital Account records transactions involving the **ownership of assets and liabilities** between residents and non-residents. It indicates capital inflows and outflows.

Components:

1. **Foreign Direct Investment (FDI):** Investment involving ownership and management control (e.g., Toyota establishing a manufacturing plant in India).
2. **Foreign Portfolio Investment (FPI):** Investment in shares, bonds, and mutual funds. No management control; highly volatile.
3. **External Commercial Borrowings (ECB):** Loans raised by Indian entities from foreign lenders.
4. **External Assistance:** Loans received from the World Bank, Asian Development Bank (ADB), and foreign governments.
5. **NRI Deposits:** Includes NRE, FCNR, and NRO deposits.

Capital Account Balance Status

Type	Meaning	Explanation
Surplus	Capital inflows > Capital outflows	• When a country receives more capital from abroad (through investments, loans, etc.) than it pays out to the rest of the world. Indicates a positive capital account balance.
Deficit	Capital outflows > Capital inflows	• When a country pays out more capital to abroad (through investments, loans, etc.) than it receives from the rest of the world. Indicates a negative capital account balance.

6. ERRORS AND OMISSIONS

- Records statistical discrepancies due to timing differences, reporting errors, unrecorded transactions, and data omissions.
- **Purpose:** Ensures the overall accounting balance of the BoP statement.

7. CHANGES IN FOREIGN EXCHANGE RESERVES

- Managed by the **Reserve Bank of India (RBI)**.
- **Components:** Foreign Currency Assets (FCA), Gold, Special Drawing Rights (SDRs), and Reserve Position in the IMF.
- **Relation to BoP:**
  - **BoP Surplus** → Forex reserves **increase**.
  - **BoP Deficit** → Forex reserves **decrease**.

8. BALANCE OF TRADE (BoT) vs. BALANCE OF PAYMENTS (BoP)

Basis	Balance of Trade (BoT)	Balance of Payments (BoP)
Coverage	Goods only	All international transactions
Scope	Narrow	Broad
Includes Services?	No	Yes
Includes Capital Flows?	No	Yes
Includes Transfers?	No	Yes
Includes Reserves?	No	Yes

9. BoP EQUILIBRIUM, SURPLUS, AND DEFICIT

- **BoP Equilibrium:** Ideally, Current Account + Capital Account + Errors & Omissions + Change in Forex Reserves = 0.
  - *Note:* A Current Account Deficit (CAD) is financed by Capital inflows, Borrowings, or Reduction in Forex Reserves.
- **BoP Surplus:** Occurs when Total Receipts > Total Payments.
  - *Result:* Increase in Forex Reserves; Currency appreciation pressure.
- **BoP Deficit:** Occurs when Total Payments > Total Receipts.
  - *Result:* Fall in Forex Reserves; Currency depreciation pressure.

- **Non-Petroleum Exports:** Valued at $70.74 Billion (Increase of 10.49%).
- **Major Export Drivers (May 2026 Growth):**
    - Petroleum Products (+54.89%)
    - Engineering Goods (+24.48%)
    - Organic & Inorganic Chemicals (+12.71%)
    - Electronic Goods (+11.62%)
    - Gems & Jewellery (+6.66%)
- **Top Export Destinations (Growth in Apr-May 2026-27):** Singapore, Tanzania, Sri Lanka, South Africa, China.
- **Top Import Sources (Growth in Apr-May 2026-27):** Russia, China, Oman, USA, Brazil.

Services Trade Performance (April-May 2026-27)

- **Services Exports:** Estimated at **$73.79 Billion** (Growth of 12.99% YoY).
- **Services Imports:** $37.48 Billion.
- **Services Trade Surplus:** Stood at **$36.31 Billion** (up from $31.69 Billion in Apr-May 2025-26), acting as a massive cushion for the merchandise trade deficit.

Remittances into India (RBI 6th Round Survey 2023-24)

- Total remittances more than doubled to **$118.7 billion** (from $55.6B in 2010-11).
- **Top Sources:** USA (27.7%), UAE (19.2%), UK (10.8%).
- Advanced economies account for >50% of remittances, while the GCC share declined from 47% (2016-17) to 38% (2023-24).

15. EXTERNAL DEBT & FOREIGN EXCHANGE RESERVES

Foreign Exchange Reserves (Status: 2026)

India's foreign exchange reserves stood at **$666.93 billion** as of **June 26, 2026,** down from an all-time high of **$728.49 billion** achieved **in February 2026,** import cover of over **11 months.**

Components: ***(As of late June 2026)***

1. ***Foreign Currency Assets (FCA):*** Remained the dominant share at **$541.07 billion** (held in USD, Euro, Yen).

2. ***Gold Reserves***: Maintained for diversification, valued at **$102.54 billion** .Held for diversification and security

3. ***Special Drawing Rights (SDRs):*** IMF-created reserve asset based on a currency basket.

4. ***Reserve Tranche Position***: Portion of India's IMF quota available for immediate withdrawal. Reached **$4.77 billion** with the IMF

External Debt (Status: 2026)

India's external debt hits $762.8 billion, debt-to-GDP ratio rises to 20.8%

India's external debt rose to $762.8 billion at end-March 2026, while the debt-to-GDP ratio increased to 20.8%, RBI data showed.

PTI | JUNE 29, 2026 / 19:20 IST

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- **Total Debt Outstanding:** Scaled up to **$762.8 billion**, expanding by $26.3 billion year-on-year.
- **Debt-to-GDP Ratio:** Climbed up to **20.8%** from 19.8% a year prior.

Assess Component and Currency Mix

- **Largest Borrowing Category: Loans** accounted for the greatest portion at **34.7%**, closely followed by currency and deposits at 22.3%.
- **Dominant Currency Hierarchy: USD (55.5%)** > **Indian Rupee (29.4%)** > **Yen (6.4%)** > **SDR (4.3%)** > **Euro (3.7%)**. [1]

Monitor Maturity Timeline Profiles

- **Long-Term Debt Stability:** Stood at **$613.5 billion**, capturing the bulk of the profile.
- **Short-Term Debt Share:** Expanded slightly to **19.6%** of total external debt.
- **Short-Term to Forex Ratio:** Increased to **21.6%**, requiring ongoing watch regarding near-term repayment
- **Largest Component:** Commercial Borrowings.

P. FOREIGN DIRECT INVESTMENT (FDI) & FOREIGN PORTFOLIO/INSTITUTIONAL INVESTMENT (FPI/FII)

1. CONCEPTUAL FOUNDATION & LEGAL FRAMEWORK

Definitions (As per FEMA 1999 & Arvind Mayaram Committee)

Parameter	Foreign Direct Investment (FDI)	Foreign Portfolio/Institutional Investment (FPI/FII)
Threshold	**≥ 10% equity** in a listed company; any stake in an unlisted company.	**< 10% equity** in a listed company.
Nature	Long-term, strategic, illiquid.	Short-term, speculative, highly liquid.
Purpose	Management control, technology transfer, market access.	Portfolio returns, capital gains.
Entry Routes	Automatic Route & Government Approval Route.	SEBI-registered FPI framework.
Regulator	DPIIT (Ministry of Commerce) + RBI.	SEBI + RBI.

Constitutional & Statutory Anchors

- **FEMA, 1999:** Governs all foreign exchange transactions; replaced the restrictive FERA, 1973.
- **Consolidated FDI Policy (2020):** DPIIT's unified policy document covering sectoral caps, entry routes, and compliance.
- **SEBI (FPI) Regulations, 2019:** Governs registration, KYC, and investment limits of foreign portfolio investors.
- **Bilateral Investment Treaties (BITs):** Provide investment protection and dispute resolution mechanisms (India has been renegotiating these post-2015 Model BIT).

2. CURRENT SCENARIO: FY 2025-26 DATA (Economic Survey & PIB)

The FDI Paradox: Gross vs. Net Divergence

"While India's record Gross FDI of $94.53 billion reflects strong global investor confidence, the sharp contraction of Net FDI to $7.7 billion highlights a structural challenge: high profit repatriation and venture capital disinvestments are preventing foreign capital from translating into long-term domestic capital formation."

Key Drivers of the Divergence:

- **Foreign Institutional Investment (FII):** Entities like mutual/pension funds. If they acquire >10% equity, it falls under FDI.
- **Non-Resident External (NRE) Deposits:** Savings accounts held by NRIs in INR. *Note: They do not directly count as FDI but indirectly contribute to investment.*

Sectors Where FDI is Prohibited

- Retail Trading (except Single-Brand Product Retailing).
- Atomic Energy.
- Lottery, Gambling, and Betting (including casinos).
- Chit funds and Nidhi Companies.
- Agriculture (excluding floriculture, horticulture, seed development, animal husbandry, pisciculture, and controlled cultivation of vegetables/mushrooms) and Plantations (except Tea).
- Real estate business/construction of farm houses (Note: Development of townships, residential/commercial premises, roads, or bridges is *allowed*).
- Manufacturing of Cigars/Tobacco.

4. FDI IN RETAIL & E-COMMERCE

Single-Brand Retail Trading (SBRT)

- **Cap:** 100% FDI allowed under the Automatic Route.
- **Condition:** Can only sell its own brand's products.
- **Sourcing Norm:** For FDI > 51%, must source **30%** of products locally from MSMEs and local suppliers.
- *Examples:* Apple, Nike, IKEA.

Multi-Brand Retail Trading (MBRT)

- **Cap:** Up to 51% FDI allowed under the **Government Approval Route**.
- **Conditions:** Subject to State Government approval, minimum investment thresholds, investment in backend infrastructure (cold storage, warehouses), and **30% sourcing** from Indian MSMEs.

Retail E-Commerce

3. Agricultural Sector, Industrial Sector and Services in Indian Economy

A. INDIAN AGRICULTURE: CROPPING PATTERN, PRODUCTION & PRODUCTIVITY

1. INTRODUCTION: THE MACRO-ECONOMIC PARADOX

Agriculture remains the backbone of the Indian economy, providing livelihood security, food security, and raw materials for industries. However, it presents a classic structural paradox:

Indicator	Value (FY26 FAE / Latest)	Observation
Agri **Share in Nominal GDP**	**15.2%**	Declining relative share due to rapid industrial/services growth.
Agri **Share in Workforce**	**46.1%** (PLFS 2023-24)	Remains the largest employer, indicating **low labour productivity**.
Industry GDP Share	24.3%	For comparison.
Services GDP Share	51.1%	For comparison.

Table I.2b: Sectoral contribution to GDP

Share as % of Nominal GDP, Percent				
Production Approach (Supply Side)				
	H1: FY25	**H1: FY26**	**FY25 (PE)**	**FY26 (FAE)**
Agriculture, Livestock, Forestry & Fishing	**14.0**	**13.2**	**16.3**	**15.2**
Industry	**24.5**	**24.3**	**24.6**	**24.3**
Mining & Quarrying	1.6	1.4	1.6	1.4
Manufacturing	12.7	13.0	12.6	12.8
Electricity, Gas, Water Supply & Other Utility Services	2.5	2.4	2.4	2.3
Construction	7.7	7.6	7.9	7.8
Services	**52.6**	**53.6**	**49.9**	**51.1**
Trade, Hotels, Transport, Communication & Services related to Broadcasting	15.1	15.0	15.9	15.8
Financial, Real Estate & Professional Services	23.7	24.3	20.8	21.4
Public Administration, Defence & Other Services	13.7	14.3	13.2	13.8

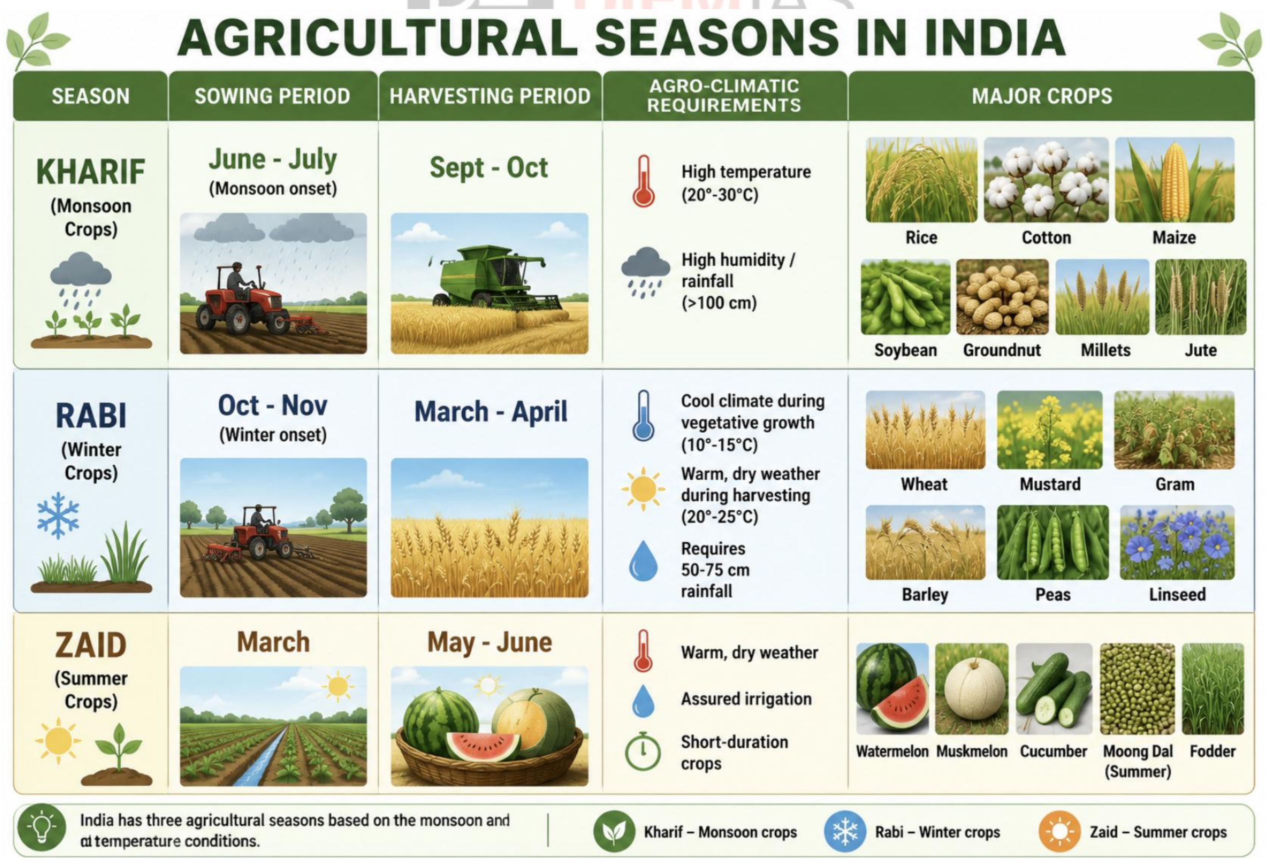
2. CROPPING PATTERNS IN INDIA

Definition: Cropping pattern refers to the spatial arrangement and temporal sequence of crops (the proportion of area under different crops) in a particular region over a specific period. It is a dynamic concept that changes in response to various socio-economic and environmental stimuli.

Key Determinants of Cropping Pattern

1. **Physical & Agro-Climatic Factors:** Soil type (e.g., black soil for cotton, alluvial for wheat), rainfall distribution, temperature, and topography.
2. **Economic Factors:** Market demand, price fluctuations, cost of inputs, and the profitability of cash crops vs. food crops.
3. **Technological Factors:** Availability of irrigation, High-Yielding Variety (HYV) seeds, mechanization, and fertilizer availability.
4. **Institutional Factors:** Landholding size (fragmentation limits crop choice), land tenure systems, and access to credit.
5. **Government Policy (The Biggest Driver):** Minimum Support Price (MSP), procurement policies, subsidies (power, water, fertilizers), and trade policies (export bans/tariffs).

CROPPING SEASONS & AGRO-CLIMATIC REQUIREMENTS



AGRICULTURAL SEASONS IN INDIA

SEASON	SOWING PERIOD	HARVESTING PERIOD	AGRO-CLIMATIC REQUIREMENTS	MAJOR CROPS
KHARIF (Monsoon Crops)	June - July (Monsoon onset)	Sept - Oct	High temperature (20°-30°C); High humidity / rainfall (>100 cm)	Rice, Cotton, Maize, Soybean, Groundnut, Millets, Jute
RABI (Winter Crops)	Oct - Nov (Winter onset)	March - April	Cool climate during vegetative growth (10°-15°C); Warm, dry weather during harvesting (20°-25°C); Requires 50-75 cm rainfall	Wheat, Mustard, Gram, Barley, Peas, Linseed
ZAID (Summer Crops)	March	May - June	Warm, dry weather; Assured irrigation; Short-duration crops	Watermelon, Muskmelon, Cucumber, Moong Dal (Summer), Fodder

India has three agricultural seasons based on the monsoon and temperature conditions. | Kharif – Monsoon crops | Rabi – Winter crops | Zaid – Summer crops

- **Crop Holiday:** In the past, farmers in the Krishna-Godavari delta resorted to "Crop Holidays" (leaving land fallow) due to unremunerative prices and pest attacks, highlighting the failure of pricing policies to sustain traditional cropping patterns.

3. AGRICULTURAL PRODUCTION TRENDS (UPDATED 2025-26 DATA)

India has achieved unprecedented levels of agricultural output. The latest **3rd Advance Estimates for 2025-26** reveal a historic shift toward nutri-cereals and high-value horticulture, though pulses remain a critical vulnerability.

INTRODUCTION: THE RECORD HARVEST & THE PARADOX

India has achieved unprecedented levels of agricultural output. The latest **3rd Advance Estimates for 2025-26** reveal a historic shift toward nutri-cereals and high-value horticulture, though pulses remain a critical vulnerability.

The Macro Paradox

Indicator	Value	Implication
Total Foodgrain Production (2025-26)	**376.56 Million Tonnes (MT)** **(3rd Advance Est.)**	Record High (+5.3% YoY).
Total Horticulture Production	**377.78 MT** **(3rd Advance Est.)**	**Surpassed Foodgrains**, marking structural diversification.
Decadal Agri Growth (FY16-FY25)	**4.45%**	Highest among recent decades.
Allied Sector Growth	Livestock: 7.1%; Fisheries: 8.8%	The real engines of growth; crop sector lags at 3.5%.

💡 "While India celebrates record foodgrain and horticulture production, the sharp 31.5% decline in pulses output exposes a critical vulnerability: our cropping pattern is being distorted by policy signals (ethanol pricing, MSP bias) and climate shocks, threatening nutritional security even as calorie security is assured."

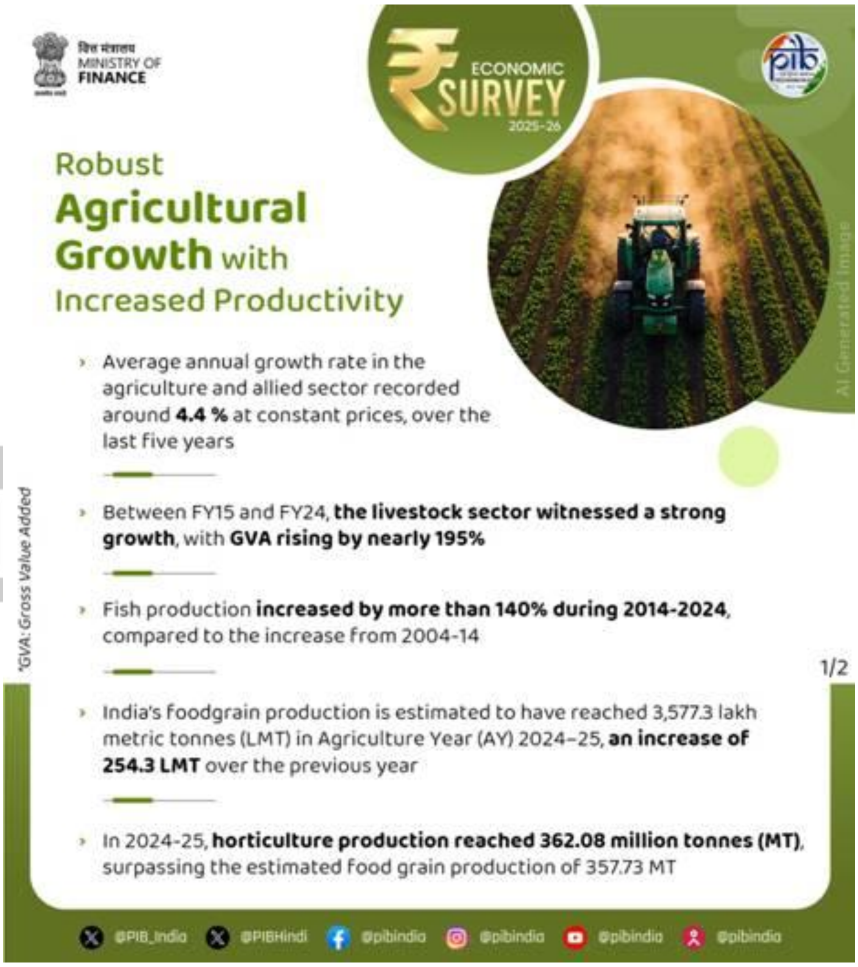
Note: Remember as per economic survey . India's foodgrain production is estimated to have reached 3,577.3 lakh metric tonnes (LMT) in Agriculture Year (AY) 2024–25
In 2024-25, horticulture production reached **362.08 MT (first advance estimates)**, surpassing

- ○ **Research:** Accelerate development of climate-resilient, short-duration pulse varieties via ICAR.
- ○ **Irrigation:** Prioritize micro-irrigation for pulse cultivation under PMKSY.

HORTICULTURE PRODUCTION: THE NEW ENGINE OF GROWTH

A. Overall Performance

- **Total Production:** Record **377.78 MT** across **30.15 million hectares**.
- **Key Insight (2025-26 AE):** Horticulture output (**377.78 MT**) has **once again surpassed total foodgrain production (376.56 MT)**, cementing the structural diversification of Indian agriculture toward high-value crops.
- **Growth Driver:** Rising urban incomes, dietary diversification, export demand, and government schemes (MIDH, Mission for Integrated Development of Horticulture).



2024-25-

HORTICULTURE → 362.08 MT

FOOD GRAINS → 357.73 MT

AS PER ECONOMIC SURVEY 2024-25

India's foodgrains production has witnessed a steady increase, despite certain challenges. India's foodgrain production is estimated to have reached **3,577.3 lakh metric tonnes (LMT)** in Agriculture Year (AY) 2024–25, an increase of 254.3 LMT over the previous year. This growth has been driven by higher output of rice, wheat, maize and coarse cereals (Shree Anna).

The increase in production is attributed to the favourable monsoon across regions and the government's supportive policies. While food grain production has continued to expand, the horticulture sector, which accounts for approximately **33 per cent of agricultural GVA,** has emerged as a bright spot in the country's agricultural growth trajectory.

In **2024-25**, horticulture production reached **362.08 MT (1st Advanced Estimates)**, surpassing the estimated food grain production of 329.68 MT.9 This underscores a gradual diversification of agricultural output towards high-value crops.

As of August 2025 horticulture production increased from 280.70 million tonnes in 2013–14 to **367.72 MT** in 2024–25 (**second advance estimates).**

As per the Economic Survey 2025-26, horticulture production in India in 2024-25 (second advance estimates) reached which of the following levels, thereby surpassing food grain production?

1. 280.70 Million Tonnes
2. 329.68 Million Tonnes
3. 367.72 Million Tonnes
4. 362.08 Million Tonnes

- India's **foodgrain production** in 2024-25 stood at **357.73 MMT**, which was surpassed by horticulture output of **367.72 MT** (second advance estimates), underlining a structural transformation in Indian agriculture.
- The horticulture sector has emerged as a **major driver of agricultural transformation and value addition**, contributing significantly to farmers' income and export earnings.
- Exports of fruits and vegetables amounted to **USD 1,818.56 million in 2024-25**, reflecting the increasing contribution of high-value horticulture to India's agricultural trade.
- The **Union Budget 2026-27** further emphasised promotion of high-value crops like coconut, sandalwood, cocoa, cashew, and high-value nuts, reflecting a policy push toward horticulture diversification.
- Key horticulture-producing states include **Andhra Pradesh, Maharashtra, Uttar Pradesh, Gujarat, Karnataka, and Tamil Nadu** for fruits, and **Uttar Pradesh, West Bengal, Madhya Pradesh, Bihar, and Gujarat** for vegetables.

B. Category-Wise Breakdown (2023-24)

Crop estimate at a glance

(in million tonnes)

Crops output	2024-25*	2025-26**	% Change
Fruits	117.65	118.68	0.9
Vegetables	217.80	216.16	-0.8
Aromatics and medicinal	0.90	0.90	0.0
Floriculture	4.27	4.17	-2.3
Honey	0.15	0.15	0.0
Plantation	16.98	17.97	5.8
Spices	12.99	12.82	-1.3
Tomato	20.60	22.70	10.2
Onion	30.77	27.31	-11.2
Potato	58.57	58.45	-0.2

Source: National Horticulture Board; *Final estimate, **First estimate

C. Leading Horticulture States

1. **Uttar Pradesh:** Largest producer of vegetables and fruits (mango, guava).

WAY FORWARD: TOWARDS A RESILIENT & NUTRITION-SECURE AGRICULTURE

1. **Reform Procurement & MSP:** Expand assured procurement beyond rice/wheat to include pulses, oilseeds, and millets at MSP. Implement **Deficiency Price Payments** (like PM-AASHA) to protect farmers from market crashes.
2. **Rationalize Input Subsidies:** Shift from price-based subsidies (free power, cheap urea) to **direct income support (PM-KISAN)** or **investment subsidies** (for micro-irrigation, solar pumps) to remove incentives for water-guzzling crops.
3. **Accelerate R&D for Climate Resilience:** Focus ICAR and SAUs on developing short-duration, drought-tolerant, and heat-resistant varieties for pulses, oilseeds, and millets.
4. **Strengthen Post-Harvest Infrastructure:** Expand the Agriculture Infrastructure Fund (AIF) for cold chains, packhouses, and processing units, especially for horticulture and fisheries, to reduce losses and increase farmer income.
5. **Promote Integrated Farming Systems (IFS):** Encourage combinations of crops, livestock, fisheries, and agroforestry on the same farm to optimize resource use, recycle waste, and provide year-round income, naturally diversifying the cropping pattern.
6. **Leverage Digital Public Infrastructure (AgriStack):** Use farmer databases, soil health maps, and market intelligence to provide personalized advisories on crop choice, input use, and market timing.

- **Horticulture > Foodgrains:** Remember, horticulture production (**377.78 MT**) has surpassed foodgrains (**376.56 MT**) in 2025-26. This is a key structural shift.
- **Pulses Crash:** The 31.5% decline in pulses (to 17.58 MT) is a critical data point for questions on food security, inflation, or agricultural distress.
- **Allied Sector Growth:** Livestock GVA rose **195%** (FY15-FY24), not 195% *per year*. CAGR is 12.77%.
- **N:P:K Ratio:** Ideal is **4:2:1**; current is **10.9:4.1:1**.

Key Terminology for :

- **Bennett's Law:** The economic principle stating that as incomes rise, the proportion of starchy staples in the diet declines, shifting toward high-value horticulture and animal proteins.
- **Cobweb Phenomenon:** The cyclical price volatility in perishable crops (like onions/tomatoes) where high prices in one season lead to overproduction and price crashes in the next.
- **Feminization of Agriculture:** The increasing role of women in agricultural labor and farm management due to male out-migration.
- **Terminal Heat Stress:** High temperatures during the final grain-filling and maturation stage of Rabi crops (like wheat), leading to shriveled grains and yield loss.

4. AGRICULTURAL PRODUCTIVITY DYNAMICS

Definition: Output per unit of land (Yield per hectare). **India's Position:** India's agricultural growth (4.45%) exceeds the global average (2.9%), but **yields for cereals, maize, soybean, and pulses continue to trail global averages**.

CONCEPT AND CURRENT STATUS

- **Definition:** Agricultural productivity is defined as the **output per unit of land** (i.e., Yield per hectare). It measures the efficiency of agricultural production rather than just the total volume.
- **India's Position (The Growth vs. Yield Paradox):**
    - **High Growth Rate:** India's agricultural sector growth rate stands at **4.45%**, which comfortably exceeds the global average of 2.9%.
    - **Low Productivity:** Despite high overall production and growth, the **yield per hectare** for major crops like cereals, maize, soybean, and pulses continues to trail global averages.
    - *Key Takeaway:* This indicates that India's production growth is often driven by area expansion, input intensification, or shifting cropping patterns rather than true efficiency and technological gains per unit of land.

B. AGRICULTURAL FINANCE AND MARKETING IN INDIA

Introduction Agricultural finance and marketing are the twin pillars of India's agrarian economy. While **agricultural finance** ensures the timely availability of credit for production, investment, and risk mitigation, **agricultural marketing** enables farmers to realize remunerative prices through efficient, transparent supply chains. Despite significant policy reforms, the sector grapples with structural bottlenecks like regional credit disparities, fragmented markets, and the dominance of intermediaries.

PART 1: AGRICULTURAL FINANCE

1. Meaning and Significance

Agricultural finance refers to the provision of credit, insurance, investment, and financial services to farmers and allied sectors.

- **Significance:** Enables the purchase of quality inputs, promotes mechanization, funds irrigation infrastructure, supports allied sectors (dairy, fisheries), reduces dependence on exploitative informal moneylenders, and ultimately enhances farm productivity and income.

2. Sources of Agricultural Credit

- **Institutional Sources:** Commercial Banks, Regional Rural Banks (RRBs), Cooperative Banks, NABARD, Small Finance Banks, and Micro Finance Institutions (MFIs).
- **Non-Institutional Sources:** Moneylenders, traders, commission agents, landlords, and relatives. *(Note: Share of informal credit has declined from ~90% in the 1950s to **23.4% in 2021-22**, but remains high among small/marginal farmers).*

3. Major Issues in Agricultural Finance

- **Regional Disparity:** Institutional credit is heavily skewed towards Western and Southern India.
  - *Economic Survey Insight:* The Central Region accounts for nearly **30% of Gross Cropped Area (GCA)** and the highest share of PM-KISAN beneficiaries, yet receives only **14.7%** of benefits under the Modified Interest Subvention Scheme (MISS).
- **Neglect of Allied Sectors:** Animal Husbandry, Dairy, and Fisheries contribute nearly **40% of Agricultural GVA** but receive only around **10%** of institutional agricultural credit, stifling diversification.

C. AGRICULTURAL PRICING, FINANCE, AND POLICY IN INDIA

PART 1: AGRICULTURAL FINANCE & CREDIT

1. Institutional Credit Share

- **Scheduled Commercial Banks (SCBs):** ~76%
- **Cooperatives:** ~12.1% (DCCBs mobilize rural deposits and finance PACS)
- **Regional Rural Banks (RRBs):** ~11.9%

2. Key Government Initiatives & Frameworks

Initiative / Scheme	Key Features & Objectives
Kisan Credit Card (KCC)	Provides short-term formal credit for working capital, farm asset maintenance, and consumption.
Interest Subvention Scheme	Offers subsidized interest rates on short-term crop loans to reduce the cost of credit.
Priority Sector Lending (PSL)	Mandates banks to allocate **40%** of Adjusted Net Bank Credit (ANBC) to priority sectors. For RRBs, Co-ops, and SFBs, the target is **75%**.
Agriculture Infrastructure Fund (AIF)	**₹1 lakh crore** loan facility (2020-21 to 2029-30) for post-harvest/community farming infra with **3% interest subvention** and credit guarantee.
Micro-Irrigation Fund	Managed by NABARD to support the adoption of micro-irrigation (Per Drop More Crop).
SHG-Bank Linkage	Encourages banks to lend to Self-Help Groups (especially women-led) for rural/agri-development.
Service Area Approach (SAA)	Introduced in 1989 under the Lead Bank Scheme. Rural bank branches are assigned **15-25 villages** to meet credit needs via **Service Area Credit Plans (SACP)**.

3. Role of NABARD

- **Refinance:** Provides refinance to SCBs, RRBs, and Cooperative Banks.

INDUSTRIAL SECTOR

A. INDUSTRIAL DEVELOPMENT IN INDIA: PATTERNS, POLICIES, AND PROBLEMS

1. INTRODUCTION TO INDUSTRIAL DEVELOPMENT

Industrial development is the process of expanding manufacturing, mining, construction, electricity, and allied industries to increase production, employment, exports, and economic growth. It transforms an agrarian economy into a modern one by boosting productivity, technological advancement, urbanization, and income levels.

Key Macro-Economic Indicators (FY26 FAE)

- **Industry Share in GDP:** ~24.3%
- **Manufacturing Share in GDP:** ~12.8%
- **Employment Share:** Employs nearly **25%** of India's workforce (PLFS estimates).
- **Core Components:** Mining & Quarrying, Manufacturing, Electricity/Gas/Water Supply, and Construction.

2. EVOLUTION OF INDUSTRIAL POLICY (PRE-1991)

Before 1991, India's industrial policy emphasized state intervention, import substitution, and a "socialistic pattern of society."

Pre-Independence Era

- **Colonial Exploitation:** British tariff policy was based on "one-way free trade," deliberately neglecting Indian industrialization to favor British industries.
- **Early Efforts:** Dept. of Commerce and Industry (1905), Board of Scientific and Industrial Research (1940). An Industrial Policy drafted in 1945/46 was rejected by independent India's leaders.

Post-Independence Policies (1948–1990)

INDUSTRIAL POLICY RESOLUTION (IPR), 1948

The first industrial policy of independent India, laying the foundation of a Mixed Economy.

- **Presented by:** Dr. Shyama Prasad Mukherjee (First Minister of Industry).

1990	₹10 Lakh	₹60 Lakh	₹75 Lakh
1997	₹25 Lakh	₹3 Crore	₹3 Crore
1999	₹25 Lakh	₹1 Crore	₹1 Crore
(Note: In 2006, the MSMED Act redefined them into Micro, Small, and Medium based on both investment and turnover).			

REVISION IN MSME CLASSIFICATION LIMITS

Enterprise Category	Existing Limited (applicable upto 31.03.2025)		Revised Limits (applicable w.e.f 01.04.2025)	
	Investment in Plant & Machinery	Turnover	Investment in Plant & Machinery	Turnover
Micro	1.00	5.00	2.50	10.00
Small	10.00	50.00	25.00	100.00
Medium	50.00	250.00	125.00	500.00

KEY COMMITTEES ASSOCIATED WITH INDUSTRIAL POLICY

Committee / Commission	Year	Key Recommendation / Impact
Karve Committee	1955	Highlighted the employment potential of Small-Scale Industries; led to their promotion in IPR 1956.
Mahalanobis Committee	1960	Recommended the distribution of consumer goods industries to the small-scale sector to prevent monopolies.
Das Gupta Commission	1964	Monopolies Inquiry Commission; formed the basis for the **MRTP Act, 1969**.
Dutt Committee	1967	Pointed out that large houses were monopolizing licenses; recommended the concept of the **Joint Sector** and stricter MRTP enforcement.
Chelliah Committee	1991	Tax reforms that complemented the industrial deregulation of 1991.

Abid Hussain Committee	1997	Recommended the modernization and upgradation of the SSI sector; suggested raising investment limits.

💡 **KEY POINTERS**

1. **Licensing Abolition:** IPR 1991 abolished licensing for all except 18 industries. Today, only **4 industries** require compulsory licensing (Alcohol, Cigarettes/Tobacco, Industrial Explosives, and Hazardous Chemicals/Aerospace & Defence electronics).
2. **Public Sector Reservation:** In 1956, 17 industries were reserved for the state. By 1991, it was reduced to 8. Today, only **Atomic Energy and Railway Operations** are reserved for the public sector.
3. **FERA vs. FEMA:** The draconian **FERA (1973)** treated forex violations as criminal offenses. It was repealed and replaced by the liberal **FEMA (1999)**, which treats them as civil offenses.
4. **Core Industries Weight:** Currently, the 8 Core Industries have a combined weight of **40.27%** in the Index of Industrial Production (IIP). (Refinery Products have the highest individual weight).

3. NEW INDUSTRIAL POLICY (NIP), 1991

Background: Triggered by a severe Balance of Payments (BoP) crisis in 1991 (Gulf War, high oil prices, depleted forex to 2 weeks of imports, 17% inflation, 8.4% fiscal deficit). India sought IMF help, which came with structural adjustment conditionalities.

Major Features of LPG Reforms

1. **Abolition of Industrial Licensing:** De-licensing of almost all industries. *Currently, only 4 industries require compulsory licensing:*
   - Aerospace and defence-related electronics.
   - Gunpowder, industrial explosives, and detonating fuses.
   - Dangerous chemicals.
   - Tobacco, cigarettes, and related products.

- **MSME Support:** Emergency Credit Line Guarantee Scheme (ECLGS), CGTMSE, and Udyam Registration.
- **Financial/Tech:** Timely debt restructuring, modernization funds, and push for automation.
- **Infrastructure:** Development of Industrial Corridors and Dedicated Freight Corridors (DFCs).

9. RECENT INITIATIVES & INDUSTRIAL CORRIDORS (2025-26)

- **National Manufacturing Mission (Budget 2025-26):** Focuses on clean tech manufacturing, MSME competitiveness, and global supply chain integration.
- **India Semiconductor Mission (ISM):** Developing a complete domestic semiconductor and display ecosystem.
- **Green Hydrogen Mission:** Promoting low-carbon manufacturing and green industrialization.
- **Major Industrial Corridors:**
  - **Delhi–Mumbai Industrial Corridor (DMIC)**
  - **Chennai–Bengaluru Industrial Corridor (CBIC)**
  - **Visakhapatnam–Chennai Industrial Corridor (VCIC)** *(Highly relevant for Andhra Pradesh)*
  - **Bengaluru–Mumbai Economic Corridor (BMEC).**

The National Manufacturing Mission (NMM), launched in India's Union Budget 2025-26: It is a strategic, cross-ministry initiative to significantly boost India's manufacturing sector, aiming to raise its ***GDP share to 25%*** by supporting large, medium, and small industries through policy support, improved business ease, a skilled workforce, clean tech focus (EVs, solar, batteries), and enhanced value addition in key sectors like footwear and leather, positioning India as global manufacturing hub.

SERVICES SECTOR

A. SERVICES SECTOR IN INDIA: GROWTH, TRENDS, AND DYNAMICS

1. MACRO OVERVIEW & STRUCTURAL REBALANCING

The post-pandemic era has witnessed a compositional shift in the services sector, moving from contact-intensive services (tourism, transport) to high-value, digitally delivered services (IT, finance, professional services).

- **GDP Share:** India's services share in GDP rose to **49.9% in 2024** (an increase of 1.5 percentage points above the pre-pandemic average). This shift is larger than the global average and major advanced economies.
- **Growth Resilience:** While global services growth moderated post-pandemic (especially in China), India's services growth remained resilient, staying close to pre-pandemic levels.
- **H1 FY26 Performance:** Services GVA grew by **9.3%** in H1 FY26. Its share in nominal GDP reached **53.6%**.
  - *Key Drivers:* Financial, real estate, and professional services; Public administration & defence.
  - *Laggards:* Trade, hospitality, and transport (gradual normalization, yet to fully recover).

2. SHIFTS IN TRADE AND CAPITAL FLOWS (FDI)

A. Services Trade

- Services trade as a % of GDP has risen globally. India recorded a **stronger expansion** in services trade as a share of GDP compared to its pre-pandemic average, outperforming advanced economies.
- **Services Exports:** Accounted for **10.0% of GDP** in H1 FY26 (up from 7.4% pre-pandemic). Average growth doubled to **14.0%** (FY23-25) from 7.6% (FY16-20).
- **Export Composition:**
  - *Software Services:* >40% share; grew at 13.5%.

3. **No Hard Budget Constraints:** Services are less employment-intensive per dollar earned. A slowdown doesn't trigger massive macroeconomic or political crises like a manufacturing collapse would.
4. **Skill-Based, Not System-Based:** Competitiveness relies on individual talent and firm culture, not systemic logistical efficiency.

7. SERVICIFICATION OF MANUFACTURING

- **Concept:** The integration of services (R&D, design, logistics, software, after-sales) into manufacturing (e.g., "software on wheels" in autos).
- **Data:** Services account for **~30%** of manufacturing export value in advanced economies, and **17.7%** in India (2020).
- **Impact:** Higher service-intensity in manufacturing leads to higher productivity, greater export participation, and more stable employment. It highlights the *complementarity* (not trade-off) between manufacturing and services.

8. SUB-SECTORAL PERFORMANCE & EMERGING FRONTIERS

A. Tourism & Medical Tourism

- **Domestic Tourism:** The backbone of the sector; visits grew by 17.5% in 2024.
- **Medical Tourism:** Grew at a **12.4% CAGR** (2009-2024). Market size expected to reach **$16.2 billion by 2030**. High per-visitor spending and longer stays.
- **Untapped Potential:**
  - *Long-distance hiking trails* (like the Appalachian trail) leveraging ecological/pilgrimage corridors.
  - *Marina Infrastructure:* India lacks modern marinas for recreational yachting. A National Marina Policy could boost the blue economy and coastal employment.

B. IT, ITeS, and Global Capability Centres (GCCs)

- **Industry Size:** $283 billion in FY25.
- **The GCC Boom:** India hosts **1,700+ GCCs** (offshore units of MNCs), employing **19 lakh professionals**. GCCs have evolved from back-office support to core R&D, AI, and cybersecurity hubs.

- **Data Centres:** Capacity projected to reach **8 GW by 2030** (from 1.4 GW in 2025). *Challenge:* High energy intensity; needs renewable power access and reclassification from "commercial buildings" in the National Building Code.
- **GenAI & Cybersecurity:** GenAI startups tripled to 890 (H1 CY2025). Cybersecurity market is $6.0 billion (growing at 30%). India ranks Tier-1 on the ITU Global Cybersecurity Index.
- **Policy Lesson (Singapore Model):** India should adopt Singapore's *Research, Innovation and Enterprise (RIE)* model—centralized governance, predictable multi-year funding, and strong industry-academia linkages.

C. Transport & Logistics

- **Ports:** Cargo handled reached 1603 MT (FY25). Average turnaround time for container vessels dropped from 43 hours (FY15) to **30 hours (FY25)**.
- **Aviation:** Air passenger traffic reached **411.8 million** (FY25).
- **Railways:** Freight loading exceeded **1.6 billion tonnes** (FY25), supported by Dedicated Freight Corridors (DFCs).

D. Telecommunications

- **Penetration:** 1.2 billion connections; **86.8% tele-density**. Internet subscriptions crossed 100 crore.
- **Affordability:** Data prices crashed from **₹300/GB (2014) to ₹8.3/GB (2025)**. Data consumption rose from 62 MB to 25 GB per month.
- **Indigenous Tech:** India has developed end-to-end indigenous 4G and 5G (NSA) core networks and quantum-secured communication.

E. Real Estate & Housing

- **Contribution:** ~7% of GVA. In a sustained upcycle since Sept 2021.
- **Financialisation:** Outstanding individual housing loans tripled to **₹37 lakh crore** (March 2025), now accounting for **>11% of GDP**.

F. Media, Entertainment & The "Orange Economy"

- **Sector Size:** ₹2.5 trillion (2024). Digital media contributes 1/3rd of revenues.
- **The Orange Economy (Box VII.6):** Refers to the creativity/culture/IP-driven economy (e.g., the **Concert Economy**).
  - *Impact:* High multiplier effect on tourism, hospitality, and urban services.

- *Bottlenecks:* Lack of live event venues, complex clearances (10-15 needed), restrictions on foreign payments to artists.
- *Solution:* Ministry of I&B is developing a **Single Window Mechanism** for live entertainment permissions.

G. Commercialising Space and Ocean Services

- **Space Economy:** Valued at **$8.4 billion** (2% of global market), projected to reach **$44 billion** in a decade.
- **Commercialisation:** NSIL revenues grew to ₹2,940 crore (FY23). India launched 393 foreign satellites (earning $143M + €272M).
- **Private Ecosystem:** "NewSpace" startups attracted >₹1,000 crore in FY23. Downstream services (satellite data, NavIC navigation) are expanding rapidly.

9. HIGH-FREQUENCY INDICATORS & CREDIT (H2 FY26 OUTLOOK)

- **PMI Services:** Averaged **58.9** in Q3 FY26 (firmly in expansionary territory >50), driven by robust domestic new business intakes.
- **Bank Credit:** Credit to the services sector grew at **12.4% YoY** (Oct-Nov 2025), driven by NBFCs, retail, and MSMEs, indicating strong financing conditions for the sector.